Amid growing signs of global slowdown

US-China trade talks to resume next week

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Top US officials will travel to China next week for the first face-to-face negotiations on a trade deal since talks broke down last May. The resumption follows the agreement between US president Trump and China's President Xi Jinping at the G20 summit last month that there would be a suspension of further tariffs by the US.

The US team will be led by US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin. It will meet with its counterpart in Shanghai, led by Vice Premier Liu He. There has been a significant addition to the Chinese delegation. Commerce Minister Zhong Shan joins the core group in what is seen as a move to add a more "hawkish" voice to that of Liu.

The US position is that the negotiations should pick up where they left off last May when Trump threatened further tariffs, saying China had backtracked on previous commitments—a claim Beijing denies.

Washington is also looking for a commitment from China to increase its purchases of soybeans as a sign of "good will."

But the situation has become more fraught over the past two months because of the decision by the US Commerce Department to place the Chinese telecom company Huawei on its entity list, effectively banning it from supplies of US components for its operations.

Beijing has insisted no agreement can be reached without a resolution of the Huawei question and it agreed to new talks only after Trump said the ban would apply only to components that impacted US national security.

However, there have been no clear guidelines issued from the Commerce Department on which components would be affected. Trump held a meeting with chief executives of major US tech firms earlier this week, after which a White House spokesman said the president had agreed that the Commerce Department would make "timely" licensing decisions.

Any decision to significantly relax the Huawei ban, however, will bring immediate opposition from the military and intelligence establishments and their voices in Congress. A bipartisan bill has already been introduced in the Senate that would prevent the president from lifting the bans on Huawei as part of any trade deal.

And in what appears to be a calculated move by the intelligence services, an article appeared in the *Washington Post* on Monday reporting that Huawei helped build North Korea's 3G network in violation of bans imposed by the US.

Right on cue, two of the sponsors of the Senate bill, Republican Tom Cotton and Democrat Chris Van Hollen, responded. They issued a statement saying that "at every turn, we learn more and more about what a malign actor Huawei is," and arguing that it was crucial for Congress pass the legislation they had sponsored.

In addition to the Huawei question, the two sides appear to be no closer to resolving the issues that led to the breakdown of the negotiations.

These were the US insistence that the 25 percent tariffs it has imposed on $250 billion worth of Chinese goods remain in place even after a deal is signed, as part of an "enforcement mechanism" of any agreement, to be lifted only when Washington determines Beijing is complying, and that China write into law the US demand for protection of intellectual property.

Both of these stipulations have so far been rejected by Beijing as violations of its insistence on equality in any trade agreement and the maintenance of its national sovereignty.

Another major sticking point is the US demand that

China wind back state support for its industries, which Washington maintains constitutes "unfair" competition. This demand has also been rejected by Beijing, as it cuts across its program of national economic development.

In other moves against China, Congress is considering legislation that would ban the use of federal funds to buy Chinese-made buses and railcars. According to a report in the *Wall Street Journal*, advocates of the legislation say the ban is needed to protect US industry from "subsidized Chinese competition" and that "cameras, location trackers and other gear" could supply information to the Chinese government.

"It's in the national interest to make sure we have viable rail and bus industries and protect us from spying and sabotage of our public transport system," California Democratic House member Harley Rouda said.

The US-China talks will be under close international scrutiny amid ever clearer indications that the trade war is impacting exports and economic growth more broadly.

On Tuesday, the International Monetary Fund again lowered its forecast for global growth this year—the fourth downgrade since October—citing factors such as the US-China trade conflict, a chaotic Brexit, and the threat by the Trump administration to impose auto tariffs that could weaken investment and disrupt global supply chains.

While the drop in the global growth forecast was marginal—a reduction of 0.1 percent—at 3.2 percent, it is the lowest rate of expansion in a decade. The reduction in the forecast for trade growth was even more significant, with the IMF slashing its forecast by 0.9 percentage points to 2.5 percent for 2019. The growth in trade volume fell to 0.5 percent in the first quarter, with emerging Asian economies the hardest hit.

"The principal risk factor to the global economy is that adverse developments—including further US-China tariffs, US auto tariffs or a no-deal Brexit—sap confidence, weaken investment, dislocate global supply chains and severely slow growth below the baseline," the IMF said.

In an oblique criticism of the US, it said: "Countries should not use tariffs to target bilateral trade balances or as a substitute to press others for reforms."

Data out of Europe shows that its economies, particularly Germany, are being hit by the trade turmoil. The euro zone purchasing managers' index for manufacturing for July, produced by IHS Markit, fell to 46.4, the lowest level in 79 months, with any figure below 50 signifying a contraction.

The most significant downturn was in Germany, where the index dropped to 43.1 from 45 the previous month. IHS principal economist Phil Smith said Germany ran the risk of entering a "mild technical recession"—defined as two consecutive quarters of negative growth.

"The performance from Germany's goods producers in July is the worst recorded by the survey in seven years, with the renewed weakness mainly stemming from an accelerated drop in export orders—the most marked in a decade," he said.