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G20 Update

December 4, 2018

1. The **G20** concluded this weekend in Buenos Aires with a **joint statement that reflected the need for WTO reform and US rejection of the Paris Agreement**.
2. The summit was bookended by a **USMCA signing ceremony and Trump's threat of NAFTA withdrawal, setting the stage for a battle in the US Congress**.
3. Presidents **Trump and Xi agreed to a time-out (not a truce)** in the ongoing trade war over IP and tariffs to allow for **negotiations to take place over a 90-day period starting December 1, led by USTR Lighthizer**. The tight timeline and misaligned expectations make the **prospects for success challenging**.
4. **Meetings with Japan, European leaders, and others were positive in tone, but left no doubt that the 232 on autos/parts is still on the table**.

G20 Communiqué

G20 leaders this weekend managed to produce a [leaders' declaration](#), an accomplishment considering November's APEC meeting failed to do so. On trade, the **G20 noted the shortcomings of the WTO**, while voicing **support for systemic reform**. The parties renewed the "commitment to work together to improve a rules-based international order," in one of the more positive recent assertions regarding the WTO. The statement referenced "current issues" in trade but **refrained from singling out protectionism or unfair trade practices**. Strong objections to such language prevented consensus at APEC.

The **US was the only country rejecting the joint statement text on climate change, calling the Paris Agreement "irreversible,"** leading to the following paragraph:

"The US reiterates its decision to withdraw from the Paris Agreement and affirms its strong commitment to economic growth and energy access and security, utilizing all energy sources and technologies, while protecting the environment."

The declaration also includes **positive language on education, digital technology, agriculture, infrastructure, energy, health, and gender equality, financial services, refugees, and corruption**.

The next G20 leaders' meeting will take place in Japan in June 2019, putting preparatory activities on a tighter interval than in years prior.

USMCA

On Friday, November 30, **President Trump, Prime Minister Trudeau, and (now) former President Pena Nieto signed the USMCA on the margins of the G20**. The signing ceremony occurred after a complex and rushed legal scrub of the text, and without the US having resolved US 232 tariffs on steel and aluminum with Mexico and Canada. Now, **the spotlight will turn to obtaining legislative approval** in the three countries for the agreement's ratification and entry into force.

In an apparent effort to pressure the US Congress to pass the USMCA, **Trump stated upon departure from Buenos Aires that "I will be formally terminating NAFTA shortly."** Many in Congress and the US private sector challenge Trump's assumption that he can end NAFTA without the concurrence of Congress, which could lead to significant legal wrangling. However, according to article 2205 of NAFTA, **Trump's formal withdrawal notice would start a six-month clock after which the United States could legally exit NAFTA**. We anticipate that Trump's tactic, while maddening to many in Congress, **should help force passage of the USMCA**.

Mexican President Lopez Obrador, who assumed office December 1, has **pledged to support the agreement**. He has a **strong backing in the Mexican Congress**. Members from the incoming Mexican Ministries of Foreign Affairs and Economy have conveyed optimism about the ratification prospects in Mexico. Jesus Seade, who served as AMLO's representative in the USMCA talks, is slated to continue to play a role in US-Mexico relations, assuming the Undersecretary for North America position in Mexico's Foreign Ministry.

Trudeau's Liberals enjoy a majority in the Canadian Parliament. Despite Canadian frustration over the failure to address steel and aluminum, reflected in Prime Minister Trudeau's comments and body language at the signing, as well as overall frustration at Trump's aggressive tactics, the economic necessity of the integrated North American market means that the **USMCA should be able to gain approval in both Mexico and Canada**.

US-China Trade

The highly-touted **Trump-Xi dinner** on December 1 was **described as successful by both sides, but what was agreed upon remains murky**.

President **Trump agreed to delay for 90 days further tariff increases** (from 10% to 25%) on \$200 billion in imports from China, planned for January 1. White House Economic Adviser Kudlow stated Monday that the 90 days would start January 1, but a White House call with the private sector indicated a **December 1 start-date**. Kudlow's comments were subsequently corrected. The timeframe will feature both Christmas/New Years' holidays, as well as Lunar New Year, **not leaving negotiators much time**. Indeed, the **90-day deadline was the significant novelty** of Saturday's trade announcement, a deadline notably **absent from Chinese reports** on the meeting.

Further, **China has demands as well**, but export controls and investment restrictions are not on the US menu.

As in previous meetings, the **Chinese pledged to buy more US exports**. According to a White House statement, President Xi agreed “to purchase a not yet agreed upon, but very substantial, amount of agricultural, energy, industrial, and other product from the United States...” Monday morning, Trump [tweeted](#) that **farmers would be an immediate beneficiary of this weekend’s interim deal with China**. Trump also [tweeted](#) Sunday evening that **China agreed to reduce tariffs on auto imports**, to which a Chinese Foreign Ministry spokesman had no comment. **Chinese intentions regarding tariff levels** of autos, agriculture, and other US exports **remain unconfirmed**.

The focus of the negotiations also is in question. The US side highlighted that **negotiations would immediately begin on structural changes** with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft, services and agriculture. Meanwhile, the **Chinese have shown little interest in taking on the deep reforms** expected by the Trump Administration. **The challenges of reaching a successful outcome by March 1 are daunting**.

What happens now?

Vice Premier and chief Chinese trade negotiator Liu He are scheduled to arrive in Washington for talks on December 12. USTR **Lighthizer should lead** the talks, despite apparent internal wrangling over the role. Of note, USTR has jurisdiction over Section 301 investigations, which provide the US legal justification for the talks.

As the talks begin, Beijing’s political calendar may not facilitate Chinese flexibility. The Communist Party has yet to announce timing for the Central Committee’s fourth plenum or the annual central economic work conference, at which US-China trade will be high on the agenda. This month China will celebrate the 40th anniversary of reform and opening, kicked off December 18, 1978. Look for Xi Jinping to deliver a high-profile speech to mark the occasion. **Upon this backdrop, any significant economic reforms may meet with opposition from China’s vested interests and nationalistic hardliners**.

Japan is concerned they are next.

Developments in the US-China dialogue have some in **Japan concerned that Trump will now shift his attention to Japan**. Japanese media reported that, despite the recently-announced major increase expected in defense procurements from the US, **Trump expressed yet again to Prime Minister Abe in Buenos Aires his unhappiness with the US “massive” trade deficit** with Japan.

Tokyo is concerned that the Trump Administration will assert pressure in the weeks leading up to the mid-January start of the new US-Japan negotiations, particularly with the negotiating objectives expected to be reported to the US Congress in mid-December. **The CPTPP enters into force on December 30** and will include Australia, Canada, Japan, Mexico, New Zealand and Singapore, with Vietnam to follow a few weeks later. Further, the **EU-Japan Economic Partnership Agreement appears on track to enter**

into force by February 1, putting American farmers, ranchers and other exporters at a competitive disadvantage in the Japanese market.

While the concerns of the US exporting community – particularly aggies – cannot be overlooked, USTR Lighthizer will be busy with China over the next 90 days, to say nothing of the need to get the USMCA passed. Also, there is some recognition in the USG that **Abe will have difficulty agreeing to anything significant in the US-Japan bilateral negotiation, particularly on agriculture and autos, that could weaken public support for the Liberal Democratic Party** prior to the summer 2019 Diet Upper House elections. This **will not diminish US pressure on Japan**, however, particularly with the expected upcoming 232 announcement on autos/parts.

India, Japan, US Trilateral

At the G20, President **Trump met for the first time in a trilateral gathering with Japanese Prime Minister Abe and Indian Prime Minister Modi**. The United States, Japan, and India met trilaterally in 2011 at the Assistant Secretary level (MA's Amb. Bob Blake co-convened as then-Assistant Secretary of State), then in 2015 at the cabinet level. Elevating this trilateral again to the leader level is symbolic, although it is not clear whether this will be a consistent engagement.

Comments from the three leaders illustrated their respective emphases: **Abe focused on the "free and open Indo-Pacific," while Modi focused on "shared values...world peace, prosperity, and stability." Trump spoke of strong ties with both countries, and "a lot of trade...a lot of defense...a lot of military purchases."** Although Washington has significant trade frictions with both New Delhi and Tokyo, it appears that the trilateral discussion hewed more toward "free, open, and rules-based order" subjects rather than contentious trade issues. And although Modi emphasized democracy in his public remarks, he went on to join a trilateral with President Xi and President Putin and participated in a BRICS Summit, **illustrating New Delhi's continued focus on maintaining ties across all alignments.**

Europe

In contrast with other multilateral summits, the meetings between President Trump and European leaders seemed generally positive. **Trump spoke informally with European Commission President Juncker**, reassuring him that the deal they brokered in July – to hold off on new tariffs while the two sides continue to negotiate – was still intact. **(Valid) fears remain in Europe, however, that the US will impose tariffs on European autos at any time.** Trump's bilateral meeting with German Chancellor **Merkel** reportedly addressed trade issues and European energy security, but focused mostly on Russia, Ukraine, and on recent developments in the Sea of Azov.

But for Europe, a key takeaway from the G20 was that the United States will handle differences with China in its own way. **Although a trilateral US-EU-Japan effort to address Chinese issues, including IP theft and forced technology transfers, had been progressing at the working level, the Trump-Xi deal seems to have rendered that somewhat irrelevant.** Many in Europe had seen cooperation in addressing China as a priority in building a partnership with the Trump Administration and in strengthening

the WTO. **The impression left in Buenos Aires is that Trump Administration seems happy to forge its own path.**

Trump also met with Turkish President **Erdoğan** to discuss the situation in Syria's Manbij and Idlib areas, and spoke briefly with Russian President **Putin**, after a last-minute cancellation of their bilateral meeting, to discuss recent developments in the Sea of Azov.

The Host

For Argentina, the Summit proved to be a resounding success. President Macri received significant public support from G20 leaders on his pro-business reform agenda following a difficult year for the Argentine economy, and he signed a number of financing agreements, including with the United States and China. That the Summit took place without security incidents -- and concluded with a communique -- was a victory for the hosts in their role as mediators.

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