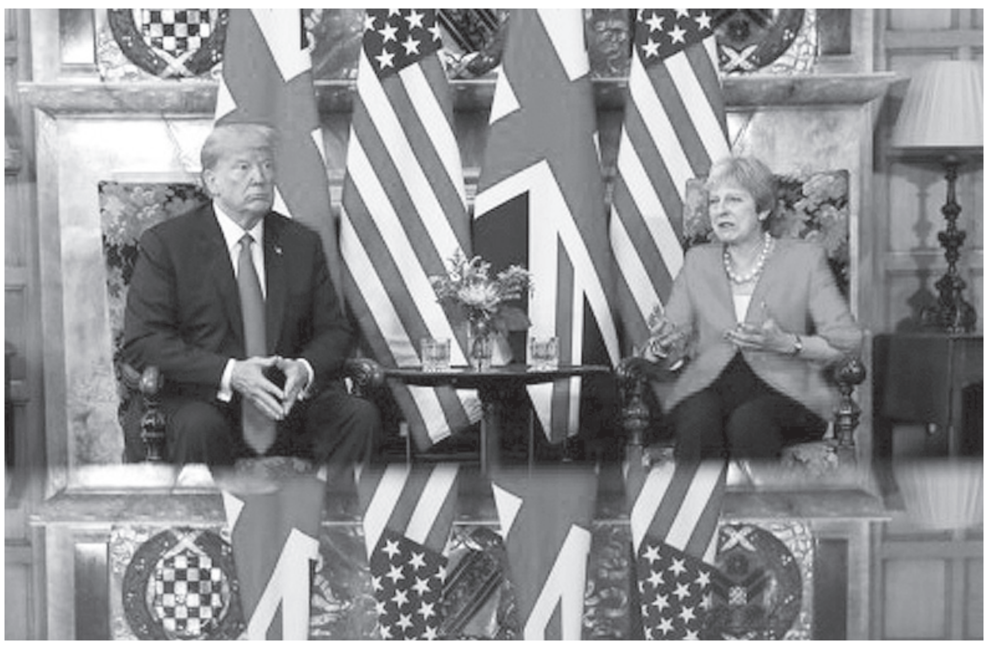
Trump vows 'great' trade deal with UK



Trump and May meet at Chequers in Buckinghamshire, Britain July 13. *(Reuters Photo)*

WINDSOR CASTLE, England- President Donald Trump said on Friday the United States and Britain could secure a "great" post-Brexit trade deal, lavishing praise on Prime Minister Theresa May and contradicting his own withering assessment of her strategy publicized hours earlier.

Fresh from sending NATO into crisis talks and ahead of a summit with Kremlin chief Vladimir Putin, Trump shocked Britain's political establishment when he criticized May's plans for ties with the European Union after Britain leaves in March.

In a newspaper interview published just hours before holding talks with May, Trump said her Brexit strategy would "kill" any chance of a trade deal with the US and said she had not listened to his advice on how to negotiate with the EU.

But, as the two leaders stood together for a press conference in the garden of May's grand 16th-century official residence Chequers, Trump said the British leader was doing a "fantastic job", added it was up to her how to conduct Brexit, and that a free trade deal was very much on the table.

Relations had never been more special, he said, and any criticism was "fake news".

"Once the Brexit process is concluded and perhaps the UK has left the EU, I don't know what they're going to do but whatever you do is OK with me, that's your decision," Trump said.

"Whatever you do is OK with us, just make sure we can trade together, that's all that matters. The United States looks forward to finalizing a great bilateral trade agreement with the United Kingdom. This is an incredible opportunity for our two countries and we will seize it fully," he said.

At the same location a week ago, May finally won agreement for her Brexit plans from her cabinet after two years of internal wrangling, but within days, two senior ministers had quit, departures which Trump said earlier in the week had left Britain in "turmoil".

Some lawmakers in her deeply divided Conservative Party have cast May's "business-friendly" Brexit plan as a betrayal that would leave Britain too close to the EU and warned that she might face a leadership challenge.

May's formal proposals were published on Thursday, but hours later the Sun newspaper published an interview with Trump where he appeared to side with the prime minister's critics.

"If they do a deal like that, we would be dealing with the European Union instead of dealing with the UK, so it will probably kill the deal," he told the Sun. "I would have done it much differently. I actually told Theresa May how to do it, but she didn't listen to me."

Asked about that interview, Trump said he had not criticized May, lavishing praise on "a terrific woman", who was smart, tough and capable.

"This incredible woman right here is doing a fantastic job, a great job," he said. "She's a total professional because when I saw her this morning, I said: 'I want to apologize, because I said such good things about you'. She said: 'Don't worry, it's only the press'."

May, likewise, glossed over the comments in the Sun, saying her deal provided a platform for an ambitious free trade deal.

Trump's remarks to the Sun were the most biting any US president has ever made on visit to Britain. However, under the blue skies of the Chequers' garden, he said their relationship was "the highest level of special". – ***Reuters***

China strikes back at US with…. tax cuts

PETER LUNDGREEN

'When Trump was heading across the Atlantic to the NATO top summit this week, he did not forget China, so he announced a further escalation of the trade war.'

US President Donald Trump has asked his government to prepare a 10 percent import duty on Chinese goods of another $200 billion. According to various reports, the preparations will be made during this month until August.

My assessment is that the trade war will continue to escalate, and both sides are prepared for this. I also expect that it is already more than prised in the financial markets. I agree with the market in the sense that I expect a further deepening of the crisis before real negotiations can be expected. I simply think that each party wants the trade war to hurt its counterpartas much as it can, before the trade war has actually enough effect to soften the opponent. My long-term assessment is however, that the two countries are on completely different tracks – particularly in terms ofdomestic developments of the economies.

It's hard to see that President Trump has any long-term plan. Therefore, the tactical moves are so fierce, as he needs short-term results that can be presented at the mid-term elections in four months.

The battle about factory production lines took place in the 1990s and up to 15 years after that, but today, it is an almost outdated struggle. Globalization has now reached the individual level, and the winning future economies become significantly more domestic-oriented. For the same reason, export of goods become less important in the future. Therefore, I cannot imagine that the Chinese government being opposed to lower the trade surplus towards the United States - perhaps the question is how to do it? This I will to leave to those who believe to know the solution.

My assessment is that Trump's international actions strengthen the tendency for economies around the globe to become more domestic-oriented, especially in China where this trend will be intensified. The country is en route to becoming the world's largest single market, and the government currently takes another great step in this direction via a significant tax reform. The total tax cuts in China per year amounts to approximately to one percent. of GDP, which also includes a lower corporate tax. A few days ago,details about the reform concerning personal taxation were released,and there are sizable tax cuts awaitingthe Chinese consumer.

The lowest tax rate for ordinary personal income is 3 percent in China, with the next step at 10 percent , then 20 percent , and further up to the highest rate at 45 percent. The tax-free income threshold is raised to 3,000 RMB($ 450) per month. More important is that a significant number of taxpayers will onlypay 20 percent in income tax going forward -- this becomes a typical tax rate for a middle-class income. The biggest effect materializes for annual incomes at around RMB 200,000 ($ 30,000),where the tax rate will be eight percentage points lower. It is the government's clear goal that the increasing disposable household income should be spent on consumption, thus strengthening the domestic economy.

The overall tax reform was decided in March, but the part covering personal taxes will finally be approved in October. It is the intention that the lowest paid workers will benefit the most from the tax cuts, but so will middle-class incomes, as mentioned, profit from the reforms. The government is very focused and outspoken on improving the disposable household income for the middle-class. The reason is that the middle-class is struggling to get wage increases, thus the government is trying to avoid the so-called "middle-class trap"to harm this growing part of the population.

The tax reform is not a direct function of the American trade war, but there is no doubt that Beijing is busy getting the tax cuts implemented. In the short-term, the tax reforms have to compensate for a decline in exports that the trade war may cause.

The background for the tax reform is a longer history, as it originates from the lessons learned during the global financial crisis 10 years ago. It became apparent to the Chinese government that the country was too dependent on exports, and therefore, the domestic economy should be strengthened.

China still has a very high inequality, but since the financial crisis, the government has worked quite focused on lowering the Gini coefficient. For example, by improving the economic conditions for the 300 million so-called "migrant workers". In addition, the government has encouraged investments of different kinds for the past decade, but the imbalance is now a huge debt burden that needs to be reduced.

One can therefore be tempted to believe that such heavy tax reductions will increase the public debt mountain as it happens in the United States during the coming years. China could actually lower the personal income tax to zero in an extreme situation, without stressing the fiscal budget. China still has fiscal maneuver room in order to ensure a high GDP growth to safeguard its goal to becoming the world's largest single market.

It's natural for Asian and Western exporters to consider which products could besold to the Chinese consumer now that they will have more money to spend. Persons with annual incomes of around RMB 200,000.00 will explore the biggest effect (net RMB 16,000.00 a year). But even an income of RMB 500,000.00 will be taxed at 4 percent points less, so that there is room for buying more imported goods. However, my expectation is that the vast majority will go to consumption of Chinese goods and services. So in general, it does not changethe fact that investors and companies have to move further into the Chinese market to profit from the improved purchasing power.

US lifts ban on ZTE suppliers

THE US Department of Commerce on Friday lifted a ban on US companies selling goods to ZTE Corp, allowing China's second-largest telecommunications equipment maker to resume business.

The Commerce Department removed the ban shortly after ZTE deposited $400 million in a US bank escrow account as part of a settlement reached last month. The settlement also included a $1 billion penalty that ZTE paid to the US Treasury in June.

"The department will remain vigilant as we closely monitor ZTE's actions to ensure compliance with all US laws and regulations," Commerce Secretary Wilbur Ross said in a statement that described the terms of the deal as the strictest ever imposed in such a case.

The terms will allow the department to protect US national security, Ross said.

The administration has clashed with lawmakers from its own party over issues related to China, and this was no different. On Friday, Senator Marco Rubio, a Republican, criticized the lifting of the ban.

"ZTE should be put out of business. There is no 'deal' with a state-directed company that the Chinese government and Communist Party uses to spy and steal from us where Americans come out winning," Rubio said in a statement.

A photograph circulating among employees around midnight showed ZTE's new chief executive and 10 other managers each giving a thumbs-up to the news, which was flashed on a screen at the company, according to a person familiar with the matter.

The reprieve follows threats by the Trump administration this week to impose 10 percent tariffs on $200 billion of Chinese goods in a trade war.

ZTE did not respond to requests for comment.

ZTE, which relies on US components for its smart phones and networking gear, ceased major operations after the ban was ordered in April.

US President Donald Trump tweeted in May that he closed down ZTE and let it reopen, although no agreement had been reached. White House trade adviser Peter Navarro said last month Trump agreed to lift the ban as a goodwill gesture to Chinese President Xi Jinping.

The company had made false statements about disciplining 35 employees involved with illegally shipping US-origin goods to Iran and North Korea, Commerce Department officials said. ZTE pleaded guilty last year over the sanctions violations.

ZTE paid $892 million in penalties to the United States in connection with the 2017 settlement and guilty plea. The latest $1.4 billion deal comes on top of that.

The $400 million will remain in escrow for as long as 10 years to provide the US government access to the money if ZTE violates the June settlement.

On Thursday, ZTE's Hong Kong shares surged about 24 percent after Reuters broke news the United States had signed an escrow agreement that paved the way for ZTE to deposit the $400 million.

ZTE's US-listed shares fell 2.4 percent to $3.70 on Friday. The news came after markets closed in Asia.

Shares of US suppliers Acacia Communications and Lumentum Holdings rose more than 3 percent on the news before ending less than 1 percent higher.

ZTE paid US companies more than $2.3 billion in 2017, including Qualcomm Inc, Intel Corp, Broadcom and Texas Instruments Inc.

The company, which employs some 80,000 people, got a limited one-month waiver last week to maintain existing networks and equipment.

ZTE has replaced its board of directors and senior management, as required by the June settlement, the Commerce Department noted.

It will now operate with a 10-year suspended ban hanging over its head, which the United States can activate if it finds new violations. The current ban could have lasted seven years.

Many US lawmakers see the company as a national security threat and, on Thursday, a group of Republican and Democratic US senators urged that ZTE's penalties be reinstated.

The US Senate paved the way for a showdown with Trump over the issue last month, when it passed an annual defense policy bill with an amendment attempting to reverse the deal. Its fate is unclear.

Reuters reported on US demands for a deal on June 1, and on June 5, revealed that ZTE had signed a preliminary agreement with the Commerce Department, along with the fine and other terms. It also broke news of the ban in April.

A US investigation into ZTE was launched after Reuters reported in 2012 that the company had signed contracts to ship hardware and software worth millions of dollars to Iran from some of the best-known US technology companies. – ***Reuters***