

Relationship first, rules next

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Highlights:

- The first meeting between President Trump and President Xi appears to be more about building personal relationship.
- Obama's bilateral dialogue framework will be changed to Trump's style covering four areas.
- The message on trade policy is a bit confused. Nevertheless, it won't be a surprise for us if China decides to import more goods from US in the near term.
- The Syrian strike before the results of independent investigation coupled with the removal of his controversial chief strategist Bannon from National Security Council has fuelled speculation whether Trump will deviate from his populism ideology.
- Trump's decision to inform President Xi at the end of their dinner about the Syrian strike to test his reaction probably served as a test bed to press China on North Korea issues.
- The deviation from his domestic populism agenda to focus on more international issues may raise the geopolitical risk in East Asia.

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The first meeting between President Trump and President Xi appears to be more about building personal relationship rather than setting any detailed direction for the bilateral relationship. Clearly Trump's granddaughter Arabella's performance of the Chinese song Jasmine flower to make President Xi feel at home is a big plus point to enhance the relationship between two top families.

In addition to building a personal relationship, both countries agreed to establish a new framework for negotiations to replace the current bilateral dialogue under Obama Administration. The new framework will cover four areas including "the diplomatic and security dialogue; the comprehensive economic dialogue; the law enforcement and cybersecurity dialogue; and the social and cultures issues dialogue."

The White House Press Briefing by Secretary of State Tillerson, Secretary of the Treasury Steven Mnuchin, and Secretary Commerce Wilbur Ross on the meetings between two leaders shows that there is lack of details on trade policy as well as currency policy. As mentioned by Secretary of Commerce Ross that 100 days is a very short time for trade though Secretary of Treasury Mnuchin expected to see some specific items for a more balanced trade environment in its 100-day plan.

It is also interesting to mention that Ross said China has expressed interest in reducing net trade balance because of impact on money supply and inflation.

Probably the main firework during the meeting was Trump's surprising order to strike the Syrian air base in response to a chemical gas incident last Tuesday. Trump notified President Xi about the Syrian strike at the end of the dinner. The strike before the results of independent investigation coupled with the removal of his controversial chief strategist Bannon from National Security Council has fuelled speculation whether Trump will deviate from his domestic populism ideology. Although the bold military move helped Trump to win approval from mainstream media, probably for the first time, it raised concerns from his populist supporters both domestically and abroad. Both former UKIP leader Farage and French President Candidate Marine Le Pen questioned his decision via social media.

Trump's decision to inform President Xi at the end of dinner about the strike to test his reaction probably served as the test bed to press China on North Korea issues. Both parties noted the urgency of the threat of North Korea's weapons program, reaffirmed their commitment to a denuclearized Korean Peninsula although there are no details on solutions. But clearly, the Syrian strike shows that the option for military intervention on Korean Peninsula is open. We think the risk of conflicts in Korean Peninsula is heightening, which cannot be ignored for now.

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