



Sino-U.S. Phase One Trade Agreement: A Deal without Significant Impact?

28 October 2019 - 27 January 2020

The 1st phase of the U.S. trade deal with China is widely rebuffed as a protracted and low impact agreement. It is said to have provided temporary relief from lingering tariff threats but gives no major indication about the breakthroughs President Trump tried to achieve initially. Still, staggering tariffs on about two-thirds of China's exports to the U.S. and around half of the U.S. exports to China remain, besides harm being done to the global economy. Furthermore, it appears to have caused uncertainty about the prospects of full-fledged recovery of the global production and supply networks to normal levels vis-a-vis debates on present and future aspects of the disruption at play.

News/Op-ed	Key Takeaway
<p>Most companies expect little to no benefit from China deal Axios January 27, 2020</p>	<p>President Trump has championed the agreement as a "sea change in international trade" and the deal's signing has helped power U.S. stock indexes to fresh record highs, but business owners and economists are less enthusiastic.</p>
<p>Year of the Rat starts with shaky US-China trade deal <i>By Minxin Pei</i> Nikkei Asian Review January 24, 2020</p>	<p>To understand why a cease-fire will not stop the U.S.-China decoupling, look at what has not changed. In the U.S., the assessment that China is the most serious threat to American power and interests is now embraced by both Republicans and Democrats. A broad-based anti-China coalition encompassing national security hawks, human rights promoters and trade protectionists remains intact.</p>
<p>Microsoft CEO Satya Nadella says U.S.-China spat may hurt global growth News India January 21, 2020</p>	<p>Using the \$470 billion semiconductor industry as an example of a sector that is already globally interconnected, Satya Nadella said the two countries will have to find ways to work together, rather than creating different supply chains for each country. "All you are doing is increasing transaction costs for everybody if you completely separate," Nadella said.</p>
<p>Quiet, for now: On trade deal between US and China The Hindu January 18, 2020</p>	<p>Mr. Trump has said that negotiations on a phase two agreement would begin immediately and even hinted that he could travel to Beijing. However, questions over government control of China's state-owned firms and industrial subsidies — at the core the bilateral dispute — are not expected to be resolved until after the 2020 U.S. Presidential elections.</p>

News/Op-ed	Key Takeaway
<p>The U.S.-China Trade Deal Was Not Even a Modest Win Politico January 17, 2020</p>	<p>When Trump became president, he immediately latched onto the trade deficit in goods, which showed the United States importing hundreds of billions more goods than it exported to China. Many also assailed China for years of intellectual property theft and forced technology transfers and for restricting market access to U.S. financial companies. Those issues were at the heart of the decision to begin using tariffs to coerce China into changing its behavior.</p>
<p>Why Trump caved on China <i>By Fareed Zakaria</i> The Washington Post January 17, 2020</p>	<p>This outcome is partly a reflection of the two sides' staying power. China is a one-party state that can take the long view. Trump gambled that he could hurt the Chinese economy enough with tariffs that the pain to American consumers — who have paid for those tariffs — would be worth it. But the president apparently decided that he wanted to smooth the economic waters as he runs for reelection.</p>
<p>Advantage US, in trade deal with China <i>By James J Nedumpara & Manya Gupta</i> Business Line January 17, 2020</p>	<p>President Trump's obsession with China has had several collateral victims. The major casualty is the WTO itself. Retaliatory tariffs are imposed over and above the WTO bound tariff commitments. By the same corollary, the 'Economic and Trade Agreement', which Trump and the Chinese Vice-Premier Liu He signed on January 15, is also in complete disregard of the WTO rules. The preferential terms which the disputing countries are providing to each other are also apparently not in line with the MFN (most favoured nation) principle.</p>
<p>EU trade commissioner criticises US-China trade deal Financial Times January 17, 2020</p>	<p>Phil Hogan, the EU trade commissioner, has criticised the US-China "phase one" trade deal for offering limited economic benefits, suggesting it was mainly a political act (PayWall) by Donald Trump to win re-election.</p>
<p>Trump's trade deal with China is communism with American characteristics Quartz January 17, 2020</p>	<p>The deal will still keep in place two-thirds of Trump's new taxes on US importers, and China has made no commitments to cut its own tariffs. China's state subsidies for ostensibly private companies aren't mentioned in the deal. Minor changes in China's investment rules date back to negotiations conducted by the Obama administration.</p>
<p>A world trade war is brewing. The US-China deal won't stop it CNN Business January 16, 2020</p>	<p>The two sides are keeping substantial tariffs in place. About two-thirds of all US imports from China — roughly \$370 billion worth — will still be covered by tariffs after the deal is signed, according to a December analysis from the Peterson Institute for International Economics.</p>
<p>U.S.-China Deal Could Upend the Way Nations Settle Disputes The Wall Street Journal January 16, 2020</p>	<p>The phase-one deal between the U.S. and China could upend the way trade disputes are settled globally, giving the U.S. an edge over competitors and weakening international institutions. Trade deals are traditionally enforced (PayWall) by arbitration, in which either a country or a company brings a complaint and a panel of experts renders a binding decision. That procedure is used by the World Trade Organisation, which serves as a global trade court.</p>

News/Op-ed	Key Takeaway
<p>What Phase One of the US-China Deal Means for Trade and Tensions Worldwide <i>By Rohinton P. Medhora</i> CIGI January 16, 2020</p>	<p>Even after the Phase One deal, two-thirds of US imports from China are covered by tariffs averaging 19 per cent, up from 3 per cent before the conflict was initiated. On China's part, half of its imports from the US will still be subject to tariffs averaging 21 per cent, as opposed to 8 per cent previously. In short, the respite from the trade war leaves tariffs high, thus creating a new baseline for trade relations going forward.</p>
<p>Four key parts of Trump's China trade deal The Hill January 16, 2020</p>	<p>Trump's critics and trade experts counter that the deal sets potentially unattainable targets and could easily be skirted by China. China has a track record of shirking international trade commitments and Trump has not hesitated to retaliate against Beijing when he feels slighted.</p>
<p>Phase One China Deal: Steep Tariffs Are the New Normal <i>By Chad P. Bown</i> PIIE December 19, 2019</p>	<p>The December 13 announcement of a "phase one" deal with China by US Trade Representative (USTR) Robert Lighthizer is missing many details. One important implication of the phase one deal is that US tariffs on imports from China are the new normal. Even after the deal goes into effect, Trump's tariffs will still cover nearly two thirds of all US imports from China.</p>
<p>Will a "Phase 1" deal lead to a lasting trade peace? <i>By Alex Wolf & Yuxuan Tang</i> J.P. Morgan Securities October 28, 2019</p>	<p>This deal is a result of immediate economic necessity — China's need for soybeans and the U.S. desire to avoid hurting the consumer with future tariffs. Economic necessity will likely be the catalyst of any broader agreement, but beyond "Phase One" the issues are more structural in nature. As such, the important point remains that we don't view this as a meaningful step towards a comprehensive deal, but rather a short-term bargain.</p>