

US and China reach limited trade deal

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The US and China have reached a partial and very limited agreement on trade following talks held in Washington on Thursday and Friday.

It provides for a pullback by the US of a tariff hike on \$250 billion worth of Chinese goods that had been threatened for next week. In return China has increased purchases of US agricultural products and agreed on the need for stabilization of the Chinese currency.

The limited agreement was described by US President Trump as a “substantial phase one deal” following a meeting yesterday with Chinese vice-premier and chief trade negotiator Liu He at the White House. The full text will be finalised in discussions between US and Chinese officials over the next five weeks.

China has agreed to purchase \$40 billion to \$50 billion worth of additional US agricultural products and gave a commitment to further open its economy to the operation of international financial services. It has also agreed to tighten control of intellectual property in response to continuous US allegations of theft.

In addition, the two sides reported progress on other matters, without providing details, including intellectual property and currency movements. No agreement was finalised on a pact to deal with currency manipulation, but US Treasury Secretary Steven Mnuchin said discussions were “almost complete.”

The reaching of a deal is the result of a shift by the Trump administration. In the lead up to the talks, Trump made clear on numerous occasions that he was not inclined to make a limited agreement and preferred a big deal or not one at all.

But facing the possibility of a sharp fall on markets if negotiations had broken down and amid the ongoing pressure created by the Democrats impeachment investigation, Trump appears to have decided to claim a win.

The markets responded enthusiastically with the Dow

up 500 points at one point during the day, before finishing up by more than 300 points.

For all the celebrations on Wall Street, however, the agreement is very limited, described by one financial analyst in a comment to the *Financial Times* as “cosmetic.” While China will make additional purchases of agricultural products, they may not even reach the level attained before the trade conflict broke out.

Overall, the Chinese concessions have been described as “relatively minor”—essentially a repackaging of measures it had agreed to in previous rounds of talks.

The US has made little movement. None of the existing tariffs will be removed or even reduced. The major component of deal is the US decision to suspend the threatened hike in tariffs on \$250 billion worth of Chinese goods from 25 percent to 30 percent, which had been set to take effect next week.

At this point, the agreement does not appear to include the withdrawal of a 15 percent tariff on more than \$150 billion worth of Chinese consumer products, scheduled to come into effect on December 15.

Major areas of conflict have not been included. The deal does not cover the US Commerce Department’s actions against Huawei and other Chinese technology firms that have been placed on the department’s “entity list.” This means that companies have to apply for a licence to supply these firms with components, with the presumption that it will not be granted.

In discussions with China’s President Xi Jinping on the sidelines of the G20 summit in June, Trump agreed to ease the restrictions on Huawei. So far, however, no licences have been signed.

The agreement makes no move towards resolving the core issues that the US laid out at the start of the conflict in May 2018. These centre on its opposition to the state subsidies to major Chinese firms and the development of new technologies as part of the “Made

in China 2025” program of the Xi regime.

Key sections of the US military and intelligence apparatuses have made it clear, particularly over the last year as the trade war has escalated, that they regard China’s technological development as an existential threat to the economic and military dominance of the US. This is reflected in the escalation of bans and restrictions on Huawei and other Chinese high-tech firms, coupled with a push by the administration to secure allies in the China conflict.

Speaking at a meeting in Australia this week, as the trade talks went ahead in Washington, Commerce Secretary Wilbur Ross made a pitch for Australian support on the basis that when investment was taken into account the US, not China, was its most important economic partner.

Ross said the US was addressing “fundamental issues” in its relationship with China. He repeated accusations that China engaged in forced technology transfers, cyber intrusions, intellectual property theft, and distorted international markets through the payment of industrial subsidies to state-owned enterprises.

None of these key issues has been touched in the interim agreement and will be the subject of what Trump has called phase 2.

It is yet to be seen how the most strident anti-China hawks in the administration will react to yesterday’s agreement. But it falls far short of what figures such as Peter Navarro, the director of Trade and Manufacturing Policy at the White House, have been advocating.

This week the *Wall Street Journal* cited a memo prepared by the Hudson Institute’s Michael Pillsbury who advises the administration on its China policy. The memo outlined a series of measures aimed at restricting or denying China’s access to US capital markets and restricting its growth.

The recommendations included limiting investments in pension funds, developing legislation to deny China access to US capital, advancing relations with Taiwan and backing legislation to impose sanctions in response to Beijing’s actions in the South China Sea.

Such measures may be on the backburner for now—at least in the period leading up to the signing by Trump and Xi of the “phase one” agreement expected to take place next month. However, once this truce is over, all the key issues in the conflict will come to the surface.



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