

US announces "in principle" agreement on "phase one" US-China trade deal

Nick Beams
13 December 2019

The US and China are reported to have agreed in principle to a "phase one" trade agreement which is now awaiting a go-ahead by President Trump to go into effect.

According to reports on the deal—the details of which are said to be released today—the US has agreed to cut back on some of the tariffs on \$360 billion worth of Chinese goods and not to go ahead with additional tariffs on a wide range of consumer goods threatened to be imposed on Sunday. In return, China has agreed to increase its imports of US agricultural products and other goods.

According to a source cited by *The Guardian*: "The written agreement is still being formulated, but they have reached an agreement in principle."

Yesterday began with Trump raising the prospect of a deal in a tweet. "Getting very close to a big deal with China. They want it and so do we," he wrote.

The tweet, issued just before markets were due to open, signified something of a shift on Trump's part. Previously he had said China was anxious for a deal but the US was prepared to wait—possibly until after the elections in November 2020 in one case.

The tweet had its intended effect on the markets with the S&P 500 and the Nasdaq closing at record highs and the Dow not far off its record peak, rising by more than 220 points.

According to a report in the *Wall Street Journal*, the US offer to reduce tariffs it has already imposed—a 25 percent levy on \$250 billion worth of Chinese goods and a 15 percent levy on \$110 billion worth—was decided on over the past week. They could be cut by as much as half.

But the reduction will be accompanied by a so-called "snapback" provision under which they would be immediately re-imposed if it is determined that China is not abiding by its side of the deal. Here the devil is very much in the details because the issue is by whom and how will it be determined whether there has been a breach of

the agreement?

From the outset of the conflict the US side, led by US Trade Representative Robert Lighthizer, has insisted there must be some kind of "enforcement" mechanism. Whatever the mechanism has been decided on, trade with China will take place under the threat that tariff sanctions by the US can be re-imposed at any time.

One of the main sticking points in the negotiations has been the US demand that Beijing agree in writing to increase its purchases of US agricultural products, including poultry, soybeans and other grain products, to between \$40 billion and \$50 billion. This compares to the level of \$25-\$30 billion before the trade war began.

China has objected to this on the grounds that to meet that level of imports it would have to breach World Trade Organisation rules and such action would mean the use of government authority to discriminate against other countries. There is also a price issue involved. Since the conflict began, China has been able to obtain soybeans, a major component of US agricultural exports, from Brazil at a lower price than from the US.

The dispute over agriculture highlights the double-talk that has surrounded the US negotiating stance. On the one hand, it has railed against China for using the power of the state instead of relying on "market forces" in its economy, while on the other it is demanding that Chinese state power be used to discriminate in favour of US producers.

Trump has made agriculture a central focus because of the economic hardship Chinese retaliation against his tariffs has led to in agricultural regions. These states are seen as crucial to his election prospects in next year's presidential election and he wants to present the deal as a "victory" for US farmers.

The "phase one" deal does not include any agreement on what are considered by key sections of the military, intelligence and political establishment to be the more

significant issues. These are the subsidies provided by the government to state-owned enterprises and the Chinese push to enhance its technological and industrial development, both of which are considered to be an existential threat to the economic and military dominance of the US.

These issues have been raised in comments on the deal. This week White House trade adviser Peter Navarro circulated a memo under a thinly disguised pseudonym attacking a phase one agreement and calling on the president to announce no deal until after the election and “ride the tariffs to victory.”

The business channel CNBC, which first reported on the memo, said Navarro had taken issue with the shelving of measures on intellectual property and technology that had been in earlier versions of US proposals.

The broader issues of China’s economic advances have been raised from both sides of the political aisle.

Florida Republican Senator Marco Rubio, a vociferous anti-China hawk, said in a tweet that a near-term pact “would give away tariff leverage needed for a broader agreement on the issues that matter the most such as subsidies to domestic firms, forced tech transfers and blocking US firms from access to key sectors.”

Leading Democrats voiced the underlying issues in even stronger terms.

A letter to Trump issued yesterday signed by three Senate Democrats—minority leader Charles Schumer, Ron Wyden and Sherrod Brown—called on Trump to “stand firm” in any phase one deal. Such an agreement, they wrote, had to go beyond recalibration of the trade balance with China. Failure to extract “secure commitments from the Chinese government to enact substantive, enforceable, and permanent structural reform” would “jeopardize American prosperity.”

The letter, issued amidst the Democrats’ impeachment process, underscored the essential agreement with Trump’s trade war agenda. It said that for years the US had “failed to hold the Chinese government accountable for its abusive and unfair trade practices, and we commend your administration’s continued focus on this issue. ... Strength is the only way to win with China, and the United States cannot afford to back down now.”

Any “phase one” agreement with China does not mean the bellicosity of the US on the trade front has lessened. In fact, this week it went up a gear with Washington’s decision to follow through on its refusal to agree to the appointment of new judges to the disputes settling body of the 164-member WTO.

After launching trade war action against countries on three continents—Asia, Europe and Latin America—it was a move directed against the rest of the world.

The conflict began two years ago when the US decided to block new appointments to the WTO’s appellate body which hears disputes. When the two judges retired on Tuesday, with no replacements because of the US action, it collapsed.

Its demise came after months of negotiations, led by New Zealand’s ambassador to the WTO David Walker, to try to find a solution but to no avail. On Tuesday, WTO director-general Roberto Azevedo confirmed that the Walker process had failed, saying “as of tomorrow, the appellate body will no longer be able to review new dispute rulings.”

The US actions not only render the WTO’s disputes settling procedures inoperable but threatened the future of the entire organisation itself.

The US hostility to the WTO’s procedures predates the coming to power of Trump but it has intensified under his presidency. Washington claims that the WTO has made “activist” decisions which make trade laws rather than interpret them, that it oversteps its authority by interpreting American laws, and it has made decisions that discriminate against the US.

Professor James Bacchus, a former chairman of the WTO appellate body, told the BBC there was no way of resolving the dispute under Trump in a way that would preserve the independence of the appellate body and the rest of the organisation’s disputes settling system.

He said the US actions were an attempt to replace the rule of law in trade and replace it “with the rule of power.”

That has been the essential content of the negotiations with China thus far and will be the basis of the conflicts to come, notwithstanding any “phase one” deal.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact