

US-China deal a new phase in global trade war

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The Trump administration is claiming a victory in its global trade war in pursuit of its “America First” agenda aimed at trying to reverse the long-term decline of US economic power.

Congressional approval for the US-Mexico-Canada Agreement (USMCA), only possible because of crucial Democrat and trade union support amid the impeachment proceedings against Trump, and the agreement “in principle” for a “phase one” trade deal with China have attracted the most media attention. But in the longer term, US action that last week secured the wrecking of the disputes-settling procedures of the 164-member World Trade Organisation (WTO) is probably the most significant.

Following years of objections to the WTO’s rulings as constituting “overreach” and violation of American laws, which started under the Obama administration and intensified with the coming to power of Trump, US refusal to back the appointment of new judges to the organisation’s appellate body caused a halt in its operations last week.

The action on the WTO has not only stymied procedures for deciding on trade disputes. It may well prove to be a fatal blow to the operation of the organisation set up in 1995 to replace the General Agreement on Tariffs and Trade, established after World War II to prevent a repeat of the disastrous trade wars of the 1930s.

Speaking to CBS’s “Face the Nation” program on Sunday, US Trade Representative Robert Lighthizer said: “Friday was probably the most momentous day in trade history ever.”

While Lighthizer had in mind the deal with China, his remarks have a broader significance. They came at the end of a week that saw a further disintegration of the post-World War II multilateral trading system and the acceleration of a process in which the US seeks to use its

market power to dictate terms to its trade rivals.

But just as its continuous wars and military interventions over the past 30 years have failed to restore the US to its past position, the “victories” on the trade front may prove to be equally hollow.

Even before the full details of the US-China deal are released, sometime next month, considerable doubts have been cast on US claims it will bring an immediate boost in agricultural exports and a major increase in exports to China more broadly.

Lighthizer told reporters China would work to increase its total purchases of US farm products to around \$40 billion-\$50 billion over the next two years as part of a total package to lift exports to China by some \$200 billion.

He told CBS, “we have a list that that will go: manufacturing, agriculture, services, energy ... There’ll be a total for each one of those.”

Trump described the deal as “phenomenal,” and claimed, “farmers are going to have to go out and buy much larger tractors because it means a lot of business, a tremendous amount of business.”

These claims are belied by facts and figures. According to the *Wall Street Journal*, US agricultural exports to China “were just \$10 billion in the first ten months of 2019, down from around \$20 billion in 2017 before the trade war began” and it was “unclear how this could even get to \$40 billion.”

In a statement issued on Friday, the American Farm Bureau Federation noted that China “went from the second-largest market for US agricultural products to the fifth largest since the trade war began.”

The response in Beijing to the trade deal stood in marked contrast to the hype emanating from Washington.

Ning Jizhe, vice-head of China’s National Development and Reform Commission, said China would “increase its purchase of quality American agricultural products that

are competitive in the market” and that specific figures would be released at a later date. The reference to prices is significant because China has maintained that to increase its purchases of American products to the levels demanded by Washington risks it being in breach of WTO rules on international trade.

Former chief economist at the US Department of Agriculture Joseph Glauber told the *Financial Times* details about what China had agreed to purchase remained “very obscure” and commitments by Beijing to increase its purchases could attract scrutiny from other countries that may question “whether US products have been guaranteed preferential access” in violation of international trade rules.

This is an important issue because China is seeking to present itself as a defender of the international trading system in opposition to the US and wants to ensure that Washington is not able to marshal other major powers against it.

Brian Kuehl, the co-executive director of Farmers for Free Trade, a lobby group opposed to tariffs, told the *Wall Street Journal*: “There are rightfully many doubts about the president’s claim that China will purchase \$50 billion in agricultural products in a single year, more than twice the level of pre-trade war annual purchases.”

While claiming that major concessions have been made by China, Washington offered few in return. The threatened imposition of tariffs on around \$156 billion worth of Chinese goods from December 15 was suspended and the tariff of 15 percent on \$110 billion worth of products, imposed at the beginning of September, was cut to 7.5 percent. But the 25 percent tariff imposed on \$250 billion worth of goods remains in force, despite strenuous Chinese efforts to have it rolled back to some degree.

China’s vice commerce minister, Wang Shouwen, a leading trade negotiator, said the US had agreed to remove the remaining tariffs “in stages.” However, he was contradicted by Lighthizer, who said there was no such agreement and any further reductions would be considered in later phases of negotiations.

There are no details about when such negotiations might take place, which will cover US demands for Chinese action on subsidies to state-owned enterprises and China’s plans to enhance its industrial and technological development, both of which are regarded by the US as a threat to its economic, and ultimately military, dominance.

The US tariffs against China have largely remained in

place in line with Washington’s insistence from the start of the conflict that some kind of “enforcement” mechanism had to be established to ensure China’s compliance with US demands.

According to Lighthizer, the two sides had agreed to a system on consultations if a dispute arose. If no agreement could be reached then it was open to either side to reimpose punitive tariff measures.

One of the key concerns of US businesses throughout the trade conflict is that it creates a high degree of uncertainty, which impacts decisions regarding investment and the establishment of supply chains. That uncertainty will remain because tariffs can be escalated at any time.

And the “phase one” deal is already drawing opposition from anti-China hawks, who criticize it for failing to deal with what they regard as the key issue—the rise of China as an industrial and technological power that challenges the dominance of the US.

Expressing these views, widely held in the military and intelligence establishments, the top US Democratic Senator Charles Schumer said: “At first, President Trump seemed like the first president who would dare tackle this challenge; but now, according to reports, he has sold out for a temporary and unreliable promise from China to purchase some soybeans.”

In an editorial Sunday, the *Washington Post* called the trade deal “not quite a win,” pointing to the lack of specifics from Beijing on the size of China’s new purchases of US agricultural commodities, and describing the administration figures as “implausible” and “a potentially huge dislocation to global commodity markets.”

The editorial also took note of Trump’s decision to allow the WTO dispute resolution agency to cease functioning, saying that it “further confirms that Mr. Trump envisions an essentially permanent trade struggle with not only China but the entire world.”



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