

The US and China reach a Phase One trade agreement, yet the road ahead is bumpy

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On 15th January, President Trump and China's Vice Premier Liu He signed the "Phase One" trade deal. The agreement consists of 85 pages divided into 7 chapters, though the lengths of the chapters are different: "Expanding Trade" is the longest at 28 pages, which equates to around a third of the entire document (Table 1). Together with the chapter "Trade in Food and Agricultural Products", where China promises to improve its non-tariff barriers for US agricultural and aquatic products, the chapters concerning trade account for 51 pages – more than half of the entire document. Of all the chapters, it appears the Trump administration is placing most emphasis on the increase in exports to China ahead of the presidential election in November as its positive effect on the economy will be easy to use to appeal to voters.

It must be stated, however, that the hurdle to achieving the target increase in imports is extremely high. Detailed quantitative targets are set out in the chapter "Trade in Food and Agricultural Products"; China has promised to increase its imports of goods (manufactured, agricultural and energy) and services from the US by at least USD 200 billion over the next two years (2020 and 2021) using the amount of imports in 2017 as a basis. The target increase in imports of goods is USD162.1 billion: around three quarters of the total. If imports of these goods increase in line with this target, the total amount of imports from 2020 will also increase at an extremely fast pace (Chart 1). It could be said that such a high target will increase the likelihood that China will be unable to meet the target and, in the event that it becomes clear that this is the case, it is thought that the US will use this to its advantage in negotiations for the Phase Two trade agreement.

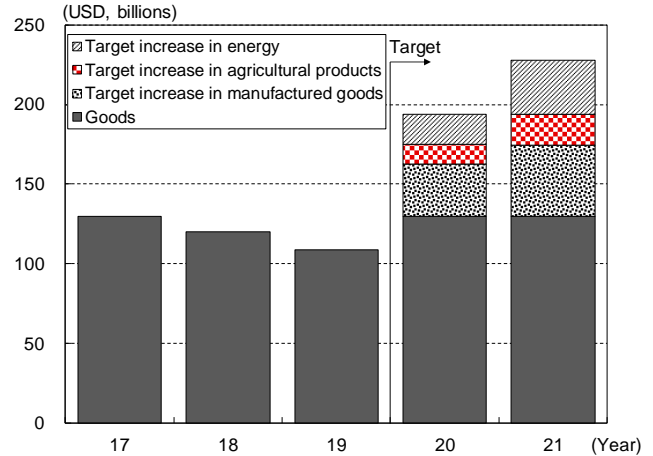
Turning to issues which were not covered in this agreement, such as China's industrial policies and subsidies for state-owned enterprises, the discussion of issues related to China's sovereignty are expected to be difficult and there has been no statement from either country that addresses how they will be handled in the future. Although the lull in the US-China trade friction brought about by this Phase One trade agreement is expected to have a positive effect on the future for a while, it should be assumed that the uncertainty surrounding the US-China conflict will continue.

Table 1: Summary of Phase One of the US-China Trade Agreement (85 pgs)

Chapter Title	No. of pages	Main Points
Intellectual Property	18	China will take measures to address misappropriation of company secrets and infringements on patents and infringements of pharmaceutical-related intellectual property rights
Technology Transfer	3	Natural or legal persons of a Party shall be able to operate openly and freely in the jurisdiction of the other Party without any force or pressure from the other Party to transfer their technology to persons of the other Party. Any transfer or licensing of technology must be based on market terms that are voluntary and reflect mutual agreement
Trade in Food and Agricultural Products	23	The Parties intend to intensify cooperation in agriculture and expand each Party's market for food and agricultural products, and to promote the growth of trade in food between the Parties (China will improve many of its non-tariff barriers for US agricultural and aquatic products)
Financial Services	4	China shall eliminate foreign equity limits and allow wholly US-owned services suppliers to participate in the securities, fund management and futures sectors. (China will remove barriers for US companies to expand their business in the Chinese market)
Macroeconomic Policies and Exchange Rate Matters and Transparency	3	The Parties shall refrain from competitive devaluations and not target exchange rates for competitive purposes. The Parties shall continue to disclose data publicly with foreign exchange markets
Expanding Trade	28	From 1 Jan. 2020 to 31 Dec. 2021, China shall ensure that purchases and imports into China from the US exceed the corresponding 2017 baseline amount by no less than USD200 billion
Bilateral Evaluation and Dispute Resolution	6	The parties shall create the Trade Framework Group to discuss the implementation of this Agreement and shall resume macroeconomic meetings to discuss overall economic issues

Source: United States Trade Representative, MUFG Bank Economic Research Office

Chart 1: Chinese Imports from the US (Goods)



Source: Department of Commerce, MUFG Bank Economic Research Office

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