

# How US-China trade deal achieved a little but left out a lot



WASHINGTON (AP) — The limited trade deal that the Trump administration and Beijing announced Friday means Americans will avoid a holiday tax increase on imported toys, clothing and smartphones. U.S. farmers can sell more soybeans and pork to China. And American companies should face less pressure to hand over trade secrets to Beijing.

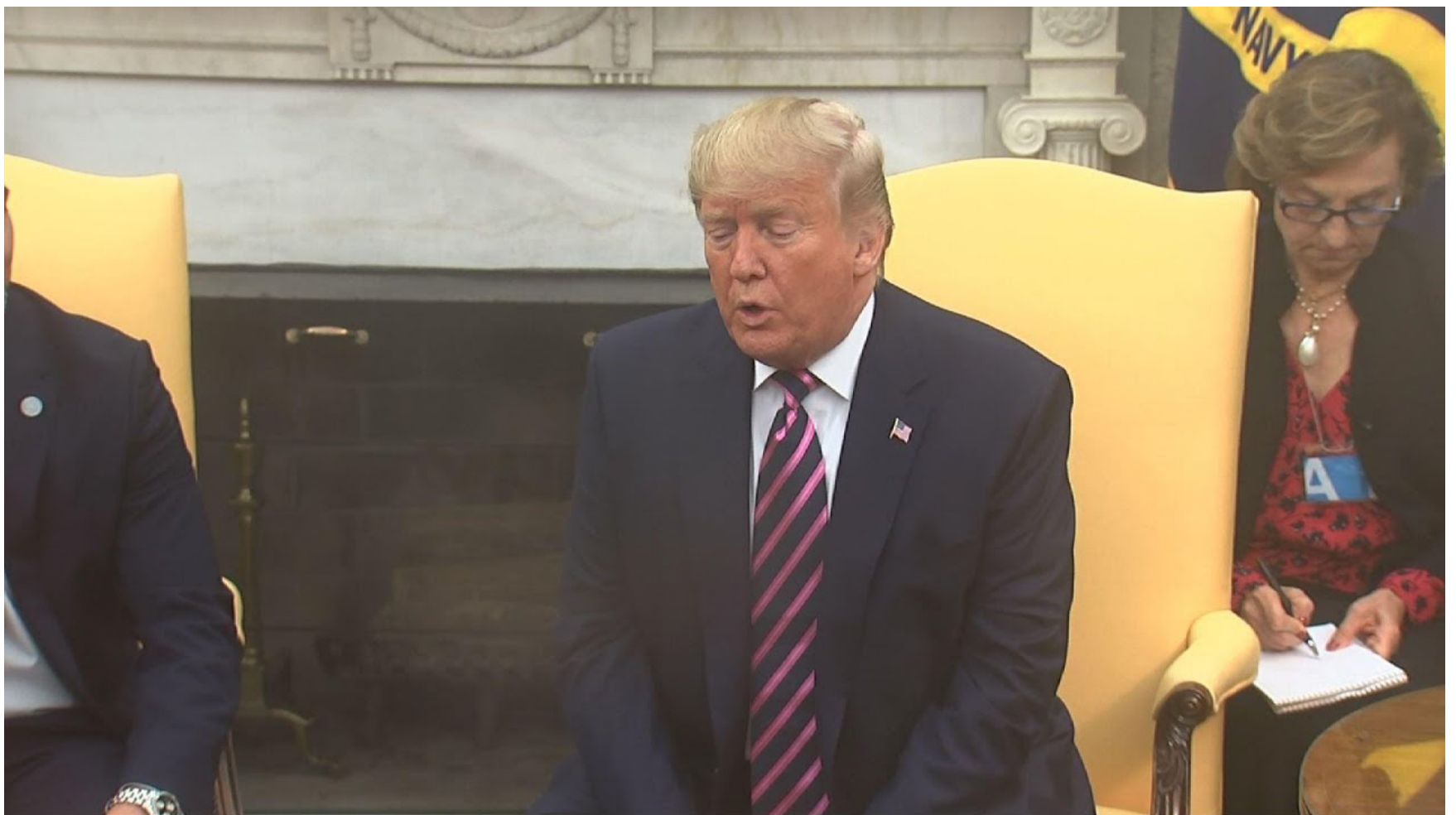
But what the administration gained from the so-called Phase 1 deal that President Donald Trump celebrated falls well short of the demands the president issued when he launched a trade war against Beijing 17 months ago. Further rounds of negotiations will be required to achieve a more significant agreement.

Still, Friday's preliminary agreement managed to at least defuse a conflict

that had put investors on edge and slowed economic growth entering an election year in which Trump plans to campaign, at least in part, on America's prosperity.

Under the agreement, the Trump administration dropped its plan to impose new tariffs on \$160 billion of Chinese imports beginning Sunday — a tax that would have likely led to higher prices on many consumer goods. The administration also agreed to reduce its existing import taxes on about \$112 billion in Chinese goods from 15% to 7.5%.

In return, U.S. Trade Representative Robert Lighthizer told reporters, China agreed to buy \$40 billion a year in U.S. farm products over two years, even though U.S. agricultural exports to China have never topped \$26 billion a year. In addition, Beijing committed to ending a long-standing practice of pressuring companies to hand over their technology as a condition of gaining access to the Chinese market.



Lighthizer said China also agreed to lift certain barriers to its market for such products as beef, poultry, seafood, pet food and animal feed.

In all, the U.S. expects a \$200 billion boost in exports over two years as a result of the deal.

“We expect the trade deficit to go down for sure,” Lighthizer said, adding that the agreement will likely be signed the first week in January and take effect 30 days later.

“Everything is written,” he said. “Everything is completely finished.”

Yet the administration released no detailed paperwork on the agreement. And it said the text was still being translated between Chinese and English. In the past, the two sides had appeared to be close to firm agreements only to see negotiations fall apart.

At the same time, the Phase 1 agreement leaves some major issues unresolved, notably complaints that Beijing unfairly subsidizes its own companies to give them a competitive edge in world markets.

Many trade analysts said the agreement amounted to a mixed bag.

“This deal should go a long way in reversing the downward spiral in bilateral trade relations and increasing certainty for U.S. businesses,” said Wendy Cutler, a former U.S. trade negotiator who is now vice president at the Asia Society Policy Institute.

But, she cautioned, “it’s unclear on how far the Phase 1 agreement goes in addressing the key structural issues that brought the U.S. to the negotiating table 17 months ago.”

Other analysts were harsher.

“With only limited concessions, China has been able to preserve its mercantilist economic system and continue its discriminatory industrial policies at the expense of China’s trading partners and the global economy,” said Scott Kennedy, a China specialist at the Center for Strategic and

International Studies.

“Trump could reverse course and renew tariffs. But Beijing has bought itself a likely respite from the daily uncertainty for at least a few months and perhaps for the remainder of Trump’s current term.”

Trump had first announced a Phase 1 deal back on Oct. 11, but negotiations continued for two more months. The president, who announced the latest agreement via Twitter, said that work on a follow-up Phase 2 agreement would begin immediately.

His announcement came minutes after the House Judiciary Committee approved impeachment charges of abuse of power and obstruction of Congress, leading the White House to argue that the president “never stops working and continues to make successful deals that benefit this country.”

In Beijing, officials said at a briefing that if the Trump administration reduces its tariffs, China will lower its trade penalties on American goods and also scrap plans for new tariffs Sunday.

The world’s two biggest economies are battling over the industries of the future and the way China does business — an unorthodox mix of capitalism and state control.

The administration accuses China of cheating in its drive to develop such advanced technologies as driver-less cars and artificial intelligence. The administration alleges — and independent analysts generally agree — that China steals technology, forces foreign companies to hand over trade secrets, unfairly subsidizes its own firms and throws up bureaucratic hurdles for foreign rivals.

Beijing rejects the accusations and contends that Washington is simply trying to suppress a rising competitor in international trade.

Since July 2018, the Trump administration has imposed a series of trade



sanctions on China, sometimes changing or delaying planned tariff rates.

Friday's announcement means the U.S. will still continue to impose 25% import taxes on \$250 billion in Chinese goods and will halve the tariffs on a separate \$112 billion to 7.5%. It will drop plans to target an additional \$160 billion. That step would have extended the tariffs to just about everything China sells the United States and would have hit consumer items such as toys and smartphones that have so far largely been spared.

Beijing has retaliated by taxing \$120 billion in U.S. exports, including soybeans and other farm products that are vital to many of Trump's supporters in rural America.

Rob Atkinson, president of the Information Technology and Innovation Foundation, said "the agreement represents progress" but said "the United States must still comprehensively address China's rampant innovation mercantilist practices."

Mary Lovely, a trade economist at the Peterson Institute for International Economics, said it's unlikely that Friday's deal delivers enough benefits for the U.S. to outweigh the costs of the trade fight so far.

U.S. farmers lost billions of dollars in income, companies paid billions in tariffs and in many cases shifted their supply chains, and consumers saw some prices increase.

"Many of us are highly skeptical that the agreement will be enough to outweigh these other costs," Lovely said. "The U.S. didn't move the needle very much."

Still, the agreement should help smooth some of the uncertainty surrounding global trade, Lovely said.

"We have a cease-fire, we have some roll back, that is very significant," she said. "We were kind of on a brink here, and we saw the negotiators pull us

back.”

Lighthizer said the Phase 1 agreement addressed one of the key U.S. concerns: Ensuring that a deal can be enforced. The Trump administration and other critics say China has a long history of violating its promises. Friday’s deal establishes a dispute resolution process. If a complaint isn’t resolved, the aggrieved party can impose sanctions, including tariffs.

“A skeptic would say, ‘We’ll see,’” Lighthizer said. “And that’s probably a wise position to take. But our expectation is that they’ll keep their obligations. And in any event, they’re enforceable.”

Repeated rounds of negotiations had failed to achieve a substantive deal. The prolonged uncertainty over Trump’s trade policies curtailed U.S. business investment and likely held back economic growth. Many corporations have slowed or suspended investment plans until they know when, how or even whether the trade standoff will end.

A far-reaching agreement on China’s technology policies will likely prove difficult. It would require Beijing to scale back its drive to become a global powerhouse in industrial high technology, something it sees as a path to prosperity and international influence.

“This deal would amount to a modest de-escalation of trade hostilities but hardly resolves the fundamental trade and economic tensions that are dampening business sentiment and investment in both countries,” said Eswar Prasad, an economist at Cornell University and former head of the International Monetary Fund’s China division.

Efforts to acquire foreign technology are a theme that runs through Chinese law and government. Security researchers have asserted that Beijing operates a network of research institutes and business parks to turn stolen foreign technology into commercial products.

The Trump administration has been seeking a way to enforce any significant trade agreement with China, reflecting its contention that Beijing has violated past promises. One way to do is to retain some tariffs as leverage.

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Associated Press writers Christopher Rugaber and Darlene Superville in Washington and Joe McDonald in Beijing contributed to this report.