US-China pact signing to ease tension but leaves much undone

By Paul Wiseman and Joe Mcdonald | AP

A worker waits to transport containers at the container port in Qingdao in eastern China's Shandong province on Tuesday, Jan. 14, 2020. China's exports rose 0.5% in 2019 despite a tariff war with Washington after growth rebounded in December on stronger demand from other markets. (Chinatopix Via AP) (Associated Press)

WASHINGTON — After 18 months of economic combat, the United States and China are set to take a step toward peace Wednesday. At least for now.

President Donald Trump and China's chief negotiator, Liu He, are scheduled to sign a modest trade agreement in which the administration will ease some sanctions on China and Beijing will step up its purchases of U.S. farm products and other goods. Above all, the deal will defuse a conflict that has slowed global growth, hurt American manufacturers and weighed on the

Chinese economy.

But the so-called Phase 1 pact does little to force China to make the major economic reforms — such as reducing unfair subsidies for its own companies —that the Trump administration sought when it started the trade war by imposing tariffs on Chinese imports in July 2018. The U.S. has yet to reveal details of the agreement, though U.S. Trade Representative Robert Lighthizer has said they would be made public Wednesday.

Most analysts say any meaningful resolution of the key U.S. allegation — that Beijing uses predatory tactics in its drive to supplant America's technological supremacy — could require years of contentious talks. And skeptics say a satisfactory resolution may be next to impossible given China's ambitions to become the global leader in such advanced technologies as driverless cars and artificial intelligence.

"The signing of the Phase 1 deal would represent a welcome, even if modest, de-escalation of trade hostilities between China and the U.S.," said Eswar Prasad, a Cornell University economist and and former head of the International Monetary Fund's China division. "But it hardly addresses in any substantive way the fundamental sources of trade and economic tensions between the two sides, which will continue to fester."

In a letter to Trump on Tuesday, the top Senate Democrat, Chuck Schumer of New York , complained that the Phase 1 deal appeared to make "very little progress in reforming China's rapacious trade behaviors and seems like it could send a signal to Chinese negotiators that the U.S. can be steamrolled."

The thornier issues are expected to be taken up in future rounds of negotiations. But it's unclear when they will begin. And few expect much progress before the November U.S. election.

"Phase 2 -- I wouldn't wait by the phone," said John Veroneau, who was a U.S. trade official in the George W. Bush administration and is now co-chair of the international trade practice at Covington & Burling. “That is probably a 2021 issue.”

Under the Phase 1 agreement, which the two sides reached in mid-December, the administration dropped plans to impose tariffs on an additional $160 billion in Chinese imports. And it halved, to 7.5%, existing tariffs on $110 billion of good from China.

For its part, Beijing agreed to significantly increase its purchases of U.S. products. According to the Trump administration, China is to buy $40 billion a year in U.S. farm products — an ambitious goal for a country that has never imported more than $26 billion a year in U.S. agricultural products.

The deal may be most notable for what it doesn’t do. It leaves in place tariffs on about $360 billion in Chinese imports — a level of protectionism that would have been unthinkable before Trump took office.

Chad Bown of the Peterson Institute for International Economics calculates that the Phase 1 agreement will leave nearly two-thirds of Chinese imports covered by Trump’s tariffs. Beijing’s retaliatory tariffs affect more than half of American exports to China. The average U.S. tariff on Chinese imports has risen from 3% in January 2018 to 21% now.

High tariffs between the world’s two biggest economies, Bown says, are now “the new normal.”

The Trump administration argues that the Phase 1 deal is a solid start that includes Chinese commitments to do more to protect intellectual property, curb the practice of forcing foreign companies to hand over sensitive technology and refrain from manipulating their currency lower to benefit Chinese exporters. In advance of the Phase 1 signing, in fact, the Treasury Department on Monday dropped its designation of China as a currency manipulator.

And by maintaining significant tariffs on Chinese imports, the administration retains leverage to force Beijing to abide by its commitments — something the United States says Beijing has failed to do for decades.

“We’ve never punished them before,” said Derek Scissors, China specialist at the American Enterprise Institute. “If you don’t have tariffs, you can write down anything you want, and the Chinese will cheat.”

The administration contends that, however narrow the Phase 1 agreement may be, it represents a significant breakthrough.

“Across the board, it’s a really, really good deal for the United States,” Lighthizer told Fox Business Network on Monday. “And it will work if reformers in China want it to work. And if that happens, great. If it doesn’t happen, (the pact) is fully enforceable... We expect them to live up to the letter of the law. We’ll bring cases -- we’ll bring actions against them if they don’t.”

Scissors said the trade war has already delivered a benefit for Trump, even if it hasn’t forced Beijing to make major changes to its economic policy: Trump’s tariffs have reduced Chinese exports to the United States and narrowed America’s trade deficit with China.

The president has long lambasted the U.S. trade gap with Beijing as a sign of economic weakness, though many economists disagree. A wide trade deficit can actually reflect economic strength because it means that a nation’s consumers feel prosperous and confident enough to spend freely — on imported goods as well as on home-grown goods.

So far this year, the U.S. deficit with China in the trade of goods has declined by 16%, or $62 billion, to $321 billion compared with a year earlier. And the deficit will narrow further if Beijing lives up to its pledges to buy dramatically more American imports.

Trump's tariff hikes have proved to be a headwind for China's economy, which was already slowing, though the damage has been less than some forecasters expected. Chinese global exports eked out a 0.5% increase in 2019 despite a plunge in sales to the United States, according to Chinese customs data.

Chinese exporters responded to Trump's tariff hikes by shipping goods to the United States through other countries and by stepping up sales to Asia, Europe and Africa. The government reported double-digit gains in 2019 exports to France, Canada, Australia, Brazil and Southeast Asia.

Economists said the tariff war slowed Chinese growth, which hit a multi-decade low of 6% in the quarter ending in September, by as little as 0.6 percentage point. Weak domestic demand and the cooling of a construction boom inflicted more damage.

"It is unrealistic for the U.S. government to think they could defeat China by exerting extreme pressure," said Tu Xinquan, director of the China Institute of WTO Studies at the University of International Business and Economics in Beijing. "As an economy with a massive size, China will gradually absorb such external shocks."

"China didn't get everything they wanted out of this deal, and the U.S. has obviously not got the structural changes in the Chinese economy they wanted," said Julian Evans-Pritchard of Capital Economics. "But they are going to get a substantial increase in exports and a reduction in the bilateral trade (deficit), which I think the Trump administration will clearly see as a win."

McDonald reported from Beijing.