

U.S. and China Move Forward on Trade

Washington to hold off on ramping up tariffs, and Beijing agrees to boost purchases of U.S. farm goods

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Treasury Secretary Steven Mnuchin and Chinese Vice Premier Liu He arrived at a trade meeting on Friday. President Trump met with Mr. Liu later in the day. Photo: Jose Luis Magana/Associated Press

The U.S. and China took an initial step to cement a trade agreement that had been derailed, with Washington saying on Friday it would shelve a planned increase in tariffs on goods imported from China, while Beijing would increase purchases of U.S. agricultural products.

The two sides left many details to be worked out in the weeks or months ahead on tough issues including China's enforcement of intellectual property rules, U.S. access to Chinese markets, Chinese government support for state-owned enterprises, and the fate of U.S. tariffs on nearly \$360 billion worth of Chinese imports already in place.

The Dow Jones Industrial Average [finished the day higher](#) on fresh signs of trade detente, rising 319.92 points, or 1.21%, to 26816.59, but it fell from gains of more than 500 points after details of the tentative agreement came out.

The rough framework hashed out in two days of talks between senior U.S. and Chinese officials in Washington included a Chinese agreement to purchase American farm products totaling \$40 billion to \$50 billion, President Trump said, without specifying over what time period that would occur.

Trump Announces 'Phase One' Deal With China on Trade

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President Trump told reporters at the White House Friday that the U.S. and China had come to an agreement on "phase one" of a trade deal. Photo: Michael Reynolds/Shutterstock

In exchange, the Trump administration said it [would forgo a planned increase in tariffs](#) to 30% from 25% on \$250 billion in annual imports from China scheduled to go in place next week.

The tentative truce underwhelmed some international businesses that had been hoping the U.S. and China would finish up a deal that cemented more sweeping structural changes in China's economy, eliminated additional tariffs scheduled to go into place in December and even rolled back existing tariffs both sides have added to imports from each country.

The [planned tariff increases in December](#) on electronics, apparel and other imported consumer goods—a big uncertainty for many U.S. firms—haven't been shelved so far, Mr. Trump's trade adviser, Robert Lighthizer, said in the Oval Office.

“If this turns out to be all there is, we could have achieved these results a year ago or more,” said Derek Scissors, a trade expert at the American Enterprise Institute who has advised the Trump administration.

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Friday's announcement potentially works in Beijing's favor, as it has long sought to negotiate with the U.S. in stages. China's lead trade negotiator and Vice Premier Liu He has previously said that 40% of U.S. demands could be tackled immediately, while another 40% could be addressed through continued negotiations.

In the lead-up to this round of talks, Beijing sought to narrow the scope of topics that would be discussed, in order to put thornier national-security issues on a separate track. By contrast, President Trump previously said he would rather get a “whole deal” than a limited one.

Still, two days of congenial discussions did amount to a tamping down of tensions that had been increasing since [talks broke down in the spring](#), when the U.S. said Chinese negotiators reneged on agreements that had been hashed out.

The White House said on Friday that Mr. Trump had received a goodwill letter from Chinese President Xi Jinping. “I attach great importance to your concerns on agricultural products,” Mr. Xi said, according to a translation provided by the White House. “Recently, the Chinese companies involved have accelerated purchases of American agricultural products, including soybeans and pork.”

Chinese state media said the two sides made “substantive progress” on a range of issues including agriculture, but didn’t mention potential Chinese purchases.

The two countries said they made progress on intellectual-property protection and rules to prevent currency manipulation, U.S. officials said Friday, though they declined to offer specifics. Treasury Secretary Steven Mnuchin this February claimed to have already reached a currency agreement with China and cited it as sufficient to delay an earlier round of tariffs.

Mr. Trump—facing a slowing U.S. economy and an impeachment investigation in Congress—said the progress could lead to a “substantial phase one deal” that he and Mr. Xi could sign in November at a coming summit of Asia-Pacific leaders.

The U.S. appears to be far from its original goal of getting China to overhaul its economy and is instead saving major structural issues to negotiate later.

Why Investors Shouldn't Overestimate U.S.-China Partial Trade Deal



Why Investors Shouldn't Overestimate U.S.-China Partial Trade Deal

U.S. and China agreed to a partial trade deal Friday. But Heard on the Street's Aaron Back explains why investors may want to hold off on getting too excited. Photo: Jose Luis Magana/AP

The details of the agriculture deal are rough. If China increases purchases of U.S. agricultural goods by \$40 billion to \$50 billion in a year, that would mark substantial gains. In 2017, before the trade war started, China purchased about \$24 billion a year of U.S. food and agricultural exports. If the promised sum is spread out over some longer period of time, it is less significant.

“This announcement of an impending deal hardly resolves any of the major underlying sources of trade and economic frictions between the two countries,” said Eswar Prasad, a China expert and an economist at Cornell University. “And from the perspective of businesses, it does not mitigate uncertainty about the future of the bilateral economic relationship.”

Mr. Trump laid out a schedule for finishing up a first phase of a deal with China in the coming weeks. Under that plan, there would be one or two subsequent phases of negotiations taking place over some unspecified period

of time. Rules on safeguarding intellectual property in China are mostly done, but some will be included in phase two, he said. The coercive transfer of foreign companies' technology in China may span phases two and three.

Farmers applauded the progress with China, which has answered U.S. tariffs with restrictions on American agricultural exports. "The promise of additional ag purchases is welcome news, but details on timeline, price, commodities and many other questions will have to be answered," said Brian Kuehl, co-executive director of Farmers for Free Trade.

Business groups were more cautious. "We look forward to reviewing the details of this announcement and urge both governments to work toward making additional structural reforms in China and eliminating tariffs," said the Business Roundtable, a group of large U.S. companies, in a statement.

While some hawkish politicians have warned of making concessions to Beijing, the bulk of Republican lawmakers who oppose tariffs are eager for progress in resolving the trade war. "Any time progress is made, that's good news," said Sen. Chuck Grassley (R., Iowa), chairman of the Senate Finance Committee. "A final deal must address the full scope of structural issues."

Mr. Trump announced the steps after U.S. and Chinese negotiators worked this week in Washington and after the conclusion of a meeting with Mr. Liu in the White House. Mr. Liu said the discussions with senior Trump administration officials were "very good."

Mr. Lighthizer said one sensitive bargaining chip wasn't included in this week's trade discussions: the easing of regulatory restrictions that have put financial pressure on Chinese telecom giant Huawei Technologies Co.

Earlier this year, the Trump administration [put Huawei on an export blacklist](#) after warning that its products could be used to spy on or disrupt telecommunications networks, which the company denies. The move put a barrier between some U.S. chip makers and other companies that sent \$11

billion worth of components to Huawei last year.

On Friday, Mr. Lighthizer said Huawei's fate is being handled as a separate process.

Prior to trade talks, some lawmakers and Washington policy experts worried that U.S. negotiators would agree to loosen restrictions on Huawei in a way that compromised the country's national security.

On Friday's developments, Senate Minority Leader Chuck Schumer (D., N.Y.) was pleased that the concessions weren't included. "The good in President Trump's 'deal' with China is not what's in it—there isn't much—but what isn't in it: any loosening of restrictions on Huawei," he said in a statement.

Earlier this week, the White House said it would clear licenses to enable some U.S. suppliers [to resume doing business with Huawei](#), according to a person familiar with the decision. Officials at the Commerce Department's Bureau of Industry and Security haven't said when it will begin approving licenses.

Friday's announcement shows the continuation of a recent detente in the trade war. Mr. Trump, under pressure from businesses and Republicans, previously delayed the October tariff increase by two weeks and began speaking more positively about cooperating with China.

Beijing overnight reiterated a commitment it made earlier this year to open up its financial sector by next year, with a timeline for when it would abolish limitations on foreign ownership in securities and futures in 2020.

Until this week, there had been few signs of progress in the talks since the two sides walked away from a nearly complete deal in May. At that time Messrs. Trump, Lighthizer and Mnuchin accused the Chinese side of backing away from previous commitments at the negotiating table, and Mr. Trump raised tariff levels in May and paved the way for duties on more products.

Messrs. Trump and Xi had sought to get negotiations moving again after a

June meeting at the Group of 20 leading economies in Osaka, Japan. After that meeting, Mr. Trump said he had received commitments from China to buy large amounts of U.S. farm products and that he would allow U.S. firms to sell products to Huawei if the cooperation didn't jeopardize U.S. national security. Yet the talks didn't immediately improve, and both sides blamed each other for failing to follow through with the Huawei reprieve and agricultural purchases.

In August, China bought \$945 million of soybeans, the best month since January 2018, and recently the White House moved to greenlight licenses to do business with Huawei, though the Commerce Department didn't say it had granted them.

China hawks from both parties have warned against easing pressure on Huawei, which many lawmakers and officials see as a national security threat.

The Trump administration kicked off the conflict in 2017 when Mr. Lighthizer began investigating Chinese economic practices under a U.S. trade law known as Section 301. The probe found evidence of intellectual-property violations, coerced transfer of technology and cyberhacking for business gain, and Mr. Trump responded in March by authorizing tariffs—first on just \$50 billion in mostly industrial imports from China.

Since then the tariffs footprint has expanded to include most products imported from China, including \$111 billion in mostly consumer items penalized with 15% tariffs on Sept. 1. Beijing has responded with its own retaliatory tariffs on American farm products, cars and other products.

The framework discussed Friday shows how difficult it has been for the U.S. to draw long-term concessions out of Beijing, in particular changes to Chinese industrial policy and its practice of subsidizing state-owned enterprises.

At the same time, the Trump administration is paving the way for more discussions that could lead to a broad deal later. "It's more setting the train

back on the track in some ways and dealing with issues that aren't so easy to deal with but still need to be addressed eventually," said Claire Reade, senior counsel at Arnold Porter and former assistant U.S. trade representative for China affairs.

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