



U.S.–China Trade Deal: A Temporary Reprieve

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Without pouring water on the “love fest,” we contend that the deal struck between China and the U.S. leaves much to be desired.

It feels like we have come a long way from late summer when President Donald Trump referred to President Xi Jinping as the “enemy” of the U.S. Indeed, on 11 October, upon a handshake agreement that included a promise by China to buy more U.S. agricultural products and a promise by the U.S. to freeze tariff rates at 25% on \$250 billion of Chinese goods, Trump described the U.S.–China relationship as a “love fest.”

Without pouring water on the love fest, we contend that the deal struck between China and the U.S. leaves much to be desired. True, it represents a welcome reprieve in the escalating tit-for-tat of the past 18 months or so, and it probably decreases the chance that Trump will move forward with the last tranche of tariffs (15% on \$160 billion of goods) come 15 December. But upon inspection, the “substantial deal,” as Trump described it, is more like a temporary reprieve than a permanent resolution. In short, uncertainty around trade policy and U.S.–China relations is likely to continue for the foreseeable future – and will likely be an intermittent headwind for markets.

What happened? Last Friday, Trump and China’s special envoy Liu He agreed to Phase 1 of a trade truce, which will involve China buying “\$40 billion to \$50 billion” of agricultural goods from the U.S. in exchange for a freeze in tariff rates. The agreement, while light on details and still weeks away from final, also promises to 1) liberalize the financial services industry in China by opening it up to more foreign ownership, a process that was well underway and dates back to the Obama administration, and 2) safeguard intellectual property, although there are few details about what this means and importantly how it would be enforced. There will also be a currency side deal, which includes similar language that the U.S. required in NAFTA 2.0, but as of now does not seem likely to include an enforcement mechanism.

What does the deal *not* include? The agreement does not address many of the fundamental issues that have led to heightened tensions between the two countries. There is no relief on Huawei, the Chinese telecom giant effectively banned from the U.S. by Trump in May. There is no tariff rollback, i.e., U.S. tariffs remain on \$360 billion of Chinese imports. There is no promise that the last round of tariffs set to take place on 15 December will be avoided. There is no de-designation of China as a currency manipulator. And very little in the agreement addresses the issues central to the U.S. investigation of China under Section 301 of the Trade Act, including forced technology transfer, cybertheft, and the subsidization of state-owned enterprises.

What’s next? Several U.S.–China meetings are slated for the next few weeks, with the expectation that a deal could be signed at the APEC Summit in Chile in mid-November. Things to watch between now and then will be the level of China’s agricultural purchases, which have increased over the past few weeks but are nowhere near their historical levels, and tangible progress in actually putting pen to paper on the deal, which has been the hardest part in the U.S.–China negotiation process to date.

Bottom line: Is this temporary truce a welcome development for markets? Yes. Does it address many of the structural issues behind several rounds of tariffs and the escalation of trade tensions over the past 18 months? Not really. Maybe this time will be different and the love fest with China will hold through the U.S. elections in November 2020. However, China is a popular boogeyman for Trump on the campaign trail and confronting China polls well with potential voters, particularly his base. So it would not be surprising if the romance is short-lived and Trump returns to not only more adversarial rhetoric but also more combative actions.

For more on trade, please see, [‘Impeachment Could Be Both Bad News and Good News for Trade Policy.’](#)

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