# The US-China phase one trade deal. What's it worth?

The US and China finally signed and published the details of their 'phase one' trade deal. Is it worth all the fuss?

President Donald Trump, left, meets with Chinese Vice Premier Liu He, front right, at the White House in Washington

Source: Shutterstock

China's agreement to increase imports from the US by $200 billion in two years' time has received much attention. But the question is whether it's really feasible to create additional demand for US goods equal to $150 per Chinese citizen during this time, especially as Chinese economic growth is on a structural downward trend and authorities want to continue the 15-year trend of declining import growth.

President Trump, in turn, pledged to halve the additional tariffs to 7.5 percentage points on some $120 billion worth of imports. The remaining import tariffs won't be lifted until the 'phase two' agreement, though a pledge to do so was made in the official text of the trade deal.

The agreement by the Chinese to import $200 billion of US goods will be met, in part, by China's commitment to import and raise total agricultural imports from $40 billion to $50 billion, $50 billion of energy products and $75 billion of manufactured products. Comments by vice-Premier Liu that these commitments are dependent on Chinese demand seem at odds with the English version of the official text published by the US trade representative which specifies the exact amounts. However, the agreement does not include an enforcement clause addressing the purchasing commitments by China. In addition, the text explicitly states that the purchases are dependent on commercial considerations.

> 5. The Parties acknowledge that purchases will be made at market prices based on commercial considerations and that market conditions, particularly in the case of agricultural
> goods, may dictate the timing of purchases within any given year.
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> Source: Offical text

Unless Chinese demand for US agricultural goods and energy rises drastically, China would have to use state policy to substitute agricultural and energy imports from other exporting nations with imports from the US. This would lead to lower prices in those other agricultural and energy exporters, and therefore make it far more attractive for third countries to shift away from US suppliers and import soybeans and coal from, e.g. Brazil instead. Thus, higher exports to China will probably, in part, be offset by lower US exports to the rest of the world. These adjustments would likely be more gradual than the immediate impact of increased demand from China. Therefore, increased demand from China would support some economic growth over the upcoming year.

Some of the structural reforms included in the deal address the protection of American intellectual property and access to the Chinese financial services sector for foreign firms. Some of these reforms were already addressed, in earlier intellectual property reform  The most difficult topics, such as Chinese industrial subsidies, have been pushed to a 'phase two' deal, which we do not expect before the US elections in November. But this deal at least takes away some of the trade uncertainty which has affected businesses over the past two years.

## Author

**Iris Pang**
Chief Economist, Greater China
iris.pang@asia.ing.com