

US-China trade deal; don't get over excited

Financial markets are cheering the US-China agreement from last Friday, but let's not get carried away. There is a very tough journey ahead for the US and Chinese negotiators to cut a deal that really has substance



This agreement doesn't come anywhere close to the comprehensive deal that President Trump has promised

Although it is positive that de-escalation is taking place, only the commitment by China to import an additional US\$40bn to US\$50bn of American agricultural products is a tangible result of this round of negotiations. It's 'wait and see' whether the other elements that are supposed to become part of the 'phase one deal' will materialise before President Trump and President Xi meet in mid-November at the APEC summit in Santiago, Chile.

For now there is no agreement on forced technology transfers of Western companies to Chinese partners in joint ventures. Neither is there an agreement on how to stop the alleged theft of intellectual property.

On tariffs, the negotiation result is disappointing. All recent tariff hikes remain in place. Only the

announced 5 percentage point hike on US\$250bn of annual US imports from China, planned for this Tuesday, is taken out. Not even the announced 15 percentage point hike in December is rolled back. Apparently the US negotiators are not close enough to a deal yet to be able to diminish the pressure on China and relieve exporters around the world.

After his meeting with Vice Prime Minister Liu He, President Trump demonstrated optimism about the chances of the second and third phase of the negotiations, delivering tangible results on other sensitive and fundamental issues like the Chinese policy on state aid for Chinese companies and its objective to dominate technological markets. But since the start of the negotiations with China, optimism from President Trump has at various times been followed by serious setbacks in the negotiations.

For now, this mini-deal leaves a lot of uncertainty in place. So it is not likely that this takes out all the trade war uncertainty that has been plaguing business sentiment and currently depresses production and investment in manufacturing around the world. Much more is needed before trade tensions will stop tormenting business around the world.