

# China-U.S. trade talk

## Phase One Deal for tentative truce

- **Phase One Deal to lay ground for truce of trade war.** After months of back and forth, China and U.S. agreed on a substantial “phase one deal” on the 13th principal-level trade talk, subject to getting it written in the next three to five weeks. Once papered, the deal will be signed by the two leaders at or around the APEC Chile summit on 16-17 Nov 2019. Despite tough work ahead, the partial deal lays ground for truce of trade war between the two countries. The deal is also in line with CMBI expectation.
- **What’s been covered in the trade talk?** According to *Xinhua News Agency*, the two sides achieved “substantial” progress in areas including agriculture, intellectual property rights protection, exchange rate, financial services, expansion of trade cooperation, technology transfer and dispute settlement. From the U.S. side, however, more details of the agreement were disclosed at the press conference.

We summarize areas of agreement in Figure 1, combining information released from both sides. While the deals regarding agriculture, financial services, exchange rate have been largely completed, subject to being papered, those with respect to intellectual property, technology transfer and enforcement mechanism have made Phase I progress and require Phase II or III consideration.

In the **agriculture** deal, China agreed to purchase U.S. agricultural products in the range of US\$ 40-50bn per year within the second year, i.e. 2020. This amount is actually phenomenal when compared to ~US\$ 8bn currently and US\$ 16-17bn during historical peak. In fact, Chinese companies involved have already accelerated purchases of soybeans and pork since Aug (Fig 2). Regarding **financial services**, China’s market will open more widely to U.S. banks and almost all other types of financial services companies.

- **15 Oct tariff hike suspended.** The scheduled tariff hike from 25% to 30% on 15 Oct 2019 on US\$250bn goods will be suspended. The other tariff hike scheduled on 15 Dec 2019 (15% on some US\$ 300bn goods, including computers, cell phones, apparels, etc.) is waiting for Trump’s final decision.
- **Low probability for tariff escalation.** In our view, we forecast low probability of tariff escalation in the future. The hike on 15 Dec 2019 is very likely to be suspended as well. Moreover, we think both U.S. and China will gradually exempt more categories of goods from existing additional tariffs. All our forecasts are subject to the partial deal being papered before the Chile APEC Summit.
- **The two sides are now taking practical steps.** Either good or bad is too plain to describe this partial deal. We are glad that the two sides are taking more practical steps, setting aside differences while pushing for what can be agreed upon to be agreed upon first. However, we would like to emphasize again that tensions between the two nations will hover for a fairly long time and in an all-rounded manner regardless of a deal or no deal, not to mention that some thornier issues (national security, subsidies, etc.) were not mentioned in the deal. For example, when being asked about Huawei, Mr. Lighthizer said Huawei “is not part of this agreement” and is dealt with in a separate process.

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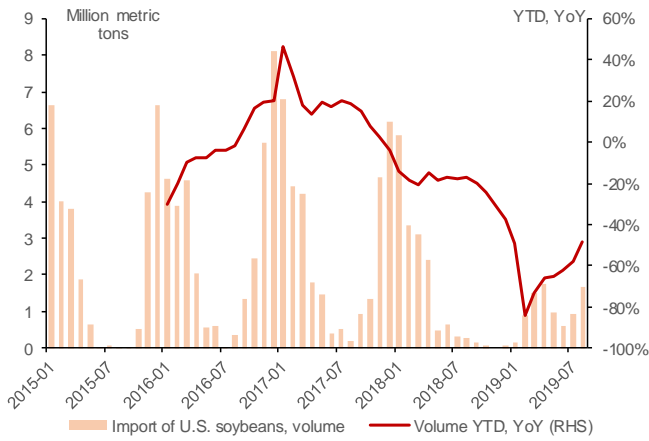
## Focus Charts

**Figure 1: Areas covered in the trade talk and estimated progress**

Areas covered	Details	Progress	Progress bar
Agriculture	CN to buy US\$ 40-50bn agricultural products/Yr within 2020	Completed.	<div style="width: 100%; height: 10px; background-color: red;"></div>
Financial services	CN market opening up to U.S. financial services companies	Almost completed. "Happy".	<div style="width: 90%; height: 10px; background-color: red;"></div>
Exchange rate	Agree on transparency into the foreign exchange markets	Almost completed.	<div style="width: 90%; height: 10px; background-color: red;"></div>
Intellectual property	N/A	Made Phase I progress	<div style="width: 30%; height: 10px; background-color: red;"></div>
Technology transfer	N/A	Made Phase I progress	<div style="width: 30%; height: 10px; background-color: red;"></div>
Enforcement	Working on dispute settlement	Working on it.	<div style="width: 20%; height: 10px; background-color: red;"></div>

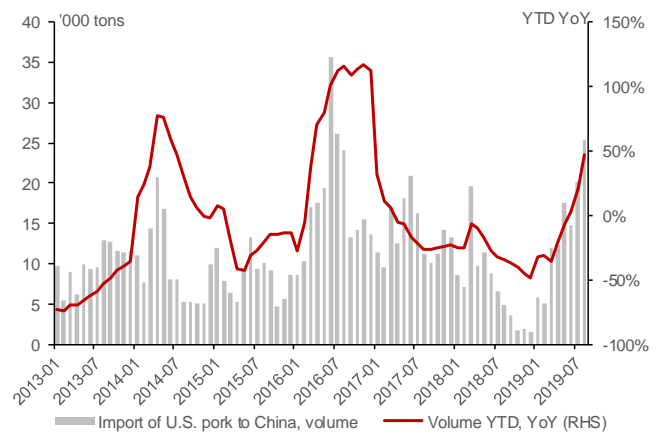
Source: Xinhua News Agency, the White House, CMBIS

**Figure 2: Import of U.S. soybeans**



Source: China Customs, Wind, CMBIS.

**Figure 3: Import of U.S. pork**



Source: China Customs, Wind, CMBIS

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