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## US-China Trade Truce?

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1. An announced **“framework” agreement suspends imposition of highly touted tariff hikes for an indefinite period.**
2. **The apparent link of ongoing trade talks about the future of the Korean peninsula injects an unpredictable variable.** Iran, to a lesser extent, could also complicate trade ties.
3. Although the two sides may have **bought some time** with this announcement and some US companies may benefit from this temporary agreement in the short-term, it remains to be seen whether the “framework” agreement will lead to progress on structural issues between China and the United States. If it does not, we will be back at the brink again.

On **May 19 China and the United States announced a [framework agreement](#)** to advance the countries respective trade and investment objectives. Under what was **essentially an agreement in principle**, the US and China committed to **follow-on talks**, the first of which will be in the form of a **US delegation to Beijing led by Secretary Ross**. Timing of the Ross trip is not yet public.

**China’s “wins”** this weekend included a public statement from Trump suggesting flexibility on the sanctions imposed on Chinese telecommunications company **ZTE**; an announcement of **temporary suspension of threatened tariff hikes**; and a **“framework” for increasing trade and investment by means of expanding US exports rather than decreasing Chinese exports**, ideally with structural change to allow US firms greater market access.

**US “wins”** appear to be an **end to the Chinese anti-dumping and countervailing duty investigation threatening sorghum imports, suspension of Chinese threats to retaliate if now-suspended US tariff hikes were implemented, and a pledge to “significantly increase” purchases of US goods** and services, including energy and agricultural products. Media reports cite an expected **35-40% increase in US agricultural imports** and significant new **energy imports**, despite infrastructure constraints on US energy exports and Chinese wariness of sourcing critical energy from the United States.

[Administration has more than one story . . .](#)

The administration characterized the framework as a start, requiring further work to implement. **Secretary Mnuchin and NEC Kudlow seemed to disagree about the lasting value** of the suspension of tariffs on May 20. Mnuchin reflected a perspective that real progress had been achieved and that future emphasis would be on implementation of agreed principles. Kudlow took a more cautious approach that envisioned return to the path of tariff hikes and other punitive measures if the Chinese failed to implement agreed principles. Similarly, **Mnuchin and USTR Lighthizer cast the agreement in different terms**. In contrast to Mnuchin's more positive characterization, Lighthizer noted in an emailed statement that "real work still needs to be done to achieve changes in a Chinese system that facilitates forced technology transfers in order to do business in China and the theft of our companies' intellectual property and business know how. Getting China to open its market to more U.S. exports is significant, but the far more important issues revolve around forced technology transfers, cyber theft and the protection of our innovation." He added, "Real structural change is necessary. Nothing less than the future of tens of millions of American jobs is at stake."

The message from Congress is hold the line on high tech . . .

Given that the **business sector** has primarily **reserved judgment** pending more information about implementation of this framework agreement, Congress has mainly stuck to the relative political safety of voicing the need for high technology trade and investment restrictions. Senate Minority Leader **Schumer** on May 18 **urged the President to continue to press for an end to Chinese theft of US intellectual property** and House Appropriations Committee members on May 18 unanimously approved language to urge the administration to keep in place current sanctions on Chinese telecommunications firm ZTE. Senior Democrats on the House Ways and Means committee sent a May 19 letter to the President **urging sanctions on ZTE** be preserved regardless of the outcome of ongoing trade talks with Chinese Vice Premier Liu He. **Progress on cybersecurity and IP violations appears to be a very high priority for Congress** and perhaps a necessary component of any long-term deal that might be built on this framework agreement.

On the proposed reforms to the **Committee on Foreign Investment in the US (CFIUS)** are still pending. The Senate Banking Committee will markup S. 2098 (FIRRMA) on Tuesday, May 22. The House Finance Services Committee expects to hold its markup of H.R. 4311 next week, with modifications reflecting the Senate committee-passed version. After that, it **may be added to the National Defense Authority Act**. There is also currently a bill pending in Congress to reform export controls.

The international dimension is a complicating factor going forward . . .

**Both North Korea and Iran lurk behind this negotiated truce** in the impending US-China trade war. Trump has been explicit about his perception that Chinese pressure on North Korea is critical to a successful summit with North Korean leader Kim in Singapore on June 12. Kim's announcement of a potential obstacle in the form of differing views on the meaning of denuclearization came just as US-China talks were getting underway, suggesting careful coordination between Pyongyang and Beijing. On Iran, secondary sanctions on those seeking to take advantage of the void created by US withdrawal from the Joint Comprehensive Plan of Action (JCPOA) could hit China hard. Moreover, China's entry into the space created by US withdrawal is likely to deepen national security

concerns about China's long-term global ambitions and thereby exacerbate tensions between China and the United States on high technology-related trade and investment.

#### What Next?

Domestically in China expect **continued implementation of the reform program President Xi announced in April**. The Chinese will proceed with a careful eye on the pace and scope of implementation to ensure public order and stability remain within acceptable bounds as defined by the Communist Party. **China will continue to pursue its "Made in China 2025" plan** to bolster indigenous high technology capacity and to reduce to the greatest extent possible its reliance on US-sourced inputs that have security-related implications.

Domestically in the US expect **Congress and the security-related components of the administration to steadily advance new legislation and rules to enforce restrictions on foreign investors' access to high technology and to restrict the level of technology allowed for export**. Look for US efforts to coordinate such restrictions with the rest of North America and Europe.

Internationally, the **June 12 summit between President Trump and North Korean leader Kim** will be at best the **beginning of a long-term process**. If US-China trade is tied to success or failure of talks about the Korean peninsula China will have incentives to manipulate one to influence the other. Similarly, the administration continues to deliberate the degree to which countries will be sanctioned for actions allowed under the **JCPOA** from which the United States has withdrawn, including potential secondary sanctions on countries that engage Iran. **China is likely to actively pursue trade and investment with Iran**, creating at least the potential for serious friction with the Trump administration. As with the Korean peninsula, if US-China trade is tied to the administration's Iran policy, unpredictable variables will ensue.

In sum, the **two sides bought some time with a framework agreement long on principle and short on tangible improvements** targeted to reduce the US business community's deepest concerns about China's market barriers and trading practices. The **key obstacles that preclude a more reciprocal trade and investment relationship persist**. Ideally, talks will continue and gradually reach the core of each side's complaints, perhaps over time leading to resumption of bilateral investment treaty talks and coordination of US and Chinese positions in key areas that help drive growth in the global economy. There is scant evidence to date to suggest such convergence of thinking in Washington and Beijing.

While the parties seem to have stepped back from the brink of a trade war – certainly an achievement, temporarily halting implementation of threatened actions will not take us far. The one-time purchase of US goods and services is also a positive, but it is a tactic Beijing has used in the past to deflect and defer. The fact that we approached the brink is testament to the failure of past efforts to relieve pressure in the trade and investment relationship with China. There is no reason to believe core US concerns will be better addressed with the passage of time; at some point, short-term pain for long-term gain is going to be necessary.