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Uncertainty hangs over US-China trade deal

The proposed “phase one” trade agreement between China and the US, agreed in principle last month and due to be signed at the now cancelled November 16–17 meeting of the Asia Pacific Economic Community (APEC) summit in Chile, is clouded in uncertainty over its exact terms.

The main issue centres on whether the Trump administration will make any concessions on tariffs it has already imposed and the further threatened levies, amid a series of conflicting reports over the state of negotiations.

Last week, Bloomberg reported that Chinese officials had cast doubt on reaching a long-term deal, even if a “phase one” agreement were reached. It said Chinese officials had warned they would not budge on the “thorniest issues,” centring on US demands for greater protection of intellectual property rights, and that China take action on subsidies to state-owned enterprises.



U.S. President Donald Trump, right, and Chinese President Xi Jinping attend a welcome ceremony at the Great Hall of the People in Beijing Thursday, Nov. 9, 2017. (AP Photo/Andy Wong)

The Chinese side has indicated that at least some move has to be made on tariffs already imposed for any interim agreement to be signed. Earlier this week, the *Financial Times* reported that the White House, according to “five people briefed on the discussions,” was considering rolling back tariffs introduced on \$112 billion worth of Chinese goods, at a rate of 15 percent, on September 15.

But the US is insisting that this must be accompanied by an agreement from Beijing that it take action to meet US demands in the further phases of negotiations. Washington has suspended a planned tariff increase from 25 to 30 percent on \$250 billion worth of Chinese imports, which was to have gone ahead on October 15. According to the *Financial Times* report, it also indicated that the planned imposition of tariffs on \$156 billion worth of consumer goods, scheduled for December 15, could be avoided if an interim deal were reached.

But so far Washington has not agreed to withdraw any of the tariff measures that have actually been imposed. The position of US Trade Representative Robert Lighthizer is that these measures must remain to ensure that China complies with US-dictated terms.

Much of the uncertainty over the present state of negotiations, and whether even an interim agreement will be reached, stems from the lack of clarity over what was actually agreed during the talks between President Trump and China’s chief trade negotiator and vice-premier, Liu He, at talks held in Washington last month.

With one eye firmly fixed on the stock market, which would have fallen sharply had the talks broken down, Trump emerged from the meeting to declare that a “substantial phase one deal” had been reached.

Bloomberg later reported, however, that behind closed doors the mood was somewhat different. “According to people close to the talks, the sides were still debating how to apportion issues between the phases and what to announce just minutes before reporters were let in for the announcement,” it said.

Trump said there could be as many as three phases. Liu, however, declined to comment.

In an article published on Saturday, *Taoran Notes*, a blog that reflects official Chinese opinion, declared cancelling all tariffs was an issue that had to be resolved. “Removing all additional tariffs is a core concern that has not changed and will never change; even if there is a first-phase deal, this core concern should be reflected.”

Commerce Secretary Wilbur Ross said on Sunday that the two sides were on track to sign an agreement later this month, but conceded the timetable could slip by a few weeks. National Security Adviser Robert O’Brien said on Monday he was “cautiously optimistic,” and that the two sides were “relatively close to an agreement.”

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But the key issue still remains: what concessions is the US prepared to make on tariff pullbacks. The central position of the administration—outlined in the series of demands presented to Beijing in May 2018—is that tariffs are the key weapon in Washington’s drive for US companies to shift their supply chains out of China and push back against its industrial and technological development.

If Trump is seen as making too many concessions to China on the tariff front, he will face attacks from key sections of both the Republican and Democratic parties, as well as from the military and intelligence apparatus, which regard the economic and technological development of China as a threat to the economic and military dominance of the US.

Meanwhile, the ongoing trade conflict, and the uncertainty over its direction, are having a significant impact on US-China trade and global trade more broadly.

Figures released yesterday showed that US imports from China fell by 4.9 percent in September, the lowest level in three years, and US exports to China dropped by 10 percent— their lowest level in five months.

This trade war is impacting most heavily on the Asian region, where South Korea, a major manufacturing centre, is among the hardest hit, along with Hong Kong—already in recession—Vietnam, Singapore and Thailand.

Last month, South Korean exports fell by 14.7 percent, compared with the same month last year. This was the biggest drop in four years and the 11th consecutive monthly decline. Iron and steel exports fell by 9.7 percent in the first ten months of the year, and two-thirds of South Korean export categories contracted. Electronic products were down by 18 percent and semiconductor exports fell by 32 percent.

According to analyses of International Monetary Fund data by the *Financial Times*, almost 100 countries saw the value of their exports decline in the first half of this year, up from 33 last year.

The International Monetary Fund (IMF) has cut its forecast for the annual growth of goods and services exports this year by volume, to just 1.2 percent, down from the 3.7 percent increase last year.

The global auto industry is at the centre of what the IMF has characterised as a “synchronised” global slowdown, which is being exacerbated by the uncertainties and problems resulting from trade war.

“This is where the global slowdown has been concentrated,” Fitch Ratings chief economist, Brian Coulton, told the *Financial Times*, “It has been the lead sector, not just broader collateral damage [of the trade war].”

Last September, in an address to the Frankfurt motor show, Herbert Diess, chief executive of Volkswagen, said trade war was “really influencing the mood of customers” and had the chance to “really disrupt the world economy.” He said that because of the trade war, the car market in China is “basically in a recession ... That’s really scary for us.”

And the situation could worsen, with Trump to decide later this month whether to go ahead with a 25 percent tariff on auto imports, on “national security” grounds, as part of a push by the US to force the European Union to open its markets to the exports of US agricultural goods.

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