افغانستان آزاد ــ آزاد افغانستان

AA-AA

چو کشور نباشد تن من مبـــاد		بدین بوم و بر زنده یک تن مــباد
همه سر به سر تن به کشتن دهیم		از آن به که کشور به دشمن دهیم

www.afgazad.com		afgazad@gmail.com

European Languages	زبانهای اروپائی

by JACK RASMUS
29.01.2020

Trump's Feeble Phase 1 China-US Trade Deal

Cargo ship, Columbia River. Photo: Jeffrey St. Clair.

With the announcement today, January 16, 2020 of the signing of the US-China Phase 1 'mini' trade deal, and the US Senate's simultaneous ratification of the USMCA 'NAFTA 2.0' trade agreement, Trump's so-called 'trade wars' are at an end. In election year 2020 nothing of additional significance will be achieved by Trump with regard to restructure US and global trade relations. While Trump himself will make further threats and claims, likely aimed at the Europeans, no country will agree to any changes this year when the possibility exists of Trump leaving the presidency next November 2020. To repeat once again, the Trump trade wars are over. As the comedian once said: 'what you see is what you get, baby'.

And what do we see in the much-hyped and grossly exaggerated Phase 1 US-China trade deal?

China Phase 1 Deal: A Feeble Deal on Trade

Behind the typical Trump bombast, hyperbole, and outright lies, the China Phase 1 deal was perhaps best summed up in the front page of the Wall St. Journal on January 13, 2020, by the Ben Steil, Director for International Economics for the Council on Foreign Relations (i.e. the major think tank for the US capitalist class): "China is set to do little more than restore agriculture purchases and offer some nice words on financial services and intellectual property…Trump could have had that two years ago without the tariff damage".

What's really in the Phase 1 deal? What has Trump actually achieved through nearly two years of negotiations, tariffs, and threats and intimidation in the nearly two year long China trade negotiations? And what have been the consequent negative impacts on US households, businesses, farmers, and the US and global economy?

51% Majority Ownership

First, in Phase 1 there's the claim that US business, especially US bankers, now have more access to China markets. They can have 51% ownership control of their operations in China. Trump claims he achieved that. But it's just another Trump lie. The fact is China began implementing the 51% financial ownership rule back in 2018. European banks have already set up full ownership operations there. So has Goldman-Sachs, the premier US investment (shadow) bank. Trump didn't get anything there China already offered and gave to others.

Currency Manipulation

Trump says the deal means China has agreed to no longer 'manipulate' its currency. Trump this past week then officially removed the US declaration that China was a currency manipulator. The importance of currency manipulation is that Trump wants to block China's potential to devalue its currency, the Yuan, which would offset any US tariffs easily. But China has not been a currency manipulator at all. In fact, it has been entering global money markets to buy and sell its currency to ensure that it remains within a stable range of exchange to the US dollar no greater than 7.1 to the $. If anything

China has committed significant resources to ensure the Yuan does not devalue. That's the opposite of a currency manipulation to devalue and offset US tariffs. China could have easily done so throughout the last 22 months of trade negotiations with the US, but it didn't. The claim of China as currency manipulator has been a lie from the beginning, used by Trump (and others before) to try to label China as the problem with the American media and public. It's worth noting as well that while China has spent billions to ensure its currency does not devalue or rise, the US dollar has been allowed to rise significantly the past two years. That has caused other global currencies, especially those of emerging market economies like Latin America, to devalue dramatically and plunge those economies into recession. The US has been the great currency manipulator and destabilizer—not China.

IP and Tech Transfer

Trump also claims the China Phase 1 deal means new limits on China forcing technology transfer of US companies doing business in China and on intellectual property. (Protecting intellectual property mostly means for the US that US pharma companies will enjoy better patent protection—i.e. prevent competition).

But whether IP or tech transfer, there have been no details released by the Trump administration as to how this is so. In fact, as if January 15, 2020 the text of the Phase 1 deal is still not available in either English or Chinese, according to the New York Times.

All we've got in the Phase 1 deal, according to those who have had access to date, is China's promise to punish China firms that obtain sensitive tech information via acquisitions; or stop requiring that foreign companies turn over technology to China as a condition of doing business in joint ventures in China.

But certainly in any joint venture tech information can be obtained by means other than formally turning it over to China government officials. And doesn't a company that acquires another have legal right to all its product information? According to a Derek Scissors of the American Enterprise Institute, in the Phase 1 deal the Chinese "have committed to continue doing the same thing they have always been doing". What China refused to agree to is to refrain from engaging in cybertheft of companies—since of course the US refused to agree to the same.

So forget about any big breakthrough in the Phase 1 deal associated with IP and/or tech transfer as well.

$100B in US Farm Goods Purchases?

Trump’s big claim about Phase 1 is that China has agreed to buy $200b more in goods over the next two years, $100b a year roughly divided between $50b for farm and $50b nonfarm goods and services. But was this a new gain from negotiations and tariff intimidation? And will it be actually realized over the next two years? And is it really $50b a year more in farm purchases?

First, China had already offered in 2018 to increase its purchases of US goods and services by $1 trillion over the next five years. So it already put that number, $200b a year, on the negotiating table. But that was two years ago.

But most economists today doubt that China will buy anything near $50b a year in additional farm products from the US. According to the January 15, 2020 New York Times, those who have actually seen the agreement indicate China has actually agreed to buy only $16b more a year over two years. The $50b claim by Trump thus quickly lowered to $40B. Furthermore, the $40B was not new additional purchases.

That $40b is comprised of $24B/yr in farm goods bought by China in 2017, plus the $16B more commitment per yr. for 2020 and 2021. Farm purchases fell in 2018 and 2019. So the $32B just mostly makes up for the shortfall the last two years. At one point in spring 2019 China farm purchases were as low as $7B a year.

So the $16B more per yr. represents a restoration of what China was buying in 2017, adjusted to make for the declines while the trade war was underway, and it all expires after just two years. So Trump’s boast of $100B in farm goods reduces to $32B in fact, which mostly makes up for reduced purchases the past two years, and returns to the pre-trade war 2017 level of $24B! Nearly two years of trade war to return to the status quo ante of 2017!

Moreover, trade experts are also saying that even the $16b more in farm good purchases will be difficult to achieve. During the last two years China has diverted its purchases of soybeans and other farm goods to Brazil and other countries. And China has said the Phase 1 will not mean any change in its prior contracts with other countries. It won’t cancel Brazil in order to fulfill US commitments under Phase 1. So where’s the big surge in China purchases of US farm goods? It’s more like a restoration, with no commitment to increase after two years. And it leaves US farmers with a lot of uncertainty as to future sales plus not enough time, and thus greater risk, to invest in expanded production to meet China's purchases.

Furthermore, China sees even Phase 1 farm purchases as a goal, not a firm absolute commitment. Its chief trade negotiator, Liu He, has been quoted as saying purchases will occur "according to the needs of the (Chinese) consumer and as market conditions determine". Think of the latter phrase "as market conditions determine" as a code word that means China may purchase more depending on whether Trump reduces US tariffs more in tandem.

Trump $370B Tariffs Remain

Trump has declared he won't reduce tariffs on China any further. It now stands as 7.5% on $120B and another 25% on $250B. Trump says he needs to retain the tariffs in order to ensure China abides by the other terms of the agreement. But he can't have his cake and eat it—i.e. China purchases $100B more a year but Trump keeps $370B. China has made it clear, more purchases are linked to lower tariffs.

So long as Trump's $370B tariffs remain, it will become increasingly clear that China intends to purchase far less than the $100B a year. It just won't happen regardless what Phase 1 says. Farm purchases in particular won't come anything near to even the $32B more ($16B/yr), reported January 15 in the New York Times, let alone to Trump's inflated claim of $40-$50B.

Trump may believe he needs the continued tariffs to enforce the agreement's terms by China. But China's quid pro quo enforcement 'tool' is to simply slow or delay its official purchases "as consumer demand and market conditions" dictate. Its tariffs vs. not fulfilling purchase commitments due to 'market conditions'.

Manufacturing & Services

In addition to the $32B more in farm purchases, reportedly Phase 1 calls for another $78B in manufacturing and $38B services purchases over next two years as part of the Phase 1 deal as well. But that too might not be realized. Most of China's manufacturing purchases is for Boeing planes, now plagued with shipment cancellations worldwide due to the 737max; and the $38B in services purchases involve mostly Chinese purchase of US education services and tourism, both of which are being sharply cut back by Trump as the US policy now is to discourage Chinese students and research academics coming to the US, and as China tourism to the US slows as relations between the two countries continue to deteriorate.

US auto exports to China will not be affected much either. There's a major slump in China auto sales, China is committed to rapidly building up its own auto industry, and US companies are racing to move production to China anyway, all of which would reduce the need for China to import autos from the US over the next two years.

Finally, there's the commitment of China to buy $27B a year more in US energy products, oil and natural gas. The US benefits having an outlet for its rising glut of natural gas and oil, which it is betting on exporting in order to keep supply and prices high in the US market. But should a global recession occur in 2020 or after, China 'market needs' and demand for US oil and gas will certainly decline and the commitment to buy in this area will likely fall far short of the annual $27B as well.

Nextgen Tech War

Behind the trade was with China has always been the more important tech war between the two countries. The tech war is not be confused with IP or even with tech transfer by US companies in China. It's much bigger. It's about next generation technologies like Artificial Intelligence, Cybersecurity, and 5G wireless. These are the technologies of the industries of the next decade. They are also the military technologies of the future. Which country dominates these technologies achieves military hegemony by 2030. Both China and the US know it. And the 'war' between them has been occurring behind the cover of tariffs and trade war.

But with the Phase 1 trade deal it is clear that the tech war has been now decoupled from the trade war. It will be (and has continued to be) conducted by other means than tariffs. The US will continue to go after its allies with sanctions should they adopt China tech in these areas. The offensive against the giant China telecom company, Huawei, now the world leader in 5G, is the harbinger of a much greater, wider, and longer conflict between the US and China over nextgen tech.

The China-US tariff/trade war may be over, but the China-US tech war has just begun and will now accelerate.

Trump believes he can engage China over tech in Phase 2 negotiations. But Phase 2 is a fiction. It will not happen. Even if the two countries' representatives meet it will be a fruitless discussion. Neither will ever come to an agreement. China will never trade next gen technology for tariff reduction. It won't trade tech for anything the US can offer.

Artificially Intelligence and 5G are key to the development and functioning of next generation hypersonic missiles and hyper-smart torpedoes; for future military drone technology and targeting; and for future battlefield communication and coordination between machine and human. So far the US is ahead in AI but behind in 5G. It has no latter product of its own. Globally, its Huawei and Europe's Ericsson that are leaders in the product development. The US once premier tech company, AT&T, is now preoccupied with investing in entertainment software and content, driven by its shadow bankers demanding more profits sooner than later. The US is thus forced to try to stop Huawei instead of out-competing it in tech development of 5G.

Subsidizing State Owned Enterprises

Not in the Phase 1 deal is the Trump-US complaint that China continues to subsidize its government owned enterprises by enabling low priced costs and inputs to production paid for by China government. But the US engages in massive subsidization of US companies worldwide as well. It does so by other means. Consider the massive $5.5 trillion tax cut of 2018 for corporations, businesses and investors. The US subsidizes and aids US corporate competitiveness worldwide by tax relief. It also subsidizes the cost of financing exports with the US Export-Import bank. It provides business virtually free R&D from US taxpayer financed technology developed by DARPA, the NSA, National Institutes of Health, and many other means. So it's really a joke for the US to charge China is engaging in uncompetitive subsidization of its government owned companies.

The Cost of China-US Trade War

Any proper assessment of the Phase 1 deal requires consideration not only of what has been gained (or not gained) but also what has been the cost of the 22 month trade war to the US economy.

Has the trade war actually reduced the US trade deficit—with China and with the rest of the world? Not really.

The deficit in goods with China was just under $350b when Trump assumed office, according to the US Census Bureau. It surged to about $410B by end of 2018. It has since come down to about $350B again. So Trump has merely reduced the trade deficit with

China equal to the amount of the deficit increase he oversaw in 2017-18! With the Phase 1 deal the deficit will almost certainly begin to rise once again.

On a global scale, as the deficit with China ballooned and then leveled off at pre-Trump levels, under Trump the US goods trade deficit with the rest of the world continued to accelerate rapidly under Trump and still continues to do so. From roughly $375B when Trump entered office in January 2017, the US deficit has surged beyond $500B by end of 2019. So much for Trump's trade wars apart from China!

What was the cost of reducing the surge in the China trade deficit he created?

The US National Bureau of Economic Research estimated that Trump's China tariffs were fully passed on to US companies in all industries except steel, where half were passed on. It cost US businesses $42 billion. And they passed most of it on to consumers and US households.

A study by the Federal Reserve Bank of New York (authors Weinstein and Redding), "found that approximately 100 percent of import taxes fell on American buyers" (New York Times, January 7, 2020, p. B4).

US farmers took a big hit. Trump provided $28B to the farm sector in new subsidies, the cost of which added to the US budget deficit (now more than $1 trillion) and rising national debt (now more than $23 trillion). Most of the subsidy went to large farmers and agribusiness, however. Farm income contracted throughout 2018-19. Farm loan delinquency rates have now risen to a six year high, per the FDIC, and Chapter 12 farm bankruptcy filings are highest since 2012.

The trade war devastated US business confidence with the result that business investment in the US contracted throughout 2019.

US consumer households experienced a reduction of $806 dollars in real income spending due to the tariffs.

And estimates are that Trump's trade wars have reduced global investment and GDP by as much as $700 billion.

Concluding Remarks

Trump administration spokespersons—Larry Kudlow Trump's Economic Advisor and Steve Mnuchin, Treasury Secretary—are, per latest report, peddling the prediction that the US economy will grow by up to 0.75% more in GDP terms in 2020 as a result of the

Phase 1 China deal. But that is based on the absurd assumption that China will buy $100B-$150B more in US imports in 2020—a misrepresentation which, as was explained above, is as ridiculous as it is false.

No doubt the media will continue to spin the exaggerations, although nearly all economists' estimates of the Phase 1 deal conclude 'there's no there there', at best.

As minimal are the gains from the Phase 1 agreement with China, Trump's 'other' trade wars and deals, including the also much heralded USMCA (NAFTA 2.0), produce even less in net terms. Whether the US-South Korea free trade agreement, the Trump tariffs on steel and aluminum worldwide, Trump's recent tariffs on European wine and spirits, or his verbal understandings with Japan on trade—all represent even less achieved than the minimal recent agreement with China.

CounterPunch 28.01.2020