Fung Business Intelligence
Global Sourcing
14 December 2019

China and US agree to phase one trade deal

On Friday, China and the US finally agreed to an initial trade deal, easing a yearlong trade war between the two countries. Both countries termed it a 'phase one' deal and said trade negotiations will continue on remaining issues. We will continue to closely monitor developments in this regard.

China and US agree to limited trade deal to ease trade war

On 13 December, China and the US announced that the two countries have agreed on the text of a phase one trade deal that includes the removal of some tariffs on Chinese goods, and structural reforms and other changes to China's economic and trade regime.

The two countries will work through the translation and legal review and move to sign the trade deal as soon as possible. US Trade Representative (USTR) Robert Lighthizer said that he expected the 86-page agreement to be signed by him and Chinese Vice Premier Liu He in early January and released publicly then. The pact will enter into force 30 days after signing.

US President Donald Trump added that China and the US would begin negotiations on the next phase of the trade deal 'immediately', rather than waiting until after the 2020 US presidential election, as suggested by him earlier.

Available information on the phase one trade deal

Removal of some tariffs on Chinese imports:

- The US administration would cancel its next round of 15% additional tariffs on about US$160 billion of Chinese goods set to take effect on 15 December. The 15% tariffs on another US$120 billion of Chinese products would also be halved to 7.5%. However, the US would leave 25% tariffs on US$250 billion of Chinese imports in place.
- The US agreed to increase the number of tariff exceptions it will grant Chinese imports that are still subject to additional tariffs, according to Chinese officials.
- According to a statement released by the Chinese government[1], the US agreed to remove the remaining tariffs on Chinese products 'in stages'. However, USTR Lighthizer said there was no agreement on that, and suggested that China believes further reductions could be negotiated in subsequent phases of the deal.

Purchase of US goods and services: China has committed to importing various US goods and services over the next two years in a total amount that exceeds China's annual level of imports for those goods and services in 2017 by no less than US$200 billion, according to a fact sheet released by the USTR.[2] According to Lighthizer, China made detailed commitments to buy at least an additional US$16 billion annually in agricultural products on top of the pre-trade-war level of US$24 billion and endeavor to buy as much as US$50 billion annually.

Intellectual property and technology transfer: China made specific commitments on intellectual property (IP), including trade secrets, pharmaceutical IP rights, trademarks, and enforcement against pirated and counterfeit goods, as well as on preventing the 'forced' transfer of technology from foreign companies entering the Chinese market, according to Lighthizer.

Agriculture: Both China and US agreed to remove some barriers to agricultural trade to facilitate the import of agricultural products from each other.

Financial Services: China agreed to remove trade and investment barriers to US financial service providers, including banking, insurance, securities, and credit rating services.

Currency: China and the US made certain commitments regarding the operations of their central banks in foreign exchange markets. They pledged not to devalue their currency to make their exports competitive.

1 http://www.xinhuanet.com/2019-12/13/c_1125345960.htm
2 https://ustr.gov/sites/default/files/US-China-Agreement-Fact-Sheet.pdf

Our take

1. Although limited in scope and lacking in details, the phase one trade deal represents the biggest step taken by China and the US to end a yearlong tit-for-tat trade war. However, while the interim agreement may settle some relatively easy disputes such as those over agriculture and currency, several thorniest issues remain outstanding, including the US-alleged 'industrial subsidies' and 'cyber intrusions' by China. Given that the two countries have deep differences on those issues, we do not expect a smooth negotiation process in subsequent phases of negotiations.

   Moreover, even if the two countries can reach a comprehensive trade agreement in the coming months to end the trade war, broader uncertainties and tensions (such as an escalating technology war) between the two countries are likely to remain for a long time, as the key issue between China and the US is geopolitical rivalry instead of trade, in our view.

2. It should be noted that more than 90% of apparel imports and more than 50% of footwear imports from China are still subject to additional US tariffs, although the tariff rate on most of those products has been cut from 15% to 7.5% (with the remaining still subject to 25% tariffs). As such, sourcing companies and apparel and footwear companies are still being hammered by the US tariffs imposed on Chinese imports.

Implications for our sourcing business: We need more diverse and flexible supply chains

The lingering China-US trade war has caused disruptions in the global trade landscape, bringing fresh challenges and greater unpredictability to our sourcing business. Under such circumstances, production and supply chains now need to be even more diverse, agile, and technology-driven. Businesses with a strong global supplier network and deep relationships with suppliers will be in the best position to meet the new challenges. To navigate the challenging situation, businesses should continue to carry out strategic planning and re-planning for their supply chains, through diversifying sourcing base, nearshoring and onshoring production, and digitizing supply chains.

FUNG BUSINESS INTELLIGENCE

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

About Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises 42,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

For more information, please visit www.fbicgroup.com.

CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

William Kong
Senior Research Manager
williamkong@fung1937.com
(852) 2300 2404

Global Sourcing
Fung Business Intelligence
10/F LiFung Tower,
888 Cheung Sha Wan Road
Kowloon, Hong Kong

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: http://www.fbicgroup.com