



# China-US Trade Disputes (XXIX)

FUNG BUSINESS INTELLIGENCE

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Global Sourcing

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## China and US reach verbal 'phase one' trade deal

*After trade negotiation teams from China and the US ended two days of trade talks in Washington last Friday (11 October), US President Donald Trump announced that the two countries reached a 'substantial phase one deal' that will delay tariff hikes on US\$250 billion worth of Chinese imports. We will continue to closely monitor developments in this regard.*

### [China and US reach 'phase one' trade deal](#)

Last Thursday and Friday (10-11 October), Chinese Vice-Premier Liu He and US Trade Representative Robert Lighthizer held the first high-level negotiations between the two countries since trade talks broke down in May. After the two-day negotiations concluded, Trump said that the two sides reached a 'phase one' trade deal.

Trump said that the 'phase one' deal would take three to five weeks to draw up. The US will delay a tariff increase on US\$250 billion worth of Chinese goods as the deal is being finalized. Trump admitted that the agreement could still fall apart during that period, though he was confident that it would not. Trade talks over a second phase would begin as soon as the first phase agreement was signed, Trump said. 'We are very close to ending the trade war,' Trump told reporters.

Trump hinted that he and Chinese President Xi Jinping might sign the agreement during the Asia-Pacific Economic Cooperation leaders' meeting in Chile on 16 November.

### Available information on the 'phase one' deal

Delay in tariff hike on Chinese imports: The US agreed not to proceed with a hike in tariffs to 30% from 25% on about US\$250 billion of Chinese imports that was scheduled to take effect on 15 October. However, Trump has not made a decision about the tariff hike on another US\$156 billion of Chinese goods that was set to go into effect on 15 December.

Purchase of US goods: Trump said that China agreed to make purchases of US\$40 billion to US\$50 billion in US agricultural goods annually within two years. Trump also mentioned in a tweet that China will buy US\$16 billion to US\$20 billion worth of Boeing planes.

Agriculture: Both China and US agreed to streamline sanitary and phytosanitary measures to facilitate the import of agricultural goods from each other.

Opening-up of financial services market: US Treasury Secretary Steven Mnuchin said that the two countries have 'almost a complete agreement' on the opening-up of China's market to US financial services companies.

Currency policy: Mnuchin said that the two countries have an agreement on 'transparency into the foreign exchange markets'. Meanwhile, the US will consider removing China from its list of currency manipulators.

Protection of intellectual property: Trump said the China and the US have an agreement on intellectual property. It was reported that China will improve intellectual property protections such as those involving copyrights, trademarks and piracy. Issues on technology transfer, data flows and cyber security, however, would be left for later phases of trade talks.

It should be noted that Chinese state news agency Xinhua only said that 'both sides have made substantial progress in agriculture, intellectual property rights protection, exchange rate, financial services, expansion of trade cooperation, technology transfer and dispute settlement'. It added that the two countries 'have made arrangement for following consultations, and agreed to make the efforts towards a final agreement'. It did not mention any 'phase one deal' nor Trump's goal of signing the deal next month.<sup>1</sup>

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<sup>1</sup> <http://www.mofcom.gov.cn/article/ae/ldhd/201910/20191002903673.shtml>

### Our take

The 'phase one' trade deal represents the biggest step 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 China's industrial subsidies and 'forced' technology transfer. Given that the two countries have deep differences on those issues, we do not expect a smooth negotiation process.

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.

### 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](http://www.fbicgroup.com).

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