FINANCE • TRADE DEAL

The Markets Have Spoken: Phase One Trade Deal Between the U.S. and China Is 'No Victory'

By Erik Sherman December 13, 2019

With the details still scant, the international markets initially saw the announcement as a sign the trade war was winding down, dissipating a massive cloud hanging over global GDP and corporate growth prospects. (They were also reacting to the historic results of the British general election and the belief that a bit of clarity would emerge in the Brexit picture).

Later in the day, the markets' exuberance was largely dashed by what's not in the deal.

"I think we're pretty much where we were in May," says Usha Haley, W. Frank Barton distinguished chair in international business and professor of management at Wichita State University.

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Without the pause on the new tariffs, China would have added tariffs of its own that "would cover corn and wheat, rare-earth magnets, small aircraft, and those would be at the 5% to 10% level," says Raj Bhala, a distinguished professor at the University of Kansas Law School. "They would reimpose a 25% tariff on all US-made cars and a 5% tariff on all auto parts." Such moves could have a big impact on U.S. jobs, given the importance of China as a market for U.S. automakers.

"It's been clear for some time that both President Trump and President Xi Jinping want to find a way to deescalate the conflict and secure some type of deal," says Robert Holleyman, a partner at the law firm of Crowell & Moring and former deputy U.S. trade representative. "We also understood that the toughest issues in the discussion in the US and China are not likely to be solved at this time, or are they likely to be solved in a part one of a deal."

So far, China has offered no public indication of how much in agricultural goods they would purchase. The U.S. has pressed for a fixed number. But even a large guaranteed buy would be unlikely to exceed former levels of exports. Across all agricultural categories, the U.S. sold

It is unclear to what degree such intellectual property issues—forced transfers of technology, cyber-theft of secrets, and enforced joint ventures with Chinese companies—that were the purported reason for the trade war will be addressed.

"They go to fundamental things that deal with long-term competitiveness," Holleyman says. "The consequences are vast, and these are things on which China is trying to build its future growth and success off the back of IP that was acquired improperly."

In a way, any concrete deal would be an improvement in relations between the two countries. Attempts at a deal early in 2019 came to nothing, with a March 1 deadline achieving nothing. Then there was the supposed potential for a deal that Trump and Xi could sign in April but which never occurred.

Will this round of promise be any different?

"Sometimes the illusion is as important as reality," Haley says. "But you can't continually portray illusion as reality. It's always great that people are talking again. But that doesn't mean it will happen. I seem to remember they were in this exact spot about six to nine months ago. I remember the same talking points were on the table and then nothing happened. The

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"If all we get is more soybean purchases, this is a shame," Lamb-Hale says. "There's so much work to be done. There's some stability. There is no victory."

The markets are starting to conclude the same.

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