

Wednesday December 5, 2018

US-China Trade Relations

Moratorium Signed



90-day moratorium provides investors a window to push for progress on issues that have till now be subject to roadblocks.

The U.S. and China agreed this past weekend to a moratorium on new trade tariffs and retaliatory measures, giving companies a 90-day window to tackle any potential market access roadblocks.

The Trump administration is demanding that Beijing takes steps to shrink a record trade deficit in goods, which amounted to \$376 billion in 2017, and address issues of forced technology transfer by U.S. companies in China, along with intellectual property protection and cyber espionage.

Meanwhile, President Xi Jinping's government is calling for a halt to U.S. retaliatory measures, along with removal of policies restricting China's access to U.S. technology and investment.

The two sides did not issue a joint communique, however statements from the [White House](#) and [Xinhua News Agency](#) outline in aggregate the basic terms:

- The U.S. has agreed to a 90-day suspension from December 1 on commitment to raise tariffs on US\$200 billion goods imported from China to 25 percent from 10 percent;
- China will purchase more U.S. products – the total amount has not been specified. The White House said China will start purchasing agricultural goods immediately;
- Negotiations are to start this week and will include non-tariff trade issues. US Trade Representative Robert Lighthizer will lead the U.S. negotiation team; Vice Premier Liu He will head the China side;
- China agreed to classify Fentanyl as a controlled substance;
- Qualcomm's bid to acquire NXP could be approved, the White House said in its statement, a de facto admission that politics had played a role in the outcome of the antitrust review process.

Key Takeaways



There is much commentary forecasting the outcome of the 90-day suspension period. The reality is that no one knows with any certainty. Below we provide a few initial thoughts for those investing and operating in China and those looking at the U.S. from China.

- There are significant obstacles to completing a successful negotiation. Although the pause in escalation may provide short-term relief to jittery global stock markets and China's nervous economy, the build-up in mistrust over a vast array of economic and geopolitical issues makes progress difficult. This may be made more complex from China's point of view with the appointment of Lighthizer to lead the U.S. negotiations.

Key Takeaways (cont.)

While the outcome of the 90-day discussions are unknown, U.S. firms facing operating challenges in China have a unique window to push with purpose on critical issues impacting their operations.

Now is the time to try and break any roadblocks.

Expect more announcements in that demonstrate China is allowing market access.

The question is whether these are symbolic or a genuine shift in approach. Only time will tell.

Whether stated publicly or not, China's long-term ambitions remain fundamentally unchanged.

- But each government is searching for a way forward, providing companies on both sides of the Pacific with an unprecedented opportunity to renew and invigorate their lobbying efforts on critical issues related to the business environment. Companies now have 90-days to advocate their positions and interests.
- Progress will be tough. Fundamental differences remain on each side, with few signs that either government is interested in stepping down from high-stakes geopolitical competition.
- On the U.S. side, a coherent trading position is complicated by divisions in the Trump administration between so-called moderates, led by Treasury Secretary Steven Mnuchin and National Economic Council director Larry Kudlow, and hardline China critics, led by USTR Lighthizer and Assistant to the President Peter Navarro.
- But the general anxiety among policy experts and lawmakers across party lines has developed in recent months over China's regional and global ambitions. Although a coherent policy has yet to crystallize, there is general agreement that a new paradigm is needed.
- The U.S. negotiations will be led by USTR Lighthizer, who is generally skeptical of China's plans and policies. A November 20 [update](#) to the USTR's 301 report on China's policies related to technology transfer, IP and innovation maintained that "China fundamentally has not altered its acts, policies, and practices... and indeed appears to have taken further unreasonable actions in recent months." Yet the China side may take comfort in a perception that Lighthizer appears aligned with Trump.
- The China negotiations will be led by Liu He, a Xi loyalist and his top economic adviser. Liu has advocated for implementation of long-delayed economic reforms. In recent weeks, Beijing has moved to relax restrictions on foreign participation in financial services and auto manufacturing. On Friday, ahead of the meeting of the presidents, China's securities regulator announced that UBS Group AG had received approval to increase its shareholding in its China securities joint venture to 51 percent, from 24.99 percent. German insurer Allianz last week also received regulatory approval to set up a wholly-owned insurance holding company in Shanghai, while German automaker BMW announced in October it had been approved take control of its joint venture in China.
- More concessions may come. China continues to face significant pressure as the economy slows, amid a campaign to lower corporate and local government debt. Beijing's difficulties were underscored on Friday, when the government reported that the official purchasing managers index fell to 50.0 in November, the cusp between economic expansion and contraction. It was the weakest report in 28 months.
- But the Xi government narrowly defines domestic market opening and, following the ZTE incident earlier this year, China is unlikely to abandon its call for key technology self-sufficiency or its hi-tech manufacturing ambitions. The [first statement](#) issued by Xinhua News Agency from the G20 said that China would implement reform and open-up its markets "in accordance with the requirements of the 19th National Congress of the Communist Party of China," which convened in October 2017 and promoted greater foreign participation, but also called for supporting the growth of emerging tech sectors, while strengthening the country's massive system of state-owned enterprises and Communist Party organizations in business. Each side must talk to their domestic constituents while seeking to negotiate détente.

CHINA BRIEFING
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