GlobalResearch
Center for Research on Globalization

China-US Mini Trade Deal: Trump Takes the Money and Runs

By Dr. Jack Rasmus
Global Research, October 14, 2019
Jack Rasmus 13 October 2019

Region: Asia, USA
Theme: Global Economy, Intelligence

After months of escalating tit-for-tat tariff increases, and bringing the global economy to the precipice of a global currency war, the US and China agreed to a partial deal on their trade dispute this past week.

Trump heralds the deal as Phase 1 of an historic agreement, subsequent phases to follow. But is this the end of the US-China trade conflict? Will phase 2, to begin after the signing of Phase 1 five weeks from now, wrap up the remaining issues? Or will Phase 1 just announced be all that the parties will agree to over restructuring their trade relations (and money capital flows)? Other questions of import include: who got the better end of the Phase 1 deal—China or Trump?

Why did Trump settle for the partial deal that China was calling for, and not the 'big deal' that Trump was declaring publicly he wanted or else there'd be no deal? Why did Trump concede to a lesser partial deal now instead of pressing for his 'big deal'? Not least, what is the likelihood the remaining, unresolved issues will be concluded before the US 2020 elections?

A Brief Historical Recap

The US-China trade dispute erupted publicly in March 2018. Its origins, however, go back to August 2017, when the Office of US Trade Representative (USTR) issued a preliminary report charging that China's '2025 Plan' projected passing the US in next generation technology development (5G wireless, Artificial Intelligence, Cybersecurity). China's plan represented a fundamental challenge to US global economic—and military—hegemony next decade, according to the USTR. That initial USTR report was followed by a second report released in March 2018 that concluded and confirmed what the first had raised: i.e. China represented a threat in nextgen technology development that the US could not ignore. The trade war with China only then commenced, with Trump imposing an initial $50 billion in tariffs on China imports.

An initial tentative agreement was reached between the main negotiators, the US team led at the time by US Treasury Secretary, Steve Mnuchin, in May 2018. That tentative deal was quickly scuttled, however, as US neocons, China hardliners, Pentagon, and the US Military Industrial Complex and friends in Congressional defense appropriations committees organized their forces and got Trump to nix the deal. The scuttled deal included China agreeing to buy $1 trillion more in US farm goods over five years and agreeing to allow US banks and financial institutions to have 51% ownership control of their operations in China. China reiterated the concessions over the summer of 2018, to no avail. The main issue was not the US trade deficit. Nor IP guarantees. Nor tech sharing of US companies in China. Nor even majority ownership of US operations in China. The main issue was the development of nextgen technologies—AI, 5G, and cyber. US Neocons aligned with the Pentagon-Military Industrial Complex, now led by Robert Lighthizer, the head of the USTR, Peter Navarro, special trade adviser to Trump, and subsequently later in 2019, John Bolton, demanded China slow, and even share its nextgen technology development with the US, or else no deal!

Negotiations stalled thereafter as Trump turned his focus to the NAFTA 2.0 negotiations and the 2020 midterm elections approached. Negotiations were restarted in January 2019 after the midterm elections, and another five months of negotiations between the parties took place until another tentative deal was reached in May 2019. That tentative deal once again was blown up at the last minute by the Lighthizer-Navarro neocon faction now in control of negotiations, with Mnuchin in tow as a co-chair. As the China delegation prepared to come to the US to sign off in May 2019, the US raised new demands: China had to share its nextgen technology development with the US, cease subsidizing its state owned enterprises, and provide assurances it would not devalue its currency to offset US tariffs (which now totaled $200 billion). Furthermore, US tariffs would remain in effect even if an agreement were reached, according to the US. All these demands were publicly communicated in the week prior to the May 2019 meeting in Washington D.C. when the deal was scheduled to be signed off. Understandably, the China delegation came and returned home in a day. The Neocons had scuttled a deal once again. Nextgen technology was the crux. Either China capitulated on nextgen tech or there was no deal, according to the Neocon-Pentagon position.

Trump thereafter met China president, Xi, in Osaka Japan at the G20 meeting and both agreed once again to restart negotiations. Both also agreed to keep a hold on the level of existing tariffs and not raise them further in the meantime. But Trump broke the pledge in late July 2019 when, on advice of his neocon trade negotiators, he raised tariffs on the remaining $250 billion of China imports. The understanding with Xi not to raise more tariffs was thus shattered. China raised tariffs of its own on US goods in response.

Trump threatened to raise existing tariffs by another 5%, to 25% and 30%, and levy more on all remaining China imports in December 2019. The trade war was intensifying. China stopped intervening briefly in global money markets to prevent its currency, the Yuan, from devaluing and allowed it to fall 5%-7%–a move that essentially negated Trump’s additional 5% tariff hike. Stock and bond markets swooned on the prospect of a trade war now morphing into a currency war. The trade war, based mostly on tariff hikes, was about to expand the economic conflict beyond mere tariff measures. Tariffs were already slowing the global economy; a currency war would quickly spread beyond US and China and inject even more instability into the slowing global economy. Both China and Trump peered over the cliff of a pending broader economic war between the two economies—and then backed off.

Trump’s September 2019 Retreat

Fast forward, the outcome by September 2019 was yet another resumption of negotiations between the two parties, followed by the announcement last week of a ‘Phase 1’ deal on trade.

So why did Trump ‘stand down’ and agree to a deal now, after escalating his threats and actions over the summer? The reasons clearly have to do with the US economy softening in the 3rd quarter combined with a growing discontent in the farm sector over Trump's handling of a trade dispute that was beginning to bite hard on US farm sector sales that were heavily dependent on exports to China.

As the trade dispute between the countries had intensified over 2018-19, Trump had placated farm interests by providing an extra $28 billion in direct farm subsidies. But it wasn't enough. According to some sources, no fewer than 12,000 farms went bankrupt in 2018 alone. The $28 billion was going mostly to agribusiness and not getting down to independent farmers who needed it most. Farm sector trade associations were demanding Trump settle the trade dispute and their voices grew louder after the August escalation between the US and China.

So too were other notable business groups, like the US Chamber of Commerce and Business Roundtable, raising their complaints about the now rapid deterioration of the negotiations. The trade war was beginning to clearly impact general business investment and manufacturing in the Midwest US, and not only in the US but worldwide. US business investment on new plant and equipment turned negative in the 2nd quarter and promised to continue to slump, while business inventory investment was also being pared. The trade war was beginning to impact beyond the farm sector. By August the US manufacturing sector began to contract, joining what had now become a global manufacturing recession. Moreover, at the end of August it was also beginning to appear that the manufacturing contraction in the US was potentially spilling over to the larger services sector. While manufacturing PMIs were contracting in the US, the even larger Services sector PMI had begun to decelerate sharply in terms of growth rate. Of equal concern, the new round of Trump tariffs on consumer goods now threatened to slow US consumer spending—the only sector of the economy still holding up in terms of growth. Chase bank research was estimating that, with the new Trump tariffs on China consumer good imports set for September and December, consumer spending would be reduced on average by no less than $1,000 per household.

It was this growing economic slowdown in the US—combined with the growing political discontent in the farm sector and from other major non-farm business organizations—that pushed Trump to concede into last week's Phase 1 deal. Trump's 2020 election interests had become more paramount than the concerns of the neocons and militarists who were demanding China capitulate on the nextgen tech issue or no deal. A rapid about face by Trump occurred by late August-early September and China was once again invited to resume talks in Washington in early October.

The content of the Phase 1 deal reached October 11, 2019 last week reveals that Trump abandoned his 'big deal or no deal' position and retreated from the neocon 'non negotiable' demand, that was holding up a deal since May 2018, that China capitulate on the nextgen tech issue or no deal.

Placating his farm sector political base to get China to resume purchases, and taking China's 51% ownership concession desperately wanted by US big banks (i.e. the primary demand of the Mnuchin faction on the US negotiating team), became Trump's new priority demand in Phase 1. The nextgen technology issue so critical to the neocons was clearly demoted and removed from the bargaining table by the US. In Phase 1 China got its 'partial' deal—and absent any concessions on the nextgen tech issue. That was left for a Phase 2 or even Phase 3, as Trump put it in his press conference the same day. Trump got what the China delegation had already offered way back in 2018: i.e. 51% ownership and resumption of big purchases of US farm products.

In short, Trump caved in and in effect “took the money and ran”. His 2020 re-election interests took precedence over the neocon-military concerns over China’s nextgen tech development.

What’s In the Phase 1 Deal?

Important to note, the Phase 1 deal itself is not yet a signed agreement. It’s a verbal understanding between Trump and China’s vice-premier and chief negotiator, Liu He. In his press conference announcing the deal on October 11, Trump admitted the parties were yet to sign off even on Phase 1 but hoped that it could be done within 5 weeks; that is by the time Trump and Xi meet again at the APEC conference in Chile in November.

Trump boasted repeatedly the Phase 1 deal included up to $40-$50 billion in new US farm purchases by China. Over what period was not clear, however. Trump vacillated from saying current levels of China farm purchases were $8 billion, or maybe $16 billion, or was $17 billion at prior peaks. He really didn’t know. Or maybe it was $20 billion, as one side comment was made in the press conference. It sounded like $40 billion was the target agreed to in principle and over the course of the next two years. But that was the ceiling apparently. Trump declared there’s “never been a deal of this magnitude for the American farmer”. Of course that wasn’t true. But the Trump hyperbole and spin was in.

Another major agreement area in Phase 1, according to Trump, was China’s confirmation it would allow US companies to own 51% of their operations in China. As Trump put it, “banks will be very very happy”. More US multinational corporations could now shift even more production to China.
What was agreed to in ‘IP, or intellectual property’ protections was left vague in Phase 1. Trump admitted only some IP issues were included in Phase 1 but didn’t say what. IP was mostly left to Phase 2, per Trump.

Equally vague was the understanding in Phase 1 on how China might agree not to devalue the Yuan, its currency. That was key to the US since devaluation would offset Trump tariffs. Trade representative, Lighthizer, provided some vague commentary during the Trump press conference about how China and the US would meet to work out some rules in that regard. But the devaluation issue itself was irrelevant. China had consistently over the preceding 15 months of trade war intervened in money markets to keep its currency from devaluing, and did so even as the rising US dollar was the primary cause of the pressure on the Yuan to devalue, as it other currencies worldwide as well. If anything was driving the devaluation it was the rising US dollar, not a policy action by China to enact a devaluation.

On the important tariff front, in Phase 1 Trump agreed only to suspend his threatened 5% tariff hike (raising rates from 25% to 30%) due the following week of October.

What’s NOT In Phase 1

What’s not in Phase 1 reveals clearly that Trump clearly capitulated on the nextgen tech issue in exchange for resumption of farm purchases and the 51% US bank ownership in China offer.

Tech issues were in general put off. As Trump declared, would be “largely done in Phase 2”, or maybe even a Phase 3. And Phase 2 would not begin until and if Phase 1 verbal understandings were 'signed off' in writing five weeks from now by Trump and Xi in Chile.

Further revealing no agreement on the strategic nextgen tech issue, Trump indicated the US would continue its policy attacking China's 5G tech company, Huawei, as well as selectively 'blacklist' other Chinese AI companies in the US. That was, he added, "a separate process". So the nextgen tech issue is now a separate track, in effect decoupled from the trade negotiations. It is very unlikely it will be reintroduced in Phase 2, should that subsequent round even occur, which is not likely in any substantive way before the 2020 US elections.

Also left out of Phase 1 was any US reduction of existing tariffs on China imports. That continuation of tariff levels included the $160 billion of China consumer goods exports to the US scheduled for December 15, 2019.

The US also apparently failed to attain its demand that China reduce its subsidies to its state owned enterprises—a strange proposal given that the US just subsidized its business sector with trillions of dollars with Trump's 2018 tax cuts.

Some Predictions

For more than a year now this writer has been predicting that there would be no deal with China so long as the US negotiating team was dominated by the neocons and they continued to insist China capitulate on nextgen tech, or else no deal.

The related prediction, however, was that Trump would abandon the neocon-military interests' prioritization of tech issues, and Trump would settle for concessions China already offered concerning US 51% majority ownership and farm purchases. The shift would occur, it was predicted, when the US economy significantly weakened—i.e. threatening Trump's support in the farm sector and among US big business, and therefore his election in 2020.

The Phase 1 deal reflects just those predictions: Trump has decided to forego resolution of the tech issue and decided to take the money (farm purchases) and run. He has the full support of US big banks and manufacturing in so doing for their priority demand has always been the 51% ownership concession by China.

It is highly unlike there will be a 'Phase 2' in anything but a token discussion level.

And if there is, it is extremely unlikely it will include any meaningful concessions by China on next gen tech—i.e. AI, 5G, cybersecurity. China has now clearly prevailed in blunting Trump and the neocon offensive in that regard. For their part, Trump and US military-industrial-Pentagon interests will continue to pursue blocking China on the tech issue in ways decoupled from trade negotiations. Various other measures will now be the focus, such as attacking and blacklisting China tech companies in the US and even elsewhere among US allies. Perhaps even delisting them from US stock exchanges, as a recent Washington 'trial balloon' proposed. Trump did not go there on the eve of the recent negotiations. It would certainly have 'blown up' the trade deal once again if he had. But that—blacklisting and delisting—remain as likely US tactics in the months to come. For the technology war—i.e. the real war behind the tariffs and trade war—has only just begun between the two countries. And a broader economic war involving non-tariff measures is almost certain to erupt after the 2020 elections.

A 'Phase 2' follow up negotiations is tentatively set for after the Phase 1 sign off in

November in Chile. Not much will come of it, however, so long as Trump insists on maintaining the current level of 25% tariffs on China imports to the US. Trump likes the current level of tariffs and the revenue it brings in, which allows him a somewhat independent source of financing for his domestic programs independent of the US Congress passing legislation and authorization bills which he now won't get. On the other hand, Trump may temporarily suspend the planned tariff hikes on $160 billion of consumer goods due December 15, 2019 should the US economy continue to weaken in the 4th quarter, which is more likely than not. But it will be a temporary suspension, not a dropping of the tariffs.

The 15 month long US-China so-called trade war is over. There will be further discussions but no significant changes before the US 2020 election. What Trump got in Phase 1 is all he's going to get. He's probably promised the neocons, who have lost out on this Phase 1 deal, even more aggressive action against China companies doing business in the US. That's there 'concession prize'. Worst case, Phase 1 might not even be finalized, should the neocon-Pentagon-Military Industrial Complex faction regroup and try to scuttle the deal, once again for a third time. There's always that possibility. Especially should Trump's legitimacy fade further due to impeachment proceedings. It's not impossible the Phase 1 verbal deal might also collapse but not likely at this point.

A Failed Trump Trade Policy

Trump's trade war with China is clearly a net failure. Trump could have gotten the same deal back in 2018, more than a year ago. Instead, the dispute was allowed to escalate, with the effect of causing business uncertainty and slowing investment in the US and worldwide due to the 15 month trade war. The trade war has clearly played a part in the global manufacturing recession now underway, which threatens now to spread to services and consumption and precipitate a general recession in the US economy and possibly even worldwide.

Trump has pushed the global economy to the brink of a worldwide currency war in the process as well. He has drained $28 billion thus far from business and consumer spending in order to collect tariff revenues that he's diverted in turn to the farm sector in subsidies that otherwise might not have been necessary. Small business, household consumers, and failing small farmers have paid the price and will continue to do so in higher prices from continuing tariffs.

Despite 15 months of trade war with China—and a series of 'softball' trade deals with South Korea, Japan, and Mexico-Canada—the US trade deficit as of August 2019 has reached record deficit levels of $55 billion that month and an annual rate of nearly $700 billion a year. The trade wars have been totally ineffective in reducing the US trade deficit—if that was ever the goal.

Who Benefits?

In net terms, the Trump trade wars have produced little for US capitalist business interests compared to what they already had going into the conflict in March 2018. Conversely, China has clearly prevailed in protecting its nextgen technology plans—i.e. the main target behind the US trade war identified back in August 2017 and launched March 2018 by the USTR and Trump. US agribusiness got their farm purchases renewed—and $28 billion in subsidies to boot. US big banks and multinational companies got their 51%. Trump got an independent executive branch source of revenue flow in the form of tariffs. The US consumer and small goods manufacturers and businesses get to pay for much of it all in the form of rising prices. And more US multinational companies will likely move more productions—and jobs—to China now that they have 51% ownership control.

In a broader picture of ensuring US global economic hegemony in the years ahead, if the Trump trade wars were to be about restructuring global capitalist trade relations favoring the US for another decade, then the outcome is also clearly a dismal failure. The Trump trade war with China has produced few net results in that sense. China prevailed this round in the technology war and will now seriously challenge the US in the 2020s in nextgen technology and the new industries it would create—as well as the new military technologies it portends. Meanwhile, Trump's 'other trade wars' with US allies has similarly produced few net strategic results. They have been thus far 'token softball' deals that have merely tweaked existing trade relationships.

Trump's trade wars have proven to be a lot of bombast, hyperbole, and smoke with no fire. Trump set up straw men opponents, to knock down and allow him to declare he has out-negotiated his president predecessors by rearranging global trade and money flow relations. But this is in fact not so, as history and the next decade will undoubtedly show.

Jack Rasmus is a distinguished author, economist and frequent contributor to Global Research

*

Note to readers: please click the share buttons above or below. Forward this article to your email lists. Crosspost on your blog site, internet forums. etc.

Featured image is from FinanceTwitter