# China-US Trade Disputes (XVI)

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**Global Sourcing**
**3 December 2018**

## US and China agree to suspend new tariff hikes

*At a sideline meeting at the G20 summit in Buenos Aires, the US agreed not to raise the tariff rate on US$200 billion of Chinese imports from 10% to 25% on 1 January next year. The temporary ceasefire has also set up further negotiations between the two countries. We will continue to closely monitor developments in this regard.*

### ***Suspension of new tariff increases to allow for trade talks***

Word of the deal came shortly after US President Donald Trump met with Chinese President Xi Jinping on Saturday night (1 December) on the sidelines of the G20 summit held in Buenos Aires, Argentina. It was the first face-to-face meeting between the two leaders since Trump's China visit in November last year.

The planned increase in tariff rate on US$200 billion of Chinese goods from 10% to 25% is on hold for now, as the two countries will hold negotiations within the next 90 days to discuss the hard questions – 'structural changes' with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft, services and agriculture. If no agreement is reached at the end of this period of time, the 10% tariff rate will be raised to 25%, according to a White House statement.[1]

[1] https://www.whitehouse.gov/briefings-statements/statement-press-secretary-regarding-presidents-working-dinner-china/

China agreed to buy a 'not yet agreed upon, but very substantial amount' of US goods from the agricultural, energy and industrial sectors to reduce the trade imbalance between the two countries, and China would start purchasing agricultural products immediately.

Moreover, China agreed to designate fentanyl, a deadly synthetic opioid, a controlled substance.[2] Chinese President Xi Jinping will also be open to approving the previously unapproved Qualcomm-NXP deal (a merger of two major semiconductor manufacturers) should it be presented to him again, according to the White House statement.

Chinese Foreign Minister Wang Yi, when briefing on the Xi-Trump meeting, said that the two countries also agreed to open market to each other, adding that China will, in the process of its further opening-up, work to gradually resolve the legitimate concerns of the US.[3]

## *Our take*

The 90-day trade war truce suggests only a suspension of the escalation of the China-US trade war, not a resolution of the trade war, as the tariffs in-place on US$250 billion of Chinese imports and US$110 billion of US goods will continue while trade negotiations are in progress. If the two countries fail to reach an agreement, the US could still boost the tariff rate on US$200 billion of Chinese goods from 10% to 25%, as well as impose additional tariffs on the remaining US$267 billion of Chinese imports.

While the US promised nothing substantive in the ceasefire deal, China agreed to purchase a 'very substantial' amount of US products, and to start buying US agricultural products immediately. Such concessions from China indicate its eagerness to avoid a further escalation of the China-US trade war. However, given that the negotiations will touch on the sensitive issue of 'structural changes' in China's economic policy, and that the differences between the two countries on this issue are deep, we do not expect a smooth negotiation process.

That being said, there will be three months of relative peace between China and the US. A second flip-flop by the US administration to overturn the agreement is unlikely this time, as the trade war truce was hailed by Trump as 'an incredible deal'. (On 29 May, the US government announced that it would proceed with its proposal to impose 25% tariffs on US$50 billion worth of Chinese goods, tearing up an agreement reached only ten days ago by Steven Mnuchin, the US Treasury Secretary, and Liu He, China's vice-premier in charge of the economy, to put the tariffs 'on hold'.)

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[2] US Officials believe that China is the primary source of fentanyl consumed in the US. The overdose of fentanyl has caused hundreds of deaths in the US each year.

[3] https://www.fmprc.gov.cn/web/wjbzhd/t1618091.shtml

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