



Did China “Lose by Decision” on the Phase One of Trade Deal in the US-China Trade War?

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There is a widespread view that the phase one trade deal between the US and China, announced on January 15, (Washington, DC, local time) is a “loss by decision” for China. However, Liu He (劉鶴), Vice Premier of People’s Republic of China (PRC), who is China’s chief delegate to the trade talks, said the phase one deal as “Gain to China, gain to America and gain to the whole world (有利于中国, 有利于美国, 有利于全世界),” indicating that this negotiation was “win-win” for both sides. Then, on what criteria should this agreement be evaluated?

The main point of this agreement is that China would purchase 200 billion US dollars worth of US-made products for two years while the US would withhold or ease additional tariffs on Chinese-made products. Much of the rest is related to “future promises” that China need to fulfill, making it difficult for experts to assess the gains and losses of which country will be hit harder.

As an alternative, an analysis could rather be approached from the perspective of “how the US and China have achieved their respective goals” in the trade war negotiation, which is so-called “goal setting theory.” Initiated by Edwin A. Locke, this theory puts one’s goal or objective as the most critical prerequisite condition for performance-related behaviors. In other words, it focuses on what the US and China have consciously wished to gain through this trade war and how much they have drawn near their goals.

At the press conference just before the signing ceremony, President Donald Trump said this agreement is “righting the wrongs of the past.” This was the actual objective of the US. Then did the US truly reached the goal through this consent? In most cases, it will depend on China’s fulfillment of conditions.

Standing next to Trump, Chinese vice Premier Liu He (劉鶴) said that “China will purchase US products” but left a room by adding the term “based on market con-

ditions,” which is intriguing. The fact that Ambassador Robert E. Lighthizer, United States Trade Representative (USTR) spoke “The agreement will work if China wants it to work” shows why this agreement is unstable.

On the contrary, what was the goal for China? The goal was to carry out “time delay” strategy by giving as little as possible on what the US has demanded. China hoped that President Trump would be impeached or failed on re-election or that recent Iran crisis would spread to war between the US and Iran, so that his focus shifts to the Middle East rather than China. All of these leads to the “time delay” strategy.

In fact, looking back at previous negotiations, “time delay” is a strategy that China has taken for a while. It delayed the time by yielding a little by little to the demand of the US, which possessed greater power, but at the same time strongly resisted on matters that are related to China’s key interests. Sometimes China would have its representatives review and even terminate the agreement. In terms of core interest, China would follow the marginal line of not conceding.

In respect of this strategic approaching view, China has made significant progress. Originally, the agreement that should have been settled during the G20 Summit in Buenos Aires, Argentina in December 2018 was delayed after “90-day Truce” and then was delayed more than five times only with rumors surrounding “May Agreement” or “June Agreement.” Disturbing the opponent party with a time delay is a classic Chinese negotiation technique.

The US once wanted a big deal as a “grand bargain” but China responded with “salami tactics,” which is to finely divide the negotiation terms and extend the period. One of terms of this agreement is that China has accepted to purchase 320 billion US dollars worth of US agricultural products over the next two years, delaying terms to future promises. The possibility of China postponing or even not implementing such condition cannot be ruled out if the president of the US changes or related situations change.

When China joined the World Trade Organization (WTO) in 2001, much of what China promised has not been fulfilled in the implementation process, and it still remains as a shame for the US. Further observation is necessary to check how much portion of compliance has been complemented. From the US side, the goal should have been a fundamental “structural change” in the US-China trade relations, not China’s “massive purchase” of US-made products. It was less necessary for the US to make China to buy American agricultural products but more important to revise laws related to US corporate and farmers granting access to the Chinese market in the future.

It seems that China had its own certain standards on what can and cannot be yielded. China was rather active in “bulk purchase” of US products (this could bring a visible effect, which President Trump could triumphantly declare as “trophy” in do-

mestic politics). However as expected, laws or regulations related to China forcing to keep promise were not included in the agreement. The key point here is the reform of China's state-owned enterprises.

Subsidies to Chinese state-owned enterprises are one of the biggest issues in the US-China trade war. The operation fund of the Communist Party of China is not in a safe in Zhongnanhai (中南海) but is dispersed among huge Chinese state-owned enterprises. In other words, state-owned enterprises are the banks of the Chinese Communist Party. The reform of the state-owned enterprises is to cut off the capital vein of the Communist Party, which the party would certainly not accept. The US and China handed this issues over to the "second phase of negotiation." This is one of reasons why experts predict the second negotiation to be more complex and difficult.

Judging from the "goal-setting theory," the winner of the first phase of the agreement is China, not the US. China has achieved much of what it had set as its goal. When it comes to areas that it had the intention to make concessions, it did so while resisting US demands in other areas as much as possible, by tossing them over to future implementations. Strictly speaking, much of the first round of agreement was something China could have signed off a year ago. China also successfully kept its bottom line; it rejected the earlier draft when it felt it undermined the Chinese sovereignty. Rumor had it that the US side became anxious as the new year approached, while the Chinese were dragging their feet.

In essence, this agreement is another temporary "stopgap" rather than a "solution" to the problem. The future prospect is quite uncertain. Doubts are already raised on whether the second stage of agreement can even begin (despite Trump's saying so) as there exists huge discrepancies between their fundamental stances.

At least, the market is relieved that the US-China trade war is under truce, and because Trump would want to focus on his election campaign by making this deal as a "victory," the second round of agreement is less likely to be a policy priority item before the US presidential election. This is what China also wants. China needs time to prepare for "decoupling" of the US-China tech sectors. In this sense, ironically, the US-China trade war will experience a lull this year. South Korea should wisely make good use of this "golden time" and come up with strategies to tide over larger uncertainty ahead. Even though Washington and Beijing are creating a reconciliatory mood at the moment, the two are expected to confront one another again soon. ❀

※ *Translator's note: This is a summarized unofficial translation of the original paper which was written in Korean. All references should be made to the original paper.*

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