China Puts the Final Kibosh on Trump's Trade Deal

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U.S. President Donald Trump's phase-one trade deal with China, one of the few glimmers of success to come out of three years of harmful trade wars, was already dying a slow death as the economic devastation of the coronavirus pandemic made his massively ambitious trade targets all but unreachable.

Now, the Chinese government appears to be reneging on the sputtering deal, reportedly telling state-owned agricultural firms to halt purchases of U.S. soybeans, one of the major U.S. agricultural exports to China and a pillar of the deal's promised $200 billion in extra exports. Beijing's move, first reported by Bloomberg News, followed Friday's U.S. announcement that Washington will potentially take steps to revoke Hong Kong's special status and possibly levy sanctions and other economic weapons against both China proper and the once-autonomous region.

The big question now, some say, is not whether the trade deal will survive but what form of trade confrontation will take its place at a time when U.S. economic policy toward China is dictated less by long-term national interest and more by short-term electoral calculations.

"The locus inside the administration has moved from, 'Should we drop the deal?' to, 'And then do what?'" said Derek Scissors, a China trade expert at the American Enterprise Institute who sometimes consults with the White House. "Trump wants to make sure that [prospective Democratic presidential nominee Joe] Biden can't outflank him on China. But that dramatic action, if there is any, is going to have costs."

Since Washington and Beijing signed the so-called phase-one deal earlier this year, just as the pandemic crushed global (and especially Chinese) economic activity, the agreement has been in trouble. Its highly ambitious goals—a huge, $200 billion increase in exports of U.S. energy, farm products, manufacturing, and other goods over this year and next—were always going to be hard to reach. The pandemic only made it harder, for instance by sharply depressing Chinese demand for U.S. oil and natural gas, sales of which have come nowhere near initial targets.

But China's about-face on purchases of U.S. farm goods is different. Demand isn't suffering; on the contrary, the rebuilding of China's pig herds after a previous bout of swine fever means strong demand for products such as soybeans for animal feed that the United States hoped to deliver. But even before tensions over Hong Kong and China's restrictive new security law for the city, China was selling the United States short when it came to buying agricultural products.

While other big soy producers such as Brazil were posting record export numbers to China in the first quarter of this year, U.S. sales fell off dramatically. The U.S. Department of Agriculture acknowledged in a recent report on soy and other oilseeds that "export commitments to China continue to trail 2018 and 2017 levels"—when they were meant to start soaring far beyond that baseline. The department hoped that rising Chinese demand, coupled with maxed-out Brazilian production, would offer U.S. farmers some relief later this year. But even that now might be off the table.

Since the phase-one deal delivered a truce to growing U.S.-China tensions, what would its demise portend? Even if the narrow trade agreement reached earlier this year is only a small part of a much broader relationship between the two biggest economies in the world, hopes of its implementation helped take some of the steam out of what has become an open strategic confrontation.

"The 'phase one' deal's importance to the overall relationship is relatively small. It's not the anchor that some thought it could be," said Scott Kennedy, a China expert at the Center for Strategic and International Studies, who described the status of the trade deal—if reports of Chinese orders to halt purchases are confirmed—as "hanging by a thread."

"The deal itself cannot stabilize the relationship, but if you remove the deal, then that is further evidence that both sides are throwing up their hands and see the relationship in purely competitive terms with nothing on the other side of the scale," Kennedy said.

If that is where things go this summer, there are a couple of different ways they could play out. For Scissors, the main factor is the November election—and Trump's ability to position himself as tougher on China than Biden. If the Democratic nominee talks of simply taking up China's abuses with the United Nations, for instance, or offers vague ideas about working with allies to push back against China, then Trump could just go back to his preferred weapon of across-the-board tariffs on Chinese goods, Scissors said. But if Biden starts to articulate a tougher response to China’s violation of Hong Kong’s autonomy, repeated trade and human rights abuses, and relentlessly aggressive foreign policy, then the Trump administration would likely be forced into a more muscular response.

“If we are going to jettison the deal, Trump is absolutely going to have to come up with new actions—the president is not going to be outflanked by Biden,” Scissors said.

Those tougher actions could include anything from more sweeping restrictions on U.S. technology exports to Chinese firms beyond current limits on U.S. sales to the telecom giant Huawei to more aggressive regulation of Chinese finance, including limiting Chinese firms’ ability to list on U.S. stock markets. Additionally, the administration could take other measures, including more restrictive visa policies or limiting U.S. investment in China-linked companies, that could ramp up the pressure and accelerate the decoupling between the two countries.

Others see Trump, who always hoped to run for reelection on the back of a strong economy and a buoyant stock market, as walking a tightrope.

“Politically, he’s going to keep whipping China. But at the same time, he has a fragile economic recovery, and is scared of a negative market reaction to a resumption of the trade war, so he’s likely to feel constrained,” said Simon Lester, a trade expert at the Cato Institute. “There’s likely to be lots of talk, which will work politically, but less action, which could hurt economically.”