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U.S. CHINA TRADE DEAL

WHAT THE PHASE ONE TRADE DEAL WITH CHINA MEANS FOR U.S. COMPANIES

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President Trump described this week's "Phase One" trade deal with China as a "momentous step . . . towards a future of fair and reciprocal trade," while Chinese President Xi expressed hope that the United States will "treat fairly" Chinese companies. What does all this mean for U.S. companies and how should they respond?

This truce in the trade war—even if temporary—is welcome news for many companies, especially in sectors like biotech, agriculture and financial services that should see short-term benefits. But no deal is perfect, and this one is no exception. In addition, ongoing economic and political risks warrant continuing caution on investment and supply chain decisions—and on the internal and public communications that surround them.

WHAT'S IN THE AGREEMENT

The agreement includes detailed commitments by China on protection of intellectual property, prohibition on forced technology transfers, increased agricultural trade, opening of the financial services sector and currency commitments, among other provisions. Some of these are steps that China had already announced, or that it needed to take anyway to help its domestic industry. Notably, Beijing did not agree to detail how it would transcribe its commitments into Chinese law.

A key aspect of the deal is China's formalized commitment to purchase an additional $200 billion in U.S. exports above previous levels, although there is skepticism that this level could be met. The agreement lists specific targets for a range of industries over the next two years, including farm, energy and manufactured goods. New sales for farmers alone are expected to be near $40 billion this year, up from $24 billion. There is also concern that this "managed trade" approach to negotiations could end up backfiring on the United States as it asks China and other governments to refrain from market interference.

WHAT'S MISSING

One criticism is that the agreement doesn't cover some of the toughest issues, including cybersecurity, data storage and the role that state-owned enterprises and subsidies currently play in the Chinese economy, which prevents fair competition. These issues are intended to be addressed in the "Phase Two" round but a host of developments—including the U.S. election, demonstrations in Hong Kong and Beijing's treatment of Uighur Muslims, as well as tensions over the South China Sea and Taiwan—could derail future talks.

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Another concern is that a significant number of tariffs remain in effect. While the United States moved to cut duties on roughly $120 billion of Chinese goods that were imposed last August (from 15% to 7%), it is maintaining 25% tariffs on another $250 billion of Chinese products.

Finally, any agreement is only as strong as its enforcement provision. Here there is no neutral third-party to decide which side is right in the event of a dispute, and then to impose corresponding penalties and remedies.

WHAT IT MEANS

Both sides wanted a truce, and badly, but it is unclear how long it will last. While the agreement is welcome, uncertainty remains in terms of:

- The extent to which China will follow through on its commitments;
- How strong the U.S. response will be if China falls short, especially in an election year; and
- Whether other issues, such the blacklisting of Huawei and other Chinese companies, or a crackdown in Hong Kong, could derail further trade progress and ratchet tensions back up.

WHAT SHOULD COMPANIES DO

Companies should carefully monitor the evolving dynamic between Washington and Beijing to be able to navigate effectively the opportunities, risks and uncertainties that this trade deal—and the potential reset—present.

The combination of improved atmospherics, and the U.S. Government having finalized this week new regulations under the Foreign Investment Risk Review Modernization Act (FIRRMA) that govern cross-border transactions implicating national security interests and requiring review by the Committee on Foreign Investment in the United States (known as CFIUS), could embolden companies in the United States and China to rekindle M&A discussions that may have stalled during the heat of the trade war.

It will be important, in addition to assessing prospects for specific investments or joint ventures, for C-suite officials to carefully vet internal and public communications on issues that could have implications for their operations in China, or inadvertently sweep them up into broader issues affecting the U.S.-China relationship.

SVC stands ready to support companies seeking to navigate a turbulent political, trade and investment environment with strategic communications and public affairs counsel.