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**The Trade War between the United States and China:**  
**The “Phase One” Deal is only the First Step**

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**On January 15, 2020, the United States and China signed an interim agreement as a first phase toward a comprehensive deal that will end the trade war between the two countries. However, the actual achievement is questionable, since the key components of the agreement focus on at least partial elimination of the tariffs imposed during the trade war, while the American demand that China reduce its subsidies to state-owned Chinese enterprises – which give Chinese companies advantages over other companies – was left out of the agreement. Therefore, it appears that the agreement constitutes primarily a first step toward restoring the commercial relations between China and the United States to what they were before the trade war began. In terms of United States allies, including Israel, the agreement seems to constitute a ceasefire enabling dialogue in a calmer atmosphere. US pressure with regard to 5G cellular communications and against technological cooperative efforts with China, and the American demand for supervision over Chinese investments and acquisitions in Israel, can be expected to continue. Therefore, Israel must adapt its relations with the United States to the era of global superpower competition: devise a policy that will balance between its short range economic interests and the protection of its economy and security in the medium and long terms, given that China is a technological competitor and player that works to turn civil programs into military programs, and in light of Israel’s strategic relations with the United States.**

On January 15, 2020, the United States and China signed an interim agreement as the first phase toward a comprehensive deal that will end the trade war that has taken place for the past a year and a half. This phase includes several accords. First, the United States agreed to slash in half the 15 percent tariff that it imposed on imported Chinese products, valued at \$120 billion. It also agreed to eliminate the imposition of additional tariffs totaling \$160 billion that were scheduled to come into effect in mid-December and focused mainly on consumer goods, which would have dealt a blow to American consumers during the Christmas shopping period. Tariffs of 25 percent on Chinese products valued at \$ 250 billion remain in effect; this will provide the United States with a bargaining chip during the negotiations on the second phase of the agreement.

According to the White House announcement, China agreed to withdraw its intention of imposing retaliatory tariffs, including a 25 percent tariff on American cars. In addition, China agreed to increase imports of products and services from the United States by some \$200 billion over the next two years, and pledged to purchase up to \$50 billion in American agricultural produce during that period. However, it appears that purchases of this magnitude exceed China's local demand, and it is not at all clear whether American farmers can produce this volume during the allocated timeframe. According to the White House, China also promised to discontinue its policy of compelling foreign companies to hand over technologies and know-how as a precondition for access to the Chinese market, and promised to provide stronger Chinese legal protection of patents, trademarks, and copyrights, including improved criminal and civil proceedings designed to combat online infringements of rights, forgeries, and unlawful sales of goods. However, these promises are not firm obligations, and therefore their realization is questionable. Another Chinese promise is to refrain from competitive devaluation of the yuan in order to create a trade advantage. Indeed, the United States removed China from the list of countries that manipulate currencies, apparently as a confidence building measure prior to the agreement. The interim agreement also includes a decision to form a conflict resolution body that will also constitute an enforcement mechanism.

In contrast to the White House, which on December 13 presented the agreement as an achievement and included a general description of the accords reached, China waited until the day after Washington's announcement and issued only a laconic announcement about the interim phase and its hope that "the United States will indeed abide by its commitments in the agreement." The Chinese Foreign Ministry spokesman announced that the parties agreed on the contents of the agreement, which was translated into Chinese and underwent legal scrutiny in preparation for the official signing ceremony. China did not confirm Trump's statements about its pledge to increase its imports of agricultural produce from the United States, but did announce that it would consider revoking retaliatory tariffs on products imported from the United States. China's relative silence thus raises concerns in the West that the parties might not resolve all of the disagreements between them. Moreover, the Chinese media did not cover the deal in any significant way, and therefore presumably there are still internal disagreements in China about the terms of the deal and a concern that an official announcement is liable to present President Xi Jinping as weak opposite the United States, and opposite President Trump in particular.

The signing of the interim agreement mainly serves Trump's domestic political interests, since he promised that the trade war will lead to Chinese capitulation and overall improvement in the trade terms between the countries. As such, Trump can open his

reelection campaign with a signed agreement between the countries in hand, which will, to a certain extent, confirm the success of his belligerent strategy vis-à-vis China. The reduced tariffs will affect many companies that trade with both China and with the United States, mainly in the agricultural and technological sectors, which both countries had targeted for tariff hikes.

According to the United States, the more complex issues in the relations between the countries will be discussed during negotiations toward the second phase of the deal, including digital trade, information localization, information exchanges between the countries, and cyberattacks. Although Trump announced that the discussions about the next phase will begin immediately, uncertainty with regard to the outcome of the US elections questions the continuation of this process. Since Trump is now striving to prevent downturns in markets that might lead to an economic slowdown, he will not be able to take action against China, even if it reneges on its commitments. There are also political tensions between China and the United States as a result of the American criticism of the Chinese response to the grass-roots protests in Hong Kong and its policy toward the Uyghur minority in the [province](#). The tensions relating to these issues will make it difficult for China to continue cooperation with the United States, and even if the talks begin, it is doubtful that the two countries will be able to complete the next phase of negotiations before November 2020.

Consequently, the substantive achievement of the interim agreement is questionable, since the bulk comprises accords that eliminate – at least partially – the tariffs imposed during the trade war and caused major damage to American exports, particularly in the agricultural sector. In addition, the American demand that China cut back on its subsidies to government-owned Chinese companies – which contravene the free market doctrine in that they give advantages to Chinese companies over other companies – was omitted from the deal. Thus it appears that this agreement constitutes mainly a first step toward restoring the trade relations between China and the United States to what they were before the trade war began.

The agreement will likely lead to a temporary thaw of the tense relations between the countries and open a window for talks that will focus on issues that are more important to the American government, such as structural reforms in the Chinese economy and Chinese practices of know-how transfers in exchange for access to its markets. The announcements of the agreement prompted cautious optimism among American, Chinese, and European investors, and stock exchanges around the world recorded moderate rallies. Nonetheless, uncertainty still prevails in the global markets about the actual implementation of the agreement. The agreement arguably represents a Chinese victory, in that it immediately relieves the pressure on the Chinese economy in exchange

for promises that China might not uphold. For example, it was reported that China promised to protect intellectual property more carefully, but China has pledged as much in the past and only partially kept its promise. There is also concern that China will not keep its promise about its currency. Nevertheless, these promises, if they are kept, are very important, not only to American companies, but also to all foreign companies wanting to operate in China, including Israeli companies – this, assuming that the agreement will lead beyond bilateral change to global commercial openness.

Yet even if the first phase of the agreement is implemented in its entirety and has a positive impact on trade, it will not begin to resolve the strategic competition between the world powers. The core issues of this rivalry – which include industrial espionage, aggressive transfers of technology and know-how, and unfair government subsidies to local industry – were postponed until the second phase, and it is unclear when the countries will address them. In essence, these issues require China to make structural changes in its economy and change its technology policy – yet these are unrealistic demands that would require China to moderate its goal of becoming a technological world power, which is supposed to pave the way toward prosperity and international influence.

In terms of United States allies, including Israel, the trade agreement seems to constitute a ceasefire enabling dialogue in a calmer atmosphere in communications with elements and companies from China. In fact, however, the topics for discussion are not expected to change, and the American pressure with regard to 5G cellular communications and against technological cooperative efforts with China, and the American demand for closer supervision over Chinese investments and acquisitions in Israel, can be expected to continue. Therefore, Israel must adapt its relations with the United States to the era of global superpower competition that includes China. The decision of October 30, 2019 to form an oversight mechanism for foreign investments in Israel is an important first step in this regard, although the exclusion of the technological sector from the purview of the oversight mechanism will not relieve the tension vis-à-vis the American government, which considers it one of the core issues in the competition with China. Israel must study the agreement and identify the type of cooperation that the United States wants to promote with China; the United States' red lines in relation to trade, investments, and transfers of technologies and know-how; and the issues where the American government's approach is still unclear.

Israel would do well to formulate a policy similar to the American policy, given that the United States is Israel's most important strategic ally. Today Israel does not have an alternative to American support in the various international arenas, particularly in the UN, or a substitute for American security assistance and economic ties. While Israel's

commercial relations with China have seen steady growth in recent years, the United States is by far Israel's largest trade partner. Furthermore, Israel must consider its need to preserve its long range economic competitive capability, considering China's rise as an economic and technological world power, inter alia, in industries in which Israel is considered a global leader.

Consequently, Israel should devise a policy that will balance between its short range economic interests and protection of its economy and security in the medium and long terms, given that China is a technological competitor and a player that works to turn civil programs into military programs, and in light of Israel's strategic relations with the United States. When negotiations between the United States and China begin on the next phase, which will focus on technological issues, it would be wise for Israel, based on heightened coordination with the United States, to have defined a clear economic policy vis-à-vis China, particularly in light of the intensifying competition.