



Snapshot of the U.S.-China Trade War

BACKGROUND - January 2020



Summary

- The U.S.-China Trade War is the culmination of a longstanding trade friction. Washington cites unfair Chinese trade practices and intellectual property violations, allegations that Beijing has challenged.
- The trade war began July 06, 2018, as the U.S. implemented the first round of China-specific tariffs. Subsequently, four more rounds of tit-for-tat tariffs ensued.
- As of January 2020 tensions have finally eased as the two sides have signed a partial Phase I deal. The document agreed to roll back tariffs and expand trade purchase.
- The U.S. economy has mainly been hit on the consumer-side by the trade dispute, whereas in China, exporters have suffered the biggest losses.
- Hong Kong and South Korea have suffered important losses, as they have major supply chains overlapping with both the U.S. and China. Meanwhile, Taiwan has seen industries return from the Chinese mainland.

Introduction

Since the beginning of President Trump's presidential campaign in 2016, his rhetoric has focused on reversing Chinese dominated trade, promising to renegotiate the U.S.-China economic relationship and eliminate "unfair" Chinese practices. Since July 2018, a full-scale trade war has ensued between the two countries. Tit-for-tat policies have hindered the negotiation process, delaying the possibility of a deal being struck. Both sides have incrementally imposed tariffs targeting the other and have introduced qualitative measures in order to defend their respective economic positions.

The Trump administration alleges that China practices unfair trade with the U.S, pointing to the growing trade deficit in China's favor, the theft of intellectual property, and the forced transfer of technology to China. Largely on these grounds, the U.S imposed a series of tariffs on Chinese goods. Washington's tariff policies have largely been aimed at encouraging consumers to buy American goods by making imports more expensive.

Beijing has disputed Washington's unilateral and protectionist policies, arguing that the

U.S. does not take into account WTO rules for Most Favored Nations (MFNs), and ignores differences between countries in different stages of development. Furthermore, Beijing contends that U.S. tariff impositions on Chinese imports are affecting the American economy more than its own.

With the IMF predicting that the global growth rate will fall to its slowest since the recession of 2009, it remains uncertain as to how the U.S.-China trade war will develop. This backgrounder aims to provide a snapshot of the trade war's core aspects and explore the following issues – What is the U.S.-China trade war, and how did it start? How has the trade war progressed and impacted the economies in Northeast Asia and the Trans-Pacific?

Background

The U.S.-China trade war is the culmination of longstanding trade frictions that the two countries have been unable to resolve through official channels. Washington's grievances arise from China's use of protectionist trade policies, such as export duties and quotas, state subsidies, restrictions on market access, and deliberate intellectual property rights (IPR) theft.¹ Beijing, on the other hand, underscores China's developing country status and has disputed the legality of various U.S. anti-dumping and countervailing measures.⁴



Figure 1: President Donald J. Trump joins Xi Jinping, at their bilateral meeting Saturday, June 29, 2019, at the G20 Japan Summit in Osaka, Japan.

What are Anti-dumping and Countervailing Measures?

Anti-dumping measures, such as tariffs, are introduced by importing countries to offset dumping - an illegal practice where an exporting country is selling a product for a price lower than the normal value in domestic markets. The goal of dumping is to undercut competitors and gain market shares.²

Countervailing measures are tariffs levied on imports that are subsidized by a foreign government. The measures are intended to level the playing field for domestic producers.³

Following the publication of Beijing's Made in China 2025 strategic plan in late 2015, tensions began to increase between the two parties. The plan, which outlines Beijing's updated industrial economic policy, has in the U.S. been interpreted as China "doubling down" on the contentious issue of state involvement in the economy.⁵ During the subsequent election year, then-Republican primary candidate Donald Trump capitalized on the growing domestic concerns by making a renegotiated Sino-American trade relationship a key part of his foreign policy platform.⁶ Trump committed to protecting American jobs from Chinese competition and ratcheted up tensions with a flurry of provocative statements.⁷ These campaign promises were gradually translated into U.S. policy following Trump's inauguration.

Notwithstanding the strained relations, Presidents Trump and Xi took steps towards rapprochement in the first months of 2017, agreeing to establish a 100-day plan to resolve disagreements over trade.⁸ The combined efforts resulted in a new trade agreement, including the mutual opening of key markets, covering items such as beef, card payment services, credit rating agencies, and financial institutions.⁹ However, the underlying structural trade issues remained,

and in parallel with the negotiations, Trump instructed the United States Trade Representative (USTR) to investigate whether cheap foreign – although mainly Chinese – steel imports posed a threat to U.S. national security.¹⁰ This was later followed up with an order to specifically investigate Beijing’s policies on intellectual property, technological transfer, and innovation.¹¹

In December 2017, the Trump administration released the new U.S. National Security Strategy. The strategy described China as a revisionist power with goals “antithetical to the interests and values of U.S.,” and emphasized that the U.S. henceforth would directly counter any unfair trade practices, calling it economic aggression. Shortly thereafter, the USTR’s Steel investigation concluded that the abundance of cheap steel and aluminum imports compromises domestic production and U.S. National Security.¹² This authorized President Trump to take countermeasures, and by March 2018, sweeping tariffs had been imposed on all but a handful of trade partners. The act prompted retaliatory measures from a range of actors, including allies, thus setting off a wider tariff conflict.

Following the release of the USTR’s findings on Chinese trade practices,¹³ the Trump administration filed a WTO claim against China, alleging unfair IPR and licensing practices, and further instructed U.S. agencies to restrict Chinese investment in key technologies and impose tariffs in related sectors.¹⁴ Beijing immediately threatened retaliatory tariffs and countered with two WTO claims, disputing the legality of both the sanctions and the steel tariffs.^{15,16} Notwithstanding efforts during the ensuing trade talks, the two were unable to overcome their differences, and ultimately, they released their final lists of sanctioned products, each worth 34 billion USD.¹⁷ As these country-specific tariffs took effect on July 06, 2018, the general tariff conflict evolved into a full-blown trade war.

Initial Progression of the Trade War

USTR Report, Section 301 on Intellectual Property Rights (IPR)

The Special 301 Report is an annual review on IP protection and enforcement conducted by the USTR. China has been continually placed on the Priority Watch List for failing to implement promises to strengthen IP protection, open China’s market to foreign investment, and refrain from government interference in private sector technology transfer decisions. Major U.S. concerns have gone unaddressed, and new legislation creates new obstacles to market access for U.S. persons reliant on IP protection.¹⁸

Key findings regarding China’s IP and technology transfer:

1. China repeatedly failed to protect U.S. rights holders from measures that force them to relinquish control of their IP.
2. China uses foreign ownership restrictions to pressure technology transfer from U.S. companies.
3. China’s technology regulations force U.S. companies to license their technology in favor of Chinese recipients.
4. China unfairly facilitates acquisition of U.S. companies and assets by Chinese companies to obtain cutting-edge technologies and generate the transfer of technology.
5. China conduct and support authorized intrusions into and theft from computer networks of U.S. companies to access sensitive information and trade secrets.

President Trump instructed the USTR to take all appropriate actions under section 301 to address the referenced acts, policies and practices of China that are unreasonable or discriminatory, burdening or restricting U.S. commerce. USTR thus proposed it was appropriate to increase tariffs on certain goods of Chinese origin and initiated dispute settlement proceedings at the WTO.



Timeline of Events



- **2018 - July 06, first round** of China-specific tariffs implemented, with a 25 percent tariff on 818 imported Chinese products. China retaliated by imposing a 25 percent tariff on 545 American goods.¹⁹ By this point, the trade war had already become the biggest one in the post Second-World-War era.
- **2018 - August** - China made two more WTO claims concerning the U.S.' safeguard duties on imports. The Trump administration decided to impose a 25 percent hike of tariffs on yet another 16 billion USD worth of Chinese goods. The **second round** of tariffs was imposed on August 23, from both sides, with China requesting another WTO consultation on recent tariffs imposed by the U.S.^{20,21}
- **2018 - September - Third round** of tariffs, worth 200 billion USD, imposed on China on September 17. China then produced a retaliatory tariff list worth 60 billion USD. At this stage, the trade war had started to reach the limits of China's capacity to retaliate with equivalent tariffs.²² China released its first White Paper with its official stance on the situation. (see page 5)
- **2018 - October, November, December** - Presidents Xi and Trump restarted talks ahead of G-20 summit. The two agreed to a **temporary 90-day truce**,²³ in return, China committed to buying a substantial amount of American exports in order to narrow the trade gap. By mid-December, Beijing had temporarily lifted barriers to American energy, cars, and soy. However, there was no corresponding change from the American side, and the U.S. said they would announce further tariff increases if no deal was reached by the end of the 90-day grace period.²⁴

The First Half of 2019

Trade talks resumed, as Trump announced in late February that the 90-day truce would be extended from its initial date of March 01. Shortly thereafter, China indefinitely extended the suspension of additional tariffs on American cars and auto parts. As the talks continued with minimal results, the Trump administration threatened a hike in tariffs on another 200 billion USD worth of Chinese goods in order to increase pressure on China to reach a deal.²⁵

When it was clear that there was no deal within sight, the tariffs were implemented in May. In parallel, the Chinese tech-corporation Huawei was added to the U.S. Department of Commerce entity list, which currently contains more than 150 Chinese organizations subject to either specific license requirements or a total ban.²⁶

China released its second white paper in June, further refuting U.S. accusations made at negotiations. Later that month, five major Chinese corporations were added to the U.S. entity list. A tentative truce was reached at the G20 summit in Osaka, and the ban on Huawei was partially lifted.²⁷

More Recent Developments

In early August 2019, China was declared a “currency manipulator” by the U.S. Treasury, after which Beijing decided to suspend the purchase of U.S. agricultural products. The yuan sunk to its lowest value in 11 years (7 against the USD).²⁸ China strongly refuted currency manipulation claims and announced it would increase tariffs on the U.S. by 75 billion USD.²⁹ Trump responded with a corresponding hike on 300 billion USD worth of goods, which came into effect on September 01. All existing tariffs against China were raised by 30 percent the following month.

Negotiations and the Phase I agreement - After China lodged another WTO complaint against U.S.’ China-specific tariffs, both sides agreed

What is China's Position?

China published two white papers on the topic, stating their official view on the the progression of the negotiations on the trade war.

September 2018, "The facts and China’s position on China-U.S. trade friction." The paper covers objections to unilateralism, protectionism, and economic hegemony. Emphasized China’s commitment to the multilateral trading system.

Key Points and Claims:

- U.S. is enabling its own trade deficit with China by imposing stricter import controls.
- U.S. is exaggerating its deficit in goods.
- Focus on the WTO principle of mutual benefit and non-discriminating principles.
- China objects to the use of unfair and stringent national security reviews.
- U.S. ignores objective differences among countries in various stages of development.

June 2019, "China’s position on the China-U.S. economic and trade consultations."

Key Points and Claims:

- China’s technological innovation is based on self-reliance, and the accusation of intellectual property theft is unfounded.
- China’s legal system for IP protection follows international rules, is critically acclaimed.
- Tariffs being applied to Chinese products are affecting the U.S economy, as both economies are highly interlinked.
- U.S. “bullying” harms the world: undermine the multilateral trading system, U.S.’ measures leading to global recession.
- U.S government should bear the sole responsibility of setbacks to U.S.-China trade consultations.
- Consultations should be based on mutual equality and respect; China will not succumb to coercion.



U.S.-China Trade Balance

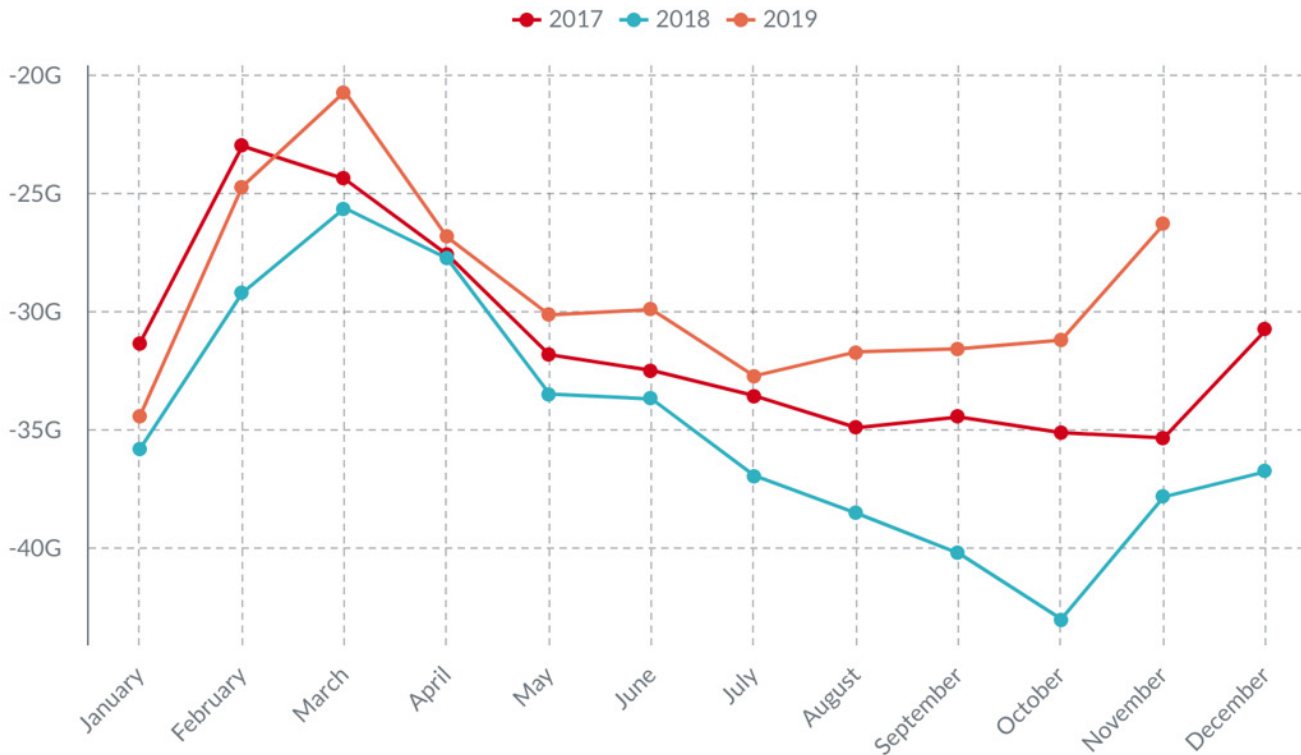


Figure 2: The U.S. trade balance with China 2017-2019. In the second half of 2018, the U.S. trade deficit with China increased compared to the same period in 2017. Throughout most of 2019, the deficit is smaller than in the two preceding years. The data is shown in USD billions (G).

to the 13th round of talks in early October.^{30,31} Both countries announced new tariff exemption lists,³² and an agreement to reach a **Phase I deal** was reached following the two-day round of talks held in Washington. Planned tariffs were delayed further, as China committed to strengthening IPR legislation, issuing new currency guidelines, and buying a certain amount of U.S. agricultural products on a yearly basis. From the American side, USTR announced that existing tariffs would be reviewed, and tariff exemption requests would be accepted.³³ November 2019 proved relatively positive for the negotiations. Vice Premier Liu He and U.S. trade representative Wright Heze were

involved in discussions for the next round of trade talks, and both sides agreed to phase out existing tariffs. On Friday, December 13, both sides announced that they had reached a **Phase I deal**. This was announced two days prior to scheduled fresh tariffs, which were expected to affect Chinese consumer goods and electronics.³⁴

On the 13 January 2020, the U.S reversed the designation of China as a "currency manipulator" as part of the commitments in the Phase I deal.³⁵ Two days later, the partial Phase I deal was finally signed by President Trump and Vice Premier Liu He.

What is the Phase I Agreement?

The Phase I trade deal reduces some U.S. tariffs on Chinese goods and is expected to vastly boost Chinese purchases of American farm, energy, and manufactured goods. The following are some of the most salient points from the 94-page deal:

1. Tariffs

The U.S. agreed not to proceed with the 15 percent tariff hike on 160 billion USD worth of Chinese goods scheduled for December 15, 2019. It will reduce the September 01, 2019 tariffs on 120 billion USD of Chinese goods from 15 to 7.5 percent. Further reductions from the American side are contingent on progress in future negotiations. China canceled retaliatory tariffs due for December 15, 2019.

2. Trade Deficit and Currency Manipulation

China has agreed to purchase more U.S. products and services by 200 billion USD over the next two years. This is expected to double U.S. exports to China, especially in the sectors of agricultural goods, energy, pharmaceuticals, and services. Figures for U.S. exports to China are estimated to reach 40 billion USD annually, from the previous 24 billion USD in 2017.

The U.S. has removed China from its list of currency manipulators, with a section of the deal emphasizing the importance of market-based principles of foreign-exchange rates. The text includes agreements between the sides to not engage in competitive devaluation, to respect one another's monetary policy and maintain transparency regarding the same.

Most Affected Sectors

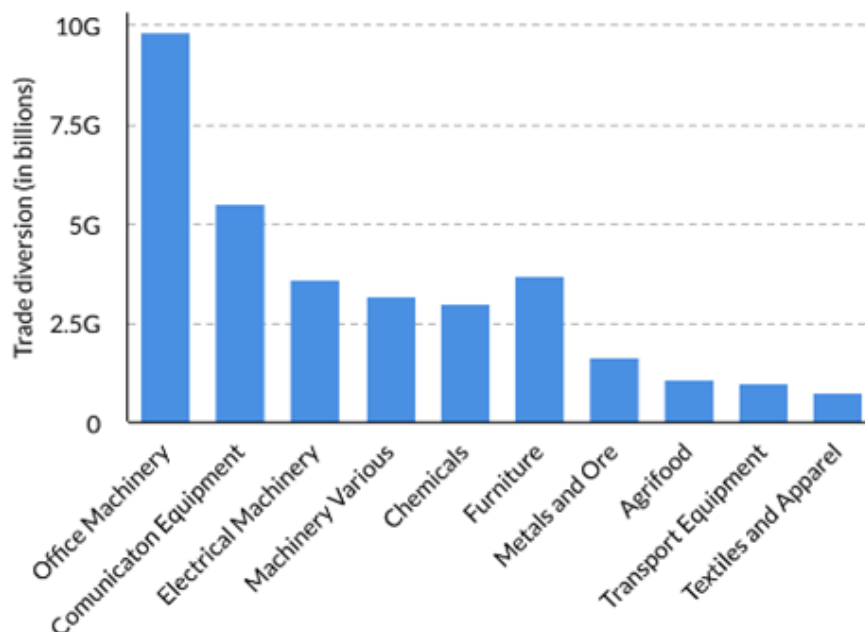


Figure 3: This infographic shows the trade diversion effects caused by the U.S. tariffs on Chinese products, spread over different economic sectors. The products previously imported from China are now imported from other countries. Shown in USD billions (G). Source: United States Census Bureau Data.



Figure 4: Huawei has been at the center of intellectual property theft accusations and the U.S. is encouraging all nations to avoid using the Chinese company for building their 5G infrastructure networks

3. Intellectual Property

The details of the deal include stronger Chinese legal protection for patents, trademarks, copyrights, and improved procedures to combat online infringement. The agreement includes China's commitments to eliminate any pressure for foreign companies to transfer technology to Chinese firms as a condition of market access. Separate Chinese commitments to transparency, fairness, due process in administrative proceedings, and to have technology transfer and licensing take place on market terms are also included.

3. Dispute Settlement and Compliance

The two sides have created their own mechanism for dispute settlement – The Bilateral Evaluation and Dispute Resolution Arrangement. This indicates that the two sides have agreed to work out violations and disagreements between themselves, instead of referring to a neutral third party. The deal also establishes an appeals process through which issues can be taken up on different levels, the highest being that of the USTR and the Vice Premier of China. If there is failure to arrive at a mutually satisfactory resolution under the settlement mechanism, the U.S. Secretary of the Treasury or the Governor of the

People's Bank of China can also involve the IMF. Under a section of the deal entitled "Implementation", it is stated that each party has the freedom to determine appropriate methods of implementing the agreement within its own system, practice and domestic legislation procedure. This implies a vagueness in the enforcement of the various provisions of the agreement and creates room for the deal's interpretation by either side.

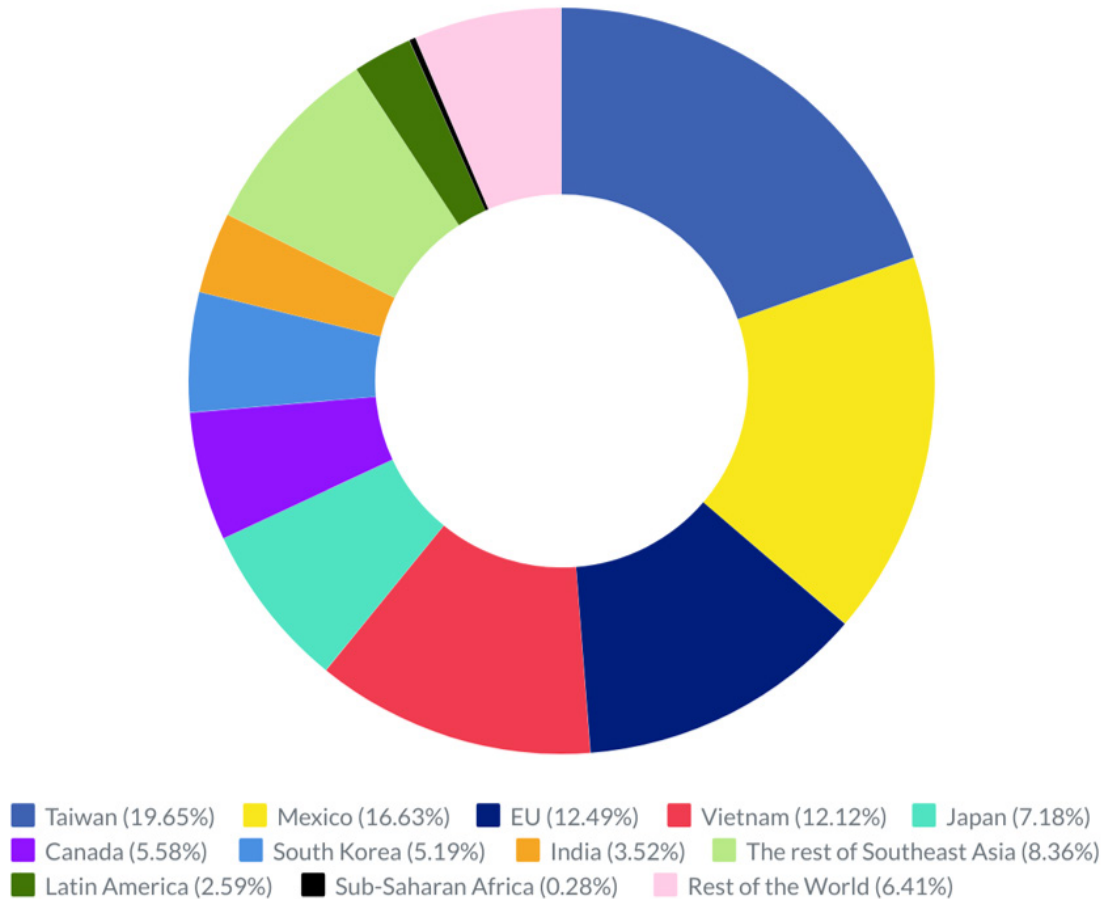
Issues Hindering the Progress of Negotiations:

Even though a Phase I deal has been signed, numerous sources of contention remain as negotiations progress. Trump intermittently threatened fresh tariffs during the negotiation process for the Phase I deal.³⁶ He announced that the remaining tariffs will stay in place until a Phase II deal is reached.³⁷

A major hurdle was accusations against China of IPR theft. This has now been addressed in the Phase I deal and China has issued a directive to enhance IPR protection.³⁸ Previously, President Trump approved congressional legislation backing protestors in Hong Kong, and the U.S House of Representatives passed a bill demanding concrete measures to be taken against Beijing over Xinjiang.³⁹ This did not sit well with Beijing, who said it would respond with "firm countermeasures".⁴⁰

After the Phase I deal was signed, analysts expressed concern over China's abilities to fulfill its commitments.⁴¹ Concerns included China's ability to divert imports from other trading partners to the U.S., and the potential for differences in interpretation and enforcement of the agreement.⁴² It remains to be seen how these different points of contention will impact progress towards a Phase II deal.

Diverted U.S. Imports from China



Trade Gained in U.S. Dollars

Taiwan:	\$4.2 billion
Mexico:	\$3.6 billion
EU:	\$2.7 billion
Vietnam:	\$2.6 billion
Japan:	\$1.5 billion
Canada:	\$1.2 billion
India:	\$0.8 billion
Remaining SE Asia nations:	\$1.8 billion
Latin America:	\$0.6 billion
Rest of the world: approx	\$1.4 billion

Figure 5: This infographic shows the various economies that have received diverted U.S. imports. Notably, Taiwan, Vietnam and the rest of Southeast Asia have received approximately 40 percent of all diverted trade. However, this graph does not account for the losses sustained during the trade war. Source: United States Census Bureau Data.



Impact on Northeast Asian & Trans-Pacific Economies

The United States

Almost all the tariffs' direct costs are passed on to U.S. consumers.⁴³ JPMorgan has estimated that the average annual household expenditure has increased by 600 USD thus far, but projects that this could increase to 1,000 USD following the September 2019 tariffs.⁴⁴ Beyond the direct impact of tariffs on consumer goods, consumers are also affected by the additional costs imposed on U.S. manufacturers.

Compared to the same time period in 2018, 62 percent of the loss in U.S. imports from China are estimated to have been diverted to other trade partners during the first half of 2019. The remaining imports worth 14 billion USD constitute a net loss in trade.⁴⁵

The three worst-hit sectors of the U.S. economy are cars, technology, and agriculture. The first two sectors have mainly been forced to raise their prices, but the agricultural sector – currently suffering from an eight-year high of farm bankruptcies – has been offered subsidies worth 28 billion USD – double the amount of the 2009 auto bailouts.⁴⁶

China

In China, exporters have been impacted the most. In the first half of 2019, exports to the U.S. fell by 25 percent compared to pre-trade war levels. Office machinery and Information Communication Technologies (ICTs) exports were hit the hardest, falling a total of 55 percent. There has also been a substantial drop in chemicals, electrical machinery, and furniture exports, and this is expected to increase as the most recent tariff round enters into effect.⁴⁷

Prices on Chinese exports have only decreased by 2 percent since the trade war began, not nearly enough to offset the effects of the tariffs. Analysts theorize that many affected industries already have thin margins and that others do

not want to risk getting pressured into lowering prices on other global markets as well.⁴⁸ In November 2019, total Chinese exports had fallen 1.1 percent compared to the year before.⁴⁹

The tariffs have also impacted Chinese consumers, and they are increasingly postponing major purchases.⁵⁰ Some analysts are suggesting that this poses a challenge to Beijing's goal of shifting the economy towards domestic consumption-led growth.⁵¹

While still increasing, the Chinese economy is slowing down. Growth slumped to 6 percent in the third quarter of 2019. This is the lowest level since records began in 1993.⁵² Similarly, industrial output growth slowed down to the lowest levels since 2002.⁵³ While part of a longer trend slowdown, these effects have been amplified by the trade war.

Japan, South Korea, Taiwan

The four East-Asian economies are all heavily dependent on the outcome of the trade war since China and the U.S. rank among their largest trade partners.

Hong Kong is among the worst-hit actors, dealing with domestic anti-government protests and the trade war's emerging impacts simultaneously. Due to Hong Kong's high reliance on tourism and the Chinese economy, it is very sensitive to outside pressures. For example, all U.S.-bound Chinese goods that are re-exported through Hong Kong are caught up in the trade war. Exports have been decreasing continuously since 2018, and in the third quarter of 2019, Hong Kong slid into a recession for the first time in a decade.⁵⁴

Taiwan, on the other hand, has been able to capitalize on the trade war thus far. Owing to its highly skilled labor force, proximity to China, overlapping supply chains with Chinese industry, and already industrialized economy, the island has seen many of its multinational companies moving back their production from China.⁵⁵ These factors have contributed to Taiwan



Figure 6: Hong Kong's economy has perhaps suffered the most as a result of the trade war between its two largest export partners.

becoming the single largest beneficiary of diverted U.S. imports, worth a total of 4.2 bn USD. The main increase has been in exports of office machinery and communication equipment.⁵⁶

The Republic of Korea (ROK) has an export-oriented economy and is facing a difficult situation. Although one of the main receivers of diverted U.S. imports, Seoul is simultaneously dealing with decreasing Chinese demand and a trade dispute with Japan. Exports have fallen continuously since December 2018, and the largest category of exports, data chips, had fallen by 30 percent in November 2019, compared to the year before.⁵⁷ While most of the world's major trading nations saw decreasing shipments in 2019, South Korea has experienced the single largest drop in exports and is presently experiencing its slowest growth since the financial crisis in 2008.⁵⁸ Amid these struggles, Seoul is furthermore being pressured by both Beijing and Washington over sensitive technologies, such as 5G. It is increasingly being forced to choose between its two largest trade partners.⁵⁹

Japan, the world's third-largest economy, has a much lower trade to GDP ratio than the other three and is thus less sensitive to changes in global demand. Tokyo is experiencing slow but steady economic growth.⁶⁰ The Japanese cabinet is nonetheless worried by the trade war's impact on global demand.⁶¹ One year into the trade war,

Japan is experiencing faltering exports,⁶² and nearly half of surveyed Japanese corporations have seen a dip in their profits. Nonetheless, only 11 percent of them have indicated that they will move their production because of the trade war.⁶³

ASEAN

Some observers have pointed out the Southeast Asian economies of ASEAN as the potential "winners" of the trade war. Many Multinational Corporations (MNCs) have started to move their manufacturing activities out of China into Southeast Asia.⁶⁴ Several of the ASEAN countries have furthermore been receivers of substantial trade diversions from the U.S.⁶⁵

Vietnam, the single largest beneficiary, saw its foreign direct investment increase by 86.2 percent in the first quarter of 2019.⁶⁶ Vietnamese exports to the U.S. have increased by 36 percent this year, and Hanoi is expected to gain export shares worth 7.9 percent of its GDP.⁶⁷ Malaysia, Indonesia, and the Philippines are expected to benefit from smaller-scale trade spill-overs from China, but seem to lack the strong domestic markets and local infrastructure required to enjoy any largescale gains, experts say.⁶⁸

While poised to make significant gains from the trade diversions, the Southeast Asian economies are held back by weaker infrastructure, political instability, lower population counts, and less skilled labor forces.⁶⁹ While they have the advantage of being low-cost, they do not yet have the scale to participate competitively, especially in reproducing supply chains, market access, and local networks.⁷⁰

Considering how export-oriented the ASEAN economies are, some analysts have raised concerns that the short-term gains from the trade war can be erased if the trade war escalates even further. In the face of a global recession, it is highly unlikely that the trade diversion effects would be enough to compensate the Southeast Asian economies for the overall fall in global demand.⁷¹

Conclusion

The U.S.-China trade war is the consequence of many underlying unresolved issues, mostly brought to the forefront by the presidency of Donald Trump. These underlying tensions, regarding “unfair trade conditions” and alleged IPR theft, gradually escalated between 2016 and 2017, culminating to a full-scale trade war in July 2018. Initial attempts from both sides to resolve issues in 2017 did not address concerns fully, and country-specific tariffs were soon implemented. Four rounds of tit-for-tat tariffs followed, along with multiple rounds of negotiations and WTO lawsuits.

Most recently, the two sides have signed a Phase I deal. The 94-page deal, viewed as a large concession on China’s part, is drawing scepticism from analysts. Doubt has been expressed not only towards China’s ability to fulfil the requirements of the agreement, but also on the interpretation and enforcement of the various provisions. The trade war is not a stand-alone issue, as it intersects with other points of contention between the U.S and China. Some flashpoints include the U.S.’ relations with Taiwan and Hong Kong, and their reaction to developments in Xinjiang. It remains to be seen what role these issues will play over the course of negotiations for a Phase II deal.

The trade war has mainly impacted the U.S. on the consumer side, with many different staple goods becoming more expensive. Some major industries - such as automobile manufacturing, technology and farming - have been hit hard as well, forcing the U.S. federal government to step in to help in some areas of the economy. Meanwhile, in China, the dispute has mostly affected exporters who have gradually lost access to their single largest market, seeing as the growth in exports has slowed down. China has also experienced a decreasing consumer demand, and the overall trend towards slower economic growth has continued.

Some Asian economies, such as Hong Kong and South Korea, have involuntarily been caught in the crossfire of the trade war. They are particularly sensitive due to their high reliance on trade between the two superpowers and their highly inter-linked supply chains. Others, such as Taiwan and Vietnam, have reaped some noticeable gains from the trade diversions caused by the conflict, experiencing a boost in direct investments and manufacturing. For several smaller economies in Southeast Asia, the new demand from the U.S. is rather significant. Nonetheless, it remains unclear to what extent they can sustain those gains in the long run. It takes time and expertise to build up the infrastructure and knowledge needed to compete with China, and the trade conflict might be resolved eventually.

The easing of tensions between the two sides is unlikely to contribute to improved global economic conditions, as the World Bank predicts little improvement in the global growth rate for 2020. Negotiations for a Phase II deal are highly contingent on the enforcement of the Phase I deal and other unresolved consequences of the trade war.



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