# The US trade agreement is at risk. U.S.-China for damage to relations

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## Body

(Bloomberg) -- As U.S.-China ties have deteriorated since the covid-19 pandemic broke out, the trade agreement they signed in January has been a hub in the relationship. Now, that could also cease to exist.

U.S. President Donald Trump, who has repeatedly blamed China for spreading the virus before the November election, said Thursday that the first phase trade deal "now means less to me than when I signed it." He spoke shortly after the U.S. ordered the closure of china's consulate in Houston for espionage and theft of intellectual property, leading Beijing to retaliate on Friday and order U.S. diplomats to leave their consulate in Chengdu.

"The phase one trade agreement between the United States and China hangs in the balance," said Eswar Prasad, who previously led china's team at the International Monetary Fund and now works at Cornell University. "China has an incentive to prevent the trade agreement with the United States from crumbling, even when the bilateral relationship becomes more toxic, to try to limit the damage to its economic recovery," he added.

The Trump administration has repeatedly increased pressure on China, from the imposition of punitive tariffs, to punishing Huawei Technologies Co. and close the consulate, one of the worst blows to diplomatic relations in four decades of relations. Secretary of State Michael Pompeo launched into an ideological struggle and on Thursday said that "protecting our freedoms of the Chinese Communist Party is the mission of our time."

Heated rhetoric sparked panicked purchases in China on Friday. The CSI 300 index fell 4.4% at close, while the ChiNext index fell 6.1%, the biggest retracement since February 3. The Chinese yuan fell to its weakest level since July 8.

Agreement 'intact'

For China, the trade agreement serves as an important buffer for its own economic recovery. The january-agreed truce lifted the threat of higher tariffs on Chinese exports, which has been even more critical given the collapse of shipments caused by the pandemic. Both exports and imports improved in June, helping to consolidate a broader recovery in the world's second-largest economy.

"China is working very hard to deliver on its promises," said Jiang Yuechun, principal investigator at the China Institute for International Studies in Beijing, a research institute connected to the Ministry of Foreign Affairs. "We always say that economic relations are actually the drag on Chinese-American relations. Now the ballast is getting weaker, and that's why now that relations between China and the United States are fluctuating."

In January, when the trade agreement was signed in which China pledged to spend $200 billion to reduce the trade imbalance, Trump said nations were "correcting the mistakes of the past." Although the pandemic delayed China in planned purchases, the US president has still backed the deal. Last month, after one of his advisers made comments that the deal was in jeopardy, Trump tweeted that the deal was "completely intact."

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One of the reasons the agreement has been maintained is because economic officials in Washington and Beijing are more pragmatic in their approach because of the economic consequences at stake, according to Louis Kuijs, head of Asia Economics at Oxford Economics in Hong Kong.

"Compared to diplomacy and international relations, the economic portfoliois in the hands of less aggressive people on both sides," Kuijs said. "The more general relations deteriorate, the more important the trade agreement is as the area where the two sides interact and discuss things relatively constructively, thus providing a narrow path to maintain dialogue between the world's two largest economies."

Global banks and asset managers are increasing investment in China, even amid political tensions. Last month, JPMorgan Chase &Co;. it received approval to assume full ownership of its China futures unit, while Morgan Stanley and Goldman Sachs Group Inc. obtained authorization in March to take majority control of their securities companies in mainland China.

The president, Xi Jinping, has personally called on foreign companies to stay in China and this month told CEOs in a letter that his government would seek to "provide a stronger trading environment for Chinese and foreign investors." His administration has also resisted imposing sanctions on a wide range of U.S. companies, although more than a year ago he threatened to publish a list of "unreliable entities."

Difficult temperaments

Closing the US consulate in Chengdu on Friday, the Foreign Ministry said the damage to ties "is not what China wants to see." Those sentiments were repeated by Hu Xijin, editor of the Communist Party's Global Times, who wrote that China had to take reciprocal action but "obviously doesn't want China-U.S. relations to be destroyed."

Breaking the trade deal could lead to another round of visa tariffs, sanctions and restrictions that will further damage both economies as they seek to recover from the pandemic, according to Kelsey Broderick, an analyst at Eurasia Group. In addition, he said, "the risk of an accidental military shock increases due to the difficult temperament on both sides."

Still, for now it seems that both Trump and Xi want to avoid that. Officials from both China and the U.S. have repeatedly reaffirmed the commitment to the trade agreement, and neither side sees much of an advantage at this time to resign, said James Green, a former U.S. beijing business official, who is now senior geopolitical adviser to consulting firm McLarty Associates.

"For the U.S., there is little cabinet-level expectation that the completion of the agreement will lead to further progress, so it's best to maintain it," he said. "On the Chinese side, they will be held until November, applying the Talion law in non-commercial areas and avoiding strategic options until after the election."

Original Note:The U.S.-China Trade Deal Risks Falling Victim to Spiraling Ties



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