UPDATE ON U.S.–CHINA TRADE AND IMPACT FROM COVID-19
WHAT’S NEXT — CONSIDERATIONS FOR COMPANIES

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After a tumultuous and often tense period of U.S.–China trade negotiations in 2018–2019 that increased the tariffs on goods traded between the countries; created much uncertainty for businesses; and caused notable currency volatility for the RMB, China’s currency, the long-anticipated signing of Phase 1 of the U.S.–China Trade Deal finally took place on January 15, 2020. As the name implies, Phase 1 of the trade agreement is a partial trade deal that addresses some of the items that have been under trade dispute, though not all. Items not covered in Phase 1 of the trade agreement are planned to be resolved in future phases.

HIGHLIGHTS IN PHASE 1 OF THE TRADE AGREEMENT ARE NOTED BELOW:

• **Some Rolling Back of Tariffs:** While not explicitly stated in the Phase 1 agreement, the U.S. agreed to lower the 9/1/2019 U.S. tranche of tariffs on approximately $120B worth of Chinese exports from 15% to 7.5%, and removed the tariff that was originally set to take place on 12/15/2019 on consumer electronic products as a result of the Phase 1 negotiation. However, other tariffs that have been imposed since the start of the trade escalation remain, and therefore, the tariffs for Chinese goods overall are still higher than before. Meanwhile, China also agreed to roll back tariffs levied on certain, though not all, U.S. goods imported into China.

• **Purchases of U.S. Goods by China:** Under the agreement, China would be committed to purchasing $200B of U.S. goods in 2020 and 2021.

• **Intellectual Property:** The trade deal seeks China’s commitment to protect U.S. companies’ intellectual property when they operate in China.

• **Technology Transfer:** According to the agreement, companies should be allowed to operate “without any force or pressure from the other Party to transfer their technology to persons of the other Party.”

• **Financial Services:** The agreement discusses provisions that would increase market access to foreign financial services in China, specifically in the areas of banking, insurance, asset management, payment and funds management.

• **Currency:** The deal prohibits either the U.S. or China from manipulating their respective currencies.

• **Dispute Resolution:** The method by which both sides will manage further trade disputes is discussed, including further potential imposition of tariffs or other measures.

For U.S. businesses based in China or doing business with China (including importing from China), while the Phase 1 deal is certainly welcome, there has been some degree of trade tension de-escalation, tariff relief and a consensus between the two countries, much uncertainty remains as many existing tariffs are still in place. Many U.S. industry groups are already calling for Phase 2’s negotiation to begin right away (though negotiation may be postponed given the coronavirus outbreak). Given the unpredictability of the trade negotiations leading up to the signing of the Phase 1 agreement, how future phases of trade negotiations will play out remain to be seen, though Phase 1 agreement is still a positive development for U.S. and Chinese businesses.
CORONAVIRUS OUTBREAK THE UNEXPECTED UNCERTAINTY OF 2020 FOR CHINA’S BUSINESSES?

Leading up to the start of 2020, many discussions on the future of China’s economy and the state of U.S. businesses doing business in/with China had been focused on the U.S.–China trade uncertainty. With the Phase 1 trade deal in place, it seemed that some of the uncertainty had been lifted and the U.S.–China trade relationship was moving in the right direction.

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At this point it is too early to assess the full impact of the coronavirus on China’s economy, but there have been several observable effects this far from the outbreak and the resulting actions:

- **Consumption:** The Lunar New Year holiday has been a significant revenue driver for retail and restaurant businesses, especially as more people in China prefer to dine out and shop during this period compared to in the past. With various measures in place to discourage people from congregating, including forcing retail shops and restaurants to close, depending on the local policy, retail and restaurant businesses have taken a significant hit, especially for those that still have to pay their employees while businesses are shut in accordance with the relevant labor laws.

- **Operations of Businesses in China:** The Chinese government rolled out various measures to delay the start of the business from the Lunar New Year holiday and to encourage firms to allow their employees to work from home. Many manufacturers will have lost days of production as workers delay returning to work, and office workers’ productivity may be impacted, especially since working from home is not a common practice in China.

For U.S. businesses operating in China, it is imperative to stay on top of the government’s measures, which can roll out very quickly and impact a company’s operations. It may also be worthwhile to evaluate different scenarios of when the epidemic may be contained and what each scenario means to a company’s operations, vendors, supply chain, etc. On a positive note, China’s government has been actively rolling out policies to support both domestic and foreign companies in China through this difficult environment, and it appears that both the U.S. and China are still committed to the Phase 1 trade agreement even in the midst of the outbreak, made evident by China’s reduction of tariffs on $75B worth of U.S. goods² on February 14. The government policy support and Phase 1 agreement still moving forward should reduce some uncertainty for companies, at least in the short term.

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China’s economy is resilient, and businesses should recover from this unfortunate and unforeseen event, especially as employees return to work, and business and manufacturing activities rebound. Certain industries such as e-commerce and logistics may buoy the economy in the short term as shoppers stay indoors through the outbreak and do more of their shopping online, and companies may become more creative in conducting more of their businesses online where possible. How long the epidemic will last and when businesses will fully return to normal is too early to determine. Indeed, with all the analyses and discussions in 2019 about the uncertainties facing businesses and world economies in 2020, the coronavirus outbreak may end up being the most unexpected uncertainty in 2020.