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Structural frameworks for U.S.-China negotiations: beyond tactical tariffs

Steve Suppan
Freeman Seminar
University of Minnesota
February 12, 2020

Secretary Freeman's global search for information
and USDA's evidence based policy

FREEMAN

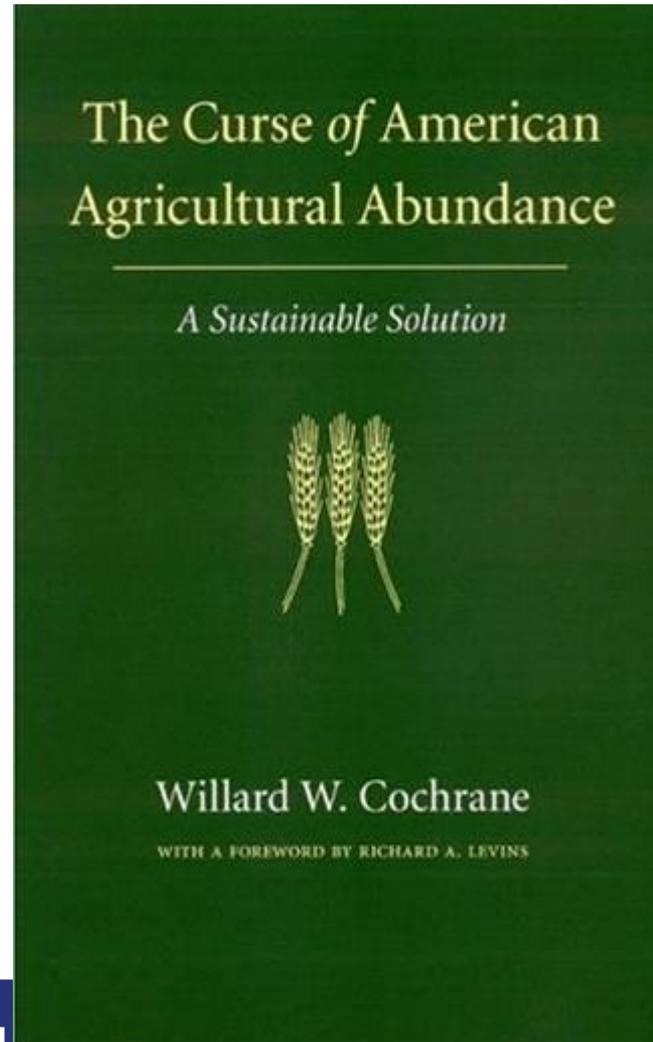


the agriculture years

1961–1969

Rodney E. Leonard

Data for inventory control and crop price support: The 1962 Farm Bill: agriculture as a public utility





 AGRICULTURE

The state of the USDA: A quiet dismantling

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Feb 4, 2019
by Ben Lilliston

Overview

- Some past IATP analysis of Chinese food and agribusiness
- U.S. demands of China
- Some commitments and provisions in the 'Phase One' 2-year MoU signed on 1/15/20
- 'Phase One' implementation challenges
- Three structural negotiations frameworks for trade offs outside but related to 'Phase 2' negotiations
- (As time permits, Q&A on 4th framework: IP and cyber-security)
- Conclusion: framework and trade-offs priorities and feasibility

CHINA FOODWATCH

A project of the Institute for Agriculture and Trade Policy

[NGOs & Foundations](#)

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 INDUSTRIAL LIVESTOCK

China's Pork Miracle? Agribusiness and Development in China's Pork Industry

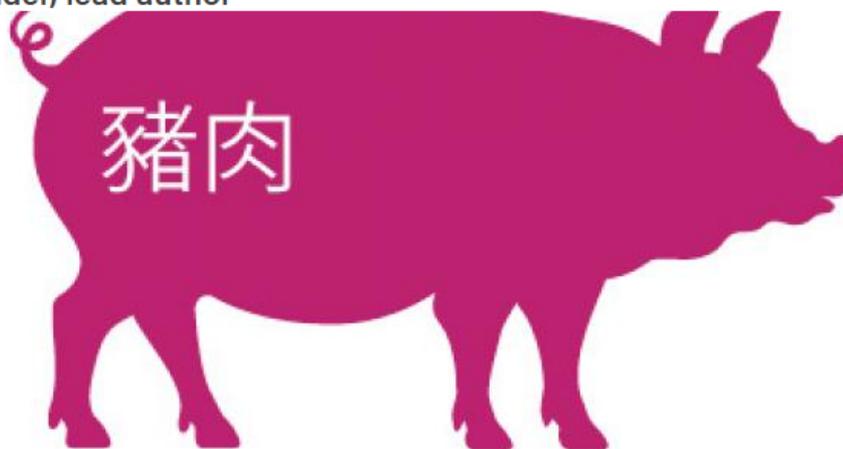
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Feb 17, 2014

by Shefali Sharma

by Mindi Schneider, lead author



Analysis of a typical Memorandum of Understanding (not a MoU masquerading as a trade agreement!)



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U.S. China Agreement on Food Safety: Terms and Enforcement Capacity

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May 26, 2008
by Dr. Steve Suppan

Beyond agriculture to the trade policy and strategic context of agricultural trade



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U.S.-China trade negotiations: Any plausible trade-offs?

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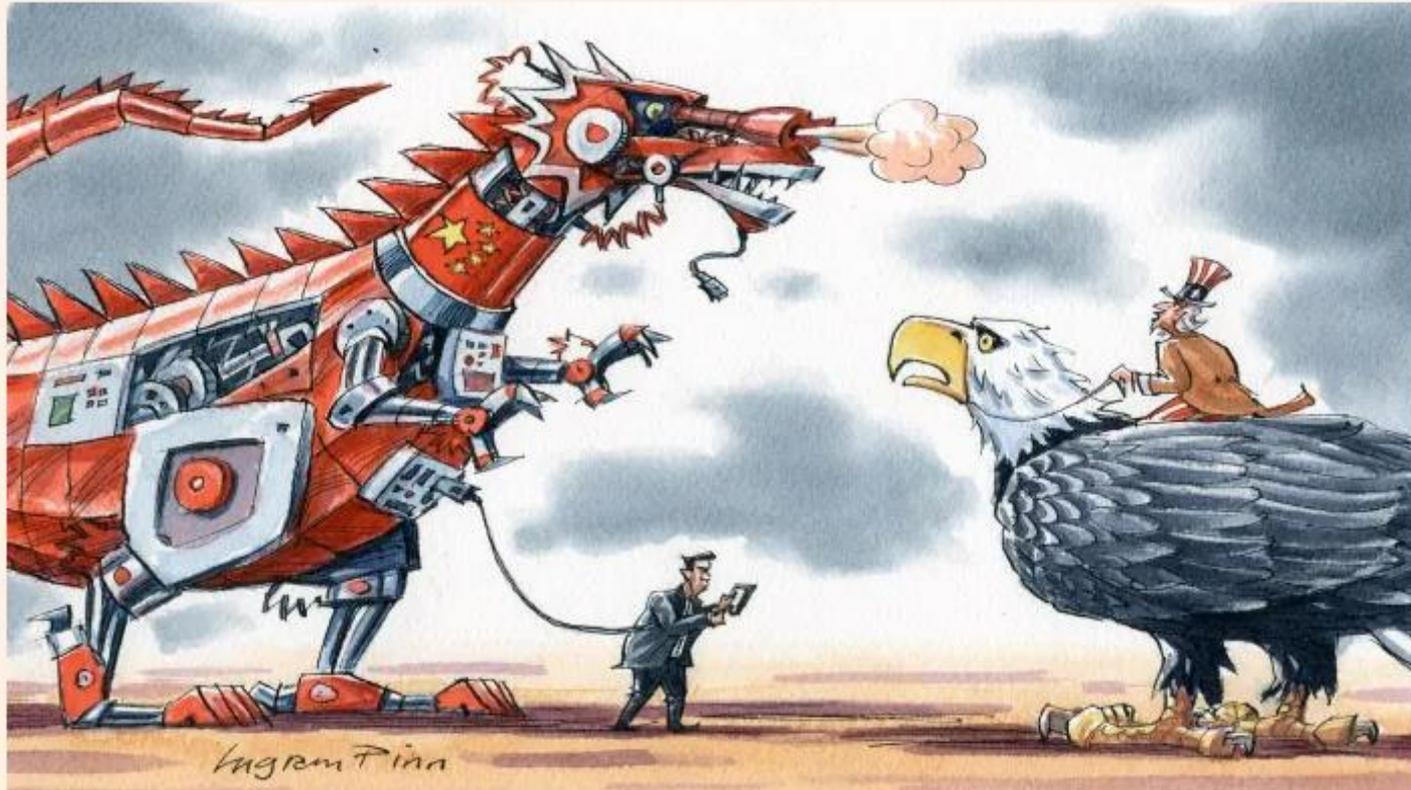
Jan 16, 2019

by Dr. Steve Suppan

Opinion **Chinese trade**

FT Collection: The China-US trade war 2018

Trump's impossible demands on China and tit-for-tat tariffs cloak wider frictions



DECEMBER 30 2018



Proposed 5/18 framework for negotiating U.S. demands in the so-called MoU

<http://xqdoc.imedao.com/16329faoc8b2da913fc9058b.pdf>

DISCLAIMER: The U.S. delegation is providing the below draft framework solely to help facilitate candid and constructive exchanges between the two sides. The current text is not a proposed international agreement and remains subject to ongoing review. In the interest of time and out of respect for the seriousness of the issues that the two sides will discuss, this document is being provided in advance of the visit and while this review is ongoing.

The U.S. delegation looks forward to discussing this draft and related issues later this week in Beijing.

BALANCING THE TRADE RELATIONSHIP

between

THE UNITED STATES OF AMERICA AND THE PEOPLE'S REPUBLIC OF CHINA

Some main U.S. demands

- Chinese government orders the purchase of \$200 b. of U.S. goods by end-2020 (now end-2021)
- China ends all industrial subsidies and other support for Made in China 2025 industries
- China guarantees enforcement of U.S. IP and trade secrets with criminal penalties
- China reduces tariffs and ends non-tariff measures identified by the U.S. as 'trade distorting'
- China abandons all counter-retaliatory tariffs and WTO tariff related disputes
- China must allow U.S. financial services firms to buy controlling interests in Chinese financial services firms

Some major Phase One commitments

https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_China_Text.pdf

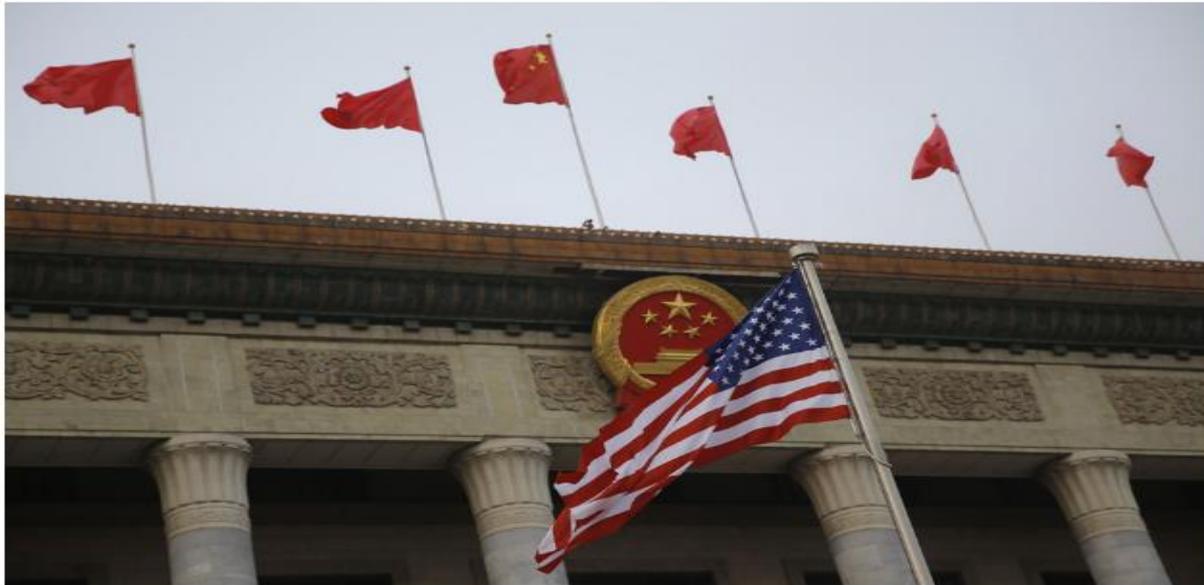
- US affirms it provides 'equal treatment' for all non-tariff measures
- Criminal, not civil, penalties for trade secret violations
- China agrees to U.S. patent extensions ('evergreening')
- Article 6.2 "Trade opportunities": China ensures \$200 b. increase in imports from 2017 baseline
- \$32 b. increase in agriculture imports from U.S. by 12/21 from 2017 \$20 b.(USDA)-24 b. (Commerce) baseline
- I.e. \$72-80 b. total U.S. ag exports to China (not \$100 b. per Trump, but a 52-60% increase regardless of demand)
- China agrees to U.S. non-risk assessment ag biotech regime
- China agrees to treat U.S. financial service suppliers in a "non-discriminatory manner" and remove foreign equity caps to enable U.S. control of Chinese firms

Difficulties in evaluating the Phase One MoU: (USTR claim: no Congressional review allowed)

TRADE

U.S. and China may not release full details of trade deal that they'll sign this week

Some details will remain hidden to prevent market manipulation.



The U.S. flag and Chinese flags fly in Beijing, China. | Thomas Peter-Pool/Getty Images

By FINBARR BERMINGHAM | SOUTH CHINA MORNING POST and ADAM BEHSUDI

01/14/2020 05:59 AM EST



Since tariff relief is minor, why did China agree to some of the U.S. demands?



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ECONOMY



Trump Signs 'Phase 1' China Trade Deal, But Most Tariffs Remain In Place

January 15, 2020 · 5:00 AM ET

Heard on [Morning Edition](#)



SCOTT HORSLEY



Phase One commitments: enforceable?

Phase Two agreement: feasible?

- Difficulty in adapting U.S. federal and state trade secret law to Chinese federal and provincial law
- Extending patents without innovation: benefits?
- Import quotas for ag and industrial goods regardless of WTO MFN rule (US and China violate WTO rules to achieve Phase One commitments)
- China wants to globalize its ag biotech/pesticide industry: but on U.S. terms?
- “U.S. affirms equal treatment”: applies to financial services deregulation and non-enforcement, and to financial services bailouts by Federal Reserve?
- Ag export dumping: a Framework 1 problem

IATP review of Phase One agriculture deal



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The China trade deal: Phase One of what for U.S. farmers?

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Jan 14, 2020

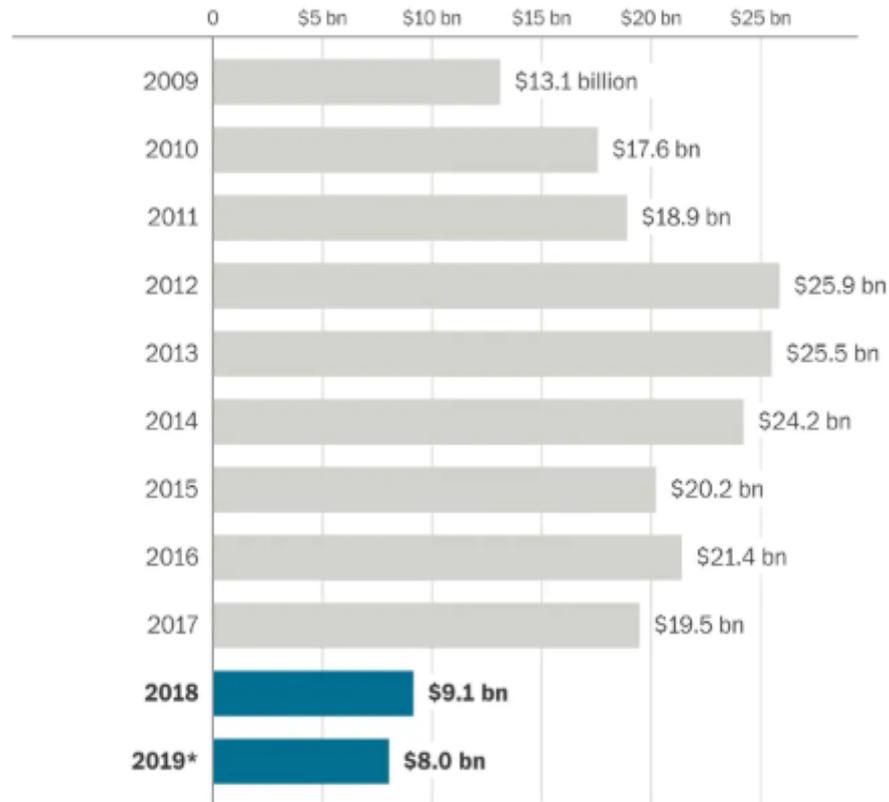
by Dr. Steve Suppan

Beyond U.S. agribusiness export losses: ca \$32 b. tariff related USDA subsidies to qualified “farming entities”

<https://www.washingtonpost.com/business/2019/12/13/big-takeaways-trumps-phase-one-china-trade-deal/>

U.S. agriculture exports to China

(in dollars)



*Data from January to August 2019

Source: USDA Foreign Agricultural Service

HEATHER LONG/THE WASHINGTON POST

Business

In all-caps tweet, President Trump vows new farm bailouts as China purchases appear weaker than promised



President Trump waves at a campaign rally on Thursday in Colorado Springs. (David Zalubowski/AP)

By [Jeff Stein](#) and [Laura Reiley](#)

Feb. 21, 2020 at 11:42 a.m. CST

President Trump promised in an all-caps tweet Friday to provide additional bailout funding to U.S.

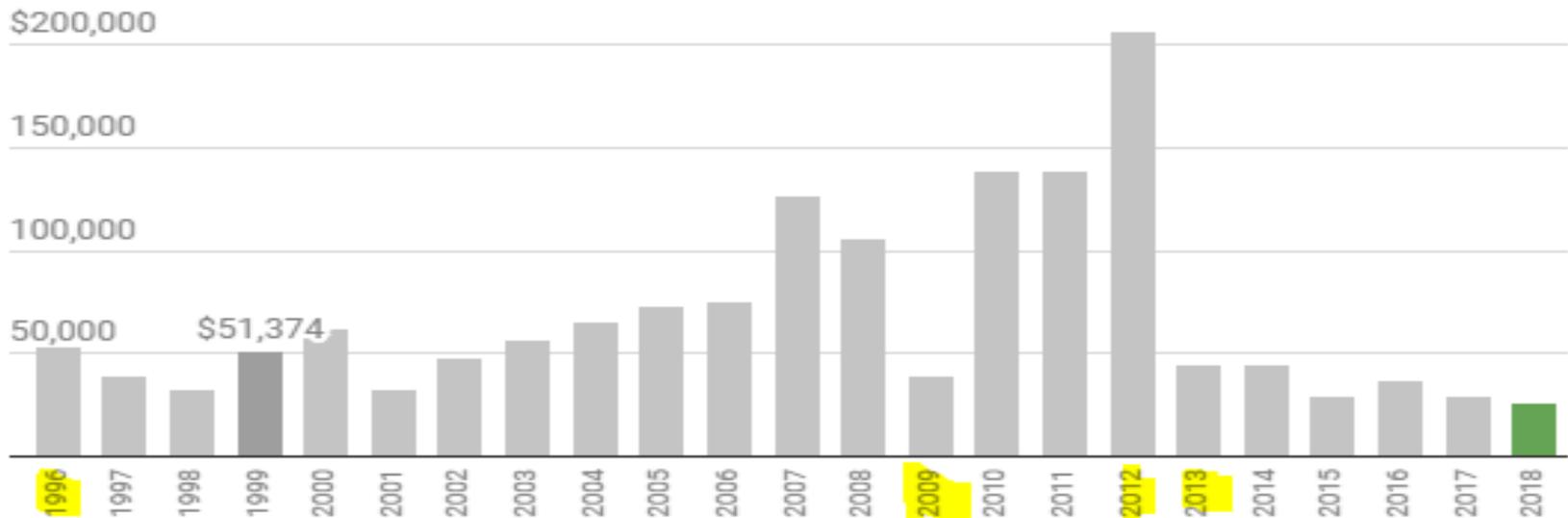
MN net farm income in the free trade era

Star Tribune (3/26/19): U of M Extension Research

Minnesota farm income hits historic low

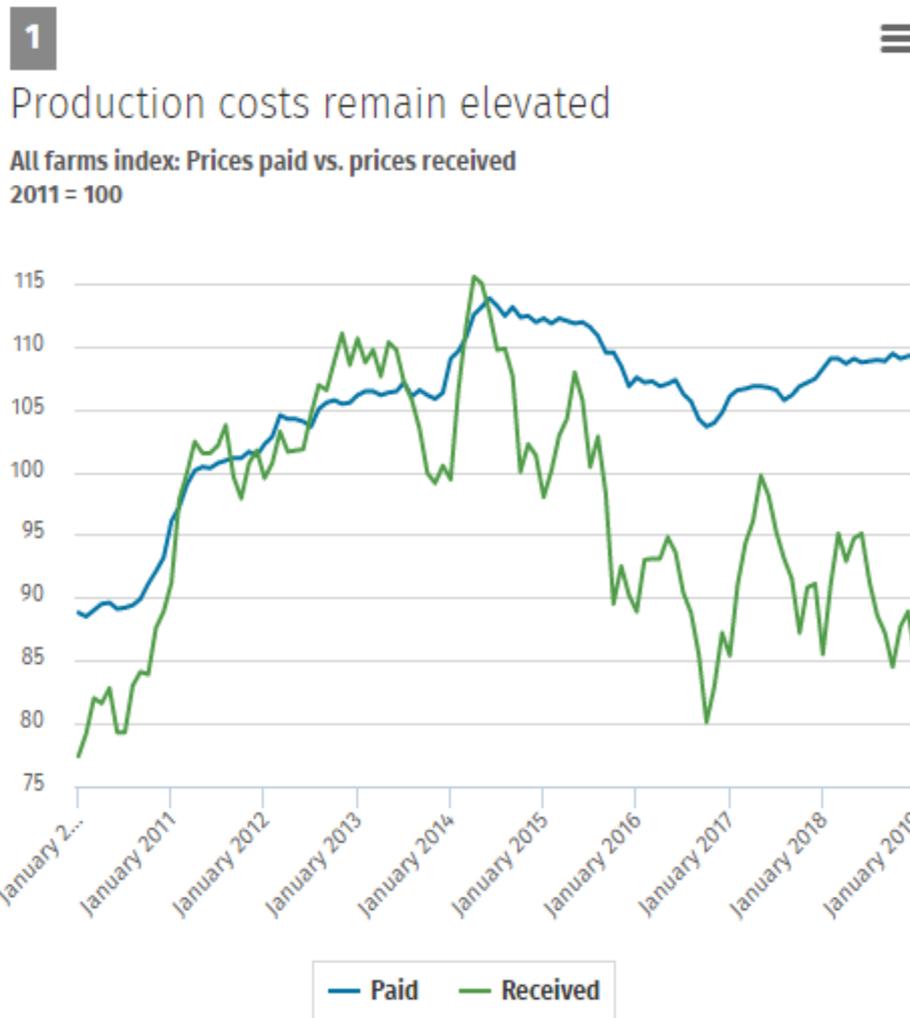
After adjusting for inflation, Minnesota farms earned the lowest median farm income in the past 23 years.

Median net farm income, 1996-2018



2010-2019: Mpls. Fed prices below USDA CoP

<https://www.minneapolisfed.org/publications/fedgazette/farmers-heading-to-fields-hoping-for-better>



Counting the Costs of Agricultural Dumping

SHARE THIS



Jun 26, 2017

by Sophia Murphy
Karen Hansen-Kuhn



Negotiations framework 1: subsidies, anti-dumping and SOEs

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Friday, January 31, 2020

China, others link SOE, industrial reform priorities to WTO ag talks

December 14, 2018 at 2:16 PM

 Tweet

GENEVA -- Some World Trade Organization members -- including China -- are linking progress on reforms in areas like state-owned enterprises, industrial subsidies and forced technology transfer to talks on agricultural subsidies, which have long been deadlocked at the WTO, according to Geneva sources.



Some issues for discussion in Framework 1

- Definition of “trade distorting subsidy” (U.S., EU and Japan cannot agree)
- Some agricultural subsidies enable export dumping
- No WTO agricultural dumping disciplines: why?
- State Owned vs. State Controlled vs. State Assisted Enterprises (empirical tests)
- WTO antidumping tariffs vs. unilateral tariffs
- Special and Differential Treatment for whom and what?

Possible tradeoffs and sequencing issues in Framework 1

- China/India: phase out ag Aggregate Measures of Support vs US demands for current AMS and stringent reporting requirements
- Allow climate mitigation/adaptation subsidies vs. disciplining climate distorting subsidies
- Define “trade distortion” for all WTO agreements vs. maintain undefined status quo
- Quantitative analysis of SOEs and SAEs loans, subsidies, regulatory relief, R&D, before legal definitions and metrics for dumping and “trade distortion”
- Agreement on SDT designation and benefits and WTO “notifications” subsequent to vs. anterior to agreements on subsidies, dumping, SOEs/SAEs

Negotiations framework 2: trade and investment related climate impacts

- No binding environmental measures in WTO agreements and FTAs
- Climate change exacerbating new NAFTA
- Proposed plurilateral Environmental Goods Agreement: old wine in new bottles?
- Negotiate a trade/investment related climate change agreement in WTO Trade and Environment Committee? In UNFCCC ? Elsewhere?
- Propose binding climate disciplines within WTO agreements: China and post-Trump US leadership
- Follow climate related financial risk due diligence model?

New NAFTA: tariff free fossil fuel trade; ISDS for MX oil and gas; environmental rules only if not trade restrictive

<https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Protocol-of-Amendments-to-the-United-States-Mexico-Canada-Agreement.pdf>

- (g) the Convention for the Establishment of an Inter-American Tropical Tuna Commission, done at Washington, May 31, 1949,

a Party's obligations under this Agreement shall not preclude the Party from taking a particular measure to comply with its obligations under the covered agreement, provided that the primary purpose of the measure is not to impose a disguised restriction on trade.

US energy secretary hopes Mexico, Canada will help export American coal



Reuters | 7 February 2020

US energy secretary hopes Mexico, Canada will help export American coal

by Timothy Gardner





A December press conference on the USMCA (Mark Wilson/Getty Images)

The New U.S. Trade Deal Is Climate Sabotage

It's also great for fossil fuel companies.

By **KATE ARONOFF** | January 17, 2020

[Add to Pocket](#)

Climate change not a “likely impact” in U.S. trade policy analysis

<https://www.iatp.org/documents/comments-no-tpa-105-003-united-states-mexico-canada-agreement-likely-impact-us-economy>



Lisa Barton
Secretary to the Commission
United States International Trade Commission
500 E Street SW
Washington, DC 20436

Comments on No. TPA-105-003, United States-Mexico-Canada Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors

Submitted electronically on December 20, 2018

Overview

Climate not considered a top 10 risk by CEOs - survey



Klaus Schwab, founder of the World Economic Forum, delivers a welcome message on the eve of the annual meeting of the World Forum in Davos, Switzerland, Monday, Jan. 20, 2020. The 50th annual meeting of the forum will take place in Davos from Jan. 21 until Jan. 24, 2020. (Markus Schreiber/Associated Press)

By **Pan Pylas | AP**

Jan. 20, 2020 at 11:37 a.m. CST



Only 3% of 3500 reporting companies have climate resilient risk management and investments (2019)

[Guidance & questionnaires](#) Co



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Group of 88 investors target over 700 companies for not reporting environmental information

June 17 2019

Climate Change Could Cause the Next Financial Meltdown

The E.C.B., which meets Thursday, is among central banks trying to prepare for what a report warns could be a coming economic upheaval.



Bushfires in High Range, New South Wales, Australia, on Thursday. Matthew Abbott for The New York Times



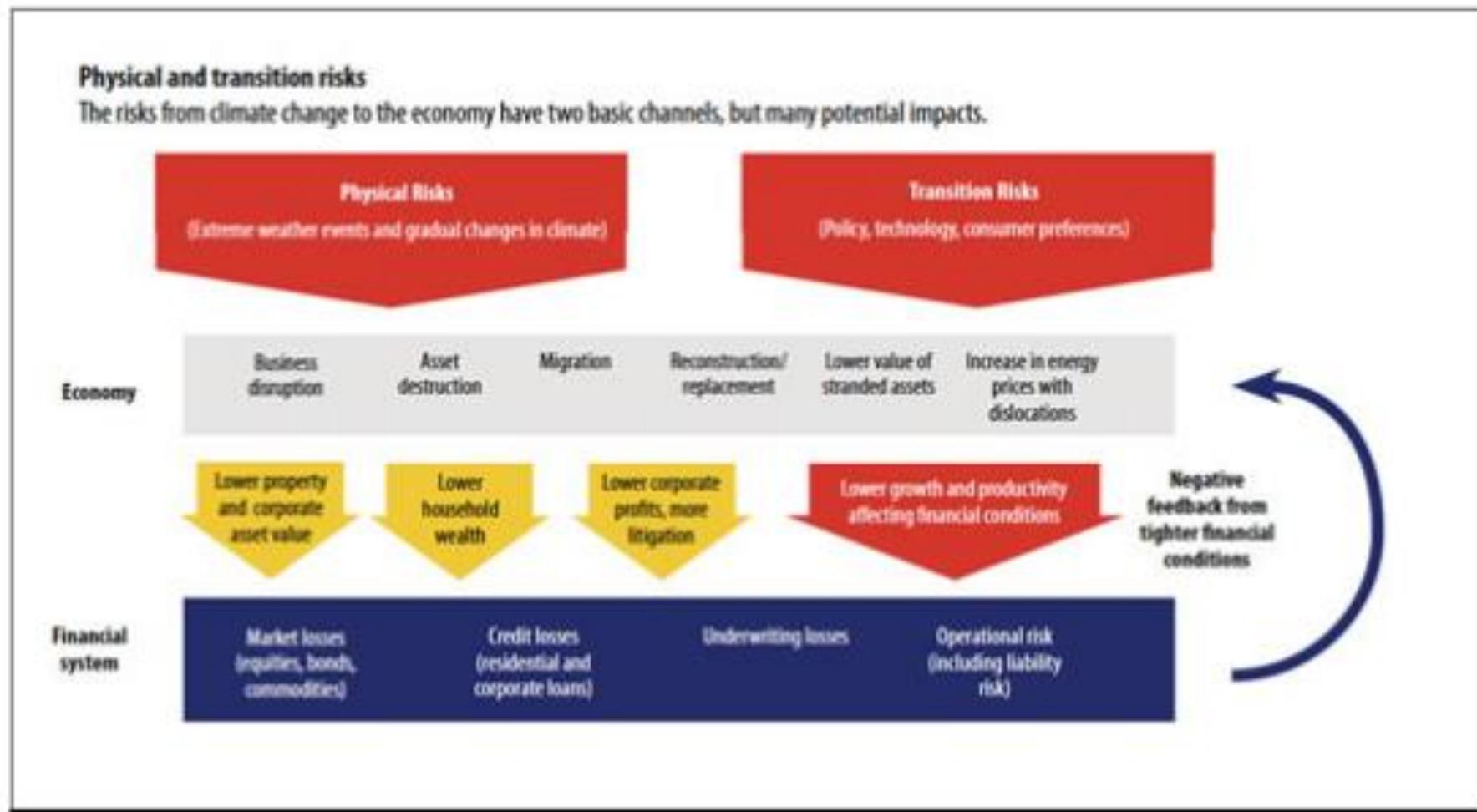
By Jack Ewing

Jan. 23, 2020 Updated 8:14 a.m. ET



Climate related financial risk typology (IMF)

<https://www.imf.org/external/pubs/ft/fandd/2019/12/climate-change-central-banks-and-financial-risk-grippa.htm>



Trade related climate negotiations framework: some options to consider

- Leave WTO rules in place but allow a climate waiver for select rules?
- Binding environmental rules on ag and industrial goods subsidies, dumping tariffs, non-tariff measures, financial services, investment, dispute settlement
- Annual WTO member reporting of trade/investment related climate risk with penalties for non-reporting
- Special and Differential Treatment waivers and aid for climate mitigation and adaptation related trade
- Role of US and China in agreeing multilateral trade/investment related climate change measures

What China and a post-Trump administration could agree on climate finance and trade risk

- Require all U.S. and China private and publicly held firms and their subsidiaries to report their climate financial, trade and investment related risk, per IMF typology
- Require all such firms to publish, implement and enforce climate resilience plans
- Agree on penalties and incentives
- Create a fund to value and buy out the stranded assets of fossil fuel companies
- Agree on terms and a schedule for ending subsidies and deregulatory support for fossil fuel firms

Negotiations framework 3: Trade related financial regulations

- WTO financial services: rules for market access liberalization only, not cross-border regulation of financial services
- Financial Stability Board: G20 response to global bank deregulation and bankruptcies
- FSB recommends only; no binding rules
- Competitive pressure to deregulate financial services, e.g. Financial Services annex to TISA
- Consequences of cross-border regulatory evasion

China assesses its exposure to U.S. markets and financial (de)regulation

<https://voxeu.org/article/assessing-china-and-hong-kong-s-vulnerability-global-financial-crisis>

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Spillovers of the US subprime financial turmoil to mainland China and Hong Kong SAR: Evidence from stock markets

Xiaojing Zhang, Tao Sun 12 September 2009

Emerging economies have been hit hard by the global crisis. This column assesses the nature and severity of China and Hong Kong's vulnerability to the turmoil originating from the US. It warns that China cannot decouple from US financial and monetary conditions, so it must participate in coordinating international policy and manage its capital account openness.

U.S. questions China's commitment to financial regulatory reform and non-intervention in financial markets

U.S.-China Economic and Security Review Commission

Issue Brief



July 13, 2015

China's Stock Market Collapse and Government's Response

Nargiza Salidjanova, Senior Policy Analyst, Economics and Trade

Central bank (stability) v. finance ministry (liberalize financial services for growth) 1/22/19 SCMP

Economy / China Economy

Debate in China on quantitative easing heats up as growth slows

- Can helicopter money save the Chinese economy?
- Central bank and finance ministry at odds over how to arrest economic slowdown



Frank Tang [in Beijing](#)

Published: 8:32pm, 22 Jan, 2019 ▾

Reforming for international financial stability vs. the TISA counter-reformation

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Jun 27, 2014

by Dr. Steve Suppan



Business

Federal Reserve proposes weakening 'Volcker rule,' key post-financial crisis regulation

The proposed change would be another big win for Wall Street as the Trump administration aggressively rolls back regulations



The Federal Reserve approved a proposal Thursday to loosen a rule set during the financial crisis. (Richard Drew/AP)

By **Renaë Merle**

Jan. 30, 2020 at 11:14 a.m. CST

Private beneficiaries of the 2007-2010 Federal Reserve Bank emergency loan program: (www.levyinstitute.org/publications/?docid=1462)

Table 17 14 largest participants (excluding CBLs), in billions

Participant	Total	Percentage of total
Citigroup	\$2,654.0	13.6%
Merrill Lynch	2,429.4	12.4
Morgan Stanley	2,274.3	11.6
AIG	1,046.7	5.4
Barclays (UK)	1,030.1	5.3
Bank of America	1,017.7	5.2
BNP Paribas (France)	1,002.2	5.1
Goldman Sachs	995.2	5.1
Bear Stearns	975.5	5.0
Credit Suisse (Switzerland)	772.8	4.0
Deutsche Bank (Germany)	711.0	3.6
RBS (UK)	628.4	3.2
JP Morgan Chase	456.9	2.3
UBS (Switzerland)	425.5	2.2
All others	3,139.3	16.1
Totals	\$19,559.00	100%



THE **COST** OF THE **CRISIS**

\$20 trillion and counting



Cross border regulatory evasion:

“There was this culture in London, and it really came from New York”

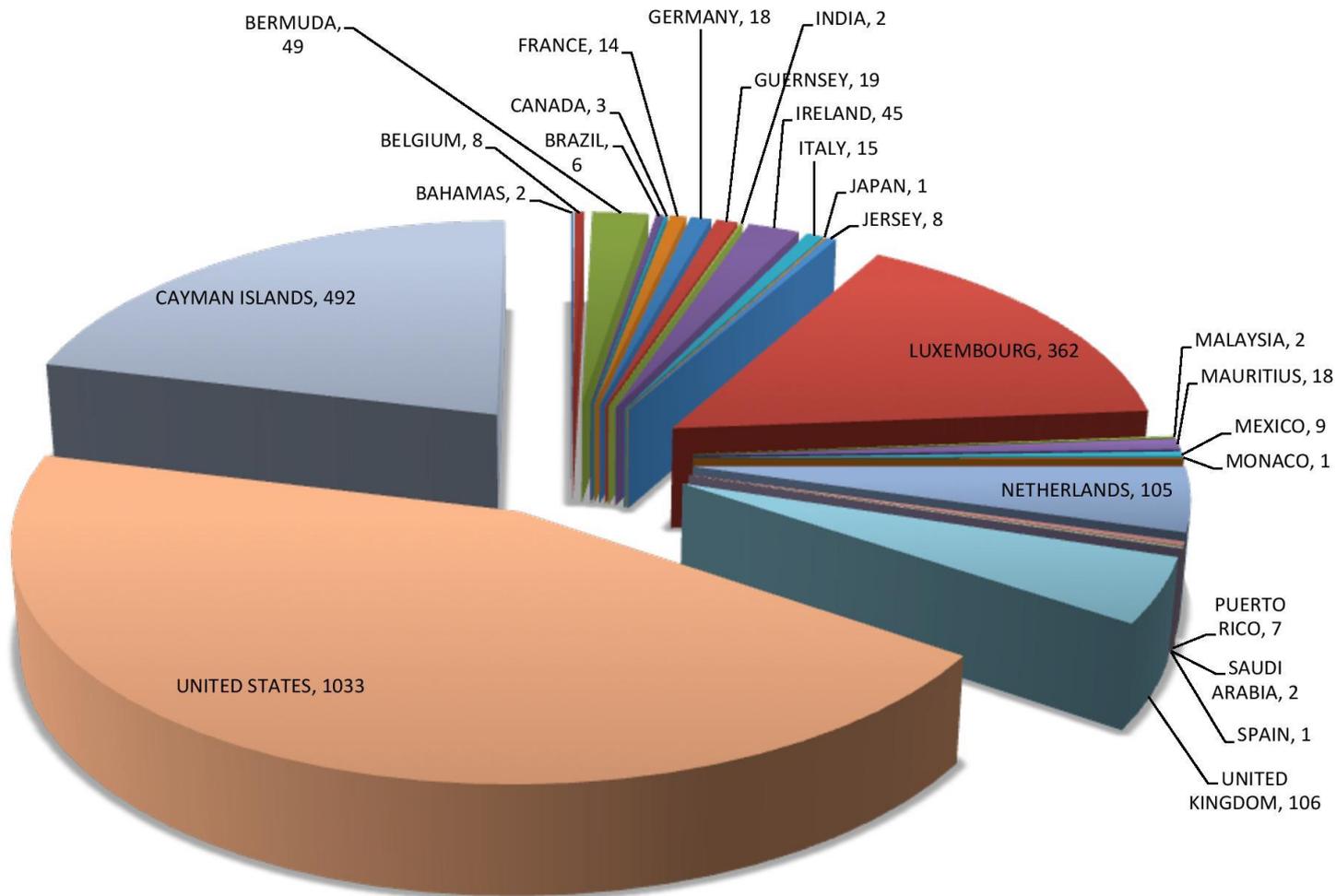
<https://www.nytimes.com/2020/01/23/business/cum-ex.html>

It May Be the Biggest Tax Heist Ever. And Europe Wants Justice.

Stock traders are accused of siphoning \$60 billion from state coffers, in a scheme that one called “the devil’s machine.”

Germany is the first country to try to get its money back.

Goldman Sachs Subsidiaries by Country



Possible financial services liberalization vs cross-border regulation issues

- Academic theory on financial services: regulation for financial stability vs deregulation or self-regulation to maximize efficient capital allocation
- 'Non-discrimination' principle to increase liberalization vs. regulatory performance requirements for financial service suppliers
- FSB like trade related financial services audits
- Preferential market access for "green" finance long term commitments and performance

Some possible financial services liberalization v. cross border regulatory trade-offs

- Condition market access on robust cross-border regulation (e.g. Access to consolidated audit trail)
- Market access penalties for financial firms credibly charged with cross border crime/ market disruption vs. preferential access for cross-border cooperative and compliant firms
- Central bank currency manipulation vs. disciplines on foreign exchange contract trading manipulation

Conclusion: feasibility and priorities for frameworks and trade-offs

- Trade and finance related climate crisis is imminent but negotiating frameworks are weak: bilateral negotiations more feasible?
- Trade related finance is global: bilateral cross border rules probably ineffective
- Negotiations on agricultural and industrial subsidies and anti-dumping measures feasible within WTO
- Agreement on SOEs and SAEs would need to include financial services
- U.S. plans for a WTO 2.0 by 2025 (Lighthizer, Wolf) could disrupt negotiating frameworks

Obama and Xi Jinping of China Agree to Steps on Cybertheft



President Obama and President Xi Jinping greeted children Friday at a ceremony welcoming Mr. Xi to the White House. The two leaders later met for two hours. *Doug Mills/The New York Times*

By [Julie Hirschfeld Davis](#) and [David E. Sanger](#)

Sept. 25, 2015



U.S. Charges Chinese Military Officers in 2017 Equifax Hacking

The breach was particularly severe because Social Security numbers and other sensitive data were stolen from nearly 145 million Americans.



Hackers stole names, birth dates, and Social Security numbers of millions of Americans through an attack on Equifax in 2017. Justin Lane/European Pressphoto Agency



By Katie Benner

Feb. 10, 2020 Updated 2:20 p.m. ET

