

Strategic Analysis Paper

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The US-China Trade Relationship During the Biden Administration

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Key Points

- The Biden Administration's approach to trade with China is unlikely to be significantly different to that of his predecessor. Tariffs and other measures that encourage systemic change within China look set to continue.
- While the US-China Phase One trade deal is under review, the Biden Administration is unlikely to significantly alter it.
- China is not expected to meet the import targets set in the trade deal, but US officials appear to be satisfied with the progress that Beijing has made under the agreement.
- Statements from several senior members of the Biden Administration also suggest that the process of economic decoupling from China is likely to continue in some form.

Summary

The United States and China signed the [Phase One Trade Agreement](#) in January 2020. The agreement came into force a month later and brought a halt to an 18-month trade war. China has failed to reach the purchase targets set in the agreement, but it remains unclear what that could mean for the future of the trading relationship and the trade deal. In late January the White House press secretary, Jen Psaki, [stated](#) that the Biden Administration was reviewing the Sino-US relationship, including the trade deal. Based on the statements of several senior members of the Biden Administration, however, it seems clear that the deal will not be abandoned. The administration is also expected to take a similar approach to the US-China trade relationship that was established during the Trump Administration.

Analysis

The US-China Phase One Trade Agreement came into effect on 14 February 2020, with China agreeing to increase its purchases of a range of US goods and services over a two-year period. It agreed that it would purchase an additional US\$63.9 billion (\$81.6 billion) of covered goods above a 2017 baseline, over the course of 2020. The baseline is calculated using a combination of Chinese and US trade data. Those calculations and baselines are [not publicly available](#). For the purposes of this paper, baselines and export figures will be based on US export statistics. If the 2017 baseline is calculated using those statistics, China was required to purchase at least [US\\$159 billion](#) (\$200 billion) of goods and services in 2020. By the end of the year, however, the value of US exports of covered goods and services amounted to [US\\$99.9 billion](#) (\$127.6 billion) – about 59 per cent of the target.

China came close to reaching the agricultural goods target, managing to reach [82 per cent](#) of the US\$33.4 billion (\$42.7 billion) target, according to US export statistics. A [fact sheet](#) released by the office of the US Trade Representative (USTR) states that China agreed to import at least US\$80 billion (\$102.2 billion) of agricultural products from the US over the deal's two year time period. It also states that China will strive to purchase another US\$5 billion (\$6.4 billion) of agricultural products each year after that. China is unlikely to achieve that goal, even if it increases the amount of agricultural product that it imports from the US in 2021.

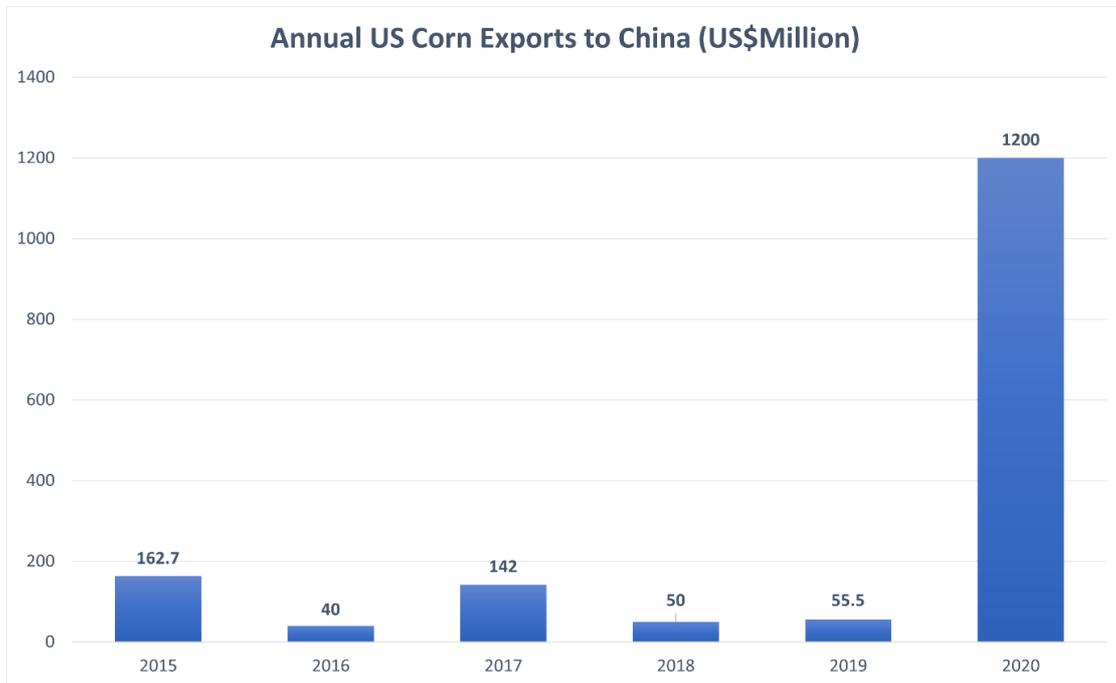
The US Department of Agriculture (USDA) [forecast](#) that agricultural exports to China would reach US\$18.5 billion (\$23.6 billion) in 2020. Strong soybean and corn demand from China, however, led it to re-evaluate its forecast. US [export data](#) indicates that US\$27.3 billion (\$34.9 billion) of agricultural products were exported to China in 2020. According to the [USDA](#), US agricultural exports to China are expected to increase to US\$31.5 billion (\$40.2 billion) in financial year 2021. If that occurs, China will become the [largest market](#) for US agricultural goods, a position it last held in 2017. It will still fail to reach the targets set in the trade agreement, however, unless it significantly increases its imports from the US.

If China is to adhere to the terms of the agreement, it will need to import US\$43.4 billion (\$55.4 billion) of US agricultural products in 2021. Some [analysts](#) believe that if China maintains its current purchasing rate, it could possibly reach that target. As China failed to reach the 2020 target, however, even if it manages to reach the 2021 target, it will still not have met its obligations under the terms of the deal.

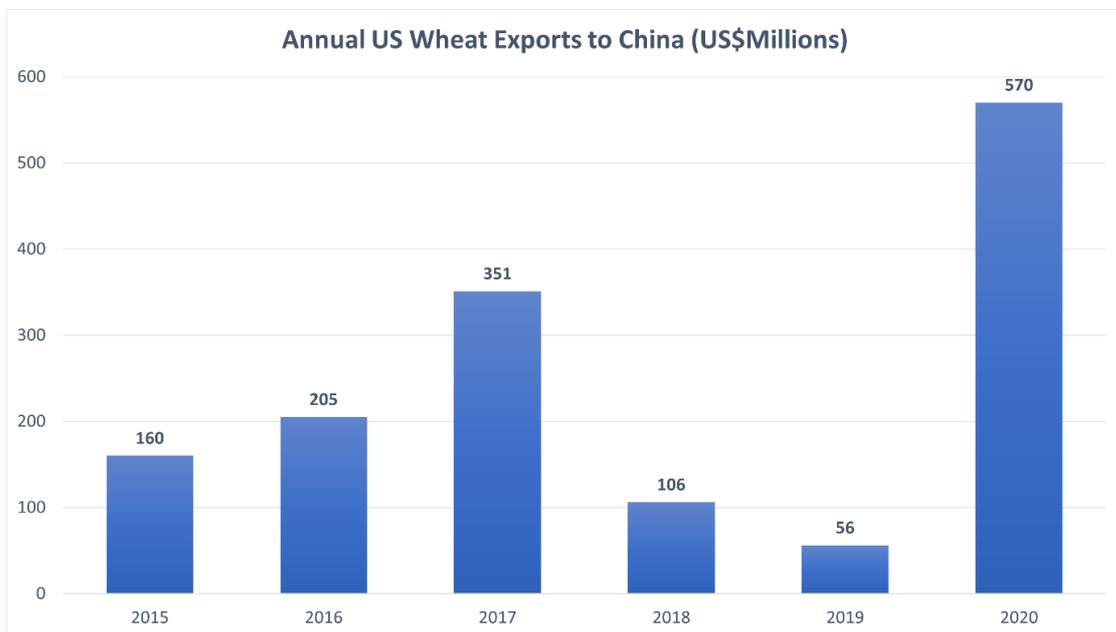
The agreement does not specify what happens if China fails to reach the 2020 target. Does the shortfall get added to the 2021 target? If so, the 2021 target would be recalculated to US\$49.5 billion (\$63.2 billion), based on US export data.

China continues to purchase large amounts of grain from the US. In 2020 it purchased almost [seven million tonnes](#) of corn. In a single week in February 2021 it purchased [5.8 million tonnes](#) of the grain from the US. US wheat exports are also [forecast](#) to increase (possibly to the [highest level in more than 25 years](#)), due to rising international demand (mainly from China) and lower stocks in major wheat-exporting countries. While China maintains the largest wheat stockpile in the world, which covers about a year of Chinese demand, its size has [declined for](#)

[the first time in eight years](#). The large increase in Chinese grain demand has increased global grain prices to the highest level in more than six years.



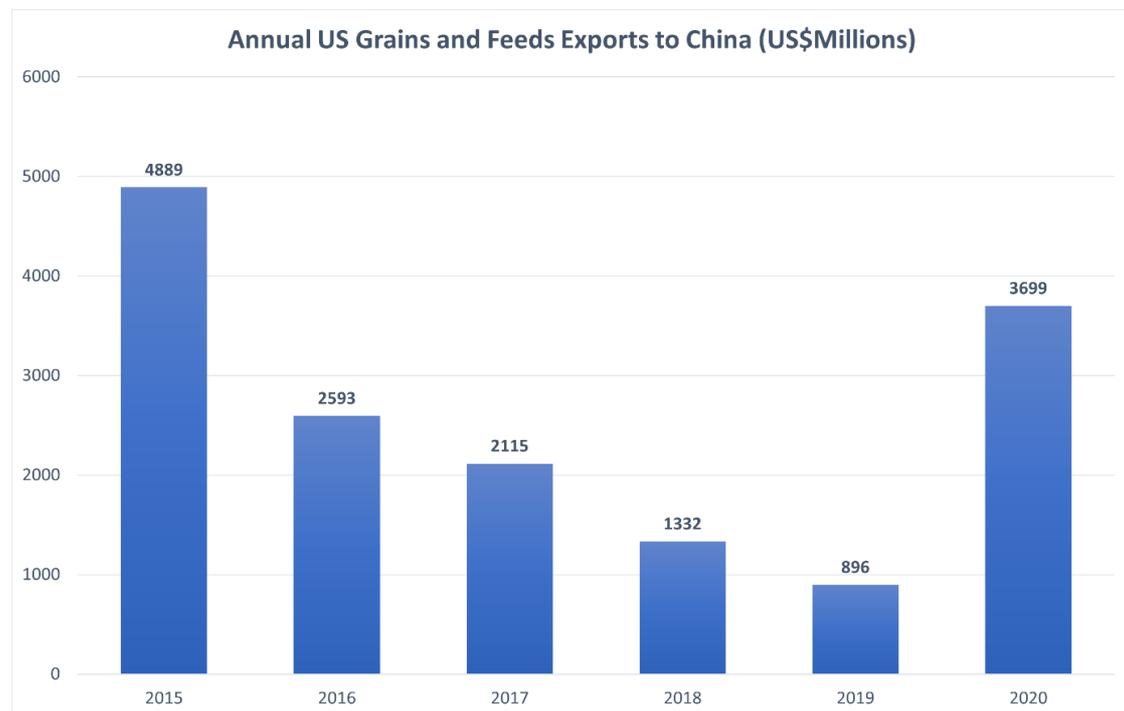
Source: USDA FAS GATS



Source: USDA FAS GATS

Increased feed grain demand in China is partially driven by the recovery in the country’s pig herd. Since an outbreak of African Swine Fever (ASF) in 2018 led to the culling of almost half of the country’s pigs, Chinese pork farmers have been rapidly rebuilding their herds. As ASF has not been eradicated in China, however, and several [variants have been identified](#), it is possible that a new outbreak of the disease could undo some of the efforts to rebuild the

national pig herd. If that were to occur, it is likely that Chinese grain demand would also decline.



Source: USDA FAS GATS

The purchase commitments are only one element of the trade deal and while they are its main component, other elements have been [more successfully implemented](#). As of June 2020, for instance, Beijing had completed [50 of the 57 structural changes](#) that it agreed to make to improve access to its market for US exporters. Robert Lighthizer, the Trade Representative in the Trump Administration, [stated](#) that Beijing has done a ‘reasonably good job’ in implementing parts of the deal and that the Biden Administration should continue with the deal. He also [stated](#) that the Trump Administration had ‘changed the way people think about China in the economic sphere’. The deal is expected to continue to operate under the Biden Administration, with Tom Vilsack, the US Secretary of Agriculture, indicating that it had [ultimately benefited US farmers](#).

Under the terms of the deal, Beijing agreed to make structural reforms to its economic and trade regime in the areas of intellectual property, technology transfer, agricultural market access, financial services, and currency and foreign exchange. Mr Vilsack [stated](#) that China has made significant reforms to its sanitary and phytosanitary rules, which has increased US access to key parts of the Chinese market. He also suggested, however, that China has not fully adopted the reforms that it committed to under the deal. If it does not make further progress in the second year of the deal, then he suggests that the US will need to engage in further negotiations with Beijing to find alternative reform measures. Republican trade leaders are [encouraging](#) the Biden Administration to push China into full compliance with the Phase One Trade Deal and begin negotiations on the second phase

The Biden Administration’s [Trade Policy Agenda](#) is not dissimilar to that of the Trump Administration. It

recognizes that China's coercive and unfair trade practices harm American workers, threaten our technological edge, weaken our supply chain resiliency, and undermine our national interests. Addressing the China challenge will require a comprehensive strategy and more systematic approach than the piecemeal approach of the recent past.

The agenda views the forced labour programme in the Xinjiang Uighur Autonomous Region as particularly detrimental to American labour and universal liberal values. The Biden Administration is expected to continue to push Beijing to enact economic and social reforms that benefit American workers and uphold American values.

The Trump Administration's efforts to change Chinese economic practices in America's favour largely [failed](#). At the end of 2020, for instance, US investors continued to hold [US\\$1.1 trillion](#) (\$1.4 trillion) in equity issued by Chinese companies, which suggests that the process of economic decoupling has been slow. China also became the [largest recipient of foreign investment](#) in 2020, surpassing the US for the first time. The US trade deficit with China at the end of Trump's term in office is [roughly equal](#) to where it was at the end of Obama's. American consumers across the political spectrum, however, have indicated that they are [willing to pay more for US-made goods](#) if it leads to a smaller reliance on Chinese manufacturing. It remains to be seen whether that desire will be reflected in the trade and investment relationship between the two countries.

The US Secretary of State, Antony Blinken, [referred to China](#) as the most significant challenge to the stable and open international system. While not directly mentioning China, he [noted](#) that the US would need to 'use every tool to stop countries from stealing our intellectual property or manipulating their currencies to get an unfair advantage'. He disagreed with the "America first" approach taken by the Trump Administration, however, suggesting that the US would achieve more by working with allies to address the challenge posed by China.

Mr Blinken will join Jake Sullivan, the National Security Advisor, in meeting with Yang Jiechi, the Director of China's Office of the Foreign Affairs Commission, and Wang Yi, the Chinese Foreign Minister, on 18 and 19 March in Alaska. Trade is [not expected to be on the agenda](#), with most of the discussions likely to revolve around political and strategic concerns. A [report](#) from the *Global Times*, which is a state-sanctioned mouthpiece of the Chinese Communist Party, suggests that China might demand that trade be put on the agenda but concedes that political and security issues are likely to take precedence. The meeting is not expected to lead to any significant shift in US trade policy towards China.

Washington might have been reluctant to discuss trade matters with Beijing before the Senate confirmed the new Trade Representative. Katherine Tai, who was [unanimously confirmed](#) as the next USTR by the Senate on 17 March, has indicated that the Biden Administration is unlikely to significantly change the approach to trade taken by the last administration. She has [stated](#) that tariffs remain a 'legitimate tool' to use against China, but are more effective when used in conjunction with other measures.

Ms Tai, who has familial links to China and Taiwan, [called upon Beijing](#) to honour its commitments under the trade agreement. Her support for the agreement suggests that the

Biden Administration will maintain, rather than abandon, it. During her Senate confirmation hearing, Ms Tai [indicated](#) that she will pursue policies that return critical industries to the US, further suggesting that the Biden Administration is likely to continue to pursue a form of economic decoupling from China.

Kurt Campbell, the US Indo-Pacific Co-ordinator, [told](#) *The Sydney Morning Herald* that Washington will not begin to improve its relations with Beijing until its economic coercion against Australia comes to an end. President Biden communicated that commitment to Prime Minister Scott Morrison during the video-link Quadrilateral Security Dialogue, held on 13 March. According to [Dr Campbell](#), the US has

indicated both to Australia and China at the highest levels that we are fully aware of what's going on and we are not prepared to take substantial steps to improve relations until those policies are addressed and a more normal interplay between Canberra and Beijing is established.

He also suggested that the US will not re-engage with China until it ends its coercive approach towards other US allies, including the Philippines, Vietnam, Taiwan and Japan. A series of articles in the *Global Times* suggested that Australia's misfortunes are '[self-inflicted](#)' and that Dr Campbell's remarks amount to '[extortion](#)'. The public airing of those remarks further suggest that there is unlikely to be any significant outcome from the meeting in Alaska.

The Biden Administration has indicated that it will seek to work in concert with its allies, rather than pursue the "America first" approach of the Trump Administration. The recently released [Interim National Security Strategic Guidance](#) document states that 'Our democratic alliances enable us to present a common front, produce a unified vision, and pool our strength to promote high standards, establish effective international rules, and hold countries like China to account.' Meeting with Quad countries and engaging in ministerial discussions with East Asian government officials before talks with China also gives a strong indication of where the administration's priorities lie.

The Biden Administration is likely to continue to pressure China to adhere to economic and political reform. It will not abandon the Phase One Trade Agreement that came into force during the Trump Administration. Senior members of the administration have praised the reform agenda presented in the agreement and have encouraged China to further implement the reforms that it committed to. Ultimately, the Biden Administration's approach to the trading relationship with China is not significantly different to that of the preceding administration.

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