BDP Blog

Big Deal: For logistics and supply professionals, Phase One of the U.S.-China trade deal ushers in important considerations

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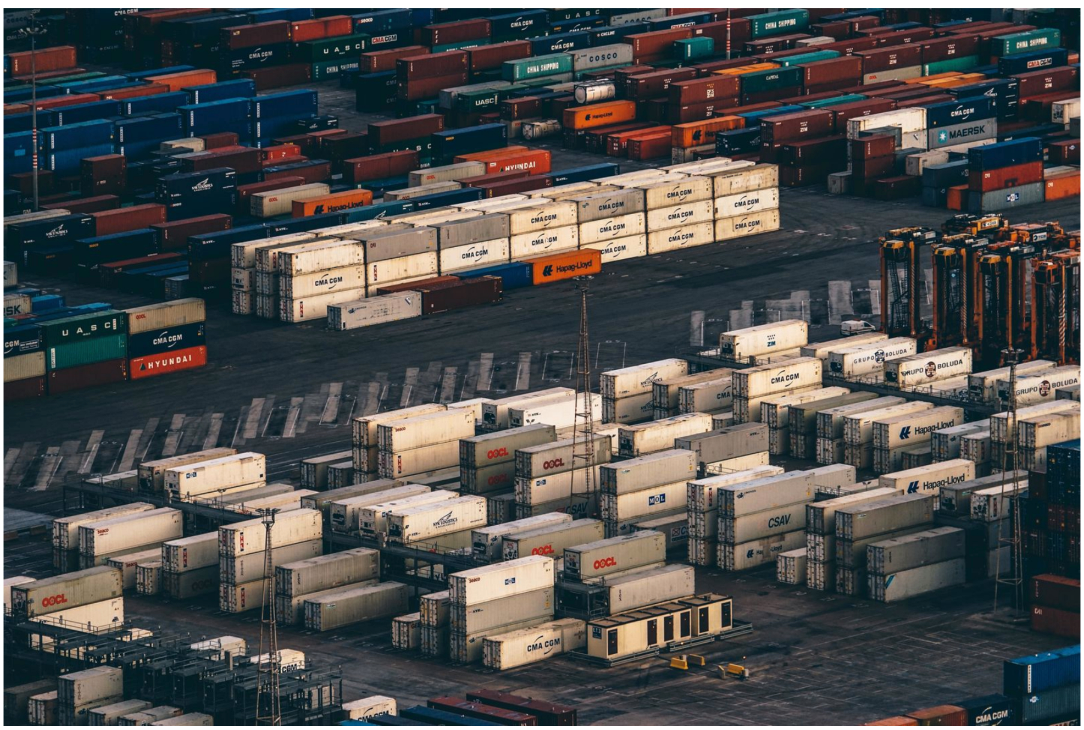

For companies participating in the global flow of products and materials, the United States-China Phase One trade deal was welcome news. The January 15, 2020, start date kicked off a two-year period during which China will purchase an additional $200 billion worth of U.S. farm products, goods and services, more than doubling its 2017 total and earning it headliner-status among domestic news stories.

But there are significant other commitments that the trade deal has secured, which will have profound impacts on logistics and supply chains. Below is our roundup of the most critical considerations for our industry:

Tariffs, tariffs, tariffs: Be aware of tariffs that affect your specific supply chain's goods and materials. For the time being, the deal does not reduce the 25% tariff on $250 billion worth of Chinese goods, so any consequential sourcing or logistics adjustments that you made for items on that list will not be up for reassessment. Furthermore, the prospect of further tariffs on those items is uncertain, as the deal does not address presumptive triggers, such as non-compliance with new policies.

“For logistics and supply chain stakeholders, the question is: will this deal stick [and] will China abide by the terms and will the Trump administration be patient or seek immediate delivery on the plans or will there be a return to tariff increases?” said Chris Rogers, research director for Panjiva, a global trade intelligence firm, in an interview with Supply Chain 24/7. “First, the purchase agreements are easy to track but are difficult to deliver. There are the product lines that are going to be tracked and there are the magnitudes observers are looking for so everyone can kind of track that.”

However, the deal does require the U.S. to trim the tariff rate on $120 billion of Chinese goods that it imposed on September 1, 2019, to 7.5%.

Tariff increases cancelled: The U.S. cancelled its plan to assess a 15% tariff on nearly $160 billion worth of Chinese goods. (In response, China cancelled a planned retaliatory tariff of 25% on U.S-made cars.) Consult the list of proposed increases, as pricing will remain unaffected this year.

Trade deficit + farm products: Pursuant to the agreement, China has agreed to purchase $200 billion of products and services over the next two years, including energy and services, manufactured goods and agricultural goods. This is a substantial increase, as China purchased $130 billion in U.S. goods and $56 billion in services in 2017.

The increase includes $75-$80 billion in manufacturing-related products, which applies to semiconductors, aircraft parts and automobiles, to name a few. This is a welcome boost for U.S. companies, but one that may be difficult to realize.

“When you look at that $200 billion number, $80 billion is coming from an increase in the exporting of manufactured goods and that is a big ask,” said Rogers. “In the past 12 months, U.S. exports of those products are about $50 billion. And the plan calls for that to increase to $120 billion in one year and that is just incredible considering that number has been around $45 billion-to-$50 billion for the past five years.”

These figures are in addition to a commitment by China to purchase $32 billion more in U.S. agriculture products over the next two years.

> **Please also recognize that the changes are pursuant to the Phase One deal, with Phase Two changes speculative at best. Chinese officials have emphasized that unless tariffs are removed, the deal is not finalized. So continued concessions will be necessary to look to these current changes with any long-term certainty.**

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