INTERNATIONAL TRADE / WTO

CLIENT ALERT

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CHINA AND THE UNITED STATES SIGN THE FIRST PHASE OF A TRADE AGREEMENT WHICH MAY IMPACT BRAZILIAN EXPORTS

On January 15, 2020, China and the United States (U.S.) signed the first phase of a trade and economic agreement[1] proposing solutions to the trade war between the countries, which started in early 2018, when the American President unilaterally imposed tariffs on Chinese products. The tension between the two countries hindered bilateral trade, but opened space for other countries, such as Brazil, to increase their exports.

The first phase of the agreement, in addition to dealing with technical issues for trade between the countries, such as intellectual property, technology transfer and monetary issues, seeks to strengthen the bilateral trade relationship between China and the US. In Annex 6.1 of the agreement, the parties indicate that US exports to China are expected to increase by USD 200 billion over two years. Below, we present the baseline values established in the text per sector:

Values in billions of dollars

	1st Year	2nd Year	2-Year Total
1. Manufactured Goods	32,9	44,8	77,7
2. Agriculture	12,5	19,5	32
3. Energy	18,5	33,9	52,4
4. Services	12,8	25,1	37,9
Total	**76,7**	**123,3**	**200**

Source: Annex 6.1 of the first phase of the US China Agreement[2]

[1] The complete text of the agreement is available at:< https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_China_Text.pdf>.
[2] Ibid.

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If such goals are actually achieved, a natural drop in Brazilian exports to China is expected, as China is bound to absorb a large volume of American products. The impact will likely be stronger on the Brazilian agricultural sector, which has benefitted from these trade tensions.[3] The volume of agricultural products to be purchased by China is significant. US Senator Chuck Schumer believes that it is almost impossible for China to consume the full value indicated in the agreement for agricultural products.[4]

The classification list of all products included in the agreement can be found in the support file to Annex 6.1 of the agreement[5], which includes, among others, soy, animal protein, cereals, cotton and marine products. The Office of the United States Trade Representative (USTR) has prepared summaries on each of the points of the agreement that can be found here.

Phil Hogan, the European Union Trade Commissioner, has already stated that the bloc is considering challenging the agreement under the rules of the World Trade Organization (WTO).[6] The Brazilian Ministry of Foreign Affairs has, thus far, not made a statement on the matter.

We remain at your disposal should you have any questions or need any further information.

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[3] https://www.infomoney.com.br/economia/quais-os-efeitos-do-acordo-comercial-eua-china-para-a-economia-e-para-as-acoes-brasileiras/ and https://exame.abril.com.br/economia/por-que-o-acordo-eua-china-deve-acabar-com-bonanca-da-soja-do-brasil/.
[4] https://insidetrade.com/daily-news/schumer-wyden-brown-question-enforceability-substance-us-china-deal
[5] First phase of the Agreement between the US and China, p. 56.
[6] https://insidetrade.com/daily-news/hogan-eu-will-consider-challenging-us-china-deal-wto.