"PHASE ONE" OR GAME OVER?
AN ECONOMIC OVERVIEW OF THE U.S.-CHINA TRADE RELATIONSHIP

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This paper abridges literature on the U.S.-China trade war centered around the "Phase One" agreement, its history, implications, and subsequent activities. For decades, China's economic developments complicated its relationship with the United States, with the 2018-2019 trade war substantially rupturing both countries. Through the turbulence, a bilateral trade agreement colloquially called "Phase One" emerged in January 2020, reforming the nations' approaches to agriculture, technology transfer, intellectual property, and other trade structures. However, the arrangement's success, with America and China's outlined responsibilities, depend on market access conditions, regulatory barriers, and the SARS-CoV-2 pandemic. Running four hypotheses, this paper finds that American GDP flatlined post-"Phase One" even when most service sectors blossomed, and the Sino-American trade balance worsened. With trade volume increases, democracies are generally more supportive of multilateralism than autocracies. China and the United States are hesitant for future cooperation post-signage, with a "Phase Two" deal on the horizon, but in doubt.

INTRODUCTION

Economic environments are malleable, influenced by bilateral agreements and organizations. Particularly, country figureheads command their nation's wealth arsenal, are entrusted to negotiate effectively, and hopefully garner the best results for their homeland. Foreign economic affairs are fundamental if leading actors understand the field and its indirect sacrifices from globalization (Copeland and Aaditya 2007, 116). On this balance, Hebrew University of Jerusalem Professor Ephraim Kleiman regarded international trade as a taste competition to find the most palatable option for involved countries (Kleiman 1970, 116). Even after understanding the predatory practices that triggered the 2007-2008 global financial crisis, some countries continued aggressive economic policies that consequently upset Chinese and American consumers' wallets.

During a 2016 campaign rally for the United States (U.S.) presidency, business magnate and Republican Party nominee Donald Trump slammed the preexisting U.S.-China

trade relationship as “job theft” (*Politico* 2020). Trump offered to remedy the disputes by levying tariffs on China aligned with Sections 201 and 301 of the Trade Act of 1974 and Section 232 of the Trade Expansion Act of 1962 (Moosa 2020, 42). Sections 201 and 301 of the Trade Act of 1974 would allow Trump to impose trade tariffs and suspend trade agreement concessions if imports seriously injure any American industry. In line with those policies, Section 232 of the Trade Expansion Act of 1962 would let Trump adjust import quantities that impair American national security.

As president of the world’s largest gross domestic product (GDP) country in January 2018, Trump imposed tariffs on U.S. imports of steel-centric goods, such as washing machines and solar panels, from all countries importing those products into America. In July 2018, Trump narrowed his tariff focus on China, applying taxes solely against the country at high levels. Accordingly, China responded by slapping reciprocal tariffs against most imports from America, driving U.S. tariffs on Chinese imports to 21% and Chinese tariffs on American imports to 21.1% in September 2019 (Feenstra and Taylor 2021). Hoping to secure trade barrier concessions from the Chinese, both countries attempted to alter their trade relationship’s trajectory and profit margins rather than respecting mutually beneficial policies already in practice. Subsequently, “optimal” tariffs triggered poor outcomes for both countries and spurred a geoeconomic trade war.

A temporary solution and ease to the economic uncertainty came with the “Phase One” agreement on January 15, 2020, later implemented in February 2020. The plan forbade additional tariff increases from either country, with tariffs from December 2019 remaining active. “Phase One” further detailed a Chinese commitment to purchase $200 billion in U.S. goods and services subsets divided over 2020 and 2021 (Bown 2021, 830). Although informally agreed upon, the United States and China intended to slice the last round of bilateral tariffs, imposed on September 1, 2019, in half, allowing for freer trade and recovery

(Bekkers and Schroeter 2020). Originally touted as a solution to the economic hardship, retrospective analyses examine “Phase One” and how objectively transformative it was in ailing the trade war.

Academic scholars fervently tackled the 2018-2019 trade war as a relevant indictment of the twenty-first century global economy (Evans 2019). Still, some post-2019 works failed to consider significant financial disruptors such as the SARS-CoV-2 pandemic that transpired after the signage of “Phase One.” The Sino-American economic conflict should not be game-framed with the countries and tariffs positioned as “winners” or “losers.” Instead, the relationship is an opportunity to unearth deeper meaning about the related economic dynamics and strategies of “Phase One” and its fruitfulness as a bilateral trade agreement.

This paper abridges literature concerning the U.S.-China trade war, focusing on the 2020 “Phase One” agreement. While their relationship is highly competitive, the United States and China are interdependent on market structure, goods and service transfers, and currency growth (Lester and Zhu 2021). To uncover the “Phase One” agreement’s suggestions, this original thesis opens by compiling the history of Sino-American trade developments and their degrees of friendliness leading up to “Phase One.” Next, an in-depth breakdown of the “Phase One” deal will feature implications for America, China, and the trade balance, supplemented with appropriate economic data and statistics. A data design is proposed with hypotheses to determine the shift in American and Chinese economic growth and trade volume. The benefits of “Phase One” are then evaluated, and to what degree its intentions were satisfied, followed by the current state and complications of Sino-American trade relations. A deduction will be made on the provided “Phase One” information, alongside future research suggestions related to the phenomenon and beyond.

U.S.-CHINA TRADE HISTORY AND "PHASE ONE" ORIGINS

Modern rhetoric surrounding Sino-American trade relations suggests the recent struggle is symptomatic of a longstanding rivalry. While an escalation of protectionism preceded the "Phase One" deal, this was not always the reality. Such a narrative glosses over the nonlinear patterns and nuances of the historical relationship between both countries. In developing a working historical lens to view "Phase One," it is imperative first to recognize the Chinese economy's evolution through recent decades.

Before the mid-1800s, the Chinese economy was largely agrarian and closed to international trade. A shift toward liberalization began following mounting pressure from Britain, resulting in the ratification of the Treaty of Nanjing in 1842 (Keller and Shiue 2020, 13). The treaty introduced China to international trade by opening five ports contingent on a 5% tariff for all imports and exports. This advancement persisted through the nineteenth century with the ratification of the Treaty of Shimonoseki in 1895, establishing a precedent for an eventual openness to foreign investment in China (*Ibid*, 28). By the start of the twentieth century, the Chinese economy gradually transitioned to an open economy, evidenced by the sustained growth in international trade (Mitchener and Yan 2014, 135). The widespread disruptions caused by World War I bolstered China's standing as an international player when European countries like Germany buckled under economic sanctions. Before the war, the United States accounted for only 6% of Chinese exports. Into the post-war period, this figure more than quadrupled with the United States, consisting of 27% of China's export demand (*Ibid*, 136).

The pattern continued to the late twentieth century when China faced a near-continuous rise in its ability to be a major international economic actor. Despite global trade tendencies and a severed period of American diplomatic relations until 1979, Chinese political power clamored for an illiberal approach to economic management. China sharply

pivoted towards economic liberalization in the 1990s as national leadership embraced tariff-cutting and openness to foreign direct investment into the country (Bown 2021, 808). The newfound receptivity culminated in China's admittance into the World Trade Organization (WTO) in 2001. China did not adhere to a strictly linear path; instead, it displayed liberal tendencies post-WTO entry in 2013. Since 2013, China quickly diverted from economic liberalism as President Xi Jinping's election ushered in an unforeseen expansion of state involvement in the economy (Lardy 2019). China's new direction held consistently until the "Phase One" agreement's synthesis in January 2020.

China's entry into the WTO and succeeding changes are critical to its perspective on bilateral trade relations with the United States. Even as American tariff rates on Chinese goods were locked at around 10% following the 2001 WTO entry, the United States treated "China very differently… through a variety of WTO-sanctioned policies" (Bown 2021, 808). Little time passed before the term "China Shock" materialized in the United States, referring to 1999 through 2011 when increased Chinese imports sizably reduced American jobs (Lincicome 2021). Alongside mass unemployment claims, many American complaints accused China of currency undervaluation and anti-competitiveness under WTO dumping terms (Moosa et al. 2020, 3854).

The United States used a combination of domestic laws and WTO protocols to treat China as a "nonmarket economy" and justify levying additional tariffs. Following the expiration of the five-year grace period, when new member nations could align their actions with WTO commitments without penalty, the United States demanded that China agree to this orientation. From 2006 to 2017, the United States brought twenty formal WTO disputes against the Chinese government. In the same period, the United States filed only twelve disputes against all other WTO members (Bown 2021, 808). Notably, in February 2007, America and Mexico challenged China's system of subsidizing domestic industries (Bown

2009, 28). The United States initiated two more complimentary complaints that April, condemning China's treatment of imported movies, books, and music and an alleged failure to enforce intellectual property (IP) laws and similar regulatory hurdles (*Ibid*). China responded with their own complaints, yet these efforts were often futile given the power the United States and its allies possessed in the Trans-Pacific Partnership (Bown 2021, 809).

China acquiesced and bided its time until 2017 in the broader macroeconomic environment. During the early 2010s, U.S. action arose primarily from diplomatic channels, mainly through direct treaty negotiations and indirect pressure from allies and governmental bodies, such as the U.S. Department of the Treasury claiming China allegedly undervalued their currency, the yuan (Moosa 2020, 47). Escalation was sustained with the 2016 U.S. presidential election and the presidency of Donald Trump, which saw political decision-making concerning trade relations shift dramatically toward the executive branch.

The nationalistic turn in U.S. trade policy came with an additional complication caused by the WTO's classification of China. The implications of granting "market economy" status to China muddled America's ability to bypass WTO terms with its protectionist policies (Kapustina et al. 2020, 3). Around this time, the United States moved to impose tariffs, often 100% or more, on more than 7% of Chinese imports, an increase of coverage of 4.5% over nine years beginning in 2007 (Bown 2021, 808). The modification signaled the start of America taking more direct efforts against China, often in ways justified in domestic legal precedents.

In early 2017, the United States National Security Strategy announced a significant proliferation of restrictions imposed on Chinese investments in American technology (Kapustina et al. 2020, 3). One measure included introducing the "Entity List," a register of businesses and organizations subject to specific licensing requirements for exporting, re-exporting, and transferring specified goods, often for national security purposes (Bureau of

Industry and Security 2017). The exercise of power persisted with the decision to move Chinese chipmaker Huawei to the Entity List in 2019, which restricted the company's access to U.S. technology while placing additional scrutiny on the company's imports and exports across national borders (Ikenson and Zhu 2020).

WHAT "PHASE ONE" ENTAILED

Twenty years of tariffs and tensions between the two nations converged on January 15, 2020, in Washington, D.C. President Trump and China's Vice Premier Liu formally endorsed and signed the "Economic and Trade Agreement Between the United States of America and the People's Republic of China," which is colloquially known as the "Phase One" agreement. At ninety-six pages, the written geoeconomic consensus detailed specific provisions and structural reformation of China's economic and trade regime. Extending Trumponomics with hopes of rebalancing the U.S.-China trade relationship, "Phase One" specialized in strengthening Chinese IP rights and security, limiting technology transfer, and agricultural commitments (White 2019). The trade concord elaborated on expanding financial service access, restricting currency manipulation, future trade negotiations, and dispute resolutions. Hailed as "a momentous step ... toward a future of fair and reciprocal trade with China" by President Trump, the deal sought to resolve outstanding business concerns held by both parties (Flaherty and Glaser 2020, 24). "Phase One" anticipated to ensure a more fair trade environment ongoing from its effective date of February 14, 2020.

Intellectual property cemented itself as a staple of creative protection and a sacred category of human intuition with the development of the American legal system. Previous American sentiment around intellectual property rights (IPR) galvanized other nations to adopt their policies, influencing spheres of entertainment, governmental cooperation, and trade. With the "Phase One" agreement, China initiated a defensive strategy that met U.S. demands by meticulously integrating American legal principles into their trade outlook (Shen

and Shang 2021, 10). China implemented damages for willful infringement, altered burden proof, and phrased confidential business dealings as “trade secrets,” a definition affiliated with U.S. legal constructs. China utilized American IP values to promote accountability, widening the scope of misappropriation to include unauthorized disclosures and digital snooping committed by government actors or third-party helpers (Hickey et al. 2020, 19). By offering more IP protections, Chinese trade-dominant cities like Beijing could liberalize financial markets through accelerated goods and services exchanges. In turn, safeguarding domestic Chinese IP dissolved counterfeit pharmaceuticals and related product circulation, therefore mandating a patent for legitimacy.

Transferring technology is highly encouraged to intertwine global efforts and development in research areas of interest. “Phase One” abolished forced technology transfer from American to Chinese firms. According to a report from United States Trade Representative (USTR) Robert Lighthizer, the People’s Republic of China pressured and occasionally forced non-Chinese companies to outsource and transfer their technology to Chinese companies (Lighthizer 2018, 20). The coercive exercise allowed foreign actors to obtain administrative benefits, market access, and demographic exposure, creating biased market advantages. “Phase One” sought to remedy that barrier by ceasing the predatory practice, favoring voluntary and mutual-term technological licensing between countries. To amplify their commitment, China vowed to refrain from supporting outbound investments to acquire foreign technology vital in disruptive industrial plans (Lighthizer 2021, 17). Whether absolute or comparative, pursuing a competitive advantage in any industry requires harnessing cheaply produced, readily available, and widespread technology. “Phase One” marked a monumental change from China to share those resources with global competitors rather than isolating them for domestic self-interest.

Chapter Six of "Phase One" contained several paragraphs on proceeding investments that, from an American perspective, epitomized the deal's inherent success. China was to purchase an additional $200 billion of U.S. goods and services exports over 2020 and 2021, compared to 2017 imports (Lighthizer 2020, 6-1). Designed to reduce the annual bilateral trade deficit by $100 billion and bolster trade opportunities, the move came alongside the endurance of previously instated tariffs on two-thirds of bilateral imports (Bown 2021, 830). With the two provisions, U.S. import growth from China would plateau or plummet, further slashing the deficit. Categorically, the obligation directly invested $32 billion into U.S. agriculture, $52.4 billion into energy, $77.7 billion into manufactured goods, and $37.9 billion into miscellaneous services (Sutter 2022, 2).

The most prominent strides entailed agriculture, establishing China as the first customer for selling American crops, spurring farmer and fishery labor and occupation growth. China pledged to expand access to pork, rice, dairy, animal feed, and poultry, among other products, continuing its strategic diversification and utilizing those imports as vehicles of economic diplomacy (Lester and Zhu 2021). Despite agricultural goods and services comprising 22% of products covered by the purchase commitments, the 2018-2019 trade war diminished agricultural goods, mainly soybean imports and exports (Li et al. 2020, 6). Even if the Chinese government granted exemptions to domestic companies to purchase soybeans, Chapter Six corrected an industry's uncertain trajectory and steadily supplied money to the American economy.

"Phase One" had additional chapters dedicated to dismantling preexisting financial service barriers and establishing mutual currency-related agreements. Based on Vice Premier Li's 2019 comments to halt foreign investor ownership, Chapter Four's measures intend to lower entry barriers to Chinese markets (Goodman et al. 2020). China decreased foreign equity limits, licensed specific American firms, and curbed outstanding discriminatory or

predatory regulatory requirements (Lighthizer 2020, 4-4). Most significantly, China would involve itself in the application review process for American-based credit card companies, such as Mastercard and Visa. Still, China remained unwavering by not permitting licenses to those companies while requiring joint ventures in a monopolized market dominated by China UnionPay (Sutter 2022, 2). With most imposed obstacles removed, the financial services chapters of "Phase One" granted the United States the ability to compete on a more level field with Chinese goods and services of a similar caliber, with America recognizing pending applications.

Stabilizing currency amid uncertain trade patterns is essential in navigating economic turbulence and mitigating consumer shocks. As investors were bearish on diversifying into Bitcoin out of fears of a currency war, "Phase One" looked to Chapter 33 of the U.S.-Mexico-Canada Agreement for inspiration and precedent (Evans 2019, 51). Continued U.S. dollar strength became central in devolving more autonomy and power to the markets rather than judgments made by business conglomerates. Under "Phase One," markets could determine exchange rates and stop "currency poaching" practices designed to weaken a foreign power's legal tender. Accountability and enforcement mechanisms were also employed to enforce currency stabilization and promote better dialogue between the involved nations. Per Article 5.4, either the U.S. Secretary of the Treasury or the Governor of the People's Bank of China can bring transparency disagreements to the Bilateral Evaluation and Dispute Resolution Arrangement, a process found in Chapter Seven of "Phase One" (Lighthizer 2020, 7-1). The implications indicate a tonal shift for the United States in designating China's exchange rate operations. In August 2019, the U.S. Treasury lambasted China as a "currency manipulator" for actively undertaking measures to rival the dollar with the yuan (Segal 2020). "Phase One" dissolved that claim for compromise purposes and eradicated previous unfair competition against the United States.

Future negotiations and instating disagreement prevention measures for seamless trade going forth were the final headlines in the "Phase One" agreement. Both inclusions were necessary and proportional in satisfying American and Chinese demands to ensure a second trade war would not arise. Although not in the legal agreement, the United States and China hinted they would cut the last round of bilateral tariffs, imposed on September 1, 2019, in half and prevent the potential execution of economically weaponized tariffs (Zheng et al. 2022, 214). These revisions would be discussed, analyzed, and approved at a Trade Framework Group, a newly established summit attended by a PRC Vice Premier and the USTR every six months (Lighthizer 2020, 7-1). Phase One" also debuts a dispute resolution system, in which both sides have ninety days to settle discord, with either nation possibly taking proportional action. The Trade Framework Group would produce procedural and bilateral consultations that expedite fair trade processes at the working and principal levels. Setting the groundwork for healing Sino-American trade relations, "Phase One" outlined, addressed, and proposed reciprocal solutions to the multifaceted errors made during the trade war.

THEORY AND DATA DESIGN

This paper relies on economic data from various databases and indexes, alongside governmental and multinational organization-sanctioned figures, to assess the immediate effects of "Phase One" and supplement the literature review. The examined outcomes on GDP were primarily observed from January 2020 to December 2022, with import and export statistics focusing on quantitative information gathered in 2022. 2020 is the base for detecting the economic environment during the height of the trade war when "Phase One" conditions were beginning implementation. The reference timeframe is also incorporated to examine the relevant economic landscape holistically. The two-year timeframe of 2020 to 2022 is further appropriate as this was when most economic agents and market dynamics adjusted to the tax

shock and when the availability of sufficient data coincided with academic intrigue towards the phenomenon.

This investigation focuses mainly on economic growth and trade volume in the United States and China after adopting the "Phase One" agreement. As its tenets sought to bolster international competitiveness and ease financial barriers, this literature generates the following hypothesis on economic growth:

H^1: After the "Phase One" agreement's signage, the GDP growth rate of both the United States and China will increase in the short-term.

The GDP growth rate will be measured by comparing import and export levels. If the combined price of exports outweighs the price of imports, the country's GDP should appreciate. If the combined price of exports is less than that of imports, the country's GDP should depreciate. The utilitarian perspective on the trade balance is simplistic, but a generalization is critical in evaluating the wide-ranging influences of "Phase One's" provisions.

Regarding trade volume, the tariff reductions, increased market access, and commitments to purchase specific goods featured in "Phase One" should incentivize amplified trade activity between the United States and China. Accordingly, a set of hypotheses are posited:

H^2: Service sector exports, zones targeted for increased activity from the United States to China, will offset imports in trade volume due to the "Phase One" agreement.

H^3: After the "Phase One" agreement's signage, the bilateral trade balance between the United States and China will rise in the short-term.

Refining the United States and China's bilateral trade relations from the import-export breakdown relies on whether the data yields a series of trade surpluses. If the data relays three consecutive months of growth compared to its status for the previous three months, it is a reliable indicator that the trade balance is expanding. If President Trump's praise at the time of "Phase One's" acceptance endures, the quantitative component of this paper should support those sentiments.

The circumstances of "Phase One" provide salient implications on how different government types, particularly democracies and authoritarian regimes, engage with global free trade. Trade legislation in American democracy views multilateralism as beneficial to American interests, with a shift in political ideology towards free trade helping minority interests (Thomas 2004, 7). Openness to international trade may promote democracy when capital-to-labor ratios are high, as democracies tend to induce investment better than other government types (López-Córdova and Meissner 2008, 556).

In the Organization of Economic Cooperation and Development (OECD) lists of the world's wealthiest economies, authoritarian regimes are often left out as years progress, despite resource accruement and continuing globalization. Thus, China's reluctance to engage in multilateral trade stems from its non-market export regime, which lacks responsiveness to exchange rates and relative price levels (Wang and Li 2006, 17). Interestingly and contrary to modernization theory, the emerging Chinese middle class, who benefit from international trade and are more fiscally conservative, become more supportive of authoritarianism and less accepting of outside organizational intervention as their life quality improves (Unger 2006, 6 & Chang and Wu 2016, 284). A country's governance gauges tangible economic success for the citizenry, with democracies and authoritarian regimes perceiving international trade as vital or unnecessary for their growth.

Despite China not being defined as an autocracy, all autocracies are authoritarian, the inverse of the democratic and liberal principles of U.S. governance. This paper includes another hypothesis for generalizing governance types' support for multilateralism based on regime type and trade volume, a phenomenon that transcends the "Phase One" case study. Accordingly, the final hypothesis is posited:

H^4: As trade volumes increase, democracies are better positioned to support global free trade more than autocracies.

RESULTS

The empirical results on GDP fluctuations are based on datasets from OECD, stylized by FRED, the Federal Reserve Bank of St. Louis's online database. As foreign trade is a leading economic indicator of GDP, this analysis took the composite GDP index for the United States and China on their trade relationship, normalized to 100%. The results are displayed in Figures 1 and 2 below.

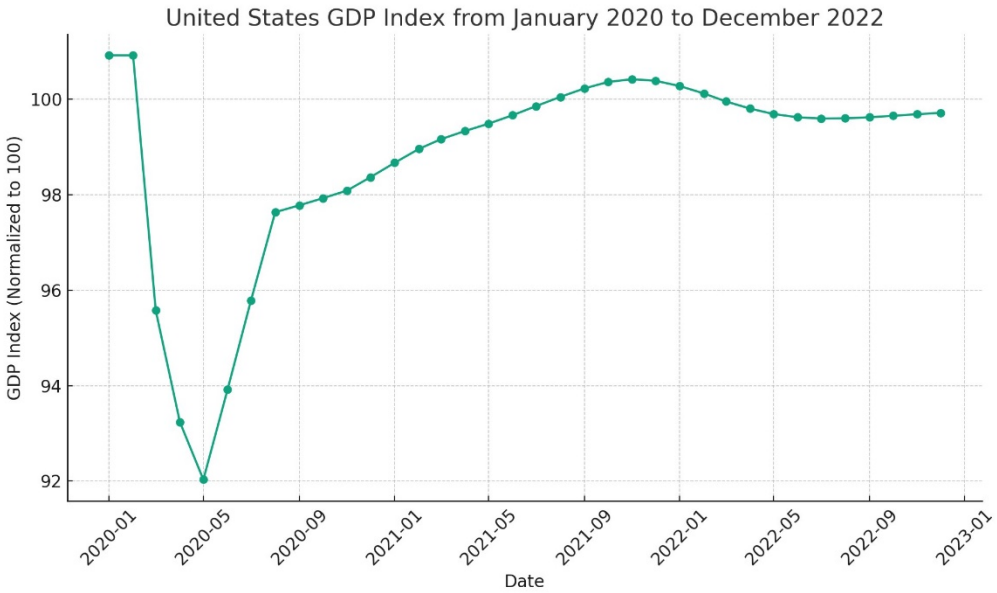


Figure 1. Leading Indicators OECD: Reference Series: Gross Domestic Product (GDP): Normalized for United States.
Source: Federal Reserve Bank of St. Louis

Figure 1 reveals an intriguing and initially unaccounted situation for “Phase One” and the U.S. macroeconomic environment. January and February 2020 yielded the highest American normalized GDP when “Phase One” was in its infancy. The GDP hemorrhaged mid-year due to the SARS-CoV-2 pandemic, triggering a brief economic recession in April and May until recovery in September (Hall et al. 2021). Yet, the U.S. never reached pre-CoV-2 trade GDP levels with China in the early 2020s, even as China chipped away at its $200 billion commitment. This observation is inconsistent with the first posited hypothesis but consistent with claims that the “Phase One” agreement netted minimal domestic growth to the United States or economic policymaking to China (Bown 2022, 14).

Notable is the gradual bump in GDP from October 2021 to March 2022, a period marked by the new presidential administration under Joe Biden, establishing guardrails with China on human rights abuses and economic commitments. While foreign policy injected optimism into the GDP, internal dilemmas such as supply chain issues, labor market adjustments, and inflation slightly diminished GDP growth for trade, causing a plateau going into 2023 (Cutler et al. 2023). While the short-lived SARS-CoV-2 plunge is unignorable, America’s normalized GDP on this issue has flatlined, stabilized at a percentage just shy of domestic growth, combatting the first hypothesis.

Utilizing the same principle and sources of analysis, Figure 2 on the next page highlights the trade GDP from China’s perspective.

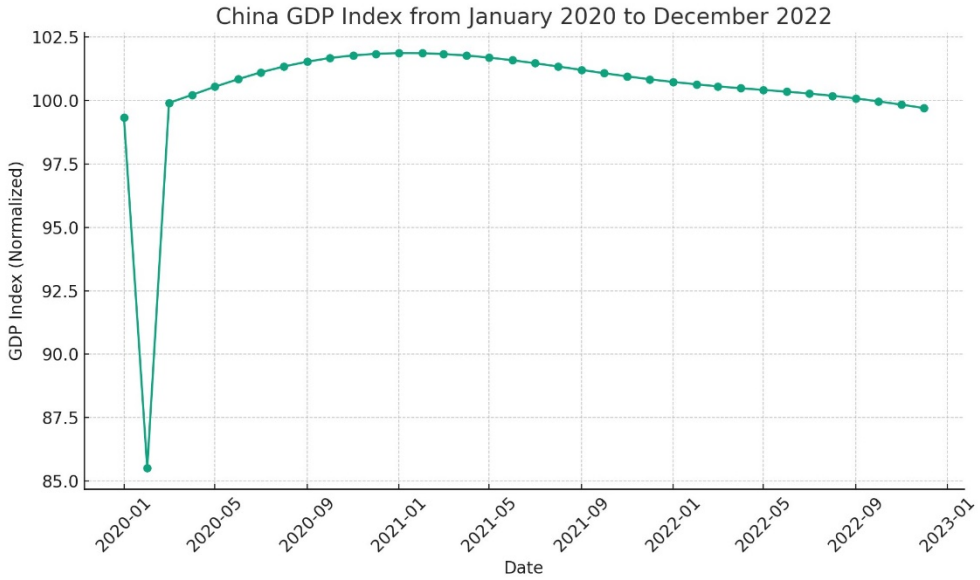


Figure 2. Leading Indicators OECD: Reference Series: Gross Domestic Product (GDP): Normalized for China. Source: Federal Reserve Bank of St. Louis

Figure 2 presents an inverse condition in China with similar but unique characteristics from the United States. Both countries share a SARS-CoV-2 pandemic-induced recession, except China's, which is solely contained within February 2020 because of state-sanctioned containment measures immediately after "Phase One's" adoption (Grinin and Korotayev 2020, 7). Despite the rapid re-opening of industrial activities, China had a more substantial minimum value at its worst point (85.2% normalized GDP in China vs. 92% normalized GDP in America). Further, China had a shorter post-recession growth period than the United States, with gradually sluggish returns beginning in 2021 that cast a ceiling on their GDP from thereon out. Since the "Phase One" deal was back-loaded, additional purchase commitments for 2021 "were more than 60 percent higher than 2020," an offset that usurped economic progress as the year progressed (Bown 2022, 2).

Bekker and Schroter emphasize that global GDP would collapse by 0.1% because of the trade-war ramifications and, by proxy, the outlines of "Phase One" were inadequate to affect only China and the United States (2020, 30). There are signs of relative stability between the two countries but no GDP growth, disproving the first hypothesis and bolstering the null hypothesis.

As GDP stalls, this analysis turns to U.S. import and export levels to determine the severity of the bilateral trade balance and overall trade volume. Logistical spreadsheets on total service imports from the United States Department of Commerce's Bureau and Economic Analysis (BEA) and the United States Census Bureau were compiled in Stata, featured in Table 1, with the generalized trend depicted in Figure 3 below. These statistics focus on 2022, two years after the "Phase-One" agreement, to gauge the interplay between imports and GDP.

Table 1. U.S. Imports of Services by Major Category

In millions of dollars. Details may not equal totals due to seasonal adjustment and rounding. (R) - Revised.

Period	Total Services	Maintenance and Repair Services n.i.e.	Transport	Travel (1)	Construction	Insurance Services	Financial Services	Charges for the Use of Intellectual Property n.i.e.	Telecommunications, Computer, and Information Services	Other Business Services	Personal, Cultural, and Recreational Services	Government Goods and Services n.i.e.
2022												
Jan. - Dec.	696,707	5,662	157,640	115,312	995	59,515	57,715	53,241	53,636	138,063	29,607	25,320
Jan. -	52,586	400	11,307	6,449	91	4,765	4,410	5,003	4,539	11,155	2,371	2,095
January	52,586	400	11,307	6,449	91	4,765	4,410	5,003	4,539	11,155	2,371	2,095
February	55,432	424	11,730	7,613	80	4,662	4,352	6,502	4,558	11,054	2,356	2,102
March	56,083	463	12,972	8,116	81	4,649	4,596	5,077	4,536	11,084	2,398	2,110
April	56,752	469	13,159	9,150	94	4,725	4,375	4,437	4,473	11,245	2,498	2,126
May	57,830	455	13,938	9,438	98	4,804	4,528	4,057	4,429	11,417	2,538	2,127
June	58,942	459	14,592	9,702	95	4,883	4,631	3,938	4,405	11,598	2,519	2,120
July	59,247	457	13,929	10,232	84	4,965	4,772	4,079	4,399	11,790	2,439	2,103
August	59,326	481	13,864	10,052	77	5,052	4,888	4,121	4,407	11,876	2,411	2,097
September	60,282	480	13,753	10,834	73	5,145	5,113	4,064	4,430	11,857	2,433	2,099
October	59,980	518	13,212	10,983	74	5,244	5,228	3,908	4,466	11,732	2,507	2,109
November	60,070	521	12,618	11,368	74	5,302	5,395	3,982	4,490	11,649	2,556	2,115
December	60,178	533	12,567	11,375	74	5,320	5,427	4,073	4,503	11,607	2,581	2,118

Table 1. U.S. Imports of Services by Major Category (Seasonally Adjusted)

Source: BEA and the United States Census Bureau

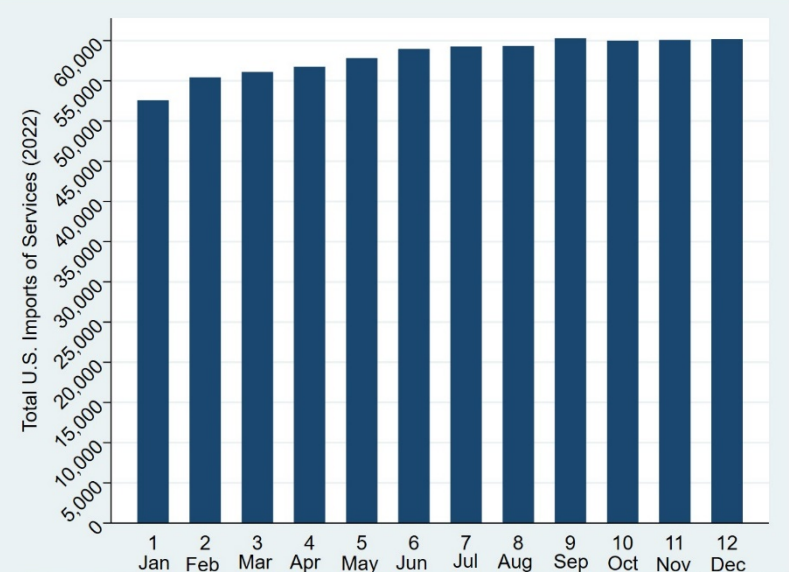


Figure 3. U.S. Imports of Services by Major Category (Seasonally Adjusted)
Source: BEA and the United States Census Bureau

The import data distribution steadily upticks with slight variations in frequency, suggesting a relatively stable pattern in service imports without extreme fluctuations. The post-"Phase One" economy witnessed a similar pattern in 2021, where a massive demand for securing foreign services became vital for American investment and infrastructure projects such as the B3W initiative (Schindler et al. 2023, 15). Confirmation of such claim is seen with travel services imports, which skyrocketed 56.69% from January to December from lifted tourism restrictions and exchange rates flux. During the year, financial services had a 23.06% increase, with insurance services having an 11.65% upsurge, stemming from U.S. creative and competitive advantages. Dually, China's refusal to grant licenses to MasterCard and Visa may have "returned" some of these jobs to America, leading to increased imports and an unexpected kickback of "Phase One" for the United States (Sutter 2022, 2).

Almost every service sector had a higher import trade volume by the year's end. On the exceptions, intellectual property charges (IPC) had a noteworthy 18.59% decrease in the wake of China conforming to American IPR. If genuine, bilateral progress is made with IPR, a yearly increase in IPC services must arise in the export data. As construction shed seventeen imports through the year, despite a 22.97% decrease, the quantity is not statistically

significant in the scheme of total service imports. As the United States was the largest services importer in the world in 2022, its imports of services were $680.3-696.7 billion, up roughly twenty-four percent (~$130.3 billion) from 2021.

Data synthesized by the United States Department of Commerce's BEA and United States Census Bureau on U.S. service export statistics were compiled in Stata, highlighted in Table 2, with the generalized trend depicted in Figure 4 below. In line with the import statistics, the data fixates on 2022.

Table 2. U.S. Exports of Services by Major Category

In millions of dollars. Details may not equal totals due to seasonal adjustment and rounding. (R) - Revised.

Period	Total Services	Maintenance and Repair Services n.i.e.	Transport	Travel (1)	Construction	Insurance Services	Financial Services	Charges for the Use of Intellectual Property n.i.e.	Telecommunications, Computer, and Information Services	Other Business Services	Personal, Cultural, and Recreational Services	Government Goods and Services n.i.e.
2022												
Jan. - Dec.	928,530	14,468	90,956	136,869	1,654	22,668	167,726	127,392	66,227	245,212	26,829	28,529
Jan. -	72,432	996	6,652	8,279	154	1,832	14,268	11,252	5,027	19,456	2,162	2,353
January	72,432	996	6,652	8,279	154	1,832	14,268	11,252	5,027	19,456	2,162	2,353
February	73,451	1,075	6,649	9,105	125	1,784	14,080	11,135	5,072	19,802	2,225	2,400
March	75,004	1,152	7,233	9,724	125	1,782	14,173	11,039	5,207	19,981	2,299	2,289
April	76,990	1,214	7,733	11,395	152	1,826	13,925	10,966	5,433	19,994	2,382	1,969
May	77,199	1,186	7,794	11,471	166	1,864	14,009	10,868	5,574	20,033	2,404	1,830
June	77,300	1,224	7,848	11,453	164	1,897	13,977	10,746	5,631	20,099	2,364	1,897
July	77,829	1,272	7,821	11,904	147	1,924	13,981	10,600	5,605	20,191	2,261	2,123
August	78,434	1,253	7,796	12,146	135	1,943	14,096	10,445	5,616	20,411	2,189	2,404
September	79,055	1,228	7,829	12,461	127	1,954	14,038	10,283	5,665	20,758	2,148	2,564
October	79,860	1,266	7,808	12,785	122	1,958	13,864	10,114	5,751	21,232	2,137	2,823
November	80,280	1,316	7,829	12,956	119	1,956	13,725	10,000	5,809	21,548	2,130	2,890
December	80,696	1,285	7,962	13,191	118	1,948	13,589	9,944	5,838	21,706	2,127	2,987

Table 2. U.S. Exports of Services by Major Category (Seasonally Adjusted)
Source: BEA and the United States Census Bureau

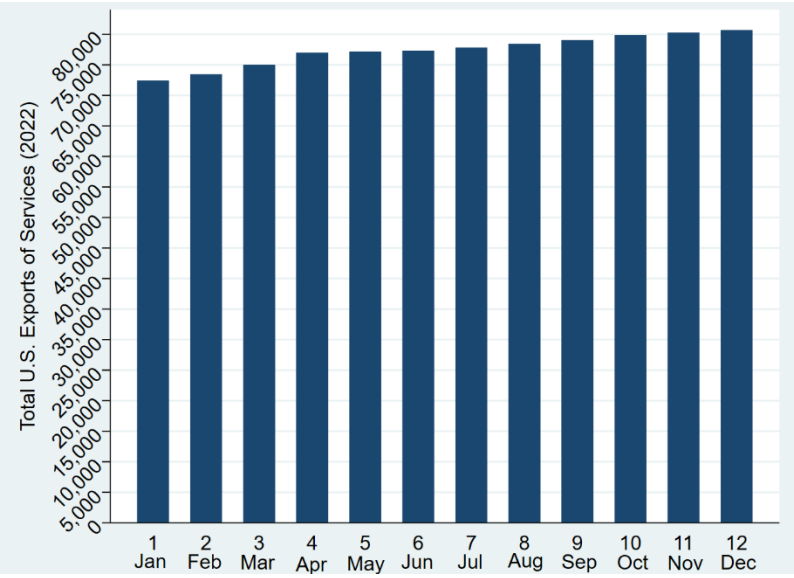


Figure 4. U.S. Exports of Services by Major Category (Seasonally Adjusted)
Source: BEA and the United States Census Bureau

The data expresses sizable U.S. export growth over 2022, with a constant stream of transportation, travel, and maintenance service categories developing the most. On this pattern, Boer and Reith contend that Sino-American exports fall as foreign demand declines, but "as imports fall more than exports, the trade balance tends to rise" (2024, 11). The compiled figures present the opposite, where the demand requires heightened exports, leading to America retaining its status as the largest services exporter worldwide, growing U.S.-China exports for the third consecutive year. The bulky export increases with maintenance and travel, aided by the reduced barriers of entry prompted by "Phase One," were significant players in achieving this feat.

IPC exports dropped 13.15% throughout the year, indicating that the Chinese were not ready to embrace intellectual property reform. Conversely, reduced IPC imports and exports indicate that the "Phase One" measures triumphed in reducing IP violations and infringements if companies faced fewer legal disputes on ownership. However, as of April 2024, the little culminated research on this topic can provide a satisfactory solution to this query. Paired with the import findings, the post-"Phase One" environment consists of higher economic activity for the United States, with industrial demand being a pivotal factor in continuing globalization.

Despite the overall U.S. export-import ratio being 1.33:1 in 2022, the domestic GDP dipped marginally as service sector exports ramped up. The American trade surplus is a positive indicator for 2023, which held as import and export data from the United States and China released. The second hypothesis was fulfilled in every service sector except transportation, insurance, and personal, recreational, and cultural areas.

This paper examines international trade in goods data, courtesy of the United States Census Bureau, as another measure. The results are compiled in Table 3 below to gather a final deduction on the trade balance, measuring all goods and services.

Table 3. U.S. Trade in Goods by Selected Countries and Areas: 2022

In millions of dollars. Details may not equal totals due to rounding.
Not Seasonally Adjusted

Item (1)	Balance			Exports			Imports		
	December 2022	November 2022	Annual 2022	December 2022	November 2022	Annual 2022	December 2022	November 2022	Annual 2022
China	-23,645	-21,118	-382,295	13,583	15,784	154,012	37,228	36,902	536,307

Table 3. U.S. Trade in Goods by Selected Countries and Areas: 2022 (Not Seasonally Adjusted)
Source: United States Census Bureau

Higher U.S. tariffs on Chinese imports should spur fewer imports from China and a lower bilateral trade deficit, given that China does not retaliate. From the preceding literature and data analysis, the United States receded to where importation was seen as a solution for their trade woes, having an overall 3.484 import-to-export ratio in 2022. As the tendency intensified during the year's final months, the trade deficit hit $422 billion, the second highest level ever recorded, indicating that the United States relies on China for growth (Bengana and Khiari 2024, 10). The surging imbalance embodies U.S. preferences and competitiveness challenges in an increasingly complex environment they once dominated. This literature's conclusions reject the third and null hypotheses as the Sino-American trade imbalance worsens.

The fourth and final hypothesis was tested with data from the World Values Survey, utilizing the regtype (regime type) and ConfidenceRegionalOrganizations variables for a regression to proxy for support for multilateralism/global free trade. The results are accumulated in Figure 5 below.

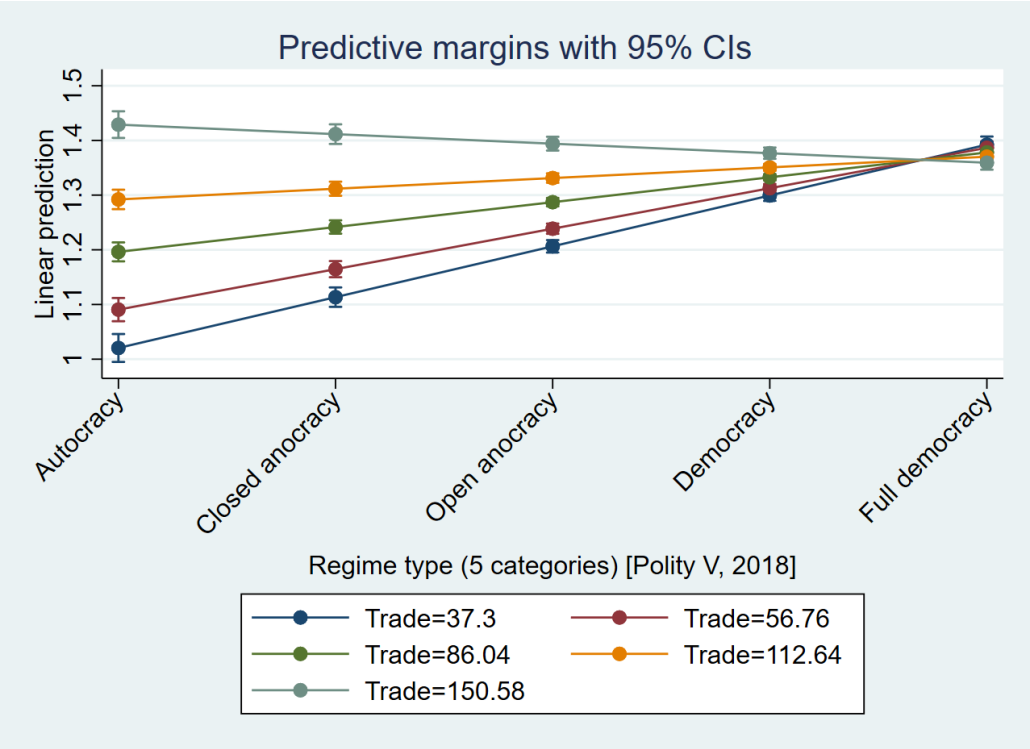


Figure 5. Confidence in Regional Trade Organizations by Regime Type
Source: World Values Survey

The outcomes signify that autocratic governments are generally less confident in regional trade organizations (RTOs), such as the North American Free Trade Agreement (NAFTA) and the European Union (EU). In autocracies, low levels of trade contribute to less sensitivity and receptiveness to the RTOs' seemingly coercive policies. However, only when autocracies reap the benefits of high trade volumes do they trust these systems. The relationship implies that autocratic governments will not leverage trade for governmental and economic development since their policies do not warrant integration with outside markets. Consequently, they have a "cap" on their economic growth, as witnessed with China's state

capitalism under Xi Jingping. Autocrats will only applaud RTOs if multilateralism can overcome the policy liabilities of their state government with surging trade volumes.

In autocratic countries, a lack of political accountability weakens external monitoring, meaning rulers can compensate by building internal control mechanisms that dissolve red tape and other unofficial trade obstructions (Aidt and Gassebner 2010, 40). However, the theory is not translated well into practice, as the recorded observations reflect hesitancy with RTOs, with autocracies still trusting domestic consumption, government spending, and resource extraction. The political rigidness of autocracies should render them malleable to RTOs. Yet, autocrats fear they could surrender political control to entities out of touch with their national values, so autocracies mostly do not bother with globalization. As money flows upwards in autocracies, autocrats are keen on internal policies that entail elitist enrichment, not for their country or the international community's economic freedoms or development.

As countries embrace more democratic governance, every trade volume plateaus to showcase how democracies champion multilateralism and RTO efforts. In turn, democratic countries are wealthier and have more effective trade than their autocratic counterparts through embracement at each trade level. As democratic governments contain independent judiciaries, healthy trade frameworks, and transparent regulatory bodies, relative stability promotes faith among trading partners. Thus, trade policies are more consistent, predictable, and aimed at long-term development, leading to a contained range of confidence in RTOs as observed outcomes become trackable.

Mansfield, Milner, and Rosendorff establish that because the legislature constrains executives in democracies in ratifying trade agreements, inherent checks on economic policies reduce the likelihood of abrupt changes (2000, 30). This insight clarifies that bureaucratic strategies and their flexibility dictate how democracies interact with RTOs,

proving how robust cooperation between officials, government branches, and other institutions is vital for success in international trade. Democracies prioritize international cooperation, recalling America's participation and longstanding influence in the WTO, because they understand its mission reaps the benefits for their citizenry and government. In turn, if an RTO functions accordingly regardless of trade volume, democracies are overwhelmingly content.

The considered knowledge confirms the fourth hypothesis: authoritative regimes are less receptive to RTOs unless they direct a notable trade volume into their country. In contrast, democracies welcome any trade volume by RTOs to maintain geoeconomic stability, preserve their influence, and facilitate cooperation.

DISCUSSION

While the "Phase One" agreement made progress in resolving many withstanding economic conflicts like market access issues, neither side was willing to fully compromise (Ashton et al. 2022). Thus, many of the more ambitious objectives never emerged. Concerning China's remaining discriminatory policies, review or dissolution was delayed for an improbable "Phase Two" agreement – a summit that has not occurred as of this paper's synthesis. Recall that China vowed to purchase an extra $200 billion of U.S. goods and services during 2020 and 2021 per one of "Phase One's" tenets. Strikingly, the U.S. trade shortfall rose to $378 billion in 2018 (Mullen 2022). Thus, China's commitment to importing $200 billion in U.S. goods was to fix America's enduring trade deficit.

However, currency fluctuations, market conditions, and regulatory barriers hindered China's ability to meet such high purchase expectations. According to a July 2022 study by the Peterson Institute for International Economics (PIIE), China only reached 57% of its purchase commitment, $13.6 billion short of its baseline goal (Bown 2022). Coupled with the

unrealistic goal of increasing U.S. exports by 40% per year, this was America's attempt at managing trade rather than opening the Chinese economy. As described by David Dollar, a senior fellow at Brookings's John L. Thornton China Center, managing trade is often ineffective because of the unexpected nature of product demand (Dollar 2022, 278).

"Phase One's" inadequacies can also be attributed to the SARS-CoV-2 pandemic, as the economic slowdown and temporary collapse of global trade impeded both actors from fulfilling their promises. While agricultural purchases were most successful, reaching 83% of their objective, purchases of covered manufactured goods only reached 59%. Yet, the success of agricultural purchases was not necessarily because of the deal, as China increased its pork imports from the United States in 2019 due to an epidemic of African swine disease. Corn and wheat imports rose primarily from China's obligation to a 2019 WTO ruling on tariff rate quotas (World Trade Organization 2019, 57). The United States Department of Commerce confirmed that the trade imbalance between the United States and China increased by 14.5% to $355.3 billion in 2021, breaking the previous record of $418.2 billion in 2018 (Mullen 2022). If any successes emerged post-agreement signage, they may have originated independently of the "Phase One" provisions.

Official Chinese sentiment surrounding "Phase One" soured with time, diagnosing the agreement as too idealistic to function. When China failed to meet the U.S.'s expectations, Huo Jianguo, a former Chinese Ministry of Commerce think tank leader, expressed that China did all it could to import U.S. goods given the SARS-CoV-2 pandemic circumstances (Kine 2022). Other Beijing think tank representatives believed the criticism from the United States was unjustified due to the unrealistic expectations the deal had set. Considering these comments, China did meet expectations to respect IP, open its financial services sector, and remove technical barriers to U.S. farm exports. However, these advances were a fraction of what they were supposed to achieve from February 2020 onwards.

Notably, there were plans to reduce tariff rates to avoid unnecessary costs to both U.S. and Chinese companies. Under "Phase One," there was a momentary decrease in some tariff rates, and pending tariffs were stalled to lessen the financial burden of China's sizable purchase commitment of U.S. goods. In January 2022, however, most tariffs persisted, and most exclusions expired. Bilateral tariffs stayed at an all-time high (Ashton et al. 2022). Four years after its signage, American importers face hefty costs associated with U.S. tariffs on Chinese goods, amounting to more than $110 billion. Undeterred by the tax, the United States continues to import a high quantity of Chinese apparel, furniture, travel goods, and footwear, demonstrating the considerable demand for Chinese products.

Consequently, American homes negatively reap the higher costs and prices by the Section 301 tariffs in place since 2018, occasionally at rates of 25%. The hardest-hit American demographics consist of households in the "lowest 20% of income groups, minority-headed households, and households headed by individuals without a college education" (Inman 2023). Unsurprisingly, Chinese exporters have bypassed these costs through transshipment, product reclassification, and falsifying goods invoices. Companies circumventing "Phase One" standards acknowledge their faults, but it is an economic tactic not to incur financial charges that worsen domestic life.

CURRENT STATUS OF THE U.S.-CHINA TRADE RELATIONSHIP

The United States remains in a challenging trade position with China. There continue to be uncertainties for American and Chinese producers, and a lack of trust between the two nations exacerbates the hesitancy for future cooperation. As of April 2024, the United States has not complied with China's demands to remove tariffs. The Biden administration has committed to enforcing the "Phase One" agreement until its promises are kept, suggesting either an increase in tariff rates or a new tariff to compensate for China's purchase shortfalls (Ashton et al. 2022). In March 2022, the new USTR, Katherine Tai, acknowledged China's

failure to uphold the “purchase commitments detailed in the ‘Phase One Agreement,’ and non-market practices not addressed in the deal,” but still “ke[pt] the door open to conversations with China” (U.S. Senate Committee on Finance 2022). U.S. governmental trade rhetoric remains steadfast in holding China accountable, a sentiment constant with the Trump and Biden administrations.

Interestingly, the day after the PIIE study was published, Gavekal Dragonomics stated that “gradual ratcheting-up of penalties and maybe tariffs, but no real large-scale action” is on the horizon for Sino-American trade relations (Mullen 2022). As of November 2023, 66.4% of U.S. imports from China are under tariff, with an average U.S. tariff on Chinese exports set at 19.3% - a figure six times higher than before the trade war commenced (LaRocco 2023). Conversely, there are Chinese tariffs on 58.3% of U.S. exports, averaging 21.1%. Thus, the Biden administration must proceed with either more force or leniency, although recent history favors real progress with China stemming from a toughened stance.

Learning from previous errors, a more scrutinous approach to China and bilateral trade is manifesting in Washington, D.C. The United States Chamber of Commerce insinuated that the White House was exploring alternative measures, such as calling upon U.S. allies, should Beijing continue to fail to adhere to the terms of the agreement. Moreover, the Biden administration identified seven additional unresolved concerns revising Chinese technology. Accordingly, in August 2023, President Biden signed an Executive Order reducing China’s capacity to leverage U.S. investments in its technology firms for military advancements (Boak 2023). While a “Phase Two” agreement was deemed improbable, there are tentative plans to settle the more fundamental unresolved concerns of "Phase One," such as “subsidies, excess capacity, state-owned enterprises, cybersecurity, and regulatory transparency” (Mullen 2022). However, “Phase Two” can only occur once signs of acquiescence or compromise from both sides warrant another bilateral deal.

Overall, the United States imported more Chinese goods in 2022 than in any other year. $418 billion in goods were imported in the first nine months of the year, $23.7 billion more during the same period in 2018. Amid rumblings of moving supply chains out of China, Chinese goods have become even more of a necessity to America as globalization intensifies. Despite the large sum of Chinese imports, the United States added 379,000 manufacturing jobs in 2022. At the same time, the United States has reached a historic level of exports to China, as the United States exported $3.2 billion more worth of goods in 2022 than in 2018. Considering the uncertainty looming large since July 2018, America's largest trade relationship remains with China.

CONCLUSION

While much literature focuses on specific elements related to bilateral trade relations between the United States and China, this research tends to be exclusive and not holistic. This scholarship intends to synthesize the nuances of existing literature while providing a straightforward narrative of events and outcomes. Ultimately, the historic "Phase One" trade agreement between the United States and China is the product of a variable and infrequently erratic relationship between the two nations. This agreement addressed many trade policy objectives for each country, including intellectual property regulations, trade balance, purchase requirements, exchange rates, and tariff rates.

Initially hailed as an accomplishment, the data, reactions, and economic landscape post-signage signify that not much general growth transpired. "Phase One" and the continuing hostile trade relations between the United States and China can be an indictment of nationalistic trade policy and the disutility of protectionism. However, the agreement alleviated mutual areas of trade concern and signified a transcontinental effort to restore socio-economic harmony. Regardless of the takeaway, "Phase One" could be the kick-off that

America and China need for economic restoration, with many decisions at play for future interactions.

With the contributions of this paper, there are still knowledge gaps on “Phase One’s” sectorial influence, primarily with the agriculture industry. Lee et al. investigate how the agreement raised expected net returns for crops analyzed in their approach, leading to an increase in soybean acreage and land being reutilized for crop production (2023, 233). Future studies can assess American and Chinese farmers’ perspectives on how “Phase One” modified local and national crop supply chains and if the agreement is environmentally sustainable. In addition, other elements of foreign policy can be intertwined with “Phase One’s” long-term success. Chiefly, the rising political tensions between the United States and China over Taiwan are intriguing to uncover how emerging political dilemmas affect the bilateral trade balance. Upcoming research can focus on whether China’s actions regarding Taiwan restrict compliance monitoring laid out in “Phase One” or complicate its status in satisfying any outstanding agreement duties.

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