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COMMENTARY

Covarrubias: When Trade Commitments Meet Market Reality: Lessons from the US-China Agreement



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Dr. Daniel Covarrubias, director of the Texas Center for Border Economic and Enterprise Development at Texas A&M International University. (Photo credit: TAMIU)

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By Dr. Daniel Covarrubias

As U.S. and Chinese officials finalized a trade framework in Kuala Lumpur this weekend, with Presidents Trump and Xi scheduled to meet on October 30, the Office of the U.S. Trade Representative simultaneously launched an investigation into China's implementation of the Phase One agreement. The timing illustrates a noteworthy pattern: even as new arrangements are negotiated, including discussions around agricultural purchases and trade balancing, previous commitments remain under review.

The Phase One agreement, signed in January 2020, committed China to purchase an additional \$200 billion in U.S. goods and services over 2020-2021. By the end of that period, China had purchased 58 percent of the committed total. Understanding why this gap emerged becomes particularly relevant as President Trump's administration has negotiated multiple new trade frameworks featuring similar quantitative commitments, and as the USMCA review approaches in July 2026.

What Happened with Phase One

The Phase One agreement between the United States and China established specific purchase targets across manufacturing, agriculture, energy, and services sectors totaling \$502.4 billion over two years. Several factors complicated the implementation. The pandemic disrupted global trade patterns starting in early 2020. Services trade, particularly travel and education, contracted sharply due to mobility restrictions.

Some sectors faced structural challenges predating the agreement. U.S. auto exports had declined following trade-war tariffs that prompted manufacturers to shift production. Aircraft sales faced additional complications due to Boeing 737 MAX certification issues. Agricultural exports, despite federal support programs and tariff removals with China, reached 83 percent of targets, partly through products like pork and corn, for which China faced domestic supply constraints.

The shortfall pattern suggests an interaction among external shocks (the pandemic), prior policy effects (tariff impacts on supply chains), and sector-specific factors (aircraft certification, agricultural disease outbreaks). Research comparing actual trade flows with counterfactual scenarios indicates the combined trade war and Phase One period may have resulted in lower U.S. exports to China than would have occurred under previous trends.

China's economy, with a GDP of approximately \$17 trillion in 2020, represented substantial market capacity. The country maintained significant government influence over major enterprises and state-owned entities. Despite these factors, market fundamentals and external conditions constrained the ability to redirect purchasing patterns at the scale specified in the agreement.

Recent Trade Frameworks and Market Size Dynamics

Since April 2025, President Trump's administration has negotiated multiple trade frameworks featuring quantitative commitments. These agreements provide opportunities to examine how market size interacts with purchase commitments across different economic contexts.

The U.S.-UK Economic Prosperity Deal, announced in May 2025, includes commitments for expanding market access valued at approximately \$5 billion, including \$700 million in ethanol exports and \$250 million in agricultural products. The United Kingdom's economy, with roughly \$3.5 trillion in GDP, is comparable in size to California's. The UK maintains 68 million consumers with a GDP per capita of approximately \$51,500.

The U.S.-EU Cooperation Agreement, finalized in July 2025, includes significantly larger quantitative elements. The framework specifies that the EU intends to purchase \$750 billion in U.S. energy products over three years, invest at least \$600 billion in U.S. operations by 2029, and procure at least \$40 billion in U.S. artificial intelligence chips. The European Union's combined

GDP of approximately \$19 trillion across 27 member states represents substantial aggregate economic capacity. However, the EU operates through decentralized decision-making structures, in which individual companies and member states make independent purchasing decisions.

Trade frameworks with Vietnam, Cambodia, Thailand, and Malaysia present different dynamics. Vietnam's economy, with a GDP of approximately \$430 billion and a population of 100 million, generates a GDP per capita of roughly \$4,300. Cambodia's \$33 billion economy supports 17 million people, with a GDP per capita of nearly \$1,900. These economies agreed to eliminate tariffs on U.S. goods while maintaining baseline reciprocal tariffs of 19 to 20 percent on their exports to the United States. The agreements focus more on market access provisions than specific quantitative purchase commitments.

The Philippines' framework, announced in July 2025, includes commitments to increase imports of U.S. soybeans, wheat, and pharmaceuticals, though specific dollar amounts were not publicly disclosed. The Philippines' economy, valued at approximately \$440 billion, serves 115 million people, with a GDP per capita of around \$3,800.

Understanding Market Absorption Capacity

Purchase commitments interact with a fundamental economic constraint: market absorption capacity. The United States, with 325 million consumers and a GDP per capita of \$86,601, accounts for approximately \$29 trillion in total GDP. This creates significant asymmetries when compared to trading partners of different economic scales.

Consider the mathematical relationship between market size and import capacity. A U.S. consumer has approximately 17 times the purchasing power of a Vietnamese consumer, 20 times that of a Philippine consumer, and 45 times that of a Cambodian consumer. Even within North America, a U.S. consumer has roughly 6 times the purchasing power of a Mexican consumer (with Mexico's 130 million people at \$13,972 GDP per capita generating approximately \$1.8 trillion GDP) and 1.6 times that of a Canadian consumer (with Canada's 40 million people at \$53,834 per capita producing roughly \$2.2 trillion GDP).

These differences affect how bilateral trade balances form, independent of tariff rates or trade agreement provisions. IMF research suggests that macroeconomic factors account for 70 to 90 percent of variations in the trade balance, with market size serving as a primary driver, a dynamic I've analyzed previously in the context of reciprocal tariff proposals. Trade agreements can affect product composition and supply chain configurations, but cannot override fundamental purchasing power asymmetries.

This dynamic appeared in earlier trade policy approaches. During the 1980s, voluntary export restraints on Japanese automobiles aimed to manage trade imbalances through quantitative limits. An economic analysis found that these arrangements generated significant costs.

Consumer prices increased while research estimated welfare losses of approximately \$3 billion to the U.S. economy (in 1983 dollars). The WTO subsequently prohibited new voluntary export restraints in 1994, recognizing their market-distorting effects.

The pattern suggests that quantitative commitments face implementation challenges across different economic systems and time periods, whether structured as export restraints or import commitments. Market fundamentals tend to reassert themselves over politically negotiated quantities. The scale of these challenges correlates with the size differential between trading partners.

Implementation Questions for Recent Frameworks

The recent trade frameworks raise questions about how quantitative commitments function across different market structures. The EU energy commitment of \$750 billion over three years would require European purchases of U.S. liquefied natural gas, oil, and nuclear fuel averaging \$250 billion annually. For context, total EU purchases of U.S. oil, LNG, liquefied petroleum gas, and coal in recent years have averaged approximately \$80 billion annually.

The EU agreement notes that these figures represent expected purchases rather than binding government commitments. European companies make energy purchasing decisions based on price, reliability, and existing infrastructure. EU member states maintain separate energy policies and procurement systems. The framework creates conditions for increased trade but does not mandate specific transactions.

Similar dynamics affect other commitments. The \$600 billion investment figure represents expressions of interest from European companies rather than obligated capital deployment. The \$40 billion AI chip procurement reflects anticipated purchases by European data centers and computing facilities, dependent on actual technology infrastructure development timelines and competitive considerations.

For smaller economies, the implementation challenges differ in character but not necessarily in magnitude. When Cambodia commits to eliminating tariffs on 100 percent of U.S. industrial and agricultural goods, this creates market access conditions. However, Cambodia's \$33 billion economy limits total import absorption capacity regardless of tariff rates. A U.S. exporter gains improved market access terms but operates within the constraints of aggregate Cambodian purchasing power.

The Philippines' commitment to increasing soybean, wheat, and pharmaceutical imports faces similar constraints. With 115 million people and a per capita income of \$3,800, the total Philippine import capacity for all products is constrained by aggregate purchasing power. Directing more of that capacity toward U.S. products may occur through policy changes and reduced barriers, but the total volume available for import remains limited by economic fundamentals.

Implications for the USMCA Review

The USMCA's upcoming joint review in July 2026 provides an opportunity to consider how these dynamics apply to North American trade relations. The consultation process, which began in October 2025, will inform government positions by January 2026. Both current U.S.-China negotiations and recent trade frameworks with other partners provide real-time observation of how different policy approaches function in practice.

Quantitative purchase commitments represent one approach to structuring trade relationships, with multiple recent implementations providing varied data points. An alternative framework emphasizes rules-based provisions addressing regulatory barriers, customs procedures, and market access restrictions. The Phase One agreement included both types of provisions. Its structural reforms regarding technical barriers, intellectual property protections, and market access for financial services created conditions that could support trade expansion across sectors over longer timeframes.

The distinction matters for how agreements adapt to changing conditions. Purchase commitments create binary compliance questions and may require periodic renegotiation as economic conditions shift. Rules-based provisions, once implemented, tend to operate across different market conditions, though they require monitoring and dispute-resolution mechanisms.

North American market size relationships add context to these considerations. Mexico's economy, while substantial in absolute terms, generates roughly 6 percent of the combined North American GDP. Canada represents approximately 8 percent. The United States accounts for approximately 86 percent. These proportions affect the mathematical possibilities for balancing trade flows through quantitative commitments.

If hypothetical quantitative commitments were considered for USMCA, they would face dynamics similar to those observed in other recent frameworks. Mexican and Canadian private sector companies make purchasing decisions based on price, quality, and business requirements. Government influence over these decisions in market economies operates primarily through regulatory frameworks and incentive structures rather than direct mandates.

Considerations for Business Planning

Companies operating across North American supply chains face several planning considerations as the review approaches. The consultation process accepts comments through November 3, 2025, with a public hearing on November 17. These forums allow businesses to communicate operational priorities and implementation experiences.

The review creates opportunities to address practical issues that emerged during USMCA implementation. Customs procedures, regulatory cooperation mechanisms, and rules of origin administration affect day-to-day operations. Digital trade provisions could be updated to reflect

technology changes since 2020. Supply chain security frameworks could be enhanced. These operational improvements may generate more predictable benefits than aggregate trade targets.

The review timeline introduces uncertainty factors for investment planning. If parties cannot agree on extension terms in July 2026, annual reviews continue through 2036. This creates a baseline assumption of periodic policy review rather than stable long-term rules. Companies may want to model scenarios ranging from immediate extension to extended renegotiation to potential non-renewal.

Supply chain strategies increasingly account for policy volatility across multiple dimensions. Trade agreements interact with technology controls, investment screening, and industrial policy initiatives. The recent proliferation of trade frameworks with varied structures and commitments adds complexity to long-term planning. Geographic and supplier diversification can provide flexibility as policy frameworks continue evolving.

Evaluating Different Approaches

The Phase One agreement sought to address trade imbalances through quantitative commitments while pursuing structural market-access reforms. Implementation experience revealed how external shocks, prior policy effects, and market fundamentals interact with negotiated targets. The 58 percent purchase rate provides one data point. Recent trade frameworks with the UK, the EU, Vietnam, Cambodia, and others offer additional insights into how these dynamics operate across different economic scales and institutional structures.

Market size differences create asymmetries that affect all bilateral trade relationships. These asymmetries are particularly pronounced when comparing the U.S. economy to smaller trading partners. Even in relationships with substantial economies like China or the EU, implementation challenges emerge when quantitative targets diverge significantly from underlying market fundamentals.

As North American partners prepare for the USMCA review, they face choices about which policy tools to emphasize. Quantitative commitments offer headline clarity but face implementation challenges that correlate with market-size differences. Rules-based approaches may generate less immediate visibility but provide frameworks that can function across changing conditions. The business community's input during the consultation process can help inform negotiators' evaluation of these trade-offs.

Understanding these dynamics matters because North American supply chains depend on predictable operating conditions. Whether through purchase commitments, regulatory reforms, or alternative approaches, the 2026 review will shape investment decisions for years ahead. The Phase One experience and patterns visible in ongoing trade discussions offer relevant data for evaluation as all three countries consider their paths forward.

Editor's Note: The above op-ed was penned by Dr. Daniel Covarrubias, director of the Texas Center for Border Economic and Enterprise Development. The Center is housed in the A.R. Sanchez, Jr. School of Business at Texas A&M International University. The research conducted by Dr. Covarrubias focuses on cross-border trade policy, Logistechs innovation, AI, and exponential technologies, as well as North American economic integration. The op-ed appears in the RGG Business Journal with the approval of the author.

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