

CUSEF EXPLAINER

PHASE I TRADE DEAL

CHINA-UNITED STATES EXCHANGE FOUNDATION



PHOTO: AP/EVAN VUCCI

The U.S. and China signed the Phase One trade deal last week, capping the long haul trade talks and putting the brakes on further downturn in the bilateral relationship. However, many say that the toughest negotiations are yet to come.

KEY FACTS ABOUT THE TRADE DEAL

- The full title of the deal is the "**Economic and Trade Agreement** between the Government of the United States of America and the Government of the People's Republic of China".
- The agreement was signed by the **U.S. President Donald Trump** and **China's Vice Premier Liu He (劉鶴)** in the **White House's** East Room on **January 15, 2020**.
- The deal is nearly 100-pages long in both languages and is divided into **nine parts**, six of which are chapters dedicated to **six areas**:
 - **Intellectual property**
 - **Technology transfer**
 - **Trade in food and agricultural products**
 - **Financial Services**
 - **Macroeconomic policies and exchange rate matters and transparency**
 - **Expanding Trade**
- The deal will enter into force **within 30 days**.

Full text of the trade deal:

- **English version:**
https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_China_Text.pdf
- **Chinese version:** <http://images.mofcom.gov.cn/www/202001/20200116104122611.pdf>

Record of the signing ceremony of the trade deal:

- <https://www.youtube.com/watch?v=bgQDgl3yRz0>

Transcript of the remarks at the ceremony (English):

- <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-signing-u-s-china-phase-one-trade-agreement-2/>

WHAT ARE IN THE DEAL?

INTELLECTUAL PROPERTY

- **China** makes a number of commitments to improve the identification, protection, and enforcement of intellectual property rights.
- **The U.S.** affirms that existing U.S. measures afford treatment equivalent to that provided for in the articles.

TECHNOLOGY TRANSFER

- **China** and **the U.S.** should not allow forced technology transfer. Termed as the obligation of both parties, the articles would in fact mainly affect China, as they address the concerns of many American companies.

FOOD AND AGRICULTURAL PRODUCTS

- **China** promises to make changes of over 50 measures that the U.S. sees as barriers, a move that would affect products including dairy, poultry, meat, seafood, rice, animal feed, and biotech.
- **China** and **the U.S.** shall not implement food safety regulations that are not science- or risk-based, which Chinese officials have used to block American farm product imports.

FINANCIAL SERVICES

- **China** commits to further open its financial market, in a direction which it has been working towards.
- **The U.S.**, in return, promise to expeditiously consider the current pending requests by Chinese institutes, including CITIC Group.

MACROECONOMIC POLICIES AND CURRENCY

- **China** and **the U.S.** should avoid manipulating exchange rates or the international monetary system and increase their transparency in currency markets.

EXPANDING TRADE

- **China** commits to purchase \$200 billion additional American exports based on 2017 levels, including \$52.4 billion of energy exports, \$32 billion of agricultural commodities, \$77.7 billion of manufactured goods, and \$37.9 billion of services in the next two years.
- **The U.S.** shall ensure to facilitate the availability of U.S. goods and services to be purchased and imported into China.

DISPUTE RESOLUTION

- Instead of referring disputes to a neutral third party in a conventional way, **China** and **the U.S.** will settle the issues between themselves through Bilateral Evaluation and Dispute Resolution Offices.
- The deal allows appeals be raised to the U.S. Trade Representative and the Vice Primer of China if they are not resolved at the deputy or vice-ministerial level.
- Counter-response, i.e. withdrawal from the agreement, could be taken if one Party consider the actions of the other are taken in bad faith.

WHAT IS NOT IN THE PHASE I TRADE DEAL

Critics suggested the Phase I trade deal falls short of the following contents:

- Detailed measures against **forced technology transfer**
- Ensuring **equal market access** for foreign financial services firms
- **Monitoring mechanism** for the implementation of the deal

THE PHASE II TRADE DEAL

WHAT COULD BE IN THE PHASE II TRADE DEAL

- **Subsidies** for favored industries
- **Cyber security**
- **Digital trade**
- **Fentanyl**
- More **tariff rollbacks**

WHEN THE PHASE II TRADE DEAL WOULD BE REACHED

- The Phase I trade deal is expected to **hold through the 2020 presidential election** in November.
- The U.S. President Donald Trump said on January 10 that the negotiation for a Phase II trade deal would **start right away** after the signing of the Phase I deal.

KEY NEGOTIATORS IN THE TRADE TALKS

U.S. REPRESENTATIVES

- **Robert Lighthizer**, Trade Representative
- **Steven Mnuchin**, Treasury Secretary
- **Wilbur Ross**, Commerce Secretary
- **Peter Navarro**, Assistant to the President and Director of Trade and Manufacturing Policy
- **Larry Kudlow**, Director of the National Economic Council

CHINESE REPRESENTATIVES

- **Liu He (劉鶴)**, Vice Premier
- **Zhong Shan (鍾山)**, Commerce Minister
- **Yi Gang (易綱)**, Governor of the People’s Bank of China
- **Ning Jizhe (宁吉喆)**, Vice-Chairman of the National Development and Reform Commission
- **Zhu Guangyao (朱光耀)**, former Vice Minister of Finance (until May 2019); **Liao Min (廖岷)**, Deputy Director of the Office of the Central Commission for Financial and Economic Affairs and Vice Minister of Finance
- **Zheng Zeguogang (鄭澤光)**, Vice Minister of Foreign Affairs
- **Luo Wen (羅文)**, former Vice Minister of Industry and Information Technology (until February 2019); **Wang Zhijun (王志军)**, Vice Minister of Industry and Information Technology
- **Han Jun (韓俊)**, Vice Minister of Agriculture and Rural Affairs
- **Wang Shouwen (王受文)**, Vice Minister of Commerce and Deputy China International Trade Representative

SELECTED COMMENTS

COUNTRY LEADERS

Xi Jinping (習近平)

President of China

[C]onclusion of the phase one trade agreement between China and the U.S. is good for China, for the U.S., and for the whole world. (2020-01-15)

Donald J. Trump

President of the U.S.

Today, we take a momentous step – one that has never been taken before with China – toward a future of fair and reciprocal trade, as we sign phase one of the historic trade deal between the United States and China. Together, we are righting the wrongs of the past and delivering a future of economic justice and security for American workers, farmers, and families. (2020-01-15)

NEGOTIATORS

Liu He (劉鶴)

China's Vice Premier

This is a mutually beneficial and win-win agreement. It will bring about stable economic growth, promote world peace and prosperity, and is in the interest of the producers, consumers, investors in both countries. At the same time, this agreement is not directed at, nor will it affect, the lawful rise in interest of any third country. It is in line with WTO rules. (2020-01-15)

It is not realistic to talk about decoupling between China and the US. The reaching of the phase one deal can effectively stop such an inclination. (2020-01-15)

Robert Lighthizer

U.S. trade representative

It's a really, really good deal for the United States, and it will work if reformers in China want it to work. And if that happens, great. If it doesn't happen, it's fully enforceable. (2020-01-13)

We're tough, hard people, and we expect them to live up to the letter of the law. We'll bring cases. We'll bring actions against them if they don't, but for right now, this is a really, really big agreement -- a huge step forward. (2020-01-13)

Steven Mnuchin

U.S. Treasury Secretary

This is a great win for American business and American farmers. (2020-01-14)

Wilbur Ross

U.S. Commerce Secretary

Very hard to imagine a recession occurring in the face of these two trade deals. (Ross was referring the trade deal with China and the U.S.-Mexico-Canada Agreement.) (2020-01-16)

Peter Navarro

Assistant to the President, Director of Trade and Manufacturing Policy

We've got Japan agreements, Canada, Mexico, China, Korea, I mean, wow. (2020-01-16)

And here's the best part, at the end of that, if we, the United States, are not satisfied that the dispute is resolved, we unilaterally get to take proportionate measures. (2020-01-16)

Larry Kudlow

U.S. National Economic Council director

"The biggest hill was getting phase one. Which has never been done before. The president's leadership, including the tariffs, the work of [U.S. trade representative] Bob Lighthizer, [Treasury Secretary] Steve Mnuchin, our whole trade principals team. Never done before, this is historic. (2020-01-15)

SELECTED COMMENTS (CONT')

OTHER POLITICIANS AND KEY OPINION LEADERS

Charles E. Schumer

U.S. Senate Minority Leader

The stunning lack of substance and long-term reform achieved will harm American workers and industry. (2020-01-16)

Kevin McCarthy

U.S. House Minority Leader

President Trump just signed the Phase One Trade Agreement! China has taken advantage of the US for years. President Trump stood up for Americans and fought for the fairness our workers deserve. (2020-01-17)

Steve Scalise

U.S. House Minority Whip

The contrast is clear: Today @realDonaldTrump signed his trade deal with China that puts America first—another huge win for workers, farmers, and consumers. Meanwhile Dems are wasting more time on their impeachment charade. It's obvious who's actually working for our country." (2020-01-17)

Marco Rubio

U.S. Senator

President Trump deserves credit for tackling the defining geopolitical issue of this century. (2020-01-17)

Stephen Schwarzman

CEO of the Blackstone Group

I think the new U.S.-China trade agreement is a very important thing. It opens the door to future improvements and helps affect changing – the nature of the relationship between the two countries. (2020-01-15)

Nelson Peltz

Founding Partner of Trian Fund Management

World-shaking event today. Really, never would I have ever imagined that we could ever do something like this and keep the tariffs in place at the same time. But it's also very important because it's a major step for world peace. (2020-01-15)

Michael Pillsbury

American Director of the Center on Chinese Strategy, Hudson Institute

So the implications of this agreement – I, as an outside adviser from Hudson Institute – the implications are being brought up by the Chinese as global, not a mere short-term or narrow trade agreement. (2020-01-15)

Rod Wells

Agricultural Retailers Association Chairman

ARA applauds the Trump administration, the office of the United States Trade Representative (USTR), and those working behind the scenes to help repair trade relations between the two countries. (2020-01-17)

Matt Blunt

American Automotive Policy Council President, former Governor of Missouri

AAPC commends the Trump administration's efforts to secure a phase-one trade agreement with China. (2020-01-17)

SELECTED COMMENTS (CONT')

THINK TANKERS AND OTHERS

Wei Jianguo (魏建國)

Former Chinese Vice Commerce Minister

The trade war has taught the US a lesson. They finally realized that engaging in a prolonged trade war will bring no good to itself, and that ending it as soon as possible is their best option. (2019-12-23)

The overall signal from the phase one agreement is much larger than the content of the deal itself. It is a boon for the world that the world's largest and second-largest economies have hit the pause key in the trade war. (2020-01-15)

Li Yong (李永)

Deputy Chairman of the expert committee of the China Association of International Trade

The phase one deal means that China and the US have entered a new relatively predictable cycle. It will be able to help revitalize the global value chain disrupted by the trade war and remedy at least some of the losses. (2020-01-15)

Brad Setser

Senior Fellow at the Council on Foreign Relations, former staff economist at the United States Department of the Treasury

Without the trade war, the United States probably would have been on track to buy \$550 billion or more of Chinese goods this year. (2020-01-16)

Daniel Russel

Vice President for International Security and Diplomacy at the Asia Society Policy Institute (ASPI), former Assistant Secretary of State for East Asian and Pacific Affairs

Even a mediocre deal is a good deal to them as a device to buy time... (2019-10-30)

Jude Blanchette

Freeman chair of China Studies at the Center for Strategic and International Studies

The list of challenges Xi faces in 2020 is undoubtedly long, but from his perspective, so too are the opportunities stemming from declining global leadership and influence of the U.S., whether real or perceived. (2020-01-15)

Scott Kennedy

Trustee Chair in Chinese business and economics at the Center for Strategic and International Studies

[T]he trade war has damaged both economies and the global economic system. (2020-01-13)

David French

Senior Vice President of government relations for the National Retail Federation

I think there's a real risk that there won't be a phase two deal. (2020-01-12)

Weijian Shan (單偉建)

Chair and CEO of PAG

Beyond these accomplishments, however, the victory rings hollow for both sides. (2020-01-13)

Bob Davis and Lingling Wei (魏玲靈)

Wall Street Journal correspondents

[T]he deal isn't what either side said it had wanted. (2020-01-13)



CHINA-UNITED STATES
EXCHANGE FOUNDATION
中美交流基金會

About CUSEF

The China-United States Exchange Foundation is an independent, non-profit and non-governmental foundation committed to the belief that a positive and peaceful relationship between the strongest developed nation and the most populous, fast-developing nation is essential for global wellbeing. Founded in Hong Kong in 2008 and privately funded, CUSEF builds platforms to encourage constructive dialogue and diverse exchanges between the people of the U.S. and China.

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