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Memo: U.S. – China Phase 1 Deal
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Overview

- The United States and China agreed to a Phase 1 deal this morning, addressing a number of the Trump administration's concerns as they relate to the United States' trade deficit with China, IP protection, tech transfer, financial services, agriculture standards, and currency manipulation. While the deal still needs to be authenticated on China's end, the office expects a signing of the agreement to happen in January by U.S. Trade Representative Robert Lighthizer and a counterpart from China. No changes to U.S. law will be required. Below are broad overviews of the chapters of the agreement.

Phase 1 Chapters

- **Intellectual Property**: The Intellectual Property (IP) chapter addresses numerous longstanding concerns in the areas of trade secrets, pharmaceutical-related intellectual property, geographical indications, trademarks, and enforcement against pirated and counterfeit goods.

- **Technology Transfer**: The Technology Transfer chapter sets out binding and enforceable obligations to address several of the unfair technology transfer practices of China that were identified in USTR's Section 301 investigation. For the first time in any trade agreement, China has agreed to end its long-standing practice of forcing or pressuring foreign companies to transfer their technology to Chinese companies as a condition for obtaining market access, administrative approvals, or receiving advantages from the government. China also commits to provide transparency, fairness, and due process in administrative proceedings and to have technology transfer and licensing take place on market terms. Separately, China further commits to refrain from directing or supporting outbound investments aimed at acquiring foreign technology pursuant to industrial plans that create distortion.

- **Agriculture**: The Agriculture Chapter addresses structural barriers to trade and will support a dramatic expansion of U.S. food, agriculture and seafood product exports, increasing American farm and fishery income, generating more rural economic activity, and promoting job growth. A multitude of non-tariff barriers to U.S. agriculture and seafood products are addressed, including for meat, poultry, seafood, rice, dairy, infant formula, horticultural products, animal feed and feed additives, pet food, and products of agriculture biotechnology. According to the White House, China has agreed to buy $40 billion to $50 billion in U.S. agriculture commodities annually for the next two years. China has not yet confirmed this figure.

- **Financial Services**: The Financial Services chapter addresses a number of longstanding trade and investment barriers to U.S. providers of a wide range of financial services, including banking, insurance, securities, and credit rating services, among others. These barriers include foreign equity limitations and discriminatory regulatory requirements. Removal of these barriers should allow U.S. financial service providers to compete on a more level playing field and expand their services export offerings in the Chinese market.

- **Currency**: The chapter on Macroeconomic Policies and Exchange Rate Matters includes policy and transparency commitments on currency issues. The chapter addresses unfair currency practices by requiring high-standard commitments to refrain from competitive devaluations and targeting of exchange rates, while significantly increasing transparency and providing mechanisms for accountability and enforcement. This approach will help reinforce macroeconomic and exchange rate stability and ensure that China cannot use currency practices to unfairly compete against U.S. exporters.

- **Expanding Trade**: The Expanding Trade chapter includes commitments from China to import various U.S. goods and services over the next two years in a total amount that exceeds China's annual level of imports for those goods and services in 2017 by no less than $200 billion. China's commitments cover a variety of U.S. manufactured goods, food, agricultural and seafood products, energy products, and services. China's increased imports of U.S. goods and services are expected to continue on this same trajectory for several years after 2021 and should contribute significantly to the rebalancing of the U.S.-China trade relationship.

- **Dispute Resolution**: The Dispute Resolution chapter sets forth an arrangement to ensure the effective implementation of the agreement and to allow the parties to resolve disputes in a fair and expeditious manner. This arrangement creates regular bilateral consultations at both the principal level and the working level. It also establishes strong procedures for addressing disputes related to the agreement and allows each party to take proportionate responsive actions that it deems appropriate.

Tariff Changes

- The Trump administration has also agreed to:
    - Scrap plans to impose a 15% tariff on $160 billion worth of Chinese goods on December 15.
    - Scrap plans to increase current 25% tariffs on $250 billion worth of Chinese goods to a 30% tariff. This was planned for lists 1, 2, and 3.
    - Decrease the current 15% tariff on $120 billion of Chinese imports to 7.5%. This applies to list 4a.

- In the end, the United States will be maintaining a 25% tariff on $250 billion worth of Chinese imports (lists 1-3) and a 7.5% tariff on another $120 billion worth of Chinese imports (list 4a), heading into more negotiations with China in 2020. You can find the tariff lists here.
- China will halt plans to increase tariffs of 10 percent and 5 percent.