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Here is What's in (and Not in) the U.S.–China Trade Deal

President Donald Trump and Chinese Vice Premier Liu signed the “Phase One” trade agreement between the two countries on Jan. 15, 2020. The economic and trade agreement includes commitments by China to increase its imports of U.S. goods and services by \$200 billion in the next two years, along with a pledge to adhere to certain standards covering a range of issues, including intellectual property protection, technology transfer, agricultural trade barriers, financial services, currency, expanded trade, and dispute resolution.

The agreement does not specifically address any tariffs currently in place. However, as part of the negotiations leading up to the Phase One deal, the U.S. refrained from imposing new tariffs that were scheduled to take effect in mid-December. The tariffs would have impacted popular consumer technology products (List 4B). Also, the U.S. Trade Representative (USTR) has announced that it will reduce the tariff rate for List 4A Chinese goods, from 15% to 7.5%. This tariff cut will take effect on **Feb. 14, 2020**. However, the 25% tariffs for Lists 1–3 covering most imports from China (with a total import value of \$250 billion) remain in effect. Correspondingly, while China suspended some of its retaliatory tariffs against U.S. imports during the Phase One negotiations, the agreement does not provide or suggest any further cutbacks in the retaliatory tariffs.

Nevertheless, the signing of this trade deal is a significant development that appears to forestall the near-term escalation of tariffs or other trade and investment restrictions.

Intellectual Property

China has agreed to undertake measures to implement additional protections for trade secrets, pharmaceutical-related intellectual property, patents, geographical indications, trademarks, as well as its enforcement mechanisms against pirated or counterfeit goods, including unlicensed use of software.

Technology Transfer

As part of this deal, China is now prohibited from supporting or directing outbound foreign investment aimed at acquiring foreign technology. Also, China can no longer pressure U.S. entities to transfer technology through administrative or licensing requirements or as a condition of market access into China.

Food and Agricultural Products

China has agreed to eliminate a group of non-tariff structural barriers to U.S. agricultural imports, such as lack of acknowledgment for U.S. regulatory certifications and bans on certain goods.

Financial Services

China has agreed to enhance market access and approval systems for U.S. financial service providers operating in China, including the removal of foreign equity limits for the securities, insurance, fund management, and futures sectors. China has also committed to allowing branches of U.S. financial institutions to provide securities investment fund custody services.

Currency and Exchange Rate

In exchange for the U.S. dropping its recent designation of China as a currency manipulator, China and the U.S. have agreed to refrain from competitive devaluations and the targeting of exchange rates for competitive purposes. Both countries have also pledged to make public disclosures of foreign exchange reserve and balance of payments data.

Expanded Trade

Between 2020 and 2021, China has committed to increasing its import levels for certain U.S. goods and services by \$200 billion in addition to the 2017 import figures. However, the agreement contains a caveat that China's purchases will be made according to market prices and based on commercial considerations. In other

words, if there is not sufficient demand for these goods and services in China, there is no mechanism to enforce this commitment. Nonetheless, the specified targets are as follows:

- Manufactured goods (i.e. autos, aircraft, electronics, industrial machinery): Increase of \$32.9 billion by 2020 and \$44.8 billion by 2021
- Agricultural goods (i.e. soybeans, meat, seafood, grains, cotton): Increase of \$12.5 billion in 2020 and \$19.5 billion in 2021
- Energy products (i.e. coal, crude oil, liquified natural gas): Increase of \$18.5 billion in 2020 and \$33.9 billion in 2021
- Services (i.e. travel, financial services, IT/telecommunications): Increase of \$12.8 billion in 2020 and \$25.1 billion in 2021

Bilateral Dispute Resolution

The Phase One deal establishes a new bilateral consultative framework for high-level and working-level bilateral discussions to evaluate the agreement and address specific issues or complaints by quarterly meetings.

President Trump has stated that it will enter into negotiations for a “Phase Two” agreement later this year, seeking to address issues not covered in Phase One. We will continue to closely monitor the Trump Administration’s progress on U.S.–China trade deal negotiations and provide timely updates.

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