



THE US-CHINA BUSINESS COUNCIL
美中贸易全国委员会

Phase One Trade Agreement USCBC Member Survey

February 2020

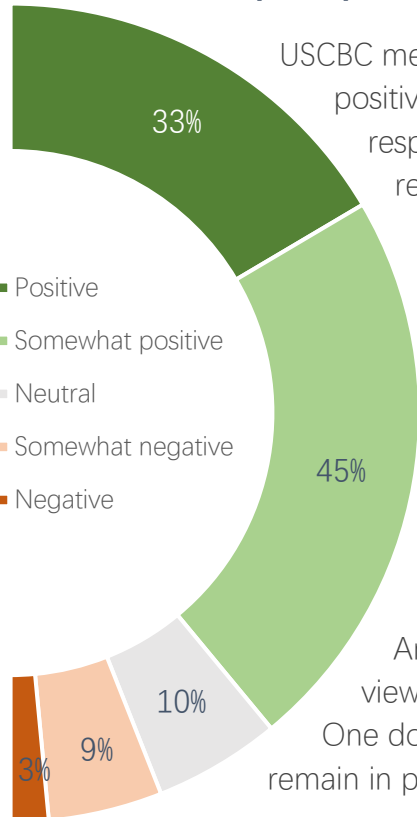
Introduction

On January 15, 2020, President Donald Trump and Vice Premier Liu He signed a Phase One trade agreement between the United States and China, cooling a near two-year tit-for-tat tariff escalation. The agreement locks both countries into commitments on several issues of importance to USCBC and our members.

Notably, the deal formalizes a series of commitments on intellectual property protection, financial services openings, and structural changes that will expand trade flows between China and the United States. Implementation of these commitments hinges on a dispute resolution system, the first of its kind between the United States and China, that establishes two new bilateral dialogues and facilitates remedial talks if any issues arise.

The agreement is a positive step that stabilizes the bilateral relationship, but some critics have called the agreement overly ambitious and vague. To better understand how the US business community views the Phase One deal and its efficacy, we asked our members a series of related questions shortly after the deal was released.

Overall perspectives on the deal



USCBC members overwhelmingly (78 percent) view the Phase One agreement as positive for the commercial environment and bilateral relations. The majority of respondents with a positive view believe the agreement stabilizes the bilateral relationship and prevents imminent imposition of new tariffs, with 6 percent responding that the agreement adds more certainty to the business environment and improves trust with suppliers.

Ten percent of respondents have a neutral view of the agreement. They believe the agreement may benefit their operations, but worry that it will not be faithfully or fully implemented in China. Other neutral responses note that many of the items outlined in Phase One were already announced or are currently being implemented, and indicate a disappointment that tariffs on Lists 1-3 remain.

Another 12 percent of respondents hold a negative or somewhat negative view of the agreement. These respondents are primarily concerned that Phase One does not create a long-term solution for US-China tensions and that tariffs remain in place.

Outlook is primarily positive because:



- It marks a cessation of further tariff escalation and puts the relationship on a more sustainable trajectory
- It resolves or addresses a specific challenge my company experiences in the market
- Other (write)
- It creates a more certain business environment and improves the trust of my customers in the reliability of our product

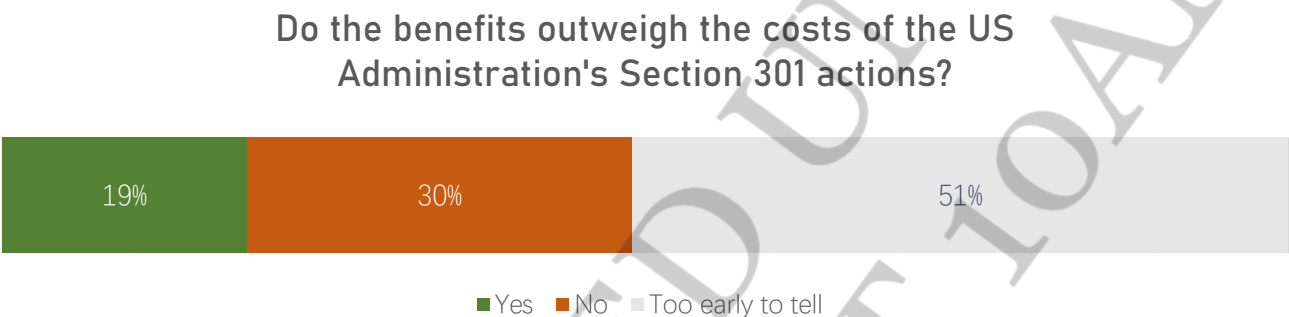
Outlook is primarily negative because:



- No long-term solution for US-China tensions, tariffs remain in place.
- It does not address the issues my company faces in the China market

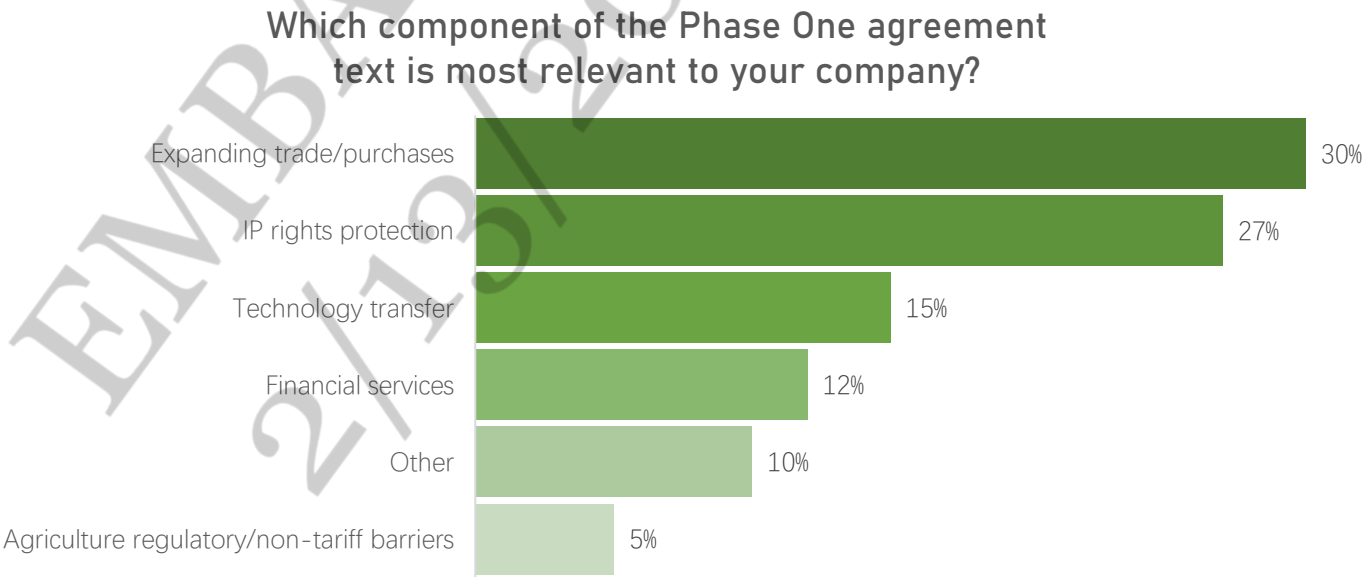
Section 301 Actions

The initial Section 301 report in the spring of 2018 and subsequent tariff actions have resulted in tariffs on over \$350 billion of imports from China. Less than one fifth of respondents believe that the benefits of the Section 301 actions outweigh the costs. While more respondents (30 percent) believe that the costs of the Section 301 actions outweigh the benefits, more than half said it is too early to tell. Responses to this question underscore that, while members are relieved at the temporary reprieve provided by the Phase One agreement, there is still substantial work to be done in “phase two” negotiations.



Direct impacts on companies

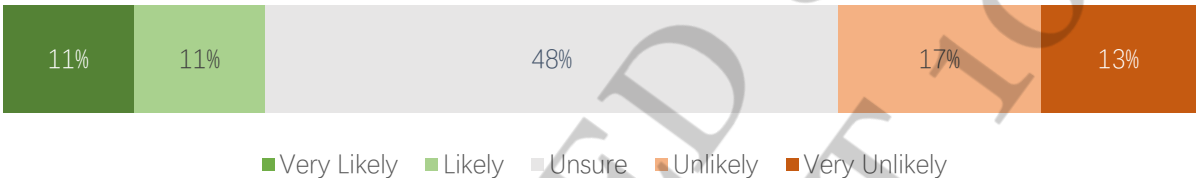
Around 60 percent of respondents indicate they will be directly impacted by the commitments listed in the text of Phase One. In order of importance, expanding trade, IP rights protection, and technology transfer commitments were listed as having the most acute impact on respondents. Some companies also reported that the reduction in List 4a tariffs and expansion of business opportunities as key impacts on their operations.



Dispute resolution mechanism

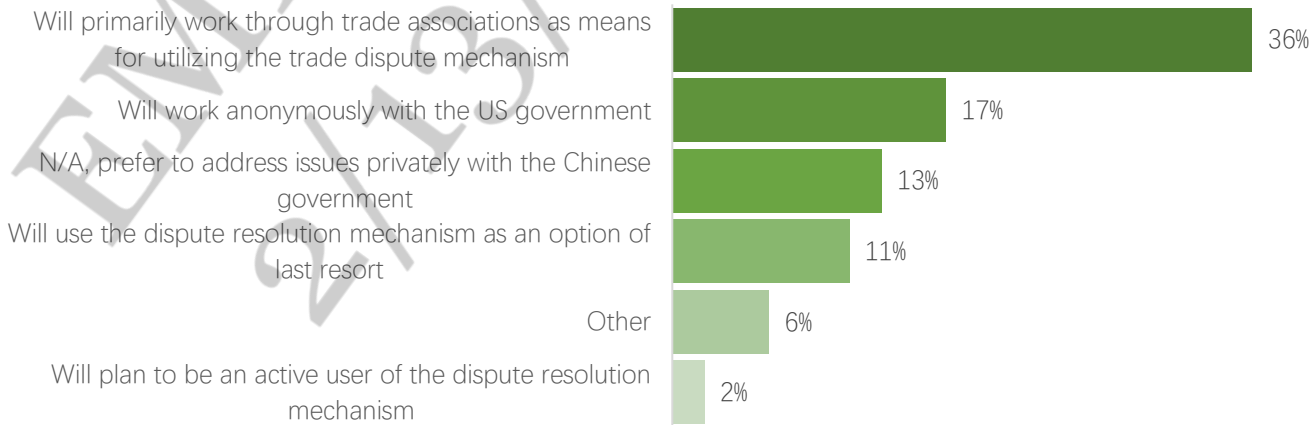
Responses to questions about the likelihood of companies to utilize the agreement's dispute resolution mechanism are a mixed bag. Only around 20 percent of respondents said their company would use the platform should a non-compliance issue arise. Of those that would use it, the majority indicated they would only do so through a trade association or anonymously with the US government. Thirty percent of respondents are unlikely or very unlikely to use the mechanism at all, and nearly half are simply unsure.

How likely is your company to utilize the Phase One agreement's dispute resolution mechanism if a non-compliance issue arises?



Some areas of the agreement will require company-specific information to resolve a non-compliance issue, such as conflicts of interest in an expert panel review or a delayed licensing timeline. As a result, it is unclear how these issues could be resolved without attributable company information. However, companies need not participate in all aspects of the dispute resolution mechanism for it to be effective. For commitments with publicly announced implementation timelines, such as publishing the IP action plan or issuing a regulation related to the agreement with a 45-day comment period in advance, the United States Trade Representative will have sufficient information without company participation to determine faithful implementation.

If you believe your company will utilize the Phase One agreement's dispute resolution mechanism, how would you envision doing so?



Note: all percentages are rounded to the nearest whole and as a result, some charts may not add up to 100%