



Longer-term benefits of the Phase One deal

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The Phase One trade agreement between the US and China is more than a trade war truce and USD200 bn of purchases. It covers a broad range of topics from intellectual property (IP) protection to opening up China's market. Our broad assessment is successful implementation of this trade deal could bring sizable long-term benefits to China and the world economy.

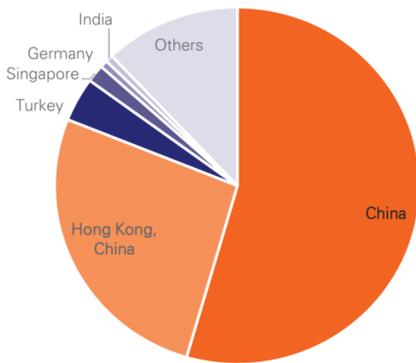
China agreed to enhance intellectual property protection by strengthening enforcement actions and increasing penalties on intellectual property infringements, shifting the burden of proof from plaintiffs to defendants, and making e-commerce platforms accountable for selling counterfeit products. It will open up the financial sector rapidly, and reduce or remove entry barriers for many agriculture products. It will also stick to a more flexible and transparent exchange rate regime. These are all necessary reforms to ensure China's continued economic growth in the coming years.

The Phase One deal is also good news for the world economy, which will benefit from a more open and fast growing China market. In particular, agriculture producers will likely benefit from China's opening up its agriculture market. China's fight against counterfeits and piracy will likely reduce global trade of fake goods, and also speed up the penetration of world consumer brands to Chinese consumers in lower tier cities. Removing foreign ownership limits and better protecting IPs and trade secrets will likely benefit foreign companies in China and bring new market entrants.

Implementation of the trade deal will likely face some challenges in the short term owing to disruptions caused by the coronavirus outbreak, but we think this is unlikely to cause a complete breakdown. The main risk comes from outside the trade agreement, such as US restrictions on technology exports and sanctions on Chinese tech companies. Ongoing implementation of US legislations, especially the yet-to-be released "emerging and foundational technologies" list, could potentially be a big negative shock.

How effectively the Phase One trade deal is implemented over the next two years will determine when and how the Phase Two discussion will start. Resolving the more difficult issues such as China's subsidies to SOEs and industrial policy will require a higher degree of mutual trust between US and Chinese officials. Our expectation is that any meaningful progress on the Phase Two deal will not likely happen before 2021.

80% of seized counterfeit and pirated goods originated from China (including Hong Kong)



Source: Deutsche Bank Research, OECD. Data in 2016



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This is an excerpt of our [China Macro report on longer-term benefits of the Phase One deal](#), published on February 25, 2020.

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