U.S.-China trade overview

A look at the ongoing trade dispute, including a timeline of interactions and information on tariffs

May 22, 2019

Producer
Presentation Center Team
Roadmap

- Background
- Trade dispute timeline
- Tariffs
- Ongoing trade negotiations
The United States’ goods trade deficit with China was nearly $420 billion in 2018

U.S. goods trade deficit with China, 1985-2018

BILLIONS OF U.S. DOLLARS

Sources: Census Bureau, 2019.
Chinese M&A deals face scrutiny in the U.S.; as a result, Chinese purchases of U.S. firms has dropped significantly

Multiple Chinese acquisitions of U.S.-based companies have been delayed or blocked in 2017 and 2018, suggesting a more restrictive approach to Chinese investment in the U.S. than in recent years

**Chinese acquisitions of U.S. companies that have been blocked or delayed during Trump’s time in office**

<table>
<thead>
<tr>
<th>Date announced</th>
<th>Acquirer</th>
<th>Target</th>
<th>Value</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct 2016</td>
<td>Oceanwide Holdings Group</td>
<td>Genworth Financial</td>
<td>$2.7 billion</td>
<td>Pending — on Jan. 30, 2019, the parties agreed to an eighth waiver to extend the merger deadline to Mar. 15, 2019, pending regulatory reviews</td>
</tr>
<tr>
<td>Nov 2016</td>
<td>Canyon Bridge Capital Partners</td>
<td>Lattice Semiconductor</td>
<td>$1.3 billion</td>
<td>Blocked by President Trump in Sept. 2017 at the recommendation of CFIUS; CFIUS cited the Chinese government’s role in supporting the acquisition as a major reason for the move</td>
</tr>
<tr>
<td>Nov 2016</td>
<td>HNA Group</td>
<td>Global Eagle Entertainment</td>
<td>$416 million</td>
<td>Canceled — delayed by CFIUS and eventually abandoned in July 2017</td>
</tr>
<tr>
<td>Jan 2017</td>
<td>HNA Group</td>
<td>SkyBridge Capital</td>
<td>$200 million</td>
<td>Canceled — the deal was abandoned in April 2018 after CFIUS regulations delayed it for over a year</td>
</tr>
<tr>
<td>Jan 2017</td>
<td>Ant Financial</td>
<td>MoneyGram</td>
<td>$1.2 billion</td>
<td>Canceled — after failing to gain CFIUS approval three times due to concerns about Ant gaining access to sensitive data, Ant abandoned the deal on Jan. 3, 2018</td>
</tr>
</tbody>
</table>

**2018 & 2019 update:**

- Purchases of U.S. firms by Chinese buyers dropped to **U.S. $3 billion** in 2018, a **95%** decrease from previous years
- However, mergers and acquisitions in Europe increase **81.7%** in the same time period
- Chinese investors sold **$13 billion** of U.S. assets in 2018 – making China’s net U.S. direct investment **negative $8 billion** last year
- These pressures are likely to persist through 2019 as the U.S. moves to increase scrutiny of venture capital and tech acquisitions

Sources: National Journal research, 2019. South China Morning Post

Slide last updated on: February 15, 2019
Trump administration’s stance on cross-border M&A deals and CFIUS reform

The Trump administration’s concerns regarding cross-border M&A deals

**Technology acquisition**
CFIUS has been increasingly wary about foreign financing of American companies that are developing cutting-edge technology such as artificial intelligence, augmented reality and robotics that would give countries like China an advantage over the U.S.

**National security**
Some policymakers are concerned about Chinese investments in American technology, which they consider a threat to U.S. military superiority and the defense industry.

**Data theft**
Acquisitions of data-rich companies around the world face increased antitrust deal scrutiny. Since the Equifax breach, U.S. regulators and lawmakers have become more concerned about the idea of the Chinese or Russians getting ahold of sensitive financial data.

The Trump administration & China

In October 2018, the Trump administration published a press release stating that it would vet more foreign investments in the U.S. Although these restrictions had global reach, China stands to lose the most from the policy shift. It would allow the U.S. to block any M&A transactions deemed a risk to national security, such as tech and telecommunications companies. This shift follows a series of U.S. actions aimed at reigning in China’s tech initiatives, specifically 5G and Made In China 2025. It also follows the administration’s punitive decision to place $250 billion worth of tariffs on Chinese imports. The administration announced that, beginning in November 2018, a pilot program under CFIUS would review and block deals deemed a threat.


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Timeline of the U.S.-China trade dispute

**April 2, 2018**
China imposes tariffs on U.S. imports worth $3 bn in direct response to the U.S. tariffs on steel and aluminum

**April 3, 2018**
U.S. proposes tariffs on $50 bn in Chinese goods, targeting electronic products

**April 4, 2018**
China proposes imposing tariffs on $50 bn in U.S. goods, including soybeans, cars and chemicals

**April 6, 2018**
After Trump calls for a new wave of tariffs targeting $100 bn of Chinese goods, the U.S.TR publishes a proposed list of 1,333 products to target

**May 20, 2018**
U.S. and China reportedly reach an agreement and put the tariffs on hold while they work out the details

Previous actions

**August 2017**
USTR launches a Section 301 investigation into the Chinese government, in response to the growing trade deficit with China and complaints from U.S. companies about IP theft

**January 2018**
The U.S. announces a 30% tariff on imported solar panels and taxes on large residential washing machines starting at 30%. The U.S. relies heavily on imports of both from China

**March 9, 2018**
Trump imposes tariffs of 25% on steel imports and 10% on aluminum imports from all nations, including China; the tariffs go into effect on March 23

**March 22, 2018**
The Section 301 investigation finds that China is engaging in discriminatory trade practices related to technology transfer, intellectual property and innovation

Sources: Bloomberg, National Journal Research, PIEE.
Timeline of the U.S.-China trade dispute (continued)

**June 15, 2018**
Trump acts on his April threat and imposes tariffs on $50 bn in Chinese goods: duties on $34 bn of goods took effect on July 6, while those on a separate list of products worth $16 bn will apply on August 23

**June 15, 2018**
China retaliates with tariffs on $50 bn of U.S. goods, targeting U.S. agricultural products and manufactured goods

**July 10, 2018**
Trump escalates the dispute by announcing 10% tariffs on an additional $200 bn of Chinese goods; the tariffs will take September 24

**July 6, 2018**
List 1 tariffs go into effect: U.S. and China impose tariffs on $34 bn of imports

**July 20, 2018**
Trump threatens tariffs on all U.S. imports from China, which would cover the remaining $262 bn of the $504 bn of Chinese goods imported to the U.S. in 2017

**August 3, 2018**
China threatens duties of 5-25% on $60 bn of U.S. goods after Trump threatened to raise proposed tariff rates on $200 bn of Chinese goods from 10% to 25%

**August 23, 2018**
List 2 tariffs go into effect: U.S. and China impose tariffs on the remaining $16 bn of imports

**September 24, 2018**
List 3 tariffs go into effect: U.S. imposes tariffs on $200 bn of Chinese imports and China imposes tariffs on $60 bn of U.S. imports

**December 1, 2018**
Trump and Xi Jinping meet at the G20 summit and declare a 90-day truce in the U.S.-China trade dispute

**December 14, 2018**
China agrees to temporarily lower tariffs on U.S. autos and buy U.S. soybeans

**May 13, 2019**
Trump announces 25% tariffs on $300 billion of imports, largely consumer goods

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**What’s next?**

Trump and Xi are set to meet in June at the G20 summit in Japan. They may agree on a deal then, but whether a draft agreement is likely to be completed before their meeting is uncertain.

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June 2018: The U.S. imposed $50 billion of tariffs on Chinese goods and China retaliated with $50 billion of tariffs on U.S. goods

The first and second round of Section 301 U.S. tariffs affected about $50 billion of Chinese products

List 1: U.S. tariffs on $34 billion of Chinese products were applied on July 6
- Automobiles 25%
- Industrial machinery 25%
- Electronic equipment 25%
- Medical devices 25%
- Antennas 25%
- Motorcycles 25%
- Plastics 25%

List 2: Tariffs on another $16 billion of these Chinese were applied on August 23
- Soybeans 25%
- Meat 25%
- Seafood 25%
- Electric vehicles 25%
- Coal 25%
- Chemicals 25%
- Automobiles 25%

China imposed retaliatory tariffs on $50 billion of U.S. products

Chinese tariffs on $34 billion of U.S. products were applied on July 6
- Soybeans 25%
- Meat 25%
- Seafood 25%
- Electric vehicles 25%

Tariffs on another $16 billion of these U.S. products were applied on August 23
- Coal 25%
- Chemicals 25%
- Automobiles 25%


Slide last updated on: March 28, 2019
June 2019: After delays, the U.S. imposed tariffs on a new list of goods and started working toward tariffs on all remaining goods

Which Chinese products will be subject to tariffs?

The May 13 list includes almost 4,000 products, including:

- Household goods
- Kitchenware and appliances
- Clothing
- Smartphones
- Televisions
- Sporting goods
- Pens
- Rare earth metals and some other minerals
- Pharmaceuticals and certain medical goods

25% tariff

Which key products are not covered by tariffs?

Sources: The New York Times; US Trade Representative

Slide last updated on: May 21, 2019
How will tariffs affect different groups?

Implications for different stakeholders

**US consumers**
Prices on US consumer goods could increase, as costs for importers and manufacturers increase

**US importers**
US importers pay tariffs to Customs and Border Protection but will likely pass some of these costs along to suppliers in China

**US exporters**
As China institutes retaliatory tariffs, US farmers will have to determine whether to cut prices to remain competitive in China

**Other producers**
Some US buyers may determine that shifting production from China to other countries is their best long-term option

Sources: Reuters
The Trump administration has made payments to farmers affected by China’s retaliatory tariffs

$9.4 billion

- Total aid dispersed in aid to farmers impacted by retaliatory tariffs, as of May 2019

Outlook

$15-20 billion

- USDA projects the second round of aid to farmers to total between $15 and $20 billion

$12 billion

- The first round of aid to farmers was approved for up to $12 billion

$8.52 billion

- Of thus-far dispersed aid to farmers, direct payments account for $8.52 billion
- The payments prioritize farmers who have been hardest-hit by China’s retaliatory tariffs, particularly hog and soybean farmers

Sources: Reuters
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Key negotiators

U.S. negotiators that favor protectionism

Donald Trump  
U.S. President

Robert Lighthizer  
U.S. Trade Representative

Wilbur Ross  
Secretary of Commerce

U.S. negotiators that favor free trade

Steven Mnuchin  
Secretary of the Treasury

Key Chinese negotiators

Xi Jinping  
Chinese President

Liu He  
Vice Premier of China
Scope of negotiations

In May, the U.S. produced an eight-section document outlining how China could reduce its trade surplus, calling for the elimination of various policies and subsidies.

**On the table**

Most of the items included in the original document are fair game, including:

- Reducing China’s subsidies for its state industries
- Increasing China’s purchases of U.S. agricultural goods, energy and manufactured goods
- Creating new protections for U.S. intellectual property
- Ending forced technology transfers
- China’s currency manipulation
- Reducing non-tariff barriers to trade

**Possibly on the table**

China recently agreed to discuss:

- Cyber hacking of U.S. companies

**China has yet to promise:**

- A specific reduction in the trade deficit

**Off the table**

- Roughly 20% of the original items were deemed nonnegotiable by China for national security reasons

How will compliance be enforced?

U.S. negotiators hope to create an enforcement mechanism, which would automatically raise tariffs if China fails to comply with the new agreement.

What about the existing tariffs?

China has urged the U.S. to lift its tariffs as part of the trade deal, but Trump has said he will leave tariffs for a “substantial period” as a way of ensuring compliance.


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