

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

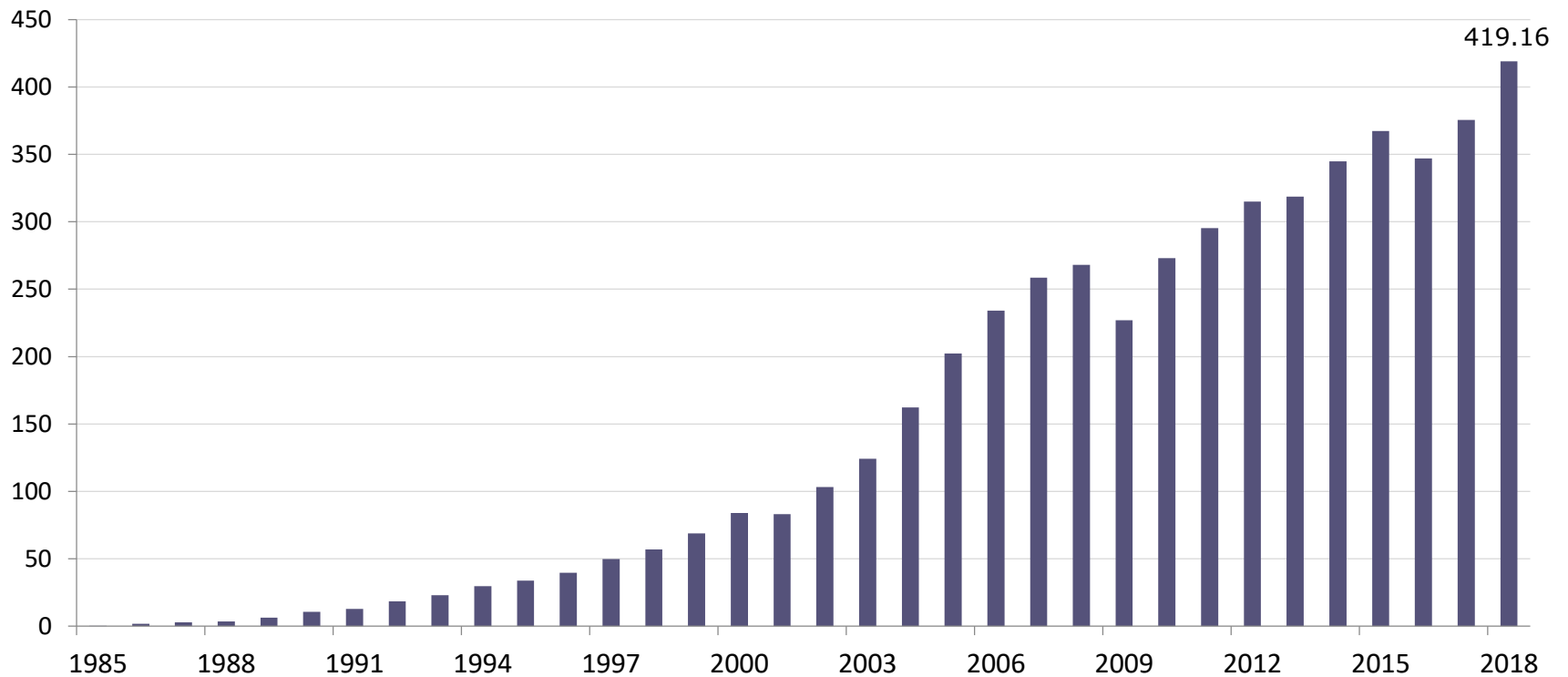
Roadmap

- 
- 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.

Slide last updated on: March 28, 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

Date announced	Acquirer	Target	Value	Status
Oct 2016	Oceanwide Holdings Group	Genworth Financial	\$2.7 billion	Pending — on Jan. 30, 2019, the parties agreed to an eighth waiver to extend the merger deadline to Mar. 15, 2019, pending regulatory reviews
Nov 2016	Canyon Bridge Capital Partners	Lattice Semiconductor	\$1.3 billion	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
Nov 2016	HNA Group	Global Eagle Entertainment	\$416 million	Canceled — delayed by CFIUS and eventually abandoned in July 2017
Jan 2017	HNA Group	SkyBridge Capital	\$200 million	Canceled — the deal was abandoned in April 2018 after CFIUS regulations delayed it for over a year
Jan 2017	Ant Financial	MoneyGram	\$1.2 billion	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

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.

Roadmap

- 
- Background
 - Trade dispute timeline
 - Tariffs
 - Ongoing trade negotiations

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

January 2018

March 9, 2018

March 22, 2018

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

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

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

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

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

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.

Roadmap

- Background
- Trade dispute timeline
- Tariffs
- Ongoing trade negotiations

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

List 2: Tariffs on another \$16 billion of these Chinese were applied on August 23



Automobiles
25%



Industrial machinery
25%



Electronic equipment
25%



Medical devices
25%



Antennas
25%



Motorcycles
25%



Plastics
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

Tariffs on another \$16 billion of these U.S. products were applied on August 23



Soybeans
25%



Meat
25%



Seafood
25%



Electric vehicles
25%



Coal
25%



Chemicals
25%



Automobiles
25%

Sources: USTR, The Wall Street Journal, Financial Times, Bloomberg

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

25% tariff

Which key products are not covered by tariffs?



Rare earth metals and some other minerals



Pharmaceuticals and certain medical goods

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

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

Roadmap

- Background
- Trade dispute timeline
- Tariffs
- Ongoing trade negotiations

Key negotiators

U.S. negotiators that favor protectionism



Donald Trump
U.S. President



Robert Lighthizer
U.S. Trade Representative

U.S. negotiators that favor free trade



Wilbur Ross
Secretary of Commerce



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

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

Off the table

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

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