

***SOM** Macro Strategies*

Macro Commentary: Biden's China Policy Will Be More Hawkish Than Trump's

December 2, 2020

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Step 1: Identify Macro Theme

What Is Biden's China Policy?

The US And China Came To An Agreement: Phase 1¹

TARIFFS

- US will half its 15% tariffs on \$120B in Chinese goods to 7.5%
- 25% Tariffs on \$25B of goods will remain at the current 25% rate
- China has lowered some retaliatory tariffs and may lower more (for example tariffs on imported cars, etc.)
- China has established an exclusion process for its tariffs
- China has not committed to specific tariff reductions in the deal

COMMITTED PURCHASES

- China has agreed to increase its total purchases of US goods and services by \$200B over the next two years
- Included in the above is a specific commitment of between \$40 and \$50B in agricultural purchases

IP & FORCED TECH TRANSFER

- China has agreed to end the practice of forcing or pressuring foreign companies to transfer their technology to Chinese companies as a condition for obtaining market access, administrative approvals, or receiving advantages from the government.
- China also committed to provide transparency, fairness, and due process in administrative proceedings and to have technology transfer and licensing take place on market terms.

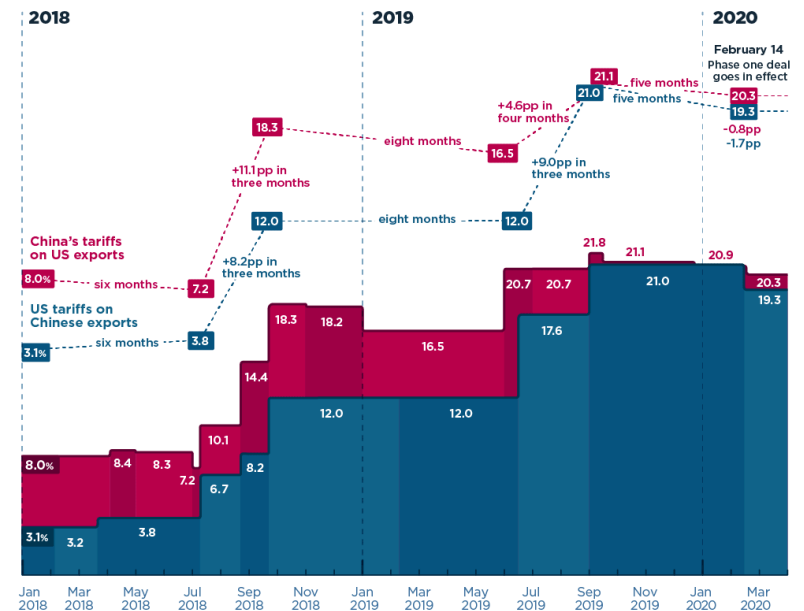
ENFORCEMENT

- The agreement will include a dispute-resolution mechanism that will serve as the enforcement arm.
- Complaints of one party will be brought to a US-China working group and if officials can't resolve their dispute, a decision will be made at the ministerial level of what action to take.

Tariffs Are Lower But Remain Very High Even With the Agreement²

US-China Trade War Tariffs: An Up-to-Date Chart

Average tariff rate, percent



1. Belt and Road Advisory, December 16, 2019
2. Chad Brown, "US-China trade War Tariffs: And Up-to-Date Chart", Peterson Institute for International Economics, February 2020

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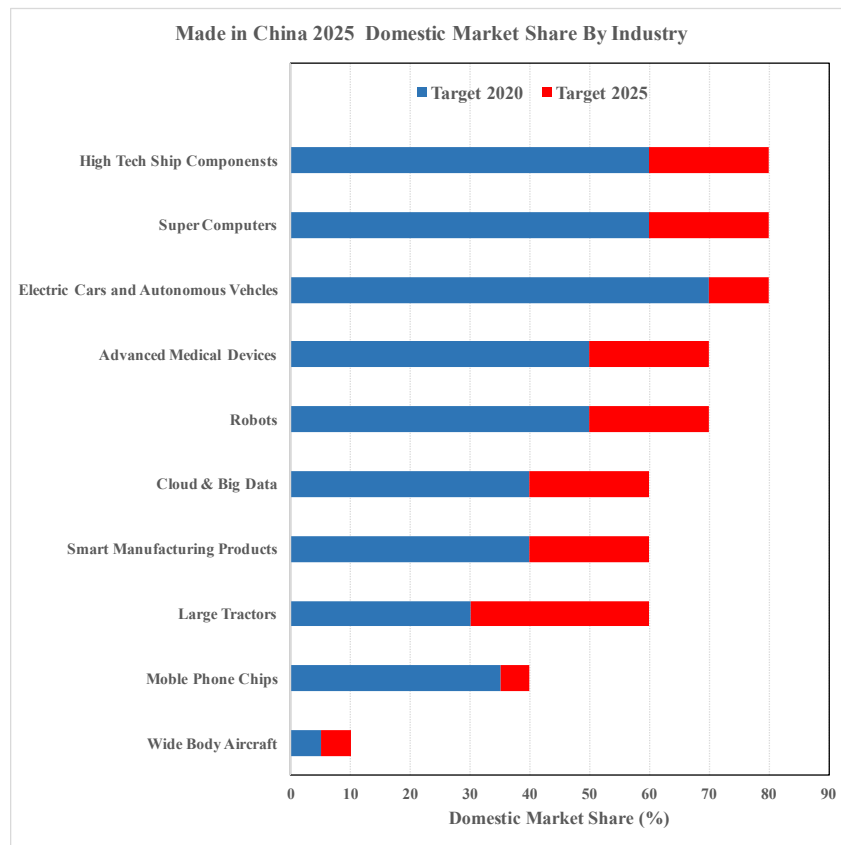
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Step 2: Fundamental Economic Framework

Trigger For Tariffs Was The Surge In China's Theft of US Intellectual Property: "Made In China 2025"¹

Goal : 70% of Core Materials Produced in China by 2025

Made In China Will Be Supported By A Every Area of Their Society



- Reaffirms the Chinese government's central role in economic planning
- Calls on all facets of society to mobilize behind the plan
- Seeks technological breakthroughs in key areas for economic and security purposes
- Promotes further civil-military integration and the two-way transfer and conversion of military and civilian technologies
- Leverages state resources, Policy Will Be support and regulatory systems
- Continues to promote import substitution and rely on indigenous products to meet growing demand in China
- Reaffirms the leading role of backbone enterprises in technology development
- Promotes Chinese enterprises to become dominant in the domestic market and internationally competitive in key industries

1. Made In China 2025, The making of a high-tech superpower and consequences for industrial countries", MERIC Papers on China, December 2016

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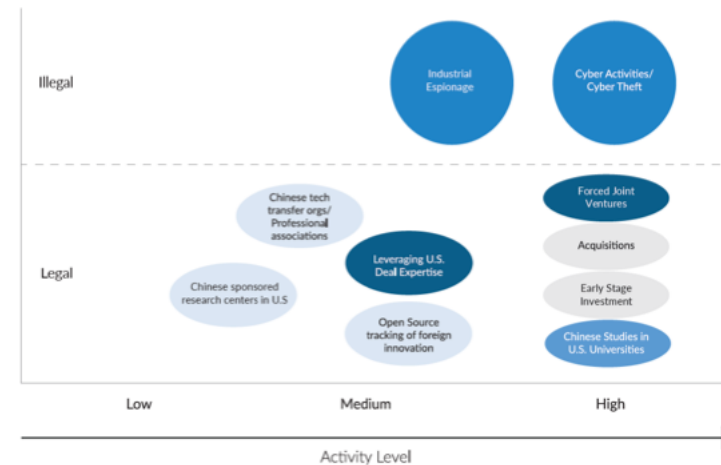
Step 2: Fundamental Economic Framework

China Used Illegal Means To Steal US IP And That Could Create Another “Rust Belt” In The Tech Sector

Many Channels Through Which China Acquires Tech¹

Non-Traditional Collectors	China uses individuals for whom science or business is their primary profession to target and acquire US technology.
Joint Ventures (JV)	China uses JVs to acquire technology and technical know-how.
Research partnerships	China actively seeks partnerships with government laboratories such as the Department of Energy labs to learn about and acquire specific technology, and the soft skills necessary to run such facilities.
Academic Collaborations	China uses collaborations and relationships with universities to acquire specific research and gain access to high-end research equipment. Its policies state it should exploit the openness of academia to fill China's strategic gaps.
S&T Investments	China has sustained, long-term state investments in its S&T infrastructure.
M&A	China seeks to buy companies that have technology, facilities and people. These sometimes end up as Committee on Foreign Investment in the United States (CFIUS) cases.
Front Companies	China uses front companies to obscure the hand of the Chinese government and acquire export controlled technology.
Talent Recruitment Programs	China uses its talent recruitment programs to find foreign experts to return to China and work on key strategic programs.
Intelligence Services	The Ministry of State Security (MSS), and military intelligence offices are used in China's technology acquisition efforts.
Legal and Regulatory Environment	China uses its laws and regulations to disadvantage foreign companies and advantage its own companies.

Some Of Those Legal, Some Not So Much²



1. Brown and Singh, "China's Technology Transfer Strategy: How Chinese Investments in Emerging Technology Enable a Strategic Competitor to Access the Crown Jewels of U.S. Innovations", DIUx, January 2018

2. "Made In China 2025, The making of a high-tech superpower and consequences for industrial countries", MERIC Papers on China, December 2016

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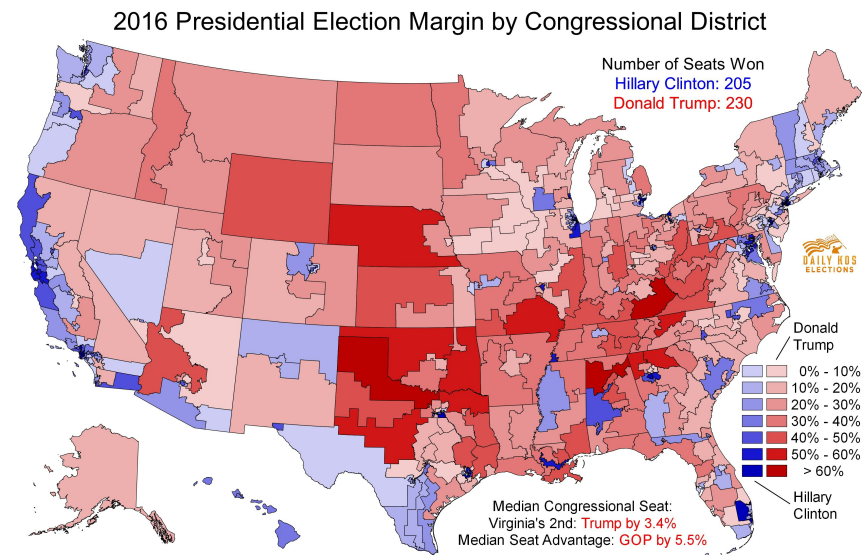
Step 2: Fundamental Economic Framework

China's Entry In WTO Created The Rust Belt And A Political Force For Change In US China Policy

The Rust Belt Is Still In Their China Driven Great Depression¹

Rust Belt Was Key To Trump's Election²

City	1970	2015	Change
Pittsburgh	41.3	40.7	-1%
Cleveland	45.9	26.2	-43%
Buffalo	42.3	31.9	-25%
Detroit	51.1	25.7	-50%
USA	41.3	51.4	24%



1. Census Data

2. Autor, Dorn and Hanson, "The China Shock: Learning From Labor Market Adjustment to Large Changes In Trade", NBER, Working Paper 21906, January 2016

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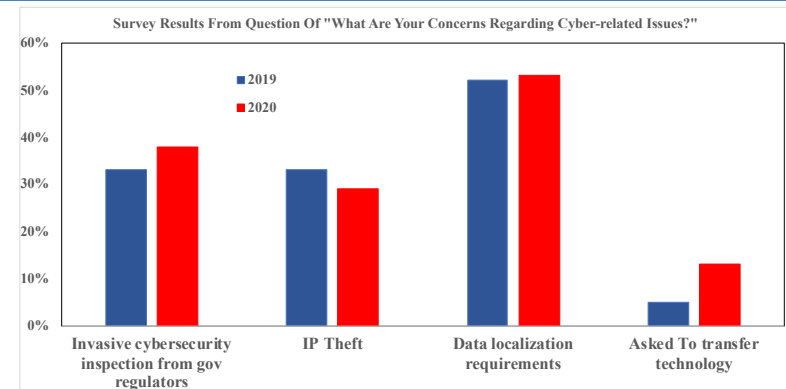
Step 2: Fundamental Economic Framework

China Commitments Have Not Match Their Behavior And That Now Included The Phase 1

Historically Chinese Commitments Have Not Resulted in Change¹

Table 1.1 China's Bilateral Commitments Relating to Technology Transfer, 2010 - 2016		
Year	Mechanism	Commitment
2010	S&ED	China reaffirmed that the terms and conditions of technology transfer, production processes, and other proprietary information will be determined by individual enterprises.
2011	JCCT	China confirmed that it does not and will not maintain measures that mandate the transfer of technology in the New Energy Vehicles Sector. China further clarified that "mastery of core technology" does not require technology transfer for NEVs.
2012	S&ED	China reaffirmed its commitment that technology transfer is to be decided by firms independently and not to be used by the Chinese government as a pre-condition for market access.
2012	Xi Visit Commitment	China reiterated that technology transfer and technological cooperation shall be decided by businesses independently and will not be used by the Chinese government as a pre-condition for market access.
2012	JCCT	China reaffirmed that technology transfer and technology cooperation are the autonomous decisions of enterprises. China committed that it would not make technology transfer a precondition for market access.
2014	JCCT	China committed that enterprises are free to base technology transfer decisions on business and market considerations, and are free to independently negotiate and decide whether and under what circumstances to assign or license intellectual property rights to affiliated or unaffiliated enterprises.
2014	JCCT	China confirmed that trade secrets submitted to the government in administrative or regulatory proceedings are to be protected from improper disclosure to the public and only disclosed to government officials in connection with their official duties in accordance with law.
2015	Xi Visit Commitment	China committed not to advance generally applicable policies or practices that require the transfer of intellectual property rights or technology as a condition of doing business in the Chinese market.
2015	Xi Visit Commitment	China committed to refrain from conducting or knowingly supporting cyber-enabled theft of intellectual property cyber-enabled theft of intellectual property, including trade secrets or other confidential business information, with the intent of providing competitive advantages to companies or commercial sectors.
2016	Xi Visit Commitment	China committed not to require the transfer of intellectual property rights or technology as a condition of doing business.

Little Has Changed For US Firms In China During Phase 1²



China's Thefts Of IP The US Seems To Be Continuing In 2020³

- May 13, CISA, and FBI issues public service announcement warning that China is attempting to steal COVID-19 research
- July 22, US orders china to close Houston consulate after coronavirus hacking allegations
 - July 21, federal grand jury charges 2 chines hacker working with the Chinese Ministry of State Security(MSS)
- Aug 3, 2020, CISA, FBI and Department of Defense warned the that the Chinese government was using malware to further network exploitation
- Sept 14, CISA & FBI issued an advisory that the Chinese (MSS) is targeting US government agencies

1. FINDINGS OF THE INVESTIGATION INTO CHINA'S ACTS, POLICIES, AND PRACTICES RELATED TO TECHNOLOGY TRANSFER, INTELLECTUAL PROPERTY, AND INNOVATION UNDER SECTION 301 OF THE TRADE ACT OF 1974, USTR, March 22, 2018
2. Member Survey 2019 and 2020, US-China Business Council
3. CISA

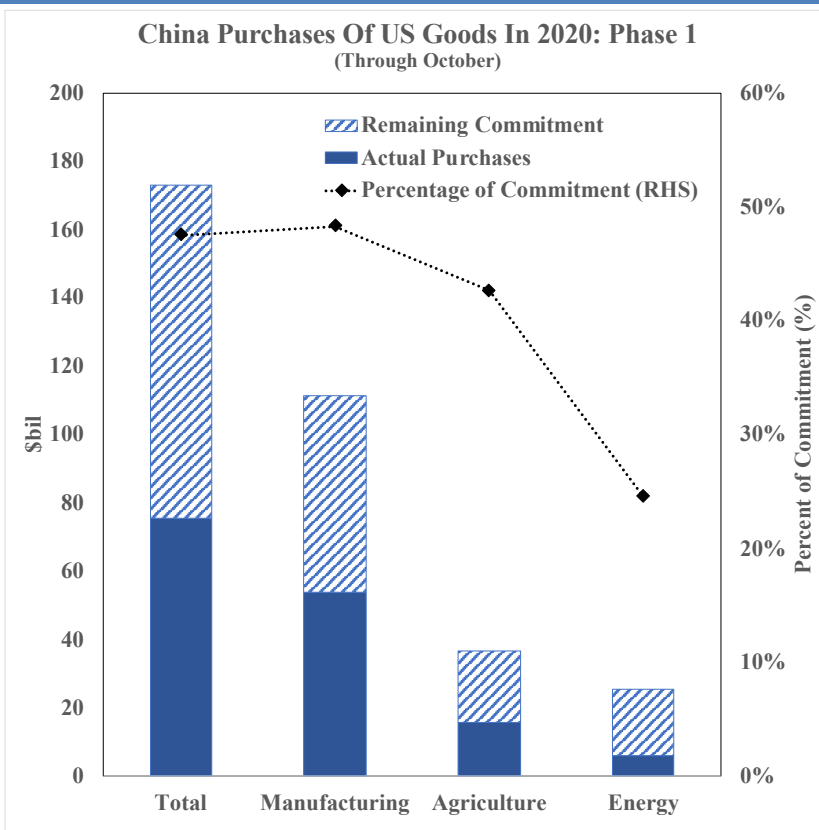
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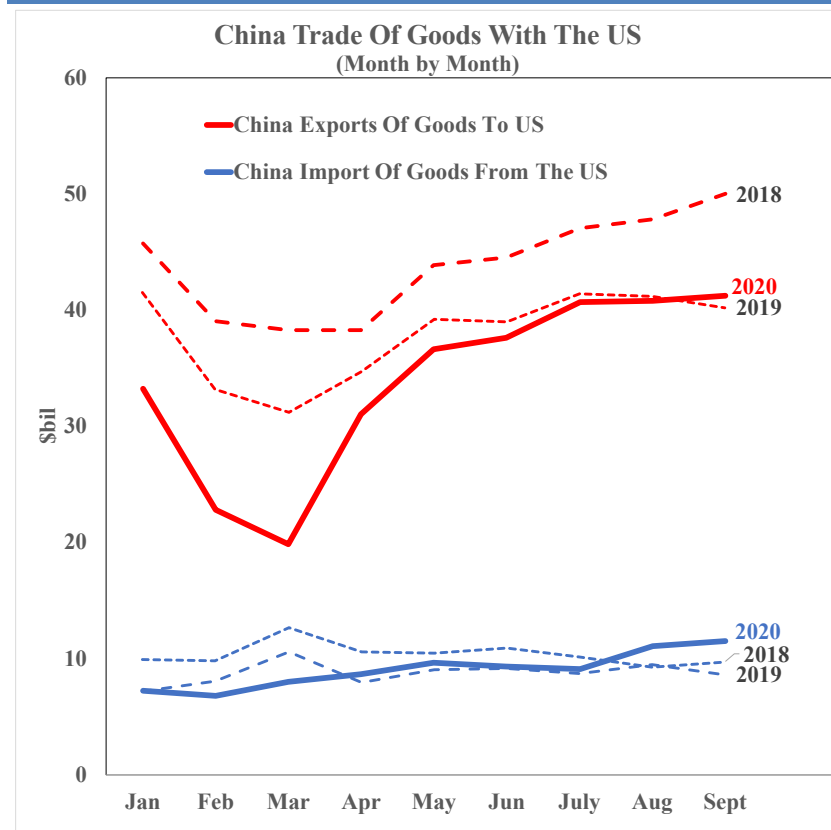
Step 2: Fundamental Economic Framework

US And China Trade Looks Little Changed Under Phase 1, With Deficits Still Large And Growing

Thus Far China Phase 1 Purchase Commitments Have Fallen Short



More Broadly, Little Has Change In US/China Goods Trade



1. Chad Brown, "US-China phase 1 tracker: China's purchases of US goods", Peterson Institute for International Economics, November 25, 2020
2. Federal Reserve Bank of St. Louis, Fred data base

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Step 3: Identify Potential Repricing Events

Unlikely Tariffs Change Under Biden If China Cannot Even Comply With The Phase 1 Agreement¹

301 Gives The President Almost Unlimited Tariff Powers

Under Section 301 of the Trade Act of 1974, *USTR has broad authority for a range of possible responsive actions to meet the goal of eliminating or otherwise resolving these unfair practices, such as the imposition of duties or other restrictions on goods or services.* USTR has determined that appropriate actions for addressing China's unreasonable or discriminatory acts, policies, and practices should include the following:

- **25 Percent Ad Valorem Duties:** In accordance with the President's direction, USTR has determined to impose an additional 25 percent tariff on approximately \$50 billion of products from China that are strategically important to, and benefit from, the *"Made in China 2025"* program and other Chinese industrial policies.
- **WTO Case:** USTR is pursuing dispute settlement at the World Trade Organization (WTO) to address China's discriminatory licensing practices
- The Department of Treasury will address concerns about Chinese investments in certain technology-intensive sectors.

US Demands Go Far Beyond Trade

- **China will cut the \$336 billion U.S.-China trade deficit by at least \$200 billion by 2020**
- **China will stop subsidizing tech companies**
- **China will cease stealing U.S. intellectual property**
- **China will cut its tariffs on U.S. goods by 2020**
- **China will not retaliate against the United States (including against U.S. farmers).**
- **The Chinese government will open China to more U.S. investment**

¹ Heather Long, "Trump is asking China to redo just about everything with its economy", Washington Post, September 21, 2018

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Step 3: Identify Potential Repricing Events

Biden Could Be More Even Hawkish Than Trump As His Focus Expands To Include Human Rights

Focus On China From Democratic 2020 Presidential Platform ¹

Will be clear, strong, and consistent in pushing back where we have profound economic, security, and human rights concerns about the actions of China's government.

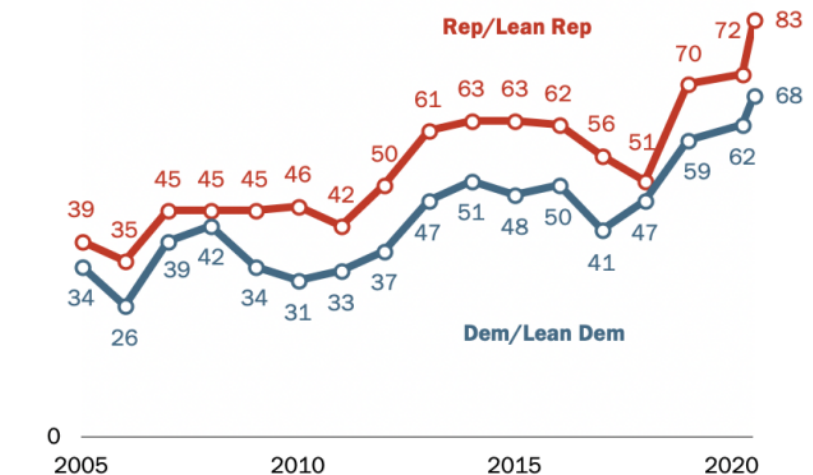
- **Theft of intellectual property.**
 - Protect the American worker from unfair trade practices by the Chinese government, including currency manipulation and benefiting from a misaligned exchange rate with the dollar, illegal subsidies, and *theft of intellectual property*.
- **South China Sea.**
 - Underscore our global commitment to freedom of navigation and resist the Chinese military's intimidation in the *South China Sea*.
- **Taiwan**
 - Committed to the **Taiwan** Relations Act and will continue to support a peaceful resolution of cross-strait issues consistent with the wishes and best interests of the people of Taiwan.
- **Hong Kong**
 - Rather than stand with President Xi Jinping as he cracks down on **Hong Kong's autonomy**, Democrats will stand for the democratic rights of its citizens. We will fully enforce the Hong Kong Human Rights and Democracy Act, including by sanctioning officials, financial institutions, companies, and individuals responsible for undercutting Hong Kong's autonomy.
- **Uyghurs**
 - And we will bring the world together to condemn the internment of more than one million *Uyghurs* and other ethnic minorities in concentration camps in China, using the tools provided by the Uyghur Human Rights Policy Will Be Act.

Support For More Hawkish Approach Towards China Is Growing²

Republicans are more negative toward China than Democrats, though all partisans hold increasingly unfavorable views

% who say they have an unfavorable opinion of China

100 %



Source: Survey of U.S. adults conducted June 16-July 14, 2020.

1. 2020 Democratic Party Platform
2. PEW Research, July 2020

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