

US-CHINA BRIEFING

Changing Realities

What you need to know about US-Chinese trade relations

February 2020



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1. Recent Developments in US-Chinese Trade Relations

In January, the United States and China signed an agreement on a Phase One trade deal requiring structural reforms and other changes to the Chinese economic and trade regime in the areas of intellectual property, technology transfer, agriculture, financial services, and currency and foreign exchange. The Phase One agreement includes a commitment by China that it will make substantial additional purchases of US goods and services in the coming years. Importantly, the agreement establishes a strong dispute resolution system that ensures prompt and effective implementation and enforcement. The United States has agreed to substantially modify its tariff measures under Section 301.¹ Read the complete [Trade Deal Document](#).

The American business community in China is generally happy with the trade deal but is less confident an interim deal will resolve the structural problems associated with China's economy. The deal could prevent a further downward spiral in the dispute but the US might not have enough leverage to push Beijing into restructuring its state-led economic model.

With the election coming this year, US President Donald Trump might be more interested in using the deal to support his political ambitions than resolving the systemic issues that worry the American business community, the deal is not addressing the systemic trade issues that the business community would be concerned about on a long-term basis.²

Trump also lauded the interim US-China trade deal in his State of the Union address, calling it a "groundbreaking" agreement that would force China to stop its trade malpractices. The deal's aim is to "defend workers, protect intellectual property, bring billions of dollars into treasury, and open vast new markets for products made and grown in the USA."³ Read the full transcript of [Trump's 2020 State of the Union Address](#).

¹ <https://bit.ly/38hOwQt>

² <https://bit.ly/2UGBZ52>

³ <https://nyti.ms/2UVs0sX>

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1.1 Huawei

The Chinese company Huawei is a leading supplier of mobile communications networks in Europe and elsewhere, and the second largest smartphone provider in the world. In May – in the midst of the trade war with China – the US had placed Huawei on a list of companies whose business relations with US partners are subject to strict controls.

Those seeking to sell or transfer US technology to Huawei must obtain a license. This can be refused if security interests are involved. The move follows Washington's decision last November to designate Huawei a national security threat due to its ties to China's communist government and fears that its telecom equipment could be hijacked for spying.⁴

1.2 General EU Strategy on China

The EU has published a [Strategy Paper](#) on how to deal with China. It is important that the EU moves forward on this – maybe with the US as a partner. Perhaps a trilateral issue, comparable to the current EU-US-Japan business case is conceivable.

The strategy paper states that the EU's response should be based on three objectives:

- Based on clearly defined interests and principles, the EU should deepen its engagement with China to promote common interests at global level.
- The EU should robustly seek more balanced and reciprocal conditions governing the economic relationship.
- Finally, in order to maintain its prosperity, values and social models over the long term, there are areas where the EU itself needs to adapt to changing economic realities and strengthen its own domestic policies and industrial base.⁵

⁴ <https://bit.ly/38iepj8>

⁵ <https://bit.ly/39pXBqv>

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2. 2019 Catalogue for Guiding Industry Restructuring

In November 2019, China's National Development and Reform Commission released the Catalogue for Guiding Industry Restructuring that takes effect January 1, 2020.

The updated catalogue is intended to transform China's economy from rapid growth to high-quality development and to adapt and modernize the industrial structure. The catalogue is an important basis for guiding the direction of domestic and foreign investment and guiding government agencies to manage local investment projects and define, import, export, land, tax, fiscal and credit policies. Read more [here](#).

3. The Impacts of a Slowdown of Chinese Business on World Economy⁶

China is experiencing a long-term slowdown in economic growth. Until recently China was in a trade war with the US. China has reached the lower end of its GDP growth target of 6-6.5 percent for 2019.

In August 2019, industrial production growth was the weakest in 17 years. In a [survey](#) conducted by the American Chamber of Commerce in Shanghai, more than three-quarters of respondents said they would be profitable in 2018, but only half expected to be profitable in 2019. It is likely that China will continue to grow at slightly reduced but still constant rates. The Swiss bank UBS expects China to grow by 5.5 percent in 2020.

However, it cannot be ruled out that a deeper slowdown or a recession could occur. This might be triggered by a domestic factor such as high debt, a geopolitical factor such as economic competition with the US or an external factor such as the disruptions caused by Brexit. Any significant slowdown in the Chinese economy will have global impacts as a recession in China would trigger shock waves throughout the global economy.

The WTO has revised downwards its forecasts for growth in world trade in 2019 and 2020, mainly because of the trade conflicts between the US and China. The WTO now assumes that global trade in goods will only increase by 1.2 percent in 2019. Because China is so deeply integrated into the global economy, a real slowdown in the Chinese economy will be experienced

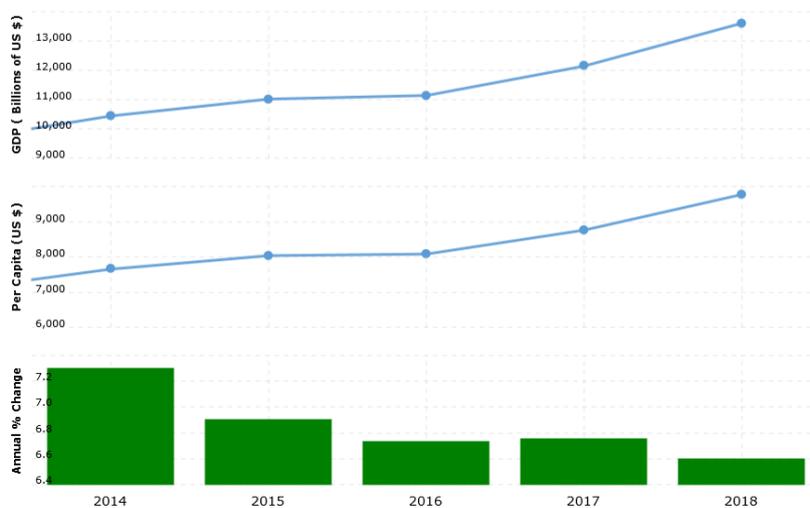
⁶ <https://bit.ly/2UJd1IM>

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worldwide. This means that even investors who are not present in China should pay attention to the country's economic situation and consider how they can hedge against risks.⁷

4. China's Economy

4.1 China Gross Domestic Product 2014 – 2018⁸

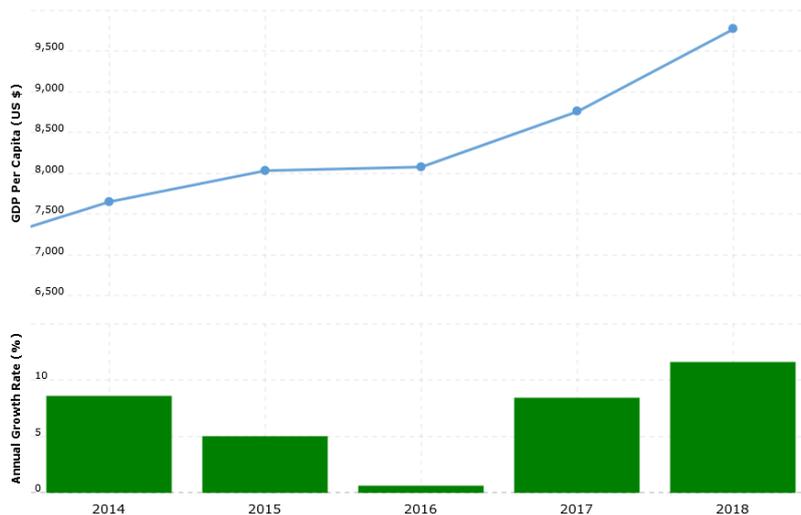


⁷ <https://bit.ly/38hWYiJ>

⁸ <https://bit.ly/31IDCRf>

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4.2 China Gross Domestic Product Per Capita 2014 – 2018⁹



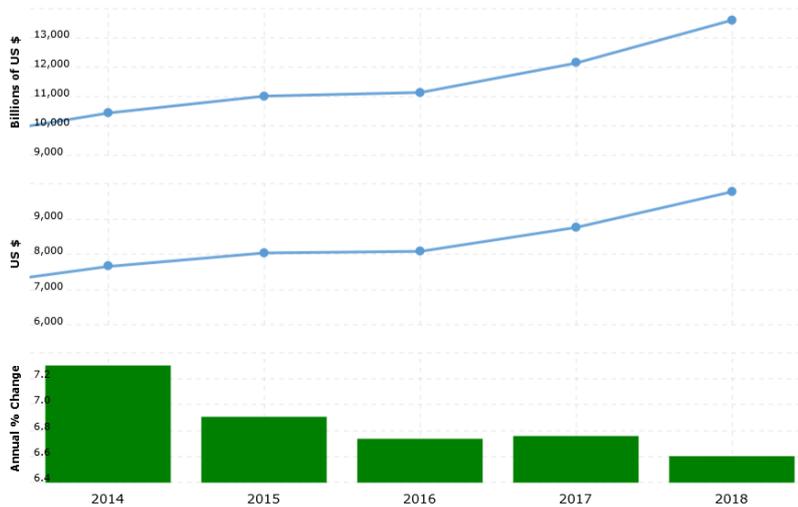
GDP generation (share of nominal gross value added in percent) 2018: manufacturing 29.4; trade, restaurants, hotels 11.2; banking, finance 7.7; agriculture, forestry, fishing 7.5; construction 6.9; real estate 6.6; mining 4.5; transportation, warehousing 4.5; information, communication 3.6; business services 2.7; others 15.4.¹⁰

⁹ <https://bit.ly/2SD6h5U>

¹⁰ <https://bit.ly/2vjs0Xo>

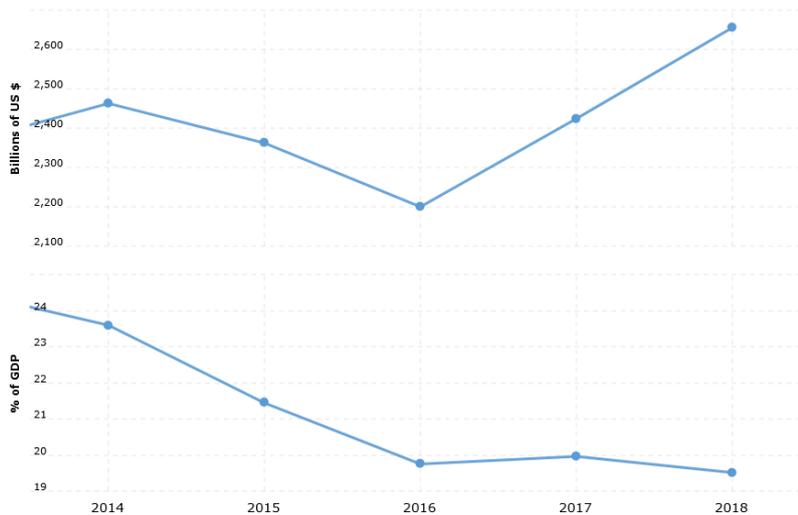
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4.3 China Economic Growth Rate 2014 – 2018¹¹



4.4 Chinese Exports 2014 – 2018 in Billions of US\$

The top exports of China are Broadcasting Equipment, Computers, Office Machine Parts, Integrated Circuits and Telephones. The top export destinations of China are the United States, Hong Kong, Japan, Germany and South Korea. Find out more about Chinas Exports [here](#).¹²



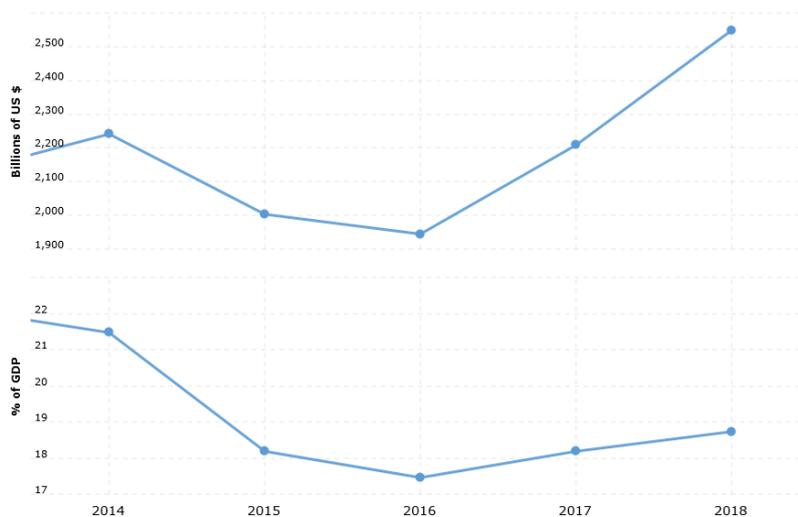
¹¹ <https://bit.ly/3bt1jBG>

¹² <https://bit.ly/2Sk9k4I>

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4.5 Chinese Imports 2014 – 2018 in Billions of US\$

Its top imports are Integrated Circuits, Crude Petroleum, Iron Ore, Cars and Gold. The top import origins are Other Asia, South Korea, Japan, the United States and Germany. Find out more about Chinas Imports [here](#).¹³



4.6 China's Global Investments 2014 – 2018

Investment has increased in recent years, overtaking the US as the largest trading partner with many Latin American and African countries and challenging America's strategic influence around the world. China has committed to become a leader in the global economy by 2025, in key industries such as artificial intelligence, infrastructure, aerospace and energy and in new technologies such as 5G. The US government has proposed deep and disproportionate cuts in diplomacy and development for three years in a row, whereas China has doubled its foreign affairs budget since 2011. The Chinese model of economic development has created dependencies in countries that are unable to repay their loans and is reluctant to contribute to international efforts to address global threats.¹⁴

China's Foreign Direct Investment (FDI) increased by 17.7 USD bn in Sep 2019, compared with an increase of 34.3 USD bn in the previous quarter. The data

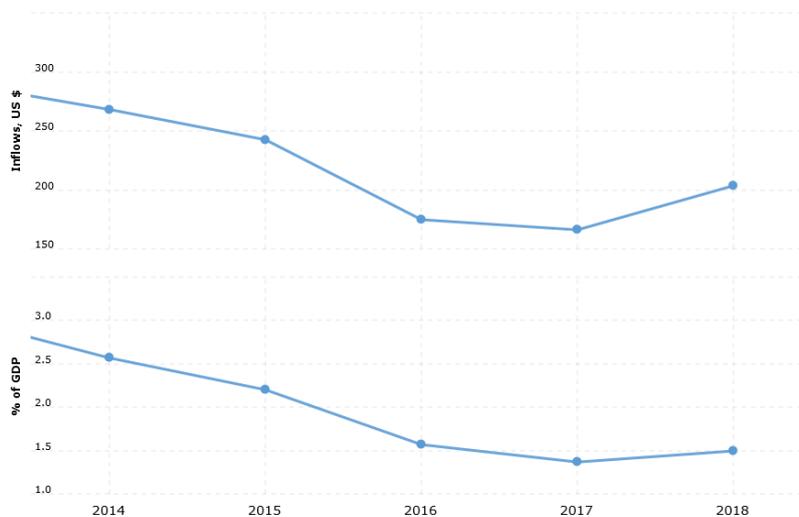
¹³ <https://bit.ly/2UEPG4m>

¹⁴ <https://bit.ly/2Sf2ugg>

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reached an all-time high of 105.2 USD bn in Dec 2013 and a record low of 6.6 USD bn in Mar 2000.¹⁵

In the latest reports of China, Current Account recorded a surplus of 49.2 USD bn in Sep 2019. China's Direct Investment Abroad expanded by 22.7 USD bn in Sep 2019. China's Foreign Portfolio Investment increased by 44.2 USD bn in Sep 2019.¹⁶



¹⁵ <https://bit.ly/2tQGAGW>

¹⁶ <https://bit.ly/2UNZjh8>