

Window On Trade Disputes

July 25, 2018



Some of the critical questions and issues we address today with regard to the China-US trade dispute

1. How did we get here and where do things currently stand?
2. What are the implications both at industry and business level?
 - ✓ Exposure for different industries?
 - ✓ Which companies see the biggest effects?
3. Where may we go from here?
 - ✓ Trade, Exchange Rate, (Foreign Direct) Investment
 - ✓ Other effects: capital flows, market access, consumer boycotts, etc.
 - ✓ Effects beyond US and China
 - ✓ Which policy response can help to de-escalate the situation
4. How should business be responding?



Today's Presenters



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Descent into US-China Trade Warfare? An act in 4 parts (so far)

2017 was a period of tactical preparation for the Trump administration's trade team. The US government spent the year loading up an array of economic bullets to fire at China, which has played out as such:

- **Act I** – anti-dumping and countervailing duties on selected products in late 2017 and early 2018, followed by China's tit-for-tat retaliation
- **Act II** – section 232 tariffs on steel (and aluminum dumping), followed by China's tit-for-tat retaliation
- **Act III** – section 301 USTR findings on IP infringement and subsequent mega-tariff announcement by the US, followed by China's tit-for-tat retaliation (just initiated)
- **Act IV** – ramp up of the “tech cold war”, including ZTE fiasco, pending Huawei investigation, CFIUS expansion, etc.; China response TBD



Pending Questions --

- When will the US roll out the next \$200 billion in tariffs, and how will China retaliate?
- How will GOP opposition to the tariff regime play out?



Table I.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. |

continued



Table I.1 China's Bilateral Commitments Relating to Technology Transfer, 2010 - 2016

| Year | Mechanism | Commitment |
|-------------|---------------------|---|
| 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. |

Source: USTR, CATALOGUE OF JCCT AND S&ED COMMITMENTS (2016); 2016 USTR REP. TO CONG. ON CHINA'S WTO COMPLIANCE 7.



China and the United States are more dependent on each other than on other nations

GDP Dependence on China and the US in US\$ BN by Country and Percent of GDP

| | Exports of value added to China (bn. US dollars) | Share of country's GDP (%) | | Exports of value added to United States (bn. US dollars) | Share of country's GDP (%) |
|-------------|--|----------------------------|-------------|--|----------------------------|
| US | \$121 | 0.7% | China | \$320 | 3.1% |
| Germany | 97 | 2.8 | Canada | 226 | 13.5 |
| Japan | 95 | 2.1 | Mexico | 158 | 12.9 |
| South Korea | 87 | 6.8 | Germany | 118 | 3.4 |
| Australia | 59 | 4.4 | Japan | 104 | 2.3 |
| Taiwan | 49 | 9.7 | UK | 77 | 2.9 |
| Russia | 41 | 2.5 | South Korea | 62 | 4.8 |
| Brazil | 33 | 1.6 | France | 45 | 1.8 |
| UK | 29 | 1.1 | Italy | 40 | 2.1 |
| France | 28 | 1.1 | Russia | 31 | 1.9 |
| Indonesia | 21 | 2.4 | India | 31 | 1.6 |
| Italy | 20 | 1.0 | Switzerland | 29 | 4.3 |

Sources: World Input-Output Database, University of Groningen, and The Conference Board



In dollar terms, technology industries are most exposed to a China-US trade conflict, but as % of output impacts on agriculture and air transport are bigger

| | US exports of value added to China (bn. US dollars) | Share of industry output (%) |
|---|---|------------------------------|
| Computer, electronic and optical products | \$9 | 3.5% |
| Crop and animal production, etc. | 6 | 4.8 |
| Other transport equipment | 6 | 3.3 |
| Air transport | 5 | 6.5 |
| Machinery and equipment n.e.c. | 5 | 3.2 |

| | China exports of value added to United States (bn. US dollars) | Share of industry output (%) |
|--|--|------------------------------|
| Computer, electronic and optical products | \$35.9 | 13.7% |
| Textiles, wearing apparel and leather products | 23.9 | 9.4 |
| Furniture; other manufacturing | 11.1 | 15.8 |
| Rubber and plastic products | 7.1 | 7.2 |
| Air transport | 2.4 | 10.3 |

Sources: World Input-Output Database, University of Groningen, and The Conference Board



Feedback? Suggestions? How Can We Help You?

Thanks for being with us; be sure to tell your colleagues about the rest of this year's Window On Series

Wednesday September 26th, 11.00-12.00 Eastern / 17.00-18.00 Brussels
Wednesday October 31st, 11.00-12.00 Eastern / 17.00-18.00 Brussels
Wednesday November 28th, 11.00-12.00 Eastern / 17.00-18.00 Brussels

Do you have suggestions for topics? Please feel free to contact Bart van Ark at: bart.vanark@conference-board.org

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The Conference Board's Trade and Global Value Chains Initiative

The Conference Board's new research initiative explores the foundations of structural changes occurring in global trade and value chains and the implications for businesses.

Some Examples of Future Research Directions:

- What do these trends in global value chains mean for global labor markets?
- To what extent do global labor markets impact how global value chains are shaped?
- Is skilled labor a critical factor in organizing value chains and international production?
- How do GVCs affect wage volatility? How can global businesses prepare for changes in labor markets and labor cost as a result of the reorganization of GVCs?

Visit our website at <https://www.conference-board.org/resources-on-trade/> to learn more about this new initiative and how to connect with our experts.



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