

Statement of the Problem

In August 2017, President Trump initiated a 301 investigation into trade practices by the Peoples Republic of China (PRC). It has been an ongoing concern that the administration decided to tackle since it covers a combination of U.S. economic trade interests, intellectual property theft, huge transfers of U.S. assets, cyber security, and national security issues.

Questions covered in this memo include:

1. What is the main point of the 301 investigation?
- 2.) How will the United States limit Investments pertaining to China?
- 3.) What fields and industries will they focus on?
- 4.) What are some possible target companies by the US government and what type of action would be implemented towards them?

Report: Off-the-record regarding the 301 trade investigation: current-future outcome

This includes reports from several off-the-record sources, who are policy experts in US-China relations, international trade, technology, finance, and security-related fields.

1. What is the main point of the 301 investigation?

The 301 investigation is an attempt to curb the theft of intellectual property and the mass production and distribution of counterfeited and pirated goods from China. The U.S. loses over \$600 billion a year on intellectual property theft that originated from China. For many years, U.S. companies investing in China have given up their technology and infrastructures in order to gain access to market share. In most cases the local Chinese companies benefit from this approach. Technology theft has been a major problem and the Chinese cyber warfare division has been known to hack into the systems of Western companies and government agencies in order to steal trade secrets that benefit their government and companies.

Hacking has become a critical problem for securing trade information and intellectual property. In this case we find that the primary sentiment of the Trump administration is to secure the microchip/semiconductor industry by ensuring they're mainly built in the US with the physical assurance that they are more secure here rather than being made abroad. It is something that started under the Bush administration, however it focused mainly on the monitoring of the microchip production process made in China. Over all, this has become a growing problem that keeps getting bigger since more technology, gadgets, and infrastructure requires these chips. We have had problems where they've either been mass counterfeited or filled with malicious software that can be used for spying and creating major security problems for the government and private sectors. This is why cyber security and cyber warfare are becoming major boom sectors as the Chinese have one of the most sophisticated cyber divisions in the world.

Also the trade deficit with China has been an issue raised by the administration and is the reason why the 301 investigation is being implemented. The Chinese government for a long time has kept trade and competition to their advantage. This is a key reason why their industries have been growing at faster rates than previously conceived. The Trump administration wants the Chinese government to improve their regulation of fair trade practices and the 301 enables it to enact a series of tariffs that represent the amount being lost on a yearly basis. In addition, the 301 is also an opportunity for the Trump administration to incorporate a series of bilateral trade partnerships with other nations at the same time. This also helps keep future options available for potentially developing new multilateral trade agreements as well as bringing new life into the Trans-Pacific Partnership negotiations that were abandoned by the Trump administration last year.

Another main point of the 301 Investigation is to counter China's long-term strategy in becoming the predominant leaders in several industries by 2025. This investigation allows for U.S. policy makers to assess conditions of current industries in the U.S. as well as limiting China's long-term strategic goal by incorporating a protectionist policy.

2.) How will the United States limit investments Pertaining to China?

Tensions between China and the U.S. are expected to get worse in the near future. Investments and any trade with China will get more difficult on both sides in the upcoming year as the Trump administration is expected to conduct a series of provocative actions that certify their opinions that China's trade actions are not being fair and agreeable. The Trump administration declared China as being a non-market economy in November 2017, which has made it much easier for U.S. policymakers to slap punitive tariffs on China. Retaliation by the Chinese will certainly occur and vice versa by the U.S. before things get better between the two states.

The steel and aluminum tariffs are a recent example but they're not very significant in the grand scheme of things. This is why a series of actions by the administration are to be expected by gradually applying pressure in order to get the Chinese to renegotiate. However, this will not happen anytime soon and there certainly is going to be more significant tariffs by the administration coming down the pipeline. However, the administration needs to do more to spell things out in the tariffs by negotiating with nations like Canada and the European Union so that their countries and US global companies are not directly impacted by the tariffs that are specifically aimed at China. In fact, negotiations via bilateral agreements with these countries could help muster support for the Trump administration's current trade policy to China.

The use of CFIUS, also known as The Committee on Foreign Investment in the United States is becoming an even stronger tool by the Trump administration as a way to use national security to block major mergers and acquisitions involving Chinese companies. Two very recent and significant cases are the blocking of the Money Gram-Alibaba merger and the hostile take-over attempt by Broadcom of Qualcomm that recently shook up the entire tech industry this month. The Alibaba-Money Gram deal represented a national security concern pertaining to access of private financial data of individuals and the Broadcom-Qualcomm ordeal signified both the dominance of the 5G wireless networks and future cyber security of U.S. infrastructure.

Another potential backlash of this decision may be China's denial of the Qualcomm purchase of NXPI Semiconductors since they are the ones that have yet to provide anti-trust approval. Potential denial is expected as it is now left in their court and the Chinese are heavily lobbied by their own semiconductor industry to preventing this deal from happening. This will serve as one of many opportunities for the Chinese to reciprocate the Trump administrations denial of these high-levelled deals. CFIUS has become a key mechanism for limiting the growth and investment of Chinese companies looking to expand their market share in the U.S. and will continue to play this role for the Trump administration for a good while longer.

3.) What fields and industries will they focus on?

We are already witnessing the steel and aluminum industry targeted from the first round of tariffs. However, it is just the beginning as the Trump administration has indicated that several more tariffs will occur and we are seeing it now with the latest \$60 billion that were slapped on Thursday, March 22, 2018. This and future rounds of tariffs are expected to target more Chinese technology and manufacturing businesses. American companies are highly reliant on these sectors as many of the parts that go into their products and/or used to construct them come from Chinese firms. Areas like computing, information technology, artificial intelligence, semiconductors, industrial machinery, telecommunications equipment, and financial industry are a few examples of industries that the Trump administration is expected to target. In regards to manufacturing, areas pertaining to equipment for agriculture, robotics, shipping, transportation, aerospace and aeronautics are also expected to become future targets as well.

The Trump administration is also looking to limit Chinese investing and/or purchasing of American companies in order to access their technologies. In this case the Chinese investor groups and state-sponsored investment funds are potential targets of the administration, whether via tariffs or CFIUS.

4.) What are some possible target companies by the US government and what type of action would be implemented towards them?

Alibaba Group: Their attempt to Purchase Money Gram was blocked by CFIUS. However, Alibaba is expected to continue attempting at increasing its market share in the United States, whether it is via their financial or ecommerce/online shopping platforms. Alibaba has a history of having vendors selling large amounts of counterfeited and pirated items sold on its Taobao website. This and other commercial ventures by this company are now potential targets by the U.S. government.

Huawei: This company has been on the U.S. radar for years since it is believe that their products can be used for spying by the Chinese government. Also, the US government has already blocked major cell phone carriers from selling their equipment/phones for national security reasons. This company is a major leader in smart phones and 5G technologies throughout the world. In fact, a big part of the Broadcomm-Qualcomm takeover concern was due to Broadcomm's relationship with Huawei since a takeover of Qualcomm could

make them a predominant leader of the 5G wireless revolution that is expected to occur in the near future.

Tsinghua Unigroup: The company is affiliated with the Chinese government and Tsinghua University in Beijing. They have previously attempted to purchase American and foreign semiconductor company's in the past and CFIUS blocked previous attempts to acquire US firms Micron and Western Digital. The Chinese import a majority of their microchips and have for years been seeking to purchase foreign firms in order to build up their own industry as a whole. Either CFIUS or other forms of trade protectionism like tariffs could be used to make it harder for future attempts to make purchases.

Commercial Aircraft Corporation of China (COMAC): China has been investing heavily into their aerospace industry and COMAC was established in 2008 by the state to become a competitor to Boeing. Their planes are cheaper to purchase and lease than Boeing aircraft, however they haven't been selling in the US for various reasons. COMAC would be a tariff target, especially since there is speculation of a massive Boeing contract worth \$1 trillion dollars being targeted by the Chinese as retaliation.