



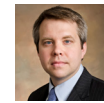
# Five Dimensions to Watch Amid U.S.-China Tensions

How rising U.S.-China tensions could unsettle markets.

June 2020

## KEY INSIGHTS

- Tensions are rising with U.S. President Donald Trump using a “blame China” strategy as the centerpiece of his November reelection campaign.
- Further escalation in U.S.-China tensions is possible, with the U.S. elections coming up in November.
- January’s trade truce between the U.S. and China is at risk.



**Chris Kushlis**

*Fixed Income Sovereign Analyst,  
Asian Markets*

Tensions between the U.S. and China have ratcheted higher lately as U.S. President Donald Trump has made blaming China the centerpiece of his November reelection campaign. This has manifested into a range of threats and action from the U.S. in recent weeks. China has broadly responded with proportionate measures, though some actions taken recently have further inflamed the situation. Further escalation in tensions is possible as the election date nears. This could have implications for financial markets, so understanding the different dimensions of the tensions and the risks involved is important.

Here we highlight five key areas investors need to watch over the coming months.

### **Trade Deal—January Agreement Under Threat**

President Trump has threatened to walk away from the trade deal signed in January, leading officials in China to threaten the same. The risks of the deal breaking have clearly risen. Let’s not forget that the trade deal’s biggest achievement was putting a restraint on further tariff escalation. Therefore, in the scenario where the truce doesn’t hold and the U.S. walks away first, it’s possible that existing tariffs on imported goods will be raised further. In response, China

“For financial markets, the trade deal collapsing poses the biggest danger.”

## Five Key Areas to Watch Over the Coming Months



“Technology is an area of great competition between the two countries.

might decide to weaken the renminbi. For financial markets, the trade deal collapsing poses the biggest danger.

### **Technology—Ambition and Security Concerns Collide**

Technology is an area of great competition between the two countries. While the U.S. seeks to maintain its position as a leader in technology with less reliance on China in the supply chain, China is striving to become more self-sufficient and a future tech powerhouse. The recent step-up in tensions on this front is related to Chinese telecommunications giant Huawei Technologies. Last month, the U.S. announced tighter restrictions on the ability of Huawei to use U.S. technology or software design in the manufacture of its semiconductors outside the U.S.

The new rules, which are scheduled to come into effect this September, will apply some pressure, but it's unlikely that the U.S. Commerce Department will make them so tight as to be highly disruptive. China's options to retaliate on tech in the near term are limited. Medium term, the goal is self-reliance, and China's government continues to invest in building an indigenous chip capacity that can compete at the frontiers of tech.

### **Financial—Tighter Constraints on Access to International Finance**

There have been a few developments on this front lately. Of particular note was the U.S. Senate passing a bill that could stop some Chinese companies from listing shares on U.S. stock exchanges unless they adhere to certain U.S. accounting regulations, such as for audits. This has the potential to affect some of China's tech giants, although they could shift their listings to other places, such as Hong Kong. The bills also currently propose that any delisting would not happen until 2025 (or that there would be a three-year grace period for China to reach agreement

on compliance with the regulations), so companies would have time to relocate listings or put in place the measures needed to comply.

Separately, the U.S. Federal Retirement Thrift Investment Board, which manages government retirement funds, walked away from plans to invest in Chinese stocks this year following heavy pressure from the Trump administration. This is a symbolic move, but it is not expected to have a significant immediate financial impact on China. What could be more meaningful is if other public pension plans at the state and local levels in the U.S. also come under pressure to exclude Chinese securities. So far this doesn't appear to be the case, but it's important to monitor.

### **U.S. Congress—Raising the Geopolitical Stakes on a Range of Issues**

Congress is considering a number of anti-China bills that cover a wide range of topics, including a coronavirus responsibility act, stripping China of sovereign immunity against lawsuits, and new bills on Xinjiang and Tibet, as well as others. Here, it's important to watch whether bills that pass make punitive actions mandatory or allow the executive latitude to decide how to impose any penalties.

### **Strategic Relationships—Tensions in Hong Kong Take Center Stage**

Here it's important to monitor developments in Hong Kong, Taiwan, and South China Sea. What has garnered a lot of attention recently is Hong Kong. In response to China proposing to move ahead with a national security law for the territory, the U.S. announced that it no longer considers Hong Kong autonomous from China. As a result, the U.S. could impose a range of measures, including targeting sanctions on Chinese officials and removing Hong Kong's special trading status. As Hong Kong's exports are relatively small, the latter is manageable.

The stakes turn higher if the activities and movement of top-level officials are targeted or if sanctions are imposed on Chinese financial firms. Indications are that the measures won't go that far, which is encouraging.

In the South China Sea, the U.S. continues to push its naval patrols while China continues to build its presence and target ships from other countries. These naval maneuvers have not led to any major incidents, though the possibility cannot be discounted.

With respect to Taiwan, the U.S. continues to support the government in a high-profile way. Most of these acts

are symbolic but in a way that appears to edge toward treating Taiwan as de facto independent, which is a clear red line for China. The current Taiwanese government, while advocating for independence as a long-term goal, is not inclined to escalate the situation right now with any such declaration.

Monitoring these five factors will be important as the U.S. election campaign intensifies over the coming weeks and months. Further escalation and deterioration in any of these areas has the potential to impact investor sentiment and ignite volatility in financial markets.

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

# T.RowePrice<sup>®</sup>

## Important Information

**This material is being furnished for general informational and/or marketing purposes only.** The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

**Australia**—Issued in Australia by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

**Brunei**—This material can only be delivered to certain specific institutional investors for informational purpose upon request only. The strategy and/or any products associated with the strategy has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

**Canada**—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

**China**—This material is provided to specific qualified domestic institutional investor or sovereign wealth fund on a one-on-one basis. No invitation to offer, or offer for, or sale of, the shares will be made in the People's Republic of China ("PRC") (which, for such purpose, does not include the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the PRC. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the PRC. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the PRC that are expressly authorized under the laws and regulations of the PRC to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the PRC. Potential investors who are resident in the PRC are responsible for obtaining the required approvals from all relevant government authorities in the PRC, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the PRC, or nationals with permanent residence in the PRC, or to any corporation, partnership, or other entity incorporated or established in the PRC.

**DIFC**—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

**EEA ex-UK**—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**Hong Kong**—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

**Indonesia**—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

**Korea**—This material is intended only to Qualified Professional Investors upon specific and unsolicited request and may not be reproduced in whole or in part nor can they be transmitted to any other person in the Republic of Korea.

**Malaysia**—This material can only be delivered to specific institutional investor upon specific and unsolicited request. The strategy and/or any products associated with the strategy has not been authorised for distribution in Malaysia. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

**New Zealand**—Issued in New Zealand by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

**Philippines**—THE STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

**Singapore**—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

**South Africa**—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

**Switzerland**—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

**Taiwan**—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

**Thailand**—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

**UK**—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

**USA**—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2020 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the bighorn sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.