



# China Becomes a Renewed Target in the 2020 Election



Tensions mount over key issues in wake of the pandemic.

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Following the coronavirus outbreak, renewed tensions between the U.S. and China have complicated the delicate détente that both countries reached through the tenuous phase I trade agreement—which halted the pattern of escalating tariffs and offered some incremental reforms to Chinese market practices.



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With the economic fallout caused by COVID-19, the disease caused by the coronavirus, the Trump administration lost its ability to campaign on an expanding economy and record unemployment. Instead, the White House and the Republican Party have found an effective political target in China.

Though the Trump administration has viewed China as a “strategic adversary” throughout its tenure, its party now sees “tough on China” rhetoric as a key strategy to keep voters committed to the president. Consequently, investors are now reconsidering the security of the phase I trade deal—and wondering what other regulations could come next.

## Facing a Multi-front Battle in an Increasingly Protectionist World

The Trump administration recently took actions across three key policy areas related to China: critical technology, national security, and economic protectionism.

Critical technology, a long-standing concern in the U.S.-China relationship, has garnered renewed attention. Given competition in cutting-edge technologies like 5G, the U.S. has pursued policies that will both protect and incentivize next-generation industrial dominance while addressing crucial national security concerns.

The U.S. Commerce Department recently adopted regulations aimed at securing the supply chains of technologies like semiconductors from Chinese government interference. These rules—combined with tighter restrictions on the Chinese telecommunications giant Huawei—send a clear signal: The U.S. will continue to impose policies that attempt to give it a critical technology advantage over China.

Meanwhile, Congress has introduced several bills in response to China’s initial handling of the coronavirus outbreak, as well as its recent actions in Hong Kong,

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including a reparations and sanctions act against officials connected to the coronavirus response, legislation removing China’s sovereign immunity against lawsuits, and new legislation addressing the erosion of autonomy in Hong Kong and the protections held by Tibet. Though few may become law, these bills indicate a clear legislative trend likely to continue well beyond 2020.

#### **“Reshoring” of Supply Chains Gains Traction**

Additionally, the coronavirus has renewed conversations about the “reshoring” of supply chains, beginning with those critical to fighting COVID-19. Congress and the White House are actively developing incentive packages to encourage certain manufacturers of personal protective equipment and other medical supplies to return production to the U.S., as well as to attract a broader swath of industrial production.

Sector-wide reshoring will take decades of continuous government support and strategic planning by companies, regardless of industry. Nevertheless, we expect these conversations to continue into the next administration—regardless of which party wins the White House.

#### **U.S. Moves Could Result in Delisting of Some Companies**

The United States has also identified financial markets as a battleground against China—for reasons related to both national security and market openness. For years, the Public Company Accounting Oversight Board (PCAOB) has flagged “China-Related Access Challenges” that have hindered the agency’s capacity to gain “complete and timely access” for inspections and investigations of Chinese public companies.

In an effort to bolster the U.S. capacity to audit these firms, the Senate passed the Holding Foreign Companies Accountable Act (HFCA), which would require the public companies to disclose if they are “owned or controlled by a foreign government” like the Chinese Communist Party and would give a company three years to comply with PCAOB audits—or risk delisting from U.S. exchanges.

After months of efforts to reconsider U.S. federal pension investment in Chinese stocks, the Senate unanimously passed HFCA. The bill is awaiting consideration in the House of Representatives. Though the measure’s future is uncertain, key members of Congress are committed to heightening the regulatory risk profiles of Chinese firms.

#### **More Friction on the Horizon**

No matter which party controls the White House in 2021, we should not expect a significant shift in the increasingly negative trajectory of the U.S.-China relationship, particularly with China also taking a harder line to protect its interests.

Though the flurry of anti-China action within the U.S. government may have been catalyzed by the politics of the coronavirus, the critical issues that have resurfaced will not fade in the short term. In fact, they may define the conversation in the inevitable next round of negotiations—diplomatic or economic—between the U.S. and Chinese governments.

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