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US Restrictions on China:

Export Controls and Investment Security in the Next Administration

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October 15, 2024

Presented at Global Economic Prospects Fall 2024

1750 Massachusetts Avenue, NW | Washington, DC 20036 | www.piie.com

Economic Measures Restricting Commerce with China are Proliferating

- National security, human rights, and other concerns are driving bipartisan push for:
  - National security reviews on investment (inbound *and* outbound)
  - Export controls and financial sanctions on *specific* Chinese entities
    - SDN, Entity List, China Military Industrial Complex Companies List
  - Countrywide controls on technology
    - Advanced semiconductors and equipment to make them
  - Bans on import/sale of Chinese connected vehicles and software
  - Use of extraterritorial controls expanded vastly under Biden
    - FDPR, zero *de minimis*

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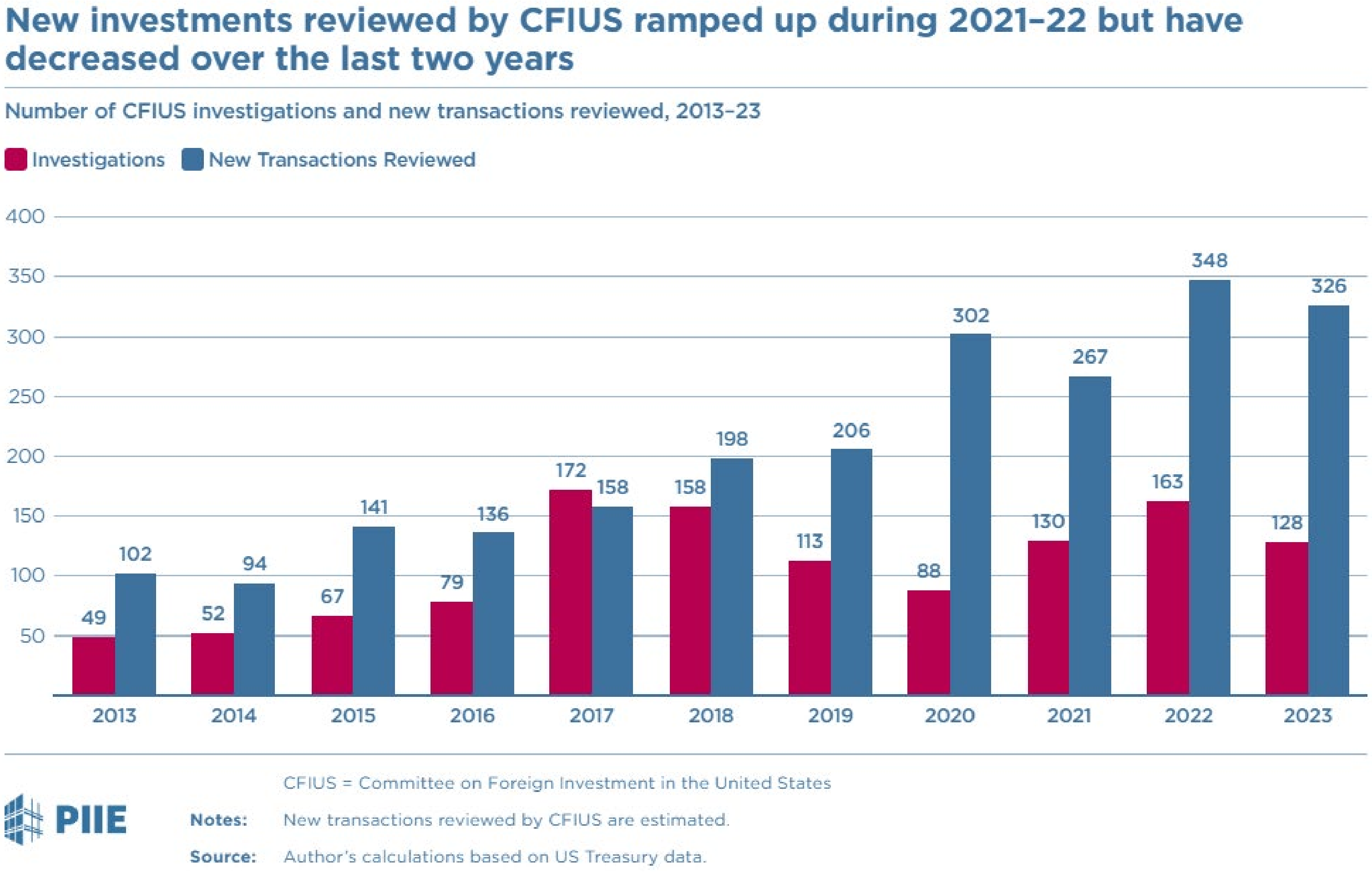
Investment Security Reviews on the Rise

- Committee on Foreign Investment in the United States (CFIUS) reviews foreign investment for security threats
- Congress expanded CFIUS powers in 2018
- Transactions reviewed doubled under Trump, rising further under Biden
- Investigations add further cost and delay



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CFIUS Blocked Over $121 Billion in Major Deals Since 2016

Biden administration formally extends review of U.S. Steel deal, pushing decision past election

How a little-known agency holds power over TikTok's future

U.S. Calls Broadcom's Bid for Qualcomm a National Security Risk

Grindr has been sold by its Chinese owner after the US expressed security concerns

Trump bars Chinese-backed firm from buying U.S. chipmaker Lattice

U.S. blocks MoneyGram sale to China's Ant Financial on national security concerns

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Reviews Ensnare Rivals and Allies Alike

- More reviews cover investment from allies than from rivals
  - Allies invest more and in more sensitive sectors
- China: only 14% of reviews under Trump, 10% under Biden
- Not yet seeing in macro data signs CFIUS is leading US to get less FDI than other jurisdictions, globally has declined since 2021 peak.

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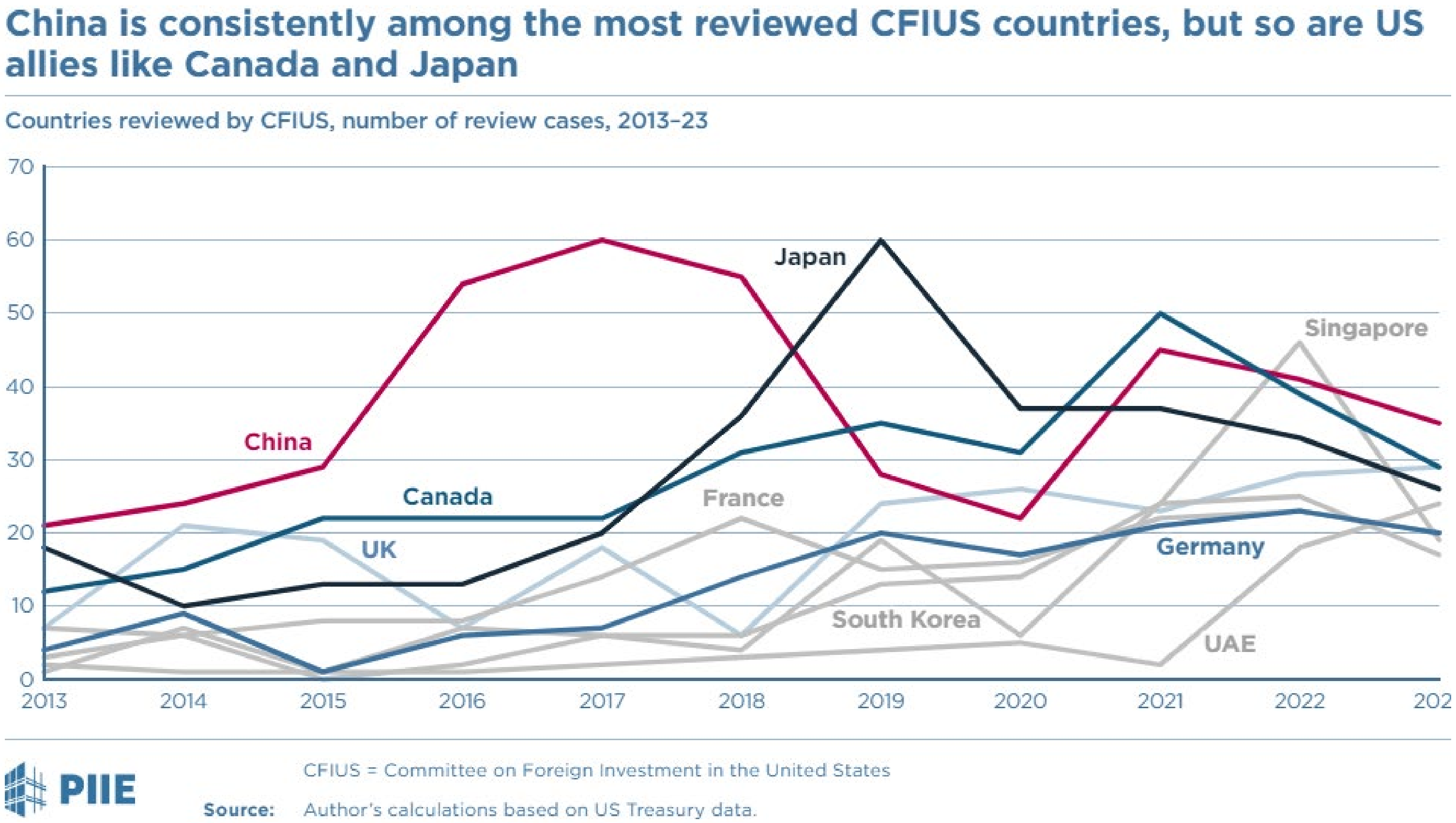
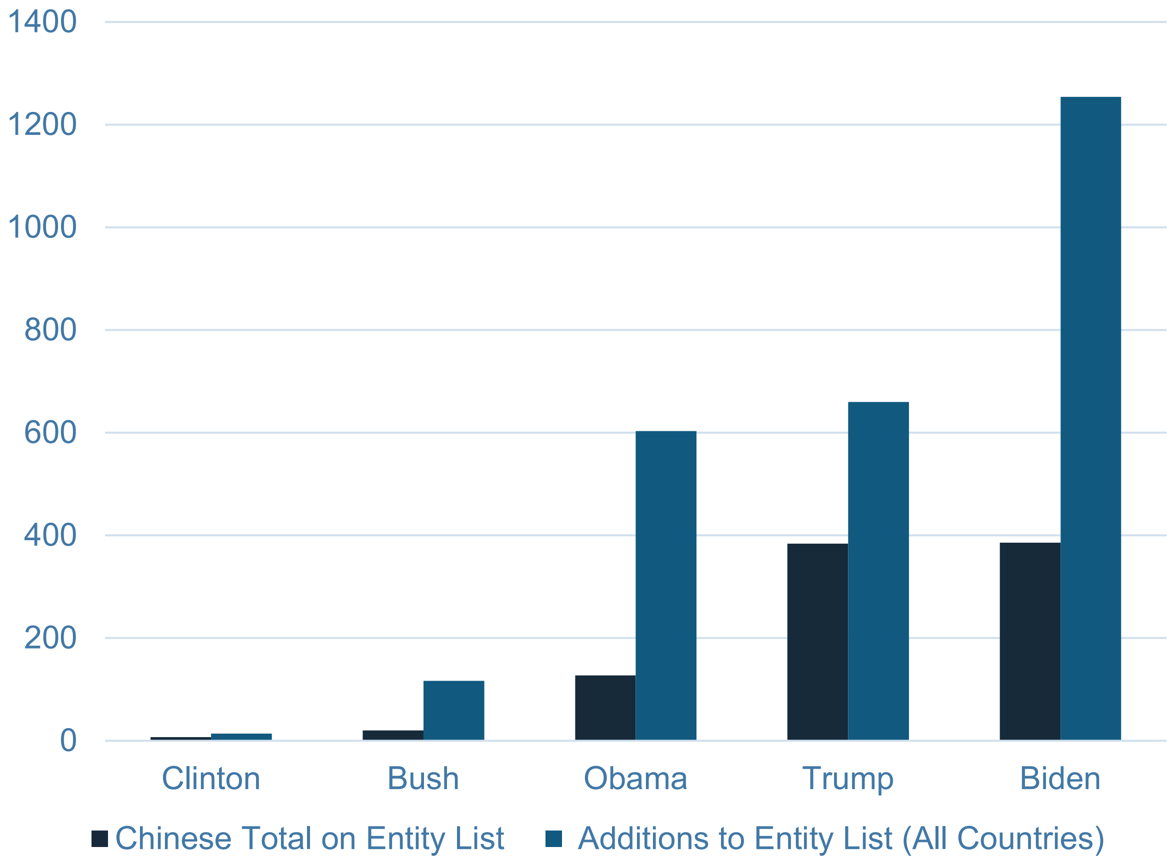
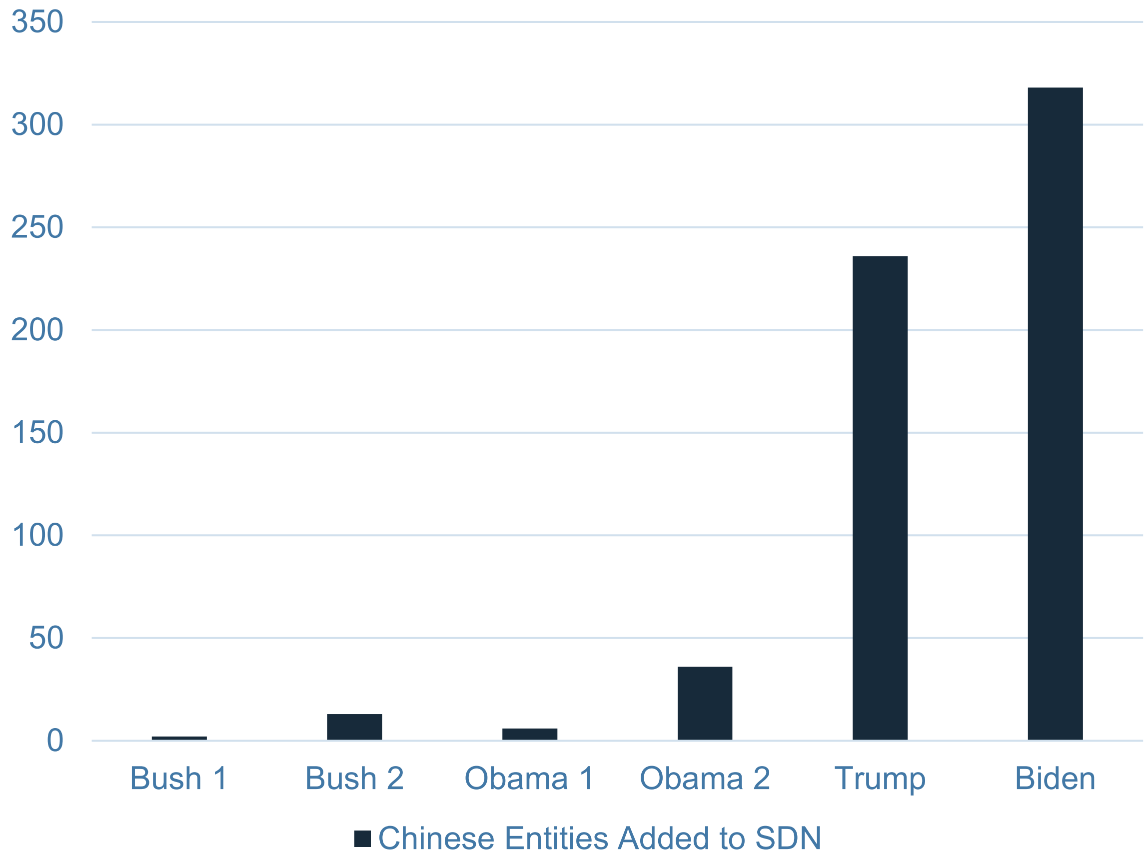
Risks to Investment From Rising Reviews



- Two ways can discourage investment that we cannot see in the data:
  - Not bothering or quietly abandoning M&A because CFIUS would reject
  - Not opening or expanding US operations to avoid expansive jurisdictional claims (even Korean semi company without significant US operations was blocked from sale to CN buyer.)
- Works at cross purposes to US industrial policy—discouraging firms with sensitive tech to invest here.

Lists of Sanctioned Chinese Entities are Growing Rapidly





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Entity List Has Targeted Many Top Chinese Technology Firms

HUAWEI

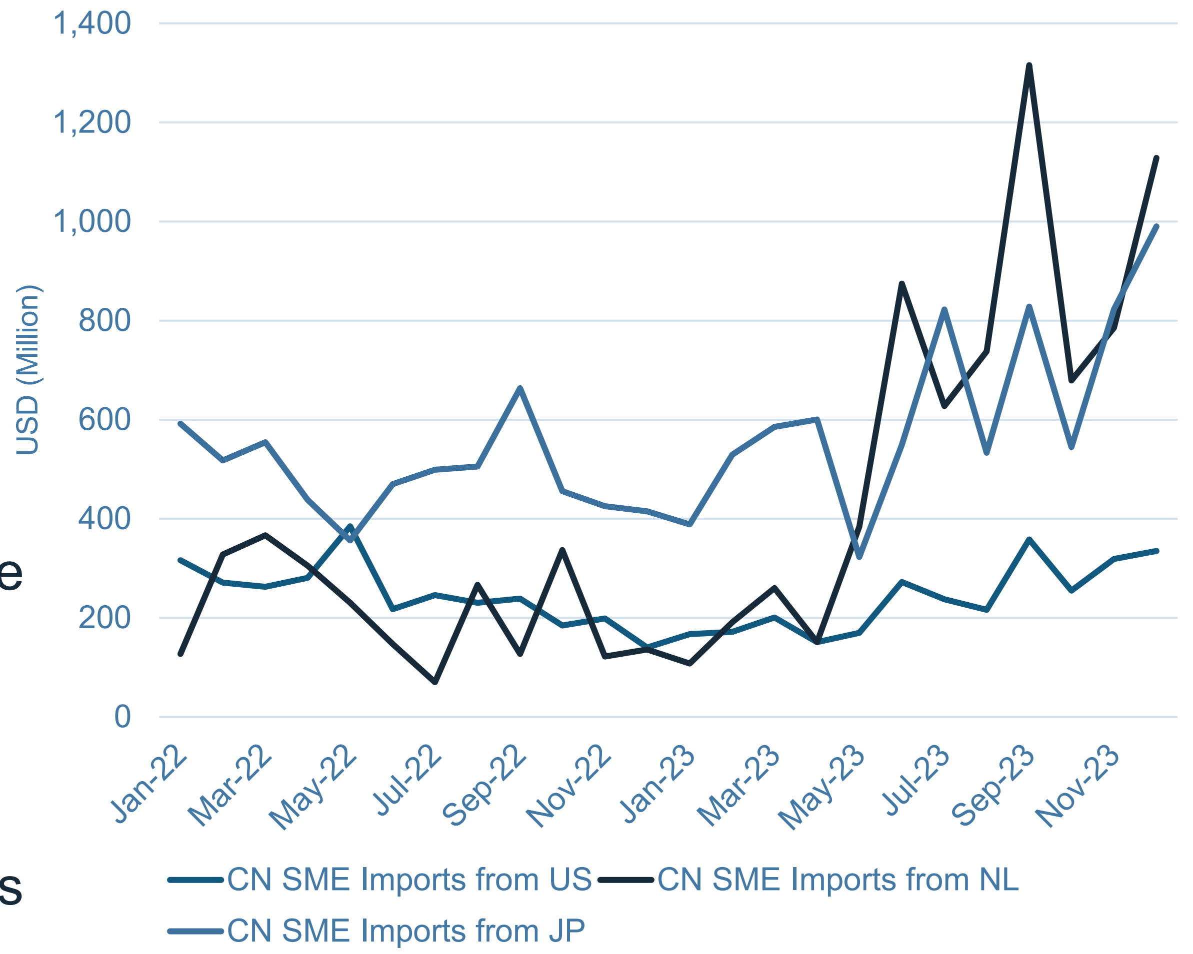
華大基因
BGI

sensetime

SMIC 中芯国际集成电路制造有限公司
Semiconductor Manufacturing International Corporation

Expanded Sanctions May be Justified, but Incur Economic Costs

- Entity list targeted major tech firms, but can restrict specific tech and subsidiaries so fewer unintended consequences
  - Yet, NY Fed study found US suppliers to entity listed Chinese firms lost $130b in market capitalization after their customers were listed
  - No evidence of reshoring or friendshoring: lost sales not compensated by sales at home or to US allies
- SDN list is nuclear option, used mostly on logistics firms involved in threats like fentanyl or Iran smuggling. Future use on major CN firms would have major economic and diplomatic costs



Source: China Customs

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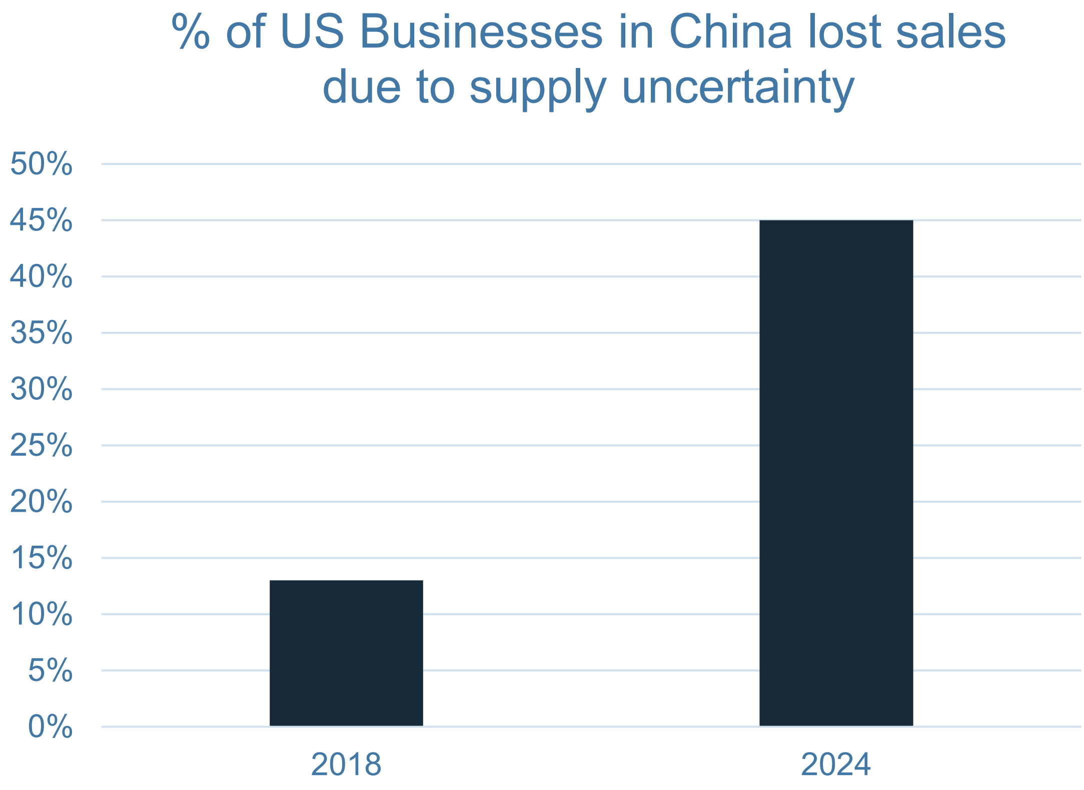
Risks of Going too Far on Export Controls

- Design out of US firms from global supply chains to avoid controls (limited so far due to chokepoints)
- US firms lose revenue to foreign rivals, who gain competitive advantage and more resources for R&D
- Reduced visibility into and leverage on China long-term (ex: no longer have US engineers in China's advanced chipmaking facilities)



Source: US-China Business Council

Outlook for Restrictions in the Next Administration

- On CFIUS, Sanctions, and Export Controls, continuity from Trump to Biden
  - More focus on allies, but Biden ramped up use of Trump-era tools, including applying extraterritorial measures more broadly
  - Congressional pressure will limit political space to soften restrictions
- Harris administration:
  - No indication Harris' China policies would differ substantially from Biden's
  - Continued expansion of restrictive lists (new technologies and CN entities)

"not about decoupling--it is about de-risking"

Outlook for Restrictions in the Next Administration

- Trump Administration Two Scenarios
  - Dealmaker (low probability due to failure of phase 1 and political pressure)
    - Phase two deal to reciprocally remove investment/export restrictions?
    - Inviting in FDI? Trump on Chinese EVs: “If they want to build a plant in [the US]…they can – using American workers”
  - Accelerated decoupling (high probability)
    - “Stop China from buying up America”
    - Sectors: electronics, semiconductors, pharmaceuticals, biotech, finance
    - <u>Highly destabilizing </u>scenario with damage to US, China and world economies

“completely eliminate U.S. dependence on China”

Not if, but How Much: Restrictions will Rise No Matter the Outcome in November

Candidate	FDI Screening	Export Controls	Sanctions
Harris	• CFIUS reviews at similar level as today • Possibly some streamlining for allies	• Measured list expansion • Limited extraterritoriality outside semiconductors. • Continued Focus on Coalitions	• Leaving sanctions on major CN firms/banks on table for worst case scenario
Trump	• Use of CFIUS for more nationalist economic policy goals, blocking more deals • Significant expansion of outbound screening	• Extensive use of FDPR • lower *de minimis* beyond semiconductors	• Adding Huawei and other large CN firms to SDN
Both	• Scrutiny of nat sec and politically sensitive deals • Some outbound investment restrictions	• Continued expansion of control lists for technologies and entities	• Continued sanctioning of small firms involved in Fentanyl/Iran/DPRK business

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Thank you!

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