



# Outlook for US Restrictions on China in Trump's Second Term

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# Economic Measures Restricting Commerce with China have Proliferated

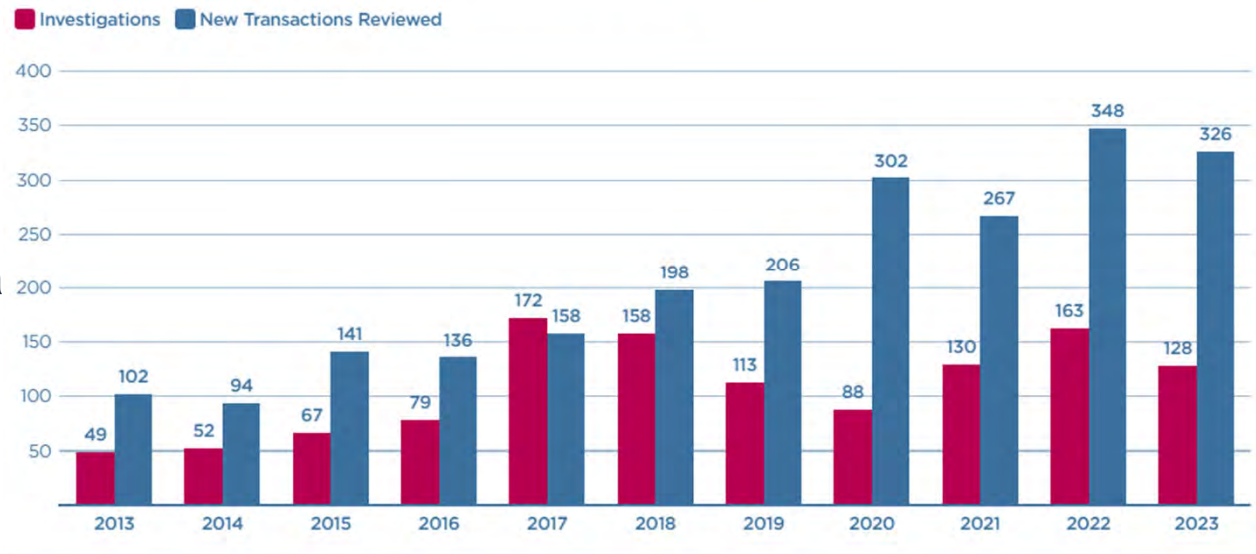
- National security reviews on investment (inbound *and* outbound)
- Export controls and financial sanctions on *specific* Chinese entities
  - SDN, Entity List, China Military Industrial Complex Companies List
- Countrywide controls on advanced semiconductors and equipment to make them
- Bans on import/sale of Chinese connected vehicles and software
- Use of extraterritorial controls start under Trump and expanded vastly under Biden
  - FDPR, zero *de minimis*

# Investment Security Reviews on the Rise

- Congress expanded Committee on Foreign Investment in the United States (CFIUS) powers in 2018
- Transactions reviewed doubled under Trump, rising further under Biden
- Rise in reviews driven by China concerns, but China is only 10% of reviews under Biden, 14% under Trump
- Question: will Trump be more open to Chinese investment this time?

## New investments reviewed by CFIUS ramped up during 2021-22 but have decreased over the last two years

Number of CFIUS investigations and new transactions reviewed, 2013-23



CFIUS = Committee on Foreign Investment in the United States

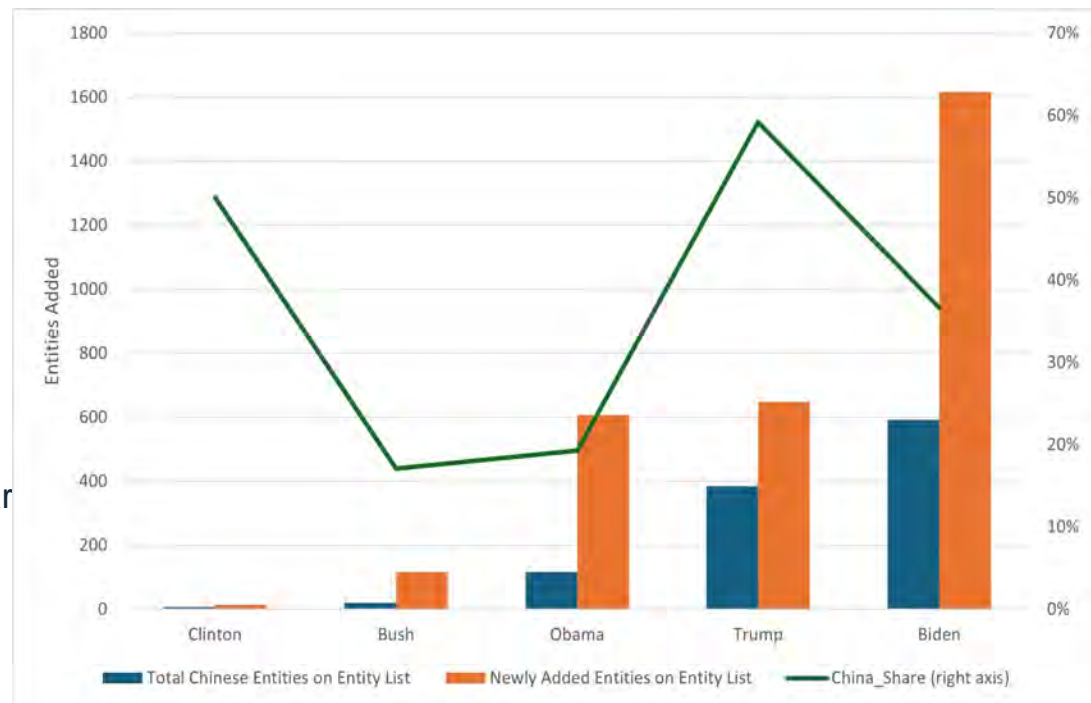


**Notes:** New transactions reviewed by CFIUS are estimated.

**Source:** Author's calculations based on US Treasury data.

# Biden Built on Trump's China Sanctions and Export Controls

- Controls are growing on Chinese entities (Biden added 592)
  - Export control Entity List targets major CN tech firms, but extraterritorial controls (FDPR) apply to minority of them
- Countrywide controls on China that apply extraterritorially applies only to most advanced semiconductors and Semi manufacturing equipment
  - Focus is on AI for military
  - Biden admin just controlled Korean firms' HBM
- SDN list is nuclear option—US not weaponized dollar against China (yet)
  - Used mostly on small firms involved in threats like fentanyl or Iran smuggling



# Decoupling is Base Case for Trump Second Term

- First term divided between decoupling and deal making
- US consensus is now more hawkish, with strong congressional pressure to increase rather than cut back on national security restrictions. Deal making more likely on tariffs than security
- Many hawkish appointments in key roles at State, National Security Council, USTR. Less “small yard high fence,” more tough “deterrence”
- Trump mixed messages (harsh tariffs, but more openness to CN investment in US than Biden)

FDI Screening	Export Controls	Sanctions
<ul style="list-style-type: none"><li>• Significant expansion of outbound investment restriction sectors beyond AI, Quantum, Semiconductors</li></ul>	<ul style="list-style-type: none"><li>• Extensive use of FDPR</li><li>• lower <i>de minimis</i> beyond semiconductors</li><li>• Continued expansion of control lists for technologies and entities</li></ul>	<ul style="list-style-type: none"><li>• Adding Huawei and other large CN firms to SDN?</li></ul>

# Potential Effects of Trump Decoupling Agenda on China and US

## Export controls

- More blunt control will raise costs for China short term, but could boost domestic capacity and deprive US firms of revenue
- Global efforts to avoid US export controls could give non-US firms competitive advantage

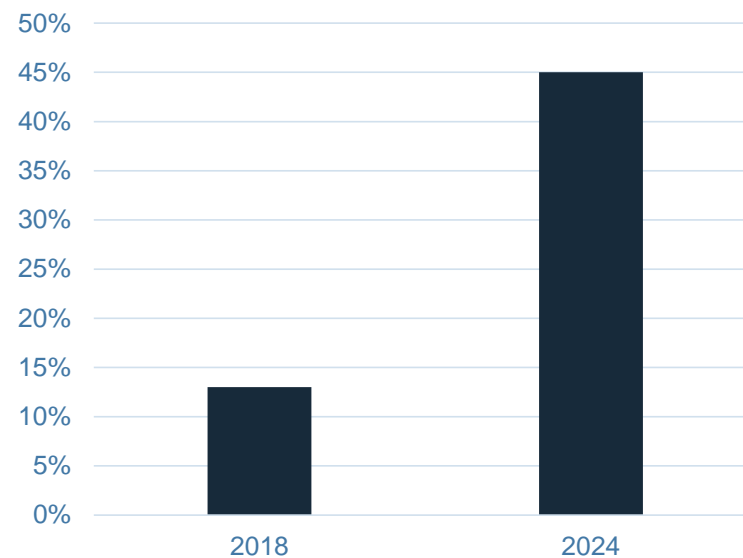
## Sanctions

- Could disruptively force global decoupling from Chinese technology firms like Huawei

## Serious risk of escalation from Chinese retaliation

- Chinese export controls are gaining teeth, imposed in new areas with new authorities, including extraterritorial controls on goods made outside CN with Chinese inputs
- Controls threatened and imposed on US and allies could have severe effects on supply chains and exacerbate decoupling pressures for US and other firms' importers

% of US businesses in China lost sales due to supply uncertainty



Source: US-China Business Council



Thank you!

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