POLICY INSIGHTS

This Week: Trump’s China War

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Trump’s Next Trade Target: China

Steel tariffs are official. But as we wrote about in last week’s Policy Insights, they may be weakened as the Trump administration starts granting exemptions to foreign countries. **What’s next on President Trump’s checklist while exemptions are handed out? China.**

The Trump administration took two notable China-related actions over the past two weeks:

- The Trump administration asked China for a solution to cut the US-China trade deficit by $100 billion. For reference, the US-China trade deficit was ~$375 billion in 2017.
- The Trump administration blocked Broadcom’s attempted takeover of Qualcomm on US national security grounds.

Both actions highlight President Trump’s continued focus on trade deficits and intellectual property, particularly regarding China. What does this mean for US business? Increased regulation and oversight of Chinese joint ventures and investment could redraw US-China trade, materially impacting US manufacturing, retail, and service sectors. **Below are some of the sectors we are currently monitoring:**

US Agricultural Exports

Fiscal year 2016 US agricultural exports totaled $129.7 billion. Which countries are the top three importers of US agricultural products? According to the USDA, Canada, China, and Mexico import 15.7%, 14.8%, and 13.6% of the exports respectively. The fourth biggest, the EU, imports 9.0%. Together, **the top four import 53.1% of US agricultural exports. What’s the common**

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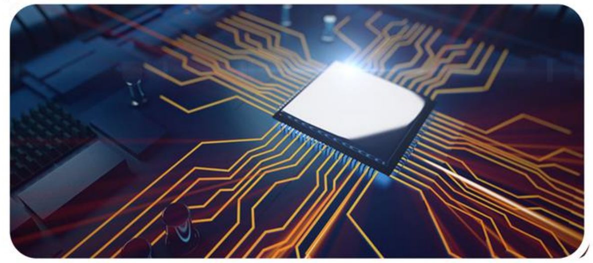
thread between the four countries currently? Trade issues. China may be the next tariff target, Canada and Mexico are re-negotiating NAFTA, and the EU is applying for exemptions from the steel tariffs. **Agriculture may be the most impacted US industry in a trade war.**

Technology Sector

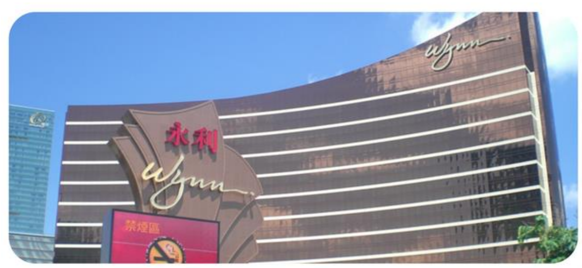


From a sector perspective, JP Morgan research has previously indicated that technology companies of the S&P 500, especially component makers, rely on China for the biggest percentage of their business. Of those technology companies, firms in the semi-conductor industry are overwhelmingly reliant on China for revenue. Firms such as Skyworks Solutions, Qualcomm, Micron, and Nvidia generated 83%, 61%, 55%, and 54% of their respective 2014 revenue from China. **While the semi-conductor industry may be the most impacted sub-segment of technology, firms across the sector could be materially impacted by a trade war.**

Airline Parts Manufacturing Industry

China accounts for 10.1% of US Aircraft, Engine, and Parts Manufacturing industry's exports. According to the World Bank, passenger air traffic in China grew at annualized pace of 10.8% from 2012-2017. The growing Chinese air travel market means more airports will need to be built. Boeing previously estimated China will require an additional 6,810 airplanes over the next 20 years. **A trade war may cause China to levy tariffs on US aircraft exports or switch to US competitors such as Airbus.**

Gaming & Leisure Industry



Two US casinos could get caught in the middle of a trade war between the US and China: Wynn Resorts and Las Vegas Sands. Approximately 73.3% of Wynn's 2017 revenue came from Macau, a resort city in Southern China. Las Vegas Sands earned 60.1% of its 2017 revenue from Macau. Both may see a material revenue decrease if China retaliates against the US in a trade war.

Trump Goes It Alone in China

President Trump appears willing to go it alone in confronting China. Rather than teaming up with the EU, Japan, and South Korea to work through the World Trade Organization, the Trump administration appears ready to lead the charge. **If Trump continues to shift the US ideology from free trade to protectionist, he could end up doing the exact opposite of what he campaigned on: increasing US trade deficits with foreign countries.**

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