

China–US Trade Disputes Series

Issue 37

Where are China–US relations heading in the 14th Five-Year Plan period?



Key takeaways

- The 14th Five-Year Plan gives a tough assessment of China's external environment. While it does not make direct references to China–US relations, it is widely understood that the intensifying China–US tensions are at the core of the tough external environment China is facing.
- It is only two months into the Biden administration, but all signs point to a continuation of a hawkish policy towards China. Over the past two months, the Biden administration has not only left Trump's policies towards China in place, but also announced new moves targeted at China, including further sanctions on Chinese tech firms, new efforts to 'decouple' its supply chains from China, and coordinated move with its allies to sanction Chinese officials.
- In response to ongoing China–US tensions, China has proposed the 'dual circulation' strategy as a new development model, stepped up efforts to boost indigenous technology, and further opened up its economy to promote international cooperation, e.g., through the RCEP and China–EU Comprehensive Agreement on Investment.
- Looking ahead to the 14th Five-Year Plan period, China also aims to build a new system for a higher-level open economy, promote the Belt and Road Initiative, and actively participate in the reform of the global economic governance system.

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China's external environment in the 14th Five-Year Plan period

The 2021 session of the National People's Congress, China's top legislature, has approved the *14th Five-Year Plan (2021-25) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035*¹ at its closing meeting on 11 March.

Chapter 2 of the 14th Five-Year Plan, entitled 'Development of our country is facing profound and complex changes', gives an assessment of China's external environment in the current period:

'The international environment is becoming increasingly complex, with heightened instability and uncertainty. The COVID-19 pandemic has a widespread and far-reaching impact and the world economy has fallen into a downturn. Economic globalization has encountered headwinds. The global landscape of energy supply and demand has undergone profound changes. The international economic and political landscape is complex and ever-changing. The world has entered a period of turbulent change. Unilateralism, protectionism, and hegemonism are threatening world peace and development.'

While the assessment does not make direct references to China–US relations, it is widely understood that the intensifying China–US tensions are at the core of the tough external environment China is facing. China can no longer count on stable China–US relations for its development in the coming years.

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¹ http://www.gov.cn/xinwen/2021-03/13/content_5592681.htm

China policy of the Biden administration

It is only two months into the Biden administration, but all signs point to a continuation of a hawkish policy towards China.

1. USTR's trade policy agenda singles out China

The Office of the United States Trade Representative (USTR) released its *2021 Trade Policy Agenda and 2020 Annual Report* on 1 March.² The report singled out China for its 'coercive and unfair economic trade practices' and stated that the Biden administration intends to use 'all available tools' to address such practices and to coordinate with allies to 'hold China accountable'. The report was prepared when the US administration has not finished its 'comprehensive review' of Donald Trump's policy on China, but it still provides some hints about the China policy that will be pursued by the Biden administration.

2. Biden leaves Trump's policies against China in place

Hours after taking office, Joe Biden decided to re-join the *Paris Agreement* on climate change and also reversed Trump's decision to withdraw from the World Health Organization. However, he has not reversed any of Trump's policies towards China over the past two months, including the additional tariffs Trump imposed on more than \$330 billion of imports from China³, restrictions on over 200 Chinese technology companies⁴, revocation of Hong Kong's special status with the US, and the ban on Xinjiang cotton announced just one week before the inauguration of Biden.

3. US escalates its crackdown on Chinese tech firms

The Biden administration indicated that it would continue to crack down on Chinese technology companies. New US Commerce Secretary Gina Raimondo said in early March that she would make full use of the 'entity list' to limit the flow of US technologies to Chinese tech firms.⁵

The new US administration has also announced new or potential sanctions and restrictions on Chinese tech companies:

- On 12 March, US Federal Communications Commission (FCC) added five Chinese companies to a new blacklist, banning them from supplying equipment and services to the US government.⁶
- On 17 March, the FCC announced the launch of a proceeding to determine whether to bar two Chinese telecommunications operators from the US.⁷

² <https://ustr.gov/sites/default/files/files/reports/2021/2021%20Trade%20Agenda/Online%20PDF%202021%20Trade%20Policy%20Agenda%20and%202020%20Annual%20Report.pdf>

³ US goods imports from China totalled US\$451.7 billion in 2019. of which US\$334 billion of Chinese goods were subject to additional tariffs of 7.5% to 25%.

⁴ Under the Trump administration, over 200 Chinese companies, including Huawei, chipmaker Semiconductor Manufacturing International Corporation, and drone manufacturer DJI, were added to the US 'entity list', which cut off these companies' access to key US technologies.

⁵ <https://www.reuters.com/article/us-usa-china-trade-commerce-idUSKBN2AW22R>

⁶ <https://docs.fcc.gov/public/attachments/DA-21-309A1.pdf>

⁷ <https://docs.fcc.gov/public/attachments/DOC-370866A1.pdf>

- On 24 March, the US Securities and Exchange Commission (SEC) adopted new rules that would remove foreign companies from the US stock exchanges if they do not comply with US auditing standards or are controlled by foreign governments. The new rules are believed to be targeted at Chinese tech companies.

4. US makes efforts to 'decouple' its supply chains from China

Biden signed an executive order on 24 February for a 100-day review of US supply chains and potential US weaknesses in key industries including semiconductors, electric-vehicle batteries, critical minerals used in hi-tech products, and pharmaceuticals.⁸ The order also requires separate reviews of supply chains in six sectors including defence, public health and biological preparedness, information and communications technology, energy, transportation, and food within one year.

US officials said the review was 'not singling out any country'. However, given that the US is dependent on China in those critical industries for raw materials or final products, the move is believed to be targeted at China and aimed to promote the 'de-Sinicization' of US's critical supply chains.

5. US works with allies to counter China

On 12 March, Biden held the first ever quadrilateral summit with the leaders of Japan, India and Australia under the Quadrilateral Security Dialogue framework. According to a joint statement released after the summit, the four countries will 'counter threats to both in the Indo-Pacific and beyond' and 'meet challenges to the rules-based maritime order in the East and South China Seas'.⁹ This is a clear sign that the US steps up multilateral cooperation in an effort to counter China's influence in the Indo-Pacific region.

In addition, the US, the EU, the UK and Canada banded together to impose sanctions on Chinese officials over the alleged 'human rights abuses' in Xinjiang on 22 March. This is the first such coordinated move against China under the Biden administration, and more could follow as Biden has pledged that he would form united front with allies to bring multilateral pressure on China over various issues.

⁸ <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/24/executive-order-on-americas-supply-chains/>

⁹ <https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/12/quad-leaders-joint-statement-the-spirit-of-the-quad/>

Response from the Chinese government

1. China to bolster its domestic market as foundation for growth

In response to the challenging external environment — in particular the growing China–US tensions — China has proposed the ‘dual circulation’ strategy, which is a new development model that relies primarily on its domestic market as the foundation for growth whilst developing external markets as a complement.

First brought up by Chinese leaders in May last year, the ‘dual circulation’ strategy will be a key direction of China’s development for the 14th Five-Year Plan period and beyond. China will fully utilize resources to empower its domestic economy by stimulating domestic demand, increasing and upgrading consumption, and further investing in technology and innovation efforts.

By adopting the ‘dual circulation’ strategy, China’s growth in the coming years will depend more on the domestic market and be less impacted by the external environment, such as the China–US trade war.

2. China to boost indigenous technology to ensure security of technology supply chains

Continued US crackdown on China’s technology sector has prompted China to step up efforts in technological advancement.

The 14th Five-Year Plan proposed ‘technological independence and self-reliance as the strategic support for national development’. This is the first time that tech self-reliance was given such a high level of prominence in national development planning.

The heavy emphasis on tech self-reliance indicates China is prepared to rely less on foreign technology, so that its technological advancement and the security of its supply chains will not be threatened by any foreign country, as is happening now with the US banning major Chinese tech firms from buying advanced US technologies.

3. China to further open up its economy to promote international cooperation

Against the backdrop of the US pursuing ‘decoupling’ from China, China has further opened up its economy and reached out to other major trading partners such as Asian countries and the EU.

China and 14 Asia-Pacific countries signed the Regional Comprehensive Economic Partnership (RCEP) on 15 November last year. RCEP will encourage more cross-border trade and investment across the Asia-Pacific region, thus expediting economic and trade integration in the region. With trade flows in intermediate goods between the ASEAN and China expected to increase, the supply chains of the two economies will be more interconnected than ever and the two economies are likely to form an expanded version of the ‘world’s factory’ – a ‘China + ASEAN’ world’s factory.

Moreover, on 30 December last year, China and the EU announced the conclusion of the China–EU Comprehensive Agreement on Investment (China–EU CAI). The China–EU CAI will open up more investment opportunities between the two economies, promoting bilateral investment in many sectors. Attracting more EU investment into China will also help offset the impact of the US possibly reducing investment in China.

Looking ahead to the 14th Five-Year Plan period, China also calls for building a new system for a higher-level open economy, promoting the Belt and Road Initiative, and actively participating in the reform of the global economic governance system.

4. China to place increased emphasis on security

Echoing Chinese President Xi Jinping’s proposition that ‘security is the prerequisite for development, while development is the guarantee for security’, the 14th Five-Year Plan devoted a part to ‘development and security’ for the first time. China aims to strengthen national security system and capabilities and set arrangements to ensure security in food, energy, and financial system.

The focus on security reflects China’s growing attention to risks arising from a hostile external environment, centred on China–US tensions.

Outlook for China–US relations

All eyes were on the first high-level talks between China and the new US administration in Anchorage, Alaska, on 18-19 March. However, the fierce opening remarks of the meeting from both sides in front of the world's media suggest that a reset of the bilateral relations will be easier said than done.

As Biden is harshly critical of Trump's approach to China, some changes in the US's China policy are likely. However, we do not expect China–US tensions to ease under a Biden presidency, since the overriding issue between China and the US is geopolitical rivalry, and containing China is now a bipartisan consensus in the US establishment. Moreover, Biden seemed intent on raising the 'human rights' issue to confront China, opening new fronts for bilateral tensions. There are also fears that if the Biden administration chooses to adopt a hard line against China, it could be more dangerous as Biden would work with allies to develop more coordinated actions against China.

All in all, while Biden's strategy towards China is likely to be less extreme and erratic than in the Trump era, the thrust of US policy towards China — competition and confrontation — would remain the same. We expect that China and the US will have limited areas of cooperation with respect to public health and climate change, continued competition in trade and technology, and heightened confrontation over 'human rights' issues regarding Xinjiang, Tibet, and Hong Kong in the coming years.

Although some changes in the US's China policy are likely, we do not expect China–US tensions to ease.

Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

Fung Group

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