CHAPTER 9

# Impact of the Trump Administration on the Economies of the Greater China Region

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**Abstract** The new economic policies initiated by the 45th US president Donald Trump, and their impact on the economies of the "the Greater China Region" (Hong Kong, Taiwan and Mainland China) are examined in this chapter. The impact is assessed at both the stock exchange and other non-financial markets levels. For the stock markets, the chosen research period runs from January 2014 to June 2017, and the Economic Policy Uncertainty Index in the United States is used as a proxy to measure political uncertainty in the main world economy. The results show that the stock markets in the "Greater China Region" did not react to the uncertainty generated by the US election in November 2016, but an examination of the move towards assertive trade US protectionist policies suggest a more detrimental impact on the GCR.

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## 1 Introduction

Since the oil shocks of the 1970s and their severe impact on the western economies, researchers have identified political risk and/or political uncertainty as a significant factor that can fundamentally disturb the performance of countries (Root 1973; Suleman 2012; Benacek et al. 2014). Early explanations in the field suggest that political events can cause stock market volatility as well as a significant loss of wealth (Root 1973; Brewer 1981; Simon 1982; Clark 1997; Clark and Tunaru 2003). The magnitude of the loss can spill over to the rest of the economy by the generation of economic uncertainty (Clark and Tunaru 2005). Recent political events such as the election of Trump as the 45th president of the United States signify important changes to the world economy, through the gradual implementation of protectionist policies. During his Presidential campaign, Trump made serious allegations against China as "stealing" millions of jobs from the US economy because of Chinese unfair trade policies, an opaque industrial policy and other restrictive policy practices. In particular, analysts have argued that the introduction of protectionist measures by the US administration would be justified given the misappropriation of US technology by Chinese firms and authorities.[1] The US withdrawal from some free trade treaties that had reached quasi-final negotiation stage (such as the TTIP and TPP) have also raised concerns about a looming and more general US protectionist wave.[2] Whether the Greater China Region (GCR) will be a clear winner or loser from these political developments in the USA forms the main motivation of this chapter, which is structured around the following objective: to identify the main challenges and opportunities that the new US

[1]This is all connected with the very issue of "market economy status" that has been denied to China by both the USA and the EU in the Spring of 2017.

[2]The Trans-Atlantic Trade and Investment Partnership (TTIP) with the EU was suspended by the US Administration in the end of 2017 and the Trans-Pacific Partnership (TPP) was finally signed in March 2018 without the USA.

Administration are bringing to the different markets (including the stock markets) of the GCR.[3]

In order to help address the objective outlined above, the analysis in this chapter examines first whether the financial markets of Hong Kong, Taiwan and Mainland China reacted in a similar or different fashion to Trump's election (Sect. 3). The analysis is supported by the use of the Economic Policy Uncertainty Index (EPU) for the US, with the aim of measuring market instability over the period and implications for the selected stock markets. The second part of the analysis looks at the potential impact of the new US Administration in terms of trade policy (Sect. 4). Since China and the "Greater China Region" (GCR) have been benefiting from globalisation, the study of how the "Greater China Region" might be impacted upon by an increase of market uncertainty triggered by recent political events originating in the world most developed economy is of key interest. Before that, a brief overview of China's opening in an unprecedented wave of globalisation and its increasing dependency on the Western economies, in particular on the USA, is discussed. Some conclusive remarks will be suggested in a conclusion.

## 2 The "Greater China Region" and China's Rise in the Context of an Unprecedented Wave of Globalisation

The rapid economic ascendency of China has implied that the balance of regional economic power has been shifting, prompting thereby some developed economies to deploy protectionist policies (Tanaka 2017). China has undergone rapid economic growth over the past three decades, with the country's GDP overtaking that of Japan in 2010. At the beginning of the economic reforms (1979), Chinese GDP amounted to 178$ billion and per capita income stood at 183$ whereas in 2015, China's GDP had climbed to 11,199.15$ billion—the second highest in the world—with a per capita income of 8123$ (World Bank 2016). Moreover, when the European Union is broken down into its many country components, China has become the world leader in terms of merchandise exports since 2009 (WTO 2017).

Much has been written about the importance of the open door policy and of trade as *sine qua non* conditions for growth in modern China

[3] Macau is not included as part of this study, because it does not have a stock market.

(see for example Yueh 2013). In line with the Akamatsu model, structural change has been an important feature of modern economic development in the GCR in general and lately in China in particular, and much of this structural change has been stimulated by trade liberalisation. In particular, China's trade structure has evolved from being characterised by labour-intensive and low VA industries to being led by higher VA and capital and technology-intensive exports (Caporale et al. 2015). According to recent figures (Atlas 2017) more than half of Chinese exports in 2015 were classified into the broad category of "electronics", whereas more than half of the export earnings in 1990 were drawn from the garments and textiles sector. The abundance of the labour factor connected with substantial wage differentials explain Chinese trade specialisation since the start of the economic reforms; over time, Chinese trade specialisation has moved into technology-based,—although still relatively labour–intensive—, industrial activities (such as the assembly stage in the computer industry, the latter being classified as "high-tech").

With respect to growth and to structural change, Taiwan is considered as being the region's lead "goose", following in the footsteps of Japan (Chow 2018). As documented by Chow (2018), Taiwan's import-substitution industrial strategy in the 1950s gave way subsequently to an export-promotion strategy, allowing the country to move gradually from sun-set and labour-intensive industries to technology-intensive industries. With its sector specialisation industrial targeting strategy, its developmental state model, the lifting of the Martial Law in 1987, and the liberalisation of the capital account, the country progressed towards a FDI-growth model from the late 1980s. In that vein, Taiwan has been a sizeable direct investor in China and importer from same (through the building-up of regional value chains) leading to what Chow (2018, p. 103) describes as being a "triangular interdependence among the US, Taiwan and China", or even a "unique de facto economic integration in East-Asia" with a heavy reliance on the external market for final consumption goods (Chow 2018, p. 104). Vibrant economic growth in the region implied that "China replaced the USA as Taiwan's largest export destination in 2004" (Chow 2018, p. 103). The FDI-trade nexus meant that by 2015, only 0.5% of all Taiwanese ICT products were manufactured in Taiwan (92.8% in China) whereas this share was 14.5% in 2001 (against 34.7% in China) (Chow 2018).

Inspired by economic policies that had prevailed in adjacent countries, China owes much of its economic development model to the

over-reliance on foreign demand (Li et al. 2012) with an export contribution being more significant in China than in any other country of the region (Tingvall and Ljungwall 2012). The reliance on foreign demand has been such that Cui et al. (2009) estimated that a 10% decline in the export volume leads to a decline of 2.5% in GDP growth, on average. It should be noted that in their model, the authors use a provincial-level panel dataset focusing on the demand-side. According to other sources (Li et al. 2010), the Chinese dependence on foreign trade (measured by the foreign trade/GDP ratio) has increased from 12.01% in 1981 to 46.87 and 69.37% in 2000 and 2008 respectively. The trade-growth relationship is also substantiated by studies using econometric methods showing that when considering export expansion and economic growth in China, cointegration applies; this means that there is a long run relationship and also a bi-directional causality between the two variables (as found for example by Kumari and Malhotra 2014). Other gravity-based models show that the trade volume is positively affected by compliance to WTO standards and negatively affected by geographical distance. According to Caporale et al. (2015), bilateral exports increase with an increase in the country size, FDI and membership to the WTO while it decreases with distance and with the effect of the Global Financial Crisis (GFC).

In the case of China, the thirst for foreign knowledge and for industrial modernisation meant that the absorption of large amounts of foreign capital during the two decades following Deng Xiao Ping's economic reforms became key industrial policy objectives. Given the export orientation of many of these foreign firms, (foreign) capital accumulation has thus played a fundamental role in explaining China's economic modern development, prompting one to highlight the importance of the investment-led growth effect. For example, the study by Herrerias and Orts (2010) uses cointegration methods and finds that exports as well as investment had an important impact on productivity and growth in China over the period 1964 and 2004. Their results are consistent with the existence of an investment-led growth effect and they mirror the key phenomenon of export-driven foreign firms. This issue mirrors the important incidence of China as a key country in the constitution of Asian and global systems of production by many multinational companies, taking the shape of "fragmented production" networks. For example, iPhones are assembled in China with components sourced in different countries. Since the supply chain of many manufacturers is dis-

tributed across different countries and regions in line with their country-specific advantages, this is likely to imply statistically that Chinese exports encompass a high import content.[4] According to the OECD (2018), the overall import content of Chinese exports was 29.4% in 2014, placing China well above the USA, Japan and Hong Kong but below Taiwan and South Korea. An analysis based on input-output methods estimated that some 11 high-tech Chinese industries such as electronic computers, telecomm equipment, instruments and other measuring equipment had a share of foreign VA above 50% in 2002 (Koopman et al. 2008). In these industries, foreign-invested firms have been playing a key role all along. According to these authors, processing exports represented more than two-thirds of Chinese exports in 2002, leading one to nuance the relative specialisation of China in the technology-intensive sectors. Also, what these calculations imply is that when talking about export-led growth, one needs to focus on net exports (i.e. X-M). When net exports alone are taken into consideration, they account at best for one-third of the increase in income in China for a given year in the period preceding the GFC (Akyiiz 2011). Evidence on the contribution of the different macroeconomic variables to China's economic growth between 2000 and the GFC shows the key role of gross (fixed) capital formation and the more marginal role played by net exports over the period (Prasad 2010, p. 15). It also shows how the 2008 GFC has put the traditional growth model of China into question: exports fell dramatically and even though other sources of growth allowed the country to stay afloat, a transition from an export-led growth to a more balanced model was made imperative (Fabre 2013). Consequently, after years of double digit growth, the 2008 GFC has gradually given way to a new growth model geared towards annual growth rates of around 6.5%. The setback from the GFC shows that China had greatly been benefitting from globalisation and in particular from favourable trade policies developed under the auspices of the WTO. Although it is still debatable whether the GFC is an important economic critical juncture for China and for the world economy—in terms of the trade-off between free trade and protectionism—, what is clearer is that protectionist trends were perceptible *before* the GFC (Andreosso-O'Callaghan and Uprasen 2009).

[4]The import content of exports is defined by the OECD (2018) as the share of imported inputs in the overall exports of a country. This statistical indicator measures therefore the foreign VA share of gross exports.

WTO statistical evidence shows that trade restrictive measures have increased dramatically since the advent of the GFC particularly from the part of developing and emerging countries. In the case of China, the incomplete move of the country towards a market economy since its accession to the WTO has meant that its import regime is still characterised by numerous protective measures.[5] State intervention in the market is paramount through incentives to (State-Owned and State-Controlled) exporting firms, through controls on FDI inflows and on foreign goods entering the Chinese market. This *mercantilist* policy has culminated with the emergence of the Chinese firm abroad to the extent that Chinese FDI outflows now surpass inflows of FDI (WIR 2017). Consequently, the relative success of the Chinese economy has created many unprecedented challenges to both the EU and the US economies.

Whereas in EU institutions circles, Parliamentary debate since the Spring of 2018 has been delineating a new EU regulation related to the screening of Chinese inward direct investment into the EU in order to prevent foreign (and Chinese) investment to threaten EU national security,[6] the response by the new US Administration has tended to be more confrontational. The plan to introduce tariff barriers (of 25%), targeting specifically China (and also Germany), should significantly affect Chinese exports, given that around 20% of Chinese total exports are bound to the US economy. China's strong commitment to export activities makes the country quite susceptible to the potential upsurge in protectionism measures that are being sought by major advanced economies. Because Chinas' capital account is still only partially liberalised, US protectionism might provoke a shock of greater amplitude than that of the GFC. The remaining analysis starts by examining the impact of the new US Administration on the performance of the main stock markets in *the "Greater China Region"*; this offers an initial view on how China and the region are reacting to global uncertainty.

[5] Note that when China joined the WTO in 2001, it accepted to be treated as a non-market economy in anti-dumping procedures until 2016; this implied that its prices and costs were assumed to be artificially set and were therefore not used by the investigating authority in alleged cases of dumping. The reference prices used were instead those of an analogue country (Japan or the USA) where prices are much higher. When its status came up for debate at WTO level in 2016, both the EU and USA denied China its much aftersought market economy status (MES). The EU's refusal is based on, *inter alia*, the degree of government influence over the allocation of resources.

[6] See for example the position of German industrialists on this issue in BDI (2017).

## 3 Stock Market Reactions to Political Events and Policy Uncertainty

This section starts with a discussion on the relevance of political uncertainty in the case of the financial markets.

### *3.1 Literature Review on the Financial Impact of Political Events and of Political Uncertainty*

EPU refers to a non-zero probability of changes in the existing economic policies that determine the rule of the game for economic agents (Baker et al. 2012, 2016). EPU can impact upon economic and financial agents in different manners: (i) firms may change or delay investment decisions depending on the levels of employment, consumption and savings. (ii) Production costs might be affected and investment patterns can change depending on the economic cycle. (iii) Risks in financial markets can be enhanced as inflation rates, interest rates and expected risk premiums will vary depending on EPU. Since the 1970s oil shocks, the interest by researchers on the impact of political events has increased (Bloom 2009; Benacek et al. 2014). A lot of the research has focused on the analysis of market performance over the last two or three decades (Li and Peng 2017; Antonakakis et al. 2013; Brogaard and Detzel 2015; Kang and Ratti 2015; Liu and Zhang 2015). The literature shows that EPU does confound market participants and policy makers, in terms of financial risk. Li and Peng (2017) show that the absolute changes in the US EPU index have a negative impact on the co-movement of the domestic market. Another recent study looking at policy uncertainty and implications for the US stock market volatility by Arouri et al. (2016) shows that an increase in policy uncertainty reduces in a significant manner stock returns and that the effects become stronger and persistent during times of extreme market volatility.

Furthermore, emerging markets,—and particularly those markets characterised by a less liberal approach in their economic and/or political regimes—, are commonly associated with greater levels of uncertainty (Benacek et al. 2014; Bin 2015). Political uncertainty is associated with a significant reduction in foreign direct investment as the market is not considered safe, with potential failures in terms of law compliance and transparency of operations (Chan and Wei 1996).

Two types of political events need to be distinguished here: political news (or announcements) and the actual implementation of new policies. A rich literature has focused on the analysis of political news and the way financial markets react to them. In particular, stock markets seem to be more responsive to new information regarding political decisions rather than information that looks into implications and spillover effects of domestic and foreign policy. According to Tan and Gannon (2002), stock market prices are expected to increase if the news lead to an upward revision of investor's expectations and they follow a downward trend if the opposite occurs. Fong and Koh (2002) looked at the Hong Kong stock market and at how political risk has induced a regime shift in stock market volatility.

In the case of developed economies, the studies seem to offer a different view regarding the magnitude and implications that political uncertainty might bring to stock markets performance. For example, Dopke and Pierdzioch (2006) looked at the performance of the German stock exchange and they found a poor relationship between political changes and stock market performance (in Germany).

The literature review shows that most of the research in the field seems to be looking at the impact on internal/domestic political events with little attention given to external and global shocks in the context of developing and emerging economies. As a result, a research gap has been identified in the area.

### *3.2 The Greater China Region*

The stock markets of Mainland China, Taiwan and Hong Kong are considered as being different regarding their levels of sophistication, political freedom, and the level of centralisation in terms of their political and economic approach. Mainland China is characterised by a rigid and centralised model with heavy controls exercised on its economic system, whereas Taiwan enjoys the highest level of political freedom of all three sub-markets.

In Hong Kong, the relatively non-interventionist economic policies, encompassing the freedom of capital movements and a well-developed regulatory and legal environment, have contributed to the development and consolidation of Hong Kong as a regional and international financial centre. Hong Kong stock exchange plays a major role in raising capital for Chinese-state-owned enterprises. Hong Kong has been based on a

free market economy with strong ties to international trade and finance, characteristics that left its economy significantly exposed to the 2008 global economic crisis. It can be argued that its heavy reliance on foreign trade and investment is enhancing its vulnerability in the global context.

In its first phase of economic development (1960s–1980s), Taiwan's move to an export-oriented approach created trade surpluses (in the 1970s, except during 1974–1975) and allowed increasing foreign exchange reserves and a partial liberalisation of the capital account in the 1980s. Consequently, Mainland China has become Taiwan's main economic partner, rendering Taiwan susceptible to shocks originating in China. This entails that Taiwan is more sensitive to regional issues rather than to global and international events. In the international context, Taiwan economic relations with the United States keep improving, as the US is Taiwan's second-largest trading partner and its main source of foreign direct investment (Rosier et al. 2016).

### *3.3 Quantifying the Impact of the New US Administration on the GCR Stock Market Returns*

In order to assess the reaction to the new US Administration on the GCR stock exchanges, the methodology consists in identifying abnormal mean returns and at looking at the potential shift in returns volatility. This is done by using multivariate regression techniques as well as a GARCH framework.[7] The multivariate regression model identifies a system of portfolio return equations for event announcements with risk and political events being factored into the pricing process (as the Trump election in our case). The idea is to measure how the GCR stock exchange returns are affected by this specific political event.

Then the methodology proceeds by examining the effects that the new US Administration will have on volatility performance in the corresponding GCR stock index returns.

The findings show that: (i) market returns over the period of study (January 2014–June 2017) are positive for all cases with Mainland China exhibiting the best performance; this is followed by the S&P500, while the stock markets in Hong Kong and Taiwan follow the overall performance of the FTSE100; (ii) the Shanghai stock market is the most

[7]For more on this, the interested reader can refer to our recent empirical work (see Morales and Andreosso-O'Callaghan 2018).

volatile over the period; (iii) the overall results indicate that the Trump's election did not lead to a significant increase in market uncertainty in the GCR. Other results of this work also show that the Hong Kong and Taiwan stock markets are more affected by the occurrence of negative news whereas in the case of Mainland China, stock market volatility in Shanghai seems to be more affected by positive news rather than by negative news. Again, the core research findings indicate that Trump's election does not generate significant levels of volatility in the GCR.

The outcomes for the GCR seem to align with the study of Dopke and Pierdzioch (2006) which looks at the German stock market, where political changes showed a poor relationship with stock market performance. The results are not surprising as over the years China has managed to remain quite isolated to global shocks.

However, the research findings suggest that the GCR stock markets might be waiting for specific actions (policies) to be taken by the US administration that show if they aim to harm China's interests. Hence the next section.

## 4 Impact of the New US Administration on the GCR Real Economy—A New Wave of Protectionism

The analysis so far tends to highlight the fact that the economic interdependence between China, the GCR economies and the USA is very strong with regard to trade (in goods) rather than with regard to financial flows. A political event in the USA—such as the election of a controversial President—has had a marginal impact on financial market volatility in the GCR, but adverse trade policies might go less unnoticed in the GCR, particularly in China, given the still prominent role played by trade in Chinese economic growth and by the trade-growth nexus. Although much of the global economic growth is explained by trade in particular in emerging countries—as reiterated above—, a note of caution needs to be exercised on the trade-growth relationship. Despite the fact that a majority of (empirical) studies leans towards the net positive effects of trade liberalisation on economic growth, the literature has nevertheless failed to produce a robust conclusion on the matter. For Deraniyagala and Fine (2001), the positive impact of free trade policies need to be nuanced, given that: (i) the (positive net) gains arising from free trade are unevenly distributed; (ii) the free trade paradigm may lack

relevance in the case of small developing countries given their small economic weight, in terms of production and trade; (iii) the positive relationship between trade liberalisation and export growth depends on the pattern of production; (iv) the problem of structural adjustment costs is overlooked by the theory; (v) NTBs are notoriously difficult to measure (problem of services). Finally, the authors stress the fact that most studies on trade liberalisation are *ex-ante* studies, and that studies providing an *ex-post* assessment of the effects of trade liberalisation are rare.

The rise of NTBs, in spite of trade liberalisation, has been highlighted as a way to circumvent the lowering or the elimination of tariffs in certain cases. These barriers are still of particular concern and are noticeable in China given China's non-market economy status, and despite the many efforts made by the Chinese government to introduce market principles in its economy since its accession to the WTO in 2001.

Although during the 1980s–1990s period, licences for trading were granted to a bigger number of firms, from around 16 in the period prior to the reforms to over 35,000 in 2001, and the import planning system was dismantled, it was replaced by tariffs and non-tariff barriers in order to prevent a massive number of foreign goods to flood into the Chinese market (Wang 2007). Even though by the end of the 1990s, only 8.45% of the imported products into China were subject to regulations (Wang 2007), WTO disputes involving China and complaints about the difficulty of doing business in China have kept flooding the news.[8] According to European Parliament sources (EP 2016), some 37 WTO cases had been registered involving China as a respondent between the end of 2001 and November 2016; most of these cases were initiated after 2006, and mostly by developed countries. In the same time-period, China had filed only 13 cases as a complainant targeting exclusively the EU and the USA. Paradoxically, China's entry in the WTO has coincided with the implementation of a new wave of protectionism in particular from the part of the EU (Andreosso-O'Callaghan and Uprasen 2009). Using a GTAP-based model for the trade between the EU-25, China and the USA, 17 industries and for the years 2004–2008, the study finds that an increase in trade barriers leads to negative welfare effects for the protectionist countries but that technical progress can mitigate some of these negative effects (Andreosso-O'Callaghan and Uprasen 2009).

[8] See the evidence contained in the annual reports by the EU Chamber of Commerce in China (for example 2011/2012).

This study also shows how structural change is stimulated by protectionism: for China, protectionism leads to a contraction in the production of a number of industries such as electronics and equipment whereas production contraction affects fewer industries in the case of the EU-25. Protectionist policies seem thus to have ultimately a differentiated impact.

In the background of rising protectionist trends visible since at least the GFC, several initiatives by the US Government have placed the protectionist issue at the forefront of public debate in many countries. First, in October 2011 (that is, well before the Presidential election of Trump), the US Senate had passed "The Currency Exchange Oversight Reform Act" (S.1619) which would allow the imposition of tariffs on Chinese imports to the United States. The new Trump Administration is undoubtedly decisive in changing US trade policy. Of key importance is the US Trade Representative (USTR) in determining that the policies and strategies of China related to technical issues such as technology transfer, intellectual property and innovation are "unreasonable or discriminatory and burden or restrict US commerce" (USTR 2018, p. 1). As a result of these allegations, an additional customs duty of 25% on a list of selected products originating from China is proposed.[9] The document refers to a number of opaque and uncompetitive practices used by the Chinese Government in order to obtain cutting-edge technologies and intellectual property from abroad, in particular joint venture requirements (eased nevertheless after China's WTO entry), foreign equity limitations, public procurements, as well as vague rules applied in a non-transparent manner by Chinese government officials. Much has to do with the nature of doing business in China and in particular with the interference of the Chinese Government at different stages of business deals such as for example when it "directs" and/or "unfairly facilitates" the investment in, and/or acquisition of, US assets by Chinese firms in order to acquire much needed knowledge (USTR 2018, p. 4).

Although the "Trump Tariffs" have to be viewed in a much broader light given that they have since been scheduled for other countries,

[9]Defined at the 8-digit level of the Harmonized Tariff Schedule of the United States (HTSUS), the list comprises products such as machines-tools (including those used in the textile industry); selected chemicals and pharmaceuticals products; iron, steel and alumina products; precision instruments and instrument engineering; telecommunications equipment; motor vehicles; and other products such as weapons (see USTR 2018).

including Canada which is part of NAFTA with the USA,[10] the remainder of the discussion deals exclusively with China which, interestingly, was the key targeted country at the beginning of the Trump Administration and which seems to have been diluted since. Perhaps this is due to the fact that, as pointed out by much evidence, a large proportion of the US trade deficit with China comes from the many export-oriented US multinational companies that have moved production to China to take advantage of its low labour costs and of other incentives. As reported by US sources, only 1.9% of China's exports came from foreign-invested enterprises in China in 1986; this share rose to 58% in 2006 (CSR Report for Congress, January 2008). Indeed, of crucial importance in the case of China is the (geographical) fragmentation of the production process and the world-wide constitution of value chains. According to Lovely and Liang (2018), some 60% of Chinese exports to the USA originate from foreign-invested firms and this proportion is larger than for other importing countries. With a high import content of exports, Chinese trade flows follow a triangular pattern: the country imports high-value-added inputs from the USA and from wealthier Asian countries, and it exports processed/assembled goods to western countries for final consumption. In particular, three industries stand out as representing the lion's share of US imports from China: these are the computers and telecommunications, electrical equipment and machinery, which together represented 54% of US imports from China in 2017 (Lovely and Liang 2018). As argued by these two authors, nearly 85% of the products on the proposed tariff list are intermediate inputs and capital equipment products. Also, they note that 80% of the trade in value terms targeted by the US Government concerns industries classified as being patent-intensive in 2012. By crossing the different data, Lovely and Liang (2018) conclude that more than half of US imports, except for chemicals, come from foreign-invested firms where patent activity is high; for example, in the computer and electronic products industry—one of the most patent-intensive industries—, 68% of imports into the USA originate from foreign firms located in China. The share is 65% for nonelectrical machinery. Other shortcomings related to the Trump tariffs in the case of China encompass the fact that US MNEs in search of low cost production operations would relocate their plants into adjacent

[10]North America Free Trade Agreement signed in August 1992 and in force since 1994.

Asian countries such as Vietnam, again in line with the flying geese model, but without a positive impact on the US trade balance.

A much more subtle approach would be to delineate the main vehicles through which (US) technology is misappropriated by Chinese firms and to tax exclusively those Chinese exports. For example, Lovely and Liang (2018) suggest that if joint ventures (JVs) are found to be the main channel of misappropriation of technology, then Chinese exports from JVs should be targeted.

## 5 Conclusions

The analysis conducted in this chapter shows how the economies of the GCR are linked to the US economy especially through the trade-investment nexus. Some econometric work carried out on the response of the GRC financial markets to the election of Trump shows that the new US presidential administration is not generating significant variations on GCR market returns performance; the impact of EPU in the global context appears to be insignificant. China's stocks markets do not seem to be panicking and overreacting to the election, a result which confirms China's historical behaviour regarding international shocks in so far as the country has managed to remain unscathed from global financial shocks.

A different scenario is supposed to emerge with the implementation of the "Trump tariffs", a list of which has been announced by the US Government in June 2018. The original US administration strategy was to address the many complaints about Chinese opaque business practices, and in particular about the allegations in terms of "forced" technology transfer, reverse engineering, patent violation, industrial espionage, and the subversion of trading rules; all these practices have led, in the eyes of the US Administration, to the phenomenon of "misappropriated technology", which itself has been easily (and perhaps too systematically) connected with the persisting US trade deficit. However, what comes out of this analysis is that the phenomenon of production fragmentation across the Asian region and beyond has meant that a large share of Chinese imports into the USA which are targeted by the Trump tariffs originate from (US) foreign-invested firms in China. This is particularly the case for three technology-based industries such as computers & telecommunications, electrical equipment and machinery, which together represent more than half of US imports from China. The claim of

"misappropriated technology" might be valid, given China's non-compliance with market-based rules, but the US strategy of imposing indiscriminate tariffs to a number of selected products without checking the origin of same seems to be counterproductive. Ultimately, what could happen, with such a policy, is that fringe countries such as Taiwan (and also Canada in the context of NAFTA) might feel the impact of the Trump tariffs well before China itself. The "China problem" seems to have been diluted until at least a new and more refined US trade policy can take shape.

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