THE U.S. FEDERAL ELECTIONS AND THE IMPACT ON U.S.-CHINA RELATIONS

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With the U.S. federal elections only one day away, the most recent polls and analysts agree:

- The presidential election is too close to comfortably predict.
- Clinton starts with a significant advantage in the Electoral College, but the momentum in the closing days is clearly with Trump.
- It remains unclear whether Senate Democratic candidates will win enough elections to gain control of the Senate.
- The House of Representatives will remain in Republican control even though Democrats will likely gain 10–15 seats.

Importantly, *regardless* of the election outcomes, the next four years will be a time of more difficult U.S.-China relations:

- The movement of goods, capital, and people between China and the United States will be more restricted.
- The potential for conflict will be increased.

Chinese companies seeking to navigate these turbulent waters and successfully export to, or invest in, the United States will require professional advice and assistance.

THE PRESIDENTIAL ELECTIONS

The fundamental dynamic of the presidential race between the two most disliked candidates in history has been: if the election is about Trump then Clinton wins; if the election is about Clinton then Trump wins; and the key question all along has been can Trump not make the election be about himself.

During the weeks between the first and last debates, the campaign was all about Trump. The candidate suffered a number of self-inflicted wounds. Clinton's lead in the polls grew. Following the Federal Bureau of Investigations's surprise announcement that it was again investigating Clinton's use of a private email server during her time as Secretary of State, the public's serious doubts about Clinton's integrity and honesty have again surfaced and the polls have tightened considerably. Mitigating against the impact of this latest development is the fact that approximately 25% of those who will vote have already done so and the Clinton campaign is more organized in terms of getting out the vote.

The presidential race is decided by the "electoral college." Each state has the number of votes equal to the number of members of Congress plus their two Senators. To win requires 270 electoral votes. Clinton starts with

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a distinct advantage because 18 states with 242 electoral votes have voted Democratic in the last six presidential elections.

This election will be decided by a handful of so-called "swing" states because in previous years they have gone Democratic or Republican. In order to win the presidency, Trump must win Ohio, Florida, North Carolina, Iowa, and a couple of other small states (or win a historically Democratic state like Pennsylvania or Wisconsin).

SENATE ELECTIONS

Republicans currently control the Senate 54-46. This means that in order for Democrats to take control of the Senate, they must gain a net of four seats if Clinton is elected (because the vice president votes to break ties) or five seats if Trump is elected.

Although Democrats are favored to win two seats (Illinois and Wisconsin) they may lose a seat currently held by the Democratic Senate Leader Harry Reid (Nevada). There are then five highly competitive Senate races: Pennsylvania, New Hampshire, North Carolina, Iowa, and Missouri. The Democrats will need to win two to four of these to gain control.

IMPLICATIONS FOR U.S.-CHINA RELATIONS

Although anti-Chinese rhetoric has increased during recent U.S. presidential elections, this time U.S. policies are likely to become tougher as well *regardless* of who is elected president. The movement of goods, capital and people between the two countries is likely to be more restricted.

Significant blocks of voters supporting Clinton *and* Trump have become more nationalistic, anti-trade and anti-foreign investment. After the election, more Republican and Democratic members of Congress will share these views.

China is viewed by increasing numbers of Americans and their representatives as having displaced American companies and taken away U.S. jobs. China is not viewed as "playing fair" and disproportionately restricts U.S. exports to, and investment in, China. Furthermore, China's assistance and agreement on global climate change or Iran sanctions is not viewed as enough to offset its unwillingness to rein in North Korea's nuclear program or expansion into the South China Sea.

Fundamentally, therefore, the United States is likely to be more aggressive in countering perceived Chinese unfair trade practices, acts in cyberspace, intellectual property theft, and forced localization.

APPENDIX: KEY POLICIES OF THE CANDIDATES

Clinton Administration

- Does not support the Trans-Pacific Partnership (TPP), but might be willing to reconsider if it was further strengthened to address labor, environmental, and enforcement issues.
- Will strengthen enforcement of unfair trade practices (dumping, countervailing duties, nontariff trade barriers). Will appoint a new "trade prosecutor to keep other countries honest."
- Willing to consider imposing targeted tariffs if other countries "break the rules."
- Strongly opposes digital trade restrictions including data localization (promotes a free and open Internet).

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- Will make it more difficult for U.S. companies to relocate abroad by: imposing an "exit tax" on un-repatriated earnings for companies leaving the United States; limiting interest deductions for U.S. affiliates of multinational corporations to deter "earnings stripping"; and clawing back tax breaks for companies moving jobs overseas.
- Will increase the cost of doing business in the United States by pushing for increases in the U.S. minimum wage, strengthening the rights of unions to collectively bargain, and urging broader profit sharing.

Trump Administration

- Rejects TPP.
- Likely to pursue bilateral rather than multilateral trade agreements.
- Will prioritize addressing violations of trade agreements.
- Will instruct the Treasury Secretary to label China a currency manipulator.
- Will instruct the Office of the United States Trade Representative to bring trade cases against China for actions including theft of American trade secrets.
- Has said will impose an import tariff of up to 45% on goods from China.
- Willing to impose additional tariffs on the products from American companies that move offshore.
- Will create a one-time repatriation holiday at 10% paid on all foreign-held cash, regardless of moving it back to the United States or holding it overseas.
- Will end tax deferral on income earned abroad (but keep foreign tax credit in place).
- Will move from worldwide to territorial tax system.
- Will reduce the corporate tax rate and eliminate the corporate alternative minimum tax.
- Likely to take a stronger view on restricting the use of encryption, maintaining American influence over the Internet, and enabling government to be more aggressive about restricting online speech and imposing government surveillance.

Infrastructure

In either a Clinton or Trump Administration, a large initiative to improve America's infrastructure is likely to be pushed during the first 100 days. Neither candidate has specifically addressed the participation of foreign-owned companies in the construction projects that will result (roads, bridges, waterways, broadband deployment, airports, smart electric grid, public transit). However, the adverse political climate will make it more challenging to do so.

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