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## What's Been Happening

# 1 — Trump's America First Investment Policy: Short on Boosting Investment, Long on Decoupling from China — 1

[**In One Sentence**]

- The America First Investment Policy (AFIP) aims to restrict Chinese investments in critical U.S. infrastructure as well as a wide range of sectors to safeguard economic security, which is deemed as tantamount to national security.
- Trump plans to tighten U.S. investment restrictions in Chinese technology sectors, expand Biden-era measures, and has also proposed changes to inbound investment policies and CFIUS procedures.
- The AFIP envisages the fast tracking of certain investments from ally and partner countries, including through expedited environmental reviews, to cushion any shortfalls in China-originating investments.
- Taiwan's TSMC has announced a $100 billion investment to expand its U.S. manufacturing operations, as part of President Trump's push to boost American semiconductor production and technological leadership.

[**Mark the Essentials**]

- Bipartisan House committee leaders are advocating for legislation to regulate outbound investments to China, citing the need for a consistent policy based on statutory authorities and not simply just executive orders.
- The Trump administration's AFIP memorandum signals a potentially significant expansion of U.S.-China investment decoupling, aiming to "fully unwind commercial ties" across various sectors.
- Trump's policy aims to restrict Chinese investments in the U.S. via stricter reviews and bans, while encouraging allied investments to bolster national security and reduce dependence on China.
- CFIUS is to drive this U.S. investment decoupling by also expanding its remit to 'greenfield' investments from China as well as corporate expansions in critical sectors.
- Despite its major announcement, TSMC maintains that it will continue to make significant investments in fabrication capacity at home and keep its most advanced manufacturing processes in Taiwan.

[**Keeping an Eye On...**]

*"My message to every business in the world is very simple: Come make your product in America, and we will give you among the lowest taxes of any nation on Earth. We're bringing them down very substantially, even from the original Trump tax cuts … Under the Trump administration, there will be no better place on Earth to create jobs, build factories, or grow a company than right here in the good old USA."* So said President Trump in his remarks to the Davos crowd three days after taking office. Thirty days later, the Trump administration released its America First Investment Policy. Trump's words and the Trump administration's actions could not be more diametrically opposite, at least insofar as Chinese investors are concerned. The America First Investment Policy order is not so much an invitation to foreigners to invest in America as much as it is a call to repulse practically all Chinese investments, except passive investments, from America. The order openly states that *"investment at all costs is not always in the national interest … [particularly when it is directed by] certain foreign adversaries, including the People's Republic of China …"* The laundry list of proposed anti-China measures is long. They include: (1) expand on the Biden administration's outbound investment restrictions *vis-à-vis* China to sweep-in additionally the biotechnology, hypersonics, aerospace, and directed energy sectors (over and above semiconductors, quantum, and AI); (2) build on Trump 1.0's CFIUS/foreign inbound investment rules related to M&A transactions to additionally restrict Chinese inbound investment in the healthcare, agriculture, energy, and raw materials sectors; (3) expand CFIUS' authority to also restrict Chinese "greenfield" investments (not just M&A transactions) as well as corporate expansions in advanced technology sectors, including AI; (4) restrict other China-linked inbound and outbound equity and portfolio flows, including private equity, venture capital, and investments in publicly traded securities from sources such as pension funds and university endowments; (5) utilize IEEPA's (International Emergency Economic Powers Act) asset blocking authority to deter investments in China's military-industrial sector. It is worth noting that while almost 800 Chinese parties were dumped into the Entity List during the 2018-23 period, instances of Chinese companies placed under IEEPA's asset blocking authority were much rarer. They number in the 10s, not 100s; and (6) delist Chinese companies from U.S. exchanges that fail to abide by U.S. audit standards, as well as reexamine the variable interest entity (VIE) structure used by prominent Chinese companies that allows them to maintain a controlling interest, despite holding minority voting rights, and trade on U.S. exchanges. The 1984 U.S.-China Income Tax Convention is also under threat of suspension or cancellation.

All said, the America First Investment Policy order amounts to a significant 'raising of the fence and widening of the yard' whose unambiguous ultimate goal is to decouple the U.S. and Chinese economies. For those inclined to be swept-up in President Donald Trump's 'beautiful' sentiments from time-to-time on China and Mr. Xi., the measure of the man should be his administration's actions, not his words. Swallowing sweet talk from Mr. Trump and punitive actions from his administration does not seem to be a smart way to proceed.

[**Expanded Reading**]

- China To Boost Food Imports From Latin America, Europe As US Trade War Escalates, *Reuters*, March 5, 2025
- Trump's Trade War Looms Over China's Sluggish Economy Despite Show Of Strength At National People's Congress, CBS News, March 5, 2025
- China Ready To Respond To Donald Trump's 'Discriminatory' Curbs On US investment, *South China Morning Post*, February 23, 2025
- White House Policy Aims to Reshape Foreign Investment in the United States, *The National Law Review,* March 3, 2025
- Taiwan Says Chipmaker's Move To Invest $100 Billion In The US Wasn't Because Of US Pressure, *AP News*, March 6 2025



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- [China Doubles Down On AI And Tech Innovation As Trump Ratchets Up Trade Pressure](), *CNBC*, March 5, 2025

## 2 — China's Economic Plan at 'Two Sessions' Meeting: Heavy on Calculated Stimulus, Light on Structural Reform — 2

[**In One Sentence**]

- Thousands of delegates from across China arrived in Beijing to attend the annual meetings of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), which opened on March 4, and the National People's Congress (NPC), which began on March 5.
- In Premier Li Qiang's annual Government Work Report, the economic agenda includes a GDP growth target of around 5 percent for this year, a deficit ratio of around 4 percent, and a surveyed unemployment rate target of 5.5 percent.
- China has been under deflationary pressure, with nominal GDP growing slower than real GDP for seven consecutive quarters in the final quarter of 2024 and consumer prices rising just 0.2% in both 2024 and 2023, while producer prices have been declining for over two years.
- Earlier, Chinese President Xi Jinping held a widely publicized meeting with top CEOs from China's private sector, seeking to signal a departure from government crackdowns that have unsettled industries such as technology and education.

[**Mark the Essentials**]

- According to Premier Li Qiang, the 5 percent GDP growth target aims to stabilize employment, mitigate risks, and improve people's livelihoods. He also stated that China will pursue a moderately loose monetary policy and optimize and innovate structural monetary policy tools to support the healthy development of the housing and stock markets.
- Without naming the United States, Premier Li acknowledged China's trade challenges due to international pressure. He noted that China would defuse risks in key areas to counter external shocks. Two years ago, President Xi Jinping had told a CPPCC group that 'Western countries, led by the United States, have imposed comprehensive containment on China.' Reviving this language would signal a renewed confrontation—especially after omitting it last year.
- The deteriorating trade environment is a challenge to China's exports, a key driver of economic growth in 2024. With weak domestic demand and Beijing wary of its debt-heavy growth model, the government is focusing more on boosting consumer spending.
- Li said Beijing will strengthen legal protections and policy support for private enterprises, ensuring their legitimate rights. Previously, President Xi had promised to improve financing access for private firms and curb excessive fines and penalties. Since then, various ministries have committed to implementing his directives.

[**Keeping an Eye On...**]

- So, what are the key takeaways regarding China's near-term management of its economy that can be gleaned from the 2025 Government Work Report (GWR) that was delivered by Premier Li Qiang at the 'Two Sessions' meeting? Five points come to mind. First, the Party and the Government has finally set aside



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caution (*up to a point though*) on injecting stimulus into the economy. In September 2024, the CPC Politburo flipped the stimulus switch, rolling out a staggered set of monetary, capital market, housing market, and fiscal measures. These measures are to be consolidated, with fiscal firepower being committed in 2025 by way of an increase in the budget deficit ratio target to 4% of GDP (the target had been 3% in the 2024 and 2023 GWRs). All-in-all, China's overall macroeconomic policy stance will be more supportive of short-term growth than at any time over this past decade.

Second, the Party and the Government are very attentive to poor quarterly data. The decision in September 2024 to overrule its own inclinations and inject a round of stimulus was the product of early 2024 third quarter data which showed that the economy's primary – and last remaining – domestic growth engine, fixed asset investment in industrial upgrading and high-tech manufacturing, was losing steam. It is investment in manufacturing and infrastructure (plus net exports) that had essentially kept the economy afloat over the earlier 12 months. Likewise, the disappointing 2023 second quarter numbers, when it had become clear that the post-COVID economic bounce-back was failing to materialize, had been the trigger for an earlier shift in policy stance. The rushed exit from the zero-Covid policy in December 2022 led to a brief travel and consumption boom in early-2023 but which faded by mid-year as retrenchment in the property sector affected both investment and consumption. At the time, it was reasoned that rather than simply throw cheap stimulus money at the economy's problems, a new reformist push was necessary, which in turn led to the initiation of a rolling set of business operating environment reforms during the second half of 2023. With the new reformist push falling short, stimulus has now been added to the menu.

Third, the Chinese leadership is still too fixated on hitting growth targets, still too focused on supply side measures, and still too squeamish on full-blooded stimulus. Six consecutive quarters of nominal growth lagging real growth, symptomatic of deeply embedded deflationary pressures, should have been grounds enough in Fall 2024 to inject stimulus aggressively to break the cycle of deflation and anchor inflationary expectations. In the event, while the monetary policy loosening and capital market support-related measures were ambitious, the fiscal support measures, including disbursals that are outlined in the 2025 GWR, remain underwhelming. Their purpose seems to be to juice the economy just enough to hit the 5% growth target, manage financial stability risks, and allow local governments to clear balance sheet space to stimulate the supply side of the economy. The measures will fall short of meaningfully reflating the economy and fully stimulating its demand side.

Fourth, and that said, the central government is (finally) girding its loins to tackle long-delayed structural challenges. At the Central Economic Work Conference (CEWC) in December 2024, it was decided that the basic pension of retirees and vulnerable populations as well as the level of financial subsidies for basic medical insurance for poorer urban and rural residents would be raised. Earlier, in its July 2024 Third Plenum Resolution, the Party had called for the reassignment of intergovernmental expenditures, with the central government bearing a greater share of expenditures related to household transfers. Economists have long championed the case for the central government rather than cash-strapped provinces to bear a greater share of these transfers and to augment the transfers, if need be, by issuing general bonds given its ample fiscal headroom, so as to strengthen social protections and reduce households' propensity for excess



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savings. This reform seems to be launching in the 2025 GWR, although the increased amounts are still too small to materially impact domestic demand. In a similar vein, baby steps towards the reform of the intergovernmental fiscal framework – in this instance, placing more excise tax revenue at the disposal of local governments - is promised in the 2025 GWR.

Finally, the top leadership's fundamental economic outlook, goals, and strategies have not changed – despite the Trump-sized disruption to the global trading order. Investment in technology-enabled growth is to generate, both, stable economic growth with high-wage jobs and rising incomes that will create its own consumptive demand as well as self-sufficiency in core technologies that will enable China to surmount America's technological chokehold. The near-term economic stimulus is merely a tactical shift in priorities to reignite private investment and stabilize the economy, which are key to achieving the longer-term pivot towards a 'new quality productive forces'-led growth model. This reading of the leadership's intentions calls into question though the extent to which it is willing to fiscally build out China's social protection framework, including strengthening its pension system and shoring up the unemployment and medical insurance systems. Longer term, the leadership's perceived disdain for 'welfarism' could come to weigh heavily on the economy's ability to generate sustainable internal demand, leaving the Chinese economy uncoordinated and unbalanced, and dependent on overseas markets to absorb its excess production capacity.

[**Expanded Reading**]

- How China Plans to Trump-Proof Its Economy as Top Lawmakers Meet, *Bloomberg*, February 25, 2025.
- Xi Sends Message to China's Private Sector, *Foreign Policy*, February 18, 2025.
- What to Watch at China's Two Sessions in 2025, *Asia Society*, February 26, 2025.
- Critical moments, key junctures: Xi urges head-on approach as external threats mount, *South China Morning Post*, February 28, 2025.
- 'Two sessions' 2025: China sets GDP growth target of around 5%; military budget to rise by 7.2%, *South China Morning Post*, March 5, 2025.

## On the Hill

[**Legislative Developments**]

- The *Undertaking Negotiations on Investment and Trade for Economic Dynamism (UNITED) Act*, introduced by Reps. Adrian Smith (R-NE) and Jim Himes (D-CT) in the House, and Sens. Jerry Moran (R-KS) and Chris Coons (D-DE) in the Senate, would direct the president to initiate comprehensive free trade agreement negotiations with the United Kingdom.
- The *Leveling the Playing Field 2.0 Act*, introduced by Sens. Todd Young (R-IN) and Tina Smith (D-MN) and Reps. Beth Van Duyne (R-TX) and Terri Sewell (D-AL), aims to strengthen trade remedy laws against unfair practices, including repeat offenders and Chinese subsidization, particularly through Beijing's Belt and Road Initiative.
- The *Fighting Trade Cheats Act*, introduced by Rep. Mike Bost (R-IL) on Thursday and co-sponsored by nearly a dozen other House lawmakers, would direct the government to crack down on unfair trade


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practices, particularly those by China, by increasing civil penalties for trade law violations and barring repeat violators from exporting into the U.S. for five years.

[**Hearings and Statements**]

- The Senate has confirmed Jamieson Greer as U.S. Trade Representative despite concerns from some Democrats due to his championing of President Trump's trade policies.
- Rep. Claudia Tenney (R-NY) has suggested that Trump's "reciprocal" tariffs could lead to free trade-like agreements, while others worry about the risks of a broader trade conflict.
- Sen. Chris Murphy (D-CT) emphasized the importance of preserving U.S. lawmakers' ability to regulate technology amid ongoing trade negotiations and mixed signals from the Trump administration.
- Senior Democrats have warned that Trump's reciprocal tariff plans could trigger retaliation against U.S. agriculture, jeopardizing farmer livelihoods and key export markets.
- House leaders are pushing for *de minimis* reform, targeting Chinese imports amid calls for stricter enforcement.

[**Expanded Reading**]

- China Slaps Extra Tariffs Of Up To 15% On Imports Of Major U.S. Farm Exports, NPR, March 4, 2025
- Trump's Reciprocal Tariffs And The Art Of The Bad Deal, *The Hill*, Match 6, 2025
- Who Is Jamieson Greer, United States Trade Representative, *Economic Times*, March 5, 2025
- Farmers Fear More Pain From Trump's Trade War, *Time Magazine*, March 4, 2025
- Trump Triggers Trade War, Price Hikes On Canada, China and Mexico, *Reuters*, March 5, 2025



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