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Six Industries Affected by Changes in US & China Trade Policy

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These six industries could potentially be affected by the Trump Administration's changing trade policies.

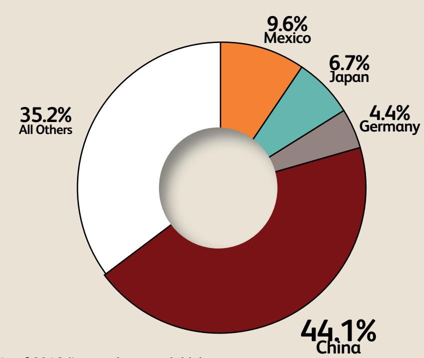
After the Trump Administration considered imposing flat taxes on imported Chinese goods, the US's relationship with China in a trade-related capacity began to shift.

The Trump Administration has changed aspects of the American political system, as well as the domestic trade agenda, especially the US's trade relationship with China. After the Trump administration considered imposing flat taxes on Chinese imports as a major part of the president's first 100 day plan, the United States' relationship with China in a trade-related capacity has begun to shift. Trade with China has historically been an integral part of foreign relations for both the US and for China; To better understand this shifting landscape, IBISWorld is taking a look at three US and three Chinese industries that could be affected by changing trade policy.

Soybean Farming in the US

As a critical source of the global supply of protein, the $36.7 billion Soybean Farming industry (IBISWorld report 11111) plays a prominent role in US-China trade relations, and recent attempts by the Trump administration to increase US agricultural exports to China, as evidenced by the 100 day plan, could substantially bolster the industry's performance in coming years. This industry has declined in recent years amid volatile weather conditions and the strengthening of the US dollar. However, Chinese demand for soybean products has surged as the nation's agricultural policies continue to favor grain production over the production of soybeans, while the growing wealth of the burgeoning Chinese middle class has sparked a dietary shift toward animal proteins, creating strong demand for soybean meal used in livestock feed. In 2016 alone, US soybean farmers exported an estimated $14.2 billion in goods to China. Moving forward, the Soybean Farming industry could benefit from relatively open access to Chinese consumers and livestock producers, particularly as agriculture-based discussions in the US-China Comprehensive Economic Dialogue have already resulted in increased exports of US livestock to China, while topics such as US seed and crop exports are expected to be discussed in the coming months.

US Soybean Farming Export Locations*



*As of 2016 (Latest data available)

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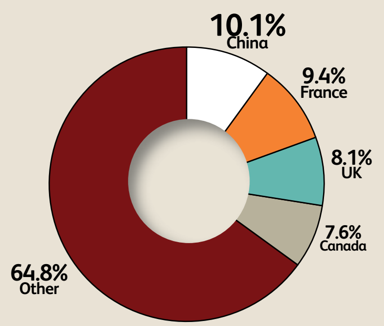
Aircraft Engine and Parts Manufacturing in the US

China, the world's fastest-growing aviation market, is the largest export destination for the US Aircraft, Engine and Parts Manufacturing industry (IBISWorld report 33641a). China accounts for 11.0% of revenue for the $217.1 billion industry. According to data from the World Bank, airborne passenger traffic in China has grown at an annualized rate of 10.8% over the five years to. According to Boeing, the industry's largest player, China will require an additional 6,810 airplanes over the next 20 years to satisfy the nation's surging demand for air. IBISWorld expects the industry's total revenue to increase at an annualized rate of 2.8% over the five years to 2022, largely due to emerging opportunities in China and other crucial export markets. This growth will rely on the strength of trade relations between China and the United States, which have been strained in recent months as the Trump Administration has threatened to place 45.0% tariffs on goods imported from China.

This policy has the potential to spark retaliatory policies from the Chinese government, which could include placing similar tariffs on aircraft imported from the United States or shifting demand to foreign competitors, like Airbus. However, the Trump Administration's attitude toward trade with China has seemingly softened since April 2017, as President Trump has announced that he would be open to making concessions in his trade agenda with China in exchange for the nation's assistance regarding escalating tensions with North Korea.

US Aircraft & Engine Parts Manufacturing Export Locations



Cars and Automobile Manufacturing in the US

Many operators in the $119.1 billion US Car and Automobile Manufacturing industry (IBISWorld report 33611a) hope ongoing US-China trade talks will lead to the reduction of barriers that have prevented US car manufacturers from operating in China. According to the New York Times, the United States imposes tariffs of just 2.5% on imported cars, minivans and SUVs, while China places substantial tariffs of 25.0% on similar imports, causing US-manufactured vehicles to be prohibitively expensive for many Chinese consumers. As a result, imported cars typically represent less than 5.0% of total car sales in China, while imported vehicles account for nearly 26.0% of the total US automotive market.

However, as China vies to become a major automotive producer and the Trump Administration seeks to fulfill campaign promises and bolster US manufacturing exports, many believe the US and Chinese governments will reduce certain protectionist policies to stimulate automotive trade between the two countries. In fact, the liberalization of these two markets has already begun to take shape, with Chinese manufacturer Fuyao Glass Industry Group constructing the world's largest automotive glass factory in Moraine, Ohio in October 2016, while the Chinese government announced in April 2017 that it would open up restrictions that have historically prevented foreign companies from owning more than 50.0% of their joint ventures in China.

Apparel Manufacturing in China

The Apparel Manufacturing industry (IBISWorld report 1810) in China

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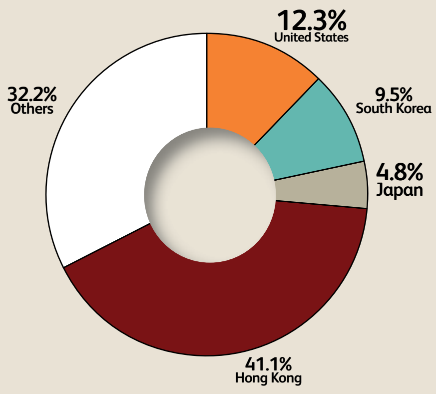
comprises companies that manufacture men's, women's and children's cut and sewn apparel. This industry is inextricably linked to the United States, as the US is the largest importer of apparel products in the world, as well as China's largest exporting destination of apparel products. In 2016, US accounted for 19.6% of total exports From 2011 to 2016, exports of China's apparel products increased from $10.48 billion to $12.72 billion, representing an annualized growth of 4.0% in the period The exports growth mainly derived from China's competitive products costs and greater demand from US market. In January 2017, President Trump signed an administrative order that called for the US to secede from the TPP in order to establish new economic trade relationship with China. Trump has also advocated for a renewed US manufacturing industry and proposed to increase tariffs on imports from China. All of these factors point to an increasingly conflicted trade relationship between China and US, and a possible slowdown in China's exporting of goods to the US.

Smart Phone Manufacturing in China

The Smart Phone Manufacturing industry (IBISWorld report 4014a) mainly produces smart phones and related accessories. Benefiting from the popularity of industry products, global demand for smart phones has increased significantly in recent years, and revenue for this industry is estimated to increase at an annualized rate of 28.8% over the five years to 2017. China has been the largest manufacturing base of smart phones in the world due to its complete supply chain and provides OEM services for many foreign companies. Large numbers of Chinese-made smart phones are exported to other countries each year, and the US is the second largest export destination, contributing about 12.3% to the industry's export value in 2017. IBISWorld estimates that exports of smart phones to the US have

China Smart Phone Manufacturing Export Locations*



increased 10.6% annually over the past five years to 2017, as demand for smart phones, especially high-end products such as iPhones, has been growing.

The industry is forecast to continue growing at an annualized rate of 19.8% over the five years to 2022, driven by the increasing demand from consumers replacing their old smart phones (as opposed to first-time smartphone purchasers) as well as surging new demand from emerging markets. However, exports are expected to contribute smaller shares in the future as companies set up local production facilities in the markets to which they want to sell. With regards to the US, exports of smart phones to the US market will likely decline if the Trump administration attempts to move manufacturing to the US by reducing corporate taxes or increasing tariffs on Chinese products.

Tire Manufacturing in China

The Tire Manufacturing industry (IBISWorld report 2911) manufactures pneumatic tires, solid tires, semi-pneumatic tires, tire tubes and aircraft tires. As one of largest automobile markets in the world, demand for tires in the US is large and tire imports account for more than half of the total in terms of volume. China's tires exported to the US are mainly radial tires for passenger vehicles between 15 and 16

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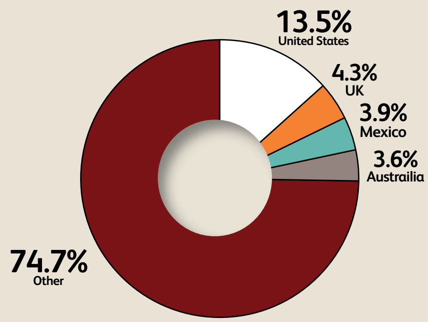
inches. China's export price of tires of that size is about 80% of the average export price, still lower than the prices of other countries. Therefore, China's tire exports to the US are large. However, from 2011 to 2016, China's tire exports to the US declined 6.4% annually from $3.01 billion to $2.16 billion (current price), which was primarily attributed to anti-dumping and anti-subsidy investigations launched by the US.

Trade protectionism policies advocated by President Trump's administration are expected to have a further negative impact on China's tire exports to the US. However, Chinese manufacturers are working to produce tires of a higher quality that are expected to be sold at a higher price, lessening the likelihood of anti-dumping concerns and possibly bolstering exports to the US.

China Tire Manufacturing Export Locations*



*As of 2016 (Latest data available)

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