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Navigating the U.S.-China Trade Landscape:
Challenges, Opportunities, and the Path to a New Normal

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“Big Picture” Helps Us Understand Longer-Term Trends

US has always had concerns about China’s economic/geopolitical policies & practices, but fundamental situation has changed:

| U.S. Government Perspective | PRC Government Perspective |
|--|---|
| <p><u>Assessment:</u> China’s impact now too big to ignore, and previous efforts to protect US interests ineffective.</p> <ul style="list-style-type: none">• US trade deficit \$6 billion in 1990 vs. \$295 billion in 2024. | <p><u>Assessment:</u> We’re now big enough to determine our own path without bowing to US wishes.</p> <ul style="list-style-type: none">• Current disruptions in economic relations entirely the fault of the US. |
| <p><u>Offensive Goal:</u> Constrain PRC initiatives that potentially harm US interests – without provoking unacceptable levels of (a) PRC retaliation and (b) economic cost.</p> <p><u>Defensive Goal:</u> Reduce PRC leverage ASAP.</p> | <p><u>Defensive Goal:</u> Deter unwelcome US measures while also reducing US leverage – without harming trade/investment.</p> <p><u>Offensive Goal:</u> Identify additional leverage points to potentially assert against US as needed.</p> |

US shift from trying to “shape” to trying to “block” PRC practices – and to decoupling in sensitive sectors.

Trump 2.0 Initial Escalation: Feb.– Oct. 2025

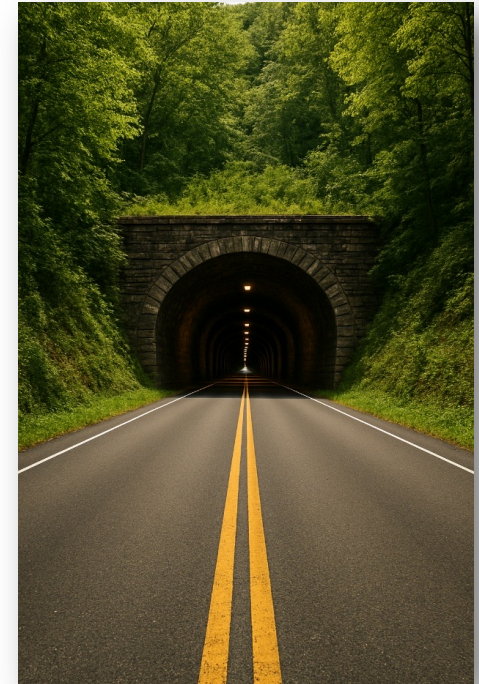
- Beginning in Feb 2025, U.S. imposed slew of tariffs on PRC products under International Emergency Economic Powers Act (“IEEPA”).
 - Includes (1) tariffs tied to fentanyl flows into U.S., and (2) “reciprocal” tariffs that U.S. imposed on most trading partners at varying rates.
 - These tariffs are in addition to tariffs U.S. previously imposed on China during 1st Trump Admin. under Sec 301 of Trade Act of 1974.
- China imposed (1) retaliatory tariffs on certain U.S. products and (2) various sanctions and investigations of multiple U.S. companies.
- At same time, U.S. imposed increasingly strict controls on export to China of advanced semiconductors and related technology. U.S. Commerce Dept. also drastically expanded scope of U.S. end-user-based export controls (the “affiliates rule”).
- In response, China rolled out new controls on export of rare earth metals, including proposed rule applying China’s rare earth export licensing regime extraterritorially.



*Testing Each Side’s
Vulnerabilities & Resolve*

Strategic Stalemate: Oct. 2025 – Present

- On Oct 30, 2025, Presidents Trump and Xi met in Busan, South Korea.
- The two leaders agreed to fragile **1-year truce**: each side rolled back certain tariffs and non-tariff measures, and deal included commitment by China to purchase certain U.S. agricultural products.
- During the truce period, U.S. now maintains a roughly 47% average tariff on Chinese products.
 - This includes 10% fentanyl-related tariff under IEEPA; 10% reciprocal tariff under IEEPA; Section 301 tariffs on roughly two-thirds of Chinese products – typically set at 25%; and general most-favored-nation (“MFN”) tariffs, which average 2-3%.
- The U.S. has paused implementation of the affiliates rule for one year; China has likewise paused its most recently announced rare earth export controls for one year.
 - However, earlier restrictions continue to apply, and both countries continue to apply onerous licensing regimes in these areas.
- Each side appears to acknowledge leverage the other side possesses. How long before one side feels less constrained? What then?



Analogy: Traveling together in tunnel that constrains each side from turning onto its own independent path.

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What About “Globalization” & the WTO?

“Since World War II, the United States has consistently focused on two core principles in trade policy: (1) promoting an increasingly open, rules-based international trade system, and (2) capturing the economic benefits of more open global markets for the American people. . . .”

“U.S. trade policy seeks to enhance domestic prosperity and raise real labor compensation through expanded exports and job creation in areas where the U.S. is most competitive. And by lowering import barriers, U.S. trade policy seeks to expand domestic purchasing power and choice through increased access to fairly traded imported products. It also creates incentives for U.S. firms to become more productive and more innovative.”

U.S.-China Trade Relations: Entering a New Phase of Greater Accountability and Enforcement

Top-to-Bottom Review



February 2006

United States Trade Representative

Sustainable Globalization → Six Fundamental Conditions

1

Commitment by all major trading nations to set of rules establishing level playing field

2

Prompt and effective dispute settlement mechanism

3

Domestic political support within all major trading nations for globalized trade*

4

Rules that prevent a race to the bottom in terms of labor and environmental protection

5

Accommodation of countries' legitimate concerns regarding supply chain resilience

6

Accommodation of countries' legitimate concerns regarding national security

** Requires domestic consensus that the benefits of globalization are being distributed equitably –among (a) nations and (b) domestic stakeholders.*

How to Manage *Systemic* Differences?

Market-based approach vs state-led approach competing against one another on same field



China's state-led economic development model



U.S. market-based economic development model

USTR Greer's Assessment (*The Economist*, 1/13/26)

“We talk about ‘American First’ trade policy, and I think this is a break from the Bretton Woods system . . . We don’t believe that other countries have a right to our market. We don’t believe we necessarily have a right to others’ markets. What we have is a right to negotiate between sovereign nations as to what our trading terms should be.”

“At the end of four years, we are going to see the culmination of a new trading order, based on fairness, reciprocity, balance, and worker outcomes, rather than purely the efficiency-driven outcomes from the previous regime.”

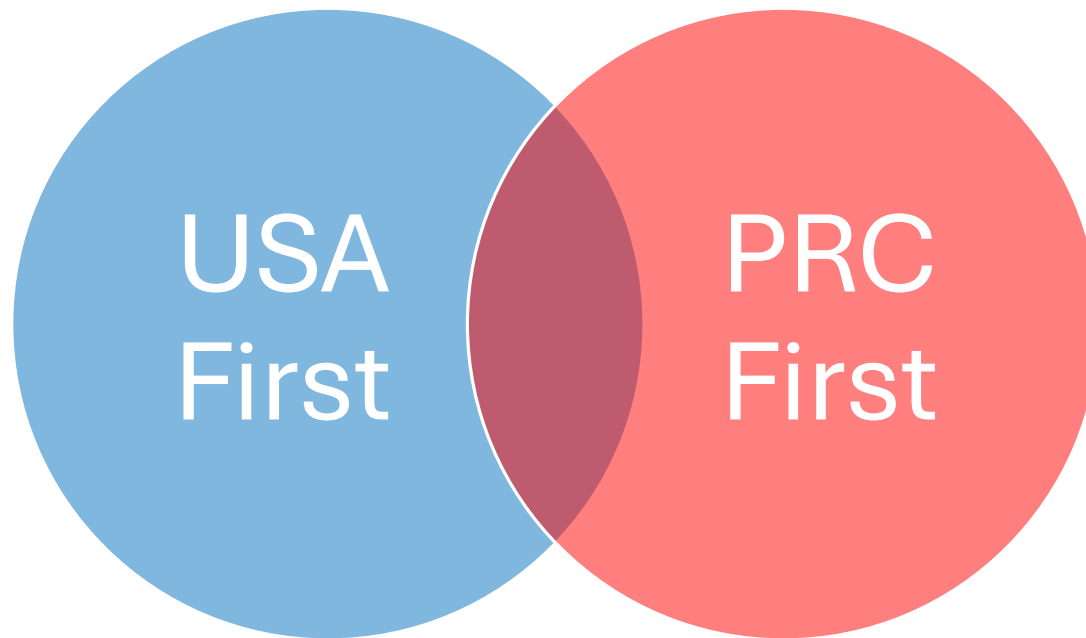
“We know that Chinese practices are distorting . . . In the first term . . . we had a deal with them that included a lot of fundamental changes, and ultimately they couldn’t sign up for that. . . And so our goal right now is to have a managed relationship with China where we continue to trade with China, but it’s a more balanced relationship, and it’s in goods and services that are not sensitive. I don’t think we’re going to change China, but we do have to change our own policies.”



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Paradigm Shift: Globalization → Trade Based on Aligned Interests

US Goal: On the basis of robust America-first trade policy and clear-eyed assessments of goals and approaches of China and other countries (who will also be putting their interests first), establish shared space for “balanced, non-sensitive” trade where US/PRC interests overlap.



Obstacles:

- Pride
- Distrust
- Incompatible US/PRC Goals & Systems
- Technical Difficulty
- Domestic Politics
- Transition Challenges

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Lenses for Identifying Possible Common Ground

U.S. Government Goals

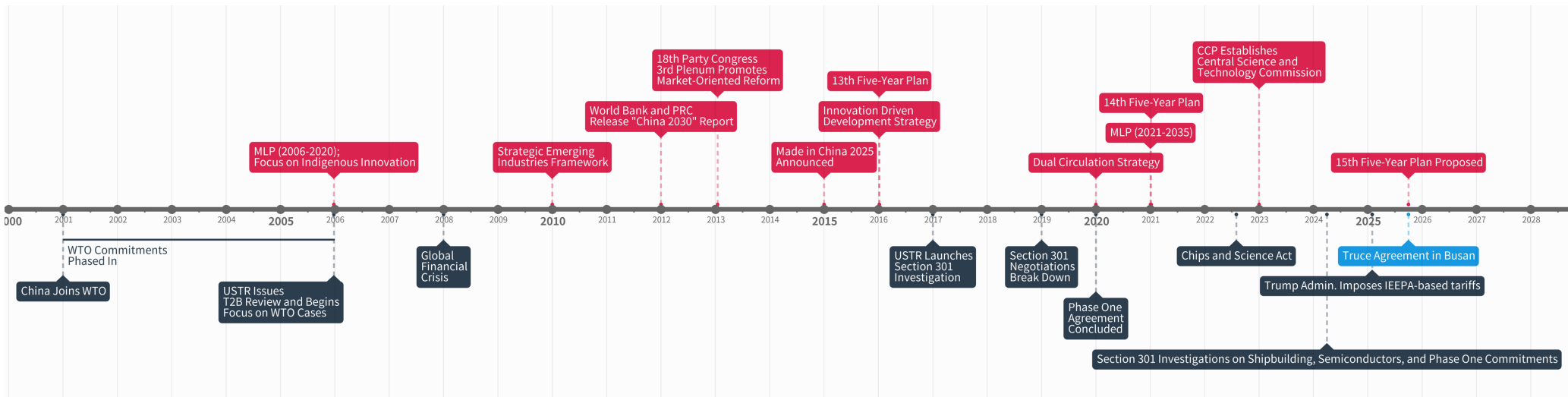
- A. Fair & Balanced Trade**
Promoting US prosperity/competitiveness while addressing challenges related to China's economic system.
- B. National Economic Security**
Protecting/supporting innovation, industries, workers, supply chains, and consumers.
- C. National Security**
Developing/acquiring/protecting critical technologies, industries, and supply chains with defense applications.

PRC Government Goals

- A. Economic Development/Global Influence**
Ensuring prosperity/global influence by increasing competitiveness of Chinese companies/industries domestically and abroad.
- B. National Economic Security**
Promoting “independent innovation” of key technologies & control over supply chains.
- C. National Security**
Developing/acquiring/protecting critical technologies, industries, and supply chains with defense applications.

The Quest for “Fair & Balanced” Trade

Development of China’s Industrial Policy & US Responses



Retrospective: Results of *Made in China 2025*

China's MiC 2025 playbook has been largely successful. China has achieved its ambitious targets in several sectors, and even where it has fallen short, significant progress has been made.¹

| Sector | Generally Achieved Targets? | (Select) Specific MiC 2025 Targets | Significant Achievements ¹ See <i>US-China Economic Security Review Commission, Made in China 2025: Evaluating China's Performance, Nov. 2025</i> |
|-----------------------------------|-----------------------------|---|--|
| New Energy Vehicles | Yes | <ul style="list-style-type: none"> Sell 3M indigenous NEVs? Yes. (3.5M in 2021) | <ul style="list-style-type: none"> Dominates global EV sales, with BYD as the largest global player Indigenous control of supply chain, from raw materials to batteries to EVs |
| Shipbuilding | Mixed | <ul style="list-style-type: none"> 5 international shipbuilders? Yes. (5 of Top 10) | <ul style="list-style-type: none"> Dominates bulk carriers and significant progress in specialized vessels (e.g., LNG ships) |
| Semiconductors | No | <ul style="list-style-type: none"> 50% domestic market share by 2020? No. (16%) | <ul style="list-style-type: none"> SMIC is now the third largest global foundry Significant progress in legacy chips and lower-value add segments such as assembly, testing, and packaging |
| Civil Aviation | No | <ul style="list-style-type: none"> Commercialize CJ-1000A engine by 2025? No. (Trial phase) | <ul style="list-style-type: none"> Commercial launch of the COMAC C919 |
| Biopharma/ Medical Devices | Mixed | <ul style="list-style-type: none"> Bring 20-30 innovative drugs into production? Yes. (26) | <ul style="list-style-type: none"> In 2025, China accounted for 37% of new molecules licensed by large pharmaceutical companies |

China's "Dual Circulation" Strategy

"Dual Circulation Strategy" seeks to protect China's economy from forces outside of its own control – including external shocks and hostile actions, by:

- Achieving self-sufficiency – Establishing a balance between domestic supply and demand ("*internal circulation*"); and
- Creating economic leverage over other countries – by achieving global dominance of "choke points" in key sectors ("*external circulation*").



MiC 2025's Role in the Strategy

Designed to:

1. *Create an industrial powerhouse where the whole is greater than the sum of its parts.*
2. *Establish leverage over foreign firms and governments.*

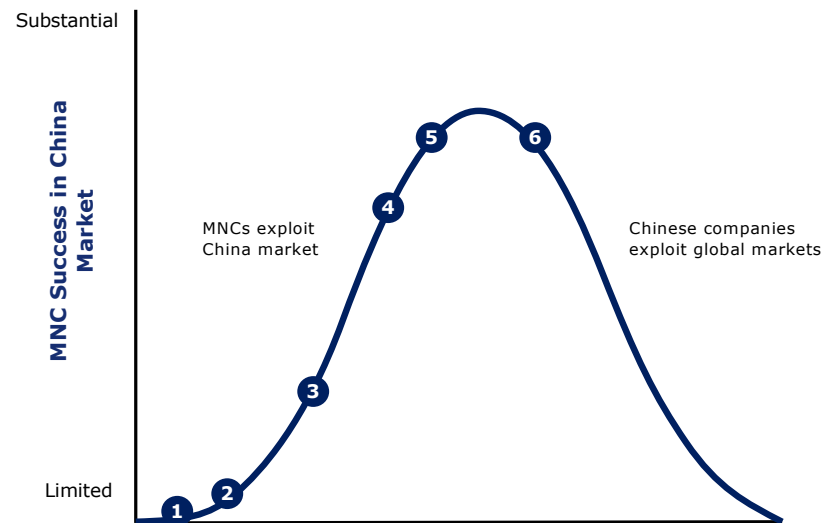
China's INDUSTRIAL STRATEGY often follows predictable contours

China's Industrial Strategy Game Plan

1. Set ambitious industry goals with explicit and implicit local content requirements
2. Invite multinational companies (MNCs) to compete for limited opportunities to participate as JV partners
3. Expand favoritism applied explicitly or non-transparently to local competitors
4. Foster use of state funds to acquire companies/technologies overseas
5. Nominally expand opportunities for foreign companies to placate foreign critics as China expands globally
6. Use technology and cost advantages to push into global export markets

"Frown Curve" Hypothesis

- Is this dynamic occurring in your industry?
- If so, where are you on the curve today and what should you expect next?



Chinese Goal: Self-sufficient and globally-competitive industry sector

Taxonomy of Measures & Practices

(Identified by Covington thru review of 1,000s of PRC regs)

14 Types

- A. Cross-Border Trade of Goods and Services
- B. Cross-Border Investment Flows & Regulation of Foreign Investors
- C. Technology: Limited Protections (incl. IP), Acquisition, and Localization
- D. Data & Cyber Infrastructure
- E. Financial Support
- F. Registration, Licensing, Testing, and other Approval Requirements (except for Data & Cybersecurity-Related Requirements)
- G. Standards & Standards Development
- H. Anti-Trust Competition Law and Practices
- I. Public Procurement
- J. State Owned Enterprises and Resources
- K. Other Market Regulation
- L. Other Enforcement Practices
- M. Other Practices
- P. Policy Objectives

133 Sub-Types

- A. **Cross-Border Trade of Goods and Services**
 - A1. Import or export approval
 - A2. Import substitution policies (e.g., local content requirements)
 - A3. Export subsidies (including VAT rebates)
 - A4. Export credit loans
 - A5. Export insurance
 - A6. Import or export quotas, bans, or quantitative restrictions
 - A7. Restrictions on exporting technology
 - A8. Problematic customs valuation/classification practices
 - A9. Actions or policies that discriminate against imports compared to domestic products (national treatment principle)
 - A10. Actions or policies that favor/disadvantage imports from one or more countries over others (most favored nation principle)
 - A11. Tariff exemptions/reductions for strategic inputs (e.g., parts for integrated circuits, new energy vehicle components)
 - A9. General/Other
- B. **Cross-Border Investment Flows & Regulation of Foreign Investors**
 - B1. Investment restrictions or requirements – including those applied in practice to favor domestic investments (e.g., restrictions on genetic technology investments)
 - B2. Investment screening or approval requirements – including those that can be applied in practice to favor domestic investments (e.g., government review of proposed investments on grounds of national security, public interest, anti-trust/competition considerations)
 - B3. Pre-Establishment Performance Requirements:
 - B3(A). Formal or informal localization requirements (e.g., pressuring investors to move supply chains to China)
 - B3(B). Forced technology transfers, export requirements, or other (as a condition to make foreign investments)
 - B3(C). Other
 - B4. Personnel requirements (e.g., composition of board, senior management, Party organization)
 - B5. Business scope restrictions (e.g., challenges associated with expanding business scope)
 - B6. Promotion or regulation of outbound investments (e.g., capital control regulations; support for acquisition of foreign companies with key technologies)
 - B7. Promotion of inbound investment in specific sectors (e.g., tax incentives, land grants, or other subsidies also from sub-national authorities)
 - B8. General/Other
- C. **Technology: Limited Protections (incl. IP), Acquisition, and Localization**
 - C1. Limited Protections:
 - C1(A). Intellectual Property Rules (Patent, Trademark, Copyright):
 - C1(A)(1). Differential treatment towards IP registered outside of China
 - C1(A)(2). Insufficient IP protection and enforcement (patent, trademark, copyright) – including administrative practices that delay or hinder IP protections (e.g., backlog of patent term extensions and regulatory approvals, late counterfeiting enforcement; discriminatory treatment of foreign applications; insufficient damages)
 - C1(A)(3). Other
 - C1(B). Other Limits on Technology Protection:
 - C1(B)(1). Weak trade secrets protections
 - C1(B)(2). Limits to confidential treatment of data submitted to the government
 - C1(B)(3). Other
 - C1(C). Other
 - C2. Transfers of Technology:
 - C2(A). Technology disclosures to government:
 - C2(A)(1). Forced, pressured, or incentivized scientific data transfer to a government authority
 - C2(A)(2). Government-led, or supported, industrial espionage

- C3(A)(1). Other
- C3(B). Technology transfers to Chinese companies and individuals:
 - C3(B)(1). Forced, pressured, or incentivized technology transfer to an enterprise (by way of joint venture requirement or otherwise; technology can include trade secrets, source code, etc.)
 - C3(B)(2). Other
- C3(C)(1). Other
- C3(C)(2). Other
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- E11. Preferential insurance policies
- E12. General/Other
- F. **Registration, Licensing, Testing, and other Approval Requirements (except for Data & Cybersecurity-Related Requirements (see above))**
 - F1. Licenses or other approval for operating in certain industries and business sectors (e.g., value-added telecom licenses, manufacturing approval)
 - F2. Product or service licensing, certification, registration, or approval requirements for companies:
 - F2(A). In the biomedical sector (e.g., drug and device approval process)
 - F2(B). Other
 - F3. Testing and other quality assessment requirements for products and services:
 - F3(A). In the biomedical sector (including clinical trials)
 - F3(B). Other
 - F4. Individual consumer-specific licensing or registration requirements (e.g., vehicle license plates)
 - F5. General/Other
- G. **Standards & Standards Development**
 - G1. Standards in Use:
 - G1(A). Standards favoring Chinese products/technologies (incl. energy-saving / energy efficiency standards)
 - G1(B). Standards requiring the publication of sensitive information
 - G1(C). Ambiguous standards or product requirements (e.g., unclear whether standard is mandatory)
 - G1(D). De facto standards from private entities/bodies that receive formal or informal government recognition or support
 - G1(E). Discriminatory enforcement of standards
 - G1(F). Other
 - G2. Standards Development:
 - G2(A). Official government targets for standards development
 - G2(B). Government standards development (e.g., issues including required technology transfer or restriction on foreign participation; and transparency issues such as lack of public information)
 - G2(C). Limited recognition of foreign and international standards (e.g., mutual recognition, conformity assessment, recognition of international standards organizations)
 - G2(D). Private industry (or ostensibly private industry) standards development (e.g., participation & transparency in standards development by official industry associations)
 - G2(E). Other
 - G3. General/Other
- H. **Anti-Trust / Competition Law and Practices**
 - H1. Anti-trust institutions (incl. concerns about transparency, interference, and delay)
 - H2. Anti-trust rules including Anti-Monopoly Law (e.g., broad and unclear exemptions, including for SOEs)
 - H3. IP-related anti-trust rules and enforcement (e.g., failures to license IP as anti-trust violation, pressure to lower royalty rates)
 - H4. Selective and discriminatory enforcement of anti-trust rules (e.g., for industrial policy goals)
 - H5. Judicial practices concerning anti-trust that affect corporations' law suits over infringements (e.g., evidentiary requirements, standing, burden of proof)
 - H6. General/Other
- I. **Public Procurement**
 - I1. Requirement, preference, or prioritization in public procurement of:
 - I1(A). domestic companies
 - I1(B). domestically produced or offered products and services
 - I1(C). products with certain local content (including domestic IP) (e.g., by quotas for public hospital procurement, or by waivers of application costs)

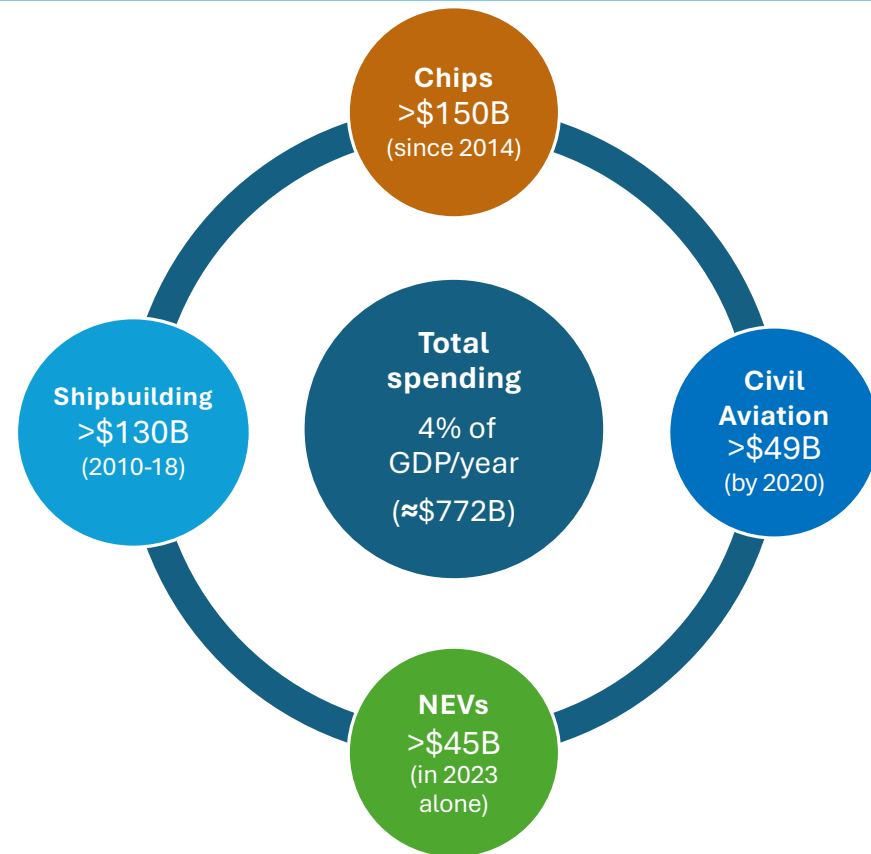
- H3(D). Other
- I2. Administration of procurement process (including transparency, discrimination, delay, negotiations, lack of judicial review or remedies)
- I3. Government/public body purchases of goods or services at above-market prices
- I4. SOE procurement
- I5. Inconsistent innovation requirements
- I6. Procurement tender requirements that only domestic manufacturers or service providers can meet (e.g., qualification, delivery terms and timelines)
- I7. General/Other
- J. **State Owned Enterprises and Resources**
 - J1. Investments by state owned enterprises (e.g., targeted M&A in strategic sectors, technology or resource targets for SOEs, outbound investments; regional strategies for outbound investments (R&I))
 - J2. Coordination / collaboration among state owned enterprises
 - J3. State ownership of resources such as land and water
 - J4. Regulatory preferences for state owned enterprises (e.g., exemptions)
 - J5. General/Other
- K. **Other Market Regulation**
 - K1. Market-based regulation of business operations (e.g., "dual credit" program)
 - K2. Mandatory contractual provisions that change market dynamics (e.g., requirements that technology importers indemnify customers for infringement liabilities)
 - K3. Price controls
 - K4. Restrictions on distribution channels
 - K5. Foreign exchange related measures
 - K6. Restrictions/requirements for industry associations and related activities (e.g., Foreign NGO Law)
 - K7. Central government directives for local authorities to carry out policy objectives (e.g., ban restrictions on new energy vehicle purchases)
 - K8. Referrals to securities and banking regulators to improve capital access for promoted industries
 - K9. Technology benchmarks/targets for companies (e.g., in building standards or for battery or automotive manufacturers)
 - K10. General/Other
- L. **Other Enforcement Practices**
 - L1. Discriminatory enforcement of generally applicable laws (e.g., labor and environmental laws)
 - L2. Corruption law enforcement
 - L3. General criminal law enforcement
 - L4. Inconsistent application of generally applicable laws (e.g., frequent changes, unclear enforcement guidelines, etc.)
 - L5. Discriminatory enforcement of tax laws and regulations
 - L6. General/Other
- M. **Other Practices**
 - M1. Informal communications between state authorities and Chinese companies to convey policy
 - M2. General/Other
- P. **Policy Objectives**
 - P1. General objective
 - P2. Numerical targets (e.g., achieve certain % of market share or local content)
 - P3. Objectives related to indigenous innovation / self-dependent IP / indigenous brands
 - P4. Objectives related to industrial upgrading / optimization of industrial structure
 - P5. General/Other

Key Tool: Subsidization of Target Industries

The IMF, Economist Intelligence Unit, and CSIS have documented large-scale, coordinated subsidization programs that are emblematic of China's state capitalism.

The Washington Consensus rulebook is not designed for a non-market challenge of this magnitude.

At the same time, China's policy-makers believe that these programs have been largely successful and should be continued.



Looking Forward: China's 15th Five Year Plan

The following directives included in the October 2025 CCP Central Committee Communique make clear that China's next 15th Five-Year-Plan (2026-2030) will double down on achieving technological/manufacturing dominance, domestically & globally, across a wide range of industries:

- “[A]chieve greater self-reliance and strength in science and technology and steer the development of new quality productive forces. We must seize the historic opportunity presented by the new round of technological revolution and industrial transformation. . .
- [E]nhance the overall performance of China's innovation system, raise our innovation capacity across the board, strive to take a leading position in scientific and technological development, and keep fostering new quality productive forces. . .
- [C]ontinue to expand opening up at the institutional level, safeguard the multilateral trading system, and promote broader international economic flows. . .”

15th Five Year Plan: Sectorial Guidance

| | |
|--|---|
| 1. Upgrade Traditional Industries | 2. Foster Emerging Industries and “Industries of the Future” |
| <u>Consolidate Position and Enhance Competitiveness:</u> Mining, metallurgy, chemicals, textiles, shipbuilding, construction | <u>Advance technology/R&D, Promote Firm Growth:</u> Quantum, biomanufacturing, nuclear fusion, AI, 6G telecommunications, aviation, aerospace |
| 3. Promote Innovation in “Key Fields” | 4. Encourage Development of Service Sector |
| <u>Mobilize Resources to Drive Breakthroughs:</u> Integrated circuits, industrial machines, high-end instruments, foundational & industrial software, advanced materials, biomanufacturing | <u>Expand Capacity and Upgrade Quality:</u> Reform regulations, improve standards, build brands, and diversify consumer and producer services. |

Questions:

1. How will Chinese initiatives in these sectors be viewed thru USG’s 3 lenses?
2. How will such initiatives impact your company and industry?

Technologies of Concern to U.S. *(US Congress)*

Various House committee chairs have asked USDOC to consider imposing US export bans or other restrictions targeted toward China related to the following technologies:

- **Advanced & Networked Sensors** – cameras, LiDAR, and connected sensors for infrastructure.
- **Advanced Medical Equipment & Components** – surgical robotics and precision devices.
- **Artificial Intelligence Infrastructure** – technologies and equipment for AI datacenters and datacenter construction.
- **Automated Industrial Machinery & Robotics** – robotics to augment U.S. workforce and reshore manufacturing.
- **Cellular IoT Modules & Device-Management Platforms** – LTE/5G/NB-IoT modules, eSIM/iSIM provisioning, device clouds, and firmware-over-the-air (FOTA) services embedded in critical equipment.
- **Electronic Design Automation (EDA) Tools & Semiconductor IP Cores** – chip design software, verification toolchains, standard-cell libraries, and reusable processor/multimedia IP blocks that precede fabrication.
- **Energy Generation & Storage** – technologies for grids, transmission, storage (esp. for AI growth).
- **Industrial Control Systems (ICS/SCADA) & PLCs** – supervisory control software and programmable logic controllers that operate factories, pipelines, water systems, rail, and buildings across non-energy infrastructure.
- **Public Key Infrastructure (PKI), Certificate Authorities & Code-Signing Services** – cryptographic trust services that underpin operating systems, applications, and secure firmware/software update pipelines.
- **Routers & Communications Hardware** – networking hardware/software for ICT.
- **Semiconductor Manufacturing Equipment** – fabrication tools critical to semiconductor production.
- **Subsea Cable Systems & Landing-Station Equipment** – repeaters, branching units, power-feed equipment, and shore-end control systems enabling intercontinental data transport.
- **Trucking** – ground transport & logistics.
- **Unmanned Systems** – drones (air, sea, land) for commercial & govt.

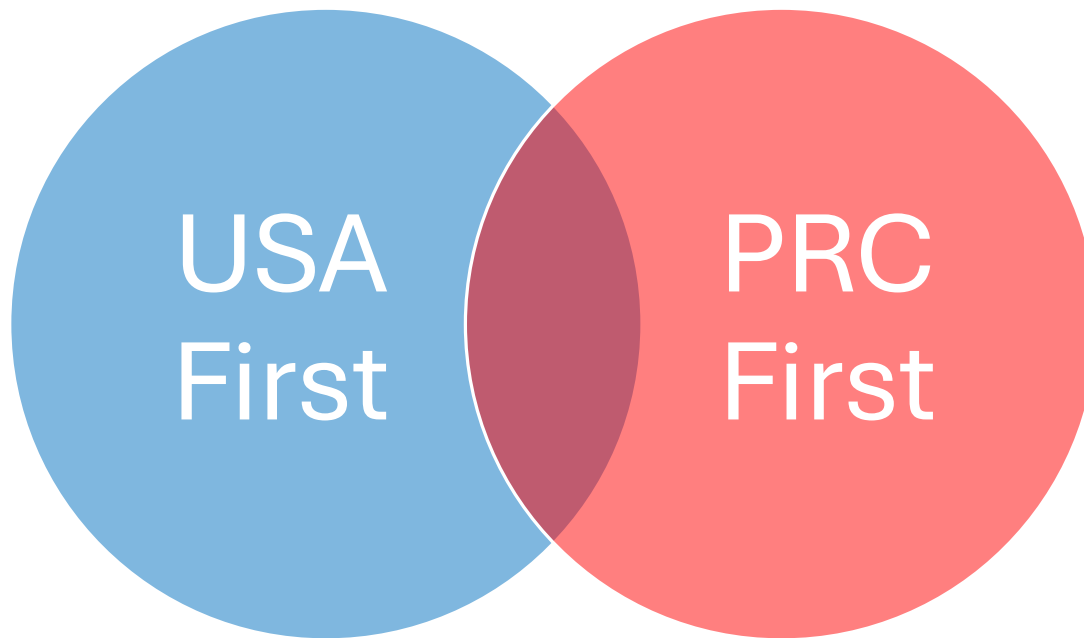
Technologies of Concern to U.S. (*USDOC*)

Industries for which USDOC has initiated or completed national security investigations under Sec. 232:

- Steel and aluminum and related derivatives.
- Automobiles and related parts.
- Copper and related derivatives.
- Timber and Lumber.
- Semiconductors and semiconductor manufacturing equipment.
- Pharmaceuticals and pharmaceutical ingredients.
- Trucks
- Processed critical minerals and derivative products.
- Commercial aircraft and jet engines.
- Polysilicon and its derivatives.
- Unmanned aircraft systems (“UAS”) and their parts and components
- Wind turbines
- Robotics and industrial machinery
- Personal protective equipment, medical consumables, and medical equipment.

How Will US-PRC Trade Evolve As We Traverse & Exit Tunnel?

US Goal: On the basis of robust America-first trade policy and clear-eyed assessments of goals and approaches of China and other countries (who will also be putting their interests first), establish shared space for balanced, non-sensitive trade where US/PRC interests overlap.



US Lenses:

- Fair & Balanced Trade
- National Economic Security
- National Security

Obstacles:

- Pride
- Distrust
- Incompatible US/PRC Goals & Systems
- Technical Difficulty
- Domestic Politics
- Transition Challenges

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Key Policy Tools

U.S. Government

- A. Fair & Balanced Trade**
Section 301/WTO Disputes, Tariffs & IEEPA, Safeguard Measures, Uyghur Forced Labor Prevention Act, Magnitsky Human Rights Sanctions
- B. National Economic Security**
Investment Screening, CHIPS Act Subsidies, Section 232
- C. National Security**
Entity List, Commerce Control List, Military End User List, Chinese Military Companies List, Economic sanctions

PRC Government

- A. Economic Development/Global Influence**
Industrial policy (subsidies, preferential loans, etc.), Belt & Road Initiative
- B. National Economic Security**
Tariffs, Dual Circulation Strategy, Licensing regimes for rare earths/critical minerals, Data Security Law, Anti-Foreign Sanctions Law, Foreign Trade Law
- C. National Security**
Military-Civil Fusion, Strategic stockpiles, Unreliable Entity List, Cybersecurity Law

China's Expanding Countermeasures Toolkit

In 2025, China expanded its legal toolkit to align trade policy with national and economic security:

- **Amendment to the *Foreign Trade Law* (Dec. 2025):**
 - Empowers MOFCOM to prohibit imports and exports to/from entities that “endanger the sovereignty, security, and development interests of China” or “take discriminatory measures against individuals or organizations in China.”
- ***Implementation Measures for the Compliance of Trade Policies* (Dec. 2025):**
 - Compared to Section 301 Investigations, requires local governments to report violations of WTO rules by other member states, allowing MOFCOM to file WTO concerns.
- ***Regulations on the Implementation of the Anti-Foreign Sanctions Law* (Mar. 2025):**
 - Empowers State Council depts. to designate entities for countermeasures and specifies penalties: denying entry, freezing property, prohibiting investment, seizing IP, etc.

Question for MNCs: Leave, Stay, Pivot, or Expand?

- PRC govt. at central/local levels genuinely welcomes *some* types of foreign investment.
- However, MNCs must also consider possible undermining impact of:
 - China's industrial policies and possible drive for self-sufficiency in their industry
 - Possible USG actions and China's desire to retaliate when deemed necessary
 - Possible Chinese government national/economic security measures
 - “Deep sea fishing” by local governments
 - Market prospects for your industry in China
- Despite challenges, MNCs must understand real opportunities that still exist in a changing competitive landscape:
 - Identify significant niche markets
 - Stay abreast of innovation/industry trends originating in China
 - Develop risk mitigation strategies

Questions?

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