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U.S.-China Trade and Economic Relations: Overview

Background

Over the past decades, Congress has sought to induce China to reduce the role of the state in the economy and remove trade and investment barriers, particularly as U.S.-China trade and economic relations have continued to expand. In 2018, China was—in terms of goods—the U.S. largest trading partner, third-largest export market, and largest source of imports. China also has become the largest foreign holder of U.S. Treasury securities. Despite growing commercial ties, however, in recent years the bilateral relationship has become increasingly complex and contentious over a number of economic and trade issues. Concerns over China's policies on intellectual property (IP), subsidies, technology, and innovation led the Trump Administration to launch an investigation into those policies and, subsequently, to impose tariffs on $250 billion worth of Chinese imports. President Trump has threatened to increase tariffs on nearly all remaining imports from China beginning September 1, 2019.

U.S.-China Trade

U.S. exports of goods and services to China totaled $178.0 billion (7.1% of total U.S. exports) in 2018, while imports from China amounted to $558.8 billion (17.9% of total U.S. imports). As a result, the overall bilateral deficit was $380.8 billion, up $43.6 billion (12.9%) from 2017.

Trade in Goods. U.S. goods exports to China totaled $120.8 billion in 2018, a 7.3% ($9.4 billion) decrease from the 2017 level (**Table 1**). The value of U.S. goods imports was $540.4 billion over the same period, up 6.8% ($34.4 billion) from 2017. The decrease in U.S. exports and increase in U.S. imports resulted in an 11.7% increase in the bilateral trade deficit to $419.6 billion. Exports to China accounted for 7.2% of all U.S. goods exports, while imports from China accounted for 21.1% of all U.S. goods imports.

Top U.S. goods exports to China in 2018 were capital goods, not including automotive ($52.9 billion or 43.8% of U.S. goods exports to China), industrial supplies ($40 billion or 33.1%), and automotive vehicles and parts ($10.4 billion or 8.6%). Leading U.S. goods imports from China were consumer goods, not including food and automotive ($248.2 billion or 45.9% of U.S. goods imports from China), industrial supplies ($55.6 billion or 10.3%), and automotive vehicles and parts ($23.1 billion or 4.28%).

Trade in Services. In 2018, U.S. services exports to China totaled $57.1 billion (up 2.0% or $1.1 billion), while U.S. imports of services from China grew 5.1% ($887 million) to $18.3 billion. The bilateral trade surplus in services stood at $38.8 billion (up 0.6% from 2017). Exports to China accounted for 6.9% of all U.S. services exports, while imports from China accounted for 3.2% of all U.S. services imports.

Travel represented the largest category of U.S. services exports to China, accounting for 56.1% ($32.1 billion) of exports to China. Other significant categories were charges for the use of intellectual property rights (14.8% of all services exports to China or $8.5 billion) and transport (9.3% or $5.3 billion). Leading U.S. services imports from China were transport (27.4% of all services imports from China or $5.0 billion) and travel (24.7% or $4.5 billion).

Table 1. U.S.-China Trade in 2018

	U.S.$ (billions)	% Change from 2017*
Total U.S. Exports to China	178.0	-4.5
Exports of Goods	120.8	-7.3
Exports of Services	57.1	2.0
Total U.S. Imports from China	558.8	6.7
Imports of Goods	540.4	6.8
Imports of Services	18.3	5.1
Total Balance (Deficit)	-380.8	12.9
Balance on Goods (Deficit)	-419.6	11.7
Balance on Services (Surplus)	38.8	0.6

Source: Bureau of Economic Analysis (June 20, 2019).
Note: * not adjusted for inflation.

U.S.-China Investment

Foreign Direct Investment. While U.S.-China trade ties have expanded significantly, the level of bilateral foreign direct investment (FDI) has remained relatively low. Net U.S. FDI flows to China in 2018 were $7.6 billion (down 22.9% from 2017), while net Chinese FDI flows into the United States were negative (-$754 million, compared to $25.4 billion in 2016), as outflows exceeded inflows (e.g., asset divestitures). Additionally, the cumulative U.S. FDI in China was $116.5 billion (up 8.3% from 2017), while that of China in the United States was $60.2 billion (up 3.7%).

China's Holdings of U.S. Treasury Securities. As of May 2019, approximately three-fourths (or $1.1 trillion) of China's total U.S. public and private holdings are Treasury securities. Chinese ownership of these securities has decreased in recent years from its peak of $1.3 trillion in 2011. Nevertheless, they remain significantly higher than in 2002, both in dollar terms (up over $1 trillion) and as a percent of total foreign holdings (from 8.5% to 17.0%). In 2009, China overtook Japan to become the largest foreign holder of Treasury securities.

Current U.S. Issues

Trade Deficit. President Trump has raised concerns about U.S. bilateral trade imbalances, particularly with China (as it is by far the largest). Some policymakers view large U.S. trade deficits as an indicator of an unfair trade relationship resulting from Chinese trade barriers (e.g., comparatively high tariffs) and history of currency manipulation. Others view conventional data on the bilateral trade deficit as misleading, given the growth of global supply chains used by multinational firms. Supporters of this view note that products may be invented or developed in one country and manufactured or assembled elsewhere—using imported components from multiple foreign sources—and then exported. Conventional U.S. trade data may not fully reflect the value added in each country, and thus are often a relatively poor indicator of who benefits from global trade. In addition, most economists argue that the overall size of the U.S. trade deficit is largely a function of low U.S. domestic savings relative to its investment needs, rather than the result of foreign trade barriers.

Industrial Policies. The Trump Administration and some Members charge that the Chinese government employs policies, including subsidies, tax breaks, low-cost loans, trade and investment barriers, discriminatory IP and technology practices, and technology transfer mandates to support and protect domestic firms, especially state-owned enterprises (SOEs). Plans such as "Made in China 2025" appear to signal an expanded role by the government in the economy, which many fear could distort global markets and have a negative impact on U.S. firms. Moreover, some officials are concerned that the growing predominance of Chinese firms in certain global supply chains, such as information and communications technology (ICT) products and services, could pose national security risks.

Intellectual Property Rights (IPR). Some estimates suggest that Chinese IPR violations are a major source of U.S. economic losses. U.S. firms cite lax IPR enforcement as one of the biggest challenges to doing business in China, and some view the enforcement shortfalls as a deliberate effort by the Chinese government to give domestic firms an advantage over foreign competitors. In 2018, the U.S. National Counterintelligence and Security Center (NCSC) described China as having "expansive efforts in place to acquire U.S. technology to include sensitive trade secrets and proprietary information." It warned that if the threat is not addressed, "it could erode America's long-term competitive economic advantage."

Advanced Technology. The Trump Administration has raised national security concerns over global supply chains of advanced technology products, such as ICT equipment, where China is a major global producer and supplier. In 2017, the President blocked a proposed acquisition related to semiconductors on national security grounds. In addition, citing a "national emergency," he issued an executive order in May 2019 stating that U.S. purchases of ICT goods and services from "foreign adversaries" posed a national security risk. He authorized the federal government to ban certain ICT transactions deemed to pose an "undue risk." As a result, the U.S. Commerce Department added Chinese telecommunications firm Huawei and 68 of its non-U.S. affiliates to the Bureau of Industry and Security's Entity List, which would generally require an export license for the sale or transfer of U.S. technology to such entities.

Tariffs on Aluminum and Steel. In March 2018, President Trump issued a proclamation imposing tariffs on all aluminum (10%) and steel (25%) imports based on "national security" justifications (Section 232 of the Trade Act of 1962). In response, China raised tariffs by 15% to 25% on $3 billion worth of U.S. imports. It also is pursuing a dispute case at the World Trade Organization.

Section 301 Investigation and Tariffs

In March 2018, the U.S. Trade Representative (USTR) released the findings of an investigation into Chinese policies related to technology transfer, intellectual property, and innovation under Section 301 of the Trade Act of 1974. The investigation concluded that four IPR-related policies justified U.S. action: (1) China's forced technology transfer requirements, (2) cyber-enabled theft of U.S. IP and trade secrets, (3) discriminatory and non-market licensing practices, and (4) state-funded strategic acquisition of U.S. assets. Subsequently, the Trump Administration imposed increased 25% tariffs on three tranches of imports from China worth approximately $250 billion (**Table 2**). China in turn raised tariffs (at rates ranging from 5% to 25%) on $110 billion worth of U.S. products.

Table 2. U.S. Section 301 Tariff Actions

Date	Tariff Rates (*ad valorem*)	Stated Imports Impacted	China's Reaction
07/06/2018	25%	$34 billion	Equivalent retaliation
08/23/2018	25%	$16 billion	Equivalent retaliation
09/24/2018, then 06/15/2019	10%, then 25%	$200 billion	5%-10% tariff hikes on $60 billion worth of U.S. imports; then some items raised to up to 25%
09/01/2019 (proposed)	10%	$300 billion	Allowed currency to weaken against U.S. dollar; vowed "necessary countermeasures"

Source: CRS with data from USTR and China's Ministry of Finance.

In the wake of the tariff escalation, both sides have been engaged in trade talks. However, in May 2019, President Trump expressed frustration with the slow pace of their progress and accused China of attempting to backtrack on commitments made in earlier negotiations. As a result, he ordered the USTR to begin the process of levying increased 25% tariffs on nearly all remaining imports from China. Recently, the President announced that the United States would start by increasing tariffs by 10% on these additional imports beginning September 1, 2019.

Challenges in Economic Relations

Congress has demonstrated significant interest in overseeing the Trump Administration's efforts to reduce U.S. bilateral trade deficits, enforce U.S. trade laws and agreements, and promote "free and fair trade," particularly in regard to China. Supporters of the Administration's use of Section 301 tariffs and other trade measures against China contend that these actions will ultimately produce positive results, such as a more level playing field for U.S. firms doing business in China and greater market access for U.S. exporters. Others, however, warn that a protracted and escalating trade dispute could lead to numerous new rounds of tit-for-tat retaliation, sharply reduce commercial flows, disrupt international supply chains, and diminish global economic growth. In addition, China could further retaliate by curbing operations of U.S. firms invested in China, reducing its holdings of U.S. Treasury securities, and curtailing rare earth material exports to the United States.

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