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

As U.S.-China economic ties have grown, so too have U.S. concerns about the business environment in China and China's trade practices. Top U.S. concerns include the Chinese state's increasingly direct and powerful role in the economy and China's policies requiring U.S. firms to disclose increasingly sensitive information as a precondition to operate in China.

Beijing's slowness to acknowledge and address priority U.S. concerns while Chinese firms expand their activities in the United States and globally has highlighted uneven levels of market openness, divergent approaches to global rules, and significant differences in the operating conditions and tenets of the U.S. and Chinese economic systems. These differences relate to the role of government in the economy, policies around freedom of information and expression, protections of privacy and intellectual property (IP), and approaches to the rule of law. Developments feeding U.S. concerns include an uptick in reports of Chinese corporate espionage, Beijing's tightening of information controls (and pressure on U.S. firms to abide by these controls), China's use of tit-for-tat retaliation, industrial policies, and policies incentivizing the transfer of civilian knowhow to the military (including knowhow obtained from U.S. firms).

To address these issues, the Trump Administration has undertaken policy actions that include invoking Section 301 of the Trade Act of 1974 (19U.S.C. §2411) to target Chinese industrial policies and IP abuses, strengthening U.S. investment review and export control authorities, and stepping up efforts to stem Chinese economic espionage. The Administration has sanctioned specific Chinese firms for violations of U.S. sanctions, theft of U.S. IP, ties to the Chinese military in dual-use sectors, and provision of surveillance technology to Chinese authorities in the western Chinese region of Xinjiang. While policymakers have debated the use of tariffs as a policy tool, a consensus appears to be emerging about the imperative of sustained policy attention to address growing U.S. commercial concerns about China even if the United States reaches a settlement with China in the Section 301 dispute.

Bilateral Trade

The U.S.-China commercial relationship has expanded significantly over the past three decades. In 2018, China was, in terms of goods, the largest U.S. trading partner (with total trade at $660 billion), the third-largest U.S. export market (at $120 billion), and the largest source of U.S. imports (at $540 billion) (**Figure 1**). China is the second-largest foreign holder of U.S. Treasury securities (at $1.11 trillion as of June 2019). As the United States and China have increased tariffs since 2018, year-to-date (YTD) bilateral trade flows decreased in the first three quarters of 2019, with U.S. merchandise exports to China falling by 16%, while U.S. imports from China fell by 13%, according to preliminary official U.S. data (**Figure 2**).

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

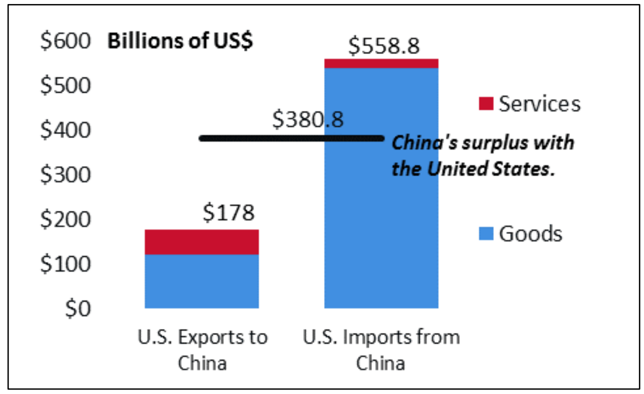
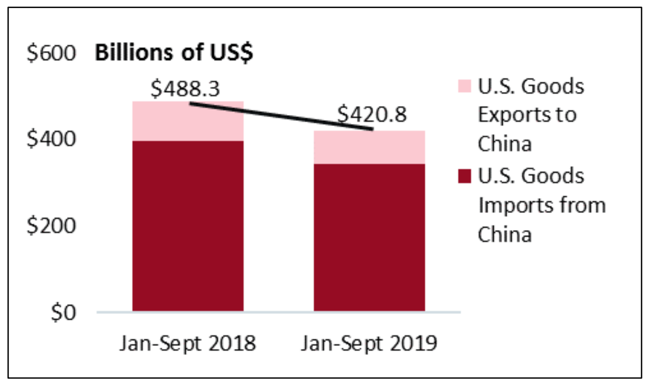
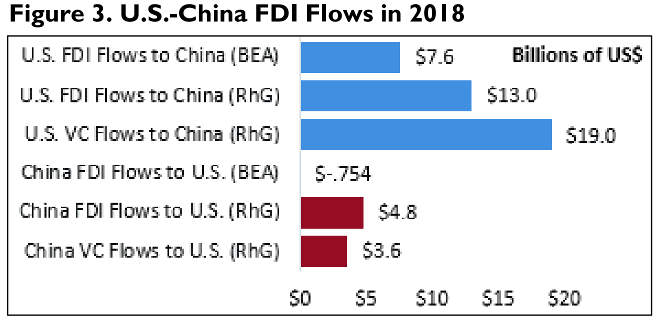


Figure 2. U.S.-China Trade in 2018 and 2019



Sources: CRS: data from U.S. Bureau of Economic Analysis (BEA).

Figure 3. U.S.-China FDI Flows in 2018



Source: CRS with data from BEA and the Rhodium Group (RhG).

Notes: VC=Venture capital. BEA records net flows and may undercount FDI by not capturing all FDI via other countries, territories, or tax havens, or acquisitions made by U.S. affiliates of foreign firms. RhG records gross flows and attempts to identify FDI by Chinese firms regardless of where firms are based or sources of money for investment.

U.S.-China Investment

Foreign direct investment (FDI) flows in both directions have slowed since 2017. RhG estimates China FDI into the U.S. went from $45.5 billion in 2016 to $29.4 billion in 2017 and $4.8 billion in 2018, but announced deals show China's sustained interest in U.S. biotech, health, and technology sectors through acquisitions and greenfield investments and ties not captured in FDI data (e.g., VC, private equity, research and development, and open technology platforms).

Current U.S. Issues

Trade Deficit. President Trump has raised concerns about U.S. trade imbalances with China. Some view the bilateral trade deficit as an indicator of Chinese trade barriers—including currency manipulation and Chinese policies and practices that discourage direct U.S. exports and incentivize manufacturing in China. Others view conventional data on the trade deficit as misleading because China's role as a point of assembly in global supply chains means China export data includes the value of imported inputs from other markets. Many economists argue the overall U.S. trade deficit is largely a function of low U.S. domestic savings relative to investment needs.

Industrial Policies, Technology, and IP. To further its national development goals, China's government employs interrelated industrial policies that seek the transfer of foreign IP and knowhow to China in sectors in which the United States has strong comparative advantages. These policies, such as Made in China 2025, feature a heavy government role in directing and supporting Chinese business and include government-set targets, government-guided funds, subsidies, tax breaks, low-cost loans, trade and investment barriers, and discriminatory IP, procurement, and standards practices. U.S. companies are also concerned about China's cyber and data policies that require the disclosure of sensitive information. In 2018, the U.S. National Counterintelligence and Security Center warned that China's "expansive efforts in place to acquire U.S. technology to include sensitive trade secrets and proprietary information," if not addressed, "could erode America's long-term competitive economic advantage."

National Security. Congress and the Administration have responded to national security concerns about China's industrial policies and role in technology supply chains. Citing a "national emergency," the President in May 2019 issued Executive Order 13873, stating that U.S. purchases of information and communications technology (ICT) goods and services from "foreign adversaries" pose a national security risk and authorizing the federal government to ban ICT transactions deemed to pose an "undue risk." The U.S. Department of Commerce responded by adding Chinese firm Huawei and 68 of its non-U.S. affiliates to the Bureau of Industry and Security's Entity List, generally requiring an export license for the sale or transfer of U.S. technology but has issued waivers. Legislation enacted in 2018 (P.L. 115-232) reforms U.S. foreign investment review and export control authorities. Some Members have voiced concern about the Administration's delay in establishing new controls on certain emerging and foundational technologies that are required to implement key provisions of both the investment review and export control reforms.

Industrial Overcapacity. China is a top global steel and aluminum producer. In 2009, it issued 13 industry support plans allowing its firms to expand steel and aluminum capacity while much of the world dialed back. Assessing persistent global overcapacity, the United States in March 2018 announced tariffs on all aluminum (10%) and steel (25%) imports citing national security concerns (Section 232, Trade Expansion Act of 1962, PL 87-794). China responded by raising tariffs by 15% to 25% on $3 billion of U.S. exports and filing a World Trade Organization case.

Section 301. In March 2018, the U.S. Trade Representative (USTR) released the findings of an investigation into Chinese policies related to technology transfer, IP, and innovation under Section 301 of the Trade Act of 1974. The investigation concluded that four practices justified U.S. action: forced technology transfer requirements, cyber-enabled theft of U.S. IP and trade secrets, discriminatory and nonmarket licensing practices, and state-funded strategic acquisition of U.S. assets.

The United States has imposed increased 25% tariffs on three tranches of imports from China worth approximately $250 billion. China, in turn, raised tariffs (at rates ranging from 5% to 25%) on $110 billion worth of U.S. products. Citing lack of progress in talks, the President in August 2019 authorized increased 10% tariffs on nearly all remaining imports from China, valued at $300 billion, to take effect in two stages (September 1 and December 15, 2019). In response, China announced increased 5% and 10% tariffs on about $75 billion of U.S. products for the same dates. The Administration responded by raising the newly proposed tariffs to 15%.

Tensions eased somewhat in October as bilateral talks continued on agriculture, financial services, and some IP issues. Chinese statements indicate Beijing is pressing the United States to lift existing tariffs as a precondition to an agreement. U.S. business has voiced concerns that China is not addressing core issues as it doubles down on industrial policies. The President has stated that China will buy $50 billion of U.S. agricultural goods is generating debate that China might stretch purchases over several years. Beijing has stated that purchases will be market-based, suggesting it may lower actual purchase amounts. U.S. tariffs currently affect a majority of U.S. imports from China.

Financial Markets. Some Members are concerned about China's access to U.S. capital markets. Responding to warnings by the Securities Exchange Commission and the Public Company Accounting Oversight Board that they cannot inspect the work of auditing firms in China that examine U.S. listed firms, S. 1731 and H.R. 3124 would require Chinese firms that fail to meet U.S. auditing requirements to delist from U.S. exchanges. H.R. 2903 would bar the U.S. government's Thrift Savings Plan (TSP) from investing "in any entity in peer or near-peer competitor nations," a category that would include China.

Additional Issues. Supporters contend that the Administration's China measures will better position U.S. firms and advance U.S. economic interests. Others warn that bilateral frictions could reduce commercial flows, disrupt supply chains, and threaten growth. Some policy makers call for further U.S. action, including addressing China's coercion of U.S. firms, use of new technologies and a corporate "social credit system" to control information, and adoption of military-civil fusion policies that blur traditional commercial and military distinctions in trade and investment.

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