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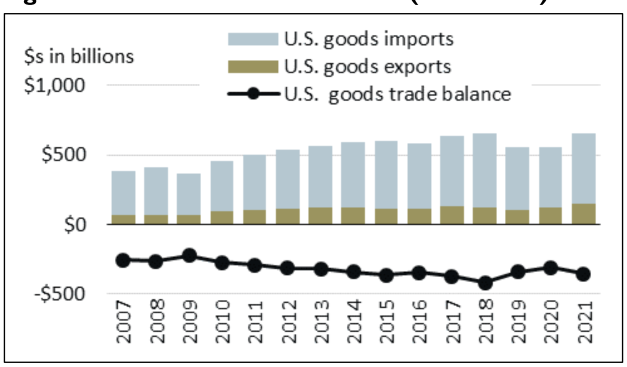
U.S.-China Trade Relations

The People's Republic of China (PRC or China) is the second-largest global economy and an important global market for the United States. At the same time, U.S. firms face significant trade barriers, unfair practices, and a lack of reciprocity in key areas. China's state-driven economic, trade, investment, and technology practices and the challenges they pose to U.S. economic and technology leadership are of concern to many in Congress. China continues to require the transfer of critical U.S. capabilities to China to operate in strategic areas. Many of China's practices distort markets and undermine fair competition in China and globally as PRC firms expand in areas that China restricts domestically. China's system blurs state and corporate interests, enabling the government to deploy trade tools (e.g., antidumping, antitrust, standards, and procurement), economic coercion, and espionage to advantage its firms and advance China's industrial and other policies. The state's expanding role in commercial activity—including an intensification of industrial policies and enactment of a set of interrelated national economic security policies and data restrictions since 2020—appear to have increased the risks of U.S. commercial ties with China even as some U.S. firms are increasing their exposure.

Figure 1. U.S.-China Goods Trade (2007-2021)



Source: CRS with data from the U.S. Census Bureau.

Trade

U.S.-China trade ties are significant, but arguably unbalanced, with China exporting to the United States almost three times the value of goods that the United States exports to China. In 2021, China was the fourth-largest U.S. goods trading partner (with total trade at $ 657.4 billion), the fourth-largest U.S. export market (at $151.1 billion), and the largest source of U.S. imports (at $506.4 billion), when the European Union (EU) is considered as one trading partner. **(Figure 1.)** Total 2021 bilateral trade increased by 17.6% over 2020; U.S. trade with other partners grew at higher rates: EU (18%), Canada (26%), and Mexico (23%). Top U.S. goods exports to China include semiconductor chips and equipment, agricultural products, aircraft, gas turbines, and advanced medical devices. Top U.S. imports from China include consumer electronics, appliances, and other consumer goods (e.g., furniture, clothing, footwear, and toys). China also supplies key intermediate goods (e.g., auto components and active pharmaceutical ingredients).

Current levels of U.S. services exports to China remain low relative to total U.S. global service exports. China in 2020 accounted for 6% ($40.4 billion) of all U.S. services exports and 3% ($15.6 billion) of all U.S. services imports. Top U.S. exports to China were travel, intellectual property (IP) licensing, and transportation. Top U.S. imports from China were transport and business services. Services trade in the January to September period fell by 32% in 2020 and by 26% in 2021 over the same period in 2019. In 2018, sales of services in China by majority U.S.-owned affiliates were $59.6 billion, while sales of services in the United States by majority China-owned firms were $20.6 billion. A Bank of America study in 2021 found that about 16% of U.S. Fortune 500 firms depend on China for at least 5% of their revenue, while China accounts for over 20% of revenue for some of these firms.

Investment

Two-way foreign direct investment (FDI) flows have slowed since 2016, while investment and commercial ties not included in FDI data—technology licensing, research, venture capital (VC), and financial investments—have expanded. According to the U.S. Bureau of Economic Analysis (BEA), net U.S. FDI flows to China in 2020 were $9.3 billion, and net FDI flows from China to the United States were $4.3 billion. The stock of U.S. FDI in China was $123.9 billion, while China's FDI stock in the United States was $54.9 billion, on an ultimate beneficiary ownership basis (UBO). In 2020, China accounted for approximately 1% of total FDI stock in the United States, while China accounted for approximately 2% of total U.S. FDI stock abroad. As of December 2020, U.S. investors held $1.15 trillion in Chinese stocks and bonds while Chinese investors held $1.4 trillion in U.S. debt and $720 billion in U.S. equities, according to U.S. government and private estimates. As of November 2021, China and Hong Kong held $1.08 trillion and $235 billion, respectively, in U.S. Treasury securities, making China the second-largest foreign holder after Japan. (This data does not include the purchase of securities through offshore financial centers.)

China's Efforts to Set U.S. Terms of Trade

The Chinese government controls or influences the purchase, financing, and price of top U.S. exports to China—aircraft, semiconductors, medical equipment, agriculture, and energy—and has sought for some time to enhance its control of this trade while reducing its reliance on U.S. imports through trade diversification and industrial policies that use U.S. commercial ties to develop China's capabilities. Some U.S. firms benefit in the short term from China's need to fill gaps, but China's policies appear to set targets to displace these firms once Chinese competitors gain competencies. The government is funding Chinese firms, and acquiring foreign firms, in strategic sectors through a state VC model that pools state and foreign monies in PRC government-tied funds and sub-funds.

In response to China's terms, U.S. aerospace firms have invested in joint ventures (JVs) with Chinese state firms to develop China's single-aisle aircraft (C-919), which aims to compete with Boeing and Airbus using U.S. advanced technologies. A PRC government fund finances the purchase of U.S. technology, equipment, and software that support the development of China's semiconductor industry and its dual-use advanced computing capabilities. In agriculture, China's state firms have purchased foreign biotechnology companies (e.g., Syngenta), enhancing its position in overseas trade and production. In electric vehicles, China has required firms to localize supply chains for batteries, components, and systems. In medical devices and pharmaceuticals, a national procurement program appears to require firms to cut prices, creating cost pressures that arguably encourage production in China. In critical materials, China leverages its control of extraction and processing to promote manufacturing in China, while acquiring assets abroad. In energy, China has pressed for strategic cooperation in the Gulf of Mexico as a quid pro quo for its purchase of U.S. liquefied natural gas. In capital markets, China is allowing a few U.S. financial firms to increase equity stakes and operate wholly-owned funds. This U.S. role strengthens China's capital markets, helps offset China's debt market risks, and attracts passive U.S. capital under China's authorities to support strategic sectors in which China restricts active foreign competition.

China's Emerging Trade Positions

The PRC government may be using trade coercion and protectionism under an assumption that markets will remain open to China regardless. China depends on open markets to sustain its growth; allow its firms to expand; and access technology, capital, and critical resources. China's export-oriented sectors are among its most productive and earn foreign exchange, arguably contributing more to China's economy than a straight-line exports-to-GDP ratio suggests. With PRC exports that benefit from China's industrial policies, such as *Made in China 2025 (MIC 2025)*, now coming online, China has adopted a trade posture that seeks to open global markets and set standards in digital trade and emerging technologies, while restricting foreign firms in these sectors in China. China's current government plans prioritize its ability to set global trade rules; extend the global reach of its legal, IP, digital, and antitrust authorities; and counter U.S. policy actions with its countermeasures. China has enacted export control, foreign investment, and extraterritoriality blocking measures, while joining the Regional Comprehensive Economic Partnership (RCEP) and seeking to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Section 301 and the Phase One Agreement

In 2018, the U.S. Trade Representative (USTR), as part of an investigation under Section 301 of the Trade Act of 1974 (19 U.S.C. §2411), concluded that China engages in forced technology transfer, cyber-enabled theft of U.S. IP and trade secrets, discriminatory and nonmarket licensing practices, and state-funded strategic acquisitions of U.S. assets. USTR subsequently imposed tariffs on an estimated $250 billion worth of U.S. imports from China. The PRC government countered with tariffs on $110 billion worth of U.S. products. Most tariffs remain in effect. In a U.S.-China "Phase One" trade agreement signed in January 2020, China made some IP and investment commitments and increased U.S. access in agriculture and financial services, but the deal did not address most U.S. concerns. Many aspects of China's industrial policies appear to break its commitments in the agreement not to require or pressure technology transfer. China's imports between 2020 and 2021 fell below its commitment to buy at least $502 billion of U.S. goods and services over two years (a 40.5% gap in goods, and an estimated 43% gap in goods and services.) **(Figure 2.)** In 2021, China's global exports grew by 30% over 2020; its exports to the United States grew by 27.5% over 2020. These increases were in part likely due to PRC incentives to hasten the return of empty containers to China to boost its exports, which may have impeded reloading in the United States and other markets. China is pressing the USTR to lift U.S. tariffs—which cover *MIC 2025* products—while sustaining its practices of concern. The USTR has reportedly considered new actions against China under Section 301 to address new issues, such as subsidies.

Figure 2.Phase One Trade (Jan. 2020 to Dec. 2021)

Source: CRS with data from the U.S. Census Bureau.

Notes: Excludes $135.6 billion in services. Goods includes aircraft.

Issues for Congress

Beijing's continued pursuit of statist practices and relative inaction on longstanding U.S. concerns have arguably caused issues to intensify. Some in Congress are concerned about asymmetries in economic ties, U.S. participation in China's industrial policies, U.S. ties to PRC firms violating human rights, and China's practices that may force or unfairly incentivize the transfer of U.S. technology and data to China. These issues appear to be evolving into concerns about how China's terms for commercial ties may challenge U.S. competitiveness, national security, and leadership. Congress might consider whether and how to strengthen U.S. and global trade rules; require reciprocity; work with allies on China trade concerns; and deepen commercial, technology, and research ties with like-minded countries. Congress might address core systemic issues, such as the role of the state in China's corporate activity; consider new terms for China trade, investment, technology, and research ties; and determine whether and what actions are needed to address China's trade coercion and countermeasures.

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