

# **Research Report on China-US Economic and Trade Relations**

(Courtesy Translation)

Ministry of Commerce of the People's Republic of China

May 25<sup>th</sup>, 2017

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## Summary

**China-US economic and trade relations are the bilateral ties between the largest developing country and the largest developed country.** China and the United States have different national conditions, and are at different stages of development, market economy and market maturity. They both have sensitive economic fields and their own focuses of concern in economy and trade. Factors such as national conditions and stages of development determine the status, division of labor, openness and developing paths of the two countries in globalization. A correct view on their differences is important to accurately grasping the historical trend and promoting the balanced development of the bilateral economic and trade relations.

**WTO rules and multilateral and bilateral agreements provide the legal guarantee for China-US economic and trade relations.** The WTO rules provide a stable and strong institutional protection for the development of China-US economic and trade relations, which are bilateral ties within the framework of WTO rules. Consensus and commitments reached by the parties of the G20, APEC and other mechanisms should be seriously implemented. China and the US should also honor

commitment made at high-level economic and trade dialogues, including the China-US Strategic and Economic Dialogue and China-US Joint Commission on Commerce and Trade (JCCT).

**Economic globalization is a basis for the further development of China-US economic and trade relations.**

China-US trade and economic cooperation is both a natural result of mutual complementarity, and an inevitable choice for international industrial specialization and optimizing resource distribution. With the world's largest and most complete industrial system, and a high-quality and low-cost work force, China is becoming a key node in the global industrial chain and supply chain, but is generally at the mid- and low-end of the value chain; while the US, with its outstanding science and technology strength, innovation capacity and a developed service industry, is at the mid- and high-end of the global value chain. The highly complementary relationship formed between the two countries provides a powerful driving force for their win-win cooperation for mutual benefit.

**Both China and the US benefit from trade and economic cooperation.** China has maintained a surplus in trade in goods, but the US has also gained tangible benefits. For the US, China is the largest export market outside North America,

and an important export destination for soybeans, cotton, aircrafts, automobiles and integrated circuits. In 2016, the US had a trade surplus in agricultural products of US\$16.4 billion. China imported US\$13.8 billion of soybeans, US\$12.6 billion of aircrafts, US\$12.1 billion of automobiles, and US\$9.7 billion of integrated circuits. **Over the past 10 years, the average growth rate of US exports to China was nearly three times the growth rate of US exports, and twice the growth rate of China's exports to the US.** The US has maintained long-term surplus in trade in services. In 2016, the US exported to China 51 movies, obtaining revenue of US\$16 billion. Chinese tourists and students in the US spent more than US\$51 billion.

With respect to investment, US-invested enterprises in China have maintained good performance and gained high profits. Sales revenue in 2015 totaled US\$517 billion, and profit reached US\$36.2 billion. Investment of Chinese enterprises in the US is growing rapidly. Chinese investment projects have covered 46 states and 425 congressional districts, creating over 140,000 jobs for the US. According to the US-China Business Council (USCBC), in 2015, US exports to China and China-US two-way investment contributed US\$216 billion to the US GDP, and supported 2.6 million US jobs.



The US is China's largest export market, accounting for 16% of China's total exports, and is providing China with huge and stable external demand. The US is China's second largest trading partner in services, an important trading partner in technology and cultural trade, and China's largest contract awarding market. The 67,000 US-invested enterprises in China have brought to China capital, technology and managerial experience, created jobs and tax revenues, trained a large number of specialized personnel, and played a positive role in promoting China's economic development and industrial transformation and upgrading.

China and the US have concerns for each other in economic and trade areas. The US is concerned about its trade deficit with China, RMB exchange rate, overcapacity, market opening, intellectual property protection, etc. China is concerned about the US's willingness to fulfill the obligations of Article 15 of China's Protocol on the Accession to the WTO, the US export control against China, Chinese enterprises investing in the US, trade remedy measure abuse, etc. The two sides have conducted in-depth exchanges on these issues through various channels. For the US trade deficit with China, China believes that it should be viewed in a historical and comprehensive way.

The bilateral trade balance is ultimately determined by the economic structures, industrial competitiveness and international industrial specialization of the two countries. In the global value chain, although the surplus is in China, the benefits are shared by both sides, and the result is mutually beneficial and win-win on the whole.

Over the years, China has been active in promoting the balanced development of bilateral trade and economic relations. It has sent delegations to the US for trade and investment promotion activities, addressed a number of specific concerns of US companies through platforms including the JCCT and China-US Strategic and Economic Dialogue, vigorously promoted the trade ties between Chinese and US provinces/states and cities, and actively set up exhibition platforms to expand import from the US.

Looking into the future, China is willing to make joint efforts with the US to encourage Chinese enterprises to participate in US infrastructure construction, further open up markets, promote two-way investment, and promote bilateral investment treaty negotiations to further strengthen China-US trade and economic cooperation at sub-national levels. China will also consider increasing import from the US in energy,

agricultural products, high-tech products and services, so as to increase the total benefit while realizing a balanced development of trade and investment. At the same time, the two sides should properly deal with economic and trade frictions through dialogue and consultation under the principle of mutual respect, equality and mutual benefit. China-US economic and trade cooperation has great prospect and huge potential.

## **Introduction**

Although China and the US are geographically far apart, their economic and trade exchanges date back to a long time ago. 230 years ago, the American merchant ship “Empress of China” sailed across the ocean for its maiden voyage to China, kicking off China-US economic and trade cooperation, and connecting the ancient China and the young America for the first time. Today, China and the US are the world’s two largest economies, accounting for 40% of the global economy, a quarter of the goods export, and 30% of the world’s FDI outflows and inflows. The trade and economic cooperation between the two countries has reached an unprecedented depth and breadth, linking their economies closely together. Sound China-US economic and trade relations are not only in the fundamental interest of the two countries, but also vital to the prosperity and stability of the world economy.

China and the US are respectively the world’s largest developing country and the largest developed country, and differ in national conditions, history, culture, stages of development, social systems and ideologies. As economic partners, the two are writing the history of major countries of different systems

respecting each other, coexisting in peace, and conducting mutually beneficial cooperation. Over the past 38 years since the establishment of diplomatic relations between the two countries, China-US economic and trade relations have been moving ahead despite ups and downs. Trade and economic cooperation has helped to stabilize, propel and maintain the bilateral ties. Every major breakthrough made in China-US economic and trade ties has pushed the relations between the two countries to a new level. Every time a major difficulty in the relations is overcome, it is due to the stabilizing role of the economic and trade ties. In other words, economic and trade cooperation is the most dynamic and lasting driving force in China-US relations, the world's most important bilateral ties.

**China-US economic and trade relations are characterized by interdependence.** China is the largest trading partner of the US, and the US is China's second largest trading partner. Since China joined the WTO, US exports to China has increased by 500%, much higher than the 90% increase in US global exports. China is an important overseas market for many US products. Of the US exports, 62% of the soybeans, 14% of cotton, 17% of automobiles and 15% of integrated circuits are sold to China; and 25% of the aircraft delivered by Boeing are to

China. The US is an important source of foreign investment, bringing China valuable capital, technology, human resources and managerial experience, and promoting the development of related industries and the process of industrialization and urbanization in China. In recent years, the increasing investment of Chinese enterprises in the US has contributed to local economic development, job creation and tax increase. The ever-expanding trade and economic cooperation has enhanced their converging interest and interdependence. The deeply interdependent China-US economic and trade relations have taken shape.

**China-US economic and trade relations grow by means of complementing each other's strength.** Since China and the US have strong complementarity in resources, market, capital and technology, cooperation is the choice of the market players in the two countries to optimize the allocation of resources. Over the past 38 years, China and the US have seized the historic opportunity of economic globalization and given full play to their complementary advantages, achieving leapfrog development in two-way trade and economic cooperation. In 2016, bilateral trade in goods reached US\$524.3 billion, growing by 209 times from the year when the two countries

established diplomatic relations; bilateral trade in services exceeded US\$110 billion; and two-way investment exceeded US\$200 billion. Cooperation between the two sides has expanded from trade to all aspects of economic cooperation. The two countries have extensive and in-depth cooperation in agriculture, science and technology, energy, education, culture, tourism, environmental protection, health, etc. The development of China-US economic and trade relations has set an example for countries with different factor endowments to cooperate to make the pie bigger.

**China-US trade and economic cooperation has an increasingly important global impact.** As important members of the WTO, China and the US, together with other members, have promoted the conclusion of the WTO Agreement on Trade Facilitation, and are parties to the negotiations on the expansion of the Information Technology Agreement and on the Environmental Goods Agreement. The two sides have increased their policy coordination under the framework of the G20, and have made joint efforts to promote global economic and trade growth and the world economic recovery. The two sides have maintained communication and exchange under the Asia-Pacific Economic Cooperation (APEC) to promote the Global Value

Chain Initiative, the Asia-Pacific Free Trade Zone strategy research, and the Services Competitiveness Roadmap. China and the US have joined hands to help African countries combat Ebola outbreaks and provide more public goods for the world. The cooperation results have demonstrated the vitality of and great potential for the development of China-US economic and trade relations, and have also showed the responsibility of the two great powers for the world.

**The essence of China-US economic and trade cooperation is mutual benefit and win-win result.** Needless to say, the development of the relations is not always smooth sailing. The two sides have had heated debates on some issues, even tensions at times. Different interest exists in trade and economic cooperation; and in specific cases of cooperation, when one gains, the other may lose. However, the two sides have generally chosen to achieve win-win results through constructive cooperation, and have resolved conflicts time and again, making the economic and trade relations between the two countries more mature. History has repeatedly told us, the expanded economic and trade cooperation can connect the two countries closely together, and the two are not rivals in a zero-sum game but mutually beneficial partners. Dialogue costs



much less than confrontation; and cooperation is the only correct choice for China and the US.

## **Part I The Historical Background of China-US Economic and Trade Relations**

**I. China-US economic and trade relations are between the largest developing country and the largest developed country**

China and the US differ in stages of development, maturity of market economy, and sensitive fields and focuses of concern in economy and trade. The national conditions of the two countries determine their status, division of labor, openness and developing paths in globalization. A correct view on their differences is important to accurately grasping the historical trend and promoting the balanced development of the bilateral trade and economic relations.

**China and the US have different national conditions.** The US is the world's largest economy and the largest developed country, having the world's leading strength in politics, economy, national defense, and science and technology. The US was early to start developing its economy, and has entered a "New Economic Era" after the process of industrialization. It has highly developed agriculture, industry and service sector, leading scientific and technological strength,

and relatively balanced regional economic development. In 2016, its GDP reached US\$18.6 trillion, and per capita GDP US\$57,700, ranked 5th in the world; and the wealthy class and middle class accounted for more than half of its total population. In 2016, the Engel's coefficient was less than 10%. The consumption capacity for industrial goods and services has been strengthened, highlighting the features of a consumer economy. According to World Bank statistics, in 2009, the enrollment rate reached 89% in US higher education institutions.

China is the largest developing country. In 2016, its GDP was US\$11.2 trillion, ranked 2nd in the world. In 2015, its per capita GDP was US\$8,141, ranked 74th in the world. China's urban/rural and regional development remained imbalanced. There are still 70 million rural poor, and more than half of the population live in the backward central and western regions, the per capita GDP of which is only half of the coastal areas. China's urbanization rate is only 57%, lower than the over 70% average in developed countries. China is still at the stage of building a well-off society in an all-round way. In 2016, the Engel's coefficient was 30%. We still have a long way to go in fostering domestic market. In 2015, the enrollment rate of Chinese higher education institutions was 40%.

**The two countries are at different stages of the development of the market economy.** The US is the forerunner of market economy, and has mature economic systems and mechanisms. The US leads the world by establishing systems for antitrust, intellectual property protection, foreign mergers and acquisitions security review, and financial supervision. It promulgated the Patent Act and Copyright Act in 1790, the National Currency Act in 1863 and the Antitrust Law in 1890; and established the Securities and Exchange Commission in 1934 and the Committee on Foreign Investment in 1975. Therefore, the US has a strong oversight for commercial activities during and after the handling of matters. Multinationals emerged in the US as early as in the 1860s, and after 100 years of development, have obtained the opportunities for setting the global strategic layout and allocating resources, and accumulated rich experience in international trade and investment. The US has led the formulation of international economic and trade rules since World War II, established multilateral export control systems such as the “Wassenaar Arrangement”, and led the development of international industrial and service standards, thereby establishing a system of international economic and trade rules.

China established a socialist market economy system in 1992. Over the past 20 years, China has made remarkable progress in building a market economy. However, it is still trying to build a socialist market economic system in line with China's national conditions, having systems and management to improve. China is still accumulating experience in participating in economic globalization and international division of labor, and enhancing its ability to participate in making international economic and trade rules.

**Both sides have sensitive economic fields.** The US is at the higher end of the global value chain, with leading technology and more offensive interests than defensive interests. In economic and trade fields, the US focuses on preventing job losses in the manufacturing industry, protecting US intellectual properties, establishing global rules in line with its own interest in the “knowledge economy” and “digital economy” tide, and promoting the market opening of trading partners to US products, services and investment. China is at the mid- and lower-end of the international value chain and industrial chain. Compared with the US, China has less favorable external environment for promoting innovation, and faces greater pressure to maintain economic and industrial security. China

pays more attention to maintaining sustainable economic development, facilitating economic transformation and upgrading and development through innovation, maintaining the security of its economy and industrial chain, and eliminating barriers encountered by Chinese products and investment in overseas markets.

## **II. The foundation of China-US economic and trade relations is economic globalization**

At present, the international economic situation is complex and volatile. The world economy lacks momentum; trade and investment are sluggish; and protectionism is rising. However, these have not changed the fundamental trend of integration and interdependence among economies. Globalization is adjusted, deepened and rebalanced while moving forward. Historically, economic globalization is an objective requirement of the development of the social productivity and an inevitable result of technological progress. It is an objective trend, not a subjective wish, and is a continuous process of improvement. Globalization has provided a strong impetus for world economic growth, promoting the flow of goods and capital, technological and cultural progress, and exchanges between nations. Globalization allows multinational companies to make full use of market resources of other countries, to maximize productivity and reduce cost. According to WTO and OECD statistics, in

2015, intermediate goods trade accounted for more than two thirds of global trade.

**The essence of globalization is the interdependence among countries.** The faster a country's economy grows, the more it needs to get resources and access to markets through globalization, so as to constantly gain new competitive advantage. As it develops deeper, globalization will encounter setbacks, which is a reflection of the normal fluctuations in the world economic demand and the result of the game among participants. Such development is in line with the objective law of the spiral rise of things. The emerging "anti-globalization" tide is not opposing globalization, but opposing the widening gap between rich and poor and uneven development brought by globalization, which are the negative effects of globalization. "Anti-globalization" is like a mirror reflecting the deficiencies in globalization, and will help improve international governance, and promote globalization towards a more rational direction.

For China and the US, economic globalization has been the basis for the further development of their economic and trade relations. On the one hand, the economic ties among countries are becoming closer and their interdependence is deepening, which provides an important prerequisite for China and the US to promote and support each other for common development. On the other hand, the extension of the global industrial chain and value chain, the deepening of the global distribution of

multinationals, the global application of scientific and technological innovations have all provided a driving force for wider and deeper trade and economic cooperation between China and the US. Whether in the past, now or in the future, the development of China-US economic and trade relations always needs to and must follow the trend of globalization.

At the same time, the differences and cooperation between China and the US are reflected in the process of globalization, and will influence and shape the process. The US is one of the earliest promoters of economic globalization, and is one of the biggest beneficiaries of globalization. Although China is a “latecomer”, with its own advantage, it is participating in the global industrial chain and value chain in a deeper and broader way, profoundly changing the global trade and investment pattern, and is becoming one of the beneficiaries of globalization. In their deep participation in the process of global resources allocation, China and the US have intertwined interests, and both cooperation and competition, profoundly affecting the direction of globalization.

### **III. The legal guarantee of China-US economic and trade relations is WTO rules and multilateral and bilateral agreements**

The multilateral trading system, represented by the WTO and its predecessor, the GATT, has been established for more than 70 years, and has promoted global trade liberalization,



facilitated trade and economic growth of the members, resisted the impact of economic and financial crises, and increased the well-being of people. The WTO is the only global international organization dealing with trade relations. The WTO rules provide a stable and strong institutional guarantee for the development of trade and economic relations among the parties, including China and the US, whose economic and trade relations are bilateral relations within the framework of the WTO rules.

As the main founder and leader of the existing multilateral trading system and rules, the US has, over the years, led the adjustment of the existing rule system and the alignment of its domestic policies with it. Fifteen years ago, China made commitments in accordance with the WTO rules and joined the WTO. Over the past 15 years, China has strictly abided by the rules, fulfilled its commitments, and contributed to the effective operation and continuous development of the multilateral trading system. During the 15 years, under the framework of the WTO, China and the US have worked together to promote global trade liberalization and facilitation, deal with the frictions and disputes in bilateral economic and trade relations, jointly cope with new challenges in new fields of trade, and build a new system of global economic and trade rules.

The G20 is the premier forum for international economic cooperation, and plays an active and leading role in promoting international economic cooperation. China and the US cooperate

extensively under the framework of the G20 to jointly oppose trade protectionism, promote an open world economy, and drive strong, sustainable, balanced and inclusive growth of the world economy. The solemn commitment made by leaders under the framework of the G20 should be honored.

The APEC is the highest-level, the most extensive and most influential economic cooperation mechanism in the Asia-Pacific region. The APEC mechanism, although following non-binding commitments and the voluntary principle, has played an active leading role in promoting regional trade and investment liberalization and facilitation, and strengthening economic and technical cooperation among its members. Members shall strive to reach consensus under the APEC framework.

In addition, since the establishment of diplomatic relations, a series of bilateral agreements between China and the US have provided legal guarantee for their normal trade and investment activities. The three China-US joint communiqués, i.e., the Shanghai Communiqué, the Joint Communiqué on the Establishment of Diplomatic Relations and the August 17 Communiqué are the documents guiding the development of China-US relations. Bilateral agreements such as the Agreement on Trade Relations between the United States of America and the People's Republic of China signed by the two countries in July 1979, the Agreement between the Government of the United States of America and the Government of the People's

Republic of China Relating to Civil Air Transport, the Agreement on Maritime Transport and the Consular Convention signed in September 1980, the Agreement for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income signed in April 1984, and related and renewed agreements signed thereafter have played an important role in promoting economic and trade exchanges between the two countries.

The multilateral trading system with the WTO as the main body is a choice of history, and its status as the main channel for addressing global trade and investment problems will not change. Should members cast away the WTO rules in bilateral trade talks, the global economy may be led into the danger of “beggar-thy-neighbor” and “zero-sum game”. If the members do not comply with the rules of the multilateral trading system, world trade will once again fall into the era of disorder with rivalry among great powers, which will lead to shrinking trade and investment, impede world economic recovery, and eventually jeopardize the interest of all parties.

Trade should not benefit only a few people, but should allow more people to enjoy its benefit. Countries should strive to make the pie of cooperation larger so that it could contribute to a more balanced economic growth. As a responsible trading nation, China will firmly uphold the multilateral trading system. As President Xi Jinping said in the keynote speeches at the

Opening Ceremony of the World Economic Forum Annual Meeting 2017 and at the United Nations Office at Geneva, China will uphold the WTO rules, adhere to an open, transparent, inclusive and non-discriminatory multilateral trading system, and build an open world economy.

#### **IV. China-US trade and economic cooperation is a result of complementarity**

China and the US are different in their stages of development, economic structures and resource endowments, and thus have their own comparative advantages in economic and trade cooperation and form a highly complementary relationship, providing driving force for the bilateral trade and economic cooperation for mutual benefit and win-win results.

**(i) The advantages of China. China has the world's largest manufacturing industry.** At present, China's manufacturing industry accounts for more than 25% of the global manufacturing industry. China is the leading producer of 220 of the world's 500 major industrial products. In breadth, China has 39 industrial categories, 191 classes and 525 subclasses, and is the only country that has all the industrial categories in the United Nations Industrial Classification. The large-scale industrial system covering all the industrial categories has become an important source of China's trade competitiveness. **China has marked advantages in the supply chain and supporting industries.** Taking the consumer

electronics industry as an example, the world's most cost-competitive and largest electronics industry supply chain has taken shape in Shenzhen, China. There are more than 700 suppliers of Apple's mobile phone and computer products in the world, nearly half of which are in China. China is playing an increasingly important role in the global supply chain and industrial chain and is becoming an important node in the global supply chain. **China has the world's largest, good quality and relatively low-cost labor resources.** According to international statistics, in 2015 China's working population between 15-64 years of age totaled 1.003 billion, while the total labor force in America and European countries was only 730 million. China's abundant labor resources can provide a large number of skilled workers and basic R&D personnel for the labor-intensive manufacturing industry. It is estimated that in 2016, the salary of US blue-collar workers is over eight times that of Chinese workers, and the overall cost of US labor is 7-10 times that of China. **China's infrastructure has the late-mover advantage.** The scale of its highways, high-speed railway, subway, water transport, ports, tunnels, water conservancy and power grid ranks first in the world.

**(ii) The advantages of the US. The US leads the world in science and technology.** In 2016, 10 of the 15 largest technology companies released by Forbes headquartered in the US. Among the world's top 500 research institutions ranked in

2015, there were 198 US universities and research institutions; and 9 of the 10 top research institutions were US institutions. Of the world's 149 hot and emerging frontier research fields, the US has core research papers selected in 143 of the fields, ranked first in the number of core research papers in 108 fields. And 80% of the world's cutting-edge research breakthroughs are made by the US. This has determined that the US leads the world in product design and research and development capabilities, and is at the higher end of the global manufacturing industrial chain.

**The cost of some US production factors is low.** The US has a cost advantage in electricity, gas, land, logistics, raw materials, financing and taxation. The average land price in the US is equivalent to that in second or third tier cities in China. The US industrial electricity price is about half that of China, and the average price of gasoline is about two-thirds of China. The integrated logistics cost in the US is about half that of China. US manufacturing industry has more diversified financing channels, and low financing cost for enterprises. Its loan interest rate is 1%-3%, well below that of China.

**US service sector is highly developed,** with various industrial categories. According to data released by the Central Intelligence Agency, in 2016, the annual output value of US service sector accounted for 79.5% of its GDP, while China's service industry accounted for only 50.7% over the same period. According to International Labor Organization, the productivity of the US service sector is about

four times that of China. In 2016, US trade in services saw a surplus of US\$249.4 billion, while China had a deficit of US\$240.9 billion.

**(iii) China-US trade and economic cooperation is an inevitable result of economic globalization, international division of labor, and optimal allocation of resources.** The US is at the higher-end of the global value chain, while China is at the mid- and lower-end. With the vertical integration of the industrial chain and the cross-border development of the supply chain, the high value-added design and R&D activities of the US are closely linked to the low-cost production and assembling activities of China. The two are gradually forming an interdependent community of interests. The US mainly exports to China capital goods and intermediate goods, while China mainly exports to the US consumer goods and manufactured goods. The two countries have given play to their respective comparative advantages in bilateral trade and investment. For example, chip sales and patent royalty rates of Qualcomm in China accounts for 57% of its total global revenue; while ZTE, a mobile phone company using US chips, annually exports to the US more than 15 million mobile phones, having more than 8% of the US market share. Apple's iPhones are designed and developed in the US, but more than 80% of them are assembled in China. In fact, without the cheap labor and the support of the huge industrial chain in China, many American innovations will

not be commercialized because of the high cost. In this sense, China has supported US employment in service industries, including design, marketing, logistics, retail, finance and accounting.

## **V. The development of China-US economic and trade relations follows the law of history**

Only by grasping the trend and law of history, can we see clearly the direction of China-US bilateral commercial relations. China and the US represent two different social systems and development paths. However, this does not mean that conflict is inevitable between the two sides. As the world's largest developing country and the largest developed country, China and the US should work together to explore a new road of cooperation to benefit the two countries and the world as a whole. The global market is large enough for the common development of enterprises from both countries.

In retrospect of the past 30 years, despite all the difficulties, China-US economic and trade relations have been moving forward. The essence of China-US economic and trade relations is mutual benefit and win-win result. The common interest of the two countries in bilateral trade and economic cooperation continues to expand, and their interdependence is becoming stronger. No matter how the world changes, the common interest in China-US economic and trade relations will always outweigh their differences, their trade and economic cooperation will



increase, and their interest will keep converging.

China-US economic and trade relations have great potential for development. China's economic transformation will provide the world including the US with a broader market, more capital, products and valuable opportunities for cooperation. Chinese companies are willing to participate in the large-scale infrastructure construction and recovery of manufacturing industry in the US. China-US economic and trade relations will affect not only the economic and social development of the two countries, but also global trade and investment. There is an increasing need for China and the US to work together to solve major world economic issues, such as macroeconomic policy coordination, global financial system stabilization, energy and resources, climate change and environmental protection, global value chain, e-commerce, cyber security and epidemics.

**☆Highlights of Cooperation: China-US**

**Development Cooperation**

In recent years, the two countries, while respecting their national conditions and the will of recipient countries, have carried out development cooperation with East Timor, Afghanistan and some African countries in agriculture, human resources training, health security and humanitarian aid. China and the US have recognized the principle of development “raised, agreed, and led by

recipient countries”, and have reached broad consensus on promoting the construction of the African Centers for Disease Control, public health and global health security, food security, humanitarian aid and disaster response, multilateral mechanism, clean energy and the 2030 Agenda for Sustainable Development. Development cooperation is the noblest cause. Development cooperation between China and the US has enriched their cooperation, showing that the two responsible countries are jointly coping with global challenges. It helps the two countries to complement each other so as to provide the world with more public goods, to share their ideas and practice, and to contribute to the well-being of all people in the world.

## **Part II The Mutually Beneficial Nature of China-US Economic and Trade Relations**

Through economic and trade cooperation, China and the United States have complemented each other and received a wide range of huge economic benefits not only directly from bilateral trade and two-way investment, but also indirectly from economy, employment, industries and other aspects.

I. The Benefits Received by the United States from China-US Economic and Trade Cooperation

### **i. Direct Benefits.**

#### **1. Trade in goods**

**In terms of US exports to China,** China is the United States' largest export market outside North America, and is also one of the fastest growing major export markets of the United States. In the past 10 years, the average annual growth rate of US exports to China hit 11%, higher than not only the 4% of average growth rate of US total exports during the same period, but also the 6.6% of average growth rate of China's exports to the United States in this period. Since China's accession to the WTO, US exports to China in 2016 has been up 500% from 2001, while US global exports during the same period only grew by 90%. China has become an important overseas market of many products of the United States, especially bulk agricultural products and high-end finished products. According to Chinese

statistics, in 2016, the United States exported 440 aircraft to China (US\$12.5 billion); 33.66 million tons of soybeans (US\$13.8 billion); 255,000 automobiles (US\$12.1 billion); US\$9.7 billion of integrated circuits; and 260,000 tons of cotton (US\$500 million). Currently, China is the largest export market of American aircraft and soybeans, and the second largest market of American automobiles, integrated circuits and cotton. Among US exports, 62% of soybeans, 17% of automobiles, 15% of integrated circuits, 14% of cotton and some 25% of Boeing aircraft are sold to China.

**Exports to China have brought tangible benefits to the states of the United States.** According to the 2016 edition of the USCBC US Exports to China by State report, China was among the top three goods export market for 33 states in 2015, and among the top five for another 13. Compared with 2006, the majority of the states enjoyed significant growth rates in goods and services exports to China. With respect to goods exports to China, 31 states experienced at least triple-digit growth, and four states saw growth of more than 500 percent: Alabama, Montana, North Dakota, and South Carolina. All the 50 states had triple-digit services export growth to China, and 10 states had export growth of more than 400 percent. In terms of the value of goods and services exports to China, 30 states exported more than US\$1 billion to China in 2015. In 2006, only 17 states exported more than US\$1 billion to China.

## ☆Highlights of Cooperation: China-US

### **Agricultural Trade**

Agriculture is one of the earliest sectors of China-US economic and trade cooperation. In 1972 before diplomatic ties were established between the two countries, American agricultural enterprises already entered the Chinese market for cooperation in breeding and feedstuff. Soon after the beginning of reform and opening up in China in 1978, Continental Grain Company of the United States set up a Sino-foreign joint venture in Shenzhen. Since 2001, the value of agricultural trade between the two countries has maintained an average annual growth rate of 15%. The US agricultural exports to China have kept an average annual growth rate of 17%, maintaining a trade surplus.

According to Chinese customs statistics, the value of China-US agricultural trade in 2016 reached US\$31.2 billion. Among it, China imported US\$23.8 billion from the United States and exported US\$7.4 billion, and China's deficit reached US\$16.4 billion. According to US statistics, China was the second largest export market of American agricultural products in 2016, accounting for 15% of US agricultural exports. 62% of the

soybeans and 14% of the cotton exported were sold to China. China was the largest export destination of American soybeans and the second largest export destination of American cotton. Each American farmer exported some US\$12,000 of agricultural products to China on average and enjoyed tangible benefits from it.

**With respect to US imports from China,** a considerable part of Chinese exports to the United States belong to processing trade. Under this trade pattern, China is at the low end of processing and assembly value chains, while American enterprises obtain most of the profits through their dominance over product design, core component manufacturing, transportation, storage, marketing and other sectors with high added values. Let's take iPhone for example. According to the findings of a research conducted by Asian Development Bank in 2010, the retail price of iPhone exported to the United States from China was US\$500 (2009). For each iPhone exported, the assembly plants in China only earned US\$6.5 of processing fee, while the American design, transportation and distribution enterprises obtained US\$331.7. Among textiles, garments, shoes, hats and other goods exported from China, American importers and retailers receive 90% of the overall profits.

## **☆Case No. 1: Small Home Appliance**

### **Products**

The capacity of small home appliances in China accounts for over 80% of the global capacity, and exports from China accounts for about 45% of the global total. In 2016, China's small home appliance exports amounted to US\$34.2 billion. However, most of the exports were realized through subcontracting. Export prices were generally about 1/4 of the retail prices in terminal markets, and some were even lower.

## **☆Case No. 2: Tyres for Trucks and**

### **Passenger Vehicles**

In 2016, China's exports of tyres for trucks and passenger vehicles to the United States were around US\$1.1 billion, and the average export unit price was around US\$130. However, the terminal prices in the American market were about US\$250. As for the structure of export prices, cost accounted for around 75% of the prices, and processing fee accounted for 20%. The profits made by Chinese enterprises through processing accounted for about

9% of the terminal prices of the products.

**☆Case No. 3: Down Jacket Products**

In 2016, China's down jacket exports to the United States were US\$310 million. Among them, the average export price of medium-priced down jackets was around US\$40, but the terminal prices in the American market were around US\$200. The export prices were 1/5 of the retail prices. The average export price of high-end down jackets was about US\$60, and the terminal prices in the American market were around US\$500. The export prices were 1/8 of the retail prices. The limited profits made by Chinese enterprises through processing accounted for about 1%-2% of the terminal prices of the products, and American importers were the main beneficiaries.

**2. Trade in Services.**

The United States has kept gaining surplus from trade in services with China. According to China's statistics, from 2006 to 2016, the service exports of the United States to China expanded from US\$14.4 billion to US\$86.9 billion, a rise of 5 times. In 2016, the US trade surplus with China in services



reached US\$55.7 billion, 40 times the amount of 2006.

As for tourism, according to the Chinese Ministry of Commerce, Chinese tourists spent some US\$13,000 in the US per person in 2016, far more than the tourists from other countries. In 2016, Chinese tourists spent a total of US\$35.22 billion in the US, creating about US\$97 million of revenue for the US per day.

In the field of education, the US is Chinese students' top destination for studying abroad. According to a report published by US Immigration and Customs Enforcement in May 2016, there were some 353,000 Chinese students studying in the US, accounting for 34% of the total number of international students in the US. According to the estimates of the Chinese Ministry of Commerce, Chinese students studying in the US spent about US\$45,000 per person in 2016, contributing around US\$15.9 billion of revenue to the US.

In terms of movies, China imported 51 American movies in 2016 and brought nearly US\$16 billion of revenue for the US, approximately four times that of all the movies imported by China from other countries. In the field of copyright, the amount and kinds of books imported by China from the US were much more than those of the books exported to the US. In 2015, China imported 6,400,800 books from the US (US\$209.6 million), and exported 3,498,400 books to the US (US\$20.6 million). The ratio of the kinds of books imported from the US by China to

the kinds of books exported to the US was 5.5:1, and the ratio of physical exports was 10:1. In trademarks, from 2002 to 2016, the US transferred 54,000 trademarks in China, accounting for 4.15% of the total amount; the total number of trademark licensing put on records with the State Administration for Industry and Commerce of China by American enterprises was 36,716, accounting for 11.63% of the total number of licensing on records with the State Administration for Industry and Commerce during the same period.

**☆Highlights of Cooperation: China-US**

**Tourism Cooperation**

Tourism cooperation is the most dynamic part with the highest potential in China-US economic and trade cooperation and people-to-people exchanges. In the past 10 years, China and the US have cumulatively exchanged 28 million person-times of tourists at an average annual growth rate of 10%. China has become the US's top tourist destination in the Asia-Pacific region. Statistical data of China National Tourism Administration showed that, in 2015, the two-way tourist flow between China and the US exceeded 4.75 million person-times. Among them, 2.09 million person-times of American tourists visited China, and 2.66 million person-times of Chinese tourists

visited the US. According to the statistics of the US Department of Commerce, Chinese tourists spent US\$30.2 billion and created 150,000 jobs in the US in 2015. 5,500 tourists arrived in the US per day, and there was one flight across the Pacific every 17 minutes.

### **3. Two-way Investment.**

**As for US investment in China**, according to the statistics of the Chinese Ministry of Commerce, US-funded enterprises in China earned some US\$517 billion of sales revenue in 2015, and the profits exceeded US\$36 billion. Most of the US-funded enterprises in China are performing well, and the Chinese market has become an important growth point and source of profits for the US. In 2016, the total revenue of US-funded banks, insurance and security companies was US\$48 billion; and the total revenue of US-funded accounting firms, law firms and consulting firms exceeded US\$19 billion. In 2016, General Motors sold 3.87 million automobiles in China at a rate of one automobile per 8 seconds. Ford Motor sold 1.27 million automobiles at a rate of one automobile per 25 seconds. Both enterprises set new records in sales volumes in China. Through over 2,200 stores in China, McDonald's sells 1,600 hamburgers every minute.

**On Chinese investment in the US**, according to a report

published by the National Committee on United States-China Relations and Rhodium Group, Chinese enterprises invested US\$15 billion in the US in 2015. In 2016, Chinese enterprises invested US\$45.6 billion in the US, a 200% increase from the previous record set in 2015. By the end of 2016, the accumulative total of Chinese foreign direct investment in the US reached around US\$109 billion, covering such sectors as services, manufacturing, real estate, hospitality, information and communication technology, entertainment and financial services. Nearly 98% (425 of 435) of congressional districts in 46 states hosted Chinese-owned establishments. The total number of Americans employed by Chinese-owned companies exceeded 141,000, and most of them work in the manufacturing sector.

Over the years, the investments in the US made by Chinese enterprises have contributed to local economies, employment and taxation. For example, Wanxiang Group has invested in nearly 30 projects across the US, creating 12,500 jobs for local residents. In South Carolina, Haier Group has created over 1,000 jobs for Camden since the establishment of the Haier Industrial Park in 1999. In Camden, there is an employee of Haier in one out of ten families, and the city has also developed into a city of household appliances with an annual throughput of more than 200,000 household appliance products. Zhejiang Keer Group invested US\$220 million to build a yarn factory with an annual throughput of 150,000 tons and created more than 500 jobs for

the local community. In Ohio, Fuyao Group invested US\$30 million to build an automotive glass production line in Dayton, and created over 2,100 jobs for the local community. In Texas, Tianjin Pipe Group invested US\$1 billion to build a seamless steel pipe plant and created around 800 jobs as well as more indirect employment opportunities for the local community.

**☆Highlights of Cooperation: China-US**

**Energy Cooperation**

In recent years, under the concerted efforts of the governments, enterprises and scientific research institutions of China and the US, the two countries have established all-directional, multi-layered and wide-ranging energy cooperation which has yielded remarkable results and kept a good momentum.

**Inter-governmental dialogues have covered all energy sectors.** The two sides have organized energy policy dialogues, oil and gas industry forums and forums on renewable energy, pressed ahead with bilateral civil nuclear energy cooperation initiatives, established a research center on clean energy, and included energy cooperation in the agenda of China-US Strategic and Economic Dialogue and the China-US Joint Commission on Commerce and Trade.

**The enterprises of the two countries have engaged in pragmatic cooperation.** Westinghouse Electric Corporation became a winning bidder of China's third-generation nuclear power project, and US-based TerraPower has signed an agreement with China National Nuclear Corporation to develop its travelling wave reactor. Chinese enterprises have invested an accumulative total of more than US\$10 billion in oil and gas projects in the US. Among them, China National Offshore Oil Corporation (CNOOC) invested US\$2.2 billion to establish a joint venture with US-based Chesapeake Energy Corporation to jointly develop an oil and gas asset project in Eagle Ford Shale of Texas. In February 2013, CNOOC completed the purchase of Nexen, a Canadian company. The estimated value of the crude oil assets of Nexen in the Gulf of Mexico in the US is around US\$3.4 billion. Sinopec Group invested US\$2.4 billion in 2012 for 33% of Davon Energy Corp's interest in the shale oil and gas assets in five locations in the US including Niobrara. In 2013, Sinopec Group invested a total of US\$3.5

billion to acquire 50% stake in oil and gas assets in Oklahoma from Chesapeake Energy Corporation. In 2013, Sinochem Group invested US\$1.7 billion to purchase 40% of Pioneer Natural Resources Co.'s interest in the Wolfcamp assets in Texas. In addition, ENN Group, Kingking Group and other enterprises are also attempting to invest in shale gas fields and gas stations in the US, and trying to find opportunities for LNG export terminal projects.

**☆Case No. 4: Jiangnan Chemical Fiber Group Invested in a Plant in South Carolina**

Zhejiang Cixi Jiangnan Chemical Fiber Company is specialized in the production of recycled PET staple fibers. With 100% of the raw materials used being recycled PET wastes, the company is a typical enterprise of circular economy. In 2014, Jiangnan Chemical Fiber Company established a wholly owned subsidiary with an annual throughput of 50,000 tons of recycled PET staple fibers in Richburg, a town in Chester County, South Carolina of the US. With an investment of US\$25 million, the first phase of the project

completed equipment installation and trial production in December 2015. US\$20 million is scheduled to be invested in the second phase.

Governor Nikki Haley of South Carolina said, “We celebrate Jiangnan Chemical Fiber’s decision to invest US\$45 million and create 318 new jobs in Richburg. This announcement shows that South Carolina has done the right things to be competitive on the global stage.” “We welcome Jiangnan Chemical Fiber to South Carolina, and look forward to the company’s success here,” said Secretary of Commerce Bobby Hitt of South Carolina. “It is an exciting day for everyone in Chester County as we celebrate the addition of an outstanding new corporate citizen that will provide quality, well-paying jobs for the citizens in our community. Jiangnan Chemical Fiber’s decision to locate here is another sign that our economic development efforts are paying real dividends in attracting world-class companies and creating new job opportunities,” said Chester County Supervisor R. Carlisle Roddey.

#### **4. Finance.**

American investors hold large amounts of equities in the Chinese financial market. They have made extensive strategic



investments in Chinese enterprises, and obtained handsome profits through equity appreciation, profit sharing and other channels. According to the statistics made by relevant Chinese departments, as of January 2017, 13 American banks have established branches in China, and 10 US-funded insurance companies have set up insurance companies in China. US-funded financial institutions have established four joint venture securities companies, five joint venture fund management companies and one joint venture futures company in China through shareholding. 50 financial institutions registered in the US have obtained the Qualified Foreign Institutional Investor (QFII) qualification. Ernst & Young and other American accounting firms operate in China, and American law firms have established a total of 119 representative offices in China.

American investment banks have obtained lucrative profits through helping Chinese enterprises to be listed abroad. According to the statistics of China Securities Regulatory Commission, by the end of 2016, 279 Chinese companies have completed IPOs abroad (H-share companies), realized refinancing 165 times (including issuing additional shares and convertible bonds), and raised a total of US\$315.165 billion. Among them, there were 124 IPO and refinancing projects with US-funded investment banks acting as lead underwriters or co-lead underwriters. These projects raised US\$220.567 billion,

accounting for 70% of the total amount of funds raised.

According to the statistics of the US Department of Treasury, by the end of 2015, China held US\$1.2675 trillion of US debt. By holding US debt in a long term, China has played a positive role in helping the US to maintain stability in financial market, enhance market liquidity, ease credit pressures and promote economic growth.

## **ii. Indirect Benefits.**

### **1. Promoting Economic Growth.**

According to estimates of Oxford Economics, US imports from China in 2015 boosted US GDP by 0.8 percent. According to estimates of USCBC, US exports to China supported US\$165 billion in US GDP in 2015; when combined with US investment in China and Chinese investment in the US, the total amounted to US\$216 billion of US GDP. The US exports dollars through the trade deficit with China, and then realizes the returning of dollars through its developed capital market. This enables the US to mobilize more international financial resources, maintain dollar's position as the international currency, and consolidate the US's position as an international financial center.

### **2. Improving Consumer Welfare.**

Importing large amounts of cheap high-quality goods from China has not only helped the US to maintain a relatively low inflation rate, but also improved the real purchasing power of American citizens, especially middle-low income communities.

According to a research conducted by USCBC, the typical US household earned about US\$56,500 in 2015, and trade with China saved these families up to US\$850 that year on average. According to estimates of Oxford Economics, US imports of low-priced goods from China in 2015 resulted in a 1-1.5 percent cut in consumption prices in the US.

### **3. Creating More Jobs.**

US exports to China have created a great number of jobs for the US. According to the statistical data published by the US Department of Commerce, US merchandise and services exports to China created 600,000 jobs and 310,000 jobs in the US respectively, and the total number of jobs created amounted to 910,000.

A report published by USCBC indicates US exports to China have made greater contributions to job creation in the US. According to the report, due to China's in-depth participation in global value chains, a large amount of American products have been exported to China indirectly in addition to bilateral direct trade. According to OECD's statistics, 3%-4% of exports by other Asian countries to China should also be counted as US exports to China. Consequently, US exports to China will increase by over 25%. In 2015, US exports to China actually supported 1.8 million new jobs in the US. When US investment in China and Chinese investment in the US are combined, the total amounts to 2.6 million US jobs.

The service sector in the US enjoys strong competitive advantages. According to estimates by the US Department of Labor, from 2000 to 2020, only 1.791 million new jobs will be created in the manufacturing sector in the US, while 17.95 million new jobs will be created in the service sector. As US trade in services with China has long maintained a surplus and grown fast, it is foreseeable that US trade in services with China will create more jobs in the US.

#### **4. Promoting Industrial Upgrading.**

In the context of globalization, China has taken over a great deal of international industrial transfers. This enables the US to, while giving full play to the limited advantages in funds, technology, innovation and other factor endowments, concentrate on the development of information technology, aeronautics and astronautics, equipment manufacturing, biotechnology and other high-end manufacturing sectors and the modern service sector, and drive upgrading in industrial structures towards high added values and high technology contents.

## **II. The Benefits Received by China from China-US Trade and Economic Cooperation**

### **i. Direct Benefits.**

#### **1. Trade in Goods**

According to Chinese statistics, China-US trade volume has grown from US\$2.5 billion in 1979 to US\$524.3 billion in

2016, a rise of 209 times. In 2016, China-US bilateral trade accounted for 14.1% of China's overall trade.

**The US has provided China with huge external demands.** According to Chinese statistics, from 2008 to 2016, the proportion of exports to the US in China's total exports has all along maintained above 16%. When entrepot trade is combined, the US market offers China with nearly 1/5 of external demands.

**The US is one of the fastest growing major export markets of China.** According to Chinese statistics, Chinese exports to the US in 2016 reached US\$389.1 billion, 7.2 times the amount of 2001. The US has already become China's largest export market. According to the statistics of the US, US imports from China in 2016 reached US\$481.8 billion, 4.7 times the amount of 2001. China has become the largest source of imports of the US.

**The US is an important overseas market for many Chinese products.** The industries of China and the US are highly complementary, and the US has already become an important overseas market for many Chinese products. Electric machines, electric apparatus and sound equipment, mechanical appliances and parts, furniture and parts, toys, game supplies and parts, and shoes and boots are the product categories in relatively big amounts among Chinese exports to the US. According to the statistics of the US, the imports of electric

machines, electric apparatus and sound equipment from China in 2016 accounted for about 27% of total US imports from China, and nearly 40% of the total US imports of these products. The imports of mechanical appliances and parts from China accounted for around 21% of total US imports from China, and 30% of the total US imports of these products. According to Chinese statistics, Chinese exports of mechanical and electrical products to the US in 2016 amounted to US\$236.9 billion. The US is the largest export market of Chinese mechanical and electrical products.

## **2. Trade in Services.**

According to Chinese statistics, the volume of China-US trade in services was US\$118.13 billion in 2016, a rise of 4.7% over the previous year and accounting for 18% of China's total volume of trade in services. Currently, the US is China's second largest trading partner. The trade in services between China and the US is characterized by strong complementarity. The two sides have engaged in beneficial cooperation in trade in technology and culture, which is conducive to China's introduction of advanced overseas technologies and domestic industrial upgrading. According to the statistics of Chinese Ministry of Commerce, China signed 1,189 contracts on importing technology from the US in 2016, and the total contract amount reached US\$9.638 billion, accounting for 31.36% of the total amount of technology import contracts signed by

China; China also signed 1,337 contracts on exporting technology to the US, and the total contract amount was US\$3.749 billion, accounting for 15.96% of the total amount of technology export contracts signed by China. At present, the US is China's largest source of technology import and the second largest technology export destination. In the field of cultural trade, according to the statistics of Ministry of Commerce of China, China exported US\$22.78 billion of cultural products to the US in 2016. The US is the top destination for exported Chinese cultural products. Meanwhile, Chinese enterprises benefit from the service outsourcing from the US. The contracted amount in 2016 was US\$23.85, a rise of 25.1% over the previous year. Currently, the US is China's largest service outsourcing market, and the contracted amount of service outsourcing accounts for 1/4 of the contracted amount of global service outsourcing businesses undertaken by China.

### **3. Two-way Investment.**

According to the statistics of Chinese Ministry of Commerce, as of December 2016, the US has invested and established an accumulative total of 67,000 foreign-invested enterprises in China, and the actual investments made amounted to US\$ 79.86 billion, accounting for 7.8% of the total number of foreign-invested enterprises approved by China and 4.5% of the amount of foreign capital actually used, and ranking fifth among investment sources. In 2016, the US established 1,238

foreign-invested enterprises and made US\$2.39 billion of actual investment in China, a rise of 14.2% over the previous year.

Manufacturing constitutes the main area of US investment in China. According to the statistics of Chinese Ministry of Commerce, from 2004 to 2016, 59.8% of US investments in China were made in the manufacturing sector, which was followed by leasing and business services (10.6%), and wholesale and retail (6.3%). In the manufacturing sector, the main investment areas of US-funded enterprises are transportation equipment manufacturing, communications equipment, computer and other electronic equipment manufacturing, electrical machinery and equipment manufacturing, general equipment manufacturing, chemical raw materials and chemical products manufacturing. These five sectors received 30.6% of actual investments made by US enterprises. US-funded manufacturing enterprises have played a positive role in the upgrading of China's manufacturing sector.

With respect to Chinese investment in the US, investments in the US by Chinese enterprises have rapidly grown in recent years. According to the statistical data of Chinese Ministry of Commerce, from 2011 to 2016, non-financial direct investment made in the US by Chinese enterprises has maintained an annual growth rate of 61%. By the end of 2016, the accumulative total of non-financial direct investment made by Chinese enterprises in the US reached US\$49.99 billion. Through investing in the



US, Chinese enterprises may not only open up local markets, but also better grasp market dynamics and the direction of technological development, and enhance research and development capabilities and their own reputations.

#### **4. Finance.**

The US is a global financial center with highly developed markets and standardized regulatory measures. It is the world's largest and most effective capital market, and more and more Chinese enterprises choose to be traded in the US financial market. As of February 2017, a total of some 130 Chinese companies have landed in the Nasdaq Stock Market, and more than 70 Chinese enterprises have been traded in the New York Stock Exchange. Alibaba's initial public offering in 2014 became the largest IPO in the history of the US. The US financial market has not only provided space for the financing and merger and acquisition of high-quality Chinese enterprises, but also helped to improve the enterprises' global reputations and fames, promoted the internal reforms of Chinese enterprises and improved their corporate governance.

American investment banks, accounting firms, law firms and other professional organizations have actively participated in the Chinese financial market. On the one hand, they have shared the huge development opportunities in the Chinese market. On the other hand, they have brought experience in financial management and operations for China, and cultivated a

large number of financial professionals.

**ii. Indirect Benefits.**

**1. Promoting Economic Transformation and Upgrading.**

China-US economic and trade cooperation has promoted the structural optimization and technological progress of relevant sectors in China, and promoted the transformation and upgrading of China's economic structures.

**US high-tech and information technology enterprises have promoted the development of relevant sectors in China.** The US is the center of technological innovation and business model innovation in the global digital economy. Intel, Cisco, Microsoft and other US enterprises have carried out extensive research and development cooperation and personnel training with Chinese universities and research institutions, which has promoted the technological progress of Chinese enterprises. The development of relevant sectors has also drawn on the development path of the US and attracted a large number of talents with experience in US enterprises.

**The high-end products, equipment and technology imported from the US have promoted the upgrading and development of China's manufacturing sector.** According to Chinese statistics, China imported US\$ 71.8 billion of mechanical and electrical products from the US in 2016, accounting for 9.3% of the total imports of mechanical and

electrical products; China imported US\$9.7 billion of integrated circuits from the US, accounting for 4.2% of the total imports; China imported US\$3.43 billion of aircraft engines, landing gears and other aircraft parts and components, accounting for 47.8% of the total imports; China imported US\$2 billion of auto parts; and China imported US\$2.87 billion of electrical equipment and US\$ 2.07 billion of basic mechanical parts, mostly high-end parts and components needed by China. The products and techniques imported from the US have relatively high technological contents and have facilitated the development and upgrading of the manufacturing sector in China.

**The manufacturing enterprises invested by the US in China have enhanced the overall technological level of the manufacturing sector in China.** The operations of US manufacturing enterprises in China has brought market competition, promoted Chinese enterprises to rapidly improve their technological levels in competition, and helped to enhance the overall level and innovation ability of Chinese industries. Through supply chain management, US enterprises have provided opportunities directly or indirectly for the development of supporting industries in China. For example, the investment made by US auto manufacturers in China has directly led to the development of China's auto parts industry. Apple and Amazon assign hardware products to Foxconn and other production

enterprises for contract manufacturing, and then Foxconn and other enterprises drive the development of a large number of upstream and downstream supporting enterprises, forming large industrial clusters.

**The service enterprises in China invested by the US have driven the development of China's service outsourcing industry.** American companies such as Accenture, HP, IBM and Microsoft have cooperated with their Chinese partners to drive the development of China's service outsourcing industry and accelerate the transformation of information technology and the enhancement of traditional industries.

**The US-funded enterprises in China have helped China to improve its export product structures and competitiveness.** US multinationals in China are an important driving force for China's export growth. The products produced by US-funded enterprises generally have high added values, which helps to enhance China's export product level, optimize the structure, and improve the international competitiveness of export products. Meanwhile, they have also played a positive role in promoting China's open economy.

## **2. Introducing Capital and Advanced Managerial Expertise**

As the world's largest developed country with the highest level of productivity, the US has served as a role model for China in economic development, market management,

institutional innovation and other aspects. Cooperation with the US in trade and investment will help China to introduce advanced foreign technology and management experience. Multinational enterprises represented by US-funded enterprises constitute one of the most favored destinations for university graduates in China. A large number of Chinese students who have received higher education in the US constitute one of the sources of high-quality talents in China.

### **3. Creating Jobs.**

**Bilateral trade has created a lot of employment opportunities for China.** According to estimates of Chinese research institutions, foreign trade in China creates more than 180 million jobs. In 2016, China-US bilateral trade accounted for 14.1% of China's total foreign trade, and the processing trade, which creates a large number of jobs, accounted for about 45% of China's exports to the US and played a positive role in promoting employment in China. In textile and apparel, for example, according to estimates based on industrial data, China's textile and apparel exports to the US created 3.8 million jobs during the five years from 2012 to 2016.

**The US-funded enterprises in China have become an important source of employment opportunities.** According to estimates of Chinese research institutions, foreign-invested enterprises in China have contributed to more than 10% of China's urban employment. Among them, the number of

US-funded enterprises accounts for nearly 8% of the number of foreign-funded enterprises in China. According to the statistics of Chinese Ministry of Commerce, by the end of 2015, 19,000 US-funded enterprises created a total of 2.203 million jobs. For example, GM employs nearly 60,000 Chinese employees and Boeing employs nearly 10,000 employees in China.

#### **4. Increasing Tariff and Tax Revenues.**

In terms of tariff revenue, according to a rough estimation, the US accounted for 8.5% of China's imports in 2016, and China-US trade contributed RMB 130.8 billion to China's tax revenue in that year. Taking into account the free trade arrangements between China and some other countries and regions, low tariffs and other factors, the US actually contributes more to China's import tax revenue.

In terms of taxation, although the number of foreign-funded enterprises accounts for less than 3% of the total number of enterprises of various types across the whole country, the profit made by foreign-funded enterprises accounts for nearly one-fourth of the total profit of the enterprises and nearly one-fifth of the total tax revenue. According to the statistics of Chinese Ministry of Commerce, the 19,000 US-funded enterprises achieved a total operating income of RMB 3.2 trillion, a total profit of RMB 225.2 billion and a total tax amount of RMB 224.3 billion in 2015.

#### **5. Boosting the Domestic Consumer Market.**

**Imports of agricultural products from the US have saved China's land resources.** China is characterized by relatively scarce per capita resources. Let's take agricultural products as an example. Under the current agricultural resource endowment conditions in China, imports of land-intensive agricultural products such as soybean, cotton and wheat have effectively alleviated the shortage of cultivated land in China. According to estimates of the Development Research Center of the Chinese State Council, China imported 33.66 million tons of soybeans from the US in 2016, equivalent to 220 million mu of arable land resources.

**Imports from the US have enriched the Chinese market and the choice of consumers.** The aircraft (a total of 440 aircraft were imported in 2016 for US\$12.5 billion), vehicles (a total of 255,000 vehicles were imported in 2016 for US\$12.1 billion) and medical equipment (US\$3 billion of imports in 2016) imported from the US have met China's travel, medical and health needs. With the development of trade and the presence of a large number of US-funded enterprises in China, many well-known international brands have entered the Chinese market. A number of products of American brands such as Boeing planes, iPhone, GM, P&G detergents, Microsoft OS and office software, Coca-Cola beverages, Kraft foods and Hollywood films have become important choices for many Chinese residents in daily life, and fruits and dried nuts

imported from the US have enriched the product categories in the domestic market and improved the living standards of residents.



## **Part III Major Concerns about China-US Economic and Trade Relations**

### **I. Major Concerns of the United States**

#### **i. US Trade Deficit with China.**

The US has been concerned about the deficit in trade in goods with China, which should be comprehensively assessed from a historical perspective. The US has a deficit in China-US trade in goods, while China runs a deficit in China-US trade in services. According to Chinese statistics, China's deficit in trade in services with the US in 2016 was as high as US\$55.7 billion, accounting for 23.1% of China's total trade deficit in services. The US is the first major source of deficit in China's trade in services. However, the sides have common interests in both trade in goods and trade in services.

**Running trade surplus is a common stage in the process of industrialization in the context of globalization.** Seeing from the development process of the US, Germany, Japan, etc., these countries also maintained a long-term surplus in the industrialization stage, for example, the US had surplus for 93 years in 97 years from 1874 to 1970; Germany had surplus for 84 years in the recorded 137 years from 1880 to 2016; and Japan

had surplus for 30 consecutive years from 1981 to 2010. Since 1990s, the long-term deficit of China's foreign trade has turned into a sustained surplus, which is also the result of the new path of industrialization and enhanced international competitiveness.

**US trade deficit in goods with China was exaggerated.** In 2016, China reported that its surplus in trade in goods with the US was US\$254 billion, and the US reported that its deficit in trade in goods with China was US\$366 billion; therefore, trade deficit in goods between the two sides recorded a difference of US\$112 billion. The reasons for this were complex, including statistical differences, entrepot trade and re-exports. A joint study on statistical differences by the Ministry of Commerce of China and the US Department of Commerce indicated that the deficit figures released by the US from 2008 to 2014 were overestimated by an average of 19%. Accordingly, considering the imports in the form of processing trade in China and US's surplus in trade in services, the total US trade deficit with China in 2016 should be cut by more than half to US\$164.8 billion.

**Over the past decade, the US trade deficit with China was gradually decreased.** Chinese statistics indicated that, from 2006 to 2016, China-US trade surplus of goods accounted for 81%

and 46% of China's total trade surplus in goods respectively in 2006 and 2016, representing a decrease from 55% to 48% in China-US value of trade. In particular, from 2012 to 2016, China's surplus in trade in goods with the US grew at an average annual rate of only 3.5%, far less than that of 42.0% in the first years of China's accession to the WTO from 2001 to 2005, and this figure in 2016 even dropped by 3.8%. The US side reported that, over the last 10 years, the proportion of US deficit in trade in goods in China-US value of trade fell from 68% to 61%. Similarly, China's overall surplus in trade in goods also began to fall after 2015 when the figure peaked at a high level, down 14.0% in 2016, and down 39.6% year-on-year in the first four months of 2017. In the future, China's trade surplus with the US will show a further downward trend due to the rising cost of labor in China, the slowdown in the transfer of manufacturing from other countries and the gradual decline of the share of processing trade.

**The US trade deficit with China is ultimately determined by the economic structure, industrial competitiveness and international industrial division of labor of the two countries, rather than human factors.** At the same level of exchange rate, China has a surplus in

labor-intensive products and a deficit in capital- and technology-intensive products, agricultural products and services. This shows clearly that the more competitive the industries are, the more surplus they will generate. Exchange rate and trade deficit are not necessarily linked. Regarding economic structure, the US economy is service-based characterized by low savings and high consumption. Its domestic production cannot meet its domestic consumptive demands, and therefore there is a need to import large quantities of consumer goods. **The US trade deficit is essentially contributed by the utilization of excess savings of other countries to maintain the level of consumption beyond its own production capacity.**

From the perspective of international division of labor, China's surplus in trade in goods is closely related to the global industrial distribution of multinational corporations, and is the result of the gradient transfer of international division of labor. Foreign-funded enterprises have flooded into China. They assemble and manufacture goods in China and sell them to the global market. At present, China's surplus with the US is transferred from that of Japan, South Korea, Chinese Taipei and other countries and regions in East Asia with the US. According

to the US statistics, the proportion of US trade deficit with China in total trade deficit was increased from 20% in 2001 to 47% in 2016, but the figure with Japan, Korea, Hong Kong and Taiwan dropped from 23% to 11%. Trade surplus or deficit is the embodiment of comparative advantages of China and the US, and the division of labor in the global industrial chain. China's trade surplus is primarily contributed by the market-oriented economic decision-making made by enterprises, consumers and other participants from the supply and demand perspectives, rather than the outcome of government intervention.

**In the global value chain, China runs a trade surplus, but the US benefits therefrom; the sides have therefore formed a win-win partnership on the whole.** According to Chinese statistics, 59% of China's surplus in trade in goods comes from foreign-funded enterprises, and 61% from processing trade. China earns little processing fees from processing trade, and the US benefits greatly from the design, supply of spare parts, marketing, etc. The US imports from China large quantities of high-quality and cheap products to maintain a low inflation rate, thereby reducing production costs and promoting economic restructuring and upgrading, as well as economic growth. Since import from China has enhanced the

purchasing power of the Americans, the blue-collar workers can therefore receive more benefits. The China-US trade relations have created a large number of jobs for the US transport, wholesale and retail industries, and the US gains much through running a trade deficit.

**The US trade deficit with China is not directly related to the decline in US manufacturing jobs.** A number of studies have shown that, the reduction in US manufacturing jobs is ascribed to technological progress and industrial upgrading, which is not directly related to the US trade deficit with China. The US Department of Commerce reported that the loss of US jobs had been an issue before the signing of the North American Free Trade Agreement (NAFTA) and China's accession to the WTO. According to US statistics, US unemployment rate decreased year by year, from 9.6% in 2010 to 4.9% in 2016, but the overall deficit in trade in goods rose from US\$690.9 billion to US\$796.7 billion.

**China has made great efforts to cut trade surplus.** Focusing on expanding domestic demand, the Chinese government has intensified its economic restructuring via increased public investment and enhanced private investment in many aspects, with the aim to constantly expand its domestic

market. China has attached great importance to resolving excess capacity in the steel and mining industry; hence, enormous efforts have been made and remarkable results have been achieved. At present, the proportion of China's current account surplus to GDP has declined from 9.9% in 2007 to 1.9% in 2016.

**To reduce US trade deficit with China needs the joint efforts of both sides.** China has never sought trade surplus, and has taken active measures over the years to expand imports from the US. China is willing to expand imports from the US based on its domestic market demands. The US side should also abandon the Cold War mentality, relax control on its exports to China, and create opportunities to expand export of high-tech products to China.

**☆ Case No. 5: The Story of Apple Inc.**

Apple iPhone is popular with consumers around the world. Its brand and patented technology are held by the US side, but its manufacturing takes places in China. China is also the main sales market of iPhone. This is a typical case illustrating the distributions in global value chains.

On one hand, Apple has made huge profits

from sales in China. iPhone sales volume in China accounts for one-fifth of its global sales volume. According to Apple's 2016 financial report, its annual sales were US\$214.2 billion, and net profit US\$45.7 billion. According to International Data Corporation (IDC, a US market research firm), iPhone shipment in China was 44.9 million, representing 20.8% in the 215 million worldwide in 2016. Assuming the sales volume of iPhone in China was one-fifth of its global sales volume, Apple's sales in China was about US\$43 billion in 2016, and the net profits was about US\$9.1 billion.

On the other hand, iPhone is assembled and manufactured in China by virtue of Apple's global distribution of production; therefore, the production costs are reduced. Although the manufacturing of iPhone mostly takes place in China, the Chinese companies only get a few dollars by assembling an iPhone. Accordingly to third-party agency survey, with each iPhone7 selling at US\$649 to the minimum, the total cost of an iPhone7 is about US\$237.45, of which the processing cost occurred in China is only about US\$5.96; in the core electronic components of US\$153.88, only one Chinese company is involved in the supply of



battery, whose value is about US\$2.5. In other words, the Chinese enterprises can get US\$8.5 in total for processing and supply of battery, while by providing core components alone the US companies would get US\$64.

## **ii. RMB Exchange Rate.**

The US has been concerned about the RMB exchange rate, and the US side blamed the Chinese government for controlling the RMB exchange rate. This was not objective and unfair.

**China has been working to improve market-based RMB exchange rate regime since the reform of RMB exchange rate, and RMB has significantly appreciated.** Since July 2005, China has put in place a well-managed floating exchange rate regime, based on market supply and demand with reference to a basket of currencies. The Decision on Some Major Issues Concerning Comprehensively Deepening the Reform adopted at the Third Plenary Session of the Eighteenth CPC Central Committee clearly stipulates that there is a need to improve market-based RMB exchange rate regime, accelerate interest-rate liberalization, and speed up the realization of RMB capital account convertibility. Since 2015, the People's Bank of China has further strengthened the floating exchange rate regime

based on market supply and demand with reference to a basket of currencies. In August 11, 2015, with improvements to the formation mechanism of the RMB's central parity rate against the US dollar, the RMB central parity will better respond to market supply and demand. In December 11, 2015, after a series of RMB exchange rate indices were issued, the reference to a basket of currencies was intensified, allowing better maintenance of the basic stability of RMB exchange rate against a basket of currencies. Currently, the formation mechanism of the RMB's central parity rate against the US dollar, that is, "closing price of the previous day + the exchange rate movement against a basket of currencies", has taken shape.

From July 2005 to December 2016, the real effective exchange rate of RMB rose by 47%. In July 2005, the exchange rate was set at about 8.28 yuan per US dollar before the reform. In January 2014, this figure reached 6.09 yuan, representing a rise of 35.84%. In the past two years, as the US Federal Reserve raised interest rates, the value of the US dollar continued to strengthen, and due to the other impact from external environment and market supply and demand, the yuan had depreciating trend against the US dollar, but the overall depreciation was orderly. And it should be noted that in the

context of the strong dollar, the US dollar had basically strengthened against other major currencies in the international market, while RMB has depreciated comparatively in a rather smaller range. According to the estimates of the Bank for International Settlements, at the end of February 2017, the real effective exchange rate and the nominal effective exchange rate of RMB increased by 7.48% and 5.72% respectively compared with the end of the first half of 2014. The exchange rate of RMB against the US dollar rose by 20% since the reform of RMB exchange rate in 2005. Overall, the RMB exchange rate had been in the channel of appreciation since the reform of RMB exchange rate in 2005, and China's international balance of payments had become more balanced. In 2016, China's current account surplus accounted for 1.9% of GDP, which was internationally recognized and reasonable.

**The International Monetary Fund (IMF) noted that the current exchange rate of RMB was broadly in line with China's fundamentals.** Under IMF's charter, exchange rate manipulation means the IMF member states, by controlling or affecting the exchange rate level, prevent the effective balance-of-payments adjustment or gain an unfair competitive advantage over other countries. Currently, IMF uses the External

Balance Assessment (EBA) framework to assess the exchange rate of member states. According to the IMF assessment results, although China's current account surplus was still slightly higher in 2015, but the RMB exchange rate had been no longer "undervalued". In 2016, RMB exchange rate generally aligned with the economic fundamentals, and had achieved a basic balance. IMF further suggested that, in the context of international and domestic challenges, it was required to gradually enhance the skilled short-term management over the overall trend of marketization process, to avoid excessive fluctuations, exchange rate overshooting, unilateral expectation and market disorder. Even when judging from the US criteria for determining the existence of currency manipulation of a country, China had only met one criterion, that is "the annual surplus in trade in goods with the US exceeds US\$20 billion"; therefore, according to the Report on the Foreign Exchange Policies of Major Trading Partners of the US released by the US Department of the Treasury in the first half of 2017, China had not manipulated its exchange rate.

**The Chinese central bank's foreign exchange open market operation did not fall into the scope of exchange rate manipulation.** Since 2015, under the impact of international

financial market turmoil, especially the growing expectation that the US Federal Reserve would raise interest rates, China had faced the pressure from capital outflows and yuan devaluation. In this regard, China had enhanced the flexibility of the RMB exchange rate mainly through the improvement of the market-based RMB exchange rate regime. In the process, to prevent the overshooting and short-term volatility of the RMB exchange rate, the Chinese central bank, when necessary, had provided US dollar liquidity support in the market. However, this approach was neither to prevent the effective balance-of-payments adjustment, nor to stimulate exports via competitive devaluation of currencies, nor to control the absolute level of the RMB exchange rate, with the intention to prevent the normal adjustment of RMB exchange rate due to market factors; therefore, what the Chinese government had done was not exactly the manipulation of exchange rate. In fact, the financial market was stabilized due to China's intervention in foreign exchange. On the part of China, no competitive advantage had been acquired therefrom, but instead, a large foreign exchange reserve had been consumed in this course. China's efforts to strike a balance between improving exchange rate flexibility and maintaining exchange rate stability have

effectively avoided the negative spillover effect from the adjustment disorder of the RMB exchange rate and the competitive devaluation of the major currencies, which are favorable to the international community, including the US.

China will refrain from competitive currency devaluation. When maintaining the basic stability of the RMB against a basket of currencies, the Chinese government will also work to ensure RMB exchange rate against the US dollar will float in both directions in a more flexible way, which is conducive to both China and the whole world. China's economic fundamentals remain sound and there is no basis for long-term depreciation of the yuan. The RMB exchange rate is sure to gradually reach a new equilibrium after a fluctuation period.

China and the US have maintained close contact on exchange rate issues. In the 8<sup>th</sup> round of the China-US Strategic and Economic Dialogue held in June 2016, the US and China jointly reaffirmed commitments on exchange rate made during the Shanghai and Washington G20 Finance Ministers and Central Bank Governors Meeting in 2016, including to refrain from competitive devaluation and not to target exchange rates for competitive purposes. China will unswervingly promote the market-oriented exchange rate reform, and will further improve

market-based RMB exchange rate regime, to maintain the stability of the RMB in the international monetary system.

### **iii. Excess Capacity.**

The iron and steel industry is an important foundation for the US industry, and steel workers remain a vital force in politics and society in the US. The US is concerned about the closedown of steel companies and the unemployment of blue-collar workers, and hopes to improve the situation of the workers, and China expressed its understanding. In fact, the global economic downturn since the international financial crisis has led to the contraction in demand, which is the root for this wave of excess capacity in the global steel industry. Technological progress is an important factor for the decline in employment of the US steel industry. For example, in a steel plant in Pennsylvania, the US, by virtue of technical transformation, the number of workers had dropped from 2,000 to 26, but the production capacity was expanded. On one hand, the US acknowledges that this wave of excess capacity in the global steel industry is a global issue which requires collective responses; on the other hand, it blames the Chinese government for its systematic support for the steel sector as an important reason for the current excess capacity. This is untenable.

The steel industry of China is positioned to meet domestic demand. The Chinese government does not encourage the export of iron and steel products; on the contrary it has adopted a series

of measures to control exports, including to impose more export tariffs on some types of iron and steel products, for example, the export tariff rate for ferrosilicon and the like has been increased to 20%, and that for non-alloy billets and bars and the like has been increased to 15%.

The proportion of China's steel exports to the US in its total steel imports is relatively small. Given the US has taken a series of anti-dumping and countervailing measures towards China's iron and steel products, China's exports to the US in regard of iron and steel products showed a downward trend year by year over the past 10 years. In 2016, the volume and amount of steel exports of China to the US were only 1.18 million tons and US\$1.7 billion, representing a year-on-year decrease of 51.5% and 40.1% respectively; therefore China's steel exports have little impact on the US steel industry.

In implementing the strategy of adjusting structure and governance environment, China attaches great importance to resolving excess capacity in the steel industry; hence, enormous efforts have been made and remarkable results have been achieved. In this respect, the Chinese government has initiatively deployed practical strategies and will push ahead in this way. During five years from 2011 to 2015, China had cut over 90 million tons of backward steel production capacity. In 2016, China further reduced 65 million tons of capacity, and 202,000 jobs were involved. The 2017 Report on the Work of



the Government proposed to further cut the capacity by 50 million tons. If this goal is achieved, China's capacity utilization in steel production is expected to be further improved.

Since 2014, China and the US have had frequent communication and consultation regarding the issue of excess capacity by virtue of meeting of heads of state, the China-US Strategic and Economic Dialogue, the China-US Joint Commission on Commerce and Trade, the G20 Forum and other occasions. China is willing to work with all parties to continue to enhance communication through the Global Steel & Iron Forum and other platforms, and jointly take action to resolve excess capacity problem in the global steel industry.

#### **iv. Market Access.**

The US hopes that China will relax restrictions on foreign investment in banking, securities, insurance, culture, manufacturing, etc, believing that China should allow more foreign investment in certain areas just as what the US has done. China believes that the level of openness of a country is determined by national conditions and is closely related to the political system, economic system, development level and regulatory capacity. The US is not open in shipping and commercial satellite launch services. The two sides can improve market access conditions by further promoting investment treaty

negotiations on the basis of mutual benefit. China will also actively accelerate the process of opening up and further ease market access for foreign investment.

In fact, the Chinese government has been easing its market access in recent years, which is in line with its needs to deepen reform, including the establishment of 11 pilot free trade zones, and has continued to shorten the foreign investment negative list, which further lowers the access threshold in sectors like value-added telecommunications, new energy vehicles and batteries, gas stations construction and operation; hence, the market openness has been greatly improved. So far, China has gleaned 114 good practices in pilot reform that will be replicated across the whole country, and therefore the all-inclusive effects of the opening up have been gradually displayed. In addition, the Chinese government has also moved to revise the Catalog of Industries for Guiding Foreign Investment (2015 Revision), which has substantially removed the restrictive measures for foreign investment access, and opened up more sectors accessible to overseas investors. The last revision was released on December 7, 2016 to solicit public comments. Compared with the 2015 Revision in force, the draft for comment reduces the number of restrictive measures by one third, i.e. from 93 to

62, and relaxes restrictions on market access of foreign capital in services, manufacturing, and mining sectors. In January 2017, the State Council of China issued the Circular of Several Measures for the Expansion of Opening-up and the Active Use of Foreign Investments (the “Circular”). The Circular proposes 20 valuable and practicable working requirements from three perspectives, i.e. opening wider to the world, creating a fairer competitive environment, and further attracting foreign investment, so as to promote the opening up in an active manner. For example, with respect to opening wider to the world, it was proposed to revise the Catalog of Industries for Guiding Foreign Investment (2015 Revision) and the relevant policies and regulations, and substantially loosen the restrictions on the entry of foreign investment in industries such as service, manufacturing, mining, etc.; the relevant national supportive policies and measures should be equally applicable to domestic and foreign-funded enterprises; top overseas talents should be given support to start businesses and seek development in Mainland China, and have convenient access to entry and exit administration in accordance with the law. With respect to creating a more fair competitive environment, all regions and departments shall ensure the consistency in their implementation

of policies and regulations; Chinese-funded and foreign-invested enterprises should be promoted to participate in China's standardization work, and bidding and bid submission for government procurement in a fair manner; it's essential to improve protection and law enforcement of intellectual property rights; foreign-invested enterprises should be supported to broaden their financing channels. With respect to further attracting foreign investment, local governments are allowed to formulate and promulgate preferential policies for attracting foreign investment within the scope of their respective statutory authority and in light of the local practices, support projects that bring greater contribution to employment, economic development and technological innovation, lower investment and operating costs of enterprises, and protect the rights and interests of foreign-invested enterprises and their investors pursuant to the law.

Since 2010, China's actual utilization of foreign capital has been over US\$110 billion each year, which has ranked the first among developing countries for 25 consecutive years. The World Investment Report 2016 released by the United Nations Conference on Trade and Development (UNCTAD) indicates that China is still one of the world's most attractive destinations for investment. It's clear that China has adopted

comprehensively open attitude towards the world. China will continue to adhere to all-round opening to the world, strive to promote trade and investment liberalization, and enhance the international competitiveness in attracting and using foreign capital.

**☆ Case No. 6: About China-US Auto Trade**

The US believes that China's auto market is not as open as the US, but in fact, the US auto companies have benefited greatly from economic and trade cooperation with China.

In 2016, China imported 255,000 automobiles from the US, amounting to US\$12.12 billion. While the US imported 54,000 automobiles from China, amounting to US\$1.18 billion, they were mainly produced by US-funded companies in China.

According to China Association of Automobile Manufacturers (CAAM), China's joint venture enterprises with three major brands, i.e. GM, Ford and Fiat Chrysler, had sold 5.1 million automobiles in 2016. Of which, 4.01 million automobiles were from GM; 146,000 automobiles were from Fiat Chrysler; and 944,000 automobiles were from

Chang'an Ford.

According to the foreign-funded enterprises annual inspection data released by the Ministry of Commerce of China, the profits of joint venture enterprises of the three major US auto manufacturers in China totaled US\$7.44 billion in 2015. In addition to commercial profits, the US auto companies received a huge amount of engineering services and technical licensing fees.

#### **v. Protection of Intellectual Property Rights.**

The protection of intellectual property rights is one of the major concerns of the US regarding its commercial ties with China. The US acknowledges that China has made great progress in intellectual property protection, but there is room for further improvement. In the 2017 President's National Trade Policy Agenda of the US, intellectual property protection is regarded as one of the important elements of US trade policies. The US-China Business Council, the American Chamber of Commerce in China and other associations also deem intellectual property protection as a key focus of the US in trade.

Strengthening intellectual property protection aligns with

the need of China to build an innovative country. When promoting the implementation of innovation-driven development strategies, the Chinese government has equally emphasized the importance of implementing intellectual property strategies. It's the aim of China to create a society that respects knowledge and encourages innovation, with increased awareness of intellectual property protection.

China's stand on protecting intellectual property rights is firm. After years of efforts, China has built a more comprehensive legal system for intellectual property protection, and established intellectual property courts; whereby the cracking down on crimes has been intensified. The State Council of China has also set up a National Leading Group for Combating IPR Infringement and Counterfeits under the lead of a Vice Premier of the State Council, so as to actively promote a long-term mechanism.

In regard of legislation, the Anti-Unfair Competition Law, the Patent Law, the Copyright Law and other laws are being revised. The Regulations on the Implementation of the Law on the Protection of Consumer Rights and Interests, the Interim Measures for the Administration of Internet Advertisements and the Measures for the Supervision and Administration of

Commodity Quality in the Circulation Sector are being implemented. The Supreme People's Court has promulgated the Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (II) and other judicial interpretations related to the protection of intellectual property rights.

In regard of jurisdiction, the people's court has completed the trial of various intellectual property cases in a fair and efficient manner in accordance with the law; hence, the judicial credibility relating to intellectual property rights is further enhanced. In addition, with intensified cracking down on crimes, the deterrent power against criminal acts becomes stronger; remarkable results have been therefore achieved. In 2016, the public security organs cracked down more than 17,000 cases and arrested 22,000 suspects; the procuratorial organs ratified the arrest of 9,171 people and prosecuted over 21,000 people; and the courts concluded more than 13,000 criminal cases and convicted nearly 18,000 criminals.

In regard of administrative law enforcement, the administrative organs at all levels have investigated and dealt with 1.27 million illegal cases of infringement and counterfeits



from 2013 to 2016. In 2016, the Chinese administrative organs carried out the “ESCORT” special campaign for protecting patent rights, the “Sword Network Campaign” combating network infringement and piracy, the “Qiufeng Campaign” for eliminating pornography and illegal publications in the copyright field, the “Sword Actions on Quality Control” to crack down counterfeits, the “Breeze Campaign” for maintaining the overseas image of products made in China, whereby 189,000 cases were investigated and dealt with. China plans to strengthen cooperation with the US intellectual property rights, customs, homeland security and police departments, and launch joint enforcement actions to fight infringement and piracy.

In recent years, China and the US have maintained close contact in strengthening cooperation in intellectual property protection, and have made positive progress. Strengthening intellectual property protection is a common challenge for all the countries. China is willing to strengthen exchanges and dialogue with the US government and industry in the field of intellectual property rights, and deepen mutual trust and cooperation so as to facilitate cultural and technological communication and promote people’s well-being.

## **II. Major Concerns of China**

### **i. Fulfillment of the Obligations under Article 15 of Protocol on China's Accession to the WTO.**

According to Article 15 of Protocol on China's Accession to the WTO, as of December 11, 2016, WTO members should be prohibited from using the price of alternative state system to calculate the dumping margin of exports from China in anti-dumping investigation. This is an international treaty obligation that WTO members must fulfill and the privilege China can enjoy as a WTO member.

The abandonment of the alternative state approach in the anti-dumping investigation against China under Article 15 is unconditional. The fulfillment of this international obligation by the US should not be linked to any other issues, and the only condition precedent is the time, i.e. December 11, 2016. What the US side has claimed, including the priority application of domestic laws, China's excess capacity, market economy status, should not be the conditions precedent for the fulfillment of obligations under Article 15.

The fulfillment of obligations under Article 15 and the recognition of China's market economy status are different issues. China is not asking the US to recognize China's market

economy status. The WTO rules have also not given the definition of and criteria for “a country having market economy”. The concept of “a country having market economy” originates from and exists in the domestic laws of the US and EU countries. Some people deliberately confuse the two different concepts of “a country having market economy” and the “fulfillment of obligation under Article 15 of the Protocol”, and put undue emphasis on the domestic laws of the US and EU countries relating to “a country having market economy”, with the intention to avoid the fulfillment of obligation on this ground.

Article 15 of the Protocol is not an issue of trade interests, but rather an issue of international commitments. The spirit of contract is the essence of market economy, and the adherence to treaties is the basic principle of international law, which is applicable to all the countries, regardless of size or strength. This issue lies in the respect for international law and the credibility of a country.

## **ii. US Export Control against China.**

For a long time, the US has implemented strict high-tech export control against China, which prohibits the export of a great range of competitive US high-tech products to China;

hence, the scientific and technological exchanges between the two sides are hindered. In 2001, US high-tech exports accounted for 16.7% of China's imports of similar products, and this figure fell to 8.2% in 2016. In light of the US sci-tech power and the important trading partnership between the sides, this is embarrassing and not conducive to solving the US trade deficit with China. On one hand, the US side has exercised strict control over high-tech exports to China; on the other hand, it censured China for encouraging independent innovation. This is an apparent paradox.

Strategic mutual trust lies at the core of export control. The strict export control of the US against China is based on Cold War mentality, which has ignored the rapid development of China-US relation and does not fit into the future development of this bilateral relation. In recent years, China has been requesting the US to relax its export control by virtue of the bilateral high-level dialogue, the China-US Joint Commission on Commerce and Trade, Strategic and Economic Dialogue and other mechanisms. The US government launched the reform of the US export control system in 2010, for purpose of further easing the export control towards its allies. Although the US has repeatedly reaffirmed that China will get equal treatment in the

reform, and committed to promoting and facilitating high-tech exports to China for civil purposes, it failed to take practical actions to realize its commitments. In the reform, the US has not lifted the arms embargo against China, and China has not received real benefit therefrom. According to the decision of the multilateral mechanisms such as the Wassenaar Arrangement, the elimination of export control over commercial high-tech products on the part of the US will not change the treatment of China from the institutional perspective; hence, the demands of China on specific items will not be satisfied.

China hopes that the US side will take practicable action in easing the export control against China and effectively loosen the restrictions on products exported to civilian users for civil purposes. This also helps to reduce the US trade deficit.

### **iii. Fair Treatment of Chinese Enterprises Investing in the United States.**

In recent years, Chinese enterprises' investment in the US has had rapid growth. This can facilitate US economic development and create jobs for local people. Thus, China's investment has become a highlight and an important driving force in China-US economic and trade relations. However, the national security review in respect of foreign mergers and

acquisitions by the Committee on Foreign Investment in the US (CFIUS) has seriously hindered Chinese enterprises to invest in the US. Since the establishment of CFIUS in 1975, the US president has only rejected three cases of mergers and acquisitions, but all the cases involved Chinese investors. The first is the acquisition of Mamco Manufacturing, a Seattle-based aircraft parts manufacturer, by China National Aero-Technology Import & Export Corporation (CATIC) in 1989. The second is the acquisition of a wind farm in Oregon by an affiliate of Sany Group in 2012. The third is the acquisition of Aixtron AG, a German-based chip equipment maker, by Fujian Grand Chip Investment Fund in 2016.

In recent years, with surging Chinese investment in the US, the cases receiving security review regarding foreign mergers and acquisitions has also increased rapidly. CFIUS reported that, from 2012 to 2014, China has ranked the top for three consecutive years in terms of the number of cases reviewed by CFIUS, in which a total 68 investment projects were involved. However, in fact, China's investment was less than 1% of total foreign investment in the US. These figures were completely disproportionate. According to incomplete statistics, the amount of mergers and acquisitions involving Chinese investment that

have been blocked by security review has exceeded US\$50 billion in recent years.

In fact, CFIUS can require a tough “mitigation agreement” to be signed by the investors and their acquisition targets in the US, which puts forward strict restrictions on the specific operations, business contents and others of the acquisition enterprises. For example, in the acquisition of an American company by a Chinese company, the Chinese company was required to sign a “mitigation agreement” with the US side. The agreement stipulated that any foreign company to visit the acquired US company should inform the US government 15 days in advance. But in practice it was difficult to meet the 15-day notification requirement, whereby the normal operation of the company would be impaired. In addition to security reviews, the unfair treatment received by the Chinese state-owned enterprises when investing in the US is also a key issue of concern for China. Americans often present objection towards the Chinese state-owned enterprises’ investment in the US, and some congressmen from time to time send letters to US government officials, asking the US government to carry out national security review on the projects involved, which in turn would become media hype in the US. Some US people have

prejudice against the Chinese state-owned enterprises, and claim that these enterprises are controlled by the Chinese government. They have a tendency to ask the US government to restrict these enterprises to invest in the US. For example, a Chinese-funded telecommunications operation enterprise had applied for US telecommunications license to the US government. However, the license was not issued as the authority claimed that the parent company of the applicant was a Chinese state-owned enterprise. Another example, a Chinese-funded enterprise in the US had applied for enterprise funds in the state where it was located, but the state government disqualified the enterprise on the ground that a shareholder of the company was a Chinese state-owned enterprise.

Over the past 30 years, many Chinese enterprises, including state-owned enterprises, have established and operated in the US; and in this process, they have generated significant local economic growth and created more jobs for local people. China hopes that the US government can give equal treatment to Chinese investors in the national security review of mergers and acquisitions, and that the Chinese state-owned enterprises can receive fair treatment on this issue.

#### **iv. Abuse of Trade Remedy Measures of the United**



## **States.**

China has been the country suffering most US trade remedy measures. From 1980 to 2016, the US has launched a total of 262 trade remedy investigations against Chinese products, amounting to US\$28.22 billion. According to the US International Trade Commission, as of the end of March 2017, there had been a total of 153 duty orders under implementation involving Chinese products, i.e. 110 anti-dumping duty orders and 43 countervailing duty orders. In these investigations, the US has a tendency to use alternative state, separate rates, public institutions, external benchmarks and other unfair approaches, with the intention to impose abnormally high tax rates on Chinese products, which has definitely hindered Chinese exports to the US. In 2016, the US launched a total of 20 trade remedy investigations against Chinese products, amounting to US\$3.66 billion. The US side also launched 21 Section 337 Investigations, involving iron and steel products, electric self-balancing vehicles, portable electronic equipment, electrical composite cores, containers, access control systems, hand dryers, surgical stapling apparatus and other products.

Take the trade remedy investigations launched by the US side against China's iron and steel products as an example.

China believes that the US side has abused trade remedy measures, which is mainly shown in the aspects below: first, a great deal of investigations has been launched, involving a large amount of capital and covering all of China's staple iron and steel exports to the US. As of the end of March 2017, the US has launched a total of 48 trade remedy investigations against China's iron and steel products, amounting to US\$7.6 billion. Only in 2015, there had been 8 investigations, involving nearly US\$1.6 billion. Second, Chinese products have been imposed with abnormally high tax rates. In some cases, the anti-dumping and countervailing duty rate has even exceeded 500%, which is obviously unreasonable and beyond the scope of normal trade remedy. Third, China's iron and steel exports to the US have declined year by year since 2014, but more remedy measures have been taken by the US side. The US, at the time of putting pressure on China in respect of excess capacity in the steel sector, have also frequently taken trade remedy measures against China; these enforcement actions have sent a strong signal for protecting its domestic industry.

## **Part IV Promoting the Development of China-US Trade and Economic Cooperation**

I. Efforts made by China to balance China-US economic and trade relations

**China has frequently dispatched trade and investment delegations to participate in trade and investment promotion activities in the United States.** In February 2012, six trade promotion delegations with more than 500 entrepreneurs from China visited the United States. These delegations visited eight states of the United States and signed trade, investment and cooperation agreements of all the sectors, amounting to about US\$38.6 billion. In September 2015, under the framework of the Joint Working Group on Trade and Investment Cooperation between Chinese Provinces and US States, China held four trade and investment promotion activities in Washington, California, Iowa and Texas, respectively. More than 300 entrepreneurs participated in these activities and signed trade, investment and cooperation agreements of all the sectors, amounting to about US\$5.3 billion.

**China has been addressing the specific concerns of the US enterprises through the China-US Joint Commission on**

**Commerce and Trade.** Since the upgrade of the China-US Joint Commission on Commerce and Trade in 2004, the two sides have strengthened policy communications through dialogue and consultation. In this process, China has addressed many economic and trade concerns of the US enterprises. Great progress has been made in antitrust law enforcement procedures, approval of drugs and medical equipment, exports of agricultural products to China, approval of agricultural biotechnology, software legalization, trade secret protection, drug data protection, access to China Compulsory Certification (3C) services of foreign-funded enterprises, procurement policies of information technology products, identification of geographical indication products and objection procedures.

**China has been vigorously promoting the trade and economic cooperation between Chinese provinces (cities) and US states (cities).** Since 2012, 25 Chinese provinces (cities) have established the Joint Working Group on Trade and Investment Cooperation between Chinese Provinces and US States with seven US states (cities), including California, Chicago, Iowa, Texas, Michigan, Washington and New York. Under the framework of the Joint Working Group, the two sides have cooperated in the fields of infrastructure,

bio-pharmaceuticals, electronic information, agriculture, energy, manufacturing, finance, tourism, environmental protection, exhibition, professional services, cross-border electronic commerce, etc., and whereby, personnel from the countries can communicate with each other more frequently and project cooperation can be progressed more smoothly. In this way, the enthusiasm to carry out trade and economic cooperation between the Chinese provinces (cities, districts) and the US states has been fully mobilized. With the assistance of the Joint Working Group, CRRC Corporation Limited (CRRC) has set up two vehicle assembly companies in the United States, which can deliver vehicles for subway projects in Boston, Chicago and Los Angeles and plans to continue to actively join in US high-speed rail construction. In addition, Chinese enterprises have purchased mineral water and beer from New York.

**China has been actively building exhibition platforms to expand imports from the United States.** In 2011, a USA Pavilion was set up in the 110<sup>th</sup> Session of China Import and Export Fair (Canton Fair) and served as a platform for US enterprises to display products. 6 deputy governors from the United States attended the opening ceremony. In 2016, a USA Pavilion was set up in the 4<sup>th</sup> China (Mianyang) Science &

Technology City International Hi-tech Expo, covering an area of 3,500 square meters. 18 US states and 24 enterprises participated in the event.

## II. Strengthening Investment Cooperation

### **i. Enhancing Infrastructure Construction Cooperation.**

In recent years, the United States has boosted investment in bridges, subways, railways, pipelines, dams, airports, electricity and other infrastructure. According to the estimates of the American Society of Civil Engineers (ASCE), if the investment in infrastructure were not increased, the United States would lose US\$1 trillion in annual revenue and 3.5 million jobs. President Trump has announced a US\$1 trillion infrastructure proposal to boost investment in infrastructure such as traffic networks, clean water, energy, power grids, telecommunications and national security.

Chinese enterprises have rich overseas experience in infrastructure construction cooperation and boasts advantages in technology, capital, construction, operation and other fields. China State Construction Engineering Corporation Limited, China Vanke Co., Ltd., Greenland Holding Group Company Limited and other enterprises have carried out cooperation in bridge construction, real estate development, housing repair and other areas in the US market and are willing to expand cooperation in these sectors. In California, for example, China invested 16 infrastructure and real estate projects in 2016, with a

scale of approximately US\$700 million and about 6,200 jobs created. In 2016, China signed a total of 1,319 contracts for contracting projects in the United States, with a contract value of US\$4.3 billion and a turnover of US\$2.2 billion. As of the end of 2016, all the US project undertaking contracts signed by Chinese enterprises have amounted to US\$25.4 billion; for which, a turnover of US\$16.6 billion has been reached and 1,151 local employees have been retained. Given the enormous scale of the US infrastructure market, the current market share of Chinese enterprises is relatively small; hence, there remains great development potential.

According to ASCE reports, the US infrastructure investment demand from 2016 to 2025 is about US\$3.3 trillion and the infrastructure funding gap in the coming 10 years is nearly US\$1.44 trillion. China is willing to enhance cooperation in infrastructure construction projects at the state and city level through the Joint Working Group on Trade and Investment Cooperation between Chinese Provinces and US States. However, the US security review on foreign investment in the infrastructure market, the requirement to purchase US goods and other restrictions have blocked the participation of Chinese enterprises and are not conducive to reducing project costs and complementing each other's advantages. China hopes that the US side can create favorable conditions for Chinese enterprises to work in the US infrastructure market.

## **ii. Making Both Markets Increasingly Accessible.**

Since the international financial crisis, international trade has slowed down and no significant improvement has been seen in the world's economy with weak growth. In this situation, trade protectionism has come back in many countries, thereby posing challenges to the multilateral trading system. Countries can rejuvenate the world economy at an early date only by reinforcing coordination, expanding cooperation and promoting trade and investment liberalization and facilitation through opening-up.

For the next step, the Chinese government will actively push forward a new round of opening-up by building a more open and transparent investment environment and make better use of foreign investment to boost the economy. Opening-up will also facilitate reform and growth. The Chinese government will continue to improve a law-based, international and convenient business environment and closely integrate the use of foreign capital with the change of the growth model and adjustment of industrial and regional structures. China will continue to actively promote bilateral investment treaty negotiations with the United States. Specific programs and supporting measures will be quickly formulated based on 20 measures from three perspectives, i.e. opening wider to the world, creating a fairer competitive environment and further attracting foreign investment, as specified in the Circular. China



will improve the foreign investment legal system and accelerate amendments to the three laws on foreign-funded enterprises” and the introduction of Foreign Investment Law. China will open wider to the outside world by easing restrictions on foreign investment access and guiding and encouraging foreign investment in China’s high-tech industries, green industries and modern service industries. Experiences from pilot free trade zones will be drawn in time so that they can be promoted and replicated nationwide soon. China will improve the foreign investment and business climate to maintain continuity and stability of foreign investment policies and double efforts to protect intellectual property rights to safeguard legitimate rights and interests of foreign-funded enterprises according to law. Government functions shall be effectively transformed and national treatment for foreign-funded enterprises shall be comprehensively implemented to level the playing field for domestic and foreign enterprises and promote the sound development of foreign-funded enterprises in China.

China hopes that the United States can expand opening-up as well. China expects the US to fairly and justly treat all Chinese investors including Chinese state-owned enterprises under the principle of national treatment by minimizing the impact of non-economic factors such as national security review and export control on Chinese companies’ investment activities in the United States and increase transparency of relevant

review and compliance supervision. China hopes that Chinese companies with investment in America's various industries such as high-tech, finance, information and communications industries will receive treatment equal to that of investors from other countries, Chinese insurers will be allowed to set up branches in the US and the US will expedite the processing of Chinese banks' applications for establishing branches in the US. China expects the US to reduce non-tariff barriers such as technical standards and trade remedies that prevent Chinese products and services from entering the US market. The US is expected to remove unreasonable obstacles set up by the US bank regulators for the transmission of Chinese banks' business data overseas so that Chinese banks in the US can transmit business data to their headquarters in China for processing if such transmission meets the America's information security requirements. China hopes that the US will relax regulatory constraints of federal and state agencies on acquisition of power grid assets and project investment, reduce approval barriers and open up its market wider so that Chinese companies can have equal access to infrastructure projects as their US counterparts.

### **iii. Negotiations on Bilateral Investment Treaty (BIT).**

Since the start of negotiations in 2008, the two sides have held 34 rounds of negotiations and made significant progress. **China has been making great efforts to push forward negotiations.** During the fifth round of China-US Strategic and

Economic Dialogues in 2013, China announced that it agreed to enter substantial negotiations with the United States on the basis of “Pre-Establishment National Treatment plus a Negative List” approach. China is a large country with a population of 1.3 billion and its socialist market economy has been around for only more than 20 years. China and the United States are at different stages of development. The United States has negotiated on a negative-list approach for many years, while China conducted negotiations on a negative list basis for the very first time. Changing from a previous “positive list” to a “negative list” is extremely difficult. Therefore, China’s acceptance of a negative list approach towards foreign investment management is a historic progress for Chinese governments at all levels.

**The BIT will bring tangible benefits to both sides.** The BIT will further allow US companies to invest in China and to share dividends of China’s opening-up. China will not shut the door to the outside world but will open it even wider. This is a basic state policy for China. US companies will benefit from further liberalization in China’s various fields such as banking, securities, insurance, telecom, culture, Internet and automobile fields. China’s urbanization is still in progress and the middle class keeps growing, providing a huge market for the mid- to high-end manufacturing and services industries where US companies have competitive advantages. For example, the

China Insurance Regulatory Commission (CIRC) said that China has become the third largest insurance market in the world. According to data released by the CIRC, China's insurance premiums increased to RMB 2.4 trillion in 2015 from RMB 1.3 trillion in 2010, reflecting an average annual growth rate of 13.4%. In the first 9 months in 2016, China's insurance premiums had reached RMB 2.5 trillion, including RMB 1.47 trillion of life insurance premiums. China's insurance market has a great potential to grow, enabling US life insurance companies to accomplish much, as Chinese society matures, residents' consumption attitudes improve and their need for protection and financial insurance products grows.

Furthermore, China has developed into a large consumer of cars. 2016 saw sales of 27.95 million vehicles and 2017 is expected to see sales of over 30 million up by more than 10%. The expected sales for 2017 include 26.97 million passenger cars with a 10.8% increase. As "a country on the wheel", the United States has a developed automobile industry. After the BIT is reached, China will further relax market access restrictions for commercial vehicles and passenger cars. US companies can participate in the further development of the Chinese market and have access to new business opportunities.

The goal of China-US BIT negotiation is to facilitate two-way investment through a high level of investment protection and market access arrangements and therefore have a

positive impact on employment and economic growth, including the expansion of Chinese investment in the United States to increase employment for Americans and facilitate US growth.

### III. Enhancing Trade and Economic Cooperation between Chinese Provinces and US States

“The key to sound relations between states lies in amity between the people.” trade and Economic cooperation between Chinese provinces and US states serves as an important basis for China-US commercial relations. Active business exchanges between Chinese provinces and US states as well as their cities can promote the friendship between the two peoples and expand mutually beneficial cooperation.

The mechanism of Joint Working Group on Trade and Investment Cooperation between Chinese Provinces and US States brings together the US Department of Commerce and China’s Ministry of Commerce and local economic development departments, economic and commercial sections of embassies (consulates), business associations and enterprises from the two countries. This has given a boost to the enthusiasm of the two sides to carry out pragmatic economic and trade cooperation, promoting the development of China-US commercial relations towards a more balanced direction. Owing to the efforts by the working group, trade and investment have grown, personnel exchanges have become more frequent and new cooperation projects have constantly sprung up. In terms of trade,

California's goods exports to China grew by 136% in 2016 compared with a decade ago. The growth rate was 176%, 131%, 242%, 221%, 111% and 263% respectively for the states of Iowa, Texas, Michigan, Washington, New York, and Illinois (where Chicago is located). Among the states, Iowa has the largest agricultural exports to China and the other six states have become top six states in the US in terms of their exports to China. As for investment, the joint working group mechanism facilitates nearly 50 two-way investment projects with the contract amount of more than US\$2.5 billion in 2016. In 2016, Chinese provinces and cities organized 22 economic and trade delegations to visit US states and cities and the United States organized 14 delegations to visit Chinese provinces and cities. In May 2016, the Californian Working Group held "China Week: California-China Business Summit" in Los Angeles with nearly 400 participants, including more than 130 Chinese participants.

Going forward, China will continue to promote and improve the established joint working group mechanism and set up new working groups. China will promote trade and economic cooperation projects by increasing personnel and information exchanges. China will, in due time, organize exchange of visits for business delegations and hold commercial cooperation events to increase Chinese and US investments in each other's markets. China will also select influential and outstanding exhibitions, organize economic and trade exchange activities for

Chinese provinces and US states, facilitate information sharing among relevant parties and promote institutionalized network project promotion activities organized by various working groups.

#### IV. Expanding Imports from the United States

China's total imports are expected to reach US\$8 trillion in the next five years, which will bring great business opportunities for US companies.

**i. Energy.** China will expand imports of energy such as liquefied natural gas, crude oil and refined oil from the US. China imported 26.154 million tons of liquefied natural gas from the rest of the world in 2016, including 199,000 tons from the US, accounting for only 0.76%, according to statistics of China Customs. In the same year, China imported 381.038 million tons of crude oil from other parts of the world, including 486,000 tons from the US, taking up 0.13%. In addition, China imported 27.87 million tons of refined oil in total, including 576,000 tons from the US, accounting for 2.07%. Since the beginning of the “energy revolution”, the US has had sufficient energy supply, leading to competitive energy prices. Therefore, there exists great potential for cooperation between the two sides.

**ii. Agricultural products.** Agricultural products have always been among leading US exports and the United States maintains agricultural trade surplus with China. China is the

second largest export market (second only to Canada) for American agricultural products, the largest export destination for American soybeans and the second largest export destination for US cotton. China imported 83.23 million tons of soybeans from the rest of the world in 2016, including 33.66 million tons (US\$13.8 billion) from the US, accounting for 40.7% of China's total imports, according to statistics of China Customs. American cotton is very competitive in the market thanks to its good quality. In 2016, China imported 264,000 tons of US cotton worth US\$510 million, taking up 29.4% of China's total imports. According to calculations of the US Department of Agriculture in July 2016, China's annual cotton consumption in 2016/17 will continue to rise and reach 7.62 million tons, while production in China is only 4.68 million tons. These figures show that the US soybean and cotton exports to China have great potential to grow. China would like to further increase imports of agricultural products such as soybeans and cotton from the US and speed up negotiations with the US on terms regarding traceability and inspection and quarantine for US beef to enter China, which will benefit 6 million American farmers.

**iii. Manufactured goods.** China will increase imports of advanced manufactured goods such as aircraft, integrated circuits and machine tools. China is the largest export market for US aircraft and the second largest export market for US integrated circuits. In 2016, approximately 15% of integrated



circuits and 25% of Boeing aircraft in the US were sold to China. In the same year, the value of China's integrated circuit imports from the US was US\$9.7 billion, accounting for 4.2% of China's total imports. The value of imports of US machine tools was US\$290 million, taking up 3.9% of China's total imports of machine tools. China has a large demand for US high-tech products, but currently China's imports of high-tech products from the US accounts for only 8.2% of its total imports of similar products. All these are incompatible with America's position as a technology superpower and the two sides' important trading partnerships. Given this, China is willing to have active discussions on imports of more US aircraft, chips, machine tools and other high-tech products.

**iv. Trade in Services.** China's service industry has tremendous market potential with a great demand in fields such as movies, tourism and education. In terms of movies, total sales of movie tickets in China reached RMB 45.71 billion in 2016. China and the US will discuss about the further increase of the revenue share of American film companies in 2017 to expand US film exports to China. As for tourism cooperation, Chinese tourists spent US\$35.22 billion during their travels in the US in 2016. The year of 2021 is expected to see 5.7 million Chinese visitors to the United States. In the field of education, the number of Chinese students studying in the US will further increase with the improvement of economy and education in

China. This will promote exchanges of talent from the two countries and bring considerable educational income to the United States.

**v. Cross-border e-commerce cooperation.** According to estimation of Alibaba, the sale of American brand products on Taobao.com alone reached RMB 120 billion in 2016, creating about 270,000 jobs for the United States. Alibaba plans to open one million online stores for American small- and medium-sized enterprises in the coming five years. This will create one million jobs on a conservative estimate of one job per store. Chinese e-commerce companies are working to provide trading platforms for US small- and medium-sized businesses, which will promote the development of the US SMEs and increase American jobs.

## **Conclusion**

The world today is undergoing major development, major changes and major adjustments. Multi-polarization and economic globalization is promoting a new round of technological and industrial revolutions. Countries are more interconnected and interdependent. The trend of the times featuring peace, development, cooperation and win-win result is gaining momentum. At the same time, the world today is also in an era of increasing challenges and risk. World economic growth is weak, the financial crisis lingers, the development gap is widening and non-traditional security threats continue to spread. As the most influential countries in the world, China and the US have unprecedentedly broad common interest and huge common responsibility. Reality determines that cooperation is the only correct choice for the two countries.

China-US trade and economic cooperation has made great achievements, which are the result of their conformity to the historical trend, active participation in globalization and mutually beneficial cooperation. The formation of a comprehensively intertwined interest between the two is a manifestation of their complementarity. At present, the global industrial layout is under continuous adjustment. New industry chain, value chain and supply chain are taking shape and artificial intelligence, digital economy and other new

technologies keep emerging, driving more extensive and intensive development. At the same time, China and the US are committed to restructuring the economy, transforming the growth mode and cultivating new growth momentum, which brings new opportunities for bilateral economic and trade cooperation. The development of China and the US can complement and promote each other and the two sides can maintain their mutually beneficial and win-win economic partnership.

Since the normalization of China-US relations 45 years ago, the bilateral trade and economic cooperation has been advancing and generating valuable experience despite all the difficulties. Today, the economic and trade relations are standing on a new starting point and is about to start a new voyage. In traditional Chinese culture, “at forty, one has no doubts”, which means that a person is more mature, calm, confident and open-minded. We believe that in the new era, China-US economic and trade relations will be more mature, broad-minded, visionary and wise. As long as the two sides take a long-term view, unswervingly promote win-win cooperation and are not disturbed or distracted, they will be able to withstand the challenges of changing international situation and become strong and lasting economic partners. We hope that China and

the US will have trade and economic cooperation of higher quality and at higher levels to benefit their peoples and make greater contributions to world economic growth and prosperity.