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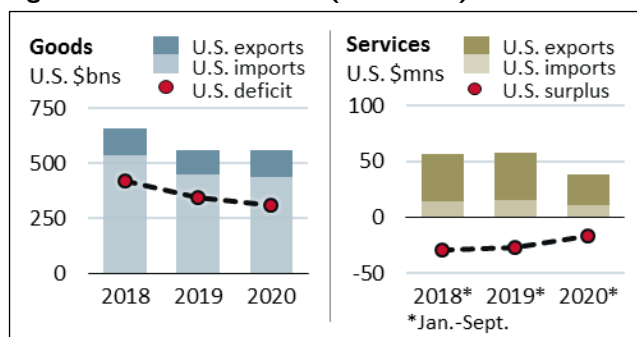
U.S.-China Trade Relations

As U.S.-China economic ties have grown, so have U.S. concerns about China's economic, trade, investment, and technology practices. The role of the state in China's economy and business ecosystem, China's state control of information and communications systems (onshore and increasingly offshore), and blurred lines between China's government authorities and business operations underpin many concerns. China is an important market for many U.S. firms, but its push overseas in the sectors it restricts domestically highlights asymmetries in levels of market opening, divergent approaches to trade rules, and core differences in the operating conditions and tenets of the economic and legal systems in the United States and China. Beijing's unwillingness to acknowledge and address U.S. concerns over the past 15 years has caused tensions to escalate. Congressional concerns appear to be converging across economic, human rights, and national security issues. Longstanding concerns about market barriers, unfair trade practices, and a lack of reciprocity are evolving into broader considerations about how China's behaviors may challenge U.S. economic competitiveness and national security.

Bilateral Trade and Investment

In 2020 China was the largest U.S. goods trading partner (with total trade at \$659.5 billion), the third-largest U.S. export market (at \$120.3 billion), and the largest source of U.S. imports (at \$539.2 billion). U.S. goods imports from China fell by \$103.8 billion between 2018 and 2020; bilateral services trade fell by 35% between January and September 2020 over that same period in 2018. (**Figure 1**).

Figure 1. U.S.-China Trade (2018-2020)

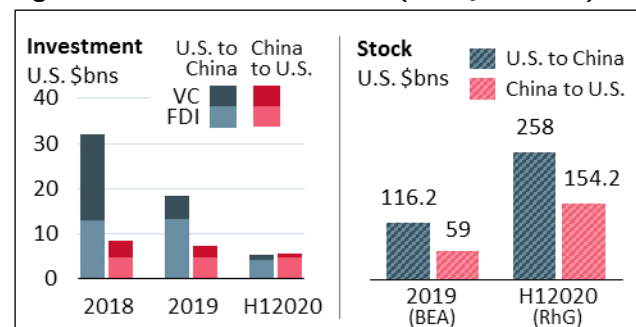


Source: CRS with data from the U.S. Census Bureau and the U.S. Bureau of Economic Analysis.

Foreign direct investment (FDI) flows in both directions have slowed since 2017 while ties not captured in FDI data (e.g., technology collaboration and venture capital) appear to be continuing (**Figure 2**). Financial ties are expanding. The Rhodium Group estimates that, as of December 2020, U.S. investors hold \$100 billion of Chinese debt and \$1.1 trillion in Chinese equities while Chinese investors hold \$1.4 trillion in U.S. debt and \$720 billion in U.S. equities.

China is the second-largest foreign holder of U.S. Treasury securities (at \$1.05 trillion as of October 2020).

Figure 2. U.S.-China Investment (2018-June 2020)



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

Notes: VC is venture capital. FDI is foreign direct investment. BEA records net flows and may not capture all FDI via other countries or territories, or acquisitions by U.S. affiliates of foreign firms. RhG records gross flows regardless of a firm's location or money sources.

Some Areas of Congressional Concern

China's use of industrial policies, subsidies, and regulatory authorities (e.g., antitrust, procurement, and standards) to advance economic, technological, and military development goals are of concern to many in Congress. Policies such as *Made in China 2025* aim to create competitive advantages for China in strategic industries, in part by first obtaining technology and expertise from U.S. firms to gain core competencies. These policies appear to incentivize technology transfer, licensing, and joint venture requirements; state-directed technology and intellectual property (IP) theft; and government-funded acquisitions of U.S. companies. Also of concern is potentially widespread Chinese economic, academic, and cyber-enabled espionage—including reports of cyberattacks on U.S. universities and companies engaged in COVID-19 vaccine research—and China's military-civil fusion program, which seeks to leverage *Made in China 2025* advancements for military applications. There is growing attention to how U.S. commercial ties may support China's behaviors of concern, including in Hong Kong and Xinjiang (see below).

Major U.S. Government Actions

Between 2018 and 2021, Congress and the Trump Administration took actions to address these concerns. The Biden Administration has said it is reviewing these actions.

Section 301. In 2018, the U.S. Trade Representative (USTR) under Section 301 of the Trade Act of 1974 (19 U.S.C. §2411) concluded that China engages in forced technology transfer, cyber-enabled theft of U.S. IP and trade secrets, discriminatory and nonmarket licensing practices, and state-funded strategic acquisitions of U.S. assets. The U.S. government subsequently imposed tariffs on imports from China worth approximately \$250 billion. The Chinese government countered with tariffs on \$110

billion worth of U.S. products. Most tariffs remain in effect. The United States and China signed a phase one agreement in January 2020 in which China committed to strengthen IP enforcement and increase access in agriculture and financial services, but left most U.S. concerns unresolved. The deal included provisions for China to buy \$468 billion over two years of U.S. products and services. China's purchases in the first year (2020) fell below its commitments and in many sectors were well below 2017 trade levels. (See **Figure 3**). The U.S. government in 2018 also imposed aluminum and steel tariffs to address overcapacity in China.

Figure 3. Phase One Trade (January-November 2020)



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

Notes: \$67.8 billion services commitment (2020) not included.

Currency. In 2019, for the first time in 25 years, the U.S. government labeled China a currency manipulator under the 1988 Trade Act, but lifted the designation in January 2020, citing currency provisions in the “phase one” trade deal.

Infrastructure. In 2018 Congress passed the Better Utilization of Investments Leading to Development Act of 2018 (P.L. 115-254) and reauthorized the U.S.-Export-Import Bank to offer alternatives to Chinese global projects. The Trump Administration also launched the Infrastructure Technology Assistance Network, the Transaction Advisory Fund, and the Blue Dot Network with Japan, and Australia. A May 2020 Executive Order (E.O.) calls for removal of Chinese and Russian equipment from the U.S. power grid.

Foreign Investment and Export Controls. In 2018 Congress enacted laws (P.L. 115-232) to boost U.S. authorities. Some in Congress are concerned, however, that the U.S. Department of Commerce’s Bureau of Industry and Security (BIS) has been slow to establish controls on foundational and emerging technologies, and that gaps in U.S. authorities over greenfield and venture capital investments persist. The Trump Administration increased licensing requirements for dual use exports; established the Committee for the Assessment of Foreign Participation in the U.S. Telecommunications Services Sector, and blocked China Mobile and China Telecom in the U.S. market. A proposed ban on China’s TikTok and WeChat apps is pending.

IP and Technology Theft. The Trump Administration increased scrutiny of academic ties to China, enforced standing provisions that require universities and researchers to disclose foreign funding, and stepped up law enforcement efforts to disrupt China’s economic espionage, including closing the Chinese consulate in Houston.

Huawei and 5G. The Trump Administration issued an E.O. allowing a ban on information communications technology (ICT) transactions that pose undue risks. Concerned about

sanctions violations, IP theft, and espionage, it tightened technology exports to China’s ICT firm Huawei and its affiliates by adding them to the BIS Entity List, requiring a license for the sale or transfer of U.S. technology, but issued waivers. BIS amended rules to curtail Huawei’s ability to contract semiconductor chips from overseas facilities that use U.S. technology such as Taiwan Semiconductor Manufacturing Company (TSMC). The U.S. government restricted the use of universal funds to buy Huawei equipment and advocated to dissuade other governments from using Huawei products in 5G networks.

Semiconductors. The U.S. government negotiated with TSMC to build a \$12 billion 5nm chip foundry in Arizona. Congress included provisions in the National Defense Authorization Act for FY2021 to boost U.S. capabilities. Debates about possible new controls on U.S. equipment, tools, and IP that enable China’s advancement persist.

Human Rights (Xinjiang and Hong Kong). The Trump Administration labeled China’s actions in Xinjiang as crimes against humanity and genocide; added 54 entities to the BIS Entity List; imposed sanctions on certain officials and entities; and issued an order that blocks imports from China tied to forced labor and an advisory that warns firms with trade exposure to Xinjiang. It also ended Hong Kong’s separate trade treatment and sanctioned certain officials after China enacted a national security law for Hong Kong.

Capital Markets. The Holding Foreign Companies Accountable Act (P.L. 116-222) requires reporting on Chinese firms’ state ties and a delisting of firms failing to meet U.S. auditing requirements. A November 2020 E.O. prohibits U.S. investment in Chinese military-tied firms and requires delisting of these firms from U.S. exchanges.

Issues for Congress

China emerged as an economic bright spot, but 2020 also exposed risks in supply chains that depend on China. The Chinese government used medical trade, vaccine deployment, and ad hoc trade barriers for political aims, prompting efforts among U.S. allies and partners to explore trade and technology cooperation. As next steps, Congress might examine the effects of China’s policies on U.S. interests and whether countermeasures are needed:

U.S. exports and trade growth. China’s government controls purchases and financing for top U.S. exports (aircraft, agriculture, and semiconductor chips and equipment). China has not recertified the Boeing 737MAX, and U.S. firms are partnered with China’s state champion to build a competitor aircraft. China has been diversifying agriculture and energy supply. It seeks to reduce its U.S. dependence by developing semiconductor capabilities.

U.S. joint action with partners on China concerns. China’s investment deal with the European Union (EU) in late 2020 maintains many restrictions and may steer the EU away from a use of its unilateral tools or joint action toward an ongoing and incremental negotiating process with China.

U.S. trade authority and leadership. China in 2020 signaled plans to leverage supply chain chokepoints and deploy its legal, IP, antitrust, and standards tools to advance its industrial policies globally. It enacted export control, foreign investment review, and extraterritoriality blocking measures, as possible counterweights to U.S. actions.

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