

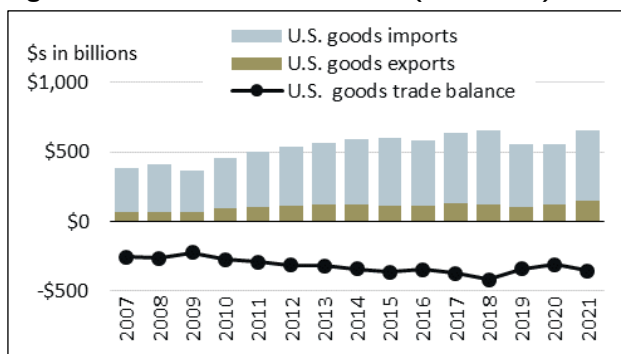


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U.S.-China Trade Relations

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

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



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

Trade

U.S.-China trade ties are significant, but arguably unbalanced, with China exporting to the United States more than almost three times the value of goods that the United States exports to China. In 2021, China was the fourth-largest U.S. goods trading partner (with total trade at \$657.9 billion), the fourth-largest U.S. export market (at \$152.5 billion), and the largest source of U.S. imports (at \$505.3 billion), when the European Union (EU) is considered as one trading partner (**Figure 1**). Total 2021 U.S.-China trade increased by 18% over 2020; U.S. trade with other top partners grew at these rates: EU (18%), Canada (26%), and Mexico (23%). In the first three quarters of 2022, U.S. goods imports from China increased by 17% and U.S. goods exports to China increased by 4% over the same period in 2021, according to U.S. Bureau of Economic Analysis (BEA). Top U.S. goods exports to China include

semiconductor chips and equipment, agricultural products, aircraft, gas turbines, and advanced medical devices. Top U.S. imports from China include consumer electronics, appliances, and other consumer goods (e.g., furniture, clothing, footwear, and toys). China also supplies key intermediate goods to the United States (e.g., auto components and active pharmaceutical ingredients).

Current levels of U.S. services exports to China remain low relative to total U.S. global service exports. China in 2021 accounted for 5% (\$39.5 billion) of all U.S. services exports and 4% (\$21.5 billion) of all U.S. services imports. Top U.S. exports to China were travel, intellectual property (IP) licensing, and transportation. Top U.S. imports from China were transport and business services. Total 2021 bilateral trade in services was down 23% over 2019. In 2020, sales of services in China by majority U.S.-owned affiliates were \$371 billion, while total U.S. sales in by majority PRC-owned firms were \$76.2 billion. A 2021 Bank of America study found that about 16% of U.S. Fortune 500 firms depend on China for at least 5% of their revenue. For some of these firms, China accounts for over 20% of revenue.

Investment

Two-way foreign direct investment (FDI) flows have slowed since 2016, while investment and commercial ties not included in FDI data—technology licensing, research, venture capital, and financial investments—have expanded. According to the BEA, net U.S. FDI flows to China in 2021 were \$2.8 billion, and net FDI flows from China to the United States were \$813 million on a historical-cost basis. The stock of U.S. FDI in China was \$118.2 billion, while China's FDI stock in the United States was \$53.7 billion, on an ultimate beneficiary ownership basis. In 2021, China accounted for about 1% of total FDI stock in the United States, while China accounted for about 2% of total U.S. FDI stock abroad. As of December 2020, U.S. investors held \$1.15 trillion in PRC stocks and bonds while PRC investors held \$1.4 trillion in U.S. debt and \$720 billion in U.S. equities, according to U.S. government and private estimates. As of October 2022, China and Hong Kong held \$909.6 billion and \$185.6 billion, respectively, in U.S. Treasury securities, making them together the largest foreign holder of U.S. Treasury securities. (This data does not include purchases of securities made through offshore financial centers.)

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

The PRC government controls or influences the purchase, financing, and price of top U.S. exports to China—aircraft, semiconductors, medical equipment, agriculture, and energy. It has sought for some time to enhance its control of this trade while reducing its reliance on U.S. imports through trade diversification and industrial policies that use U.S. commercial ties to develop China's capabilities. Some U.S. firms benefit in the short term from China's need to fill gaps, but China's policies appear to set targets to

displace these firms once PRC competitors gain competencies. The PRC government is funding PRC firms, and acquiring foreign firms, in strategic sectors through a state venture capital model that pools state and foreign monies in PRC government-tied funds and sub-funds.

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

China's Emerging Trade Positions

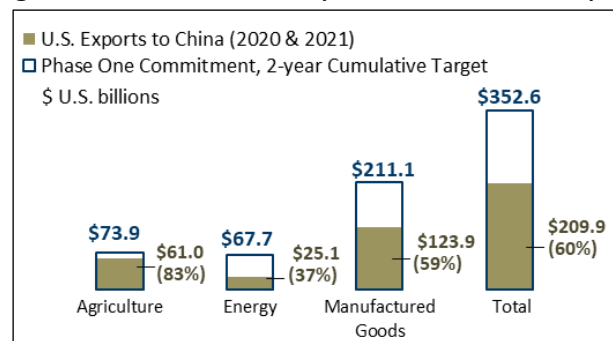
The PRC government may be using trade coercion and protectionism under an assumption that markets will remain open to China regardless of China's policies and practices. China depends on open markets to sustain its growth; allow its firms to expand; and access technology, capital, and critical resources.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

Section 301 and the Phase One Agreement

In 2018, the U.S. Trade Representative (USTR), as part of an investigation under Section 301 of the Trade Act of 1974 (19 U.S.C. §2411), concluded that China engages in forced

technology transfer, cyber-enabled theft of U.S. IP and trade secrets, discriminatory and nonmarket licensing practices, and state-funded strategic acquisitions of U.S. assets. USTR subsequently imposed tariffs on an estimated \$370 billion worth of U.S. imports from China. The PRC government countered with tariffs on \$110 billion worth of U.S. products. Most tariffs remain in effect. In a U.S.-China "Phase One" trade agreement signed in January 2020, China made some IP and investment commitments and increased U.S. access in agriculture and financial services, but the deal did not address most U.S. concerns. Many aspects of China's industrial policies appear to break its commitments in the agreement not to require or pressure technology transfer. China's imports from 2020 and 2021 fell below its commitment to buy at least \$502 billion of U.S. goods and services over two years (an estimated 43% gap in goods and services) (**Figure 2**). In 2021, China's global exports grew by 30% over 2020; its exports to the United States grew by 28% over 2020. China is pressing the USTR to lift U.S. tariffs—which cover MIC 2025 products—while sustaining its practices of U.S. concern. The USTR may consider new actions against China under Section 301 in areas such as subsidies.

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



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

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

Issues for Congress

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

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