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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 has been a top U.S. and global trading partner since joining the World Trade Organization in 2001. China is a key export market for U.S. aircraft, agriculture, semiconductor equipment/chips, gas turbines, and medical devices, and a key source of some U.S. consumer goods and intermediates (e.g., active pharmaceutical ingredients and auto parts).

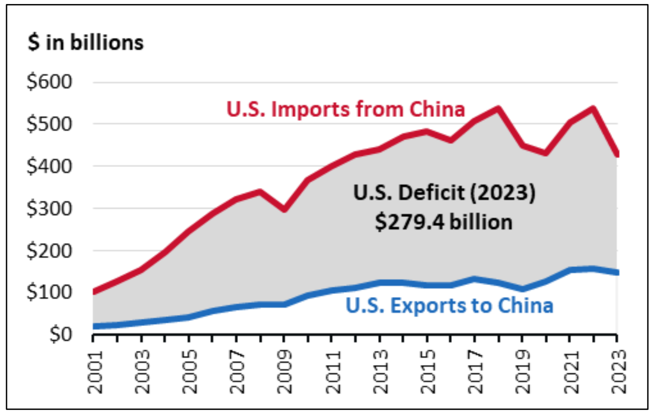
China's system integrates state and corporate interests, enabling the government to use trade tools—antidumping, antitrust, technical standards, and procurement—economic coercion, and PRC intellectual property (IP) theft activity to advantage its firms and economic development goals. PRC government policies in many cases have required firms to transfer technology and capabilities in order to operate in strategic sectors. U.S. firms have faced a lack of reciprocity, trade barriers in some key areas, a growing PRC state role in commercial activity, expanding industrial policies, and rules governing economic security and data. In February 2024, the American Chamber of Commerce said 57% of its firms lack confidence in PRC market opening.

Trade concerns raised by U.S. officials and executives since the 1990s have broadened into a U.S. government focus on strategic competition with China. The executive branch and Congress have acted to address PRC practices that challenge U.S. economic leadership, distort markets, and hinder fair competition. Congress continues to deliberate on approaches and the use of U.S. authorities. H.Res. 11 established in 2023 a Select Committee on the Strategic Competition between the United States and the Chinese Communist Party to develop options on a bipartisan basis.

Trade and Investment

Goods: In 2023, China was the fourth-largest U.S. goods trading partner (with total trade at $575 billion), the fourth-largest U.S. export market ($147.8 billion), and the second largest source of U.S. imports ($427.2 billion). Total 2023 U.S.-China goods trade fell by 17% over 2022: U.S. exports fell by 5.1% and U.S. imports fell by 20.4% due to China's slowdown and supply chain shifts out of China. (**Figure 1**.)

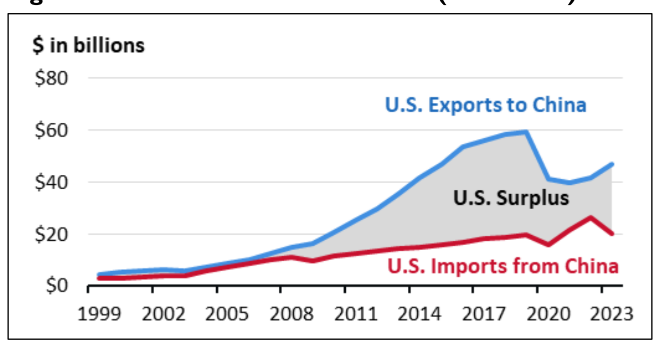
Figure 1. U.S.-China Goods Trade (2001-2023)



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

Services: China in 2023 accounted for 4.6% ($46.7 billion) of U.S. services exports and 2.7% ($20.1 billion) of U.S. services imports. (**Figure 2**.) Top U.S. exports to China are travel, technology and intellectual property (IP) licensing, and transport. In 2021, sales in China by majority U.S.-owned affiliates were $471.6 billion. U.S. sales by majority PRC-owned firms were $65.5 billion.

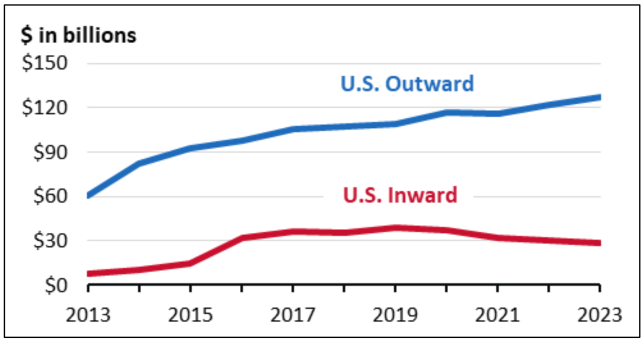
Figure 2. U.S.-China Services Trade (2001-2023)



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

Investment: In 2023, the U.S. foreign direct investment (FDI) stock in China was $126.9 billion, and China's FDI stock in the United States was $28.0 billion. (**Figure 3**.) In 2023, China accounted for 0.5% of total FDI stock in the United States, and China accounted for 1.9% of U.S. FDI stock abroad.

Figure 3. U.S.-China FDI Position (2013-2023)



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

In 2022, U.S. net portfolio investment flows to China fell sharply, followed by over $30 billion in net outflows in 2023 due to concerns about China's growth prospects. Investments in China by U.S. private equity (PE) funds fell from $140 billion in 2019, to $93 billion in 2021, to $4 billion in 2023, according to the data firm Preqin. According to the Treasury Department, As of May 2024, U.S. investors held $333.8 billion in PRC (mainland China and Hong Kong) long-term securities; PRC total holdings of U.S. securities were $1.29 trillion; and the PRC was the second-largest foreign holder of Treasuries ($985.7 billion) after Japan. (This does not include PRC offshore holdings.)

Terms of Trade

The PRC government controls or influences the purchase, financing, and price of some top U.S. exports to China—aircraft, semiconductors, medical equipment, agriculture, and energy. It has sought to enhance its control of this trade and reduce reliance on U.S. imports by diversifying trade and relying on industrial policies that seek to use U.S. commercial ties to develop China's capabilities. Some U.S. firms may initially benefit from China's need for foreign products, services, and capabilities to fill gaps while PRC policies set targets to displace foreign firms once China gains competencies. The government funds some PRC firms and foreign acquisitions with preferential lending and state-funded venture capital. Sectoral experiences include

Aerospace: To meet PRC terms, some U.S. firms have partnered with and transferred advanced U.S. technology to PRC state firms to jointly develop a PRC aircraft (C-919).

Semiconductors: The PRC government funds imports of U.S. equipment to support China's semiconductor industry.

Electric vehicles (EV): Some PRC government policies require firms to localize supply chains for EV batteries.

Medical devices and pharmaceuticals: PRC procurement rules set fixed prices which increase cost pressures and encourage firms in these sectors to produce in China.

Biotechnology: Some PRC state firms have acquired foreign firms to enhance China's global position.

Critical minerals: China's dominant role in global extraction and processing supports PRC manufacturing.

Energy: Some PRC purchases of U.S. liquefied natural gas involved related PRC investment in U.S. export terminals.

Capital markets: China seeks U.S. financial investment in some strategic sectors in which it restricts U.S. competition.

Key Issues Facing Congress

The Biden Administration's National Security Strategy defines the United States and China as being engaged in strategic competition. The Administration's trade approach calls for the United States to "out-compete" China by investing in U.S. innovation and working with allies and partners to strengthen and diversify supply chains and to counter and constrain PRC practices of concern. The Biden Administration has sustained communication lines, and, in 2023, created bilateral working groups under the Secretaries of the Treasury and Commerce on financial, commercial, and export control issues. Some Members have promoted such efforts as a chance to express concerns and manage tensions. Other Members have said such fora should not replace U.S. actions to counter PRC practices of concern.

The 118th Congress passed legislation to restrict PRC digital platforms (e.g., TikTok) and is considering bills to address data security, U.S. outbound investment, PRC investment in the U.S. market, U.S. research ties with China, and export controls, among other issues. Congress has passed measures that support the U.S. semiconductor and EV sectors and counter PRC industrial policies, and is debating whether to restrict PRC ties to these sectors. In addition, P.L. 117-336 directed the imposition of penalties for PRC IP theft.

Tariffs. In 2018, as part of an investigation under Section 301 of the Trade Act of 1974 (19 U.S.C. §2411), the U.S. Trade Representative (USTR) concluded that China engaged 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 imposed tariffs on an estimated $370 billion worth of U.S. imports from China. The PRC countered with tariffs on $110 billion worth of U.S. trade. China's commitments in a 2020 "Phase One" deal did not resolve many of the concerns USTR had raised. In 2018, President Donald J. Trump acted under Section 232 of the Trade Expansion Act of 1962 to impose tariffs on PRC steel (25%) and aluminum (10%) over national security concerns about subsidies. Most Section 301 and 232 tariffs are still in effect. Congress has been examining the costs and benefits of using tariffs to address PRC practices of concern.

In May 2024, USTR issued the results of its Section 301 tariff review. It extended most tariffs and proposed new tariffs of between 25% to 100% on some PRC goods in response to China "flooding global markets with artificially low-priced exports," including on EVs, EV batteries, semiconductors, medical products, ship to shore cranes, solar cells, and steel and aluminum items. A Section 301 investigation initiated by USTR in April 2024 seeks to address PRC shipping and shipbuilding practices.

Overcapacity. Emerging technology products made under PRC industrial policies are coming to market and driving PRC overcapacity and exports in sectors such as EVs. The U.S. imposes a 25% tariff on PRC EVs which may be shielding the U.S. market from PRC EV import surges that Europe faces, and USTR is proposing 100% tariffs on PRC EVs to address potential future import surges.

***De Minimis* Trade.** Section 321 of the Tariff Act of 1930 allows for U.S. imports under a *de minimis* threshold to enter free of tariffs and taxes and with minimal inspection. In 2016, Congress raised the threshold from $200 to $800. The surge in U.S. *de minimis* imports from China since

2018 has prompted legislation proposing to raise the threshold (e.g., S. 2004, S. 1969). U.S. Customs and Border Protection reports that between FY2018-2021, 64% ($149 billion) of U.S. *de minimis* imports were from the PRC.

Forced Labor. Section 307 of the Tariff Act of 1930 prohibits U.S. imports of products mined, manufactured, or produced with forced labor. P.L. 117-78 prohibits imports from Xinjiang, China, under a rebuttable presumption that they are made with forced labor. Congress is focused on enforcement of this provision (e.g., H.R. 4567).

Technology. The U.S. government has restricted certain PRC entities to address its concerns that the PRC is using U.S. technology to boost the PRC's strategic capabilities. Since 2022, the Biden Administration has adopted sectoral controls on advanced semiconductor technology exports to China and U.S. investment in some PRC technologies, and has moved to restrict bulk data transfers to China. Congress is debating the adequacy of U.S. export controls. A 2023 report released by House Foreign Affairs Committee Chair McCaul issued recommendations to address the report's findings that Commerce is approving a large number of items that it controls for national security reasons to China and that "sensitive, militarily useful items" are "not subject to any licensing requirement for transfers to China."

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