Tab C

Chapter 1: U.S.-China Economic and Trade Relations

Section 1: Year in Review: Economics and Trade

Note to Commissioners: This section will be updated continuously as new information and data become available.

FIRST draft to Commissioners – sent August 1, 2017

Please place behind Tab C in the 2017 Annual Report Binder

Introduction

In 2017, the main priorities for the Chinese government appear to be increased party control and consolidation. Indeed, the administration of the Chinese President and General Secretary of the Chinese Communist Party (CCP) Xi Jinping has begun implementing policies in pursuit of these goals to prepare for the leadership transition due to take place at 19th Party Congress in the fall of 2017. Despite President Xi's commitment in 2013 to allow market forces to play "a decisive role" in the economy, genuine liberalization has stalled; growth and stability are the key objectives for the government.

To stimulate the economy, China's government continues to rely on old standbys, such as investment in infrastructure and real estate, and funnels funding to the state sector to the detriment of private enterprise. The amount of credit the government is pumping into the economy has swelled to levels not seen since the global financial crisis, and corporate indebtedness has continued to climb to new heights. The hand of the state is also evident in how Beijing treats foreign companies operating in China and in how it engages with its trade partners in the multilateral arena. This year, U.S. companies reported feeling less welcome in China than ever before—the continuation of a troubling trend.

This section examines China's domestic and external rebalancing as well as key developments in U.S.-China bilateral and multilateral engagement since the Commission's *2016 Annual Report to Congress*. For analysis of Chinese foreign direct investment (FDI) in the United States and presence of Chinese companies on U.S. stock exchanges, see Chapter 1, Section 2, "Chinese Investment in the United States." U.S. ability to access China's financial services, e-commerce, and logistics industries is discussed in Chapter 1, Section 3, "U.S. Access to China's Consumer Market." Finally, industrial policies driving Chinese advancement in cutting edge technologies are analyzed in Chapter 4, Section 1, "China's Pursuit of Computing, Robotics, and Biotechnology."

China's Domestic Rebalancing

Over the past year, the Chinese government has focused on stabilizing economic growth in advance of the political leadership transitions at the CCP's 19th Party Congress this fall, when the National People's Congress, China's parliament, will appoint officials to the CCP's most important leadership bodies: the Central Committee, the Politburo, and the Politburo Standing Committee.[1] The reshuffle of the Politburo Standing Committee will be particularly consequential as it is the primary locus of power within the CCP,

[1] Chutian Zhou, "Who Will Be Enthroned at China's 19th Party Congress?" *Diplomat*, October 26, 2016. *http://thediplomat.com/2016/10/who-will-be-enthroned-at-chinas-19th-party-congress/*.

and five of its seven members are due to retire in 2017.[2] The selection process involves intense political maneuvering, so an economic shock could call into question President Xi's ability to lead, and undercut his base of support within the CCP.[3]

The government has been successful in maintaining a high rate of growth. In 2016, China's gross domestic product (GDP)[4] grew 6.7 percent according to government data, comfortably within the 6.5–7 percent official target range.[5] For 2017, the official GDP growth target was lowered to 6.5 percent.[6] State-led investment, higher industrial output, and greater domestic consumption allowed China's economic growth to exceed this target, reaching an average 6.9 percent growth in the first half of 2017.[7]

While the Chinese government has stabilized the economy, it has done so by relying on old growth drivers, like credit-fueled investment (heavily concentrated in the real estate sector), which only adds to China's debt troubles just as the returns from these investments are slowing (see "Debt and Lending Continue to Rise" later in this section). Progress in enacting policies that would fundamentally fix China's economic model has been limited.[8] Household consumption—an essential element of China's economic rebalancing—is growing but at a sluggish pace due to slow progress in opening the financial sector and expanding government spending on healthcare, pensions, education, and poverty alleviation.[9] Repeated pledges to permit greater market access for private domestic and foreign firms remain unfulfilled due to concerns over employment and loss of state control.[10] Progress in financial reform faced setbacks in 2016

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[2] Alice Miller, "Projecting the Next Politburo Standing Committee," *China Leadership Monitor*, March 1, 2016, 6. *http://www.hoover.org/sites/default/files/research/docs/clm49am.pdf*.

[3] Chutian Zhou, "Who Will Be Enthroned at China's 19th Party Congress?" *Diplomat*, October 26, 2016. *http://thediplomat.com/2016/10/who-will-be-enthroned-at-chinas-19th-party-congress/*.

[4] FOOTNOTE: In July 2017, China's National Bureau of Statistics revised its 2002 GDP calculation method to align with international standards and include contributions from new economy sectors such as healthcare and tourism. The methodology will be rolled out gradually and was not used to calculate the data for the first half of 2017. Yawen Chen, "China Revises GDP Calculation Method to Add Healthcare, 'New Economy'," Reuters, July 14, 2017. *http://www.reuters.com/article/us-china-economy-growth-idUSKBN19Z0QZ*; Zheping Huang, "China's Economic Growth is Driven by All the Things It Says It Wants to Get Rid of," *Quartz*, July 17, 2017. *https://qz.com/1030268/chinas-gdp-growth-is-driven-by-all-the-things-it-says-it-wants-to-get-rid-of/?mc_cid=b4f29c98c1&mc_eid=2c97ef4125*.

[5] China's National Bureau of Statistics via CEIC database; Li Keqiang, *Report on the Work of the Government* (Fourth Session of the 12th National People's Congress, Beijing, China, March 5, 2016), 15. *http://online.wsj.com/public/resources/documents/NPC2016_WorkReport_English.pdf*.

[6] Li Keqiang, *Report on the Work of the Government* (Fifth Session of the 12th National People's Congress, Beijing, China, March 5, 2017), 13. *http://online.wsj.com/public/resources/documents/NPC2017_WorkReport_English.pdf*.

[7] China's National Bureau of Statistics via CEIC database; Li Keqiang, *Report on the Work of the Government* (Fifth Session of the 12th National People's Congress, Beijing, China, March 5, 2017), 4-5. *http://online.wsj.com/public/resources/documents/NPC2017_WorkReport_English.pdf*.

[8] International Monetary Fund, "IMF Staff Completes 2017 Article IV Mission to China," June 14, 2017. *https://www.imf.org/en/News/Articles/2017/06/07/pr17219-china-imf-staff-completes-2017-article-iv-mission*.

[9] International Monetary Fund, "IMF Staff Completes 2017 Article IV Mission to China," June 14, 2017. *https://www.imf.org/en/News/Articles/2017/06/07/pr17219-china-imf-staff-completes-2017-article-iv-mission*; China's National Bureau of Statistics via CEIC database.

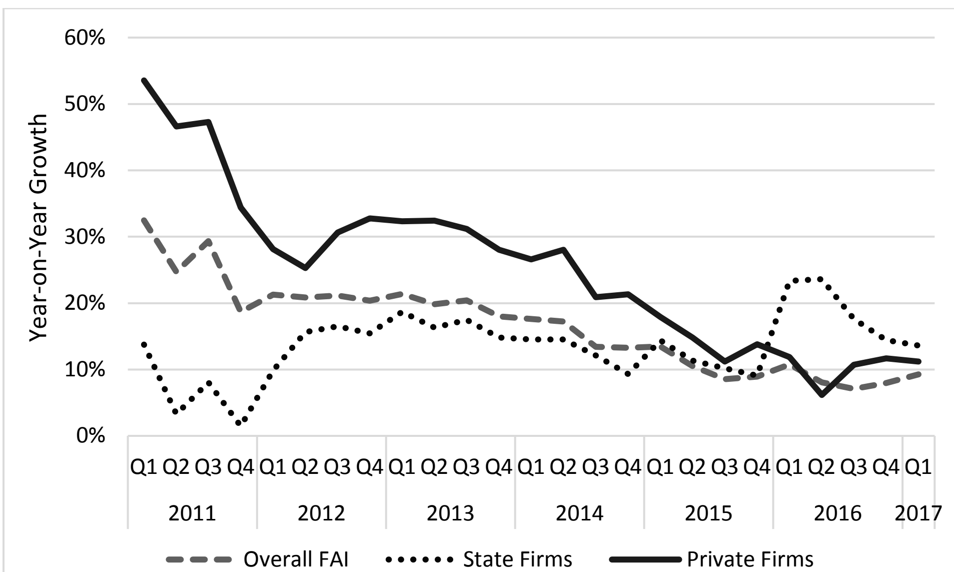
[10] FOOTNOTE: For more information on China's state-owned enterprises and announced reforms, see U.S.-China Economic and Security Review Commission, "State-Owned Enterprises, Overcapacity, and China's Market Economy Status," in *2016 Annual Report to Congress*, November 2016, 91–114. *http://origin.www.uscc.gov/sites/default/files/Annual_Report/Chapters/Chapter%201%2C%20Section%202%20-%20State-Owned%20Enterprises%2C%20Overcapacity%2C%20and%20China%27s%20Market%20Economy%20Status.pdf*.

and 2017 as enormous capital outflows forced the Chinese government to defend its currency and reinstitute official and unofficial capital controls (see “RMB Reforms and Capital Outflows” later in this section”).

Investment and Real Estate Remain Key Drivers

Fixed asset investment[11]—a traditional driver of China’s growth—continues to buttress China’s economy, but compared with past performance, its contribution is weakening. In the first half of 2017, growth in fixed asset investment slowed to 8.6 percent year-on-year driven primarily by government infrastructure spending (see Figure 1).[12] Of note, since 2015, investment by state-owned enterprises (SOEs) has grown faster than investment by private firms, reversing a long-term trend. In addition, these investments are creating less growth per renminbi (RMB) spent, creating a vicious cycle of high debt levels and investment misallocation. Brian McCarthy, Managing Director and Chief Strategist at the Emerging Sovereign Group, who participated in the Commission’s June 2017 roundtable on the health of China’s economy characterized China as “a fine-tuned capital misallocation regime… rife with market distortions.”[13]

Figure 1: Growth in Fixed Asset Investment, 2011–Q1 2017



Source: China’s National Bureau of Statistics via CEIC database.

[11] FOOTNOTE: Fixed asset investment is a measure of capital spending, or any type of investment by government and the private sector in physical assets such as buildings, machinery, or equipment.

[12] China’s National Bureau of Statistics via CEIC database; Kevin Yao and Elias Glenn, “China's Economy Holds up in May But Slowing Investment Points to Cooling,” Reuters, June 14, 2017. *https://www.reuters.com/article/us-china-economy-idUSKBN1950J4*.

[13] U.S.-China Economic and Security Review Commission, *Roundtable on the Health of China’s Economy*, presentation of Brian McCarthy, July 12, 2017.

Real estate is a major driver of fixed asset investment and consumer of industrial manufacturing goods such as steel, aluminum, cement, and glass.[14] In 2015, the Chinese government eased credit access and home purchase restrictions, accelerating property sector growth through 2016.[15] Beginning in mid-2016, the Chinese government, fearing a bubble, attempted to moderate property price growth by increasing mortgage interest rates and slow new development through restricting access to capital for real estate developments.[16] It was successful in achieving only one of these goals. On the one hand, average property price growth moderated to 4.6 percent year-on-year in the first half of 2017 compared with 11.1 percent year-on-year increase in the first half of 2016.[17] On the other hand, real estate investment continued to accelerate in 2016 despite government measures to tamp it down, growing 8.5 percent year-on-year in the first half of 2017 compared with 6.1 percent year-on-year in the first half of 2016.[18]

Manufacturing and Exports Rebound

Beginning in the second half of 2016, China's manufacturing and industrial production recovered from its 2015 and early 2016 slowdown in part due to a rally in the property market and global growth.[19] Unofficial estimates by the Chinese financial media firm Caixin found China's manufacturing Purchasing Managers' Index (PMI),[20] a measure of economic expansion and industrial utilization, improved over the last year to reach 50.4 in June 2017 (see Figure 2).[21] A reading below 50 indicates a contraction of the manufacturing sector. Services—one of the new sources of economic growth—have continued to expand, with Caixin's service PMI remaining above 50 since mid-2014.[22] Value-added industrial growth—another growth indicator—expanded 6.9 percent year-on-year in the first half of 2017.[23] This recovery is in part due to the

[14] China's National Bureau of Statistics via CEIC database.

[15] Matthew Kong, "China Property Watch: Soaring Land Prices and Slowing Sales Prospects to Curtail Recovery," *S&P Global*, September 7, 2016. *https://www.spglobal.com/our-insights/China-Property-Watch-Soaring-Land-Prices-And-Slowing-Sales-Prospects-To-Curtail-Recovery.html*; Moody's Investor Service, "Moody's: China's Regulatory Loosening will Ease Residential Property Sales Decline," April 28, 2015. *https://www.moodys.com/research/Moodys-Chinas-regulatory-loosening-will-ease-residential-property-sales-decline--PR_323787*.

[16] Michael Lelyveld, "China Seeks Solution For High Home Prices," *Radio Free Asia*, July 17, 2017. *http://www.rfa.org/english/commentaries/energy_watch/china-seeks-solution-for-high-home-prices-07172017105727.html*; Han Yi and Lucille Liu, "Curbs Cool Down Shanghai Mortgage Fever," Caixin, April 17, 2017. *http://www.caixinglobal.com/2017-04-17/101079425.html*.

[17] China's National Bureau of Statistics via CEIC database.

[18] China's National Bureau of Statistics via CEIC database.

[19] China's General Administration of Customs via CEIC database; Investing.com, "China Caixin Manufacturing Purchasing Managers Index," *https://www.investing.com/economic-calendar/chinese-caixin-manufacturing-pmi-753*.

[20] FOOTNOTE: The PMI measures the production level, new orders, inventories, supplier deliveries, and employment level to gauge the economic activity level in the manufacturing sector. The global financial information service provider Markit Economics compiles the Caixin-Markit China manufacturing PMI from monthly questionnaires to more than 420 manufacturing purchasing executives (including small and medium-sized enterprises). By comparison, China's official PMI tracks larger state-owned companies, generally leading to a stronger reading than private PMIs.

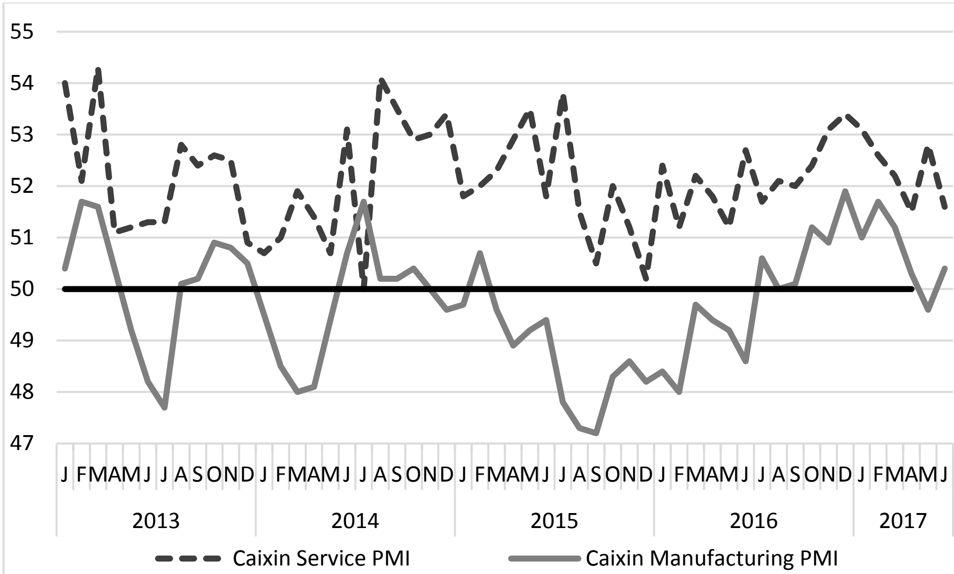
[21] Caixin and IHS Markit, "Caixin China General Manufacturing PMI," July 3, 2017. *https://www.markiteconomics.com/Survey/PressRelease.mvc/45fb23cff2544f01b00f3303daf1a697*.

[22] Investing.com, "China Caixin Services Purchasing Managers Index," July 5, 2017. *https://www.investing.com/economic-calendar/chinese-caixin-services-pmi-596*.

[23] China's National Bureau of Statistics via CEIC database.

pickup of global growth, leading Chinese exports to increase 3.6 percent year-on-year in the first five months of 2017.[24]

Figure 2: Caixin Service and Manufacturing PMIs, 2013–June 2017



Source: Investing.com, "China Caixin Services Purchasing Managers Index," July 5, 2017. *https://www.investing.com/economic-calendar/chinese-caixin-services-pmi-596*; Investing.com, "China Caixin Manufacturing Purchasing Managers Index," July 3, 2017. *https://www.investing.com/economic-calendar/chinese-caixin-manufacturing-pmi-753*.

Domestic Consumption and Service Sector

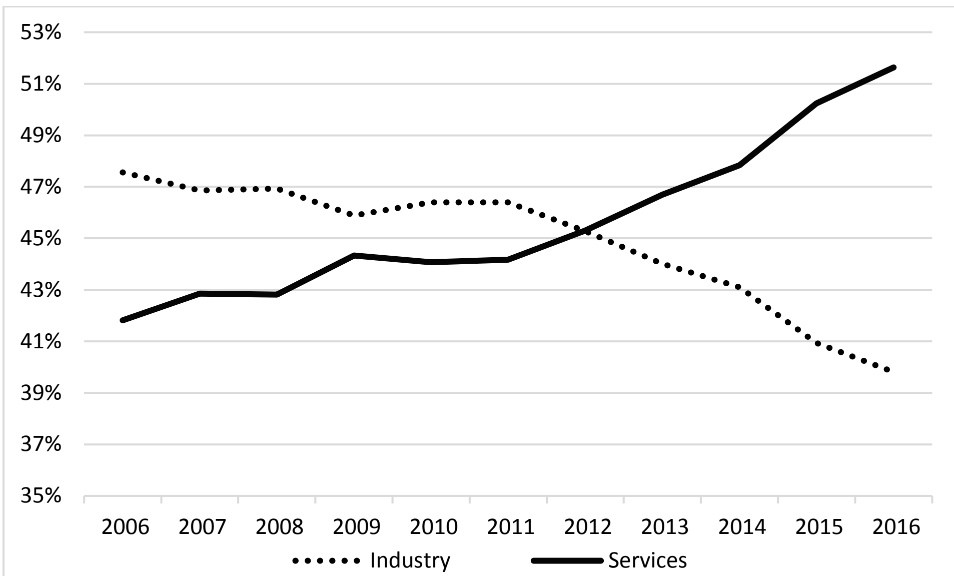
The Chinese government seeks to leverage the market power of the world's second largest economy as a new source of growth. Consumption's contribution to GDP increased from 60 percent in 2015 to 65 percent in 2016.[25] In the first half of 2017, this trend reversed due to rebounds in industrial output and property with consumption's contribution falling to 63 percent.[26] Retail sales of consumer goods—a proxy for overall consumption—also showed steady growth increasing 10.5 percent year-on-year in 2016 and 10.8 percent year-on-year in the first half of 2017.[27]

In 2016, China's annual national disposable income[28] per capita increased 8.4 percent year-on-year—its slowest annual growth rate in the last five years—to reach $3,518 (RMB 23,821).[29] [30] As the economy rebounded in the first half of 2017, growth of national disposable income per capita accelerated to 8.8

[24] China's General Administration of Customs via CEIC database; International Monetary Fund, *World Economic Outlook: April 2017: Gaining Momentum*, April 2017, *http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017*.
[25] China's National Bureau of Statistics via CEIC database.
[26] China's National Bureau of Statistics via CEIC database.
[27] China's National Bureau of Statistics via CEIC database.
[28] FOOTNOTE: Disposable personal income is the amount of income households have for spending and saving after income tax.
[29] FOOTNOTE: Unless noted otherwise, this Report uses the following exchange rate throughout: $1 = RMB 6.77.
[30] China's National Bureau of Statistics via CEIC database.

percent year-on-year.[31] However, this increase in disposable income has not been matched by similar increases in consumption.[32] Growth in consumption expenditure per capita slowed to 7.6 percent year-on-year in the first half of 2017 compared with 8.8 percent in the first half of 2016.[33] Speaking at the Commission's roundtable on the health of China's economy, Gene Ma, chief China economist at the Institute of International Finance, noted this is likely due to the fact that Chinese households are lowering their spending to save for ever more expensive housing (because they lack other options, real estate purchases remain the favorite form of investment for Chinese households).[34]

Figure 3: Service Sector as a Share of GDP, 2006–2016



Source: China's National Bureau of Statistics via CEIC database.

The contribution of the service sector to GDP continued to grow from 45.3 percent of GDP in 2012 to 51.6 percent in 2016 (see Figure 3).[35] In the first half of 2017, services continued their upward trend, growing 11.4 percent year-on-year.[36] The service sector could grow faster—thus accelerating the rebalance—if the Chinese government permitted greater market access to private domestic and foreign firms.[37] Debt-ridden SOEs remain a drag on the economy with profits falling 7.7 percent year-on-year in the first five months of

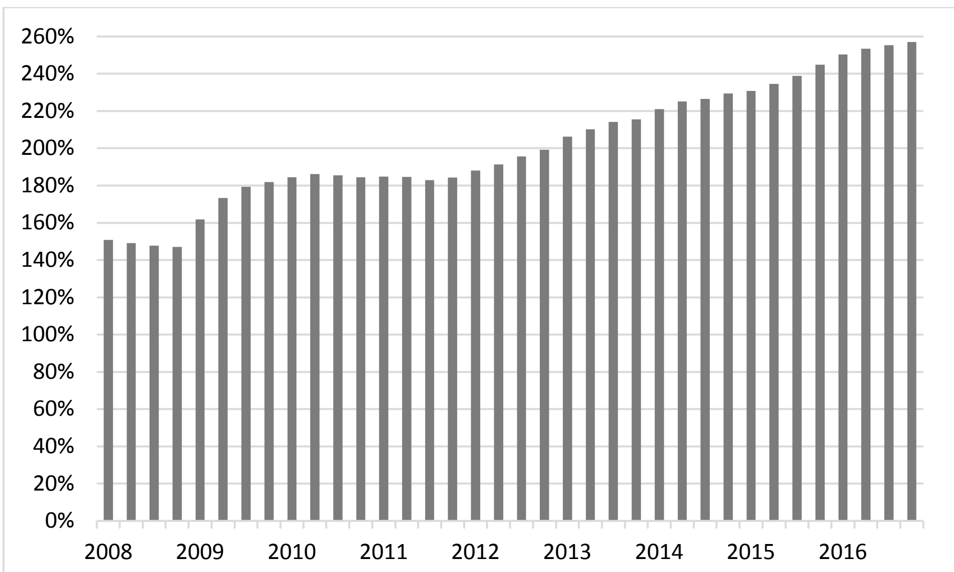
[31] China's National Bureau of Statistics via CEIC database.
[32] Lingling Wei, "China's Growth Masks Unresolved Debt and Real-Estate Problems," *Wall Street Journal*, July 17, 2017. *https://www.wsj.com/articles/the-problem-with-chinas-economic-growth-1500303789*.
[33] China's National Bureau of Statistics via CEIC database.
[34] U.S.-China Economic and Security Review Commission, *Roundtable on the Health of China's Economy*, presentation of Gene Ma, July 12, 2017; Lingling Wei, "China's Growth Masks Unresolved Debt and Real-Estate Problems," *Wall Street Journal*, July 17, 2017. *https://www.wsj.com/articles/the-problem-with-chinas-economic-growth-1500303789*.
[35] China's National Bureau of Statistics via CEIC database.
[36] China's National Bureau of Statistics via CEIC database.
[37] International Monetary Fund, "IMF Staff Completes 2017 Article IV Mission to China," June 14, 2017. *https://www.imf.org/en/News/Articles/2017/06/07/pr17219-china-imf-staff-completes-2017-article-iv-mission*.

2017.[38] By comparison, private industrial enterprises' profit increased 13.2 percent year-on-year in the first five months of 2017.[39]

Debt and Lending Continue to Rise

China's high and rising debt levels pose a growing threat to the country's long-term economic stability. In May 2017, Moody's Investors Service downgraded China's sovereign debt rating from Aa3 to A1[40] due to "expectation that China's financial strength will erode somewhat over the coming years, with economy-wide debt continuing to rise as potential growth slows."[41] China's total debt reached $27.5 trillion, or 257 percent of GDP, in fourth quarter of 2016, according to data from the Bank for International Settlements (BIS), up from 141 percent at the end of 2008 (see Figure 4).[42]

Figure 4: China's Total Debt-to-GDP Ratio, 2008–2016

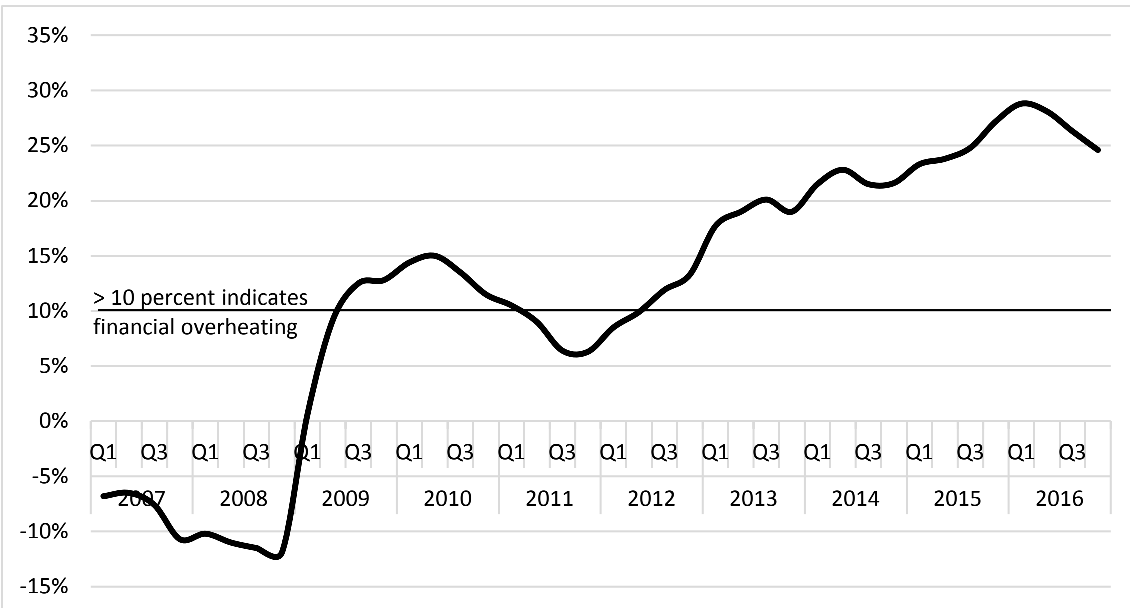


Source: Bank for International Settlements, "Long Series on Total Credit to the Non-Financial Sectors," June 6, 2017. *http://www.bis.org/statistics/totcredit.htm.*

[38] China's National Bureau of Statistics via CEIC database.
[39] China's National Bureau of Statistics via CEIC database.
[40] FOOTNOTE: The highest investment-grade rating is Aaa, representing minimum credit risk, while the lowest is Baa3, which is listed as medium-grade. China moved from a high-grade rating, Aa3, to an upper-medium grade A1, which remains within the investment grade rating range. Moody's Investors Service, "Moody's Rating System in Brief." *https://www.moodys.com/sites/products/ProductAttachments/Moody's%20Rating%20System.pdf.*
[41] Moody's Investors Service, "Moody's Downgrades China's Rating to A1 from Aa3 and Changes Outlook from Stable to Negative," May 24, 2017. *https://www.moodys.com/research/Moodys-downgrades-Chinas-rating-to-A1-from-Aa3-and-changes--PR_366139.*
[42] Bank for International Settlements, "Credit to the Non-Financial Sector," June 6, 2017. *http://www.bis.org/statistics/totcredit.htm?m=6%7C326.*

Analysts are particularly concerned about the speed of China's debt buildup.[43] According to BIS data, China's credit-to-GDP gap,[44] a measure of debt accumulation, was 24.6 percent in the fourth quarter of 2016, after rising to a record 28.8 percent in the first quarter of 2016 (see Figure 5).[45] Based on BIS research, a credit-to-GDP gap above 10 percent signals excessive credit growth and is a robust early warning indicator for banking crises.[46] [47]

Figure 5: China's Credit-to-GDP Gap, 2007–2016



Source: Bank for International Settlements, "Credit-to-GDP Gaps and Underlying Input," June 6, 2017. *http://www.bis.org/statistics/c_gaps.htm*.

The largest category of debt is held by nonfinancial corporations, which comprises two thirds of China's total debt.[48] China's corporate debt largely consists of loans made to SOEs by state-owned banks.[49] Corporate debt reached 166 percent of GDP in the fourth quarter of 2016, up from 96 percent in the fourth

[43] Wojciech Maliszewski et al., "Resolving China's Corporate Debt Program," *International Monetary Fund Working Paper*, October 2016, 2. *https://www.imf.org/external/pubs/ft/wp/2016/wp16203.pdf*.

[44] FOOTNOTE: BIS defines the credit-to-GDP gap as the difference between the credit-to-GDP ratio and its long-term trend. Bank for International Settlements, "Credit-to-GDP Gaps," December 11, 2016. *http://www.bis.org/statistics/c_gaps.htm*.

[45] Bank for International Settlements, "Credit-to-GDP Gaps and Underlying Input," June 6, 2017. *http://www.bis.org/statistics/c_gaps.htm*.

[46] FOOTNOTE: For example, prior to the 1997 Asian financial crisis, Thailand's credit-to-GDP gap in 1995 and 1996 averaged 26.3 percent. In the United States, the credit-to-GDP gap reached a high of 12.4 percent a few months before the global financial crisis began. Bank for International Settlements, "Credit-to-GDP Gaps and Underlying Input," June 6, 2017. *http://www.bis.org/statistics/c_gaps.htm*.

[47] Mathias Drehmann and Kostas Tsatsaronis, "The Credit-to-GDP Gap and Countercyclical Capital Buffers: Questions and Answers," Bank for International Settlements, March 9, 2014, 66. *http://www.bis.org/publ/qtrpdf/r_qt1403g.htm*.

[48] Bank for International Settlements, "Long Series on Total Credit to the Non-Financial Sectors," June 6, 2017. *http://www.bis.org/statistics/totcredit.htm*.

[49] Edoardo Campanella, "Beijing's Debt Dilemma," *Foreign* Affairs, June 29, 2017. *https://www.foreignaffairs.com/articles/china/2017-06-29/beijings-debt-dilemma*; Keith Bradsher, "China Can't Sustain Its Debt-Fueled Binge," *New York Times*, May 23, 2017. *https://www.nytimes.com/2017/05/23/business/moodys-downgrades-china-economy-debt.html*; Shawn Donnan and Tom Mitchell, "IMF Sounds Warning on China's Corporate Debt," *Financial Times*, June 12, 2016. *https://www.ft.com/content/3f8dcf22-304c-11e6-bda0-04585c31b153*.

quarter of 2008.[50] Meanwhile, nonperforming loans (NPLs)—loans that are unlikely to be paid back—continue to rise. According to the China Banking Regulatory Commission, the amount of NPLs held by Chinese commercial banks climbed to $233 billion (RMB 1.58 trillion) in the first quarter of 2017, from $81 billion (RMB 550 billion) in the first quarter of 2009 .[51]

The rapid growth of China's opaque and lightly regulated shadow banking sector is another cause for concern due to the risks it poses to financial stability.[52] [53] According to estimates from Moody's, China's shadow banking sector grew 21 percent in 2016 to $9.5 trillion (RMB 64.5 trillion), equivalent to 87 percent of GDP, up from less than 10 percent a decade ago.[54]

The dramatic rise in China's debt burden can be attributed to the relentless expansion of credit following the global financial crisis, which the government has relied on to generate growth.[55] In 2016, Chinese banks issued a record $1.87 trillion (RMB 12.65 trillion) in new loans.[56] Credit expansion continued in the first half of 2017, with new loans reaching $1.18 trillion (RMB 7.97 trillion), a 6 percent increase year-on-year.[57] Total social financing, a broad measure of credit which includes both bank loans and off-balance-sheet financing reached $1.65 trillion (RMB 11.17 trillion), up from $1.45 trillion (RMB 9.8 trillion) in the first half of 2016, driven by a surge in off-balance-sheet lending.[58] At the same time, credit efficiency declined. The IMF estimates that China's credit intensity—the amount of credit needed for an additional unit of

[50] Bank for International Settlements, "Credit to the Non-Financial Sector," June 6, 2017. *http://www.bis.org/statistics/totcredit.htm?m=6%7C326*.

[51] China Banking Regulatory Commission via CEIC database.

[52] FOOTNOTE: Shadow banking is lending that occurs outside of the formal banking sector. Examples include wealth management products (WMPs), credit guarantees, entrusted loans, and peer-to-peer lending. The growth is WMPs, the largest component of shadow banking, has been particularly concerning. WMPS are investment products that are packaged and sold by banks, and then transferred from banks' balance sheets to nonbank financial institutions to circumvent capital reserve requirements and restrictions on bank investment in certain sectors. A major risk WMPs pose for China's financial system is that losses from a big single default could spread widely through the banking system. Banks often invest in WMPs packaged by other banks, and as the stock of these products grow, so do the risks. In the event a credit crunch, the growing interdependence between banks could result in large losses for both banks and investors. Gabriel Wildau, "China Launches Fresh Attack on Shadow Banking Risk," *Financial Times*, February 22, 2017. *https://www.ft.com/content/a7341efe-f8e4-11e6-9516-2d969e0d3b65*; Tom Nunlist, "Faith-Based Banking: Wealth Management Products in China," *CKGSB Knowledge*, December 19, 2016. *http://knowledge.ckgsb.edu.cn/2016/12/19/banking/wealth-management-products-china*.

[53] Bloomberg News, "China's $8.5 Trillion Shadow Bank Industry is Back in Full Swing," April 18, 2017. *https://www.bloomberg.com/news/articles/2017-04-18/china-s-8-5-trillion-shadow-bank-industry-is-back-in-full-swing*; Elias Glenn, "China's Shadow Banking Rebounds in March, Household Loans Surge despite Curbs," Reuters, April 16, 2017. *http://www.reuters.com/article/china-economy-loans-idUSL3N1HM2UV*.

[54] Andrew Collier, "China's Shadow Finance Time-Bomb Could Trigger Crisis," *Financial Times*, June 26, 2017. *https://www.ft.com/content/a6086a9a-5059-11e7-bfb8-997009366969*; Karen Yeung, "Risks to China's Financial System May Continue to Grow despite Tighter Regulations," *South China Morning Post*, May 10, 2017. *http://www.scmp.com/business/banking-finance/article/2093704/risks-chinas-financial-system-may-continue-grow-despite*.

[55] Kevin Yao and Yawen Chen, "China Corporate Debt Levels Excessively High, No Quick Fix: Central Bank Governor," Reuters, March 9, 2017. *http://www.reuters.com/article/us-china-parliament-pboc-idUSKBN16H0CH*.

[56] The People's Bank of China via CEIC database.

[57] The People's Bank of China via CEIC database.

[58] The People's Bank of China via CEIC database; Bloomberg News, "China's $8.5 Trillion Shadow Bank Industry is Back in Full Swing," April 18, 2017. *https://www.bloomberg.com/news/articles/2017-04-18/china-s-8-5-trillion-shadow-bank-industry-is-back-in-full-swing*.

output— grew from an average of 1.1 before the global financial crisis to a post-crisis average of 2.7 percent.[59]

Chinese leaders have identified the containment of debt and financial risks as a top priority for 2017.[60] In the first quarter of 2017, the People's Bank of China (PBOC) tightened monetary policy by guiding short-term interest rates higher to curb leverage.[61] In addition, financial regulators issued tighter regulations and cracked down on shadow banking.[62] At the July 2017 National Financial Work Conference, a high-level meeting held twice a decade, President Xi Jinping announced the creation of the Financial Stability and Development Committee, a cabinet-level body tasked with coordinating financial regulation and oversight.[63]

U.S. Financial Exposure to China

A recent report prepared by Commission staff examines the scope of the U.S. financial sector's exposure to China.[64] China's direct financial linkages with the United States are growing but remain modest relative to bilateral trade linkages. Beijing has taken steps to gradually open its financial sector to foreign participation, but U.S. financial firms and investors have displayed limited interest since the reforms are happening as Chinese policymakers impose tighter restrictions on foreign currency conversions and outbound capital flows.[65] The report's key findings include:

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[59] Wojciech Maliszewski et al., "Resolving China's Corporate Debt Program," *International Monetary Fund Working Paper*, October 2016, 38. *https://www.imf.org/external/pubs/ft/wp/2016/wp16203.pdf.*

[60] U.S.-China Economic and Security Review Commission, *Roundtable on the Health of China's Economy*, presentation of Gene Ma, July 12, 2017; John Ruwitch and Yawen Chen, "Moody's Downgrades China, Warns of Fading Financial Strength as Debt Mounts," Reuters, May 23, 2017. *http://www.reuters.com/article/us-china-economy-rating-idUSKBN18K04Q*; Kevin Yao and Elias Glenn, "China Vows to Contain Corporate Debt Levels as Inflation Heats Up," Reuters, January 7, 2017. *http://www.reuters.com/article/us-china-economy-inflation-idUSKBN14U05Y.*

[61] Sofia Horta e Costa, "China's Deleveraging Bill Tops $500 Billion," Bloomberg, May 7, 2017. *https://www.bloomberg.com/news/articles/2017-05-07/china-deleveraging-bill-tops-500-billion-as-market-pain-spreads*; *Economist*, "China Tightens Monetary Policy (Discreetly)," February 11, 2017. *https://www.economist.com/news/finance-and-economics/21716640-small-interest-rate-rise-shows-central-bank-testing-limits-its*; Bloomberg News, "China Tightens Monetary Policy by Raising Money Market Rates," February 2, 2017. *https://www.bloomberg.com/news/articles/2017-02-03/china-s-pboc-increases-interest-rates-in-open-market-operations*.

[62] U.S.-China Economic and Security Review Commission, *Roundtable on the Health of China's Economy*, presentation of Gene Ma, July 12, 2017; Kevin Yao, "China's April Loans Growth Highlights Debt Challenges," Reuters, May 12, 2017. *http://www.reuters.com/article/us-china-economy-loans-idUSKBN1880VN*; Gabriel Wildau, "China Bank Overseer Launches 'Regulatory Windstorm,'" *Financial Times*, April 18, 2017. *https://www.ft.com/content/cb0670ae-2411-11e7-8691-d5f7e0cd0a16*.

[63] FOOTNOTE: China has separate regulatory bodies for the banking, insurance, and securities industries. China's financial regulators have at times acted in isolation and even at odds with one another. Lingling Wei, "China's Xi Jinping Forges New Body to Tighten Financial Controls," *Wall Street Journal*, July 15, 2017. *https://www.wsj.com/articles/china-to-set-up-cabinet-level-committee-to-coordinate-financial-regulation-1500123273*.

[64] Michelle Ker, "U.S. Financial Exposure to China," *U.S.-China Economic and Security Review Commission*, May 9, 2017. *https://www.uscc.gov/sites/default/files/Research/U.S.%20Financial%20Exposure%20to%20China.pdf.*

[65] Michelle Ker, "U.S. Financial Exposure to China," *U.S.-China Economic and Security Review Commission*, May 9, 2017, 3. *https://www.uscc.gov/sites/default/files/Research/U.S.%20Financial%20Exposure%20to%20China.pdf.*

- The U.S. financial sector's greatest direct exposure is through China's holdings of U.S. government securities. At the end of 2016, China held $1.06 trillion in U.S. Treasuries, or 7 percent of publicly held U.S. debt, placing it behind Japan as the second-largest foreign holder of U.S. Treasuries.[66] However, the Commission report finds that recent moves by Beijing to cut its Treasury holdings have had limited effects on the U.S. economy.[67]

- U.S. banks have limited direct exposure to China's banking sector. In the fourth quarter of 2016, U.S. banks' exposure to China reached $78.7 billion—0.6 percent of total U.S. banking assets.[68]

- U.S. investors have very low direct exposure to China's domestic equity markets. At the end of 2016, U.S. investors held $104 billion in Chinese stocks, just 0.4 percent of their total equity holdings.[69] However, the June 2017 decision of leading index provider MSCI to include RMB-denominated shares of 222[70] Chinese companies in its benchmark emerging markets index (effective June 2018) is expected to attract more foreign capital into Chinese stocks.[71] According to MSCI, the decision will initially draw about $17 billion of global assets into Chinese stocks and could eventually attract more than $340 billion of foreign capital if China achieves full inclusion in the index.[72]

The Commission report finds economic and financial developments in China can affect U.S. financial markets more substantially through indirect channels, as was evident in the reaction of U.S. equities to China's stock market crashes in 2015 and 2016.[73] More broadly, the impact of China's slowing growth

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[66] U.S. Department of the Treasury, Major Foreign Holders of Treasury Securities, February 15, 2017. *http://ticdata.treasury.gov/Publish/mfh.txt*; U.S. Department of the Treasury, Monthly Statement of the Public Debt of the United States, December 31, 2016. *https://www.treasurydirect.gov/govt/reports/pd/mspd/2016/opds122016.pdf*.

[67] Michelle Ker, "U.S. Financial Exposure to China," *U.S.-China Economic and Security Review Commission*, May 9, 2017, 7-9. *https://www.uscc.gov/sites/default/files/Research/U.S.%20Financial%20Exposure%20to%20China.pdf*.

[68] Bank for International Settlements, "Consolidated Positions on Counterparties Resident in China," April 21, 2017. *http://stats.bis.org/statx/srs/table/B4?c=CN&p=20164*; Bank for International Settlements, "Summary of Consolidated Statistics, by Nationality of Reporting Bank," April 21, 2017. *http://www.bis.org/statistics/b1.pdf*.

[69] World Federation of Exchanges, "Equity – 1.1 – Domestic Market Capitalization (USD Millions)," January 2017. *https://www.worldexchanges.org/home/index.php/statistics/monthly-reports*; U.S. Department of the Treasury, Table 2D: U.S. Long-Term Securities Held by Foreign Residents. *http://ticdata.treasury.gov/Publish/slt2d.txt*; U.S. Department of the Treasury, Table 1F: Foreign Long-Term Securities at Current Market Value by U.S. Residents. *http://ticdata.treasury.gov/Publish/slt1f.txt*; U.S. Department of the Treasury, Table 2.F: Foreign Long-Term Securities Held by U.S. Residents. *http://ticdata.treasury.gov/Publish/slt2f.txt*.

[70] FOOTNOTE: Of the 222 firms included in MSCI's decision, 50 are finance firms and 44 industrial firms. Dion Rabouin and Michelle Price, "China Shares Get MSCI Nod in Landmark Moment for Beijing," Reuters, June 21, 2017. *http://www.reuters.com/article/us-msci-indexes-idUSKBN19B325*.

[71] FOOTNOTE: For more background on MSCI's decision, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, July 6, 2017, 4-5. *https://www.uscc.gov/sites/default/files/Research/July%202017%20Trade%20Bulletin.pdf*.

[72] Dion Rabouin and Michelle Price, "China Shares Get MSCI Nod in Landmark Moment for Beijing," Reuters, June 21, 2017. *http://www.reuters.com/article/us-msci-indexes-idUSKBN19B325*; Sam Mamudi and Ben Bartenstein, "China Stocks Win MSCI Inclusion; Initial Market Reaction Muted," Bloomberg, June 20, 2017. *https://www.bloomberg.com/news/articles/2017-06-20/china-stocks-win-msci-entry-as-6-9-trillion-market-goes-global*.

[73] Michelle Ker, "U.S. Financial Exposure to China," *U.S.-China Economic and Security Review Commission*, May 9, 2017, 10-13. *https://www.uscc.gov/sites/default/files/Research/U.S.%20Financial%20Exposure%20to%20China.pdf*.

and economic reforms on trade, commodities demand, and investor confidence affects global financial markets, which in turn influence U.S. financial markets.[74]

Renminbi Reforms and Capital Outflows

Amid rising financial sector vulnerabilities, Beijing has found it difficult to strike a balance between internationalizing the RMB by making its exchange rate more flexible and relaxing controls on capital flows, and maintaining stability by preventing excessive capital outflows. After the PBOC revised its method for setting the daily reference rate for the RMB in the onshore currency market in August 2015[75] and introduced a new basket for setting the RMB daily rate in November 2015 (see Figure 6),[76] expectations were high for a more market-determined RMB exchange rate.

However, over the past two years, as China's economic growth moderated and pressure rose on the RMB to depreciate, the Chinese government has intervened repeatedly to support the value of the currency rather than let the market determine its exchange rate.[77] The PBOC is seeking to manage the volatility of the RMB's exchange rate in order to prevent a destabilizing devaluation and reassure global and domestic investors about the stability of China's state-led economic growth.[78] But this policy comes at a significant cost: the PBOC has to buy RMB with its foreign reserves to artificially create demand and support the RMB's value. As a result, China's foreign reserves have fallen $936 billion from their $3.99 trillion peak in June 2014 to $3.06 trillion in June 2017.[79] In attempting to simultaneously defend its exchange rate, control interest rates, and keep its capital account closed China faces an impossible trinity problem.[80] At the moment, China is choosing to manage its currency and tighten its monetary policy at the expense of choking off capital flows, but it has not resolved the fundamental contradictions in China's economy. In

[74] Michelle Ker, "U.S. Financial Exposure to China," *U.S.-China Economic and Security Review Commission*, May 9, 2017, 12-13. *https://www.uscc.gov/sites/default/files/Research/U.S.%20Financial%20Exposure%20to%20China.pdf*.

[75] FOOTNOTE: The PBOC said it would take into account the previous day's closing exchange rate—which could rise or fall up to 2 percent under the currency's trading band—as well as the exchange rate movements of other major currencies. Nicholas Lardy, "China's Latest Currency Actions Are Market Driven," *China Economic Watch* (Peterson Institute for International Economics blog), August 11, 2015.

[76] FOOTNOTE: As of 2017, the China Foreign Exchange Trade Center (CFETC) currency basket incudes currencies of China's 24 major trade partners. The U.S. dollar carries a 22.4 percent weight in the basket, followed by the euro with 16.3 percent and the Japanese yen with 11.5 percent. China Foreign Exchange Trade System, "Public Announcement of China Foreign Exchange Trade System on Adjusting Rules for Currency Baskets of CFETC RMB Indices," December 29, 2016. *http://www.chinamoney.com.cn/english/svcnrl/20161229/2049.html*.

[77] People's Bank of China via CEIC; Gabriel Wildau and Tom Mitchell, "China: Renminbi Stalls on Road to Being a Global Currency," *Financial Times*, December 11, 2016. *https://www.ft.com/content/e480fd92-bc6a-11e6-8b45-b8b81dd5d080*.

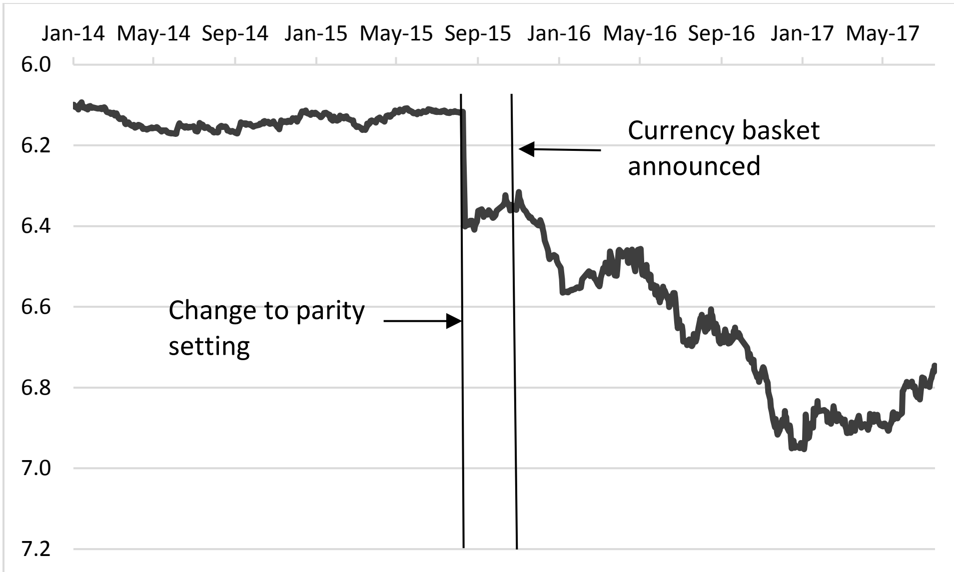
[78] Saibal Dasgupta, "China Sells off Stock of US Treasury Securities to Protect Yuan," *Voice of America*, December 30, 2016. *http://www.voanews.com/a/china-sells-united-states-treasury-securities-protect-yuan/3657528.html*; Bloomberg News, "China Dilutes Dollar Role in Currency Basket, Adds 11 More," December 29, 2016. *https://www.bloomberg.com/news/articles/2016-12-29/china-reduces-dollar-weighting-in-currency-basket-adds-11-more*.

[79] People's Bank of China via CEIC.

[80] FOOTNOTE: Under the "impossible trinity" a government can maintain only two of the following three policies: (1) a fixed (or managed) exchange rate, (2) an independent monetary policy, or (3) free international capital flows. The United States maintains open capital markets and control over both the money supply and interest rates, but has relinquished control over the dollar exchange rate.

essence, Mr. McCarthy noted during his presentation, Chinese policymakers are "just bouncing around to whatever is the most vulnerable."[81]

Figure 6: RMB to U.S. Dollar Exchange Rate, January 2014–July 2017



Source: State Administration of Foreign Exchange via CEIC database.

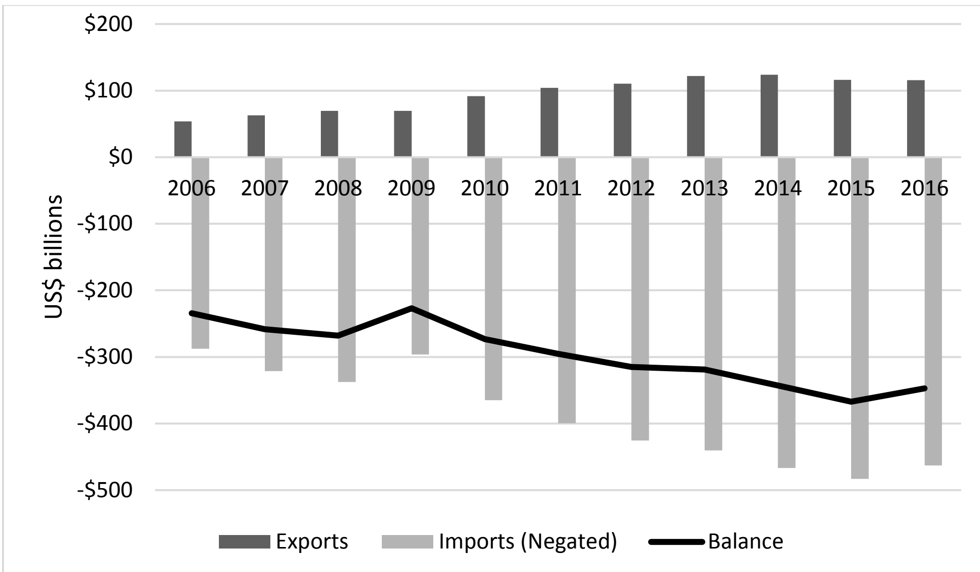
In addition, the State Administration of Foreign Exchange (SAFE) has sought to slow the pace of RMB leaving the country by tightening controls on outflows.[82] But this approach has lowered China's attractiveness for foreign investors. As Dr. Ma noted in his presentation, investors are really discouraged by the uncertainty of China's capital controls, which has had a significant chilling effect on capital inflows.[83] It has also stalled the RMB's international usage: Based on data from the Society of Worldwide Interbank Financial Telecommunications (SWIFT), in June 2017 only 1.98 percent of global payments were made in RMB, down from 2.09 percent in June 2015.[84] Restrictions on capital outflows and foreign currency transactions have also affected Chinese FDI abroad, which declined significantly at the end of 2016 and in early 2017 as new rules took effect (for more on Chinese outbound FDI, see Chapter 1, Section 2, "Chinese Investment in the United States").

[81] U.S.-China Economic and Security Review Commission, *Roundtable on the Health of China's Economy*, presentation of Brian McCarthy, July 12, 2017.
[82] Bloomberg News, "China Gets Strict on Forex Transactions to Stop Money Exiting Abroad," January 2, 2017. *https://www.bloomberg.com/news/articles/2017-01-03/china-drills-down-into-forex-transactions-as-money-exits-abroad*.
[83] U.S.-China Economic and Security Review Commission, *Roundtable on the Health of China's Economy*, presentation of Gene Ma, July 12, 2017.
[84] SWIFT, "RMB Internationalization: Can the Belt and Road Revitalize the RMB?" July 28, 2017.

U.S.-China Bilateral Trade

The U.S. trade relationship with China continues to be marred by a substantial goods deficit, which totaled $347 billion in 2016, the second-highest deficit on record (see Figure 7).[85] The goods deficit decreased 5.5 percent in 2016, driven by declining U.S. imports from China, which dropped 4.3 percent year-on-year to $463 billion.[86] U.S. goods exports remained flat, declining 0.3 percent over 2015 levels to $116 billion.[87]

Figure 7: U.S.-China Goods Trade, 2006–2016



Source: U.S. Census Bureau, *Trade in Goods with China. https://www.census.gov/foreign-trade/balance/c5700.html*.

In the first five months of 2017, U.S. exports to China reached $49.5 billion, an increase of 16.8 percent over the same period in 2016 (Table 1). As seen in Figure 8, U.S. goods exports to China are on track to grow at the fastest rate since 2009.[88] U.S. goods imports from China have also picked up, increasing 8 percent year-on-year in the first five months of 2017.[89]

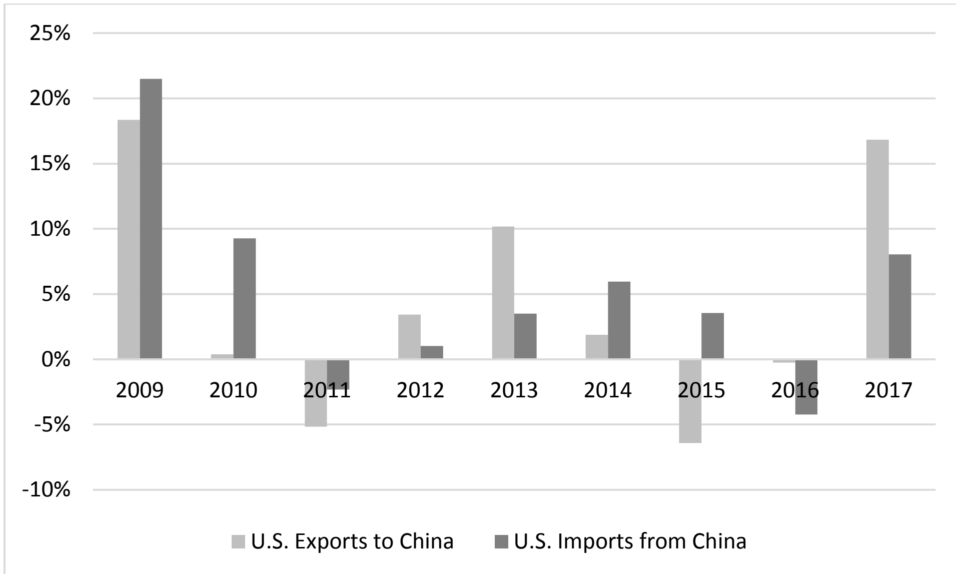
Table 1: U.S.-China Goods Trade, January–May 2017

	Jan	Feb	Mar	Apr	May
Exports	$10.1	$9.8	$9.6	$9.8	$10.2
Imports	$41.4	$32.8	$34.2	$37.5	$41.8
Balance	($31.3)	($23.0)	($24.6)	($27.6)	($31.6)

Source: U.S. Census Bureau, *Trade in Goods with China. https://www.census.gov/foreign-trade/balance/c5700.html.*

[85] U.S. Census Bureau, *Trade in Goods with China. https://www.census.gov/foreign-trade/balance/c5700.html.*
[86] U.S. Census Bureau, *Trade in Goods with China. https://www.census.gov/foreign-trade/balance/c5700.html.*
[87] U.S. Census Bureau, *Trade in Goods with China. https://www.census.gov/foreign-trade/balance/c5700.html.*
[88] U.S. Census Bureau, *Trade in Goods with China. https://www.census.gov/foreign-trade/balance/c5700.html.*
[89] U.S. Census Bureau, *Trade in Goods with China. https://www.census.gov/foreign-trade/balance/c5700.html.*

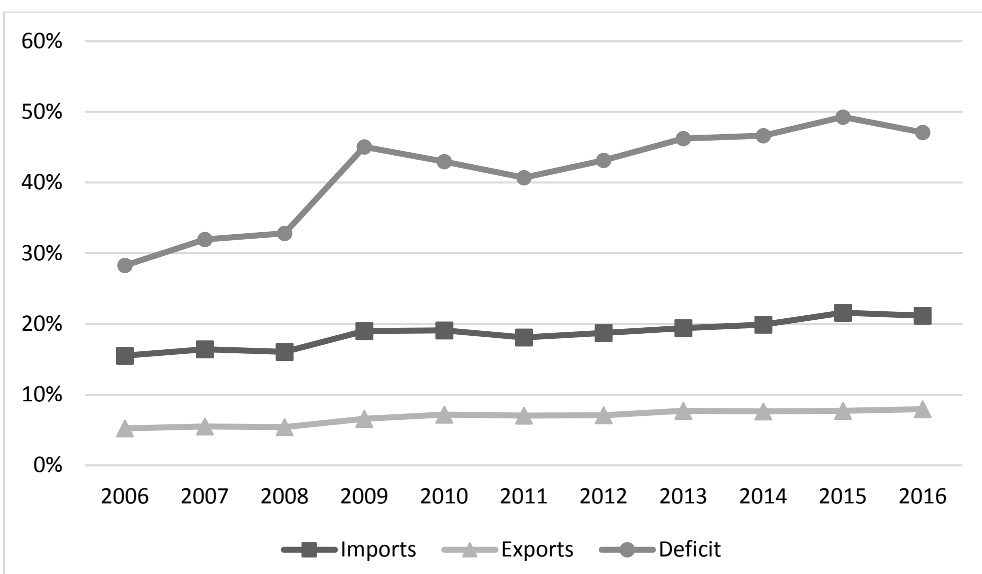
Figure 8: Year-on-Year Change in U.S.-China Exports and Imports, 2009–2017



Note: 2017 data are year-to-date growth from January to May compared to the same period in 2016.
Source: U.S. Census Bureau, *Trade in Goods with China. https://www.census.gov/foreign-trade/balance/c5700.html*.

China continues to dominate the United States' global deficit in trade in goods. As seen in Figure 9, in 2016 the United States' goods deficit with China was equal to 47 percent of its total deficit, down from 49 percent in 2015.[90]

Figure 9: China's Share of U.S. Goods Exports, Imports, and Deficit, 2006–2016

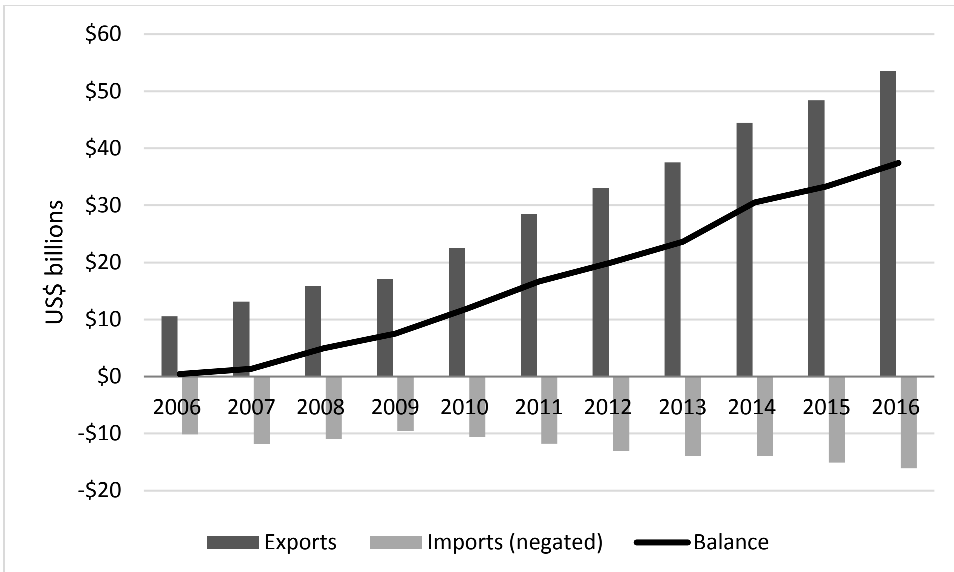


Source: U.S. Census Bureau, *Trade in Goods with China. https://www.census.gov/foreign-trade/balance/c5700.html*.

[90] U.S. Census Bureau, *Trade in Goods with China. https://www.census.gov/foreign-trade/balance/c5700.html*; U.S. Census Bureau, *Trade in Goods with World, Not Seasonally Adjusted. https://www.census.gov/foreign-trade/balance/c0015.html.*

The United States' surplus in services with China continues to grow, reaching a record of $37 billion in 2016, driven primarily by an increase in Chinese tourism to the United States.[91] As seen in Figure 10, U.S. services exports increased 10.5 percent in 2016 year-on-year, from $48 billion in 2015 to a record high of $54 billion in 2016.[92] Growth in Chinese tourism over the same period accounted for 94 percent of this increase.[93] U.S. services imports from China grew at 6.6 percent over 2015, reaching a record $16 billion.

Figure 10: U.S.-China Services Trade, 2006–2016



Source: U.S. Census Bureau.

Challenges for U.S. Companies in China

The combination of China's changing economic conditions, rising costs, and tightening regulations continue to make China a less attractive place to do business. In 2016, global FDI flows into China fell for a second year in a row—a trend continued in the first half of 2017.[94] In the *2017 Business Climate Survey*[95]

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[91] FOOTNOTE: Under international and U.S. standards, tourism is broadly defined to include travel and related expenses for business purposes and travel and expenses for personal purposes, such as vacation, education, and medical services. International Monetary Fund, "Balance of Payments and International Investment Position Manual," 2009; U.S. Department of Commerce, *Comprehensive Restructuring of the International Economic Accounts: New International Guidelines Redefine Travel*. *http://travel.trade.gov/pdf/restructuring-travel.pdf*; U.S. Department of Commerce, Bureau of Economic Analysis, *Table 1.3 U.S. International Transactions, Expanded Detail by Area and Country*, July 18, 2017. *https://www.bea.gov/iTable/bp_download_modern.cfm?pid=1*.

[92] U.S. Department of Commerce, Bureau of Economic Analysis, *Table 1.3 U.S. International Transactions, Expanded Detail by Area and Country*, July 18, 2017. *https://www.bea.gov/iTable/bp_download_modern.cfm?pid=1*.

[93] U.S. Department of Commerce, Bureau of Economic Analysis, *Table 1.3 U.S. International Transactions, Expanded Detail by Area and Country*, July 18, 2017. *https://www.bea.gov/iTable/bp_download_modern.cfm?pid=1*.

[94] Frank Tang, "Beijing Doubles Down on Luring Foreign Investors Back to China, but Will They Come?" *South China Morning Post*, June 30, 2017.

[95] FOOTNOTE: AmCham China asked a total of 849 companies, of which 522 responded in whole or in part. American Chamber of Commerce in the People's Republic of China, "2017 China Business Climate Survey Report." *http://www.amchamchina.org/uploads/media/default/0001/06/990dc2c671441d882586cc05ded6dde7e261fa0e.pdf*

released by the American Chamber of Commerce (AmCham) in China in January 2017, 31 percent of U.S. companies surveyed reported a deteriorating investment environment, compared to 19 percent in 2012; only 24 percent thought the overall environment was improving. This is the least optimistic U.S. companies have been since AmCham China began asking this question in 2011. U.S. firms also feel increasingly unwelcome in China, with 81 percent reporting feeling less welcome in 2016 than they did in 2015.[96]

The report's list of the top five challenges U.S. businesses face in the coming year helps explain this pessimism. In 2017, firms anticipate inconsistent regulations and increasing labor costs to be the biggest challenges (see Table 2). This is the fifth consecutive year these were among the top two challenges. Despite increasing profits, only 10 percent of technology and research and development companies are optimistic about the implementation and enforcement of regulations over the next two years. Services, consumer, and industrial and resources firms were a little more sanguine; about one-fifth of these firms were optimistic about future regulation. Among companies surveyed, concerns over labor expenses and regulations were compounded by uncertainty over investment restrictions. Two-thirds of companies either doubt or are unsure whether China will further open markets to foreign investment, and domestic protectionism in general became their third-biggest reported challenge in 2017.[97]

Table 2: Top Five Business Challenges in China for U.S. Firms, 2013–2017

2013	2014	2015	2016	2017
Labor costs: 44%	Labor costs: 61%	Labor costs: 61%	Inconsistent regulatory interpretation and unclear laws: 57%	Inconsistent regulatory interpretation and unclear laws: 58%
Inconsistent regulatory interpretation and unclear laws: 38%	Inconsistent regulatory interpretation and unclear laws: 39%	Inconsistent regulatory interpretation and unclear laws: 47%	Labor costs: 54%	Labor costs: 58%
Shortage of qualified employees: 35%	Shortage of qualified employees: 37%	Shortage of qualified employees: 42%	Obtaining required licenses: 29%	Increasing Chinese protectionism: 32%

[96] American Chamber of Commerce in the People's Republic of China, "2017 China Business Climate Survey Report." *http://www.amchamchina.org/uploads/media/default/0001/06/990dc2c671441d882586cc05ded6dde7e261fa0e.pdf.*
[97] American Chamber of Commerce in the People's Republic of China, "2017 China Business Climate Survey Report." *http://www.amchamchina.org/uploads/media/default/0001/06/990dc2c671441d882586cc05ded6dde7e261fa0e.pdf.*

Corruption: 30%	Shortage of qualified management: 31%	Shortage of qualified management: 32%	Shortage of qualified employees: 29%	Shortage of qualified management: 30%
Shortage of qualified management: 30%	Obtaining required licenses: 31%	Increasing Chinese protectionism: 30%	Industry overcapacity: 29%	Obtaining required licenses: 29%

Source: American Chamber of Commerce in the People's Republic of China, "2017 China Business Climate Survey Report." *http://www.amchamchina.org/uploads/media/default/0001/06/990dc2c671441d882586cc05ded6dde7e261fa0e.pdf.*

Cybersecurity Law

China's cybersecurity law, first approved last November, entered into effect June 1 despite calls from 54 foreign business associations[98] to reconsider the law and delay its implementation.[99] The law imposes sweeping restrictions on data transfer out of China. Under the law, firms must seek permission from the government to transfer any datasets in excess of 1 terabyte; datasets pertaining to more than 500,000 people; data related to geographic, chemical, engineering, or military matters;[100] or data pertaining to "critical information infrastructure"—a expansive category, the scope of which is ultimately determined by China's State Council. To date, "critical infrastructure" has been interpreted very broadly; banks, energy, and transportation companies and firms that provide services to public Chinese entities or are important to

[98] FOOTNOTE: In May 2017, a broad set of business associations including the U.S.-China Business Council, American Chamber of Commerce in China, Business Europe, the Japan Chamber of Commerce and Industry, and the Korea-Business Council sent a letter to the Chinese government urging a delay in the law's implementation. These groups expressed serious concerns that the law may discriminate against foreign businesses, and stated that the impact of the law encompasses "enormously consequential issues for China's economy, its relations with economic and commercial partners, and the global economy. Eva Dou, "Global Tech Companies Call on China to Delay Cybersecurity Law," *Wall Street Journal*, May 15, 2017. *https://www.wsj.com/articles/global-tech-companies-call-on-china-to-delay-cybersecurity-law-1494837117.*

[99] Eva Dou, "Global Tech Companies Call on China to Delay Cybersecurity Law," *Wall Street Journal*, May 15, 2017. *https://www.wsj.com/articles/global-tech-companies-call-on-china-to-delay-cybersecurity-law-1494837117*; Sherisse Pham, "China's New Cyber Law Just Kicked in and Nobody's Sure How It Works," CNN, June 1, 2017. *http://money.cnn.com/2017/06/01/technology/business/china-cybersecurity-law/.*

[100] FOOTNOTE: The law requires approval for transfer of data related to nuclear facilities, chemical biology, national defense, large engineering activities, ocean environmental protection, and sensitive geographic information. In the past, China has interpreted sensitive geographic information very broadly. In 2010, a U.S. geologist was jailed for purchasing information about Chinese oil reserves—which were deemed a state secret—and civilian aviation corridors in China are notoriously narrow as the majority of China's airspace is under the control of the military, ostensibly for national security purposes. Steven Jiang, "Flying Pains as China Struggles to Keep up with Aviation Growth," CNN, August 26, 2014. *http://www.cnn.com/2014/08/26/travel/china-air-travel-delays/*; Keith Richburg, "China Sentences American Geologist to 8 Years for Stealing State Secrets," *Washington Post*, July 5, 2010. *http://www.washingtonpost.com/wp-dyn/content/article/2010/07/05/AR2010070500859.html*; Scott Theil, "China's New Cyber Security Law Is Only 6 Weeks Away," *DLA Piper*, April 21, 2017. *https://www.dlapiper.com/en/singapore/insights/publications/2017/04/china-data-transfer-regulations/.*

national security are included in the law, and the State Council can expand the scope further.[101] Chinese regulators have ruled that even fast food delivery companies are included due to the large number of people they service.[102] The law also permits Chinese regulators to prohibit any data transfers they deem necessary through their own regulations.[103]

Under the law, firms that fall under critical information infrastructure are required to store their data inside China, although China appears to have granted firms a grace period until 2018 to comply with some data storage requirements.[104] [105] As U.S. businesses typically transfer data between their foreign and domestic business operations and many rely on cross-border data transfer to interact with Chinese suppliers and customers, these restrictions will likely complicate the ability of U.S. firms to conduct business in China. The U.S. Chamber of Commerce also argues that domestic data storage requirements jeopardize the privacy of companies' and customers' data, as firms are forced to split their data protection resources across multiple data centers, resulting in less protection at each site.[106]

The law also requires firms that interact with critical information infrastructure or that provide services that may affect national security to be subject to a security review by Chinese authorities.[107] This review may be used to ensure these services are "secure and controllable," a term used in other Chinese digital regulations, which compels foreign firms to hand over important intellectual property assets such as source code to Chinese authorities for inspection.[108] A proposed supplementary law published in April empowers

[101] FOOTNOTE: While the sectors included under critical information infrastructure are ultimately defined by China's State Council, the text of the cybersecurity law identifies some sectors such as finance, energy, transportation, public services, public information, and other sectors deemed important to national security as critical information infrastructure. *China Law Translate*, "2016 Cybersecurity Law." *http://www.chinalawtranslate.com/cybersecuritylaw/?lang=en*; Scott Theil, "China's New Cyber Security Law Is Only 6 Weeks Away," *DLA Piper*, April 21, 2017. *https://www.dlapiper.com/en/singapore/insights/publications/2017/04/china-data-transfer-regulations/*.

[102] Yuan Yang, "China's Cyber Security Law Rattles Multinational," *Financial Times*, May 30, 2017. *https://www.ft.com/content/b302269c-44ff-11e7-8519-9f94ee97d996*.

[103] Scott Theil, "China's New Cyber Security Law Is Only 6 Weeks Away," *DLA Piper*, April 21, 2017. *https://www.dlapiper.com/en/singapore/insights/publications/2017/04/china-data-transfer-regulations/*.

[104] FOOTNOTE: On June 1, Chinese authorities stated that requirements under the law to store personal and "significant" data in China had been waived until 2018; however, Paul McKenzie, a partner at Beijing-based law firm Morrison and Foerston, said implementation of data storage requirements is still "murky." *China Law Translate*, "2016 Cybersecurity Law." *http://www.chinalawtranslate.com/cybersecuritylaw/?lang=en*; Sherisse Pham, "China's New Cyber Law Just Kicked in and Nobody's Sure How It Works," CNN, June 1, 2017. *http://money.cnn.com/2017/06/01/technology/business/china-cybersecurity-law/*.

[105] *China Law Translate*, "2016 Cybersecurity Law." *http://www.chinalawtranslate.com/cybersecuritylaw/?lang=en*.

[106] U.S. Chamber of Commerce, "Business without Borders: The Importance of Cross-Border Data Transfers to Global Prosperity," May 18, 2014. *https://www.huntonprivacyblog.com/wp-content/uploads/sites/18/2014/05/021384_BusinessWOBorders_final.pdf*.

[107] *China Law Translate*, "2016 Cybersecurity Law." *http://www.chinalawtranslate.com/cybersecuritylaw/?lang=en*.

[108] Yuan Yang, "China's Cyber Security Law Rattles Multinational," *Financial Times*, May 30, 2017. *https://www.ft.com/content/b302269c-44ff-11e7-8519-9f94ee97d996*.

the government to compel companies to decrypt data—for example, decrypting secure online communications or unlocking the smart phone of an individual identified by the Chinese government.[109]

These regulations add to several others China adopted over the past two years to gain greater control over Internet firms and online activity. China has already passed a national security law that may compel foreign Internet information firms to hand over source code to Chinese authorities through "secure and controllable" requirements, and has enacted rules restricting the use of virtual private networks (VPNs), which are used by individuals and businesses to circumvent China's extensive censorship apparatus. Companies are starting to fear tightening restrictions will materially impede their ability to run day-to-day business operations, including cross-border communications, obtaining business-critical information, and using collaborative tools such as Google Docs.[110] (For an in-depth assessment of these and other measures used by the Chinese government to control information, see Chapter 3, Section 5, "China's Domestic Information Controls, Global Media Influence, and Cyber Diplomacy.")

U.S. businesses associations have raised concerns that Chinese restrictions on the flow of information could serve as vehicles for protectionism.[111] For example, restrictions on international data transfer could impede the ability of Chinese consumers to access U.S. cloud computing services, advantaging Chinese firms such as Alibaba that already store most of their data locally.[112] The security review also has no clear criteria for deeming whether a technology firm's products are trustworthy, and may give Chinese authorities license to favor domestic suppliers over U.S. firms on the basis of cybersecurity.[113] According to a survey by the European Union Chamber of Commerce, 22 percent of responding foreign firms reported that China's Internet restrictions had affected 10 percent or more of their revenue in 2017, up from 16 percent of respondents in 2015.[114] A similar survey conducted by AmCham China found that 92 percent of surveyed firms were negatively affected by Chinese restrictions preventing the use of online tools in 2016, a significant increase from 56 percent of respondents in 2015.[115] Chinese Internet policies also widely affect U.S. companies: 87 percent of U.S. companies responding to an AmCham China survey in 2016 reported

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[109] Yuan Yang, "China's Cyber Security Law Rattles Multinational," *Financial Times*, May 30, 2017. *https://www.ft.com/content/b302269c-44ff-11e7-8519-9f94ee97d996.*

[110] Konghuo Chua, "China's New VPN Clampdown Hurts Business, U.S. Group Says," Bloomberg, July 12, 2017. *https://www.bloomberg.com/news/articles/2017-07-12/new-chinese-internet-clampdown-hurts-business-u-s-group-says*; Yuan Yang, "Multinationals in China Brace for Online Crackdown," *Financial Times*, July 31, 2017.

[111] James Zimmerman, "AmCham China Statement on Cybersecurity Law," *American Chamber of Commerce in China*, November 7, 2016. *https://www.amchamchina.org/about/press-center/amcham-statement/amcham-china-statement-on-cybersecurity-law.*

[112] Christina Larson, "China Adopts Cybersecurity Law Despite Foreign Opposition," Bloomberg, November 7, 2016. *https://www.bloomberg.com/news/articles/2016-11-07/china-passes-cybersecurity-law-despite-strong-foreign-opposition.*

[113] *China Law Translate*, "2016 Cybersecurity Law." *http://www.chinalawtranslate.com/cybersecuritylaw/?lang=en.*

[114] Konghuo Chua, "China's New VPN Clampdown Hurts Business, U.S. Group Says," Bloomberg, July 12, 2017. *https://www.bloomberg.com/news/articles/2017-07-12/new-chinese-internet-clampdown-hurts-business-u-s-group-says.*

[115] American Chamber of Commerce in the People's Republic of China, "2017 China Business Climate Survey Report." *http://www.amchamchina.org/uploads/media/default/0001/06/990dc2c671441d882586cc05ded6dde7e261fa0e.pdf.*

being affected by Chinese regulations regarding online censorship, and 77 percent reported being affected by regulations on data localization.[116]

U.S.-China Bilateral and Multilateral Engagement

The Trump-Xi Summit

On April 7, 2017, President Donald Trump hosted a summit with President Xi at the Mar-a-Lago resort in Florida. While the daylong meeting led to little in the way of tangible results, the two sides laid the groundwork for future interaction by establishing new diplomatic channels, a timeline for discussion on trade issues, and a cooperative stance on North Korea.[117] After the meeting, the two sides announced the restructuring of a key bilateral dialogue and established a 100-day plan to tackle outstanding trade and investment issues.

The 100-Day Plan for Kickstarting Progress

The first big announcement was a 100-day plan to address trade and investment issues between the United States and China.[118] In May 2017, the U.S. Department of Commerce announced the first deliverable of the 100-day plan: a new agreement with China to promote market access in a range of sectors, including agriculture, financial services, and energy.[119] While Secretary of Commerce Wilbur Ross hailed the ten-point agreement as a "herculean accomplishment" that "will help us to bring down the deficit for sure," observers pointed out that many of the items in the deal are long-time obligations China has failed to meet.[120] Most of the items had a deadline of July 16, 2017, the 100th day after the Trump-Xi meeting.[121] Key issues addressed in the agreement include:

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[116] American Chamber of Commerce in the People's Republic of China, "2017 China Business Climate Survey Report." *http://www.amchamchina.org/uploads/media/default/0001/06/990dc2c671441d882586cc05ded6dde7e261fa0e.pdf*.

[117] Toluse Olorunnipa and Jennifer Jacobs, "Trump-Xi Summit Accomplishment: Getting to Know One Another," Bloomberg, April 7, 2017. *https://www.bloomberg.com/politics/articles/2017-04-07/trump-xi-summit-s-top-accomplishment-getting-to-know-each-other*.

[118] Alana Abramson, "President Trump and China's Xi Jinping Gave Very Different Reports of Their Phone Call," *Time*, April 12, 2017. *http://time.com/4737001/donald-trump-xi-jinping-phone-call-readout/*.

[119] U.S. Department of Commerce, *Joint Release: Initial Results of the 100-Day Action Plan of the U.S.-China Comprehensive Economic Dialogue*, May 11, 2017. *https://www.commerce.gov/news/press-releases/2017/05/joint-release-initial-results-100-day-action-plan-us-china-comprehensive*.

[120] Don Lee, "Trade Deal Feeds China a Taste for Beef, But Won't Close the U.S. Trade Deficit," *Los Angeles Times*, May 12, 2017. *http://www.latimes.com/world/la-fg-us-china-trade-deal-20170512-story.html*; Ayesha Rascoe and Michael Martina, "U.S., China Agree to First Trade Steps under 100-Day Plan," Reuters, May 12, 2017. *www.reuters.com/article/us-usa-china-trade-idUSKBN188088*.

[121] U.S. Department of Commerce, *Joint Release: Initial Results of the 100-Day Action Plan of the U.S.-China Comprehensive Economic Dialogue*, May 11, 2017. *https://www.commerce.gov/news/press-releases/2017/05/joint-release-initial-results-100-day-action-plan-us-china-comprehensive*.

- **Agriculture:** On June 12, 2017, China and the United States finalized technical standards for U.S. beef exports to China, lifting a 13-year ban.[122] China, the world's second-largest importer of beef, will now permit imports of U.S. bone-in and boneless beef for livestock under 30 months that can be traceable to a U.S. birth farm or first place of residence or port of entry.[123] However, only 15 percent of U.S. producers participate in the voluntary beef traceability system, which limits gains for U.S. exporters hoping to reach the Chinese market.[124] In return for gaining market access for U.S. beef, the United States will allow imports of Chinese cooked poultry.[125] Chinese poultry has been banned in the United States due to food safety concerns—China is prone to outbreaks of avian flu and has a long history of food safety scandals.[126] In March 2016, an audit report published by the U.S. Department of Agriculture's (USDA) Food and Safety Inspection Service (FSIS) found China's poultry slaughter inspection system meets U.S. food safety standards.[127] With this satisfactory audit, on June 16, 2017, the FSIS proposed a regulatory amendment adding China to the list of countries eligible to export poultry products from birds slaughtered in China.[128] The amendment will be open for public comment until August 15, after which the FSIS will make a final determination.[129] Meanwhile, in July 2017 a group of three dozen senators sent a letter to the U.S. Secretary of Agriculture urging him to press China to end its ban on U.S. poultry, which has been in effect since 2015 after bird flu was discovered in a wild duck.[130] [Note to Commissioners: This section will be updated.]

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[122] U.S. Department of Agriculture, *U.S., China Finalize Details to Send U.S. Beef to China*, June 12, 2017. *https://www.usda.gov/media/press-releases/2017/06/12/us-china-finalize-details-send-us-beef-china*.

[123] U.S. Department of Agriculture, Agricultural Marketing Service, *Beef Exports to the People's Republic of China*, *https://www.ams.usda.gov/services/imports-exports/beef-ev-china*.

[124] Greg Henderson, "DroversTV: What Will It Take for U.S. Beef to Enter China?" *Drovers*, May 18, 2017. *http://www.cattlenetwork.com/video/droverstv-what-will-take-us-beef-enter-china*.

[125] U.S. Department of Commerce, *Joint Release: Initial Results of the 100-Day Action Plan of the U.S.-China Comprehensive Economic Dialogue*, May 11, 2017. *https://www.commerce.gov/news/press-releases/2017/05/joint-release-initial-results-100-day-action-plan-us-china-comprehensive*.

[126] *Inside U.S. Trade*, "U.S.-China 100-Day Plan Focused on Tackling Beef, Poultry, Biotech, Epay Issues," May 11, 2017. *https://insidetrade.com/daily-news/us-china-100-day-plan-focused-tackling-beef-poultry-biotech-epay-issues*.

[127] *Inside U.S. Trade*, "U.S.-China 100-Day Plan Focused on Tackling Beef, Poultry, Biotech, Epay Issues," May 11, 2017. *https://insidetrade.com/daily-news/us-china-100-day-plan-focused-tackling-beef-poultry-biotech-epay-issues*.

[128] U.S. Department of Commerce, *Joint Release: Initial Results of the 100-Day Action Plan of the U.S.-China Comprehensive Economic Dialogue*, May 11, 2017. *https://www.commerce.gov/news/press-releases/2017/05/joint-release-initial-results-100-day-action-plan-us-china-comprehensive*; U.S. Department of Agriculture, Food Safety and Inspection Service, "Eligibility of the People's Republic of China (PRC) to Export to the United States Poultry Products from Birds Slaughtered in the PRC," *Federal Register* 82:115 (June 16, 2017). *https://www.gpo.gov/fdsys/pkg/FR-2017-06-16/pdf/2017-12554.pdf.*

[129] U.S. Department of Agriculture, Food Safety and Inspection Service, "Eligibility of the People's Republic of China (PRC) to Export to the United States Poultry Products from Birds Slaughtered in the PRC," *Federal Register* 82:115 (June 16, 2017). *https://www.gpo.gov/fdsys/pkg/FR-2017-06-16/pdf/2017-12554.pdf*; U.S. Department of Agriculture, Food Safety and Inspection Service, *Processing and Slaughter Inspection Systems*, June 16, 2017. *https://www.fsis.usda.gov/wps/portal/fsis/newsroom/news-releases-statements-transcripts/news-release-archives-by-year/archive/2016/faq-china-030416*.

[130] U.S. Senate to the Honorable Sonny Perdue, Secretary, U.S. Department of Agriculture, July 27, 2017.

- **Financial services:** China agreed to issue guidelines to allow U.S.-owned suppliers of electronic payment services to "begin the licensing process" in a sector that has been dominated by UnionPay, China's state-owned payments network.[131] U.S. companies hoped for a speedy access to the Chinese bank card payments market, which, according to the PBOC, reached $8.4 trillion in 2015 and is projected to become the world's largest by 2020.[132] Instead, the guidelines released by the PBOC on July 12 lay out a two-step licensing process, possibly with a national security review provision, which means U.S. companies would have to wait two or more years before they can participate in the Chinese market.[133] The release of the guideline marks another in a long line of delays and obstructions used by the Chinese government to deny foreign companies access. (For an in-depth assessment of U.S. market access to China's financial services market, see Chapter 1, Section 3, "U.S. Access to China's Consumer Market.")
- **Natural gas:** Under the new agreement, the United States welcomed Chinese companies to import liquefied natural gas (LNG) from U.S. suppliers, including purchases under long-term contracts.[134] While U.S. companies are already able to export LNG to China, industry analysts believe this high-level statement of support could encourage investment in U.S. LNG export terminals needed to support higher levels of U.S. exports.[135] China is the fastest-growing market for LNG, as the country transitions from coal generation to a cleaner energy mix.[136] The deal "will let China diversify, somewhat, their sources of supply and will provide a huge export market for American LNG producers," said Secretary Ross.[137] However, U.S. LNG exporters may see only limited benefits from the deal, at least in the near term. According to data from Bloomberg New Energy Finance, Chinese companies have long-term LNG contracts with non-U.S. suppliers through at

[131] U.S. Department of Commerce, *Joint Release: Initial Results of the 100-Day Action Plan of the U.S.-China Comprehensive Economic Dialogue*, May 11, 2017. *https://www.commerce.gov/news/press-releases/2017/05/joint-release-initial-results-100-day-action-plan-us-china-comprehensive*.

[132] Shu Zhang and Matthew Miller, "China Opens its Markets to Foreign Bank Companies," Reuters, June 7, 2016. *http://www.reuters.com/article/us-china-regulations-idUSKCN0YT1EB*.

[133] Doug Palmer, "China Drags Its Feet on Opening Market to Electronic Payments like Visa and MasterCard," *Politico*, July 12, 2017.

[134] U.S. Department of Commerce, *Joint Release: Initial Results of the 100-Day Action Plan of the U.S.-China Comprehensive Economic Dialogue*, May 11, 2017. *https://www.commerce.gov/news/press-releases/2017/05/joint-release-initial-results-100-day-action-plan-us-china-comprehensive*.

[135] Christopher Smith, "U.S. Statement on LNG to China May Signal a Shift to a Less Transparent Approach to Energy Policy," *Forbes*, May 15, 2017. *https://www.forbes.com/sites/thebakersinstitute/2017/05/15/statement-on-lng-to-china-may-signal-a-shift-to-a-less-transparent-approach-to-energy-policy/#5f7d972117cf*; Christine Buurma, Naureen S. Malik, and Ryan Collins, "Trump's China Deal Boosts U.S. LNG without Rule Change," Bloomberg, May 12, 2017. *https://www.bloomberg.com/politics/articles/2017-05-12/trump-s-china-deal-gives-u-s-lng-a-boost-without-changing-rules*.

[136] Tom DiChristopher and Leslie Shaffer, "Despite Trump Trade Deal, U.S. Natural Gas Exports to China Face Obstacles," CNBC, May 12, 2017. *http://www.cnbc.com/2017/05/12/despite-trump-deal-us-natural-gas-exports-to-china-face-obstacles.html*; Nathaniel Taplin, "China Trade Plan Is Big Deal for Natural Gas," *Wall Street Journal*, May 12, 2017. *https://www.wsj.com/articles/china-trade-plan-is-big-deal-for-natural-gas-1494582778*.

[137] Toluse Olorunnipa and Dan Murtaugh, "U.S. Inks China Trade Deal Promoting Finance Services, Beef," Bloomberg, May 11, 2017. *https://www.bloomberg.com/politics/articles/2017-05-12/u-s-reaches-deal-to-allow-exports-of-natural-gas-beef-to-china*.

least 2023 that exceed domestic demand.[138] Moreover, the United States currently lacks the infrastructure to export more LNG, and any increase in exports to China would have to wait until more LNG export terminals are built.[139]

- **Biotechnology:** China promised "to conduct science-based evaluations of all eight pending U.S. biotechnology product applications to assess the safety of the products for their intended use."[140] Products that pass the safety reviews are to receive certificates "within 20 working days" that will enable to them to be sold in China.[141] In June 2017, China approved two genetically modified (GM) strains of soybeans and corn developed by Monsanto and Dow Chemical, respectively, for import into its market.[142] Approval for two more GM corn types, from Syngenta and Monsanto, followed in July.[143] However, four more products await approval, leading U.S. companies to complain about the lack of transparency in China's review process.[144] [145] The Chinese government has designated biotechnology as a strategic emerging industry, and in a 2014 speech President Xi said foreign companies should not be allowed to "dominate the [domestic] agricultural biotechnology product market."[146] Beijing has blocked imports of genetically modified seeds from U.S. companies like Monsanto, DuPont, and Dow Chemical, citing safety concerns, but U.S. industry analysts believe

[138] Toluse Olorunnipa and Dan Murtaugh, "U.S. Inks China Trade Deal Promoting Finance Services, Beef," Bloomberg, May 11, 2017. *https://www.bloomberg.com/politics/articles/2017-05-12/u-s-reaches-deal-to-allow-exports-of-natural-gas-beef-to-china*.

[139] Tom DiChristopher and Leslie Shaffer, "Despite Trump Trade Deal, U.S. Natural Gas Exports to China Face Obstacles," CNBC, May 12, 2017. *http://www.cnbc.com/2017/05/12/despite-trump-deal-us-natural-gas-exports-to-china-face-obstacles.html*.

[140] U.S. Department of Commerce, *Joint Release: Initial Results of the 100-Day Action Plan of the U.S.-China Comprehensive Economic Dialogue*, May 11, 2017. *https://www.commerce.gov/news/press-releases/2017/05/joint-release-initial-results-100-day-action-plan-us-china-comprehensive*.

[141] U.S. Department of Commerce, *Joint Release: Initial Results of the 100-Day Action Plan of the U.S.-China Comprehensive Economic Dialogue*, May 11, 2017. *https://www.commerce.gov/news/press-releases/2017/05/joint-release-initial-results-100-day-action-plan-us-china-comprehensive*.

[142] Brian Spegele, "China Greenlights Imports of Two New GMO Products," *Wall Street Journal*, June 14, 2017. *https://www.wsj.com/articles/china-greenlights-imports-of-two-new-gmo-products-1497444846?mg=prod/accounts-wsj*.

[143] Dominique Patton, "DuPont, Monsanto Urge Transparent GMO Crop Reviews in China," July 17, 2017. *http://www.reuters.com/article/us-china-gmo-idUSKBN1A20IC*.

[144] FOOTNOTE: For more information about China's approval process for GM products, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, July 6, 2017, 3–4.

[145] Dominique Patton, "DuPont, Monsanto Urge Transparent GMO Crop Reviews in China," July 17, 2017. *http://www.reuters.com/article/us-china-gmo-idUSKBN1A20IC*.

[146] Andrew Anderson-Sprecher and Ma Jie, "China Considering Major Revisions to Biotechnology Regulations," *USDA Foreign Agricultural Service Global Agricultural Information Network Report*, December 21, 2015. *https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Agricultural%20Biotechnology%20Annual_Beijing_China%20-%20Peoples%20Republic%20of_12-21-2015.pdf*.

these policies are aimed at protecting China's domestic biotechnology industry from foreign competition.[147]

The U.S.-China Comprehensive Dialogue

The second outcome of the Mar-a-Lago meeting was an agreement to restructure the Strategic and Economic Dialogue (S&ED)[148] creating the United States-China Comprehensive Dialogue, which will be divided into four tracks: the Diplomatic and Security Dialogue, Comprehensive Economic Dialogue, Cyber and Law Enforcement Dialogue, and Social and People-to-People Exchange Dialogue.[149] The four dialogues will be scheduled at separate times; the S&ED, by contrast, was held over a two-day period.[150]

The inaugural Comprehensive Economic Dialogue, chaired by the U.S. Departments of Treasury and Commerce, was held on July 19. The meeting concluded with no joint statement, concrete agreements, or future agenda. The two news conferences United States and China were going to hold separately after the meeting were cancelled.[151] A statement from U.S. Treasury Secretary Steven Mnuchin and U.S. Commerce Secretary Wilbur Ross said, "China acknowledged our shared objective to reduce the trade deficit which both sides will work cooperatively to achieve."[152] According to people familiar with the talks, China was

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[147] Alex Capri, "Why The China-U.S. Trade Deal Is a Win for Some, but Meaningless for Most," *Forbes*, May 15, 2017. *https://www.forbes.com/sites/alexcapri/2017/05/15/the-cherry-picked-winners-of-the-u-s-china-trade-deal/#62c4097f6428*; Andrew Anderson-Sprecher and Ma Jie, "China Considering Major Revisions to Biotechnology Regulations," *USDA Foreign Agricultural Service Global Agricultural Information Network Report*, December 21, 2015. *https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Agricultural%20Biotechnology%20Annual_Beijing_China%20-%20Peoples%20Republic%20of_12-21-2015.pdf*.

[148] FOOTNOTE: The U.S.-China Strategic and Economic Dialogue (S&ED) was established by then President Barack Obama and then Chinese President Hu Jintao in April 2009. The S&ED was divided into two tracks. The economic track was headed by the secretary of the treasury and the security track by the secretary of state, but many other high-level officials from a variety of governmental departments also participated. The strategic track focused on bilateral relations, international security issues, global issues, and regional security issues. The economic track focused on promoting recovery and sustainable growth, market-oriented financial systems, trade and investment, and a more robust international financial architecture. House Foreign Affairs Committee, *U.S.-China Relations: Maximizing the Effectiveness of the Strategic and Economic Dialogue*, prepared statement of David Loevinger, U.S. Department of State, September 10, 2009. *https://www.treasury.gov/press-center/press-releases/Pages/tg292.aspx*; Bonnie Glaser, "Strategic & Economic Dialogue Sets Agenda for Cooperation," *E-Journal on East Asian Bilateral Relations* (October 2009): 2.

[149] White House, *Briefing by Secretary Tillerson, Secretary Mnuchin, and Secretary Ross on President Trump's Meetings with President Xi of China*, April 7, 2017. *https://www.whitehouse.gov/the-press-office/2017/04/07/briefing-secretary-tillerson-secretary-mnuchin-and-secretary-ross*; Nike Ching, "US-China to Launch 4 Rounds of Talks, as Trump 'Looks Forward' to Beijing Visit," *Voice of America*, April 24, 2017. *https://www.voanews.com/a/us-china-launch-four-rounds-talks-donald-trump-beijing-visit/3823560.html*.

[150] Bonnie Glaser, "Strategic & Economic Dialogue Sets Agenda for Cooperation," *E-Journal on East Asian Bilateral Relations* (October 2009): 2; Nike Ching, "US-China to Launch 4 Rounds of Talks, as Trump 'Looks Forward' to Beijing Visit," *Voice of America*, April 24, 2017. *https://www.voanews.com/a/us-china-launch-four-rounds-talks-donald-trump-beijing-visit/3823560.html*.

[151] Reuters, "U.S., Chinese Delegations Cancel News Conferences on Economic Talks," July 19, 2017. *http://www.cnbc.com/2017/07/19/us-chinese-delegations-cancel-news-conferences-on-economic-talks.html*.

[152] Reuters, "U.S., China Fail to Agree on Trade, Casting Doubt on Other Issues," July 19, 2017. *http://www.cnbc.com/2017/07/19/us-china-comprehensive-economic-dialogue-disagreement-over-how-to-reduce-trade-deficit-official-says.html*.

unwilling to concede to U.S. demands for concrete plans, including numerical targets, for reducing the U.S. trade deficit and cutting steel capacity.[153]

United States and China at the WTO

China's adherence to World Trade Organization (WTO) principles remains mixed, giving rise to continued tensions with the United States over China's lack of compliance with its commitments. The United States continues to call out China for its ongoing failure to notify its subsidies to the WTO. Over the last year, the United States brought WTO cases against China over its tariff rate quotas on certain agricultural goods, and subsidies to aluminum producers. At the same time, China has initiated a case against its trade partners for continuing to treat China as a nonmarket economy. Key developments in U.S.-China engagement at the WTO are discussed in the following subsections. Ongoing WTO cases between the United States and China are summarized in Addendum I.

China Brings Market Economy Status Dispute to the WTO

In December 2016, China launched a legal challenge at the WTO after the United States and EU maintained China's status as a nonmarket economy (NME).[154] Beijing believes its trade partners are obligated to grant it market economy status (MES) following the expiration of section 15(a)(ii) of its WTO Accession Protocol on December 11.[155] [156] In China's 2001 WTO accession agreement, Beijing agreed to provisions allowing its trade partners to automatically treat it as an NME for the purposes of antidumping (AD) enforcement for 15 years.[157] This agreement allowed countries to use values from a third country in a similarly situated economic position—not Chinese prices or costs—for AD calculations, unless China could demonstrate market economy conditions prevailed in the relevant industry.[158] Beijing had hoped it would be recognized

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[153] Jacob M. Schlesinger and Ian Talley, "Lack of Progress at U.S.-China Talks Raises Stakes for Trump," *Wall Street Journal*, July 20, 2017. *https://www.wsj.com/articles/u-s-opens-difficult-china-trade-talks-1500478896*.

[154] World Trade Organization, *United States – Measures Related to Price Comparison Methodologies*, Dispute DS515, December 12, 2016. *https://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm*; World Trade Organization, *European Union – Measures Related to Price Comparison Methodologies*, Dispute DS516, December 12, 2016. *https://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm*

[155] FOOTNOTE: For more on China's MES, see U.S.-China Economic and Security Review Commission, "State-Owned Enterprises, Overcapacity, and China's Market Economy Status," in *2016 Annual Report to Congress*, November 2016, 114–119.

[156] Xinhua, "Refusal to Drop Surrogate Country Approach Puts Trade Ties at Risk," December 12, 2016. *http://europe.chinadaily.com.cn/business/2016-12/12/content_27640870.htm*.

[157] World Trade Organization, "Accession of the People's Republic of China," November 23, 2001.

[158] Alan Price, Timothy Brightbill, and Scott Nance, "The Treatment of China as a Non-Market Economy Country after 2016," *Wiley Rein LLP*, September 15, 2015, 2.

as a market economy following the provision's expiration, despite repeated instances of artificially reducing the price of exports with government subsidies—a practice known as "dumping."[159]

On April 3, 2017, the WTO Dispute Settlement Body established a panel to review China's claim that the EU is violating its WTO commitments by treating China as an NME.[160] Despite requesting consultations with both the United States and the EU, at this stage China chose to pursue a case only against the EU—an indicator China may be using a "divide and conquer" strategy because it believes it has a better case against the EU.[161]

Unlike the United States, which applies a six-step test for determining whether a country or sector qualifies as a market economy, current EU law names specific countries—including China—as NMEs.[162] Legislation is currently under consideration in the EU to remove the NME country list and allow industry groups to make NME arguments against foreign countries on a sector-by-sector basis. The EU has expressed frustration that China would bring its WTO case while the law—which may result in the measures China opposes being withdrawn—is being considered.[163] In a statement during a WTO meeting on March 21, 2017, the EU said China's case "is unnecessary and ultimately incapable of being fruitful," while also calling it an attack on the "ongoing internal legislative process of the European Union."[164]

The potential economic fallout of the EU granting China MES worries U.S. policymakers, with unnamed U.S. officials from the Office of the U.S. Trade Representative (USTR) and the U.S. Department of Commerce warning their EU counterparts in December 2015 that granting China MES would amount to "unilaterally disarming" Europe's trade defenses against China.[165] Six months later, a bipartisan group of 18 U.S. senators sent a letter to EU Trade Commissioner Cecilia Malmström urging the EU to rule against granting China MES. The letter stated that granting China MES would "thwart global efforts to secure

[159] Xinhua, "Refusal to Drop Surrogate Country Approach Puts Trade Ties at Risk," December 12, 2016. *http://europe.chinadaily.com.cn/business/2016-12/12/content_27640870.htm*; Christian Tietje and Karsten Nowrot, "Myth or Reality? China's Market Economy Status under WTO Anti-Dumping Law after 2016," Policy Papers on Transnational Economic Law No. 34 (Transnational Economic Law Research Center, December 2011). *http://tietje.jura.uni-halle.de/sites/default/files/telc/PolicyPaper34.pdf*.

[160] *China Trade Extra*, "WTO Establishes Panel in China-EU Fight over Market Economy Status," April 3, 2017. *https://chinatradeextra.com/daily-news/wto-establishes-panel-china-eu-fight-over-market-economy-status*.

[161] *China Trade Extra*, "China Will Seek Panel with EU, Not U.S., in Market Economy Dispute," March 14, 2017. *https://chinatradeextra.com/daily-news/china-will-seek-panel-eu-not-us-market-economy-dispute*.

[162] *China Trade Extra*, "China to Advance Market Economy Fight with EU at Special DSB Meeting in April," March 24, 2017. *https://chinatradeextra.com/daily-news/china-advance-market-economy-fight-eu-special-dsb-meeting-april*.

[163] *China Trade Extra*, "China to Advance Market Economy Fight with EU at Special DSB Meeting in April," March 24, 2017. *https://chinatradeextra.com/daily-news/china-advance-market-economy-fight-eu-special-dsb-meeting-april*.

[164] *China Trade Extra*, "U.S., EU Blast China for Requesting WTO Panel in Market Economy Fight with Europe," March 21, 2017. *https://chinatradeextra.com/daily-news/us-eu-blast-china-requesting-wto-panel-market-economy-fight-europe*.

[165] Christian Oliver, Shawn Donnan, and Tom Mitchell, "US Warns Europe over Granting Market Economy Status to China," *Financial Times*, December 28, 2015. *http://www.ft.com/intl/cms/s/0/a7d12aea-a715-11e5-955c-1e1d6de94879.html#axzz4AT6qjPlv*.

China's compliance with its international trade obligations," and "could have a destabilizing impact in certain global sectors, including the steel industry."[166]

United States Challenges Chinese Tariff Rate Quotas for Rice, Wheat, and Corn

On December 15, 2016, the United States brought a complaint against China's "opaque and unpredictable" management of tariff rate quotas (TRQs) for rice, wheat, and corn, which "breaches China's WTO commitments and undermines American farm exports."[167] In its WTO accession agreement, China agreed to apply low tariff rates to imports of grain until total imports have reached a specific quota (5.32 million metric tons for rice, 9.636 million metric tons for wheat, and 7.2 million metric tons for corn).[168] After the quota is reached, the imports are assessed a 65 percent tariff.[169] The USTR alleges "China's application criteria and procedures are unclear, and China does not provide meaningful information on how it actually administers the tariff-rate quotas."[170] The USTR also argues that China maintains "impermissible restrictions on importation, and [fails] to provide notice of the total quantities permitted to be imported and changes to the total quantity permitted to be imported," which prevents exporters from gaining fair access to China's market."[171]

China is an important market for U.S. agricultural exports, though these volumes would be much higher if China permitted imports in adherence to its WTO commitments. According to the USDA, China's TRQs for wheat, rice, and corn "were worth over $7 billion in 2015. If the TRQs had been fully used, China would have imported as much as $3.5 billion worth of additional crops" in that year.[172]

In September 2016, the USTR brought a separate case against Chinese domestic subsidies for rice, wheat, and corn,[173] which the USTR estimates to be $100 billion in excess of China's WTO commitments.

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[166] *China Trade Extra*, "Senators Warn Malmstrom against Giving China Market Economy Status," June 3, 2016. *https://insidetrade.com/daily-news/senators-warn-malmstrom-against-giving-china-market-economy-status*.

[167] Office of the U.S. Trade Representative, *United States Challenges Chinese Grain Tariff Rate Quotas for Rice, Wheat, and Corn*, December 15, 2016. *https://ustr.gov/about-us/policy-offices/press-office/press-releases/2016/december/united-states-challenges-chinese*.

[168] Office of the U.S. Trade Representative, *United States Challenges Chinese Grain Tariff Rate Quotas for Rice, Wheat, and Corn*, December 15, 2016. *https://ustr.gov/about-us/policy-offices/press-office/press-releases/2016/december/united-states-challenges-chinese*.

[169] United States Department of Agriculture, *China's Growing Demand for Agricultural Imports*, February 2015, 10. *http://www.ers.usda.gov/media/1784488/eib136.pdf.*

[170] Office of the U.S. Trade Representative, *United States Challenges Chinese Grain Tariff Rate Quotas for Rice, Wheat, and Corn*, December 15, 2016. *https://ustr.gov/about-us/policy-offices/press-office/press-releases/2016/december/united-states-challenges-chinese*.

[171] Office of the U.S. Trade Representative, *United States Challenges Chinese Grain Tariff Rate Quotas for Rice, Wheat, and Corn*, December 15, 2016. *https://ustr.gov/about-us/policy-offices/press-office/press-releases/2016/december/united-states-challenges-chinese*.

[172] Office of the U.S. Trade Representative, *United States Challenges Chinese Grain Tariff Rate Quotas for Rice, Wheat, and Corn*, December 15, 2016. *https://ustr.gov/about-us/policy-offices/press-office/press-releases/2016/december/united-states-challenges-chinese*.

[173] FOOTNOTE: For more on this case, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, October 7, 2016. *http://www.uscc.gov/trade-bulletin/october-2016-trade-bulletin*.

United States and China Battle over Steel and Aluminum Industry Subsidies

Though steel and aluminum overcapacity are global issues, China accounts for most of the excess capacity due to massive subsidies and other forms of support.[174] The United States challenged China's subsidization of its steel and aluminum firms at the WTO and launched investigations into the impact of imports on national security and U.S.-based aluminum and steel firms.

The United States has long censured the Chinese government for not adhering to its WTO obligations by failing to report its subsidies to the WTO. Per the WTO Agreement on Subsidies and Countervailing Measures, member countries must report all of their subsidies each year.[175] In October 2015, China submitted a notification for national subsidies for 2009–2014, but this notification did not outline China's provincial and local subsidies, where most of China's government financial support is provided.[176] In January 2016, the USTR claimed this notification was incomplete and provided WTO members a list of China's subsidies for one of its largest steel firms and reported on the Chinese banking regulator's instructions to increase direct funding and loosen financing restrictions to the steel sector.[177] In October 2016, the USTR again raised its concerns about China's incomplete notification by laying out subsidy programs that China's notification did not mention and requesting additional clarification.[178]

On April 12, 2017, the United States and the EU jointly challenged China's steel subsidies before the WTO Committee on Subsidies and Countervailing Measures, identifying more than $1 billion in subsidies to Hebei Iron and Steel Company, Shougang Steel, Chongqing Steel, and Baoshan Iron and Steel in 2011–2014 for the Chinese government to explain.[179] The Chinese government responded to U.S. allegations by claiming yet again that its support for the steel industry is aimed at improving environmental protection, technological innovation, and industrial restructuring, and thus is not prohibited under the WTO.[180] The USTR has not yet challenged this latest response.

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[174] FOOTNOTE: For an in-depth assessment of the impact of Chinese overcapacity on U.S. economy and national security, see U.S.-China Economic and Security Review Commission, "State-Owned Enterprises, Overcapacity, and China's Market Economy Status," in *2016 Annual Report to Congress*, November 2016, 103–114.

[175] World Trade Organization, "Notifications under the Agreement on Subsidies and Countervailing Measures." *https://www.wto.org/english/tratop_e/scm_e/notif_e.htm*.

[176] World Trade Organization, "New and Full Notification Pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures," October 25, 2017.

[177] Doug Palmer, "U.S.-China Subsidy Slamfest at WTO," *Politico*, April 28, 2016. *http://www.politico.com/tipsheets/morning-trade/2016/04/us-china-subsidy-slamfest-at-wto-house-passes-mtb-process-reform-bill-ustr-promises-action-plans-to-curb-intellectual-property-theft-214010*; World Trade Organization, "Questions from the United States Regarding the New and Full Notification of China," January 25, 2016.

[178] World Trade Organization, "Follow-up Questions from the United States Regarding the New and Full Notification of China," October 21, 2016.

[179] World Trade Organization, "Questions from the United States and the European Union to China Pursuant to Article 25.8 of the Agreement," April 12, 2017.

[180] World Trade Organization, "Replies to Questions Posed by the United States Regarding the New and Full Notification of China," April 21, 2017.

China has struck back against U.S. complaints by accusing the United States of failing to notify the WTO about alleged federal and state steel subsidy programs.[181] China claims these programs have de jure specificity—where a subsidy is clearly limited to a particular company, industry, group of industries, or geographic region—and thus is a violation of the WTO rules.[182] At the federal level, the Chinese government alleges $76.9 million in AD and countervailing duties (CVDs) paid out by U.S. Customs and Border Protection in 2008–2015 and $7.7 billion in pensions provided to retired U.S. workers by the U.S. Department of Labor's Pension Benefit Guaranty Group since 2003 are in fact subsidies.[183] China accuses U.S. Customs and Border Protection of subsidizing the U.S. steel industry by imposing CVDs to offset subsidized imports from China and other countries.[184] The WTO permits countries to enact ADs and CVDs after an investigation into the impact of subsidies on the importing countries' industries.[185] In addition, the Pension Benefit Guaranty Group—an independent government agency that guarantees pension benefits for private firms—is funded not by the federal government but by insurance premiums from private sector employers, assets held by pension funds it takes over, investment income, and bankruptcy assets from insolvent pension plans.[186] The USTR has yet to formally respond to these allegations.

In a separate action, in January 2017, the USTR requested consultations with China at the WTO regarding China's subsidies to its primary aluminum producers since 2007.[187] The United States alleges the Chinese government has provided low-cost financing and inputs to its primary aluminum producers, which displaced and impeded U.S. imports of primary aluminum into China and the global market, suppressed global prices, and increased China's global market share.[188]

Beyond the WTO, in April 2017 President Trump directed the Department of Commerce to conduct an investigations, under Section 232 of the Trade Expansion Act of 1962, into whether steel and aluminum

[181] World Trade Organization, "Request from China to the United States Pursuant to Article 25.8 of the Agreement," April 12, 2017; World Trade Organization, "Request from China to the United States Pursuant to Article 25.8 of the Agreement - Corrigendum," April 20, 2017.

[182] U.S. Department of Commerce, International Trade Administration, *Subsidy Allegation*. *http://enforcement.trade.gov/petitioncounseling/pcp-subsidy-allegation.html*.

[183] World Trade Organization, "Request from China to the United States Pursuant to Article 25.8 of the Agreement," April 12, 2017; World Trade Organization, "Request from China to the United States Pursuant to Article 25.8 of the Agreement - Corrigendum," April 20, 2017.

[184] World Trade Organization, "Request from China to the United States Pursuant to Article 25.8 of the Agreement," April 12, 2017; World Trade Organization, "Request from China to the United States Pursuant to Article 25.8 of the Agreement - Corrigendum," April 20, 2017; World Trade Organization, "Anti-Dumping, Subsidies, Safeguards: Contingencies, Etc.," *https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm8_e.htm*.

[185] World Trade Organization, "Anti-Dumping, Subsidies, Safeguards: Contingencies, Etc.," *https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm8_e.htm*.

[186] Pension Benefit Guaranty Group, "Mission Statement." *https://www.pbgc.gov/about/who-we-are.html*.

[187] Office of the U.S. Trade Representative, *Obama Administration Files WTO Complaint on China's Subsidies to Aluminum Producers*, January 17, 2017. *https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/january/Obama-Administration-Files-WTO-Complaint-China-Aluminum*.

[188] World Trade Organization, "China – Subsidies to Producers of Primary Aluminum: Request for Consultations by the United States," January 12, 2017.

imports are a threat to national security.[189] If the Department of Commerce determines these imports impair national security, the U.S. president would be able to “adjust imports” by imposing trade measures such as tariffs and quotas.[190] None of the nine steel-related cases the Department of Commerce has initiated have found a threat to national security.[191] In 2001, then President George W. Bush initiated this option to address iron ore and semifinished steel imports following the required Department of Commerce investigation; in that case, Section 232 was not applied because “there [was] no probative evidence that imports of iron ore or semi-finished steel threaten to impair U.S. national security.” [192] [Note to Commissioners: The Department of Commerce has 270 days to complete the Section 232 investigations; this section will be updated.]

Key Findings

- The Chinese government has succeeded in stabilizing economic growth in advance of the political leadership transitions at the CCP’s 19th Party Congress scheduled for fall 2017 through reliance on old drivers of growth: credit and real estate. However, the government unwillingness to allow the market to play a bigger role has resulted in deteriorating investment efficiency, meaning ever greater leverage is necessary to generate growth. Household consumption—an essential element of China’s economic rebalancing—is growing but at a sluggish pace due to the slow pace of reform.
- China’s high and rising debt levels pose a growing threat to the country’s financial stability. China’s total debt reached $27.5 trillion, or 257 percent of GDP, at the end of 2016. The dramatic rise in China’s debt burden can be attributed to the relentless expansion of credit the government has relied on to generate growth since the global financial crisis.
- China continues to dominate the United States global trade deficit in goods, despite a decrease in the U.S.-China deficit caused by declining imports in 2016. U.S. goods exports to China increased 16.8 percent in the first five months of 2017 year-on-year, the highest growth rate since 2009. The

[189] Jack Caporal, “Trump to Order National Security Investigation of Imported Steel,” *Inside U.S. Trade’s World Trade Online*, April 19, 2017. *https://insidetrade.com/daily-news/trump-order-national-security-investigation-imported-steel*; Toulouse Olorunnipa et al., “Trump Administration Opens Trade Investigation on Aluminum,” Bloomberg, April 26, 2017. *https://www.bloomberg.com/news/articles/2017-04-26/trump-administration-said-to-open-trade-probe-on-aluminum*.

[190] U.S. Department of Commerce, *Frequently Asked Questions: Section 232 Investigations: The Effect of Steel Imports on the National Security*, April 21, 2017. *https://www.commerce.gov/news/fact-sheets/2017/04/frequently-asked-questions-section-232-investigations-effect-steel-imports*.

[191] Lewis Leibowitz, “Industry’s Available International Trade Remedies Will Not Alter Global Realities,” *Steel Market Update*, April 20, 2016. *https://www.steelmarketupdate.com/news/8754-the-steel-industry-s-available-international-trade-remedies-will-not-alter-global-realities*.

[192] U.S. Department of Commerce – Bureau of Export Administration, *The Effects of Imports of Iron Ore and Semi-Finished Steel on the National Security*, October 2001.

U.S. services trade surplus with China reached a record high of $37 billion, driven almost entirely by an increase in Chinese tourism to the United States.

- China’s foreign investment climate continues to deteriorate as government policy contributes to rising protectionism and unfair regulatory restrictions on U.S. companies operating in China. The newly implemented cybersecurity law illustrates this trend. The law contains data localization requirements and a security review process U.S. and foreign firms claim can be used to discriminatorily advantage Chinese businesses or access proprietary information from foreign firms.
- U.S. government efforts to tackle China’s trade-distorting practices continue to yield limited results. The inaugural Comprehensive Economic Dialogue, created following a meeting between President Trump and President Xi in April 2017, concluded with no concrete agreements or future agenda. At the WTO, the United States continues to challenge China’s non-compliance with key provisions of its accession agreement, including failure to notify subsidies. In the past year, the United States requested WTO consultations over China’s management of tariff rate quotas for rice, wheat, and corn, and subsidies to select producers of primary aluminum.

Addendum I: WTO Cases

Ongoing WTO Cases Brought by the United States against China

No.	Title	Request for Consultations	Panel Report	Status
DS508	Export Duties on Certain Raw Materials	July 13, 2016	Panel established but not yet composed November 2016	The United States requested consultations with China over China's export subsidies on nine raw materials.[193]
DS511	Domestic Support for Agricultural Producers	September 13, 2016	Panel composed June 2017	The United States requested consultations with China over China's domestic support for rice, wheat, and corn in excess of its WTO commitments.
DS517	Tariff Rate Quotas for Certain Agricultural Products	December 15, 2016	In consultations; panel not yet formed	The United States argues China's tariff rate quota treatment for rice, wheat, and corn is non-transparent, unpredictable, and violate China's WTO commitments.
DS519	Subsidies to Producers of Primary Aluminum	January 12, 2017	In consultations; panel not yet formed	The United States alleges China provides certain producers of primary aluminum with subsidies, including artificially cheap loans and artificially low-priced inputs for production, such as coal, electricity, and alumina.

Source: WTO; compiled by Commission staff.

Ongoing WTO Cases Brought by the China against the United States

No.	Title	Request for Consultations	Panel Report	Status
DS515	Measures Related to Price Comparison Methodologies	December 12, 2016	In consultations; panel not yet formed	China's complaint alleges the United States has failed to treat Chinas as a market economy for the purposes of calculating antidumping duties.[194]

Source: WTO; compiled by Commission staff.

[193] FOOTNOTE: The materials are antimony, cobalt, copper, graphite, lead, magnesia, talc, tantalum, and tin.

[194] FOOTNOTE: The case is related to the expiration on December 11, 2016 of a provision in China's WTO accession protocol that allowed its trade partners to automatically treat China as a non-market economy when calculating dumping margins. China argues it is now automatically entitled to be treated as a market economy, while the United States says there is no automaticity. China filed a similar case against the European Union: *https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds516_e.htm.*