

US-China relations

An overview of major political and economic events

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Roadmap

Overview of US-China relations under Trump

“One China” policy

100-day plan

Trade deficit

Section 301 investigation

Sanctions concerning North Korea

Trump’s opinions on China

US-China trade

Anti-dumping overview

ITC cases

Paper trade

After the inauguration, Trump changes course on the “One China” Policy

The administration confirms support for the policy during a phone call with Xi Jinping



The phone call

- In a phone call with President Xi Jinping of China on Thursday, Trump agreed to honor the longstanding ‘One China’ policy
- The White House released a statement that the two presidents had a lengthy phone conversation, which was in line with other actions in recent weeks to temper heated rhetoric and reaffirm U.S. commitment to East Asia
- Prior to this call, there was concern that the two leaders had not talked in the three weeks after the inauguration and Xi was worried about being humiliated in the media if the call went wrong



Chinese views on Trump

- Some in China now view Trump as a “paper tiger,” or one who seems threatening but is ineffective, because he did not follow through on threats
- Others think using threats against China is counterproductive, and during the phone call Trump assuaged concerns



“

I believe that the United States and China are cooperative partners, and through joint efforts we can push bilateral relations to a historic new high. The development of China and the United States absolutely can complement each other and advance together. Both sides absolutely can become very good cooperative partners.”

-Chinese President Xi Jinping, in a statement following his call with President Trump

Source: Tom Mitchell and Shawn Donnan, “Trade war averted as China and US agree 100-day plan,” Financial Times, April 9, 2017.

Following meeting at Mar-a-Lago in April, China and US agree to a 100-day plan to address trade imbalances

Trade policy takeaways from Trump's meeting with President Xi Jinping



Members of the Trump administration and Chinese negotiators agreed to a 100-day plan to address the trade imbalance between the two countries during the meeting between the US and Chinese presidents



China is currently the United States' largest merchandise trading partner, largest source of imports, and third-largest export market



The plan is still being worked out, but will likely include Chinese concessions on key issues such as agricultural imports and foreign financial sector investment, according to Chinese and US officials involved in the negotiations



In light of the trade plan, the US Treasury is expected to avoid labelling China a currency manipulator in its upcoming biennial currency report



US cabinet officials said the plan is meant to increase US exports to China and to reduce the \$309.8 billion trade deficit in goods and services between the two countries

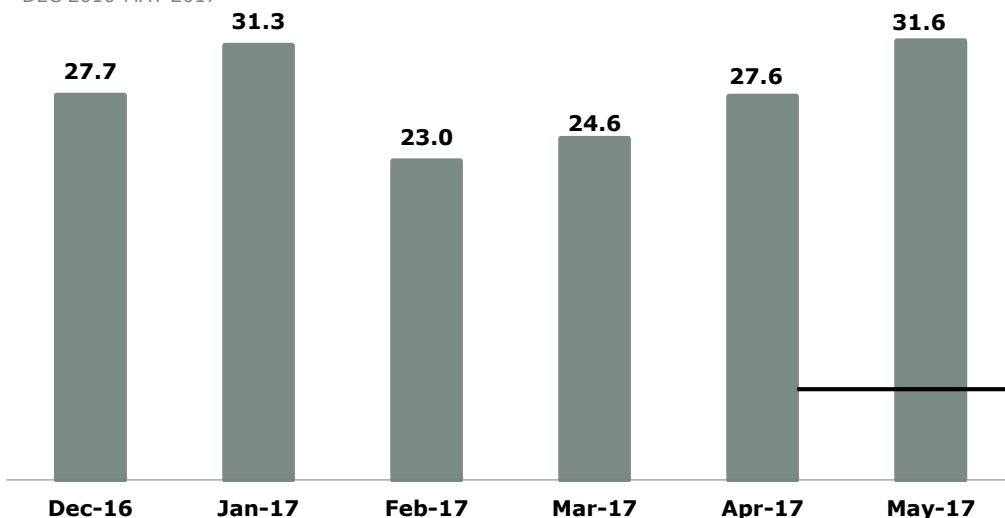
Analysis

According to several trade analysts, the relatively short negotiation timeframe may lead to simple Chinese concessions that would give the Trump administration wins on high-profile trade issues without changing the broader structure of the trade relationship

US trade deficit with China returns to January levels in June, straining Sino-US relations

US trade deficit with China

ALL FIGURES IN NEGATIVE BILLIONS OF US DOLLARS, NOT SEASONALLY ADJUSTED,
DEC 2016-MAY 2017



Chinese export rate surges

Although the US Census Bureau has yet to release a deficit figure for June, the WSJ reported that Chinese exports to the US surged 19.8% in June, the fastest pace since 2015, while its overall exports only rose 11.3%. That has driven a 23% year-on-year rise in the US-China trade deficit to its highest level since late 2015.

Trump discusses deficit

Trump hosted Chinese President Xi Jinping in early April to discuss the trade deficit. Since his 2016 campaign, Trump has been critical of the US-Chinese trade relationship.

Despite the deficit, some signs suggest a possible improvement in Sino-US relations



Since the April meeting between Xi and Trump, China has waived its restrictions on beef imports. The import of US beef to China had been restricted for the past 14 years.



China recently restricted its coal trade with North Korea, a step towards appeasing the Trump administration in light of North Korean missile tests.



China has begun importing US crude, taking advantage of the end of the U.S. oil-export ban two years ago. China is on trend to buy \$1 billion of U.S. oil this year.

Sources: Tom Polansek, "U.S. finalizes talks to resume beef exports to China after ban," Reuters, June 12, 2017; Nathaniel Taplin, "U.S.-China Trade Tensions Are About to Get Ugly Again," WSJ, July 13, 2017; David Nakamura, "At Mar-a-Lago, Trump welcomes China's Xi in first summit," The Washington Post, April 7, 2017; US Census Bureau, "Trade in Goods with China," Census.gov, July, 2017.

Tensions rise in August as the US trade representative initiates a Section 301 investigation of Chinese IP theft

President Trump authorizes USTR to investigate

1.



President Trump directed the USTR, Robert Lighthizer, to assess whether or not a formal investigation into alleged Chinese intellectual property threat was warranted. Lighthizer formally initiated the investigation on August 14

2.



Lighthizer is now responsible for conducting the investigation. If China is found guilty, the Trump administration will use Section 301 of the Trade Act of 1974 to impose penalties



If the US side ignores the facts, and disrespects multilateral trade principles in taking actions that harms both sides' trade interests, China will absolutely not sit by and watch, will inevitably adopt all appropriate measures, and resolutely safeguard China's lawful rights."

- China's Ministry of Commerce

Section 301 of the Trade Act of 1974

- Provides the United States with the authority to enforce trade agreements, resolve trade disputes, and open foreign markets to US goods and services
- Allows the US to impose trade sanctions on foreign countries that violate trade agreements or engage in other unfair trade practices
- The United States may take action to raise import duties on foreign products as a means to rebalance lost concessions

What constitutes intellectual property theft



Counterfeiting American fashion designs



Stealing technology and software



Patent infringement



Pirating movies and video games

Sources: International Trade Administration, "Section 301," U.S. Department of Commerce, February 6, 2017; Ana Swanson, "Trump administration goes after China over intellectual property, advanced technology," The Washington Post, August 14, 2017; Michael Martina, "China says it will defend interests if U.S. harms trade ties," Reuters, August 14, 2017; USTR, "USTR Announces Initiation of Section 301 Investigation of China," August 14, 2017.

Later in August, the US introduces new sanctions targeting China and Russia for support of North Korean trade

Targets of the sanctions

- The sanctions target both individuals and companies based on whether they:
 - Aid other sanctioned individuals in helping North Korea's weapons program
 - Participate in energy trade with North Korea
 - Facilitate exportation of North Korean workers
 - Provide North Korea access to international financial systems
- A total of 10 companies and six individuals are affected by the sanctions, including:
 - Dandong Rich Earth Trading Co. (Chinese)
 - Gefest-M LLC and its director Ruben Kirakosyan (Russian)
 - Mingzheng International Trading Limited (Chinese)

Actions limited by the sanctions

- Any property or property interests in the United States held by the sanctioned companies/individuals will be blocked and those sanctioned will be unable to deal with American individuals

Percentage of North Korean exports imported by China



The percentage of North Korean exports going to China peaked in 2014, but China remains the primary outlet for the North Korean economy

Responses

- China criticized the sanctions, stating they would damage China's relationship with the US and demanding that they be withdrawn
- Russia also criticized the sanctions, stating that they are a continuation of Obama's policies and that they would not be accepted in Russia

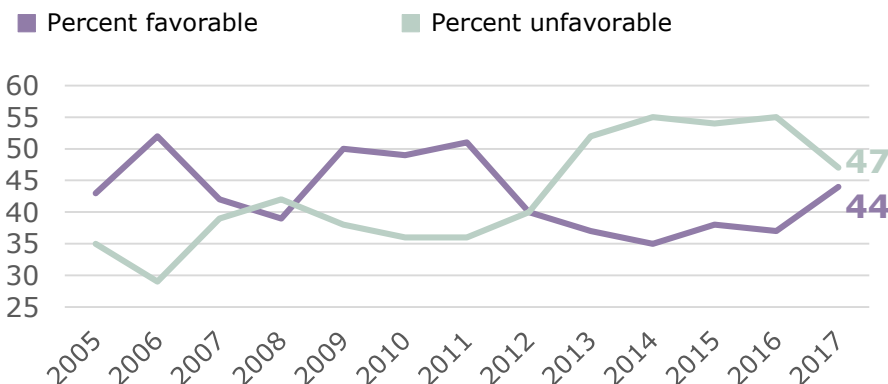
Sources: "Treasury targets Chinese and Russian entities and individuals supporting the North Korean regime," Department of Treasury Press Center, August 22, 2017; "Where does North Korea import from? 1996-2015," Observatory of Economic Complexity, 2016; Simon Denyer, "China demands U.S. immediately withdraw N. Korea sanctions, warns will hit ties," Washington Post, August 23, 2017; "Moscow begins hammering out response to Washington's new anti-Russian sanctions," Russian News Agency, August 22, 2017.

Trump's view of China wavers as public opinion of China improves

Trump's Twitter timeline



US views of China



“Trump is quite a personality, and he likes to tweet, but emotional venting cannot become a guiding policy for solving the nuclear issue on the peninsula.”

– China's official state news agency in response to President Trump tweeting criticism of China

Sources: Donald J. Trump Twitter, 2017; Rebecca Savransky, “China knocks Trump’s tweets: Emotional venting cannot become policy,” The Hill, August 1, 2017; Richard Wike, “Americans’ Views of China Improve as Economic Concerns Ease,” Pew Research Center, April 4, 2017.

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Anti-dumping and countervailing duty investigations involving China

Overview of the cases by number



348 cases involving China and the U.S. have been completed by the ITC since 2002



15 ITC cases brought against China are currently active



As of January 2017, the U.S. had brought 20 cases against China through the WTO, more than twice as many as any other WTO member brought against China

Steel represents one of the biggest flash points in anti-dumping

- In June 2016, the ITC decided to implement duties of more than 500% on Chinese steel
- This decision was largely attributed to the impact Chinese steel imports had on rustbelt states and the damage they did to the American steel industry
- The uptick in Chinese steel exports was largely attributed to an economic slowdown the country experienced in 2016
- The E.U. reacted to the trade tariffs, implementing a tariff of up to 13% on Chinese imports
- Ever since then, tensions over trade have remained heightened

Sources: USTR, "2016 Report to Congress On China's WTO Compliance," Office of the President, January 2017; United States International Trade Commission, "Antidumping and Countervailing Duty Investigations," USTR, 2017; Shawn Donnan, "US to hike duties on Chinese steel to over 500%," The Financial Times, June 22, 2016; Charles Riley, "U.S. hikes duties on Chinese steel to more than 500%," CNN Money, May 18, 2016.

ITC cases by category

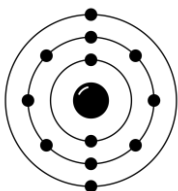
Steel represents an outsized share of cases



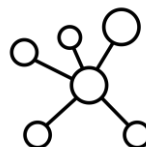
67 cases involve steel



11 cases involve iron



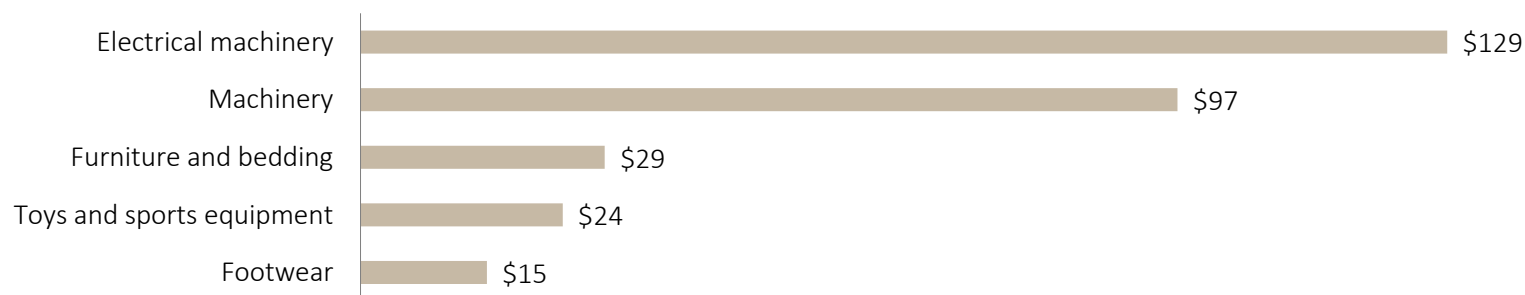
8 cases involve magnesium products



7 cases involve alcohol-based chemicals and products and 11 involve carbon-based chemicals and products

US top import categories from China in 2016

BILLIONS OF DOLLARS



Sources: United States International Trade Commission, "Antidumping and Countervailing Duty Investigations," USTR, 2017; USTR, "The People's Republic of China," Executive Office of the President, 2016.

Current and former US-China cases involving paper

One USTR case currently active

Key facts	
Case name	Lined paper school supplies from China and India
Start date	07/03/2017
End date	10/06/2017
Supervisory investigator	Nathanael Comly
Details	In 2006, Commerce issued a countervailing duty order on certain lined paper school supplies from India and anti-dumping duty orders on certain lined paper school supplies from China and India. The anti-dumping duty is reviewed periodically, and currently this investigation is the second five-year review of the industry and re-evaluation of paper trade with both India and China.

21 cases involving paper between the US and China from 2004-2015



Three cases involved crepe paper



Three cases involved lined paper school supplies



Three cases involved tissue paper



Two cases involved coated free sheet paper



Three cases involved lightweight thermal paper



Two cases involved supercalendered paper



Three cases involved coated high-quality graphic printing paper



Two cases involved uncoated paper

Sources: U.S. International Trade Commission, "Certain Lined Paper School Supplies From China and India; Institution of Five-Year Reviews," Federal Register, July 3, 2017; United States International Trade Commission, "Antidumping and Countervailing Duty Investigations," USTR, 2017.