

US-CHINA RELATIONSHIP, THEN AND NOW

- **My mission in '92 at request of Pres. Bush to remove the ban on ministerial contact.** Gave green light to American companies who want to explore business opportunities in China. Trade and investment took off and today the economic ties are the very foundation of the US-China relationship.
- After that MFN debates and then accession to WTO in 2001
- Post WTO – began new dialogues. First Economic (started by Paulson in Bush) and then added Strategic (Obama). S&E D. Other dialogues, too – now at least more than 50. JCCT continues, was started in 1985.
 - Also over the years, at times other disputes caused problems for the economic relationship, e.g. Bombing of embassy in Belgrade by accident.
- **The rise of Xi Jinping**, a new era characterized by a reform agenda on the one hand and a cracking down on corruption and dissent on the other through the anti-corruption campaign and just plain cracking down. A revert to some Mao thinking and tactics. But I believe he is still popular with the masses.
 - Where does this go? After the Party Congress in 2017, he will put more of his people into key roles and will increase his control. He is not making

decisions using the collective leadership but has pulled more decision making into his own orbit. It's not clear who he listens to.

- He has been aggressive in the neighborhood, in particular in the S. China Sea and the building up of those islands and now putting military activity on them.
- He has not been helpful on N. Korea.
- He has begun the Silk Road initiative, to expand influence to the west.
- He has met with Obama various times. They got together on the climate change agreement. And apparently on the cyber hacking. But the overall relationship is prickly.
- China is figuring into the Presidential election, negatively. The public seems to respond to calls for getting tougher with China – they are taking our jobs, eating our lunch on trade, so we have a huge trade deficit, and own too much of our debt.
- A Cultural Revolution anniversary this year – 40 years since it ended.

■ **Current economic issues:**

- China trying to rebalance its economy. More consumption and less exporting. It's a slow move. Exports are down. GDP growth rate has slowed

considerably. They say 6.5% but some companies think it's much less.

- **Trade deficit is voluminous.** It's \$366 billion in 2015. Exports have been growing but imports have been growing faster. This has factored into the political discourse about China. China is US 2nd largest trading partner. (Canada is number 1; Mexico number 2.)
- **Reform agenda implementation is lagging.** Not a lot of progress
- **SOE reform** is stalled. Nothing much seems to be happening and now they have launched a debt for equity swap, which is the antithesis of reform. So the SOE with big debt burdens can exchange that debt with the big, state-owned banks. The banks then get equity.
- **Anti-dumping cases have increased mostly because of excess capacity and over production in some industries.** Last year China accounted for 25% of anti-dumping measures between 1995 and 2014, more than any other nation. This is due to overcapacity in some industries, notably steel, aluminum, diesel and other industrial goods; that causes over production which has driven down prices and undermined competitors. That has caused

dumping in the US market and a rise in trade disputes with other countries, including the US

- Chinese govt continues to prop up these companies. They get cash assistance, subsidized electricity, sometimes free land, discounted loans, tax breaks, etc. Recipients include steelmakers, coal miners, solar panel manufacturer, and others in the copper and chemical business.
- Subsidies are tracked by looking at corporate filings on the two main stock exchanges. Govtg. Aid rose to more than 119 billion yuan in 2015, up from 92 billion in 2014.
 - An investigation filed by US Steel Corp, Nucor, and United Steelworkers union found 44 separate subsidy programs.
- The Chinese make the case that to maintain “social stability” they have to keep these factories open and that’s why the government helps.
- Cold-rolled steel case – US Commerce Dept. put import duties of 266% on the product earlier this year.

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- What should US do? Continue to press cases, as necessary. Continue to use other avenues, e.g. meeting of presidents, JCCT, etc.
 - **Enforcement of trade rules is getting stiffer from the US side.** Political pressure on this. Latest thing is chicken.
 - **Market economy debate is raging.** Chinese say they should get full market economy status. Due to WTO agreement. It's clear that a commitment was made that the US could use the NME methodology for 15 years. These are special calculations to determine the value of anti-dumping tariffs to apply to Chinese goods sold at unfairly low prices. This is the year that the 15 is up. We made this commitment and should not break it.
 - What is not in the protocol is that market economy status would be automatically granted also. European Parliament voted no on that.
 - What should US Dept. of Commerce do? The Department by law has sole authority to decide. I would not grant market economy status. There are 6 criteria to be evaluated, having to do with functioning as a market economy. One of those is convertible currency. A troublesome one is "government ownership or control of the means

of production; also, govt control over allocation of resources, pricing and output decisions of firms". I believe that China does not yet meet all of these criteria and therefore, would not grant market economy status. But world hope that in the future we could as China progresses toward a more market driven economy, as Xi Jinging has indicated China would.

- For those businesses are then worried about dumping and think we have no recourse, we believe that the legislation passed by Congress last summer, section 504 of the Trade Preference Extension Act, expanded Commerce's discretion to assess "particular market situations" in anti-dumping investigations and to use other methodologies, WTO compliant, to deal with these. We must be very clear with our Chinese colleagues about what we intend to do.
- **Bottom line:** China doesn't currently meet the criteria. And our political season is so negative about China that there would be uproar if the US did this. But we must explain all of this because it is confusing!
- **Technology sector.** US companies do not want data flow across borders. China suspicious of US

technology products. Face headwinds if they want to sell to govt. or SOE's. Technology must be "secure and controllable".

- Disney and Apple have had issues. Apple has a trademark issue: Xintong Tiandi is using iPhone trademark. Apples challenged that and lost in Beijing Municipal Court. They are appealing to Supreme People's Court. What will happen??
- Meanwhile Apple is also investing in the Chinese version of Uber, a competitor of Uber.
- **Chinese investment in US has really taken off.** \$15.7 billion last year and \$22 billion in M&A in the pipeline now; \$10 billion in Greenfield. Across many sectors, e.g. real estate, financial services, but focused on services. More private companies – 84%. 5 More private companies
 - How many jobs are created?
 - Has gotten some attention and is not helping the overall situation vis-à-vis climate.
 - We continue to encourage an open investment climate.
- **BIT is high on the priority list of the business community.** Negotiations going on for 8 years but this has been on the agenda for many years before this. It came up in the JCCT discussions during my

mission in 1992. Right now waiting for China's negative list offer, the next one. (Negative list meaning the sectors that would still be closed or restricted.) The last offer was last Sept. Was to be another one in q1 – didn't happen. Probably because the Chinese side wasn't in agreement about which sectors would open up. This would help to lift restrictions on foreign investment that hit about 100 sectors, a mixed bag.

- **IPR must still remain on the list.**
- **Do not use national security to impede commercial progress. It's an excuse for protectionism.**
- **Cyber hacking and stealing.**
 - **The two Presidents** made an agreement on this in Sept. and some reports indicate that things are better. But not sure yet.
- **NGO Law is causing concern.**
- **IIAB has 37 founding members. US continues to refuse to join.**
 - Should US change posture on this?
- **US continue to push change on transparency; fair treatment of companies, both domestic and foreign in every way, e.g. licensing, regulation, govt. procurement; use of international standards**

- **TPP is underway.** Would like to China to aspire to join and then to do so.
- **Negativity in the US generally about trade.** Has a negative impact on US China relationship.
- **JCCT still is robust and continues.**
- **Engagement must continue.** As it has since Pres. Nixon started the relationship after a lapse and then diplomatic recognition occurred in 1979. There has never been a change in policy and should not be now. Both sides are inextricably bound together whether we like it or not. The key global issues – where it's climate change, terrorism, and economic growth cannot be solved without US and China's involvement.
- **Politics of trade and China in this election cycle.**

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