

Developments in US Trade Policy toward China and Outlook for China-US Trade Relations

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During the early days of Trump's administration, the Mar-a-lago summit, held between US and Chinese leaders, once injected high-level momentum into bilateral trade talks and laid a solid foundation for the release of the initial actions of the China-US Economic Cooperation 100-Day Plan. The bilateral trade relations began amicably early in Trump's presidency. However, the US soon began to play hardball against China, initiating anti-dumping and countervailing investigations and imposing punitive duties on several Chinese imports, and launched the Section 301 investigation on what it alleged was China's theft of US intellectual property. The US also denied China's market economy status, promoted reforms that gave a stronger hand to the Committee on Foreign Investment in the United States (CFIUS), vetoed several mergers and acquisitions cases involving Chinese investment in the US and interfered in the relevant operations of Chinese enterprises. Recently, it has even spearheaded Chinese products and investment in strategic high-tech fields. This policy transition not only embodies Trump's "America First" principle but also shows that non-economic factors have played an increasingly important role in US policy-making.

New Trends of US Protectionist Policies Toward China

The Trump administration's economic and trade policy pursues a goal

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of “Buy American, Hire American,” with its anti-globalist and nativist agenda particularly outstanding in the trade policy toward China. The recent unilateral trade actions of the US toward China even show an unprecedented level of pressure and toughness.

Targeting Chinese high-end manufacturing and tech industry

The US is highly concerned about China’s ambition to comprehensively promote its manufacturing and technology capabilities. The 2017 Special 301 Report, released by the Office of the United States Trade Representative, identified China on the Priority Watch List.” It leveled criticisms against China’s laws and policies in market access, research and development (R&D) and intellectual property, stating that these regulations have negatively impacted US industries including information and communication technology, medical equipment, biotechnology, semiconductors, new energy vehicles, aerospace and high-tech equipment.¹ After initial actions were agreed upon on the 100-Day Plan and the first China-US Comprehensive Economic Dialogue was held, Trump unilaterally initiated the Section 301 investigation against China.² The comprehensive and thorough investigation targets the Chinese government’s acts, policies and practices which encourage or pressure US companies to transfer their technology and intellectual

1 “2017 Special 301 Review,” Office of the United States Trade Representative, April 2017, <https://ustr.gov/issue-areas/intellectual-property/special-301/2017-special-301-review>.

2 The focuses of the investigation are: (1) China’s use of administrative approval processes, joint venture requirements, foreign equity limitations, procurements, and other mechanisms to regulate or intervene in US companies’ operations in China, in order to require or pressure the transfer of technologies and intellectual property to Chinese companies; (2) the Chinese government’s acts, policies and practices that reportedly deprive US companies of the ability to set market-based terms in licensing and other technology-related negotiations with Chinese companies and undermine US companies’ control over their technology in China; (3) the Chinese government’s reported direction and unfair facilitation of systemic investment in and acquisition of US companies and assets by Chinese companies, to obtain cutting-edge technologies and intellectual property and generate large-scale technology transfer in industries deemed important by Chinese government industrial plans; (4) whether the Chinese government is conducting or supporting unauthorized intrusions into US commercial computer networks or cyber-enabled theft of intellectual property, trade secrets, or confidential business information, and whether this conduct harms US companies or provides competitive advantages to Chinese companies or commercial sectors. See more at Office of the United States Trade Representative, “Findings of the Investigation into China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Section 301 of the Trade Act of 1974,” March 22, 2018, <https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF>.

property to Chinese companies. In late March 2018, based on the result of the investigation, Trump officially signed a presidential memorandum that announced the imposition of large-scale tariffs on US\$60 billion worth of Chinese goods. According to the suggested list, published the US side in early April, of products subject to the tariffs, an additional 25% duty would be levied on 1,333 types of Chinese goods, covering chemical products, steel and aluminum, automobiles, vessels and their parts, and electromechanical products. It targets China's mid- to high-end manufacturing, which is considered potentially competitive to US industries.

Frequent trade investigations in the name of national security

Lobbied and influenced by domestic interest groups such as the Steel Manufacturers Association³ and the Aluminum Association, the US launched a rare Section 232 investigation⁴ on whether steel and aluminum imports have harmed US national interests. Many countries, including China, were affected by the investigation result. Even though US statistics show that the aluminum imported from China in 2016 was worth only \$389 million, and the total amount of steel imported from China only accounted for 2.6% of the total US steel imports, far less than many other countries,⁵ the Trump administration still believes that Chinese government subsidies combined with the acute excess capacity of Chinese steel and aluminum are responsible for the reduction of output or bankruptcy of relevant US industries.⁶ In late February 2018, the US finally ruled that Chinese products be levied a 48.64-106.09% anti-dumping duty and a 17.16-80.97% countervailing duty, and recommended the enactment of several import restrictions as well.

3 "Steel Industry Letter to President Trump from Steels Manufacturers Association," August 23, 2017, https://www.steel.org/~/-/media/Files/AISI/Public%20Policy/2017/Steel%20Industry%20Letter_08232017_Final_Finalfixed_75K.PDF.

4 This rare investigation has been initiated only twice since the WTO's foundation in 1995, targeting crude oil in 1999 and steel in 2001.

5 "Will a Direct China-US Trade War on Steel Break Out?" *Caijing*, September 29, 2017, <http://yuanchuang.caijing.com.cn/2017/0929/4339139.shtml>.

6 "Trump Launched a Section 232 Investigation into Steel Imports. Here's What It Means." Alliance for American Manufacturing, April 19, 2017, <http://americanmanufacturing.org/blog/entry/trump-is-about-to-launch-a-section-232-investigation-into-chinese-steel.-he>.

Stricter scrutiny on Chinese corporate investment and operations

The US labels Chinese corporate investment, acquisitions and operations in the US as a “weapon” of China to acquire related technologies, and undermine the US national security by “exploiting gaps in the existing CFIUS review process.”⁷ Given this, the US Congress is prepared to reform and expand the power of the CFIUS, trying to hinder investment in and acquisitions of US technology and other national security-related companies by Chinese enterprises. In its 2016 annual report, the US-China Economic and Security Review Commission suggested that Congress should authorize the CFIUS to ban the acquisition or other forms of control of US companies by Chinese state-owned enterprises.⁸ John Cornyn, the US Senate Majority Whip, who believes that China is “weaponizing” investment and using it to exploit the US economic system and gain technological advantages,⁹ advocates the expansion in power of the CFIUS and introduced the Foreign Investment Risk Review Modernization Act right during Trump’s visit to China in 2017.¹⁰ This proposal aims to broaden the definition of “national security” interests for investment review, and mainly targets China. Its key points include: (1) expand the CFIUS jurisdiction to include certain joint ventures, minority position investments, and real estate transactions near military bases or other sensitive national security facilities; (2) update the Committee’s definition of “critical technologies” to include emerging technologies that could be essential for maintaining the US technological advantage over countries that pose threats, such as

7 “Feinstein, Cornyn, Burr Introduce Bill to Strengthen the CFIUS Review Process, Safeguard National Security,” November 8, 2017, <https://www.cornyn.senate.gov/content/news/cornyn-feinstein-burr-introduce-bill-strengthen-cfius-review-process-safeguard-national>.

8 US-China Economic and Security Review Commission, “2016 Annual Report to Congress,” November 16, 2016, https://www.uscc.gov/Annual_Reports/2016-annual-report-congress.

9 “Foreign Investments and National Security: A Conversation with Senator John Cornyn,” Council on Foreign Relations, June 22, 2017, <https://www.cfr.org/event/foreign-investments-and-national-security-conversation-senator-john-cornyn>.

10 “Feinstein, Cornyn, Burr Introduce Bill to Strengthen the CFIUS Review Process, Safeguard National Security.”

China; and (3) add new national security factors for CFIUS to consider in its analyses. Cornyn has reportedly discussed the proposal with key members of Trump's team, including Secretary of Defense James Mattis, Director of National Intelligence Dan Coats, Director of National Security Agency and Commander of the US Cyber Command Michael Rogers, Secretary of Commerce Wilbur Ross and Secretary of the Treasury Steven Mnuchin, all of whom expressed their support for the reform.¹¹ Meanwhile the US Department of the Treasury claimed that they are considering using the International Emergency Economic Powers Act to contain Chinese corporate investment in sensitive US technological sectors.

With the precipitous rise of Chinese corporate investment in the United States, the US government has come to view the investment as an government-led "mercantilist" move that threatens the US national security.¹² In this context, commercial investment and operational activities of Chinese companies in the US have encountered multiple setbacks over the past year. In the short term, the zero-sum mentality of the US side has taken a significant toll on or even hindered normal trade, investment and exchanges in science and technology between the two countries. In September 2017, Trump issued an executive order prohibiting the acquisition of the US Lattice Semiconductor Corporation by Canyon Bridge Capital Partners, due to the Chinese government background behind the purchaser.¹³ In January 2018, the CFIUS blocked a planned merger, which had been underway for nearly a year, between Ant Financial and MoneyGram, one of the two biggest independent money transfer companies in the US. In late February,

11 "Support for the Foreign Investment Risk Review Modernization (FIRRMA) Act of 2017," <https://www.cornyn.senate.gov/sites/default/files/FIRRMA%20list.pdf>.

12 For representative views, see Michael Brown and Pavneet Singh, "China's Technology Transfer Strategy: How Chinese Investments in Emerging Technology Enable a Strategic Competitor to Access the Crown Jewels of U.S. Innovation," February 2017, <https://new.reorg-research.com/data/documents/20170928/59ccf7de70c2f.pdf>; "Testimony of Mr. Eric D. Chewning Deputy Assistant Secretary of Defense for Manufacturing and Industrial Base Policy before the Committee on Banking," January 25, 2018, <https://www.banking.senate.gov/public/cache/files/c2c3ef82-98ff-41d8-bb39-acf78ca46896/422620C62356BC28B012D3B63BF9DC78.chewning-testimony-1-25-18.pdf>.

13 "Order Regarding the Proposed Acquisition of Lattice Semiconductor Corporation by China Venture Capital Fund Corporation Limited," The White House, September 13, 2017, <https://www.whitehouse.gov/the-press-office/2017/09/13/order-regarding-proposed-acquisition-lattice-semiconductor-corporation>.

the CFIUS stopped an acquisition of the US semiconductor testing company Xcerra by a Chinese fund. Meanwhile, Chinese companies like Huawei have also met obstacles when entering the US market. Some members of Congress even proposed to ban purchase or rental of telecommunication products from the companies in question by the US government. In the short term, Chinese companies will encounter more obstacles when investing in the US. It is highly probable that the CFIUS would block more such mergers and acquisitions by Chinese companies, especially in the science and technology field.¹⁴

Reasons for US Upgrade of Unilateral Actions

The Trump administration's trade policy toward China is not only driven by protectionist policy goals, but is also reflective of its governance style and political ideology, which to a large extent mirrors a dramatic concern about and increasing alert against China's growing power.

Radical protectionist trade policies

The core objectives of Trump's trade policy include safeguarding the US trade sovereignty, implementing the US trade laws, expanding the US goods and service exports, protecting the US intellectual property, and pursuing the superiority of US domestic laws over international laws in trade disputes settlement.¹⁵ Trump believes that the long-term and increasingly acute trade deficits have resulted in the US losing its relative economic advantage. "Buy American, Hire American" is the core measure to realize his goal of "Make America Great Again." To stimulate backflow of employment and

14 Scott Flicker, "China and Trump Administration: 5 Things to Know," Law 360, October 3, 2017, <https://www.law360.com/articles/970954/cfius-china-and-trump-administration-5-things-to-know>.

15 Office of the United States Trade Representative, "2017 Trade Policy Agenda and 2016 Annual Report of the President of the United States on the Trade Agreements Program," <https://ustr.gov/sites/default/files/files/reports/2017/AnnualReport/AnnualReport2017.pdf>.



US President Donald Trump, surrounded by business leaders and administration officials, signs a presidential memorandum on intellectual property tariffs on high-tech goods from China at the White House on March 22.

economic growth, Trump has issued several presidential executive orders.¹⁶ By withdrawing from the Trans-Pacific Partnership (TPP), launching re-negotiation of the North American Free Trade Agreement (NAFTA), highlighting “reciprocity” in market access, and announcing tax reforms, Trump aims at spurring the return of lost manufacturing industries and jobs.

The current US trade deficit with China is considered as an important cause of sluggish economic growth and dwindling manufacturing employment in the US. Since the 2008 financial crisis, China has increasingly become a target of US protectionism. The frequency of US-

16 “Presidential Executive Order on Buy American and Hire American,” The White House, April 18, 2017, <https://www.whitehouse.gov/presidential-actions/presidential-executive-order-buy-american-hire-american>; “Presidential Executive Order Addressing Trade Agreement Violations and Abuses,” The White House, April 29, 2017, <https://www.whitehouse.gov/briefing-room/presidential-actions/executive-orders>.

launched non-tariff barriers against China is far more than that of the China-leveled barriers against the US.¹⁷ In recent years, the US, based on its domestic laws, has obviously turned to a negative view on China's fulfillment of promises made in its 2001 accession protocol. Compared with previous reports to Congress on China's WTO compliance, which consistently indicated that China's accession into the WTO had provided significant job opportunities for the US during the past 15 years, there are more negative voices about China in the 2017 report, which was published in early 2018.¹⁸ It is exceedingly evident that Trump targets China in his protectionist moves to divert attention from domestic conflicts, achieve political gains and promote his concept of "America First."

Hardliners dominant in decision-making

Trump's economic and trade policy team is composed of three small circles, namely his family (represented by his daughter Ivanka and son-in-law Jared Kushner, both White House Senior Advisors), the far-right conservatives (represented by Steve Bannon, formerly White House Chief Strategist, and Peter Navarro, Director of Trade and Industrial Policy and Director of the National Trade Council), and professional officials (relevant members in Trump's cabinet) who had successful commercial track records. Since Trump took office, his policy team has witnessed frequent turnaround. Ivanka and Kushner once played important communication roles at critical points of China-US relations, but their influence has gradually waned following the "Russia-gate" investigations. Trump has since relied on the hawkish faction, represented by Trade Representative Robert Lighthizer, who has dominated the trade policy toward China and

17 According to WTO statistics, the number of non-tariff trade barriers initiated by the US from 2008 to 2016 was as high as 2,259, of which China was affected by 2,067 and specifically targeted in 99 cases. During the same period, China implemented far fewer non-tariff trade barriers. There were 1,776 non-tariff barriers initiated, of which the US was affected by 1,682 and specifically targeted in 46 cases. See Jiang Chao and Liang Zhonghua, "How Big Is the Impact of China-US Trade Conflict?" *Wall Street CN*, February 21, 2017, <https://wallstreetcn.com/articles/290992>.

18 United States Trade Representative, "2017 Report to Congress on China's WTO Compliance," January 2018, <https://ustr.gov/sites/default/files/files/Press/Reports/China%202017%20WTO%20Report.pdf>.

overshadowed other aides and officials like Secretary of the Treasury Steven Mnuchin.¹⁹ Adept in hardline trade talks, Lighthizer sees China as a “top threat.” In an open criticism to China, he stated, “I believe that there is one challenge on the current scene that is substantially more difficult than those faced in the past, and that is China. The sheer scale of their coordinated efforts to develop their economy ... is a threat to the world trading system that is unprecedented. The principal challenge we face ... is how do we deal with China.”²⁰ The resignation of Gary Cohen, Director of the National Economic Council, shows that nearly all the globalists have either quit or been sacked from the White House. Navarro, the extreme conservative who was once marginalized in the White House circles, is likely to enter the White House power center. Meanwhile, the appointment of John Bolton and Mike Pompeo, both supporters of the “China threat” theory and advocates of hardline policies toward China, as National Security Advisor and Secretary of State respectively, heralds a not so optimistic future of China-US trade relations.

Growing concern and alert in the face of a rising China

The US is deeply anxious about China’s economic growth, and has shown especially strong concern about the rapid development of China’s mid- to high-end manufacturing and scientific and technological innovation. As stated by Atkinson, founder and President of the Information Technology and Innovation Foundation and active promoter of the Section 301 investigation, “China ... is now seeking global dominance in a wide array of advanced industries that are key to U.S. economic and national security interests ... If successful, the end game could be significantly less U.S. technological capabilities in a range of advanced industries from information technology (semiconductors all the way to devices), aerospace,

19 “China Hawk Lighthizer Increasingly Influential in White House,” *Axios*, November 19, 2017, <https://www.axios.com/lighthizer-increasingly-influential-in-white-house-2510871315.html>.

20 “U.S. Trade Policy Priorities: Robert Lighthizer, United States Trade Representative,” Center for International and Strategic Studies, September 18, 2017, <https://www.csis.org/analysis/us-trade-policy-priorities-robert-lighthizer-united-states-trade-representative>.

instruments, life sciences, and software.”²¹ The US further criticized China’s measures to develop its manufacturing industries and technologies as violation to US intellectual property.²² Such biased views are now popular in the US given the serious inward-looking and anti-globalization trends. In the 2017 Special 301 Report, the US criticized “Made in China 2015,” saying, “This Plan aims to turn China into an indigenously self-sufficient advanced manufacturing superpower with well-known Chinese brands across a wide range of high technology industries, in many of which US IP right holders have sizeable market shares globally. This drive may run counter to commitments China has made to the United States and be in tension with basic market economy principles.”²³ In addition, there is a significant rise in the number of China-US trade conflicts on Chinese technology-intensive exports like electromechanical products, which in the first half of 2017 represented the largest source of US imports from China, accounting for 49.8% of the total. During the same period, the category of US imports from China that encountered the most cases of trade remedy investigation was also electromechanical products, with three cases involving a total of \$2.3 billion.²⁴

More considerations for geopolitics

In a series of important documents, like the 2017 National Security Strategy, the National Defense Strategy and the 2018 State of the Union address, the US defined China as a “competitor” or even a “rival,” and elaborated on the challenge

21 “China’s Technological Rise: Challenges to U.S. Innovation and Security, Testimony of Robert D. Atkinson, President Information Technology and Innovation Foundation before the House Committee on Foreign Affairs Subcommittee on Asia and the Pacific, ” April 26, 2017, <http://www2.itif.org/2017-testimony-foreign-affairs-committee-china.pdf>.

22 For example, Joseph Whitlock, the USTR’s Director for Intellectual Property and Innovation, believes that “Made in China 2025” is a government document that instructs Chinese companies to acquire and invest in certain foreign technologies and expertise. See “U.S. Officials Grill Chinese Business Representatives at 301 Hearing,” October 10, 2017, <https://chinatradeextra.com/daily-news/us-officials-grill-chinese-business-representatives-301-hearing>.

23 “2017 Special 301 Report,” pp.35-36.

24 “Situation of Foreign Trade Remedy Investigations on Chinese Exports in the First Half of 2017,” Chinese Ministry of Commerce, July 7, 2017, <http://gpj.mofcom.gov.cn/article/cx/ajtj/201708/20170802635307.shtml>.

posed to the US by China's economic growth. The US criticism for China's challenge to its strength, influence and interests primarily focuses on the following aspects: China "steals" US intellectual property valued at hundreds of billions of dollars; invests in key industries to "acquire" sensitive technologies and critical infrastructure; the lack of "fairness and reciprocity" in market access of the two countries; China's "government-led" economic model challenges regional economic order; and China's expansion of influence in developing countries through infrastructure investment to gain competitive advantage over the US. Based on these assumptions, the Trump administration is focused on increasing US global competitiveness. At its core, the US will "work with our partners to contest China's unfair trade and economic practices and restrict its acquisition of sensitive technologies," while simultaneously promoting US products and services to the world (mainly South Asia, Africa and Latin America) to offset China's growing influence.

The United States' geopolitical considerations are also reflected in its complex attitude toward China's Belt and Road Initiative. In the beginning, the Trump administration reacted positively to this initiative, and even sent delegates to the Belt and Road Forum for International Cooperation, which was part of initial actions of the China-US Economic Cooperation 100-Day Plan. During the forum, Matthew Pottinger, Special Assistant to the President and Senior Director for Asian Affairs in the National Security Council, said that the development of high-quality infrastructure is beneficial to economic interconnectivity, and that the US, with its experience in global infrastructure development, is willing to participate in relevant Belt and Road projects. He also gave suggestions that would help insure that projects meet the requirements of both the investors and the host countries.²⁵ The

25 Those suggestions include: (1) assessments, financing, construction and maintenance must be done well to avoid indebtedness of the host countries; (2) the government procurement process must be transparent to ensure that private companies can bid on a fair basis, avoiding uneconomical cost of bids and attracting more companies to participate; (3) assist the host countries in strengthening mechanisms so that disputes between the government and private enterprises can be resolved more effectively and fairly; (4) open up projects for private enterprises to participate widely, which can dilute financing risks and also attract international companies capable of completing projects within the budget limits. See "Presidential Special Assistant Matthew Pottinger: US Enterprises Ready to Participate in the Belt and Road Initiative," *Lianhe Zaobao*, May 14, 2017, <http://www.zaobao.com/realtime/china/story20170514-760079>.

US embassy in China also established a “Belt and Road working group” with US companies. In fact, China and the US have made initial achievements in market-oriented cooperation under the Belt and Road Initiative. With advantages and experience in providing relevant products and services, US companies like General Electric and Caterpillar have benefited a lot.²⁶

Nevertheless, senior officials in the Trump administration have recently come to adopt a negative stance toward the Belt and Road Initiative. Secretary of Defense James Mattis openly criticized, “I think in a globalized world, there are many belts and many roads, and no one nation should put itself into a position of dictating ‘One Belt, One Road’.”²⁷ In October 2017, then Secretary of State Tillerson said that the US would forge a relationship with India “for the next century” to counter China’s influence in the “Indo-Pacific region” and would develop “alternative financing measures, financing structures.”²⁸ The US Department of the Treasury threatened the World Bank with objection to capital increase, demanding a check of the balance sheet, especially the loans to China.²⁹ The US-China Economic and Security Review Commission held a hearing on the alternative plans to the Belt and Road Initiative by the US, Japan, Australia and India for infrastructure building in the Indo-Pacific region.³⁰ Although the “alternative plans” are still at an initial stage and far from mature, the issue was already on the agenda during Australian Prime Minister Malcolm Turnbull’s visit to the US in February 2018.³¹

26 Zhu Hong, “Vast Space for China-US Cooperation in Belt and Road Construction,” *Sohu*, May 16, 2017, http://www.sohu.com/a/141024574_157514.

27 “Political and Security Situation in Afghanistan, Testimony by Defense Secretary Jim Mattis before Committee on Armed Services, U.S. Senate,” October 3, 2017, https://www.armed-services.senate.gov/imo/media/doc/17-82_10-03-17.pdf.

28 “Defining Our Relationship with India for the Next Century: An Address by U.S. Secretary of State Rex Tillerson,” Center for Strategic and International Studies, October 18, 2017, <https://www.csis.org/analysis/defining-our-relationship-india-next-century-address-us-secretary-state-rex-tillerson>.

29 “The US Requires World Bank to Rectify Loans to China in Latest Acts of Hostility to International System,” *Cankao Xiaoxi*, October 14, 2017, <http://www.cankaoxiaoxi.com/finance/20171014/2238891.shtml>.

30 “China’s Belt and Road Initiative: Five Years Later,” January 25, 2018, <https://www.uscc.gov/Hearings/chinas-belt-and-road-initiative-five-years-later-video>.

31 “Australia Mulls Rival to China’s ‘Belt and Road’ with US, Japan, India, Australia,” *Financial Review*, February 16, 2018, <http://www.afr.com/news/australia-mulls-rival-to-chinas-belt-and-road-with-us-japan-india-20180216-h0w7k5>.

Prospects of China-US Trade Relations

During the talks held in Beijing on May 3-4, China and the US reached consensus in some fields and agreed to keep in close communication. Secretary of the Treasury Mnuchin even claimed “We’re putting the trade war on hold ... we have agreed to put the tariffs on hold while we try to execute the framework.” However, despite these positive signs, the US still decided to slap a 25% tariff on \$50 billion of Chinese imports, \$34 billion of which took effect on July 6. In response, China announced that it would impose tariffs on an “equal scale” of US goods. Given the recent heightened trade conflicts, even if the two countries went back to the negotiating table, the settlement of disputes and restoration of bilateral relations would still require multiple rounds of talks. The interplay of the following elements will influence the progress to a large extent.

Guiding role of summit diplomacy and high-level interactions

During their meeting at Mar-a-Lago, Trump and Chinese President Xi Jinping agreed to settle trade disputes in an appropriate manner to achieve mutually beneficial results. Later during Trump’s visit to China, the two heads of state reiterated their commitment to mutually beneficial trade cooperation. In February 2018, US officials met with Yang Jiechi, member of the Political Bureau of the Communist Party of China (CPC) Central Committee and then State Councilor, and Liu He, member of the Political Bureau and Director of the office serving the Central Financial and Economic Affairs Commission. Both sides reconfirmed that the two countries should settle disputes with cooperation rather than confrontation and maintain healthy trade relations. Following the early May trade talks, despite remaining significant disputes, the two countries agreed to maintain communication, and later the US announced that Liu He, who had earlier become Vice Premier, would lead a delegation to the US for further talks. President Xi and Trump also had a phone call and exchanged opinions

regarding the settlement of trade disputes. Apparently, in the face of escalating disputes, successive interactions between top leaders and high-level officials of the two countries had demonstrated mutual willingness to manage disputes and negotiate for mutually beneficial solutions. The experience, which positively leads the two sides toward proper handling of current and future economic and trade frictions, needs to be further upheld and practiced.

Strong complementarity and interdependence in bilateral ties

The United States is China's largest export destination, the second largest service trade partner, and the largest outsourcing market in services,³² while China is the United States' largest trading partner, the third largest export market (first largest outside North America), and the largest source of imports. China is an important export destination for US products such as soybeans, cotton, aircraft, automobiles, and integrated circuits. At the same time, its policy to actively enlarge imports will be a great opportunity for US businesses and the general public. In 2017, China's import growth was 10.4% higher than that of the US.³³ The Chinese market still holds great attraction for US companies in service industries, with total sales revenue for US subsidiary service organizations in China reaching 209.62 billion yuan in 2017, which was 3.1 times the sales revenue of Chinese institutions in the US during the same period, an indication that the US service industries operating in China have penetrated the Chinese market at a higher degree and with more profits.³⁴ Mutual investment in bilateral economic relations has also become increasingly prominent, with both countries representing the largest destination of outbound investment to the other. Industries

32 "US Trade Briefing in July 2017," Chinese Ministry of Commerce, https://countryreport.mofcom.gov.cn/new/view110209.asp?news_id=55691.

33 "Spokesperson of the Foreign Trade Department of the Ministry of Commerce Talks about China's Foreign Trade in January to December 2017," Chinese Ministry of Commerce, January 15, 2018, <http://www.mofcom.gov.cn/article/ae/ag/201801/20180102698781.shtml>.

34 "Spokesperson of Service Trade Department of the Ministry of Commerce Talks about the Situation of China's Service Trade in 2017," Chinese Ministry of Commerce, February 5, 2018, <http://www.mofcom.gov.cn/article/ae/ag/201802/20180202708635.shtml>.

and sectors in the US invested by Chinese capital have become more diversified, shifting from the energy industry to service and manufacturing industries. Geographically, in addition to the original coastal states of eastern and western regions, the southern and Midwest states have also become new destinations for Chinese investment. The fact that there exists a strong foundation for mutual economic and trade benefits determines that common interests that bind the two parties are far greater than differences, and cooperation outweighs antagonism. To achieve mutual benefits on the basis of shared interests depends critically on whether the two sides can find a convergence of interests and base future cooperation on the greatest common denominator. During the talks in early May, the Chinese side exchanged views in a comprehensive way with the US side on issues such as expanding US exports to China, bilateral service trade, two-way investment, protection of intellectual property rights, and settlement of tariff and non-tariff measures, laying the foundation for further dialogues, cooperation and mutual benefits.³⁵

Domestic voices in the US against a full trade war

Opposition to the trade war in the US mainly comes from the agricultural sector, some manufacturing industries, the financial sector, and industrial and commercial interest groups in states maintaining close economic and trade ties with China. In response to the extremely controversial Section 301 investigation, some US groups from the industrial and commercial community have publicly expressed their opposition. For example, the US-China Business Council called for resolution of disputes through negotiation, believing that “China has long been an essential market for the US economy and is a market that US companies continue to name as a priority for their global operations and competitiveness.”³⁶ The Los Angeles Area Chamber of Commerce stated that the Section 301 investigation

35 “Solve China-US Trade Frictions with Mutual Benefits and Win-Win Solutions,” *People’s Daily*, May 5, 2018, p.3.

36 US-China Business Council, “USCBC Submission for DOC Trade Deficit Investigation,” <https://www.uschina.org/advocacy/regulatory-comments-on-china/uscbsubmission-doc-trade-deficit-investigation>.

would hurt the US economy and have a seriously negative impact on the economy and employment in California, especially southern California that heavily relies on China-US trade.³⁷ As the US mid-term election approaches, the blow suffered by those agricultural states once considered as Trump's stronghold is on the rise. Relevant organizations of the agricultural industry are also concerned about the damage to US agricultural exports and have strongly criticized Trump's trade policy. Concerning the United States' protective tariffs on imported solar panels, the business community, including the US Solar Energy Industries Association and former New York Mayor Michael Bloomberg, indicated that the move would threaten domestic employment of the US solar energy industries."³⁸

New cooperation opportunities from China's further opening-up

The Chinese government has consistently advocated cooperation rather than confrontation in dealing with economic and trade disputes between the two countries. China's further opening-up to the outside world has provided new opportunities for cooperation with the US. The two countries can expand common economic interests in financial, energy, and manufacturing industries. This will further strengthen the pattern of interdependence and integrated benefits in bilateral economic relations.

There is great potential for bilateral cooperation in the fields of finance and investment. In the report of the 19th CPC National Congress, China emphasized that it would "implement the system of pre-establishment national treatment plus a negative list across the board, significantly ease market access, and further open the service sector,"³⁹

37 "Los Angeles Area Chamber of Commerce Opposes US Government's Launch of 'Section 301 Investigation' on China," *Xinhua*, October 13, 2017, http://m.xinhuanet.com/2017-10/13/c_1121800738.htm.

38 "How Trump's Solar Panel Tariffs Could Threaten Thousands of American Jobs," *CNN*, January 23, 2018, <http://money.cnn.com/2018/01/23/news/economy/solar-energy-jobs-trump/index.html>.

39 "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era: Delivered at the 19th National Congress of the Communist Party of China," October 18, 2017, p.30, http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf.

among a series of moves aimed at making new ground in pursuing opening up on all fronts. Since 2017, China's Banking Regulatory Commission and other relevant authorities have announced several measures, admitting in principle the investment by foreign-funded corporate banks in domestic banking financial institutions, and also adding regulations outlining the licensing conditions, procedures and required application materials for foreign-funded corporate banks' establishment of or investment in domestic banking financial institutions. These measures provide a clear legal basis for foreign-funded corporate banks to conduct equity investment. In the keynote speech of the 2018 Boao Forum for Asia, President Xi Jinping announced a series of important measures to pursue further opening. In addition to ensuring the above-mentioned measures to relax foreign investment in the financial sector are materialized, Xi further stated China would "at the same time make more moves toward further opening, including accelerating the opening-up of the insurance industry, easing restrictions on the establishment of foreign financial institutions in China and expanding their business scope, and opening up more areas of cooperation between Chinese and foreign financial markets."⁴⁰

Besides opening up the financial industry, China will also take greater steps to ensure the opening-up of manufacturing industries. Currently, China's manufacturing industries have been basically liberalized. The remaining reservations are limited to a few industries such as automobiles, ships and aircraft. Now that conditions are ripe for the opening-up of these industries, the next step will be relaxing limits on foreign equity, especially foreign equity restrictions in automobiles.⁴¹ "Made in China 2025" is an open policy guideline, and relevant policies and measures therein apply to all enterprises operating in China, including both Chinese and foreign-funded enterprises. Many foreign

40 "Xi Jinping Attends Opening Ceremony of BFA Annual Conference 2018 and Delivers Keynote Speech," Chinese Ministry of Foreign Affairs, April 10, 2018, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1550206.shtml.

41 *Ibid.*

companies and institutions, including US companies, have participated in projects of “Made in China 2025” such as the C919 passenger aircraft project.⁴²

Conclusion

As the two largest economies in the world, China and the United States have major interests in, as well as incentives to, maintain the stability and healthy development of bilateral economic and trade relations. The trade disputes between the two countries have complex roots that require objective understanding and gradual solutions. In the face of rising bilateral economic and trade frictions, China has expressed through various means and channels that trade problems between the two countries can only be solved through negotiation and consultation, and a win-win situation can only be achieved through cooperation rather than confrontation. The key to solving present tensions is to manage differences and expand common interests in a constructive manner. As President Xi Jinping pointed out, “Cooperation is the only correct choice between China and the United States.”⁴³ In the context of narrowing gap in overall national strengths between the two countries, China and the US must avoid strategic misjudgment and properly handle differences and frictions with sufficient wisdom. To enlarge the cake of economic interests shared by both sides with a constructive attitude is the only correct option. Only in this way can we ensure that both the “Chinese Dream” and “Make America Great Again” will promote rather than restrain each other. 

42 “MOFCOM: ‘Made in China 2025’ Is Transparent, Open, Compliant,” *Sohu*, April 10, 2018, http://www.sohu.com/a/227758867_222256.

43 “Cooperation the ‘Only Correct Choice’ for China-US Relations: Xi,” *Xinhua*, November 9, 2017, http://www.xinhuanet.com/english/2017-11/09/c_136739473.htm.