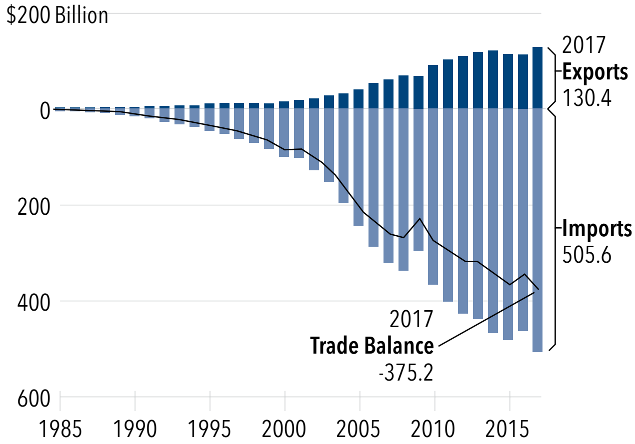
U.S.-China Relations

Must Find Joint Solutions to Address China's Unfair Trade Practices

- 455,000 American jobs are at risk by U.S. tariffs on $150 billion of imports from China.
- U.S. currently has tariffs on $250 billion of Chinese goods versus China's tariffs on $110 billion of U.S. goods.
- Trade dispute must come to a conclusion before there are more damaging effects on American consumers and businesses.

U.S. TRADE IN GOODS WITH CHINA
(on nominal basis, not seasonally adjusted)



Source: U.S. Census Bureau/Reuters

BACKGROUND

According to the U.S. State Department, China has been one of the world's fastest-growing economies over the last several years, and its efforts to reform and modernize have helped transform China into a large trading economy.

U.S.-China trade has risen rapidly over the last several decades. Total trade between the two nations increased from $4.8 billion in 1980 to $635.96 billion in 2017. U.S. exports to China in 2017 were approximately $130.37 billion, more than twice as much as a decade earlier.

China was the third fastest-growing source of total Foreign Direct Investment (FDI) stock in the U.S. in 2016, after a record $46 billion of Chinese FDI in the U.S. In 2017, however, Chinese FDI dropped sharply to just $29 billion due to greater security in Beijing over outbound investment flows and tougher U.S. regulatory reviews of inbound acquisitions through the Committee on Foreign Investment in the U.S. (CIFUS). The main industries receiving Chinese FDI are: real estate, transportation and infrastructure, and information and technology. The United States invested $14 billion into China in 2017.

Hong Kong GDP per capita is comparable to other developed countries. The United States has substantial economic ties with Hong Kong. A report done by the U.S. State Department in 2018 indicates that there are more than 1,300 U.S. firms and approximately 85,000 U.S. residents in Hong Kong. Another 1 million people visited Hong Kong in 2017 from the United States. The latest available figures on U.S. direct investment in Hong Kong show investment at about $81 billion, making the United States one of Hong Kong's largest investors.

Trade between the United States and Hong Kong has increased over the last decade, with a growth in U.S. exports from $26.6 billion in 2010 to $40 billion in 2017. Total trade between the United States and Hong Kong totaled $47.5 billion in 2017, according to the U.S. Department of Commerce.

California exports to Mainland China were $16.4 billion in 2017, making it the state's third largest export destination. California exports to Hong Kong were $12.1 billion. FDI from China into California decreased in 2017 to $4.6 billion from $16.6 billion the year prior, while FDI from California into China totaled $4.4 billion.

REGIONAL PARTNERSHIP NEGOTIATIONS

China is currently involved in negotiations for the Regional Comprehensive Economic Partnership (RCEP), a proposed free trade agreement (FTA) with 10 Association of Southeast Asian Nations (ASEAN) member states—Brunei, Burma (Myanmar), CalChamber

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Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, Vietnam—and the six states with which ASEAN has existing FTAs—Australia, China, India, Japan, South Korea and New Zealand. RCEP negotiations were launched in November 2012 and concluded in 2018; however, the deadline for signing the RCEP agreement has been pushed back to 2019 and may even be 2020.

The RCEP includes more than 3.4 billion people, about 45% of the world's population with a combined GDP of about $49.5 trillion, accounting for almost 40% of world trade.

The RCEP would be expected to grow to more than $100 trillion by 2050, double the projected size of Trans Pacific Partnership-11 (TPP-11) economies. It would be the biggest free trade agreement in the world, but without the United States or any membership from the Americas.

PAST ACTIVITY

At the beginning of 2018, President Donald J. Trump began imposing tariffs, starting with those on solar panels and washing machines, followed by steel and aluminum tariffs as a result of investigations by the Office of the U.S. Trade Representative (USTR) into China's laws, policies and practices related to technology transfer, intellectual property and innovation.

By March, President Trump had instructed USTR Ambassador Robert Lighthizer to apply $50 billion of tariffs onto Chinese goods, explaining the tariffs were the consequence for years of Chinese theft of U.S. intellectual property.

At the beginning of July 2018, the first round of $34 billion in tariffs on Chinese products went into effect. China immediately retaliated with tariffs on U.S. exports of the same amount. The second round of tariffs came in August on an additional $16 billion of Chinese goods, with China once again retaliating on U.S. exports in the same amount. The third and, so far, final round of tariffs came in September with the U.S. imposing tariffs on $200 billion worth of Chinese goods. China retaliated with tariffs on an additional $60 billion of U.S. goods. Chinese tariffs centered around U.S. agricultural products and ultimately came to a total of $110 billion tariffs on American products, while U.S. tariffs on Chinese goods now total approximately $250 billion.

President Trump met with Chinese President Xi Jinping at the G-20 Summit in November 2018 to discuss the tariffs. They agreed to a 90-day pause in tariffs in order for China to conduct structural reforms. China also agreed to buy an unspecified amount of U.S. products

IMPACT

Although the business community recognizes there are serious issues with China's trade policies and practices, the California Chamber of Commerce has deep concerns over the impact that increased tariffs could have on international trade and the state's economy. The tariffs may have adverse consequences and fail to consider the impact on U.S. allies and trading partners.

Raising tariffs can result in higher prices to the consumer for the specific product protected and in limited choices of products for consumers. Further, it can cause a net loss of jobs in related industries, retaliation by U.S. and California trading partners, and violates the spirit of our trade agreements. The end result is that raising tariffs can cause a trade war.

ANTICIPATED ACTION

The CalChamber is hopeful that the 90-day pause in tariffs agreed upon by President Trump and President Xi on the sidelines of the G-20 Summit in Argentina will allow for China to make structural changes that will lay the groundwork for further negotiations. President Xi at the end of 2018 vowed to lower tariffs, broaden market access and increase imports. The CalChamber expects that in 2019 the Trump administration and its Chinese counterparts will be able to arrive at a conclusion and not continue to escalate the trade dispute between the two countries.

CALCHAMBER POSITION

The CalChamber, in keeping with long-standing policy, enthusiastically supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad and elimination of disincentives that impede the international competitiveness of California business. International trade ensures that the United States may continue to gain access to world markets, resulting in an improved economy and additional employment of Americans.

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