【特集：競合か協調か：トランプ習時代の米中経済関係を占う】
【特集論文】

Issues of US-China Economic Relations in 2017

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Introduction

This article is an overview of current US-China economic relations, and considers some of the key issues in the ties between these two countries. It begins by discussing the large trade surplus China holds with the US. This trade imbalance is a major source of frustration for the current US administration, led by President Donald Trump. The article explores some of the reasons China desires to keep its export-led economic advantage in trade.

The article then considers other key features of US-China economic ties. It notes on-going problems between the two nations, including intellectual property protection, and Chinese cyber infiltration and acquisition of key business data. It assesses Chinese lending to the US that helps support continued American budget deficits. It examines recent trends in Chinese foreign direct investment in the US, and notes a changing pattern in the past months. It then turns to issues related to regional trade, including the Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) multi-lateral trade regime proposals.

As for Chinese foreign economic issues, the “One Belt, One Road” project is currently a main international economic venture promoted and funded by the Chinese government and other Chinese sources. The article discusses progress and developments in this area.

The article concludes with a case focus on the American automobile company, Tesla, which exemplifies some of the key issues facing American companies as they contemplate investment in the PRC. It considers the dilemma the Trump administration faces in regard to these investment issues, with a desire to remedy the trade imbalance and settle other outstanding economic disputes, with the need to retain Chinese assistance in dealing with North Korea’s disruptive role in East Asia.

Trade Issues

One of the main points of contention between the United States and China under the new American administration of President Donald Trump is the trade imbalance between the two nations. In 2016, the US had a total of about $579 billion in trade with China, but had a deficit of $347 billion.[1] This trade deficit was far larger than that the US had with other nations, such as Japan, at $69 billion; Germany, at $65 billion; Mexico, with a $63 billion deficit; or South Korea, at $28 billion.[2]

Despite this trade imbalance, China is a major market for many American products, including ones produced in President Trump's political base. For example, China is the largest foreign market for American soybeans, produced in the US's rural heartland states such as Iowa, Indiana, and Nebraska. The PRC is also the largest market for US airplanes, buying 25 percent of Boeing's passenger plane production in 2016. It is also the second largest foreign market for American cotton, automobile automobile industry products, and semiconductors.[3]

So a trade war between the two countries could lead to major harm to the industries Trump wants to protect. Furthermore, American retailers would see higher prices for products imported from China, such as down jackets, which may cost $40 to import from China, and sell at a large profit for $200.[4] And of course, American consumers would likely see higher prices for the furniture, footwear, toys, machinery, and other products the US imports from the PRC.

On the Chinese side, many coastal manufacturers depend on exports to keep their factories running. The loss of an export market such as the United States would be devastating to these export industries. The US has for years complained that China subsidizes many of its state-owned enterprise exporting industries, but has had few results in changing Chinese production patterns. In April, 2016, after a challenge in the World Trade Organization (WTO), the PRC did end a subsidy program that aided small companies engaged in the textile and seafood export business. But that program only amounted to about $1 billion in subsidies.[5]

Intellectual Property Protection and Foreign Investment

The US has also seen theft of intellectual property as a harmful trend in bilateral economic ties. To remedy this problem, in August President Trump requested the US Trade Representative Office to use Section 301 of the 1974 US Trade Act to investigate Chinese laws and policies that could be harmful to US intellectual property protection. This American action was seen as puzzling, because after China joined the WTO in 2001, most such disputes have been referred to the international trade body for resolution.[6] But President Trump was likely aiming to make a larger public statement about Chinese economic policies through the use of the targeted investigation process.

On a related note, Chinese cyber-spies have

1 Office of the US Trade Representative, online at https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china

2 For Japan, Mexico, and South Korea: Office of the US Trade Representative, various pages, online at http://ustr.gov; for Germany, US Census Bureau, "Trade in Goods with Germany," online at https://www.census.gov/foreign-trade/balance/c4280.html#2016; trade statistics are comparable across sources

3 *Business Insider,* August 18, 2017, online at http://www.businessinsider.com/us-begins-section-301-investigation-2017-8

4 *Business Insider,* August 18, 2017, online at http://www.businessinsider.com/us-begins-section-301-investigation-2017-8

5 *Wall Street Journal,* April 14, 2016, online at https://www.wsj.com/articles/china-halts-export-subsidy-program-u-s-says-1460643214

6 *Business Insider,* August 18, 2017, online at http://www.businessinsider.com/us-begins-section-301-investigation-2017-8

targeted some major US corporations in recent years, with specific victims including US Steel, Alcoa Inc., and Westinghouse Electric. But in September 2015, the Chinese government agreed to stop supporting the hacking of American trade secrets. By June of last year, there were reports that security breaches from Chinese-based groups had plunged by 90 percent.[7] This development seems to be a bright spot in US-China economic ties.

Other key elements of the bilateral economic relation are Chinese lending to the US to support ongoing American domestic budget deficits, and Chinese foreign direct investment in the US. As of October, 2017, China had essentially loaned the US $1.2 trillion, which was about 19 percent of the $6.3 trillion in US Treasury bills, notes, and bonds held by foreign countries.[8] American lenders held the rest of the US $20 trillion national debt. But China has reduced its debt holding from $1.3 trillion in 2013, as it sells dollars try to strengthen its currency. The reduced debt may also calm American fears that the nation owes too much to the PRC.

China has also become a major overseas investor. In 2015, Chinese companies spent about $16 billion to buy US corporations, real estate, and other entities. The following year, investment surged to some $45 billion. However, in August 2017, the Chinese government decided to limit overseas investment in real estate, hotels, cinemas, sports, and related industries. The result was a steep decline in Chinese investment in the US, to $29 in consummated deals.[9]

The Trump administration also sought to slow Chinese acquisitions of American companies with key technologies: in late 2017, the US government effectively blocked a Chinese private equity firm from buying Lattice Semiconductor Corp. for $1.3 billion. The US argued that national security concerns overrode the American company's desire for the sale.[10] Though the Trump administration may be able to better protect US technological interests, such action could lead to the loss of deals that can bring needed capital and perhaps new markets to companies based in many parts of America.

Regional Trade and the One Belt, One Road Project

Overall, Trump's policies seem to be bringing the US closer to economic isolation on the global stage. In one of his first acts, the President withdrew the US from the process to conclude the Trans-Pacific Partnership (TPP) trade agreement. This step may have been welcomed in China, because the PRC was not a member of the proposed trade pact. In fact, in 2017 some press reports indicate China was concerned that Japan and other nations still part of the TPP process were pushing ahead to conclude the regional economic agreement.[11] Moreover, China was pressing ahead with a rival multilateral economic

7 Reuters news report, June 20, 2016, online at https://www.reuters.com/article/us-cyber-spying-china/chinese-economic-cyber-espionage-plummets-in-u-s-experts-idUSKCN0Z700D

8 *The Balance,* December 27, 2017 report, online at https://www.thebalance.com/u-s-debt-to-china-how-much-does-it-own-3306355

9 Rhodium Group report, January 17, 2018, online at http://rhg.com/notes/chinese-fdi-in-the-us-in-2017-a-double-policy-punch

10 *New York Times,* September 13, 2017, online at https://www.nytimes.com/2017/09/13/business/trump-lattice-semiconductor-china.html

11 *Japan News,* November 6, 2017, reproduced online at https://www.bilaterals.org/?china-vigilant-about-revival-of

agreement, the Regional Comprehensive Economic Partnership (RCEP), which did include China but pointedly excluded the US.

In addition to the RCEP, the "One Belt, One Road" project is one of China's major efforts to exert its economic influence outside of the country's borders. In this way, it is setting itself up in some ways to be a global economic competitor to the United States. The following paragraphs discuss this project, and its relevance for China's economic outreach.

The project consists of several parts. In 2013, Chinese president Xi Jinping proposed building the "Silk Road Economic Belt" and the "21st-Century Maritime Silk Road." The "belt" countries range from China to Central Asia, and on to Russia and eastern and western Europe. The "maritime road" nations stretch as far west as northern Africa to the eastern edges of Indonesia, in Southeast Asia. In this way, China is seeking economic influence in many areas that may have been outside of the US trade and investment sphere, but were still integral to US security interests.

The projects consist of investments in infrastructure, such as roads, rail, and harbor construction. The goal is to achieve regional integration in a cohesive economic area. To support funding for the projects, China led the creation of the Asian Infrastructure Investment Bank (AIIB), which opened for business in January 2016 with capitalization of $100 billion. As of 2018, the bank had a total of 84 approved members.[12] The United States notably did not join the AIIB, and tried to convince allies not to join. Many close friends of the US, including the United Kingdom, Germany, and South Korea ignored the American plea. Japan is not a member of the bank, but is currently considering joining later on.

In May, 2017, in addition to earlier spending, Xi pledged $113 billion toward the Silk Road initiative.[13] In a speech to a Belt and Road forum, to an audience that included Russian President Vladimir Putin and leaders of Turkey and Pakistan, President Xi said "We will build an open platform, defend and develop an open world economy, jointly create an environment good for opening-up and development, and push for a just, reasonable and transparent international trade and investment system so that production materials can circulate in an orderly way, be allocated with high efficiency and markets are deeply integrated."[14] Xi's comments followed similar calls for free trade and a defense of globalization from earlier in 2017. His words stood in sharp contrast to President Trump's protectionist rhetoric and criticism of international trade agreements, such as the TPP and the North American Free Trade Agreement.

The "One Belt, One Road" initiative has already led to some concrete developments. In May of 2017, Kenya opened its 290-mile train line, running from Nairobi to Mombasa. The line took $3.2 billion of Chinese investment.[15] In July, Sri Lanka signed a $1.12 billion agreement to allow a Chinese state-owned

12 AIIB website information, at https://www.aiib.org/en/general/faq/index.html

13 *South China Morning Post,* May 14, 2017, online at http://www.scmp.com/news/china/diplomacy-defence/article/2094248/xi-jinping-pledges-us113-billion-he-woos-world-board

14 *South China Morning Post,* May 14, 2017, online at http://www.scmp.com/news/china/diplomacy-defence/article/2094248/xi-jinping-pledges-us113-billion-he-woos-world-board

15 BBC news report, May 31, 2017, online at http://www.bbc.com/news/world-africa-40092600

enterprise to operate the port of Hambantota in the southeast part of the island nation.[16] However, in December 2017, Sri Lanka granted China a 99-year lease on the port to lessen the South Asian nation's debt burden to the PRC.[17] Despite the seemingly growing dependence of some developing nations on China's investment in the project, the initiative was showing results in regions and nations far from the country's borders, while further integrating these countries with China's rapidly growing economic global network.

Case Focus: Tesla Inc.

In the concluding part of the article, we turn to a relevant development in China-US economic ties: namely, the proposed new Tesla Inc. factory in Shanghai's Free Trade Zone. The article considers this case, and the implications for US investment in China.

In the automobile sector, China has limited foreign investment for carmakers to 50 percent ownership. But Tesla announced in June it was in talks with Chinese officials to produce cars in Shanghai, and last month, press reports indicated Tesla would create a 100 percent wholly-foreign owned venture, with the goal of selling its cars on the domestic Chinese market.

If Tesla succeeds, it would follow in the steps of other American car manufacturers in the PRC. As early as 1983, American Motors invested $16 million in a joint venture with the Beijing Automotive Works. Though the company never really succeeded to produce jeep-model vehicles, it set the stage for later investments by American companies.

In the late 1990s, General Motors created its first joint venture in China in the more industrialized city of Shanghai. Over its first 20 years, the company succeeded in becoming a leader in China's automotive sector, and sold 4.04 million vehicles in China in 2017,[18] about 14 percent of a total of 28.9 million vehicle sales in the PRC that year.[19]

For General Motors and nearly all other foreign car producers in China, however, the 50 percent ownership limit means half of their profits must go to Chinese corporate partners. The companies also are expected to share technology. Tesla, which closely guards its battery technology, would like to avoid these problems by creating their 100 percent foreign owned factory.

But Tesla faced challenges from both the American and Chinese sides. During his campaign for office, President Trump criticized US manufacturing companies that moved production abroad. He singled out Ford Motors for a plan to shift small car production to Mexico, calling it "horrible."[20] As for China, he said "our jobs are fleeing the country… you look at what China is doing to our country in terms of making our product."[21]

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16 *DNA India report,* July 30, 2017, online at http://www.dnaindia.com/business/report-sri-lanka-china-sign-deal-to-develop-hambantota-port-2518106

17 *New York Times,* December 12, 2017, online at https://www.nytimes.com/2017/12/12/world/asia/sri-lanka-china-port.html

18 *South China Morning Post,* January 4, 2018, online at http://www.scmp.com/business/companies/article/2126860/gm-car-sales-speed-past-record-4-million-2017-china-even-it-hits

19 *Markline report,* January 4, 2018, online at https://www.marklines.com/en/statistics/flash_sales/salesfig_china_2017

20 CNBC report, September 15, 2016, online at https://www.cnbc.com/2016/09/15/trump-slams-fords-horrible-mexico-move.html

21 *Quartz* report, September 27, 2016, online at https://qz.com/792387/presidential-debate-trumps-first-lies-of-the-debate-were-all-about-china/

From the Chinese side, economic policies seem to be more welcoming. In 2013, the PRC opened its first Free Trade Zone (FTZ) in Shanghai. In 2017, the country hosted 11 of these FTZs,[22] which encourage foreign investment with more relaxed rules than in other parts of the country. In September, a draft proposal indicated foreign carmakers could create wholly owned factories in these zones.[23] However, if such ventures wanted to sell vehicles in China, they would have to pay the 25 percent import tax the country levies on imported vehicles.[24]

Tesla has some advantages working toward its investment plan. In 2016, it sold some 11,000 cars in China,[25] so it saw a firm market for its products. Because Teslas are seen as luxury cars, customers may not be sensitive to the added tariff costs. Furthermore, earlier in 2017 the Chinese company Tencent Holdings bought five percent of Tesla for $1.8 billion,[26] giving the American company some element of Chinese ownership control.

Finally, China would benefit by increasing its electric vehicle production capability. To combat air pollution and save on imported oil, the nation has set goals to produce as many as three million electric vehicles by 2020,[27] and seven million by 2025.[28] Tesla's production presence would help meet these ambitious goals.

However, Chinese officials may fear other foreign vehicle manufacturers, including General Motors, would call for similar treatment. They might even ask to eliminate the rule allowing a maximum of 50 percent foreign ownership for companies outside the FTZs selling gasoline-fueled cars on the Chinese domestic market. Because foreign manufacturers still dominate much of the vehicle industry in China, it could be a problem if American and other outside auto makers gain a larger hold on car production.

Conclusion

The current status of the Tesla case serves as an example of larger current American policies toward China. Since Tesla made its initial announcement of intentions to build a Shanghai factory, President Trump has been silent on the proposal. One reason for this may be the fear of a backlash from the US business community, whose support Trump needs for many of his domestic economic polices. Tesla, after all, has made major investments in the US, building factories to make vehicles, electric batteries, and other products that create jobs for Americans. Many other American companies with ties to China can

22 *Wall Street Journal,* October 22, 2017, online at https://www.wsj.com/articles/tesla-strikes-deal-with-shanghai-to-build-factory-in-china-1508670181

23 *Bloomberg News* report, reproduced in the *The Malaysian Reserve,* September 20, 2017 online at https://themalaysianreserve.com/2017/09/20/china-weighs-foreign-ev-makers-ftz/

24 *Wall Street Journal,* October 22, 2017, online at https://www.wsj.com/articles/tesla-strikes-deal-with-shanghai-to-build-factory-in-china-1508670181

25 *Wall Street Journal,* October 22, 2017, online at https://www.wsj.com/articles/tesla-strikes-deal-with-shanghai-to-build-factory-in-china-1508670181

26 *Wall Street Journal,* March 29, 2017, online at https://www.wsj.com/articles/chinas-tencent-buys-5-stake-in-tesla-1490702095

27 *Quartz* report, May 3, 2017, online at https://qz.com/972897/china-is-selling-more-electric-vehicles-than-the-us-and-its-not-even-close/

28 *Wall Street Journal,* October 22, 2017, online at https://www.wsj.com/articles/tesla-strikes-deal-with-shanghai-to-build-factory-in-china-1508670181

make similar arguments.

The other reason Trump may be relatively quiet on this and other issues related to Sino-American economic ties, is the importance of China for resolving problems with North Korea. In early November, 2017, just his before travel to Asia, when asked in a Fox News television interview if he planned to be tough on China over issues of trade, intellectual property theft, and government subsidies, Trump responded "You have to understand something - very important. We have a problem called North Korea."[29]

29 *Reuters* news report, November 2, 2017, online at https://www.reuters.com/article/us-usa-trump-asia/trump-dogged-at-home-begins-longest-presidential-asia-trip-in-years-idUSKBN1D30A9

So as long as foreign security is at the top of the American agenda, companies like Tesla, and overall China-US economic relations, will likely avoid being targeted by the US administration. Moreover, as noted earlier, a trade war would likely have devastating effects on both nations, leading to lose-lose consequences. Because of these factors, we may cautiously expect to have a relatively stable relation in US-China economic ties, as least in the short-term future.

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