

# **Outlook for US-China Trade & Investment**

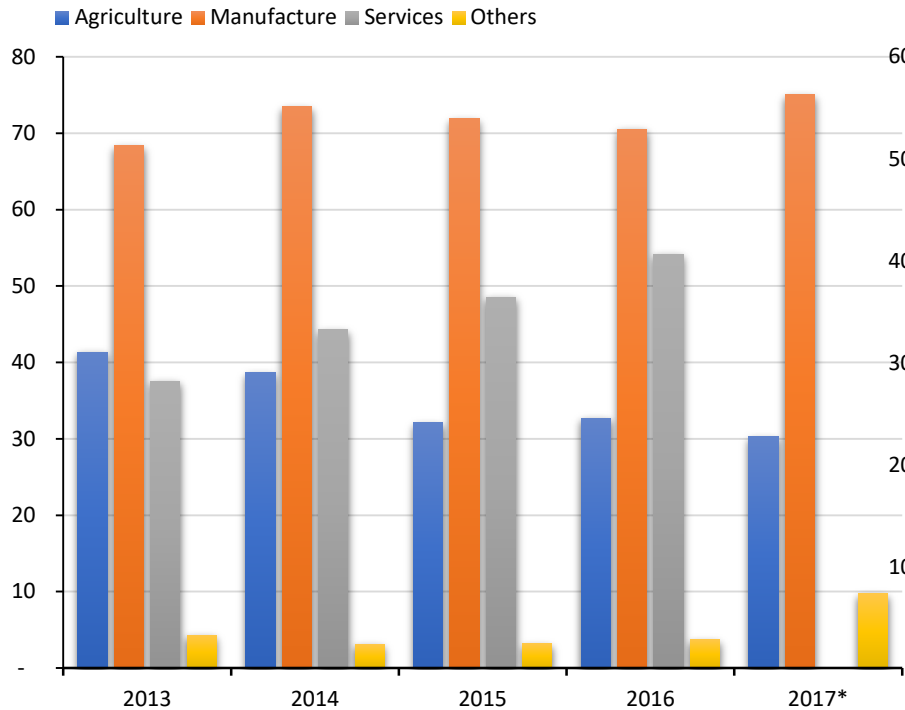
**Jeffrey Schott & Gary Hufbauer**

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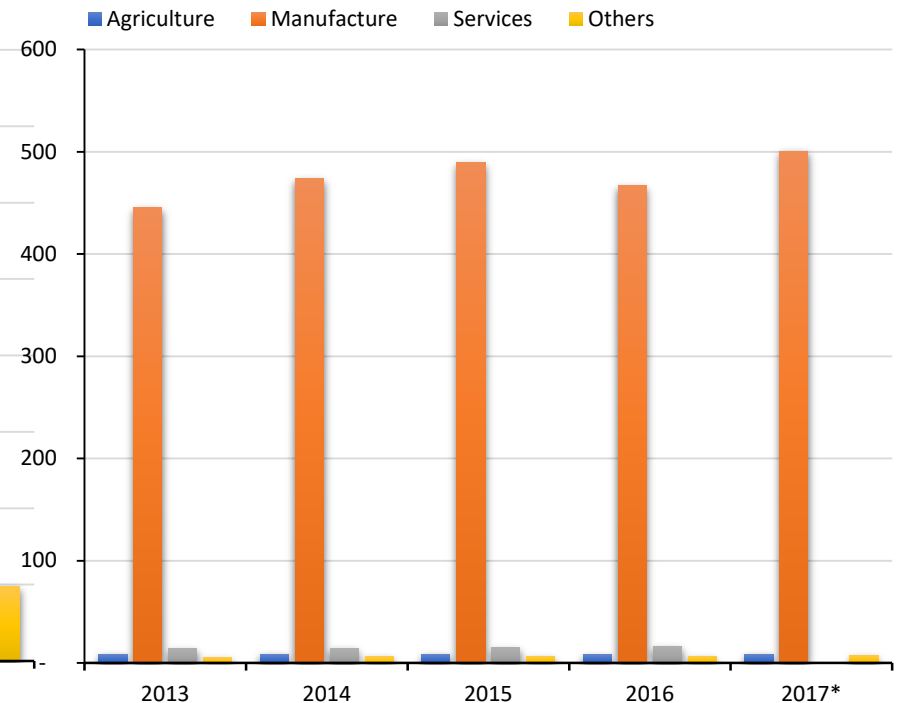
# US bilateral trade with China



**US exports to China, 2013 - 2017, billion US dollars**



**US imports from China, 2013 - 2017, billion US dollars**



\*: 2017 data is estimated based on Jan - Oct data. Services data for 2017 is not available.

Note: Agriculture includes SITC 0 (Food and live animals), SITC 1 (Beverages and Tobacco), SITC 2 (Crude materials, inedible, except fruits), SITC 4 (Animal and vegetable oils, fats and waxes). Manufacture includes SITC 5 (Chemicals and related products, n.e.s.), SITC 6 (Manufactured goods classified chiefly by material), SITC 7 (Machinery and transport equipment), SITC 8 (Miscellaneous manufactured articles). Others include SITC 3 (Mineral fuels, lubricants and related materials), SITC 9 (Commodities and transactions not classified elsewhere in the SITC).

Source: USITC.

# US-China trade tensions likely to grow in 2018



- Growing US bilateral and global trade deficits likely to provoke protectionist response in run-up to US mid-term election in 2018.
- US merchandise trade deficit with China accounts for almost half of global US deficit and 58% of manufactures deficit; US trade deficit with China entirely in manufactured goods.

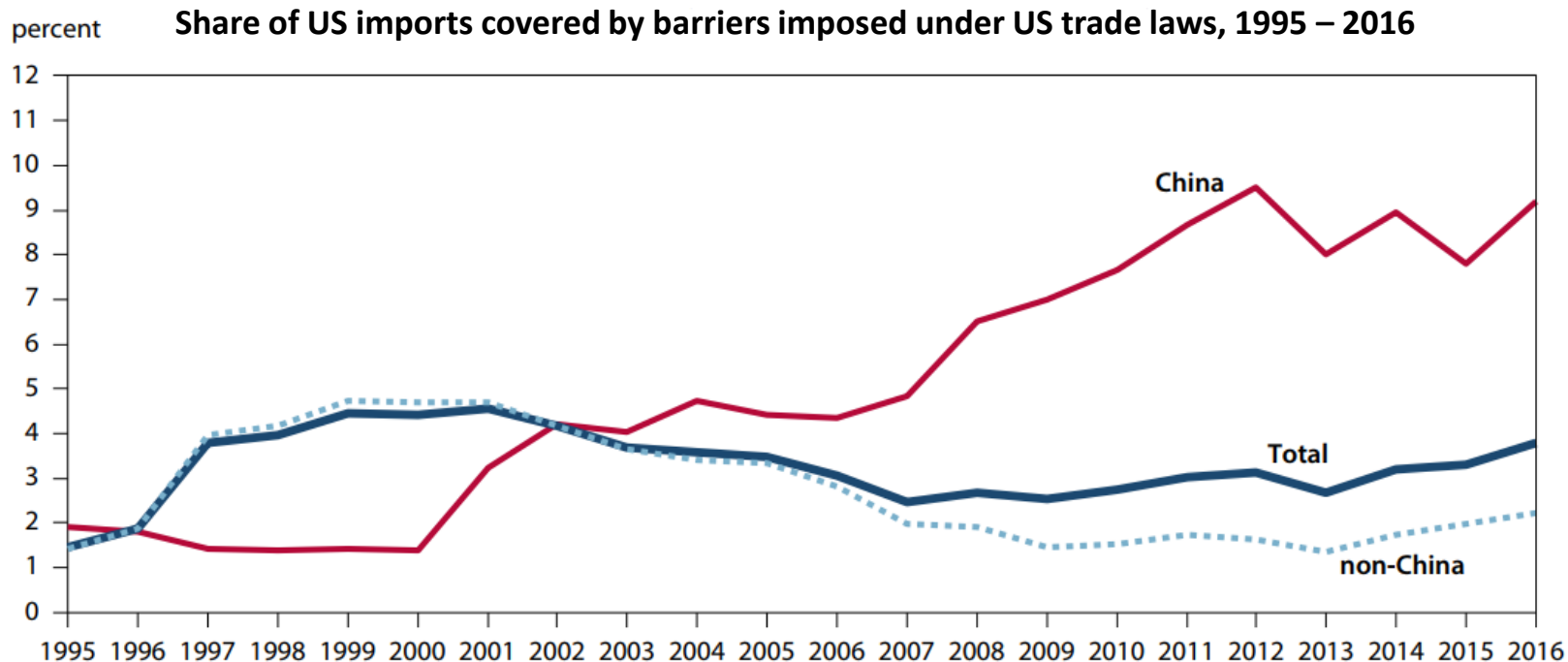
## US trade deficits with Pacific Basin economies, 2016, billion US dollars

	US merchandise	All manufacturing
World Total	-737	-637
China	-347	-369
NAFTA	-74	-46
Japan	-69	-84
Korea	-28	-34

*Source:* US Census Bureau, "US International Trade in Goods and Services Annual Revision for 2016," CB 17-85 FT-900 Exhibit 13 and 17, Census Basis; USITC.

- US likely to impose more trade restrictions in 2018 against imports from China via AD/CVD, safeguards, and section 301; in addition, enforcement of US sanctions against North Korea could hit Chinese firms.

# US-China bilateral temporary trade barriers



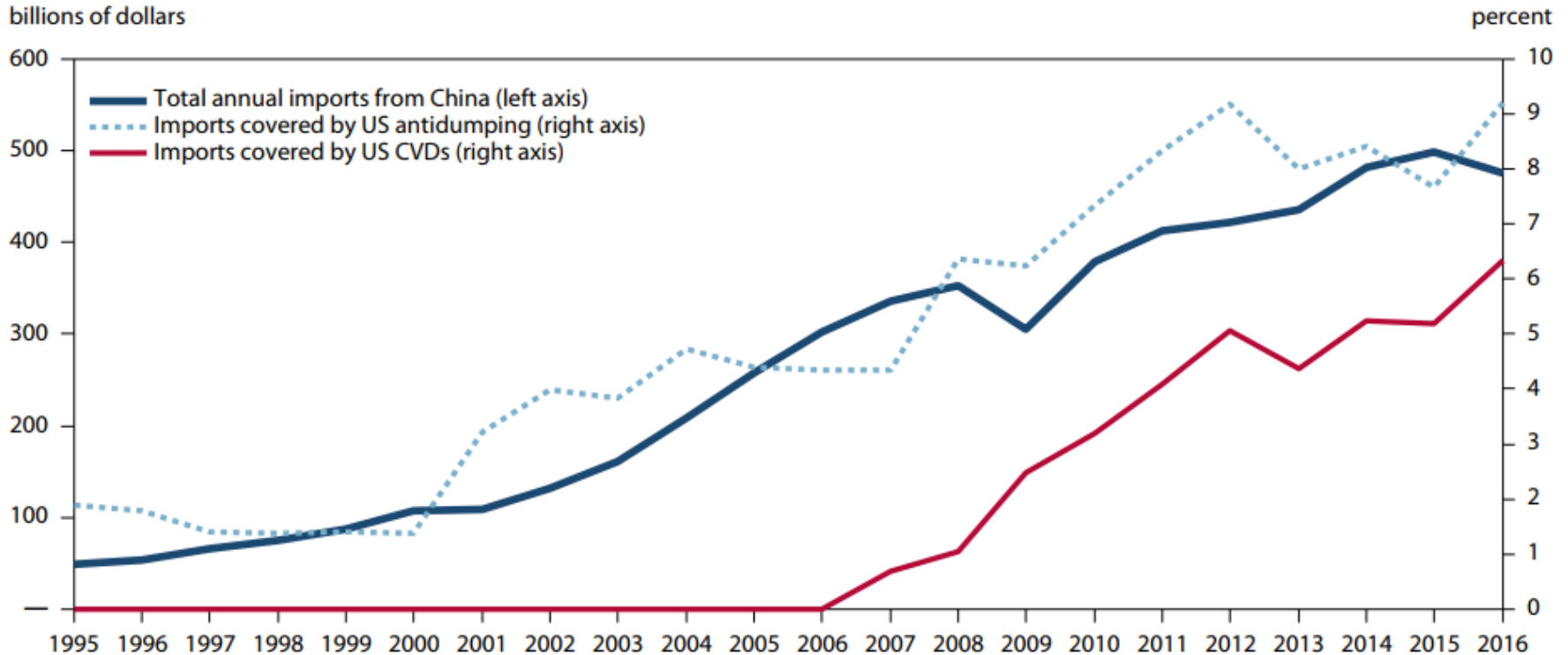
Trade laws = antidumping, countervailing duties, and global safeguards

Source: Chad Down, 2017. *Steel, Aluminum, Lumber, Solar: Trump's Stealth Trade Protection*. Policy Brief 17-21. Washington: Peterson Institute for International Economics

- As of the end of 2016, the United States had 292 AD and 82 CVD orders in place on imports. China is the major target of these trade laws: 102 AD and 27 CVD orders.
- An estimated \$44.3 billion, or 9.2 percent of Chinese imports were covered by US trade laws (AD, CVD, safeguards) in 2016.
- An estimated \$5.8 billion, or 4.2 percent of US exports to China were covered by barriers imposed by China in 2016.

# US-China bilateral temporary trade barriers (Cont'd)

US imports from China and the share covered by US antidumping and countervailing duties, 1995 - 2016



CVD = countervailing duty

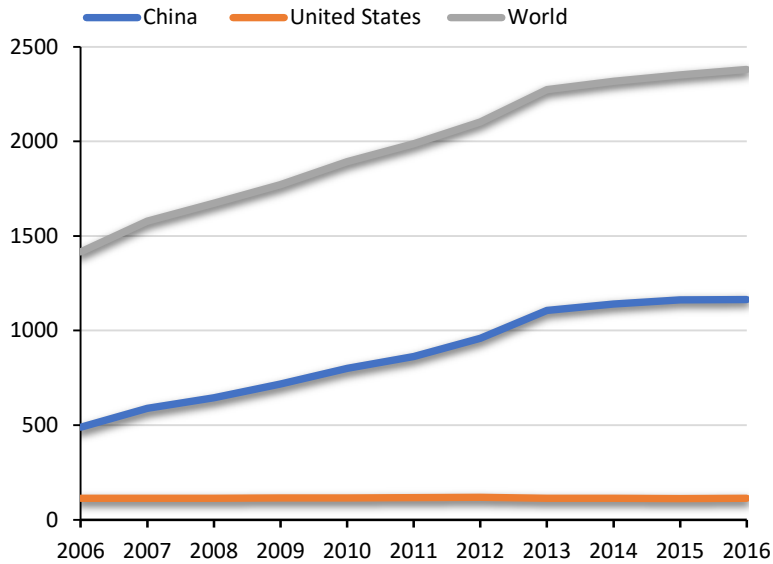
Source: Chad Bown, 2017. *Steel, Aluminum, Lumber, Solar: Trump's Stealth Trade Protection*. Policy Brief 17-21. Washington: Peterson Institute for International Economics

- Use of import restrictions against China spiked after China joined the WTO in 2001 and the Great Recession.
- US CVDs covered 6.3 percent of imports from China in 2016.
- Chinese imports covered by AD duties are increasingly also covered by CVDs.

# Steel overcapacity and market economy status

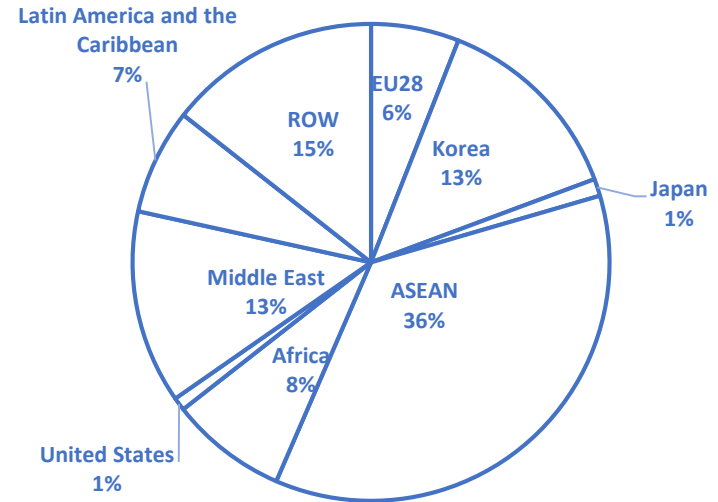


Steelmaking capacity, 2006 – 2016, million tons



Source: OECD.

Chinese steel exports to major economies in quantities, 2016

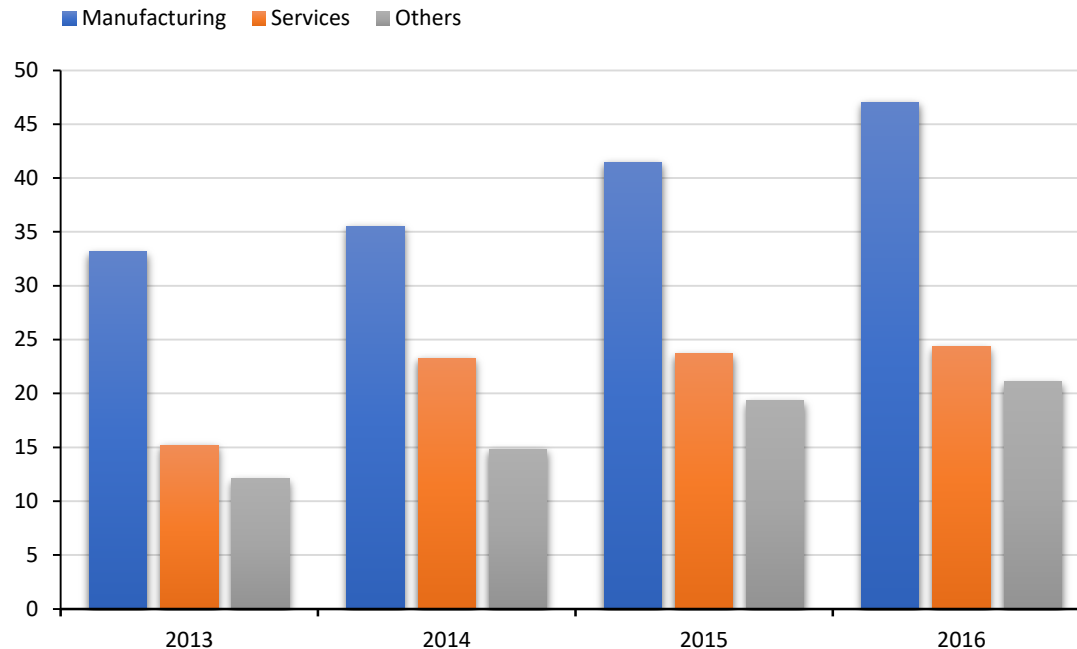


- Chinese crude steel capacity almost tripled over the past decade. China as a share of the global steelmaking capacity increased from 34.5% in 2006 to 49.0% in 2016
- Major exporting markets for Chinese steel products are ASEAN and Middle Eastern countries. Collectively, they accounted for 49% of total Chinese steel exports in 2016. Only 1% of Chinese steel exports went to the United States due to existing AD/CVD measures
- Developments in China’s steel capacity, ongoing section 232 investigation on steel and aluminum imports from China, and the closely related dispute over China’s market economy status (MES) likely will escalate bilateral trade tensions

# US outward FDI stock to China



US outward FDI to China, stock, 2013 - 2016, billion US dollars



*Note:* Services include wholesale trade, information, depository institutions, finance, and professional services. Others include mining, holding companies, and other industries.

*Source:* BEA.

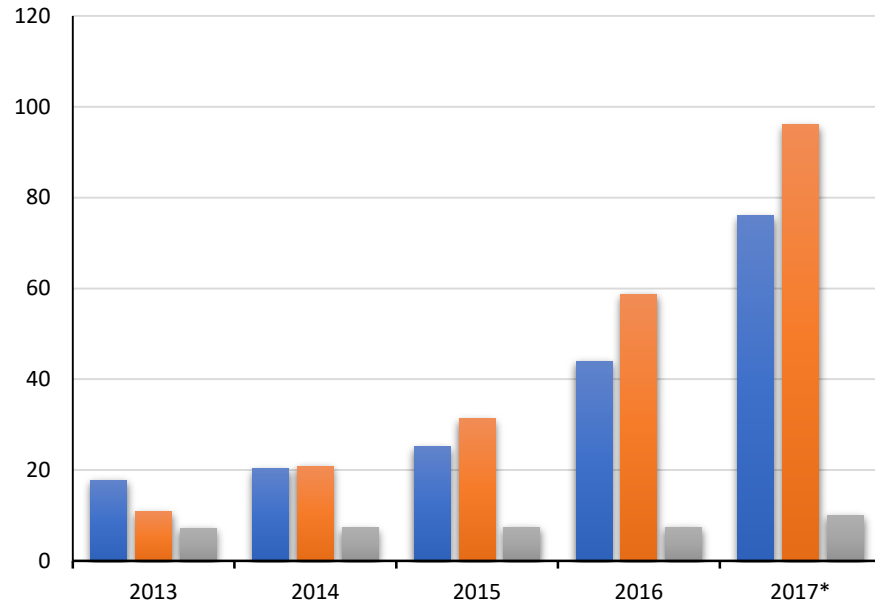
- Growing US investors are investing in China's manufacturing sector
- US services FDI in China increased noticeably in 2014, but stayed at a relatively constant level over 2014 – 2016

# US inward FDI stock from China



**US inward FDI from China, stock, by industry, 2013 - 2017, billion US dollars**

■ Manufacturing ■ Services ■ Others



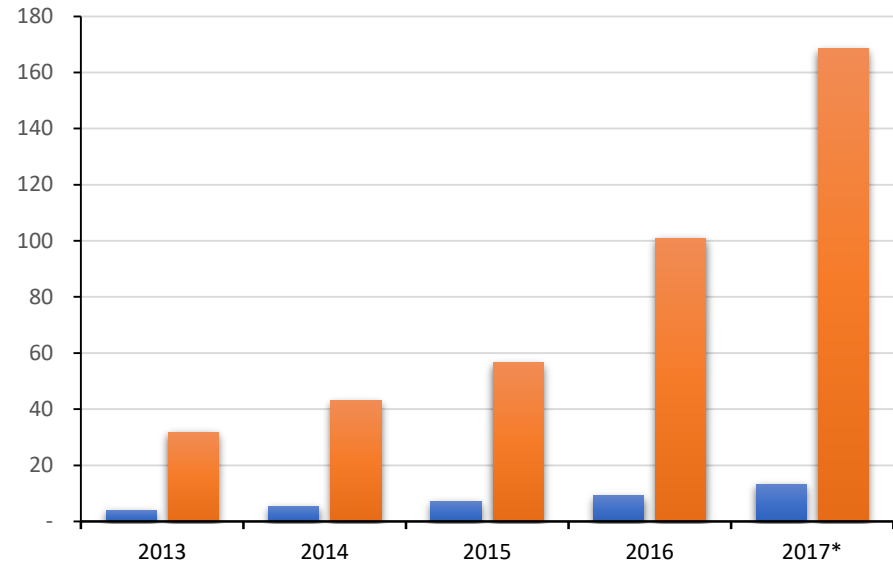
\*: 2017 data is estimated based on Q1 - Q3 statistics.

*Note:* Manufacturing includes automotive, aviation, basic materials, consumer product and services, electronics, energy, health and biotech, industrial machinery and equipment, and transport and infrastructure. Services include entertainment, finance and business services, ICT, real estate and hospitality. Others include agriculture and food.

*Source:* Rhodium Group.

**US inward FDI from China, stock, by type, 2013 - 2017, billion US dollars**

■ Greenfield ■ Acquisitions



\*: 2017 data is estimated based on Q1 - Q3 statistics.

*Source:* Rhodium Group.

- US inward FDI from China increased dramatically over the past 5 years, with a growing share taking in the form of acquisitions
- Chinese investments are getting heavy scrutiny by CFIUS due to national security concerns. On September 13, 2017, president Trump blocked the proposed \$1.3 billion acquisition of Lattice Semiconductor Corporation by China Venture Capital Fund Corporation Limited





**Thank You!**