



## RESPOND TO CHINESE TRADE PRACTICES

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Amidst escalating trade tensions between the United States and China, Congress should engage in efforts to support businesses seeking alternatives to imports from China. The United States should actively engage global trading partners to quickly develop new international supply chains.

### BACKGROUND

According to World Bank data, average Chinese tariffs across all goods have fallen from more than 32 percent in 1992 to 2.5 percent in 2019.<sup>1</sup> Even with such a radical reduction, China's average tariff rate across all goods remains higher than that of top industrialized nations.<sup>2</sup>

China also remains the top source of U.S. imports (\$435 billion in 2020) and third-largest export market (\$124 billion in 2020). More importantly, China is the second largest foreign holder of U.S. Treasury securities (at \$1 trillion as of September 2021), behind Japan.<sup>3</sup>

Tensions between the U.S. and China have increased due to several key issues: The U.S. trade deficit with China, theft of U.S. intellectual property, and Chinese industrial subsidization.

Following a United States Trade Representative (USTR) investigation<sup>4</sup> regarding Chinese policies on technology transfers and intellectual property, the U.S. imposed 25 percent tariffs on \$34 billion of Chinese goods<sup>5</sup> in one trade action and then \$16 billion of goods in a second action.<sup>6</sup> China responded with increased duties on U.S. goods, which prompted further U.S. tariffs.<sup>7</sup>

### Chinese Trade Policy in a Historical Context

To fully understand the current dispute between China and the U.S., Congress must view trade tensions between China and the United States as symptoms of a clash between a modern superpower and a nation seeking to reclaim its dominant global status. For most of modern history, the Chinese Empire (221 BC-1912 AD) governed by various dynasties was arguably the most powerful nation in the world. The ascendance of Western powers — particularly the United States — is a relative historical anomaly.

After Britain's defeat of China in the First Opium War at the end of the 19<sup>th</sup> century, China's self-described "century of humiliation" began.<sup>8</sup> The period would lead China into wars, subordination to Western powers, and political upheaval. The fall of China's standing in the world is central to the Communist People's Republic of China's founding narrative. Matt Schiavenza, a former contributing writer for *The Atlantic*, sums this mythology succinctly:

Long the world's pre-eminent civilization, China fell behind the superior technology of the West over the centuries, an imbalance that finally came to a head with the loss in the Opium Wars. This begun the most tumultuous century in the country's—or any country's—history, one that featured an incessant series of wars, occupations, and revolutions and one that did not end until the victory of the Communist Party in

China's 1945-49 civil war.<sup>9</sup>

The “century of humiliation” fuels China’s ambition to reclaim its former glory. The China Dream “captures the intense yearning of a billion Chinese: to be rich, to be powerful, and to be respected.”<sup>10</sup>

### **The Modern Challenge**

Ambition to reclaim former glory led to the creation of the Made in China 2025 program.<sup>11</sup> The objectives of the program are unambiguous:<sup>12</sup>

China 2025 sets specific targets: by 2025, China aims to achieve 70 percent self-sufficiency in high-tech industries, and by 2049—the hundredth anniversary of the People’s Republic of China—it seeks a dominant position in global markets.

Chinese tactics to achieve these objectives do not—and will not—align with Western notions of free trade and open markets. China will use government subsidies, continue to heavily employ state-owned enterprises, and pursue intellectual property acquisition by any means necessary to catch up with—and ultimately overtake—Western technological and industrial advantages.

Because China views Western technology as a primary contributor to the “century of humiliation,” it will not likely act as a good-faith trading partner when it comes to intellectual property protections and competitive fairness.

As China depends on trade to accomplish its grander objectives, it must either trade with the United States or replace billions in American demand for Chinese products. China’s Belt and Road Initiative<sup>13</sup> (BRI), also referred to as China's "trillion dollar plan," seeks to do just that by dominating global trade. The BRI is an attempt to rebuild the ancient Chinese trade infrastructure known as the Silk Road which established trade networks throughout Asia and even reached into Europe.

By issuing low-interest loans to help nations modernize various land and maritime infrastructure, China is creating a major trade network throughout Africa, India, and Asia. More importantly, it has the power to leverage indebtedness of BRI countries in exchange for trade concessions.<sup>14</sup> According to the Council on Foreign Relations, “Overall debt to China has soared since [BRI’s launch in] 2013, surpassing 20 percent of GDP in some countries.”<sup>15</sup>

China has also taken action to militarize its trade routes through the South China Sea by conducting missile tests,<sup>16</sup> developing military bases, and engaging in island building in an attempt to lay claim to contested territory between six sovereign nations.<sup>17</sup> Approximately one-third of global maritime trade flows through the South China Sea.<sup>18</sup>

### **POLICY SOLUTIONS**

Whether through multilateral or bilateral trade agreements, the United States should seek to aggressively open superior trade routes throughout the nations covered by the BRI. Rather than simply noting China’s regional ambitions, the United States should seek to be as competitive as possible on the global stage. This will undoubtedly require measures beyond proactive trade policies such as:

- Streamline regulations to ensure that domestic industries experience as little operational disruption and additional costs as possible, while complying with various environmental, labor, and health safeguards.
- Provide strong incentives for private-sector innovations in cyber-security and encourage technological dissemination across domestic and allied industries.

- Accommodate domestic and allied industries seeking to move supply chains away from China and build them domestically or in allied countries.

Publ. 2020 (Updated Nov. 18, 2021)

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<sup>1</sup> *Tariff rate, applied, weighted mean, all products (%)*, The World Bank (2021), Tariff rate, applied, weighted mean, all products (%) - China | Data (worldbank.org).

<sup>2</sup> Patturaja Murugaboopathy, *U.S.-China trade: tariff and non-tariff barriers*, Reuters (Feb. 26, 2019), <https://www.reuters.com/article/us-usa-trade-china-graphic/u-s-china-trade-tariff-and-non-tariff-barriers-idUSKCN1QG0CF>.

<sup>3</sup> 2020: U. S. Trade in Goods with China, U.S. Census Bureau, (last visited Nov. 18, 2021.), available at <https://www.census.gov/foreign-trade/balance/c5700.html> and U.S. Department of Treasury, Major Foreign Holders of Treasury Securities, (last visited Nov., 18, 2021), available at <https://ticdata.treasury.gov/Publish/mfh.txt>.

<sup>4</sup> 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, Office of The United States Trade Representative Executive Office of The President (Mar. 22, 2018), <https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF>.

<sup>5</sup> *China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation*, regulations.gov, Office of United States Trade Representative (Mar. 22, 2018), <https://www.regulations.gov/document?D=USTR-2018-0005-0001>.

<sup>6</sup> *Requests for Comments: Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation*, regulations.gov, Office of United States Trade Representative (Jul. 31, 2018), <https://www.regulations.gov/document?D=USTR-2018-0018-0001>.

<sup>7</sup> *Proposed Modification of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation*, regulations.gov, Office of United States Trade Representative (Sep. 6, 2018), <https://www.regulations.gov/document?D=USTR-2018-0026-0001>.

<sup>8</sup> Matt Schiavenza, *How Humiliation Drove Modern Chinese History*, The Atlantic (Oct. 25, 2013), <https://www.theatlantic.com/china/archive/2013/10/how-humiliation-drove-modern-chinese-history/280878/>.

<sup>9</sup> *Id.*

<sup>10</sup> Graham Allison, *What Xi Jinping Wants*, The Atlantic (May 31, 2017), <https://www.theatlantic.com/international/archive/2017/05/what-china-wants/528561/>.

<sup>11</sup> James McBride, Andrew Chatzky, *Is 'Made in China 2025' a Threat to Global Trade?*, Council on Foreign Relations (May 13, 2019), <https://www.cfr.org/backgrounder/made-china-2025-threat-global-trade>.

<sup>12</sup> *Id.*

<sup>13</sup> James McBride, Andrew Chatzky, *China's Massive Belt and Road Initiative*, Council on Foreign Relations (May 21, 2019), <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>.

<sup>14</sup> *Id.*

<sup>15</sup> Andrew Chatzky, James McBride, *China's Massive Belt and Road Initiative*, Council on Foreign Relations (Jan 28, 2020), *China's Massive Belt and Road Initiative | Council on Foreign Relations (cfr.org)*.

<sup>16</sup> Amanda Macias, Courtney Kube, *Chinese military conducts anti-ship ballistic missile tests in the hotly contested South China Sea*, CNBC (July 1, 2019), <https://www.cnbc.com/2019/07/01/chinese-military-conducts-missile-tests-in-the-south-china-sea.html>.

<sup>17</sup> Council on Foreign Relations, *China's Maritime Disputes: A CFR InfoGuide Presentation* (July 31, 2019), [https://www.cfr.org/interactives/chinas-maritime-disputes?cid=otr-marketing\\_use-china\\_sea\\_InfoGuide#!/chinas-maritime-disputes?cid=otr-marketing\\_use-china\\_sea\\_InfoGuide](https://www.cfr.org/interactives/chinas-maritime-disputes?cid=otr-marketing_use-china_sea_InfoGuide#!/chinas-maritime-disputes?cid=otr-marketing_use-china_sea_InfoGuide).

<sup>18</sup> Roncevert Ganan Almond, *Trade, War, and the South China Sea*, The Diplomat (Sept. 1, 2018), <https://thediplomat.com/2018/09/trade-war-and-the-south-china-sea/>.