Major Trade Issues Between USA and China

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Abstract— This research paper discusses the major trade issues between USA and China including bilateral and intellectual property rights issues.

The U.S.-China economic relationships have grown considerably in the past three decades. Overall trade between the U.S. and China increased from $2 billion during the 1970's to $592 billion in 2014 (Morrison 5). Currently, China is the U.S.'s second major trading partner, the third-biggest export market, and the largest source of imports. In line with the U.S. direct as well as indirect exports and sales by American firms in China, it is projected that China represents a multi-billion market for American firms

The American government interrelates with China bilaterally through two fundamental ways. The first is practically through US policies to promote economic transformation in China, and China's conscientious integration into the global economy. The government considers technical help as the main channel by which it can impact economic change in China and somehow promote political liberalization. Among the channels of technical help that were established or reformed include the US-China Joint Economic Committee under the leadership of the Treasury Department, with functioning groups on financial renovation and the foreign exchange structure. Likewise, bilateral inter-state relationships are conquered by a second path of hasty trade disagreement, mainly a function of China's quick development, partly reformed economic structure, and the appellant obsessed US trade regulation making structure. Morrison (39) presents proof that shows that bilateral trade disagreements are most closely linked to the scale of bilateral disparities and the level of intra-industry commerce. In view of China's huge and rapidly rising bilateral surplus with the US and the comparative predominance of inter-industry commerce over intra-industry trade in the bilateral exchange, the basics are in position for very controversial relations.

Several US analysts argue that increased Chinese FDI in the US, particularly in the 'Greenfield' plans (new investments) that manufacture goods or offer services in the US and create employment opportunities for US citizens, could aid in improving bilateral economic ties and may reduce insights among some reviewers in the US that increasing U.S.-China trade dents US employment and damages America's economic interests. It is also noted that China's external FDI has been increasing at a fast frequency since 2004 and is expected to continue growing in coming years. Thus, greater efforts need to be made by American policymakers to allow Chinese companies to invest in the U.S. instead of blocking them for political motives. In 2011, the US President issued the executive order developing "SelectUSA Initiative" to harmonize federal attempts to enhance and retain investment in the US. Consistent with the White House factsheet produced during the visit of Chinese Vice President Xi Jinping in US in 2012, China was among the SelectUSA's top ten focus markets, and the US was planning a considerable development of this initiative, including resources devoted to attracting Chinese investors and promoting their investment.

Some analysts of China's FDI practices and policies argue that they are largely centered on mergers and acquisitions, which are geared toward improving the viable position of Chinese companies and enterprises preferred by Chinese administration for development—a number of which may also be getting subsidies. It is claimed that investments are frequently made mainly to get technology and expertise for Chinese companies, but little to improve the US economy by, for instance, constructing new industries and hiring employees (Lawrence 34). Another key issue regarding Chinese FDI in the US is the comparative absence of transparency of Chinese companies, particularly with regards to their links to the central government. When China's SOEs try to buy US company resources, some critics have questioned the role of state officials in China in such decisions. Chinese government officials claim that investment resolutions by Chinese firms, including publicly held companies and SOEs—in which the state is the major shareholder—are exclusively based on trade considerations, and have condemned U.S. investment regulations as protectionists.

To a greater level, China's investment regulations seem to be linked to industrial regulations that seek to enhance the growth of industries identified as critical to future economic growth. For instance, since early 1980s, China's regimes have promoted foreign auto firms to invest in the country, although have restricted FDI in this industry to 50-50 joint investments with local Chinese partners (Lawrence 43). Additionally, the Chinese central government keeps a "Guideline Catalogue for Foreign Investment" that lists

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categories of FDI that are promoted, limited, or banned. A number of the industries within 'encouraged' group include high technology, energy conservation, pollution control, and green technology. Many of the industries under 'restricted' group limit FDI to only joint undertakings—like rare earth smelting—or in which the Chinese people are the controlling shareholders, like railway passenger companies. Further, 'prohibited' industries are those which fall under national security interests like ammunition production and weapons or are groups in which the government tries to maintain state monopolies like postal corporations, or safeguard Chinese companies from foreign rivalry like the mining of rare earth metals.

The Chinese regime further sets bans on FDI inflows during the process of investment screening or through mergers and acquisition policies, particularly when trying to protect strategic or pillar sectors which the central administration—and several local and provincial governments—tries to promote. A number of critics of the Chinese investment regulations argue that often, the Chinese government requires foreign companies to share technology with their Chinese counterparts, and at times to build research and development centers in China in exchange for entry into Chinese markets. Foreign-investment companies in China experiences several challenges, including domestic protectionism, absence of regulatory simplicity, discriminatory licensing practices, and theft of IPR. A business study conducted in 2013 in China by the US Chamber of Commerce established that 35% of respondents claimed to experience a competitive disadvantage due to Chinese industrial regulations, which favored state-controlled businesses (McGregor 103). Some American policies makers have proposed that Chinese enterprises in some US industries should be limited as a response to Chinese laws, which restrict US FDI in the country in similar sectors.

Intellectual Property Rights (IPR) concerns

American business and state representatives have voiced increasing concern on economic losses experienced by the U.S companies due to Chinese infringement on IPR, including those who emerge from cyber attacks. American innovation and IP that is created through such innovations have been quoted by a number of economists as an important source of U.S. economic development and international competitiveness. For instance, Morrison (41) states that in 2010, the Department of Commerce stated that the IP-intensive sectors sustained at least 40 million jobs and contributed 34.8% or $5.1 trillion to U.S. GDP. A survey by NDP consulting established that in 2008, employees in IP-intensive manufacturing earned around 60% more than employees at same levels in the non-IP sectors. Absence of efficient and consistent protection IPR has been stated by many U.S. firms as the most important issues they experience in conducting businesses in China. More companies have also expressed concern on pressures they regularly experience form Chinese state organizations in technology sharing and IPR with various Chinese collaborators.

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While China has considerably improved its IPR protection administration in the last few years, US IP sector protest that rates of piracy in China continue being inappropriately high and economic losses are crucial, as depicted by researches and projections made by a number of stakeholders. A survey conducted in May 2013 by the Commission on Theft of American Intellectual Property (CTAIP) projected the yearly cost to American economy on international theft of IPR was $300 billion, where China accounted for $150 billion (50%) to $240 billion (80%) of these losses (Lawrence 49). Further a 2013 AmCham China study established that 72% of respondents claimed China's enforcement of IPR was either unsuccessful to completely ineffective (Lawrence 50). Further the U.S. International Trade Commission projected that US intellectual property-intensive companies conducting business in China incurred a loss of $48.2 billion in royalties, license fees, and sales in 2009 due to violations of IPR in China (Derek 9). The Commission further projected that an inefficient IPR enforcement administration in China in relation to Americans levels could boost employment of IP-intensive companies in U.S. thousands of jobs.

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