

China Briefing D: Openness to U.S. Trade and Investment is Beneficial to China

In this simulation, you will be part of a team of negotiators representing China in trade talks with the United States. ***Your goal is to represent the interests of Chinese businesses and consumers who benefit from trade and investment with the United States*** and to ensure that any agreement reached between the two countries will reflect these interests.

If no agreement is reached by the end of negotiations, tariffs on \$200 billion worth of Chinese goods will increase from 10% to 25%. To put this figure in perspective, China exported approximately \$522.9 billion worth of goods and services to the U.S. and imported \$187.5 billion worth in 2017.

Why Trade with the U.S. Serves Chinese Economic Interests

China is one of the greatest beneficiaries of globalization and the world's largest trading nation. China's rapid economic growth in the last several decades would not have been possible without China's accession to the WTO in 2001, China's export-led growth strategy, and the influx of foreign direct investment (FDI).

Export and FDI played a significant role in integrating China into the global production network. The majority of China's export occurs through processing trade (a.k.a. contract manufacturing, where exporters import inputs, assemble, and re-export the final products), and most of China's processing trade can be attributed to foreign investment from United States and other advanced economies. By the mid-2000s, nearly 85% of China's processing trade was carried out through multinational corporations (MNCs) operating in China. These MNCs not only provided access to international markets, but also brought advanced technologies and management know-how to China's industries. Gradually China's domestic suppliers were able to grow in their competitiveness and elevate China to the international manufacturing hub it is today.

Today China continues to send nearly 20 percent of its exports to the United States. As China's economy moves away from fixed assets investment and transitions to a more innovation-driven development model, China needs to engage and cooperate with the United States more than ever. The United States continues to occupy the world's technological frontier; China can continue to benefit from technological transfer from the U.S. through trade and investment.

Concerns about U.S. China Trade and Investment Relations

Because you represent interests that consider U.S.-China trade to be beneficial to China, you are mainly concerned with convincing the United States to maintain economic openness toward China, preserving China's status as an attractive destination for foreign investors, and ensuring Chinese firms' access to advanced technology and to U.S. markets as China completes its economic transition.

China must maintain its commitment to economic openness, to share opportunities, create mutual benefit, and strive for win-win outcomes. China must work hard to develop global connectivity and enable all countries in the world to achieve linkage growth and common prosperity. China should work with the U.S. to promote global free trade and investment, facilitate the opening up of both economies, and oppose protectionism.

In recent years, the increasingly lopsided nature of trade and financial flows between the two countries has complicated the U.S.-China relationship and made them more contentious. China remains quite

dependent on U.S. export markets and continues to look to U.S. Treasury bond markets to park a large portion of its rapidly rising stock of foreign exchange reserves. The U.S. receives a large volume of low-cost imports from China (increasing the trade deficit) and has also financed a significant part of its budget by selling Treasury securities (debt) to China. China's many manufacturing industries suffer from overcapacity. China must work with the United States to rebalance its economic growth model, steering the economy away from fixed asset investment and government spending, increasing the contributions of consumer spending and the services sector, and implementing further market reforms.

Foreign-invested enterprises have been a significant contributor to Chinese exports by bring to China industrial and value chains and spurring corporate reform and innovation. As China shifts from high-speed growth to high quality growth, it is important that China strives to preserve its status as a major destination for foreign investment and maintain its central place in global supply chains. This means opening up sectors of the economy such as finance and energy to foreign investment, strengthening intellectual property protection, and attracting foreign talent to work in China.

Reciprocity in trade and investment policy also serves China's economic interests as Chinese businesses intensify their efforts to expand overseas. China encourages companies to venture abroad as part of the Belt and Road Initiative in order to establish global consumer brands, adapt advanced technology, and secure access to strategic resources. The United States should encourage rather than hinder China's infrastructure investment as a powerful guarantee to help developing countries achieve sustainable development. China's private firms are also facing growing scrutiny as they seek to expand overseas. Beijing should work to make sure Chinese firms are not blocked from investing in the United States because of concerns about possible links to Beijing.

Formulating a Negotiating Strategy: Work with the U.S. to Further Liberalize Trade and Investment

China should be prepared to cooperate with the United States in the following areas to reduce the trade deficit and ease tensions over trade and investment policies with measures such as:

Policy Recommendations

Costless Concessions (0 points points)

1. **Strengthen intellectual property protection**, trade secret protection, and counterpiracy enforcement (these policies strengthen the rule of law in China and protect all innovative and productive companies, whether they are American or Chinese)
2. **Increasing imports of American agricultural products and energy** (such a purchase agreement would help Chinese consumers by lowering prices, help U.S. producers of soybeans, natural gas, oil, and help reduce the trade deficit between the U.S. and China)

Minor Concessions (-10-20 points points)

1. **Eliminate specific policies and practices linked to forced technology transfer** (the new Foreign Investment Law passed in March 2019 already contains language that make it illegal to force foreign companies to surrender technology to Chinese partners)
2. **China should issue an improved nationwide negative list for foreign investment that reduces barriers of entry** for foreign investment by placing restrictions on foreign ownership in fewer sectors (the negative list sets apart some sectors that are not open for foreign investment. China should open up more sectors to investment by U.S. companies because it will promote greater economic competition and create greater choice for Chinese consumers)

- 3. Cease subsidies and other forms of assistance that support industries targeted in the MiC 2025 plan and other emerging and strategic industries** (this would correct the market distortions in China caused by state intervention and bolster the global competitiveness of Chinese companies over the long run)
- 4. Creating new development zones to attract foreign investors** and provide greater policy support in terms of credit, land use, and taxation

In exchange, China should demand the following concessions from the United States:

High Priority Asks (20-40 points)

- 1. Reduce tariffs on Chinese imports to 2017 levels** (there are currently 25% tariffs on \$50 billion and 10% tariffs on another \$200 billion of Chinese imports and retaliatory tariffs of 10-25% tariffs on \$110 billion of U.S. imports, these tariffs hurt consumers and businesses in both countries and should be walked back as part of any deal)
- 2. Refrain from restricting visas for Chinese students and professionals** (many Chinese study and work in the U.S., even though some have been linked to espionage and political meddling, the vast majority are law abiding and contribute to both economies and help build bridges between the two societies. Cutting off these people-to-people exchanges will damage both countries in the long term)

Low Priority Asks (10-20 points)

- 3. Open government procurement to Chinese technology products and services** (the U.S. government is the largest customer in many sectors, another important part of reciprocal market access is to open up government procurement to foreign competition)
- 4. The U.S. can agree to take a more limited approach in defining its export control regime** regarding the export of dual-use technologies (the U.S. export control regime is under review at present and it is in China's interest to make sure the new rules will not be used to ban most or all high technology exports to China)

You have no position on the following issues (will not lose or gain individual points):

Asks

- 1. The U.S. to agree not to send warships or military personnel to Taiwan** or to conduct military exercises with Taiwan in return for Beijing not to undertake provocative military actions in the Taiwan Strait
- 2. The U.S. can agree to take a more limited approach in defining its export control regime** regarding the export of dual-use technologies (the U.S. export control regime is under review at present and the U.S. can take steps to reassure China that it will not be abused to ban most or all high technology exports to China but limited to those that have important military applications)
- 3. The U.S. to recognize core Chinese national interests:** keeping national unity of mainland China and Tibet, Xinjiang, and Hong Kong is very important to Beijing but problematic for Washington from the perspective of human rights

Concessions

- 1. China to refrain from military development of man-made islands in the South China Sea,** commit to not occupy other contested shoals, and agree to establish confidence building measures to lessen the risk of accidental military conflict

- 2. China to help identify and discourage Chinese firms that evade U.S. sanctions against Iran and North Korea** (companies such as Huawei and ZTE stand accused of violating American sanctions against Iran and North Korea, the U.S. should refrain from putting sanctions on these companies as a gesture of good will to China during trade talks)

Win Conditions:

Agreement is considered reached when ALL members from BOTH country teams sign the **Joint-Statement** paper

Individual Victory: The individual who has the **best negotiation performance, most optimal individual demands and concessions** with regards to the **best individual points ratio** on the **Position Paper** will be declared winner as the individual negotiator. This can occur regardless of which team wins, and regardless of whether agreement is reached or not. (Moderator will take in consideration of each individual role)

Team Victory: The country team with the most National Points will be declared winner of the Simulation. This can only occur if agreement is reached.

Impasse: If no agreement is reached by the end of negotiation, both country teams will receive -20 National Points. Moderator will then determine which country team is ahead based on National Points negotiated at that time. Individual victory is still possible under impasse and preferable to making costly concessions to achieve team victory.