Trade With China – Pro

"Export controls" are regulations that prevent certain types of technological products from being exported, for fear that foreign countries will steal an important American technology.

The brief "Trade with China - Con" (523) contains an inherency section on export controls, and on the trade deficit.

FDI = Foreign Direct Investment

DFI = Direct Foreign Investment

Several other briefs deal with economic issues that may contain useful extensions, including: "Currency Manipulation - Not a Problem" (261), "Offshoring - Not a Problem" (353), "Piracy & Intellectual Property - Not a Problem" (375), and "China - Economic Partner" (141).

In addition, any attempt to restrict trade with China may violate WTO rules, see the brief "WTO Violations Solvency & Disadvantage" (91). In addition, China may retaliate to US measures, which could trigger a trade war; see the brief "Trade War Disadvantage" (75) to link to that argument.

Inherency: Negotiations & Trade Agreements

A. Laundry List: negotiations bringing progress

Wayne Morrison (specialist in Asian trade and finance at the Congressional Research Service), March 2015, Congressional Research Service, "China-U.S. Trade Issues", accessed August 10, 2015, https://www.fas.org/sgp/crs/row/RL33536.pdf (page 49-50)

One of the reported benefits of the U.S-China S&ED process is that it brings together top economic officials from both sides (as well as U.S. Cabinet officials and Chinese heads of ministries) on a regular basis, which enables both sides to identify their major positions and priorities on various issues and to develop long-term working relationships. *[later, in the same context]:* The July 10-11, 2014, S&ED session addressed a number of issues. The most significant result of the session, according to some analysts, was an agreement to accelerate negotiations for a BIT *[Bilateral Investment Treaty]* and to begin the "negative list" negotiation early in 2015. China further pledged that it would: *Ensure that economic efficiency, rather than the promotion of individual competitors or industries, would be the focus of China's AML and that enforcement would be fair, objective, transparent, and nondiscriminatory. *Continue moving to a market-determined exchange rate, increase exchange rate flexibility, reduce foreign exchange intervention to enhance the transparency of its foreign exchange holdings, and take steps to boost private consumption. *Take a number of steps to reforms of SOEs *[state owned enterprise]* and level the playing field for foreign-invested firms. *Accelerate price reforms for petroleum, electricity, and natural gas and address excess production capacity in the steel sector. *Liberalize FDI *[Foreign Direct Investment]* restrictions, including those on various services. *Strengthen trade secrets and IPR *[Intellectual Property Rights]* protection. *Promote regulatory transparency, and improve administrative licensing, enhance the availability of government documents, and boost regulations to improve drug safety. *Continue to liberalize the financial sector and to further open up various sectors to foreign investment.

B. Investment agreement: negotiations in progress

Wayne Morrison (specialist in Asian trade and finance at the Congressional Research Service), March 2015, Congressional Research Service, "China-U.S. Trade Issues", accessed August 10, 2015, https://www.fas.org/sgp/crs/row/RL33536.pdf (page 27-28)

The United States and China have held negotiations on reaching a bilateral investment treaty (BIT) with the goal of expanding bilateral invest ment opportunities. *[later, in the same context]:* During the July 10-11, 2013, session of the S&ED, China indicated its intention to negotiate a high-standard BIT with the United States that would include all stages of investment and all sectors, a commitment U.S. official described as "a significant breakthrough, and the first time China has agreed to do so with another country." A press release by the Chinese Ministry of Commerce stated that China was willing to negotiate a BIT on the basis of nondiscrimination and a negative list, meaning the agreement would identify only those sectors not open to foreign investment on a nondiscriminatory basis (as opposed to a BIT with a positive list which would only list sectors open to foreign investment). During the July 9-10, 2014, S&ED session, the two sides agreed to a broad timetable for reaching agreement on core issues and major articles of the treaty text and committed to initiate the "negative list" negotiation early in 2015. The last round of U.S-China BIT talks reportedly occurred on November 17, 2014, in Washington, DC.

C. Investment agreement: mutual interest makes success possible

Prof. David Gantz (JSM and JD from Stanford, professor of law at the University of Arizona international trade and business law program), January 2015, Arizona Journal of International & Comparitive Law, "Challenges for the United States in Negotiating a BIT with China: Reconciling Reciprocal Investment Protection with Policy Concerns", Vol. 31, No. 2, accessed August 10, 2015, http://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2383919 (page 206-207)

These factors suggest that despite political and security friction, a very strong mutual interest exists in facilitating and protecting investors in one nation that are investing in the other, a consideration which perhaps more than any other bodes well for the eventual conclusion of a BIT *[Bilateral Investment Treaty]. [later, in the same context]:* Today, there are indications that China may have become more flexible in its willingness to compromise, in part because of the growing volumes of Chinese FDI in the United States and the continued substantial holdings of U .S. Treasury securities by the Chinese government.

D. Investment agreement: clearly beneficial

Prof. David Gantz (JSM and JD from Stanford, professor of law at the University of Arizona international trade and business law program), January 2015, Arizona Journal of International & Comparitive Law, "Challenges for the United States in Negotiating a BIT with China: Reconciling Reciprocal Investment Protection with Policy Concerns", Vol. 31, No. 2, accessed August 10, 2015, http://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2383919 (page 205)

The benefits of enacting a binding set of legal obligations to protect U.S. investors in China have been apparent for many years. Investing in China is a complicated process, fraught with uncertainties, particularly where "foreign control agreements" of questionable legality are used as a means of avoiding some of the investment restrictions of Chinese law, as in education, finance, media, and technology. Foreign investors in fields as diverse as pharmaceuticals, dairy products, computers, and fast food have been attacked by the government, media, or both during 2013 alone. Other proposed U.S. investments blocked by the Chinese authorities include efforts by U.S. banks in China to trade bonds in the inter-bank market and 2006 regulations on mergers and acquisitions for offshore investments in domestic financial companies. Still, in my view, many U.S. enterprises have considered a Chinese presence to be an economic imperative over the past twenty years; it is thus no surprise that U.S. private investment in China, 2000 - 2010, is estimated to be more than U.S. $60 billion.

Inherency: Current Trade

A. $592 Billion in trade

Wayne Morrison (specialist in Asian trade and finance at the Congressional Research Service), March 2015, Congressional Research Service, "China-U.S. Trade Issues", accessed August 14, 2015, https://www.fas.org/sgp/crs/row/RL33536.pdf (page 2)

U.S.-China economic ties have expanded substantially over the past three decades. Total U.S.-China trade rose from $2 billion in 1979 to $592 billion in 2014. China is currently the United States' second-largest trading partner, its third-largest export market, and its biggest source of imports.

B. $467 Billion imports

Wayne Morrison (specialist in Asian trade and finance at the Congressional Research Service), March 2015, Congressional Research Service, "China-U.S. Trade Issues", accessed August 14, 2015, https://www.fas.org/sgp/crs/row/RL33536.pdf (page 8)

China was the largest source of U.S. merchandise imports in 2014, at $467 billion. China's share of total U.S. merchandise imports rose from 8.2% in 2000 to 20.7% in 2014. The importance (ranking) of China as a source of U.S. imports has risen sharply, from eighth largest in 1990, to fourth in 2000, to second in 2004-2006, and to first in 2007-present. The top five U.S. imports from China in 2014 were computer equipment, communications equipment, miscellaneous manufactured products (such as toys and game s), apparel, and semiconductors and other electronic parts (see Table 4).

C. Conflicting deficit statistics are due to Hong Kong

Dr. Michael Martin (PhD in economics, specialist in Asian affairs at the Congressional Research Service), May 2015, Congressional Research Service, "What's the Difference?—Comparing U.S. and Chinese Trade Data", accessed August 14, 2015, https://www.fas.org/sgp/crs/row/RS22640.pdf (page 5)

Although estimates vary, most analysts agree that a large portion of China's exports arrive in the United States via a third party, Hong Kong being the most commonly identified location. The intermediation of shipments raises two sources of discrepancies. First, the exporter from China may not know that the goods eventually will be shipped to the United States, and may therefore list the third party (e.g., Hong Kong) as its destination, but U.S. Customs may list the source of shipment as being China. Second, the value of the shipment may change - with or without any actual change in the goods - between its arrival in and departure from the third location.

General: Trade Is Good

A. Enriches America: creates jobs, empowers consumers

Dr. Derek Scissors (PhD in international political economy from Stanford, scholar in Asian economic issues at the American Enterprise Institute, adjunct professor in Chinese economy at George Washington University), February 2013, The Daily Signal, "U.S.–China Trade: Don't Let the Numbers Fool You", accessed August 24, 2015, http://dailysignal.com//2013/02/11/u-s-china-trade-dont-let-the-numbers-fool-you/

The mistake that will be made concerning Friday's numbers is believing that exports are good and imports are bad, that we're losing to China because we don't export enough and we import too much. It's true that we don't export enough - market barriers overseas limit American exports and we should seek to bring them down - but we certainly don't import too much: There are imports, from China and anywhere else, only because we freely choose to buy them every day. We buy them because they make our lives better. And this is bad? The usual response is that imports cost jobs. Actually, they create them. From port or airport off-loading to transport within the country to storage to sales to after-market activities, imports support millions of American jobs. In 2010, imports of Chinese toys alone helped support 221,000 jobs. We could ban toy imports and gain jobs making the toys here. But the number of jobs created would be small, because prices would rise and fewer parents would be able to afford toys for their kids. Or we could all pay taxes to toy makers here - actually, pay money so we can't buy the things we want.

B. Value choice: self-government vs. federal rule

Dr. William Wilson (PhD in economics from Purdue, senior research felow at the Heritage Foundation Asian Studies Center) and Bryan Riley (MA in economics, senior trade policy analyst at the Heritage Foundation), July 2104, The Daily Signal, "Would Restricting Trade with China be Tough, or Just Stupid?", accessed August 24, 2015, http://dailysignal.com/2014/07/09/restricting-trade-china-tough-just-stupid/

In his famous "Time for Choosing" speech, Ronald Reagan observed: "This is the issue of this election: whether we believe in our capacity for self-government or whether we abandon the American revolution and confess that a little intellectual elite in a far-distant capitol can plan our lives for us better than we can plan them ourselves." Many conservatives forget this observation when discussing trade policy. With respect to trade with China, for example, the most important issue is whether we believe in the capacity of Americans to make their own decisions about how to spend and invest their hard-earned dollars, or whether we surrender those decisions to a federal government that decides who we can do business with and under what terms.

C. Free trade = free markets: no economic difference between interstate and international trade

Dr. William Poole (PhD in economics from the University of Chicago, president of the Federal Reserve Bank of St. Louis), October 2004, Federal Reserve Bank of St. Louis, "Free Trade: Why Are Economists and Noneconomists So Far Apart?", accessed September 12, 2015, https://research.stlouisfed.org/publications/review/04/09/Poole.pdf

It is important to recognize that the case for free international trade is really part of a more general case for free markets. The analysis of interregional trade within a country is in most respects exactly the same as the analysis of international trade. International trade is a separate subject within economics primarily because it deals with restrictions on trade that do not ordinarily exist between regions of a country.

D. Adam Smith: Trade = common sense

Adam Smith (LLD, father of modern economics, professor at Glasgow University in 1700's), 1776, W. Strahan and T. Cadell, London, "An Inquiry into the Nature and Causes of the Wealth of Nations", accessed September 23, 2015, http://www.econlib.org/library/Smith/smWN13.html

It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a taylor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for. What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital which employs it, will not thereby be diminished, no more than that of the above-mentioned artificers; but only left to find out the way in which it can be employed with the greatest advantage. It is certainly not employed to the greatest advantage when it is thus directed towards an object which it can buy cheaper than it can make.

E. Adam Smith: Comparitive advantage - don't waste resources

Adam Smith (LLD, father of modern economics, professor at Glasgow University in 1700's), 1776, W. Strahan and T. Cadell, London, "An Inquiry into the Nature and Causes of the Wealth of Nations", accessed September 23, 2015, http://www.econlib.org/library/Smith/smWN13.html

The natural advantages which one country has over another in producing particular commodities are sometimes so great that it is acknowledged by all the world to be in vain to struggle with them. By means of glasses, hotbeds, and hot walls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expence for which at least equally good can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines merely to encourage the making of claret and burgundy in Scotland? But if there would be a manifest absurdity in turning towards any employment thirty times more of the capital and industry of the country than would be necessary to purchase from foreign countries an equal quantity of the commodities wanted, there must be an absurdity, though not altogether so glaring, yet exactly of the same kind, in turning towards any such employment a thirtieth, or even a three-hundredth part more of either. Whether the advantages which one country has over another be natural or acquired is in this respect of no consequence. As long as the one country has those advantages, and the other wants them, it will always be more advantageous for the latter rather to buy of the former than to make.

F. Over 90% of economists believe restrictions reduce welfare

Prof. Andrew Rose (PhD in economics from MIT, professor of economic analysis and policy at the University of California, Berkely), 2004, American Economic Review, "Do we really know that the WTO increases trade?", accessed September 13, 2015, http://www.nber.org/papers/w9273

Economists disagree about a lot, but not everything. Almost all of us think that international trade should be free. Accordingly, the multilateral organization charged with freeing trade - the World Trade Organization (WTO) - is probably the most popular international institution inside the profession, certainly compared with its obvious rivals, the IMF and the World Bank.

[later, in the same context:]

Kearl et al. (1979, p. 30) show that 97% of economists surveyed in 1976 agreed (generally or with provisions) that "Tariffs and import quotas reduce general economic welfare." Alston et al. (1992, p. 204) show that 93% agreed with this statement in 1990.

G. Imports do not decrease jobs

Prof. Robert Carbaugh (PhD in economics from Colorado State University, professor of economics at Central Washington University), September 2008, International Economics, "The International Economy And Globalization", 12th edition, accessed September 13, 2015

It is certainly true that imports of steel or automobiles can eliminate American steel or automobile jobs. But it is not true that imports decrease the totally number of jobs in a nation. A large increase in U.S. imports will inevitably lead to a rise in U.S. exports or foreign investment in the United States. In other words, if Americans suddenly wanted more European autos, eventually American exports would have to increase to pay for these products. The jobs lost in one industry are replaced by jobs gained in another industry.

H. 1 job lost = up to 3 created

Prof. Robert McGee (PhDs in international economics, accounting, and philosophy, DSc in economics, MSc in taxation, professor of accounting at Florida International University), April 2005, 17th Annual Meeting of the International Academy of Business Disciplines, "Outsourcing: An Ethical Analysis of an International Trade Issue", accessed September 13, 2015, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=648764

If the thousands of companies that use steel in their manufacturing process buy foreign steel instead of domestic steel, the money they save can either be used to reduce the selling price of whatever it is that they make, thus passing the savings on to American consumers, or it can be used to increase their profits, which makes it possible to stay in business and perhaps expand production and jobs. Either way, the American economy benefits. Thus, the outsourcing of steel making benefits the domestic economy. Numerous studies over the past few decades, both in the United States and elsewhere, have found that this kind of purchasing pattern is beneficial to the overall domestic economy. The ratio of jobs created to jobs lost varies with each study but is often about 2 to 1 or 3 to 1, meaning that for every job lost in the industry that is shrinking, 2 or 3 jobs are created in other domestic industries.

I. A/T "Chinese monetary policy unfair" Gradually becoming more free

April 28, 2015, The Economist, "The flawed analogy of Chinese QE", accessed September 20, 2016, http://www.economist.com/blogs/freeexchange/2015/04/chinas-monetary-policy

On the other hand, China has made plenty of progress over the past few years in freeing up its financial system and the central bank is, little by little, shifting to a price-based monetary policy. Targeted lending, so long as limited in size, as it has been so far, helps to cushion an economy that is going through these structural changes.

General: Trade Barriers Are Bad

A. Lower deficits = recession

Dr. Derek Scissors (PhD in international political economy from Stanford, scholar in Asian economic issues at the American Enterprise Institute, adjunct professor in Chinese economy at George Washington University), October 2012, Heritage Foundation, "The U.S. and China: Jobs, Trade, and More", accessed August 21, 2015, http://www.heritage.org/research/reports/2012/10/the-us-and-china-jobs-trade-and-more

An eye-catching figure is the huge trade deficit we run with China, close to $300 billion last year. Unemployment goes up and down, the value of the currency goes up and down, but the trade deficit just seems to go up. In the past 25 years, the trade deficit has fallen only twice. The two years that it fell were 2001 (slightly) and 2009 (sharply). Those were recession years, with 2009 being much more painful. The trade deficit is about the strength of our economy; when it's strong, our trade deficit with the PRC rises. Protectionists call 2009 a great year because the trade deficit plunged - but no one else does.

B. Non-cooperation leads to escalation & global disruption (link to "Trade War", 75)

Dr. Jared Woollacott (PhD in earth and environment, MPP) and Dr. Gary Clyde Hufbauer (PhD in economics from Cambridge), December 2010, Peterson Institute for Internation EconomicsWorking Paper 10-17, "Trade Disputes Between China and the United States: Growing Pains so Far, Worse Ahead?", accessed August 21, 2015, http://www.iie.com/publications/wp/wp10-17.pdf (page 36)

The Sino-US economic relationship has grown in intensity over the past two decades and has now become much more contentious. It is not surprising that the sheer magnitude of the increased flow of goods and services between the economies has generated political friction. The way leaders and their officials in China and the United States manage that friction has been the story in this paper. Trade frictions are unlikely to subside in the near future, particularly as the United States tries to double exports as part of its exit strategy from the Great Recession. Unless China allows the renminbi to appreciate by a substantial amount against the dollar and other currencies, the exchange rate will be a flash point in the bilateral relationship. *[later, in the same context]:* If cooperative approaches are not sufficiently bold, the United States may reach for protectionist measures to narrow its trade deficit. The PRC could respond by building a trade bloc with exclusionary walls in Asia and by taking measures to undermine the role of the dollar as the world's reserve currency. A path of destructive responses would not only damage the Sino-US relationship, but would also disrupt commerce on a global scale.

C. Solvency: Jobs relocate to other foreign countries

Dr. Derek Scissors (PhD in international political economy from Stanford, scholar in Asian economic issues at the American Enterprise Institute, adjunct professor in Chinese economy at George Washington University), March 2009, "Testimony before the U.S.-China Economic and Security Review Commission on China's Role in the Origins of and Responses to the Global Recession", accessed August 21, 2015, http://www.heritage.org/research/testimony/testimony-before-the-us-china-economic-and-security-review-commission-on-chinas-role-in-the-origins-of-and-responses-to-the-global-recession

Also, it is fairly clear that it is not truly China we might be losing jobs to. The majority of exports from the PRC are manufactured by foreign-funded ventures. U.S. investment into China has been declining since 2002, while the bilateral surplus has soared, and accounted for only about 7 percent of official FDI through 2008. This compares to the U.S. receiving close to 18 percent of China's exports on official data and 24 percent on American data. What has happened is foreign investors other than the U.S. have located factories in the PRC to serve the American market. If production in China became less competitive for any reason, these investors would simply relocate to Vietnam, Mexico, and elsewhere.

D. Restrictions violate property rights

Prof. Robert McGee (PhDs in international economics, accounting, and philosophy, DSc in economics, MSc in taxation, professor of accounting at Florida International University), April 2005, 17th Annual Meeting of the International Academy of Business Disciplines, "Outsourcing: An Ethical Analysis of an International Trade Issue", accessed September 13, 2015, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=648764

There is no way to restrict or prohibit outsourcing without violating someone's property and contract rights. Prohibiting or restricting the rights of consenting adults to trade what they have for what they want is an automatic violation of their property and contract rights. The fact that some domestic jobs may be lost as a result is irrelevant from a rights perspective because no one's rights are violated. There is no such thing as a right to a job if consumers decide not to purchase the product or service that a worker offers.

E. Tariffs restrict freedom of choice

Prof. Robert McGee (PhDs in international economics, accounting, and philosophy, DSc in economics, MSc in taxation, professor of accounting at Florida International University), July 1996, Durmont Institute for Public Policy Research, "Why Trade Deficits Don't Matter", accessed July 31, 2015, https://www.heartland.org/sites/all/modules/custom/heartland_migration/files/pdfs/3963.pdf

Consumers have decided that they (American companies) are not entitled to the sale. Consumers gain if they are free to buy the goods and services of their choice at a price that is not raised artificially by coercive government trade policy. They lose something if they must settle for their second or third choice because government trade policy prevents them from making what would be their first choice in the absence of intervention.

F. A/T "but China cheats": So what?

Daniel Ikenson (MA in economics, director of the Cato Institute Center for Trade Policy Studies), March 2005, Cato Institute, "China: Mega-Threat or Quiet Dragon", accessed August 21, 2015, http://www.cato.org/publications/speeches/china-megathreat-or-quiet-dragon

Yet, too many policymakers view exports as good, imports as bad, and the trade account as the scoreboard. To them, the deficit means we're losing at trade, and we're losing because our partners are cheating. In China's case, the alleged cheating involves currency manipulation, intellectual property theft, unfair labor practices, government subsidization of industry, opaque market barriers, and other underhanded practices.There is probably some truth to the allegations, but also a lot of hyperbole. Regardless, the relationship between any of these policies and the trade deficit borders on insignificant. I'll explain why momentarily.But the mercantilist view on trade completely discounts the value and significance of the contribution of imports to the U.S. economy. And it belies the real macroeconomics that explains the large trade imbalance.

Significance: Us Exports To China

A. Large export market, rapidly growing

Wayne Morrison (specialist in Asian trade and finance at the Congressional Research Service), March 2015, Congressional Research Service, "China-U.S. Trade Issues", accessed August 14, 2015, https://www.fas.org/sgp/crs/row/RL33536.pdf (page 4)

U.S. merchandise exports to China in 2014 were $124.0 billion, up 1.9% over 2013 levels. In 2014, China was the third-largest U.S. merchandise export market after Canada and Mexico (see Figure 2). From 2000 to 2014, the share of total U.S. exports going to China rose from 2.1% to 9.1%. As indicated in Table 2 , the top five merchandise U.S. exports to China in 2014 were oilseeds and grains; aircraft and parts; motor vehicles; waste and scrap; and semiconductors and other electronic components. As indicated in Table 3 , and Figure 3 , from 2005 to 2014, U.S. exports to China increased by 295%, which was the fastest growth rate for U.S. exports among its top 10 export markets.

B. Enormous export potential

Wayne Morrison (specialist in Asian trade and finance at the Congressional Research Service), March 2015, Congressional Research Service, "China-U.S. Trade Issues", accessed August 14, 2015, https://www.fas.org/sgp/crs/row/RL33536.pdf (page 7)

Many trade analysts argue that China could prove to be a much more significant market for U.S. exports in the future. China is one of the world's fastest-growing economies, and rapid economic growth is likely to continue in the near future, provided that economic reforms are continued. China's goals of modernizing its infrastructure, upgrading its industries, and improving rural living standards could generate substantial demand for foreign goods and services. Finally, economic growth has substantially improved the purchasing power of Chinese citizens, especially those living in urban areas along the east coast of China. In addition, China's growing economy, large foreign exchange reserves (at nearly $3.9 trillion as of December 2014), and its 1.37 billion population, make it a potentially enormous market.

C. Critical market for US companies

Wayne Morrison (specialist in Asian trade and finance at the Congressional Research Service), March 2015, Congressional Research Service, "China-U.S. Trade Issues", accessed August 14, 2015, https://www.fas.org/sgp/crs/row/RL33536.pdf (page 2)

China is estimated to be a $350 billion market for U.S. firms, based on U.S. direct and indirect exports to China and sales by U.S.-invested firms in China. Many U.S. firms view participation in China's market as critical to staying globally competitive. General Motors (GM), for example, which has invested heavily in China, sold more cars in China than in the United States each year from 2010 to 2014.

Foreign Direct Investment: Inherency

A. FDI definition

No Date Given, Investopedia, "Foreign Direct Investment - FDI", accessed September 5, 2016, http://www.investopedia.com/terms/f/fdi.asp

Foreign direct investment (FDI) is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company. *[later, in the same context:]* Foreign direct investments can be made in a variety of ways, including the opening of a subsidiary or associate company in a foreign country, acquiring a controlling interest in an existing foreign company, or by means of a merger or joint venture with a foreign company.

B. Current FDI to China

1997-2016, Reported by Ministry of Commerce of PRC, Trading Economics, "China Foreign Direct Investment", accessed September 5, 2016, http://www.tradingeconomics.com/china/foreign-direct-investment

Foreign direct investment in China increased by 4.3 percent year-on-year to USD 77.13 billion in the first seven months of 2016. Considering July only, FDI dropped 1.6 percent on-year to USD 7.71 billion. Foreign Direct Investment in China averaged 418.85 USD HML from 1997 until 2016, reaching an all time high of 1262.70 USD HML in December of 2015 and a record low of 18.32 USD HML in January of 2000. Foreign Direct Investment in China is reported by the Ministry of Commerce of the People's Republic of China.

C. China world's largest recipient of FDI

January 30, 2015, BBC News, "China overtakes US for foreign direct investment", accessed September 5, 2016, http://www.bbc.com/news/business-31052566

China has overtaken the US as the top destination for foreign direct investment (FDI), for the first time since 2003. Last year, foreign firms invested $128bn (£84,8bn) in China, and $86bn in the US, according to the United Nations Conference of Trade and Development.

D. Extremely low FDI between US and China

Prof. David Dollar (PhD in economics, former assistant professor of economics at the University of California, former World Bank country director for China, former U.S. Treasury's economic financial emissary to China), January 2015, Brookings Institution, "United States-China Two-way Direct Investment: Opportunities and Challenges", accessed September 5, 2016, https://www.brookings.edu/wp-content/uploads/2016/06/us-china-two-way-direct-investment-dollar.pdf

There is surprisingly little cross investment between the U.S. and China, the two largest economies in the world. Only 1% of the stock of U.S. direct investment abroad is in China, and in recent years the flow of direct investment from the U.S. to China has been close to zero. The stock of Chinese direct investment in the U.S. is also lower than would be expected given that the U.S. is the world's largest recipient of FDI.

E. China's economy comparatively closed to FDI

Prof. David Dollar (PhD in economics, former assistant professor of economics at the University of California, former World Bank country director for China, former U.S. Treasury's economic financial emissary to China), February 26, 2015, Brookings Institution, "Why so little investment between the United States and China?", accessed September 5, 2016, https://www.brookings.edu/blog/up-front/2015/02/26/why-so-little-investment-between-the-united-states-and-china/

According to an Organization for Economic Co-operation and Development ranking, China is more closed to FDI than other emerging markets such as India or Brazil, and much more closed than the United States (see figure below). China is particularly closed in sectors that are important parts of the U.S. economy.

Foreign Direct Investment: Beneficial

A. Benefits US

David Marchick (JD from George Washington University, managing directer and global head of external affairs for the Carlyle Group, a global asset management company, expert on foreign investment at Carlyle), February 2012, Council on Foreign Relations, Council on Foreign Relations Press, "Fostering Greater Chinese Investment in the United States", accessed September 5, 2016, http://www.cfr.org/china/fostering-greater-chinese-investment-united-states/p27310

Openness to foreign investment generally benefits the United States, generating high-paying jobs, facilitating investment in research and development (R&D), and strengthening the country's manufacturing base. President Obama recently stepped up efforts to attract foreign investment, expanding the Commerce Department's investment promotion arm and proposing other measures to encourage 'insourcing.'

B. Analysis: Why China-to-US FDI is good

David Marchick (JD from George Washington University, managing directer and global head of external affairs for the Carlyle Group, a global asset management company, expert on foreign investment at Carlyle), February 2012, Council on Foreign Relations, Council on Foreign Relations Press, "Fostering Greater Chinese Investment in the United States", accessed September 5, 2016, http://www.cfr.org/china/fostering-greater-chinese-investment-united-states/p27310

Chinese investment would promote new economic activity and expose Chinese companies to Western standards of corporate governance, reporting, and accounting. More FDI would boost U.S. exports to China, as Chinese companies look to their U.S. operations to export back home. Moreover, the jobs created by additional Chinese investment in the United States would help generate greater American support for Chinese investment.

C. A/T "national security": Preponderance of investment not related to national security

David Marchick (JD from George Washington University, managing directer and global head of external affairs for the Carlyle Group, a global asset management company, expert on foreign investment at Carlyle), February 2012, Council on Foreign Relations, Council on Foreign Relations Press, "Fostering Greater Chinese Investment in the United States", accessed September 5, 2016, http://www.cfr.org/china/fostering-greater-chinese-investment-united-states/p27310

Critics argue that Chinese investment could compromise U.S. security interests and lead to job offshoring. While Chinese acquisition of certain U.S. companies in the defense or technology sectors would create national security concerns, the preponderance of potential Chinese investments in the United States would raise no such issues.

Debt: No Link To Leverage

A. China sellout = American benefit

Dr. Derek Scissors (PhD in international political economy from Stanford, scholar in Asian economic issues at the American Enterprise Institute, adjunct professor in Chinese economy at George Washington University), October 2012, Heritage Foundation, "The U.S. and China: Jobs, Trade, and More", accessed August 21, 2015, http://www.heritage.org/research/reports/2012/10/the-us-and-china-jobs-trade-and-more

Some people worry that China can sell off our Treasury bonds and hurt our economy. They can't. All sellers need buyers. If Beijing sells and there is strong demand, China will simply be replaced by other buyers. If Beijing can't find a buyer, it will have to cut the price it's asking for. Then the U.S. government would be able to buy back its own bonds for less money than they are worth. That would cut America's debt at China's expense.

B. Chinese investment too small for leverage

Dr. Derek Scissors (PhD in international political economy from Stanford, scholar in Asian economic issues at the American Enterprise Institute, adjunct professor in Chinese economy at George Washington University), October 2012, Heritage Foundation, "The U.S. and China: Jobs, Trade, and More", accessed August 21, 2015, http://www.heritage.org/research/reports/2012/10/the-us-and-china-jobs-trade-and-more

Americans are also concerned about Chinese investment in the U.S. The Chinese buy U.S. government bonds, real estate, and American companies. Are the Chinese buying America? Can they use their holdings as leverage? No, they can't. The amount of money the Chinese are investing in our companies is tiny compared to the size of our economy. The Heritage Foundation follows this kind of Chinese investment all over the world in the China Global Investment Tracker. At the end of 2011, China had $30 billion invested in the U.S., much less than one percent of the $15 trillion American economy.

C. Mutual influence neutralizes leverage

Dr. Derek Scissors (PhD in international political economy from Stanford, scholar in Asian economic issues at the American Enterprise Institute, adjunct professor in Chinese economy at George Washington University), March 2009, "Testimony before the U.S.-China Economic and Security Review Commission on China's Role in the Origins of and Responses to the Global Recession", accessed August 21, 2015, http://www.heritage.org/research/testimony/testimony-before-the-us-china-economic-and-security-review-commission-on-chinas-role-in-the-origins-of-and-responses-to-the-global-recession

One area of concern in the U.S. is Chinese financial influence. As noted, Chinese investment is largely involuntary, a function of having a great deal of money and no place else to put it. This refines the usual analogy of banker and customer to one where the banker has a choice of "lending" to one particular customer for the better part of her business, or crafting an exceptionally large mattress. The influence is mutual. Who needs the other more varies with American and international financial conditions. The more money the U.S. borrows, the more the American economy needs the PRC. The more desirable Treasury bonds are, the more China needs us. The U.S. is planning to run a federal deficit of over $1 trillion but there has been a flight to quality and American Treasury bonds are highly desired. There is balance on this score. The PRC can exercise little or no leverage over American policy by virtue of its purchase of our bonds.

D. Mutually assured destruction

Dr. Geir Lundestad (PhD, former professor of history and American civilization at the University of Tromso, former research fellow at the Woodrow Wilson Center and Harvard University), March 2012, OUP Oxford, "The Rise and Decline of the American "Empire": Power and its Limits in Comparative Perspective", ISBN: 191641006, 9780191641008, accessed August 23, 2015, https://books.google.com/books?id=1YQ59_6jzm0C (page 78)

Many worried about what would happen if the Chinese stopped investing in the US. This would harm America, but would also certainly harm China as it would have a negative impact on Chinese exports to the US, and on the already huge Chinese investment in the US. Dependency cut both ways. If China started to dump dollars, it would also hurt itself. To translate John Maynard Keynes's famous quote: "If I owe you a pound I have a problem; but if I owe you a million, the problem is yours." When the United States owes China billions, that is Washington's problem. When it owes China trillions, such amounts quickly become Beijing's problem. If China dumped dollars, the greenback would fall in value. That would have a negative side, but it would also make American goods more competitive. Some argued that this effect might actually be desirable for the American economy.

E. A/T "danger of sell-off": China will keep buying

U.S.-China Economic and Security Review Commission (legislatively mandated body for monitoring, investigating, and submitting a yearly report on national security implications of trade to Congress), November 2011, "2011 Report to Congress of the U.S.-China Economic and Security Review Commission", accessed September 22, 2016, http://www.globalsecurity.org/military/library/report/2011/2011-us-china-esrc_report.pdf

China's decision to purchase U.S. government securities is not born out of any diplomatic beneficence but, rather, the economic self-interest of China, seeking to fix the exchange rate of the RMB to the dollar. In 2011, China's resolve was tested when a major rating agency reduced the credit rating of U.S. Treasury bonds. As the party with the largest holdings of U.S. government debt, China stands to lose the most from any drop in value of U.S. Treasury securities.

F. A/T "danger of sell-off": Would actually decrease trade deficit

Wayne Morrison (specialist in Asian trade and finance for the Congressional Research Service), December 15, 2015, Congressional Research Service, "U.S.-China Trade Issues", accessed September 22, 2016, https://www.fas.org/sgp/crs/row/RL33536.pdf

All else equal, the reduction in Chinese Treasury holdings would cause the overall foreign demand for U.S. assets to fall, and this would cause the dollar to depreciate. If the value of the dollar depreciated, the trade deficit would decline, as the price of U.S. exports fell abroad and the price of imports rose in the United States. The magnitude of these effects would depend on how many U.S. securities China sold; modest reductions would have negligible effects on the economy given the vastness of U.S. financial markets.

G. A/T "danger of sell-off" Chinese *investors* hold nearly as much as government

June 30, 2015, Department of the Treasury, "Foreign Portfolio Holdings of U.S. Securities", accessed September 22, 2016, https://www.treasury.gov/press-center/press-releases/Documents/05.31.16%20TIC%20 Final%20Report%20on%20Foreign%20Portfolio%20Holdings%20of%20U.S.%20Securities.pdf

Investors from China held nearly as much, at $1,844 billion, and China held the largest amount of U.S. Treasury securities, as has been the case since 2009."

H. A/T "danger of sell-off": Would disrupt China's monetary policy too

Wayne Morrison (specialist in Asian trade and finance for the Congressional Research Service), December 15, 2015, Congressional Research Service, "U.S.-China Trade Issues", accessed September 22, 2016, https://www.fas.org/sgp/crs/row/RL33536.pdf

Finally, it is argued that, as long as China continues to largely peg the RMB to the U.S. dollar, it has little choice but to purchase U.S. dollar assets in order to maintain that peg.

Debt: Trade Not The Problem Or Solution

A. Low savings, high consumption = debt

Marc Labonte (specialist in macroeconomic policy at CRS) and Wayne Morrison (specialist in Asian trade and finance at CRS), August 2013, Congressional Research Service, "China's Holdings of U.S. Securities: Implications for the U.S. Economy", https://www.fas.org/sgp/crs/row/RL34314.pdf (page 1)

Because of its low savings rate, the United States borrows to finance the federal budget deficit and its private capital needs. It therefore depends on countries with high savings rates, such as China, to invest some of their capital in the United States. Such investments help to keep U.S. interest rates relatively low and enable the United States to consume more than it produces. According to the International Monetary Fund (IMF), in 2012, the United States was the world's largest importer of foreign capital (at 37.4% of global total), while China was the largest exporter of capital (at 13.3%).

B. Imbalanced saving & spending = debt

Marc Labonte (specialist in macroeconomic policy at CRS) and Wayne Morrison (specialist in Asian trade and finance at CRS), August 2013, Congressional Research Service, "China's Holdings of U.S. Securities: Implications for the U.S. Economy", https://www.fas.org/sgp/crs/row/RL34314.pdf (page 18)

Many economists argue that concerns over China's holdings of U.S. securities represent part of a broader problem related to "global imbalances" - the concept that large differences in saving and investment between countries have manifested itself in large trade imbalances. For the U.S. economy, this issue is manifested namely in its low savings rate and thus its dependence on foreign saving to finance its investment needs and federal budget deficits. The large U.S. current account deficit (the manifestation of the high U.S. saving/investment gap) cannot be sustained indefinitely because the U.S. net foreign debt cannot rise faster than GDP indefinitely.

C. Alternate solution: stop borrowing money!

Dr. Derek Scissors (PhD in international political economy from Stanford, scholar in Asian economic issues at the American Enterprise Institute, adjunct professor in Chinese economy at George Washington University), October 2012, Heritage Foundation, "The U.S. and China: Jobs, Trade, and More", accessed August 21, 2015, http://www.heritage.org/research/reports/2012/10/the-us-and-china-jobs-trade-and-more

The Chinese do buy a lot of U.S. government bonds. The PRC may hold about 10 percent of the U.S. national debt, though their share has been falling. Unfortunately, this is because our debt has grown so much that Chinese purchases can't keep up. If we don't like China owning so much of our national debt, the answer is simple: We shouldn't run such big deficits. Then we wouldn't need to sell our debt to China or to anyone else.

D. Disadvantage: Reduce investment, increase US interest rates

Marc Labonte (specialist in macroeconomic policy at the Congressional Research Service) and Wayne Morrison (specialist in Asian trade and finance at the Congressional Research Service), August 2013, Congressional Research Service, "China's Holdings of U.S. Securities: Implications for the U.S. Economy", accessed August 21, 2015, https://www.fas.org/sgp/crs/row/RL34314.pdf (page 19)

If China consumed more and saved less, it would have less capital to invest overseas, including in the United States. Thus, if the United States did not reduce its dependence on foreign savings for its investment needs, and China reduced its U.S. investments, the United States would need to obtain investment from other countries, and U.S. interest rates would be expected to rise.

Trade Deficit: Alternate Cause

A. American profligacy the real problem

Dr. James Dorn (PhD in economics, vice president for monetary studies at the Cato Institute), 2008, The Brown Journal of World Affairs, "The Debt Threat: A Risk to U.S.--China Relations?", Vol. XIV, Issue 2, accessed August 21, 2015, http://object.cato.org/sites/cato.org/files/articles/dorn_bjwa_142.pdf (page 153)

Even though China only accounts for about 25 percent of the U.S. overall current account deficit of around $800 billion, many in Congress find it easier to bash China than to face the reality that the growth in U.S. government spending and borrowing, not the trade deficit with China, is the key reason for concern. As early as 1988, William Niskanen, a member of President Reagan's Council of Economic Advisers, recognized that government profligacy, not the trade deficit, is the primary issue. According to Niskanen, "The increase in private and government consumption, financed in part by borrowing abroad, will not provide a stream of returns to finance the increased debt."

B. Over-spending is the problem; China is a scapegoat

Prof. Gunther Schnabl (PhD, professor of economics and business administration at Leipzig University) and Prof. Ronald McKinnon (PhD in economics, professor of economics at Stanford [decesead]), May 2011, CESifo, "China and its Dollar exchange rate: A worldwide stabilizing influence?", Working Paper No. 3449, accessed August 20, 2015, http://www.econstor.eu/bitstream/10419/46495/1/661604144.pdf (page 1)

Beginning in 2002, however, China's domestic saving began increasing relative to domestic investment - while national saving in the United States slumped. The result of this international saving imbalance over the next decade was large and growing Chinese bilateral trade surpluses in manufactures with the United States and multilateral surpluses more generally (Table 1). *[later, in the same context]:* Instead, the correct American economic response should have been to increase U.S. tax revenues while curbing both personal and government consumption so as to improve the national investment-saving balance and reduce America's trade deficit. But this proved, and still proves, to be politically too difficult. Far easier to look for a foreign villain - and the yuan/dollar rate was (and is) a politically convenient scapegoat.

C. Global problem: US deficits are high everywhere

Dr. Aaron Flaaen (PhD in economics, economist at the Federal Reserve Board of Governors, Research and Statistics), Dr. Barry Bosworth (PhD in econmomics, senior fellow in economics at the Brookings Institution), and Prof. Susan M. Collins (PhD in economics from MIT, dean and professor of public policy at the University of Michigan), August 2008, Indian Council for Research on International Economic Relations, "Trading with Asia's Giants", accessed August 15, 2015, http://www.aaronflaaen.com/uploads/3/1/2/4/31243277/trading_with_giants_icrier_working_paper_220.pdf (page 22-23)

One interesting issue, shown in figure 4, is that U.S. exports to China and India are not small if the comparison is limited to U.S. trade alone. They are small only in comparison with other countries' trade. This issue can be developed more clearly with the ranking of U.S. trade with partner countries shown in table 8. While China is the second largest source of U.S. imports behind Canada, it is also the fourth largest export destination. In the comparison with Japan and the EU-15, the striking feature is the small share of total U. S. exports as a share of GDP. As shown in the lower part of the table, total exports are only 7.3 percent of GDP in 2005, compared to 13.1 and 11.4 for Japan and the EU-15 respectively. In contrast, the United States actually imports a slightly larger share of its GDP than either Japan or the EU-15. The table shows the extent to which the comparison of the relative importance of exports is distorted by the large overall trade deficit of the United States. Given that the overall trade deficit of the United States is equal to 90 percent of total exports, the comparison of U.S. trade with most partner countries is bound to appear unfavorable.

D. Global problem: US exports are low everywhere

Dr. Barry Bosworth (PhD in econmomics, senior fellow in economics at the Brookings Institution) and Prof. Susan M. Collins (PhD in economics from MIT, dean and professor of public policy at the University of Michigan), April 2008, Brookings Institution, "Determinants of U.S. Exports to China", accessed August 16, 2015, http://www.brookings.edu/~/media/research/files/papers/2008/4/04-exports-bosworth-collins/0404_exports_bosworth_collins (page 13)

Second, the figure brings out the point that , while exports to China may be a small share of U.S. GDP, they are relatively substantial compared to U.S. exports to other countries. The basic problem is that, except for Canada and Mexico, the United States has a low level of exports to all countries. Within that framework, exports to China are actually comparable to those to Germany and the United Kingdom. In other words, while U.S. exports to China are small in comparison to the exports of the EU-15 and Japan, they are not small within the context of U.S. exports to other countries more broadly.

E. Competition Link: US/Japan competition for Chinese exports

Dr. Barry Bosworth (PhD in econmomics, senior fellow in economics at the Brookings Institution) and Prof. Susan M. Collins (PhD in economics from MIT, dean and professor of public policy at the University of Michigan), April 2008, Brookings Institution, "Determinants of U.S. Exports to China", accessed August 16, 2015, http://www.brookings.edu/~/media/research/files/papers/2008/4/04-exports-bosworth-collins/0404_exports_bosworth_collins (page 6, 18)

Second, the United States, Japan, and Europe appear to be strong competitors in the Chinese market with very similar commodity compositions. We note that the rank correlation of exports to China is stronger between Japan and Europe than between either of these countries and the United States, largely because they do not export significant amounts of agricultural products and other raw materials. However, all of the rank correlations in table 2 exceed 0.8. Four of the top 10 U.S. export groupings appear at the top of the Japanese ranking, and five do for the EU-15 (columns 3 and 4 of table 3). *[later in the article]:* Our main findings are as follows. First, the poor performance of U.S. exports of goods does not reflect an unusual export composition. Like Japan and the EU-15, the distribution of commodities that the U.S. exports to China is quite similar to the basket it exports to the rest of the wo rld. Furthermore, with the exception of agricultural goods and raw materials, the mix of commodities that the U.S. exports to China is very similar to the exports from Japan and Europe. Thus, the U.S. is clearly competing with these countries, especially in the Chinese markets for capital goods and electronics. We find no evidence that the composition of U.S. trade with China is distorted.

F. Competition Impact: Japanese advantage decreases US exports

Dr. Barry Bosworth (PhD in econmomics, senior fellow in economics at the Brookings Institution) and Prof. Susan M. Collins (PhD in economics from MIT, dean and professor of public policy at the University of Michigan), April 2008, Brookings Institution, "Determinants of U.S. Exports to China", accessed August 16, 2015, http://www.brookings.edu/~/media/research/files/papers/2008/4/04-exports-bosworth-collins/0404_exports_bosworth_collins (page 11)

Thus, the results from the gravity equations do have a major effect on our conclusions about the magnitude of U.S. trade with Asia. This is particularly true for trade with China, which is far away from the United States (11,000 kilometers), but close to Japan (2,000 kilometers). An elasticity of distance near unity implies that the U.S. export share in GDP would be very similar to that for Japan if the two countries' distance from China were equalized. Thus, distance can fully account for the differences in the importance of exports to China. However, if the distance were equalized, the hypothetical level of U.S. imports from China would also increase by a proportionate amount.

Trade Deficit: Insignificant And Exaggerated

A. iPod example: $4 assembly marked down as $144 deficit

Wayne Morrison (more than a decade of experience as a specialist in Asian trade issues for the Congressional Research Service's Foreign Affairs, Defense, and Trade Division), March 2015, Congressional Research Service, "China-U.S. Trade Issues", accessed August 4, 2015, https://www.fas.org/sgp/crs/row/RL33536.pdf

In many instances, the level of value-added that occurs in China (often it simply involves assemblage) can be quite small relative to the overall cost/price of the final product. One study by researchers at the University of California looked at the production of a 2005 Apple 30 gigabyte video iPod, which is made in China by Foxconn, a Taiwanese company, using parts produced globally (mainly in Asia). The study estimated that it cost about $144 to make each iPod unit. Of this amount, only about $4, or 2.8% of the total cost, was attributable to the Chinese workers who assembled it; the rest of the costs were attributable to the numerous firms involved in making the parts (for example, Japanese firms provided the highest-value components-the hard drive and the display). From a trade aspect, U.S. trade data would have recorded the full value of each iPod unit imported from China at $144 (excluding shipping costs) as originating from China, even though the value added in China was quite small.

B. Deficit numbers not meaningful

Prof. Hal Varian (PhD in economics and MA in mathematics from University of California at Berkeley, also professor emeritus at same), December 2011, The Economist, "Are persistent trade deficits a bad thing?", accessed July 31, 2015, http://www.economics.utoronto.ca/gindart/2011-12-15%20-%20Are%20persistent%20trade%20deficits%20a%20bad%20thing.pdf

But I would like to use this opportunity to discuss the fallacy of measuring bilateral trade deficits. Consider the iPad. According to research by Ken Kraemer at UC Irvine, the component parts of the iPad are imported to China from South Korea, Japan, Taiwan, the European Union, the US and other places for final assembly. None of the component parts are made in China: it's only role is assembly. The value added by the final assembly in China is about $10. Nevertheless, each iPad exported from China to the US increases the US trade deficit with China by $275. The same misleading accounting holds for other products. If China buys steel, aluminum, and machine tools from Australia and uses these parts to build a ship which they then export to the US, the total value of the ship is counted as an export for China. So any time you see "US trade deficit with China", or any other country, be wary. It's just not a meaningful number.

C. Distortion: Trade information can't be trusted

Dr. Henryk Kierzkowski (PhD, honorary professor of international economics at the Graduate Institute Geneva) and Dr. Lurong Chen (PhD in international economics, research fellow at the United Nations University), 2010, Pacific Economic Review, "Outsourcing and Trade Imbalances: The United States–China Case", Vol. 15, accessed August 18, 2015, http://www.researchgate.net/profile/Lurong_Chen/publication/46540549_OUTSOURCING_AND_TRADE_IMBALANCES_THE_UNITED_STATES-CHINA_CASE/links/00b49527cb43c50259000000.pdf (page 58)

The principle contribution of the present paper, however, is to demonstrate on the basis of the United States - China trade that the available information about bilateral trade imbalances is highly distorted. International trade statistics had been designed for the world in which trade takes place in the form of final goods. Today, we live in an era when parts and components, rather than final goods, are exchanged frequently even over long distances and when trade in intermediate products is more important than trade in finished products. In this new world the expression 'Made in X' should really be replaced by a more appropriate term 'Made in X, Y and Z', or, better still, it should disappear altogether.

D. Normal vs. processing trade: China runs normal deficit

Dr. Martin Neil Baily (PhD in economics from MIT, senior fellow in economic studies at the Brookings Institution) and Dr. Barry Bosworth (PhD in econmomics, senior fellow in economics at the Brookings Institution), February 2013, Brookings Institution, "U.S. Manufacturing: Understanding its Past and its Potential Future", accessed August 18, 2015 (page 11-13)

However, it is instructive to divide China's trade regime into two distinct components - normal trade and processing trade - that have been evolving in different ways. About half of China's trade is accounted for by processing activities, which are based on the duty-free import of goods to be assembled and re-exported. The distinguishing features of processing trade are the low contribution of domestic value-added and its domination by foreign-invested enterprises (80%). As such, China's processing trade is an integral part of a larger regional production network as companies in Asia that had long exported to the United States moved their assembly work to China. *[later, in the same context]:* However, processing imports have slowed in line with processed exports, and processing trade now accounts for China's entire trade surplus. Meanwhile, the balance of normal trade has fluctuated over the years and it has been in substantial deficit since 2008.

E. Exaggeration: Deficit not as big as US claims

Prof. Yanyan Xiong (PhD in economics, associate professor of economics and management at Southeast University, Jiangsu, China), Prof. Lawrence Lau (PhD in economics, professor of economic development at Stanford), and Prof. KC Fung (PhD, professor of economics at the University of California, Santa Cruz), 2006, Stanford Center for International Development, "Adjusted Estimates of United States- China Bilateral Trade Balances--An Update", Working Paper No. 278, accessed August 18, 2015, http://web.stanford.edu/group/siepr/cgi-bin/siepr/?q=system/files/shared/pubs/papers/pdf/SCID278.pdf (page 1, 18)

In 2005, according to United States Government data, the U.S. ran a merchandise trade deficit of US$201.6 billion with China. However, according to Chinese Government data, the Chinese surplus vis-à-vis the United States in 2005 w as US$114.2 billion. Thus, there continues to be large differences, for example, US$87.4 billion in 2005, between the official data on trade balances of the two governments. Unfortunately, for many reasons, neither the U.S. nor the Chinese official trade data reflect completely and accurately the true picture of the bilateral trade balances. *[later in the article]:* For several reasons discussed in Fung and Lau (2 001, 2003), U.S. data should be considered more reliable than Chinese data. Hence, our best estimate for the U.S.-China bilateral merchandise trade balance for 2005 is US$172.3 billion.

F. Exaggeration: 1/2 reported size - account for fragmentation & value-added

Dr. Henryk Kierzkowski (PhD, honorary professor of international economics at the Graduate Institute Geneva) and Dr. Lurong Chen (PhD in international economics, research fellow at the United Nations University), 2010, Pacific Economic Review, "Outsourcing and Trade Imbalances: The United States–China Case", Vol. 15, accessed August 18, 2015, http://www.researchgate.net/profile/Lurong_Chen/publication/46540549_OUTSOURCING_AND_TRADE_IMBALANCES_THE_UNITED_STATES-CHINA_CASE/links/00b49527cb43c50259000000.pdf (page 67-69)

As stressed in the Introduction to this paper, international fragmentation of production leads to misrepresentation of bilateral trade deficits. Without importing parts and components, US aggregate exports to China would decrease by approximately 20 - 30%. Similarly, Chinese exports to the US would shrink by approximately 50 - 60% with no outsourcing. The 'no outsourcing' scenario alters the trade balance picture in a major way, as shown in Figure 3. The United States - China trade deficit is shown based on the UN COMTRADE data as well as using the US government statistics. Approximately two-thirds of the deficit would disappear in 2003 in the absence of imports of parts and components by both countries. Would this make the United States better off? Clearly not, although the negative press would likely subside. The exercise reported in Figure 3 may be useful but it should be supplemented by another question: Given that outsourcing is a fact of life, how big is the US trade deficit based on value added in China and the United States? To answer this question one requires some information about the extent of processing undergone by imported intermediate goods in both countries. Lau (2003, p. 4) suggests that '... the domestic value-added content of Chinese exports to the US is low - it may be estimated at 20%.' However, the US domestic value added of US exports to China easily surpasses this figure: it is assumed by Lawrence Lau to be approximately 60%. Applying these numbers to 2003 trade figures would suggest that exports from China to the United States amounted to US$87.2bn in domestic value-added terms while 'purified' trade flows in the opposite direction reached US$30.2bn. The United States - China 'true' trade deficit in that year equalled $57.0bn, approximately half of what is reported.

Trade Deficit: No Problem

A. Improves global monetary system

Dr. David Folkerts-Landau (PhD in economics from Princeton, chief economist of Deutsche Bank), Peter Garber (global strategist at Global Markets Research of Deutsche Bank), and Prof. Michael Dooley (PhD in Economics, professor of economics at the University of California, former economist at the International Monetary Fund), August 2004, National Bureau of Economic Research, "The U.S. Current Account Deficit And Economic Development: Collateral for a Total Return Swap", accessed September 22, 2016, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=586645

We argue that a chronic US current account deficit is an integral and sustainable feature of a successful international monetary system. The US deficit supplies international collateral to the periphery. International collateral in turn supports two-way trade in financial assets that liberates capital formation in poor countries from inefficient domestic financial markets. The implicit international contract is analogous to a total return swap in domestic financial markets.

B. Unsustainable: Deficit will decrease

Dr. Catherine Mann (PhD in economics from MIT, OECD chief economist, former professor of global finance), September 1999, "Is the U.S. Trade Deficit Sustainable?", accessed September 22, 2016, https://books.google.com/books?hl=en&lr=&id=vT375jwGoJMC

The global financial crises and the robust US economy together have moved the US external accounts toward unsustainable territory. Yet because the United States is both special and a critical participant in the international markets, our robust domestic demand can continue to support the resumption of global growth for two or three more years. Given the structural asymmetries in the components of the US external balance and political and market sensitivities toward ever increasing trade deficits, however, the economic forces leading to a narrowing of the trade imbalance are likely to build within and certainly beyond that time frame.

C. Balance: US surplus in services rapidly filling the gap

Vice Minister Zhong Shan (Vice-Minister for the Ministry of Commerce of the PRC, international trade representative of the Ministry of Commerce), No Date Given, Embassy of the People's Republic of China, "U.S.-China Trade Is Win-Win Game", accessed September 22, 2016, http://www.china-embassy.org/eng/xw/t675646.htm

To start with, Chinese and U.S. interests in bilateral trade are roughly balanced. China-U.S. trade and economic relations include services and investment as well as goods. From 2004 to 2008, the U.S. surplus in services with China grew by a phenomenal 35.4% annually, dwarfing the growth in China's surplus in goods with the U.S.

D. Actual sales nearly balanced (disregarding value-added-freight)

Vice Minister Zhong Shan (Vice-Minister for the Ministry of Commerce of the PRC, international trade representative of the Ministry of Commerce), No Date Given, Embassy of the People's Republic of China, "U.S.-China Trade Is Win-Win Game", accessed September 22, 2016, http://www.china-embassy.org/eng/xw/t675646.htm

In 2008, the total sales of American goods in the Chinese market, including goods exported from the U.S. to China, amounted to $224.7 billion, close to the value of goods China exported to the U.S. in 2008, which stood at $252.3. The two countries were almost balanced in terms of sales after adjustment for value-adding freight and insurance fees.

Export Controls Are Harmful

A. Increase trade deficit, kill jobs

Prof. Hossein Askari (PhD from MIT, professor of international business and international affairs at George Washington University), Prof. Jiawen Yang (PhD from New York University, professor of international business and international affairs at George Washington University), and and others, July 2004, The World Economy, Vol. 27, No. 7, "US Economic Sanctions Against China: Who Gets Hurt?", accessed September 25, 2016, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=568262

US export controls have hindered US exports to China and contributed to large US trade deficits with China. The export controls have also caused losses of high-paid jobs in the United States and benefited competitors from other countries.

B. Strengthens foreign tech innovators, weakens domestic

Dr. Loren Thompson (PhD in government from Georgetown University, chief operating officer of the Lexington Institute, former deputy director of the Security Studies program at Georgetown), June 2, 2015, Forbes, "How Export Controls Can Hurt National Security", accessed September 25, 2016, http://www.forbes.com/sites/lorenthompson/2015/06/02/how-export-controls-can-hurt-national-security/#4f3eaf90789c

Not only are new technologies constantly emerging, but many breakthroughs now come from commercial sources rather than from government labs and contractors. And a growing number of those commercial players are overseas. So restricting the export of dual-use technology may have the unintended effect of strengthening foreign companies at the expense of their U.S. rivals. Overseas customers will circumvent U.S. regulation by turning to those offshore producers, U.S. producers will lose economies of scale, and in the end America's military may become dependent on foreign sources for vital technology.

C. Counterproductive: Defeats the domestic tech industry you're trying to protect

Dr. Loren Thompson (PhD in government from Georgetown University, chief operating officer of the Lexington Institute, former deputy director of the Security Studies program at Georgetown), June 2, 2015, Forbes, "How Export Controls Can Hurt National Security", accessed September 25, 2016, http://www.forbes.com/sites/lorenthompson/2015/06/02/how-export-controls-can-hurt-national-security/#4f3eaf90789c

If Washington severely limits its exports of this technology while other countries take a more lax approach, the U.S. will lose market share to a point where its domestic sources go out of business. After all, 95% of the world's consumers are outside the United States, and the usual pattern with such dual-use technologies is that commercial customers come to be the main source of demand. I am told there are numerous electronic technologies that would be subject to similar treatment under the revised export-control regime; if that's true, we can probably look forward to further erosion in the domestic electronics sector, with a corresponding increase in dependence on offshore sources for the technology. That sounds bad for the trade balance, and for U.S. security.

D. Decrease competitiveness

Dr. Loren Thompson (PhD in government from Georgetown University, chief operating officer of the Lexington Institute, former deputy director of the Security Studies program at Georgetown), June 2, 2015, Forbes, "How Export Controls Can Hurt National Security", accessed September 25, 2016, http://www.forbes.com/sites/lorenthompson/2015/06/02/how-export-controls-can-hurt-national-security/#4f3eaf90789c

If the U.S. is going to remain competitive in such advanced technologies, the government needs to be realistic about what its export rules mean for companies operating in a globalized economy. Otherwise America will end up economically uncompetitive and militarily vulnerable.

E. Decrease Jobs

Prof. Brandt Pasco (JD and MA in international relations, adjunct professor of law at Georgetown University Law Center, member of the Defense Trade Advisory Group at the Department of state), October 19, 2014, Harvard Law School, National Security Journal, "The Case for Export Control Reform, and What it Means for America", accessed September 25, 2016, http://harvardnsj.org/2014/10/the-case-for-export-control-reform-and-what-it-means-for-america/

Yes, these reforms are intended to maximize national security in ways most of the public will never directly experience, but they will also have a very tangible impact on millions of Americans. So, what does export control reform mean for everyday Americans? In a word, 'Jobs.' For everyday Americans, we are already seeing the first fruits ripen. After some years of delay, export control reform brought the Company clarity that the key part in its product is subject to Department of Commerce jurisdiction.

F. Example: Communications satellites

Dr. Loren Thompson (PhD in government from Georgetown University, chief operating officer of the Lexington Institute, former deputy director of the Security Studies program at Georgetown), June 2, 2015, Forbes, "How Export Controls Can Hurt National Security", accessed September 25, 2016, http://www.forbes.com/sites/lorenthompson/2015/06/02/how-export-controls-can-hurt-national-security/#4f3eaf90789c

A government study several years back traced America's waning dominance in communications satellites to a decision to treat them as militarily-sensitive exports - even though a host of foreign companies had begun to build them for commercial customers.

G. Example: Can shut down a viable export business

Prof. Brandt Pasco (JD and MA in international relations, adjunct professor of law at Georgetown University Law Center, member of the Defense Trade Advisory Group at the Department of state), October 19, 2014, Harvard Law School, National Security Journal, "The Case for Export Control Reform, and What it Means for America", accessed September 25, 2016, http://harvardnsj.org/2014/10/the-case-for-export-control-reform-and-what-it-means-for-america/

To illustrate the impact of the reforms, consider 'the Company,' a real corporation, which asked not to be named. This is a story about how the old system of export controls could kill a business, or an entire industry, without any corresponding benefit to national security. The Company developed a great new high-tech safety product, a real game changer. It had prospective customers lined up for 13 million units, with projected revenue of $2 billion over five years. Just one little detail stood in the way. The largest customer asked, "[i]s it subject to the ITAR?" Application of the International Traffic in Arms Regulations ("ITAR") to a consumer product creates enormous costs, legal liability, and licensing requirements that often doom it in the marketplace. If the ITAR applied, the customers would balk, the investors would walk, and the Company might fold. Whether the Company became a freshly minted mid-cap phenomenon, or vanished completely, hinged on the vagaries of Commodity Jurisdiction: an obscure bureaucratic wrestling match between Federal departments over how technology is regulated. The largest customer baldly stated, "[t]he ITAR is the kiss of death." As such, the answer to the question was a bet-the-company moment. The Company thought that it was in great shape. Their $150 safety device had no military uses, and subjecting it to regulations that control main battle tanks and fighter aircraft would make no sense. The Company was wrong. An essential bespoke part of the device was determined by the Department of State to be subject to the ITAR. Thus began years of legal battles