CHAPTER 1

U.S.-CHINA ECONOMIC AND TRADE RELATIONS

SECTION 1: YEAR IN REVIEW: ECONOMICS AND TRADE

Introduction

Although China boasted stronger-than-expected growth in 2015, the year was marked by often record-setting downturns and government intervention in the workings of its economy. China has acknowledged that its growth has been driven by high levels of investment in manufacturing capacity and infrastructure, which is not sustainable; therefore, the Chinese government announced in policy statements that the economy needs to shift to a consumption-driven growth model. To address these structural imbalances, Chinese President and General Secretary of the Chinese Communist Party (CCP) Xi Jinping laid out a sweeping economic reform agenda in the 2013 Third Plenary Session of the 18th CCP Central Committee (hereafter "Third Plenum").* However, responding to signs of economic weakness in 2015, in particular falling global exports and slowing gross domestic product (GDP) growth, the government resorted to stimulus measures to chase growth targets, rolling back some reforms, intervening to support the faltering stock market, and devaluing its currency, the renminbi (RMB).

On the external side, China is failing to deliver on its rebalancing pledge as well. Despite Chinese leaders' stated intent to reduce reliance on exports as a source of growth, China continues to run massive global trade surpluses—an uninterrupted trend since 1995. In 2014, China's global trade surplus in goods and services reached $382 billion. China's trade relationship with the United States is its most unbalanced: In 2014, the U.S. goods trade deficit with China increased by 7.5 percent year-on-year to $342.6 billion, a record. And in the first eight months of 2015, the U.S. trade deficit in goods with China totaled $237.3 billion, a 9.7 percent increase year-on-year, raising troubling questions for the bilateral relationship.

This section explores China's external and internal rebalancing and the evolution of U.S.-China bilateral engagement since the

* For more on President Xi's economic reform priorities and pledges (the Third Plenum reforms), see Nargiza Salidjanova and Iacob Koch-Weser, "Third Plenum Economic Reform Proposals: A Scorecard," *U.S.-China Economic and Security Review Commission*, November 19, 2013.

Commission's 2014 Annual Report. It also serves as an introduction to a comprehensive assessment of China's changing economy and U.S.-China economic interaction that appears in subsequent sections. For an in-depth examination of the regulatory environment, competition policy, and other factors related to treatment of foreign firms, see Chapter 1, Section 2, "Foreign Investment Climate in China." For a full treatment of China's economic rebalancing and reform priorities, see Chapter 1, Section 3, "China's State-Led Market Reform and Competitiveness Agenda." And see Chapter 1, Section 4, "Commercial Cyber Espionage and Barriers to Digital Trade," for analysis of the Chinese government's efforts to boost its domestic companies by state-sponsored cyber theft of U.S. trade secrets.

China's Domestic Rebalancing

The Chinese government proclaimed a major realignment of the Chinese economy from one driven by fixed investment and exports to one driven more by domestic consumption. The leadership under President Xi has acknowledged that a managed slowdown is a necessary component of this rebalancing—the official GDP target has been reset to "approximately 7 percent" for 2015.[1] The government has said, however, that weakness in key indicators calls for additional measures to prevent growth from falling below the target.

As China registered its slowest economic growth in 24 years, the senior leadership in 2014 began to promote the "new normal" principle,[2] the core tenets of which are to:

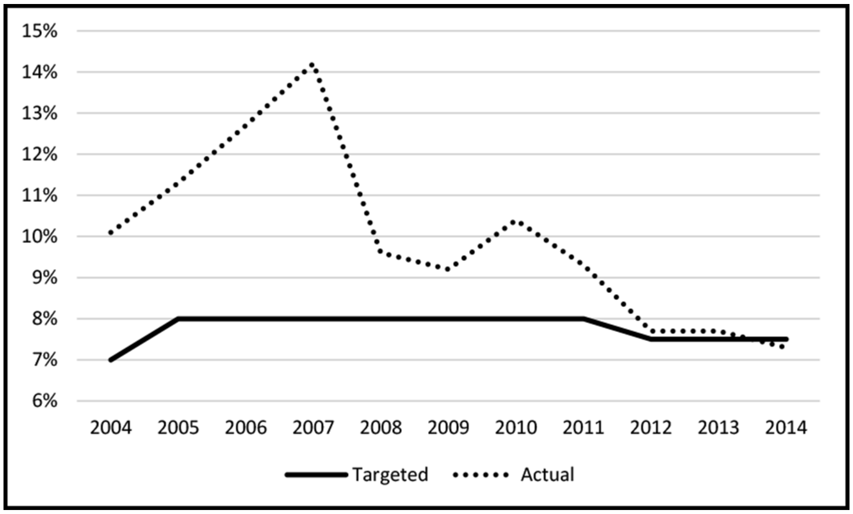
- Transition from high-speed growth to medium-high-speed growth;
- Optimize and upgrade the economic structure; and
- Transition from a factor- and investment-driven economy to an innovation-driven economy.[3]

The "new normal" principle reinforces China's long-held objectives—stated repeatedly since the 11th Five-Year Plan (2006–2010)—to focus on the quality of growth and rebalance the economy toward consumption, services, and high-tech manufacturing. According to Chinese policymakers, this would also mean abandoning the low-margin and low-value-added assembly of imported parts, certain energy-intensive manufacturing, and highly polluting mining operations.

In 2014, China appeared to make progress in its rebalancing agenda: GDP growth slipped to 7.3 percent, its lowest annual rate since 1990.[4] It was also 0.2 percentage points short of the official government target, the first time this happened in over a decade (see Figure 1). In allowing the GDP to miss its official target of 7.5 percent, the Chinese government appeared to cross an important psychological threshold, signaling it would indeed accept slower, more balanced growth. However, the Chinese government's commitment to reform began to falter as growth in 2015 fell to the slowest rate since early 2009—7 percent in each of the first two quarters and 6.9 percent in the third quarter according to official estimates. The Chinese government started introducing measures to boost growth, and by the time the mainland stock exchange fell into turmoil in June 2015, the government was in full rescue mode.

The People's Bank of China (PBOC) has attempted to stimulate the economy by lowering interest rates six times since November 2014 to encourage borrowers; it has also reduced banks' reserve requirement ratios (RRR) four times in 2015 to loosen lending.[5]

Figure 1: China's Actual and Targeted Real GDP Growth
(year-on-year)



Source: World Bank; International Monetary Fund (IMF); China's National Bureau of Statistics.

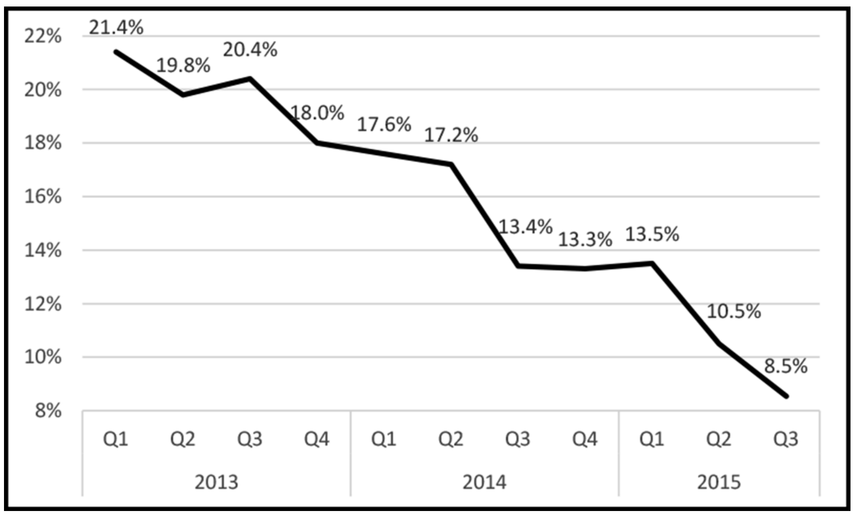
Defying Forecasts: The Reliability of China's GDP Data

China's official statistics showed better-than-expected GDP growth in the first half of 2015—7 percent—giving rise to speculation that the data were flawed and exaggerated. China's National Bureau of Statistics stepped in to dispel the rumors, saying the data were accurate,[6] but analysis of private estimates and synthetic measures of growth shows something is indeed amiss in China's reporting, especially the politically sensitive GDP growth rate.

Unofficial estimates of China's growth in the first half of 2015 vary, but all agree the GDP was well below the reported 7 percent. For example, according to Lombard Street Research, a London-based consultancy, in the second quarter of 2015, China's GDP grew only 3.7 percent year-on-year, while Fathom Consulting, another research firm, estimates GDP growth in 2015 will reach only 2.8 percent.[7] Rail volume, an important economic indicator, was down 10.1 percent in the first half of the year.[8] Electricity production, meanwhile, grew by just 0.7 percent—which Gary Hufbauer, senior fellow at the Peterson Institute for International Economics, indicates is incompatible with 7 percent GDP growth, saying that "it's consistent with maybe 4 percent at best."[9]

Anemic factory utilization, a drop in fixed asset investment, and weaker consumption growth contributed to the slowdown in 2015. Expansion of fixed asset investment, a key pillar of China's traditional growth model, slowed to just 8.5 percent year-on-year in the third quarter (see Figure 2). In addition, China's disposable income per capita increased just 7.7 percent year-on-year in the third quarter, barely up from 7.6 percent in the second quarter.[10]

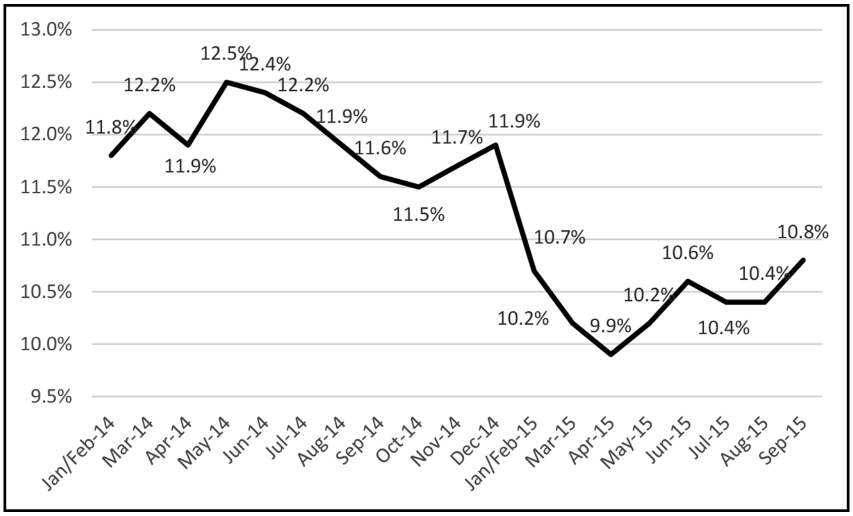
Figure 2: Growth in Fixed Asset Investment
(quarterly, year-on-year)



Source: China's National Bureau of Statistics via CEIC database.

The stronger-than-anticipated third quarter was supported in large part by a small recovery in consumption and a resilient service sector, which grew 8.6 percent, up from 8.5 percent in the second quarter.[11] Retail sales of domestic goods and services, a proxy figure for overall consumption, grew at 10.8 percent year-on-year in September 2015, up from just 9.9 percent in April 2015 and 10.4 percent in August 2015 (see Figure 3).

Figure 3: China Retail Sales of Consumer Goods
(monthly, year-on-year)

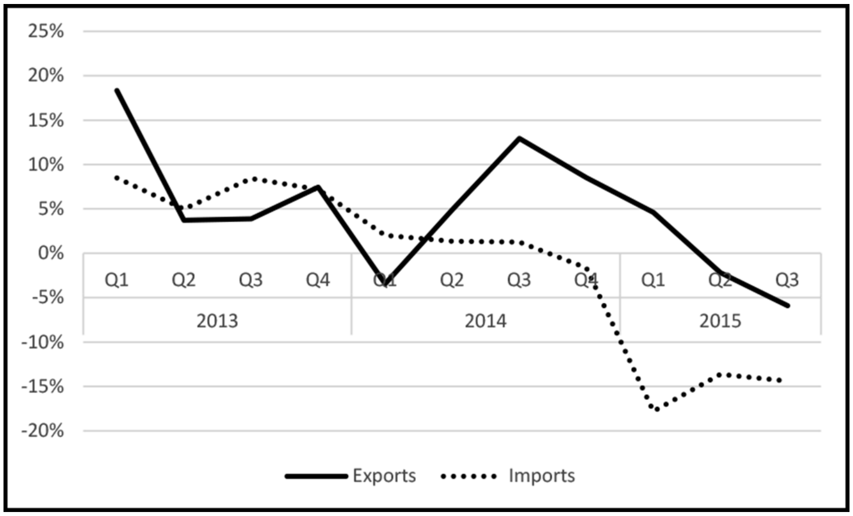


Source: China's National Bureau of Statistics via CEIC database.

Like investment, manufacturing activity has been sluggish. The Caixin/Markit unofficial estimate shows China's manufacturing Purchasing Managers' Index (PMI) at 47.2 in September 2015, down fractionally from 47.3 in August (a reading above 50 points distinguishes growth from contraction).[12] This is the lowest PMI reading since March 2009 and, together with ongoing fall in factory employment, raises fears that China's slowdown might be worsening.[13]

A stronger currency and low demand caused Chinese global exports to contract 5.9 percent year-on-year in the third quarter of 2015 (see Figure 4). Coupled with a contraction of nearly 14.5 percent for imports compared to the third quarter of last year, China's production rate is unlikely to increase in the short term; typically, declining import growth suggests a lack of demand from factories.

Figure 4: Growth in China's Exports and Imports
(quarterly, year-on-year)



Source: China's Administration of Customs via CEIC database.

Other traditional growth drivers are also showing signs of weakness. Profits at state-owned enterprises (SOEs) fell 8.2 percent year-on-year in the first three quarters of 2015, despite government's efforts to boost economic growth.[14] Though the state sector has declined in importance, SOEs still contribute about half of all profits generated by Chinese companies, and SOEs in strategic sectors (such as energy) enjoy monopoly privileges. The central government, long unhappy with poor performance by SOEs, has aggressive plans to increase their efficiency. State media reported in late April that Beijing plans to consolidate central state-owned conglomerates from 112 to 40.[15] By forcing major SOEs to merge, the central government wants to create industrial giants or "national champions" capable of competing globally.

Increasing SOE efficiency is a critical component of President Xi's agenda. In addition, President Xi has included SOE leadership in his stepped-up efforts to fight corruption. The Communist Party's top anticorruption agency, the Central Commission for Discipline Inspection, is in the midst of a two-year investigation of SOEs in strategic sectors.[16] At the time of publication of this Report, the latest target of the campaign is Wang Tianpu, the powerful head of state-owned oil company Sinopec Group.[17] Several executives at another state-owned energy major, China National Petroleum Corp., are also under investigation. In fact, according to Chinese media reports, 25 percent of the 124 senior SOE officials under investigation for corruption are from SOEs in the energy sector.[18] (For more on China's efforts to restructure its SOEs, see Chapter 1, Section 3, "China's State-Led Market Reform and Competitiveness Agenda.")

China's Stock Market Collapse

Following a rapid climb in the first half of 2015, Chinese stocks began experiencing an extraordinary fall in mid-June.* On August 26, 2015, its lowest point, China's main exchange, the Shanghai Composite, was down 38 percent from its peak in June (see Figure 5), while Shenzhen, the smaller, tech-dominated exchange, was down 40 percent.[19] Since the two exchanges started their slide, investors have lost about $4 trillion, roughly equal to China's total market capitalization in 2012.[20]

Given the importance of the stock market in propping up sluggish economic growth, the Chinese government responded to the collapse with heavy interference: ordering brokerages to buy, forbidding large shareholders to sell, sending police to root out "malicious" sellers, and dedicating significant government resources to stabilize prices (see Table 1 for a timeline of government intervention). As the market sell-off continued unabated into August, the government also resorted to outright censorship of information: state-run media outlets stopped reporting about the crash except as prescribed by government guidelines to keep coverage "strictly in line with official rules intended to deter pessimism or panic";[21] at the same time, nearly 200 people were punished for "spreading rumors" online, including discussion of the stock market.[22]

Analysis by Reuters shows China has spent nearly $800 billion (RMB 5 trillion)† of public and private funds to stabilize the stock market.[23] This interference represents a dramatic reversal of President Xi's pledge at the 2013 Third Plenum that the market will play a "decisive" role in all aspects of the economy.[24]

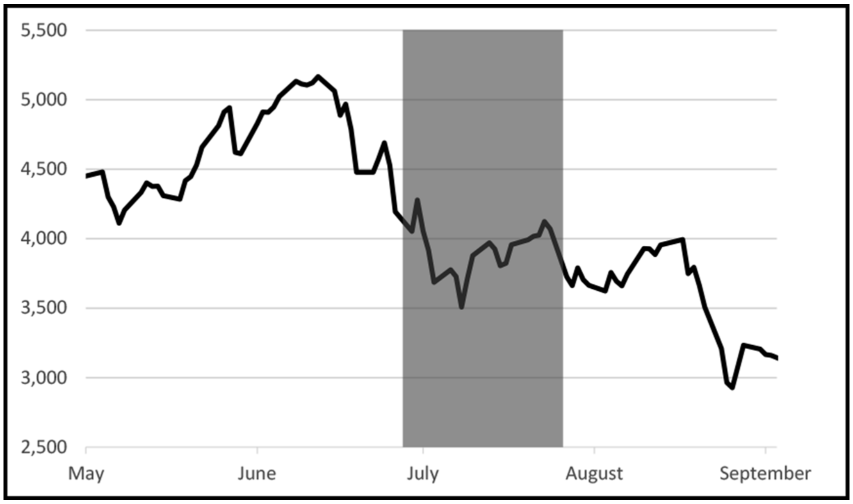
Even as the government put forth new policies to intervene in the market and prevent further collapse, shares continued to tumble after a brief recovery in early July (see Figure 5). Despite the fall, as of September 30 the Shanghai and Shenzhen exchanges were up, respectively, 31 percent and 29 percent year-on-year.[25]

Policies pursued by the government in search of new sources of growth (beyond the traditional emphasis on fixed asset investment) are at least partly to blame for the creation of the bubble before stocks collapsed. Investment in the stock market was viewed as a way to generate capital for SOEs, boost funding for private companies, and provide households with means of realizing returns. State-run media outlets, including *People's Daily*, ran laudatory editorials describing the stock market growth as a sign of economic strength.[26] At the same time, regulators were reluctant or unable to step in because of interagency infighting and the political pressure to allow stock growth.[27]

* For a brief analysis of China's stock market before the collapse, see Nargiza Salidjanova, "China's Stock Market Collapse and Government's Response," *U.S.-China Economic and Security Review Commission*, July 13, 2015.

† Unless otherwise specified, this Report uses the following exchange rate throughout: 1 RMB = 0.16 U.S. dollar.

Figure 5: Shanghai Composite Index, April–September 2015



Source: Bloomberg. *http://www.bloomberg.com/quote/SHCOMP:IND*.
Note: The shaded area represents the period of active government intervention highlighted in Table 1.

Table 1: Government Measures to Resuscitate the Stock Market, 2015

Date	Description
June 27	The PBOC stepped in to stop a selloff in Chinese stock markets, cutting benchmark interest and deposit rates by 25 basis points each (to 4.85 percent and 2 percent, respectively), and the RRR for some banks by 50 basis points. In a statement, the PBOC said the measures were aimed at reducing borrowing costs and "stabilizing growth," but did not provide implementation details.[28] This is the fourth time the PBOC has cut lending and deposit interest rates since November 2014; it is also the first time since October 2008 the central bank cut both interest rates and the RRR.[29]
June 29	The Ministry of Human Resources and Social Security and the Ministry of Finance published draft regulations allowing pension funds managed by local governments to invest in stocks, funds, private equities, and other stock-related products. The proportion of investment in stocks will be capped at 30 percent of the pension fund's net value.[30] The funds have combined assets worth more than $320 billion (RMB 2 trillion), of which up to $97 billion could flow into the stock market.[31]
July 1	The China Securities Regulatory Commission (CSRC) allowed investors to use homes and other real assets as collateral to borrow money to purchase stocks.[32]
July 4	21 brokerages set up a fund worth about $19 billion (RMB 120 billion) to buy shares.[33] The CSRC suspended all new initial public offerings to reduce volatility.[34]
July 5	The CSRC said the PBOC will "uphold market stability" by providing funds (about $42 billion, or RMB 260 billion) to a state-run margin trader, China Securities Finance Corporation (CSFC), to lend money to brokerage firms for purchases of shares.[35] The PBOC also announced the CSFC will receive liquidity to "hold the line" against systemic risks, in essence using PBOC money to directly buy shares—a radical departure from its traditional role as a lender to brokerages.[36]

Table 1: Government Measures to Resuscitate the Stock Market, 2015—*Continued*

Date	Description
July 8	The CSRC banned shareholders with stakes above 5 percent from selling shares for six months.[37]
July 17	The CSRC announced it will have access to up to $480 billion (RMB 3 trillion) from the PBOC and state-owned commercial banks to stabilize the market.[38]
July 27	The CSRC announced the CSFC will step up its buying of stocks, and launched an investigation into two major margin-lending platforms' involvement in a coordinated selloff.[39]

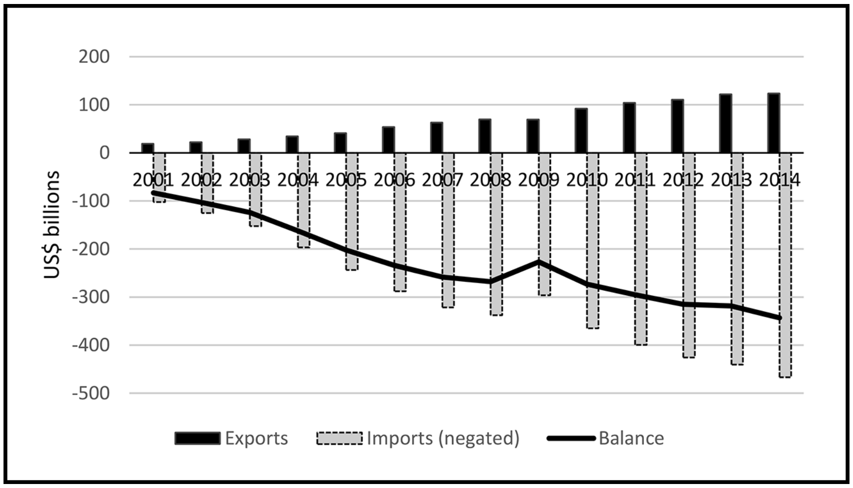
Concerns over China's slowing growth and falling stocks roiled global markets.[40] However, the isolation of Chinese stock markets, where foreign investors own only about 1.5 percent of Chinese shares, means global markets are unlikely to suffer long-term negative consequences.[41] The effect on China's domestic consumption will likewise be contained, since stocks account for less than 15 percent of household financial assets.[42] Nevertheless, this market rout is a major source of domestic concern in China. Beyond the stock markets, commodities and emerging market currencies fell on fears of China's instability.[43]

The Chinese government's heavy-handed response to the stock market collapse prompted the International Monetary Fund (IMF) in July to urge China to return to its economic reform agenda, arguing that it was "increasingly urgent" because the stimulus was "not sustainable and is raising vulnerabilities."[44] (For a full treatment of China's reform priorities and rebalancing progress, see Chapter 1, Section 3, "China's State-Led Market Reform and Competitiveness Agenda.")

U.S.-China Bilateral Trade and Investment Issues

Despite slowing economic growth, China's trade surplus with the United States continues to rise. And though U.S. exports to China continue to increase, imports from China have grown even faster, leading to a trade relationship that is progressively more unbalanced. In 2014, the U.S. goods trade deficit with China increased by 7.5 percent year-on-year to $342.6 billion, a record (see Figure 6). U.S. exports to China grew 1.9 percent year-on-year, while imports increased 6 percent. This stood in contrast to 2013, when U.S. exports to China rose by 10.2 percent, outpacing imports by 6.7 percentage points. In effect, after some progress in 2013, efforts to achieve a closer balance in bilateral trade are faltering. In the second half of 2014, U.S. exports to China actually declined by 2.1 percent year-on-year, compared to 15.9 percent growth during the same period a year earlier.

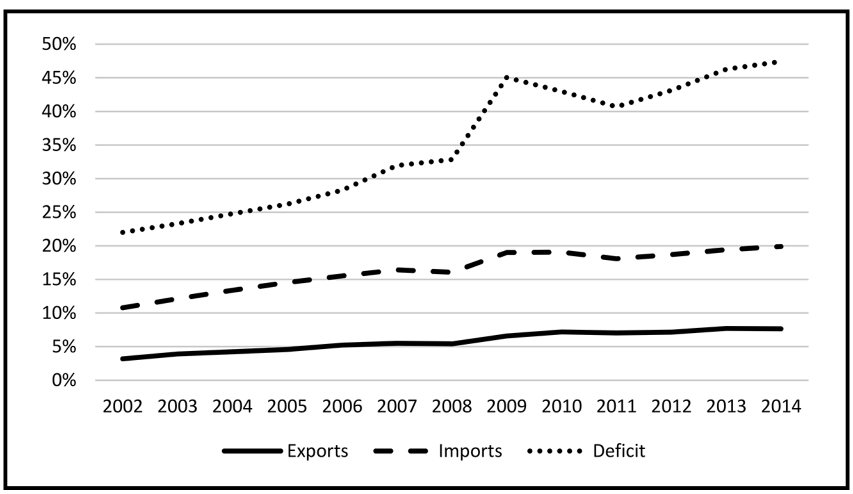
Figure 6: U.S.-China Goods Trade, 2006–2014



Source: U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Division, North American Industry Classification System (NAICS) database, May 2015.

China's share of the U.S. goods deficit with the world also set a new record in 2014, reaching 47 percent (see Figure 7). The overall goods deficit for 2014 was $722.5 billion. U.S. exports to China also grew at a slower rate than U.S. exports to the rest of the world, counter to the prevailing trend of the past five years.

Figure 7: China's Share of U.S. Goods Exports, Imports, and Deficit



Source: U.S. Census Bureau.

In the first eight months of 2015, the U.S.-China trade deficit in goods was $237.3 billion, a $21 billion (or 9.7 percent) increase over the same period in 2014 (see Table 2). U.S. exports to China declined 3.9 percent in the first eight months of 2015, while imports rose 6.1 percent year-on-year.

Table 2: U.S. Goods Trade with China, January–August 2015

(US$ billions)

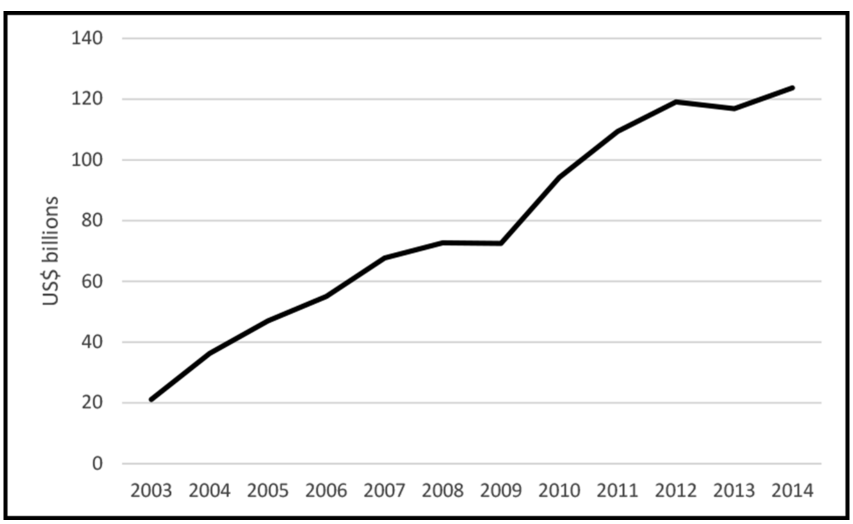
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Exports	9.6	8.7	9.9	9.3	8.8	9.7	9.5	9.2
Imports	38.2	31.2	41.1	35.8	39.2	41.1	41.1	44.1
Balance	(28.6)	(22.5)	(31.2)	(26.5)	(30.5)	(31.5)	(31.6)	(34.9)
Balance YTD								
2014	(27.8)	(48.7)	(69.1)	(96.4)	(125.2)	(155.2)	(186.1)	(216.3)
2015	(28.6)	(51.1)	(82.4)	(108.9)	(139.3)	(170.8)	(202.3)	(237.3)

Source: U.S. Census Bureau.

The United States continues to register a surplus in services with China; however, the amount is dwarfed by the U.S. deficit in goods. In 2014, the U.S. trade surplus in services with China totaled $26.8 billion, a 14.5 percent increase from 2013.[45] Total bilateral trade in services rose approximately 8 percent in 2014, with U.S. service exports growing 10 percent, the same rate as in 2013, and Chinese service imports growing 2.6 percent.[46] Travel (including for business and education) is the top U.S. service export to China, followed by charges for use of intellectual property.[47]

The United States continued to maintain a deficit in advanced technology products (ATP) trade with China in 2015, a longstanding trend (see Figure 8). In the eight months of 2015, the United States imported $95.3 billion of ATP from China, and exported $22.6 billion, for a deficit of $72.7 billion. China now accounts for 10 percent of total U.S. ATP exports and 34 percent of U.S. ATP imports.[48]

Figure 8: U.S. Deficit with China in ATP

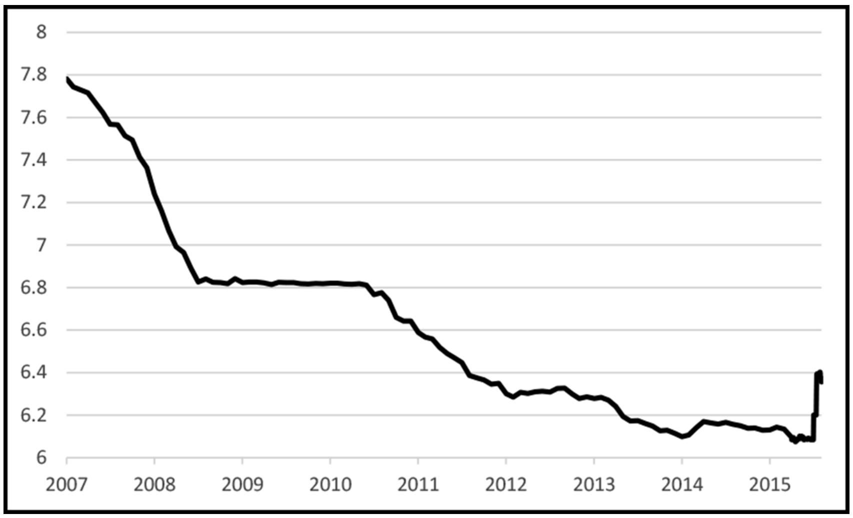


Source: U.S. Census Bureau.

Currency and Foreign Exchange Reserves

In July 2005, China moved the RMB from a tight peg to the U.S. dollar to a managed float.* A decade later, the government retains a firm grip on the currency: the PBOC sets a new value for the RMB-dollar exchange rate each trading day, even while permitting fluctuations in intra-day trading within a 2 percent trading band. In the intervening years, the government has allowed the RMB to slowly appreciate against the dollar—though the government reinstated the peg during the financial crisis—ultimately rising 30 percent (see Figure 9).

Figure 9: RMB to U.S. Dollar Exchange Rate, 2007–September 2015

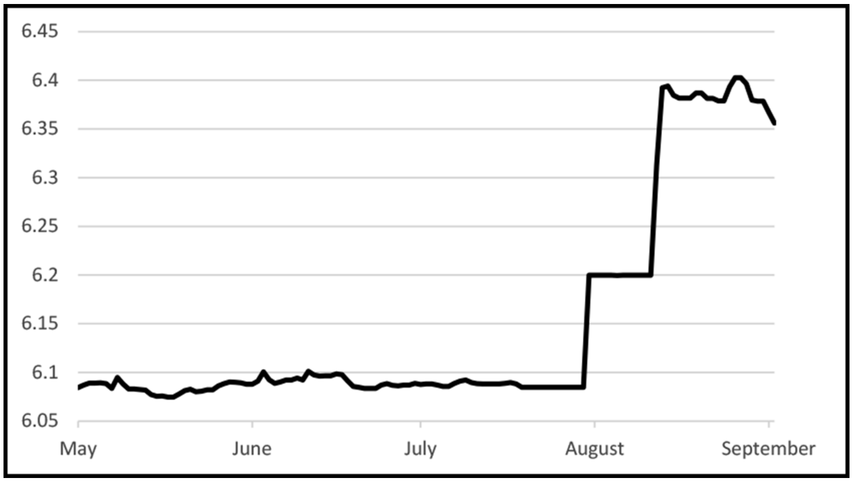


Source: Oanda, "Historical Exchange Rates." *http://www.oanda.com/currency/historical-rates/.*

As China's economic growth weakened in the first half of 2015, the Chinese government stepped in to act. On August 11, the PBOC unexpectedly devalued the RMB by 1.9 percent, followed by another 1.6 percent cut on August 12, and a 1.1 cut on August 13, bringing the total devaluation over three days to 4.4 percent, the biggest drop in decades (see Figure 10). Rather than using its traditional method of devaluing the currency—buying dollars and selling the RMB—the PBOC set the RMB daily trading rate according to the market-determined closing price within its trading band from the previous day. This change in policy does not mean the RMB will now have a free-floating exchange rate, since the PBOC reserves the right to reset the exchange rate to any value.

*According to the PBOC, the RMB's value is managed against a basket of currencies. The composition of this basket has not been revealed.

Figure 10: RMB to U.S. Dollar Exchange Rate, May–September 2015



Source: Oanda, "Historical Exchange Rates." *http://www.oanda.com/currency/historical-rates/.*

After the three-day devaluation under the new trading system prompted worries that the RMB would have a prolonged fall, the PBOC intervened on August 15, stopping the devaluation and setting the daily RMB-dollar exchange rate marginally higher (see Figure 10). By the end of August, the central bank spent as much as $200 billion of China's foreign exchange reserves to keep the RMB from falling too much.[49]

The government's decision to turn to a weaker currency raises concerns among observers that the economy is slowing down much faster than previously thought. This was a significant departure, since in the first half of 2015, the government has been intervening in the foreign exchange markets to keep the RMB from depreciating against the dollar. Since May 2015—and until the August 11 devaluation—the RMB had barely moved against the dollar (see Figure 10). Many China watchers welcomed the move to weaken the currency because it better corresponds to the overall state of China's economy. According to Nicholas Lardy, senior fellow at the Peterson Institute for International Economics, if the RMB were permitted to move based on a market-determined exchange rate, it likely would have depreciated on its own in response to China's slowdown.[50] Others, however, warned that China's government devalued the RMB to help China's battered export sector.[51] China has a history of manipulating its exchange rate for mercantilist purposes; therefore, the burden is high on China to prove that this devaluation of the RMB is indeed a step toward a more market-determined rate and not an opportunistic way to boost competitiveness of its exports.

The RMB's devaluation comes at a time when China is seeking a broader international role for its currency. In May 2015, the IMF announced that, in its view, China's currency was "no longer undervalued," citing the RMB's appreciation over the previous 12 months.[52] This announcement marked an important reversal by the IMF after more than a decade of criticizing China for tightly managing the RMB's value.

While acknowledging that the RMB "had appreciated in real effective terms," the U.S. government believes that China's currency "remains below its appropriate medium-term valuation."[53] This is a change from its previous assessment that the RMB is "significantly undervalued." In its October 2015 semiannual report to Congress, the U.S. Department of the Treasury pointed to China's high current account surplus and lack of sufficient domestic rebalancing toward consumption over investment as indicators that "core factors that have driven RMB appreciation remain in place."[54] The report also highlighted that China's central bank, the PBOC, continues to intervene in the value of the RMB.[55] Following China's move to a new exchange rate mechanism, Treasury said it would carefully monitor its implementation—specifically, whether China allows the RMB to respond to market forces—and called for further exchange rate policy transparency.[56] The only way of determining the actual value of the RMB against the dollar would be to allow the Chinese currency to be freely traded on international currency markets without government interference—something Beijing has steadfastly refused to do.

The IMF's May 2015 announcement comes amid China's efforts to promote the RMB for inclusion as a reserve currency in the Special Drawing Rights (SDR) basket at the IMF.* Chinese authorities have stated publicly their interest in including the RMB in the SDR basket. IMF First Deputy Managing Director David Lipton said, "RMB inclusion [in the SDR basket] is not a matter of 'if' but 'when.'"[57] The IMF's decision on the SDR basket is expected in November 2015; in August, however, the IMF indicated that following the decision, the new basket will become effective starting October 2016 rather than January 2016 as is customary.[58] A currency must be "freely usable" to be eligible for inclusion—a criterion China does not meet because it maintains strict controls over movement of capital over its borders and the amount the RMB can move against the dollar.[59] The IMF reviews composition of the SDR basket every five years; therefore, if the RMB were not included in 2015, then it would not be up for reconsideration until 2020.

The Chinese government's intervention to keep the RMB steady before the August 11 devaluation and after partly explains why China's foreign exchange reserves declined† from $4 trillion last year to $3.51 trillion in September 2015.[60] China's official holdings of U.S. Treasuries‡ recovered in August to reach $1.27 trillion, after falling more than $30 billion in July 2015 (Japan is in second place, with $1.20 trillion).[61]

* The SDR is an international reserve asset created by the IMF. Currently, the SDR basket is composed of the U.S. dollar, euro, pound, and yen. See International Monetary Fund, "Special Drawing Rights (SDRs)," April 9, 2015.

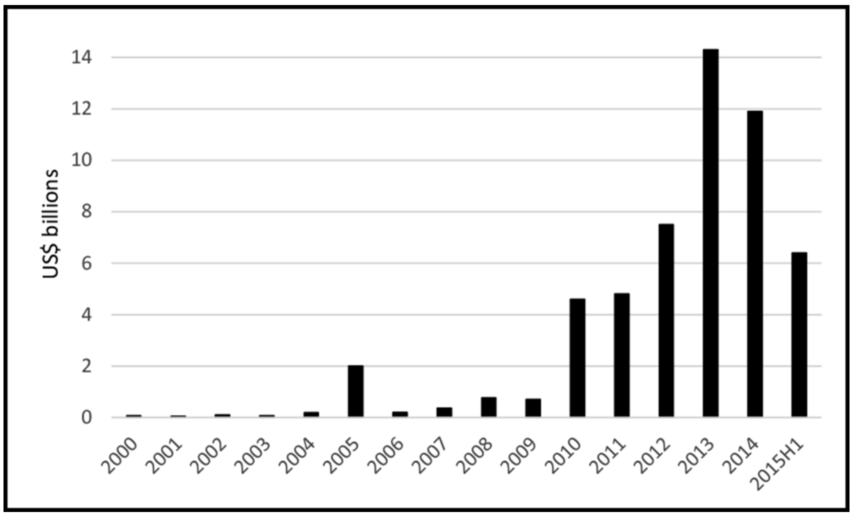
† Other causes of the decline in China's foreign reserves are capital flight (estimates put the amount at $250 billion to $300 billion in the six months to March 2015) and China's contribution to the two multilateral development institutions it has spearheaded, the Asian Infrastructure Investment Bank and the New Development Bank, though the amounts in both cases are relatively small.

‡ Because the Chinese government also buys unregistered Treasuries on the secondary market—purchases that do not show up in official tallies—China's actual holdings of U.S. government securities are higher than officially reported.

Chinese Investment in the United States

Chinese investment in the United States continued to rise in 2015.* According to data from Rhodium Group, the stock of Chinese foreign direct investment (FDI) in the United States grew from $2.5 billion in 2005 to $47.6 billion in 2014, with $11.9 billion worth of deals completed in 2014 alone.[62] In the first six months of 2015, Chinese investors spent $6.4 billion in the United States, nearly double the amount for the same period last year (see Figure 11).

Figure 11: Chinese FDI in the United States, 2000–2015H1



Note: Data for 2015 are for the first six months.
Source: Rhodium Group, "China Investment Monitor." *http://rhg.com/interactive/china-investment-monitor*.

The biggest transaction so far this year is the $1.95 billion acquisition of the Waldorf Astoria hotel in New York City by Anbang, a Chinese insurance company (see textbox below). This continues the trend of sizable investments by Chinese companies in U.S. real estate, including residential and commercial properties.[63] The information and communications technology sector is also a major recipient of Chinese investment. Chinese computer company Lenovo's acquisitions of Motorola Mobility (for $2.9 billion) and IBM's x86 server business (for $2.1 billion) were the two biggest deals by Chi-

---

*This section relies on private, rather than official, estimates of Chinese FDI in the United States. Official statistics (both U.S. and Chinese) underestimate the true volume of Chinese investment because they do not fully account for flows of FDI, including through Hong Kong and other offshore financial centers. Official data are also provided after a significant delay, which hinders analysis. For example, as the International Trade Administration (ITA), a bureau within the U.S. Department of Commerce, stated in a 2013 report on Chinese FDI in the United States, estimates from the Rhodium Group showed $6.5 billion of FDI flows from China to the United States in 2012, while U.S. government estimates showed only $219 million for the same year. In the same report, ITA said it is "important to be aware of different estimates" of Chinese investment. ITA noted that private sector valuations employ different definitions of FDI, data-gathering mechanisms, and accounting methods that lead to differences in reported value of investments. See International Trade Administration, *Report: Foreign Direct Investment (FDI) in the United States from China and Hong Kong SAR*, July 17, 2013.

nese investors in the United States in 2014. This year, Tsinghua Unigroup, the investment arm of one of China's top universities, reportedly wanted to acquire U.S. chip maker Micron for $23 billion.[64] News of the rumored deal prompted concern from observers and policymakers about the potential national security implications of selling the last U.S.-based chipmaker to a Chinese SOE at the time when cyber attacks against U.S. companies by China-based groups are on the rise (for more on Chinese state-sponsored cyber theft, see Chapter 1, Section 4, "Commercial Cyber Espionage and Barriers to Digital Trade in China"). Another Tsinghua subsidiary, Unisplendour, also announced a planned acquisition: $3.78 billion for a 15 percent stake in Western Digital, a U.S. data storage company; the deal is expected to close in early 2016.[65]

U.S. Government Officials Avoid Waldorf Astoria after the Sale

The Waldorf Astoria in New York City has historically served as the residence for U.S. ambassadors to the UN, and for decades has been used as accommodation for U.S. diplomats during the UN General Assembly.[66] The acquisition of the Waldorf by a Chinese company created a minor controversy when it was revealed that the president, White House officials, and U.S. Department of State personnel will not stay in the hotel following the purchase. The spokesman for the U.S. Department of State said the residency at the Waldorf of the current U.S. envoy to the UN, Samantha Power, was under review, but would not comment on the decision.[67] While U.S. government officials declined to comment, it is widely believed the decision was prompted by fears of Chinese espionage and the announcement of an upcoming "major renovation," which could be used to install surveillance equipment in the hotel.[68]

The Chinese government significantly liberalized regulations on outbound investment by abolishing the requirement for: (1) Ministry of Commerce approval for nonsensitive outbound FDI, (2) National Development and Reform Commission approval for projects of $1 billion or less, and (3) State Administration of Foreign Exchange approval of foreign exchange transactions related to FDI.[69] These changes are likely to encourage more Chinese firms to invest abroad, including in the United States.

At the same time, FDI flows into China continue to decelerate as the investment climate for foreign firms seeking to invest in China deteriorates. According to the U.S. Bureau of Economic Analysis, in 2014, annual U.S. FDI in China reached $6.3 billion, a 4.9 percent decrease year-on-year. In the first half of 2015, according to Chinese statistics, investment from the United States declined 37.6 percent year-on-year, and investment from Japan, another big investor, decreased 16.3 percent.[70] Alongside rising costs, increased competition, and inadequate protection of intellectual property, hostile and discriminatory treatment by Chinese regulators has emerged as a key obstacle for U.S. and other foreign investors.

(China's regulatory environment, competition policy issues, and other factors related to treatment of foreign firms are covered in depth in Chapter 1, Section 2, "Foreign Investment Climate in China.")

A U.S.-China Bilateral Investment Treaty (BIT) currently under negotiation has the potential to alter the bilateral investment relationship. BIT negotiations entered a new phase with China's formal submission of its negative list * on June 12. China made a revised negative list offer in advance of the September summit between President Barack Obama and President Xi. U.S. Trade Representative Michael Froman said the revised negative list, while an improvement, fell short of "the kind of high-standard agreement necessary to achieve our mutual objectives." [71]

U.S.-China Bilateral Engagement

World Trade Organization-Related Issues

The U.S.-China relationship continues to be marked by tensions over China's violation of key World Trade Organization (WTO) provisions and failure to make a sufficient offer to join the WTO's Agreement on Government Procurement, which China agreed to do in 2001 as part of its accession to the WTO. In December 2014, China submitted its latest accession offer to join the Agreement on Government Procurement, making incremental improvements in the scope of coverage, though other parties to the Agreement—including the United States—still deemed it insufficient. The primary improvement in the new offer is the minor addition of five provinces and new service sectors to the deal.† China has refused to include most SOEs as parties to the deal—a key demand from the United States.

The United States also continued to urge China to report its subsidies to the WTO. Although China agreed to do so when it acceded to the WTO in 2001, it has never submitted a "complete notification of subsidies maintained by central and sub-central governments." [72] In response to China's failure to carry out its obligations, the United States has been conducting its own research and analysis, and filing with the WTO so-called "counter notifications" of Chinese subsidy measures. The United States made its first such submission in 2011, listing nearly 200 subsidies; it followed with a second notification in October 2014, identifying over 100 subsidies.[73] In their 2015 *Subsidies Enforcement Annual Report to the Congress*, the Office of the U.S. Trade Representative (USTR) and the U.S. Department of Commerce noted that to date "China has not provided a complete, substantive response to these counter notifications," instead claiming that the United States has "misunderstood" China's subsidy programs.[74] China also refuses to discuss this matter with the United States or to notify any of the subsidies in question to the WTO.[75]

* Under a negative list, only items in the list are excluded from the agreement; all other items are included. In other words, foreign investment is prohibited or restricted in the sectors included in the negative list, but permitted in all other sectors.

† For details of China's latest accession offer, see U.S.-China Economic and Security Review Commission, *Monthly Analysis of U.S.-China Trade Data*, January 7, 2015.

New and pending WTO cases between the United States and China are summarized in Addendum I. Other key developments in U.S.-China engagement at the WTO are discussed in the following subsections.

China Ends Rare Earths Quotas, Introduces Licensing System

In January 2015, the Chinese government announced the end of restrictive quotas on exports of rare earth minerals, tungsten, and molybdenum, all of which are crucial for many advanced technology industries, including clean energy and weapons guidance systems. The move was widely expected following the WTO dispute settlement body's ruling (upheld on appeal) finding China's exports restrictions on rare earths to be in violation of China's WTO obligations.* In May, China announced it had complied with the WTO ruling and eliminated export duties on rare earths; however, the United States did not agree that China was in full compliance.[76] The two sides agreed to resolve the dispute in accordance with WTO procedures; the outcome is pending.

The ending of the quotas will likely have limited impact on the global rare earths market. One reason is that China's exports of rare earths—and therefore the importance of the quotas—started to decline slightly before the WTO's ruling when other nations, pressed by price shocks and limited supply, ramped up their own production or sought alternatives. According to the latest estimates, as other sources of supply became available, China's exports of rare earths started falling below levels permitted by the quota.[77] Molycorp, the only U.S. miner and producer of rare earth elements, came online after China initially restricted exports. However, as global prices for rare earths plunged in response to the rise of alternative sources of production or substitutes, Molycorp struggled to turn a profit, ultimately filing for bankruptcy protection in June 2015.[78]

Still, the Chinese government does not plan to relinquish control over the rare earths industry following the ending of the quotas. The announcement from China's Ministry of Commerce ending the quotas also introduced a licensing system for enterprises wishing to export rare earths. Enterprises that seek to export rare earths will need to apply for a license, with approvals decided on a case-by-case basis.[79]

United States Challenges Chinese Export Subsidies at the WTO

In 2015, the USTR announced new action at the WTO over China's "Demonstration Bases-Common Service Platform" program, which provides WTO-illegal export subsidies † to businesses in industrial clusters—known as "Demonstration Bases"—located throughout China. The program targets seven critical industries: (1) textiles, apparel, and footwear; (2) advanced materials and metals (including specialty steel, titanium, and aluminum products); (3) the light industry; (4) specialty chemicals; (5) medical products;

---

* For background on the case, see U.S.-China Economic and Security Review Commission, *Monthly Analysis of U.S.-China Trade Data*, April 4, 2014.

† While the WTO permits some subsidies, those that are "contingent, in law or in fact, whether wholly or as one of several conditions, on export performance," are among those deemed prohibited. See World Trade Organization, "Agreement on Subsidies and Countervailing Measures."

(6) hardware and building materials; and (7) agriculture.[80] The request for consultations is a first step in the dispute settlement process. In the meantime, the EU, Brazil, and Japan requested to join the consultations.

The United States alleges that under the program, "enterprises that meet export performance criteria and are located in 179 Demonstration Bases throughout China" receive cash grants and low-cost or no-cost services (such as information technology [IT], product design, and worker training).[81] According to USTR estimates, China has given almost $1 billion over a three-year period to Common Service Platform suppliers. In addition, certain Demonstration Base enterprises have received at least $635,000 worth of benefits annually.[82] According to the USTR, exports from Demonstration Bases comprise a significant portion of China's exports. For example, 16 of the approximately 40 Demonstration Bases in the textiles sector accounted for 14 percent of China's textile exports in 2012.[83]

The United States has a history of challenging China's export subsidy programs at the WTO. The USTR brought a 2007 case against subsidy programs supporting a wide range of industries, including steel, computers, and other manufactured goods,[84] and a 2008 case against China's "Famous Brands" program, which offered grants, loans, and other incentives to Chinese enterprises to promote their global presence.[85] Both cases were ultimately settled by mutual agreements, with China agreeing to eliminate the prohibited subsidies.[86] The new Demonstration Bases-Common Service Platform program itself was discovered during consultations with China over export subsidies to the auto industry under China's "National Auto and Auto Parts Export Base" program.[87] Although the consultations on the auto subsidy program began in September 2012,[88] three years later they have yet to reach a resolution, and USTR officials said they are still "actively engaged" with China.[89]

Information Technology Agreement

On July 28, 2015, the WTO announced that negotiations to revise the Information Technology Agreement (ITA) have concluded.[90] The agreement covers 201 tariff lines, including new-generation semiconductors, global positioning system (GPS) navigation systems, tools for manufacturing printed circuits, telecommunications satellites, and touch screens.[91]

By the end of October 2015, each participant agreed to submit a draft implementation schedule, with the goal of finalizing the agreement in time for the December ministerial conference in Nairobi. The participants agreed to reduce tariffs on the covered goods in four equal annual reductions of customs duties, beginning on July 1, 2016, and concluding on July 1, 2019.[92]

The original ITA went into effect in 1997 among the United States and 28 other WTO members, not including China (which did not join the WTO until 2001).* Negotiations for a revised ITA were begun in 2012 and slated for conclusion at the WTO Bali Summit in December 2013. However, the process stalled because Beijing de-

---

*The ITA currently includes 81 participants, including the United States, China, South Korea, and the EU member states. For a full list, see World Trade Organization, "Information Technology: Schedule of Concessions."

vised a long list of items it wanted to either exclude completely or subject to tariff phaseout periods longer than those permitted under the original ITA framework.[93] The talks were suspended in November 2013. In November 2014, the U.S. Administration announced it convinced China to table a more acceptable offer. Specifically, China agreed to: (1) revise its ITA list to include disputed tariff lines, notably advanced semiconductors known as MCOs, magnetic resonance imaging (MRI) machines, and high-tech testing equipment; and (2) ensure its tariff phaseout periods comply with the ITA framework's three staging categories of immediate, three years, and five years.[94] Based on the U.S.-China agreement, the other ITA participants reopened the talks.

Since 1997, information technologies have proliferated, IT product trade has risen threefold, and China has become a dominant producer and consumer of technology goods. As Table 3 demonstrates, the United States currently runs trade deficits with China in several key technology product lines (for example, static converters, video game consoles, and semiconductors). In some cases, China accounts for the largest share of U.S. imports of these goods.

Table 3: U.S.-China Trade in Select Technology Products

(US$ millions; share %)

	U.S. Imports					
	U.S. global imports			***China's share***		
	2002	**2008**	**2014**	**2002**	**2008**	**2014**
Static converters	3,594	6,517	9,060	30.7%	45.0%	49.5%
Video game consoles	5,893	12,849	6,106	45.0%	90.2%	87.9%
Diodes, transistors, and semiconductors	3,289	5,549	9,447	8.5%	17.2%	31.3%
CT scanners	387	455	526	1.0%	20.8%	20.6%
MRI machines	514	530	444	0.7%	4.0%	7.5%
	U.S. Exports					
	U.S. global exports			***China's share***		
	2002	**2008**	**2014**	**2002**	**2008**	**2014**
Static converters	1,505	2,815	4,004	3.3%	6.3%	6.6%
Video game consoles	1,161	4,567	2,939	0.4%	0.4%	0.7%
Diodes, transistors, and semiconductors	4,020	8,555	7,466	5.4%	5.1%	4.8%
CT scanners	240	656	430	8.0%	6.0%	17.9%
MRI machines	478	441	722	4.1%	7.4%	20.8%

Source: U.S. International Trade Commission.
Note: HS Codes used for this table are static converters (850440); video game consoles (9504); diodes, transistors, and semiconductors (8541); CT scanners (9022120000); and MRI machines (9018130000).

While the conclusion of the WTO negotiations is important, it does not guarantee success. China has not consented to including tariff elimination on several key products, including liquid crystal displays (LCDs). More important, phaseout periods for the covered items remain subject to negotiation.[95] Although China may not go beyond the maximum phaseout period, ITA members meeting for the first round of negotiations for the phaseouts reported China was demanding it be allowed to phase out tariffs over the longest period (five or seven years, depending on the product) for around 80 IT products (40 percent of the total) being considered.[96] If China succeeds in securing these phaseouts, it could use those years to establish nontariff barriers that protect sensitive products from foreign competition. Examples of such barriers include discriminatory value-added taxes on imports, hidden subsidies for domestic producers, standards that favor indigenous products, and control over procurement of key technologies by state-owned entities. (China is still not a signatory to the WTO's Agreement on Government Procurement, which generally bans discrimination against foreign goods in government purchases.)

Minimal Progress at Seventh Strategic and Economic Dialogue

At the seventh round of the Strategic and Economic Dialogue (S&ED) talks, held in Washington on June 23–24, 2015, participants discussed over 100 issues but accomplished little. Several of the outcomes announced at the conclusion of the S&ED merely repackaged China's existing reforms as new commitments. Overall, the S&ED yielded slight progress on environmental and financial issues but reached an impasse in addressing fundamental strategic and economic issues such as China's activities in the South China Sea, cybersecurity, anticorruption cooperation, and investment barriers. Among the limited outcomes of the S&ED are:

- *China's commitment to reduce intervention in the RMB exchange rate:* China promised to intervene in its exchange rate only when "disorderly market conditions" make it necessary.[97] This commitment serves the Chinese government's purpose of portraying the RMB as a liberalized currency, and allows Beijing to promote the RMB for inclusion as a reserve currency in the SDR basket at the IMF.[98] As U.S. Treasury Secretary Jacob J. Lew cautioned early on in the S&ED, "the real test will come when the market again pushes for RMB appreciation against the dollar."[99]
- *China's pledge to expand foreign investors' access to its capital markets:* The Chinese government repackaged its financial reforms as an S&ED commitment. The reforms were previously outlined at the Third Plenum in December 2013. At the S&ED, China once again promised to loosen restrictions on access to its capital markets for foreign financial firms and investors, particularly in its pilot Shanghai Free Trade Zone (FTZ).[100] These promises outlined in more detail than previous commitments greater freedom for foreign firms to issue ratings on local government bonds; set up futures, private security fund management, and joint venture securities companies; and participate in interbank and listed bond markets.[101] If implemented, these policies could open market access to the world's third-largest bond market after the United States and Japan, though strong state controls will remain in place.[102]

- *Enhanced cooperation on climate change and environment protection:* The United States and China bolstered their environmental cooperation, with nearly half of the strategic outcomes listed related to climate change and environmental protection.[103] The United States and China established a formal U.S.-China fisheries dialogue and announced the creation of six new collaborations under the "EcoPartnerships" program, which brings together nonprofit, public, and private organizations to address air pollution, carbon dioxide sequestration, iron and steel slag waste, aircraft biofuel, solar thermal power, and sea turtle migration.* [104] The two sides also highlighted exchanges or past agreements such as the extension of the Clean Energy Research Center in November 2014, overstating the accomplishments of the seventh S&ED.[105]

President Xi Visits the United States

President Xi Jinping made his first state visit to the United States in September 2015. Given the daunting list of U.S. complaints against China's conduct—including commercial cyber espionage and a worsening foreign investment climate in China—expectations for substantive breakthroughs were low.

President Xi started the visit in Seattle, delivering a speech to 650 business leaders and other guests which sought to dispel concerns about China's slowing growth and reassure the U.S. government and companies that China remains committed to its reform agenda. President Xi said China will not manipulate its currency, discriminate against foreign businesses, or engage in cyber theft.[106] For all its rhetorical flourish, the speech was light on substance, with few firm statements or concessions on the direction of Chinese government policies in key areas of friction.

After Seattle, President Xi traveled to Washington for a meeting with President Obama. The two countries announced several cooperative efforts, including on commercial cyber espionage and climate change. On commercial cyber espionage, the joint factsheet issued by the United States and China said that "neither country's government will conduct or knowingly support cyber-enabled theft of intellectual property, including trade secrets or other confidential business information, with the intent of providing competitive advantages to companies or commercial sectors," though President Xi continued to deny that China ever engaged in cyber espionage for economic purposes (for an in-depth assessment of President Xi's Seattle visit and the cyber agreement, see Chapter 1, Section 4, "Commercial Cyber Espionage and Barriers to Digital Trade").[107]

The announcement on cooperation to combat climate change was more substantial. China confirmed that it plans to launch in 2017 a national emissions trading system (known as cap-and-trade), which will cover power generation, steel, cement, and other industrial sectors.[108] China has seven pilot emissions trading systems, and originally planned a nationwide system for 2015 and then 2016, but the deadline kept getting delayed due to difficulties of

---

* For additional analysis on China's clean energy policy and U.S.-China clean energy cooperation, see U.S.-China Economic and Security Review Commission, *2014 Annual Report to Congress*, November 2014, 183–226.

scaling up local projects nationally and lack of transparency in pricing and quota allocations.[109] The delay prompted some skepticism over the summit announcement, with some observers saying the 2017 start date refers only to the initial stages of the nationwide implementation.[110]

Presidents Obama and Xi also expressed a "common vision" for UN climate talks in Paris in December 2015.[111] China, one of the world's biggest suppliers of public infrastructure, promised to provide $3.1 billion (RMB 20 billion) to a bilateral fund designed to help developing countries combat climate change.[112]

No substantial progress was announced on the BIT. A statement released by the White House said both presidents "reaffirm as a top economic priority the negotiation of a high standard BIT" and promised to "intensify the negotiations." [113] The statement went on to commit both governments to "limit the scope of their respective national security reviews of foreign investments (for the United States, the CFIUS process) solely to issues that constitute national security concerns, and not to generalize the scope of such reviews to include other broader public interest or economic issues." [114] The statement is directed at Chinese concerns over U.S. review of Chinese acquisitions, and U.S. concerns over unfair treatment of foreign companies in China, but lacks firm commitments, raising questions about its practical significance.

China's Financial Statecraft

This year China launched several initiatives that will extend its global reach and boost Chinese exports by creating demand for Chinese-built infrastructure across Asia. Together with China's "Silk Road" initiatives in Central and Southeast Asia, the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), among other institutions, reflect China's strategy of "targeting gaps within established intergovernmental organizations" to push "towards a realignment of the international order." [115] (For an in-depth discussion of the Silk Road policies in Central Asia, see Chapter 3, Section 1, "China and Central Asia"; for Chinese activities in Southeast Asia, including the role of China-led development institutions, see Chapter 3, Section 2, "China and Southeast Asia.")

Asian Infrastructure Investment Bank

In June 2015, almost two years after President Xi first proposed the idea, China launched the AIIB to provide loans for construction projects in Asia.[116] Though no Western nation signed the 2014 Memorandum of Understanding (MOU) to become a founding AIIB member,* by the time the bank launched in 2015, it received backing from 50 countries, including many U.S. allies, despite alleged pressure from the United States not to join. The United Kingdom became the first Western nation to announce its intention to join the AIIB, followed days later by France, Germany, Italy, Switzerland, and Australia.[117]

---

* The founding AIIB members are Bangladesh, Brunei, Cambodia, China, India, Kazakhstan, Kuwait, Laos, Malaysia, Mongolia, Burma (Myanmar), Nepal, Oman, Pakistan, the Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan, and Vietnam. Xinhua (English edition), "21 Asian Countries Sign MOU on Establishing Asian Infrastructure Investment Bank," October 24, 2014.

The AIIB will be headquartered in Beijing, with initial capital of $50 billion and an authorized capital of $100 billion.[118] Share allocation will be based on GDP, with China as the largest shareholder. According to the announcement from China's Ministry of Finance, China supplied about 30 percent of the $100 billion initial operating capital and has 26.1 percent of the voting power. India and Russia, the second- and third-largest shareholders, will have 7.5 percent and 5.9 percent voting power, respectively.[119] Since major decisions require 75 percent agreement, China will have de facto veto power.

Proponents argue the AIIB provides long overdue competition to international financial institutions and promises to address the unmet demand for infrastructure investment. The AIIB's creation can be attributed in part to China's frustration "with the lack of governance reform, slow pace of project implementation, and reluctance to expand lending on the part of the existing development banks."[120] Despite promises sought by China to restructure the governance procedures at the IMF and World Bank, increases in the voting shares for China and other emerging economies have not materialized due to Congressional inaction.[121] According to David Dollar, senior fellow at the Brookings Institution (and formerly the Treasury emissary to China and the World Bank country director for China and Mongolia), the AIIB "will provide some healthy competition" for the IMF and World Bank.[122] Dr. Dollar hopes this pressure will lead to needed IMF and World Bank reform, so China will "buy fully into the existing institutions."[123]

The Asian Development Bank (ADB), World Bank, and IMF all publicly announced support for the AIIB, and expressed interest in partnering with the bank.[124] Jim Yong Kim, president of the World Bank, stated the AIIB "should be a very welcome addition to the current situation, which is a woeful lack of financing for infrastructure."[125] In 2010, the ADB estimated that infrastructure investment in Asia will require roughly $800 billion per year in financing to meet demand between 2010 and 2020.[126] Multilateral development banks and private investors have contributed $205 billion, representing just a fraction of the demand.[127]

Critics argue the AIIB lacks fair governance arrangements, risks weakening international lending requirements such as environmental and social standards, and challenges the existing international and regional lenders, namely the World Bank and the ADB.[128] While the White House has not publicly criticized the AIIB, it reportedly pressured U.S. allies to abstain from joining the new bank.[129] The U.S. Treasury and Japan's Ministry of Finance raised transparency and governance objections to the AIIB's proposed lending practices.[130] China continues to rank as the least transparent donor nation or institution.[131] As one U.S. official asked, "How would the Asian Infrastructure Investment Bank be structured so that it doesn't undercut the standards with a race to the bottom?"[132] Consequently, the ADB urged the AIIB to "adopt international best practices in procurement and environmental and social safeguard standards on its projects and programs."[133] If the bank complies, the stricter rules may attract additional AIIB members.

New Development Bank

Launched less than a month after the AIIB—and attracting significantly less fanfare and controversy—the NDB is another China-led institution aiming to challenge the established global development finance order. Brazil, Russia, India, China, and South Africa (BRICS) announced the creation of the NDB at the July 2014 BRICS summit in Brazil. The bank will be headquartered in Shanghai with initial subscribed capital of $50 billion, which will later be increased to $100 billion. The five members will have "equal shares" in the bank, according to the state-run news agency Xinhua.[134] The NDB will also set up a $100 billion emergency swap fund, to which China has pledged to contribute $41 billion.[135] The bank's first leader, K.V. Kamath, is Indian, and will be followed by a Brazilian and then a Russian.

The NDB funds are to be directed toward "infrastructure and sustainable development projects in BRICS and other emerging and developing countries"; as such, they could fill an estimated $1 trillion infrastructure gap in low- and middle-income countries.[136] However, reactions from international observers have been mixed. Bhaskar Chakravorti, senior associate dean at The Fletcher School of Law and Diplomacy at Tufts University, questioned the credibility of the new bank as a globally responsible lender, and criticized the structural inequity of its members' contributions, roles, and economic weight.[137] In contrast, Raj M. Desai and James Vreeland, associate professors at Georgetown University, welcomed the bank's creation, arguing it will exert much-needed pressure on the World Bank and IMF to reform their quota system and accord a larger role to emerging economies.[138]

Implications for the United States

China's weak growth this year and the government's heavy-handed and haphazard intervention to stop the stock market collapse have shaken global confidence in China's commitment to economic reform. At least in the short term, the U.S. economy remains somewhat insulated from China's economic difficulties. Exports to China account for about 1 percent of U.S. GDP, while China's relatively closed capital account means few U.S. investors will be affected by the stock market decline.

However, the slowdown—and possible deferral—of China's rebalancing will have negative repercussions not only for the prospects of China's future growth, but also for the continued economic health of its trade partners. The U.S. trade deficit with China, already the world's largest bilateral deficit, has continued to increase despite global economic weakness, with negative consequences for U.S. businesses and workers. Meanwhile, China's reliance on investment-driven growth and policies that support SOEs at the expense of the private sector and foreign competitors continues to frustrate U.S. efforts to create a level playing field for U.S. firms.

In the international arena, the launch of the AIIB—and support from many U.S. allies despite U.S. opposition—was seen as a major diplomatic victory for President Xi. U.S. dominance in international institutions such as the World Bank has provided the United States significant political and economic influence in shaping lending practices and developing international lending norms. Therefore, the creation of the AIIB and other similar organizations could erode U.S. leadership and its established international economic institutions and policies.

Conclusions

- In 2014, the U.S. goods trade deficit with China increased by 7.5 percent year-on-year to $342.6 billion, a new record. In the first eight months of 2015, the U.S. trade deficit in goods with China totaled $237.3 billion, a 9.7 percent increase year-on-year. Over the same period, U.S. deficit with China in advanced technology products reached $72.7 billion. China stalled on liberalizing key sectors in which the United States is competitive globally, such as services.
- As a consequence of domestic economic weakness, China's stated rebalancing policies appear to have been put on hold. Instead, fearful of a protracted slowdown, the Chinese government has been intervening in various sectors of the economy, including the stock market. However, the government's intervention, which failed to arrest the stock market's fall and stabilize the economy, undermined public confidence in the ability of China's policymakers to successfully manage the economy.
- Although it has been ten years since China moved the RMB to a managed float, the government continues to intervene in foreign exchange markets. For the first half of 2015 the government has prevented the RMB from depreciating, seeking its inclusion in the International Monetary Fund's Special Drawing Rights basket of reserve currencies. However, on August 11, the People's Bank of China unexpectedly devalued the RMB, giving rise to fears among observers and policymakers that the economic slowdown was becoming entrenched.
- The U.S. government's efforts to address tensions in the U.S.-China relationship through bilateral dialogue continue to yield limited results. The latest Strategic and Economic Dialogue concluded with some progress on environmental and financial issues, but reached an impasse in addressing fundamental strategic and economic issues such as cybersecurity, anticorruption cooperation, and investment barriers to foreign firms in many industries.
- President Xi came to the United States in September on a state visit, and although Presidents Obama and Xi discussed several issues of concern, including commercial cyber espionage by Chinese actors, there were few significant breakthroughs. Among outcomes were the statements by the two presidents that neither country will engage in cyber espionage (though China continued to deny any involvement in commercial cyber theft) and commitments to enhance cooperation on combatting climate change.
- China's adherence to the World Trade Organization principles and its Protocol of Accession remains spotty. Most recently, the Office of the U.S. Trade Representative has engaged China over a program that provides export subsidies considered illegal by the World Trade Organization to businesses in seven critical industries.

- China launched two new development institutions: the Asian Infrastructure Investment Bank and the New Development Bank. In addition to boosting China's economy by creating export opportunities for its companies, the new banks aim to extend China's role in the international economic order, potentially challenging established multilateral development institutions.

Addendum I: Pending WTO Cases

Pending WTO Cases Brought by the United States against China

No.	Title	Request for Consultations	Panel Report	Appellate Body Report	Status
DS450	Certain Measures Affecting the Automobile and Automobile-Parts Industries	September 17, 2012	In consultations; panel not yet formed		The United States requested consultations with China concerning export-contingent provisions of certain subsidies and other incentives to automobile and automobile-parts enterprises in China.
DS489	Measures Related to Demonstration Bases and Common Service Platforms Programs	February 11, 2015	In consultations; panel established		The United States requested consultations with China with regard to certain measures providing subsidies contingent upon export performance to enterprises in several industries in China.

Source: World Trade Organization; compiled by Commission staff.

Pending WTO Cases Brought by China against the United States

No.	Title	Request for Consultations	Panel Report	Appellate Body Report	Status
DS471	Antidumping Methodologies	December 3, 2013	Panel established March 26, 2014; report pending		China requested consultations with the United States regarding the use of certain methodologies in antidumping investigations involving Chinese products.

Source: World Trade Organization; compiled by Commission staff.

ENDNOTES FOR SECTION 1

1. Li Keqiang, *Report on the Work of the Government* (Third Session of the 12th National People's Congress, Beijing, China, March 5, 2015).
2. Yang Yao, "A New 'New Normal,' but with Robust Growth: China's Growth Prospects in the Next 10 Years," in *Growth, Convergence and Income Distribution: The Road from the Brisbane G–20 Summit*, Brookings Institution, November 2014, 77–82; Megha Rajagopalan, "China's Shanghai Eliminates 2015 Economic Growth Target," Reuters, January 25, 2015.
3. Xinhua, "Full Text of Xi Jinping's Speech at APEC Business Leaders' Summit Opening Ceremony," November 9, 2014. Open Source Center translation. ID: CHR2014110925583780; Li Keqiang, "Chinese Premier Li Keqiang's Speech at Davos 2015" (World Economic Forum, Davos, Switzerland, January 23, 2015).
4. Mark Wagnier, "China Cuts 2014 Economic Growth Estimate to 7.3% from 7.4%," *Wall Street Journal*, September 7, 2015.
5. Lingling Wei, "China's Central Bank Moves to Spur Economic Growth," *Wall Street Journal*, October 23, 2015.
6. Tom Mitchell, "Favorable GDP Data Reflect Reality, Says China," *Financial Times*, July 15, 2015.
7. Greg Ip and Bob Davis, "For All Its Heft, China's Economy Is a Black Box," *Wall Street Journal*, August 24, 2015; Ross Finley, "China Growth Probably Half Reported Rate or Less, Say Skeptics," Reuters, August 6, 2015.
8. Xinhua (English edition), "China's Rail Freight Remains Weak," *China Daily*, July 25, 2015.
9. Michael Lelyveld, "China's Economic Data Seen as Overstated," *Radio Free Asia*, August 10, 2015.
10. China's National Bureau of Statistics via CEIC.
11. "China's Economy in 3Q: Everything You Need to Know," *Bloomberg Intelligence* (Bloomberg blog), October 19, 2015.
12. "Caixin China General Manufacturing PMI," *Markit Economics*, October 1, 2015.
13. "Caixin China General Manufacturing PMI," *Markit Economics*, October 1, 2015.
14. Xinhua (English edition), "China SOE Profits Tumble in Jan.–Sept.," October 21, 2015.
15. Reuters, "China Plans Mergers to Cut Number of Big State Firms to 40: State Media," April 27, 2015.
16. Reuters, "China Plans Mergers to Cut Number of Big State Firms to 40: State Media," April 27, 2015.
17. Brian Spegele, "China's Antigraft Authority Takes Aim at Sinopec," *Wall Street Journal*, April 27, 2015.
18. Angela Meng, "A Quarter of Chinese SOE Executives Investigated for Corruption Work in Energy Sector," *South China Morning Post*, April 28, 2015.
19. Chao Deng and Anjani Trivedi, "China Shares Wipe Out All Gains This Year," *Wall Street Journal*, August 24, 2015.
20. *Economist*, "China Embraces the Markets," July 11, 2015; Saibal Dasgupta, "Experts Question China's Economic Policy," *Voice of America*, July 15, 2015.
21. Chris Buckley, "China's News Media Largely Silent amid Market Losses," *New York Times*, August 25, 2015.
22. Edward Wong, "China Punishes Nearly 200 over 'Rumors' about Stocks, Blasts and Parade," *New York Times*, August 31, 2015.
23. Pete Sweeney, "Beijing's Stock Rescue Has $800 Billion Bark, Small Market Bite," Reuters, July 23, 2015.
24. Nargiza Salidjanova and Iacob Koch-Weser, "Third Plenum Economic Reform Proposals: A Scorecard," *U.S.-China Economic and Security Review Commission*, November 19, 2013.
25. Bloomberg. *http://www.bloomberg.com/quote/SHCOMP:IND* and *http://www.bloomberg.com/quote/SZCOMP:IND*.
26. Edward Wong and Chris Buckley, "Credibility of China's Leaders Takes a Hit along with Markets," *New York Times*, July 9, 2015; Charles Riley and Agnes Chan, "How China's Media and Risky Trading Fueled Stock Market Crash," CNN Money, July 7, 2015.
27. Edward Wong and Chris Buckley, "Credibility of China's Leaders Takes a Hit along with Markets," *New York Times*, July 9, 2015; Jamil Anderlini, "China Bank Regulators Caught in Turf War," *Financial Times*, April 9, 2014.
28. Lingling Wei, "People's Bank of China Cuts Interest Rates," *Wall Street Journal*, June 27, 2015.

29. Lingling Wei, “People’s Bank of China Cuts Interest Rates,” *Wall Street Journal*, June 27, 2015.
30. Bloomberg, “China Plans to Allow Pension Fund to Invest in Stock Market,” June 29, 2015.
31. Reuters, “UPDATE 1—China Drafts Rules to Give Pension Funds Access to Stock Market,” June 29, 2015.
32. Keith Bradsher and Chris Buckley, “China’s Market Rout Is a Double Threat,” *New York Times*, July 5, 2015.
33. Tom Mitchell and Gabriel Wildau, “China Injects Liquidity in Attempt to Reassure Markets,” *Financial Times*, July 6, 2015.
34. Josh Horwitz, “Chinese Firms Trying to Leave U.S. Markets Are Now Stuck in Limbo,” *Quartz*, July 8, 2015.
35. Tom Mitchell and Gabriel Wildau, “China Injects Liquidity in Attempt to Reassure Markets,” *Financial Times*, July 6, 2015; Josh Noble and Gabriel Wildau, “China Bans Big Share Sales in Drastic Effort to Steady Markets,” *Financial Times*, July 9, 2015.
36. Josh Noble and Gabriel Wildau, “China Bans Big Share Sales in Drastic Effort to Steady Markets,” *Financial Times*, July 9, 2015.
37. Josh Noble and Gabriel Wildau, “China Bans Big Share Sales in Drastic Effort to Steady Markets,” *Financial Times*, July 9, 2015.
38. Bloomberg, “China Unleashes $483 Billion to Stem the Market Rout,” July 17, 2015.
39. Chao Deng, “Three-Day Selloff Knocks 11% from China Shares,” *Wall Street Journal*, July 28, 2015.
40. Chiara Albanese and Saumya Vaishampayan, “Global Markets Show Signs of Stabilizing amid China Fears,” *Wall Street Journal*, August 26, 2015.
41. Sophia Yan, “Foreign Investors Can’t Ignore China’s Crazy Stock Market,” CNN Money, July 6, 2015.
42. *Free Exchange* (*Economist* blog), “A Red Flag,” July 7, 2015.
43. *Economist*, “The Great Fall of China,” August 29, 2015.
44. Simon Rabinovitch, “IMF Urges China to Implement Critical Economic Reforms,” *Financial Times*, July 17, 2014.
45. U.S. Department of Commerce, Bureau of Economic Analysis, *Table 9. U.S. International Trade by Selected Countries and Areas, Balance on Services*, updated March 6, 2015.
46. U.S.-China Economic and Security Review Commission, *Monthly Analysis of U.S.-China Trade Data*, June 4, 2014.
47. U.S. Department of Commerce, Bureau of Economic Analysis, *U.S. Trade in Services, by Country or Affiliation and by Type of Service*, October 24, 2014.
48. U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Division, *Advanced Technology Product Data—Imports and Exports—Country by ATP Group*, October 2015.
49. Robin Wigglesworth, Patrick McGee, and Jamil Anderlini, “Global Stocks Selloff as China’s ‘Black Monday’ Darkens Markets,” *Financial Times*, August 25, 2015.
50. Nicholas R. Lardy, “China’s Latest Currency Actions Are Market Driven,” *China Economic Watch* (Peterson Institute for International Economics blog), August 11, 2015.
51. *Inside U.S. Trade—World Trade Online*, “China Currency Critics Blast New Devaluation, but Others See Market Shift,” August 11, 2012; William Mauldin and Mark Wagnier, “U.S. Strains Mount after China Devalues Yuan,” *Wall Street Journal*, August 11, 2015.
52. International Monetary Fund, “IMF Staff Completes the 2015 Article IV Consultation Mission to China,” May 26, 2015.
53. U.S. Department of the Treasury, *Report to Congress on International Economic and Exchange Rate Policies*, October 19, 2015, 4.
54. U.S. Department of the Treasury, *Report to Congress on International Economic and Exchange Rate Policies*, October 19, 2015, 4.
55. U.S. Department of the Treasury, *Report to Congress on International Economic and Exchange Rate Policies*, October 19, 2015, 17.
56. U.S. Department of the Treasury, *Report to Congress on International Economic and Exchange Rate Policies*, October 19, 2015, 17.
57. International Monetary Fund, “IMF Staff Completes the 2015 Article IV Consultation Mission to China,” May 26, 2015.
58. International Monetary Fund, “IMF Executive Board Approves Extension of Current SDR Currency Basket until September 30, 2016,” August 19, 2015.
59. William Mauldin, “IMF Signals Yuan Won’t Become Reserve Currency for at Least a Year,” *Wall Street Journal*, August 18, 2015.

60. Fion Li, "Yuan Gains as China Foreign Reserves Decline Less Than Forecast," Bloomberg, October 7, 2015.
61. U.S. Department of the Treasury, *Major Foreign Holders of U.S. Treasury Securities*, October 16, 2015.
62. Rhodium Group, "China Investment Monitor." *http://rhg.com/interactive/china-investment-monitor*.
63. Thilo Hanemann and Cassie Gao, "Chinese FDI in the United States: 1H 2015 Update," *Rhodium Group*, July 15, 2015.
64. Bloomberg, "China's Tsinghua Unigroup Plans $23 Billion Offer for Micron," July 14, 2015.
65. Ankit Ajmera and Lehar Maan, "China's Tsinghua to Buy Western Digital Stake in U.S. Tech Push," Reuters, September 30, 2015.
66. Indira Lakshmanan and Terry Atlas, "Waldorf Astoria Loses U.S. Diplomats after China Purchase," Bloomberg, June 18, 2015.
67. Sophie Pilgrim, "Obama Breaks Tradition, Ditches Chinese-Bought Waldorf Astoria," *France 24*, September 14, 2015.
68. Olivier Knox, "Obama Looking to Avoid Waldorf Hotel in New York after Chinese Purchase," Yahoo! Politics, June 24, 2015.
69. Thilo Hanemann and Cassie Gao, "Chinese FDI in the United States: Q4 and Full Year 2014 Update," *Rhodium Group*, January 15, 2015; Thilo Hanemann and Cassie Gao, "Chinese FDI in the United States: 1H 2015 Update," *Rhodium Group*, July 15, 2015.
70. *Deutsche Welle*, "Foreign Investments into China Slowing Down," July 21, 2015.
71. *Inside U.S. Trade—China Trade Extra*, "Froman Says China's Latest BIT Offer Insufficient; Seeks Progress at Xi Visit," September 22, 2015.
72. Office of the U.S. Trade Representative, *2014 Report to Congress on China's WTO Compliance*, December 2014, 11.
73. World Trade Organization, "Request from the United States to China Pursuant to Article 25.10 of the Agreement," October 6, 2011; World Trade Organization, "Request from the United States to China Pursuant to Article 25.10 of the Agreement," October 15, 2014.
74. Office of the U.S. Trade Representative and United States Department of Commerce, *Subsidies Enforcement Annual Report to the Congress*, February 2015, 12.
75. Office of the U.S. Trade Representative and United States Department of Commerce, *Subsidies Enforcement Annual Report to the Congress*, February 2015, 12.
76. World Trade Organization, *China—Measures Related to the Exportation of Rare Earths, Tungsten and Molybdenum*, Dispute Settlement DS 431.
77. Chuin-Wei Yap, "China Ends Rare-Earth Minerals Export Quotas," *Wall Street Journal*, January 5, 2015.
78. John W. Miller and Anjie Zheng, "Molycorp Files for Bankruptcy Protection," *Wall Street Journal*, June 25, 2015.
79. Gareth Hatch, "China Has Not Relinquished Control of Its Rare-Earth Exports," *Technology Metals Research*, January 6, 2015.
80. Office of the U.S. Trade Representative, *United States Launches Challenge to Extensive Chinese Export Subsidy Program*, February 11, 2015.
81. Office of the U.S. Trade Representative, *United States Launches Challenge to Extensive Chinese Export Subsidy Program*, February 11, 2015; Jonathan Weisman and Keith Bradsher, "White House to File Case against China at the WTO over Subsidies for Exports," *New York Times*, February 11, 2015.
82. Office of the U.S. Trade Representative, *United States Launches Challenge to Extensive Chinese Export Subsidy Program*, February 11, 2015.
83. Office of the U.S. Trade Representative, *United States Launches Challenge to Extensive Chinese Export Subsidy Program*, February 11, 2015.
84. See World Trade Organization, *China—Certain Measures Granting Refunds, Reductions or Exemptions from Taxes and Other Payments*, Dispute Settlement DS358.
85. See World Trade Organization, *China—Grants, Loans and Other Incentives*, Dispute Settlement DS384.
86. Office of the U.S. Trade Representative, *United States Wins End to China's 'Famous Brand' Subsidies after Challenge at WTO; Agreement Levels Playing Field for American Workers in Every Manufacturing Sector*, December 2009.
87. Office of the U.S. Trade Representative, *United States Launches Challenge to Extensive Chinese Export Subsidy Program*, February 11, 2015.
88. See World Trade Organization, *China—Certain Measures Affecting the Automobile and Automobile-Parts Industries*, Dispute Settlement DS450.

89. *Inside U.S. Trade—China Trade Extra*, "U.S. Seeks WTO Consultations with China over Alleged Prohibited Export Subsidies," February 11, 2015.
90. World Trade Organization, "Chinese Taipei, Thailand Confirm Acceptance of Landmark IT Deal," July 28, 2015.
91. For the full list, see Office of the U.S. Trade Representative, *ITA-Expansion Product List*, July 2015.
92. World Trade Organization, "Chinese Taipei, Thailand Confirm Acceptance of Landmark IT Deal," July 28, 2015.
93. *Inside U.S. Trade—China Trade Extra*, "Hopes for ITA Breakthrough Fall Flat as China Tells Others to Compromise," June 26, 2014; *Inside U.S. Trade—China Trade Extra*, "Froman Reports 'Progress' in ITA Talks with China, but No Breakthrough," May 23, 2014.
94. *Inside U.S. Trade—China Trade Extra*, "U.S., China Reach ITA 'Breakthrough'; Tariff Phaseouts to Reflect 1996 Framework," November 11, 2014.
95. *Inside U.S. Trade—China Trade Extra*, "South Korea Backs Down in ITA Talks; Ambassadors to Meet Saturday," July 17, 2015.
96. *Inside U.S. Trade—China Trade Extra*, "China Faces Pushback at ITA Rounds for Seeking Long Phaseout Periods," September 30, 2015.
97. U.S. Department of the Treasury, *2015 U.S.-China Strategic and Economic Dialogue Joint U.S.-China Fact Sheet—Economic Track*, June 25, 2015.
98. Ian Talley, "China Agrees to Limit Currency Interventions, Jacob Lew Says," *Wall Street Journal*, June 24, 2015.
99. Jacob J. Lew, "Remarks by Treasury Secretary Jacob J. Lew at the Economic Track Opening Session of U.S.-China Strategic and Economic Dialogue" (U.S.-China Strategic and Economic Dialogue, Washington, DC, June 23, 2015).
100. U.S. Department of the Treasury, *2015 U.S.-China Strategic and Economic Dialogue U.S. Factbook—Economic Track*, June 25, 2015.
101. U.S. Department of the Treasury, *2015 U.S.-China Strategic and Economic Dialogue U.S. Factbook—Economic Track*, June 25, 2015.
102. Bank for International Settlements data. *http://stats.bis.org/bis-stats-tool/org.bis.stats.ui.StatsApplication/StatsApplication.html*; Goldman Sachs Asset Management, "FAQ: China's Bond Markets—First Half of 2015," March 10, 2015.
103. U.S. Department of State, Office of the Spokesperson, *U.S.-China Strategy & Economic Dialogue Outcomes of the Strategic Track*, June 24, 2015.
104. U.S. Department of State, Office of the Spokesperson, *U.S.-China Strategy & Economic Dialogue Outcomes of the Strategic Track*, June 24, 2015; U.S. Department of State, Office of the Spokesperson, *U.S.-China EcoPartnerships Program*, June 23, 2015; and EcoPartnerships, *About Us. https://ecopartnerships.lbl.gov/about/mission-and-leadership#12*.
105. U.S. Department of State, Office of the Spokesperson, *U.S.-China Strategy & Economic Dialogue Outcomes of the Strategic Track*, June 24, 2015.
106. "Full Text: President Xi's Speech on China-U.S. Ties," *China Daily*, September 24, 2015.
107. *White House Office of the Press Secretary*, "Fact Sheet: President Xi Jinping's State Visit to the United States," September 25, 2015.
108. *White House Office of the Pres Secretary*, "Fact Sheet: The United States and China Issue Joint Presidential Statement on Climate Change with New Domestic Policy Commitments and a Common Vision for an Ambitious Global Climate Agreement in Paris," September 25, 2015.
109. Barney Jopson and Lucy Hornby, "China to Announce Carbon Trading Plans," *Financial Times*, September 25, 2015.
110. Lucy Hornby, "Doubt Cast Over Start of China Emissions Trading Scheme," *Financial Times*, September 28, 2015
111. *White House Office of the Press Secretary*, "Fact Sheet: The United States and China Issue Joint Presidential Statement on Climate Change with New Domestic Policy Commitments and a Common Vision for an Ambitious Global Climate Agreement in Paris," September 25, 2015.
112. *White House Office of the Press Secretary*, "Fact Sheet: The United States and China Issue Joint Presidential Statement on Climate Change with New Domestic Policy Commitments and a Common Vision for an Ambitious Global Climate Agreement in Paris," September 25, 2015.
113. *White House Office of the Press Secretary*, "Fact Sheet: U.S.-China Economic Relations." September 25, 2015.
114. *White House Office of the Press Secretary*, "Fact Sheet: U.S.-China Economic Relations." September 25, 2015.
115. Sebastian Heilmann, Moritz Rudolf, and Mikko Huotari, "China's Shadow Foreign Policy: Parallel Structures Challenge the Established International Order," *China Monitor*, October 28, 2014.

116. Simon Denyer, "China Launches Development Bank for Asia, Calls It First Step in 'Epic Journey,'" *Washington Post*, June 29, 2015.
117. Her Majesty's (HM) Treasury and Rt. Hon. George Osborne Member of Parliament (MP), *UK Intends to Become a Prospective Founding Member of the Asian Infrastructure Investment Bank*, March 12, 2015; RT (Russia), "Switzerland, Luxembourg Apply for China-Led Infrastructure Bank," March 21, 2015; and Ross Buckley, "AIIB: Australia Does the Smart Thing, Finally," *Sydney Morning Herald*, March 23, 2015.
118. Xinhua (English edition), "21 Asian Countries Sign MOU on Establishing Asian Infrastructure Investment Bank," October 24, 2014.
119. State Council of the People's Republic of China, *Key Legal Framework Laid for China-Initiated AIIB*, June 29, 2015.
120. David Dollar, "The Creation of the Asian Infrastructure Investment Bank Is the Right Move for the Global Economy," *New York Times*, October 22, 2014.
121. David Dollar, "The Creation of the Asian Infrastructure Investment Bank Is the Right Move for the Global Economy," *New York Times*, October 22, 2014.
122. David Dollar, "The Creation of the Asian Infrastructure Investment Bank Is the Right Move for the Global Economy," *New York Times*, October 22, 2014.
123. David Dollar, "The Creation of the Asian Infrastructure Investment Bank Is the Right Move for the Global Economy," *New York Times*, October 22, 2014.
124. Asian Development Bank, "ADB Press Release: Statement by Asian Development Bank President Takehiko Nakao," October 24, 2014; World Bank, "Transcript of World Bank Group President Jim Yong Kim's Opening Press Conference, World Bank/IMF Annual Meetings 2014," October 9, 2014; International Monetary Fund, "Transcript of a Press Briefing by Gerry Rice, Director, Communications Department, International Monetary Fund," October 30, 2014.
125. Guy Taylor, "World Bank President, Obama at Odds over China Global Lending Project," *Washington Times*, October 26, 2014.
126. Biswa Nath Bhattacharyay, "Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010–2010," *Asian Development Bank*, September 2010, 11–15.
127. Guy Taylor, "World Bank President, Obama at Odds over China Global Lending Project," *Washington Times*, October 26, 2014.
128. Hugh White, "AIIB: America's Influence in the Balance," *Straits Times* (Singapore), October 29, 2014.
129. Jane Perlez, "U.S. Opposing China's Answer to World Bank," *New York Times*, October 9, 2014.
130. Bob Davis and Prasanta Sahu, "China's Plans for Development Bank Fall Short," *Wall Street Journal*, October 23, 2014.
131. Kieran Guilbert, "China Last Again in Global Aid Transparency Index," Reuters, October 8, 2014.
132. Jane Perlez, "U.S. Opposing China's Answer to World Bank," *New York Times*, October 9, 2014.
133. Asian Development Bank, "ADB Press Release: Statement by Asian Development Bank President Takehiko Nakao," October 24, 2014.
134. Xinhua (English edition), "China Headlines: BRICS New Development Bank Launched in Shanghai," July 21, 2015.
135. Reuters, "CORRECTED—UPDATE 1—China Parliament Ratifies BRICS Bank Agreement," July 22, 2015.
136. Government of India—Prime Minister's Office, *Sixth BRICS Summit—Fortaleza Declaration*, July 16, 2014; World Bank, "Infrastructure: Overview."
137. Bhaskar Chakravorti, "A New Club for India," *Indian Express*, August 4, 2014.
138. Raj M. Desai and James Vreeland, "What the New Bank of BRICS Is All About," *Monkey Cage* (*Washington Post* blog), July 17, 2014.