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U.S.-China Economic and Security Review Commission

Monthly Analysis of U.S.-China Trade Data **December 5, 2014**

Highlights of this month's edition

- **Bilateral trade:** October monthly deficit declines 3.2 percent on the strength of U.S. exports to China, but overall trade deficit on track for another record in 2014.
- **Bilateral policy issues:** China pushes FTAAP, meets with Japan, signs South Korea FTA at APEC meetings; U.S.-China summit produces deals on climate, visas, and ITA; G20 members agree to combat tax evasion and money laundering; China-Australia FTA opens services sector and raises threshold for screening of Chinese investments.
- **Policy trends in China's economy:** China announces deposit insurance scheme; "guarantee chains" plague China's banking sector and risk spreading contagion.
- **Sector spotlight – Illegal Wildlife Products:** China makes international pledges to ban trading but poaching and illegal trading still incentivized by rising income levels in China, partial legalization, and skyrocketing prices.

Bilateral Goods Trade

The U.S. trade deficit in goods with China registered $32.6 billion in October 2014, a decrease of 3.2 percent from the record high in September. The decline was due primarily to the strong performance of U.S. exports to China: Exports increased 36 percent month-on-month, though they declined 3.2 percent year-on-year.

Imports from China also grew, though barely, at 0.8 percent, contributing to the overall monthly decline in the deficit. Year-on-year, however, imports grew at 8.1 percent, resulting in 13.3 percent year-on-year increase in the U.S. trade deficit with China. As Table 1 shows, the cumulative trade deficit is on track for another record in 2014, reaching $284.4 billion year-to-date, an increase of 6.4 percent year-on-year.

Table 1: U.S. Trade in Goods with China, January-October 2014
(US$ billions; growth %)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Exports	10.4	9.9	10.8	9.0	9.2	9.4	9.3	9.6	9.3	12.7
Imports	38.2	30.7	31.2	36.3	38.0	39.4	40.2	39.8	44.9	45.2
Balance	(27.8)	(20.9)	(20.4)	(27.3)	(28.8)	(30.1)	(30.9)	(30.2)	(35.6)	(32.6)
Total	48.6	40.6	42.1	45.3	47.2	48.8	49.4	49.5	54.2	58.0
Balance YTD										
2013	(27.8)	(51.4)	(69.2)	(93.4)	(121.2)	(147.9)	(178.0)	(207.8)	(238.4)	(267.2)
2014	(27.8)	(48.7)	(69.1)	(96.4)	(125.2)	(155.2)	(186.1)	(216.3)	(251.8)	(284.4)
yoy growth %										
Exports	10.4%	8.2%	13.6%	0.9%	5.4%	1.5%	6.5%	3.0%	-2.0%	-3.2%
Imports	2.7%	-6.1%	14.4%	9.6%	3.7%	9.8%	3.5%	1.7%	11.8%	8.1%

Source: U.S. Census Bureau, NAICS database (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, December 2014). *http://www.census.gov/foreign-trade/balance/c5700.html.*

Bilateral Policy Issues

22nd Annual APEC Meeting

The November 7–8 Asia-Pacific Economic Cooperation (APEC)[i] Ministerial Meeting marked a departure from the forum's inactivity over the past several years. As host, China used its leverage to pursue several successful agendas. One was to get all APEC members to officially endorse the Free Trade Area of the Asia-Pacific (FTAAP), an ambitious free trade agreement (FTA) that would comprise all APEC members in Asia and the Pacific. China is attempting to define the trade agenda in Asia and achieve regional economic integration outside the U.S.-backed Trans-Pacific Partnership (TPP), from which it is currently excluded.[1] FTAAP would include many of the same members and issue items as TPP so that there is potential for harmonization. However, FTAAP negotiations could also divert attention from the three-year-old TPP, which is nearing completion but has been hampered by Japan's resistance to farm goods imports and the reluctance of the U.S. Congress to grant the president fast-track negotiating authority.

China also participated in a high-profile side meeting with Japan, a strong U.S. ally in Asia. It was the first official meeting between President Xi Jinping and Prime Minister Shinzo Abe. The two countries agreed to create a crisis management system and to resume formal diplomatic talks.[2] Although this marked an initial step toward reducing tensions, there is a difficult road ahead. The two governments published different versions of their four-point agreement, and the meeting between the two heads of state was visibly awkward (see image below).[3]

Source: Jane Perlez, "For China and Japan, A New Effort to Improve Relations Produces a Chilly Scene," *New York Times*, November 10, 2014.

Furthermore, China and South Korea announced the unofficial conclusion of a bilateral FTA that will remove tariffs on more than 90 percent of the goods traded between the two countries.[4] China absorbs a quarter of South Korea's goods exports and is the largest source of tourists to South Korea, while South Korea is now one of the largest foreign investors in China.[5] In the South Korean media, skeptics voiced concern that the FTA with China could impact Seoul's relationship with Washington. The FTA could also negatively impact Taiwan, which views South Korea as its primary economic rival. Taiwan and South Korea export to China many of the same products, such as components used in the information technology and electronics industries.

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[i] The 21 members include: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Singapore, South Korea, Taiwan, Thailand, the United States, and Vietnam. Asia-Pacific Economic Cooperation, "Member Economies." *http://www.apec.org/About-Us/About-APEC/Member-Economies.aspx*.

China's proactive agenda at APEC builds on its other multilateral diplomatic efforts this year. At the 6th summit of Brazil, Russia, India, China, and South Africa (BRICS) in July, the group of emerging countries created the New Development Bank, a multilateral development bank that could compete with the Bretton Woods institutions.[6] And on October 24, just prior to the APEC summit, a signing ceremony formally recognized the establishment of the Asian Infrastructure Investment Bank, which could rival the Asian Development Bank. Although U.S. allies Australia and South Korea did not sign, India agreed to join.[7] China is likely to be the leading contributor of funds to both banks, highlighting its increased ability to shape economic policy in Asia and beyond.

Official U.S. State Visit to China

Bilateral Climate Deal a Moderate Success

After the APEC summit, President Obama stayed on in Beijing to hold bilateral meetings with his Chinese counterpart. Likely the most important outcome was a joint commitment to reduce carbon emissions in order to mitigate the long-term impact of climate change. China and the United States are the world's largest energy consumers and carbon emitters. The United States pledged to reduce emissions by 26 to 28 percent below 2005 levels by 2025,[8] while China stated its intention to cap peak CO_2 emissions around the year 2030 and to increase non-fossil fuel energy consumption to 20 percent by 2030.[9,ii] Critics charge that the bilateral agreement falls short of mandating emissions reductions needed to successfully combat climate change and, moreover, that it is voluntary and nonbinding.[10] Nonetheless, the agreement could serve as impetus to forge a new multilateral, post-Kyoto climate deal. United Nations-led climate negotiations will resume in Paris next year.

China's use of energy is grossly inefficient, and the country's rapid economic development is likely to further increase pollution from factories, coal-fired power plants, and vehicles. According to some experts, however, China's pledge to cap emissions by 2030 is achievable.[11] Frank Jotzo, professor at Australian National University, argues the Chinese government would only make such a commitment if it was confident it could achieve it. Wang Tao, resident scholar at Carnegie-Tsinghua Center for Global Policy, notes China is already making annual improvements in energy intensity and carbon intensity, which are written into the 12th Five-Year Plan (2011–2015).[12]

President Obama announced several new policies under his Climate Action Plan in June 2013, including CO_2 emissions standards for power plants and higher fuel efficiency standards for new cars and trucks. Aggressive implementation, along with a continued shift to natural gas, slow economic growth, and changes in consumer behavior, could reduce emissions to meet the 2025 target.[13] Certain members of Congress and industry groups, though, have expressed opposition. Since President Obama's term in office is coming to an end, much of the onus of implementation will fall on future presidents.[14]

Visa Validity Agreement but No New Visas for U.S. Journalists

The United States and China concluded a reciprocal visa arrangement that extends the validity of tourist and business visas from one to ten years, and student and exchange visas from one to five years.[15] This expansion is expected to increase the number of Chinese tourists in the United States and ease travel for Chinese students, who currently account for 28 percent of all foreign students and exchange visitors in the United States.[16]

[ii] China previously committed to reducing carbon emissions per unit of gross domestic product (GDP) to 40 to 45 percent from 2005 levels by 2020, and increasing the share of non-fossil fuels for energy to around 15 percent. China's 12th Five-Year Plan set a target of roughly 11 percent for share of non-fossil fuels for energy by 2015.

However, the United States failed to obtain visas for U.S. journalists in China. When asked about foreign journalist visas during a joint press conference with President Obama, President Xi answered:

> *Media outlets need to obey China's laws and regulations. When a car breaks down on the road, perhaps we need to get off the car to see where the problem lies. And when a certain issue is raised as a problem, there must be a reason. In Chinese, we have a saying: The party which has created a problem should be the one to help resolve it. So perhaps we should look into the problem to see where the cause lies.*[17]

This uncharacteristically blunt statement appeared to confirm the denial of journalist visas to Bloomberg and the *New York Times* was done in retaliation for critical press reports about the private wealth of President Xi and other political elites and their families. U.S. news organizations interpreted the broken car metaphor as an implicit warning from the Chinese government to limit coverage on sensitive topics.[18] In an editorial response to President Xi's comments, the *New York Times* said it "has no intention of altering its coverage to meet the demands of any government."[19] The *People's Daily*, the official newspaper of the Chinese Communist Party, replied to the *New York Times* editorial, accusing the news organization of being "inaccurate, insolent, and insincere" and stressing the need to adhere to China's censorship regime.[20] President Xi's statement and the *People's Daily* response underline China's growing pressure on foreign media to comply with its increasingly restrictive media environment.[21]

Information Technology Talks Regain Momentum

During President Obama's visit to Beijing, the United States also made some progress toward negotiating a revised Information Technology Agreement (ITA). The original ITA went into effect 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 launched in 2012 and slated for conclusion at the WTO Bali Summit last December. However, the process stalled due to China's unacceptable demands. Beijing devised a long list of items it wanted either to exclude completely or subject to tariff phaseout periods longer than those permitted under the original ITA framework.[22] After talks were suspended in November 2013, U.S. Trade Representative Michael Froman pressured China at the APEC trade ministers' meeting in May of this year to revise its demands.[23] In June, however, China only moved some products from the nonnegotiable to the tariff phaseout list, which drew objections from the United States and other participants.[24]

In what the administration touted as a "breakthrough," the White House announced on November 10 that it had finally 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, 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.[25] Based on the U.S.-China agreement, the other ITA participants are now aiming to nail down the final list of products to be included in the ITA in time for the WTO's General Council meeting on December 10–11. They may also develop a "road map" for finally concluding the ITA next year.[26]

There is a pressing need for a revised ITA. Since 1997, IT technologies have proliferated, IT product trade has risen threefold, and China has become a dominant producer and consumer of technology goods. The United States wants China to eliminate tariffs on more than 200 tariff lines.[27] As Table 2 demonstrates, the United States currently runs a trade deficit with China on several key technology products (for example, static converters, video game consoles, and semiconductors). China accounts for a larger share of total U.S. imports than exports for these goods. The United States performs slightly better on computed tomography (CT) scanners and MRI apparatuses; yet bilateral trade for these medical technologies is limited.

Table 2: U.S.-China Trade in Select Technology Products
(US$ millions; share %)

U.S. Imports										
	Total U.S. imports (US$ millions)					China share of imports (%)				
	2000	2005	2010	2013	2014(YTD)	2000	2005	2010	2013	2014(YTD)
Static converters	4,768	4,811	6,667	8,167	6,517	25.3%	41.4%	50.0%	48.9%	48.5%
Video game consoles	3,879	6,745	10,344	6,453	3,965	31.2%	72.0%	87.5%	85.0%	86.5%
Diodes, transistors, and semiconductors	5,895	3,911	7,524	8,669	7,222	4.8%	13.1%	30.6%	26.7%	32.2%
CT scanners	283	522	362	446	374	2.1%	1.7%	20.2%	16.1%	18.4%
MRI apparatus	330	610	422	438	329	0.0%	1.5%	4.3%	6.6%	7.3%
U.S Exports										
	Total U.S. exports (US$ millions)					China share of exports (%)				
	2000	2005	2010	2013	2014(YTD)	2000	2005	2010	2013	2014(YTD)
Static converters	2,060	1,814	3,056	3,937	2,970	2.2%	4.5%	7.3%	7.7%	6.5%
Video game consoles	1,170	1,853	3,952	3,168	1,936	1.0%	0.4%	9.1%	5.7%	1.4%
Diodes, transistors, and semiconductors	5,911	5,248	9,392	6,658	5,566	3.4%	4.6%	8.1%	11.3%	12.2%
CT scanners	151	476	858	737	307	7.9%	9.7%	10.8%	19.9%	20.5%
MRI apparatus	382	407	614	648	545	6.0%	12.3%	7.3%	20.2%	21.3%

Source: U.S. International Trade Commission.
Note: HTS Codes used for this table are static converters (850440), video game consoles (9504), diodes, transistors, and semiconductors (8541), CT scanners (9022120000), MRI machines (9018130000). Numbers based on USITC definition of "imports for consumption" and "total exports."

The November deal between Beijing and Washington is important, but does not guarantee success. China has not consented to including tariff elimination on flat-panel displays, something that had been a U.S. industry priority. More important, maximum phaseout periods for the covered items remain subject to negotiation. Although China may not go beyond the maximum five-year phaseout, it could require such a phaseout for as many products as possible.[28] If China succeeds in doing so, it could use those five 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, indigenous standards, and control over procurement of key technologies by state-owned entities. China is not a signatory to the WTO Government Procurement Agreement (GPA).

The G20 Summit

At its annual meeting in Brisbane in mid-November, the Group of 20 major economies (G20) came to an agreement on the *G20 High-Level Principles on Beneficial Ownership Transparency*. This major initiative, led by Australia, was initially opposed by China.[29] The principles seek to reign in corruption, money laundering, and tax evasion through information sharing among governments on the actual ownership of private and public companies and trusts.[30] These principles may also enhance China's ability to identify the assets of corrupt officials both at home and abroad.[31]

On the occasion of the G20 summit, China and Australia also signed a bilateral FTA, concluding nearly a decade of bilateral talks. The deal is important for several reasons:

- *Services liberalization*. Australia achieved the most extensive market access to China's service sector of any foreign country thus far.[32] According to the *Economist* Intelligence Unit, market access opportunities for Australian firms in China's healthcare, tourism, education, legal services, and financial services industries, among others, "will far outstrip those available to their U.S. and European competitors."[33] For example, Australian healthcare and tourism firms will now be able to wholly own, build, and operate facilities in China to meet growing demand for travel and needs of China's aging population.[34]

- *Tariff elimination*. The FTA eliminates tariffs on nearly all goods over the next four years, benefitting Chinese goods exporters as well as Australian meat and dairy producers and mining firms.[35]

- *Higher investigation threshold for Chinese investors*. The bilateral FTA raises the investigation threshold for private Chinese investment in Australia to $1 billion from $248 million.[36] In other words, the Australian government only reserves the right to screen and approve a Chinese investment deal if it is equal to or exceeds $1 billion. Australia has closely screened Chinese investments in the past, as these are heavily concentrated in the mining industry and often involve Chinese state-owned enterprises.

Policy Trends in China's Economy

People's Bank of China Announces Draft Bank Deposit Insurance Plan

The People's Bank of China (PBOC) announced this week it will be receiving feedback on a plan to provide depositor insurance on bank accounts within the country. Deposits up to RMB 500,000 (about $81,000) per person will be insured at covered banks, the PBOC announced via its website. In a separate statement, the PBOC claimed the RMB 500,000 ceiling would cover 99.6 percent of savers in the country. However, according to Wei Yao, economist at Société Générale, as a result of the massive concentration of wealth in the Chinese economy, the remaining 0.4 percent of accounts holds nearly half of the total value of all Chinese bank deposits, leaving the big segments of the Chinese economy exposed.[37]

The Chinese central bank did not provide details about the start date or proposed fees and pricing structures of the program. If effective, the program could eliminate the existing implied government guarantee on deposits, implicitly signaling the central government is prepared to let lenders fail. The proposed insurance is seen as a significant step toward greater banking sector liberalization.[38] China lifted the ceiling on lending rates last year, but has not done the same for deposit rates.

"Guarantee Chains" Plaguing China's Banking Sector, Risk Spreading Contagion

With the November 2014 announcement of a cut in interest rates, the PBOC has clearly indicated the flagging Chinese economy is in need of a stimulus. The timing of the announcement—setting forth the first interest rate cut in more than two years—indicates the world's second-largest economy is on track to miss its annual growth target of 7.5 percent for 2014. A cut in the bank lending and deposit rates at this time encourages lenders to provide more loans to stimulate the economy.[39]

China has seen the number of guaranteed loan defaults soar in recent months amid the government's six-year program of pushing companies and local governments to take on more debt. These "guarantee chains"—wherein companies or friends guarantee repayment for the loans of a particular business—are beginning to fail, especially in the Yangtze and Pearl River delta regions. As the hotbed of China's export and entrepreneurial sectors, the delta regions have been on bank administrators' radars since at least July, when a notice issued by the China Banking Regulatory Commission singled out the regions as being in danger of widespread bankruptcies and defaults.[40]

In one example, firms that were struggling to repay their own loans were listed as the guarantors of loans to another firm. Within this fragile system, an initial collapse can lead to a string of defaults, often resulting in banks writing off their losses because they are unable to recover loans from local companies.[41] According to the *Wall Street Journal*, about $3.25 trillion of the total outstanding loans in October were backed by guarantees from non-banks, including guarantee companies that will cosign a loan for a fee.[42] The shadow banking sector, which has received much press lately, has also welcomed the trend in guarantees, which has allowed them a greater selection of money seekers.

Overall, about 25 percent of China's loans are backed by guarantee. Among the big four banks, which make up approximately 40 percent of China's banking industry, guarantee-backed loans account for 17 percent of all loans. Among other listed banks, the portion is almost double, at about 30 percent of all loans. Among nonlisted commercial banks, which also make up about 40 percent of the sector, 36 percent of all loans are backed by guarantee.[43]

This dependence on loan guarantees has arisen largely from the reluctance of many banks to critically assess the credit risks involved with lending to each potential company. The cost of this type of assessment is, for many banks, too high relative to the cost of the loan, and therefore often passed over.[44] At larger commercial and state-run banks, credit risk assessment is more common, but only for those who qualify for the loans—a group that does not include many entrepreneurs. China's major banks have turned away from guarantee-backed loans in recent years, but the trend continues at the county, township, and village levels, especially in the wake of the newly lowered interest rates.[45]

As more and more companies default on their loans and the guarantee chains stretch ever longer, the concerns about bad loans infecting other sectors of the economy are increasing. And as China's economy settles into a slower growth rate, banks will grow more wary of guarantee-backed loans. This will be especially true in certain labor-intensive sectors susceptible to swings in the market. With legitimate banking not an option, more enterprises could turn to the shadows and the myriad unregulated financial options available in China.

Sector Focus - Illegal Wildlife Products

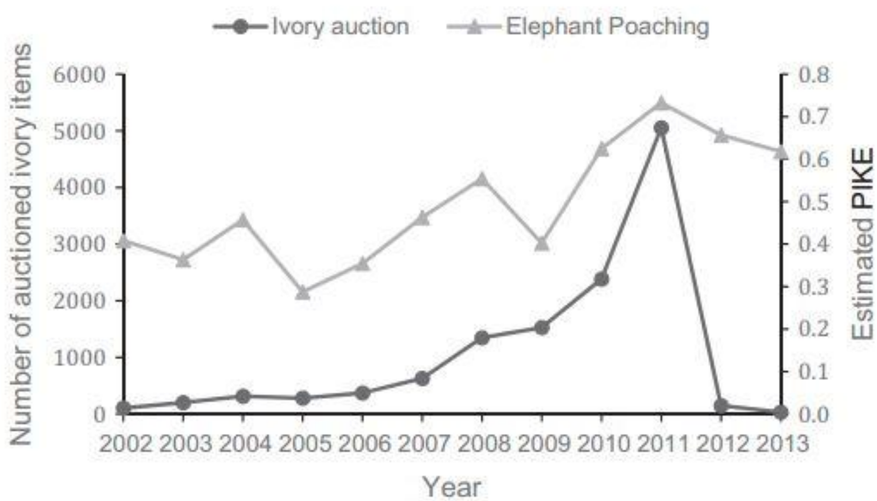
China ranks as the world's largest end market for many illegally traded wildlife products, such as tiger parts, shark fins, elephant ivory, and coral.[46] Historically in China, rare animal parts are highly coveted and are used for medicinal purposes, status symbols, and personal investment.[47] Although China has been active in making international pledges to ban trading in such products, rising income levels and partial legalization of some wildlife markets in China have triggered growing demand, which has caused prices to skyrocket and incentivized poaching and illegal trading. Because corrupt politicians traditionally have been the recipients of rare animal parts as gifts, China's anticorruption campaign has the potential to curb domestic demand. However, recent reports that high-level Chinese officials, including President Xi, still purchase illegal wildlife products have undermined any possible positive impact.[48] Conservation groups say China must do more to stop the illegal trade of wildlife products, and U.S. policymakers have called for sanctions against countries implicated in the illegal wildlife trade.

Illegal Ivory Trade

Elephant ivory is likely the predominant illegal wildlife product sold in China, and exemplifies how the Chinese government has implemented contradictory policies that have failed to stop ivory smuggling and, in fact, have contributed to a renewed demand for this "luxury good." International trade in ivory is restricted under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). However, in 2004, the Chinese government partially legalized ivory sales under the stated purpose of reducing illegal trade by allowing for the existence of a limited legal market.[49] China's State Forestry Administration (SFA), which overseas wildlife trade issues, implemented a registration and certification policy in 2004 to distinguish legal and illegal ivory. This policy paved the way for China to be added as a "CITES-approved ivory trading nation."[50] Subsequently, in 2008, four Chinese state-owned enterprises (SOEs) were permitted to purchase 62 metric tons of ivory from southern Africa, the primary source of elephant ivory in the world.[iii] This large, one-time sale represents the bulk of the "legal" supply of ivory available in China.[51] During this period, the four SOEs involved in the 2008 purchase sold off the stockpile to "government-approved ivory processing factories and retailers" at prices well above those paid to the suppliers in Africa, reaffirming the perception in China of ivory as a highly coveted luxury good.[52]

Poor implementation of the certification policy for legal ivory during the 2008 deal opened the floodgates for vast volumes of smuggled ivory to enter China.[53] This resulted in large black and gray markets where illegal ivory products were indistinguishable from legal ones. China's failed attempt at confining ivory sales to a controlled legal market resulted in a boom of legal and illegal ivory auction houses, and the quantity of ivory products sold in China skyrocketed from 2008 to 2011, as shown in Figure 1.[54] Consequently, renewed Chinese demand for ivory products, and ample leeway to sell illegal ivory, made elephant poaching an even more lucrative business in Africa after 2008, resulting in an increase in poaching that peaked in 2011. As a result, in 2011 the Chinese government banned ivory auction houses altogether to curb the business, as reflected in the sudden drop of auctions sales from 2011 to 2012.[55] However, the auction ban only resulted in a shift toward more illegal ivory trading, as illustrated by the large gap between poaching and legal sales since the ban was implemented (see Figure 1). Only about 10 percent of the ivory stock in China is now estimated to be legal.[56]

Figure 1: Comparison of Elephant Poaching and Ivory Sales at Chinese Auctions



Source: Yufung Gao and Susan Clark, "Elephant Ivory Trade in China: Trends and Drivers," *Biological Conservation* 180 (December 2014): 23-30.
Note: PIKE refers to the Proportion of Illegally Killed Elephants.

[iii] The four SOEs involved in the 2008 sale in China were the China National Arts and Crafts Group Corporation, the Beijing Ivory Carving Factory, the Guangzhou Daxin Ivory Factory, and the Beijing Mammoth Art Co., Ltd.

Tiger Parts and Red Coral

Ivory is only one among many wildlife products obtained illegally, traded, and often bound for China. Tiger parts are another highly sought product that have alleged medicinal qualities (bones) and may be used for decoration (pelts).[57] Although China banned the sale of tigers over twenty years ago, a flourishing market of farmed tigers exists in China, resulting in the government issuing licenses for medicinal wineries and taxidermists to buy and sell tiger parts.[58] As in the case of ivory, this partial legalization of the tiger parts market has encouraged more black market activity and smuggling.

Poached coral is another niche wildlife market in which Chinese government policy allows for widespread illegal trading to take place.[59] Like other wildlife products, red coral is considered a luxury decorative item among wealthy Chinese.[60] This lucrative business has enticed many Chinese fishermen to poach red coral in Japanese waters near the Ogasawara island cluster. In addition to posing a risk to the fragile ecosystem there, Chinese boats violate Japan's exclusive economic zone (EEZ) when entering the waters near Ogasawara.[61] Currently, an estimated 141 Chinese vessels[iv] operate illegally in this area.[62] Continuing maritime disputes between China and Japan in the East and South China Seas—particularly the Chinese government's use of commercial fishing vessels to make de facto claims over disputed waters—have limited the government's willingness to cooperate with Japanese law enforcement to stop illegal coral poachers.[63]

China's Role in Controlling Wildlife Smuggling

China has implemented a range of policies and engaged in several international cooperative agreements to help stop the illegal trade in wildlife products.[64] The United States, in particular, has been active in pushing China to do more to stop wildlife trafficking. At the 2013 Strategic and Economic Dialogue (S&ED), the United States and China committed to working together on halting wildlife trafficking; and at the 2014 S&ED,[65] China committed to "expand the cooperation and coordinate actions."[66] However, these lofty pledges are undermined by contradictory government policies that continue to permit or even endorse the wildlife product trade, including government support of ivory carving as a form of cultural heritage; partial legalization of wildlife product sales; and, in the case of coral, antagonistic behavior toward Japan.

Potentially the most effective policy in China's efforts to combat illegal trade in wildlife products is the central government's anticorruption campaign.[67] The positive impact of the corruption crackdown has already been seen in the diminished smuggling of shark parts.[68] In China, shark fin soup is traditionally served at banquet dinners, which were quintessential features in the lavish entertainment of Chinese officials prior to the anticorruption campaign. According to a shark specialist with the Pew Charitable Trust, the crackdown on elaborate banquets dramatically reduced demand for shark fins, and shark conservation became an unintended consequence of the anticorruption campaign.[69]

Unfortunately, reports of government officials purchasing illegal wildlife products undermine the potential for the anticorruption campaign to dissuade the public from buying such items.[70] For example, many Chinese believe ground elephant ivory has medicinal value. Although the government has nominally tried to dispel this claim, revelations that local forestry officials regularly purchase leftover ivory shavings and powder illegally from carving factories reinforces perceptions about its value.[71] Moreover, a report released this month by

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[iv] According to the Japanese Ministry of Land, Infrastructure, Transport and Tourism, on November 3, 205 Chinese vessels were counted poaching for coral near Ogasawara. Most of the vessels evacuated during a November 4–6 typhoon, with an estimated 100 vessels returning by November 7. On November 11, approximately 50 of those vessels were reported to be leaving the immediate area, bringing the latest estimate to 141 vessels in Japanese waters. Japan's Coast Guard could not confirm if the approximately 60 other vessels in the area before the typhoon have ceased poaching for coral.

the UK-based nongovernmental organization (NGO) Environmental Investigation Agency alleged President Xi and his government entourage purchased several ivory products during a 2013 state visit to Tanzania and smuggled them back to China via diplomatic pouch.[72] As the originator of the anticorruption campaign, Xi purchasing wildlife products is tantamount to a tacit nod of approval for the Chinese public to do the same.

Conservation groups advocate that, as the world's largest end market, China must do more to stop global smuggling of wildlife products. One measure these groups recommend is for China to implement a full ban on the sale of products such as ivory. They argue that a partially legalized market confuses consumers, and the certification process that designates products as "legal" creates opportunities for counterfeiting and bribery. Some U.S. lawmakers are advocating for sanctions against countries that are implicated in illegal wildlife trade. For example, Representative Peter DeFazio (D-OR) introduced a bill in September entitled the Targeted Use of Sanctions for Killing Elephants in their Range (TUSKER) Act, which would enable the United States to sanction countries involved in the illegal elephant ivory trade, including China.[73] Under Article VIII of the CITES agreement, to which the United States and China are both signatories, members may take punitive measures to enforce the convention's provisions and prevent illegal trade in protected species.[74]

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