U.S.-China Economic and Security Review Commission

Economics and Trade Bulletin

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Highlights of the November-December Edition

China's Domestic Economy

- **Quarterly Review of China's Economy:** China's economic growth slowed to 4.9 percent year-on-year in Q3 2021, according to official statistics, as credit tightening, energy shortages, and rising input prices hit producers and slowed momentum in property and infrastructure.
- **Property Tax:** China's top legislative body approved a pilot property tax, but fierce opposition illustrates the difficulty Chinese policymakers will have in avoiding a sharp slowdown in the real estate sector.

Technology

- **China Amplifies Antitrust Efforts:** In a continued campaign to rein in domestic tech companies, China elevated its antitrust arm while introducing new antimonopoly rules and issuing penalties for unreported domestic deals.
- **Digital Economy and Information Industry:** Deepening Chinese government anxieties over the domestic information environment are leading to new investment restrictions and a changing business landscape for the media industry.

China's Economic Diplomacy

- **China's Diplomacy Efforts:** The United States and China issued a joint statement on climate cooperation at the COP26 Climate Change Conference in Glasgow, though China made no new commitments at the conference; separately, President Biden and General Secretary Xi met virtually in their first formal meeting since President Biden took office in January; China's leaders pledged $40 billion in financial aid to African countries at the eighth Forum on China–Africa Cooperation in November.

Finance

- **Heightened Scrutiny of U.S.-Listed Chinese Companies:** Chinese ride hailing giant DiDi Chuxing announced it would delist from the New York Stock Exchange; heightened regulatory scrutiny of U.S.-listed Chinese companies in both Washington and Beijing raise questions about Chinese companies' overseas capital-raising activities in the future.
- **Disciplinary Investigation into China's Financial Sector:** The Chinese Communist Party is investigating financial authorities and major state-owned financial institutions in a bid to strengthen its oversight of the financial sector.

Bilateral Trade

- **Bilateral Goods Trade:** The U.S. goods trade deficit with China widened in the third quarter of 2021 as exports to China decreased. In October, by contrast, Chinese imports of U.S. goods increased, driven by purchases of intermediate goods.
- **Bilateral Services Trade:** In the second quarter of 2021, the U.S. services trade surplus with China reached its lowest point since the first quarter of 2012.

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Bilateral Trade

October 2021 U.S.-China Goods Trade

U.S. goods exports and imports from China set record highs in October 2021.

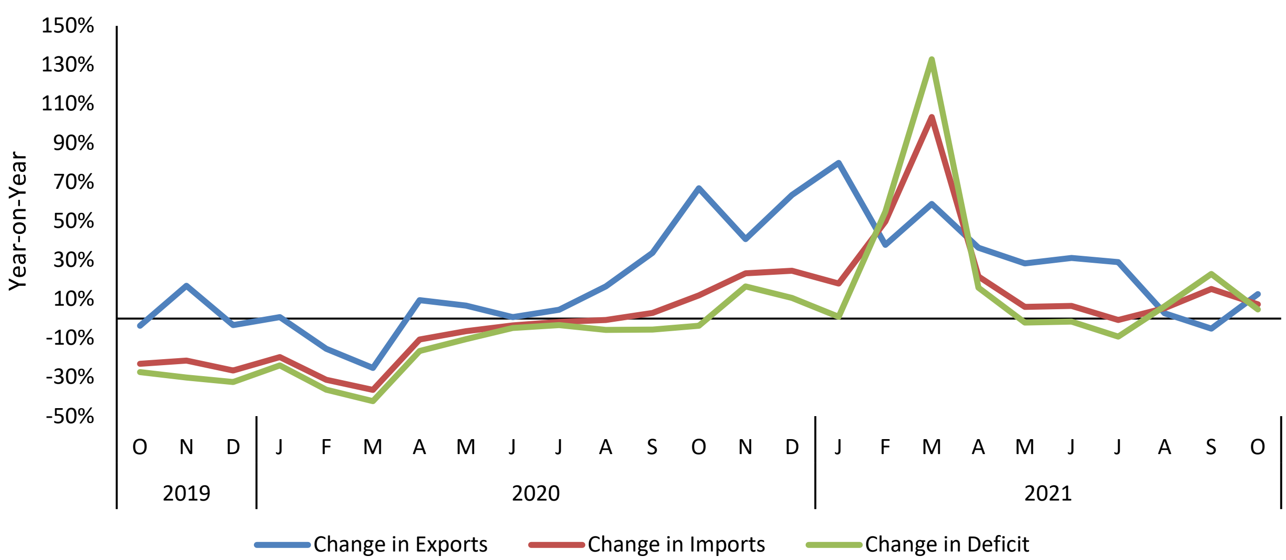
- *Exports:* The United States exported $16.6 billion worth of goods to China in October 2021, reaching an all-time high for monthly goods exports to China.[1] Exports rose $1.8 billion over October 2020.[2] The reversal of a sharp drop in U.S. exports to China during the third quarter reflected two macroeconomic trends. First, Chinese demand for U.S. intermediate goods increased, as China's energy shortage has eased and domestic production ramped up to meet global demand ahead of the year-end holidays (for an overview of third quarter trade trends, see the appendix "Third Quarter U.S.-China Trade Deficit Hits Pre-Tariff Levels").[3] Second, U.S. exports surged with numerous trading partners in October as backups in global supply chains eased.[4]
- *Imports:* U.S. goods imports from China reached $48.0 billion in October 2021, rising to a three-year high for the second month in a row.[5] Imports in September 2021 amounted to $47.4 billion, which was also the highest level since October 2018.[6]
- *Trade balance:* In October 2021, the U.S. goods trade deficit with China amounted to $31.4 billion.[7] The balance improved by $5.1 billion compared to September 2021, when the goods trade deficit of $36.5 billion reached its highest level since July 2018, when the first tariffs from the Trump Administration's Section 301 investigation were introduced.[8] The U.S. goods trade deficit with China through October nonetheless remains 13.7 percent higher than during the same period in 2020.[9]

Table 1: Key Indicators for U.S.-China Trade in Goods, October 2021

	U.S. Exports to China	**U.S. Imports from China**	**U.S. Trade Deficit with China**
Value	$16.6 billion	$48.0 billion	$31.4 billion
Year-on-Year Change	12.6 percent	7.3 percent	4.6 percent

Source: U.S. Census Bureau, *Trade in Goods with China*, December 7, 2021.

Figure 1: U.S.-China Goods Trade, October 2019–October 2021



Source: U.S. Census Bureau, *Trade in Goods with China*, December 7, 2021.

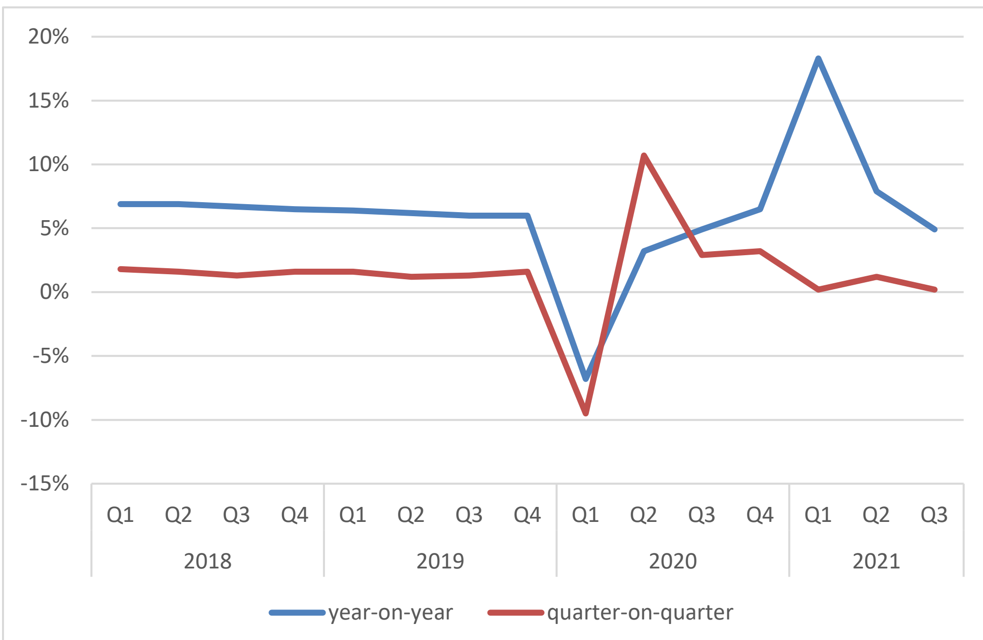
China’s Domestic Economy

Quarterly Review of China’s Economy

China’s Growth Slowdown Continues with Property Market Turmoil

Chinese economic growth slowed in the third quarter of 2021, and the economy’s production-led rebound is cooling off**.** According to official data* released by China’s National Bureau of Statistics, China’s economy grew 4.9 percent year-on-year in the third quarter of 2021 (see Figure 1), and only 0.2 percent relative to the second quarter.† [10] A tightened provision of credit has dragged on high-growth sectors, and ongoing supply disruptions and inflationary pressures continue to squeeze China’s producers, who have been unable to pass on rising prices to domestic consumers due to weak consumption. In spite of rising input costs and supply chain disruptions, China’s export sector remains a lone driver of growth. The situation is likely not sustainable, as Chinese exports will face greater global competition.

Figure 1: China’s Official GDP Growth Rate, 2018–Q3 2021



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

- *Credit growth:* Amid a renewed policy focus on deleveraging and reducing the economy’s reliance on debt-fueled growth, as of September new domestic loans stood at around $29.7 trillion (renminbi [RMB] 191.2 trillion), growing just 11.7 percent year-on-year, marking the slowest domestic loan growth in over

* Foreign economists, investors, and analysts remain skeptical about the reliability of China’s official reported economic data. Because it is a key metric in official performance as well as government legitimacy, economic data is highly politicized at all levels of government. For more on the reliability of China’s GDP data, see Iacob Koch-Weser, “The Reliability of China’s Economic Data: An Analysis of National Output,” *U.S.-China Economic and Security Review Commission*, January 28, 2013. *https://www.uscc.gov/sites/default/files/Research/TheReliabilityofChina'sEconomicData.pdf*. For more on the reliability of China’s trade data, see U.S. Congressional Research Service, *What’s the Difference?—Comparing U.S. and Chinese Trade Data*, May 20, 2020. *https://crsreports.congress.gov/product/pdf/RS/RS22640*.

† Because of the sharp contraction and rebound in China’s economy in 2020, year-on-year indicators present a distorted picture of China’s recovery that overstates growth in the first quarter this year. By contrast, quarter-on-quarter figures show that economic momentum, or the tendency of growth to persist, had slowed drastically by the first quarter. China’s National Bureau of Statistics also revised and lowered the first and second quarter 2021 quarter-on-quarter growth rates to 0.2 percent and 1.2 percent, respectively. Logan Wright, Allen Feng, and Endeavour Tian, “September/Q3 2021 Macro Data Recap,” *Rhodium Group*, October 18, 2021, 1–2; China National Bureau of Statistics via CEIC database; *Xinhua*, “Key Insights into the State of China’s Economy,” Caixin Global, October 26, 2021. *https://www.caixinglobal.com/2021-10-26/xinhua-key-insights-into-the-state-of-chinas-economy-101791882.html*.

a decade.[11] Slow credit growth dragged on economic activity in the property and industrial sectors in particular.

- *Property:* Economic activity in the property and construction sectors declined by 1.6 percent and 1.8 percent year-on-year, respectively, during the third quarter of 2021, reflecting one of the worst quarters on record for China's real estate sector.[12] Slowing household income growth and uncertainty about the impact of China's regulatory crackdown on the property sector have dampened consumer demand for residential housing, and property sales by floorspace fell 12.5 percent year-on-year in the third quarter of 2021.[13] The downturn in sales is problematic for Chinese property developers, who are struggling to raise cash to meet prudential requirements introduced in late 2020.[*]
- *Infrastructure:* Infrastructure construction and investment remain subdued as local governments face lower tax revenues and China's central government attempts to curb local government debt growth.[†] [14] Fixed asset investment in infrastructure[‡] continued to slow during the third quarter, and by September 2021 year-to-date infrastructure investment amounted to only 1.5 percent higher than last year.[15] The slowdown in infrastructure investment was sharpest in China's western provinces, widening an economic gap with China's more developed eastern provinces.[16]
- *Industry:* China's industrial sector growth also slowed, with industrial value added increasing only 11.8 percent through the third quarter of 2021 versus 15.9 percent for the first two quarters. Although export-oriented manufacturing continued to expand to meet overseas demand in the third quarter of 2021, bolstering overall industrial output, the strong contribution of China's exporting sector to growth is meanwhile likely to diminish as other export-producing nations recover and compete in international markets.[17] Furthermore, slow growth in the heavy industry and auto sectors weighed down China's economy, while energy shortages and government-directed shutdowns of energy-intensive production, discussed below, exacerbated this slowdown.[18]

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[*] These requirements, called the "three red lines," aim to reduce the indebtedness of China's property developers by cutting off new bank loans to developers that do not meet the requirements. The three red lines are: (1) setting a ceiling for developers' debt-to-asset ratios at 70 percent; (2) setting net debt-to-equity ratios at 100 percent; and (3) capping short-term borrowing on par with cash reserves.

[†] Whereas loans finance growth in China's property sector, local governments issue special purpose bonds (SPBs) to drive infrastructure investment. SPB issuance has been sluggish in the first half of this year, with local governments only using approximately 37 percent of their SPB quota by July, in comparison to 65 percent by the first half of 2020. SPB issuance picked up by September, however, with local governments issuing approximately 61 percent of their annual quota. By October, the Ministry of Finance announced that local governments should issue their entire SPB quota by the end of November, speeding up the previous deadline likely in a bid to prop up growth before the end of the year. The accelerated deadline forces local governments into a difficult position as they face pressure to select only high-quality, return-generating infrastructure projects. With the central government holding individual cadres responsible for raising "problematic debts," the accelerated deadline may not generate a sudden surge in local SPB issuance due to a lack of shovel-ready projects. ICBC Standard Bank, "China Macro Outlook: Returning to Potential Growth," October 2020, 16; Sina Finance, "The Local Government Will Reserve Part of the Special Bond Quota for Issuance in December, and the Quota Will Remain at a Relatively High Level Next Year" (地方将预留部分专项债额度 12 月发行 明年额度将保持较高水平), August 10, 2021; *Reuters*, "China Aug New Local Special Bond Issuance at 488.4 Bln Yuan," September 26, 2021; Trivium China, "The Green Light," *Trivium China Markets Dispatch*, October 25, 2021; *Bloomberg*, "China's Provinces Struggle to Find Good Projects to Spend On," October 20, 2021. *https://www.bloomberg.com/news/articles/2021-10-21/china-s-provinces-struggle-to-find-good-projects-to-spend-on*; State Council of the People's Republic of China, *State Council Opinions on Further Deepening Budget Management System Reform* (国务院关于进一步深化预算管理制度改革的意见), April 13, 2021. Translation.

[‡] China's National Bureau of Statistics includes "transportation, logistics, the postal industry, telecommunication; radio, television, and satellite transmission services; internet and related services; water utilities; and environment and public facility management" in its definition of infrastructure. It counts "production and supply of electricity, heat, gas, and water" within industrial value added. China National Bureau of Statistics, *Statistical Communique on the National Economic and Social Development of the People's Republic of China in 2019* (中华人民共和国 2019 年国民经济和社会发展统计公报), February 28, 2020. Translation. *http://webcache.googleusercontent.com/search?q=cache:iQtZvHUv8-sJ:www.stats.gov.cn/tjsj/zxfb/202002/t20200228_1728913.html+&cd=3&hl=en&ct=clnk&gl=us*; Dai Mingyu, "Mismatch between Infrastructure Construction Investment (Not Including Electric Power) Data and Related Value-Added" (基础设施建设投资（不含电力）数据与相加值不匹配), *China National Bureau of Statistics*, October 18, 2018. *http://webcache.googleusercontent.com/search?q=cache:mZWTbUJACSsJ:www.stats.gov.cn/tjfw/tjzx/tjzxbd/201810/t20181019_1628714.html+&cd=1&hl=en&ct=clnk&gl=us*.

- *Services:* China's services sector expanded 5.4 percent year-on-year in the third quarter of 2021, slowing down from the 8.3 percent growth of the second quarter.[19] New lockdowns to curb the spread of COVID-19 pushed down spending on tourism, and travel restrictions have particularly hurt tourism in the western regions.[20] Catering and restaurant spending also declined due to COVID-19-related restrictions, falling 4.5 year-on-year in August 2021, although this industry rebounded in September, expanding 3.1 percent.[21] Because the services sector is the largest employer of Chinese workers, services sector employment and corresponding household income growth have also lagged.[22]
- *Household income and consumption*: Disposable income per capita growth fell to 6.3 percent year-on-year in the third quarter, a 5.1 percentage point decrease from the previous quarter.[23] With weak household income growth and Chinese consumers exhibiting a higher propensity to save due to continued economic uncertainty, consumption within the Chinese economy remains anemic. As a result, retail sales, a key metric for consumption, declined sharply in August 2021, dragging Q3 2021 retail sales growth down to 5.0 percent year-on-year, which remains below the 7.6 percent growth seen in the same quarter of 2019, before COVID-19.[24]

National Development and Reform Commission Attempts to Contain Energy Prices

Due to uneven economic reopening around the world, global energy prices have been steadily rising. For example, the price of coal in China, the country's primary energy source, more than doubled in 2021 alone.[25] Until now, China's economy has relied upon strict energy price controls and has not allowed energy producers to increase prices more than 10 percent above a benchmark rate in an effort to support energy-intensive industries like steel manufacturing. As a result, without the ability to pass on increasing input costs, soaring coal prices have prompted numerous Chinese energy producers to simply halt production or reduce output rather than operate at a loss.[26] Resulting power outages across the country and calls by the Chinese government to limit the "two highs," or enterprises with high energy consumption and high emissions, have further caused reduced output in heavy industries like aluminum, steel, and cement.[27]

China's worsening energy crunch has prompted policymakers to begin relaxing energy price controls to relieve pressure on energy producers by allowing them to pass on rising costs. In October, the National Development and Reform Commission (NDRC), China's top economic planning body, announced that electricity producers could now charge users up to 20 percent above the benchmark rate—a 10 percentage point increase above the previously established upper band for electricity prices.[28] The NDRC also announced that there would no longer be a price ceiling for rates charged to energy-intensive industries, thereby paving the way for significant upstream price increases in industries like aluminum or steel.[*] [29] Ultimately, by allowing energy producers to pass on costs to these industries, Chinese policymakers intend to remedy power outages in the short term while promoting greater energy efficiency in the long term. This solution has begun to alleviate immediate energy shortages; however, the cost of purchasing new energy-efficient technologies may still exceed rising fossil fuel prices for many firms.

China's Central Bank Walks a Policy Tightrope amid Record Diverging Producer and Consumer Prices

China's central bank is focused on supporting flagging growth without easing deleveraging efforts or exacerbating inflationary concerns. While central bank officials have been vocal about counteracting inflationary pressures and normalizing monetary policy following China's COVID-19 outbreak, the People's Bank of China (PBOC) has begun to implement some expansionary polices such as reserve requirement ratio cuts[†] in July and December and larger liquidity injections in October. In attempting to hold back inflationary pressures, however, the PBOC has not reduced China's benchmark interest rates for corporate and household loans in 18 months despite a

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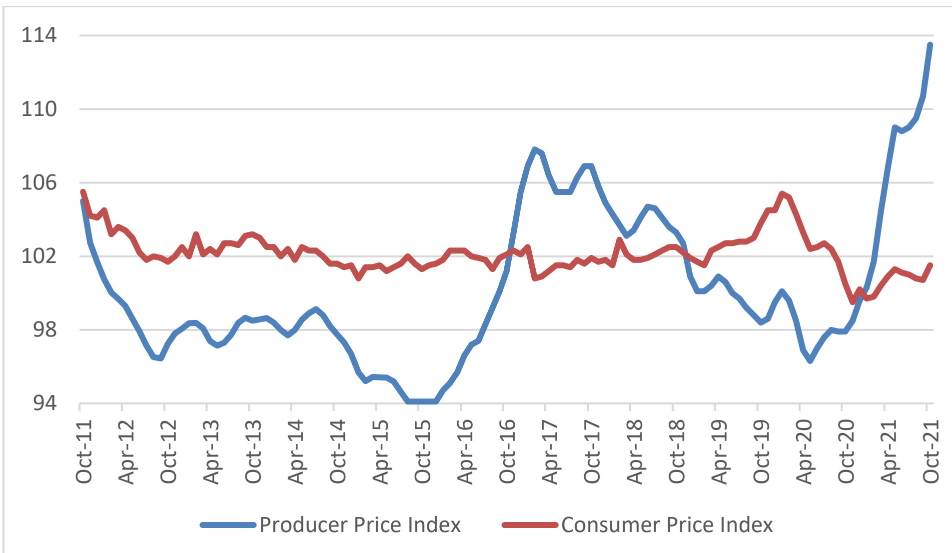
[*] The increased ceiling for power prices will not apply to households, the agriculture sector, or public welfare initiatives. *Reuters*, "What Does China's Power Policy Shift Mean for Metal Makers, Other Energy Hogs?" October 13, 2021. *https://www.reuters.com/business/energy/what-does-chinas-power-policy-shift-mean-metal-makers-other-energy-hogs-2021-10-13/*.

[†] For more on the PBOC's July reserve requirement ratio cut, see U.S. China Economic and Security Commission, "PBOC Loosens Monetary Policy but Avoids 'Flood Irrigation,'" in *Economics and Trade Bulletin*, August 10, 2021, 9–10.

significant downturn in investment within high-growth sectors.[30] Ultimately, the PBOC's decision to boost liquidity without lowering benchmark interest rates portrays its intention to soothe short-term economic woes while avoiding large-scale monetary expansion as China prepares for slower future growth rates.

The gap between China's rising producer prices and decelerating consumer price growth has reached record levels, exacerbating cost pressures on Chinese producers (see Figure 2).[31] China's producer price index (PPI), a measure of the rate at which input prices are increasing for China's domestic companies, has been steadily rising since May 2020, with increasing prices reflecting rising global commodity prices and increased shipping costs,* as well as the cost of supply disruptions caused by power outages and government-directed production curbs on inputs like steel.[32] According to China's National Bureau of Statistics, China's PPI reached 13.5 percent year-on-year growth in October, marking the largest increase on the cost of inputs since 1995.[33] While rising export prices indicate that producers in export-oriented industries have begun to transfer increasing costs to foreign markets, thereby contributing to global inflationary pressures, Chinese producers have thus far refrained from passing on higher prices to domestic consumers due to weak domestic demand, causing consumer inflation to remain subdued.[34]

Figure 2: China's Widening Producer and Consumer Price Gap, October 2011–October 2021



Note: The PPI and consumer price index (CPI) pictured above are respective indicators for domestic producer and consumer prices that measure a weighted basket of goods against their price in the previous year. PPI or CPI above 100 indicates a relative price increase, while PPI or CPI below 100 indicates a relative price decrease.
Source: China National Bureau of Statistics via CEIC database.

* China continued to close ports in response to COVID-19 infections in the third quarter, contributing to international logistical bottlenecks and rising shipping costs. For more on Chinese port closures, see U.S. China Economic and Security Commission, "In Focus: Port Closures Demonstrate China's Centrality to Global Shipping Industry," in *Economics and Trade Bulletin*, September 14, 2021, 8; U.S.-China Economic and Security Review Commission, "COVID-19 Economic Disruptions," in *Economics and Trade Bulletin*, July 13, 2021, 6.

Chinese Government Approves Property Tax Pilot

On October 23, the National People's Congress Standing Committee, China's top legislative body, authorized China's State Council to carry out five-year property tax pilots in select cities.[35] The tax will apply to both commercial and residential properties and land, though it will not apply to rural land or houses built on it.[*] [36] Details of the pilot tax, including the roughly ten cities that will implement them, have not yet been released, though Hainan Province and the cities of Shenzhen and Hangzhou are expected to participate.[37] While China already levies several real-estate-related taxes, including on land purchases, it is the only major economy without a property ownership tax.[38]

The Chinese government has considered a property tax for nearly two decades, but so far has only implemented it on a limited trial basis. Chinese policymakers first proposed a property tax in 2003. Since 2011, Shanghai and Chongqing have carried out pilot tax programs on residential properties.[†] [39] A broader property tax has been placed on the national legislative agenda several times, with legislation drafted in 2018, but progress stalled after the draft was circulated to authorities for comments.[40] Throughout 2021, however, the property tax once again gained traction, including appearing in the CCP's 14th Five-Year Plan, released in March.[41]

General Secretary Xi has pushed for the implementation of a property tax, viewing it as a way to rein in China's property market and address unaffordable housing costs. In an August speech before China's Central Committee of Finance and Economics, General Secretary Xi linked the property tax to the CCP's "common prosperity" campaign, which aims to reduce domestic income inequality.[‡] General Secretary Xi described a property tax as a tool to "strengthen the regulation and adjustment of high incomes," saying, "We must actively and steadily push forward property tax legislation and reform, and carry out effective pilots."[42] Economists believe a property tax would discourage speculative investment in the property sector and could slow increases in housing prices, which have grown more than 20-fold since private ownership of housing was legalized in the 1990s.[43] Urban housing costs in China consequently consume a far greater share of household income than in other countries. For example, as of mid-2021, median apartment prices are 41.9 times the median annual income in Shanghai, compared with 9.5 in New York and 13.6 in London.[44] The unaffordable nature of urban housing in turn affects many families' willingness to have additional children, contributing to a problem of anemic population growth in China.[45]

Chinese policymakers are already struggling to tame China's property market without triggering a collapse, however. Regulators have implemented policies to rein in speculation throughout 2021. For example, in January, Chinese financial regulators capped the amount of mortgage lending banks can provide.[46] Additionally, municipal authorities in cities including Shenzhen, Shanghai, and Beijing have cracked down on fake divorces, which married couples have used in order to bypass ownership restrictions.[§] [47] At the same time, a sharp fall in property values,

[*] Under Chinese law, rural land is owned by village collectives, while the state owns all urban land in China and leases it to property holders for varying durations depending on the land use—70 years for residential use, 50 years for commercial use, and 40 years for industrial use. According to China's Property Rights Law, individuals may privately own houses and apartments above the land on which they are built, but not the land itself. Rural land may still fall within city governments' jurisdictions. Municipal governments typically have jurisdiction over land zoned both as rural and urban, and they generate revenue by converting land from rural to urban and leasing it to developers. Meg Rithmire, "Land Institutions and Chinese Political Economy: Institutional Complementarities and Macroeconomic Management," *Politics & Society* 45:1 (2017): 123–153, 135, 142. *https://www.hbs.edu/ris/Publication%20Files/PoliticsSociety2017_69188ed6-01c7-481e-90a5-24d705acb8e5.pdf*; Laney Zhang, "Chinese Law on Private Ownership of Real Property," *Library of Congress*, March 10, 2015. *https://blogs.loc.gov/law/2015/03/chinese-law-on-private-ownership-of-real-property/*; *China Economic Review*, "If Beijing Is Your Landlord, What Happens When the Lease Is Up?" June 17, 2013. *https://chinaeconomicreview.com/china-land-lease-property-law-ownership-rights/*.

[†] The Shanghai and Chongqing pilot programs apply to a narrower set of properties than will likely be included in the upcoming pilot property tax. The Shanghai tax generally applies to second residences, while the Chongqing tax applies mostly to high-priced residences. The taxes in both cities do not apply to commercial properties. Changhao Wei, "NPC Standing Committee Authorizes Property Tax Pilots (with Translation of the Authorization)," *NPC Observer*, October 23, 2021. *https://npcobserver.com/2021/10/23/npc-standing-committee-authorizes-property-tax-pilots-with-translation-of-the-authorization/*.

[‡] For more on the CCP's Common Prosperity campaign, see U.S.-China Economic and Security Review Commission, "China's 'Common Prosperity' Campaign Underscores Concerns over Inequality," in *Economics and Trade Bulletin*, September 14, 2021, 2–4. *https://www.uscc.gov/sites/default/files/2021-09/September_2021_Trade_Bulletin.pdf*.

[§] To reduce speculation, many major Chinese cities limit the number of properties a household may own, but couples have been divorcing to circumvent these restrictions. *Bloomberg News*, "China Cracks Down on Fake Divorces That Let People Buy More Properties," January 21, 2021. *https://www.bloomberg.com/news/articles/2021-01-22/china-cracks-down-on-fake-divorces-to-stem-real-estate-surge?sref=mxbIZFb4*.

which account for up to 80 percent of household wealth in China, could lead to a precipitous reduction in consumption, already a weak point in China's economy.[48] Since August, policymakers in more than a dozen Chinese cities have introduced measures to prevent housing prices from tumbling, including subsidies for first-time homeowners.[49] In the southwestern city of Kunming, municipal authorities warned developers against offering large discounts, which authorities referred to as "malicious price cuts," in order to boost sales.[50] At a September meeting attended by banking executives, housing officials, and financial regulators, the PBOC told banks not to abruptly cut off lending to project developers and said they should continue supporting projects under construction and approving mortgages for qualified buyers.[51]

The introduction of a property tax introduces further risk to China's real estate market and has encountered significant opposition. Feedback among Chinese policymakers has been overwhelmingly negative about the property tax, according to a *Wall Street Journal* report citing people familiar with the deliberations.[52] Han Zheng, China's most senior vice premier, whom General Secretary Xi had tasked with implementing the tax pilots, reportedly recommended against imposing the tax too broadly.[53] The property tax has met with resistance from many local governments, which derive approximately one-third of their revenues from land sales to developers.[54] While the introduction of a property tax could in theory mitigate the reduction in land sale revenues, any tax rate high enough to significantly offset the shortfall from land sales would likely cause the property market to crash.[55] The pushback from policymakers has led Beijing to scale down the pilot program, which was reportedly initially proposed for 30 cities.[56]

Technology

China Empowers Antitrust Arm to Wrestle More Tech Giants

Chinese policymakers are expanding their antitrust efforts, looking to shrink the power of domestic tech giants and curb their data collection and usage practices. Escalating regulatory action also comes amid increased promotion of General Secretary of the Chinese Communist Party (CCP) Xi Jinping's vision of "common prosperity," where cracking down on large companies is marketed as "boos[ting] the nation's market fairness."[57]

Antimonopoly Work Gets Upgraded

On November 15, the Chinese government established the State Anti-Monopoly Bureau directly under the State Council and in the same building as the State Administration for Market Regulation (SAMR). The creation of the new bureau signals the Chinese government's ongoing focus on antimonopoly efforts and heightened regulatory scrutiny of large, data-intensive firms. On the debut of the bureau, SAMR Deputy Director Gan Lin was promoted as its chief, underscoring that SAMR decisions have a direct line to the State Council.[58] Bureau Chief Gan echoed Chinese leaders in a November interview when she said that SAMR's role was to "prevent the disorderly expansion of capital" and "strengthen regulations on the digital economy, technological innovation and information security."[59] The extension of SAMR's authority via this new bureau comes less than four years after its formation, which was the result of a March 2018 consolidation of China's State Administration for Industry and Commerce, the China Food and Drug Administration, and certain functions of the General Administration of Quality Supervision, Inspection, and Quarantine.[60]

China Contemplates New Anti-Monopoly Rules

On November 15, SAMR also issued a notice on Guidelines for the Overseas Antimonopoly Compliance of Enterprises, which aim to better regulate Chinese companies' presence and activities overseas. The guidelines call on Chinese firms operating overseas to create specific antimonopoly compliance positions or departments to monitor firm behavior and ensure that company practices adhere to "fair competition."[61] The new guidelines may signal more enforcement to come, similar to SAMR's February 2021 publication of regulations specific to platform companies, which were followed by several enforcement actions against companies.[62]

More systemic changes are likely to follow as China's National People's Congress continues to gather public comments from its first reading of a draft amendment of China's Antimonopoly Law, which was originally passed in 2007. The finalization of the amendment is likely to be a priority for the National People's Congress in 2022.[63] The draft amendment would create higher penalties for monopolistic behavior and enshrines SAMR's ability to investigate and prevent mergers and acquisitions at will.[64] According to the draft amendment, SAMR must "encourage innovation" while also focusing on enforcement of the law in the digital economy and preventing the abuse of data and algorithms.[65]

Tech Firms Face Fines and Breakups

With new rules both issued and pending, tech firms have already been subject to increased penalties across a range of other antitrust issues. On November 20, SAMR fined companies after finding 43 unreported deals, such as acquisitions and joint ventures, dating back as far as 2012.[66] The regulator fined each company $77,760 (RMB 500,000), the maximum amount under the current Antimonopoly Law.[67] Fined companies included e-commerce giant Alibaba, food delivery platform Ele.me, and other tech giants like search engine operator Baidu, ridesharing company DiDi, and WeChat parent company Tencent. Tencent and Baidu faced similar fines for unreported deals in March 2021, while Alibaba was fined in September 2021 for anticompetitive practices on its platform.[68]

Along with other regulatory trends, China's tightening enforcement to bust monopolistic and anticompetitive practices have dampened the forecast for many investors with holdings in Chinese companies. Recent government actions have driven company valuations down, with Alibaba and Baidu declining by 1.6 percent and 2.1 percent, respectively, on the Hong Kong Stock Exchange.[69] Where U.S. and other foreign firms were often the sole targets of Chinese antimonopoly enforcement in the past, Chinese regulators have clearly turned to focus on domestic nonstate firms over the last year, with limited predictability. U.S. businesses operating in China, as well as U.S. investors, should still tread with caution as scrutiny of China's business environment continues to grow.

As LinkedIn Drops Out, Chinese Government Commits to Closer Scrutiny of Media

Heightened control of the information environment is affecting the business environment. While regulatory tightening in the nonstate technology sector has been a CCP policy priority throughout 2021, other recent policy developments suggest the Chinese government's focus is shifting from e-commerce and fintech to the information environment. On October 8, China's NDRC and Ministry of Commerce jointly released a draft of the 2021 Market Access Negative List. By offering only a week for public comment,[*] regulators indicated they have little interest in modifying the 2021 list from its current draft state. Broader than the previously published Foreign Investment Negative List (another annual list released most recently in June 2020), this new Market Access Negative List restricts or prohibits both domestic and foreign nonstate investment from funding specific business activities with nonstate capital.[70] Although the draft list removed six from the 2020 list of 123 activities, it focused specifically on "news and news-related businesses," reclassifying these items and tripling the restrictions from two to six (see Table 1).[71] Chinese media companies have become increasingly dependent on nonstate investment for some of these broadcasting activities, making it likely that the loss in funding will lead to increased state shares in these media companies.[72] The new prohibitions also put increased pressure on online platforms and leave them open to greater scrutiny, given that ad revenues and other nonstate funding currently enable these platforms to host content.[73]

Table 1: Comparison of 2020 and Draft 2021 Media Investment Restrictions for Nonstate Capital

2020	2021 Proposals
• Nonstate capital shall not be involved in internet news information gathering and editing business (added in the 2018 Negative List). • No organization shall establish Sino-foreign joint ventures, Sino-foreign cooperative ventures, or foreign-funded internet news and information service units (added in the 2019 Negative List).	Nonstate capital shall not: • Engage in news gathering, editing, and broadcasting businesses; • Invest in the establishment and operation of news organizations, including but not limited to news agencies; newspaper publishing units; radio and television broadcasting organizations or stations; or internet news information collection, editing, and publishing services, etc.; • Run the page layout, radio frequencies, broadcast channels, written columns, social media accounts, etc., of news organizations; • Engage in live broadcast services for activities and events involving politics; economics; foreign affairs; major social, cultural, scientific, and technological topics; health; education; sports; or other matters that are politically oriented or concern public opinion or the orientation of values; • Republish news from foreign entities; or • Hold forums or award selection activities related to news and public opinion.

Source: The Paper, "Carefully Reading the 2021 Draft Negative List: Which Categories Were Relaxed or Tightened" (细读负面清单 2021 年版意见稿：哪些放宽了，哪些收紧了), October 11, 2021. Translation. *https://news.sina.com.cn/c/2021-10-11/doc-iktzscyx8933562.shtml*.

The Chinese government's latest actions diminish the quality and shareability of information. The CAC released an update of its "whitelist" of outlets that can be attributed as sources, relinked, or republished in China. Since its last publication in 2016, the list has nearly quadrupled in size. With 1,358 sources, the new list now includes a large number of blogs and other online sources across a wider variety of subject matter areas. The CAC

[*] Most standard comment periods in China are set at 30 days, though the foreign business community and U.S. trade negotiators have long urged the adoption of a 60-day window to be consistent with its commitments under the WTO's Agreement on Technical Barriers to Trade. U.S. Chamber of Commerce and American Chamber of Commerce in China, "Priority Recommendations for U.S.-China Trade Negotiations," January 16, 2019, 14; Jamie P. Horsley, "China Implements More Participatory Rulemaking under Communist Party," *Regulatory Review*, March 15, 2018. *https://www.theregreview.org/2018/03/15/horsley-china-implements-participatory-rulemaking/*.

also noted the introduction of more county-level media outlets as well as "government affairs platforms" to guarantee "authoritative views."[74] The CAC said it culled websites and outlets from the list that "no longer meet requirements, have poor performance, and lack influence."[75] Among the outlets removed is privately funded *Caixin,* which has been particularly valued by readers outside of China for its financial and business coverage as well as in-depth investigative reporting. The publication has been lauded for its relative objectivity while also being penalized by Chinese regulators in the past for coverage critical of the government.[76] In 2016, the CAC removed *Caixin* from its whitelist for two months after the publication's coverage of complaints by Chinese rights and defense lawyers on new regulations in the court system.[77] *Caixin* operates on a subscription model that likely minimizes the impact of its removal from the whitelist, but the CAC's removal nonetheless sends a strong signal of Beijing's concerns around financial reporting[*] and will curtail the publication's domestic exposure.[78] Readers in China will still be able to access *Caixin* directly through its website and app, but the limitation on its circulation increases difficulties in accessing high-quality, objective reporting in China.[79]

Stronger Chinese media scrutiny carries direct consequences for U.S. media-related operations in China, as LinkedIn's exit demonstrates. Microsoft announced it would no longer offer the localized Chinese version of the professional social media website, noting LinkedIn was "facing a significantly more challenging operating environment and greater compliance requirements."[80] Microsoft stated it will instead launch a separate app in China called InJobs, which will include job postings but not social feeds or the ability to share articles or other content.[†][81] LinkedIn listed China as its third-largest market and was one of few social media sites available to those inside and outside of China's borders, though it faced political pressure from both sides as well.[82] In May 2021, the CAC named LinkedIn and Microsoft's Bing among 105 apps that had violated Chinese rules for data collection and usage.[83] Although Chinese regulators remained unsatisfied with LinkedIn's censorship practices, the company garnered particularly negative attention from those in Europe and the United States after its censorship practices in China were the subject of several reports. Along with obscuring the profiles of foreign journalists, LinkedIn also blocked details around a number of sensitive political topics in China, affecting visibility of user profiles for researchers and academics.[84]

[*] Other 2021 whitelist removals included the *Economic Observer*, another online publication focused on financial reporting. The *Economic Observer* has riled government censors in the past to publish more critical material, such as stories of rail crashes. *Associated Press*, "China Boots Caixin Financial News from Approved Media List," October 21, 2021. *https://apnews.com/article/business-china-media-33c7ed65bd7bc9a7c0e4367225db6d95.*

[†] Microsoft purchased LinkedIn in 2016, two years after LinkedIn opened in China. Matt O'Brien, "Microsoft Sitting Down LinkedIn App in China amid Security," *Associated Press*, October 14, 2021. *https://apnews.com/article/technology-business-china-censorship-careers-1af948c857f3f5ba240c753b5021c545*.

Developments in China’s Diplomacy

United States and China Issue Joint Declaration at UN Climate Change Conference

The United States and China issued a joint statement reaffirming their intention to cooperate on climate policy at the 2021 UN Climate Change Conference (COP26). The joint statement, issued on November 12, marks the second U.S.-China joint statement on climate cooperation released during the Biden Administration. Although largely restating each country’s existing commitments, it outlined key areas for bilateral cooperation, including:

- *Establishing the Working Group on Enhancing Climate Action in the 2020s.* Elaborating on the joint statement, China’s Ministry of Ecology and Environment announced the working group will exchange policies and technologies for decarbonization, identify programs of mutual interest, and hold meetings with governmental and nongovernmental experts.[85] The group is a reboot of an Obama-era bilateral working group on climate.
- *Cooperating on methane reduction.* As two of the world’s top ten methane emitters, both sides intend to develop additional measures to improve methane emission control and will meet in the first half of 2022 to discuss enhancing measurement and mitigation.[*] [86]
- *Cooperating on CO2 reduction*. Both sides intend to cooperate on methods to improve the integration of renewable energy sources into their respective electricity grids, while adopting energy efficient policies and standards to reduce energy waste.[87]

The U.S.-China joint statement represents the only major outcome from the conference for China. General Secretary Xi Jinping did not attend COP26 and China did not announce any new climate commitments.

Biden and Xi Meet for Virtual Summit on U.S.-China Relations

On November 15, U.S. President Joe Biden and General Secretary Xi met virtually in their first formal meeting since President Biden took office in January.[88] November’s meeting did not result in a joint statement; instead, each side issued its own readout of the event focusing on areas of contention.[89] The U.S. readout highlighted President Biden’s concerns over China’s human rights record and “unfair trade and economic practices” while underlining the importance of a “free and open Indo-Pacific.”[90] The U.S. communique also said that “the United States strongly opposes unilateral efforts to change the status quo or undermine peace and stability across the Taiwan strait.”[91] China’s readout called for a “sound and stable China-U.S. relationship” and greater communication and cooperation.[92] It struck a harsher tone on Taiwan, however, blaming recent cross-Strait tensions on “attempts by the Taiwan authorities to look for U.S. support for their independence agenda as well as the intention of some Americans to use Taiwan to contain China” and warning that “whoever plays with fire will get burnt.”[93]

The meeting did not produce any concrete outcomes. The day after the summit, however, the United States and China agreed to ease visa restrictions on foreign journalists, reversing measures that the two countries put in place early last year.[94] Under the deal, which White House aides say was not discussed at the summit, the United States will provide yearlong visas for Chinese journalists, up from the current period of 90 days.[95] In return, the Chinese government will allow reporters from the *Wall Street Journal*, *Washington Post*, and *New York Times* to return to China.[96] It is unclear whether the specific journalists expelled last year will be able to return.

[*] Notably, China did not sign the Global Methane Pledge, a commitment signed by 100 countries including the United States to reduce methane emissions by 30 percent by 2030 from 2020 levels. Instead, China said it would develop its own National Action Plan on methane, the details of which have not yet been released. Jon Jackson, “China, Russia, India, Worlds Top 3 Methane Emitters, Won't Pledge to Cut Emissions,” *Newsweek*, November 4, 2021. *https://www.newsweek.com/china-russia-india-worlds-top-3-methane-emitters-wont-pledge-cut-emissions-1646010*.

China Reduces Financial Pledges at Key Africa Summit

General Secretary Xi pledged $40 billion in Chinese spending for Africa at this year's Forum on China-African Cooperation (FOCAC), attended by Chinese leaders and leaders from African countries.[97] Held every three years since the inaugural summit in 2000, FOCAC has been an important agenda-setting event in China-Africa ties, with meetings including announcements of development priorities and pledges of financial aid and other forms of assistance to African countries. The $40 billion pledged at this year's summit, held in Dakar, Senegal on November 29 and 30, marks a reduction from the $60 billion in pledges made at both the 2015 and 2018 summits.[*] Notably, this year's pledges did not include grants, interest-free loans, or development financing, which totaled $15 billion in 2018.[98] Unlike 2018, however, China pledged to allocate $10 billion of its International Monetary Fund special drawing rights to Africa.[99] General Secretary Xi also said China would donate 600 million doses of COVID-19 vaccines to African countries.[†] [100]

Some observers have interpreted the reduced pledge numbers as a sign China is pulling back from Africa, but Chinese commitments increased in certain areas. For instance, this year's summit included $10 billion in pledges for financing African exports, up from $5 billion in 2018.[101] According to Yun Sun, nonresident fellow with the Brookings Institution Africa Growth Initiative, this increase "suggests that China eyes growing trade with Africa as its priority."[102] General Secretary Xi also announced 80 new projects in areas including healthcare, agriculture, digital economy, and green development.[103]

[*] Between 2006 and 2015, the amount pledged doubled at each FOCAC summit: $5 billion in 2006, $10 billion in 2009, $20 billion in 2012, and $60 billion in 2015. *Bloomberg*, "China's Financial Pledge to Africa Falls after Criticisms of Debt Traps," November 30, 2021. *https://www.bloomberg.com/news/articles/2021-11-30/china-s-financial-pledge-to-africa-falls-amid-debt-criticism?sref=mxbIZFb4*.

[†] Because the cost of the vaccines were not included in the $40 billion topline number, experts have noted that the $40 billion topline number does not account for the full scope of China's pledges. According to China Africa Advisory, a German advisory firm, depending on how these doses are valued, the value of the donated vaccines could be approximately $19.8 billion. General Secretary Xi also said China would provide 400 million doses that would be produced in African countries, though he did not specify whether these doses would be sold or donated. Eric Olander, "China Promises 1 Billion Vaccine Doses for Africa," *Sup China*, November 30, 2021. *https://supchina.com/2021/11/30/china-promises-1-billion-vaccine-doses-for-africa/*; Eric Olander, "FOCAC 8 Recap & Review," *China in Africa Podcast*, Podcast, December 3, 2021.

Finance

DiDi Announces U.S. Delisting as Regulatory Pressures Mount

Embattled Chinese ride-sharing firm DiDi Chuxing announced it will delist from the New York Stock Exchange (NYSE) on December 2, 2021. Following a pledge to ensure investors' shares could be converted to tradable shares on another internationally recognized stock exchange, the company announced its intention to list in Hong Kong.[104] DiDi made the announcement amid an ongoing regulatory onslaught against the firm, with China's authorities issuing new rules that include limits on fees ride-sharing firms can earn from each ride they dispatch and urging them to provide benefits to their drivers, such as occupational injury insurance.[105] The announcement also followed reports in late November that China's regulators pressured DiDi's leadership to devise a plan to delist from the NYSE due to concerns about leaking sensitive data.[106]

DiDi's delisting announcement comes as the Chinese government is reportedly increasing pressure on U.S.-listed Chinese companies. On December 1, Bloomberg reported that Chinese regulators plan to ban companies from going public on foreign stock markets via the variable interest entity (VIE) structure.[*][107] A spokesperson for the China Securities Regulatory Commission (CSRC) promptly denied the claim, calling it a "misunderstanding and misinterpretation."[108] Separately, on December 7, the Financial Times reported that China's authorities are preparing a negative list of data-intensive sectors for which use of the VIE structure to raise foreign capital moving forward will be prohibited.[109] If true, the regulatory process described in the Financial Times report would track with the sector-specific approach Chinese regulators have taken so far with respect to the VIE structure.[†]

Intensified scrutiny of the VIE structure is occurring as Beijing pushes Chinese companies to raise capital closer to home. Western media reports suggest China's authorities are increasingly concerned about the role of foreign shareholders in China's largest consumer technology and internet companies and ensuring data security.[110] Any restrictions on the VIE structure from Chinese regulators are likely to push such companies to consider listings in China's rapidly developing onshore markets or to redirect their capital raising activities to Hong Kong. According to a report by Goldman Sachs, 27 U.S.-listed Chinese companies with a current market capitalization of around $250 billion could be eligible[‡] for secondary listings in Hong Kong.[111] Beijing's scrutiny of the Chinese companies' overseas capital-raising activities also comes as it seeks to prioritize the development of homegrown technology

[*] According to Paul Gillis and Fredrik Oqvist, a VIE is a company included in the consolidated financial statements of a second company. The second company controls the VIE through contracts rather than direct ownership. "The contracts attempt to mimic the control and economic interest of direct ownership." A 2014 Commission staff paper also observed that "VIEs, usually based in tax havens such as the Cayman Islands, are essentially holding companies that link foreign investors and Chinese firms via a set of complex legal contracts. In theory, the VIE structure guarantees that economic benefits flow to the foreign investors; meanwhile, operating control of the business remains within the Chinese firm, ostensibly to comply with Chinese laws. U.S. shareholders face major risks from the complexity and purpose of the VIE structure. For example, the legal contracts that serve as the basis of the structure are enforceable only in China, where rule of law remains rudimentary. Though listing VIEs on U.S. exchanges is legal in the United States, they can be considered illegal in China." Paul Gillis and Fredrik Oqvist, "Variable Interest Entities in China," *GMT Research*, March 13, 2019. *https://www.chinaaccountingblog.com/weblog/2019-03-vie-gillis.pdf*; Kevin Rosier, "The Risks of China's Internet Companies on U.S. Stock Exchanges," *U.S.-China Economic and Security Review Commission*, June 18, 2014, 2. *https://www.uscc.gov/sites/default/files/Research/The%20Risks%20of%20China%E2%80%99s%20Internet%20Companies%20on%20U.S.%20Stock%20Exchanges%20-%20with%20Addendum.pdf*.

[†] For example, on July 24, China's State Council unveiled rules that would, among other things, prohibit private education companies from raising new foreign capital using a VIE structure. Chinese regulators otherwise have not yet taken any regulatory action against VIEs. For more, see U.S.-China Economic and Security Review Commission, "Beijing's Scrutiny of Chinese Companies Listed Overseas Increases U.S. Investor Risks" in *2021 Annual Report to Congress*, Chapter 2, Section 1, "Year in Review: Economics and Trade," November 2021, 142–143. *https://www.uscc.gov/sites/default/files/2021-11/Chapter_2_Section_1--Year_in_Review-Economics_and_Trade.pdf*.

[‡] A *South China Morning Post* report on the estimate from Goldman Sachs suggests the firm only considered market capitalization in determining how many U.S.-listed Chinese companies would be eligible for secondary listings in Hong Kong. Goldman Sachs' estimate reportedly does not consider other listing requirements for the Hong Kong Stock Exchange, including that companies "have a track record of good regulatory compliance of at least two full financial years on a qualifying exchange." Iris Ouyang, "Pinduoduo, NIO are Among 27 U.S.-traded Stocks Eligible to List in Hong Kong, Goldman Says," *South China Morning Post*, December 7, 2021. *https://www.scmp.com/business/banking-finance/article/3158685/pinduoduo-nio-among-27-adrs-which-could-be-eligible*; Hong Kong Stock Exchange, "Chapter 19C: Equity Securities: Secondary Listings of Qualified Issuers." *https://webcache.googleusercontent.com/search?q=cache:https://en-rules.hkex.com.hk/sites/default/files/net_file_store/HKEX4476_5218_VER20.pdf*.

and advanced manufacturing champions. For example, shares began trading on the Beijing Stock Exchange in November 2021, just two months after the new bourse was announced, with capital goods companies focused on making engineering or aviation equipment accounting for 23.9 percent of all companies listed on the exchange.[112]

U.S. Securities and Exchange Commission Adopts New Rules to Protect U.S. Investors from Risks Posed by U.S.-Listed Chinese Companies

On December 2, the U.S. Securities and Exchange Commission (SEC) adopted amendments to finalize rules to implement strengthened disclosure requirements for U.S.-listed Chinese companies as directed in the Holding Foreign Companies Accountable Act.[*] [113] The rules require that Chinese companies listed on U.S. stock exchanges whose auditors cannot be inspected by the Public Company Accounting Oversight Board be designated Commission-Identified Issuers.[114] If a company is designated a Commission-Identified Issuer for three consecutive years, trading in the company's securities on U.S. exchanges becomes prohibited.[115]

Once a company is designated a Commission-Identified Issuer, it is required to make the following specified disclosures in its annual reports:

- The percentage of shares owned by a government entity;
- Whether government entities have a controlling financial interest in the company;
- The name of each official of the CCP who is a member of the company's board of directors; and
- Whether the company's articles of incorporation contain any charter of the CCP.[116]

The final rules also address U.S.-listed Chinese companies' use of the VIE structure. Specifically, any company that uses the VIE structure must provide disclosures for itself and for its consolidated foreign operating entities.[117] This means the disclosure of percentage of shares owned by government entities applies not just to the VIE itself (likely registered in the Cayman Islands) but also for the company's consolidated entities based in China.[118]

The amendments are effective beginning January 10, 2022.[119] This timing means the earliest the SEC could designate any Commission-Identified Issuers would be after companies file their 2021 annual report (typically spring 2022 for calendar-year issuers), suggesting 2024 is the soonest any trading prohibition would apply.[120]

CCP Strengthens Supervision of China's Financial Sector

The CCP is launching a sweeping investigation into financial regulators and institutions to strengthen its oversight of China's financial sector. On October 12, the CCP Central Committee announced it would undertake a series of disciplinary inspections into China's financial regulators, state-owned banks, and major financial institutions (for a full list, see Appendix).[121] According to the *Wall Street Journal*, the inspections will examine how state-backed financial institutions invested in large nonstate tech companies that have faced heightened regulatory scrutiny since late 2020, among other areas.[122] A statement from China's Central Commission for Discipline Inspection (CCDI) described the inspections as part of an effort to "strengthen the Party's overall leadership of financial work."[123] Chinese state media added that the two-month review will focus on "hold[ing] fast to the bottom line of no systemic financial risks" and rooting out any "political deviations."[124]

Threats to financial stability are driving the CCP's scrutiny of China's financial sector. The probe into China's financial sector is occurring as questions about debt sustainability in the Chinese economy come into sharper relief for China's leaders. For example, the 2021 CCDI investigation is notable for its inclusion of China's state-owned asset management companies (AMCs), such as China Huarong Asset Management Company, which rattled China's

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[*] The Holding Foreign Companies Accountable Act was signed into law on December 18, 2020. The law requires certain issuers of securities establish they are not owned or controlled by a foreign government. Issuers must make this certification if the Public Company Accounting Oversight Board is unable to inspect an issuer's audit work papers. Securities from issuers whose audit work papers cannot be inspected by the Public Company Accounting Oversight Board for three consecutive years are then prohibited from being traded on U.S. exchanges. For more, see U.S.-China Economic and Security Review Commission, "SEC and Congress Strengthen Enforcement of Listing Standards on U.S. Exchanges" in *Economics and Trade Bulletin*, December 7, 2020, 3–4. *https://www.uscc.gov/sites/default/files/2020-12/Dec_2020_Trade_Bulletin.pdf*.

financial markets in April 2021 after missing a deadline to release its 2020 annual report.[*] [125] AMCs were not scrutinized in a prior round of CCDI inspections into China's financial sector in 2015.[†] [126] Hugely indebted property developer Evergrande's missed bond payments in September and October likely also underpin the Party's concerns about ties between nonstate companies and state-owned lenders.[‡] [127]

The CCP's distrust of financial regulators and state financial institutions is also animating its investigations. The CCP's use of the CCDI to investigate China's financial sector suggests the Party does not trust China's state administrators to advance its preferred regulatory outcomes. The CCDI operates extralegally, and under China's 2017 National Supervision Law, state agencies are obliged to cooperate with its investigations without due process for those investigated.[128] The CCP is reportedly concerned that state-owned banks, investment funds, and financial regulators may have become too close with nonstate firms, especially those whose rapid growth has strained the Chinese government's regulatory capacity, such as fintech giant Ant Group and ridesharing firm DiDi.[129] In directing the CCDI to investigate these ties between state financial institutions and nonstate companies, the CCP is effectively expanding its regulatory tightening campaign against China's nonstate sector into a political investigation of state ties with nonstate enterprises.

The Party's heightened scrutiny of state-owned financial institutions' ties with nonstate companies risks choking smaller nonstate firms' access to financing. According to Michael Pettis, a professor of finance at Peking University and an expert on China's economy, banks may pull back from lending to nonstate companies and thus exacerbate uneven financing conditions for state versus nonstate companies.[130] This could drag on growth and force Beijing to rely on familiar stimulus measures of increasing state lending for infrastructure investment.[131] Such a reversal would echo similar challenges to China's policymakers following the launch of a deleveraging campaign in 2016.[§] In attempting to defuse financial risk by reducing corporate debt levels, the campaign made China's financial system too risk averse, with state-owned banks prioritizing lending to state-owned enterprises (SOEs) in the years that followed. Because the central or local governments are likely to extend financial support to troubled SOEs, banks view them as less risky even if their fundamentals are worse than nonstate firms.[132] China's policymakers otherwise have attempted to expand financing channels for nonstate firms in 2021, offering fiscal support for smaller nonstate companies and announcing the establishment of a new stock exchange in Beijing catering to small- and medium-sized enterprises.[133]

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[*] For more on Huarong, see U.S.-China Economic and Security Review Commission, "Huarong Woes Raise Concerns about China's Debt Sustainability," in *Economics and Trade Bulletin*, May 18, 2021, 13–16. *https://www.uscc.gov/sites/default/files/2021-05/May_2021_Trade_Bulletin.pdf*.

[†] The CCDI previously investigated China's financial sector in 2015 in the wake of a stock market rout and as part of the CCP's broader anticorruption campaign. In that investigation, the CCDI dispatched 15 inspection teams across 21 financial institutions (compared to 15 inspection teams across 24 financial institutions in 2021). Analysts assess the 2015 investigation was politically motivated, targeting patronage networks linked to specific political figures as General Secretary Xi moved to consolidate power. It also targeted specific forms of market malfeasance, with probes into CITIC Securities General Manager Cheng Boming for insider trading and top officials at the then China Banking Regulatory Commission for corruption. *South China Morning Post*, "Four China Banking Regulators Demoted as Anti-Corruption Crackdown on Financial Sector Continues," November 23, 2015; *People's Daily*, "Third Round of Central Inspections: Lineup Expanded to 15 Teams, First Appearance of 'One Supports Three'" (中央第三轮巡视进驻看点：阵容扩至 15 组 首现"一托三"), November 3, 2015. Translation. *https://webcache.googleusercontent.com/search?q=cache:http://fanfu.people.com.cn/n/2015/1103/c64371-27769230.html*; *Xinhua*, "Central Inspection Storm Blows to the Financial System, 'One Bank, Three Commissions,' and Related Inspections" (中央巡视风暴刮向金融系统 "一行三会" 等将体检), October 24, 2015. Translation. *https://webcache.googleusercontent.com/search?q=cache:http://www.xinhuanet.com/politics/2015-10/24/c_128352933.htm*; *Business Insider*, "The World's Largest Sovereign Fund Is Being Scrutinized by China's Anti-Corruption Watchdog," October 24, 2015. *https://www.businessinsider.com/afp-china-targets-financial-sector-in-corruption-probe-2015-10*; Gabriel Wildau, "China's Anti-corruption Probe Broadens into Finance Sector," *Financial Times*, February 3, 2015. *https://www.ft.com/content/e50b1036-ab73-11e4-8070-00144feab7de*.

[‡] For more on Evergrande, see U.S.-China Economic and Security Review Commission, "In Focus: Evergrande Debt Crisis Forces Tough Choices," in *Economics and Trade Bulletin*, October 20, 2021, 8–12. *https://www.uscc.gov/sites/default/files/2021-10/October_2021_Trade_Bulletin.pdf*.

[§] For more on China's deleveraging campaign and its impact on financing conditions for state and nonstate sectors, see U.S.-China Economic and Security Review Commission, "A Return to Stimulus Risks Undercutting Deleveraging Efforts" and "SOEs Post Strong Profits, Private Enterprises Struggle," in *Economics and Trade Bulletin*, February 6, 2019, 8–12. *https://www.uscc.gov/sites/default/files/Research/February%202019%20Trade%20Bulletin.pdf*.

Appendix: Chinese Financial Institutions under CCDI Investigation

Institution Name	Institution Type
People's Bank of China	Central bank
China Banking and Insurance Regulatory Commission	Financial regulator
China Securities Regulatory Commission	Financial regulator
State Administration of Foreign Exchange	Financial regulator under PBOC
China Investment Corporation	Sovereign wealth fund
China Development Bank	Policy bank
Export-Import Bank of China	Policy bank
Agricultural Development Bank of China	Policy bank
Industrial and Commercial Bank of China Co., Ltd.	State-owned commercial bank
Agricultural Bank of China Co., Ltd.	State-owned commercial bank
Bank of China Co., Ltd.	State-owned commercial bank
China Construction Bank Co., Ltd.	State-owned commercial bank
Bank of Communications Co., Ltd.	Joint-stock bank
China Everbright Bank Co., Ltd.	Joint-stock bank
China CITIC Group Co., Ltd	Joint-stock bank
People's Insurance Company of China Co., Ltd.	State-owned insurance company
China Life Insurance Group Company	State-owned insurance company
China Taiping Insurance Group Co., Ltd.	State-owned insurance company
China Export and Credit Insurance Corporation	State-owned export credit insurance company
Shanghai Stock Exchange	State-owned stock exchange
Shenzhen Stock Exchange	State-owned stock exchange
China Huarong Asset Management Company Co., Ltd.	State-owned asset management company
China Orient Asset Management Co., Ltd.	State-owned asset management company
China Cinda Asset Management Co., Ltd.	State-owned asset management company
China Great Wall Asset Management Co., Ltd.	State-owned asset management company

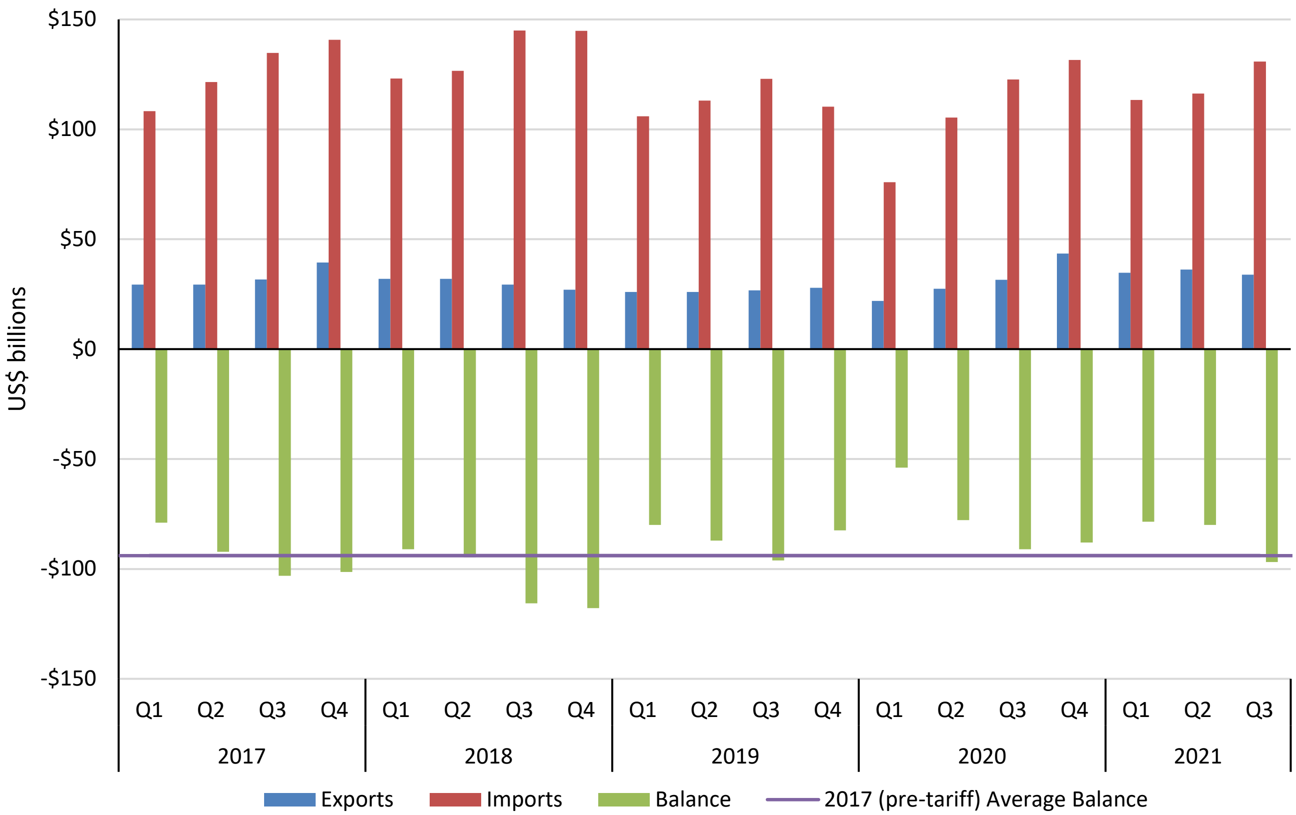
Source: China's Central Commission for Disciplinary Inspection, *The Eighth Round of the 19th Central Committee Will Inspect 25 Financial Institutions and Party Organizations* (十九届中央第八轮巡视将对25家金融单位党组织开展巡视), September 26, 2021. Translation. *https://webcache.googleusercontent.com/search?q=cache:https://www.ccdi.gov.cn/toutiao/202109/t20210926_251271.html.*

Appendix: Third Quarter U.S.-China Trade Deficit Hits Pre-Tariff Levels

The U.S. goods trade deficit with China continued to grow in the third quarter of 2021.

- *Trade balance:* In the third quarter of 2021, the U.S. goods trade deficit with China reached $96.9 billion, its highest quarterly level since the fourth quarter of 2018.[134] The deficit in 2021 totaled $255.4 billion through September, up from $222.8 billion during the same period in 2020.[135] For the first time since the outbreak of the novel coronavirus (COVID-19) pandemic, the quarterly trade deficit with China exceeded $93.9 million, the quarterly average during 2017, the year before the United States and China introduced tariffs on each other's goods (see Figure 1).[136]
- *Exports:* U.S. goods exports to China totaled $33.9 billion in the third quarter of 2021, a $2.4 billion decrease from the preceding quarter.[137] Total U.S. goods exports to China in 2021 through September reached $105 billion, compared to $81.1 billion in the first nine months of 2020.[138]
- *Imports:* The United States imported $130.8 billion worth of goods from China in the third quarter of 2021, up $14.5 billion from the second quarter.[139] U.S. imports from China through September totaled $360.4 billion, compared to $303.9 billion during the same period in 2020.[140]

Figure 1: U.S.-China Goods Trade, First Quarter 2017–Third Quarter 2021



Source: U.S. Census Bureau, *Trade in Goods with China*, November 4, 2021.

Computers and Electronics Top U.S. Goods Trade with China

In the third quarter of 2021, computers and electronic products continued to be the top U.S. exports to China, followed by chemicals. Agricultural products, historically among the top U.S. exports to China,* sank further in the third quarter of 2021, declining 31 percent from the same period the previous year (see Table 1).[141] Lower maize exports owed chiefly to stronger domestic production in China in 2021, where in 2020 the fall harvest yielded lower output due to pests and flooding.[142]

Computer and electronic products remained the top category for U.S. goods imports from China, though they accounted for a lower portion of the overall import basket. Historically, computer and electronic products account for as much as 40 percent of U.S. imports from China.[143] The relative decrease owes in part to changing patterns of U.S. consumer spending during the pandemic. With decreased expenditure on services such as dining and travel, U.S. consumers are purchasing more items manufactured in China, including household goods.[144]

Table 1: U.S. Trade with China Top Five Exports and Imports, Third Quarter 2021

U.S. Top Five Exports to China				**U.S. Top-Five Imports from China**			
	Exports (in US$ millions)	Share of total (%)	Change over Q3'20 (%)		Imports (in US$ millions)	Share of total (%)	Change over Q3'20 (%)
Quarter 3 (Jul-Sep 2021)				*Quarter 3 (Jul-Sep 2021)*			
Computer & Electronic Products	$5,884	17.4%	9.6%	**Computer & Electronic Products**	$39,732	30.6%	5.8%
Chemicals	$5,031	14.8%	13.8%	**Miscellaneous Manufactured Commodities**	$16,386	12.6%	25.0%
Transportation Equipment	$3,433	10.1%	2.0%	**Electrical Equipment, Appliances & Components**	$13,229	10.2%	6.9%
Machinery, Except Electrical	$3,370	9.9%	11.8%	**Machinery, Except Electrical**	$8,947	6.9%	7.5%
Agricultural Products	$3,164	9.3%	-31.0%	**Fabricated Metal Products**	$6,947	5.4%	20.4%
Other	$13,008	38.4%		Other	$44,449	34.3%	

Source: U.S. Census Bureau, *USA Trade Online*, November 4, 2021. *https://usatrade.census.gov/.*

Advanced Technology Products

U.S. information and communications technologies (ICT) product imports led the $27.5 billion deficit in advanced technology products (ATP) with China in the third quarter of 2021. The U.S. trade deficit in ATP with China grew by 4 percent (see Table 3), with ICT imports continuing to constitute the majority of U.S. ATP imports from China. This category includes items manufactured by U.S. multinationals in China, such as smartphones.[145] Excluding ICT products, the United States had a $5.1 billion surplus in ATP with China, driven principally by electronics, flexible manufacturing,† and aerospace exports.[146] In the third quarter, the United States

* Unless otherwise specified, U.S. trade in goods reflects categories under the North America Industry Classification System (NAICS) used at the three-digit level (e.g., "111 Agricultural Products"). NAICS is a standard used by federal agencies to classify business establishments in gathering and analyzing data on the U.S. economy. It was developed by the U.S. Economic Classification Policy Committee, Statistics Canada, and the Mexican Instituto Nacional de Estacistica y Geografia, with support from the U.S. Office of Budget and Management, to create comparable business statistics between the North American economies. Adopted in 1997, it replaced the Standard Industry Classification System. U.S. Census Bureau, *North American Industry Classification System*. *https://www.census.gov/naics/.*

† Flexible manufacturing systems are able to produce different components without significant retooling. Exports in this category consist primarily of robotics, numerically controlled machine tools, and other products involved in industrial automation. U.S. Census Bureau, *Advanced Technology Product Code Descriptions*. *https://www.census.gov/foreign-trade/reference/codes/atp/index.html*. Gordana Colovic, *Management of Technology Systems in Garment Industry*, Woodhead Publishing India Pvt Ltd, 2011, 153–196. https://doi.org/10.1533/9780857094049.153

imported $27 million more worth of advanced materials from China than it sold to China, reversing a typical trade surplus in the category with China.[147] This category includes materials used in semiconductor manufacturing, for which U.S. imports from China more than doubled between the second and third quarters of 2021.[148]

Table 2: U.S. ATP with China in ATP, Third Quarter 2021

(US$ millions)

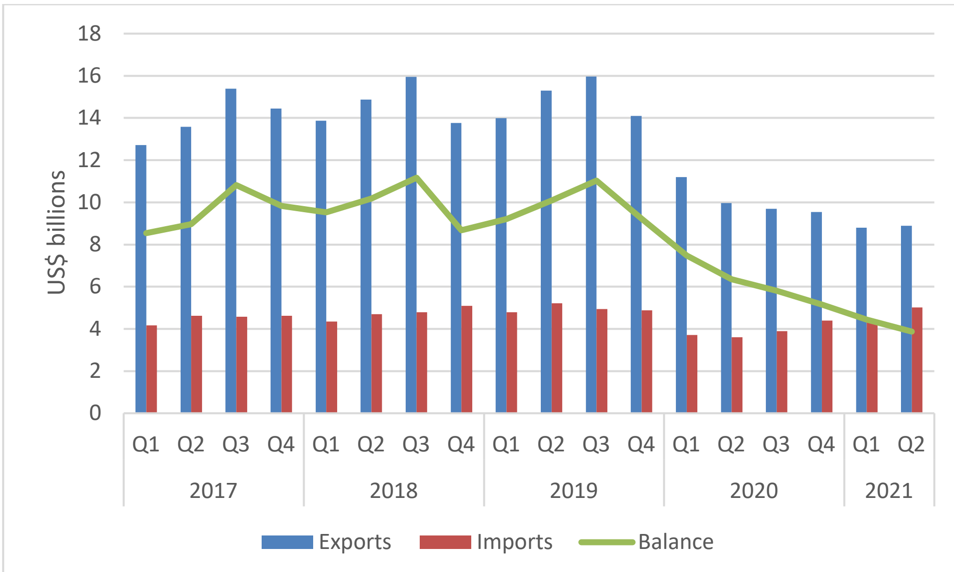
	Exports	Imports	Balance Q3'2021	Balance Q3'2020	Balance YOY
TOTAL	**$9,193**	**$36,723**	**-$27,530**	**-$26,469**	**4.0%**
(01) Biotechnology	$780	$142	$638	$512	24.7%
(02) Life Science	$1,151	$723	$427	$217	96.9%
(03) Opto-Electronics	$114	$662	-$548	-$812	-32.5%
(04) Information & Communications	$867	$33,483	-$32,616	-$30,378	7.4%
(05) Electronics	$3,183	$1,150	$2,032	$1,983	2.5%
(06) Flexible Manufacturing	$1,697	$259	$1,438	$1,267	13.5%
(07) Advanced Materials	$78	$105	-$27	$14	-290.8%
(08) Aerospace	$1,294	$136	$1,158	$756	53.2%
(09) Weapons	$1	$62	-$61	-$55	11.8%
(10) Nuclear Technology	$28	$1	$28	$27	2.7%

Source: U.S. Census Bureau, *ATP Data - Imports and Exports - ATP Group by Country*, November 4, 2021. *https://www.census.gov/foreign-trade/statistics/product/atp/index.html*.

Appendix: U.S. Services Surplus with China Declines in the Second Quarter

Quarterly U.S. services exports to China increased slightly during the second quarter of 2021 after six consecutive quarters of decline. By contrast, services imports from China have increased steadily since the first quarter of 2020, reaching pre-pandemic levels in the latest quarter.[149] The divergent trends led to a quarterly U.S. services trade surplus with China of only $3.9 billion, the lowest since the first quarter of 2012.[150] The U.S. services trade surplus with China has been declining for six consecutive quarters since Q3 2019 (see Figure 2).[151]

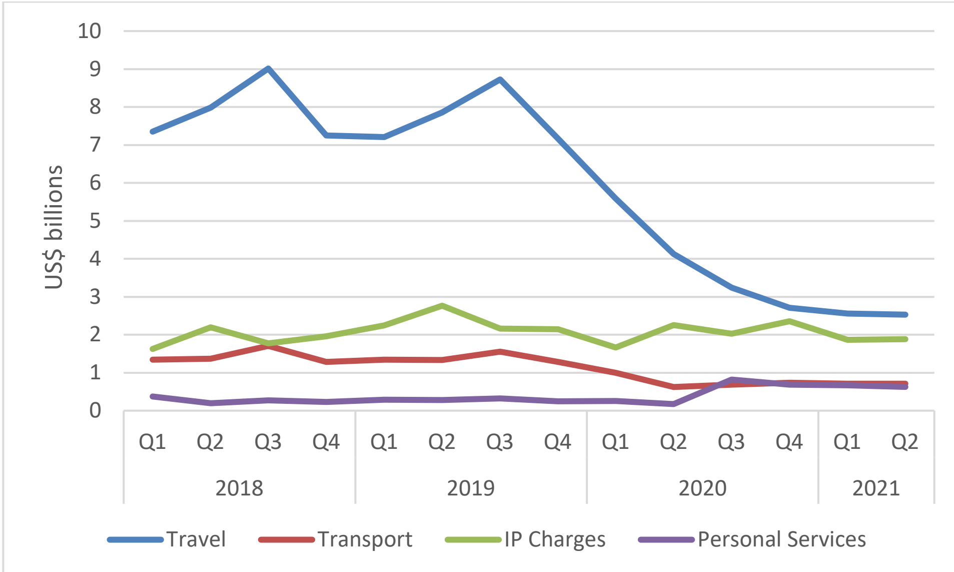
Figure 2: U.S. Services Exports, Imports, and Surplus with China, 2017–Second Quarter 2021



Source: U.S. Department of Commerce Bureau of Economic Analysis, *Table 1.3. U.S. International Transactions, Expanded Detail by Area and Country ((A, QNSA) (2003-present))*, September 21, 2021. *https://apps.bea.gov/iTable/iTable.cfm?ReqID=62&step=1*.

Declining U.S. travel exports to China, which includes education services, have contributed significantly to the narrowing U.S. surplus. Since 2010, U.S. travel services exports have made up the largest share of U.S. services exports to China. Travel restrictions related to COVID-19 have drastically reduced the number of Chinese tourists and students traveling to the United States, and the U.S. trade surplus in this category declined 52 percent year-on-year in Q1 2021 (see Figure 3).[152] Increased U.S. services imports from China were driven foremost by increased transport services, such as shipping, and an uptick in “other business services,” which includes research and development services, as well as professional services such as accounting and legal services.[153]

Figure 3: Select U.S. Services Exports to China, Q1 2018–Q1 2021



Note: "Travel" includes travel for all purposes, including education; "Personal Services" includes personal, cultural, and recreational services; "Charges for IP" includes all charges for the use of intellectual property (IP); and "Transport" includes shipping, transportation, and logistics services.
Source: U.S. Department of Commerce Bureau of Economic Analysis, *Table 1.3. U.S. International Transactions, Expanded Detail by* Area and Country ((A, QNSA) (2003-present)), July 26, 2021. *https://apps.bea.gov/iTable/iTable.cfm?ReqID=62&step=1*.

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