U.S.-China Economic and Security Review Commission

Monthly Analysis of U.S.-China Trade Data

April 2, 2015

Highlights of this Month's Edition

- **Bilateral trade:** Total value of U.S. trade with China continues along a downward trend as the U.S. deficit in goods increases in 2015.
- **Bilateral policy issues:** U.S.-China trade surplus in services increased in 2014 due to strong growth in travel sector; China underpays for U.S. intellectual property given the magnitude of its high-technology exports.
- **2015 National People's Congress Special:** Government promises slower, stable growth, renews emphasis on economic reform; last year's energy intensity and emissions reduction targets met, but public outrage over pollution continues.
- **Policy trends in China's economy:** The 2015 Spring Festival sees domestic consumption slow while more Chinese choose to spend holiday abroad; CCTV Consumer Rights program attacks state-owned telecom.

Bilateral Goods Trade

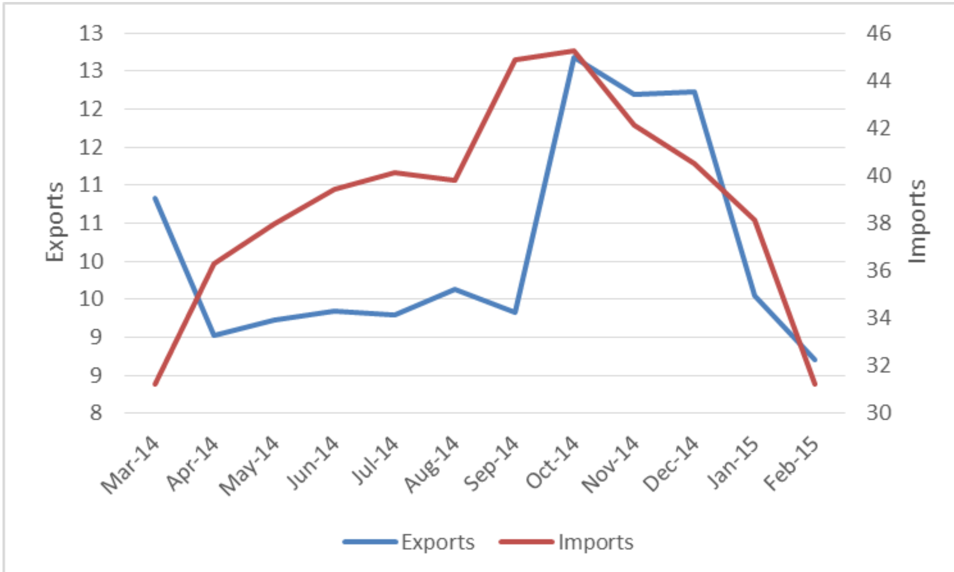
Total Trade with China Continues Downward Slide

Total goods trade with China extended a rapid decline that began around November of 2014. February Census data showed U.S. exports to China at $8.7 billion and U.S. imports from China at $31.2 billion. These values represent an 8.9 percent and 18.1 percent month-on-month decrease in exports and imports, respectively (see Figure 1). U.S. trade with China has averaged a month-on-month decline of 8.6 percent since November 2014. The U.S. trade deficit in goods with China increased by 4.9 percent to $51.1 billion for the first two months of 2015 over the same period in 2014.

The rapid decrease in U.S. imports in February 2015 is largely due to the timing of the Lunar New Year, and the associated decrease in China's manufacturing output. A reduction in import value in the month of February follows a trend in place since at least 2011. U.S. exports to China do not follow such a trend since some years show an increase in month-on-month value while others show a decrease.

Figure 1: U.S. Exports to and Imports from China, March 2014-February 2015

(US$ billions)



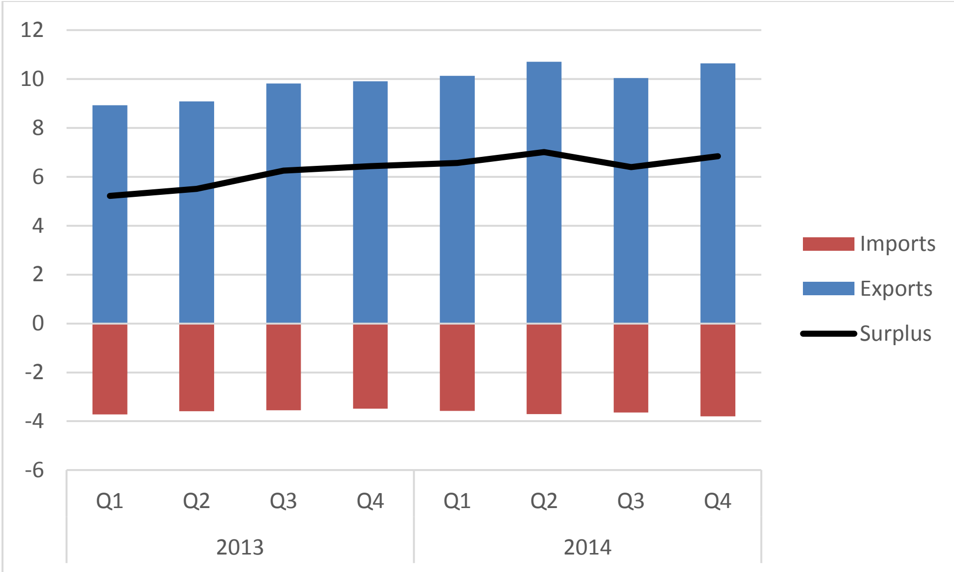
Source: U.S. Census Bureau, NAICS database (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, April 2015). *http://www.census.gov/foreign-trade/balance/c5700.html.*

Bilateral Policy Issues

Despite U.S. Services Surplus, China Underpays for U.S. Intellectual Property

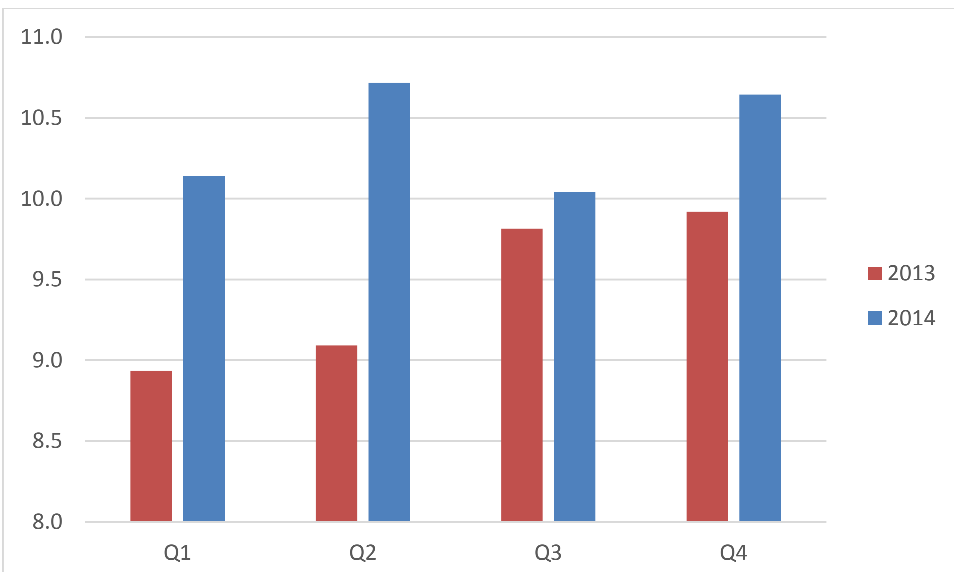
The U.S. trade surplus in services with China totaled $26.8 billion in 2014, a 14.5 percent increase from 2013.[1] Total bilateral trade in services increased approximately 8 percent in 2014, with U.S. service exports growing 10 percent, the same rate as in 2013,[2] and Chinese service imports growing 2.6 percent (see Figure 2). On a quarterly basis, U.S. service exports in 2014 outperformed 2013 levels throughout the year (see Figure 3).

Figure 2: U.S.-China Trade in Services, 2013–2014
(quarterly, US$ billions)



Source: U.S. Department of Commerce Bureau of Economic Analysis, *U.S. Trade in Goods and Services by Selected Countries and Areas*, seasonally adjusted, updated March 6, 2015.

Figure 3: U.S. Service Exports, 2013–2014
(quarterly, US$ billions)



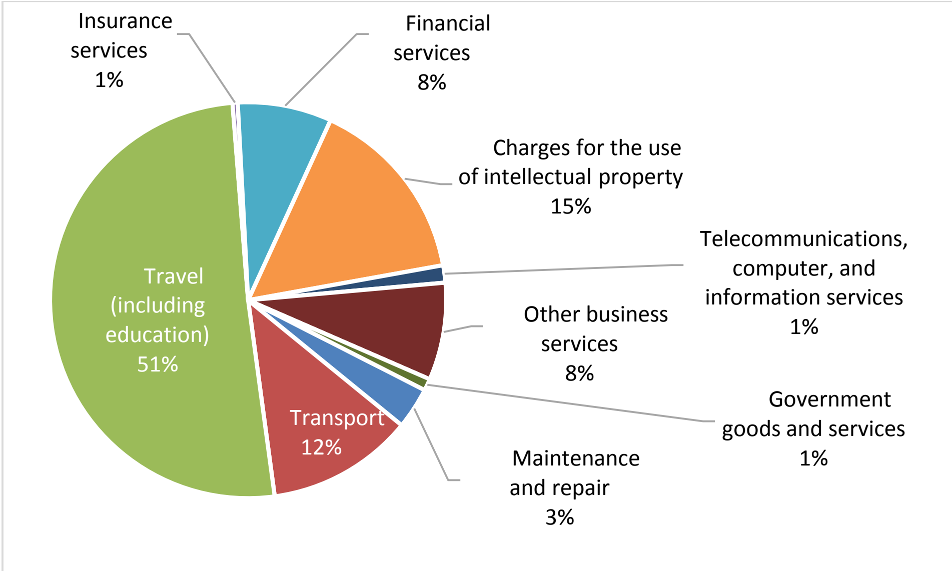
Source: U.S. Department of Commerce Bureau of Economic Analysis, *U.S. Trade in Goods and Services by Selected Countries and Areas*, seasonally adjusted, updated March 6, 2015.

By a wide margin, the top U.S. service export (and largest service surplus) to China in 2014 was travel[*] (encompassing travel for business, personal, and educational purposes), which represented 51 percent of U.S. service exports to China in 2014 (see Figure 3). Transport services and other services requiring payments for the use of intellectual property (IP)—including industrial processes, computer software, trademarks, franchise fees, and

[*] Travel within the United States by foreigners is counted as a U.S. export.

audio-visual products such as books, movies, and television programming—also topped U.S. service exports to China in 2014, as shown in Figure 4.

Figure 4: U.S. Service Exports to China by Sector,[*] 2014



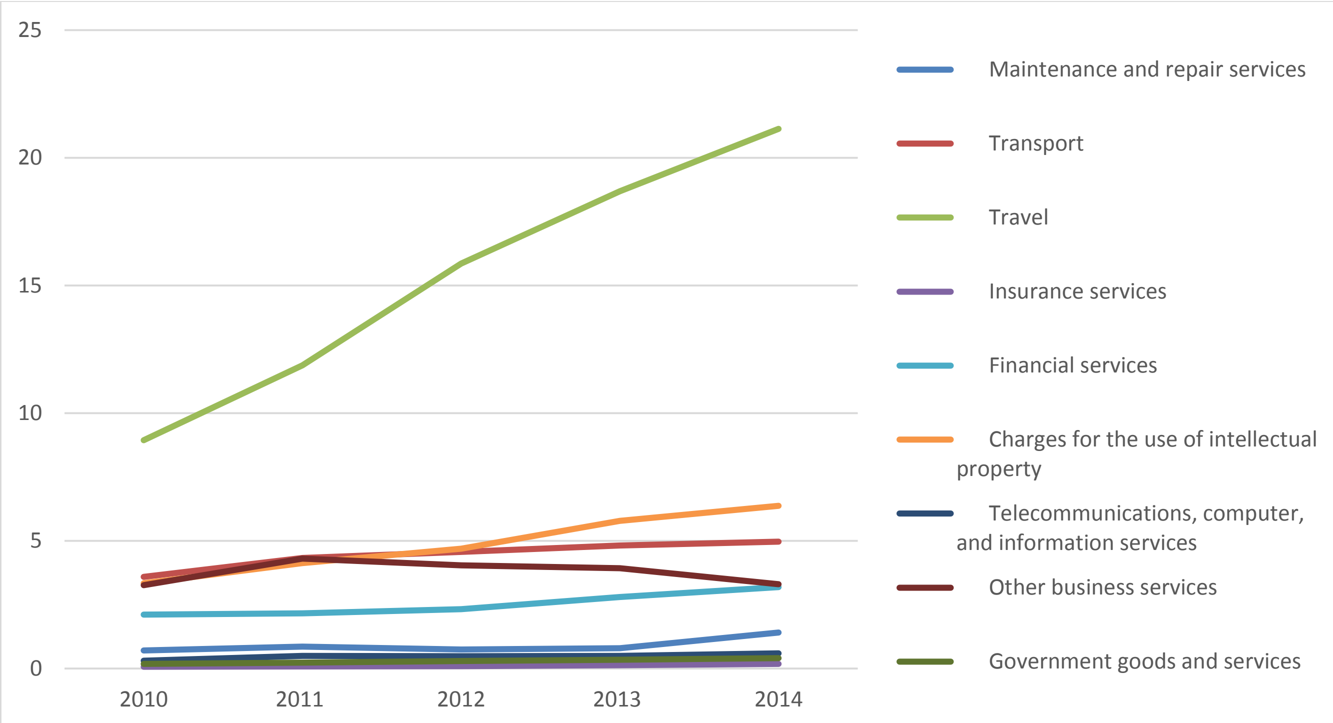
Source: U.S. Department of Commerce Bureau of Economic Analysis, *International Transactions Data*, updated March 19, 2015. *http://www.bea.gov/international/index.htm#trade*.[†]

By sector, most U.S. services exports to China grew from 2013 to 2014 (see Figure 5). U.S. receipts of payments from China for the use of IP, also referred to as royalties and licensing payments, increased 10.2 percent in 2014, compared with 23 percent in 2013.[3] In aggregate, Figure 6 shows that despite the overall increase in U.S. IP exports to China and a growing bilateral trade surplus in services, China's royalties and licensing payments to the U.S. remain very low compared to the Asia Pacific region and globally.

[*] In June 2014, the U.S. Department of Commerce Bureau of Economic Analysis announced revisions to U.S. international transactions accounts, such that "the number of major categories used to classify services transactions has been expanded from seven to nine. Changes associated with the increase in the number of major categories include separating subcategories out as major categories, consolidating categories, reallocating transactions between categories, and renaming categories." Jeffrey R. Bogen et al., *Comprehensive Restructuring and Annual Revision of the U.S. International Transactions Accounts*, U.S. Department of Commerce Bureau of Economic Analysis, July 2014, 1. *http://www.bea.gov/scb/pdf/2014/07%20July/0714_annual_international_transactions_accounts.pdf*.

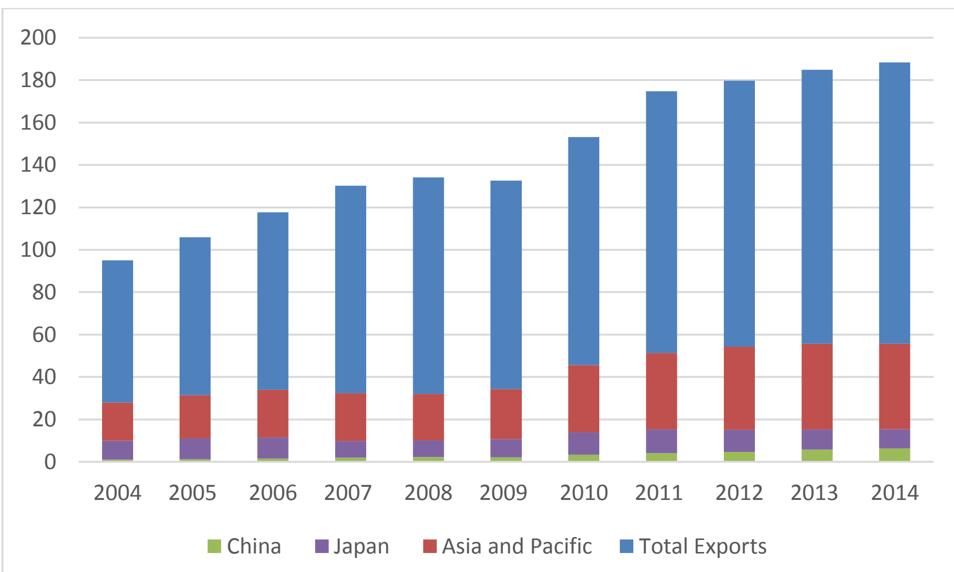
[†] Based on latest available data, not seasonally adjusted.

Figure 5: U.S. Services Exports to China by Sector, 2010–2014
(US$ billions)



Source: U.S. Department of Commerce Bureau of Economic Analysis, *International Transactions Data*, updated March 19, 2015. *http://www.bea.gov/international/index.htm#trade*.

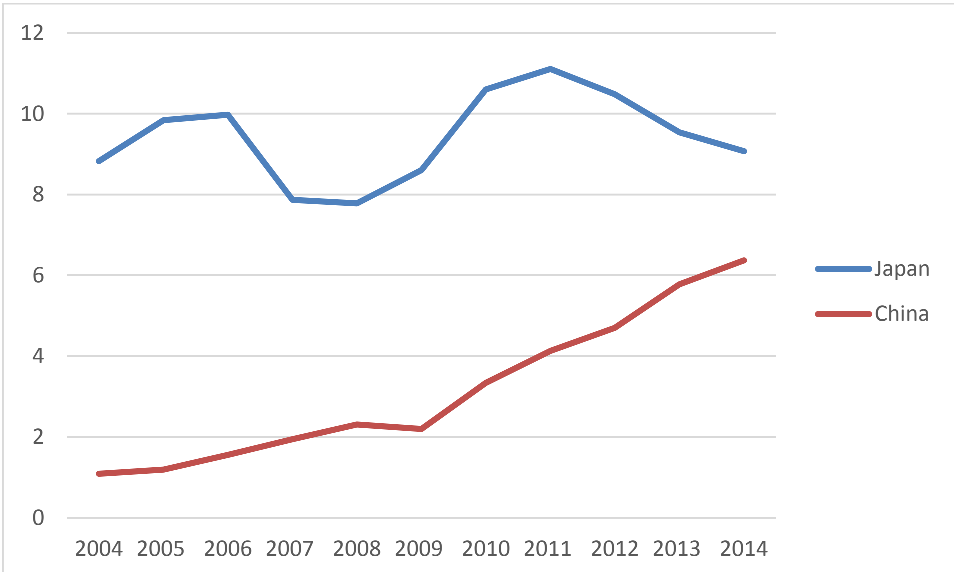
Figure 6: U.S. Receipts of Payment for Use of Intellectual Property, 2004–2014
(US$ billions)



Source: U.S. Department of Commerce Bureau of Economic Analysis, *International Transactions Data*, updated March 19, 2015. *http://www.bea.gov/international/index.htm#trade*.

China's comparatively low royalty payments are even more striking given the country's status as the world's leading producer of high-tech goods.* Because the high-tech industry tends to be patent- and technology-dense, "high-tech goods are a useful surrogate to measure a country's 'consumption' of IP rights."[4] In 2012, the latest year for which data is available, China exported four times more high-tech goods than Japan, but paid the United States half as much in royalties and other IP-related payments (see Figures 7 and 8). Even compared with other dominant high-tech goods exporters,† China's royalty payments for U.S. IP are far below expected levels given the magnitude of U.S.-China bilateral trade. Based on these figures, U.S. Patent and Trademark Office Senior Counsel Mark Cohen noted in written testimony to the Commission that "it is easy to see that China is a severely under-licensed country."[5]

Figure 7: Royalty Payments to the U.S. by Country, 2004–2014
(US$ billions)



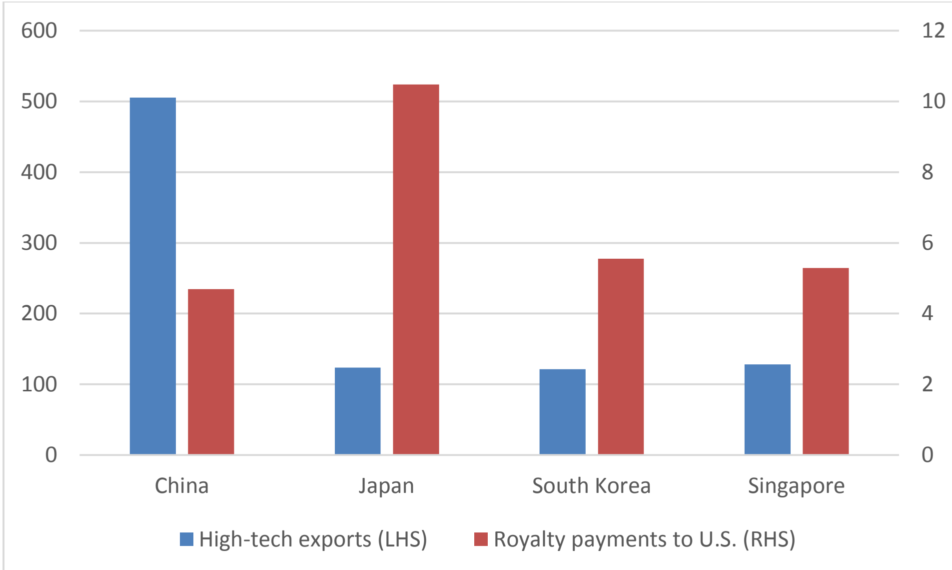
Source: U.S. Department of Commerce Bureau of Economic Analysis, *International Transaction Data*, updated March 19, 2015. *http://www.bea.gov/international/index.htm#trade*.

* The World Bank defines high-technology exports as products with high research and development (R&D) intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery. World Bank, "High-Technology Exports (Current US$)." *http://data.worldbank.org/indicator/TX.VAL.TECH.CD*.

† The top five exporters of high-tech goods in 2012 in order of volume were China, the United States, Japan, South Korea, and Singapore. World Bank, "High-Technology Exports (Current US$)." *http://data.worldbank.org/indicator/TX.VAL.TECH.CD*.

Figure 8: Royalty Payments to the U.S. and Total High-Tech Exports by Country, 2012

(US$ billions)



Source: World Bank, "High-Technology Exports (Current US$)." *http://data.worldbank.org/indicator/TX.VAL.TECH.CD*; U.S. Department of Commerce Bureau of Economic Analysis, *U.S. Trade in Services, by Country or Affiliation and by Type of Service*, updated March 6, 2015.

The low patent infringement damages awarded to IP owners who protect their IP rights through litigation serve as another manifestation of foreign companies' inability to commercialize, license, or enforce patents or other IP rights in China. According to a private database of about 31,000 cases, average damages awarded in patent infringement cases range from $10,000 to $20,000.[6] These damages are "considerably less than average damages in either Europe or the United States" and "too low to compensate most innovations."[7] For comparison, the annual median damages awarded in IP infringement cases in the United States between 1995 and 2013 ranged from $2.1 million to $16.7 million, with an overall median award of $5.5 million. [8]

Fines lodged in China against foreign companies for alleged IP-related antitrust violations, on the other hand, average in the millions of dollars. For example, U.S. chipmaker Qualcomm was fined $975 million in February for its patent licensing practices—more than 60,000 times the average damages awarded for patent infringement in China.[9] In light of this disparity, prospective licensees in China might be encouraged to continue infringing and risk an adverse Chinese judicial decision "while at the same time proactively launch[ing] a Chinese antimonopoly law case for even greater damages than royalties that are being asked of by the prospective licensor," casting "further doubt" on how much the Chinese government values a sound IP enforcement system.[10]

The 2015 National People's Congress

Economic Targets and Reform Agenda for 2015

Chinese Premier Li Keqiang delivered the 2015 Report on the Work of the Government ("the Work Report") at the March 2015 session of the National People's Congress (NPC), China's parliament.* These reports, which highlight the previous year's accomplishments and lay out the major tasks for the current year, are typically rubber-stamped by the delegates to the NPC. However, since the Third Plenary Session of the 18th Party Congress in 2013 (the

* For the full text of the 2015 Work Report see, Li Keqiang, "Report on the Work of the Government" (Third Session of the 12th National People's Congress, Beijing, China, March 5, 2015). *http://online.wsj.com/public/resources/documents/NPC2015_WorkReport_ENG.pdf*.

"Third Plenum") laid down a bold course for reform,* the reports have been attracting growing attention from China watchers hoping to divine the course of Chinese economic reform. This year's Work Report does not introduce monumental change, but maintains momentum from 2014† and represents China's continued balancing act between economic reform and maintaining growth.

The biggest news—the adoption of the gross domestic product (GDP) target of "about 7 percent" for 2015 (versus 7.5 percent last year)—signals the government's aim to set lower expectations and carefully manage China's economic slowdown.‡ Dubbed the "new normal" by the Chinese government, this slowdown is also reflected in lower targets for fixed asset investment (FAI) (15 percent versus 17.5 percent in 2014) and consumer price index (CPI) inflation (3 percent versus 3.5 percent last year). The lower CPI target is unlikely to become a constraint, given that China has been facing deflationary pressures (for more, see section on Spring Festival consumption, below). Other key targets are summarized in Table 1:

Table 1: Key Economic Targets for 2015 versus 2014
(percent change, year-on-year)

	2015 Target	2014 Target	2014 Actual
GDP	7.0	7.5	7.4
CPI	3.0	3.5	2.0
FAI	15.0	17.5	15.3
Trade	6.0	7.5	3.4
Retail sales	13.0	14.5	12.0

Source: Li Keqiang, *Report on the Work of the Government*, March 5, 2015.

Important reform priorities mentioned in the 2015 Work Report appear below:

- **Financial and capital market reform:** In the Work Report, Premier Li promised to encourage, "in accordance with the law," the establishment of small and medium-sized private banks, and to continue incremental steps in promoting the use of the renminbi (RMB) in settling international trade. Financial reform appears to be the most advanced part of the agenda, with the Central Bank recently reducing the deposit interest rate and announcing the launch of a deposit insurance system for May 2015.[11] The introduction of the deposit insurance system has been viewed as a prerequisite for liberalization of interest rates, and is expected to address some of the moral hazard problems in the financial system driven by the expectation that the government will bail out any troubled institution.

- **Fiscal reform:** Local government debt and bond issuance continued to be high on the agenda. Local governments are not permitted to borrow directly from the state banks and are restricted in their ability to issue bonds. As a result, many have been borrowing money via the largely unregulated local government financing vehicles (LGFVs), which resulted in a huge debt burden for local governments.§ The central

* For analysis of the Third Plenum outcomes, see Nargiza Salidjanova and Iacob Koch-Weser, "Third Plenum Economic Reform Proposals: A Scorecard," *U.S.-China Economic and Security Review Commission*, November 19, 2013. *http://origin.www.uscc.gov/sites/default/files/Research/Backgrounder_Third%20Plenum%20Economic%20Reform%20Proposals--A%20Scorecard%20%282%29.pdf*.

† For analysis of the 2014 Government Work Report, see Nargiza Salidjanova and Iacob Koch Weser, "The 2014 Government Work Report: Taking Stock of China's Reforms," *U.S.-China Economic and Security Review Commission*, April 1, 2014. *http://origin.www.uscc.gov/sites/default/files/Research/USCC%20Backgrounder_NPC%20scorecard.pdf*.

‡ Premier Li's 7 percent GDP growth goal is in line with the Asian Development Bank, which predicted "at least 7 percent" GDP growth for the next two years. The International Monetary Fund (IMF), more bearish, predicted China's growth will slow to 6.5 percent by 2016. See Tom Mitchell, "ADB Sees China Growth of at Least 7% for the Next Two Years," *Financial Times*, March 24, 2015.

§ For more on LGFVs and local government debt, see U.S.-China Economic and Security Review Commission, *2013 Report to Congress*, November 2013, 121–122. *http://origin.www.uscc.gov/sites/default/files/Annual_Report/Chapters/Chapter%201%3B%20Section%203%20Governance%20and%20Accountability%20in%20China%27s%20Financial%20System.pdf*.

government has been cracking down on local governments borrowing through LGFVs. The 2015 Work Report includes a $80 billion (RMB 500 billion) deficit target for local governments, and will permit them to issue special bonds to fund new and existing projects (renewing emphasis on infrastructure spending). Meanwhile, since the $80 billion is insufficient to solve China's nearly $3 trillion local government debt problem, China's Ministry of Finance issued a $160 billion (RMB 1 trillion) quota for local governments to roll over existing higher-cost debt (largely consisting of LGFVs borrowing) into lower-yielding municipal bonds.[12]

- **SOE reform:** Progress has been slow in reforming state-owned enterprises (SOEs), which resist significant changes to the well-established order. Premier Li promised to create a "market-based platform for state capital operations," ensuring that SOEs have "clearly defined … functions" (a reference to SOEs investing in assets outside their purview, often in real estate), and introducing mixed ownership.[13] However, the recent announcement of a return to consolidation in sectors where SOEs have a monopoly has raised concerns that the state sector will grow more dominant, at the expense of the private sector and foreign competitors (see also the section on World Consumer Rights Day, below).[14] The goal of current reform continues to be the improvement of SOE performance rather than their privatization, a far more radical step.[15]
- **Foreign investment:** The Work Report promises to streamline project approval (with delegation to lower-level government). It also pledges to cut in half the number of industries in the services and manufacturing sector, in which foreign investment is restricted. In furthering that goal, the National Development and Reform Commission and Ministry of Commerce released the revised 2015 Catalogue Guiding Foreign Investment, which reduced the number of restricted items from 79 to 38, with restrictions remaining on key industries, including agriculture, finance, and education.[16] (In recent months, foreign companies have been complaining of a worsening investment climate, including an uptick in unfair and arbitrary regulatory enforcement and demands for technology transfer.)[*]
- **Emerging industries:** The Work Report introduced two new initiatives—"Made in China 2025" and "Internet Plus"—aimed at focusing on innovation and boosting emerging industries, including high-end equipment, integrated circuits, biomedicines, cloud computing, mobile internet, and e-commerce. In addition to the $6.5 billion (RMB 40 billion) government fund already in place for investment in China's emerging industries, Premier Li promised subsidies and other sources of funding.
- **International trade:** Premier Li noted China's new international trade initiatives, including the Silk Road Economic Belt and the 21st Century Maritime Silk Road ("One Belt, One Road"), as potential sources of new growth.[†] Chinese President Xi Jinping also promoted One Belt, One Road and foreign trade at the Bo'ao Forum (Asia's response to the World Economic Forum held in Davos, Switzerland) held March 26–29, 2015, in Hainan, China.[17]

As usual, the Work Report is long on goals but short on specifics, making no mention of deadlines or implementation plans. For the first time, though, Premier Li highlighted the challenges posed by vested interests resisting the reforms, saying, "Systemic, institutional, and structural problems have become 'tigers in the road' holding up development."[18]

At NPC Leaders React to Public Outcry on Environment

Despite Premier Li Keqiang's "declared war" on pollution at last year's NPC, the Chinese public grows ever more critical of the government's efforts. Chai Jing, a former investigative reporter for state-run China Central Television, independently released "Under the Dome," a documentary that exposed the public health threats from air pollution and the weakness of Chinese regulators in enforcing environmental laws against vested interests.[19] This

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[*] For more information on China's investment climate for foreign firms, see U.S.-China Economic and Security Review Commission, *Hearing on the Foreign Investment Climate in China: Present Challenges and Potential for Reform*, January 28, 2015. *http://www.uscc.gov/Hearings/hearing-foreign-investment-climate-china-present-challenges-and-potential-reform*.

[†] For more information on the Silk Road Economic Belt, see U.S.-China Economic and Security Review Commission, *Hearing on Looking West: China and Central Asia*, March 18, 2015. *http://www.uscc.gov/Hearings/hearing-looking-west-china-and-central-asia*.

documentary quickly recorded millions of Internet views and sparked a national debate on the government's environmental policy. Despite receiving initial accolades in official Chinese media as well as support from the new environment minister Chin Jining, the documentary was censored only days after its release.[20]The censorship was likely a panicked reaction to the documentary's immense popularity and government concerns over the rate of environmental protests, which tripled from 47 incidents in all of 2013 to 125 incidents in the first three quarters of 2014, based on figures from the U.S. government's Open Source Center.[21]

At the March NPC, Premier Li again tried to reassure the public that the government is acting. He acknowledged the seriousness of air, water, and land pollution in China, describing it as a "…blight on people's quality of life." He promised to "fight to win the battle of conserving energy, reducing emissions, and improving the environment."[22] Official figures indicate that in the last year, the Chinese government spent approximately $32.8 billion on environmental protection and energy conservation to build over 1,400 air monitoring stations, subsidize the purchase of energy-efficient vehicles, implement air pollution mitigation in the Beijing-Tianjin-Hebei region, and construct waste water infrastructure.[23] The government claims that these investments met the targets laid out in last year's Work Report by reducing energy intensity and emissions (see Table 2 below). In particular, China reduced carbon dioxide emissions per unit of GDP by 6.2 percent.[24]

Table 2: China's Environment-Related Targets

	Unit	2014 Target	2014 Actual	2015 Target
Energy Consumption per unit of GDP	Tons of standard coal/10,000 RMB	-3.8%	-4.8%	Will set ceiling
Reduction in Carbon dioxide emissions per unit of GDP	Tons/10,000 RMB	-4.0%	-6.2%	-3.1%
Reduction in Sulphur Dioxide Emissions (SO2)	1,000 tons	-2.0%	-3.4%	-3.0%
Reduction in Chemical Oxygen Demand (COD)	1,000 tons	-2.0%	-2.5%	-2.0%
Reduction in Ammonia Nitrogen	1,000 tons	-2.0%	-2.9%	-2.0%
Reduction in Nitrous Oxides	1,000 tons	-5.0%	-6.7%	-5.0%

Note: These targets are all restricted targets in the 12th Five-Year Plan. Restricted targets are required targets that Chinese party and government officials must meet to advance their career.
Source: National Development and Reform Commission.[25]

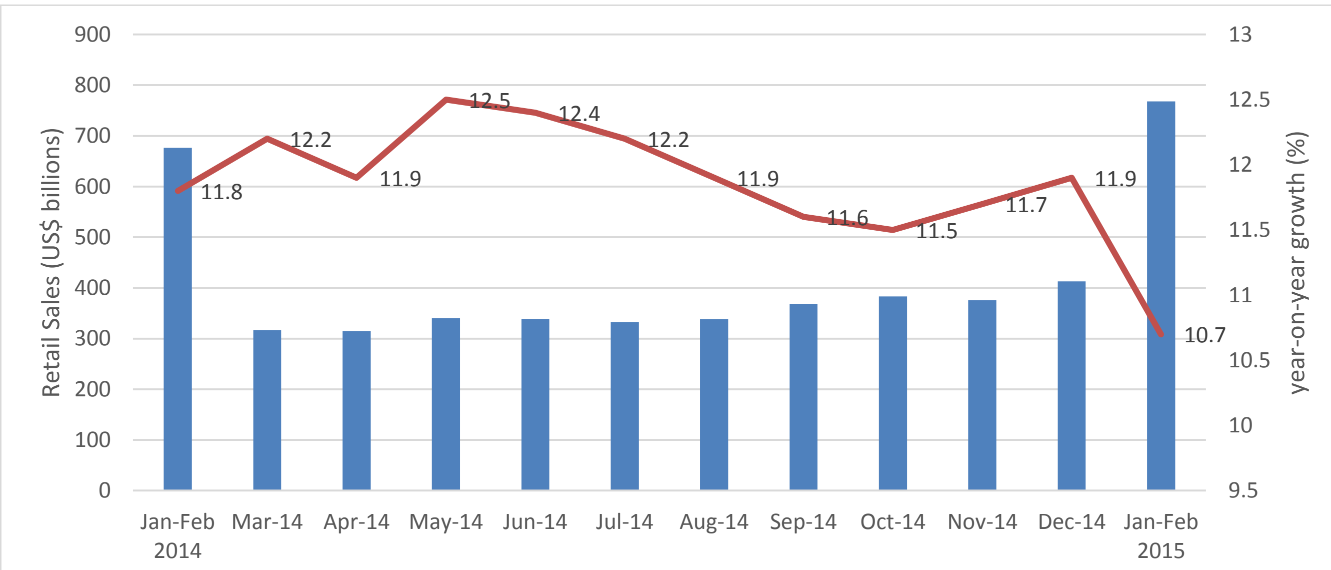
For 2015, Premier Li established further reduction targets in emissions and announced the Chinese government will set a ceiling on total energy consumption.[26] To meet these targets, the Chinese government allocated approximately $51.3 billion of its 2015 budget to energy conservation and environmental protection. An estimated 15 percent of these funds will be dedicated to emissions reductions such as energy efficient buses, another 15 percent to forests, and 4 percent to mitigate air pollution.[27] Furthermore, the importance of the environment within this year's NPC and high level of public concern indicates the 13th FYP will likely incorporate environmentally-related targets and even stronger support for the domestic clean energy and energy efficiency industries. However, despite large public spending and the success in meeting most of the environmental targets, the efforts of the Chinese government have not been enough to adequately address the severity of existing environmental degradation.

Policy Trends in China's Economy

2015 Spring Festival Trends (Part Two): Domestic Consumption Slows while Foreign Travel Grows*

According to China's National Bureau of Statistics, January-February 2015 retail sales amounted to $775 billion, a 10.7 percent increase year-on-year.[†,28] While still exhibiting growth, Spring Festival consumption has slowed below last year's 11.8 percent annual gain, representing a twelve-month low (see Figure 9).[29] From February 18 to 24, the official Spring Festival holiday period, retail, food, and beverage companies sold $109.4 billion in goods, an 11 percent increase over 2014 but the lowest growth rate since 2005.[30] In the week leading up to the Lunar New Year, urban real estate sales declined 20 percent compared with last year. The country's five largest electricity providers saw reductions in consumption by over 10 percent, and Guangzhou holiday car sales hit a fifteen-year low.[31]

Figure 9: China Retail Sales of Consumer Goods



Source: China National Bureau of Statistics

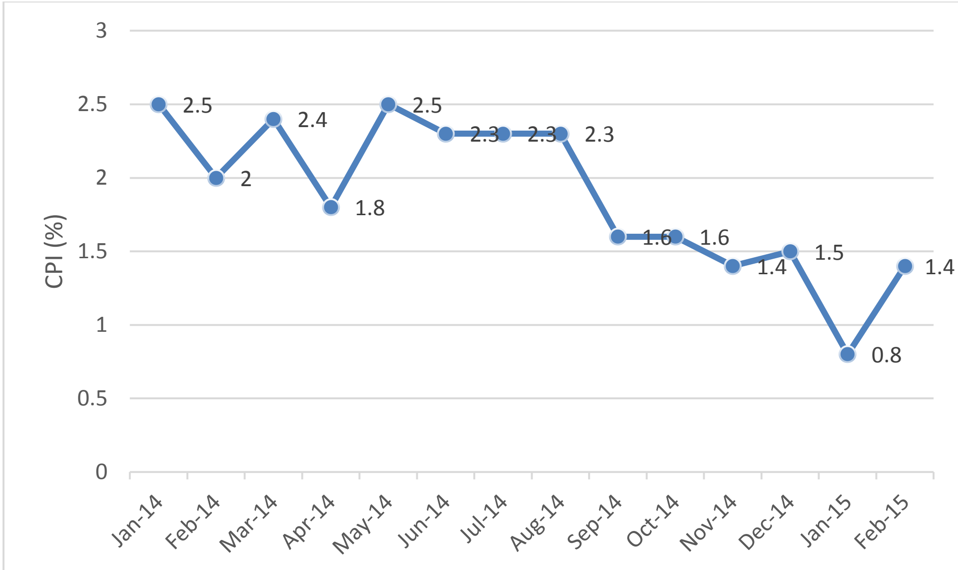
China's January and February retail prices likewise showed signs of limited domestic demand. In January, the consumer price index (CPI) rose 0.8 percent year-on-year, a five-year low.[32] Lunar New Year shopping and a rise in seasonal fruit and vegetable prices gave the February CPI a slight boost, reaching 1.4 percent year-on growth (see Figure 10). Nevertheless, many other food prices continued to decline, including those for meat, poultry, dairy, and grains, keeping the CPI below that recorded for the 2014 Spring Festival.[33]

* Part One, "The Digital and Mobile Revolution," was published in the March 2015 Trade Bulletin, detailing China's increased use of e-commerce tools during the 2015 Spring Festival. *http://www.uscc.gov/trade-bulletin/march-2015-trade-bulletin*.

† Given the varying dates for Spring Festival, China's National Bureau of Statistics combines January and February retail data to enhance year-on-year comparability.

Figure 10: China Consumer Price Index Year-on-Year

(percent)



Source: China National Bureau of Statistics.

The decline in global oil prices partly explains China's low consumer prices. The country's recent economic slowdown has also dampened domestic demand. Indeed, the central government has struggled to stimulate consumption and create new opportunities for growth beyond export manufacturing and publicly funded infrastructure. According to Beijing-based brokerage firm Minsheng Securities, the country's anti-corruption campaign, cooler real estate market, and reticent spending behavior have contributed to weak consumer data and aggravated deflationary risks.[34]

In response, the People's Bank of China (PBOC) cut interest rates twice in the last four months. On November 23, 2014, the PBOC cut benchmark interest rates for the first time in two years, reducing loan rates by 0.4 percentage points and deposit rates by 0.25 percentage points.[35] Following the disappointing January data, calls for additional rate cuts appeared in the Chinese media, and on February 28, the PBOC announced that it would lower benchmark rates by 0.25 percentage points.[36,37]

Experts polled by the *Wall Street Journal* cited new trends in e-commerce and migrant labor as key factors.[38] The expansion of online retail has reduced Chinese consumers' prior tendency toward holiday "binge buying."[*] According to China's National Bureau of Statistics, the first two months of 2015 saw national online retail sales of goods and services increase 44.6 percent year-on-year to $76.6 billion. Online consumer goods purchases comprised 8.3 percent of total retail sales.[39] At the same time, shifting migrant labor patterns have also affected holiday consumption. As the *Wall Street Journal* reported, the number of migrant workers rose by a mere 3.3 percent in 2014, far below the average 8.5 percent for 2005-2010. Similarly, China's Go West campaign and the movement of manufacturing jobs to the interior has shortened the distance between migrants and their hometowns, potentially allowing them to return home more often.[†] Low consumption numbers thus might reflect declining migrant travel and gift-buying concentrated around Spring Festival.[40]

Chinese Ministry of Transport data indicates a reduction in 2015 Spring Festival travel, ending a thirty-year growth trend. Since 1984, Spring Festival travel has increased from 500 million rides to a record high of almost 3.7 billion rides in 2014.[41] This past holiday, however, saw a decline in overall ridership to about 2.8 billion. During the forty day period surrounding Lunar New Year, train ridership totaled 295 million with 41.4 percent of travelers choosing

[*] For more information on the increasing popularity of e-commerce in China, see "2015 Spring Festival Trends (Part One): The Digital and Mobile Revolution," in the USCC's March 2015 Trade Bulletin. *http://www.uscc.gov/trade-bulletin/march-2015-trade-bulletin*.

[†] China's Go West campaign comprises a central government effort to develop the country's interior regions by promoting inter-provincial partnerships and the movement of eastern coastal factories west.

to take high speed rail—a new record. The country's roads saw 2.4 billion rides, the ferries 43 million, and the airlines 49 million.[42] Meanwhile, domestic tourism revenue increased 13 percent, three percentage points lower than the previous year's revenue growth.[43]

To explain the drop in domestic demand, some media reports pointed to the record number of Chinese who decided to vacation abroad this year.[44] According to China's National Tourism Administration, approximately 5.2 million people traveled overseas during Spring Festival, a 10 percent increase over the previous year.[45] For the first time, overseas travel surpassed inter-provincial travel with more than 60 percent of Chinese tourists vacationing abroad.[46] Top destinations included Taiwan, Hong Kong, South Korea, Thailand, and Japan. This year for the first time Taiwan topped the list of destinations for mainland Chinese tourists.[47]

The National Tourism Administration maintained that more favorable exchange rates and relaxed visa restrictions boosted 2015 Spring Festival international travel.[48] These factors notwithstanding, the outflow of tourists also reflected a broader trend extending beyond the holiday season; in recent years, China has become the world's largest source of international tourists and a major contributor of retail revenue.[49] In 2014, over 100 million Chinese citizens traveled abroad, together spending almost $165 billion.[50]

CCTV Targets State-Owned Telecom on Consumer Rights Day Show

China Central Television (CCTV), China's predominant state-run broadcast network, targeted major Chinese state-owned telecommunications provider China Mobile in its annual World Consumer Rights Day show, known colloquially as 3.15 because of its annual March 15 broadcast date.[51] The attack on a domestic SOE marked a shift from recent years' primary focus on foreign firms, and could be indicative of greater scrutiny of China Mobile in the government's continuing anticorruption campaign and rumored plans for reform in the SOE-dominated telecom sector.

CCTV accused China Mobile and its sister company China Tietong Telecommunications of inadequately protecting phone number data, allowing fraudsters to take advantage of China Mobile users. Specifically, CCTV alleged China Mobile "allowed fraudsters to gain access to numbers used for official phone-company operations" and "failed to prevent the use of fake caller ID numbers."[52] China Mobile apologized on behalf of its sister companies and subsidiaries, calling the fraudulent activity "a serious violation of the legitimate rights and interests of consumers."[53]

CCTV's attack on China Mobile comes amid rising speculation about corruption in the company and possible mergers among China's three major state-owned telecommunications firms.[54] China Mobile and China Unicom are listed in the 26 firms on the China Central Committee for Discipline Inspection's (CCDI) first round of 2015 inspections, an indicator the SOEs are on the chopping block in the government's ongoing anticorruption campaign.[55] Experts speculate the state-owned telecom sector is an anticorruption target because of its financial ties to former President Jiang Zemin and, in particular, his son Jiang Mianheng.[56]

In February, rumors of a merger of the three SOEs with a provincial telecom provider in Sichuan Province caused share prices of the firms to skyrocket.[57] Another Chinese media outlet speculated China Mobile would merge with smaller provincial telecoms, while China Telecom would merge with China Unicom, consolidating the industry into two large telecom companies. However, the three SOEs and the China Ministry of Industry and Information Technology (MIIT), China's chief telecommunications regulator, have denied the reports.[58]

Although the domestic telecom sector dominated this year's 3.15 program, foreign firms were not immune to criticism. CCTV accused European and Japanese auto manufacturers, including Land Rover, Nissan, Volkswagen, and Mercedes, of failing to address mechanical problems in cars and overcharging vehicle owners for minor repairs.[59] The state broadcaster also attacked U.S.-based Proctor & Gamble for misleading Crest toothpaste advertising, and some U.S. clothing brands, including Gap, Old Navy, and American Apparel, appeared on a long list of foreign clothing brands that allegedly fail Chinese quality control inspections.[60]

For inquiries, please contact a member of our economics and trade team (Nargiza Salidjanova, *nsalidjanova@uscc.gov*; Kevin Rosier, *krosier@uscc.gov*; Lauren Gloudeman, *lgloudeman@uscc.gov*; Katherine Koleski, *kkoleski@uscc.gov*; Sabrina Snell, *ssnell@uscc.gov*; or Garland Ditz, *gditz@uscc.gov*).

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