U.S.-China Economic and Security Review Commission

Economics and Trade Bulletin

June 3, 2016

Highlights of This Month's Edition

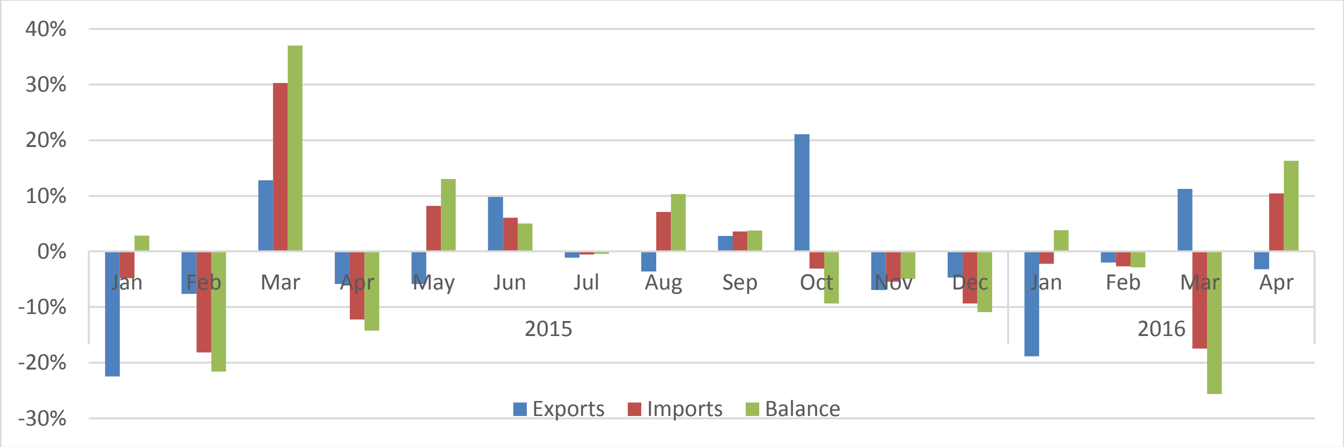
- **Bilateral trade:** U.S. imports from China increase from March as exports to China decline, widening trade deficit.
- **Bilateral policy issues:** Chinese SOEs claim sovereign immunity in U.S. courts, revealing gap in U.S. foreign ownership laws; U.S.-China trade tensions escalate at the WTO, with each country alleging the other failed to comply with adverse WTO decisions (the United States challenges Chinese duties on U.S. poultry, while China challenges U.S. antidumping and countervailing methodology).
- **Policy trends in China's economy:** China has reopened its securitized bad debt market, starting with two deals worth $82 million; final roll-out of value-added tax seen as boost to the service sector; European Parliament votes overwhelmingly against granting China market economy status; China passes a broadly defined NGO law despite objections from foreign businesses, NGOs, and human rights groups.
- **Sector focus – Poultry:** Numerous trade barriers restrict U.S. exports of poultry to China.

Bilateral Goods Trade

Chinese Imports Increase, U.S. Exports Decrease in April Expanding Trade Deficit

U.S. imports from China rebounded in April increasing 10.5 percent month-on-month from $29.9 billion to $33 billion. At the same time U.S. exports to China declined 3.2 percent month-on-month from $9 billion to $8.7 billion. Together this increase in imports from China and decrease in U.S. exports caused the trade deficit to grow 16.3 percent month-on-month from $20.9 billion to $24.3 billion (Figure 1).

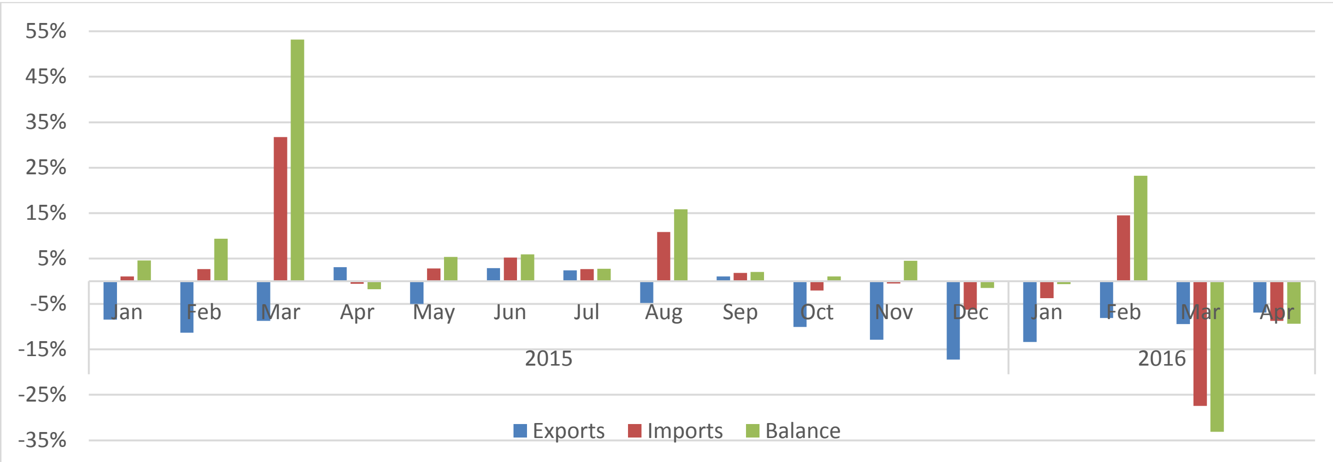
Figure 1: Month-on-Month Change in U.S. Goods Exports to, Imports from, and Trade Balance with China



Source: U.S. Census Bureau. *http://www.census.gov/foreign-trade/balance/c5700.html*.

As seen in Figure 2, compared to last year, U.S. exports have dropped every month this year, with exports in April dropping 6.9 percent year-on-year from $9.3 billion to $8.7 billion. China's declining growth may be behind the falling demand for U.S. exports. Both U.S. imports from China and the U.S. trade deficit decreased in April year-on-year with imports dropping from $36 billion in 2015 to $33 billion and the trade deficit falling from $26.8 billion to $24.3 billion. The year-to-date trade deficit for 2016 totals $102.3 billion, a 7 percent decrease from the same period last year ($110 billion). In the first four months of 2016, both U.S. imports from and U.S. exports to China have decreased compared to the same period last year, with imports dropping from $147.4 billion in 2015 to $136.1 in 2016, and U.S. exports dropping from $37.4 billion to $33.9 billion.

Figure 2: Year-on-Year Change in U.S. Goods Exports to, Imports from, and Trade Balance with China



Source: U.S. Census Bureau. *http://www.census.gov/foreign-trade/balance/c5700.html*.

Bilateral Policy Issues

Chinese State-Owned Enterprises Claim Sovereign Immunity in U.S. Courts

Chinese state-owned enterprises (SOEs) are arguing that their status as foreign government entities exempts them from U.S. lawsuits. These claims are backed by China's State-Owned Assets Supervision and Administration Commission (SASAC)—the government's controlling shareholder and manager of SOEs—as well as China's Foreign Ministry, which wrote a diplomatic note to the U.S. government in October 2015 arguing that U.S. courts lack the authority to sue Chinese government-owned properties.[1]

In recent months, the Aviation Industry Corporation of China (AVIC) and China National Building Materials Group Co. (CNBM)—both central SOEs administered under SASAC—have claimed immunity from lawsuits under the U.S. Foreign Sovereign Immunities Act (FSIA).[2] FSIA, which was passed by Congress in 1976, limits the ability of U.S. courts to sue foreign governments.[3] This protection, known as "sovereign immunity," may be extended to protect Chinese-controlled companies and their subsidiaries from U.S. lawsuits.[4] However, there are three notable exceptions for FSIA: if a foreign government is carrying out commercial activity in the United States, if the state's commercial activity outside the United States is connected to U.S. activity, or if a foreign government's commercial activity directly impacts the United States.[5] Determining how and when these exceptions are applied is proving difficult for U.S. courts, revealing a significant gap in U.S. laws dealing with foreign SOEs.[6]

Chinese SOEs' claims of sovereign immunity are becoming increasingly common, particularly when a court's initial ruling is not in China's favor. In December 2015, one of AVIC's international holding subsidiaries was ordered to pay $70 million to U.S. wind firm Tang Energy Group Ltd. for failing to fulfill the terms of a joint venture.[7] Three months later, AVIC asked the court to vacate the judgment, arguing the decision should be overturned because the subsidiary enjoys sovereign immunity as a state-owned company.[8] A final ruling on the case is pending.[9] This is the second case in which AVIC has argued for sovereign immunity: in a breach of contract case in 2015, Yubei, a subsidiary of AVIC, claimed sovereign immunity in a lawsuit filed by Georgia-based firewall developer Global

Technology Associates Inc.[10] A Michigan district court initially ruled against Yubei's sovereign immunity claims because the suit involved the company's commercial activity in the United States.[11] Shortly afterward, however, an appellate court ruled in AVIC's favor, sending the case back to the district court to reexamine the sovereign immunity claims.[12] The crux of the matter lies in whether Yubei, which appears to be a subsidiary of a subsidiary of a subsidiary of AVIC, qualifies as state owned.[13] The district court is still reviewing the case as it untangles AVIC's complicated relationships with its subsidiaries.[14]

In a March 2016 case in Louisiana, CNBM was granted sovereign immunity in a case against U.S. homeowners who were alleging the company's drywall had caused health problems.[15] The case was dismissed when the judge ruled CNBM's status as a foreign government entity granted it sovereign immunity, with the plaintiff failing to prove the company had conducted drywall-related commercial activity in the United States.[16]

According to U.S. business and legal experts, the application of a sovereign immunity defense to commercial cases is worrying.[17] Some, like Tang Energy Group senior advisor Greg Levesque, fear granting sovereign immunity sets a dangerous precedent.[18] According to Mr. Levesque, the claim of sovereign immunity is "alarming and disturbing" and could allow Chinese SOEs to conduct unlawful activity without consequences.[19] However, the U.S. court system's ability to fight back against Chinese sovereign immunity claims is limited under current U.S. law. According to James Stengel, a partner at the New York office of law firm Orrick, although the Chinese economic and political system presents SOEs with inherent advantages, U.S. law explicitly requires courts to "recognize the sovereign immunity of appropriately structured enterprises."[20]

United States Challenges Chinese Duties on U.S. Broiler Products at the World Trade Organization

In May 2016, the Office of the U.S. Trade Representative (USTR) requested a second round of consultations with China at the World Trade Organization (WTO), alleging China's noncompliance with a 2013 WTO decision faulting Chinese duties on U.S. chicken "broiler"[*] products.[†] The United States initiated the case in September 2011, alleging China was imposing illegal duties on exports of U.S. poultry. The duties in question led to an 80 percent drop in U.S. broiler product exports to China between 2009 and 2011, from 729 million pounds in 2009 to 149.6 million pounds by 2011.[21] (The history of China's unfair treatment of U.S. poultry exports is discussed in greater detail in this issue's Sector Focus.)

In August 2013, the WTO dispute settlement panel sided with the United States in the majority of the 14 claims. According to the WTO ruling, China's Ministry of Commerce (MOFCOM) had significantly overestimated U.S. subsidization amounts, which led to excessive imposition of countervailing duties (CVDs). It also refused to utilize records of major U.S. poultry producers, and incorrectly calculated dumping margins and "all others"[‡] dumping margins by relying on weight-based methods.[§] [22]

The United States and China agreed upon July 9, 2014 as the final date for China to rescind excessive duties. On that date, however, China asserted that U.S. broiler product exports continued to adversely affect China's domestic poultry industry. It then adjusted antidumping and countervailing duties with either slight declines or increases.[23]

If consultations are reopened, it remains important to consider how the United States and China value different broiler parts, such as chicken paws versus chicken breasts.[24] Because of varying consumer preferences, chicken

[*] Broiler products include most chicken products, with the exception of live chickens and a few other products such as cooked and canned chicken.

[†] China had initially conducted broiler product investigations in mid-2009, leading China's Ministry of Commerce (MOFCOM) to impose antidumping duties in 2010 amounting to 50.3 to 53.4 percent for U.S. producers that responded to MOFCOM investigations, and an "all others" rate of 105.4 percent. Countervailing duties ranged from 4 to 12.5 percent for U.S. participating producers and an "all others" rate of 30.3 percent. U.S. Department of Agriculture, *United States Wins Trade Enforcement Case for American Farmers, Proves Export-Blocking Chinese Duties Unjustified under WTO Rules*, August 1, 2013. *http://1.usa.gov/1XPsbA1*; Office of the U.S. Representative, *The United States Challenges China's Non-Compliance at the WTO on Behalf of American Farmers*, May 2016. *https://ustr.gov/about-us/policy-offices/press-office/press-releases/2016/may/us-challenges-china-non-compliance-at-WTO*.

[‡] The "all others" rate falls upon companies that neither received company-specific rates nor were individually investigated. This rate is calculated by weight averaging all company-specific rates.

[§] Dumping margins are found by comparing sales of comparable merchandise within a certain timeframe. Weight-based methods refer to taking a singular chicken product's (breast, leg quarters, paws) weight over the entire chicken's weight.

breasts are valued more highly in the United States, while chicken paws are valued significantly lower by U.S. producers than Chinese producers. However, weight-based allocation methods mean equal pre-split-off costs[*] for both breasts and paws, creating lower costs and higher profit margins for breasts compared to paws.[25]

Such issues may continue to influence consultation proceedings, as China may continually find sales to be below cost. Moreover, as the United States continues to view chicken paws as by-products rather than joint products, calculated production costs will continue to be higher in China.

China Challenges U.S. Determination of CVDs at the WTO

On May 13, 2016, China's MOFCOM initiated dispute settlement proceedings at the WTO against the United States for noncompliance with the WTO's January 2015 ruling on U.S. methodology and determination of CVDs for certain Chinese-made products and continued use of this methodology in the eight CVD determinations and investigations.[†] This case is one of the most far-reaching and complex WTO disputes because China is challenging the technical and legal basis of the U.S. Department of Commerce (DOC) methodology across several different of sectors and numerous products.[26] China alleges the United States has failed to "achieve full, final, and effective compliance with the recommendations and rulings of the DSB [Dispute Settlement Body]."[27] The DOC has failed to finalize CVDs on four of the 15 cases within the required implementation period.[28] The Chinese government further claims that the eight U.S. CVD investigations and determinations continue to use a flawed methodology.[29]

In the original dispute, China claimed the DOC's methodology and determination of 17 CVD investigations[‡] from 2007 to 2012 violated the WTO's *Agreement on Subsidies and Countervailing Duties*. Australia, Brazil, Canada, the EU, India, Japan, the Republic of Korea, Norway, Russia, Saudi Arabia, Turkey, and Vietnam joined the original dispute as third parties.[30]

The WTO's Appellate Body found the DOC cannot presume that all majority government-owned entities are "public bodies" capable of providing subsidies, and that it must conduct "necessary market analysis" in 15 of the 17 cases to include the consideration of in-country prices as benchmark prices in its CVD investigations and calculations.[31] Previously, the DOC calculated the duty using third-country proxies without consulting in-country or private prices in China.[32] In April 2015, the DOC initiated compliance proceedings on the 15 CVD investigations faulted by the WTO, but the DOC has failed to finalize CVDs on solar panels, pressure pipes, steel line pipes, and oil country tubular goods within the required implementation period.[33]

This case is occurring in a context of escalating trade tensions. The United States is now the largest user of anti-dumping and other trade defense cases, overtaking India and Brazil.[34] In the 2015 fiscal year,[§] the U.S. government initiated 62 investigations, the largest number of investigations in 14 years.[35] Roughly two-thirds are steel-related cases,[**] and China is involved in over half of the cases.[36] In 2016, the number of cases is expected to exceed those in 2015.[37] Of the 33 ongoing investigations, China is involved in 22 of the cases.[38] For example, in May 2016, the DOC announced its final determinations on cold-rolled steel exports from China, imposing 265.79 percent antidumping and a 256.44 percent CVD final dumping margin on all Chinese producers and exports.[39] Chinese officials from MOFCOM are seeking to challenge these duties at the WTO in an effort to protect China's domestic industries, particularly the strategically and economically important steel industry.[40]

---

[*] Pre-split-off costs are based on the weight of individual chicken products. China's MOFCOM argues that such costs determined by the United States did not accurately reflect production costs.

[†] For full text of the consultation request, see World Trade Organization, "United States – Countervailing Duty Measures on Certain Products from China," May 13, 2016. *http://bit.ly/1Y2PaIf*.

[‡] These products include: solar panels, wind towers, thermal paper; coated paper; tow behind lawn groomers; kitchen shelving; steel sinks; citric acid; magnesia carbon bricks; pressure pipe; line pipe; seamless pipe; steel cylinders; drill pipe; oil country tubular goods; wire strand; and aluminum extrusions. WTO, *United States—Countervailing Duty Measures on Certain Products from China*, Dispute DS437, January 16, 2015. *https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds437_e.htm*.

[§] From October 1, 2014 to September 30, 2015.

[**] For additional analysis on the U.S. steel industry's efforts to address global overcapacity and rising Chinese steel exports, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, May 4, 2016, 9–12. *http://origin.www.uscc.gov/sites/default/files/trade_bulletins/May%202016%20Trade%20Bulletin.pdf*.

Policy Trends in China's Economy

China Reboots Securitized Bad Debt Market

China has reopened its securitized bad debt market, eight years after regulators closed the market at the onset of the global financial crisis. Securitization allows banks to sell nonperforming loans (NPLs) to investors by repackaging them as securities or transferring them to special asset management companies.[41] Wary of the risks associated with securitization, Beijing has opted to first test the approach through six of the largest banks, with quotas totaling $7.7 billion (renminbi [RMB] 50 billion).[42] The first commercial banks to participate, Bank of China and China Merchants Bank, announced in May 2016 a plan to issue a combined $82 million worth of NPL-backed securities.[43]

Chinese lenders have relied on offloading bad debt to state-controlled asset management companies, but in recent years NPL levels have exceeded their appetite.[44] According to the China Banking Regulatory Commission, commercial banks' NPLs amounted to 1.75 percent of total loans at the end of March 2016—or $213.6 billion (RMB 1.4 trillion).[45] However, the actual NPL ratio may be much higher; brokerage firm CLSA estimates that NPLs may account for 15–19 percent of loans.[*] Beijing hopes NPL securitization can help to improve bank balance sheets and generate liquidity.[46] The strategy may have limited impact as analysts expect low demand from international investors, meaning the securitized bad loans are likely to simply be cycled around different banks and other financial intermediaries within China.[47]

Securitization is one of several programs Chinese officials have recently announced to address the country's mounting debt levels. Another is to have banks exchange NPLs for equity stakes in indebted firms; according to Caixin, up to $152 billion (RMB 1 trillion) has been approved for the program.[48] A recent International Monetary Fund (IMF) paper argues that these two approaches "can play a role" in addressing China's debt problems if applied to viable firms that undergo restructuring: "But they are not comprehensive solutions by themselves—indeed, they could worsen the problem, for example, by allowing zombie firms to keep going."[49]

Roll-out of Value-Added Tax Complete

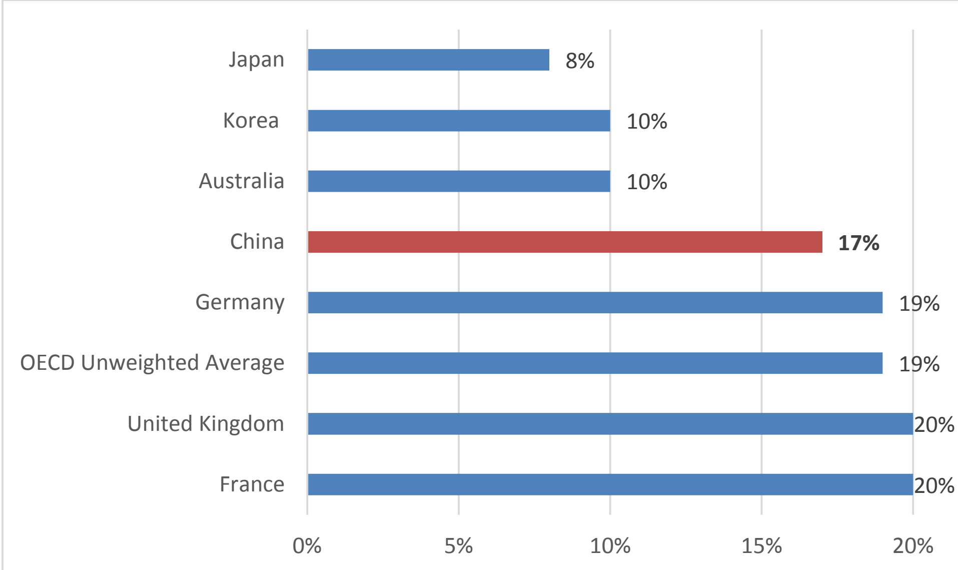
On May 1, 2016, the State Administration of Taxation and Ministry of Finance finished its nearly three-decades-long roll-out of the value-added tax[†] (VAT) by expanding the VAT to the construction, real estate, financial, and consumer services industries.[50] The VAT replaces the "business tax"[‡] that created double taxation issues for the service sector.[51] Comparison of China's standard VAT rate to other developed countries' finds China's rate higher than other countries in the region but lower than the average rate for members of the Organisation for Economic Co-Operation and Development (OECD) (see Figure 3).

[*] The sizable discrepancy between the official NPL ratio and unofficial estimates comes from how banks categorize NPLs. The IMF considers a loan nonperforming if interest and principal payments are more than 90 days overdue. In China, a loan more than 90 days overdue is considered nonperforming only if loans are doubtful or loss making. As SOE borrowers are presumed to have government backing, it can be difficult for banks to characterize their loans as nonperforming. There is also a separate category—"special mention" loans—for loans that are at risk of becoming nonperforming. CLSA derived its bad debt ratio estimate from Chinese companies' financial statements; a company's loans are classified as nonperforming if its interest expenses surpass operating income, or if its net debt is greater than five years of operating income. Shuli Ren, "CLSA: 15-19% of China's Bank Loans Are Bad," *Barron's Asia* (Blog), May 6, 2016. *http://blogs.barrons.com/asiastocks/2016/05/06/clsa-15-19-of-chinas-bank-loans-are-bad/*; Reuters, "UPDATE 1-China's Non-Performing Loans Hit 11-Year High – Regulator," May 12, 2016. *http://www.reuters.com/article/china-economy-loans-idUSL3N18935N*.

[†] VAT is calculated based on the difference between a good's price before taxes and its cost of production.

[‡] Business tax is calculated based on the gross revenue of a business.

Figure 3: Comparison of China's VAT to OECD Standard VAT Rates



Note: All OECD rates reflect 2015 standard VAT rates; deductions can reduce this effective rate.
Source: Organisation for Economic Co-Operation and Development, "OECD Tax Database." *http://www.oecd.org/tax/tax-policy/tax-database.htm#VATTables*.

The service sector is expected to benefit from the RMB 500 billion ($77.3 billion) reduction in taxes this year, boosting growth and facilitating China's rebalance to more service-driven and consumption-led growth.[52] The VAT will apply to imports as a withholding based on the nature of service provided, and exports are generally exempt or roughly zero.[53] At the same time, this transition will reduce government revenue by the same amount, placing additional strain on local government finances.[54] Local governments already face stretched budgets and have relied on the business tax as one of their largest sources of revenue.[55] While their share of VAT revenue will be increased from 25 percent to 50 percent, the central government also announced this year an increase in transfer payments to local governments of 12.2 percent and an increase of the fiscal deficit by RMB 560 billion ($86.6 billion) in part to offset this fall in revenue.[56]

Analysis by the consultancy KPMG found the tax burden for real estate and construction sectors—key drivers of China's economic growth and the largest contributors of government revenue under the business tax—will increase.[57] To offset this increase in taxes, the Chinese government has grandfathered in existing projects; the transition to VAT will benefit individual real estate owners (including landlords) who hold properties for at least two years.[58] The Chinese government has also expanded the VAT to the financial sector, where it will tax the interest on loans and gains from stock, bond, and foreign exchange trading.[59] According to Lachlan Wolfers, head of indirect tax with KPMG China, "Many governments around the world [including EU, Canada, and Australia] have looked at this area to generate revenue, [and] if they see China do this successfully, they'll go ahead."[60] He noted that only one or two small countries have ever attempted to apply the VAT to the financial sector.[61]

European Parliament Votes against Granting China Market Economy Status

On May 12, the European Parliament voted 546-28 against granting China market economy status (MES).[62] China contends that its accession agreement to the WTO guarantees it MES at the end of 2016, a major foreign policy objective for Beijing.* Such recognition would make it harder for China's trading partners to impose antidumping duties on Chinese goods. The nonbinding resolution underlined growing anxieties over Chinese industrial overcapacity, which has worsened the European steel industry's decline.[63] It also puts pressure on the European Commission, which is expected to issue a proposal on China's MES later this year.

* For more information on the debate over granting China MES, see U.S.-China Economic and Security Review Commission, *2014 Annual Report to Congress,* November 2014, 108–110. *http://1.usa.gov/1XgS90S*.

Removing China from the EU's list of nonmarket economy countries requires changing EU anti-dumping legislation. Thus, the commission's proposal will have to gain the approval of the European Parliament and the European Council.* The European Commission is currently exploring three options: granting China MES, not granting it, and designating China a market economy while including safeguards for vulnerable sectors. European officials have indicated that the European Commission favors the last option.[64] While the U.S. government has not yet issued an official statement on China's MES, U.S. officials have reportedly pressed their European counterparts not to grant it, preferring instead to compel Beijing to bring a challenge to the WTO's dispute settlement body, where it will have to demonstrate that China's state-driven economy has met the criteria for MES.[65] In a May 27 letter to EU Trade Commissioner Cecilia Malmstrom, a bipartisan group of U.S. senators warned, "Labeling China as a market economy before it in fact becomes one will thwart global efforts to secure China's compliance with its international trade obligations. In addition, it could have a destabilizing impact in certain global sectors, including the steel industry."[66]

China Passes Foreign Nongovernmental Organization Law

On April 28 the Chinese government approved the "Law on the Management of Foreign Non-Governmental Organizations' Activities within Mainland China," which places greater state oversight on more than 7,000 foreign nongovernmental organizations (NGOs) in China and gives the government broad powers to inspect NGO offices and operations.[67] The law contains many provisions to which foreign and U.S. businesses, the EU, U.S. NGOs, and the U.S. government previously objected.[68] The law will go into effect January 1, 2017.[69] Among other measures, the new law:

- Requires foreign NGOs to register with China's security ministry;
- Empowers Chinese security agents to enter NGO premises and seize assets and facilities if authorities suspect the NGO is breaking the law;
- Prohibits foreign NGOs from raising money in China;
- Compels foreign NGOs to provide the Chinese government with annual work reports detailing finances, personnel, and operational activities;
- Prevents NGOs from opening branch offices without dispensation from the State Council;
- Prohibits NGOs from engaging in political activity, "illegal" religious activity, or actions that endanger China's national unity, national interests, or "societal public interest";
- Establishes that foreign NGOs do not have "standing as legal persons";
- Allows the government to close foreign NGOs for "situations that damage the national or public interest."[70]

The broad language of this law gives Chinese authorities a wide degree of latitude in admitting, monitoring, and closing foreign NGOs. To establish an office in China, NGOs must seek the permission of the security ministry, and NGOs with existing offices in China must also obtain permission to register.[71] Chinese security forces can enter NGO offices, seize bank accounts and property, and interrogate NGO staff if they suspect the NGO is engaged in vaguely defined activity such as damaging the national interest.[72] Similarly, NGOs can be closed or face deportation if they are found to violate these broadly worded interests and values.[73]

A previous draft of the law circulated last year and was met with criticism from U.S. business groups and NGOs.[74] A key complaint was that the draft was worded broadly enough that it appeared to apply to foreign universities, industry organizations, and professional associations. While a Chinese official suggested in a press conference that the new law would not apply to collaboration with foreign hospitals, schools, and research groups, the language of law suggests that if they open offices in China, these kinds of institutions would still fall under the purview of the law.[75] The law defines foreign NGOs as "not-for-profit, non-governmental social organizations lawfully established outside mainland China such as foundations, social groups, and think tank institutions."[76] While foundations and think tanks are specifically identified as falling under the law, the definition is not limited to them and may be applied to any nonprofit, nongovernment organization—a classification that includes universities and business organizations.[77]

---

* In the United States, the DOC determines whether a country qualifies as a market economy by evaluating against criteria. See 19 U.S.C. § 1677(18)(B). *http://1.usa.gov/1sq1q9E*.

The US-China Business Council (USCBC)—a U.S. business organization with offices in China—indicated it would likely not be affected by the law, as it already complies with some of the provisions of the law such as providing annual work reports to the government.[78] However, John Frisbee, the president of the USCBC, noted that not all foreign NGOs would be affected the same way by the new law.[79] According to Mr. Frisbee, NGOs or businesses associated with initiatives on environmental and rule of law issues should pay "close attention" to government actions that might "curtail their activity."[80] The USCBC has also expressed concern that the NGOs will be required to register with security agencies that have less experience with NGOs. USCBC Vice President Jake Parker remarked that "the expertise for managing NGOs in China lies in its ministries and agencies that work directly with these organizations, rather than its public-security entities."[81]

U.S. businesses lobbied the Chinese government to remove provisions included in the current law. In June 2015, 45 U.S. industry associations signed a letter urging the Chinese government not to place NGOs under the management of security forces and to narrowly define NGOs to exclude groups such as trade and professional associations.[82] The letter noted that if the law were passed "without major modifications," it would "have a significant adverse impact on the future of U.S.-China relations" and negatively impact Chinese commerce.[83] In the letter, U.S. business representatives also cited the key role that nonprofit organizations such as universities and trade associations play in their operations, calling them an "integral part" of their business practices.[84]

U.S. businesses also expressed concern about how the law would affect their operations in China. As Figure 4 shows, 75 percent of the business respondents to an American Chamber of Commerce in China (AmCham China) survey reported that the law as it existed in 2015 would limit the scope of their operations in China, and 17 percent reported that it would cause them to leave the country.[85] The law as it currently exists is only slightly changed from its 2015 draft—the earlier draft gave the government control over hiring NGO staff and limited foreign NGOs to only one Chinese office (both of these provisions were dropped in the final version).[86] Nevertheless, not every U.S. industry organization has stated that the law will have a negative effect on U.S. business. Mr. Frisbee commented that the current law will have a relatively minor impact on U.S. industry compared to other concerns businesses have in China, noting, "By and large, American companies will not be impacted by the NGO law; companies are more directly impacted by the market access and level playing field concerns."[87]

Figure 4: U.S. Businesses' Responses to AmCham China Survey on 2015 Draft NGO Law

Source: AmChamChina.org, "BCS Question on Foreign NGO Law." *http://www.amchamchina.org/policy-advocacy/bcs-question-on-foreign-ngo-law.*

The impact of the law on U.S. businesses and universities will vary depending on how the law is enforced. Prior to the law, foreign NGOs operated in a legal "gray area," as China had no laws regarding foreign NGO registration.[88]

While Chinese security agents already had the de facto power to monitor foreign NGO operations, some groups worry now that their control over foreign NGOs has been firmly established Chinese authorities will exercise their power more vigorously.[89]

Human rights NGOs condemned the law as the latest "draconian" measure in an effort by the Chinese government to control civil society.[90] Sophie Richardson, the China director at Human Rights Watch, remarked that "the NGO law is like many others of the Xi Jinping era: ever-stronger tools to legalize China's human rights abuses."[91] In the past three years the Chinese government has detained personnel from domestic NGOs and raided their premises—including Chinese NGOs such as the policy think tank Transition Institute and Liren Rural Libraries, a countryside library network.[92] It also detained Swedish NGO worker Peter Dahlin, who appeared in what has been described as a forced confession on Chinese television.[93] Human Rights Watch has called for the repeal of the NGO law or a significant revision to bring it "in conformity with international law."[94] Last year, nine human rights NGOs, including Amnesty International, Freedom House, and Human Rights Watch, submitted a letter to the U.S. government urging U.S. officials to press China on the NGO law and other human rights concerns at the 2015 Strategic and Economic Dialogue and to make clear that the law "presents significant obstacles to bilateral cooperation on issues ranging from economic ties to law enforcement to cultural exchanges."[95]

Critics of the law contend it will have a "chilling effect" on foreign NGOs operating in China, making them less likely to engage in activities that might provoke the Chinese government.[96] There is some evidence that U.S. NGOs are already self-censoring. In 2014, the American Bar Association (ABA) declined to publish a book by Chinese human rights lawyer Teng Biao. In an e-mail to Mr. Biao that came to light in April 2016, an employee from the ABA explained why the book had been rejected, stating, "Apparently there is concern that we run the risk of upsetting the Chinese government by publishing your book, and because we have ABA commissions working in China, there is fear that we would put them and your work at risk."[97] The ABA, which operates an office in China, claims the book was rejected for economic reasons.[98]

The U.S. government criticized the final contents of the law. Secretary of State John Kerry stated that he was "deeply concerned" with the law and that it would create a "highly uncertain and potentially hostile environment for foreign non-profit, non-governmental organizations."[99] The National Security Council also remarked that it had serious concerns and "urged China to respect the rights and freedoms of human rights defenders, journalists, business groups, development professionals, and all others who make up civil society."[100]

Sector Focus: U.S. Exports of Poultry to China Harmed by Unfair Treatment

The U.S. government's renewed WTO challenge to China over the Chinese government's antidumping and countervailing duties against imports of U.S. chicken broiler products has once again highlighted the difficulties faced by U.S. agricultural producers trying to export high-value-added products to China. In addition to duties on U.S. poultry, China bans imports of U.S. beef and substantially restricts imports of U.S. pork.* Whereas restrictions on U.S. beef and pork are driven primarily by China's agricultural policy,† which emphasizes domestic production and uses numerous nontariff barriers (including subsidies to domestic producers and nonscientific sanitary and phytosanitary measures) to block imports, restrictions on U.S. poultry have an added element of China's economic statecraft.

China is vying with Canada for the position of top export market for U.S. agriculture (it was the primary export market in 2012–2014, but fell to second place in 2015), and the United States maintains a sizable trade surplus with China in agricultural products.[101] Consumption of meat in particular has been rising in tandem with China's rising incomes.[102] Though pork remains China's primary protein, poultry has been the fastest-growing protein sector since

---

* For a discussion on China's policies affecting U.S. beef and pork exports, see U.S.-China Economics and Trade Commission, *Economics and Trade Bulletin*, January 8, 2014. *http://1.usa.gov/24hN72z*; and U.S.-China Economics and Trade Commission, *Economics and Trade Bulletin*, May 4, 2016. *http://1.usa.gov/1WWZPV4*.

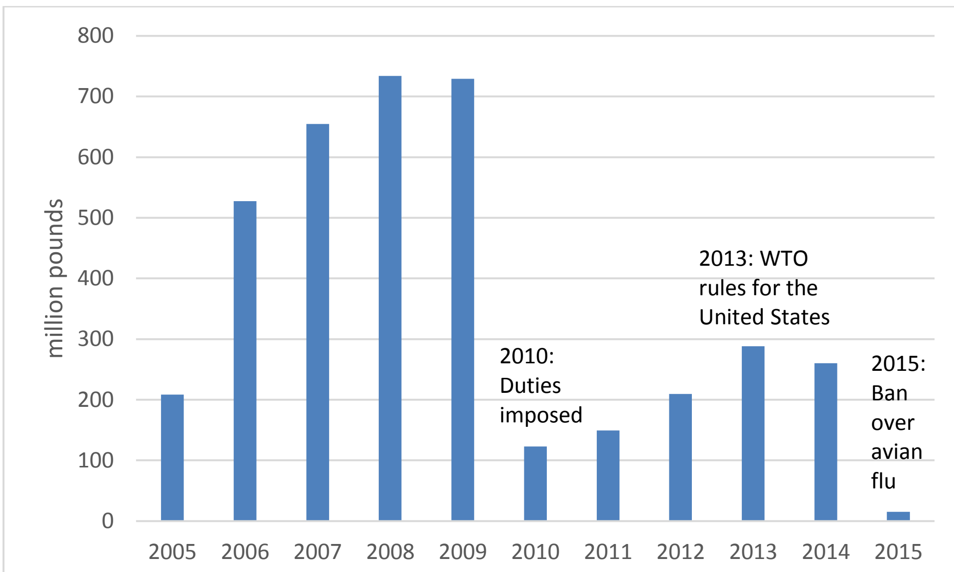
† For an in-depth assessment of China's agriculture policy and its impact on U.S. producers, see U.S.-China Economic and Security Review Commission, "China's Agriculture Policy, Food Regulation, and the U.S.-China Agriculture Trade," in *2013 Annual Report to Congress*, November 2013. *http://1.usa.gov/1Y191Ym*.

the 1990s.[103] In 2015, China was the world's second-largest producer and consumer of broiler meat (behind the United States), producing 13.4 million metric tons (mmt) and consuming 13.3 mmt.[104]

For U.S. producers, China's growing appetite for poultry presents a unique opportunity. First, Chinese consumers' preferences for cuts of meat (such as chicken feet, paws,* and offal) typically considered byproducts in the United States could allow U.S. producers to generate significant premiums.[105] Second, food safety concerns, inflamed by several high-profile food safety scandals in China, have translated into consumers' preference for high-quality and "safe" products—traits often associated with products imported or produced by foreign companies.[106]

Prior to imposition of duties on U.S. chicken imports in 2010, the United States was China's top supplier of chicken and chicken products: in 2009, 75 percent of all China's broiler imports were from the United States.[107] Following the imposition of duties, U.S. poultry exports collapsed (see Figure 5). U.S. exports took a further hit in 2015, when China imposed an import ban on U.S. poultry products over concerns surrounding an avian flu outbreak, despite U.S. Department of Agriculture (USDA) assurances that commercial flocks were not contaminated and posed "no immediate public health concern."[108] Brazil has been the major beneficiary of import restraints on U.S. poultry, supplying nearly 80 percent of all Chinese imports in 2015.[109]

Figure 5: U.S. Broiler Exports to China, 2005–2015



Source: U.S. Department of Agriculture Economic Research Service, *Chickens, Turkeys, and Eggs: Annual and Cumulative Year-to-Date U.S. Trade – All Years and Countries*. *http://1.usa.gov/1WYFDSO.*

U.S.-China tensions over U.S. broiler exports should be viewed in the context of China's tit-for-tat responses to U.S. trade enforcement actions. China started the original investigation into alleged dumping of U.S. poultry in September 2009, weeks after the United States applied a tariff on Chinese tires.† Only days after the United States announced it would challenge China's duties on U.S. poultry at the WTO, China applied duties on U.S. automobiles

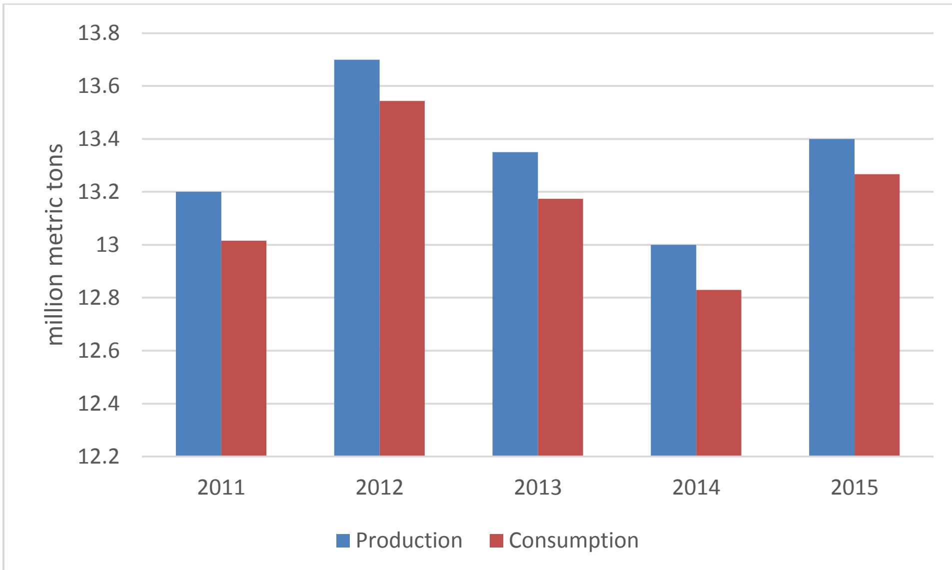
* China is the largest market for exports of U.S. chicken paws by a wide margin. Wang Li and Chris Frederick, "China – People's Republic of: Poultry and Products Semi-Annual: China's Poultry Demand Remains Sluggish," *USDA Foreign Agricultural Services Global Agricultural Information Network*, February 26, 2015. *http://1.usa.gov/1XPsbA1*.

† On September 11, 2009, the president imposed additional duties on imports of certain passenger vehicle and light truck tires from China for a period of three years in order to remedy the market disruption caused by those imports, as determined by the U.S. International Trade Commission (USITC). China challenged the imposition of the duties, alleging that the USITC's determination regarding market disruption and the level and duration of the additional duties were inconsistent with the Protocol of Accession and the General Agreement on Tariffs and Trade (GATT) 1994. A WTO panel later rejected all of China's claims, and the Appellate Body rejected all of China's claims on appeal. Office of the U.S. Trade Representative, "United States Prevails in WTO Dispute about Chinese Tire Imports," September 2011. *http://www.ustr.gov/about-us/press-office/press-releases/2011/september/unitedstates-prevails-wto-dispute-about-chinese*.

and auto parts.[*] In addition, the broiler duties have been viewed as retaliation for Congressional legislation that banned U.S. imports of processed poultry from China due to food safety concerns.[†]

In the meantime, China has invested heavily in transforming its decentralized, small-holder-dominated poultry industry into a modern, vertically integrated, and horizontally consolidated one,[110] despite often lacking a comparative advantage in this industry.[111] This is driven in part by the government's emphasis on self-sufficiency and food security that applies to most commodities, including corn, wheat, and rice, and higher-value-added products like meat. For poultry, China's domestic production has consistently exceeded consumption (see Figure 6). In 2015, China imported just 268,000 metric tons of broiler meat, or about 2 percent of its domestic consumption.[112]

Figure 6: China's Domestic Production and Consumption of Broiler Chickens, 2011–2015



Source: U.S. Department of Agriculture, *Production, Supply and Distribution Online*. *http://apps.fas.usda.gov/psdonline/psdHome.aspx*.

U.S. agribusinesses have been investing heavily in China's poultry industry, including both production and processing, in the hopes of capturing this growing market.[113] The Chinese government encourages these investments, with policies favoring foreign direct investment (FDI) in the industry (with limited exceptions).[114] This may bode well for increased efficiency and safety of China's domestic production, but again underscores the Chinese government's focus on domestic production at the expense of imports. This behavior has been overserved in other industries singled out by the government for special development—from automobiles to biotech—where foreign companies are encouraged to invest in China, enabling intellectual property (IP) spillovers for domestic industry, while Chinese companies are encouraged to invest abroad, acquiring valuable IP and establishing greater control over supply chains.[‡] In the long term, however, domestic constraints, including feed costs, food safety concerns, and limited arable land, may curtail China's ability to meet consumers' demand domestically, creating important future opportunities for U.S. exporters.[115]

[*] The United States challenged these duties on autos and auto parts at the WTO. The case is still pending. World Trade Organization, *China—Certain Measures Affecting the Automobile and Automobile-Parts Industries*, Dispute DS450, September 17, 2012. *https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds450_e.htm*.

[†] The legislation in question, the DeLauro Amendment, itself became a subject of a Chinese challenge at the WTO, which found the United States in violation of its WTO obligations. The United States subsequently repealed the amendment. For greater discussion, see U.S.-China Economic and Security Review Commission, "China's Agriculture Policy, Food Regulation, and the U.S.-China Agriculture Trade," in *2013 Annual Report to Congress*, November 2013, 173. *http://1.usa.gov/1Y191Ym*.

[‡] China's outbound investment strategy for agriculture is laid out in the 2014 "Number One Document." Among other things, the "strategy encourages Chinese companies to acquire assets in various stages of the supply chain for imported commodities to gain a larger share of profits for Chinese companies, establish reliable supplies for the Chinese market, and gain more influence over the determination of international prices." Fred Gale et al., "China's Growing Demand for Agricultural Imports," *USDA Economic Research Service*, February 2015, 20. *http://www.ers.usda.gov/media/1784488/eib136.pdf*.

For inquiries, please contact a member of our economics and trade team (Nargiza Salidjanova, *nsalidjanova@uscc.gov*; Michelle Ker, *mker@uscc.gov*; Katherine Koleski, *kkoleski@uscc.gov*; Sean O'Connor, *soconnor@uscc.gov*; Dahlia Peterson, *dpeterson@uscc.gov*; or Matthew Snyder, *msnyder@uscc.gov*;).

Endnotes

[1] Matthew Miller and Michael Martina, "Chinese State Entities Argue They Have 'Sovereign Immunity' in U.S. Courts," Reuters, May 11, 2016. *http://www.reuters.com/article/us-china-usa-companies-lawsuits-idUSKCN0Y2131*.
[2] Matthew Miller and Michael Martina, "Chinese State Entities Argue They Have 'Sovereign Immunity' in U.S. Courts," Reuters, May 11, 2016. *http://www.reuters.com/article/us-china-usa-companies-lawsuits-idUSKCN0Y2131*.
[3] U.S. Department of State, *Foreign Sovereign Immunities Act*. *https://travel.state.gov/content/travel/en/legal-considerations/judicial/service-of-process/foreign-sovereign-immunities-act.html*.
[4] Matthew Miller and Michael Martina, "Chinese State Entities Argue They Have 'Sovereign Immunity' in U.S. Courts," Reuters, May 11, 2016. *http://www.reuters.com/article/us-china-usa-companies-lawsuits-idUSKCN0Y2131*.
[5] Noah Feldman, "Gap in U.S. Law Helps Chinese Companies, for Now," *Chicago Tribune*, May 16, 2016. *http://www.chicagotribune.com/news/sns-wp-blm-china-us-comment-7cf3761a-1b79-11e6-82c2-a7dcb313287d-20160516-story.html*.
[6] Noah Feldman, "Gap in U.S. Law Helps Chinese Companies, for Now," *Chicago Tribune*, May 16, 2016. *http://www.chicagotribune.com/news/sns-wp-blm-china-us-comment-7cf3761a-1b79-11e6-82c2-a7dcb313287d-20160516-story.html*.
[7] Vidya Kauri, "Panel Lacked Authority in $70M Wind Energy Row, Court Told," *Law 360*, March 21, 2016. *http://www.law360.com/articles/773836/panel-lacked-authority-in-70m-wind-energy-row-court-told*.
[8] Vidya Kauri, "Panel Lacked Authority in $70M Wind Energy Row, Court Told," *Law 360*, March 21, 2016. *http://www.law360.com/articles/773836/panel-lacked-authority-in-70m-wind-energy-row-court-told*.
[9] Matthew Miller and Michael Martina, "Chinese State Entities Argue They Have 'Sovereign Immunity' in U.S. Courts," Reuters, May 11, 2016. *http://www.reuters.com/article/us-china-usa-companies-lawsuits-idUSKCN0Y2131*.
[10] Noah Feldman, "Gap in U.S. Law Helps Chinese Companies, for Now," *Chicago Tribune*, May 16, 2016. *http://www.chicagotribune.com/news/sns-wp-blm-china-us-comment-7cf3761a-1b79-11e6-82c2-a7dcb313287d-20160516-story.html*.
[11] Noah Feldman, "Gap in U.S. Law Helps Chinese Companies, for Now," *Chicago Tribune*, May 16, 2016. *http://www.chicagotribune.com/news/sns-wp-blm-china-us-comment-7cf3761a-1b79-11e6-82c2-a7dcb313287d-20160516-story.html*.
[12] Matthew Miller and Michael Martina, "Chinese State Entities Argue They Have 'Sovereign Immunity' in U.S. Courts," Reuters, May 11, 2016. *http://www.reuters.com/article/us-china-usa-companies-lawsuits-idUSKCN0Y2131*.
[13] Noah Feldman, "Gap in U.S. Law Helps Chinese Companies, for Now," *Chicago Tribune*, May 16, 2016. *http://www.chicagotribune.com/news/sns-wp-blm-china-us-comment-7cf3761a-1b79-11e6-82c2-a7dcb313287d-20160516-story.html*.
[14] Noah Feldman, "Gap in U.S. Law Helps Chinese Companies, for Now," *Chicago Tribune*, May 16, 2016. *http://www.chicagotribune.com/news/sns-wp-blm-china-us-comment-7cf3761a-1b79-11e6-82c2-a7dcb313287d-20160516-story.html*.
[15] Sindu Sundar, "Chinese Co. Ducks MDL Claims over Defective Drywall," *Law 360*, March 15, 2016. *http://www.law360.com/articles/771877/chinese-co-ducks-mdl-claims-over-defective-drywall*.
[16] Sindu Sundar, "Chinese Co. Ducks MDL Claims over Defective Drywall," *Law 360*, March 15, 2016. *http://www.law360.com/articles/771877/chinese-co-ducks-mdl-claims-over-defective-drywall*.
[17] Matthew Miller and Michael Martina, "Chinese State Entities Argue They Have 'Sovereign Immunity' in U.S. Courts," Reuters, May 11, 2016. *http://www.reuters.com/article/us-china-usa-companies-lawsuits-idUSKCN0Y2131*.
[18] Matthew Miller and Michael Martina, "Chinese State Entities Argue They Have 'Sovereign Immunity' in U.S. Courts," Reuters, May 11, 2016. *http://www.reuters.com/article/us-china-usa-companies-lawsuits-idUSKCN0Y2131*.

[19] Matthew Miller and Michael Martina, "Chinese State Entities Argue They Have 'Sovereign Immunity' in U.S. Courts," Reuters, May 11, 2016. *http://www.reuters.com/article/us-china-usa-companies-lawsuits-idUSKCN0Y2131*.

[20] Matthew Miller and Michael Martina, "Chinese State Entities Argue They Have 'Sovereign Immunity' in U.S. Courts," Reuters, May 11, 2016. *http://www.reuters.com/article/us-china-usa-companies-lawsuits-idUSKCN0Y2131*.

[21] U.S. Department of Agriculture Economic Research Service, *Chickens, Turkeys, and Eggs: Annual and Cumulative Year-to-Date U.S. Trade – All Years and Countries*. *http://www.ers.usda.gov/datafiles/Livestock__Meat_International_Trade_Data/Annual_and_Cumulative_YeartoDate_US_Livestock_and_Meat_Trade_by_Country/BroilerTurkey_YearlyFull.xls*.

[22] U.S. Department of Agriculture, *United States Wins Trade Enforcement Case for American Farmers, Proves Export-Blocking Chinese Duties Unjustified under WTO Rules*, August 1, 2013. *http://www.usda.gov/wps/portal/usda/usdamediafb?contentid=2013/08/0153.xml&printable=true&contentidonly=true*.

[23] U.S. Department of Agriculture, *United States Wins Trade Enforcement Case for American Farmers, Proves Export-Blocking Chinese Duties Unjustified under WTO Rules*, August 1, 2013. *http://www.usda.gov/wps/portal/usda/usdamediafb?contentid=2013/08/0153.xml&printable=true&contentidonly=true*.

[24] Thomas J. Prusa and Edwin Vermulst, "China – Anti-Dumping and Countervailing Duty Measures on Broiler Products from the United States: How the Chickens Came Home to Roost," *World Trade Review*. *http://econweb.rutgers.edu/prusa/cv/58%20-%20China-Broiler%20Products.pdf*.

[25] Thomas J. Prusa and Edwin Vermulst, "China – Anti-Dumping and Countervailing Duty Measures on Broiler Products from the United States: How the Chickens Came Home to Roost," *World Trade Review*. *http://econweb.rutgers.edu/prusa/cv/58%20-%20China-Broiler%20Products.pdf*.

[26] U.S. Trade Representative, *United States—Countervailing Duty Measures on Certain Products from China: Recourse by China to Arbitration under Article 21.3(c) of the DSU*, WT/DS437, September 9, 2015. *https://ustr.gov/sites/default/files/enforcement/DS/US.Oral.Stmt.Public.pdf*; U.S. Trade Representative, *United States—Countervailing Duty Measures on Certain Products from China: Recourse by China to Arbitration under Article 21.3(c) of the DSU*, DS437, written submission of the United States of America, August 4, 2015. *https://ustr.gov/sites/default/files/files/Issue_Areas/Enforcement/DS/Pending/US.Sub.fin.%28Public%29.pdf*.

[27] World Trade Organization, *United States—Countervailing Duty Measures on Certain Products from China*, Dispute DS437, January 16, 2015. *https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds437_e.htm*.

[28] *Inside U.S. Trade*, "China Ramps up WTO Fight with U.S. over Methodology in CVD Cases," May 19, 2016. *http://chinatradeextra.com/daily-news/china-ramps-wto-fight-us-over-methodology-cvd-cases*.

[29] World Trade Organization, *United States—Countervailing Duty Measures on Certain Products from China*, Dispute DS437, January 16, 2015. *https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds437_e.htm*; China's Ministry of Commerce, *Official from the Department of Treaty and Law of MOFCOM Comments on China's Appeal of Executive Measures of DS437 to the WTO*, May 15, 2016. *http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201605/20160501320519.shtml*.

[30] World Trade Organization, *United States—Countervailing Duty Measures on Certain Products from China*, Dispute DS437, January 16, 2015. *https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds437_e.htm*.

[31] World Trade Organization, *United States—Countervailing Duty Measures on Certain Products from China*, Dispute DS437, January 16, 2015. *https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds437_e.htm*; Bill Perry, "WTO Decision against Commerce Is Having a Significant Impact on Numerous US CVC Cases against China, Including the Solar Cells Case," *U.S.-China Trade War* (Blog), May 19, 2016. *http://uschinatradewar.com/category/wto-2/*.

[32] *Inside U.S. Trade,* "China Ramps up WTO Fight with U.S. over Methodology in CVD Cases," May 19, 2016. *http://chinatradeextra.com/daily-news/china-ramps-wto-fight-us-over-methodology-cvd-cases*.

[33] *Inside U.S. Trade,* "China Ramps up WTO Fight with U.S. over Methodology in CVD Cases," May 19, 2016. *http://chinatradeextra.com/daily-news/china-ramps-wto-fight-us-over-methodology-cvd-cases*; U.S. Department of Commerce, International Trade Administration, *Notice of Commencement of Compliance Proceedings Pursuant to Section 129 of the Uruguay Round Agreements Act*, April 27, 2015. *https://www.federalregister.gov/articles/2015/04/27/2015-09736/notice-of-commencement-of-compliance-proceedings-pursuant-to-section-129-of-the-uruguay-round*.

[34] Shawn Donnan, "US Wields Biggest Stick in Trade Dumping Fight," *Financial Times*, May 22, 2016. *http://www.ft.com/intl/cms/s/0/619df950-1ec4-11e6-b286-cddde55ca122.html#axzz49UDHd6ST*.

[35] U.S. Department of Commerce, International Trade Administration, *Press Release: Addressing Steel Excess Capacity and its Impacts: Ensuring a Level Playing Field for American Business and Workers*, April 13, 2016, 2. *http://trade.gov/press/press-releases/2016/steel-overcapacity-factsheet-041316.pdf*.

[36] U.S. Department of Commerce, International Trade Administration, *Press Release: Addressing Steel Excess Capacity and its Impacts: Ensuring a Level Playing Field for American Business and Workers,* April 13, 2016. *http://trade.gov/press/press-releases/2016/steel-overcapacity-factsheet-041316.pdf*; U.S. International Trade Commission, *Antidumping and Countervailing Duty Investigations*. *https://www.usitc.gov/trade_remedy/731_ad_701_cvd/investigations.htm*.

[37] U.S. Department of Commerce, International Trade Administration, *Press Release: Addressing Steel Excess Capacity and its Impacts: Ensuring a Level Playing Field for American Business and Workers*, April 13, 2016. *http://trade.gov/press/press-releases/2016/steel-overcapacity-factsheet-041316.pdf*; U.S.-China Economic and Security Review Commission, *Hearing on China's Shifting Economic Realities and Implications for the United States*, written testimony of Terrence Stewart, February 24, 2016, 5. *http://www.uscc.gov/sites/default/files/Panel%203_Stewart%20statement_022416.pdf*.

[38] U.S. International Trade Commission, *Antidumping and Countervailing Duty Investigations*. *https://www.usitc.gov/trade_remedy/731_ad_701_cvd/investigations.htm*.

[39] U.S. Department of Commerce, *Press Release: Commerce Finds Dumping of Imports of Certain Cold-Rolled Steel Flat Products from the People's Republic of China and Japan, and Countervailable Subsidization of Imports of Certain Cold-Rolled Steel Flat Products from the People's Republic of China*, May 18, 2016. *http://enforcement.trade.gov/download/factsheets/factsheet-multiple-cold-rolled-steel-flat-products-ad-cvd-final-051716.pdf*.

[40] Bill Perry, "WTO Decision against Commerce Is Having a Significant Impact on Numerous US CVC Cases against China, Including the Solar Cells Case," *U.S.-China Trade War* (Blog), May 19, 2016. *http://uschinatradewar.com/category/wto-2/*; China's Ministry of Commerce, *Official from Trade Remedy and Investigation Bureau Comments on U.S. Preliminary Ruling of Anti-Dumping and Countervailing Investigation against Imports of Carbon and Alloy Steel Plate*, May 24, 2016. *http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201605/20160501325317.shtml*; and China's Ministry of Commerce, *Official from Trade Remedy and Investigation Bureau Comments on the US Anti-Dumping and Countervailing Investigation against Cold-Rolled Sheet Imported from China*, May 20, 2016. *http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201605/20160501322644.shtml*.

[41] Chuin-Wei Yap and Grace Zhu, "Chinese Banks Bring Back Bad-Loan Securities," *Wall Street Journal*, May 20, 2016. *http://www.wsj.com/articles/chinese-banks-bring-back-bad-loan-securities-1463747832*.

[42] Bloomberg, "China Said to Agree $7.7 Billion of Bad Loan Securitization," February 24, 2016. *http://www.bloomberg.com/news/articles/2016-02-25/china-said-to-approve-7-7-billion-bad-loan-securitization-quota*.

[43] Chuin-Wei Yap and Grace Zhu, "Chinese Banks Bring Back Bad-Loan Securities," *Wall Street Journal*, May 20, 2016. *http://www.wsj.com/articles/chinese-banks-bring-back-bad-loan-securities-1463747832*.

[44] Don Weinland, "China Reopens Securitized Bad-Debt Market," *Financial Times*, May 20, 2016. *https://next.ft.com/content/4bb30fcc-1e42-11e6-a7bc-ee846770ec15*.

[45] Reuters, "Chinese Commercial Banks' March NPL Ratio Rises to 1.75 Pct vs 1.67 Pct End 2015," May 12, 2016. *http://www.reuters.com/article/china-economy-loans-idUSB9N183045*.

[46] Don Weinland, "China Plans Securitization to Tackle Banks' Bad Debt Burden," *Financial Times*, March 3, 2016. *https://next.ft.com/content/7debf7a6-e116-11e5-8d9b-e88a2a889797*.

[47] Don Weinland, "China Plans Securitization to Tackle Banks' Bad Debt Burden," *Financial Times*, March 3, 2016. *https://next.ft.com/content/7debf7a6-e116-11e5-8d9b-e88a2a889797*.

[48] Don Weinland, "China Steps up War on Banks' Bad Debt," *Financial Times*, May 22, 2016. *https://next.ft.com/content/fc391246-18f8-11e6-b197-a4af20d5575e*.

[49] James Daniel, José Garrido, and Marina Moretti, "Debt-Equity Conversions and NPL Securitization in China—Some Initial Considerations," *International Monetary Fund*, August 2016. *http://www.imf.org/external/pubs/ft/tnm/2016/tnm1605.pdf*.

[50] Mark Magnier, "China's New Tax Regime to Spur Service Economy," *Wall Street Journal*, April 28, 2016. *http://www.wsj.com/articles/chinas-new-tax-regime-to-spur-service-economy-1461856228*; China's Ministry of Finance, Tax Policy Department, *How Does the VAT Work in China? http://www.china.org.cn/english/LivinginChina/202770.htm*.

[51] Deloitte, "Taxation and Investment in China 2015: Reach, Relevance, and Reliability," 10. *http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-chinaguide-2015.pdf*; Xinhua (English edition), "Chinese Small Firms Save about 49 Bln Yuan in Taxes in H1," July 27, 2015; *Economist*, "A Better Service Game," March 2, 2013.

[52] State Council of the People's Republic of China, *VAT Reform—A Critical Step in China's Supply-Side Reform*, Xinhua (English edition), March 21, 2016. *http://english.gov.cn/news/top_news/2016/04/05/content_281475321279630.htm*; Mark Magnier, "China's New Tax Regime to Spur Service Economy," *Wall Street Journal*, April 28, 2016. *http://www.wsj.com/articles/chinas-new-tax-regime-to-spur-service-economy-1461856228*.

[53] KPMG, "China Tax Alert," Issue 9, March 2016. *http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/ChinaAlerts/Documents/china-tax-alert-09-vat-implementation-rules.pdf*.

[54] State Council of the People's Republic of China, *VAT Reform—A Critical Step in China's Supply-Side Reform*, Xinhua (English edition), March 21, 2016. *http://english.gov.cn/news/top_news/2016/04/05/content_281475321279630.htm*.

[55] Zheng Yangpeng, "Local Governments 'to Be Hit by Adjustment to VAT,'" *China Daily* (English edition), April 7, 2016. *http://www.chinadaily.com.cn/bizchina/2016-04/07/content_24333266.htm*.

[56] Mark Magnier, "China's New Tax Regime to Spur Service Economy," *Wall Street Journal*, April 28, 2016. *http://www.wsj.com/articles/chinas-new-tax-regime-to-spur-service-economy-1461856228*; U.S.-China Economic and Security Review Commission, *Hearing on the 13th Five-Year Plan*, written testimony on Yilin Hou, April 27, 2016, 6–7, 16. *http://www.uscc.gov/sites/default/files/Yilin%20Hou_Written%20Testimony%20042716.pdf*; Li Keqiang, "Report on the Work of the Government" (Third Session of the 12th National People's Congress, Beijing, China, March 5, 2015), 17. *http://online.wsj.com/public/resources/documents/NPC2015_WorkReport_ENG.pdf*.

[57] Deloitte, "Taxation and Investment in China 2015: Reach, Relevance, and Reliability," 10. *http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-chinaguide-2015.pdf*; Xinhua (English edition), "Chinese Small Firms Save about 49 Bln Yuan in Taxes in H1," July 27, 2015; and *Economist*, "A Better Service Game," March 2, 2013.

[58] Deloitte, "Taxation and Investment in China 2015: Reach, Relevance, and Reliability," 10. *http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-chinaguide-2015.pdf*; Xinhua *(English edition)*,"Chinese Small Firms Save about 49 Bln Yuan in Taxes in H1," July 27, 2015; and *Economist*, "A Better Service Game," March 2, 2013.

[59] Mark Magnier, "China's New Tax Regime to Spur Service Economy," *Wall Street Journal*, April 28, 2016. *http://www.wsj.com/articles/chinas-new-tax-regime-to-spur-service-economy-1461856228*.

[60] Mark Magnier, "China's New Tax Regime to Spur Service Economy," *Wall Street Journal*, April 28, 2016. *http://www.wsj.com/articles/chinas-new-tax-regime-to-spur-service-economy-1461856228*.

[61] State Council of the People's Republic of China, *China to Have One of the World's Most Progressive VAT Systems*, Xinhua (English edition), March 5, 2016. *http://english.gov.cn/news/top_news/2016/03/05/content_281475301833500.htm*.
[62] European Parliament, "China's Proposed Market Economy Status: Defend EU Industry and Jobs, Urge MEPS," May 12, 2016. *http://www.europarl.europa.eu/news/en/news-room/20160504IPR25859/China%E2%80%99s-proposed-market-economy-status-defend-EU-industry-and-jobs-urge-MEPS*.
[63] Christian Oliver and Michael Pooler, "EU States Call for Action against China Steel Dumping," *Financial Times*, November 9, 2015. *https://next.ft.com/content/37f15a42-872b-11e5-90de-f44762bf9896*; Barbara Lewis, "Steel Industry Calls on G7 to Protect it from China," Reuters, May 25, 2016. *http://www.reuters.com/article/us-g7-japan-steel-china-idUSKCN0YG1JK*.
[64] Viktoria Dendrinou, "European Parliament Rejects China's Bid for Market Economy Status," *Wall Street Journal*, May 12, 2016. *http://www.wsj.com/articles/european-parliament-rejects-chinas-bid-for-market-economy-status-1463054845*.
[65] Christian Oliver, Shawn Donnan, and Tom Mitchell, "US Warns Europe over Granting Market Economy Status to China," *Financial Times*, December 28, 2015. *https://next.ft.com/content/a7d12aea-a715-11e5-955c-1e1d6de94879*.
[66] *Inside U.S. Trade*, "Senators Warn Malmstrom Against Giving China Market Economy Status," June 2, 2016. *http://chinatradeextra.com/daily-news/senators-warn-malmstrom-against-giving-china-market-economy-status*.
[67] Edward Wong, "Clampdown in China Restricts 7000 Foreign Organizations," *New York Times*, April 28, 2016. *http://www.nytimes.com/2016/04/29/world/asia/china-foreign-ngo-law.html*.
[68] Edward Wong, "Clampdown in China Restricts 7000 Foreign Organizations," *New York Times*, April 28, 2016. *http://www.nytimes.com/2016/04/29/world/asia/china-foreign-ngo-law.html*; Michael Martina, "China Proposes Revisions to Controversial Draft NGO Law," Reuters, April 26, 2016. *http://www.reuters.com/article/us-china-lawmaking-ngo-idUSKCN0XM18D*; and Sui-Lee Wee, "Foreign Governments, Non-Profits, Press China to Revise Draft NGO Law," Reuters, June 1 2015. *http://www.reuters.com/article/us-china-ngos-idUSKBN0OH2I720150601*.
[69] Edward Wong, "Clampdown in China Restricts 7000 Foreign Organizations," *New York Times*, April 28, 2016. *http://www.nytimes.com/2016/04/29/world/asia/china-foreign-ngo-law.html*.
[70] ChinaLawTranslate.com, "2016 PRC Law on the Management of Foreign Non-Governmental Organizations' Activities within Mainland China." *http://chinalawtranslate.com/2016-foreign-ngo-law/?lang=en#_Toc449672032*.
[71] ChinaLawTranslate.com, "2016 PRC Law on the Management of Foreign Non-Governmental Organizations' Activities within Mainland China." *http://chinalawtranslate.com/2016-foreign-ngo-law/?lang=en#_Toc449672032*.
[72] ChinaLawTranslate.com, "2016 PRC Law on the Management of Foreign Non-Governmental Organizations' Activities within Mainland China." *http://chinalawtranslate.com/2016-foreign-ngo-law/?lang=en#_Toc449672032*.
[73] ChinaLawTranslate.com, "2016 PRC Law on the Management of Foreign Non-Governmental Organizations' Activities within Mainland China." *http://chinalawtranslate.com/2016-foreign-ngo-law/?lang=en#_Toc449672032*.
[74] Gillian Wong, "U.S. Business, Professional Groups Sign Letter Opposing Draft China NGO Law," *Wall Street Journal*, June 4, 2015. *http://www.wsj.com/articles/u-s-business-professional-groups-sign-letter-opposing-draft-china-ngo-law-1433440263*.
[75] ChinaLawTranslate.com, "April 28, FNGO Law Press Conference." *http://chinalawtranslate.com/fngo-law-presser/?lang=en*; ChinaLawTranslate.com, "2016 PRC Law on the Management of Foreign Non-Governmental Organizations' Activities within Mainland China." *http://chinalawtranslate.com/2016-foreign-ngo-law/?lang=en#_Toc449672032*.
[76] ChinaLawTranslate.com, "2016 PRC Law on the Management of Foreign Non-Governmental Organizations' Activities within Mainland China." *http://chinalawtranslate.com/2016-foreign-ngo-law/?lang=en#_Toc449672032*.
[77] ChinaLawTranslate.com, ""Changes Anticipated in the New FNGO Law." *http://chinalawtranslate.com/major-changes-anticipated-in-the-new-fngo-law/?lang=en*.
[78] *Inside U.S. Trade*, "U.S.-China Business Council Downplays NGO Law's Impact on Activities," May 6, 2016. *http://insidetrade.com/daily-news/us-china-business-council-downplays-ngo-law%E2%80%99s-impact-activities*.
[79] *Inside U.S. Trade*, "U.S.-China Business Council Downplays NGO Law's Impact on Activities," May 6, 2016. *http://insidetrade.com/daily-news/us-china-business-council-downplays-ngo-law%E2%80%99s-impact-activities*.
[80] *Inside U.S. Trade*, "U.S.-China Business Council Downplays NGO Law's Impact on Activities," May 6, 2016. *http://insidetrade.com/daily-news/us-china-business-council-downplays-ngo-law%E2%80%99s-impact-activities*.
[81] Josh Chin, "China Poised Approve Crackdown on Foreign NGOs," *Wall Street Journal*, April 26, 2016. *http://www.wsj.com/articles/china-crackdown-on-foreign-ngos-about-to-become-law-1461674598*.
[82] Gillian Wong, "U.S. Business, Professional Groups Sign Letter Opposing Draft China NGO Law," *Wall Street Journal*, June 4, 2015. *http://www.wsj.com/articles/u-s-business-professional-groups-sign-letter-opposing-draft-china-ngo-law-1433440263*.
[83] Gillian Wong, "U.S. Business, Professional Groups Sign Letter Opposing Draft China NGO Law," *Wall Street Journal*, June 4, 2015. *http://www.wsj.com/articles/u-s-business-professional-groups-sign-letter-opposing-draft-china-ngo-law-1433440263*.
[84] Gillian Wong, "U.S. Business, Professional Groups Sign Letter Opposing Draft China NGO Law," *Wall Street Journal*, June 4, 2015. *http://www.wsj.com/articles/u-s-business-professional-groups-sign-letter-opposing-draft-china-ngo-law-1433440263*.
[85] AmChamChina.org, "BCS Question on Foreign NGO Law." *http://www.amchamchina.org/policy-advocacy/bcs-question-on-foreign-ngo-law*.
[86] ChinaLawTranslate.com, "Foreign NGO Management Law (Second Reading Draft) Full Text." *http://chinalawtranslate.com/foreign-ngo-draft-2/?lang=en*.
[87] *Inside U.S. Trade*, "U.S.-China Business Council Downplays NGO Law's Impact on Activities," May 6, 2016. *http://insidetrade.com/daily-news/us-china-business-council-downplays-ngo-law%E2%80%99s-impact-activities*.
[88] Edward Wong, "Clampdown in China Restricts 7000 Foreign Organizations," *New York Times*, April 28, 2016. *http://www.nytimes.com/2016/04/29/world/asia/china-foreign-ngo-law.html*.
[89] Edward Wong, "Clampdown in China Restricts 7000 Foreign Organizations," *New York Times*, April 28, 2016. *http://www.nytimes.com/2016/04/29/world/asia/china-foreign-ngo-law.html*.

[90] Human Rights Watch, "China: New Law Escalates Repression of Groups," April 28, 2016. *https://www.hrw.org/news/2016/04/28/china-new-law-escalates-repression-groups.*

[91] Human Rights Watch, "China: New Law Escalates Repression of Groups," April 28, 2016. *https://www.hrw.org/news/2016/04/28/china-new-law-escalates-repression-groups.*

[92] Andrew Jacobs, "In China, Civic Groups' Freedom, and Followers, Are Vanishing," *New York Times*, February 26, 2015. *http://www.nytimes.com/2015/02/27/world/asia/in-china-civic-groups-freedom-and-followers-are-vanishing.html.*

[93] Tom Phillips, "Swedish Activist Peter Dahlin Paraded on China State TV for 'Scripted Confession.'" *Guardian*, January 19, 2016. *http://www.theguardian.com/world/2016/jan/20/swedish-activist-peter-dahlin-paraded-on-china-state-tv-for-scripted-confession.*

[94] Human Rights Watch, "China: New Law Escalates Repression of Groups," April 28, 2016. *https://www.hrw.org/news/2016/04/28/china-new-law-escalates-repression-groups.*

[95] Human Rights in China, "RE: the 2015 US-China Strategic & Economic Dialogue," June 17, 2015. *http://www.hrichina.org/sites/default/files/2015.06.17_joint_letter_regarding_us-china_strategic_economic_dialogue_en.pdf.*

[96] *Economist*, "Uncivil Society," August 22, 2015. *http://www.economist.com/news/china/21661819-new-draft-law-spooks-foreign-not-profit-groups-working-china-uncivil-society.*

[97] Edward Wong, "Book Debate Raises Questions of Self-Censorship by Foreign Groups in China," *New York Times*, April 27, 2015. *http://www.nytimes.com/2016/04/28/world/asia/china-teng-biao-american-bar-association.html?version=meter+at+0&module=meter-Links&pgtype=article&contentId=&mediaId=&referrer=https%3A%2F%2Fwww.google.com%2F&priority=true&action=click&contentCollection=meter-links-click.*

[98] Isaac Stone Fish, "Leaded Email: ABA Cancels Book for Fear of 'Upsetting the Chinese Government,'" *Foreign Policy*, April 15, 2016. *http://foreignpolicy.com/2016/04/15/leaked-email-aba-cancels-book-for-fear-of-upsetting-the-chinese-government-american-bar-association-teng-biao/.*

[99] U.S. Department of State, *China's Passage of the Law on the Management of Foreign NGO Activities Inside Mainland China*, April 28, 2016. *http://www.state.gov/secretary/remarks/2016/04/256705.htm.*

[100] The White House Office of the Press Secretary, *Statement by NSC Spokesperson Ned Price on China's Foreign NGO Management Law*, April 28, 2016. *https://www.whitehouse.gov/the-press-office/2016/04/28/statement-nsc-spokesperson-ned-price-chinas-foreign-ngo-management-law.*

[101] U.S. Department of Agriculture, "Foreign Agricultural Service Global Agriculture Trade System." *http://apps.fas.usda.gov/gats/.*

[102] U.S.-China Economic and Security Review Commission, "China's Agriculture Policy, Food Regulation, and the U.S.-China Agriculture Trade," in *2013 Annual Report to Congress*, November 2013, 156. *http://1.usa.gov/1Y191Ym*; Chendong Pi et al., "Fair or Fowl? Industrialization of Poultry Production in China," *Institute for Agriculture and Trade Policy*, February 2014, 14. *http://www.iatp.org/files/2014_02_25_PoultryReport_f_web.pdf*.

[103] Chendong Pi et al., "Fair or Fowl? Industrialization of Poultry Production in China," *Institute for Agriculture and Trade Policy*, February 2014, 13. *http://www.iatp.org/files/2014_02_25_PoultryReport_f_web.pdf*.

[104] U.S. Department of Agriculture, *Production, Supply and Distribution Online*. *http://apps.fas.usda.gov/psdonline/psdHome.aspx*.

[105] U.S.-China Economic and Security Review Commission, "China's Agriculture Policy, Food Regulation, and the U.S.-China Agriculture Trade," in *2013 Annual Report to Congress*, November 2013, 157. *http://1.usa.gov/1Y191Ym*.

[106] Chendong Pi et al., "Fair or Fowl? Industrialization of Poultry Production in China," *Institute for Agriculture and Trade Policy*, February 2014, 9, 15–16. *http://www.iatp.org/files/2014_02_25_PoultryReport_f_web.pdf*; U.S.-China Economic and Security Review Commission, "China's Agriculture Policy, Food Regulation, and the U.S.-China Agriculture Trade," in *2013 Annual Report to Congress*, November 2013, 158–159. *http://1.usa.gov/1Y191Ym*.

[107] Chendong Pi et al., "Fair or Fowl? Industrialization of Poultry Production in China," *Institute for Agriculture and Trade Policy*, February 2014, 17. *http://www.iatp.org/files/2014_02_25_PoultryReport_f_web.pdf*.

[108] Kelsey Gee, "China Bans Imports of U.S. Poultry amid Bird-Flu Concerns," *Wall Street Journal*, January 2015. *http://www.wsj.com/articles/china-bans-imports-of-u-s-poultry-amid-bird-flu-concerns-1421095231*.

[109] Wang Li, "China – People's Republic of: Poultry and Products Semi-Annual: Poultry Demand Remains Flat," *USDA Foreign Agricultural Services Global Agricultural Information Network*, February 2, 2016. *http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Poultry%20and%20Products%20Semi-annual_Beijing_China%20-%20Peoples%20Republic%20of_2-2-2016.pdf*.

[110] Chendong Pi et al., "Fair or Fowl? Industrialization of Poultry Production in China," *Institute for Agriculture and Trade Policy*, February 2014, 9. *http://www.iatp.org/files/2014_02_25_PoultryReport_f_web.pdf*.

[111] U.S.-China Economic and Security Review Commission, "China's Agriculture Policy, Food Regulation, and the U.S.-China Agriculture Trade," in *2013 Annual Report to Congress*, November 2013, 160. *http://1.usa.gov/1Y191Ym*.

[112] U.S. Department of Agriculture, "Production, Supply and Distribution Online." *http://apps.fas.usda.gov/psdonline/psdHome.aspx*.

[113] U.S.-China Economic and Security Review Commission, "China's Agriculture Policy, Food Regulation, and the U.S.-China Agriculture Trade," in *2013 Annual Report to Congress*, November 2013, 173. *http://1.usa.gov/1Y191Ym*; Chendong Pi et al., "Fair or Fowl? Industrialization of Poultry Production in China," *Institute for Agriculture and Trade Policy*, February 2014, 25–27. *http://www.iatp.org/files/2014_02_25_PoultryReport_f_web.pdf*.

[114] Chendong Pi et al., "Fair or Fowl? Industrialization of Poultry Production in China," *Institute for Agriculture and Trade Policy*, February 2014, 25. *http://www.iatp.org/files/2014_02_25_PoultryReport_f_web.pdf*.

[115] Chaoping Xie and Mary A. Marchant, "Supplying China's Growing Appetite for Poultry," *International Food and Agribusiness Management Review*, 2015, 131. *http://www.ifama.org/files/IFAMR/Volume%2018/Special%20Issue%20A/201400699.pdf*.