U.S.-China Economic and Security Review Commission

Monthly Analysis of U.S.-China Trade Data

October 6, 2015

Highlights of this Month's Edition

- **Bilateral trade:** U.S. goods deficit in August hits $34.9 billion, the highest monthly deficit this year.
- **Xi Jinping's state visit to the United States:** Presidents Obama and Xi announce cooperation in several areas, including agreement that neither government will support cyber-enabled theft of information for commercial advantage; joint initiatives to combat climate change; and narrowed scope in national security reviews of foreign investments. President Xi announces China will begin a national cap-and-trade program in 2017; pledges over $18 billion in total to development assistance, peacekeeping, climate change, and women's rights initiatives.
- **Policy trends in China's economy:** New state-owned enterprise reform plan repeats ongoing reform efforts and lacks clear direction.

Bilateral Trade

U.S. Exports Continue to Fall amid China's Slowdown

The U.S. trade deficit in goods with China increased by more than 10 percent month-on-month reaching $34.9 billion in August 2015, the highest monthly deficit this year. Monthly U.S. exports declined to $9.2 billion, a nearly 5 percent decrease year-on-year. Meanwhile, imports from China reached a monthly record high for 2015 at $44.1 billion, a more than 10 percent increase year-on-year (see Table 1).

For the first eight months of 2015, the cumulative goods deficit measured $237.3 billion, up 9.7 percent from 2014. Over the same period, as China's economy slowed, U.S. exports to China continued to fall registering a 3.9 percent decline from the same period in 2014. At the same time, the 2015 year-to-date value of imports from China increased 6.1 percent from 2014.

Table 1: U.S. Goods Trade with China, January–August 2015

(US$ billions)

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

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

Xi Jinping's State Visit to the United States

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

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

After Seattle, President Xi traveled to Washington for a meeting with President Obama. The two countries announced several cooperative efforts, including on commercial cyber espionage and climate change. The visit's key outcomes are assessed in the following sections.

U.S. and China Pledge No Hacking of Trade Secrets

On September 25 in Washington, DC, President Barack Obama and Chinese President Xi Jinping announced an agreement that "neither country's government will conduct or knowingly support cyber-enabled theft of intellectual property, including trade secrets or other confidential business information, with the intent of providing competitive advantages to companies or commercial sectors."[1] The two leaders also agreed to establish a "high-level joint dialogue mechanism on fighting cybercrime and related issues" that will meet twice a year.[2]

The last-minute deal appeared to be the minimum required to keep the official state visit from being considered a failure. In the weeks leading up to the talks, the Obama Administration indicated that an agreement against cyber spying was its top priority for President Xi's visit, and insisted the alternative was U.S. retaliation to counter an epidemic of cyber theft by China. Deputy National Security Adviser Ben Rhodes told reporters three days before President Xi landed in Washington, "While our preference is resolving this through dialogue, we're not averse to punitive measures, including sanctions, if we feel like there are actors in China and entities that are engaged in activities that are sanctionable."[3] In a speech to the Business Roundtable a week before President Xi's visit, President Obama noted, "We are preparing a number of measures that will indicate to the Chinese that this is not just a matter of us being mildly upset, but is something that will put significant strains on the bilateral relationship if not resolved, and that we are prepared to [take] some countervailing actions in order to get their attention."[4]

The Chinese government has always insisted China was the victim of computer theft, not the perpetrator. Shortly before the state visit, Meng Jianzhu, Secretary of the Chinese Communist Party's (CCP) Central Political and Legal Affairs Commission, met with top officials in Washington and insisted China "resolutely opposes cyber attacks and cyber espionage," promising that "whoever carries out cyber attacks and cyber espionage in China violates the national law and will be held accountable by law."[5]

President Xi began his trip to the United States with a stop in Seattle, where he met with executives of some of the top U.S. technology companies, including Microsoft (the host of the event), Apple, IBM, Facebook, Google, and Cisco Systems. President Xi repeated stock denials that the Chinese government conducts, sponsors, or tolerates commercial cyber espionage or attacks on U.S. government agencies. "Both commercial cyber theft and hacking against government networks are crimes that must be punished in accordance with the law or relevant international treaties," President Xi told the conference group.[6]

The issue of cyber theft and espionage had grown to be a major irritant between the two nations throughout the year. Following North Korea's attacks on the U.S. affiliate of Sony, Inc., President Obama declared a national emergency due to the "increasing prevalence and severity of malicious cyber-enabled activities" from abroad, constituting "an unusual and extraordinary threat to the national security, foreign policy, and economy of the United States."[7] Under an April 1 executive order accompanying the declaration of a national emergency, a wide variety of illicit cyber

[*] "Full Text: President Xi's Speech on China-U.S. Ties," *China Daily*, September 24, 2015. *http://www.chinadaily.com.cn/world/2015xivisitus/2015-09/24/content_21964069.htm*.

activities could result in sanctions, including “malicious cyber-enabled activity” that leads to theft of trade secrets or harm to the economy.

On April 4, the Office of Personnel Management (OPM) revealed the first details of what turned out to be one of the largest data breaches of any U.S. network—a prolonged attack in which hackers gained access to the personally identifiable information of 22.1 million people, as well as millions of sensitive and classified documents. Though the U.S. government has not officially attributed the attack to China, China is the “leading suspect,” according to Director of National Intelligence James R. Clapper, who characterized the intrusions of the OPM computer network as government-to-government espionage.[8] Federal Bureau of Investigation Director James B. Comey called the data breach “a very big deal from a national security perspective and from a counterintelligence perspective.… It’s a treasure trove of information about everybody who has worked for, tried to work for, or works for the United States government.”[9]

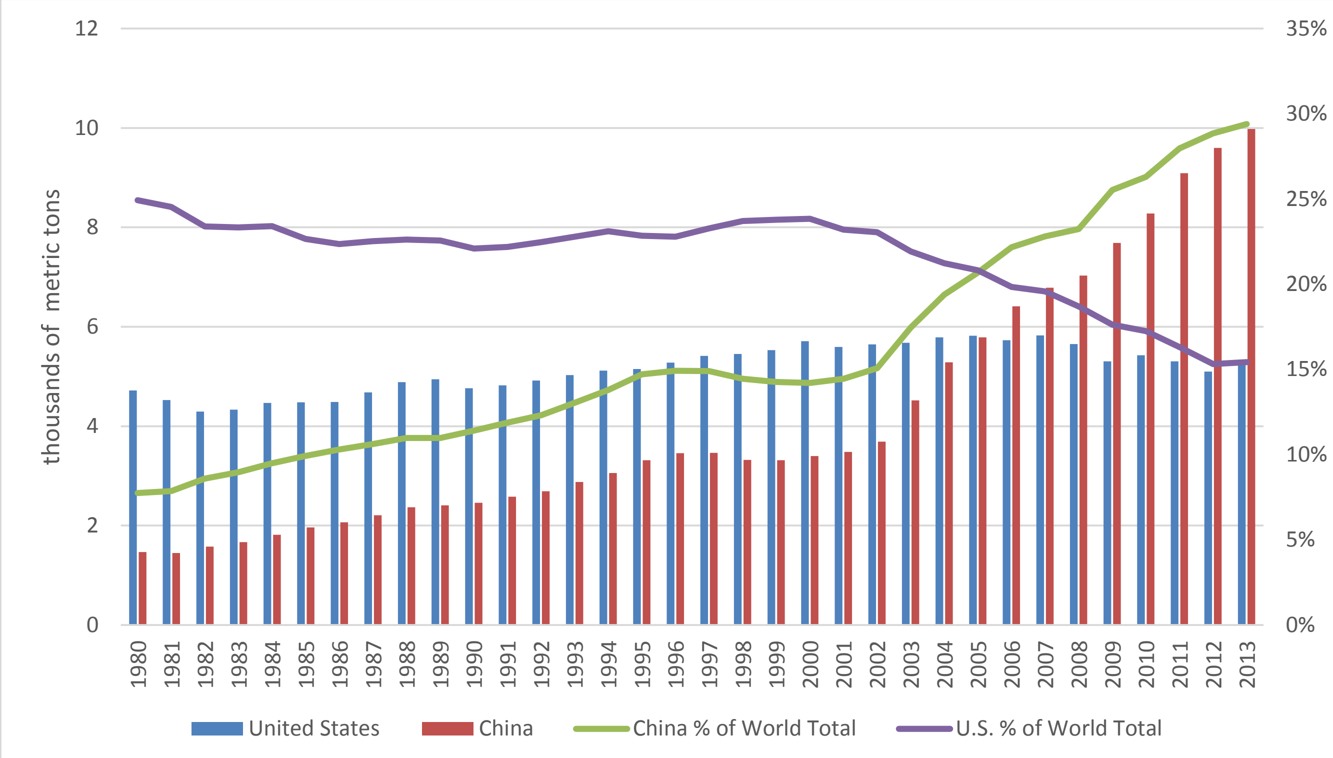
In addition to the September 25 agreement, the two nations will reopen a dialogue on cyber theft. A previous dialogue at a lower level had been suspended by the Chinese government to protest the indictment in May 2014 of five People’s Liberation Army officers for commercial cyber spying against the United States. The five indicted officers remain at their posts in China and are unlikely to face extradition, given that the Chinese government still claims it does not conduct commercial cyber espionage and insists the five are innocent of any wrongdoing.

Continued Climate Change Cooperation

During President Xi’s visit, a joint statement issued by the United States and China announced new carbon reduction initiatives to limit the impact of climate change. The announcements included plans for a nationwide cap-and-trade program and “green dispatch” system (which will favor low-carbon sources in the electric grid) in China, and measures for improved energy standards in both the United States and China. The statements also reaffirmed goals laid out during President Obama’s visit to China in November 2014, including reducing U.S. emissions by 26 to 28 percent of 2005 levels by 2025 and reaching peak carbon dioxide emissions in China by 2030.[10] These initiatives mark important progress leading up to the UN climate talks in Paris in December, where negotiators hope to sign an international accord placing limits on global carbon emissions.[11]

China and the United States are the world’s largest and second-largest emitters of carbon dioxide, respectively. According to statistics from the Global Carbon Project, the United States curbed its carbon dioxide output in recent years, decreasing from 5.8 thousand metric tons in 2005 to 5.2 thousand metric tons in 2013. Meanwhile, China’s carbon dioxide emissions continue to rise, increasing from 5.8 thousand metric tons in 2005 to nearly 10 thousand metric tons in 2013.[12] Between them, the two countries are responsible for nearly 45 percent of the world’s carbon dioxide emissions, necessitating that China and the United States take the lead on carbon reduction (see Figure 1).

Figure 1: Carbon Dioxide Emissions in the United States and China (1980–2013)



Source: Global Carbon Project, "Emissions: Territorial (MtCO2)." *http://www.globalcarbonatlas.org/?q=en/emissions*.

President Xi's announcement that China will begin a national cap-and-trade program in 2017 garnered significant attention in Western and Chinese press.[13] The cap-and-trade model establishes a mandatory cap on overall emissions, with companies buying and selling permits to pollute. Under this system, the market would regulate the cost of emissions, incentivizing improved efficiency standards.[14] China had previously announced plans to begin a national emissions trading system in 2015, later deferred to 2016, and now pushed back to 2017.[15] While the joint statement indicated China would begin capping emissions levels in 2017, the trading of emissions permits likely will not begin until 2019 or 2020, at the earliest.[16]

According to the announcement, China's transport sector, a significant producer of emissions, would be left out of the cap-and-trade program.[17] In addition, China's pollution control targets would be based on carbon intensity, which measures carbon output per unit of GDP, rather than absolute carbon dioxide levels. As a result, assuming China's economy continues to grow, it can meet its carbon intensity targets even as absolute emissions continue to increase.[18] Still, the trading system would encompass a substantial share of China's carbon pollution, including emissions from power generation, steel, cement, and other key industrial sectors.[19] Limits on carbon outputs in these sectors would help China meet commitments made by Premier Li Keqiang in June, which called for a 60 to 65 percent reduction of 2005 carbon intensity levels by 2030.[20] Official indications of the program's scope suggest the program could initially cover about 10,000 companies and other emitters for a market of up to four billion metric tons of carbon dioxide, making it twice as large as Europe's cap-and-trade program, currently the world's largest.[21]

Cap-and-trade programs are not new in China. In mid-2013, seven Chinese cities began emissions programs in a variety of sectors. Guangdong, the largest of the programs, covered 58 percent of emissions in 2014 in the power, cement, steel, and petrochemical sectors, while Shenzhen, the smallest of the pilot programs, saw 38 percent of its emissions covered in the power, industry, and property sectors (see Table 2). The programs have encountered difficulties, however, with government-selected companies reluctant to take part and inexperienced regulators providing inaccurate readings of pollution levels.[22] Despite these challenges, the programs have enjoyed some success; according to *China Daily*, under Beijing's program the city's carbon dioxide emissions fell by nearly 6 percent in 2014 from a year earlier.[23]

Table 2: Chinese Cap-and-Trade Pilot Programs

Region	Market Size (bn tons allowance)	Coverage	Emissions% covered
Guangdong	0.39	Power, cement, steel, petrochemical	58%
Hubei	0.32	Power, cement, chemical, metals, autos, paper, steel, petrochemical	40%
Shanghai	0.14	Power, cement, chemical, metals, autos, paper, steel, petrochemical, construction materials, rubber, aviation, airport, hotel	50%
Beijing	0.06	Power, steam, manufacturing, public facilities	40%
Tianjin	0.11	Power, steam, cement, steel, petrochemical, refinery, commercial property	60%
Chongqing	0.03	Electrolytic aluminum, cement, steel, calcium carbide, caustic soda	n.a.
Shenzhen	0.03	Power, industry, property	38%

Source: Julian Zhu et al., "China's Environment: Big Issues, Accelerating Effort, Ample Opportunities," *Goldman Sachs*, July 13, 2015, 50. *http://www.goldmansachs.com/our-thinking/pages/interconnected-markets-folder/chinas-environment/report.pdf*.

Implementing a national emissions program will prove to be a difficult task. Determining the level at which to cap carbon emissions, for example, will be challenging given China's rapidly increasing pollution. In addition, requiring polluters to pay for permits will raise costs for carbon-intensive industries such as steel, aluminum, and power generation.[24] These problems will be compounded by China's incomplete market infrastructure and unreliable statistics, leaving local government officials and enterprises with limited capacity and expertise to manage trading activities.[25] If the government can implement and enforce a cap successfully, however, it could reduce overcapacity in industries like steel by putting pressure on older, less efficient facilities to close.[26]

Many climate experts caution that even if China successfully implements a cap-and-trade system, it may not lead to significant emissions reductions in the short term. Song Ranping, a climate specialist at the World Resources Institute, indicated that "in the short term I don't think [emissions trading] will be the major way China reduces emissions," but that over the long term it could lead to substantial carbon reductions.[27] Instead, Ranping speculates energy efficiency and renewable energy policies will be the main drivers limiting China's emissions over the next few years.[28]

To improve its energy standards, China also pledged to implement a "green dispatch" system.[29] The system would prioritize non-carbon-producing renewable energy sources over fossil fuel sources in the electric grid, despite the higher cost.[30] China also affirmed that 50 percent of new city buildings would meet green building standards, while 30 percent of all motorized urban travel would be done via public transport, both by 2020.[31] In addition, China and the United States revealed plans for developing new heavy-duty vehicle fuel efficiency standards, set to be finalized in 2016 and implemented in 2019. These standards would reduce emissions of super-polluting hydrofluorocarbons (HFCs), a driver of climate change.[32]

Minimum Progress on the Bilateral Investment Treaty, but Dialogue on National Security Reviews

Although no measurable progress in the ongoing Bilateral Investment Treaty (BIT) negotiations was announced during President Xi's state visit, both parties addressed concerns regarding the mechanisms for reviewing foreign investments for national security risks, an issue that is likely to feature prominently in a U.S.-China BIT. Both the United States and China committed to limit the scope of their respective national security reviews "solely to issues that constitute national security concerns," not to include "broader public interest or economic issues."[33] Moreover, the two committed to apply "the same rules and standards under the law" regardless of country of origin in each investment reviewed, and to evaluate national security risks "as expeditiously as possible."[34] The United States reaffirmed during President Xi's visit that it maintains an "open investment environment for Chinese investors, including state-owned enterprises" seemingly in response to ongoing Chinese complaints that the Committee on Foreign Investment in the United States (CFIUS) unfairly blocks Chinese investment.[35]

China's commitment to limit the scope of review appears to conflict with its existing national security review provisions, codified in the July 2015 National Security Law, which governs reviews only within China's four free trade zones, and in a 2011 Circular that governs reviews conducted on investments outside the zones.[36] When China's new Foreign Investment Law is implemented—expected sometime after 2016—it will establish a nationwide, unified national security review mechanism for foreign investments, replacing the 2011 Circular.[37] Guidance issued in the 2011 Circular allows regulators to consider national economic stability, social order, and research and development capacity for key technologies related to national security in reviews of proposed mergers and acquisitions.[38] Given that President Xi's commitment to limit the scope of review contradicts existing laws and practices in China that favor an expansive definition of national security, it is unclear whether this commitment will result in any meaningful change.

China to Fund Multilateral Development Cooperation Commitments

Aside from investment, both governments announced their mutual support of and cooperation in international development initiatives, with U.S. officials welcoming China to play an expanded and more active role in the international financial architecture. The United States and China reaffirmed the importance of multilateral development banks such as the World Bank, Asian Development Bank, and the African Development Bank, with commitments from China to "meaningfully increase its role as a donor" in these institutions and their main concessional lending facilities.[39] "New and future institutions" such as the China-backed Asian Infrastructure Investment Bank must be "properly structured and operated" in line with the highest environmental and governance standards and must uphold the principles of "professionalism, transparency, efficiency, and effectiveness."[40] To solidify these commitments, the two governments signed a Memorandum of Understanding for "advancing shared development objectives" in ending poverty and hunger, promoting sustainable development, and implementing the UN 2030 Agenda for Sustainable Development.[41] The Obama Administration also reiterated its support for including the renminbi (RMB) in the International Monetary Fund's (IMF) special drawing rights basket as long as the currency meets the IMF's existing criteria.[42,*]

Following the commitments made in Washington, DC, President Xi during his first address to the UN General Assembly in New York announced a slew of investment funds intended to support development and peacekeeping in the world's poorest countries. Together with his $3.1 billion pledge to help developing countries combat climate change, President Xi pledged more than $18 billion over his four days in Washington, DC, and New York.[43] Some of his monetary pledges include:

- On September 26, President Xi pledged $2 billion as an initial investment to provide development aid to the least developed countries. To help the UN reach its goal of eliminating extreme poverty by 2030, President Xi offered to increase China's funding to $12 billion over the next 15 years.[44] Moreover, he offered to "exempt the debt of outstanding intergovernmental interest-free loans due by the end of 2015 owed by the relevant least developed countries."[45]
- On September 27, President Xi hosted a UN conference on women's rights and pledged $10 million to UN Women, the UN gender equality body, to help developing countries initiate 100 health projects for women and children.[46] President Xi's participation in the conference and pledge of funds drew ire from some U.S. politicians and rights activists who believe the pledge to be hypocritical given China's recent persecution of five Chinese feminists campaigning against sexual harassment there.[47]

[*] The IMF deferred its decision on including the RMB in the special drawing rights basket until November 2015; if approved, the RMB would not be included in the basket until September 2016 at the earliest. Gabriel Wildau, "IMF Indicates Shortcomings on Renminbi as Reserve Currency," *Financial Times*, August 5, 2015. *http://www.ft.com/intl/cms/s/0/2ce55f00-3b21-11e5-8613-07d16aad2152.html#axzz3nLJVxwol*.

- On September 28, at the UN Sustainable Development Summit, President Xi announced the establishment of a ten-year, $1 billion China-UN "peace and development fund" to support the UN's work, advance multilateral development, and contribute more to world peace and development.[48] To supplement China's funding, President Xi also announced China's participation in the new UN Peacekeeping Capability Readiness System to which it will contribute a peacekeeping standby force of 8,000 troops.[49]
- In addition to the $1 billion fund, President Xi offered a five-year, $100 million contribution of free military assistance to the African Union to help establish the African Standby Force and the African Capacity for Immediate Response to Crisis.[50]

Policy Trends in China's Economy

State-Owned Enterprise Reforms: Contradictory and Repetitive

In September 2015, the State Council and Central Committee of the CCP jointly released the Guiding Opinion on Deepening the Reform of State-Owned Enterprises that sought to outline steps forward to improve state-owned enterprises' (SOE)[*] productivity and global competitiveness.[†] Reflecting bureaucratic infighting and lack of consensus within the Chinese government on SOE reform, these guidelines—originally expected in March 2015—offer few concrete steps forward.[51] Andrew Batson, the China Research Director at the economics and market research firm Gavekal Dragonomics, described the guidelines as "an ungainly mishmash of bureaucratic compromises that sets no clear goals and is riven by internal contradictions."[52] Gordon Orr, senior advisor to McKinsey China, summed up the guidelines as "we still want to do what we said we were going to do before but haven't yet done."[53]

By 2020, the Chinese government aims to complete SOE reforms to:

- *Reinforce the control of the CCP and state over SOEs:* The guidelines reinforced the importance of CCP control over SOE management and personnel, placing it at odds with the push for mixed ownership and strengthening the very driver of inefficiency and cronyism within SOEs.[54]
- *Separate SOEs into commercial and public interest enterprises:* The guidelines reiterated earlier policy papers and clarified the separation of SOEs into commercial and public interest enterprises.[55] Commercial SOEs will seek to maximize profits and incorporate both mixed ownership and greater market competition; for strategically important SOEs, the state will maintain a controlling share. In contrast, public interest SOEs will remain wholly state-owned with a focus on delivering quality, efficient, and reasonably priced products and services to the Chinese public.[56] But the guidelines did not provide any detail on which sectors or firms would be commercial or public interest.[57]
- *Expand mixed ownership of SOEs:* The Chinese government is continuing to increase the amount of non-state investment—private equity, social welfare funds, and private enterprises—in local and central SOEs' ownership structure.[58] Such mixed-ownership enterprises, with various combinations of state and private controls, already comprise 40 percent of China's industrial economy, and expansion of this ownership model would seek to increase technology transfer and managerial expertise and enhance productivity.[59] However, Marshall Meyer, University of Pennsylvania Wharton School of Business emeritus professor of management, cautioned that "no matter how many shares are privately-owned, the decision lies with the state," limiting the ability of non-state shareholders to influence corporate decision making.[60] Dr. Meyer explained that in practice, mixed ownership often means cross-ownership among SOEs.[61] In March 2015, the oil refiner Sinopec sold a 30 percent stake in its sales arm to 25 non-Sinopec entities, mainly SOEs and

[*] For a full list of central SOEs, see State-Owned Assets Supervision and Administration Commission of the State Council (SASAC), *List of Central SOEs*, last updated February 9, 2015. *http://www.sasac.gov.cn/n86114/n86137/c1725422/content.html*.

[†] For the full text, see State Council of the People's Republic of China, *Central Committee of the Chinese Communist Party and the State Council Guiding Opinion on Deepening the Reform of State-Owned Enterprises*, September 13, 2015. Staff translation. *http://www.gov.cn/zhengce/2015-09/13/content_2930440.htm*.

SOE subsidiaries.[*] Similarly, Jiangxi Province sold a 47 percent stake in its local SOE Jiangxi Salt to SOEs and SOE subsidiaries in September 2015.[†]

- *Create global players through megamergers:* The State Council is consolidating and in some cases reconsolidating central SOEs into global competitors, a reversal of reforms in the 1990s that sought to increase SOE efficiency through managed competition.[62] In April 2015, official Chinese media announced that the government will consolidate the existing 112 centrally controlled SOEs into 40 large SOE conglomerates under the oversight of 16 ministries and authorities.[63] The guidelines also provided little direction on how the Chinese government will manage these mega conglomerates, reflecting internal divides on how to balance its desire to supervise these merged firms while achieving more market-oriented operations.[64] The Ministry of Finance has advocated for Singapore's Temasek model of governance, where the state collects dividends and operates as an asset manager, allowing SOEs to largely operate unfettered, while the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) prefers to maintain strong managerial oversight.

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*; Paul Magnusson, *pmagnusson@uscc.gov*; or Sean O'Connor, *so'connor@uscc.gov*).

Endnotes

[1] White House Office of the Press Secretary, *FACT SHEET: President Xi Jinping's State Visit to the United States*, September 25, 2015. *https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-president-xi-jinpings-state-visit-united-states.*

[2] White House Office of the Press Secretary, *FACT SHEET: President Xi Jinping's State Visit to the United States*, September 25, 2015. *https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-president-xi-jinpings-state-visit-united-states.*

[3] White House Office of the Press Secretary, *Conference Call to Preview the Visit of President Xi Jinping of the People's Republic of China*, via telephone, September 22, 2015. Politico, "Rhodes: Sanctions Still on the Table," September 23, 2015.

[*] Six SOEs and 11 state-controlled asset management companies account for 16 of the 25 shareholders and control 20.2 percent of the 30 percent stake offered by Sinopec. Some of these state-controlled shareholders include Citic Securities, China Life Insurance Company, Bank of China, Cinda Asset Management Company, and China Post Life Insurance. Xinhua (English edition), "China to Tighten Supervision of State Assets," May 26, 2015. *http://www.china.org.cn/china/Off_the_Wire/2015-05/26/content_35657299.htm*; Shirley Yam, "Sinopec Offers Master Class in SOE Mixed Ownership Reform," September 20, 2014 (Updated April 28, 2015); Neil Gough, "Sinopec Stake Sale Leaves Investors Unimpressed," *New York Times*, September 15, 2014. *http://dealbook.nytimes.com/2014/09/15/sinopec-stake-sale-leaves-investors-unimpressed/?_r=0*.

[†] These shareholders include: Cinda Asset Management Company (controlled by China's Ministry of Finance) at 22.8 percent, Zhongxinjian Merchants Investment (owned jointly by central SOE China Merchants Group and the quasi-military, quasi-commercial Xinjiang Production and Construction Corps) at 9.1 percent, Ximen ITG Group (owned by the Xiamen municipal government) at 7.6 percent, and Jianggangshan Investment (the private equity arm of the municipal SOE Beijing Automotive Industry Corporation) at 7.6 percent. Jiangxi Province's SASAC retains 46.9 percent, and the company management has 5.9 percent. David Keohane, "SOE You Think You Can Reform? Mixed-Ownership Edition," *Financial Times*, September 28, 2015. *http://ftalphaville.ft.com/2015/09/28/2140985/soe-you-think-you-can-reform-mixed-ownership-edition/#*.

[4] White House Office of the Press Secretary, *Remarks by the President to the Business Roundtable*, September 16, 2015.
[5] Shannon Tiezzi, "U.S., China Hold Cyber Talks before Xi's Visit," *Diplomat* (Tokyo), September 15, 2015.
[6] *China Trade Extra*, "Xi Pledges Cooperation on Cybertheft, Implies Other U.S. Complaints Are Baseless," September 23, 2015.
[7] White House Office of the Press Secretary, *Executive Order—Blocking the Property of Certain Persons Engaging in Significant Malicious Cyber-Enabled Activities*, April 1, 2015. *https://www.whitehouse.gov/the-press-office/2015/04/01/executive-order-blocking-property-certain-persons-engaging-significant-m*.
[8] Damien Paletta, "U.S. Intelligence Chief James Clapper Suggests China behind OPM Breach," *Wall Street Journal*, June 25, 2015. *http://www.wsj.com/articles/SB10007111583511843695404581069863170899504*; Kristen Finklea et al., "Cyber Intrusion into U.S. Office of Personnel Management: In Brief," *Congressional Research Service* (R44111), July 17, 2015.
[9] Ellen Nakashima, "Hacks of OPM Databases Compromised 22.1 Million People, Federal Authorities Say," *Federal Eye* (*Washington Post* blog), July 9, 2015. *http://www.washingtonpost.com/blogs/federal-eye/wp/2015/07/09/hack-of-security-clearance-system-affected-21-5-million-people-federal-authorities-say/*.
[10] White House Office of the Press Secretary, *Fact Sheet: U.S.-China Joint Announcement on Climate Change and Clean Energy Cooperation*, November 11, 2014. *https://www.whitehouse.gov/the-press-office/2014/11/11/fact-sheet-us-china-joint-announcement-climate-change-and-clean-energy-c*.
[11] Renee Lewis, "China Announces Plans to Launch Cap-and-Trade System," Aljazeera, September 25, 2015. *http://america.aljazeera.com/articles/2015/9/25/china-announces-2017-launch-of-carbon-market.html*.
[12] Global Carbon Project, "Emissions: Territorial (MtCO2)." *http://www.globalcarbonatlas.org/?q=en/emissions*.
[13] White House Office of the Press Secretary, *Fact Sheet: The United States and China Issue Joint Presidential Statement on Climate Change with New Domestic Policy Commitments and a Common Vision for an Ambitious Global Climate Agreement in Paris*, September 25, 2015. *https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-united-states-and-china-issue-joint-presidential-statement*.
[14] Shannon Tiezzi, "What You Need to Know about China's Cap-and-Trade Announcement," *Diplomat* (Tokyo), September 26, 2015. *http://thediplomat.com/2015/09/what-you-need-to-know-about-chinas-cap-and-trade-announcement/*
[15] Alex Lo, "Too Big to Fail: China Pledges to Set up Landmark Emissions Trading Scheme," *Conversation*, September 25, 2015. *http://theconversation.com/too-big-to-fail-china-pledges-to-set-up-landmark-emissions-trading-scheme-48214*.
[16] Lucy Hornby, "Doubt Cast over Start of China Emissions Trading Scheme," *Financial Times*, September 28, 2015. *http://www.ft.com/intl/cms/s/0/ff2f22fc-65ba-11e5-a28b-50226830d644.html#axzz3n8KSIgG6*.
[17] Chris Buckley, "Enacting Cap-and-Trade Will Present Challenges under China's System," *New York Times*, September 25, 2015. *http://www.nytimes.com/2015/09/26/world/asia/china-emissions-xi-jinping-limit-cap-and-trade.html*.
[18] Alex Morales, "China Sticks to Carbon-Intensity Target, Dismisses CO2 Cap," *Bloomberg*, June 4, 2013. *http://www.bloomberg.com/news/articles/2013-06-04/china-sticks-to-carbon-intensity-target-while-dismissing-co2-cap*.
[19] White House Office of the Press Secretary, *Fact Sheet: The United States and China Issue Joint Presidential Statement on Climate Change with New Domestic Policy Commitments and a Common Vision for an Ambitious Global Climate Agreement in Paris*, September 25, 2015. *https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-united-states-and-china-issue-joint-presidential-statement*.
[20] Naveena Sadasivam, "China Unveils Plans for National Cap and Trade Program," *Inside Climate News*, September 25, 2015. *http://insideclimatenews.org/news/25092015/china-national-cap-and-trade-program-carbon-emissions-Xi-Jinping-President-Obama*.
[21] Chris Buckley, "Enacting Cap-and-Trade Will Present Challenges under China's System," *New York Times*, September 25, 2015. *http://www.nytimes.com/2015/09/26/world/asia/china-emissions-xi-jinping-limit-cap-and-trade.html*.
[22] Chris Buckley, "Enacting Cap-and-Trade Will Present Challenges under China's System," *New York Times*, September 25, 2015. *http://www.nytimes.com/2015/09/26/world/asia/china-emissions-xi-jinping-limit-cap-and-trade.html*.
[23] Te-ping Chen, "As China Unveils Carbon Cap-and-Trade, Challenges Loom," *Wall Street Journal*, September 25, 2015. *http://www.wsj.com/articles/as-china-unveils-carbon-cap-and-trade-challenges-loom-1443187293*.
[24] Clyde Russell, "China Carbon Trading Not All Bad News for Commodities," Reuters, September 28, 2015. *http://www.reuters.com/article/2015/09/28/us-column-russell-china-carbon-idUSKCN0RS0A620150928*.
[25] Alex Lo, "Too Big to Fail: China Pledges to Set up Landmark Emissions Trading Scheme," *Conversation*, September 25, 2015. *http://theconversation.com/too-big-to-fail-china-pledges-to-set-up-landmark-emissions-trading-scheme-48214*.
[26] Clyde Russell, "China Carbon Trading Not All Bad News for Commodities," Reuters, September 28, 2015. *http://www.reuters.com/article/2015/09/28/us-column-russell-china-carbon-idUSKCN0RS0A620150928*.
[27] Steven Mufson, "With Cap and Trade Plan, China Adopts Emissions Policy That Couldn't Get through U.S.," *Washington Post*, September 28, 2015. *http://www.washingtonpost.com/news/energy-environment/wp/2015/09/28/with-cap-and-trade-plan-china-adopts-emissions-policy-that-couldnt-get-through-u-s-congress/*.
[28] Steven Mufson, "With Cap and Trade Plan, China Adopts Emissions Policy That Couldn't Get through U.S.," *Washington Post*, September 28, 2015. *http://www.washingtonpost.com/news/energy-environment/wp/2015/09/28/with-cap-and-trade-plan-china-adopts-emissions-policy-that-couldnt-get-through-u-s-congress/*.
[29] RT (Russia),"China to Become World's Leading Carbon Emissions Trader," September 26, 2015. *https://www.rt.com/news/316582-china-carbon-emissions-trader/*.
[30] Steven Mufson, "With Cap and Trade Plan, China Adopts Emissions Policy That Couldn't Get through U.S.," *Washington Post*, September 28, 2015. *http://www.washingtonpost.com/news/energy-environment/wp/2015/09/28/with-cap-and-trade-plan-china-adopts-emissions-policy-that-couldnt-get-through-u-s-congress/*.
[31] White House Office of the Press Secretary, *Fact Sheet: The United States and China Issue Joint Presidential Statement on Climate Change with New Domestic Policy Commitments and a Common Vision for an Ambitious Global Climate Agreement in Paris*,

September 25, 2015. *https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-united-states-and-china-issue-joint-presidential-statement*.

[32] Naveena Sadasivam, “China Unveils Plans for National Cap and Trade Program,” *Inside Climate News*, September 25, 2015. *http://insideclimatenews.org/news/25092015/china-national-cap-and-trade-program-carbon-emissions-Xi-Jinping-President-Obama*.

[33] White House Office of the Press Secretary, *Fact Sheet: U.S.-China Economic Relations*, September 25, 2015. *https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-us-china-economic-relations*.

[34] White House Office of the Press Secretary, *Fact Sheet: U.S.-China Economic Relations*, September 25, 2015. *https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-us-china-economic-relations*.

[35] White House Office of the Press Secretary, *Fact Sheet: U.S.-China Economic Relations*, September 25, 2015. *https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-us-china-economic-relations*.

[36] Tim Stratford and Yan Luo, “National Security Review Creates FDI Hurdle,” *China Law & Practice* (Covington & Burling), July 13, 2015. *https://www.cov.com/~/media/files/corporate/publications/2015/07/national_security_review_creates_fdi_hurdle.pdf*.

[37] Thomas Chou et al., “China’s Draft Foreign Investment Law: A Paradigm Shift in Regulation of Foreign Investment,” *Morrison & Foerster LLP*, February 12, 2015. *http://www.mofo.com/~/media/Files/ClientAlert/2015/02/150212ChinasDraftForeignInvestment.pdf*.

[38] Tim Stratford and Yan Luo, “National Security Review Creates FDI Hurdle,” *China Law & Practice* (Covington & Burling), July 13, 2015. *https://www.cov.com/~/media/files/corporate/publications/2015/07/national_security_review_creates_fdi_hurdle.pdf*.

[39] White House Office of the Press Secretary, *Fact Sheet: U.S.-China Economic Relations*, September 25, 2015. *https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-us-china-economic-relations*.

[40] White House Office of the Press Secretary, *Fact Sheet: U.S.-China Economic Relations*, September 25, 2015. *https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-us-china-economic-relations*.

[41] U.S. Agency for International Development and China’s Ministry of Commerce, *Memorandum of Understanding on U.S.-China Development Cooperation and the Establishment of an Exchange and Communication Mechanism between the United States Agency for International Development and the Ministry of Commerce of the People's Republic of China*, September 25, 2015. *https://www.usaid.gov/china/mou*.

[42] White House Office of the Press Secretary, *Fact Sheet: U.S.-China Economic Relations*, September 25, 2015. *https://www.whitehouse.gov/the-press-office/2015/09/25/fact-sheet-us-china-economic-relations*.

[43] Associated Press, “Analysis: Xi Big-Money Pledges Underpin Chinese Diplomacy,” *New York Times*, September 29, 2015. *http://www.nytimes.com/aponline/2015/09/29/world/asia/ap-un-xis-diplomacy-analysis.html*.

[44] Jane Perlez, “President Xi Jinping of China Pledges $2 Billion to Fight Poverty,” *New York Times*, September 26, 2015.

[45] Scott Neuman, “China Pledges Billions in Development Aid,” *National Public Radio*, September 26, 2015. *http://www.npr.org/sections/thetwo-way/2015/09/26/443718168/china-pledges-billions-in-development-aid*.

[46] Jeremy Page, “China to Create $1 Billion Fund to Support U.N.,” *Wall Street Journal*, September 28, 2015. *http://www.wsj.com/articles/china-to-create-1-billion-fund-to-support-u-n-1443463394*.

[47] Nora Caplan-Bricker, “Why Hillary Clinton Called Xi Jinping ‘Shameless,’” *Slate*, September 28, 2015. *http://www.slate.com/blogs/xx_factor/2015/09/28/hillary_clinton_xi_jinping_un_summit_shameless.html*.

[48] Xi Jinping, “Working Together to Forge a New Partnership of Win-Win Cooperation and Create a Community of Shared Future for Mankind” (General Debate of the 70th Session of the UN General Assembly, New York, NY, September 28, 2015). Published in Nikhil Sonnad, “Read the Full Text of Xi Jinping’s First UN Address,” *Quartz*, September 29, 2015. *http://qz.com/512886/read-the-full-text-of-xi-jinpings-first-un-address/*.

[49] Xi Jinping, “Working Together to Forge a New Partnership of Win-Win Cooperation and Create a Community of Shared Future for Mankind” (General Debate of the 70th Session of the UN General Assembly, New York, NY, September 28, 2015). Published in Nikhil Sonnad, “Read the Full Text of Xi Jinping’s First UN Address,” *Quartz*, September 29, 2015. *http://qz.com/512886/read-the-full-text-of-xi-jinpings-first-un-address/*.

[50] Xi Jinping, “Working Together to Forge a New Partnership of Win-Win Cooperation and Create a Community of Shared Future for Mankind” (General Debate of the 70th Session of the UN General Assembly, New York, NY, September 28, 2015). Published in Nikhil Sonnad, “Read the Full Text of Xi Jinping’s First UN Address,” *Quartz*, September 29, 2015. *http://qz.com/512886/read-the-full-text-of-xi-jinpings-first-un-address/*.

[51] Open Source Center, “PRC: Combined Full Text of CPC Central Committee Document on Deepening State-Owned Enterprise Reform,” September 13, 2015. ID: CHO2015092101529658; Open Source Center, “Revision: PRC: Full Text of CPC Central Committee Document on Deepening State-Owned Enterprise Reform (Part 2),” September 13, 2015. ID: CHO2015091810523860; Xinhua (English edition), “General Plan for SOE Reform Expected to Come out in March 2015, Report,” December 19, 2014. *http://en.xinhua08.com/a/20141219/1428197.shtml*; State Council of the People’s Republic of China, *Central Committee of the Chinese Communist Party and the State Council Guiding Opinion on Deepening the Reform of State-Owned Enterprises*, September 13, 2015. Staff translation. *http://www.gov.cn/zhengce/2015-09/13/content_2930440.htm*; and Mirjam Meissner et al., “Like a Phoenix from the Ashes: Reforms Are to Bolster China’s State-Owned Enterprises,” *Mercator Institute for China Studies*, June 2015. *http://www.merics.org/en/merics-analyses/web-specials/like-a-phoenix-from-the-ashes-reforms-are-to-bolster-chinas-state-owned-enterprises.html*.

[52] *Economist*, “A Whimper, Not a Bang,” September 17, 2015. *http://www.economist.com/news/business/21665065-chinas-plan-reform-its-troubled-state-firms-fails-impress-whimper-not-bang*.

[53] Gordon Orr, “China Announces State-Owned Enterprise Reform…Again,” *Gordon’s View* (McKinsey & Company blog), September 16, 2015. *http://www.mckinseychina.com/china-announces-state-owned-enterprise-reformagain/*.

[54] Donald C. Clarke, “Central Committee and State Council Issue Document on State-Owned Enterprise Reform,” *Chinese Law Professor Blog*, September 21, 2015. *http://lawprofessors.typepad.com/china_law_prof_blog/2015/09/central-committee-and-state-council-issue-document-on-state-owned-enterprise-reform.html*.

[55] Gordon Orr, "China Announces State-Owned Enterprise Reform…Again," *Gordon's View* (McKinsey & Company blog), September 16, 2015. *http://www.mckinseychina.com/china-announces-state-owned-enterprise-reformagain/*; U.S.-China Economic and Security Review Commission, *Hearing on China Ahead of the 13th Five-Year Plan: Competitiveness and Market Reform*, written testimony of Nicholas Consonery, April 22, 2015, 6. *http://www.uscc.gov/sites/default/files/Consonery%20-%20Written%20Testimony.pdf*.

[56] Open Source Center, "PRC: Combined Full Text of CPC Central Committee Document on Deepening State-Owned Enterprise Reform," September 13, 2015. ID: CHO2015092101529658; Open Source Center, "Revision: PRC: Full Text of CPC Central Committee Document on Deepening State-Owned Enterprise Reform (Part 2)," September 13, 2015. ID: CHO2015091810523860.

[57] Open Source Center, "PRC: Combined Full Text of CPC Central Committee Document on Deepening State-Owned Enterprise Reform," September 13, 2015. ID: CHO2015092101529658; Open Source Center, "Revision: PRC: Full Text of CPC Central Committee Document on Deepening State-Owned Enterprise Reform (Part 2)," September 13, 2015. ID: CHO2015091810523860.

[58] *Knowledge* (Wharton School of the University of Pennsylvania), "China's Mixed-Ownership Model: Can the State Let Go?" September 26, 2014. *http://knowledge.wharton.upenn.edu/article/will-chinas-mixed-ownership-enterprise-model-work/*; Open Source Center, "PRC: Combined Full Text of CPC Central Committee Document on Deepening State-Owned Enterprise Reform," September 13, 2015. ID: CHO2015092101529658; and Open Source Center, "Revision: PRC: Full Text of CPC Central Committee Document on Deepening State-Owned Enterprise Reform (Part 2)," September 13, 2015. ID: CHO2015091810523860.

[59] Marshall W. Meyer and Changqi Wu, "Making Ownership Matter: Prospects for China's Mixed Ownership Economy," *Paulson Institute*, September 2014, 6, 14. *http://www.paulsoninstitute.org/wp-content/uploads/2015/04/PPM_Making-Ownership-Matter_Meyer-and-Wu_English.pdf*; *Knowledge* (Wharton School of the University of Pennsylvania), "China's Mixed-Ownership Model: Can the State Let Go?" September 26, 2014. *http://knowledge.wharton.upenn.edu/article/will-chinas-mixed-ownership-enterprise-model-work/*.

[60] *Knowledge* (Wharton School of the University of Pennsylvania), "China's Mixed-Ownership Model: Can the State Let Go?" September 26, 2014. *http://knowledge.wharton.upenn.edu/article/will-chinas-mixed-ownership-enterprise-model-work/*.

[61] Marshall W. Meyer, Emeritus Professor of Management, University of Pennsylvania Wharton School of Business, discussion with the Commission via e-mail, September 22, 2015.

[62] Dong Zhang and Owen Freestone, "China's Unfinished State-Owned Enterprise," *Economic Roundup* Issue 2 (Australian Government – The Treasury), 2013. *http://www.treasury.gov.au/PublicationsAndMedia/Publications/2013/Economic-Roundup-Issue-2/Economic-Roundup/Chinas-unfinished-SOE-reforms*.

[63] Shu Zhang and Matthew Miller, "Update 2-China Plans Mergers to Cut Number of Big State Firms to 40 – State Media," Reuters, April 27, 2015. *http://www.reuters.com/article/2015/04/27/china-soe-idUSL4N0XO4FD20150427*; Mirjam Meissner et al., "Like a Phoenix from the Ashes: Reforms Are to Bolster China's State-Owned Enterprises," *Mercator Institute for China Studies*, June 2015, 7. *http://www.merics.org/en/merics-analyses/web-specials/like-a-phoenix-from-the-ashes-reforms-are-to-bolster-chinas-state-owned-enterprises.html*.

[64] Keira Lu Huang, "There's about to be a Massive Shake-up at China's State-Owned Enterprises," *South China Morning Post*, August 16, 2015; Lingling Wei, "China Unveils Overhaul of Bloated State Sector," *Wall Street Journal*, September 13, 2015. *http://www.wsj.com/articles/china-to-allow-state-owned-enterprises-to-sell-shares-to-public-1442138335*; and *Economist*, "A Whimper, Not a Bang," September 19, 2015. *http://www.economist.com/news/business/21665065-chinas-plan-reform-its-troubled-state-firms-fails-impress-whimper-not-bang*.