



**Statement Before the**

**U.S.—China Economic and Security Review Commission**

***“Risks, Rewards, and Results: U.S. Companies  
in China and Chinese Companies in the United  
States”***

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## I. Introduction

When considering the state of China's economy and the country's domestic and international economic policy orientation, American policy makers should be concerned with a great number of issues. Foremost among them is the effect on the economy and security of the United States, including its growth, employment, industry development, the protection of critical infrastructure and privacy, and the provision of physical security. Also of growing importance is the impact of China's economy on the global economy, the health of industries worldwide, and the liberal international order. Today, though, I have been asked to comment on the state of American companies in China, and how they are faring in an era of intensified Chinese industrial policy. Since the 1990s American investment in China has grown dramatically. According to the Rhodium Group, between 1990 and 2017 total American direct investment in China total \$256.49 billion, including almost \$14 billion in 2017.<sup>1</sup> Analyzing the state of American business in China provides a useful window into understanding China's effect on the American economy and the global international system.

My bottom-line conclusion is that many American companies are operating profitably in China and that China is an important part of their global supply chains and innovation ecosystems, but that the obstacles to doing business in China are not subsiding but instead are increasing, measured in terms of reduced market access, growing operational costs, vulnerability to loss of intellectual property (IP), and the volatility of their global supply chains. American companies are resilient and adaptable and are responding to these risks, but they would respond even more effectively and in ways that more fully fit American national interests if American policy would effectively counter and constrain Chinese industrial policy as well as China's broader challenge to the liberal international order. Currently, despite the fact that the United States and China appear to be on the verge of a wide-ranging commercial deal, U.S. government policy is not as supportive as it could be, most importantly as a result of a poorly functional internal policymaking process and insufficient coordination and cooperation with America's allies informally and in multilateral institutions. The U.S. Congress could take a variety of actions to strengthen American policy vis-à-vis China.

## II. The State of American Business in China

The most authoritative source for the condition of American companies in China is the annual business climate survey conducted by the American Chamber of Commerce in China as well as the Chamber's annual White Paper. The most recent version of the business climate survey was published earlier this week.<sup>2</sup> The findings of their annual surveys are highly consistent with

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<sup>1</sup> Rhodium Group, "The US-China FDI Project," <https://us-china-fdi.com/>. One obstacle to effective policy is limited data on investment. Unlike trade in goods and services, government data on international investment flows is surprisingly incomplete. This is particularly true in areas of emerging technologies that are central to future innovation.

<sup>2</sup> American Chamber of Commerce in China, *2019 China Business Climate Survey Report* (Beijing, February 26, 2019), <https://www.amchamchina.org/about/press-center/amcham-statement/growth-continues-amid-heightened-uncertainty>; and American Chamber of Commerce in China, *AmCham China White Paper: 2018 American Business in China* (Beijing: 2018). For comparison, see European Chamber of Commerce in China, *European Business in China Position Paper 2018/2019* (Beijing: 2018).

similar surveys taken by the American Chambers of Commerce in Shanghai and Guangzhou, the US-China Business Council, and the European Chamber of Commerce in China.

The latest results show that:

1. Business revenue grew in 2018 for over 60% of companies, remained the same for a quarter of American companies, and fell for 12% of firms. Revenue growth was up across the board except for resource and industrial companies, where almost half reported either no growth or a fall in revenue. Figures for profitability were almost identical to those for revenue and down slightly from 2017. For those reporting a fall in income, consumer and service sector firms stressed the overall slowdown in business and growing costs. By contrast, US firms in high-tech and resource sectors highlighted deteriorating industry conditions (by which they likely meant industrial policy) and competition from private Chinese companies. That said, US high-tech firms report that their profit margins in China are higher than their global margins and at a higher level compared to their cousins in any other industry. This potential contradiction is likely resolved by the fact that high-tech sectors continued to expand relatively fast in China in 2018, even as industrial policy became more supportive of domestic firms.

2. Looking ahead, American companies are more pessimistic about future business growth in China compared to years past, with 54% expecting growth to be under 5%, up from 45% who had the same expectation a year ago. Technology companies stand out as being more optimistic relative to companies in other sectors (resources, consumer, and services). Growing domestic competition, increasing costs, the regulatory environment and tense US-China relations all play a contribute to this unease.

3. Analysis of the overall investment environment improved modestly in 2018, with 79% saying it had improved (38%) or remained the same (41%). The most positive respondents were firms from the aerospace, healthcare services, and retail and distribution sectors. The most concerned were in telecom hardware and services, agribusiness, media and entertainment, real estate, transport & logistics, and other services (such as legal). It is no surprise that these areas are where market access obstacles are most severe. 48% of respondents said they would expand investment in China if its markets were as open as those in the United States. 19% of respondents said they have moved or are considering moving capacity outside of China, down slightly from the figure reported a year ago (23%). For those doing so, the top reason is US tariffs on goods exported from China (24%), followed by rising costs (17%), and expectations of slower growth (10%). A small minority of companies said they have or may move capacity because of China's "uncertain policy environment" (9%) or "market access barriers" (7%). For those moving outside China, 40% are going to "developing Asia," 11% to "developed Asia," 9% to the EU, 10% Mexico and Canada, and 17% the United States. This means that only 3.2% of US investors in China have moved or are considering moving some capacity to the United States.

4. The regulatory environment in China continues to be a large problem for American companies. Tech companies (54%), in particular, feel less welcome than companies in other sectors, followed by companies in resources (41%), consumer (39%), and services (39%). For the fourth year in a row, "inconsistent regulatory interpretation and unclear laws and enforcement" is the top problem and rising labor costs second, but rising US tensions suddenly

became a much larger concern for US investors (45%). This is particularly true for companies in both high-tech and services. Tech companies were the most likely to report increased use of non-tariff barriers in limiting their business operations.

5. Although uncertainty in the bilateral US-China relationship is a growing concern for American businesses, they are not clamoring for the United States to reach just any deal simply in the name of stability. Sweeping problems under the rug does not solve the problems they face. Instead, they clearly want “the US government to advocate even more strongly for a level playing field, pursue investment reciprocity and engage in results-oriented inter-governmental dialogue.” The top four areas that need to be addressed are “increasing the transparency, predictability and fairness of the regulatory environment” (53%), “ensuring greater protection of intellectual property” (46%), “limiting the use of industrial policies that create barriers” (42%), and expanding market access in currently restricted areas (36%).

6. With regard to intellectual property rights (IPR) in particular, 53% of respondents reported that the risks of intellectual property rights leakage and data security threats are higher in China than elsewhere in the world. The top IP problem for US companies was difficulty prosecuting IP theft (39%) and insufficient legal protections in laws and regulations (26%). Tech companies in particular raised the need of reducing requirements for technology transfer.

### **III. The Varying Effect of Chinese Industrial Policy: Illustrative Cases**

China’s business climate has become increasingly challenging as a result of a more concerted effort to push China’s economy toward the technology frontier. Chinese industrial policy is more ambitious, better funded, more highly organized, and increasingly connected to supporting China’s national security needs. In addition, Chinese central and local authorities utilize the full toolkit of discriminatory non-tariff barriers, from subsidies to competition policy to government procurement, and everything in between. In addition, China is more aggressively using globalization to its advantage. The Chinese government attracts foreign companies, technology and talent to do business and carry out research in China; Chinese industry, experts, and students are intensively operating abroad to address the same needs; and Chinese government agencies and companies are actively participating in international economic governance institutions to shape the global rules of business in the 21st century.<sup>3</sup> Most importantly, China’s current leadership, although it often talks about win-win outcomes, sees its technological pursuit in zero-sum terms, in which Chinese companies are as a group in competition with non-Chinese companies for the “commanding heights” of the economic frontier, and winning this battle serves both China’s economic and national security goals. In fact, the two goals are so inter-related that it is hard to distinguish between them.

China’s industrial policy approach affects American firms from different industries in different ways, both because some sectors are high priorities and others are not, but also because the effectiveness of Chinese policy varies across high-priority sectors. There has been no highly

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<sup>3</sup> Scott Kennedy “The Beijing Playbook: Chinese Industrial Policy and Its Implications for the United States,” in James Andrew Lewis, ed., *Meeting the China Challenge* (Washington, DC: CSIS, January 2018), pp. 1-9.

detailed and comprehensive analysis of these patterns and what they mean for American companies, but we can point to some examples to illustrate the larger point.

**Non-Strategic Market Competitors.** Household goods may have once been a high-priority sector with obstacles to investment and imports, but that is no longer the case. Instead, for American companies such as Procter and Gamble (P&G) or Walmart, the primary challenges are the standard ones companies would normally face in a large and increasingly wealthy market economy: evolving consumer tastes, increasing labor costs, and intensive competition from Chinese and international companies. US companies do run into occasional regulatory obstacles, such as unjustified onerous testing requirements or quality standards, but by and large these issues are not their most important obstacle to success in China.

**Industrial Policy Winners.** There are some industries where the Chinese are putting a great deal of emphasis. These sectors support a great deal of economic activity in their own right and generate substantial activity for other industries as well. However, despite their best efforts, licit and illicit, Chinese firms in these industries are far from catching up and are still highly dependent on foreign technology providers. The prospects for Chinese success in these sectors are murky at best, a combination of, on the one hand, sectors with high technical barriers to entry and poorly managed Chinese companies (often state-owned enterprises), and on the other, highly innovative and well-run American companies that also go to great lengths to protect their IP and the tacit knowledge that goes into manufacturing and servicing their products.

Columbus, Indiana-based Cummins makes the world's most advanced engines for large-scale trucks. No Chinese company can match their sophistication and quality, and Cummins selfishly guards its IP even in its joint ventures. As a result, Cummins has built up its business of selling its engines to Chinese truck companies, including state-owned enterprises (SOEs), and Cummins can benefit from China's infrastructure push, at home and abroad.

China has made it a top mission to build its own commercial aircraft, and in 2008 created the Commercial Aircraft Corporation of China (COMAC) to fulfill this goal. COMAC has put a regional jet into operation (the ARJ21), it is developing a larger narrow-body aircraft (the C919), and it has started to draw up plans for a wide-body aircraft (the CRJ929). COMAC has invested hundreds of billions of yuan in this effort, and there are a wide assortment of Chinese component suppliers. But despite these efforts and the sector's size, China's commercial aircraft industry is an abysmal failure. Chinese component makers can make parts to order, but they can't successfully design parts, manufacture them from scratch, let alone smoothly manage the complex process of integrating thousands of suppliers' components and systems into a safe, reliable and efficient aircraft. Because China's domestic aerospace industry is so weak, the core components of the C919, which is now in testing, have come almost entirely from foreign suppliers, including American companies such as Honeywell, General Electric, Rockwell Collins, and United Technologies. Because aircraft are certified as a unit with all of the individual components, if the C919 is ever certified and is delivered to airlines, these American suppliers will gain business, and they won't be easily replaced. That said, the C919 is far behind schedule and may never make it to market. The chances of the CRJ929 ever getting off the drawing board and being built and put into commercial service are even more remote. As a result, Boeing (and Airbus, too) is likely to continue to have brisk sales in China, which currently

is the customer for one-quarter of all of their planes. Boeing recently opened a finishing center near Shanghai, but it has not followed Airbus's model of creating a full assembly line in China.<sup>4</sup>

Similarly, China is investing heavily in building its semiconductor industry. It has made some progress in certain kinds of semiconductors and boasts a small number of competitive firms, such as HiSilicon. Nevertheless, Chinese firms are still behind in designing the most advanced chips that are made by American companies such as Intel and Nvidia. Moreover, they are still unable to build their own manufacturing equipment and are dependent on companies such as Applied Materials. And in fabrication, the leaders of this sub-sector, Taiwan's TSMC, and the US firm Global Foundries, are in greater demand than ever, and they still do not face major Chinese competition.<sup>5</sup>

**Industrial Policy Losers.** Chinese industrial policy certainly does create American corporate victims. There are a variety of industries whose technological barriers to entry are somewhat lower and somewhat easier to master than in the sectors described above. In these industries the Chinese are sometimes able to persuade foreign parties to share their technology or they obtain it illegally. Beyond such foreign inspiration, a growing proportion of Chinese are able to learn and incrementally innovate, adding their own distinctive new elements to the original technologies. In addition, China is also able to utilize its systematic advantages to ramp up in priority sectors through a combination of unleashing a bevy of investment, being able to scale-up production quickly, and generating demand, all of which together provide a path to success.

In such sectors companies from the United States and elsewhere have a variety of technical and brand advantages, but this is only enough to provide protection for them at the high end of the market, and over time the power of commodification and cost so eat into foreign companies' market share that they end up primarily playing defense. In such industries government support often is too effective at attracting investment, and as a result, supply eventually overtakes demand, resulting in overcapacity and built-up inventories. Chinese firms backed by state banks and local governments can weather these valleys, but American firms that operate on tighter budget constraints cannot, and this further helps Chinese firms gain market strength despite their lesser technological prowess. The result is that entire supply chains gravitate to China or fall within its orbit.

Looking at well-developed cases, one of the best examples of such a sector is the solar industry. China was able to obtain technology from a variety of Western companies and invested in capacity far beyond what the China market could support. Many companies in market economies were unable to survive the rapid drop in prices that was caused by such overcapacity. The result was China's takeover of final production and much of the supply chain. Moreover, China's quick

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<sup>4</sup> Marc Szepan, "Is China Ready To Compete in The Commercial Aircraft Industry?" *Forbes*, December 2, 2015; Trefor Moss, "Boeing Flies Close to Trade Tussle With New Facility in China," *Wall Street Journal*, December 15, 2018, <https://www.wsj.com/articles/boeing-flies-close-to-trade-tussle-with-new-facility-in-china-11544875263>; and Jon Sindreu, "How China Could Challenge the Boeing-Airbus Duopoly," *Wall Street Journal*, January 6, 2019, <https://www.wsj.com/articles/how-china-could-challenge-the-boeing-airbus-duopoly-11546786800>.

<sup>5</sup> Junko Yoshida, "U.S.-China Crisis: Fallout for Chip Industry," *EE Times*, February 24, 2019, [https://www.eetimes.com/document.asp?doc\\_id=1334360#](https://www.eetimes.com/document.asp?doc_id=1334360#); and James A. Lewis, *Learning the Superior Techniques of the Barbarians: China's Pursuit of Semiconductor Independence* (Washington, DC: CSIS, February 27, 2019), <https://www.csis.org/analysis/learning-superior-techniques-barbarians>.

dominance of the sector led to technology lock-in, with the solar industry scaling up technologies that are relatively old and less efficient than other potential alternatives.<sup>6</sup> In high-speed rail, German producer Siemens and Japanese producer Kawasaki Heavy Industries (KHI) shared much of their technology willingly with China. Yet these foreign producers have not been able to find any market for their own complete high-speed rail solutions in China, and China Railway Corporation is now a global powerhouse beyond China's borders.<sup>7</sup> Telecom equipment would be another case, where Chinese makers Huawei and ZTE, by hook and by crook, were able to acquire technology from American companies, such as Cisco and Motorola, and then outlive them by following the above playbook.

There are other industries where this pattern is just starting to unfold. In the electric vehicle sector, the same dynamic seems to be at play. China has over 400 electric car producers, and in 2018 the country produced over 1 million passenger vehicles and buses. The vast majority of the vehicles were made by Chinese companies. GM and Ford are developing electrified versions of their models, but it is quite possible they will face enormous obstacles being successful in the China market. Tesla will open its own production facility in Shanghai within the next year, but even with its very high brand advantage, it will take some time for Tesla to acclimate to producing in China. Relatedly, a few years ago China essentially banned foreign electric car battery makers from its market by not permitting subsidies for cars that carried their batteries. As a result, the world's leading producers – Samsung SDI, LG Chem, and Panasonic – were all effectively shut out of the market, creating space for domestic Chinese producers. Chinese battery makers BYD and CATL took advantage of this opportunity, leaving much less room permanently for foreign suppliers. This not only affects these South Korean and Japanese battery producers, but also the American companies with whom they partner, such as Tesla. Tesla's gigafactory in the United States is a partnership with Panasonic, but one could speculate that Tesla could be pushed to collaborate with one of the Chinese battery makers for the cars it manufactures in China.<sup>8</sup> There is reason to worry that the robotics sector, where American firms such as Rockwell Automation are highly prominent and operate in China, may be facing the same dynamics. These firms are still operating at the high end of the market without substantial local competition, but one should question whether their vaunted positions will endure indefinitely.

**Blocked Outsiders.** There are a variety of sectors to which Chinese authorities have simply blocked market entry or made market entry so onerous as to be an effective ban. In cloud services, American firms such as AWS, Microsoft and IBM are required to operate via joint-venture partners, and there are major restrictions on data flows and the services they can provide. As a result, domestic companies such as Alibaba Cloud have moved into the gap. Based on

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<sup>6</sup> Varun Sivaram, *Taming the Sun: Innovations to Harness Solar Energy and Power the Planet* (Cambridge, MA: MIT Press, 2018).

<sup>7</sup> Michael Fitzpatrick, "Did China Steal Japan's High-Speed Train?" *Fortune*, April 15, 2013, <http://fortune.com/2013/04/15/did-china-steal-japans-high-speed-train/>; Henry Lu, "How Did China Become a Strong Competitor in the High-Speed Rail Industry?" Quora, January 8, 2015, <https://www.quora.com/How-did-China-become-a-strong-competitor-in-the-high-speed-rail-industry>.

<sup>8</sup> Anjani Trivedi, "Tesla May be Trampled by CATL in China," Bloomberg Opinion, May 8, 2018, <https://www.bloomberg.com/opinion/articles/2018-05-08/china-s-car-battery-champion-catl-may-trample-tesla-s-dream>; and Scott Kennedy, *China's Risky Drive into New-Energy Vehicles* (Washington, DC: CSIS, November 19, 2018), <https://www.csis.org/analysis/chinas-risky-drive-new-energy-vehicles>.



China's WTO accession protocol, electronic payment services providers AMEX, Mastercard and Visa were supposed to be allowed to operate independently in the Chinese market no later than December 2006. Instead, China locked them out of the market to create space for its domestic alternative, ChinaUnionpay (CUP), a company owned by several Chinese state-owned banks. China lost a WTO verdict in 2012, but as 2019 started none of these companies had an operating license. During that time, CUP expanded its business in China and abroad, and has a 36% share of the global market.<sup>9</sup> The same circumstances trapped American credit rating agencies, including S&P, Moody's, and Fitch, for many years, though again they recently have seen some progress in their circumstances. American companies in media, entertainment and social media likewise face severe restrictions in their operations, and their revenues in China are far short of what they would otherwise be if the market were more open. In the case of content-based services, China has cited its sovereign right to manage information and ideas as important to the protection of the country's culture and ideological, but this rationale may be exploiting loopholes in the WTO to serve industrial policy goals.

#### IV. The Current U.S. Government Approach to China's Commercial Environment

The United States has adopted an approach of "patient integration" toward China for most of the period since China joined the WTO in late 2001. China's WTO accession protocol effectively served as a contract between China and its trading partners, including the United States. This was supplemented by bilateral meetings and processes, regional arrangements such as the Asia-Pacific Economic Cooperation (APEC) Forum, and China's participation in other multilateral organizations, including the IMF, G20, International Organization for Standardization (ISO) and International Telecommunication Union (ITU). It was expected that through greater economic interdependence, bilateral policy engagement, and participation in international institutions, China would adapt and become integrated to the point that its economic system would align sufficiently enough with those of the US and others that disputes would be limited and manageable through standardized mechanisms. This approach understood China would not always live up to its commitments and would try to game the system, but that patience engagement would be effective over the long-term.

That approach was not without merit given that the commercial relationship has been broadly beneficial to the United States. However, patience did not yield consistent success and unsolved problems began to pile up over the last decade. Moreover, under the leadership of Xi Jinping, although he originally emphasized that China would seek to have the market play a definitive role in allocating resources, in reality, the role of the state has expanded, and China no longer identifies itself as an economy in transition from plan to market. Rather, the current leadership's goal is to protect and improve upon the current hybrid model. As a result, China increasingly has taken advantage of the "patient integration" strategy and has used bilateral dialogue and the

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<sup>9</sup> Tom Miles and Doug Palmer, "U.S. Wins WTO Case Over China Bank Card Monopoly," Reuters, July 16, 2012, <https://www.reuters.com/article/us-usa-china-wto-idUSBRE86F0J020120716>; Gabriel Wildau, "China's Central Bank Delays Market Entry for Visa and Mastercard," *Financial Times*, January 13, 2019, <https://www.ft.com/content/8dee4b22-13ef-11e9-a581-4ff78404524e>. In the last few weeks, AMEX was issued a license to operate independently, and Mastercard announced it would form a joint venture with a Chinese partner.



multilateral dispute resolution system as stalling tactics that have permitted them to pursue industrial policy without major diplomatic opposition.

The final two years of the Obama Administration saw a modest turn away from patient integration, but taking an all-around more assertive approach toward China took a backseat to other priorities, including completing climate change negotiations and slowing Iran's nuclear weapons program. The Trump Administration, by contrast, has fundamentally shifted its approach to China in the direction of what might be called "impatient disengagement." Instead of using mutually acceptable processes of dialogue and dispute resolution, the Trump administration upset the rhythm of the relationship by carrying out the Section 301 investigation regarding violations of IPR. On that basis it instituted tariffs on a large portion of China's exports to the United States and issued a long list of demands regarding expanding American exports, leveling the playing field in China and putting significant constraints on Chinese industrial policy. In addition, the United States began to encourage American companies in China to consider moving some or all of their operations from China and modifying their global supply chains, raising the prospect that China would go from being at the center of the global super-highway of production to becoming a subsidiary cul-de-sac, albeit a large one. In the context of this mounting pressure, starting in April 2018 the two sides began to have substantial negotiations over how to resolve their differences. Negotiations seemed to make little headway until late January of this year, and following the conclusion of the most recent round of negotiations the Trump administration has indicated that a potential major deal is in sight, and that it could potentially be concluded in a summit meeting between Presidents Trump and Xi in the second half of March.

The merit of this more aggressive approach is that it recognizes the futility of endless patience and dialogue when China was likely disingenuous about its willingness to fully meet its WTO and bilateral commitments and broadly liberalize its economy. By eliminating China's sense of complete certainty and stability in its relationship with the United States, the Trump Administration was able to impress upon China's leadership and others the significance of these concerns, that business as usual would no longer be acceptable, and that China would need to make major changes in its economic governance in order to maintain the current breadth and depth of economic engagement with the United States.

Nevertheless, this approach also carries with it substantial risks. In the short term, fewer imports from China have led to less products and materials available to American producers and consumers, and the prices of these items has risen. And China's retaliation has led to a substantial drop in American exports. There is no guarantee that the elimination of penalizing tariffs will result in trade returning to its earlier levels and previous pattern, which could hurt U.S. businesses operating in China as well as those at home. Relatedly, although the U.S. has campaigned for support from American allies who face the same problems with China, the administration has also exacerbated commercial tensions with these same countries through a series of actions: the withdrawal of the U.S. from the Trans-Pacific Partnership and the Paris climate accords, its criticisms of the WTO and its blocking of new members to the Appellate Body, demands for bilateral new or revised bilateral agreements, implementation of Section 232 tariffs on steel and aluminum, the threat of additional Section 232 tariffs on autos, and pressuring friends and allies to not acquire Chinese telecom equipment. Alienating countries that should be

natural allies in addressing the China challenge offers Beijing the chance to divide the U.S. from its friends. The result could be that companies from these countries don't disengage from China but instead acquire market share shed by American industry. In addition, U.S. actions are putting at risk the web of regional and multilateral institutions that sit at the heart of the liberal international economic order that has provided the foundation for global prosperity in the seven decades since World War II.

The final risk of this approach is that the United States might negotiate a deal with China that falls short of its original goals and that does not address the underlying core issues that were the original impetus for abandoning a strategy of patient integration to begin with. If a deal is reached that does not level the playing field in China and does not constrain Chinese industrial policy, then the United States would have lost much in both the short- and long-run without achieving the results that would have reasonably justified such sacrifices. To make matters worse, it would make future attempts to rein in China's deeply interventionist approach to economic governance that much more difficult, potentially compounding the problems American companies in China already face.<sup>10</sup>

#### **IV. How Congress Can Help**

Congress can and should play a major role in improving America's effort to protect American companies operating in China and push China to shift its economy more fully in a more market-oriented direction, all at the same time supporting and improving international economic institutions.

Here is a list of priority recommendations:

1. Support a comprehensive analysis by U.S. government agencies and the Congressional Research Service of the full range of benefits and losses to the United States from the US-China commercial relationship. This means not only American companies in China, but American companies who export from the United States or operate in third markets, as well as American workers, consumers, and the industries as a whole. Existing studies on the effects of the "China shock" on American labor trends are helpful, but are not unanimous in their conclusions and are largely out-of-date and not reflective of developments in the last five years. Studies of economic losses from IP theft have illuminated the general issue, but their calculations of losses have severe methodological weaknesses which render these figures educated guesses at best. As noted above, data on investment flows is far from adequate, and without better data viewed as comprehensive and accurate by governments, it is hard to reach robust conclusions about the economic impact of investment.

2. Provide extensive oversight of the Trump administration's negotiations with China to raise the prospects that the two sides reach a solid agreement that opens up China's market and puts constraints on Chinese industrial policy, and at the same time does not include inappropriate concessions by the United States, such as with regard to China's non-market economy status and

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<sup>10</sup> For suggestion on how to achieve a good deal with China, see Daniel H. Rosen and Scott Kennedy, "Building a Better Deal with China," CSIS Commentary, January 28, 2019, <https://www.csis.org/analysis/building-better-deal-china>.

export and investment restrictions based on national security. Congressional committees can hold hearings, and individual members can critique administration positions and offer alternative proposals. Should a deal be reached, members of Congress can engage with stakeholders and their constituents to appropriately critique or defend the outcome.

3. Provide oversight and support so that the executive branch implements the new laws related to security-related investment restrictions (Foreign Investment Risk Review Modernization Act, FIRRMA) and export controls (Export Control Reform Act, ECRA) in a way that is faithful to Congress's original intent. It is critical these regulations fully protect American national security but do so in ways that do not unnecessarily restrict legitimate and beneficial commercial activity.

4. Hold hearings and consider legislation that provides for investment reciprocity with China, whereby Chinese investors are only allowed to invest in American industries when American investors have the same ability to invest in the same sectors in China. Such steps would not be covered by FIRRMA because they would be based on a rationale of fairness and competition, not national security.

5. Strengthen and reform existing institutions of the multilateral trading system and support the development of new complementary institutions where appropriate. The WTO has been hugely beneficial to the United States and for global prosperity, but it needs to be reformed in order to make it more efficacious and restore its legitimacy among advanced industrialized economies and developing countries alike. Likewise, TPP (now the CP-TPP) is on balance an excellent agreement that serves American interests. To the extent it has possible weaknesses – for example, regarding labor rights, the environment, pharmaceutical patents, or treatment of state-owned enterprises – Congressional committees and individual members can develop new proposals, engage with Japan and other members, and prepare the ground for a TPP 2.0 that the United States could join should the executive branch adjust its view toward TPP.

6. Invest in America's economic foundations, with greater support for high-tech research and development, education, healthcare, and infrastructure, and do so in ways that promote not only economic growth but also expanded access to technology and services to as large a proportion of the American population as possible, while also addressing sources of climate change and protecting the environment.