U.S.-China Economic and Security Review Commission

Economics and Trade Bulletin

September 2, 2016

Highlights of this Month's Edition

- **Bilateral trade:** The U.S. goods deficit with China continued to slow in July as growth in U.S. imports from China declined.
- **Bilateral policy issues:** China hopes the G20 meeting focuses on maintaining economic growth and mobilizing funding for climate change and environmentally friendly growth.
- **Policy trends in China's economy:** The IMF warns of China's rising debt levels in a new report; State Council approves plans for a Shenzhen-Hong Kong Stock Connect; China launches a $30 billion government-backed venture capital fund for industrial technology and pilots a limited program to allow SOE employees to own stocks.
- **Sector focus – Chinese distant water fishing:** China's distant water fishing fleet propped up by government subsidies that encourage excess capacity and overfishing, harming biodiversity.

Bilateral Goods Trade

Decline in U.S. Exports and Imports from China Narrows Trade Deficit

In July 2016, the U.S. goods trade deficit totaled $30.3 billion, a 3.9 percent decrease year-on-year. For the first seven months of 2016, the cumulative goods deficit reached $191.4 billion, down $10.9 billion, or 5.4 percent, from 2015 (see Table 1). U.S. exports to China fell 3.6 percent year-on-year from $9.5 billion in 2015 to $9.2 billion in 2016, while July imports fell 3.9 percent year-on-year from $41.1 billion in 2015 to $39.5 billion in 2016.[1] This continues the year-on-year decline in trade that started in March 2016. In July, U.S. exports to China grew 3.8 percent month-on-month, while U.S. imports grew 2.4 percent month-on-month.[2]

Table 1: U.S. Goods Trade with China, January-July 2016

(US$ billions)

	Jan	Feb	Mar	Apr	May	Jun	July
Exports	8.2	8.1	9.0	8.7	8.5	8.8	9.2
Imports	37.1	36.2	29.9	33.0	37.5	38.6	39.5
Balance	(28.9)	(28.1)	(20.9)	(24.3)	(29.0)	(29.8)	(30.3)
Balance YTD							
2015	(28.6)	(51.1)	(82.4)	(108.9)	(139.3)	(170.8)	(202.3)
2016	(28.9)	(57.0)	(77.9)	(102.3)	(131.3)	(161.0)	(191.4)

Source: U.S. Census Bureau. (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, September 2016). *http://www.census.gov/foreign-trade/balance/c5700.html*.

Bilateral Policy Issues

China's G20 Priorities

On September 4–5, China will host the 11th G20[*] Summit, an annual meeting of leaders from the 20 largest economies, in Hangzhou. As the 2016 chair of the G20, China is pushing forward a number of its objectives and seeking to elevate the status of this forum from crisis management to a global governance mechanism.[3] Key priorities for China at the G20 include:

- **Maintain global economic growth and trade:** In July 2016, the International Monetary Fund (IMF) cut its 2016 and 2017 global economic growth forecasts by 0.1 percentage points to 3.1 percent and 3.4 percent, respectively.[4] The Chinese government is proposing to reenergize global growth through a collective response, particularly global innovation and structural reform.[5] In July 2016, the G20 finance ministers and central bank governors committed to "use all policy tools—monetary, fiscal and structural—to foster confidence and strengthen growth" and endorsed the Enhanced Structural Reform Agenda,[†] a set of guiding principles covering nine structural reforms areas with key indicators to monitor and assess progress.[6] The nine areas of reform, all of which overlap with China's 13th Five-Year Plan priorities, include: (1) promoting trade and investment openness; (2) advancing labor market reform, educational attainment, and skills; (3) encouraging innovation; (4) improving infrastructure; (5) promoting competition and an enabling environment; (6) improving and strengthening the financial system; (7) promoting fiscal reform; (8) enhancing environmental sustainability; and (9) promoting inclusive growth. While China has been able to build consensus on structural reform, pushing forward more concrete commitments from G20 members will be difficult.
- **Mobilize climate and green financing:** In support of the UN Framework Convention on Climate Change and the 2015 Paris Agreement, the Chinese government is pushing for the global expansion of climate financing[‡] and green financing[§] through the establishment of international standards and guidelines (climate financing and green financing currently are self-labeled) and facilitation of investors and green finance across different countries' markets.[7] In addition, China is pushing for enhanced capacity of governments to set up green financing mechanisms as well as capacity of banks and institutional investors to quantify environmental risks of investments and projects.[8,9] A July 2016 G20 Green Finance Synthesis Report submitted by the Green Finance Study Group presented potential options and strategies for countries to pursue.[10] The establishment of these standards will also benefit China's growing green bond[**] market and finance its environmental reform agenda. In the first half of 2016, China issued $8.3 billion in renminbi (RMB)-denominated green bonds, accounting for roughly a quarter of the $34.6 billion of global green bonds issued in that period.[11] Based on estimates from the State Council's Financial Research Institute, green bonds could finance approximately $44.8 billion (RMB 300 billion) of China's green energy investment annually by 2020.[12]

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[*] The Group of Twenty (G20) is an international forum for government and central banks from 20 major countries to meet and discuss international financial stability issues. Members include Argentina, Australia, Brazil, Canada, China, the EU, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the United States. International organizations such as the Financial Stability Board, International Labor Organization, International Monetary Fund, Organisation for Economic Co-Operation and Development, World Bank, World Trade Organization, and the UN also participate. G20 2016 China, "About G20," November 27, 2015. *http://www.g20.org/English/aboutg20/AboutG20/201511/t20151127_1609.html*.

[†] For a full breakdown of the G20 Enhanced Structural Reform Agenda, see G20, "G20 Enhanced Structural Reform Agenda," July 15, 2016. *http://g20.org/English/Documents/Current/201608/P020160815358087154134.pdf*.

[‡] Climate financing is a relatively new concept with no established definition, and can be broadly defined as financial investment in emissions reduction and climate change adaptation projects and programs. UN Framework Convention on Climate Change, "Focus: Climate Finance." *http://unfccc.int/focus/climate_finance/items/7001.php#intro*.

[§] Green financing does not have an established definition. It can be broadly defined as financial investment in sustainable development projects, industrial pollution control, water sanitation, biodiversity protection, environmental products, etc. Nanette Lindenberg, "Definition of Green Finance," *German Development Institute*, April 2014. *https://www.die-gdi.de/uploads/media/Lindenberg_Definition_green_finance.pdf*.

[**] Green bonds are tradable debt securities issued by firms, governments, and international investors to finance climate-related or environmental projects. World Bank and Public-Private Infrastructure Advisory Facility, "What Are Green Bonds?" 2015, 23. *http://treasury.worldbank.org/cmd/pdf/What_are_Green_Bonds.pdf*.

- **Create foundation for an international tax system:** In an effort to address tax evasion and improve transparency, the Organisation for Co-Operation and Economic Development, a forum for 35 developed countries, in concert with the G20 is working toward internationally agreed-upon standards of tax transparency and closing gaps in tax rules. In support of these initiatives, G20 countries along with 76 other countries have pledged to exchange taxation information automatically by 2018.[13]
- **Push forward organization reform of the IMF and World Bank.** China is hoping to build up momentum for the next round of organizational reforms at the IMF and World Bank.[14] During the July 2016 G20 Finance Ministers and Central Bank Governors Meeting, People's Bank of China (PBOC) Governor Zhou Xiaochuan advocated for additional reforms to the IMF's 15th General Quota Review, which would increase and reallocate voting power and special drawing rights (SDR) quota shares in favor of emerging markets, including China.[15] Minister of Finance Lou Jiwei reiterated the importance of organizational reform as a G20 priority in late August 2016.[16]

China, which will be hosting the G20 Summit for the first time, is hoping for a smooth process that will showcase its economic achievements and global leadership, but numerous issues threaten to derail discussions. China has taken increasingly aggressive actions in territorial disputes in the South and East China seas (in July 2016, China rejected the arbitral tribunal ruling on the Philippines-China dispute[*]), faces mounting steel overcapacity, and is in the midst of one of the harshest political crackdowns in nearly two decades. On the sidelines of the G20, President Barack Obama will be meeting with Chinese President and General Secretary of the Chinese Communist Party Xi Jinping to discuss ongoing bilateral investment treaty[†] negotiations, the status of China's economic reforms, and China's steel capacity reductions.[17] There are also rumors that China and the United States may sign the 2015 Paris Agreement on Climate Change ahead of the G20.[18]

Policy Trends in China's Economy

IMF China Article IV Consultation Raises Worries about China's Growing Debt

The IMF holds bilateral consultations with each member country (usually on an annual basis), assessing the current state of its economy and produces a report summarizing its findings (the so-called Article IV Consultation). On August 12, the IMF Executive Board released the 2016 Article IV Consultation for China. China's growing debt burden was the key theme of the report, with the IMF warning that China was excessive in its reliance on credit to reach "unsustainably high growth targets."[19] Among key obstacles to maintaining long-term sustainable growth, the IMF identified the following:

- **Lack of policy clarity:** The IMF noted that the Chinese government's "policy and pronouncements seem to alternate between prioritizing reform and growth," reflecting the inherent tensions between the government's desire to allow the market to play a "decisive" role in resource allocation and the affirmation of the government's "dominant" role in the economy.[20]
- **Focus on short-term growth at the expense of reform:** In response to the economic slowdown, the Chinese government has been using traditional stimulus (including infrastructure spending and credit loosening) to boost growth. However, as the IMF noted in its report, "A corollary of the focus on near-term growth is less focus on reforms critical for medium-term growth, but growth detracting in the short term."[21] The IMF Executive Board called on China to "reduce the reliance on credit-financed, state-led investment."[22]

[*] Permanent Court of Arbitration in The Hague released the ruling of the arbitral tribunal constituted under the UN Convention on the Law of the Sea (UNCLOS) on July 12, 2016. For an overview of the case and the ruling, see Caitlin Campbell and Nargiza Salidjanova, "South China Sea Arbitration Ruling: What Happened and What's Next?" *U.S.-China Economic and Security Review Commission*, July 12, 2016. *http://bit.ly/2crzDD2*.

[†] For an in-depth analysis of a potential U.S.-China BIT, see Lauren Gloudeman and Nargiza Salidjanova, "Policy Considerations for Negotiating a U.S.-China Bilateral Investment Treaty," *U.S.-China Economic and Security Review Commission*, August 1, 2016. *http://bit.ly/2acmtYN*.

- **Slow pace of state-owned enterprise (SOE) reform:** The IMF noted the Chinese government uses SOEs to make policy-driven investments, allowing SOEs—which are less profitable and productive than the private sector—to have better access to credit (SOEs accounted for about half of total bank credit despite accounting for only 16 percent of value added) and cheaper financing (financing costs for SOEs tend to be 0.4–0.5 percent below the benchmark lending rate).[23] As a result of this support, SOE leverage has grown to an average of around 200 percent, with a heavy concentration in overcapacity industries.[24] The IMF report was critical of the factor input support and implicit guarantees granted to SOEs by the Chinese government, suggesting China's leadership should "harden budget constraints (especially on SOEs), restructure/liquidate weak firms, recognize and allocate losses, improve governance, and facilitate market entry."[25]
- **Growing debt:** The IMF raised concerns about China's "increasingly large, leveraged, interconnected, and opaque financial system," noting the credit was growing twice as fast as nominal gross domestic product (GDP).[26] In 2014, the State Council's amendments to the National Budget Law outlined its fiscal restructuring plan to bring off-balance-sheet borrowing onto the budget, leading to a jump in general government debt from 15.2 percent of GDP in 2013 to 38.5 percent in 2014.[27] In the "Selected Issues" supplement to the main Article IV Consultation report, the IMF singled out the increase in bank off- and on-balance-sheet exposure to "shadow" credit products as presenting "substantial risks":
    - The amount of off-balance-sheet borrowing, commonly known as shadow banking, grew 48 percent to reach around $6 trillion (RMB 40 trillion) in 2015, equal to 58 percent of China's GDP and 40 percent of banks' corporate debt.[28] The IMF identified RMB 19 trillion of these shadow credit products as particularly risky.[29]
    - At the end of 2015, Chinese banks, particularly smaller banks, accounted for RMB 15.2 trillion—or around 38 percent—of this shadow lending due in part to banks repackaging nonperforming loans (NPLs) as investment securities to avoid recording rising NPL levels on their books.[30]
    - According to the IMF, about half of these shadow credit products are at risk of default or loss, which could create liquidity challenges for China's financial system through the interbank market or high exposure of smaller Chinese banks.[31]

Shenzhen-Hong Kong Stock Connect Removes Barriers for Global Investors

On August 16, China's State Council approved plans to create a trading link between the Shenzhen and Hong Kong stock exchanges.[32] The Shenzhen-Hong Kong Stock Connect, which will remove limits imposed on foreign investors in China's stock market, marks a step toward financial liberalization after Chinese trading regulators tightened their control following market volatility in July 2015 and January 2016.[*] [33] In a statement before the State Council, Chinese Premier Li Keqiang indicated that the link, which will reportedly be implemented by November 2016, seeks to "exert the geographic advantages of Shenzhen and Hong Kong, and enhance the cooperation between the mainland and Hong Kong."[34] The program was expected to be implemented last year, before China's stock market volatility—when the Shanghai and Shenzhen composite indices fell by 32 percent and 40 percent, respectively—delayed the plans.[35]

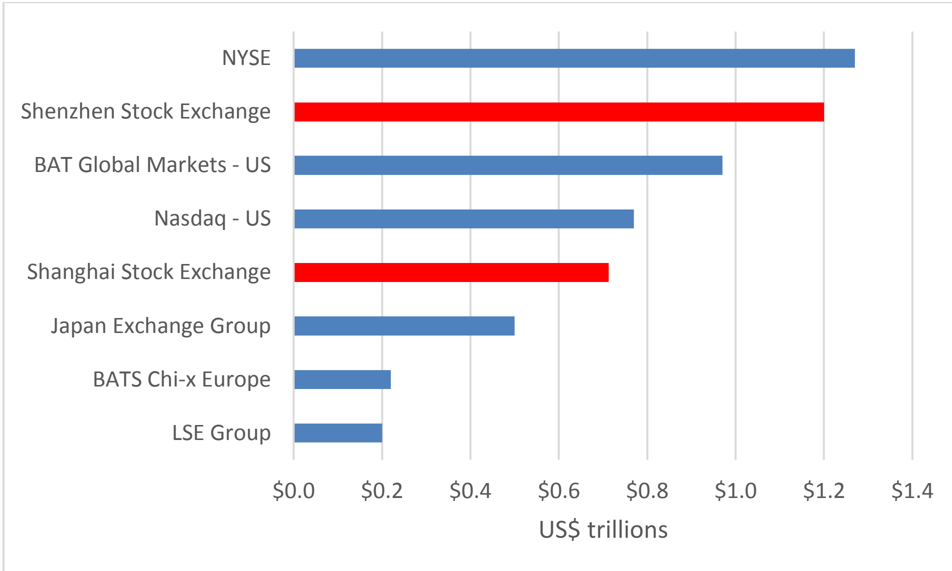
In November 2014, China established the Shanghai-Hong Kong Stock Connect, granting overseas investors greater access to Chinese shares and diversifying domestic investments.[36] However, the Shanghai Stock Exchange is dominated by state banks and oil firms, making it less attractive to foreign investors.[†] [37] Because Shenzhen is a center for China's emerging industries, the new link is expected to have greater appeal to global investors, particularly in sectors like technology, pharmaceuticals, and clean energy.[38] As seen in Figure 1, Shenzhen is

[*] For more on China's recent stock market volatility, see Nargiza Salidjanova, "China's Stock Market Meltdown Shakes the World, Again," *U.S.-China Economic and Security Review Commission*, January 14, 2016. *http://bit.ly/1SKu6Dh*.

[†] Global investors have used only 50 percent of their quota for investments in Shanghai to date. Michelle Price, "UPDATE 2-China Approves Shenzhen-Hong Kong Stock Link, Scraps Limits," Reuters, August 16, 2016. *http://www.reuters.com/article/china-hongkongshenzhen-stockconnect-idUSL3N1AX30Z*.

already China's most active exchange, handling $1.2 trillion in trading in July 2016.[39] That was the second-highest volume globally, behind only the New York Stock Exchange (NYSE).[40]

Figure 1: Global Exchanges Trading Volume, July 2016



Source: Dominique Fong and Gregor Stuart Hunter, "5 Things on the Shenzhen-Hong Kong Stock Connect Plan," *Wall Street Journal*, August 16, 2016. *http://www.wsj.com/articles/5-things-on-the-shenzhen-hong-kong-stock-connect-plan-1471346243*.

When the new link takes effect, global investors will gain access to around 870 companies in Shenzhen, with a combined market value of more than $1 trillion.[41] Shenzhen stocks opening to foreign investors will include any company with at least $900 million in market value on the Shenzhen Component Index or Small/Mid Cap Innovation Index, as well as companies listed on both the Hong Kong and Shenzhen exchanges.[*] Chinese investors, meanwhile, will gain access to around 115 more companies in Hong Kong, including all large- and mid-cap stocks included in the Shanghai-Hong Kong link, as well as any companies with at least $645 million in market value on Hong Kong's Composite Small Cap Index.[42] Additionally, Chinese authorities will remove aggregate trading caps for both Shenzhen and Shanghai's stock connects with Hong Kong, which had previously limited southbound investments to $37.3 billion and northbound investments to $44.8 billion.[43] Shenzhen will inherit the same daily quotas as Shanghai's exchange system, however, with northbound trading capped at around $1.9 billion and southbound trading capped at $1.6 billion.[44]

The introduction of the new stock connect will also strengthen Beijing's case for including Chinese shares in global index providers like MSCI.[45] In June 2016, MSCI delayed its inclusion of Chinese shares in its Emerging Markets Index—a widely used benchmark for fund managers with global equities portfolios—for the third straight year, citing the limited accessibility of country's market.[†] Inclusion in the index would enhance the credibility of China's financial sector and facilitate more investments from international institutional investors.[46]

China Launches State-Controlled Venture Capital Fund for Industrial Technology

On August 18, China established a $30 billion state-controlled venture capital fund targeting technology investments and industrial upgrades aimed at improving the competitiveness of centrally administered SOEs.[47] Like private investment funds, the fund will make equity investments in companies that focus on returns.[48] The fund's investors are government holding companies China Reform Holdings and Shenzhen Investment Holdings, and state-owned banks China Construction Bank and Postal Savings Bank of China.[49] The controlling shareholder, China

[*] Dual-listed companies in Hong Kong and Shenzhen include China Vanke, the country's largest real estate developer, and telecommunications equipment maker ZTE. Bloomberg News, "The Stocks That Shenzhen-Hong Kong Link Investors Can Access," August 17, 2016. *http://www.bloomberg.com/news/articles/2016-08-17/the-stocks-that-shenzhen-hong-kong-link-investors-can-access.*

[†] For more on MSCI's decision to delay China's inclusion in its Emerging Markets Index, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, July 6, 2016, 3–5. *http://bit.ly/29r4axm* .

Reform Holdings, will manage the fund under the supervision of the State-Owned Assets Supervision and Administration Commission (SASAC).[50]

The model harkens back to Singapore's state-backed investment company Temasek, launched in 1974 to manage the city-state's equity in its corporatized SOEs.[51] Singapore liberalized its economy in part through having Temasek manage state assets on a commercial basis, exposing state-owned companies in its portfolio to domestic and foreign competition in key sectors.[*] Today, Temasek is considered one of the most successful sovereign wealth funds in the world.[52] However, an important feature of the Temasek model was separating the government's roles as manager and owner.[53] Chinese leaders have emphasized just the opposite in recent policies calling for strengthened party control over state assets.[54] Absent substantive changes to the Beijing's approach to SOE reform, analysts believe the new fund is likely to have a limited impact on driving innovation in the state sector.[55]

The fund is just the latest in a series of Chinese government-backed venture funds that have cropped up over the past two years.[56] According to data from Beijing-based consultancy Zero2IPO, at the end of 2015 there were 780 government-backed venture funds across China, with roughly $330 billion of combined capital under management.[57] In 2015 alone, almost 300 funds were established, worth $230 billion.[58]

China Restarts Pilots Program for SOE Employee Stock Ownership

The State Council announced on August 18 it will pilot a program to allow "qualified"[†] employees of SOEs in "industries that are fully open to competition" to buy company stocks.[59] The program, intended to incentivize employees to work harder as equity holders to improve company competitiveness, was trialed by some SOEs in the 1980s and 1990s but came to an end in 2005 over concerns that by granting SOE employees shares, the government was underselling valuable assets to certain private investors.[60] According to SASAC guidelines for the new program, SASAC can select ten subsidiaries of central SOEs, and each province and municipality can select five to ten subcentral SOEs to participate.[61] In addition, state ownership cannot fall under 34 percent, while total employee stock ownership is capped at 30 percent.[62] The pilot will be launched by the end of the year and, if successful, be expanded in 2018.[63]

Sector Focus: Chinese Distant Water Fishing

A July report issued by Greenpeace claims that China's vast distant water fishing (DWF) fleet has grown dramatically due to subsidies from the Chinese government and may not be profitable without state support. Since 2012, China has had the world's largest DWF fleet—fishing vessels designed to harvest seafood far from a country's home shores—which is rapidly growing.[64] From 2012 to 2014, the size of China's DWF fleet expanded from 1,830 vessels to 2,460, an increase equal to the total growth in China's DWF fleet from 1994 to 2010.[65] The capabilities of Chinese vessels have also improved—the engine size of Chinese DWF ships have nearly doubled over time.[66] As of 2015, the United States had only 225 fishing vessels of comparable size and capabilities.[67]

According to the report, this significant increase in China's DWF fleet is driven by a network of central, provincial, and municipal government subsides. Greenpeace estimates that China's DWF industry derives 80 percent of its non-operating income from fuel subsidies from the central government.[68] Since 2006, the central government has provided diesel fuel subsides to Chinese fishing firms, shouldering 50 to 100 percent of additional fuel costs if diesel prices rise over set thresholds.[‡69] As of 2011, the total costs of this fuel subsidy rose to $400 million per year.[70] As fuel costs generally make up more than a third of DWF operating costs, this subsidy likely has a large impact on Chinese fishing firms' profitability and expansion decisions.[71] In addition to the central government fuel

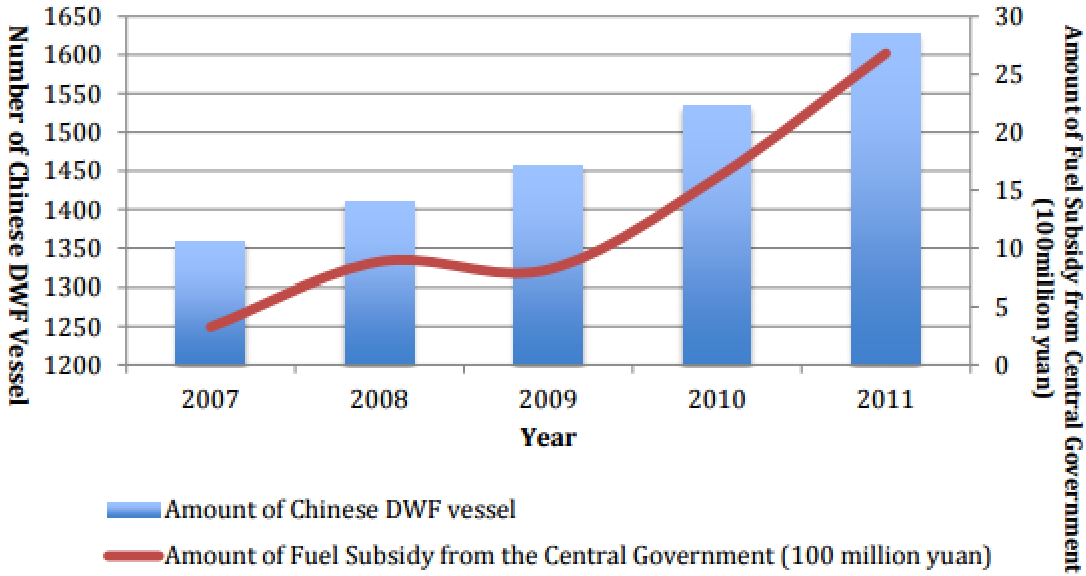
[*] Only 11 of the 35 SOEs in Temasek's original portfolio remain; the rest have been liquidated or divested. Ryan Rutkowski, "State-Owned Enterprise Reform: The Long Wait for a Chinese Temasek Continues," *China Economic Watch* (Peterson Institute for International Economics blog), January 23, 2014. *https://piie.com/blogs/china-economic-watch/state-owned-enterprise-reform-long-wait-chinese-temasek-continues*.

[†] According to a senior SASAC official, "Ownership interest will be open to competent and outstanding employees, and government-appointed senior management will not be eligible." Xinhua, "News Analysis: China Pilots Plan for SOE Employee Stock Ownership," August 18, 2016. *http://news.xinhuanet.com/english/2016-08/18/c_135612199.htm*.

[‡] While diesel subsidies have been in place since 2006, the system of price thresholds was introduced in 2009. Greenpeace, "Give a Man a Fish—Five Facts on China's Distant Water Fishing Subsidies," July 2016, 1. *http://bit.ly/2bGlfW9*.

subsidy, Chinese DWF firms also receive support from municipal and provincial governments, including soft loans for ship construction, reduced electricity costs,* and grants for resource expeditions.[72] As shown in Figure 2, the implementation of these subsidies has coincided with a significant expansion in the size of China's DWF fleet.

Figure 2: Chinese Fuel Subsidy Expenditures and Size of Chinese DWF Fleet (2007–2011)



Source: Greenpeace, "Give a Man a Fish—Five Facts on China's Distant Water Fishing Subsidies," July 2016, 2. *http://bit.ly/2bGlfW9.*

Greenpeace argues that Chinese subsidies have supported firms that would otherwise not be profitable and that they have contributed to excess capacity in China's fishing industry. After examining the finances of two Chinese fishing SOEs, Greenpeace concluded that in many years the firms would not have been able to turn a profit without subsidies from the government.[73] It also found that increases in Chinese fishing capacity have not resulted in proportional increases in production, indicating that the expansion of China's fishing fleet is putting more pressure on international fishing reserves as each additional ship has fewer fish to catch. In Fujian and Shandong, for example, fishing vessel capacities increased 149 percent and 232 percent respectively from 2012 to 2014.[74] However, fishing production in each of these areas only increased 63 percent and 77 percent respectively.[75] Despite declining returns on expansion, both Fujian and Shandong have each issued targets in their industrial plans to increase the size of their DWF fleets by several hundred by the end of the decade.†

Finally, the report noted an absence of transparency regarding China's support for its fishing fleet. It noted that since 2011 official figures for the central government fuel subsidy have not been released.[76] Similarly China has not disclosed the size of its subsidies to the ship building industry.[77] China has often failed to provide information on the extent of its subsidies. Despite being required to notify the WTO of subsides currently in effect on an annual basis, China has only provided subsidy information to the WTO on three occasions since joining in 2001.[78] In July both the EU and the United States chastised China for failing to provide adequate information on its subsidies and regulations.[79] In April 2016, the United States Trade Representative (USTR) circulated a statement calling on China to disclose its fishing subsidies. The statement noted China had failed to notify known fishing subsidies and had refused to engage bilaterally on the subject with the USTR. It also posted a list of China's fishing subsides the USTR had identified and remarked that the "dire state of the world's fisheries" required greater transparency among fishing nations regarding their subsidy programs.[80]

* Under what is called a "peak and valley" system, Chinese fishing firms are charged at the lowest price over a given time period (the "valley") for their electricity usage. Greenpeace, "Give a Man a Fish—Five Facts on China's Distant Water Fishing Subsidies," July 2016, 4. *http://bit.ly/2bGlfW9.*

† Under their current economic plans, Shandong will increase its DWF fleet from 391 vessels to 500 by 2020. Fujian will increase its fleet from 500 to 900 vessels over the same time period. Greenpeace, "Give a Man a Fish—Five Facts on China's Distant Water Fishing Subsidies," July 2016, 5. *http://bit.ly/2bGlfW9.*

China is one of the world's largest consumers of seafood. It currently consumes more than a third of the world's supply of seafood and the World Bank anticipates that seafood consumption in China will increase by 30 percent by 2030.[81] China's total fishing catch is difficult to determine. According to UN statistics, China harvested a little more than 18 percent of the world's sea-catch in 2014, but according to a study from University of British Columbia faculty, China has significantly underreported its overseas fishing to the UN, possibly by as much as a factor of 12 from 2001 to 2011.[82] China is also a large exporter of seafood to other countries and is currently the top source for U.S. seafood imports.[83] This combined demand for seafood has depleted China's local seas resources. According to China's Ministry of Agriculture, Chinese fishing in local seas has significantly decreased the available fish stock. China's agricultural minister stated that there were practically "no fish" in the coastal East China Sea and that top four harvested river fish species now produce only one billion eggs per year in Chinese waters, down from roughly 30 billion in earlier years.[84]

The decline of China's domestic fish stock coincides with an increase in Chinese fishing far from China's shores, in international waters and frequently in other countries' claimed waters (particularly in the East and South China seas).[85] Chinese fishing vessels have conducted significant fishing off the coast of West Africa, where up to 500 Chinese fishing trawlers have been reported and where local maritime authorities lack the resources to adequately protect their waters.[86] According to the NGO Environmental Justice Foundation, roughly one-third of all seafood caught off the coast of West Africa is caught illegally, often by Chinese vessels.[87]

A large fleet of approximately 200 Chinese fishing vessels has recently begun regularly harvesting fish just outside Japan's exclusive economic zone, reportedly catching juvenile fish that have not had a chance to mature or reproduce, endangering the health of regional fish populations.[88] In August, Chinese coast guard vessels also led a flotilla of 230 fishing boats deep into Japanese administered waters, passing within 24 miles of the Japanese-run Senkaku Islands.[89]

Chinese vessels have also been encouraged by the Chinese government to fish in the contested waters of the South China Sea. The Chinese government provides a special subsidy for Chinese fishermen to operate near the Spratly Islands far to the south near Malaysia and Vietnam.[90] China has also equipped its fishing boats in the South China Sea with Beidou, a domestic GPS equivalent, and communications gear so they can call in the Chinese coast guard if they run afoul of local maritime enforcement or alert the Chinese coast guard of foreign fishing vessels whom China's coast guard may harass with water cannons.[91]

Competition for fishing resources inflames regional tensions and puts significant strain on the region's fish stocks. Roughly 16.6 million tons of fish are yearly harvested from the South China Sea employing more than 3.7 million people. However, as a consequence of overfishing, areas of the South China Sea now provide less than one-tenth of the fish they did 50 years ago.[92] China in particular has been singled out for overfishing. In its ruling adjudicating the Philippines' case against China's territorial claims in the South China Sea, the Permanent Court of Arbitration in The Hague determined that Chinese fishermen had overharvested endangered species such as giant clams and sea turtles and that the Chinese government had been aware of this activity and failed to stop it.[93] According to some marine biologists, Chinese fishing, combined with demand for fish from regional countries and China's island building program, threatens a collapse of commercial fish species along with hundreds of other marine species in a region known as an oceanic rainforest for its productivity and biodiversity.[94]

Chinese distant water fishermen reportedly use illegal indiscriminate fishing techniques that capture most marine life in a large area, such as large drift nets.[95] These nets were banned by the UN in 1992 and are typically anywhere from 10 to 100 nautical miles in length and 40 feet deep. They allow only a few fishing vessels to clear the entire coastal waters of smaller countries and trap numerous endangered species such as sharks and sea turtles as by-catch.[96] Chinese ships have also reportedly used bottom-trawling nets which scour the sea floor and tear up coral reefs and oyster beds.[97] These techniques significantly impact the ocean, endangering international fish reserves and marine biodiversity.

Recently the Chinese government has acknowledged the decline of its local fishing resources and stated that Chinese deep sea fishing should be subject to tighter regulations to prevent environmentally-damaging fishing methods.[98] China's minister of agriculture announced in August that the total size of China's fishing fleet should be cut.[99] The minister did not provide details on how many vessels would be cut, but the impact of such a cut would strongly depend on its implementation.[100] If, for example, Chinese fishermen remove smaller boats from production and replace them with a few larger and more efficient vessels, the negative ecological impact of China's fishing fleet could actually increase. China currently has a few regulatory measures in place to protect its domestic fishing resources, such as an annual three month summer moratorium on fishing and a ban on using fine-mesh nets that indiscriminately catch sea life.[101] Chinese officials have not yet responded to Greenpeace's report, but China has in the past declared that it will follow applicable laws when fishing overseas.[102]

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Endnotes

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