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Basic Motives and Impacts of the Suspension or Termination of the Income Tax Convention Between China and the United States

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Recently, the United States has introduced a series of tariff policies, ushering the global economic order into an era of "institutional uncertainty". The United States has not only imposed additional tariffs on Chinese goods and expanded the tax base but also enacted targeted tariff measures in the technology sector. Additionally, it indicates a potential review of whether to suspend or terminate the United States-People's Republic of China Income Tax Convention. In the current international economic climate, the tax treaty has moved beyond mere economic considerations to become a significant tool in international relations. This article focuses on the basic motives of the potential suspension or termination of the Income Tax Convention between China and the United States, then analyzes the multi-dimensional impacts of this change on China's FDI, China's outward FDI, and domestic economy in China if the tax treaty were to be suspended or terminated. Finally, it explores further the negative consequences and the challenges of the global economic governance system amid the uncertainty of tax rules.

Keywords: China-US relations, tax treaty, global economic governance

Introduction

Recently, the United States initiated a new round of tariff policy adjustments, which have a broad impact and pose significant shocks to the global economy. The United States-People's Republic of China Income Tax Convention, a key component of bilateral economic and trade relations between China and the United States, has inevitably become an instrument for economic intentions. President Trump signed the America First Investment Policy Memorandum on February 21st, which explicitly considers the potential suspension or termination of this tax treaty which was signed in 1984 and its subsequent amendments. There are roughly five documents in this

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process, collectively referred to as the United States-People's Republic of China Income Tax Convention. Issued as a presidential memorandum, this statement proposed the possibility at the outset of the new president's term, highlighting the priority of measures targeted at China. It aims to gauge China's response, thereby providing a basis for subsequent policy adjustments.

The Basic Motives of the Suspension or Termination of Income Tax Convention Between China and the United States

Under the backdrop of continuous adjustments and changes in the global economic landscape, this tax treaty can serve as a tool, with its stance on suspension or termination conveying multifaceted profound meanings. The economic strategy typically carries multiple layers of significance, not only representing more than an economic measure, but also including comprehensive considerations of policy frameworks and strategic initiatives.

(1) To expand the American tax source. The abolition of the preferential tax rates embedded in bilateral investment and trade would compel Chinese enterprises to pay higher taxes and fees to the US government, thereby generating substantial fiscal income for US.

(2) To narrow the American trade deficit with China. The adoption of trade protectionism is intended to reduce economic and trade reliance on China and protect domestic industries from the competition with Chinese goods, while reducing China's trade surplus with the United States (Huo, 2025).

(3) To reshape the global supply chain system. The United States holds the view that there is excessive dependence on China within the supply chains of specific high-tech industries, and this situation is regarded as a "supply chain security" concern. Consequently, the localization strategy for industrial chains has been adopted, which stimulates the re-shores of manufacturing sector by employing attractive subsidies in order to create more domestic job opportunities (Zhu et al., 2024).

(4) To maintain the absolute advantage of technology in US. By establishing international tax barriers, China's access to critical technologies and resources is restricted, thereby locking it into the medium and low end of the industrial chain.

(5) To accrue greater leverage during trade negotiations. By taking the suspension or termination of tax treaty as bargain chips to exert pressure on exporting companies, the competitiveness of China's products could be undermined. Additionally, the unpredictability of tax policies will also cause interference to the production and business decisions of enterprises in China.

The Impacts of Suspension or Termination of Income Tax Convention on Inward and Outward Investment in China

Once the United States takes relevant unilateral actions, it will have comprehensive and complicated impacts on China, which are also asymmetric. So we make categorized discussion of possible impacts if the tax treaty were to be suspended or terminated.

Significant Impact on Foreign Investment in China

American companies with investments in China will be the most affected. The preferential withholding tax rates on dividends, interest, and royalties stipulated in the treaty effectively reduce tax costs for American enterprises and enhance their return on investment. If the treaty were to be terminated, these incentives will no longer exist, and American businesses will pay higher tax rates and substantially bear higher tax costs. American companies that originally enjoyed a 10% dividend withholding tax rate may face a significant increase in the tax rate to 30%, which will undoubtedly place a heavy burden on the companies. Increased tax costs would inevitably lead to a decrease in the profitability of American companies' investments in China, thereby dampening their investment willingness (Erokhin, 2024). Some American enterprises may shift their investment to those countries and regions with more favorable tax policies, such as countries in Southeast Asia, which have implemented preferential tax and investment policies in recent years, attracting a large crowd of foreign investment.

Disruption to foreign investment towards China. In the context of global economic integration, the flow of international capital has a strong sensitivity. Compared with other countries, China has been confronted with fierce international competition in attracting foreign capital. The advantages of China in labor cost, land cost, and so on, are gradually diminishing in recent years, then the incentive-driven tax policy has become significantly attractive for foreign capital. The suspension or termination of the Income Tax Convention would transmit an unstable signal to the international market, which prompts investors to adjust their investment structure in China due to concerns about trade friction and tax risks. This could further jeopardize the financing environment for Chinese enterprises and amplify challenges in attracting foreign capital.

Increased tax risks and compliance burdens for foreign investors. Suspension or termination of the tax treaty may widen discrepancies in tax policies between Chinese and US, forcing foreign investors to pay close attention to regulatory changes in both countries. For instance, the United States may adopt a stricter "business or trade activity" standard to identify taxable entities, which will take more foreign enterprises into the tax scope, making the compliance with the rules more difficult which leads to raising compliance costs for enterprises.

Structural changes in foreign investment in China. Foreign investment in China is currently concentrated in manufacturing and services industries, including many low-value-added and labor-intensive industries. Given the increase in tax costs and the rise in compliance risks, foreign investors may reassess their investment strategies and business in China, especially reduce investment or postpone investment plans in certain industries or projects which are more sensitive to taxes (Cui, 2017). Multinational corporations might shift part of the production process of their products out of China and flow into countries or regions with more favorable tax environments, such as Vietnam, Cambodia, and other Southeast Asian countries, in order to eliminate the negative impact of high tariffs. In the meanwhile, foreign investors may adjust their strategic business layout in China's industries, in order to decrease tax costs and maintain stable profitability.

For example, for dividends, interest and royalty income related to intangible assets, the payment of withholding income tax in China is 10% without any change. However, for royalties paid for the leasing industry, commerce or scientific equipment, the effective tax rate under the Income Tax Convention is 7%, which will increase to 10% upon suspension or termination of the tax treaty. In addition, transfer income made by a American company from the direct transfer of a minority interest in a Chinese company, which were previously not subject to tax under certain conditions, will be subject to a 10% withholding income tax if the tax treaty were to be suspended. This will undoubtedly increase the tax cost of foreign investors and weaken the room for investment income, thus prompting them to adjust their investment structure and reduce their investment in the leasing business and service industries, etc.

Overwhelming Impacts on Chinese Enterprises Overseas Expansion

The suspension or termination of the tax treaty may lead to adjustments or cancellations of some tax-related trade preferential policies, while increasing the tax risks of China's outward investment in the United States, causing a sharp decline in the scale of bilateral trade and investment between China and the United States, which will also reduce enthusiasm of Chinese multinational enterprises for outbound investment and trade.

Decrease of China's outward investment scale in the United States. The stock and flow of Chinese investment in US has continued to decline over the past few years. In 2023, China's outward FDI flows to the United States decreased by 5.2% from the previous year to $6.91 billion. The United States ranked fourth among all countries or regions receiving China's outward FDI. At the end of 2023, China's outward FDI stock in the United States reached $83.69 billion, accounting for 27.0% of China's outward FDI stock in developed economies (as shown in Figure 1).

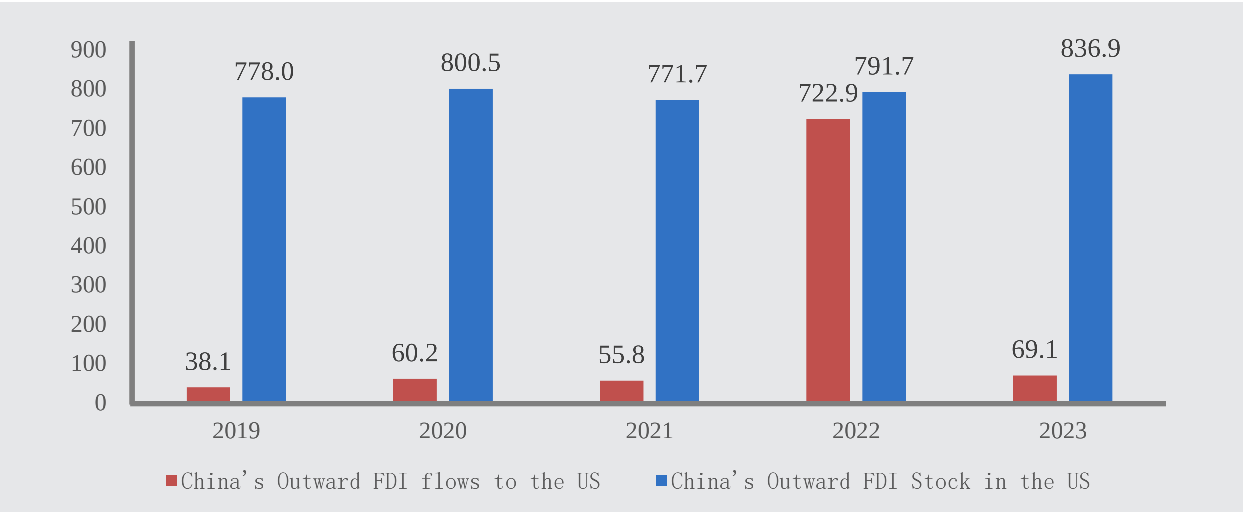

Figure 1. China's direct investment flows and stocks in the United States, 2019-2023 (in hundred million dollars). Source: Ministry of Commerce, China.

Due to bilateral investment differences, the United States and China have distinct requests of economic and trade interests, multinational enterprises in US focus heavily on huge consumer market, rich labor resources, and preferential investment policies in China, aiming at obtaining huge economic benefits and market share. Conversely, Chinese investment in the US not only seeks to obtain profits but also emphasizes technological advancement, industrial upgrading, and the acquisition of diverse resources such as brands and talent. Investments predominantly flow into sectors like high-end manufacturing, technological innovation, green energy, and healthcare.

If the tax treaty were to be suspended or terminated, established investment restrictions overlaid with rising tax costs will lead to a further decline in the flow and stock of Chinese investment in the US, especially in the high-tech sector, and also affect the economic cooperation of enterprises and individuals. Currently, China-US tax relations remain unstable, and the future of most-favored-nation (MFN) treatment in China-US trade is uncertain. Because of the ambiguity, this policy generates numerous uncertainties and obstacles for Chinese enterprises which are planning to invest in the US, significantly increasing investment risks and prompting Chinese capital to exercise caution in approaching US investments.

Substantial impacts on small, medium, and micro-enterprises (SMEs) and private economy. State-owned enterprises (SOEs) typically make strategic investments aligned with national interests. However, due to lack of protection from the nation, bilateral private investments will suffer more. Compared to large corporations and SOEs, SMEs and private firms have relatively weaker risk resilience. They may struggle to manage market fluctuations generated from the international economic and trade environment. Policy uncertainties further exacerbate their challenges in securing financing and forging partnerships, thereby impeding their normal operations and growth.

Given that current American investments in China are predominantly in general manufacturing and consumer industries, SMEs and private enterprises are heavily concentrated in these sectors. The escalation in income tax has a profound adverse effect on them. Chinese companies may encounter the risk of double taxation. For instance, income derived from Chinese investments in the U.S., which previously qualified for tax credits or benefits under the tax treaty, might now necessitate higher tax payments to both countries following the suspension of the convention. This undoubtedly increases the tax burden on enterprises, significantly squeezing the profit margins of SMEs and dampening their enthusiasm for foreign trade and investment. Also, reduced policy stability results in greater uncertainties for these firms when devising long-term strategies, executing investment layouts, and providing market quotes, which could severely erode their market confidence, prompting them to give up investment deals (Wu et al., 2024).

Accelerated return of Chinese concept stocks. The America first investment policy memorandum calls for enhanced scrutiny of Chinese concept stocks. The audit information furnished by these companies from China and the authenticity of the Variable Interest Entity (VIE) is distrusted in the United States. If the Income Tax Convention were to be suspended or terminated, the authorities may intensify its scrutiny of the VIE and could even directly deny its legitimacy. This would undermine the likelihood of Chinese companies listing in US to seek for capital market support from the U.S.. Additionally, the obstacles to listing in US through equity participation or holding would escalate, facing stricter regulatory oversight. Beyond Chinese concept stocks, this impact would extend many cross-border e-commerce firms which have historically relied on the VIE or third-country investments to avoid risks (Li et al. 2024). Should the convention be suspended or terminated, investments by these companies through intermediaries in Hong Kong and Singapore could also face “penetrative” scrutiny.

Forcing Chinese enterprises to adjust and transfer industrial chains and supply chains. The suspension or termination of the convention would substantially hike the tax costs for Chinese exports to US. In response, Chinese companies might relocate certain production processes to Southeast Asian countries with lower labor costs and favorable tax policies, such as establishing factories in nations that have trade agreements with US, thereby avoiding the high tariff barriers imposed by the United States on Chinese goods.

As labor costs surge and land resources become scarce in China’s coastal areas, some industries and companies are shifting their focus to the central and western regions of China. These regions not only offer lower cost advantages to attract FDI and undertake industrial relocation, but also serve as vital links between the eastern coastal regions and the western regions. By utilizing logistics channels like the China-Europe Railway Express and the New Western Land-Sea Corridor, goods can be efficiently transported to Europe, the Middle East, Southeast Asia, and other regions, significantly reducing the distance to international markets and the high cost pressures on Chinese companies.

Diversified Effects on Chinese Economy

Impacts on China’s digital economy. The current tax treaties focus on issues in tangible goods production, whereas the intangible digital economy is emerging as the central pillar of the global economy, demonstrating robust growth momentum. Existing international tax treaties lack mechanisms to regulate, manage, and constrain this new economic paradigm. Legally, digital service taxes should be levied, yet the absence of effective tax administration mechanisms for online transactions results in mutual non-taxation.

According to the China Internet Development Report (2023), China's digital economy attained a market size of 50.2 trillion yuan in 2022, which accounts for 41.5% of GDP, consolidating its position as the world's second-largest digital economy. The China Digital Economy Development Research Report (2024) reveals that in 2023, China's digital economy expanded to 53.9 trillion yuan, accounting for 42.8% of GDP—an increase of 1.3 percentage points year-on-year. Notably, the digital economy contributed 66.45% to China's GDP growth, indicating its pivotal role in underpinning stable national economic expansion and its increasingly prominent position within China's economic structure.

Considering the explosive growth of China's digital economy, the existing tax treaty may prove insufficient in dealing with the new challenges brought about by the digital economy. As China-US tax relations continue to deteriorate, the development of the digital economy in China is likely to be involved with negative effects.

First, the traditional criteria for identifying a "permanent establishment" (PE) cannot be unified. The Income Tax Convention contains explicit provisions on PE identification, which conventionally rely on physical presence concepts such as fixed place of business or dependent agent relationships. However, the rapid development of the digital economy enables local enterprises to conduct cross-border commercial activities—including product sales and online consulting—through internet and digital technologies without establishing fixed places of business or conventional dependent agent relationships in the target market. Despite international efforts to develop virtual PEs and policy measures by the UN Committee of Experts, globally unified and definitive standards for digital economy PE remain elusive. Upon the suspension or termination of the tax treaty, the identification of digital economy PE would be determined solely under respective domestic legal frameworks, which may adversely affect China's exercise of taxing rights and revenue collection pertaining to digital economic activities.

Second, the profit attribution and taxing rights allocation for digital economy enterprises present inherent complexities. Given their cross-jurisdictional business models that often span multiple countries and regions—and the absence of requirements for fixed PE—the generation and allocation of profits cannot be clearly identified under traditional standards. If the tax treaty were to be suspended or terminated, China would encounter significant challenges in determining both the taxing rights over relevant enterprises and their taxable income, which is likely to trigger international tax disputes and impair the tax administration efficiency and tax revenue for China's digital economy sector.

Third, China's digital trade encounters growing external pressures. The digital economy and digital capital play a crucial role in facilitating the global economic recovery. Their contribution to global development is steadily on the rise, and they offer innovative means for global governance. Nations across the globe are actively participating in in-depth discussions and collaborative efforts regarding matters like the harmonization of digital economy standards, data security, privacy safeguarding, and the elimination of digital trade impediments. This would lead to the creation of an imbalanced and skewed international competitive landscape, slowing down the growth of China's digital economy sector.

Impacts on international expansion of China's service economy. From a comprehensive perspective of China-US trade, China maintains a trade surplus in goods with the United States but runs a deficit in services trade. The service trade in US predominantly focuses on high-technology-intensive and high-capital-intensive industries, such as information technology, financial services, and intellectual property, enabling the United States to reap substantial benefits from service trade. Changes in bilateral tax treaty would yield relatively limited repercussions for the United States, while exerting disproportionately substantial impacts on China’s service economy.

Taking the intellectual property industry as an example, under normal tax treaty provisions, Chinese enterprises, which transfer patented technologies or grant patent licenses to American firms, can enjoy preferential tax treatment, with relatively low withholding tax rates of merely 7% or 10%. This favorable tax rate enables Chinese companies to secure substantial profits, and vice versa. Once the treaty be suspended or terminated, royalty income from patented technology transfers would be subject to domestic tax laws in respective countries. While Chinese tax law imposes only a 10% withholding tax, the suspension or termination of the treaty would have negligible impact on American enterprises. Conversely, the United States may impose its statutory 30% withholding tax rate on Chinese firms’ patent royalty income, resulting in a significant reduction in the final income of Chinese enterprises. Similarly, technology transfers from American entities to Chinese enterprises would incur elevated transfer prices or licensing fees to offset additional tax burdens. This increase in cross-border intellectual property costs may significantly impede the development of China’s technology-intensive service sectors, such as technical upgrade services for advanced manufacturing and patent-based professional technical consulting services.

Similarly, the suspension or termination of the tax treaty may prompt stricter American tax enforcement on trademark licensing income, thereby increasing the tax burden for American firms utilizing Chinese intellectual property. This situation would not merely circumscribe the international promotion and overseas expansion endeavors of Chinese brands, but also gravely erode the impetus of Chinese enterprises to penetrate foreign markets through trademark licensing arrangements.

In general, the changes in bilateral tax treaty would exert heterogeneous impacts across China’s service sectors (Rong et al., 2024). Services sensitive to withholding taxes, including technology transfer, intellectual property utilization, and consulting services, are likely to experience disproportionate effects, whereas service trade segments less reliant on tax treaty benefits may remain comparatively unaffected.

Regarding business types, e-commerce companies would bear the brunt of the tax treaty’s suspension or termination. Many Chinese cross-border e-commerce companies operate numerous warehouses in US, where these facilities are classified as auxiliary under the tax treaty, thus avoiding PE status and corresponding tax liabilities. However, if the convention were to be suspended or terminated, these warehouses could be reclassified by the IRS as operational centers (i.e., PEs), thereby being subject to taxation. In view of the fact that China’s cross-border e-commerce and platform economy are now in a dynamic growth stage, such possible negative consequences may act as constraints on their development (Jia, 2024).

Fluctuations in China’s domestic financial market. Firstly, China faces a decline in capital gains within the United States. Conventional financial earnings, such as common stocks, interest, and royalties, do not receive preferential treatment. However, the convention offers more favorable terms for specific dividends. If the convention were to be suspended or terminated, the tax rate on China’s dividend income in the U.S. will rise from the current preferential 20% to 37%. This would bring it back in line with the standard American tax rate on these dividends, which is imposed based on the long-term capital gains tax rate. Such an escalation in tax costs is bound to compress the profit margins of enterprises, potentially undermining their competitiveness and financial viability in the American market.

Secondly, China's financial market may undergo significant fluctuations. America has imposed high tariffs on Chinese high-tech enterprises and placed them on the Entity List, restricting their investment, technology transfer, cooperation, and market access in the U.S., which triggers volatility in the secondary market stock prices of the affected listed companies. Additionally, firms that rely heavily on US face supply chain disruption risks, with listed companies in sectors like semiconductors, communications equipment, and artificial intelligence being particularly vulnerable. Those that depend on U.S. technology while serving the Chinese market are in an even more complicated situation. The American government has been pushing policies of "supply chain repatriation" or "industrial chain localization", especially in high-tech fields, pressuring tech giants such as NVIDIA and Apple in order to encourage such companies to relocate portions of their production and supply chains from overseas (particularly Asian regions) back to the US. Upstream raw material suppliers and related support service enterprises dependent on imports from US also face operational challenges. On the other hand, due to investors' heightened sensitivity to geopolitical news, the escalation of China-US trade tensions further dampens market risk appetite, triggering a chain reaction. High-valuation, high-growth tech stocks experience sell-offs, with capital flowing out in search of more stable markets. Safe-haven assets such as gold and fixed-income assets such as government bonds attract increased capital inflows, thereby exacerbating fluctuations in China's financial market.

Thirdly, the landscape of China's capital market may undergo a transformation. As the United States tightens its regulatory scrutiny and broadens security reviews for Chinese companies listed in US, many firms are confronted with escalating compliance costs, heightened legal risks, and increased market uncertainties (Li & Liu, 2024). As a result, Chinese concept stocks may accelerate their delisting from American markets and pivot to Hong Kong and mainland Chinese markets. This shift could result in the Hong Kong and A-share markets absorbing over $100 billion in transferred market value. Large-cap companies will alter the composition of index constituent stocks, impacting the capital market's supply-demand dynamics in the short term. This is expected to intensify financing pressures and dissipate the concentration of capital on existing listed entities. Institutional investors will be compelled to reevaluate and adjust their portfolio allocations, while small and medium-sized enterprises (SMEs) will face increased liquidity constraints. Nevertheless, the return of high-quality tech companies will enhance the overall market quality, diversify the investment ecosystem in China, and potentially infuse novel development prospects and dynamism into China's capital market.

Exchange rate fluctuations trigger a cascading effect. Modifications in conventions influence bilateral investment decisions, and tax policy adjustments are commonly perceived by the market as indicators of shifts in bilateral economic and trade relations. This prompts cross-border capital flows, directly affecting the supply and demand balance of international currencies, thereby causing exchange rate fluctuations and ultimately triggering a chain effect. Firstly, exchange rate fluctuations have a profound impact on import and export trade, increasing the risk hedging costs of companies, which is subsequently passed on to commodity prices. This further squeezes the profit margins of Chinese import and export enterprises, potentially leading to adjustments in the bilateral trade structure. Secondly, these fluctuations increase the valuation risks of foreign exchange reserves, necessitating more frequent market interventions to stabilize China's foreign exchange reserves. Thirdly, exchange rate issues may emerge as a new focal point in China-US economic and trade frictions, causing trade imbalances, eroding investment confidence, and damaging China-US economic and trade relations, thus creating a vicious cycle.

Tax conflicts and disputes between China and the United States significantly exacerbate. Firstly, the issue of double taxation is becoming more pronounced, with cross-border enterprises facing simultaneous taxation from both countries, leading to a substantial increase in their tax burden. The absence of the tax credit framework provided by conventions makes it difficult to mitigate double taxation, and the discrepancies in determining the tax base for the same source of income between China and the U.S. remain irreconcilable. Secondly, tax disputes are inevitable, and the lack of an effective dispute resolution mechanism hampers the resolution of these disputes, exposing multinational enterprises to increased risks of tax controversies, trade arbitration, and legal litigation, then subtly raising trade costs. Thirdly, the complexity of tax supervision intensifies as companies in both China and the United States must navigate two entirely distinct tax systems, increasing tax compliance costs. In addition, mechanisms designed to ensure China-US tax cooperation, such as the Common Reporting Standard (CRS) for the exchange of financial account information for tax purposes and the Convention on Mutual Administrative Assistance in Tax Matters, will face greater uncertainties. The exchange of tax information is likely to cease and law enforcement collaboration will be significantly reduced, posing a substantial impact on international tax cooperation.

The Impacts of the Suspension or Termination of the Income Tax Convention on Global Economic Governance

The Income Tax Convention between China and the United States provides a stable and predictable tax environment for investors and operators from both the United States and China, enhancing their confidence in cross-border economic activities and promoting the growth of bilateral trade and investment. In the midst of the profound transformations in the international economic order, the suspension or termination of the Convention would weaken the global tax governance system, accelerate the reshaping of international economic rules, and have a broad and profound impact on global economic governance.

Impact on Multilateralism

Should the convention be suspended or terminated, global trust in multilateral tax cooperation mechanisms would diminish, challenging the international tax framework advocated by the Organization for Economic Cooperation and Development (OECD). The implementation of international tax reform initiatives, such as the “Two-Pillar” solution, would face greater difficulties. The diminished role of international organizations could weaken the influence of bodies like the OECD and the G20 in global tax governance. This scenario could encourage other countries to follow suit, creating a demonstration effect that ultimately undermines the international multilateral tax governance system.

Slowing of Regional Economic Cooperation

China and the United States are the key pillars of the Asia-Pacific value chain. A deterioration in their tax relations would necessitate an accelerated adjustment of the regional value chain, potentially forcing investors to choose between “China-led” and “the United States-led” regional economic circles. This could trigger broader tax competition and disputes within the region. Tax conflicts would also adversely affect tax coordination within multi-layered regional cooperation frameworks, impacting the policy coordination functions of platforms like APEC, indirectly diminishing the expected benefits of the RCEP, and intensifying competition for influence within the CPTPP mechanism.

The Trend of Fragmentation in Global Economic Governance Intensifies

The suspension or termination of convention would increase the difficulty and complexity of establishing global tax rules and unified tax standards in the future. This could lead to the formation of independent tax rule systems by different economies, resulting in "Rule Island". The development of emerging cooperative mechanisms will be further constrained, particularly in areas such as the digital economy, where tax chaos prevails. This creates greater uncertainty in the tax governance of cross-border digital services and e-commerce.

The Reform of the Role and Function of International Organizations

As an important convention between two major economies, changes to this convention cast doubt on the effectiveness of the international tax dispute resolution mechanism. This may prompt institutions such as the International Monetary Fund (IMF), the World Bank, and the Organization for Economic Co-operation and Development (OECD) to reconsider the global tax coordination mechanism. These organizations may need to adjust their focus, reposition their roles, and place greater emphasis on regional economic cooperation and the tax systems of developing countries. Strengthening the intermediary and coordination capabilities of international organizations aims to enhance dispute resolution mechanisms, fill governance gaps resulting from the invalidation of bilateral conventions, and better respond to future diversified challenges.

Closing Remarks

The United States' stance on the United States-The People's Republic of China Income Tax Convention conveys multiple economic signals. Once the United States-The People's Republic of China Income Tax Convention is suspended or terminated, it would have significant negative effects on both the Chinese economy and the global economy. This article draws the following conclusions based on the analysis:

The tax treaty has a dual nature: it serves both as an auxiliary tool to foster a favorable environment for bilateral economic interactions, thus achieving mutual benefits and win-win outcomes, and as an economic lever that can reshape bilateral relations through suspension or termination.

The impact of the suspension or termination of the tax treaty is asymmetric, primarily evident in its greater impact on China than on the United States; for China, the convention exerts a more substantial impact on "going global" strategies than on "bringing in" initiatives.

From a long-term perspective, the extensive influence of the tax treaty means that if its bridging role ceases to exist, it would weaken the institutional foundation of global economic governance, thereby increasing the uncertainty and costs associated with cross-border economic activities.

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