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## **CHINA UPDATE**

January 17, 2012

### **Notable Quotes**

*"All of the trends, demographic trends, geopolitical trends, economic trends and military trends are shifting toward the Pacific...So our strategic challenges in the future will largely emanate out of the Pacific region."* – General Martin Dempsey, Chairman of the Joint Chiefs of Staff

*"China should try to avoid a new cold war with the U.S., but by no means should it give up its peripheral security in exchange for U.S.' ease in Asia....The U.S. must realize that it cannot stop the rise of China and that being friendly to China is in its utmost interests."* – Chinese Communist Party newspaper Global Times editorial

*"This is not a tenable policy for China or for the world economy. We believe it is in China's interest to allow the currency to appreciate more rapidly in response to market forces. And we believe China will do so because the alternative will be too costly – for China and for China's relations with the rest of the world."* Treasury Geithner after stating that Chinese currency is "substantially undervalued"

### **Vice President Biden Takes Lead on China Policy**

With Chinese Vice Premier Xi Jinping considered the heir apparent to current Chinese President Hu Jintao, the Administration has shifted management of US-China relations from Secretary of State Clinton and Treasury Secretary Geithner to Vice President Biden. Careful to note that the change is not a critique of the efforts of Clinton and Geithner, the White House says the move was made so that the U.S. can deal with the Vice Premier on a "same-status level" until he assumes the Chinese presidency later this year.

### **China to Shift Manufacturing Focus**

Earlier this month the Chinese *National Development and Reform Commission*, the government's top economic planning agency, and the Ministry of Commerce (MOC), released the government's "foreign investment catalogue" which identifies foreign investment opportunities by three categories: encouraged, allowed, and restricted. The catalogue, which is published every few years, with the newest one replacing a publication from 2007, indicates that the Chinese economy, controlled by the

central government, is expected to move away from heavy manufacturing toward high-tech and emerging fields. The new catalogue will go into effect on January 30, 2012, and is intended to further open the Chinese market to foreign investors, promote high end manufacturing, support the development of strategic new industries (such as new energy vehicles and next-generation internet system equipment), promote the increased development of the service industry, and provide coordination among the different regions of China.

### **Secretary Geithner Visit to China**

Treasury Secretary Geithner started the new year by visiting China for meetings with Chinese Premier Wen Jiabao and Vice Premier Wang Qishan that were focused on Iran sanctions and the global economy, and also included a discussion of U.S. concerns about Chinese currency manipulation. The visit came just two weeks after Treasury issued its semi-annual *Report to Congress on International Economic Exchange Rates and Policies* which, as it has in the past, failed to identify China as a currency manipulator, while saying that Chinese efforts to address the undervaluation of the Renminbi (RMB) have been insufficient and that more progress is needed.

### **Chinese Carbon Intensity Reductions**

The southern Chinese province of Guangdong – the country’s most populous – announced on January 11 that it plans to reduce its carbon intensity 19.5 percent from 2005 levels by the end of 2015. The *National Development and Reform Commission* has approved the low-carbon development blueprint for the province, which will soon begin implementation of the plan. Guangdong is the first of five provinces and eight cities chosen to test low carbon development in the 12th Five Year Plan period to have its draft plans approved by the commission.

### **Chinese Carbon Tax**

China’s *National Development and Reform Commission’s Energy Research Institute* and the *Institute of Fiscal Science* at the Ministry of Finance released a report January 5 that showed that a carbon tax of \$1.58 per metric ton under consideration by the Ministry of Finance is lower than previously floated amounts because of economic pressures. The proposal would target emissions by 2015 from companies that use large amounts of coal, crude oil, or natural gas as part of the 12th Five-Year Plan.

### **US Military Policy and China**

Earlier this month President Obama announced that, with the end of hostilities in Iraq and a scaled back effort in Afghanistan, the US military’s focus would shift toward the Asia-Pacific region. This is a part of the Administration’s larger shift of U.S. priorities toward the Pacific, and is seen as an effort to counter-balance the increased military rise of China in the region. Last year, in his visit to Australia, President Obama had announced a new U.S.-Australia military alliance that was intended as a show, if not of force, of presence, by the U.S. in the region. The reorganization of the military also calls for a shrinking of the Army to 490,000 soldiers over the next decade in which the Pentagon will also see its budget cut by at least \$450 million.

### **Center for a New American Security Report & Briefing**

On January 9, the Center for a New American Security (CNAS) released a report titled *Cooperation from Strength: The United States, China, and the South China Sea*. CNAS held a briefing the following day in

Washington to discuss the report and to examine the future of U.S. strategy in the South China Sea and the impact of territorial disputes on the maritime commons.

Participating in the briefing were: Admiral Jonathan Greenert, Chief of Naval Operations, U.S. Navy; Mr. Richard Danzig, former Secretary of the U.S. Navy, Chairman of the Board of Directors, CNAS; Ambassador Chan Heng Chee, Ambassador of the Republic of Singapore to the U.S.; Mr. Patrick Cronin, Senior Advisor and Senior Director of the Asia-Pacific Security Program, CNAS; and Mr. Robert D. Kaplan, Senior Fellow, CNAS

The briefing focused predominantly on U.S. Navy and Marine Corp operations in the Asia-Pacific region, with respect to the announcement of the new U.S. defense strategy earlier this month and discussed above in this document. The discussion also emphasized the significance of the region to international trade, global security interests, and maintenance of a global balance of power.

### **Chinese Ministry of Commerce Extends Anti-Dumping Investigation on US Distillery Products**

In December 2010, the Chinese government launched an anti-dumping (AD) investigation into the import of U.S. distillers' dried grains (DDG). While Chinese imports of DDG had grown by 385% in 2010, following the initiation of the AD investigation imports plummeted by 48% in the first eleven months of 2011. The Chinese MOC, referring to the case as "special and complicated," has extended the case until June 28, 2012.

### **Department of Commerce Initiates New China Inquiry**

On January 5, the Department of Commerce (DOC) initiated an [anti-circumvention inquiry](#) to determine whether some imports of Chinese steel threaded rod are circumventing a DOC anti-dumping order. The investigation was launched at the request of Vulcan Threaded Products, Inc. of Pelham, Alabama.