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## **CHINA UPDATE**

January 31, 2012

### **Notable Quotes**

*"I will go anywhere in the world to open new markets for American products. And I will not stand by when our competitors don't play by the rules. We've brought trade cases against China at twice the rate as the last administration – and it's made a difference."* – President Obama in his State of the Union address on January 24

*"China does present a really unique and formidable challenge to the global trading system, because the structure of the economy—even though it has more of a market economy, it's still overwhelmingly dominated by the state and state enterprises....China systematically subsidized the costs of key imports, energy, access to credit and capital, [and] the price of land, and it has kept its exchange rate below fundamentals for some time...So what that means is China, even though it's starting to have a world-class manufacturing sector, is supporting that ambition with a set of policies that are very damaging, not just to the commercial and economic interests of its trading partners but to the political support around the world for sustaining a more open trading system."* – Treasury Secretary Geithner at the World Economic Forum in Davos, Switzerland on January 27

### **State of the Union**

Last Tuesday, January 24, President Obama delivered his [State of the Union](#) address to a joint session of Congress. There were numerous references to China, including the announcement that the White House was creating a Trade Enforcement Unit to investigate unfair trade practices in countries like China. Part of the new unit's duties will be to perform increased inspections to prevent counterfeit or unsafe goods from entering the U.S.

### **Congressional Leaders Call on Administration to Pressure China on Currency**

In a [letter](#) sent January 31, Senate Finance Chairman Baucus and House Ways and Means Chairman Camp urged Treasury Secretary Geithner and U.S. Trade Representative Kirk to pressure China on currency manipulation at the World Trade Organization Working Group on Trade, Debt & Finance in March. Noting that the U.S. trade deficit, as documented by the [U.S. Census Bureau](#), has grown by almost \$200 billion since 2001 as a result of unfair trading practices by China, Baucus and Camp urged

Geithner and Kirk to use the WTO meeting as an opportunity to “deepen and broaden” the discussion on “understanding the relationship between trade and exchange rate policies.”

### **Commerce and USTR Urge Congressional Action on CVDs**

Secretary of Commerce Bryson and United States Trade Representative Kirk, on January 18, [wrote](#) to Senate Finance Committee Chairman Baucus (D-MT) regarding the December 19, 2011 ruling by the U.S. Court of Appeals for the Federal Circuit that the Department of Commerce (DOC) lacks the required legal authority to impose countervailing duties (CVDs) on subsidized imports from countries with non-market economies, such as China and Vietnam. The ruling can be found [here](#).

Bryson and Kirk say in their letter that, absent congressional action, DOC will have to “revoke all CVD orders and terminate all CVD proceedings involving non-market economy countries, including 24 existing CVD orders on imports from China and Vietnam, as well as five pending investigations and two recently filed petitions.” They go on to say that the subsidized imports covered by these proceedings are valued at \$4.7 billion. According to the letter, DOC is considering a request for a rehearing by the full appellate court, as the Administration believes that the December decision “misreads the CVD statute, precedent, and Congressional intent and historic bipartisan support of strong CVD laws.” However, Bryson and Kirk urge Congress to take “prompt legislative action” to clarify the law. Identical letters were sent to Senator Hatch (R-UT), Ranking Member of the Finance Committee, and to House Ways and Means Committee Chairman Camp (R-MI) and Ranking Member Levin (D-MI).

### **U.S. Trade Representative Agenda for Year**

USTR Kirk has laid out an ambitious agenda for the remainder of 2012, including: implementation of the free trade agreements with Colombia, Panama, and South Korea; opening the market for U.S. goods and services in Russia; and finalizing negotiations on the Trans-Pacific Partnership. President Obama made significant on the TPP during the Asia-Pacific Economic Cooperation (APEC) meeting in Honolulu last November. This was discussed in the [November 14, 2011 China Update](#) from ML Strategies.

### **Chinese Vice President to Visit White House**

On February 14, Chinese Vice President Xi Jinping, in line to succeed current President Hu Jintao later this year, will meet with President Obama at the White House. According to the White House statement, they will discuss “a broad range of bilateral, regional, and global issues.” The Chinese Vice President is being hosted in Washington by Vice President Biden, who visited China last August, and this visit is viewed by the Administration as an opportunity to lay the groundwork for a working relationship with Xi when he succeeds to the Chinese presidency. While in the U.S., Xi will also visit Iowa and California. Iowa governor Terry Branstad and Lt. Governor Kim Reynolds issued a [release](#) welcoming the White House announcement that Xi would visit the state, and noting that Xi had visited Iowa in 1985 when he was a Communist Party official for Hebei Province.

### **US Auto Manufacturers Lead Trade Protest Against China**

In advance of Chinese Vice President Xi Jinping’s visit to Washington on February 14, a coalition that includes the United Steel Workers, the United Automobile Workers, the Economic Policy Institute, the trade law firm of Stewart and Stewart, the Wessel Group (a trade strategy firm), and elected officials have launched a protest against Chinese trade practices and are urging the Obama Administration to file trade cases on Chinese subsidies for auto parts manufacturers, as well as Chinese restrictions on

the export of rare earth metals that are used for the manufacture of some auto parts. As a part of this effort, the Economic Policy Institute has issued a briefing paper titled [Jobs in the U.S. Auto Parts Industry Are At Risk Due To Subsidized And Unfairly Trade Chinese Auto Parts](#), and Stewart and Stewart have issued a report titled [China's Support Programs For Automobiles And Auto Parts Under the 12<sup>th</sup> Five Year Plan](#). The Alliance for American Manufacturing held an event in the Capitol Visitor's Center on January 31 to highlight the reports from EPI and Stewart and Stewart. Speakers at the event included: Senators Brown (D-OH), Casey (D-PA), Stabenow (D-MI); Representative Levin (D-MI); Mr. Leo Gerard, President of the United Steel Workers; Mr. Rob Scott, Senior Researcher, EPI; Mr. Terence Stewart, Partner, Stewart and Stewart; and Mr. Josh Nassar, Legislative Director, United Auto Workers. For a more detailed summary of the event, please contact us.

### **Coalition for Affordable Solar Energy Releases Brattle Group Report**

On January 30, the Coalition for Affordable Solar Energy, a coalition of solar manufacturers opposed to the trade complaint filed by SolarWorld with the Department of Commerce, released a [report](#) prepared by the Brattle Group which projects job losses throughout the solar industry if tariffs are imposed on Chinese manufactured photovoltaic cells and modules. The study evaluates the effects of both a 50% and 100% tariff, with losses ranging from just under 15,000 to as many as 60,000 from 2012 through 2014. The losses were calculated with regard to direct, indirect, and induced effects of the tariffs and represent jobs that would otherwise be created if the tariff was not in effect. Although the report projects that the increase in domestic prices due to the tariffs would stimulate job growth in manufacturing, losses which include decreased demand for the resulting more expensive installation of projects would offset those gains. A teleconference was held to discuss the report, and ML Strategies has a more in-depth summary of that discussion. Please contact us if you are interested in receiving it.

### **Developments in SolarWorld Trade Case**

The Department of Commerce was scheduled to announce on February 13 whether it would impose duties on solar cells and modules from China. However, at least partially in light of Chinese Vice President Xi Jinping's visit to Washington on February 14, that decision has been postponed until March 2.

This week the Department of Commerce issued a [Preliminary Determination of Critical Circumstances](#) that says there has been a surge in U.S. imports of Chinese solar products as part of an effort by China to have these products enter the U.S. market before the ruling on the SolarWorld trade case. With that determination made, if Commerce imposes countervailing duties on March 2 they will be retroactive to December 3, 2011.

### **Heritage Foundation Event on Cross-Strait Relations**

On Wednesday, February 1, the Heritage Foundation will host an [address](#) by John H. Chiang, Vice Chairman, Kuomintang, Chinese Nationalist Party, and former Taiwanese Minister of Foreign Affairs, on "Cross Strait Relations after Taiwan's 2012 Election."

### **Peterson Institute Discussion on China's Economic Growth**

On Wednesday, February 1, the Peterson Institute for International Economics will hold a [discussion](#) on "Sustaining China's Economic Growth after the Global Financial Crisis" – a book authored by Nicholas Lardy, senior fellow at the Institute.