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CHINA UPDATE

QUOTES OF THE WEEK

"We'll also make sure that we have trade relations with China that work for us. I've watched year in and year out as companies have shut down and people have lost their jobs because China has not played by the same rules, in part by holding down artificially the value of their currency. It holds down the prices of their goods. It means our goods aren't as competitive and we lose jobs. That's got to end. They're making some progress; they need to make more. That's why on day one, I will label them a currency manipulator, which allows us to apply tariffs where they're taking jobs. They're stealing our intellectual property, our patents, our designs, our technology, hacking into our computers, counterfeiting our goods." – Governor Mitt Romney (R), at the October 22 presidential debate on foreign policy

"Now with respect to what we've done with China already, U.S. exports have doubled since I came into office, to China and actually currencies are at their most advantageous point for U.S. exporters since 1993. We absolutely have to make more progress and that's why we're going to keep on pressing. And when it comes to our military and Chinese security, part of the reason that we were able to pivot to the Asia-Pacific region after having ended the war in Iraq and transitioning out of Afghanistan, is precisely because this is going to be a massive growth area in the future. And when we believe China can be a partner, but we're also sending a very clear signal that America is a Pacific power; that we are going to have a presence there. We are working with countries in the region to make sure, for example, that ships can pass through; that commerce continues. And we're organizing trade relations with countries other than China so that China starts feeling more pressure about meeting basic international standards." – President Barack Obama at the October 22 presidential debate on foreign policy

U.S. PRESIDENTIAL CAMPAIGN

Obama and Romney Tackle China in Final Presidential Debate

On October 22 President Obama and Governor Romney met for their third and final debate before the November 6 U.S. presidential election. The debate was focused on foreign policy, giving China and the U.S.-China relationship significant time, with one segment of questioning by moderator Bob Schieffer focused on “China and future challenges for America.” In this exchange, President Obama noted that his Administration has brought more successful trade cases against China than the previous administration, but said that China is not only an adversary, but a potential partner for the U.S. Governor Romney noted that China is seeing a mass movement of its population to cities and said that China wants “the economy to work and the world to be free and open,” while promising to designate China as a currency manipulator if elected. The transcript and audio of the debate can be found on National Public Radio [here](#).

TRADE

WTO Sets up Dispute Panel for U.S.-China Automobile Case

On October 23 the World Trade Organization’s Dispute Settlement Body established a panel to examine a U.S. complaint against China’s anti-dumping and countervailing duties on American automobiles. The U.S. says that China’s dumping and subsidy determinations in the investigation appear to involve “profound procedural and substantive deficiencies”, and in conducting the investigations, China “appears to have breached a number of its obligations under the General Agreement on Tariffs and Trade 1994, the Anti-dumping Agreement and the Subsidies Agreement.” A press release from the Office of the U.S. Trade Representative can be found [here](#).

WTO Issues Report on China’s Duties on Steel Products from the U.S.

On October 18 the World Trade Organization issued a report in the case “China – Countervailing and Anti-Dumping Duties on Grain Oriented Flat-Rolled Electrical Steel from the United States,” barring China from imposing duties on U.S. grain oriented flat-rolled electrical steel, which is used in electric motors, generators, and high-efficiency transformers. A WTO summary of the case can be found [here](#).

Commerce Department Initiates Investigation on Hardwood and Plywood from China

On October 18 the International Trade Administration (ITA) announced that it is initiating anti-dumping (AD) and countervailing duty (CVD) investigations of hardwood and decorative plywood from China. The U.S. International Trade Commission (ITC) is expected to make its preliminary injury determination on or before November 13, 2012. If the ITC determines there is a reasonable indication that imports of these products from China materially injure, or threaten material injury to, the domestic industry the investigations will continue, and Commerce will be scheduled to make its preliminary determinations in the CVD and AD investigations in December 2012 and March 2013 respectively. The ITA Fact Sheet can be found [here](#).

TREASURY

On October 18 Senator Orrin Hatch (R-UT), Ranking Member of the Senate Finance Committee, sent a letter to Treasury Secretary Geithner asking him to outline the Obama Administration’s position on Chinese currency manipulation before the next round of the Trans Pacific Partnership (TPP) negotiations in December. As reported in last week’s China Update from ML Strategies, found [here](#), the Treasury Department announced that it was delaying the release of its semi-annual currency report until after a finance meeting in November. Ranking Member Hatch says in his letter “Given the large and growing trade deficit with China, it is simply

unacceptable for the Obama Administration to continually shirk its responsibility to articulate, in a timely manner, a clear and coherent policy regarding currency misalignment and manipulation.” The letter can be found [here](#).

ENVIRONMENT

Chinese NGOs Issue Report on Corporate Environmental Stewardship

On October 8 a report was issued by a group of 5 Chinese NGOs claiming that apparel manufacturers in China are not managing “emissions violation problems in their supply chain.” The NGOs are Friends of Nature, Institute of Public and Environmental Affairs, Green Beagle, Envirofriends, and Nanjing Green Stone. The report, which singles out Disney, Tommy Hilfiger, JCPenney, Polo Ralph Lauren, and Marks & Spencer, can be found [here](#).

STATE

Secretary Clinton Delivers Major Speech on Energy Diplomacy

On October 18 Secretary of State Hillary Clinton delivered a speech at Georgetown University titled “Energy Diplomacy in the 21st Century.” The focus of the speech was on efforts by the U.S., specifically by the State Department, to increase energy diplomacy.

With regard to China, Secretary Clinton said “Right now, for example, in a dramatic reversal, developing countries are consuming more of the world’s energy than developed countries. China and India’s energy needs are growing rapidly along with their economies. Demand is also rising across Central Asia and South America too. There’s been a surge in the global supply chain of natural gas, creating new opportunities for gas producers and lessening the world’s dependence on oil. And technology has developed to the point where we can drill for oil and gas in places like the Arctic and the South China Sea, opening up new opportunities but also raising questions about our environmental and catalyzing sources of tension.” She went on to say “You may have read about heated disputes over territorial claims in the South China Sea. Well, why do you think that is happening? There are potentially significant quantities of oil and gas resources right next door to countries with fast-growing energy needs. And you can see why at times the situation is becoming quite tense. We are supporting efforts by the parties themselves to adopt a clear code of conduct to manage those potential resources without conflict.”

A full transcript of the speech can be found [here](#).

U.S.-China Asia-Pacific Consultations

Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell is scheduled to meet today, October 23, with Chinese Vice Foreign Minister Cui Tiankai in San Francisco at the fourth U.S.-China Asia-Pacific Consultations. Mr. Campbell will then travel to Tokyo and Seoul, returning to Washington on October 27.

China Initiates New Effort on Economic Diplomacy

On October 9 China’s State Council established a new Department of International Economic Affairs. The department, housed within the Ministry of Foreign Affairs, will focus on economic diplomacy, and will assist in coordination of Chinese participation in international economic summits.

MISCELLANEOUS

Aspen Institute Panel on U.S. Manufacturing Policy

On October 19 the Aspen Institute held a briefing on “What Policy Initiatives are Needed to Help U.S. Manufacturing? What the Candidates are Saying.” Participants included Dr. Jared Bernstein, former principal economic advisor to Vice President Biden; the Honorable Grant Aldonas, former Under Secretary of Commerce for International Trade in the George W. Bush Administration; and Mr. Hedrick Smith, former Editor of the New York Times, who served as moderator. During the discussion, Mr. Smith asked “how we can differentiate between talking the talk and walking the walk regarding the approach with China.” Mr. Aldonas noted that presidential candidate Mitt Romney has said if elected he would label China a currency manipulator. In response, Mr. Bernstein agreed that currency manipulation is a problem, and went on to say that holding China accountable on free trade is not protectionist but instead promotes free trade.

CONGRESS

The House of Representatives and Senate are both in recess until after the November 6 elections.

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