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CHINA UPDATE

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QUOTE OF THE WEEK

"China is a great power. It is now. Some people try to project into the future, it is the world's second largest economy already, and just by virtue of the numbers of people and the size and the rate of growth, it is inevitable that in the next years it will be the largest economy in the world. One of the most important things we want to do is make sure that we are sharing. The United States welcomes China's ability to be an important player, and we simply want to do things together in a way that makes sense for everybody. We're not looking for a competitor; we're not looking for an adversarial relationship. As you know in the work you do, we want to try to be partners." – Secretary of State Kerry speaking to staff and families at the U.S. Embassy in Beijing, April 13

U.S.-CHINA RELATIONS

Secretary of State Kerry Concludes China Trip

Secretary of State Kerry was in China April 13-14, meeting with the top echelon of China's new leadership, including President Xi Jinping, Premier Li Keqiang, State Councilor Yang Jiechi, and Foreign Minister Wang Yi. At the top of the bilateral agenda was the subject of North Korea, and the two sides underscored their commitment to the peaceful denuclearization of the Korean peninsula. Both sides also articulated a vision of how a stronger economic partnership between the two most powerful economies in the world can play a key role in global economic security.

At a press briefing on April 13, Secretary Kerry stated that his meetings with Chinese officials had offered more opportunities for agreement than disagreement and that the visit had gone beyond what he had anticipated.

In his remarks he discussed the situation on the Korean peninsula, and said that the Chairman of the Joint Chiefs of Staff, members of the U.S. intelligence community, and Deputy Secretary of State William Burns will be traveling to China in the near future. Kerry said that the U.S. and China remain fully

committed to the September 2005 joint statement on the Six-Party Talks and to its core goal – the denuclearization of the Korean peninsula in a peaceful manner.

With regard to maritime security, including disputes in the South China and East China Seas, the Secretary said that he had discussed with Chinese leaders “how important it is for all parties to not raise tensions that could undermine peace and security and economic growth in the region.”

When asked what he would do to encourage Chinese investment in the U.S., Secretary Kerry said that he had discussed with State Councilor Yang the possibility of Chinese investment in infrastructure, saying “We have proposals in the United States Congress to create infrastructure bank. We have huge infrastructure needs in the United States for a certain series of projects like water projects, transportation projects, energy projects. Those are all revenue-producing projects. So they are projects from which pension funds and other kinds of investments can make a return on investment and everybody benefits. It’s a win-win-win. It’s a win for the investors, it’s a win for the countries, and ultimately it’s a win for the place where the infrastructure gets built.”

Kerry also discussed U.S.-China cooperation on energy and the upcoming Strategic & Economic Dialogue (both covered in greater detail below), and said that the U.S. and China will create an immediate working group on cyber security.

The transcript of the press availability can be found [here](#).

Fifth S&ED Scheduled for July

On April 13, the Department of State and Department of the Treasury announced that the fifth meeting of the U.S.-China Strategic & Economic Dialogue (S&ED) will be held in Washington during the week of July 8-12, 2013. Treasury Secretary Jacob J. Lew and Secretary of State John Kerry, as President Obama’s Special Representatives, will be joined for the Dialogue by their respective Chinese co-chairs, Vice Premier Wang Yang and State Councilor Yang Jiechi, along with members of the Chinese delegation and their U.S. colleagues. The Dialogue will focus on addressing the challenges and opportunities that both countries face on a wide range of bilateral, regional and global areas of immediate and long-term economic and strategic interest, and will follow up on discussions Secretary Lew had with China’s new leadership in March and Secretary Kerry had in Beijing April 13-14. Further details regarding the precise dates, press credentialing and press opportunities will be made available in the weeks ahead.

Treasury Issues Semi-Annual Report on International Economic & Exchange Rate Policies

On April 12, the Treasury Department released the Semi-Annual Report to Congress on International Economic and Exchange Rate Policies that is required under Sections 3004 and 3005 of the Omnibus Trade and Competitiveness Act of 1988. The Report covers international economic and foreign exchange developments in the second half of 2012 and, where pertinent and available, data through early April 2013. Among major emerging market economies, many, especially in Asia, have more tightly managed exchange rates, with varying degrees of active management. The Report highlights the need for greater exchange rate flexibility and transparency in these economies, most notably in China. Among other content, the report outlines the actions taken by China to appreciate its currency and move to a more market determined exchange rate. As of early April 2013, the renminbi (RMB) has appreciated 10.0 percent against the U.S. dollar since China moved off its exchange rate peg in June 2010. In real terms, after adjusting for relative changes in domestic prices, the RMB appreciated by 16.2 percent from June 2010 through February 2013. The report can be found [here](#).

China Releases Report on Military Criticizing the U.S.

On April 16, via the official news agency of the Chinese government Xinhua, the Information Office of China’s State Council issued a report on its military titled “The Diversified Employment of China’s Armed Forces.” Xinhua notes that this is the first time the Chinese government has publicly issued

details on the People's Liberation Army (PLA). According to the report, the PLA has 850,000 troops in its ground mobile operational units, 398,000 in the air force, and 235,000 naval personnel spread across three fleets. The report also gives details on the Chinese defense budget, saying that in 2012 it exceeded \$100 billion – representing an increase of 11.2% for the year. By comparison, the budget of the United States is seven times larger. The report is broken down into five sections: New Situations, New Challenges, and New Missions; Building and Development of China's Armed Forces; Defending National Sovereignty, Security, and Territorial Integrity; Supporting National Economic and Social Development; Safeguarding World Peace and Regional Stability. The report notes that the Chinese navy has carried out anti-piracy drills with naval ships from the US, Pakistan, and South Korea, and also states that, within the Framework of the Military Maritime Consultative Agreement (MMCA), the Chinese and U.S. navies regularly exchange maritime information to avoid accidents at sea. The report also states that "The Asia-Pacific region has become an increasingly significant stage for world economic development and strategic interaction between major powers. The U.S. is adjusting its Asia-Pacific security strategy, and the regional landscape is undergoing profound changes." The report goes on to say that "some country" – presumably the US – has "strengthened its Asia-Pacific military alliances, expanded its military presence in the region, and frequently makes the situation there tenser." The report can be found [here](#).

Chinese National Killed in Boston Bombing

The Consulate General of the People's Republic of China in New York has confirmed that one of the three persons killed in the April 15 bombing at the Boston Marathon was Lingzi Lu, a Chinese graduate student at Boston University. Another Chinese student was injured and is reported to be in stable condition.

Senate Foreign Relations Ranking Member on China and a Nuclear Asia

On April 16, the Wall Street Journal ran an Op-Ed by Senate Foreign Relations Committee Ranking Member Bob Corker (R-TN) titled "Does China Really Want a Nuclear Japan and South Korea?" Having just returned from a trip to China, Japan, and South Korea, Senator Corker says that "China views North Korea as a nuisance—a distraction from the domestic challenges that Beijing must confront as it continues its remarkable economic growth and development. Chinese officials are urging all parties to remain calm and avoid actions that could escalate tensions on the Korean peninsula. Yet one I met with went so far as to suggest that the U.S. routinely overstates the North Korean threat. This particular Chinese official's advice on dealing with North Korea: The U.S. should "just relax." That precise sentiment may not be shared by all Chinese officials, but it is emblematic of Beijing's overall laissez-faire approach to North Korea."

China Discussed at Congressional Hearing U.S. Foreign Affairs Budget

On April 17, the House Foreign Affairs Committee held a hearing on "Securing U.S. Interests Abroad: The FY 2014 Foreign Affairs Budget" with Secretary of State Kerry providing testimony. China was discussed at numerous points during the hearing. Chairman Royce (R-CA) referred to China as the most important country in efforts to resolve the situation on the Korean peninsula, and also called for a freeze on hard currency for both China and North Korea. Rep. Sherman (D-CA) discussed China's purchasing of Iranian oil. Rep. Smith (R-NJ) – who is also co-chair of the Congressional-Executive Commission on China – noted that a Chinese human rights activist had been tortured for protesting forced abortions. Rep. Chabot (R-OH) said that China provides more than three-fourths of North Korea's fuel and most of that country's food aid, and therefore must take a larger role with denuclearization of the peninsula. ML Strategies has a detailed summary of the hearing available upon request.

Field Hearing on China's Agriculture Policy

On April 25, the U.S.-China Economic and Security Review Commission (USCC) will hold a field hearing at Iowa State University on "China's Agriculture Policy and U.S. Access to China's Market." The hearing

will include panels on 1) The Status and Future of China's Agricultural Development, 2) Food Safety: Trade Barriers and Public Health Issues, 3) Bilateral Trade and Investment: Opportunities and Constraints, and 4) Intellectual Property and Value-Added Production. Panelist bios and written statements will be available on the Commission's website at www.uscc.gov on Thursday, April 24.

TRADE

Wind Coalition Appeals Denial of Injunction

On April 4, the Wind Tower Trade Coalition (W TTC) appealed the March 29 denial of injunction to stop the Department of Commerce from liquidating utility scale wind tower companies from China and Vietnam. In December 2011, W TTC petitioned the Commerce Department and the International Trade Court (ITC) to conduct an antidumping investigation of Chinese and Vietnamese imports of wind towers. The court's divided 3-3 ruling was interpreted as an affirmative ruling, and the Commerce Department then acted under a special rule, placing duties after the February 2013 decision. W TTC questioned why the Department did not operate under the general rule to impose duties from the date of publication of the Commerce determination, but the March 29 ruling found the Commerce Department adequately applied the special rule.

Chinese Release Economic Statistics for Q1 2012

On April 15, China's National Bureau of Statistics released data showing that in the first quarter of 2013 the Chinese gross domestic product increased by 7.7% over 2012, compared to 7.9% year-on-year in the fourth quarter. A spokesman for the bureau, at a press conference to announce the data, acknowledged that the growth rate was slower than in previous time periods, but said that the government considers it to be a stable start for the year, and that China foresees meeting its 2012 growth target of 7.5%.

Chinese Show Growth in Trade Numbers

According to figures released by China's General Administration of Customs on April 10, imports and exports grew at a combined rate of 13.4% year-on-year in Q1 2013. Chinese trade with the U.S. in this time period grew by 10.8%.

China & Australia Start Direct Trading of Currency

On April 8, Australian Prime Minister Julia Gillard joined with the People's Bank of China to announce that the two countries had reached agreement to begin direct currency trading between the Chinese renminbi and the Australian dollar. The new policy went into effect the following day. As a result of the agreement, the Australian dollar joins the U.S. dollar and the Japanese yen as the major currencies directly traded in China's foreign exchange market. The Chinese have approved licenses for ANZ and Wespac, both Australian banks, to act as market makers for direct trading on the Chinese foreign exchange system.

California Strengthens Trade Ties With China

On April 16, California Governor Jerry Brown concluded a highly successful trade and investment mission to China in the port city of Shenzhen. Multimillion-dollar business deals between Chinese and Californian companies were announced during the visit. At an April 10 reception at the U.S. Embassy in Beijing hosted by Ambassador Locke, Brown announced a \$1.5 billion investment partnership between a California-based developer and a China-based investor and developer that will create thousands of California jobs. "This massive influx of Chinese investment will put thousands of Californians to work and dramatically improve Oakland's waterfront," said Governor Brown, who described this trade mission as a first step toward improved relations between California and China that will benefit both sides. The trade and investment mission's seven-day visit -- April 10-16 -- included stops in Beijing, Nanjing, Shanghai, Guangzhou, and Shenzhen. Brown was joined by a delegation of 75 business, economic development, investment, and policy leaders from throughout California.

ENERGY & ENVIRONMENT

Secretary of State Kerry at Energy Cooperation Event in Beijing

On April 13, Secretary of State Kerry spoke at an Energy Cooperation event in Beijing, praising U.S.-China energy cooperation, saying that it is the “best of international government-to-government cooperation.” He went on to say that “China and the United States represent the world’s two biggest economies, we represent the world’s two largest consumers of energy, and we represent the two largest emitters of global greenhouse gasses. So if any two nations come to this table with an imperative for action, it is us. We are more than 50 percent of the world’s greenhouse gas emissions. And what the United States and China decide to do with respect to this, whatever energy initiative we embrace together, whatever steps we take hand-in-hand, though the steps may be different, they nevertheless will contribute to our global efforts. But most importantly, the two largest economies in the world will send a signal to the world about how serious we are about this....The marketplace that created the great wealth of the 1990s, where every single taxpayer of America saw their income go up, was a \$1 trillion market with one billion users. The energy market that we are talking about here today, the energy market of the future, is a \$6 trillion market with five billion users today and growing to perhaps nine billion users over the next 40 years. This is the largest of all markets every imagined on the face of this planet.” The Secretary’s full remarks can be found [here](#).

U.S-China Climate Change Cooperation

On April 13, the United States and China issued a joint statement in which the two countries acknowledged “the increasing dangers presented by climate change” and pledged to work together in an effort to address the problem. The two countries also announced the formation of a Climate Change Working Group, which will work to identify new areas for concrete, cooperative action to foster green and low-carbon economic growth including the use of public-private partnerships where appropriate.

Report on Chinese Pollution Disclosure Process

On April 1, the Institute of Public and Environmental Affairs and the Natural Resources Defense Council’s Beijing office released their joint report, *Pollution Information Transparency Index (PITI) 2012*. The study praised China’s work on publishing data on air pollution but urged the country to improve its disclosure system on air, soil, and water pollution. The report also advocated for the issuing of information online and in real-time. Representatives from the two organizations also suggested China mirror disclosure systems set up by the U.S. and by the European Union.

Report on Connection between Economy, Energy, and Environment in China

On April 9, Asian Development Bank released its publication, *Asian Development Outlook 2013*, which contained a chapter on the connection between the economy, energy, and the environment in Asia. The report said that rapidly growing countries are using environmentally-dangerous energy policies to spur development. By 2035, the continent could account for more than half of the world’s energy, and the report warns that carbon dioxide emissions will double if Asia stays on this trajectory without addressing environmental concerns. Coal, gas, and oil are the major energy sources; these sources are expected to remain Asia’s main energy supply unless the clean energy market is developed. The study recommends adding more energy sources to the mix to stimulate the economy.

California-China Air Pollution Agreement

On April 10, California Gov. Jerry Brown (D) signed a two-year agreement with Chinese Minister of Environmental Protection Zhou Shengxian to collaborate on air pollution reduction tactics and technology. Designed to cut air pollution while still spurring economic growth, the pact includes measures to collaborate on research projects, to host joint training sessions, and to share regulatory policies. Gov. Brown signed the agreement while on a six-day mission to China to discuss investment and trade issues.

China and Australia Cooperation on Wind Power

While no specific projects have yet been identified, China's largest producer of coal, Shenhua Group, has reached an agreement with Hydro Tasmania, the largest renewable energy producer in Australia, to form a strategic partnership aimed at the development of wind power in Australia. The two companies will also cooperate on solar, thermal, and electricity retail. By 2020, the partnership could jointly invest \$1.6 billion in the development of new wind farms in Australia.

MISCELLANEOUS

Increase in Chinese Travel Abroad

On April 12, China's National Tourism Administration announced that in the first quarter of 2012 there were 22.6 million trips abroad by Chinese citizens, representing an increase of 16%. However, the number of inbound tourist trips to China decreased by 2% to 31.6 million.

Amnesty International Report Says China Leads World in Executions

On April 9, Amnesty International released its report "Death Sentences and Executions 2012" covering the judicial use of the death penalty for the period January to December 2012. According to the report, "Since 2009, Amnesty International has stopped publishing estimates on the use of the death penalty in China, where data on the use of the death penalty is considered a state secret. The lack of reliable data does not allow Amnesty International to publish credible minimum figures for the use of the death penalty in the country; however, available information strongly indicates that China carries out more executions than the rest of the world put together." The report says that Amnesty International believes China executed thousands of persons in 2012, and that the U.S. is the only country in the Americas to have carried out executions in 2012, while 174 of the 193 member states of the United Nations were "execution free" in 2012. The report can be viewed [here](#).

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