



Neal Martin

nmartin@mlstrategies.com

David Leiter

djleiter@mlstrategies.com

ML Strategies, LLC

701 Pennsylvania Avenue, N.W.

Washington, DC 20004 USA

202 296 3622

202 434 7400 fax

www.mlstrategies.com

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CHINA UPDATE

Quote of the Week

"...the economic relationship between the United States and China provides significant benefits to both of our nations. Even though we compete in many areas, our economic strengths are largely complementary...China's rise offers us the opportunity of dramatic growth in demand for things Americans create and produce. We should welcome both the opportunity and the challenge."

– Treasury Secretary Geithner in remarks to the Commonwealth Club of San Francisco on April 26

Clinton and Geithner Head to Strategic & Economic Dialogue

Secretary of State Hillary Clinton and Treasury Secretary Tim Geithner travel this week to Beijing where they will co-chair the U.S.-China Strategic & Economic Dialogue (S&ED) with Chinese Vice Premier Wang Qishan and State Councilor Dai Bingguo from May 3-4. This round of the S&ED is a "whole of government" dialogue involving cabinet members and agency heads from both governments. Joining Secretaries Clinton and Geithner on the trip are Commerce Secretary Bryson, Under Secretary for International Trade Sanchez, and USTR Kirk. Among the topics of this round of the S&ED will be requests from the U.S. for China to modernize its financial system, address its currency misalignment, and improve intellectual property protection. Secretary Geithner **spoke** last week to the Commonwealth Club in San Francisco and outlined progress and challenges in U.S.-China economic relations, saying that Administration efforts have included two broad strategic objectives: 1) "to expand opportunities for U.S. companies to export and sell to China, to level the playing field, and to encourage economic reforms that would move China away from its export-oriented growth model and extensive subsidies for Chinese companies;" and 2) "to deepen our cooperation with China on a range of international economic and financial regulation issues."

Congressional Democrats on S&ED Priorities

In a **letter** sent today, Senate Finance Committee Chairman Baucus (D-MT) and House Ways and Means Committee Ranking Member Levin (D-MI) urged Treasury Secretary Geithner and USTR Kirk to work toward significant progress on China's arbitrary caps on market access for American financial firms, intellectual property rights protection, and China's suppression of its currency value. Baucus

and Levin say in their letter that reform and modernization of China's financial sector should be at the top of the Administration's agenda for the S&ED, with the goal of moving China from an export-oriented growth model toward one more reliant on domestic consumption, creating opportunities for both nations. Noting that China has made commitments to protection of intellectual property rights at previous rounds of the S&ED, Baucus and Levin say that the results have been mixed and that China's commitments must produce significant, concrete results. Finally, on the matter of currency undervaluation, Baucus and Levin say that China may be formalizing a policy of government currency intervention linked to its trade balance, and urge U.S. representatives to the S&ED to engage with Chinese officials at all levels on this issue.

House Ways & Means Chairman Camp on China and the S&ED

In a [speech](#) on April 26 to the Center for Strategic and International Studies (CSIS), Representative Dave Camp (R-MI), Chairman of the House Committee on Ways and Means, discussed his trade agenda, touching on several items related to China. While acknowledging that China is the United States' second largest trading partner and a significant market for exports, Chairman Camp raised concerns about Chinese currency misalignment, the upcoming S&ED, and his support for a Bilateral Investment Treaty with China.

Leading up to the S&ED, Chairman Camp, along with all Republican members of the committee, sent a [letter](#) to Secretary of State Clinton, Treasury Secretary Geithner, Commerce Secretary Bryson, and USTR Kirk, highlighting their key priorities for the U.S.-China talks. The issues identified are:

- "The Administration should focus its efforts at this year's S&ED on addressing significant and systemic market access barriers that impede U.S. exports and investment. These unfair barriers take various forms, but all cost U.S. jobs."
- "To give added weight to its commitment to rebalance, and to show a commitment to removing market access barriers, China should open its financial sector, including by lifting equity caps and eliminating other restrictions that limit foreign participation."
- "The Administration should also seek to address investment barriers through the resumption of bilateral investment treaty negotiations, which have been unduly delayed for more than three years."
- "As China embarks on a leadership transition, the S&ED is an opportunity to revisit other longstanding challenges, such as China's continued failure to protect intellectual property rights. China's failure to protect U.S. intellectual property rights is both a barrier to U.S. exports and investment and a subsidy to Chinese enterprises."

Peterson Institute Briefing on S&ED

Today, the Peterson Institute for International Economics hosted a conference call with senior researcher Nicholas Lardy to discuss the upcoming S&ED. Noting that there are tensions between the U.S. and China over Cheng Guangdong – the Chinese human rights activist who escaped house arrest and is believed to have been given refuge at the U.S. embassy in Beijing – Mr. Lardy said that while both nations will try to not let the matter overshadow the S&ED it is sure to be a factor in the talks. Mr. Lardy went on to say that, while S&ED participants will engage on long-running issues like intellectual property rights, economic imbalances, and currency issues, any accomplishments from this round of the S&ED are likely to be minimal. For a full summary of this briefing contact Neal Martin at nlmartin@mlstrategies.com.

Secretary Clinton & People-to-People Exchange with China

While in China, Secretary Clinton will also co-chair, along with Chinese State Councilor Liu Yandong, the third U.S.-China High-Level Consultation on People-to-People Exchange (CPE). The CPE is intended to “enhance and strengthen ties between the citizens of the United States and China in the areas of culture, education, sports, science and technology, and women’s issues.”

House Passes Cybersecurity Legislation

Last week, the House of Representatives approved, with a vote of 248-168, the *Cybersecurity Intelligence Sharing and Protection Act* (CISPA), H.R. 3523. The bill was introduced by Rep. Mike Rogers (R-MI), Chairman of the House Intelligence Committee, and Rep. Dutch Ruppersberger (D-MD), a member of the committee, and is intended to foster greater threat information sharing between the federal government and the private sector. Although there is fairly wide support for CISPA in the business community, some, including privacy advocates, are opposed and President Obama has indicated that he will veto the legislation should it make it through the Senate and to his desk. In his press release upon House passage of the bill, Chairman Rogers **stated** that the U.S. “can’t stand by and do nothing as U.S. companies are hemorrhaging from the cyber looting coming from nation states like China and Russia.” Rogers went on to note that one company “estimated they lost 20,000 good paying manufacturing jobs for Americans because countries like China stole their intellectual property and illegally competed against them in the marketplace.” A summary of CISPA can be found [here](#). Rogers and Ruppersberger authored an opinion piece for Politico on “China’s cyber trade war with the U.S.” that can be found [here](#).

Report on China’s Space Capabilities

On April 27, the U.S.-China Economic and Security Review Commission (USCC) released a **report** titled “China’s Evolving Space Capabilities: Implications for U.S. Interests.” The report was prepared by the Project 2048 Institute, a non-profit, non-partisan organization seeking to guide decision makers toward a more secure Asia by 2049. The report finds that even relative increases in China’s space capabilities would present challenges to the U.S.; China’s space program is being managed by the military; China is likely to develop, over the next ten to fifteen years, more space capabilities that could bolster their territorial claims; China is engaged in an ambitious counter-space program that includes electronic warfare capabilities; and Chinese leaders remain concerned about an armed conflict in the Taiwan Strait. The USCC press release can be found [here](#).

The USCC was created by Congress and has a legislative mandate to monitor, investigate, and submit to Congress an annual report on the national security implications of the bilateral trade and economic relationship between the U.S. and China.

Report on China’s Challenge to the U.S.-Japan Alliance

Also on April 27, the Center for a New American Security (CNAS) issued a **report** titled “The China Challenge: Military, Economic, and Energy Choices Facing the U.S.-Japan Alliance.” The report was issued in advance of the April 20 arrival of Japanese Prime Minister Yoshihiko Noda in Washington for a **meeting** with President Obama to “reaffirm the U.S.-Japan alliance.” The CNAS report makes several recommendations for the U.S.-Japan alliance in light of China’s continued rise on the world stage, including a recommendation to launch a new, high-level dialogue on the alliance and its objectives; the long-term integration of China into a global and regional security structure; working with China to create a trilateral dialogue on energy security; incorporation of energy security into the Trans Pacific Partnership; trade and investment engagement with China in order to maximize employment and growth opportunities in the U.S. and Japan; preparation to defeat anti-access and area-denial capabilities of potential adversaries; and a gradual integration of U.S. military bases in Japan with those of the Japanese Self-Defense Forces.

The CNAS is an independent and non-partisan research institution working to develop “strong, pragmatic and principled national security and defense policies.”

Possible Chinese Exemption from EU Airline Emissions Scheme

On April 26, European Union Climate Action Commissioner Connie Hedegaard said the EU will assess whether a recent modification to China’s air passenger charges, replacing passenger fees paid into an airport construction fund with fees paid into a civil aviation development fund, would exempt Chinese airlines from the EU Emissions Trading System (ETS). EU directive (2008/101/EC) stipulates that all airlines operating within the European Union must obtain enough carbon allowances to cover their greenhouse gas emissions, unless they demonstrate comparable measures in their home nation. The modification to Chinese air passenger charges would send payments to a fund that can be spent on energy conservation and emission reductions, as well as other non-emissions programs.

Report Finds Rise in Global Emissions

A **report** issued by the WorldWatch Institute on April 27, titled *Carbon Dioxide Emissions and Concentrations on the rise as Kyoto Era Fades*, found that global emissions of carbon dioxide have risen by 5.8% since 2010 following a 1.5% recession-related decline in 2009. Developing nations, on average, emit at a rate twice that of industrialized nations, with China, Brazil, India, and Indonesia leading with 7.6% rises in 2010, relative to an average 3.4% increase from the Organization for Economic Cooperation and Development (OECD) member countries. China remains the world’s largest emitter with a 25.4% share of the world’s carbon dioxide emissions, relative to the U.S. share of 18.5%. The top ten emitting countries accounted for 68% of global carbon dioxide emissions.

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