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CHINA UPDATE

May 21, 2013

QUOTE OF THE WEEK

“Although external financial threats appear to have decreased over the past year, they remain a risk to U.S. financial stability and economic activity. Global demand has slowed and the euro area economy is on course to contract for the second year in a row. In the advanced economies, there is a need to recalibrate the pace of fiscal consolidation to promote economic growth and employment. Fiscal sustainability remains a concern, but is much easier to achieve in a growing economy. The lack of demand rebalancing also remains a risk to the U.S. economy. China, for example has avoided an abrupt slowdown, but concerns persist about its ability to transition away from its export and investment-driven growth model toward increased domestic consumption. Nevertheless, Council members and member agencies will continue to monitor global economic and financial developments to respond to any threats that may arise.” –

Treasury Secretary Jack Lew at a May 21 Senate Banking Committee hearing on the Financial Stability Oversight Council Annual Report to Congress

U.S.-CHINA RELATIONS

House Passes Legislation Requiring Repayment of Foreign Nations

On May 9, the House of Representatives approved H.R. 807, the “Full Faith and Credit Act,” which outlines the order in which the federal government should address its debts should the congress fail to raise the debt ceiling. Currently, the debt ceiling is expected to be reached sometime in October – a later date than previously expected due to increased tax revenues. According to the legislation, which has been sent to the Senate for consideration, the government should first pay recipients of Social Security along with holders of U.S. bonds. Because China is a major holder of these bonds, the bill has been dubbed by some as the “Pay China First Act.”

State Department Official in China to Discuss Korea Peninsula

From May 12 to May 18, a U.S. delegation led by Special Representative for North Korea Policy Glyn Davies traveled to the Republic of Korea (ROK), China, and Japan. Ambassador Davies was in Seoul May 13-15 for meetings with senior ROK government officials, including Special Representative for Korean Peninsula Peace and Security Affairs Lim Sung-nam and Vice Minister of Unification Kim Nam Sik. He was in Beijing May 15-16 for meetings with senior Chinese Government officials, including Special Representative for Korean Peninsula Affairs Wu Dawei, and in Tokyo May 16-18 for meetings with senior Japanese Government officials, including Director General for Asian and Oceanic Affairs Shinsuke Sugiyama and Assistant Chief Cabinet Secretary Nobukatsu Kanehara.

State Department & Sports Envoy Program

From May 15 to May 20, Dr. Andrea Woodson-Smith and Dr. Becky Clark traveled to Guangzhou, China on behalf of the State Department's Bureau of Educational and Cultural Affairs to promote inclusion and equality for persons with disabilities, especially young women and girls. Dr. Woodson-Smith is a college professor at North Carolina Central University and former U.S. national women's wheelchair basketball team member. Dr. Clark, in addition to being a licensed clinical social worker and psychotherapist, played basketball for the University of Tennessee, and is a three-time volleyball Deaflympian. This event marked the first time the State Department sent persons with disabilities as Sport Envoys. This program is a product of joint discussions between U.S. and Chinese leaders at the 2012 U.S.-China Consultation on People to People Exchange (CPE) meetings in Beijing.

U.S. Releases Religious Freedom Report

On May 20, Secretary of State Kerry released the 2012 International Religious Freedom Report at the Department of State. According to the report, the Chinese constitution "states that Chinese citizens enjoy "freedom of religious belief" but limits protections for religious practice to "normal religious activities." The government applies this term in a manner that does not meet international human rights standards for freedom of religion and routinely enforces other laws that restrict religious freedom. The constitution also proclaims the right of citizens to believe in or not believe in any religion. However, only religious groups belonging to one of the five state-sanctioned "patriotic religious associations" (Buddhist, Taoist, Muslim, Roman Catholic, and Protestant) are permitted to register with the government and legally hold worship services. The government's respect for religious freedom declined during the year, particularly in Tibetan areas and the Xinjiang Uighur Autonomous Region (XUAR)." The full report, with a section on China that includes Tibet, Hong Kong, and Macau, can be found [here](#).

Chinese President to Visit the U.S.

From June 7 to June 8, Chinese President Xi Jinping will visit the U.S. for a meeting with President Obama. He is also paying state visits to Trinidad and Tobago, Costa Rica, and Mexico. Xi and Obama will meet in California at Sunnylands, the Walter and Leonore Annenberg Estate. According to the Chinese Embassy in Washington, the meeting will "bolster the long-term, sound and steady development of China-U.S. relations, and promote the peace, stability, and prosperity in the region and the world." In advance of the summit, Thomas Donilon, the president's National Security Advisor, will visit China from May 26 to May 28.

TRADE

China Simplifying Foreign Investment Rules

On May 10, the Chinese State Administration of Foreign Exchange issued a document announcing that it

plans to do away with 24 foreign exchange regulations that govern foreign direct investment. The new rules were to go into effect on May 13 and were in response to a commitment by the State Council to further financial reform in the country.

Trade Winds Asia 2013

On May 9, Under Secretary of Commerce for International Trade Francisco Sánchez arrived in Hong Kong with representatives from a group of U.S. companies to kickoff Trade Winds Asia 2013. The annual trade mission and business matchmaking event helps participating firms gain market insights, make industry contacts, and solidify business strategies in order to expand U.S. exports to trading partners in this critical region. Under Secretary Sánchez continued his Trade Winds visit with stops in Seoul, South Korea, and Tokyo, Japan. More than 70 U.S. companies participated in Trade Winds Asia 2013, which, in addition to Hong Kong, Korea, and Japan, includes visits to the Philippines and Taiwan. Additional background on Trade Winds Asia 2013 can be found [here](#).

Solar Industry Seeks Resolution to Trade Dispute With China

On May 13, representatives from the U.S. and Asian solar industries, meeting in Shanghai, China, released the Solar Industry Declaration, calling on the U.S., E.U., and China to come to agreement on ending the solar trade dispute. The declaration states that “We support a rules-based trading system to ensure fair and open competition. For this system to function effectively, governments and industry must recognize that litigation is not the only mechanism available under the World Trade Organization (WTO) rules. Collaboration and rules are equally important tools to resolving trade conflicts, particularly where the industry, such as solar, operates across an interdependent, global supply chain. In recognition of the foregoing, we urge our governments to: utilize all available tools in resolving trade disputes, including negotiations and alternative trade remedy solutions; and develop or identify a consensus-based, public-private institution to foster a proactive, collaborative discussion on global solar competitiveness issues. The declaration can be found on the website of the Solar Energy Industries Association (SEIA) website [here](#).”

U.S. Launches Trade Investigation of Chinese Concrete Steel Rail Tie Ware

On May 14, the Department of Commerce launched antidumping investigations of pre-stressed concrete steel rail tie ware from China, Mexico, and Thailand. Preliminary injury determinations from the U.S. International Trade Commission (ITC) are scheduled on or before June 7, 2013. Should the ITC determine that there is a reasonable indication that imports of the product from these three countries materially injure or threaten to injure the domestic industry, the investigations will continue, and the Department of Commerce will be scheduled to make its preliminary determinations in September. Should the ITC preliminary determinations be negative, the investigations will be terminated.

Report on Trade and Apparel Imports from China

On May 16, the U.S. International Trade Commission (ITC) released its annual compilation of bi-weekly reports on textile and apparel imports from China. Titled “Textile and Apparel Imports from China: Statistical Reports, Annual Compilation 2012,” the report was requested by the House Committee on Ways and Means. As requested, the USITC produced an annual compilation of data that has been posted on a bi-weekly basis on the USITC website. The data in the report are shown on an annual and quarterly basis, by category and by Harmonized Tariff Schedule (HTS) 10-digit subheadings. By category, annual data are provided from 2006 through 2012, and quarterly data are provided from first quarter 2011 through fourth quarter 2012. By HTS10 subheading, annual data are provided from 2010 through 2012, and quarterly data are provided from first quarter 2011 through fourth quarter 2012. The report can be found [here](#).

U.S. Trade Official Leading Nuclear Trade Mission to China

From May 17 to May 23, Under Secretary of Commerce for International Trade Francisco Sánchez is leading a civil nuclear trade policy mission to Vietnam and China. Dr. Pete Lyons, assistant secretary for nuclear energy at the U.S. Department of Energy, and Joyce Connery, the White House director for nuclear energy policy, have joined Mr. Sánchez along with representatives from 18 U.S. companies, law firms, and industry associations on the mission stops in Hanoi, Vietnam; Beijing; and Ningbo, China. This interagency delegation represents the U.S. government's "TeamUSA" approach to civil nuclear engagement abroad by instituting and communicating high-level U.S. government support in a strategic and coordinated manner to support the U.S. civil nuclear industry.

ENERGY & ENVIRONMENT

China, Japan, South Korea Announce Talks on Air Pollution

On May 6, China, Japan, and South Korea announced the Tripartite Policy Dialogue on Air Pollution, an upcoming meeting between the three Asian nations focusing on trans-boundary air pollution and trans-boundary movement of electronic waste. The dialogue will promote policy harmonization, research collaboration, and technology transfers. The three countries committed to conducting joint research on particulate matter smaller than 2.5 microns in diameter; the scientific research will result in early warning and pollution control mechanisms.

MISCELLANEOUS

Treasury Official at Council on Foreign Relations

On May 15, Treasury Department Under Secretary for International Affairs Lael Brainard delivered remarks to the Council on Foreign Relations on the global economy. With regard to China, she said "China's real exchange rate has appreciated since June 2010 and China's current account surplus has fallen. To achieve a durable shift to sustainable consumption-led growth, it will be important that China implement needed structural reforms to boost household demand and move more rapidly to market determination of the exchange rate and interest rates. As G-20 countries follow through on their recent commitment not to target exchange rates for competitive purposes, it is imperative that China take additional measures to increase the flexibility of its exchange rate regime. Last year the band was widened modestly and the full band was used for the first time. But intervention subsequently has risen. China's path toward market determination implies further widening along with significantly greater transparency about reserves and intervention." The full remarks, as prepared for delivery, can be found [here](#).

Treasury Secretary Testifies on Annual Report to Congress

On May 21, Treasury Secretary Jack Lew testified before the Senate Committee on Banking, Housing, and Urban Affairs on the Financial Stability Oversight Council Annual Report to Congress. China was mentioned during his comments on Global Economic and Financial Developments. The transcript of his remarks can be found [here](#).

CECC Hearing on Food and Drug Safety, Public Health, and the Environment in China

On May 22, the Congressional-Executive Commission on China (CECC) will hold a hearing on "Food and Drug Safety, Public Health, and the Environment in China." Panelists will include: Anne Schuchat, MD, Assistant Surgeon General, United States Public Health Service, Director, National Center for Immunization and Respiratory Diseases, Centers for Disease Control and Prevention; Steven M. Solomon, D.V.M., M.P.H., Associate Director for Global Operations and Policy in the Office of Global

Regulatory Operations and Policy, U.S. Food and Drug Administration; Jennifer Turner, Director, China Environment Forum, Woodrow Wilson Center; Yanzhong Huang, Senior Fellow for Global Health, Council on Foreign Relations and Associate Professor and Director of the Center for Global Health Studies, Seton Hall University; and Tony Corbo, Senior Lobbyist for the Food Program, Food & Water Watch. The hearing will be webcast live [here](#).

USCC Report on South China Sea

On May 10, the U.S.-China Economic and Security Review Commission (USCC) released a report titled "China's 'Core Interests' in the South China Sea." The report can be found [here](#).

Chinese to Increase Currency Supervision

Effective June 1, according to China's Ministry of Commerce, the Chinese government will increase supervision of cross-border transactions, while placing new requirements on banks. The move is in response to the fast appreciation of the Chinese currency and potential harmful effects this may have on the Chinese economy.

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