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CHINA UPDATE

Quote of the Week

"I think the [U.S-China] relationship is now so important to both countries that we have found a way, and we will find a way, to talk about our economic, political, strategic interests. And human rights is going to be very much a part of those discussions." – Mr. Michael Posner, Assistant Secretary, Bureau of Democracy, Human Rights, and Labor, U.S. Department of State, upon release of the department's 2011 Country Report on Human Rights Practices on May 24

China Initiates WTO Complaint Against U.S. Import Duties

On May 25, China initiated dispute proceedings with the World Trade Organization that challenge U.S. countervailing duties on 22 Chinese products including thermal paper, pressure pipe, line pipe, citric acid, lawn groomers, kitchen shelving, oil country tubular goods, wire strand, steel grating, wire decking, magnesia bricks, seamless pipe, graphic prints, drill pipe, aluminum extrusions, wood flooring, steel wheels, steel wire, steel cylinders, solar panels, wind towers, and steel sinks. This is the seventh WTO dispute initiated by China against the U.S. since China's accession to the WTO in 2001 and will first go to "consultations" between the two nations to seek an amicable resolution. If China and the U.S. fail to agree on a resolution, then the complaint would go to arbitration.

China Rules on U.S. Renewable Energy Projects

In a May 24 ruling, China's Ministry of Commerce said that support for 6 renewable energy projects by the U.S. government violates free trade rules. The projects are located in California, New Jersey, Massachusetts, Ohio, and Washington. China initiated the investigation of the projects just 2 weeks after the U.S. launched its investigation into China solar trade practices. China's ruling came just one week after the U.S. Department of Commerce issued an affirmative preliminary determination imposing tariffs on Chinese solar products. More background on that ruling can be found in [last week's](#) MLS China Update.

Commerce Launches Investigation of Chinese Innersprings

At the request of mattress manufacturer Leggett and Platt, the Department of Commerce **launched** an investigation on May 23 to determine whether U.S. antidumping measures are being circumvented with innerspring units completed in and assembled in Malaysia with Chinese-origin components.

Securities Conference Concludes

The 37th annual conference of the International Organization of Securities Commissions (IOSCO) concluded in Beijing on May 22. The China Security Regulatory Commission (CSRC), which hosted the event, **committed** to efforts to ensure that ISCO: 1) is capable of full implementation of its Multilateral Memorandum of Understanding on the sharing of information for the purpose of cross border enforcement; 2) can meet the demands of IOSCO members and respond to requests for targeted work by the G20 and the Financial Stability Board; 3) has the resources needed for the early identification of emerging securities markets risk; and 4) is positioned to pursue full implementation of the IOSCO *Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information*.

Senate Hearing on the S&ED

On May 23, the Senate Banking Subcommittee on Security and International Trade and Finance held a **hearing** titled "Reviewing the U.S.-China Strategic & Economic Dialogue." Witnesses included Stephen Roach, a Senior Fellow at the Jackson Institute of Global Affairs at Yale University; Fred Bergsten, Director of the Peterson Institute for International Economics; John Dearie, Executive Vice President for Policy at the Financial Services Forum; and Dean Garfield, President and CEO of the Information Technology Industry Council. The most recent S&ED was held in Beijing May 3 & 4 with the U.S. represented by Secretary of State Clinton and Treasury Secretary Geithner. Senator Warner (D-VA), chairman of the subcommittee, said during the hearing that he wants to see the S&ED become an ongoing process as opposed to an annual 2 day meeting. Ranking Member Johanns (R-NE) said that he is encouraged by indications from Chinese leadership that they are moving toward a more consumption-based society, but that there is much more work to do on issues related to Intellectual Property rights, transparency in the Chinese regulatory system, and the opening of financial markets.

State Department Issues Human Rights Report

On May 24 the State Department issued its **2011 Country Report on Human Rights Practices**, which says that "in China, the human rights situation deteriorated, particularly the freedoms of expression, assembly and association." The China section of the report can be found **here**. Michal Posner, Assistant Secretary, Bureau of Democracy, Human Rights, and Labor said, in his briefing on the report that "...there are many human rights abuses in China that we're paying attention to. As we have said previously, in the last several years, there's been a closing of space for human rights lawyers and activists in China. Those are things of concern."

Congressional Report on Chinese Counterfeit Goods in U.S. Defense Supply Chain

A **report** released on May 21 by the Senate Armed Services Committee says that a year-long study has revealed more than 1 million counterfeit Chinese parts in 1,800 separate cases throughout the Department of Defense supply chain. The report reaches 8 separate conclusions: 1) China is the dominant source country for counterfeit electronic parts that are infiltrating the supply chain; 2) the Chinese government has failed to take steps to stop counterfeiting operations that are carried out openly in that country; 3) the DoD lacks knowledge of the scope and impact of counterfeit parts on critical defense systems; 4) the use of counterfeit electronic parts in defense systems can compromise performance and reliability, risk national security, and endanger the safety of military personnel; 5) permitting contractors to recover costs incurred as a result of their own failure to detect counterfeit electronic parts does not encourage the adoption of aggressive counterfeit avoidance and detection programs; 6) the defense industry's reliance on unvetted independent distributors to supply electronic parts for critical military applications results in unacceptable risks to national security and the safety of U.S. military personnel; 7) weaknesses in the testing regime for electronic parts

create vulnerabilities that are exploited by counterfeiters; and 8) the defense industry routinely failed to report cases of suspect counterfeit parts, putting the integrity of the defense supply chain at risk.

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