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## CHINA UPDATE

May 29, 2013

### QUOTE OF THE WEEK

*"The U.S. and China are two very different countries, with different histories and cultures. They are also at different stages of development, one being the largest developed nation in the world, while the other being the largest developing nation in the world. Each is of substantial economic size, and therefore each in different ways contributes to global economic activities. Working together, they can do more to contribute towards global economic recovery and financial stability, which still eludes us five years after the financial crisis of 2008. Furthermore, the U.S. and China are the two largest trading nations in the world. Working together, they can help to further liberalize the trade of goods and services around the world. The fact is whether it is in energy security, food sufficiency, protection of the environment, climate change, nuclear weapons proliferation, fighting terrorism, preventing epidemics or drug trafficking, all of these and other transnational challenges that the world faces today require multilateral efforts. But if the U.S. and China work together on any of these issues, the chance of success will be enhanced. It is for all the above reasons that from a global perspective the U.S.-China relationship is the most important bilateral relationship today. From a bilateral perspective, the economic relationship between the U.S. and China has developed over the past few decades from virtually nonexistent to becoming a highly interdependent and mutually beneficial one. But where is this economic relationship going in the future?" – C.H. Tung, Chairman of the China-United States Exchange Foundation in a Foreword to the report "U.S.-China 2022: Economic Relations in the Next 10 Years"*

### U.S.-CHINA RELATIONS

#### Study Released on U.S.-China Economic Relationship

On May 21, the China-United States Exchange Foundation released a "study on the evolution of the U.S.-China economic relationship over the last three decades and an in-depth look at opportunities for future cooperation" titled "U.S.-China 2022: Economic Relations in the Next 10 Years." The report can be found [here](#).

#### USCC Report on China Missile Launch

On May 22, the U.S.-China Economic and Security Review Commission (USCC) released a staff research backgrounder titled "China Missile Launch May Have Tested Part of a New Anti-Satellite Capability." According to the document, "Beijing claims it was testing a sounding rocket as part of a high-altitude

scientific experiment to collect atmospheric data for China's National Space Science Center. However, U.S. defense agencies reportedly assess the launch was the first of a new anti-satellite (ASAT) capability, according to two U.S. press reports citing unnamed officials. DOE has yet to officially comment on the relationship between China's May missile launch and its ASAT program." The 4-page backgrounder can be found [here](#).

### **U.S. National Security Advisor Meets with Chinese Military Officials**

From May 26 to May 28, U.S. National Security Advisor Tom Donilon travelled to Beijing to advance preparations for the upcoming meeting between President Obama and President Xi Jinping in Rancho Mirage, California in early June. According to the White House, Mr. Donilon had "constructive and broad-ranging meetings with senior Chinese officials, including President Xi Jinping, Vice Premier Wang Yang, State Councilor Yang Jiechi, National Development and Reform Commission Vice Chairman Liu He and Foreign Minister Wang Yi. Mr. Donilon also had a productive discussion with General Fan Changlong, Vice Chairman of the Central Military Commission. Mr. Donilon underscored that the upcoming meeting in California is a unique and important opportunity for in-depth and wide-ranging discussions about U.S.-China relations as well as the many regional and global challenges confronting both countries. He highlighted the importance of the two leaders discussing the perceptions, interests and priorities guiding each other's approach to bilateral, regional and global affairs. In his discussions with senior Chinese officials, Mr. Donilon emphasized the need for further cooperation in addressing such issues as North Korea, cyber-security, climate change, stability in Asia, as well as expanding bilateral military ties. Mr. Donilon stressed the need for further coordination on advancing the global economy and bilateral economic relations, as well as the importance of continued dialogue on human rights."

### **Los Angeles Mayor Leads Delegation to Beijing**

On May 29, Antonio Villaraigosa met with Chinese President Xi Jinping in the Great Hall of the People in Beijing. The meeting was the third between Mayor Villaraigosa and President Xi. The two first met in December 2011 when Villaraigosa led a trade mission to Asia, and Xi was Vice President of China at that time. Then-Vice President Xi visited Los Angeles in February 2012. During this week's trip, Villaraigosa and executives from the Port of Los Angeles, LAX, and the Los Angeles Tourism and Convention Bureau are holding meetings and events designed to boost tourism to Los Angeles, to encourage companies to locate in LA, and to increase imports and exports of goods and services through the Port of LA. Villaraigosa shared with President Xi his interest in establishing non-stop flights to LAX from Chinese cities such as Chengdu, Shenzhen, and Tianjin. In addition to meeting with top government officials, Villaraigosa is also meeting with several companies and business organizations including China Shipping, Dalian Wanda Group, and the Chinese Real Estate Chamber of Commerce.

## **TRADE**

### **U.S. Senate Hearing on Trade Legislation**

On May 22, the Senate Finance Committee held a hearing on S. 662, the Trade Facilitation and Trade Enforcement Act of 2013, a bill to strengthen the trade functions of the U.S. Customs and Border Protection Agency (CBP) and U.S. Immigration and Customs Enforcement Agency (ICE). While China was not the focus of the hearing, Chairman Max Baucus (D-MT) did ask panelists where counterfeit products were originating. In response, Mr. Clark Silcox, General Counsel and Secretary at the National Electrical Manufacturers Association (NEMA), said that almost all counterfeit electrical parts are coming from China, and that there are likely hundreds of millions of dollars of counterfeit electrical parts shipped each year. ML Strategies has a summary of the hearing available upon request.

### **E.U. Proposes Bilateral Investment Agreement with China**

On May 23, as a precursor to a potential bilateral trade agreement, the European Commission proposed a mandate for negotiation of a bilateral agreement with China aimed at doing away with restrictions on investments.

## **EU, China Fail to Reach Compromise**

Trade talks between the EU and China ended on May 27 without an agreement on issues surrounding cheap Chinese exports of solar panels. The EU alleges that Chinese companies are selling solar panels below cost in Europe, and has proposed a 50 percent anti-dumping tariff on Chinese solar equipment.

## **Summary of Pending China Trade Investigations**

On May 28, the U.S.-China Security and Economic Review Commission (USCC) released a summary of the 5 pending anti-dumping and countervailing duties investigations involving China from data released by the U.S. International Trade Commission (USITC). The compilation can be found [here](#). The USCC has also compiled a table of World Trade Organization (WTO) cases brought by the U.S. against China from data provided by the WTO that can be found [here](#), and a table of WTO cases brought by China against the U.S. that can be found [here](#).

## **MISCELLANEOUS**

### **IMF Lowers Growth Forecast for Chinese Economy**

From May 15 to May 29, a mission from the International Monetary Fund (IMF) visited Beijing, Shanghai, Guiyang, and Anshun to conduct discussions on the annual Article IV review of the Chinese economy. The mission held wide-ranging discussions with senior officials from the government, the People's Bank of China, private sector representatives, and academics to exchange views on prospects for the economy and the challenges ahead. The IMF's First Deputy Managing Director, Mr. David Lipton, joined the final policy discussions and met with Vice Premier Ma Kai, People's Bank of China Governor Zhou Xiaochuan, Finance Minister Lou Jiwei, and National Development and Reform Commission Vice Chairman Liu He. At the conclusion of the visit, the mission issued a statement saying, "Despite weak and uncertain global conditions, the Chinese economy is expected to grow at around 7¾ percent this year. The pace of the economy should pick up moderately in the second half of the year, as the recent credit expansion gains traction and in line with a projected mild pick-up in the global economy. Inflation is forecast to end the year at around 3 percent, and the external current account surplus is projected to remain broadly unchanged at around 2½ percent of GDP."

### **China Grants Access to Firm Audit Records**

On May 24, the Public Company Accounting Oversight Board announced that it has entered into a Memorandum of Understanding (MOU) on Enforcement Cooperation with the China Securities Regulatory Commission (CSRC) and the Ministry of Finance (MOF). The MOU establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in both countries' respective jurisdictions. More specifically, it provides a mechanism for the parties to request and receive from each other assistance in obtaining documents and information in furtherance of their investigative duties. In addition to developing an enforcement MOU, the PCAOB has been engaged in continuing discussions with the CSRC and MOF to permit joint inspections in China of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. exchanges. Under the Sarbanes-Oxley Act, the PCAOB oversees all accounting firms that audit public companies whose securities trade in U.S. markets. Approximately 47 audit firms in China are registered with the PCAOB. The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports.

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