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CHINA UPDATE

Quote of the Week

“What happens when an established power and rising power meet?”

We have examples in history that do not offer a good answer to that question. But I must report to you that for the United States, we see this as an opportunity, not a threat. We look at the expanding trade and investment between our economies, the ongoing consultations between our governments exemplified by the Strategic and Economic Dialogue, the 11 meetings that our two presidents have held, the reciprocal visits of our vice-presidents, the connections between our peoples, the opening of a military-to-military dialogue, and in so many ways we are now two nations thoroughly and inescapably intertwined. I think that is positive news. I certainly make a point to saying that for the United States, because none of us can afford to keep looking at the world through old lenses. Whether it's the legacy of imperialism, the Cold War, or balance of power politics, zero-sum thinking will lead to negative-sum results. Instead, we need to build a resilient relationship that allows both of our countries to thrive without unhealthy competition, rivalry, or conflict, while leading our national, regional, and global responsibilities.”

– Secretary of State Hillary Clinton speaking before the Strategic Track Plenary of the Strategic and Economic Dialogue in Beijing on May 4, 2012

Strategic & Economic Dialogue

Secretary of State Hillary Clinton and Treasury Secretary Tim Geithner were in Beijing last week where they co-chaired the fourth round of the U.S.-China Strategic & Economic Dialogue (S&ED) with Chinese Vice Premier Wang Qishan and State Councilor Dai Bingguo. MLS **reported** on the S&ED in last week's China Update.

Remarks by Secretary Clinton at the Strategic Track Plenary Session can be found [here](#). In addition to general statements about the important role of U.S.-China relations, Secretary Clinton made more specific comments about the shared interests of the two nations in combating climate change and developing clean energy; and people-to-people exchanges.

Remarks by Secretary Geithner at the Economic Track opening session can be found [here](#). Secretary

Geithner noted areas of progress in U.S.-China relations since the last S&ED, including a doubling of U.S. exports to China since 2009; increased Intellectual Property protection in China; changes in the Chinese exchange rate system making it more market-oriented; an increase in the American savings rate; and a deepening of ties between American and Chinese governors and mayors with regard to trade and investment.

Secretaries Clinton and Geithner held a joint press briefing on May 4 and the transcript of that briefing may be found [here](#). Issues covered included the high stakes drama playing out with regard to Chinese human rights activist Chen Guangcheng, who had taken refuge in the American Embassy in Beijing; the future of U.S.-China economic and security relations; and American concerns about Chinese currency manipulation.

The State Department issued a [release](#) identifying numerous specific outcomes of the Strategic Track of this year's S&ED, including: 1) Promoting high-level exchanges; 2) Bilateral dialogues and discussions; 3) Addressing regional and global challenges; 4) Enhancing U.S.-China bilateral cooperation; and 5) Cooperation on climate change, energy, environment, science, and technology.

The Treasury Department released a [fact sheet](#), highlighting the various areas of progress and commitment made at the Economic Track of this year's S&ED, falling into three categories: 1) Creating new opportunities for U.S. workers and firms by creating a level playing field and ensuring greater protection of intellectual property rights; 2) Shifting China toward consumption-based domestic-led growth; and 3) Expanding opportunities for U.S. firms through promoting more resilient, open, and market-oriented financial systems by developing China's financial markets and promoting consumer financing.

House Members Support Buy American Act in Trans Pacific Partnership

Last week, a bipartisan group of 68 House members sent a [letter](#) to President Obama expressing their concerns about a proposed provision in the Trans Pacific Partnership (TPP) trade agreement that would free signatory nations from Buy American Act compliance. Nations with which the U.S. has free trade agreements and who are parties to the World Trade Organization Government Procurement Agreement are not required to be Buy American Act compliant. The concern raised by the House members in the letter is that "firms established in TPP countries, such as the many Chinese firms in Vietnam, could obtain waivers from Buy American policies." The TPP is comprised of Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, and the United States. The 12th Round of TPP Negotiations is meeting May 8-18 in Dallas, TX.

Chinese Defense Minister Visits Washington

General Liang Guanglie, China's Minister of Defense, is in the U.S. this week for a Pentagon meeting with U.S. Defense Secretary Panetta, and visits to Naval Base San Diego, Georgia's Fort Benning, and Camp Lejeune in North Carolina. Secretary Panetta is expected to visit China later this year.

USITC Report on U.S. Textile and Apparel Imports from China

On May 4, the U.S. International Trade Commission (ITC) [released](#) its third annual report on U.S. Textile and Apparel Imports from China. The full report can be found [here](#). Requested by the House Committee on Ways & Means, the report is a compilation of bi-weekly reports on textile and apparel imports from China, with data shown on an annual and quarterly basis, by category, and by Harmonized Tariff Schedule (HTS) 10-digit subheadings.

USITC to Expedite 5 Year Sunset Review of Anti-Dumping Order on Chinese Pure Magnesium

Yesterday, the USTIC [announced](#) that it will expedite its five-year sunset review of an anti-dumping order on pure magnesium (granular) from China, in order to determine whether revocation of the order will lead to a continuance or reoccurrence of material injury to the U.S. market. The sunset

review is required by the Uruguay Round Agreements Act, which directs the Department of Commerce to revoke an anti-dumping or countervailing order after five years unless it is determined that doing so would cause further material injury.

Department of Commerce Issues Final Determination on Chinese Steel Cylinders

On May 1, the Department of Commerce **issued** a final determination finding that China is dumping high pressure steel cylinders in the U.S. at margins of 6.62 to 31.21 percent, while also providing countervailing subsidies at a rate of 15.81 percent. As a result, Commerce will instruct U.S. Customs and Border Protection to begin collecting cash deposits or bonds equal to the weighted-average dumping margins. The ITC is expected to make its final determination by June 11. Should the ITC make an affirmative determination, antidumping and countervailing orders will be issued. Should ITC make a negative determination, the case will be brought to a close.

CRS Report on China's Rare Earth Policies

On April 30, the Congressional Research Service (CRS) issued a **report** summarizing the United States' actions against China regarding rare earth policies and export restrictions. Titled *China's Rare Earth Industry and Export Regime: Economic and Trade Implications for the United States*, the report addresses the implications of China's export restrictions which, as argued by the U.S. and other countries, provide an unfair advantage to domestic rare earth manufacturers in China.

Asian Development Bank Report on Low-Carbon Green Growth

The Asian Development Bank (ADB) and the Asian Development Bank Institute (ADBI) released a **report** on May 3 titled *Policies and Practices for Low-Carbon Green Growth in Asia*. Highlights of the report, including information on China, can be found **here**. According to the report, Asia accounts for twenty seven percent of the world's carbon dioxide emissions, with that number expected to rise to forty percent by 2030. To address this problem, the report calls for the creation of regional carbon markets, the elimination of subsidies for fossil fuels, and a free trade zone for clean tech. In order to achieve the goals of the report for the Asia-Pacific region, ADB and ADBI say that an investment of \$40 billion annually will be needed.

Upcoming Events

- The U.S. China Economic and Security Review Commission will host a **hearing** on May 10 titled *Assessing China's Efforts to Become an "Innovation Society" – A Progress Report*. The USCC will hear from Dr. Robert Atkinson, President, Information Technology and Innovation Forum; Dr. Danny Breznitz, Associate Professor of International Affairs, Georgia Institute of Technology; Richard Suttmeier, Professor of Political Science, Emeritus, University of Oregon; Dr. Denis Fred Simon, Vice Provost for International Strategic Initiatives, Arizona State University; Dr. Earl Joseph III, Program Vice President, IDC; Dr. Horst Simon, Deputy Director, Lawrence Berkeley National Laboratory; Timothy Harder, Director, EMC Cloud Infrastructure Division; Kathleen Walsh, Associate Professor of National Security Affairs, U.S. Naval War College; and Dr. Thomas Mahnken, Professor of Strategy, U.S. Naval War College.
- Also on May 10, the Information Technology and Innovation Forum (ITIF) will host a **discussion** with Professor Danny Breznitz regarding China's growth and transition, and focused on his book *Run of the Red Queen: Government, Innovation, Globalization and Economic Growth in Modern China*.

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