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CHINA UPDATE **February 21, 2012**

Notable Quotes

“As I indicated during my recent visit to APEC and the East Asia Summit, the United States is a Pacific nation. And we are very interested and very focused on continuing to strengthen our relationships, to enhance our trade and our commerce, and make sure that we are a strong and effective partner with the Asia Pacific region. And obviously, in order to do that, it is absolutely vital that we have a strong relationship with China.” – President Obama in remarks welcoming Chinese Vice President Xi Jinping to the White House on February 14

“This marks the 40th anniversary of President Nixon’s historic trip to China....Today, cooperation between the United States and China is imperative to address the many vexing challenges we face, from counterfeiting proliferation, to addressing climate change, to promoting global economic security. Now, developing the habits of cooperation is not easy. We have a lot of work to do. But we are both committed to building a lasting framework of trust that will support a cooperative partnership for the next 40 years and beyond.”
– Secretary of State Hillary Clinton in remarks welcoming Chinese Vice President Xi Jinping to the State Department on February 14

“The President and I came to office determined to rebalance America’s strategic priorities toward those regions that are most critical to our nation’s future, and that meant refocusing on Asia, the most dynamic region of the global economy. And to state the obvious, the U.S.-China relationship is a critical component of our broader Asian strategy.” – Vice President Biden in remarks at a State Department luncheon with Chinese Vice President Xi and Secretary Clinton on February 14

“China is the world’s largest developing country, while the United States is the largest developed country. To build a new type of cooperative partnership between two countries like ours is a pioneering endeavor with great and far-reaching significance. There is no precedent for us to follow and no ready experience for us to refer to.” – Chinese Vice President Xi in remarks at a State Department luncheon with Vice President Biden and Secretary Clinton on February 14

“It is our fervent hope that Vice President Xi can reverse the course of his predecessors and usher in positive changes in China. But we remain extremely concerned, as the run-up to Vice President Xi becoming the next leader of China has been accompanied by one of the worst [human rights] crackdowns in recent memory.”
– Representative Chris Smith, Chairman of the U.S.-China Security and Economic Review Commission

“As China’s likely next leader, Vice President Xi has a unique opportunity to improve relations with the United States...But in order to win the respect of the American people, Vice President Xi must make every effort to

ensure China plays by the rules, abides by its international obligations, and guarantees the fundamental rights of all its citizens.” – Senator Sherrod Brown, Co-Chairman of the U.S.-China Security and Economic Review Commission

“The U.S.-China relationship continues to be one of the most dynamic and important bilateral relationships in the 21st century. Our success will largely be determined by how our two nations, working with others, deal with global challenges. China’s own behavior in coming years will define its relationship with the rest of the world. By showing a serious commitment to reforms and openness, China can establish itself as one of Washington’s most credible international partners. This will be measured by China’s own actions rather than delicate diplomacy.” – Representatives Rick Larsen and Charles Boustany, co-chairs of the U.S.-China Working Group, in an opinion piece written in advance of Xi Jinping’s arrival in Washington

Highlights of Chinese Vice President Xi Jinping Visit

As the presumed successor to current Chinese president Hu Jintao, Vice President Xi Jinping was in the U.S. last week for visits to Washington, Iowa, and Los Angeles. As covered in previous [ML Strategies’ China Updates](#), this visit was coordinated to reciprocate for Xi having hosted Vice President Biden in China last year, and was intended to help lay a strong foundation for U.S-China relations upon Xi’s expected assumption of the Chinese presidency in March 2013. Some highlights of the visit included:

- President Obama met with Xi and Vice President Biden at the White House. Remarks by President Obama and Vice President Xi can be found [here](#).
- Secretary Clinton welcomed Vice President Biden and Vice President Xi to a luncheon at the State Department. Remarks by both Vice President Biden and Vice President Xi can be found [here](#). Also in attendance was Henry Kissinger, Secretary of State in the Nixon Administration.
- Xi met with congressional leaders, including House Speaker Boehner, House Majority Leader Cantor, Senate Majority Leader Reid, Senate Minority Leader McConnell, Senate Majority Whip Durbin, Senate Finance Committee Chairman Baucus and Ranking Member Grassley, Senate Foreign Relations Committee Ranking Member Lugar, Senate Armed Services Committee Chairman Levin, and Senators Portman, Cantwell, and Sherrod Brown. The discussion was focused on human rights and religious freedom in China, intellectual property protection, Chinese currency manipulation, as well as international issues related to the unrest in Syria (and China’s veto of a United Nations Security Resolution on the matter) and Iran’s nuclear agenda.
- Xi visited the Pentagon where he met with Defense Secretary Panetta and Joint Chiefs of Staff Chairman Martin Dempsey. Xi’s reception at the Pentagon included a 19-gun salute and the playing of the U.S. and Chinese national anthems – apparently a first-of-its-kind ceremony at the Pentagon.
- Xi attended a luncheon hosted by the U.S. China Business Council and the National Committee on U.S.-China Relations. Also in attendance was Secretary of Commerce Bryson who offered some brief [remarks](#), in which he noted that U.S. exports to China have grown by fifty percent over the past two years, while the U.S.-China deficit has expanded by thirty percent. In his remarks, Xi said “To be frank, it is very important for addressing the China-U.S. trade imbalance that the United States adjusts its economic policies and structure, including removing various restrictions on exports to China, in particular easing controls on civilian high-tech exports to China as soon as possible.” He also said that China welcomes the U.S. in promoting peace in the Asia-Pacific region, and hoped that the U.S. would continue to recognize the “One-China Policy” and oppose Taiwan independence and recognize Tibet as a part of China.
- Xi visited Iowa, a state he had first visited in the 1980s while serving as a provincial government official, and attended the U.S.-China Agriculture Symposium. Agriculture Secretary Vilsack, the former governor of Iowa, joined with Chinese Minister of Agriculture Han Changfu in signing a five year “Plan of Strategic Cooperation” which, according to the [USDA](#), “looks to deepen our cooperation through technical exchange and to strengthen coordination in priority areas like animal and plant health and disease, food security, sustainable agriculture, genetic resources, agricultural markets and trade, and biotechnology and other emerging technologies.” While in Iowa, the Chinese delegation also signed agreements, totaling \$4.3 million, to purchase 8.62 million metric tons of soybeans.

- Xi visited Los Angeles, where he toured the Port of Los Angeles, met with California Governor Brown and Los Angeles Mayor Villaraigosa, and attended a Lakers game. Vice President Biden joined Xi in Los Angeles where they announced a new [five year trade agreement](#) to boost the export of American films to China, while also increasing the revenue of U.S. studios cut of Chinese box office revenues. The agreement comes as a result of the United States' victory last year in a complaint to the World Trade Organization. Specifically, the agreement allows the U.S. to export fourteen more films per year to China, particularly those in 3D and IMAX.

After leaving the U.S., Vice President Xi's itinerary included visits to Ireland and Turkey.

University Report on Chinese Coal Power and Electric Vehicles

Researchers at the [University of Tennessee](#) (Knoxville) have [published a report](#) in the journal Environmental Science and Technology showing that, with China heavily reliant on coal for the production of electricity, they are mitigating the environmental benefits of electric vehicles. According to the study, the power generated by coal-powered plants to fuel electric vehicles produces more particular matter emissions than the gasoline-powered vehicles that are displaced by electric vehicles.

Treasury Report Shows China Cuts Holdings of U.S. Debt

On February 15, the Treasury Department released [Treasury International Capital \(TIC\)](#) data for December 2011. The report indicates that China reduced its holdings of U.S. debt to \$1.1 trillion in December – a reduction of \$31.9 billion. The TIC report for January 2012 is scheduled to be released on March 15.

HSBC Says China to Be World's Largest Trading Nation by 2016

After overtaking Germany as the world's largest export in 2009, China is poised, according to [HSBC Holdings](#) in their February 2012 Trade Forecast Update for China, to surpass the United States as the world's largest trading nation by 2016. HSBC says that China's trade will increase by 6.6 percent over the next five years (and 6.5 percent for Asia in total) but only by 3.8 percent for the rest of the world. According to the Forecast, the greatest sector opportunities in China are: commodities, infrastructure, and economic development; ship building; and consumer electronics.

Upcoming Events

- On February 28, the **Information Technology and Innovation Foundation (ITIF)** will host an event to release a report titled "[Enough is Enough: Confronting Chinese Mercantilism](#)" that challenges China's "shift to an indigenous innovation strategy based on IP transfer, standards manipulation, discriminatory regulatory and tax policies, and favoritism towards state owned enterprises." The event will be held on Capitol Hill with presentations by U.S. Senator Jeff Merkley; Robert Atkinson, President of ITTF; Morgan Reed, Executive Director of the Association for Competitive Technology; and Alan Wolff, Co-Chair of Dewey & LeBoeuf's International Trade Practice Group.