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CHINA UPDATE

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QUOTES OF THE WEEK

“And so as we enter into this 5th S&ED.....we will have the four new co-leads, but we also have many new faces around the table from both the U.S. and Chinese sides as well. And we come to this dialogue, in particular, with a new set of opportunities and challenges. Our economies, the two largest in the world, are consistently challenged to meet new needs, to adapt and to strengthen here in the United States. We’re familiar with this over the past four years. And in China, their transition to the next stage of its economic development and the challenges that are inherent in that transition are ongoing. This year not only are there new faces at the table.... but the economic backdrop in each of our countries is different from those in past meetings. In the U.S., we’re focused on further strengthening our economy and are encouraged by the signs of steady improvement. In China, China’s leaders recognize the ambitious reform agenda that will be needed to shift their economy from a balanced and stable growth model that will rely more on consumption and less on investment and exports and more on innovation and services and less on resources and heavy industry. And how China’s leadership responds to these challenges will be critically important for China but also for the United States, as well as the global economy.” – A senior Treasury Department official at a July 8 briefing on the upcoming Strategic & Economic Dialogue

U.S.-CHINA RELATIONS

Strategic & Economic Dialogue (S&ED) Next Week in Washington

The fifth U.S.-China Strategic & Economic Dialogue has been scheduled for July 10-11 in Washington, DC and will be co-chaired by Secretary of State John Kerry and Secretary of the Treasury Jack Lew for the United States, and by Vice Premier Wang Yang and State Councilor Yang Jiechi for China. This will be the first S&ED for all four co-chairs. Vice President Biden will kick-off the S&D by delivering opening remarks on July 10. The dialogue comes just one month after the summit between Presidents Obama and Xi in California last month. The previous round of the S&D was hosted by China in May 2012.

In a July 8 briefing by senior administration officials, it was noted that the S&D is the “key mechanism” for putting into place the two presidents’ visions for U.S.-China relations. Topics expected to be covered in the strategic discussions at the S&D include North Korea, Syrian, Iran, regional security issues, and human rights. There will be two special sessions on the first day devoted to energy security and climate

change.

The economic track will include the participation of 14 U.S. government agency heads, including Federal Reserve Chairman Bernanke, Commerce Secretary Pritzker, USTR Ambassador Froman, and Securities and Exchange Commission Chairman White. China will bring 16 agency representatives, including Finance Minister Lou, Central Bank Governor Zhou, and Commerce Minister Gao. Issues discussed in the economic track will include the U.S.-China trade investment relationship, the outlook for economic growth in both countries, and ways to strengthen and develop the American and Chinese financial systems and to build a more resilient global financial system.

The S&ED is also expected to cover cyber issues which are being addressed by the U.S.-China Cyber Working Group, which concluded its first round of talks on July 8.

Secretary Kerry and Secretary Lew will also host a CEO roundtable to bring together representatives from both the Chinese side as well as the U.S. for a discussion about both the opportunities and the challenges that they face in investing and working in each country.

U.S. Embassy (Beijing) Statement on the Crash of Asiana 214

U.S. Ambassador to China Gary Locke and the U.S. Mission to China offer condolences to the families of the Chinese citizens who were killed in the crash of Asiana flight 214 in San Francisco on July 6.

The White House stated that President Obama's thoughts and prayers go out to the families who lost a loved one and to all those affected by the crash. Ambassador Locke added, "As a father myself, I feel great sorrow for the families of the two students from Zhejiang Province who passed away in these tragic circumstances. I am relieved, however, that so many other passengers survived this horrible crash. I hope for the recovery of all the injured."

"I have directed U.S. Government officials throughout China to expedite visas for the families of the deceased and injured to travel to the United States to attend to the affairs of their loved ones as quickly as possible," said Ambassador Locke.

Our hearts go out to the families of all those affected by this tragedy.

Backgrounder on Chinese Peacekeeping Force to Mali

On July 9, the U.S.-China Economic and Security Review Commission (USCC) issued a backgrounder titled [China to Deploy "Security Force" to UN Peacekeeping Operation in Mali](#). The report concludes that "China's deployment of infantry to [Mali] indicates that Beijing aspires to play a greater role in UN operations beyond China's traditional practice of contributing combat troops. China's involvement in UN PKO's (peacekeeping operations) will likely continue to broaden as Beijing's confidence in operating overseas grows and the PLA's expeditionary capabilities improve."

Roundtable on U.S.-China Cybersecurity Issues

On July 11, the USCC will host a roundtable on "U.S.-China Cybersecurity Issues" with a focus on three key questions:

- How should the U.S. government respond to past and ongoing Chinese cyber theft?
- What are the key roadblocks to developing effective U.S. cyber policy and how can they be overcome?
- What should be on the agenda for future U.S.-China cyber security talks?

CECC Chairman William Reinsch will lead the roundtable, which will include Dr. Catherine Lotrionte, Director of Georgetown University's Institute for Law, Science and Global Security, and Director of Georgetown University's Cybersecurity Project; Mr. Bruce Quinn, Rockwell Automation's Vice President for Government Relations and former Chief Representative of Rockwell Automation in China; Mr. Roy Kamphausen, Senior Advisor for Political and Security Affairs at the National Bureau of Asian Research and Deputy Executive Director for the Commission on the Theft of American Intellectual Property; and

Dr. James Mulvenon, Vice President, Intelligence Division, Defense Group Inc.

Senate Hearing on Chinese Purchase of Smithfield Foods

On July 10, the Senate Agriculture Committee will hold a hearing on the purchase of Smithfield Foods by China's Shuanghui International, the largest acquisition of an American company by a Chinese company in history. The hearing will also more broadly examine how the government review process of foreign acquisitions of U.S. companies addresses American food safety, protection of American technologies and intellectual property, and the effects of increased foreign ownership of the U.S. food supply. Hearing witnesses include: Matthew J. Slaughter, Associate Dean for Faculty, Signal Companies' Professor of Management, Faculty Director of the Center for Global Business and Government, Tuck School of Business, Dartmouth College; Dr. Ushua Haley, Robbins Center for Global Business and Strategy, West Virginia University; Daniel Slane, Commissioner, U.S.-China Economic and Security Review Commission, and U.S. Chamber of Commerce; and Larry Pope, President and CEO, Smithfield Foods, Inc.

Commerce Affirms Denial of New Shipper Review for 2 Chinese Companies

On July 1, the Court of International Trade affirmed that two Chinese producers of uncovered innerspring units – Foshan Nanhai Jiujiang Quan Li Spring Hardware Factory and Foshan Yongnuo Import & Export Co. – were correctly denied completion of a new shipper review by the Department of Commerce. As a result, Commerce will assign to the companies the country-wide antidumping rate.

ENERGY & THE ENVIRONMENT

UN HFCV Regulations Released

The U.N. World Forum for Harmonization of Vehicle Regulations reached an agreement on hydrogen and fuel cell-powered vehicles new global safety [standards](#) June 27. The U.N. Global Technical Regulation accounts for existing standards from Canada, China, the EU, Japan, South Korea, and the U.S.

Movement on HFC Control in Montreal Protocol

The Open-Ended Working Group of Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer met in Bangkok June 28, agreeing to discuss ways to manage hydrofluorocarbons emissions. In 2009, Canada, Mexico, and the U.S. proposed to amend the Montreal Protocol to address these emissions; Brazil, China, and India have previously blocked the proposal.

Stern Encourages Chinese, Local Action

U.S. Special Envoy for Climate Change Todd Stern announced June 28 that China has become more active in climate change discussions but urged the country to address more far-reaching issues. He also urged people worldwide become more active in climate change action.

TRADE

Congressional Research Service Report on China-U.S. Trade Issues

On July 3, the Congressional Research Service (CRS) published a report on China-U.S. Trade Issues, noting that economic ties between the two countries have expanded substantially over the past three decades, with total U.S.-China trade rising from \$5 billion in 1981 to \$536 billion in 2012. The report provides an overview of U.S.-China trade ties and major issues, including: Chinese "State Capitalism"; Intellectual Property Rights; China's obligations to the World Trade Organization; WTO implementation issues; and Chinese currency policy. The report can be found [here](#).

U.S. to Review Antidumping Order on Chinese Steel Nails

On July 3, the U.S. International Trade Commission (USITC) issued a notice in the Federal Register stating that it is initiating a sunset review of antidumping orders on steel nails from China to determine whether revoking the order will lead to a continuation or recurrence of material injury to a U.S. industry. Separately, the Department of Commerce will determine whether revoking the orders will lead to a continuation or recurrence of dumping of the product. Should both the ITC and Commerce

make affirmative determinations, the antidumping order on Chinese steel nails will continue, but will be revoked should the determination from USITC be negative.

ICC Statement on E.U.-China Trade Tensions

On July 4, the International Chamber of Commerce issued what it calls a “stern response” to the increasing trade tensions between the European Union (E.U.) and China, following an E.U. decision to impose antidumping duties on imports of Chinese solar panels, along with an anti-subsidy investigation by China on wines imported from the E.U. The statement from the ICC Executive Board says that “Protectionism and tit-for-tat retaliation must be strictly avoided by all WTO members – and especially by the G20 member countries who should be leading by example in taking initiatives that create greater openness to cross-border trade and investment. Such actions damage the global business environment and prospects for a stronger economic recovery, precisely when greater flows of international trade and investment could provide a debt-free and much-needed boost to world economic growth and job creation.” The full statement can be found [here](#).

U.S. to Review Duties on Pipe and Tube from China

On July 5, the USITC voted to conduct full five-year (“sunset”) reviews concerning the countervailing duty order on light-walled rectangular pipe and tube from China and the antidumping duty orders on light-walled rectangular pipe and tube from China, Korea, Mexico, and Turkey. As a result of these votes, the Commission will conduct full reviews to determine whether revocation of these orders would be likely to lead to continuation or recurrence of material injury within a reasonably foreseeable time.

MISCELLANEOUS

Chinese National Pleads Guilty in Economic Espionage Case

On July 2, federal prosecutors announced that Hua Jun Zhao, a Chinese national and researcher at the Medical College of Wisconsin (MCW), has agreed to plead guilty to a charge of computer tampering in an economic espionage investigation regarding a cancer-fighting compound. Hua was charged with stealing samples and research material of a compound developed and patented by a professor of medicine at MCW, and faces a fine of \$250,000 and up to five years in prison.

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