



ML Strategies Update

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## CHINA UPDATE

### QUOTE OF THE WEEK

*"Economic issues play a central role in the U.S.-China relationship. China's economic success has added to our growth and increased the purchasing power of consumers in the United States. Our two-way trade has almost quadrupled since China joined the WTO in late 2001.*

*While the long-standing imbalance in that trade remains troubling, China is now one of the fastest growing U.S. export markets. In fact, U.S. exports to China grew by more than 90 percent between 2007 and 2013. In our bilateral engagements, we are encouraging economic reforms within China to ensure not only that its economic behavior is sustainable on its own terms, but that it contributes to strong, sustainable and balanced growth of the global economy. This includes re-orienting its economy away from a development model reliant on exports and credit-fueled investment in real estate and infrastructure to one that increases consumer spending and contributes to global demand. Central to this goal has been urging China to move toward a market-determined exchange rate.*

*We are also addressing sources of friction in our bilateral relationship by pressing China to change a range of discriminatory policies and practices that harm U.S. companies and workers and that undermine incentives to innovate. These include subsidies that tilt the competitive playing field in favor of Chinese national champions, policies that pressure companies to hand over intellectual property as a condition for access to the Chinese market, and export credits that unfairly advantage Chinese companies in third markets. U.S. businesses have investments totaling over \$50 billion. And from 2012 to 2013, Chinese direct investment flows into the United States more than doubled, according to private sector figures, and now contribute to thousands of jobs here. Our ongoing bilateral investment treaty negotiations hold the potential for even more mutually beneficial economic ties."*

– Daniel R. Russel, Assistant Secretary for East Asian and Pacific Affairs, US State Department, in testimony before the Senate Foreign Relations Committee on June 25, 2014

## U.S.-CHINA RELATIONS

### **6<sup>th</sup> Round of the US-China Strategic and Economic Dialogue**

On June 30, the State Department and the Department of the Treasury announced that the sixth meeting of the U.S.-China Strategic and Economic Dialogue (S&ED) will be held in Beijing, China, July 9-10, 2014. Secretary of State John Kerry and Treasury Secretary Jacob Lew, as President Obama's Special Representatives, will be joined for the Dialogue by their respective Chinese co-chairs, State Councilor Yang Jiechi and Vice Premier Wang Yang, along with members of the U.S. delegation and their Chinese counterparts. The Dialogue will focus on addressing the challenges and opportunities that both countries face on a wide range of bilateral, regional and global areas of immediate and long-term economic and strategic interest. The schedule of press events will include but is not limited to an opening session on Wednesday, July 9, and a U.S. press conference on Thursday, July 10. Deputy Secretary William Burns will travel to Beijing July 8 to co-host the fourth Strategic Security Dialogue (SSD) with his Chinese counterpart, Executive Vice Foreign Minister Zhang Yesui. Senior civilian and military officials will exchange views on a range of security issues of strategic importance to both countries. The State Department also announced today that Secretary Kerry will participate in the fifth annual U.S.-China Consultation on People-to-People Exchange (CPE) in coordination with Chinese Vice Premier Liu Yandong. The CPE will be held July 9-10 in Beijing, China. The CPE promotes and strengthens people-to-people ties between the United States and China in the fields of education, culture, science and technology, sports, and women's issues. It provides a high-level annual forum for government and private sector representatives to discuss cooperation on exchanges in a broad, strategic manner. Topics highlighted by the State Department for discussion during the S&ED include an exchange of views and exploration of prospects for progress on regional challenges in Sudan, Afghanistan, Iran, North Korea, Ukraine, Iraq, and maritime disputes in the South and East China Seas; strengthening the global economic recovery; combatting climate change and expanding cooperation on clean energy; and various global challenges such as cybersecurity, counterterrorism, wildlife trafficking, and human rights.

### **State Department 2014 Trafficking in Persons Report**

On June 20, the State Department's Office to Monitor and Combat Trafficking in Persons released the 2014 Trafficking in Persons Report, which finds that China "is a source, destination, and transit country for men, women, and children subjected to forced labor and sex trafficking. Instances of trafficking are pronounced among China's internal migrant population, estimated to exceed 236 million people. Chinese men, women, and children are subjected to forced labor in brick kilns, coal mines, and factories, some of which operate illegally and take advantage of lax government supervision. Forced begging by adults and children occurs throughout China. There are reports that traffickers are increasingly subjecting deaf and mute individuals to forced labor. Media reports indicate that children in some work-study programs supported by local governments and schools are forced to work in factories." The report, broken down by country, can be found [here](#).

### **China Investment Climate Statement**

On June 23, the State Department released the 2014 China Investment Climate Statement. The report finds that "Over the past year, there were several positive signs that China's new leaders are committed to redefining the State's role in the economy. Xi Jinping, in his first year as State president and head of the Communist Party, has worked to consolidate power and pushed for economic reform to further open the economy to private capital, including international investors in some sectors." An Executive Summary can be [here](#), and the full Statement can be found [here](#).

## **Senate Hearing on The Future of US-China Relations**

On June 25, the Senate Foreign Relations Committee held a hearing on “The Future of U.S.-China Relations,” with testimony from The Honorable Daniel R. Russel, Assistant Secretary of State for East Asia and Pacific Affairs; The Honorable J. Stapleton Roy, Distinguished Scholar and Founding Director Emeritus of The Kissinger Institute on China and the United States; and Dr. Aaron L. Friedberg, Professor of Politics and International Affairs, Princeton University. Prepared testimony and an archived webcast of the hearing can be found [here](#).

## **House Resolution on China and Cyber-Theft of Trade Secrets**

Also on June 25, Rep. Steve Chabot (R-OH), Chairman of the House Subcommittee on Asia and the Pacific, introduced H. Res. 643, calling for further defense against China's state-sponsored cyber-enabled theft of trade secrets, including by the People's Liberation Army.

## **Culinary Diplomacy**

On June 26, in support of President Obama's National Travel and Tourism Strategy goal of bringing 100 million international visitors to the U.S. by 2021, the Department of State, in collaboration with Brand USA, announced that next month five members of the American Chef Corps will travel to East Asian markets to promote U.S. tourism and agricultural exports. The State Department's Office of the Chief of Protocol's Diplomatic Culinary Partnership, together with the James Beard Foundation, established the American Chefs Corps, a network of more than 100 of America's most renowned chefs, to participate in various public diplomacy programs. These programs engage foreign audiences at home and abroad by fostering cross-cultural exchange through the shared experience of food. Five American chefs will promote U.S. agricultural food exports, highlight regional American cuisines and tourism destinations, and participate in other high-visibility activities including U.S. Independence Day celebrations in China, Taiwan, Australia, Japan, and South Korea. July 4th activities will serve as a launch for an expanded, year-long Brand USA-led global culinary tourism campaign that will culminate just before the 2015 World Expo in Milan, Italy.

## **Chinese State Councilor Meets with Former Chairman of Joint Chiefs**

Also on June 26, Chinese State Councilor Yang Jiechi met in Beijing with a delegation from the American Foreign Policy Council (AFPC) led by former Chairman of the Joint Chiefs of Staff Richard Myers.

## **CHINESE EMBASSY NEWS**

### **Chinese Ambassador Attends Capitol Hill Event on Jewish Refugees and Shanghai**

On June 23, Chinese Ambassador Cui Tiankai attended the opening ceremony of the Exhibition of Jewish Refugees and Shanghai, held by the Asia Pacific Institute of the American Jewish Committee on Capitol Hill. About 200 people attended the event, including Reps. Grace Meng, Eliot Engel, Debbie Wasserman Schultz, Mike Honda, Ami Beira, and Judy Chu. Also in attendance were White House officials, congressional staff, representatives of the Committee of 100 (an international, non-profit, non-partisan membership organization that brings a Chinese American perspective to issues concerning Asian Americans and U.S.-China relations), officials from the Israeli Embassy, and former Jewish residents of Shanghai.

## TRADE

### **USITC Launches Investigation of Global Rice Trade**

On June 17, the US International Trade Commission (USITC) launched an investigation to examine global rice trade. The investigation, *Rice: Global Competitiveness of the U.S. Industry*, was requested by the House Committee on Ways and Means. The USITC will deliver the report to the Committee by April 14, 2015. As requested, the USITC, an independent, nonpartisan, fact-finding federal agency, will report on factors of competition in major rice-producing and exporting countries, including Brazil, China, India, Indonesia, Thailand, Uruguay, and Vietnam, plus the United States. The USITC will examine costs of production, industry structure, input prices and availability, pricing and marketing regimes, and government policies that affect rice production and export in the selected countries.

### **USCC Report on the Risks of China's Internet Companies on US Stock Exchanges**

On June 18, the U.S.-China Economic and Security Review Commission (USCC) released a staff report on "The Risks of China's Internet Companies on US Stock Exchanges." According to the USCC, "In May 2014, Alibaba, China's leading e-commerce website, filed for a U.S.-based initial public offering (IPO) in what is expected to be one of the largest in U.S. history. The highly anticipated IPO will be just one in a recent wave of Chinese Internet companies launching IPOs in the United States. The trend has raised some misgivings among U.S. regulators about the corporate structures of these companies." The report can be found [here](#).

### **USTR Ambassador Froman Remarks at World Trade Center Denver**

On June 23, U.S. Trade Representative (USTR) Ambassador Michael Froman delivered remarks at the World Trade Center Denver in which he stated "under this President, my office has brought 18 trade enforcement actions to the World Trade Organization, and half of them against China. Just last month, I was pleased to announce that we prevailed again in an action against illegal Chinese interference within our auto trade from the United States. We can't just settle for enforcing existing trade agreements and pretend the rest of the world is not moving on and changing around us. We need to be out there fighting for the new markets that we need ourselves for our own growth. Ambassador Froman's remarks, as delivered, can be found [here](#).

### **USITC Finding on Welded Stainless Steel Pressure Pipe from China**

On June 24, the U.S. International Trade Commission (USITC) determined that revoking the existing antidumping and countervailing duty orders on welded stainless steel pressure pipe from China would be likely to lead to continuation or recurrence of material injury within a reasonably foreseeable time. As a result of the Commission's affirmative determinations, the existing orders on imports of this product from China will remain in place.

### **Ex-Im Bank Annual Competitiveness Report to Congress**

On June 25, the Export-Import Bank released its Annual Competitiveness Report to Congress, which finds that "aggressive, unregulated" financing from foreign competitors is costing U.S. jobs. According to the report, "while for decades, global export competition was governed by international standards put in place to ensure that companies could compete on free-market factors like price and quality rather than on aggressive government financing, today the global marketplace is changing. While 100 percent of

official support for trade operated under these international rules 15 years ago, today that number has plummeted to 34 percent. Currently Russia, China and other countries offer subsidies and financing terms – including support of their state-sponsored companies – that threaten American jobs and export opportunities.” The report, covering calendar year 2013, can be found [here](#).

### **US Ambassador’s Remarks to American Business Community in Beijing**

Also on June 25, U.S. Ambassador to China Max Baucus delivered remarks at the American Embassy in Beijing to members of the American business community. In his remarks, Ambassador Baucus said “As many of you know, I’ve been focused on China and especially on trade with China for a long time. When I was in the Senate I strongly supported permanent normal trade relations with China and then later China’s accession to WTO. That wasn’t very popular back then, especially with my friends in the Democratic Party. People said that we should hold China at arm’s length. They were worried about labor standards, PLA issues, environmental standards, and China’s record on human rights. I believed then, as I do now, that turning away from China and refusing to engage would do nothing to alleviate those concerns. And while China’s rise presented certain challenges, it also held out tremendous promise. I knew that bringing China into the WTO would benefit the United States, benefit China, and benefit the world, and it has.” His full remarks can be found [here](#).

### **House Hearing on Reauthorization of the Export-Import Bank**

Also on June 25, the House Financial Services Committee held a hearing on “Examining Reauthorization of the Export-Import Bank: Corporate Necessity or Corporate Welfare,” with witnesses representing Delta Airlines, the Mercatus Center at George Mason University, the Air Line Pilots Association, and California-based energy company FirmGreen, as well as representatives from the Export-Import Bank, the Government Accountability Office, and the Congressional Budget Office. During the hearing, Rep. Joe Heck (R-NV) stated that China’s threat to U.S. manufacturing is “real,” with the Chinese looking to develop airlines to compete with the U.S. on the market, and Export-Import Bank President Fred Hochberg, in response to a question about the Bank’s work in Africa, noted that China gives African companies whatever loans they need. ML Strategies monitored this hearing and has a full summary available upon request.

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