



ML Strategies Update

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CHINA UPDATE

QUOTE OF THE WEEK

"One of America's clearest and most compelling interests is to develop a positive and constructive U.S.-China relationship. How we manage and grow this relationship will define not only the future of our two nations in our work together, but also greatly impact the possibilities for peace and prosperity in the Asia Pacific region and around the world. That is why this week's U.S.-China Strategic and Economic Dialogue was and is so important. The S&ED is more than just a moment to take stock of our relationship. President Obama believes that this is a time to build on our progress and set new goals on nearly every major issue that matters to our two countries. So let me be clear: China's success is profoundly in the interest of the United States. We seek a partnership that benefits the citizens of both of our countries, our neighbors and the world. We seek a relationship defined not by strategic rivalry, but by practical cooperation on common challenges and constructive management of differences where our interests diverge." – Secretary of State John F. Kerry on the conclusion of the 6th Round of the U.S.-China Strategic and Economic Dialogue in Beijing, China, July 10, 2014

U.S.-CHINA RELATIONS

6th Round of the US-China Strategic and Economic Dialogue

On July 9-10, Secretary of State John F. Kerry and Secretary of the Treasury Jacob J. Lew led a U.S. delegation of senior economic officials to Beijing for the sixth round of the U.S. - China Strategic and Economic Dialogue (S&ED), which included meetings with President Xi Jinping, Premier Li Keqiang, Vice Premier Wang Yang, and other senior officials from key Chinese ministries.

Strategic Track outcomes include:

- Catalyze Action to Address Climate Change: U.S. and Chinese leaders chaired a special Joint Session on Climate Change. Taking concrete steps to tackle climate change and air pollution in both countries, the U.S. and China launched eight demonstration projects – four on carbon capture, utilization, and storage and four

on smart grids - under the U.S.-China Climate Change Working Group (CCWG). They also announced a new initiative on climate change and forests and a study on reducing emissions from industrial boilers.

- Enhanced Cooperation on Nonproliferation: The U.S. and China agreed to establish a joint working group to prevent the proliferation of weapons of mass destruction and related technologies.
- Reaffirm Commitment to Military-to-Military Relations: The U.S. and China agreed to develop relations by building a sustained and substantive defense dialogue, explore practical areas of cooperation, and enhance risk reduction measures. They also agreed to include U.S. Coast Guard and China's maritime law enforcement agencies in an air and maritime rules of behavior working group.
- Facilitate Travel for Tourism, Study, and Business: The two countries committed to explore new proposals to significantly extend reciprocal visa validity for tourists, short-term business travelers, and students.
- Combat Wildlife Trafficking: U.S. and Chinese leaders announced a shared commitment to combat trafficking of wildlife and wildlife products by strengthening domestic laws and enforcement tools. To improve coordination, they agreed to increase interaction among wildlife enforcement networks, build public-private partnerships to combat wildlife trafficking, and strengthen public understanding of the harmful effects of the illegal wildlife trade on ecosystems and economic development.
- Denuclearization on the Korea Peninsula: The two sides reaffirmed the importance of denuclearizing the Korean peninsula in a peaceful manner and committed to full implementation of relevant UN Security Council resolutions. The U.S. and China also called on all sides to create the conditions necessary for resumption of the Six-Party Talks.
- Promote Resolution of the Syrian Conflict: The two countries restated their support for the Geneva Communique and the work of the Organisation for the Prohibition of Chemical Weapons (OPCW), and stressed the need for the international community to provide support to alleviate the suffering of Syrian refugees and internally displaced persons. The U.S. and China called on all parties in the conflict to seek an early ceasefire and the cessation of all violence, avoid civilian casualties, and resume negotiations as soon as possible.
- Call on Iran to Fulfill its Obligations: Both sides called on Iran to fulfill its international non-proliferation obligations and to cooperate fully with the International Atomic Energy Agency (IAEA). The two countries reaffirmed the importance of fully implementing UN Security Council resolutions 1696, 1737, 1803, 1835, and 1929.
- Support for Peace and Reconciliation in Afghanistan: The U.S. and China will explore opportunities for further cooperation to support political stability and economic revitalization in Afghanistan. They also committed to continue the joint diplomatic training program for Afghan Ministry of Foreign Affairs officials and to work together to support regional cooperation efforts, such as the Istanbul Process.
- Improve Global Health: The U.S. and China agreed to strengthen dialogue and exchanges on healthcare reform, malaria control, non-communicable diseases, and emerging infectious diseases. In support of these initiatives, the two governments will support workshops and high-level summits; strengthen the capacity of other

countries in preventing and controlling malaria; develop a public-private platform to enable private sector leadership for health promotion; and participate in the Global Health Security Agenda.

Economic Track outcomes include:

- Exchange Rate Liberalization: China committed to continue moving to a market-determined exchange rate, to increase exchange rate flexibility, and to reduce foreign exchange intervention as conditions permit.
- Leveling the Playing Field and Supporting Fair Competition: Specific outcomes focused on intensifying the U.S.-China Bilateral Investment Treaty (BIT) negotiations; competition law; State-owned Enterprise (SOE) reform and transparency; advancing market-based energy price reforms and eliminating preferential pricing for SOEs; addressing excess production; Information Technology Agreement (ITA) expansion; disciplining export financing; expanding opportunities for U.S. services providers; strengthening trade secrets protection; enhancing U.S.-China cooperation on Intellectual Property (IP) and Rule of Law; promoting regulatory transparency and improving administrative licensing; ensuring public availability of Chinese documents; and enhancing drug safety.
- Opening Energy Markets and Taking Steps to Enhance Energy Security and a Clean Energy Future: China made commitments in several areas to work in tandem with the U.S. on climate change issues, including on reducing fossil fuel consumption and carbon emissions. Recognizing China's expanding role in global energy markets, the U.S. secured China's commitment to move forward with energy pricing and transparency reforms that are critical to U.S. energy security, global market efficiency, and fair competition for U.S. firms. China also signed a Memorandum of Understanding with the U.S. to increase cooperation and exchanges on transparency, data quality, and policies of China's Strategic Petroleum Reserves. It also committed to accelerate its capacity to publish more complete and timely energy statistics.
- Promoting Rebalancing and Consumption-Led Growth: Specific outcomes are focused on increasing SOE dividend payouts, interest rate liberalization, and boosting household income and consumption.
- Expanding Opportunities for U.S. firms through a More Open and Market-Oriented Financial System: Specific outcomes are focused on expanding opportunities for U.S. financial providers and investors, developing China's financial markets, and strengthening financial regulatory cooperation.

A fact sheet from the Treasury Department covering the Economic Track, along with a list of Economic Track participants, can be found [here](#).

U.S.-China Strategic Security Dialogue

On July 7-9, Deputy Secretary William J. Burns traveled to Beijing to lead the U.S. delegation to the U.S.-China Strategic Security Dialogue (SSD) and to participate in the S&ED. The Deputy Secretary was joined at the SSD by Under Secretary of Defense for Policy Christine Wormuth and PACOM Commander Admiral Samuel Locklear. China's Executive Vice Foreign Minister Zhang Yesui hosted the SSD, where senior civilian and military officials exchanged views on a range of security issues of strategic importance to both countries.

CEO Roundtable

On July 10, while in Beijing for the S&ED, Secretary of State Kerry and Treasury Secretary Lew joined with Chinese State Councilor Yang to deliver remarks at the CEO Roundtable at the Diyuotai State Guesthouse. Councilor Yang stated that "...business is the backbone of the China-U.S.-economic relationship. Over the past 35 years, our bilateral trade increased over 200 times." Secretary Kerry stated "economic policy is foreign policy and foreign policy is economic policy." Secretary Lew stated "Last year marked the first time that Chinese direct investment in the United States was greater than investment from the United States into China." A transcript of the session can be found [here](#).

Consultation on People-to-People Exchange Plenary Session

Also on July 10 in Beijing, Secretary Kerry delivered remarks to the Consultation on People-to-People Exchange Plenary Session, saying "We are determined to ensure that young Americans develop a deep understanding of China. And this year I'm proud to say we are elevating our partnership even further by focusing on health, which is a global challenge that demands a global response. This will not be defined by numbers. It's our people. It's our students, our artists, our musicians, our athletes, our scientists coming together to lay the foundation for greater trust and eventually for greater leadership in the world. Our students right now are already laying the foundation for this transformation." Secretary Kerry's full remarks can be found [here](#).

EcoPartnerships Signing Ceremony

Also on July 10, Secretary Kerry and Chinese Councilor Yang Jiechi welcomed six new U.S.-China partners into the flagship EcoPartnerships Program during a signing ceremony in Beijing. The EcoPartnerships program is an innovative manifestation of U.S.-China cooperation on energy and environmental issues. Established under the U.S.-China Ten Year Framework on Energy and Environment Cooperation (TYF), EcoPartnerships establish formal collaboration between U.S. and Chinese stakeholders who work on clean energy and sustainable development. The following organizations were welcomed into the program: Sapphire Energy and Sinopec; Environmental Defense Fund and Shenzhen Low-Carbon Development Fund; General Electric Company and Harbin Electric; Port of Los Angeles and the Shanghai Municipal Transport Authority; Lawrence Berkeley National Laboratory and Shandong Province; and the City Partnership of Greater Philadelphia and Tianjin Economic-Technological Development Area.

Senate Passes Asia-Pacific Region Maritime Security Resolution

Also on July 10, by Unanimous Consent the U.S. Senate passed S. Res. 412, a resolution reaffirming the strong support of the United States government for freedom of navigation and other internationally lawful uses of sea and airspace in the Asia-Pacific region, and for the peaceful diplomatic resolution of outstanding territorial and maritime claims and disputes. The resolution that the Senate passed: (1) condemns coercive actions or the use of force to impede freedom of operations in international airspace to alter the status quo or to destabilize the Asia-Pacific region; (2) urges China to refrain from implementing the declared East China Sea Air Defense Identification Zone and to refrain from taking similar provocative actions elsewhere in the Asia-Pacific region; (3) commends Japan and the Republic of Korea for their restraint; and (4) calls on China to withdraw its HD-981 drilling rig and associated maritime forces from their current positions, refrain from maritime maneuvers contrary to the Convention on the International Regulations for Preventing Collisions at Sea, and return to the status quo as it existed before May 1, 2014. Further, the resolution sets forth U.S. policy regarding: (1) supporting allies and partners in the Asia-Pacific region; (2) opposing claims that impinge on the rights, freedoms, and lawful use of the sea; (3) managing disputes without intimidation or force; (4) supporting

development of regional institutions to build cooperation and reinforce the role of international law; and (5) assuring continuity of operations by the United States in the Asia-Pacific region. A press release from Senate Foreign Relations Committee Chairman Robert Menendez (D-NJ) can be found [here](#).

Fourth Annual South China Sea Conference

On July 11, Deputy Assistant Secretary of East Asian and Pacific Affairs Michael Fuchs delivered remarks at the Fourth Annual South China Sea Conference at the Center for Strategic and International Studies in Washington, DC. His remarks can be found [here](#).

TRADE

Commerce Determination on Alloy Steel Wire Rod from China

On July 1, the Department of Commerce (Commerce) announced its affirmative preliminary determination in the countervailing duty (CVD) investigation of imports of carbon and certain alloy steel wire rod from China. As a result of the preliminary affirmative determination, Commerce will instruct U.S. Customs and Border Protection (CBP) to require cash deposits based on the above-referenced preliminary CVD rates. Commerce is scheduled to announce its final determination in this investigation on or about November 12, 2014, as it has been aligned with the final determination in the companion antidumping (AD) investigation of carbon and certain alloy steel wire rod from China. If Commerce makes an affirmative final determination, and the U.S. International Trade Commission (USITC) makes an affirmative final determination that imports of carbon and certain alloy steel wire rod from China materially injure, or threaten material injury to, the domestic industry, Commerce will issue a CVD order. If either Commerce's or the USITC's final determination is negative, no CVD order will be issued. The USITC is scheduled to make its final injury determination approximately 45 days after Commerce issues its final determination, if affirmative.

USCC Monthly Report on U.S.-China Trade Data

On July 3, the U.S.-China Economic and Security Review Commission (USCC) released its monthly analysis of U.S.-China trade data. According to the report, which can be found [here](#), "the U.S. monthly trade deficit in goods with China reached \$28.8 billion in May, the highest monthly deficit so far this year."

WTO Report on GPX Legislation

On July 7, U.S. Trade Representative Ambassador Michael Froman announced that a second World Trade Organization (WTO) report found that China failed to support its challenge under Article X:2 of the GATT 1994 to a U.S. trade remedy law, U.S. Public Law 112-99 (commonly referred to as the GPX legislation). The GPX legislation was enacted on March 13, 2012, to confirm the Department of Commerce's ability to apply the U.S. countervailing duty (CVD) law to subsidized imports from non-market economy (NME) countries, including China. As a result of the report, together with the May report from a WTO panel rejecting all of China's claims under Article X of the GATT 1994, there are no WTO panel or Appellate Body findings that the GPX legislation breaches WTO rules.

USITC to Review Duty Orders on Chinese Citrate Salts

Also on July 7, the USITC voted to conduct full five-year ("sunset") reviews concerning the countervailing duty order on citric acid and certain citrate salts from China and the antidumping duty orders on citric acid and certain citrate salts from Canada and China. As

a result of these votes, the USITC 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.

U.S. Goods and Services Exports Data

Also on July 7, Under Secretary of Commerce for International Trade Stefan M. Selig released new data showing that Canada, Mexico, China, Japan, and the United Kingdom were the top destinations for U.S. goods and services exports in 2013, and exports to these countries alone supported nearly 4.8 million U.S. jobs last year. U.S. exports set a record for a fourth consecutive year in 2013, reaching \$2.3 trillion. Data on jobs supported by export destination can be found [here](#).

Environmental Goods Agreement Negotiations Launched

On July 8, the U.S. and thirteen other WTO members, accounting for 86 percent of global trade in environmental goods, launched negotiations on the Environmental Goods Agreement (EGA) in Geneva, Switzerland. In addition to the United States, Australia, Canada, China, Costa Rica, the European Union, Hong Kong, Japan, Korea, New Zealand, Norway, Singapore, Switzerland and Chinese Taipei are participating in the negotiations. The EGA aims to eliminate tariffs on environmental technologies, such as wind turbines, water treatment filters, and solar water heaters. Tariffs on environmental goods can be as high as 35% and pose a significant barrier to trade for U.S. companies. The EGA negotiations will build on a list of 54 environmental goods on which APEC Leaders agreed to reduce tariffs to five percent or less by the end of 2015, and will explore a wide range of additional products. The APEC list includes a variety of environmental technologies used in a number of environmental applications, including: Renewable and clean energy generation (such as solar panels, and gas and wind turbines); Wastewater treatment (such as filters and ultraviolet disinfection equipment); Air pollution control (such as soot removers and catalytic converters); Solid and hazardous waste treatment (such as waste incinerators, and crushing and sorting machinery); and Environmental monitoring and assessment (such as air and water quality monitors), among others.

USCC Report on Prison Labor Exports from China

On July 11, the USCC released a staff report on "Prison Labor Exports from China and Implications for U.S. Policy." The report, which can be found [here](#), finds that "there has been little substantive reduction in the scale and scope of China's broad network of prison labor facilities."

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