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Sent: Tuesday, May 24, 2011 6:21 PM

To: rb112@columbia.edu

Subject: 5/24 China/Japan/SK FTA; Politics; IMF/ASIA; Bibi's speech



The Nelson Report

May 24, 2011

**CHINA MAKES NICE ABOUT FTA WITH JAPAN, S.KOREA...
ALSO ENDORSES FRANCE'S LEGRANDE FOR THE IMF (?)
NETANYAHU'S SPEECH...SETTING STAGE FOR UN CRISIS IN FALL
IRAN SANCTIONS...ON VENEZUELA'S CHAVEZ
"PERSPECTIVE" Jannick Mireur...it's still Euro-time at the IMF**

SUMMARY: the regular news will likely tell you all you need about the announcement today the Administration has slapped Iran sanctions on Venezuela's state oil giant PVDSA for oil dealings with Iran. That's a legal no-no under US law, to be sure, but whacking national leaders with the ability...and inclination...to retaliate?

Sober minds argue that with the US currently buying 45% of Chavez' oil, as a practical matter he is unlikely to do more than raise a little hell, although he has threatened a cut-off four or five times since 2004.

Domestically, all US political eyes are focused on upper New York State for today's special election, a Congressional seat which has been held by the Republicans since, we believe we saw somewhere, 1858.

A measure of the GOP's angst, with polls showing a Democrat with a narrow lead over the Republican incumbent, is that for more than a week the R's spin machine has tried its version of the Wizard of Oz's "don't look behind the curtain"...claiming that the national backlash of fear about Medicare isn't the issue at hand.

They wish...

The fact is that both fairly and un-fairly, the Dems have drawn blood...big time...with their attacks on the Ryan Budget's approach to deficit reduction and Medicare, and given the R's systematic misrepresentations of

"Obamacare", we don't detect a shred of guilt from Democratic National Headquarters.

Will the voters (including the millions of concerns Dems who can see the perils of deficits and the burden on their grandchildren just as clearly as anyone else) continue to demand of the D's and the R's a truly responsible, bipartisan approach to debt management? As citizens we must pray.

On that, Reuters reports just now:

"Talks to avert a potentially catastrophic debt default resume after signs Republicans might soften their stance over a main obstacle to a deal with Democrats, but hopes for a breakthrough remain slim. A congressional aide said the session would focus on savings in Medicare and Medicaid, government-funded healthcare at the core of so-called federal entitlement programs that have emerged as a major block to an agreement."

But in any specific race, for now, at least, the Dems seem able to capitalize on the Republican's inner-civil war over Ryan, his budget, and at what point to speak honestly about both cuts and "revenue enhancement".

Oops...that would be "taxes"...

The Republican presidential field keeps being narrowed by presumed candidates deciding otherwise...the most significant so far being Indiana Gov. Mitch Daniels. This former OMB chief is highly regarded on a bipartisan basis, all things considered.

But he knew that in the ultra-religious, conservative world of Republican primary politics, he faced problems with why his wife deserted him and their children, ran off to California and another marriage...only to return, a la the Prodigal Daughter, to update the biblical reference. It's telling, to say the least, that he ascribed his negative decision to both his wife and their kids.

From the standpoint of substance...too bad. That leaves now three serious "mainstream" candidates, all former governors: Romney (Mass.), Pawlenty (Wisc.), and potentially Jon Huntsman (Utah), back from China and campaigning very hard in New Hampshire and S. Carolina.

One interesting thing to track: will the presumed vulnerabilities of these three (two Mormons, and a charisma-bereft nice guy) encourage another governor...former Florida Gov. Jeb Bush...to jump into the race? You may recall that Jeb was always considered the brains of the family, and the most likely successful national candidate, but it was George (then Gov. of Texas) who surprised "Bar", his Poppa, and likely also Jeb, by cutting into line.

The IMF succession "race" may be closer to a decision, given China's endorsement today of French Finance Minister Christine Lagarde...at least that's what the French Government is claiming, and so far we've not seen a denial from Beijing. Here's Reuters' coverage:

"China's Foreign Ministry said it had no comment on whether Beijing would

back Lagarde, a 55-year-old former lawyer.

But conditional support for France would seem plausible after France made a special effort to reach out to Beijing this year on key G20 issues like global monetary reform and speculation in commodity markets. France presides over the G20 group of advanced and emerging nations in 2011.

Last week, the head of China's central bank, Zhou Xiaochuan, said the IMF's leadership should reflect the growing stature of emerging economies, but he stopped short of saying its new boss should be from an emerging economy.

An adviser to the People's Bank of China, Xia Bin, told Reuters a bigger issue than the succession was the United States' dominant voting share at the IMF. Wu Qing, a researcher with the Development Research Centre government think tank in Beijing, said it seemed logical China would support Lagarde or any other well-qualified European.

"It's not likely that China would back someone from Asia, especially from within China. There still aren't many people within the Chinese system with an extensive international background," he said. "I don't think it matters much to China whether the next IMF head is French or any other European." The IMF's board has said it will draw up a short list of three candidates and set a June 30 deadline for picking a successor."

Tonight's "Perspective" is from Loyal Reader Jannick Mireur explaining why it's not time yet for a non-European.

Finally, we also want to mention last weekend's very interesting China/Japan/S.Korea "trilateral" in Tokyo, which saw President Lee, Premier Wen, and Prime Minister Kan agree among other things to "quickly share information in the event of a nuclear crisis" via an early notification system.

And a Korean news account also had the Chinese joining in "expressing concern" about recent N.Korea enriched uranium revelations, and calling for a resumption of the 6 Party nuclear talks, but only after N.Korea had taken certain "measures".

To underscore the nuclear safety concerns, the trio of leaders made a point of visiting a shelter in the Sendai area, and eating fruit grown in the region after the Fukushima reactor disaster.

The most interesting development came in Wen's speech Sunday to a business group, calling for greatly expanded economic ties, including starting staff work on what would be needed to accomplish an FTA between the three countries....starting with some kind of FTZ arrangement next year.

Wen noted talks on a trilateral investment treaty which has seen 12 rounds since a 2005 beginning, and said his government would work extra hard to wrap-up an investments deal by the end of this year.

Commentary in the Yomiuri had an anonymous GOJ official saying Wen's offer reflects China's anxiety that Japan will finally resolve its internal political

paralysis on agriculture reform, and join the US-led Trans Pacific Partnership negotiations, adding: *"Wen's remarks are a test to see whether Japan will choose the TPP, or East Asia"*.

S.Korean business sources were quoted as less than enthusiastic about a possible FTA with Japan, given the current bilateral trade deficit of Y2-trillion.

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MEDICARE AS A POLITICAL ISSUE...We liked NBC's summary this morning:

"Don't overstate a single special election, but don't understate the power of Medicare: If Democrats do win tonight, it's important to note the predictive limits of special elections. Indeed, if you looked only at the results of last cycle's specials (NY-20, NY-23, PA-12), Nancy Pelosi would still be speaker.

But a GOP loss in NY-26 -- a district John McCain won in 2008, 52%-46% -- would be a wake-up call for Republicans on Medicare, forcing their House members and even presidential candidates to re-evaluate how they approach the issue.

Never ignore the senior vote and the power of Medicare.

One irony of Paul Ryan's emergence as a force in politics and in NY-26: Most, if not all, of the GOP House candidates running last year distanced themselves from Ryan's budget "roadmap," which included not only an overhaul of Medicare but also Social Security. Republicans made a mistake in 2005 when they ignored their near-loss in an Ohio special election; they never even studied the reason behind it, simply chalking it up to a bad candidate.

Candidates do matter, but so do issues that motivate folks to polls. Democrats made a mistake last year, taking comfort in their ground game thanks to special election victories."

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KOREA POLICY...with the current State/AID mission now in the DPRK to assess the food crisis situation, eyes for the moment are on Kim Jong-il's latest visit to China, and in S. Korea, a potential scandal involving US storage of the deadly chemical defoliant Agent Orange.

Loyal Reader David Straub, Stanford's Shorenstein Center, passes on a helpful "heads up" this morning...we note the source, as well as the info, as this underscores the "duties" of Loyal Readership which are most appreciated by your Editor...keeping him in the game:

*Chris,
During KJI's ongoing visit to China, South Korean TV has been able to show numerous video clips of Kim's train and of Kim himself getting into and out of his limo at various stops. The video is from a distance and fuzzy, but clearly are of Kim. Apparently the video has been taken by ordinary Chinese with cell phones. So much for secrecy.*

Meanwhile, in South Korea, the top story for the past several days remains not Kim's visit to China but the alleged burying of Agent Orange at a USFK base in Taegu. Now the story is metastasizing, with other US vets saying they saw other chemicals being buried at other US bases. Fortunately, the South Korean government and USFK appear to be working closely to deal with the issue, unlike in the early 2000s when anti-Americanism became a major issue.

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BIBI'S SPEECH...before a Joint Session of Congress, Prime Minister Netanyahu talked a lot of friendship and democracy and even managed to praise President Obama for some things, such as killing Osama...but he didn't take back his denunciation of Obama's speech last week, despite the facts about Netanyahu's own endorsement of the same "1967 borders, with adjustments" formulation less than a year ago.

The Congressional politics of US-Israel relations are a special study, and having been deeply involved as far back as 1970 (when we were press secretary to a Republican Member who had been Eisenhower's last Ambassador to Tel Aviv) we can tell you it's often a coin flip whether the White House...ANY White House...has a harder time with Israel's friends on Capitol Hill, or with Prime Ministers like Netanyahu and his Likud.

This is in NO way to downplay the mutual horrors and frustrations facing any leader in the US and Israel when it comes to dealing with the Palestinians, plural, and Israel's neighbors. That's not what we're talking about here.

As we saw last week with Republican presidential front-runner Mitt Romney's delighted pounce on Obama for "throwing Israel under the bus"...despite the facts noted last night, and above...the domestic political management of US-Israeli relations unfortunately requires a constant walk through a minefield of mistrust, posturing, opportunism and hypocrisy.

The resulting gamesmanship is doubly unfortunate, since it obscures the many genuine, bedrock US-Israeli common interests that both Obama and Netanyahu included in their speeches last week, then over the weekend to AIPAC, and today, to Congress.

It's also unfortunate, since it adds up to a functional open wound in every White House we've ever seen, so that dealing with Israel and its supporters rapidly assumes the character of surviving an always painful, potentially fatal disease from which there is no escape.

Not a good situation when, for better and for worse, jointly facing the challenges of the Middle East....

Over the years we'd say the only varying factor is how rapidly the professional alienation sets in...usually it's somewhere early in the second year of an administration. Seems to us that the Obama folks got sufficiently burned and frustrated that they arrived in record time, sometime around the end of the sixth month of '09...but we'll leave that for the historians.

Anyhow, we asked trusted Loyal Reader observers who are themselves deeply involved in the management of US-Israel relations for their reaction to the Prime Minister's speech today, and the overall situation. This first one deftly sums up the big picture, and how a "friend of Israel" in the very best sense worries about what's happening...and calls our attention to the coming crisis this Fall at the UN:

Chris,

The President's speech at State and then the follow up at AIPAC should be understood as the opening moves in a major American diplomatic effort that will continue through the summer in order to close off the Palestinian option for seeking unilateral recognition at the UN in the fall. The key to our success is securing continued EU / major ally support for the U.S. position, namely direct negotiations between the parties leading to two states for two peoples on the basis of UNSCR 242 and 338.

The great fear motivating the Administration is not only that recognition of Palestinian statehood by the UNGA might spark further UNGA action against Israel leading to sanctions, boycotts and divestment, but that the Palestinian leadership would then also get stuck behind internationally confirmed maximalist positions that would make a two state solution truly impossible.

In that case, where every Israeli over the Green Line could be putatively classified under international law as an illegal invader, and the entirety of East Jerusalem, including the Western Wall are "taken" from Israel and "given" to Palestine, and where 7.5 million Arabs of Palestinian descent have the "right of return" to Israel, there really is no hope for resolving the conflict.

So, if you had a picture of Obama and Netanyahu, side-by-side, the caption could legitimately read, "One of these men is sacrificing his political capital to protect Israel from a life-threatening international de-legitimization campaign and to preserve Israel's future as a Jewish and democratic state. The other is Israel's prime minister."

Saving Israel is, apparently, Obama's job. Bibi's job would seem to be throwing rocks at Obama while he works.

This entire episode demonstrates just what a cool customer Obama is and why Harry Truman advised anyone seeking a friend in Washington to get a dog."

And this, very succinctly, from a former NSC source who also must be protected:

"So these are Netanyahu's 'painful sacrifices': no sharing of Jerusalem, no right of return, no to '67 borders AND Israeli troops will remain on the Jordan River. Actually he may have done Obama a favor by showing his true colors. Now let us see if Obama will move from fine words to doing the hard work to get Israelis and Palestinians talking seriously."

An example of what this White House...any White House...is up against was

sent out by HFAC chair Ileana Ros-Lehtinen:

(WASHINGTON) - U.S. Rep. Ileana Ros-Lehtinen (R-FL), Chairman of the House Foreign Affairs Committee, released the following statement on Israeli Prime Minister Benjamin Netanyahu's address to a Joint Session of Congress:

"As Prime Minister Netanyahu has noted, Israel is not what's wrong about the Middle East, Israel is what's right about the Middle East. Today, the Prime Minister once again demonstrated Israel's commitment to achieving peace and security and its willingness to take great steps to achieve those goals.

"Because we share common interests, values, and threats, the United States must continue to stand by our indispensable ally, Israel, and provide it with unequivocal support. And because we believe strongly in realizing peace and security in the Middle East, we must hold accountable those who stand in the way, particularly Abu Mazen and the Palestinian leadership.

"The United States must not send one single taxpayer dollar to the Palestinian Authority until they renounce their accord with Hamas, stop anti-Israel incitement, stop trying to evade negotiations by seeking unilateral recognition of a Palestinian state by the UN and foreign governments, and recognize Israel's right to exist as a Jewish state. That's U.S. law, and that's what the Administration must carry out, with no ifs, ands, or buts."

BACKGROUND: Ros-Lehtinen authored the Palestinian Anti-Terrorism Act of 2006, which became Public Law 109-446 on December 21, 2006. The law conditions U.S. assistance to the Palestinian leadership on the latter's compliance with its obligations to renounce and combat violent extremism, abide by its existing agreements, and recognize Israel's right to exist.

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INTERESTING CHINA TID-BIT...a couple of weeks ago we ran some comments by **Loyal Reader Robert Blohm in Beijing about the longer range socioeconomic implications of China's changing population base. A fellow Loyal Reader questioned some of the statistics used, and **Robert** has re-visited the issue:**

Your loyal reader noted China's urban population to be the 50% stated in the official census results compared to my initial estimate of 70%. My estimate turns out to be too high because the 20% of the population officially classified as "migrant" by the census for living in cities "for over 6 months" without registration as a household member ("hu kou") where they live, is already included in the 50% consisting of urban dwellers even if they don't hold a legal "residence permit" issued by the local government where they are living. Only a small portion of migrants actually hold such a residence permit, which is beyond the necessity, willingness or ability of most migrant-dependent employers to provide any documentation for obtaining.

After my subsequent inquiry with a respected Chinese census expert, it turns out that the census takers counted only verbal declaration of residence (with some cross verification) by migrants, not residence permits as I had assumed. However, your loyal reader's 50% urban estimate may still be too low, with the actual number maybe no higher than 57%, as some respected Chinese researchers estimate the population share of migrants not included as urban in the census to be as high as 6 ½% not subject to the "over 6-months" stay rule. Using the annual growth rate in rural-to-urban migrants of 1 ½ % of today's population used by the loyal reader, versus the 1 % annual growth rate I used, the result would be extension to at least 15 years of the remaining rural-to-urban migration period from the 9 years I estimated, even while overall population growth would still cease by at least the first 9 years of that period, in other words not an end to economic growth at least 9 years from now as I warned, but maybe still an end to economic super-growth then, and an end to economic growth altogether as few as 6 years later.

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"PERSPECTIVE"...as expected, some strong reactions to last night's recommendation from Bill Overholt and Sourabh Gupta that it's time to consider an Asian to run the IMF. Loyal Reader Yannick Mireur, who personally bridges the "Tokyo/Paris" axis, makes the case for keeping the Fund in European hands...for now.

Yannick is President of Nexus Forum, author of Le Monde d'Obama (published tomorrow) and special advisor to the French-American Foundation in NY:

Dear Chris,

in your last message there were comments about why the IMF needs an Asian Chief. I sense a self-interest from Asia types indifferent about sidelining the Euros more than sound analysis. It seems strange to argue that the Fund would have deliberately or by inexperience made the crisis worse in Thailand and Indonesia.

Mistakes may have been made in a crisis situation, but it seems almost on purpose according to the comments. Besides, the current situation in Europe makes that part of the world economy a priority as far as financial diligence is concerned, justifying continued EU helmsmanship. Finally, the DSK episode should not be viewed as a motive for broader reconsideration of Europe's role in the IMF, which relates instead to the issue of global governance.

Certainly a stronger role for Asia is welcome and it is sad that one has had to wait for the 2008 crisis to see the G20 finally emerge. In fact, opening the UNSC should be a priority given that political adjustment has been in the air since a long, long time whereas the economic adjustment that the IMF and WB institutions represent still requires more time.

I would also underline that emerging countries do not have the long experience that it takes to lead international affairs, although obviously some individuals may. But that is a different level of capacity and I remind you of your own remarks about US-China relations with respect to the CCP's internal

procedures that do not allow a single man at the top to enjoy the same decision-making power of a US President because of collegiality.

Is any Asian nation ready to take on a similar role as France did in Europe or the US globally? I don't think so. We are in transition toward that but we are not there yet. China is far from prepared to imitate America's global role. In this regard the paradox is that Old China, with such a sense of itself, is a newcomer while the US is an old nation, a grandee of world affairs!

As very pro-European, I often wonder how Europe should move forward at 27, but then you realize that France's guiding role, however diminished these days, is the result of a very long tradition and culture of statesmanship and centralization and elite-education. Whether that legacy is now hindering France's global potential is another issue.

The fact of the matter is that you don't improvise yourself a leading nation. The Euro-Americans are getting old and tired in their opulence, and should work better on strengthening ties with Asia, but they remain essential. Don't throw the baby with the bathwater too fast.

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THAT'S IT FOR TONIGHT...

The Nelson Report
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From: Chris Nelson [mailto:cdnelson@samuelsinternational.ccsend.com] **On Behalf Of** Chris Nelson

Sent: Tuesday, May 10, 2011 6:32 PM

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Subject: 5/10 Boehner's speech; **US-China**; NK food decision?

The Nelson Report

May 10, 2011

**BOEHNER'S SPEECH...cut "trillions", no tax hikes
US-CHINA S&ED Day 2...progress on prior promises
NK FOOD AID DECISION "COMING SOON"
CLINTON ON CHINA'S "FOOL'S ERRAND"...today! (?)**

SUMMARY: Speaker Boehner's big budget speech in Manhattan Monday night is causing bipartisan heartburn, if for different reasons.

First, he once again seems to be laying down a demand which will have to be compromised, which is anathema to T Party and GOP conservatives; and for Republicans to agree to raise the debt ceiling, the White House is going to have to accept if not \$2-trillion (with a "T") in government spending cuts, at least something "real";

Second, he says "everything" including DOD has to be on the table...meaning to reach anything like \$2-trillion, the GOP is going to have to go along with massive defense cuts, since really nothing else can make up the difference in anything resembling politically acceptable terms.

(How that will play into the rising national sense of "get out of Afghanistan now" which Republican hard-liners surely don't want to inadvertently feed? Interesting question.)

Third, Boehner picked-up on recent efforts by Treasury Sec. Geithner to finesse the previously claimed "default deadline" by saying he thinks there's really enough flexibility to push the debate and vote well past the current "deadline" of Aug. 2.

In other words, the Speaker is saying he won't let the Administration try to use Aug. 2 as a wall against which to push the GOP for compromise and concessions...meaning the debate is likely to run through July, thus increasing world financial community heartburn, not to mention the political task facing President Obama & Co.

Today, the White House fired back, accusing Boehner of trying to hold the American economy "hostage" to the budget fight, and argued that Obama has already met Republican demands. Here's Reuter's coverage:

White House spokesman Jay Carney said both Democrats and Republicans agree on the need for deficit reduction. But it would be tantamount to holding

the U.S. economy "hostage" by tying the debate over the debt limit to budget cuts, he said. "To hold one hostage to the other remains extremely unwise," Carney told reporters on Air Force One as Obama flew to Texas.

The White House believes Obama has already offered a balanced plan that would achieve \$4 trillion without cutting entitlement programs for the elderly and poor. Obama believes bipartisan negotiations led by Vice President Joe Biden, which resume on Tuesday, can lead to an agreement on further substantial reduction, a senior White House official said.

"But it is simply irresponsible to declare that you will tank the U.S. economy if you don't get what you want," the official said.

China results today: Treasury and State have just released fact sheets on the now-completed third annual US-China Security & Economic Dialogue and business players profess some sense of real progress, mixed with a large dose of "trust but verify", for obvious reasons of hard experience.

From insider accounts, and reading between the lines, the Administration pushed the Chinese to recognize that failure to follow-through and/or continuing to foot-drag on so many prior commitments by President Hu Jintao and colleagues were problems requiring real movement, not just more promises....especially on government procurement as part of the "indigenous innovation" policy so strongly resisted by US and international business.

We're reprinting the fact sheets from both State and Treasury below.

Meanwhile, Sec. State Clinton has presumably inadvertently raised eyebrows with her very interesting interview in The Atlantic on how she sees the Middle East political and human rights situation, but in passing , volunteers that China's political system is "doomed" and its leaders are "on a fools errand".

Given that the Chinese delegation is still in town preparing for final dinner toasts, to say that private US business and foreign policy observers are stunned by the timing of this would be understatement. But we suspect that since the China remark was almost a throw-away in a piece focused on the Middle East, likely no caution flags were raised over at State. You can read it by downloading author Jeffrey Goldberg, below.

In the wake of Jimmy Carter accusing the US and S. Korea of violating the human rights of N. Koreans by not supplying food aid, this Report questioned the integrity of former Irish president and UN Human Rights chief Mary Robinson for standing silent while Carter seemed to be fronting for Pyongyang.

Turns out she was paying attention all along, and had not, in fact, left either her conscience or her willingness speak at the airport before departure. No room for her statement tonight, hopefully we can run tomorrow, but we wanted to note and apologize for doubting her.

On the food aid question, we understand that the US is "likely days away" from announcing a limited food aid decision, subject to the preconditions on

verification on recipients, et al. N. Korea has accepted these requirements in the past, sources note.

As for S.Korea, sources indicate President Lee is mulling the situation with the pending US announcement in mind. Some private experts advise that if Lee decides to go ahead, it would be best to say so simultaneously with the US, so as to avoid the implication of pressure or a disconnect which Pyongyang might be try to exploit.

There will be another discussion of the pros/cons on food aid tomorrow afternoon (Wed.) at Heritage...see details below

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CORRECTION/CLARIFICTION...in last night's Report we quoted Loyal Reader and fellow McGill comrade Robert Blohm on the increasing socioeconomic difficulties facing China as more and more of its population becomes "urbanized", but inadvertently flipped the "rural to urban" so it read the wrong way. This is your Editor's fault, not Blohm's. In any event...

Robert overnight messages: "my S&ED comment yesterday misspoke China's economic super-growth engine's emptying gas-tank as 'urban-to-rural' migration. Needless to say, it's 'rural-to-urban' migration."

And we heard from another Loyal Reader who wondered if the acceleration might not continue longer than argued: " I'm surprised to see the comment that urbanization has reached 70pct and is now largely done. The new census data shows that 50pct of the population is urban, and I expect another 21m annual increases in the urban pop for at least the next several years".

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FOOD TO NORTH KOREA...

**SHOULD THE U.S. PROVIDE
Food Aid to North Korea?**

Featuring

Dr. Patrick Cronin

Senior Advisor and Senior Director of the Asia-Pacific Security Program, Center for New American Security

Dr. Nicholas Eberstadt

Henry Wendt Scholar in Political Economy, American Enterprise Institute for Public Policy Research

Bruce Klingner

Senior Research Fellow, Northeast Asia, Asian Studies Center, The Heritage Foundation

Hosted by

Walter Lohman

Director, Asian Studies Center, The Heritage Foundation

North Korea has again appealed for food aid to alleviate the suffering of its people. Teams from the World Food Program and non-government organizations have chronicled the country's abysmal nutritional deficits, particularly for children and the elderly. Pyongyang told visiting inspection teams that it is now willing to accept strict monitoring requirements to prevent further diversion of food aid to its military, but doubts remain.

The United States and South Korea are currently considering whether to respond to North Korea's entreaties. Should humanitarian assistance be devoid of policy considerations or do Pyongyang's violations of UN resolutions preclude it from receiving aid from UN agencies such as the World Food Program? To what degree should Washington's decision be linked to that of key ally South Korea which suffered two deadly North Korean attacks last year? Should assistance instead be provided to nations that have suffered more recent natural catastrophes?

Join us as our panel of experts discusses the parameters under which Washington and Seoul should provide extensive food aid to North Korea.

Wednesday, May 11, 2011 - 2:00 to 3:30 p.m.

THE HERITAGE FOUNDATION'S LEHRMAN AUDITORIUM

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S&ED RESULTS...kudos to the US China Business Council for actually waiting to see the results before issuing its reaction statement, below. And note its careful but frank wording on the difference between promises and results, especially on government procurement, apparent openings on letting US firms sell auto insurance in the PRC, and, of course, IPR.

WASHINGTON, DC, May 10, 2011 - The US-China Business Council (USCBC) welcomes the commercial-related outcomes of this latest round of the US-China Strategic & Economic Dialogue (S&ED) and urges continued government-to-government dialogue to make further progress on key issues in the relationship. "The US-China commercial relationship has gotten much bigger and much more important for both sides," said USCBC President John Frisbie. "We need more engagement with China on the issues important to us, not less engagement, and today's S&ED outcomes show why."

Several priority issues on USCBC's advocacy agenda were addressed at the S&ED.

"Outlining specific steps to remove market barriers in China's government procurement policies is one example of an outcome that is important for American companies. Eliminating the use of government-approved product lists for procurement at all levels of government will be significant, if fully implemented. We hope this can be acted on soon.

"Securing greater access for American financial institutions to market and sell auto insurance and mutual funds also matters. We note that many ownership restrictions remain in place for foreign financial service providers, and hope those can be relaxed as part of China's drive to increase the services sector share of its economy," said Frisbie.

In regards to the need to better protect intellectual property, China agreed to a "strengthened" inspection scheme to make sure government agencies are using proper and non-pirated software. "Software piracy has been a serious concern for many American businesses, especially for the innovative US software manufacturers that are members of USCBC. We need to make sure the inspections are done credibly and transparently - if so, greater sales should result," said Frisbie.

"I am also pleased that discussions on fundamental competition issues took place between the governments. Getting China to follow international rules when providing financial support for their exports, and looking at the important question of eliminating unfair advantages enjoyed by state-owned companies, both will help ensure that US companies compete on a level playing field with Chinese companies here, in China, and around the world.

"Not every problem got resolved, but once again, steady and focused engagement with China proves to show results," concluded Frisbie. "USCBC supports the Obama administration's well-coordinated approach to building a more constructive and sustainable relationship with our most important trading partner."

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Reuters picked-up on the caution being expressed, and got the USCBC's Errin Ennis, among others, to enlarge on them...we'd add that whether the implied uncertainty of the Chinese official quoted was intentional just underscores the practical situation:

...In a policy speech on May 4, U.S. Commerce Secretary Gary Locke cited as a key China market challenge "indigenous innovation policies that shut foreign companies entirely out of industries or make unacceptable technology transfer provisions a condition of operating in China."

A senior Chinese official said on Tuesday a pledge made by China earlier this year to separate government procurement from the country's so-called indigenous innovation policy applies to local governments as well as the central government. "I think this commitment applies not only to the central government but also will apply to local governments," Zhang Xiaoqing, the director of China's Reform and Development Commission, told a news conference.

Zhang's remarks hours before the end of the annual U.S.-China Strategic and Economic

Dialogue in Washington appeared to amplify on a key promise that Chinese President Hu Jintao made during a January visit to Washington. Foreign companies have worried that China's use of government procurement preferences to encourage indigenous innovation would force them to transfer technology in order to compete in the country's vast public works market.

U.S. business groups welcomed Zhang's clarification but said they wanted to see it enshrined in agreements to be unveiled by the two countries later on Tuesday. "A public acknowledgment that this applies to local governments is great. What really is going to be telling is if this shows up in whatever the final documents that the U.S. and the Chinese put out," said Erin Ennis, vice president at the U.S.-China Business Council.

Ennis said products on the central government's procurement catalog that had faced indigenous innovation restrictions included computer devices, phones and other communication products, copiers, fax machines, laser printers, digital cameras, software, and clean energy equipment.

Hu told U.S. officials in January that China would not discriminate against products made with foreign technology when awarding government procurement contracts.

U.S. officials and business leaders said Hu's pledge nonetheless required vigilance to ensure China actually keeps its promise not to use government purchasing at the central, provincial and municipal level to favor Chinese companies that use home-grown technologies at the expense of U.S. and other foreign firms.

A second U.S. business official said firms still faced "some level of discrimination at the central and provincial levels... What is China doing given that this was a commitment by President Hu? It's just not clear. I think people are looking for that clarity," said the official.

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TREASURY ON THE ECONOMIC/FINANCIAL ISSUES:

The 2011 U.S.-China Strategic and Economic Dialogue U.S. Fact Sheet - Economic Track

The United States and China are the two largest economies in the world. The growth of our economies is important to both countries and the global economy. During the third meeting of the Economic Track of the U.S.-China Strategic and Economic Dialogue (S&ED), the United States and China made progress on priority issues that will result in meaningful economic gains for U.S. households, workers, and businesses. China pledged to take actions that will provide greater market access and contribute to a more level playing field for U.S. firms and workers, ensure greater protection and enforcement of intellectual property rights, deepen financial sector reforms, and promote greater Chinese domestic consumption and imports through policy shifts, including greater exchange rate flexibility.

The S&ED brings together senior leaders of the U.S. and Chinese governments to discuss the most critical issues faced by our two countries, now and in the years to come. Secretary Geithner, joined by leaders from 15 U.S. government agencies, led a discussion of these issues with the Chinese delegation led by Vice Premier Wang and comprised of all key Chinese economic ministry and agency heads. Through the S&ED, the Joint Commission on Commerce and Trade (JCCT), and other fora, the Obama Administration is working diligently to ensure U.S. companies and workers are treated fairly and can benefit from lasting changes to economic and financial policies in China.

Increasing Opportunities for U.S. Workers and Firms: Last year, U.S. exports grew 50 percent faster to China than to the rest of the world and reached more than \$110 billion, supporting hundreds of thousands of jobs across the United States in a wide range of industries. To promote greater U.S. exports to the large and rapidly growing Chinese market and to level the playing field for U.S. companies and workers, the United States secured the following commitments at the 2011 S&ED. These measures will lead to more American jobs and boost U.S. exports to China and the world by contributing to a more level playing field and expanding trade and investment opportunities for U.S. workers and firms.

Improving Protection and Enforcement of Intellectual Property Rights

- China pledged to improve its high-level, long-term intellectual property rights (IPR) protection and enforcement mechanism, building on the current Special Campaign Against IPR Infringement and Fake and Shoddy Products.
- China pledged to strengthen its government inspection mechanism to make sure that the software being used by government agencies at all levels is legitimate and to strengthen cooperation on software legalization in the JCCT.

Implementing Commitments to Level the Playing Field

- China pledged to eliminate all of its government procurement indigenous innovation products catalogues and revise Article 9 of the draft Government Procurement Law Implementing Regulations as part of its implementation of President Hu's January 2011 commitment not to link Chinese innovation policies to government procurement preferences.

Competitive Neutrality for Private Firms and State-owned Enterprises

- China and the United States discussed the principle of equivalent treatment for state-owned, controlled, or invested enterprises (SOEs), private enterprises, and foreign enterprises with respect to access to credit, tax treatment, regulatory applicability, and access to factors of production. The two countries also discussed

the desirability of ensuring that SOEs seek a commercial rate of return and steadily increase their dividend payout.

Ensuring a Level Playing Field for Export Financing

- Both countries recognized the importance of transparency and fairness in providing export credits and agreed to discuss export financing arrangements.

Ensuring Transparency for U.S. Companies

- China pledged to issue a measure this year requiring that all proposed trade- and economic-related administrative regulations and departmental rules be published on the State Council Legislative Affairs Office website for a public comment period of not less than 30 days from the date of publication, subject to limited exceptions.

Expanding Opportunities for U.S. and Foreign Firms through a More Developed, Open, and Market-based Financial Sector: China has committed to continue and extend financial sector reforms as part of its new Five-Year Plan for the economy, actions that will be of great benefit to both China and the United States. U.S. financial services firms are innovative and competitive. Given the many obstacles that U.S. financial services firms face competing in China, China's commitment to further develop its financial services market based on the principles of national treatment and non-discrimination will provide new and significant opportunities to U.S. firms. More market-based and efficient allocation of credit and capital in China will also help level the playing field with China's SOEs, put more money in the pockets of China's consumers, and create opportunities for private enterprises - including American firms - across a broad range of service sectors.

- China committed to deepen the reform of its financial system, including opening new opportunities for U.S. and other foreign financial services firms, to provide more efficient service, control risks, and encourage financial innovation.
- China committed to allow U.S. and other foreign banks incorporated in China to sell mutual funds, obtain licenses to act as mutual fund custodians, and act as Margin Depository Banks in Qualified Foreign Institutional Investor (QFII) futures transactions. Chinese authorities also confirmed that there are no barriers to foreign banks to sell other types of wealth management products to customers or to engage in custodian business with insurance companies.
- China pledged to advance toward allowing U.S. and other foreign insurance companies to sell mandatory third-party liability auto insurance in what is now the world's largest market for automobiles.
- China is now moving to allow foreign banks to underwrite corporate bonds in

the interbank bond market. In April, China's corporate bond market oversight body released criteria for underwriters and opened up a one-week period for new applicants, during which time many U.S. and other foreign institutions applied.

- China continues to make measured progress in increasing total quotas under the QFII program (which allows foreigners to invest in Chinese stocks and bonds). China's total QFII quota has increased nearly 25 percent in the past year, to \$21 billion.
- China committed to move toward market-determined interest rates to better price risk and more efficiently allocate capital in its economy.

Safeguarding the Financial System from Illicit Finance Threats

- China pledged to strengthen its financial system against money laundering, counterfeiting, terrorism financing, and WMD proliferation. China also will continue to develop and strengthen its regulatory framework for freezing terrorist assets.

Promoting Strong, Sustainable, and Balanced Growth: For many years, China's economic strategy was dependent on rapid export growth. Today, China is committed to transforming its economy into one where growth is generated by home-grown demand and Chinese household consumption. China has also committed in the G-20 to reducing trade and current account imbalances. A consumption-driven Chinese economy will create more opportunities for U.S. firms to export to China, and is a critical part of ensuring strong, sustainable, and balanced global growth.

Increasing the Buying Power of Chinese Households and Promoting Consumption

Energizing home-grown demand will help China sustain vibrant growth into the future. It will also provide a more rapidly growing Chinese market, increasing the opportunities available to U.S. firms and workers from our economic relationship with China.

- China committed to take steps to increase domestic consumption, including raising household incomes at a pace faster than GDP growth, and ensuring that workers' pay keeps up with increases in productivity.

Increasing Opportunities for U.S. Firms in China's Services Sector

U.S. firms are world leaders in a variety of service sectors. Expanding and opening China's services sector will create opportunities for them. Shifting toward services will also reduce the energy-intensity of China's growth - an objective that the United States and the rest of the world share with China.

- China pledged to raise the share of the services sector in China's economy by four percentage points over the next five years.
- China committed to further open the service sector to U.S. and other foreign involvement, and to encourage capital investment in services by both public and private firms.

Continued Exchange Rate Adjustment

Despite recent movement of the exchange rate, the renminbi remains substantially undervalued. China needs to let its exchange rate adjust at a faster pace to correct that undervaluation. More rapid exchange rate adjustment will help bring down inflation in China.

- A year ago, China's exchange rate was frozen. Today, it is moving. Since last June, the renminbi has appreciated against the dollar by more than five percent and at an annual rate of about ten percent when China's higher inflation is taken into account. China's leaders increasingly acknowledge the importance of currency appreciation as a tool to fight inflation and have committed to promote greater exchange rate flexibility.
- China has recently begun to take steps to make the renminbi an internationally traded currency. And China is committed to the goal of further internationalizing the renminbi. This is a significant policy choice, one which will require more open capital flows into and out of China, and more market-based interest and exchange rates.

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STATE DEPARTMENT'S FACT SHEET ON THE "STRATEGIC TRACK":

U.S.-China Strategic and Economic Dialogue 2011
Outcomes of the Strategic Track
May 10, 2011

At the Strategic Track under the framework of the Third Round of the U.S.-China Strategic and Economic Dialogue (S&ED) held on May 9-10, 2011, the two sides discussed major bilateral, regional and global issues. The two sides commented positively on the progress in U.S.-China relations since President Hu Jintao's state visit to the United States in January 2011, reaffirmed their commitment to the January 19, 2011 U.S.-China Joint Statement, and in accordance with the Joint Statement, committed to nurture and deepen bilateral strategic trust and work together to build a cooperative partnership based on mutual respect and mutual benefit. The discussions produced 48 specific outcomes. The United States and China:

I. Promoting High-level Exchanges

1. Decided to work together to make thorough preparations for bilateral high-level exchanges in coming months. Both Presidents look forward to meeting again this year. The two sides decided that upcoming meetings such as the G20 Summit, the East Asia Summit, and the U.S. - hosted APEC Leaders' meeting provide further opportunities for high-level engagement. China welcomed Vice President Biden's upcoming visit to China. The United States welcomed a subsequent visit by Vice President Xi Jinping.

II. Bilateral Dialogues and Consultations

2. Announced the establishment of the U.S.-China Strategic Security Dialogue (SSD) under the Strategic Track of the S&ED, and held the inaugural round of the SSD in a candid and constructive atmosphere during the 3rd round of the S&ED. U.S. side participants in the SSD included Deputy Secretary of State James Steinberg, Under Secretary of Defense Michèle Flournoy, Vice Chairman of the Joint Chiefs of Staff General James Cartwright, Assistant Secretary of State Kurt Campbell, and Commander, U.S. Pacific Command Admiral Robert Willard; on the Chinese side, participants included Vice Foreign Minister Zhang Zhijun and PLA Deputy Chief of the General Staff General Ma Xiaotian.

3. Acknowledged that the two sides share a wide range of common interests with a shared goal of maintaining peace, stability, and prosperity in the Asia-Pacific region, and decided to establish a U.S.-China consultation on the Asia-Pacific. The two sides intend to hold the first round at the earliest time this year.

4. Recognized the importance of ties between the peoples of the United States and China and the role they play in strengthening the overall bilateral relationship and applauded the outcomes of the U.S.-China High-Level Consultation on People-to-People Exchange led by Secretary Clinton and State Councilor Liu Yandong, such as the "100,000 Strong" Initiative and the U.S.-China Women's Leadership Exchange and Dialogue (Women-LEAD).

5. Noted the conclusion of the recent bilateral Human Rights Dialogue in China, reaffirmed their commitment to continuing constructive bilateral dialogue on human rights on the basis of equality and mutual respect, and announced their intention to hold the next round of the Human Rights Dialogue next year in Washington, D.C.

6. Decided to hold the next round of the Legal Experts Dialogue in Washington D.C. in June 2011.

7. Before the next round of the S&ED, decided to hold a new round of sub-dialogues on: policy planning, Africa, Latin America, South Asia and Central Asia, and to enhance bilateral coordination and cooperation on regional and international issues.

8. Decided to hold the 8th U.S.-China Counterterrorism consultation this year.

9. Decided to hold the next rounds of the Security Dialogue and the Nonproliferation Dialogue prior to the next S&ED. The two sides reaffirmed their intention to continue communication and cooperation on major international security and other non-proliferation issues.

10. Held a fruitful meeting of the Climate Change Policy Dialogue and decided to work constructively together to ensure the comprehensive, effective and sustained implementation of the U.N. Framework Convention on Climate Change, including through implementation of the agreements reached in Cancun, and to achieve a positive outcome at the UN Climate Change Conference in Durban, South Africa. Decided to further strengthen the mechanisms for climate change policy dialogues and related cooperation, strengthen communications at various levels, and exchange views on issues under international climate negotiations and on domestic policies to address climate change.

11. Held the 7th meeting of the Ten Year Framework (TYF) Joint Working Group on April 19-20. The United States and China decided to promote implementation of the TYF and adapt it to new circumstances, in order for it to better function as an incubator of ideas and innovations that will enhance environmental and energy cooperation between the United States and China. Under the TYF, both sides discussed green development and are continuing the work of the task forces on clean water, clean air, clean and efficient electricity, clean and efficient transportation, nature reserves and wetland protection, and energy efficiency.

12. Held the 2nd U.S.-China Energy Efficiency Forum prior to the 3rd round of the S&ED. Announced that the Energy Policy Dialogue, the Oil and Gas Industry Forum, the Renewable Energy Industry Forum, and the Advanced Bio-fuels Forum would be held on mutually agreed-upon dates.

13. Held consultations and discussed a possible joint action plan to implement the recently signed protocol agreement for cooperation in energy sciences between the U.S. Department of Energy and the Chinese Academy of Sciences. The protocol establishes a framework for promoting scientific and technical cooperation between the U.S. and China in high energy physics, nuclear energy sciences (including fission and fusion related sciences), basic energy sciences, biological science, and

environmental science research and development.

14. Decided to hold the 2nd round of U.S.-China discussions on law of the sea and polar issues in Washington, D.C. in late May 2011.

15. Decided to hold the 4th U.S.-China Bilateral Forum on Combating Illegal Logging and Associated Trade this year. The two sides are to continue bilateral dialogue and exchanges on concrete activities to further the objectives of the associated Memorandum of Understanding.

16. Announced their intention to hold the 14th meeting of the U.S.-China Joint Commission meeting on Science and Technology Cooperation in Beijing in the first half of October 2011. A delegation of senior officials from relevant departments intends to participate in the meeting.

17. Decided to hold the 9th session of the Joint Working Group of U.S.-China Agricultural Science and Technology Cooperation in New Mexico in October 2011.

III. Addressing Regional and Global Challenges

18. Decided to enhance communication and coordination on regional and global issues to jointly address common challenges and to safeguard peace and stability. With regard to the Korean Peninsula, the two sides reiterated their understanding as expressed in the 2011 U.S.-China Joint Statement. They acknowledged their shared interests in political stability and economic revitalization in Afghanistan and decided to step up coordination of efforts to advance these shared interests. They reiterated their understanding on the Iranian nuclear issue as expressed in the 2011 U.S.-China Joint Statement.

19. Decided to take steps to encourage North and South Sudan to continue to push forward the peace process, solve relevant disputes through negotiation, and to fully implement the Comprehensive Peace Agreement to ensure a peaceful transition that results in both North Sudan and South Sudan living alongside each other in peace. Also pledged to enhance communication and coordination on Sudan, for example with regard to the economic development of South Sudan, and decided that relevant parties should work constructively to improve security and humanitarian conditions in Darfur, and towards a political solution for Darfur.

IV. Enhancing U.S.-China Bilateral Cooperation

20. Decided to further deepen ongoing cooperation to combat corruption, including bribery of public officials, through bilateral and multilateral fora, including the U.S.-China Joint Liaison Group on Law Enforcement Cooperation (JLG), the APEC

Anticorruption and Transparency Experts Working Group, the G20 Anticorruption Working Group, the United Nations Anticorruption Convention as well as other multilateral frameworks. China expressed support for the APEC Anticorruption Task Force meetings to be hosted by the United States during its chairmanship of APEC 2011.

21. Welcomed progress by the JLG to strengthen law enforcement cooperation, and redoubled their efforts to expeditiously handle outstanding cases, including in such areas as bringing criminals to justice and retrieving illicit funds, combating illegal migration, and on countering drug-related crimes and infringement of intellectual properties.

22. Decided to further strengthen the JLG mechanism and promote cooperation thereof and announced that the secretariats of JLG entered into operation, and announced their intention to hold the 9th session of JLG and working group meetings.

23. Continue to seek opportunities for bilateral cooperation in the areas of maritime safety, security, and stewardship. At the invitation of the Chinese side, the U.S. Coast Guard intends to attend the World Maritime Rescue Congress to be held in China August 24-28, 2011.

24. Continue to periodically exchange visits of maritime officials and welcome visits of each other's maritime law enforcement vessels. The U.S. Coast Guard's Pacific Area Commander, Vice Admiral Manson Brown, intends to visit China May 29 to June 4 and meet with representatives of several Chinese agencies supporting maritime governance.

25. Through the U.S. Department of Energy and the General Administration of China Customs, are cooperating on combating illegal trafficking of nuclear and other radioactive materials, with particular efforts being made by the signing of the Memorandum of Understanding for Cooperation in Jointly Establishing the Radiation Detection Training Center of China Customs during President Hu Jintao's state visit in January. Both sides are committed to promoting the construction of the U.S.-China Customs training center for radiation detection.

26. Noted favorably the positive progress made by U.S. and Chinese customs administrations in cooperating to maintain supply-chain security and facilitate trade, countering related crimes and ensuring favorable bilateral trade. Both sides welcomed further cooperation through existing supply-chain security and facilitation programs, and are committed to strengthening cooperation on customs law enforcement.

27. Announced a U.S. Trade and Development Agency (USTDA) grant to support environmental disaster response, as well as a continuation of support by USTDA, Ministry of Commerce, and relevant departments to further cooperation between

U.S. and Chinese enterprises and institutions on healthcare, disaster response, and smart grids.

28. Welcomed discussion with one another on potential collaboration on global efforts related to the large-scale dissemination of clean cookstoves and fuels.

29. Welcomed the progress made in furthering the Memorandum of Understanding Concerning the Establishment of the U.S.-China Governors Forum to Promote Sub-National Cooperation. In order to strengthen and deepen subnational exchange and cooperation, both sides support the National Governors Association and the Chinese People's Association for Friendship with Foreign Countries for the launch of the U.S.-China Governors Forum in Salt Lake City, Utah in July 2011 and for the second session of the Governors Forum to take place in China in late 2011 or in 2012.

30. Are further supporting the newly formed National China Garden Foundation's fundraising efforts for the China Garden project. By May 2011, China is to designate a U.S. licensed contractor to work with U.S. Department of Agriculture and the U.S.-based construction team in developing a final code compliant design in order to begin site preparation for the China Garden.

V. Cooperation on Climate Change, Energy and Environment

31. Reiterated their intention to continue cooperation between the Environmental Protection Agency and the National Development and Reform Commission and to enhance capacity building in greenhouse gas inventory in accordance with the Memorandum of Cooperation to Build Capacity to Address Climate Change.

32. Welcomed the progress made in implementing the U.S.-China Memorandum of Understanding to Enhance Cooperation on Climate Change, Energy and Environment.

33. Are further promoting U.S.-China cooperation on electric power, especially on issues such as power management system and power projects decision-making, with support from the U.S.-China Energy Cooperation Program. Both sides look forward to the results of two ongoing studies funded by the U.S. Trade and Development Agency with the State Grid Corporation of China on smart grid technologies.

34. Decided to share information about regulatory experiences and practices of the Federal Energy Regulatory Commission and the National Energy Administration

related to energy issues in both the United States and China.

35. Decided to enhance cooperation and analysis of the planning and deployment of large-scale wind projects research, and connecting wind projects to the electric transmission grid.

36. Welcomed the positive progress made in implementing the Memorandum of Cooperation between the State Department and the National Energy Administration on Shale Gas Resources and decided to continue in-depth discussions on cooperation.

37. Welcomed the progress made in implementing the U.S.-China Memorandum of Understanding on the Use of Aviation Biofuels in China under the U.S.-China Energy Cooperation Program. The two sides decided to continue exploring possibilities for cooperation, subject to availability of funding. Priority consideration will be given to the active promotion of research and cooperative projects of non-grain raw material systems for second generation biofuels.

38. Decided to jointly hold a launching ceremony at an appropriate time for the project of strategic research, validation and utilization of Chinese sustainable aviation biofuels.

39. Strengthened joint research between the National Oceanic and Atmospheric Administration (NOAA) and China Meteorological Administration (CMA) within the framework of the U.S.-China Science and Technology Agreement to develop accurate and reliable capabilities for observing and understanding the behavior of greenhouse gases in the atmosphere.

40. Pledged to collaborate in assisting regional fisheries management organizations and other international organizations, in which the United States and China are both parties, to meet their mandates to reduce illegal, unreported, and unregulated (IUU) fishing and opportunities for IUU fish and fish products to enter global markets. Both sides pledged to conserve and manage marine living resources, to collect data specific to species of particular concern, and to ensure their sustainable management and conservation to prevent illegal or unintended take of sea turtles and other protected marine species in accordance with treaty obligations, national laws, and regulations.

41. Decided on the basis of agreements reached at the 18th NOAA-State Oceanic Administration (SOA) Joint Working Group Meeting on the Cooperation on Marine

and Fishery Science and Technology, to formulate the U.S.-China 2011-2015 Framework Plan for Ocean and Fishery Cooperation to guide the further cooperation between NOAA and SOA, and to further develop a U.S.-China large-scale multidisciplinary joint program for the Indian and Southern Oceans in the near future.

42. Reaffirmed commitment to ensure energy security based on the principle of mutually beneficial cooperation, diversified development and coordination as decided at the S&ED in May 2010 and as stated in the U.S.-China Joint Statement on Energy Security Cooperation. Both countries reiterated their shared goal of stabilizing international energy markets, ensuring diversified energy supply, and promoting rational and efficient use of energy. Both countries share a common understanding that using market mechanisms to meet future energy needs is still the primary and best choice for the United States and China.

43. Expressed their support for the Solar Decathlon organized by Peking University.

VI. Documents to be Signed and/or Renewed

44. Renewed the Memorandum of Understanding on Health and Medical Sciences Cooperation between the Department of Health and Human Services and the Ministry of Science and Technology.

45. Signed the Action Plan to Implement the Memorandum of Understanding Concerning Cooperation on Supply Chain Security and Trade Facilitation between U.S. Customs and Border Protection and the General Administration of Customs.

46. Signed six new EcoPartnerships under the Ten Year Framework and the Memorandum of Understanding between the Department of State and the National Development and Reform Commission on Implementation of the Framework for EcoPartnerships.

47. Signed the Memorandum of Understanding Regarding Cooperation in Law Enforcement Matters between U.S. Customs and Border Protection and the International Cooperation Department of the Chinese Ministry of Public Security.

VII. Breakout Sessions and Other Meetings

48. Held breakout sessions on UN peacekeeping, Sudan, law enforcement cooperation, climate change, de-mining and conventional weapons destruction, as well as electronics stewardship, and conducted a series of bilateral meetings between senior officials on a broad range of issues covering the entire strategic track of the U.S.-China relationship.

CLINTON'S ATLANTIC MAGAZINE INTERVIEW...here's the introduction by author Jeffrey Goldberg:

In my latest Atlantic cover story, which is out now, I interview Secretary of State Hillary Rodham Clinton about America's response to the Arab Spring. When we met last month, in her State Department office, she was, as usual, fluent, comprehensive, and in total control of the details. She was also insistent that the Administration's approach to the Middle East betrayed no inconsistencies or hypocrisies (there is much on this subject below, in a transcript of the interview). We didn't spend a great deal of time on the Middle East peace process (though my belief, [expressed repeatedly](#), is that she is the best-qualified person in America to bring the Israelis and Arabs to a negotiated settlement); instead, we discussed the rise of the Muslim Brotherhood, and what it might mean for women, and we also spent some time on the debate between foreign policy realism and idealism.

It was during this part of the conversation, when the subject of China, and its frightened reaction to the Arab Spring, came up, that she took an almost-Reaganesque turn, calling into question not just Beijing's dismal human rights record, but the future of the Chinese regime itself. The Obama Administration has been ratcheting-up the rhetoric on China's human rights record lately, especially since the arrest of the dissident Ai Weiwei, but Secretary Clinton, in our interview, went much further, questioning the long-term viability of the one-party system. After she referred to China's human rights record as "deplorable" (itself a ratcheting-up of the rhetoric), I noted that the Chinese government seemed scared of the Arab rising. To which she responded: "Well, they are. They're worried, and they are trying to stop history, which is a fool's errand. They cannot do it. But they're going to hold it off as long as possible."

Clinton's assertion that the repressive Chinese system will eventually collapse brought to mind nothing so much as Reagan's statement, made to Richard V. Allen in 1977, about America's goal in the Cold War: "My idea of American policy toward the Soviet Union is simple, and some would say simplistic," Reagan said. "It is this: We win and they lose."

I traveled with Clinton on her most recent trip to Egypt and Tunisia, in March, and she stated on many occasions during that trip that she was moved by the peaceful rising of pro-democracy protesters. Her comments on China to me suggested strongly that she sees the Arab Spring as the harbinger of a worldwide move toward democracy.

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THAT'S IT FOR TONIGHT!



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From: Chris Nelson [<mailto:cdnelson@samuelsinternational.ccsend.com>] **On Behalf Of** Chris Nelson

Sent: Monday, May 09, 2011 6:42 PM

To: rb112@columbia.edu

Subject: **5/9 S&ED** Day One; S.KOREA Offer

The banner features a yellow background on the left with the text "The Nelson Report" in a blue serif font. To the right is a white box containing the logo for "SAMUELS INTERNATIONAL ASSOCIATES, INC." in a blue serif font. Below the yellow section is a blue horizontal bar with the date "May 9, 2011" in white text.

**US-CHINA S&ED UNDERWAY...Biden hits human rights
Clinton pushes both human rights & N.Korea
ROK'S LEE OFFERS NK DE-NUKE 20012 SUMMIT INVITE**

SUMMARY: while the Administration goal of managing US-China relations generally translates into keeping high level meetings calm (per the thrust of former NSC Asia chief Jeff Bader, below), we've been reporting on the gradual "escalation" of specific economic and financial concerns in the past two weeks' of speeches from USTR, Commerce and Treasury...backed up by the very strong presentations last week from US business interests.

Today, Vice President Biden's opening remarks (see in full below) were notable for his major attention, at the conclusion, to the deteriorating human rights situation...comments which were reinforced by Sec. St. Clinton in her role as co-host of this year's S&ED.

China's Commerce Minister Chen Deming pushed back on other matters, mainly at Treasury Sec. Geithner and the long-standing US position on the

undervalued RMB. This is just the first of two days, so we'll hold off on analysis until tomorrow's session gives us a clearer picture of the real discussions, and the results, if any.

Tonight we want to note the anticipatory commentary of AmCham China, via president Ted Dean's working notes from last week, some skeptical commentary from Heritage's Derek Scissors, and Loyal Reader Robert Blohm in Beijing, followed by Bader's current Brookings brief, and finally the Biden remarks in full.

There was "news" today in the N.Korea policy front, as ROK President Lee took advantage of the spotlight on his visit to Germany and meeting with Chancellor Merkel to invite DPRK leader Kim Jong-il to next year's nuclear summit in Seoul...that's if Kim will commit in advance to be willing to give up his nuclear weapons and programs.

A non-starter, or just posturing, you might think? Hardly a unique situation for the Peninsula, alas, but we'd suggest that Lee's announcement today could represent proof of what some commentators have been privately reporting in recent weeks...that Lee has been trying to find a politically acceptable way to re-open diplomatic contact with the North, despite its refusal, to date, to admit responsibility for last March's sinking of the Cheonan, and last Fall's island shelling.

Recent "Track 2" meetings between senior retired US "Korean hands" and DPRK representatives...also in Germany...saw the US delegations emerging with a sense that the DPRK was looking for a way to somehow placate the legitimate ROK concern and anger over the military incidents, but without the international embarrassment of confessing "responsibility".

Is Lee's invitation today his way of signaling Kim Jong-il that other issues of major substance might profitably be pursued via the international arena? Let us know what you think, please.

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SOUTH KOREA/NUKES...as just noted, President Lee Myung-bak is in Germany today, nailing down the coming EC/ROK FTA, but made "news" by inviting North Korea's Kim Jong-il to Seoul for next year's International Nuclear Summit with President Obama and other world leaders if Pyongyang makes a firm, advance commitment to give up its nuclear weapons programs.

Lee seems not to have said anything about his "condition" of many months that without improved North/South relations generally, and without some kind of specific acknowledgement of the Cheonan sinking and island shelling by Pyongyang, that issues ranging from food aid to the 6 Party nuclear talks would remain off the table.

Instead, he described his offer of an invitation to the previously planned summit as "a very good opportunity for North Korea." Speaking through an interpreter, Lee added that Pyongyang "should certainly say beforehand that North Korea will give up nuclear weapons...If that is fulfilled, I am fully prepared to invite Kim Jong Il to the nuclear security summit that will take

place on March 26."

Lee spoke after meeting with Chancellor Angela Merkel in Berlin. Lee will host the nuclear summit in March as a follow-up to a gathering hosted by Obama last year in Washington, which sought to win international commitments to secure nuclear material.

Everyone even vaguely associated with Asia policy here in DC is fixated on the US-China S&ED meetings, so getting a useful response or comment has, so far, proved frustrating. This means you, we say to certain Loyal Readers. Email works both ways, please.

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CHINA AMCHAM BASIC CONCERNS...AmCham President Ted Dean has kindly provided the outline for his introductory remarks at the Tuesday conference at the Chamber...note the poll results on what US business IN China worries/wants:

Today in some broader context...

- Companies are doing well
 - o 85% of members reported that revenues increased
 - o About 80% of companies are profitable
- But companies are worried about the trend line of regulatory policy and the risk of a narrowing of market access in certain sectors
 - o Bureaucracy listed as number 1 challenge
 - o Concerns about transparency increased
 - o Licensing for foreign companies remains a serious challenge with 70% of members reporting problems
 - o A quarter of companies reported losing business because of Indigenous Innovation
 - o 70% of members report IPR protection is ineffective AND IPR is becoming a broader issue related to industrial policy

The thread which ties many of these regulatory challenges together is that they are creating a space for China to build the domestic champions we are talking about today.

As our members sense a potential narrowing of the opportunity, our concern is that market access barriers today are not a transitional policy to allow economic reform time to continue at a measured pace.

Instead, these market access barriers and other policies are becoming a more durable part of an economic plan designed to create companies that can compete globally.

Now with few exceptions, there is little evidence that state-owned and affiliated companies that benefit from these policies would be able to succeed if they operated in truly competitive markets at home and abroad. In fact, recent research from a Chinese think tank suggests that without these

subsidies, state owned firms would be earning a negative return on equity.

But even if these policies are not successful in the long term, they can have a significant impact on American firms in two ways.

First, American companies have invested in China and built largely successful businesses with an expectation that economic reform will continue and that the scope of market access will expand. If access in fact narrows, the returns on these investments will decline and more significantly companies aiming to be global players are at risk if they are denied entry into the world's second largest economy.

Second, as long as China's state-backed firms continue to operate in monopoly or protected markets in China, as long as they benefit from subsidies and policy support at home, and as long as they have access to cheap credit as they expand overseas, they will win business outside of China that they never could have won on a fair playing field. This is business lost by our member companies.

Over the longer term, some of these Chinese companies may well invest the returns earned in protected markets and benefit from the scale they build with policy support to become globally competitive firms which we will contend with long into the future.

Now these challenges will not be easy to overcome. A policy tool kit developed for disputes between nations that share a relatively common view of the role of the state in the economy does not readily provide the instruments we need for this challenge.

But we do know some things which will not succeed.

- Protectionism in the US will not open markets in China.**
- An appreciation of the RMB will not change China's industrial policy.**
- And politicizing Chinese investment in the US does not improve the operating environment for our members in China.**

We also know that for our companies, ignoring China, given the scale of the market and its growth, is not an option. And that as long as we operate there, we will need to engage as companies. As a country, we will need to continue to work these issues in the JCCT and SED and to build leverage through a robust trade agenda in the region including the Korean FTA and the Trans Pacific Partnership.

But we also obviously need a more concrete and directed policy response. Unfortunately, we did not come from China with a readymade solution. But from years of experience operating in China, our delegation comes with a keen awareness of the challenges on the ground in China and a strong desire to contribute to the dialogue on a solution. We hope today's event provides a useful platform for that discussion. We look forward to a lively conversation today.

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HERITAGE'S DEREK SCISSORS LOOKS AT THE S&ED from his experience as a business guy in Hong Kong... he shares a common perception in DC that the S&ED should produce at least some concrete results, and not just deeper high-level relationships, and relation-management tone-setting.

We note that, as the final commentary tonight comes from Jeff Bader, until a month ago the Senior Director for Asia at the NSC and the principal staffer on China for the President for the past two years. Jeff, as you will see, argues against a "deliverables" expectation and very much wants us to focus on the big picture, longer-range goals:

DON'T EXPECT MUCH FROM THE LATEST GRAND MEETING WITH CHINA

Derek Scissors, Heritage Foundation, WASHINGTON, May 6, 2011

The United States and the People's Republic of China will hold the 2011 version of the Strategic and Economic Dialogue (S&ED) this coming Monday and Tuesday in Washington. Many distinguished people will participate, many well-crafted speeches will be given, many valuable topics will be discussed, and little of long-term economic value is likely to be achieved. Again.

This is especially unfortunate because next year could be very difficult for Sino-American relations.

By far the most important economic issue for America and China is the related imbalances in our economies. The U.S. recognized this several years ago and has repeatedly raised the matter. Result: Both economies are now **more imbalanced** than when the Dialogue began.

The main reason is simple: Neither country wants to bear the pain of rebalancing. Instead, they take to telling the other side why it should rebalance. And break the currency peg. And sell advanced technology. And so on. Explaining to the other side what's in its best interest never works, but it's a lot easier than facing up to your own problems.

The alternative approach is to tackle smaller, more manageable bilateral economic disagreements, and the U.S. seems to be moving in this direction. This is reasonable, but then it is not clear what purpose the S&ED serves.

The U.S. established the Joint Commission on Commerce and Trade with China in 1983 to talk about exactly such matters. Financial and other senior officials now travel back and forth at will for further discussions, as they should.

The bilateral relationship definitely needs cabinet-level exchanges and technical economic discussions, but 28 years of work along these lines certainly haven't produced the breakthroughs some anticipated from the S&ED. What can the S&ED itself accomplish?

America and China would do well to make substantial progress on one major economic issue, such as mutual investment access (rather than pretending to deal with 40 more). Unless the S&ED can produce a concrete improvement on a fundamental economic issue, it will continue to serve no substantive purpose.

This has become a potentially dangerous failing. The 2012 U.S. presidential election is

mirrored in the PRC by rotation of the top leadership of the Chinese government. Next year, politics could push both sides toward greater confrontation. Now is the time for significant progress, but the record to this point is not encouraging.

[Derek Scissors, Ph.D.](#), is Research Fellow in Asia Economic Policy in the Asian Studies Center at The Heritage Foundation.

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PRIVATE COMMENT...Loyal Reader and occasional commentator [Robert Blohm](#), from his observation post in Beijing, picks-up on the implications of many of the US business concerns, above, then notes some of the background worries likely on the minds of China's leadership current and coming:

I wholeheartedly agree with Derek. China is well on the way to the middle income trap. The census demographics released last week give China at best 9 more years of the super-growth always driven by rural-to-urban migration that is then due to end. With 70 percent of the population already urbanized, and 20 percent the agreed long-run sustainable rural population, there's only 10 percent left to migrate and the rate of rural-to-urban migration has been better than 1% of the population per year. But 9 years from now China's population may stop growing by the earliest estimates, meaning not just no more super-growth then, but no more economic growth at all, a Japan syndrome.

The 2008 financial crisis animated a triumphalism by China's internal opponents of economic reform allowed to stall under the Hu-Wen Administration, a do-nothing government until 2008, and now presiding over the great reversal of reform back to the Statism of old. There's no way China is going to hold half of all outstanding US Treasury bonds in 9 years at the current accumulation rate from the quarter it holds now. Something is going to break in the mean time, and we don't exactly know what that will be. China will wake up or not to this reality on its own and adjust or not accordingly. Xi Jinping may well preside over the end of China's economic miracle.

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THE ADMINISTRATION'S VIEW OF THE S&ED....now that Jeff Bader is a "private citizen" and back at Brookings' Thornton Center, he can write a position paper without formally committing the White House. However, since he "retired" as Senior Director for Asia on the NSC barely a month ago, we suspect the following is about as close a "read" of how the Administration would like to "position" S&ED as we are likely to see...note Bader's basic theme, as when still on the NSC, is "keep things calm and in perspective, and always on the big picture" (our summary quote, not Jeff's):

[China, U.S.-China Strategic and Economic Dialogue, Asia, Foreign Policy, International Relations](#)

Jeffrey A. Bader, Guest Scholar, Foreign Policy, John L. Thornton China Center

The Brookings Institution

May 06, 2011 -

The third U.S.-China Strategic and Economic Dialogue (S&ED) will take place on May 9-10 in Washington, D.C. Chaired once again by Secretaries Clinton and Geithner on the U.S. side and Vice Premier Wang Qishan and State Councillor Dai Bingguo on the Chinese side, the dialogue will bring together about a dozen Cabinet and Ministerial rank figures on both sides along with a host of Vice Ministers and other senior officials from a nearly a score of departments.

The S&ED was not conceived as a mechanism to deal with bilateral crises or to produce specific "deliverables," but to develop a richer, more intensive dialogue between senior officials on the two sides than would be possible in the usual quick in-and-out visits, and to break down bureaucratic stovepipes among agencies, particularly on the Chinese side, not accustomed to coordinating effectively with each other. It provides a way to sustain and propel cooperation on issues like energy and environment, development assistance, and food security that might not get sufficient attention in regular bilateral meetings dominated by urgent and pressing issues. It also serves as a reminder to top officials on both sides of the diversity and complexity of the relationship, to help them put problems in the broad context of the relationship rather than allowing individual problems to spiral out of control.

One of the notable features of this year's S&ED will be the participation of a senior PLA officer, General Ma Xiaotian, for the first time. The Obama administration has sought to develop a dialogue with the Chinese on the most difficult global security issues that have the potential to lead to conflict. U.S.-China dialogue in such areas has lagged beyond even the levels of U.S. discussions with the former Soviet Union, in part because of Chinese difficulty in engaging civilian and military officials in the same discussion and because of Chinese reluctance to discuss such issues from a position of relative weakness. It would be a significant first step toward long term tension reduction and conflict management if the two sides can engage in serious discussions on at least some of these issues.

The S&ED comes at a time when U.S.-China relations are in fundamentally sound condition. President Hu Jintao's visit to the United States was generally assessed as setting a realistic tone and achieving successes in a relationship that will always be marked by frictions. President Obama, who will be involved in the S&ED, has put a high priority on U.S.-China relations, and the two sides have cooperated, within limits, on major security issues, including Iran, Korea, Sudan, Libya, and nuclear security. From the U.S. perspective, it will certainly not hurt that the meeting comes only a week after the successful raid that eliminated Osama bin Laden, which sends a message of U.S. strength and credibility in a relationship where those qualities are always the subject of Chinese scrutiny. The United States and China have developed reasonable expectations about both the possibilities and limits of cooperation, which will reduce the chances of future miscalculation. All of these subjects, plus broader developments in the Middle East, will be on the agenda of the S&ED.

On the economic side, the need for the RMB to appreciate will be on the agenda, but will not be the kind of preoccupying issue that it was for much of

the Obama administration's first two years. This is because China has allowed a 5 percent rise in the value of the RMB over the last year, and with inflation its competitive advantage vis-à-vis the dollar has declined about 10 percent. Other issues, such as ensuring that Hu Jintao's commitments on indigenous innovation discriminatory policies, IPR protection, and market access, will draw more attention. Also likely to be discussed will be the investment climate not only for U.S. companies in China but for Chinese companies in the United States.

Protection of human rights will feature as well in Secretary Clinton's dialogue with Dai Bingguo, largely because of the repressive domestic atmosphere imposed by Chinese authorities in the wake of the "Arab Spring" in order to avoid contagion. The two sides recently held a human rights dialogue at the level of Assistant Secretaries, in which the U.S. side took a thoughtful approach of stressing issues of concern to Chinese people and groups, mitigating the risks of appearing to be imposing U.S. customs and norms on a suspicious China.

That said, history encourages modest expectations about the fruits of U.S.-China dialogue on human rights. The Chinese see this as an issue to be dealt with domestically and managed internationally, not as one where they need to accommodate foreign complaints.

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THE OFFICIAL US OPENING STATEMENT

THE VICE PRESIDENT: Good morning. Thank you. Thank you, all. It's an honor to welcome back to Washington for the third meeting of the Strategic and Economic Dialogue between the United States and China, two good friends.

Let me acknowledge the co-chairs at the outset here. Vice Premier Wang and State Counselor Dai, welcome back. I got an opportunity to spend some time with you -- not as much as my colleagues have -- but your trip with President Hu was a great visit, and we got a chance to spend some time together.

The United States co-chairs are our A-Team, our superstars: Secretary Clinton and Secretary Geithner, two of the best America has to offer, so we expect great things to happen. We expect great things to happen with the four of you.

Ladies and gentlemen, we each have a number of important tasks in the days ahead and all designed to continue to guide our relationship to an even better place than it's already moved.

I also would like to recognize, by the way, Secretary Gary Locke, the President's choice to be our next ambassador to China. Gary has served with distinction in the Cabinet, as well as before that serving as the governor of the state of Washington. And I know that once the Senate confirms Gary, and I expect that to be quickly, he'll do an outstanding job in Beijing. (Applause.) There he is.

And I'm not going to mention the Trade Representative sitting next to you because I told him if he was able to deliver a deal on -- with Korea, I would nominate him for the Nobel Peace Prize. (Laughter.) He did and I have to. (Laughter.)

Any rate, I've made my -- I hate to acknowledge this, gentlemen, but I made my first trip to China as a young man, meeting with Deng Xiaoping in 1979, in April of '79. I was privileged to be with what I guess I'm now part of, a group of very senior senators at that time. I think we were the first delegation to meet after normalization -- with senators like Jacob Javits of New York, and Frank Church, and a number of other very prominent members.

And on that trip when we met with then Vice Premier Deng and witnessed the changes that were being initiated, beginning to spark China's remarkable - - absolutely remarkable transformation, even back then it was clear that there was -- that great things were happening. And there was also a debate -- there was a debate here in the United States and quite frankly throughout most of the West as whether a rising China was in the interest of the United States and the wider world. As a young member of a Foreign Relations Committee, I wrote and I said and I believed then what I believe now: That a rising China is a positive, positive development, not only for China but for America and the world writ large.

When President Obama and I took office in January of 2009 we understood -- we understood absolutely clearly that our relationship with China would be a key priority. The President and I were determined -- determined to set the relationship on a stable course that could be sustained for decades. Our two countries, now the world's two largest economies, were bound by ever-growing ties of commerce and investment. We, the United States, we always talk about what we import; we, the United States, exported \$110 billion in American goods and services to China last year.

But we're bound my much more than commerce. Over the last three decades, our people have become increasingly linked through education, through work and through travel. Last year, 130,000 Chinese were studying in the United States. They're really good. We're going to try to keep some of them. I'm only joking. I'm only joking. (Laughter.) But they are. (Laughter.)

We cannot claim the same number of Americans in China, but our 100,000 Strong Initiative will dramatically increase the number of young Americans living and studying in China. As a matter of fact, my niece who -- excuse me, as we say in the Senate, a point a personal privilege -- who graduated from Harvard not too long ago, works for Secretary Geithner, she did exactly what we hope another 100,000 will do: She studied Chinese and went and lived in China and is now devoted to making sure the relationship gets better and better and better.

And we're linked by our shared global responsibilities. We both serve as permanent members of the United Nations Security Council. We're both Pacific powers. And for many of the world's pressing challenges, it's a simple fact, that when the United States and China are not at the table, the solution

to the problem is less possible than when we are at the table. It's no exaggeration to say that our relationship and how we manage it will help shape the 21st century.

Our commitment starts at the top. Our Presidents have met face-to-face nine times in two and a half years. Nine times. President Hu, as I mentioned, was just here in January for what all would acknowledge was a very successful state visit. I'll go back to China this summer at the invitation of Vice President Xi, and I'm looking forward to hosting the Vice President for a reciprocal visit later this year.

Even these frequent visits and summits, though, as you all know, are not enough on their own to sustain and build a relationship across our entire government, across all agencies. That's why we're here. It's not merely, merely our mil-to-mil or economic issues. We want to build a relationship across the entire spectrum of our governments. That's why we've asked all of you to come together for these dialogues.

When President Obama launched the first strategic and economic dialogue in 2009, he issued a challenge to all of us to work together to address some of the defining problems of our time. Some would say that's somewhat presumptuous for China and the United States to decide we're going to work on the defining problems, but as I said earlier, how we cooperate will define in significant part how we deal with the challenges that the world face in the beginning of the 21st century.

This is at the heart of our effort to build a cooperative partnership. We seek to cooperate to advance our mutual interests in not only promoting economic growth that is strong, sustainable and balanced, but trade that is free and is fair. We seek cooperation to advance our mutual interests in the prosperous future that will come from an energy supply that's clean and secure and addresses climate change.

And we seek to cooperate to advance our mutual interests in a range of pressing global and regional security challenges. This includes continuing our work to prevent the spread of nuclear weapons and specifically to curb proliferation of those weapons and technology from both Iran and North Korea.

Where do we stand two years after the President issued his challenge that we cooperate more? Through this dialogue and the dedicated efforts of our governments and our people, I believe history will show we've made progress.

But there's much more to do, and that's why we're here. Along with our partners in the G20, we've worked to sustain global economic recovery. We've recognized that the United States-China relations generate global economic benefit, not just to both our countries, but global benefit.

Last year our trade with China supported over 500,000 jobs here in the United States, and we made tangible progress during President Hu's visit, especially in the areas of innovation, intellectual property, and exports, all of which we're following up on.

Over the next two days, we need to build on this momentum and to make sure our commitments are aggressively implemented so we can continue to move.

You may have noticed that there is a debate in this nation how best to secure America's long-term fiscal future. We know that overcoming our economic challenges begin at home. We in the United States have to restore financial stability and we need to make the investments necessary, as well, to win the future. We need to maintain our commitment to what we believe, the President believes, is the pillars of our economic future: education, innovation, and infrastructure.

I know that you're adjusting to your economy in the world situation as well. I know that in China you're working to rebalance your economy and make growth more sustainable, with greater reliance on domestic demand. None of this is easy. But success in re-orienting growth will be not only good for China, in our humble opinion, but it will be good for the United States and for the rest of the world.

The United States and China are the world's largest producers and consumers of energy and we share the common challenges that flow from that. And this creates not only a problem, but great opportunity -- great opportunity for common efforts to find clean energy solutions. Secretary Chu likes to say -- and I love this expression -- "Science is not a zero-sum game." Science is not a zero-sum game. That amply is illustrated by the remarkable cooperation we've begun to forge in this area. Let me just mention one example.

Our joint Clean Energy Research Center is funding new approaches to energy efficiency, clean coal -- which we both need to deal with -- and clean vehicles. We need to build on and expand our efforts in this area, and I know you'll be doing -- having much discussion these next two days on that area, and it seems to me an area where there's potential for great progress.

On global security challenges, we've also made progress. President Hu joined us at the Nuclear Security Summit -- in January, we signed the memorandum of understanding to build a center for excellence to promote nuclear security in China. We have cooperated in stemming nuclear proliferation from both Iran and North Korea, including preventing sensitive technologies from being exported to both those countries.

The strategic dialogue is important to both our countries. Just look at the agenda that you have for the next two days. It's a fulsome agenda. To list just a few of the topics on the agenda for the next two days -- and it illustrates the sheer breadth of our relationship: Climate change; clean energy; mil-to-mil operations -- our military relationships; regional issues such as Sudan and Afghanistan.

Our goal -- our goal, in part, is to enhance the communication and understanding that we believe, and I believe you believe, will build trust and confidence. We have to be honest with each other. We are not going to agree on everything; we will clearly find areas where there will still be disagreement. But as we work to advance our respective national interest, we

have to move on what we seek in common, find the common ground, and I would argue much of our mutual national interest will find common ground. But only by discussing a diverse range of topics, including sensitive ones, can we help mitigate the risk of misperception and miscalculation.

My father used to say the only disagreement worse than one that is intended is one that is unintended. That's why it's so critically important we talk to one another honestly. We should be realistic; we won't always be able to work together. In some areas we have vigorous disagreement. In some we'll have vigorous competition. In still others we'll have vigorous collaboration.

But I believe on balance we have much more to agree on than to disagree on, and so does the President believe that. A healthy competition, in our view, is good for both of us. Competition is not bad. Competition that's healthy is good.

This is the reason why I've held the view for so many years and continue to hold the view that a rising China is a positive development. As you might expect, it's my -- I have overwhelming confidence in the capabilities of the American people. And those capabilities are enhanced when there's genuine competition from equally capable people. I welcome this healthy and fair competition because I believe we'll see it will spur us both to innovate and both will benefit from it.

As I've said earlier, it's important to be straightforward with one another. There is one area where we have vigorous disagreement. And I know and I understand that disagreement, when we voice it, is upsetting or rankles -- I don't know how that translates into Chinese -- but how it concerns some of our friends in China. We have vigorous disagreement in the area of human rights.

We've noted our concerns about the recent crackdown in China, including attacks, arrests and the disappearance of journalists, lawyers, bloggers and artists. And again, no relationship that's real can be built on a false foundation. Where we disagree, it's important to state it. We'll continue to express our views in these issues, as we did in the Human Rights Dialogue in Beijing two weeks ago.

Now, look, as I said, I recognize that some in China see our advocacy as -- human rights as an intrusion and Lord only knows what else. But President Obama and I believe strongly, as does the Secretary, that protecting fundamental rights and freedoms such as those enshrined in China's international commitments, as well as in China's own constitution, is the best way to promote long-term stability and prosperity of any society.

The transformation of China's economy and society since my first trip as a young man in 1979 has truly been breathtaking. I doubt whether it's occurred at any other period in world history -- it's been so significant and so rapid. The immense talent of the Chinese people, the incredible hard work and perseverance of the Chinese people and their leaders have literally lifted tens of millions of people out of poverty and built an economy that now helps fuel the world's prosperity. It's remarkable.

During this same period, the relationship between the United States and China has also seen a remarkable transformation -- again, through the talent, hard work and respected political leaders who have governed our countries over the last three decades.

The bonds between our country -- our countries come about through -- have come about through intense engagement from the moment of normalization -- events like this one. We've already done much to make our relationship positive, cooperative, and comprehensive. And I'm absolutely confident that we can do more for ourselves and for generations of Americans and Chinese as well.

And as I said, presumptuous of me to say this, if that occurs and continues to occur, it will benefit the whole world. So now it's time to get to work.

Again, welcome, gentlemen; welcome to your delegations. And I thank you all for the honor of being able to address you. Thank you very much. (Applause.)

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THAT'S IT FOR TONIGHT

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