

**WRITTEN TESTIMONY OF  
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*U.S.-China Trade Relationship*

**Introduction**

Chairman Bartholomew, Vice Chairman Blumenthal and members of the Commission, I appreciate the opportunity to submit this testimony on the U.S.-China trade relationship. I will focus on the Administration's assessment of China's compliance with its obligations to the World Trade Organization (WTO), and the steps that we are taking to ensure that China lives up to those obligations for the benefit of American companies, farmers, and workers. This is a subject of considerable importance and a matter of great priority to the Administration, and to the Office of the United States Trade Representative (USTR) in particular, in our capacity as the lead agency with responsibility for trade policy.

In my first of two appearances before this Commission last year, I focused my remarks broadly on China's economic development, its record on WTO compliance, and the steps the U.S. Government had been taking to ensure China lives up to its WTO commitments. At that time, USTR had recently released the Administration's "Top-to-Bottom Review of U.S.-China Trade Policy," and I was able to outline our view that U.S.-China trade relations are entering a new phase in which greater accountability on China's part and enhanced enforcement by the U.S. Government are needed.

Today, I would like to offer an update on the U.S. Government's efforts to hold China accountable as a mature member of the international trading system, now that China has completed five years of WTO membership.

*China's First Five Years of WTO Membership*

When it acceded to the WTO on December 11, 2001, China committed to implement over time a set of sweeping reforms that required it to lower trade barriers in virtually every sector of the economy, provide national treatment and improved market access to goods and services imported from the United States and other WTO members, and protect intellectual property rights. Five years later, the deadlines for almost all of China's commitments have passed, and China's transition period as a new WTO member is now essentially over.

China has taken significant and often impressive steps to reform its economy since acceding to the WTO. During this period, China has repealed, revised or enacted more than one thousand laws, regulations and other measures in an effort to bring its trading system into basic compliance with WTO standards. China has also taken steps to implement numerous specific commitments pursuant to schedules set forth in its WTO accession agreement. Each year, China has made annual reductions in its tariff rates, eliminated non-tariff barriers, expanded market

access for foreign services providers and improved transparency. All of these steps were designed to deepen China's integration into the international trading system, as well as to facilitate and strengthen economic reforms that China had begun 20 years earlier. The United States – including U.S. workers, businesses, farmers, service providers and consumers – has benefited significantly from these steps and continues to do so as U.S.-China trade grows.

Nevertheless, despite significant progress in many areas, China's record in implementing WTO commitments is decidedly mixed. China continues to pursue problematic industrial policies that rely on trade-distorting measures such as local content requirements, import and export restrictions, discriminatory regulations and prohibited subsidies, all of which raise serious WTO concerns. China's shortcomings in enforcing laws in areas where detailed WTO disciplines apply, such as intellectual property rights (IPR), have also created serious problems for the United States and its other trading partners.

As we look back on the last five years, it is apparent that many of the United States' most difficult trade issues with China can be traced to excessive Chinese government intervention in the market through policy directives and the actions of individual officials. This government intervention, evident in many areas of China's economy, is a reflection of China's historic yet unfinished transition from a centrally planned economy to a free-market economy governed by rule of law. To some extent, these difficulties were anticipated. During the fifteen years of negotiations leading up to China's WTO accession, the United States and other WTO members were aware of the state's large role in China's economy and carefully negotiated conditions for China's WTO accession that would, when implemented, lead to significantly reduced levels of government intervention in the market and distortions in trade flows attributable to it.

While China did make noteworthy progress as a result of economic reforms adopted before and in the first few years after its accession to the WTO, we saw an upsurge in industrial planning measures as tools of economic development by China's central government authorities in 2006. China appeared to want to expand the government's role in directing the economy and in developing internationally competitive Chinese enterprises, while also restricting the role of international companies in certain sectors.

### *U.S. Engagement of China*

As I explained during my testimony before the Commission last year, USTR announced in the the Administration's "Top-to-Bottom Review of U.S.-China Trade Policy" that it would adopt a dual-track approach to resolving its WTO concerns. The United States remains committed to seeking cooperative and pragmatic resolutions through bilateral dialogue with China, particularly through the Joint Commission on Commerce and Trade (JCCT) process. The new, high-level U.S.-China Strategic Economic Dialogue, which began in December 2006, further demonstrates the U.S. commitment to bilateral dialogue and provides a useful framework for understanding and supporting, at a broader level, key bilateral problem-solving efforts, such as the JCCT and other bilateral trade and economic dialogues. However, when bilateral dialogue fails to succeed in addressing U.S. concerns, the United States will not hesitate to exercise its WTO rights through the initiation of dispute settlement against China, as it would with any other mature WTO trading partner.

In 2006, the United States achieved some important successes through bilateral dialogue, including at a JCCT meeting in April. At that meeting, China made several commitments related to IPR protection and enforcement. It also committed to eliminate duplicative testing and certification requirements applicable to imported medical devices, to make adjustments to its registered capital requirements for telecommunications service providers, and to finalize a protocol allowing the resumption of trade in U.S. beef and beef products. China also reaffirmed past commitments to technology neutrality for 3G telecommunications standards and to ensuring that new rules in the postal area would not negatively impact foreign express couriers. In addition, China committed to commence, by no later than December 31, 2007, formal negotiations to join the WTO's Government Procurement Agreement. Since the JCCT meeting in April, the United States has been working with China to make sure that it implements all of these commitments.

However, to date, other issues have evaded bilateral consensus, despite extensive dialogue. Issues like WTO-prohibited subsidies, IPR criminal enforcement thresholds and certain market access concerns resisted resolution in 2006. Although the United States has been making earnest efforts to resolve these concerns through bilateral discussions, it will have to pursue other options if the bilateral approach is not fruitful.

U.S. preparation for the pursuit of formal WTO dispute settlement facilitated resolution of one dispute in 2006, and another Chinese measure is now the subject of formal WTO dispute settlement. In January 2006, after the United States informed China that it would be filing a formal request for WTO consultations in a challenge to antidumping duties that China had imposed on imports of unbleached kraft linerboard from the United States, China rescinded the antidumping duties. This result enabled U.S. industry to obtain a faster resolution to this problem than would have been possible if the dispute settlement process had needed to run its course. In March 2006, the United States, acting in coordination with the European Communities and Canada, commenced a WTO dispute settlement case challenging Chinese rules that brought back prohibited local content requirements in the auto sector through the imposition of measures that discriminated unfairly against imported auto parts. More recently, in November 2006, the United States informed China that it would be filing a WTO consultations request with regard to certain IPR enforcement issues, but then agreed to hold off, with the support of U.S. industry, when China asked for further bilateral discussions.

#### *Areas of Ongoing Concern*

Overall, several areas continue to cause particular concern for the United States and U.S. industry, particularly in light of China's WTO commitments. These include:

- IPR enforcement: The lack of effective IPR enforcement remains a major challenge, as counterfeiting and piracy in China remain at unacceptably high levels and cause serious economic harm to U.S. businesses in virtually every sector of the economy.

- Industrial policies: China has continued to resort to industrial policies that limit market access by non-Chinese origin goods and foreign service providers, and that provide substantial government resources to support Chinese industries and increase exports.
- Agriculture: Capricious practices by Chinese customs and quarantine officials can delay or halt shipments of agricultural products into China, while sanitary and phytosanitary standards with questionable scientific bases and a generally opaque regulatory regime frequently bedevil traders in agricultural commodities.
- Services Market Access: Chinese regulatory authorities continue to frustrate efforts of U.S. providers of banking, insurance, motor vehicle financing, telecommunications, construction and engineering, legal and other services to achieve their full market potential in China through the use of an opaque regulatory process, overly burdensome licensing and operating requirements, and other means.
- Transparency: Transparency remains a concern, as many of China's regulatory regimes continued to suffer from systemic opacity, frustrating efforts of foreign – and domestic – businesses to achieve the potential benefits of China's WTO accession.

USTR details the efforts that the U.S. Government has made to address each of these areas of concern in the “2006 USTR Report to Congress on China's WTO Compliance,” issued on December 11, 2006. The report is available on the USTR website ([www.ustr.gov](http://www.ustr.gov)).

### *Conclusion*

The Administration remains committed to working cooperatively and pragmatically with China to ensure that the benefits of China's WTO membership are realized by U.S. workers, businesses, farmers, service providers and consumers and that problems in the U.S.-China trade relationship are appropriately resolved. When bilateral dialogue is not successful, however, the Administration will not hesitate to employ the full range of enforcement tools available and likely to be effective in addressing the particular issues in question, whether through the dispute settlement procedures at the WTO or the strict enforcement of U.S. trade laws, to ensure that U.S. interests are not harmed by unfair trade practices.

Thank you.