



U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on China's WTO Compliance and Industrial Subsidies

**Opening Statement of
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Commissioner and Hearing Co-Chair**

**April 4, 2006
Washington, DC**

Today's hearing addresses the important topic of China's subsidy policies and practices and their impact on U.S. farmers, workers, businesses and our economy as a whole. The hearing comes at an important time as President Bush and Chinese President Hu prepare to meet here in Washington in just a few weeks.

As part of China's accession to the WTO it promised to provide specific data and information on what subsidies it has in place. Five years later, we are still waiting on China to fulfill that simple obligation – to provide the required data and notification that was promised.

This hearing seeks to begin the process of defining what China's subsidy practices are in the absence of their compliance with their notification commitments. Witnesses will help us understand what the legal framework is regarding Chinese subsidies. We also hope to understand how best to gain the necessary data and information to respond to those subsidies that are altering the terms of trade.

There can be no doubt that China is engaged in massive efforts to subsidize the development of its economy and to promote the further growth of its export base. Indications are that China is subsidizing the development of new industries – nanotechnology, biotechnology and opto-electronics. It's focused not just on developing current industrial capacity, but in being the leader of tomorrow's industries as well.

A majority of China's exports come from foreign-invested enterprises. Rather than fulfilling the predictions and promises of those supporting China's entry into the WTO that it would result in dramatic new access to the Chinese market, we find that much of the investments going into China are to fuel their export led growth. In many cases the investments are used to promote "industrial tourism", the shipment of component parts to China only to be assembled into products that are shipped right back out.

Anecdotes as to tax subsidies, land subsidies, two-tiered pricing of energy and

many other subsidies for companies to locate their production in China abound. Industry after industry receives these benefits – steel, autos, semiconductors to name a few. Add to these direct subsidies the subsidy value of currency manipulation, workers rights violations, intellectual property rights violations, non-performing loans and many other practices and you find an almost unbeatable combination of tools and incentives that are used to alter the terms of trade.

The result is, in part, huge and increasing bilateral trade deficits with the United States and the migration of production and jobs to China.

Today's hearing will begin to help us understand the scope of the problem and what can be done about it. Like all problems with China, dealing with these subsidies won't be easy. The lack of transparency is a huge barrier to action. But, we can't afford much longer to ignore the unfair and unacceptable subsidies that China broadly offers to promote its own economic interests.