



As prepared for submission

**U.S. CHAMBER OF COMMERCE VIEWS ON THE
UPCOMING HONG KONG MINISTERIAL
CONFERENCE OF THE DOHA ROUND OF THE
WORLD TRADE ORGANIZATION'S TRADE
EXPANSION NEGOTIATIONS**

Testimony

**Before the US-China Economic and Security Review
Commission**

**Myron Brilliant
Vice President, East Asia
United States Chamber of Commerce**

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On behalf of the US Chamber of Commerce, I am delighted to have this opportunity to offer our organization's views on the importance of the Doha Development Round of multilateral trade negotiations.

US Chamber position on Doha Round

The U.S. Chamber is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region.

The Doha Round represents a unique opportunity to unlock the world's economic potential and to inject new vibrancy into the global trading system.

The Doha Round promises not only to build on the foundation established by the Uruguay Round in the early 1990s but, more importantly, to ensure that both developed and developing nations share in the economic gains resulting from global trade liberalization, including by addressing unfinished business in the agricultural sector.

The World Bank estimates that the elimination of global trade barriers would enhance global commerce by \$290 billion by 2015. Clearly, the stakes are high for developing and developed countries.

Above all, during the upcoming Sixth WTO Ministerial Conference in Hong Kong members should establish the negotiating framework and modalities necessary for the negotiations to move to the next stage in a timely fashion.

With Trade Promotion Authority in the United States set to expire on June 30, 2007, time is short for the WTO's 148 member countries to secure an agreement.

Failure in Hong Kong is not an option; forward momentum is essential.

It is clear that the United States government and private sector must lead, and collectively we are prepared to do so. The US government under the leadership of Ambassador Portman is working hard to secure buy-in from critical trading partners for an ambitious round. Ambition is the key.

The US Chamber and its member companies are committed to continue working with the administration, Congress, and their counterparts around the world to ensure that the negotiations advance.

On October 25, 2005, the Chamber, in partnership with other leading U.S. business associations and a broad range of companies and agricultural groups, launched the American Business Coalition for Doha (ABC Doha) to ensure that the U.S. private sector is coordinated, mobilized, and focused on achieving success in Hong Kong.

The US Chamber has also worked hard behind the scenes in forums like APEC to encourage foreign governments and business communities to engage and participate in the process.

In addition, Tom Donohue, our President and CEO, will lead a significant US Chamber delegation to Hong Kong for the WTO Ministerial.

As one of the most open economies in the world, the United States must be bold in its approach to the liberalization of trade. If the US is to convince its global trading partners to compromise in order to realize free trade objectives, the United States cannot lead alone.

The European Union, Japan, China and other G20 members, in particular, need to demonstrate that they too are committed to the success of the Round and are willing to make the concessions necessary for a balanced result to win the support of all WTO member countries.

In my brief testimony here today, let me now turn to the recommendations that represent the US Chamber's priorities for the Round. As stated, the Chamber will continue to work actively with U.S. trading partners around the world to build support for these objectives.

Trade in Agricultural Products:

The agricultural objectives of the Doha Round were established in the 2001 Doha WTO Ministerial Declaration, 142 WTO member countries committed to making "substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support".

Ensuring we have substantial progress in agriculture is essential if the Doha Round is to be comprehensive and ambitious.

The U.S. Chamber applauds US leadership in putting forth a serious and comprehensive proposal for moving the WTO agriculture negotiations forward

at this critical time. The Bush administration's recent announcement that it is willing to make a 70% cut in the level of agricultural support allowed by the WTO in return for commensurate gains in market access overseas was bold. This pledge builds on a commitment by the United States last year in Geneva, to eliminate export subsidies by a date still to be determined.

We would hope now that other countries would rise to the challenge and present equally bold and creative proposals.

The Chamber is encouraged that the recent proposals set forth by the G20 seem to have re-energized negotiations with respect to agricultural reforms. In addition, the Chamber hopes that these advances will stem a perceived lack of ambition on the part of some key parties to the negotiations and that U.S. and G20 efforts will yield positive results going into the Hong Kong Ministerial.

The United States is uniquely positioned to press for success. America's farmers are the most efficient in the world. We produce more than we can eat at home, and with 96% of the world's consumers living outside the United States, access to global markets is vital to the long-term growth and success of US agriculture.

Presently, global agricultural trade suffers from too much protectionism (i.e., high tariffs, quantitative restrictions, and trade-distorting subsidies). At just 12%, the average US agricultural tariff is far lower than the worldwide average of 62%.

We need to be leading advocates for more progress on agriculture. Bold positions can help break what appears to be a stalemate between developed and developing countries over who should make the first move. Here in the United States we must do our part. We cannot fail to deliver steep reductions in both trade-distorting domestic supports and tariff rates.

In the end, success will only be achieved through mutual recognition that comprehensive trade liberalization is an opportunity that will yield enormous benefits to farmers and consumers worldwide. After all, in a World Bank paper, Kym Anderson concludes that 92% of developing countries' gains in agricultural trade will come from reductions in market access barriers. Anderson finds that such tariff reductions will not only improve the trade climate between developed and developing nations, but they will yield significant gains in trade between developing countries.

We urge other countries, especially the EU and Japan, to bring forward equally strong proposals in agriculture.

As with other areas I will discuss, there is more work to be done.

Trade in Manufactured Goods and Other Merchandise:

Since the founding of the General Agreement on Tariffs and Trade (GATT) in 1947, successive rounds of multilateral trade negotiations have helped spur rapid growth in world trade through significant cuts on tariffs on industrial goods. In the last decade alone, implementation of the Uruguay Round produced a 50% increase in trade in goods. Today, manufactured goods represent 75% of global merchandise trade.

More can be accomplished, however, if the Doha Round is successful.

Much is at stake for the US manufacturing industry. The manufacturing sector is a strong driver of U.S. economic growth and employment. With an average tariff rate of only 3%, our economy is largely open to imports. This is good for US consumers who benefit from a variety of goods at lower prices. Yet, our manufacturing industry still faces an average tariff of 30% across many other key export markets.

A decrease in tariffs by even one-third would yield substantial benefits in global economic welfare. Accordingly to studies cited by the American Business Coalition for Doha, elimination of all tariffs on consumer and industrial goods could increase the US national income alone by as much as \$95 billion.

In 2001, 142 WTO member countries made a commitment “to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries” (Doha Declaration).

Not enough progress has been made toward this goal. Much work remains to be done in the nonagricultural market access (NAMA) negotiations.

To deliver on its development promises, the Doha Rounds must provide genuine new market access by substantially reducing or by eliminating tariffs through the Swiss formula.

This formula focuses on making meaningful reductions in tariffs across all product segments, particularly peak and high tariffs. Additionally, a final agreement must allow for a voluntary sector approach to tariff elimination. Above all, achieving a level playing field requires an approach that recognizes the current differences between countries' tariffs and mandates reductions in tariffs that will reduce or eliminate those differences; thereby avoiding an outcome in which countries with high average tariffs are only required to make relatively small reductions.

While tariff elimination is a critical component of the Round, non-tariff barriers are increasingly becoming as important, if not more important, than tariffs in constraining global trade. Non-tariff barriers range from import licensing requirements and uneven regulations to restrictions on foreign investments, all of which raise costs, unfairly discriminate, and impede market access for US products.

The Doha Rounds should focus on removing these hindrances to international trade, using both horizontal and sectoral approaches. Moreover, the WTO should strengthen, or create where necessary, problem-solving mechanisms specifically focused on addressing and removing non-tariff barriers.

To ensure that the NAMA negotiations lead to substantially increased opportunities for trade, growth, and development for all countries, we would support having some flexibility built into the process to provide room for less developed and small economies to take part without shouldering the same burden as their more developed counterparts.

But all countries have to contribute to lower tariff and non-tariff barriers on industrial products.

The US Chamber recognizes that the NAMA negotiations are affected by progress in the broader negotiating environment. We continue to believe that it is important that negotiations on agriculture, services, and NAMA move forward on parallel tracks to make certain that success in the broader Doha Round is achieved.

Trade in Services:

The US Chamber strongly believes that the Doha Round cannot be construed as a success unless it delivers meaningful and comprehensive liberalization in services. This is the largest and fastest growing sector in the world economy.

The services sector is now a critical backbone of the economy in developed and developing countries alike. In total, services represent about two-thirds of world GDP, or \$35 trillion, in 2004. In the United States, the service sector generates 75% of the GDP and employs 80% of US workers.

Further liberalization of this critical sector will clearly help the US economy but also allow WTO member countries to attract greater foreign direct investment and to take full advantage of the growth and employment that this vital sector provides. Economic studies have concluded that reducing service barriers by one-third could improve economic welfare by \$470 billion and the United States would stand to gain \$138 billion in increased economic activity.

Service liberalization globally has been impeded by a variety of obstacles including discriminatory licensing procedures and taxes, limitations on ownership and foreign direct investment, and restrictions on repatriation of capital and profits. These impediments fly in the face of the goals of the Doha Round of opening global trade and investment.

In 2001, the services liberalization work that had been conducted under the GATS (General Agreement on Trade in Services) was incorporated into the Doha Round's mandate. WTO members endorsed the existing negotiating modalities and set a schedule for successive market access requests and offers.

Progress has been unsatisfactory to date. Few offers and even fewer revised offers have been tabled, despite the fact that the May 2005 deadline has long passed. The request/offer process is clearly not delivering sufficient progress, and there is an urgent need to realign priorities and to raise the profile of the services negotiations among trade ministers.

While new methods are being explored to revitalize the process, the objective of achieving substantial new liberalization commitments by spring 2006 should guide U.S. efforts.

Efforts to complete a service liberalization agreement fall into four modes:

In *mode one* (cross-border supply of services), the ability to trade across borders should be delinked from a requisite physical commercial presence in-country. In addition, the United States should seek full market access and most-favored nation treatment for all cross-border services trade.

In *mode two* (consumption of services abroad), the United States should seek to bind existing levels of market access.

In *mode three* (commercial presence), the United States should seek, at the very least, the substantial easing in equity limits for services investments.

In *mode four* (business travel facilitation), Congress, U.S. trade negotiators, and the business community need to work together to shape a joint initiative. To move forward, the business community has fashioned a proposal to facilitate the temporary entry of key business personnel—professionals, managers, consultants, and highly skilled experts and technicians.

Gaining congressional support and attention could help improve the position of U.S. trade negotiators on services.

Services are a vital part of the US economy and we need to ensure that substantial progress is made in the Doha Round towards comprehensive liberalization.

Trade Facilitation:

The Doha declaration recognizes the case for “further expediting the movement, release and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in this area”.

Trade facilitation initiatives provide significant opportunities to achieve real, nuts-and-bolts improvements for businesses of all sizes. Progress in such areas as port efficiency, customs procedures and requirements, the overall regulatory environment, automation, and e-business usage is important for all companies; but such progress is especially valuable to smaller and medium-size enterprises.

Major world regions are already embracing trade facilitation. In 2002, the 21 member economies of the Asia-Pacific Economic Cooperation (APEC) forum launched a Trade Facilitation Action Plan that included a commitment to reduce business transaction costs by 5% within six years. In November 2004, the APEC leaders proudly announced that they had reached their goal three years ahead of schedule.

Moreover, in the Western Hemisphere, the countries negotiating the Free Trade Area of the Americas committed in 1999 to implement a package of nine customs-related business facilitation measures that covered much of the same ground as the APEC action plan. In November, a group of nearly 100 of the

Western Hemisphere's leading business organizations released a declaration favoring an ambitious stance in the trade facilitation negotiating group of the DDA.

These efforts are a good beginning; however, much more can be done. Trade facilitation can bring great benefits if adopted unilaterally, but a global rules-based approach also offers the greater advantages of certainty, stability, and enhanced commonality to customs measures and port administration. This is the promise of the Doha Round trade facilitation negotiations.

China's Position on the Doha Development Round

Given the mandate of this Congressional Commission and interest in China, I thought I would discuss China's role in the Doha Round Development. Arguably, the single most significant change in global commerce since the completion of the Uruguay Round has been China's emergence as a global manufacturing power and accession into the World Trade Organization. Yet, despite China's enormous economic growth and membership status in the WTO, it has largely remained on the sidelines in the preparatory negotiations for the Ministerial Conference in Hong Kong.

During Bush's visit to China, President Bush and President Hu stressed the importance of building consensus on market access issues in the Doha Round. President Hu supported a broadly worded statement, issued by all APEC leaders, for countries to show "the flexibilities necessary" to advance the WTO talks in Hong Kong. While the Chinese leadership has articulated their desire for the Doha Round to succeed, they have been reluctant to actively lead or advocate on specific controversial issues. During President Hu Jintao's multi-nation European tour in the middle of November, for instance, he did not press the EU to make agriculture concessions in Doha nor really even discuss the importance of the upcoming Ministerial talks in Hong Kong.

Why has China not been more active in these global negotiations? It remains largely focused on internal market reforms. Since joining the WTO in 2001, China has repeatedly asserted that as a "recently acceded member" it should not be expected to contribute significantly to the progress of WTO negotiations. China is now in the late stages of phasing in its WTO commitments, most of which are scheduled to be fully implemented by the end of 2006.

China's disengagement from global trade talks has not been destructive per se to the Doha Round, but given China's role as an increasingly large stakeholder in the global economy, the US Chamber hopes that China will assume a leadership role in moving the talks forward in 2006. Ambassador Portman has correctly and repeatedly carried this message to the Chinese leadership. As a major beneficiary of the multilateral trading system, China needs to become more involved in leading the Doha negotiations to a successful conclusion.

As for specific issues in the Doha Development Round, we offer the following insights and views on Chinese policy.

On Agriculture:

Since joining the WTO, China has reduced tariffs on agricultural products from 31 percent to 14 percent and improved its tariff-rate quota administration and the genetically modified organism (GMO) certification program. China still maintains some barriers to agricultural trade, predominantly through market price supports as well as some non-tariff barriers to trade such as unscientific sanitary and phytosanitary requirements and a value-added tax on agricultural imports.

However, given the market liberalization China has already realized under WTO, we believe multilateral agricultural liberalization would offer substantial economic benefits to Chinese farmers and rural households--a primary objective of the central government as articulated in the Central Committee's Eleventh Five-year Plan. Therefore, we find China's reluctance to advocate more forcefully on behalf of agricultural concessions in the Doha Round striking given China's sweeping agricultural commitments upon WTO accession and the benefits it would stand to gain from a successful Doha Round.

On Services:

While China has met or is on schedule to meet many of its WTO obligations to relax restrictions on services, there remain outstanding issues of concern to U.S. companies, most notably in the areas of telecommunications, express delivery, direct selling, and insurance branching services. China's difficulty in implementing its services commitments indicates a significant level of apprehension among the Chinese government regarding the ability of domestic firms to compete with multinational companies in services. Despite the economic gains realized from such liberalization, there remains a strong inclination within certain government ministries to protect the nascent

development of domestic service companies from further international competition.

China's refusal to make additional commitments to liberalize services is defended by the Chinese government on the basis that China is in the final year of implementing its WTO services commitments. We understand that China has declined to submit substantive proposals for services liberalization. We believe that China and other major trading partners need to lead by example and offer substantive service liberalization proposals.

On Non Agriculture Market Access (NAMA):

Under its WTO accession commitments, China lowered its average import tariffs for industrial products from 25 percent to 8.9 percent. In comparison the current average industrial tariff rate is 27.9 percent for India, 12.9 percent for Brazil, and 4.0 percent for the United States.

China has generally refrained from publicly pressuring for the advancement of negotiations on NAMA. China opposes sectoral zero-for-zero initiatives, which the USG is advocating. While China has agreed to the Swiss formula for tariff reduction, favored by the USG, we understand it has proposed unrealistic coefficients that would result in drastically steeper tariff cuts for developed countries.

In short, China's has not played a critical role in the lead up to the Hong Kong WTO Ministerial. Going forward, with China's emergence on the global economic stage, we should expect and encourage China to play a more constructive role in securing and supporting global economic growth through multilateral trade negotiations.

Let me also emphasize that the US Chamber views China's WTO accession commitments as a floor, not a ceiling, for continued progress in market liberalization. And we believe China can play a vital role in supporting global trade negotiations. At the APEC meetings in Busan in November, we made this point directly to the Chinese Minister of Commerce Bo Xilai. And we urged the Chinese not to utilize the Doha Round as a pretext for refusing to provide additional market access for U.S. businesses until the Round's conclusion. The Chamber believes that the way forward in this critical relationship is not for the US to close its market to Chinese exports, but with a trade deficit that will hit \$200 billion, China must open its markets further to US exporters and investors if we are to maintain a strong commercial relationship.

The US Chamber was a strong proponent of China's accession to the WTO. Although China has implemented most of its WTO obligations, there is more work to be done. The Chamber will continue working to monitor China's progress towards complete compliance with its WTO commitments, and to ensure continued improvements in market access for US companies.

President Hu will travel to the United States next spring, and our hope is that he will come prepared to talk seriously about enhancing opportunities for US businesses in the China market. Our copyright industry, our software companies, our retailers and direct sellers, our financial and telecommunications services companies, and our manufacturers all want the same level of access that we provide to Chinese companies in this market. In short, our Chamber and our members want to see a level playing field.

And on the matter of a level playing field, let me say also say a brief word about IPR. The scope and depth of China's IP infringement remains a major commercial concern for U.S. businesses. Recent modest improvements in enforcement efforts have failed to yield demonstrable results. However, US government officials and some U.S. companies on the ground have noted an increased commitment among various levels of Chinese government to address IP issues. In the upcoming year, China will need to take bolder steps to effectively enforce IPR, and the Chamber will be monitoring China's progress through tangible barometers such as the level of increase in IP criminal cases, improved resources for IP enforcement bodies, and IP sensitive language in pending competition and standards legislation.

Conclusion

Let me conclude my remarks today by clearly articulating that the US Chamber believes that the economic prosperity of the United States is integrally linked to the vibrancy of the world economy and to the global trading system. The Doha Round represents a vital opportunity to drive global economic growth, lower costs for consumers, and help level the playing field so that American manufacturers, farmers, and service providers can continue to compete and win in international markets.

The policy priorities outlined in this document set the parameters for an ambitious outcome from a U.S. business perspective. The United States must continue to exercise leadership, but the success or failure of the Round is a shared responsibility.

Our counterparts around the world, particularly the European Union, Japan, China, and other members of the G20, must also aim high if the promise of the Round is to be realized. The upcoming WTO Ministerial will be a critical test of the commitment of the key players to advancing the Doha Development Agenda. The U.S. Chamber is committed to working with its partners in the public and private sectors here in the United States and around the world to ensure that the Doha Round reaches a meaningful conclusion.

Thank you for your attention this morning. I would be pleased to answer any questions you might have.

