

**Statement by
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**Before the
House Committee on Appropriations
Subcommittee on the Departments of Commerce, Justice, and State,
the Judiciary, and Related Agencies**

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Mr. Chairman, Mr. Serrano, and members of the Subcommittee, thank you for inviting me to appear before you today to discuss the Administration's perspectives on the United States' trade relationship with the People's Republic of China.

Introduction

The Administration is strongly committed to free trade and to securing the benefits of open markets around the world for U.S. businesses, agricultural producers and their workers. But, the Administration is also mindful that maintaining public support for open trade means preserving the ability of the United States to enforce rigorously its trade remedy laws and providing appropriate assistance to those who cannot adjust promptly to dislocations that can be occasioned by open trade.

With regard to China, one of the Administration's top priorities is to ensure that U.S. businesses, agricultural producers and their workers obtain maximum market access benefits from the extensive and far-reaching commitments to change and open its trade regime that China made in its WTO accession agreement. At the same time, the Administration remains strongly committed to ensuring that inequitable trade practices do not disrupt our own market.

China's WTO Implementation Progress

Over the last year and one-half, China has made many of the systemic changes and has implemented many of the specific commitments required by its WTO accession agreement. At the same time, the United States has identified serious shortcomings in China's implementation efforts, and some of these shortcomings are having a direct impact on U.S. trade with China.

China's principal focus upon joining the WTO was its framework of laws and regulations governing trade in goods and services and intellectual property rights (IPR), at both the central and local levels. According to reports from China's trade ministry, the central government reviewed more than 2,500 trade-related laws and regulations for WTO consistency. The central government reportedly repealed 830 and amended 325 more of

these laws and regulations within the first six months of its WTO membership. It also reportedly drafted and adopted 118 new laws and regulations.

Beginning shortly after its WTO accession, China also devoted considerable resources to the restructuring of the various government ministries and agencies with a role in trade issues. Some of these changes were mandated by China's accession agreement, while others were undertaken by China to facilitate its compliance with WTO rules. Following the National People's Congress held in March of this year, we have seen additional restructuring of China's trade and economic ministries, which should further promote WTO compliance.

Another significant focus for China since its accession has been education and training of central and local government officials and state-owned enterprise managers about both the requirements and the benefits of WTO membership, with the stated goal of facilitating China's WTO compliance. The United States and other WTO Members, along with many private sector groups, have been contributing substantial technical assistance and capacity building resources to this effort.

As a general matter, China has taken positive steps to implement many of its specific WTO commitments. It has made required tariff reductions, to the benefit of many U.S. industries. China has also begun the process of removing numerous non-tariff trade barriers, and it continues to improve its standards regime. For the most part, these steps have been managed without serious incident, and market access for U.S. products in the affected sectors has generally improved. Although not without problems, China has also taken the necessary legal steps to allow for increased market access for foreign service suppliers in a variety of sectors.

U.S. Concerns with China's WTO Implementation

Increasing market access opportunities in China for U.S. businesses, agricultural producers and their workers is a top priority for the Administration. The surest way to achieve this goal is to ensure China implements its WTO commitments. In that regard, while China has made significant progress in implementing its WTO commitments, the Administration has also found a number of causes for serious concern.

Three areas have generated significant problems and warrant continued U.S. scrutiny – agriculture, IPR and services.

The area of agriculture has proved to be especially contentious between the United States and China. While concerns over market access for U.S. agriculture products are not unique to China, particularly serious problems have been encountered on many fronts, including China's regulation of agricultural goods made with biotechnology, the administration of tariff-rate quotas (TRQs) for bulk agricultural commodities, the application of sanitary and phytosanitary measures and inspection requirements. The United States and China have been able to make progress toward resolving some of these

problems, particularly with regard to China's regulation of trade in agricultural products made with biotechnology. Other problems remain unresolved, however, with the most troublesome being China's inadequate implementation of its TRQ commitments.

In the IPR area, China did make significant improvements to its framework of laws and regulations. However, the lack of effective IPR enforcement remains a major challenge, the magnitude of which would be difficult to overstate. If significant improvements are to be achieved on this front, China will have to devote considerable resources and political will to this problem, and there will continue to be a need for sustained efforts from the United States and other WTO Members.

Concerns have arisen in many services sectors, principally due to transparency problems and China's use of prudential requirements that exceed international norms. Progress has been made toward resolving these concerns, but much work remains to be done.

Finally, one area of cross-cutting concern has involved transparency. Of particular concern is China's uneven implementation of its commitment to greater transparency in the adoption and operation of new laws and regulations. The Administration is committed to seeking improvements in this area.

In our experience, China's compliance problems are occasionally generated by a lack of coordination among relevant ministries in the Chinese government. Another source of compliance problems has been a lack of effective or uniform application of China's WTO commitments at local and provincial levels. China is taking steps to address both of these concerns, through more effective inter-ministerial mechanisms at the national level, and through a more concerted effort to reinforce the importance of WTO-consistency with sub-national authorities. But, we also continue to see compliance problems fostered by entrenched domestic Chinese interests apparently seeking to minimize their exposure to foreign competition.

When confronted with compliance problems, the Administration uses all available and appropriate means to obtain China's full WTO compliance, including intervention at the highest levels of government. The Administration has worked closely with the affected U.S. industries on compliance concerns, and has utilized bilateral channels through multiple agencies, at all levels, to press these concerns. Where possible, the Administration has also multilateralized its enforcement efforts, by working with like-minded WTO Members on an ad hoc basis, whenever particular issues have had an adverse impact beyond the United States.

In furtherance of these efforts, Ambassador Zoellick has met with his Chinese counterparts on numerous occasions. Most recently, in February of this year, he was in China and raised key WTO implementation and other concerns with Wen Jiabao, who is now China's Premier, and with the Trade Minister. This past February, USTR also launched a new trade dialogue with China, led on the U.S. side by then-Deputy U.S. Trade Representative Huntsman. Meanwhile, U.S. Embassy personnel in Beijing,

including Ambassador Randt, continue to maintain close contacts with Chinese trade officials at all levels, and Deputy U.S. Trade Representative Deily has developed a good working relationship with her Chinese counterpart at the WTO in Geneva.

These varied efforts are not merely designed to resolve current bilateral trade problems, but also to pre-empt future problems through an early-warning system. In general, the level of discourse has been quite high, and China's responsiveness has been satisfactory. As with any relationship as complex as that of the United States and China, however, resolving problems takes time and energy. At USTR, we are spending the maximum amount of time and energy on this task.

Protection Against Chinese Imports

Mr. Chairman, as you know, the focus of China's accession agreement is on the opening of China's markets to WTO Members. But, China also has an obligation to play by the rules if it wants to maintain access to other WTO Members' markets. For that reason, as a condition of China's entry into the WTO, we negotiated three separate trade remedy mechanisms to address injurious imports from China.

The most important of these mechanisms involves the antidumping laws and, in particular, our continued ability to use a special methodology – known as the “non-market economy” methodology – for measuring dumping in cases involving Chinese imports. I will leave it to Under Secretary Aldonas to address this issue in more detail, as the Department of Commerce is charged with administering the antidumping laws.

A second important mechanism is a special safeguard mechanism that helps U.S. industries and workers deal with import surges from China. This mechanism is available to the United States for 12 years after China's accession, or until December 11, 2013. This mechanism is distinctive because it is China-specific, meaning that it allows us to apply safeguard measures that are targeted solely at Chinese products – rather than at imports from all countries, as is normally required by WTO rules. As you know, we enacted this mechanism into U.S. law as part of the permanent Normal Trade Relations legislation. It is now found in section 421 of the Trade Act of 1974, as amended.

Earlier this year, the President issued decisions in the first two investigations initiated under section 421. One of the investigations involved Chinese imports of pedestal actuators, the seatlift component in mobility scooters and electric wheelchairs used by the disabled and elderly. The other one involved steel wire garment hangers, like those used by dry cleaners.

In the pedestal actuators matter, the President decided that providing import relief was not in the U.S. national economic interest. The President concluded that import relief was unlikely to provide *any* benefit to the sole U.S. producer of pedestal actuators, as the evidence indicated that imports would simply shift to other offshore sources. At the same time, import relief would have harmed the ability of the U.S. consuming industry

and its workers to compete with foreign producers of mobility scooters and electric wheelchairs. The President also cited the potential harm that could be caused to the aged and disabled consumers of mobility scooters and electric wheelchairs.

In the wire hangers matter, the President also decided that providing import relief was not in the U.S. national economic interest. His decision was based on a number of considerations. He first found that import relief would have affected domestic producers unevenly, favoring one business strategy over another. He pointed out that while most of the producers would likely realize some income benefits from import relief, it would disrupt the long-term adjustment strategy of one major producer and cause it to incur substantial costs. The President also explained that, after six years of competing with Chinese imports, domestic producers still accounted for more than 85 percent of the U.S. wire hanger market. In the President's view, with this dominant share of the market, domestic producers had the opportunity to adjust to competition from Chinese imports even without import relief. At the same time, the President noted the strong possibility that import relief would actually provide little or no benefit to any of the domestic producers, given evidence indicating that wire hanger production would simply shift to third countries not subject to section 421's China-specific restrictions. The President also looked at the likely effects downstream from domestic wire hanger producers. He found that import relief would have had an uneven impact on U.S. distributors, along with a uniformly negative effect on the thousands of small, family-owned dry-cleaning businesses across the United States.

The Administration is committed to maintaining the integrity of section 421 as a viable and useful trade mechanism. In his wire hangers decision, the President emphasized that he "remain[s] fully committed to exercising the important authority granted to [him] under section 421 when the circumstances of a particular case warrant it."

The third mechanism is a safeguard that applies specifically to Chinese textiles and apparel products and remains available to the United States until December 31, 2008. Although this mechanism has not yet been used, the Administration has drafted procedures, which are being published this week. Those procedures will facilitate prompt, transparent and fair decisions, consistent with the terms of China's accession agreement.

Conclusion

The Administration has placed great emphasis on working to ensure China's full implementation of its WTO commitments, with the goal of increasing market opportunities for U.S. businesses, agricultural producers and their workers. At the same time, we remain strongly committed to preserving the effectiveness of our trade remedy laws for the benefit of these same constituencies.

Mr. Chairman, Mr. Serrano, and members of the Subcommittee, thank you for providing me with the opportunity to testify. I look forward to answering your questions.