Is China Playing By the Rules? Free Trade, Fair Trade, and WTO Compliance
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Opening Statement
Chairman Jim Leach

This morning the Congressional Executive Commission on China convenes to examine U.S.-China trade relations in the context of the development of the rule of law in China. We have asked our distinguished panelists to share their expert views with us on the Chinese trade policies that have a negative affect on U.S. businesses and whether or not the Chinese pursuit of such policies can be characterized as "unfair" under international norms and standards.

The Chinese economy has experienced unprecedented growth in recent years. Between June 2002 and June 2003, Chinese exports grew by 32.6 percent. Foreign direct investment into China grew to $52.7 billion in 2002, pushing China past the United States and for the first time making it the number one target for foreign investment. While these growth trends began long before China's entry into the WTO in December 2001, increased access to the largest consumer market in the world and sweeping market reforms will only increase China's attractiveness as a manufacturing base. Under these circumstances, China's robust growth may well continue for many years.

But along with the benefits of WTO membership come responsibilities. The United States, together with all of China's trading partners, has been monitoring very carefully China's compliance with its obligations under the WTO accession protocol. In June 2002, the Commission held a hearing to look prospectively at China's ability to comply with its rule of law-related commitments. At that time, and according to the assessment of many experts throughout the first year of China's WTO membership, the consensus was that it was "too early to tell" whether China would be able to comply, and that China's performance in the second year after accession-when China had a chance to demonstrate its efforts to meet its obligations-would tell us more.

As we near the end of "Year Two," we ought to look again at how China is faring as a member of the international trading community. Measuring WTO compliance is one of the few empirical tools we have to assess the development of the rule of law in China: China's commitments to change its laws and policies are legally binding, and they have been embraced by the political leadership. Most trade experts agree that China has done very well in reducing tariffs, as required by the WTO terms of accession. Such explicit obligations are easier to meet, and China's trading partners may determine more easily whether or not China is in compliance with them.

The WTO obligation to remove non-tariff barriers, however, is much harder to fulfill and also harder to assess. For example, indirect subsidization of protected industries may contravene WTO requirements. Also, failure to meet rule of law obligations, including transparency, equal application of the laws, the institution of judicial review, and national treatment for foreign goods and investors, may in effect operate as non-tariff barriers. Such barriers may unfairly protect domestic industries, and it may be that the United States should take specific steps to seek to break down these barriers. We must first, however, seek to understand the nature of these violations, and then we can determine the course the United States should take to seek redress. We hope today's testimony will help give us a sense of what the United States could and should ask China to do.

One potential consequence of WTO noncompliance may be exacerbation of the U.S.-China bilateral trade deficit. The trade imbalance has become an issue of great concern to Americans in the past year, especially in communities dependent on manufacturing for economic survival. Although American concerns about the losses of the U.S. manufacturing base are legitimate, understanding what the bilateral deficit means and what its root causes are is crucial to finding the solution to the problems caused by the loss of manufacturing jobs. For this reason, we look forward to hearing testimony on how the United States should approach the U.S.-China trade imbalance.

Some argue that China's undervaluation of its currency, the yuan, is a leading cause of the bilateral imbalance and also may be a violation of the WTO Subsidies Agreement. Others say that critics overstate the impact of the yuan's value, and that China's currency policy complies with its international obligations. Beyond the WTO, the Commission is keen to understand whether China's currency policies, or any other of its domestic policies, are "unfair" in the sense that they contravene the standards that China is reasonably expected to uphold as member or the international community and a partner in the international economic system.

We look forward to hearing the views of our witnesses about how well China is complying with its WTO commitments, and whether China may or may not be conforming to other international standards and norms that may affect American businesses and the American economy. We hope all the panelists will recommend steps that the U.S. government should take to address the outstanding issues in U.S.-China trade relations.