

Is China Playing By the Rules? Free Trade, Fair Trade, and WTO Compliance
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Statement of
Deputy Assistant Secretary
Henry A. Levine

Mr. Chairman and members of the Commission, thank you very much for inviting me to participate in this hearing.

The Department of Commerce is dedicated to making sure “China is playing by the rules” and we continue active efforts, in coordination with US companies and other US agencies, to that end. I recently returned from China with Assistant Secretary William Lash. We worked on preparations for Secretary Evans’s October trip to China and met with senior officials to discuss China’s WTO compliance record and other bilateral trade issues. We stressed the need for China to implement its WTO commitments fully and on time.

The stakes involved in seeing that China “plays by the rules” are large. China is our fourth largest trading partner. Bilateral merchandise trade reached \$147.2 billion in 2002. Our imports from China have been growing rapidly. China overtook Japan to become our third largest source of imports last year, and surpassed Mexico in July to become our second largest source of imports. Because our imports from China are more than five times greater than our exports, China has become our largest deficit-trading partner. The bilateral trade deficit, which hit \$103 billion in 2002, reached \$65 billion in the first seven months of this year.

While our deficit with China has continued to soar, it is also worth noting that since 2001, China has been by far our fastest growing export market among our top ten trading partners. Although our exports to the world declined 7% in 2001, 5% last year, and rose less than 3% in the first seven months of this year, our exports to China surged 19% in 2001, 15% last year and more than 22% in January-July. Along with the United States, China now accounts for most of the current growth in the world economy.

As you know, the Administration has placed much emphasis on responding to the concerns of the US manufacturing sector. In March 2003, Secretary Evans directed the Commerce Department to lead a comprehensive review of the issues influencing long-term competitiveness of U.S. manufacturing, and to outline a strategy for ensuring that government is doing all it can to create the conditions for manufacturers to thrive. This review will culminate in a report to be released later this fall. In developing this report, Commerce Department officials held roundtable discussions in more than 20 cities across the country – from Manchester, NH to Columbus, OH to Detroit to Los Angeles – meeting with manufacturers in the aerospace sector, autos, semiconductors, pharmaceuticals, among others.

In response to the concerns we have heard, Secretary Evans has already announced several new initiatives, including the creation of an Assistant Secretary focused on the needs of manufactures supported by a new Office of Industry Analysis to focus on the needs of American manufacturers, the creation of a new Assistant Secretary for Trade Promotion to boost our exports, and the establishment of an Unfair Trade Practices Team to track, detect and confront unfair competition.

During the roundtable discussions, no country raised more attention as a source of concern than China. Our manufacturers complained about rampant piracy of intellectual property; forced transfer of

technology from firms launching joint ventures in China; trade barriers; and capital markets that are largely insulated from free-market pressures. We have also heard rising concerns about the pace and direction of China's implementation of its WTO commitments in areas such as transparency, IPR protection, trading rights and distribution services, agriculture, and financial services.

Americans are willing to compete, on even terms, with any country in the world but we will not stand for unfair competition. We will not look the other way or wait idly. As the Secretary stated in a recent speech to the Detroit Economic Club, "American manufacturers can compete against any country's white collars and blue collars, but we will not submit to competing against another country's choke collars."

To ensure that China honors its commitments and that US companies benefit from these opportunities, we have adopted an aggressive and multi-pronged approach. We are going to target unfair trade practices wherever they occur. We are exploring the use of new tools to expand our trade promotion activities related to China. We are expanding our efforts to engage Chinese officials to help make sure they "get the rules right" as they continue their massive task of restructuring their economic system.

In the area of intellectual property rights (IPR) protection, despite China's commitments to cracking down on rampant piracy, fake CDs, DVDs and pharmaceuticals continue to flood the market, costing us estimated \$20-25 billion annually. In fact, the Business Software Alliance estimates that software piracy rates in China exceed 90%. In response, we continue to insist that the Chinese government take the steps necessary to bring these problems under control. We have raised specific IPR concerns at our meetings with senior Chinese government officials. Through the annual Special 301 process, working with our colleagues in other agencies, we continue to closely monitor China's IPR conditions. To make sure that China has the tools to implement its commitments we have organized a series of seminars with Chinese officials conveying US views on how best to increase criminal enforcement of IPR violators and stop cross-border trade in pirated products. We think China can and should do better in these areas. We will continue to press for this goal.

In our manufacturing roundtables many companies have expressed concern over the exchange rate of the Chinese Yuan. This administration believes that currency values should be set by free-market forces. Three weeks ago Secretary Snow delivered exactly that message to the Chinese government.

While continuing our focus on China's WTO implementation and other trade practices, we will continue to enhance the ability of US businesses, especially small and medium-sized businesses, to compete in China. We are launching "Doing Business in China" seminars in cities across the country, which address small business concerns pertaining to the Chinese market. We are enhancing our efforts to insure that US-developed technical standards are accepted in China just as they are accepted elsewhere internationally. We are exploring ways to develop more trade leads in China and to provide even more targeted information on China opportunities for companies in the US.

Combined with these domestic efforts, we regularly engage Chinese government officials to ensure trade agreement compliance and market access for our products and services. Secretary Evans will visit China in October to advance U.S. interests and ensure US companies face a level playing field in our economic relations with China. We will have another opportunity to raise outstanding issues during the 15th U.S.-China Joint Commission on Commerce and Trade (JCCT). Secretary Evans has issued an invitation to host China's Minister of Commerce Lu in Washington for the JCCT by the end of this year. We are still awaiting an official response.

Thank you for devoting this hearing to these important issues, and I welcome your questions.