

STATEMENT BY
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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 and, in particular, the topic of China's WTO implementation. It gives me great comfort sharing the stage with two respected colleagues whom I deem it an honor to be associated with.

China and its WTO commitments

China's accession to the WTO was a decisive victory for reform in China. China's reformers clearly understand the values and benefits of openness in the economic sphere, and that is why they pursued WTO membership. They know that WTO membership will help them transform China's economy - and many hope and believe China's society generally - in positive ways.

This Administration, like the previous Administration, worked closely with China's reformers throughout the many years of WTO accession negotiations. The result was a comprehensive set of commitments, with which this Commission is familiar.

With the negotiations now over, we have continued to work with China's reformers in the next phase of this process, as China embarks on the enormous task of implementing the numerous WTO commitments it has made. Clearly, implementation is, and will continue to be, a major challenge for China and its reformers. They must find ways to ensure that recalcitrant ministries, State-owned enterprises and provincial and municipal authorities all act in conformity with China's WTO commitments.

But, China's leadership appears prepared to take on this challenge. It is committed to make China competitive in the international economic arena in the 21st century. It knows that it needs to develop a market economy compatible with the WTO's rules for this to happen. It also knows that there will be a price to be paid as this transition takes place.

The ability of China to meet this challenge and implement its WTO commitments in full will depend on the outcomes of several sets of dynamics.

Internal Government Coordination

As we have anticipated, and as we have seen at times during the first six months of China's WTO membership, there will not always be agreement among the central government's ministries on WTO compliance matters. Some of the ministries are reform-minded and generally understand the benefits of full compliance with WTO rules. The Ministry of Foreign Trade and Economic Cooperation (MOFTEC), which had the lead in the WTO negotiations, is one example. But, other ministries, particularly those with proprietary functions or a domestic focus, may be less interested in, and even resistant to, full compliance. In certain circumstances, they will be more inclined to seek ways to protect their and their constituents' existing rights and privileges, and so they will present a particular challenge to the implementation process.

Center versus Periphery

We have also anticipated a similar set of dynamics involving the central government and the localities. While some provincial and municipal authorities appear to see immediate benefits in complying with WTO rules,

others do not see these benefits or simply do not yet understand WTO rules. Historically, Beijing's influence has not extended uniformly over local authorities, and at this point the breadth and extent of this influence vis-à-vis China's WTO commitments remains unclear.

Realistically, we can expect some non-compliance as these internal struggles take place. It is also quite possible, if not probable, that, independent of these internal struggles, China will simply be unwilling to live up to a particular WTO commitment. As you know, we still have compliance problems with longstanding WTO trading partners, and there is no reason to expect that China will be different.

Short-term Score Card

Looking back on the first six months of China's WTO membership, we have seen China take a good faith approach to its WTO membership and make significant efforts to implement its commitments. China has made substantial tariff reductions on industrial and agricultural goods of importance to U.S. businesses and farmers. It has begun to take concrete steps to remove non-tariff trade barriers in virtually every product sector. It has begun to implement far-reaching services commitments that should substantially increase market access for U.S. services suppliers. It has also repealed hundreds of trade-related laws, regulations and other measures and modified or adopted numerous other ones in an effort to become WTO-compliant in areas such as import and export administration, standards and intellectual property rights, among many others.

With the aid of the United States and other WTO members and the private sector, China has also embarked on an extensive campaign to educate central and local government officials about both the requirements and the benefits of WTO membership. This is an important initiative that should help to foster fuller compliance with China's WTO commitments.

There have also been some bumps in the road, such as the delayed and flawed allocation of tariff-rate quotas, trade-distorting biotechnology regulations, inadequate adherence to commitments benefitting foreign insurers, and restrictive measures in the area of express delivery services. These are important issues, and we have been using all available and appropriate means to obtain China's full compliance. Working closely with the affected U.S. industries, we have been addressing these and other issues vigorously through bilateral means at all levels of the U.S. government. We have also multilateralized these efforts, where possible, by working with like-minded WTO members on an ad hoc basis, both in Geneva and Beijing, where particular issues are having an adverse impact beyond the United States. WTO dispute settlement procedures also remain available as a tool for resolving these issues.

Finally, we should keep in mind that we are only six months into China's WTO accession. China's WTO implementation is a long-term process, with major transformations required of China's trade regime and many important Chinese commitments, such as trading rights and distribution services, to be phased in over the next few years. We should continue to be comprehensive in our review of China's implementation efforts, but we should also realize that implementation is a complicated and ongoing process.

U.S. Inter-Agency Monitoring Process

Now, let me say a word about the U.S. inter-agency monitoring process.

Given China's importance as a major trading power and the breadth and complexity of China's WTO commitments, the Administration has set up a comprehensive inter-agency monitoring effort to determine the extent to which China is complying with those commitments. USTR's China Office is coordinating this initiative, which is being formally overseen by a newly created Trade Policy Staff Committee (TPSC)

subcommittee whose mandate is devoted exclusively to China and the extent to which it is complying with its WTO commitments.

All TPSC agencies have been invited to participate in this newly created subcommittee. The subcommittee held its inaugural meeting on December 4, 2001, and, since then, has met on a monthly basis as it evaluates and prioritizes the monitoring activities being undertaken, reviews the steps that China has taken to implement its commitments and decides on appropriate responses.

The activities being overseen by the subcommittee are taking place on several fronts, with continual private sector involvement. In China, State Department economic officers, Foreign Commercial Service officers, Foreign Agricultural Service officers and Customs attaches are very active, gathering and analyzing information, maintaining regular contacts with U.S. industries operating in China, maintaining a regular dialogue with Chinese government officials at key ministries and agencies, and working with personnel from like-minded Embassies of other WTO members. In Washington, an inter-agency team of experts, coordinated by USTR and including principally the Departments of Commerce, State, Agriculture and Treasury and the U.S. Patent and Trademark Office, is working closely with personnel from the U.S. Embassy and Consulates General in China as well as with U.S.-based trade associations and companies. Finally, at the WTO in Geneva, USTR has been active in voicing concerns about, and working with other WTO members to address, problems with China's implementation efforts as they arise.

USTR and other agencies will also be active participants in the WTO's annual Transitional Review Mechanism, which I will discuss next.

The WTO's Transitional Review Mechanism

Consistent with the terms of China's accession agreement, a unique multilateral review mechanism known as the "Transitional Review Mechanism" has been created. It calls for a detailed review of China's WTO compliance annually for the next 8 years, with a final review in year 10. It requires China to provide detailed information to WTO members for purposes of this review mechanism. It also gives WTO members the opportunity to raise questions about how China is complying with its commitments, and it calls on China to submit responses to these questions.

Each year, the review will be conducted initially in 16 WTO committees and councils. Each of those bodies will review implementation matters within its mandate and then report on the results of its review. Ultimately, the WTO's highest body, the General Council, will consider these reports and then make recommendations to China about its implementation efforts.

The new TPSC subcommittee addressing China's WTO compliance will be working closely with existing TPSC subcommittees that focus on the regular work of the WTO bodies to coordinate U.S. participation in the Transitional Review Mechanism, which this year will begin with meetings in September. Together, these TPSC subcommittees will solicit input and advice from industry and actively press U.S. concerns about China's implementation efforts.

Currently, we are working with China and other WTO members to make the Transitional Review Mechanism as thorough and meaningful as possible. It is a new mechanism at the WTO, and we need to resolve various logistical matters and procedures to implement it properly, such as the dates of meetings and the time-deadlines for China to submit relevant information and to respond to other WTO members' questions. To that end, we have been holding formal and informal discussions in Geneva. These discussions have not gone as quickly as we would have liked, in part because the Chinese delegation is still trying to become familiar with WTO practices and procedures. Nevertheless, we hope to resolve these matters soon.

Conclusion

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