

Under Secretary of Commerce for International Trade Administration
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U.S. Senate Committee on Finance
U.S.-China Economic Relations Revisited
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Mr. Chairman, Senator Baucus, Members of the Committee, I am pleased to be with you today to share some thoughts on the United States' economic relationship with China. I returned from Beijing a few days ago. Secretary Gutierrez is in China this week, continuing as a lead-up to this year's meeting of the Joint Commission on Commerce and Trade.

I would like to offer some general comments on U.S.-China economic relations, and then discuss particular issues in the U.S. market and in the China market. Finally, I would like to review programs the Department of Commerce is managing to deal with these issues. First some general points.

The relationship between the United States and China is one of the most important international economic relationships of our era. The complexity of the relationship encompasses almost every major economic issue we face, such as competitiveness, the trade balance, and investment policy. Additionally, the size and the dynamism of the two economies ensure that even seemingly minor policy decisions can ripple across the oceans. If we add to these challenges the more fundamental differences of language, culture, levels of development, and political systems, it should be no surprise that Sino-American economic relations are frequently viewed negatively by Americans. Indeed, there are many problems and challenges in the relationship, not the least of which are trade barriers on China's side.

I. Positives should not be lost

But even as we wrestle with these challenges, we need to keep the positives in mind: China is one of our fastest growing export markets; U.S. exports to China increased by over 20 percent in 2005. Indeed, U.S. exports to China have increased by 118 percent – the highest five-year percentage increase among our top export markets. According to industry surveys, U.S. companies in China are generally successful and report solid sales in the China market. We should also bear in mind that our imports from China bring advantages to the U.S. economy and consumers, as well as challenges.

II. Challenges in the U.S. Market

There are many wide-ranging challenges in the relationship as well, and they can be divided into those in the U.S. market and those in the China market. In the U.S. market, concerns center on unfair competition from Chinese imports because of dumping, subsidies, or China's exchange rate. I will leave the exchange rate questions to my

colleague from the Treasury Department, but let me offer some comments on subsidies and dumping.

At Commerce we are committed to vigorously combating these unfair trade practices. We currently maintain 58 anti-dumping orders on imports from China, including consumer goods, steel products, agricultural products, seafood, and chemicals. These orders represent 22 percent of all current U.S. antidumping orders. The estimated value of trade affected in 2005 by these orders was more than \$5.25 billion.

We believe that this tough-minded approach to enforcement led to successful textile negotiations with the Chinese last year. We will continue to use all our tools aggressively when needed.

Regarding subsidies, the United States has stepped up its engagement with China through the JCCT Structural Issues Working Group and the newly established Steel Dialogue. Subsidy concerns cover a wide variety of programs, including industrial policies, the role of state-owned enterprises, and China's continued use of price controls. Transparency remains a major obstacle to identifying and measuring subsidies in China, a difficulty furthered by China's continuing failure to provide its annual subsidy notification to the WTO. I am pleased to report, however, that China informed us last week that they did intend to meet this WTO commitment later this spring.

III. Challenges in China

Perhaps more significant than challenges in the U.S. market, U.S. companies face challenges doing business within China. Though tariffs have come down, China retains an array of non-tariff barriers, among them the use of regulations, technical standards and non-market mechanisms that hurt American companies. Other challenges include, China's government procurement policy, its lack of transparency, and the weak enforcement of laws.

We find these practices somewhat paradoxical because the Chinese people also lose by these distortions. For example, China's leaders tell us they are concerned about lagging development in China's rural areas. U.S. telecommunications firms could provide investment and services in these areas, but Chinese regulations effectively prohibit this. Similarly, these areas are typically underserved by the modern retail sector. U.S. direct sales firms are eager to expand in China, yet China's regulations dramatically limit their ability to operate in China. U.S. express delivery firms have been central to China's export success, but China is considering regulations that would restrict their ability to compete. Meanwhile, China's leaders tell us they are dedicated to tackling corruption. Participating in the WTO Government Procurement Agreement would improve transparency in government procurement. Despite this China has yet to honor its commitment to join the GPA, declining even to start negotiations.

A complete list of trade barriers in China would be quite extensive, but it is worth highlighting the following of critical concern. China's ban on U.S. beef makes it one of

the few major markets to remain closed. U.S. firms want to offer 3G services in China but cannot get licenses to do so.

And the issue of intellectual property rights enforcement remains front and center, though China has expanded its efforts to protect IPR. Industry estimates that nine out of every ten copies of software installed on PCs in China are pirated, representing a loss to the U.S. software industry of about \$3.6 billion a year. 19 of 20 film DVDs sold in China are pirated, costing U.S. companies \$280 million a year.

On the Chinese side, Vice Premier Wu Yi has personally committed to overseeing IPR efforts in China, and her attention has improved the government's focus on this issue. China recently posted an IPR Ombudsman to Washington to work with U.S. companies to resolve their IPR issues. China has also committed to accede to the World Intellectual Property Organization Internet Treaties, which would bring China's copyright laws into the digital era.

And yet, we need to see more tangible progress. We are looking for China to increase the number of criminal prosecutions for IPR violations. We want China's cooperation in cleaning up the illegal street markets of pirated goods. We want them to stop the "trademark squatting" in which U.S. companies find their well-established marks registered and/or used by unauthorized entities. We want them to cooperate in worldwide programs that "fingerprint" optical discs so that pirated material can be traced to the manufacturers that produce such material.

We are attempting to address all of these issues through the US-China Joint Commission on Commerce and Trade (JCCT). Established in 1983, the JCCT is a government-to-government consultative mechanism that provides a forum to resolve trade concerns and promote bilateral commercial opportunities. The 17th JCCT session, co-chaired by Secretary of Commerce Gutierrez and United States Trade Representative Portman and China's Vice Premier Wu Yi, is scheduled to take place on April 11 in Washington. It was the preparatory work for the JCCT that took me to China last week along with my USTR counterpart Ambassador Bhatia. Although some progress was made, most of the major issues we would like to address through this process remain unresolved.

IV. What Commerce Is Doing

Beyond the JCCT, the Department is engaged on the front lines to ensure that American companies, workers and farmers compete and win in the Chinese market. Our China team is our largest overseas presence, with a staff of 115. Though our personnel range from commercial specialists to patent and trademark experts, Commerce programs can be grouped into four broad areas—developing market opportunities; business facilitation; problem-solving; and enforcement.

A. Developing Market Opportunities

We provide a range of "front end" services to U.S. companies in areas such as export counseling, customized market research, qualified international contacts and trade leads,

and trade events. Commerce also provides grants to assist in U.S. industry market expansion efforts overseas.

- The Commerce *Gold Key Program* helps U.S. companies find a buyer, partner, agent or distributor. In FY 2005, 103 companies participated in this program in China.
- In response to a 2004 Congressional mandate, Commerce has opened fourteen *American Trading Centers* in fourteen key cities where the U.S. Government (USG) had no previous commercial presence. Through this initiative U.S. firms can compete for major local infrastructure projects and sell directly to Chinese importers with help from targeted market research, counseling, introductions, and representation at trade shows.
- In 2005, Commerce's China-based officers recorded 202 *Export Successes* related to China, with a value of \$6.9 billion dollars.
- In 2005, the Department participated in 36 major *trade shows in China*, and China-based staff supported 68 trade missions in China (including ten led by U.S. governors).
- The Commerce Department is currently funding 12 ongoing *Market Development Cooperator Programs* in operation in China, through which we partner with industry on market expansion projects. Areas of focus for current projects include environmental products, e-commerce, architecture and engineering, energy, standards, and education.

B. Business Facilitation

Commerce runs a range of outreach programs across the U.S.: road shows, websites, and a hotline. Through these programs, Commerce assists companies of all sizes on how to enter the China market and where to turn for federal resources and assistance.

- *China Business Information Center*: The China Business Information Center (CBIC) consists of a public-information phone line and a website (<http://www.export.gov/china>) which brings together China-related information to enable U.S. exporters to promote products and services, understand Chinese laws and customs, obtain market research, and generally take basic steps to enter the Chinese market. There have been over 73,000 website "hits" since the program went on line in September 2004.
- The Department works with industry associations and local governments on a series of *Doing Business in China seminars* targeting small-and-medium-sized enterprises (SMEs) around the country. In 2005, Commerce hosted 114 outreach events, attended by 7,480 participants.
- The Commerce *Advocacy Center* serves as a central USG point of contact through which U.S. companies can access government resources and request advocacy in competing for international government tenders. To date in FY 2006, USG advocacy has already successfully assisted American companies in winning tenders in China worth more than \$5.3 billion, with more than \$3.6 billion in U.S. export content.
- To assist U.S. companies (particularly SMEs) to protect their intellectual property rights, Commerce assisted in they development of a *StopFakes.gov* website that provides up-to-date information on protecting and enforcing IPR at home and abroad, including information on registration, border enforcement, and criminal enforcement. A Commerce hotline, 1-866-999-HALT, allows U.S. exporters to submit requests for assistance.

C. Problem-Solving

When U.S. companies encounter problems in China, Commerce staff is available to provide on-the-ground assistance to resolve the issue. When problems are specific to IPR issues, Commerce has also developed industry partnerships to link businesses with lawyers with China expertise and a program with the Chinese Government to ensure that specific IPR cases are passed to relevant Chinese agencies to be resolved.

- The Commerce *Trade Agreements Compliance Program* helps U.S. companies to resolve problems without having to resort to formal dispute settlement proceedings. Through this program, Commerce has investigated nearly 150 market access or compliance cases involving China. These cases have dealt with transparency issues, duplicative testing requirements, tariffs, import licensing, customs/customs valuation, market restrictions and policy changes.
- Commerce is posting three *Intellectual Property Attaches* at our Embassy in Beijing and Consulate in Guangzhou to work with the Chinese government to ensure that China is living up to its IPR commitments and assist American businesses in protecting their IPR in China.
- The Commerce *Trade Facilitation Office* at U.S. Embassy Beijing hosts industry-specific IPR roundtables in China with U.S. companies based in China to discuss the protection and enforcement of IPR in China, and how the U.S. Government and the private sector can work cooperatively to address the industry's specific IPR issues.
- In 2004, Commerce worked with the USG interagency to establish an *IPR Case Referral Mechanism*, which facilitates the submission of individual U.S.-company IPR cases through China's Ministry of Commerce (MOFCOM) to relevant Chinese government ministries.
- *SME China IPR Advisory Program*: The Department of Commerce, along with the American Bar Association, the National Association of Manufacturers, and the American Chamber of Commerce in China, established this program so that American SMEs can request a free, one-hour consultation with a volunteer attorney experienced in both IPR issues and the China market to learn how to protect and enforce rights such as trademarks, patents or copyrights in China.

D. Enforcement

By law, the Commerce Department enforces the fair trade rights of U.S. companies and runs a number of China-specific initiatives to carry out this responsibility.

- Commerce officials in Beijing facilitate anti-dumping investigations to help ensure the information provided to the Department is accurate and complete, and that the Department reaches correct results. As noted above, the current 58 anti-dumping orders on imports from China have a value of more than \$5.25 billion.
- Commerce maintains an office to help SMEs navigate the unfair trade laws and it also maintains a subsidies tracking office to help U.S. companies identify actions by foreign governments that unfairly aid their competitors and distort the market.
- Commerce has overseen the creation of the U.S. Embassy *China IPR toolkit*, available at Stopfakes.gov, to guide businesses through steps to secure and enforce their rights in China.

- Commerce established a *Trade Fair Enforcement Program* with China's Ministry of Commerce to allow U.S. companies to formally file IPR complaints at China's major trade fairs and improve the Chinese Government's enforcement efforts at these major trade events.

V. Closing

I want to emphasize in closing these challenges and opportunities are real. I am proud of the work that Commerce Department officers are doing on the front lines for U.S. companies to ensure China is an open market for their products and services. It is our pleasure to work with Members of Congress on constituent's requests for assistance to enter the China market or solve problems there.

Ultimately, for the mutual benefit of both our countries, open markets are essential. To guarantee that support is sustainable, the Chinese Government must increase market access for U.S. firms and live up to its international trade commitments. American companies, workers and farmers can compete with anyone in the world, given a level playing field. We will continue to work with our Chinese counterparts to achieve this goal.