

Remarks by U.S. Trade Representative Susan C. Schwab
Announcement of Resolution of WTO Dispute With China on
Prohibited Subsidies

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As prepared for delivery

Introduction

- Thank you all for coming.
- As many of you know, in February of this year, we filed a case in the World Trade Organization challenging China's illegal subsidies practices.
- This case is enormously important. It challenged the kinds of illegal subsidies that severely distort trade conditions for U.S. manufacturers and producers – especially small and medium sized enterprises – and their workers. As a result of such subsidies, a range of domestically produced goods in the United States, from steel to wood products to information technologies, are denied the opportunity to compete fairly in the United States, in China, and in third country markets where they are up against Chinese subsidies that are illegal under the WTO.

- Today, I am very pleased to report we have just signed an agreement with China that will lead to complete elimination of these WTO-prohibited subsidies. We expect the agreement to be fully implemented by January 1, 2008.
- This outcome represents a victory for U.S. manufacturers, producers and their workers. It is significant in three respects. First, it eliminates a set of widely- available subsidies that create significant disadvantages for U.S. products across many manufacturing sectors. Second, it shows that Chinese policymakers understand the need to respect the strict WTO prohibitions on these kinds of subsidies in the future. It also demonstrates that our two nations can work together to resolve major differences. Third, it shows that President Bush’s approach to resolving trade disputes with China – dialogue if possible, legal action when necessary, and working within the rules-based system - gets real results.

U.S. Approach Works

- In this case, as in others, we have been clear: Where China fails to live up to its WTO obligations, we will use the full array of tools available to secure compliance.

- We began by engaging China in dialogue, but it became clear that dialogue alone was not leading the Chinese government to address our concerns. So, we invoked the WTO dispute resolution process. At the same time, we made clear our preference for the right result - and not simply drawn-out litigation for its own sake.
- The result? A pragmatic outcome from the WTO dispute settlement process with the excellent result that I am announcing today.

Specifics of the Case

- From a legal perspective, this case is relatively straightforward.
- We were prepared to prove that China had been violating WTO subsidies rules by continuing to use two broad types of prohibited subsidies across the spectrum of industry sectors in China – including steel, wood products, information technology, and many others.
- First, export subsidies – these subsidies have given an unfair competitive advantage to Chinese products and denied U.S.

manufacturers the chance to compete fairly in the United States and in third country markets.

- Second, the Chinese will eliminate “import substitution” subsidies. These subsidies have encouraged companies in China to purchase Chinese-made goods instead of imports. They have given Chinese-made goods an unfair edge in the China market over high-quality, fairly priced goods from the United States and other countries.
- These two types of subsidies – export subsidies and import substitution subsidies – are considered to be “prohibited subsidies” by the WTO. That means they are so trade-distorting that WTO rules prohibit them outright.
- But, the Chinese government has been slow to emerge from its historical role controlling the economy. We have been urging China to eliminate all industrial policies, like these prohibited subsidies, which interfere so fundamentally with market-driven economic and trade outcomes.

Trade Impact

- At its core, this case was about standing up for American manufacturers and workers. The trade-distorting subsidies we challenged created significant disadvantages for U.S. products in our home market, in China, and in third country markets.
- The prohibited subsidies that China has now agreed to discontinue were widely available across many manufacturing sectors in China, and they offered sizeable benefits.
- For example, the export subsidies included benefits like substantial income tax reductions that had the potential to benefit up to 60 percent of China's exports.
- It is difficult for companies to compete when the playing field is so uneven. It is especially hard on small and medium-sized enterprises and their workers.
- China's renunciation of the banned subsidies we challenged is excellent news for China as a WTO Member and excellent news for world trade. In this area, we will now have a more level playing field – a direct benefit of the rules-based system.

U.S.-China Trade Relations

- I want to underscore that the way this dispute was resolved stands as a victory for both countries. It demonstrates that mature trading partners can use the WTO process to work through their differences.
- The United States is also encouraged that the terms of the agreement reflect a conscious decision by China – for its own benefit – to reject the economic thinking that has relied on these kinds of distorting subsidies in the past. That is good for China as a WTO member and good for the world at large.
- We face many challenges in our trade relationship with China, and this is only one aspect. But it is an important one. There is still much work to be done to meet the challenges of our growing and complex relationship with China – and it will be difficult work. More results are needed, and at a faster pace.

Conclusion

- Let me make two final points before I conclude.
- First, I would like to note that I have consulted closely with Congress as we have developed strategies for dealing with difficult issues like prohibited subsidies, and Members with whom I have spoken appreciate the value of results over rhetoric.
- I think this announcement makes clear that the Administration's policy of serious dialogue and resolute enforcement is delivering real results. It clearly shows the wisdom of this approach over some legislative approaches that would simply impose retaliatory tariffs.
- What we have done will actually benefit U.S. manufacturers and workers. What we should avoid is a needlessly hostile relationship with China which will, in the long run, only hurt U.S. workers and consumers.
- Second, I want to express my appreciation to the Government of Mexico, our co-complainant in this case, and in particular Minister

Eduardo Sojo, for working with us so closely on this dispute at the WTO.

- Thank you. I would be happy to take your questions.