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U.S. Senate Committee on Commerce, Science and Transportation
Subcommittee on Interstate Commerce, Trade, and Tourism
“U.S. Trade Relationship with China”
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Mr. Chairman, Senator DeMint, Members of the Subcommittee, I am pleased to be with you today to share some thoughts on the United States’ trade relationship with China. In our view, this relationship is in general a positive one, with benefits to U.S. manufacturers, workers, farmers, ranchers, and service providers. However, at the same time, we recognize that U.S. companies face a number of challenges as they try to compete in China, from market barriers and intellectual property issues, to unfair trade practices in which Chinese companies might engage in the U.S. or other markets. Further, we have recently faced some serious challenges regarding the safety of Chinese imports. Let me begin with an overview.

Overview of U.S.-China Relations

Since China started down the path of reform some thirty years ago, it has enjoyed some of the highest rates of sustained economic growth the world has ever seen. We welcome China’s move toward market-based economics.

Indeed, it has been the policy of the United States, across all administrations to engage China politically and economically as it has struggled to move toward market economics. In the 35 years since the signing of the Shanghai Communiqué, U.S. economic policies have had two main goals: to help China move to a rules-based system and to help China internationalize its economy. These policies culminated with China’s accession to the WTO in 2001, which resulted in China’s membership in the world’s primary forum for economic engagement. China now has both the rights and responsibilities that come with membership in the international trading system.

The U.S. has also benefited from this policy. China is one of our fastest growing markets and is now our fourth largest export market. U.S. exports to China totaled \$55 billion in 2006, up 32 percent from the previous year. To put this in perspective, U.S. exports to China were greater than U.S. exports to India, Brazil and France combined. According to industry surveys, U.S. companies in China are generally successful and report solid sales in the China market. And our companies and consumers derive benefits from imports from China as well.

At the same time, we must recognize that there are a range of trade and economic practices in China that most would consider unfair. For example, the non-market driven growth of China’s steel industry risks creating global over supply, and China’s efforts to legislate policies that protect significant segments of domestic industry at the expense of foreign competitors, as evidenced by the latest draft of China’s Anti-Monopoly Law, foster an unlevel playing field in China.

At the Department of Commerce our China work falls into three general areas: tough-minded negotiations to achieve more access to markets; aggressive enforcement of our trade laws to fight

illegal dumping and subsidies; and a strong commitment to trade promotion to help U.S. companies compete and win in the Chinese marketplace.

Let me provide a description of some of the things we are doing in each of these areas.

Commerce's Role in Trade Policy

The most important mechanism we have to promote policy change in China is through trade negotiations. We regularly consult with China on a range of trade policies, regulations, and practices in order to improve the business environment in China for our companies and for exported goods and services.

To achieve our objectives, we are engaging the Chinese through bilateral consultations, chiefly the Joint Commission on Commerce and Trade (JCCT), co-chaired by the Commerce Department and USTR, and the Strategic Economic Dialogue (SED), led by the Treasury Department.

Joint Commission on Commerce and Trade (JCCT)

For almost 25 years, the JCCT has served as a bilateral consultative mechanism to resolve specific trade concerns and promote commercial opportunities. Since 2004, the JCCT has met at an elevated level, with Secretary Gutierrez and U.S. Trade Representative Schwab now chairing the U.S. side and Vice Premier Wu Yi chairing the Chinese side. At the last JCCT in 2006, the U.S. and China reached agreement on a number of matters, such as: 1) eliminating some redundant regulatory requirements for medical device imports; 2) improving enforcement of intellectual property rights by requiring installation of legitimate operating systems software; 3) a deadline for China to commence formal negotiations to join the WTO's Government Procurement Agreement; and, 4) reviewing export control cooperation. In addition, China announced that its State Council issued a notice requiring that all laws, regulations, and measures affecting trade be published in a single official journal. We expect to hold the 18th session of the JCCT in late fall in Beijing.

Chinese and U.S. officials meet in a number of JCCT Working Groups throughout the year to address issues such as tourism, IPR, high technology, subsidies and export controls. In addition, we continue to engage China on rising steel imports through a dialogue on steel.

Strategic Economic Dialogue (SED)

The U.S.-China Strategic Economic Dialogue (SED) provides an additional forum for advancing our trade agenda. The second meeting of the SED was held May 22-23 in Washington, and the third will be held in December in Beijing.

The SED is a mechanism for maintaining strong and mutually beneficial economic and trade relations between the United States and China. The Commerce Department works closely with Treasury, USTR, State and other agencies to promote long-term structural change. At the meeting in May, leaders from both countries agreed to liberalize air services rights, undertake further financial sector reforms, work to foster energy security, and take additional steps to protect the environment and strengthen the rule of law.

Commerce's Enforcement Role: Enforcing Trade Laws and Agreements

The second area in our approach to China, the focus of my responsibilities at Import Administration within the Department of Commerce, is aggressive enforcement of our trade laws to ensure a balanced playing field for American manufacturers, a task to which the Administration is fully committed. Commerce currently maintains 62 antidumping duty orders on imports from China, including consumer goods, steel products, agricultural products, seafood, and chemicals. These orders represent 27 percent of the total antidumping duty orders we currently have in effect globally and cover almost \$6 billion in imports.

Earlier this year, Commerce preliminarily modified a 23-year-old government policy by applying the anti-subsidy law to China. In the countervailing duty investigation of coated free sheet paper from China, Commerce preliminarily determined that the current nature of China's economy does not create the obstacles to applying the anti-subsidy law that were present in the "Soviet-style economies" at issue when we originally developed our policy more than 20 years ago. China of 2007 is not the Soviet Bloc of 1984. Our preliminary determination reflects the view that we can and should measure and remedy subsidies in China when they exist. We will be issuing our final determination in October of this year.

Just as China has evolved, so should the range of tools available to make sure that China trades fairly. Indeed, I was just in China last week for an on-the-ground investigation of subsidies to China's paper industry. Additionally, my agency is now investigating subsidies to China's steel industry.

To further ensure that China lives up to its trade commitments, the U.S. also makes use of the WTO dispute resolution process. In January 2006, the U.S. warned China about the imminent filing of a WTO case challenging an antidumping order imposing duties on imports of kraft linerboard from the United States, and the Chinese side quickly rescinded that order. We now have four WTO cases against China. In 2006, the United States, Europe, and Canada brought a WTO dispute challenging China's discriminatory charges on imported auto parts. In February 2007, the United States filed a case challenging China's use of prohibited export and import substitution subsidies. In April 2007, we filed two more WTO cases against China – one raised a number of IP enforcement issues, and the other focused on market access restrictions affecting U.S. copyright-intensive products such as publications, and audio and video products. In addition, China remained on the Priority Watch List in USTR's Special 301 report and subject to Section 306 monitoring based on their record of IP protection.

Clearly, a fair and tough-minded approach to enforcement of our trade laws and agreements is a critical component of our engagement with China.

Commerce's Trade Promotion Role: Assisting U.S. Exporters in China

Beyond negotiations and our trade enforcement work, the Commerce Department's mission is to ensure that American companies can compete and win in the Chinese market. Our Commerce team in China constitutes our largest overseas presence, with a staff of 130. The China Team, supported by our China trade specialists in Washington and our export offices across the United States, work directly with companies, particularly small and medium-sized enterprises (SMEs),

interested in exporting to China to develop market opportunities, facilitate business and solve problems.

Developing Market Opportunities: Activities in China

Through our Commercial Service, we assist U.S. companies in areas such as export counseling, customized market research, qualified international contacts and trade leads, match-making, and trade events.

- In response to a 2004 Congressional mandate, we have opened American Trading Centers in 14 key cities. The American Trading Centers initiative opens up large and growing, but underserved markets, helping U.S. firms compete for major local infrastructure projects and sell directly to Chinese importers. These Centers provide targeted market research; counseling; match-making with local Chinese buyers, importers, etc; and representation at trade shows.
- The Commerce Gold Key Program helps U.S. companies find a buyer, partner, agent or distributor. In FY 2006, 182 companies participated in this program in China, up from 103 in 2005.
- In 2006, the China team recorded 719 export successes related to China, with a value of \$3.1 billion dollars, compared to 250 export successes in China, valued at \$1.9 billion in 2001.
- In 2006, the Department participated in 37 major trade shows in China, compared with only four shows in 2004. Additionally, we supported more than 50 trade missions in China in 2006.

Business Outreach: Activities in the United States

Commerce manages a range of outreach programs across the United States: road shows, websites, webinars and a hotline. Through these programs, Commerce assists companies of all sizes to enter the China market and provides additional information on federal resources and assistance.

- *China Business Information Center*: The China Business Information Center (CBIC) provides China-related information to enable U.S. exporters to promote products and services, understand Chinese laws and customs, obtain market research, and take steps to enter the Chinese market. Since its October 2004 launch, the CBIC has organized or participated in more than 213 outreach events in 41 states, reaching almost 13,600 business executives with information, advice and direction on exporting to China. The CBIC website attracts more than 1,400 visitors per day on average and has recorded more than 24 million hits.
- Commerce works with industry associations and local governments on a series of *Doing Business in China seminars* targeting SMEs around the country. In 2006, Commerce hosted 70 outreach events, attended by 5,250 participants.
- The *Commerce Advocacy Center* serves as a central U.S. Government (USG) point of contact through which U.S. companies can access government resources and request USG advocacy in competing for international government tenders. To date in FY 2007, USG advocacy has already successfully assisted American companies in winning tenders in China worth about \$4.4 billion, with more than \$3.8 billion in U.S. export content.

- To assist U.S. companies (particularly SMEs) in protecting their intellectual property rights, Commerce has developed a wide range of services to provide 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.
- Commerce's China Office hosts free monthly webinars and gives presentations on China IPR issues to assist U.S. industry. More than 850 online participants have participated in the 13 webinar programs, with more than 3,000 visits to the archived programs. In 2006, our China Office and Office of Intellectual Property Rights experts gave presentations in cities across the United States providing guidance to SMEs on how to protect their IPR abroad. Further, from 2005 to the present, the United States Patent and Trademark Office (USPTO) has also been actively engaged in assisting U.S. companies on how to protect/enforce intellectual property rights through its China Road Shows, 2-day seminars, and workshops conducted throughout the U.S.
- ITA's Office of Intellectual Property Rights has recruited the expertise of the Patent and Trademark Office and the Small Business Administration to develop an online training program for SMEs to learn how to evaluate, protect, and enforce their intellectual property rights. The program will be offered online at StopFakes.gov free of charge, and is scheduled to be launched in September 2007.

Problem-Solving in China

When U.S. companies encounter problems in China, our China team is available to provide on-the-ground assistance. In addition to our trade specialists who cover a wide range of trade issues, the Commerce Department has experts dedicated to resolving IPR, subsidies, dumping, and export control issues. With IPR problems, Commerce has developed industry partnerships linking businesses with lawyers who have China expertise, and a program with the Chinese Government to ensure that specific IPR cases are passed to relevant Chinese agencies to be resolved.

- Commerce has posted two "*Intellectual Property (IP) Attaches*" at our Embassy in Beijing, and an additional IP attaché will be joining the Consulate in Guangzhou. These IPR attachés work with the Chinese government to ensure that China is living up to its IPR commitments and to assist American businesses in protecting their IPR in China. One of the key tools they use to help U.S. industry is the "*IPR Case Referral Mechanism*", where China's Ministry of Commerce serves as the point of contact for individual IPR cases raised by the United States. In addition, last year Commerce's China Office effectively handled IPR concerns raised by U.S. SMEs by partnering with industry associations on the China Advisory Program – offering U.S. businesses free IPR consultation with an attorney. Forty-seven companies have utilized the program since its inception. The success of this program has led to expanded advisory programs for SMEs doing business in Brazil, Russia, India, Egypt, and Thailand.
- Commerce has also posted two "*specialists in dumping and subsidies law*" at our embassy in Beijing to assist our Washington-based Trade Remedy Compliance Office, which specializes in China trade remedy cases.
- We have a Trade Facilitation Office at the U.S. Embassy in Beijing which assists companies with compliance and market access problems and 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 industry's specific IPR issues.

- Commerce's Bureau of Industry and Security (BIS) has an Export Control Officer posted in Beijing to conduct end-use visits and work with Chinese government and industry on export control issues. End-use visits help increase confidence that sensitive U.S. technology is used for legitimate purposes and therefore facilitates high tech trade.

Consumer Safety Issues

Finally, I would like to say a few words on the issue of the recent high profile alerts and recalls by the FDA, Consumer Products Safety Commission, and the National Highway Traffic Safety Administration (NHTSA) as a result of imports from China. Safety, of course, is of paramount importance to all of us. The Administration's response to unsafe imports has been aggressive. HHS recently announced the creation of a food safety czar within FDA, the Administration is working constructively with the Chinese and will continue doing so in order to ensure the safety of all food, medicines and other products imported from China, and on July 18 President Bush issued an executive order establishing the Interagency Working Group on Import Safety, led by HHS Secretary Leavitt and including Secretary Gutierrez and other Cabinet Officials, to identify further steps we can take to enhance the safety of all imports into the United States.

Closing

The engagement I have mentioned constitutes a multi-pronged approach, designed to bring about positive changes in China's trade policies, regulations, and practices to level the playing field. This overall trade strategy is pursued by Commerce, USTR, State, Treasury, and many other U.S. agencies involved in U.S.-China trade relations. This integrated, mutually reinforcing strategy is the best way to ensure successful outcomes in U.S.-China trade relations.

A strong, healthy trade relationship is essential for the benefit of both our countries. We will continue to work to ensure that the Chinese Government provides market access for U.S. firms, and lives up to its international trade commitments. American companies, workers and farmers can compete with anyone in the world, given a level playing field, and we are committed to working with our Chinese counterparts to achieve this goal.

As China continues to reform its economy, we believe our approach will move China away from its reliance on industrial policies and subsidies and toward greater adherence to its international trade obligations and more progress on the path toward a market economy. After all, a China that is part of the international trade community and that is open and fair in its economic dealings, is very much in the interests of the United States.

Thank you, Mr. Chairman. I am happy to take any questions.