

Congress of the United States
Washington, DC 20515

July 8, 2014

The Honorable Jacob Lew
Secretary of Treasury
U.S. Department of Treasury
1500 Pennsylvania Ave, NW
Washington, D.C. 20520

The Honorable John Kerry
Secretary of State
U.S. Department of State
2201 C Street, NW
Washington, D.C. 20220

The Honorable Penny Pritzker
Secretary of Commerce
Herbert Clark Hoover Building
1401 Constitution Ave, NW
Washington, D.C. 20230

The Honorable Michael Froman
United States Trade Representative
Office of the United States Trade
Representative
600 17th St, NW
Washington, D.C. 20508

Dear Secretaries Lew, Kerry, Pritzker, and Ambassador Froman:

The upcoming U.S.-China Strategic and Economic Dialogue (S&ED) and the Asia-Pacific Economic Cooperation (APEC) summit, which China is hosting later this year, present important opportunities to make meaningful progress in addressing China's barriers to U.S. trade and investment and encourage China's efforts to rebalance its economy. As we have in the past, we will monitor closely the outcome of these meetings to assess China's commitment to economic reform and trade liberalization.

This year's S&ED is occurring at an important time for multilateral trade. Last December, World Trade Organization (WTO) Members finalized a trade facilitation agreement that holds meaningful potential for removing barriers and improving global trade flows. This agreement is particularly beneficial for developing countries and more developed emerging economies, like China. Prompt and full implementation is a top priority.

At the same time, we have been disappointed that WTO Members have not completed an agreement to expand the Information Technology Agreement (ITA). Expansion of the scope of coverage of this agreement would create substantial economic opportunities for both the U.S. and China. Yet, we are increasingly concerned that China appears to be standing in the way of an ambitious deal, seeking instead to exclude significant products from coverage and demanding unnecessarily long phase-outs of tariffs. We emphasize that any final agreement must include important products that are priorities of U.S. information technology exporters. Given the close historical relationship between APEC and the ITA, China's leadership at APEC presents an important opportunity for it to reverse course and demonstrate to the world its commitment to liberalization and capacity to shepherd an ambitious agreement to successful conclusion.

We also note China's interest in joining the negotiations on the Trade in Services Agreement (TiSA). To date, we do not believe China has demonstrated that it is willing and able to meet the ambitious objectives of the TiSA negotiations. While discussions with China about participation

in the TiSA negotiations continue, it is essential that the TiSA talks move forward with partners that are willing and able to meet the negotiations' ambitious objectives.

We are troubled by the slow pace of China's domestic reforms. As we mentioned to you before, we remain very concerned that China has abandoned many of its market reforms and flouts its international obligations. China's outdated economic model is dominated by state-owned enterprises (SOEs), trade-distorting subsidies, forced localization, and economic protectionism including through the misuse of competition policy and by closing off its domestic internet marketplace through regulatory and technical measures. Unfortunately, it appears that this model is becoming even more entrenched as China continues to forego opportunities for reform. Further deepening our concern, particularly as a matter of systemic importance, China continues to engage in retaliatory trade practices, including through discriminatory policies – some of which are described below – and through baseless retaliatory trade remedy cases filed against U.S. exporters.

We continue to be greatly alarmed by the rampant trade secret theft and economic espionage activity targeting the United States and U.S. companies, carried out with the support of the Chinese government for the benefit of Chinese companies. This theft and espionage is rapidly and significantly eroding trust and undermining our economic relationship.

Furthermore, China still does not have adequate institutional arrangements to protect intellectual property rights (IPR) and has failed to fully implement its past commitments to strengthen and enforce IPR. For example, China still has not fully implemented its commitments to ensure that all levels of governments and SOEs are using legal software. China also continues to defy international rules by pursuing policies that discriminate against U.S. rights holders, including measures that compel or coerce the transfer of intellectual property (IP) to Chinese companies. One such measure is China's recent Multi-Level Protection Scheme, which mandates that only Chinese-owned products and IP can be used for certain government procurements, contrary to international rules.

China's continued currency misalignment is unsustainable and unacceptable. China must move more rapidly towards allowing the renminbi exchange rate to be set by market forces. China must also accelerate financial sector and other structural reforms. Without taking these actions, China will be unable to rebalance its economy and U.S. workers and companies will continue to be harmed. At the same time, these steps would improve the ability of U.S. businesses to compete in China, and around the world, on a level playing field.

While China remains an important market for U.S. agriculture exports, we are concerned that China continues to maintain regulatory barriers that are not supported by science or international standards. Many of these barriers raise serious questions about whether China is complying with its WTO commitments. For example, China's regulatory approval of innovative U.S. seed and other farm products is slow and unpredictable, resulting in delays for the deployment of state-of-the-art technologies on U.S. farms and serving as a barrier to U.S. exports.

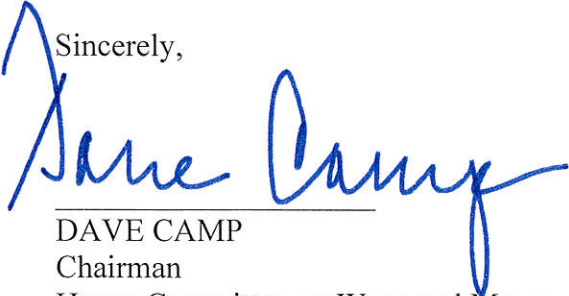
Finally, we note that China's implementation of its existing commitments in bilateral and multilateral forums – including the S&ED – have been inadequate and incomplete. For instance, China still has not submitted a meaningful offer to join the WTO Government Procurement

Agreement despite commitments over many years to do so in multiple forums, including the S&ED, and China's indigenous innovation policies continue to be a challenge. This is one of the reasons we have long called on the Administration to use clear and meaningful metrics to measure progress and to be aggressive in ensuring that China is fully implementing its commitments in a commercially meaningful way.

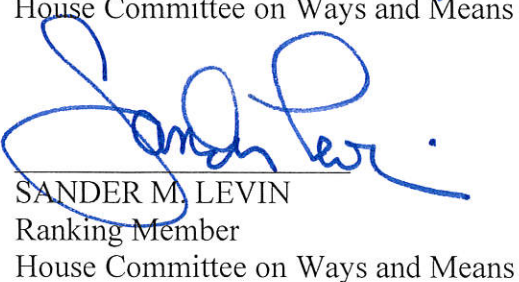
In that regard, we were encouraged by China's commitment last year to cover all phases of investment and to proceed on the basis of a 'negative list' in negotiations to conclude a bilateral investment treaty (BIT) with the United States. But, here again, implementation and enforcement of those and other commitments in the treaty will be key. Indeed, while a strong treaty could help to address China's opaque and discriminatory regulatory process and investment restrictions that create advantages for Chinese SOEs and block access for U.S. companies, we must have greater confidence that China will not retaliate against the United States or its investors when attempts are made to enforce the treaty. We must also ensure that the BIT is part of the ongoing and broader strategy to ensure that China rebalances its economic relationship with the United States and the world.

Each of the problems described above is longstanding and calls into question China's ability to play a constructive role in the global economy and in new market opening initiatives. We recognize that China will not undertake all of its reforms overnight. But much more progress than we have seen in the past must be made through S&ED, and other forums, to ensure that U.S. companies, farmers, ranchers, and workers are competing on a level playing field in China.

Sincerely,



DAVE CAMP
Chairman
House Committee on Ways and Means



SANDER M. LEVIN
Ranking Member
House Committee on Ways and Means



RON WYDEN
Chairman
Senate Committee on Finance



ORRIN G. HATCH
Ranking Member
Senate Committee on Finance