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Introduction

Chairman Levin, Ranking Member Herger, and distinguished members of the Ways and Means Subcommittee on Trade, I am pleased to participate in today's hearing.

I understand that today's hearing is focused principally on China currency and trade issues, including possible legislation relating to those issues.

Within the Administration, the Treasury Department is charged with responsibility for currency and exchange rate matters, while the Office of the U.S. Trade Representative (USTR) is responsible for developing and coordinating U.S. international trade and investment policy. Our work aims at increasing exports by expanding market access for American goods and services abroad, securing a level playing field for American workers, farmers and businesses in overseas markets, and ensuring fair treatment for U.S. investment abroad. USTR oversees negotiations with other countries on these matters. In addition, we seek to resolve trade problems using a wide variety of tools, including bilateral discussions, negotiations, and formal dispute settlement proceedings.

The work of the USTR to open markets and resolve trade disputes depends, at its core, on the commitment of the United States Government, including the Congress, to upholding our international trade agreements. Accordingly, one key barometer that we apply in considering all potential trade legislation is World Trade Organization (WTO) consistency. It is important to avoid enactment of WTO inconsistent legislation. Not only would it likely be challenged in WTO dispute settlement, potentially resulting in the imposition of sanctions or other measures against U.S. exports, service providers or intellectual property, it would undermine U.S. credibility as we seek to promote compliance by our trading partners with their international trade obligations. For example, legislation has been introduced in this Congress in response to China's currency practices, which appears to raise serious concerns under international trade remedies rules and could invite WTO-sanctioned retaliation against U.S. goods and services, as well as foreign "mirror legislation," and trigger a global cycle of protectionist legislation.

USTR's efforts to achieve market-driven, market opening trade policies abroad fit into a larger economic policy picture, of course. They support Treasury's efforts to get results on currency and other matters in the financial realm as well as the Commerce Department's work on global competitiveness, export promotion and its administration of domestic trade remedy laws. Taken together, the Administration's engagement in the international economic realm uses the best tools available to us to serve the American people's interest in building strong, mutually beneficial economic relations with our global trading partners, including China.

To provide more concrete perspective on our work, I will give you a brief overview of USTR's recent engagement with China, touching on the mechanisms USTR uses to address key trade concerns.

Key China Trade Efforts

China's accession to the WTO marked a critical step forward toward China's integration into the international rules based system. Since acceding to the WTO five years ago, China has taken significant steps in an effort to bring its trading system into basic compliance with WTO rules. These steps have helped to deepen and strengthen economic reforms that China began 20 years ago. U.S. businesses, workers, farmers, service providers and consumers have benefited significantly from these steps and continue to do so as U.S.-China trade grows. Indeed, last year U.S. exports to China climbed by 32 percent (while China's exports to the United States increased by 18 percent). These data suggest that the Chinese market is becoming more accessible for American companies and that Chinese consumers are developing an appetite for America's highly competitive goods and services. China today has become our fourth largest export market and the fastest growing major export market for the United States in the world. It is helping to support thousands of American jobs today and will support even more in the future.

Despite this progress, China's record in implementing its WTO obligations is mixed. While China has fully implemented many of its WTO obligations, there are a number of areas where it still has work to do as it continues to transition from a centrally planned economy to a free-market economy governed by the rule of law.

In our engagement with China, the United States follows a dual-track approach to resolving its WTO concerns – bilateral dialogue to try to achieve practical solutions where possible together with a full willingness to use WTO dispute settlement where appropriate to resolve problems.

The United States remains committed to seeking cooperative and pragmatic resolutions through bilateral dialogue with China, and the United States has achieved some important successes. For example, through our recent bilateral dialogues, China made several commitments related to IPR protection and enforcement. It also committed to eliminate duplicative testing and certification requirements applicable to imported medical devices, and to make adjustments to its registered capital requirements for telecommunications service providers. China also reaffirmed past commitments to technology neutrality for 3G telecommunications standards and to ensuring that new rules in the postal area would not negatively affect foreign express couriers. In addition, China committed to commence, by no later than December 31, 2007, formal negotiations to join the WTO's Government Procurement Agreement. The United States has been working with China to make sure that it implements all of these commitments.

However, we have been unable to resolve other important issues through bilateral discussions, despite extensive effort, and to date we have turned to formal WTO dispute settlement in five instances:

- **Semiconductors** (Mar. 2004) – The United States filed a WTO dispute against China challenging value-added tax rebates that discriminated against imported semiconductors. As a result, the United States and China resolved the matter, ensuring fair access for U.S. manufacturers and workers to a market worth over \$2 billion.
- **Auto Parts** (Mar. 2006) – The United States, acting in coordination with the European Communities and Canada, launched a WTO dispute settlement case challenging Chinese rules that provide for prohibited local content requirements in the auto sector through discriminatory charges on imported auto parts. This case is now before a WTO panel, with a decision expected in January 2008.

- **Industrial Subsidies** (Feb. 2007) – The United States, later joined by Mexico, filed a WTO challenge against several Chinese subsidy programs that appear to be prohibited under WTO rules, either as export or import substitution subsidies. These widely available subsidies offer significant benefits, and the export subsidies alone potentially benefit nearly 60 percent of China’s exports of manufactured goods. The parties held consultations in March 2007 and June 2007. In July 2007, the United States and Mexico formally requested the establishment of a WTO arbitral panel.
- **Intellectual Property/Market Access** (Apr. 2007) – The United States initiated WTO dispute settlement proceedings on Chinese market access restrictions in copyright-intensive industries (*i.e.*, books, newspapers and periodicals) and audio and video products (*e.g.*, movies, CDs, DVDs, and video games). The United States held initial consultations with China in June 2007, and additional consultations are underway.
- **Intellectual Property Protection** (Apr. 2007) - The United States has launched a WTO challenge to various deficiencies in China’s legal regime for protecting and enforcing copyrights and trademarks that affect a wide range of products. Consultations took place in June 2007.

USTR provides a detailed discussion of the efforts the United States has made to address these and other areas of concern, using bilateral dialogue and WTO dispute settlement, in the “2006 USTR Report to Congress on China’s WTO Compliance,” issued on December 11, 2006. The report is available on the USTR website (www.ustr.gov).

One area where we have not yet reached a satisfactory conclusion is in the area of beef trade. Working closely with the Department of Agriculture, we have been in contact with China to seek a full re-opening of the beef market consistent with international standards.

In summary, USTR is committed to ensuring that we are using the most effective tools at our disposal to pursue an open and fair trade relationship with China. This effort ties into broader Administration engagement on international economic issues, including work by Treasury and Commerce, and with Members of Congress to achieve our common goals: a more flexible, market-based exchange rate for China's currency and a level playing field for American businesses, workers, and farmers.

Thank you for the opportunity to testify. I will be happy to take your questions.