

**STATEMENT BY  
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TO U.S. SENATE COMMITTEE ON FOREIGN RELATIONS  
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS  
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**Thank you for inviting me to appear before you today to discuss the Administration's perspectives on the United States- trade relationship with the People's Republic of China and, in particular, the topic of China's WTO implementation.**

**Introduction**

For much of the past two decades, China had been gradually transitioning toward a market economy from what in the late 1970's was a strict command economy. In acceding to the WTO, China was required by the United States and other WTO members to agree to accelerate this process of market reform in order to comply with WTO requirements. China's WTO accession agreement embodies a set of extensive and far-reaching commitments on the part of China to change its trade regime, at all levels of government.

Overall, during the first year of its WTO membership, China made significant progress in implementing its WTO commitments, although much is left to do. Progress was made both in making many of the required systemic changes and in implementing specific commitments. At the same time, serious concerns arose in some areas, where implementation had not yet occurred or was inadequate.

In December 2002, USTR submitted a report to Congress detailing China's WTO compliance efforts, along with the Administration's corresponding monitoring and enforcement efforts. Let me give you a brief summary of what we found.

## **Implementation Progress**

As expected, the principal focus of China's first year of WTO membership was on its framework of laws and regulations governing trade in goods and services, at both the central and local levels. China's trade ministry, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), reports that the central government has reviewed more than 2,500 trade-related laws and regulations for WTO consistency. By mid-2002, it had reportedly repealed 830 of these laws and regulations and amended 325 more. It had also reportedly drafted and adopted 118 new laws and regulations. Similar reviews are taking place at the local level, although the local governments are generally not as far along in their review process.

Beginning early in 2002, China also devoted considerable resources to the restructuring of the various government ministries and agencies with a role in overseeing trade in goods and services. Some of these changes were mandated by China's accession agreement, while others were undertaken by China to facilitate its compliance with WTO rules. With the recently concluded National People's Congress, we are seeing even further restructuring, which should promote WTO compliance.

Another significant focus for China during the past year involved education and training. China embarked on an extensive campaign to teach central and local government officials and state-owned enterprise managers about both the requirements and the benefits of WTO membership, with the goal of facilitating China's WTO compliance. The United States and other WTO members, along with many private sector groups, contributed substantial technical assistance and capacity building resources to this effort.

As a general matter, China took positive steps to implement many of its specific WTO commitments during the past year. It made required tariff reductions, to the benefit of many U.S. industries. China also began the process of removing numerous non-tariff trade barriers, and it continued to improve its standards regime. For the most part, these steps were managed without serious incident, and market access for U.S. products in the affected sectors has generally improved. Although not without problems, China also took the necessary legal steps to allow for increased market access for foreign service suppliers in a variety of sectors.

### **Implementation Concerns**

While the efforts of China's leadership to implement China's WTO commitments should be recognized, the Administration also found a number of causes for serious concern during China's first year of WTO membership.

One area of cross-cutting concern involved transparency. In particular, China implemented its commitment to greater transparency in the adoption and operation of new laws and regulations unevenly at best. While some ministries and agencies did take steps to improve opportunities for public comment on draft laws and regulations, and to provide appropriate WTO enquiry points, the Administration found China's overall effort to be plagued by uncertainty and a lack of uniformity. The Administration is committed to seeking improvements in China's efforts in this area.

Apart from this systemic concern, three other areas generated significant problems and warrant continued U.S. scrutiny B agriculture, intellectual property rights and services.

The area of agriculture proved to be especially contentious between the United States and China. While concerns over market access for U.S. agriculture products are not unique to China, particularly serious problems were encountered on many fronts, including China's regulation of agricultural goods made with biotechnology, the administration of China's tariff-rate quota (TRQ) system for bulk agricultural commodities, the application of sanitary and phytosanitary measures and inspection requirements. The United States and China were able to make progress toward resolving some of these problems, particularly with regard to biotechnology. Other problems remain unresolved, however, with the most troublesome being China's inadequate implementation of its TRQ commitments.

In the area of intellectual property rights (IPR), China did make significant improvements to its framework of laws and regulations. However, the lack of effective IPR enforcement remained a major challenge. If significant improvements are to be achieved on this front, China will have to devote considerable resources and political will to this problem, and there will continue to be a need for sustained efforts from the United States and other WTO members.

Meanwhile, concerns arose in many services sectors, principally due to transparency problems and China's use of prudential requirements that exceeded international norms. Progress was made in 2002 toward resolving these concerns, but much work remains to be done.

In our experience, China's compliance problems are occasionally generated by a lack of coordination among relevant ministries in the Chinese government. Another source of

compliance problems has been a lack of effective or uniform application of China's WTO commitments at local and provincial levels. China is taking steps to address both of these concerns, through more effective inter-ministerial mechanisms at the national level, and through a more concerted effort to reinforce the importance of WTO-consistency with sub-national authorities. In other cases, however, compliance problems involve entrenched domestic Chinese interests that may be seeking to minimize their exposure to foreign competition.

When confronted with compliance problems in 2002, the Administration used all available and appropriate means to obtain China's full compliance, including intervention at the highest levels of government. The Administration worked closely with the affected U.S. industries on compliance concerns, and utilized bilateral channels through multiple agencies, at all levels, to press these concerns. The Administration also initiated a regular dialogue on compliance issues between USTR and China's lead trade agency, MOFTEC, with the goal of bringing all involved Chinese ministries and agencies together when the resolution of particular problems warrants it. Where possible, the Administration also multilateralized its enforcement efforts, by working with like-minded WTO members on an ad hoc basis, whenever particular issues have had an adverse impact beyond the United States.

### **Conclusion**

**Mr. Chairman and members of the Subcommittee, thank you for providing me with the opportunity to testify. I look forward to answering your questions.**