



THE US-CHINA BUSINESS COUNCIL
美中贸易全国委员会

China's Implementation of its World Trade Organization Commitments

**Oral Statement of
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China's Compliance with WTO Commitments
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Thank you for the opportunity to testify at this year's TPSC hearing on China's implementation of its WTO commitments. My written statement goes into detail on many important issues, as do the additional materials that we provided on issues of concern to US-China Business Council members since last year's hearing. I would like to use my opening statement to focus on a few key points.

China's impact on the US and global economies

Fifteen years after China joined the World Trade Organization (WTO), the global economy is very different. As part of its accession agreement, China's import tariffs were lowered from an average 14 percent to 6.5 percent. China agreed to open some— but not all— of its economy to foreign participation. The agreement also changed the way most American companies were able to do business in China, such as allowing companies to distribute and service their own products in China.

There is a logical question that should be considered in this year's assessment of China's WTO implementation: is the world— and in particular, the American— economy better off since China's entry into the WTO 15 years ago? There are a few ways to assess an answer. In 2000, the year prior to China's accession, China's gross domestic product was approximately \$1.2 trillion, ranking it as the fifth-largest economy in the world. Fifteen years later, China's GDP is roughly \$11 trillion, making it second only to the United States. China has lifted more than 800 million people out of poverty as a result of its market reforms; and its thriving middle class not only benefits from the job creation facilitated through new investment, but also drives global demand for goods and services.

By the US-China Business Council's (USCBC) calculations, China was a less than \$50 billion market for American companies in 2000, adding up US exports and sales by US affiliates in China, and eliminating overlaps. It is now at least a \$400 billion market, putting it on par with Mexico as America's second-largest overseas market, behind only Canada. The US economy has also grown dramatically during that period, even when taking into account the global recession in 2009.

The bilateral trade deficit has also grown since China's accession, from \$83 billion in 2000 to \$366 billion last year. However, focusing on just the bilateral trade balance misses an important change in the pattern of trade. The East Asia (including China) share of the US global trade deficit was 67 percent in 2015; it was about the same— 68 percent— 20 years ago, before China's WTO entry. After China entered the WTO, suppliers from Japan, Korea, Taiwan, Hong Kong, and other economies moved their export manufacturing to China, and shifted our longstanding bilateral trade deficits with those economies to China as well. China's proportion of the US global trade deficit has increased, while the rest of East Asia's proportion has decreased.

WTO implementation

As the Office of the US Trade Representative (USTR) noted in previous annual reports, while China has fulfilled most of the specific obligations of the accession agreement, China has not implemented several important commitments. In addition, the "positive list" approach of the accession agreement only opened listed sectors— many with conditions— and left important sectors blocked from meaningful market access. It also meant that new areas not envisioned at the time of the accession negotiations were not covered by the agreement, such as electronic commerce and other online services. Furthermore, China's record of applying the spirit or principles of the WTO's tenets of national treatment remains problematic, and few additional sectors have been opened to foreign participation in the decade since the accession agreement's "roadmap" of obligations ran out.

China accession also made it subject to the WTO's dispute settlement process. This important aspect of WTO membership has introduced a de-politicized mechanism for resolving trade disputes. The United States has a positive track record in cases involving China—of the 19 cases filed (the latest was filed earlier this month), 10 cases were won by the United States and 4 were settled satisfactorily before a ruling was made.

Implementation of the "letter" of existing WTO Commitments

In its 2002 submission for the first Trade Policy Staff Committee (TPSC) hearing on China's compliance with its WTO commitments, USCBC noted that:

"...WTO-relevant issues involving entrenched PRC bureaucratic and domestic commercial interests will likely require particular vigilance by the US government and the American private sector, in the interest of effective encouragement of China to reach the fullest possible realization of [its] WTO commitments."

That vigilance is still needed. While China has implemented most of its sector-specific accession commitments, some of the broader WTO principles have fallen short of implementation. In our written statement, we discussed concerns about national treatment, including China's use of national security exceptions and innovation policies to promote domestic industries and differential treatment of foreign companies in licensing processes. We also noted concerns about the lack of consistent transparency in a variety of aspects of policy and regulatory processes, continued challenges with IPR protection and enforcement, and the stalemate in China's work to join the WTO's Government Procurement Agreement. We also highlighted the role that a high standard bilateral investment treaty (BIT) could bring to addressing some of the areas of

discrimination and market access restrictions that American companies face in China. Rather than restate all of those points, I encourage interested parties to read the written statement.

I will conclude my statement today by going back to where we started. On balance, China's WTO entry has been positive. China's economy is more open now than it was in 2000, even if too many market access barriers remain. The United States benefits from having a rules-based system through which China can be held accountable when it falls short of its commitments. At the same time, there are numerous policies implemented by China after WTO accession that appear to be done purely for the purpose of protecting or promoting domestic industry at the expense of foreign companies, which calls into question China's commitment to the WTO's national treatment principles.

China's leadership understood the value that the WTO's disciplines would bring to its economy when it joined the organization 15 years ago. That value has not changed. China's economy and its companies and citizens – and all of its trading partners – would see additional benefits if it were to fully embrace the goals those disciplines were written to achieve.

Thank you. I look forward to your questions.