

Testimony of Erik Paulsen
Hearing on China's Trade and Industrial Policies
Ways and Means Committee
June 16, 2010

In Minnesota, hard-working people pour their blood sweat and tears into cutting edge advances – creating new technologies that save and improve lives. My District outside of Minneapolis has a large medical technology corridor that employs tens of thousands and creates products that save lives worldwide. Unfortunately, our hard-working American innovators cannot make the most out of their trade with China due to regulatory obstacles and other non-tariff barriers. China is an important market for US medical device manufacturers, who exported \$1.3 billion worth of lifesaving technologies to China last year.

China is one of our most important trading partners. Unfortunately, the Chinese government is not taking seriously its responsibility to trade freely – and fairly – with our country and others. The American Chamber of Commerce in China has recently expressed significant concerns that China is moving in the wrong direction and closing its markets rather than continuing to liberalize. When American businesses give us this signal Congress should take their concerns seriously. China should not be given a free pass to disregard its international obligations. Infringements include protectionist policies such as subsidies, non-tariff barriers, and discriminatory government procurement.

China also imposes significant barriers to trade by unfairly aiding and subsidizing its exports. In 2008 China's average applied tariff was almost three times that of the average U.S. tariff. According to estimates from the United Nations Conference on Trade and Development, non-tariff barriers such as import quotas and restrictions on foreign involvement in government tenders were equivalent to an added tax of 9.4%. Medical device companies are also disadvantaged by China's regulatory process, which requires duplicative registration, product testing, and clinical trials procedures for foreign companies. China's focus on cost-cutting in its healthcare reform drive could close the market for the most advanced US technologies.

I am concerned China may be backtracking on the improvements it has made to open its economy. American companies will not have a level playing field if China continues to practice mercantilism with its industrial policies. To truly thrive, the country must retreat from its discriminatory government procurement lists, standards setting and tax measures, and investment and operating restrictions in the financial services, insurance, telecommunications, and other sectors. China must not discriminate against foreign companies with indigenous innovation policies.

When China flouts global trade rules, the U.S. has tools to enforce its rights and must do so vigorously to protect American businesses. Exactly half of the trade disputes filed at the World Trade Organization last year involved China. Engagement continues to be the best way to effect change in China - WTO disputes are preferable to unconstrained and escalating retaliations. The prior Administration brought seven WTO cases and the Obama Administration has continued this policy by bringing an eighth case. This approach is productive and must continue.

The Administration, however, has not been nearly proactive enough. It set a laudable but vague goal of doubling exports over the next five years but has not taken the necessary steps to open new markets for American companies. Doubling U.S. exports will require both enforcing existing trade agreements and creating new ones. The President must provide the necessary leadership to secure our pending trade agreements with Panama, South Korea, and Colombia.

While China is actively pursuing and securing FTAs around the world, the United States is sitting on its hands, passing up valuable opportunities to turn the American economy around.

China is an important market for U.S. goods – our third largest export market – and if the current statistics are any indication, this market will continue to grow. U.S. goods exported to China are increasing three times as fast as exports to the rest of the world. We must continue to advocate for free trade and oppose protectionism to keep U.S. markets open to Chinese products and investments. But to protect the long term viability of the U.S. – China trade relationship, China needs to take concrete action to remove export subsidies and other hurdles to free and fair trade.