

SFC Trade Subcommittee: Market Access Challenges in China

Opening Statement

- Good afternoon. Thank you for being here today.
- The focus of today's hearing is on an important international market – one that happens to be the world's second largest economy.
- This market – I'm talking about China, of course – is also the United States' largest merchandise trading partner and is the third largest export market for U.S. goods abroad.
- While the legitimate flow of goods and services between U.S. and this nation have increased over the years, the statistics alone do not tell the entire story.
- We also must consider the national security context here. Within just seven years, China will pose the greatest threat to U.S. national security of any nation, according to General Joe Dunford, Chairman of the Joint Chiefs of Staff.

- As China's population grows and its economy continues to modernize, the Chinese market will continue to emerge as an attractive one for U.S. businesses seeking the opportunity to serve the Chinese consumer, in all sectors.
- But, unfortunately, while Chinese companies enjoy largely unfettered access to the U.S. market and an economy that is open to investment, U.S. companies are not afforded with reciprocity in this regard.
- In order to paint a picture of the persisting problem, we must first review the historical context.
- In the 1980s, China first sought entry into the rules based global trading system known as the World Trade Organization (WTO).

- After years of deliberations and negotiations, an agreement was reached in 2001.
- This agreement allowed for China's accession to the World Trade Organization if it agreed to comply with a number of free market principles - tariff reductions, equal footing for foreign businesses, and the removal of implicit and explicit barriers to trade.
- Moreover, China would have to adhere to global principles under the TRIPS agreement to protect and enforce intellectual property rights.
- Fast forward to 2018, seventeen years later, and China has still not lived up to its WTO obligations.
- China's authoritarian regime, its One Belt, One Road Initiative, and its Made in China 2025 plan are part of a comprehensive agenda to promote state-driven industrial policies that distort and disadvantage U.S. firms who are simply seeking free market competition with Chinese companies.

- U.S. companies seeking to do business in China often encounter a protectionist system; one that employs predatory tactics and promotes domestic, subsidized industries over foreign competitors.
- The U.S. Trade Representative's 2017 Report on China's WTO Compliance explains that today's situation in China is even worse than it was five years ago, as the state's grip on the economy continues to increase.
- Even more alarming is the fact that U.S. technology companies often report of China's blatant attempts to steal sensitive and proprietary intellectual property.
- In many cases, China has used trade as a weapon, coercing U.S. companies to enter into joint ventures and other business arrangements which require a company to hand over key technology and know-how, the so-called "secret sauce," simply in order to gain market access.

- This practice has already begun to erode America's technological advantage and undermine our defense industrial base.
- That's why I have introduced legislation, along with Sen. Feinstein, called the Foreign Investment Risk Review Modernization Act (FIRRMA), to combat this epidemic and modernize the Committee on Foreign Investment in the United States (CFIUS).
- It is also my understanding the President Trump and his administration are currently considering potential temporary actions under existing authority to ensure investment reciprocity and protect U.S. national security, in part because CFIUS lacks adequate authority under its current statute.
- China's restrictive market is highly concerning, and multiple administrations have attempted to engage China's leaders on their trade practices.

- China will even send its students to American colleges and universities to for STEM related degrees, only to have them return to China and further advance their goals.
- Unfortunately, many rounds of high-level diplomatic talks have generally yielded little progress – often resulting in commitments made with zero action.
- Take the latest Comprehensive Economic Dialogue for example -- the “100-day plan on trade” yielded commitments from China – most of which have yet to be followed through on.
- Discussions may continue in the future, but one thing is clear: China’s market access reforms are too slow, and barriers still exist.
- Reciprocal treatment for U.S. companies should not be too much to ask.

- It is my hope that today's hearing will paint a clear picture of the problems that persist with access to China's market, and that significant reforms will follow.