S. HRG. 107–203

PNTR/WTO: A GOOD DEAL FOR U.S. SMALL BUSINESSES IN CHINA?

ROUNDTABLE

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

MARCH 7, 2001

Printed for the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE

76–593 WASHINGTON : 2002

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

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FORUM: PNTR/WTO: A GOOD DEAL FOR U.S. SMALL BUSINESSES IN CHINA?

WEDNESDAY, MARCH 7, 2001

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to notice, at 9:33 a.m., in room SR–428A, Russell Senate Office Building, The Honorable Christopher S. Bond, Chairman of the Committee, presiding.

Present: Senators Bond and Kerry.

OPENING STATEMENT OF CHRISTOPHER S. BOND, CHAIRMAN, SENATE COMMITTEE ON SMALL BUSINESS, AND A UNITED STATES SENATOR FROM THE STATE OF MISSOURI

Chairman BOND. Good morning everyone and welcome. We are delighted to have you here today to talk about China. We were a little busy yesterday with matters on the floor which were of great interest to small business and to which we had a successful outcome.

I regret to tell you that as we speak the Health, Education, Labor, and Pensions Committee on which I also serve is holding a markup, and that means I have to be there to vote the proxies. So I am going to get this operation started and leave the discussions to you all.

We are very interested in this subject and delighted to see so many of you who come to talk about how PNTR and WTO membership is a good deal for U.S. small business in China. There's a question mark at the end of that title. I have a very strong view what the answer should be, but this is something that we want all of you to discuss.

This is the second roundtable forum that we've had in the 107th Congress and I appreciate the opportunity to be with you to start off the discussion of the opportunities and pitfalls of doing business in China. Our discussion is intended to examine the Federal Government programs and policies that are designed to help business to export their products and services to China.

Back quite a few years ago when I was Governor of Missouri, I was a strong advocate for the development of export opportunities because I believed that the economy of my State would benefit from the opening of developing markets to U.S. products. We did trade missions to many countries including China.

I will tell you parenthetically that I went there in 1984 to set up a cooperative venture between agricultural activities, pork producers, feed manufacturers, animal health specialists who thought

we had a great proposal to help improve the production of hogs in China. Hogs in China were 30 percent lean meat and 70 percent fat. Ours were just the opposite, 70 percent lean, 30 percent fat. They wanted to find out how they could develop a pork industry more like the United States. That was fine.

We met with the Bureau of Cereal Food, Oil, and Grain and they said we had to go to the Agricultural Minister, who said we had to go to the Minister of Foreign Affairs. That has only been 17 years and we are still waiting for a final report. So needless to say, the pork producers, feed manufacturers, and animal health specialists in Missouri are getting a little skeptical about the ability of the Chinese central government to carry through with their promises. We recognize that there are some problems that some of you who have had experience may be able to shed a little light on and how we can overcome those problems.

But I started out working for the State of Missouri and I carried that commitment to the United States Senate. And because I believe it is critical that we in Congress recognize that unless our businesses, American businesses of all size, seize the opportunities provided by our trade agreements, then we are going to miss out on some tremendous opportunities. With a population of 1.3 billion people, the Chinese market is unquestionably becoming one of the most significant in the world and one that should not be ignored by U.S. small business.

I know from having worked on the district export council during the time I was trying to earn an honest living in the real world that it is difficult to get small businesses to make that leap to get into the market. But I think the opportunities are there.

I understand the Chinese government estimated that if China's economic growth is sustained for the coming decade then the economy could double by the year 2010. We only need to look at the current trade deficit we have with China to wonder whether or not we are doing all we can to take advantage of these opportunities. In the year 2000 we exported about $16.3 billion of goods and services to China while importing $100 billion from China; surpassing Japan as our largest trade deficit with any particular country.

As all of you, I am sure are well aware, last year Congress approved the permanent normalization trade relations between the U.S. and China, but that approval was contingent on China's accession into the WTO. We are going to have a brief summary of where we stand before we begin the discussions. The negotiations between China and the WTO have continued at a slower pace than expected and it is possible that we may get an opportunity to vote again on extending normal trade relations again this year. We hope that is the last time we have to do it.

China's accession to the WTO would mean that U.S. businesses will enjoy a more favorable trading climate with China than at almost any time in history. Many of the trade barriers erected by the Chinese government to protect domestic industry will be eliminated and import tariffs will be substantially reduced. At least that is what we hope. In addition, concern over weak legal protections, intellectual property laws that previously have bedeviled our trade relations between the U.S. and China, should be addressed.

It appears to us that there are two distinct types of trade barriers that business must overcome to be successful in China. The first includes formal trade concerns which should be dealt with by China in the WTO. The second, however, are more subtle barriers that are not easily resolved.

U.S. business owners who have been successful in China have told the Committee that their success has come in no small measure from their willingness to adapt to the Chinese business culture. Many businesses have found that by employing representatives on the ground in China they have been able to develop the personal and business relationships that are critical to doing business in China. The Chinese business culture emphasizes quanxi, or what we call connections, and reflects the importance of establishing personal relationships prior to the establishment of a business relationship.

I also have spent time talking with American businesses, some of our major businesses doing significant transactions in China. They regretfully inform me that in the past they have seen that an executed, signed, sealed, and delivered contract in China is sometimes only a temporary pause in the negotiations over the details of the trade arrangement. Some of you may be able to shed light on that.

The Federal Government has a lot of programs to help businesses become successful exporters, and the Committee is interested in knowing how these programs are being used. If small businesses are not utilizing the programs, what can we do to make it easier to use them. We are also interested in the Committee on policies and programs the Federal Government is not currently supporting and providing but should be.

To help us understand these issues we have invited a panel of experts to join us. We have Peter Bowe, the president of Ellicott International in Baltimore, Maryland. Ellicott has been exporting dredging equipment to China since 1979. Mr. Bowe is able to talk about just how the business climate in China has changed since the end of the Cultural Revolution.

We have Mr. David Eisenhaure, president and chief executive officer of SatCon Technology Corporation in Cambridge. It exports to China products that improve air quality.

We also have Dr. Robert Kapp from the U.S.-China Business Council. Then we will hear from a frequent friend at the Small Business Committee, Susan Au Allen, president of the U.S.-Pan Asian American Chamber of Commerce. Finally, we will hear from Peter Hale, who is the acting director of the Office of Policy Coordination and International Trade Administration from the Department of Commerce.

Before turning to our panelists, let me encourage everyone to take an active part in discussions. I hope that everyone will think about areas where the Small Business Committee can be of assistance by encouraging dialogue or by providing a voice for small business when Congress debates exporting issues.

I might say for those of you who wish to speak, if you would set your nameplate up on the side we will be able to identify and call on you in order. We will be producing a formal transcript of today's forum and we will hold the record open for two weeks. We invite

additional statements or information you would like to submit for the record. This forum is also being carried live via our committee's own web site.

Senator Christopher S. Bond

PNTR/WTO: A Good Deal for U.S. Small Businesses in China?

Opening Remarks

Good morning. The Committee on Small Business welcomes you our forum entitled "PNTR/WTO: A Good Deal for U.S. Small Businesses in China?" This is our second forum of the 107th Congress. Thank you very much for joining us today. This forum is intended to stimulate a greater discussion of the opportunities and pitfalls associated with doing business in China. In addition, this discussion is intended to examine the Federal government programs and policies that are designed to help business to export their products or services to China.

As Governor of Missouri, I was a strong advocate for the development of export opportunities because I believed that the economy of my state would benefit from the opening of developing markets to U.S. products. I have carried that commitment to foreign trade to the United States Senate. I believe that it is critical that we in Congress recognize that unless U.S. businesses of all sizes seize the opportunities provided by our trade agreements, then our economy will not benefit as significantly as it could. With a population of 1.3 billion people, the Chinese market is unquestionably becoming one of the most significant in the world and one that should not ignored by U.S. small businesses. Recently, the Chinese government estimated that if China's economic growth rate is sustained for the coming decade, then the Chinese economy would double by 2010.

One need only look at the current trade deficit we have with China to wonder whether or not we are doing all we can to take advantage of our new opportunities. In 2000, the United States exported $16.3 billion of goods and services to China, while importing $100 billion of goods and services from China, surpassing Japan as our largest trade deficit with any particular country.

As everyone here knows, last year Congress approved permanent normalization of trade relations between the United Sates and China. This approval, however, was contignent on China's accession into the WTO. Since that time, the negotiations between China and the WTO have continued at a slower pace than expected and it is very possible that Congress will have to vote to approve an extension of normal trade relations again this year. Hopefully, that will be the last extension and China will become a full member of the WTO.

China's accession to the WTO should mean that U.S. businesses will enjoy a more favorable trading climate with China than at almost any time in our history. Many of the trade barriers erected by the Chinese government to protect domestic industry will be eliminated and import tariffs will be substantially reduced. In addition, concerns over weak legal protections and intellectual property laws that previously bedeviled trade relations between the United States and China will be addressed.

It appears that there are two distinct types of trade barriers that businesses must overcome to be successful in China. The first group includes formal trade concerns

should be dealt with by the agreement between China and the World Trade Organization. The second group, however, are the more subtle barriers to trade that are not easily resolved.

U.S. businesses owners who have been successful in China have told the Committee staff that their success has come in no small measure from their willingness to adapt to the Chinese business culture. Many businesses have found that by employing representatives on the ground in China, they have been able to develop the personal and business relationships that are critical to doing business in China. The Chinese business culture emphasizes what they call "guanxi" (*prn. Quanshee*), or what we call "connections", and reflects the importance of establishing personal relationships prior to the establishment of a business relationship.

The Federal government has many programs designed to help businesses become successful exporters. The Committee is interested in how these programs are being used. If small businesses are not utilizing these programs we would like to explore ways in which the Small Business Committee can work to improve them. In addition, the Committee is interested in policies and programs that the Federal government is not currently supporting or providing, but should be considered.

To help us more fully understand these issues we have invited a panel of experts to join us. First, we have Peter Bowe (*prn. Bowie*), the President of Ellicott International in Baltimore, Maryland. Ellicott International has been exporting dredging equipment to

China since 1979, and Mr. Bowe is able to talk about just how the business climate in China has changed since the end of the Cultural Revolution. Thereafter, we have Mr. David B. Eisenhaure, who is the President and Chief Executive Officer of SatCon Technology Corporation in Cambridge, Massachusetts. Satcon exports to China products that improve air quality. We also have Dr. Robert Kapp from the US-China Business Council. Then, we will hear from Susan Au Allen who is the President of the US Pan Asian American Chamber of Commerce. Finally, we will hear from and Peter Hale who is the acting director of the Office of Policy Coordination at the International Trade Administration from the Department of Commerce.

Before turning to our panelists, let me encourage everyone to take an active part in the discussion portion of this forum. In that regard, I hope that everyone will think about areas where the Small Business Committee can be of assistance, by encouraging dialogue, or by providing a voice for small businesses when Congress debates exporting issues.

Also, we will be producing a formal transcript of today's forum. We will hold the record open for two weeks and we invite any additional statements or information you would like to submit for the record. Also, I should add that today's forum is being carried live via our the Committee's own web site.

Let me reiterate the invitation for those of you at the table and our guests in the audience who will have thoughts to add, please do so within that two-week period. If you are like I am, you will find that some of the best ideas that should have been added to this discussion probably will occur to you about 11:00 tonight. That is why we keep the record open so we can get that information.

As I indicated, prior to starting the roundtable discussion I would like to call on Adam Cowles, who is the Assistant Director for International Affairs and Trade at the General Accounting Office, the GAO, to give us a brief update on the current status of China's accession to the WTO. Mr. Cowles, you might pull up that microphone or grab a microphone somewhere so we can get it recorded and so it will be carried on the web.

Mr. COWLES. At GAO we have been doing work for the past 3 years helping Congress track progress——

Chairman BOND. Adam, would you grab that microphone and pick it up? I think you have to pick up the whole thing.

Mr. COWLES. Actually, I am going to go over and——

Chairman BOND. Okay. Steal one from Mr. Freedenberg, then.

Mr. COWLES. Okay. I am going to do a little Vanna White thing here, too. Okay. I am going to whiz through this really fast, but just to give you an idea of where we are in the negotiations.

First, you know that there are two parallel tracks in the negotiations: bilateral negotiations on market access issues like tariffs and services and non-tariff barriers like quotas and certain agricultural issues. Those are generally concluded with the exception of Mexico and a few clean-up issues, but I will get back to that. The multilateral negotiations are on how the WTO rules will apply to China, as many of you know there are still a few outstanding issues. I am not going to go into any detail about them, but the ones that you hear about in the news are subsidies, industrial and agricultural subsidies, what restrictions will apply, how trading rights will be phased in for the first 3 years of the agreement.

There are some services issues left over from the bilateral negotiations on definitional issues, what the commitments will cover. There are some things on how product standards will be regulated in China, and there is a variety of others.

So, well, what happens? These negotiations all conclude, and they result in an accession package, a document, an agreement that augments China's WTO commitments. And so the next working party meeting is scheduled for April.

Now, hopefully, that means that those negotiations, if they are lucky, they can conclude and wrap them all up. But then they have lots of clerical work to do: drafting the final agreement, finalizing the language and things like that. The text is probably going to be over 100 pages long, and so they have a lot of, you know, nitty-gritty work to do to get that all done.

So if the prognosis is that they can finish that by the first of May, if they are lucky, then what happens? Then the WTO members will review the final accession package, and this will most likely take about 2 months, in part because of some things that the EU has to go over. This is the time when the President is going to consult with Congress over the package and make all the necessary certifications under last year's PNTR legislation.

So by the time that gets done, that will all be in—take you through June, and then the package—once all the members are ready to sign off on it, they will report it to the WTO General Council, which is the highest body in the WTO. Their next regularly scheduled meeting that would fit in with this scenario would be in mid-July. So they meet then to approve the package, and at that point, assuming they approve it, all the WTO members' roles are finished. The agreement, the terms and conditions of the agreement were finished up here when the package is reported out of the working party. There is no more negotiation. The terms and conditions are locked in forever.

At this point, the General Council approves the package. The WTO members are all done with their rule, but yet China is still not a member. Well, what happens next? The burden then goes to China. The Chinese Standing Committee of the National People's Congress will meet to ratify China's acceptance, and they will complete the implementation steps that they feel necessary, because the day they walk into the WTO, they have to fulfill—you know, be willing to fulfill all of the commitments that they have signed on to.

Now, what happens, though, is that the People's Congress meets about every 60 days, the Standing Committee, but they can call a special meeting for that. And so that takes you into—if you take a minimum of 30 days for that to call the 155 members, that takes you into August. And then when they deposit their articles of ratification at the WTO, there is then a 30-day waiting period that is imposed on China, and so that takes you into September. And that is all supposing that everything goes right and fast and good in the next meeting of the WTO.

Then at that point, 17 years of negotiations are concluded, and a lot of people in this room are very happy. [Laughter.]

Chairman BOND. Thank you, sir. So if everything works, if everything works right, that is the timetable we are looking at. Well, I guess we keep our fingers crossed.

At this point let's turn to the presentations of our guest panelists. I am going to have to take my leave, but I will now call on Mr. Bowe to begin. Thank you all very much for being with us today, and I look forward to seeing the record of the proceedings. Thanks so much.

STATEMENT OF PETER A. BOWE, PRESIDENT, ELLICOTT MACHINE CORPORATION INTERNATIONAL, BALTIMORE, MARYLAND, AND VICE CHAIRMAN, SMALL BUSINESS EXPORTERS ASSOCIATION

Mr. BOWE. Thank you, Mr. Chairman.

I am Peter Bowe. I am speaking on behalf of not only Ellicott Machine but also on behalf of the Small Business Exporters Association, of which I am vice chairman. Ellicott makes dredges for port construction, harbor construction, land reclamation, mining, and environmental cleanup. We have been actively involved in exporting ever since we built all the dredges used in the original construction of the Panama Canal.

However, our experience in China has been erratic until recently. In 1977, we sold a big dredge for a harbor development for $3 mil-

lion. In 1985, we sold a $1 million dredge to western China for salt mining. That was it until a few years ago.

However, the Chinese market for dredging equipment is the largest market in the world, but it has been dominated by our Dutch and German competitors, who have not only strong governmental advocacy on their behalf but special financing.

What we did to get started in a more organized way was to participate as a sponsor of a public-private partnership in 1996 between the State of Maryland and ten exporters. This partnership established an office in Shanghai focusing not only on those ten sponsors but all Maryland companies wishing to enter the China market.

Our Chinese office, which was effectively subsidized by the State of Maryland, was still expensive. However, we persisted because we were committed to China, and we knew that it was not cheap to enter new markets like that. We have experience based on harder markets, like Vietnam and Egypt.

Our Chinese office has been successful. In 1999, after 3 years of effort, we had a $1 million sale for harbor dredging equipment, and last year we had a $300,000 sale of two small dredges for environmental cleanup. I think this latter sale is perhaps more interesting and significant than the larger-dollar sale because it shows that the Chinese are now willing to consider their environmental needs and spend money on that, as opposed to economic infrastructure projects, which we typically associate with China.

PNTR will be helpful to Ellicott in two respects. First, lower duties on capital equipment are always advantageous in improving the competitiveness of new equipment compared to used equipment or locally manufactured equipment. Lower duties mean lower prices on imported equipment. It is that simple.

Secondly, the next phase of our marketing plan in China involves the use of locally manufactured components with technology transfer, where we will use those components in our dredges. However, we are obviously reluctant to engage in technology transfer when there are issues and risks of intellectual property protection. PNTR will advance intellectual property rights protection and thus increase our comfort level in proceeding with this part of our plan.

Based on these two points alone, we are strong supporters of PNTR, and based on that we predict that we will be doing a million dollars a year in China on a regular basis.

However, this does not mean that issues for American exporters to China, especially capital equipment exporters, are solved or that the coast is clear for unrestricted export growth. The biggest issue we have to deal with is the unavailability of financing for American exporters comparable to what our foreign competition offers. Just this month, we lost a $4 million sale to a Dutch competitor for China who offered special financing. Attached to my written testimony is a copy of the Dutch ORET soft loan financing program for China. This program has led to the export of $450 million of Dutch exports to China over the last 11 years. That is from a country with just 17 million people. Think of what the French and Germans are doing.

This financing includes a 35-percent grant element and sometimes more. Not surprisingly, the Chinese like that.

The U.S. Ex-Im Bank has shown a special interest in the Chinese market by establishing an office there. We think that is a great idea. However, Ex-Im's restrictions on matching foreign tied aid loans such as the Dutch program, and now the risk of a reduced Ex-Im budget, make Ex-Im's financing far less attractive than what our competitors offer all the time. This will continue to be a big problem unless Congress agrees that we need to act as aggressively as our competitors do in the financing arena.

In response to a specific question from the Small Business Committee staff, we prepared a list of five points that we think small businesses should consider when approaching the China market.

Number one, translate marketing materials into Chinese. It is obvious, self-explanatory, but you have to do it.

Number two, establish a presence in China. It can take many forms, and there are many ways of facilitating that. You can use the Foreign Commercial Service. There are 10 States with offices there, industry trade associations, but you have to do it.

Number three, go there. Any exporter must take the trouble to visit China to see what the problems and opportunities are.

Number four, introduce your product and services via seminars. We have found this is a great method to introduce new concepts and products. You invite Chinese people to come for a formal presentation.

Number five, be patient and be prepared to spend some money to develop the market. This also means don't wait to act and don't be afraid to make mistakes. Everyone does. You have got to be prepared for several years of effort before you can achieve results.

For capital equipment exporters, I would add a sixth point of understanding the importance of financing. You have to know what Ex-Im Bank can do, that is the primary U.S. agency involved, but you also have to know what your foreign competition is offering. China is a large market, but it is complicated and it is not for everyone.

Thank you.

[The prepared statement of Mr. Bowe follows:]

Peter A. Bowe, President, Ellicott Machine Corporation International
and Vice Chairman, Small Business Exporters Association
1611 Bush Street • Baltimore, Maryland 21230 • Tel 410-545-0205

March 7, 2001
Senate Committee on Small Business Forum entitled
"PNTR/WTO: A Good Deal for U.S. Small Businesses in China?"

This testimony is offered on behalf of Ellicott Machine Corporation International, a dredge equipment manufacturing company based in Baltimore, and the Small Business Exporters Association of which I am currently Vice Chairman. Ellicott Machine makes dredges for port construction, mining, land reclamation and environmental cleanup such as lake restoration and contaminated sediment removal. Ellicott has been actively involved in exporting since building all the dredges used in the original construction of the Panama Canal.

Ellicott's history in China was erratic until recently. In 1977 we sold a $3 million dredge for port construction. In 1985 we sold a million dollar dredge for salt mining. This was the sum total of our sales until two years ago.

The Chinese market for dredging equipment is the largest in the world, and has been dominated by Dutch and German suppliers who have relied on governmental advocacy and special financing.

Recognizing the China opportunity in the 1980's, Ellicott began a program of familiarization primarily through an exchange of interns. This assisted us in developing relationships and translation of marketing materials.

Our most important step was to participate as a sponsor in 1996 of a public-private partnership between the State of Maryland and 10 Maryland exporters. This partnership established an office in Shanghai focusing on the 10 sponsors, but also supporting all Maryland companies wishing to enter the China market. Our Chinese office, although effectively subsidized by the State of Maryland, was still not cheap. Nonetheless we persisted given our commitment to the Chinese market and our patience with the time needed to develop such markets - patience developed through our experience in exporting to other developing countries over the years.

Our Chinese office has been successful. In 1999, after three years of effort, we had a $1 million sale for harbor dredging equipment and in the year 2000 a $300,000 sale for environmental cleanup dredges. This latter sale is perhaps more significant than the larger one because it indicates that the Chinese are now willing to spend money on environmental projects, a fairly new development, in addition to traditional infrastructure projects.

The advent of PNTR will be helpful to us in two respects.

First, lower duties on capital equipment are always advantageous in improving the relative advantage of new equipment compared to both used equipment and locally made Chinese equipment. Lower duties mean lower prices on imported products.

It is that simple.

Secondly, the next phase of our marketing plan in China will involve the use of locally manufactured components with technology transfer from Ellicott with such components to be incorporated into our equipment. However, we are reluctant to engage in technology transfer when issues of intellectual

property protection are unclear. PNTR will advance intellectual property rights protection and thus increase our comfort level in proceeding with our market plan for China. Based on these two points alone we are strong supporters of PNTR. And Ellicott is poised for additional sales to China in the near future.

This does not mean that issues for American exporters to China, especially capital equipment exporters, are now solved and the coast clear for unrestricted export growth.

The biggest issue we have to deal with is the relative unavailability of financing for American equipment exporters on terms comparable to those offered by our foreign competitors. Just this month we lost a $4 million order to our Dutch competitor because of special financing offered by the Dutch. Attached to my testimony is a copy of the Dutch ORET soft loan financing regime for China which has lead to the export of $450 million worth of Dutch products over the last 11 years. This financing includes at least a 35% grant element, and sometimes more. Not surprisingly, the Chinese like such terms.

U.S. Eximbank has shown special interest in the China market by establishing a dedicated foreign office in China - a very good idea. However Exim's restrictions on matching foreign tied aid loans such as the Dutch ORET program, and now the risk of a reduced budget proposal for Eximbank, make Eximbank's financing far less attractive than what our foreign competitors routinely offer. This will continue to be a big problem until Congress agrees that we need to act as aggressively as our foreign competitors do in the financing field.

Interestingly, the State of Maryland China office - now managed by a private contractor - just moved out of the Department of Commerce Shanghai office to a new location. The Department of Commerce had the great idea of being an incubator, i.e., sponsoring State offices as subtenants. Unfortunately, the Commerce Department building lease was signed at the peak of the real estate market, and current government requirements for full cost recovery mean that the office is very overpriced under current real estate market conditions.

In response to a specific question of the Small Business Committee Staff, we have prepared a list of five points of a successful Chinese market plan for small business exporters.

1. Translation of materials into Chinese language. This point is self-explanatory but needs to be followed.

2. Establish a presence in China. This presence can be facilitated by many organizations: the Foreign Commercial Service of the Department of Commerce, individual States - at least 10 have Chinese offices, industry trade associations, or World Trade Centers. To be successful the presence can take many forms but there is no avoiding it.

3. Go there. Any exporter must take the trouble to visit the China market repeatedly to understand what the opportunities and problems are.

4. Introduce your product or services via seminars. Seminars with formal presentations and a carefully prepared invitation list are a typical method for getting one's product established in China.

5. Be patient and be prepared to spend some money to develop the market. This also means don't wait to act or be afraid of making mistakes. An exporter must be prepared for several years of effort before results can be achieved.

For capital equipment exporters I would add a 6th point of understanding the importance of financing. This means not only talking to Eximbank, which is the primary U.S. agency involved, but understanding what the foreign competition is doing. China is a large market, but it is not for everyone.

Dutch Special Financing for China

Attachment to Peter A. Bowe Testimony March 7, 2001

The attached translation came from Douglas Lee from the US Embassy in Beijing.
-Ning Shao

Practical Handbook of Foreign Loans
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II Holland Government Loans

1. Loan Management Entities

The Ministry of Foreign Affairs and the Ministry of Economic Businesses are the approving entities regarding loan management. The government entrusts the NEI to appraise the loan application projects, while the Ministry of Finance is responsible for the inspection of whether the projects are in violation of any international agreements. The three above-mentioned Ministries also form the IPC to review the applying qualification of the projects. NIOBANK signs and implements the loan/grant agreements on behalf of the Netherlands Government.

2. Loans made to China (Summary)

The Netherlands Government started to provide China with mixed government loans in 1987. Until 31 Dec.1998, China has actually used Netherlands government loans amount in 58 valid projects for USD 446 million.

Currently, guarantors that handle Netherlands government loans are the China EX-IM, Bank of China, Chinese Construction Bank, ICBC, Agricultural Bank of China and Bank of Communication.

3. Loan Conditions (Summary)

Netherlands Government loans are implemented through ORET and MILIEV. Loans are made up of two parts - grant and export credit. When the Netherlands Prime Minister promised the loans in 1995, soft money accounted for 40% for ORET projects and the rest was export credits. The loan period is usually 7 to 8 years. Annual interest rates vary from 4% to 7%. For MILIEV projects, soft money percentage is usually 60%, the remaining part can be export credit or self-raised money from the loan applicants. In 1997, the percentage of ORET soft money was adjusted to 45%. ORET and MILIEV have been merged into one program since Jan 1st 1998. Soft money percentage was dropped to 35% for new projects; however, for projects of special interest to the Netherlands government, a 60% grant percentage can still be achieved.

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4. The application procedure

In order to make good use of a Dutch govt. loan, a bilateral loan working group has been set up by the Chinese government and the Netherlands government. The meeting is held twice a year, either in Beijing or the Hague. The application and selection of new projects, the inspection of old projects, the issues regarding the cooperation on loans as well as other related matters are discussed in the meeting.

The application procedures for Netherlands government loan:

1). After the project acceptation procedure is finished in China, the Ministry of Finance of China proposes the project to the Ministry of Foreign Affairs of Netherlands, and submits the project feasibility study report at the same time.

2). The enterprises in both countries initiate contact in the technological and commercial areas.

3). The Chinese on-lending bank analyzes the project; Netherlands Economic Institution (NEI) appraises the project according to the submitted project feasibility report, and conducts the evaluation on the spot if necessary.

4). After both sides make positive conclusions, the enterprises of both countries formally sign the commercial contacts.

5). The project company submits the loan application forms to the Netherlands Ministry of Foreign Affairs through the supplier. The Netherlands government inspects the project according to the reports from NEI.

6). After the Netherlands government approves the project, banks of both sides sign the export credit agreement. The Ministry of Finance of China and NIO Bank sign the gift loan agreement. The project becomes effective.

As agreed by both sides, the loan projects are divided into three types.

1). Projects that have been approved by both governments and will become valid after completion of the agreement procedure.

2). Projects that have been theoretically approved by Netherlands government; NEI exams the feasibility reports of the projects.

3). New projects proposed by the Chinese government.

3. Explanation

The approval procedure for Netherlands government loan is relatively more complicated and time-consuming. Both the Chinese government and Netherlands government have exchanged opinions on the simplification of procedure to make it more efficient.

The new projects will be selected according to strict standards. The focus will be made to support large-scale national infrastructure construction, environmental projects and imports of advanced technologies in industrial and agricultural areas. The Netherlands especially attaches importance to cooperation on dredgers and wastewater treatment.

The Netherlands government stresses the importance of exports from the Netherlands. The project usually will not receive approval from the Netherlands government without the involvement of enterprises from the Netherlands.

Mr. CONLON. Thank you.
Mr. Eisenhaure.

STATEMENT OF DAVID EISENHAURE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SATCON TECHNOLOGY CORPORATION, CAMBRIDGE, MASSACHUSETTS

Mr. EISENHAURE. Good morning. My name is David Eisenhaure, and I am the president of SatCon Technology Corporation in Cambridge, Massachusetts. I would like to thank the Committee and Senator Kerry for asking me to attend this forum and to have the opportunity to discuss with you SatCon's trading relationship with China.

At SatCon, we manufacture reliable, affordable, and environmentally friendly power and energy management products for the global community. Our products are focused on alternative energy applications, distributed power generation, industrial automation, telecommunication, and specialty electronics. We are a qualified small business and employ approximately 350 people at six facilities located in Massachusetts, Maryland, and California.

As a small business with current trade relations with China, I would like to explain the benefits that SatCon has derived from this relationship. First, China represents a significant market opportunity for the industrial automation and distributed power generation products that are being built by SatCon employees in its several divisions. Second, China is currently a source of materials for SatCon. These materials are incorporated into the products that SatCon sells back to China. Thirdly, as China grows its industrial base, it will benefit from the environmentally friendly products that SatCon produces.

To elaborate on these points, China has been a source for cost-effective motor components such as motor magnets, which has allowed SatCon to grow its Magmotor Division in Worcester, Massachusetts, from approximately $1 million a year in revenues to $10 million in revenue over the last 3 years. This increase in sales has resulted in the creation of 50 new manufacturing jobs.

Currently, SatCon imports approximately $750,000 of materials from China a year. This year, we estimate that we will sell approximately $3.5 million in finished products back to China. As we move forward in our trade relations with China, we will need to effectively balance imports with exports. We believe that we have been successful in that effort, having achieved approximately a 5:1 ratio of exports to imports while creating new jobs in the process. As China grows its industrial base, we expect to see increased sales of our industrial automation motors and machines to China, resulting in further job creation here in the United States.

This industrial growth will also provide significant increased opportunities for SatCon's environmentally friendly distributed power generation and power quality products. This new product market for distributed, or on-site, power generation is being driven by the need to create remote electric power generation capability throughout the industrialized and non-industrialized world. Electric utility grids, where they exist, are becoming stressed by increased demand, and the creation of new utility grids is prohibitively expen-

sive. In addition, the generation of electricity is the second leading contributor to air pollution worldwide.

Distributed power generation offers an opportunity. Using fuel cells and clean burning microturbines, photovoltaics and wind turbines, on-site power generation offers an alternative. SatCon is building the power electronics, software, and controls that allow these systems to provide computer quality electricity for residential and commercial uses. The use of distributed power generation systems in China would represent billions of dollars in potential revenue to United States small businesses, including SatCon. Since these are new products and not displacement products, this new market will result in the creation of thousands of new jobs.

Given the potential for increased air pollution with a growing industrial base in China, these environmentally friendly distributed power generation products could help reduce the impact of increased electric demand on the global environment.

In closing, continuing our current import/export relationship with China is necessary to maintaining our existing revenue growth and job creation. Secondly, expansion of the market opportunity for increased sales of industrial motors and machines to support China's industrial growth represents additional increases in near-term revenue and job creation. And, finally, the billion-dollar market opportunity for distributed power generation represents significant growth for SatCon and other American small businesses. Therefore, we would recommend to this forum that we extend the permanent normal trade relationship with China.

Thanks again to the Committee for allowing SatCon the opportunity to present its views on this important issue. If there are any questions about SatCon's trading relationship with China or any of the marketing opportunities I have discussed or the potential for distributed power generation, I would certainly be happy to address those.

Thank you all.

[The prepared statement of Mr. Eisenhaure follows:]

SatCon Technology Corporation
161 First Street
Cambridge, MA 02142

617-661-0540
FAX: 617-661-3373

March 7, 2001

Testimony to Senate Committee on Small Business entitled "Permanent Normal Trade Relationship/World Trade Organization: A Good Deal for U.S. Small Businesses in China."

Testimony

Good morning. My name is David Eisenhaure and I'm the President of SatCon Technology Corporation in Cambridge, Massachusetts. I would like to thank the committee and Senator Kerry for asking me to attend this forum, and to have the opportunity to discuss with you SatCon's trading relationships with China.

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To elaborate on these points, China has been a source for cost effective motor components such as motor magnets, which has allowed SatCon to grow its Magmotor Division in Worcester, Massachusetts from $1.0 million a year in sales to $10 million in planned sales for this year resulting in the creation of 50 new manufacturing jobs.

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Distributed power generation offers an alternative. Using fuel cells and clean burning microturbines, photovoltaics and wind-turbines, on-site power generation offers an alternative. SatCon is building the power electronics, software and controls that allow these systems to provide computer quality electricity for residential and commercial uses. The use of these distributed power generation systems in China would represent billions of dollars in potential revenue to United States small businesses including SatCon. Since these are new products and not displacement products, this new market will result in the creation of thousands of new jobs.

Given the potential for increased air pollution with a growing industrial base in China, these environmentally friendly distributed power generation products could help reduce the impact of increased electric demand on the global environment.

In closing, continuing our current import/export relationship with China is necessary to maintaining our existing revenue growth and job creation. Secondly, expansion of the market opportunity for increased sales of industrial motors and machines to support China's industrial growth represents additional increases in near term revenue and job creation. And finally, the billion-dollar market opportunity for distributed power generation represents significant growth for SatCon and other small American businesses. Therefore, we would recommend to this forum that we extend the Permanent Normal Trade Relationship with China.

Thank you again to the committee for allowing us the opportunity to present our views on this important issue. If you have any questions about SatCon's trading relationship with China, any of the market opportunities I discussed or the potential for distributed power generation, I would be pleased to answer them.

Submitted by:

David B. Eisenhaure
President and Chief Executive Officer
SatCon Technology Corporation
161 First Street
Cambridge, Massachusetts 02142

Mr. CONLON. Thank you.
Dr. Kapp.

STATEMENT OF ROBERT A. KAPP, PH.D., PRESIDENT, THE UNITED STATES–CHINA BUSINESS COUNCIL, WASHINGTON, D.C.

I have put some thoughts down in outline form for the record and I don't want to retrace every step here. Let me just make a few points, and then we will move into discussion.

The first is this: while it is important to focus on the particular characteristics of smaller companies and their needs, both domestically and internationally, it is worth remembering that when we are talking about business with China, small business is a subset of the broader category "business" itself. Most of the answers to the question "Is WTO going to be good for small business?" I think, are part of the more general answer as to whether WTO is going to be good for American business as a whole.

Now, the PNTR matter is over. Congress has acted on that. The bloodletting and the hand wringing are finished; we are now at the point simply of asking ourselves, "when China enters the WTO, what are the ways in which this is going to be helpful to American business as a whole and small business in particular?"

My central points on that, leaving aside the early sections of my written outline, which work through a fair amount of China background, are contained in numbers VII and VIII.

The reason WTO matters to American business is that it advances processes in China (processes already underway, but processes that have a long way to go) that are going to make China a better partner to the world in many ways, but particularly a better partner to the world on economic and commercial matters, and thus a better partner to America and a better partner to American business and, finally, to American small business.

Several of the testimonies that we are hearing this morning do a great job of adducing all the things that make doing business with China difficult. Leaving aside the fact that it costs more to fly to China than it does to fly to Toronto and the fact that you have to deal with people who don't speak English: leaving all those obvious things aside, business with China is tough for most U.S. firms. It is tough for reasons that long pre-date the Communist revolution, but it is doubly tough because of the legacy that Maoism and Stalinism left behind in China.

What we see in the WTO accession itself and in the agreements China has signed with us in November 1999 and with other countries in their bilateral WTO accession agreements, is an extraordinary range of commitments to changing the way in which government operates in the Chinese economy, and ultimately the way in which government relates to the citizenry of China itself.

Therefore, what business, small or large, can legitimately hope for out of China's WTO accession is a progressive liberalization of the economy, a reduction of the stagnant interference of bureaucracy, a reduction of the opacity and the lack of understandability of commercial process in China, a gradual increase in reliance on publicly enunciated law, of processes that are indispensable to anybody who wants to do business over there but have remained

opaque and highly personal to this time, and, indeed, the emergence, even more than we have already seen, of a genuine entrepreneurial culture and entrepreneurial class, if you will, in China.

This set of agreements, mainly embodied in the

Barshefsky-Shi Guangsheng agreement of November 1999, will over time improve the ways in which the business environment and the investment environment of China operate for American companies. For small firms, that is in a sense even more important than for big ones, because of the costs of time and money that go into dealing with this opaque system weigh so heavily on small firms with limited resources. But it is important for large companies with large investments and large transactions as well.

Quickly, on a couple of recommendations:

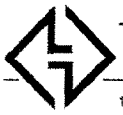
Congress needs to get behind the rule of law efforts of the United States with China right away. Congress has dawdled and come up with lots of reasons not to put any support into American programs to assist China in the development of a more effective and dependable and publicly transparent system of legal institutions for many, many years. And we need to get off the dime on that.

The U.S.-China Business Council created a fund from our own companies to promote rule of law cooperation with China. We give small grants to Chinese and American applicants. It is a great program. We have given grants in women's legal services, labor rights law, legal services for the poor, as well as commercial and administrative law. But we are no substitute for the efforts and the resources that the U.S. Government has been considering putting forth in cooperation with China but has not yet delivered. This is the year for Congress to act.

Many of the things that China needs as it grows its economy and protects its citizens from further environmental degradation and so forth, programs that are in their infancy, are potentially very important to American businesses, including small firms. But they lack the kind of commercially compelling quality that comes when you are selling a product to a consumer market, for example. And, therefore, when the United States reopens the Trade Development Agency with China; if the United States moves to re-engaging the Asian Environmental Partnership programs with China, providing this kind of support and development work and even financing in some cases for small American companies to get involved in sectors that are not slam-bang commercial sectors in China, this is going to be very important for American smaller companies as well. Environmental protection and environmental services are a classic case of that.

We will go on in discussion, and I thank you for your time.

[The prepared statement of Mr. Kapp follows:]



The United States-China Business Council

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Remarks of Robert A. Kapp
President, US-China Business Council
Forum on "PNTR/WTO: A Good Deal for U.S. Small Businesses in China?"
428A Russell Senate Office Building
March 7, 2001

Let me open by thanking Senators Bond and Kerry for the opportunity to join this Forum and to learn from the many talented people who are sharing experiences today.

For the sake of brevity, I want to try something a little different today than I have done in formal testimony in the past: permit me to offer my comments in outline form only, for elaboration in oral presentation and particularly in the open discussion that I understand to be the heart of this format.

I. I'm Bob Kapp, of the US-China Business Council
   A. The Council is the leading organization of US companies in business with China (250 corporate members of all sizes and most sectors). Founded 1973.
   B. Council (www.uschina.org) provides Business Advisory Services, publications and business information, meetings and events, and public policy advocacy to its members. Our magazine, The China Business Review (www.chinabusinessreview.com) is THE best way to stay current on US-China trade and economic conditions and trends.
   C. Headquartered in DC, with service offices in Beijing and Shanghai.
   D. My background: 10 years university teaching (modern China, in Houston and Seattle), 15 years in small business trade associations (Seattle), 7 years in D.C. with US-China Business Council.

II. Successful commercial relations between the US and China are vitally important in advancing overall US-China cooperation and preserving stability between the two countries in the face of many challenges.
   A. Business can't carry all the US-China freight by itself; but if a strong economic rationale for US-China engagement is missing, resolution of other difficulties will be far more difficult.

III. Twenty years ago, "Doing Business With China" for most Americans was like going to the moon.
   A. China's legacy of Soviet-style planned economics and Maoist ideology left a near-vacuum of market-oriented entrepreneurship and business skills -- domestic OR international.

IV. Today, China's reforms have moved China away from the planned economy and toward the market economy.

A. Meanwhile, China's rise from an insignificant trading nation to a very significant trading nation has brought growing understanding of the economic, commercial, and cultural practices of the "outside world."

B. The flow of international investment into China has contributed to the development of internationally-compatible business skills, management skills, and technological standards in China.

C. While China's economy remains poor by G-7 standards, rapid rates of economic growth and greater economic flexibility has led to increasing entrepreneurship, rising living standards, and the growth of very large consumer and industrial markets in China.

D. The interrelationship of continuing market-oriented reforms and increased economic interaction with other countries is summed up in the Chinese slogan, "Reform and Opening." Today, China's economic future is inextricably linked to China's ability to trade with the world, absorb international capital and knowhow into its domestic society, and compete in global markets.

V. China faces huge domestic challenges relevant to foreign business approaches.

A. "Reform and Opening" is dismantling the system of state-run economic activity, state-subsidized social welfare programs, and state-commanded production plans.

B. Layoffs in outmoded state-owned industries are widespread, with little in the way of social safety net protection.

C. Corruption has flourished as the regime has lightened its controls over local and personal economic activity and as holders of public authority found ways to profiteer in the gray area between the market economy and the state-controlled economy.

D. Income differentials between urban and rural dwellers, and between the advanced coastal areas and the more backward interior areas, continue to increase, with uncertain social and political implications.

E. China's leaders face the challenge of maintaining rapid growth (in part, to soak up laid off workers and employ millions of new entrants into the work force) while maintaining social and political stability. Looser controls are needed for growth, but can also further weaken the power of the government to enforce laws and ensure social tranquility. No American solution to this dilemma will resolve it.

VI. For China, promotion of economic modernization through the introduction of world standards of commercial and legal behavior while securing stable access to foreign markets.

A. WTO accession is seen by many progressives and reformers as a critically important tool for encouragement of further economic and social reform and promotion of the private sector's development, along with institutions of law.

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VII. For the "Outside World," expectations of greater orderliness and predictability in Chinese economic and commercial behavior.

A. Friction, disagreement, and conflict are inevitable in trade relations between nations, especially large ones, and all the more likely when two nations have widely divergent cultural, historical, and economic backgrounds as do the U.S. and China.

B. The challenges of business in China for US firms large and small: closure of entire sectors to foreign business activity; tariff and nontariff barriers, technical barriers to trade, pervasive bureaucracy, opaqueness of Chinese legal and regulatory decisionmaking, uneven enforcement of laws and regulations, inadequate intellectual property protection, lack of impartial administration of justice, discrimination against non-Chinese entities, etc. etc.

VIII. Impacts on small business: mainly from the gradual loosening up of Chinese commerce.

A. The core change: progressive liberalization of China's foreign trade activities. Diminution of controlling role of government. Shift from "application/permission" to "registration" as general mode of conducting business activities.

B. Increase in numbers and variety of Chinese entities, including private businesses, empowered to conduct international business -- including small enterprises.

C. Liberalization of service sector, including distribution and wholesaling: expect improvement in efficiency of crucial service sector supports for international business.

D. Increased Chinese enterprise aggressiveness in searching for business opportunities abroad, including cooperation with less well known US and other foreign companies.

E. Gradually increased transparency of Chinese rule-, regulation-, and law-making. Gradual diminution of tendency to sudden unexplained policy reversals, reliance on "internal" regulations to thwart foreign firms' business interests.

F. The core WTO principle of National Treatment: hope for gradual liberation from PRC discrimination in favor of domestically produced goods and services.

IX. Limits of WTO membership significance in the short term.

A. China will not become "Just Like St. Louis," as an early 20th-century US Senator once predicted, and certainly will not do so overnight.

1. A long way to go in establishing and securing the institutions of an impartial legal system, with judicial independence etc.

2. It remains in many ways a developing country, with vastly uneven levels of international sophistication, professional skills, and technological abilities.

3. Problems like inadequate protection of intellectual property will be eliminated only gradually and painfully.

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4. The operating costs of doing business with China will remain heavy; profits will be slow to materialize, even after WTO, requiring up-front reserves that smaller firms often find difficult to muster.

X. Small business and China: the permanent problem of low-cost assistance to small companies.

A. Let me save discussion of this important topic, involving the role of state and local trade promotion organizations, federal services, local trade associations, etc., for the back-and-forth discussion with Senators, fellow panelists, and other participants in the Forum.

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Appendix I: China's Trade Performance

China's trade performance in 2000 far surpassed even the most optimistic forecasts, though the prospects for 2001 are less promising as the global economy slows. The results in 2000 stem from robust US demand in the first half of 2000, continued economic recovery among the PRC's neighboring trade partners, the higher cost of crude oil (which markedly raised China's import value), and poor trade performance of the first half of 1999 (which provided a low comparison base).

2000 IN REVIEW

Exports lose steam China's export growth in 2000 reached heights not seen since the mid-1990s. Demand in the United States, South Korea, and Japan drove much of the growth, but improvements in export quality and production efficiency also contributed to the surge. The monthly growth rate fell from a peak of 45 percent in June to basically zero growth in December, marking a sharp contrast with past trends, in which orders for holiday sales boosted exports between July and December.

Import surge continues China's import growth in 2000 was the highest since the mid-1980s. Beijing's infrastructure build-up, particularly in the telecommunications sector; ongoing industrial modernization drive; and higher fuel prices were behind much of the jump. Import growth slowed in the second half of the year, probably linked to the dip in processed goods that use imported parts.

Trade by private enterprises picks up Collective and private enterprises increased their share of total trade to 4.6 percent, in part because Beijing expanded the private enterprise category and extended trading rights to non-state enterprises. Foreign-invested enterprises' contribution to China's total trade remained consistent with trends in recent years, accounting for nearly 50 percent of the total. State-owned enterprises remained a major contributor to overall trade growth, but their share slid a few percentage points to 45.6 percent.

US exports post strong recovery, imports remain strong US exports to China continued their bounce back from the 1999 drop-off. The bilateral agricultural agreement and China's demand for telecom and Internet infrastructure components shook up the composition of top US exports to China. A buoyant US economy for most of the year resulted in steady US imports of PRC products.

WHAT TO WATCH IN 2001

Chinese and Western analysts estimate a much slower 8 percent to 15 percent rise in trade in 2001. PRC exports will be affected by the global economic slowdown, especially in the United States. Exactly how Beijing will grant trading rights and will phase-out quotas to meet its WTO commitments will serve as more accurate barometers of future

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trade potential with China. In the interim, some PRC regulatory changes introduced in 2000 aim to simplify, speed up, and increase the transparency of Customs clearance procedures. Other changes aimed at curbing illegal trade activity have the potential to affect legitimate trade at the margins. China's 10th Five-Year Plan and western development program further hint at possible trade opportunities, especially in the agricultural, environmental, export-oriented, high-technology, and infrastructure sectors. US policy decisions to increase the millions of theoretical operations per second (MTOPS) threshold for sales of computers, the re-instatement of the US Trade & Development Agency activity in China, and the resumption of the licensing process for commercial satellite launches also bode well for US exporters.

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Table 1: China's Trade with the World ($ billion)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Exports	47.5	52.5	62.1	71.9	84.9	91.7	121.0	148.8	151.1	182.7	183.8	194.9	249.2
Imports	55.3	59.1	53.3	63.8	80.6	104.0	115.6	132.1	138.8	142.4	140.2	165.7	225.1
Total	102.8	111.6	115.4	135.7	165.5	195.7	236.6	280.9	289.9	325.1	324.0	360.6	474.3
Balance	-7.8	-6.6	8.8	8.1	4.3	-12.3	5.4	16.7	12.3	40.3	43.6	29.2	24.1

NOTE: PRC exports reported on a FOB basis; imports on a CIF basis

Table 2: China's Top Exports ($ million)

HS #	Commodity Description	Jan-Nov 2000	% change
85	Electrical machinery & equipment	41,639.2	41.2
61, 62	Apparel	29,562.4	19.9
84	Power generation equipment	24,429.3	43.1
64	Footwear & parts thereof	8,967.4	15.2
95	Toys & games	8,534.3	21.1
72, 73	Iron & steel	8,339.9	47.9
27	Mineral fuel & oil	7,151.8	79.5
94	Furniture & bedding	6,425.1	31.6
28, 29	Inorganic & organic chemicals	6,181.4	16.4
42	Articles of leather; travel goods; & handbags	6,015.3	26.7

Table 3: China's Top Imports ($ million)

HS #	Commodity Description	Jan-Nov 2000	% change
85	Electrical machinery & equipment	45,932.3	46.8
84	Power generation equipment	30,959.8	23.0
27	Mineral fuel & oil	18,744.3	140.9
39	Plastics & articles thereof	13,112.2	25.7
72, 73	Iron & steel	10,098.9	27.9
28, 29	Inorganic & organic chemicals	8,908.7	57.1
90	Medical equipment	6,543.5	46.1
54, 55	Man-made filaments & staple fibers	6,154.7	21.1
74	Copper & articles thereof	4,254.8	54.1
48	Paper, paperboard & articles thereof	3,664.0	1.6

Table 4: China's Top Trade Partners ($ million)

	Country	Jan-Nov 2000	% change	Rank 1999
1	Japan	[illegible]	[illegible]	1
2	United States	68,059.6	22.5	2
3	Hong Kong	[illegible]	[illegible]	3
4	South Korea	31,482.4	41.9	4
5	Taiwan	[illegible]	[illegible]	5
6	Germany	17,880.6	23.1	6
7	Singapore	[illegible]	[illegible]	7
8	United Kingdom	8,980.8	27.3	8
9	Netherlands	[illegible]	[illegible]	9
10	Russia	7,262.1	40.3	12

Table 5: China's Trade with the United States ($ billion)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Jan-Nov 1999	Jan-Nov 2000
US Exports	5.8	4.8	6.2	7.5	8.8	9.3	11.8	12.0	12.8	14.3	13.1	12.0	14.7
US Imports	12.9	16.3	20.3	27.4	33.7	41.4	48.5	54.4	65.8	75.1	87.8	80.6	99.4
Total	18.7	21.1	26.5	34.9	42.5	50.7	60.3	66.4	78.6	89.4	100.9	92.6	114.1
US Balance	-7.1	-11.5	-14.1	-19.9	-24.9	-35.7	-36.7	-42.4	-53.0	-60.8	74.7	-68.6	-84.7

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Table 6: Top US Exports to China ($ million)

HTS #	Commodity Description	Jan-Nov 2000	% change
84	Power generation equipment	3,120.6	33.8
85	Electrical machinery & equipment	2,425.5	34.8
88	Air & spacecraft	1,559.8	-31.9
12	Oil seeds & oleaginous fruits	948.2	205.7
90	Medical equipment	705.6	-1.6
39	Plastics & articles thereof	661.6	43.0
47, 48	Paper & paperboard	625.2	26.8
31	Fertilizer	577.5	-30.6
29	Organic chemicals	456.7	63.0
76	Aluminum & articles thereof	285.9	77.7

Table 7: Top US Imports from China ($ million)

HTS #	Commodity Description	Jan-Nov 2000	% change
85	Electrical machinery & equipment	18,878.8	31.5
84	Power generation equipment	12,853.1	32.3
95	Toys & games	12,643.2	12.1
64	Footwear & parts thereof	9,024.9	10.0
94	Furniture	7,638.0	31.6
61, 62	Apparel	6,066.6	7.1
42	Leather & travel goods	3,847.7	28.9
39	Plastics & articles thereof	2,991.3	19.9
90	Medical instruments	2,695.4	22.3
72, 73	Iron & steel	2,363.4	44.8

II. Foreign Investment
The US-China Business Council
January 2001

After falling precipitously in 1999, foreign direct investment (FDI) inflows to China rebounded in 2000. The value of new investment contracts rose by more than 50 percent, to $62.65 billion (*see Table 1*). Reflecting the steep drop in contracted investment in 1999, utilized investment increased only slightly, to $40.77 billion.

Table 1: Foreign Direct Investment in China ($ billion)

	1999	2000	% change
Contracted Investment	41.54	62.65	50.8
Utilized	40.39	40.77	0.93

FDI: THE YEAR IN REVIEW

The late-1999 improvement in investor confidence continued through 2000, as China's sluggish economy began to recover and the country's WTO negotiations approached their conclusion. Resurgent investment from the United States, Japan, South Korea, and Taiwan stabilized China's FDI inflows in 2000.

New contracts up

The value of new contracts rose by just over a third through November 2000, to $48.57 billion, compared to the year-earlier period. The number of contracts increased in tandem, by almost 30 percent. The value of realized investment in 2000, in contrast, was virtually unchanged from 1999.

Table 2: Foreign Direct Investment in China: Jan – Nov, 2000

	Number of Contracts		Amount Contracted		Amount Utilized	
		% change	$ billion	% change	$ billion	% change
Total FDI	19,700	29.12	48.57	36.29	36.24	-2.29
Equity Joint Ventures	7,230	14.89	13.41	8.39	12.65	-16.04
Contractual Joint Ventures	1,564	7.12	6.73	14.71	5.97	-16.70
WFOE	10,893	45.38	28.21	64.01	17.19	21.04
Foreign-Invested Shareholding Ventures	6	100	0.10	-19.35	0.10	-59.35
Joint Resource Exploration	7	40	0.11	205.56	0.34	-8.38

Source: CIEC, Ministry of Foreign Trade and Economic Cooperation

US investors outpace Europeans

The number of new US foreign investment contracts and the value of those contracts increased by almost 25 percent and about 51 percent, respectively, through the third

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quarter of 2000 over the same period in 1999. US utilized investment fell by almost 12 percent through the third quarter of 2000 compared to the same period in 1999. FDI from the United States accounted for 17 percent of China's total contracted FDI, and 9.4 percent of total utilized investment, in 2000.

Contracted investment from the European Union increased by a modest 3 percent through the third quarter of 2000. EU utilized investment fell by 9 percent over the same period, reflecting the steep decline in contracted investment in 1999.

ISSUES TO WATCH IN 2001

WTO accession negotiations

Negotiators in the WTO working party on China's accession made significant progress in 2000 in narrowing differences on the terms of China's accession. However, after meeting for a week in January 2001, negotiators returned to their capitals without a final agreement. The key outstanding issues are China's desire to preserve its right as a WTO developing country so that it can offer agricultural subsidies to its farmers; services, including disputes over China's insurance commitments and the definition of chain stores under a final agreement; trading rights; and technical barriers to trade.

Translation of WTO commitments into law and practice

Regardless of progress in Geneva, China appears poised to continue the process of aligning its trade and investment frameworks with WTO rules. The laws and regulations that China revises and adopts—not the text of the WTO accession package itself—will provide the roadmap local officials will use to implement WTO commitments. Foreign companies will monitor China's moves closely—especially regarding the phase-in of China's commitments on trading rights, distribution, and services—and under the WTO Agreement on Trade-Related Investment Measures (TRIMS).

ONWARD AND UPWARD

Investor optimism should continue in 2001, with the predictable effect on FDI inflows. The Chinese leadership's clear commitment to economic restructuring—and the efficiency gains from the government's heavy investment in infrastructure and IT—are likely to enhance China's attractiveness as an FDI destination.

This optimism and longer-term expansion could fade, however, if WTO negotiations stall, or if China's implementation efforts falter once accession is complete. After the falloff of the past few years, however, Beijing appears to have recognized the importance of FDI as an engine of growth and is unlikely to backtrack from its commitments. Still, with China's accession to WTO not expected until the second half of 2001 at the earliest, some companies may delay investments until the final accession document is complete and phase-in periods begin. In such a scenario 2002, not 2001, may be the year that witnesses the investment boom that most anticipate after China's WTO entry.

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Mr. CONLON. Thank you, Dr. Kapp.
Ms. Allen.

STATEMENT OF SUSAN AU ALLEN, PRESIDENT, U.S. PAN ASIAN AMERICAN CHAMBER OF COMMERCE, WASHINGTON, D.C.

Ms. ALLEN. Thank you. I, too, appreciate the opportunity to speak here on the question of whether giving permanent normal trade status to China and its accession to the World Trade Organization are good deals for U.S. small businesses.

I think at this point there may be some conflicting interest between big businesses and small businesses, but I am here to speak on behalf of the American small businesses, most of whom I represent within my organization.

I am the president of the U.S. Pan Asian American Chamber of Commerce, a 17-year-old trade association. We are not a single ethnic Asian group. We represent all Americans of Asian heritage.

There are over 11 million Asian Americans in this country, and it is growing at 4 percent a year. Chinese Americans constitute the largest group of Asian Americans in this country.

At this point, I would just like to digress because I will come back to this later. One of the questions posed at this forum is: What can we do to help small businesses to go into China? One thing to do is to hire people—I am not promoting myself, but hire people who are like me, who have lived here, pledged allegiance to this country, speak and write the language, and know the cultures and mores of China.

One of the previous speakers mentioned that you have got to have a presence there. The presence you have there is important, particularly when you have somebody who you can trust.

There are about 1 million Asian American-owned businesses in the country, and they produce about $267 billion worth of receipts every year.

With that as a backdrop, let me share with you some of my views with respect to doing business in China in the context of China's accession to the WTO.

Since Deng Xiaoping began economic reforms in December 1978, China has come a long way, from a country with marginal trade and investment to a major economic player in the world economy. Today, China has a growing mixed economy and expansive global interests. It is the world's third largest economy and tenth largest trading country. It is the world's third largest user of mobile telephones, behind the United States and Japan.

Despite the lure of a 1.3 billion population market, buyers beware. China is not an easy place to do business in, particularly for small businesses. Here are some of the reasons, and they are in my prepared statement, but I will just pick a few points.

The tariffs are high. Non-tariff barriers are numerous. There are import licensing requirements; import quotas; restrictions and controls; standards and certification requirements; trading rights system; multiple, time-consuming approval procedures: quality licenses before granting import approval with testing based on standards and specs often unknown or unavailable to foreign investors and traders and not applied equally to domestic products—not an equal playing field—safety standards that treat imported prod-

ucts discriminatorily; local content requirements for exports; lack of regulatory transparency; and foreign exchange balancing requirements. That is non-tariff barriers.

Corruption is pervasive. There are a lot of little Deng Xiaopings in China with great guanxis, relationships, connections. The gradual decentralization of power has created a system where local officials have vast flexibility to pursue their own economic interests and take advantage of the poorly enforced legal system for personal gain.

As stated, laws are opaque and easily abused by officials; regulations are inadequate and could be changed without notice; assets are not appraised or are undervalued before transactions; intermediaries often levy unauthorized charges and use income from transfers before authorization is given. And China encourages the development of favored domestic industries through tax incentives and tariff exemptions, who in turn compete with foreign-owned companies who do not receive these similar treatments.

Customs procedures are not applied uniformly throughout China. The same products can be dutied twice or three times. An inadequate transportation infrastructure is going to cost delays, good will, and customers and increase costs. And China also prohibits foreign firms from setting up straightforward distribution networks, which is the biggest problem in China; and restriction against foreign participation in distribution activities.

Let me give you some anecdotes. PricewaterhouseCoopers conducted an international survey of business environments and recently published its Opacity Index. Opacity is defined as the lack of clear, accurate, formal, and widely accepted practices in broad areas where business, finance, and government meet.

They looked at five areas that affect capital markets: corruption, the legal system, economic and fiscal policies, accounting standards and practices, and the regulatory regime. Overall, of major countries surveyed, China was the most opaque country, followed by Russia. On the other hand, Singapore fared the best, followed by the United States and Chile, who tied second.

The Australian Financial Review reported in February that the China Securities Regulatory Commission is investigating shares price manipulation in the Shanghai and Shenzhen stock markets.

The South China Morning Post in Hong Kong warned recently that the stock market manipulation and fraud cases have caused shudders among international investors, outside and within China. Rampant collusion, price manipulation, and insider dealing in the shares of the Shenzhen-listed China Venture Capital high-tech company exemplifies the risks inherent in investing in China. But these are all ignored during the very enthusiastic endorsement of the investor's market in China.

From the small business sector perspective, if you talk to the small businessmen who are trading or investing in China now, they would tell you that new venturers are in for an extreme shock. First, unlike here in the United States, the notion of brisk Western-style business meetings that end in a handshake and the signing of a contract are foreign to the Chinese. For them, again, as stated earlier by the chairman, building acquaintance and friendship comes before hard commerce.

Sometimes when the Chinese tell you it is okay to a problem, what they meant was they will look into it. They will not admit that they have a problem, and they do not tell you that they have a problem. They have a difficult time telling you that they have a problem. So here we often interpret the term "okay" as okay, they are going to take care of it, only to find later that the problem was not taken care of.

Be that as it may, 1.3 billion people is a very, very attractive market; 1.3 billion pairs of Q-tips is a great market for Americans.

There is no question that everybody is looking to this big market for whatever product and services they can promote and sell. So there are a few things to consider when we do business in China.

Remember, the bureaucracy is there. Laws are not clear and inadequate. Corruption is there. Finding a reliable partner is crucial, and even if you find one, you should be one step behind him or her all the time. They could be bribed. Distribution is one of the biggest problems, as I said earlier. Getting import license clearance is a trying process. Being paid in the renminbi is a problem. I have often asked people who trade in China, "Have you been paid yet?" If they say "yes," I'd say, "In what?"

Air and noise pollution is a problem that affects your quality of life if you take my suggestion and go there, and go there often and stay there. Patience, patience, and cultural sensitivity, and polite insistence will go a long way toward solving problems.

Mr. CONLON. Susan, in fairness to the other panelists, could you just finish up?

Ms. ALLEN. I will. And, finally, when in China, observe the Chinese way. As we say here, when in Rome, do as the Romans do.

Thank you.

[The prepared statement of Ms. Allen follows:]

Statement at the

United States Senate Committee on Small Business

Forum on

"PNTR/WTO: A Good Deal for U.S. Small Businesses in China?"

By

Susan Au Allen
President
US Pan Asian American Chamber of Commerce
1329 18th Street, NW
Washington, DC 20036

March 7, 2001

Mr. Chairman, thank you for inviting me to participate in the United States Senate Committee on Small Business forum on whether giving permanent normal trade relations (PNTR) to China and its accession into the World Trade Organization (WTO) are good deals for U.S. small businesses.

I am president of the US Pan Asian American Chamber of Commerce, a 17-year old national pan Asian American trade association. We are not a single Asian ethnic organization; we advocate for equal opportunity and economic growth in trade, contracts and employment for Americans of all Asian heritage.

There are 11.2 million Asian Americans in the country, with the six largest groups being Chinese, Filipino, Asian Indian, Vietnamese, Korean and Japanese. This ethnic community grows at 4 percent a year, is predicted to increase to about 22 million by 2025, and 34 million by 2050. At a 267% rate of increase, Asian Americans is the fastest growing group, followed by Hispanics at 258%, Native Americans at 95%, Blacks at 83%, and non-Hispanic Whites at 7%.

There are one million Asian American-owned businesses generating $275 billion in annual receipts in the United States.

With that as a background, I am pleased to share some of my views on doing business with China in the context of China's accession into the WTO.

China's Economic Expansion Opens Opportunity for Business

Since Deng Xiaoping began economic reforms in December 1978, China has come a long way, from a country with marginal trade and investment to a major economic player in the world community. Today, China has a growing mixed economy and expansive global interests. It is the world's third largest economy and tenth largest

trading country.

Despite the lure of a 1.3 billion population market, buyer's beware. China is not an easy place to do business in. For example:

- The tariffs are high.
- Non-tariff barriers are numerous (import licensing requirements; import quotas, restrictions and controls; standards and certification requirements; trading rights system; multiple, time-consuming approval procedures; quality licenses before granting import approval with testing based on standards and specifications often unknown or unavailable to foreigners and not applied equally to domestic products; safety standards that treat imported products discriminatorily; local content requirements for exports; lack of regulatory transparency; and foreign exchange balancing requirements).
- Corruption is pervasive. The gradual decentralization of power has created a system where local officials have vast flexibility to pursue their own economic interests and take advantage of the poorly enforced legal system for personal gain.
- Laws are opaque and easily abused by officials.
- Laws and regulations are inadequate and could be changed without notice.
- Assets are not appraised or are undervalued before the transaction.
- Intermediaries levy unauthorized charges and use income from transfers improperly.
- China encourage the development of favored domestic industries through tax incentives and tariff exemptions, who in turn compete with foreign-owned firms who do not receive similar treatment.
- Customs procedures are not applied uniformly throughout China. The same product maybe dutied at different rates in different Chinese ports of entry. Some products are subject to different inspection or registration procedures than domestic products.

- An inadequate transportation infrastructure. China has one of the world's smallest railway networks in relation to population and arable land, and one of the highest utilization rates for freight traffic. This raises transportation costs, slows down production or consumption, increases warehouse costs, not to mention the cost of good will and lost of customers due to delays in shipment or delivery.
- Prohibition against foreign firms from setting up straight forward distribution networks; and restriction against foreign participation in distribution activities.

Here are a few anecdotes:

PricewaterhouseCoopers conducted an international survey of business environments and recently published the Opacity Index, based on a survey of business people and analysts worldwide. In the report, "Opacity" is defined as, the lack of clear, accurate, formal and widely accepted practices in the broad area where business, finance and government meet.

PricewaterhouseCoopers looked at five areas that affect capital markets: corruption, the legal system, economic and fiscal policies, accounting standards and practices, and the regulatory regime. Overall, of major countries surveyed, China was found to have the most opaque business climate, followed by Russia. Singapore fared the best, followed by the United States and Chile, both tie for second-place.

The Australian Financial Review reported in February that the China Securities Regulatory Commission is investigating shares price manipulation in the Shanghai and Shenzhen stock markets.

The South China Morning Post in Hong Kong warns that recent stock market manipulation and fraud cases have caused shudders among international investors, outside and within China. Rampant collusion, price manipulation and insider dealing in the shares of the Shenzhen-listed China Venture Capital hi-tech company exemplifies

the risks inherent in investing in China, that are ignored during periods of investor enthusiasm.

In order to attract international investors, confidence-men raised some $175 million from state-owned enterprises to stir-fry the stocks: to buy and sell the shares between members of the investment pool to create the appearance of active trading. Share trading was conducted through thousands of fictitious individual accounts, giving the appearance of widespread public demand for the stock. The organizer meanwhile, built up a large following in the Chinese media as a stock commentator writing under the pseudonym of Mr. K. He then tip China Venture Capital to his readers. In less then a year, the stock rose from less than 17 Chinese dollars to a high of more than 80. Then, as technology stocks fell globally early last year, the China Venture Capital stock crashed to less then 15.

This case shows how easily Chinese stock markets are manipulated; and the lesson for overseas investors is that China's stock markets remain nascent, poorly regulated and treacherous.

The Small Business Entrepreneur

If we talk to small businesses who are trading or investing in China, they would tell you that new venturers are in for an extreme shock. First, unlike here in the United States, the notion of brisk western-style business meetings that end in a handshake and the signing of a contract are foreign to the Chinese. For them, building acquaintance and friendship comes before hard commerce.

Sometimes when the Chinese say "okay" to a problem, they mean they will look into it. They do not admit that there is a problem and they do not tell you they have a problem. However, we often interpret their "okay" as they will solve the problem only to find out later that they have not.

Things to Bear in Mind

There are certain things to bear in mind when doing business in China:

- The bureaucracy is there
- Laws are not clear and inadequate
- Corruption is there
- Finding a reliable partner is crucial and even if you find one, you should be one step behind him or her
- Distribution is one of the biggest problems
- Getting import clearance is a trying process
- Being paid in Rmb is a problem
- Air and noise pollution is a problem that affects your quality of life if you spend substantial time there
- Patience, patience, cultural sensitivity, and polite insistence goes a long way toward resolving problems and successfully doing business in China.
- When in China, observe the Chinese way; just as when in Rome, do as the Romans do.

Accession into the WTO

China's impending accession to the WTO has been front-page news for months. Membership in the WTO will bring China within the ambit of the international trading rules that apply to the United States and the major trading nations in the world. In other words, China will be held to the same market norms and trade standards as other members of the international community.

As a non-WTO member, China has been able to maintain trade barriers that make it difficult for foreign businesses to compete in China. Those barriers are supposed to disappear once China enters the WTO and brings itself into compliance with its WTO obligations.

To this end, China must make many changes and lower trade

barriers in its trading and investment laws, regulations and practices. These changes will have a substantial impact on people interested in doing business with China, from the sale of goods to operation of wholly foreign-owned enterprises in China.

And we have heard China's commitment to numerous liberalizing obligations in banking, securities, insurance, finance, telecommunications, and professional services including law, accounting, engineering and consulting.

Just last month, China's Chief Representative for Trade Negotiation at the Ministry of Foreign Trade & Economic Cooperation (MOFTEC), Mr. Long Yongtu, said at a China Investment Policy Seminar in Hong Kong that:

- In the interest of transparency, China will publish all legal documents relating to trade and economic development and establish an information services body;
- Any enterprise will have the opportunity for appeal to authorities and the courts so that there is an independent administration and policy organization; and
- China's promise to have a just and independent judicial system is a great step forward and important for foreign investors.

Other Chinese officials speaking at the Seminar promised a transparent tax system that is in line with international practice and rule of law; customs law to prevent individual departments from investigating, seizing and fining without proper grounds; and more rigorous protection of intellectual property rights.

WTO membership could very well be a turning point in China's long history and could take China toward the rule of law so that the business environment in China is similar to New York, as China's Chief Representative for MOFTEC said, and so that business executives will use accountants and lawyers in dealing with senior Chinese officials, instead of public relations ladies.

What does all that mean? The short answer is trade and investment opportunities for U.S. small businesses in China too.

The big question is: Will they make money? And when?

The answer lies in how much efforts China will make in complying with its WTO obligations; how successful we are in finding a reliable partner; how often we are willing to go to China to check on our partners; and how much time we are willing to spend there.

Finally, luck does play a role in this endeavor.

Thank you for the opportunity to speak today.

Mr. CONLON. Thank you, Ms. Allen.
Mr. Hale.

STATEMENT OF PETER B. HALE, DIRECTOR, OFFICE OF POLICY COORDINATION, UNITED STATES DEPARTMENT OF COMMERCE, WASHINGTON, D.C.

Mr. HALE. Thank you. I welcome the opportunity to participate in this forum and congratulate the Committee on focusing on this topic, which I think is a very interesting one.

I am the Acting Assistant Secretary for Market Access and Compliance at the Department of Commerce. Today, I am here representing the Commerce Department's International Trade Administration, which is comprised of my unit, the U.S. Commercial Service, the industry-oriented Trade Development Unit, and Import Administration.

I would like to start with a quick look at China's economy and our trade figures. According to the Chinese Government, China's gross domestic product exceeded $1 trillion last year for the first time—a growth of about 8 percent over the previous year. Pretty impressive growth and a very impressive number.

As Senator Bond indicated, our bilateral trade deficit with China has also reached a record level. Last year, it measured nearly $84 billion, with China overtaking Japan as our trading partner with which we have the largest bilateral deficit.

On the positive side, however, although imports of Chinese goods by the U.S. continued to grow rapidly, last year was a good year for our exports to China. Our exports topped $16 billion, a record number, which was up almost 24 percent for the year.

Let me talk a little bit about numbers for small- and medium-sized businesses. In 1998, the most recent year for which we have detailed census data available, some 8,400 U.S. small- and medium-sized companies exported to China. This represented about 80 percent of the U.S. companies that were selling in China. Perhaps the most interesting number, however, is that small- and medium-sized companies accounted for over $3 billion of our exports, or about one-quarter of the total by value. For an economy that most view as difficult—and I think we all agree has its difficulties—that is a pretty impressive number. Small businesses have done better in China than I think most of us would have expected.

We in the Government, especially in the Department of Commerce, are paying quite a bit of attention to the needs of small business in the Chinese market, and especially in anticipation of China's membership in the WTO. We co-chair, with our Chinese counterpart, the U.S.-China Joint Commission on Commerce and Trade, a major bilateral forum for us to discuss commercial issues and commercial problems. The most recent session last spring paid special attention to the needs of small- and medium-sized enterprises, and we have moved ahead with a number of programs to support our small- and medium-sized companies in the Chinese market. Following on after our commission meeting, we held what we called a virtual trade mission—in other words, via the Internet—with China last year in the information technologies area. Most of the 15 U.S. companies participating were small- and medium-sized, and took advantage of this new medium, at a very low

cost for them. They didn't have to travel. They just had a session taped and then made available for Internet reaction from potential customers. They took advantage of this mission to expose buyers in China to their wares. We think it is going to be something that will be very popular and is going to be very successful.

As you heard before, there are problems for companies, both big and small, trying to enter the Chinese market. We believe that for U.S. firms to prosper in this rapidly growing market, we must work very closely with the Chinese to ensure that China meets its new WTO obligations as it moves towards membership, including those negotiated in the bilateral agreement the U.S. signed with China last year. And we have taken a number of steps that will hopefully make this easier to happen.

We developed a compliance initiative, working with other agencies around town, which the Congress funded last year, enabling us to sharply increase the staff and programs that we have available to focus on China and to enable us to work more closely with the Chinese to help them understand and implement the new obligations they will incur with WTO membership.

We are increasing our staff in China. Our Commercial Service already has its largest overseas contingent in China, more than in any other country, and we are adding a couple of officers with explicit responsibility for working on compliance issues, with both the Chinese Government and with the American business community in China.

In summary, we do believe the premise of this session that China's WTO accession will create new business opportunities for U.S. businesses, both large and small, and we think that with hard work, perseverance, and so on, that the rewards in the market as it opens with WTO membership will become very impressive.

To be realistic, we do not expect all the problems to go away immediately. China, as you have heard from the other speakers, has a tremendous amount of change it has to do with laws, with regulations, with a lot of other things. They have had a good start. We are trying to work with them to make the process as smooth as possible, and we are optimistic that there will be many new and welcomed opportunities for small- and medium-sized firms.

The basic question for this forum is: Will China's WTO accession be a good deal for small business? We believe the answer is yes if we continue to work hard to make it so.

Thank you.

[The prepared statement of Mr. Hale follows:]

Peter B. Hale, Acting Assistant Secretary
Market Access and Compliance
International Trade Administration
U.S. Department of Commerce

"PNTR/WTO: A Good Deal for U.S. Small Businesses"
U.S. Senate Committee on Small Business
March 7, 2000
(As prepared for delivery)

I welcome the opportunity to speak at this Forum, and I congratulate your Committee on focusing on this topic – we at Commerce agree that there will be many new opportunities for U.S. small businesses as China opens its economy.

I am the Acting Assistant Secretary for Market Access and Compliance at the International Trade Administration of the U.S. Department of Commerce. Today, I am here representing the International Trade Administration (ITA), which is comprised of my unit, as well as the U.S. Commercial Service, Trade Development, and the Import Administration. The Commercial Service has offices throughout the United States to serve small businesses; in these Export Assistance Centers, Commercial Service staff often are co-located with colleagues from the Export-Import Bank and the Small Business Administration – whom you'll hear more from during today's roundtable.

CHINA'S ECONOMY AND U.S. EXPORTS

First, a quick look at China's economy and our trade balance. According to the Chinese government, China's gross domestic product reached $1.07 trillion in 2000 – up 8 percent over the previous year.

Our bilateral trade deficit with China has also reached a record level – in 2000, it measured nearly $84 billion – with China overtaking Japan as the trading partner with which we have the largest bilateral deficit. Though imports of Chinese goods continued to grow, 2000 also was a very good year for our exports to China. U.S. exports to China topped $16 billion, almost 24 percent greater than in 1999.

In 1998 (the most recent year for which detailed numbers are available), over 8,400 U.S. small- and medium-sized enterprises (SMEs) exported to China. SMEs represented over 80 percent of the total number of U.S. firms exporting to China – and accounted for over $3 billion in exports to China, or over a quarter of the total by value.

The number of small firms participating in the Chinese market has been growing at a rapid rate: between 1992 and 1998, the number of small- and medium-sized companies exporting to the Chinese market grew by more than two and one-half times.

At our most recent plenary session of the U.S.-China Joint Commission on Commerce and Trade (JCCT) – our premier bilateral consultative forum to discuss these issues – we paid added attention to the increased activities of small- and medium-sized enterprises. We held our first "virtual" (via the Internet) trade mission to China last August to give our smaller companies a high-tech but low-cost way to explore the Chinese market. The 15 U.S. companies, most of which were SMEs, were impressed by our ability to leverage the Internet without having them face the cost and fatigue of traveling to Asia.

CHINA, THE WTO, AND SMALL BUSINESS

The WTO accession process consists of two parts: completion of bilateral market access agreements with all WTO members seeking such commitments, and completion of the Protocol and Working Party Report which elaborates the specific commitments and details how China will implement WTO rules. Once the Working Party reaches a consensus on the Protocol and Working Party Report, it forwards its recommendation on the accession package to the General Council for approval. The first part is nearly complete, and negotiations of the Protocol and Working Party Report are ongoing.

After the accession package is approved, China must revise many laws and regulations, reduce or eliminate thousands of import tariffs, and implement changes in its economic system to comply with its WTO obligations. This effort already has begun. China is making real progress on rewriting its foreign-related economic laws and regulations to make them consistent with WTO rules. These laws cover a wide range -- from customs to foreign investment, from trade in services to intellectual property protection.

China's WTO accession will help U.S. small companies by addressing trade restrictions and other problems. Many of China's tariffs will be reduced immediately upon accession. Paperwork and complex regulations can overwhelm small companies, and simplified customs measures and automatic import licensing will reduce these costs. Excessive product testing requirements – which are especially disadvantageous to small businesses – will be eliminated. U.S. firms will be able to sell directly to the end-user in China – cutting out the middlemen now required and lowering expenses.

Additional measures to protect intellectual property and to prevent forced technology transfer will greatly assist small businesses, which often utilize innovative and proprietary technology.

ITA ASSISTANCE

For U.S. firms – both small and large – to prosper in the Chinese market, we must work with the Chinese to ensure that China meets its obligations, including those negotiated in our bilateral agreement signed in 1999. Last year, working with other agencies, Commerce developed a

Compliance Initiative, which the Congress funded, boosting Administration resources focused on China. Our FY2001 budget includes the placement of several new compliance officers in Beijing, who will protect the interests of all U.S. businesses – small and large.

We have established a China Compliance Team drawn from all the components of the ITA. The Team meets regularly to plan, review, and ensure the coordination of all activities ITA is undertaking with China.

We have responded to China's request for technical training on WTO compliance issues by conducting training sessions on the WTO in Beijing and Shanghai last fall. We also are working with other groups around the country to bring needed specialized training to Chinese officials – from commercial law judges to Intellectual Property Rights (IPR) enforcement officials. We are also working with industry to address specific sectoral concerns.

We have implemented an accelerated investigation process to encourage rapid resolution of market access and compliance problems, and will use it whenever possible, to avoid the formal WTO dispute settlement. This is especially important for small businesses – which cannot afford a long wait to have their problems addressed and resolved.

The reason we are working so hard to open China's market and to ensure that it complies with its market-opening commitments is to enable U.S. companies to take advantage of its huge market potential. While many small- and medium-size companies have started to export to China, many other SMEs see the Chinese market as too large, too different, and too difficult.

At the ITA, we offer several services that can help U.S. companies tap into the potential of the Chinese market. In the past year, we have held exporting seminars throughout the United States to reach out to SMEs by explaining the benefits of the WTO agreement and how to take advantage of the agreement to begin or expand their exporting to China. We have conducted video conferences between our Foreign Commercial staff, located in Beijing and Shanghai, and U.S. companies to give companies "on the ground" information. We have developed a new China Website (www.export.gov/china) to help our SMEs obtain information on opportunities in China. As referenced earlier, we conducted a virtual trade mission with 15 SMEs as a follow-up to the JCCT meeting last year.

Our Commercial Service has more American staff posted in China than in any other foreign country in order to work with U.S. companies in this sometimes difficult market. Our officers are stationed in the following cities: Beijing (10 officers); Chengdu (1); Guangzhou (2); Shanghai (4); Shenyang (1). In addition, throughout China, ITA has approximately 70 Foreign Service Nationals (FSNs) and Personal Service Contact (PSC) employees. In the Hong Kong office, there are four officers, and 19 FSNs and PSCs. In 2000, our commercial staff in China:

- counseled 3,558 U.S. firms, including 1,210 newcomers to the Chinese market (and 602 first-time exporters);
- hosted 56 trade missions;
- provided 63 Gold Key Services, arranging for U.S. company representatives to have several face-to-face meetings with different potential business partners; and
- submitted 28 industry-sector analyses describing business conditions and opportunities in the most promising export areas.

For Hong Kong, in 2000, our commercial staff:

- counseled 1,127 U.S. firms, including 600 newcomers to the Hong Kong market (and 158 first-time exporters);
- hosted 7 trade missions;
- provided 23 Gold Key Services; and
- submitted 12 industry-sector analyses.

Through ITA's products and services, we are assisting U.S. SMEs in meeting the challenges and obtaining benefits from exporting to China.

Conclusion

China's WTO accession will create new business opportunities for small businesses which thrive in the United States and China due to their perseverance, hard work and entrepreneurial natures.

Before I conclude, I also would like to note that the Trade and Development Agency has reopened in China and is currently preparing a solid work plan for China this year. Small businesses can receive TDA grants for feasibility studies and various forms of technical assistance – further enhancing their global competitiveness.

To be realistic, China's WTO accession will not immediately eliminate all trade problems U.S. firms have experienced in China. We do expect a challenging short–to-medium term implementation process. However, China's WTO agreement will provide U.S. industry and government with a road map of market-opening measures and dispute resolution mechanisms. And we stand ready to assist small businesses any way we can.

You posed the question whether China's WTO accession will be a good deal for U.S. small businesses – so, given their current involvement in the Chinese market, which will become increasingly open – I can unequivocally answer "yes." I look forward to your other questions – I just hope that they'll be as easy to answer!

Mr. CONLON. Senator Kerry.

Senator KERRY. Good morning, everybody. I am glad to be with you. Thank you all for being here, and thank you particularly, panelists. Thank you, David Eisenhaure, for coming down from SatCon. We are glad to welcome you here. And, everybody, we thank you for your contributions.

I apologize for not being here at the outset, and I also have to leave because we are having a Finance Committee hearing right now on the marginal rate cuts, obviously important to all of you, and to all of us as we try to sort out where we are going there. But our very able staff on both sides, Paul Conlon and John DaSilva, will be managing the process, and John will be here for me throughout your comments.

Let me just say very quickly, I have had the privilege of being deeply involved in these issues as a member of the Foreign Relations Committee, where I sat for some 16 years. I am the ranking Democrat on the Asia Subcommittee, so I am constantly dealing with issues related to China and, indeed, the whole Far East, as well as for a number of years, until this year, when I shifted to the Finance Committee, I have been on the Banking Committee where we have done a lot of the export licensing and other kinds of issues that are critical to trade. And I am the only member of our delegation in Massachusetts who hung in there on fast track and who has supported every single one of the trade efforts to expand our capacity to take advantage of the global marketplace.

I think increasingly what happened in Seattle and elsewhere has raised issues that we have to address, and, indeed, at the World Economic Forum this year, there was a significant, very significant level of discussion by all of the CEOs and companies and governments present to try to deal with the values that also have to be part of the trading regime.

It is not going to do any of us any good to sort of think of trade exclusively in the context of the trading rules and regulations if a large part of the world isn't going to benefit by it. And it is going to be harder and harder to get governments to support those efforts if their populations aren't also benefiting.

So everybody needs to think about how we go down the road from here in terms of transferring those values, as some have said, putting a human face on globalization, and I think for small business that is as much a consideration as it is for larger businesses. All of you will be ambassadors, so to speak, in this effort as you engage in your relationships in export and in trade.

Enough said with respect to that. Let me just say that I want to emphasize obviously the degree to which I believe this is good for the long-term health of our economy. As you all know, export sector jobs are the higher-paying jobs, the higher value-added jobs of our society. It has contributed an astounding 30 percent of our domestic growth, providing 11 million jobs. And it is going to grow. And anybody who thinks any nation is going to turn back the wave of international exchange of goods and services and culture and people simply doesn't understand or have a grasp on where we are heading. So it is going to play a larger role, and we need to be prepared for that and capable of taking advantage of it.

Just to give you an example, in my State of Massachusetts export sales of merchandise totaled $17.1 billion in 1999, representing a growth rate of 3.9% over 1998 levels and nearly doubling the national average. And 86 percent of Massachusetts firms that exported in 1997–98 were small firms. And half of our exporters have less than 20 employees, just to give people a sense of the possibilities here and what we can do.

I think we can do a lot more. Olympia Snowe and I joined together to ask Robert Zoellick to create a position of an Assistant Trade Representative specifically targeted on small business because we think we could do a great deal more to enhance the capacity of small business to be leveraged in this marketplace now. And, likewise, I have talked to Colin Powell and pressed very hard with both he and the Commerce Department to augment significantly the Foreign Commercial Service and other representatives that are abroad, because it has been my experience when I have been to Hong Kong or various other stop points in the Far East that we are losing extraordinary opportunities to marry small businesses with various business opportunities because we don't have the people on the ground, we don't have the facilities, and we haven't committed ourselves to do this.

You know, foreign policy is not just the policy components. There is a huge economic component of it today, and we have to factor that more, I think, into our thinking, and maybe here you can discuss that a little bit, about ways we might be able to do that.

I think those are sort of the key observations that I wanted to make, but I do think in the world of cyberspace, with the Internet and other things happening, there is just an enormous opportunity for us to be able to augment people's abilities to be able to get into some of these markets where heretofore they never thought they could. And a lot of that is education, and to some degree technical assistance, and we need to facilitate our own Government efforts to some degree to make it—to have a very clear menu for people, a very easy one-stop shop for people to be able to figure out how they can take advantage of this. And I think to whatever degree we can augment that here within the Small Business Committee.

I think we should make it a major mission of our efforts this year, because there is far more growth for small businesses in export and in trade than many, many people sense. And that will significantly bolster our economy and even cushion us against, other downsides, other downturns in various other sectors of the economy, if you have got a lot of cottage industry, a lot of small effort going on that really is sustaining you with a broad-based job base. Moreover, it significantly augments small business growth and a lot of the value transfer that we are interested in having in some of these countries and ultimately increases their capacity to have economic stability and even political stability as a result. They go hand in hand.

So I think this session is on the right track, and I thank all of you for taking the time to come here and be part of it. I appreciate it.

I don't know, Paul, what you want to do now. Do you want to proceed to questions?

Mr. CONLON. Actually, just to get everybody to introduce themselves, so, Mr. Goodwin, if you would like to start by just stating your name and what organization you are within, and then we can go around the table.

Mr. GOODWIN. I am Bob Goodwin. I am the executive vice president and general counsel of Chindex International. We are a health care company, both exporters and we own a hospital in Beijing as well.

Ms. GRIFFIN. My name is Leslie Griffin. I am director of Asian Affairs at the U.S. Chamber of Commerce, and thank you, Senator Kerry, for holding this hearing. It is of great importance to us.

Ms. LI. My name is Dottie Li. I am the managing director for TransPacific Communications, a boutique public affairs and communication shop. We counsel folks, small business, large business, both U.S. and Chinese, Asian, what have you, when it comes to business dealing with U.S.-Asia-related issues.

Mr. MEENAN. I am James Meenan. I am with Global Business Access, and I am a member and past Chair of the Trade Advisory Committee to the Department of Commerce and USTR, and I want to thank you, Senator, for that legislation for USTR to appoint an assistant for small business. We have been working on that for a number of years and do find a major gap in that area of carrying small business issues into the trade negotiating field. Commerce does an outstanding job on the trade promotion, but it is the negotiation where we need representation.

FOR THE RECORD

James R. Meenan
Global Business Associate & Member/Past Chair ISAC 14

March 7, 2001

Remarks of James R. Meenan
Global Business Associate and Member/Past Chair ISAC 14
Before the U.S. Senate Committee on Small Business
On the Topic: PNTR/WTO – A Good Deal for U.S. Small Business in China

Summary
Small and medium enterprises (SMEs) are dominant economic forces in both the U.S. and China economies and both groups stand to gain with China's adoption of the new commercial regimes that come with Accession to full World Trade Organization membership. Establishing long term business relations in China is also based upon developing good inter-personal relations amongst the business parties, a fact that works to the benefit of SMEs whose principal officers are most engaged in trade transactions.

While the China road to WTO membership will be winding and lengthy, the U.S. government can directly assist its SMEs through accelerating the market opening reform processes by working through third parties, i.e., multilateral development and financing institutions such as the World Bank, Asia Development Bank and United Nations. These institutions are in a unique position to provide China's middle managers with the needed technical assistance and training required to better understand the reforms that will be required and to initiate action plans for making the appropriate adjustments in the government institutions' policies, regulations and practices.

The U.S. Trade Representative (USTR) in collaboration with the Departments of Commerce, Treasury and State, should explore with the U.S. representatives at these multilateral institutions, the best approaches that these bodies could take to provide China, at this time, with the needed mid-manager technical assistance and training, including best practices models, for the array of reforms that will be required to facilitate implementation of WTO Accession accords. These measures should not await formal Accession, but commence as early as possible, to help develop a better understanding of what China is agreeing to undertake and smooth the road to an improved commercial environment in which SMEs from both countries can flourish.

Observations
China is rich in contradictions for U.S. firms. The world's most populous nation, China covers an area larger than the United States. Yet its market is small and concentrated in a few regions along the eastern seaboard. China is one of the world's oldest civilizations, with thousands of years of history, literature and culture, yet the People's Republic is a mere 50 years old. Most of its laws and regulations governing business and trade have been only written in the past twenty years. Over these past twenty years, China has moved from a planned to a market economy and is now in many ways more capitalist than communist.

Most Chinese firms remain relatively small and under-capitalized with pockets of excellence in selective industry. These have competed successfully with world leaders in the white goods and home electronics markets. Chinese personal computer manufacturers have won back market share from such giants as Compaq and IBM.

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For over two hundred years foreign firms have been entranced by the enormous potential of the China market, a potential that remains largely untapped. U.S. exports to China were only slightly more than $13 billion in 1999, only 2% of our global exports, and less than U.S. exports to China's smaller neighbors, South Korea ($23.0 billion), Singapore ($16.2 billion), and even to Taiwan ($19.1 billion).

China is a market with vast potential. The trick is realizing that potential. China's pending accession to the WTO will make it easier for U.S. firms to do this, but it is false to believe that WTO entry provides an end-all solution. Opportunities are available in China, but companies must address the many obstacles.

Since the beginning of reform in 1980, the role of the government in the economy has been strong. Although government revenue has been falling as a share of gross domestic product (GDP), off-budget revenues and expenditures are equal to official allocations in many sectors. As the ultimate owner of state enterprises, the government continues to control roughly two-thirds of GDP and employment. The long-term plan is to sell the government share in most corporations to the public, with the exception of those industries deemed essential to national security. However, the definition of national security is currently quite broad, including telecommunications, mass media, and other areas not so defined in other countries.

Personal relationships in business are critical. The Chinese feel more comfortable dealing with "old friends," and it is important for exporters, importers, and investors to establish and maintain close relationships with their Chinese counterparts and relevant government agencies. It is equally important that American exporters encourage strong personal relationships between their Chinese agents or distributors and the buyers and end-users. A network of strong personal relationships will help ensure smoother development of business in China.

The signing of the U.S.-China Bilateral Market Access Agreement on China's Accession to the WTO on November 15, 1999, represents a major victory in the United States' ongoing effort to open China's market to U.S. goods and services. By encouraging structural reform and the rule of law, the Agreement will also support China's own domestic reform process.

The Bilateral Agreement on China's WTO Accession is only the latest of fourteen trade agreements negotiated between the United States and China since 1979. These agreements cover everything from civil aviation and satellite exports to agriculture and intellectual property rights protection. Each of these agreements has played a role in China's gradual process of trade liberalization, and created new opportunities for U.S. exporters.

The Chinese government has recognized for a number of years that economic reform and market opening are cornerstones of sustainable economic growth. Nonetheless, these reforms have been difficult and often painful for certain constituencies, particularly in the aging industrial sector and heavily protected agricultural sector. Thus, while China today has a vastly more open and competitive economy than 15 years ago, there are still many significant barriers in place.

Some of the current trade barriers that U.S. firms face are:

High tariffs: At present high tariffs constitute an effective import barrier.

Import Quotas & Licensing: WTO rules bar quotas and other quantitative restrictions. China has been gradually eliminating them and will continue this process after Accession over a several year phase-in period.

Transparency: It is increasingly easy to find information about economic and trade regulations in the print and electronic media. However, despite this progress, access is still a problem. Chinese officials routinely implement policies based on "guidance" or "opinions" not available to foreign firms and they have not always been willing to consult with Chinese and foreign industry representatives before new regulations are implemented.

Legal Framework: Laws and regulations in China tend to be far more general than in most Organization for Economic Cooperation and Development (OECD) countries.

Local Agents: The ability of foreign firms to distribute directly their products in China is subject to strict limitations.

Anti-Competitive Practices: These operations in China exist in the form of monopolistic practices designed to protect the state-owned sector.

The foregoing provides a good illustrative example of the areas in which third party technical assistance and training could be focused to greatly assist China's assimilation as a full member of the global economy and key trading party for SMEs.

Recommendation

In the written question and answer portion of Ambassador Robert B. Zoellick's confirmation process for U.S. Trade Representative, Sen. Max Baucus asked that in view of the widening gap of understanding that is growing with Less Developed Countries (LDCs) in the area of trade negotiations and agreement implementation, would USTR work to integrate development funding organizations, such as the World Bank and regional banks, in a constructive technical assistance and training effort to aid LDCs to better understand the trade reforms being negotiated and enhance implementation of the accords reached. Amb. Zoellick responded in part that he thought the idea of technical assistance by the international financial institutions related to trade is a very good one.

Accordingly, given the importance of China to U.S. SMEs it would be most appropriate to test this Aid for Trade approach at this time. Recognizing that China, in many ways, is not a LDC, the USTR should initiate discussions amongst the concerned federal departments, i.e., Commerce, Treasury and State to have the U.S. representatives at these multilateral funding institutions explore how best to proceed to directly support, through the provision of technical assistance and training, China's adoption of the agreed WTO Accession reforms.

Note: Data contained in these remarks come from unclassified U.S. government sources.

Senator KERRY. Good.

Mr. MUELLER. I am Jack Mueller. I am chairman of G&W Electric Company in Blue Island, Illinois. We manufacture high-voltage electrical equipment used in the distribution of electric power. We have been around since 1905. We are privately owned. We do about $50 million in sales, 35 percent of which is exported. We have exported to China over the past 5 years about $15 million worth of equipment. Some of it goes direct to Chinese customers, utilities and others, numbering over 120. We started a Chinese manufacturing facility in Shanghai in 1996. We have 20 employees there, all of whom are Chinese nationals, and that facility has exported or has shipped about $2 million worth of product over the past 5 years.

Obviously, we have had a good experience in China. China's membership in WTO would be helpful to us to formalize primarily the legal system. Somebody asked me earlier if we are able to collect on our shipments, and while our receivables tend to run longer than elsewhere, we have had no particular problem in that area. And I am also here representing the National Electrical Manufacturers Association (NEMA). NEMA heartily supports the WTO effort.

Comments by John D. Mueller
Chairman, G & W Electric Company
On behalf of
The National Electrical Manufacturers Association (NEMA)
Before
The Senate Small Business Committee Forum
On
"PNTR/WTO: A Good Deal for U.S. Small Business in China?"
March 7, 2001

Chairman Bond, it is a pleasure to see you again this morning. Members of the Committee, my name is Jack Mueller and I am Chairman of the G&W Electric Company of Blue Island, Illinois. Founded in 1905, G&W is a privately-owned manufacturer of electrical power equipment. Our annual sales are $50 million, with about 35% outside the U.S. G&W customers include electric utilities as well as large consumers of electricity such as manufacturing plants, office buildings, schools, colleges, hospitals and military bases. We have 320 employees, with 20 located in Shanghai, China where G&W has a manufacturing facility. Our Shanghai operation was started in 1996. It is ISO 9001 certified and in 2000 shipped over $2 million of product from that plant to Chinese utilities and other Chinese customers. During the past five years, G&W has shipped over $15 million of electrical equipment to China directly from Blue Island as well as from our Shanghai location. Obviously, the Chinese market is very important to our small company.

I speak to you today on behalf of the National Electrical Manufacturers Association (NEMA), which greatly appreciates your invitation to appear at this important event. NEMA is the largest trade association representing the interests of U.S. electrical industry manufacturers. Its mission is to improve member competitiveness by providing high quality services that impact positively on standards, government regulation and market economics. Founded in 1926 and headquartered in Rosslyn, Virginia, USA, its more than 450 member companies manufacture products used in the generation, transmission, distribution, control, and use of electricity. These products, by and large unregulated, are used in utility, industrial, commercial, institutional and residential installations. Through the years, electrical products built to standards that both have and continue to achieve international acceptance have effectively served the U.S. electrical infrastructure and maintained domestic electrical safety. NEMA member companies employ some 500,000 people in the United States and have annual sales exceeding $100 billion in value.

In addition to this statement, I am submitting a copy of NEMA's paper on "Trade Priorities for the New Administration and Congress" for the record and your consideration.

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NEMA members, the vast majority of whom are small- to medium-sized enterprises, very much want to increase their international sales. To help them in the Americas, the Association has benefited from the assistance of a Commerce Department grant in opening offices in Mexico City and Sao Paulo -- and our industry is very much looking to the Asia-Pacific region as well. In this respect, China naturally lies front and center.

As to the question of whether China should have Permanent Normal Trade Relations (PNTR) status and be allowed to join the World Trade Organization (WTO), I say absolutely yes so that success stories such as ours and other NEMA companies' can be repeated. Let me assure you that it is possible to do business in China to the benefit of all parties including American workers, and it is crucial that Congress pass appropriate measures so that commerce with China can continue to grow.

For now I would like to close with a few simple suggestions on what Congress can do to help U.S. small business in this exciting market:

- Pass the appropriate measures relating to PNTR and the WTO so that Beijing becomes officially subject to the legal system governing world trade. If this means a 2001 annual extension of China's NTR status because it's formal entry into the WTO is not completed, then such an extension should be endorsed.

- Grant US Departments and Agencies the resources to adequately monitor and push the Chinese on compliance matters. The US Government does not just have to negotiate favorable trade agreements; it needs to be vigilant in making sure that other countries live up to their commitments in practice.

- Provide US Government trade finance agencies such as the Ex-Im bank with enough funding to help small businesses to really make inroads in China.

- And re-assess our approaches to non-sensitive export controls and sanctions in general. My personal view is that U.S. business can make a positive impact in countries such as China, but at times our withering array of do's and don'ts creates an awful lot of disincentive to go there – in contrast to competitors from a number of other countries.

- Endorse any other accords which provide greater market access by reducing or eliminating tariffs, customs regulations, technical barriers, government subsidies or preferences for local companies. In this respect, NEMA very much wants to see foreign government procurement and regulations development become more open and transparent.

Thank you for your consideration of these remarks, Mr. Chairman. I look forward to discussing G&W's China experiences in greater detail during our general discussion.

Setting Standards for Excellence

January 2001

NEMA Trade Priorities for the New Administration and Congress

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General and Multilateral Issues

- **Trade Negotiating Authority:** NEMA favors quick approval during the 107th Congress of trade agreement negotiating authority. Over the past three years, the President's lack of such authority has not only impeded the Administration's ability to negotiate agreements, but has been invoked by many of our trading partners as an excuse to delay real negotiations on opening their markets. We must remove this barrier to trade liberalization and leadership by giving President Bush broad "fast-track" authority as soon as possible in the 107th Congress. NEMA favors keeping labor and environmental issues outside of trade agreements. NEMA supports the market opening measures contained in the recently concluded U.S.-Jordan Free Trade Agreement (FTA) but opposes the inclusion of labor and environmental provisions that hold the possibility of trade sanctions. For this reason, the FTA with Jordan as currently negotiated sets a poor precedent for future and more ambitious trade agreements, including a Free Trade Area of the Americas (FTAA).

- **Tariff Elimination:** The world-wide elimination of tariffs on electrical products is a basic NEMA goal. We therefore urge the U.S. to pursue tariff elimination for electrical products in all fora, including via the energy sector of the WTO Accelerated Tariff Liberalization (ATL) initiative or via regional groups and/or other opportunities as they arise. NEMA also urges the U.S. to push for completion of the second phase of the International Technology Agreement (ITA-2), which would eliminate tariffs on a wide range of IT items, including some NEMA products. NEMA also supports continued efforts by U.S. officials to expand the membership of the existing ITA and to negotiate accelerated tariff elimination for electrical products under the North American Free Trade Agreement (NAFTA).

- **Energy Services Liberalization:** NEMA supports liberalization of trade in energy services, in order to allow more people worldwide to enjoy high quality, affordable energy, and also to provide new opportunities to those energy service and electricity providers who use the equipment made and services provided by NEMA's members. Thus, NEMA is an active member of the industry coalition campaigning for the inclusion of commitments on energy services in the WTO's "built-in agenda" negotiations on services. NEMA's primary perspective is that of the industry that provides the equipment and products used to build and maintain electrical energy systems, but many NEMA members are active providers of energy services as well. The liberalization that is good for utilities is also good for our manufacturers, service suppliers, and for the users of electricity. USTR has included energy services in its proposals for the WTO services negotiations and we look forward to continued efforts from the Bush Administration and support from Congress to secure commitments from our trading partners in this crucial area.

- **Transparency in Government Procurement:** The U.S. has been a leader of efforts to achieve a WTO agreement to make government procurement more open and transparent. Preferences for local companies on the part of host governments, as well as a lack of transparency in awarding contracts, have served to unfairly exclude U.S.

companies on countless occasions. It is time for U.S. entities to be able to compete on equal footing with domestic suppliers. We look forward to continued leadership from USTR and Congress in pursuing a WTO agreement on transparency in government procurement.

NEMA also urges the Bush Administration to increase efforts to obtain full implementation and enforcement of all signatories to the 1999 OECD Anti-Bribery Convention and the 1997 OAS Convention on Corruption.

- **WTO Technical Barriers to Trade (TBT) Agreement:** NEMA supports the concepts outlined in the WTO TBT Agreement and believes that all countries should implement, to the fullest extent, the obligations outlined there. These obligations include: standards development processes that are transparent and include participants from all interested parties; a conformity assessment system that upholds the principles of most-favored nation treatment (meaning equal treatment in all countries); and national treatment (meaning equal treatment of domestic and foreign products, as well as test laboratories conducting conformity assessment services) in the application of testing and certification procedures.

  In addition, the U.S. government must continue working to dispel the misinterpretation that the use of the term "international standards" in the WTO TBT agreement applies only to International Electrotechnical Commission (IEC), International Standards Organization (ISO) and International Telecommunications Union (ITU) standards. An interpretation should also include widely-used norms such as some North American standards and safety installation practices. This misinterpretation can be disadvantageous to U.S. businesses' efforts to sell in global markets. Moreover, the importance of openness and transparency are lost when focus is only on those three standards bodies. The Bush Administration must continue vigilant monitoring of our WTO partners to ensure their adherence to their TBT commitments.

- **Opposition to Mutual Recognition Agreements (MRAs):** In NEMA's view, the use of MRAs should be limited and considered only as an alternative for conformity assessment needs when applicable to federally regulated products such as medical devices. MRAs are not the answer to conformity assessment needs in non-regulated areas; if anything, they serve to encourage the creation of unnecessary product-related regulation. In this regard, while we strongly objected to the inclusion of an electrical safety annex in the U.S. MRA with the European Union a few years ago, we are pleased that the Clinton Administration has either excluded electrical products from subsequently negotiated MRAs or refused to sign on to any such accords that include them. We look forward to a continuation of that stance.

- **WTO Accessions:** NEMA looks forward to **China**'s accession to the WTO in the near future, but supports U.S. and EU efforts to ensure that China is fully committed to fulfill all of its pledges and obligations. NEMA welcomes the opportunity to help our member companies take advantage of China's formal market-opening entry into the

rules-based international trading system and will work with the National Association of Manufacturers to assist USTR, the Commerce Department, and Congress to monitor and ensure China's compliance with those rules. If multilateral negotiations on China's accession are prolonged into the summer of 2001, NEMA calls on President Bush and Congress to grant a one-year renewal of China's MFN status. NEMA also looks forward to **Taiwan**'s WTO accession, which should quickly follow China's.

NEMA also hopes for a greater progress in bilateral negotiations with other WTO accession candidates. NEMA appreciates the ongoing negotiations with **Saudi Arabia** and urges continued emphasis on standards and TBT issues. NEMA representatives traveled to Saudi Arabia in May 2000 to strengthen dialogue with Saudi Arabian Standards Organization (SASO) officials and will continue to develop a cooperative relationship to ensure market access for products made to NEMA standards. USTR should also seize the opportunity for renewed emphasis on negotiations to bring **Russia** and **Ukraine** into the WTO. Although membership is years away for both countries, U.S. leadership is needed to ensure that progress toward that end continues at a reasonable pace and both countries reinvigorate their long processes of legal and economic reform and institution-building.

European Union Regulatory Initiatives and WTO Disputes

- **Regulatory Cooperation:** NEMA supports continued work toward a U.S.-EU agreement on Principles for Regulatory Cooperation. This agreement could not be worked out in time for the Dec. 2000 U.S.-EU summit in Washington, but both sides should strive to complete an agreement in early 2001.

- **Proposed EU Substance Bans and "Take Back" Legislation (WEEE, EEE):** The EU has proposed two new directives as part of its broader environmental agenda that could form market access barriers for U.S. electrical and electronics products. Approved by the EU Commission in June 2000, the first directive addresses take-back and recycling of Waste Electrical and Electronic Equipment (WEEE) while the second, known as the ROHS (Restriction on the Use of Hazardous Substances) directive, would impose bans on the use of certain substances currently used in manufacturing without providing sufficient basis for processes to identify any needed substitutes. Since the directives' approval by the Commission, industry concerns have been effectively ignored. The two directives could come into force in 2001, allowing differing standards and procedures among the 15 member states.

  In addition, the Commission's Enterprise Directorate is developing its own Electrical and Electronic Equipment (EEE) directive, which would require manufacturers to comply with a series of requirements throughout the life-cycle of a product. The need for such a directive is questionable and the views of the U.S. government and U.S. industry should be taken into account by DG Enterprise, especially during this development stage.

NEMA urges the Bush Administration and Congress to clearly identify these measures as serious potential trade barriers and to seek an accommodation that would emphasize rational, cooperative and science-based measures as alternatives to broad-brush regulatory mandates.

- **EU Council Recommendations on Electro-Magnetic Fields (EMF):** In 1999, the European Union issued recommendations that set EMF exposure limits for the general public over a range of frequencies. Member states may provide for a "higher level of protection" than in the recommendations, and thus can adopt more strict exposure limits. Extensive U.S. Government research on low frequencies recently concluded that "the scientific evidence suggesting that ELF/EMF exposures poses any health risk is weak." Similar conclusions have been made from health risk studies in other countries.

  Manufacturers on both sides of the Atlantic have warned their authorities through the TABD process that EMF could potentially become a major point of contention between the U.S. and Europe. NEMA has notified the Commerce Dept. that EU implementation of its EMF recommendations would create a substantial barrier to trade, severely affecting U.S. electrical manufacturing interests. NEMA supports the TABD position that EMF exposure standards must be harmonized internationally. The U.S. government must continue its efforts to work with the leaders in the EU Commission and in the member states to avoid another trans-Atlantic trade dispute.

- **EU Low Frequency Emissions (LFE) Requirements:** On January 1, 2000 the EU implemented unnecessary guidelines on low frequency harmonics emissions. Although many of the products impacted have been exempted by the EU standards body CENELEC, a U.S. industry coalition including NEMA will be seeking to play a more active, effective role at both a technical standards level and trade policy level in anticipation of other LFE-related measures as well as broader trade-barrier issues raised by the guidelines. Commerce Secretary Norman Mineta raised the LFE issue in a recent meeting with the EU Enterprise Directorate's leadership. Continued attention from the Bush Administration is warranted.

- **Implementation of the Electrical Safety Annex of the U.S.-EU MRA:** As noted above, NEMA opposed negotiation of the Electrical Safety Annex to the U.S.-EU MRA because it adds no value to the existing electrical safety systems in the U.S. and EU. The historical record of electrical safety based on a private-sector-based standards and conformity assessment system is a good indicator that private-sector approaches are successful. The U.S. Occupational Safety and Health Administration (OSHA) has implemented the ESA with the applicable NRTL (Nationally Recognized Testing Lab) Regulations which call for OSHA accreditation of conformity assessment bodies (CABs). EU CABs can be accredited by OSHA (as was agreed under the MRA and available under the NRTL program before the MRA) for testing and certifying EU products to US voluntary standards and for labeling for OSHA recognition in the workplace. The Bush Administration should continue implementation of the ESA in this manner.

- **"Carousel" Retaliation Lists:** NEMA does not consider it appropriate for electrical products to be included among those EU exports assessed 100% retaliatory tariffs as a result of the banana and beef hormone disputes in the WTO. Our view is that our industry's products should not be caught up in another sector's ongoing, potentially escalating impasse, and we have made this position clear to USTR.

- **Foreign Sales Corporations (FSC) Dispute:** NEMA supported U.S. efforts to resolve this dispute by repealing the old FSC provision and installing a new regime while seeking to ensure that U.S. exporters suffer no disadvantages. NEMA has urged its EU counterparts to support a resolution of the dispute over the FSC-replacement law so that products in our industry do not become entangled in a cycle of retaliatory tariff hikes on both sides of the Atlantic. NEMA encourages both the U.S. and the EU to manage the dispute responsibly and to avoid any escalation of tensions.

The Americas and Asia-Pacific

- **Free Trade Area of the Americas (FTAA) Talks, Particularly the Negotiating Group on Market Access (NGMA):** Although talks toward the 2005 creation of an FTAA have moved along slowly, NEMA looks forward to the completion of draft negotiating texts, including a chapter on market access, by the Buenos Aires meeting of trade ministers in April 2001. With that step completed, we support accelerating the timetable for completion of the FTAA. The new deadline should be 2003. NEMA also encourages all FTAA countries to implement the agreed customs facilitation measures by the time of the ministerial, which will precede the Summit of the Americas in Quebec City. Moreover, NEMA urges the U.S. to convince the hemisphere's countries that any standards provisions included in an FTAA must mirror the WTO TBT Agreement. NEMA will continue to be engaged in the process and recently coordinated a meeting of hemispheric industry associations to exchange views toward potential industry consensus on FTAA agenda items.

- **NAFTA Implementation and Tariff Issues:** The U.S. and Mexico recently agreed to a cross-border industry petition to accelerate the elimination of tariffs on primary batteries (HTS chapter 8506) to January 1, 2001. Although Mexican tariffs on U.S. electrical products will reach zero in 2003, NEMA is exploring further possibilities for industry consensus on early tariff elimination for specific product sectors. Also, with a new office in Mexico City NEMA is well positioned to work with U.S. authorities to monitor and influence the Mexican standards development process for electrical products to ensure that Mexican norms do not act as barriers to U.S. products.

- **Chile-U.S. Free Trade Area:** In 2001, the U.S. and Chile should take an additional tangible step toward the FTAA by completing and enacting a high quality bilateral free trade agreement. Given the small size of the Chilean economy and the precedent setting benefits of such an agreement, completion of the Chile FTA should be completed expeditiously, and need not await passage of trade negotiating authority legislation.

- **Singapore-U.S. FTA:** The U.S. government should complete a free trade agreement with Singapore as soon as practical under the Bush Administration, taking full account of industry input. This agreement should include an investment chapter, cover energy services, and provide for complete transparency in government procurement.

- **U.S.-Vietnam Basic Trade Agreement:** After several years of negotiations, the U.S. and Vietnam reached agreement in 2000 to open their markets to each other through a basic bilateral trade accord. Congress should act early in 2001 to approve this agreement, which is a crucial step in the long process of opening Vietnam's markets.

- **APEC Standards:** NEMA is actively involved in bringing a greater understanding of conformity assessment alternative processes to the region and looks forward to National Institute of Standards and Technology workshops in 2001-2002 for Asia-Pacific Economic Cooperation forum member countries.

U.S. Government Resources

- **Monitoring, Enforcement and Overseas Presence:** The U.S. Government needs to do more than simply reach favorable trade accords; it also needs to be vigilant in making sure that other countries live up to their commitments to foster openness, transparency and competition. In this regard, our view is that the Commerce Department's Standards Attache program should be expanded and fully funded. Likewise, we greatly appreciate the assistance provided by Foreign Commercial Service (FCS) offices abroad, and hope that FCS activities will receive ample support in the years ahead.

  With the support of a Market Development Cooperator Program (MDCP) grant from the Commerce Department, NEMA opened offices in Sao Paolo, Brazil and Mexico City, Mexico in 2000. The MDCP is an innovative public/private partnership whose grant budget should be expanded so that more organizations can enjoy its benefits. NEMA looks forward to continuing its close cooperation with the Commerce Dept. on this project.

  Similarly, the Bush Administration and the 107th Congress should continue the trend in recent years of reasonable increases in funding and staff of the U.S. Trade Representative's Office to better allow it to more effectively negotiate, monitor and enforce trade agreements.

- **Export-Import Bank Reauthorization:** The charter of the U.S. Export-Import Bank (Ex-Im Bank) expires in 2001 and NEMA supports legislation to reauthorize and adequately fund the Bank. Failure to reauthorize and fund the Ex-Im Bank would leave U.S. companies alone to face competitors armed with the aggressive export financing regimes of European and Asian governments. Exports assisted by Ex-Im Bank help to support hundreds of thousands of U.S. jobs and eighty percent of Bank-supported transactions assist U.S. small businesses.

- **Customs Modernization and Enforcement:** Last year, Congress made an important first step in appropriating funds for the U.S. Customs Service's long-overdue reform of its automated systems. We look forward to further congressional support this year for this vital initiative. In addition, we urge to continued vigilance from the Customs Service in ensuring imported electrical products meet U.S. regulatory standards.

- **"Buy America" Procurement Regulations:** Majority U.S.-content restrictions on non-sensitive electrical products should be re-evaluated in the context of both the increasingly global economy and potential savings. By restricting access to the U.S. market, these restrictions also have the reciprocal effect of disadvantaging U.S. companies seeking to sell into foreign markets.

- **Economic Sanctions Reform:** NEMA supports passage of legislation that would establish a more deliberative and disciplined framework for consideration and imposition of economic sanctions by Congress and the Executive branch. In addition, existing economic sanctions should be reviewed to determine if their effectiveness justifies the costs to U.S. jobs and industries.

- **Export Administration Act Reauthorization:** NEMA supports congressional efforts to enact updated legislation that meets the U.S. need for an efficient, transparent and effective export control system.

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Mr. NOAH. My name is Jeff Noah. I am the director of Small and Medium Manufacturers at the National Association of Manufacturers. What a lot of people may not know is that NAM, 10,000 of its 14,000 members are small and medium manufacturers, so we do have a strong interest in WTO.

Ms. SMITH. I am Jean Smith, the Acting Assistant Administrator for the Office of International Trade at the Small Business Administration.

Mr. THOMAS. Kermit Thomas, chairman of the Banking Committee of the National Black Chamber of Commerce.

Ms. WEAVER. My name is Vanessa Weaver. I am a member of the Board of Directors of the U.S. Export-Import Bank. Last year we did about $15 billion in support of 2,500 export sales, 86 of which were for small businesses. I am going to do as much as I can this year and next year and every year I am there to help small businesses.

Ms. BRIMS. I am Kitty Brims with the National Association of Manufacturers, and I would just like to thank you again for holding this and let you know that the NAM has also put together a compliance program to monitor our business with the Chinese.

Kitty S. Brims
Senior Associate Director, Trade Policy
International Economic Affairs

March 20, 2001

United States Senate
Committee on Small Business
Russell 428A
Washington, DC 20510

Re: Small Business Committee's Forum "PNTR/WTO: A Good Deal for U.S. Small Businesses in China?"

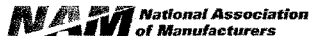
Enclosed are copies of two documents that the National Association of Manufacturers would like to submit for the record under the forum mentioned immediately above, which was held on March 7, 2001.

Thank you.

Sincerely,

Kitty Brims

Enclosures



Over 80 Percent of U.S. Exporters to China Are Small and Medium-Sized Firms

- An overlooked aspect in the debate over Permanent Normal Trade Relations (PNTR) with China is the importance of the Chinese market to small and medium-sized U.S. firms. Contrary to widely-held assumptions, the overwhelming proportion of companies that will benefit from improved access to China are small and medium-sized firms - not large firms.
- In fact, 82 percent of U.S. companies exporting to China are small and medium-sized firms, according to a new Commerce Department Exporter Database[1].
- Small and medium-sized firms account for 26 percent of the value of all U.S. exports to China. This is higher than the small and medium-sized exporter share of U.S. exports to the rest of the world.
- The number of small and medium-sized U.S. firms exporting to China has doubled in five years, from 3,100 to 7,600. China led all global markets in terms of the fastest growth in the number of U.S. small and medium-sized exporters. And the exports to China of these small and medium-sized firms are growing twice as fast as those of their larger counterparts.
- The 7,600 small and medium-sized companies across America that sell directly to China, though, are only part of the picture.
- Additional thousands of small firms are "indirect" exporters to China as suppliers of components to "direct" exporters to China. Their sales and employment depend upon the ability of their customers to sell more to China.

Small Firms Need PNTR with China

- The data show small U.S. firms are well suited to export to China's developing market, and can be major beneficiaries as China cuts trade barriers, opens its markets, and adopts enforceable international trade rules as the price of entering the World Trade Organization (WTO). These gains are certain to result in even faster growth in small and medium-sized U.S. exporters' sales to the Chinese market . . . .

. . . But only if the United States has Permanent Normal Trade Relations with China, just as all other 140 WTO members will have. Without PNTR, small and medium-sized U.S. firms will not get the same market-opening benefits as their European, Japanese and other foreign competitors. They will be at a serious commercial disadvantage and will lose sales and jobs to firms in other WTO member countries.

10,000 of the NAM's 14,000 Members are Small and Medium-Sized Manufacturers

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1. The Exporter Database is operated by the Office of Trade and Economic Analysis, International Trade Administration, U.S. Department of Commerce. It utilizes a combination of Census Bureau links between Export Declarations and Export Data to produce a reliable way to profile U.S. exporters.

Manufacturing Makes America Strong

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China-WTO Trade Compliance

14,000 "eyes and ears" working to ensure that China complies -- not just on paper, but in fact.

Effective monitoring and enforcement is critical if America is to realize fully the benefits of the U.S.-China WTO accession deal. We need commitments -- not just on paper, but in fact. Increased U.S. government trade-compliance funding, while essential to the task, must be leveraged by a private-sector support mechanism.

The NAM is uniquely suited to undertake such an initiative. With its 14,000 members, 10,000 of which are small and medium-size companies, the NAM can raise awareness of both the opportunities opened up by the agreement and new enforcement rights when roadblocks are encountered. This is particularly important for small businesses, which might otherwise be forced to throw up their arms at the first sign of Chinese government red tape.

China's implementation of bilateral trade agreements with the U.S. has been deficient in many areas. These bilateral agreements lack the "teeth" of the WTO's mandatory dispute-settlement system, to which China must now adhere. This makes a huge difference. The Commerce Department has launched a China-specific five-point compliance-and-enforcement initiative. Industry, in turn, needs to do its part to ensure effective monitoring of China's compliance and instill confidence among members of Congress and U.S. business that real benefits will be achieved.

How will the NAM China Trade Compliance Plan work? A company facing a barrier in China needs to know not only what rights it has under the agreement, but also to have access to an effective and, in some instances, confidential, vehicle to bring problems to the attention of a beefed-up U.S. government trade-monitoring and enforcement team.

A lone U.S. company would have little leverage to counter Chinese attempts at forced technology transfer or subsidies to one of its Chinese competitors. Many companies, particularly small ones, may not know where to begin in terms of working with the U.S. government to counter these barriers. That's where NAM's China-WTO Trade Compliance Plan comes into the picture.

- ***Spread the Word on Market Access Rights.*** Provide exporters with an easy-to-understand, updated, web-based, sector-by-sector breakdown of market-access rights under the agreement.

- ***Create a Pipeline into the U.S. Government's Enforcement Efforts.*** Establish a mechanism to feed complaints, particularly those of small and medium-size companies, into the U.S. government's ongoing enforcement efforts. The identity of the company could be kept confidential, if desired.

- ***Survey Chinese Barriers Annually.*** Conduct a confidential, annual company survey on doing business in China and the barriers to market access encountered there, and feed the results into the U.S. government's enforcement efforts.

- ***Keep Pressure on the U.S. Government.*** The U.S. government's enforcement team needs to hear from businesses about the barriers they face in China in order to have the basis on which to act rapidly.

It is important to remember that, even with Permanent Normal Trade Relations (PNTR), the U.S. still has full recourse to its trade remedy laws, including Special 301, Section 301, Section 201, and anti-dumping. In addition to maintaining these enforcement tools, America gains--

- ***Enforcement Through WTO Dispute Settlement.*** The bilateral trade agreements signed with China lacked the enforcement "teeth" of multilateral, WTO-authorized sanctions (without PNTR, only less-effective unilateral sanctions would be available).

- ***Strict Rules Against Forced Technology Transfer.*** We now have agreement in writing that China will no longer require U.S. companies to transfer their technology in order for U.S. companies to export to, or invest in, China.

- ***A China-Specific Import-Surge Mechanism.*** China has agreed to a "safeguard" mechanism to address rapidly increasing imports that threaten to disrupt the U.S. market. This safeguard remains in place for 12 years after China accedes to the WTO; applies to all products, including textiles and agriculture; and can be imposed by the U.S. solely on Chinese products, rather than the usual WTO requirement of imposing restrictions on imports from all WTO members.

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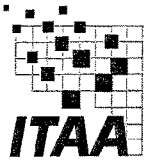
Mr. COON. My name is Dell Coon. I am president of Kentucky Bloodstock Associates. It has nothing to do with Count Dracula. I buy and sell thoroughbred race horses. I truly have a small company. There is myself and 11 associates. Last year we did $122 million in business, 80 percent of which was export.

Everybody was talking about the patience that you have to have in dealing with the Chinese, and I would like to tell you a true story. There was a former Minister of China that previously had been a history professor at Beijing University. He was in Paris being interviewed by Paris Match, the publication, and he was asked—and I will paraphrase it—Mr. Minister, since you are a world-renowned historian, what do you think the net result of the French Revolution was? And his answer was: It is too early to tell. [Laughter.]

That will give you an idea of the resilience you have to have when dealing in China. To give you an idea of the scope of the thoroughbred business—many of you have been to Hong Kong—the largest tax contributor in Hong Kong is the Hong Kong Jockey Club, the race track, and it is Hong Kong's second largest employer.

Mr. COWLES. I am Adam Cowles from the U.S. General Accounting Office, and we have spent the last 3 years tracking progress in the negotiations, and we will be spending the next 4 years, after China gets in, tracking China's compliance with its WTO commitments.

Mr. CRESANTI. I am Robert Cresanti with the ITAA, the Information Technology Association of America, and the World Information Technology and Services Alliance, here representing our constituency, which consists of about 500 members, about two-thirds of which are small businesses.



FOR THE RECORD

Statement of Robert Cresanti
General Counsel and Senior Vice President
Information Technology Association of America (ITAA)

Before the Senate Small Business Committee Forum on "PNTR/WTO: A good deal for US small business in China?"

March 7, 2001

Information Technology Association of America

1401 Wilson Blvd., Suite 1100, Arlington, VA 22209 - 2318 ☐ Phone: (703) 522-5055 Fax: (703) 525-2279

Statement of Robert Cresanti
General Counsel and Senior Vice President
Information Technology Association of America (ITAA)

Before the Senate Small Business Committee Forum on "PNTR/WTO: A good deal for US small business in China?"

March 7, 2001

Senator Bond and Members of this Committee, thank you for inviting me to participate in this forum on the opportunities provided to US small businesses by China's accession into the World Trade Organization.

I am here today wearing two hats. At the Information Technology Association of America (ITAA), I represent over 500 direct and 26,000 affiliate member companies throughout the United States, many of them small businesses. ITAA also serves as the secretariat for the World Information Technology and Services Alliance (WITSA), an association of 41 IT trade associations from across the globe. WITSA enables us to gather information on public policy issues from a global perspective.

I commend this Committee on the decision to examine China PNTR and accession into the World Trade Organization within the context of U.S. small business. ITAA's members, large and small, have supported China's accession to the WTO for a number of reasons:

Greater Market Access. Access to China's growing market is vital to maintaining U.S. information technology global leadership. China is on its way to attaining mega market status as a consumer of ICT goods and services. Countries unwilling or unable to compete for a share of this market place themselves at a substantial competitive and economic disadvantage.

Digital Planet 2000, published last year by WITSA, pegs the 1999 China ICT market at $48 billion, a one-year increase of over 20 percent. By way of comparison, the U.S. ICT marketplace is $762 billion, India is $15 billion and Russia is $8 billion. Since 1992, China's ICT spending has experienced a compound annual growth rate of approximately 30 percent. Should this rate of growth continue over the next five years, China would represent a $174 billion ICT marketplace by 2004.

Of the 1999 $48 billion total, China spent 73 percent on telecommunications products and services. *Digital Planet 2000* reports that another $9.6 billion went for computer hardware and $700 million for computer software. While telecommunications is the largest single segment of the Chinese market, software expenditures between 1998 and 1999 actually grew substantially faster, 30 percent versus 21 percent.

China's spending on ICT as a percentage of gross domestic product is also climbing. Less than 2 percent in 1992, this ratio has more than doubled in seven years to 4.9 percent. Per capita IT spending has gone up over six fold during those years, from $6.70 to $38.00.

This strong positive momentum presents itself in other measures as well. In comparative terms, China's share of worldwide ICT spending has increased more than any other country but Brazil. Back in 1992, China accounted for just .6 percent of the global ICT spending. By 1999, this percentage had jumped four fold to 2.2 percent. Compare this to Germany, which slipped from 8.2 percent of world ICT spending to 6.5 percent during the same period; France, moving down from 5.9 percent to 4.8 percent; or Italy, down from 3.5 percent to 2.6 percent. Of the 55 countries and regions measured in the *Digital Planet* study, 58 percent either lost ground on percentage of global spending or found themselves in 1999 spending the same in percentage terms as they had in 1992.

The China ICT infrastructure also boasts very favorable growth trends. The number of personal computers (PCs) used in education and in business and government experienced over a ten fold increase between 1992 and 1999. PCs installed for education have climbed from 93,000 to 1.1 million, while those used in business and government have moved from 826,000 to 8.9 million. Percentage increases in Chinese home-based PCs dwarf even these impressive numbers, up from 50,000 in 1992 to 2.3 million. This is a forty-fold increase.

According to the office of the United States Trade Representative (USTR), between 1990 and 1998, U.S. high tech industry exports to China increased over 500%, and U.S. communications equipment exports to China grew over 900%. Overall, China's IT equipment market is estimated to be growing at 20-40% annually. Other estimates:

- China will be the third largest semiconductor market by 2001;
- China has the fastest growing telecommunications market in the world;
- Internet users in China were estimated at over 22.5 million in the end of January 2001 and are expected to grow to 120 million by 2004; and
- E-Commerce revenues in China are expected to grow from $750 million in 2000 to $1.25 billion this year.

These predictions add up to tremendous new market opportunities for ITAA members, large and small. The Internet is still in its early stages of development in China. The opportunities remain largely uncharted and still unknown to smaller U.S. companies. However, one thing is clear, American small businesses, given the opportunity to compete, will add value with regard to content and service much in the same way they do in the United States and other foreign markets. Market access to China will help them sew and reap the possibilities of entrepreneurship, innovation, and profit.

Eliminating the Middle Man. China has pledged to sign onto the Information Technology Agreement (ITA) that commits them to eliminating tariffs that run as high as 13 percent by 2005, on all products covered by the ITA. In the past, U.S. manufacturers have been forced to use state-run distribution middlemen and to utilize locally produced parts. These practices have inhibited product specialization and quality after-sales service and support. As a result of China's accession to the WTO, U.S companies would sell directly, without having to set up factories in China or release proprietary technologies to their competitors. American companies would also be able to import most products into any part of China, and for the first time would be able to sell directly to customers.

Investment in Telecommunications. Competition in China for U.S. telecomm companies must be ensured. Under the WTO agreement, American companies will, for the first time, be allowed to invest in China's telecommunications services, allowing for participation in building the IT infrastructure of the largest potential market in the world. U.S. companies will be permitted to form joint ventures and provide domestic and international telecom-related services such as Internet access, e-mail, voice mail and fax capabilities. China has agreed to allow foreign telecom service providers access to incumbent suppliers' networks under non-discriminatory terms. For American telecommunications companies, this will mean the ability to provide their services over existing infrastructures via any means of technology (e.g., cable, wireless, satellites).

Playing by the Rules. At the end of the day, the WTO consists of an agreed upon list of trading rules, in which the WTO review process acts as the referee. Just like other WTO members, China's commitments will be enforceable through the WTO dispute settlement mechanism. Never before have China's trade commitments been subject to impartial review and possible sanctions if necessary. If it loses a dispute, China will have to alter the practice, provide remuneration, or be subject to denial of access to the U.S. market proportional to the harm it has inflicted. This is important because the U.S. is the most frequent user of the dispute process and has obtained favorable decisions on 23 of 25 complaints initiated and acted upon. Small businesses have a position to fall back on in the event of unseemly behavior by their trading partners in China.

Safeguarding of Intellectual Property. The state of play in China with regard to the protection of intellectual property rights has been terrible for many years. Pirated software abounded, and in many cases still does. Illegal copies, by western standards, of virtually every type of intellectual property were easily found for sale, from books to computer hardware. In the last two decades, China has been under constant international fire for its failure to honor the widely accepted rules of copyright. While the Chinese government did attempt to put an end to counterfeit merchandise sold on the streets, it never really addressed the problem in the cyber-based world.

December of the year 2000 marked a historic first for China when the Supreme People's Court of China issued a decision that allows copyright owners to assert their intellectual property rights to their works that are violated online. While China has had in place rules to protect an individual's intellectual property rights online in place, they were honored in the breach, not the observance. This court ruling changes that by making content that is able to be licensed on the net protected by government enforcement. *China Daily* reports that fines for infractions can be as high as $60,000. Most of these improvements will contribute to drawing, particularly small, IT businesses into the Chinese market, because intellectual property is generally all they own before their business model take hold. It is clear that these moves by the Chinese government have been accomplished primarily to ease China's transition into the WTO, and they make for a profoundly more stable and sure business environment than the fiats issued by the old guard of Chinese communists.

In conclusion, China has finally agreed to come to the trading table on western terms. Small businesses in the IT arena will undoubtedly benefit for these and other reasons. The global information superhighway has, in many ways, been far less bumpy than the road to free trade, but we continue to make progress down both. We cannot turn back now.

Small business benefits in two ways. First, the incredible barriers to entry, which China previously placed at their boarders, will first diminish and then fade away. While these barriers posed substantial paperwork and financial concerns for larger firms, they ultimately functioned as an insurmountable obstacle to smaller companies. Second, the fact that so many larger companies will ultimately have access to the Chinese market will spur production and economic activity within the United States. Small business will be an equal partner in receiving the benefits of a worldwide economic upturn in production and consumption. Thank you for your time and interest; I am honored to have been asked to present my point of view here today.

Mr. DUGGAN. I am Marty Duggan, Small Business Exporters Association. I want to say thank you to the Committee for getting on to this issue. We testified for a number of years regarding the trade deficit. It was the Chairman who mentioned that our trade deficit was in the neighborhood of $100 billion. And if you go back to 1986, it was $1 billion. And there has been these incremental jumps ever since, and nobody has really done an awful lot about it, especially the Congress. And I think that—I testified, I think, 4 or 5 years in a row before the Ways and Means Committee, and the only thing I changed was the deficit numbers.

So we are doing $16 billion a year. That is wonderful. But we have still a long way to go to kind of level the playing field. And it is nice to see that there was some balance in the presentations with people who have been on both sides of the China question.

I think we have a difficult task ahead of us, and I would hope that the Congress would become more involved.

Thank you.

Mr. FREEDENBERG. I am Paul Freedenberg. I am director of Government Relations with AMT, the Association for Manufacturing Technology. We have 370 members, many of them in Massachusetts, ranging from $2 million in sales up to $1 billion. And we build machine tools, measuring devices, and manufacturing software.

And China, outside Mexico and Canada, China is our largest export market, and that is despite very large barriers, both put out by the Chinese and by the U.S. Government, in the area of tech transfer.

STATEMENT BY DR. PAUL FREEDENBERG DIRECTOR OF GOVERNMENT RELATIONS FOR AMT-THE ASSOCIATION FOR MANUFACTURING TECHNOLOGY, MARCH 7, 2001

I will be speaking on behalf of AMT – The Association for Manufacturing Technology, where I am the Director of Government Relations. AMT represents 370 member companies, with annual sales ranging from less than $2 million to several hundred million, who make machine tools, manufacturing software, and measurement devices. Industry sales total nearly $7 billion, and exports account for more than one-third of those sales.

The U.S. Government has consistently been by far the most rigorous country with regard to reviewing license applications for exports to China. The result, as evidenced by the data in this paper, has been lost business and lost jobs, with no appreciable effect on the ability of the Chinese to acquire the equipment and technology that they desire. Other countries within the Wassenaar Arrangement, our multilateral export control arrangement, simply do **not** share our assessment of the risk factors involved in technology transfer to China and have generally maintained a far less stringent licensing policy. Indeed, one could say, without any equivocation, that our European allies maintain what could only be described as a favorable export licensing policy toward China. This can be illustrated by the following data.

Based on evidence gathered informally at Wassenaar meetings by the AMT technical advisor to the U.S. delegation, the following machine tool license processing times could be expected if an export license for the shipment of products or technology destined for China were to be applied for in major industrialized countries:

The United States – Several months – up to a year – is the norm for difficult cases.

Germany – The longest it could possibly take is 30 days, although many take less time for processing. For a while there was a 24-hour turn-around promised by the licensing office, but because the big companies tended to camp out in the office and monopolize this service, the licensing agency has discontinued it. Nonetheless, it is only in cases of pre-license check that it takes as long as 30 days.

Italy – They expected 30-day turn-around, with extraordinary cases involving pre-license checks to take as long as 60 days.

Japan – For their part, the Japanese said that the norm was two to three weeks, with up to a month in the cases where there was some sort of pre-license check.

Switzerland – The Swiss said two days was the norm, with the possibility that a license could take as long as 7 to 10 days to process if it were difficult.

Subsequent reports by commercial and economic officers posted at embassies in those countries have confirmed these informal license processing time estimates. When these comparative timeframes were raised with U.S. Government officials, the response that AMT received from them was that the various agencies involved almost always processed licenses within the 30-day time limit that the statute prescribes. But this time estimate fails to take into account times when the clock is stopped in order to obtain more information from the exporter, which is a quite frequent occurrence. And, even more significantly, the 30 days does not include the time that it takes to complete the Government's end-user check, which is almost always a very time consuming activity. Potential customers judge U.S. companies not merely by the time that any particular agency of the U.S. Government completes its license processing but rather by the <u>total</u> elapsed time that it takes for delivery from the moment that the order is placed

As I have argued, the total elapsed time that it takes to process a license is only part of the problem. Official licensing statistics demonstrate that the United States Government is far more likely to disapprove machine tool licenses for China than any of our European competitors. (This is true in many other sectors such as scientific instruments, semiconductor-manufacturing equipment as well; but I will concentrate on machine tool exports, where I have the most complete data.) While a mere handful of

U.S. machine tool licenses have been approved during the period from 1994 to 1999 (a total of 25 licenses, or five licenses per year), trade statistics indicate that our European allies have shipped a huge volume of far more sophisticated machine tools to Chinese end-users.

China is the largest overseas market (in dollars) for U.S. machine tools, and it has the potential to grow significantly from its current total of machine tool imports from all sources of $2 billion. However, unlike other East Asian markets where U.S. market share has been substantial, U.S. machine tool sales represent a relatively small percentage of the Chinese market.

The U.S. Government's rigorously enforced limits on machine tools significantly disadvantage U.S. machine tool builders in the global marketplace, since China has proved able to buy from a variety of foreign makers. The most rigorously controlled machine tools are those that possess five axes. A recent survey by AMT indicated that there are 718 different models of five-axis machine tools manufactured around the world, with 584 different models made outside the United States in countries such as Japan, Germany, France, Italy, Sweden, Spain, and Taiwan. There are even six models manufactured in China (as the Chinese themselves displayed at the Beijing Machine Tool Show in 1999).

Chinese importers often wish to buy several machines at one time to upgrade a factory or to complete or augment a production line. The inability of U.S. manufacturers to guarantee delivery of a particular machine tool requiring a license has an amplified effect on sales of machines that do not require a license. For example, Germany's market share of machine tools imported by China is more than double the U.S. market share. The trade figures indicate that by freely selling the same sophisticated machine tools to the Chinese which would be most likely unavailable from United States manufacturers, German and other European providers are also garnering sales in the non-controlled machine tool categories as well, further disadvantaging U.S. manufacturers.

This is made even more frustrating to U.S. machine tool builders and their workers by the fact that many of the commercial aircraft factories in China contain joint ventures and co-production arrangements with American airframe and aircraft engine companies. In other words, despite the fact that these Chinese factories are supervised, or monitored, by American

executives (or at least have a strong American presence to assure the production of quality components), U.S. Government export control policy creates a situation in which machine tools in those factories are almost certain to be supplied by **European** machine tool builders. How does that assure our national security?

As I have noted, while machine tool license applications to China are likely to be approved in a matter of days, or weeks, by our European allies, U.S. applications languish for months, or longer. Executives of U.S. machine tool companies have told me that they have decided to forego business in China if it involves an export license application. That is how discouraged they have become by the current licensing process. For their part, as recently as last month the Chinese told U.S. companies that, in the future, they will not even ask them to bid for business, since the Chinese experience with the U.S. licensing process has been so negative and so time-consuming. For those U.S. companies who are still asked to bid, the Chinese have begun to demand a guarantee from those manufacturers that they will be able to obtain an export license from the U.S. Government for the product in question, with a penalty built into the contract if that guarantee is not met. Obviously, this is a further deterrent to doing business in China. It is expensive enough to bid on business in China, without having to undertake the added risk of a monetary penalty for failure to obtain an export license on a timely basis.

This inability to sell into the market while foreign machine tools are freely exported to China is particularly burdensome for the U.S. machine tool industry, because recent market projections have indicated that China will represent the largest and fastest growing market for commercial jet aircraft in the first two decades of the 21st Century. As recently as 1995 China represented less than two percent of Boeing sales, today China represents more than nine percent, and Boeing estimates that China will be the largest market outside the U.S. over the next 20 years. Within the next six years, China could account for nearly 25 percent of Boeing's total business.

In 1992, ninety percent of Boeing's aircraft components were built in the United States. Today, more than half the components are imported. China's exports to the U.S. of civilian aerospace components have grown 63 percent in the past five years. Moreover, Boeing's acquisition of McDonnell Douglas has given them an operation in which half of the MD-90 (and its

successor, the 717) built each year are wholly constructed in China. Given the tremendous market power that China will possess, it is certain that the Chinese Government will demand and receive what are known as "offset" contracts to build ever greater shares of Boeing's aircraft in their own aircraft factories on their own machine tools. If the trend I have described continues, and licensing policy does not change, U.S. machine tool builders are highly likely to be displaced and replaced by their foreign competitors who will be able to take advantage of a far more lenient export licensing policy to make the sales to stock the new productions lines that the Chinese will demand.

Machine tool licenses to China are but one example of a larger problem -- the lack of international consensus about how to regulate technology transfer to China. Whatever technology transfer concerns the U.S. Government may have about China are not reflected in the largest and most active multilateral export control regimes to which we belong. The absence of a China reference in Wassenaar means that there are no internationally agreed upon rules or standards that the U.S. Government can cite to induce our allies to follow our lead with regard to China technology transfer policy

Indeed, our former adversary Russia is a charter member of the Wasssenaar Arrangement, and China would see any United States Government attempt to make them a target of this export control regime as a hostile act. In fact, discussions were held in 1998, with the goal of making China a Wassenaar member. I note all of this in order to provide some perspective regarding the degree to which the United States Government lacks leverage in denying technology to China. The United States Government may decide not to sell machine tools, or satellites, or scientific instruments, or semiconductor manufacturing equipment to China, but that does not obligate the Japanese, the Germans, or the French to follow our lead.

That is a fundamental problem with the current export control regime. Not only does it indicate a lack of discipline regarding a country with which the United States Government has indicated technology transfer concerns; it also puts U.S. companies on an uneven playing field with regard to sales to what is likely to be the fastest growing and largest market for capital goods over the coming decade. Repeatedly over the past few years, whether it is in the category of machine tools or scientific instruments, the United States

Government has taken a negative approach to technology transfer to China while our allies have not. The result has been that the Chinese are denied nothing in terms of high technology, but U.S. firms have lost out in a crucial market. This serves neither our commercial nor our strategic interests.

Obviously, AMT-The Association for Manufacturing Technology is pleased that Permanent Norman Trade Relations have been established with China and that we have reached agreement with the Chinese about the conditions for their accession to the World Trade Organization, but unless the problems I have outlined briefly above are dealt with, many small high technology businesses, particularly those within the machine tool industry, will not be able to take advantage of market opportunities afforded by the new era in United States-China trade relations.

Mr. CONLON. I am going to start by just posing a question to Mr. Eisenhaure and Mr. Bowe. We have heard a lot in the last hour or so about some of the pitfalls and the difficulties of doing business in China. But given the fact that the business climate in China is improving dramatically and will get better because of the WTO agreement, how much do you expect your business activities in China to grow over the next coming years?

Mr. EISENHAURE. We are quite satisfied with our relationship with China at the present time. We import about $750,000 a year in raw materials and semi-finished subassemblies. We export to China about $3.5 million. That is new sales that have occurred in the 3 years. We would expect that sales to grow at about 50 percent a year.

You know, we put quite a bit of effort into our relationship with China. We visit about three times a year. We have a Chinese-owned trading company that represents us there. One of the key things, just reflecting on some of the other things the panelists mentioned, we have a Chinese nationalist who works for us as our head of engineering who has been very helpful in personalizing our relationship with the Chinese counterparts.

You know, from our point of view, we are a small business, we will take any help that we can get. But, you know, what we would like to be sure of is that the playing field is level between ourselves and some of our friends in Great Britain and Germany who compete with us in the commercial marketplaces.

Mr. CONLON. Mr. Bowe.

Mr. BOWE. We are serving both the port construction markets and environmental markets. So from the port construction side, obviously we want to see Chinese trade grow, both imports and exports. That creates an infrastructure pressure leading to demand for our products.

We are selling both to central government and regional government entities, virtually all governmental entities. We have over a dozen active prospects we are working on now, where, say, 2 years ago it would have been zero or just a handful.

So looking at us as a project company, not so much a product company, we see sustained opportunities over the intermediate term.

Mr. CONLON. I want to start the roundtable discussion portion of this by bringing up the issue of how effective have the existing export policies and programs of the Federal Government been in assisting the small businesses who wish to export. And if there are specific areas we need to improve, what are they? With regard to China specifically, but also it has an impact on other exporting to other markets.

Mr. Goodwin.

Mr. GOODWIN. We have encountered the tied aid problem in the U.S. and with the subsidized financing from our competitors in China. And so there is many a sale that we have lost because the buyers were able to get Dutch financing or Norwegian financing at subsidized rates.

We have used Ex-Im programs. We even had a tied aid loan a number of years ago. But it is a very difficult proposition. The U.S. Ex-Im Bank is reluctant to use that program to match foreign sub-

sidized loans, and that is one area where we are concerned when we see in the press talk about cutbacks in Ex-Im rather than the other way around from a small business perspective.

Mr. CONLON. If you would put your card up on the side, then I know to call on you in order. Let's start with Mr. Mueller and work our way down.

Mr. MUELLER. When we first started to export into China about 15 years ago, we utilized the services of the Commerce Department and the State Department to help us in finding representation and getting established through trade shows and so forth.

When we established our manufacturing facility in Shanghai, we also used these people to assist us in making contacts as to location of facility and so forth.

It has been a good experience. We have had very little problems with the acceptance of our product. While we are a small company, our products tend to be the technology leaders in the market segments in which they operate. So that the Chinese customers, electric utilities primarily, have been very interested in obtaining our products, primarily by export from the United States into China.

Interestingly, when we established a manufacturing facility, in order to more tailor our products to Chinese needs and to be closer to our customers, initially our Chinese customers were reluctant to buy from that facility because of their concerns about quality and so forth. And when the facility became ISO 9001 certified, that helped to alleviate that concern.

So it seems a little strange that local manufacturing was perceived to be less desirable than imports. But as I say, in the past year or two, that has gone away.

Our Chinese manufacturing facility in no way, however, attracts more exports. Actually, our exports from the United States into China, either direct customers or to our own facility, have increased at between 30 and 50 percent each year for the past 4 years. And we expect that to continue.

Mr. CONLON. Mr. Meenan.

Mr. MEENAN. Thank you. Thanks for holding this session today, most timely as well.

You have my remarks already for the record. I would just like to synthesize a bit. The usual traditional support programs of the U.S. Government have been good up to the point they have gone. But I think the Government has to look beyond the box, outside of the traditional that they have done.

We have been negotiating trade agreements extensively, obtaining good agreements and understandings, but that is only the very first step. The Trade Compliance Center is going to have a lifetime build-up of work with USTR turning these out at such a rapid pace, and the need, as Dr. Kapp has pointed out, for the structural changes that need to be done is the key that you are trying to get to. The rest is only the understanding.

It was raised during Ambassador Zoellick's confirmation hearing in the written portion as to looking to other institutions, third parties such as the international financing institutions, to provide packages of technical assistance and training possibly to the mid-managers in these countries so that when you enter a negotiating cycle—and don't wait until you conclude—start talking to these

people, and the training—which will help bring them on board as to what the reforms are that you are trying to do and get into place. And I would hope that China in this case would be a classic example where the Asian Development Bank, the World Bank, and the UN through its UNDP and other programs could start working with the mid-managers early on, both with best practices and other interventions, both training and technical assistance, and tapping the various resources to help move this whole process along.

The export promotion programs of the Small Business Administration, the Gold Key efforts of the Department of Commerce are all good, but for them to work properly, you have to have the basic ground rules in place and the rule of law. And this is where the earlier technical assistance, if you want, the liberal aid for trade sort of approach, needs to be integrated more between the USTR that is negotiating it and then for the Compliance center that is going to try to make it real. I think it would be a lot easier if the U.S. Government got a handle on this whole situation a lot earlier in the process.

Thank you.

Mr. CONLON. Thank you.

Ms. Griffin.

Ms. GRIFFIN. Yes, I was going to say, over the last several years the U.S. Chamber has done a number of surveys and reports on the question of small business experiences in China, and in the 1997 survey we did, over 15 percent listed the lack of Overseas Private Investment Corporation programs in China, the fact that OPIC is now restricted, as hindering their business in China. And a number of them noted that they had used that as an active part of their market entry strategy in other countries and were not able to do so in China. And I wanted to ask that both a June 1997 survey that we did that covers this whole area of Government promotion programs in China and the 2000 report we did on small business success stories in China please be entered into the record. And I would note that a couple of the companies that we featured in our small business report are here today, including Peter Bowe of Ellicott and Bob Goodwin of Chindex.

Mr. CONLON. I have my copy here.

Mr. Kapp.

Mr. KAPP. I am particularly glad to be here because this subject takes me back to my residence in the State of Washington where, for many years, I was involved in trade association and business association work in an environment where there were three or four very large companies and a great many small firms. There wasn't really anybody in the middle in the State of Washington.

I do have a little bit of a sense of "déjá vu all over again", as Yogi said. The structural problem is—and please correct me if you feel differently—that small businesses are often the fountains of creativity and initiative and inventiveness in American business, but their pockets aren't very deep. And the time and money it takes to get started in a market like China, which is clearly more difficult than, say, Canada, is hard for small businesses to afford. You have to put up money up front, you have to travel, you have to have "guanxi" or "good relationships" before the money begins to flow back.

And so the search for remedies is always underway, and a Congress which runs in biennial terms sometimes kind of loses track of how long that search has been going on. The search is always to figure out how to bridge the gap between the limited resources of smaller firms and the world-wide opportunities that they could enjoy. Often this comes back to state efforts. State Departments of Commerce can be very helpful. With regard to the reference to the Maryland-China Council and the establishment of the Maryland trade office, Washington State also has a trade office in Shanghai; these things are all part of it.

Part of this has to do with market opening, taking people on relatively inexpensive acquaintance-making missions, trade shows and so forth. A lot of it has to do with financing. These topics that have come up today on financing are the same topics that were being raised in the State of Washington and in the local export councils 20 years ago.

The Committee might even want to look back over the last 10 or 15 years and try to come up with the core, enduring, unrelenting, unyielding problems that have been at the center of the small business international trade agenda for 20 years or more now, to see whether those can begin to be addressed in a more systematic way, because this is not new material.

Mr. CONLON. Thank you, Dr. Kapp.

Mr. Freedenberg.

Mr. FREEDENBERG. We have had very good experience with Commerce Department support in China. I think they have an excellent group on the ground. And we have—as I said, China is our largest overseas market, but we have had less success with Ex-Im Bank because most of our exporters are small.

I was on Senate Banking Committee oversight for Ex-Im 20 years ago, and we had the same problem. It is an ongoing problem, and it is always going to be fixed. And we have always supported Ex-Im. We see it as becoming supportive for small business. But it hasn't yet become such, and that is a real problem for us because of all the competitive export financing that is all around the world.

So that is an area that needs work, and the fact that the Congress funded the administrative overhead to a larger extent last year is good, because they need more people in order to service the small businesses. It is much easier to serve large business than small business, and it is more labor-intensive, but it is not something which they have been able to be successful at doing in China or in most of the rest of the world.

Mr. CONLON. Mr. Duggan.

Mr. DUGGAN. I think for small business the two major problems are information about the various markets that are available to them and financing. I was reviewing some old correspondence that goes back to the start of our organization 11 years ago, and you go down the list and every damn one of them is a major problem today. Nothing has changed.

As Paul said and as others have said before me, the need for involvement, for the realization by the policymakers as to what types of problems are faced by U.S. exporters versus their competitors, nobody seems to either have the time or the inclination to pay

enough attention to these issues. There are a number of people out there or countries out there that are eating our lunch.

Canada, for God's sakes, 28 million people, their credit facility for exports has over 800 employees. The Ex-Im Bank has somewhere just over 400.

I think that, if we are going to take advantage of the opportunities that the ingenuity of the companies around this table have to offer, we have got to get serious about trade. And I think that we can talk about this thing, but nothing seems to happen. And I think that we better get off the dime and, you know, to have a 25 percent or 24 percent cut in the Ex-Im budget, Ex-Im is probably the lowest financed credit agency in the world, of the major countries, at least, and here we are going to cut 24 percent of their budget. We are going to go back over probably close to 20 years when Ex-Im was doing well under $10 million a year. That is not being very serious about the problems that we face internationally.

Mr. CONLON. Mr. Coon.

Mr. COON. Mr. Meenan had mentioned something a minute ago about the Gold Key Program, and I think that is your bailiwick, Mr. Hale. You have two employees working for you that I would like to congratulate, and that is April Redmond and Sue Burns, who did an incredible job for me in China.

Mr. HALE. Thank you very much.

Mr. COON. If any of you have not utilized the Gold Key service, take a look at it. It can pay you great dividends for not much of an investment.

Mr. CONLON. Something I read recently sounded pretty interesting, and that was the American Chamber of Commerce in China conducted a study of its member companies' experiences in China. And they found that while most companies are profitable, only a small percentage earn profits in China superior to those in other markets.

Now, the companies cited various different reasons for why that was so, mostly due to regulatory issues, a lot of which will be solved by the WTO agreement. But the one significant problem that they noted was the need for broader financing options.

How successful have the SBA and Ex-Im Bank programs been in addressing the financing needs of small businesses? And what else should they to effect—what should we do to effect some meaningful improvement in that? And I can throw that open to the panel or any of the participants.

Mr. Bowe.

Mr. BOWE. I don't want to be redundant, but are you talking about financing for the importer or financing for the exporters?

Mr. CONLON. Exporter.

Mr. BOWE. But you need both. Ex-Im's programs for small business I think are dramatically improved over recent years with something called the Working Capital Guarantee Program, and that can be used to finance inventory and receivables related to export business, including China business. The issue that you are hearing a number of panel members mention is that there is also the need for financing on the buy side, that is, the importer in China, and that is where Ex-Im Bank is falling short because our competition is offering programs which clearly affect the pur-

chasing decisions of our customers. And that is a policy decision, as Marty Duggan has mentioned, that Congress needs to grapple with and get off the position of, well, it is not what we prefer to do. The problem is it is the reality of all of our competition.

Mr. CONLON. Mr. Goodwin.

Mr. GOODWIN. Not to get too arcane about the intricacies of how the Ex-Im program works, but the problem is, from our point of view, that when we face subsidized competition in China—in other words, we have a company that is selling a European product or something that has financing for the buyer at subsidized rates, we are unable to get Ex-Im to match that until the entire process has been completed. They have a policy that they will match foreign subsidized loans if you can prove it exists, but that decision on matching only occurs after that loan has been notified to the OECD.

There is an international agreement among the developed nations through the OECD to notify any subsidized loans. So Ex-Im waits until that notification is made. When you wait until the notification is made, the deal is closed.

And so we can wait and prove the foreign subsidized loan exists, but by the time we are able to get Ex-Im's attention on it and the loan is actually notified by the foreign country, the deal is closed. And so it is a meaningless exercise, frankly.

And there has been no effort to creatively figure out how European countries are able to undertake their programs with the existence of the same OECD agreement on their side, but the U.S. Government is reluctant or unable to be creative in the same way that the Europeans have been.

Mr. CONLON. Mr. Duggan.

Mr. DUGGAN. As Peter used to say, the thing that—before Ex-Im would react, you had to produce the dead body. And that is exactly what you are saying. I always liked that term, "the dead body," because they wanted the documentation that just wasn't available. And by the time you reacted or they reacted, the deal was long gone.

I think within the last couple of years, Ex-Im has dramatically improved their performance, but the number of companies—and there are somewhere in the neighborhood of 180,000 small businesses that are exporting, Ex-Im is serving somewhere in the neighborhood of maybe 3,000, at the most.

Jean Smith is here from SBA. I don't know how many SBA is serving, but at one point it was a hell of a lot less than the thousands. So I think that we have been woefully negligent in this one area.

Mr. CONLON. Mr. Meenan.

Mr. MEENAN. Our advisory committee for small minority business has been looking at this for a few years now. We have called in some of the delegated-authority banks from Ex-Im, that work with Ex-Im. We have had Jean over a few times as well as others to talk about it, because they seem to be at a plateau, stuck for the last few years, of a couple thousand transactions. At first we thought if they put more delegated authority out there and pushed it out to more of the banking institutions and not keep it in Washington, the process, that might help facilitate it. But then, again,

we found that the banks were reluctant to take up on it. So there has been a gap between the Ex-Im, SBA, and the banks willing—as Jean knows, one signed on for a new program and then got cold feet when it came down to really moving it.

We have also invited the Federal Reserve to come, and they are doing a study now on availability of credit to small businesses. But their initial findings were positive insofar as credit scoring was going, negative insofar as some bank practices. The report is still not out, but there were some practices that don't necessarily favor certain institutions or geographic areas and what have you.

So there is a gap, I think, between the Federal programs, it seems, and the banks and their willingness under the terms that are provided to really move it. So, as such, the last few years we looked at it, it has been at around 1,600 to 2,000 transactions for small businesses, and given the number out there, that is fairly limited for Ex-Im and SBA.

So, again, you need to look, not to beat it over the head, beyond the box somehow. We need to break this ceiling that we are bumping up against and find new ways to energize it. It is even going to be more difficult with the budget cuts that this Administration has put through on SBA and Ex-Im, and particularly as to the added fees in that that they now have to be charging, which will even discourage the banks and the users even more.

With that, I would like to ask Jean from her perspective, SBA, with the budget cuts and what have you, how attractive will your package be now or in the future as it has been in the past. Sorry to put you on the spot. [Laughter.]

Ms. SMITH. Well, nothing is in stone yet, but we have had to react somewhat to the new budget for next year, and there have been some scenarios in place, as I said, you know, and it will all come out in the wash by this fall. But some of the proposed scenarios would do exactly as you said. In order to get close to a zero subsidy rate for the loan programs, we have no choice but to increase fees.

On the export side of that, it probably is going to be quite marked an increase in those fees. We currently have a quarter percent guarantee fee that exists for loans under 12 months, which is our Export Working Capital Program. I don't know—some of the scenarios I have seen raise it to as much as 1 percent. So on a $1 million deal, which is our cap, it would go from $2,500 to a fee of $10,000. So that is fairly significant.

So you are right. In terms of our efforts to increase volume and access by small businesses to these guarantee programs, probably that ability will be somewhat curtailed or our guarantee program will be less attractive—let me put it that way—to many banks because of those fees.

Mr. CONLON. Mr. Bowe.

Mr. BOWE. Speaking further on the Ex-Im and the tied aid for China, a couple of comments of what I would call the mechanics, the problems of the mechanics, that is, trying to respond, to match what a foreign competitor has done. I think there is even a deeper philosophical problem that relates to the marketing side of it.

The document I attached in my written testimony was a translation of a Chinese document on how to access soft loans from for-

eign countries, in this case Holland, and it describes what naturally becomes a collaborative relationship between the Chinese Government and the Dutch Government and how Chinese institutions can access this financing and, therefore, proceed with their projects.

So the Ex-Im approach or the congressionally mandated approach of matching tied aid presupposes that, but for financing, everything else being equal, the Chinese or whoever would buy from an American supplier. With this kind of long-term relationship building, that is not the case. The Chinese would not necessarily welcome an American offer at the last minute of financing. They would say, wait a minute, we have been meeting—it says we have been meeting in Beijing and the Hague twice a year to develop the projects which will be financed with this type of program. So coming in at the last minute really disrupts these relationships.

We have heard other testimony today about guanxi, the relationship building. This is true in other countries around the world. So it is not just a mechanical problem. It is a philosophical marketing problem that until the U.S. decides that it is something that we want to do, the matching tied aid concept is destined to be unwelcome by the foreign government recipients that we are trying to help.

Mr. CONLON. If we could narrow the discussion a little bit, just to talk a little bit about if there is one thing that we in the Committee can do, what would that be? If there is one policy or program we should go after, where is that going to be? Where should we concentrate our resources? Dr. Freedenberg?

Mr. FREEDENBERG. Since I have some perspective on this, about a 20-year perspective on it, this is an argument that has been ongoing. If you wanted one word, it would be money. It has to do with the fact that Congress—each new Administration decides to cut corporate welfare. Ex-Im Bank is corporate welfare by usually OMB's definition. It is fairly much of a syllogism. The problem is you need—and that is why these sorts of hearings are very important. But you need to educate the rest of the Congress on this issue. It is always seen as some sort of a special subsidy that only goes to U.S. business, and the perspective of it being one-sixth of what our industrial competitors offer is never brought forward, that is one-sixth as a percentage of our GDP versus, say, France or Britain or other industrial—or certainly the Japanese.

So that is really where it comes. Then the rest of these programs, these problems follow from that. We have to be very, very frugal with our tied aid because we have so little of it. We have to be very frugal with helping small business because we have so little money and so little staff. And all of this sort of cascades down from the lack of funds. So you can change the processes, but without the funds, you are not going to get very far. And I am afraid, you know—I hate to say it, but, you know, here we go again.

I helped Senator Heinz draft a debate on this with David Stockman back in 1982, and I could change the dates and it would be exactly the debate you are going to have this year over Ex-Im Bank. So I am—perhaps "discouraged" would be the word.

Mr. CONLON. Mr. Kapp.

Mr. KAPP. A couple of quick points. I think Paul Freedenberg is onto something very basic here, but there is one little China wrinkle that takes this back from the general theme of how small business makes its way in the global economy to the subject specifically of business with China. And that is that the relationship with China is so politically sensitive these days, and particularly on the Hill, that it is impossible fully to separate an approach to China as a national policy problem on the Hill from anything you do on the economic side.

Now, our view, obviously, is—and I say this often to Chinese colleagues—that if there is not a strong and vibrant economic and commercial relationship between the United States and China, holding the whole relationship together is going to be much, much harder. The economic constituencies in this country that believe that a stable and productive relationship with China is both in their interest commercially, and also in the national interest are the glue politically, that holds things from flying apart far more dangerously in the debate over U.S. relations with China.

I guess what I am saying is that if this is a China forum, part of the answer to what can be done has got to be related to the whole demeanor of the Congress and the whole demeanor of the U.S. Government with regard to relations with China. If relations with China are going to heck in a hand basket, anyway, and the whole relationship turns sour, it is going to be difficult to craft the kinds of measures that would help small businesses *or* help big businesses *or* one sector *or* another in the Congress with China. And, therefore, this probably needs to be seen in a more comprehensive way with regard to this particular bilateral relationship.

One other quick point on the question of programs. Programs are important. Small businesses have limited resources. I would differ a little with Marty on the notion that what is lacking is information. One of the problems now is that there is so much information—certainly with regard to China, there is so much information out there, especially thanks to the Web, that a small business with only one person who does all international business for the company is going to have a hard time just getting its hands around the mass of information that is available.

I differ a little with Senator Kerry on the notion of one-stop shopping, a term which has been around, again, for a very long time. We used to have companies in Seattle who would say, "I don't want to have to go from the Washington Council on International Trade Office across town or down the street to the Export Assistance Center of Washington because I don't want to have to make two stops." And my reaction to that small business person was "If you don't want to make two stops, you better not go to China, because there is a certain amount of——

[Laughter.]

Mr. KAPP. Well, let's just say that international business imposes certain things on you, whether you are big or little.

So one of the problems perhaps that remains and might be thought about in terms of educational efforts over time along with the question of how to deliver the services and minimize the hassle quotient for small businesses with few people and limited funds, is

how to help little businesses develop realism about what it takes to plunge in at all, certainly with China. Indeed, when I worked in the State of Washington, we sometimes had to drag small businesses kicking and screaming into even being interested in international markets because domestic markets were so much easier to deal with and so much more compelling.

In other words, this is a two-way street, and there is some responsibility on the shoulders of smaller companies as well. Obviously the companies here today have understood that and have borne the responsibility extremely well and successfully.

Mr. CONLON. Mr. Eisenhaure.

Mr. EISENHAURE. There is one thing about small businesses, you have to kind of go after targets of opportunity. You know, forcing yourselves into new markets by buying your way in, is a way to not be a small business but to be out of business. You know, if you are trading in a particular marketplace and your competitor from Great Britain or Germany has essentially the same product, has the same cost basis, and he has free money, you kind of aren't in that business anymore. There is not much you can do about that. It is impossible to compete with.

On the other hand, there are differing things that you can provide edges to small business. Right now we sell more product to China than to any other country other than the U.S. One thing you might do with funds you already have available is provide a commercialization program credit as part of the SBIR program so that companies which have a positive trade relationship with China could get some extra commercialization credit for that. You know, a $750,000 SBIR award will substantially change the balance of competitiveness compared to a foreign company if you are introducing a new product into one of these marketplaces.

Mr. CONLON. Ms. Li.

Ms. LI. I would like to add a little to what Bob just said, managing U.S.-China relationship. David Lumpton, who is the director of China studies at the Nixon Center here in D.C., wrote a book called "Same Bed, Different Dreams: Managing U.S.-China Relationship" from a broader perspective. For those of us here who speak Chinese, that is "Teng Chang Imon."

From a smaller perspective—I guess that is another reason we are here—for smaller business, especially the ones who are hoping to get to China, in addition to facing the political and business obstacles, we have the so-called cultural barrier, which is absolutely crucial. A few speakers did allude to that a little bit. I just want to add a few comments to that.

A client of ours said to me once, before they became our client, they said, Dottie, it is like stepping into a field of land mines blindfolded, going to China. I think some of you may have had that feeling in the past when you first started going to China. A bilingual person doesn't always make a translator or an interpreter. Peter mentioned the translation of your materials presented to your Chinese counterparts. You can't always get a person who speaks Chinese. I was born and raised in China, but you have to be trained to be a translator or an interpreter. There are a lot of cultural nuances that need to be translated, not just within the text but also within the dialogues and the conversations. And your guanxi with

your government officials, what have you, the cultural contents are just crucial. We give training courses to companies three days, sometimes, if we have to, four hours, but just those so-called crash courses will help people, maybe a small step in reaching your goals, to deal with the Chinese, as difficult as they might be.

Mr. CONLON. Mr. Mueller.

Mr. MUELLER. I think to your earlier question of what should the Committee do, obviously number one is to push WTO. I do think that it would be desirable, if it is possible, to lower the heat of the rhetoric that is applied to China's domestic policies and activities. In addition, obviously, funding Ex-Im directed at small businesses is another thing, and really finally, assuming WTO is approved, that the compliance issues have to be addressed and the staffing of personnel in various U.S. Government departments to facilitate that enforcement and compliance is critical.

The agreements are meaningless unless compliance is encouraged.

Mr. CONLON. Ms. Griffin.

Ms. GRIFFIN. I was going to pick up on something Mr. Eisenhaure said about the way your company makes use of imports. I think another problem on the Hill sometimes is there is a sense that exports are good and imports are bad. And realizing that we do have an enormous trade deficit that is going to continue to be a political issue, I just think that folks should realize that imports play a very important role. I think of a company we featured in an earlier version of our success stories. It was a company that exported seeds from China, and in the course of getting those seeds to the ultimate processing plant in the United States, they created jobs for some of the trucking companies that took those seeds to the plants and the people that cleaned those seeds and processed those seeds. And I just think there needs to be a greater comfort level with the import side of the U.S.-China relationship.

Mr. CONLON. Mr. Hale.

Mr. HALE. I would just like to respond and comment on a couple of points that have been made.

We certainly agree very strongly that there is going to be a great need to watch China's compliance with the WTO agreement, and, you know, as I think I noted in my comments or my remarks earlier, the Congress did give us and State Department and USTR and Agriculture some extra resources this year for exactly that purpose.

We are getting those resources in place and think we have a handle on what is going to happen. The catch is until they are members of WTO, there isn't anything they have to comply with. So we are doing a lot of wheel-spinning at the moment.

Just a couple quick observations. Marty, in response to your point on information, I would like to mention that we have set up what I think is a reasonably good all-in-one-place web site on China, commercial opportunities and doing business information under the new Commerce-wide export.gov, add slash China to get to the China thing. If you can get past the rather corny opening picture of a door opening, which my staff thought was hilarious and I haven't been able to get rid of yet, the information is pretty good.

I also want to note just in passing that while some of our financial programs and some of the others, there have been some complaints about how they operate in China, I do want to note that the Trade Development Agency did open its doors for business in China the first of this year and have had a couple of things come in already, and they are running around wondering how they are going to do everything that comes through their door.

Finally, the Commerce Department has over 100 Export Assistance Centers around the country, many of which have reps from other U.S. Government and State and local government export assistance units on the same site. They are primarily to serve small business, and they serve, hundreds of thousands a year, hopefully productively, getting more and more into the export business.

Thank you.

Mr. CONLON. Mr. Coon mentioned earlier about the Gold Key Program. Could you describe that?

Mr. HALE. Yes. The Gold Key Program is basically if a U.S. company wants to explore market opportunities in, say, Beijing or Shanghai or something, and Commercial Service in our embassies or consulates, provides a hand-holding services, a place to hold meetings and making of appointments for them. In other words, the Gold Key to opening the market in Shanghai.

It is a service-for-fee operation, but it is very modest. It varies a little bit from place to place. But it is an opportunity to draw on the expertise of our people on the spot to try and find appropriate business partners or buyers or sellers for you and provide a place for your meetings, and so on and so forth.

You can learn more about it or sign up through any of our Export Assistance Center regional offices.

Mr. COON. If I can add, the cost on it runs between $150 and $225.

Mr. DUGGAN. They just doubled it.

Mr. COON. Really? When did it go up?

Mr. DUGGAN. It went to about $500.

Mr. HALE. It is higher—you know, of course, it varies according to what sort of service you are looking for. Multiple days are cheaper than per day. Yes, we have had to raise the fees. I don't know for sure what they are, and my Commercial Service guy I think has left. But they have been raised, but they are still far cheaper than, you know, renting a hotel room or doing your own meetings. It is a tremendous saver because basically you arrive in, in this example, Shanghai and you get a day—you know, whatever your schedule is. The first day you want to work, your appointments are largely ready to go, or at least ready to start setting up. The facilities are all there and so on.

But we increasingly are having to charge, you know, cover a significant portion of the costs of the add-on services. Not the basics, but the add-on services we do.

Mr. CONLON. Thank you, Mr. Hale.

Ms. Allen.

Ms. ALLEN. Well, this is an educational process for me, too, because most of the small businesses that I deal with do not know and do not obtain government subsidy, and that corporate pork just resonates on old memories.

We are not here to ask for government subsidies. We are just here to ask for the Government's to help to create a climate that will be hospitable to the small businesses that we represent.

What I hear today is, well first of all, we spent a substantial time on financing. We talked about how the Dutch, the Canadian, and British Governments subsidize their companies in doing business with China. And I suppose those subsidies go to huge corporations who I do not represent.

I can see on this issue there are two ways to approach the problem. One is for a head-of-state to head-of-state dialogue. This is an impossible task, but this is something we can talk about, for our President or our Secretary of State or Secretary of Commerce to talk to their counterparts in these foreign countries and say, hey, this is not fair, you are subsidizing your corporations, you are using your taxpayers' money, but we do not want to take our small business and our taxpayers to subsidize corporations just so they could sell to China.

Here at home, if we have effective Ex-Im Bank export programs and SBA programs for export, I would like to know more about it, because in the last 17 years that I have been involved with this trade association, very few information has been forthcoming.

Second, with regard to the barriers I talked about earlier, one of the major barriers is—and we talked about compliance. You can hit their heads with a hammer about compliance, but if there is no place to enforce it, if there is no place to enforce any court order, whether in the United States or Singapore or Japan, for the Chinese merchants or our Chinese counterparts to pay the fines, those arguments are meaningless. We are just padding the lawyers' pockets, and I am one of them.

With regard to information, yes, we have a lot of information. There is plenty of information in print and in cyberspace. Just go to cyberspace. There is plenty of it. You don't have to worry about that.

There are lots of consultants who are working for law firms, and for accounting firms. They are full of information about how to do business, where to go, and what to avoid. They are there.

I think what we have here is we are facing a climate in China that is still not conducive to the small businesses. As Dr. Kapp mentioned, the small businesses do not have the deep pockets that the big businesses have. They cannot put somebody like McDonald's and General Motors in China for 5 years living in a hotel and wait for the opportunity, because they have got to produce their widgets here at home and they have got to make their payroll.

One thing, though, I must say is that the Chinese people love American products. They love them. The question is how do we get it to them without having to go through all that bureaucratic morass.

The situation in China has changed substantially in the last 20 years. One way the Government can help is to encourage more exchanges, of business executives and legal scholars so that they will be more educated to the rule of law. It will become part of their life, part of their conversation. Because in China, if you talk to the little people, the common people, the small businesses, they appreciate the rule of law. Of course, everybody will walk away from it

when it is to their advantage, but, actually, they love it. They love to have it.

Finally, we honestly believe that joining the WTO will help China because it will put China on the spot. Once again, the question is: Are we going to be able to hold China's feet to the fire and make them comply with it or give them the leeway they have been receiving all these years? Because they have been given preferential treatment. If we can do that, it will go a long way for small businesses and big businesses.

Finally, I have spoken to small businesses, and they say it is easier now for small businesses to go to China because all you need to do is to go to find your counterpart, a small business, to do business with. Don't aspire to work for or go for the multi-billion-dollar company. Go work with your counterpart, because you understand each other's problem and you can actually make a deal, because both parties want to make a deal.

Mr. CONLON. Thank you, Ms. Allen.

Mr. Hale, maybe you would like to just let everyone know how the Commerce Department would deal with, you know, trade dispute issues when China does accede into the WTO, what the process is, and if someone has a particular problem, who do they go to or how does that work?

Mr. HALE. Okay. We set up about a year ago—and I think Mr. Meenan already has referenced it—something called the Trade Compliance Center. I have got some brochures on the thing here. It was basically aimed at watching foreign countries' compliance with trade agreements. Let's talk China specifically now.

If a company encounters a problem, you know, it looks like business is going ahead and all of a sudden they run into some sort of a problem, which appears to be prohibited, let's say, under the WTO agreement, I think the first thing that we would do, probably through our Commercial Service reps in Beijing, is approach the Chinese Government, our counterpart Ministry, MOFTEC, Ministry of Foreign Trade and Economic Cooperation, which I think we have developed a very good working relationship with, and say, hey, company X says that they have run into this problem, we think that this violates, say, the intellectual property rights clauses in the WTO, and could you help us—you know, first of all, take a look and see if the company's complaint is accurate and see what happens.

We have actually been doing quite a bit of this without the agreement with the MOFTEC people on what we would call a general market access problem. Many of these we find can be solved right away. A certain percentage, a quick visit from someone from the central government, and the problem is solved. And others, frankly, we discover there is a problem on the U.S. side also, and it is a misunderstanding. You know, the Chinese partner was waiting for this, the U.S. partner was waiting for that, neither knew what the problem with the other was, bring them together, it is solved.

There are going to be some that aren't going to be solvable. Hopefully, they can be worked out, increasing levels, eventually reaching our Secretary to their Minister. If we can't do it and it is, say, a WTO violation, we will go over to USTR and request that

a formal dispute settlement process be started with WTO in Geneva. So there are all different steps on this.

How it is going to work under the WTO we don't know. Indications are that China does not want to get into, is not going to want to get into a lot of very formal dispute settlement procedures. They are complicated. They are drawn out. And you need a lot of sophistication to defend yourself. So we have the feeling that many of the problems are going to be able to be worked out at the working level, and hopefully even some in anticipation of problems, with the—I guess for lack of a better word, the training that we have been doing, both government to government and trying to encourage more and more academic, private sector, other organizations. You know, the WTO obligations China is going to incur run this huge gamut, and let's touch base with all agencies in Beijing and through the provinces.

It is not going to be easy. There are going to be, some real problems left over, but hopefully there will be enough goodwill between the governments to solve or the will to do it.

Mr. CONLON. Mr. Meenan.

Mr. MEENAN. Back to your question as to what this Committee could do, I would suggest in the context on the financial side, the financing and the budget, that while the Administration is concerned about corporate welfare, you may want to question whether they are throwing the baby out with the bath water, and that the small business programs of the Ex-Im, OPIC, TDA, SBA, and that are in their infancies in getting growth. You are only talking about a couple thousand transactions a year equating to maybe a couple aircraft sales. So why penalize these programs while they are taking on the overall cuts on that organization?

So for this Committee, I would urge you consider recommending to your appropriators that they put a firewall up against the small business programs. I don't want to put one group against another and say whose ox is going to get gored the most. These programs are a drop in the bucket in their overall programs. And I would suggest that this Committee, in looking out for the interest of the small businesses for which they are receiving some benefits, but not the lion's share of these organizations who are facing these cuts, that different marching orders be provided in either a firewall or other protective fire gear be provided so these programs can at least survive. With the increased fees are they are talking of in other areas, it may be the death toll for a good number of these. And we have already gone through a year or so at one point when SBA had significantly reduced the subsidy rate and they were out of business, in effect, for that period until Congress could right what they had done wrong. So I would suggest now that the appropriators are looking at cutting the budgets further here for Ex-Im, OPIC, and TDA, the Committee may wish to consider setting a firewall up to protect these infant programs that are helping fund small businesses.

Chairman BOND. I have returned from the Health, Education, Labor, and Pensions Committee markup. It has all the earmarks of being a 100-hour markup, so I have taken this break to come back and join you.

Let me call on Mr. Kapp for the last comment.

Mr. KAPP. Senator, I am almost sorry you came in the door just now because I am about to say something that applies not only to this Committee but to the Senate as a whole.

Chairman BOND. That would be a good point to make.

Mr. KAPP. The question that Paul had asked that got us focused was, what would we recommend for this Committee to do. I was going to say every member of this Committee is a member of the U.S. Senate. The U.S.-China relationship is at a very delicate moment now. The Vice Premier, Qian Qichen, will be here in two weeks for meetings with the highest figures in our executive branch and our legislative branch in an effort to try to assess the likely course of U.S.-China relations. There are lots of difficulties out there, as we all know.

One of the things that the Chinese care a lot about is what everybody in the business called "capacity building," that is, whether it is China or other less developed countries, assisting such countries in the training and the development of cadres of manpower, financial regulators, impartial judges, all sorts of manpower and personnel power building efforts in which developing countries have great needs if they are to build internationally compatible economic environments.

I would urge that the Congress in particular try to put some emphasis on an agenda of positive and cooperative programmatic work with the Chinese over the years to come. If we don't make the positives happen, the negatives will swallow us. And a classic case coming out of a meeting like this would be some effort to really initiate—and, for that matter, if it could only be done politically up here, get congressional ownership of—a programmatic effort over a period of years to work with the Chinese on the development of the administrative talent and the technical talent with which the Chinese economy will be all the more hospitable to small business.

You know, when small business gets over there and they feel as though they are walking through a minefield with a blindfold on, it is because they are talking to people half the time who are not competent to do their jobs. And the Chinese are not immune—in fact, they are receptive—to working with countries such as our own on this kind of personnel capacity building. I would like to think that Congress might go forward, in a sense put its best foot forward, on something like that. Long term, it is going to make a great deal of difference to all business, including small business.

Chairman BOND. I think that is a point that is very well made. Certainly based on my recommendations, I think that that is clearly a great need. From my visits to China, I have made some disparaging remarks about the difficulties, but if there is one thing that I did gain from my visits to China, and to other countries in the region, frankly, it is the desire to be able to develop the structure, such as the one that we have in this country, to ensure that businesses flourish.

On a broader scale, I don't know how many of you have read Tom Friedman's latest book, "Lexus and the Olive Tree." There is some very, very exciting news that the concept of democracy, human rights, and free market capitalism are really winning the debate worldwide. And that is a positive. But going along with it is the need to have the right kind of structure, and that means

things not only like having the right kind of regulators, but it is having a system of property laws that respect contracts and respect property rights and has bankruptcy laws that a lot of countries haven't had the willpower to implement. When you get a crippled basket case, you are better off shutting it down.

We had an experience with our Resolution Trust Corporation which was one of the most difficult things I had to deal with when I first got here. It was not pleasant to go around closing down savings and loans, but after we got them closed down, we took a hit. But coming back out of that, we saw what benefit it has to our country, and countries like Thailand and Korea, which are dealing with crippled major enterprises, need to have a structure for dealing with it.

I spent some time on my last couple of visits to Southeast Asia—I was particularly interested in biotechnology, which has been one of my interests. And there was a crying need for scientific information, for the right kind of regulatory structure to ensure that genetically modified foods or other plant products can be regulated in that country so that the citizens of those countries know that they have somebody from their country who is competent to make those decisions.

So I think your point is well taken. It is clear that Congress will be putting a foot forward. It may be the triumph of hope over experience to think that we will put the best foot forward. But I think that is a point well made.

I also understand that the major recommendations you made are, number one, to ensure proper funding for Government offices that ensure compliance by China with the multilateral and bilateral trade agreements, and, second, to ensure proper funding for financing programs, SBA and places like the Export-Import Bank. I signed a letter recommending that, and I appreciate very much your advice in that area.

I think the discussion today should help this Committee in our efforts to ensure that Congress takes the right steps, not just to enhance trade with China but with other markets around the world. This is where the opportunities for small business lie. It is very difficult to take that step, but we need to continue to push to do it.

I think the Federal Government does have a critical role as an advocate for U.S. businesses, but also in helping small businesses develop their markets and break them out of their habit of thinking about the next-door neighbor being their market. That market may be overseas. We need to eliminate trade barriers, but the internal barriers, the inertia, the fear of the unknown, the fear of moving out, is one of the things that we need all of you, the organizations you work with and represent, to help us pursue.

As I indicated, the discussions here today will be transcribed, and we will look forward to the comments in the next 2 weeks. We will make it available to the members of this Committee and other committees.

I thank all of you for participating, and we look forward to continuing to work with you in this and other areas. And if there is no further business to come before the meeting, we will adjourn. Thank you.

[Whereupon, at 11:43 a.m., the Committee was adjourned.]

CHRISTOPHER S. BOND, MISSOURI, CHAIRMAN
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United States Senate
COMMITTEE ON SMALL BUSINESS
WASHINGTON, DC 20510-6350

February 8, 2001

The Honorable Robert Zoellick
United States Trade Representative
600 17th Street, N.W.
Washington, DC 20508
United States of America

Dear Ambassador Zoellick:

We are writing to reiterate our strong support and commitment to the creation of an Assistant United States Trade Representative position at the Office of the United States Trade Representative (USTR), whose primary focus would be the promotion of trade for U.S. small businesses.

As you are aware, U.S. small businesses are the backbone of our economy, representing 99 percent of all employers, providing 75 percent of all net new jobs, and accounting for 51 percent of private-sector output. Yet, despite their importance to our economy and future prosperity, they have no institutional representation at USTR, the lead trade arm of the Federal government.

While we are aware that small businesses and larger enterprises share the same benefits of trade liberalization, there are times when their interests diverge. For example, small businesses may not have the necessary resources to comply with, or even be aware of, the differing manufacturing standards of U.S. trading partners.

Additionally, of the nearly 24.8 million small businesses in the U.S., only a small percentage, about one or two percent, actually export. If we could double that figure to a modest three or four percent, the positive impact on our economy would be profound. We feel that creating an institutional position at USTR will help achieve this modest goal.

We would like to thank you for your previous statements in support of creating an Assistant United States Trade Representative position for small business. We look forward to working with you on this and other pressing trade issues.

Sincerely,

John F. Kerry
Ranking Member

Olympia J. Snowe
United States Senator

United States General Accounting Office

GAO

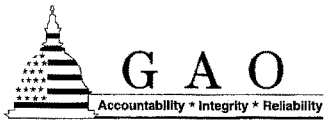
Report to Congressional Committees

FOR THE RECORD

May 2000

WORLD TRADE ORGANIZATION

Status of China's Trade Commitments to the United States and Other Members



GAO/NSIAD-00-142

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Abbreviations

TRQ	Tariff-rate quota
WTO	World Trade Organization

United States General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-285309

May 16, 2000

The Honorable William V. Roth, Jr.
Chairman
The Honorable Daniel Patrick Moynihan
Ranking Minority Member
Committee on Finance
United States Senate

The Honorable Bill Archer
Chairman
The Honorable Charles B. Rangel
Ranking Minority Member
Committee on Ways and Means
House of Representatives

In November 1999, the United States and China concluded a bilateral trade agreement on issues related to China's joining the World Trade Organization. As a result, the administration has asked Congress to pass legislation that would allow the President to grant China permanent normal trade relations status, which would eliminate a potential conflict between U.S. law and U.S. obligations if China becomes a member of the World Trade Organization.[1] However, China must complete further negotiations in the World Trade Organization before all the terms and conditions for its membership are known and are secure.

China's World Trade Organization membership negotiations take place on two tracks—bilateral and multilateral negotiations. The bilateral negotiations, including those between China and the United States, are designed to obtain China's commitment to remove specific market access barriers and open China's domestic market to more foreign goods and services. The focus of the multilateral negotiations—between China and a working party of 44 members, including the United States and other

[1]Under the Trade Act of 1974, China has only been granted normal trade relations status annually through a presidential waiver. Once China becomes a member of the World Trade Organization, organization members would have to provide this status on an unconditional basis to China. See *World Trade Organization: China's Membership Status and Normal Trade Relations Issues* (GAO/NSIAD-00-94, Mar. 17, 2000) for more information on this and related issues.

interested countries—is to ensure that China will conform its trade regime to all the rules, practices, and obligations required by World Trade Organization agreements. The results of all these negotiations are finalized in an accession protocol and working party report that outline the terms of China's membership.

Because of your continued interest in these issues, we are providing an update on our past work on the status of China's membership negotiations, including portions of our past analysis that were recently declassified by the U.S. Trade Representative. We report on (1) the results of the November 1999 bilateral Agreement on Market Access between China and the United States and (2) the status of China's ongoing multilateral negotiations in the World Trade Organization.

Results in Brief

China has made substantial progress in completing its negotiations to join the World Trade Organization, which cover a range of topics in 11 broad areas. The President announced a bilateral agreement with China in November 1999 that covers four broad areas of market access issues and some other topics. In these four areas, U.S. and Chinese negotiators reached agreement on commitments that would (1) reduce China's tariffs, (2) remove its nontariff barriers such as quotas, (3) reduce its limits on trade in services, and (4) remove its barriers on trade in agricultural products.[2] China must conclude similar bilateral negotiations with some other World Trade Organization members, notably the European Union. However, the results of these ongoing bilateral negotiations, together with those China has completed with other members, would improve upon the commitments China made to the United States in these four areas to some degree, since under the World Trade Organization agreements, China's best market access commitments made to any country will be applied to all World Trade Organization members.

China must also complete ongoing multilateral negotiations with members of the World Trade Organization working party. These negotiations have covered issues in seven broad areas of interest to working party members regarding how China will adhere to the obligations and responsibilities created by the World Trade Organization agreements. According to our

[2]China must also complete negotiations with the World Trade Organization working party over minor differences on some additional topics in the agriculture area that are negotiated on a multilateral basis, such as financial support given farmers.

analysis of the negotiating record, China has already reached general agreement or has only minor differences to resolve with members of the working party on commitments in four of these areas. The commitments in these areas would (1) expand foreigners' trading rights, increase transparency (openness) in administering its trade regime, and reform other aspects of China's trade framework; (2) better protect intellectual property rights; (3) place disciplines on how China applies health and safety standards and regulatory measures to imported products; and (4) determine what compliance and monitoring mechanisms will be applied to China beyond those to which other World Trade Organization members are subject. China agreed to certain compliance and monitoring mechanisms in its November 1999 bilateral agreement with the United States, and U.S. Trade Representative officials are confident that these commitments will be incorporated in China's accession protocol and working party report without substantive change. Working party and Chinese negotiators still have differences to resolve in the other three areas of negotiation: (1) China's trade-distorting industrial policies, primarily its use of subsidies (financial assistance) to firms; (2) China's ability to use trade-related restrictions to protect its foreign currency reserves; and (3) other issues, most notably opening China's closed government procurement market. In the November 1999 bilateral agreement, China also made a number of commitments regarding its state-owned and state-invested enterprises that relate to concerns over subsidies and procurement, among other issues. U.S. Trade Representative officials are confident that these draft commitments will be incorporated into China's accession protocol and working party report without substantive change.

Background

The World Trade Organization (WTO) was established on January 1, 1995, as a result of the Uruguay Round of international trade negotiations. The WTO provides the institutional framework for the multilateral trading system. It administers rules for international trade, provides a mechanism for settling disputes, and offers a forum for conducting trade negotiations, as set forth in the WTO agreements.[3] It currently has 136 members, and another 30 have applied for membership.

[3]The WTO agreements refer to a number of international trade agreements, including the WTO's predecessor, the General Agreement on Tariffs and Trade, which are enumerated in the 1994 Marrakesh Agreement Establishing the World Trade Organization.

China is the world's largest economy that is not subject to the WTO trade liberalizing requirements. Since 1986, China has been in negotiations to join, or "accede to," the World Trade Organization and its predecessor, the General Agreement on Tariffs and Trade. The United States has taken a leading role in these negotiations, which have been occurring on two tracks—bilateral and multilateral negotiations—over these 14 years. The process for joining, or "acceding to" the WTO consists of four phases: (1) "fact-finding," (2) negotiation, (3) WTO decision, and (4) implementation. China is currently in the second phase of this process and is negotiating with a working party comprised of all interested WTO members, including the United States, to join the WTO.[4] These negotiations should conclude with the acceptance of two documents: (1) the protocol, which contains the terms of accession and commitments affirming China's adherence to WTO guidelines and principles[5] and (2) the working party report, which provides a narrative on the results of the negotiations and specific commitments made by the applicant regarding how it will meet WTO requirements. Commitments detailed in either the protocol or the working party report carry the same legal weight for the applicant, according to WTO and U.S. Trade Representative officials.

A fundamental principle in the WTO agreements is that members, including the United States, must grant each other unconditional most-favored-nation status, meaning that they must grant each other trade privileges as favorable as they give to any other WTO member.[6] China currently does not have permanent normal trade relations status in the United States because title IV of the Trade Act of 1974[7] requires the President to deny it to certain designated countries. However, China has been granted normal trade relations status since 1979 on an annual basis. As China moves closer to becoming a member of the WTO, Congress is

[4]For a more detailed explanation of the WTO accession process, see *China Trade: WTO Membership and Most-Favored-Nation Status* (GAO/T-NSIAD-98-209, June 17, 1998).

[5]China's specific market access commitments, most notably those to reduce tariffs on industrial and agricultural products, to phase out nontariff restrictions, and to phase in access to foreign service providers, are detailed in consolidated schedules (tables) that are annexed to the protocol.

[6]In July 1998, the term "normal trade relations" replaced the term "most favored nation" in U.S. law; however, the term most favored nation continues to be used in the WTO agreements and other trade agreements.

[7]19 U.S.C. sections 2431 through 2439.

considering whether to grant China permanent normal trade relations status.

Concerns about Chinese actions regarding human rights, proliferation of weapons of mass destruction, espionage, and Taiwan, among others, have heightened the debate over whether to grant China permanent normal trade relations status as part of China's WTO membership. In response, the administration has stated its belief that bringing China into the WTO will advance critical economic and national security goals by opening a growing market to American workers, farmers, and businesses and encouraging domestic reform, human rights, the rule of law, and international cooperation. This report focuses only on certain trade issues in U.S.-China relations pertaining to China's joining the WTO.

U.S.-China Bilateral Negotiations on Market Access Issues Are Completed

The United States and China reached agreement in the bilateral track of the negotiations in November 1999 with the signing of the U.S.-China Market Access Agreement. China has been negotiating on a bilateral basis with each interested WTO member on its specific market access commitments under the WTO agreements. China's market access commitments cover 4 of the 11 areas that are under negotiation: China's tariffs; nontariff barriers (such as quotas and licensing requirements); and its agriculture and services sectors. The United States and China have agreed on the extent to which China will

- reduce or bind tariffs on its approximately 6,500 industrial and agricultural products to reach a final average of 10.2 percent (from 16.9 percent) by 2008;
- eliminate nontariff barriers, which will end quotas, licensing, and similar requirements on 361 products (which represent about 10 percent of 1997 U.S. exports to China) by 2005;
- provide varying degrees of access to 9 of its 12 services sectors—including all those identified as U.S. priorities—with certain limitations liberalized or phased out from 1 to 6 years after accession; and
- reduce tariffs on agricultural imports to 16.8 percent, from 21.4 percent, by 2004. It also agreed to improve access for some bulk commodities like wheat, corn, rice, and cotton with a new, state-administered system that applies different tariffs based on quotas of these commodities.

In addition, China had already agreed in the multilateral negotiations to not provide export subsidies for agricultural products. China must still resolve minor differences with members of the WTO working party regarding its

use of agricultural subsidies, which is a topic known as "domestic support." Table 1 summarizes the status of these bilateral negotiations and the multilateral negotiations discussed later. Further details on the results of the negotiations appear in appendix I.

Table 1: Status of 11 Areas Under Negotiations, as of May 2000

	Area	Negotiating topics	Status of U.S.-China bilateral negotiations	Status of WTO multilateral negotiations
Market access commitments	Tariffs	*Tariff rates and phase-ins of reductions*	*Concluded*	Bilateral negotiations with some WTO members remain[a]
	Nontariff restrictions	*Quotas, licenses, and tendering practices*	*Concluded*	Bilateral negotiations with some WTO members remain[a]
	Services	*Business, communication, construction, distribution, education, environmental, financial,* health & social services, *tourism & travel,* recreation & sport, *transport,* and other	*Concluded*	Bilateral negotiations with some WTO members remain[a]
	Agriculture	*Tariffs, tariff-rate quotas*	*Concluded*	Bilateral negotiations with some WTO members remain[a]
Protocol and working party report commitments		Export subsidies, domestic support	Not subject to bilateral negotiation	Minor differences remain
	Trade framework	(1) China's trade regime: uniform administration, special economic areas, transparency, and judicial review; (2) nondiscrimination; (3) special trade arrangements; and (4) the right to trade	Not subject to bilateral negotiation	Agreement[b]
	Intellectual property rights	Patents, trademarks, & copyrights	Not subject to bilateral negotiation	Agreement[b]
	Standards and regulatory measures	Technical standards, import and export licensing requirements, sanitary and phytosanitary measures, customs valuation	Concluded[c]	Minor differences remain
	Compliance and monitoring mechanisms	*Product-specific safeguard, textile safeguard, methodology for assessing practices of nonmarket economies,* general safeguard, and transitional review mechanism	*Concluded*	Minor differences remain
	Trade-distorting industrial policies	*Subsidies, state trading, trade-related investment and other measures,* and price controls	*Concluded*	Differences remain
	Foreign currency reserves-related restraints on trade	Balance of payments measures and foreign exchange controls	Not subject to bilateral negotiation	Differences remain
	Other	*Government procurement, civil aircraft,* taxes & charges	*Concluded*	Differences remain

Note: Topics in italics were, at least in part, addressed in the November 1999 U.S.-China Agreement on Market Access.

[a]Results of China's bilateral negotiations with all WTO members on this issue are consolidated and are subject to verification. In some cases, WTO members and China must also agree on text to appear in China's protocol or working party report.

[5]Agreement in this area is subject to China and the WTO working party members reaching agreement on the final text of the protocol and working party report, which may include drafting or revising language describing China's commitments regarding individual topics.

[6]The April 1999 U.S.-China Agreement on Agricultural Cooperation addressed a number of WTO related sanitary and phytosanitary (health and food safety) measures; a few remaining issues are being addressed outside of the WTO negotiations.

Source: GAO analysis of negotiating record.

Although negotiations in these four broad areas are conducted bilaterally, any agreement reached between two countries will apply to all WTO members, as the most-favored-nation principle requires. Because China's final commitments will reflect the best made to any WTO member, the final commitments will probably improve on those made to the United States in November 1999 to some degree. China must still conclude bilateral negotiations with seven other WTO members, most notably the European Union. Once all these bilateral negotiations are completed, all of China's commitments must be consolidated and verified by the WTO working party.

China's Multilateral Negotiations Have Not Been Completed

In the multilateral negotiations, China has been negotiating specific terms with a working party of WTO members, including the United States, on how it will adhere to the obligations and responsibilities of WTO membership. For example, whether or not China will be able to take advantage of longer phase-in or phase-out periods sometimes afforded developing countries to implement its obligations under certain WTO agreements will be specified. These multilateral negotiations are conducted with the understanding that "nothing is definitively agreed until everything is agreed." Even in those areas where China and WTO members have reached general agreement, the protocol text must still be revised and finalized. Moreover, the draft working party report still requires extensive amounts of text to be drafted to capture China's commitments on implementation and to document the history of the negotiations.[8]

There has been much progress in the multilateral track, based on our review of the negotiating record. The WTO working party on China's accession, which had not met since July 1998, met in March 2000 and restarted the multilateral negotiations. Working party members reviewed the status of the negotiations, and China provided updated information on its foreign trade regime and a related listing of Chinese laws and

[8]U.S. Trade Representative officials have noted that China's working party report could end up being over 100 pages long, while the current draft is about 11 pages.

regulations. The United States and China reached bilateral agreement on certain "multilateral" subjects in November 1999, which should help speed future progress in concluding the multinational negotiations. Nevertheless, WTO working party members must still reach agreement among themselves and with China on a number of issues before the accession process can move forward. Although much of the draft protocol and working party report have generally been agreed upon, they have not been revised since May 1997, in part because the negotiators had focused on the bilateral negotiations. Furthermore, there are a number of areas where China must still provide WTO members information on its trade practices.

Multilateral Agreement in Two Areas

China and WTO working party members, including the United States, have generally reached agreement on issues in two broad areas. China has made commitments to

- change its trade framework to (1) ensure uniform and transparent administration of its trade regime subject to judicial review; (2) guarantee foreign enterprises the right to trade (import and export) after a 3-year phase-in period;[9] and (3) change some of the practices of its special economic areas, which are geographic zones within China created partly to attract foreign capital and foster economic development and
- expand intellectual property rights by implementing the WTO agreement on Trade-related Intellectual Property Rights upon accession, which covers patents, trademarks, and copyrights, among other things.

Minor Differences Remain in Two Areas

Chinese negotiators have reached agreement with WTO members on most issues involving standards and regulatory practices and compliance and monitoring mechanisms. However, there are still some outstanding issues in both areas.

[9]Negotiations will continue over how China will phase in these trading rights.

With respect to standards and regulatory practices, the Chinese have made commitments about how the Chinese will apply health and safety measures,[10] license imports and exports, generally value imports (for customs purposes) under WTO rules, and make these practices transparent (open). Nevertheless, agreement needs to be reached concerning how China will bring its administration of standards into compliance with WTO requirements. Standards are the technical and product criteria for inspecting, certifying, registering, and giving laboratory accreditation to goods or services.

Although not yet agreed to by the WTO working party, U.S. and Chinese negotiators reached agreement on most monitoring and compliance provisions. Importantly, China agreed to a 12-year, product-specific safeguard that would allow WTO members to take action against import surges of Chinese products that are causing "market disruption." Similarly, China agreed to provide WTO members safeguard protection against surges in Chinese textile imports until December 31, 2008, 4 years beyond what is permitted under WTO rules. The United States and China also reached agreement about provisions for mitigating the unfair trade practices of dumping (selling below market value) and subsidizing exports. China agreed to allow WTO members to use alternatives to China's domestic prices and costs for calculating antidumping margins for 15 years from China's accession. China also agreed to a similar provision for identifying Chinese subsidies and calculating a countervailing duty, but this provision does not expire. U.S. Trade Representative officials told us they are confident that other WTO members will accept these bilateral commitments with no substantive changes.

The working party has not yet reached agreement with China on another proposed monitoring and compliance provision that would allow WTO members to review China's implementation of its WTO commitments and assess its overall progress in making economic and trade reforms. This transitional review mechanism issue remains open and will be dealt with further in the working party. Also, in return for other commitments, notably

[10]In April 1999, the United States and China concluded a separate but related bilateral Agreement on U.S.-China Agricultural Cooperation, which addressed some health and food safety issues. The agricultural cooperation agreement eliminated Chinese bans on importing certain U.S. agricultural commodities, including wheat and other grains, meat, and citrus, which the Chinese contended were a health risk. U.S. negotiators told the Chinese this agreement was important to demonstrate their willingness to abide by WTO requirements for sanitary and phytosanitary measures.

the strong, product-specific safeguard, the United States dropped its objective to have China agree to a "general safeguard" that would have allowed WTO members broader discretion to suspend some or all WTO benefits to China.

Differences Remain in a Few Other Areas

Chinese and working party negotiators still must resolve differences in 3 of the 11 areas under negotiation—trade-distorting industrial policies, primarily subsidies; restraints on trade related to foreign currency reserves; and "other" issues, most notably government procurement. While negotiators have made progress on some individual issues, differences remain over other issues. U.S. negotiators have noted that these areas, which are generally subject to multilateral negotiations, have not been discussed with the Chinese in recent years in the working party. However, the November 1999 U.S.-China bilateral agreement included some draft language that seemed to narrow the differences on some topics.

The first area where there are differences to resolve is China's trade-distorting industrial policies. Specifically, while China has agreed to eliminate certain subsidies (financial assistance) prohibited by the WTO agreements, Chinese and working party negotiators must agree on which WTO trade remedies WTO members will be able to use against other types of Chinese subsidies, if they are shown to adversely impact a member. Similarly, while China has made commitments restraining its use of trade-related restrictions on foreign investment, and price controls, and to abide by existing WTO rules regarding government-sanctioned enterprises (state trading), it must, for example, reach agreement with working party members over the final lists of affected products. Notwithstanding these differences, in November 1999, U.S. and Chinese negotiators reached bilateral agreement on defining what constitutes subsidies for China's state-owned enterprises, on what products will be imported by China's state trading enterprises, and a Chinese commitment that various activities of state-owned and state-invested enterprises will based solely on commercial considerations (without government influence.) They also agreed on when China will discontinue WTO-prohibited practices that impose trade-related conditions on foreign investments and similar practices, including technology transfer requirements.

The second area is China's potential use of foreign currency reserves-related restraints on trade. WTO working party members have been concerned about China potentially using WTO provisions on balance of payment and foreign exchange controls to inappropriately restrict trade.

Under the WTO agreements, members are allowed to temporarily restrict imports or access to foreign currency under certain adverse macroeconomic conditions in order to increase foreign currency reserves. China has made changes in its currency exchange regime since the working party last had substantive discussions in this area several years ago, and WTO negotiators must decide on what provisions, if any, are necessary.

The third area where negotiators have differences to resolve is a group of miscellaneous topics that could have a significant trade impact. For example, WTO members have asked China to agree to begin negotiations on the trade-liberalizing obligations of the Agreement on Government Procurement and the Agreement on Trade in Civil Aircraft, both of which are optional for WTO members. China has not made offers to join either agreement. However, in its November 1999 bilateral agreement with the United States, China agreed that purchases by state-owned or state-invested enterprises would be based on commercial considerations and would not be considered government procurement, which is otherwise exempt from WTO obligations.[11]

Agency Comments and Our Evaluation

We obtained oral comments on a draft of this report from various officials at the Office of the U.S. Trade Representative, which included the views of the General Counsel. The Office provided us technical and clarifying comments on our draft report, which we incorporated as appropriate. While they generally agreed with the contents of our report, U.S. Trade Representative officials had concerns about our grouping issues under negotiation and had different opinions than GAO about the importance of unresolved areas and on the relative value of particular commitments. We did not attempt to weigh the importance of the issues under negotiation, and we believe that our analysis presents Congress with an objective framework for understanding the many issues being negotiated, as well as their status.

[11]Chinese negotiators have agreed to commitments on another miscellaneous topic—regarding China's ability to apply taxes and charges (other than tariffs) on trade. However, China and working party members still have minor differences to negotiate over what exports will be subject to duties.

Scope and Methodology

This report is based on our past and ongoing work on China trade issues;[12] our review of WTO and executive branch documents; U.S. law; related literature; economic literature; and our discussions with U.S. government, WTO, and foreign government officials. More specifically, to assist Congress in its oversight and upcoming debate on U.S.-China trade policy, we updated our past work on the status of the WTO accession negotiations and the results of the negotiations. We reported some of this information in a March 17, 2000, report. We extracted certain sections of our September 30, 1999, report (including all our summary tables and graphs) that were subsequently declassified by U.S. Trade Representative officials and updated them to reflect new developments in the negotiations based on the November 1999 agreement, other executive branch documents, and meetings with U.S. government officials. Our methods of analysis are described in more detail in our 1999 report.

We conducted our work from November 1999 through May 2000 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Honorable Charlene Barshefsky, the U.S. Trade Representative; the Honorable William M. Daley, Secretary of Commerce; the Honorable Dan Glickman, Secretary of Agriculture; the Honorable Lawrence F. Summers, Secretary of the Treasury; and interested congressional committees. Copies will be made available to others on request.

For future contacts regarding this report, please call me at (202) 512-4128. Other GAO contacts and staff acknowledgments are listed in appendix II.

Susan S. Westin

Susan S. Westin, Associate Director
International Relations and Trade Issues

[12]See a list of some related GAO products at the end of this report.

China's World Trade Organization Commitments

China has made substantial progress toward completing its negotiations to join the World Trade Organization (WTO). In this appendix, we describe China's commitments as of May 2000 and describe the issues under negotiation in each of the areas, as appropriate. To group the major issues, we developed an analytical framework that encompasses both the bilateral and multilateral negotiations. Specifically, we grouped the many market access issues in the bilateral negotiations into four broad areas: (1) tariffs; (2) nontariff restrictions; (3) access to services markets; and (4) agricultural trade practices, although some topics in the latter area are negotiated on a multilateral basis. We grouped the many issues under consideration in the multilateral negotiations into seven broad areas: (1) China's trade framework, (2) intellectual property rights protection, (3) standards and regulatory measures, (4) compliance and protection measures, (5) trade-distorting industrial policies, (6) foreign reserves-related restraints on trade, and (7) other miscellaneous issues.

Commitments Subject to Bilateral Negotiations

Tariffs

Although the United States and China reached agreement in November 1999 on China's tariff commitments,[1] China must still conclude bilateral negotiations with some other countries before its WTO tariff commitments can be finalized. The high levels of tariffs that China imposes on its imports—these tariffs can be as high as a prohibitive rate of 100 percent on some goods—have been a concern to negotiators. Since these tariffs have the effect of restricting the amount of goods that China imports, negotiators asked China to "bind"[2] all its tariffs at a certain level. According to their particular commercial interests, each working party member, including the United States, also requested particular rates on

[1]A tariff is like a tax, in that China (or any other country) collects a fee based on a given percentage value of an imported product or a specific rate per unit of the product.

[2]In international trade, the concept of "binding" is defined as a legal obligation not to raise tariffs on particular products above the rate specified in the country's "schedule of concessions." Bound tariffs provide greater commercial certainty by creating a ceiling on tariffs that a country can apply.

some of the 6,450 products (industrial and agricultural goods) that China trades.

In November 1999, the United States and China reached bilateral agreement on China's bound tariff rates[2] (see table 2). China's average tariff would fall from its 1999 rate of 16.9 percent to 10.2 percent (see fig. 1). On industrial products, the overall average would be 9.4 percent, and on agricultural products, 16.8 percent. For agricultural products the United States considers priorities, the average rate would be 14.7 percent. These reductions would be phased in over time (see fig. 2). China's actual, or "applied," tariffs have decreased during the negotiations in the past several years. China's average applied tariff decreased from 42.8 percent in 1992 to 16.9 percent in 1998. Figure 1 illustrates the decline in China's applied tariff rates from 1992 to 1998 and the final, agreed-upon tariff average. Nevertheless, China would need to reduce its tariffs further in all sectors to match the final rates agreed upon with the United States in November 1999 (see table 3).

Table 2: Results of U.S.-China Tariff Negotiations

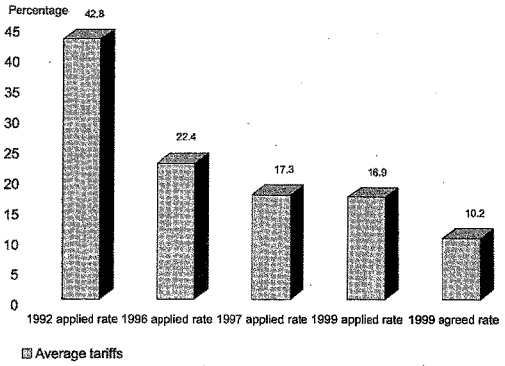
	China's applied tariff rates (1999)	U.S.-China agreed tariff rate (November 1999)	Difference between 1999 applied rate and agreed rate
All products	16.9%	10.2%	6.7%
Industrial products overall	16.3	9.4	6.9
Industrial products with a particular request	16.6	8.2	8.4
Agriculture overall	21.4	16.8	4.6
Agriculture priorities[a]	30.8	14.7	16.1

[a]The U.S. request on agriculture products focused on high-priority items out of the 900-plus items on China's tariff schedule.

Source: GAO analysis.

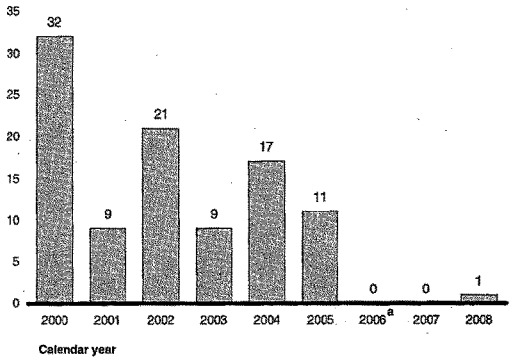
[2]These rates are subject to verification and correction and may improve if other countries achieve larger concessions in their bilateral negotiations.

Figure 1: China's Applied Tariff Rates, 1992-1999, and Agreed Rate Under the November 1999 U.S.-China Bilateral Agreement



Source: GAO analysis.

Figure 2: Percentage of Potential U.S. Exports to China by Year in Which Final Tariff Rate Is Achieved, 2000-2008



Note: Potential exports are a GAO proxy representing the U.S. export potential to China as a WTO member, and were used in order to account for the trade-distorting effects of existing tariff barriers.

[a]In November 1999, the United States and China agreed to phase-in tariff cuts for some autos and auto parts by 2006 (rather than 2005) with larger reductions in the tariff rates for these products in earlier years. However, these changes are not included in our analysis and some percentage of potential U.S. exports to China will have the final tariff rate phased in by 2006 rather than 2005.

Source: GAO analysis.

Table 3: China's Applied and Agreed Tariff Rates by Sector

Sector	China's applied rates, 1999 (percent)	U.S.-China agreed rates November 1999 (percent)	Difference between China's applied rates and agreed rates	U.S. 1998 exports to China (millions)	Tariff rate phase-in period (years)
Autos, vehicles, and auto parts	28.2	12.1	16.1	$3,746	2.5[a]
Textiles and apparel	25.3	12.1	13.2	173	4.1
Prepared foods, beverages, spirits, and tobacco	29.4	22.4	7.0	87	1.7
Wood, paper, and leather products	13.6	7.6	6.0	770	2.0
High-tech apparatus	14.6	8.8	5.8	4,892	1.7
Miscellaneous manufactured goods	20.1	14.3	5.8	100	1.6
Animal and plant products	19.5	14.1	5.4	218	2.0
Chemicals, plastics, and minerals	10.5	6.9	3.6	2,198	1.5
Low-tech manufactured goods and base metals	10.1	7.2	2.9	423	0.9
Nonmetallic minerals and jewelry	17.1	14.2	2.9	116	0.8

[a]In November, the United States and China agreed to phase in tariff cuts for some autos and auto parts by 2006 (rather than 2005) with larger reductions in the tariff rates for these products in earlier years. However, these changes are not included in our analysis and the tariff rate phase-in period will be somewhat longer.

Source: GAO analysis.

Nontariff Restrictions

U.S. and Chinese negotiators reached bilateral agreement in November 1999 on eliminating China's nontariff measures that restrict trade in industrial goods (see table 4). However, bilateral negotiations with some other WTO members remain before China's commitments in this area can be finalized. China's commitments with the United States would eliminate or phase out these restrictions, which affect a variety of product categories, within 5 years (see fig. 3). These commitments are subject to verification and rectification (minor corrections.) In 1998, these restrictions applied to over 8 percent of U.S. exports to China (see table 5). WTO members have voiced concern regarding China's nontariff restrictions on imports, including (1) quantitative limits China imposes on imports (quotas), (2) Chinese requirements that companies obtain governmental approval and submit documentation before importing (licenses), and (3) requirements that private citizens obtain government approval before making major purchases (tendering). China provides little transparency regarding the quantity or value of products that are subject to these measures, according to the U.S. Trade Representative. Article XI of the

1994 General Agreement on Tariffs and Trade generally prohibits quantitative restrictions on trade.

Table 4: Results of WTO Negotiations on China's Nontariff Measures, as of May 2000

Negotiating topic	In the WTO multilateral negotiations, China	In the November 1999 U.S.-China bilateral negotiations, China
Existing nontariff measures	Must conclude bilateral negotiations with some other WTO members	Agreed to eliminate or phase out quotas, licenses, and tendering restrictions on 282 products,
		Agreed that the longest phase-out period would last 5 years
		Agreed that the size of quotas to be phased out would grow during this period from a negotiated base rate[a] for each product according to a negotiated growth rate
New nontariff measures	Has agreed to not implement new nontariff measures during the negotiations	Not subject to bilateral negotiation
	Has agreed to not implement new nontariff measures following accession	Not subject to bilateral negotiation
Implementation	Agreed that any import or export restrictions will be implemented only by national authorities	Not subject to bilateral negotiation

[a]"Base rate" refers to the amount imported during a certain "base year" that will serve as the "base" for calculating the import levels allowed under quota in later years, based on the growth rate.

Source: GAO analysis.

Table 5: Results of U.S. China Negotiations on Goods Subject to Phaseout of China's Nontariff Measures

	Number of products subject to nontariff restrictions			Average phaseout period (years)					
GAO product category	L&Q	T	Total	L&Q	T	Total	Longest phaseout (years)	Value of U.S. exports to China, 1998 (millions)[a]	Percent of U.S. exports to China, 1998
Chemicals, plastics, and minerals	43	0	43	2.4	N/A	2.4	4	$878	6.5%
Textiles and apparel	26	0	26	1.0	N/A	1.0	N/A	11	0.1
High-tech manufactured goods	52	75	127	1.8	2.0	1.9	4	216	1.6
Autos, vehicles, and auto parts	71	9	80	4.0	2.7	3.8	5	23	0.2
Miscellaneous manufactured goods	6	0	6	3.0	N/A	3.0	3	0.004	0
Total	**198**	**84**	**282**	**2.7**	**2.0**	**2.5**	**5**	**$1,128**	**8.4**

Legend
L&Q = licenses and quotas
T = tendering
N/A = not applicable

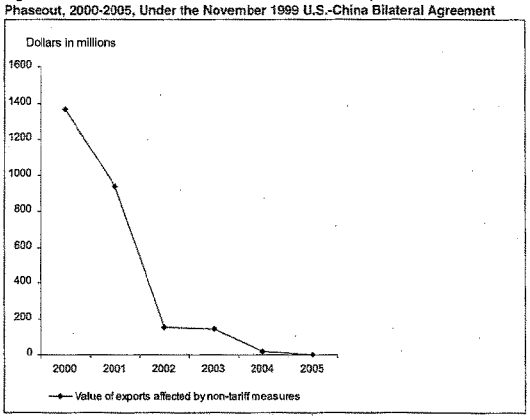
Note 1: Numbers may not add up precisely because of rounding.

Note 2: No products have both licenses and quotas and tendering restrictions placed on them. All quotas are accompanied by a license.

[a]The export value is only for those items with a nontariff measure.

Source: GAO analysis.

Figure 3: Value of China's Nontariff Restrictions on U.S. Exports and Their Phaseout, 2000-2005, Under the November 1999 U.S.-China Bilateral Agreement



Note: Based on actual U.S. exports to China in 1998.

Source: GAO analysis.

Services

The United States and China reached agreement on China's service sector commitments in November 1999, although China must still conclude bilateral negotiations with some other countries before finalizing its WTO services commitments. Trade in services is fundamentally different than trade in goods, in that services are not physical items that are shipped across a border. Some services covered by the 12 general sectors[4] are supplied across borders, such as an overseas telephone call, or by people who cross borders either to obtain or deliver a service, such as a patient or doctor traveling for medical treatment. However, other services are supplied through establishing a commercial presence in the country, often through foreign investment, such as a bank selling financial services.

In November 1999, the United States and China reached agreement on China's commitments to open its services sector.[5] China agreed to open 9 of its 12 service sectors—including all those that were identified as U.S. priorities—to foreign service providers, though with some specified limitations (see table 6). Individual WTO members' commitments vary widely in scope and depth and usually do not include all 12 service sectors. As the world's largest exporter of services, with 1997 exports valued at about $230 billion by the WTO, the United States seeks access to China's growing services market. Only 2 percent of U.S. services exports currently go to China.

[4]The WTO categorizes services into 12 general service sectors: (1) business; (2) communication; (3) construction; (4) distribution; (5) education; (6) environmental; (7) financial; (8) health and social (other than medical, dental, and similar professional services); (9) tourism and travel; (10) recreation, cultural, and sporting; (11) transport; and (12) other services.

[5]These commitments are subject to verification and correction and may improve if other countries achieve larger concessions in their bilateral negotiations.

Table 6: China's Service Sector Commitments in November 1999 U.S.-China Bilateral Agreement

12 WTO service sectors and key subsectors[a]	Commitments upon accession on foreigners' access that are eliminated or reduced, and phaseout periods	Final commitments on foreigners' access
1. Business		
Professional:		
• legal	Quantitative[b] and geographic location limits eliminated after 1 year	Open, with limitations on scope of business, legal forms of establishment, professional requirements, other[c]
• auditing, accounting, taxation, etc.	Limits on legal form of establishment and share of foreign equity investment (taxation only) are eliminated after 6 years	Otherwise, open upon accession, with professional requirements[c]
• architectural, engineering, etc.	None	Open upon accession, with limitations on cross-border supply, legal forms of establishment, professional requirements[c]
Computer & related	Some (maintenance and repair only) legal forms of establishment, share of foreign equity investment limits liberalized after 1 year and eliminated after 3 years	Otherwise, open upon accession, with professional requirements, scope of business limitations;d some limitations on legal forms of establishment and cross-border supply of software implementation services
Rental & leasing	Limits on legal forms of establishment and share of foreign equity investment liberalized after 1 year and eliminated after 3 years	Open, with some scope of business limitations[d]
Other business services[e]	Legal forms of establishment, share of foreign equity investment limits in about ¼ of the subsectors liberalized in 1 or 2 years and eliminated in 3, 4, or 6 years	½ subsectors open, with cross-border supply, legal forms of establishment, or other limitations in about ½ the opened subsectors
2. Communication		
Courier	Legal forms of establishment and share of foreign equity investment limits liberalized after 1 year and eliminated after 4 years	Open
Basic telecommunications	Generally no new access for 3 years,[f] then initial cross-border supply and share of foreign equity investment limits liberalized after 3 and 5 years; geographic location limits liberalized after 5 and eliminated after 6 years	Open, with limitations on cross-border supply, legal forms of establishment, share of foreign equity investment (49%), and scope of business[c, d]
Value-added telecommunications	Limits on cross-border supply and share of foreign equity investment liberalized after 1 and 2 years; those on geographic location liberalized after 1 year and eliminated after 2 years	Open, with limitations on cross-border supply, legal forms of establishment, and share of foreign equity investment (50%)
Audio-visual	None	Open upon accession, with limitations on legal forms of establishment, and some share of foreign equity investment (49%), scope of business,[d] and quantitative limits
3. Construction	None	Open upon accession, with limitations on scope of business, legal forms of establishment, and other limitations

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12 WTO service sectors and key subsectors[a]	Commitments upon accession on foreigners' access that are eliminated or reduced, and phaseout periods	Final commitments on foreigners' access
4. Distribution		
Wholesale trade & commission agents	No market access for distribution of imported goods until after 1 year, then initial limits on legal forms of establishment and share of foreign equity investment, liberalized after 2 and eliminated after 3 years; some other product limitations eliminated in 3 or 5 years	Open, with limitations on cross-border supply and some other limitations[c]
Retailing	Some limits on legal forms of establishment, share of foreign equity investment, geographic location, and quantitative limits liberalized after 2 and eliminated after 3 years; some other limitations eliminated after 1, 3, or 5 years	Open, with limitations on cross-border supply, and some legal forms of establishment, share of foreign equity investment (49% in large stores & chains), scope of business, and other limitations
Franchising & other	No market access for distribution of imported goods until after 3 years	Open
5. Education	None	Open upon accession, with limitations on cross-border supply, scope of business, legal forms of establishment, professional requirement, and other limitations
6. Environmental	None	Open upon accession, with limitations on cross-border supply, scope of business, and legal form of establishment
7. Financial		
Insurance	Limits on share of foreign equity investment liberalized after 1 and 2 years; geographic location liberalized after 2 and eliminated after 3 years; scope of business limitations liberalized after 4 and some eliminated after 5 years	Open, with some cross-border supply, scope of business, legal forms of establishment, share of foreign equity investment (50% in life insurance), and other limitations
Banking	Limits on geographic location liberalized each year; some scope of business liberalized after 2 years; these and quantitative and some other limitations eliminated after 5 years	Open, with cross-border supply, scope of business, and other limitations[c]
Securities	Some limits on legal forms of establishment, share of foreign equity investment, scope of business liberalized after 3 years	Open, with cross-border supply, scope of business, legal forms of establishment, foreign equity investment (33, 49%), and other limitations
Advisory and other financial services	None	Open upon accession, with limitations on cross-border supply
8. Health & Social (other than medical and dental)	None	No commitments
9. Recreation, cultural & sport	None	No commitments
10. Tourism & travel related	Legal forms of establishment, share of foreign equity investment, geographic location area, some scope of business, and other limitations liberalized or eliminated after 3 or 5 years	Open, with limitations on scope of business[d] and other limitations[c]

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12 WTO service sectors and key subsectors[a]	Commitments upon accession on foreigners' access that are eliminated or reduced, and phaseout periods	Final commitments on foreigners' access
11. Transport	Some legal forms of establishment, share of foreign equity investment, liberalized and/or eliminated after 1, 3, 4, or 6 years	Seven of nine subsectors open, with various limitations on cross-border supply, legal forms of establishment, scope of business,[d] quantitative and/or other limitations[e]
12. Other	None	No commitments

[a]For purposes of analysis, these commitments are organized according to the standard WTO listing of services and not by the organization in the text of the November 1999 agreement.

[b]Quantitative limits include restrictions on the number of service providers and/or times a service can be provided.

[c]Also, fees and charges for some services are subject to state pricing under protocol provisions on price controls.

[d]Scope of business is limited by the specific exclusion of one or more services from China's proposed commitments.

[e]Includes advertising; management consulting; technical testing and analysis; scientific and technical consulting; maintenance & repair of equipment; photographic; packaging; convention; and translation and interpretation services.

[f]Paging and mobile services commitments begin earlier and are phased in faster than other basic telecommunication commitments.

Source: GAO analysis.

China's market has remained essentially closed to foreign service providers, according to U.S. Trade Representative reports. Foreign service providers are often only allowed to operate under selective "experimental" licenses and are restricted to conducting business in specific geographic areas and to a specific scope of operations. Similarly, investment restrictions limit how foreigners may establish a commercial presence; for example, they may be forced into a joint venture with Chinese partners and not be allowed to establish a wholly owned subsidiary. Moreover, China treats foreign service suppliers differently than domestic firms; that is, it denies them national treatment. China's policies favor domestic firms over foreign firms and impose significant administrative restrictions on foreign firms but not domestic firms.

Multilateral rules covering trade in services have only existed since January 1995, when the WTO General Agreement on Trade in Services went into force. While there is a framework of rules that WTO members follow, these rules apply only where a country makes a specific commitment to grant access to foreign services, and exemptions are allowed. Individual WTO members each have specific commitments in individual service sectors and have granted market access subject to specified limitations, such as those on the number or scope of business that is permitted. Thus, there is no

general requirement that WTO members open their services market to foreigners and grant them national treatment.

Agriculture

The United States and China reached agreement on many agricultural issues in November 1999. However, China has yet to conclude bilateral market access negotiations with some WTO members on agricultural tariffs and related topics. In addition, minor differences remain on protocol and working party report commitments on agriculture topics under multilateral negotiation. While China made commitments to the WTO working party to eliminate export subsidies, there are outstanding issues to resolve concerning China's domestic support to its farmers. (See table 7 for the status of the agriculture negotiations.)

Table 7: Status of Negotiations on Agriculture, as of May 2000

Agriculture issue	In the WTO multilateral negotiations, China	In the November 1999 U.S.-China Bilateral negotiations, China
Tariffs	Must conclude bilateral negotiations with some other WTO members	Agreed to reduce tariffs on all agricultural items to 16.8 percent and on priority items to 14.7 percent
Tariff-rate quota system for bulk commodities	Must conclude bilateral negotiations with some other WTO members	Agreed to provide managed market access for specific products (see table 8 for details)
Domestic subsidies	Will cap and reduce the amount of its domestic support under the WTO agriculture agreement. However, negotiations continue on what is counted as a subsidy and on the level of reduction	Not subject to bilateral negotiation
Export subsidies	Has agreed to zero export subsidies on all agricultural products	Not subject to bilateral negotiation

Source: GAO analysis.

In November 1999, U.S. and Chinese negotiators reached agreement on tariff reductions for agricultural products, including substantial tariff reductions on items the United States deems as "high-priority," and foreign access opportunities for other key agricultural commodities negotiated as part of a "tariff-rate quota" (TRQ) system, which is explained later. China committed to reduce its overall agricultural tariffs to an average of 16.8 percent (see table 2), which is a 4.6 percent decrease. For 62 of the 942 products, China will meet these tariff commitments upon its accession to the WTO; for the remainder, it will phase in its final agreed rate to meet the agreed level by 2004.

U.S. and Chinese negotiators also reached agreement on specific rules for how China would administer a TRQ system to provide controlled market access for several sensitive bulk agricultural commodities, including wheat, corn, rice, and cotton, among others (see tables 8 and 9). These changes are intended to improve predictability, expand private competition, reduce state intervention, and increase the transparency of the system. China's TRQ system, like those currently used by the United States and other WTO members on some products, would allow imports to enter at a low tariff rate up to an agreed quota level, with any additional imports to be taxed at a higher tariff rate. Exporters from different foreign countries would each compete for a share of the quota (see fig. 4). While much of this trade would go through Chinese state trading enterprises, which are discussed later, some private trading in these commodities would be allowed with provisions to help ensure that import quota amounts are used (see figs. 5 and 6 and table 9). China's quota commitments for wheat, corn, rice, and cotton appear generous in that U.S. 1998 exports of these commodities to China represent between less than 1 percent to 10 percent of China's initial quota commitments. They also represent between 6 and 27 percent of China's reported total imports in 1998. China's initial soybean oil commitment is approximately equal to U.S. Department of Agriculture estimates of China's total soybean oil imports from all countries in 1998.

Table 8: Results of November 1999 U.S.-China Negotiations on Administration of China's Tariff-rate Quota System

Negotiating issues	China agreed[a] to
Improve predictability	Set an annual quota allocation
Increase private competition	Reserve a portion of all quotas for private traders
	Reallocate and make available for import through any entity the state-traded quota portion not imported by certain date[b]
	Reallocate unused quota quantities; however, end-users cannot transfer import quota allocation so that allocation will eventually go to users with the strongest import interest
	Allow items under quota to be imported on a first-come, first-served basis or by request of applicants and their historical import performance, production capacity, or other relevant commercial criteria
Reduce state intervention between buyers and sellers	Allocate quotas directly to end-users
	Allow access to China's distribution system
	Allow end-users allocated state-traded share of quotas to import directly or through other entities after certain date
Increase transparency	Respond to inquiries on what entities received the quota allocations (there is no reporting to WTO of entities receiving quota allocations)

[a]Agreement on this topic is subject to China and the WTO working party members reaching agreement on the final text of the protocol and working party report, which may include drafting or revising language describing China's commitments regarding individual topics.

[b]Quotas represent import opportunities and are not minimum purchase requirements guaranteeing that the amounts will be completely used (imported).

Source: GAO analysis.

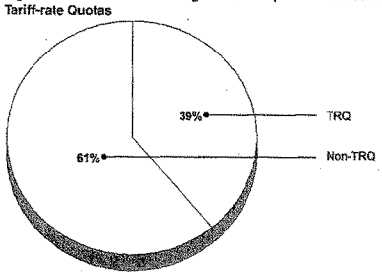
Table 9: Products Covered by Tariff-rate Quota Provisions in the November 1999 U.S. China Agreement

		Tariff Rate Quota provisions in November 1999 agreement					
Product	U.S. exports to China in 1998, value and metric tons (MT) exported	Initial quota quantity (million MT)	Final quota quantity (million MT)	In-quota tariff (percent)	Out-of-quota tariff (percent)	End of transition period that begins in 2000	Percent of quota reserved for private traders
Wheat (five products)	$46 million, 315,839 MT	7.3	9.6	Range: 1-10	80, reduced to 65	2004	10 - with no growth
Corn (five products)	$44 million, 366,553 MT	4.5	7.2	Range: 1-10	80 for most lines, reduced to an average of 51	2004	25 growing to 40
Rice (six products)	$288,844, 493 MT	2.7[a]	5.3	1 and 9	80 for most lines, reduced to an average of 43	2004	50 for short- & medium-grain rice; 10 for other rice
Soybean oil (two products)	$312 million, 521,835 MT	1.7	3.3	9	85, reduced to 9	2006	50 growing to 100
Cotton (two products)	$118 million, 77,014 MT	0.7	0.9	1	76, reduced to 40	2004	67

[a]There are subquota allocations for the overall quota on rice (50 percent for short or medium grain; 50 percent for long grain).

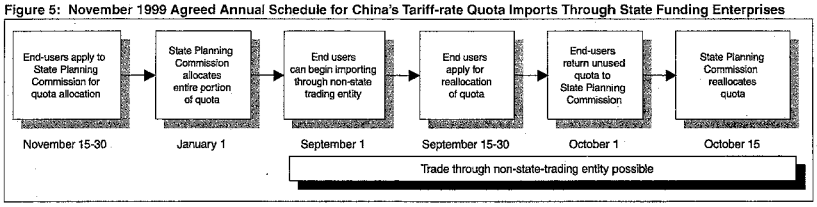
Source: GAO analysis.

Figure 4: Share of 1998 U.S. Agricultural Exports That Would Be Covered by Tariff-rate Quotas



Source: GAO analysis.

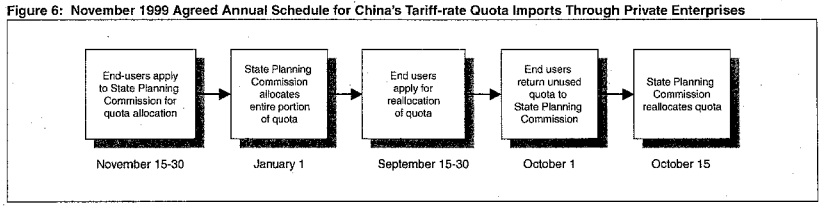
Figure 5: November 1999 Agreed Annual Schedule for China's Tariff-rate Quota Imports Through State Funding Enterprises



Note: The United States and China did not reach final agreement that the State Planning Commission is the administering authority; this issue will be decided in the multilateral negotiations.

Source: GAO analysis.

Figure 6: November 1999 Agreed Annual Schedule for China's Tariff-rate Quota Imports Through Private Enterprises



Note: The United States and China did not reach final agreement that the State Planning Commission is the administering authority; this issue will be decided in the multilateral negotiations.

Source: GAO analysis.

Commitments Subject to Multilateral Negotiations

China's Trade Framework

According to U.S. negotiators and WTO officials, the substance of commitments covering China's trade framework are agreed.[6] To become a WTO member, China will need to make significant changes in how it administers its foreign and domestic trade. China currently retains elements of a restricted system that discriminates against foreign firms despite its continuing transition to an open market economy. This framework covers a number of issues that would apply broadly to how China manages its trade regime.

More specifically, China's commitments in this area cover (1) transparency, (2) right to trade, (3) nondiscrimination, (4) uniform administration of China's trade practices, (5) special economic areas, (6) special trading arrangements, and (7) judicial review issues (see table 10). U.S. and private industry representatives have considered both the degree of transparency in China's trade regime, and the extent to which China provides both foreign and Chinese individuals and business firms the "right to trade," defined as the right to import and export goods and services, as two of the major issues in the negotiations. They have also been concerned about China's discriminating against foreign individuals and entities, applying its trade laws and other measures differently throughout China, providing preferential treatment to specially designated economic areas, and China's lacking independent adjudicating bodies to handle trade-related complaints.

[6]China's commitments in these areas are subject to China and the WTO working party members reaching agreement on the final text of the protocol and working party report, which may include drafting or revising language describing China's commitments regarding individual topics.

Table 10: Results of WTO Working Party Negotiations on China's Trade Policy Framework

Trade framework issue	Commitments agreed to in WTO protocol and working party report ensure that...
Transparency	China publishes trade measures in officially designated journal and allows public comment before implementation, but a minimum time period between publishing and implementing trade measures is still under negotiation
	China provides translations of trade measures into one or more official WTO languages before measures are implemented, to maximum extent possible
	China establishes central government inquiry point for providing official answers about trade measures
	China responds to most inquiries in 30 days and exceptional inquiries in 45 days
	China permits, and not does not claim as confidential, publication of initial quota levels and quota growth rates before quotas are implemented for a given product
Right to trade	China grants right to import and export goods[a] to all enterprises in China, to be phased in within 3 years of accession. Generally includes national treatment for distribution of goods. Subject to exceptions for some goods of state trading enterprises. How rights are to be phased in is still under negotiation.
	All foreign individuals and enterprises are provided trading rights no less favorable than Chinese enterprises
	Chinese enterprises can trade in all goodsb by a certain date, but no right to import and export given to Chinese individuals
	National treatment commitment applies both to granting and regulation of trading rights
Non-discrimination	China treats imported goods no less favorably than domestically produced goods for foreign individuals and enterprises, including foreign-funded enterprises, regarding procurement of goods and services necessary for production and prices and availability of goods and services supplied by public entities.[a]
	Additional protocol language that certain exceptions to nondiscrimination do not undercut commitments is still being considered by the working party
Uniform administration of trade measures	Trade measures are applied uniformly throughout China, including at subnational level, that is, provincial and local levels
	Types of trade measures are broadly defined
	China clearly defines territorial coverage of its commitments
	Trade measures, including at subnational level, are consistent with WTO rules
	Mechanism is established for receiving complaints regarding nonuniform application
	China treats goods and services of separate customs territories, such as Hong Kong and Macau, like those of other WTO members and does not grant preferential treatment to imports from China Taipei
Special economic areas	Goods and services entering rest of China from special economic areas receive same treatment as other imports
	China clarifies whether commitments to special economic areas would also extend to its open coastal cities and special economic and technological development zones
	China notifies WTO within 60 days and in an official WTO language—english, french, or spanish—of any changes in trade measures pertaining to special economic areas

Trade framework issue	Commitments agreed to in WTO protocol and working party report ensure that...
Special trading arrangements[c]	No specific commitment, but China must eliminate or conform all of China's special trade arrangements with WTO requirements
Judicial review	China establishes independent tribunals to review broad array of administrative actions regarding implementation of China's trade regime, including those involving balance of payments and some services
	China revises patent and trademark laws and regulations to be consistent with WTO commitments upon accession
	China provides a right of appeal in trade disputes to a judicial body if first appeal is to administrative agency

[a]Agreement in this area is subject to China and the WTO working party members reaching agreement on the final text of the protocol and working party report, which may include drafting or revising language describing China's commitments regarding individual topics.

[b]Consistent with usual WTO practice, trading rights and national treatment for services have been negotiated with China on a sector-by-sector basis.

[c]Most such arrangements relate to border trade, for example, local trade at the China-Russia border, and barter trade.

Source: GAO analysis.

Intellectual Property Rights Protection

China has agreed to implement the WTO's Agreement on Trade-Related Intellectual Property Rights upon accession, and thus negotiations have generally been concluded in this area. China's intellectual property rights laws are now approaching WTO norms, according to the U.S. Trade Representative. This agreement defines both the scope and enforcement procedures of intellectual property rights in various areas. These areas include copyrights, trademarks, patents, geographic indications (where particular characteristics of a good are related to its geographical origin), industrial designs, layout designs of integrated circuits (semiconductor chips), protection of undisclosed information (trade secrets), and control of anticompetitive practices in contracts. The agreement also provides recourse to the WTO's dispute settlement mechanism, which allows members to challenge the adherence of another member to the agreement. To implement the WTO agreement, China will need to make additional changes in its laws, some in the areas of copyrights and trademarks. According to U.S. Trade Representative officials, such changes would provide further protections to U.S. producers beyond those gained in existing bilateral agreements.

The adequate protection of intellectual property rights in China has consistently been a principal area of concern for the United States. Since 1986, the United States has engaged China in discussions over intellectual property rights protection and has signed bilateral agreements on such rights in 1992, 1995, and 1996. These bilateral agreements have prompted

China to make improvements in its laws governing intellectual property rights protections. Despite these improvements in both laws and enforcement, in 1999 the U.S. Trade Representative expressed concern that Chinese penalties did not act as a deterrent and noted problems related to trademark counterfeiting.

Standards and Regulatory Measures

WTO working party members and China have made progress in negotiating issues involving China's use of standards and regulatory measures to unfairly regulate trade, but some minor differences remain. Standards and regulatory measures include rules governing how (1) imports and exports are licensed, (2) standards and technical regulations are established,[7] (3) health and safety protection measures are set (sanitary and phytosanitary measures),[8] and (4) base values for applying customs duties are set (customs valuation).[9] (See table 11.) Agreement has generally been reached on most issues in this area, with additional work needed to determine how China will implement its commitments on standards and technical regulations. Also, China must still provide working party members information regarding its standards and health and safety measures, as agreed.

[7]Product standards may be voluntary, such as standards regulating the size of lead to put in a mechanical pencil or the meaning of a particular environmental symbol on a product's label; or they can be mandatory, such as nutritional labeling requirements for food or safety specification requirements. Such standards may also include specifications for the terminology, symbols, packaging, marking, or labeling of a product, process, or production method.

[8]Sanitary and phytosanitary measures are designed to protect a country's human, animal, or plant life or health. The relevant WTO agreement allows members to maintain such measures but requires that they be based on scientific principles.

[9]The WTO agreements also cover how a product's origin is determined (rules of origin) and how shipments should be inspected prior to export (preshipment inspection).

Table 11: Status of WTO Working Party Negotiations on Standards and Regulatory Measures

Issue	Provisions in WTO agreements that apply to all members	Specific provisions for China	Status of negotiations
Import and export licensing[a]	Procedures used for licensing, including automatic and nonautomatic licensing, intended to be transparent and not restrict trade unduly; Developing countries permitted extra time to phase in some rules	Implement upon accession	Agreement[b]
		Increase transparency and fairness of China's licensing, including additional notification requirements	
Standards and technical regulations[c]	Measures to be transparent, nondiscriminatory, and based on international standards where they exist; Developing countries allowed time to phase in some commitments	Increase transparency of existing and future measures	Still under negotiation
		Ensure national treatment by regulators	
		Reform certain inspection procedures and practices	
Health and safety measures[d]	Measures to be based on scientific principles and, where possible, international standards; Members to accept other members' measures as equivalent if demonstrated to be so; Members to assess the risks to human, animal, and plant life and health in setting measures; Measures to be based on regional conditions; Developing countries allowed time to phase in some rules	Implement upon accession	Agreement[b]
		Apply international standards where they exist	
		Eliminate existing unfair barriers	
Customs valuation[e]	Intend that members use a fair, uniform, and neutral system for valuing goods for customs purposes based on commercial practices; Set guidelines to determine the value of imports for charging appropriate customs duties; Developing countries generally allowed 5 years to implement agreement; that is, by the year 2000	Implement upon accession	Agreement[b]
		Amend laws to be consistent with agreement	
		Eliminate WTO-prohibited practices, such as basing customs values on set minimum prices	
		Resolve specific valuation issues on certain products	

[a]Under the Agreement on Import Licensing Procedures.

[b]Agreement in this area is subject to China and the WTO working party members reaching agreement on the final text of the protocol and working party report, which may include drafting or revising language describing China's commitments regarding individual topics.

[c]Under the Agreement on Technical Barriers to Trade.

[d]Under the Agreement on the Application of Sanitary and Phytosanitary Measures.

[e]Under the Agreement on the Implementation of article VII of the General Agreement on Tariffs and Trade.

Source: GAO analysis.

In the past, China has used a variety of standards and regulatory measures to limit imports into China, according to U.S. and private sector officials. China maintains separate regulatory agencies—one for imports and one for domestic products—that apply technical inspection standards.[10] The U.S. Trade Representative has also noted that major problems have existed with how China sets standards. For example, China's standards (1) are not transparent, (2) can differ for imports and domestic products, and (3) can differ from international standards for no apparent reason. U.S. and other foreign traders often have difficulty learning which of China's product standards apply to their goods. As a WTO member, China would make certain commitments not to use product standards or regulatory measures to unfairly limit imports.

Compliance and Protection Mechanisms

As a result of the November 1999 U.S.-Chinese agreement, significant progress has been made regarding compliance and protection mechanisms that would help WTO members monitor and respond to China's implementation of its WTO commitments. China agreed to a 12-year, product-specific safeguard; safeguard protection against surges in Chinese textile imports until December 31, 2008; and provisions for mitigating the unfair trade practices of dumping (selling below market value) and subsidizing exports. Nevertheless, assuming the terms of the November bilateral agreement are generally accepted by the other working party members, some minor differences remain to be resolved. Negotiations will continue over the issue of creating a mechanism to monitor China's actions during the transition period in which it implements its WTO commitments (see table 12).

[10]Under WTO rules, technical regulations refer to mandatory product standards, which define product characteristics and their related processes and production methods, including applicable administrative provisions.

Table 12: Status of WTO Negotiations on Compliance and Protection in Mechanisms

Compliance mechanism	Status of WTO multilateral negotiations	Provisions in November 1999 U.S.-China bilateral agreement[a]
Product-specific safeguard	Must finalize a provision to allow WTO members to avail themselves of a safeguard process that would help regulate import levels of specific products and guard against disruption of industries from surges of Chinese imports	China agreed to a product-specific safeguard based on an easier "market disruption" rather than "serious injury" standard for a duration of 12 years following China's accession
Textile safeguard	Must finalize a provision to allow WTO members to avail themselves of a safeguard that would help regulate import levels of textiles and apparel and guard against disruption of industries from surges of Chinese textile imports that is still under negotiation	China agreed to a textile safeguard that would extend to 2009 (4 years beyond what is otherwise permitted under WTO rules) provided that the WTO member has a bilateral textile agreement with China
Alternative methodologies	Must finalize a provision to allow WTO members to avail themselves of alternative methodologies for determining Chinese prices and subsidies in antidumping and countervailing duty cases that is still under negotiation	China agreed to allow WTO members to use alternative nonmarket economy methodologies for a duration of 15 years from accession for antidumping cases (provided that the WTO member has market economy criteria in its laws at the time of China's accession) and permanently for countervailing duty cases
General safeguard	China very strongly resists this proposed provision, which would allow WTO members to suspend WTO benefits to China if China is not implementing WTO commitments	Not addressed in bilateral agreement
Transitional review mechanism	Negotiations continue about establishing a special review body to assess China's compliance with terms of accession, especially with regard to scope of review and duration	Not addressed in bilateral agreement

[a]The working party must agree to these proposed bilateral commitments and incorporate them in the protocol and/or working party report together with any modifications.

Source: GAO analysis.

China has to make many reforms to comply with WTO rules, which are designed for market-based economies. However, working party members, including the United States, recognize the evolving nature of China's economy and that China will need some time to phase in some commitments. At the same time, WTO members want to protect their interests during this transitional period. As a result, the working party has considered including special transitional mechanisms in China's accession package to help monitor China's implementation of its commitments and safeguard their interests should China fail to live up to them. Special review provisions and safeguards were included in the accession protocols of some Eastern European countries to the General Agreement on Tariffs and Trade, including those of Poland, Hungary, and Romania. WTO rules already allow members to use safeguards when subjected to or threatened

by serious injury from imports of a particular product (or directly competitive products);[11] however, these safeguard measures cannot target specific countries—instead, they must be applied to products irrespective of their source.

Similarly, the United States and other WTO members currently limit imports of textiles and clothing through quotas under a WTO agreement. Imports from China are also limited on a bilateral basis. In 1997, China exported $6 billion in textile and apparel products to the United States, making it the largest exporter of such products in value terms.

Although a mechanism exists in the WTO to periodically review the trade policies of each WTO member, negotiators think the present "Trade Policy Review Mechanism"—which was designed as a broad review of members' trade regimes—is insufficient to oversee China's progress in implementing its accession commitments. Thus there have been proposals for creating a "transitional review mechanism" to better allow WTO members to monitor relevant changes in China.

Trade-distorting Industrial Policies

There are differences remaining between members of the WTO working party and China over China's pursuit of policies that promote and direct economic development in certain sectors while regulating others for social and political reasons. Negotiations in this area have included China's use of (1) subsidies, (2) state trading enterprises, (3) price controls, and (4) trade-related investment measures and other industrial policies. Negotiations between China and the WTO working party will continue, taking into account the bilateral progress made under the November 1999 U.S.–China agreement. In that agreement, China committed to implement the WTO agreement on trade-related investment measures upon accession and agreed to some provisions on investment requirements, subsidies, and state trading enterprises (see table 13).

[11]Under the WTO Agreement on Safeguards, "serious injury" means a significant overall impairment in the position of a domestic industry; "threat of serious injury" means a serious injury that is clearly imminent.

Table 13: Status of WTO Negotiations on China's Trade-distorting Industrial Policies

Issue	Status of WTO multilateral negotiations	Provisions in November 1999 U.S.-China bilateral agreement[a]
Subsidies	China has agreed to eliminate "prohibited" subsidies, but negotiatiions continue over when some will be eliminated	Not subject of bilateral agreement
	Negotiations continue over what remedies WTO members will be able to use against China's "actionable" subsidies	China's assistance to state-owned enterprises will normally be considered "specific" and *therefore potentially subject to countervailing duty actions under the WTO subsidy agreement.* WTO members maintain the right to use alternative benchmarks for identifying and measuring subsidies in countervailing duty investigations
	China will fully notify the WTO of all subsidies as defined by the WTO agreements, but most recent submission is not considered to be comprehensive	Not subject of bilateral agreement
State trading enterprises	China will abide by existing WTO rules governing the practices of state trading enterprises	Not subject of bilateral agreement
	Negotiations continue over the list of Chinese products that will be subject to state trading and when some products will be removed from the list	China will remove soybean oil from state trading by 2006 and permit private trade in some additional oils. Chemical fertilizer will be subject to state trading.[b]
	Negotiations continue over proposed commitments that Chinese state trading enterprises will refrain from certain export practices	Not subject of bilateral agreement
	Negotiations continue over commitments that Chinese state trading enterprises will refrain from certain import practices	China's state-owned and state-invested enterprises will make purchases and sales based on commercial considerations
Trade-related investment measures and other industrial policies	China has agreed to implement the WTO Agreement on Trade-related Investment Measures upon accession, which would eliminate laws, regulations, and policies requiring trade and foreign exchange balancing, local content, and export performance requirements	China agreed to implement the agreement on accession and will not enforce contracts imposing such requirements. Also, China agrees that imports or investment will not be conditioned on local content, offsets, technology transfers, or other peformance requirements.
Price controls	China has agreed to generally allow prices to be determined by market forces, with negotiated exceptions listed, and to end certain discriminatory price practices	Not subject of bilateral agreement
	China has tentativley agreed to not extend price controls beyond those listed, except "in exceptional circumstances," and to make "best efforts" to remove these controls	Not subject of bilateral agreement
	Negotiations continue on the list of products and services for which China will be allowed to maintain price controls	Not subject of bilateral agreement

[a]The working party must agree to these proposed commitments and incorporate them in the protocol and/or working party report together with any modifications.

[b]In May 2000, China agreed to provide controlled access for chemical fertilizer imports through a tariff-rate quota, according to U.S. Trade Representative officials. China's commitment would allow some foreigners to privately import fertilizer themselves, but would otherwise require any foreigners who distribute or sell foreign fertilizer in China to purchase it from a Chinese state trading company.

Fertilizer was the fourth largest U.S. export to China in 1998, accounting for $1 billion, or 8 percent, of U.S. exports to China.

Source: GAO analysis.

Specifically, while China has agreed to eliminate certain subsidies prohibited by the WTO agreements, Chinese and working party negotiators must agree on which WTO trade remedies members can use against other types of Chinese subsidies, if they are shown to adversely impact a member. The negotiations on subsidies involve (1) how WTO members will be able to apply the WTO Agreement on Subsidies and Countervailing Measures[12] to Chinese subsidies and (2) listing specific subsidy programs. The WTO agreement on subsidies categorizes subsidy programs into three groups: (1) "prohibited" subsidies, which are used to promote exports or replace imports (import substitution); (2) "actionable" subsidies, which are not used directly for export promotion or import replacement but which, if they are shown to adversely impact another member, may be forced to be modified or removed; and (3) "nonactionable" subsidies for research and development, disadvantaged regions, and adaptation of facilities to meet new environmental standards. The WTO subsidies agreement allows some countries phaseout periods for prohibited subsidies[13] and narrows the recourse to remedies members may take against some countries' actionable subsidies.[14] Working party members also seek more information from China on its use of subsidies, both at the central and the local level.

[12]Under the WTO subsidies agreement, subsidies include direct transfers of funds, forgone government revenue (for example, taxes), government-provided goods (free of charge), any indirect provision of these benefits, or any form of income or price support.

[13]Developing countries are granted 8 years from January 1, 1995, to eliminate export performance subsidies and 5 years to eliminate import substitution policies.

[14]Specifically, the agreement requires a higher level of proof to take an action against a developing country's subsides and limits the ability of members to challenge developing country subsidies that cause injury in a third country market.

Similarly, China has made commitments to abide by existing WTO rules governing government-sanctioned enterprises (state trading) and regarding its use of trade-related investment measures[15] and price controls. Nevertheless, it must reach agreement with working party members over the final lists of products subject to price controls and state trading,[16] as well as any other commitments regarding state trading enterprises' import or export practices. Notwithstanding these differences, in November 1999, U.S. and Chinese negotiators reached bilateral agreement on defining what constitutes subsidies for China's state-owned enterprises, on what products will be imported by China's state trading enterprises, and that various activities of state-owned and state-invested enterprises will, like state trading enterprises, be based solely on commercial considerations (without government influence.) They also agreed on when China will discontinue WTO-prohibited practices that impose trade-related conditions on foreign investments, as well as some other practices, including technology transfer requirements.

[15]These measures are government actions that constrain foreign investment and alter trade by designating foreign firms' export targets or by limiting their access to imports for production. Particular measures are prohibited by the WTO Agreement on Trade-related Investment Measures.

[16]China proposed to maintain import state trading for 8 product categories and export state trading for 18 product categories (both to be listed in an annex to the protocol). China proposed import state trading for wheat, corn, rice, vegetable oils, sugar, cotton, tobacco, chemical fertilizer, and crude and processed oil. China proposed export state trading for tea, maize, soybeans, coal, silk and unbleached silk, crude and refined oil, several kinds of cotton products, and a variety of tungsten and antimony products. In addition, China has agreed to eliminate "designated trading," which limits the right to trade in six products—rubber, timber, plywood, wool, acrylic, and steel—to about 60-100 specific "designated" companies. Restrictions on all products except steel will be eliminated after 3 years, at which point all companies would have the right to trade in these products. Restrictions on the right to trade steel products will be eliminated in 5 years.

Foreign Currency Reserves-related Constraints on Trade

The WTO working party and China have differences to resolve over China's potential use of WTO provisions intended to assist countries during a serious decline in their foreign currency reserves. China had foreign currency reserves in 1999 in excess of $150 billion, which are the second largest in the world. Nevertheless, WTO members are concerned that China might someday use the provisions on balance of payments measures and foreign exchange controls to regulate its imports and provide protection for specific domestic industries. The WTO agreements contain provisions that allow countries to temporarily impose restrictions on imports or access to foreign currency when faced with a deterioration of their holdings of foreign currency reserves. These provisions are intended to allow a country facing a serious decline in its monetary reserves to reduce the demand for foreign currency and to allow reserves to accumulate.[17] Restrictions on imports, known as "balance of payments measures," reduce domestic demand for foreign currency needed to purchase imports. Restrictions on access to foreign currency, known as "foreign exchange controls," directly limit the supply of foreign currency but also indirectly restrict imports since purchasers are not able to acquire foreign currency to purchase goods.

Other Issues

Differences remain on a few miscellaneous topics. For example, WTO members have asked China to consider WTO-related commitments in the areas of government procurement and civil aircraft. These topics are both covered by WTO "plurilateral" agreements, which WTO members can join if they volunteer to do so.[18] Some related progress was made on procurement issues as part of the November 1999 U.S.-China bilateral agreement. Negotiators have only minor differences over the third miscellaneous topic regarding the use of certain taxes and charges.

[17]The 1994 General Agreement on Tariffs and Trade recognizes the International Monetary Fund as the institution entrusted with determining what constitutes a "serious decline in the contracting party's monetary reserves, a very low level of its monetary reserves or a reasonable rate of increase in its monetary reserves," for purposes of executing foreign currency reserves-related policies.

[18]Currently, 12 WTO members, including the 15 members of the European Union, have undertaken obligations under the Agreement on Government Procurement and 25 under the Agreement on Trade in Civil Aircraft.

WTO members would like access to China's government procurement market, which is potentially the largest in the world. China's WTO obligations granting market access and equal treatment generally do not apply to goods and services procured by government agencies (for government purposes).[19] China has not offered to join the Agreement on Government Procurement, which has disciplines to make government purchasing decisions more transparent, fair, and open to foreign suppliers. China has only recently published its laws regarding its government procurement practices; seldom uses transparent and competitive bidding procedures in its procurement; and is subject to widespread official corruption, according to U.S. government reports. However, in the November 1999 agreement, U.S. and Chinese negotiators agreed that purchases by Chinese state-owned and state-invested enterprises would not be considered to be government procurement under the WTO agreements and therefore would not be exempt from WTO rules and obligations. Furthermore, as previously mentioned, the Chinese agreed to require that all state-owned enterprises and state-invested enterprises make purchases (and sales) based on specified commercial considerations and not based on the influence of the government.

WTO members have asked China to consider making commitments under the plurilateral Agreement on Trade in Civil Aircraft, which seeks to provide a comprehensive basis for free and fair trade in the aircraft sector. China is a major producer and purchaser of aircraft; in fact, aircraft represent the number one U.S. export to China. The agreement includes tariff-cutting provisions, pricing guidelines, and disciplines on the use of technology transfer requirements and other offsets on foreign aircraft suppliers and on using subsidies to support domestic producers. China has not offered to join this agreement. Nevertheless, China made commitments in the November 1999 agreement with the United States reducing tariffs and eliminating quotas on related products. Furthermore, China's general commitments broadening trading rights, limiting subsidies, and eliminating government local content and export performance requirements, as well as technology transfer and offset conditions on foreign investment (all of which will be subject to dispute settlement,) will help address concerns in this area.

[19]See articles II, XVI, and XVII of the General Agreement on Services, and article III of the 1994 General Agreement on Tariffs and Trade.

Chinese and WTO working party negotiators have only minor differences to negotiate concerning a third miscellaneous topic—the taxes and charges that China imposes on imported and exported goods in addition to tariffs. China and working party members are in agreement on most commitments regulating China's use of taxes and other charges on trade, but they still have to conclude negotiations on the list of products subject to export duties. The WTO rules prohibit discriminating against certain products with taxes and charges based on their national origin. China has made commitments to conform its laws and to apply internal taxes and customs fees and charges applied by national and subnational authorities to the WTO requirements. China's commitments also include a prohibition against using export duties unless they are in conformity with WTO rules, which require them to be applied on a nondiscriminatory basis, or if they are notified in an annex. China's most recent proposal made in February 1997 has a list of 35 products primarily composed of metals and ores.

Appendix II

GAO Contact and Staff Acknowledgments

GAO Contact

Elizabeth Sirois, (202) 512-8989

Acknowledgments

In addition to the name above, Adam R. Cowles, Richard Seldin, Tim Wedding, Jane Li, and Rona Mendelsohn made key contributions to this report.

Related GAO Products

World Trade Organization: China's Membership Status and Normal Trade Relations Issues (GAO/NSIAD-00-94, Mar. 17, 2000).

World Trade Organization: Status of China's Membership Negotiations (GAO/C-NSIAD-99-9, Sept. 30, 1999).[1]

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[1]This report had a national security classification of CONFIDENTIAL and is not available to the general public but is available to Members of Congress and some U.S. government officials.

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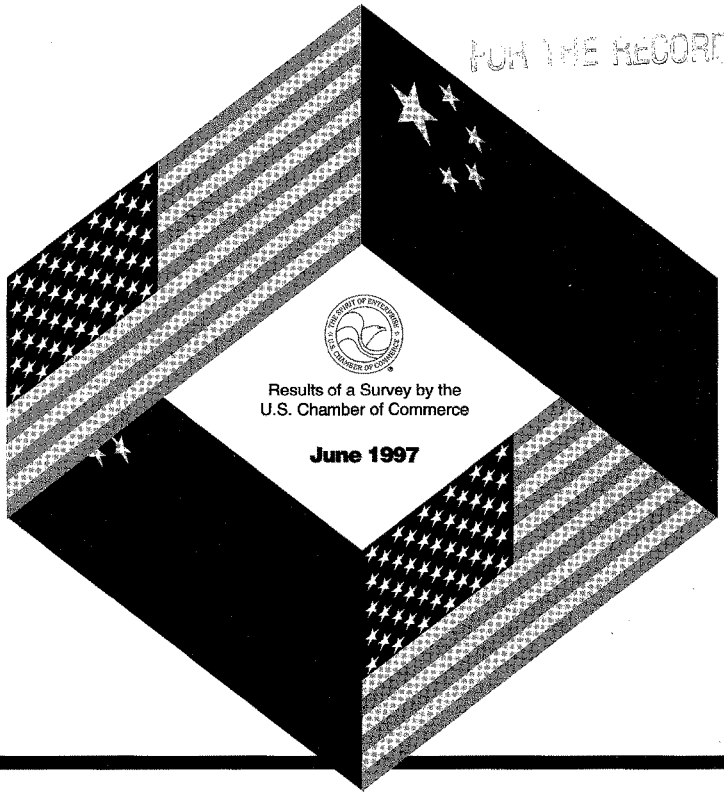
Small and Medium-Sized Businesses Speak Out

on Trade and Investment
with the
People's Republic of China

FOR THE RECORD



Results of a Survey by the
U.S. Chamber of Commerce

June 1997

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A MESSAGE FROM WILLARD WORKMAN

VICE PRESIDENT, INTERNATIONAL
U.S. CHAMBER OF COMMERCE

Small and medium-sized businesses represent the bedrock of U.S. Chamber membership. The U.S. Chamber of Commerce is the world's largest business federation, representing an underlying membership of more than three million businesses and organizations of every size, sector, and region. Thus, the U.S. Chamber is uniquely qualified to reach out to small and medium-sized businesses in many industries and locations and find out which issues are important to them.

In January 1997, the U.S. Chamber launched a multi-year education and lobbying campaign to build domestic support for international trade. Armed with its extensive grassroots network, the Chamber is drawing on its state and local chamber of commerce affiliates as well as small and medium-sized businesses to advocate specific policy issues. This year, we will focus on the U.S.-China commercial relationship, fast-track trade negotiating authority, trade finance, and economic sanctions.

As for U.S.-China relations in particular, the U.S. Chamber is committed to:

- permanent and unconditional extension of Most Favored Nation (MFN) trading status for China;
- China's entry into the World Trade Organization (WTO) on commercially viable terms; and
- removal of unilateral economic sanctions against China.

As part of its educating effort on China, the U.S. Chamber conducted a nationwide survey of small and medium-sized companies exporting to or investing in China. The primary objective was to determine the types of small and medium-sized companies doing business in China, the factors contributing to the growing importance of the Chinese market, constraints that may decrease their business opportunities in China and the impact of U.S. Government assistance and policies on their business.

Over 200 companies responded to our survey. I want to take this opportunity to thank them for responding to the survey, and to acknowledge the contributions of the 57 participating organizations that helped facilitate survey distribution.

The U.S. Chamber is pleased to be able to present the findings of this important project, which demonstrates that small business has a big stake in the development of market opportunities in China.

Report Prepared By:

Myron Brilliant
Director, Trade Policy
Asian Affairs

Leslie Griffin
Deputy Director,
China Project

Small and Medium-Sized Businesses Speak Out

EXECUTIVE SUMMARY

BACKGROUND

- Survey launched in February 1997.
- Survey distributed to small and medium-sized companies only.
- Responding companies are members of the U.S. Chamber's Grassroots Action Information Network (GAIN), as well as 57 participating state and local chambers of commerce, world trade centers, and American Chambers of Commerce abroad.

FINDING:
U.S.-China trade is not the exclusive province of large multinational companies; small business has a big stake in China.

- Over 200 small businesses responded to the survey.
- Nearly 50% of surveys came from companies with fewer than 50 employees.
- Corporate presidents and vice presidents represented the majority of survey respondents.
- Respondents represented a variety of industries. Manufacturing companies (45%) made up the largest share of respondents, followed by companies in the service (16%) and agricultural sectors (14%).

FINDING:
Small business has a long-term and optimistic view of the China market.

- Fifty percent of the responding companies had more than five years of experience in the China market.
- Over two-thirds of the companies rated their experience in China as successful.

FINDING:
Small businesses are driven to the Chinese market by considerations similar to those of multinationals.

- The size and huge potential for growth of the Chinese market was cited as the most important factor in deciding to export to or invest in China.
- Other important factors included the growing openness of the Chinese market, greater predictability of government decision-making, the strength of foreign or local competition, and the level of political risk.
- The state of U.S.-China relations was cited as a key factor in the confidence of companies to do business in China. The survey confirmed that companies are adversely affected by the annual debates on whether to renew China's Most Favored Nation trade status.

FINDING:
Despite the market potential, China remains a challenging place for small business; the survey confirms small business has a stake in China's WTO accession.

- Inconsistent rules and regulations and poor contract enforcement were cited as key constraints to doing business in China.
- Survey also found lack of transparency, level of tariffs, import-licensing requirements, poor currency convertibility, inadequate protection of intellectual property rights, and discriminatory Chinese government policies are impediments.

FINDING:
The survey confirms small and medium-sized companies utilize U.S. Government export-related services, but also reveals that U.S. Government policies can have a negative impact on the ability of these companies to do business in China.

- About 60% of responding companies have used the services of the U.S. Department of Commerce and/or American embassies abroad.
- About 33% have used Export-Import Bank programs.
- Fifteen percent cited restrictions on export finance as adversely affecting their ability to do business in China.
- Ten percent of companies, mostly in the high technology area, reported U.S. export controls had adversely impacted their companies.

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INTRODUCTION

In February 1997, the U.S. Chamber launched a nationwide survey of small and medium-sized companies exporting to or investing in the People's Republic of China. The objectives were to determine: (1) the types of small and medium-sized companies doing business in the People's Republic of China, (2) the factors influencing these companies to export to or invest in that market, and (3) the type and level of constraints on trade and investment faced by these companies in China.

The survey was sent to small and medium-sized companies selected from the U.S. Chamber's Grassroots Action Information Network (GAIN). In addition, the survey was distributed to state and local chambers of commerce, world trade centers in the United States, and five American Chambers of Commerce abroad, many of which distributed the survey to their member companies and notified their membership of this undertaking.

Small businesses in a variety of industries, exporting a wide range of products and investing in various ways in the China market, responded to the survey and made known the factors influencing their business decision-making and the constraints on their business they would like to see removed. Addressing those problem areas would also open up market opportunities for small and medium-sized companies not presently exporting to or investing in China.

FINDING:
U.S.-China trade is not the exclusive province of large multinational companies; small business has a big stake in China.

BACKGROUND

The U.S.-China economic relationship is the single-most important bilateral relationship facing the U.S. business community as it approaches the twenty-first century. Realizing this fact, the U.S. Chamber of Commerce is committed to building support for full normalization of the U.S.-China commercial relationship. The U.S. Chamber's China Project has three major goals:

- securing permanent and unconditional extension of Most Favored Nation (MFN) trading status for China;
- ensuring China's entry into the World Trade Organization (WTO) on commercially viable terms; and
- removing unilateral economic sanctions imposed on China.

These goals are critical if U.S. business is to fully capitalize on China's enormous market opportunities. Exports to China in 1996 totaled over $12 billion and hundreds of thousands of Americans owe their jobs to U.S. trade with China. Permanent and unconditional extension of MFN trading status for China is part of the longer-term goal of a stable U.S.-China commercial framework that opens markets for U.S. exports, generates more jobs for American workers, and supports positive steps toward a more open China. U.S. economic sanctions on China seriously harm U.S. workers, consumers, and such high-growth industries as chemicals, electronics, agriculture, telecommunications, power generation, petroleum, and aerospace.

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Small and Medium-Sized Businesses Speak Out

"Clearly, this survey at the grassroots level verifies that small and medium-sized businesses have much to gain from the continued elimination of trade barriers in China. The interest of U.S. workers and U.S. companies of all sizes will be served when China joins the World Trade Organization and agrees to abide by a comprehensive set of fair trade rules."

— Representative Phil Crane (R-IL)
Chairman, Subcommittee on Trade,
House Ways and Means Committee

U.S. companies of all sizes have a vital stake in the current negotiations between China and the United States (and other countries) to join the WTO. The terms of China's WTO accession will dictate the extent of trade policy reforms and the pace at which market barriers will fall within China. These negotiations represent our most important opportunity to secure strong multilateral disciplines on one of the world's fastest growing nations.

The U.S. Chamber supports China's accession to the WTO, but only if it agrees to adhere to the market principles assumed of all WTO/GATT signatories. China must commit to core WTO principles such as national treatment, non-discrimination, transparency, rule of law, protection of intellectual property rights, binding dispute settlement, judicial review and adherence to state trading and subsidy disciplines. China must also agree to take steps which ensure U.S. market access to China's growing market in agriculture, goods and services.

The U.S. Chamber's survey gave businesses the chance to speak out at an opportune time. As the public debate on U.S.-China policy and on China's MFN status continues and as negotiations proceed on China's accession to the WTO, we ask the U.S. Congress and the Administration to consider the interests and stake of small and medium-sized companies in a stable and healthy U.S.-China commercial relationship.

THE SURVEY

Companies were first asked to provide some very general information about themselves, noting, for example, their industry, size, and the length and nature of their experiences in China. Following this introduction, there were three main sections to the survey.

The first substantive section asked companies to identify factors contributing to their own company's decision to export to or invest in China. Assessing a list of 12 factors, companies assigned a weight to each, with 5 being "very important" and 1 being "not a factor." An optional comments space gave companies the chance to point out other decision-making factors.

The second section of the survey dealt with challenges faced by U.S. companies doing business in China. Companies were asked to assign a weight to 18 separate impediments to doing business in China, with 5 again being "very important" and 1 being "not a factor."

The third section of the survey asked companies if they had used the export-related services or any assistance provided by 14 listed U.S. Government organizations. Companies noted which services they received and whether they were used to help them enter the China market. Finally, companies were asked if they had experienced any difficulties with U.S. export controls or export finance. If they had, they could describe the nature of those difficulties.

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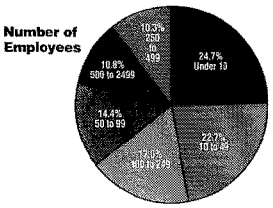
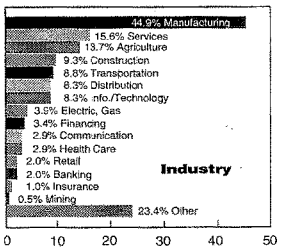
Who Were the Survey Participants?

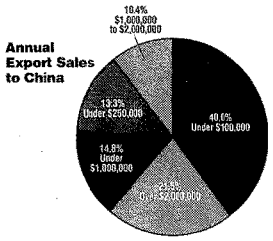
Two hundred and fifteen small and medium-sized businesses responded to the survey. Nearly 50% of the surveys analyzed in this report came from companies with fewer than 50 employees. Most of the survey responses came from corporate presidents or vice presidents.



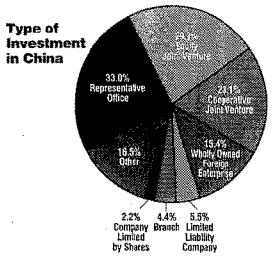
The companies represented a variety of industries, with manufacturing companies making up the largest share at almost 45% of survey respondents. Service companies made up the next largest industry group at nearly 16% and companies in the agricultural sector made up about 14%. Some companies fell under more than one industry group and there was a large "other" category. The large number of responses in this category is not surprising given the typical diversity of small business activities.



Exports to China reported in the survey were enormously varied, from feed ingredients for livestock to disposable medical products to scrap metals. Just over 55% of responding companies presently export to China. Of those that do, about 22% listed the value of their annual export sales to China as over $2 million, while 40% listed the value as under $100,000. Of the companies that were not at present exporting to China, 71% were exploring market opportunities.

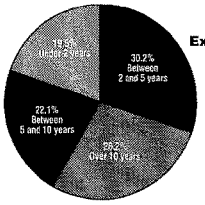


Thirty-four percent of all responding companies identified themselves as investors in China. The type of investment varied. While 33% of those that characterized themselves as investors had representative offices, many had established equity joint ventures or cooperative joint ventures.



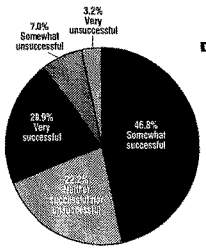
Note: Percentages do not add up to 100% as companies could choose more than one response.

Small and Medium-Sized Businesses Speak Out



Years of Experience in China Market

The level of experience of responding companies in the China market was somewhat surprising. Approximately 50% of the respondents had been conducting business in China for over five years. Twenty-eight percent had been doing so for more than 10 years, and 22% between 5 and 10 years. Newcomers to China business were in the minority; just under 20% had less than 2 years experience in China. The results of the survey counter the perception of many that small and medium-sized businesses do not have a long-term commitment to China.



Degree of Success

Of those companies responding to the survey, most had positive feedback to offer in terms of their experience of doing business in China. Over two-thirds of the companies rated their experience as very successful or somewhat successful. Only a handful (3%) rated their experience in China as very unsuccessful.

FINDING:
Small business has a long-term and optimistic view of the China market.

Top Factors Driving Decision to Export to or Invest in China

5 = very important, 1 = not a factor

Size and potential for growth of China's domestic market	4.36
Openness of China's market	3.35
Predictability of government decision-making	3.15
Strength of foreign or local competition	3.13
Level of political risk	3.12

Factors in Exporting or Investing:

Size of China market drives decision to export or invest.

According to the U.S. companies responding to the survey, certain key factors make China an attractive market. The size and huge potential for growth of China's domestic market was clearly cited as the single most important factor in the decision to export to or invest in China. Small and medium-sized businesses are also eager to take advantage of the opportunities presented by China's emerging marketplace. As one company official wrote, "We feel the world is getting closer and smaller. Therefore, international involvement in business is key to the future. China is the largest overseas market available to us to increase our sales and to create a global presence." Another company official pointed out that China was "a developing country . . . in great need of all industries related to power," needs that American firms, rather than other countries' firms, should satisfy. Still another company wanted to benefit from "a strong and growing desire for Western brands" in China.

The responses to the survey suggested that some U.S. companies were attracted to the market because of the increasing pace of economic reform and liberalization. Companies cited as important factors for doing business: the growing openness of the Chinese market, greater predictability of government decision-making, strength of foreign or local competition, and level of political risk.

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Almost a third of the responding companies took the opportunity to add comments to this section or identify other factors in their decision-making process. Significantly, a number of the companies noted that the state of U.S.-China relations was a factor in their decision to export to or invest in China. One company official said, "U.S. Government's inconsistent policies towards China are the problem." Another called for "constructive U.S.-China relations." *These responses and other similar ones highlight the fact that the confidence of small and medium-sized U.S. companies in doing business in China is adversely affected by the annual debates on whether to renew China's MFN trade status.*

FINDING:
Small businesses are driven to the Chinese market by considerations similar to those of multinationals.

Top Challenges Faced by U.S. Companies Doing Business in China

5 = very important, 1 = not a factor

Inconsistency in applying rules and regulations	3.95
Difficulties in enforcing contracts	3.91
Lack of transparency	3.78
Poor currency convertibility	3.52
Import licensing requirements	3.51
Level of tariffs	3.45
Lack of protection for intellectual property rights	3.44
Government policies that favor Chinese entities	3.44

The Challenges Faced by U.S. Businesses:

Inconsistent rules and regulations, poor contract enforcement are key constraints.

China's rapid development and economic growth provide opportunities for U.S. companies of all sizes. The survey confirmed that China has to continue to take steps to liberalize its trade regime and encourage foreign investment. Despite China's market potential, the survey confirmed that China remains a challenging place to do business.

When asked to identify the challenges faced by their companies in doing business in China, the company officials commonly cited China's inconsistency in applying rules and regulations and problems with enforcing contracts as the key constraints on their business. While some responses pointed to company-specific or industry-specific concerns, these items crossed industry lines and can be seen as priorities for the small and medium-sized business community.

Companies also identified a number of other key constraints. These included lack of transparency (i.e., disclosure of trade laws, regulations, and policies), poor currency convertibility, import-licensing requirements, the level of tariffs in their product sector, lack of protection of intellectual property rights, and government policies that favor Chinese entities and discriminate against imports.

The challenges noted above are among the critically important commitments China must make before the U.S. Chamber can support China's accession into the World Trade Organization. Many of these challenges could be addressed if China were bound by WTO disciplines. Moreover, WTO membership would increase the pressure on China to abide by international rules of conduct.

FINDING:
Despite the market potential, China remains a challenging place for small business; the survey confirms small business has a stake in China's WTO accession.

U.S. Government Programs Help Small and Medium-Sized Firms Compete

Company officials provided a look at corporate use of U.S. Government export-related services and assistance offered by U.S. Government agencies. Responding companies were not limited to identifying government services used in China. The survey thus offers insight into the types of services that might be used in entering the China market. About 66% of companies used at least one form of U.S. Government assistance in conducting business abroad, with 50% using two or more government services. The U.S. Government resources most frequently used by responding companies were the U.S. Department of Commerce and American embassies abroad. Companies indicated that they received market information as well as networking contacts from these sources.

"One of our highest priorities at the Department of Commerce is to assist small and medium-sized U.S. companies as they compete for export opportunities throughout the world. Department of Commerce-sponsored services and programs help companies of all sizes gain a foothold in new markets and increase their presence in existing markets around the globe. We are committed to continuing our work with small and medium-sized business, and to step up our efforts so that these companies reap the benefits of China's rapidly growing economy and increased consumer demand for goods and services."

— William Daley, Secretary of Commerce

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Small and Medium-Sized Businesses Speak Out

Use of U.S. Government Assistance

Department of Commerce	60.9%
American embassies abroad	58.6%
Export-Import Bank	32.8%
U.S. & Foreign Commercial Service	32.0%
Department of State	21.9%
Department of Agriculture	18.0%
Office of the U.S. Trade Representative	17.2%
Small Business Administration	14.1%
Agency for International Development	10.9%
Trade and Development Agency	10.2%
Overseas Private Investment Corp.	7.0%
Department of Transportation	3.1%
Department of Energy	2.3%
Department of Treasury	2.3%
Other	4.7%

Note: Percentages do not add up to 100% as companies could choose more than one response.

"This survey underscores the need for the Bureau of Export Administration to continue to work with small and medium-sized businesses — particularly in high tech fields."

— William A. Reinsch, Undersecretary of Commerce for Export Administration

"Ex-Im Bank has one mission: to finance U.S. exports that help the private sector create and sustain American jobs. Small and medium-sized businesses comprise 81 percent of our customer base. We are pleased that our programs are helping U.S. companies compete and win in the global marketplace."

— Dr. Rita Rodriguez, Acting President and Chairman of the Export-Import Bank of the United States

The Export-Import Bank (Ex-Im Bank), which provides a range of loans, guarantees, and insurance to U.S. companies exporting to China, was also identified by many companies. Ex-Im Bank has come under criticism in some corners as only helping big business. However, about a third of the small and medium-sized companies responding to the survey took advantage of Ex-Im Bank loans or guarantees in conducting business abroad.

In this section, companies were also asked to comment on whether U.S. export controls affected their business dealings in China. By their nature, U.S. export controls place restrictions on the ability of U.S. companies to export certain high technology goods and technologies abroad. Thus, it is not surprising when U.S. companies express concerns about the negative impact of export controls on U.S. sales to China. Ten percent of the companies reported problems with export controls. U.S. manufacturers of high-technology products, such as supplies to China's nuclear power industry, equipment for chemical plants, and computer hardware and software for test and measurement and industrial control, were among those reporting that export controls limited their ability to sell in China.

"Exporting basic chemicals (is) difficult," said one company official, "(and) supplying China's nuclear power industry is restricted." Another company official said, "nuclear power plant training simulators are not allowed to be exported due to (the) June 4, 1989 political problem! It is (a) non-nuclear related issue . . . !"

Similarly, 15% of company respondents indicated they had encountered problems with export finance. Restrictions on U.S. Government financing for trade with and investment in China put U.S. companies at a disadvantage relative to companies from other countries who receive far greater support. Since 1989, the U.S. Government has prohibited the Overseas Private Investment Corporation (OPIC) and the U.S. Trade and Development Agency (TDA) from operating in China. These programs are designed to assist U.S. firms operating abroad. Restricting OPIC and TDA hurts U.S. companies, and many company officials noted that they use these programs in other countries as part of their market entry strategy.

Unlike OPIC and TDA, Ex-Im Bank continued its lending programs to China after 1989. A significant number of companies reported using Ex-Im Bank programs; however, many of them suggested that Ex-Im Bank could be doing more to support U.S. business activities in China. One company official pointed out that "the U.S. Export-Import Bank only works with four sovereign banks in China. This has disabled the exports of small and medium-sized business to China." Another complained that competitors from Europe have access to "soft loans" while U.S. companies are charged commercial rates by Ex-Im Bank.

Some companies took the opportunity to praise Ex-Im Bank services. One company official said, "(The) availability of Ex-Im-based insurance to cover political risk was helpful in being more aggressive in pursuing business." Another said, "(An) Ex-Im working capital guarantee is perhaps the main reason we were able to survive in China over the early years back to 1984."

FINDING:
The survey confirms small and medium-sized companies utilize U.S. Government export-related services, but also reveals that U.S. Government policies can have a negative impact on the ability of these companies to do business in China.

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SURVEY CONCLUSIONS

Small and medium-sized businesses provide a unique and valuable perspective on U.S.-China trade issues. Companies responding to the survey expressed a strong interest in the enormous China market and a desire to satisfy China's tremendous infrastructure needs.

The companies recognize that U.S.-China relations can impact the business climate favorably or unfavorably, and their survey responses advocate stable U.S.-China relations. Divisive annual debates over China's policies create an uncertain and thus harmful atmosphere for small and medium-sized businesses.

The survey responses confirmed that China's entry into the WTO is of critical importance to small and medium-sized businesses. The U.S. Chamber fully supports China's accession to the WTO, but only under commercially viable terms, including adherence to core WTO principles. As negotiations continue on China's accession to the WTO, the challenges faced by responding companies can serve as a benchmark for assessing the proceedings. In particular, companies identified China's inconsistency in applying rules and regulations and problems with contract enforcement as major impediments. Other important constraints faced by responding companies included the lack of transparency (i.e., disclosure of trade laws, regulations, and policies), poor currency convertibility, import-licensing requirements, the level of tariffs in their product area, lack of protection of intellectual property rights, and government policies that favor Chinese entities. If the issues identified by responding companies are addressed in the accession process, China's entry into the WTO will have a positive impact on the extent to which small and medium-sized companies realize the business opportunities associated with China's economic growth and development.

"This survey shows that Most Favored Nation trade status for China is not just about large corporations. It impacts small and medium-sized exporters across this nation, who have a big stake in the stability of U.S.-China relations."
— Representative Jim Kolbe (R-AZ)

Finally, the survey revealed that small and medium-sized companies take advantage of a number of U.S. Government export-related services. The U.S. Department of Commerce and American embassies abroad are most frequently used, serving as a source for market information and networking contacts. The survey also revealed, however, that U.S. Government policies can have a detrimental impact on the ability of U.S. companies to do business in China. About 10% of responding companies have encountered difficulties with U.S. export controls. In addition, 15% of the companies had encountered difficulties obtaining export finance. As the survey revealed, small and medium-sized companies have a stake in whether U.S. Government finance programs are effective and adequately funded.

"From Main Street to Wall Street, the U.S.-China relationship is the single most important bilateral relationship for the next thirty years. Those who would advocate a destabilization of normal trading status with China must ask if such a drastic action would advance or reverse U.S. interests. In my opinion, the answer is clear — it would place the relationship in jeopardy if not peril."
— Representative Robert Matsui (D-CA)

In sum, both the United States and China should take steps to ensure that U.S. business can take full advantage of the enormous China market. Small and medium-sized companies clearly have a stake in a normalized U.S.-China commercial relationship predicated on permanent MFN and China's entry into the WTO on commercially viable terms.

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Library of Congress Cataloging in Publications Data
Main entry under title:

Small and Medium-Sized Business Speaks Out

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Plus $1.00 postage and handling

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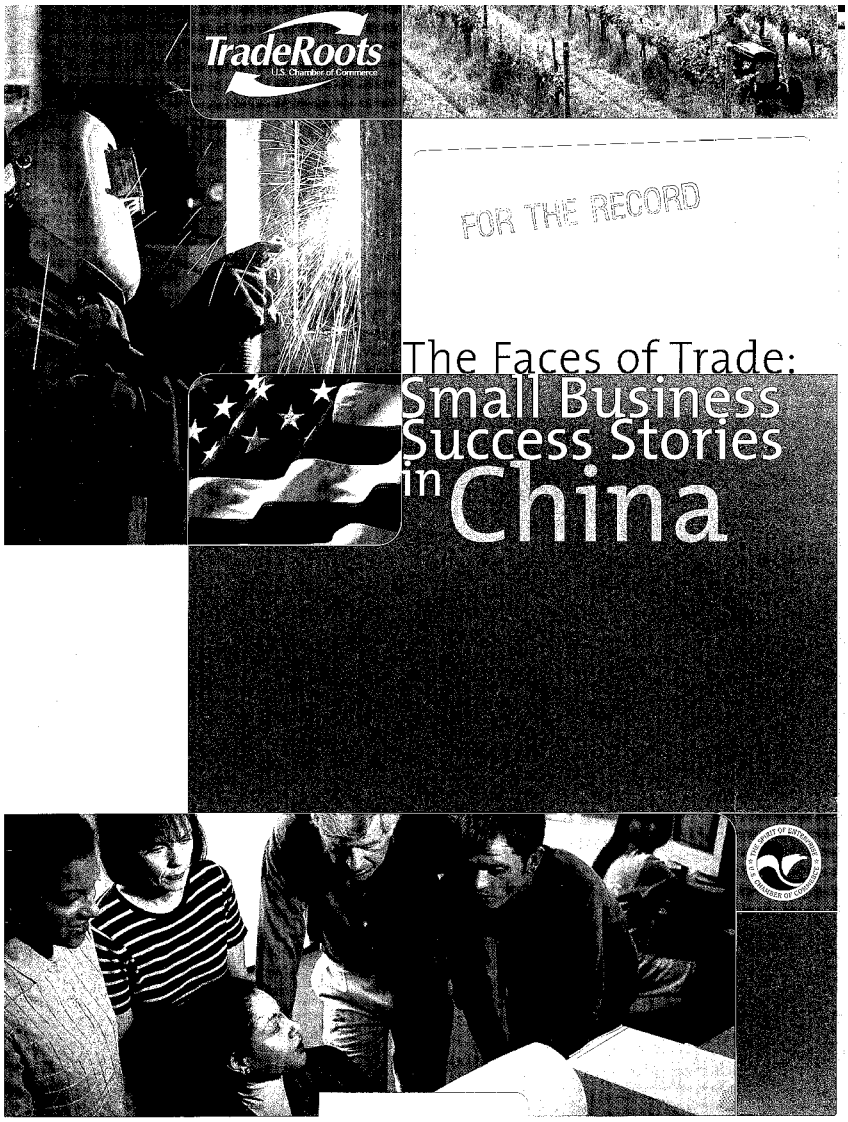
TradeRoots
U.S. Chamber of Commerce
FOR THE RECORD
The Faces of Trade:
Small Business
Success Stories
in China

As in past years, the U.S. Chamber has worked with our state and local chambers of commerce and small businesses around the country to increase awareness of the benefits of international trade. In 2000, the focus of our TradeRoots educational program has been on promoting a better understanding of the importance of China's WTO accession and permanent normal trade relations (PNTR) status to U.S. businesses and workers at the local level.

The TradeRoots China program has received the support of many companies, and we want to acknowledge, in particular, the support of the ten corporate sponsors that made this report possible. We very much appreciate their assistance and are pleased to release this report as part of our TradeRoots China initiative.

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The U.S. Chamber also acknowledges support for this report from AT&T, Merck & Company, and Oracle Corporation.

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Thank you to Patrick Donnelly, Kyla Helcomb, Aimee Olsen, Jason Roberson and Wendy Shih for their efforts to produce this report.

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TradeRoots
U.S. Chamber of Commerce

The fact of the matter is that trade helps America grow. Most businesses—small and large—know this. The challenge is to make sure that Washington and the rest of the country do too. To that end, the U.S. Chamber of Commerce has launched a five-point grassroots campaign that will help restore a winning trade coalition in the U.S. Congress and stop the anti-trade protectionism.

In 2000, there is no more critical trade issue than permanent normal trade relations (PNTR) with China. The TradeRoots China 2000 program is focused on securing the swift passage of this legislation. "The U.S.-China trade deal is a landmark opportunity to open up China's vast market to American companies of all sizes, while ensuring that China abides by international rules and regulations," said Tom Donohue, President and CEO of the U.S. Chamber of Commerce. PNTR is necessary to bring home the benefits of this unprecedented agreement.

The TradeRoots program's goals are:

- To shore up and sustain pro-trade coalitions at the grassroots level in 66 congressional districts in 27 states to work for swift passage of China PNTR and other vital trade initiatives;
- To identify and mobilize community leaders as pro-trade advocates in each district;
- To partner with the governor of each state to communicate the local benefits of trade;
- To tell our success stories through local media, using a vigorous communications campaign; and,
- To establish a one-stop information resource on trade—on the web and off the web—for everything from state and local trade statistics to success stories.

For more information about the TradeRoots program contact Leslie Schweitzer, Senior Trade Advisor, at (202) 463-5511, or visit the TradeRoots web site at: www.traderoots.org.

A Message from Thomas J. Donohue

President and CEO, U.S. Chamber of Commerce

The U.S. Chamber of Commerce is pleased to present this report on behalf of small and medium-sized businesses across the United States, which are finding success in international markets in increasing numbers. Many U.S. small companies are setting their sights on the China market, and this report highlights both their challenges and their successes. Because small business makes up the vast majority of our membership, the U.S. Chamber is uniquely positioned to share these stories.

Opportunities for American business will skyrocket after China enters the World Trade Organization (WTO). For decades, China has remained isolated from the rest of the world. China now permits commerce, but with strict controls. Entry into the WTO will change all that. By agreeing to abide by international trade rules, China will open its markets to the outside world as never before.

Small and medium-sized businesses will be among the big winners of market-opening in China. The companies profiled in this report are already taking advantage of the countless opportunities in the Chinese market. They are succeeding because of their perseverance and their entrepreneurial nature. Their horizon could soon be expanded tremendously once China joins the WTO.

Members of Congress are preparing to vote on legislation that would normalize trade relations with China on a permanent basis. For the last 20 years, Congress has voted on an annual basis to keep U.S. markets open to China. Now, the United States has the chance to gain unprecedented access to China's market of approximately 1.3 billion people. All it has to do is extend to China permanent normal trade relations (PNTR), which is the same commercial treatment we extend to almost every other country in the world.

American businesses of all sizes will watch the PNTR vote closely. Extending PNTR will allow American companies to take advantage of the market-opening measures China agreed to in its bid to join the WTO. Without PNTR, China would still join the WTO, but our competitors in Europe, Asia and elsewhere would be the beneficiaries of China's major concessions. By contrast, a vote for PNTR will strengthen engagement with China, enhance our national security, and better enable us to address human rights and other vital issues.

I would like to thank the small business owners who took part in this project. They represent a much larger group of entrepreneurs who are increasingly responsible for the growth in U.S. trade. Given the impact that China PNTR will have on American businesses of all sizes, it is little wonder that so many have called the vote on China PNTR the most important trade vote of our generation.

Thomas J. Donohue
President and CEO, U.S. Chamber of Commerce

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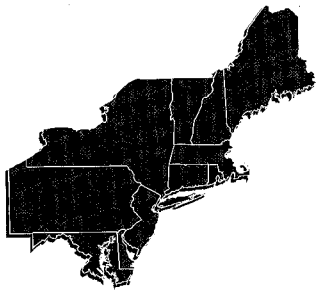
MEMBERS OF THE CHAMBERS FOR CHINA TRADE COALITION JOIN THE SMALL BUSINESSES FEATURED IN THIS REPORT IN URGING CONGRESS TO PASS PERMANENT NORMAL TRADE RELATIONS WITH CHINA FOR THE BENEFIT OF AMERICAN COMPANIES AND THE WORKERS THEY EMPLOY.

The East



ACTS Testing Labs, Inc.

Buffalo, New York
Kevin O'Brien, President
http://www.actstesting.com

Industry: Services
Number of U.S. Employees: 201 in New York, Illinois, New Jersey, Florida, and California.
Major Services Provided: Testing, inspection, and consulting services to the consumer product industry
Years of Involvement in China: 12

ACTS Testing Labs provides services to numerous retailers and manufacturers of toys, textiles, promotional premiums, and electronics. Active in China since 1988, the company offers technical assistance to Chinese firms in an effort to raise quality standards of locally manufactured products and offer the timeliness of delivery that is required in the United States, Europe, and other key markets.

ACTS tests and inspects products that are made in China to ensure compliance with government regulations and assess quality and performance. These products are then shipped to the United States, Europe and other locations around the world.

Permanent normal trade relations status with China will ensure that tariffs remain low on the range of products that American consumers purchase from China: low-cost apparel, footwear, radios, toys, sporting goods equipment, and consumer electronics. "Failure to extend permanent normal trade relations (PNTR) with China would have a strong negative impact on ACTS' business, our clients, and the entire consumer product industry. ACTS would definitely lose business to competition based in Europe and Asia. PNTR also guarantees that U.S. consumers can continue to enjoy a variety of low-cost, quality goods," says William Maggio, Jr., Director of Business Development for ACTS.

ACTS Testing Labs, Inc.
Buffalo, New York

Baltimore Aircoil Company
Baltimore, Maryland

Bear Paw Lumber Corp.
Fryeburg, Maine

Copes-Vulcan, Inc.
Lake City, Pennsylvania

Curtis Instruments, Inc.
Mt. Kisco, New York

Ellicott International
Baltimore, Maryland

GEO Trading Partners, Ltd.
Lagrangeville, New York

Haemonetics Corporation
Braintree, Massachusetts

Keystone Veneers, Inc.
Williamsport, Pennsylvania

Kingsbury, Inc.
Philadelphia, Pennsylvania

The Magnetizer Group, Inc.
Fountainville, Pennsylvania

Marson Corporation
Stoughton, Massachusetts

National Forge Company
Irvine, Pennsylvania

Olson Technologies, Inc.
Allentown, Pennsylvania

Oxygen Generating Systems, Inc.
Niagara Falls, New York

U.S.-China Industrial Exchange, Inc.
Bethesda, Maryland

Wayne Electronics, Inc.
Jamaica, New York

Major Exports—East Region

Industrial Machinery and Computers

Chemical Products

Transportation Equipment

Food Products

Electric and Electronic Equipment

"This Administration has worked hard to break down barriers to trade with China for U.S. companies of all sizes, and the workers they employ. The impact of China's entry into the WTO and permanent normal trade relations status on smaller companies is not often understood. This U.S. Chamber report puts a human face on the small business story."

–William Daley, U.S. Secretary of Commerce

The East

"Congress must understand that small businesses like ours are both pro-business and pro-labor! A vote for PNTR is a vote for small business and labor."
—Dennis E. Keaten, President & CEO, Bear Paw Lumber Corp.

Baltimore Aircoil Company

Baltimore, Maryland
Matt McKenna, President
http://www.BaltimoreAircoil.com

Industry: Air conditioning, refrigeration and industrial process cooling
Number of U.S. Employees: 1,200 in Maryland, Delaware, California, and Illinois
Major Products Sold to China: Cooling towers, ice thermal storage, evaporative condensers
Years of Involvement in China: 5
Export Sales to China as a Percentage of Total Gross Sales: Approximately 3%

Baltimore Aircoil Company sells air conditioning and refrigeration products for use in commercial buildings and refrigeration plants. The company entered the China market about 5 years ago, and invested time and energy into building a successful business. Today, Baltimore Aircoil has a direct office in Beijing, representative offices in Shanghai, Beijing and Hong Kong, and a joint venture factory in Dalian. The company successfully lobbied China's national Electric Power Bureau, as well as local bureaus in Beijing, Shanghai, and Hangzhou, and convinced the government to offer incentives to users of Baltimore Aircoil's energy-saving products.

Baltimore Aircoil's biggest challenge in China comes from local competitors that produce inferior products that can be sold at a lower price. The company's products are sometimes twice as expensive as local substitutes, making it essential for this mid-size Maryland company to stress the high quality, better efficiency and reliability of its goods.

John Lau, China Market Manager, emphasizes the importance to Baltimore Aircoil of Congressional passage of permanent normal trade relations (PNTR) with China. "We would be hurt a great deal without PNTR. Our company is a net exporter. We do not import goods from China. This PNTR vote means millions of dollars in sales to Baltimore Aircoil and continued job opportunities for its employees."

Bear Paw Lumber Corp.

Fryeburg, Maine
Dennis E. Keaten, President & CEO
http://www.bearpawlumber.com

Industry: Forest Products
Number of U.S. Employees: 45
Major Product Sold to China: Kiln-dried hardwood lumber
Years of Involvement in China: Over 13 years

Winner of the Maine State Small Business Administration Exporter of the Year Award for 2000, **Bear Paw Lumber Corp.** is a manufacturer and exporter of northern and Appalachian hardwoods. Headquartered in southwestern Maine, the company owns or controls operations in five states and Quebec, Canada.

Bear Paw Lumber began exporting to China in 1988. While trade with China represents a small portion of the company's total business, it is noteworthy that a small independent lumber mill has successfully conducted regular trade with China.

Bear Paw Lumber cites persistence and sustained activity in the global marketplace as its key to success. Though it often faces competition from companies in Canada—where the government subsidizes its domestic timber industry—Bear Paw Lumber supports free and fair trade. Passage of China PNTR is a fundamental step to expanding the company's market share. When Chinese trade barriers against American hardwood lumber are removed, the company anticipates "significant" growth in its business. This award-winning exporter looks to the U.S. Congress to provide leadership and vision in support of the interests of small and medium-sized American companies.

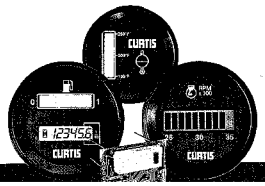
Copes-Vulcan, Inc.

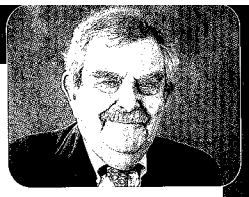
Lake City, Pennsylvania
Roderic B. Karpen, Chairman and CEO
http://www.copes.com

Industry: Manufacturing
Number of U.S. Employees: 195
Major Product Sold to China: Control valves for power, process application
Years of Involvement in China: 14

Copes-Vulcan, Inc., a Pennsylvania-based producer of control valves for power plants, supplies the control valves for Power Plant No. 1 in Beijing. Robert J. Darragh, Vice President for International Marketing and Sales, explains, "This plant supplies electricity and steam to our embassy in China. My wife and I spent time with the Director of this plant while visiting there and I found the hospitality and sincerity of the Chinese people remarkable."

Copes-Vulcan has done business in China since 1986. The company's sales in China depend on stability in the U.S.-China relationship. "The 'China bashing' that takes place in Congress during the trade status reviews is too political and detracts from our efforts to build business and trust," states Darragh. If PNTR is extended to China, Darragh estimates that Copes-Vulcan's business will continue to grow in that very important market.





Curtis Instruments, Inc.

Mt. Kisco, New York
Edward M. Marwell, President & CEO
http://www.curtisinst.com

Industry: Electronic manufacturing
Number of U.S. Employees: Over 650, employees based in Mount Kisco, New York; Dublin, California; and Carolina, Puerto Rico.
Major Products Produced in China: Components for Electric Vehicles and Instrumentation Products
Years of Involvement in China: Over 5 years

President Edward M. Marwell reflects upon his company's success in China. "**Curtis Instruments, Inc.** found its niche manufacturing products applicable for similar uses across many markets. Our operations in China make it possible for us to take advantage of economies of scale, and enable us to sell directly into the Chinese market."

In its 40th year, Curtis Instruments is the world's largest manufacturer of components for electric vehicles. The company's products include instruments, motor speed controllers, and battery chargers, which are used in motorized wheelchairs, forklift equipment, aerial lifts, and other industrial vehicles. Curtis Instruments produced the gauges that monitored the state-of-charge (or "fuel" level) on the Lunar Roving Vehicles used by NASA moon missions in 1971-72.

Curtis Instruments believes that permanent normal trade relations is essential for the growth and prosperity of its China business. In 1995, the company started a wholly owned subsidiary, Curtis Instruments (China) Limited. At its plant in Suzhou, not far from Shanghai, proprietary, U.S.-made silicon chips are converted into basic modules and subassemblies for electrical propulsion vehicles and instrumentation products. The components are then returned to the U.S. and U.K. for final assembly, creating jobs at home.

The East

"If the U.S. would like to influence China, then we must interact with individuals there. Trade gives us an opportunity to create situations where we have things in common."
—Ron Spadafora, Vice President, GEO Trading Partners, Ltd.

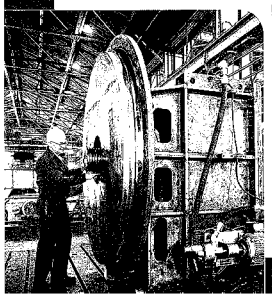
Ellicott International

Baltimore, Maryland
Peter Bowe, President
http://www.dredge.com

Industry: Manufacturing
Number of U.S. Employees: 100 in Baltimore, Maryland, 1 in St. Louis, Missouri
Major Products Sold to China: Dredging equipment and machinery
Years of Involvement in China: 21
Exports to China as a Percentage of Gross Sales: Less than 10%

Ellicott International has designed and manufactured over 1,200 dredges, more than any other manufacturer, and has served customers in over 70 countries. The company has done business in China for over two decades, and won a $3 million contract in China as far back as 1979. In November 1999, Ellicott International won a $900,000 contract with the China Communications Import & Export Corporation to deliver a dredge equipment package to the Changjiang Waterway Bureau.

With his company's longstanding ties and positive experiences in China, Ellicott President Peter Bowe believes it is time for the United States to end the process of debating China's trade status on an annual basis, and extend normal trade relations on a permanent basis. "Politicizing trade is harmful when our competitors, all NATO allies, are aggressively developing trade relations with China. Developing market share does yield long-term benefits. Our European competitors who got in earlier than we did are doing well. They have more resources and more support from their governments. It's a high wall to climb."



GEO Trading Partners, Ltd.

Lagrangeville, New York
Paul Spadafora, President
http://www.geoltd.com

Industry: Medical services and equipment
Number of U.S. Employees: 8
Major Service in China: Ophthalmology centers
Years of Involvement in China: 6
Exports to China as a Percentage of Gross Sales: Over 90%

On **GEO Trading Partners, Ltd.'s** success in China, Vice President Ron Spadafora says, "We have focused on improving personal relationships and trust with our Chinese business partners." The company owns and manages ophthalmology centers in China, and purchases ophthalmology equipment in the United States for placement in Chinese hospitals.

Although active in China since 1994, it was in 1997 that GEO Trading Partners signed agreements with various hospitals in China. The company owns and supplies ophthalmology equipment, and the Chinese hospitals supply the doctors and the space for the ophthalmology centers. Almost all of the equipment used in the centers is manufactured in the United States.

While GEO Trading Partners has found success in China, it has also faced challenges in that market. Spadafora estimates that high tariffs on equipment have amounted to the cost of a fifth eye center for every four that have opened.

Spadafora notes that when traveling outside major cities in China, he encounters many Europeans, Australians and Japanese involved in local business, but not many Americans. "This tells me that our competitors from other parts of the world are having more influence over the citizens of China and are capturing markets at the grassroots level," he observes. "If tariffs for these countries are reduced but Chinese tariffs and non-tariff barriers against U.S. products remain high, then in the future, we will see fewer and fewer American products in China."

Haemonetics Corporation

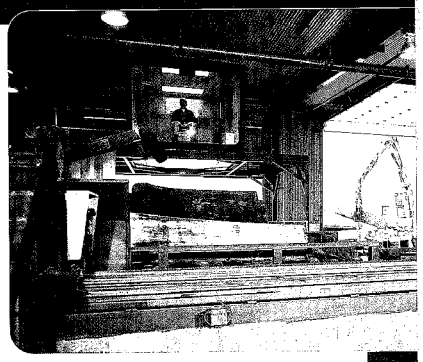
Braintree, Massachusetts
James L. Peterson, President and CEO
http://www.haemonetics.com

Industry: Medical devices
Number of U.S. Employees: More than 800 employees, based in Braintree, MA; Union, SC; and Leetsdale, PA
Major Products Sold to China: Surgical and blood collection devices
Years of Involvement in China: 10
China Exports as a Percentage of Gross Sales: 2%

"Many Chinese will require a blood transfusion at some point in their lives. Our equipment ensures the safety, quality and availability of life-saving blood," reports Lisa Lopez, Senior Vice President and Corporate Counsel for **Haemonetics Corporation.** This automated blood processing systems company started prospecting in the China market ten years ago and shipped its first devices there in 1996.

The company faces definite challenges in its China business. Despite Chinese laws purporting to protect intellectual property, there are "copycats" of Haemonetics products on the market. The company had to take an unusual accounting charge against its China investment because of lack of contract adherence by its Chinese distributors. PNTR and China's entry into the WTO will foster more business certainty.

"We want to see China join the World Trade Organization and abide by internationally accepted business practices. Our company stands to benefit a great deal when tariffs come down and when we have ways to address unauthorized competition, intellectual property issues, and inconsistent local regulations," explains Lopez. "PNTR passage will give Haemonetics an opportunity to continue to build our business in China and create more revenue and jobs at home."



Keystone Veneers, Inc.

Williamsport, Pennsylvania
Dan Pinsonneault, President
http://www.keystoneveneers.com

Industry: Manufacturing
Number of U.S. Employees: 265
Major Product Sold to China: Hardwood veneers
Years of Involvement in China: 6
China Exports as a Percentage of Gross Sales: Approximately 7%

"Developing relationships and understanding the market in China are two of the great challenges of doing business there," comments Dean Ripley, International Sales Manager for **Keystone Veneers, Inc.** The company started exploring opportunities in China in 1994 after successful ventures in several other countries, including Spain, Germany, Canada, and Malaysia. China now represents nearly 7% of the company's gross export sales.

Keystone Veneers attributes its success in China to a Made-in-U.S.A. product that is of high quality and well priced. Future growth depends on maintaining current customers as well as gaining new ones. "The significant reductions in non-tariff barriers to trade by a favorable vote on PNTR will give us a more competitive edge in China. Keystone Veneers has developed loyal customers, but if we can't compete in price with our European counterparts, good business will replace loyalty," states Ripley.

The East

Kingsbury, Inc.

Philadelphia, Pennsylvania
Woods R. Brown, President and CEO
www.kingsbury.com

Industry: Manufacturing
Number of U.S. Employees: 250 based in Philadelphia, PA and Oshkosh, WI
Major Products Sold to China: Thrust and journal bearings
Years of Involvement in China: 17
Annual Sales in China: $300,000

"**Kingsbury** is a wonderful example of how China PNTR is important for small and medium companies, not just the big guys," remarked U.S. Trade Representative Charlene Barshefsky, addressing workers at Kingsbury's Northeast Philadelphia plant. With 220 employees making specialized industrial bearings, Kingsbury is a small player with a huge future in U.S.-China trade.

Kingsbury followed one of its biggest customers into China 17 years ago, and the company has been pleased by the progress that they have made in developing the market. Woods R. Brown, Chief Executive Officer, says that, "...if PNTR is approved by Congress, Kingsbury would be able to take advantage of a huge reduction in tariffs, which would further our growth in the Chinese marketplace." The 88-year-old company earns millions selling bearings to large companies in other parts of the world. While China represents 5% of Kingsbury's current business, Brown emphasizes that "it is the ripple effect that is important to Kingsbury."

The Magnetizer Group, Inc.

Fountainville, Pennsylvania
Arthur L. Pease, President
http://www.magnetizer.com

Industry: Manufacturing
Number of U.S. Employees: 250 (including distributors)
Major Products Sold to China: Water and fuel conditioning devices
Years of Involvement in China: 9
Sales in China since Beginning Operations: $350,000

The Magnetizer Group has experienced ongoing success in the China market by using its patented magnetic technology to address environmental concerns and fuel conservation issues. The company has developed products that address consumer and industrial needs, as well as the growing demand for environmentally friendly products.

In China, trains draw drinking water for passengers from wells located along the route. As there are no procedures in place to test the water, all water is boiled on the trains. As the water boils, the boilers develop scale, which restricts the flow of water and increases the time needed for the water to boil. By applying the Magnetizers to the boilers, the flow of water is increased, it boils faster, and fuel is conserved. The Magnetizers are also applied to the train's engines, which increases the overall fuel economy and reduces the emission of smoke.

Magnetizer products are being used by several of the railway bureaus across China, as well as in a growing number of commercial boilers and emission control systems in Chinese vehicles. Says Magnetizer's Senior Director Don Rogers, "Our business is growing in China, but we do face certain challenges. Principal among them is our concern about protecting the patent and trademark for our products. With China's pending entry into the World Trade Organization and the increased leverage we will have in addressing intellectual property protection issues in that forum, we think permanent normal trade relations with China is definitely in the best interest of our company and its employees."

Marson Corporation

Stoughton, Massachusetts
Alan Ritchie, Chairman
http://www.marsoncorp.com

Industry: Manufacturing
Number of U.S. Employees: Approximately 140
Major Product Imported from China: Rivets (fasteners)
Years of Involvement in China: 5
Percentage of Gross Sales due to Imports from China: 6%

"Healthy U.S.-China trade relations, which would be advanced by China PNTR, can only help **Marson Corporation,**" states Chairman Alan Ritchie. Marson, a supplier of metal fasteners to U.S. companies, specializes in rivets, rivet nuts, and rivet guns. The company has imported products from China since 1995. Seeking a low-cost supplier to help maintain competitiveness, Ritchie employs U.S. workers in the value-added process of finishing and packaging for domestic and export markets.

Familiarity with the China market and the comparatively low cost of product have enabled Marson to maintain and increase employment opportunities in the United States. Ritchie observes, "Opening China's markets will help American companies to prosper locally and keep skilled workers employed."

National Forge Company

Irvine, Pennsylvania
Roger Clark, President and CEO
www.nationalforge.com

Industry: Manufacturing
Number of U.S. Employees: 625
Major Products Sold to China: Engineered forging products, tooling products and pipe molds
Years of Involvement in China: 10
Annual Sales to China: $1 million

"Our China business peaked in 1997 and reached 15% of our company's total sales, but dropped in 1998—and continues to drop—due to a very high tariff increase," comments Joe Bizjak, World Product Line Marketing Manager for **National Forge Company**. The company spent seven years developing its business in China before shipping one product. While estimated sales to China of National Forge Company's pipe mold spinning equipment and other products are projected to decrease, the company remains competitive in over 30 foreign markets.

According to Bizjak, National Forge Company cannot be competitive in China if the U.S. Congress does not pass PNTR because European and other competitors will be able to sell at much lower prices. "We can't build market share if we cannot take advantage of lower tariff and non-tariff barriers. If we want to keep our jobs in the United States, it is imperative that Congress pass PNTR."

Olson Technologies, Inc.

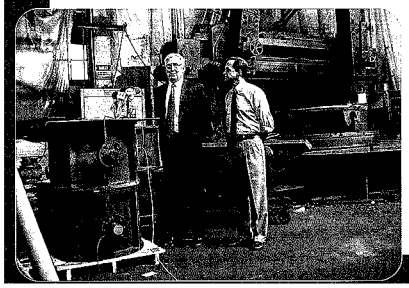
Allentown, Pennsylvania
James Edward Olson, CEO

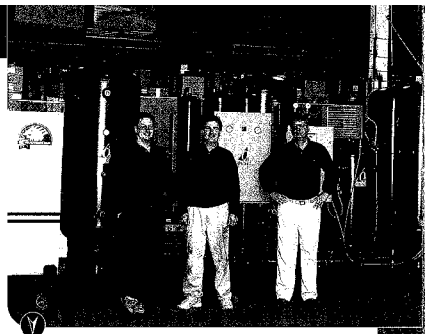
Industry: Manufacturing
Number of U.S. Employees: 47
Major Product Sold to China: Valves for water treatment plants

Olson Technologies, Inc. sells large valves to water treatment plants in China and Taiwan. The company believes the reason for its success in these markets is because Chinese and Taiwanese engineers depend on the expertise and quality standards of American companies in building large valves. Olson Technologies started selling valves in these markets "piggybacking" on the efforts of a much larger New York Stock Exchange-listed company, a common method for smaller companies entering an overseas market.

Ten percent of Olson Technologies' gross sales are due to exports. If China removes its trade barriers against American products, James Olson, Chief Executive Officer, estimates that the company will grow by over thirty percent. He believes that as developing nations like China strive to improve their standards of living, they will depend on Olson Technologies to supply valves to build better roads, airports, power plants, water treatment plants and sewage plants.

"We sell our products all over the world. In the past we did more business with other countries, but the future for China is very big if PNTR is extended to that market," notes Olson.





Oxygen Generating Systems, Inc.

Niagara Falls, New York
Joseph McMahon, President
http://www.ogsi.com

Industry: Manufacturing
Number of U.S. Employees: 15
Major Product Sold to China: Oxygen generators
Years of Involvement in China: 4
Exports to China as a Percentage of Gross Sales: Over 20% in 1999

"Extending China PNTR will significantly reduce tariffs on our high quality oxygen generators," comments Robert Schlehr, Vice President for Sales and Marketing for **Oxygen Generating Systems, Inc.** (OGSI), located in Niagara Falls, New York. The company manufactures oxygen generators for industrial, medical, aquaculture (fish farming), and water treatment applications. OGSI exports to 40 countries, and with over 20% of its export sales going to China, it is the company's largest market.

OGSI entered the China market in 1996 with the assistance of a former business associate. Schlehr attributes OGSI's successful marketing in China to its reputation for high quality. The company discovered that many foreign customers preferred higher quality U.S.-made products. Nowhere was this fact more evident than in the case of OGSI's sales to the China market.

"We fully support permanent normal trade relations legislation. Our China sales could increase as much as 30% if we can take advantage of the lower barriers," contends Schlehr.

U.S.-China Industrial Exchange, Inc.

Bethesda, Maryland
Roberta Lipson, President and CEO
http://www.chindex.com

Industry: Healthcare
Number of U.S. Employees: 14
Major Products Sold to China: Healthcare products and services
Years of Involvement in China: 19
China (including Hong Kong) Exports as a Percentage of Gross Export Sales: 89% (1999)

"American companies like ours need PNTR to stay competitive in the Chinese marketplace. PNTR is vital not only to all of our employees, but also to the employees of the companies whose products we sell in China," comments Roberta Lipson, President and CEO of **U.S.-China Industrial Exchange, Inc.**, or Chindex. The Maryland-based company is the largest independent American distributor of healthcare products in China.

Founded in June 1981, Chindex opened initial offices in Beijing and New York to provide representative services to Western manufacturers of electronic instrumentation and industrial machinery. Now an industry leader in China, Chindex is a significant exporter of U.S. healthcare equipment and provides healthcare services through its private hospital corporation in China. The company also is considered a leader in the Chinese ultrasound market.

"We already face fierce competition from European and Japanese manufacturers. Not to reap the benefits of China's accession to the World Trade Organization would mean that the U.S. medical equipment we export to China would become completely non-competitive against similar equipment from competitor nations," explains Robert C. Goodwin, Jr., Executive Vice President of the company.

For Chindex, PNTR means tariff reductions on medical equipment (from 8-11% to approximately 4-5%). Market opening to Western health insurance will broaden access to the hospital corporation for many more Chinese, who will benefit from premium health insurance plans. And with full distribution rights, Chindex will be able to compete on a level playing field with local companies, while preserving the quality of its American management approach.

Wayne Electronics, Inc.

Jamaica, New York
Grace Su, President

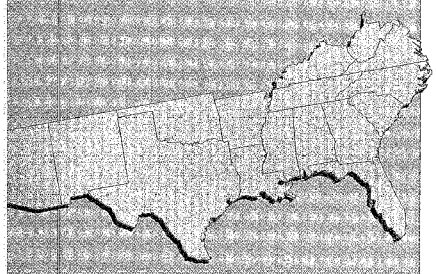
Industry: Electronic Security
Number of U.S. Employees: 4
Major Products Sold to China: Security products
Years of Involvement in China: 8
Annual Sales in China: $350,000+

Based in New York City, **Wayne Electronics, Inc.** specializes in the export of security products to Asia, with a special emphasis on China. President Grace Su attributes the company's success in China to strong connections with government and business leaders.

Working with Chinese counterparts for many years, Su has learned that reading between the lines is a necessity. While most Chinese business people are very courteous, they will not speak directly about the obstacles of closing a business deal.

Grace Su is counting on Members of Congress to speak in a clear voice about opening the door to China trade. Export sales to China from Wayne Electronics are expected to double or even triple with the removal of trade barriers. "PNTR with China will increase existing business and open new opportunities in China for small U.S. companies like ours and our New York suppliers."

The Southeast/Southwest



Alltech, Inc.
Nicholasville, Kentucky

Amalfis International
Dallas, Texas

Blaine Construction Corporation
Knoxville, Tennessee

Centrifugal Casting Machine Co., Inc.
Tulsa, Oklahoma

eFruit International Inc.
Orlando, Florida

Hudson Pecan Company, Inc.
Ocilla, Georgia

ICS Logistics
Jacksonville, Florida

International Innovations, Inc.
Austin, Texas

Kanawha Scales & Systems, Inc.
Poca, West Virginia

Lantech, Inc.
Louisville, Kentucky

Leapfrog Smart Products, Inc.
Maitland, Florida

Play By Play Toys and Novelties, Inc.
San Antonio, Texas

Post Glover Resistors, Inc.
Erlanger, Kentucky

Sally Corporation
Jacksonville, Florida

Style USA Group Corp.
Dallas, Texas

Summit Environmental Corporation, Inc.
Longview, Texas

T-Tech Inc.
Atlanta, Georgia

Tang Energy Group, Ltd.
Dallas, Texas

Major Exports—Southeast/Southwest

Chemical Products

Industrial Machinery and Computers

Electric and Electronic Equipment

Agricultural Products

Food Products

Alltech, Inc.

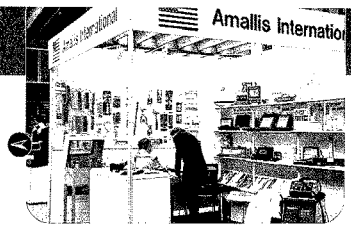
Nicholasville, Kentucky
Dr. T. Pearse Lyons, President
http://www.alltech-bio.com

Industry: Biotechnology
Number of U.S. Employees: 180
Major Product Sold to China: Animal feed additives
Years of Involvement in China: 5
Exports to China as a Percentage of Gross Sales: More than 5%

"China must find new ways to feed its enormous population. We understand the serious challenges that China faces in animal agriculture," comments T. Pearse Lyons, President of **Alltech, Inc.** Since 1995, Alltech has worked in China to help the Chinese to develop, manufacture, and support products and systems to improve animal health, while limiting the impact of biotechnology on the environment. Chinese demand for specialty agriculture products and Allltech's direct access to reliable local personnel have been keys to the company's success in China.

After entering the China market in May 1995 with the opening of its Asia-Pacific Bioscience Center in Beijing, Alltech experienced explosive growth in the sales of its products. A subsidiary corporation, "Beijing Alltech Biological Products Co. Ltd." was established in 1997 for the manufacture of three products for other Asia branches and local distribution of products.

Lyons cites political and economic stability in China as paramount concerns for the company in deciding on further investment in equipment and assets. Congressional passage of PNTR with China would contribute to a stable U.S.-China trade relationship and help Alltech continue to build on its success.



Amallis International

Dallas, Texas
Dejan Rajcic, President
http://www.amallis.com/

Industry: Automotive
Number of U.S. Employees: 3
Major Products Sold to China: Glass products for the automotive market and plastic tools for automotive applications.
Years of Involvement in China: 8

Amallis International is a true competitor in the global arena, with 90% of the company's sales coming from international trade. The company's primary business is the export of numerous high-quality, patented, "Made-in-USA" automotive products, with a specific focus on automotive tools.

In addition to China, Amallis International also exports its automotive products throughout Western Europe, and to Japan, Australia, and some Latin American and Middle Eastern countries. It is not surprising, then, that company Vice President Ghassan Massi is a strong proponent of the benefits of trade. "We believe in free trade with nations. And in international trade there is something called 'comparative advantages.' If we can offer and manufacture products with good quality at competitive prices, we have the advantage. When products have a patent, they are usually protected in the countries that have signed intellectual property agreements. This also can work with China."

U.S. companies in the automotive sector will be some of the biggest winners if the Congress extends permanent normal trade relations status to China. Auto tariffs will drop from current levels of 80-100% down to 25%, and quotas will be phased out. Non-bank financial institutions will be permitted to provide auto financing without any limitations, and auto companies will have full rights to distribute their goods throughout the Chinese market. Says Massi, "Our business can grow by 10-15% as the Chinese automotive market grows and is more open to U.S. products."

Blaine Construction Corporation

Knoxville, Tennessee
W. Colby Reeves, Jr., Executive Vice President
http://www.blaineconstruction.com

Industry: Construction
Number of U.S. Employees: 50 in Tennessee and 350 field employees across the U.S.
Major Product Sold to China: Building materials
Years of Involvement in China: 4
Exports to China as a Percentage of Gross Sales: Nearly 2%

Blaine Construction Corporation designs, fabricates and ships to construction job sites in China specific building materials for the construction of industrial facilities. The company also has provided technical personnel as advisors to the local on-site contractors for installation of its materials.

Blaine Construction's experience in China began in 1996. The company credits its success in China to partnering with other U.S. firms already established in China, and paying attention to the details required for the export of materials to China. While Blaine Construction has done business in Chile and Venezuela, its volume of business with China is substantially greater than with other countries at this time.

Blaine Construction has found the Chinese to be good trading partners. Executive Vice President W. Colby Reeves says that he looks forward to continued strong growth in the China market, and understands the importance of PNTR to removing tariff and non-tariff barriers to American products to the benefit of his company and others like it.

The Southeast/Southwest

"The significant increase in exports of goods and services to China, as a result of the U.S. proposed trade agreement, will bring a great deal of economic opportunity to our country that will be increasingly enjoyed by companies of all sizes. We need to work together — and I appreciate the U.S. Chamber of Commerce's commitment in this regard — to create opportunities for small and medium-sized businesses, like subcontractors and suppliers, to benefit from increased trade with China."

—Rep. Jim Davis (D-Fla.)

Centrifugal Casting Machine Co., Inc.

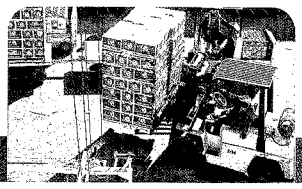
Tulsa, Oklahoma
W. Thomas McKee, President
http://www.ccmcotulsa.com

Industry: Manufacturing
Number of U.S. Employees: 83
Major Product Sold to China: Equipment for production of pipe
Years of Involvement in China: 18
Total Sales in China: Over $10 million

Centrifugal Casting Machine Co., Inc. (CCMCO) manufactures foundry equipment used in the production of various parts for industries such as automotive, petrochemical and infrastructure development. Utilizing its unique technology, the company has supplied equipment for production of water pipe, soil pipe, cylinder liners and alloy steel tubes in China. Since 1982, CCMCO has completed 8 projects in China.

Company employees have made over 80 trips to China to establish and develop the relationships that led to CCMCO's valuable share of China trade. "It would be a shame to lose these valuable relationships should Congress fail to pass PNTR with China," remarks President W. Thomas McKee. CCMCO plans to continue building its business relationships in China by participating in a major trade show in Beijing in May.

"Our business in China always happens in cycles," notes McKee. "Congressional passage of PNTR with China will help American companies like mine be viewed as more reliable business partners."



eFruit International Inc.

Orlando, Florida
Gordon E. Hunt, Executive Vice President
http://www.efruitinternational.com

Industry: Agricultural products broker
Number of U.S. Employees: 20
Major Products Sold to China: Fresh fruit and fruit juices
Years of Involvement in China: Approximately one year
Projected Percentage of Gross Sales to/from China: 12%

Established in 1999, **eFruit International, Inc.** operates a global online trading service for agricultural products, primarily fresh fruit and fruit juice. With its international headquarters in Orlando, Florida, eFruit's member network offers 24-hour global trading to pre-qualified buyers and sellers, thereby lowering administrative costs and offering savings on shipping, storage and handling. The eFruit electronic commerce network enables member companies to transact their regular business on an international scale in a faster, cheaper and more efficient manner.

From the beginning, eFruit tapped the China market by enrolling Chinese apple juice processors in its electronic buyer-seller network. Although e-Fruit plans to expand into Asia in the coming year and eventually hopes to earn 10-15% of gross revenues from the China trade, the company finds that Chinese barriers to the importation of agricultural products from the U.S. greatly limit market penetration. "Normalizing trade relations between the U.S. and China would be good for our company. China is becoming a major user of the internet," says Gordon E. Hunt, Executive Vice President. "Any easing of trade frictions will increase the use of the internet for business-to-business (B2B) applications."

Hudson Pecan Company, Inc.

Ocilla, Georgia

Dr. Randy Hudson, Owner and CEO

Industry: Agriculture
Number of U.S. Employees: 50
Major Product Sold to China: Pecans
Years of Involvement in China: 1
Annual Sales in China: $50,000

"The Georgia pecan industry needs a positive vote on China PNTR. It is of utmost importance to our industry that we export. We are now looking at two years of excess production and domestic prices will fall. The opportunity to move pecans away from the domestic market will support and help farmers and business owners, like myself, stay in business," states Dr. Randy Hudson, Owner and CEO of **Hudson Pecan Company, Inc.**

Hudson attributes his relatively quick sale of 50,000 pounds of Georgia pecans to China to the fact that his first shipment was accurate and the Chinese felt they were getting a fair price for good quality products. According to Hudson, China has nearly 1.3 billion people to feed and pecans are a main part of the traditional diet. Hudson adds that "we need to pass China PNTR in order to guarantee that we can be competitive and that we can have a new market for our Georgia pecans."

ICS Logistics

Jacksonville, Florida

Henry J. Kohlmann Jr., Chief Operating Officer

http://www.icslogistics.com

Industry: Transportation logistics
Number of U.S. Employees: 200 employees in Florida and Georgia
Major Services to China: Ocean container transportation for the poultry industry
Years of Involvement in China: 2 years
Exports to China as a Percentage of Gross Sales: 20%

"The far-reaching benefits of China PNTR will affect the whole maritime community, including longshoremen, truckers, and clerks. Congressional passage of PNTR will expand the market for food products, allowing us to continue to provide jobs in Jacksonville."

—Henry J. Kohlmann, Chief Operating Officer, ICS Logistics

ICS Logistics helps the poultry industry in the southern United States export to China by providing timely, accurate, and economical services. The company's cold storage cargo terminals and intermodal transportation network enable ICS Logistics to provide transportation of containers to East Coast seaports, export inspection for the U.S. Department of Agriculture, and loading of frozen poultry into ocean containers.

ICS Logistics began shipments to China in 1998 and has profited from increased frozen poultry sales to China. Today, nearly one-third of its total export shipments are to China. With PNTR, substantial reductions in tariff and non-tariff barriers on poultry products will greatly benefit American producers, leading to even more exports.

The employees of ICS Logistics stand prepared to manage the expected significant increase in shipments of frozen food and agricultural products to China by adding to its dedicated staff of workers in the southeastern U.S.

The Southeast/Southwest

International Innovations, Inc.

Austin, Texas
Ralph Edwards, President
http://www.woodhangers.com

Industry: Manufacturing
Number of U.S. Employees: 6 in Austin, TX and 60 in Gallatin, TN
Major Products Sold to China: Raw lumber (export); garment hangers (import)
Years of Involvement in China: 7
Exports to China as a Percentage of Gross Sales: 8%

International Innovations, Inc. manufactures and distributes wooden garment hangers for garment manufacturers, department stores, specialty stores, hotels, and mail order firms. To keep customer costs as low as possible, International Innovations has exclusive manufacturing agreements with factories in China. And to ensure quality, all of the production from China is shipped to its manufacturing and distribution facility in Gallatin, Tennessee, for quality control, imprinting, and distribution.

The company started importing hangers from China in 1993, and exporting raw lumber to China in 1998. President Ralph Edwards speaks highly of his Chinese business partners. "We have found the companies we are working with in China to be very cooperative in developing new products." Edwards believes passing permanent normal trade relations with China will mean even more sales and income for American companies, and will encourage other small companies like his to find success in the China market.

Kanawha Scales & Systems, Inc.

Poca, West Virginia
William J. McHale, Vice President
http://www.kanawhascales.com

Industry: Manufacturing
Number of U.S. Employees: 185 in Poca, Parkersburg, and Fairmont, WV; Pikeville, KY; Cincinnati, Dayton, and Columbus, OH; Dearborn and Flint, MI
Major Product Sold to China: High-speed train loading systems
Years of Involvement in China: Over 14
Exports to China as a Percentage of Gross Sales: 12-18%

"If PNTR is not passed, the opportunities that we now enjoy will be put at risk, with our competitors in other countries the likely beneficiaries," says William J. McHale, Vice President of **Kanawha Scales & Systems, Inc.** Specializing in the design and construction of weighing, control and material handling systems, the company is developing high-speed train loading systems for use in the Chinese coal industry. The scope of work includes the complete electrical, structural, and mechanical design of the train loading towers.

Kanawha Scales & Systems first explored the Chinese market in late 1985 and signed its first order in August of 1991. Since then, the company has signed contracts in China totaling over $13 million dollars, including a recent order of approximately $3.1 million.

Much of the company's success in China comes from meticulous efforts to establish working relationships and build trust with contacts in the Chinese coal industry. As part of its long-term commitment to the China market, Kanawha Scales and Systems has engaged other West Virginia companies in China through trade delegations and trade shows. In addition, the company has been active in hosting Chinese delegations and dignitaries visiting the United States.

McHale urges Congress to establish permanent normal trade relations with China to demonstrate support for the efforts of American companies over their competitors in the China market.

Lantech, Inc.

Louisville, Kentucky
James Lancaster, President and CEO
http://www.lantech.com

Industry: Manufacturing
Number of U.S. Employees: 320
Major Product Sold to China: Packaging machinery
Years of Involvement in China: 2

"China is one of the most challenging countries to do business with in Asia, in part because of its high trade barriers. Once tariffs are reduced, China could become an extremely lucrative market," notes Shawn Anderson, International Sales Manager of Lantech, Inc., a manufacturer of packaging machinery. Since 1998, the company has been selling its equipment through a distributor with five different offices throughout China. The distributor expressed an interest in Lantech's equipment because it complimented machinery that the former was already selling.

Anderson attributes the company's success to a strong emphasis on research and development to assure that they are always finding innovative solutions for their customers. Lantech's international sales have grown as they customized machines to meet the needs of specific requirements for overseas markets.

Anderson estimates that Lantech sales in China would grow between 30-50% if permanent normal trade relations status is extended to China. "If Congress approves PNTR, our company's sales would increase, as it would reduce the effective price of our machines."

Leapfrog Smart Products, Inc.

Maitland, Florida
Dale Grogan, President
http://www.leapfrog-smart.com

Industry: Computer software
Number of U.S. Employees: 50
Major Product Sold to China: Software applications for smart cards
Years of Involvement in China: 2
Exports to China as a Percentage of Total Exports: 40%

From the vantage point of a small, U.S. software company, "The swift march of China's estimated 1.2 billion people from an agrarian nation, through an industrialized era and into the information age is a breathtaking business opportunity," comments Dale Grogan, President of **Leapfrog Smart Products, Inc.**

The firm develops software for smart cards, which are mini-computers embedded in plastic the size and shape of a credit card. In testimony before the House Committee on Ways and Means, Grogan stated that his company plans to issue smart cards to every Chinese adult over the next four years. Leapfrog Smart Products believes that China's greatest resource is its collective buying power, and China recognizes this and rightfully protects that resource. However, business cannot be done effectively in China without a strong in-country partner.

The company's joint venture in China establishes a new business model. According to Grogan, "The parameters of our joint venture are that the Chinese partners not only contribute a factory and a skilled labor force, but also serve as bona fide investors in the deal with capital of their own at risk. Without a partner who is motivated by profits, you're dead."

For Leapfrog Smart Products, passage of PNTR will improve access to the China market and allow expansion of its operations in the United States. Grogan remarks that the positive fallout from doing business in China is simple: jobs. "High-tech engineering jobs, service jobs, support jobs, production jobs. The point is that for every solution sold in China, bunches of jobs are created here in the United States. These jobs fuel our economy."

The Southeast/Southwest

Play By Play Toys and Novelties, Inc.

San Antonio, Texas
Raymond Braun, President
http://www.pbyp.com

Industry: Toy manufacturing and distribution
Number of U.S. Employees: 400
Major Products Imported from China: Plush toys and novelties
Years of Involvement in China: 13

"America has the ability to do much more export business with China, but that country needs to enforce trade laws, patent protections, and other WTO requirements," asserts Raymond Braun, President of **Play By Play Toys and Novelties, Inc.**, which develops, designs, manufactures and distributes toys.

The company has been involved in the China market for over a decade. Material manufacture and sewing are done in China, and toy stuffing is generally done in the United States. At this point, Play By Play Toys and Novelties only imports goods from China. Braun notes that PNTR will permit sales to China through better enforcement of the company's toy licenses. "Without the enforcement of licenses and contracts, Chinese manufacturers will simply copy our products and sell them in China without the cost of research and development or royalties, making it impossible for us to be price competitive."

Braun notes that positive trade relations with China have already had a huge impact on the welfare of a tremendous number of Chinese. "Living conditions have significantly improved due to the presence of U.S. companies in China. I have visited many manufacturing plants and I see improvements in the quality of life for a greater percentage of the population every year."

"The bottom line is we need China to join the WTO and Congress to approve PNTR. It's important to us as Americans and as businesspeople. This agreement is about giving us greater access to world markets and improving our standard of living through better access to human resources, product improvements and lower costs," explains Braun.

Post Glover Resistors, Inc.

Erlanger, Kentucky
Neil Gambow, President
http://www.postglover.com

Industry: Manufacturing
Number of U.S. Employees: 120
Major Product Sold in China: Electrical resistors
Years of Involvement in China: 5
Growth Since Beginning Operations: 150%

Founded in 1892 and dedicated to supplying the electrical industry with quality products and services, **Post Glover Resistors, Inc.** has seen its market share grow due to its commitment to customer service. The company is the number one worldwide producer of heavy-duty resistors.

In the summer of 1995, Post Glover Resistors ran an editorial in the Asian Electrical Journal explaining the benefits of grounding power systems with the use of its neutral grounding resistors to ensure quality and reliable power. Soon, the firm was contacted by the Shenzhen Farad Complete Equipment Company in China. Several weeks later, Post Glover Resistors decided it was the right time to make a visit to Shenzhen.

That first trip actually resulted in a small order for use by the Shenzhen power supply bureau, but more importantly, Post Glover Resistors laid the groundwork for a long-term business relationship and friendship. It built a strong trust, which is the key to growing business in China.

Sales continue to grow, and Post Glover Resistors is now selling to some of the larger transformer and generator manufacturers in China. The company continues to be very active in support of China's admission to the World Trade Organization and in support of permanent normal trade relations status.

Sally Corporation

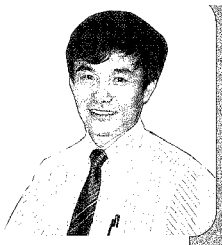
Jacksonville, Florida
Howard Kelley, President and Director
http://www.sallycorp.com

Industry: Robotics
Number of U.S. Employees: 60
Major Product Sold in China: Animatronic robots
Years of Involvement in China: 8
China Exports as a Percentage of Total Business: Up to 40% in many years

Sally Corporation was founded in 1977 to merge technologies and art to create memorable entertainment and educational experiences. Artists, designers, technicians, and managers create ideas for animated robotic characters, and then fabricate the characters through every step of the manufacturing process. Through the years, the company has created thousands of characters, theatrical productions, shows and special effects for theme parks, museums, motion pictures, and corporate clients throughout the world.

Sally Corporation sells to amusement parks and attractions in four locations across China. "Like other small businesses, we entered the China market with a great deal of trepidation," recalls Howard Kelley, President and Director of Sally Corporation. "Eight years ago, we were asked to conduct all negotiations in China, using Chinese contracts, and with letters of credit that were geared toward China's needs. Gradually, we've seen a westernization of Chinese business practices, such that our last transaction with China was no different than it would have been with a European business partner."

Kelley believes that China's entry into the World Trade Organization and Congressional support for permanent normal trade relations will bring China still further into a rules-based system, which will encourage other small businesses to take advantage of the enormous opportunities in the China market.



Style USA Group Corp.

Dallas, Texas
Charles Li, CEO

Industry: General Trading
Number of U.S. Employees: Approximately 30
Major Products Imported from China: Furniture, lamps, arts and crafts
Years of Involvement in China: 11
Percentage of Gross Sales Due to Imports from China: 90%

"When I came to the United States in 1988, I realized I could make a good living by doing business with China. I am originally from China and still have many contacts there," recounts Charles Li, CEO of **Style USA Group Corp.**

After eleven years in business, Li owns and operates six enterprises in the Dallas area. Among the companies are Rosewood Fine Furniture, International Travel Center, and China Group USA, Inc.

International trade has been key to the growth of Style USA Group, and most of Li's companies are directly engaged in trade with China. Rosewood Fine Furniture imports from its factory in China furniture for wholesale and retail sales across the United States. As the volume of furniture and other imports has increased, so too has Style USA Group's workforce, doubling in the past five years. With the passage of China PNTR, Li estimates 20-30% growth in his business, and expects to add more employees to his payroll.

"PNTR is good for my business today, and for people who are interested in doing business in China in the future," notes Li.

The Southeast/Southwest

Summit Environmental Corporation, Inc.

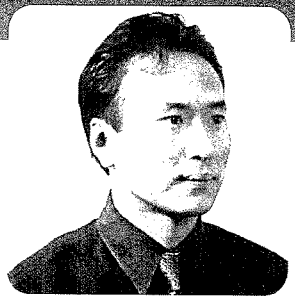
Longview, Texas
Keith Parker, Chairman and CEO
http://www.seci-us.com

Industry: Environmental services
Number of U.S. Employees: 8
Years of Involvement in China: Presently negotiating to enter the China market

Summit Environmental Corporation, Inc. has found great success in foreign markets, with over 50% of its gross sales derived from exports. The company develops, manufactures and distributes non-toxic, biodegradable products for environmental cleanup, and more efficient, environmentally friendly methods to deal with current toxic exposures. Products for export are marketed through strategic alliance partners around the world.

China is a market that holds much promise for Summit Environmental Corporation's products as the country focuses greater attention on environmental protection. The company is currently negotiating with two groups for rights to sell its products in China. Despite some past challenges involving a decision not to release information on its proprietary formulas, Chairman and CEO Keith Parker remains optimistic. "As a U.S. company with a unique product line and long-term vision, we want to operate in China with professional business standards and ethics. Congressional passage of PNTR would be good for our small business in that it would give us better avenues to ensure protection of our patented goods."

Intellectual property rights (IPR) protection in China is vital for companies of all sizes, but there is a special need for IPR protection for small companies in unique technologies or processes. Once China enters the World Trade Organization, U.S. companies like Summit Environmental Corporation will benefit from the organization's strong dispute resolution mechanism to address IPR or other trade violations in a timely, decisive way.



T-Tech, Inc.

Atlanta, Georgia
Jay Kim, President and CFO
http://www.t-tech.com

Industry: Manufacturing
Number of U.S. Employees: 30
Major Product Sold in China: Quick circuit prototyping milling machines
Years of Involvement in China: 5
Annual Sales in China: $60,000

"Passage of China PNTR is essential to the expansion of our sales in China. Our competitors in Japan and Germany will be able to take advantage of lower tariffs and we will be on the outside looking in," says **T-Tech, Inc.'s** President and CFO, Jay Kim.

For five years, T-Tech has been building relationships with universities and corporations in China to sell their prototyping milling machine. This machine offers a cost-saving alternative for design engineers to test circuit board designs before proceeding to production. It has applications in telecommunications, radio, microwave and space research.

T-Tech made the decision to develop China as a marketplace due to its prior successes in Japan and other Asian countries. "Of course, China is a much more difficult market to penetrate because of high tariffs and controls, but with PNTR, we see huge potential for our systems and the potential for ten times the business in five years. This means more and better jobs here in Georgia," comments Kim.

Tang Energy Group, Ltd.

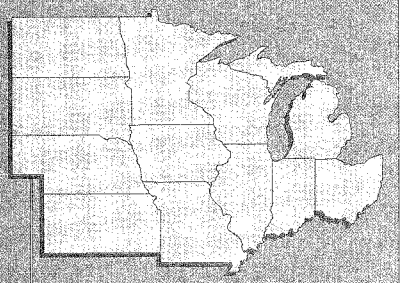
Dallas, Texas
E. Patrick Jenevein III, President
mail@tangenergy.com

Industry: Energy
Number of U.S. Employees: 6
Major Product Sold to China: Clean energy products
Years of Involvement in China: 5

Tang Energy Group, Ltd., develops integrated energy projects that provide clean energy to Chinese consumers. These projects include natural gas and wind-driven electricity production, natural gas compression and processing, and natural gas pipelines. The company began work in China in 1995 to address the Chinese National Petroleum Corporation's (CNPC) need for small, reliable and remotely located natural gas processing facilities.

One hundred percent of Tang Energy Group's revenues come from selling energy and equipment to China. E. Patrick Jenevein III, President, predicts that Tang Energy Group would grow immediately if China removes its trade barriers because the company would have better access to insurance products that ameliorate risk associated with any energy project. Shedding risk would allow project owners to reduce costs and increase access to capital markets. Jenevein believes that permanent normal trade relations with China means more stability in that country, "which will make our world more prosperous for future generations."

The Midwest



Aqua-Aerobic Systems, Inc.
Rockford, Illinois

Behlen Mfg. Co
Columbus, Nebraska

Brustuen International, Inc.
St. Paul, Minnesota

DH Pacific, Ltd.
Gahanna, Ohio

Digital Storage, Inc
Lewis Center, Ohio

DTI Peer
Benton Harbor, Michigan

Holophane
Newark, Ohio

Lyonhurst, Inc.
Birmingham, Michigan

Malichi International, Ltd.
Indianapolis, Indiana

Prestige Enterprise International
Cincinnati, Ohio

Processed Plastic Company
Montgomery, Illinois

Roto-Rooter Corporation
West Des Moines, Iowa

Snider Mold Company, Inc.
Menoon, Wisconsin

TradeCom International, Inc.
Solon, Ohio

Tramco, Inc.
Wichita, Kansas

Major Exports—Midwest Region

Electric and Electronic Equipment

Chemical Products

Food Products

Agricultural Products

Industrial Machinery and Computers

"The U.S. Chamber of Commerce understands that international trade is more than raw statistics. The Chamber has compiled these real-life stories of the positive impact of China trade on small business exporters. Few people know that 82 percent of all direct U.S. exporters to China are small and medium-sized companies, and that they generate 35 percent of the dollar volume of all U.S. exports to China. This is not even counting all the small business suppliers to larger firms that export to China. This study prepared by the U.S. Chamber puts real faces behind these statistics."

—Rep. Donald A. Manzullo (R-IL-16), Chairman, House Small Business Subcommittee on Tax, Finance, and Exports

Aqua-Aerobic Systems, Inc.

Rockford, Illinois
Robert Wimmer, President
http://www.aqua-aerobic.com

Industry: Environmental services
Number of U.S. Employees: 135
Major Products Sold to China: Wastewater treatment equipment
Years of Involvement in China: More than 4
Exports to China as a Percentage of Gross Sales: 5%

Aqua-Aerobic Systems, Inc. manufactures and sells wastewater treatment equipment to municipal and industrial customers. The Chinese government's commitment to its country's infrastructure and the need for high quality environmental technologies make China one of the company's largest potential markets.

The modernization of cities throughout China requires construction of sewage treatment plants. In addition, local Chinese officials are looking to bring investments into their communities. "While opening a local office is not feasible for a company of Aqua-Aerobic Systems' size, we are positioning ourselves to take advantage of the many new opportunities resulting from economic growth in China," says Sharon DeDoncker, Vice President, International.

With U.S.-China relations on a more sound footing after passage of PNTR, DeDoncker expects that Aqua-Aerobic System's sales would increase an additional 10% over the current rate of growth. "The potential of the China market is obvious to all companies in our industry. Our strongest competitors are in Europe and Asia. Without passage of China PNTR, we will be at a disadvantage when quoting against these companies," cautions DeDoncker.

"Improved trade with China would allow U.S. farmers to export more grain to China and, in turn, create a greater demand for storage of this commodity. PNTR with China will give us a more competitive position to take advantage of this win-win situation."

—Richard F. Casey, Senior Vice President, Behlen Mfg. Co.

Behlen Mfg. Co.

Columbus, Nebraska
Anthony F. "Tony" Raimondo, President and CEO
http://www.behlenmfg.com

Industry: Manufacturing
Number of U.S. Employees: 1,560 at plants in Columbus, NE; Goshen and Connersville, IN; Huntingdon, TN; Dublin, GA; Baker City, OR; and Cullman, AL
Major Products Sold to China: Metal building, and grain storage and drying systems
Years of Involvement in China: Over 15
Exports to China as a Percentage of Annual Sales: Approximately 10%

With domestic agricultural markets in the doldrums in the 1980's, **Behlen Mfg. Co.** sought to diversify its product lines and markets by exploring international markets. Export sales by this diversified agricultural manufacturer now account for 15-20% of gross sales and over 125 jobs. China is the company's primary foreign market, mostly for metal buildings, grain storage and drying systems. Behlen has established a marketing office in Shanghai to support its business in the China market.

According to Senior Vice President Dick Casey, Chinese customers have indicated a preference for Behlen Mfg. Co.'s products due in large measure to its excellent reputation, quality products, and high level of after-market service.

A Congressional vote in favor of PNTR would phase out numerous barriers to trade that Behlen currently faces. Anticipating an annual sales increase of 10-15% after passage, Casey notes "PNTR with China will ensure a more level playing field in a very competitive market and will allow us to continue to grow and employ more people."

Brustuen International, Inc.

St. Paul, Minnesota
Eldon Brustuen, President

Industry: International consulting and trade management
Number of U.S. Employees and Consultants: 12
Major Services in China: Joint ventures
Years of Involvement in China: 12
Exports to China as a Percentage of Gross Sales: 35%

Brustuen Internatonal, Inc. is a trade brokerage firm that specializes in matching buyers and sellers. The company was founded in 1986 by Eldon Brustuen, former Director of International Trade for the Minnesota Trade Office.

Originally profiled in the 1998 edition of this report, the company is involved in business ventures throughout Asia and in South Africa. Currently, its most significant market is in China, where the company established a publishing joint venture with China's leading publisher of economic information.

Vice President David Melander cites understanding of the target market and furthering the knowledge of his clients about those markets as paramount to Brustuen International's success. For example, understanding the purposes behind Chinese regulations makes them more transparent and easier with which to comply.

Melander predicts many U.S. competitors will enter the China market once there is more openness in the publishing field. "We see PNTR as vital to integrating China into the world economy for now, and to moving it towards more democratic government structures into the future. There is a direct connection."

The Midwest

DH Pacific, Ltd.

Gahanna, Ohio
E.H. Tripp Decker, President

Industry: Consulting
Number of U.S. Employees: 2 staffers representing the employees of 3 client companies
Major Services to China: Consulting services for drug, biotechnology, medical and laboratory companies
Years of Involvement in China: 4

Says **DH Pacific, Ltd.** President Tripp Decker, "We help young biotechnology companies use the China market to gain the experience of being a full commercial company so they can later bring those skills back to the United States to develop business at home." DH Pacific, Ltd. helps smaller companies accelerate their growth via pathways other than the oft-used, low-revenue option of out-licensing of technology to large pharmaceutical and device companies.

"We assist our biotechnology clients to arrange agreements whereby large companies get the rights to develop a drug, but where the China market is excluded from the package. The small companies continue to develop the products in China, generally funded by joint venture partners, and learn to build a commercial business."

Decker says that his clients' sales stand to grow considerably when China implements the terms of the U.S.-China WTO agreement. "The agreement minimizes the risk of doing business in China and reduces the uncertainties of working together with joint venture partners. Finding cures for diseases should be considered a 'mankind' issue and U.S.-China cooperation in this area should be encouraged."

Digital Storage, Inc.

Lewis Center, Ohio
George Babyak, President
http://www.digitalstorage.com

Industry: Computer services
Number of U.S. Employees: 85
Major Products Sold to China: Optical disks and data cartridges
Years of Involvement in China: 4
Exports to China as a Percentage of Total Export Sales: 5% (1999), 14% (YTD 2000)

Founded in 1986, **Digital Storage, Inc.** is a specialty distributor of new technology computer supplies. Its products include optical disks and drives, CD-ROMs, diskettes, printer accessories, power supply products, and other accessories. Digital Storage is a young, dynamic company that emphasizes the sale of high-quality, internationally known, name-brand product lines.

"China, with its sheer market size, is obviously a major target for our company," said Hilary Conard, Director of Worldwide Operations. "Our business is growing quickly, and by hiring a sales representative from China, we've been more successful in building relationships there." Digital Storage does encounter certain barriers to doing business in the China market. Says Conard, "If a prospective Chinese partner company is not large enough to have its own distribution network, we can't do business with them. And high tariffs on our products limit our competitiveness."

Winning significant tariff reductions and the right to distribute its products throughout the China marketplace are major reasons Digital Storage believes the U.S.-China WTO agreement is critical to its future success in China. Unless Congress approves permanent normal trade relations with China, however, only Digital Storage's overseas competitors will be able to take advantage of these benefits.

DTI Peer

Benton Harbor, Michigan
Arthur L. Anderson, Division President
http://www.dtipeer.com

Industry: Manufacturing
Number of U.S. Employees: 117
Major Products Sold to China: Welding machines
Years of Involvement in China: 1
Exports to China as a Percent of Gross Sales: 5%

"Our business can grow in China with passage of PNTR. We are successful now because we produce highly reliable equipment, and because we are a U.S. company, we have credibility," comments Arthur L. Anderson, Division President of **DTI Peer.** The company produces single station, custom welding machines used to manufacture other products.

DTI Peer entered the China market by selling equipment to U.S. companies with factories located in China. These manufacturing facilities produce compressor components for heating, ventilation and air conditioning (HVAC) systems for use in China. DTI Peer machines also manufacture components for the domestic Chinese appliance industry, and automotive seating and storage shelving.

Anderson notes that the rapid development of the Chinese market and the supporting infrastructure will lead to increasing demand for manufactured products. However, duties imposed by China on U.S. products make it difficult to sell competitively to Chinese companies. "We need PNTR to lower the barriers. China is a developing market that needs to be served by someone, somewhere in the world. Why not us?" asks Anderson.

Holophane

Newark, Ohio
John Morgan, President
http://www.holophane.com

Industry: Lighting
Number of U.S. Employees: Approximately 900 in Newark, Utica, Pataskala, and Springfield, OH; and Austin, TX
Major Products Sold to China: Industrial and roadway lighting equipment
Years of Involvement in China: 5

This mid-sized company won one of the contracts to light the beltway around Guangzhou, the southern Chinese city just across the border from Hong Kong.
"The massive project is the equivalent of lighting the I-270, I-71, and I-70 interchanges around Columbus, Ohio," exclaims Thomas Salpietra, **Holophane's** Director of Worldwide International Sales. "Our participation in this project has allowed us to boost production and employment at home."

The company's first foray into the China market was on a trade mission five years ago. Thanks to that trip, and with the help of the Ohio Department of Development, the company made a number of valuable business contacts. In 1998, Holophane opened an official Representative Office in Shanghai, and shortly thereafter, won the roadway lighting contract. China now represents the company's single largest roadway lighting systems market outside the United States.

How will China's entry into the World Trade Organization (WTO) affect Holophane's bottom line? Salpietra explains, "We will be much more competitive when tariffs on our products come down by 15%. And there are now only 16 government-approved trading companies that can import goods. If China enters the WTO and Congress passes permanent normal trade relations, we will be able to reach our ultimate customers directly."

The Midwest

Lyonhurst, Inc.

Birmingham, Michigan
Donald L. Bush, President

Industry: Computer Services
Number of U.S. Employees: 23
Major Products Sold: Computer Aided Design Software

Although not doing business directly with China, **Lyonhurst, Inc.** provides computer services to the commercial division of the primary U.S. aircraft manufacturer. The Boeing Corporation provides high accuracy engineering documents and Lyonhurst converts them into intelligent computer files.

Lyonhurst would expect a 20-30% increase in employment resulting from the broad expansion of business in the China market that Boeing expects after passage of PNTR. Thus, the fortunes of this high technology company are very closely tied to the market prospects of its largest customer.

Founder and President Donald L. Bush believes that failure to pass permanent normal trade relations will "drive China into the arms of Airbus (Industries), thereby abdicating to the Europeans the fastest growing market for our largest U.S. exporter."

"PNTR will benefit small businesses in a number of ways, but I would like to stress two important areas. First, PNTR means more exports to China by American businesses — of all sizes. While many businesses will see expanded opportunities to export directly to China, others will benefit from the goods and services they supply to larger companies that do business with China. Second, small businesses will gain from the application of WTO rules to China. Family companies, with limited resources, often cannot meet the current challenges of China's complex import regulations. The greater transparency and compliance China has agreed to through PNTR will make it easier for small American companies to enter the Chinese market."

—Rep. Tim J. Roemer (D-IN-3)

Malichi International, Ltd.

Indianapolis, Indiana
Toby Malichi, Founder and President

Industry: International business development
Number of U.S. Employees: 3, Representing client companies in Washington, DC; Miami, FL; Chicago, IL; Indianapolis, IN; and New York, NY
Major Services Sold to China: Coal Technology
Years of Involvement in China: 4
Services to China as a Percentage of Total Business: 15-17%

Founded in 1982, **Malichi International, Ltd.** is an international business development, outsourcing, and trade representation firm that helps to secure sales and project contracts for its clients and partners. The recipient of numerous small business and procurement awards, Founder and President Toby Malichi manages long-term business relationships, and sees the China market as holding much promise for American companies, particularly the small and mid-size firms that are his primary focus.

"I have found the Chinese to be quite receptive to working with small and medium-sized enterprises. They seem determined to help us arrive at a mutually beneficial business relationship," he notes. Malichi became involved in the China market in 1996, working on behalf of a client whose technology is used to make brisquettes of coal that emit very low smoke. The concept was very well-received by the partner Malichi identified in North China, an area that depends heavily on burning coal for fuel and which must cope with the associated pollution.

Malichi did encounter challenges related to requests to transfer his client's technology, but secured an arrangement that served his U.S. client's best interests. Financing issues are still being finalized, but the ventures, which will be worth $40-60 million in earnings annually per project, will benefit both the U.S. firm and China's environmental protection efforts. Malichi emphasizes that securing permanent normal trade relations with China is an overriding concern for him and investors in his projects. "These types of mutually beneficial partnerships won't be possible if we don't put the U.S.-China commercial relationship on a sound footing."

Prestige Enterprise International

Cincinnati, Ohio
Charles Gabbour, President
http://www.prestigefloor.com

Industry: Building
Number of U.S. Employees: 14, plus 25 overseas employees selling goods produced in Arkansas, Tennessee, Michigan, Ohio and Wisconsin.
Major Product Sold to China: Hardwood floors
Years of Involvement in China: 13
Exports to China as a Percentage of Total Production: 2%

Jeffrey Gabbour, Vice President of **Prestige Enterprise International**, emphasizes the importance of taking a long-term approach to doing business in China, and of being conscious of the unique features of China's different regional markets. "Someone who tells you they can sell your goods in Shanghai probably isn't the one who can do the best job for you in Beijing or Xian."

Prestige Enterprise International's hardwood floor products were selected by Shanghai officials to be used in the China National Games in 1997. Gabbour stresses the importance of relationships in China, and the need to meet face-to-face with potential business partners. To win the National Games contract, company representatives had multiple meetings with Shanghai officials, and sent someone to China at the time of the supply and installation of goods.

Prestige Enterprise International does not yet engage in daily distribution in China. If China joins the World Trade Organization and Congress passes permanent normal trade relations (PNTR), it will be possible for U.S. companies to distribute Made-in-USA goods, and to take advantage of the range of services related to distribution, such as warehousing and after-sales service. Gabbour adds that passage of China PNTR will also mean American companies will be viewed as long-term, reliable partners.

Processed Plastic Company

Montgomery, Illinois
David R. Bergman, President
http://www.processedplastic.com

Industry: Manufacturing
Number of U.S. Employees: Approximately 350
Major Products Purchased from China: Toy parts and assemblies; manufacturing tools
Years of Involvement in China: Over 16
Percentage of Gross Sales from China Imports: 15%

Processed Plastic Company is a U.S.-based toy manufacturer that is benefiting from the growing U.S. import trade with China. The company purchases complete toy parts and assemblies from China, in addition to tools used to manufacture toys. Once the parts arrive in the U.S., they are incorporated as value-added components that comprise 90% of the manufacturing process. Completed toys are then exported to the Mexican and Canadian markets.

Company President David R. Bergman notes that generally, the quality of products purchased in China is good and improving over time. He has visited China regularly and remarks on the vast changes in the quality of life of typical Chinese workers. "I did not see anything but good clean living conditions, and can say that standards have improved in the last 20 years."

Bergman cites the inexpensive costs of products available to U.S. manufacturers as the primary attraction of the China market. While customs and bonding has been a continual source of concern, the lower costs of importing toy parts and assemblies enables Processed Plastic Company to maintain jobs at its U.S. factory. Over the past five years, 50 U.S.-based jobs were created as a direct result of trade with China. Processed Plastic Company expects continued growth after passage of PNTR with China.

Roto-Rooter Corporation

West Des Moines, Iowa
Gary Burger, President
http://www.rotorooter.com

Industry: Plumbing
Number of U.S. Employees: 45
Years of Involvement in China: Less than one year
Expected Product Sales to China: Sewer and drain cleaning equipment

Roto-Rooter Corporation is the world franchising headquarters of Roto-Rooter Inc. This subsidiary of the world's leading plumbing service company manufactures sewer and drain cleaning equipment for export to international franchise licensees in several international markets.

In 1999, the company signed a master franchise agreement for Roto-Rooter (China) Limited, a Hong Kong-based company. While operations are presently in the start-up phase, Roto-Rooter Corporation forecasts that the China market could become its largest international franchise, without exception. Annual gross export sales of 20-25% of total export sales are expected over the next five years.

Roto-Rooter Corporation believes that China offers more potential than any other market in the world. This assessment is based on the rising standard of living in China and a growing appreciation for service that is developing among Chinese consumers. In a culture that values the relationship established between business and consumer, Roto-Rooter Corporation has invested much time in building a relationship with its master franchise partner, based in Hong Kong. While negotiating the 1999 master franchise agreement, Roto-Rooter (China) Limited representatives stressed that their ability to expand the Roto-Rooter business in China would certainly be enhanced if the U.S. had a productive relationship with China.

Director of International Development Paul Barkman sums up the importance of stable trade relations with China to Roto-Rooter Corp's prospects in the China market. "Passage of PNTR with China will only enhance our master franchise's relationship with prospective Roto-Rooter sub-franchisees throughout China."

The Midwest

Snider Mold Company, Inc.

Mequon, Wisconsin
Tim Mieritz, President
http://www.snidermold.com

Industry: Manufacturing
Number of U.S. Employees: 50
Major Products Sold to China: Large molds for molding plastic components for the automotive, seating, and material handling industries.
Years of Involvement in China: 20
Exports to China as a Percentage of Gross Sales: Approximately 10%

Snider Mold Company, Inc. started its China business about twenty years ago by partnering with other companies to put together a turn-key package for molds, including product design, tooling, molding press, and training. The company has also exported its products to Latin American and European countries, and typically supplies multinational corporations, including General Motors, Nissan, and Volkswagen. Snider Mold Company is just one example of how large companies create numerous opportunities for small and medium-sized firms.

While the China market has been a good source of business for the company, it also presents challenges. The duty on metal molds is presently 12% or 37%, depending on the type of product produced. A lack of clear and consistent guidelines on how to do business in China has also been a frustration. Director of International Marketing James Meinert comments, "We could easily double our business with some consistent rules to work with, even if they are not perfect!" Meinert looks forward to the tariff reductions and increased clarity in China's rules and regulations associated with the country's pending entry into the World Trade Organization, and hopes that the Congress extends permanent normal trade relations to China so that Snider Mold Company can take advantage of those benefits.

TradeCom International, Inc.

Solon, Ohio
Edward S. Benhoff, Chairman
http://www.imex.com/wdiyc/members/tradecom.html

Industry: Export marketing
Number of U.S. Employees: 4
Major Products Sold to China: Paint tools
Years of Involvement in China: 5
Exports to China as a Percentage of Gross Sales: 2%

"This country gives up absolutely nothing and gains everything. By opening the market, China becomes a greater part of the world," comments Edward S. Benhoff, Chairman of TradeCom International, Inc. While he has engaged in trade with China through Hong Kong for nearly 15 years, the restrictive costs of tariff and non-tariff barriers to the China market result in lost business for his current enterprise. TradeCom International earns 99% of its revenue from exports, but just 2% of that total comes from sales to China.

Benhoff attributes the importance of knowing the customer and providing service according to customer's needs as the reasons for his success in export markets around the globe. TradeCom International's current Chinese client was contacted through a business reference. After six months of relationship building and country visits by both parties, he is exporting container loads of painting tools to China. Previous deals included shipments of glues and adhesives.

When Congress votes for passage of permanent normal trade relations, Benhoff anticipates a doubling of his company's business in China within the first year after opening China's markets. "We can more easily influence the Chinese through open markets, rather than leaving them isolated."

"The U.S.-China relationship is at a crossroads. The United States has everything to gain and nothing to lose by approving PNTR, and you need to look no further than my home state of Kansas to see that. In 1998, Kansas farmers exported $57.9 million worth of agriculture goods to China. This new agreement increases market access for corn, beans and wheat, and USDA estimates that China could account for 37 percent of future growth in agriculture exports. Clearly the stakes are high."

—Sen. Pat Roberts (R-KS)

Tramco, Inc.

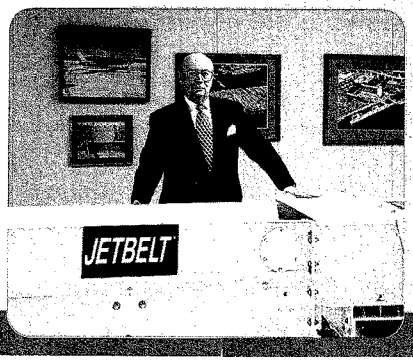
Wichita, Kansas
Leon Trammell, Founder and Chairman
http://www.tramcoinc.com

Industry: Manufacturing
Number of U.S. Employees: 160
Major Product(s) Sold in China: Conveying equipment
Years of Involvement in China: 15

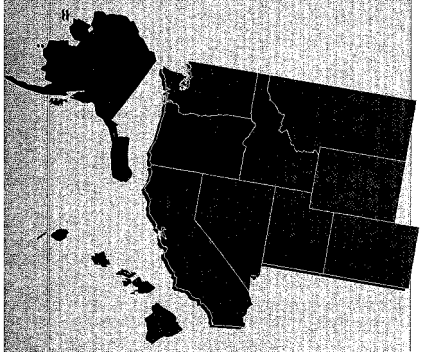
Tramco, Inc. manufactures and sells high-production conveyer product lines. When Tramco first went to China, the grain industry's idea of transporting grain was "one farmer or gardener, one sack of grain and one bicycle." Five years ago saw the beginning of the construction of a system of what the company called country elevators.

They were primarily employed in ship cargo areas. Tramco would like to believe that China is leaving a period of "labor intensity" and entering a period of "brain intensity." Obviously, this shows great promise for a manufacturer of high-quality, labor-saving equipment. Today, Tramco's involvement in China is as a supplier of engineering and manufacturing expertise to provide conveying equipment to a ship unloading facility in Yingkou. This project is one of many financed by the World Bank. With these funds, China is finishing up the greatest grain system expansion the world has ever known. It should be noted that in part due to Congress' annual NTR renewal process, no U.S. design and engineering firms have been involved in these projects. Most of the work goes to Canada, England, Australia and the Netherlands. The current NTR activities take away two qualities that Tramco expects in a long-run client relationship: continuity and consistency.

Withholding permanent NTR status from China restricts Tramco's ability to compete and does not punish China, because the world's largest potential marketplace will buy from some other country. The people being punished are American manufacturers and engineering experts.



The West



Action Instruments, Inc.
San Diego, California

M. Brashem, Inc.
Tacoma, Washington

Directions, Inc.
Honolulu, Hawaii

MailCat.com
North Hills, California

Faber Enterprises, Inc.
Canoga Park, California

MCM Group Holdings, Ltd.
Honolulu, Hawaii

Hach Company
Loveland, Colorado

New Light Industries, Ltd.
Spokane, Washington

Hamilton Manufacturing Inc.
Twin Falls, Idaho

Octaxias Company, L.L.C.
Portland, Oregon

Jesse Engineering Company
Tacoma, Washington

PowerQuest Corporation
Orem, Utah

The KIC Group
Vancouver, Washington

Sports Tutor, Inc.
North Hollywood, California

Major Exports – West Region

Transportation Equipment
Industrial Machinery and Computers
Electric and Electronic Equipment
Scientific and Measuring Equipment
Paper Products

Action Instruments, Inc.

San Diego, California
Frank Williams, President
http://www.actionio.com

Industry: Industrial instrumentation
Number of U.S. Employees: 175
Major Products Sold to China: Control instruments and industrial I/O (input/output) systems
Years of Involvement in China: 15
Exports to China as a Percentage of Total Export Sales: 6%

Action Instruments, Inc. is a world leader in the design, manufacture and distribution of electronic signal conditioning and process control instrumentation. Its primary lines of business are factory automation and the process control industry, which the company views as growth industries for China. In just the past two years, Action Instruments has increased its staff by 10%.

While the Asia Pacific Rim Region is an important part of Action Instrument's business, the company considers China to be its most significant market outside of the U.S. The company has developed long-standing relationships during more than 15 years of doing business with China, establishing and investing in three joint-venture companies located in Hong Kong, Shanghai and Dalian.

Under the U.S.-China World Trade Organization agreement, China would cut tariffs on American electronics by 56% to an average of about 7%. Action Instruments anticipates that its export sales to China would double if Congress votes in favor of PNTR.

"Many difficulties with business issues, people and trade have been overcome. We have learned the most productive ways to deal with our Chinese customers. And we have been rewarded with some measure of success. However, we feel that the future can be much more productive if the U.S. Congress passes PNTR with China."
–Thomas Au, Asia-Pacific Sales Director, Action Instruments, Inc.

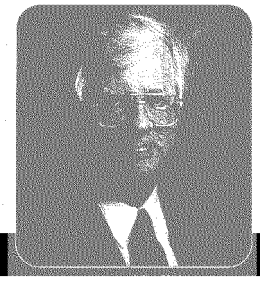
Directions, Inc.

Honolulu, Hawaii
James A. Hawkins, President and CEO
http://www.directions-inc.com

Industry: Education
Number of U.S. Employees: 3, also work with 9-90 subcontractors as needed
Major Service Sold to China: Training programs in various fields
Years of Involvement in China: 2

"Passing PNTR places two of the world's greatest economies, and powers, on common ground. It is far better to be partners in business than adversaries in war," states Jim Hawkins, President and CEO of **Directions, Inc.** The company provides distance training programs in the fields of aviation maintenance, executive management, and international business, among others. Directions began doing business in China in 1998 as part of a contract to support American aircraft manufacturing companies. Business has rapidly expanded as the Chinese government addresses training needs throughout its emerging economy.

Last year, the company's percentage of gross sales due to total exports was approximately fifty percent. Speaking conservatively, Jim Hawkins believes that his business would triple if PNTR is extended to China. In his experience of doing business in China, he has found that patience, willingness to see the other side's perspective, and quiet reserve are the most powerful business tools. "China reveres its traditions, its customs, and its philosophy, and we can learn a lot from each other," notes Hawkins.



"By going directly to small and medium businesses and getting their input on the benefits of China trade, the U.S. Chamber of Commerce has gotten the straight story. In my home state of California, which has the highest number of firms exporting to China, over 84% of those businesses are small and medium enterprises. Expanding the access of America's small businesses to China's huge market will help us maintain our prosperity while increasing China's exposure to American values."

—Rep. David Dreier (R-CA-28), Chairman, House Rules Committee

Faber Enterprises, Inc.

Canoga Park, California
Ron Spencer, President

Industry: Industrial manufacturing
Number of U.S. Employees: 145
Major Product Sold to China: Aerospace tubing
Years of Involvement in China: 10

"We have been a supplier to Boeing for forty-five years, and as their business with China has grown, so has ours," comments Ron Spencer, President of **Faber Enterprises, Inc.** This manufacturer has embraced the Lean Manufacturing principles to create superior value-added tubing products for aerospace companies. Faber also exports to Germany and France, but views China as the market with the most potential.

Behind many major multinational company trade success stories are hundreds of smaller companies like Faber. Spencer comments, "We want to maintain our long-term growth relationship with both Boeing and China. Thus, PNTR is the only correct choice. It is better to trade with China and keep them close. This will further peace and security in the world." Spencer believes that removing Chinese trade barriers to Faber's products could add 5% to its bottom line.

Hach Company

Loveland, Colorado
Elmar Illek, President
http://www.hach.com

Industry: Environmental controls and testing
Number of U.S. Employees: Over 800 in Loveland, CO and Ames, IA
Major Products Sold to China: Scientific instrumentation and testing equipment
Years of Involvement in China: Over 25
Exports to China as a Percentage of Gross Annual Sales: Over 10%

Hach Company develops, manufactures and distributes chemicals and analytical instruments that measure the quality of drinking and wastewater. The Asia region is the company's largest market, with China fast becoming the largest export destination after 15 years of steadily growing sales.

A large percentage of Hach's products are sold to government and industry labs, primarily for wastewater treatment applications. According to Paul Goltz, Manager, International Sales and Marketing, "Stabilization and betterment of the environment in China is becoming a higher priority among government and business, with new regulations taking effect and increasing enforcement."

Despite a 17% tariff on instruments and chemicals and an additional 11-15% value-added tax, the Chinese prefer to buy Hach Company products, which are regarded as well-designed and accurate. Goltz predicts sustained growth for the company, with sales to China increasing at a double-digit rate (20-30% per annum), unless an obstacle is placed in front of the company.

"PNTR would encourage multinational companies to make investments in China, leading to increasing development and added business for Hach Company," remarks Goltz. "Alternatively, if Congress does not pass PNTR, our competitors from Europe and Asia are poised to take advantage of the momentum of demand, which is already building for environmental products."

Hamilton Manufacturing Inc.

Twin Falls, Idaho
Herb Harney and
Tamara Hamilton-Harney, Owners
http://www.hmi-mfg.com

Industry: Manufacturing
Number of U.S. Employees: 11, based in Idaho and California
Major Products Sold to China: Hydro seed mulch and insulation
Years of Involvement in China: 1
Exports to China as a Percentage of Gross Sales: 1999 = 5%; 2000 estimate = 15-20%

"It's about the friendship. The Chinese are interested in a strong and trusting relationship before they are interested in a price or product. It took us four trips to China and a great deal of time, effort and planning to create our vision of our business there," comment Herb Harney and Tamara Hamilton-Harney, owners of **Hamilton Manufacturing Inc.**

Based in Idaho's Magic Valley, the company manufactures hydro seed mulch and cellulose insulation converted from recycled newspaper, and supplies equipment to apply those products. Primary applications are residential and commercial insulation, landscaping mulch for residential and commercial revegetation, as well as erosion control and revegetation of reclaimed land.

Hamilton Manufacturing envisions a cooperative and mutually beneficial relationship for the future in working with their Chinese partners. While other countries show growth potential for the company's full line of products and equipment, China clearly represents the largest market for the company over the long term.

Herb Harney and Tamara Hamilton-Harney anticipate that passage of PNTR with China and China's accession to the WTO will fuel their company's growth. Staffing is expected to increase by 30% in the coming year to better manage new business opportunities in China.

Jesse Engineering Company

Tacoma, Washington
Jeff Gellert, President
http://www.jesse-wallace.com

Industry: Manufacturing
Number of U.S. Employees: 150
Major Product) Sold to China: Pipe fabrication machinery for shipbuilders
Years of Involvement in China: 8
Exports to China as a Percentage of Gross Sales: Approximately 12%

Jesse Engineering Company's products are used in many industries, but the principal ones are ship-building and boiler manufacturing, where the company provides the pipe and tube cutting, welding and bending machinery. Its products go to many countries around the globe, and 1992 saw the first sale of Jesse Engineering equipment to China. Now the company's most significant export destination, China represents more than 50% of the company's exports.

Jesse Engineering attributes its success in China to treating customers fairly and respectfully before and after the sale. In accepting the 1997 Globe Award from the World Trade Center in Tacoma, Washington, Vice President and Founder Darrell W. Jesse told his employees, "cultural differences probably present more difficulty than the basic language barrier, which can be solved by translators… All phases from design and manufacturing through testing and installation must be handled in the best possible manner, despite any cultural communication problems." Jesse looks forward to putting U.S.-China relations on a stable and secure footing with the passage of PNTR, and sees the associated increase in bilateral trade as benefiting his company and others like it.

The KIC Group

Vancouver, Washington
Gregory R. Hatton, Co-Owner
http://www.kic-group.com

Industry: Distribution
Number of U.S. Employees: 12 in Vancouver, WA; 3 in Laredo, TX
Major Product Sold to China: Components for truck-trailer manufacturers
Years of Involvement in China: 14
Exports to China as a Percentage of Gross Sales: Approximately 10%

The **KIC Group** sells Made-in-USA trailer components to a KIC-owned company in China, which then provides additional value-added components for ultimate distribution both in China and Southeast Asia. In its first business transaction with China in 1986, KIC sold a technical package of engineering and manufacturing equipment to a trailer manufacturing company that is now KIC's largest customer in China.

KIC attempted to enter Chinese markets to export fully assembled trailer axles to Chinese customers. Observes Co-Owner Gregory R. Hatton, "Due to import duties of over 27%, we were not competitive with locally-manufactured products, even though Chinese customers preferred U.S. technology. We determined that to best access the market, it was necessary to provide some local content. After implementing this program in 1997, KIC sales in China have doubled each year."

Hatton fully expects that when China reduces its tariff and non-tariff barriers, KIC sales will grow geometrically, as the company will be able to leverage sales to all of Asia. Offering some advice to other small businesses contemplating entering the China market, Hatton counsels, "Do not expect fast success in either sales or profits. Getting to know your trading partners is as important as people tell you. Long-term investment in time and effort will pay off in the long run."

The West

"Securing China PNTR is a key component to continuing our nation's longest economic expansion — an economic expansion that has raised the standard of living for working Americans across the country. The technology sector has been a driving force behind this period of unprecedented economic growth, and the China WTO accession agreement will give U.S. telecommunications, software and internet companies access to China's 1.2 billion people. This U.S. Chamber report illustrates that China's largely untapped market will help to generate the fuel for continued economic growth and opportunity for American workers and their families."

—Rep. Calvin Dooley (D-CA-20)

M. Brashem, Inc.

Tacoma, Washington
Martin Brashem, President

Industry: Import and distribution
Number of U.S. Employees: 7
Major Products Imported from China: Graphite, carbon and steel products
Years of Involvement in China: 12

M. Brashem, Inc. imports and distributes graphite and carbon items that are used in steel and aluminum production. The company first began doing business in China in 1988. Although the company works with manufacturers in other countries, China represents the largest share of its business. Marvin Brashem, Vice President, reports that the success of his company is in part due to having a full-time employee in Beijing, which creates an everyday presence in the marketplace. He also spends a great deal of time working with manufacturers in an effort to meet each customer's specific requirements.

If China is extended PNTR, Brashem believes that his company will be able to increase two-way trade with China, including selling some finished products and raw materials for the products that they buy from China. "As the most populous nation in the world, it is essential that the United States extend PNTR to China. We can already see the vast changes that China has made politically and socially from the influence of the western world," notes Brashem.

MallCat.com

North Hills, California
Scott Spooner, Principal
http://www.mallcat.com

Industry: E-Commerce
Number of U.S. Employees: 5
Major Products Imported from China: Merchandising and gifts for resale
Years of Involvement in China: 2

MallCat.com is a "new economy" enterprise that owns and operates an e-commerce site. Although its operations commenced in January 2000, founder Scott Spooner has been involved in previous ventures with Chinese companies. Mallcat.com offers products from manufacturers for direct sale to the general public. Among the featured manufacturers are some that represent products from Chinese companies. While Mallcat.com seeks out great deals from around the globe for its users, trade with Chinese companies is currently the most significant of any country represented.

MallCat.com has found that products coming from Chinese companies have lower wholesale prices than those same products coming from other countries. "We offer products at retail price points," says Spooner. "Our ability to offer lower retail prices — because of the lower wholesale prices — allows us to offer greater value for our customers and thus create a greater volume of sales for our company."

MCM Group Holdings, Ltd.

Honolulu, Hawaii
Manuel C. Menendez, Chairman

Industry: International trade and business development
Number of U.S. Employees: 50
Primary Business in China: Consulting, trade and investment
Years of Involvement in China: Over 20
Business with China as a Percentage of Gross Sales: 40%

"In all of our ventures, we are communicating and doing business at a world standard, moving China towards the rule of law, so that the business agreements are meaningful and enforceable," notes Manny Menendez, Chairman of **MCM Group Holdings, Ltd.**

Since the late 1970's, Menendez has negotiated business deals in the China market, including development of joint venture partnerships, technology transfers to help with infrastructure and financial development, and export deals for placement of U.S. products in China, some directly benefiting the local Hawaiian economy. MCM Group Holdings counts among its successes over 20 joint ventures and other cooperative agreements with the People's Republic of China.

Menendez attributes his company's success to a number of factors, including understanding the needs of the market, choosing the right local partner, maintaining flexibility in thought and approach, and due diligence conducted on potential business partners in China.

Menendez cites world peace through world trade as his business philosophy. An advisor to Fortune 500 corporations, he is unequivocal in his support for Congressional passage of PNTR and the benefits for American business. "Currently, there are many categories under which the duties are onerous and act as barriers to trade. PNTR with China will create a level playing field where duties are uniform among WTO members, providing equal access for American companies to markets and specific industries in China."

New Light Industries, Ltd.

Spokane, Washington
Steve McGrew, President
http://www.iea.com/~nli

Industry: Information and technology
Number of U.S. Employees: 7
Major Products Sold to China: Anti-counterfeit labels and laminates
Years of Involvement in China: 11
Exports to China as a Percentage of Gross Sales: 15%

"To a small high technology business, China is the land of opportunity," declares Steve McGrew, President of **New Light Industries, Ltd.**

Founded in 1988, New Light Industries is engaged in the growing domain of protecting intellectual property rights and the trademarks of products made and sold in China. The Spokane-based company first entered the China market in 1989, installing hologram production systems for the manufacturing of anti-counterfeit labels and laminates. While New Light Industries licenses technology internationally, its most important export market is China, where it has established a leading reputation by providing top quality service, technology, and products to its clients.

McGrew anticipates increasing demand for New Light Industries' products. "China needs our anti-counterfeit technology to protect the trademarked names of many diverse products, ranging from wine, to bicycles, to jewelry." The passage of PNTR and the removal of trade barriers will find more American companies exporting their products to China. New Light Industries looks forward to providing both American and Chinese manufacturers with the technology to preserve intellectual property rights and prevent counterfeiting of brand-name products.

Octaxias Company, L.L.C.

Portland, Oregon
Jin Lan, President
http://www.chinaselections.com

Industry: Publishing
Number of U.S. Employees: 4
Major Service Provided in China: Copyright and Translation Rights
Years of Involvement in China: Over 3 years
Exports to China as a Percentage of Gross Sales: 50%

Founder and President Jin Lan worked for seven years on U.S. book export and copyright protection issues in the U.S. book industry. He opened **Octaxias Company, L.L.C.** to capitalize on the opportunities afforded by the U.S.-China Agreement on Intellectual Property Rights (IPR). Octaxias purchases U.S. copyrights for translation and co-publication in China and defends its clients' standing against infringement. Since 1997, the company has signed nearly one dozen copyright agreements with American publishers to have their works printed in Chinese.

Copyright purchases by Chinese publishers generate a profit for American companies. Lan believes this creates awareness and respect for intellectual property protection, which is critical for American companies conducting business in China. "Dealing with intellectual property rights is the perfect business to promote relationships between Chinese and American people," says Lan. "It increases understanding between peoples."

As published matter from the U.S. becomes more widely available in China, Lan sees unlimited opportunities for his business in the coming years. While Octaxias has dealt with piracy of clients' licenses, it also reports progress in enforcement by the Chinese government. "The U.S.-China IPR Agreement shows that China is making strides toward greater respect for intellectual property rights. Congressional passage of permanent normal trade relations with China will further strengthen U.S. companies' rights," comments Lan.

PowerQuest Corporation

Orem, Utah
Eric J. Ruff, CEO
http://www.powerquest.com

Industry: Computer software development
Number of U.S. Employees: 330 U.S.-based employees in Alabama, California, Connecticut, Idaho, Illinois, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, Ohio, Texas, Utah and Washington
Major Products Sold to China: Drive image special edition, PartitionMagic
Years of Involvement in China: 2 years
Percentage of Gross Sales Due to Exports: 51%
Gross Sales to China as a Percentage of Total Export Sales: Less than 2%

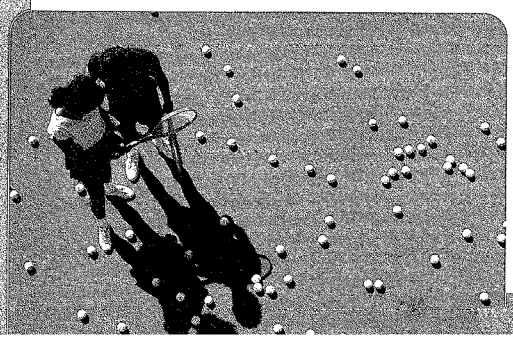
Recently returned from a business trip to China, **PowerQuest Corporation** CEO Eric J. Ruff discovered that the company's partners in China are very eager to work with their American counterparts. "They are anxious to make whatever cultural and governmental changes are necessary to ensure a successful business relationship."

Establishing long-lasting business relationships are a top priority for this high technology success story.

PowerQuest develops and markets software solutions that help information systems professionals install, protect and manage data storage devices.

Already successful in other international markets, the company was introduced to the China market in May 1998 as a participant in a U.S. Department of Commerce industry trade mission to five cities throughout China. By December 1998, PowerQuest had established an office in Beijing to market the company's products. Working with business leaders in Changzhou, PowerQuest identified manufacturing and distribution partners, and established a training and support facility in this eastern Chinese district.

While exports to China account for less than 1% of gross sales, Ruff is optimistic about his company's future in China. "China is an emerging marketplace with huge potential and an insatiable appetite for technology. When current trade barriers are removed, we will be able to accelerate the achievement of our business objectives."



Sports Tutor, Inc.

North Hollywood, California
Bill Rombeau, President
http://www.sportstutor.com

Industry: Manufacturing
Number of U.S. Employees: 20
Major Product Sold to China: Tennis ball machines
Years of Involvement in China: 11
China Exports as a Percentage of Gross Sales: 1%

Sports Tutor, Inc. manufactures and sells tennis ball, baseball, and soccer and volleyball throwing machines. The company started prospecting for business in China over a decade ago by attending trade shows, direct mailing to trade show attendees, and advertising in sports publications distributed around the world. Although its business in China is limited at present, Sports Tutor views China as a major market of the future. Says President Bill Rombeau, "We view the China market as having great potential, although in China the tennis market is currently very underdeveloped and our product is expensive."

Exports account for a quarter of the company's sales, which are shipped to customers around the globe. A strong believer in international trade, Rombeau adds, "International trade develops friendships for life, and contributes to world peace." He believes congressional extension of permanent normal trade relations for China will help Sports Tutor increase sales and continue to expand employment.

Sports Tutor expects to grow its China business by applying the same formula it has used in other markets: people, products, and persistence. Says Rombeau, "Most successful companies start with a core group of committed people, followed by quality products backed by excellent service, combined with the persistence to achieve success."

Resources
for U.S. Small Businesses

U.S. Chamber of Commerce
With a particular focus on greater outreach to small businesses, the International Division of the U.S. Chamber of Commerce plays an integral role in improving the ability of U.S. business to compete in the global marketplace. By keeping members informed of the latest changes occurring around the world, the International Division gives companies the tools they need to succeed. Call the International Division at 202/463-5460 to learn about our many international trade publications or to speak to a Chamber regional specialist. Visit the U.S. Chamber's website at **http://www.uschamber.com.**

Export-Import Bank
The Export-Import Bank of the United States (Ex-Im Bank) is an independent U.S. Government-held corporation that helps finance the overseas sales of U.S. goods and services. Ex-Im bank provides a level playing field for U.S. exporters by providing working capital guarantees and export credit insurance to creditworthy small and medium-sized companies, and guarantees of commercial and direct loans to foreign buyers of U.S. goods and services. **For more information, call 800/565-EXIM.** To obtain information on Ex-Im Bank's short and medium-term programs in Asia, call their 24-hour **Asia Hotline at (800) 565-3946, ext. 3905.** To acquire a seminar brochure and scheduling information regarding Ex-Im Bank's **briefing programs for the small business community, call 202/562-3912.** Visit the Ex-Im Bank homepage at **http://www.exim.gov** (see New and Small Business Center link).

Overseas Private Investment Corporation
The Overseas Private Investment Corporation (OPIC) helps U.S. small businesses by providing risk insurance for overseas investments to protect against the risks of inconvertibility, expropriation, and political violence. OPIC also provides direct loans to small and medium-sized businesses. OPIC's Corporate Finance Direct Loan provides support for overseas investments including permanent working capital, fixed assets, and expansion of facilities sponsored by U.S. small businesses. For more information, call the **OPIC Info-Line at 202/336-8799** or visit the OPIC homepage at **http://www.opic.gov.** To receive information directly by fax, call the **OPIC Facts-Line at 202/336-8700.**

Small Business Administration
The U.S. Small Business Administration provides financial, technical and management assistance to help Americans start, run, and grow their businesses. As the nation's largest single financial backer of small businesses with 70 District Offices, the SBA offered financing, training, and advocacy services for more than one million small business owners last year. The SBA's Office of International Trade (OIT) works in coordination with other federal agencies and public and private sector organizations to encourage and assist small businesses to expand their export activities. For more information, call the OIT at **202/205-6720** or visit the OIT website at **http://www.sbaonline.sba.gov/oit.**

The SBA administers the Small Business Development Center Program (SBDC) to provide management and technical assistance, counseling and training to current and prospective small business owners. Located throughout the United States, the SBDCs offer services to new-to-export, start-up and existing small businesses. For further information, call **202/205-7303** or visit the SBDC website at **http://www.sba.gov/SBDC.**

U.S. Agency for International Development
The U.S. Agency for International Development's (USAID) Global Technology Network (GTN) is designed to assist small and medium-sized U.S. companies gain access to developing markets. GTN facilitates the transfer of technology and services from the U.S. to countries worldwide through the dissemination of trade leads. For more information about GTN, call **800/872-4348** or visit its website at **http://www.usgtn.org.** Visit the USAID homepage at **http://www.info.usaid.gov.**

U.S. Department of Agriculture
The U.S. Department of Agriculture's Foreign Agricultural Service (FAS) provides a number of programs for the U.S. agricultural industry by both expanding export opportunities for U.S. agricultural, fish and forest products, and promoting world food security. FAS's Market Access Program (MAP) uses USDA's funds to help U.S. producers, exporters, private companies, and other trade organizations finance promotional activities for U.S. agricultural products. To find out more, visit the FAS website at **http://www.fas.usda.gov/fasprograms.html** or call **202/720-4327.**

U.S. Department of Commerce
The U.S. Department of Commerce, the U.S. Small Business Administration and the Ex-Im Bank have formed a unique partnership to establish U.S. Export Assistance Centers (EAC). EACs located at major metropolitan areas throughout the United States, are one-stop shops that provide small and medium-sized businesses with hands-on export marketing and trade finance support. To find the EAC nearest you, visit **http://www.ita.doc.gov** (see Export Assistance Centers or Trade Information Center), or call **800/872-8723** for more information.

The Department of Commerce's Trade Information Center (TIC) is a valuable resource for information about all U.S. export assistance programs. TIC provides general export counseling, country and regional market information and advice on export licenses and controls. For more information or to speak to a trade specialist, call **800/USA-TRADE,** or visit the TIC online at **http://www.its.doc.gov/tic.**

U.S. Trade and Development Agency
The U.S. Trade and Development Agency (TDA) assists in the creation of jobs for Americans by helping U.S. companies pursue overseas business opportunities. Through the funding of feasibility studies, orientation visits, specialized training grants, business workshops, and various forms of technical assistance, TDA helps American businesses to compete for infrastructure and industrial projects in middle-income and developing countries. For more detailed information, visit the TDA website at **http://www.tda.gov.**

Conclusion

A Vote for China PNTR is a Vote for American Small Business

When one thinks about the U.S.-China trade relationship, images of multinational companies doing business in China often come to mind. This report speaks to another side of the growing U.S.-China trade relationship that should not go unnoticed. It focuses on small and medium-sized companies from around the nation that in increasing numbers are doing business in the China market. While this report highlights only a small number of companies, it does illustrate that American companies of all sizes see opportunities in China's rapidly growing economy. There are many more companies just like these that are beginning to find success in China's huge and growing market.

But one should not ignore the fact that China has been a challenging place to do business for both small and large U.S. companies. China's inconsistency in applying rules and regulations and problems with enforcing contracts make doing business with China particularly frustrating for small and medium-sized businesses. Lack of transparency, import-licensing requirements, and high tariffs are also problematic. These current challenges are why passage of permanent normal trade relations (PNTR) and China's entry into the World Trade Organization (WTO) are so critical.

Many of the obstacles American companies face in China will be addressed by China's entry into the WTO. With commitments from China to remove tariff and non-tariff barriers that currently restrict U.S. agricultural exports, insurance and other financial services, automobiles, distribution rights, and high technology, there will be tremendous new opportunities for U.S. companies. China's commitments are fully enforceable under WTO law. There is no question that, in joining the WTO, China will move in the right direction and become a more open and transparent economy. American companies know that making China play by WTO rules is the best way to advance American interests in this enormous market.

In its bid to join the WTO, China, not the United States, is making all the concessions. The U.S. market is already open—it is China's market that is not open to U.S. goods and services. Upon entry into the WTO, China will make concessions that will lead to greater opportunities for American companies and the workers that they employ. Make no mistake: China will join the WTO with or without U.S. support.

All the U.S. Congress has to do is pass PNTR, the same tariff treatment the United States has extended to China for the last twenty years. Absent passage of PNTR, however, U.S. companies and workers will be placed at a competitive disadvantage vis-á-vis our foreign competitors in Japan, the European Union, and elsewhere. It would be a great irony if our competitors took home the benefits of the market-opening concessions that U.S. negotiators fought so hard to obtain. American business—small and large companies alike—would be set back for many years to come.

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Library of Congress Cataloging in Publications Data Main entry under title:
Small Business Success Stories in China: Faces of Trade

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Price: US $25.00
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