Congress of the United States

U.S. House of Representatives

COMMITTEE ON WAYS AND MEANS

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May 23, 2007

The Honorable Daniel R. Pearson
Chairman
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

Dear Mr. Chairman:

The U.S. trade deficit in goods with China grew astronomically for the sixth consecutive year in 2006, reaching a record high of $233 billion. The size and persistent nature of this deficit raises serious questions about its causes, including to what extent the deficit is driven by government interventions in the Chinese economy. In particular, the People's Republic of China (PRC) maintains numerous policies, including subsidies, aimed at promoting investment, exports, and employment. Those policies appear to have a direct role in exacerbating the U.S.-China trade imbalance, and a deleterious effect on the health of our domestically-based manufacturers, service providers, and farmers.

Therefore, on behalf of the Committee on Ways and Means of the United States House of Representatives, under the authority of section 332(g) of the Tariff Act of 1930, I request that the Commission augment the Committee's letter of September 21, 2006, by adding two more components to the fact-finding investigation to provide an in-depth assessment of the causes of the U.S.-China trade imbalance, and whether and to what extent the PRC uses various forms of government intervention to promote investment, employment, and exports. To make these additional requests manageable, additional time is allotted to complete the tasks, as specified below. I expect to supplement this request with additional questions, including ones related to the functioning of China's labor market.

Study I

Study I should describe and where possible, quantify the practices and policies that central, provincial, and local government bodies in the PRC use to support and attempt to influence decision making in China's manufacturing, agricultural and services sectors, and by individual firms.

Study I should include, but not be limited to, chapters describing government policies and interventions related to: (1) the privatization of State-owned enterprises and private ownership; (2) price coordination; (3) industrial development, particularly policies that target specific industries; (4) the banking and finance sectors, including policies and interventions to promote indicative lending and on the treatment of non-performing loans; (5) utility rates; (6) infrastructure development; (7) taxation; (8) restraints on imports and exports; (9) research and development; (10) worker training and retraining; and (11) the rationalization and closure of uneconomic enterprises. The study should include an analysis of the likely impact of a recently announced policy directive from the PRC's State-Owned Assets Supervision and Administration Commission (SASAC), which raises serious concerns about PRC interventions in a number of sectors. The Commission is requested to deliver this first report no later than 7 months from the receipt of this letter.

Study II

Study II will build on Study I by comprehensively cataloguing and where possible, quantifying the government policies and interventions described in Study I in specific sectors. Study II should include case studies on sectors where leading U.S. exports have not penetrated the Chinese market, and on sectors which are the primary drivers of the U.S.-China trade deficit. Study II should also include case studies on sectors where government policies and interventions are prevalent, including the semiconductor, telecom, banking, textiles and apparel, steel, automotive parts and aircraft sectors. In addition, the ITC should seek public comment and input from other government agencies on other sectors that should be included as case studies. Where applicable, the case studies should identify how PRC policies and actions are exacerbating existing global overcapacity in specific sectors.

Study II substantially overlaps with a current investigation under section 332(g) being undertaken by the Commission on *U.S.-China Trade: Driving Factors and Impediments*. The ongoing study should be combined with Study II, consistent with the focus discussed above. The Commission is requested to deliver Study II no later than 14 months from the receipt of this letter.

Study III

In addition, I request that the Commission combine two requested studies under section 332(g), also related to U.S.-China trade. One Study, *U.S.-China Trade: Implications of U.S.-Asia Pacific Trade and Investment Trends* will describe changes in U.S.-Asia trade. The second Study, *U.S.-China Trade: Implications of China's Deepening Integration with the Global Economy* will assess how two global trends, the fragmentation of production processes, and the growth in foreign direct investment flows are contributing to the growth in the U.S. trade deficit with China. The combined report – Study III – should analyze the role of PRC policies, including subsidies and other interventions in spurring changes in patterns of production and investment in the Asia region. In addition, to the extent that the Commission finds that China serves as a production platform for other Asian countries, I request that the Commission identify the specific products for which it serves as a production platform, whether other Asian countries have ceased production of those products, and whether the composition and levels of U.S. trade with the other Asian countries have changed. I also request that the Commission analyze the growth in the U.S. trade deficit with other leading Asian trading partners, such as Japan and Korea, and the reasons for this growth.

As part of this combined Study, I also request that the Commission examine the impact of foreign-invested firms in bilateral trade between the United States and China. The Study should examine what percentage of foreign-invested firms' production supply and serve the Chinese market and what percentage supplies the U.S. and other global markets. As part of that examination, the Commission should examine the profitability of foreign-invested firms both as to their operations in serving the Chinese market and in their export activities. The Commission is requested to deliver the combined Study no later than 24 months from receipt of this letter.

It is the Committee's intent to make studies available to the public in their entirety. Therefore, the reports should not contain any confidential business or national security classified information.

Sincerely,

Charles B. Rangel
Chairman