



# WASHINGTON MONITOR

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*A Weekly Review of U.S. Trade Policy Developments Affecting Japan*

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## Trade Briefs

This week the House Committee on Ways and Means held a hearing on China's Trade and Industrial Policies. It focused on the increasing role of the Chinese government in its economy and the growing disadvantage U.S. workers and businesses face as a result. The hearing consisted of four witnesses specializing in all areas of U.S.-China relations. The committee focused on six areas of concern which were covered extensively throughout:

- China's "indigenous innovation" initiative
- Failure to enforce intellectual property rights
- The adoption of discriminatory product standards
- The manipulation of export flows through export restrictions and selective tax rebates
- Subsidies and other measures that create substantial overcapacity in key sectors
- Currency Manipulation

Acting Chairman Sander Levin (D-MI) chaired the hearing. Congressman Charles Rangel (D-NY) attended as did Wally Herger (R-CA), Jim McDermott (D-WA), Kevin Brady (R-TX), and John Linder (R-GA)

In the first panel the following four witnesses testified to the Committee on China's role in the global trading system and the impact of its trade practices on U.S. economic interests:

- **Ian Bremmer**, Ph.D, President, The Eurasia Group, Washington, DC
- **Christian Murck**, Ph.D, President, American Chamber of Commerce, Beijing, People's Republic of China
- **Charles Freeman**, J.D., Freeman Chair in China Studies, Center for Strategic and International Studies, Washington, DC
- **Alan Wm. Wolff**, J.D., Co-chair, International Trade Practice, Dewey & LeBoeuf, Washington, DC

Chairman Levin's opening remarks focused largely on China's newfound role in the global economy. He stated that China's industrial and trade policies are inconsistent with the free market and are discriminatory towards U.S. workers and businesses. He pointed specifically to China's exchange rate policy as a prime example of "Chinese mercantilism" and noted that both the House and the Senate would be willing to address the issue if the Administration sees little or no action to appreciate the yuan after the G20 Summit. He mentioned that the indigenous innovation initiative only tilts the playing field for Chinese companies and does not allow for a "mutually beneficial relationship."

Bremmer agreed with the Chairman's statements and noted that within the last twenty-one months the strongest actors have not been free market based but state capitalist run

economies. He singled out Russia, Saudi Arabia, and most importantly, China as countries that use the market for political stability and economic gain. He also pointed out that China no longer relies on the West to fuel its growth. Bremmer argues that economic growth is the key to political survival and Beijing believes it can no longer trust the West to purchase its products. He highlighted four strategies by which the Chinese government will attempt to distance itself from the United States:

- Diversify exports away from the West toward Latin America and South Asia
- Use the policy of indigenous innovation to maintain a larger share of profits for what is manufactured within China
- Develop and grow Chinese domestic demand

If all else fails...

- Politically decouple itself from the United States through new alliances and the creation of a new world order

He argues that the United States has become significantly less powerful economically and politically in the last two years. The most important thing America can do to challenge China and induce change is to rebuild competitiveness and ultimately the economy as a whole. He states that coordination among allies will be the key as we have moved away from the Cold War zero-sum game. Furthermore, the level of “mutual indispensability” has been downgraded in the eyes of the Chinese and the United States needs to regain what was lost during the financial crisis.

Murck spoke on behalf of the American Chamber of Commerce in China and cited statistics which suggest that despite the challenges faced within, American companies are still doing quite well. Over seventy-one percent of Chamber members reported profits or enormous profits in the midst of the global recession. He noted the most difficult part about operating within China is to be able to manage through change as the Chinese adapt a top-down approach to industrial policy. This will favor state owned enterprises over private ones and benefit domestic companies in the long-run. While China is slowly improving and adjusting its stance on intellectual property rights, nationality of intellectual property continues to determine government procurement rights. He also mentioned that foreign companies have absolutely no involvement in the China Standards Settings Committees and that there is selective enforcement of anti-monopoly law. The only way for the United States and its allies to move forward is to increase competitiveness and market access while continuing to focus on trade related issues.

Freeman, of the China Studies program at CSIS, pointed out that China does recognize the value of the United States in maintaining economic growth. In 2001, it joined the World Trade Organization however it continues to make detrimental choices toward its own development. The Chinese government has been known to distrust the markets and therefore has implemented the indigenous innovation initiative and the long-standing currency policy. He encouraged American lawmakers and business leaders to communicate directly with provincial and local officials who have more at stake if American companies withdraw from the region. He

also suggested that the Administration and companies expand in other areas, such as Southeast Asia, as it is the region which will rival China in the coming decade.

Wolff accuses the Chinese of destroying U.S. and foreign industries in the process of industrial development. He argues that the indigenous innovation policy leads to gross excess capacity in steel, solar panels, wind energy equipment, and automobiles. He stated that China will continue to limit American companies' involvement and investment in the Chinese economy. He also noted that China is outpacing the United States when it comes to "green jobs" as it remains the top producer of solar panels. America is not "systematically connected" to the Chinese industrial policy and does not have a full understanding of what is at stake.

Chairman Levin acknowledged the difficulties in addressing China's industrial policies in the short term. He insisted that China sign onto the WTO Government Procurement Agreement in order to counter these types of interventions by the Chinese government. He focused more specifically on solar and wind energy and pinpointed this as an area of concern for American businesses operating within China's borders. He stated that 80 percent of software in China is pirated and stressed the need to do more to counter this statistic. He did not propose any new legislation to address these concerns.

Congressman Rangel said that he was reluctant to pick a fight with China if we lose our prime advantage in research and development and education. He stated that these are our two greatest assets and will ultimately boost our competitiveness. He argued that China does not respect the rules it signed up for and we need a broad based plan to address each issue. He also discussed China's "checkbook diplomacy" and how developing countries perceive China as "being there when they need them" while the United States offers aid with conditions attached.

Congressman Herger highlighted the fact that the Chinese system is largely decentralized and when the government in Beijing is asked to address intellectual property rights nothing actually happens. Despite the fact that the Chinese government understands the role intellectual property rights play in an innovative economy, it lacks the political capital to deal with problems at the local level, such as pirating. He suggests that we press the Chinese to do annual surveys on state owned enterprises using licensed software.

Congressman Brady focused more on currency reform and stated that the Schumer currency bill will do little to induce exchange reform for the yuan. He suggested that the United States pursue multilateral channels to influence the Chinese to open their currency market. He insisted that the United States pass all pending free trade agreements and took note of the burgeoning relationship between South Korea and China. He stated that the U.S. should pass the Korus FTA in order to solidify the US-Korean relationship and to build an open architecture to trade. These FTA's are important in our engagement with China in the Asia-Pacific region as they provide more leverage when negotiating trade issues.

Congressman McDermott highlighted the fact that business executives are already starting to move past China to rule based economies like Korea, India, and Indonesia for growth opportunities. He questioned how strong China actually is in the world economy and noted that its policies are actively harmful to its own development. Despite these claims, he mentioned that domestic demand will continue to fuel the Chinese economy as over 13 million people a year move into the bigger cities. The Chinese will need to build infrastructure, roads, rail, buildings and hospitals which will require Western machinery. This does not negate Western corporations operating in China and there needs to be a long term sustainable strategy to protect American interests.

Congressman Linder stated that the last two years have prevented China from reforming in the short term and bought the country more time to pursue discriminatory industrial policies as American companies look for every opportunity to expand in a down market. He also questioned whether American businesses can actually be heard fairly in the rule of law. He stressed the need to translate more US court rulings into Chinese. Linder also cited Taiwan as a prime example where the United States has lost an economic and strategic ally as China pursues economic integration with the island.

## **Dumping Watch**

### **Preliminary Results of Antidumping Duty Administrative Review for Certain Welded Carbon Steel Pipes and Tubes from India:**

On June 14<sup>th</sup>, the Department of Commerce (DOC) gave notice that it had reached preliminary results in the administrative review of the antidumping (AD) duty order on certain circular welded carbon steel pipes and tubes from India. The DOC published notice of this AD order in May 1986. In May 2009, the DOC gave notice of opportunity to request an administrative review of this AD order. On June 24, 2009, Wheatland Tube Company (Wheatland), the petitioner, filed a timely request for review, and the DOC gave notice that it would be initiating this administrative review.

The review will be initiated on the following companies: Lloyds Metals and Engineers Limited, Lloyds Steel Industries Limited, Jindal Industries Ltd., Maharashtra Seamless Limited, Jindal Pipes Limited, Makalu Trading Pvt. Ltd., Ratnamani Metals Tubes Ltd., Universal Tube and Plastic Ind., Ushdev International Ltd., and Uttam Galva Steels Ltd. The petitioner withdrew its request for review with respect to Jindal Industries and the DOC rescinded its review with respect to pipes and tubes from India produced by Jindal. Subsequent to the initiation of the review, Makalu Trading Pvt. Ltd, Uttam Galva Steels Ltd. and Ushdev International Ltd. stated that they each only had one same supplier while acting as individual resellers of subject pipe and tube and therefore, in accordance with DOC practice, the supplier is the proper party to review.

The DOC did preliminarily determine that Lloyds Metals & Engineers Limited (LMEL) / Lloyds Line Pipe Ltd. (LLPL), Jindal Pipes Limited, Maharashtra Seamless Limited and Ratnamani Metals Tubes Ltd. made U.S. sales of the subject merchandise below normal value. The DOC has calculated a preliminary dumping margin of 10.29% for all.

### **Continuation of Antidumping Duty Orders on Stainless Steel Wire Rods from Italy, Japan, Republic of Korea, Spain, and Taiwan:**

On July 1, 2009 the Department of Commerce (DOC) published a notice of initiation of sunset reviews of the antidumping (AD) duty orders on stainless steel wire rod from Italy, Japan, Korea, Spain, and Taiwan. The Department concluded that by revoking the duty orders this would result in a continuation of injury to U.S. domestic producers.

On May 14, 2010 the International Trade Commission (ITC) came to the same conclusion. The Department has notified the U.S. Customs and Border Protection (UBP) to continue to collect antidumping duty cash deposits at the rates in effect at the time of entry for all imports of the subject merchandise. The Department intends to initiate the next five year reviews no later than thirty days prior to the fifth anniversary of the effective date.

### **Federal Register Notices**

#### *International Trade Administration*

**[C-533-839] Carbazole Violet Pigment 23 from India:** Rescission of Countervailing Duty Administrative Review *75 FR 34699-34700*, June 18, 2010.

**[A-549-821] Polyethylene Retail Carrier Bags from Thailand:** Rescission of Antidumping Duty Administrative Review in Part *75 FR 34699*, June 18, 2010.

**[A—570-832] Pure Magnesium from the People’s Republic of China:** Preliminary Results of the 2008-2009 Antidumping Duty Administrative Review *75 FR 34689-34699*, June 18, 2010.

**[A-427-801] Ball Bearings and Parts Thereof from France:** Final Results of Changed-Circumstances Review *75 FR 34688-34689*, June 18, 2010.

**[C-570-950] Wire Decking from the People’s Republic of China:** Correction to the Final Affirmative Countervailing Duty Determination *FR 34688*, June 18, 2010.

**[A-570-909] Certain Steel Nails from the People’s Republic of China:** Final Results of the First New Shipper Review *75 FR 34425-34426*, June 17, 2010.

**[A-475-820, A-588-843, A-580-829, A-583-828] Stainless Steel Wire Rod from Italy, Japan, Republic of Korea, Spain, and Taiwan:** Continuation of Antidumping Duty Orders *75 FR 34424-34425*, June 17, 2010.

**[A-570-848] Freshwater Crawfish Tail Meat from the People’s Republic of China:** Preliminary Results of Antidumping Duty Administrative and New Shipper Reviews *75 FR 34100-34106*, June 16, 2010.

**[A-570-912] Certain New Pneumatic Off the Road Tires from the People's Republic of China:** Initiation of Changed Circumstances Review *75 FR 34098-34100*, June 16, 2010.

**[A-570-501] Natural Bristle Pain Brushes and Brush Heads from the People's Republic of China:** Notice of Initiation and Preliminary Results of Changed Circumstance Review, and Intent to Revoke the Order *75 FR 34097-34098*, June 16, 2010.

**[A-583-833] Certain Polyester Staple Fiber from Taiwan:** Extension of the Final Results of Antidumping Duty Administrative Review *75 FR 34097*, June 16, 2010.

**[A-580-839] Certain Polyester Staple Fiber from the Republic of Korea:** Preliminary Results of the 2008-2009 Antidumping Duty Administrative Review *75 FR 33783-33787*, June 15, 2010.

**[A-201-834] Purified Carboxymethylcellulose from Mexico:** Notice of Preliminary Results of Antidumping Duty Administrative Review *75 FR 33775-33778*, June 15, 2010.

**[A-557-813] Polyethylene Retail Carrier Bags from Malaysia:** Preliminary Results of Antidumping Duty Administrative Review *75 FR 33772-33775*, June 15, 2010.

**[A-489-815] Light Walled Rectangular Pipe and Tube from Turkey:** Notice of Preliminary Results of Antidumping Duty Administrative Review *75 FR 33779-33782*, June 15, 2010.

**[A-533-502] Certain Welded Carbon Steel Standard Pipes and Tubes from India:** Preliminary Results of Antidumping Duty Administrative Review *75 FR 33578-33584*, June 14, 2010.

*International Trade Commission*

**[Investigation No. 731-TA-1174-1175 (Final)] Seamless Refined Copper Pipe and Tube from China and Mexico;** Scheduling of the final phase of antidumping investigations *75 FR 33330-33332*, June 11, 2010.

**[Investigation No. 37-TA-721] In the Matter of Certain Portable Electronic Devices and Related Software;** Notice of Investigation *75 FR 34484-34485*, June 17, 2010.

**[Investigation No. 337-TA-720] Certain Biometric Scanning Devices, Components Thereof, Associated Software, and Products Containing the Same;** Notice of Investigation *75 FR 34482-34483*, June 17, 2010.

**[Investigation No. 337-TA-722] In the Matter of Certain Automotive Vehicles and Designs Therefore;** Notice of Investigation *75 FR 34483-34484*, June 17, 2010.

**[Investigation No. 701-TA-475 and 731-TA-177] Certain Aluminum Extrusions from China;** Determinations *75 FR 34482*, June 17, 2010.

**[USITC SE-10-019] Sunshine Act Meeting Notice;** *75 FR 34155*, June 16, 2010.

**[Investigation No. 332-520] Pharmaceutical Products and Chemical Intermediates, Fourth Review;** Advice Concerning the Addition of Certain Products to the Pharmaceutical Appendix to the HTS *75 FR 33824-33825*, June 15, 2010.

**[Investigation No. 731-TA-149 (Third Review)] Barium Chloride from China;** Determination *75 FR 33824*, June 15, 2010.

**[Investigation No. 731-TA-1047 (Review)] Ironing Tables and Certain Parts Thereof From China;** Determination *75 FR 33636*, June 14, 2010.

### **The Week Ahead**

- On June 23<sup>rd</sup>, the Senate Finance Committee will hold a hearing on The U.S.-China Trade Relationship: Finding a New Path Forward
- On June 29<sup>th</sup>, the ITC will hold a hearing on Woven Electric Blankets from China