

**New York Times**  
December 12, 2006

## **Before Visit to China, a Rebuke**

By STEVEN R. WEISMAN

BEIJING, Tuesday, Dec. 12 — In a rebuke to China on the eve of a high-level visit by American officials, the Bush administration formally accused Chinese leaders on Monday of failing to meet commitments to open the nation's economy and crack down on piracy of foreign goods.

The criticism came in a 100-page report to Congress by Susan C. Schwab, the United States trade representative. The report, issued in Washington, was required by American law on the fifth anniversary of China's joining the World Trade Organization.

While praising China for making progress in some areas, the report said that the country's efforts in other crucial areas had recently stalled, despite repeated promises from Beijing. It cited continued limits by China on sales of financial services by foreign banks, including credit cards, and limits on some sales of farm goods.

It also accused China of engaging in counterfeiting or piracy of software, videos, pharmaceuticals and other goods, sometimes with open encouragement of Chinese officials, and of failing to stiffen punishments on those engaging in these practices.

The report said that "some Chinese government agencies and officials have not yet fully embraced the key W.T.O. principles of market access, nondiscrimination, national treatment and transparency."

China announced Monday that it would begin to take formal steps to allow foreign banks to offer some retail banking services, like credit cards, and to buy shares in domestic banks. But the announcement came too late to affect the report's overall conclusion that the Chinese have fallen short in meeting their trade promises.

Much of the report echoed criticisms of China's trade and economic practices long heard from Bush administration officials and even more loudly in Congress. But the report was likely to roil the atmosphere this week as Treasury Secretary Henry M. Paulson Jr. engages in a high-level effort to get China to cooperate on these issues.

Mr. Paulson is due to arrive Wednesday in Beijing with a team of six Cabinet members and Ben S. Bernanke, chairman of the Federal Reserve, for what is billed as a "strategic economic dialogue" to bring about cooperation with China and convince Congress not to pass anti-Chinese protectionist measures.

Trade officials maintained that Congress required that the report be issued when it approved China's accession to the trade organization in 2000, and that it was not timed to

coincide with the Paulson mission. A senior trade official said he did not think the report would disrupt Mr. Paulson's efforts.

"I think the message in this report is consistent with our messages previously," he said, adding that its contents would not surprise the Chinese or adversely affect the talks later this week.

But at the Treasury Department, officials were holding back a separate Congressionally mandated report that was also due at this time and that is expected to fault China for its failure to allow its currency to float in open markets. The delay in the release of that report appeared intended to improve the atmosphere for Mr. Paulson's trip.

Besides Mr. Paulson, Mr. Bernanke and Ms. Schwab, the American delegation will include Commerce Secretary Carlos M. Gutierrez, Energy Secretary Samuel W. Bodman, Health and Human Services Secretary Michael O. Leavitt, Labor Secretary Elaine L. Chao and Stephen L. Johnson, head of the Environmental Protection Agency.

As for what the Bush administration intended to do to get China to correct its practices — whether, specifically, the United States would commence specific legal actions under the World Trade Organization — the report said the United States would "continue to seek cooperative and pragmatic resolutions through bilateral dialogue with China."

If dialogue fails, however, the United States "will not hesitate to exercise its W.T.O. rights" to settle disputes "as it would with any other mature trading partner," it said. American officials indicated that such a step would be a last resort and was not likely to happen while the "strategic economic dialogue" was under way.

The Bush administration has, however, filed for relief with the trade organization for some items, including automobile parts. The United States charges that the Chinese have kept foreign auto parts out of their markets.

In addition, the United States has charged that China is deliberately overproducing highly subsidized steel to employ vast numbers of workers emigrating from the countryside. That has led to "dumping" of inexpensive steel in American markets, the United States contends, damaging the steel industry.

In a speech earlier this fall, Ms. Schwab made clear that "if we are not able to succeed using dialogue" in resolving trade disputes with China, "then we can and we must and we will resort to dispute resolution" under the World Trade Organization as the United States did in the auto parts issue.

"We have this continuum of options," Ms. Schwab said in a speech to the National Committee on U.S.-China Relations, a private group that sponsored the first visit of Chinese ping-pong players in 1972. "We will, as the Chinese do, quite frankly, take that tool which is most likely to resolve the problem," Ms. Schwab added.

The report by Ms. Schwab's office on Monday said the Bush administration would continue to use "a dual-track approach."

"The administration remains committed to working cooperatively and pragmatically with China," the document said. "When bilateral dialogue is not successful, however, the administration will not hesitate to employ the full range of enforcement tools available as a result of China's accession to the W.T.O., whether it be the dispute settlement procedures at the W.T.O. or the strict enforcement of U.S. trade laws to ensure that U.S. interests are not harmed by unfair trade practices."

The report cited myriad cases in which it said China had fallen short on its commitments. Trade officials said China had actually "backslided" and "stalled" in its efforts in recent months.

For example, it said that China had promised to open its banking sector to allow foreign banks to provide credit cards and bank accounts in Chinese currency to customers in China. Recently, China issued regulations intended to end discrimination against foreign banks in these services, but American officials say they fall short of that goal.

As for pirated goods, the report said that a substantial percentage of counterfeit or pirated goods seized by United States Customs officials were of Chinese origin. In the past, trade officials have said these included designer labels and high-technology goods.

The report also said that foreign companies found it harder to distribute wholesale and retail petroleum and petroleum products in China than domestic companies.