

**Remarks by Deputy U.S. Trade Representative Karan Bhatia
and Acting Under Secretary of Commerce Christopher Padilla
Press Roundtable, U.S. Embassy
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BHATIA: Good afternoon everybody. It's nice to be here. I was going to provide a few opening thoughts on why we're here and some broader background on where the U.S.-China economic relationship currently stands and then have Under Secretary Padilla talk a little bit about what we've been discussing the last couple of days here with our Chinese counterparts.

Let me start by way of introduction. We are here for what can broadly be defined as trade talks in that we are preparing for the 18th meeting of the Joint Commission on Commerce and Trade, also known as the JCCT. The JCCT is the principle institution for addressing trade issues, trade policy issues, between ourselves and the government of China. It is co-chaired by, on the Chinese side, Vice-Premier Wu Yi and, on the U.S. side, by Secretary of Commerce Gutierrez and Ambassador Susan Schwab, the U.S. Trade Representative. And the ministerial level meeting of the JCCT is going to happen on December 11 here in Beijing. The meetings that we've had yesterday with Vice-Minister Ma Zhihong from MOFCOM were to help prepare for that and there will be substantial additional work that is going to happen over the course of the next two months in preparation for that meeting. And as I said, Under-Secretary Padilla will talk more about specifics there.

I think just by way of broad background let me say that the U.S.-China economic relationship remains a very significant one for us. China is a substantial China trading partner. If you look at recent trade numbers you will see that bilateral goods trade between the United States and China has more than doubled over the past five years. China is now our second largest supplier of goods and our fourth largest export market. Bilateral services trade has almost doubled. Net investment flows between the two countries remain strong. American businesses remain excited by, and optimistic about, the opportunities that China represents. The past six years have seen China's continued economic reforms and there continues to be a growth in the institutions, the government-to-government institutions, to address trade and economic issues between the two countries. That said, there do remain a number of significant challenges in our relationship. Just to mention a few: the subject of product safety and import safety is a significant area, it's an area of concern for American consumers and for the Administration and it's one of the areas that we have been speaking about with our Chinese counterparts. Intellectual property rights, here in China, also remain a significant concern. The question of subsidies provided by the Chinese government to Chinese industry and the distortion that has on markets is a complex problem and one that we continue to work on with China. Transparency issues and questions about the applicability of the rule of law are also significant.

If I can perhaps expand on three others and then I'll stop. The first is the question of protectionism here in China and particularly the growth or promulgation of policies, regulatory, tax policies, the promotion of national standards, patent laws and other types of regulations that together can have the effect of favoring Chinese companies over foreign companies including American companies, seeking to compete in the same space is a subject of concern and is one we have spoken with China about. Secondly, an extremely important point is how we work to increase Chinese involvement in, and ownership of, with respect to international trade institutions. That includes having China play a strong role in the WTO and in particular the Doha Round. But it also includes trade enhancing regional institutions such as APEC. The last challenge is one that, I think frankly we face back home in the United States, and that is the challenge of making sure that we confront protectionism in the United States. There is a lot of concern in the United States about trade, including in the U.S. Congress. China is often the poster child for protectionists in the United States and too often I am concerned protectionist will not appreciate the full story. There is legislation currently pending on the Hill with respect to China, a variety of pieces of legislation, some of which could, in fact, adversely affect our bilateral relationship. I will stop there and turn to Under Secretary Padilla.

PADILLA: Thank you very much. Good afternoon. I think all of you have my bio. Just to clarify, I have been nominated by the President as Under Secretary of Commerce and have been designated as Acting Under Secretary. I am not yet confirmed for the position.

Let me just give a little bit of sense of the meetings that we had yesterday in more detail. We did six solid hours of meetings with Vice Minister Ma together with a working lunch. I think all in all we probably spent about ten hours together over the course of a day and the previous evening. I think we would characterize the meetings as workmanlike, productive, focused on problem solving, looking particularly at real every day problems encountered by American businesses in China.

As Ambassador Bhatia has said, there is still quite a lot of work yet to do. We have to wait and see as to what types of results we may see at the JCCT meetings in December. Generally speaking, we talked in three broad areas yesterday. The first is, we raised a number of concerns regarding Chinese industrial policy, which I'll describe in a moment. Second, we discussed concerns regarding particular product safety issues. Third, we discussed a wide variety of specific identifiable market access issues in a number of different industries that we hoped could be resolved for the JCCT outcomes.

First, with regard to Chinese industrial policy, I think, Ambassador Bhatia and I have both been struck by the growing trend, it appears, of using a variety of different policy tools and regulations in a way that appear to be intended to benefit Chinese national champion companies to the detriment of foreign competitors including American competitors. This is, I would say, a potentially worrisome trend of increasing concern to our business community and we mentioned to our Chinese counterparts that we are hearing about this in a variety of ways. Everything from concern of the potential application of the new anti-monopoly law in a way that may benefit state-owned Chinese companies to the detriment of foreign competition; to the issue of technology standards

being mandated by the Chinese government; to the issue of government procurement, differential tax policies for foreign and domestic companies; and concerns about mandatory technology transfer and patent licensing. I think broadly, what these issues raise is a larger question about the direction in which China is going. We made the point, both Ambassador Bhatia and I, that China has for thirty years had a policy of open integration with the global economy and that the result of that policy has been unprecedented growth, prosperity and reduction of poverty in this country. It was evidenced most dramatically by China's entry into the WTO in 2001, an entry into the WTO which benefited China but also greatly benefited the United States. Our exports to China have increased more than 250 percent since China entered the WTO in 2001. It now, however, appears that some of these most recent policies that I described, seem, to many in our business community, as if some in China may be advocating turning away from that policy of openness to a more closed and restrictive policy intended to favor Chinese domestic companies.

The second major topic we discussed was product safety issues. We emphasized that these issues are being closely watched by consumers in the United States. We emphasized that these problems are not being generated by the media or by critics of U.S.-China trade but are actually real concerns being raised by real consumers. And we mentioned to our Chinese counterparts that if you look at companies, particularly companies in the United States who have experienced product safety issues, certainly product safety issues are not unique to China. The most successful companies who have dealt with those problems have been the ones that have done so in a very transparent and open and honest manner and have done so quickly. Companies that have tried to blame product safety issues on someone else or who have tried to be defensive or minimize those problems have not been as successful in dealing with them.

I used to work for Eastman Kodak Company, a company that has a very strong brand image. One of the things, as I said to my Chinese friends, that I learned there, is that when your brand is trusted by consumers, you do well. When consumers aren't sure about your brand, the costs can be enormous and the 'made in China' brand is at risk now in the minds of some consumers in the United States. And I believe, we emphasize this, that the way to build trust in that brand is to take concrete, forthright and rapid action to deal with product safety issues. I believe that the Chinese government most recently has been taking strong action in that regard and we urge them to continue down that path.

The third and final area was, we discussed a number of very specific issues dealing with a variety of industries that have raised problems, whether in the services sector, the medical equipment sector, in agriculture and others. And we ask China to take specific action to remedy those concerns. So with that, we would be happy to take any questions.

MODERATOR: If I can just ask, we are limited on time here, so if you could just ask one question per person. When do you have to go?

PADILLA: I think we have until ten after or so.

QUESTION: I'm Jason of the Wall Street Journal. Did you raise any concerns at all about what might happen with Chinese officials after the Party Congress? There is always a chance that Wu Yi could be removed from the State Council and then what happens?

BHATIA: The short answer is no. We are preparing for JCCT in December and for that matter for the Strategic Economic Dialogue that will happen immediately thereafter. We look forward to continuing work with the Chinese interlocutors, the institutions that are part of the trade relationship. So the subject of what happens after the Party Congress in terms of changes of people did not come up. I will say that we did make clear that we look for China to continue then on a path of economic reform and that it is important that we see that continued progress down that path and that people will be looking for the signals not only in terms of what is said but in terms of tangible action in these areas that Chris and I just described.

PADILLA: I don't have anything else to add.

QUESTION: Thanks. Chris Buckley, Reuters. This is partly for Under Secretary Padilla, but any comments on industrial policy? You made it sound almost like there is a risk of China doing a U-turn or reversing on its policy of openness. Do you see this trend in industrial policy, is that threatening? And if I can also ask, what remedies are there? Each of these particular policies may not be challengeable in say WTO terms.

PADILLA: Well, I would characterize it as this. Over the last 30 years China has been fairly open to foreign participation in its economy whether in the form of investment or in the form of companies setting up shop and doing business here, in trading here and that has been very much to the benefit of the Chinese economy. China's entry into the WTO opened the doors even further. And I think what we are seeing with these industrial policies is, in my view, an effort perhaps to close the doors a little bit. I don't know that I would characterize the risk as a complete U-turn. I don't think that anyone thinks that China is going to go back to the China of pre-1979. The question is, is it going to adopt a model more along the lines of some other major economies in East Asia who have not been as open to foreign participation in their economy, who have not been as open to foreign investment, who have not been as open to having a vibrant two-way trade relationship, who have been adopting policies more specifically designed to promote national champions. That is, domestic champion companies in particular selected industries. As opposed to allowing the market what's best for consumers. And I think that is really the crossroads that China is at. What we have urged and tried to point out is that it is in China's best interest, not because the Americans are saying so but because history clearly shows. We are coming up, I think, on the 30 year anniversary of the Deng Xiaoping opening up policy. That has been the single most important factor in one of the most remarkable economic transformations in human history. To turn away from that path now, toward a path of, let's select certain industries to protect or certain companies to make champions and perhaps keep the foreigners out more than you have in the past, I think, would be a mistake for China.

QUESTION: I'm Joe McDonald from the Associated Press. We have heard recently from some companies, importers of agricultural products and pace makers and things, that the Chinese government has sharply increased its inspections of imported goods. Some of them have suggested that it is in response to these product safety scandals in the United States. I'm wondering, does the U.S. government see this is an improper action by China, some kind of retaliation or protectionism? Did you bring this up with the people that you met with this week? Will you be making this part of the JCCT agenda? Thank you.

BHATIA: I'll start. And Chris, jump in. Let me just say generally. I'd rather not go into specific topics that we talked about. But I will say that as a general rule, we stressed the importance of ensuring that goods are able to flow into China without undue governmental interference. Let's put it that way. I think what you are getting towards is the topic of retaliation in the product safety area generally and I think what I'd say there, and Chris made this point as well, we believe product safety is vitally important. It is important for consumers in the United States. It is important for consumers here in China. And risk-based, science-based steps taken to protect consumers are completely defensible. That is what we do to protect our consumers. I would expect the Chinese government to do that with respect to their consumers. Taking non-risk based steps, or steps that are not scientifically justified whether to... Let me just leave it at that. Whether not risk-based or science based would be unacceptable and would not only have adverse effects on trade but I think would undermine confidence in the regulatory systems that apply. So I'll leave it at that.

QUESTION: Financial Times. Can we get some more specific examples when we are talking about industry policy, what is your concern? Which industries are we talking about and the specifics that you may have raised? There has also been the application of the [inaudible] law, technology standards, government procurement, which I thought actually China has signed onto a timetable to commit to [inaudible]... could you flesh that out for us? What kinds of industries are we talking about?

PADILLA: Well, it actually cuts across a wide swath of industries. Just to give you one example of a subject that actually came up in the JCCT a number of years ago, and that was the mandated use of a so-called WAPI standard that some of you may be familiar with. It has to do with wireless access such as when you go to an Internet café or you want to use wireless access at Starbucks or something like that. There was to have been a mandated standard directed by the Chinese government. A lot of our technology companies were very concerned about that and ultimately China agreed to suspend the mandatory implementation of that standard.

There have been concerns in recent months that a similar approach might be taken on new standards in key technology areas, whether it's DVDs or third-generation wireless telephony, those sorts of things. So certainly technology industries have been affected by technology choice.

It's not just restricted to technology industries. Some of the concerns that we have heard about the anti-monopoly law come from what I might call more basic industries where there's a concern that those could be used to benefit state-owned enterprises in areas such as steel or automobiles or automotive parts, chemicals – basic industries like that.

This is why, Richard, we made this a key issue in our discussions. Because it is not specific to one industry or even one type of industry. It potentially cuts across large swaths of the economy.

BHATIA: The only thing I'd add to that is in addition to those areas, investment policy and investment restrictions play a critical role in these areas as well. Signals from the Chinese government that they will reserve whole sectors of the economy to Chinese state-owned/state-controlled entities are concerning. They would be concerning in all circumstances, but especially because of the threat of these sectors that are being listed. So that's another area where we see this playing out.

QUESTION: What do you expect for the JCCT and the Strategic Economic Dialogue?

BHATIA: I won't comment on the SED, but let me just say with respect to the JCCT, I think as you say, we had initial meetings here that were productive, but there is a lot of work that remains to be done. I think we have a number of very specific proposals on the table, and we'll see how things turn out.

MODERATOR: Do other Chinese media have questions?

PADILLA: We have almost exactly two months before the JCCT. The JCCT is on December 11 here in China, and I think today is the 11th or close.

QUESTION: Chinese industry policy – is that at all changed in the WTO?

BHATIA: You know, we haven't been approaching it through that lens with China. We have been frankly approaching it as to whether it's good trade policy, good industrial policy, and consistent with trade relationships that we are trying to build. So I wouldn't want to hazard any speculation about WTO consistency right now, but I don't think it's as we'd describe policy – at least as it might be applied -- that would be constructive to the U.S.-China relationship.

QUESTION: I was wondering if you could give us some kind of update on the cases the U.S. has filed with the WTO and what impact those acts have had on your discussions with the Chinese?

BHATIA: I'm happy to do so. There are a number of different WTO cases that are pending, some where we are seeking dispute settlement and one in which China is seeking dispute settlement. The currently pending cases concern Chinese tariffs on automobiles and auto parts, another case concerning subsidies that China provides to its industries to promote exports, a third case having to do with intellectual property rights

enforcement, and a fourth case having to do with restrictions on market access to certain copyright industries, copyright-intensive industries. All of those currently remain in various stages of the dispute settlement process in Geneva. The Chinese have filed for dispute settlement or for consultations with us with respect to certain trade remedies, laws, and actions.

Our message to China has consistently been that the use of dispute settlement mechanisms in Geneva is part of a mature trade relationship. Trade wars happen when you don't have mechanisms to resolve trade disputes, not when you do have those mechanisms and are making use of them.

So that has been our consistent message with the Chinese. We would love to resolve all of our issues through bilateral discussion and dialogue. With respect to these handful of issues, we have not been able to, and so we will allow the process in Geneva to play out. I think the fact that we've had long and good discussions with the Chinese over the past day and a half is testament to the fact that we continue to work with them professionally and as mature trading partners.

PADILLA: I would agree with that entirely. I think if you look at the U.S. relationship with other large trading partners – the European Union, for example – I think if you look at WTO records, there have been more cases between the U.S. and the EU than between any other two trading partners, and yet it is one of our largest and most vibrant trading relationships, and one in which we are able to engage in very constructive regular bilateral dialogue.

So our message to our Chinese colleagues was the fact that we are working on certain disputes in the WTO is not necessary surprising given the breadth of our trade relationship, and we can pursue those issues in the WTO even as we have a very healthy and vibrant dialogue across the entire scope of our relationship.

As I said, the meetings were workmanlike and the atmosphere was constructive and problem-solving.

QUESTION: I just wanted to follow up to get a sense of how China responded to a lot of your concerns, particularly on industrial policy. What we hear regularly from Chinese officials and public is that China does want to protect its national industry, and I wonder if that is their policy and that's what they want to do. Whether they said (inaudible) and what is the political process playing out in China. What impression did you get from them about why (inaudible)...?

PADILLA: I'm not sure they acknowledged it to us. What they did say was for example, they pointed to recent statements by I believe was President Hu in Xiamen, or am I mixing up meetings? It was Vice Premier Wu Yi at an event in Xiamen, and President Hu at an meeting here in China where both of them reiterated that it is China's policy to be open. President Hu I know also said some things about – in a way that's consistent with Chinese economic security.

I think the issue is that it's one thing to have the general statements. It's another to see a collection of individual policies that appear to have the intended effect of benefiting Chinese companies to the detriment of foreign companies. What we pointed out is we welcome statements, certainly, like those of President Hu, but what we want our Chinese interlocutors to address are some of the specifics on the concerns we have on the anti-monopoly law, the issue of technology standards choice, the issue of government procurement, the issue of differential taxation. It's in those details where this is showing up.

That's why we tried to speak not just in generalities of concern about the overall direction of Chinese economic policy, but also to give them a fairly long list of specifics. Here's what we mean when we say we're worried about this. I must tell you that those specifics are largely coming from the experience – the on-the-ground experience -- of U.S. companies.

Ambassador Bhatia and I just spoke to a luncheon of the American Chamber of Commerce in China this afternoon. We were making some of the same points we're making here, and I can't tell you how many people came up to me after lunch, gave me their card, and said, "This is exactly what we are seeing. I'm glad you are talking about this."

Our U.S. Chamber of Commerce in Washington came out with a report two weeks ago where they highlighted this issue as the number one concern that they have. So I think there's enough evidence there to justify the level of attention we're giving this.

MODERATOR: We have time for one more question.

QUESTION: Did you set any major topics you will discuss in this JCCT with your Chinese counterpart?

BHATIA: We went through these topics that we just talked about and there will be a process over the course of the next two months of trying to identify the core topics that will constitute the discussion at the ministerial level plenary. I would also point out that the JCCT is more than just a one-of meeting. It is an ongoing process whereby we are meeting at the working group level, at the deputy's level, director-general level on an ongoing basis throughout the year. This is not a one-of episode it is part of an ongoing process of dialogue. These kinds of issue we recognize are complicated, tough issues and they are going to require a lot of discussion, a lot of hard work persuading, and continued dialogue over the course of not only the next two months but months after that as well. But as Chris says, we have found this round of discussion to be productive.

QUESTION: Could I just ask did you receive any assurance that Vice Premier Wu Yi will actually be attending the next JCCT?

BHATIA: We didn't get into specifics of attendance.

PADILLA: Except we know that Ambassador Bhatia does not believe that-

[Laughter]

PADILLA: I'm trying to convince him to stay but...

BHATIA: I will say we have no reason to believe she won't be.

QUESTION: That's in November and the SED is in December?

BHATIA: No. It's in December. They're both right nearby in December.

PADILLA: Same week.

BHATIA: December 11th.

PADILLA: One right after the other.

QUESTION: What are the dates for the SED?

PADILLA: 12th and 13th. 11th for the JCCT.

QUESTION: How many ministers from each side? Is it 15?

BHATIA: For the JCCT it's just two, I don't know- to be determined...

BHATIA: Excuse me possibly three for the JCCT. We sometimes have the agricultural minister.

QUESTION: JCCT will just be one day? 12th and 13th for SED.

PADILLA: Thanks everybody. Have a good afternoon!

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