

Remarks by U.S. Trade Representative Susan C. Schwab
George H.W. Bush U.S.-China Relations Conference
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** AS PREPARED FOR DELIVERY **

Acknowledgements and Introduction

1) Thank you, Steve [Stewart, IBM]. It is a pleasure and honor to have been preceded at the podium by Madame Li, a true bridge builder, and General Scowcroft, a great scholar and statesman. What a timely occasion to consider the state of U.S.-China Trade relations. In China, officials at the 17th Party Congress have just selected new leaders, who will chart China's economic course over the next few years. In the United States, government officials are also debating actions that will shape the direction of our future commercial ties with China. President Nixon's outreach to Beijing 35 years ago was the start of an historic saga -- marked by President Carter's establishment of diplomatic relations and President Clinton's leadership to bring China into the World Trade Organization. Leaders from both parties have had the vision to see that engagement offers the best chance of promoting peace and prosperity for both the American and the Chinese people.

a) Economic engagement – the policy of promoting China’s active participation in trade and its adherence to the norms of the global trading system -- has worked well for the last 30 years. It has worked well for China and it has worked well for the United States. It has benefited both of our economies, and it has benefited both of our peoples.

b) And yet, we are at a pivotal and – in some ways, awkward - moment in our economic relationship. There are forces both in China and in the United States that would move us away from a policy of engagement. In both our countries, there are forces that would have us close our doors to the other – potentially in contravention of our international obligations, and certainly against our best interests. This would, in my judgment, be an enormous mistake.

c) This evening, I want to talk with you about our economic and trade relationship. About the enormous benefits we reap from it. About the challenges we face and how we are addressing those – firmly, legally, and with an eye to results. And, I will explore the growing threat from those who seek to erect barriers that we have spent the past three decades tearing down.

Mutual Benefits of U.S.-China Relationship

2) Let me turn first to the trade relationship. Here are the facts. They tell a very positive story:

a) Over the past 15 years, bilateral trade in goods between our two countries has increased by 1200 percent! Over the past six alone, bilateral goods trade has nearly tripled and services trade has more than doubled. Investment flows remain strong.

b) China's economy has grown by nearly ten percent a year for the past 20 years, and nearly 400 million people have been lifted out of poverty. China has also emerged as an enormous, rapidly growing market for U.S. goods and services, helping to sustain strong U.S. economic growth rates.

i) U.S. exports of manufactured goods, agricultural products, and services have grown an average of 23 percent a year since China joined the WTO in December of 2001.

ii) China is today our fourth largest export market, and the fastest growing export market for the United States in the world.

(1) It is the fourth largest market for our agricultural produce. It is the largest market for U.S. cotton and soybeans exports.

(2) Boeing estimates that China will purchase 3,380 aircraft over the next 20 years, worth roughly \$350 billion. Now there is a good reason to stay engaged with China!

c) In addition to specific trade data, there are also positive indications of the overall direction of the evolving enterprise that is Sino-U.S. economic engagement.

i) This includes growing government-to-government contacts, with new fora like the Strategic Economic Dialogue to complement existing dialogues like Joint Commission on Commerce and Trade,

ii) As well as China's substantial achievements in meeting its WTO reform commitments.

d) All of this has been achieved because the US and China decided to engage economically, rather than continue the policies of economic separation that characterized the 1950s, 60s and 70s.

Bilateral Trade Challenges

- 3) To recognize the tremendous achievements of bilateral economic engagement is not to turn a blind eye to problems in the bilateral relationship.
- 4) Because China's rise has occurred contemporaneously with incredibly dynamic changes in our economy, many Americans associate worries about their long-term job and wage prospects with China.
- 5) Certainly, U.S. businesses question whether the playing field is even. Some of the specific concerns are very familiar so I will only briefly mention them now. Later, I will discuss how these bear on our broader economic relationship.

- a) First, there is the bilateral trade deficit. We know our trade imbalance is due to a number of factors, not all of which are trade related -- from differences in savings rates to shifts in assembly to China from other Asian countries. Still, as USTR stated in our Top to Bottom Review of Chinese trade ties 18 months ago, we must work for more “equity and balance” in our relationship with China.

- b) Also, as Treasury Secretary Henry Paulson said to you earlier today, China must allow its currency to appreciate more rapidly.

- c) Another serious matter is intellectual property rights protection. Last year, 81 percent of infringing items seized at the US border were from China, up from 69 percent the year before that. China can – and must – do better. The problem is one of enforcement, which we are attempting to address by working with China and by asserting our rights within the WTO.

- d) Yet another area of contention is government subsidies prohibited by the WTO. This creates an uneven playing field for U.S. producers in China, the U.S. and third country markets. We have taken an important first step by challenging a number of China's prohibited subsidies at the WTO.
- e) Another concern is a systemic lack of transparency and weakness in the rule of law in China. China has certainly improved the transparency of its legal and rulemaking processes, but we would like to see more progress in this area, including through establishment of a mandatory process for public notice and comment on proposed laws and regulations.
- f) Lately, of course, a new matter has been making the headlines: product safety. This issue has concerned American consumers and drawn intense scrutiny from Congress – for good reason. We expect that the goods we buy are safe for us and our families.

- i) The Administration has reacted quickly and thoughtfully. At the direction of the President, Health and Human Services Secretary Leavitt is chairing an inter-agency Import Safety Working Group, of which USTR is a member. This group does not target China. It targets the safety of all products regardless of country of origin.

- ii) When this issue initially emerged, some in China lashed out with counter-allegations of substandard U.S. exports, or by blaming the media. It was an ill-considered initial response, conveying defensiveness and a failure to understand the seriousness of these issues, rather than a commitment to regain consumers' trust. It seemed like China was following its initial SARS playbook instead of its Olympics playbook. It only enhanced concerns about the "Made in China" label.

- iii) More recently, however, we have seen signs that China is beginning to recognize the importance of strong, remedial measures. The fact that Madame Wu Yi was tasked to lead China's safety campaign may signal that China has realized this is not simply a spat being fueled by the press. This is about consumer confidence in Chinese products in the largest market in the world. The U.S. Government stands ready to work with China to help it take the tough steps needed to regain public confidence.
- g) In addressing all these issues, the Bush Administration is using the tools at our disposal to remedy these challenges with the goal of permitting more trade and investment to occur. That, in a nutshell, is at the core of engagement.

- i) To be clear, engagement does not mean accepting Chinese practices that we consider unfair, unreasonable or unsafe.

- ii) Generally, we will try first to engage through bilateral dialogue, including through fora such as the Joint Commission on Commerce and Trade. Why? Because it is often the most effective means to resolve problems. Through engagement, we have worked to secure China's commitment to accede to the Government Procurement Agreement. We have also facilitated the expansion of our insurance companies in China, and expanded our airlines' rights to serve the Chinese market. And, we have made progress in protecting the intellectual property rights of business software.

- iii) But where bilateral dialogue is not successful, we have - and we will continue - to act quickly, firmly, and decisively, using both domestic U.S. trade remedies and dispute settlement before the WTO.

- iv) We have brought four formal WTO cases in the past 14 months and we are determined to press our cases vigorously in the months ahead. But, importantly, this should not be regarded as a failure in our trade relationship with China. Quite the contrary. Resorting to dispute settlement is itself a form of engagement. It is evidence of two countries working to resolve disputes about obligations through neutral, legal mechanisms. WTO Dispute settlement is designed to *prevent* trade wars rather than *fuel* them.
- v) China has no doubt noted that our differences are not merely bilateral. Other WTO members, such as the EU, Japan, Canada, and Mexico, have supported U.S. efforts to encouraging greater Chinese adherence to the rules of global trade. IN fact, my EU counterpart recently commented that the EU needs to find a “tougher posture” with China. So the United States is not alone.

The Biggest Challenges: Economic Fear and Neo-Mercantilism

- 6) While these specific matters are serious, the more important threats to strong and healthy trade ties involve broader issues concerning what I would call the mindsets of our two countries. The overall direction of China and the United States concerning trade, much more than specific disputes, are what should be of concern to policy makers and the public alike.

- 7) Paramount is the need to steer clear of economic retrenchment – both in the United States and in China.
 - a) In China, economic retrenchment seems to be taking the form of shielding China's economy from the very market forces that have allowed it to grow so rapidly.

- i) Last year, in our annual report on China’s progress in meeting its WTO accession commitments, we noted some apparent backsliding in market-oriented economic reforms. Unfortunately, developments this year have increased our concerns.

- ii) Recent actions by the Chinese government, taken together, provide reason to worry that China will use its regulatory and other policies to develop so-called “national champions” and tilt the playing field against foreign competitors.
 - (1) We see this reflected in the promotion of homegrown technology through biased national standards, the emergence of regulators as competitors, the requirement to disclose proprietary information, the use of government procurement to favor Chinese companies, and recent draft amendments to the patent laws.

- (2) We see it also in China's investment laws, where China has signaled that, henceforth, state operated enterprises should absolutely control, or at least maintain a "strong controlling position" over broad swaths of its industry – in sectors such as equipment manufacturing, automobiles, iron and steel.
- (3) And we are concerned that we may also see it in nascent areas of regulation, such as competition law. While China's adoption of an antimonopoly law is a good development, uncertainty over how that law applies to state owned enterprises has raised concerns.

iii) In essence, we see concerning signs that state planners may seek to steer China down an economic development course that differs from the direction and velocity advocated by Deng Xiaopeng. Protecting national champion industries at home is not in China's best interests. China's recent history shows that openness yields growth, innovation, and competitiveness. Protectionism and isolation from market forces only yields inefficiency, corruption, and trade frictions – and that is not the path to a more “harmonious society.”

b) A strong positive signal of China's direction could be evidenced by meaningful offers in the Doha Round of trade talks. The Round now stands at a critical juncture and the stakes are high. This fall brought the resumption of negotiations based on draft Agriculture and Industrial goods texts proposed by the relevant WTO Chairs. If our trading partners are also willing to do so, the United States has signaled our willingness to negotiate on the basis of the texts. This includes the ranges and flexibilities in the texts that will yield a strong market access outcome, the elimination of agriculture export subsidies and significant cuts in trade-distorting farm support.

- (1) Last year, when I spoke to business leaders in Beijing, I observed that China still appeared to be assessing its role in the WTO and in the Round. I noted that China has not put forward any major initiatives in the Doha Round, but instead was content to let India, Brazil, and others, among major developing countries, take the lead. This is counter-intuitive, as many nations are taking defensive negotiating positions precisely so they can block China's offensive interests!

- (2) Since then, China has taken some positive steps. At the Leader level, President Hu signed the APEC Leaders Declaration which unambiguously agreed to negotiate on the basis of the draft texts in Agriculture and industrial goods. A few weeks ago, Chinese press reported President Hu saying that China should "proactively shoulder international responsibilities" in the multilateral system. The system needs this to happen. China, as a major beneficiary of the system, needs this to happen.

(3) Unfortunately, in Geneva, China's actions at the WTO thus far seem at odds with this position. Two weeks ago, China signed onto a proposal pushed by a few other obstructionist countries that focused on what they cannot do, rather than what they will do to advance Doha. This proposal – which, ironically, would hurt China's exports -- is the greatest current threat to the Round. I urge China to pull back from the brink and unambiguously commit to the market access and flexibilities put on the table by the chairs -- just as Indian Prime Minister Singh has indicated his country will.

c) In the United States, economic retrenchment takes the form of legislation – some of it ill-conceived - to impose tariffs, or opposition to trade agreements before an honest debate on their merits has taken place.

- i) Trade has become the black hole of all economic anxiety -- even though economists tell us that trade accounts for only two or three percent of annual job losses. To hear the trade skeptics talk, who would think we have created over 8 million jobs in the last four years, unemployment is a low 4.7 percent and manufacturing output is at an all-time high?

- ii) Unfortunately, China has become the poster child for this rising sense of protectionism.

- iii) The myriad benefits of our two-way trade and investment relationship are drowned out by the drumbeat for legislation to “get tough” with China – often with little regard for the consequences or WTO-consistency of that legislation.

- (1) It is likely that both Houses of Congress will grapple with bills related to currency, trade remedies, product safety, and enforcement procedures. Some of the bills would slap on new retaliatory tariffs. They are crude tools for a complex task. They focus on the wrong issues and are likely to do nothing to help or, even worse, to hurt the American workers, farmers, and entrepreneurs they purport to help.

- (2) The Congress should be wary of snake-oil salesmen peddling Dobbesian choices and selling quick-fix schemes for addressing complex international economic challenges. Those Members now in positions of responsibility would be wise to be deliberate and proceed with caution. What they say and do matters – much more than it did prior to the 2006 elections – and the markets are watching.

(3) To defeat counter-productive legislation we will have to educate lawmakers and the public. From aerospace to financial services to agriculture, we must be careful to not abandon future opportunities that come from economic engagement with China because of today's challenges in our relationship. More thoughtful observers and veterans of Sino-U.S. trade ties, including many of you in this audience, can play a very helpful role in that effort by sharing your wisdom, advice, and counsel with key decision makers.

Conclusion

In this time of rapid change and closer integration of participants in the global trading system, it is imperative for veteran trading powers such as the United States and major new actors, such as China, to champion the benefits of the free and fair flow of commerce.

If the United States seems at times impatient with the velocity and magnitude of the reforms China has undertaken to become a member of the global trading community, it is because China's impact on trade, and indeed on all human endeavors, has also increased in its velocity and magnitude.

Given its vast size and the enormous energy and dynamism of its people, China has an urgent task to move forward on embracing market principles. The Chinese people and the other five billion people who share this planet are all stakeholders in a strong, stable China.

Thank you.