CONFERENCE—U.S.–CHINA TRADE: OPPORTUNITIES AND CHALLENGES

KEYNOTE ADDRESS

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I. INTRODUCTION

I am honored to be here today as a keynote speaker at this timely and important conference. When I say "timely and important" I do so with all due deliberation. Today China is more than just another large country or a growing market. China is reshaping the global economy.

II. TRADE WITH CHINA

Let me illustrate with some statistics. Although China's economy is only one-eighth that of the United States, China

- consumes about one-fourth of the world's steel and aluminum and 40% of cement, and it is the second largest consumer of petroleum;
- is now the third largest trading country in the world (behind the United States and Germany);
- was the largest recipient of Foreign Direct Investment (FDI) in the world last year;
- overtook the United States to be Japan's largest trading partner in 2004;

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- is the largest cell phone handset maker and exporter in the world;
- is first or second as a personal computer and cell phone handset market, and in the number of people using the internet; and
- has a GDP that continues to grow at 8% to 10% a year.

Last year, U.S.-China bilateral trade leapt to $231 billion, with the United States incurring a trade deficit of $163 billion. A single U.S. company, Wal-mart, accounts for more than 10% of all U.S. imports of Chinese goods. Through their explosive expansion into China, Wal-mart and other U.S. retailers are fundamentally reshaping global supply chain management.

The United States is not alone in its suddenly booming economic relationship with China. In recent years, China has embarked on active negotiations to reach free trade agreements and other deepened economic ties in Asia, Latin America, the Middle East and Africa, thereby directly entering competition for business in traditional markets of the United States.

Facts such as these require our attention, but need not cause panic. Trade is not a zero-sum game, though it can create new challenges for companies and workers. In truth, China's emergence as a major economic and trading entity presents both major opportunities and challenges for U.S. companies and workers. Accordingly, the administration is pursuing an active and multi-pronged agenda to ensure that the United States is able to benefit from China's growth, as well as to help facilitate the domestic adjustment process.

Although this process will be difficult at times, any steps taken to facilitate adjustments should also be aimed at supporting, if not improving, the competitiveness and dynamism of the U.S. economy.

III. CHALLENGES

The concerns felt by U.S. companies are real. Rapidly increasing Chinese imports often present new and tough competition, particularly in our manufacturing and agricultural sectors, even though in many cases Chinese imports are displacing suppliers from other countries. Many of these concerns center on perceived unfair conditions of competition, including subsidies by the Chinese government to state-owned enterprises, excessive investment incentives to attract foreign manufacturers to China, sales at dumped prices, and theft of intellectual property. More broadly, China's fixed exchange rate, its enforcement (or lack thereof) of environmental, labor, and other laws, and simply the sheer size of its pool of cheap labor understandably cloud the picture of the progress of China's economy to one that is truly market oriented.

On the other side of the trade equation—exporting to and investing in China—there are also serious issues. China has made significant progress in implementing its WTO obligations. In fact, the American Chamber of Commerce in China in its annual White Paper this year found that China is substantially in conformity with its WTO commitments.[1]

But there is no shortage of trade issues that require our constant engagement. These range from the glaring lack of consistent protection and enforcement of intellectual property rights, to discriminatory standards, to arbitrary import approvals. Even if one were to accept the American Chamber's overall assessment of China's WTO compliance, one cannot ignore the White Paper's 187 pages of detailed descriptions of the problems U.S. companies still face in the China market.[2] "Doing business issues" or "business climate issues" pose major obstacles for U.S. companies, even as China continues to implement its WTO commitments.

To address these issues, the administration is utilizing the breadth of tools available to it, including negotiations, training and technical assistance, WTO complaints, and measures to counter unfair trade practices.

IV. THE U.S.-CHINA JOINT COMMISSION ON COMMERCE AND TRADE

The central, high-level forum for addressing trade and commercial issues is the U.S.-China Joint Commission on Commerce and Trade (JCCT), jointly chaired by the Secretary of Commerce and U.S. Trade Representative on the U.S. side, and Vice Premier Wu Yi on the Chinese side. In connection with the most recent meeting of the JCCT, held in April 2004, the administration employed all of these tools to achieve further progress on several major issues.

Among other things, China and the United States agreed to establish a working group to discuss a broad range of policies and practices in China believed to be inconsistent with a market economy, including labor standards. U.S. Secretary of Labor Elaine Chao led a mission to China shortly thereafter, and we continue to work with the Chinese government on these matters.

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[1] American Chamber of Commerce–People's Republic of China, 2004 White Paper: China's WTO Performance, http://www.amcham-china.org.cn/amcham/show/content.php?Id=331 (last visited Sept. 5, 2005).

[2] *See generally* American Chamber of Commerce–People's Republic of China, 2004 White Paper, http://www.amcham-china.org.cn/amcham/show/Content.php?ID=677 (last visited Sept. 5, 2005).

During the JCCT, China announced steps toward a market-based and technology neutral approach to the development of next generation wireless standards for computers and mobile phones. These steps will enable American firms to participate fully in China's growing market for information technology.

China also presented an action plan to improve protection of U.S. intellectual property rights. It includes increased penalties for violations and nation-wide enforcement actions. China also agreed to put in place procedures that will further open its market to services and agricultural products.

Following on the JCCT meetings, in July 2004, the United States and China reached an agreement to resolve a WTO dispute regarding China's tax refund policy for integrated circuits (semiconductors), a market worth $2 billion to American manufacturers and workers.[3] The resolution will ensure non-discriminatory tax treatment for U.S. integrated circuits in China, the world's fastest growing semiconductor market. The United States had filed its first-ever WTO case against China in this dispute.[4]

V. ON-GOING ISSUES

Despite much progress, there are several particularly significant on-going issues that U.S. companies face while doing business in China:

1) Transparency: China committed to publish all economic and trade-related regulations for an appropriate period of public comment. However, implementation of this commitment has been uneven. All too often regulations are shared in advance with only selected companies or individuals, or published with just a few days given for analysis and comment.

2) Incomplete reforms: China has made progress in moving from a centrally planned, command economy toward the use of market mechanisms. Nevertheless, the Chinese government continues to be involved in economic decision-making to an extent far beyond that of true market economies. Conflict of interest can occur when Chinese agencies are both the regulators of an industry and operators in that sector. A current example is the concern that U.S.

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[3] *See* Press Release, Office of the U.S. Trade Representative, U.S. and China Resolve WTO Dispute on China's Tax on Semiconductors (July 8, 2004) *available at* http://www.ustr.gov/Document_Library/Press_Releases/2004/July/US_China_Resolve_WTO_Dispute_Regarding_China's_Tax_on_Semiconductors.html.

[4] Request for Consultation by the United States, *China – Value-Added Tax on Integrated Circuits*, WT/DS309/1 (Mar. 23, 2004) *available at* http://docsonline.wto.org/DDFDocuments/t/S/L/160.doc.

express delivery companies, such as UPS and FedEx, have with regard to the dual negotiator/competitor roles played by the Chinese Postal Service.

3) Industrial policies: Despite the dismal record of its planned economy, there are those in China who continue to believe that planning and government intervention are needed to promote and protect high tech industries, especially information technology. In one recent example, the Chinese government proposed a new standard for wireless networks that would effectively have excluded such U.S. equipment from China. Fortunately, by raising this issue at the highest levels of the Chinese government, the administration succeeded in obtaining an indefinite postponement of the new rule.

4) Lack of enforcement of laws: Rampant theft of intellectual property rights (IPR) is the poster child for critics of China trade, and rightfully so. In many ways IPR protection is the biggest issue hobbling our bilateral economic relations. This issue is especially sensitive because at the same time that China is expanding its production at the labor-intensive end of the economic spectrum, lack of enforcement of IPR severely undercuts growth opportunities for the high tech, knowledge-based industries in which the United States enjoys a comparative advantage.

The intellectual property laws on the books in China are not bad. What China lacks is serious, sustained enforcement. Lack of enforcement is sometimes due to intentional actions by local governments to protect local enterprises that generate jobs, or income to local officials. In other cases, it is a function of the weakness of the Chinese system. Agencies are stovepiped and do not operate well on a national level.

The challenge is surely complex, but the bottom line is that weak IPR protection not only hurts U.S. companies, it also damages China's efforts to promote innovation by its own entrepreneurs. China's leaders recognize the problem and are making stronger efforts to improve IPR protection. However, these enhanced efforts have not yet resulted in a decrease in infringing activities on the ground. And ultimately, results are what count.

Last year the U.S. Patent and Trademark Office (USPTO) established the first Intellectual Property Rights attaché position at the U.S. Embassy in Beijing, which reflects the importance of the issue of IPR protection in China. This position is staffed with a Chinese-speaking attorney from USPTO who is an expert on China intellectual property issues. He is an invaluable resource for U.S. companies and the U.S. government on these issues.

The Bush administration is working aggressively to ensure that U.S. companies and workers enjoy the benefits of trade with China. To reinforce the administration's strategy, the Department of Commerce has undertaken a number of new steps that will continue to pay dividends in the future. These include: (1) establishment of the IPR Policy and Compliance Investigations Office; (2) increased staffing and recruitment of top language-qualified China experts to manage our China compliance efforts; (3) the creation of a China Office to focus and deepen our expertise on unfair trade cases from China; and (4) using technology to enable compliance officers in China and the United States to work collaboratively on compliance cases on a real-time basis for the first time. We have also maintained an office at our Embassy in Beijing staffed by four Commerce officers to ensure a focused effort on those issues.

VI. U.S. EXPORTS TO CHINA

The Commerce Department is also enhancing its efforts to promote U.S. exports to China. These efforts are an important factor in ensuring that U.S. companies and workers enjoy the benefits that they should from China's WTO commitments. China today is the United States' fastest growing export market. In fact, from 1999 to 2004, U.S. exports to China increased nearly ten times faster than U.S. exports to the rest of the world. As a result, China has risen from our eleventh largest export market five years ago to our fifth largest export market today.

VII. BUREAU OF INDUSTRY AND SECURITY (BIS)

We have a long way to go before the bilateral trade gap is closed, but in the meantime, U.S. exporters are finding real opportunities in China. With the rise in exports, comes the rise and risk of exporting dual-use items. The Department of Commerce's Bureau of Industry and Security (BIS) and its interagency export control partners (the Departments of State, Defense, and Energy) evaluate proposed exports of dual-use items to China on a case-by-case basis, taking into account the type of item to be exported, and the proposed end-user or end-use, which includes evaluating the risk of diversion of the item to military or proliferation-related end uses.

Chinese officials sometimes suggest that U.S. export controls are a significant cause of the bilateral trade imbalance. This simply is not the case. The vast majority of U.S. exports to China do not require an export license. Total licensed exports to China represent less than 2% of all U.S. exports to China. Only about 5% of such export licenses are denied.

In fiscal year 2004, BIS approved 1,335 licenses valued at $528 million for exports to China, compared with overall U.S. exports to China of $35 billion.

High value licenses approved in fiscal year 2004 include semiconductor manufacturing equipment ($221 million), high performance computers ($35 million), and chemicals ($21.3 million). In terms of numbers of licenses in fiscal year 2004, the most commonly licensed items were chemical manufacturing equipment (182 cases), semiconductor manufacturing equipment (91 cases), and toxic gas monitoring systems (76 cases).

BIS also approved 469 deemed export license applications (or 35% of all China-related licenses) involving Chinese foreign nationals working on controlled technology in the United States. Since the exchange of letters on enhanced new end-use visit cooperation at the April 2004 JCCT, the backlog of end-use visit requests has been completely cleared, and the two sides are working on ways to strengthen the U.S.-China high-technology relationship.

The success of the enhanced end-use visit cooperation has increased confidence that U.S. exports of dual-use goods are being used properly, which in turn facilitates increased high-technology trade. For example, the Department of Commerce was recently able to license two powerful computers to the China Meteorological Administration, one of which is the most powerful computer ever licensed by the Department for export anywhere. The license for this powerful computer authorized legitimate trade while protecting national security with license conditions to protect against unauthorized end-uses. The end-use visit arrangement adds another layer of security by providing a mechanism to verify that the computers are in fact being used for their authorized end-use.

VIII. EU ARMS EMBARGO AGAINST CHINA

For more than a year, members of the European Union (EU) have raised the possibility of lifting the embargo on military sales to China that was imposed in the wake of the 1989 Tiananmen Square massacre. The United States has clearly and consistently opposed such action. While we acknowledge efforts by European and Chinese officials to enhance their mutual ties and cooperation, we strongly believe that lifting the arms embargo is not warranted either by progress by China in the area of human rights, or on security grounds. Indeed, we believe that lifting the arms embargo could have a destabilizing effect in the region. We have made these concerns known to our European allies on multiple occasions. Senior-level delegations from the State Department and the Pentagon have visited many EU countries to discuss this issue.

We know that the future of the EU arms embargo is still under consideration. The administration will continue to discuss this important issue with EU governments to ensure that any decisions the EU takes will not undermine our shared goals of regional stability and respect for human rights.

IX. HONG KONG

As a side note, Hong Kong is treated differently from China in terms of U.S. export controls in that U.S. controls are less restrictive for exports and re-exports to Hong Kong. The Hong Kong Policy Act of 1992[5] recognizes Hong Kong's autonomy and guarantees Hong Kong's access to sensitive items so long as the United States is satisfied Hong Kong has effective export controls. The administration reports on an annual basis to Congress whether Hong Kong maintains an effective export control regime. The most recent report affirms this to be the case. The United States and Hong Kong will be holding the tenth annual round of formal bilateral interagency export control consultations in May 2005.

X. OPPORTUNITIES

I have spent much time describing some of the challenges we face in our economic relations with China. I do not want to leave you, however, having described only half of what is a deep and complex relationship. The challenges are real, but as evidenced by the growth in exports I just discussed, so are the opportunities.

And those opportunities extend across the United States. For example, Georgia exporters sent $801 million worth of goods to China in 2004, making China the state's sixth largest export market. China was a larger market than such traditionally major export destinations as Germany, Italy, and South Korea. Georgia's exports to China grew nearly $480 million from 2000 to 2004, from $327 million to $801 million. That was the third largest dollar gain for any country over that period, trailing only increased trade with Canada and the United Kingdom.

Georgia exported the tenth largest amount of goods to China in 2004 among the fifty states. Manufactured goods make up 83% of Georgia's exports to China. A total of 767 companies exported goods from Georgia locations to

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[5] United States-Hong Kong Policy Act of 1992, 22 U.S.C. §§ 5701-5732 (2005).

China in 2002. Of those, 535 (75%) were small and medium-sized enterprises (SMEs), with fewer than 500 employees.

We need to remember that Americans constitute only 5% of the world's population. The other 95% presents a very large number of potential customers. We must look abroad to grow, and China alone offers a virtually untapped market of 1.2 billion consumers.

The American Chamber of Commerce in China has reported that 75% of its member companies are profitable in China.[6] The importance of the U.S.-China relationship will continue to grow, and we expect China will increasingly recognize the benefits it receives from straightforward compliance with WTO rules and implementation of market economy principles. But the United States must continue to help China down that path by insisting that trade is a two-way street, to be conducted on a fair and reciprocal basis. The Bush administration is committed to working strenuously and effectively to that end.

XII. CONCLUSION

Secretary of State Condoleezza Rice traveled to China last month. She stated that she wanted to visit China early in her tenure to emphasize how important the United States considers a constructive, growing and deepening relationship with China. She also said:

> We will have the opportunity to discuss many issues, but in the framework of a constructive relationship that recognizes fully the transformation that is going on in China, a remarkable transformation that people around the world are watching. I'm quite certain that we will be able to manage the many issues before us and we will be able to do so in a spirit of cooperation and respect for one another.[7]

Whether you see the opportunities or challenges of China, you are wise to be here today. China is just too big to ignore. And for that reason, I want

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6 American Chamber of Commerce–People's Republic of China, 2004 White Paper: Performance of American Companies, http://61.135.139.166/amcham/show/content.php?Id=329 (last visited Sept. 5, 2005).

7 Condoleezza Rice, Sec'y of State, Remarks with Chinese President Hu Jintao, Great Hall of the People, Beijing, China (Mar. 20, 2005), http://usinfo.state.gov/eap/Archive/2005/Mar/20-527426.html.

again to applaud the organizers of the conference for focusing our attention on this important country.