

## **Remarks by U.S. Trade Representative Susan C. Schwab**

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Good afternoon. Thank you Bob, and thanks to the U.S.-China Business Council and AmCham China for hosting this event here today.

It is a great pleasure for me to be back in Beijing. I've enjoyed visiting this great city many times over my career, and in many different capacities – including as an executive for Motorola in the 1990s when I was negotiating joint ventures, and as a US Senate staffer in the 1980's.

But this is my first visit in my new capacity as U.S. Trade Representative – and I am delighted to be here. There are few trade relationships more important than that between our two countries. And while we have issues that divide us in our bilateral trade relations, we still have fundamental interests in common.

This is a trade relationship that is obviously important because of the enormous amount of economic activity that is occurring and will occur between our two nations. But it is also important because – by virtue of our status as two of the world's most globally engaged economies – the United States and China have a special responsibility to protect and grow the multilateral trading system.

The latter subject – the multilateral trading system – has captured much attention recently. The breakdown of the Doha Round trade talks late last month was a major disappointment for all who believe in the power of trade to promote economic development, to expand opportunities and to facilitate cooperation among nations. Indeed, the Doha Round is our generation's best opportunity to lift millions of people out of poverty and to raise living standards for millions more.

Therefore, President Bush has directed me to continue our collective quest for an ambitious, robust and balanced agreement that meets the objectives that WTO members adopted as part of the Doha Development Agenda.

That is why I attended the Association of Southeast Asian Nations (ASEAN) Economic Ministers meeting in Kuala Lumpur last week. It is why I was in Brazil conferring with that country's Foreign Minister, Celso Amorim, just a few days after the WTO talks were suspended. It is why I'm headed to meet with the G20 developing countries' meeting in Rio in early September. It is why I will be heading to Australia next to meet with members of the Cairns Group. And it is in part why I am heading to the Asia Pacific Economic Cooperation (APEC) summit in November – with other meetings and venues being scheduled as we speak.

The Doha Round is also an important reason why I am in China today.

I had a frank and positive meeting on our bilateral and multilateral agenda with Commerce Minister Bo Xilai yesterday. We agreed that we are experiencing an historic era in global commerce, and that China will be a key actor as this drama unfolds.

Indeed, it is my firm belief – which I shared with Minister Bo – that China has an unprecedented stake in the successful conclusion of a robust Doha agreement, and that a successful Doha Round will only be possible with vigorous and positive Chinese participation. As WTO Director General Pascal Lamy said when the talks broke down, there will be no winners from the collapse of the Doha Round. And this holds especially true for China, which in a few short years has risen from relative economic obscurity to become the third largest trading nation in the world.

It is my strong hope that China will carry out a clear-eyed assessment of the costs and benefits of a successful Doha Round and conclude that it is in China's long-term self-interest to play an active role in ensuring the Round's ultimate success. And that ultimate success requires an outcome that truly opens markets and generates new trade flows.

#### The State of U.S.-China Trade Ties

Before I explain in greater detail why I think the Doha Round is so important to China and to the U.S.-China economic relationship, allow me to offer a few observations about our bilateral trade ties and recent refocusing of US trade policy with respect to China.

The impact of China's decision to embrace market-oriented reform and join the rules-based international trading system is nothing short of breathtaking. Over the past 20 years, China's economy has grown by nearly ten percent a year and experienced a total growth in real GDP of over 500 percent. Importantly, the people of China have benefited greatly from China's engagement with the rest of the world, with an estimated 377 million people lifted out of poverty.

Few countries have done more to promote these changes in China than the United States, and we are now, ourselves, major beneficiaries of China's rapid development. U.S. manufacturers, farmers and service providers have seen U.S. exports to China grow an average of 22 percent a year since China joined the WTO in December of 2001, and U.S. consumers enjoy access to a wide array of high-quality, competitively priced products.

Given the importance of our trade relationship with China, we have done a considerable amount of thinking about it. As many of you know, earlier this year the USTR led an administration-wide Top-to-Bottom Review of US trade policy towards China. It was the first such comprehensive review undertaken since China joined the WTO in 2001.

The report observes that the deadline for China to implement most of its WTO accession commitments has now passed, so we now enter a new phase in the trade relationship -- one in which China has become, should behave, and will be treated as a "mature" and responsible member of the global trading system. It concludes that the U.S. has unquestionably derived benefits from having China in the rules-based trading system and from the enormous growth in

bilateral trade. However, the report also stresses that the U.S-China trade relationship today still lacks equity, durability and balance in the opportunities it provides.

This disparity is due in part to China's failure to honor certain commitments, including its failure to adequately enforce intellectual property rights, its efforts to protect and support certain domestic industries, and its delay in fulfilling certain market opening obligations. Left unaddressed, these problems pose a real danger to the health of the relationship.

The review therefore lays out a number of specific actions that the U.S. government will take to help us achieve our trade objectives with China. Happily, I am able to report good progress in implementing those actions.

**(1) Strengthening Enforcement.** USTR's new China Enforcement Task Force is up and running as a dedicated, country-specific enforcement team focused on securing China's compliance with its commitments. To help lead that task force, we've hired a Chief Counsel for China Trade Enforcement – the first time we've had an attorney devoted to enforcement issues involving a single country.

The impact of our enhanced focus on enforcement is showing: Earlier this year, the United States, Europe and Canada initiated a case against China on its treatment of auto parts. We were prepared to bring a second one on Kraft Liner board, but at the last moment China reversed an unfair antidumping order against U.S. exporters in response to our plans. We are discussing additional WTO-related concerns with China related to IPR enforcement and subsidies, and are closely monitoring China's fulfillment of commitments in other areas as well, including in financial services.

We do not enjoy bringing WTO enforcement cases. They are time consuming and resource intensive. What we want is to resolve these issues before they require litigation. But when good faith dialogue does not yield positive results, we cannot stand by and allow commitments to go unobserved. We will use the dispute settlement mechanisms available to us.

Legal action should not be seen as a hostile act. Dispute settlement provides an objective means for trade partners to resolve disputes that otherwise might fester and color the entire trade relationship. It also provides helpful leverage to government agencies that are trying to convince other agencies within their own government to abide by WTO rules. Indeed, the entire global trading system benefits from fair and rational options for resolving differences.

In this regard, it is interesting to note that among all 149 WTO members, China is both the most frequent initiator and most frequent subject of antidumping investigations. Therefore China has an enormous stake in ensuring that the other trading nations of the world abide by WTO disciplines.

**(2) Making our Trade Policy More Forward Looking and Proactive.** The Top-to-Bottom review also called for strengthening our ability to collect information and to analyze, make and implement trade policy. Our actions must be informed by more comprehensive, forward-looking information and analysis about China's economic development. We need to be

tracking trends and anticipating challenges in the years ahead, not just addressing the concerns of yesterday or today.

The report calls for the commitment of new China-specific resources at USTR to coordinate collection and integration of information on China's trade regime. It also calls for the establishment of a senior level task force to advise on China trade policy. Both initiatives have now been launched.

**(3) Expanding Our Trade Negotiating Capacity.** The report calls for expanding our capacity on the ground by posting a USTR representative at the U.S. Embassy in Beijing. This individual will be a trade expert who can help us stay in constant communication with U.S. businesses and Chinese officials – someone who can strengthen our trade enforcement and compliance efforts in real time. Stay tuned, we will be announcing this new addition to our and the US Embassy team shortly.

**(4) Enhancing Cooperation with Other Trading Partners.** Many of the concerns that I've raised today with regard to China's practices do not affect just the US, of course. So the report calls for expanding cooperation with other trading partners as we seek to address common challenges. An obvious example of this is the WTO auto parts case, involving the EU and Canada, which is designed to address discriminatory Chinese tariffs affecting auto parts.

**(5) Deepening and Strengthening Regional Economic and Trade Relationships.** The Top-to-Bottom review also counseled us to deepen and strengthen U.S. economic and trade relationships in the Asia and Pacific region more broadly. And we are doing just that. Through bilateral dialogues, trade and investment framework agreements, free trade agreements and other trade-expanding institutions, we are proactively engaging economies like Singapore, Thailand, Korea, India, Vietnam and Malaysia, as well as working with regional organizations like ASEAN and APEC, to help maintain and promote a robust U.S. economic presence in this critical region.

**(6) Enhancing Dialogue with China.** Finally, the T2B Review recognized that, at the end of the day, the bilateral trade challenges we face are best resolved through strengthened dialogues, including under the framework of the JCCT -- Joint Commission on Commerce and Trade. Recent JCCT meetings augur well in this regard.

At our April meeting, for example, China agreed to reopen its market to U.S. beef, and we are working to ensure that this promise is fully implemented. China also agreed to:

- Eliminate duplicative testing and certification requirements for imported medical devices;
- Improve market access for telecommunications service providers;
- Publish all laws, regulations and other measures affecting trade, foreign exchange and protection of intellectual property in a single official journal; and,
- By the end of 2007, submit its offer to join the WTO government procurement agreement.

In addition, China announced that computer manufacturers in China would be required to install legal operating system software on all computers before they leave the factory, and committed to close optical disc plants that produce pirated CDs and DVDs. These are important steps on the road to addressing a very tough IPR situation, and every step that brings tangible results counts.

These and other initiatives show that as major trading partners in a mature relationship, the U.S. and China can work together to resolve concerns and improve commercial ties. In the political world, we may throw around numbers that reflect the magnitude of our trading relationships: \$45 billion in US exports to China; \$247 billion in Chinese exports to the US; the \$202 billion trade deficit. But we must always remember that these numbers are derived one transaction at a time, and that a focus on those impediments to trade that imperil potential transactions is time well spent to level the playing field.

Together, all of these elements of the Top-to-Bottom review of US trade with China come together in a concrete and focused objective, namely -- “to integrate China more fully as a responsible stakeholder in the global rules based system of international trade and to secure its support for efforts to further open world markets.”

#### The Importance of a Successful Doha Round for China and the United States

Which leads me back to my initial subject – the importance of a successful Doha Round and the need for China to step up and play an active role.

China hosted the APEC Trade Ministers’ Meeting in June 2001, which laid important groundwork for the launch of the Doha Round. China also hosted an informal trade ministers’ meeting in Dalian in July 2005, at which Minister Bo played a key role in pressing for the elimination of agriculture export subsidies.

These contributions illustrate that when China wants to make things happen in the Doha Round, it can be both influential and constructive. But it is also clear that at present, China is still assessing its role in the WTO and in the Round.

China is a member of the G-20 group of developing countries, and should be looking at opportunities for real reform and new market access. At the same time, it is also part of the G-33 camp, which is looking to protect agricultural production for subsistence farmers. In both groups, other countries – with trade interests decidedly different from China’s – are playing the leading roles. Is it really in China’s best interest, I asked Minister Bo yesterday, to have these other countries appearing to speak for China? To influence the outcome of negotiations in ways that do not necessarily reflect China’s strength and needs?

Goods trade as a share of GDP for India, for example, increased from 13% in 1990 to 25% in 2004. For China, it increased to almost 60% over the same period. Surely, now is the time for China to play a greater role – commensurate with its status as the third largest trading nation in the world.

Those interests include further opening its own markets to spur increased domestic competition and growth. It means minimizing the use of loopholes that negate cuts in tariffs. It means leading by example.

China has another purpose, too. Quite simply, China needs to reassure other countries that they can open their markets to Chinese products and services because Chinese markets will be open and welcoming to their products and services.

China's interests include championing increased South-South trade, not just because increased trade flows among developing countries are their best hope for greater economic growth. In 2005, over 46% percent of China's exports went to developing countries, and these markets are where significant potential exists in the future.

In addition, China's interests include supporting an international trade system that is effective in enforcing rules. I spoke earlier of China's use of the disciplines and protections afforded by the WTO. Surely there can be no stronger motivation than to strengthen the institution.

At present, the Doha negotiations are at an impasse, with some key players focused more on the blame game and what they can take off the table than on identifying opportunities for further liberalization. As an export powerhouse, China should be clear about its stake in a multilateral round that maximizes market opening and trade facilitation.

I would note that this is an instance where traditional labels – “developing country” and “recently acceded member” – simply don't work for China. China has legitimate development concerns, but it is also a manufacturing giant as big and competitive in many sectors as any developed country in the world. Rather than expend time debating whether and how China fits into these categories, we should work practically and pragmatically to find a way forward.

If the Doha Round is unsuccessful, it will be tempting for countries to rely on litigation rather than negotiation to achieve new market opportunities. In such a scenario, China's commerce could be particularly vulnerable to legal challenges over its compliance with global trade rules.

Moreover, a failed Doha Round could foster greater protectionism around the world. There are dozens of bills in the U.S. Congress proposed by members who want us to “get tough” or “stand up to China.” Many of these bills would not create or save a single American job. In fact, some would both kill jobs and limit consumers' choices as prices increase. Still, these Members of Congress reflect the very real concerns of many Americans about the impact of China's dramatic entry into the trading system. Responsible actions and leadership by China can help allay those concerns. Certainly, economic isolationism and protectionism are not the answer.

## Conclusion

Nations, either out of complacency or fear - or both - can resist opening their markets, reducing their subsidies and living by the rule of law. But the United States and China must have something better – a world of mutual growth and open markets, populated with prosperous consumers and producers, teeming with ideas and innovations, new products and services, and a rules-based system that gives order, stability and opportunity for all nations in the global market place.

The WTO and its members need a solid Doha outcome to remain an effective force in the global trading system. We look forward to working with China as it steps up -- into a role of collaborative leadership -- to ensure that the world does not retreat from its commitment to progressive and meaningful trade liberalization.

Thank you.