

**Ambassador Rob Portman
US Trade Representative
Press Conference
US Embassy Beijing, China
November 14, 2005**

Ambassador Portman: Thank you all very much for coming this afternoon. I hope we haven't held you up. I'm here today with Ambassador Sandy Randt, who some of you know. Any tough questions I will be referring to him. [Laughter] Although, he's leaving early I think, actually, for another appointment.

We've had a great day today; it's been a busy day. This morning I got to sit down with business leaders represented through the American Chamber of Commerce. They were able to give me specific instances of some of their concerns as they tried to expand investment and exports in and to China. I also gave remarks at the JP Morgan Business Conference and delivered a keynote speech at the conference on China-US relations that is being hosted by former President George HW Bush. I've also met with Chinese officials including Minister of Commerce Bo Xilai, whom I speak with regularly, and also the National People's Congress Economy and Finance Committee Chairman Shi Guangsheng who is, as many of you know, the former Minister of Trade for China.

In each of these settings I have emphasized that the US-China bilateral relationship is of critical importance to both of our countries. And for the most part it's a mutually beneficial relationship, but I've also made the point that to preserve and grow our economic ties there are important trade issues that must be resolved. China must open up more to our exports and investment. It must address limitation and market access that continue to hamper US companies seeking to participate in the Chinese market. I believe this is mutually beneficial. Clearly I think it's good for American exporters and American jobs, but I also think greater opening will help support the development of China and will help Chinese citizens. China must also act vigorously to address intellectual property infringement. This was raised at every one of my meetings today.

The piracy not only deprives US companies of their ability to participate in the Chinese market, it also affects them worldwide. Piracy disproportionately affects US exports because they're often knowledge-based exports: software, business processes, entertainment and so on. One of your fellow reporters told me today about a banner he saw on top of a store front in Liu Zhao that sells pirated DVDs. The banner had a promotion: rent 120 movies for the equivalent of three dollars and sixty cents for a month. This is just one example among many that shows that piracy, indeed, is rampant, and it must be brought under control.

As I said repeatedly today in my meetings and my speeches, this is not just for the benefit of US knowledge-based exports and US companies that want to do business here and want to do so in an environment where their property is protected. It is also very much in China's interest. The bigger loser is not the US. It is actually the Chinese economy and Chinese innovators, entrepreneurs, artists, authors, singers. This is something that we need to see more progress on. In short, the benefits of economic opportunity and market access must flow more evenly in both directions, and that's the point that I made. By achieving more balance generally we can see more balance in the trade statistics, where now we have this year, I believe, an over 200 billion dollar trade deficit with China. We must begin to level that, and one of the ways to do that is to see more balance in terms of market access and investment. China continues to grow and grow quickly, and for the United States that's a welcome development. But China must also recognize that as its economic and political heft expand, so do its responsibilities in the rules-based international trading system that it has benefited from.

In my meetings today I have also emphasized the need for greater participation in the WTO talks, known as the Doha Round. These are the once-in-a-generation world trade talks that give all of us the opportunity to reduce trade distorting subsidies and tariffs and other barriers to trade all around the world. I encouraged my Chinese counterparts today to play an even more active role. Here the United States and China have many interests in common, including a strong multilateral trading system.

We are at a very crucial stage in these negotiations. That's in part why I have taken this trip from Geneva and London to Africa, India and China over the last ten days. Tomorrow I will attend the APEC summit in Busan, Korea to continue working on the WTO talks and to see if we can make more

progress between now and the Hong Kong meeting a month from now. That's why I'm appealing to our trading partners, to engage in these talks so that we can build a consensus. This is, again, a once-in-a-generation opportunity to bring down trade barriers, to generate worldwide economic growth and to alleviate poverty. China and its neighbors in Asia have as much to gain as anyone from a successful Doha Round because these countries in the Pacific Rim and China trade substantially. That's why we need their voice at the negotiating table, to push for an ambitious and successful result in the Doha Round.

I'll be happy to take your questions on the trip today or Doha Round or other topics.

Question: I am with Global Radio News. How well is China complying with its WTO commitment?

Ambassador Portman: Since China joined the WTO in 2001 it has undertaken a number of steps. The United States should give China credit for that in terms of meeting the obligations, but it still falls short in a number of areas. One is intellectual property. Here there is a responsibility for WTO members to prohibit the kind of piracy that we see throughout China. There are other specific obligations they undertook as part of market openings, where we believe that China may have been meeting the very specific letter of the law, but we'd like to see more in terms of the spirit of the WTO.

And then there are still other instances, some specific instances, where we believe there's been less than adherence even to the letter of the law. Let me give you an example: direct sales. One of the WTO commitments is to permit direct sales. This is an area where the United States tends to have the predominant market share globally. Some of you may have been in direct sales yourself at one point. It's where you sell product -- Tupperware may be the best example in the United States from my generation or maybe now it's a cosmetic company or something. Here in China direct sales companies have not been able to operate with the same business model they use all around the world, including in the United States.

Again, in my view, I believe it would be very good for China also to allow direct sales because it gets Chinese entrepreneurs directly involved in selling. I have found no lack of energy or enthusiasm or entrepreneurial spirit among

the Chinese people. I see those in abundance, and those are exactly the kinds of characteristics that make you a successful direct marketer and direct seller. So I think it would be good for small business development in China, but it also is something where US companies again are disproportionately affected because this is an area where we have a comparative advantage. So, that's just one example. I can give you more later if you like. We think China has made a lot of strides since 2001 and they deserve credit for that, but in some other areas there's still more to go in terms of meeting their WTO commitments.

Yes sir...

Question: I'm with CNN. Why is it in China's interest to effectively curb IPR violations, and do the Chinese agree? What do the Chinese say to explain why they haven't yet effectively done anything?

Ambassador Portman: That's a good question. As I said earlier, I think it's in the interest of Chinese innovators and entrepreneurs and authors, and anybody who wants to protect their knowledge-based property would benefit. It's also a sign of a mature economy though. It's very difficult to see China taking the next step in terms of its economic development without providing more protection for intellectual property. We've seen this around the world in countries where there has been an evolution of protection of property that tends to go hand in hand with economic development. So, I do think that it's in their interest. Have they acknowledged that? Yes, they have. I've only been at this job six months so I can't give you a lot of perspective, but even during that period of time I've noticed more emphasis on the Chinese side, particularly as it relates to innovation because they understand that in order to have innovators you have to protect innovation. So I do think they have a better sense of that. What do they say? A number of different things depending on the specific issue. But some of the feedback that I received today was, "We're moving but we can't move that fast." And my answer to that is, given the deficit, given the fact that the American people and their representatives in Congress are getting more and more frustrated, given the fact that they have the tools now, they have some laws in place, they know what the problems are, they have the penalties in place, it's time to move. It's time to crack down.

Today I gave an example of a company that is a copycat company of an American shoe company. We know the city, we know the factory, and we

know what is going on. These are pirated shoes, and we need to see action. Otherwise, it's hard for me to go home and say to the shoe company – more particularly, I should say, to say to the members of Congress that represent that shoe factory – that this is fair trade. Because, again, we're not just competing in China for the business, we're competing globally. These same pirated shoes are now going to a third country where the legitimate US producer and company – which is, by the way, producing in China also – is being disadvantaged and the consumers frankly aren't getting the product that they're promised. So I think there's more of an acknowledgement of it, but we need to see more action and more tangible examples of intellectual property enforcement.

Yes.

Question: Larry Sun of China Business News. Two questions. About the Doha Round: from the talks last week in Geneva, from your talks with Chinese officials, in which areas do China and the US have common ground in the Doha Rounds and in which areas do they have the main disagreements? Second question is on the upcoming visit to China by President Bush. Can you tell us what will be the focus in the trade areas in his meetings with Chinese leaders?

Ambassador Portman: Well it's interesting, the response to your first question: there are very few areas I can identify where China and the United States have a disagreement over Doha. We agree on the overall goal of a successful round because it will reduce barriers to trade, make our economies more efficient, and increase global economic growth. It also has the added benefit in the developing world, including in China, where there are hundreds of millions of people outside of Beijing and Guangzhou and Shanghai who will be benefited because the economies will improve. The World Bank has estimated, as an example, that 300 million people would be lifted out of poverty if the Doha Round were successful. By that they mean a real reduction of barriers, subsidies and tariffs, other non-tariff barriers. So China and the United States have a mutual interest in seeing this be successful.

Right now, the specific issue is how do you work through agriculture, which is the central issue, in order to get to the other issues like reducing industrial tariffs, reducing the barriers on services, being more specific on development, and also trade facilitation, which is important to China – the

ease with which goods can be traded, which can reduce the cost of the those goods and help the economy. So we're working through that and the problem we have right now is that in agriculture, where there are three different pillars: 1) export subsidies where we're pretty well along and we know we're going to eliminate them; 2) domestic support, where the US has a very aggressive proposal on the table that we put forward about a month ago, which says we're willing to reduce our subsidies in exchange for Japan and Europe reducing theirs and in exchange for more market access; and 3) the third pillar, which is market access, and that means reducing tariffs. In agriculture, as you know, tariffs are relatively high. That's one reason this round is so focused on agriculture, because traditionally agriculture has not been part of the World Trade talks. The first time it was addressed was in the Uruguay round – the last one – but it was not done so in a way that was satisfactory to the countries that are exporting countries, including a lot of developing countries that have a comparative advantage in agriculture.

So we've got to get the tariffs down, and the European Union is frankly not willing to provide meaningful market access by reducing their tariffs and quotas. That means that the rest of the world is being asked to live with a formula that doesn't reduce tariffs or quotas adequately. That's the issue right now; that is what is blocking the talks. In my discussions with Chinese officials today we had a very honest exchange about that, and I think China can be helpful in this regard in encouraging the European Union to take on its part of the responsibility with agriculture and then working with the European Union and with the United States in all the other areas to assure there is a successful round. This is a once in a generation opportunity; it doesn't happen often, and if we allow this to go by we'll have missed an opportunity.

Yes. I'm sorry, second question. On President Bush's visit: We'll have to wait and see. I can't tell you what he will raise specifically, but I would guess that two of the issues that will come up again and again will be market access – that the United States would like China to open up just as we have opened up to China – and second is the issue of intellectual property, which is related. There again I hope we will be able to see some progress, some tangible progress.

Yes sir. [Cough] Sorry I have a cold and my voice is not too good, sorry.

Question: Voice of America. China and United States have reached an agreement on limiting textile imports to the United States, but this is only a short-term measure to address the deeper problem. What's the long-term solution to this issue? Just wanted to make that comment.

Ambassador Portman: Thank you. You're right. Actually a week ago today in London, Commerce Minister Bo Xilai and I had our final meeting on textiles. We had many meetings about this – three and a half months of negotiations – and we came up with a very sound agreement that provides for the next three years some certainty and stability in the way in which the safeguards will be transformed into a comprehensive agreement. It helps China because it gives Chinese exporters and Chinese manufacturers some predictability so they can plan for employment. It also helps them in the sense that if we had invoked the safeguards on all these products, the annual increases would be less. The safeguards were put in place during China's succession in 2001; they only last until the end of 2008. So you're right, this gentlemen's right, it's for 2006, 2007 and 2008 we have now have a pathway.

And by the way, this agreement is a good agreement for the United States as well, because it permits our textile manufacturers to have more predictability and certainty. They are very pleased with the agreement, as are our importers, retailers, and costumers. So it's a good agreement. It's a win-win. And I think it's indicative of what we can do when we put our minds to it. On this, which has to be one of our toughest trade disputes because it's a very political and even emotional issue back home for both of us, we were able to come up with a solution. It took six or seven meetings and a lot of information being shared back and forth, but we were able to resolve an issue to the benefit of the Chinese people and the benefit of the American people. What happens after that? It depends on what happens in Doha, I suppose, because the tariffs will be determined by the Doha Round. There will still be tariffs in place, but this is truly a transition. You know, this is tough for the United States. It has involved a lot of dislocation, loss of jobs. It's also going to be tough for some other countries around the world that have traditionally been exporters to the United States and other countries because some of their market share has been taken by China. But, you know, we're in this transition, we are working through it, and I think this agreement will help in that transition in that the growth rates in 2006, -07 and -08 begin to go up.

On this side, sorry... yes.

Question: Murray Hiebert, Wall Street Journal. I want to follow up on your Doha comments. You talked about how the talks were somewhat stalled as a result of no agreement in agriculture. Do you think that APEC- the APEC talks in Busan this week with the Asian leaders can jump start those talks, or because the Europeans aren't there it won't make much difference? And secondly, there's a bit of a perception sometimes that US is busy in other parts of the world and it's probably less committed and less active in Asia than it has been in the past. What are your comments about that?

Ambassador Portman: First I do think the meeting in Korea can be very helpful for Doha. As you recall at our last APEC trade ministerial I attended in Korea a few months ago we focused very much on Doha. We issued the statement that had all 21 countries of APEC agree to a certain kind of formula for reducing tariffs on the non-agricultural side called NAMA, non-agricultural market access. This was quite a breakthrough at the time, and helped to bring about three-quarters of world trade into agreement on a particular way to reduce tariffs. We haven't made a whole lot of progress since then on NAMA because those countries that do not yet support this particular formula, called the Swiss formula, are waiting for the agriculture negotiations to be completed, as you know. So, I think we can again play a very important role in moving the talks forward. These 21 countries – only 21 countries – account for about half of the trade in the world. Remember there are 149 countries in the WTO, but just these 21 countries account for about half of the trade, so it's a very influential group. And I do think that the group will be very focused on a successful round – very focused on breaking the agricultural deadlock. I think it can be helpful in the run-up to Hong Kong.

With regard to US emphasis in Asia, I've heard that elsewhere, that perception. It's certainly not true now. USTR and the Commerce Department and indeed our President, as will be shown tomorrow and through the week when he's here, are very committed to deepening our economic ties in Asia and also, frankly, in having Asia continue to grow and prosper. It's in our interest. So when the President goes to Japan and Korea and China, I think you will see an emphasis on strengthening and deepening those ties. As you may know we have free trade discussions ongoing with Thailand. We are discussing whether to launch a new free trade agreement with Korea. We haven't launched it yet, but I'll be having discussions with

Minister Kim about that tomorrow and the next day in Korea. And we're spending quite a bit of time on those issues. We're also spending quite a bit of time on China issues and Japan issues. Some of those are trade concerns or disputes but others are ways in which we can work together. The textile agreement is a good example where we can come together and find mutually beneficial ways to solve our problems. So we have a lot of emphasis on the Pacific Rim and China and this area right now, and I think it's appropriate. In a sense, it's the most dynamic region in the world, in terms of trade but also in terms of economic growth.

Yes.

Question: I'm from Press Trust of India. You've just been to India last week. Can I direct this to your talks with Indian leadership on WTO issues?

Ambassador Portman: We had some great, great meetings in India. In fact I just got a call from Minister Nath. I'm going to return that call when I leave this press conference. And you know Minister Nath and I worked very closely on WTO matters together. He's part of a group of four countries – United States, the EU, Brazil and India – that have spent a lot of time trying to work through these issues. So we had some great meetings. Again, India has so much potential to become an active player in the international trading system. Our total trade with India now, when you include goods and services, is about 30 billion dollars. It should be far in excess of that. As you know, we made a commitment to try and double that within three years in terms of the trade of goods. So we have our hands full to figure out how to do that, but it shouldn't be too hard. We should be able to get more US companies interested in selling products to India, more Indian companies interested in selling products to the United States. The trade barriers are there although India's tariffs, as you know, have gone down significantly in the last several years. Really, since 1994 there's been a total change in the focus in India, to less protection, more engagement. So I think it's a very promising area for both India and the United States.

On Doha, we've – I don't know how to characterize the conversations except to say again the Indians *do* want to have a successful round. They are again in a mindset not of protection or drawing back but in understanding the benefits to engagement in trade, and they've seen the results of it. I mean, their economy grew at 8% this year, as I understand it, and it's partly because they did reduce their tariffs and they are engaging more in trade.

Information Officer: I think we need to make this the final question.

Ambassador Portman: Two more, quickly. Yes.

Question: I'm from Caijing Magazine. I'm curious whether you think China has done enough on tabling its own offers, specifically with regard to agricultural and financial services? And then as an extension of that, are you optimistic or pessimistic about the upcoming Hong Kong ministerial? What do you think will be the most challenging aspects of that?

Ambassador Portman: Well, this is going to sound a little different from what some might expect, but I want China to be more engaged, not less engaged, in Doha. So my answer would be although they have tabled some offers including services, I'd like to see them get even more engaged and be at the table even more, particularly in agriculture. Since you mentioned that, I think they can play a role here, in a sense, as a bridge between some of the parties. Some might think, "Gee, the United States and China have these trade problems. We have a big deficit, we must not want China to be as engaged." We do want China to be engaged. China's economic growth is in our interest. We do want the trade to be fair, more balanced, but we want China to be more engaged.

Your question about Hong Kong, was it specifically what my expectations are or...?

Question: There's been a lot of [inaudible].

Ambassador Portman: I'm concerned right now that unless we can break this deadlock on agriculture it will be hard to make progress on all the other issues, including development. The development benefits of Doha are primarily in the market openings, in the reduction of trade distorting support in Europe, the United States, Japan, but also in significantly in the reduction of tariffs. World Bank economists have estimated that 93% of the benefit in agriculture will come from the reduction of tariffs and most of that goes to the developing world. A lot of it is south-to-south trade, as well as south-to-north trade. So that's my biggest concern: if you can't make progress there or if you were to compromise.... I saw something one of your publications this morning: the EU is saying we should compromise – the United States and Brazil should compromise. To me that is not the solution, because if

you compromise on agriculture it means that you don't reduce tariffs to a significant degree. That means in the other areas how can you expect a country that sees the Doha Round primarily as a way to sell their agricultural products to agree to significant cuts in tariffs in their country on, say, industrial products? This is what you're hearing from Argentina and Brazil and other developing countries that have an offensive interest in selling more agricultural goods. That was how Doha started. The developing countries that have a comparative advantage in agriculture wanted to have a fair shake here. So compromising is not a solution right now, because compromising means lowering the ambitions. At the end of the day, what do you have? You have an agreement that won't help much in terms of economic growth and alleviating poverty. It is also very tough to sell, I think, because at least in my country there will always be people opposed to a trade agreement and their voices will be heard, whether it's a small agreement or a large agreement.

On the other hand, in order to get someone to stand by you and say "this is good for me as a farmer" or "this is good for me as a worker" you have got to be able to show benefits. If it is a weak result, I think it's hard as a practical matter to get it through the political systems of democracies like ours. So I hope Hong Kong can be successful. It will be a bit ironic for me because I know that there will be people there protesting, saying, "This doesn't help enough for the developing world." The reality is unless the Hong Kong meeting is successful, we won't be able to help the developing world. An unsuccessful Hong Kong meeting that is like Cancun or even Seattle will be a big disappointment to a lot of people, but mostly it is to the hopes that would have been lost for global economic growth that can help alleviate poverty in the least developed countries. So my concern is about Hong Kong. I hope I'm wrong and I'm still hopeful that we can pull something together, because as I've said when you go to India, or China – wherever I am – everybody says the same thing. They want to have a strong round, so hopefully those good intentions will get us to a final point.

I was just told that I should clarify that the word "compromise" was the word I'm concerned about. It is. I mean, the United States wants to build consensus, the United States wants to reach an agreement with respect to our offer, which I talked about earlier. We did not say it's a take-it-or-leave-it offer. We said we're willing to negotiate, and we very much want an agreement. My only comment a moment ago was that when we're being asked to compromise, what that means with regard to the European Union is

to lower our ambitions for lowering tariffs. That's the compromise they're looking for, and I don't think that's good for the Round.

One more question.

Question: From Reuters, one last question about Doha. Could you say more specifically what you would like to see China do in the next few weeks in the lead-up to Hong Kong? And secondly, what are you preparing to do over the next few weeks to try to bring about agreement to Hong Kong?

Ambassador Portman: That's a good question, a fair question. I'd like to see China play a more active role in Doha generally, specifically in APEC. I think they have an opportunity as a major player to step up and be heard. It's presumptuous of me to speak for anybody else – it's hard enough for me to speak for my own country with all of our diverse interests – but I think it is in China's interest, clearly, to have a strong multilateral trading system, and specifically it's in their interest to see tariff barriers be reduced. So acknowledging that and acknowledging their interest in development and in developing countries, including China, I think they ought to play a more active role in suggesting how we do come to a compromise. I'm sorry, how we do reach a consensus. My compromise wouldn't be lowering [ambition on] tariff [cuts]. But I think they can play a more active role, and I think they should.

Just to give you some background to this: I think traditionally there has been this sense among many countries – not China in particular but among most countries frankly – that that maybe it's better to sit back a little bit and allow the EU and the US or Brazil or India to kind of knock heads and work things out. I don't think that's the world anymore. The US is still the largest economy in the world, but other economies are growing rapidly, and the world trading system is a lot more diverse with a lot more important players and China is clearly one. So commensurate with that new role they have in the global trading system, I encourage them today to be more active.

What was your second question?

Question: What will you do next?

Ambassador Portman: Well, I'm going to be at APEC for the next few days, then I go back to Washington, and then I will probably be in Geneva. I'm going to be speaking, I said, with Minister Nath shortly. I have been keeping in touch with trade ministers. Yesterday I spoke to Minister Nakagaw of Japan. I've been staying in touch even on the road, and it's my feeling that we probably should have a minister's level meeting in Geneva next week. Nothing is set yet, but that's my sense. By the way, I haven't told my wife and my kids yet, so don't print it. [Laughter] It's been a busy time, and it will continue to be busy. It's going to be busy right up until Hong Kong and through Hong Kong.

Thank you all very much.

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