

As Prepared for Delivery

Robert B. Zoellick
U.S. Trade Representative
U.S.-China Business Council
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I am delighted to be here with the U.S.-China Business Council, just as President Bush is planning his second trip to China.

The size and the quality of today's audience is a reminder of the strong and enduring interest of the American business community in China.

Twenty-three years ago this very month, right after the United States and China established diplomatic relations, the State Department hosted an event for CEOs in the commodious Dean Acheson Auditorium. Every seat in the large assembly hall was filled for the coming out party, chaired by two eminent cabinet members, the late Cy Vance and Mike Blumenthal. Indeed, David Rockefeller arrived late and found himself sitting uncomfortably but more or less contentedly on the floor in an aisle. I do not see anyone on the floor today, but Mr. Rockefeller reminded us then that you have got to be willing to accept hardships and irritations to get in on the ground floor of the China market.

In the decades that followed, the U.S.-China Business Council has been at the forefront in the development of U.S. relations with China. I would like to acknowledge especially the Chairman of the Council, Fred Smith, the Vice Chairmen, Phil Condit and Bennett Johnston, and the Council's energetic and omnipresent President, Bob Kapp, all of whom have helped to amplify the Council's vital voice.

One way in which you will not have to make the Council's voice heard in the next few months is during an annual Congressional debate on NTR, or MFN as it was called before. Recently, a group representing a major corporation lamented to us that without the annual debate, it was not sure how the company would organize its lobbying efforts on China, which have been built around the doorknock campaigns organized by the Council and other business associations. Recalling some hard fought votes during my earlier service at the State and Treasury Departments, I must confess my sympathy for this viewpoint was limited.

WTO Accession: Why It Matters

Our relations with 1.3 billion Chinese will be a key determinant of whether peaceful competition or aggressive rivalry dominates this new century. The prospects for peace depend significantly – but of course not completely – upon the maintenance and acceleration of China's path in the last quarter century: toward openness to the outside world and acceptance of international norms.

In recent months, our attention has been riveted on countries in the Middle East and South-Central Asia. The tragedies have highlighted the dangers to both international peace and domestic tranquility resulting from inward-looking, backward-longing, fearful, and isolationist policies.

The road of resentment and wounded pride was the one chosen by Chinese leaders in the 1950s and 1960s. This was the time when China tore itself apart at home, with the millions of deaths during the Great Leap Forward caused by a collapsing economy and the repression and near civil war of the Cultural Revolution. Not coincidentally, this was also the era of U.S.-China confrontation in Korea and Vietnam. The revolution in China's external and internal policies sparked by Deng Xiaoping reversed these tragic trends, generating an unprecedented exchange of people, goods, and ideas between our two countries. A high priority of a far-seeing U.S. strategy is to avoid drift or cataclysm leading to a repetition of the poison and perils of that earlier era.

It is not only America's interest in international peace and stability, but China's future economic and social health that will be strongly affected by China's continuing evolution toward openness and acceptance of international norms. In the past, China's failures, and its economic backwardness, have been associated with periods of isolation from the West. China's successes have come when it interacted, confidently and broadly, with the West. The world's failed societies are the ones – like North Korea and Burma – that have retreated into autarky and isolation.

China's 15-year long journey to attain membership in the World Trade Organization has been a modern long march, not to the caves of the hinterland, but toward the seas of commerce and the ports of new open doors.

The WTO is one of the key pillars of international economic openness and commercial fair play. Membership, acceptance of WTO disciplines, and behavior consistent with WTO purposes integrate acceding states to the rules of the international system more thoroughly than virtually any other global organization. Moreover, the WTO agenda is a diary of topics of greater consequence to the daily lives of ordinary people than that of most any other international assembly.

China's accession to the WTO does not assure either peace or internal development, but its continued exclusion from the world's most important intergovernmental body in the economic field certainly would have damaged the prospects for both.

The accession of China, and of Taiwan, to the WTO is an achievement of which four U.S. Administrations can be proud. I inherited an excellent bilateral agreement negotiated by Charlene Barshefsky. Nevertheless, the final accessions remained stalled by problems over China's multilateral commitments, notably on agriculture. Early last year, Secretary Veneman and I recognized the need to break out of old ruts if we were going to avoid

continued stagnation in negotiations and deterioration of our commercial relationship with China. There was concern in Washington about another bruising battle over NTR last spring, coming on the heels of the EP-3 incident. So I was delighted last June in Shanghai that we were able to achieve a breakthrough agreement covering outstanding multilateral issues including agriculture, trading rights, distribution, and insurance and reinsurance. We kept the pressure on to complete the remaining difficult issues, most notably insurance but also TRQ's and audio-visual product distribution, even during the traumatic week of September 11 at the final Geneva Working party. This accomplishment is a testimony to the dedication and professionalism of Ambassador Bader and his team at USTR – Christina Lund, Catherine Field, and Teresa Howes.

As we were completing negotiations on China's accession, we moved into high gear to complete unfinished business on Taiwan's membership. Most of the economic elements of the package were completed in 1998. But sensitive political issues remained, as well as questions about a few sensitive sectors. Our team worked through the summer, along with our EU colleagues, to break the deadlock. We then kept the process on course until Doha, preserving the WTO consensus to bring about accession of China and Taiwan within 24 hours of each other and laying to rest the understandable anxieties in Taiwan.

WTO Accession: Benefits of Reform

I do not need to review for this group the specifics of the final WTO package for China. Your companies know the details. I would, however, like to offer my view on the overall significance of China's accession and how China, and America, will benefit from it. China's accession to the WTO represents more than just its entry into one more international organization. More than any of the dozens of organizations China has joined since it emerged from isolation a quarter century ago, the WTO embodies, and reinforces, China's commitment to fundamental reform.

A look at the key elements of the WTO package make it clear why this is so. Let me cite a few illustrations:

- The WTO system is based on rules. It requires that members operate by the rules of the international trading system in opening their markets and in responding to unfair trading practices of others. You know from dealings with China that its approach to the international trading system has historically suffered from arbitrariness, playing favorites, and mercantilism, reflecting the rule of men rather than of law. WTO membership will help rectify that flaw – not overnight, but over time, as it provides a foundation for sound business practices.
- China is required to introduce transparency into its promulgation of laws and regulations. Literally thousands of its laws, regulations, and local ordinances will have to be repealed or revised to conform with WTO requirements. China is supposed to allow a period of public comment on new drafts, and indeed has begun doing so in the last 7 weeks.

- Courts will be required to review complaints against arbitrary administrative actions. In the past the one certain and clear rule governing the Chinese system was that we could be sure it would be arbitrary and opaque.
- The commitments China has undertaken, consistent with the principles of the WTO, are designed to produce more foreign and domestic competition, and thus more open markets. These commitments require China to allow imported products to compete on an equal footing with domestic products, including through allocation to non-state trading enterprises of an important share of imports of products under quotas and tariff rate quotas. State-owned enterprises are no longer permitted to benefit from export subsidies. Industrial subsidies are subject to WTO disciplines and can be challenged in the WTO if they are trade-distorting.
- And finally, China's membership in the WTO intertwines China with the world's market economies in a more solid, fundamental, and long-term way than could be assured by decisions dependent on the whims of individual leaders. Referencing Max Weber's distinction between the charismatic and the institutional stages of development, China's WTO accession signals the transition from one stage to the other, a course navigated by all the successful economies of the West.

President Bush believes that economic pluralism is a key ingredient in bringing broader pluralistic opportunities to societies; arguably, it may be a precondition to long-term stability of just societies based on the rule of law and democracy.

China's Role in Global Trade Negotiations

China's accession to the WTO can bring benefits beyond the systemic ones I have described and the specific ones to U.S. companies that you know. Beginning at APEC last year, China helped invigorate efforts to launch new global negotiations, both through its determined effort to join the WTO as well as through its prodding of other APEC countries to support the new negotiations at Doha.

Now that the members of the WTO have decided to advance global trade liberalization, China can again play a positive role. Doha created a framework for negotiations. The centerpiece of the U.S. agenda for the negotiations will be market opening for agriculture, goods, and services. This is what U.S. exporters and importers want and need. It is what developing countries want and need.

Sometimes, however, what countries need is not what their leaders seek. Within parts of the developing world, resentments against the developed world have fed an ideological sullen solidarity of shortsightedness focused on objectives such as confiscation of wealth, obligatory and non-economic transfers of technology, statist principles, strangling regulation

of capital, and protectionism. These policies drive away investment and degenerate toward economic stagnation, capital flight, and entrepreneurial emigration.

China's development policies have taken a different path. Its rhetoric has espoused different ideas. China can make a great contribution to opening markets, building productivity, lowering prices, and expanding growth and jobs through global negotiations if it uses its influence to encourage the kinds of policies that China has itself followed. It is not a given that China will do so, because of the occasional disconnect between its domestic policies and the Middle Kingdom's behavior in international organizations. China can exercise leadership, not by posturing, but by sharing and expanding from its own experiences. If China does so, it will benefit, and the world will, too.

The policies that have been at the core of China's spectacular growth in the last twenty-five years – progress toward freer markets, greater openness to foreign competition and investment, deregulation and privatization, tariff reduction – could serve as a model to others.

Economic Openness and Information Technology Development

Let me cite one example – information technology. China could have taken the route of East Asian industrial policy, such as it experimented with through automobiles in the mid-1990s, and tried to build up a domestic industry behind high protectionist walls. Understanding the global character of the emerging IT sector, China chose a different course. It has joined the Information Technology Agreement, agreeing to reduce its tariffs on all IT products to zero by the year 2005. The result? Taiwanese companies, the IT powerhouses of the region, have invested about \$9 billion in assembly and production plants on the Mainland. One quarter of the world's desktop computers are already manufactured in China, and one-half of the world's CD-ROMs. Within this decade, China will become the world's largest supplier of IT hardware. It will be the location of choice for IT assembly. It is becoming a design and development partner, and will challenge Taiwan as a semiconductor production center. It will soon be the second largest market in the world for personal computers. This is a spectacular example of how openness can lead to growth.

The IT example illustrates another trend that deserves attention: the role of regional integration in general and cross-Strait integration in particular. Your home computer is likely to contain products, engineering, and ideas originating in Taiwan, China, Malaysia, Singapore, and Silicon Valley. Production within the boundaries of one nation is the exception, not the rule. China's recent announcement of its intention to seek free trade agreements with Southeast Asia and Hong Kong is a natural evolution of this trend.

The Value of Regional Integration

Asia's economic integration – with China interconnected to the network – need not be seen as a threat to U.S. interests. It should be viewed as a prod to accelerate U.S. efforts to reach free trade agreements and deepen our integration across the Pacific.

Armed with Trade Promotion Authority, which I hope, with your help, to see pass the Congress soon, America will take up this challenge. Republicans and Democrats have an opportunity to shake hands on Majority Leader Daschle's commitment to complete prompt passage of TPA and give a boost to continued progress on trade. With the new WTO negotiations underway, and with China and Taiwan participating in these negotiations for the first time, the United States should show the way through active, energetic leadership. Rapid enactment of TPA – after a seven-year hiatus – will help us do that.

The United States will work closely with our APEC partners to promote Asia-Pacific integration, particularly through free trade. Regional integration can support ongoing global liberalization, as it reinforces economic interdependence and helps nations meet cross-border challenges. The APEC countries have mostly prospered from an open global economic system; indeed, this system has been the driving force behind much of their vitality.

Countries that have wavered from the market principles underpinning this system eventually experience economic slowdowns, if not contractions. Japan, in particular, needs to re-embrace these principles. A pillar of world economic growth from 1950 to 1990, Japan should free the process of reallocating capital to productive uses, facilitating innovation and stimulating job creation so as to transform its sluggish and aging economy. To do so, Japan needs to counter deflation, rely on the market to revalue and revive unproductive assets, and foster opportunity through deregulation.

Japan's experience provides a note of caution for China: If China tries to subvert the free trade principles of the WTO by twisting them into elements of a bureaucratic industrial policy, it will both fail to derive the advantages of those principles and undercut global WTO objectives. For example, it is critical for China to understand that the benefits it has accrued from the zero tariffs of the Information Technology Agreement will evaporate if it attempts to distort the basic intent of the Agreement. I have in mind provisions in China's new tariff schedule and implementing regulations that would differentiate between imports of IT products for domestic production and those intended for domestic sale, with the latter being subject to a tariff. We will make this point as often as necessary – and it will have to be made often – to the Chinese. I hope you will do the same.

The WTO, the PRC, and Taiwan

The impact of cross-Strait economic integration, encouraged by the near-simultaneous admission of the PRC and Taiwan to the WTO, could be equally consequential. The Taiwan Strait remains one of the world's most dangerous flash points, a place where differences between the United States and the PRC have required the most sensitive management. But at the same time as we have seen political and military stalemate, and occasionally confrontation, across the Strait, we have witnessed extraordinary growth of economic ties: Indeed, Taiwan is emerging as the largest investor in the PRC, with trade growing from zero to over \$30 billion in a decade, hundreds of thousands of people from Taiwan living in the Shanghai area alone, and millions of visitors from Taiwan to the Mainland. This growing

economic interdependence does not guarantee peace. It does, however, offer possibilities to mute differences, give each side a stake in peace and stability, and challenge stereotypes as Taiwan's democracy thrives and China's politics changes.

These ties have grown in advance of the entry of both into the WTO. Now if China and Taiwan choose, they can employ the WTO as a channel for communication and negotiation, mutually observe its rules, and use its disciplines to accelerate the course upon which they have already embarked. It is not a given that either or both will do so. The PRC may continue to hold Taiwan at arm's length, refusing certain kinds of contacts and discussions unless and until Taiwan accepts the "one China" principle. Taiwan may be reluctant to open its doors too widely to commerce with the PRC because of fears about the impact of dependence on the Mainland on its security. But opportunities of this kind are rarely easy to grasp, and both will need to apply the courage and wisdom of their ancestors to prosper from this modern millennium.

Will Promises Made Be Promises Kept?

I am asked with some regularity whether China will live up to its commitments. There is no short, and no easy, answer to that question. With literally thousands of laws, ordinances, and regulations to repeal and modify, and new ones to put in place, with provincial and municipal authorities whose writ has held sway until now under challenge from new WTO rules, with state-owned enterprises and their patron ministries under market pressure, one would be naive to think that commitments negotiated by the Trade Ministry, even though blessed by the leadership, will be implemented automatically and then enforced. China is still a dictatorship, but this is not to say it has no domestic politics, no center-province tensions, no interest groups, and no diversity of economic interests and players. They will be heard from, and many domestic actors in China have at best a dubious commitment to the principles that underlie WTO membership – openness, free markets, transparency, and competition.

Countering the forces of protectionism in China's agriculture sector will require a rigorous effort by the United States and by China's leadership. Indeed, China's actions in two areas since its WTO accession raise concerns. China has yet to implement its commitment to issue regulations governing allocation of tariff rate quotas, while its biotech regulations, as drafted, could serve as an unfair barrier to trade.

China has undertaken many impressive obligations through its accession to the WTO. The key, of course, is not whether a commitment exists on paper, but whether it is implemented in practice. That is a challenge we as a government now face, and for which we at USTR have been gearing up.

USTR is coordinating an interagency process with the goal to assure full implementation. To that end:

- Additional personnel have been provided to USTR, the Department of Commerce, the Department of Agriculture, and our mission in China.
- Each month a Trade Policy Staff Committee, chaired by USTR and composed of interested U.S. Government agencies, meets to consider China's obligations, steps it has taken, and how we should respond.
- Every one of China's obligations will be tracked by an agency or office of the U.S. Government.
- The U.S. Government, and specifically USTR, have been talking to the U.S.-China Business Council and other trade and business associations about their concerns, which will figure prominently in our monthly examination of China's performance.
- In monitoring China's implementation, our approach will be persistent and practical. We will look to China to keep all, not some, of its obligations, which after all were freely chosen. We know that meeting them in some instances will not be easy. I say this not because of a particular soft spot for China, but because of the hard experience of seeing the difficulty of others, including in East Asia, in opening their markets.
- When we identify a problem, we will look for ways not merely to highlight it, but to resolve it. This will not always involve unleashing legions of lawyers to take advantage of the WTO's dispute settlement mechanism, though we will not flinch from doing so if other courses do not produce results. We will work with the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). We will work with other ministries in Beijing. We will work with provincial and local authorities. And we will cooperate with other countries, like the EU and members of the Cairns Group, whose efforts were critical to completing China's accession. We will do this through diplomacy in capitals, and through the Transitional Review Mechanism, a body set up by the WTO to provide a multilateral forum for bringing the concerns of all members to China's attention.

Our Common Task

President Bush believes that economic freedom and the prosperity it can produce are the firm foundation for just societies. The spirit, spark, and strength of free markets – and the demands of growing middle classes for the necessities, amenities, and comforts of modern life – have been the bedrock of democratic development in Europe and Asia in the last century.

China's development of freer markets and its growing prosperity certainly do not guarantee a smooth transition to a just and democratic society. But they do make that transition possible.

So I see the companies in this room at the forefront not only of economic development in Asia, as you lay America's claim for a place of pride in the world's fastest growing economy. I see you sowing seeds of change in the extraordinary transformation of China. The Chinese know this. They do not resent it; they welcome it. That is why so many Chinese tell us they want to work for American companies. Your enterprises are places where people can not only improve their livelihood, but can improve their lives, and be exposed to new ideas and global outlooks.

I hope as you work to earn profits for your shareholders, which I consider a worthy and vital task, you will continue to bring other American values to the cities, villages, workplaces, and offices of China. This means opening minds as well as markets, investing in communities, creating opportunities as well as products, and respecting not only China but the Chinese people.

I look forward to working closely with your companies, and with the U.S.-China Business Council, as we seek to fulfill the promise of China's accession to the WTO, of the economic relationship between by some measures the world's two largest economies, and of relations between the world's oldest continuous civilization and the beacon of modern civilization.

Thank you very much.