

**Remarks by
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AMBASSADOR PORTMAN: Steve, thank you so much. It's great to be here. Particularly neat to be here because I see Mrs Bush in the audience. When I was first asked whether I would be coming here today, I said I had no choice. As happy as I am to be here I had no choice because I got a call in Washington a few months ago from someone named George H.W. Bush, the former President, and he said would you please come in November for a conference. I remember getting off the phone and telling my scheduler that I had broken all the rules and I had immediately accepted the invitation for a speech. She wasn't happy, but said, "OK, what's the date." I told her November 14. And she said "Okay is it the Washington Hilton or another hotel in Washington?" I said... "Well... it's an out-of-town!" (Laughter)

Truly it is an honor to be here and I am so glad again that Barbara Bush could be here with us this afternoon. I was privileged to serve in the White House under former President Bush. I was one of those folks who supported him as a volunteer on his campaigns but also in his official work. 21 years ago, I was here in Beijing with then-Vice President Bush and it was an amazing time back in the mid-80's where there was just then this sense of enthusiasm about US investment in China and the potential of our trade relationship. I remember touring some of the new US investments, some of the joint ventures with then Vice President Bush and it's one example where he gave me some opportunities that I will never forget. In fact, he gave me my start in public life, and like many young people – and I see some young people here today which I appreciate – he gave me not just good opportunities but also a model to follow. And I continue to be inspired by his model of extraordinary public service, his decency, his honesty and his accomplishments.

Today's conference is US-China bilateral relations which is a very important topic and I spend a good deal of time on it and so does my team. But before I delve into that subject, I'd like to talk a bit about another matter that's been taking a lot of my time recently - and that's our global - or multilateral – trading issues.

The Doha Round of WTO negotiations face very serious challenges. To avoid losing the opportunity presented by Doha, which is really a once in a generation opportunity to reduce tariffs and reduce trade distorting subsidies around the world, we must act and act quickly. We need the help of WTO member countries - and international stakeholders such as all of you - to make a push for significant progress in the weeks and months to come.

It is my view that Asia - perhaps more than any other part of the world – has the most to benefit and the most to lose depending on how the Doha round goes.

Let me give you one telling statistic: in the United States - a trading nation of the first order - exports of goods and services account for 10 percent of our GDP. In Asia, they account for 25 percent and in China the exports of goods and services accounts for 29 percent of the GDP.

Frankly I am sometimes concerned that the nations of Asia are allowing a handful of other nations, including the United States, the EU, Brazil and others, to take a lead role in these multilateral talks. [This] is not as productive as those countries taking a more active role themselves.

Doha is more important than ever. The WTO membership has grown to cover almost all trade, and because this round is more ambitious than previous rounds, it's more far-reaching than its predecessors. That's why we need more nations - particularly Pacific Rim nations including China - to engage aggressively in the negotiations in order to bring them to a successful conclusion.

In particular, I hope that the APEC countries, at our meeting this week in Korea, will come forward with a strong statement about the importance of keeping ambitions high for the round. This means we need to build a consensus around real market access around all the areas - agriculture, industrial products, and services.

The only way this can happen is if we can find common ground in dealing with the key Doha issue of agriculture reform. As some of you know agriculture was touched on in the previous round - the Uruguay Round - but only in a small way and therefore was put front and center in the Doha Round largely because so many developing countries have a comparative advantage in agriculture and they wanted to be sure it was addressed.

Agriculture tariffs are relatively high. Barriers to trade are relatively high compared to other areas. So the notion was that we would truly begin to reduce those tariffs and reduce those trade distorting subsidies in agriculture. Two of the three pillars of agriculture reform - eliminating export subsidies and reducing domestic support - are pretty well along. They're in good shape for negotiation. The final pillar, the third pillar is market access - the reduction of tariffs in agriculture. Here we are not as far along. The Doha mandate is a substantial improvement in market access and we have not yet come to any kind of a consensus over substantial improvement in market access.

The responsibility lies with the European Union, which must not block consensus but instead work with developing countries, work with the United States, the so-called Cairns Group, and others to come up with a global framework that meets the Doha mandate of real, meaningful new market access in agriculture. Should the EU engage positively on knocking down these relatively high barriers to trade in agriculture, the other elements of the Doha Round could come together pretty quickly. Should that happen, it is not too late to have a productive Hong Kong meeting that can serve as a launching pad for further negotiations in 2006.

Let me now turn to the subject of the bilateral relationship between the United States and China.

It is important that we put our trade relationship in their proper perspective. So let me be clear about this: the US and China have a very broad economic relationship, and, for the most part, it is mutually beneficial.

All of you could no doubt identify examples of what is right about this relationship. The Chinese people demonstrate tremendous vitality and dynamism every day, and their energies have produced economic value for U.S. consumers, created opportunities for U.S. exporters, and driven efficiencies back home that are at least partially responsible for the good state of the U.S. economy. We are right now the envy of the developed world. Our economy grew at an impressive 3.8 growth last quarter. Our unemployment is relatively low. Incidentally it's the tenth straight quarter in which GDP grew in excess of 3 percent. U.S. goods exports to China alone exceeded \$34 billion in 2004 - an increase of 81 percent since China came into the WTO in 2001 - and will probably exceed \$40 billion this year.

I can attest that the channels of communication between our two countries are open and constructive. China's Minister of Commerce Bo Xilai and I speak regularly and have a good relationship.

Just last week, I met with Minister Bo in London, where we signed a significant agreement with respect to textile trade between our countries. It is a good agreement that we worked on for over three months. Its completion removes an irritant in our trade relations. The agreement is mutually beneficial because it will establish predictability and certainty for US textile manufacturers, for US textile workers, also of course for our retailers and consumers and significantly it will establish certainty and predictability for Chinese companies that manufacture and export textiles. This is a win-win and a good arrangement for both sides. Nevertheless, the U.S. and China have a number of trade and economic tensions that need to be addressed. In fact, if we do not deal with them, some of these tensions threaten to undermine the much greater good that each country derives from this relationship.

In 2001, while I was still in Congress, we had long debates about the virtues of granting China Permanent Normal Trade Relations status, which was necessary for China to join the WTO. They were long debates because we had to have a vote to grant China PNTR – Permanent Normal Trade Relationship status in order for us to approve China's accession to the WTO. Because that debate was lengthy and open, many Americans had a chance to learn, think about, and decide on the merits of the issue. Poll after poll showed that Americans supported China's accession to the WTO and the granting of PNTR status. Both countries benefited from China's accession. China of course obtained full access to global markets, including significantly full access to the US market. As a result China has seen its exports to the United States jumped dramatically. As I suggested earlier US exports to China is growing as well but of course not as fast.

What concerns me is the change in the U.S. public attitude towards China since China's WTO accession. In my view, if China's PNTR status came up for a vote today, we would have a very different debate and, very possibly, a different outcome. Americans today are greatly concerned about China's role in the world economy and, in particular, whether China is playing by the rules.

Part of the concern, especially in places like my home state of Ohio, is a concern about jobs, and some of the dislocation that accompanies changes in trade. But much of the concern is also fueled by our enormous trade deficit with China. In 2004, that number was \$162 billion. This year I believe it will be over \$200 billion, the largest trade deficit in history of the world.

I believe the problem is not so much the deficit per se, but what the deficit represents. If the U.S. Congress and the American people believed that the current trade deficit with China were the result of fair and open market processes, I genuinely believe it would not get the attention it receives today.

Most Americans do not believe that our massive and growing trade deficit is the result of fair and open market processes. This is why many Americans are becoming more and more frustrated with China, which we see reflected in their elected representatives, the U.S. Congress. They believe that the game is rigged: that American goods and services are not receiving fair treatment in China, and that Americans must compete at home and abroad against Chinese producers who are able to sell at less than fair market prices. They want that to change.

When we raise our concerns over fair treatment, we often get one or more of the following three responses: It's not true, it's beyond our control, or not so fast.

The "not true" response is partly based on the argument that China is open to a huge amount of foreign investment and trade and that this should be enough to satisfy everyone. To be sure, China continues to be one of the world's most favored destinations for foreign investment and imports have increased.

But that's not the whole story. For starters, China makes it difficult for foreigners to fully own their investments. There is no reason that foreign auto companies should not be able to own 100% of their Chinese factories or that insurance firms should not be able to control the fruits of their labor. If investment limits were raised there would still be joint ventures and there would still be many Chinese learning from foreign experts. In fact, I believe this would spur even more investment.

Beyond the limits on investment, there are also increasing numbers of technical barriers to trade that interfere with U.S. companies' access to the China market. Cumbersome, opaque, and unequally-applied rules in telecommunications, insurance, financial services and other sectors continue to stymie foreign firms. I heard about many of these concerns this morning at a breakfast I attended with American companies doing business here in China. These are real barriers that directly affect the ability of our firms to sell to and operate in China. The goal should be for China to open its markets to the U.S., just as the U.S. has opened its markets to China.

China has complex economic problems. I recognize that. It's a developing economy with hundreds of millions of people who live far away from the relative wealth we see here in Beijing or Shanghai or Guangzhou. We do not ask for the impossible but neither can we allow a disparity of incomes to become the reason for the failure to open markets and reform. If anything additional economic reform will lay the groundwork for an economy that will lift up the rural

and lower income areas of China. Far from being a threat to China's development we believe more openness can support and enable that development.

Even when China admits there are barriers, we frequently hear that China has no other choice - that the barriers are not really its fault, but something the nation cannot help but impose. I am thinking of market access limitations such as those on direct sales companies. Despite clear WTO commitments, direct sales companies still cannot import U.S. products into China and sell them freely to their customers in accordance with their generally accepted business practices around the world. Nor can those companies pay their employees according to the same rules that those companies operate under in almost every other country in the world.

According to some, these restrictions are necessary and appropriate because of the "unique" history of fraud in this industry in China. China has many unique characteristics, but I don't think business fraud is one of them. We all deal with it. The direct sales industry and their regulators around the world have learned how to both manage the industry and protect its customers. There is no reason why China cannot use those same protections here while still allowing legitimate businesses to operate.

The irony, of course, is that the direct sales industry is one of the easiest and most effective ways of encouraging the growth of small business. To be successful, you do not need substantial capital, but you do need energy and drive, characteristics that the Chinese peoples have demonstrated in abundance. The losers are both the U.S. firms – the US dominates this business worldwide – but also the millions of Chinese entrepreneurs who are missing out on market opportunities.

Finally, perhaps the most common and sometimes most frustrating response I hear from the Chinese is that the government is working on the problem but it will take lots of time. We have heard it with currency and we also hear this very often in regard to the protection of intellectual property rights. Sometimes the argument is made that the United States took over a century to develop its intellectual property protection system, and that China to date has only had a couple of decades.

It is hard to develop a full and thorough system for the protection of IPR. But China is not building this system from scratch, and Chinese companies seem to understand these concepts pretty well when they invest in other countries. We have been working intensely with China on intellectual property protection for more than a decade – beginning in the early 1990s. We have had several agreements and there has been significant improvement in some areas - in the development of IP laws.

We remain eager to work with the Chinese to help them improve their system. Just last week, for example, we had excellent meetings here in Beijing with representatives from both of our governments to discuss this problem and practical solutions. To date, though, the problem of intellectual property protection is not being solved quickly enough. There are obvious areas in which China can and should act immediately.

For example, China should roll up the illegal distribution networks that are known to bring millions of fake DVDs and CDs to market. Fakes on every street corner are an unbecoming symbol for a world power such as China. Likewise, government offices and government-controlled firms should be not use fake software.

Last September, when they met in New York, President Hu told President Bush that he was taking a personal interest in solving the IPR issues. This was an important and welcome statement.

And the Chinese government has good reason to crack down on piracy themselves. While U.S. firms suffer huge losses from IP piracy and counterfeiting and while this is a disproportionate impact on US knowledge based exports, the losses faced by Chinese firms and by Chinese entrepreneurs and the Chinese economy are even greater. Well-known Chinese marks such as Haier, for example, suffer from copycat productions of their goods. Chinese musicians, movie studios, and authors lose profits from their own efforts because they cannot enforce their own legal rights throughout the country.

This problem needs to be fixed sooner rather than later, because U.S. knowledge-based exports are disproportionately affected. It is important for the bilateral U.S.-China relationship, and it is important for China's own economic development.

Allow me to sum up. The US-China economic relationship again is of critical importance to both countries. There is much in the relationship that benefits both countries and that should encourage us. But to preserve and grow that relationship, there are issues that must be resolved. China must open up its economy further to foreign investment. China must open up its economy further to US products, it must address limitations in market access that continue to hamper US companies seeking to participate in the Chinese market. And it must act vigorously to address intellectual property infringement that not only deprives US companies of their ability to participate in the Chinese market, but also damages them worldwide.

In short, the benefits of economic opportunity and market access must flow more evenly in both directions. By achieving more balance generally, we will see more balance in our trade statistics that I talked about earlier. China continues to grow quickly, and that is a welcome development. But China must also recognize that, as its economic and political heft as it expands, means that it must take on even more responsibility to the rules-based international economic system that has enabled that growth.

I look forward to working with China's leaders - and with many of you - towards ensuring that, even as China succeeds in building economic success, it also lives up to those responsibilities. By doing so, our economic relationship will improve and further deepen to the benefit of both of our great countries.

Thank you very much.

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