

**REMARKS OF U.S. TRADE REPRESENTATIVE SUSAN C. SCHWAB  
NATIONAL COMMITTEE ON U.S.-CHINA RELATIONS  
40<sup>TH</sup> ANNIVERSARY GALA DINNER  
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(TRANSCRIBED FROM DELIVERY)**

Carla, thank you very much. I feel like I should sort of quit while I'm ahead. And I must say that Carla, as one of my illustrious predecessors in this job, every day in the trade trenches, my respect and admiration for you grows and grows and grows.

I am delighted to be here this evening and I will try not to stand too long between you and your meal. Or more to the point, between you and the main course this evening, honoring some very important folks and honoring yourselves. The 40<sup>th</sup> anniversary for the National Committee, which is a very important milestone, and I add my congratulations to all of those that have been expressed already and I'm sure will be expressed going forward.

Coming here this evening I have run into more folks who I know, who I have worked with over the years, worked for over the years. This is indeed a magnificent group and I am not going to present the kind of formal, standard speech you would normally get at a black tie dinner. Apologies, and apologies to the speech writer who labored so very hard on the text that I have in front of me here.

My relationship with China began in earnest 20 years ago as a Congressional staffer who had the opportunity to visit China. It accelerated rather dramatically when I was doing M&A work and business development for Motorola in the early 1990s. And if one were to find another country in the world where the velocity of change was so dramatic of that in China, one would be hard pressed to do so.

I know from my visit last month, or month before last, to China, one of the first places I visited as U.S. Trade Representative, and I'll talk a little more about that in a moment. One of the

things that was brought home to me was in a discussion with the current head of Motorola's operations in China. And I was asking how did that joint venture negotiation in Hangzhou end up? We labored mightily. We ate turtle for lunch and dinner because our Chinese counterpart liked turtle. We sang karaoke for lunch and dinner. We did a really, really nasty rendition of *Unchained Melody* which I would not wish on anyone. We did it for a good cause.

And I discovered when I was in China a few months back that that joint venture at that point was the source of a lot of debate and dialogue as we wandered around West Lake. That joint venture now employs 6000 people. That joint venture is part of an inexplicable link between the relationship between the United States and China.

And I'm going to talk tonight about the next steps relating to the speech that Bob Zoellick gave last year. And Bob Zoellick was here last year in his capacity as Deputy Secretary of State, prior to that he was also U.S. Trade Representative, and he talked to the group, he talked to you all, about China as a responsible stakeholder. And guess what, we have continuity in the U.S. government. And we are continuing on the path of talking to, talking about, thinking about, what does it mean for us and for China, for China to be playing a role as a responsible stakeholder. Because quite honestly, it evokes both aspirations and wariness, about China's rise and its impact.

Bob highlighted three elements when he was talking about the responsible stakeholder, what does it mean. One was that we as the United States need to welcome China as a responsible stakeholder. Two, China needs to see itself in that light. And, finally, we both need to be aware that there were going to inevitably be differences and we would have to learn how to manage those in a mature and responsible way.

Tonight I'm going to talk about some of the trade and economic and commercial issues, some of the practical questions that we deal with, particularly at the U.S. Trade Representative's office, but in terms of the broader economic relationship. The challenges and opportunities and the partnership as joint stakeholders in the global trading system.

The United States and China are inextricably linked in terms of our economic relations and I would argue for the most part there is no question that the benefits are mutual. U.S. exports to China in the last five years grew at an average rate of 22 percent. Even after today's not very pleasant trade numbers for the month of August – our trade deficit with China grew yet again to another monthly high – even after today's bad trade deficit news, if you look year-to-date, January to August, the growth of U.S. exports to China is on the order of 34 percent. It's very respectable, very, very respectable. Thirty-four percent, up from the same time last year.

And let's face it, what does that mean? That means that U.S. exporters, competitive exporters, are doing business in China, many of them successfully. Investment in China has brought with it trade. U.S. consumers, when you're looking at this trade deficit, U.S. consumers get good quality, high quality goods, consumers' dollars can stretch farther. Manufacturers have competitively priced interests.

And for China, a quarter of a trillion dollars in foreign direct investment in the last 20 years has lifted at least 400 million people out of poverty. Yes, we have concern about this every large trade imbalance, over \$200 billion last year. But the areas where we have concerns are those where the trade imbalance or those elements of the trade imbalance seem to arise artificially, attributable to government intervention, government activities that somehow distort trade patterns and prevent trade flows that a more open market system would permit.

What does that mean? China's rise, China's growth, is not a source of loss to the United States. In fact, it is in our interest as Americans to see China, and all of our other trading partners, grow. This is an economic pie that can grow, it is in all of our interests. In fact, in the United States, for those who point at our trade deficit as a problem, I would note that nearly 5 million new jobs were created since China joined the WTO in 2001. U.S. unemployment during this same period has dropped from 5.5 percent to 4.6 percent. And, as you know, U.S. economic growth has been better than 3 percent for virtually that entire period since the accession of China. 1.8 million jobs were created this past year, year-to-date, in the United States.

But perceptions notwithstanding, the U.S. trade imbalance is troubling as much for macroeconomic factors as for microeconomic factors. These aren't trade practices necessarily, that certainly don't come within the purview of the U.S. Trade Representative's office, but quite honestly, we look at relative growth rates, we look at savings and investment rates, we see explanations for some of the phenomena, but not all of them. The U.S. ought to be saving more. The EU and Japan ought to be growing faster. There would be an impact on the bilateral trade imbalance between the U.S. and China.

But the U.S. has been a partner of China in the trade realm for almost 30 years now. And something's been going right and we need to look at that and make sure we stay on that path.

The U.S. Trade Representative's office issued a top-to-bottom review of our trade relationship with China earlier this year. The key question there is, again, the responsible stakeholder role. We look at China-U.S. trade relations in sort of three categories: pre-WTO accession; the period where China has been changing its trade practices, migrating its trade practices to come into compliance with the World Trade Organization; and now. Because that process of coming into compliance is virtually complete at the end of this year. And China then emerges into a new set of relationships, or should emerge, into a new set of relationships, in the global trading system. China has a responsibility for helping to maintain the health, of not just the bilateral trade relationship, but also of the global trading system.

Now we have bilateral dialogues, the Joint Committee on Commerce and Trade, where we sit down with our Chinese counterparts, and we've made a lot of progress in these areas. We've made progress in intellectual property rights areas where China has made commitments about acting against illegal DVD and CD factories. China has required computer manufacturers to preload legal licensed operating software before computers leave the factory. And by December 2007, China has agreed to table an offer in the World Trade Organization relative to the government procurement agreement.

But if you look at the issue of intellectual property rights, for example, and you think about the piracy in, for example, the DVD area, if only 20 foreign films a year are allowed in China, and if there are only 3,000 screens in China where those films are screened – and let me note this compares to the release of *Mission Impossible III* that opened on over 30,000 screens in the United States – and if the cost of going to a movie legally in China is a day's wages, a week's wages, a month's wages, should we be surprised that the laws of supply and demand find us with extensive illegal copying, counterfeiting, purchasing of such medium.

One of the new initiatives that we have brought to bear in the U.S.-China trade relationship is the Strategic Economic Dialogue recently announced by Henry Paulson, Secretary of the Treasury Paulson, in China. We are very much looking forward to this initiative and its potential for discussing long-term strategic issues and initiatives and being able to funnel them into both the day-to-day and the ongoing bilateral groups like the JCCT, and to be able to move top-down and bottom-up trade initiatives that are both near-term and long-term in our outlook.

In the case of intellectual property rights, or the case of illegal, prohibited subsidies, or the case of auto parts and import violations that we believe violate China's commitments under the WTO, those are examples where, if we are not able to succeed using dialogue, using the JCCT, using some of the other frameworks we have for bilateral dialogue, then we can and we must and we will resort to dispute resolution.

As U.S. Trade Representative, and I'm looking at Carla Hills as I say this, we have this continuum of options, ranging from jawboning – kind of like I'm doing right now – to moving through bilateral dialogues or multilateral dialogues, moving right up to filing cases, litigation, dispute resolution, we will, as the Chinese do, quite frankly, take that tool which is most likely to resolve the problem. The idea is not to hurt the bilateral trading relationship, the idea is to help it mature, and the idea is to help it improve and grow. And that is what we're about.

And I must say, when it comes to filing cases, and we recently filed a case against China on the auto parts issues, this was only the second case where China has been taken to the World Trade

Organization, the first case where there has been a panel put together, where there will be a panel involving China. I would note during the same period, five-year period, the United States has been called before the WTO roughly 40 times. Going to the WTO is not a hostile act, but rather a way that mature trading partners do business with each other if they are not able to resolve through dialogue. And China understands this to the extent that since its accession to the WTO, China has in fact been a very active user of WTO dispute resolution. But again, it would be our preference, and quite honestly it is in China's interest, to resolve a lot of these issues on its own.

Back to the issue of intellectual property rights. Who is hurt? Well, obviously we are all hurt, in that we are talking about sales foregone in the billions of dollars. But we're not just talking about counterfeit Gucci bags and we're not just talking about DVD and CDs, we're talking about pharmaceuticals, we are talking about airplane parts, we're talking about auto parts, we're talking about the health and safety of all our people. We are talking about problems where Chinese artists, entrepreneurs, software writers, innovators, inventors are hurt as much as American artists, inventors, innovators, entrepreneurs are hurt. It is the basis for economic growth and development, the ability to innovate, the ability to invent. Without appropriate intellectual property protections, that won't happen.

Other areas where we would very much like to see improvement, that we believe very strongly are in China's own best interests. In services, the elimination of burdensome licensing and operating requirements. Financial services in particular, a great example of an area where bringing China's financial services sector, first of all, into compliance with WTO and its WTO obligations, but even going beyond that, will have a fundamental impact on China's own ability to grow and the people of China, their ability, for example, to save for their old age.

Do we see a negative trend in China or a positive trend? China has come so very far since 1979. And I used to marvel when I was commuting to China in the early 90s, I would go back and forth roughly every two weeks. And I had this walk that I would take from the Shangri-la Hotel in sort of the western end of Beijing beyond the Zoo, and walk from the Shangri-la Hotel to what was then Motorola's office there. And it was like a two-block walk. And I would be there every

other week and something dramatically changed, just in the intervening two weeks when I was away. Someone would get a telephone that was available for others to borrow and use. A little machine shop would turn into a restaurant. The potential was there. The key question was, would it succeed?

China has come so far. And yet, for those of you who are doing business in China, or trying to invest in China, my understanding is, there may be some back tracking, some hints of back tracking. Whether it's an investment, whether it is favoring home companies, emerging industries, emerging sectors. And it is a trend that if correct and if it persists, is one that is dangerous not just for China but also for China's place in the international trading system.

When we talk about the international trading system, again, here's an area where China has a fundamental role to play, as a responsible stakeholder. And this is my message, part of my message when I was in China. I had a three-plus hour meeting Minister Bo Xilai, the trade minister, a very good meeting. And we talked about bilateral trade issues, and we talked a lot about the Doha Round of multilateral trade negotiation issues. The Doha Round negotiations, which as you all know, broke down in July over the question how ambitious will the outcome of the Doha Round be? How much market access can we accomplish to make this truly a development round?

And China has been a member of the WTO now since 2001, but in the context of the negotiations it has been really quite quiet. And China sits within certain groups, the Group of 20, the group of developing countries, the G-33 group of developing countries. And China is letting some of the most protectionist members of these groups, like India, speak for its interests. How long does China intend for its interests in the global trading system and in the Doha Round be articulated by other countries that do not necessarily have the same stake in the global trading system? A contraction, a failure in the global trading system, is one that will clearly have a negative impact on all of us, but certainly in the case of China. If there is more litigation, if there are trends toward protectionism, China will feel that and it will not be in anyone's interest, but it

will be inevitable. And China clearly has a role to play. And a very positive contribution to make to the Doha Round and to the World Trade Organization.

Another area of tension that we see growing has to do with steel. Again, here we get into managed economic growth, the incomplete market transition that has distorted markets. The late 2005 China's State Council Development Research Center forecast that China would produce 117 million tons of excess steel in 2006. This is a country that in 2003 was a net importer of steel. That excess steel production exceeds the entire production of Japan or the entire production of the United States in steel. Needless to say, there are likely to be implications of this overhang, this non-economic production that somehow has not reflected the laws of supply and demand. Steel producers in the United States are concerned, the producers throughout the world are concerned. Again, this is not in China's interest.

Some say that China wants to turn back the clock, to more state control. This is not going to work and there are many in China with whom I have talked who understand this. Who understand that this is not a direction that is in China's interest, regardless of what anyone else asks China to do. China and the United States share a lot of objectives, we share a lot in common and we share problems that we can address together. Those are the problems we should be spending time on, not the bilateral disputes that come up unnecessarily and can't be resolved.

We should talk about pollution. We should talk about resource depletion. There are long-term opportunities for cooperation. For example, through the Strategic Economic Dialogue. There are also short-term economic opportunities. One of the proposals that the United States has made in the Doha Round multilateral trade talks is for a sectoral agreement where every trading partner, all of the major trading countries in the WTO, would eliminate tariffs on environmental goods. Why not? No harm in that and tremendous benefit, long-term benefit in terms of our environment.

So we're talking about long-term goals, short-term issues. Long-term issues, short-term goals. And the fact is, there's room for both. There's room for long-term thinking and short-term action. Long-term cooperation, short-term cooperation, or in its absence, litigation.

I am an optimist. I have to be an optimist to be in this job. And it is my sense that we have a very, very positive 30 years ahead of us if we handle it right. Or 40 years ahead of us, in the context of the National Committee. But this will require working together not just in those areas where we've had mutual interests and concerns, but also in areas where our perspectives may differ. And we need to do it in a mature way, we need to do it as responsible stakeholders, responsible shareholders in a global trading system that we both depend on.

I look forward to being part of that challenge and I look forward to the work of the National Committee as part of that endeavor. I thank you all for your invitation this evening. Enjoy your dinner and my understanding is that you get to eat and then awards and Ambassador Hills is going to the honors.

Thank you all very much.