

Remarks by
The Honorable Barbara Hackman Franklin
George Bush China-US Relations Conference
Washington, D.C. October 23, 2007

Good morning. I am delighted to be here today and to participate in this very important dialogue about how to promote greater understanding between China and the United States and how to strengthen the ties between two of the world's most important economic powers.

My personal involvement with China trade dates back more than 15 years when I was honored to serve as Commerce Secretary in the Administration of President George H. W. Bush. Serving in the cabinet of this great and visionary president remains the highest honor of my life. In late 1992, President Bush asked me to undertake a special mission to China to reconvene the US-China Joint Commission on Commerce and Trade (JCCT). The JCCT had not met since 1989 because the US had placed a ban on ministerial contact following the events at Tiananmen Square. Working with my counterpart, Minister Li Lanqing, we reconvened the JCCT, and I returned to the United States with more than \$1 billion worth of signed contracts for American companies.

But more important than those contracts was the green light the mission gave to U.S. companies eager to do business in China, but holding off because they did not want to run counter to their government's policies. By normalizing business relations at that time, less than two months before he would leave the White House, President Bush also presented his successor with a clean slate to build closer ties with China. Chances are good that the thaw in relations would have been much slower if President Bush had allowed problems to simmer for the new President.

China-US trade has mushroomed

President Bush's actions initiated a U.S.-China trade boom that has served both countries well. From just \$40 billion in 1993, two-way trade between the United States and China grew to \$343 billion at the end of last year, an eight-fold increase. That number will be even higher this year, with a large surplus on the Chinese side. Foreign Direct Investment also has grown dramatically since my 1992 mission to China.

Today, China is the United States' 3rd largest trading partner and the fastest growing market for U.S. exports. China's astonishing growth and development in such a short time is virtually without parallel. China's admission to the WTO in 2001 officially confirmed its arrival on the global economic stage. As China's market opening continues and its economy becomes even more consumption-oriented economy, its economic influence will grow greater still. Indeed, I believe China can become an anchor for the global economy. In the decades

ahead, I believe an expanded appetite for a wide range of consumer goods will drive up China's imports and enable it to work off the large trade imbalance.

Today the economic ties between our two countries provide a vital and enduring foundation for our relationship. There are tensions, of course, but the ties of trade bind us together and promote cooperation on a variety of other issues – in foreign policy, nuclear proliferation, and health, to name a few.

The government-to-government economic relationship has expanded exponentially so that today there are 50 bilateral strands, all of which are now coordinated under the Strategic Economic Dialogue (SED). I believe the SED – initiated by President Hu and President George W. Bush – is the most important development in the U.S.-China relationship in years. I think Secretary Paulson and Vice Premier Wu Yi deserve our congratulations and our gratitude for their good and diligent work in getting the SED started and keeping the momentum going.

How to keep the US-China economic relationship going strong

There are several actions we should take to ensure that the U.S.-China economic relationship continues to thrive:

■ **First, let nothing disrupt the SED and other dialogues.**

Given the large volume of trade and business activity, some disputes are inevitable. The crucial thing is to manage those disputes intelligently so that they do not provoke a major confrontation. The SED and other dialogues – such as the JCCT – can be effective in identifying problems, current and potential, so they can be addressed effectively. Let me emphasize, the SED and other similar forums are supposed to bring problems to the surface so we can deal with them, not sweep them under the rug. Issues that are allowed to fester unattended are the ones that usually lead to big blowups.

Both sides should work to ensure that the SED continues to operate successfully even as national leadership changes in both countries. We know, for example, that the United States will have a new Administration in January 2009. That changeover must not disrupt the cooperative work now going on in the SED. Indeed, I believe the SED can and should become ever more important in the years to come.

■ **Second, proactively seek ways to work together to solve problems as they arise and before they become full blown crises.** A collaborative, win-win solution should be the objective.

One current test of our relationship is food and product safety and the recalls of various Chinese imports, from toys to toothpaste. According to recent polls by Zogby International, American consumers have grown dubious about the quality and safety of Chinese products. A strong majority of respondents say

Chinese products are "non-beneficial" to U.S. consumers -- a significant reversal from just two years ago. An equally strong majority think the United States should consider restrictions on the import of Chinese products. This polling also indicates that consumers do not believe the Chinese government has taken a strong enough position on correcting the problems.

I happen to disagree with this perception. On the Chinese side, I believe the State Council and the Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) have taken a number of very meaningful steps to address the problems. These include, among others, stiffer enforcement, drafting of the first product recall system, and review and revision of 4,000 PRC standards. In addition, Vice Premier Wu Yi is leading an interagency task force on a four-month campaign to combat food and product safety issues.

But, frankly, most U.S. consumers and most members of Congress do not know very much about the depth of the Chinese response. It would help a great deal if the Chinese government would assemble a comprehensive catalogue of all the steps that it has taken and then aggressively communicate them to opinion leaders and the public. And, of course, we anticipate that China would fully and faithfully implement every one of the actions initiated.

American companies whose products are being manufactured in China have a responsibility, too. Toys are a case in point. Some 20 billion toys are made in China, in 10,000 factories, for a variety of US companies. Those U.S. companies must make sure that the design of their products is safe. They also must insist that the products are properly tested for safety before they reach retailers' shelves.

The second Product Safety Summit held last month in Washington is a good example of effective government-to-government collaboration on product safety. The Consumer Product Safety Commission (CPSC) and AQSIQ reached a new set of agreements regarding products with lead-based paint. AQSIQ pledged to increase inspections of factories that export to the United States; and both sides agreed to joint work plans focused on toys, fireworks, lighters, and electrical products.

What both sides must resist is the desire to retaliate whenever a recall occurs. Correction, not retribution, should be the overriding goal. Correcting problems so that consumers benefit from better quality, safer products is a win-win. Retaliation can escalate into a trade war that damages both sides economically, but without any benefit to consumers. It is a lose-lose.

U.S. businesses have other areas of concern that could lend themselves to collaborative solutions. The U.S-China Business Council's annual survey of

its more than 250 members makes clear why addressing concerns pre-emptively is so important. This year, 83% of companies report profitable operations in China, and a majority say doing business in China is an important part of their future. Those are astounding numbers that we don't want to put at risk. Addressing concerns quickly is one way to keep these numbers strong.

One key worry is the issuance of administrative licenses and approvals needed to do business in sectors that have recently opened. The governmental process, U.S. businesses report, is slow and not transparent. Indeed, transparency in general is on the list of U.S. concerns. In the United States, we have grown up with transparency and we accept it as a fact of life that is almost as natural as breathing.

But, China has a very different tradition; a tradition reflected in the Chinese saying that "if one fishes in clear water, he cannot catch any fish." That heritage is why transparency in governmental and regulatory process is a new idea in China. In other words, we have cultural differences on transparency.

We appreciate the steps the Chinese government has taken in the direction of transparency so far, and we understand it is hard. But I believe greater transparency is absolutely essential to the long-term well being of U.S.-Chinese trade relations. Over time, I think the Chinese side will find that transparency has distinct benefits for Chinese businesses as well. Placing proposed rules in the public domain for comment often leads to insights, good ideas, or concerns that should be taken into account before a rule is finalized. Taking account of this kind of input produces a win-win for all involved.

U.S. businesses also have continuing concerns about intellectual property rights (IPR) enforcement, and we should continue to work together in this area. We compliment the Chinese side for putting into place the structure to deal with IPR, but enforcement is the real issue. Enforcement should be more vigilant, particularly when it comes to the thresholds for criminal prosecution.

Standards are a concern for U.S. companies and are another area where working together makes sense. When goods are entering a market, any market, around the world they should meet the standards of that market. This means that it is in our collective interest to have global standards that are followed by all businesses no matter where they are based. By setting global standards we guarantee that consumers everywhere benefit from an agreed upon level of quality and that businesses have the opportunity to compete fairly in the international marketplace. We want to avoid the use of standards to establish de facto trade barriers that governments may use to keep foreign competition out of a market.

I've identified a number of U.S. concerns. I am sure that China sees areas where more collaboration is needed as well, and I am eager to learn about them.

■ **Third, focus on investment and promote understanding of the rules that pertain on both sides.**

The United States has an open investment policy. However, by law, the President has the authority to suspend or prohibit any foreign acquisition, merger, or takeover of a U.S. company that is determined to threaten U.S. national security. There is an interagency process, the Committee on Foreign Investments in the US (CFIUS) that reviews acquisitions and makes determinations about national security implications. It is chaired by the Secretary of the Treasury and includes 12 departments and agencies. The key consideration is whether the "foreign entity exercising control might take action that threatens national security". This process is not meant as a trade barrier or as a device to preclude foreign investment in the United States. It is a sincere effort to protect U.S. national security, a concern that has been heightened since the 9/11 attack.

At times, however, the review process does appear to become involved in politics. For example, I appreciate that the Chinese side thought the furor created when CNOOC attempted to buy Unocal was unfair. Similarly, on the U.S. side, there is concern about China's mergers and acquisition regulation under which an acquisition by a foreign company can be declined for reasons of "national economic security". American companies also are concerned about how the new anti-monopoly law will be administered.

U.S. firms already invest heavily in China. So, it is only natural that Chinese firms want to invest in the United States. In my view, this desire is a positive development that signals the maturation of China's economy and also will strengthen the peaceful bonds between the United States and China. But both sides need a clearer understanding of the governmental processes that are in play when such acquisitions are contemplated. The better we understand each other, the more we can accomplish together. This is another urgent area for collaboration..

■ **Fourth, work to combat protectionism in both our countries.**

The cross border investment issues just described can lead to outright protectionism – an outcome I believe we must resist with all our might. But this year, for the first time, "protectionism" made the USCBC survey of U.S. companies' concerns.

Unless handled properly, the food and product safety problems can further fan the flames of protectionism. As I said earlier, U.S. consumers are becoming distrustful of Chinese products and that sentiment can easily

spread to their elected representatives in Congress. The safety issues simply exacerbate the concerns already expressed in the United States about the need to better align the dollar and the RMB and also to trim the large U.S. trade deficit with China. Those concerns have led to the introduction in Congress of numerous bills that would interrupt or curtail Sino-U.S. trade. So far, wiser heads have prevailed and no restrictive legislation has been adopted. But the longer we delay addressing these real issues, the greater the possibility that Congress will embrace some type of protectionism -- if not in this year, then next.

It is true that protectionism is broader than U.S.-China relations. There is a negative reaction in many places around the world today against globalization and free trade. We must work to tamp down protectionism not only in our two countries but on all fronts. But given the size of the U.S.-Chinese trade relationship, those of us involved in that trade have a special responsibility to fight protectionism by addressing the issues that encourage it. That should be our objective and we should work together to achieve it.

Conclusion

In conclusion, I believe the U.S.-China relationship is the most important bilateral relationship in the world. We must continue to work to build trust, between our governments, our businesses, our educational institutions, our cultural activities and our people. Our two countries can be an enormous positive force for economic growth and stability around the world. This is our destiny. We must work together to achieve it.

Thank you.