

**Remarks by
U.S. Secretary of Commerce Donald L. Evans
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CORPORATE STEWARDSHIP

Thank you for that kind introduction. Greetings from President Bush.

Let me begin by congratulating all of you for taking part in this forum and for your commitment to the concept of corporate stewardship. Let me also thank AmCham-China for the hard work required in putting together the excellent program we have in place this morning.

The world of business is a noble calling. In light of the recent corporate scandals, that may be an unfashionable statement. But I know that reality bears it out.

The vast majority of men and women in business “responsibly serve their society as they serve their companies and shareholders.” The fundamental essence of corporate stewardship is that both of those ends are part of the same mission.

Companies should practice capitalism with compassion. Here in China there are countless possibilities to improve lives by practicing sound corporate stewardship.

Last week there was a story in a U.S. newspaper about a new emphasis on corporate stewardship in business schools. Yesterday, I saw a wonderful example of corporate citizenship in a village outside Xian.

The Boeing Corporation’s sponsorship of the “Golden Key Project” to help educate poor, visually impaired children could be a case study.

I spent 26 years in the private sector; I know that my company helped many of our employees realize their dreams for their families. Watching those dreams become reality was the most rewarding aspect of my tenure as a company president and chief executive officer.

Businesses are at the strategic center of any civil society. If businesses don’t honor their moral responsibility, who will?

For that reason, one of the most effective acts of corporate stewardship many of you could perform is simply conducting business here in China.

By helping to create a private economy, you are also providing life-changing opportunities to millions of people.

And by meeting the Chinese people and spreading the values and principles that support free-market capitalism, you are enriching them with the knowledge to build a freer and more prosperous society.

U.S.-CHINA TRADE RELATIONSHIP

I know that the U.S.-China trading relationship is vitally important to all of the businesses represented here. So, let me give you an overview of our perspective in Washington. I have two main points.

First, we see the US-China trading relationship as key to our national interests and critical to the global economy. It is destined to become even more important because, in contrast to most other countries, our economies are growing rapidly.

Under fair terms of trade, we see China as a huge potential market for American capital goods and thus American jobs. As China develops a middle class, we see a vast market for goods and services of all types.

China is already America's fourth largest trading partner. Bilateral trade reached \$147 billion in 2002. And since 2001, China has also been the fastest-growing export market for the U.S. – up 22 percent.

Second, this trading relationship needs work—a lot of work. A glance at the export tables makes clear that the United States is holding up our end of the bargain; the U.S. market is open to Chinese products. But the U.S. market will not remain open forever under unfair terms.

Within a democracy, support for a lopsided relationship is not sustainable—and we are already seeing strong evidence of that negative tension.

Trade must be fair—a two-way street.

China's leaders have promised to move to a market-based economy but the pace of change is a problem. China is moving far too slowly in its transition to an open, market-based economy. Time is running out. We need to see results. There is friction and the slow pace of reform in the Chinese market is the source of the friction.

The United States is committed to working toward a free-trading global environment in which economies are free of tariffs and trade barriers – but it must be fair.

STANDING UP FOR FAIR TRADE

President Bush is committed to achieving a level global playing field. We are working with countries around the world to tear trade barriers down – not raise new obstructions.

But the perception within the United States that the Chinese government either tolerates or condones unfair trading practices or is failing to effectively enforce its trade agreements is undermining support for free trade.

Job security, job creation, a strong and growing U.S. economy and strong global economy, require free and open markets and a fair trading system.

We have been patient, but our patience is wearing thin. The American market will not remain open to Chinese exports indefinitely, if the Chinese market is not equally opened to U.S. companies and American workers. U.S. imports from China are five times greater than our exports. This year, the trade deficit could reach \$130 billion.

We are already seeing signs of rising protectionist sentiments.

Over the past several months, proposals have been introduced in the U.S. Congress that would repeal China's Normal Trading Relations status and impose a 27 percent tariff on Chinese exports.

These measures would be a step backwards, and the Bush Administration opposes them.

But the message should be heard loud and clear: China must move faster by opening markets, dropping trade barriers, and letting market forces determine economic decisions.

The smartest thing for China's leaders to do is to move as quickly as possible towards a true free-market system. Progress is being made—but we need China to pick up the pace.

The strength of the U.S. economy was built with the power of free-market competitive pressure. For that reason, the American people thrive on competition. But they will not tolerate a stacked deck.

Trade works when both parties compete on a level playing field. But in many sectors of the Chinese economy, the field is tilted against American companies and workers.

One of the great secrets of economic success is – competition.

- Competition
- Innovation
- Productivity
- Economic growth
- Higher standard of living

WTO COMMITMENTS

While China has made some progress in moving into compliance with the WTO rules, we have seen a loss of momentum.

Earlier this year, the U.S. Department of Commerce held roundtable discussions with U.S. manufacturers. They raised questions about China's WTO commitments.

We heard complaints about:

- Intellectual Property Rights
- Transparency
- Trading rights and distribution services

- Agriculture
- Financial services
- And Standards

Firms doing business in China cite “government protectionism” and “industry protectionism” as the main obstacles to progress.

As things stand today, any foreign invested enterprise doing business in China can only distribute the products that it manufactures in China. Companies can only provide after-sales services for products sold by their firms.

AmCham-China chose fourteen benchmarks to test China’s WTO commitment performance. As of July 19, China had only made good on two. They had some progress on seven. And China had problems with the other five.

INTELLECTUAL PROPERTY RIGHTS

Protecting intellectual property rights is another area where reform is urgently needed. We know that China’s government understands the importance of IPR protections but the problems remain.

The Business Software Alliance estimates that software piracy rates in China exceed 90 percent. It is reasonable to assume that the vast majority of the Chinese government is operating with pirated software. (\$2 billion per year).

There is still a flood of counterfeit products of all types being produced and exported and consumed in China.

Effective protection requires criminal penalties for stolen intellectual property theft and fines large enough to be a deterrent rather than a business expense.

MARKET FORCES BUILD STABILITY

The Bush administration believes that market forces are the most accurate and efficient mechanism to make economic decisions.

That means we are committed to free market principles and fair trade without subsidies or other types of government intervention.

As President Bush said, we expect the markets to reflect the true value of currency. We were glad the Chinese government agreed to create a bilateral group of experts to see how China could move more rapidly towards a genuine floating exchange rate.

TRANSPARENCY

This is a step in the right direction. Allowing market forces to influence investment decisions in China would strengthen both the U.S.-China trade relationship and the Chinese people themselves. The Chinese-owned State Banks are another area of concern.

According to some estimates, fully half of the portfolios currently held by China's banks are non-performing loans. Official estimates put the figure at 30 percent (in the U.S. 1.4%). The reason so many of these loans go bad is obvious.

There is simply no valid economic justification for many of the loans currently being extended to unprofitable businesses in China.

Non-performing loans to state-run companies are a form of government subsidy. China's domestic savings are essentially funding a bubble of excess capacity. China's savings are trapped in a system of indentured capital.

That needs to end. The time to start is today. Chinese savers need access to sound investment opportunities. American financial institutions need access to China's market.

ACCELERATING PROGRESS IN CHINA

America and American workers and the world have a strong interest in seeing China succeed.

The advantages from trade only spread when countries open their economies. But when one economy is organized under principles inconsistent with that free-market model, friction and injury in the trading relationship are inevitable.

This is the central problem causing the tension over U.S.-China trade. Despite promises of openness and reform, many of the main drivers in China's economy still remain in state hands.

U.S. companies face continuous pressure from our capital markets to turn a profit. But free-market pressure simply does not exist in China.

We urge the Chinese government at all levels of government, to pick up the pace. A true free-market economy is about accountability and results—and that is precisely what we need—results.

Thank you. I'll be happy to take your questions.