



## U.S.-China Economic Engagement: Key Mechanisms, Opportunities and Challenges

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Thanks, John, for the kind introduction. It's good to see so many friends here. I'd also like to thank the U.S.-China Business Council for your continuous support of our efforts at the State Department as we work to engage China. Having speakers from State, Commerce and USTR at today's event demonstrates the importance the U.S. Government places on the views of the business community -- particularly on such a critical topic. In fact, Ira, Tim and I were just getting some good work done while we sat together.

President Bush and the entire administration recognize that a prosperous China and stable bilateral relations are in America's interests. Successfully engaging China as one of the world's rising economic powers is one of the central challenges we all face in the coming decades.

There are several essential channels through which we are engaging China right now. For example, Deputy Secretary Negroponte is in China right now for the Senior Dialogue. In March Under Secretary Jeffery will host the NDRC dialogue. I want to focus on two particular channels: First, our Strategic Economic Dialogue (or SED), which will have its fourth meeting in June. And then I want to talk to about the very good cooperation we have with China on a range of key energy issues.

First, on the SED.

The State Department views the SED as a key forum for engaging China's senior economic leaders on the need to promote reform, increase China's domestic consumption and imports, and encourage China to become a more responsible stakeholder in the global system. We think the Dialogue is advancing our engagement, although not always as quickly as we would like.

We also share the same concerns that you do about how China does business in the world, and are working closely with USTR, Commerce, Treasury and other USG agencies to convince the Chinese to address these concerns.

But when dialogue fails, we do not hesitate to bring cases to the WTO. We took the first ever WTO case against China, and filed four additional cases against China in the last year and a half alone (NOTE: regarding semiconductors -- resolved after a case was filed, auto parts, subsidies -- resolved in November, IPR enforcement and market access for copyright-intensive products and services).

As you know, through the SED, the State Department leads work in several key areas. Let me briefly touch on them.

**Air Services:** We've achieved good results in aviation. Under the SED II, we negotiated an air services protocol last summer that will accomplish several key things:

- More than double the number of flights our passenger carriers may operate to Beijing, Shanghai and Guangzhou [GWONG-JOE] by 2012;
- Allow three additional U.S. passenger carriers to serve China's growing market;
- We estimate the airline industry will realize \$5 billion in new passenger and cargo revenues over the next six years as a result of this agreement.
- Agreed to begin no later than March 25, 2010, to negotiate an agreement and timetable for the full liberalization of our bilateral air transport market and to work together to complete the new agreement as soon as possible.

**Investment:** We are having exploratory talks with China under the SED on a bilateral investment treaty, or BIT, and have held seven meetings with China's BIT team. We agreed at last month's SED session to intensify these talks, and we are seeking a series of meetings with China's working-level BIT team early this year (first meeting is the end of January).

The Chinese are engaging with us in the BIT talks in a very positive manner. The talks have focused on comparing each side's approaches to BITs. In the new intensified phase, we will discuss these issues in greater detail, and seek as much common ground as possible, so that we can take stock as early as possible on whether there is a basis for a BIT at this time. To complement the technical-level work, we will continue to encourage progress on this issue in our high-level contacts with Chinese officials.

**Innovation:** We are working to secure systemic changes in China's innovation environment that will further open for American businesses this critical market, which is the fastest growing export market for U.S. products, with more than \$17 billion in U.S. high tech exports in 2006. We are:

- Encouraging a regulatory approach that affords flexibility and choice of technologies;
- Pressing for strengthened intellectual property protection;
- Working to improve transparency in China's development of high-tech standards and the use of international rather than national standards;
- Urging China to provide opportunities to comment on proposed laws and regulations and improve transparency in its development of high-tech standards. These changes, if undertaken, would provide a more level playing field.

To support this goal, State and Commerce sponsored a conference with the Ministry of Science and Technology, NDRC, and MOFCOM in Beijing on December 10.

China's leadership also views innovation as an essential component of continued economic growth. We look forward to working with you to learn which innovation-related issues in China are of most concern.

**Market Access:** Despite its work in the WTO to open its markets, China's construction industry regulatory environment worsened for foreign investors and entrants since China joined the WTO, hindering competition and the full development of this sector. In an effort to address these issues and Chinese firms' interest in better access to the U.S. construction market, we launched the U.S.-China Construction, Engineering and Design Best Practices Exchange in June 2007.

The exchange represents the first time senior Ministry of Construction officials met publicly with U.S. business leaders. Nearly 20 US firms participated in the initial exchange along with 50 or more Chinese firms. The US hosts the next round in March. Discussions focus on issues such as opening policy and perspectives for China's construction sector; requirements and licensing process for foreign construction and engineering firms in China; policies and measures on the administration of market access issues for foreign companies in the U.S. construction-service industry; risk management practices; practices and policies on certifying health, safety, and environmental standards for the construction-related services industry.

JCCT: My USTR and Commerce colleagues will cover these issues in detail, but I wanted to note that State fully supports the Joint Committee on Commerce and Trade's (or JCCT) efforts to resolve trade disputes and to expand market access. The incredibly important IPR, food and drug safety and other issues the JCCT addresses are essential to deepening our bilateral relationship.

Environment: China's forest product industries rely heavily on imports of lumber, and these imports have increased more than 10-fold in the past decade. In Beijing last month, we concluded a Memorandum of Understanding on Illegal Logging and Associated Trade. This is the first-ever commitment by our two countries to focus on these devastating problems in order to promote sustainable forest management. The goal is to finalize a bilateral agreement by SED IV.

Finally, I want to talk briefly about the work the U.S. is doing with China on energy.

China and the United States share a great deal of common goals on energy. As the world's two largest energy consumers, we have mutual interests in energy efficiency, open energy markets, cleaner energy sources, lower greenhouse gas emissions, and coordinated responses to energy supply disruptions.

It is vital that the U.S. work with China to help it meet the challenge of its growing demand for energy through responsible participation in world energy markets and increased energy efficiency. China is expected to overtake us soon after 2010 as the world's primary energy consumer. It has already overtaken the U.S. as the world's CO2 emitter.

These are rapid challenges to manage: to illustrate how quickly this has happened, one only need note that U.S. energy demand was more than one third larger than China's in 2005.

The U.S. is therefore actively engaged with China in a number of forums dealing with energy, including the SED, the Major Economies Meeting (MEM) process and through the International Energy Agency (or IEA); along with a number of other areas. [NOTE: the bilateral Energy Policy Dialogue, the Asia-Pacific Partnership on Clean Development and Climate (APP), the Five-Party Energy Ministerial (which was a Chinese initiative), the State-NDRC Dialogue, and the Methane to Markets Partnership, and APEC.]

Through the MEM process and its participation in IEA activities China can engage as a global actor and can gain the technical expertise it needs to meet the challenge of its growing demand for energy through increased energy efficiency and responsible participation in world energy markets.

China will need technology the U.S. has for developing alternative and unconventional energy sources, as well as for cleaning up the pollution of a less regulated era of economic growth. And that means potential opportunities for U.S. business.

Energy security is not a zero-sum game -- in fact, cooperation can increase security for both countries, as with management of strategic oil stocks, R&D on innovative energy technology, and trade in clean energy goods and services. While there is cause for concern in some areas, we see in the energy sector considerable overlap in interests and many opportunities for cooperation that will enhance both U.S. national security and Sino-American relations.

We look forward to continuing our work with the business community on engaging China as a constructive economic partner. How the U.S. and China resolve our differences and build on our opportunities will help determine the shape of the 21<sup>st</sup> century. I look forward to your comments and insights.

Thank you.

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