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HIGH-TECH TRADE OFFS WITH CHINA

Chinese Capitalism

In his book, *The End of History and the Last Man*, Francis Fukuyama holds that democratic capitalism will be man's final stage in political and economic development. After centuries of kings, emperors, and tyrants, after the economic limits of feudalism, mercantilism, socialism, and communism became clear, man has arrived at a system that - albeit imperfect - allows the conditions for both political freedom and economic prosperity.

While China's government has yet to move towards democratic reforms, her people now vigorously embrace capitalism. The resultant economic and technological dynamism seems bound to ignite profound political change.

Spotlight on China

The world welcomes "the opening of China" in great measure because of the sheer size of the market. Consider: The U.S. has one car for every two people; China has one for every 675. Over half the Chinese people have never snapped a picture or made a phone call...and PC sales have yet to scratch the surface of this 1.2-billion-person market. While China's standard of living is the highest in its history, the potential for commercial growth is stunning. An open Chinese market may be to global commerce what the discovery of a new ocean would be to navigation. Asia now represents half the world's population and GNP, and China will be the centerpiece of Asia in the years ahead.

US-China Trade Negotiations

The recent U.S-China intellectual property negotiations reached a good settlement - if executed faithfully. However, the central cause of friction remains the huge and widening trade imbalance between these two continental powers. In 1980 that imbalance was \$3 billion; today it's over \$30 billion - second only to

America's \$60B deficit with Japan. And one must keep in mind, the U.S. consumes 33% of China's exports.

China's WTO Membership

With the recent U.S. trade agreement completed, China is now focused on World Trade Organization membership. The U.S. government has asked for comments from key industrial sectors to ensure that China's WTO membership will be mutually beneficial. In response, the Semiconductor Industry Association (SIA) has released a study entitled "Semiconductors in China: Defining American Interests." This study highlights various public policy concerns, including high electronics tariffs, complex non-tariff barriers, lax intellectual property protection, government industrial targeting, and clear indications of forced technology transfer. The SIA has asked the U.S. government to condition China's WTO membership on two of these issues and plans to address the other issues in future trade talks.

Electronics Tariffs

The SIA supports China's petition for WTO membership once key trade matters are addressed. China imposes semiconductor tariffs ranging from 6% to 30%. The U.S., Japan, Canada and Mexico are tariff free, while South Korea will remove all chip tariffs by 1999. The SIA seeks a phase-out of China's semiconductor and other electronics tariffs by 1999. High import tariffs don't make sense for the Chinese people and their industries, nor for those seeking greater access to this important and growing market.

Intellectual Property Protection

The semiconductor industry depends on vigorous IP protection of products and processes. Americans and their enterprises succeed when competing on the basis of skill and when innovations that are fairly protected. While China has fairly strong patent, copyright and trademark laws on the books, however enforcement is wholly inadequate. A well-funded, fully staffed, politically supported enforcement Chinese legal regime is vital. China should become a signatory to the "WTO TRIPS" (Trade Related Intellectual Property) *as a developed country*. China is too large a market and industrial power to sign TRIPS as a developing country, which would allow ten-year phase-in of TRIPS protections. China's people are especially innovative. Strong and immediate IP protection is as important to them as it is to those who grant similar protections in their home markets.

Technology Transfer

There is concern and tangible industry reports that investment and market access in China may become tied to technology transfer. This is not in China's best interest for two reasons. First, this would slow foreign investment; second, it will undercut the trust needed to expand the benefits of world trade. The most successful technology partnerships are those entered into freely, those with a true spirit of cooperation and mutual interests.

The American semiconductor industry recognizes that China will rightly become an ever-larger force in global commerce. As such, China should become a member of the WTO in a manner which will open her markets, advance technology investments and IP protections, and engender a spirit of cooperation and trust across the Pacific Ocean.

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