

China, Standards and the US High Tech Industry
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My name is Rhett Dawson and I am President and CEO of the Information Technology Industry Council, a trade association of 31 top high-tech companies. I have been asked here today to provide testimony on China's use of standards and the impact this may have on the competitiveness of the US high tech industry, as our association has been working on technology standards for almost ninety years.

To jump into that often complex set of issues let me illustrate that with a recent experience we had, one that I believe highlights many challenges the industry is facing, not only in China, but around the globe. The illustration I will use is the Chinese Wireless Local Area Network (WLAN) standard proposed last year as a mandatory one for selling these types of wireless products in China. It is better known by its acronym "WAPI."

In May of 2003, China issued compulsory "WAPI" security standards that would have gone into effect on June 1, 2004 and were incompatible with the international standards upon which most WLAN products are based. In order to comply with the proposed regulations, U.S. technology companies would have had to collaborate with their Chinese competitors to co-produce products for the Chinese market – and in the process potentially risk sharing their valuable intellectual property with their Chinese competitors -- or abandon the Chinese market and its opportunities.

These regulations would have excluded China from the world market for WLAN products as products made anywhere else in the world would not have functioned there, essentially splitting the world market for these products. Moreover, China only provided this mandatory technical standard to several of its domestic producers of wireless equipment, and designated these companies as the obligatory production partners of any foreign manufacturers seeking to market these products in China. ITI worked very closely with our industry colleagues around the world and also brought together the various groups in the US to closely collaborate to maintain a strong industry voice on this issue. ITI worked hard to keep our government informed and to make sure this issue was on the Administration's agenda. Facing pressure from the highest levels of the Bush Administration and the Congress China agreed to indefinitely suspend implementation of this mandatory standard, revise the standard based on comments from foreign and domestic firms, and participate in international standards bodies.

This was an important result for U.S. industry. IT is a leading U.S. export to China, accounting for 26% of all U.S. exports to China in 2002. This amounts to several billion dollars per year of U.S. tech exports to China. Many of these and as yet to be designed U.S.-made products and components would have been affected by this standard, jeopardizing high-end US jobs. The fast growing wireless market in China (forecast to grow by 25% per year) remained open to U.S. competition, and we avoided a terrible precedent that would have allowed China, and, potentially other countries who might wish to follow a similar path, to discriminate against foreign firms through the standards process.

Furthermore, results were achieved immediately, without the delays associated with the drawn out legal process of the WTO dispute settlement procedures. The well-executed cooperation and coordination at a variety of levels within and among U.S. government agencies was highly impressive and crucial in the success on this issue. This type of continued co-ordination will be necessary going

forward as we will see similar issues from China and must be prepared, as industry and government, to address them.

This example goes far in highlighting concerns that all sectors, but particularly the US high-technology sector are currently facing in China. The precedent that may have been set in the above example, by a government -- a signatory to the WTO agreement -- mandating a technology and forced domestic production would have had significant implications, resulting in incompatible technologies across the globe.

It is a well publicized fact that the Chinese government wants to develop a robust domestic high-technology industry. This is not unique to China, as many governments around the world including our own want to see healthy and competitive domestic industries. However, the challenge for China is balancing her efforts to promote a domestic industry with upholding its commitments and obligations to their trading partners, as agreed to in their accession to the World Trade Organization and through bi-lateral and regional agreements.

The principles and policies that ITI and the US and global IT industry are advocating for in China are consistent with China's aims, and in fact, will ultimately provide for a more competitive and innovative high-tech industry around the world and in China.

Interoperable standards are key to the success of the global ICT industry and to the benefit of users of technology. A unique technology standard in one economy, especially one as large and influential as China, isn't a good solution for consumers, industry or governments.

Requiring global companies which have invented, innovated, and developed the ideas for the technology to transfer that same technology to hand selected Chinese companies as a price of doing business amounts to a disinvestment to the benefit of a competitor.

And if left unchecked, this technological protectionism has the strong potential to create dissension that would stifle innovation, prevent interoperability, and stunt the growth of the global information and communications technology infrastructure.

Some of the lessons we have learned from this experience are:

- We need to engage on an ongoing basis at the policy level directly with our government and other governments, particularly in emerging markets, about how technology and standards can help grow their economies and why it is in their interest to adopt and deploy internationally recognized, market-driven standards
- We need to redouble our already considerable efforts promoting global, market-led, voluntary standards that support innovation and interoperability.
- We need to encourage market access so that consumers, industry, and economies around the world can benefit from innovative technological advancements.
- We must convince governments that forced technology transfer may look like a "short cut" to industrial modernization, but in a global market such short cuts are counter productive in the long run.

Some of the actions US industry is taking or is planning to take to advance these objectives are:

- Aggressively promote the value of global, market-led, voluntary standards that are compatible and interoperable
- Encourage greater appreciation for IPR and investments in R&D in China
- Encourage more private and public sector capacity building efforts focused on Chinese participation in the international standards process
- Increase effective Chinese participation in a broad range of internationally recognized standards development activity
- Build strategic alliances with Chinese industry and other (non-PRC) industry groups
- Continue efforts to educate key decision makers in Chinese and US government on standards issues

Thank you for this opportunity.