

**Statement of Clive Barons
Xerox Corporation
Before the
U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION
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Mr. Chairman, members of the Commission, thank you for the opportunity to testify today and to discuss the major challenges our country and this region face from the perspective of Xerox.

While Xerox Corporation does not sell products or services directly in China – we access the Chinese market through a minority joint-venture (Fuji Xerox) – we do have a keen interest in the development of China as a market opportunity and a viable source of cost competitive components. However, we are also conscious of some longer term competitive threats from Chinese based companies in the advanced technology field.

This is particularly relevant to Xerox which has a long and proud history in Upstate New York with 65 % of our global R&D resources located in Monroe County.

Xerox in Rochester.

Connecting with our Community.

Let me begin with some background on Xerox's commitment to the region. Since our very beginning, Xerox has invested in the greater Rochester community through jobs, real estate, conducting business with local vendors, and volunteer and philanthropic support. Home to the largest population of Xerox people, Rochester is closely connected to how Xerox operates around the globe. Xerox employs around 7,000 people in the Rochester area, representing over 20 % of all Xerox employees in the U.S. In Greater Rochester, Xerox annually spends:

- Over \$800 million in payroll
- \$4.5 million in property taxes
- Over \$500 million with local suppliers

Additionally, over the last five years, we have invested close to \$100 million in new facilities and upgrades, including a state-of-the-art Chemical Toner factory.

Our Monroe County operations are core to our global business and include:

- Product manufacturing assembly
- Toner manufacturing
- Product technology and software development
- Global Procurement

- The Xerox Research Center in Webster and the headquarters of the Xerox Innovation Group
- Gil Hatch Center for Customer Innovation
- North American sales, services, and marketing
- Our Corporate Environmental Health and Safety organization

A local voice on issues that matter

Twenty-six senior executives serve on 40 area boards, including the University of Rochester, Monroe Community College, Rochester Institute of Technology, the Urban League, Greater Rochester Enterprise Foundation, YMCA, Rochester Business Alliance, Strong National Museum of Play, Garth Fagan Dance, and many more.

Giving back

Over the past 10 years, Xerox has invested over \$25 million in Rochester-area educational, cultural, and community organizations and thousands of employee hours. Major investments include:

- The Xerox Foundation provides \$1 million each year to the United Way. Xerox employees and retirees donate an additional \$950,000. 1,600 Xerox employees participate in the annual United Way Day of Caring.
- \$2 million grant to Rochester Institute of Technology for the Golisano Center on Sustainability.
- More than 75 Rochester residents and students have received education assistance through Xerox's Technical Minority Scholarship Program.
- \$1.8 million grant to Monroe Community College for scholarships and campus improvements.
- \$1 million grant to the University of Rochester for the Wilmot Cancer Center, in addition to \$100,000 a year for the David T. Kearns Center on Diversity and \$300,000 a year for undergraduate research programs.
- Since Xerox started its Social Service Leave program in 1972, 98 Rochester-based employees have taken paid leave to work full time for local community organizations such as Foodlink, Gilda's Club, LDA Life and Learning Services, and the Rochester Fire Department.

Nurturing the next generation of Xerox innovators

Xerox depends heavily on local universities and colleges to provide a well educated and technologically advanced workforce. We are a technology company that is fueled by innovation. ~55% of patents filed by Xerox originate from our Upstate New York R&D employees. These employees are at the center of our R&D. Sustaining this base from local educational establishments is good for the community and good for Xerox.

Xerox supports a number of educational programs in the Rochester community through direct funding and the gift of our people's volunteer time. Some examples include:

Xerox Science Consultant Program

The Xerox Science Consultant Program (XSCP), which began way back in 1968, is one of the longest running business/education partnerships in the country. Xerox researchers, engineers, and scientists teach real-life science lessons to elementary school students, working in partnership with local school districts. The program also includes a competition that culminates in an event where the winners present their inventions —with market research, pricing plans, packaging, etc — to Xerox employees who then vote on the inventions and inventors with the most potential.

Annually, 80 Xerox science consultants teach 1,700 students from 24 schools.

70,000 students have participated since the program began 40 years ago.

FIRST Robotics and LEGO League

The FIRST (For Inspiration and Recognition of Science and Technology) robotics program pairs Xerox engineers with teams of high school students to build robots that compete in regional and global competitions. A founding sponsor of FIRST, Xerox provides funding and volunteer support for four Rochester teams as well as the Finger Lakes Regional FIRST competition held annually at RIT.

More than 700 Rochester-area students have participated on Xerox FIRST teams in the last 15 years.

The FIRST LEGO League program gives middle school students early exposure to engineering. Xerox sponsors four Lego League teams in Rochester.

Where We Are Today

As you know, the world's economy basically fell off a cliff last Fall. The 4th qtr GDP numbers from around the world are almost unprecedented in our lifetimes:

- United States, our largest market was down 6.2 %
- EU our second largest market fell 6 %
- Japan, Korea, Taiwan and Australia were all down by double digits
- Russia was up 1.1 % -- but this was down from 7 % growth rate in 3rd quarter

There hasn't been any place to hide. Like many companies, Xerox has had to make some tough decisions on jobs, salaries and benefits. But we have maintained our commitment to innovation during these tough times.

But what is going to follow? GE CEO, Jeff Immelt recently said "The basic engine of global growth for a long period of time -- maybe 25 years -- has been the U.S. consumer," ...

Now, the U.S. consumer is finally going to have to save. As consumers around the world get more conservative, we think that overall economic growth -- not just for a year or two but even post the recession -- may be slower,"

Xerox thinks we will see investment-led growth, rather than consumer-led growth. As a country, we are going to make investments in broadband deployment, in health IT, in rebuilding our infrastructure. The auto companies must invest in new kinds of cars,

GE wants to bring new energy sources onto the grid. We have plenty of needs – no shortage of needed investments – so the next period could be very good for our economy, but it is going to be different from what we’ve come to expect. Growth will be slower; there will be some very difficult transitions, and slower income growth.

If we’re moving towards an investment-led economy, we better make sure we make the investment in an education system that will provide the engineers, scientists and mathematicians to support that type of economy both nationally and regionally.

Immelt also gave an indication of next steps:

“An American renewal must be built on technology. We must make a serious national commitment to improve our manufacturing infrastructure and increase exports. We need to dispel the myth that American consumer spending can lead our recovery. Instead, we need to draw on 230 years of ingenuity to renew the country’s dedication to innovation, new technologies and productivity ... Renewing American competitiveness will not be accomplished through protectionism, but by rebuilding American technology, manufacturing and exports. To get back to making great things, we should clearly strive for a manufacturing workforce that is growing.”

America must continue to engage with the rest of the world if we are going to prosper. The global economy is a reality, and the current downturn isn’t going to change that basic fact. According to the Treasury department, 57 million American workers are employed by firms that engage in international trade. Despite domestic political pressures, the case for expanding trade is even stronger during these hard times. Trade barriers slow commerce: removing barriers increases the flow of commerce. At a time of a severe global downturn, governments need to work together to get commerce flowing. Our exports exceed \$1.5 trillion per year – a 69 % increase in ten years. We want that number to go up, not down – and that only happens with international engagement and negotiating away barriers to trade. Although the U.S. economy has slowed over the last two years, international trade has been an essential driver of what GDP growth we have experienced. Economists from the Federal Reserve calculate that without trade, GDP would have declined during 2008. Trade is essential to the growth of not just the high-tech industry, but the U.S. and global economy as a whole. Over the last two decades, the global average applied tariff has fallen from 25 percent in 1987, to nine percent in 2007.

Meanwhile the volume of world trade has increased more than fivefold over the same period, from \$2.5 trillion in 1987 to \$14.0 trillion in 2007. Trade has also steadily risen as a percentage of GDP, growing its role as an important component of economic growth, from 38 percent in 1980 to 54 percent in 2005. Continuing to reduce barriers to trade and investment will be important to sustained and future economic growth. 900,000 U.S. jobs in 2007 were supported by high-tech exports. In addition, many U.S. tech jobs are dependent on multinationals headquartered in the U.S. 67 percent of U.S. high-tech manufacturing jobs, and 80 percent of U.S. telecommunications and internet services jobs were generated by U.S. based multinationals in 2006. These companies’ investment and expansion abroad sustains job creation at home.

The Global Competition

What make Xerox's contributions and commitments to the Rochester area possible are our successes in the global marketplace. Xerox, like most U.S. corporations has increasingly adopted global investment, marketing and sourcing strategies. According a recent study by the Business Roundtable, over the past 40 years, exports by U.S. corporations have doubled as a share of the size of the total economy, and the share of worldwide profits of U.S. corporations attributable to foreign earnings has nearly tripled. Among the largest corporations, the share of worldwide profits attributable to foreign earnings is even greater. In 2005, of U.S. companies in the Standard & Poor's 500 reporting foreign earnings, more than 40 percent of worldwide income was earned outside the United States.

Until early 2007, U.S. trade has been expanding and, with it, U.S. employment. An economic study conducted for the Business Roundtable found that more than 31 million U.S. jobs depended on trade in 2004. The analysis was the first estimate of the number of U.S. jobs, both nationally that depend on U.S. exports and imports of both goods and services. The key findings of the study were:

- Total net U.S. jobs dependent on U.S. trade exceeded 31 million. Nearly one in every five U.S. jobs was linked to exports and imports of goods and services.
- Contrary to popular belief, the net impact of trade on the number of U.S. manufacturing jobs has been positive.
- Every U.S. state had realized net employment gains directly attributable to trade.
- As U.S. trade -- both exports and imports -- has grown over the past decade, caused in part by trade liberalizing international agreements, so has the number of U.S. jobs tied to trade.

In 1992, a year prior to the implementation of a long string of multilateral and bilateral trade liberalizing agreements, net total trade-related employment in the United States amounted to approximately 14 million jobs, one in ten U.S. workers. By 2004 the comparable trade-related employment estimate had more than doubled, representing nearly one in five U.S. workers.

U.S. enterprises are sometimes criticized for making foreign investments on the grounds that such investments come at the expense of the American economy and jobs. However as Tom Friedman said, "The World is Flat".

Thus, as our competitors utilize the global opportunities -- such as China, India and SE Asia -- to improve their cost structures, so must Xerox. We must do so to remain a key player in our industry and thereby sustain employment in US. Xerox's sales in China are through our minority-owned joint-venture, Fuji Xerox, so our main use of China is for component sourcing to support products designed and manufactured in Upstate New York. This ability to utilize the best vendor base, anywhere in the world, assists our overall competitiveness.

However, there are downsides. We do see a significant attack on our core business, especially on our post-sale toner business, through counterfeit products many of which have their origins in China. Thus, Xerox would like to see a marked improvement in respect for Intellectual Property from this region as China's development and manufacturing infrastructure continues to become more sophisticated, especially in the area of advanced R&D related to the information and communications industry.

Vast Growth Opportunities

As one of the first, truly global companies, Xerox understands how foreign demand for consumer products and capital equipment can create extraordinary opportunities for U.S. companies. Ninety-five percent of the world's population lies outside the United States. The prosperity of emerging market economies represents significant potential for the sale of U.S. products and services. Today, almost 80 percent of the world's purchasing power is located in markets outside the United States. For the largest American companies included in the S&P 500, sales by foreign subsidiaries had increased from 25 percent of total corporate sales in 1985 to nearly 40 percent by 2005.

Be There to Sell There

Relying solely on exports to penetrate foreign markets often does not suffice. Localized operations may be necessary to market products effectively, to cut transportation costs, to avoid tariff barriers, and to meet local content requirements. Services, the industry in which 61 percent of U.S. foreign affiliates are classified, and a major growth area for Xerox, often cannot be exported and must be supplied locally.

The Race for International Competitiveness

America's major international competitors are not standing still. We cannot afford to either. Every major trading nation in the world is actively negotiating free trade agreements, to ensure that their businesses and workers can compete successfully in a global economy and to secure strategic commercial, foreign policy and natural resource advantages. U.S. economic success demands that we continue to match the energy and urgency of other major traders. The alternative is an international economy where U.S. businesses and their workers compete at a disadvantage, and where the international economic landscape is shaped without the United States in a leadership role.

To keep the United States on pace with our international competitors, the Congress and Administration have critical roles to play. TPA/Fast Track must be renewed based on an open and bipartisan discussion among the Administration, the Congress and stakeholders. Free Trade Agreements that have already been negotiated need to be implemented in the coming year, and ongoing FTA negotiations and the Doha Round must be concluded on commercially meaningful terms.

Our Competitors Are Moving Forward, With or Without Us

Approximately 300 FTAs have been negotiated globally with over half coming since 2002. In the Asia Pacific alone, the number of FTAs has tripled over the past five

years, from 57 in 2002 to 176 in October 2006. This activity is occurring across many countries – indeed, FTAs have become a regularized part of the international landscape, and every country in the world has entered into at least one FTA. Today, more than 50 percent of world trade occurs through FTAs.

Conclusion

Xerox is an innovation based company – in 2005 we were awarded the National Medal of Technology by the President in recognition of over 50 years of innovation in marking, materials, electronics, communications, and software that created the modern reprographics, digital printing, and print-on-demand industries.

As the upstate region looks to the future, our opportunities lie exactly where America's opportunities lie. We need to stay internationally engaged and competitive. We need to take advantage of this region's strong educational system, and encourage more students to go into math and sciences. We need to continue to focus on innovation.

The support we need is primarily fourfold:

1. Continuous improvement in the quality of education, especially in technologies related to information and communications industry, as measured in relative global standards
2. Protection from infringement or violation of our Intellectual Property, the majority of which is created in Upstate New York
3. Relief on taxes and employee benefit costs to help make our US Operations more competitive globally
4. Implementation of Free Trade Agreement and resolution of Doha round

Our new CEO, Ursula Burns, recently wrote to all Xerox employees and quoted a former Xerox CEO (and Rochester area resident) David Kearns. David was speaking over twenty years ago, but what he said remains true. It is true not only for Xerox, but for this region and the country as a whole:

“We are in a race with no finish line.”