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From: Sullivan, Jacob J <SullivanJJ@state.gov>
Sent: Friday, October 14, 2011 8:04 AM
To: H
Subject: Fw: Heads up -- S could get an audience question about this...

Fyi

From: Nuland, Victoria J
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To: Reines, Philippe I; Chang, Benjamin; Sullivan, Jacob J; Hormats, Robert D
Cc: Hammer, Michael A; Abedin, Huma
Subject: Heads up -- S could get an audience question about this...

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Sent: Friday, October 14, 2011 6:47 AM
To: Hammer, Michael A; Nuland, Victoria J; Toner, Mark C; Smith, Dana S (PA); PA PRS_Issues; Chang, Benjamin; Lalley, Jonathan P; PA Special Assistants
Subject: Wash Post Op Ed: Romney: China must respect the free-trade system

Romney: China must respect the free-trade system

By Mitt Romney, Published: October 13

The feckless economic policies of the Obama administration have resulted in a 10 percent decline in our median income, persistent unemployment above 8 percent and collapsing home and asset values.

Understandably, some ask whether we should abandon the economic principles behind our historic prosperity. Should government redistribute wealth? Is free enterprise a flawed system? Should we abandon free trade? No, no and no. Redistribution is what once impoverished China and the Soviet Union. Free enterprise is the only permanent cure for poverty. Free trade has the demonstrated ability to make the people of both trading nations more prosperous.

But for free enterprise and free trade to work their magic, laws and rules that guide the participants are essential to prevent distortions and abuses. If the rules are modern and dynamic, enterprise can thrive. If they are burdensome and antiquated, enterprise will stall. For rules to be effective, of course, all players must abide by them. The incentive to cheat can be enormous. So is the harm that cheating can cause.

China is a case in point. Having embraced free enterprise to some degree, the Chinese government and Chinese companies have quickly divined the benefits of ignoring the rules followed by others. China seeks advantage through systematic exploitation of other economies. It misappropriates intellectual property by coercing "technology transfers" as a condition of market access; enables theft of intellectual property, including patents, designs and know-how; hacks into foreign commercial and government computers; favors and subsidizes

domestic producers over foreign competitors; and manipulates its currency to artificially reduce the price of its goods and services abroad.

The result is that China sells high-quality products to the United States at low prices. But too often the source of that high quality is American innovations stolen by Chinese companies. And the source of those low prices is too often subsidies from the Chinese government or manipulation of the Chinese currency.

Some argue that access to quality goods at low prices are good for our consumers. But like the predatory pricing prohibited under our antitrust laws, China's underpriced products lead to an undesirable and inefficient elimination of competing businesses, with serious long-term consequences. And in this case, the businesses killed are often our own. Meanwhile, American companies do not even get the supposed benefit of the free-trade bargain: When they try to do business in the Chinese market, they find policies designed to shut them out.

Candidate Obama talked tough about China's trade policies; President Obama has whispered about them. China smiles, diverts attention by criticizing the United States and merrily continues to eat our economic lunch. Who can blame the Chinese for ignoring our timid complaints when the status quo has served them so well?

Actually doing something about China's cheating makes some people nervous. Not doing something makes me nervous. We are warned that we might precipitate a trade war. Really? China is selling us \$273 billion per year more than America is selling China — why would it possibly want a trade war?

And what is the alternative to confronting China? It is allowing the Chinese to take by trade surrender what we fear to lose in trade war.

Consider, too, that cheating is contagious. What China gets away with, other emerging economies may emulate. As these countries account for an ever larger share of the global economy, the consequences for the rule-following nations would grow even more intolerable. The result could be permanent damage to the international trading system.

In short, if one is genuinely committed to free trade, one must also be genuinely committed to ending abuses of its principles.

If I am fortunate enough to be elected president, I will work to fundamentally alter our economic relationship with China. As I describe in my economic plan, I will begin on Day One by designating China as the currency manipulator it is.

More important, I will take a holistic approach to addressing all of China's abuses. That includes unilateral actions such as increased enforcement of U.S. trade laws, punitive measures targeting products and industries that rely on misappropriations of our intellectual property, reciprocity in government procurement, and countervailing duties against currency manipulation. It also includes multilateral actions to block technology transfers into China and to create a trading bloc open only for nations genuinely committed to free trade.

Free trade is one of the most powerful forces for peace and prosperity the world has ever known. Free trade forges stronger relationships between nations and their peoples. It connects new business ideas with willing consumers. And it strengthens the competition that leads to innovation, efficiency and, ultimately, economic growth and job creation. When one nation is allowed to game the system, however, significant harm can outweigh the expected benefit. To preserve free trade, we must have the courage of our convictions to defend not only its principles but also its practice.

The writer was governor of Massachusetts from 2002 through 2006 and is a candidate for the Republican presidential nomination.

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