

**U.S. Secretary of Commerce Carlos M. Gutierrez
Remarks at the China-U.S. Innovation Conference
Beijing, China**

Thank you. I am pleased to be in Beijing this week. Each time I visit there is change, from construction for the Olympics to the building cranes remaking the landscape.

These changes are symbolic of the dramatic transformation taking place not only within China, but also with China's relationship to the world.

Later this week I will participate in the Joint Commission on Commerce and Trade as well as the Strategic Economic Dialogue. Both are important bilateral conversations between our two governments.

As our relationship grows, so do the challenges and opportunities. This week we hope to address issues of importance to both countries.

This conference is part of that process—in fact it is an outcome of the May SED meeting in Washington, D.C. It is an acknowledgement of the importance of innovation in creating robust, healthy and growing economies worldwide.

The world is more competitive than ever before. As China, along with India and Russia have become full participants in the global economy over the past 20 years or so, three billion consumers have joined the world's economy.

By changing China's economic approach, you've generated a flood of new ideas, consumers and competitors that has revolutionized the global marketplace.

- Twenty years ago, trade accounted for 17 percent of the world's economy—today it's roughly 30 percent
- growing.
- Twenty years ago, the world economy was worth about \$15 trillion—today it's estimated to be \$48 trillion.

As barriers to trade fall and countries embrace new people and ideas, innovative societies emerge.

In the United States, our market-based economy has helped promote a culture of entrepreneurship and innovation. Advances in nanotechnology, biofuels and information technology move our economy forward, giving us a competitive edge.

In fact, the World Economic Forum recently ranked us the number one competitive economy in the world, in large part due to our ability to encourage innovation.

The ideas and the ingenious products that have been developed as a result have enriched America's social and economic life, creating wealth and a high standard of living.

Discoverers, inventors, creators and risk-takers play an integral role in our economic progress. Companies like Google, Dell, Cisco and eBay didn't exist 30 years ago. But they were founded in America—a place where creativity and ingenuity are encouraged and rewarded.

Americans file millions of patents every year—more than any other nation. U.S. innovation industries account for over half of all U.S. exports. They represent 40 percent of U.S. economic growth and employ 18 million Americans who earn 40 percent more than the average U.S. wage.

We in government are not generating growth, creating jobs, allocating capital and launching new products. That's being done by the innovators and entrepreneurs in the private sector.

We believe that government's role is to create the environment for continued success.

A study by INSEAD, one of Europe's premier business schools, ranked the U.S. as the world's #1 innovator.

They pointed to our "environment for innovation" comprised of our technological sophistication, business markets and capital, and our top-notch academic and research institutions. But that same study pointed out factors that threaten our

position—one of the largest ones being education and our need to “produce more scientists and engineers from within.”

That’s why we are working to promote more research, incentivize innovation, and strengthen our education system:

- We have doubled the funding for innovation-enabling federal research;
- We have proposed to make permanent a research and development tax credit which will encourage private sector research; and we are
- Strengthening our public education system, particularly in the areas of math and science.

While we work on these areas in our own society, there are a number of key principles that we have embraced and continue to promote in order to keep the momentum going.

The question to ask today is, “What does it take to sustain an environment for innovation?”

First, we have to continue opening global markets. Both of our economies have benefited from increased international engagement. America and China must work together to stem the rising tide of protectionist sentiment in our nations.

We must demonstrate to our citizens the benefits that free and fair trade can bring to our economies. We must show that we will hold our trading partners accountable for their commitments to open their markets.

And we must also show them the dangers of over-regulation that burdens the economy and costs jobs.

This is not only important for the U.S., but also for China's global partnerships.

We believe respect for intellectual property rights is critical to an innovative economy—ours as well as our trading partners. That is why it has been an important part of our bilateral and multilateral negotiations and agreements.

Consistent, transparent and equitably enforced rules regulating intellectual property increases incentives for innovation. Without clear rules and strong enforcement, no

country can fully develop the economy it wants, nor build the strong, recognizable and respected brands that are hallmarks of developed economies.

Societies can't aspire to innovation-driven growth while not enforcing intellectual property rights. This is one of the major challenges we face in our relationship with China.

While some progress has been made recently, such as new rules requiring legal operating software to be pre-loaded on computers, and a commitment to join the World Intellectual Property Organization, more needs to be done. We believe it is a hurdle that China still must overcome to truly become an open, innovation-driven society.

Last year, more Chinese patents were filed in China than foreign patents. Clearly, Chinese innovators have a great stake in effective IPR protection.

Importantly, a lack of intellectual property enforcement has an impact beyond economics.

For example, China has one of the highest numbers of counterfeit pharmaceutical incidents in the world. These drugs impact the health and safety of those who think they're getting the real deal. And sometimes, sadly, they kill.

Ensuring the safety of products is essential for the growth of an innovative society. Consumers will not buy what they fear.

We've found that managing the challenges we face in a science-based, transparent and open way is the right approach. We also recognize that product safety doesn't begin and end with inspections at the border—it must be built-in from the start.

This is a watershed moment for China. Each country makes a choice as to how they will ensure the safety of the products their companies produce. China—and all of our trading partners—must do their part to ensure their products are safe.

Transparency and predictability in regulations and laws governing business and investment are also critical. They send positive signals to potential partners in both our countries.

Capital allocators look for secure, predictable markets, and they watch with concern where uncertainty exists.

Open societies are open to foreign investment and competition from foreign firms.

Economies benefit when true competition is welcomed. Allowing foreign firms to bring in new products and services gives consumers more choices, and strengthens the domestic market.

Building in predictability, transparency and reliability for investors will make China a more attractive market for U.S. firms, particularly U.S. exports.

Open societies benefit when standards are market driven, consensus based and voluntary. Strong, innovative economies require a flexible regulatory system that supports market-driven technical standards.

These standards should allow all stakeholders, including the private sector, to participate in the standards-setting process.

No country has benefited more from global standards than China. China has been able to develop products based on global standards and sell them around the world. Global standards create a common language through which innovators can collaborate.

We are increasingly concerned about the implementation of government mandated proprietary technology standards. While this approach may appear to provide a competitive advantage in the short term, it in fact inhibits cooperation and limits collaboration.

These regulations will not only limit product development, they also reduce consumer choice. In open, market-driven societies, consumers have the real power.

Let them make the choices that best suit their needs. In the U.S., the government does not pick winners and losers. Picking which products or technologies will succeed and which will fail is left up to the consumers, not government.

The government has an important role to play in creating an environment for innovation. We educate children, keep taxes low, open new markets, fund basic research, make federal regulations reasonable and protect intellectual property.

This environment then allows the private sector to create jobs, allocate capital and launch new products and services that benefit consumers, economies and countries.

These principles are foundations of innovation-driven societies. Fully embracing them will help China continue to move from an advanced *developing* economy to an advanced *developed* economy. They will also help us create a sustainable, mutually beneficial relationship.

China's leaders signal that they understand this. Last month Premier Wen Jiabao gave a speech entitled "*Only an Open and Inclusive Nation Can Be Strong.*" He said that, "China's development history over the past 30 years tells us that today's world is open and it is impossible for a country to develop by isolating itself."

We want this to be reflected in the discussions we are having this week. Openness is at the core of the future of our relationship.

Maintaining openness is not easy, but necessary. Innovation begets change, and change is difficult—we must resist forces that want to take us backwards.

It's up to us to find ways to work together to create an environment that results in sustainable, open and mutually beneficial relationships—and that will only happen when innovators can thrive.

History has shown that countries that have followed aggressive industrial policies by trying to pick winners and losers have ended up eroding their competitiveness and weakening the marketplace, not strengthening it.

China must demonstrate that it is a responsible stakeholder in the global economy. The eyes of the world are on China. Its growing importance places great responsibility on the shoulders of the Chinese government and its business leaders.

A prosperous China is in America's interests, and a prosperous America is in China's best interests. By working together we both can win and turn our creativity into products that benefit everyone. Thank you.