

Secretary of Commerce Carlos M. Gutierrez
Press Briefing Following Strategic Economic Dialogue
Session on “Balanced Economic Development”
Grand Epoch City
Beijing, China

Introducer: I’d like to introduce Department of Commerce Secretary Gutierrez. He has just come out of the SED (Strategic Economic Dialogue) session on Balanced Economic Development. His comments are on record and for attribution.

Secretary Gutierrez: Thank you, I’ll go ahead and take questions if you are getting ready to start. We had a session on Balanced Economic Growth. We had several presenters from the Chinese side and several presenters from the U.S. side, and a very open discussion about opportunities and what each side needs to do as they look out over the future and look at the long term view of things.

Question: Nothing more than that?

Secretary Gutierrez: Well, I can give you my presentation if you’d like, but that would be... The two economies are actually... complement each other quite well. We’ve got differences and we’ve got, somebody said, different imbalances, but the interesting thing is that if you add up the dollars of growth, China and the U.S. over the last five years we’ve added put together almost 40 percent of the world’s economic growth. If you go back to the period of ‘80 to ‘85 China was a very small contribution. That suggests that growth is important for both countries and each others growth is important to both countries. As we look at, interestingly, exports China has about a 21 percent share of our market, of our imports. We’d like to have our share be higher than that. We are China’s number one customer. And our number one customers are very close to home. Typically as most countries evolve, their trade is very geographic. China has been able to reach across the world to find their number one customer which is quite a feat. And obviously we have very different economies; about 70 percent of our economy is consumer. So our

consumer spending, our consumer drives about 70 percent of our economy. For them it's about 38 percent. Business investment is a smaller percent for us, for them, for China, it must be about 42 percent of the economy. And what the difference over five years is that trade is a net contributor to China. Whereas trade for us over the last five years has been a net negative impact to our economic growth. That has changed in recent times by the way as we have seen the residential construction be a hindrance to growth that has been offset, more than offset, by the growth in net exports which I think has been a very good, another sign that our economy is very large and very balanced and very resilient and very diverse. We talked about another very interesting difference we have, which is the social safety net. China spends about, I think it's about, two percent on social safety nets. Our expenditures as a percentage of GDP are over nine percent if you add Social Security, Medicare, Medicaid. Because our population is getting older those expenditures can come back and really impact our budget in 20 or 30 years. And because China's population is getting older, they are going to find that they are not spending enough. So we both have different set of issues, but clearly they recognize that that amount of social safety net, that two percent, for the combination of social security and medical care is not enough and they are going to have to take that up. That's one of the reasons why there is such high savings in China because people don't have the benefit of Social Security or something else so they are saving for their own safety net.

Question: I wonder if I can come back to the currency issue. When you heard from the vice minister of commerce an hour or two ago and he had strong views about how those who as he put it want China to have its currency value appreciate excessively are talking irresponsibly. Are you hearing any response in any of your conversations with the Chinese to the American and now the G7 urgings that China appreciate its currency at a faster rate.

Secretary Gutierrez: You said go back to the currency; I didn't really start with the currency so I... I am going to skip on the currency and let Paulson do that...

Question: You are leading the discussion, are you not?

Secretary Gutierrez: On this part of it I did not have currency in my talks. I never get into currency. As a matter of policy it's always Paulson or the President. But I

can tell you that the discussions about currency and other areas have been very candid. I think what I would characterize as the description of this meeting, this SED III, has been its candidness and just the willingness to talk about things that perhaps we would have let them go unsaid to the detriment of the relationship, so I think it's been very healthy. But I am sure Hank would love to come out and talk about currency... (laughter). He likes that stuff.

Question: When you say to the Chinese we want to correct the trade imbalance not by restricting imports but by having more exports to you. They tend to come right back and say okay well then send us some of the high tech goods we want...

Secretary Gutierrez: Yeah, we have a standard response for that and we'll quantify how much that is and quantify how much we have actually rejected and how many licenses we've not granted. It's a miniscule amount. I think the big picture is pointing to the growth of exports. China is our fastest growing export market. This year we are up 17, last year we were up 32 so our exports continue to grow at a faster pace than to the rest of the world at a time when our exports to the rest of the world are growing at a very healthy clip. But clearly we need more, we want more and that's not enough to reduce the gap and that is what a lot of our discussion is around, eliminating barriers so that our businesses have the right amount of access to the Chinese market. Another area we got into is, while China has made progress over the last 30 years in terms of opening up their market we believe there is still not enough competition in some sectors and competition leads to more innovation, leads to more growth and one of the things that has helped our economy is that there is a lot of competition so as that happens I think that will benefit U.S. companies as well—will allow companies to compete. We don't want any special favors; we just want the opportunity to compete.

Press Secretary: We have time for a couple questions. Is there any one from the Chinese press that has a question? Okay [none]

Question: We can talk about how candid the discussions are. Secretary Paulson has warned repeatedly of rising protectionism and economic nationalism in the last several weeks and it's something that Madame Wu Yi talked about in her opening remarks. Just how candid have those discussions been about the dangers of protectionism on both sides?

Secretary Gutierrez: They've come up I would say in just about every statement. They came up in the JCCT. The thing that I think is important to acknowledge is that the protectionist sentiments are on both sides, perhaps for different reasons but there is a conservative sector of China who would like to be less open and would like to be more protectionist and we're seeing protectionism as well in the U.S. so it is a common threat to both of us and a common threat to the economies and I think something that can threaten the success that we have both had. So yes we did talk about it, we've been very open about it. I think the part that perhaps has been talked about this time as well is that protectionism is also prevalent in China. We usually talk about protectionism in the US, in the U.S., in the U.S. Perhaps you don't see it in the papers and it's a different system but I wouldn't minimize the amount of debate that goes on in China as well.

Question: The New York Times and others were reporting that China has stopped showing American movies and that Hollywood is complaining about it and that this is a recent development. Can you confirm the reports and can you say to what extent that this has been a part of the discussions and is this in fact another example of protectionism?

Secretary Gutierrez: My understanding, and Chris jump in, there's a suspension which has happened in the past and there are certain times of the year where they will suspend foreign movies. The problem we have with movies, with films is that there is a limit, there is a number, there is a quota on them and we would like to get that lifted. That is not exclusively tied to the commerce officials, we believe there is also a cultural ministry aspect to that, but that is the big issue on that. And going back to our approach and how we deal with this we have a three prong approach, first and foremost we want to dialogue and we believe dialogue is the best way of solving problems but we've also been very clear that we are ready to use WTO rules when we believe that the dialogue has failed and we also apply our laws very aggressively. As you know we started applying countervailing duties not long ago and we have initiated three or four cases, we've got 62 anti-dumping cases out right now which is actually a higher percent of our total dumping cases than the percent of trade that we do with China. So it's a three prong strategy. We are constantly doing all three, we prefer dialogue and that is our preferred method but that strategy is superior to a strategy of protectionist legislation for what is a very complex

relationship that can't be resolved with one piece of legislation that would just lead to a snowballing effect of protectionism around the world.

Press Secretary: Last question.

Question: I'm just wondering, what would you like to see in concrete terms, what do you hope you can achieve at these talks so that when you leave Beijing, you'll think these talks have been a success. What would you like to see happen?

Secretary Gutierrez: Well, the first thing is... and I think this happens over time, is mutual understanding of how each other's systems work. Very often we make policy decisions on the basis of assumptions. I think history has a long string of flawed assumptions and we would like our assumptions to be accurate, we would like their assumptions to be accurate. I mentioned last time that they thought that we had... all the debate that was taking place in Congress about CNOOC and Unocal were actually a change in policy. That is an assumption that can be a very flawed assumption that could drive them to make policy changes. So these meetings go a long way to enabling individuals to know each other, individuals to have rapport, to be able to pick up the phone and call someone, to be able to work together like Secretary Leavitt and his counterpart on product safety and to be able to understand how these systems work. Two is, to have a clear sense—long term—of what our opportunities are. We would like to see the trade deficit, the trade imbalance addressed in a sound way. We would like to see more consumption, more internal consumption in China. We believe they've got to look at their social safety net because that's why people are not consuming, because they are saving too much money. And they in turn have been very frank with some of the areas that you've mentioned so really where we are taking our countries and our societies and our economies longer term, I think having that view and then having a good sense of how the systems work, what the real policies are, making sure that we are able to make the right assumptions and then having relationships build, very importantly, a relationship with my counterpart where I can pick up the phone and explain something to him or pick up the phone and ask something of him and I don't think you can minimize the value of that in this world economy and I think these meetings are going a long way to achieving that kind of a relationship.