



Forging U.S.-China Relations with Ambassador Gary Locke

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Introduction:

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JOHN FRISBIE: Good morning. Thank you very much and welcome to all of you. I'm John Frisbie, president of the U.S.-China Business Council. We're delighted to co-host this event with the Carnegie Endowment for International Peace. And I want to thank Doug Paal and Carnegie for providing today's venue. And I want to thank all of you for this great turnout. It looks like we have a full house and then some.

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We're very pleased to have as our speaker this morning the United States ambassador to China, Gary Locke. Ambassador Locke has been in Beijing a little over a year now, I guess, 13 months. And it's been a busy 13 months, some very high-profile moments. In fact, before Ambassador Locke even hit the ground you may recall that he gained widespread and favorable attention in China for the photo of you and your – carrying your bag and buying a coffee in the Seattle airport. (Laughter.)

Six months later, he had a prominent role in the dramatic story of the legal activist Chen Guangcheng, of course. Perhaps less known here, but much appreciated in the business community in China, has been his willingness to engage in commercial diplomacy in support of American companies. I just returned from Beijing last night and, Ambassador Locke, I can tell you, I heard this again from companies over there who really appreciate your willingness to help them expand markets for U.S. companies.

U.S.-China Business Council is pleased with Ambassador Locke's appointment, in part just for that reason – his experience as secretary of commerce, his knowledge of the business issues makes him well-suited to represent our economic and commercial interests in China. That part of the relationship I think, as you all know, only grows in importance as China's economy grows. We also believe that Ambassador Locke's experience in electoral politics, from his tenure as governor in Washington state, is helpful to the U.S.-China relationship.

He can certainly explain U.S. politics to Chinese officials, which must be particularly useful now, of course, as we're in our election season. But I've always felt like it helps him also understand how ordinary Americans view China. And with China's growing impact in our lives, the need to be able to explain, I think, the complex issues of that relationship outside of the policy community is only going to become more necessary.

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As seems to be always the case now, we're at an important time in the U.S.-China relationship. We have our elections here, as I mentioned. We've got our political transition there going on. There is a renewed debate in China about economic reforms. We had a visit, of course, last week by Secretary Clinton to Beijing for discussions with China's leadership on a number of issues.

We're therefore extremely fortunate to have Ambassador Locke here with us today – making perhaps your first remarks, I think, since you've become U.S. ambassador to China, here in Washington, D.C., I believe. And that reminds me too, we were fortunate to co-host your first

public remarks in Beijing after you'd gotten that – there, about a year ago. And that reminds me of something else that we've very appreciative of, of your accessibility and your willingness to make yourself available to the business community and beyond.

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At any rate, after his remarks, we'll then have time for some follow-up discussion and questions moderated by Doug Paal. So please join me in welcoming now the United States ambassador to China, Gary Locke. (Applause.)

AMBASSADOR GARY LOCKE: Well, thank you very much, John, for the introduction. And it's really a pleasure to be here among so many friends – and also see Ambassador Hill's here. Thank you for all your great work on U.S.-China relations. And to all of you, thanks for what you're doing day in and day out on this most important bilateral relationship.

Also want to thank the China-U.S. (sic; U.S.-China) Business Council, working with the Carnegie Endowment for International Peace, for hosting this event. And, Doug, thank you very much for lending us this beautiful, beautiful setting and for the great work that you guys are doing every single day. We salute both of you – both organizations for the ongoing role that you play in greater international understanding. And thank you for all that you've done to strengthen the relationship between these two great countries.

I don't have to explain to a group such as this the enormous change transforming and modernizing Asia today. And I firmly believe that much of the history of the 21st century will be written in the Asia-Pacific region – between the United States and China more specifically – because the Asia-Pacific is home to more than 4 billion people, three of the world's four largest economies, and some of its most vital ecosystems. Taken together, the economies of the region account for nearly 60 percent of the world's GDP and it's critical to addressing nearly every international challenge that we face.

The United States has been a leader in this region for nearly two centuries and our presence in the Asia-Pacific has helped maintain the stability, foster economic growth, and create opportunities for all of its peoples. And so it's no wonder that President Obama, from the very beginning, identified engagement with the Asia-Pacific as one of his top foreign policy priorities and set out to substantially increase our investments there – diplomatic, strategic and economic.

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President Obama and Secretary Clinton's goal is to contribute to an open, stable, and just regional order based on norms and institutions that benefit all peoples and all nations. And to that end, we're reenergizing our relationships throughout the region – from our traditional alliances to our friendships and partnerships in ASEAN as well as with China itself.

For example, in addition to conducting a series of meetings with China's senior leaders in Beijing last week, Secretary Clinton made stops in the Cook Islands for the Pacific Island Forum, Indonesia to meet with government leaders and ASEAN, Brunei then on to Vladivostok, Russia for APEC. She also became the first U.S. Secretary of State to visit East Timor, Asia's youngest country. Together with our friends, partners and allies throughout the Asia-Pacific, we hope to

develop common solutions to shared problems and to leave the world a better place for our children.

Clearly, as countries with the largest economies in the Asia- Pacific, the United States and China have important roles to play in ensuring peace and prosperity. And we have a shared interest in working together for the good of not just our own peoples, but the entire region. As our leaders have said, we intend to make history in our relationship with China in the 21st century. And we intend to ensure that we find a way to coexist and cooperate without unhealthy competition, rivalry, or conflict.

Our two presidents have met 12 times in the last three years. Vice President Biden and Vice President Xi have exchanged very productive visits. And we've had – we have held four Strategic and Economic Dialogues, which broaden and deepen the government-to-government relationship to an unprecedented degree. And Secretary Clinton's visit to China last week was her seventh as secretary of state. It's that kind of engagement that we know business leaders like you are generating, and we encourage you to do even more. Those people-to-people and business-to-business exchanges are enormously valuable in building and growing our region with China.

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Conflict between a rising power and an established power is not inevitable. As President Hu Jintao, Vice President Xi Jinping and Secretary Clinton have all separately argued, we can, and we must, forge a relationship based on mutual respect and mutual benefit. But we also must recognize that rhetoric alone, however positive, is not enough. We need to demonstrate that our cooperation achieves real results and brings real benefits to our peoples and, indeed, to the international community.

In our economic relationship, we believe that turning our rhetoric into reality requires fairness in both policy and practice. That means guaranteeing a level playing field for healthy competition between U.S. and Chinese firms; establishing a more open investment climate and ensuring opportunities for foreign goods, products, and services; ending unfair, distorting currency practices and improving protections for intellectual property to allow innovation to thrive. You know, fairness also means listening and responding to the concerns raised by China so that together we can find ways to unlock the economic potential of our two countries.

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Beyond trade, we need to demonstrate real results in confronting the international challenges that threaten the prosperity and security of both of our countries. On Iran, we cooperate closely with China, both bilaterally and within the P-5 plus one process, to achieve our shared goal of preventing Iran from developing a nuclear weapon. And we've worked successfully with the Chinese government on four U.N. Security Council resolutions that together have created unprecedented pressure on the Iranian government.

On Syria, however, while we appreciate the Chinese officials – that they've called for an end to the violence in Syria we continue to urge China to do more work with the international community to resolve the crisis. Both of our countries have a shared interest in a stable and prosperous Middle East, which is threatened by continued violence in Syria. And indeed, as we

have seen from the news reports over the last several days, there is much tension going throughout the Middle East.

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And absolutely saddened by the senseless tragedy and the killings of our four diplomats in the – from the U.S. in Libya and very troubled by the ongoing turmoil throughout Libya and in Egypt. And the president, I think, has made a very strong and forceful statement condemning that violence, and Secretary of State Hillary Clinton has also spoken on it. We all need to support our diplomats, and we need to make sure that there's peace and stability throughout the region.

Let me say that on North Korea, we continue to consult with China on how to induce North Korea to abandon all nuclear weapons and their nuclear programs in a complete, verifiable and irreversible manner, because the world is looking for leadership from the United States and China. And 50 years from now, we want the history books to describe our great accomplishments together and not our failure to act. It's natural that we will not always agree, and there are issues on which we have some very real differences, such as universal human rights and basic freedoms. But to have the type of relationship we both seek, we must be able to talk frankly with each other about those differences and find ways to sustain dialogue.

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The promotion of universal human rights is an essential element of American foreign policy. It reflects who we are as a people and our belief that respecting these rights is in every country's national interest. As Secretary Clinton has so eloquently stated, reforms that support universal human rights give people a greater stake in the success of their nations, which in turn makes societies more stable, prosperous and peaceful. It is our conviction that a more open China that tolerates all views, ideas and expression will lead to a stronger and more secure China, which is something that the United States and the entire world welcome. America welcomes a strong, prosperous China that takes its rightful place in world affairs, and we want to partner more fully with China to promote peace, stability and development which benefits both of our countries, the Asia-Pacific region, and indeed, the entire international community.

The good news is that today, the United States and China are already working together in ways large and small to expand our cooperation and address the global challenges that we face.

On the economic front, we're working together to achieve real results for our people. Forty years ago, when President Nixon made his first trip to China, it would have been difficult to imagine the interdependence that characterizes our two economies today. To put this in tangible terms, back in 1972, our annual bilateral trade was less than \$100 billion – excuse me, \$100 million – (laughter) – \$100 million. Two-way investment in each other's markets were close to zero, and only a handful of American jobs relied on trade with China. Today, more than a billion dollars of goods and services flow between our two countries every single day, and more than 80,000 – excuse me, 800,000 American jobs depend on producing goods and services sold to China, and an even larger number of Chinese jobs are anchored by trade with America. People in both countries are benefiting from this deepening economic integration.

And measured against the past, where the relationship has been, our two sides have made enormous progress. In May of this year, we convened a highly successful fourth round of our annual Strategic and Economic Dialogue with the Chinese government and among the economic achievements of this past round, China agreed to expand opportunities for foreign securities firms in China, and to grant foreign companies access to the automobile insurance market. China also agreed to undertake reforms of its tariffs and taxes on imported goods, which will expand imports, and thereby domestic consumption.

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Earlier 2012, China acted to move toward a more flexible exchange rate system and to liberalize controls on the international use of its currency and on capital movements into and out of the country. A more open trading relationship delivers real results for real people in both countries. And U.S. exports to China are strong and growing. In 2010, the first year of the president's National Export Initiative, our exports of goods and services to – from the U.S. to China topped \$100 billion for the first time in history, and grew by over 20 percent in 2011. At the same time, Chinese direct investment into the United States increased almost eightfold between 2005 and 2011 from \$700 million to some \$5.4 billion, and this year, is on a record pace with almost \$4 billion in deals already signed in the first six months of this year. Chinese investment into the United States creates jobs, boosts U.S. exports and creates a stronger U.S.-China economic and commercial ties.

The United States and China are also working together in other ways that you may not know about. The U.S. National Nuclear Security Administration has worked with its Chinese counterparts to support nuclear and radiological material security to protect our ports and make sure that the items coming into our country do not have weapons of mass destruction. The U.S.-China Aviation Cooperation Program has promoted safer aviation operations, and it was under this program that PetroChina and the Boeing Company joined together to make the first – to pioneer the first test flight of a Chinese commercial airlines using biofuels. And off the Horn of Africa, international naval patrols, including Chinese and U.S. warships, have helped sharply reduce the acts of piracy this year, making some of the world's most important shipping lanes a lot safer.

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We're also cooperating to expand people-to-people exchanges, recognizing the most important part of any relationship is the last three feet. And travel between our two countries for business, tourism and study foster greater understanding between our two peoples and facilitates collaboration and cooperation in every single field. We have some 160,000 Chinese students studying in America every single year, but we only have about, maybe 14,000 Americans studying in China every year. That's not enough, and that's why President Obama launched the 100,000-Strong Initiative, which seeks to have 100,000 American students studying in China over the next four years, and we're working hand-in-hand with key private sector partners to make this objective a reality, and I hope that many of you and the organizations that you represent will join in and support and provide scholarships for American students to study in China.

As ambassador, I've also made streamlining our visa processes a priority in order to facilitate this travel from China to the United States, and I'm happy to announce that our embassy in Beijing and our consulates throughout China have already given out, for the first time in history, more than a million visas to the United States for business, tourism and educational opportunities. And that's a

42 percent increase over the same period last year. And we've done it while keeping the wait times for an appointment to an all-time low. Right now, the wait time at any of our consulates and our embassy in Beijing is only two days, and throughout the last 10 months since I've been ambassador and since we've started this program, the average wait time – monthly average wait time for an appointment, for an interview to get your visa, has ranged between two days and eight days. And we've done it with hardly any new staff. These joint efforts – all these efforts that I've talked about – have shown that the United States and China can work together in the Asia-Pacific region and around the world to support our common goals and to achieve real results.

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Again, we've still got a long ways to go, but I'm hopeful that working together, we can escape from historical patterns and instead forge a legacy of cooperation and partnership that will be a model for future generations. The more we're able to bring our two peoples together in common cause, the more we'll be able to deepen a shared conviction between our two peoples that a prosperous China is good for the United States, and a strong U.S. economy is good for China, and a strong U.S.-China relationship is good for the Asia-Pacific, because geopolitics today cannot afford to be a zero-sum game.

The world of the 21st century is fundamentally different than the world of the 20th century. The power politics of the past no longer work. We live in an interdependent world transformed by advances in technology and transportation that allow the rapid flow of goods, information and people to every corner of the globe. And just as the opportunities we face are global in scope, so are the challenges, from climate change to poverty, from nuclear proliferation to disease. No one country can solve any of these problems alone. In today's world, we're more interconnected and more interdependent than ever before. Pollution knows no national boundaries. Disease can travel from one continent to another as quickly as a passenger jet can fly. And a picture or a video or a comment can travel from smartphone to smartphone on opposite sides of the planet in an instant.

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Our countries, our two great countries, may have different cultures, languages and histories, but our peoples share the same goal: a better life for themselves and their children. Imagine what we can accomplish 50 or even a hundred years from now if our governments, our companies and our peoples are working closely together. All of us now share a common challenge to promote even stronger relationships throughout the Asia-Pacific region that deliver real results for all of our peoples and indeed the world. And the United States has an enduring interest in maintaining peace and prosperity across this entire region, and we're going to remain firmly committed to a long-term engagement with the countries and peoples of the Asia-Pacific, and that means China as well.

And I'm confident that, with the help of the U.S.-China Business Council and the Carnegie Endowment for International Peace, the U.S. and China will – relationship will grow and that the two countries will make great strides in unlocking our full potential and improving – and in – and in improving the lives of our peoples. Thank you very much. (Applause.)

MR. PAAL: Would you – would you prefer to take questions – (inaudible) – have a – have a seat there –

AMB. LOCKE: Sure – (inaudible) – I’ll sit from there. All right.

MR. PAAL: All right. Good. Great.

AMB. LOCKE: (Inaudible) – maybe I’ll just stand from up here. That way I – (inaudible) – see the folks. Yeah. All right.

MR. PAAL: Let me just – let me just take a moment to say thank you for those very positive remarks about our relationship with China – indeed, one of the most important this country’s ever engaged in. Thank you for your personal willingness to continue in public service. We know this entails sacrifice, but I also know you’ve got one of the most challenging and interesting jobs in the world, so I can see why you’re doing it. (Laughter.)

[00:22:26]

Ladies and gentlemen, we have time for some questions. And please – I hope you were reminded earlier to turn your cellphones off if you have them on. When you are called upon, please identify yourself and your institutional affiliation, and ask a question instead of making a statement.

So the floor is open for – in the second row here.

Q: I’m – (inaudible). I’m Brian Wingfield – I’m Brian Wingfield with Bloomberg News. You mentioned an end to unfair currency practices that may distort. I’m wondering what more do you think needs to be done? And as you probably know, Governor Romney has said if he were elected, he would label China a manipulator of currency on his first day in office. Do you think that goes too far, or do you think that should be an option? Thank you.

AMB. LOCKE: Well, let me just say that Secretary Geithner, I think, has spoken at great length on this issue. We know that the currency is still undervalued. But it has made a – Chinese have made a substantial progress, and when you factor in the rate of inflation, it has appreciated significantly. But again, still more needs to be done. And I won’t – I’m not engaged in political debates. And let me just say that I will let all that sort itself out. But obviously I think the U.S. position is very clear and has been very consistent, along with other countries, calling for reforms of the Chinese currency.

MR. PAAL: On the aisle in the back there.

MR. PAAL: I don’t need – (inaudible) – perfectly capable. (Chuckles.)

[00:24:03]

Q: Thank you. Shu Lin (ph) with Duowei News. Secretary Clinton’s visit to China was met with harsh criticism by the Chinese media. And our vice president, Xi Jinping, canceled his meeting with her. How do you think her visit will influence the future U.S. foreign policy towards China? Thank you.

AMB. LOCKE: Well, I think that some of the Chinese media were very critical about U.S. policy and about Secretary Clinton prior to her visit. But once she made the visit, I think the press

was very balanced and fairly positive, because Secretary Clinton had very good discussions, very productive discussions and very frank discussions on a wide variety of issues with the Chinese leaders. Vice President Xi did cancel his meeting with Secretary Clinton but also canceled meetings with the prime minister of Singapore and many other foreign officials since then. And it's very clear that it had nothing to do with U.S. government or Secretary Clinton. And of course you are all speculating as to what's happening with Vice President Xi. But it appears that it had nothing to do with Secretary Clinton or U.S. government.

[00:25:17]

Q: Why don't you help us with the speculation? (Laughter.)

AMB. LOCKE: Well, we're all – we're all speculating, right? So – (laughter) –

MR. PAAL: Over here.

Q: Excuse me –

Q: Alex (ph) –

MR. PAAL: Oh – (inaudible) – wait for the – wait for the mic so they can record it.

MR. : It's coming.

Q: Can you hear me?

AMB. LOCKE: Yeah.

Q: Well, thank you for your service to our country, first of all. Secondly, given your –

MR. PAAL: Can we – who are we? (Chuckles.)

Q: Oh, David Lampton at Johns Hopkins SAIS. Given your background as governor and we may call a subnational relations between our two countries, you mentioned in brief the investment that China's making in various localities around the country. Can you give a little more detail about that? And also there's a governors' summit, and basically our provinces and states are development-oriented. This seems to provide a positive basis for cooperation in the future. Can you describe some of the activities going on there?

[00:26:14]

AMB. LOCKE: Thank you very much. We have a lot of activities under way in China as part of President Obama's SelectUSA, which we at the Commerce Department, when I was there, helped put together. And it's a very coordinated, concerted effort throughout all the branches of – all the different agencies in the U.S. government to really help promote foreign direct investment into the United States, including from China. And now that I'm the ambassador to China, we're really focusing on Chinese companies coming to establish factories and offices and facilities – the

same way that the Germans and the Russians, the Brazilians, the Koreans and the Japanese have set up facilities here, employing tens of thousands of American workers and creating good-paying jobs.

One of the things that we're doing – we're actually doing several things, but one is we've produced a video, all in Chinese, about 10 minutes long, dispelling some of the myths and the stereotypes and the misperceptions about opportunities for investment here in China – in the United States; number two, highlighting several of the Chinese companies that have successfully invested in the United States, with testimonials from their business leaders. For instance, Tianjin Pipe is constructing a steel plant, a pipe plant in Texas that will employ several thousand people. And the list goes on and on. And the third is to talk about the necessary ingredients to be successful in the United States; that is, the need for consulting firms, whether law firms, investment banks, management consulting firms and PR. It's all in Chinese, and it's about 10 minutes long. And it's received very, very positive reviews.

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The third thing that we're – a second thing we're doing is we're hosting a big conference in December by the embassy and myself, and we're inviting all the governors and many of the mayors of the big cities to participate, and – but also to come with very specific investment opportunities. You know, they don't have to endorse a certain project, but come with ideas and lists of opportunities that the Chinese can look at, because when we go to – when we talk with the Chinese and when they come to the United States, they're always looking for an investment catalogue. And we in the government are always saying, well, we don't endorse anything. And – but here are all the different people and players that may have lists of opportunities for you.

But actually the governors and the mayors know of opportunities and projects, priorities within their communities. And we have had some investment seminars within the last several months where we've had certain states come in with lists of potential projects, talking about these projects, along with the private sector. And we've had several – over a billion dollars in deals announced as a result of those – of investment opportunities or investment deals as a result of those types of seminars.

So we hope to do more of that over the next several months – but again, focusing on the states, with the governors and the mayors and community officials highlighting the attractiveness, the opportunities, the benefits of their respective jurisdictions – because the Chinese don't understand that we've got 50 states that are all very different – different tax structures, different incentives, different climate and different priorities and different strengths – and that each state needs to really focus on their strengths and go with their strengths and try to build on those strengths. So we're really very, very hopeful about this upcoming investment seminar.

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MR. PAAL: Is that – is that video available on the embassy website?

AMB. LOCKE: Yes, it is.

MR. PAAL: OK.

AMB. LOCKE: Yes, it is, so –

MR. PAAL: Paula Stern?

Q: Thank you.

MR. PAAL: (Inaudible.)

[00:30:01]

Q: Thank you. Paula Stern, The Stern Group. I'm really glad you mentioned the conference regarding the mayors and this question about – is there a list of opportunities. And my question goes to the asymmetries between the small, start-up companies in the United States, which may be idea based, trying to, if you will, tap into the enormous opportunities in China given the organization of state-owned enterprises, et cetera.

Do you feel that the United States – both foreign commercial service and your State Department – is – are organized in such a way to give that – to deal with that asymmetry adequately? I ask this because I have been working with a number of small businesses in that situation, and I think it's an interesting problem if we're going to meet those goals the president had for the – not only exports to the – to China, but the other way around, the increasing investment as well.

AMB. LOCKE: Right. Well, let me just say that obviously the big, big companies like GE and Boeing and Caterpillar, they have enormous marketing staffs and government relation staff all around the world. And the U.S. government does weigh in and help them and advocate on large opportunities when they may be the only U.S. company bidding on a project. But let me say that both the State Department and the Commerce Department, where I used to work, particular focus on small-, medium-sized enterprises.

Here's an interesting statistic, 59 percent of all U.S. companies that export, export to only one country. And if we could just get that 59 percent that are already exporting, and oftentimes typically to just, say, Canada or Mexico – if we could introduce them to one or two extra markets, then we would substantially increase our exports. And exports have – over the last several years have almost contributed equally to the growth in GDP and to our employment figures.

These companies – typically small-, medium-sized enterprises that already export – they understand, you know, logistics, currency, international contracts and customs and everything else. So our challenge is just to help them find additional markets. And that's where, for instance, the great programs of the Commerce Department, like the Gold Key program, come into play.

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The Gold Key program is a program where we have people, let's say, in Budapest or Korea or China that will go out and find buyers or – buyers and customers for our made in USA goods and services. And our motto at the Commerce Department was, the more we help American companies export, the more they produce. They more they produce, the more workers they need, and that means jobs. And under the Gold Key program, I mean, our people on the ground and all around the world who actually go out and find these buyers and customers for a U.S. company.

And they'll actually do due diligence on these companies. And so the American company will come, let's say, to the consulate or the embassy in Budapest or in Shanghai, let's say. And we'll bring those companies to that American – those Chinese companies to that American company. We call it kind of speed dating, you know? (Laughter) Every half-hour we bring in another company in to meet with the Americans.

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And so many U.S. companies swear by the Gold Key program, so much so that, for instance, FedEx and UPS are helping underwrite the minor, minor cost of participating in the Gold Key program because, you know, FedEx and UPS feel that if they can get their customers to ship more around the world, it's more income for UPS and FedEx as well. So those are some of the programs that we have.

And we are really focusing on trade missions generated by the embassy, sponsored by the embassy, geared toward specific sectors but most specifically towards small- and medium-sized enterprises, to really give those companies an equal opportunity. And China does have investment catalogues and lists of all the different opportunities available. So we just need to really match up the great U.S. companies that make great products and services that are highly valued and in great demand all around the world, including China. So.

MR. PAAL: In the third row, yes.

Q: Mark Oberle with Celanese Corporation. Recently the embassy's publication of the PM2.5 in Beijing and other cities in China has gotten a lot of publicity in China. How would you assess the government's reaction to that and the progress that they're making on some of the climate issues that you've helped raise the light to?

AMB. LOCKE: For those who don't know, PM2.5 is – means particulate matter smaller than 2.5 microns. It's the really invisible stuff that can really cause a lot of damage to respiratory systems and health. It's almost akin to being exposed to secondhand smoke constantly, or even smoking several packs a day.

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And it's obviously of concern to the families of American diplomats, their children who are in the schools. So much so, that we have a monitor that broadcasts the information of PM2.5 and a lot of the international schools including – not just the American – where there are American students, but German, Canadian, British schools – will restrict the kids from going outside if the – if the reading exceeds a certain level.

We've been criticized by the Chinese government for having such a monitor, but we feel it's a duty – our duty to inform our dependents and our Americans of the air conditions there so they can make appropriate decisions regarding the health of their children and themselves. We're expanding this to all the different consulates throughout China.

But it has also created a lot of support among the Chinese people, calling for more accuracy in the pollution levels put out by the Chinese government. And you're seeing a growing sentiment among the Chinese people themselves calling for more environmental activism and environmental protection. So we think that it's a good thing and that – and so many Chinese citizens are now coming onto our website and using that information as well and making decisions involving their families.

MR. PAAL: On the – on the aisle back there.

Q: Thank you. My name is Kim Ji Jiao (sp) from GW. My question related to the – some territory dispute like South China Sea and East China Sea. So I want to ask what this territory dispute will affect U.S.-China relations, especially when U.S. says they will not take position but actually everyone knows that U.S. is supporting the Philippines and Japan. So how can Chinese people trust U.S. government? Thank you.

AMB. LOCKE: Well, actually, we are very sincere. And during president – excuse me, we are very sincere about our statements and mean it when we say we are neutral. We care about the process, but we know that there are very different, very complex competing claims involving both the East China Sea and the South China Sea. And we take absolutely no position on who was right, but we do believe that both sides need to try to resolve this and that it's going to be incumbent upon China and the Philippines to have their own negotiations on this, China and Vietnam and – on a bilateral basis. And they're going to have to do that.

[00:37:54]

What we do care about is making sure that neither side – that no claimant engages in any type of activity that escalates tensions and jeopardizes safety and freedom of navigation, which would hurt everybody. And we've had very good discussions with the Chinese government. And Secretary Clinton talked at great length about this with the Chinese. And the Chinese brought it up. So – and wanting to try to lower the temperature and get to productive discussions.

And so we heard from the Chinese leaders that they would like to pursue a code of conduct among the ASEAN countries on how to – how everybody should conduct themselves, which is something that the United States has been calling for as well. So we really believe that it's incumbent upon the claimants to resolve this. I've also heard that, from many prominent Chinese academics, that China would like somehow to return to the status quo – that they would like to lower the temperature as well. So we need to find out more from them as to what they mean.

[00:39:05]

MR. PAAL: Way in the back in the center aisle – pink tie. (Chuckles.)

Q: Hi. My name is Eric Lo (sp). My thing is – you know, you talked about, like, helping the – some help between the Chinese and the American businesses. So my question would be, you know, like, with – what sort of like companies where you sort of, like, assist more? You know, basically, you know, like, state-owned companies in China or basically more, like, recent development of medium to – sized private companies in China? So there's a difference between

both, so which kind of have a priority in your selection of these companies for assisting them to invest in the states?

AMB. LOCKE: Well, we're looking at all companies that might have an interest in investing in the United States, and we welcome Chinese and Russian and Brazilian and Japanese companies, German companies, from – in opening up factories. For instance, you know, the BMW 3 Series is now produced in – automobiles are produced in South Carolina. And I think about 25 (percent) or 20 percent of those cars are actually manufactured in the United States for export to other parts of the world.

So it demonstrates that the United States does have a highly skilled workforce, a large consumer – largest consumer market in the world, and access to capital and transparency of laws and regulations that would benefit just about any foreign – a company from – if it were to establish its operations, manufacturing facilities here or offices or engaging in R&D here. And so we welcome that from any type of Chinese company. And, you know, if it creates jobs here, good-paying jobs in America, that's what we want.

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At the same time, we're really focusing on helping U.S. companies try to gain a fair access to China, opening up markets, because so many sectors are still closed off to all kinds of foreign participation. And we also want to make sure that especially small- and medium-sized companies are able to sell their “Made in USA” goods and services in China.

MR. PAAL: Here on the aisle. Arnold Zeitlin.

Q: My name is Arnold Zeitlin and I teach in Guangzhou. In view of the slowing Chinese economy, what will be the China factor in trying to achieve President Obama's goal of doubling exports by 2014?

AMB. LOCKE: Well, actually, we're on track to meet the National Export Initiative Goal of doubling U.S. exports over the next five years, and we simply have to – as a country, America simply has to grow exports by about, I think, 14 ½ percent every single year. When you compound that over five years, we achieve it. The first year we had about 17 percent growth, the second year about 16 ½ percent growth, and I still think that we're right around that ballpark for this third year.

As I indicated, exports from the United States to China topped a hundred billion dollars in terms of goods and services for the first time in 2010. And then we're at about \$129 billion in 2011. And we're growing in 2012, for the first six months of 2012. I don't have that precise statistic. So certainly exports to China have exceeded the national average in terms of exports to other parts around the world.

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You know, the thing about China is that there's a love affair with American goods, products and services. And we – our great companies in America offer such high-quality, high-sought products that can help meet the needs of the Chinese people in terms of medical devices, environmental protection, cleanup of rivers and streams and food. I mean, China is American

farmers – farms’ number one or number two export destination. It goes back and forth between Canada and China. But we, you know, grow our soybeans, our corn and our wheat all for export. And it helps keep food inflation low or within check in China.

So those are the win-win, mutually beneficial opportunities that we seek, and we’re proud to advocate on behalf of these great American companies and technologies, whether wind turbines, to medical devices, to our soybeans, to our software. And I think it all – these products and services can also meet the objectives of the Chinese leaders in terms of modernizing their country, raising the standard of living for the people of China and, of course, they’re in great demand by the Chinese people themselves.

MR. PAAL: We have time for two more questions, one over on the – against the wall there.

Q: Thank you, Ambassador. And I’m Rich McArdle. I’m with UPS, and thank you for what you said earlier. We certainly agree. (Laughter.)

[00:44:14]

MR. PAAL: But would the FedEx person please stand up? (Laughter.)

Q: Express industry in the United States certainly agrees with what you said about the Gold Program. In your view, when you look at Chinese consumers – and this question kind of ties back to what Paul Stern said – when you look at Chinese consumers, what should U.S. businesses be thinking about? What are the changes that are taking place that the small- and medium-sized businesses in the U.S. should be paying attention to that can help drive the exports from the U.S. into China?

AMB. LOCKE: Chinese consumers are growing in affluence, wanting international brands and U.S. brands, very connected to the Internet and aware of the latest fashions and things like that. And, in fact, among the growing middle class of China, they want the real thing and not a fake item. That’s why so many come to the United States on huge shopping sprees. The average Chinese tourist visitor to the United States spends about \$6,500 per trip, much in excess of travelers from other parts of the world.

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And, you know, \$6,500 in spending here supports a lot of jobs, whether taxicab drivers, hotels, restaurants, department stores, and the list goes on and on. And then all those workers shop in malls and eat in restaurants and purchase cars, so it has a major impact on our economy.

And tourism into the United States is really considered an export. It’s foreign money, even though the transaction occurs here in America. But it’s really considered an export, and I think it has really been growing this year at a – at over a 10 percent rate over previous years, which is why our processing of Chinese visa – or visas for Chinese to come to the United States is so important.

Two years ago in Beijing people had to wait over a hundred days to get their interview appointment for a visa. Last year in Shanghai during the summertime it was over 70 days. And if a Chinese businessperson wants to come to the United States to buy something from an American

company and has to wait over a hundred days or 70 days to get their visa when they can almost immediately go to Canada, Germany or France to look at that similar type of product, where are they going to go? And if it's going to take a hundred days to get a visa to go on vacation in the United States when they can go to Canada or go to France, where are they going to go?

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That's why it's been such a priority for me to streamline the visa processing. And that's why I say – or I'm proud to say that we've gotten it down to two to – right now it's two days throughout virtually all of China. And during the height of the summertime, it was maybe seven and a half days. And we've done it despite a 40 percent increase in demand, with hardly any new staff.

And this means jobs for the people of America. And also with that interaction and travel, whether business or tourism, it's exposure to American way of life and American values and our democratic systems. And, you know, that plants a seed in the Chinese visitors that they can take back home. So it's more than just economics; it's about spreading American values and American culture and developing those people-to-people relationships that will be so necessary for our scientists, our businesspeople and our political leaders to really join together to solve some of the intractable international problems that we face. But Chinese consumers very much want what we make in America.

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Our challenge really is to expose American companies to the opportunities there. With the Gold Key program that UPS helps pay for and support with some of your best shippers who, you know, ship only to one country, you guys are trying to identify those companies that ship to only one country that you think have a potential to ship to many other countries, and you're helping pay for the Gold Key program for some of your best customers.

And then we have many other programs in the Commerce Department and the State Department to really showcase great American products to those – that growing consumer base in China. And as the Chinese try to rebalance their economy and encourage more domestic consumption, it means, you know, you're going to have much more – many more purchases by Chinese consumers. So we've got to get in front of them, and we've got to let them know what we as American companies and American workers offer.

MR. PAAL: One last question back here on the wall. (Inaudible.)

Q: As a follow-on question, I think one of our largest –

MR. PAAL: Sheldon, please identify yourself.

Q: Sorry. Sheldon Ray, Morgan Stanley. One of our largest export-nonexports to China is education. And you mentioned the number of Chinese students in America that's growing exponentially. I've heard figures of something like 10 billion (dollars) a year, maybe, contributed to our economy as a result. Do you have any idea the magnitude?

AMB. LOCKE: Well, I think it's – I suppose if you could take – what'd I say, about 160,000 Chinese students studying in the United States, and they're probably paying how much tuition per year as an out-of-state international student? Maybe 30,000 dollars), 40,000 dollars), \$50,000 a year just for tuition. And then you add housing, and then you add – then you add, you know, spending. That's a lot.

And it's also helping stabilize the finances of state-supported colleges and universities, which don't charge very much for in-state students. And with a cutback in state funding, they're having to rely more on out-of-state students and international students as a profit center to help provide the subsidy for their in-state students. So obviously the spending – economic impact is huge.

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But even more importantly, you have international students – and Chinese students, I think, now make up the largest bloc of foreign students in America. But all foreign students are engaged in postdoctoral research and helping with the – with some of the latest technological scientific discoveries whether in medicine or other fields of technology that then later on become commercialized here in the United States and are – create jobs and benefit our way of life and ultimately the entire world.

So I think the benefits are more than just immediate economic, but also in terms of our capacity as an innovative country and developing cutting edge products and engaged in cutting edge research and development.

Q: Thank you.

MR. PAAL: Ambassador, thank you very much for your thoughts and your message. (Applause.) On behalf of the Carnegie Endowment, I want to thank the U.S. China Business Council and John Frisbie, as well as you and your mission for coming here and talking to us.

On a personal note, as a former chief of mission myself, I really appreciate the way you go from the high strategic down to the nitty gritty, day to day that really makes it work for America. Thank you.

AMB. LOCKE: Thank you. Thank you, Paal.

MR. PAAL: Thank you all for being here today.

AMB. LOCKE: Thank you. (Applause.)

(END)

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