

PRESIDENT'S EXPORT COUNCIL

Room 628  
Dirksen Senate Office Building  
Washington, DC

Thursday,  
June 7, 2007

The meeting was convened, pursuant to notice,  
at 3:09 p.m., MR. J.W. MARRIOTT, JR., Chairman,  
presiding.

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Chairman, President's Export Council

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President  
Foundation for Inter American Development

LEGISLATIVE BRANCH

THE HONORABLE SHERROD BROWN  
A United States Senator  
from the State of Michigan

EXECUTIVE BRANCH

THE HONORABLE CARLOS M. GUTIERREZ  
Secretary of Commerce

THE HONORABLE HENRY M. PAULSON, JR.  
Secretary of Treasury

THE HONORABLE ELAINE CHAO  
Secretary of Labor

THE HONORABLE AL HUBBARD  
Assistant to the President for Economic  
Policy and Director of the  
National Economic Council

THE HONORABLE KARAN K. BHATIA  
Deputy U.S. Trade Representative

THE HONORABLE JAMES LAMBRIGHT  
Chairman and President  
Export-Import Bank of the United States

THE HONORABLE FRANKLIN L. LAVIN  
Under Secretary of Commerce for  
International Trade

THE HONORABLE STEVEN PRESTON  
Small Business Administration

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P R O C E E D I N G S

MEETING CALLED TO ORDER

By Mr. J.W. Marriott, Jr., Chairman

CHAIRMAN MARRIOTT: Good afternoon, everybody. Welcome to the summer meeting of the President's Export Council. I am Bill Marriott, and I would like to officially call the meeting to order. Today we continue the discussion on a number of issues we've talked about during the past year.

Mr. Secretary, we're pleased to have you here and want to mention the two issues we've discussed recently: trade promotion authority and immigration are something we're all talking about today, and we're looking forward to hearing from you on these issues.

Additionally, in January we discussed the pending letter on the U.S.-India trade, and today the Subcommittee on Trade Promotion and Negotiations will present such a letter. I'm pleased that Ambassador Karan Bhatia, Deputy U.S. Trade Representative, and Under Secretary Frank Lavin have joined us to discuss trade with India, as well as to add to the discussion on trade promotion authority.

Finally, the Council continues to be interested in China. Secretary Paulson will be joining us later to discuss the U.S.-China Strategic Economic

1 Dialogue which took place last month.

2 As always, we are joined by Secretary of  
3 Commerce Charles Gutierrez. It's a real honor to  
4 welcome you, Mr. Secretary, and I'll turn it over to  
5 you.

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REMARKS

1  
2 By Honorable Carlos M. Gutierrez, Secretary of Commerce

3 SECRETARY GUTIERREZ: Thank you. Thank you  
4 very much. Thank you, Mr. Chairman. Thank you for  
5 your leadership, and everyone else on the President's  
6 Export Council. I appreciate your advice, your  
7 guidance, the amount of time and the commitment that  
8 you have to this body and to this goal. So, thank you  
9 again for your service.

10 I would like to recognize my colleague,  
11 Secretary Chao, and welcome her. I also would like to  
12 welcome new members to the Council: Senators Sherrod  
13 Brown, who's with us today. Welcome, Senator.

14 SENATOR BROWN: Nice to be here. Thank you.

15 SECRETARY GUTIERREZ: Senators Byron Dorgan  
16 and Debbie Stabenow will not be here, but they have  
17 joined, and will join the Council meetings in the  
18 future.

19 And then we'll have other members who will be  
20 announced at some other point. I'm not sure that Robin  
21 Hayes or Jay Inslee will be here with us today, or  
22 David Wu, but we'll see if they join us. But, anyway,  
23 we have some new members. Again, welcome.

24 Before getting started with just some comments  
25 I have, I thought I'd start out with some results and



1 some numbers. This is an Export Council, so it's good  
2 to talk about exports and how they're doing.

3 We're going to announce April trade numbers, I  
4 believe, on Friday, so we'll have some fresh numbers to  
5 talk about. What I have here is just the first quarter  
6 of 2007 versus the first quarter of 2006: exports up  
7 9.8 percent. It's a strong number, especially on top  
8 of what was a over 12 percent growth in 2006. So we're  
9 starting the year off with strong growth over the same  
10 period of last year.

11 Interestingly, imports were up the first  
12 quarter of this year versus first quarter of last year  
13 4.2 percent, so our export growth rate doubled the rate  
14 of growth of our imports, which is a great trend.

15 The focus is on exports. What we said, is our  
16 strategy is about increasing exports, continuing to  
17 open up markets, and focus on that line as opposed to  
18 strategically focusing on restricting imports. That's  
19 been sort of the way we've thought about this. So  
20 exports: 9.8, 4.2, and that's March. We'll have new  
21 numbers on Friday, and I look forward to discussing  
22 those.

23 I've got three topics that I wanted to talk  
24 about. I know Karan Bhatia is going to talk about TPA  
25 and some of the pending free trade agreements that we

1 have, so I'll let Karan cover that.

2 I thought I'd just bring you up to date on  
3 immigration, which is a topic that is actually being  
4 debated right now as we speak on the floor. I think it  
5 impacts all of us: it impacts exporters, it impacts the  
6 economy. I won't get into the details of the bill, and  
7 I know you'll thank me for that. (Laughter)

8 But just to say that there are three goals  
9 that we will achieve with this legislation, three very  
10 important goals, and three goals that we have to get at  
11 now. We can't assume that we can get at this problem  
12 in the future because it's getting worse every day, and  
13 we have a very dysfunctional system and a very broken  
14 system.

15 The first goal is national security. We will  
16 be more secure with comprehensive immigration reform.  
17 We will know who is crossing our border, we will know  
18 who is being hired. You will be able to know if you're  
19 hiring someone who's here legally. We'll be able to  
20 know who's in the country, who's working in the  
21 country, who's here, who shouldn't be here.

22 So from a national security standpoint, a very  
23 important step forward. From an economic standpoint,  
24 we cannot continue to grow without immigration, and  
25 that is one of the realizations that, the quicker we

1 come to as a country, the better off we'll be.

2 We've talked before about how just about every  
3 developed economy in the world has a demographic  
4 challenge, and will have demographic challenges in the  
5 future. How they address it will make a big difference  
6 as to how they perform.

7 We're talking about Germany, France, Spain,  
8 Italy, Japan, Australia, Canada, the U.K., Russia.  
9 Unless they embrace immigration, they're going to have  
10 a tough time growing their workforce, and if they can't  
11 grow their workforce they can't grow their economy.

12 So if we do this right, this can be a  
13 tremendous competitive advantage for our country. We  
14 should be able to do it right, given that we've been  
15 doing it for 230 years. You think about countries like  
16 France, Germany and Japan, and they haven't had as much  
17 experience as we have. So, it should be a tremendous  
18 advantage for us, and that's one of the many reasons  
19 why I'm so committed and so passionate about  
20 immigration reform.

21 The third goal, of course, is social  
22 stability. We have a system that doesn't work, is very  
23 dysfunctional. We've got people crossing the border in  
24 the dark of night in the desert, risking their lives.  
25 We have 12 million people living in the shadows. We

1 have children being born in the U.S. to illegal  
2 parents, which makes the child a U.S. citizen.

3 As we continue to enforce the law, there will  
4 be raids on companies. We've had examples where by the  
5 kids come home from school and their parents happen to  
6 have been deported. That's not the kind of society we  
7 want, it's not what we want to be. So, there's a lot  
8 at stake here, and I appreciate your support.

9 I wanted to talk about the countervailing  
10 duty. You probably heard that for the first time ever  
11 we applied an anti-subsidy duty on China, and it's the  
12 first time we've ever done it to a non-market economy.

13 The theory has been that a non-market  
14 economy--think about the Soviet Union and countries in  
15 the Soviet bloc--that would receive subsidies, but they  
16 really wouldn't change their behavior because of the  
17 subsidies. They wouldn't change their price because  
18 they're not competing in the sense that we're  
19 competing.

20 We think that China has graduated to the point  
21 whereby, when they do get a subsidy they do change  
22 their behavior, so in the event of getting a subsidy  
23 from the government, we think that that does impact  
24 their pricing strategy. So because of that, we decided  
25 to go ahead and apply that. You can imagine, it's been

1 a bit of a controversial decision.

2 We believe it's the right way to go, and we  
3 will continue to do it to the extent that we've got the  
4 information, that we've got the petitions, and that we  
5 believe that China is applying unfair subsidies.

6 In this case, it was for coated sheet paper.  
7 The subsidies that we've calculated so far--and these  
8 are preliminary--range from about 10.9 to 20.3. Again,  
9 the rationale here is that we believe that China, as a  
10 non-market economy--even though they are a non-market  
11 economy--that they do change their behavior when they  
12 receive government subsidies. That's the whole  
13 rationale.

14 We're going to continuously look at this and  
15 we're going to continue to enforce U.S. trade laws with  
16 respect to China and any other country. We are also  
17 conducting CVD investigations covering imports of paper  
18 from Indonesia and South Korea. This is all going  
19 through a process. We will also apply an antidumping  
20 duty to China for this coated paper.

21 The challenge here--and I'm sure that they'll  
22 be watching this very closely--is that we not double  
23 count dumping and subsidies. We're working through the  
24 numbers to ensure that we don't do that. But again, we  
25 believe that we are right to proceed in this fashion.

1           The third point is, on Monday we start our  
2 Americas Competitiveness Forum in Atlanta, Georgia.  
3 This is the first time that this is being done. There  
4 was actually an agreement that was reached between  
5 President Bush and leaders of the hemisphere at the  
6 last meeting of the Americas in Argentina.

7           We are expecting about 500 to 600 participants  
8 coming from 30 countries in the western hemisphere, so  
9 this is a widely attended event. We're going to have  
10 public sector officials, private sector officials.  
11 We've got the gamut, everyone from Brazil, to  
12 Nicaragua, to Colombia, to Mexico, to Ecuador. It's  
13 going to be a very broad group.

14           The whole idea is that many of these countries  
15 are competing with Asia. They're not really competing  
16 with the U.S., and in many ways we complement each  
17 other and we have supply chains that can be  
18 complementary.

19           So we're going to be talking about best  
20 practices, how companies in the region have been  
21 successful, how they have done it, and talk about ways  
22 to be able to improve the competitiveness of the  
23 hemisphere. So it's going to be a great meeting. I'm  
24 sure you've all received invitations, but we'd love to  
25 have you there.

1           It's going to be a great audience and a great  
2 discussion, and hopefully we'll walk out of there with  
3 a sense that, truly, we need to, as a region, get more  
4 competitive and work together to achieve that  
5 competitiveness. That will be good for every single  
6 country in the hemisphere, obviously including the U.S.

7           So, again, thank you for being here. Thank  
8 you for your leadership. Thank you for your continued  
9 service.

10           I'm going to pass it on to Karan Bhatia, Mr.  
11 Chairman.

12           CHAIRMAN MARRIOTT: Secretary Chao?

13           SECRETARY CHAO: I think it makes more sense  
14 for Ambassador Bhatia to speak first, and I will speak  
15 after him.

16           CHAIRMAN MARRIOTT: Let me introduce him.

17           Almost every meeting we have, we've talked  
18 about China. But now we are talking about India as  
19 well. Two of the key players in this engagement are  
20 the U.S. Trade Representative and the Department of  
21 Commerce, and they're both here to report on their  
22 efforts with India.

23           I'd like to introduce Ambassador Karan Bhatia,  
24 the Deputy U.S. Trade Representative to discuss trade  
25 promotion authority and the pending free trade

1 agreements, as well as the Trade Representative's  
2 efforts concerning India.

3 Briefly, as USTR, Ambassador Bhatia's  
4 portfolio includes overseeing U.S. trade relations with  
5 South and East Asia and Africa. His responsibilities  
6 also include supervising USTR's functional offices,  
7 handling environmental, labor, and pharmaceutical  
8 issues.

9 Karan, we're delighted to have you here.

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1                   REMARKS ON TRADE PROMOTION AUTHORITY

2                   AND FREE TRADE AGREEMENTS

3                   By Hon. Karan K. Bhatia,

4                   Deputy U.S. Trade Representative

5                   AMBASSADOR BHATIA: Great. Thank you very  
6 much, Bill.

7                   Mr. Secretary, Madam Secretary, thank you for  
8 all of the many contributions that you make to the  
9 trade agenda, as well as so many other things.

10                  Let me thank the members of the PEC for being  
11 here, and express Ambassador Schwab's regrets at not  
12 being able to join you in person. I know she was at  
13 the last PEC meeting and would very much like to be  
14 here.

15                  She is actually, at this moment, in Russia  
16 accompanying the President at the G-8 meeting and  
17 endeavoring mightily to push for a successful Doha  
18 Round outcome, and I know sends her best regards and  
19 her welcome to the new members of the PEC. Senator  
20 Brown, thank you for joining as well.

21                  Let me just try and cover a fair amount of  
22 material in a relatively short period of time, touch on  
23 a few things: first of all, again, the core elements of  
24 the trade agenda, as we see it going forward; a very  
25 brief synopsis of what we think the recent results of

1 the trade agenda have been; and then a few moments  
2 about the importance of TPA and the FTAs; and then  
3 finally, just briefly, touch on India, knowing that  
4 Secretary Lavin will also touch on the India issues.

5 I think Ambassador Schwab, when she was last  
6 here, emphasized three key elements of the trade agenda  
7 going forward. First of all, multilateral  
8 liberalization, the strengthening of the WTO system,  
9 and in particular, core to that effort, a successful  
10 Doha Round. We remain very much engaged in that  
11 effort.

12 Ambassador Schwab has been working very  
13 closely with many trading partners, but in particular  
14 with the so-called G-4 countries, the EU, India and  
15 Brazil, to seek convergence around a high-level,  
16 ambitious, market-opening, multilateral trade  
17 liberalizing round.

18 Suffice it to say that there has been a  
19 tremendous amount of effort, I think, not only on the  
20 part of the United States, but on the part of many of  
21 our trading partners to obtain a breakthrough that  
22 would make a successful Doha, come this year,  
23 realizable. I don't think we are there yet.

24 Ambassador Schwab has, in meetings scheduled  
25 for this week and upcoming later this month, deployed

1 the full resources of the U.S. Trade Representative's  
2 office, as well as receiving great support for many  
3 other parts of the U.S. Government and other  
4 departments in seeking to create a convergence around  
5 core sectors.

6 In particular, there's a very strong focus,  
7 continues to be a very strong focus, on agricultural  
8 trade liberalization, recognizing that it is the door  
9 through which we must pass to obtain liberalization in  
10 a lot of the other key sectors. But Doha remains a  
11 very strong priority for both the U.S. Trade  
12 Representative's office and for the administration at  
13 large in the trade area.

14 Secondly, let me mention the free trade  
15 agreements and other bilateral and regional trade  
16 liberalizing efforts. The record here that I think the  
17 administration has to offer over the past six years is,  
18 we're proud to say, a strong one. We have implemented  
19 trade agreements with 11 new partners since 2001, with  
20 six more FTA partners pending either implementation or  
21 congressional approval.

22 The results of these agreements have been  
23 outstanding. U.S. exports to Chile are up 150 percent;  
24 to Singapore, up 49 percent; to Australia, 25 percent.  
25 That is, of course, just to name a few.

1 Overall, U.S. exports to FTA partners are  
2 growing twice as fast, on average, as are our exports  
3 to the rest of the world. And while FTA countries make  
4 up only 7 percent of non-U.S. global GDP, they purchase  
5 approximately 42 percent of our exports. With our new  
6 FTA partners since 2001, it bears noting that we ran a  
7 \$13 billion trade surplus in 2006.

8 The point being, our FTAs, I think, have been  
9 demonstrated to sort of not only the lower tariff, but  
10 also non-tariff barriers in ways that meaningfully  
11 level the playing field and allow our companies, our  
12 workers to access fast-growing markets around the  
13 world. It has been a success and it's a success that  
14 we need to continue. I'll touch, in a moment, on a  
15 necessary prerequisite for that, and that would be an  
16 extension of Trade Promotion Authority.

17 But let me touch, briefly, also on the third  
18 prong of our trade agenda, and that would be  
19 enforcement. Secretary Gutierrez has touched on the  
20 use of domestic trade remedies. Let me talk about  
21 something more in USTR's bailiwick, and that's the use  
22 of WTO or international dispute settlement to address  
23 failures on the part of our trading partners to live up  
24 to their international commitments.

25 There are also bilateral enforcement

1 mechanisms that are used as well. But this remains a  
2 very, very high priority of the administration to  
3 ensure that our trading partners live up to their  
4 commitments.

5 To that end, let me just simply note five  
6 cases that we've filed in the last eight months or so:  
7 four against China having to do with, first of all, tax  
8 and tariff barriers applicable to auto parts which we  
9 feel unfairly discriminate against U.S. exports;  
10 secondly, subsidies, illegal, WTO-prohibited subsidies  
11 that are employed that provide benefit or incentives to  
12 Chinese companies or to foreign companies in China to  
13 export as opposed to opening their market on a more  
14 level basis.

15 Third, intellectual property rights. We have,  
16 notwithstanding assiduous efforts by many parts of the  
17 U.S. Government to work with China to address IPR  
18 enforcement, we continue to be troubled by developments  
19 there, and ultimately in the last several months filed  
20 a WTO complaint on that front.

21 Lastly, market access issues with respect to a  
22 number of copyright-intensive industries, basically our  
23 concern that China has not fully honored its  
24 obligations to open its market in that area.

25 Just last week, we filed a case against India.

1 We sought the formation of a WTO panel against India  
2 with respect to its practices on taxes applicable to  
3 alcohol and wines and spirits.

4 So, we remain very focused on using the full  
5 array of enforcement mechanisms to make sure that  
6 obligations that our foreign trading partners have to  
7 us and to our businesses are, in fact, honored and  
8 enforced.

9 Finally, let me just turn to this issue of  
10 trade promotion authority and the pending agenda before  
11 Congress. As you all may know, Trade Promotion  
12 Authority expires at the end of June of this year.  
13 This is formerly known as fast track authority, the key  
14 authority that permits the U.S. Trade Representative's  
15 office, supported by many other parts of the U.S.  
16 Government and working closely with our Congress, to  
17 negotiate effectively with our trading partners.

18 We believe an extension of TPA is going to be  
19 critically important to a successful conclusion of the  
20 multilateral round. But beyond that, it is critically  
21 important to allow us to negotiate effectively with our  
22 trading partners on a bilateral and regional basis as  
23 well.

24 When you only look at what's going on in Asia  
25 today, as an example, where one sees a plethora of

1 bilateral trade agreements springing up between China  
2 and regional partners, between Japan and regional  
3 partners, that effectively places our companies at a  
4 disadvantage because they do afford trade preferences  
5 to companies within those trading relationships.

6 And for us not to be able to go out and  
7 negotiate on behalf of America's companies, on behalf  
8 of America's workers, not to be able to negotiate  
9 agreements that allow us to lower their tariffs, I  
10 think, would be to all of our detriment, and certainly  
11 would place us in a very difficult position going  
12 forward. So, we would urge that we continue to work  
13 with the PEC, and obviously with the Congress, to see  
14 an extension of TPA going forward.

15 The four free trade agreements that I  
16 referenced before with Panama, Peru, Colombia and South  
17 Korea will be before Congress. Two of those agreements  
18 have already been signed; Panama and Korea will need to  
19 be signed by the end of this month.

20 We feel very encouraged by recent developments  
21 in terms of securing a new bipartisan consensus for  
22 trade with agreement on a template for labor and the  
23 environment that we are working with our trading  
24 partners on, and we'll work with them on in the period  
25 leading up to submission to Congress.

1           So we considered passage of these FTAs to be  
2 critically important, not only from an economic  
3 perspective, but also in terms of the strategic and  
4 geopolitical importance that these relationships  
5 represent. Again, that's an area we look forward to  
6 working with the PEC on.

7           Finally, India has been an important area of  
8 focus for the Trade Representative's office, working in  
9 close partnership with other agencies. I see Deputy  
10 Under Secretary Terpstra from USDA who's been a key  
11 player in this, and obviously the Commerce Department,  
12 and we work very, very closely on this.

13           I'll let Secretary Lavin talk at great length,  
14 obviously, about this, but suffice it to say that India  
15 is one of our most exciting trading partners today. We  
16 see fantastic growth in the market.

17           Two years ago, or a year and a half ago, then-  
18 Trade Representative Portman talked about the goal of  
19 doubling bilateral trade within three years with India.  
20 I think we're on path to accomplish that.

21           In part, that's due to the tremendous  
22 opportunities that have been bred by India opening  
23 unilaterally, and in part it's been due to a lot of  
24 hard work on the part of government agencies trying to  
25 break down barriers. We're looking to continue to do



1 that, and have been doing it through a series of  
2 government-to-government dialogues. We appreciate the  
3 PEC's efforts in terms of the letter that you have  
4 crafted here, which we are strongly supportive of.

5 With that, thank you very much.

6 CHAIRMAN MARRIOTT: Thank you, Karan.

7 I'd like to take the opportunity now to hear  
8 from Secretary Chao. We're thrilled to have you here.  
9 Thank you.

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REMARKS

By Hon. Elaine L. Chao, Secretary of Labor

SECRETARY CHAO: First of all, welcome. Also, I want to thank Senator Sherrod Brown for being here as well. I know it's your first meeting, Senator. Welcome.

I wanted to bring to your attention a government program that you'll be hearing a lot of in the coming months, because it will be coming up for reauthorization in September of 2007.

It's a program that's called Trade Adjustment Assistance, or TAA. This program is run by the Department of Labor and it basically helps individuals who have become unemployed as a result of competition from foreign trade, either from, 1) a shift in production to a country with which the U.S. has a free trade agreement with, or 2) an increase in imports of like or similar articles.

The program costs approximately \$1 billion a year. This is on top of the \$9.5 billion that the Department of Labor alone spends annually on workforce training. The Department has proposed a number of changes to this Trade Adjustment Assistance program to increase its relevance and effectiveness. And again, you might be hearing more about it, so I just wanted to

1 bring it to your attention.

2 As the program is currently designed, training  
3 options are limited and may not be what workers want.  
4 It's kind of like an HMO option. Access to these  
5 training options is rather bureaucratic, and as  
6 currently designed, TAA is an all-or-nothing program.  
7 It requires a worker to give up all benefits if he or  
8 she returns to work, even if it's at a lower paying  
9 job, or even if it's a job that doesn't provide health  
10 care. The program really creates a disincentive for a  
11 worker to accept new employment.

12 So the Department will be working along with  
13 the rest of the administration and the Congress to  
14 introduce some reform efforts, and we hope that these  
15 reform efforts will incorporate transitional benefits,  
16 it will create better access to education and training  
17 through portable accounts, provide access to training  
18 prior to layoff. As of now, we spend a great deal of  
19 money on training, but a great deal of these financial  
20 resources are not available to workers until they're  
21 laid off.

22 Nowadays, we hear from large companies two or  
23 three years in advance of their layoff plans, so we  
24 want to be able to use these funds to help transition  
25 workers before they are laid off to help them access

1 training to get new jobs in high-growth industries

2           Lastly, the administration's proposal will  
3 also attempt to reduce program duplication. So again,  
4 as we talk about all of these issues, you might be  
5 hearing more about TAA reform also, and I just wanted  
6 to make you aware of it.

7           Thank you, Mr. Chairman.

8           CHAIRMAN MARRIOTT: Thank you very much. We  
9 appreciate that. Okay.

10           I'd like, now, to call on our executive  
11 director, Under Secretary of Commerce for International  
12 Trade, Frank Lavin, to discuss Department of Commerce  
13 efforts about India.

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1                                   REMARKS ON U.S.-INDIA TRADE

2                                   By Hon. Franklin L. Lavin,

3                                   Under Secretary of Commerce for International Trade

4                                   SECRETARY LAVIN: Thank you, Mr. Chairman.

5                                   Mr. Secretary, Madam Secretary, Senator, Ambassador  
6                                   Bhatia, members of the PEC, I am glad to join with you  
7                                   today to review India, which has been a central theme  
8                                   of our discussion today and I commend Prakash and his  
9                                   subcommittee for their leadership in structuring a  
10                                   letter that is going to be presented today.

11                                   But I want to try to put in context from our  
12                                   Department perspective some of the issues as we see  
13                                   them, and some of the projects we have under way to try  
14                                   to grapple with the opportunities and the challenges in  
15                                   India.

16                                   As a first principle, I think it is worth  
17                                   noting, although our mission is on the commercial side  
18                                   of the relationship, that we are at a moment in which  
19                                   the overall political relationship is moving ahead very  
20                                   nicely. There's warmth on both sides, and I think we  
21                                   saw a culmination last year with President Bush's visit  
22                                   to Delhi and the initiative.

23                                   On the economics side, you've got two sheets  
24                                   of paper coming around. One talks about the bilateral  
25                                   relationship and one puts it in a broader context. I

1 think that gives you a sense of sort of the good news,  
2 if you will, and the challenges.

3           If you look at the sheet of paper that has the  
4 pure bilateral activity--I'll hold it up just to make  
5 sure you get a look at that--you can see the numbers  
6 are pretty impressive: 26 percent growth last year, 36  
7 percent growth this year in terms of exports. So, a  
8 very nice rise in activity. We give you a sectoral  
9 breakout below that. So, that's a nice snapshot of the  
10 good news.

11           When you look at the other sheet of paper, you  
12 can see there are still substantial challenges ahead of  
13 us, that in terms of opportunity and how India stacks  
14 up against other major trading partners, there is  
15 enormous room for growth.

16           In our view, there are two central reasons for  
17 the fact that we're in the position we are right now:  
18 one is policy reasons, the other is promotional. By  
19 policy, I mean on the Indian side we see a number of  
20 barriers to commercial activity: caps on investment,  
21 financial services, intellectual property rights  
22 reasons, very high tariffs, regulatory barriers, a  
23 range of trade issues on the Indian side. Although, we  
24 have to say that these issues have been slowly  
25 addressed over the last 15 years, so the climate is

1 improving but barriers remain.

2 On the promotional side, we think there are  
3 also a lot of challenges. We try to emphasize what the  
4 United States can do in that regard. On a policy  
5 basis, our main policy tool for engagement is the  
6 commercial dialogue, a Commerce Department-led  
7 mechanism which allows us to connect with the Indian  
8 government on these particular set of issues.

9 So we have sectoral discussions, we bring in  
10 business leadership, we've engaged the Indian  
11 government, I think, pretty systematically. USTR has  
12 initiatives as well, and I commend them for the Trade  
13 Policy Forum, which I also think has been very  
14 effective.

15 We did see, just to give two examples, one  
16 sector and one more macro, in the last six months a  
17 relaxation on trade barriers, for example, for large-  
18 scale motorcycles, so that Harley-Davidsons can now be  
19 sold in India.

20 More broadly, we've seen a relaxation in  
21 tariffs, from 12.5 to 10 percent, which is one of the  
22 reasons why we're seeing this very nice double-digit  
23 growth in exports.

24 So there has been a shift in the policy  
25 environment. We think our policy engagement is

1 working. We also have a number of promotional  
2 activities under way as well.

3 I'll mention just four sectoral initiatives.  
4 We have a major civilian nuclear power initiative under  
5 way where we're bringing our engineering, scientific,  
6 and commercial leadership in that sector to India to  
7 meet with our counterparts and the regulatory  
8 authorities in India pending full approval of the  
9 political process between our two countries.

10 We also have a military aircraft initiative  
11 under way. For the first time, U.S. manufacturers are  
12 competing for the large-scale MRCA (Multi-Roll Combat  
13 Aircraft) competition in India, which will be over a  
14 \$10 billion package.

15 Third, we have an alternative energy  
16 initiative under way. In India, alternative energy  
17 isn't simply an environmental initiative or a financial  
18 initiative, it's also recognizing the fact that there  
19 are millions of Indians who are not on any power grid,  
20 poor people in rural areas. So what we might consider  
21 alternative energy is simply energy access for  
22 millions.

23 Our fourth sectoral initiative in India is the  
24 educational sector, where we are running a television  
25 show in India to encourage Indian students to think



1 about attending U.S. colleges and universities. We're  
2 profiling Indian students here. As you might know,  
3 India represents the single largest source of foreign  
4 students in the United States. We believe this is an  
5 important export, as well as an important  
6 cultural/public diplomacy connectivity.

7 So we have four sectoral initiatives under way  
8 and we've had large-scale trade missions in India as  
9 well. Just as a reference point, when we announced a  
10 large-scale trade mission last year to India it was a  
11 pleasant surprise when that mission turned out to be  
12 the largest trade mission in the history of the U.S.  
13 Government, with something like 260 participants.

14 Well, we are trying to repeat a large-scale  
15 mission again this year. I think that reflects not  
16 just good work on the Indian side and our side, but it  
17 really reflects there's a hunger in the American  
18 business community for that connectivity in India.

19 So we have a number of promotional activities  
20 under way. We have a policy dialogue under way which  
21 we think is helpful, and we also, as Al Hubbard  
22 mentioned earlier, have the CEO Forum, which is a very  
23 useful mechanism that allows business leadership on  
24 both sides to explore some of these impediments to  
25 economic growth as well. I think if we keep on this

1 track, we are likely to see these numbers continue.

2 The question I put forward to our Indian  
3 colleagues -- in conclusion, I'll just put this on the  
4 table. We see a lot of good news in India. We see the  
5 whole society, the whole economy moving the right way.

6 But the question is, is this simply the Indian  
7 moment or does India have the political capacity to  
8 sustain these reforms over an extended period of time?  
9 They have some of the same political constraints and  
10 considerations that we've got. They've got to face the  
11 voters. They have a substantial agricultural base  
12 which isn't always supportive of some of these reforms.

13 So it requires leadership. It requires  
14 leadership in Washington to keep reform on track, it  
15 requires leadership in Delhi to keep it on track and to  
16 make sure that this good news we're seeing in India is  
17 able to sustain for a number of years and pull millions  
18 of Indians out of poverty and into middle class status.

19 That's just a general overview. I don't know  
20 if we have time later to go to questions, Mr. Chairman.

21 CHAIRMAN MARRIOTT: Thank you, Frank. We want  
22 to thank you for your service. We understand you're  
23 going to be retiring in July and going back to the  
24 private sector. We appreciate the good work you've  
25 done, particularly here on the PEC, and your other

1 great responsibilities. So, let's have a round of  
2 applaud for Frank.

3 (Applause)

4 SECRETARY LAVIN: Thank you. Thank you, Mr.  
5 Chairman. It is bittersweet to move on. We all move  
6 on in life. It doesn't mean we move on from our  
7 friendships and our relationships. I will tell you,  
8 one of the joys of my job is the chance to work with  
9 American businesses, small businesses and quite  
10 established firms.

11 But it is really exhilarating to talk with  
12 people who are inventing, who are creating, who are  
13 doing, who are trying to tackle problems, who are  
14 creating jobs and opportunity. It is an honor, I think,  
15 for those of us at the Department of Commerce to be  
16 able to get out there and support commerce. So, thank  
17 you for the opportunity to serve over these last few  
18 years.

19 CHAIRMAN MARRIOTT: Thank you very much.  
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1                   DISCUSSION ON TRADE PROMOTION AUTHORITY

2                   CHAIRMAN MARRIOTT: We talked a little bit  
3 earlier about trade promotion authority, which is  
4 expiring at the end of June. The Council has sent a  
5 letter to the President requesting that the White House  
6 and Congress work together to extend TPA.

7                   I'd like to open up the floor for a minute or  
8 two for some comments on TPA by any of you who would  
9 like to make some.

10                  Tim?

11                  MR. SMUCKER: Thank you, Mr. Chairman. Also,  
12 I'd just like to say it's great to have a fellow  
13 Ohioan, Senator Brown, here.

14                  As a producer of food products, in our export  
15 business we export to about 40 countries around the  
16 world. I'd just like to enter my support for the trade  
17 promotion authority and how important that is.

18                  Also, in addition, I represent the Grocery  
19 Manufacturers of America, as well as the Food Products  
20 Association, where I serve on their boards. For both  
21 of those, I would like to support the need for trade  
22 promotion authority.

23                  U.S. food and agriculture consumer product  
24 sectors are dependent upon export for continued growth  
25 and profitability. Trade barriers, both tariff and

1 non-tariff, lock our products out of many foreign  
2 markets. Free trade agreements, aided by TPA, will  
3 increase our ability to export and, importantly,  
4 benefit U.S. consumers through lower prices and greater  
5 choices.

6 Trade promotion authority will greatly support  
7 the President in his efforts to open markets and  
8 promote U.S. agricultural, food, and consumer products  
9 overseas, so I would urge Congress to grant the  
10 President's request and provide him with this critical  
11 negotiating tool.

12 Additionally, as has been stated already, the  
13 Doha negotiations present the best opportunity for U.S.  
14 business workers and consumers, and it's critical that  
15 the TPA be reauthorized to achieve the greatest benefit  
16 from these negotiations. U.S. leadership is critical  
17 to the success of the Doha Round, and the  
18 reauthorization will send, we think, the clearest  
19 message to the world.

20 I'll just add one little vignette. I was in  
21 Seoul, Korea just a couple of weeks ago. I checked  
22 into the hotel, and as I was checking in the lady saw  
23 my name. She said, "Gee, I want to tell you, Mr.  
24 Smucker, I grew up with Smuckers jams." It just shows  
25 that, around the world, clearly, it does make a

1 difference for free trade.

2 Thank you.

3 CHAIRMAN MARRIOTT: Thank you very much.

4 Are there other comments or questions about  
5 TPA?

6 SENATOR BROWN: Mr. Chairman?

7 CHAIRMAN MARRIOTT: Senator? Yes, sir.

8 SENATOR BROWN: Thank you. Thank you very  
9 much. This is my first meeting, and I thank you very  
10 much for including me. James Dicke from Ohio, nice to  
11 see you. And my old friend, Tim Smucker. I've been  
12 through his plant a couple of times. It's the best  
13 plant tour in the entire State. It smells the best.  
14 (Laughter) And after the event, they let you eat  
15 strawberry preserves. It's pretty cool.

16 MR. DICKE: Come to New Bremen.

17 SENATOR BROWN: Not that going through Crown  
18 Equipment isn't a thrill either. (Laughter)

19 MR. DICKE: It doesn't smell as good.

20 (Laughter)

21 SENATOR BROWN: Just a few comments about TPA,  
22 and some of your comments, Ambassador Bhatia, and  
23 yours, Mr. Secretary, on trade generally. I think that  
24 I understand the perspective that all of you have. I  
25 think that it's a different day on trade in a lot of

1 ways in this country. If you look at the elections  
2 last fall, voters said something, I think, very  
3 strongly about wanting a different direction in trade.  
4 We all support increasing exports.

5 In my first term in the Congress 14 years ago,  
6 I helped to get the U.S. Export Assistance Center in  
7 Cleveland through the Department of Commerce and SBA  
8 and all, and that has mattered for exports from our  
9 State.

10 But I think when you look at every trade  
11 agreement we pass and you look at what's happened with  
12 the trade deficit -- in 1992 when I first was elected  
13 to the House we had a multilateral trade deficit of \$38  
14 billion. Last year, depending on whether you count  
15 services or not, it was either \$700 some or \$800 some  
16 billion.

17 Our bilateral trade deficit with China went  
18 from low double digits to close to 20 times that over  
19 that same decade and a half. I think, while it's a  
20 good sign, the administration and the Democratic  
21 leadership in the House have come together, at least in  
22 a macro way, on environment and labor standards.

23 I think there are a lot of people that are  
24 still skeptical because we haven't seen the details,  
25 and we've also heard from Ambassador Schwab that we may

1 not have to open up Peru and Panama, we'll just do a  
2 side agreement.

3 The last time we did "just a side agreement"  
4 was NAFTA on labor and the environment, and I think we  
5 all agree, whether you like NAFTA or not, that the side  
6 agreements didn't really amount to very much.

7 The second note of skepticism, I think, that  
8 many members of both parties in the House and Senate  
9 have -- and understand, these trade agreements get  
10 harder and harder to pass every year because of  
11 opposition from both parties, and it's not just labor,  
12 it's religious groups, it's environmentalists, it's a  
13 lot of middle class families that have great anxiety  
14 about what happens with trade.

15 But we've seen, there was some sense of  
16 betrayal after the Jordan agreement, which I voted for,  
17 and many of us did, that had reasonably strong labor  
18 and environmental standards, and then there was a  
19 letter from Ambassador Schwab's predecessor two people  
20 back that we weren't going to enforce those labor  
21 standards in Jordan, and Jordan has become, by any  
22 measurement, a country of sweat shops as an export  
23 platform. That's troubling to a lot of us in Congress,  
24 and I think it's troubling in both parties.

25 So I think we need real assurance, whether



1 it's TPA, whether it's Panama, Peru, and later Colombia  
2 and South Korea, that labor standards and environmental  
3 standards are in the core agreement.

4 Those are our American values, good, strong  
5 environmental policy. We have differences at the  
6 margin, but most people in this country, there's a real  
7 consensus about general environmental policy and  
8 there's a consensus about labor standards, that unions  
9 be allowed to form, that people are paid a decent wage,  
10 that workers' standards, safety standards are generally  
11 at least moderate, if not stronger. Mr. Secretary,  
12 nice to see you.

13 And so I think that we need a pretty skeptical  
14 Congress, and frankly a way more skeptical public than  
15 the Congress, because the Congress got here way later  
16 than the public, on trade agreements and really want  
17 some assurance that labor standards are in the core  
18 agreement and assurance that the Bush administration or  
19 succeeding administrations will really enforce these  
20 standards. That's really my only comment, whether it's  
21 TPA, whether it's Peru and Panama, whether it's down  
22 the road on Colombia and South Korea.

23 Thank you, Mr. Chairman.

24 SECRETARY GUTIERREZ: Thank you. I want to  
25 just build on that, if I may. I think we all agree

1 that labor standards and the environment are American  
2 values. I would just add to that that commerce,  
3 business, opening markets, and engaging is also a great  
4 American value.

5 I think our challenge is going to be dealing  
6 with the trade deficit, while keeping in mind that  
7 ultimately what really counts is unemployment, GDP  
8 growth, and inflation, and that we could make a serious  
9 dent on the trade deficit very quickly and do a lot of  
10 damage to our economy. I don't think anybody wants  
11 that.

12 So that ultimately will be the challenge. I  
13 would just caution, in a very objective way and all in  
14 the spirit of teamwork, that we cannot just lower the  
15 trade deficit in isolation and not expect that not to  
16 filter over and have an impact on employment, GDP, or  
17 inflation. That will be ultimately our challenge--not  
18 any party's challenge, but our challenge as Americans--  
19 to pull it off.

20 SENATOR BROWN: And I agree with that. I  
21 think all of us on both sides of the trade debate want  
22 trade, and want plenty of it. I fully concur about GDP  
23 growth. But as Secretary Paulson said, soon after  
24 assuming his position with the administration, said to  
25 our Banking Committee that GDP growth is not the only

1 number that counts, it is also what is happening to  
2 middle class families, what is happening to wages  
3 throughout the economy, not just profits, not just GDP  
4 growth. That's a pretty infractible problem that we're  
5 all wrestling with, to lift standards up for so many  
6 more in this country than we've seen in the last few  
7 months and years.

8 Thank you.

9 SECRETARY GUTIERREZ: Yes. But at some point  
10 we should go through numbers, because I think the  
11 numbers tell a story.

12 MS. MANETTA: Chairman Marriott?

13 CHAIRMAN MARRIOTT: Yes?

14 MS. MANETTA: This is Betty Manetta. I just  
15 want to also echo a little bit what Mr. Smucker said,  
16 but from an Hispanic, women, minority, and SMOBs, it's  
17 important, the TPA, because we have to level this  
18 playing field. The subsidization is a major problem,  
19 not only controlling the means of production overseas,  
20 but now you control the whole supply chain, even into  
21 our country. So it becomes problematic for us to  
22 compete not only globally, but also locally.

23 So, you know, I think that while we continue  
24 to talk about how it impacts major corporations, it  
25 also impacts small businesses. I think that we need to

1 be cognizant of that if we're going to grow the economy  
2 the way we want to. So, thank you.

3 CHAIRMAN MARRIOTT: Thank you, Betty.

4 Any other comments on TPA? Yes, Cecilia?

5 MS. LEVINE: As a benefactor of a great  
6 treaty, NAFTA, at this time it provides about a  
7 1,250,000 jobs in Mexico. That really helps with the  
8 immigration issues we have right now from Mexico. For  
9 every job in the maquiladora industry or the  
10 production-sharing industry, it is known that there are  
11 three indirect jobs provided as a result of that  
12 particular job.

13 It also includes three to five jobs in the  
14 United States as a result of those jobs in Mexico. So,  
15 there are trade agreements that really impact our  
16 Nation and neighboring nations, and immigration issues.  
17 So, I am all for fair trade agreements that also  
18 protect us from labor issues or any other unfair trade  
19 issues.

20 CHAIRMAN MARRIOTT: Thank you. Thank you very  
21 much.

22 Any other comments on TPA? Yes?

23 MR. PURAM: Mr. Chairman, the three points I  
24 want to make are: TPA is going to be the tool going  
25 forward for the United States to show leadership around

1 the world in economic areas, social areas, and even  
2 political areas. That is what the world is all about  
3 in the next 20, 30 years, probably into the future.

4 In regards to the trade deficit and the  
5 deterioration of the numbers, the key question to ask  
6 is, what would the trade deficit have been without TPA?  
7 That's a very stark point of analysis. I think the  
8 numbers bear that out very significantly.

9 The last issue we grapple with is our jobs and  
10 our situation domestically. Despite the IT sector  
11 moving to India and southward and various other areas,  
12 gravitating to China, our unemployment is, I think, at  
13 a record low of 4.2 percent compared to any other time  
14 in our history. So the numbers are very, very strong  
15 in support of the benefits of TPA.

16 Since 1978, I think every Democratic and  
17 Republican president has had TPA from a bipartisan  
18 standpoint. This is one area where we've come  
19 together, and I think we should strongly support the  
20 President's renewal for TPA.

21 CHAIRMAN MARRIOTT: Thank you very much.

22 Any other comments? Questions?

23 (No response)

24 CHAIRMAN MARRIOTT: Okay. The Council has  
25 prepared a series of recommendations on the U.S.-India

1 trade. Before we open the floor for discussion, I'd  
2 like to call upon Prakash Puram, a member of our  
3 Subcommittee on Trade Promotion Negotiation, to present  
4 the Council's letter.

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1 SUBCOMMITTEE ON TRADE PROMOTION AND NEGOTIATIONS REPORT

2 By Prakash Puram, Member of the Subcommittee

3 Presentation of Proposed Letter on U.S.-India Trade

4 MR. PURAM: Chairman Marriott, Secretary  
5 Gutierrez, distinguished guests, and members of the  
6 President's Export Council, I thank you for the  
7 opportunity to present the Trade Promotion and  
8 Negotiations Subcommittee's letter on the U.S. economic  
9 relationship with India.

10 With a GDP of \$786 billion in 2005 and a  
11 growth rate in excess of 8 percent, the Indian market  
12 offers a tremendous opportunity for U.S. exporters and  
13 investors alike. With India's growing economy, U.S.  
14 exports to India increased by 26 percent in 2006 to \$10  
15 billion.

16 With \$8.5 billion invested as FDI (foreign  
17 direct investment) the United States is currently the  
18 second largest foreign investor in India. The total  
19 volume of trade between India and the U.S. exceeded \$30  
20 billion in 2006.

21 I am pleased to read to you a quote by U.S.  
22 Ambassador David Mulford, with which the President's  
23 Export Council fully agrees: "The United States and  
24 India are building the foundations of an historic  
25 partnership, and I'm convinced that no other

1 relationship will be more important in shaping the  
2 world in the 21st century. Our relationship with India  
3 is based on shared interests and shared values and  
4 touches a wide variety of areas.

5 India is rising even faster than many  
6 expected. Economic growth remains consistently strong.  
7 New U.S. investment is coursing in, and our growing  
8 trade partnership is expanding at a rate that should  
9 double our overall bilateral trade in the next three  
10 years."

11 Despite the growth in our commercial  
12 relationship, there are significant problems that  
13 discourage closer ties and preclude more rapid economic  
14 development in India. The proposed letter of  
15 recommendation to the President outlines some of the  
16 PEC's concerns over the slow pace of India's economic  
17 reforms.

18 In particular, the letter highlights issues  
19 such as India's higher tariffs than surrounding areas  
20 in neighboring countries or in the world in general,  
21 regulatory hurdles and weak intellectual property  
22 protections that hinder trade flows, and India's  
23 restrictions on foreign direct investment and the  
24 country's inadequate infrastructure development are  
25 also serious impediments to the competitiveness of



1 India's economy.

2 The PEC offers suggestions on reforms that  
3 would serve to hasten India's integration into the  
4 global economy and provide benefits to both Indian and  
5 U.S. exporters, as well as investors.

6 For example, the PEC recommends a two-step  
7 approach to the reduction of India's protective  
8 tariffs: first, ones that cause most harm to the  
9 consumers are very politically sensitive, and then to  
10 tackle the ones that are more politically sensitive and  
11 less harmful over a six- to nine-year period.

12 The PEC calls for the establishment of a sound  
13 intellectual property protection regime in India to  
14 safeguard the growth of the country's emerging  
15 pharmaceutical, banking, and information technology  
16 sectors.

17 It urges the removal of controls on foreign  
18 investment in certain sectors. The PEC also encourages  
19 the development of a bilateral infrastructure  
20 investment program to identify key priorities in the  
21 construction of roads, airports, port facilities, clean  
22 water supply, and power supplies.

23 These are all areas in which the U.S. private  
24 sector companies can bring to bear their expertise and  
25 financial resources to help deliver a higher standard

1 of living faster than would be otherwise possible.  
2 Building on initiatives such as the U.S.-India Trade  
3 Policy Forum, the CEO Forum, and the U.S.-India  
4 Commercial Dialogue, the PEC requests the  
5 administration focus particular attention on the U.S.-  
6 India economic relationship and promote reforms that  
7 would remove barriers to bilateral trade and  
8 investment.

9 The President's Export Council also notes that  
10 India should be encouraged to take a productive and  
11 responsible role in the WTO Doha Round negotiations.

12 On behalf of the subcommittee, I thank you for  
13 your attention and the focus of time and resources on  
14 India, and I submit the subcommittee's letter for  
15 discussion and adoption.

16 Thank you.

17 CHAIRMAN MARRIOTT: Thank you, Prakash.

18 I'd like to note that copies of the letter for  
19 consideration are in your binder today. They're posted  
20 online and are available outside of the room for the  
21 public.

22 I'd also like to note that we have, from  
23 Sherrod Brown, received a letter which we will be  
24 submitting for the record.

25 [The letter appears in the appendix.]

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CHAIRMAN MARRIOTT: Thank you for your letter.  
It's nice to have you here.

1                   DISCUSSION ON U.S.-INDIA TRADE LETTER

2                   CHAIRMAN MARRIOTT: I will now open the floor  
3 for comments and questions on the India letter. Are  
4 there any comments or questions? Yes, Sharon?

5                   MS. ALLEN: Mr. Chairman, I would just like  
6 to, first of all, commend the subcommittee for their  
7 work on this letter. If I may, I'd like to add some  
8 additional perspective around the regulatory obstacles  
9 that are providing an example of their impact, even in  
10 the accountancy world.

11                   As Indian enterprises continue to invest in  
12 the U.S., and as U.S. companies continue to invest in  
13 India, there is a requirement for good accounting and  
14 professional services to be provided in relation to  
15 those activities.

16                   While there is not technically regulatory  
17 requirements that limit the activities of the  
18 internationally affiliated firms, there really are  
19 processes that limit the activities of international  
20 services firms in India by limiting the number of  
21 partners in an organization, as an example, by limiting  
22 the use of the international names of the services  
23 firms, by limiting even the number of people that can  
24 be recruited or trained in an organization.

25                   So as you look at that, what essentially

1 happens is you are very much restricting the activities  
2 of the international services firms in India by the  
3 processes that are in place that are essentially  
4 allowing for only one, two, or three partners in each  
5 firm, and therefore limiting the activities that are  
6 related to the services provided.

7 And while I don't intend to be parochial,  
8 necessarily, about that by just giving that example, I  
9 think and expect that probably there are other  
10 industries that are similarly impacted by these types  
11 of limitations in services. So, I would just urge us  
12 to keep these in our minds as we continue to negotiate  
13 the activities with the Indian government.

14 CHAIRMAN MARRIOTT: Thank you very much.

15 Are there other comments?

16 (No response)

17 CHAIRMAN MARRIOTT: Are there any objections  
18 to this letter?

19 (No response)

20 CHAIRMAN MARRIOTT: If not, we will assume it  
21 is approved and we will pass it on to the Secretary to  
22 pass on to the President.

23 I'd like to ask Betty Manetta, chairman of the  
24 Subcommittee on Technology and Competitiveness, to give  
25 her report on the progress of the Tort Reform letter.

1           SUBCOMMITTEE ON TECHNOLOGY AND COMPETITIVENESS REPORT

2           By Ms. Betty Manetta, Subcommittee Chairman

3           MS. MANETTA: Chairman Marriott, I think our  
4 letter was postponed for this meeting.

5           CHAIRMAN MARRIOTT: It has been. You're  
6 working on it?

7           MS. MANETTA: Yes, sir, we are.

8           CHAIRMAN MARRIOTT: Good for you. Thank you.

9           MS. MANETTA: Next meeting we'll have it.  
10 Hopefully we'll have it all approved.

11          CHAIRMAN MARRIOTT: That's great.

12          MS. MANETTA: So, thank you so much.

13          CHAIRMAN MARRIOTT: Okay.

14          The Council has prepared a recommendation on  
15 Capital Markets, and I'd like to ask Sharon Allen,  
16 member of the Subcommittee on Services, to give a  
17 report.

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1                                    SUBCOMMITTEE ON SERVICES REPORT

2                    By Ms. Sharon Allen, Member of the Subcommittee  
3                    Presentation of Proposed Letter on Capital Markets

4                    MS. ALLEN: Thank you, Mr. Chairman.

5                    If you weren't working on it you are now,  
6                    right?

7                    MS. MANETTA: Yes.

8                    (Laughter)

9                    MS. ALLEN: The Subcommittee on Services is  
10                    pleased to present a letter on maintaining global  
11                    preeminence of the U.S. capital markets. This is a  
12                    particularly timely issue and we are honored to have  
13                    Secretary Paulson, maybe, with us.

14                    We look forward to hearing his perspective on  
15                    this because he has, in fact, brought groups together  
16                    to take a look at capital markets' competitiveness with  
17                    conferences that focus on that, and in fact is just  
18                    making some recent announcements on some other  
19                    activities with regards to that idea.

20                    So the U.S. capital markets have long held a  
21                    preeminent position globally, and the benefits to our  
22                    economy cannot be overstated. Robust capital markets  
23                    provide the needed resources for growing companies,  
24                    millions of high-quality jobs, and the opportunities  
25                    for millions of investors to share in wealth creation.

1           The fact that is sometimes overlooked is that  
2 healthy competitive capital markets here and the  
3 variety of transaction and cutting-edge services that  
4 they provide are critical to our service export  
5 performance.

6           So while certain financial centers around the  
7 world are inevitably evolving and they're maturing, and  
8 therefore they're naturally becoming more competitive  
9 and they're gaining some competitive advantage, we also  
10 believe there are some actions that can be taken, and  
11 should be taken, to ensure our ongoing leadership  
12 position.

13           There have been a number of organizations,  
14 committees, and reports dedicated to this issue,  
15 including the Committee on Capital Markets Regulation,  
16 the Commission on the Regulation of U.S. Capital  
17 Markets in the 21st Century, and the report on  
18 Sustaining New York's and U.S. Financial Services  
19 Leadership, among others.

20           The President's Export Council believes that  
21 the recommendations put forth by these bodies deserve  
22 serious consideration by the administration and the  
23 regulatory agencies responsible for ensuring the  
24 integrity of our capital markets.

25           Specifically, we believe areas of



1 consideration should include: maintaining an open  
2 investment climate; establishing principles of  
3 effective regulation; including a careful cost benefit  
4 analysis of proposed rules and regulations; moving  
5 expeditiously towards convergence around high-quality  
6 international standards of regulation, although I will  
7 tell you we should not underestimate the difficulty of  
8 this task--that should be included, by the way, with  
9 the accounting and auditing industry. I don't want to  
10 leave those out, of course--reforming approaches to  
11 regulatory enforcement, securities litigation, and  
12 auditor liability; coordinating regulatory approaches  
13 among Federal agencies, as well as between Federal and  
14 State regulation.

15           Finally, with regards to Sarbanes-Oxley, in  
16 our opinion the Act has contributed significantly to  
17 capital markets confidence, but we believe that  
18 reexamining aspects of the Act to improve their cost-  
19 effectiveness and redress unintended efforts on our  
20 capital markets competitiveness is appropriate.

21           We do believe the regulatory process currently  
22 under way to scale certain provisions of the Act will  
23 allow, if we let them be implemented, for good changes  
24 to be made, and we hope that those will be considered  
25 before any legislative actions are considered.

1           Mr. Chairman, there is one other issue which  
2 impacts the competitiveness of our capital markets  
3 which we think should be acknowledged and, while it is  
4 not technically a part of this letter, it has  
5 previously been addressed by this Council.

6           I'm referring to our policies regarding the  
7 employment of foreign nationals with critical  
8 professional skills. This is an important issue that's  
9 getting a lot of coverage today as it relates to our  
10 capital markets.

11           Current U.S. policies are denying U.S. firms  
12 the opportunity to compete for world-class talent are  
13 forcing highly-skilled workers and students to look for  
14 jobs and educations in other parts of the world.

15           Human capital is our most precious commodity  
16 of the capital markets, and our ability to attract and  
17 retain talent globally, combined with the structural  
18 recommendations which are put forth in our letter  
19 today, we believe can help maintain the strength, the  
20 integrity, and preeminent position of the capital  
21 markets while expanding our export position in  
22 financial and related services.

23           We thank you, Mr. Chairman, for the  
24 opportunity to present this letter from the committee.

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1                   DISCUSSION ON CAPITAL MARKETS LETTER

2                   CHAIRMAN MARRIOTT: Thank you very much.

3                   Any comments or questions?

4                   (No response)

5                   CHAIRMAN MARRIOTT: Any objections?

6                   (No response)

7                   CHAIRMAN MARRIOTT: If no objections are found  
8 we will assume there is a consensus, and I will propose  
9 the letter be passed on to the Secretary and to the  
10 President.

11                   I want to take a moment just to thank all the  
12 subcommittee chairs and the staff representatives for  
13 their very hard work on these various letters in  
14 getting them ready for the President. We are waiting  
15 now for Secretary Paulson to return. He's finishing up  
16 a call.

17                   While we are here, are there any other items  
18 that any of you would like to discuss at the meeting  
19 today?

20                   SECRETARY GUTIERREZ: I just have a question.  
21 Out of curiosity, do you have any type of offices in  
22 India?

23                   MS. ALLEN: Mr. Secretary, we do have offices  
24 in India. We have two types of operations there. We  
25 have a significant offshoring operation which are

1 really U.S. employees working in India. We also have  
2 an Indian firm which is active in serving the Indian  
3 market, and it is really that Indian firm that is  
4 challenged by the regulatory requirements of the size  
5 and scale of the firms that can be operating.

6 So our firm is actually technically made up of  
7 several firms because of the size restrictions. It is,  
8 of course, a real challenge, even in being able to  
9 train people to leverage up the opportunity to serve  
10 the clients.

11 SECRETARY GUTIERREZ: One of the areas we saw  
12 in India the last time we were there, and I recall from  
13 my days in India it was still a challenge back then, is  
14 the retail sector. I think they're making a step  
15 forward in terms of opening up retailing, not all the  
16 way, but opening up somewhat, which I think could do  
17 wonders for the agricultural sector, being able to get  
18 their product through a supply chain that's more  
19 efficient. I think that will be a major breakthrough  
20 for the Indian economy, and we'll see how it works.

21 AMBASSADOR BHATIA: Also, Ms. Allen, the  
22 Indians have expressed substantial interest in  
23 exploring potential areas of cooperation in financial  
24 services generally. The one area in the trade policy  
25 part that we've chosen to begin to focus on is the

1 legal services area, to begin with, as an example. But  
2 fundamentally, it seems to me, there's no reason why it  
3 could not as easily extend to accounting services or  
4 other areas.

5 I think it would be useful to explore, and  
6 perhaps we can do this offline, to what extent you had  
7 interactions with the Indian government to try and see  
8 what incremental changes in policy there might be and  
9 to what extent we could actually find a partnership  
10 with the Indian accounting firms in actually addressing  
11 some of these issues jointly.

12 We found that to be, at least thus far, a  
13 productive avenue forward in the legal services area;  
14 whether it would also be true in accounting services  
15 would remain to be seen. But perhaps we could chat.

16 MS. ALLEN: I think that would be helpful to  
17 chat offline on that.

18 AMBASSADOR BHATIA: Okay.

19 MS. ALLEN: In fact, that is part of the way  
20 we go about serving our clients in India. But there  
21 are additional opportunities, I think, for cooperation  
22 that would really extend both the opportunity to serve  
23 those companies and still maintain the consistency that  
24 they're trying to achieve within the country.

25 AMBASSADOR BHATIA: Yes. I think what we've

1 seen in some of these areas is that it is just recently  
2 that India has started to appreciate that they really  
3 have, potentially, offensive interest in these areas  
4 that is greater than a defensive interest, and it might  
5 be useful for re-engagement on that.

6 MS. ALLEN: Exactly.

7 AMBASSADOR BHATIA: Thank you.

8 CHAIRMAN MARRIOTT: Are there any other issues  
9 that any of you would like to bring up at this point?  
10 Any other items of business?

11 SECRETARY GUTIERREZ: Since we're talking  
12 about it, Under Secretary Lavin and Chairman Marriott  
13 were kind enough to mention that Frank Lavin will be  
14 moving on to the private sector, I wanted to recognize  
15 one thing that I think is going to be a big legacy that  
16 will be at the Commerce Department for many, many  
17 years. He has revolutionized the way we think about,  
18 and the way we do, trade missions. He mentioned the  
19 trade mission to India very modestly. That's the  
20 largest trade mission we've ever done in our history.

21 In addition to that, it's the recognition that  
22 in a trade mission there are some things that are  
23 almost commodity-like that are operational, that it  
24 doesn't really matter who does them, and there are some  
25 things, some areas where the Commerce Department adds

1 value, our contacts with the embassy, our contacts with  
2 locals, and we can separate those two and, by  
3 delegating trade missions, we can be doing a lot more  
4 trade missions.

5 So, he's encouraged governors and mayors to do  
6 trade missions. I think we're doing more today than  
7 ever before, and it's thanks to Frank. I just wanted,  
8 given that this is an Export Council, you'd probably  
9 appreciate that more than anyone. I just wanted to  
10 thank Frank once again for that really powerful legacy  
11 that he leaves behind.

12 (Applause)

13 SECRETARY LAVIN: Thank you, sir. Just to  
14 comment on that, look, we all know from a business  
15 perspective there are a lot of things that matter. One  
16 element of business metrics that matter is simply  
17 volume. You've got to get your numbers up.

18 I was looking at the numbers. A conventional  
19 trade mission led by one person, all done internally by  
20 the U.S. Government, is considered successful if it is  
21 has between 20 and 30 people. To say, well, that's not  
22 bad, maybe that's all you can manage.

23 But you're not going to change aggregate  
24 numbers in any export activity with 20 or 30 people,  
25 you've got to get hundreds and hundreds of people and

1 you've got to do it multiple times a year.

2           You've really got to have reach into the U.S.  
3 economy and to the host country economy if you're going  
4 to move those numbers. That means we can't do it  
5 internally. We've got to find partners or people with  
6 like-minded missions.

7           There are a lot of businesses, banks, express  
8 delivery companies, other terrific U.S. businesses that  
9 have similar missions and are happy to partner with us,  
10 and we've got to delegate.

11           When we delegate, we can take these numbers up  
12 significantly so we go up not just one order of  
13 magnitude, but beyond that, not quite two orders of  
14 magnitude. But we're really able to step on the gas  
15 pedal and get the flow up on this activity.

16           We're in an era now where it's reasonably  
17 inexpensive for people to travel. The table stakes,  
18 the cost of entry is much more modest than it was 10 or  
19 20 years ago. So a small business can think about  
20 Canada, or Mexico, or maybe even India, but you don't  
21 need to have an office in Canada or operations in  
22 Canada, you just need to maybe visit a few times a year  
23 and you could sell into Canada.

24           So we're trying to reach that middle market  
25 strata of businesses and bring them along, and say,



1 think about exporting.

2 MR. STYSLINGER: I'd just like to briefly  
3 underscore the recognition for Under Secretary Lavin.  
4 We were one of the companies, Altec, that participated  
5 in the India trip. It was an outstanding success. We  
6 work in over 100 countries around the world, and I  
7 think the foundation for that mission trip was  
8 instrumental in this letter on free trade and trade  
9 investment and promotion for India.

10 CHAIRMAN MARRIOTT: Thanks, Lee.

11 I'd like to turn the time over to Secretary  
12 Paulson, a former member of the PEC and now running the  
13 country. (Laughter)

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1                   REMARKS ON U.S.-CHINA RELATIONS  
2                   AND THE STRATEGIC ECONOMIC DIALOGUE

3                   By Hon. Henry M. Paulson, Jr.,  
4                   Secretary of the Treasury

5                   SECRETARY PAULSON: Bill, thank you very much.  
6 Carlos. Thank you for inviting me. Again, thank you  
7 for all you're doing. You're dealing with very  
8 important issues. I know how much Carlos and Bill rely  
9 on you for your advice.

10                  I just tried to think what I could do that  
11 would be most relevant and interesting to you. I can't  
12 be here without thanking you for your letter on Capital  
13 Markets Competitiveness. I think you know this is  
14 something we're all focused on, getting the balance  
15 right here between ensuring the integrity of our  
16 capital markets and making sure that the burdens aren't  
17 too great and we have the right cost benefit equation.

18                  I think you know this is something we've been  
19 very focused on at Treasury. We announced our first  
20 series of initiatives that are aimed at accounting and  
21 that part of the equation because, as I think you know,  
22 the business scandals were largely--the most recent  
23 ones--accounting scandals, and there have been a lot of  
24 changes in that area, some of which have been good.

25                  But in some ways the relationships between

1 accountants, boards and management are not what they  
2 could be, and there are plenty of things that need to  
3 be fixed there. So, there is a series of initiatives  
4 there and we will have, in the next several weeks, some  
5 more things coming in other areas. But again, thank  
6 you for your focus.

7 I was asked to say a few words about the  
8 Strategic Economic Dialogue, where I've worked with  
9 Carlos and Frank here, and so they could easily have  
10 talked about it as I could. But let me again say that  
11 this is something that we all believe is very  
12 important. President Bush and President Hu put it in  
13 place.

14 This is an important, multifaceted  
15 relationship, our relationship with China. The  
16 economic relationship is a key part of that, very  
17 important to both of our countries. There's a big  
18 focus on managing it for the long term. But you can't  
19 do that well, can you, unless you can deal with the  
20 problems that come up in the short term and show  
21 tangible results along the way.

22 So, a lot of this is about having a process  
23 that works where we're able to speak with one voice to  
24 a broad group of people at the top in China and get  
25 results, and tangible results, through discussion and

1 through negotiation.

2 This is not about any one meeting. We have  
3 had our second session here in Washington and we'll  
4 have the next one in Beijing in December. But it is a  
5 longer term dialogue and we are going to continue to  
6 get, I believe, results along the way.

7 We are focused, to a large extent, on reform,  
8 opening up their economy to competition in goods and  
9 services, going beyond WTO. WTO compliance is very  
10 important. We've got dispute resolution vehicles.

11 It's important, but I don't find it nearly as  
12 interesting as the continued path to reform. I won't  
13 go over all of the things that we've worked on because  
14 there is a lot of work done in the energy and  
15 environmental arena that is very important. We talked  
16 a fair bit about services. We had some breakthroughs  
17 in civil air, some significant breakthroughs there.

18 We've had a big focus on capital markets in  
19 China and opening up to more competition, because not  
20 only are we good in capital markets in this country,  
21 but capital markets can have a multiplier effect in  
22 China and help them rebalance their economy in a way in  
23 which it will benefit them and the rest of the world  
24 and their trading partners, with a focus toward more  
25 domestic-led consumption.

1           One of the things we've been talking to them  
2 about, and have been talking to them about for some  
3 time, is encouraging China to establish a legal  
4 construct that allows for limited liability companies  
5 to promote investments in private equity and venture  
6 capital.

7           You see some media reports today that indicate  
8 they're taking that first step. Again, when you look  
9 at capital markets, they go all the way from venture  
10 capital all the way through the mezzanine, in debt  
11 financing and equity financing, public and private.

12           So if China is going to get where they need to  
13 get toward an innovative society that's well balanced,  
14 they're going to need this kind of movement and this  
15 kind of reform, and opening it up to some of the  
16 outstanding foreign companies that will bring real  
17 expertise will help speed that along the way.

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DISCUSSION ON CHINA

1  
2 SECRETARY PAULSON: Why don't I stop there so  
3 we can have some time for discussion and questions? I  
4 just know, Carlos, you've spent a lot of time with  
5 China and in these discussions. Anything to add on  
6 your part?

7 SECRETARY GUTIERREZ: I think that we saw that  
8 the advantage of these dialogues is that when we're  
9 sitting across the table -- Chinese ministers and we've  
10 got seven or eight Cabinet members on our end, with  
11 that route we're able to talk about, where do you want  
12 to take this relationship, talk about the big strategic  
13 things. We need to negotiate a point and walk out of  
14 the room and talk about the negotiations at these  
15 strategic meetings. We have other forums for tactical  
16 discussions, but it's a unique opportunity.

17 I mean, imagine just to sit down with the  
18 largest economy and the fastest growing economy, to sit  
19 down in a room for two days and talk about, where are  
20 we going strategically and what do you need to do, and  
21 what do we need to do together? So it's just  
22 tremendously valuable and is something that we want to  
23 institute with the Chinese government so that it  
24 becomes part of our relationship.

25 SECRETARY PAULSON: And I would say, in terms

1 of the trade part, because we explained to the Chinese  
2 all the time that there is protectionist sentiment in  
3 this country, there's protectionist sentiment in China,  
4 there's protectionist sentiment around the world.

5 One of the things that I'm most concerned  
6 about is that, as the Chinese economy continues to grow  
7 and some of their domestic competitors who are not  
8 close to world class become more profitable, they  
9 become a political force, an economic force, a lobbying  
10 force in their own right. This is true not just in  
11 China, it's true everywhere in the world.

12 Anyone who participates in free markets, they  
13 love competition in every sector but their own.

14 (Laughter) So the longer they wait to open up  
15 some of these sectors to competition, the more  
16 difficult it will be and the bigger price that the  
17 Chinese people will pay.

18 So, I explain that I believe this economic  
19 relationship benefits both of our countries, and we  
20 benefit in a number of ways. But there is a very  
21 strong feeling--and the Chinese know this, we explain  
22 it to them all the time--that the American public does  
23 not believe that the benefits of this relationship are  
24 equally shared, or fairly shared, and that there's a  
25 strong sentiment in Congress.

1           The Chinese had an opportunity to go up, and  
2 we intentionally scheduled these meetings when Congress  
3 was in session so the Chinese would have a chance to go  
4 up and have a good dialogue with the leadership of the  
5 House and the Senate, and with Senate Finance and Ways  
6 and Means.

7           Again, I explain to them, it's as easy for me  
8 in general to fight for competition and open markets,  
9 but I will be a lot more credible doing that if I see  
10 the Chinese using their capital and their political  
11 will to open up their markets in the face of domestic  
12 resistance. It'll be easier for me to fight to keep  
13 our markets open to the Chinese, easier for all of us.

14           Yes?

15           MR. ITURREGUI: Good afternoon, Mr. Secretary.  
16 Juan Carlos Iturregui. Thank you. Thank you for your  
17 leadership in other parts of the world, for showing up  
18 in Guatemala in March. That was important, in  
19 substance and in symbolism.

20           In the context of China, I am wondering if you  
21 are incorporating this new initiative about foreign  
22 direct investment here in the U.S., because the Chinese  
23 would come here and invest--they have \$1 trillion in  
24 cash, apparently--I think the American public will see  
25 them in a different light. It's a two-way street, so



1 we would like to see them coming here, too.

2 SECRETARY PAULSON: Yes. Thank you for making  
3 that point. This is something that Carlos, Frank and I  
4 have talked a lot about, and the President has talked  
5 about, open economies being open to foreign investment.  
6 The President came out with a very important statement  
7 on foreign direct investment several weeks ago and we  
8 did a number of things to highlight that. There's no  
9 doubt that this is very important to our economy.

10 There were a number of countries around the  
11 world that, because of some of the publicity  
12 surrounding Dubai ports, some of the other issues, that  
13 began to question whether we were as open as we should  
14 be for foreign direct investment.

15 We are the most open country in the world, and  
16 we've been working hard to get, and I think it's quite  
17 likely we will get, Sythius legislation, because we  
18 already have bills reported out in the House and in the  
19 Senate.

20 We've done some things to, again, publicize  
21 how open we are for foreign investment. We obviously  
22 need to protect the national security, but when we look  
23 at the way our system works, it has been great for  
24 foreign investors and great for the U.S. economy.

25 Now, as part of that, the Chinese are

1 interested in investing. They've invested in Treasury  
2 securities and in other financial instruments, and  
3 there's been some direct investment by the Chinese in a  
4 number of industries. But there is an opportunity to  
5 do more, and that's one thing we've talked about in the  
6 dialogue. We've talked about investment going both  
7 ways. So, I am glad you pointed that out.

8 CHAIRMAN MARRIOTT: Anyone else?

9 MR. STYSLINGER: Will you speak, Mr.  
10 Secretary, to the exchange rate issue with China--it's  
11 obviously a very hot topic--and kind of what the  
12 outview is there?

13 SECRETARY PAULSON: Thank you for asking me  
14 that because I sometimes forget to talk about the most  
15 obvious issue that we talk about repeatedly with the  
16 Chinese. I think I'd like to put this in perspective.  
17 The Chinese, the renmimbi, has moved to about 8.2  
18 percent against the dollar since July of 2005, so the  
19 Chinese have recognized the principle of flexibility.

20 But actually, when you look at the deficits  
21 and the level of reserves that China would have in  
22 their trade balance, there's really more need to move  
23 the renmimbi now than there was in July of 2005. If  
24 you look at it on a trade-weighted basis, it clearly  
25 bears it out. If you make, even relative to the

1 dollar, adjustments for productivity gains, there's a  
2 great need to move.

3 Now, I have--and all of us when we emphasize  
4 this--emphasized to the Chinese how strongly it is in  
5 their best interests to move. They're not going to get  
6 where they need to get unless they move. We think that  
7 there's a much greater danger to them in moving too  
8 slowly as opposed to too quickly because they're  
9 largely integrated into the global economy in terms of  
10 goods and services that are not really integrated in  
11 terms of their capital markets or in terms of their  
12 currency.

13 So one of the real benefits of competitive  
14 capital markets is that will let them get to a market-  
15 determined currency quicker. In the meantime, we need  
16 more movement. The nuance I place on this is that,  
17 even if the currency were trading where it should be  
18 trading, if it was trading at a level that recognized  
19 the underlying economic reality, we would still have a  
20 big trade deficit because of the structures of our two  
21 economies.

22 But having their currency more accurately  
23 reflect market values is going to help them rebalance  
24 their economy, going to send the right market signals,  
25 and is going to help their citizens have the financial

1 products that is going to let them reduce their rate of  
2 savings and have more domestic consumption, and so on.

3 So this is something that's very important and  
4 it has rightfully become a symbol for the speed and  
5 progress they're making with their reform. So, thank  
6 you for that one.

7 CHAIRMAN MARRIOTT: Thank you, Mr. Secretary.  
8 We're running out of time, so I'm going to turn the  
9 balance of the time over to Secretary Gutierrez.

10 SECRETARY GUTIERREZ: Thank you. I would be  
11 willing to share my minute with Cecilia.

12 MS. LEVINE: I have just a question. How is  
13 China going to concede on this exchange situation where  
14 they have to think about social stability and keeping  
15 people working? Is that going to play any role in  
16 that?

17 SECRETARY GUTIERREZ: You know, the only  
18 person in the administration who's allowed to talk  
19 about currency just left the room. (Laughter) But  
20 I'll get him that question.

21 I just wanted to thank everyone for  
22 participating and for your leadership. You know, it's  
23 interesting. In a time where we're questioning the  
24 value of trade, we as a country, this is when  
25 leadership from this Council is required. It's just

1 very good to see that the leadership is here. Now is  
2 when it's needed. When things are going fine and  
3 everybody thinks trade is great, it's easy. But when  
4 it gets tough is when people start questioning trade,  
5 something we believe in passionately.

6 So, I look forward to working with you to  
7 continue to convince Congress, the American people,  
8 that trade and exports are to our benefit. So, I thank  
9 you for your leadership, and look forward to it.

10 CHAIRMAN MARRIOTT: Thank you.

11 Thank you very much. We are adjourned. Our  
12 next meeting will be in the winter. We will get in  
13 touch with you as soon as we have a date.

14 (Applause)

15 (Whereupon, at 4:37 p.m. the President's  
16 Export Council was adjourned.)

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C E R T I F I C A T E

This is to certify that the foregoing proceedings of the President's Export Council, held on Thursday, June 7, 2007, were transcribed as herein appears, and this is the original of transcript thereof.

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LISA DENNIS

Court Reporter