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I really appreciate the warm welcome from Ambassador Roy and Orville Schell.

I'm pleased to be here, roughly one week from the start of the Strategic and Economic Dialogue, to help launch this report on Maximizing the Benefits of Chinese Foreign Direct Investment.

For decades, the U.S. has welcomed foreign investment with:

- A market-based economy supported by a fair and transparent legal system;
- The most productive and best educated workers in the world; and
- Vast natural resources.

This openness has made the U.S. the world's largest destination for FDI.

And the Obama administration wants to keep the United States as the world's premier destination for the ideas, the innovations, and, indeed, the capital of foreigners.

That's why the President's 2012 budget aims to make such significant investments in education, innovation, and infrastructure. We've got to maintain these building blocks of a vibrant economy to keep attracting foreign and domestic investors.

Because wherever you see foreign direct investment in American communities, you will see businesses and jobs being created and supported.

Foreign-owned companies employ some 5 million American workers across every single one of our 50 states.

And increasingly, we are seeing more investment coming in from China.

Commerce's Bureau of Economic Analysis reports that investors from China have a total stock of FDI in the United States of about $2.3 billion.

And the report being released today shows Chinese foreign direct investment to America doubling in each of the last two years. Chinese investors now have investments in at least 35 of our 50 states, across dozens of industries.

And the big question we're really getting at today is pretty straightforward: Is more Chinese FDI in America a good thing?

The answer is yes. It's a good thing for American workers. And it's a good thing for American businesses.

That is why today, there are few industries where the Chinese or other foreign investors are restricted from investing in America.

Unfortunately, that is not the case for American companies operating in China, where they are frequently shut out of entire industries, or they are forced to give up proprietary information as a condition of operating in China.

This imbalance of opportunity is a major barrier to continued improvement of the United States and China's commercial relationship. And it is part of a broader trend of China recently narrowing its commercial environment after a long and fruitful period of opening.

Today, I want to talk about some of America's concerns and about how we can move past them to take our trading relationship to the next level.

China's turn towards economic openness over the past few decades is perhaps the chief reason why it has been able to bring hundreds of millions of people out of poverty and into a thriving middle class.

This openness extended to foreign direct investment in many industries where China saw growth potential, and it helped:

- Put Chinese people to work;
- Transfer tremendous know-how to Chinese companies; and
- Give those companies enormous capacity to become major manufacturers and major exporters.

China's policies have also provided opportunities for foreign investors to enjoy substantial profits from their China operations.

It has been a mutually beneficial relationship.

But we could be at a turning point in our economic partnership. A partnership defined less by China making and U.S. consumers taking and more by empowered Chinese consumers buying more goods and services from U.S companies. A partnership marked by Chinese and American innovators working side-by-side to develop breakthrough technologies.

Just look at what's happening with General Electric, which has formed a joint venture with China's Shenhua Energy Company to advance cleaner coal technology solutions for industrial chemicals, fuels, and power generation.

Or look at the agreement that was signed earlier this year to establish a U.S.-China Public-Private Partnership on Healthcare.

This partnership will draw its strength from U.S. and Chinese companies working together to help China achieve its goal of improving healthcare for its people, and it will open new export markets for U.S. companies that are world leaders in healthcare innovation.

These are but a few examples of our countries' best minds working together on breakthrough technologies that could open up hundreds of billions of dollars in new commercial opportunities in both China and the United States – opportunities that could create millions of good, middle-class jobs in both countries.

Unfortunately, for every success story, there remain far too many stories of American and other foreign companies being prevented from investing or operating freely in the Chinese marketplace.

In my travels across the U.S., I continue to hear stories of exasperation from American business leaders concerned about the commercial environment in China.

These concerns are shared by businesses around the world, and the most frequent complaints revolve around:

- Lax intellectual property protection;
- Lack of predictability and openness in government decision-making; and
- A series of policies that unfairly discriminate against foreign companies operating in China.

When it comes to market access problems for foreign companies, the issues may be different, but the fundamental problem often boils down to the distance between the promises of China's government and action.

Perhaps an agreement is made in Beijing, but it never gets put into practice. Or perhaps there's a well-written law or regulation at the national level, but there's lax enforcement in the provinces or cities. Whatever the case, we don't often see enough real impact on the ground.

Let me just cite a few examples.

First, look at the issue of transparency, where U.S. companies find that laws and regulations are often developed or change unpredictably without notice or the opportunity for public input.

In 2008, China pledged to institute a 30-day public comment period for all proposed trade- and economic-related regulations.

But a recent US-China Business Council report found that, over the last year, less than 3 percent of proposed regulatory measures have been published as promised.

That's not close to good enough.

Or look at the issue of intellectual property.

Chinese leaders have condemned intellectual property theft in the strongest terms, and we've seen central government laws and regulations written or amended to reflect that sentiment.

But American and other foreign companies, in industries ranging from pharmaceuticals and biotechnology to entertainment, still lose billions of dollars from counterfeiting and IP theft in China every year. To cite just one example, the Business Software Alliance estimates that nearly 80 percent of the software used on computers in China is counterfeit.

Now, a lack of transparency and lax intellectual property protections all indirectly make it less appealing for foreign companies to invest in China.

But China has also pursued policies that make investment by foreign companies especially challenging; such as the indigenous innovation policies that shut foreign companies entirely out of some industries or make unacceptable technology transfer provisions a condition of operating in China.

For example, China just released a draft of its Foreign Investment Catalogue, the first revision since 2007.

The Chinese pledged – at the S&ED two years ago and at last year's JCCT – that they would lift prohibitions in the revised catalogue on many industries in which U.S. firms are world leaders and have much to offer the Chinese economy.

Well, the new Foreign Investment Catalogue falls far short of that promise.

China has also recently announced a new review system to vet foreign investments based on vague national security parameters.

Again, while we must wait for implementation, these measures are very broad and provide another unnecessary hoop to jump through for U.S. companies.

Even more troubling, the review system allows for competitors and others outside of the Chinese government to influence the process by proposing to the Chinese authorities that a particular transaction be reviewed.

I am aware of no other country which allows this potentially abusive element in their FDI reviews.

It is also worth noting that China did not publish for public comment the measure establishing this system. Perhaps some of these and other shortcomings could have been avoided had China done so.

All of these recent moves by China result in its economy becoming less competitive and less welcoming to foreign direct investment.

The Obama administration understands that making progress on these issues can be difficult, especially when China has millions of people coming in from the countryside looking for work. It isn't necessarily an easy decision to close down a factory producing counterfeit goods, when that factory is providing badly needed jobs.

It can be tempting to write regulations in a way that tilts the competitive playing field in favor of domestic companies.

But this just cannot continue if the United States and China want to capture the full promise of our commercial relationship.

The United States and other foreign nations have every right to seek more meaningful commitment and progress from China in implementing the market-opening policies it agreed to when it joined the WTO in 2001.

The irony is that reforms that are being resisted today would ultimately bring huge benefits to the Chinese people.

China's economy is increasingly moving up the global economic value chain, where growth is created not just by the power of a country's industrial might, but also by the power of its people's ideas and their inventions.

In the long run, economies with poor intellectual property protections and restrictive conditions on the industries that welcome foreign investment will lose out on generating great new ideas and technologies.

And they'll lose out on the jobs that come with producing new products – jobs critical to an expanding middle class.

Over time, if innovators fear that their inventions or ideas will be stolen or discriminated against, one of two things will happen – they'll either stop inventing, or they'll decide to create or sell their inventions elsewhere.

Ultimately, all that the United States seeks is a level playing field for its companies, where the cost and quality of their products determine whether or not they win business.

Helping to promote market reforms in China and opening up markets for American companies has been one of my primary focuses as U.S. Commerce Secretary these past few years.

If I am granted the privilege of serving as our next ambassador to China, this will continue to be a strong focus of mine.

Significant challenges lie ahead. For market reforms to continue, it will take constant vigilance and engagement – not just from the United States, but from all countries and businesses around the world that benefit from rules-based trading. This includes Chinese business and government leaders, who themselves have a stake in ensuring that China is friendly to global innovation and international competition.

There are real frustrations within this administration and among business and Congressional leaders about the commercial environment in China.

And the U.S. will, of course, also continue to use every legal tool at our disposal to ensure that China makes good on its commitments.

But the fact is we've used bi-lateral discussions with China to resolve major trade disputes in the past.

It's why next week's S&ED and our Joint Commission on Commerce and Trade are so important.

Constructive change takes dialogue. We can't forget that, especially in light of how far China has come and how quickly.

In front of us is the opportunity for China and the United States to lead the world economy in the early 21st century to create a new foundation for sustainable growth for years to come.

We can't tell exactly what that future will look like.

But we can be certain that it will be a better future if the Chinese and American governments pursue cooperation over confrontation in the economic sphere. Cooperation that will put millions of our people to work. Cooperation that will develop technologies to solve the most pressing environmental, economic, and social challenges facing the world today.

This is the great opportunity before China and the United States. We just have to seize it.

Thank you.

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