

U.S. DEPARTMENT OF THE TREASURY

Press Center

Secretary Henry M. Paulson, Jr. Remarks on China and the Global Economy to the National Committee on U.S.-China Relations

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New York - Good evening. Thank you, Carla, and thanks to all of you at the National Committee for the exceptional work that you do for U.S. – China relations. As we approach the 30-year anniversary of a turning point in U.S. and Chinese history, we also recall the strategic vision of the National Committee and its role in the historic 1971 ping-pong exchange that helped make resumption of normalized relations possible. Through visions such as yours, the American and Chinese people began to understand one another and to see the benefits – indeed, the necessity – of normalization.

I am pleased to accept this award in recognition of the work so many have done to forward the U.S. – China relationship. This is critically important and I am grateful to see so many people here this evening who have led this effort, including my friend Duncan Niederauer. Congratulations to you, Duncan, for your well-deserved recognition as well.

My remarks will focus on the future of our economic relationship with China. We will soon have a new U.S. President who will face the continuing challenge and opportunity of responding to China's emergence as a global economic leader.

Responses to Current Global Financial Market Turmoil

The world's financial markets are undergoing the most serious stresses in recent memory and this financial crisis has begun to negatively impact real economies here and around the world. China is feeling this stress as well, but fortunately its economy is expected to continue to be an important engine for global growth during this period. In the United States, recent collaborative actions by the Federal Reserve, the FDIC and the Treasury clearly demonstrate that our government will do what is necessary to significantly strengthen our banks and financial institutions, enabling them to increase financing for the consumption and business investments that drive U.S. economic growth. Through a multitude of powerful actions we have and will demonstrate our commitment to unlocking our credit markets and minimizing the impact of the current instability on the rest of the U.S. economy.

Addressing the effects of financial market turmoil around the world requires the dramatic steps we are taking here in the United States, and it requires close international corroboration and cooperation. We have been in close contact with Chinese leaders, as well as with leaders of many other nations. And we welcome Premier Wen's statement that China will play a constructive and cooperative role in global efforts to deal with the current financial market turmoil. Throughout this turbulent time, I have stayed in close touch with Vice Premier Wang Qishan, who has now been appointed to lead China's newly established international financial crisis committee. Our conversations have been useful and constructive. It is clear that China accepts its responsibility as a major world economy that will work with the United States and other partners to ensure global economic stability.

Governments must continue to take individual and collective actions to provide much-needed liquidity, strengthen financial institutions through the provision of capital and the disposition of troubled assets, prevent markets abuse, and protect the savings of their citizens. We must also take care to ensure that our actions are closely coordinated and communicated so that the action of one country does not come at the expense of others or the stability of the system as a whole.

Ten days ago leaders from the world's 20 largest economies met in Washington and found ways to further enhance our collective efforts to lessen the effects of global market turmoil. Those meetings brought concrete actions that have supported world markets. I am heartened that the international community is working together for stability and to regain a footing of confidence. As confidence returns to the system, normal financial activities will resume. And we are all grateful for President Bush's leadership during this time. As the President said on Friday, "The American people...can have confidence that this economy will recover. We're a country where all people have the freedom to realize their potential and chase their dreams." As the President knows, Americans are a strong and optimistic people. Although we expect current challenges to continue for a number of months, we will overcome them as we have overcome every challenge our Nation has ever faced.

A Strong Future for U.S. – China Economic Relations

We will elect a new president two weeks from today, and our new President should start from the perspective that China will continue to play a key role in the world economy. As a matter of fact, today more than ever the world is looking to China to be a big contributor to global economic growth. While some see China as a threat that must be countered or contained, I believe that the only path to success with China is through engagement. We must recognize that China's growth is an opportunity for U.S. companies and consumers, for our producers, exporters and investors. A stable, prosperous and peaceful China is in the best interest of the Chinese people, the American people and the rest of the world.

U.S.-China relations are more productive today than ever before, largely because we have engaged China as it is, not as we might wish or imagine it to be. We have acted to lessen misperceptions and miscommunication between our countries.

An important part of the engagement has been through the Strategic Economic Dialogue established in 2006 by President Bush and President Hu. We have worked from the understanding that robust and sustained economic growth is a social imperative for China and that Beijing views its international interactions primarily through an economic lens. We have worked with Beijing on economic issues that are of mutual interest, and we have found that we can produce tangible results in both economic and noneconomic areas. Our recent close and frequent communication and cooperation as we address the challenges in the financial markets is a tangible example of the power and utility of a Strategic Economic Dialogue based on mutual trust

Over the past two years we have built a strong foundation for this dialogue by focusing on policy areas in which China's reform agenda and U.S. interests intersect. The SED has found new and constructive ways to address some of the most important matters in our economic relationship --- including growth imbalances, energy security and environmental sustainability, trade and investment issues, product safety, and China's position in the world economy. Addressing these questions serves China's interests, and is also vital to the U.S. and global economic future.

One of the SED's major achievements is the Ten Year Energy and Environment Cooperation Framework. This framework is a bilateral mechanism to create a new energy-efficient model for sustainable economic development and to address the factors that cause climate change. Greater breakthroughs can be expected in the years ahead, and this framework provides the next administration a critically important platform for U.S. economic engagement with China.

Trade and investment, once the glue of U.S. -Chinese relations now also represent a source of increased tension. Any dynamic economy that is constantly creating new, higher-value jobs faces factory closings and job losses that are real and painful. The benefits of free trade are often spread across an entire country, while the lost jobs are more immediately visible. But succumbing to the temptation to make trade and foreign investment a scapegoat only breeds support for isolationist policies that will make us worse off, sacrificing future job opportunities and higher standards of living.

American investors in China, and Chinese investors in America, question whether the other country is truly open to investment and provides adequate legal protections. To answer this question, we sent a powerful and clear signal at the June SED meeting by launching negotiations of a U.S. - China bilateral investment treaty. Through these negotiations, we seek to assure our people and the world that our two nations welcome investment and will treat each other's investors in a fair and transparent manner. And we will work even harder to resolve a critical issue for American companies working in China --- better enforcement of intellectual property laws, to help China on its path to become an innovation society, while accelerating the development and competitiveness of its economy.

In the area of product safety, we have made real progress but need to intensify our work together to enhance China's regulatory and legal infrastructure, to help them build quality into each stage of the manufacturing and distribution process.

In the financial sector, we have worked steadily to help China develop and open up its institutions. Some in China look at the recent failures in our financial markets and conclude that they should slow down their reforms. But there is a great opportunity for China to learn from our significant mistakes and move forward with reforms that have the potential to produce important gains for China and its people.

For example, a capital markets reform agenda will advance China's economic goals in four important ways. It will rebalance the sources of China's growth to ensure that it is more harmonious, more energy and environmentally efficient, and provides greater welfare for Chinese households. It will create effective macroeconomic policy tools to ensure stable, non-inflationary growth. It will support China's transition to a market-driven and innovation-based economy; and, finally, it will assist China in dealing with its demographic challenges.

The SED has also provided an excellent forum for discussing the value of the RMB; I am pleased that China has appreciated the RMB by over 20 percent since July of 2005.

More Progress is Possible

The SED has shown that active economic engagement between the highest levels of U.S. and Chinese leadership can keep our relationship on an even keel even as we tackle our most challenging issues and manage short-term tensions.

Chinese leaders understand that if the SED is to be sustained, it must be more than talk; it must continue to yield specific, tangible results, what I call signposts along the path toward transformational reform. We look forward to further progress in the on-going discussions with Chinese officials and at our next SED meeting in Beijing in December.

The successes of the SED in the past two years have created a foundation of mutual understanding and trust and a platform for further progress. And perhaps most importantly the SED has established a new model for communication, enabling us to address urgent issues such as turmoil in our financial markets, energy security and climate change. I hope that the next U.S. president will expand on the SED to take U.S.-Chinese relations to the next level. Thank you.

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