

U.S. DEPARTMENT OF THE TREASURY

Press Center

Treasury Secretary Timothy F. Geithner's Speech at Jeddah Chamber of Commerce: The State of the Global Economy and the Relationship between the United States and the Gulf Region

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Thank you Chairman al-Fadl. And, thank you to the Jeddah Chamber of Commerce and Industry for hosting this event. Over the past sixty years, as Saudi Arabia's oldest Chamber of Commerce, this institution and its diverse membership have been a key force driving the Kingdom's economic growth.

This is my first trip to the Middle East as Treasury Secretary and I come with a deep appreciation for the important economic role this region has played throughout history.

It was in ancient Mesopotamia where currency was first minted. It was in Muslim communities where algebra was first developed. And it was a scholar named Ibn Khaldun who, in the 14th century, was one of the first minds to contemplate fundamental economic principles such as the division of labor, supply and demand, and taxation.

That history has more recently been matched by remarkable development. Jeddah itself, with its long history as a commercial hub, has grown from a town with a population of 30,000 in 1948 to become the Kingdom's commercial capital with over 3 million people. Since 1990, Saudi Arabia's economy has quadrupled in size and, combined, the Gulf economies have more than doubled as a share of global GDP.

Such growth has led to broader and deeper economic ties between the Gulf region and the United States. Since 2003, the value of U.S. exports to the Gulf has more than doubled. There are now about 750 American firms operating in the United Arab Emirates, 360 in Saudi Arabia and 100 in Qatar. Cisco Systems, for example, will soon provide vast network architecture for Saudi Arabia's first "smart city" project.

These ties are part of a strong strategic partnership between the Gulf region and the United States.

In early June, President Obama traveled to Cairo and called for a new beginning between America and Muslim communities around the world, based on mutual interest and mutual respect. Given our interdependence, he said, we must confront problems, such as terrorism and proliferation, climate change, and economic crisis, through partnership with more effective strategies that achieve durable change.

And we are building the capacity for closer global cooperation on all these fronts.

For most of the last 50 years, the center of global cooperation on economic and financial issues was between the United States, Europe and Japan. The United States and Saudi Arabia had a long tradition of close cooperation, but the G-5 and then the G-7 were the venues where the big decisions were made on the architecture of the global system and on strategy in times of crisis.

When I served in the Treasury Department in the 1990s, we began the process of building a broader framework, creating the G-20, and bringing Saudi Arabia and the major emerging market economies to the table.

Over the past few months, the G-20 has played a central role in building a coordinated global strategy to confront the crisis and to set the agenda for international financial reform. Saudi Arabia has been a key part of that process. And the Kingdom will have important voice in building co-operation on a more robust framework for the prevention of future crisis as a new member of the expanded the Financial Stability Board.

Later today, I will have the honor of meeting with his Majesty, King Abdullah, and with his principal economic advisors.

The purpose of these meetings is to underscore the President's commitment to strengthening our relationship; to review progress in our coordinated strategy to restore global growth; to examine the risks and challenges still ahead of us; and to move the G-20 reform agenda forward.

The global economy is going through one of the most challenging periods of economic stress in generations. On every continent, in every country, businesses and families have experienced a severe loss of wealth, rising unemployment, and business failure.

But the economic policies put in place here, in the United States, and around the world, have helped arrest the crisis, slowing the pace of decline in economic growth, pulling the global financial system back from the edge of failure, and establishing the basis for recovery.

The force of the global recession is receding. For the first time in several quarters, the IMF and a range of private analysts are starting to revise up their forecasts for growth in the second half of this year and next. Global trade is just starting to expand again.

I want to spend a few minutes describing the strategy that I believe is essential for recovery, to take stock of where we are in addressing the crisis, and to address some of the longer term challenges we face beyond the immediate.

Our strategy to confront the crisis has four critical elements.

The first is to stabilize and repair the U.S. financial system. No recovery is possible without repairing the institutions and markets that are critical to the supply of credit.

In the United States, we moved quickly to work to restore confidence in the banking system, by increasing transparency and disclosure, which helped bring billions of dollars of private capital into banks so they could safeguard against a deeper recession. We put in place a powerful set of innovative financing mechanisms to help restart the credit markets. We reinforced the financial foundation of the government sponsored housing enterprises and launched a comprehensive program to mitigate the housing crisis.

The second element of this strategy is to help offset the dramatic contraction in demand. Within weeks of taking office, the Obama Administration worked with the Congress to put in place the most sweeping economic recovery package in our nation's history - a comprehensive program of immediate tax incentives for businesses and households, support for state and local governments, and investments in critical economic priorities, from infrastructure and energy to health care and education.

The Recovery Act was designed to provide a sustained boost to economic demand, concentrated over a two year period. The Administration has moved with care and speed to put these programs in place, and, as designed, the largest effects on the spending side will come in the next six months.

The third element of the President's strategy is international. As we moved quickly at home, we have worked with the major economies of the world on a coordinated program of macroeconomic stimulus and financial stabilization. We agreed together to keep our markets open to trade and investment. And we built consensus on an exceptionally large program of financial support for emerging and developing economies through the IMF and the multilateral development banks.

Together, this represented the most aggressive international response to crisis in the last fifty years, implemented with unprecedented speed and breadth. Unlike in the crises of the 70s, 80s, and 90s, where division and hesitation slowed the international response, this time the world came together.

The combined effect of these actions has substantially reduced the risk of much deeper and more prolonged global recession.

In the United States, the rate of decline in economic activity has slowed, business and consumer confidence has started to improve, housing markets have begun to stabilize, the cost of credit has fallen significantly and credit markets are opening up. These improvements have been more substantial and have come more quickly than many of us expected when we were designing these programs in December and January.

Alongside these signs of stabilization in the United States, we are seeing initial signs of progress globally as well.

I arrived here from Europe where the pace of contraction is showing signs of moderating. In Japan, similar signs of stabilization are emerging. In China, the government has been successful in using policy to lift demand and in turn is helping boost prospects for other Asian economies. In Brazil and in other parts of Latin America, growth prospects are improving.

And here in Saudi Arabia, the non-oil economy continues to grow, boosted by one of the largest stimulus packages of any G-20 nation and by aggressive monetary and financial sector actions.

On the strengths of the global policy response, and these signs of initial traction, the IMF recently upgraded its global forecast, predicting 2.5% growth for 2010, slower than typical for recoveries, but recovery nonetheless.

Now, this process of repair and recovery is going to take considerably more time. This crisis has been brutal in the extent and severity of damage to economies around the world. And given the extent of damage to financial systems, the loss of wealth, the necessary

adjustments to a long period of excessive borrowing around the world, it seems realistic to expect a gradual recovery, with more than the usual ups and downs and temporary reversals. Growth will turn positive before unemployment peaks, uncertainty will slow the pace of recovery in new investment, and credit conditions will remain unusually tight even as growth recovers.

Our challenge--and this is our collective challenge globally--is to make sure we provide a steady, forceful and sustained level of support for recovery, until we are confident we have established conditions for durable growth, led by private investment and spending.

Although this strategy has been successful so far in reducing catastrophic risk, we need to keep growth the focus of policy. The classic, tragic errors of economic policy in economic crises are to act late with insufficient force, and then to put on the policy brakes too early. We are not going to repeat those mistakes.

At the same time, we realize that we need to build a better foundation once recovery has firmly taken hold. Thus, the fourth element of our strategy has been to focus on the future, even as we confront the immediate crisis.

In the United States, we need to make sure that as we rebuild, we build a stronger and more productive economy, less prone to crisis, with the gains of growth more broadly shared.

That is why in the United States we are shifting resources to improve education and infrastructure and to improve energy efficiency. That is why we are engaged in fundamental reform of our health care system. And that is why we are moving to put in place a more comprehensive and prudent framework of oversight and rules over our financial system.

That is why it is so important that the exceptional actions we have taken to fix the crisis are temporary and will be reversed as soon as the crisis has definitively receded. The United States was on an unsustainable fiscal path before this crisis, and we will not succeed in establishing sustainable recovery without a credible commitment to address our long term deficits.

That is why the President, in his first budget to Congress, made it clear that as soon as recovery is firmly established we will bring our fiscal deficit down to a level that is sustainable in the long term. That means bringing the imbalance between our fiscal resources and expenditures down to the point -- in the range of three percent of GDP - where the overall level of public debt to GDP stabilizes at a manageable level. It also means limiting future spending commitments in part through the reintroduction of budget discipline, such as pay-as-you-go rules. It requires reducing long term growth in health care costs, and reforming social security.

Given the dollar's role in the international financial system and the significant impact of the U.S. economy on global economic conditions, we fully recognize that the United States has a special responsibility to play.

And we are committed to preserving the openness of our economy.

Since the controversy surrounding the Dubai Ports deal in early 2006, our government has put into place a series of reforms designed to safeguard national security, while providing more clarity, predictability and transparency to investors. These reforms have not infringed on our open investment policy.

In fact, since 2006, publically announced foreign direct investment in the United States from this region has exceeded \$25 billion, helping to finance economic growth and support our workforce.

That includes the purchase of GE Plastics by Saudi Basic Industries Corporation and a planned multi-billion dollar investment by Abu Dhabi's Advanced Technology Investment Company in a New York manufacturing plant.

And internationally, as we focus on recovery, we need to lay the foundation for more balanced and more sustainable global growth, with stronger institutions to prevent and manage future crises.

Toward this end, I think the world has yet to fully appreciate the scale of ambition and investment we are seeing in the Kingdom and the Gulf region to lay the foundation for future growth.

You are building world class institutions for higher education, alongside reforms to improve the quality of primary and secondary education.

You are diversifying your economies to build a future less dependent on oil and natural gas.

As you diversify, the world's oil producing region is also investing in new energy. In a few years, the world will see its first zero-carbon, zero-waste city, located in the UAE, fully powered by renewable energy. It will be home to the recently formed International Renewable Energy Agency and will serve as a global example of innovation.

And I want to underscore the depth and extent of our cooperation on other issues of great importance to the broader community of nations.

We are working closely together to deny funding to extremist groups worldwide and to prevent proliferation of nuclear weapons.

From New York to London, Riyadh to Madrid, Bali to Nairobi, violent extremists have killed innocent civilians on our soil and yours. And the terrible threat posed by nuclear proliferation requires us all to take vigorous and sustained action against those that seek to develop nuclear weapons or to export that deadly technology.

The Kingdom of Saudi Arabia and the UAE have taken important steps to combat financing for terrorist groups, to deter and disrupt those who support violent extremism, and to join with us in our efforts to combat the proliferation of nuclear weapons. We welcome the government's commitment to continue to work together, along with other countries in this region, in Europe and around the world, to make further progress in these areas.

When the President traveled here last month, he said that the United States stands ready to join with your citizens, your leaders, your community organizations and your businesses in confronting the major security and economic challenges of our time.

To underscore this commitment, he announced that we are creating a new corps of business volunteers to establish partnerships with counterparts in Muslim-majority countries.

We are planning to host a Summit on Entrepreneurship this year, to help identify how we can deepen ties between business leaders, foundations and social entrepreneurs in the United States and Muslim majority countries around the world.

And, recognizing that many Americans want to continue to make philanthropic contributions to charities abroad, the President has asked us to work with the American Muslim community, devoted to the sacred obligation of *zakat*, to develop safe and effective ways to facilitate humanitarian assistance to vulnerable populations, while ensuring that charitable contributions are not diverted to support those who promote violent extremism.

Saudi Arabia has taken steps to safeguard its own charities and we look forward to strengthening our partnership with the Kingdom on this issue so that charitable operations across the world are similarly protected.

As President Obama said in Cairo, "the question is whether we spend that time focused on what pushes us apart, or whether we commit ourselves to an effort – a sustained effort – to find common ground, to focus on the future we seek for our children, and to respect the dignity of all human beings."

The President of the United States is committed to that. And I believe the American people are committed to that.

In this moment of crisis, we share a historic obligation and a great opportunity to find ways to build a stronger and safer global economy.

I think we have made a good start these last few months, and we have the capacity to do much more.

Thank you very much.

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