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See below:

**The United States and China:
Five Principles for Strengthening the Global Economy**

Remarks by Henry M. Paulson, Jr.

At the School of Advanced International Studies
Johns Hopkins University
Washington, DC

October 25, 2011

Introduction

Jessica, thanks so much for that kind introduction. It's great to be back at SAIS.

Now, I'm sure you've noticed that the world economy continues to face some tough challenges:

In the United States, banks and capital markets are more stable and better capitalized than they were in 2008. And government regulators have important new authorities that they lacked just three years ago.

But we need to restore economic growth. And that challenge is made more difficult because our government has an unsustainable fiscal deficit.

What's more, American families have too much debt. And they'll be working to reduce that debt for some time.

In Europe, leaders are wrestling with the difficult fiscal condition of several EU members, as well as some complex challenges around the structure of the European Union. And they're working to stabilize their banks.

There aren't easy answers here. And the outcome in Europe will affect us all.

But this much is clear:

Three leading economies, not just these two, now confront growing vulnerabilities, and thus have special responsibilities.

China has cemented its place with the United States and Europe as one of three principal engines of the global economy.

That means the world looks increasingly to China as well—to help power global growth; to reinvigorate global demand; to rebalance its *own* economy and, in so doing, help rebalance global investment flows; and, ultimately, to help speed global recovery.

Don't get me wrong:

The United States is still the largest and richest economy, with a nominal GDP more than twice the size of China's.

We're the world's most important source of trade and investment.

And America is a leading innovator, a builder.

We have a particular responsibility, working closely with Europe, among others, to find a pathway to recovery from the current crisis.

But I'll be blunt:

We also need China to get ahead of its growing economic challenges, which now threaten to interrupt its truly remarkable record of economic success in recent decades.

China's success at sustaining growth, fighting inflation, and transitioning from an economic model too dependent on exports and fixed asset investment is closely connected to our own success.

Nor can we afford to have all three of the world's principal growth engines facing a crisis simultaneously.

Problems in any of one of these three economies will make it that much harder for the other two.

And every one of today's principal economic challenges can be addressed more effectively if we work with China in complementary ways.

We don't always need to work jointly.

But we *do* need to take steps—mostly individually, sometimes together—that will have the mutually beneficial effect of supporting and sustaining economic growth.

And so let me ask you this deceptively simple question:

Can the United States and China address today's dynamic and considerable economic challenges with the policies we have currently?

The answer, I believe, is "no."

So today, I'm going to speak about how to put the American and Chinese economies—and, by extension, the global economy—on a more sustainable footing.

The bottom line is this: We're missing opportunities to benefit from one another's strengths: For our part, we need a level playing field in China for U.S. firms.

But we also need more investment from China—which is, after all, sitting on over \$3 trillion in foreign exchange reserves (much of it in U.S. dollars), with billions more in the hands of corporations eager to invest here and become global companies.

And why wouldn't we want those dollars back—to be invested in productive ways that create American jobs and boost the American economy?

That's why we should be more open to Chinese investment.

But it's also why Chinese investments would be on a sounder footing here if they help to establish good jobs for American workers.

For its part, China wants a fair shot at the U.S. market too:

The Chinese want policy changes that will allow better access to technology, for one, and, for another, a clearer, more predictable process for investing in the United States.

Five Principles

Both nations can help themselves—and each other—to succeed, for mutual benefit.

But to do this, I believe we'll need to overhaul the framework that guides our economic relations.

How?

Well, I've worked with Chinese leaders for nearly two decades—as a banker, as the Treasury Secretary, and as a conservationist.

And in reflecting on those experiences, I've distilled them into five essential principles.

And, by the way, these five principles won't just help put our economies on a sounder footing. They can help assure a more complementary footing as well.

Principle one: Unlock the promise of capital and cross-investment.

For the United States, this means assuring greater openness to Chinese investment, leading to the creation of American jobs.

For China, it means undertaking financial reforms *now* that Beijing might well prefer to kick down the road.

Principle two: Assure financial markets that are transparent and have strong oversight.

For the United States, this means clarifying new regulations and implementing sensible regulatory practices. It also means correcting flawed policies that led to massive consumer debt, a housing bubble, and unsustainable household leverage ratios.

For China, it means speeding up financial reforms and strengthening oversight and transparency of non-bank lending. It also means correcting flawed practices that have led to massive producer debt and the misallocation of capital.

Principle three: Work to strengthen market confidence in our economies.

For the United States, this means overcoming the markets' lack of confidence in our government's ability to take the necessary steps to protect our economy and keep it competitive.

For China, it means overcoming a lack of transparency—not least a dearth of trust in government data and questions about corporate accounting and disclosure.

Principle four: Free up bilateral trade.

For the United States, this argues for moving toward bilateral trade negotiations with China. The global trade round is going nowhere fast. And it also means granting China market economy status on a sector by sector basis.

For China, this means getting more serious about three things: first, boosting domestic consumption, so that its market becomes a much bigger export destination for U.S. goods and services; second, expanding market access, including by completing residual WTO commitments; and third, ending an array of discriminatory and anti-competitive practices.

Principle five: Help technology flow more efficiently, and promote innovation.

For the United States, this means reforming our outdated export control system while assuring our national security. Too often, we restrict trade that would create U.S. jobs and is in our national interest. Separately, the clean energy policy challenge is now so great that we should have a U.S.-China pilot project, relying on scientific input and evidence, to make it easier for the world's two largest economies, energy consumers, and carbon emitters to use the best technologies available.

For China, it means respecting and enforcing intellectual property commitments. But ultimately, it means making the shift from a consumer to a producer of intellectual property by legitimate means—not using access to its market as a backdoor to obtain the intellectual property developed by others. Only when China innovates, not just assimilates, technology will it have enduring incentives to protect it.

Now, why do I believe these five principles are so important? And how do we fulfill them?

I. Unlock Capital and Cross-Investment

Well, let's start with the first principle—unlocking the promise of capital and cross-investment.

I'm a capitalist. I've devoted my career to the principle that world-class capital markets are essential to economic success.

Capital markets fund entrepreneurs and businesses of every size and scope.

And strong capital markets make average families richer by generating returns on savings.

So with China already bumping up against the limits of its existing growth model, financial sector development is essential if its leaders are to realize the goals at the heart of their *own* blueprint for the future—the 12th Five Year Plan.

That plan aims to ease China's transition into an economy less reliant on investment and exports.

So, in theory, China should shift from one model to another:

Today, China lends money too cheaply to state-owned enterprises—sometimes with little prospect of repayment.

Instead, China should ensure that domestic savers—who are often ordinary families—get a fairer return.

The lack of good investment options for ordinary Chinese, coupled with inflation and low interest rates on deposit accounts, means that the return on *their* savings is probably negative.

But Chinese companies—especially state-owned enterprises supported by the government—can access cash at rates that are cheaper than what the market should support.

This isn't good for the long-term competitiveness of those companies.

Nor is it good for the efficiency of China's economy.

In fact, recent economic events and current global challenges demonstrate the need for even bolder financial reforms as well—like liberalizing the capital account and assuring greater flexibility in the exchange rate.

I've worked with Chinese leaders for more than two decades and they *do* understand the need for well-developed capital markets.

They've also made significant progress in some areas—from restructuring banks, to developing domestic debt and equity markets, asset managers, and a regulatory system.

And Chinese leaders are committed to currency reform because they recognize that capital markets won't function efficiently otherwise.

But while the commitments are there, a fragile global economy appears to have eliminated any sense of urgency for such reforms.

Friends in Beijing tell me that China has “reform fatigue”—that China has accomplished so much that the momentum behind reform is fading fast.

Well, in my view, China needs to fight through that skepticism.

I agree with those in China who argue that speeding up reforms will give them a valuable tool to fight inflation and meet other macroeconomic challenges.

Here's something else to consider: What's happening in Europe is China's second warning bell in as many years.

China is just too big an economy—and still too dependent on exports—to ignore what’s happening in the very markets whose demand has powered China’s growth for so long.

And frankly, the present crisis should make financial reforms more, not less, urgent for China.

China has been able to wall off its financial system in the past—during the Asian financial crisis, for example, and again, more recently.

But can a \$6 trillion Chinese economy, deeply integrated into the global system, remain forever immune to what is happening in the \$30 trillion economies of Europe and the United States?

It cannot.

So by putting the right financial tools into place today, China will be better positioned to respond to the current crisis while preventing China’s own crisis down the road.

China has a choice: It can maintain its intervention in the currency markets. Or it can speed up the pace of reform toward a market-determined currency.

If it does the first, China will continue to accumulate foreign exchange reserves, buying more Treasuries and euro bonds. But in doing so, it will become an even bigger funder of the structural deficits in Europe and the United States.

So instead, it should pursue a market-determined *renminbi* and an accelerated timeline for capital account liberalization. And that would give Beijing the economic tools it needs to manage a large, and increasingly complex, economy.

I know convertibility, capital account reforms, and a more open financial system aren’t popular in China.

Many in Beijing believe these reforms will make China more, not less, vulnerable to future crises.

But China can play defense, or it can play offense.

Or, if you prefer, China can continue its single-minded focus on its five-year plan—slowly unrolling reforms—when what it *also* needs is a “five minute plan” of reforms today that would give Beijing the tools to effectively respond to future crises.

Remember that in the fall of 2008 China had just one tool to deal with the crisis—massive spending to support growth.

And while, yes, that helped cushion the impact of slower exports as global trade shrank, China’s response would be easier if it had the full suite of monetary and financial policies.

And that, ultimately, requires a convertible and floating currency.

I do recognize that currency value is a politically sensitive issue in both countries. It’s an important trade issue too.

But I have always believed that although the currency value is a contributor to our trade deficit with China, it is not the biggest one. We have a trade deficit with the rest of the world.

But continued reform of the *renminbi* is in China’s own interest. It’s a necessary part of reducing the economic distortions that can create credit risks, bubbles, and domestic imbalances that threaten stability in China.

So that’s another reason to accelerate efforts to diversify and modernize China’s financial system: open and efficient capital markets go hand in hand with a market-determined currency.

And other reforms would be useful as well: eliminating joint venture requirements on financial services companies; eliminating remaining geographic restrictions on financial services firms; and allowing financial services firms to operate in China as they do in other leading financial services centers, subject to domestic regulations.

But modernizing *China’s* system isn’t the end of this story.

To unlock the promise of capital, Americans also need to think hard about our own openness to investment—including investment from a China that is sitting on huge pools of prospective investment capital.

Investment flows *should* be a source of growth and job creation in both countries. But today, these flows are largely one-way—from the United States to China.

U.S. government statistics show that in 2010, Chinese FDI stock in the U.S. was \$5.9 billion—just about one-tenth of the \$50 billion of U.S. FDI stock in China.

That number needs to grow more and faster to help leverage Chinese capital to create and sustain American jobs.

Many Americans react negatively to Chinese investment, and, for that matter, to any foreign investment—even though foreign direct investment is, in my judgment, the ultimate vote of confidence in our system.

FDI creates good jobs in the United States: 5.6 million, including over 2 million in manufacturing.

And the average salary of these jobs is 33 percent higher than the national average.

But the U.S. government estimates that affiliates of Chinese firms in the U.S. employed little more than 4,000 Americans in 2009.

So there's plenty of room to grow—not least because Chinese companies have been reluctant to invest, judging that they won't be welcomed here or because they don't understand the investment process.

There's a lesson here:

China leads the world in foreign holdings of U.S. Treasury securities, with \$1.14 trillion. But it would strengthen our economic relations if China put more of those dollars to work in higher-return investments that create jobs in the United States.

Of course, we'll need to maintain an environment that's open to investment from all countries.

And we need to make sure that the process for investing here is clear, open, and fair.

When I was Treasury Secretary, we streamlined the CFIUS process to ensure that the rules for investing here would be as clear and fair as possible.

But five years have passed. So the administration should update its examples and guidelines for successful CFIUS review, drawing on experiences from the first few years of the new law.

We should publish more and clearer illustrative examples of investments that have passed or failed the review process, helping to demystify CFIUS and further clarify how it works.

And since China's state-owned enterprises also want to invest here, we'll need a process to define principles for their outbound investment—like the “Santiago Principles” developed for sovereign wealth funds.

Discussion of such principles is underway in two forums, OECD and the Trans-Pacific Partnership. But China isn't a participant in either group. So I encourage our governments to seek ad hoc mechanisms to involve Beijing in the discussions.

And finally, we need to finalize a bilateral investment treaty.

How can we have a BIT with Moldova and Kyrgyzstan but not have a treaty in place to protect U.S. investments in China?

China has signed 120 investment treaties, including with our closest economic partners: Japan, Germany, Britain ... And some of these give foreign investors strong protections, including the option to resort to binding international arbitration for investment disputes.

Shouldn't we want that for our own companies?

II. Assure Transparency and Oversight of Financial Markets

Now consider the second principle: We need efficient and transparent markets with strong oversight.

Well-functioning markets get money to where it is needed. But they also prevent financial systems from creating hidden excesses, or bubbles, which are counterproductive and can be destabilizing.

And so this principle requires, first, that we change incentives that have led to bad behaviors.

In the United States, government policies helped to fuel the credit and housing bubble and unsustainable household leverage ratios. Indeed, in the run-up to the crisis, household debt as a percentage of an American family's disposable income more than doubled from historical levels.

And households still have a long way to go to pay down their debt, reach a sustainable level, and start spending again to support growth.

But the crisis also demonstrated in very brutal ways the dangers of insufficient transparency, or oversight, in credit default swaps, securitization, and the repo market.

And of course it exposed flawed mortgage lending practices, inadequate capital and liquidity, and deficient risk management by our banks, as well as serious problems in our credit rating agencies.

Now, there's more to be done to clarify new regulations and implement sensible regulatory practices.

But there's some good news here because we've moved quickly to address problems in this part of our financial system. And the American sovereign injected capital into our banks—unfreezing credit and bolstering confidence.

In the latter sense, China is like the United States in that no one questions whether the sovereign is strong enough to stabilize the banks.

But assuring oversight of China's *non-bank* lending is going to be a challenge.

In the aftermath of Beijing's mammoth 2009 bank lending stimulus, the country is facing understandable and difficult side effects, not least inflation. And these challenges are harder to deal with for two reasons:

First, with official intervention leading to an artificially weak currency, the central bank has been denied a useful monetary tool to fight inflation.

Second, without sufficient oversight of non-bank lending, it is more difficult for Chinese policymakers to effectively tighten liquidity.

And this so-called "shadow" lending is also problematic because it is not transparent and generates credit risks, and potentially bubbles.

In raising this, I don't want to minimize the progress China has made:

It's remarkable, for example, that China's banks—which were practically defunct ten years ago—have come so far that they could serve as the vehicle through which Beijing injected stimulus lending into the economy in 2009.

That was a critical step for sustaining growth in China. And it became an engine of growth benefiting the world.

For China's banks, then, as with all state-owned enterprises, the next challenge is to run them increasingly as commercial enterprises.

And for the financial system more broadly, assuring transparency and oversight will mean dealing, among other things, with problems of unapproved non-bank lending.

Such lending poses an important risk to the Chinese economy because it has the same macroeconomic impact as lending from China's big banks but without the same levels of transparency and oversight.

China is awash in unregulated capital. Everyone is lending—not just banks but asset management companies, local government investment vehicles, and even state-owned enterprises.

Some economists argue that informal lending was responsible for as much as 40% of new credit creation in 2010 and the first half of 2011. And much of that appears to be company-to-company lending.

At least one estimate I've seen puts inter-company loans at 4 trillion RMB outstanding at the end of 2010—that's more than \$600 billion—nearly doubling from the end of 2008.

These loans aren't esoteric instruments like the securities that helped create credit risks in the United States. And they're filling an important gap by putting capital into the hands of those, such as private firms, that cannot easily get it from China's big state banks, which lend disproportionately to state-owned enterprises.

But recent reports of defaults in Wenzhou demonstrate the risks inherent in these unauthorized loans.

Beyond these questions of oversight, Chinese investors also need a greater variety of well-regulated products in which to invest.

So China needs financial innovation and liberalization. But it needs stronger financial oversight, and more transparency too.

III. Strengthen Market Confidence in Our Economies

The third principle: Work in complementary ways to strengthen market confidence.

And, by that, I mean bolstering trust across our two financial systems while committing to policies that increase confidence in our governments' respective economic choices.

I've talked a lot about transparency today because it's the lifeblood of confidence and good markets.

Markets are built on trust: Transparency fosters it. A lack of transparency erodes it.

Look at the U.S. experience:

In the crisis of 2007 and 08, the markets lost confidence in mortgage securitizations—and perhaps all securitizations—because they were so complex.

Risks were impossible to understand.

Credit ratings lost their meaning.

Credit ratings agencies lost their credibility, particularly with regard to securitized products.

And one institution after another said they were healthy ... right up until they failed.

In the U.S., we're still working hard to restore that lost trust.

But assuring trust is a challenge for China too.

Here's an example:

Recently, outright fraud in a number of Chinese companies that were backdoor listed in the United States has morphed into concerns about the transparency of Chinese banks.

Meanwhile, everyone knows China's economy is growing rapidly, but there's less confidence in Chinese economic data.

So to restore trust, Beijing needs to rectify problems with government and corporate accounting and disclosure.

Then there's the second ingredient of bolstering market confidence: We need a stronger government commitment to addressing our respective economic challenges.

For China, that means deepening its commitment not just to growth but also to rebalancing—and thus to sustainable growth.

And we Americans have difficult decisions to make too:

We must forge a political consensus to tackle our fiscal deficit. And we need fundamental reforms to restore our competitiveness, including, but not limited to, entitlements, taxes, immigration, housing, energy, education and training, and our tort system.

Taking action requires bipartisan cooperation and compromise.

We're a rich country. And if we act soon, we can deal with our fiscal deficit and other economic challenges with shared sacrifice but without any segment of our society having to sacrifice too much.

The longer we wait, the more painful the medicine will be. And if we wait too long, the market will force it upon us.

IV. Trade More Freely

We need to free up and rebalance trade—that's the fourth principle.

Trade has benefited—and continues to benefit—both the United States and China. And at this moment of greatest economic challenge, we need more, not less of it. And we need fewer barriers, not more hurdles.

Indeed, this year marks the 10th anniversary of China's accession to the WTO. Much has been achieved. But, frankly, trade with China should be a more important source of economic growth in the United States. The scope and scale of our bilateral trade fall far below their potential.

Our first challenge is to rebalance our economies and, thus, our trade flows:

China saves too much, produces too much, sells too much to us and to others, and consumes too little on its own.

The U.S. saves too little, consumes too much, and would like to produce more—and to sell more of what we produce to China.

So why are we falling short?

Well, we need to understand, first, that there's good news about trade:

U.S. exports to China have nearly quintupled since China entered the WTO ten years ago, to almost \$100 billion in 2010.

Our exports have grown more quickly than our imports from China.

And China is our fastest-growing export market.

Consider this:

When U.S. exports as a whole dropped by almost 18 percent in 2009 during the financial crisis, our exports to China dropped by less than 1 percent.

That's a demonstration of China's potential to become a demand driver for U.S. products over the long haul.

And yet our trade deficit with China has widened over the past 10 years.

So we must press harder for market access for American goods and services.

And in doing so, even as we applaud China's remarkable growth, which has lifted millions out of poverty, it's worth asking our Chinese friends what they think China's growth trajectory *would* have been if its major trading partners had employed the same practices that China does.

We'll need to press hard for changes to China's regulatory framework.

And we must aggressively enforce our existing trade agreements with China.

American companies can't, for example, be expected to transfer proprietary technologies when China sets unfair domestic content rules.

No one has worked harder than I to open Chinese markets and fight for a level playing field for U.S. firms.

But I'm also a free trader.

Ultimately, I believe what we most need is an affirmative agenda to enlarge the entire pie.

So with the Doha round going nowhere, that means beginning bilateral negotiations with China in the most important sectors, including clean energy technology, and seeking to include China in broader talks with groups of like-minded countries as well.

We should work within the WTO framework. But much as we did with Japan in the 1990s, we should also aim to identify and resolve structural impediments that hinder trade and contribute to bilateral and global imbalances.

Another useful step would be to begin immediately granting China market economy status on a sector by sector basis.

This will allow China to be recognized for the strides its economy has made these past ten years. But it will also force China to face tougher requirements in opening its markets.

China is not a market economy in some ways. It retains legacies of central planning, industrial policy, and state control.

But there are parts of China's economy that function according to market economy rules. China's small and medium sized enterprises, for example—including many exporters—are largely excluded from the realm of state-backed loans and input subsidies.

So to encourage China to move in the right direction, we should recognize progress, with an expectation that all players in sectors granted market economy status act on commercial principles.

V. Help Technology Flow More Efficiently, and Promote Innovation.

Here's the fifth and final principle:

We'll want technology to flow more efficiently in areas that are of mutual benefit. And ultimately, we'll want both sides to promote innovation—so that China moves beyond merely assimilating technology developed by others and U.S. intellectual property is respected and protected.

Americans want to do this—but in a way that protects our national security and intellectual property rights, assures our competitiveness, and leads to more jobs and exports.

There is currently an effort underway in the U.S. government to reform and streamline an outdated and cumbersome export control bureaucracy. I applaud this initiative but it seems to have lost steam. It should be completed as soon as possible.

And there's also good reason to experiment in areas that are decidedly in our national interest—like helping China meet certain energy and environmental goals.

Why?

Well, China has an economy high in energy intensity but low in energy efficiency.

And China's leaders have committed in the 12th Five Year Plan to changes aimed at fostering efficiency, diversifying resources, and reducing carbon intensity.

If China doesn't meet these goals, then the whole world, including the United States, will pay the price.

So we should be willing to export innovative technology that can help China reduce its energy consumption and power cleaner growth into the future.

But we can't do that meaningfully if China fails to respect and enforce intellectual property rights.

Beijing needs to make its commitments in this area real.

And it needs to change a system that, too often, has looked the other way or been complicit in intellectual property theft.

We'll also need enhanced end-user programs with China, to ensure that our technology exports are being used as intended, not in ways that threaten our national security.

And separately, we need to listen to the best scientific advice available as we seek to overcome pressing environmental challenges.

So I propose a pilot project with China, which would convene a team of technical experts from both countries, to focus on existing and emerging clean energy technologies.

Their expert input would help guide officials in both countries. But it would also be useful as the U.S. weighs how to expedite the licensing process.

Over the longer term, we want China to become more of a technology innovator—not just because it could lead to breakthroughs that will be of public benefit, but also because it will change the incentives in China to protect the fruits of its labor.

A China that consumes rather than produces intellectual property will never share the underlying approach to intellectual property protection that has developed in innovative economies.

Conclusion

We're approaching a presidential election, while China approaches its own political succession. And jobs and growth are the number one issue in both countries.

These five principles—and the policy recommendations associated with them—are intended to help our economies assure growth and expand opportunity.

They'll require China to reform—perhaps at a faster pace than its leaders are comfortable with. But I believe reforming too slowly now poses a greater risk to China's economic stability than many in China believe.

For our part, they require the restoration of our own economy and addressing our fiscal deficit and growth outlook. And that can only be achieved through fundamental reforms based on bipartisan cooperation.

The era of overconsumption in the United States is gone forever. And with hindsight, we can see that, like all bubbles, it wasn't sustainable.

As American families repair their balance sheets, consumer spending won't lead growth as it has in the past.

But I have an abiding faith in the resilience of the U.S. economy.

We have by far the world's richest, largest economy. And although we face significant problems, the challenges we face are less daunting than those confronting China and virtually every other major nation. And our problems are of our own making.

Our continued leadership will be a function of our ability to make required policy adjustments.

It is our choices that matter most as we seek to remain globally competitive and economically strong.

Thank you.

From: H [mailto:HDR22@clintonemail.com]
Sent: Thursday, November 03, 2011 6:09 PM
To: Sullivan, Jacob J
Subject: Re: Hank Paulson's China speech

Pls get me a full copy.

From: Sullivan, Jacob J [mailto:SullivanJJ@state.gov]
Sent: Monday, October 31, 2011 08:21 PM
To: H
Subject: FW: Hank Paulson's China speech

Worth a read.

From: Harris, Jennifer M
Sent: Monday, October 31, 2011 1:30 PM
To: Sullivan, Jacob J
Cc: Harrell, Peter E
Subject: Hank Paulson's China speech

Henry Paulson's 5 Ideas for U.S.-China Relations

By Evan A. Feigenbaum

The former treasury secretary on how trade, technology, and regulation can build a mutually beneficial partnership

With the glaring exception of Japan, Asian economies are recovering earlier and stronger from the crisis than nearly all others. And China has now cemented its place alongside the United States and Europe as a growth engine.

But China faces large--and intensifying--vulnerabilities.

And so I thought I'd flag for interested readers a major speech delivered this morning in Washington by former Treasury Secretary Hank Paulson (full disclosure: [my boss](#)).

He has a deep history with the U.S. and Chinese economies--at Goldman Sachs, and then as the Treasury Secretary. As a banker, he worked on historic but thorny issues in China, like privatizations. And at the Treasury, he established the Strategic Economic Dialogue and played a central role in the creation of the Ten Year Energy and Environment Cooperation Framework.

The basic thrust of his speech is twofold:

First, both countries face growing economic challenges and vulnerabilities. And for its part, it is decidedly in the U.S. interest for China to get ahead of these challenges. As Paulson puts it, "China's success at sustaining

growth, fighting inflation, and transitioning from an economic model too dependent on exports and fixed asset investment is closely connected to our *own* success."

Second, "the U.S. and China need to take steps--mostly individually, sometimes together--that will have the mutually beneficial effect of supporting and sustaining economic growth."

That's a striking formulation because it's not focused on "cooperation" for its own sake. Rather, as Paulson argues, the U.S. and China "don't always need to act jointly." They can take separate and self-interested steps that, in the bargain, put their two economies onto a more complementary footing.

You can [read the entire speech here](#), or [watch it delivered here](#).

But for the central message, here are his five principles--let's call them, "Paulson's Principles"--quoted verbatim from the speech:

"Principle one: Unlock the promise of capital and cross-investment.

For the United States, this means assuring greater openness to Chinese investment, leading to the creation of American jobs.

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Paulson's speech goes into considerable detail in all five of these areas and is well worth reading.