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**From:** Sullivan, Jacob J <SullivanJJ@state.gov>  
**Sent:** Monday, October 31, 2011 8:22 PM  
**To:** H  
**Subject:** FW: Hank Paulson's China speech

Worth a read.

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**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.

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."

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