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**THE HONORABLE BARBARA HACKMAN FRANKLIN**  
**“CRITICAL ISSUES IN CHINA – U.S. RELATIONS: ECONOMY RECOVERY AND TRADE”**  
**2009 CHINA – U.S. RELATIONS CONFERENCE: LOOKING AHEAD AFTER 30 YEARS**  
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**REMARKS AS DELIVERED**

It is an honor to take part in this *2009 China-U.S. Relations Conference: Looking Ahead After 30 Years*. I extend congratulations to our Chinese friends on the 60<sup>th</sup> anniversary of the founding of the People’s Republic of China and we thank the Chinese People’s Association for Friendship with Foreign Countries for their kind hospitality this week.

I am pleased to offer comments on our topic today: **“Critical Issues in China-U.S. Relations: Economic Recovery and Trade”**

The global economy has weathered a very difficult time. The worst of the crisis seems to have passed, and while we can begin to envision brighter days, we still have a way to go to shake off the effects of the downturn. We have pulled back from the brink of a global depression through the unprecedented cooperative efforts of nations around the world. In concert, many nations, especially the G-20, have slashed interest rates, pumped liquidity into their financial sectors, and created stimulus packages to shore up their economies. There can be no doubt that we are in a truly global world and that all nations are inextricably linked. What fate befalls one of us impacts all of us. And so, going forward into the 21<sup>st</sup> century, there is a need to reshape our international institutions to reflect the new realities of global interconnectedness. We must construct groups and institutions, which through their vigilance and action, can keep such a dire global economic downturn from happening again and provide assistance when trouble arises. Another imperative is to ensure that new powers – such as China – have an appropriate seat at the table.

**Global institutions are changing and a new power alignment is emerging.**

Several significant changes are unfolding:

- **Formation of the G-20.** The G-20 replaces the G-8 as the gathering of nations having the largest economies. The G-20 countries represent 85% of world economic output, include a mixture of developing and developed nations, and for the first time, clearly acknowledge the importance of many emerging countries. The G-20 nations responded to the crisis with strong, coordinated actions. This is an outstanding result, and there is agreement to do more going forward. The G-20 heads of state have had three meetings so far – Washington in November 2008, London in April 2009, and Pittsburgh in September 2009. The next meetings are scheduled for Canada and Seoul in 2010.

- **Establishment of the Financial Stability Board (FSB)** by the G-20. The FSB is an enlarged version of the Financial Stability Forum which has existed since 1999 to promote international financial stability. The new FSB includes all G-20 countries, Spain, and the European Commission. Its objectives – I quote from its charter, approved by the G-20 heads of state in Pittsburgh – are: “...to coordinate at the international level the work of national financial authorities and international standard setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector politics. In collaboration with the international financial institutions, the FSB will address vulnerabilities affecting financial systems in the interest of global financial stability.” The FSB is a very promising step. But its mission is extensive; fulfilling it will be a challenge.
  
- **An expanded role for the International Monetary Fund (IMF).** Going forward, the IMF will monitor more closely economies around the world and make funds available more quickly when needed. To that end, the G-20 nations have agreed to increase IMF lending resources up to \$500 billion. Also, the Fund’s 186 member nations have agreed to redraw the Fund’s voting structure to give more clout to large emerging economies.
  
- **Change at the World Bank.** The G-20 is asking the World Bank to develop a multilateral trust fund to disburse moneys quickly to countries in need, especially low income countries in need of agricultural assistance. The G-20 also stresses the need to give greater voting power to emerging countries.

These changes signal a new alignment of power in the world, giving more clout to the emerging nations. With this new power comes greater responsibility. The expectation is that those countries will act in ways that are for the good of the global economy and the international order.

### **Sino-U.S. Cooperation has increased over the years**

Turning to the China-U.S. relationship, we note that engagement and cooperation have grown dramatically since diplomatic relations began 30 years ago. The historic visit of President Richard Nixon to Beijing in 1972 and the subsequent creation of a U.S. liaison office in China in 1973 were important steps. It is amazing how much progress China has made since President George H.W. Bush occupied the liaison office in the 1970’s. These steps laid the foundation for a new relationship between the two countries, the culmination of which was the establishment of diplomatic relations in 1979 under President Jimmy Carter. Since that time, while the journey has not been entirely smooth, the strength and importance of the relationship as it stands today can be acclaimed as a success by both sides.

Each new cooperative step seems to have paved the way for more collaboration. In the economic arena, the U.S.-China Joint Commission on Commerce and Trade (JCCT) was an important initiative in 1983 between the two commerce ministers. As Commerce Secretary, under President George H. W. Bush, I traveled to Beijing in 1992 to restore the JCCT dialogue with my counterpart, then Minister Li Lanqing. I'm pleased that the JCCT continues its work to address trade and investment issues, and is holding its 20<sup>th</sup> meeting next week in Hangzhou. Another key milestone was China's accession to the World Trade Organization (WTO) in 2001 in which the U.S. was an active participant and supporter.

Still another breakthrough was the formation of the Strategic Economic Dialogue (SED) in 2006 under the aegis of President Hu and President Bush, led by China Vice Premier Wu Yi and the U.S. Secretary of the Treasury Henry Paulson. Today in the Obama Administration we have an expanded Strategic and Economic Dialogue (S&ED), with State Councilor Dai Bingguo and Vice Premier Wang Qishan on the Chinese side and Secretary of State Hillary Clinton and Secretary of Treasury Timothy Geithner on the U.S. side. Its first meeting took place in Washington in July of this year, and its next meeting will take place in Beijing next year. The dialogue coordinates the numerous bilateral dialogues now taking place and addresses the challenges and opportunities posed by a wide range of bilateral, regional and global issues, both economic and strategic. The expanded S&ED is a significant step and should serve both sides well in the years to come.

But perhaps the most important development over the years is that the two presidents began to communicate and meet face to face more frequently. Such communications go a long way toward building trust. Continuing this pattern, President Barak Obama will visit China on November 15-18, to hold a third set of talks with President Hu Jintao.

Sino-U.S. cooperation has reached a new level because of the severe global economic downturn. The two governments have consulted and worked more closely together than ever before to stave off a global depression. They have implemented the two largest stimulus packages in history and have coordinated their actions. China's importance to the well-being of world economy is now clearly established, and this has placed China in a leadership role which has emerged perhaps more quickly than even the Chinese side had anticipated. In the words of a Chinese scholar, "the financial crisis has shown that China and the U.S. are just like two sides of one coin."

### **A new phase for the Sino-U.S. Relationship**

As a result, a new phase of the Sino-U.S. relationship is now before us. This means that there is a unique opportunity to refresh, rebalance, and strengthen the relationship. It is in the interest of our countries, as well as the stability of the global economy that we do this and do it well. There is much work to be done to address the vital issues of today. I view the economic relationship as the very foundation of the relationship between China and the U.S. The strength of that foundation and the mutual

dependence it creates has facilitated discussion and collaboration on many issues of global security and diplomacy. It is, therefore, in our collective interest to keep this economic foundation strong.

And so we must ask ourselves: what should China and the U.S. do to strengthen the bilateral relationship going forward? I offer several suggestions.

- **First and foremost:** Continue to do everything we can to ensure that the global recovery from the current recession is complete and stable. Work together to ensure that the G-20 and the other global institutions now being created or revamped are effective. Work to ensure well functioning financial systems in both countries, with appropriate regulation in force. The July S&ED underscored the need to ensure the global recovery, and in my view, there is nothing more important.
- **Second:** Work to rebalance the economic relationship. This is an objective both sides are discussing, most recently at the July S&ED. In its simplest terms, this means that the U.S. must increase savings and be less consumption-led and that China must become more consumption oriented and less dependent on exports.

Rebalancing will take thoughtful action. The most challenging aspect is to ensure that governmental policies in both countries provide incentives toward this objective rather than favoring the status quo.

The U.S. continues to be a huge market for China's products. However, China's exports to the U.S. far outpace U.S. exports to China, and the result is a large trade deficit on the Chinese side. Over time we must accomplish a better balance to our export-import relationship so that the trade deficit will not escalate as a sore point, politically, on the U.S. side.

- **Third:** Manage our trading relationship with wisdom, patience, and care. With such a large trading relationship – China is the second-largest trading partner of the U.S. – there are bound to be tensions and disagreements. Currently, there are disagreements centering on tires and certain steel pipes exported from China to the U.S. as well as poultry and auto parts exported from the U.S. to China. Hopefully, these and other pending matters will be settled fairly and will not escalate into a trade war which would damage both sides. A trade war between two such large economies is unthinkable in this still uncertain economic environment. The good news is that the World Trade Organization (WTO) provides a process to resolve those disputes which cannot be handled through bilateral consultation.

Combating protectionism in every country is an idea on which most G-20 countries seem to agree. However, in times of economic turmoil, turning inward and becoming more protectionist is a natural instinct, and therein lies the

dilemma. Although the G-20 heads of state at their London summit vowed to tamp down protectionist actions in their countries, nearly every one had broken that promise within weeks afterward. The concern about protectionism will stay with us even after the global recession subsides. Let us never forget that free and fair trade is one of the ways to grow the global economy and bring prosperity to the people of the world. Protectionist actions have the opposite effect.

- **Fourth:** Work together to guarantee that global energy supplies will be stable and sustainable. China and the U.S. share this resource need, as do many other countries. The concern is that unbridled competition for resources could disrupt the markets for these resources, particularly oil. That would disadvantage all of us. So it is in our collective interest to find ways to work together to ensure that all nations have access to the resources they need to develop and grow.
- **Fifth:** Collaborate to address the most vital issues of the day. One urgent area is climate change. China and the U.S., as the two largest emitters of greenhouse gases, have a responsibility to lead in this effort globally. Earlier through the Strategic Economic Dialogue (SED), the two countries had signed the Framework for Ten Year Cooperation on Energy and Environment (TYP). In July, this year's S&ED took another step, negotiating a Memorandum of Understanding (MOU) to Enhance Cooperation on Climate Change, Energy, and Environment. This is led by the Departments of State and Energy in the U.S. and the National Development and Reform Commission in China; it establishes a mechanism for dialogue and cooperation in a variety of ways, including solutions for transition to low-carbon economies and joint research. These efforts will be a high priority for both countries in the years to come.

There are other important areas in which collaboration is progressing. I'll comment here on just one – product safety. I was an original Commissioner of the U.S. Consumer Product Safety Commission (USCPC) when it was formed in 1973 and am pleased to note that the Commission and its counterpart, China's Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) have been holding Biennial Product Safety Summits. The third one is being held this week in three cities in China. The goal this year is to commit to a more comprehensive approach for preventing and detecting safety hazards in consumer products – from design to manufacture and then to the ultimate use by the consumer. The earlier summits have been constructive and I believe these efforts have helped to correct the safety issues which caused the recall of millions of toys in years past.

- **Sixth: Continue working to build trust – government to government, business to business, people to people.** The educational and cultural exchanges now taking place should be expanded and promoted by both sides. I compliment Texas A&M University for bringing together students from the U.S. and from China to learn from each other during this conference. Another

example is last summer's tour of China by the National Symphony Orchestra (NSO) of Washington, D.C. As a board member of the NSO, I was pleased to help facilitate this tour by securing sponsorship funds. I can report that the members of the orchestra returned very excited about their experience in China. They felt welcomed and appreciated by the Chinese people and were, in turn, impressed by what they saw and heard. These sorts of experiences add to the greater understanding between our two peoples and that bodes well as our nations work together in the future.

### **The evolving new world order**

An additional thought: As China becomes a more consumption-oriented economy, this will mean in the prescient words of Dr. Henry Kissinger, "China will be less dependent on the American market, while the growing dependence of neighboring countries on Chinese markets will increase China's political influence. Political cooperation in shaping a new world order must increasingly compensate for the shift of trade patterns." Dr. Kissinger also notes that defining a new paradigm for a Sino-U.S. long term future will not be easy, because in the past each country was accustomed to setting its own agenda. Neither is accustomed to such extensive consultation. And yet, that may well be what the new realities of the 21st century call for. This means that each side must resist trying to contain or curtail the activities of the other and must resist looking at the other as a rival.

### **The state of the U.S. economy**

Before I conclude, I want to say a word about the U.S. economic situation. There is a question I am often asked by those who notice the massive U.S. government intervention into the private sector to stabilize the financial system and shore up the economy – moves which have resulted in U.S. government ownership of companies in the financial, insurance, and automotive sectors.

The question is this: Do these actions mean that the United States is changing its economic model? My answer is a resounding "no." I believe in the American system of entrepreneurial capitalism. It is this system, coupled with our democracy and rule of law, which has made the U.S. economy the largest and most dynamic in the world and brought our country unprecedented prosperity. This system makes "the American dream" – the rags to riches scenario – a reality. Polls show that most Americans continue to believe in this system and do not want to change it because it is embedded in our culture and has served us well. So, when the current economic trouble is past and our economy is growing again, my belief is that the U.S. government will pull back from further intervention because there will be no need for it.

In the meantime, however, we recognize that there are problems which contributed to the financial crisis and they must be corrected. Another aspect of our American character is that we are willing to recognize our mistakes, admit them, and fix what went

wrong. That is exactly what we are doing. For example, there is a reform bill now pending in the U.S. Congress to tighten the regulatory approach to the financial sector. We expect such a bill to pass very soon. In addition, there are many private sector efforts underway to make the assessment of risk more reliable and to curb excessive executive compensation. The U.S. economy is recovering and beginning to grow again. Once more, it will demonstrate its strength, dynamism, and resilience.

## **Conclusion**

I continue to believe the Sino-U.S relationship is the most important bilateral relationship in the world. Our two countries have a responsibility and the capability to be an enormous positive force for economic growth and stability around the globe in the years to come. Let us seize the moment

Thank you.

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