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**“Targeted Reciprocity”
Making Balanced Relations with China Work for Americans**

Excerpts of Remarks by Henry M. Paulson, Jr.
At the Bloomberg New Economy Forum
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“It’s worth recalling that when we gathered for our first meeting, the outlines of our stormy present were already apparent. I remarked then that we’d arrived at “a moment of change, challenge, and potentially even crisis.” I warned that the prospect of a crisis between the United States and China was leading to the risk of an Economic Iron Curtain. Unstable relations between the two largest economies has contributed to the continuing spread of geopolitical and economic risks. This will disrupt and ultimately fragment the global economic system. Fast-forward two years. It gives me no joy to report that those warnings have been borne out.”

“President-elect Joe Biden has a generational opportunity to plot a course for America that allows us to compete and thrive.”

“The American administration is about to change, but the clock will not simply be rewound. The Trump Administration has been responding to real concerns of the American people about China and real failures of China to act as responsible global citizens. The question is how we respond to these legitimate issues. One perverse benefit of the tensions that have characterized the last few years is that the scope and dimensions of the U.S.-China strategic competition have become much clearer. Even those of us who didn’t agree with every policy choice in Washington or Beijing have come to understand that while new leaders can bring new policies, competition between big powers—and especially between two big powers with rival ideologies and very different political systems—is mostly structural. Competition is now baked into this relationship.”

“To compete effectively, President-elect Biden will need to get the dimensions of competition with China right.”

“For many Americans, the goal of China policy has come to be one thing—achieving ‘reciprocity.’ [which usually means] We will do *with* China only what China does with us. We will punish China when China harms us...At one level, that isn’t surprising: it speaks to an American fundamental sense of fair play.”

“It’s simply unreasonable for Beijing to expect the rest of the world to keep *its* markets open to China unless China continues to open its markets to the world...I’ve long made this argument myself. But this cannot be the end of the story.”

“If achieving reciprocity makes *America’s* system more like China’s, America will ultimately be the loser. We can’t remain competitive if we become more like China—with its closed, statist model, which I believe isn’t going to stand the test of time.”

“It’s time to move from reflexive reciprocity that responds fiercely but erratically by doing unto China what China does to us, to a policy that I call “**targeted reciprocity.**”

“Above all, we need reciprocity **targeted** so that America doesn’t become less *American* in the bargain.”

“We must shift from reflexive reciprocity to targeted reciprocity that holds China’s feet to the fire without making it harder for Americans to thrive. Targeted reciprocity would shift our strategy from reactive to proactive. And it would leverage what’s best about America without losing sight of what’s most competitive about America.”

“[I]f Americans want to compete with China over the long term and to thrive, we must reenergize the system that has made our country the envy of the world for generations. We must prove our economic model is better than authoritarian state capitalism. Our success or failure here will be the key to American global leadership no matter what China does. We need to look to the future when we design an economic recovery program so that we bolster our competitiveness in the bargain.”

“Relentless, debilitating competition where the two governments seek to curtail all trade, investment, and technology flows between them will make that nearly impossible.”

“Companies need to know where the U.S. and China are going to cooperate, where they are going to compete, and where they are adversaries. There is no question we need *major* adjustments to our economic relationship with China. And we must reject the increasingly popular idea that merely *having* an economic relationship with China is somehow bad. What we need is one that is better suited to America’s current and *long-term* national interest.”

“President-elect Biden is a multilateralist. He understands we should be working with a carefully-selected group of major nations to press China for structural economic changes.”

“Biden should join with leading economies—Japan, the EU, the UK, South Korea, and Australia—to leverage a coordinated policy to upgrade the global trading system and its governing bodies, like the World Trade Organization (WTO). It is essential to put in place new global rules for trade, investment, technology, the environment, and the digital world as the rules now lag behind reality.”

“If *these* allied economies can agree on a framework, they will be in a far stronger position to invite China to join, if it is willing to meet their agreed standards.”

“[W]e should now link tariff *removal* to a new approach founded on **targeted reciprocity**. Simply put, I would *only* remove existing tariffs when we have extracted a reciprocal and tangible benefit from China, met by defined benchmarks in a phased bilateral trade agreement. The Biden Administration should initiate a comprehensive new round of bilateral negotiations with China. It should aim for a fair, sweeping, and reciprocal trade relationship based on more meaningful competition... Instead of President Trump’s emphasis on purchase agreements, which are a throwback to the managed trade of the 1990s, we need to focus on markets of the future by opening key areas to investment and export.”

“Another important component of a refreshed agenda is to forestall environmental catastrophe.”

“Climate change is the most certain, and formidable, economic challenge the world faces. So, as governments develop their post-pandemic recovery strategies, promoting environmental goods and services should be a core part of fiscal stimulus plans. China took a positive step by pledging to be carbon neutral by 2060, but we should continue to consider climate change as another economic issue that demands targeted reciprocity... If we want to prevent the worst climate outcomes and preserve essential and fragile global ecosystems, we’ll need China to solve its massive environmental problems at home and adopt better practices abroad...That means ensuring opportunities for our businesses to invest and export clean energy products and technologies, as well as environmental goods and services.”

“By now, it’s clear that aggressive voluntary climate targets are insufficient. We need to create a structure with teeth—one that focuses on the major economies, including China, and deals squarely with the problem of free-riding and creates strong incentives to curb emissions.”

“We’re in the midst of a turbulent and painful period. Yet, for the first time in years, we have opportunities to make a fresh start. Our first goal must be to crush the virus. Our second should be to reduce the risks, unpredictability, and volatility that have damaged our citizens’ livelihoods and businesses both large and small. This is President-elect Biden’s essential task.”

“Getting strategic competition with China right will, quite simply, *have* to be a part of this: Competition without unnecessary confrontation should be our goal ... because confrontation *without* effective competition has produced some poor results for the American people: It has damaged our economy. It has stunted our export opportunities. In time, it will threaten the peace of the world and does not make us safer. And so, we will have chaos and conflict if we cannot get this right. That is in no-one’s interest: Not America’s. Not China’s. Not the world’s.”

“A clear-eyed but productive U.S-China economic relationship, built on targeted reciprocity, is what we need now for the United States to restore and strengthen its global leadership, create a safer America and support world peace.”