

The Economic Club of New York

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The Honorable Hillary Rodham Clinton

United States Secretary of State

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INTRODUCTION

ANDREW TISCH, MODERATOR

Good morning everyone, and welcome to the 418th meeting of the Economic Club of New York. We are now in our 104th year. Today, again we prove that we are the nation's premier nonpartisan forum for discussion of economic policy. Today we welcome our Secretary of State. Hillary Rodham Clinton has demonstrated that in foreign policy and national security what is economic is strategic, and what is strategic is economic. She has been a great advocate for American leadership and for investing in and promoting the sources of our strength. She knows what it takes to compete in the 21st century. She understands the relationship between the economic strength of the United States and America's standing in the world. And that's what has animated her tireless daily work in the past three years that has spanned some 600,000 miles and almost 90 countries. Ladies and gentlemen, our Secretary of State, Hillary Rodham Clinton.

(Applause.)

HILLARY RODHAM CLINTON

UNITED STATES SECRETARY OF STATE

Thank you and good morning. It is absolutely wonderful to be here in New York and at this distinguished, historic New York Economic Club. I want to thank Andy Tisch for his introduction. I want to acknowledge the Economic Club's president, Jan Hopkins. I must say,

Jan, it never gets old seeing a woman president of anything. And so – (laughter) – I'm especially pleased to be here under your tenure.

But I appreciate Andy setting the scene because I know some of you might have wondered....why is the Secretary of State coming to the New York Economic Club? I could see the Treasury Secretary or the Commerce Secretary or the chair of the Ex-Im Bank, but why is the Secretary of State here? And it is because, as he just said, the economic is strategic and the strategic is economic.

Now I suppose that should go without saying, to some extent, it is true, it has been true, and it will always be true. But there is an urgency to that formulation in this early part of the 21st century that has everything to do with America's leadership now and in the years to come.

It was, after all, Harry Truman who said, "Our relations, foreign and economic, are indivisible." Because President Truman understood that if America wanted to shape the postwar world, America had to lead – not just diplomatically or militarily, but critically, and maybe most importantly, economically. And so we marshaled our economic strength to rebuild friends and even former enemies, we led the charge to create a new international economic order, and we made the investments we needed here at home to advance our ideals and promote shared prosperity.

Well, today, it's just as true. Our foreign and economic relations remain indivisible. Only now, our great challenge is not deterring any single military foe, but advancing our global leadership at a time when power is more often measured and exercised in economic terms.

Here at home, it's no secret to any of us that these are difficult times for Americans. Families across our country are struggling to get back on their feet after the worst economic downturn in my lifetime. The protests, just a few miles from here, is a reminder to all of us that we have a great deal of work to do. Whether you come from the left or you come from the right, the challenge is how do we all get on the American team? How do we work together to help our country continue to advance and meet the expectations of the American people?

And yet this is not happening in a vacuum. Around the globe, economic forces are transforming foreign policy realities. We have seen governments toppled by economic crisis. Revolutions born in a Tunisian marketplace have swept across an entire region. Europe faces arguably the most severe economic test since the Second World War, thanks to recession and debt. And everywhere I travel, I see countries gaining influence less because of the size of their armies than because of the growth of their economies.

And I don't think I need to tell a roomful of New Yorkers that we still face serious threats. We always will. But we have to position ourselves to lead in a world where security is shaped in boardrooms and on trading floors as well as on battlefields.

Simply put, America's economic strength and our global leadership are a package deal. A strong economy has been a pillar of American power in the world. It gives us the leverage we need to exert influence and advance our interests. It gives other countries the confidence in our leadership and a greater stake in partnering with us. And over time, it underwrites all the elements of smart power: robust diplomacy and development and the strongest military the world has ever seen.

Right now, the challenges of a changing world and the needs of the American people demand that our foreign policy community, as the late Steve Jobs put it, "think different." Our problems have never respected dividing lines between global economics and international diplomacy. And neither can our solutions. That is why I have put what I call economic statecraft at the heart of our foreign policy agenda. Economic statecraft has two parts: first, how we harness the forces and use the tools of global economics to strengthen our diplomacy and presence abroad; and second, how we put that diplomacy and presence to work to strengthen our economy at home.

Following this speech, tomorrow I am issuing updated instructions on economic statecraft to every single embassy around the world. We have made it a core diplomatic mission to enhance our economic leadership in the world and to drive domestic economic renewal. Under President Obama's leadership, our National Security Strategy is focused on shoring up the sources of our global strength.

Now, it is certainly the case that economic recovery is mostly a matter of domestic policy, political will, and the willingness of the American people to really keep focused on tomorrow. But while our efforts may begin at home, they cannot end there. And today, I want to talk about how we are modernizing our economic statecraft to rise to this global challenge.

We simply have to get this right. Because, despite all the problems, the world still looks to America for leadership. In nearly every country I visit, I see what is sometimes missed amid all the noise in Washington. I see the fact that we have a very strong presence. We have still an amazing amount of goodwill and admiration, but we also have doubts – doubts about who we are, about our staying power, about our willingness to lead economically, politically, and every other way.

When I think about the power of our example and the work we do in every country on every continent, I am reminded that we still have the best economic model that remains the single greatest engine of growth and shared prosperity that the world has ever known.

Now, the events of the past week offer a powerful reminder of what's at stake at the intersection of economics and foreign policy. On Tuesday, the Senate passed a bill signaling its concern about misaligned exchange rates around the world, including in China. And on Wednesday, the Congress passed free trade agreements with three critical partners. And throughout the week, our

European allies have been in urgent negotiations to stabilize the Eurozone. These economic developments are having a major impact on some of our most important strategic relationships.

This is the fourth in a series of speeches that I've been giving on economic statecraft. In mid-July in Washington, I explained how diplomacy and development contribute to our own economic recovery. In Hong Kong, I laid out our economic values and our expectation that all who benefit from the global economy must respect the rules of fair competition. And in San Francisco, I gave a speech on the role of women in the global economy. And here in New York, I want to talk about how our foreign policy priorities and our capabilities are evolving to meet challenges that are both strategic and economic.

First, we are updating our foreign policy priorities to include economics every step of the way. Emerging powers like India and Brazil put economics at the center of their foreign policies. When their leaders approach an international challenge, just as they do when they approach a domestic challenge, one of the first questions they ask is – how will this affect our economic growth? We need to be asking the same question, not because the answer will dictate every one of our foreign policy choices, it will not, but it must be a significant part of that equation.

Now, there will always be times when we put cost aside to keep Americans safe or to honor our principles. And for the last decade, our foreign policy has, by necessity, focused on the places where we have faced the greatest dangers. This week brought a fresh reminder that responding to

threats will always be central to our national security. But it cannot be our foreign policy. In the decades ahead, our foreign policy must focus just as intensely on the places where we have the greatest opportunities. And often, those will be economic in nature.

As we end the war in Iraq and begin bringing troops back from Afghanistan, we are making an important pivot. The world's strategic and economic center of gravity is shifting east, and we are focusing more on the Asia Pacific region. One of America's great successes of the past century was to build a strong network of relationships and institutions across the Atlantic – an investment that continues to pay off today. One of our great projects in this century will be to do the same across the Pacific. Our Free Trade Agreement with South Korea, our commitment to the Trans-Pacific Partnership, are clear demonstrations that we are not only a resident military and diplomatic power in Asia, we are a resident economic power and we are there to stay.

Now, of course, Asia's tigers aren't the only large economic cats out there. We are also making it a priority to engage with the Latin American jaguars, if you can call them that, which grew by more than six percent last year. Our free trade agreements with Panama and Colombia move us closer to our ultimate goal of a hemispheric trade partnership reaching from the Arctic to the tip of Argentina. We believe in the power of proximity to turn growth across the Americas into recovery and jobs here in the United States.

We are also committed to strengthening the economic dimensions of our closest relationships.

Together, America and Europe account for half of the world's economic output, but just one-third of global trade. We can and we should be trading more. At the Trans-Atlantic Economic Council, too often we re-litigate regulatory differences when we ought to be resolving them and avoiding new ones. And this frustrates companies on both sides of the Atlantic. The Trans-Atlantic Economic Council is the forum where we try to resolve these differences, and I believe harmonizing regulatory schemes between the United States and the EU is one of the best ways we can both enhance growth, enhance exports, and avoid duplicative costs. But if you spend weeks arguing about the size of a jar for baby food, that's not exactly facing up to the potential of the payoff that comes from resolving these issues.

So we need to forge an ambitious agenda for joint economic leadership with Europe that is every bit as compelling as our security cooperation around the world. In every region, we are working to integrate economics into our diplomacy. Even in a U.S./Russia relationship dominated for decades by politics and security, we are now focused on helping Russia join the World Trade Organization, and we are putting a special premium on protecting freedom of navigation and a rules-based approach to resource development in places like the South China Sea and the Arctic Ocean.

And of course, you can't talk about our economy or foreign policy without talking about energy. With a growing global population and a finite supply of fossil fuels, the need to diversify our supply is urgent. We need to engage traditional exporters and emerging economies alike, to

bolster international energy security, and ensure that countries' natural wealth results in inclusive growth. So we are establishing for the first time in the State Department a Bureau of Energy Resources, to make sure all of our relationships include advancing our vital national interest in a secure, expanding, and ever cleaner source of energy. I plan to address these issues also in a later upcoming speech. But it's important to point out that when we decided, after I commissioned a study about what we were doing well, what we needed to do better, what we needed to add to the portfolio, what we could afford to drop, energy just stood out as an area that we had not focused on in all of its complexity and importance.

As we embrace economic statecraft, it's not just our priorities that are changing. The way we pursue them is evolving as well. And this is my second point. We are honing our ability to develop and execute economic solutions to strategic challenges. A belief in the strategic power of economic forces is not new in American foreign policy. What is new is the reach and complexity of global markets; the expertise, sophistication, and creative cooperation needed across the whole of government for us to remain effective.

Consider the transitions underway in Egypt, Tunisia, and Libya. If we want to see democracy take root, which we do, we have to bring advanced tools to bear to help countries reform economic systems designed to keep autocrats and elites in power. And we know that aid alone, no matter how generous, is not enough. We need a sophisticated effort to integrate the region's economies, to promote investment, and to assist in economic modernization. This is the logic

behind the Middle East proposals that the President laid out in May, which I have been urging Congress to support. To succeed, the Arab political awakening must also be an economic awakening.

We're supplying similar tools in Afghanistan, where any successful end-game requires a viable economic vision that helps stabilize the country and gives its neighbors a greater stake in its success through greater regional trade and integration. And in our development efforts in Africa and elsewhere, where we are insisting that our dollars reinforce, not substitute for, what markets can achieve on their own, we are pushing an investment agenda.

We are aiming for that same market-minded creativity and sophistication in addressing security challenges. When Iran threatens global security or Syria threatens its own people, we are responding with ever more targeted and hard hitting tools, not only sanctions against leaders and generals but more sophisticated measures to cut these regimes off from insurance, banking, and shipping industries as well as the shell companies that they depend on. We are committed to raising the economic cost of unacceptable behavior and denying the resources that make it possible.

If sanctions are among our more powerful sticks, our culture of entrepreneurship is one of our most effective carrots, an often overlooked element of our economic statecraft and a source of American power. At a time when there are compelling visions for the future of the global

economy that are competing visions, this is a part of the American brand that speaks to people and wins them over to the values we promote around the world – the free markets, the rule of law, the free exchange of ideas. That’s one reason we created a global entrepreneurship program that builds networks of innovators in strategic locations around the world. We’re very well aware of the fact that we’re not only in a political and economic competition; we are in a competition for ideas. If people don’t believe that democracy and free markets deliver, then they’re going to be looking elsewhere for models that more readily respond to their daily needs.

And we happen to believe that our model is not only the best for us; we think it embodies universal principles, human aspirations, and proven results that make it the best model for any country or people. Now, there can be variations on how it’s implemented, but we are in this competition to win it. We want to make clear that it’s not only good for America but it’s good for the rest of the world to pursue democratic and economic reform.

Third, we are modernizing our agenda on trade, investment, and commercial diplomacy to deliver jobs and growth for the American people. Now, I can imagine that some of you know that we have our work cut out for us there, because what is the connection between what we do in the State Department every day and what is happening here in New York or anywhere else in the country? And I know there are some who believe that America, after taking our lumps in recent years, should turn inward. But you can’t call time out in the global economy. Our competitors aren’t taking a time out, and neither can we. What we can do is fight to build and

enforce a system of rules that apply equally to everyone.

Now, of course, no nation is perfect, including our own. But we don't fear a system that is open, free, transparent, and fair, because we know American companies will thrive when the playing field is level. And a level playing field is not just a timeworn rhetorical device. Countries that benefit because we honor our commitments should know we expect them to honor theirs. That principle must be a cornerstone of our approach to economic statecraft, not an ideal that we strive for case by case but a universal expectation everywhere and always. All who benefit from the rules of the global economy have a responsibility to follow them.

Enough of the world's commerce now takes place with developing nations that exempting them would render the whole system not just unfair but unworkable. And that would end up harming everyone. One example of just such an unsustainable approach is China's currency policy, which does, in fact, cost American jobs, but it also costs Brazilian jobs and German jobs and other jobs, and it denies the Chinese people the full fruits of their own labor. China has been gaming the trading system to hold down the value of its currency to give its companies a leg up. It's currency has appreciated, but not enough. And currency is just one unfair practice.

President Obama has made clear that whatever tools we put in place in response must actually work, and must be consistent with our own international treaties and obligations. At the same time, we need to be assertive in securing the win-win economic relationship we can and should

have with China. The State Department is determined to help our companies seize opportunities around the world and bring down barriers to trade, investment, and fair competition. Our ambassadors are leading whole-of-government efforts to drum up new business and fulfill the goal of doubling America's exports by 2015. Under Secretary Bob Hormats, once very involved in this club, is coordinating with the Export-Import Bank, OPIC, and others to support our investors and exporters in emerging economies.

By passing the trade deals with Panama, Colombia, and South Korea, thanks to the leadership of U.S. Trade Rep Ron Kirk, we are proving that even in today's Washington, leaders from both parties can still come together to deliver results but also to send a message to the rest of the world. These agreements will allow us to compete in important emerging markets, creating tens of thousands of jobs for the American people. These victories also give us new momentum to take on a broader agenda of promoting fair competition around the world and updating our economic tool kit.

So we are moving forward in negotiating a cutting edge multilateral free trade agreement called the Trans-Pacific Partnership. Our goal is not only to lower barriers, but to raise the standards of economic competition, from Vietnam to New Zealand to Peru and many places in between. And we will continue to use the Asia Pacific Economic Cooperation Forum, which President Obama will host next month in Hawaii, to push the envelope on open, free, transparent, and fair trade across the Pacific basin.

Now, we have to be nimble and creative because we are confronting new barriers that are emerging not at borders but behind borders, denying our companies a chance to compete on their merits. And this is not just an issue for trade negotiations; it is a challenge for our diplomacy around the world. For example, when governments impose a so-called tollbooth that forces unfair terms on companies just to enter or expand a new market, we push back. And for me, it's clear that when countries turn a blind eye to piracy or other problems, we have to demand that they protect intellectual property. And our embassies are there on the front lines. We step in when we see corruption, red tape, or bullying of small or medium-sized businesses.

And when companies want to compete, then countries have to open up their government contracts and not just expect us to open ours. We are pushing the procurement...the international procurement standards so that it's not just, again, a one-way street. Because when American companies are not given a chance to compete fairly, that costs us jobs at home. Just as the WTO eliminated the most harmful tariffs in the 1990s, today we need institutions that can provide solutions to these new market distortions that go beyond tariffs. Countries that share the same economic values need to create and enforce new agreements and mechanisms to guarantee fair competition.

And let me speak briefly about one barrier we urgently need to address, and that is the participation of women in the global economy. Because when half of the world isn't invited, that

makes a mockery of the ideal of free, open, and fair economic competition. According to the economists over the last decade, women's increased participation in the global labor market in the developed world accounted for a greater share of global growth than China's.

So this is not just about somebody else; it's about all of us, to keep tearing down these walls that prevent business and individuals from seeking their own full potential. But it's not just enough for us to defend against bad behavior and barriers that block people and companies from global competition. We have to get better at playing offense. Every year, the population of the world's cities grows by 65 million people. That's the equivalent of seven Chicagos. The idea of a new world order with seven Mayor Rahm Emanuels should be enough to get all of us moving.

(Laughter.)

American businesses, though, have a major opportunity to help build new ports, stadiums, and highways, and to shape the sustainable cities of the future. I've asked Assistant Secretary Jose Fernandez to help American companies compete where growth is the fastest.

It's also not enough for our commercial diplomacy to promote the flow of goods and services. We also need to promote the free flow of capital, too. Investment in both directions, backed by well-enforced rules, is vital to creating growth and jobs here at home. For example, last year, the Kentucky-based company that owns KFC and Pizza Hut, two iconic American brands, actually made more money selling pizza and fried chicken in China than in the United States. But this creates jobs at headquarters in Louisville and it creates jobs as well in China. When Tom

Friedman warns that the Chinese will “eat our lunch,” I’m not sure that’s what he had in mind.

(Laughter.)

But it is true that we expect fair treatment for our investors overseas. And if we do that, we have to welcome foreign investment in America. Through the President’s Job Council, which I chaired a meeting of last week, and a whole of government paradigm called SelectUSA, we are focused on attracting billions of dollars of new investment to create American jobs. The State Department and the U.S. Trade Representatives Office will also lead negotiations on next-generation of bilateral investment treaties, the so-called BITs that protect and encourage investment. And I am pleased to announce we will soon resume technical level discussions on a new BIT with India.

To make the most of open markets, however, we have to make sure that all companies play by the same rules, whether their owners sit in corporate boardrooms or government ministries. Now, let’s just be very clear here, too often, national favorites enjoy preferential access to government resources and special protection from competition in their markets. That gives these companies, whether they are wholly owned or partially owned by a government, an unfair advantage and harms foreign competitors and local entrepreneurs alike. We are working to include a chapter on state-owned enterprises in the Trans-Pacific Partnership and to finalize new OECD guidelines. Our premise is simple; the rules must apply equally to all companies. We call this commonsense principle competitive neutrality, and we promote it all over the world.

But these challenges to our economic interests are not the whole story. My fourth point is that we also confront a special set of strategic challenges from the growing wealth in state hands today. Governments are entering markets directly through their cash reserves, natural resources, and businesses they own and control. And they are shaping these markets not just for profit, but to build and exercise power on behalf of the state.

Now, there is nothing new about countries using economic power to force others to bend to their will. But today the resources at their disposal are unprecedented, and interconnected global markets present new avenues to deploy them. A decade ago, the governments of emerging nations added a combined \$100 billion a year to their reserves. In 2009, they took in \$1.6 trillion. Sovereign wealth funds now control 12 percent of investment worldwide.

And increasingly, state-owned and state-supported enterprises operate not just in their home markets, but around the globe, sometimes in secrecy, often lacking transparency and accountability that would come from shareholders and regulatory schemes and boards. We also see hybrid companies masquerading as commercial actors, but actually controlled by states and acting with strategic consequences. The dividing lines just aren't clear anymore.

When states participate in markets directly or through the companies they own and control, their behavior is often benign. They are doing what they say they are doing, making an investment.

Sometimes it's even beneficial, as when energy suppliers work with consumers to stabilize global markets; sometimes, but not always. We also see states bullying their neighbors. For example, national oil companies tightening gas supplies in the dead of winter. Or they restrict access to critical minerals after a dispute.

The way states deploy their cash, companies, and natural resources, especially in global markets, is of critical concern to us, and I hope it will be also to you. We need, therefore, to develop international rules and norms that set the boundaries, police bad behavior, and require transparency so that state-owned entities are clear about their intentions and their actions.

As we respond to this challenge, however, we must not respond in kind. When the international community grew worried about sovereign wealth funds, countries, institutions, and the funds themselves came together to agree on the Santiago Principles, a code of conduct designed to reassure all stakeholders that these funds would act responsibly. Today we need to broaden that discussion, to seek similar commitments, perhaps even binding agreements, about the behavior and intentions of state-owned companies. And this is an ambitious agenda, and we need to ensure that the State Department and the U.S. Government are on the right footing to get it done.

After 9/11, we realized that we had to break down the silos that prevented our intelligence and law enforcement agencies from working together. Today, many of the responsibilities of economic statecraft are similarly split among many government agencies. So we all need to bring

our unique strengths to the same table. And under the leadership of the President and the White House, we are taking part in a genuine whole of government effort.

For our part, the State Department has talented, tireless diplomats engaged in economic outreach around the world. At every level, we are trying to up our game. We are reorganizing to break down old bureaucratic silos, creating a new under secretariat for economic growth, energy, and environment, and appointing the first-ever chief economist to the State Department. We will also do more to train our diplomats to understand economics, finance, and markets, and more to promote those who do. We should be aiming for universal economic literacy and widespread expertise. We need to be a Department where more people can read both Foreign Affairs and a Bloomberg Terminal.

Finally, let me underscore that for all we can do beyond our borders, the choices that we make here at home will be the most crucial to shoring up the source of our leadership. And it's not only choices by our government and our political leaders; it's also choices by our businesses. We need to recognize that our dependence on imported oil and our national debt, are foreign policy challenges, not just economic ones. In the short term, they create volatility and give others leverage against us. In the long term, they pose a generational challenge to our global leadership.

We are working to respond with new thinking and a renewed sense of common purpose to get our economy growing, modernize our infrastructure, bring down our debt.

And as we do, we must resist the temptation to slash our investments. Not only our investments in infrastructure, education, R&D, but also in diplomacy and development. As I've said before and I'll repeat again today, the one percent of our budget that we spend on diplomacy and development is not driving our deficit or our debt. Either we invest now in what keeps us safe and secure, or we should expect to pay the costs of living in a more dangerous and economically more challenging world. I don't think that is a choice we can afford.

Washington has to end the culture of political brinksmanship, which, I can tell you, raises questions around the world about our leadership. When I was in Hong Kong, I was just barraged by questions about what I thought would be the outcome of the debt ceiling negotiations. And having been around Washington now for longer than I care to admit, I was able to assure all of the business leaders and government leaders that we would get to a solution probably at the very end. And like Winston Churchill said, we had the best system, but we didn't get to a solution until we exhausted every other alternative.

And that American democracy will always be a little messy – that goes with who we are. But that messiness cannot outweigh the imperative of delivering results. We have to recognize every decision we make now in this totally 24/7 interconnected world, is followed around the world. A lot of people don't understand our system very well, but when they see that we can't make decisions on something as fundamental as to whether the United States of America will default

on our debt, you've got to know it raises questions in their minds about where we're headed as a nation.

But as I say, it's not only our government; our businesses also need to lead. Many companies today are sitting on large cash reserves. And in many countries I visit, leaders ask me, "Where are the American businesses? How come they're not here competing for this contract, for this mining deal, for this business opportunity?" Well, we are working to create an environment where American companies, large and small, at home and abroad, have the tools and the confidence to go full-bore. But ultimately, it is up to all of you, the businesses yourselves, to hire, invest, take the kinds of informed risks that have always been essential to America's success.

Yesterday, at the state lunch for the Korean president, I sat with a group of American businesses who do business in Korea, and we started talking about this. And one of them said – one of the business leaders there said, "You know, there's a lot of risks in the global economy today, and we have to evaluate those risks because we owe our shareholders a very well-thought-through investment policy." He said, "But there's also a new element." He said, "We now feel like we're competing not only against other companies; we're competing against countries."

And it's the obvious countries that we all know, where state-owned enterprises or hybrids are out there competing, but it's also other countries that are much more on the same team between

business and government, and we need to be back on the same American team. We have to work together to address these challenges.

In the 1990s, businesses used their supply chains to take on the problem of child labor in the developing world, and it was American businesses that began to change the terrible picture of five, seven, nine-year-old children in what amounted to forced labor. Today, I am encouraged that a new coalition of major companies is coming together to keep global supply chains free of pirated software and counterfeit goods. That gives innovators their rightful reward, but it also creates American jobs. Because nobody outworks us, and nobody out-innovates us. We just have to be out there competing to deliver what we do best.

To be sure, the challenges facing our companies, our government, and our people are sizeable. But this is not the first time that America has faced adversity, and we have to be just prepared to get out there and fight hard for what we know we can achieve. We have to overcome our adversity at home and around the world.

You see, I believe confidence is a commodity, and we need to remember that at our very best, America remains the opportunity society. A place of idealism, possibility, and pragmatism, a country where an idea hatched in a college dorm room or a garage can still grow and flourish into a multibillion-dollar business. And I also believe that our diversity is one of our greatest strengths. No place in the world shows that better than New York. America today is as well

positioned as any nation to adapt and thrive amidst all of this complex change. And just as we always have, we will seek our success in a way that helps others succeed as well.

Because I know that somewhere in New York or elsewhere in America today, somebody is creating a business with an idea that could be a billion-dollar company if that idea can find its way into the marketplace. I know that somewhere in the developing world, there's an entrepreneur who could succeed if they're given a chance and then to keep trying even if they fail at first. And I know that in some of the places we're following most carefully in the news, Middle East and North Africa, we have to help create that culture of entrepreneurship that will give people a belief in themselves and the possibility that they, too, can have a better life.

Everywhere across this country, we have hardworking, talented people who are ready to be part of America's recovery. It is my commitment that our economic statecraft will help Americans first and foremost live up to their own God-given potentials and then spread that opportunity society broadly.

America's core belief that everyone should have the chance to succeed is one we've come closer to meeting than any country, ever, and we cannot afford to lose that. So in the century ahead, we need to make it true that for every American, and hopefully, eventually for every person around the globe, we're going to build a stronger economy that will provide more prosperity more broadly. We will rise to this challenge, we will answer the questions that are being asked around

kitchen tables and cooking fires, and we will ensure that American leadership will be there for decades and decades to come. And not only will that be good for America, but it is my conviction it is absolutely essential for the world we want to live in. Thank you very much.

(Applause.)

QUESTION AND ANSWER SESSION

ANDREW TISCH, MODERATOR: Thank you, Madam Secretary. As is our tradition, we invite two of our members to pose questions to the Secretary of State. Abby Joseph Cohen is a trustee of the Economic Club and senior investment strategist at Goldman Sachs. Ed Hyman is founder and chairman of ISI Group and a former trustee of the club. They will each ask a question of the Secretary. Abby.

ABBY JOSEPH COHEN: Andrew, thank you. And good morning, Madam Secretary.

SECRETARY CLINTON: Good morning, Abby.

ABBY JOSEPH COHEN: Thank you so much for joining us today and for providing what was an extremely forward-looking, thoughtful, and dare I say it, comprehensive review of these very critical issues. It was so comprehensive that what I would like to do is to drill down on just one of the topics that you raised, specifically the efficacy of the U.S. economic model. You asserted,

and the data certainly prove, that there has never been a more effective economic model in terms of creating widespread prosperity and also enhancing democracy and freedom. And one of the elements of our model has been a focus on free markets, and what we certainly see in the environment today is that many U.S. companies have already begun to respond to the global rebalancing with faster economic growth now being seen in places like Asia and Latin America. In fact, for the companies in the S&P 500, 30 percent of their revenues are already being generated outside the United States, and we estimate about \$1.2 trillion in reserves sitting outside the United States, available for investment someplace. Can you give us some idea of how you would use this corporate strength to benefit the creation of jobs and enhance economic growth in the United States?

SECRETARY CLINTON: Well, Abby, I think that's exactly the right question, but I want to just put it into somewhat of a context and then I will certainly respond. There is no argument with the opportunity that American business has now in growing around the world. We are 100 percent behind that. We want to do everything we can to facilitate it. We want to be out there helping to open doors and knock down those barriers. Because we do think that there is an absolute connection. It's not as though American companies go invest in China or India or Brazil and there's no benefit back home. There is. But the quality of the benefit, the amount of the benefit, and the durability of the benefit depend upon decisions we make here as to how we think about our competitive stance in this new challenging environment. So there is a very important discussion that needs to take place, and I wish it could take place now in our political system

with the involvement and the support of American business leaders, about what is it we need to do to change the tax code, to provide incentives, to work toward the ability to capture some of those resources, reserves that are offshore. How do we bring small and medium-size businesses to the table more effectively? Because it still is a fact that most of our exports come from larger businesses. We haven't kind of cracked the code about how we open more doors for small and medium-size businesses. This is fundamentally an economic and political discussion. But I think we are at a standstill in that debate here at home, and I deeply regret that because I don't think we have the time to be quite as caught up in our own political arguments. There are certain economic realities, and underlying those are the rules of arithmetic. There are certain decisions that we could make that would, in my view, benefit American business, benefit our long-term challenges on the debt and the deficit. It wasn't a hundred years ago – it was the 1990s, after all, where we did have a booming economy and ended up with four years of a surplus in our budget. And I well remember being on the Budget Committee of the United States Senate as your New York senator where a debate was going on about how lowering the debt, even eliminating the debt, would not be a good idea. Well, who could even have that conversation today? And I say this not as a political statement, because I truly am out of politics; I say that as an almost rueful admission that we are doing this to ourselves. And I think it's so important that we rebuild that sort of Team American spirit. Does the corporate tax code have to be revised for a more competitive 21st century global environment? Yes. So let's talk about what will work and what doesn't work. Do we have to begin thinking more about how we try to enlist our businesses in an effort to change codes of conduct and international rules that will benefit them but also benefit

the United States? I think so. So this either/or, us vs. them, mentality that I see unfortunately too much of in our country today, has to give way to a much greater understanding of what we need to do to benefit all of us, and particularly children and grandchildren to come. So I think there are a lot of answers. I look out in this audience, I see people like Alan Blinder. There are a lot of answers out there about what we can do and what we should do. But the thing we cannot afford to do is to remain paralyzed by ideology and partisanship. We need to roll up our sleeves and sit around tables that people have sat around in the past of our country and make these tough decisions. I mean, it's an age-old debate about how best we do it, how we most motivate, incentivize the market. Well, let's have that debate, and based on the facts and what adds up and what doesn't add up, and what we know from the past. May I just end by saying that I'm very bullish on America. I'm very convinced that our system will stand the test of time, that it is enduring. But I really don't want to have to hedge my bets at all. I want to make sure that our economic and political interests are working in tandem to get to the result we seek, which is strong at home, strong abroad, continuing to generate more ideas that are going to benefit us here as well as elsewhere, and putting the building blocks in place. There are thousands of jobs in America today, right here in New York today, that go unfilled because we don't have the workforce with the skills to fill them. So it's got to be a common effort. But I would hope, Abby, that we would begin to recognize, and maybe we'll see some of that coming out of the super committee. Ronald Reagan, George H.W. Bush, Bill Clinton – they reached balanced results that benefitted both our economic and strategic interests. And I think we should look for the same.

ABBY JOSEPH COHEN: Thank you.

ED HYMAN: Secretary Clinton, it's an honor to be on the stage with you.

SECRETARY CLINTON: Thank you.

ED HYMAN: I know I can speak for this group, an appreciation for coming here. I know your schedule is so busy, so thank you very much.

SECRETARY CLINTON: Thank you.

ED HYMAN: And I would join Abby – you – that it was an excellent speech, so thank you.

I am bullish on this country as well, but I'd like to have a question....I'd like to have many questions, but I only have one. But I'd like to ask a question that goes down the road of unintended consequences. So this group is fairly gloomy. Your speech might have picked them up a little bit, but there's a lot of worry that we are, like Japan, there's some worry about the '30s, unfortunately, and in that there's worry about protectionism. And in that light, I would guess that Smoot-Hawley in the '30s didn't realize that what they were doing might have a calamitous impact. So I was wondering what the Administration's view of the legislation on the China currency manipulation is, and how we can limit it from leading to a trade war.

SECRETARY CLINTON: Well, Ed, first, I think that...you know, look, I think people are anxious, and that's understandable. We've gone through a really rough couple of years. But I like to remind myself that we are by far the largest economy in the world, we have the most productive workers in the world, we have the capacity to continually reinvent our economy because we also have a younger workforce than many of our competitors, including Japan, in the world. And that has been largely fueled by immigrants, which is why our immigration debate should not be carried on somewhere apart from our economic interests, because they are closely linked. And so we have all of these incredible assets going for us. But we do seem to be more worried than I think is merited, assuming that we start to act like Americans again, that we start actually solving our problems and working together and realizing the opportunities that lie ahead. But that doesn't mean that we can't... that we can afford to look out at the global economy and not realize that a lot of things have changed and that other countries are now major players on the global economic scene, and we should welcome that. We welcome the rise of the BRIC countries. We welcome the rise that we see happening in Asia. Because remember, our export trade with the Southeast Asian countries is actually still greater than our trade with China. So we have a big investment in growing these economies and seeing middle classes develop, consumers develop. But that doesn't mean that we should accept whatever these countries do to us or to the global economic order. And Chuck Schumer, who has been the champion of the China currency appreciation bill in the Senate, as many of you know, is a very staunch defender of New York's economic interests. And you would have to ask yourself, "Why is Senator Schumer leading the charge on this?" Well, in part, because it is not only distorting the market, it is not only making

our exports more expensive; it is now beginning to impact on other countries as well. So it's not the United States alone saying China needs to re-balance this artificial policy of depreciation, which is good for their exporters, which disadvantages their own people in many ways, can go on. So I don't think there's anything wrong in standing up and asserting ourselves, and I don't see that leading into the kind of protectionism that you rightly warn about from the 1930s. And the Obama Administration has said about the Schumer bill in the Senate that anything we would do needs to be consistent with our international obligations, including WTO obligations. But we also don't want to be taken advantage of. I mean, it's one thing when you see a country rising to a certain level, where they're highly competitive and where we see their presence across the globe, where they're sitting on more cash reserves than any entity has ever had in the history of the world by our best assessment, that they continue to try to game the system to their advantage and our disadvantage. Now, right now they are quite dependent upon us and our market, so we still have leverage and a certain ability to influence the future of events. And we have allies now whom we did not have just a few years ago. So I think it's appropriate and fitting and timely for us to be standing up and saying this is not acceptable; we need a rules-based reciprocity system on border barriers, on tariff barriers, non-tariff barriers, currency actions, and all the rest of it. I think we would not be serving our own country right if we just thought, well, we can't do anything about that. That doesn't sound very American to me. So I think we have to be smart. We can't be protectionist in a classic 1930s sense. But we do have to expect that everybody play by the same rules. And in the absence of that, then we have to put together an international coalition of countries that have the same economic stakes as we do in a rules-based

system that is going to protect economic growth and make it possible for us to continue to compete in the ways we can and wherever we can. And so I think and I believe that this is the beginning of a discussion, maybe even a negotiation. And as I said to you earlier when we were waiting to come in, look, if you're China, you're going to do what advantages China. Why should that surprise anybody, human nature being what it is? And look at the remarkable success they've had. But we're America and we need to take care of what's going to put us on the strongest position. Now, that means first and foremost taking care of our own business here at home, because that's really where we're giving it away to everybody else who wishes to compete against us. But it also means working for a new set of global rules that take into account the changes that we've seen in the last several decades. So thank you very much. (Applause.)

ANDREW TISCH, MODERATOR: Thank you, Madam Secretary. And thank you for everything that you do every day for the United States. To my fellow members of the Economic Club, to paraphrase what the Secretary has said, go out and create business. We are adjourned. (Applause.)