

RHAP SESSION

HANK PAULSON GOES TO CHINA

The former Treasury secretary and Goldman Sachs CEO on the importance of cultivating a stronger relationship between the U.S. and China

STORY *Derek Loosvelt* PHOTOGRAPHY *Ryan Lowry*

In his roles within the banking industry and in the second George W. Bush administration, Henry M. Paulson Jr. has visited China more than 100 times and worked with three generations of Chinese leaders. In his latest book, *Dealing with China*, the head of the Paulson Institute (a nonprofit “think and do tank”) writes about China’s dazzling economic rise, its environmental problems and how the U.S. should work with this new superpower. Paulson spoke with *Rhapsody* by phone from his office in Chicago.

You write that after you left your job with the Treasury, you lost your sense of joy and purpose. Why do you think that was?

It was a bit of a letdown. I’d been at the center of a storm with the financial crisis and, on the one hand, I felt that the programs we put in place, though not perfect, had prevented a catastrophic outcome. They worked quite well, but I felt terrible about the suffering of so many Americans, who had lost jobs and homes. I also understood

that, having asked for unprecedented authority and used it, I’d be open to criticism. But it’s one thing to understand it intellectually and another to experience it emotionally. That was a tough time. I was writing my first book, *On the Brink*, and reliving the events of the financial crisis while reading all this criticism in the papers. I emerged from this period with a recognition that the area in which I could make the biggest difference was working to foster a stronger relationship between the U.S. and China.

You’ve said that writing isn’t therapeutic for you, and that working on your first book was a strain on your family. In fact, when you told your wife you were thinking about writing another, she joked that she was going to start dating again. So why write a second? And why China?

I wrote this book because I feel quite strongly that the United States’ relationship with China is by far its most important. Almost every major global

challenge—from our economy and environment to nuclear proliferation and terrorism—will be easier to solve if we’re working with China in complementary ways. Let’s talk about the environment. The next 300 million people moving to Chinese cities will be one of the major economic events of the next 25 years. That’s going to have a big impact on environmental outcomes. And as major Chinese companies become international companies, their practices will have an enormous impact on the global ecosystem.

You grew up on a farm in Illinois, where you raised pet crows and raccoons and dreamed of becoming a forest ranger. How has your “affinity for unspoiled places” informed your work in China?

As long as I can remember, I’ve loved the wilderness and nature. I’ve always loved wild, beautiful places. This led to a desire to protect them, to work in conservation, and over time that led to a real concern about the issues associated with global climate change. We’ve >



UPFRONT

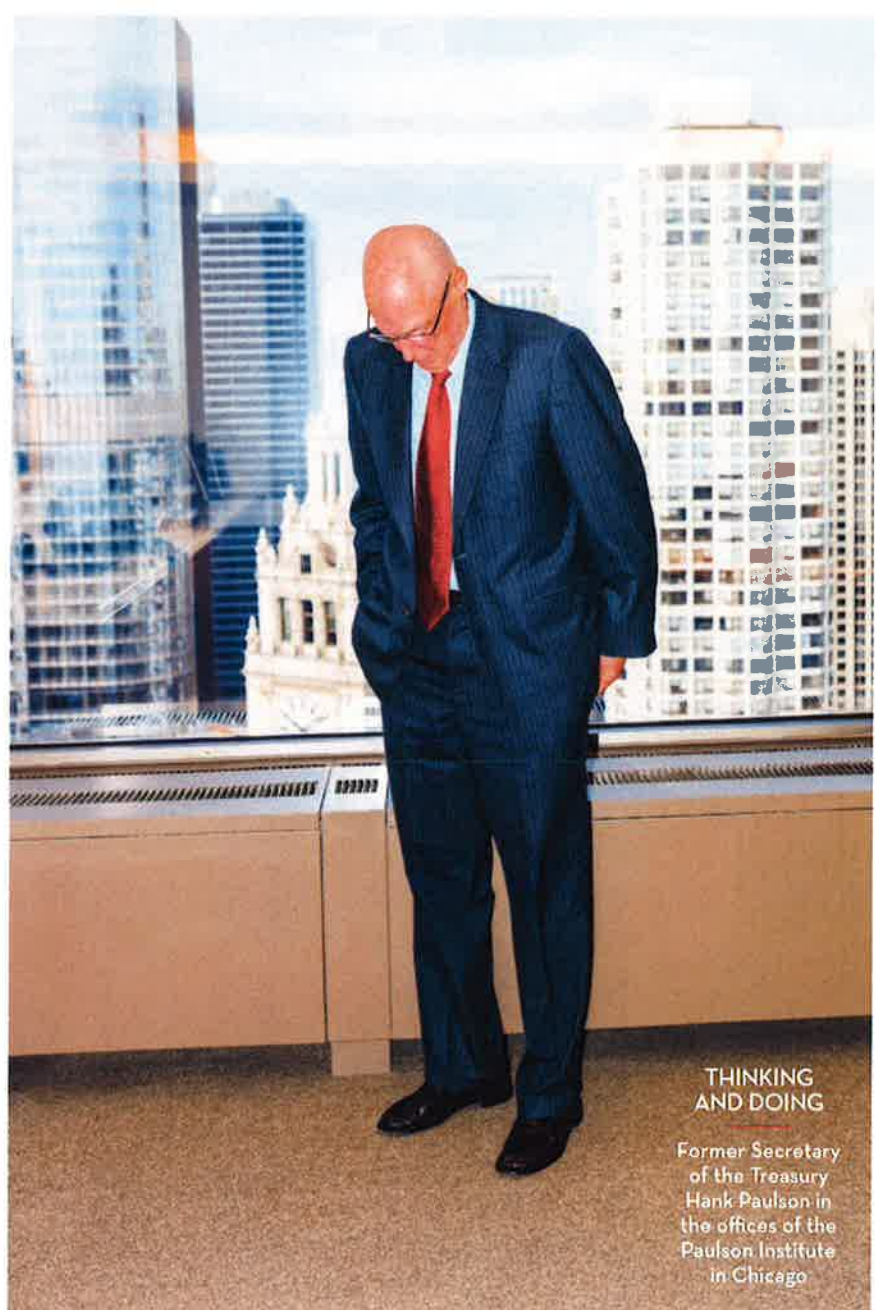
been living for a long time as if nature and natural resources were inexhaustible, as if they were free goods. And I feel a great responsibility to leave a healthy planet to my children and grandchildren. When I look at U.S.-China relations and think about the well-being of my grandchildren, their children and children all over the world, I see climate change as a risk to their quality of life. If you have the two biggest economies in the world—the biggest developed economy and the biggest developing economy—working together to come up with solutions, that's very important. That's one of the reasons I go to China.

What are some of the most beautiful places you've visited in China?

In July 2007, as Treasury secretary, I went up to the Qinghai province on the Tibetan Plateau, one of the highest places on Earth. It's called "China's water tower." This is the fountainhead of seven of the largest rivers in Asia. The Yangtze, Mekong and Yellow rivers all have their source there. It's a tremendously beautiful place. But temperatures there have been rising four times as quickly as other places in China. And its ice caps are melting. When I went there, I saw so clearly that rapid increases in temperatures were going to impact the environment not only in China but also the rest of the world. After that, I returned home really incentivized to focus on clean energy, clean transportation and biodiversity. A year later, we put in place the Ten-Year Framework for Cooperation on Energy and Environment. That helped set the table for last year's historic agreement on climate change between the U.S. and China.

You've written that Chinese President Xi Jinping's "blend of power politics and personal appeal has not been all smiles and selfies." What are the challenges the U.S. faces when dealing with Xi?

He's a very unusual leader in the context of China. He's unscripted, dynamic and a terrific politician. But he has also emphasized the importance of the Chinese Communist Party and reinforced discipline within the Party. And he's very tough when it comes to the Internet and press in terms of censorship. He's made it clear that China



THINKING AND DOING

Former Secretary of the Treasury Hank Paulson in the offices of the Paulson Institute in Chicago

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doesn't aspire to be a Western-style democracy with Western values. But he also wants a good relationship with the U.S., and many things he's doing inside China are very important to us. Sometimes, people have this impression that China's this unstoppable power that's created a better form of capitalism. That's not the case. China's spectacular growth has been accompanied by major problems, which threaten to blow away the nation's progress. China needs to focus on a higher-quality growth—a growth that's sustainable. Xi's dealing with that, trying to crack down on corruption and dealing with a serious environmental problem. If he doesn't succeed in dealing with climate change and carbon issues, that will impact all of us in every country very negatively. ☹