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# Secretary Henry M. Paulson, Jr. at the G-20

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U.S. DEPARTMENT OF THE TREASURY

## Press Center

# Statement by U.S. Treasury Secretary Henry M. Paulson, Jr. at the G-20

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Kleinmond, South Africa -- U.S. Treasury Secretary Henry M. Paulson, Jr. issued the following statement during the G-20 meeting of Finance Ministers and Central Bank Governors in Kleinmond, South Africa.

My career in the financial sector has allowed me to witness the emergence and growing relevance of new participants in international financial markets. Indeed, the resilience of many dynamic emerging markets in the face of the current global financial market turmoil is testimony to the sound economic stewardship in these countries and the importance of the G-20 as a forum for contributing to the management of the international financial system. I was pleased to have the opportunity to meet bilaterally with many colleagues.

When we discussed the turmoil in the capital markets, I explained that we are going through a period of reassessing risk and that will take time and we will experience volatility along the way. In discussions on the decline in the U.S. housing market I noted it is still unfolding and I view it as the most significant current risk to our economy. Even so, I believe we have a healthy, diversified economy that will continue to grow.

As I've noted before, we are taking a two-pronged approach to dealing with the capital markets turmoil and the housing downturn in the U.S. In the short term, we are working to avoid preventable foreclosures and promote orderly markets. We are also focused on policy issues such as transparency, risk management, the accounting and valuation of complex products and the role of rating agencies so we can avoid a recurrence of these events in the future. We took note of the ongoing work of the Financial Stability Forum (FSF) on these topics, which are of great relevance to the G-20. We also agreed to establish a G-20 Study Group to further our understanding of the lessons from the latest credit market turmoil, and this should help supplement the FSF's work.

A major focus of this weekend has been reform of the International Financial Institutions. The G-20 is uniquely situated to constructively address this issue; its member countries make up 85 percent of global GDP and emerging markets have a growing and important role in this group. At both the World Bank and the International Monetary Fund we have strong leaders who have put forward compelling agendas and who now have an opportunity, with support from the member countries, to energize reform efforts and make good progress.

I urged my G-20 counterparts to join the U.S. in showing greater leadership on the Doha talks, and underscored the equal importance of results in agriculture, non-agriculture market access, and services – including financial services. Reducing tariff and other trade and investment barriers and maintaining open markets is critical to ensuring that the benefits of trade are shared broadly and success on Doha is the single most effective thing we can do to raise living standards around the world. The United States is committed to working with our global trading partners and is ready to negotiate off the texts that have been produced in Geneva to ensure a successful Doha Round.

We spoke about commodity market dynamics, managing commodity-led booms and busts, hedging strategies, and non-renewable resource funds. Non-renewable resource funds are one type of sovereign wealth fund. The U.S. is committed to open investment. Sovereign wealth funds should be able to invest globally, but it is inevitable that when large, government-run, opaque funds are investing around the globe, questions will arise. To address this we believe a considered, multilateral approach to sovereign wealth funds that maintains openness is in the best interest of both countries that have these funds and countries in which the funds invest. We have had good support for our proposal that the IMF develop best practices for sovereign wealth funds. Work is also progressing in the OECD to develop best practices for countries that receive foreign government-controlled investment. Recipient countries have a responsibility to maintain openness.

We must continue to stand against threats to the global financial system, including the financing of terrorism and proliferation, money laundering and other forms of illicit finance. Continued cooperation among the IMF, World Bank, and the Financial Action Task Force (FATF) to promote strong international standards is essential to this effort. In particular, we recognize the recent warning by the FATF about the risks posed by Iran to the international financial system and call on all countries to take appropriate action to mitigate those risks. Leaders in the G-20 have a responsibility to prevent Iran, and illicit actors more generally, from misusing the financial system to support their threatening conduct.

Finally, I would like to congratulate and thank South Africa for its outstanding leadership as chair of the G-20 for 2007. The United States was much honored to have contributed by hosting one of the three workshops, on commodity cycles and financial stability, in May at the Treasury in Washington. We look forward to working closely with Brazil as it takes the G-20 chair in 2008.

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