

The Center for Strategic and International Studies (CSIS), the Korea Economic Institute (KEI),
and the U.S.-Korea Institute at SAIS present:

Lael Brainard

*Under Secretary for International Affairs
Department of the U.S. Treasury*

on

Assessing the Economic Implications of the Seoul G-20 Summit

*Moderated by
Michael Green
CSIS Japan Chair*

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TRANSCRIPT

Michael Green (CSIS): Thank you for coming, welcome. I'm Michael Green from CSIS and together with our co-hosts for this event, Jack Pritchard and the Korea Economic Institute, and Professor Karl Jackson and SAIS, U.S.-Korea Institute. I wanna say what a pleasure to welcome Lael Brainard the Under Secretary Treasury for International Affairs for report on the G-20 and the economic aspects of the president's visit to Korea. I will introduce Lael and then we are gonna ask Karl to open with a first question and Ambassador Pritchard will wrap up. (00:58)

some time, and I thought, if Marvel comics ever decided to make an action movie about an international finance superhero character with what has to be based on Lael. Now Lael's brother-in-law works in Hollywood and knows about there's not a lot demand about action movies about Sherpa and negotiating joint statements and currency account and surplus issues and so forth. But her resume is truly impressive and she has had all the major international economic policy issues in two of the last three administrations. She was tenured at MIT in the Economics faculty after getting her Ph.D. at Harvard and served as the Deputy National Economic Advisor and Deputy Assistant to President Clinton for International Economics. That's not me, and turn off your cell phones if you don't mind. And at Brookings, started a major program on international development, finance and trade, now serves as Under Secretary of the Treasury for International Affairs.

We are hosting this with KEI and with SAIS, in part because this is such a remarkable moment for the Republic of Korea. This was the first G-20 hosted by a non G-7 country. Koreans often describe themselves as (02:11) amongst Northeast Asia and here they nineteen other whales, and the President Lee Myung-bak pulled off a quite successful summit meeting. I think it's not unfair to say the President Obama (02:24) a few lumps in the press, over aspects of the G-20, I know from experience from the government, I'm sure Karl does that the narrative media builds often not the narrative of what happened in the room and where you actually stand on building an agenda issues and I look forward to Lael's report on where we stand on some of the contentious issues like currency, some of the issues didn't get enough play like development agenda. And I can guarantee you'll get questions on the Korea Free Trade Agreement. Such a rich menu, Lael

will serve us the first course then we will turn to Karl. Thank you for joining us, (02:59) it's a privilege for us. Thank you.

Lael Brainard: Well, it's wonderful to be here, to be back at CSIS, and it's great to be here with Mike, and I just want to congratulate him, he's the proud father of a four-week-old baby girl in addition to his three-year-old son, so congratulations to Mike. And it's delightful to be here, thank you to CSIS, to KEI and to SAIS for hosting all of us here today. All three institutes, I think your efforts to advance the policy debate here in Washington, and more broadly around the world, are vital to furthering policy innovation and leadership. I will focus my comments today on the outcomes and accomplishments of the past few weeks of international economic engagement, focusing on the president's trip to Indonesia, India, South Korea and Japan, of course, the G-20.

But let me start by just recounting one of my own recent experiences here, on a recent tour of a plant (04:10), a plant manager of more than 30 years, described his company's efforts to look for new ways to make their processes and products better, so they can compete at the most highly competitive markets around the world. He had incredible enthusiasm and optimism and energy. Essentially, he said, "we wanna be number one, and we are constantly looking for new ideas that will help put us there and keep us there." And that captures I think for me in a nutshell why we are working so hard to put in place policy framework that will move the U.S. economy from recovery to renewed (04:48) and all Americans back to work, and that will get businesses back to investing here at home.

As President Obama said on his way back from Asia, we should feel confident about our ability to compete, but we need to step up our game. Exports lie at the heart of our efforts to step up our game, the president's goal of doubling exports in five years, provides clear prism to insure that all of our policies remain relentlessly focused on expanding opportunities from American businesses and American workers. Our engagement in G-20 and APEC in ASEAN as well as bilaterally with key partners such as Korea, China, our core components of that effort to revitalize America's innovative edge and renew our competitiveness. Let me quickly touch on the three key elements of this effort with references to the president's trip to Asia and then be delighted to have conversations and answer some questions.

So first, let me just talk about the broad growth agenda, which really centrally involves our efforts at the G-20. Going into the crisis, our growth was unhealthy and unbalanced, it was fueled by cheap credit, and it fueled in turn massive export surpluses abroad. Looking forward, we all need to find more sustainable sources of dynamism in our economy and around the world, sources of dynamism that will enable jobs to return, and businesses to reinvest. Helping to put growth on that (06:23) footing was at the very core of our discussions at APEC and G-20. As advanced economies like the U.S. continue repairing balance sheets, and deleveraging, and putting public finances on a (06:37) footing, we are going to have to work with other major economies to support new engines of growth for the global economy. In turn, countries previously relied on American consumer to fuel their economic expansion will need to identify new sources of growth. Fortunately, there is ample opportunity to do so, particularly in the emerging markets where consumer needs and infrastructure needs can provide those new engines of growth for the world economy. In Seoul, we went in with an agenda for rebalancing global

demand and for policy agenda to support it. And we came out of Seoul with unanimity around that plan, around that growth agenda.

With agreement that strengthening global growth is the primary goal and that the imperative is to shift demand in order to lift overall growth, the G-20 leaders committed to a new framework to curb excessive balances and noted that all economies surplus, no lessened deficits have shared responsibility to engage in these rebalancing efforts. To take action, the G-20 will work in the coming months to develop set of indicators that will serve as an early warning system to insure preventive and corrective actions. We will now work closely on a timeframe agreed by G-20 leaders in the G-20 and international, with the support of International Monetary Fund to agree those indicators to assess country policy trajectories against them. And of course, there is agreement that exchange rate policies will be a central focus of those discussions. The G-20 recognize the important role of market to determine the exchange rates and helping to facilitate rebalancing. And of course we are working hard to insure that China in particular makes progress and allowing its exchange rates to appreciate in response to market forces as Chinese officials reaffirm their commitment to do. We have noted the accelerated pace of appreciation recent month which sustained material difference to correcting all the under-valuation of the currency.

So in Seoul, we essentially came in trying to set a forward growth agenda, one that would provide cooperative path forward for countries that are currently engaging on a very different growth path, and we felt that we came out with not only commitment around that basic proposition, but a framework for action and timelines to insure that moves forward. Secondly, we were very focused throughout the trip on expanding export opportunities as the president

travelled through the fast growing markets of Asia, he emphasized the key role of opening new markets to support growth in jobs. In 2009, exports made up only 12% of U.S. GDP, the smallest percentage of leading economies. If we want to create broad base sustainable growth here in the U.S., we have to expand export opportunities by strengthening trade rules in key markets by enforcing the rules we have, and of course by supporting our exports from largest multinationals to the newest startups. The administration is providing supports for small and medium-size businesses through (10:12), and through finding and removing obstacles to exporting. We have heard stories going across the country from many small business on how critically important those programs are to getting into growth markets abroad. And commerce's advocacy on behalf of American's export is also yielding important gains we saw as President Obama travelled through Asia where we saw finalization of nearly 15 billion dollars in export contracts.

Trade agreements are likewise important. On the bilateral side, President Obama noted that he's committed to completing negotiations with South Korea on the Free Trade Agreement as quickly as possible. Progress has been made, but U.S. (11:00) keep working to improve (11:02) so it's beneficial to American industry and workers. If done right, this agreement could increase the annual exports of American goods by some ten billion and even more in services, and of course the president also (11:14) his commitment to complete the pending agreements with Colombia and Panama. Regionally, at the APEC summit, the president discussed progress on the transpacific partnership agreement which can serve as platform for economic (11:28) in the fast growing Asia Pacific region, and it model for a world class 21st century trade agreement. Multilateral USTR is continuing to seek a successful conclusion to Doha round, and in particular, expand market access commitment from dynamic emerging economies. But of course, as we

move forward on these efforts to strengthened trade rules, we also need to make sure that we enforce very important trade rules we have, and we are vigorously pursuing a number of WTO cases and investigating Section 301 petition in particular. And in the final piece of the agenda which is really about strengthening our capacity here at home is the president's commitment to strengthen our economy. And again as we look around the world, it should be an invitation to us to step up our game. The president's innovation strategy is one of our key efforts to (12:25) American workers and industry, focusing on the building blocks of innovation, education, infrastructure, advanced communication, technologies, and of course R&D.

As the president travelled in Asia, he also observed countries investing in infrastructure, while the U.S. still living off our investments from decades ago. Noting that it's past time to upgrade a rose railways and (12:50), the president has proposed 50 billion dollar infrastructure fund to bolster our competitiveness through infrastructure investments. We should learn from the efforts of other nations as we pursue these investments. And finally of course tax initiatives are another area where we can provide incentives to invest to future. We have proposed expanded R&D tax credit and 100% expensing of capital investments several of broader initiatives to spur investments. It is also critically important that we strengthening our financial system that we make it more resilient, and that we bring other countries along in that efforts, so that we engage in race to the top, not a race to the bottom. At the G-20, leaders embrace the new bank capital liquidity standards that are part of (13:37) an effort that we put on the agenda, the president put on the agenda in Pittsburgh and we have delivered on it in record time. In Seoul, leaders agreed like in the (13:50 – 13:52) legislature here that no firm is too big to fail, all the countries need robust resolution regime similar to the one we have here, and that the world needs to ensure that

the largest, most interconnected firms have greater loss observances, so that tax payers need never bare those burdens again. The G-20 also addressed the need to move forward together to strengthen regulation derivatives markets. And finally, of course, there were very important agreement was put on the table to ensure the IMF would be stronger, better equipped to deal with crisis of the future, and more representative, recognizing that as dynamic emerging markets are playing a greater role in the system, so too they have greater responsibilities in the system. The G-20 summit and the full scope of the trip to Asia showcase the America committed to working hard, to remain innovative, competitive and strong. We came away with strong agreement among our G-20 partners on the core growth challenge that we face on the process of time table delivering on it. Of course the task before us now is to take the hard steps of action and implementation.

And as we go forward, we feel that the efforts that we are undertaking here at home are (15:21), those efforts that are undertaking with our trade partners both bilaterally, regionally, and of course multilaterally through the G-20. So with that, let me conclude and look forward to the discussion and taking your questions. Thank you.

Green: Thank you Lael, you've given us an excellent introduction to where we are coming out of G-20 and APEC and what to look for in the months ahead and listening to, I think we can all be very thankful you're on the job and on the case. I'll call on people from up here, and there's a microphone, I ask that you to identify yourself briefly, keep questions short, and we will begin the process by turning to my colleague from SAIS, Karl Jackson in the front.

Guest 1 (Karl Jackson, SAIS): Thank you very much. I'm Karl Jackson from SAIS, Chairman of Asian Studies. I was thinking as you were talking about the fellow name Toshiki Kaifu who was Prime Minister of Japan, one, I had certain responsibilities in the American government. I remember him very clearly turning to me, looking me in the eye and promising me Japan would become an import superpower. I'm still waiting. And with regard to the appreciation of (16:45), I think it's very important, important not only the U.S., but to the world. And I'm wondering what the benchmarks are that we should be looking for, not concerning whether or not we are succeeding or falling behind on that particular initiative.

Brainard: I think the important thing to recognize is that the crisis may be clear to reformers in China, to policymakers in China more generally. The view that the growth model was no longer a particular good growth model for them anymore than it is for the world. And in particular, I think there was a recognition, we are seeing this play out little bit in their policy debate. They have tremendous internal capacity to promote domestically driven growth that is healthier growth that their growth model was excessively dependent on over-extended American consumers. So one other thing I think that we can see playing out in this dynamic is there is actually recognition coming out of the crisis. This growth model needs to change, more broadly, there needs to be a shift in global demand. The second thing I would say with regard to that is the exchange rate is we think very important to this rebalancing effort in China and number of other countries that have been cautious on allowing their exchange rate to reflect economic fundamentals and market forces. So we are gonna be working bilaterally through the (18:37), multilaterally through the G-20, and other mechanisms, and as we look at the exchange rate we have noted that the pace of appreciation since September 1st has picked up, and this pace of

appreciation we've seen in the recent weeks has actually been a pace that sustained would make a material difference to the under-valuation of currency.

But I think that the third piece that I would point out is that is we engage in this broader rebalancing is also important and part of the policy trajectory within China to also see a number of supporting economic reforms to help promote the role of domestic consumption in driving growth, and so these policy reforms are complimentary to each other, it's not just exchange rate is also supporting the role of consumer. And reducing the perceived need for precautionary savings, we think these things work together. And the framework that was agreed and embraced at the G-20 in Seoul recognizes that it is that complex of policies that countries like China, not China alone need to undertake structural as well as exchange rate policy that will help shift broader growth model to one that has more engines of growth, and we think we'll be more sustainable for the world economy as we repair our balance sheets.

Guest 2 (Casey ____, Center for Global Development): Hi, thank you. Casey with Center for Global Development. G-20 development action plan included language to expand market access of the least developed countries, but this commitment did not come to (20:31) during the summit. What is the administration's position on providing full duty (20:35) access to the world's poorest countries, particularly in the context of this global collective growth and the absence of Doha Round?

Brainard: Let me just step back for one second and just give not too presently and to the Korean team more generally. For the really outstanding effort that they undertook, I think Mike said

earlier, this was the first time that a country who had not previously been part of G8 undertook to lead the G-20, and so I think it's quite a test of their leadership and their vision and I must say they put a very ambitious agenda on the table and they delivered on it across the board. One of the areas that they put on the table which reflected their own growth experience was a very robust development agenda, as you said development of action plan, they reflected their own experience of growth being at the center of their efforts, and the important role of trade, important role of infrastructure, host of other factors in their own successful development story. With regard to the discussions about market access for the poorest, those conversations will continue in the context of Doha Round and I think the leaders gave renewed (22:00) to the Doha Round to discussions made very clear what additional needs to be on the table to take that forward, but I also say that as you know, our efforts here in the U.S. particular through a (22:13) are widely acknowledged to provide some of the best access in the world, and in fact there have been calls for other countries to emulate the extent of access we provide through (22:24) to reflect that more broadly.

Guest 3: Thank you very much. I'm John, Director of International Advocacy (22:38) Action, alliance of 200 U.S. (22:42). We're very pleased of the extension that Seoul government led on the development side. One area that is growing is the financial inclusion area and the action plan describes the global partnership for financial inclusion that is being set up and at least three organizations are part of that policy level where World Bank connected. I was wondering one, how it is gonna happen, but also how the civil society input would be taken into account, in terms of the design and implementation of it.

Brainard: So one of the areas that certainly treasury we were most excited about was this financial inclusion agenda, I would say that expanding access to financial services both for poor communities, as well as for the small enterprises is something that is widely shared policy goal throughout the G-20, including of course in the U.S. and also well beyond the G-20, and one of the great things about the financial inclusion agenda within the G-20 is it goes beyond the G-20 membership and it has key developing countries that have done some very innovative things in terms of banking the unbanked using mobile telephones as mechanism for expanding access.

And as we take that forward, some of the existing mechanisms multilateral of course (24:05) will be very involved in those work, in that work I think there will be a desire to include the very important players in civil society who have made a lot of innovations. In fact I just wanna highlight one piece, the President Lee and President Obama presided over world ceremony for a number of (24:30) small, medium-sized enterprise financing groups that had all been engaged in innovation (24:40) that was run on behalf of the G-20 by civil society, and these of course groups out in civil society who were being recognized for pioneering some of the most innovative mechanisms to scale up and leverage financing, so you could see right there that there is integral role for civil society to play in that both in innovation also in implementation.

Guest 4 (India Global National): Thank you very much. (25:11) India Global National. The president's trip to India was billions of dollars deal with Indian companies and the government of India. Now as far as India's investments in the U.S.'s concern already creating thousands of jobs here. But the new deal will create more than 50 or 60 thousand jobs in the U.S. Now there is

much demand in India for ‘Made in the USA.’ What do you think? Are you going to support ‘Made in the USA’ that this new deal is going to bring?

Brainard: There were variety of different kinds of products that were actually finalized in the transactions were announced in India, but we already have very set up exporting relationships with India, and there’s tremendous opportunity there as you know, in particular the government is very focused on infrastructure investments. And of course, American companies have huge amounts of innovative products to bring to bear there, you know arranging from transport to clean energy, so I think there’s a lot of opportunity that president spoke to this, met with CEOs from both the U.S. and India, and of course, you know what’s so great about the relationship between the U.S. and India is really very driven by the two dynamic private sectors of both countries. In both cases, you have these very dynamic private sectors and very engaged in whole set of transactions, investments, and exports, so I think the future there has a lot of promise.

Green: I’m gonna jump a Q and ask a question that shifts a bit from content to structure. You and the Clinton Administration had experience managing G-7, G8 meetings. G-20 is exponentially more complicated, politically, geometrically, in terms of diversity of government types and development levels. What if you could say something about how it felt mechanically? There are people out there who say the G-20 can’t survive, it was basically created crisis that was just too big. And if you could give us impressions about what you see as structural viability to G-20 going into the future? That would be helpful.

Brainard: So I think this is really important dimension that we all need to be highly aware of. We are constantly comparing, I think that the G-20 with G-7 and G8, you know which had a 25 year history. Numbers of countries that were similar levels of economic development, and who had developed over decades, deep habits of economic cooperation of working through challenges together. So as we have moved, it is critically important as President Obama said that at Pittsburgh when we moved (28:02) G-20 is the premier forum, it is critically important that India, China, and Korea be at the table, because of their role in the system. But it is their both more countries at the table, and of course, more different growth trajectories. And I think that was in many aspects what we saw as the backdrop coming into this meeting. We are moving from a period of crisis response which characterizes the first two years of this organization. Policy challenges and policy responses were much more uniformed across the countries in the room to a period where we are now experiencing quite different growth trajectories and challenges. Many of the emerging markets are coping with rather good challenge of very rapid growth and a lot of interest in investing in those economies, and some of the advanced economies are still working through repair their financial systems, repair their balance sheets, deleveraging process. That's why we thought it's so important coming into this meeting that we bring a new agenda that we reset the agenda going forward to bring those desperate countries together, (29:24) common growth path, cooperative growth path with different policy prescriptions for different types of countries, but that together those policy trajectories would be a win-win. And so I think that is what we saw in Seoul, but you are right, this is a working progress and it's going to require continued engagement, and very complicated diplomacy.

Green: Gentleman in the back on this side.

Guest 5 (Scott Adam, Inside U.S. China Trade): In the (30:07) between finance ministers' meeting of G-20 and the leaders' meeting, I believe a senior treasury official said that it was time to put meat on the bones of the framework that the finance minister come out – I would like to get your idea of what meat has been put on the bones, it seems like there's no number involved with indicative guidelines with respect to current account imbalances and there was discussion on whether differentiate between currencies, under-valued currencies being subject to certain disciplines or just currency devaluation in general it seems like more generic term ended up being used. I mean, could not one read from the press reports think this might be a step backwards in terms of getting action on China's currency issue, in fact with Germany seeming to join China's side when it got expanded current account balances given its current account situation and the (31:00) two timing announcement seem to rally a number of countries complaining about U.S. policy.

Brainard: So I think there's always a lot of noise in terms of statements to the press. Countries have reasons to address their domestic, political audiences in different ways. But of course, the test is in what was agreed, where did you get consensus in that of course is the communicated document. And I think what you will see there and the reality in the room was that we had unanimous support for the framework which did put important meat on the bones of the rebalancing framework in a number of different ways, perhaps most importantly, we got commitment to action. Very important. Big step beyond what finance ministers and central bank governors had agreed, of course we had commitment at the political level which is the most important thing. We got a timeline. This is going to happen very concretely, develop indicators

that will serve as an early warning mechanism in the first half of the year, develop the assessment of whether policy trajectories are consistent within the first year under the French presidency. Very clear that indicators would serve as an early warning mechanism, they would identify imbalances that would require, this is just the words on the page, so I'm just according directly, preventive and corrective actions, very clear that surplus economies and deficit economies have shared obligations, very clear that exchange rate policies are part of the policies that will be assessed to see their consistency with the commitments that were made. And there's very clear differentiation if you look at the exchange rate language between countries that have obligations to move their currencies in line with market forces, advanced economies that need to continue to be vigilant against exchange rate volatility, and those countries that have been centrally had policies of flexible exchange rates and have been subject to undue adjustment burdens, because of some of the other emerging markets have not been adjusting as much. So there's clear differentiation there, and there's clear connection between the assessment framework and the need for corrective policies.

Guest 6 (*China Press*): Thank you. Donggu Yu with China Press. The G-20 and APEC were regarded as very important opportunity to push China to make more progress in currency issue. And right now, the two meetings are over. I just want [to know] if your expectation before the meeting has been met. What will be your next expectation or certain goal for the (34:10 – 34:13) before the visit by President Hu to Washington DC in January? Thank you.

Brainard: So let me state differently what we thought our objectives were particularly the G-20. Our objective at the G-20 was to work with China, to reach agreement with China and other

dynamic emerging market economies around an agenda that we thought was important which would provide cooperative growth path forward. That would lead to an orderly adjustment of demand and shifting of demand from deficit economies to surplus economies, so that we would see higher growth overall. And that exchange rate was an important part of that adjustment mechanism in particular allowing exchange rates to move in accordance with market forces. And we felt coming out of that there was agreement that all the leaders signed up for that framework, and it gives us a very good agenda going forward from making progress on these key issues. Now with regard to the bilateral discussions, I think President Hu and President Obama in their meeting, President Hu reaffirmed strong resolve to China's flexible exchange rate regime and also reported on the progress that had been made on that since they had last met. So good discussions bilaterally about that issue, and again a cooperative framework with all the members of G-20 to try to address these issues in a way that we think it's win-win going forward.

Guest 7 (Charles Chung, Korea International Trade Association): You mentioned that KORUS FTA and going into G-20 summit, there were high hopes and expectations for the conclusion of their discussions. But, that was somewhat disappointing and there were some reports for the other reasons ranging from autos and beef. So what in your mind was the essential deal breaker? And how can both sides come up with the solution in the future? Thank you.

Brainard: Well, let me refer you to USTR for any discussion about specifics of the negotiation. But simply say that both presidents are very committed, stated their commitment to reaching a good deal. Ambassadors and negotiators to go back to work towards that end, we have confidants that we can get there that we can a good deal and we weren't there yet in Seoul and

what's most important, of course, is that we get a good deal. And it is worth doing that little extra bit of work to get to a place where it's a strong deal where we think it is going to make a material difference to our workers, to our businesses, to our trade relationship.

Green: Lael, thank you. Let me invite Jack Pritchard to the podium for wrap up. That was excellent. You've been generous with your time. Jack?

Jack Pritchard: Well ladies and gentlemen. This has been terrific, short, but compact with information. Mike started by talking about the potential of a superhero role for Lael. And as I was sitting here taking notes, she disqualified herself. She is far too articulate, wouldn't fit well on that role, so we gotta come up with a new category to just reward her actions and her capabilities. Well, let me on behalf of CSIS and Mike, thank you for terrific job as moderating, Karl Jackson for leading off the questions on behalf of USKI at SAIS, and for my organization you'll see the banner here, Korea Economic Institute. We have very much appreciate Lael, you taking the time to report so promptly on economic implications would occur in Seoul and the path forward. But more importantly, even after your presentation, you entered into conversation with people who are very interested in this and you can tell by the type of question, they very much appreciated the fact that you are here. So on behalf of everyone, we want to thank you very much. I have one request it's kind of administrative request, Under Secretary Brainard has another appointment she has got to go to. So please, don't cut her off at the path as we get her into an elevator. I know she loves to continue conversation but we'll have to do in different time. So please join me in thanking Under Secretary Brainard.