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U.S. ECONOMIC ENGAGEMENT ON THE INTERNATIONAL STAGE: A CONVERSATION WITH U.S. TREASURY UNDERSECRETARY NATHAN SHEETS

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P R O C E E D I N G S

MR. BHATTACHARYA: Good morning, everybody. My name's Amar Bhattacharya. I'm a senior fellow at Global Economy and Development at Brookings. It's a real pleasure to introduce the topic and to introduce our speaker, Nathan Sheets.

The backdrop really for this talk is the global economy. As you know, last month G-20 leaders met in Brisbane. Prior to that there was some important other summits, including APEC, and those events had a quite significant impact in terms of how the global economy moves forward. In particular, if you look at the G-20, which the U.S. had a key hand in setting up, not only at the leader's level in 2009, but prior at the finance minister's level in 1999. That grouping has really become the principle forum for international economic cooperation.

And if you look at the performance of that grouping, there's a general perception that while it did exceptionally well in the immediate aftermath of the crisis, there has been a waning in its effectiveness and a sense by the G-20's own account that growth was too low, unemployment too high, and that there was insufficient rebalancing in the global economy.

Against that backdrop, the Australian presidency this year focused very much on a resuscitation of growth, but against a context where there was a widespread recognition that there was not enough aggregate demand in the global economy and that certainly all the engines in the global economy were not working well. When we went into the crisis the perception generally was that it was China that was not adding enough by way of rebalancing. But today, if you look at the situation, it's very clear that the weakness and the lack of rebalancing is in Europe and not in China.

And that's an important difference in the context. There were also -- and what the G-20 did is it made a commitment to increase global growth by 2 percent more than what it would have been at the end of 5 years, and it intends to do so with two principle instruments. By raising investment and, particularly, infrastructure investment and, second, by focusing on structural reforms in countries.

It doesn't necessarily mean that these will address all the issues, and that is something that we would be very good to hear from our speaker today on how the G-20 will address the situation. The G-20 also took important steps on international cooperation and tax avoidance, on financial regulation, and it benefited from the agreements on trade, and I think that's a very important issue.

One other aspect that has changed in the global economy is that oil prices today are much lower than we had expected and this has significant implications going forward and differential implications. Now, against this backdrop, it's, of course, key what the U.S. sees as its leadership role in the period ahead and we are extremely privileged to have Nathan Sheets, who has been recently confirmed as Undersecretary to set out the agenda for the period ahead, what he sees as the key challenges, and how the administration intends to address those key challenges.

Nathan Sheets, prior to joining the Treasury, was head of international economics at CitiGroup, and prior to that he had a very distinguished career, spanning 18 years in the Federal Reserve system. So we really look forward to hearing his views on the recent outcomes, but even more importantly on how he sees the agenda ahead. Thank you. (Applause)

MR. SHEETS: Well, thank you very much. I'm very happy indeed to be here today. Although we are seeing a strengthening recovery in the United States, the overall performance of the global economy continues to fall short of aspirations. We have not yet achieved the G-20 leaders' desired outcome of strong, sustainable, and balanced growth.

From the weak economic news in Japan and Europe, to the outbreak of the Ebola virus, to the ongoing developments in Ukraine, the challenges facing economic policymakers remain as essential and urgent as ever. With this in mind, I would like to highlight a series of six issues that the Office of International Affairs at the U.S. Treasury sees as its core policy agenda for the years ahead.

Along the way I will also discuss some major initiatives that we are pursuing to address these issues. My comments will not be exhaustive, but they will frame what we see as our key challenges and opportunities in the international economic sphere.

Let me begin by noting that our work is grounded, first and foremost, in supporting a growing and vibrant U.S. economy. Our economy benefits from, and in many ways depends on, an international economic and financial environment that is conducive to sustained job-rich and inclusive growth. This is equally true for our partners around the world.

This shared reality provides the foundation for our collaboration in multilateral settings, including the G-20, and for the valuable ongoing dialogue that we have with many partners bilaterally. I was recently in Brisbane, Australia, for the G-20 Leaders Summit, where we had a vigorous discussion about growth and global rebalancing. These discussions reflected not only the varying economic trajectories of the countries involved, but also a persistent and deep ray symmetry in the international economic landscape.

As countries with current account deficits accrue external indebtedness, they often face market pressures to adjust, but surplus countries have not faced symmetric pressures. The historical record highlights that some countries have been able to engineer policies, particularly policies to suppress domestic consumption that have allowed their current account balances to remain in meaningful surplus for long periods of time. The asymmetry has unwelcome implications for the global economy to the extent that global adjustment is driven by demand compression in deficit countries, global trade and output will contract.

This is a lose-lose proposition with adverse effects on global employment and economic welfare. In contrast, a more balanced adjustment in which surplus countries move to strengthen domestic demand, offers the prospect of being win-win. Rising demand in surplus countries reflects increased desired levels of consumption and investment, which is a good thing and spurs exports and production in the rest of the world which, of course, is also a good thing.

Unfortunately, we are not seeing the policies that would drive such win-win rebalancing and growth often enough in the world today. In Europe, for example, the recovery remains fragile and uneven, with weak demand, and some countries are still overly dependent on exports for growth.

As Secretary Lu highlighted in Brisbane, status quo policies in Europe have not been sufficient to achieve our shared G-20 growth objectives. It is critical that countries with large external surpluses and fiscal space pursue demand-boosting policies, such as investment in infrastructure. Although its external surpluses have receded, Japan also has a role to play in supporting rebalancing and in achieving win-win with global growth. The county's recent data make an urgent case for a reinvigorated application of all three arrows of Prime Minister Abe's economic plan. Particularly structural reforms would support domestic demand growth.

Sustained Japanese economic recovery and escape from deflation are vital, not only for Japan, but also for the global economy. Prime Minister Abe has now postponed the consumption tax, but is still important, as Secretary Lu said last month, for the fiscal stimulus measures the government is preparing to more than fully offset the impact of expiring stimulus measures.

To achieve desired rebalancing, policy makers must work together toward mutually beneficial growth strategies. This is why we've advocated in the G-20 and elsewhere the importance of boosting demand. We're encouraged that there is a growing consensus on this issue. In Brisbane, leaders agreed for the first time that "a short-fall in demand" is holding back the global economy. This shared understanding is an important step, but it only opens the next chapter in an ongoing dialogue regarding the necessary roles of surplus and deficit economies in supporting balanced global growth.

Now, a closely related priority for us is to continue and deepen our engagement with the world economy's emerging giants, notably China and India in Asia, as well as Mexico and Brazil in Latin America. We are committed over the next two years to finding ways to continue to strengthen our bilateral relationship with China, such as by advancing negotiations on a high standard bilateral investment treaty, and work together in multilateral settings.

China faces challenges in maintaining its own growth in the years ahead. The country's expansion over the last three decades, although extraordinary by any measure, was based heavily on abundant cheap labor, outsized investment, and an emphasis on industry in rapid growth and exports. This is no longer a viable model of growth for China or for the world economy. Ambitious third-party plenum reforms are squarely aimed at achieving sustainable growth by rebalancing towards household consumption, instead of exports, and towards the services sector, instead of industry.

One critical piece of this agenda and one of which we are actively engaged with the Chinese authorities is the continued reform an development of the financial sector in order to achieve its capacity to provide financing to the new, small, and private enterprises that will drive future growth.

Also critical to China's success in an area of particular importance to us at Treasury is China's accelerating its move to a market determined exchange rate. China has made real progress, but more work remains to be done. At this past S&ED in July, China committed to move to a market determined exchange rate and to reduce intervention as conditions permit. If China continues to live up to this commitment, as it has in the months since the S&ED, and allows the exchange rate to adjust, the result would be increased household purchasing power and stronger domestic demand. This would support a shift in China's economy away from investment and exports and towards services and consumption led growth. It would also promote a win-win growth scenario by increasing opportunities for U.S. firms and workers to sell into a growing Chinese domestic market.

At the this past S&ED, China also affirmed that it was engaged in technical discussions with the IMF to subscribe to the Special Data Dissemination Standard, or SDDS, to increase the reliability and transparency of its economic and financial data. In Brisbane, President Shi announced that China would take this important step and formally subscribe to the SDDS. His promises to increase the transparency of China's foreign exchange reserves and support the move to a more market determined exchange rate.

We also have an important window of opportunity to deepen our economic engagement with India. Prime Minister Modi's sweeping election victory and economic reform platform have the potential to transform India by restoring higher growth and expanding economic opportunities in what will soon become the world's most populist country. India and its people share with the United States an entrepreneurial spirit, a commitment to a vibrant private sector, and a record of economic growth built largely on domestic demand. Over the next two years we plan to focus significant attention on the U.S.-India economic and financial partnership, the U.S. Treasury's main vehicle to engage on economic issue with India.

Through this partnership we will support India in its growth and reform efforts and encourage the greater opening of India's economy to U.S. firms. This is, again, a win-win proposition. We can create new growth and employment opportunities in the United States by further opening this growing market for U.S. exports, improving the climate for U.S. investment in India, and leveling the playing field for U.S. companies. For India, faster growth, deeper financial markets, and greater openness to trade and foreign investment promise to raise incomes, reduce poverty, and bring many more Indians into the global middle class.

There are also important dynamics drawing us toward our neighbors in Latin America and the Caribbean. For example, many of the countries in this hemisphere have made meaningful strides in creating a vibrant middle class. This growing consumer demand can be a bridge to deeper trade and investment linkages with the United States. Fortunately, we have strong economic ties throughout the region, including through free trade agreements with Mexico, Chile, Peru, Colombia, and the countries participating in the CAFTA-DR Agreement.

We are strong supporters of the aspirations of the Pacific Alliance for deeper integration among their own economies, with the United States, and with the Asia-Pacific region. And there is potential for a broader U.S. relationship with Brazil, the region's largest economy. With the retrenchment of commodity prices, the challenges in Latin America and the Caribbean include raising saving, increasing productivity through investment in human and physical capital, and generating jobs. I look forward to engaging my counterparts across the region on these important issues.

Did we get it?

Achieving strong global growth, although important is not enough. To be sustained, growth must be built on a resilient financial foundation. This reality has prompted our work in the years since the financial crisis on an ambitious program of cooperative international financial regulatory reforms within the G-20. Ongoing implementation of the agenda is essential to create a safer and sounder global financial system and help ensure a race to the top in which all countries implement high quality standards.

And we have made important progress. Today banks are generally better capitalized, less leveraged, and have stronger liquidity buffers than in the years before the crisis. G-20 countries have implemented financial sector reforms in other key sectors and areas, as well, including promoting more resilient over the counter derivatives markets and market-based financing. In both areas, the United States has forged ahead as a leader in reform.

Brisbane marked a significant milestone in this effort, the Total Loss Absorbing Capacity, or TLAC standard, announced in Australia, reflects the collective determination of G-20 countries to help protect taxpayers from bearing the cost of a systemically important cross-border bank's failure. Building on our work to bolster bank capital liquidity, the TLAC standard will help authorities to resolve failing global banks in a more orderly manner.

The United States encourages the Financial Stability Board to finalize this important standard by the end of 2015. We should similarly remain engaged across the entirety of our financial reform agenda, particularly as the FSB shifts from the initial phases of reform toward greater focus on evaluating implementation and monitoring emerging risks and vulnerabilities.

This discussion gives rise to another of our priorities, finding ways to enhance access to capital in developing countries, expanding access to financial services for the over 2 billion un-banked people in the world, promises to open new possibilities as the financial wherewithal in these populations grows. Expanding access to finance and deepening financial markets in Africa, the Middle East, and other developing regions will support businesses, empower entrepreneurs, boost household incomes, and ultimately help fuel growth across developing economies.

This is why we're working in the G-20 and with other partners to broaden access for developing countries, and to make access to capital within these countries more inclusive. This is a challenge that must be met in a variety of ways. The World Bank and other multilateral development banks should use their balance sheets to catalyze private investment. Steps should also be taken to strengthen financial intermediation and encourage the growth of financial markets in countries where investment has been too scarce. Investment capital in advanced economies is increasingly restless and looking for higher rates of return, so developing countries with sound policy environments should be well place to attract investment.

Let me highlight one particular aspect of this challenge. Treasury is deeply engaged, along with the G-20 and the multilateral development banks in an ongoing effort to ensure that personal remittances can be sent between countries in a reliable, safe, and efficient way. Global remittances are estimated by the World Bank to total more than $500 billion annually and are on a rising trajectory. In many countries, remittance inflow surpassed the level of official development assistance. Remittances help the world's poor meet basic needs and we need to further explore their potential as a source of development finance.

Treasury's Technical Assistance Program helps developing and transition countries build a regulatory environment and systems infrastructure that increased access to capital and financial services in a variety of ways, not only by facilitating remittances, but also by supporting traditional financial institutions and new digital platforms.

We are also working with our G-20 partners to tackle these issues. In Brisbane, we encouraged countries to take steps to strengthen remittance markets and facilitate competition that could reduce the costs of sending remittances across borders.

And we are continuing to deepen our understanding of these markets, including by supporting a major data collection effort at the World Bank. This data will help us identify vulnerabilities, as well as risk management practices across this increasingly prominent market.

Another aspect of broadening access to capital is what is now termed climate finance. The United States has been a leader in efforts to catalyze finance to support lower carbon technologies and enhance energy efficiency, and to help communities to adapt and become more resilient to the impacts of climate change. President Obama recently announced a $3 billion pledge toward the new Green Climate Fund. This fund will be a leading source for channeling resources for both mitigation and adaptation, and it’s designed to work with the private sector to mobilize funds from investors who might otherwise remain on the sidelines. These investments in clean technologies and climate resilience are designed ultimately to reduce costs and spur innovation and job growth. Treasury will work to shape the international climate finance architecture so that we are maximizing value for money and advancing key U.S. priorities.

The next area I will touch on is our work promoting more open trade in investment. Increase U.S. access to foreign markets and the consequent rise in exports of our goods and services is an important source of job creation in the United States. Imports provide choices for U.S. consumers and foster productivity improvements. Openness to inbound and outbound investments strengthens capital formation in the United States, while expanding the canvas on which U.S. firms are able to compete and invest. There are few policy measures that can do more to deliver job creation and sustain high quality growth than ambitious and balanced trade and investment agreements.

The President's recent visit to Asia advanced negotiations of the Trans-Pacific Partnership, or TPP. This landmark agreement will further open trade and investment among 12 dynamic economies in the Pacific Rim, and this ambitious market opening will be complimented with high standards on labor, environment, intellectual property rights, and state owned enterprises. Asia's middle class will increasingly play a pivotal role as consumers in global market in the decades to come.

Thus TPP will further integrate the U.S. economy with a rapidly growing region of the world. These negotiations have progressed significantly in recent months and TPP leaders have made finishing this agreement a top priority. Additionally, the agreement's architecture is designed to be inclusive. It will remain open in the years ahead for other countries in the region willing to meet its high standards.

While TPP has been in the headlines recently, we also continue to work toward a broad-based Trans-Atlantic Trade and Investment Partnership, or TTIP, with the European Union, and on promoting services trade through pluralateral trade and services agreement. Of course, we are also vigorously engaged in strengthening in the multilateral trading system. Our commitment to the WTO was demonstrated in the recent breakthroughs with China regarding the Information Technology Agreement, and with India on implementing the Trade Facilitation Agreement. We were hopeful that these developments will give momentum to multilateral efforts.

Finally, I turn to an issue that is both timely and important. We at Treasury, and the administration more broadly, are firmly committed to securing approval for the 2010 IMF quota and governance reforms. The IMF has played a central role in promoting international monetary cooperation and global growth since its inception. The U.S. economy and our national security directly benefit from the IMF's efforts to prevent and respond to global economic and financial turbulence, and we will benefit as well from our central role at the Fund.

The 2010 reforms preserve the U.S. role in this institution and do so without increasing financial commitments from the United States. Without these reforms, emerging economies may well look outside the IMF and the international economic system we helped design, potentially undermining the Fund's ability to serve as a first responder for financial crisis around the world and, also, our national security and economic wellbeing. The rest of the world has already enacted these reforms, we should too.

This discussion underscores a related issue. Currently there are six nominees to positions as executive directors, or alternative executive directors, at the IMF and the multilateral development banks that remain unconfirmed by the Senate, operating without a full U.S. leadership team in place in these institutions limits our reach and influence at a time when we are working on a range of pressing challenges. Seeing the administration's talented nominees confirmed is a critical step in our efforts to advance U.S. interests in these institutions.

I will stop there in the spirit of focusing on priorities, and being selective. As I mentioned at the outset, this list of issues is hardly exhaustive, but these six represent the pillars of our work program. Treasury has analytical priorities to pursue out of concern and out of necessity. We cannot focus solely on today's challenges, but must also anticipate tomorrow's. In this spirit, we will actively explore a number of issues on the horizon for economic policy makers. We are, for example, continuing to deepen our understanding of global demographic trends and what they are likely to mean for economic performance and for the ebb and flow of capital and labor resources across countries in the decades to come.

We are also focused on broadening our understanding of the macroeconomic significance of small and medium-sized enterprises which contribute meaningfully to job creation in the United States and elsewhere.

In many areas that I've discussed today, we may see tangible results in the near term, like the progress we have made recently on financial reform climate finance and the multilateral trading system. But even these concrete steps are frequently the result of the often unnoticed and gradual work that we do every day in building stronger relationships and deeper shared understanding. We look forward to working with all of our partners in the Unites States, and around the world, to build an evermore durable foundation for shared economic prosperity. Thank you very much. (Applause)

MR. SHEETS: I now invite Don Kohn forward.

MR. KOHN: Thank you, Nathan. That was a complete and ambitious agenda, I think, for the next couple of years. As you said, it wasn't even exhaustive. Let me start by asking you a few questions that pursue some of the issues you already raised and the first one you talked about, and I think in my view, one of the most important on the global agenda is deficient demand, deficient global demand.

First of all, what effect do you think this is having on the U.S. or could have on the U.S.? How much should we care about what's happening abroad in terms of its effect on us? And then where do you see the problem as largest and what kinds of things ought to be done?

MR. SHEETS: Well, when I look at the global environment today, I would describe it as one of subpar economic performance. I don't see the very pronounced tail-rests that dominated the scene two, three, four, five years ago. But nevertheless, the global economy has not accelerated to growth rates that we expect and I think that we're capable of. And this is an important issue for the United States in that we have trade and financial linkages with the rest of the world.

When I think of policy measures that are necessary, I very much concur with your diagnosis that demand is insufficient. And this is an issue that we at the Treasury have talked about extensively in the past, both in private and in public. In looking around the world, it seems to me that Europe is one example of where stronger policies could lead to more robust and more rapid growth. And in thinking about the situation there, it seems to me that the appropriate set of actions is to bring all available tools to bear. And, specifically, I'm thinking about continued steps from the ECB in pursuing an appropriately stimulating monetary policy.

I'm thinking about fiscal stimulus in countries where there is scope for that, and there certainly are some of those countries. I'm thinking about structural reforms in countries that have seen lagged growth performance for a sustained period, so I think that that's part of the agenda. I think further efforts to reform the banking system would also be constructive. So I think that there are a number of policies that can be pursued in Europe, but also in other countries that would significantly stimulate demand and be helpful to the global economy.

MR. KOHN: You said there are some countries in Europe that have scope for fiscal stimulus. Would you care to be a little more specific?

MR. SHEETS: Well, yeah, I can flesh that out a little bit more. I think a leading example of such a country would be Germany. When I look at the economic data, Germany has a large current account surplus and a very solid fiscal position, where I think that there is scope for further fiscal stimulus. Now, I think the Germans are taking some steps, they're small steps, but they're moves in the right directions, particularly in terms of infrastructure. So I think that they're realizing this need, but I'd encourage them to move more rapidly than they have so far.

MR. KOHN: Thank you. The related topic you talked about was the asymmetry of adjustment and the rebalancing of the global economy. I think in that regard you sounded pretty optimistic on China and the steps that it has taken, a little less frustrated maybe than some past undersecretaries have been in your position. So what do the Chinese need to do and how do you look at the situation now? There's quite a bit of concern, I think, among observers of the global economy that Chinese growth is slowing down and this important driver of demand might give less impetus, so how do you square the progress you see versus the worries that some folks have?

MR. SHEETS: So, indeed we've seen some progress in recent years. Over the last 4 or 5 years we've seen China's current account surplus narrow from 10 percent of GDP down to something below 3 percent of GDP. We've also seen a meaningful real appreciation of the Renminbi against the dollar in multilateral terms. And these are constructive. They have moved in the right direction.

As I noted in my remarks, we're also seeing some steps toward reduced intervention in foreign exchange markets and hopefully that will be sustained. And steps to make their data more transparent, so there's progress, but there is, as you suggest, much more that needs to be done and we would encourage them, consistent with that, to not only continue to move forward, but to accelerate the pace of reforms. So I think, again, the word "rebalancing" is very, very important in thinking about the Chinese economy.

This rebalancing away from exports and towards private consumption, away from investment, which is still over 45 percent of GDP, towards consumption, this is crucial both for ensuring global rebalancing and global sustainability, but as you point out, also for ensuring the sustainability of China's growth and its economy. I think the Chinese authorities have the commitment to ensure that the economy continues to grow and I think they have the resources to do that. So I would expect continued moderate growth from the Chinese economy in the years ahead.

And then I think the final point that's important is that this restructuring that I'm describing, this rebalancing, it's very consistent with what the Chinese leadership have outlined as their agenda, and I would expect to see more of this in the years to come. And, as I said, hopefully, we'll see this progress and even at an accelerated pace, relative to what we've seen in recent years.

MR. KOHN: Thank you. A topic that you didn't mention, but Amar mentioned, and is very much in the headlines over the past couple of months, is the drop in oil prices globally. So I'd be interested in your take on what's going on, why those prices are falling. I won't ask you to predict them for next week, but what effects will that have on the distribution of demand around the globe and on the level of demand? And particularly with respect to the U.S., how do you see this working out?

MR. SHEETS: Well, this is a very dynamic period where we're seeing important developments, both on the supply side and the demand side of energy markets. On the supply side we're seeing the results of technological advances and the extraordinary energy renaissance that's occurred in the United States that is significantly increasing the supply of oil.

On the demand side, the subpar global outlook that I've described has meant that global demand for oil is not growing as rapidly as it would have, but, in addition, I think that people around the world are recognizing the importance of being more efficient and economical in the use of energy. And I think that is both an environmental statement, but also an economic statement and those two sets of factors together are putting meaningful downward pressure on energy prices.

When I think about the implications of this for the global economy, my sense is that on balance this is a positive proposition. Here in the United States it's going to be putting more purchasing power into the wallets of American consumers. That's a good thing. But similar things will happen for consumers throughout the world.

On the other hand, there are some countries that are very dependent on energy and the transition raises questions about their outlook and those are things that we will be following going forward.

MR. KOHN: What do those energy exporting countries -- are there steps that can be taken to reduce their dependence on those exports? Or they will be forced to reduce it, I guess, and to deal with the fallout from the --

MR. SHEETS: I think that many energy exporters have, even over the last decade, been taking steps to try to diversify their economies and develop industrial bases in services sectors, and so on and so forth. It's a challenge. It's difficult. It takes time, but as you point out, the recent drop in oil prices will likely give increased incentive to those efforts.

MR. KOHN: You emphasized the trade pacts, the Pacific and Atlantic Trade Pacts; I was actually sitting there thinking about when the Arctic Ocean Trade Pact was going to happen, uniting those two. I won't ask about that. (Laughter)

So what do we need to do to get over the finish line on those two trade pacts? What step can the U.S. take? How can your office be helpful here? And then, what about trade promotion authority in Congress, how important is it that that get through?

MR. SHEETS: So the administration is firmly committed to TPP, to TTIP, and also to TPA, so these are high priorities and resources will be invested in articulating the benefits that they hold for American workers, American people, American jobs, and so on and so forth.

My sense is that getting them through Congress will be a challenge, but in this environment my sense is that there might be some scope for bipartisan support and I'm hopeful that we'll be successful here. From an economic standpoint, I see these pacts as being crucial. What we are doing is we're integrating the U.S. economy with really what is the most rapidly growing part of the world, in Asia, and then also reinforcing and underscoring our deep relationship with Europe.

So I think these are important steps forward that will be constructive and helpful. And like I said, I'm optimistic that we'll see significant progress on them in months ahead.

MR. KOHN: And trade promotion authority, TPA?

MR. SHEETS: Trade promotion authority is also, along with TTIP and TPP, an important priority that will be pursued in coming months.

MR. KOHN: Okay, good. Are you optimistic on that, too?

MR. SHEETS: Optimistic, as well, yes.

MR. KOHN: Okay, good. And one final point from me before we open it up to the audience, IMF reform and governance. I share your view that this is a really important thing --

MR. SHEETS: Yeah.

MR. KOHN: -- to get done in the United States to complete the global reform quota and governance reform of the IMF that every other country has agreed to. Why hasn't it gotten through in the U.S.? And what can the administration do? What can you do to push this one over the finish line?

MR. SHEETS: Again, this is also, along with trade issues, a very high priority for the administration in the international economic sphere, so it will be vigorously advocated in coming weeks and months. Again, I'm hopeful that we'll be able to make progress on it. The IMF holds enormous benefits for the United States. It's a first responder to countries that are in crisis, and part of that first response is its capacity to provide financial resources, but what we see time and again is that it's not only about the financial resources that the Fund brings to bear, it's the expertise and the insight and the capacity to analyze the economic and financial environment.

And the U.S. has benefited time and again from the capacity of the IMF to respond and to help stabilize. And the United States has also benefits from having a leadership role in the IMF. And if we fail to pass these reforms I think it jeopardizes our position and jeopardizes the capacity of the Fund to do its work going forward.

MR. KOHN: What are the main arguments against the U.S. doing this, endorsing this, and how would you counter that? What are the problems you run into when you advocate this position?

MR. SHEETS: You know, honestly, I think that this is not, at this stage, being played out so much in the world of arguments, in that I think there's broad agreement on the points that I made, that the IMF is important and that the U.S. needs to have a leadership role in the Fund. I think it's just making the logistics of it work.

MR. KOHN: All right, thank you. We have a few minutes. Yes, back there?

MR. WEIHUA: Hi, Chen Weihua, *China Daily.* I'm going to ask you to talk about the importance of boosting global growth and the banking in the developing world. You know, the one thing is for China's initiative, or the Asia Infrastructure Bank, and BRIC Bank, which World Bank and IMF chiefs both voiced their support. But the U.S. has been reluctant or actually expressed skepticism or maybe even opposition, asking South Korea and Australia not to join the Infrastructure Bank. So is that contradictory, actually? Thank you.

MR. SHEETS: This is an enormously important issue. When I look at the world, as I emphasized in my remarks, I very much agree that there are infrastructure deficits in the United States, various countries in Europe. When I go to various other parts of the world, including a whole range of emerging market and development countries, it's a very common concern, the lack of infrastructure.

So, as a general proposition, I think mechanisms to help support mobilization of resources for infrastructure are welcome. However, for a new institution to add constructively to the global environment, I think that there are two very important conditions that it needs to satisfy. The first one is that it needs be able to clearly articulate what its complementarity and additionality is relative to the institutions that already exist and are already in place.

The second key condition is that it needs to incorporate the hard-learned lessons of development lending and development finance from the last 70 years. And that pertains to issues like governance, debt sustainability issues, procurement, environmental issues, and so forth. And I think that is the standard that we're holding any new institution from and I think that's the standard against which the AIIB will be judged.

MR. BHATTACHARYA: I've been asked to mention the Twitter hashtag of #globaleconomy here. (Laughter)

MR. KOHN: In the back, the end of the back row?

MR. TALLY: Hi, Ian Tally, *Wall Street Journal*. Just returning to oil, do you think that the price fall is enough to lift Japan out of recession and help Europe return to some healthy levels of growth? Or what are your fears that it adds to their deflationary environments?

MR. SHEETS: So I am firmly of the mind that if a country is a significant oil importer and you see a significant decline in the oil price, that that is a positive terms of trade shock that increases the purchasing power of households in that economy, and that is a good thing. So I would also recognize that Japan is struggling to get out of deflation, it's recently recorded positive inflation rates and that's positive and constructive. But I see no reason why a lower oil price needs to spill over into the general price level more broadly, so I would be optimistic, indeed expectant, that that decline in oil prices is going to be something that's positive for the Japanese economy, and supportive of their efforts to rebalance and strengthen growth there.

MR. KOHN: Let me look to my left, since it's harder --

MR. SCHULE: Hi, my name is Matt Schule. I'm a reporter from *Inside U.S. Trade*. I wanted to ask you two trade questions. The first is about Japan.

You know, obviously, we're engaged in a difficult negotiation with Japan under the TPP and I was just wondering, you talked about that you think the lower economic figures from Japan should increase the need for it to move ahead on all three arrows, but how do you view this upcoming election as impacting the TPP negotiation in the short or long term? Will it slow them down or make it more likely that Japan would push ahead with structural reforms?

The second question is on currency, which obviously is in the wheelhouse of the Treasury Department. As you know, the majority of both the House and the Senate have called for currency provisions in trade agreements to deal with currency manipulation and I was wondering, has that issue been raised yet in the broader negotiations, or in the bilateral, with Japan? And is the administration open to working on some kind of currency language at the end of the negotiations? Thank you.

MR. SHEETS: On TPP and Prime Minister Abe's position, my feeling is that TPP is a very important part of Prime Minister Abe's third arrow. My sense is that following the elections he's likely to emerge with a renewed mandate to pursue all three arrows of his reform program and that will ultimately be constructive and positive for our capacity to be able to close out TPP.

On currency, let me just say that the administration, the President, have emphasized for a long time that it's inappropriate for any country to try to grow its economy on the back of a significantly undervalued exchange rate. Consistent with that, in our foreign exchange reports, we have identified countries that are pursuing policies that raise questions and we engage these countries bilaterally. We engage in the IMF and in a variety of other context and settings with these countries. So this is a key issue for us and will continue to be going forward.

MR. SCHULE: Do you think it's possible to address it? Is the administration at all open to addressing it in trade agreements in the TPP?

MR. SHEETS: I'm not in a place today to go any further on that issue.

MR. KOHN: Okay?

MR. WOOD: Barry Wood, *RTHK* in Hong Kong. Can we expect the President to make a speech on the IMF this month? You said, weeks and months about the IMF. That seems to suggest you don't expect action in this lame-duck Congress, is that right?

MR. SHEETS: I think that we have in the lame-duck session an extraordinary window of opportunity to make progress. And, indeed, the IMF is one of the key priorities for the administration in this lame-duck session, but I wouldn't want to say it's only lame-duck or nothing. But I think this is a very, very important window of opportunity over these next couple of weeks to make progress on that.

MR. KOHN: One last one, back there?

MR. LANG: Hi, Jason Lang with Reuters. When you say that Germany has scope for further fiscal stimulus, Berlin has been adamant about its plans for deficit reduction, how do you counter their argument that their shrinking population makes it no time to ramp up their indebtedness?

MR. SHEETS: So, as a general matter, thinking about issues associated with demographics and so on and so forth, it would seem to me that if you're worried about demographic issues going forward that it makes sense to try to do all that you can to stimulate your economy to put capital -- particularly to put capital in the infrastructure in place, that's going to support your economy going forward. That would provide you with a much better platform to support an aging population than pulling back and seeing your capital stock and your infrastructure deteriorate.

So I think that particularly capital investment in infrastructure is very consistent with an idea that many of the advanced economies will be facing aging demographics in the decades ahead.

MR. KOHN: All right. Thank you, Nathan. I think we've seen in your talk and your answers a wide-ranging knowledge and thoughtful answers. And in my personal view, the nation's very lucky to have you where you are.

MR. SHEETS: Thank you very much.

MR. KOHN: So thanks for coming to Brookings for this.

MR. SHEETS: Thank you. (Applause)

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