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A PREVIEW OF THE EIGHTH U.S.-CHINA STRATEGIC AND ECONOMIC DIALOGUE

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PARTICIPANTS:

Introduction:

CHENG LI
Senior Fellow and Director, John L. Thornton China Center
The Brookings Institution

Featured Speaker:

NATHAN SHEETS
Undersecretary for International Affairs
U.S. Department of the Treasury

Moderator:

DAVID DOLLAR
Senior Fellow, John L. Thornton China Center
The Brookings Institution

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P R O C E E D I N G S

MR. LI: Good afternoon. I'm Cheng Li, Senior Fellow and Director of the John L. Thornton China Center here at Brookings. Thank you for joining us for this timely and important discussion on the U.S.-China economic relationship in advance of the upcoming strategic and economic dialogue, or S&ED. This round of S&ED takes place at a critical time. Domestically both China and the United States are confronting economic structural changes. China is facing even greater change as it witnesses an economic slowdown.

In terms of the bilateral relationship, market excess issues in both China and the United States have caused some concern. So have the pace of the BIT negotiation and the nature of China's financial liberalization. In the global arena, economic integration efforts, such as TPP, AIIB, and China’s Belt and Road Initiative, all have major implications for economic order. By design, the S&ED links security issues and economic issues in a strategic way. The fact that this round of S&ED will occur soon after President Obama's week-long trip to Vietnam and Japan, and immediately after Shangri-La Dialogue in Singapore, may raise anxiety on the Chinese side.

All of these factors make this year's S&ED dialogue particularly important. U.S.-China economic cooperation has long been the cornerstone of the bilateral relationship. But now we must ask, do our two economies still complement one another? China's top priority is now service sector development, especially in public health, education, entertainment, logistic, tourism, and the green consumption. These are all fields in which American business have an advantage, so in a way still complement one another. Will the Chinese government go beyond its policy outline and really implement forcefully the reform that will lead to a more market oriented and consumption drive economy?

We're deeply, deeply honored to be joined by Under Secretary of the Treasury Nathan Sheets who will offer a preview of the S&ED, tell us what we can expect and address some of these issues. As a top participant on the economic track of the dialogue and the senior official responsible for advising the Secretary of the Treasury on international economic issue, Dr. Sheets has a remarkably broad range of leadership experience in both the private and public sector, in both academic and financial institutions, in both the federal government and international organizations. Dr. Sheets, it is a great privilege to have you speak at Brookings. I know that you are extremely busy and you probably will be on the road to somewhere else even before that trip to Beijing. And thank you for kindly agreeing to take questions after your remarks.

My distinguished colleague, a Senior Fellow at the China Center, David Dollar, will moderate this discussion. Please join me in welcoming Under Secretary Nathan Sheets. (Applause)

MR. SHEETS: Well, it's very much a pleasure to be with you today. As you know early next month we will head to Beijing for the Eighth Strategic and Economic Dialogue, more commonly referred to as the S&ED. The Strategic Economic Dialogue, established in 2006 proved to be a useful mechanism for managing and building a durable and constructive relationship between the United States and China, now the world's two largest economies.

When the Obama administration chose to broaden the dialogue in 2009 to include strategic as well as economic issues, it was done with the understanding that the U.S.-China bilateral relationship is complex, multidimensional, and covers a wide array of issues from trade and investment to multilateral development and climate change, to national security, and nuclear nonproliferation.

As you know, the strategic track discussions are led by Secretary Kerry and his team, while our team at Treasury, led by Secretary Lew, is focused on the economic relationship between our two countries. The S&ED mechanism has helped to resolve difficult problems and deepen our bilateral cooperation. In past years we have seen notable successes such as promoting the rule of law, strengthening regulatory transparency, encouraging economic reforms, including exchange rate flexibility and making progress on financial reform. That is important that such progress continues.

Through last year's S&ED in June, and on the margins of President Xi's visit to Washington D.C. in September, we were able to have a robust exchange of ideas and make concrete progress on an ambitious set of economic outcomes. In the economic track this year we will engage China on a number of key issues, including global excess industrial capacity, investment liberalization, and macroeconomic rebalancing. Generally speaking, we will continue pushing for reforms that lead to more balanced sustainable growth in China and that provide a more level playing field for U.S. exporters, workers, and firms. This year we continue to press China to support domestic demand and household income through consumer friendly policies, improve transparency in the provision of economic data, especially the services sector and in the formulation of regulations, to open markets by liberalizing China's investment rules, including through negotiations on mutually beneficial high standard bilateral investment treaty, or BIT, as well as pressing for more immediate market openings where possible, and ensuring that China's national security review process for foreign investment does not create new barriers.

We are also encouraging the Chinese authorities to reduce excess industrial capacity in China's key base metal sectors and to make supply in these sectors more sensitive to underlying domestic and global demand conditions. The implement reforms will foster an orderly transition to a market determined exchange rate, to address trade barriers and discriminatory regulatory processes in a number of sectors and in cross cutting areas like competition policy, to join the Paris Club as a full member, consistent with the Club's operating principles and practices, and to establish a new set of official export credit disciplines to create a level playing field for U.S. exporters in third country markets.

We have also been discussing with Chinese authorities mechanisms to facilitate RMB trading and clearing in the United States, a priority highlighted in President Obama's meeting with President Xi last September. Given China's G20 Presidency this year we have emphasized the importance of achieving solid outcomes at the S&ED to build momentum for the G20 leaders' summit three months later. In conversations with our counterparts at various levels in the Chinese government, we have repeatedly stressed the importance of delivering meaningful outcomes for our stakeholders that are in line with China's stated reform goals, to move toward greater openness and to give the market a more decisive role in the economy.

China has begun embarking on a reform agenda that outlines a path toward more sustainable and balanced growth. These reforms include reducing industrial overcapacity, limiting corporate leverage, opening up the services sector, strengthening the social safety net, implementing land reform, and promoting a more market based financial system. A central goal of the S&ED has always been to encourage China to take more responsibility alongside the United States for maintaining and advancing the institutions and standards of the existing international economic architecture. Concretely, we hope that China will join the United States in pursuing common goals, such as global rebalancing through the G20, contributing more to the concessional financing windows of multilateral development banks, transitioning to a low carbon global economy, coordinating debt workouts through the Paris Club, financing counterterrorism efforts, developing consistent export credit policies, and embracing high quality environmental and governance standards in development lending.

Just last September when in Washington for his official state visit President Xi committed to meaningfully increase China's financial contributions to the World Bank and the regional development banks for the world's poorest countries, and also pledged that new multilateral institutions, such as the AIIB, would operate in line with the high environmental and governance standards of existing institutions. Constructive engagement with China is important for the United States and for the millions of American jobs that depend on a strong, stable, and growing global economy. As this year's S&ED will be the last under the Obama administration's leadership, I must stress the continued cooperation with China on the diverse set of issues covered in the S&ED is crucial, not just for our respective countries but globally as well.

Thank you very much. (Applause)

MR. DOLLAR: Okay. Thank you very much, Undersecretary Sheets. That was comprehensive. You mentioned a remarkable number of issues and I'm going to come back to that.

MR. SHEETS: It's a very rich dialogue that we have with the Chinese counterparts.

MR. DOLLAR: And you were disciplined, which I appreciate. So I'm going to take a few minutes to have some questions and then we'll have plenty of time to open it up and take questions from the audience.

So I'd like to start big picture. You know, if you were talking to the American people, which you are to some extent -- this may be a specialized part, but the media is here -- why should the American people care about this bilateral economic relationship? What do American people get out of the economic relationship with China?

MR. SHEETS: So when I think about the importance of the relationship there are a number of key observations that I think are important. First on the list is I deeply believe, and I think the last 70 years of history clearly attest, that open global economy that facilitates trade and investment flows is one that is best able to facilitate growth and development of countries. That that is a core driver of growth in the global economy and in the United States. So as we see China open, as our economic relationship with them becomes deeper and more integrated, on the one hand that creates a lot of opportunities for U.S. firms to export to China, which creates jobs and opportunities in the United States, it creates opportunities for U.S. firms and others to invest in China with positive implications that that suggests. By the same token, it gives U.S. consumers and firms access to a whole new range of goods that the Chinese produce, and through this process of trade and exchange it lifts growth and it lifts standards of living.

But in addition one of the things that I think is clear from economic theory is that at the end of the day the one thing that really matters the most for the growth process over a long horizon is the pace of productivity growth. And I think that there is some evidence suggesting that trade is related to productivity, but more importantly, as we see one and a quarter billion Chinese more deeply integrated into the global economy, that brings with it a huge quantum of creative and innovative capacity that I think will lift and support innovation for the years ahead. And as good ideas are developed that's in the global industry, that's in the U.S. interest.

MR. DOLLAR: Okay. Thank you. You know, in your remarks you mentioned a large number of different issues as I said, and it just reflects that there's a very comprehensive agenda between the U.S. and China.

MR. SHEETS: And I thought I was being selective.

MR. DOLLAR: I was trying to keep count, but I started running out of count. But clearly a lot of issues. One danger that as you get kind of mired in a lot of different short conversations about a lot of different things, so obviously it's important to set priorities. So the second question I wanted to ask you is, you know, if you could just pick out one or two things that China could do that would make a big difference in U.S.-China economic relations. And you did refer to the fact that -- you just gave a nice answer about the benefits which are mutual, but the relationship has been imbalanced. You referred to that on the trade side and also on the investment side. So if there were one or two things China could do that would make a significant difference in deepening our relationship, making it less imbalance, what would you pick out?

MR. SHEETS: So the two words I would highlight, one is rebalancing, and the second word is actually -- so it's three words -- the second one is business climate. And think those are the headline categories in my mind. The rebalancing of China's economy, which is ongoing, is of crucial importance to ensure a balanced relationship with the United States, but also to ensure that the Chinese economy is able to grow in a sustainable fashion going forward.

My sense is that right now the Chinese economy is in the midst of four rebalancing. Let me just articulate those very quickly. The first one is from exports to domestic demand. And my sense is that we've seen a fair amount of progress over the last decade or so, that the current account surplus is still sizeable, but substantially smaller than it was in the 2000s. The second rebalancing is from investment to consumption. China has a very high investment ratio and a very low consumption ratio. And in order for the economy to be sustainable we need to see the consumer in China play a more central role. And quite frankly this is one stage of rebalancing where I think there is still a fair amount of work to be done, and this is an area where we spent a fair amount of time talking with them. The third area is from manufacturing into services, and I think that we're seeing some progress here. This is particularly important in that the challenge for China's authorities is to provide jobs for its public as more and more people become integrated into the formal economy. And services are more labor intensive than manufacturing. And then the final and maybe most difficult of all rebalancing is from public control into private control. And there are many different definitions and dimensions of the public to the private rebalancing. And I very much see the exchange rate that you mentioned as being part of the rebalancing.

The other key term is the business climate. And I think on this one there is still a fair amount of work to be done. I think the bilateral investment treaty has been a key part of the effort here. Those negotiations are ongoing. We're awaiting China's next negative list. But in addition to the bilateral investment treaty we need to see discreet progress on issues like transparency, reliable rule of law. The national security review that they have that stands in the way of investment, so increased openness to investment. This is an area that is increasingly central and plays an increasingly key role in our discussions with our Chinese counterparts.

MR. DOLLAR: Right. So you mentioned the investment issue. One of the interesting developments in the last few years is there's a very large amount of Chinese capital, first just going out of China. China had a large current account surplus as you indicated, but mostly that was balanced by China accumulating central bank reserves. But now more recently you see a lot of commercial Chinese capital going out. Some of it is private, some of it is state enterprises, it's commercial. And leaving aside Hong Kong, the U.S. seems to be the number one destination, not that surprising, U.S. is a major investment destination, good property rights, institutions, et cetera. But you're seeing now lots of acquisitions, you're seeing a lot of stories about Chinese firms buying

U.S. firms. But our firms can't go to China and make acquisitions in the same sectors. You were discussing some of the sectors that need to expand in China -- actually, sorry, it was my colleague, Cheng, who was talking about -- you're nice list of tourism, healthcare, logistics -- I kept thinking these are all closed sectors in China. These are sectors where foreign investors cannot come in and invest. And so I think that asymmetry is a problem. Do we have leverage, do we have tools, can we use CFIUS to manage this?

MR. SHEETS: So my sense is, as I suggested, that on the one hand, the fact that the U.S. economy is open to foreign investment is foundational and of great importance. And I think it's imperative that we continue to protect that and to ensure there are economies open to foreign investment.

So as we think about this issue I think it's important that we address it very much from the perspective of working with our Chinese counterparts to open up further and take additional steps in some of the areas that I mentioned, in business climate and then in some of these key sectors, which are likely to be the drivers of Chinese growth going forward, are likely to be drivers of Chinese investment going forward, and are very consistent as well with the rebalancing story that I was telling. That's where future GDP growth needs to come from. And my sense is that as that happens that the potential benefits for China are really quite significant, that U.S. firms in those sectors, and we could add the finance sector as well, bring into China significant expertise and capacity which allow these firms to employ and increase levels of expertise and so on and so forth that is good for the U.S. firms and for their employees, and it's good for China's economy. So I think the key is to stay focused intensively on this issue of business climate as we are.

In terms of the CFIUS process, I think CFIUS is rightly focused narrowly on the issue of national security and will a transaction have an implication for U.S. national security. And I think that's where it should stay. I think that if we were to broaden that mandate that that would create ambiguities about our openness to investment which is a key driver of growth over the medium to long-run.

MR. DOLLAR: Okay. In your remarks you mentioned excess capacity two or three times. I know from sitting through these dialogues that in fact the two sides often end up discussing issues that might seem more domestic. So I think it will be useful to explain to people why is China's excess capacity potentially a bilateral economic issue between the U.S. and China, or a multilateral issue. And then what's your understanding of how they're going to address excess capacity and why is it important to us?

MR. SHEETS: Right. So as you nicely say, this excess capacity issue that we face in China's steel sector, for example, or aluminum sector, is a bilateral issue in that our U.S. domestic producers are feeling an effect. But it's also very much a multilateral issue that when I go to various other places in the world, Brazil, India, et cetera, et cetera, I hear stories about the implications of China's excess capacity say in steel. So this is an important issue. And I think it's also indicative of the nature of the dialogue that we have with the Chinese, that we tackle -- in this dialogue we tackle the hard issues. We tackle issues that are bilateral, but also issues that often, and maybe almost always but at least often, have important global implications and positive, positive global spillovers.

So our thinking on this issue is that it's appropriate for the Chinese to think about the capacity in the various sectors in terms of a market delineated framework of supply and demand, and to allow conditions in supply in these sectors to better reflect underlying domestic and global demand conditions. I think it's important to note that the

Chinese have made some important strides in this direction, that they have announced an initiative to reduce capacity in the steel sector and some steps to reduce employment in steel and coal, which brings with it a substantial reduction in employment in those sectors. Importantly the Chinese though are using fiscal policy in a very supportive way, where they've identified 100 billion renminbi fund to help support the transition of steel and coal workers into other jobs.

But this issue is an important one for the global economy, for the U.S. economy, and we hope to make some progress on it in the S&ED in Beijing.

MR. DOLLAR: You know, I noticed the two sides pretty comfortable giving each other advice about fiscal policy, which is appropriate for the two biggest economies in the world. You'll certainly hear Chinese voices talking about the fact that the U.S. could spend more on infrastructure, which is something I happen to agree with, but we're not here to grill you about that. So I just want to turn that around and would you have thoughts for them about their fiscal policy? Could they do more with their fiscal policy to support these rebalancings you talked about?

MR. SHEETS: So my sense is that fiscal policy can be useful in China in a couple of different ways. The first is consistent with what I was just describing in some of these excess capacity sectors, that as you take steps to implement necessary structural reforms, and certainly structural reforms are required for China and the SOEs and this excess capacity issue, and a number of other reforms, they can at times create tensions and challenges. And as that happens it's useful to be able to use fiscal policy to buffer some of the transition effects and to allow economic resources and workers and so forth to move into other sectors while minimizing disruptions. So fiscal policy can be powerful in China to help cushion some of the effects of structural reforms.

The second area that I would highlight is that there are some fiscal measures that are very consistent with China's rebalancing and efforts to modernize and make the structure of its economy more efficient. So one of the issues that we've raised in the dialogue is the possibility of using fiscal policy in a way that's supportive of the consumer and the rebalancing of the economy toward consumer spending. For example, you could cut the payroll tax or the value added tax and/or take steps to further improve the social safety net. And these kind of things are supportive fiscal policy that provides some stimulus, but that are also consistent with the longer-term objective of rebalancing away from investment and toward consumption. And very specifically, we would hope if China's growth were to slow at some point that they would use these kinds of consumer friendly fiscal measures to provide necessary support.

MR. DOLLAR: You know, for a long time currency was hot button issue between China and the United States. Personally I feel like we've gotten into a much better place, so I definitely didn't lead with currency, but I am going to ask you about currency. You recently came out with the most up to date Treasury analysis, and you're operating under new guidelines now --

MR. SHEETS: That's right.

MR. DOLLAR: -- because of a change in law. We probably don't want to go into the details about this, but U.S. Treasury did not name China as a currency manipulator, did not name any country, you know, because it didn't meet the three criteria. In particular it has not been intervening, it has not been accumulating foreign reserves, it's actually been spending a certain amount of foreign reserves. So here's a chance for you to talk a little bit about how you see their currency policy. And I would say that there's a certain strand in the financial community, you know, which has become very bearish about China and which thinks there could be a significant devaluation. And I think you and I can probably agree we can't predict these things, you're not going to predict these things. But maybe talk a little bit about how you see the Chinese currency policy.

MR. SHEETS: From my perspective China is in the midst of a gradual transition to a market determined exchange rate. And this is an issue that we have engaged with them on for many years. And I think that the moves that we've seen are indicative of a desire to move toward a market determined exchange rate in an orderly fashion.

I think it's important as we define some of the features and some of the characteristics of a market determined exchange rate. One that looms particularly large in my mind is that it manifests twosided flexibility. Which means when the pressures of supply and demand in the currency markets suggests that the exchange rate should depreciate, the exchange rate weakens. And when the pressures in the market suggest that the currency should appreciate, the currency strengthens. Over the last year or so we've seen more pressures in the market toward depreciation, but as economic events in China and the global economy evolve and we start seeing those pressures go in an opposite direction, it will be important that China's exchange rate manifest that upside flexibility as well.

Now I think it's also important to highlight -- and I think this is something that's sometimes missed in these discussions and not sufficiently emphasized -- is that at the end of the day the Chinese authorities have the resources and capacities in order to achieve this objective of a market determined exchange rate. And frankly I think that that's something we've seen over the last six months or so in terms of their management of the exchange rate.

The final point that I would make, and this is also very important, is whatever the exchange rate regime is, it is imperative that the Chinese authorities clearly communicate what their objectives are and what it is that they are trying to achieve, and how they plan to achieve it. And I think this is something that recently we've seen a marked improvement in. A few months ago there was a very important interview in the Chinese press from Governor Zhou where he carefully articulated China's thinking about the exchange rate. And I think that the breadth and the depth of that discussion and that analysis was something that was very comforting to market participants and has contributed to the relative stability that we've seen in the exchange market since then.

MR. DOLLAR: Okay. One more question from me and then I'll turn to you, so think about your questions. So, last question. You know, we're getting into the political season. We're not going to say too much about that, but my question is it seems to me there's quite a bit of anger in the United States about the economic relationship with China, or maybe with the broader relationship with China. And you deal a lot with Chinese officials from a high level all the way up to the very top level. Do you think they believe this is just political rhetoric as in the past, or do you think get it, that there really seems to be a lot of anger towards China?

MR. SHEETS: They are paying very close attention to what's happening in our political process and I think are very much taking note of the developments and what's happening. I think like many of us they have questions about what's happening, what are the dynamics and underlying forces and so on and so forth that are at play. And we spend time explaining and talking and discussing this with them and describing the situation here to the very best of our ability. I think what's clear to us, and I think also clear to them, is that this is the last S&ED for the Obama administration. And this is very much for us a capstone dialogue, where we are looking in a number of different areas to continue work and hopefully complete work on some key issues. And again I'd come back to the phrases rebalancing and business climate as being areas that are particularly important. But I think our Chinese interlocutors and Chinese counterparts very much understand that we have a unique window of opportunity here to get some work done.

MR. DOLLAR: Yes, I think for both sides to actually demonstrate some progress this year would be really good, of course.

Okay. Questions from the audience? This gentleman here in the third row. Do we have a microphone? Let's just take them one to one, okay? Third row. And please introduce yourself.

QUESTIONER: Hi, I'm Chen Weihua from *China Daily*. I want to ask you, I mean Bob Zoellick yesterday said China-U.S. actually have a lot of common interests in China's One Belt One Road project. He believes that stability in central Asia would serve U.S. interests. So I mean China and U.S. don't see eye to eye in issues like AIIB or Belt and the Road. Do you think this is going to be a subject at S&ED or are we expecting China and the U.S. to work together on this, or this is just some pipe dream still?

Thank you.

MR. SHEETS: So let me say that we very much recognize that globally and in Asia that there is an infrastructure need. And to the extent that Chinese led institutions like the AIIB or Chinese led initiatives like the One Belt One Road address that infrastructure need, and do it in a way that's consistent with the best practices of development lending over the last 70 years, strategies in terms of environmental sustainability and governance and economic sustainability and procurement practices, and so on and so forth. My sense is that those projects can be quite constructive and help address the infrastructure shortfall globally.

Let's say also significantly along those lines, one of the key outcomes from President Xi's state visit last September was a commitment that in China's international activities and in the activities of institutions that China is participating in, that they would be aware of and follow these best practices that have been established. And I see the United States' role as continuing to emphasize the importance of high quality initiatives and the importance of following through and ensuring these best practices.

MR. DOLLAR: This gentleman here.

QUESTIONER: (Inaudible), George Mason University. I'm wondering if you're not overemphasizing or underestimating the risks to Chinese consumers of moving into a consumer based economy, especially when many of the big issues in their life concern overseas educations, money to buy a home; big items, not small consumer oriented items that are service economy.

Also the service economy model also has been accompanied in many countries with rising inequality and it would seem that that's also a major issue that the Chinese are concerned with. And I wonder if those should be taken into consideration in the U.S.-China dialogue.

MR. SHEETS: Those are good questions. So on the consumer, and thinking about this in a very macro way, consumption relative to GDP in China is maybe a little bit over 35 percent, somewhere in that range. In most other economies it's in the 60 percent range, and there are few notable economies that we know well where it's even higher than that. So I deeply believe that there is scope to see the consumer more engaged in the Chinese economy and that this can be done safely and in a way that is macro prudentially balanced. But you're underlying point is right, that there's no handbook that we can offer a country that says this is specifically how you move from having a 35 percent of GDP consumption ratio to 50 or 55 percent or 60. But I do see it as essential for the welfare of China's consumers, for the growth process, for the sustainability of the economy going forward. And I come to that conclusion both looking at the functioning of China's economy now and the risks associated with continued high levels of investment, and also looking at cross sectional experiences of many other countries. China really is an outlier in terms of its share of consumption. And to expect that that would be something that would be permanent would be extraordinary.

The question of how do you grow in a way that minimizes potential inequality is one that's of crucial importance, and I think it's one that economists around the world are very much focused on. My sense is that education is the key, that as people have access to education that creates equalities of opportunity that should manifest themselves over time in greater observed equality. I think there are probably some things that can be done through infrastructure and thinking about equality of infrastructure and access. I think those are two examples, but I think there's a lot more that we have to learn in that regard.

MR. DOLLAR: I'll just add a footnote.

MR. SHEETS: Please.

MR. DOLLAR: The reform of the Chinese household registration system, the Hukou system, this is also an obvious policy that would help both directly with inequality and also inequality in access to education.

Let's go to the back of the room. In the very back there's a gentleman standing up.

MR. MORRISON: Hi, I'm Wayne Morrison with CRS. You mentioned about the declining business climate in China, at least that's what a lot of U.S. businesses are saying, yet at the same time China is negotiating a BIT with us on the basis of a negative list, high standard agreement. There's almost like a contradiction in terms. I was just wondering what you see will be the outcome? Do you see a successful outcome of the BIT and what are the major sort of problems that we're having that are preventing this agreement from being completed?

And then finally I wondered how you expect such an agreement to be received in the Senate? Whether you think that given the sort of anti-trade climate we have whether a BIT could be passed in the Senate?

MR. SHEETS: All of the aspects of your question, all of the aspects of your question, highlight the essentiality and the need for this to be a very high quality ambitious bilateral investment treaty. That's the way that it's going to have the desired consequences in terms of opening up China's economy and also gain the political credibility that would be necessary for it to be ratified.

We have been in vigorous negotiation with the Chinese on the BIT. We've made progress. There is still more work to be done. We're waiting for their next negative list, which we hope to receive soon. And we are prepared, we are enthusiastic about investing whatever resources on our side are necessary in order to see the bilateral invest treaty come to fruition and completion by the end of the administration. This is an important objective. We're willing to go on this as quickly as our Chinese counterparts desire. And we do very much feel that this is a significant opportunity for both sides.

MR. DOLLAR: The gentleman there, and then I'll come forward.

MR. TALLEY: Hi, Ian Talley, *Wall Street Journal*. I'm wondering how concerned you are that the power dynamics leading into the Congress next year could weigh on efforts for reform, particularly given the desire to ensure stability that we see in a number of different ways, including in the exchange rate management? How the current U.S. elections may weigh on developments in the dialogue? And if you can provide any evidence of concerns that you have that reform isn't moving fast enough and maybe hopes that there are.

Secondly, on the RMB, is the RMB management clear to you, transparent? It seems to be markets are confused whether it's following CFETS or the dollar or how much market plays a role, et cetera.

MR. SHEETS: On your first question, I think that they key point in thinking about China's reforms is the reforms that we are talking to our Chinese counterparts about are very much aligned with the performance that President Xi has articulated as his objectives. So, on the one hand, there are various sign posts and windows of opportunity that may have been or out of focus as a result of the U.S. calendar, but the overarching reality is that these issues that we're emphasizing and seeking to cooperate with our Chinese interlocutors on are very consistent with the broader reform effort. And for that reason it gives me some confidence that over time that we in this administration will see success on this. But it will be also the case for our successors.

On the communication and the renminbi, I really think that over the last six or eight months we've seen a significant improvement in terms of the clarity of the communication. So I think we're too a place where personally as a policy maker and I think market participants have a pretty clear sense of how they're moving the exchange rate. I think communication is improving meaningfully. Like any policy institution it's very much work in progress, and I think that the communication regimes and the modalities of communication will continue to evolve and strengthen. But I think that's true of pretty much any policy institution.

MR. DOLLAR: This woman here.

QUESTIONER: I'm Yu Junjiang with Xinhua News Agency. As, Mr. Sheets, you mentioned in your speech in the S&ED will paved way for the G20 summit in September. And so what does the U.S. expect the G20 summit to deliver?

Thank you.

MR. SHEETS: So in the G20 context we have a robust set of issues that we're working on, which in some sense is complementary to the list that I worked through the S&ED. Very much a focus on the issue of global demand, and how is it in the global economy that we can achieve strong sustainable and balanced growth. And I'd say that the discussions also introduced the word inclusive in there as well in recent years. What kind of policies will achieve that? The sense of the ministers and governors is that as we move to utilize our policy tools in monetary policy, fiscal policy, and structural policy, that we are best positioned and most likely to achieve the growth outcomes and objectives that we seek. And I think that that will be a strong commitment and a strong statement from the leaders.

There is also ongoing work that's being done in terms of making the financial system more robust and to facilitate cross border investment flows by making financial institutions more liquid and stronger, addressing central counterparties and making them robust to crisis, taking steps to make finance more inclusive. And there is also a fair amount of work that's being done on the international financial architecture, expanding the Paris Club and modernizing that to include emerging market economies. And there is a robust work stream on issues related to climate and climate finance. The issuance of green bonds is something that China and the Bank of England have let out on.

So I think that there is a lot of promising material that's in the pipeline for the leaders' summit in September.

MR. DOLLAR: What you just said reminded me that in my view there's been quite good cooperation between the U.S. and China and the Financial Stability Board. And that's the kind of sort of technical body that kind of flies under the radar for most people, but it's a good example of U.S.-China cooperation.

MR. SHEETS: I'm actually on my way to a Financial Stability Board meeting tomorrow. So that is exactly right. And I think this is important in the FSB as in other settings, the U.S. and China, and for that matter other countries around the table, we often have differing views on issues, but there is a maturity in the relationship that allows us to work through our differences and find the common elements and the common principles that we can agree on. And as you say, I think we've seen that in the FSB in a number of different dimensions.

MR. DOLLAR: We have time for one more question. This gentleman right here on the aisle.

QUESTIONER: Thank you. President Obama wrote in an article published in the *Washington Post*, his article he says that RECP will not enforce high standards. So my question is how does Obama administration see China's efforts in building regional economic partnerships?

And my second question is somebody says that U.S. companies are shipping jobs to China by investing in China. But nowadays we can see more and more investment in the United States from China, so how do you see that kind of argument?

Thank you.

MR. DOLLAR: And can you just introduce yourself?

QUESTIONER: I'm Bo Huizhang with *People's Daily*.

MR. DOLLAR: Thank you very much.

MR. SHEETS: So on your second question, I think that the literature that's looked at the effects of foreign direct investment clearly indicates that when a dollar is invested abroad it creates economic activity abroad, but it also requires jobs to be created at home. So as we see it as foreign and direct investment in China, that's good for U.S. firms, that's good for U.S. workers. And similarly, it's also important to emphasize that we believe deeply that an open economy is in U.S. interests. And as China invests in the United States that that creates opportunities and employment and GDP growth here.

So from my perspective I see this investment issue as very much a win-win proposition.

And could you remind me about the first question?

MR. DOLLAR: It was the RCEP, you know, what used to be ASEAN Plus Six, you know, the regional trade agreement, ASEAN plus China and others.

MR. SHEETS: So what I would say about that is the same thing that I would say about most regional groupings is that I think regional integration is helpful and constructive. It increases competitiveness in economies by having an opportunity to compete in a broader playing field against a broader set of competitors. So I think that that's positive. I do think, however, that as we move in that direction it's important for all of us to keep in mind the multilateral environment and continue to keep what economic theory tells us about multilateral trading relationships and the role of WTO to keep that clearly in our minds as well.

MR. DOLLAR: Well, I really want to thank you. I think it's great that you come here and answer my questions and answer a large number of questions from the media and the public.

MR. SHEETS: A pleasure.

MR. DOLLAR: So let's give him a nice round of applause. (Applause)

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