

Center for Strategic and International Studies (CSIS)

G-20 Los Cabos Summit Outcomes

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MATTHEW P. GOODMAN: Welcome, everyone. Welcome to CSIS. Appreciate people turning out despite the time change for which – for which we apologize.

It's really – well, actually, I should say who I am first. I'm Matthew Goodman, Simon Chair in Political Economy here at CSIS. And I am just delighted to have Undersecretary Lael Brainard with us here today back at CSIS. She's a familiar guest, I think, here and obviously familiar to all of you. Lael is undersecretary of the treasury for international affairs, as I think you all know. I hope you have bios. She's in a position that – in which I have been in awe since I was a young whippersnapper at Treasury 25 years ago, and so it's a real honor to be up here on the stage with her.

Lael has a distinguished career in academia and in government service, having served, among other things, as deputy national security – economic adviser in the Clinton administration but also served previously in other capacities. She also worked at another think tank up near Dupont Circle and both studied and taught at a number of universities in – distinguished universities in the New England area, particularly in Cambridge, Massachusetts, so you can read all about that in the biography.

We'll get started in a second, but let me just sort of set the scene by saying that Lael's just off the plane – and not just any plane – from Los Cabos, Mexico, where she had joined the president at the seventh, I believe, if I counted correctly, leaders' summit under the sort of newly revised G-20 format. Treasury has been working on the G-20 for 15 years, but as a leaders' forum it's been around only since the end of 2008. And they had the seventh meeting, first one in Latin America, in Los Cabos, Mexico, on Monday and Tuesday. And we're going to hear about what was talked about there.

But this is the self-described premier forum for international economic coordination in the world. It is obviously a very important forum in which major issues of global economic growth and governance are discussed. And it is obviously very timely to have had this meeting right now in the face of the global economic situation, which is something that I hope we're going to hear a little bit more about in a second.

What I'll do is I'll ask Lael a few initial questions, and then I'll open it up for questions from the audience. And I hope they are questions so that we can get as much time from Lael as possible.

So with that – Lael, so let me start kind of with the basics. Summits are usually made up of two big parts. One is the actual discussions that happen in the plenary rooms and in the hallways, and the other is the outcomes, which are generally reflected in the – in the communique. So let me ask you about both of those. What happened down there? What was the major focus of discussion? I presume the eurozone, but sort of – can you give us some flavor of how the discussions went down there?

And then secondly, I'm sure everyone in this room has read all 85 paragraphs of the communique thoroughly, but it is sometimes a little difficult to divine from that exactly what's

important and what isn't important. So if you could highlight sort of three or four of the major takeaways that we should – we should understand from the communique, that would be helpful.

LAEL BRAINARD: Sure. I'd be delighted to, and thank you very much for hosting me. And as I'm sure many of you know, Matthew is one of the stars of the Treasury Department, who is to this day remembered fondly for his service back in the late '90s and going, I guess, into the early 2000s. So it's a pleasure to be here.

And let me say that the discussions both in the room; the, I think, text that you'll see in the outcomes document; and then the many sideline conversations, both formal and informal, that take place at those meetings, which, you know, in some regards were the most important parts of those meetings – I would say the preponderance of the discussion was on the challenging economic circumstances surrounding the meeting, and in particular on the developments within the euro area.

The discussions in terms of the tone, I would say, were very constructive. There was a lot of unity of purpose; very sober about the risks facing all of the largest economies, but again with a particular focus on the euro area. And generally speaking, I think there was a broadly agreed sense of what the risks were, and there was a lot of interest in hearing from euro area colleagues in particular about where they saw their crisis response going in the days ahead.

At the same time, while I think there was a lot of discussion, a lot of very good indications of what kinds of issues are being intensively discussed among euro area and European colleagues, there was also broad recognition that we had only four – the largest four, but nonetheless four of the 17 euro area members there, five of the 27 EU members there and that the real decision-making discussion would not be until the European Council meetings at the end of the month.

So while I think there was a lot of interest in where the discussions among the euro area leaders and European leaders, more broadly, are going, there was a recognition that no decisions would be taken with regard to those issues at the Los Cabos summit.

MR. GOODMAN: OK. And then in terms of sort of – can you – can you give us a flavor – I mean, again, there is a lot in the – in the communique, but which parts are – should we be most focused on – the discussion of the growth imperative and what people are doing about growth? Is it the financial issues in Europe? What aspects are most – (inaudible)?

MS. BRAINARD: Yeah. Yeah, so I think what you'll see if you look at the communique and the statements that leaders were making in and around the summit as well, there is a pivot, a shift. There's more of a consistent focus across countries on the need to support demand at a time of weaker demand in many of the largest economies. And that is a bit of a shift. As you'll recall, in Seoul for instance, there was a more consistent – and certainly also earlier in Toronto there was more of a sense that the recovery was kind of gathering steam. Here there was a – kind of sort of broad recognition that we all needed to be supporting demand in the short run.

And of course with some countries having more space than others to do that, there was a lot of interest, of course, in some of the measures that the largest emerging markets are taking, with China in particular having a lot of space to shift its growth model from one that has traditionally been dependent on the largest economies and in particular with its European export markets much less vibrant a focus on China's measures to shift to domestic demand-led growth, I think an appreciation of some of the measures they've taken to let their exchange rate move more freely, but also recognizing they have a lot of capacity to support consumption, consumers and social safety nets.

Some discussion about how we are, here in the U.S., managing that careful balance between support for the economy, support for job creation, which the president has been very, very focused on, in the near term, especially recognizing that it's important as a bit of an insurance policy against shocks emanating from abroad, but recognizing that that needs to go hand in hand with a balanced approach to getting our fiscal house in order on a – on a – on a medium-term path.

And then, of course, the largest amount of focus and discussion was about European efforts and proposals to move the euro area onto a more resilient path. And I can – I can spend a moment on that if that'd be helpful.

MR. GOODMAN: OK. Can I – you – in your – in your and Secretary Geithner's both previews and readouts on the – on the summit, you focused, I think, on four basic areas in the euro situation. One was Greece; second was the idea of banking union, financial union; third was financial backstops and firewalls to help promote reform and allow the countries that need to borrow to borrow and – at reasonable rates; and then supporting demand, which you've just talked about.

MS. BRAINARD: Yeah.

MR. GOODMAN: So let's just talk about Greece for a second. So you, I think, indicated in one of your preview meetings – and it's – hints of this have been elsewhere from the Germans and from others, the IMF and others – that there may be some flexibility in looking at the package that was provided to Greece earlier this year and maybe revisiting at least some of the timing. Is that something that's – that was actively discussed and that is in the – is there a prospect of that in order to help Greece get through the situation?

MS. BRAINARD: Well, of course, you know, the Greek election outcomes were being read out just as leaders were getting off their planes in Los Cabos. And you know, now we have the formation of a new government, which was the critical missing element there for several months in Greece. So I think now, you know, with a government having been formed, certainly the euro-area partners and the IMF have said they were going to go back and sit down with the new government to work towards a path of sustainability within the euro area while maintaining the momentum for reforms.

Those reforms, of course, are critically important under any circumstances. Greece has a huge interest in regaining competitiveness and working to have a much more vibrant private

sector. But Greece was off course for some period of time when there was, in effect, no government able to continue to move forward on some of the reform agenda and the timeline that had previously been laid out.

So you know, I think we certainly support the efforts of our euro-area partners, the IMF, sitting down with the new government of Prime Minister Samaras. And you know, we think there's recognition on both sides that it's critically important to move forward with reform within the euro area. And it's also important to show some flexibility, again, recognizing that the timing of the reforms were knocked off course by that period in which they really did not have a government.

MR. GOODMAN: Mmm hmm. And OK, on financial union or banking union, which is a European term for what may be the next sort of step in the European project, can you talk a little bit about what that entails and why it's important and whether it's enough? I mean, is that – is it the right next logical step? Is there another piece that's missing in order to make all of this work over the medium to long term?

MS. BRAINARD: Yeah. Well, let me answer the second question first and then go to the specifics. So I think, broadly speaking, you have to see these pieces as part of an integrated whole and that the euro area is moving forward on a number of very closely interrelated parts. And I think it's also very important to recognize that the discussions that are taking place are both about setting out a medium-term framework for greater financial integration, greater fiscal integration that are going to be necessary to complement monetary integration. But that medium-term framework of course needs to be complemented by near-term actions to really stabilize the financial markets and ensure that countries like Spain and Italy who are undertaking very serious, important but challenging reforms continue to be able to borrow at sustainable rates.

Within that, the piece that is variously described as banking union and financial union appears to be being very deeply discussed now. Our European partners gave us some sense of the discussions that they're having. And it's really a question of how much integration to have, how much to centralize to move things to the euro-area level from the national level on banking supervision, bank resolution, which goes hand in hand with recapitalization. Moving to a more central level on supervision and resolution authority, of course, is going to be critically important and necessary precondition for being able to undertake greater risk-sharing, for instance, on deposit insurance and on recapitalization.

So those conversations are underway. We got a flavor of them, you know, both in the room, and in sideline conversations; you'll see that noted in the communique as a very important element. And again, we don't – did not anticipate – would not have expected to see actual policy decisions reached without the key decision-makers of the euro area.

And the complement to that, in the near term, of course, is that Spain has announced it's moving forward with a – you know, an ambitious plan to recapitalize its banking system, will move with – forward with a request for European financing, and euro area partners have indicated that they are ready to support that request. And, you know, in the nearer term, of

course, going forward, it will be important to see further clarification in terms of how Spain plans to go forward in cooperation with its European partners. And so I think there'll be a lot of interest in that.

MR. GOODMAN: And on both the Spain situation and the sort of the broader financial union details – as you mentioned, it's not appropriate to really lay all that out in a forum which only has subset of the members there, but it seems – it feels as though reading the president's and Secretary Geithner's comments in the wake of the – of the summit as though – you know, and I think this has been commented on by some in the press, but there is a sort of slightly greater sense that there is high expectation for that European summit next week in producing the details and the clarity that's required. Is there a concern that they're not going to produce the plan, or are we fairly confident we're going to get a good sense of the package and that that's going to – (inaudible)?

MS. BRAINARD: Well, of course, that – you know, I – of course, we would not be in a position to prejudge what will come out of those discussions, that is, you know, these are fundamental issues of institutional architecture and design that the euro area will have to work out for itself. What we did see, you know, in the room, in our bilateral conversations, in the conversations that the president had with the four members of the euro area and the EU that were present, the five members of the EU that were present –

MR. GOODMAN: There'll be a test afterwards of who those members are.

MS. BRAINARD: Yeah, exactly. This is a – this is always my – I have memorized all of this now, but it keeps moving.

The discussions there gave a very clear sense that these were kind of the key elements, and these were the clear directions of travel. But they're still working to put flesh on the bones, and that's an area where I think it's really – we'll see what more they come forward with at the end of the month and what their own timeline is for further decisions on that.

MR. GOODMAN: OK.

Let me ask you two more things, and then I'll – then I'll open it up – actually, three: two substantive, one process. Is there – is there anything more the U.S. can or should be doing beyond sort of the moral suasion, bringing our experience to the fore? I mean, you know, to put out one issue that some people have talked about, you know, should the U.S. be reconsidering its contributions to the International Monetary Fund in some way to help support the situation in Europe and, for that matter, globally, where there are risks, as you said, beyond Europe? Is there anything else we can or should be doing specifically?

MS. BRAINARD: Yeah. Well, you know, we are deeply engaged with our European partners and with our international partners because Europe is very important to us. Europe is a very large part of the world economy. It's a huge trade partner for us. And Europe's banks are global in their activities in many cases. And so financial market volatility in Europe is seen in sentiment here; when demand in Europe weakens, that translates into lower exports and fewer

jobs here. And of course Europe is a vital ally to the United States. So we are deeply engaged. Europe is very important to us, and the health of Europe is very important to us.

You know, we are supportive of Europe in a whole variety of ways. We welcome the commitments at the IMF as I think we were very clear those were a very welcome sign of solidarity. We don't actually think that the IMF is at the end of the day going to be the central most important element for a monetary union that has tremendous will and tremendous capacity and ultimately will have to address the futures of its institutional architecture that are going to make it resilient and vibrant into the future.

But you know, for our part, we, by the way, never have made stand-alone bilateral loans to the IMF of this nature. We don't have the capacity to do it the way most countries do it. But we do already have set swap lines that are supportive of Europe. And we'll continue to be as supportive as we can of Europe because, again, it's so vitally important to us, recognizing that the – that the euro area is going to be strong and vibrant primarily due to its own efforts.

MR. GOODMAN: Mmm hmm. OK. You mentioned earlier the hopes and expectations and discussions about what China and other participants and, I mean, big players in the global economy could do to support growth. What about what China wants of Europe? And were China or any of the other major emerging markets vocal participants in the discussion about Europe? Or is this largely a conversation among the Europeans and between the U.S. and the Europeans?

MS. BRAINARD: You know, there's – again, there's – at a summit of this nature, you know, and also remembering that the summit itself is buttressed by a lot of activity, for instance, among finance ministers and central bank governors going into these summits – so there's a lot of networks of officials talking to each other, both going into and at the summit. And then even at the summit, you have the conversations in the large plenary room and you have a lot of conversations on the side.

So we don't know, of course, what some of the emerging markets said to their European partners directly and some of the side conversations, but it's certainly the case that in the room, you know, countries expressed solidarity with European partners as they navigate through some challenging circumstances. A lot of countries in the room, of course, including our own, has ample experience with financial crises of our own. And of course this is true of many of the emerging markets, which they – which they share. And of course there was a sentiment in the room of urging action and standing behind the euro area as they move forward on those actions.

You know, separately we had conversations with our Chinese partners, both, you know, the – Secretary Geithner with Vice Premier Wang as heads of the economic track in the Strategic Economic Dialogue, and then of course President Obama and President Hu. You know, we continue to have very active economic discussions between China and the U.S. on what their plans are, and, you know, again, reassurance that they are moving forward to support their economies in ways that will shift that pattern of demand to greater domestic consumption, and we always talk about our own policy path. And then, you know, we often talk together about

how we view global developments and how we're prepared to work together to help support a stronger recovery globally.

MR. GOODMAN: Great. OK. One final question, sort of an institutional question. There's a small cottage industry of us folks who follow the G-20 and are interested in it as a – as a vehicle for global economic governance. So let me ask, from a Treasury perspective, has the – is the G-20 still relevant? And is it, A, because people are questioning whether it is and whether it's valuable? And then this is a little trickier for a Treasury person to answer, but let me ask anyway – try. Was the elevation to leaders level, you know, an important part of supporting what you do? And you know, is leaders' participation essential to continuing to make progress on those kinds of issues you've been talking about?

MS. BRAINARD: Yeah. So I think, you know, the reality is this is the right group of countries. You know, the world has changed irreversibly. And we need the large emerging markets in the room along with the advanced, large economies to really drive decisions and to move forward and to develop a shared sense of what the challenges are and urge action on the part of the various countries or regions that, you know, have the ability to affect those outcomes.

The advantage, of course, for finance ministers of having leaders there – although of course they meet less frequently, and I think that's also appropriate, because it's a – it's a big commitment of their time – but that they really do drive decisions to closure at a political level.

And so I'll give you the one example that people don't really spend enough time focusing on. I think everybody is aware of this group and the important role it played on coordinated response to the financial crisis and the important work this group did in directing the development banks to put up 250 billion (dollars), to raise another 750 billion (dollars) in and through the IMF. Those were very significant. But the financial regulatory reform agenda has been critically, I think, underwritten by leader-level political commitments. I don't think we would be anywhere close to where we are today if those decisions had not been driven by leaders, endorsed by leaders and now owned by leaders to get through parliaments where necessary.

And if you look at the Financial Stability Board, which is the sort of financial supervisors, regulators, central bank governors and treasuries – appendage, to some degree, of the G-20 process but includes a larger number of jurisdictions – that group has benefited tremendously from getting political commitments on, for instance, OTC derivatives. It's a completely new area, where we did not have national standards for regulation, let alone international standards. We're now working on – and I think we'll conclude on time – an agreement on – a global agreement on margins for OTC derivatives, which, you know, is really quite remarkable.

The other thing that people don't focus on in that context – and it extends to resolution, to bank capital, to bank deposit insurance – the other thing that people haven't noticed is that in that context, both emerging markets and advanced economies have signed up to exactly the same set of standards. And people tend to overlook that. But it is quite a different approach than we've seen in a whole host of other fora. And I think – I think it is a notable achievement. And having

leaders meet once a year and review where we are on implementation is a force in driving through the legislation where we need it.

So I think it's clunky. It's harder to coordinate with that many countries. I think the G-7, you know, remains relevant on the fastest crisis-response issues of the day, because it is hard to get all the G-20 on the phone, you know, within an hour's notice and get them all to agree on something. They're not accustomed to that. Many of the G-20 members who are not G-7 members – G-7 members have developed over time a set of habits that, you know, it's very easy for them to get on the phone and make a decision to, you know, take a response on – make a statement, as they did after the Greek elections. That'll take more time with the G-20. But it's evolving, I think, in a direction that will allow it ultimately to become that.

MR. GOODMAN: And really part of the point is actually to try to spread, you know, those habits of cooperation to a broader group of countries, even though it is clunky, as you say. And let me just also say, on the financial regulatory reform agenda, we had – as you probably know, a couple of weeks ago we had a preview event here, including your right arm, Mark Sobel –

MS. BRAINARD: Yeah. (Chuckles.)

MR. GOODMAN: – to these purposes, and Rupert Thorne, the number-two at the Financial Stability Board. And they – and they both laid out, I think, a lot of the really useful, interesting work that's being done there and made the point that the political support for that has been critical. And so I think – I think it is one of the unsung benefits or positives that's come out of the G-20 process at leaders' level.

MS. BRAINARD: Yeah, I agree with that.

MR. GOODMAN: So I agree with that.

OK. Let's do questions. Please wait for the microphone. Identify yourself. And please do try to ask a question so we can get through as many as we can. I'll start right here – hand I saw first.

Q: Thank you. Thank you very much for sharing with us right after you came back from Mexico. I have two questions. I'm Chengy Cham (ph) with Sufindex TV (ph). I have two question on China. First of all, China pledged to increase the fund in IMF and asked for more say in IMF. So what's the position of the U.S. on this? Also, the second question is, during President Obama's speech the other day, he seems to imply China's slowing economic growth an issue to U.S. recovery. So how big the concern is of China's slowing growth economy to the U.S.? Thank you.

MS. BRAINARD: Well, you know, on the issue of IMF representation, it's really a very separate issue to the fundraising drive to raise bilateral loans. But our position has been very constant. We think it is important that nations' economic weight is represented in their quota share at the IMF. And you know, we were very supportive; it was one of – our Pittsburgh

summit announcement was that we were going to support a shift in shares from the advanced economies to emerging markets and developing economies. And it was a very tough negotiation, but we achieved it in Seoul. And we will continue to support representation on the basis of economic weight, income, shares of the global economy.

Separate to that, obviously in a world where we're seeing weaker demand in Europe, China and the U.S. are more important to the global economy. And China has a lot of capacity. Again, by shifting its economic model, it can support demand. And it's more important at a time where you see deficiencies in demand in the traditional areas like the U.S. and like Europe that were the drivers of growth earlier and of export growth for countries like China.

And I think we have seen that theme very consistently, you know, starting in Pittsburgh. Everybody signed up for a framework recognizing that strong, sustainable growth would need to be rebalanced growth. It also is very well-aligned with the stated goals of the Chinese economic authorities, who have said that they are trying to shift to domestic demand-led growth. And again, the Chinese consumer has tremendous capacity.

And there are a number of reforms, for instance in the financial sector, where if Chinese savers get greater returns and have less need for precautionary savings, they have greater purchasing power. If the exchange rate is allowed to move in response to market forces, that too lifts the purchasing power of Chinese consumers and helps that rebalancing.

And of course, we are undertaking rebalancing in a complementary way. We had an overleveraged economy going into the crisis, overleveraged consumers. And as they are working to deleverage, to improve their balance sheets, it's very important for our recovery that we be able to rebalance in the other direction with greater reliance on exports. And so those two things are very complementary to each other. And we've had a very sustained, deep level of interaction, both bilaterally and again in the G-20 with China, with both of us making these complementary changes to our economic growth strategies. That becomes even more important in light of renewed market tensions emanating from Europe.

MR. GOODMAN: Great. OK. Let me go a little further back. Gentleman with the blue shirt right there. Yeah.

Q: Lael, thank you very much. Lawrence MacDonald, Center for Global Development. Nice to see you.

Europe's clearly very important. In your opening remarks I was trying to think how they might have been different had there been a meeting of G-7 finance ministers, and I didn't come up with much difference. But we really do, as you said, have a very different kind of world. We have the G-20. There are items on the G-20 agenda, such as financial inclusion, development, energy, food security, that are part of your portfolio. I'm imagining that those were discussed. And I'm wondering if you can tell us more about those things and in particular if there was any U.S. leadership on these issues that affect global prosperity in a way that looks beyond the next six to eight months.

MS. BRAINARD: Yeah. So I think on the development agenda, the green growth agenda, you know, the Mexicans, I think, led very ably. And it put a lot of emphasis on some of the key areas that we also very much support: green growth, food security, financial inclusion, a host of areas. On food security obviously, you know, the president has really led very significantly there. And you know, we had a big focus at the G-8, which we carried into the G-20, on the new alliance, which is trying to leverage private-sector investments into some of the more challenging markets in Africa but the ones with the greatest potential to see big improvements and yields.

You know, we announced the Global Agriculture and Food Security Program, the terribly-named GAFSP – (chuckles) – at the Pittsburgh summit. And it's been an incredibly success story since then. And we've had members of the G-20 contributing to it. The U.S. has been a big supporter. And you know, it has all the features that we know from the aid effectiveness literature are so critically important. We have countries that are receiving grants sitting at the decision-making table with the donors and with the private sector. We have country-driven strategies that are being financed and grants being allocated on a merit-based process. So that has been a really good success story. And again, you know, it's really the G-20 that drove that.

On financial inclusion, there are two – you know, starting in Pittsburgh, we started to develop a variety of initiatives that went across emerging markets, developing countries and the advanced countries. And that's an area where some of the developing economies have a lot to offer, are farther ahead than we are. And so there's learning that's going on in both directions there. We're developing a database. We've got a specific emphasis, for instance, on women, and there's been a lot of nice progress there; and then on disaster risk management, where Mexico has done some pioneering work and where the U.S. is very supportive as well.

MR. GOODMAN: OK. All right, gentleman here. I was willing to go to the back. I just want to make a note of that. (Laughter.)

Q: Thank you very much.

MR. GOODMAN: (Inaudible) – that we only call on people – (inaudible).

Q: Thank you very much. I'm Michail Ignatiou from MEGA TV Greece. I have an easy question, I think. Do you really believe that Greece can be saved? (Laughter.) And the second question: After your discussions with the Europeans, are you confident that they are going to act this time?

MS. BRAINARD: So with regard to Greece, obviously we recognize that the challenges facing the Greek people are very serious. And they built up over many years. And the road ahead is going to be a challenging one, and it will require sacrifices.

But we were very heartened by the formation of the new government and by the statements by the new prime minister that he feels he has a mandate to go back and find a path forward with euro-area partners, a path that is continued to carry forward reforms, again, which

are going to be critically important to making Greece sustainable and ultimately to growth and doing so within a broad framework of being within the euro area and finding a path forward to sustainability.

So we're encouraged by that. We're encouraged by also statements on the part of multiple leaders from the euro area. But we don't underestimate the difficulty of that. And you know, we'll continue to be supportive on those discussions.

With regard to the broader key areas that the euro area set out for its forward work plan: financial union; ensuring that the countries who are reforming continue to have access to affordable finance; ensuring, importantly, that there is greater support for growth; that, yes, it's important to undertake fiscal consolidation – countries need to remain committed to that – but it's also important to recognize that growth outcomes have been much more adverse and so to look at fiscal consolidation paths where appropriate on a structural basis. Those are things that are clearly being intensively addressed.

I, again, would say that we can't prejudge where those conversations are going to conclude. But it's very clear that European leaders are focused on – they have a series of meetings over the next period of time and then again meeting at the end of the month on the 28th and 29th. And you know, we'll look forward to hearing from them at that juncture, putting greater flesh on the bones of these key priorities.

MR. GOODMAN: OK. This gentleman here; then I'll go there.

Q: Thank you, Ms. Secretary. My name is Dongqu Yu (ph) with China Review News Agency. Actually I have a follow-up question on IMF reform. And China and other emerging countries have expressed their concerns that the 2010 reform plan of IMF has not implemented as quick as they expect. So right now China has promised to contribute 43 billion (dollars) to the IMF emerging fund. So will the United States play a key role in pushing the implementation of these reform to increase China's voting power and bigger say? Thank you.

MS. BRAINARD: We were very supportive of the reforms that were negotiated in Seoul. Again, I think we pushed for that shift in shares to be included in the Pittsburgh summit. It was a major outcome, a major achievement. And then we followed through in the negotiations and supported that shift in share in the actual outcome of the quota reform discussions in Seoul.

So we've been, I think, a very strong supporter and will continue to support a process of governance reform within all the international institutions that reflects the important weight of emerging markets in developing countries. I think – I think the U.S.'s record is extremely strong in that area.

MR. GOODMAN: I was in Seoul, and I can confirm that Treasury worked very hard on that with your – with our Chinese – their Chinese colleagues.

Yes, sir.

Q: Thank you. I'm Dana Marshall, American University. Thank you, Lael, for those comments. It's a question related to the China rebalancing issue, but looking at it perhaps in a different direction. Senior officials in the government – Bob Hormats, yourself and others – have talked about competitive neutrality. The World Bank, of course, a few months ago, along with a unit of the Chinese government, came out with its report regarding some new approaches on Chinese economic management.

At the same time, there've been a number of reports about a continuing struggle within China as to whether those who are advocating – (inaudible) – of the state capitalist model will remain with the upper hand, or whether those who may be looking at a different path, maybe more efficient path to growth. So my question is what's Treasury's take on that sort of tension? How might it come out? And what are the stakes for the United States in that – in the final answer to that question?

MS. BRAINARD: Well, the primary stakes, of course, are for China. You know, China has experienced a very rapid growth. But the model on which that growth was based is unlikely to continue to yield the same pace of growth in the future or the same productivity improvements that we've seen in the past. And it's for a number of reasons. You know, there's a kind of classic middle-income trap that countries have experienced in a whole variety of similar contexts. And China is getting closer to that level of income.

It is also the case that China has very challenging demographics. So we're already – in just a very few years, we'll see the labor force peak and then a few years after that, you know, probably the limits of absorption of the agricultural labor force into urban areas.

And so what that means, I think – but this is of course for China to decide, but of course we've heard some of China's economic policies reflecting this – is they have to shift to a policy posture and an economic growth model that's much more focused on value, higher value, greater innovation; a shift away from heavy manufacturing that's very resource-intensive, very investment-intensive, very export-oriented, to an economy that has greater and more dynamic services, is more consumption-oriented.

And all those things, I think, go in the direction of the reforms that are important, both for our bilateral economic relationship, to greater market access and a more level playing field. They also happen to be very consistent with an economy that, for instance, enjoys more innovation because it has better intellectual property, an economy that, again, is – got a more vibrant services sector. And we – you know, we've started to see some moves in that direction. At the Strategic and Economic Dialogue, we were very pleased to see financial reform restarting after a number of years where it had really stopped.

And with regard to the state-owned enterprises, you know, our – we were very interested in the World Bank report with the DRC. We thought it was very interesting. You know, at the S&ED, we talked about addressing some of the preferential treatment that state-owned enterprises have received and simply making sure that private enterprises and state-owned enterprises are on the same footing. And you'll see a commitment to that in the S&ED for the first time.

The other thing you'll see in the Strategic and Economic Dialogue document for the first time is a commitment to having state-owned enterprises paying dividends in line with other market – publicly listed companies. And that's very important too because, you know, if you look at the period in which China ran its massive current account surpluses, 9 percent, a lot of the run-up there was savings that was trapped inside state-owned enterprises. And so if they are paying out more of their earnings to social safety nets, that also will help make that switch while creating a more level playing field for all private enterprises.

So we think – we think that's a direction that has a lot to recommend it, but of course these are decisions for China to make.

MR. GOODMAN: Great. Over there. Way in the back there. Lady with the hand up. Mmm hmm.

Q: This is – (name inaudible) – with the Greek service of the Voice of America. You've mentioned that the international community needs to show flexibility for Greece. And I'm wondering if there were any specific talks about specific terms. I mean, a lot of people in Greece are really worried about deposit insurance. Were there specific things discussed?

MS. BRAINARD: You know, I think where those conversations will take place is between the troika and the representatives of the new Greek government. The IMF, the ECB and the commission are the right bodies to be sitting with the Greek government, the new Greek government, and working on its economic stabilization generally and the reform path and trying to get Greece back on a path to both reform and sustainability.

But those conversations are appropriately, you know, held among the troika and representatives of the Greek government. Of course, when we were in Los Cabos, we didn't – we were just hearing about the election results. We didn't yet have a new Greek government, and that would not have been the appropriate place to have those discussions.

Q: (Off mic) – discussed?

MS. BRAINARD: I think generally there was a recognition that the various parties are going to go back, sit with each other, try to figure out what the best path forward is. But I think it would've been premature to talk about specific elements.

MR. GOODMAN: Way in the back, very, very back behind the –

Q: Thank you very much for your presentation. My name is Jun Li (ph). I'm with U.S.-China Foundation Economic and Education Development. So a couple – (inaudible) – one question is this meeting is the 12th meeting between President Obama and President Hu Jintao and also the last meeting between them. And so what U.S. – (inaudible) – evaluation about meeting? And under the background of United States election in – at the end of year, so what's the potential key area of a (possible ?) conflict between you and China in the field of trade and finance? Also what your comments China's currency exchange rate? Thank you very much.

MS. BRAINARD: So I would characterize the meeting between President Hu and President Obama as very comprehensive, touching on all aspects of the bilateral relationship and areas where we have global interests. I think they – as you said, this was their 12th meeting. You know, they have a very good ability to work through the issues together. There's a lot of trust there. And of course it's bolstered by a very extensive set of contacts across all the corresponding parts of both governments. And so you know, it's bolstered in part by the Strategic and Economic Dialogue, but there's a whole set of other dialogues that also undergird this very important relationship.

And I think you could see it reflected in the quality, the depth of the discussions between the two leaders. You know, they also, you know, joked around a few times. And you know, they both, you know, got a lot of very specific issues done but in a general atmosphere of recognizing that we have huge, important mutual interests. Of course there are areas of disagreement. But we need to work through, very consistently, with a very even kind of tempo, on both sets of issues; that it's important not just to both countries but to the world that the U.S. and China are able to work together.

On the economic issues, you know, we – again, we saw a lot of important movement forward on the context of the visit of Xi Jinping to the U.S. And then we saw further momentum in the Strategic and Economic Dialogue. I think, you know, in that latter meeting we heard from a Chinese counterpart how they intend to move forward with structural tax reform, with reductions in taxes on consumption imports. We're continuing to look forward to some of that, because we think it'll be very important for Chinese consumption as well as, again, market access issues for us.

Currency remains a very important issue. And you know, there we have seen, both on rebalancing and on currency, important progress. You know, when the president came to office, China had a current account surplus of 9 percent of GDP, which is huge. And that has now come down to about 3 percent of GDP. China's currency has appreciated bilaterally against the dollar – in inflation-adjusted terms, about 13 percent. And so that's obviously a(n) important part of that rebalancing process.

But you know, we continue to encourage further progress on that area. As the second-largest economy in the world, it would only be natural and, I think, beneficial for the world economy if China really continued moving irreversibly to a market-determined exchange rate and much more transparency around its exchange-rate regime.

MR. GOODMAN: OK, maybe two more. Gentleman way in the back in the white shirt.

Q: Thank you. Michael Hutson from the Atlantic Council. This afternoon President Barroso of the EU Commission answered a question with respect to the origins of the crisis. And he said European leaders were not here to receive lessons in terms of democracy or in terms of how to handle the economy. This crisis was not originated in Europe. This crisis originated in North America. I'd like to hear what your response would be to that statement and how

prevalent that perspective has been in negotiations between the U.S. representatives and the EU representatives.

MS. BRAINARD: Yeah, well, I think it is important to say that the tenor of the conversations in the room is really very different. Of course, you know, we come to the conversations focused on our own economic policies and the challenges we face here at home – you know, our economic outlook. And other countries come to the discussions also talking about their own policy stances, the resilience of their own recoveries, because you know, the – all of the economies represented at the table are sizeable and matter for the health of the global economy and for the health of developing countries and smaller economies.

So – (audio break) – say that – really is our focus – (audio break) – these discussions, but of course, you know, reflecting events. There was a particular interest in hearing from euro area colleagues because of the challenges that our euro area colleagues are facing.

You know, and as euro-area partners are moving forward, they are moving forward in a way that recognizes that the institutional framework of the euro area needs to evolve in order to become more resilient, that monetary union needs to be complemented by greater financial union, greater fiscal union, some say greater political union. And so, you know, the medium-term direction there, I think, is one that couples greater risk-sharing, but also greater sharing of responsibility, and that will require important political decisions on the part of European leaders.

So, you know, my sense is that the conversations in the room – again, very constructive, very sober, very clear-eyed about the risks and with all countries in the room, you know, talking about their own policy responses as well as interested in hearing in particular from European colleagues about their plans in the days ahead.

MR. GOODMAN: OK, one more. Anybody? OK, there, and I'm going to ask one final one.

Q: Hi, I'm Katie Kinyonas (ph). I'm just a measly intern with the State Department, but in the – (laughter) – in the press lately –

MR. GOODMAN: We encourage interns to ask questions.

MS. BRAINARD: Every great person has started as an intern somewhere, so it's only a matter of time.

Q: That's good to hear. The press lately – or this morning today talked a lot about the BRICS states and their role in this G-20 and how they were sort of the cavalry in running – in making sure this G-20 summit was a success. And I just wanted to get your opinion on the BRICS, Brazil, Russia, India, China and South Africa's role in this G-20 summit and going forward.

MS. BRAINARD: Yeah. You know, I think that the real focus of the discussions at the G-20 were around financial market stresses, and, I mean, the central preoccupation was around

how to strengthen demand, how to strengthen job creation and growth, as we see it flagging in many parts of the world. And that was the central focus, I think. You know, advanced economies and emerging markets both participated in that conversation. There was interest in some of the emerging markets and those who have space, again, to rebalance demand through a shift in their policy mix, but as well advanced economies. So that was the predominant focus and theme of the discussion.

I think, you know, the IMF resources commitment was very welcome; it was really something that came together in the spring. So that was expected and, again, welcome. But the critically important thing really is not – is not sitting with the IMF; it's really sitting with Europe as it navigates a path forward that is resilient and that strengthens the vibrancy of Europe, again, a critically important partner to us, but also important to many other countries in the room.

MR. GOODMAN: Great, thank you. So let me just ask about sort of what happens next. So this is a bit of an unusual year, because Mexicans moved up their summit to June. Normally, it's in November. So they, as I understand it, continue to have the presidency until the end of November, end of October?

MS. BRAINARD: I think that – I think that's right.

MR. GOODMAN: OK, sometime in the fall, and then Russia takes over for the next year. Did the Mexicans have plans for further meetings or further activity in their host year, and do we have any sense of what the Russians want to do, or is it too early to determine?

MS. BRAINARD: Well, I think we know that there will be another, I believe, G-20 ministerial sometime in the fall, hosted by the Mexicans, so, you know, on the finance track –

MR. GOODMAN: You mean other than the Tokyo IMF meeting?

MS. BRAINARD: I believe so. So, you know, the finance track – the finance ministers and the central bank governors meet more frequently, and that is as it should be. So that's the plans that I know in the area that we are most engaged in. But you know, there were a whole host of activities that the Mexicans had been sponsoring in terms of workshops and areas like financial inclusion and disaster risk management in developing countries, green growth. I think those activities will continue.

And you have to remember – and you know this if you participate in it – there's a – for every major substantive area, there's an underlying working group that stays in close contact with each other through phone calls, conference calls, meetings. And so that activity will continue, I think, at a, you know, sort of high pace over the course of the year. And then of course, as you said, Russia assumes the G-20 presidency for the next year.

I have not yet gotten a formal kind of look ahead from the Russians in terms of what themes they want to emphasize for next year, but of course we're very much looking forward to working with our Russian colleagues, first as they host the APEC summit and then as they take over the presidency of the G-20.

MR. GOODMAN: Great, excellent. Well, this was really a terrific sort of whirlwind tour of a – of a very large, complicated set of issues, and we really appreciate your spending the time with us. And I learned something, and I hope others did.

MS. BRAINARD: Glad to hear it.

MR. GOODMAN: And we hope you can come back, and there were a lot of issues there that I'd like to have other sessions on, like China and the S&ED and other things. And we'll be back in touch.

But thank you very much, everyone. I hope you enjoyed this. (Applause.)

MS. BRAINARD: Great. Thank you. Thank you.

(END)