

INTRODUCTORY REMARKS

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Thanks for joining us. As you know, early next month we will head to Beijing for the eighth Strategic & 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, multi-dimensional and covers a wide array of issues – from trade and investment, to multilateral development and climate change, to national security and nuclear non-proliferation.

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 in areas such as promoting the rule of law, strengthening regulatory transparency, encouraging economic reforms including exchange rate flexibility, and making progress on financial reform, and it 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, DC, 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. exports, workers, and firms.

This year, we continue to press China to:

- support domestic demand and household income through consumer-friendly fiscal policies;
- improve transparency in the provision of economic data, especially the services sector, and in the formulation of regulations;
- open markets by liberalizing China’s investment rules, including through negotiations on a mutually beneficial, high-standard bilateral investment treaty (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 metals sectors and make supply in these sectors more sensitive to underlying domestic and global demand conditions;
- implement reforms that will foster an orderly transition to a market determined exchange rate;
- address trade barriers and discriminatory regulatory processes in a number of sectors and in cross-cutting areas like competition policy;
- join the Paris Club as a full member, consistent with the Club's operating principles and practices; and
- 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 G-20 presidency this year, we have emphasized the importance of achieving solid outcomes at the S&ED to build momentum for the G-20 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.

Implementing this reform agenda—and resisting the urge to hang onto an outdated growth model—offers the best formula for China to achieve an orderly transition and put its economy on a more sustainable footing for healthy growth in the future. Notably, decisive measures that boost household income and consumption will support more balanced growth in China. If targeted at households, these efforts would further support China's transition towards consumption-led growth.

I would also like to note that as China continues to grow, and becomes more integrated in the global economy, we will continue to press China to play a more active role in the existing international 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 G-20, 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 counter-terrorism 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 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 that continued cooperation with China on the diverse set of issues covered in the S&ED is crucial— not just to our respective countries, but globally as well.

Thank you.