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Treasury Under Secretary Lael Brainard Remarks before the Federal Reserve Bank of San Francisco Conference on "Global Recovery: Asia and the New Financial Landscape"

San Francisco, California

As Prepared for Delivery

Good afternoon. I'd like to thank the San Francisco Fed for hosting this timely conference, and for inviting me to represent the Treasury Department.

We have been intensively engaged with key partners in Asia over the past 18 months on a shared agenda. I will say a few words on our three core objectives:

- Securing recovery in global trade, output, and financial flows;
- Laying the foundations for more balanced and sustainable growth; and,
- Supporting integration in the region, while working to ensure America is centrally engaged and Asian nations are taking growing responsibility for the multilateral institutions that have underwritten their strong performance.

Securing Recovery

I've just returned from Busan, South Korea, where we met with G-20 finance ministers and central bank governors to discuss the global economic recovery.

We have made immense progress since the G-20 leaders meeting in April 2009, when global exports had plunged by over 35 percent, global output was contracting at an annual rate of six percent, and financial markets were frozen. The IMF was forecasting a decline in world output of 1.3 percent in 2009, with output in the advanced economies falling by 3.8 percent.

The G-20 responded with unprecedented cooperation and scale, injecting $5 trillion of global fiscal stimulus, and mobilizing an additional $1 trillion for international financial institutions – including for trade finance.

- G-20 central banks adopted highly stimulative monetary policies;
- In the United States, we put in place a $787 billion American Recovery and Reinvestment Act (ARRA), which has supported incomes and demand; and,
- We undertook a Financial Stability Plan that undertook to disclose the Treasury/ Federal Reserve "stress tests" of major financial institutions, which restored confidence, resolved market uncertainty, and enabled these institutions to raise significant amounts of capital from the private sector.

Asia's economies were hit hard by the global crisis--in proportion to the degree of their global financial linkages and dependence on exports. They acted rapidly and forcefully thanks to ample policy space and strong foundations--a legacy of the Asian financial crisis a decade ago.

Leading Asian nations responded with strong countercyclical measures, including fiscal stimulus totaling 2 percent of GDP across the region.

Today both the United States and Asia are seeing the positive results from these actions and together providing impetus to the global recovery.

· The IMF has raised its global growth projection for 2010 from 1.9 percent (in its April 2009 forecast) to a growth rate of 4.2 percent (in its April 2010 forecast), an increase of 2.3 percentage points;

· G-20 exports have returned to 86 percent of their peak level;

· In the United States, real GDP rose in 2010:Q1 for the third straight quarter following a year and a half of nearly steady contraction; and,

· Bank balance sheets are considerably stronger. Through May 2010, the 19 stress-tested banks have raised nearly $111 billion in new common equity and $154 billion in total capital since the stress tests, and 12 of the 19 have repaid $157 billion in TARP funds to date.

But the recent economic volatility in Europe has underscored the continued need for the G-20 to work together to secure the global recovery. What happens in Europe matters for the United States and Asia. Europe represents a quarter of global gross domestic product and is a major source of demand for U.S. and Asian exports. The United States and our Asian partners must continue to work together to support recovery in Europe.

It is also critical to move forward with unity and resolve in completing the work of financial repair and financial reform. The United States is on the verge of enacting historic financial reform legislation that will make our system more resilient and less leveraged. It is entirely consistent with the international standards and principles agreed by the G-20 and elaborated in the Financial Stability Board.

Rebalancing Demand

Asia and America also have strong mutual interests in laying the foundations for a more balanced pattern of growth–one with multiple engines of demand.

For many years, the global economy – and particularly East Asia – relied on American consumers to fuel demand and sustain growth. The crisis illustrated the dangers of depending so heavily on exports for domestic growth.

Today, there is a temptation to fall back on an overextended U.S. consumer. But this strategy will only prove risky and unsatisfying for everyone. The imbalances going into the crisis were unsustainable, and cannot be repeated.

Americans have begun to save more and borrow less from the rest of the world. Countries with large surpluses – many of them in Asia – will need to do more to bolster internal demand to help ensure stronger and more balanced global growth. This shift will not happen overnight but it must happen if we seek future prosperity.

The process of rebalancing has already begun, with markedly stronger domestic demand in Asia supported by domestic stimulus.

In China, in the first quarter of 2010, consumption contributed an impressive 6.2 percentage points, a much larger contribution than in recent years; by contrast, consumption accounted for only 4.1 percentage points of real GDP growth in 2008

China's current account fell from 11 percent in 2007 to 3.5 percent in the first quarter of 2010 owing to the combination of weak demand outside of China and strong domestic demand within China resulting from strong fiscal and monetary stimulus.

The real test is whether we can sustain this new pattern of growth, with a durable shift towards domestic demand from Asia. We must guard against the risk that China's current account surplus resumes its pre-crisis trajectory as global demand recovers and China moderates its stimulus.

Sustained rebalancing will require raising household incomes, liberalizing services sectors, strengthening social services and social safety nets, and providing households with a range of financial services products to finance major expenditures like education and insure against risk. At the second U.S.-China Strategic and Economic Dialogue two weeks ago, China agreed to accelerate development of services and its social safety net, including by expanding its new rural pension system.

Greater exchange rate flexibility is naturally an important element of this package of policies that can help sustain momentum to grow domestic demand.

In the United States, we are complementing the rise in household saving by charting a strong medium term fiscal consolidation path. President Obama's budget will cut the deficit in half by 2012, reduce it below 5 percent by 2015 and to a level that stabilizes the debt shortly after.

We have passed health care reform, which will make a major contribution to fiscal sustainability in the medium term. Financial reform will contribute by lessening the need for extraordinary interventions in the future. And we are committed to make additional hard choices to achieve fiscal sustainability over the medium term.

Anchoring the United States in Asia and Asia in Multilateral Institutions

Asia's economic dynamism is a great success story, of both smart domestic policy choices and the postwar open trade and investment regime. The United States welcomes Asia's dynamism, and has encouraged economic integration and openness in the region for decades.

We have broadened and deepened trade and investment ties. We have worked together to integrate Asian economies into the global economic architecture. And we have worked together to expand Asia's voice and responsibilities in the G-20, the Financial Stability Board, the International Monetary Fund and the World Bank.

From the beginning, the Obama Administration has prioritized cooperation with Asian nations to address global challenges. After some years of American preoccupation elsewhere, the Obama Administration is reengaging in Asia's dynamic and evolving regional architecture.

Asian economies are more open and more integrated than any other region in the world. And this relationship is mutually beneficial: Four of America's 10 largest trading partners are in Asia, and a quarter of U.S. exports go to Asia-Pacific economies, supporting millions of highly paid jobs in the United States.

While intra-regional capital flows are also on the rise, there is still room to grow for Asian financial integration. Portfolio investment from Asian countries to their Asian neighbors doubled from an average of about 6 percent of outward flows in 2001 to 13 percent in 2007. We believe we will see these numbers increase as Asian economies continue to reform their financial sectors and create the conditions for strong capital markets.

The United States welcomes this progression, and supports regional integration and initiatives that help us realize shared economic objectives--expanding trade and investment and broadening growth and development. A strong, connected, and open Asia is good for the United States, just as a strong, open, and connected U.S. economy is good for Asia.

Asian regional financial initiatives, and particularly the Asian Bond Market Initiative, have played a positive role in strengthening domestic financial markets in the region. We are supportive of the way in which the Chiang Mai Initiative Multilateralization has evolved--with explicit links to the International Monetary Fund.

East Asian economies have liberalized trade through a variety of regional and extra-regional free trade agreements. The United States already has free trade agreements with Australia and Singapore, and the Administration is committed to working through outstanding issues in order to move forward the Korea-U.S. Free Trade Agreement. And the Trans-Pacific Partnership holds out the prospect of extending high-quality free trade agreements through much of the Asia-Pacific region.

We will also strengthen our critical bilateral relationships with Asian countries, which complement and reinforce our regional and multilateral engagement.

I was recently in Beijing with Secretary Geithner and Secretary Clinton and other senior leaders of the Obama Administration for the second U.S.-China Strategic and Economic Dialogue. We are making progress with China on rebalancing our economies, deepening trade and investment ties, working to ensure indigenous innovation policies are nondiscriminatory, and reforming the international financial architecture.

We have established an economic and financial partnership with India, and Secretary Geithner traveled to India this spring to launch the partnership.

We are also working closely with Singapore and Japan, the previous and current APEC hosts as they pass the baton to us in 2011, and we in turn passed the G-20 chairmanship to Korea this year.

Indeed, the emergence of the Group of 20 has been one of the most important developments in global economic policy in recent years. The United States was catalytic in creating the G-20 in 1999, and again in making it the premier global forum for economic cooperation at the Pittsburgh Summit a decade later.

It is in our interest that the major economies in Asia are fully invested in the global economic and financial architecture of which they have been both a beneficiary and an increasingly important contributor–helping to shape it, and committed to preserving and strengthening it.

Dynamic economies like China, India, Indonesia, and Korea, as well as developed nations like Australia and Japan, must be at the table in shaping global economic outcomes. Korea's chairmanship of the G-20 this year will take forward President Obama's agenda from the Pittsburgh summit last fall and ensure continued economic cooperation at a critical time.

At the International Monetary Fund, the United States has championed reforms to increase the voice and representation of dynamic emerging economies, many of which are in Asia, including the Pittsburgh commitment to ensure a shift in share of 5 percent.

Cooperation between the United States and Asia was instrumental in reaching agreement to increase the IMF's New Arrangements to Borrow (NAB) by $500 billion, which provided confidence to the markets at a fragile time. And now we stand ready with Asia to support the needs of European nations through the IMF.

In the multilateral development institutions, we have backed a large capital increase at the Asian Development Bank to help the poor of Asia and catalyze growth in developing countries. At the World Bank, we have strongly supported a $60 billion capital increase and 3 percent shift in voting power to developing countries in Asia and elsewhere to make certain that the governance of this important institution better reflects today's global economy, and that it is well-equipped to meet the development challenges of this century.

The United States and Asia have worked together to restore financing to trade, banks, businesses, and development. We have brought new nations to the table at the G-20 and worked to enhance representation and voice for Asian nations at the international financial institutions. Our efforts have helped underwrite recovery and must now encourage rebalancing and reform.

By working together on the great challenges of the day, we can help ensure the story of the 21st century economy is one of shared prosperity, new opportunities, and better lives for our citizens as well as deeper and more resilient ties between our nations.

Thank you.

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