

**NAVIGATING A TURBULENT GLOBAL ECONOMY:  
IMPLICATIONS FOR THE UNITED STATES**

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**HEARING**

BEFORE THE

**COMMITTEE ON FOREIGN RELATIONS**

**UNITED STATES SENATE**

**ONE HUNDRED TWELFTH CONGRESS**

**FIRST SESSION**

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## CONTENTS

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	Page
Geithner, Hon. Timothy F., Secretary of the Treasury, U.S. Department of the Treasury, Washington, DC .....	5
Prepared statement .....	8
Responses to questions submitted for the record by:	
Senator Richard G. Lugar .....	35
Senator Christopher A. Coons .....	44
Senator Marco Rubio .....	45
Senator Robert Menendez .....	47
Kerry, Hon. John F., U.S. Senator from Massachusetts, opening statement .....	1
Lugar, Hon. Richard G., U.S. Senator from Indiana, opening statement .....	3



# NAVIGATING A TURBULENT GLOBAL ECONOMY: IMPLICATIONS FOR THE UNITED STATES

THURSDAY, MARCH 3, 2011

U.S. SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC.*

The committee met, pursuant to notice, at 2:33 p.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the committee) presiding.

Present: Senators Kerry, Menendez, Shaheen, Coons, Durbin, Udall, Lugar, Corker, Risch, Rubio, and Isakson.

## OPENING STATEMENT OF HON. JOHN F. KERRY, U.S. SENATOR FROM MASSACHUSETTS

The CHAIRMAN. The hearing will come to order.

Thank you all for coming today. And thank you very much, Mr. Secretary.

We are all hugely aware of the economic challenges that America faces today. I've just come from a caucus meeting in which we did nothing but discuss the budget and the choices that we have to face. And I think, hopefully, we'll come together with a creative and thoughtful way of approaching these challenges. But, the truth is that the economic challenges we face today blur the lines between domestic and foreign affairs. Our economists need to think like diplomats, and our diplomats, frankly, need to prioritize economics, because our national security depends on it.

So, it's a pleasure to have before us today the Secretary of the Treasury, who as an individual, both in his life before becoming the Secretary of Treasury, and particularly in these last 2 years, has been thinking in this kind of interdisciplinary way for many years.

So, we're grateful to you, Mr. Secretary, for coming today to share your thoughts with us about this important interconnection.

Two years ago, as we all know, the world faced a financial crisis of unprecedented magnitude and scope. Fortunately, governments around the globe came together to devise a response, including bolstering the IMF to provide support for faltering countries, coordinating a global economic stimulus, and harmonizing central bank measures to restore stability in the global banking system.

I should also mention, in light of the Treasury's budget request, that at the urging of the G20 the multilateral development banks played a crucial role in driving the recovery and providing a safety net across the developing world. Thanks to this rapid and effective

coordination, we avoided collapse, and today we are seeing a return to growth in many parts of the world—growth that is slow and tenuous in some parts, and faster in others, but, nevertheless, a very, very different picture from what we faced 2 years ago.

The truth is, though, that substantial and serious risks remain. Some speculate that we may be headed for a double-dip recession. Instability in European banks and government finances has the potential to reverberate around the globe. And the revolutions that are sweeping the Middle East could challenge the economic growth that we all desperately need by dramatically increasing oil prices and providing significant instability in the marketplace.

So, these are foreign policy problems as much as they are economic problems. In going forward, we will have to juggle our economic priorities with other national security interests. Let me be specific. An example: We have to continue to press hard for adjustment in the valuation of the Chinese yuan and for a fair and level playing field for our companies, even as we seek out areas of mutual cooperation on issues like North Korea, climate change, and unrest in South Asia and Africa.

The events in the Middle East are not only going to have an immediate effect on world economic growth in the coming years, as I said, but they are, themselves to some measure, a consequence of economic dissatisfaction: youth who are desperate for employment, and families hungry for food or facing increased prices. The success of our engagement in that area is going to be driven with how well those nations, with our help, can meet the economic needs of their people.

At the same time, much of our success, and certainly much of our power, stems from what we do here at home. Frankly, we keep slipping in estimates of global competitiveness. Every American should be deeply concerned about the connecting of the dots between the choices we make here at home and the impact that that leaves us with—the leverage it leaves us with, with respect to our interests abroad. In areas like infrastructure, for example, the building of America, energy, transportation, water, sewer treatment, schools, all of those measures.

The most recent World Economic Forum survey ranked us, the United States of America, at 23rd, behind countries from both Europe and Asia. America is now 12th worldwide in the percentage of 25- to 34-year-olds with a college degree, trailing, among others, Russia, New Zealand, South Korea, and Israel.

This year, investors have pulled \$74 billion out of domestic stock funds and put \$42 billion into foreign stock funds. High-profile multinational companies, including Applied Materials and IBM, are already opening major R&D centers in China. And as we look to the Googles of the future, it is increasingly possible that they will be founded by students from Tianjin University rather than MIT or Stanford.

We need to face up to these new challenges and boldly embrace policies that support U.S. competitiveness. We need to invest in a modern infrastructure that enhances our ability to quickly and efficiently deliver goods and services and keep us competitive with other countries who offer companies faster and better ways of doing exactly that. We need to invest in schools so we can continue to

produce and attract the brightest young scientists and engineers. And we need to nurture the spirit of innovation that has always made this country exceptional and that will enable us to transcend our current challenges.

We all recognize that this is a time of tight budgets. But, I believe we must never forget to invest in our future. Remember that, in the 1990s—I remember those fights, as I know my colleague sitting to my left, Senator Lugar, does—we didn't just cut our way to a balanced budget, we grew our way there. There is nothing less than a matter of national security in these challenges.

So, we've asked the Secretary here today, in order to provide insight into these connections—the connectedness of choices in Europe, choices in the Middle East, the things that we can do to leverage stability, and the things that we need to do, recognizing its connection to America's economic power. We want to provide insight into the implications of the economic instability at home and abroad. We want the Secretary to share with us his thoughts about the path to continued coordination on the international economic arena and the policies that can ensure competitiveness for the United States in a world of rising economic powers.

So, it's a great pleasure to have you here today, Mr. Secretary, to consider these items. And I certainly look forward to your testimony.

Senator Lugar.

**OPENING STATEMENT OF HON. RICHARD G. LUGAR,  
U.S. SENATOR FROM INDIANA**

Senator LUGAR. Mr. Chairman, I join you in welcoming Secretary Geithner and thank him for appearing again before the Foreign Relations Committee.

The political upheaval in the Middle East, financial crises in Europe, continuing global food insecurity, rising demand for energy and other commodities; the increasing trade deficit with China; and ballooning foreign ownership of our debt all have implications for the livelihoods of Americans. Today we have the opportunity to learn what the administration is doing to address these global challenges and strengthen our economy.

Given global financial linkages, we cannot achieve a full economic recovery in isolation from the rest of the world. This is especially true with regard to trade policy. For example, currently, the United States exports roughly 15 percent of our corn production, 45 percent of our soybean production, and 25 percent of our pork production. Exports and investment growth help to sustain high-paying jobs in both our farms and factories.

One of the largest employers in Rushville, IN, builds compressors for commercial refrigeration. Those compressors are integrated into other products and then sold throughout the world. They are prized over competing European and Asian products in places as far flung as Iraq for their dependability and superior customer service.

Yet few may recognize how the economic health of American communities, large and small, depends on our ability to compete for exports. China, Europe, and other competitors are working aggressively to secure trade and investment partners. In our hearing yesterday, Secretary of State Clinton twice repeated, "We are

in a competition for influence with China.” This is especially true with regard to penetration of foreign markets. The Chinese see such linkages as essential to their economic future.

With this in mind, I am especially concerned that the Obama administration lacks a sufficient commitment to exports and trade promotion. In the context of a \$14 trillion national debt, trade promotion should be near the top of our economic agenda, because its job creating benefits occur without expensive programs that add to the deficit.

I know Secretary Geithner and other officials understand the importance of trade liberalization. I also recognize that the administration can point to some ongoing trade initiatives. But there is no indication that the President is even considering elevating the type of bold trade vision that could invigorate our economy and help us compete in world markets. Although the President has committed to sending the trade agreement with South Korea to Congress for its approval, agreements with Colombia and Panama have languished, largely because of opposition expressed to President Obama by United States labor unions.

Delay of these agreements has already resulted in significant loss of United States market share in Panama and Colombia. In Panama, large-scale projects, such as the \$5.25 billion Panama Canal expansion, the \$1.5 billion Panama City Metro, and hundreds of millions of dollars in highway expansion contracts, have been awarded to non-American firms.

The United States recently lost its position as Colombia’s No. 1 agricultural supplier. Total United States agricultural exports to Colombia decreased from \$1.8 billion in 2008 to \$827 million in 2010. United States market share is being lost to China, Brazil, and other countries in Latin America that benefit from trade accords with Colombia.

What is most troubling is that these agreements are the low-hanging fruit of trade expansion opportunities. If the United States cannot complete trade promotion agreements with relatively small nations in our own hemisphere and quickly work through the political issues associated with them, our ability to execute a grander trade strategy is in serious doubt.

Even if issues over the Colombia and Panama Free Trade Agreements were resolved, this would represent progress that is far short of what is needed in a highly competitive world.

The President should be accelerating the priority of much broader trade initiatives like the Trans-Pacific Partnership and a revival of the Doha Round. If he does not commit the prestige of his office to an aggressive and broad campaign to open markets, he will be weakening chances for sustained economic growth in this country.

A key test of administration resolve on trade will be the President’s upcoming trip to Brazil. President Obama should propose that we initiate negotiations on a market access agreement with MERCOSUL, the Southern Common Market, which is led by Brazil. The export potential of such a landmark agreement could create enormous job growth in the United States and help solidify our political and strategic relations in South America. In addition, the President should work toward ratification of a bilateral tax



treaty with Brazil that could greatly expand our economic links with that country.

I thank the chairman for calling this timely hearing. I very much appreciate conversations that I have enjoyed with Secretary Geithner on global economic topics, as well as his willingness to be here today and to give us his testimony.

I thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you, Senator Lugar.

As always, very thoughtful comments, and I particularly appreciate the comments you made about the trade issue, which is something we need to get on; Congress needs to get that done. We've got three agreements that are waiting for ratification, and I think they are ripe, and hopefully we can come together around them.

But, that said, Mr. Secretary, the floor is yours. We'll put your full testimony in the record, as if read in full, if you want, but suit yourself. And we look forward to your comments.

Thank you.

**STATEMENT OF HON. TIMOTHY F. GEITHNER, SECRETARY OF  
THE TREASURY, U.S. DEPARTMENT OF THE TREASURY,  
WASHINGTON, DC**

Secretary GEITHNER. Thank you, Mr. Chairman and Ranking Member Lugar. And thanks for giving me a chance to come and speak to you today. And I very much appreciated your opening statements, and look forward to a chance to discuss those questions.

I want to start, just first, with a quick statement on Libya. As you know the President, last Friday, took decisive steps by issuing an executive order to freeze the assets of Muammar Gaddafi and four of his children, as well as the assets of the Government of Libya and its agencies, including the central bank and the Libyan Investment Authority, which is its sovereign wealth fund. And, thus far, we've found and seized almost \$32 billion in assets; \$30 billion initially, and we found another \$1.9 just in the last couple days. And this is the most effective, and the quickest and the most forceful, use of our authorities under the Emergency Economic—International Emergency Powers Act that we've ever done. And I want to just emphasize our commitment to make sure that we're working with countries around the world to help make sure this broader effort has as much force as possible.

I want to outline, today, our priorities on the international economic front. First and foremost, of course, is to work to strengthen and sustain the global economic expansion underway. And this is critically important to the United States, because the stronger the world is, the stronger will be our recovery here at home.

Now, the balance of evidence suggests that growth is getting stronger, both in the United States and around the world. The price of oil has risen, adding to the pressures faced by consumers here and around the world. At this point, however, the impact of higher present and predicted oil prices are offset by other positive developments reinforcing growth around the world. Underlying inflation in goods and services in the United States is still low. And it's very important to note that there is still considerable spare oil production capacity globally. And the United States and the other

major economic economies possess substantial strategic reserves of oil. And those reserves could be mobilized to help mitigate the impact of a major supply disruption.

Food prices have also risen significantly, adding to the incomes of farmers, but also having a serious impact on inflation and living standards, particularly for the lowest income groups in developing economies. An effective global response to higher food prices, in low-income countries in particular, requires increasing investments in agriculture in those countries to help improve productivity in agriculture and help improve the quality of infrastructure in those countries. And this will require more support from the United States and other countries through programs such as the Global Agriculture and Food Security Program.

Now, in Europe, as you noted, Mr. Chairman, the leaders of Europe are undertaking the very difficult task of designing a financial mechanism to support very challenging financial and fiscal reform efforts that are underway in several of those economies. This endeavor is, in many ways, as important, as difficult, as consequential, as complicated as the initial moves to monitor a union. Europe is working to build more effective institutions to discipline budget spending across the continent and to create a more effective means of dealing with problems with banks in the future. And they are making progress. And it's important that they continue to make it clear that they will do whatever is necessary to make sure that the affected countries and their banks have the financing they need to make these reforms work.

Emerging economies, like China, Brazil, and India, are growing very rapidly. That growth is helping to support rapid growth in U.S. exports, which, in turn, is raising income and employment across the United States, in manufacturing, in high-tech, and in agriculture.

China is now allowing its exchange rate to gradually appreciate against the United States dollar. Since June of 2010, China has allowed its currency to appreciate against the dollar at a pace of about 10 percent a year, in real terms. Nevertheless, China's currency remains substantially undervalued. And its real effective exchange rate, which is the measure of its exchange against the value of the exchange rates of all its trading partners, has not moved materially during this period.

Now, looking beyond these immediate challenges and opportunities, we're working to advance four critical policy objectives globally.

First, we're working in the G20 to help build consensus on long-term reforms that would provide the foundation for a more balanced, more sustainable global economy. We've got a framework for cooperation that includes movement to more flexible exchange rates by emerging economies; a type of early warning mechanism, to help reduce the risk that we see the reemergence of large external trade imbalances; and help for emerging economies to help manage the challenges that come with large flows of capital.

A second priority: We're working very hard to build a more stable international financial system, with better oversight of the major global financial institutions, the major banks, and the global financial markets. And here, of course, are challenges to encourage the

world to move to higher standards, more conservative standards for capital and other things, but with a level playing field, so that as we tighten standards here, we don't just see the risk move outside the United States to take advantage of lower standards in other countries.

Third, we're working to open markets overseas so that our businesses can compete on a more level playing field there, as well. As you know, the President's negotiated a very strong trade agreement with Korea that will help create more opportunity for American companies in what's the 12th largest economy in the world, and support tens of thousands of new jobs here in the United States. And, of course, we want to work with Congress to move forward on that agreement. And we hope that deal—approval of that deal to improve export growth will help set a precedent, help pave the way for agreements with other countries, including the agreements with Colombia and Panama.

Now, of course, finally, as you all understand, we have a very strong national security interest, national economic interest, in supporting growth and development in emerging markets and developing economies. Developments in Egypt, of course, underscore the stakes for the United States. As Secretary Gates has observed, development and security are inextricably linked in Egypt, Afghanistan, Pakistan, countries around the world. Our investments in institutions, like the World Bank, are among the most powerful and cost-effective ways we have to promote U.S. interests, our economic interests, and our security interests.

Our contributions to these institutions account for only 5 percent—5 percent of the entire U.S. foreign assistance budget, but they mobilize funds that total more than one and a half times the entire U.S. foreign assistance budget.

The financial support these institutions can provide comes with tough conditions, conditions we could not impose on our own, that support reforms that help us export more and create more jobs in the United States. And it's worth emphasizing that if we cede influence in these institutions, or if we deprive them of resources, we will cede influence to China and other countries on the global stage.

Many of you on this committee, after traveling to Africa, to Asia, to Latin America, have expressed concern about the dramatic expansion of commercial activity by China in other countries. For many countries the only alternative to financing from institutions like the World Bank is to turn to China.

Now, before I close out, I want to emphasize, as you did, Mr. Chairman, that our ability to protect our national security interests and to advance our economic interests around the world depend, of course, on the strength of our economy at home. This financial crisis caused enormous damage, not just to the living standards of Americans, but to American credibility around the world. And we are just now in the process of repairing that damage, rebuilding confidence among the American people, among investors, and governments around the world.

We have some way to go, however. And we need to be very careful that we work to reinforce and not jeopardize that improvement in confidence in the quality and care and prudence and competence

of American economic policy. And that requires a relentless focus on the reforms and investments we need to strengthen our competitiveness over the long run. And it requires Washington to take the steps necessary to restore fiscal responsibility.

Thank you very much. I look forward to answering your questions.

[The prepared statement of Secretary Geithner follows:]

PREPARED STATEMENT OF SECRETARY OF THE TREASURY TIMOTHY F. GEITHNER

Chairman Kerry, Ranking Member Lugar, members of the committee, thank you for inviting me to testify.

You asked me to talk about the global economic outlook and how we can advance U.S. economic interests, working through international institutions such as the multilateral development banks.

The global economy is now expanding after the profound crisis of the last 3 years, but the recovery is advancing at different speeds. The IMF forecasts that emerging markets will grow by 6.5 percent this year, while it expects growth in Europe and Japan to be 1.5 percent.

The U.S. recovery stands in between, with growth gathering momentum and inflation risks modest, but with unemployment still unacceptably high. Consumers and businesses are now expressing more optimism about the future, suggesting momentum that will sustain growth in the coming months. Private sector analysts have raised their near-term forecasts and are projecting stronger growth in 2011 and 2012. However, we still face very substantial economic challenges. Millions of Americans remain out of work, and families across the country are still struggling to make up for losses in their savings and in the value of their homes.

The global recovery faces several major challenges and risks in the near term. A few observations on each:

First, we are witnessing historic changes in North Africa, and we are engaging with the economic authorities in the region and with the multilateral development banks to address pressing economic needs and chart a future that better meets the economic as well as political aspirations of the citizens in this region. Alongside the measures announced by Secretary Clinton, we will work closely with the World Bank, the African Development Bank and other governments to support investments and economic reforms that will promote private-sector job creation in North Africa.

Regarding Libya, last Friday, President Obama took decisive steps to hold the Qadhafi regime accountable for its continued use of violence against unarmed civilians and its human rights abuses and to safeguard the assets of the people of Libya. The President issued an Executive order freezing the assets of Muammar Qadhafi and four of his children, as well as the Government of Libya and its agencies, including the Central Bank of Libya and the Libyan Investment Authority—the country’s sovereign wealth fund. Thus far, at least \$30 billion in Government of Libya assets under U.S. jurisdiction have been frozen as a result of the Executive order issued by the President. Under the International Emergency Powers Act, this is the largest amount of assets frozen under any U.S. sanctions program to date.

Second, in Europe, leaders are undertaking the difficult task of designing a financing mechanism that can help support the very challenging, multiyear programs of fiscal and financial reform that are underway in several of the member states. They are making progress. It is important that European leaders continue to make clear that they will do whatever necessary to make sure that the affected countries and their banks have the financing they need to enable those programs to succeed.

Third, the largest emerging market economies are facing the usual pressures associated with strong growth. Inflation is accelerating. The prospect of future growth is naturally attracting foreign investment, putting upward pressure on exchange rates. Emerging market economies with flexible exchange rates have seen substantial appreciation. The upward pressure on those exchange rates is being accentuated by the fact that other major emerging markets are holding their exchange rates at undervalued levels and tightly limiting capital inflows, which serves to exacerbate price pressures within their own economies and shift the burden of adjustment to others.

Fourth, rising global commodity prices—including for food and oil—are causing hardship in many parts of the world. The IMF estimates that commodity prices, in the aggregate, increased 25 percent in 2010. This is having a serious impact on in-

flation and the living standards of the lowest income groups in emerging markets, where food and fuel tend to comprise a larger share of consumption. In the United States, rising gasoline prices have left consumers with less money to spend, but underlying inflation across all goods and services is still modest.

Developments in the Middle East have generated concern about potential disruption to the supply of oil, and this has put upward pressure on oil prices. We are monitoring this situation closely. But it is important to note that there is considerable spare oil production capacity globally, and we and other major economies possess substantial strategic reserves of oil. If necessary, those reserves could be mobilized to help mitigate the effect of a severe, sustained supply disruption.

An effective global response to higher food prices requires increasing long-term investments in agriculture in low-income countries, through mechanisms such as the Global Agriculture and Food Security Program, the multilateral pillar of the President's Feed the Future Initiative. This program is designed to raise agricultural productivity and improve rural infrastructure to help farmers connect to markets.

We also support measures to limit the potential for commodity market abuse and price manipulation through increased transparency and oversight of commodity markets and the associated derivatives markets. And these pressures on global commodity prices will be reduced as the rapidly growing emerging economies act to tighten policy.

Fifth, the durability of the expansion will depend in part on the ability of advanced economies, including the United States, to deliver credible multiyear reforms to restore fiscal sustainability. G20 leaders committed in Toronto last June to halve fiscal deficits by 2013 and to stabilize debt-to-GDP ratios by 2016.

Beyond these immediate challenges, we are working to make global growth more sustainable in the future, to build the foundations of a more stable financial system, to expand opportunities for trade, and to provide the support for reforms in developing and emerging economies that contribute to our own economic and security interests.

First, we are pursuing a number of reforms to the international monetary system. The world needs a better set of incentives for governments to promote external sustainability and reduce the risk of the reemergence of large trade and current account imbalances. In the G20, we are moving gradually to build consensus on ways to measure external imbalances and identify their causes. The IMF will have a key role in this process, providing independent and public assessments of the impact of each country's policies on global economic stability and growth.

A central component of this effort has to be the development of stronger norms for exchange rate policies that will help accommodate changes in the global economy. There is broad consensus that the major economies—not just Europe, Japan, and the United States, but also the large emerging economies—need to allow their exchange rates to adjust in response to market forces.

Our bilateral and multilateral discussions with China have already yielded some progress. Since June 2010, China's authorities have allowed their currency to appreciate against the dollar at a pace of about 6 percent a year in nominal terms, and more than 10 percent a year in real terms, given faster inflation in China than in the United States.

Nonetheless, China's currency remains substantially undervalued, and its real effective exchange rate—the best measure to judge its currency against all of its trading partners—has not moved much in this latest period of exchange rate reform.

Related to this, we need a stronger consensus on policies that can help emerging economies manage the risks that can come with large flows of capital. These economies have considerable investment needs, and many are seeing substantial inflows of foreign capital.

The challenge is to reduce the risk that these flows contribute to excess growth in credit or asset prices and leave the domestic financial system vulnerable to exchange rate risk. This requires carefully designed prudential measures in the financial sector, as a complement to the classic mix of monetary and fiscal restraint and flexibility in the nominal exchange rate.

Second, a more stable international monetary system requires stronger oversight of the major global financial institutions and markets. The United States has demonstrated its leadership in this effort with the enactment of the Dodd-Frank Act and its financial reform last year. We have agreed with our international counterparts to impose tougher restraints on financial institutions' risk taking and leverage, to bring oversight to the derivatives markets, and to improve our capacity to contain the damage caused by the failure of large financial institutions.

This is a complicated undertaking, and we need to be very careful to make sure we create a more level playing field across countries so that financial activity does not migrate to jurisdictions where standards are weaker or less rigorously applied.

We also need to provide participants with as much clarity as we can about the reforms so that the markets have time and opportunity to adjust to them.

Third, to promote growth at home we must continue to open markets overseas so that U.S. businesses can compete on a level playing field and U.S. workers can prosper. Working with Congress and with a broad range of stakeholders, we are pursuing our trade agenda on three fronts—multilaterally through the Doha Round, regionally through the innovative Trans-Pacific Partnership negotiations, and bilaterally through free trade agreements (FTAs) with Korea, Colombia, and Panama. Our goal is to conclude and implement enforceable, high-standard agreements that directly benefit our workers, our farmers, and our businesses.

Our FTA with Korea does just that. It is a good deal. It will enhance the competitiveness of U.S. businesses in the world's 12th-largest economy. It will support at least 70,000 American jobs. It will add an estimated \$10–12 billion to U.S. GDP, increase goods exports to Korea by \$10–11 billion annually, and provide access to Korea's growing \$560 billion services market. It sends a strong signal of U.S. leadership and commitment to the East Asian region. And it serves our national security interests as the United States and Korea work together to ensure peace and security in the region.

The administration intends to submit the agreement to Congress soon for its consideration and will work with you to get it implemented. If enacted quickly, this agreement can have an immediate impact on opening markets, stimulating U.S. growth, and supporting jobs here at home. The President also directed his team to address the outstanding issues regarding the Colombia and Panama FTAs with the objective of bringing those agreements to Congress for consideration as soon as the issues are resolved.

Fourth, we must work to support economic reforms in emerging markets and developing economies, which contribute not only to our own long-term economic prosperity but also to our national security. As Secretary Gates has observed, "Development and security are inextricably linked."

Our investments in the multilateral development banks (MDBs) are a critical and cost-effective component of the United States global economic leadership. Our leadership in the MDBs helps ensure that these institutions support vital U.S. interests around the world—promoting our national security objectives, preventing and mitigating financial instability, creating markets for clean energy technology, and contributing to economic growth here at home. Through their use of open and fair bidding processes for procurement and investment opportunities, our investments in the MDBs have a direct impact on jobs here at home. In exchange for our financial commitment, we leverage our leadership to advance policy reforms that increase the effectiveness of the MDBs themselves and that fight corruption and ensure best practices on the ground. In Africa, for instance, the alternative to MDB financing is low-cost financing from China—presenting recipient nations with the choice between MDB funding that makes hard asks of them for transparency and reform, and Chinese funding that comes with few conditions except for the enhanced political influence that flows to the lender.

Our investments must also include supporting a global solution to the long-term security risks posed by climate change through reduced emissions, increased resilience, and prevention of economic losses from climate-related disasters. Population displacement, declines in global food supply, and major water shortages are all expensive destabilizing long-term global impacts that can be cost-effectively addressed now through prudent policies and investments by all countries.

The MDBs leverage the maximum impact for every U.S. taxpayer dollar. We expect that the MDBs cumulatively will make \$95 billion in financing commitments globally in 2012. In comparison, the entire U.S. foreign assistance budget request is \$61 billion for FY 2012, of which the Treasury Department has requested \$3.3 billion for the MDBs. In other words, Treasury's \$3.3 billion request leverages \$95 billion in MDB activity supportive of U.S. global interests, or over 50 percent more than the U.S. Government's international affairs budget.

The cuts to Treasury's international programs that we saw in the House legislation would mark an unprecedented abandonment of U.S. commitments to institutions that play a critical role in promoting our national security and economic interests around the world. With these cuts, we would effectively be ceding the leadership and influence we have valued in vital institutions like the World Bank for more than 60 years, in Republican and Democratic administrations alike. And we would be doing it at the very time our leadership matters most.

Ultimately, our capacity to retain our global economic leadership rests on the strength and stability of the U.S. economy. Most of the key reforms we need to build a more robust and resilient global economy are in our own hands.

The President has outlined a broad strategy to help strengthen economic growth with investments in education, innovation, and the Nation's infrastructure. Alongside those investments, we must reform the Nation's finances to restore fiscal responsibility. Our deficits are too high and they are unsustainable. Left unaddressed, these deficits will hurt economic growth and make us weaker as a nation.

The President's Budget presents a detailed plan to reduce spending and deficits, cutting the inherited deficit in half as a share of the economy by the end of the President's first term. The budget includes proposals that will shrink deficits by more than \$1 trillion over the next decade, essentially stabilizing the national debt held by the public as a share of the economy starting in 2013.

Meaningful deficit reduction requires serious cuts to government spending. The budget proposes a 5-year freeze of nonsecurity discretionary spending at its 2010 nominal level, reducing the deficit by more than \$400 billion over the next decade, and bringing the level of nonsecurity discretionary spending to its lowest share of our economy since the Eisenhower administration.

But it is not enough to spend less; government must also spend more wisely. The President's Budget sharply restrains overall spending, while also investing in important areas where the government has a clear role to provide public goods that promote future economic growth and competitiveness: education, innovation, and infrastructure.

- An educated and skilled workforce is critical for the United States to compete in the global economy. The need for additional investment in education is striking: America has fallen to ninth among advanced countries in the proportion of young people with a college degree. The budget proposes targeted investments in education to help us regain our competitive edge.
- Investments in research and development (R&D) produce the technological advancements that contribute to productivity growth and improvements in U.S. living standards. The President believes that government has an important role to play in promoting technological progress, just as it has historically, and the budget includes R&D investments for this year to support basic research and clean energy.
- Infrastructure is critical to economic growth and competitiveness. In addition to a \$50 billion up-front investment in transportation infrastructure to create jobs in occupations that have been hit hard by the recession, the budget lays out a long-term plan for sustained, targeted investments in the most effective infrastructure programs and projects.

The President's plan provides a balanced strategy for reducing spending and reducing future deficits while preserving the room for the investments that are critical for future economic growth.

These are the most important steps we can take today to ensure that the U.S. economy remains strong and vital in the years and decades ahead. Fundamentally, a robust economy at home is the single most important contribution we can make to continued U.S. economic leadership and to the global economy as a whole.

The CHAIRMAN. Well, we look forward to having a good dialogue with you today, and I thank you for those opening comments.

As you know, the House budget, passed the other day, significantly cuts the funding for the Department of Treasury's international affairs programs, including the funding of the shares in the Asia Development Bank. I believe that, unlike other multilateral programs that the United States funds from a year-to-year basis, that the shares, the ability of the United States to participate in those shares, is literally a one-time opportunity: use them or lose them. So, if we don't subscribe to these shares now in the budget, it's my understanding we lose them for good. And then China will, by default, end up as a larger shareholder than the United States for the first time. Is that accurate?

Secretary GEITHNER. Yes. It's very important to underscore that if we are unable to deliver on the commitments we made as a country, made, of course, with close consultation of Members of Congress, then we face the following types of consequences across these institutions. And it's different across the institutions. In Asia, it means that we fall even further behind. I think now we're only

sixth, in terms of importance and as we fall further behind, we cede more influence with China, we lose our capacity to veto core decisions. That would be hugely damaging to the United States.

But, you need to look beyond that to the costs of further erosion in our position in the World Bank or of stopping the Inter-American Development Bank from going forward. And the ranking member referred to the deep economic stake we have in Latin America today as their economies expand. Huge economic stake for us in being part of that expansion.

In many ways, these institutions are as effective—they're, in some ways, more effective than what we do on the trade side. Some of the most important trade reforms that we've ever seen across the emerging economies that reduced trade barriers were put in place as part of World Bank reform programs. So, if these institutions are not able to operate and we do not have the capacity, or lose the capacity, to influence what they do, we face enormous risk, not just in countries like Afghanistan and Pakistan, where we have American lives at stake directly, but around the world, where we have many important interests at stake.

So, we have in the past, and we can today, find a way to restore a gravity to our fiscal position, reduce our long-term deficits, and do that in a way that preserves the capacity to maintain investments of the institutions that have enormous returns.

The CHAIRMAN. Mr. Secretary, let me just share with my colleagues that this relationship that you've just described the importance of was addressed by General Petraeus, who praised the United States, the efforts of the Bank, with respect to the Afghanistan/Pakistan peace. And he said the following, "Strong partnership with the Asian Development Bank is part of our overall United States purpose and goals in these areas of critical importance." Can I ask you just to share with us, What are the national security implications of the other development banks commitments that we need to make, in terms of the funding for the fiscal year 2012 budget, like the World Bank and so forth? Could you speak to that, about—

Secretary GEITHNER. Absolutely. I think—you know, I want to be careful how I say this—but, I think that it—this is going to be generally true across these specific cases—but, whether you look at Afghanistan or Pakistan or looking forward to Egypt, where we hope to help aid this transition and the reforms that'll provide more opportunity to those citizens, throughout Africa and in almost all regions of the world, these institutions—the World Bank and the Multilateral Development Banks, the regional banks—are, in most cases, the largest source of assistance available.

And it's, of course, not just the financial resources, it's the conditions that come with those resources. And these are conditions that not just try to reduce corruption, they're conditions not just to improve transparency, quality of governance, or have better environmental safeguards for extractive industries; these are reforms that help open those economies up, strengthen property rights, make it more likely that their private sectors can flourish, opportunity spreads.

And our military leaders have spoken eloquently about the connection to our security interests that these institutions provide in



those countries. And without them, we would have a much-diminished capacity to help make sure that there is development alongside our efforts to bring more security in those countries.

So, it would be deeply damaging to our own interests directly, where we have lives at risk, and to our long-term interests, not just to the moral imperative of trying to make sure that, as a nation, we're making sure that we provide more support against infectious diseases, that we're doing a better job of alleviating acute poverty in those countries; enormously important strategic, economic, and moral imperative. And these institutions are, again, the most effective means we have to leverage resources with conditions that work for our interests.

The CHAIRMAN. Mr. Secretary, I met, today, with your nominee to succeed Stuart Levey, David Cohen. And let me just compliment Mr. Levey's tenure, which I think has been exceptional. And it's one of the most important tools. We worked in developing that whole concept. I remember, back when I was on the Banking Committee, and we were looking at the difficulties of the flow of money and the lack of transparency and so forth.

I think your division has done an outstanding job of helping to track money and understand where it is, the mere fact that you've been able, so quickly, to identify Gaddafi assets or Mubarak assets. Incidentally, staggering sums, by any standard. To learn that there are \$31 billion, or something, in the name Gaddafi in various parts of the world, including in our country, I think a lot of people are amazed by that.

It struck me, in the conversation I had with his hopeful successor, David Cohen, that perhaps that's an area where we even need to do more. I've been struck, for a number of years—a number of years ago, I did a major investigation on money laundering, money trafficking, et cetera—it's a scourge to all of us, in terms of good governance and the standards by which we operate. And, to the degree that people have places to run off and hide money in one tax dodge or another, they undermine the entire democratic system, or even governance system, of a country; they leave a greater burden to people who don't have those opportunities, and it lends itself to all kind of—other kinds of potentially dangerous activities: the support of Lashkar-e-Taiba, al-Qaeda—run the gamut. And these are the ways in which they get their weapons, the way they move money, and so forth.

I wonder if, in light of that reality, and still the existence of too many of these dodges, do we need a greater commitment? Do we need more super computer capacity, more ability to have accountability for the transparency and flow of these kinds of funds? And wouldn't that aid us, really significantly even, in knowing ahead of time what kinds of potential damaging activities are being engaged in?

Secretary GEITHNER. Mr. Chairman, I welcome your attention to this issue. And I could not underscore more the importance of making sure we preserve and sustain a very substantial capacity to use—to marry intelligence with effective sanctions, to prevent people from accessing the finance they need to advance a nuclear program, to finance terrorist activities, or to finance the whole range of illicit activities that threaten the fabric of our societies.

And this is a remarkably effective program, and we are going to make sure we do everything we can to maximize the tools we have to pursue this.

I would say that, as you know more than anybody, overwhelmingly, the effectiveness of our efforts depends on our ability to get other countries to move with us, because it requires a relentless focus on expanding the net on tracking down where the money moves, when we're effective. And one of the most important things we've been able to do is to encourage countries to adopt similar regimes to ours and to move with us on going after these flows of funds as quickly as possible. But, I welcome your support to that. And we'd be happy to talk more about what we need to do in the future.

The CHAIRMAN. Well, I look forward to that. And we, very much, look forward to working with you. And I hope that the Congress will not wind up being penny wise and pound foolish in this process.

Senator Lugar.

Senator LUGAR. Secretary Geithner, I mentioned in my opening statement the President's upcoming trip to Brazil. The unfortunate fact is that Chinese exports to Brazil have increased significantly, and thus, China has overtaken the United States as Brazil's leading trading partner. Now, my understanding is the new President of Brazil, President Rousseff, has signaled that she wants to work much more closely with the United States. Maybe some feel she's more enthusiastic than her predecessor. With these facts in mind, what are you advising the President with regard to this trip to Brazil? How can we forge a significantly better relationship with this very important friend?

Secretary GEITHNER. Well, you are absolutely right about the importance of this and the opportunity we have now with the new leadership in Brazil. And I was in Brasilia, just a few weeks ago, and met with the president, and she made it clear to the United States, to us, that she is looking for ways to build a closer relationship, not just economically, but strategically; and we want to take advantage of that. And we see enormous opportunity, in a whole range of economic issues, to build a closer relationship. It's obviously true in energy, there are some issues on the tax side, that you referred to, where we may be able to make some progress. They are eager for U.S. investment, U.S. technology, U.S. capital, and we want to take advantage of that. So, we're going to be—that's what the President's going to be talking with, there. And you're right to remind the Americans of the importance of that relationship. And we have a lot at stake.

Senator LUGAR. Well, I look forward to your report back to us on steps we might take to work with the administration in strengthening this relationship after the President returns. This is very critical given the new President and the opportunity to forge a stronger relationship.

Now, regarding Colombia, I received a call, unexpectedly, from the President of Colombia, 2 weeks ago. I suspect he's been calling a number of people—pleading with us to move on with our pending bilateral free trade agreement. And my understanding is that a trade representative mission went to Colombia recently, and that

one may be going to Panama soon. But, what are the barriers to progress on this issue? Why doesn't this move?

Secretary GEITHNER. Senator, I want to just begin by emphasizing something you said in your opening statement, which is that unless we are able, as a country, to pass trade agreements into law that we've committed to in the past, agreements that work for American companies and American workers, then we will be unable to make progress on things where we have even greater interest. For example you referred to the Trans-Pacific Partnership, with the Doha Round. The world looks at us and they've seen us unable or unwilling to legislate these agreements, and that makes them reluctant to move with us on those other areas. So, a necessary condition for making progress in Asia and Latin America, in the most rapidly growing parts of the world, is to demonstrate that we're able to move these agreements forward.

Now, as you know, we have a very good Korea Agreement we hope Congress will act on soon. And we are working very hard to put in place the types of changes and commitments we think would make it possible to move forward on Colombia and Panama. And the President believes it's important for us to do that. And, as you referred to, we're in very close consultation now, with the Government of Colombia, on ways that might improve the odds we can bring that to Congress to consider.

Senator LUGAR. Are we in close contact with the United States labor unions that have blocked this for years?

Secretary GEITHNER. Of course. Of course, because we want to make sure that, when we bring this to the Congress, that we can get it done. And so, we are doing what we normally do in this context, which is to make sure that we have agreements that will have broad support from all the affected parties, and could work. So, we're talking to the Government of Colombia to ways we can move this forward. And again, we're hopeful we can come to you and find a way to do that.

Senator LUGAR. Well, I'm very hopeful. Looking at just one practical problem the current situations entails from the point of view of my Indiana constituents, even exporting soybeans to Brazil or Colombia is inhibited. There is a great market for soybeans right now—

Secretary GEITHNER. Right.

Senator LUGAR [continuing]. But if you can't export American goods under current provisions, then it's not very helpful to American farmers.

Secretary GEITHNER. And again, the longer we wait—you said it exactly right—the longer we wait, we just lose more business. Other countries come in and they take that business from the United States. It makes no sense for us, as a country.

Senator LUGAR. You mentioned in your opening statement United States efforts to freeze the assets of Muammar Gaddafi and his family, along with those of the Government of Libya. Could you explain to us and to the American people, what happens to this money? In other words, these bank accounts are there and somebody's frozen the assets; but, what happens to the assets themselves?

Secretary GEITHNER. We hold them and prevent any transfer of funds from those accounts until we have a resolution of the underlying problems that gave rise to the act, to the seizure. So, they're frozen, in the purest sense of the word.

Senator LUGAR. Now, for the sake of argument, say the United States was to freeze the assets of former Egyptian President Mubarak and his associates. Meanwhile, let's say that the Egyptian economy continues to have problems, and that the income coming into the country continues to sink as world food prices rise. Such a state of affairs would be especially difficult for Egypt, as they import 60 percent of their wheat from the United States, for example, and it's twice as expensive as it was last year. So, here you have people who are very hungry in Egypt, and they say, "Surely there are tens of billions of dollars out there, albeit acquired in a strange way by the former government, but regardless this ought to be Egyptian money. There are human beings that are suffering." Now, what sort of action do we take at this point?

Secretary GEITHNER. Well, you're exactly right. The purpose of this, of course, is to make sure those assets can be preserved for the benefit of the people and the legitimate government of the country.

Now, it's important to recognize, as a complement to those efforts, the World Bank and the African Development Bank and other institutions have substantial resources available and in the pipeline to try to make sure they can help the government through the transition and help make sure, again, these governments are pursuing reforms that expand opportunity for their citizens. So, we have other tools available quickly that can be deployed to help.

Senator LUGAR. Let me ask one final question.

As a part of the financial reform bill, a very small amendment was included, called the Cardin-Lugar amendment, after my distinguished friend, Senator Cardin, of this committee. And it's created quite a stir, because it requires American companies and financial institutions to disclose their transactions with governments who have sometimes failed to exercise transparency with regard to their revenue from the sale of oil, gas, and minerals.

Now, there is some backlash from American oil firms, who say, "Well, that's unfair. After all, those that are playing the game out there are bribing the devil out of these leaders." And Americans are not saying we want the same privilege, but they're just saying we're at a disadvantage by being so transparent. Others are ecstatic that there finally might be some light shed of what has been a terrible international scandal. Do you have any insight as to what is going on out there? Or any comment about this?

Secretary GEITHNER. Well, I'm a long supporter of that specific initiative, and I think it has a very powerful effect, again, on, not just improving transparency about the resources these countries have available, but in improving the odds they're used for the benefit of their people. Now, you're right to say that you want this to be done on a global scale. And again, I just want emphasize again, because you do have the responsibility of authorizing our commitments to these multilateral development banks, this is exactly the types of reforms that these banks are able to bring about. And that

helps to make sure that our efforts, alone, are complemented by a global effort that can help bring about reforms.

Now, I commend you very much for that initiative. I think it's enormously promising. I'd be happy to try to give you more details on what we think is happening on the ground, in response.

Senator LUGAR. Yes. Please keep tracing it for us, if you will.

Thank you.

The CHAIRMAN. Thank you, Senator Lugar.

Senator MENENDEZ.

Senator MENENDEZ. Thank you, Mr. Chairman.

Mr. Secretary, thank you for your service. I think you've done an extraordinary job in one of the most difficult periods of time to be the Treasury Secretary, so I appreciate that.

Having said that, let me ask you about an issue that concerns me. One of the themes of this hearing is addressing threats to our economic recovery. And, in that context, I think we have to consider China's continued undervaluation of its currency and the impact it has on our economy, which is particularly important as we seek to double our exports by 2015.

Now, I know that the Department, last month, issued a report that basically said China does not qualify as a currency manipulator because it had permitted some appreciation of the renminbi. But, it's also interesting to read, in that same report, the following, "A renminbi that is below its equilibrium value decreases the purchasing power of China's consumers. Underevaluation increases the pricetag on items such as imported food, gasoline, new homes built with imported materials, a foreign automobile; it encourages Chinese firms to produce for export markets and cater to the preferences of foreign rather than domestic consumers, placing an additional damper on the growth of domestic demands."

China has largely recovered from the global financial crisis. It expanded its economy by 10.3 percent. However, we're still struggling here in the United States.

In the Banking Committee, we raised this question with you. I want to raise it here again, because it seems to me, that in addition to market access questions, United States firms are at a price disadvantage because of China's currency policy. Is it going to take legislation from the Congress to get us to where we need to be? Because, I think the Chinese have visited Texas, and learned the Texas two-step—one step forward and two steps back.

Secretary GEITHNER. Senator, this is a very important issue to us. And, of course, as you quoted in your remarks, it's essential for China that they move, because if they do not move, they're going to face the risk of much more rapid inflation, much more risk of future financial crises. And that's why they're beginning to adjust now. They have not moved that far yet, but if they were going to continue on the current pace, which I expect they will, in real terms against the dollar, the currency's now moving at an annual rate of about 10 percent a year.

And the reason why that's very important is that companies, of course, have to look forward, they have to look ahead as they make investments; they decide where to build their factory, where to buy from. And that competitive landscape is now moving in our direction definitively. And businesses around the world can look at

China now. They see rising prices, rising wages, rising costs of doing business. And, with the currency moving, both in nonreal terms and real terms, it'll shift the playing field in our direction.

Now, still undervalued substantially. They have not moved very much yet. They're really only moving against the dollar, but, of course, we care principally about the dollar. And we want this to be sustained over time. And we are going to continue to use every tool of persuasion we have, directly and multilaterally, to encourage them to move more quickly.

But, it's going to happen. It's inevitable it's going to happen. And—because, again, if it—if they don't continue to move—well, let me say it differently. It's either going to happen through more rapid inflation, in which case, in real terms, it's still moving in our direction, or it's going to happen because the exchange rate appreciates more rapidly. But, the real annual rate of appreciation against the dollar now is north of 10 percent a year. And if that were sustained, again, that's a huge shift over time.

Senator MENENDEZ. But, what if, for argument's sake, your expectation that they will continue to move in this direction isn't realized?

Secretary GEITHNER. Well, that would be of enormous concern to us and, I think, fundamentally unattainable for them. But, let's just go through that thought experiment.

If they slow the pace of appreciation against the dollar, inflation is still running substantially above inflation in the United States, two-some—by some measures, three times the rate of growth in the United States. So, in real terms, the competitive landscape is still shifting in our direction. And the risk for them, if they slowed the pace of appreciation, is that inflation will accelerate further. That's why it's inevitable that they continue to move. And, of course, we want them to move as quickly as possible.

Senator MENENDEZ. Well, I would prefer, both for their interest and ours that they move more quickly, because it will result, here at home, in more jobs, and that's what this is all about.

Secretary GEITHNER. You're exactly right.

Senator MENENDEZ. Taking China as an example, we continue to face overseas challenges that would undermine the value of United States intellectual property, at the expense of United States innovation and jobs, which is a clear threat to President's call, in his State of the Union, to grow innovation here at home. Given the fact that the Trans-Pacific Partnership is being billed as a regional platform that could potentially expand to include China and India, why would the United States sign on to an agreement that would potentially lower IP standards for the very industries that are at the core of our community and that we want to ensure have the exportabilities that would create jobs here at home? What is the administration going to do to ensure that that Trans-Pacific Partnership builds on the Corus agreement and provides the highest IP standards?

Secretary GEITHNER. Look—and you're raising an enormously important issue, and you're absolutely right that we're doing agreements like this, that convey benefits to the participants, we want to make sure that they contain the highest possible standards for, not just the market access we get, but for protection of our intellec-

tual property. So, absolutely, we share that objective. And we would want to make sure that any participant is held to the highest standards for protection.

And we are working very, very hard to get China to strengthen the protections they provide to American innovators. And we're making a little progress, but not nearly enough yet. And we need to push very hard on them and others to make sure that we're getting the same protections that we get in lots of other countries.

Senator MENENDEZ. Well, I hope that we will take a very strong position, including on pharmaceuticals, for example, on this question of intellectual property rights, because otherwise our export initiatives are going to be undermined dramatically.

Last, looking at China as it relates to Latin America, it is negotiating agreements in Latin America to increase its development fund in Venezuela to \$12 billion, to fund \$1 billion for hydroelectric plants in Ecuador, to provide Argentina access to \$10 billion in Chinese currency, and to lend Brazil \$10 billion for its national oil company. Right now, it's the No. 1 trade partner with Argentina, Brazil, Chile, and Peru, in a hemisphere that we have so much interest in. We had the Secretary here the other day. What can we do to provide, in that context, American companies with a competitive advantage in the hemisphere?

Secretary GEITHNER. You've got to start with three simple things that we know how to do. Where we have the chance to negotiate trade agreements that are in our interest, have strong protections for American companies and workers, we need to negotiate them and pass them. We need to make sure that we have the capacity to—and we do—the will and the capacity to match countries that provide export credit, to support their exports in those countries that violate the basic international commitments, which we do and we will. And it's very important to emphasize that we need to make sure that we have the capacity to make it possible for institutions, like the World Bank or like the IDB, to play a major role in financing infrastructure and other types of development initiatives in those countries. Because, again, those come with conditions that make sure there's a level playing field for everybody.

If we're unable to do those three things—trade agreements, strong Ex-Im capacity, and active role for the MDBs—we will lose influence in those regions. And there is no reason for that to happen. It would be very enormously damaging to us.

Now, these countries, of course, are deeply interested in strengthening ties with the United States, but we need to make—we need to give them—we need to make sure that we make it easier and more compelling for them to do that so they don't turn to those who are, well, I'll say it starkly, throwing money at them.

Senator MENENDEZ. Thanks. We look forward to working with you on that.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator CORKER.

Senator CORKER. Thank you, Mr. Chairman.

And, Mr. Secretary, welcome back. It's good to see you. I know you've been doing a lot of work around the world, and I know we have a lot of challenges in a volatile environment.

And I thank the Chairman for having this committee meeting.

It seems to me, in spite of all this volatility and the many challenges that we have—and you've certainly referenced many of those—the greatest challenge that we have to our country is right here. And it's our inability to come together and solve our budgetary problems. Would you agree that that probably is a greatest of threat to our economic stability, our financial stability, our national security, as Admiral Mullen said in the last couple of weeks?

Secretary GEITHNER. I would say, overwhelmingly, the greatest challenge we have is to make sure we're strengthening this recovery. And, of course, as part of that, a necessary condition for doing that—but it's not the only condition—is to find a way to come together, bipartisan basis, and lock in reforms that'll reduce our long-term deficits over time. If we're unable to do that, then future growth will be weaker. But, we have to make sure that we're focused on more job growth, more rapid economic growth, investments that are critical to our long-term competitiveness, as we find consensus, on a bipartisan basis, to reduce our long-term deficits.

Senator CORKER. Well, I'll look forward to talking to you more about that in the future. And I know, in any of these kinds of discussions, you're certainly going to be in the middle of that.

I will say that I think there's a lot work taking place. Again, I look across the dais and know there's numbers of people working in various groups to try to solve this problem. The administration has not quite yet come to the table as a full partner. And I hope the sign that Joe Biden's going to be working with us is a first step. But, I would just say that, you know, of all the things we've talked about, this is the issue of the day. And I certainly hope, soon, there's going to be some leadership—real leadership from the White House. I say that, not critically. I say that it's the only thing that's going to cause us, of an issue of this size, to really solve it.

Secretary GEITHNER. Well, we absolutely recognize, and the President recognizes—and as you know, we're beginning this process today—that we have to be part of the process. We, of course, like you to solve it on terms that make sense for the country, but we expect that we need to be a part of that process. And we will be.

Senator CORKER. Yes.

There's a lot of discussions about the attractiveness of the dollar as reserve currency. You know, a lot of discussions around the world. What's your sense of that attractiveness, or the loss of attractiveness, of the U.S. dollar being a reserve currency?

Secretary GEITHNER. I see no erosion in that, and no material risk to erosion in that. Unless, of course, over a long period of time we are unable, as a country, to put in place reforms, not just on the fiscal side, but more generally, that sustain confidence in American financial leadership. That's the only risk to the role of the dollar.

There is no risk to the dollar's role that we do not completely control, in some sense. And, of course, although, by all measures, there's very substantial confidence around the world in the strength, security, liquidity of U.S. financial assets and the dollar, we have to make sure we work to earn that over time. It's not something we can count on. It's something we have to work to



earn. And, critically, over time, it'll depend on, as it has in the past, on us demonstrating that when we have a problem, we're going to act to fix it.

Senator CORKER. You know, leaders of France and other places, at G20 meetings, are kind of pounding their chest about creating another type of reserve currency. Do you think that's more rhetorical, or do you think there's really substance behind that?

Secretary GEITHNER. Well again, there is, I think, no realistic process—prospect of, for example—

Senator CORKER. SDRs.

Secretary GEITHNER [continuing]. Using the SDR as a role to replace that. It—again, I think, no realistic prospect of that happening. But, there is actually—beneath that rhetoric you referred to, there actually is a lot of consensus on things like the importance of countries like China moving to a more flexible exchange rate, of trying to make sure we reduce the risks that you see these large imbalances build up in the future. And I think those things are very promising, and they are a necessary condition for a more stable international financial system.

Senator CORKER. You know, you're—the Secretary before you, a friend of yours, pushed China to consume more at a time when our American consumers were consuming too much, of course. You're doing the same thing. How do you go about, with a country like China, trying to rebalance? I know you've talked about that a great deal in other forums. How do you cause that rebalancing really to happen, other than just talking about it?

Secretary GEITHNER. Well, what we've try to do is to make sure that China and other countries understand that we are going to change how we grow, as a country. We're not going base future growth of the United States on consumption fueled by borrowing from other countries. Our growth in the United States is going to come much more from investment and from exports, not from unsustainable financing of housing booms, excess consumption.

And that changes the reality those countries face. And they understand that probably because they're much larger as a share of the world economy now, China can no longer depend on demand from the United States to consumption being such a substantial contributor to growth. So, they have no alternative but to shift their growth strategies to a growth strategy that relies more on domestic demand. They recognize that imperative, and they're moving that direction. But, it can't happen, unless they let their exchange rate move, too. Because if they don't let the exchange rate move, the exchange rate will work against that imperative to rebalancing.

So, the—and, you know, of course, it's not just China. It requires a bunch of other countries around the world who have been—traditionally run large surpluses—to make those same changes. And again, I think we're making some progress in underscoring that reality. And that reality will force a judgment, in their interest, that they have to put in place reforms that'll help make that happen.

Senator CORKER. Dodd-Frank passed this last year, and I know you were highly involved in that. It's a big bill with a lot of pages and a lot of rules that are being generated.

Secretary GEITHNER. A lot of Senator Corker in that bill, too.

Senator CORKER. Yes. Not enough.

Secretary GEITHNER. It seems like a lot. [Laughter.]

Senator CORKER. Not enough. But I appreciate the small involvement.

As you—now, any piece of legislation, no matter who passed it, who led it, who was involved in it—any piece of legislation this sweeping and this large has some unintended consequences or things don't work out exactly the way you think. Are there provisions in the bill that you've already seen that might be making us less competitive in other markets?

Secretary GEITHNER. No, not at this stage.

You're absolutely right that there are some things, technically, that, over time, you might want to adjust. But, I have not seen any risk yet in the design of the overall architecture of that, that would create a risk of us losing share, losing competitiveness to other countries.

Now, in part because we've been very successful in getting Europe, in particular, to adopt a very similar framework of reforms—for example, in derivatives. Now, they're not completely aligned. And we're working very closely with them to make sure that, where they've got a slightly different model with the risk of slightly lower standard, that we encourage them to come to our standard. And that's going to take a fair amount of time.

But, I'll give you an example. You know, we negotiated these new international capital rules, the Fed did, and the banking supervisors, last fall. And those raised capital requirements, necessarily, quite substantially, so we're reducing risk. And that's a global agreement with a simple measurable set of numbers so that we can make sure they're enforced evenly across countries.

Senator CORKER. Let me just ask one last brief question. I have a number of them, but I know my time is about up. We talk a lot about food prices, I know people are concerned about around the world, as creating havoc in some places. But, when you look at the demographics of the world and the population growth that's taking place, and where it's taking place, and knowing that those standards of livings in the countries that are growing rapidly is rising. The fact is that there's going to be tremendous pressure on food prices, ad infinitum. Would you agree or disagree?

Secretary GEITHNER. I agree with that. I think that right now some of that pressure's being exacerbated by the fact that you had some bad weather, some supply disruptions. But, overwhelmingly, you're seeing huge growth in demand. As those countries develop, expand, that's going to continue, I think, for a long period of time. And the best response to that is to make sure that they're able to make, and we're able to make bigger investments to improve productivity in agriculture, in the large producing regions of the developing world.

Senator CORKER. Thank you. I look forward to seeing you next week.

Secretary GEITHNER. It does make this a very strong farm economy in the United States. You know, in some ways, the strongest parts of the American economy today are farmers and ranchers, who are big beneficiaries of this.

Senator CORKER. Senator Lugar's been smiling a lot over the last—

[Laughter.]

The CHAIRMAN. Senator Shaheen.

Senator SHAHEEN. Thank you, Mr. Chairman.

And, Secretary Geithner, thank you for being here this afternoon.

The events in the Middle East have pushed from the front pages of the paper what has been happening in Europe and Ireland and Greece—Portugal, Spain in particular—with respect to their economic situation and the impacts of debt on their economies. Can you describe in greater detail—I know you touched on this in your remarks—but whether you think the steps that the EU and Europeans and the IMF have taken are sufficient? And what is—if any, is an appropriate role for us, as we look at how this crisis has unfolded?

Secretary GEITHNER. Very important question, and thank you for raising it.

There are three things underway, which—all of which are necessary to an effective solution. The first are, of course, those governments you referred to are taking enormously difficult—incredibly tough, difficult things to fix their budget situations, fix their financial systems, and make sure that they're going to have the ability to grow in the future, be more competitive and grow. For that to work, they need temporary, conditional financial assistance. There is no reform program that has any prospects of a success unless, again, the governments are able to fund and banks can fund, at reasonable rates. And so, they need some temporary assistance for that, which is being providing—largely by European institutions, but the IMF is playing its necessary role alongside those.

But, in addition to that, they need a more permanent framework that allows them to have better discipline on budget, to reduce the risk this happens in the future; make sure they have a more common European framework for handling financial distress, by their national financial systems. And all those things now are in train. Very difficult politically, very complicated technically, to do.

And I think the important thing to recognize is that the leaders of Europe have said they will do what is necessary to make sure these reform programs are given a chance to work. And they're moving forward now to put in place a stronger set of financial mechanisms, short term and long term, to make that possible. And, of course, it's important they follow through on that.

Senator SHAHEEN. Well, one of the things I've heard from some of the Europeans who have visited here and talked about the situation is that some of the austerity measures that have been demanded by participating countries are actually counterproductive, that they go too far as they're trying to recover economically. So, is that our assessment, as well?

Secretary GEITHNER. Well, you know, ultimately, of course, that has to be a judgment of the political leaders of those countries and the Europeans who are providing the assistance they need. But, I think it's important to recognize, when you dig yourself that deep a hole, there is no path ahead that doesn't require a long program—multiyear program of reductions in the level of benefits, level of commitments they made—they were unaffordable—and

changes to their competitiveness so they can grow in the future, and, you know, fixing broken financial system. Those are very difficult. There's no easy way out of those things. And where you see those reforms, it's important to recognize that they're the imperative forced on them by the depth of the hole that their predecessor government's dug for their country.

Senator SHAHEEN. Well, as we look—and Senator Corker raised the concern that I know all of us share, about the deficit and debt that we're facing in this country—are there lessons to be learned from the European experience, that we should be taking to heart?

Secretary GEITHNER. Well, our situation, again, for—just for perspective—you know, our fiscal position is unsustainable, our deficits are way too high and they have to come down dramatically over time. But, our situation is fundamentally different.

Our underlying growth rates are much stronger than Europe. We're a much younger country. The size of our government is much smaller. The level of the commitments we made in Social Security and Medicare are much—they're rising too rapidly over time in health care, but they're much less expensive than those countries. And we are in a much better position to put in place a multiyear gradual program of reforms that allows the American people to adjust to changes ahead.

But, I think the overwhelming imperative you want to recognize is that you need to put in place commitments now that allow us to lock in those reforms over time. You can't defer them indefinitely. And the longer you defer them, the risk is that investors around the world, and the American people, will say, "We're not confident that Washington has the political will to fix these things." If you lock them in over time, you give—again, you give time to people to adjust, businesses have the certainty to plan. And the more you put it off, the more you risk future growth.

Senator SHAHEEN. Thank you.

Well, apropos that, as we look at the debate that's going on now in Congress, one of the areas that's being discussed is whether we should make significant cuts in funding for the SEC, the CFTC, and some of the other regulatory agencies. And I wonder if you could comment on that, even though it's not part of the topic of this hearing. Because, as we look at what's happening in the commodities markets, as we look at what's happening with oil, given the situation in the Middle East, I guess the question I have is whether we don't want those agencies to have full capacity that they need to be able to analyze and do everything we can, domestically, to regulate the situation. So, if you could comment on that.

Secretary GEITHNER. I welcome your attention to that issue. And, of course, I completely agree that—you know, look at what this country went through in this crisis. And this crisis had many causes. But, the crisis was much worse than it needed to be; in part, because we did not have an adequate capacity in the United States to deter and prevent the types of abuses that cause enormous damage to innocent victims across the country, as a whole.

And, if we learned any lesson from this crisis, it's that we need better oversight, better incentives, better constraints in risktaking, with people who have the sophistication and capacity to enforce those rules. So, I would be very reluctant to see Congress cut

deeply into those enforcement resources, because I think the long-term costs would be devastating. Again, these are very modest costs for us as a country. We can afford them. And we've seen what the costs are when you underinvest in those things.

And again, it just underscores, you know, when you approach a fiscal problem like this, the challenge is not simply to figure out how to reduce the deficits, it's how to do so in a way that does not undermine our capacity to grow in the future, to protect critical priorities. And these are things we can fundamentally afford.

Senator SHAHEEN. And, finally, because I'm almost out of time, but—I know in your remarks you commented on the fact that we are not yet seeing an impact on inflation as the result—a dramatic impact on inflation—as a result of what's going on in the Middle East. But, how long do we think that can continue? And I guess I'm—I know I share the concerns that have been expressed in a lot of places about what the future impact of a continuing crisis is going to be in our economy.

Secretary GEITHNER. A very important question, but a fundamentally uncertain question. Not something we can know with confidence today.

The—you know, the way oil markets work, you can tell from the futures market what expectations are today about how long this pressure on prices will endure. And those prices sometimes are a guide to the future, sometimes they're not. And what they do show is that most people—most investors regard this as a temporary increase and price—expect prices to come down gradually over the rest of this year and beyond. So, you could say that's somewhat encouraging and that would give us more confidence; if that was right, that this impact on prices would have really quite modest effects on growth and no lasting effects on inflation.

Senator SHAHEEN. Thank you.

Senator LUGAR [presiding]. Thank you very much, Senator Shaheen.

Senator Rubio.

Senator RUBIO. Thank you, Mr. Chairman.

Thank you, Mr. Secretary. I noticed, in your statements—I apologize for missing those, but I read it before I came—one of the things you talked about is one of the goals of the G20 summit or the G20 meeting in Toronto was to stabilize debt-to-GDP ratio. With all this talk going on in these buildings about the debt, going forward—the debt-to-GDP ratio is really the one thing that we should be focused on—as far as the debt's impact on our country, both globally and domestically.

Secretary GEITHNER. Yes. I think the very important thing is to make sure that people understand, you have to bring the deficits down to a level—the deficits down to a level where our national debt no—is no longer growing as a share of the economy, no longer taking a greater share of income over time. And you need to make sure that happens soon enough so that you stabilize that debt burden as a level—as a share of economy that's not going to hurt growth. And if we are successful together, on a bipartisan basis, in locking in reforms that reduce those deficits to what we call primary balance, or roughly 3 percent of GDP, over the next 3 to 5 years, then we will stabilize our debt burden as a share of economy

at a level that is—for a time, is something we can live with. But, we have to go beyond that, because, even beyond that challenge, we have to make sure we're bringing health care growth—health care cost growth down more over time, or those—that debt burden will start to grow again in the coming decades.

Senator RUBIO. But, from a perspective of that summit or that meeting in Toronto, is there kind of a globally or a, maybe just in your mind, accepted ratio that we would look at as a goal that we want to be at? Not necessarily by a date—

Secretary GEITHNER. Our debt to—debt/GDP or -deficit/GDP?

Senator RUBIO. Debt/GDP.

Secretary GEITHNER. You know, it's very hard to know what a tolerable level of debt to GDP is. There's a lot of academic economists studies of history in this case. And one of the most cited one is one by Ken Rogoff and Carmen Reinhart. And they conclude that if you look across countries over time, if you get north of 90 percent of GDP—and this should be measures as net debt held by the public, and it should be net of financial assets—then you get in a situation where, if over time that were to happen, that would risk threatening a future growth. We're no close to that, of course. And we expect—and we're planning not to get there.

Senator RUBIO. So are we, yes. But, yesterday we heard testimony—Secretary Clinton put it this way, but I think we would all share that view—that the United States is, from a global perspective, in a competition for influence. There are a couple of nations that are competing with us. What is the role of this debt, and the fact that a substantial portion of it is held overseas, a large percentage of it in one nation—what's the impact that that's having on this, what she termed, and I would concur, a competition for influence?

Secretary GEITHNER. No impact now. You know, again, the biggest thing that affects our credibility and our influence is the confidence of Americans and investors around the world that we are doing things that strengthen our economy over time, make us more competitive and move innovative, create more opportunity, and, of course, as part of that, that we can manage competently our long-term budget problems. So, if we're unable to do that, the cost of that would be dramatic.

But, at this stage, by all indications, the world is showing a lot of confidence in our capacity to do that. You know, they look at America over the decades, and they say that, "In the end Washington moves, acts, fixes problems." In fact, one of the great strengths of our country, as a whole, is a record of rising to challenge quickly enough we don't get behind the curve, in this case. And most countries look at the United States and they say, "You're seeing again, and as we come out of this crisis, that same resilience is demonstrated." But, again, that's something we have to earn over time. We can't count on it.

And I want emphasize that, you know, as we manage through this debate of how, on a bipartisan basis, we cut spending and cut deficits, we have to make sure that we're doing so in a way that will leave people more confident that we're not going to put off the problem and we're not cutting things that are central to how we grow in the future. That's our challenge, as a whole.

Senator RUBIO. But, in your testimony, you don't mean to suggest that investors and others around the world look to the United States and are not concerned about what they see are the trend lines in our spending, and perhaps the inability of our political process to address them now as they watch the debate and—

Secretary GEITHNER. I don't see that concern now, but, again, we have to be careful we don't give them any excuses to be concerned. We have to justify that confidence over time. If you look at the price we pay to borrow, for example, that reflects—it's a measure, in some sense, of confidence in our political will to get ahead of these problems. And, so far, we've been able to sustain relatively modest rates for borrowing. And that's a reflection of that confidence. But, again, that's something we have to earn, and people are watching us now.

And, you know, again, I think it's important that this expansion, this recovery underway is—it's only 18 months old. It follows the worst recession in generations. And we want to make sure the confidence is improving, but we want to sustain that recovery. And so, we have to make sure we get the right balance between the near-term imperatives of making sure jobs are growing more rapidly, the economy is stronger, but also locking in some reforms that'll restore gravity to our fiscal position.

Senator RUBIO. And, Mr. Secretary, it's generally accepted that the United States can do things, to a certain point, that other countries can't, because of our global reserve currency status, our history, as you've outlined, and so forth. But, even that has its limits.

Secretary GEITHNER. It does.

Senator RUBIO. And so, I guess the sense I'm trying to get is that, around the world, global markets and investors are not concerned about our debt combined with the complexity of our tax code, combined with our regulatory—

Secretary GEITHNER. Let me tell you differently. They can't be more concerned than we are. No one can be more concerned than we are, and people in the Congress and the executive branch. And I would say that it is enormously important that we come together on a bipartisan basis and find a way to lock in these reforms. It's not something we can put off. And if we fail to do that, then we'll risk losing that credibility.

Senator RUBIO. So, I guess what you're saying is, the best thing we can do is have a plan and show the world that we've got a plan to move forward on these—

Secretary GEITHNER. Exactly, and—

Senator RUBIO [continuing]. Issues over a sustained period of time.

Secretary GEITHNER [continuing]. And, of course, it can't be just a plan. You know, it has to be things that people will believe will be upheld over time, that people will act on them and they will bring gravity to our fiscal position. They can't just be promises.

Senator RUBIO. I think my last question is that—would you agree with the idea that the world today—well, that's—let me rephrase that, because that's an obvious—I was going to say the world, from a global economic perspective, is much different than it was just 10 or 15 years ago. For example, 10 or 15 years ago, the number of nations that people would have the confidence to in-

vest in was much smaller than it is now. And, as the United States is now increasingly in competition with other markets to attract capital and investment, and that certainly we're not living in the same—we're not living with the same dynamics that were in place just 15 years ago, where there were only a handful of places around the world that a serious investor would risk a serious amount of money in.

Secretary GEITHNER. I agree, but I would use that reality to underscore another imperative, which is that, in education, in the quality of our infrastructure, in the quality of incentives we create in the United States for innovation and for investment, we need to be better. And if we are not better, we will fall behind on things that are critical, and that has very grave damage to our relative competitive position.

As you said, and this is a transformative change in the world, for a long time we've benefited from the fact that we were uniquely good at those things. But, what's happened is, the world has stopped making terrible mistakes in the protection of property rights. They've gotten dramatically better at educating their citizens. And you see huge improvements, relative improvements, relative to what we're doing in the United States, in things that matter to future growth. And so, I would underscore the challenge that creates for us. And that makes it important that people recognize that, as we restore gravity to our fiscal position, we are preserving things that we can afford as a country; there's things we can afford to make sure we're making education better, infrastructure stronger, incentives for innovation and investment much more powerful.

Senator RUBIO. My last quick question is on the—and I think it was asked earlier by Senator Menendez, and it has to do with Colombia and with Panama. What are the impediments to that deal being consummated? And what are the chances of it—or the hope—that it will be submitted and passed this year?

Secretary GEITHNER. Well, we're in the process of working very closely with the Government of Colombia, in particular, on some changes in Colombia that we think would make it easier for us to bring these agreements to the Congress with a better chance of them getting passed. And there's a variety of people, not just in the Congress, but in the executive branch, who have been—are actively working on this. And—

Senator RUBIO. Who has a list of those changes?

Secretary GEITHNER. That's something—

Senator RUBIO. How can I see what the proposals are?

Secretary GEITHNER. Yes, that's something that you'd have to direct to my colleagues in the executive branch. I think Ambassador Couric has the lead on this, but he's working with a coordinated process. But, we share the objective of trying to bring these to Congress, and we'd like to do so as soon as possible. But, to do so—again, we want to bring them in with confidence they're going to move and pass, legislatively—and so, we have to make sure we're bringing the best agreements we can.

The CHAIRMAN [presiding]. Senator Coons.

Senator COONS. Thank you, Mr. Chairman.



Thank you, Secretary, for your service and for your appearance here in front of us today.

I know that my home State citizens from Delaware are very concerned about United States-China economic relations, about their perception that we are slowly but consistently losing our competitive edge; in particular, the steady drain of manufacturing from the United States to China. You reference in your prepared comments also the relocation of research and development to China, and the sort of critical competitive edge they seem to be gaining, not just through currency manipulation or through low-cost labor, but also through increased investment in that. But, what can and should we be doing to try and respond to that change and to regain the edge in innovation with regards to China?

Secretary GEITHNER. Well, the things we've all talked about, which are making sure their currency appreciates, that they protect intellectual property, in China of United States firms, that we have better terms for doing business there, those are all important. But, by far, the most important thing is what we do in the United States—again, I just want to—just to make it simple again—in education, in innovation, in infrastructure, in incentives for investment.

Now, we are—the President's laid out a comprehensive set of plans, investments, reforms, that are within our capacity to afford. They are not overwhelmingly expensive, that are central—we know how to do that. We were remarkably good at doing it for a century. And there's a variety of specific things we can do. Your chairman has played a leadership role in trying to build consensus on things like a national infrastructure bank. We're in the process of figuring out whether we can find a consensus on a corporate tax reform program that would reduce the statutory rate, broaden the base, and, again, improve incentives for investment here in the United States. In education, of course, we're involved in a huge, sweeping effort to improve.

And I think, again, there are—we should look through everything we do economically in the United States, and we ask ourselves—one question is: What does it do to the attractiveness of this place as a place to invest? Because we want our companies and companies around the world to make sure they're building that next plant, that next R&D facility here, not somewhere else. And I am very optimistic that we're going to have the ability to do that. Because again, even with China's rise, even with big improvements in competitiveness around the world, we still have enormously important resources, enormous advantages. We can't let those erode and we can't stand still.

Senator COONS. Now, I am concerned about China's projection of economic power into Africa—and also Iran's, frankly, and about the moves that Iran's been making to acquire nuclear weapons. I'd be interested in some update about Treasury's ongoing efforts, through the recently enacted sanctions bill, to dissuade investment in Iran and to oversee the implementation of sanctions; in particular, to target the Iranian Revolutionary Guard Corps and investment in the Iranian oil sector.

Secretary GEITHNER. We have made enormously important progress in denying the ability of institutions connected to their nu-

clear program and their efforts to finance terror, denying them access to the finance, the money they need to conduct those activities. And our programs directly—and our work with the Europeans and countries around the world—have been very effective in denying access to finance for a broader range of Iranian entities that are involved in that behavior. But, this is the kind of endeavor where you have to be constantly on it, because you find one entity and you'll—another one will crop up somewhere else. And you have to constantly try to expand the net. And it requires a huge investment and resources to make sure we can identify and track. But, the biggest improvements we made are the legislation that Congress enacted last year, CISADA, and what the Europeans have done, and Russia and China have done, to help make sure—and countries in the gulf have done—to help reinforce this broader global effort.

Senator COONS. I was recently on a trip to the Middle East with Senator Corker. And we had some very illuminating visits to the Palestinian authority, to Jordan and to Israel. And in all three countries, where we were predominantly focusing on security, the issue of economic development as a way to provide some escape valve for the hopes and aspirations of folks in the region came up. And I was wondering what role you think either the United States, through our assistance, or international financial institutions, should be playing in trying to connect these three economies? In particular, the entrepreneurial energy and inventiveness of the Israelis with the dramatic need for sustained growth in Jordan and the Palestinian authorities.

Secretary GEITHNER. A very important question. And I welcome the attention to it.

We have found—you know, experienced over time—that to make a difference in designing development strategies that help those objectives, that you need—really three things, working together—you need a very carefully designed U.S. direct assistance program through AID and State, which of course we have. We need the international institutions, like the World Bank, there with us. And we need the other major donors, bilateral donors that are interested in these issues, to be there working alongside us.

If we don't have the direct U.S. assistance, the things are much less effective. But, it's even more important, in many ways, that we have the World Bank and other institutions there with us, because they have the capacity to bring about policy reforms in governance, corruption, transparency, that we can't do directly on our own. They're less political, if they do them. They're likely to be viewed more legitimate. And you need that—all pieces of that framework, for it to work.

Senator COONS. One last question, then I'll cede to my colleague to the right.

Both Senator Corker and Senator Durbin and I have been discussing one piece of the Dodd-Frank regulations that has to do with capping interchange fees for debit. Australia has experimented with that in the past. It's something that's relatively new to me as a topic of some interest or study. I just wondered if you had any comments on how confident you are that there will be savings to consumers as a result of that effort to cap debit interchange fees.

Secretary GEITHNER. Senator, I do not have the authority, under Dodd-Frank, as you know, to implement or enforce those reforms. And I'm not that close, at the moment, to the debate on this. I know that there's a very active debate about how to do this, how to make sure that it has those benefits. I'd be happy, if you like, to respond in writing or to ask my colleagues from the Fed to respond in writing. And I know they're working through it. And again, they want to make sure that they're achieving the intent of the law in a way that makes sure those benefits go to consumers, go to the intended—to merchants, go to the intended parties.

Senator COONS. Well, thank you. I will submit something to you in writing. It's something I'm really wrestling with.

I've gotten some strong input. And Senator Durbin and I have recently discussed it. And I think it's something that deserves some study and some really balanced review to make sure that we understand its impact and whether there are or are not unintended consequences to it.

But, thank you very much for your testimony today, Mr. Secretary.

The CHAIRMAN. Thank you, Senator Coons.

Mr. Secretary, I have a must-be-at 4 o'clock meeting that I've got to be at. Senator Lugar will close out. We think we just have Senator Durbin.

But, I want to thank you for being here today. I think this has been enormously helpful. I know a lot of people don't ordinarily think—I mean, they—obviously, they know there's a connection, but they're not focused necessarily on the institutions or the choices that we have, and the policy choices that we have, and how it has a long-term impact.

One of the things, I don't know if you have time, in my absence, to comment on is perhaps the European condition, particularly, sort of, Spain and some of the challenges it has, and the French investment in Spain, and German investment, and how that cascade might or might not infect us. And I think people would be interested. Perhaps, just part of the record, you could do that.

So, thank you very, very much for being part of this. And we, all of us, look forward to working with you on these issues.

Senator Durbin.

Senator DURBIN. Thank you, Mr. Chairman.

Mr. Secretary, roughly, we have about a third of the population of China, and we have a gross domestic product that is about three times their size. An interesting contrast. So, our production, per person, is dramatically larger than China. We spend a lot of time talking about China. Within the last month, I guess, they officially passed Japan, in terms of the size of their economy. And I wonder, as I overhear people say things that I've said myself, whether it still holds true that, when it comes to a market economy, the government can't pick winners and losers over the long run.

Because it appears to me that, in China, they are making a lot of selections that appear to have some vision to them, at least from where I'm sitting. One good example is in solar electricity. We invented it 50 years ago, Bell Labs, with great pride. And yet, today in China, as a percentage of GDP, they are investing 10 times more in renewable energy than the United States, and they're building

a solar panel production facility in Rockford, IL, 30 or 40 miles away from where these solar panels were invented. It appears they're picking winners and losers. Have you seen them pick a lot of losers?

Secretary GEITHNER. I've seen no successful example—doesn't mean it won't happen in the future—of a state-run economy, a state-run financial system allocating capital, determining what technologies succeed, and have that really work over time on a meaningful scale. But, I do believe—and I'm not sure this is where you were going—I do think, in the United States, even though, in general, we don't embrace that basic strategy, we do think in some areas there is a very strong case for targeted investments by the government.

Clean energy is one of those, because, of course, the overall benefits don't get captured by the innovator or by the company. Classic case for government support. But, you've seen in things—you know, for example, technologies supported by DARPA, by other things, national security things, very good examples of why there is, in some circumstances, the government for going beyond just general support for innovation and for basic science, and targeting specific things that have overall benefits to growth or society.

Senator DURBIN. And so, I spoke at a law school commencement in Chicago last year. And when we got to the master's degree program, there weren't many. About 20. Surprisingly, most of them were women and most of them were from China. I was a little bit surprised.

Secretary GEITHNER. In what discipline?

Senator DURBIN. In law.

Secretary GEITHNER. In law.

Senator DURBIN. Master's degree in taxation, that was what they were focusing on. And I thought, now this is an amazing thing, that China would identify women to come to law school in the United States for a master's degree in taxation. It seems that they have some long-term thinking here, and long-term planning. And I don't want to overstate what they've achieved, but I am humbled sometimes by their effort, when you look at the size of their economy compared to ours.

Senator Coons mentioned Africa. When I visited Ethiopia, with Prime Minister Meles, and said to him, "Tell me about the presence of China in Ethiopia," we went on for a half an hour. And he basically said to me, "You've given up. The United States has given up the continent of Africa. China comes in with concessional loans—forgiveness loans—with the understanding they're going to build our infrastructure and, in the process, embed engineers and construction companies into our economy." So, it was no surprise Ethiopia just awarded its major national telecommunications contract to China. That is thinking ahead, from their point of view.

I'd like to kind of come full circle here. As we focus, as we have to focus, on reducing spending in the United States, and raising revenue—those are the only two ways to deal with the deficit—how can we expect to compete with this aggressive nation, with a much smaller economy that apparently is picking new markets, new sources of raw materials and energy that will feed this growing economy for a long time to come?

Secretary GEITHNER. Well, of course you're right. I think it's essential. And you—and it's not important—it's not just that you want to make sure that we are making the investments we need to stay competitive—and that's going to require larger investments, like an infrastructure in education and innovation, than we have done in the past—but, you also need to make sure we bring a long-term perspective to our fiscal problems, because you cannot run a country—expect no business to have to go year by year, with deep uncertainty about what the tax regime is, what the consequences are for the incentives; companies depend on these areas. They need to be long-term things that the market, the business can count on. And, just as a complement, you were part of a bipartisan effort, the Fiscal Commission, that would try to do just that, which is to lock in the long-term types of changes that will allow people to plan for the future and know with confidence that a tax incentive that exists here today will be there tomorrow. And we don't go year by year—not just 2 weeks to 2 weeks, of course, which would be a crazy way to run a country, but year by year, in this case. So, I absolutely—I agree with you. We need to make sure we're bringing the same long-term approach to the strategy, competitiveness that you see in some countries around the world.

Senator DURBIN. So, let me talk about the short term. I've worked with this deficit commission, I continue to work with my Republican colleagues, and I know that they are focused, maybe some even fixated, on the deficit. And the old cliché, "If the only tool you have is a hammer, every problem looks like a nail," the answer to every question is, "Cut taxes and cut the deficit." And I happen to think it's more complicated than that.

An example: Would you know where the fastest computer in the world is located today?

Secretary GEITHNER. Well, I think it's in China.

Senator DURBIN. It's in China. And we are now trying to create the next fastest computer, at Argonne National Laboratory. The House Republican budget will reduce the number of engineers, scientists, and support staff, at that national laboratory, by one-third for the remainder of this year, and cut back 50 percent of their efforts to build this new computer, along with a lot of other things.

What I'm hearing from the administration, I think—I certainly agree with—but, I think, in the perspective of the deficit commission, makes sense. We said, "Get serious about the deficit after you're out of the woods with the recession." You can't reduce this deficit dramatically with 15 million people out of work and businesses not expanding. So, whether it's a national laboratory or education and training, it strikes me that our immediate need is to make certain that we have a growth plan for this economy. And that's what I'd say to my conservative friends. Yes, serious about the deficit, but first serious about putting the recession behind us.

I don't want to put words in your mouth, but I think you might agree.

Secretary GEITHNER. Well, I completely agree. But, I think that you found a way, in the commission, to do both. And I think the test of a credible fiscal reform/deficit-reduction program is that, one, it be phased in over time so we're protecting the expansion; two, that it have multiyear commitments, so people can plan, they

can adjust for the changes that are going to come; three, that you're preserving fundamentally critical investments, I think just like you referred to, so that we're not just cutting spending, but we're doing so in a way that preserves the capacity for us to finance things in education that we—are absolutely essential.

And remember that the nondefense discretionary part of the budget is 12 percent of the budget. It is not a material contributor to our long-term deficits. And if you want to bring a credible approach to fiscal responsibility, you have to take the more comprehensive look across the principal drivers of those deficits, long term and short term, or you'll end up, as people have said, eating our future.

Senator DURBIN. One last question, and it will be short.

I don't know if you've run across this book, but "Make It In America," by Andrew Liveris, who's the chairman and the CEO of Dow, says that—one thing here—I don't know if this—if you can verify this or whether you can check on it—"According to the Manufacturing Institute, in 2008 the United States had a surplus of \$21 billion with its free trade partners." His point was that, where we have reached free trade agreements, we're winning; where we haven't, we're losing. Is that—do you think that's—

Secretary GEITHNER. Oh, absolutely. And I'll—

Senator DURBIN [continuing]. Accurate?

Secretary GEITHNER [continuing]. Remember—think about the world. Our trade barriers are much lower than the average trade barriers for countries. So, any time we do an agreement, by definition, those agreements lower their barriers. Ours are already very low. So, we benefit disproportionately from any agreement we do. And it's even better or worse than that, you can say, because when we don't do it, other countries just come in and they negotiate those concessions we do not always get.

Senator DURBIN. In 2010, the European Union had 11 free trade agreements under negotiation, China had 15. So—we had one.

Thank you very much. Appreciate your testimony.

Secretary GEITHNER. Thank you.

Senator LUGAR [presiding]. We're delighted that Senator Durbin has joined our committee. He is a very prominent leader in the Senate, and has very strong ideas about free trade, which were expressed in a bipartisan way today, and augmented, Mr. Secretary, by your counsel.

Secretary GEITHNER. And fiscal responsibility.

Senator LUGAR. Yes. Hear, hear.

Senator DURBIN. Good question.

Senator LUGAR. There you go.

We really thank you, as I expressed and I know the thoughts of our chairman, for your availability to be here at this hearing, and the attention you have given to the committee and to our individual members.

We believe this is very important and just simply want to acknowledge your thoughtfulness and your readiness to assist us as we try to think through the issues discussed at today's hearing. I think you've understood the sincerity, of our questions and our testimony, and, likewise, that the trade agreements are tremendously important. Now, there are domestic political problems, as well as

international ones, but we've got to surmount those for the good of our country.

We thank you for your leadership and for your testimony.

And, with that, the hearing is adjourned.

[Whereupon, at 4:10 p.m., the hearing was adjourned.]

#### ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

##### RESPONSES OF TREASURY SECRETARY TIMOTHY F. GEITHNER TO QUESTIONS SUBMITTED BY THE FOLLOWING SENATORS

###### QUESTIONS SUBMITTED BY SENATOR RICHARD G. LUGAR

*Question.* I appreciated your expression of strong support for the Cardin-Lugar amendment to the Dodd-Frank bill which required transparency of extractive industries payments to governments. What is the administration, Treasury Department, and State Department doing to encourage other countries to adopt similar requirements? What are the MDBs doing to encourage such disclosure?

*Answer.* The administration, Treasury, and State are working with our allies around the world to promote more transparency in extractive industries. One component of this is encouraging our friends and allies to adopt policies that promote disclosure of extractive industry (EI) payments.

First, in the United States, we are improving extractive industry transparency through new disclosure requirements in Dodd Frank, known as the Cardin amendment. The SEC is currently writing rules to implement this new disclosure requirement. French and U.K. authorities have voiced support for stronger European Union-wide transparency requirements, while the European Commission recently announced it will table by November a proposal to ask firms to disclose country-by-country EI payments. Australia voiced similar support for enhancing transparency requirements in mining-heavy provinces.

Cardin-style requirements, however, provide only half of the data needed to help expose EI corruption: although they do make firm EI payment data available, they do not have power to disclose government EI receipts. The discrepancy between payments and receipts is a primary source of corruption in many resource-rich countries. This is why Cardin-style requirements complement but do not substitute for—the broader implementation and goals of the Extractive Industry Transparency Initiative (EITI), the second prong of our efforts to improve extractive industry transparency.

The United States is a strong supporter of the EITI, through our role on the EITI Board, our bilateral contributions to the multidonor trust fund, and our outreach and advocacy.

- We have urged the IFIs to support the EITI. All of them have endorsed the EITI and are advancing its principles.
- Treasury has promoted the EITI in our bilateral policy dialogue, such as with Liberia and Indonesia. In addition, through our Office of Technical Assistance (OTA), Treasury fields teams of expert advisers in ministries to help countries build capacity in fiscal management, including in auditing firms that report EI revenues.
- As Under Secretary of State Hormats emphasized in his address to the recent EITI Global Conference, as a result of the EITI, almost half a billion people now have access to information on the revenue their countries receive from their extractive industries sector.

The third prong of promoting extractive industry transparency is working with the MDBs to ensure that they are advancing disclosure of extractive industry (EI) revenues, through their policy, operational, and diagnostic work.

- For example, the World Bank has helped many countries to implement their EITI revenue transparency commitments, while supporting institutional development, fiscal management, and legal and regulatory reform. The Bank also conducts outreach and advocacy in non-EITI countries. For example, the Bank has supported efforts to promote transparency and support for the EITI in Colombia and Ethiopia and to build transparent and effective fiscal and regulatory frameworks in transit countries such as Bulgaria impact regulations.
- The IFC, the World Bank's private sector arm, is updating its Social and Environmental Sustainability Policy. The updated policy, due to be finalized and to enter into force later in 2011, is expected to continue the requirement that cli-

ents disclose material project payments to the host government, and to strengthen the contract disclosure requirements.

- Since the issuance of the SFRC report,<sup>1</sup> the IDB has endorsed EITI and strengthened the scrutiny of revenue transparency in their due diligence process, as was the case for the proposed investment in the Pueblo Viejo gold mine in the Dominican Republic in 2010 which was withdrawn.
- The African Development Bank has supported the efforts of the Central African Republic (now compliant), Madagascar, Malawi, Sierra Leone, and Tanzania to become EITI candidate countries, including by helping to finance their EITI work plans, establish EITI secretariats, and build internal capacity to manage EI resources.
- The Asian Development Bank has promoted resource revenue transparency in its policy dialogue related to country strategies and project preparation with the Governments of Bangladesh, China, Indonesia, Mongolia, Kazakhstan, Kyrgyzstan, Pakistan, Papua New Guinea, Timor L'este, Mongolia, Kazakhstan, Kyrgyzstan, Uzbekistan, and Vietnam. The AsDB is launching a "Regional Knowledge Sharing Platform on Revenue Management in Resource Rich Countries," to provide a forum for peer-to-peer learning for policymakers. The launch took place on April 14–15, 2011, and was organized in conjunction with a seminar on the same topic which will take place at the annual meeting in Hanoi (May 3–6, 2011).

*Question.* As you noted in your written testimony, the "developments in the Middle East have generated concern about potential disruption to the supply of oil, and this has put upward pressure on oil prices." Americans send nearly a billion dollars a day overseas to buy increasingly expensive oil, money that could be better invested at home. Despite some successes in fuel efficiency and biofuels, our country is still vulnerable to world oil prices and threats to oil supply. Would you please describe the financial impact that high oil prices are having on the American economy. At what point do high gas prices erode consumer spending and threaten our economic recovery?

*Answer.* Oil prices have been trending up since early 2009, largely reflecting an increase in world oil demand linked to stronger global economic growth. (From the end of 2009 to the end of 2010 the world economy grew 4.7 percent.) The benchmark front-month futures price of West Texas Intermediate crude oil nearly doubled during 2009, from roughly \$40 per barrel at the beginning of the year to about \$80 per barrel at the start of 2010. During 2010, oil traded in a range of \$70 to \$90 per barrel, ending the year at around \$90 per barrel.

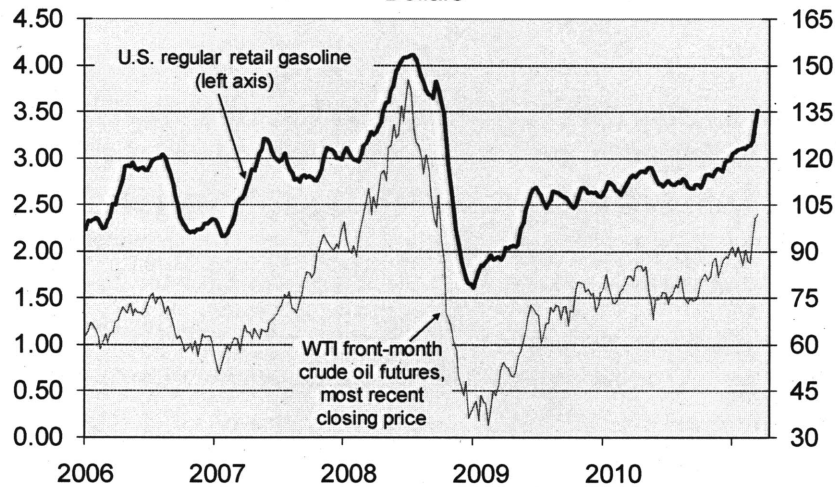
Over the past 5 months the price of oil has jumped sharply and is currently hovering near \$100 per barrel. The retail price of regular unleaded gasoline has risen from just under \$3 per gallon to more than \$4 per gallon. Part of the recent rapid escalation in prices is likely due to concerns about actual and potential supply disruptions resulting from political unrest in the Middle East and North Africa.

We are monitoring oil prices and developments in world oil markets very closely. We understand that sudden price increases triggered by actual or expected supply disruptions tend to increase market uncertainty. Heightened uncertainty has the potential to change consumption and investment behavior with negative consequences for economic activity. As consumers spend more of their income on gasoline, they have less to spend on other goods and services. Similarly, rising fuel prices put upward pressure on businesses costs of production and can affect future hiring and investment plans. Some energy-intensive industries, such as the chemicals industry, are particularly vulnerable to sharp increases in energy prices.

<sup>1</sup>"The Petroleum and Poverty Paradox: Assessing U.S. and International Community Efforts to Fight the Resource Curse," Report by the Minority Staff to the Members of the Senate Foreign Relations Committee, October 16, 2008.



### WTI Crude Oil and Regular Retail Gasoline Dollars



Higher energy prices can be a drag on the economy, to the extent that they depress aggregate demand for other nonoil goods and services. However, the U.S. economy is far less vulnerable to sudden oil price increases now than in the 1970s and early 1980s. Over the past several decades, the U.S. economy has become much less energy intensive. Services are a larger share of GDP, and are less energy-intensive than manufacturing. In addition, businesses have adopted more energy-efficient technologies.

At present, the U.S. economy is growing at a moderate pace. The recovery is increasingly being powered by private domestic demand rather than government stimulus. The recent jump in oil prices is without a doubt having an impact on households and businesses alike. However, the underlying components of growth will likely remain in place in 2011 and will continue to support the ongoing recovery.

*Question.* Our reliance on foreign oil significantly constrains our foreign policy options. The Iranian regime, the target of significant U.S. and international sanctions due to its continuing nuclear program, reaps tremendous benefits from increased oil prices. Has Treasury, or other parts of the administration, quantified the impact on the effectiveness of the sanctions regime when oil is trading at \$100 or \$110 a barrel?

*Answer.* U.S. and international sanctions imposed on Iran are intended to protect against Iranian abuse of the international financial and commercial sectors and increase pressure on the Iranian regime. The impact of these sanctions is difficult to quantify, but in general terms, given the significant proportion of the Iranian economy that oil revenues constitute, an increase in oil prices tends to ease pressure on Iran. However, there are many signs that the sanctions are having a significant effect and creating the leverage necessary to support diplomatic efforts.

Targeted actions by the Treasury Department against illicit actors involved in Iran's WMD proliferation activities and support for terrorism, along with broad outreach to foreign governments and private sectors throughout the world, have highlighted the risks of conducting business with Iran. Recognizing these risks, many governments, including the EU, Norway, Switzerland, Japan, South Korea, Australia, and others, have also adopted robust sanctions on Iran, and many private sector actors have gone beyond strict legal requirements and terminated all business with Iran. As a result, many banks will no longer do business with Iranian banks, the international insurance market has largely stopped providing coverage for Iranian entities, and many companies have withdrawn investment from Iran. Iran faces not only a sharply reduced access to international financial services and an increase in transaction costs, but also a diminishing number of willing business partners.

*Question.* For the past several years, the United States has maintained the world's largest current account deficit which combines the balances on trade in goods and services, income, and net unilateral current transfers. According to the IMF, the U.S. current account deficit reached \$467 billion in 2010 and is predicted to rise to \$602 billion by 2015. Meanwhile, China has maintained the world's largest current account surplus at \$270 billion in 2010, and is forecasted to reach to \$778 billion by 2015. How does China's trade and investment strategy differ from the U.S. approach? What steps are the Chinese taking to secure economic partners and commodities? What does our rising current account deficit mean for our economic growth?

*Answer.* China, like all other countries, has a strong interest in pursuing its trade and investment policy objectives, and the prosperity of its firms and its people, just as we do here in the United States. What's important to us is that China pursues its objectives in a way that does not disadvantage American firms and workers in their competition with Chinese firms here in the United States, in China, and in global markets. This is a top priority for the administration, and we will continue to vigorously engage with the Chinese leadership to bring about a more level playing field for U.S. firms and workers. At the recently concluded meeting of the Strategic and Economic Dialogue (S&ED), we secured important commitments from China that should help in this regard, including in the areas of intellectual property rights protection and enforcement, government procurement opportunities unlinked to unfair innovation policies, enhanced regulatory transparency, and fair and transparent provision of export credits.

The United States-China economic relationship offers great promise and potential. We are now exporting more than \$100 billion a year in goods and services to China, which supports more than half a million American jobs. The \$45 billion in contracts finalized during President Hu's visit in January offer a concrete illustration of that growth.

China's economic policies, including its exchange rate policy, are important to all of China's trading partners, not just the United States. To support global recovery and ensure strong, sustained, and more balanced global growth into the future, the United States, China, and the other members of the G20 group of nations have committed to policy measures that will strengthen domestic demand-led growth in major surplus economies, including China, and raise national saving in major deficit economies, including the United States. China's large current account surplus is a reflection of China's very high national saving, by both households and enterprises, and the low share of household income in total national income. Stronger growth of domestic demand in China, particularly household consumption, that reduces China's trade and current account surpluses, would be a powerful impetus to global growth and create expanded opportunities for American firms and workers. A stronger RMB is an indispensable part of this process of reorienting Chinese growth, along with measures to raise household income and give Chinese citizens greater income security and more confidence to spend.

At S&ED III, China committed to expand its domestic consumption and imports in order to promote a more balanced trade relationship with the United States, and pledged to strengthen efforts in a number of policy areas critical to promoting domestic consumption-led growth, including: increasing wages and household income as a share of China's economy; steadily increasing minimum wages; reducing barriers to private and foreign investment in the domestic service sector; and implementing market-based financial sector reforms that will allow China's households and private firms to more easily access capital and financial services.

But in any discussion of China, it is important for Americans—including the administration and Congress—to understand that the solutions to our challenges in the United States rest first and foremost here at home and not in China. Fundamentally, how many jobs and how much wealth we create will be the result of the choices we make in the United States—not the choices of others.

With respect to the current account deficit of the United States, it is much smaller today than several years ago. In 2010, the deficit was \$470.2 billion or 3.1 percent of U.S. GDP. That was more than \$300 billion smaller than the 2006 current account deficit of \$802.6 billion; and less than half the 2006 current account deficit-to-GDP ratio of 6.5 percent. Recently, the current account deficit has been widening, which reflects relatively strong final demand growth in the United States in 2010 compared to our major trading partners, and rising oil prices.

As noted above, a key international economic objective of the administration is better balanced global growth, where countries with external surpluses boost domestic demand at the same time as countries with external deficits, such as the United States, save more. That is why the President proposed to the Leaders of the G20 in September 2009 the creation of a Framework for Strong, Sustainable, and Bal-

anced Growth. Stronger demand growth abroad will boost U.S. exports and strengthen U.S. growth. The President has emphasized the increasing role that exports must play in the U.S. economy, and his National Export Initiative (NEI) sets the goal of doubling U.S. exports by 2015. The NEI is focused on five priority areas: (1) improving trade advocacy and export promotion efforts; (2) increasing access to credit, especially for small and midsize businesses; (3) removing barriers to the sale of U.S. goods and services abroad; (4) robustly enforcing trade laws; and (5) pursuing policies at the global level to promote strong, sustainable, and balanced growth.

*Question.* In your written testimony, you noted that the multilateral development banks “play a critical role in promoting our national security and economic interests around the world.” During the hearing you mentioned some examples of where the MDBs were helpful. From your perspective, what are the most important roles that the MDBs play in ensuring our interests?

*Answer.* The United States depends on MDBs to support our national security objectives in key frontline states by fostering economic development and reform and addressing the root causes of conflict and instability. For example, in Afghanistan, the World Bank and Asian Development Bank are the second- and third-largest donors after the United States. These institutions are investing heavily in water, power, and transportation, sectors that are critical to underpin long term stability. Only the MDBs have the resources and technical capacity to finance large infrastructure projects globally, which are often the key to unlocking growth potential in developing and emerging markets.

As events unfold in the Middle East, the MDBs become even more important to our national security, as they will be a critical tool in restoring stability and promoting a return to growth. For example, in Egypt and Tunisia, the MDBs can support economic reforms that will promote job creation, particularly for the region’s youth.

Promoting peace, security, and stability around the world requires tackling critical, long-term drivers of volatility and conflict: food security, environmental degradation, and climate change. Left unaddressed, these risks will undermine our broader development efforts, and roll back hard-won gains in poverty reduction and economic growth, which can lead to desperation, radicalization, and increased risk of conflict. The recent volatility and spike in food commodity prices—in some cases exceeding their 2008 highs—lend a particular urgency to the food security challenge, particularly in poor countries where higher food prices have dramatic and negative impacts on the livelihoods of the poor and create social instability.

The United States also depends on MDBs to support U.S. economic objectives. The MDBs are the first responders to financial crisis and among the most powerful export promotion programs we have. In 2008, when the global economy faced one of the worst financial crises in recent history, the MDBs moved swiftly to restore finance and credit for world trade. At a time when few institutions were lending, the MDBs provided \$222 billion in financing to developing countries, helping restore economic growth and trade. These resources reached more than 130 countries, representing 44 percent of the world economy, and 31 percent of America’s export markets. Their support helped to restore global growth in key markets that are critical for U.S. businesses and jobs. The scale of their response illustrates the indispensability of the MDBs for their leverage, speed, and reach.

U.S. investments in the MDBs help generate new engines of growth globally that ultimately support more jobs here at home. The developing world represents the fastest source of growth in U.S. exports. Over the last 20 years, MDB assistance has helped nurture emerging markets that have become key export markets for the United States. The World Bank and regional development banks have provided financing and policy assistance to reduce trade barriers, improve private sector development, increase educational access, build infrastructure, and promote open markets.

*Question.* Should the United States not fund, or not fully fund, the MDBs, how exactly will our “leadership and influence” in the MDBs be reduced?

*Answer.* If the United States fails to purchase the shares that it agreed to buy in the capital increase negotiations, the relative shareholding of the United States will become diluted. Voting power is adjusted to reflect contributions as they come in from shareholders, such that delayed contributions will have an impact on the United States current voting power. Any shares allocated to a country that are not paid for within the allotted subscription period will be moved to the Bank’s unallocated capital, potentially making them available for other shareholders to acquire.

In the case of the International Bank for Reconstruction and Development (IBRD), if the GCI request is not funded at all, our shareholding will fall from 16.8 percent to 11.6 percent, and the United States will lose the ability to veto changes to the Bank's Articles of Agreement. In the case of the Asian Development Bank (AsDB), if the United States fails to make its contributions, shareholding will fall from 15.6 percent to 5.2 percent and the United States will lose the ability to exercise a joint veto with Japan. Because other member countries have already elected to pay for their subscriptions, China now has a larger voting share than the United States and is second behind only Japan. If the United States fails to make its GCI payments on time, China will gain more influence on bank policy and reforms, which would likely alter the strategic direction of the Bank. In the case of the African Development Bank (AfDB), United States shareholding will fall from 6.6 percent to 2.2 percent and the ability of the United States to have its own Board chair could be jeopardized if United States does not fulfill its GCI commitment. In addition, credit rating agencies closely monitor shareholder support for the AfDB and the United States failure to participate in the GCI could potentially impact the AfDB's credit rating. In the case of the Inter-American Development Bank (IDB), without a United States contribution, no general capital increase is possible.

*Question.* Why do you think our "leadership and influence" at the MDBs is important?

*Answer.* The United States has played a leadership role in the MDBs by developing a policy agenda to ensure that our financial contributions will be strongly leveraged by other donors and borrowers and that the MDBs' investments in the developing world directly support U.S. priorities. By leading with the agenda, we have secured an unprecedented number of policy commitments from the MDBs and their shareholders as the basis for U.S. financing commitments. For example, the United States commitment to IDA leveraged a commitment from China to prepay outstanding loans to the World Bank, which will generate over \$2 billion in additional resources. At the IDB, the United States was instrumental in securing a commitment from middle-income countries in the region to devote \$200 million annually to Haiti from interest earned on Bank lending to these countries. Additionally, U.S. leadership has also delivered critical support for Afghanistan through commitments from the Asian Development Bank and the World Bank to extend extraordinary financing to that country. We have also successfully improved the ways in which the MDBs do business to ensure effectiveness, accountability, and transparency. For example, U.S. leadership has resulted in the use of rigorous performance-based allocation systems, ensuring that financial support goes to countries where the banks have a willing partner with a track record of accountability and good policies.

If we fall behind on our commitments, we will deprive the MDBs of the resources they need to carry out development priorities that are critically important to the national and economic security of Americans. Too often, the only alternative to MDB financing is low-cost financing from countries like China, who will tie their loans to conditions that help advance Chinese commercial interests, depriving American companies of a level playing field in competing for business. Unlike these countries, the MDBs have strict procurement processes and rigorous safeguards to strengthen property rights, protect the environment, and uphold the rights of vulnerable populations. As can be seen in many regions of the world, such as Latin America, South America and Africa, there has been a dramatic expansion in the scale and scope of activities by countries like China and Iran. In this context, it is vital that our commitments to the MDBs remain firm so that our global influence in development is sustained.

*Question.* In addition, how much do the MDBs provide Egypt and for what types of programs? How does that compare to our bilateral financing?

*Answer.* From 2006 through 2010, the World Bank approved \$4.9 billion in loans to Egypt. The World Bank reports that 42 percent of its 5-year cumulative lending to Egypt went toward financial market development, 27 percent toward energy, 17 percent toward transportation infrastructure, and 4 to 5 percent toward water and sanitation, public administration, and health and social services each.

For this period, the African Development Bank (AfDB) approved \$2.6 billion in loans for Egypt. The AfDB's active portfolio of projects in Egypt has the following composition: power sector (60 percent), support for rural/urban small business and employment (12 percent), private sector operations (25 percent) and water sector (3 percent).

Over this same period, US bilateral assistance to Egypt was \$13.1 billion. In particular, USAID assistance has concentrated on economic growth, education, health, democracy and governance.

*Question.* How will you ensure that the multilateral development bank reforms negotiated during the general capital increase negotiations will be implemented before the United States funds are contributed?

*Answer.* The reforms negotiated for each of the MDB GCIs will play an essential role in improving the development effectiveness of these institutions. We have worked hard to ensure that they will be fully adopted in several different ways.

At the World Bank, the United States helped secure a robust set of reforms as part of the GCI. In recent months, a significant number of these reforms have already been implemented, including: the disclosure policy agreement, a new financial framework for the Bank and improvements in operational effectiveness through information technology. These reforms represent major structural changes to the Bank and how it does business. Agreements to implement reforms on a new compensation and benefits framework and a decentralization strategy will take longer to implement. The strong commitment to these reforms demonstrated by Bank management gives us confidence that they will be carried through even after agreement on the GCI.

At the Inter-American Development Bank (IDB), we worked to ensure that a formal review of the agreed reforms would occur midway through the 5-year encashment period (in March 2013). This review, to be conducted by the Bank's independent evaluator, will examine the Bank's progress on a list of 13 reforms, all of which have specified implementation deadlines that precede the review completion date. The IDB has already made strong progress on meeting these deadlines, including the full implementation of a new financial management process and introduction of a new methodology to strengthen the development effectiveness of its operations. Given that this evaluation precedes the final two encashment payments to the Bank, there is a strong incentive to complete the reforms on schedule.

As part of the GCI negotiations and similar to the IDB, African Development Bank (AfDB) management published a detailed matrix of institutional reform commitments, including ambitious target dates, against which reform progress can be measured. In addition, AfDB management agreed that the bank's office of independent evaluation (OPEV) would undertake an assessment of progress toward GCI-related institutional reform commitments by the third quarter of 2012. The explicit purpose of this assessment is to enhance accountability and demonstrate reform progress to member governments and Parliaments. Notable reform achievements so far include development of a Bank-wide results framework, adoption of a comprehensive income model incorporating transfers to the soft loan window and ongoing strengthening of risk management systems/capacity.

At the Asian Development Bank (AsDB), the United States was instrumental in getting agreement on a series of important reforms to the institutions that represent key priorities for us. These reforms have either already been implemented or are being implemented currently. As with the other institutions, we monitor the AsDB's activities on a regular basis and the AsDB tracks the status of its reforms through an internal tracking system that is updated quarterly.

*Question.* What reforms and policies on technology (both the use in the institutions and in their programs) are Treasury promoting at the MDBs?

*Answer.* Each of the MDB's has identified information and communication technology (ICT) as a key lever to improve the effectiveness of multilateral development assistance. The banks have focused on ICT a means of:

- Developing human capital and encouraging lifelong learning;
- Improving the transparency of local and regional governments;
- Improving the efficiency of businesses and markets by improving communications infrastructure;
- Encouraging citizen participation in democratic processes and increasing the effectiveness of economic and political reforms; and
- Fostering entrepreneurship and creating new employment opportunities.

Project examples include: the International Finance Corporation (IFC) invested \$32.7 million in an undersea fiber optic cable that will help bring high-speed broadband services to millions in Eastern Africa. The International Bank for Reconstruction and Development lent \$33 million to Morocco to roll out various e-government initiatives aimed at improving government service delivery and simplifying public procedures. In an International Fund for Agricultural Development project in Tanzania, SMS technology is being employed by "market spies" who send price information from markets back to the farmer. This helps to control the behavior of "middle men" and begins to level the playing field for farmers when negotiating with traders and helps build networks among farmers that can facilitate sustainable development.

The United States has typically advocated promoting reform in MDB ICT policies through IT applications, human development, and strategic alliances. We have also encouraged regional cooperation and networking to enhance local efforts and promote private sector participation.

*Question.* The administration is requesting \$400 million for the Clean Technology Fund to encourage clean energy investments in developing countries. Other agencies in the Federal Government also work with the private sector in developing new energy technologies for entrance into the marketplace. To what extent does Treasury work with other federal agencies to share information on these new technologies? If Treasury does collaborate with other agencies, what are they, and what is the mechanism you use for this coordination? Does Treasury share common program objectives for new technology development? Does Treasury work with USAID which is implementing “USAID FORWARD,” a \$71.8 million effort that includes bringing science and technology programs forward for investment in developing countries?

*Answer.* The Clean Technology Fund (CTF) seeks to promote the demonstration, replication, and scale-up of commercially viable technologies by working to reduce market challenges currently preventing widespread investment and uptake of such technologies.

In this effort, Treasury works closely with other agencies—particularly USAID, State, DOE—both at the strategic level and at the program and operational level. USAID Forward’s focus on leveraging science and technology and fostering innovation is creating greater scope for effective collaboration with programs like CTF both strategically and operationally.

Each CTF program begins with the development of a country-led strategy. USG country teams—including USAID and, at times, OPIC, Ex-Im, State, MCC and USTDA—participate in on-the-ground planning missions alongside the MDBs and other development partners. These efforts improve the efficacy of our efforts by seeking to harmonize our multilateral CTF activities with our bilateral assistance work for that particular country. For example, in Indonesia the U.S. bilaterally sponsored Indonesia Clean Energy Development Program (ICED) and the Climate Investment Funds-sponsored Clean Technology Fund Investment Plan divided the process for developing projects. The CTF program will focus on the back-end of the project development processes—financing the renewable and energy efficiency projects. On the other hand ICED is working on the front end of the project development—from resource assessment, to supporting the development of bankable project proposals for funding.

As a related example, last year the CTF provided financing for a Mexican wind farm that bought 27 Liberty Wind Turbines from Clipper Windpower, a U.S. company that makes turbines in Iowa. By using the concessional CTF funds to take a subordinated position, the program demonstrated to financiers and the market that such projects can be successfully funded with significantly more debt financing than was perceived to be the case. As a result, wind projects in Mexico are generally now able to acquire all commercial debt. This targeted use of CTF funding is considered to have been a catalyst for market transformation. Ex-Im provided extended term financing for Clipper as allowed under the OECD agreement on renewable energy exports.<sup>5</sup>

Another aspect of interagency collaboration has been the implementation of a strong interagency process to review investment plans and projects for the CTF, including USAID, DOE, State, EPA, and USTDA. Additionally, when these same projects come to the multilateral development bank (MDB) boards for approval, the full interagency group that reviews MDB projects also reviews these CTF projects.

This coordination has resulted in the development of common program objectives for promoting the demonstration, development and scaled-up deployment clean technology. These include: strengthening enabling environments, mobilizing sources of clean energy financing, and promoting knowledge and innovation. Finally, the National Security Staff has convened an interagency process with Treasury, State, USAID, and others, as well as with input from civil society and the private sector, to develop a more formal strategy that will guide investment choices across USG clean energy assistance activities.

*Question.* The Treasury Department has provided the committee with numerous briefings on their work to strengthen global food security through its Global Agriculture and Food Security Program (GAFSP) while USAID and the State Department have briefed us on the Feed the Future Program (FtF). How do these programs differ? How are they the same? Do program managers from the two programs work together in a coordinated effort? If so, how?

*Answer.*

- GAFSP strengthens and complements the bilateral components of FtF. Of the original eight GAFSP grants, half (Ethiopia, Rwanda, Haiti, and Bangladesh) are FtF focus countries. GAFSP leverages additional resources to support FtF activities by supporting complementary activities. For example, GAFSP's investments in the water management in Bangladesh will support USAID's investments in agricultural productivity and the rice sector.
- USAID, Treasury, and State have collaborated in the creation, operations, and diplomatic outreach associated with the GAFSP. Senior officials from State, Treasury and USAID have all actively sought funding for GAFSP over the last year. GAFSP and FtF share a significant number of results indicators in their monitoring and evaluation frameworks, which will help in measuring the impact of our investments. While Treasury represents the United States at GAFSP Steering Committee meetings, USAID staff has attended each Steering Committee meeting.
- There are also important differences between GAFSP and the bilateral programs under FtF. For instance, GAFSP allows the United States to leverage directly the financial resources of other contributors, including nontraditional donors such as Korea, and align those resources against the agricultural development strategies of the poorest countries. With our \$67 million contribution in FY 2010—8 percent of the total U.S. food security resources for that year—we successfully leveraged an additional \$387 in contributions.
- As a multilateral mechanism, GAFSP does not earmark funds for particular countries. Instead GAFSP employs an open, competitive, and transparent proposal process that awards grants based on evaluations from independent technical experts. Countries that have high levels of hunger and poverty but have also developed evidence-based, comprehensive agricultural development strategies and robust proposals are prioritized for GAFSP financing.
- GAFSP also leverages the significant technical capacity of the multilateral development banks to achieve the goal of measurably reducing hunger and poverty in the poorest countries of the world. The banks have large agricultural staffs still in place, which have the expertise and capacity to implement GAFSP-financed projects in a timely manner.

*Question.* To follow up on my question about the almost \$32 billion in Government of Libya assets under U.S. jurisdiction have been frozen. How long will the assets be frozen? What is the process to return or otherwise resolve those assets? Who will receive the assets? What is the size of the Mubarak family assets that have been frozen? Would you list the other assets frozen by leaders and governments in the Middle East?

*Answer.* The Libyan assets were blocked pursuant to Executive Order 13566 signed by President Obama on February 25, 2011. The purpose of the blocking is twofold—to prevent Muammar Qadhafi from accessing them for use and to preserve them for the Libyan people. At this point, we are unable to predict how long the assets will be blocked. Assets blocked under IEEPA authorities generally remain blocked until the President terminates the underlying National Emergency. There is also a licensing mechanism in place to unblock funds when it is in the national interest to do so.

There is currently no sanctions program in the United States targeting the assets of the Mubarak family. In response to events in Egypt, Treasury issued advisory reminding U.S. financial institutions of their obligations to monitor closely any financial activity that could potentially represent misappropriated or diverted state assets, proceeds of bribery or other illegal payments, or other public corruption proceeds. The United States does, however, have current sanctions against Iran and Sudan. Government of Sudan assets within the possession or controls of a U.S. person are blocked. The property of persons designated in connection with Iran's proliferation of weapons of mass destruction and support of terrorism is also blocked.

*Question.* During the hearing, you noted a study coauthored by Kenneth Rogoff that indicated when debt/GDP levels had an effect on economic growth. Is there a similar study that looks at debt/budget levels? Is there an argument for looking at the budgets and not just the GDP levels since it is the budget levels that will determine the sustainability of the debt while GDP could be seen as a proxy for the budget levels?

*Answer.* Yes, the annual deficits matter in addition to the debt level. That is why the FY 2012 budget focuses on reducing deficits as a share of GDP. The underlying target in the FY 2012 budget is to stop the growth in the debt to nominal GDP ratio; stabilizing the debt-to-GDP ratio requires that the national debt grow no

faster than nominal GDP. This is done by targeting the budget deficit in a specific way.

The growth rate of debt depends on the interest rate paid on the existing debt and the size of the primary deficit (the primary deficit is the deficit less interest payments). Roughly speaking, if the primary deficit is zero, the only element that is adding to debt is interest payments. If interest payments are offset by the growth in nominal GDP, it is possible to keep the debt to nominal GDP ratio constant.

In the proposed FY 2012 budget, the deficit as a percentage of GDP is cut in half from FY 2011 to FY 2013 (from 10.9 percent to 4.6 percent) and it continues to fall to around 3 percent of GDP by 2017. It can be seen that the primary deficit by 2017 is zero and has a small surplus thereafter. Furthermore, after 2016 the deficit is accounted for by interest payments, which are about 3 percent of GDP. These conditions ensure the debt to GDP ratio stabilizes in 2017 at around 67 to 68 percent of GDP, and it remains there through 2021.

This is a significant start, but more needs to be done to constrain the growth of entitlement spending, and in the longer term after 2021 it becomes particularly important.

*Question.* Could you please provide me with an update of the designations pending or being considered under the “Kingpin Act” for Venezuelan nationals.

*Answer.* Treasury does not comment on pending or possible designations or investigations. However South America has been, and continues to be, a region we carefully scrutinize as we consider Kingpin Act designations.

*Question.* What is your understanding of the relationship between the Government of Iran and Venezuela’s Oil Company, PDVSA (Petroleos de Venezuela)?

*Answer.* We are aware of the growing relationship between Venezuela and Iran, including increased business and trade ties, and we are monitoring this relationship closely. We also understand that the State Department is reviewing reports that Venezuela has sent refined petroleum to Iran, which may make the companies involved subject to possible sanctions under the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA). Under the Iran Sanctions Act of 1996, as amended by CISADA, the State Department, in consultation with appropriate agencies, is responsible for determining whether an individual or entity has engaged in sanctionable activity involving Iran’s energy and refined petroleum sectors, and for determining any further course of action, including selecting sanctions that may be imposed. Treasury will continue to cooperate closely with the State Department and will remain vigilant for any financial transactions which might be subject to existing U.S. or international sanctions against Iran.

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#### QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER A. COONS

*Question.* Two weeks ago, Federal Reserve Chairman Ben Bernanke said that small banks exempted from new limits on interchange fees may be forced by the marketplace to accept the proposed government-set debit interchange fee of 12 cents per transaction. This would render meaningless the exemption and cause small and community banks further harm.

- Considering the tight regulatory timeline for implementation of debit interchange caps and the concerns of small banks, do you believe the July 21 effective date is realistic?

*Answer.* Under section 1075 of the Dodd-Frank Act (the “Durbin Amendment”), Congress provided the Federal Reserve Board (“Board”) with the authority to regulate interchange fees relating to debit transactions and to implement certain non-exclusivity restrictions that would provide merchants with greater choice in selecting a debit network through which to route a transaction. Congress also provided an exemption for small bank issuers from the standards for debit card interchange fees established by the Board.

The Board has been striving to meet the statutory deadlines set under the Dodd-Frank Act. In December 2010, the Board requested comment on its proposed rules to implement the Durbin Amendment. The Board is working diligently to review the more than 11,000 comments it received and to determine what changes it should make in the final rule. And as Chairman Bernanke stated before the ICBA on March 23, 2011, the Board understands that Congress intended for small issuers to be exempted from the standards established by the Board on debit interchange fee regulation and is committed to using its full authority to ensure that the exemption is effective.



Many small issuers have expressed concern over the practical effect of this exemption. In particular, they are concerned that the exemption will not be effective if networks do not implement a two-tier interchange fee structure to differentiate between large and small bank issuers; and (2) that the market pressures resulting from the nonexclusivity restrictions will over time place downward pressure on debit interchange fees for small issuers. However, many large debit networks, including Visa, STAR, and Pulse, have announced that they will implement a two-tier interchange fee system. And as Chairman Bernanke noted, to the extent that a two-tier interchange structure becomes the prevailing network practice, the exemption should have some real effect.

*Question.* As you know, Australia has experimented in regulating interchange fees. According to studies, this regulation has resulted in increased costs to consumers through higher cardholder fees and reduced card benefits.

- Do you believe there is any guaranteed benefit to consumers from capping debit interchange fees?

*Answer.* You are correct to suggest that there is no guarantee that customers will benefit in any particular way from capping debit interchange fees. That said, the Board has acknowledged the expectation that consumers will benefit to the extent merchants pass on their interchange fee savings in the form of lower prices. It is not practical, however, to measure the extent to which lower interchange fees on electronic debit transactions paid by merchants would translate into lower prices because of the many other factors that influence the prices which merchants charge their customers.

While you're correct that there is evidence that Australian credit cardholders have experienced higher card fees and reduced card benefits, it is not clear that Australia's more recent limits on debit card interchange has resulted in increased banking fees. Each country's banking, payments, and regulatory environments are distinct. For example, under the Australian system, until this month, interchange fees for PIN debit card transactions were paid by the issuing banks to the merchants, opposite of the interchange flow in the United States. Therefore, there is some danger in comparing outcomes from different countries, even if comparisons appear apt initially.

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#### QUESTIONS SUBMITTED BY SENATOR MARCO RUBIO

*Question.* Approval of the trade agreements with Panama and Colombia have been delayed for more than 5 years. In the meantime, these countries are negotiating and implementing similar agreements with our main competitors in Europe, Canada, and China. The result is that American workers have lost ground to our main economic competitors.

- What has been the economic cost of this delay for American exporters?
- How many jobs could have been created in the United States if we had these agreements in place today?
- Would the administration commit to present these treaties to Congress before the Easter recess?

*Answer.* The United States remains a major supplier of goods to Panama. However, Colombia and Panama have active trade agendas and have signed trade agreements with some of our main competitors, such as the EU and Canada. That is why Ambassador Kirk worked so intensively with Panama and continues to work with Colombia to resolve outstanding issues of concern to Members of Congress so that those trade agreements can be presented to Congress. As to the extent of benefits foregone to date because these agreements have not been ratified, that would be difficult to estimate as the market liberalization required by the agreements would only be phased in over time and the trade and investment flows induced by that liberalization also develop over time.

That said, the U.S. economy clearly stands to benefit from passage of these agreements. As estimated by the United States International Trade Commission (USITC) in its 2006 study of the impacts of the Colombia Trade Promotion Agreement (TPA) on the U.S. economy, when fully phased in the agreement would increase overall U.S. goods exports by 13.7 percent over the levels they would otherwise have achieved without the agreement. The USITC's 2007 report on the Panama TPA noted that the United States has had a trade surplus with Panama since 1989 and showed that U.S. exports to Panama would increase by between 9 and 145 percent in the sectors it analyzed. In the longer term, these benefits could be magnified by the reduction of impediments in customs processing, enhanced investor protections,

and increased regulatory transparency in our partner countries, as required by these agreements.

As to when these agreements could be submitted to Congress, I would refer you to United States Trade Representative, Ambassador Kirk.

*Question.* As you know, Venezuela is building deep and troubling ties with Iran, which we have designated as the main State Sponsor of Terror in the world. I believe these ties are—or will soon begin to undermine the multilateral sanctions against the Iranian regime’s pursuit of an illicit nuclear weapons program.

- How is your Department monitoring violations to multilateral sanctions on Iran through Venezuela?

*Answer.* We are aware of the growing relationship between Venezuela and Iran, including increased business and trade ties, and we are monitoring this relationship closely. In 2008, the Treasury Department designated Venezuelan-based Banco Internacional de Desarrollo, a subsidiary of the Export Development Bank of Iran (EDBI), pursuant to Executive Order 13382, which targets the WMD proliferators and their support networks. EDBI was designated for providing or attempting to provide financial services to Iran’s Ministry of Defense for Armed Forces Logistics (MODAFL), which has ultimate authority over the Aerospace Industries Organization (AIO), the umbrella group that controls Iran’s ballistic missile research, development, and production activities and organizations.

The Treasury Department relies upon a number of authorities to target Iran’s illicit activities. Executive Orders 13382 and 13224 allow Treasury to prohibit transactions with, and freeze the assets of, entities and individuals that engage in or support WMD proliferation activities or terrorism, respectively. In addition, subsection 104(c) of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA) required Treasury to issue regulations (published on August 16, 2010) to implement the Secretary’s authority to prohibit or impose strict conditions on the opening or maintaining in the United States of correspondent accounts or payable through accounts for foreign financial institutions found to knowingly engage in certain activities involving Iran. Treasury remains vigilant for any transactions that might be subject to existing U.S. or international sanctions against Iran and we continue to work with our international partners on robust implementation of the international sanctions framework. We expect Venezuela to comply with its international obligations under UNSCR 1929, and we will take appropriate action against those found to be engaged in any activities that are sanctionable under the U.S. or U.N. sanctions frameworks.

- Are there any open investigations into these troubling ties?

*Answer.* Treasury does not comment publicly on possible or pending investigations.

*Question.* Tourism in Cuba, including tourism travel, is owned and operated by the Cuban state and is, in effect, one of the main sources of revenue of the Castro regime. Therefore, American tourism travel to Cuba is statutorily prohibited, except for family, religious, cultural and academic purposes. The Obama administration has recently expanded the scope of this purposeful travel, and questions have been raised about what appears lax enforcement of these restrictions by the Office of Foreign Assets Control (OFAC) within your Department.

- What is OFAC doing to ensure robust enforcement of U.S. restrictions on tourism travel to Cuba?

*Answer.* In an effort to maximize the impact of our efforts and resources, OFAC has concentrated its Cuba travel enforcement work on companies in the travel industry and organizations facilitating group travel. Given both important resource considerations as well as the demand of several high-priority sanctions programs that OFAC administers (including against Iran, terrorism, proliferation of weapons of mass destruction, and, most recently, Libya), efforts focusing on travel companies and organizations facilitating group travel more effectively enforce Cuba related travel restrictions.

- Does OFAC’s enforcement of the rules include audits of licensed travel service providers?

*Answer.* OFAC scrutinizes the transactions and conduct of the Cuba Service Provider community (the “SPs”) on an ongoing basis. OFAC exercises its oversight primarily through specific inquiries made to SPs. OFAC does not currently conduct regular compliance reviews of all SPs because OFAC has found that dedicating enforcement resources and activities toward the activities of select SPs and suspected unauthorized SPs is a more effective method of insuring that SPs are conducting

their business properly. In addition, OFAC requires detailed information from each applicant to be an SP, and conducts an investigation of each applicant before determining whether granting an SP license is consistent with the Cuban Assets Control Regulations.

- If so, what has been the result of such audits?

Answer. In some cases, OFAC has suspended or revoked TSP authorizations, which effectively puts an entity out of the business of providing Cuba travel services. OFAC actively monitors the TSPs in order to better ensure that they operate in compliance with the applicable rules and regulations. Past reviews have also revealed issues which OFAC has subsequently used as the basis for training that OFAC offers to the licensed travel service provider community.

*Question.* On March 1, 2011, the Treasury Department issued a report confirming China as the largest foreign holder of U.S. debt, \$1.16 trillion in total. As you know, by 2021, interest payments on the national debt are projected to reach \$844 billion a year.

- Considering our longstanding concerns with the Chinese Government's lack of transparency on their military planning and expenditures, what are the strategic implications of the United States beholden to China for such sums?
- How does this situation affect our interests in multilateral financing institutions?

Answer. As of March 2011, China's holdings of Treasury securities totaled \$1,144.9 billion, or 8 percent of total public debt outstanding. More than 68 percent of Treasury securities are held by U.S. residents. Most of China's financial investments in the United States are concentrated in Treasury securities, likely because it is an extremely deep and liquid market. Chinese officials have said publicly that liquidity and safety are their most important objectives in managing their official reserves.

With respect to the Treasury security market, Treasury has a very large and diversified investor base that is not reliant on any particular investor. This became evident during the financial crisis as Treasury's investor base grew. Additionally, as the saving rate in the United States has increased over the past 2 years, so too has the appetite of domestic investors for Treasuries. The Treasury market is the deepest and most liquid market in the world. Daily transaction volumes total approximately \$400 billion.

An important tool for promoting U.S. security, economic, and commercial interests is robust U.S. presence in the MDBs. Every dollar we provide the MDBs as capital is magnified by the contributions of other shareholders and the MDB's increased ability to borrow such that they can provide assistance to rival China's. As the largest nonregional shareholder in most MDBs, the United States exerts significant leadership in shaping their policies, including those related to procurement and combating corruption. U.S. businesses benefit from the level playing field that results from the strict procurement processes and anticorruption policies promoted by the MDBs in its borrowing members. In many of the markets in which the MDBs operate, a major alternative source of financing comes from China, which is often low cost, nontransparent, and tied to support for Chinese firms. If we do not fully fund our contributions under the GCIs, our leadership position within these institutions will be eroded, and with it our ability to maintain U.S. priorities such as non-discriminatory procurement.

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#### QUESTIONS SUBMITTED BY SENATOR ROBERT MENENDEZ

*Question.* With respect to the regulatory changes made by President Obama in January with respect to our policy toward Cuba I am particularly leery of changes that enhance "people-to-people" programs. There are a lot of companies that are seeking to make a buck off the people-to-people programs without considering whether the program actually provides any benefit to the Cuban people.

For example, one company is offering a trip to Cuba to take classes on "Salsa and other popular dances like Mambo, Cha Cha Cha, and Rueda de Casino."

The regulations state, however, "This travel category provides for specific licenses authorizing educational exchanges—not involving academic study pursuant to a degree program—when those exchanges take place under the auspices of an organization that sponsors and organizes such programs to promote people-to-people contact."

- Has OAFAC developed specific criteria to guide decisions with respect to license applications, beyond the limited guidance provided by the regulations, that will

ensure that licensees are in serving our stated policy goal of promoting people-to-people contact?

- What assurances or documentation is required of licensees upon their return to the United States to ensure that their programs are serving our policy goals?

Answer. OFAC has recently published guidelines addressing this licensing category: [http://www.treasury.gov/resource-center/sanctions/Programs/Documents/cuba\\_tr\\_app.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/cuba_tr_app.pdf).

*Question.* One of the themes of this hearing is addressing threats to our economic recovery. In that context I think we must consider China's continued undervaluation of its currency and its impact on our economy in terms—particularly as we seek to double our exports by 2015.

On February 4, the Treasury Department concluded in its "Annual Report to Congress on International Economic and Exchange Rate Policies" that China did not qualify as a currency manipulator because it had permitted some appreciation of the renminbi (REN-MIN-BI).

China's undervaluation remains an important issue, as the report points out: "A renminbi which is below its equilibrium value decreases the purchasing power of China's consumers. Undervaluation increases the price tag on items such as imported food or gasoline, new homes built with imported materials, or a foreign automobile. It also encourages Chinese firms to produce for export markets and cater to the preferences of foreign rather than domestic consumers, placing an additional damper on the growth of domestic demand."

The same report points out that China has largely recovered from the global financial crisis and that in 2010, China's economy expanded by 10.3 percent in real terms. Meanwhile, the U.S. economy is still struggling. As a result, in addition to market access issues, U.S. firms are at a price disadvantage because of China's currency policy.

- What will it take for the China to level the playing field for U.S. companies? Do we need to pass legislation to force the issue?

Answer. The currency issue remains a top priority for the administration, and was a focal point of discussion in the Economic Track of the recently concluded third meeting of the Strategic and Economic Dialogue (S&ED). China has begun to adjust its nominal exchange rate in recent months; since June 2010, China's authorities have allowed their currency to appreciate against the dollar by about 5 percent nominal terms, and at a pace of about 9 percent per year in real terms, given higher inflation in China than in the United States. But, despite this, progress thus far is insufficient. China's currency remains substantially undervalued and more rapid progress is needed. As was evident in our S&ED discussions, China's leaders recognize increasingly that exchange rate flexibility needs to be part of China's efforts to rely more on its own domestic demand to generate growth, a key objective of China's recently released 12th Five Year Plan.

The United States-China economic relationship offers great promise and potential, and we are committed to securing the best outcomes for American workers and businesses. Last year, U.S. exports of goods and services to China reached \$110 billion, growing 50 percent faster than our exports to the rest of the world, and supporting hundreds of thousands of U.S. jobs across a range of sectors.

We are using all channels available, including multilateral venues, to push for progress on China's economic policies, including its exchange rate policy. To support global recovery and ensure strong, sustained, and more balanced global growth into the future, the United States, China, and the other members of the G20 group of nations have committed to policy measures that will strengthen domestic demand-led growth in major surplus economies, including China. Stronger growth of domestic demand in China, particularly household consumption, which reduces China's trade surplus, will be a powerful impetus to global growth, creating new opportunities for U.S. firms and workers. A stronger RMB is an indispensable part of this process of reorienting Chinese growth.

Although progress has been made on the exchange rate, intellectual property rights, and other important economic and trade issues, much remains to be done. As we did during the third Strategic & Economic Dialogue, the administration will continue to vigorously engage with the Chinese leadership to make the United States-China economic relationship more beneficial to the American people.

But in any discussion of China, it is important for Americans—including the administration and Congress—to understand that the solutions to our challenges in the United States rest first and foremost here at home and not in China. Fundamentally, how many jobs and how much wealth we create will be the result of the choices we make in the United States—not the choices of others.

That means we must restore fiscal responsibility. This will require the government to spend less and spend more wisely, so that we can afford to make the investments that are critical to future growth.

With respect to legislative measures intended to level the playing field for U.S. companies, I have noted in the past that it is important that these are both effective and consistent with our international obligations.

*Question.* The Treasury Department cochairs the U.S.-China Strategic and Economic Dialogue (S&ED), whose next meeting is scheduled for May of this year. While the S&ED is designed to advance bilateral negotiations on high-level macroeconomic and geopolitical issues, a major concern is that trade issues relevant to the S&ED agenda are only addressed under the U.S.-China Joint Committee on Commerce and Trade (JCCT) framework. The JCCT remains the lone vehicle to address a very long and growing list of trade and enforcement concerns. This bottleneck impedes progress on trade issues that are undermining job creation and economic recovery.

A critical issue confronting nonprofit and commercial publishers in New Jersey is the online piracy of their scientific, technical and medical research articles. Libraries with subscriptions to U.S. journals are providing the copyrighted content to third parties, who are then reselling the articles on sophisticated online platforms. China is one of the fastest-growing export markets for U.S. journal publishers and is now the second-largest source of scholarly research in the world behind the United States. U.S. publishers have played a key role in supporting this dynamic growth, working closely with Chinese researchers to improve the quality of their research through rigorous peer review and journal management training.

Rampant online piracy of valuable, peer-reviewed scientific, technical, and medical research harms not only U.S. industry and investments in innovation but Chinese innovation and development goals as well. The publishers impacted by these alleged IPR violations directly and indirectly employ over 50,000 workers in the United States and maintain extensive operations in the State of New Jersey that provide more than 3,000 jobs.

- How will you ensure that the S&ED framework also addresses broader trade issues that impact the S&ED agenda, such as the journal piracy issue?

*Answer.* The administration strongly shares your concerns, and that is why trade and investment issues, including intellectual property rights (IPR) protection and enforcement, are an important component of the U.S.-China Strategic and Economic (S&ED) Dialogue. The Department of the Treasury, the Office of the U.S. Trade Representative, the Department of Commerce, and other agencies, we work together closely to address strategic trade and investment issues in the S&ED with the relevant Chinese ministries. The Economic Track of the S&ED is chaired by Chinese Vice Premier Wang Qishan, who is the Chinese official responsible for trade issues, including IPR. The S&ED and the Joint Commission on Commerce and Trade (JCCT) are complementary efforts that are part of the administration's expansive, coordinated China strategy. The S&ED tends to focus on systemic, financial sector, and cross-cutting trade and investment issues, while the JCCT focuses on resolving specific trade and investment barriers.

At the third S&ED, we achieved important progress on a number of trade and investment issues, including securing Chinese commitments to better protect and enforce IPR; eliminate government procurement indigenous innovation product catalogues and revise Article 9 of the draft Government Procurement Law Implementing Regulations as part of China's implementation of President Hu's commitment not to link innovation policies to the provision of government procurement preferences; issue a Chinese measure to provide the public with advance notice and an opportunity to comment on Chinese regulations and rules; and undertake discussions on our export financing systems, recognizing the importance of transparency and fairness in the provision of export credits. These commitments should lead to more U.S. jobs and boost U.S. exports to China and the world by contributing to a more level playing field and expanding the opportunities available to U.S. workers and firms.

On IPR in particular, China pledged to improve its high-level, long-term IPR protection and enforcement mechanism, building on the current Special Campaign Against IPR Infringement and Fake and Shoddy Products, and to strengthen its government inspection mechanism to make sure that the software being used by government agencies at all levels is legitimate. These commitments build on the important bilateral commitments including those made during President Hu's visit in January. The administration will continue to engage China vigorously to ensure their comprehensive implementation.

With regard to the specific issue of journal piracy, during the JCCT last December, China and the United States agreed to continue cooperation on strengthening

library IPR protection and to continue consultations with rights holders about library IPR protection efforts. China's National Copyright Administration (NCAC) described its ongoing efforts to investigate complaints by academic journal publishers about Web-based enterprises' piracy of library academic journals, and agreed to take prompt action at the conclusion of its investigations. We understand that U.S. stakeholders are engaging NCAC to follow up on the JCCT outcome. Also, U.S. trade officials met with NCAC in late March to discuss this and other important copyright issues, and library piracy issues were also discussed at the JCCT IPR Working Group in April.

Trade and investment issues, including IPR protection and enforcement, will continue to be an important component of our S&ED engagement with China.

