

Unedited Event Transcript

The G-7 and the Global Economy

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Peterson Institute for International Economics, Washington, DC

May 19, 2016

C. Fred Bergsten: Let me welcome all of you this morning to the Peterson Institute for International Economics. As most of you probably know, I’m Fred Bergsten, the Founding Director of the Institute and now a Senior Fellow and Director Emeritus.

I’m delighted to chair this session this morning to welcome the top official in the US government on international economic policy, Wally Adeyemo is now Deputy Assistant to the President and Deputy National Security Adviser for International Economics. He succeeded Caroline Atkinson in those positions just at the end of last year, after having spent a short time also as Deputy Director of the National Economic Council it was kind of a two-hatted NEC-NSC setup that most of you probably know exist in the Whitehouse.

Wally had previously been at the Treasury since 2009. Early in his tenure there, he was heavily involved in setting up the Consumer Financial Protection Bureau and then he moved on to the international side. His most recent position was as Deputy Chief of Staff to Secretary Lew. In that role, he played a number of very significant roles in the development of policy and its implementation over the last couple of years. Many of you will remember when Congress was considering the TPA Legislation last year that one of the most delicate and important issues was the currency provisions. Wally was the guy who had the unenviable task of working that out with the members of the Congress to get the TPA legislation through.

He then subsequently negotiated for the first time ever in linkage through a trade agreement the TPP Macroeconomic and Currency Declaration and group, financial group that was set up not as part of TPP but in association with TPP to also help deal with concerns about the currency aspects of the trade agreement going forward. So, Wally was in the midst of all that and played, I must say, a very effective role both with the Congress and with the key TPP partners in working out those agreements.

In his current role, he is among many other things, the US Sherpa for the G7 and the G20. Summits of both are coming up over the next few months starting with the G7 in Japan next month. Wally is here to talk to us about that and a whole

range of other things and I'm delighted to welcome you to the podium of the Institute this morning.

Wally Adeyemo.

Awale Adeyemo: Well, I can't thank Fred enough for that kind introduction. For many years now, Fred has been a mentor and an adviser to me on several issues, and it is wonderful to be here at Peterson, a place where deep thought and intellectual development of many of the important issues with the international economy has taken place. And I look forward to sharing with you some remarks on the G7 Agenda in the global economy and also having a conversation with you and answering some of your questions.

So, as many of you know, next week, President Obama will travel to Ise-Shima, Japan for the final G7 summit of his presidency. The world has changed a great deal since President Obama attended his first summit in Italy. The global economy has gone from a great recession that almost turned into a second great depression to recovery that in all estimates is moderate and uneven.

The IMF projects that the global economy will grow at 3.3% in 2016, which was revised downward from the IMF's last projection. In fact, the IMF has marked down global growth four times in the last 12 months. While global growth has surprised the downside for several years, the US economy has been a pillar of relative strength. Over the last 74 months, the US private sector has created 14.6 million jobs and we've cut the unemployment rate in half to 5%. And our federal deficit went from 9.8% in FY 2009 to about 2.5% in FY 2015.

But United States is not an island. What happens in the world had an impact on our firms and our workers. While we are less export-dependent than other major economies with exports representing 13% of US GDP, our extensive connections to the global financial markets means that when global growth slows, it acts as a drag on growth in the United States.

But this is not just an issue that we face here in the United States, the lack of adequate global demand is an issue that impacts the entire G7. Without improved global growth, we are likely to see high levels of unemployment persist in parts of the developed and developing world, continued weighed stagnation in many developed economies, deflationary pressures and increased levels of inequality.

It is clear that addressing these problems require a better mix of the policies that we have undertaken since the Great Recession.

I'd like to spend my remarks today talking to you about three things that the G7 will discuss in the coming weeks, months and years that will address these economic challenges.

One, how do we better create opportunities for our workers and firms? Two, implementing the historic achievements of 2015, and three, addressing our shared geopolitical challenges.

It goes without saying that a growing economy is in a better position that pay its debts than a shrinking one. Looking around the world, we know that countries that struggle with fiscal sustainability often don't grow fast enough to support their debt. In the United States, a solid economic recovery was an important part of making sure our medium run fiscal picture was sound.

While policymakers should use all tools, there's a need for fiscal policy to play a greater role in the current economic environment in concert with monetary and fiscal measures to create a healthier policy mix. In the United States, we have taken steps to do just this.

In October 2015, the President signed a budget agreement that will increase federal spending by more than 111 billion over the next two years. In addition, late last year, he signed a legislation that would address some of our infrastructure needs but we recognize that there's more that needs to be done. This is why the President continues to call for a 50% increase in infrastructure investment, which adds 32 billion per year above current funding for clean transportation.

Similarly, the Canadian government earlier this year proposed a budget that would increase aggregate demand including increasing spending on areas such as infrastructure, education, expanding child benefits, transfers to underrepresented communities and provinces, and unemployment benefits.

The Canadian government estimates that the additional spending will boost growth by 0.5 percentage points in 2016 and 2017 and by 1 percentage point the following fiscal year.

Given the weakness of the global economy, the low interest rate environment and the lack of adequate investment, there's also a scope for Europe and Japan to take additional steps to support the global recovery and invest in their economies.

In Europe, investment spending as a share of GDP remains well below pre-crisis averages. Unemployment's rates are uneven across the EU ranging from the 4% to 25% and up to nearly 50% for young workers in some countries. There's a need to use additional fiscal support to revive investment, enhance the quality and connectivity of infrastructure and fully integrate new workers including migrants into the productive economy.

In Japan, as you all know, GDP growth over the last two years has been close to zero dragged down by tighter fiscal policy. Short-term interest rates have been around zero for two decades and long-term interest rates are lower than any other large economy. Inflation remains persistently below the Bank of Japan's

target. There's no better time for Japan to flexibly use fiscal policy to boost near term aggregate demand in long-term economic potential. As we all well know, Japan also needs to take steps to reform its labor market and open up its industries to greater competition.

Additional fiscal flexibility does not need to come at the expense of ensuring debt as shared GDP is on the sustainable path over the medium term. As part of a balanced policy mix, fiscal flexibility used to boost domestic demand can actually help to place debt to GDP on a sustainable path.

In our efforts to grow the economy, the thing we must continue to remember is that our goal is always to collectively improve the lives of our people. This is why Japan is not only focused on boosting global demand but also using the G7 to speak to issues like global health, women's empowerment and quality infrastructure.

This agenda is critical to prosperity and also to advancing our shared values. First, on health in the Global Health Security Agenda. The Ebola crisis had a devastating impact on the people and economies of West Africa. And Zika presents a new risk that compounds the ongoing social and economic challenges of Latin America. Although the World Bank's latest estimate suggests that the overall economic impact of Zika is likely to be modest in the aggregate. The increasingly interconnected global economy means that economic cost of an epidemic can quickly rise into the tens of billions of dollars, if not, more.

In addition to the economic cost, the human cost of this disease are devastating. This is why we need to collaborate to fight Zika and other infectious diseases that threaten the global economy and our people using vaccine and diagnostic research and advancing the Global Health Security Agenda and administration in G7 priority, which will establish and measure capacity around the world to help us stop outbreaks at the source.

In Ise-Shima, the health agenda will go beyond the global health security. Strong health systems are fundamental for poverty reduction and for growing the middle class. The G7 is focused in what needs to be done globally over the next 15 years to achieve the sustainable development goal in number three, ensuring healthy lives and promoting wellbeing for all at all ages.

Health is of course an area where the United States has domestically taken significant strides during the Obama administration. Notably through the success of the Affordable Care Act, as well as through our investment internationally to improve the health of mothers and children fighting infectious diseases and advancing the Global Health Security Agenda. But we also recognize that still more needs to be done collectively around the world.

Second on the Japanese agenda is women's empowerment. The G7 is working and striving to make sure that this reflects our common values including respect for the fundamental dignity and equality of all persons and respect for human

rights. But also by recognizing that empowering women is absolutely vital to strengthening our economies.

All G7 countries face a substantial demographic drag on growth from aging workforces and we can offset this drag to a degree by promoting greater workforce participation among working age women.

In 2014, all G7 members committed in the context of the G20 to the goal of narrowing the gap between female and male labor force participation rates in their respective countries by one quarter by 2025. That commitment that if fully implemented will bring 100 million women into the global workforce.

Domestically, the Obama administration is working to advance an ambitious agenda that encourages workplace flexibility, expands tax credits to offset the cost of childcare, increases the availability of paid family leave and puts in place new tools to address gender wage gaps.

Internationally, the United States have taken the lead in reducing barriers to prevent adolescent girls from getting an education to Let Girls Learn initiative.

And the G7, we are focusing in on a related lines of effort like promoting women's entrepreneurship and advancement in stem fields that will be essentially to ensuring our economies are innovative and dynamic over time.

Given the G7 will meet in Asia for the first time since 2008, it is fitting that G7 will take a closer look at infrastructure issues because there perhaps no region in the world with greater infrastructure investment needs than the Asia Pacific.

The Asian Development Bank has estimated that a staggering \$8 trillion in investment is needed during this decade to support the region's rapid economic and population growth.

Health empowerment and infrastructure development are crucial components to increase the quality of life for our collective middle classes. However, too many people in America are still living paycheck to paycheck. Income inequality remains a challenge and most Americans worry that the structure of the global economy is stacked against them. That the system isn't working for them. That's one of the reasons. It's important to ensure that our tax code is fair and efficient and the large multinationals can't play by different set of rules. We've taken a number of steps along these lines in the United States.

First year at home, the President has put forward a framework for US Business Tax Reform to make our tax code more competitive, to modernize our international system to close loopholes and then increase efficiency, to create a more level playing field and to simplify the code for all businesses large and small.

On the global stage, the United States has worked with our international partners to drive forward the G20's mandate to address Base Erosion and Profit

Shifting or BEPS, with the first recommendation adapted by the G20 Finance Ministers last fall. The BEPS project came out with the recognition to the problem of stateless income as a shared concern while they can only effectively be addressed through coordinated action. The BEPS project made a number of key recommendations to address the areas that enable stateless income such as interest deduction, hybrid entities and treaty shopping. Many of these recommendations require legislative changes in the United States underscoring the need for business tax reform.

In addition to addressing the legal avoidance practices that give rise to stateless income, the Obama administration has been working to address corrupt practices that undermine our international financial system and enhance transparency needed to ensure that everyone including the wealthiest few pay their fair share of taxes.

Similarly, the G7 has long been a leader in addressing corruption and combating money laundering and illicit finance. After all, it was the G7 that established the global standard setting body in this area, the Financial Action Task Force. For too long, corrupt officials those seeking to avoid taxes and other criminals have used these kinds of practices to hide assets, engage in money laundering or avoid taxes in their home countries.

The administration has proposed that Congress approve legislation to increase transparency and disclosure requirements to include requiring disclosure of beneficial ownership information as late as a few weeks ago.

We believe that these new measures will increase financial transparency and give financial institutions and law enforcement officials the ability to identify the assets and accounts of criminals, tax cheats and national security threats.

Our efforts to level the playing field do not stop there. They also premiered in our broader trade agenda. As part of our efforts to grow the global economy, we are working on two major new trade agreements that will help level the playing field for our firms and workers. The Trans-Pacific Partnership for instance will encompass nearly 40% of the global GDP and reach millions of people throughout the Asia Pacific, the home of the world's largest growing middle class.

We're simultaneously working with our counterparts in Europe on another ambitious agreement, the Transatlantic Trade and Investment Partnership. Trade ties between Europe and the United States are already strong but at time of widening inequality in the world, TTIP will help encourage growth across the 28 nations of the EU and in the United States.

The President is also committed to aggressively enforcing our trade laws. This is why the United States has brought more WTO cases than over the last seven years in any other country. We are currently enforcing 325 Anti-Dumping and

Countervailing Duty orders including 62 investigations initiated in fiscal year 2015. This is the largest number of investigations initiated in 14 years.

We're calling on the G7 and other affected countries to also join us in taking actions to address global over capacity especially in steel and aluminum. While we continue to use our trade enforcement authorities to address this issue, we know that it ultimately requires a global solution.

Second on implementing the achievements of the 2015 agenda, the G7 leaders will have an opportunity to discuss our plans to implement a good work we set forward in 2015 including the 2030 agenda for sustainable development, which was adapted last year and is intended to guide global development policy for the next 15 years.

The United States is committed to leading by example by taking actions to implement the agenda domestically and to continuing to support implementation efforts by developing countries internationally. We also know that while official development finance continues to play an essential role, it will not be enough to meet the substantial challenges we face and to achieve the ambitious sustainable development goals leaders adapted in September.

One of the key breakthroughs in last year's negotiations on development was recognition that we will need to mobilize three streams of finance: domestic resources, official development assistance and other financial flows and private sector investment. This new consensus is embodied in the form of the Addis Ababa Action Agenda adapted at last year's financing for development conference in Ethiopia.

We are also focused on bringing into force the Paris Agreement. Climate change as we all know is one of the greatest threats we face globally and as a nation. In recognition of the dire consequences of climate change in an effort to change our current trajectory, nearly 200 countries stepped forward to commit to ambitious climate action in Paris including a goal to keep global temperature rise well below two degrees rationing it up targets over time on a regular basis and setting out long-term strategies for achieving de-carbonization.

Moving ahead, we now face the critical task of implementing the agreement adapted in Paris, achieving a climate targets as we're set out and ensuring that countries continue to increase their ambition and drive towards a lo carbon society. An important near term step is for the countries to join the agreement to help ensure that it enters into force as soon as possible.

On April 22nd, the first day for signing the agreement, more than 170 countries signed. More than a dozen countries have already joined the agreement and more than 20 additional countries accounting for 49% of emissions have committed to join the Paris Agreement as soon as possible with a view to joining this year. This is promising given that the entry into force of the agreement requires 55 countries representing at least 55% of global emissions.

Building on the momentum coming out of Paris, we are seeking important international climate outcomes this year on aviation and on facing down hydrocarbons as well. The International Civil Aviation Organization is working towards an agreement on a market-based measure to enable carbon neutral growth from International Aviation from 2020. We also have an opportunity this year to adapt an amendment to the Montreal protocol to phase down HFCs, potent greenhouse gas. An HFC amendment could avoid up to 0.5 degree Celsius of warming by the end of the century and contribute significantly to achieving the goals of the Paris Agreement. We're on track to reach agreement on the amendment this year.

It is also important to underscore the critical role that private sector will play in addressing climate change and the long-term low emission development of our economy. The Paris Agreement is premised on the broad actions by countries to reduce their emissions and they can only do this in partnership with private sector commitment, innovation and action.

The G7 also remains a critical forum for addressing our shared security challenges. Our prosperity as you all know is intimately tied to our security. Our foreign ministers gathered last month in Hiroshima and made it clear that our goal should remain meeting challenges to the universal values that we share in the rules-based international order that we cherish and benefit from.

By speaking unison, the G7 brings to bear our collective resources in unified voices. The foreign ministers' statement captured a number of our shared priorities of which I will only mention three. First, the G7 must remain united on its strong support for Ukraine sovereignty, territorial integrity and independence. Ukraine continues to suffer from Russia's aggression in the Eastern Ukraine and occupation on Crimea. It is especially critical to the G7 to also maintain sanctions on Russia onto Moscow fully implement its Minsk commitments.

Second, we must also work together to bring stability to Iraq. Economic and political stability in Iraq are not only valuable goals in themselves but are also critical in enabling the lasting defeat of ISIL and reducing the scope of the refugee crisis. As Iraq takes meaningful steps on economic reforms particularly in the context of a strong IMF program, the G7 should stand together to provide Iraq with financing assistance to promote this reform and stabilization.

Finally, the United States believes that we must address the global displacement crisis. It is imperative that we work together as a global community to help protect and provide for millions of people whose lives have been upturned by war. This is why the President is organizing a summit on the margins of the UN General Assembly in September to secure new and concrete commitments to expand opportunities, refugees worldwide and support to the frontline states. The G7 must do its part to better equip the international community to assist developing countries address cases of protracted displacement.

In conclusion, I would like to go back to the President's first summit in 2009. Coming out of the Great Recession, leaders committed to establishing an initiative on food security. Seven years later, that initiative has mobilized more than \$22 billion in food security investments that will help that world's poorest. These efforts provide a strong basis for continued work in this space including the G7's commitment in 2015 to aim towards lifting 500 million people in developing countries out of hunger and malnutrition by 2030.

This year's G7 leaders meeting will offer several opportunities to all to achieve significant tangible results that will make a difference in the lives of people around the world.

I look forward to successful G7 summit. I look forward to also answering your questions.

C. Fred Bergsten:

Thank you very much. You covered very wide range of topics for us to discuss. Let me start out if I may by broadening the discussion in a following way. I've been in this international economic game for a long time and the attack on some of the fundamental foundations of US economic engagement with the world is greater now than it has ever been. And what we're hearing not just in the Congress like in the debate over TPA last year, TPP now but obviously in the political campaigns. It really does represent a critique of some of the basics that have motivated the US in its foreign economic policy, its role with the world economy for the last 70 years.

Tell us about your and the administration's thinking about how significant do you take this attack, what responses do you have in mind as emphasizing to try to deal with, what's your outlook particularly for some of the critiques about the impact on domestic jobs, domestic wages, domestic incomes, inadequacy of domestic safety nets? What's your thinking and the administration's thinking as a whole about this onslaught to maybe make it a little strong but what do you think about it and what to do, and what should all of us be thinking about doing in trying to respond to it?

Awale Adeyemo:

Thank you, Fred. Thank you again for having me. And I think that you are right that that is a question that has captured the attention not only of people in this country but I think it's an issue that has captured the attention of people in all the G7 countries. This is an issue that the developing world is dealing with in terms of weighed stagnation and greater globalization of the economy and I think that in many ways people are dealing with the symptoms. But the goal I think overall was to try and deal with the disease, which has to do with the fact that growth is too slow to produce the kind of wage increases that we need in our countries that will offer our workers the opportunity to lift their incomes.

And I think that when you look at for example trade, trade has been--it has been a net benefit to the US economy and you look at the TPP agreement in and of itself, many of the countries that we are entering a TPP agreement already

faced very low barriers to exporting things to United States. What TPP in fact does is it lowers barriers for the US to sell things to those countries. It levels the playing field for our workers and firms. TPP is a chance for the United States working with their allies to set a high standard that other countries will have to meet rather than allowing other countries in the region to set a lower standard.

I think that the way we are thinking about the overall question in terms of how do we make sure that our middle class continues to grow is seen in many of the proposal the President has introduced in Congress. For example, when you think about infrastructure, infrastructure in and of itself is a job creator, it is a growth promoter and it is a potential increase not only for the US economy but for the global economy. This is why the Japanese as part of the G7 have emphasized infrastructure investment because we know that in order for the G7 economies, which are to develop the economies to grow, we need to do more to create well-paying jobs for our people.

C. Fred Bergsten: Let me just ask you to elaborate maybe one more dimension of that. Much of the attack that one hears on the campaign trail in particular but political environment more broadly has to do with the inevitable losers from globalization. We all know like any dynamic change, there are some losers. People will lose jobs, take lower income jobs down the road et cetera, et cetera. And that raises the issue of whether our domestic safety nets are adequate to provide a political foundation for an open international economic policy that's sustainable.

And you talked about maybe any new initiatives or changes on that side of things or do you view that as kind of a transitory political phenomenon that will go away after the election?

Awale Adeyemo: I think that in addition to thinking about trade and the impact the trade has on jobs, it's also important to think about the impact that digitalization has on jobs and also the transition that many workers are making from being fulltime employees that work for one firm throughout their whole careers to moving around to different employers. And I think this is why what we did with ACA is so remarkable because it allows people to have the freedom to keep their healthcare. And it is critical that in the 21st century, we think about how we adjust the social safety net to a dynamic and changing global economy where people are switching jobs more often and people will need to go back and get retrained more often than they have in the past.

This is why we think that education is not just something you do from K through 12 but it's a lifetime goal that allows workers to retrain and be able to be productive members of society and to find new jobs as they advance through their career.

C. Fred Bergsten: Yeah. I've always thought that Obamacare actually should provide a big push, big boost for US trade policy by doing what you've said and providing a broader scope for health insurance for workers including when they move from job to

job, it hasn't seemed to get perceived that way so maybe that needs to be articulated some more.

One other quick question before we open to the audience. You talked about all of the various things you have on the agenda for your upcoming G7 summit. If you would prioritize two or three on the economic side, you talked about on the security side, what would be the two or three big deliverables you'd like to see come out in Ise-Shima on the economic side to achieve or promote the economic goals you talked about?

Awale Adeyemo: Fundamentally, we all agree that global growth has disappointed over the last few years and the key to improving that is going to be boosting demand. Doing that is going to require us as the G7 and the G20 in the global community to invest more in things like infrastructure. I think that a commitment to looking at ways that we can do that through not only fiscal policy but also to providing incentives for the private sector to invest is going to be critical to us in terms of our discussions.

I think that we also need to look at making sure that we reaffirm our commitments with regard to using the right policy mix to advance our economic goals. I think the final thing is something that we need to continuously do and be vigilant about making sure that our financial system remains able to withstand potential shocks.

C. Fred Bergsten: Okay, a good priority list. Okay, floor is open. We've got traveling mics. We've got a standing mic in the back and we'll go from there. First question up here, this is you and then we'll go back to the mic. Please introduce yourself and then fire away.

Ching Lu: My name is Ching Lu and I'm from Chinese Embassy and thank you Wally for your impressive and affirmative presentation. And then, we know--this year China is going to host to the G20 summit in Hangzhou in September and I believe you will be there. So my question is, now my friends in Beijing, my colleagues in Beijing, they are trying very hard to get ready for the summit and they are trying to make initiatives, which will make a difference for the global trade, global growth. And so, specifically, they are proposing to have innovative growth as a blueprint and about the trade that will have G20 strategy for global trade growth.

So my question is, since we all know that United States is a key player in G20 and without a strong and the continuing leadership and the support from the US side, it's very difficult for China to have a successful summit and to deliver substantial outcomes. So, what is your perception of those initiatives and what is your agenda towards G20? Thank you.

Awale Adeyemo: So when President Xi visited for the Nuclear Security Summit, President Obama was happy to him and make clear that we look forward to a successful G20 leader summit in September. I think the G20 is an important forum looking back

at April of 2009 when the G20 gathered to do two things. One was stop global financial crisis and two, to take steps to ensure that something like that never happened again. We've seen a great deal of success in terms of not only putting resources to bear to break the back of the crisis but also a very substantive financial reform agenda that the G20 has accomplished.

I think the China's focus on economic growth and innovation is an important one given the issues we spoke about just a moment ago. The global economy is transforming faster and the new ways that require us as policymakers to think through how we make sure that things like our social safety net are capable of addressing the needs of our people going forward. I think that we share China's commitment to trying to make sure that we promote strong and sustainable economic growth. We look forward to working with them on a host of things including in this space of economic growth addressing climate change, development and a number of other issues that will be discussed at the G20 and we look forward to their success.

C. Fred Bergsten: Could I maybe broaden this question a little bit? You're the Sherpa for both the G7 and the G20, you're deeply involved in both. How do you see the relationship between those two G's these days? What's the comparative advantage of each? How should they interact? What's the relative weight and assignment that you give to the different groups?

Awale Adeyemo: I spent a great deal of time on both. Given that I'm going to the G7 next week, I'm spending a little more time on that this week than the other. But I think that in Pittsburg, we established the G20 as the premier form for international economics. But the G7 also has a vital role because it gives us a chance to meet with some of our closest allies and not only discuss our economic policy but also our number of security issues that we have in common.

And I think that as I said, our economic security is intimately tied to the broader security issues that we deal with and the G7 provides us with an opportunity to do that. In addition, it's a gathering of many of the largest donors to development causes. So the agreement that we reached in Italy to provide food security was something that the G7 could do because we have large donors and it gives the chance to collectively act in a way that helps to advance the number of our shared causes.

C. Fred Bergsten: Okay. We'll go back to the microphone for the next question.

Katrina Sokou: Thank you. Katrina Sokou with Greek Daily Kathimerini Newspaper. Secretary Lu indicated that he will bring out with the Greek debt on the G7 Finance Ministers meeting this weekend. And I was wondering, are you worried that a spike of the great crisis might happen again this summer? And if so, what's the way to deal with that? Do you think that the IMF should have a new program with Greece or is it best for everyone to just prolong the discussions with that debt negotiation in order to have--for the sake of a quiet summer, let's put it that way. Thank you.

Awale Adeyemo: So, as our President have said, we believe intimately in the importance of the European project and part of that is a Europe that includes--there are a number of issues that Europe faces now including dealing with the Greek review and also a migration crisis and a Brexit vote that is ongoing. And I think that it is all of our interest to resolve these issues in a way that contributes to global growth rather than global instability.

I know that there's ongoing discussions about the Greece program and I think that those discussions--our hope is that those discussions are resolved well in advance of June. I know that the European Finance Ministers will meet on May 24th I believe and I think that there is a path to a solution, and I think that it's important -- Managing Director Lagarde published a letter that we read reports about NDI and the FT.

And I think that it is true that we have--when the European Finance Ministers last year gathered, they said that Greece should receive debt relief if necessary. And I think that the managing director made clear that the IMF believes that debt relief is necessary and I believe the European institution believes that debt relief is necessary. I think it's important that Greece agree to credible reforms and in addition to those credible reforms, there'll be credible debt relief as well.

C. Fred Bergsten: A quick back up front.

Male Speaker: Thanks very much, Fred. [Inaudible 00:37:28] with General Electric. I was wondering if you could touch on energy prices. Two-part question--one, to what extent will--do you anticipate it coming up at the G7? And two, how is the administration or at least your office thinking about what's going on at the moment? Or in the one hand obviously low, low prices or typically seen as a shot in the arm on the other hand that now hit the point that for a number of countries around the world, they're creating a fair amount of fiscal distress and potentially a challenge for the broader international economic system. So, how are you thinking about that?

Awale Adeyemo: So the G7 Energy Ministers in fact held the meeting where they released a communique that spoke to a number of the issues related to energy and energy security. I think that in terms of the United States, we have always thought that low oil prices are net benefit to our consumers. Much of this, the announcements was done before the US became such a large oil producer. And we've in fact seen some negative impacts from low oil prices domestically. But on net, I think that our Council of Economic Advisers continue to believe that it is providing a boost to consumer spending that's providing a boost to our economy.

We do know that--we had hoped that when oil prices were high, oil exporters would have taken the steps they needed to reform their economies in ways that would make them more resilient to low oil prices. As we--in some cases, these countries have taken steps that are making them more resilient. But as we're

discovering as prices are lower and potentially will be lower for longer. There are countries that are under strain.

And that creates a number of challenges and opportunities. One of the opportunities is for fossil-fuel subsidy reform, this is an issue that we care deeply about for multiple reasons. One, because of the climate change implications but also because of the economic implications for many of these countries. If you reform the way you do these subsidies, you can use those resources and [inaudible 00:39:40] when oil prices increase and also allows you to target your assistance better to the poorest in your countries.

Some of the challenges that these countries face have to deal with their budget and it's going to require them to think how they pay their bills and how they adjust to a world where oil prices may not be as high as they hoped.

One country that I spoke about during my remarks was Iraq, in Iraq they faced a number of challenges, ongoing war that has produced--increased the cost for their government. At the same time, oil prices are lower and weak institutions due to regime that didn't invest in their country and this is a place where the international financial institutions are going to need to play a greater role. So, there's a great deal that we're doing to monitor the situation in terms of the volatility in oil prices, but I think that more than anything, we're trying to work with the states that are oil exporters to ensure that they're taking the steps to protect their economies. And hopefully use this challenging environment to make reforms that will have a lasting impact on their countries.

C. Fred Bergsten: Back to the back.

Paul Joffe: Thank you very much and thanks for your comments this morning. My name is Paul Joffe. I'm from the World Resources Institute. And, I wanted to follow-up on your comment about climate change and also the comment of the gentleman from the Chinese Embassy about the relationship between the G7 and the G20.

China has indicated I believe an interest in addressing the issue of low carbon shifting from high to lower carbon development. You've--in international development and assistance and you have indicated today that administration's great emphasis on infrastructure. So, I'm wondering if you could comment on whether in both the G7 and the G20, the United States will be pursuing standards to shift towards lower carbon development and beyond and apart from subsidy reform, what particular kinds of objectives the United States might have.

I know that the administration has been public about this in OECD and other places, so I'd be interested to know what the plans are for the G7 and the G20.

Awale Adeyemo: That's an excellent question and I think that to speak about the relationship with China I think that a great deal of progress has been made bilaterally

between the United States and China in addressing the climate change issue. It's a place where we share the same objective, which is ensuring that we take steps to address this issue in a meaningful that improves the livelihoods of our people.

In terms of the G7 and G20 agendas, we come at this from a place of strength this year coming from the Paris Agreement. I think that the goal is to use the G7 and the G20 agendas to reinforce the commitments that we made in Paris to strive to push countries including ours to take implementation seriously and to take steps as soon as possible to reduce the impact of climate change.

In terms of the details that we will get into in the context of the G7 and the G20, we're still working through those issues with our colleagues in those bodies. But you will see that in both and I expect that there would be robust language about the need to address these issues.

Paul Joffe: Thank you.

C. Fred Bergsten: Next.

Shaun Donnelly: Great. Thank you, Fred. Thanks for a great, great presentation. I'm Shaun Donnelly from the US Council for International Business. I had two sort of tax-related questions. One relates to the BEPS, Base Erosion effort going on at the OECD. Some in the business community seem to feel that some of our European friends and other countries in that process are using the BEPS to focus disproportionately, maybe exclusively on American companies rather than substantive real tax reform in dealing with the issues but just going after some of our most competitive high-tech companies. I wonder if you had any thoughts on that.

And then second in the broader issue of tax reform, do you envision doing something significant in the area of US tax where we're the only major industrial country that taxes income on a global basis? Everyone else is territorial and the competitiveness and maybe incentivize these companies to keep money overseas and so on, would that be on the agenda? Thanks.

Awale Adeyemo: So, I have heard a great deal from US industry about the differentiated treatment with regard to tax policy not only in Europe but another parts of the world as Well. And, I think Secretary LU recently I believe sent a letter to the EU Competition Minister with regard to this.

I think what this reminds us of is of the importance of us domestically taking steps to address our tax--to address our business tax system because that is the best way to protect our companies. If we were to reform our tax system, it will put us in a better position with regard to not only Europe but also other jurisdictions where we face this issue.

On your second question, the President has made a proposal here and I think that in reality when you look at where the US economy is, compared to the rest of the world are relatively strong but we all know there are things that if we did, it would boost growth here in a meaningful way. One of them is completing business tax reform including doing something on infrastructure, addressing immigration. If we were willing to do those three things, it would improve growth in the short and the long-term and I think it would provide certainty to our firms domestically and internationally. And I think it would address both of the issues that you raised.

C. Fred Bergsten: Next.

Marsha Echols: Marsha Echols from Howard University School of Law and the World Food Law Institute. One of the last issues you mentioned was food security and I'd like to go back to that. I assume that will be an issue for the G7 and the G20, and the two groups might have different issues that they are interested in with food security, different interpretations of food security. And I wonder how you are or how the administration plans to address food security in both of those summits.

The other question I have for the G7 particularly, will food security be considered more broadly? For example, your point about infrastructure and empowerment of women, can also be important for food security.

Awale Adeyemo: So I appreciate the question and I think that the SDGs 2030 have set an ambitious agenda with regard to development overall. And on this particular issue of food security, it is an issue that we will discuss in the context of both the G7 and the G20 because it's one of particular interest. I did and on an example with regard to food security for a reason because I think it's one of those places that as I said earlier that our countries in the G7 have some of the largest donors in the world have the ability to come together to make real contributions and to help drive the world in an important direction.

But in addition to the work we're doing in the G7, I think that in the context of the G20, we have the ability to work together with not only the developed economies but also emerging market economies to not only provide official government financing. But to think about how we can enlist the private sector in helping, and also making sure that countries domestically have the resources over the long-term.

In terms of the specific issues that will be—end up in the G7 and the G20 communique, we're working those out with our colleagues. But I can tell you that this is a place where we all agree that it's important in keeping with the 2030 agenda that we continue to make progress here and that the G7 and the G20 will do that.

Marsha Echols: Thank you.

C. Fred Bergsten: Back up front here, question up here and then we'll go back to the mic one more time.

Andrea Cascone: Andrea Cascone from the Embassy of Italy. You've mentioned in your intervention about the Asia Pacific Region as one that--in most need of the infrastructure investments. Is the US looking into possibly join the Asian Infrastructure Bank?

Awale Adeyemo: So, I think that we have--as we've said previously, we think that institutions that are bringing additional resources to infrastructure are needed and important. We at this point don't have plans to join any new institutions but we are encouraged by institutions that follow the high standards that have been set out by the World Bank and other multilateral banks contributing to the infrastructure needs not only in the Asia Pacific but around the world.

I think that while Asia has a huge need, you look at a place like Europe and the European Union where greater investment and infrastructure there would be good for long-term potential in Europe but also it would be good for increasing aggregate demand, which is desperately needed throughout the Eurozone and in Europe at large.

C. Fred Bergsten: Go.

Colin Bradford: Thanks, Fred. I'm Colin Bradford from the Brookings Institution. First of all, thanks for being available to discuss these issues. I wanted to ask you--if you take the combined needs for infrastructure investment to the replacement needs and the needs to stimulate growth in G20 countries combined with the sustainable development agenda investments that are required for the 2030 goals combined with the climate change investments that are needed, you get to what is now being called from billions to trillions and it's double digit trillions that are needed over the long run.

So, there's been some serious thinking as I'm sure you're aware about this in the think 20 in other places about how do you reform the project preparation system? How do you do financial regulatory reform in a serious enough way so that you actually tap the liquidity that's out there but not going to investment in the real economy much less than infrastructure? And how do you organize the system of development banks and private banks, and the whole international institutional system around moving from billions to trillions?

So the question, it's a bit of wonky question but the question is, I mean, without serious movement on those three fronts, it seems difficult that any of the growth agenda, the climate change agenda and the agenda 2030 will fall short. So, the question is, is your sense that there are serious enough conversations going on within the G7, G20 governments between them, among them and among other relevant players to sort of move the needle on these three dimensions so that we actually get there over a medium term and we don't sit

where we are today, which is in a stalemate on transferring investment to the real economy? Thank you.

Awale Adeyemo: I think you touched on one of the most important issues that we are dealing with in the world economy and that is financing our long-term investment strategies especially in the area of infrastructure. And while fiscal policy needs to play a role there, fiscal policy alone can't make up for the size of the need that we have and that's going to require us to find ways to incentivize private structure not only here in the United States but around the world.

And trying to close that financing gap is something that we are thinking about seriously in the context of these bodies. But it's not only happening in the G7 and the G20 but it needs to happen on our multilateral development institutions as well as they think about how they optimize their balance sheets. It needs to happen in developing countries and developed countries because if we're unable to, we need to be able to tap our private sectors and to encourage them to invest.

One of the places we're doing that now in the United States has to do with Power Africa, which is a place where we are trying to encourage investment in energy in Africa and this is teaching us important lessons that will not only bear fruit for us but bear fruit for the countries where these investments are being made. So it is a conversation that's ongoing and it's a very important one.

C. Fred Bergsten: Final question down front.

Female Speaker: Thank you very much. [Inaudible 00:53:43]from Brookings also. I have a question about currency. The Japanese yen has appreciated quite a bit this year and so people in Japan feel that this does not reflect market fundamentals. The position of the US so far has been that it's an orderly movement of currency. Given that tomorrow, finance ministers and governors of central banks are going to meet, how do you expect this conversation about currency values to go--and in general, if you can share what discussions are you having with Japanese policymakers on this sensitive issue? Thank you.

Awale Adeyemo: I appreciate the question and I think that the G7 and the G20 have made extensive exchange rate policy commitments. And I would simply say that we expect our G7 partners and G20 partners to abide by those commitments. I think that over the course of 2016, we have seen movements in the exchange rates of all of our countries.

And I think that that is the symptom but not the disease, the real disease here is that we lack global demand and that is leading to decreased global growth and we need to fundamentally deal with the disease that's going to require us to boost domestic demand in our countries especially in Japan. When you look at the Japanese economy where they had been unable to escape from near zero rates of inflation for nearly two decades and growth for nearly two years

average nearly zero, there is a need for a greater use of the policy mix especially I think with regard to fiscal policy.

So, I know that Secretary Lu is there now meeting with his counterparts and my expectation is that in those conversations, they will simply reaffirm the commitments that they have made in the G7 in the past with regard to exchange rate policy.

C. Fred Bergsten: Since currency came up, I can't resist adding one more question.

Awale Adeyemo: It's shocking to me that you didn't start there.

C. Fred Bergsten: Well, I was behaving well today. So just because it came up and because as I said in my introduction in relation to your own handiwork, just a few weeks ago, Treasury issued its first report in response to the new currency legislation in the United States. There Bennett amendment, which you worked out, I know carefully with the Congress last year. And in that report, the Treasury named-- did not invite anybody, did not call anybody for enhanced engagement than you termed. But did list five countries, five economies as being on the new monitoring list: China, Japan, Korea, Taiwan and Germany interestingly.

Question, have you had any reactions from those countries to their being so designated and though it's early days, how do you view the results of the new legislation that you are so instrumental working out as pointing to more decisive, perhaps more effective US policy on exchange rate issues?

Awale Adeyemo: So Fred gives me a lot of credit here but in reality, Fred deserves a lot of the credit as well because at every step of the design of this legislation, I'm thinking through the changes we would make. Many of my calls were first to Fred and he provided a great deal of advice as to where the many of the critical decisions came out not only on this legislation but also the macroeconomic tool that we designed for TPP.

In terms of the Bennett amendment and its implementation, I think that many-- as you know well, many of these countries follow our legislative processes far closer than we follow theirs. So they were well aware that this legislation was moving through Congress. I don't know that they expected it to ever get through our Congress, which it did. And I think that in the implementation, we took a careful look and implemented it in a way that I think was--that most people would think was robust in terms of holding countries to account for not only--I'm looking at the three factors very carefully. And while we have--we engage with all of these countries on a regular basis on these sets of issues.

And you said interestingly Germany, but when you look at the current account surplus in Germany, it's very large. When you look at the bilateral trade relationship, they are selling more things to United States than we're buying from them. They met two of the three criterion and I think that the beauty of the Bennett amendment in comparison to our previous reports is that it sets out

an objective criteria that will lead us where the facts take us. And the facts at this point laid out those five countries or countries where--that have met two of the three factors. And we will continue to monitor them as time goes on.

But I think that this in addition to what we've accomplished in the G7 and the G20, in addition to the macroeconomic policy tool that we created alongside the TPP are all helping us build a stronger regime for holding countries accountable for their behavior in the currency space, which will hopefully mean that we have less protectionist policies over time.

C. Fred Bergsten: Okay, thank you for the report. Thank you for coming. Thanks to all--

