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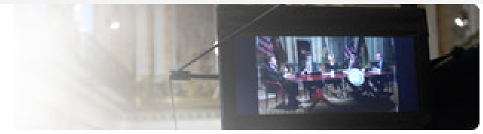

Remarks by Under Secretary for International Affairs Lael Brainard on the Outcomes of the U.S.-China Strategic and Economic Dialogue (S&ED) before the Washington International Trade Association

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As prepared for delivery

WASHINGTON – The conclusion of the fourth Strategic and Economic Dialogue (S&ED) presents a good opportunity to reflect on the progress we have made in our economic relationship with China and the challenges and opportunities that lie ahead.

We are working to achieve an economic relationship with China that delivers greater benefits for American workers and businesses while contributing to stronger and more balanced global growth.

Over the past three years, we have made progress on our goals. Since early 2009, U.S. exports to China have more than doubled and now exceed $130 billion a year. China's exchange rate has appreciated by 13 percent against the dollar in real terms over the past two years. And we have seen a large reduction in China's current account surplus – from 9 percent the year before President Obama took office to under 3 percent today.

Our discussions with China in the S&ED yielded encouraging progress on our goals of rebalancing the economy, opening the financial system, and leveling the playing field.

Rebalancing global demand is critical if we are to sustain strong and sustainable growth. As the United States reorients its growth strategy to focus on exports and competitiveness, and with European demand expected to be weak for some time, sustaining growth will require stronger demand from surplus emerging economies. Fortunately, China has ample capacity for growth driven more by domestic consumption and less by overinvestment in resource intensive and export industries. But achieving this shift will require important policy changes.

That is why we are pleased that China has pledged to embark on structural tax reductions before the end of the year. Cutting tariffs and reducing burdensome taxes on services will create opportunities for U.S. producers and boost the buying power of China's consumers.

Moving to a market-determined exchange rate will be a powerful tool as China rebalances and opens its financial system. Going into the S&ED, Chinese authorities announced the widening of the exchange rate band in a context of diminished intervention. If implemented in a way that enables the exchange rate to fully reflect market forces, this could make an important contribution to rebalancing.

Extensive controls in China's financial system have been a significant impediment, providing low returns and few choices to consumers, channeling cheap financing to state-owned enterprises, and depriving U.S. firms of market opportunities. It is thus noteworthy that China is moving forward with a number of steps to liberalize and open its financial system-- increasing the ability of offshore and global investors to participate in the Chinese market, initiating a program in Wenzhou to allow new private lenders to supply funds to small and medium private enterprises, and encouraging greater international use of the RMB.

At the S&ED, China announced it intends to move beyond its commitments in the WTO by permitting foreign investors to take up to 49 percent equity stakes in domestic securities joint ventures, and shorten the waiting period for securities joint ventures to expand into brokerage, fund management, and trading activities that are essential to building competitive securities businesses.

China will also allow U.S. and other foreign investors to establish joint venture brokerages to trade commodity and financial futures and hold up to 49 percent of the equity in those joint ventures.

And our auto financing companies will be able to issue local bonds to finance their operations – a plus for our auto producers in the world's largest market for automobiles as well as for China's consumers. China has also amended its regulations to allow U.S. and other foreign insurance companies to sell mandatory auto liability insurance, opening access into a large and rapidly growing market, as well as an entry point to sell a variety of other insurance products.

Going forward, it will be important for China to press forward with financial reform, in particular eliminating controls on interest rates.

As we work to create opportunities for our workers and our businesses, it is important to level the playing field with China's favored state-owned enterprises, which have benefited from preferential policies across a range of industries. At the S&ED, Chinese authorities committed to ensure credit, taxation, and regulatory policies would apply on a nondiscriminatory basis across enterprises of all types.

China announced it will increase the portion of profits state-owned enterprises must pay out in dividends to be in line with publicly listed companies. During the years when China's imbalances ballooned, the high profits retained by state-owned enterprises were a major contributor to those imbalances, acting as a drag on consumption and a competitive impediment.

Going forward, as those enterprise savings are unlocked, it will help level the playing field for firms that compete against Chinese state-owned enterprises and contribute to rebalancing by providing resources to boost social spending.

Another longstanding competitive impediment is China's export credit programs, which have remained outside the rules followed by other major exporters. This is no longer tenable, with China now one of the world's largest providers of export financing.

That is why it is significant that China has now confirmed its intention to participate in negotiations for new rules on official export financing with the United States and other major exporters, with the first meeting to take place this summer and the goal of reaching agreement on a set of rules by 2014. It is critical that competitive U.S. exports are not undercut by subsidized foreign government financing.

We continue to press for robust protection and enforcement of intellectual property rights in sectors such as software and for strong enforcement against trade secret misappropriation, as well as to ensure that China honors its commitments not to require technology transfer and to reverse discriminatory innovation preferences.

And we will push hard to ensure that China opens its large government procurement market at all levels of its economy on terms that are comparable to those of other large markets.

These objectives are broadly consistent with the goals China has set for itself. In the face of a looming demographic cliff, weaker demand in advanced economies, rising wages and costs, diminishing returns to fixed investments, and an oversized state-owned sector, China has to fundamentally reorient itself towards a more services and consumption oriented economy with greater innovation and a more open and dynamic financial system if it is to meet rising expectations and avoid the middle income trap. It is very much in our interest that Chinese authorities manage these challenges successfully.

Most importantly, these objectives—rebalancing towards domestic consumption-led growth, reforming the financial system, and leveling the playing field – are critical to achieving greater opportunities for American workers and businesses in China's market. We will continue to engage intensively with China to ensure our economic relationship is more balanced and delivers greater benefits, even as we take the critical steps at home to invest in the foundations of America's competitiveness.

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