

U.S. DEPARTMENT OF THE TREASURY

Testimony of Under Secretary for International Affairs Jay C. Shambaugh Before the Committee on Foreign Relations, U.S. Senate

July 26, 2023

As Prepared for Delivery

Chairman Menendez, Ranking Member Risch, and Members of the Committee, thank you for the opportunity to testify before you today. I want to share with you Treasury's perspective on addressing economic coercion and increasing U.S. competitiveness. Because the Secretary and I just returned from a trip to China, I will focus my opening remarks on our engagement with China and how Treasury uses our economic tools to promote U.S. national and foreign policy interests.

Earlier this month, I accompanied Secretary Yellen to China to build on President Biden's directive to deepen communication between our two countries and stabilize the relationship. The United States and China together represent 40 percent of the global economy. Our bilateral relationship is among the most consequential in the world, and its trajectory will impact the lives and livelihoods of people in our countries and beyond. During meetings with our counterparts, we had direct, substantive, and productive discussions. Secretary Yellen frankly and directly conveyed our areas of disagreement, while also opening up further dialogue as part of an effort to responsibly manage this relationship.

Our Administration has three objectives in the U.S.-China economic relationship: protecting national security and human rights, pursuing healthy economic competition, and cooperating on areas of mutual concern.

First, the United States will not hesitate to take targeted actions to secure our national security interests and those of our allies and partners, and we will protect human rights. Our Administration has clearly communicated our serious concerns to the PRC. When necessary, we will use a suite of tools to achieve our national security goals. It is our core mission to protect the American people from national security risks while also clearly communicating our position and intent to China to reduce the risk of misunderstanding.

Second, we seek a healthy economic relationship with China that fosters growth and innovation in both countries. As Secretary Yellen has said publicly, we do not seek to decouple our economies; that would be disastrous for both nations, and as a practical matter, nearly impossible to do. To be

clear: neither targeted national security actions nor attempts to build diversified supply chains represent decoupling. We seek a fair and healthy economic relationship that benefits both countries and supports American workers and businesses. Healthy economic competition requires that American workers and businesses are able to operate on a level playing field.

In Beijing, Secretary Yellen pressed her Chinese counterparts on unfair economic practices that undercut that goal. China continues to use an extensive range of non-market policies and practices, including widespread government support, to gain market share at the expense of foreign competitors on a scope and scale different from other major economies. These policies and practices have harmed workers and firms in the U.S. and around the world.

China has also, in certain cases, exploited its economic power to retaliate against or coerce its trading partners. We often refer to it as economic coercion when a country cuts off supplies of inputs or stops buying goods from a country for political purposes, in particular when it is done in nontransparent ways or as punishment for diplomatic actions. We work frequently with our allies to both address instances of economic coercion or prepare for possible actions. For example, recent G7 meetings have had extensive conversations on the topic. We also have been troubled by punitive actions that have been taken against U.S. firms in recent months. We are also closely following recently announced export controls by China on two critical minerals. While we are still assessing their impact, these actions reinforce the importance of our Administration's efforts to build resilient and diversified supply chains.

Third, as the world's two largest economies, the U.S. and China need to cooperate on the urgent challenges of our day – from climate finance to debt distress. On debt, for example, the international community's concerted engagement with China has yielded some dividends, as we've seen progress with China in certain cases such as Zambia, Ghana, and Sri Lanka. More needs to be done. On climate finance, the United States and China co-chair the G20 Sustainable Finance Working Group, an example of how we can work together on important issues. The U.S. and China need to build on this existing cooperation to address global challenges.

Let me end with a broader point. Our ability to protect U.S. economic interests depends on our strong and reliable international leadership. This requires us to strengthen – not weaken – our engagement with our allies and partners, particularly low- and middle-income countries. It also requires us to fulfill our commitment to international financial institutions like the IMF and World Bank, which includes making sure that we adequately fund them.

Perhaps the most straightforward way to ensure that low-income countries do not become dependent on loans from China or any other actor is to make sure there is a sufficient amount of high standards lending available. Treasury is leading efforts to evolve the multilateral development

banks to equip them to better address the challenges countries now face. Also, through the IMF's Poverty Reduction and Growth Trust and the Resilience and Sustainability Trust, we can provide an important counterweight to opaque lending. We already have appropriations from prior years for lending to these two trust funds, so providing lending authorization is an easy way to increase support for developing countries at no additional budget cost.

Similarly, to promote U.S. interests in emerging and developing countries around the world, including in Africa and Latin America and the Caribbean, we must support institutions like the African Development Fund and IDB Invest, the Inter-American Development Bank's private sector arm.

Countries want to work with us. They want to access capital via our markets and via major international financial institutions. They look elsewhere when those options are closed.

Thank you, and I look forward to your questions.

###