

# ADMINISTRATION PRIORITIES FOR THE INTERNATIONAL FINANCIAL INSTITUTIONS

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## HEARING BEFORE THE SUBCOMMITTEE ON MONETARY POLICY AND TRADE OF THE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED FIFTEENTH CONGRESS FIRST SESSION

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## ADMINISTRATION PRIORITIES FOR THE INTERNATIONAL FINANCIAL INSTITUTIONS

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Wednesday, November 8, 2017

U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON MONETARY POLICY AND TRADE,  
COMMITTEE ON FINANCIAL SERVICES,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10:03 a.m., in room 2128, Rayburn House Office Building, Hon. Andy Barr [chairman of the subcommittee] presiding.

Present: Representatives Barr, Williams, Huizenga, Pittenger, Hill, Emmer, Davidson, Tenney, Hollingsworth, Moore, Sherman, Heck, Kildee, Vargas, and Waters.

Chairman BARR. The committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time, and all members will have 5 legislative days within which to submit extraneous materials to the chair for inclusion in the record.

This hearing is entitled “Administration Priorities for the International Financial Institutions.” I now recognize myself for 5 minutes to give an opening statement.

Today, we welcome the testimony of Mr. David Malpass, Under Secretary of the Treasury for International Affairs. This is the under secretary’s first appearance before the committee since his confirmation this summer. We congratulate you on your confirmation, and our subcommittee looks forward to working with you.

Mr. Malpass is responsible for overseeing U.S. participation in the international financial institutions, which includes the World Bank, the IMF (International Monetary Fund), and regional development banks. This subcommittee has emphasized that these organizations need to focus on clear objectives and demonstrable results, not chase money at every turn or reward their employers for just pushing funds out the door. Take the World Bank as an example. For at least a quarter century, the bank’s own management reviews and evaluations have pointed out that staff incentives prioritize churning out loans, not producing results for the poor or generating useful lessons to help them grow their way out of poverty.

This subcommittee has also examined, on a bipartisan basis I might add, shocking lapses in basic project management, as well as the use of World Bank assistance in support of governments that are contemptuous of their citizens’ economic freedom. In addition, the bank keeps lending to middle income countries that have easy access to resources. Two and a half billion dollars have already

been committed to China this year, even as Beijing has set up rival development institutions.

Meanwhile, the World Bank's leadership is now suggesting it needs a capital increase to spend more money in this fashion, despite their receiving a capital increase as recently as 2010. All of this leads to the impression that the World Bank is more excited about fundraising than it is about showing its shareholders what it has actually achieved. A case in point, the media reported earlier this year that the bank has stripped its chief economist of control over its research division due to his critique of the bank's communications style.

As anyone who has suffered through the bank's endless jargon knows too well, this just underscores how out of touch the World Bank risks becoming. Earlier this year, the Financial Services Committee passed a World Bank Accountability Act, which attached some of the most significant reform requirements ever to an IDA authorization. It had been more than a decade since the committee acted in this manner, underlining the weight we place on seeing changes at the bank.

Mr. Malpass, Congress has better uses for limited funds than empty rhetoric and budget support. I, therefore, look forward to hearing how you propose to exercise leadership at the bank.

At the same time, the World Bank is not alone in its lack of focus. Looking to the IMF, we have seen a 7 year long involvement with Greece that has tarnished the fund's reputation as the IMF's own evaluation department has shown in detail.

I am pleased that the IMF has recently expressed skepticism toward committing additional resources to the Euro zone's bailout of Greece. As we look ahead, I hope that the Treasury Department will use the Greek disaster in order to push for clearer guidelines governing the IMF's interaction with regional financing arrangements.

As we all know, the international financial institutions coexist with an increasing number of multilateral organizations, including the Asian Infrastructure Investment Bank, the European Stability Mechanism, and others. While some have used the emergence of these organizations as an argument for more U.S. Funding to fight back potential rivals or to push for a more expansive mission at the international financial institutions, I would point to an alternative conclusion. It seems to me that exerting U.S. leadership in the world and ensuring that the IFIs (international financial institutions) preserve their legitimacy means advocating that they concentrate on clearly defined objectives and are held accountable for results.

Leadership at these institutions doesn't boil down to who can open their checkbook the fastest. Leadership means demanding economic growth, institutional transparency, and responsible project management that puts its beneficiaries first. In short, we need a back-to-basics approach. I am optimistic that the Trump Administration views things similarly.

Looking beyond the IFIs, I am also hopeful that the under secretary and his colleagues will provide new energy in advancing U.S. interests with our international partners. It is encouraging to have an Administration that looks at economic diplomacy through



the lens of economic growth. We have an opportunity to rein in the regulatory overkill of the past 8 years. I am confident Mr. Malpass will help us seize this opportunity in the talks he leads with his counterparts around the world.

I look forward to working with the under secretary to advance these priorities, and I thank him again for his testimony.

The Chair now recognizes the Ranking Member of the subcommittee, the gentlelady from Wisconsin, Gwen Moore, for 5 minutes, for an opening statement.

Ms. MOORE. Good morning. Thank you so much for joining us. I am very eager to hear your testimony. I have had the opportunity to peruse some of your comments.

Under Secretary, I want to say first that your discussions of the benefits of private capital flows over development finance seems to misstate, perhaps, my view or the nature of development finance.

Former World Bank president James Wolfensohn testified to this difference. As an investment banker, he said he never once had a conversation with the government about their social policies or their economic policies. But when the World Bank comes in, it looks at what is happening to the people in the country, what is happening to social stability, and what is happening on issues like governance and inequality. So I think it is important to not just look at these types of finances as always interchangeable.

Your discussion of private capital is the engine of many of the innovations that have produced the greatest measurable results in fostering growth and lifting people out of poverty. Stems from, I believe, an outdated belief that unfettered markets, laissez-faire, of kind of the discussions we are having in Congress now, trickle down, will only create wealth and stability, but also solve almost any social problem through a trickle-down benefit to others in society.

I am struck that in all of your discussion about global and domestic growth, you never mention the growing problem of inequality. Excessive inequality not only undermines social and political cohesion, it has also been shown to have negative effects on growth. We can go back, Plato, Adam Smith, Brandeis, Plutarch, as far back in history as you want to, and we hear some of the greatest minds talk about a destabilizing impact of inequality.

Our current Fed chair, Janet Yellen, has been before this committee many times, and talked about inequality being a huge problem. I would appreciate hearing from you what you believe would be an appropriate set of public policies that we would need to have in place, both domestically and internationally, to rein in the excesses of the market, maintain stability, and assure that the benefits of capitalism are broadly shared.

Thank you so much. I yield back my time to Mr. Sherman.

Mr. SHERMAN. Mr. Barr, I enjoyed working with you on the World Bank Accountability Act, which passed the committee unanimously, and look forward to bringing it to the floor.

I would point out that the World Bank loaned some \$880 million to Iran from 2000 to 2005. Finally, we were able to get that stopped. But it is important that we not let that happen again. Even for those of us who are advocates of the bank, you can imagine how painful it is to then go back to your district and say, we

put money in here, and Iran takes money out of there. That is a pain I experienced last decade, and I don't want to experience it next decade.

I join the Ranking Member in belief that World Bank finance plays an important role that cannot be substituted for just by the private sector. I look forward to learning what we are doing so that the World Bank is not financing middle income countries that can afford to do it themselves, but particularly those middle income countries like China that are expanding and competing for jobs or unfairly taking jobs from the United States.

With that, I would yield to any member. Seeing none, I yield back.

Ms. MOORE. I yield back.

Chairman BARR. The gentlelady yields back.

Today, we welcome the testimony of the Under Secretary for International Affairs at the U.S. Department of Treasury, David Malpass.

Under Secretary Malpass oversees policies in the areas of international finance, trade, and financial services, investment, economic development, and international debt policy. He also coordinates financial market policy with the group of 7 industrialized countries.

He previously served as Deputy Assistant Secretary of the Treasury under President Ronald Reagan; Deputy Assistant Secretary of State under President George H.W. Bush; and Chief Economist at Bear Stearns. In addition to his Treasury and State Department positions, Malpass served as Senior Analyst for Taxes and Trade at the Senate Budget Committee and Republican Staff Director of the U.S. Congress' Joint Economic Committee.

He holds a bachelor's degree in physics from Colorado College and an MBA from the University of Denver, and studied international economics at Georgetown University, School of Foreign Service.

Without objection, your written statement will be made part of the record. Under Secretary Malpass, you are now recognized for 5 minutes to give an oral presentation of your testimony.

#### **STATEMENT OF THE HONORABLE DAVID MALPASS**

Mr. MALPASS. Thank you very much, Chairman Barr and Ranking Member Moore. It is a pleasure to be here with members of the Financial Services Monetary Policy and Trade Subcommittee. So thank you for holding this hearing.

One of the Trump Administration's top objectives is to achieve faster U.S. and global growth in ways that improve after-tax wages for American workers. Median income we would like to see go up. This involves ambitious reforms for taxes, regulation, trade, energy, financial regulation, infrastructure, and the budget.

A key driver of growth is the effectiveness of the financial regulatory framework so that small- and medium-size businesses are able to get the working capital they need to be more productive and create more jobs. As Secretary Mnuchin said in October, our agenda is aimed at restoring much needed dynamism to the U.S. economy.

In today's testimony, I will focus primarily on the World Bank and the IMF, but each of the international financial institutions, the IFIs, presents its own set of challenges and opportunities. The context for today's discussion is an improvement in global growth in recent quarters, though it remains well below its true potential.

Following the 2008 financial crisis, there was an unusually weak recovery, both in the U.S. and abroad. Per the IMF, world GDP, which stood at \$73 trillion in 2011, was stuck at just \$74 trillion in 2015, and \$75 trillion in 2016. We welcome the recent U.S. acceleration to 3 percent growth in the second and third quarters, and believe faster U.S. and global growth rates are possible, sustainable, and will be a key factor in improving wages for American workers.

With growth accelerating and the world financial system relatively stable and liquid, now is an opportune time to discuss the appropriate role of multilateral development finance in global growth and in prosperity. As a preface, I want to make clear the distinction between isolationism, which we oppose, and our view that globalism and multilateralism have gone substantially too far to the point that they are hurting U.S. and global growth.

In his remarks to the United Nations General Assembly in September, President Trump articulated a vision of international affairs in which each country's government has a responsibility, first and foremost, to its own people. Out of this self-interest emerges a constructive international order in which nations and their people are enriched through trade, cooperation, and innovation.

The President is traveling in Asia this week promoting growth, investment, security in the Indo-Pacific, and trading relationships that are fair and reciprocal. It is very clear that the U.S. benefits from freer, more prosperous neighbors, trading partners, and like-minded societies around the world. We recognize that successful international relationships include multilateral institutions. But the challenge for them is to have a clear, focused mission, and deliver results effectively, and with accountability to the participants.

Three important transformations have occurred in international finance since I was last at Treasury. The securitization of sovereigns, the lengthening of maturities for local currency debt, and the decline in the structure of interest rates. These foster market-based capital flows that should add materially to global growth and prosperity. As a result, the role of the MDBs (multilateral development banks) has to change dramatically so that they focus less on the volume of finance that they provide and more on the goal of providing high-quality services that are not available elsewhere.

The World Bank has asked the current Administration to work toward large capital increases for the IBRD and the IFC. Treasury believes that the World Bank currently has the resources it needs to fulfill its mission and that the bank should develop proposals in which the bank's organic capital accumulation alone could be sufficient to support future lending targets.

The state of the world, that of capital markets, and that of countries is vastly different today than when the World Bank's capital structure was developed. We think now is an opportune time to rethink the structure and mission.

In the interest of time, I want to mention the other topic, the IMF. It operates in the same global context as the World Bank. It is an improving global outlook with an unusually high availability of private sector capital. It faces the challenge of redefining its role at a time when it currently has ample resources, but faces unknown future challenges.

So, in conclusion, the uptick in global growth and the relative calm in international markets has presented us with an opportunity to advance policies to further stimulate both domestic and global growth. Notably, we included new language in recent communiques citing exchange rate stability as a goal of sound policies and as a contributor to strong and sustainable growth and investment. Exchange rate instability has been a major cause of investment uncertainty and the cost of cross-border investments. Currency stability supported by strong fundamentals should encourage investment and growth worldwide.

I look forward to working with you to improve the growth trajectory for the global economy and for the benefit of all Americans. Thank you. I am pleased to take any questions, Mr. Chairman.

[The prepared statement of Mr. Malpass can be found on page 26 of the appendix.]

Chairman BARR. Thank you, Mr. Under Secretary.

The Chair will recognize himself for an initial round of questioning for 5 minutes.

You just touched on this but, Mr. Malpass, I do want to revisit this issue of capital for the World Bank. As you know and as you just said, the World Bank is considering a request for a general capital increase, or GCI, in the amount of up to tens of billions of dollars. But the bank has just had a capital increase in 2010. Prior to the 2010 increase, it had been 21 years since the previous GCI. So let me repeat that. Twenty-one years.

Mr. Malpass, why should Congress even entertain the idea of a World Bank capital increase just 7 years after the last one?

Mr. MALPASS. So the World Bank has asked members to comment to them, and so at this point it is not before your committee. We have notified the committee last week, I think, that it qualifies under the law as the potential for a negotiation with the World Bank.

My view is that there needs to be substantial amount of information from the World Bank on what they are thinking. Specifically, there was the mention of the graduation policy. You know, the World Bank has 25 countries now above the per capita limit or trigger point for their lending. China itself was the biggest borrower in 2017. It has a per capita income of nearly \$12,000 versus the trigger point of under \$7,000 for the World Bank.

So I think the World Bank has a lot of work to do before we are at the point of discussing with the committee an actual capital increase.

Chairman BARR. To that point, the subcommittee has examined, in addition to the China issue, management failures of the World Bank that really are unacceptable to any development organization, and that is why this committee marked up, out of this committee, the World Bank Accountability Act by a unanimous vote of 60 to 0.

One of the problems we found was that, for decades, the bank faced criticism for incentivizing staff to generate loans as opposed to actually evaluating the results of reducing poverty. These aren't even external critiques, they come from the bank's own management reviews and internal evaluations.

So why should Congress put more money into the World Bank if it doesn't even evaluate staff according to its impact on poverty?

Mr. MALPASS. Yes. The metrics—these are, I think, areas that need to be discussed firmly with the World Bank. One metric that they should be looking at is how many countries actually graduate from borrowing status at the bank. Instead, their track record has been to try to keep countries borrowing as long as possible as part of the effort to raise the loan totals.

Getting that mindset changed, that success at the World Bank means countries do well enough to not need borrowing from the World Bank, that change alone would be huge and I think is necessary.

Chairman BARR. Final question, and this is shifting to a different topic related to the Administration's efforts to advance U.S. interest in international negotiations. Two distinguished former members of this committee, Scott Garrett and Spencer Bachus, have been nominated by the President to the board of the Export-Import Bank. As you know, many supporters of EXIM state that foreign export subsidies make the United States export credit agency a necessary evil. On the other hand, the Obama Administration showed no interest in taking a hard line to negotiate these subsidies down.

So what are your priorities as the new under secretary for global export subsidy negotiations, and how will the Administration go about advancing the interests of U.S. businesses?

Mr. MALPASS. In the ideal, and to Ms. Moore's well-articulated points, if we are going to get to a situation where there is a higher real median income for people around the world, which is a way to address income inequality, if you can bring up the median, that usually means you have brought up most of the people in a society, and that is very important. I think the best way to do that is to have markets functioning. A challenge here is governments like to function even when markets are functioning.

So for the World Bank, we want it to be very careful not to be crowding out the private sector. One could say the same about the Export-Import Bank. Just this week, the African Development Bank is considering equipment financing for the purchase of airlines—of airplanes in Africa. That raises very real concerns, because equipment financing, which is at the shorter end of the curve, is available in plentiful capacity around the world.

So you have a government organization, in effect, moving into an area where private sector could operate. So I will make the same point on EXIM Bank. It is going to be a real challenge to have it provide financing where financing would not otherwise be available. I have questions whether that can really be done effectively.

Chairman BARR. Thank you for your answers.

The Chair now recognizes the gentlelady from Wisconsin, the Ranking Member, Ms. Moore.

Ms. MOORE. Thank you so much, Mr. Chairman.

Sir, I want to start at the United States before I go globally here. I was looking at your testimony, and you said that the IMF forecast that was released earlier this week talked about the growth in the global economy that is gaining momentum. But the outlook for the United States' economy has weakened.

Back to some of the comments that I made on opening, I am just asking, what occurs to me is that what might help our growth is a comprehensive immigration policy where people are not working undercover, but they are actually openly contributing. Maybe a trillion dollars over the next decade from immigration reform. Infrastructure, which I understand the World Bank has been advising the Trump Administration on how to go forward with that. Certainly, taking these students out of debt as opposed to giving the wealthiest people in our country a tax cut that they don't need. What about helping people get out of debt so that they can buy homes, so that they can use money in other ways, so that we can incentivize kids to go into physics and create the next generation of whatever, instead of being—not being able to do it?

Why don't you see investing in people as being the number one method of growing our economy?

Mr. MALPASS. Thank you. Well, I do see investing in people as being very important for countries to grow, and that can be done in many ways. That is done at the home, that is done in schools, in primary schools, in secondary schools, and so on. I think some countries around the world are making good progress in that area. I met—

Ms. MOORE. Do you think it would help the U.S. economy, for us to do that?

Mr. MALPASS. Well, we invest, in dollar terms, probably more than almost anyone in the world. So a challenge also is making it effective, making it effective so that literacy is higher, so that people have skills that can be used in the current economy. That is one of the—

So as we think about where the Administration is trying to get reforms, these include reforms in the education area that would allow skills to be added to.

But I want to go back to your original point of the IMF's forecast for global growth accelerating, which is good, and looking at the U.S. not accelerating in their forecast view. That gets right to the core of where economics is. There is, at the IMF, sometimes, the view that taxes don't matter so much in how people allocate capital or how they choose their education, how they interact with companies. My view is that tax systems matter a lot.

So the IMF has explicitly said that the tax reform being considered in the U.S. won't be that instrumental. I think that goes—

Ms. MOORE. All right. Let me move on. I have 1 minute, 30 seconds.

Mr. MALPASS. Yes.

Ms. MOORE. Trickle down historically has not worked, so if it works this time, I will be happy to say we are wrong, but it hasn't worked. It has just created deficits.

I was here in 2008 when Lehman Brothers collapsed. What are the most serious risks facing the global economy today, and what should we do to ensure stability in the global economy?

Mr. MALPASS. Yes. Thank you. So that was a terrible period for the world that hurt not only financial markets, but they had hurt real people, and so I share that concern. That is part of what government does and should do in terms of looking for vulnerabilities in the world economy.

I guess one that is relevant to us today is overindebtedness by countries around the world.

Ms. MOORE. We are overindebted in the United States. So is this a time to give tax breaks to rich people, considering that we are in debt, \$1.5 trillion?

Mr. MALPASS. So I think it is time to push for faster growth than what we have been experiencing. So the U.S. has been in a very slow—

Ms. MOORE. Faster growth. Maybe infrastructure instead of tax cuts?

Mr. MALPASS. I think the biggest obstacle to faster growth right now is the corporate tax rate is 35 percent.

Ms. MOORE. People don't pay that. Some corporations pay nothing.

Mr. MALPASS. Yes. But even if their effective rate is below the 35 percent, they are often employing rafts of lawyers in order to reduce that effective rate. The statutory rate of 35 percent blocks investment in the U.S. and job creation in the U.S., and it is a powerful deterrent.

Chairman BARR. The gentlelady's time has expired.

The Chair now recognizes the Vice Chair of the subcommittee, the gentleman from Texas, Mr. Williams.

Mr. WILLIAMS. Mr. Secretary, thank you for being here this morning and for your testimony on the Administration's priorities for international financial institutions. We appreciate your service.

The International Monetary Fund's bailout in the aftermath of the Greek debt crisis has left Greece in a predictable situation. They are still hundreds of billions of euros in debt, and there is an unlikely repayment for the IMF and the European partners. As you are well aware, when a country joins the International Monetary Fund, they are assigned a quota, which dictates the percentage of their GDP that they can borrow annually or cumulatively. The rates allow for a country to borrow 145 percent of their quota each year and up to 435 percent of their GDP. These guardrails are in place to protect a country from being overcome with debt and foreseeably an inability to repay. However, in Greece, the IMF authorized over 3,000 percent in the wake of the government debt crisis.

So, Mr. Secretary, using Greece as an example, what are the lessons learned in terms of the IMF lending to a member nation during a financial crisis? How might the United States use its voting power within the IMF to ensure that a similar bailout never occurs again?

Mr. MALPASS. Yes. Thank you, Mr. Williams. That was an exceptional period for Europe, and the IMF provided what they call exceptional financing. Those rules, to some extent, have changed since then. If we look back on that period, my concern and criticism was that the program that was prescribed for Greece wasn't focused and wasn't implemented very well. So you ended up in this

very difficult situation of people lending huge amounts of money, new money, to Greece, without the growth reforms that would actually make it worthwhile.

I guess a good response is, I don't expect that to happen again under the current rules that are at play in the IMF. There has been a change in the IMF's thinking about whether that would be a good idea. So we can look back on 2010 and say, mistakes were made, but one of those was the amount of money lent. But I think, very importantly, the structural reforms simply were not focused and were not implemented in Greece. So that we can do a better job into the future if there is another crisis.

Mr. WILLIAMS. Thank you. Mr. Secretary, in your testimony you state that the U.S. benefits from freer, more prosperous neighbors, trading partners, and like-minded societies around the world. I fully agree with your statement that highlights the importance of acting in the self-interest of the United States to unlock all of these benefits.

So the previous Administration did not prioritize the reform and modernization of things like NAFTA or World Bank. So as we begin to do so under the Trump Administration, can you briefly summarize why negotiating these agreements are so important to the American taxpayer and business?

Mr. MALPASS. Yes, sir. As I mentioned in the testimony, there is a place for multilateralism. So as we think about cooperation on a world basis, it is vital that the U.S. play a leadership role and be involved, and that is what we plan to do. The question is, how do you keep those organizations focused? That is a tough challenge that their tendency is to grow as much as it can, and that ends up costing money to the U.S. taxpayer and diluting their mission so they are not actually accomplishing what they were set out to do.

So the way I can try to influence that is in the work of Treasury. My group in Treasury alone has nearly 100 organizations and workstreams that we have staffed that travel to, spend time on, work on—and so one of our goals is to downsize the sprawl, the sprawl that has occurred in this particular area of government. That allows us then to focus harder on the things that really matter.

One of them that is important to me is that programs, country programs, focus on how do you bring up the median income. You know, these organizations have often prescribed programs to countries, and you could look at the program and say, if the country does that program, the median income, the average guy in the country is going to go downhill, not uphill. Why would you want to do that?

We can look at actual programs and try to have them focus on raising real median income. That is one of my goals.

Mr. WILLIAMS. Thank you for your response. I yield my time.

Chairman BARR. The gentleman yields back.

The Chair recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Mr. Under Secretary, we do have a stake in economic growth worldwide. On the other hand, the World Bank can cost us money, at least we have to put money into it. One way we



can promote economic growth worldwide is for us to sign tax treaties with countries that stand ready to do that with us.

I realize this is an inch outside your portfolio, but I hope you will go back to the Treasury Department and reiterate that the Republic of Armenia is ready to sit down now and sign pretty much our model tax treaty. The fact that we can't get a tax lawyer to take a meeting is hurting the very efforts you are here to promote, which—and, by the way, would not only cost us nothing, but would actually add to the U.S. economy.

As the Export-Import Bank was mentioned, and I will point out that the Export-Import Bank has a different mission; it is promoting American exports. Very often it will make a loan where the buyer could get a loan somewhere else, just the lower rate on the Export-Import loan is designed to get them to buy the American goods.

I am disturbed that China is borrowing from the World Bank. Are these loans to the sovereign government or do they tend to be to entities? Because I have seen U.S. businesses do business in China, and once an entity owes you money, it goes out of business, and then you go bankrupt—so is there this credit risk from lending to shell entities or what could become shell entities in China? Do you know?

Mr. MALPASS. Mr. Sherman, those are all very good points. So, in China, my understanding is quite a bit of the bank's lending now is below the sovereign level. That means to what in the U.S. would be State and local governments, in China it is different terminology, but some—

Mr. SHERMAN. Does the national government guarantee these loans? If they are not willing to take the risk, why should the World Bank?

Mr. MALPASS. Yes. So—China has been through waves of, call them bailouts or crises at the sub-Federal level. In the 1980's and 1990's there was a big one called the IDIX. There was a JEDIC failure, and there was a partial bailout by the Federal Government. In terms of the loans that are now being made by the World Bank, they are often guaranteed by a big enough entity that the credit risk is bought down in effect. But then that gets into the point of what benefits is there—

Mr. SHERMAN. If these—

Mr. MALPASS. —If you have a good borrower, right?

Mr. SHERMAN. If these are good projects, the national government of China can borrow an awful lot of money on the U.S. markets and lend it to its own local entities.

Mr. MALPASS. To take the World Bank's side just for a moment, they would say, yes, but think of all that they learn at the local level by having us come and visit them. Our role and your role and the committee's role is to say, wait a minute, can the U.S. taxpayer really do that, and why does that country need?

Mr. SHERMAN. If the Chinese want the World Bank to visit them, they will pay for the airplane ticket and listen to the advice. If the visit is imposed upon them—I have had a lot of clients where the banker needed to talk to them before they made the loan, but they weren't listening, they just took the loan.

Currency manipulation. One of our objectives in renegotiating NAFTA deals with currency manipulation. Has Canada or China in recent memory manipulated the currencies?

Mr. MALPASS. I am sorry, sir, what is the question?

Mr. SHERMAN. Has either Canada or Mexico manipulated its currency in recent memory?

Mr. MALPASS. So the Treasury does a twice-a-year report on currency manipulation and did not find that either had manipulated their currency. But the point is part of trade promotion authority. Congress passed authority to the Federal Government—to the Executive Branch, and that includes a requirement that we look at currency manipulation.

Mr. SHERMAN. Well, one country that does manipulate its currency, according to many, is China. Is that the same report that says that China isn't manipulating its currency and hasn't recently?

Mr. MALPASS. Yes, sir, same report.

Mr. SHERMAN. We are paying money for that report?

Mr. MALPASS. That report is generated by Treasury, and, yes, the taxpayer is paying money for people to generate that. But to your—

Mr. SHERMAN. You know, with Amazon, I can download fiction for like a buck or two a book. A report from the Department of Treasury saying that China is not and has not recently manipulated its currency would be in the fantasy section of the fiction offerings of any bookstore online or brick and mortar.

Mr. MALPASS. So in the past, China did manipulate its currency. It becomes important in your question of what is recently. So the report that comes out from Treasury is within this last year. Our finding is, under the way that report is set up, China did not manipulate its currency. I—

Mr. SHERMAN. That is slightly less fanciful than perhaps some other reports, but it is still in the fiction section.

I yield back.

Mr. MALPASS. Thank you, sir.

Chairman BARR. Thank you. The gentleman's time has expired. I appreciate members' indulgence in allowing me to allow that exchange to continue a little bit longer.

The Chair now recognizes the gentleman from Michigan, Chairman Huizenga.

Mr. HUIZENGA. Mr. Malpass, good to see you again.

Mr. MALPASS. Very good to see you, sir.

Mr. HUIZENGA. Yes. Actually, if you want to take 30 seconds, if you want to finish that thought out. I think there is bipartisan concern about China's past, certainly attempts at currency manipulation and the charges that they have been out there. So if you wanted to finish that thought, we can take a few moments here.

Mr. MALPASS. I think relevant to us now is President Trump is very aware of the past problems that burdened our trading relationship with China, and that's a subject of his visit to China, which is coming up later this week.

To Mr. Sherman's point, I think we could all agree that there are problems that were occurring. Our goal now is to avoid that kind of problem going forward. China, I think their currency practices have changed a lot in recent years.

Mr. HUIZENGA. I am going to move on to a couple of other things here in the remaining few moments. In a report on the European Stability Mechanism earlier this year by Transparency International, a report that the ESM welcomed, one should add, the ESM is twice described as a lender of last resort. The report concludes that during its interventions, and this is a quote from the report, "The ESM emerged as a lender of last resort for euro area sovereigns facing serious bond market pressures."

So if the ESM is truly the lender of last resort in Greece or other places, then presumably the IMF wasn't. In addition, the fund's involvement in the country over the course of 7 years showed it is not in the business of quickly resolving balance of payments crises.

So my question is this. How does the Trump Administration get the IMF back to its core mission ensuring that its programs are independent, effective, and, maybe more importantly, temporary?

Mr. MALPASS. Yes. Good point. So at the peak in 2011, the IMF had committed 70 percent of its quota, and that included the exceptional access that we discussed to Greece. Now, that number today is under 25 percent. So the IMF is much more liquid, because Greece has repaid a lot of those loans. So I think our challenge is—

Mr. HUIZENGA. But they were not the intended target, correct? European nations like that were not the intended target of the IMF?

Mr. MALPASS. That is correct. So that was done in 2010, and we can look back and say, maybe that wasn't the way to go. So our challenge today is, going forward, would we do that again? I think the answer is no. Then, do we have the capability to help the IMF figure out that decision properly this time around? I think the answer is yes.

Mr. HUIZENGA. I know that there is a reluctance. I know that there is a reluctance with the IMF. They did not feel good, or many within the organization didn't feel good about that.

But I am kind of curious also, I want to talk very briefly about the regional financing arrangements. You know, the latest entry is the contingent reserve arrangement, which is China, Russia, India, South Africa. What kind of rules or principles do you think that the IMF should follow and put in place as it determines limits of future cooperation with these regional groups?

Mr. MALPASS. The IMF is trying to think about what its role is with those regional groups, and so we can help them think about that. As you think about a global crisis, and we discussed earlier, I think we want to look for vulnerabilities in the world system. We can wonder what order—if there were a crisis, in what order would people tap their emergency reserve?

So, a first reserve, often is a central bank, a second reserve is international reserves of a country, and then in these regional relationships, they can tap that fund that has been set up. This gets into your point, the lender of last resort is the ESM, the European Stability Mechanism, truly the lender of last resort in Europe. Well, it is a finite fund. It is not large, compared to the debt of Europe. In reality, I think there are more lenders of last resort in Europe.

So as we look at each of the individual regional relationships, I think we want to look at what is in U.S. National interest and our role in the IMF in seeing inside those regional groupings.

Mr. HUIZENG. Mr. Chairman, with your indulgence, I just—maybe we can follow up in writing on a few of those sort of rules and principles. I would love to learn more where Treasury is headed with that.

So, with that, I yield back.

Mr. MALPASS. Thank you, sir.

Chairman BARR. The gentleman's time has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger.

Mr. PITTENGER. Thank you, Chairman Barr. Thank you Under Secretary Malpass for being with us today and providing your testimony before the committee.

Mr. Under Secretary, according to remarks given by the World Bank president, Jim Yong Kim, quote: "The World Bank group very proudly supports the Government of China's ambitious, unprecedented effort to light up that night sky," end of quote.

Referring to the Chinese efforts to the One Belt, One Road initiative.

The One Belt, One Road initiative connects China with over 60 nations on a transcontinental scale that collectively accounts for 62 percent of the world's population and 30 percent of global GDP. This initiative, if completed, will result in the expansion of China's trade and global influence at, frankly, an alarming rate.

Does the Administration support President Kim's praise of the One Belt, One Road initiative?

Mr. MALPASS. No, sir. So the problems with One Belt, One Road are several fold. One is that a lot of the financing that China is providing is coming from its State-owned institutions and is not provided at terms that are reasonable to the borrower, and that will be arms-length in terms of the relationship. An even bigger problem is many of the contracts that come out of those projects are not—not market-based contracts, meaning, you are often going to see Chinese suppliers putting the money in for excessive government money, Chinese Government money that is setting up the contracts. So you end up with projects that are not in the best interest of the countries that are the borrowers.

What we would rather see the World Bank talking about is creating good quality projects. I think Mr. Barr, in his opening statement, made the point that the quality of the development finance and the projects has to be improved. That is where I would put that.

Mr. PITTENGER. Yes. Back in the 1990's, as you would well recall, we granted China most-favored nation trading status. Looking back, do you believe that this was the right response, the right initiative? It was a bipartisan effort. It was something that was initiated by Jimmy Carter many years ago, and advocated by many Presidents, and finally with President Clinton and the Republican House, they consummated that.

At the end of the day, we took a fledgling country and that was basically a garden snake and made it into a boa constrictor. We

have a \$350 billion annual deficit with them, at least in 2016 that was the number.

How do you relate to our role and our responsibility relative to China and concerns that many of us have regarding human rights, religious liberties, freedoms of conscience, things that we believe are an anathema to our society and our culture, and yet we have allowed that to go unabated, in essence, in our continual support for them?

Mr. MALPASS. So if we roll the dial back into the 1970's and 1980's as that process started it was called most favored nation, but what it often meant was normal trading relations. I think, as the U.S. was—

Mr. PITTINGER. They applied for it every year until they were granted that.

Mr. MALPASS. Until they were granted. We were in the midst of the cold war. There was the idea that China could be an offset, and so there was a process toward MFN that was set out.

I guess what I would—if we look back, I think mistakes were made at many points in the relationship with China. One of the focuses now is, as it entered the World Trade Organization, which that was done in the 1990's, and we ended up with a relationship that is not reciprocal.

The President will be discussing that this week a lot; that we have ended up in a situation, in part, due to their entry into the Word Trade Organization and how that was done, that is unbalanced. That ends up with them having better access to the U.S. Market and better ability to invest in the U.S. than we have.

Mr. PITTINGER. I think this gets back to the point that I made at the beginning, that their ability to launch this major initiative that connects 60 countries, frankly, was generated by our support and our efforts on their behalf.

Mr. MALPASS. Yes. It is troubling that the multilateral development banks or the heads of them, and it is not just Mr. Kim, but some of the others have made similar statements currying favor with China, and that is troubling. Because I think there are better ways to do development than that.

Mr. PITTINGER. Thank you. My time has expired.

Chairman BARR. The gentleman's time has expired.

The Chair recognizes the gentleman from Washington, Mr. Heck.

Mr. HECK. Thank you, Mr. Chairman.

Under Secretary Malpass, thanks for coming today. Although I believe the international financial institutions are tremendously important, I want to use my time today to discuss the Committee on Foreign Investment in the United States, or CFIUS.

I raised this issue when Secretary Mnuchin came to talk to us in July, and I was pleased to see him agree that CFIUS reform was a pressing issue, and that he was prepared to work in a bipartisan manner to fix it. When I met with Assistant Secretary Tarbert a few weeks ago to discuss this issue, he affirmed your intention to work in a bipartisan way on CFIUS.

So I have heard a lot of commitments thus far for bipartisanship, but so far, I have been extremely disappointed in you. You have not followed through on those commitments. I have offered constructive suggestions and asked technical questions about Treasury's posi-

tion on a number of CFIUS-related issues for the last 2 months, and never received a single substantive response. Not one.

If Treasury wants to move forward with this issue in a bipartisan way, you need to do a better job of following through on your commitments. I plan to file several CFIUS-related questions for the record after today's hearings, as I want to be sure any future committee action is informed by Treasury's views.

So, Mr. Assistant Secretary, will you commit to providing a response to my questions by December 8th, 1 month from today?

Mr. MALPASS. Hello and good morning, Mr. Heck. So with regard to the process that is going on, as I understand it, Senator Cornyn and Senator Feinstein have—

Mr. HECK. Again, completely unresponsive to my question. Will you answer my questions in a substantive fashion within 1 month, or just admit for the public record you are not interested in working in a bipartisan way?

Mr. MALPASS. We are interested in working in—

Mr. HECK. Will you provide substantive answers within 1 month?

Mr. MALPASS. You know, there will be a full committee process with the Banking Committee on the Senate side and the Financial Services Committee on the House side.

As far as the 1-month deadline, I haven't seen how many questions you are going to do, and that is my—I will commit to doing our best efforts with the questions that you provide, yes, sir.

Mr. HECK. I think it is urgent that we address this issue, and I hope we can move forward in a bipartisan way. You have not performed to date. Full stop. Period.

I believe we should stay laser-focused on passing legislation, which addresses our core national security vulnerabilities, before we talk about or if ever we talk about asking CFIUS to weigh economic questions.

I believe both Congress and the Administration have a responsibility to make sure that CFIUS is adequately resourced, both to make sure we can identify a risk with particular transactions, but also to ensure that transactions, which are not problematic, can flow smoothly.

Given the tremendous power the CFIUS statute vests in the President and the Executive Branch, and the bipartisan concerns which have been raised about how that discretion has been used in the past, I believe it is important that any CFIUS legislation ensure accountability and transparency to Congress, and to the greatest extent possible, by extension, to the public, for how that power is actually being used.

At the same time, while I am concerned about giving the Executive Branch too much discretion on a transaction-by-transaction basis, at the strategic level, I do recognize that the Executive Branch can move more quickly in reacting to new tactics used to evade CFIUS review. I want to make sure you have the appropriate tools to do that because, frankly, I see a disturbing trend in the use of those tools to evade CFIUS evasion—or review, rather.

This issue is only going to get bigger going forward. I would caution you that, if we want to adopt the reforms necessary in order to most safeguard or best safeguard our country, the sturdiest way to do that is by working in a bipartisan way, and you haven't.

So I believe that the principles provide a strong basis for us to work together, which is, frankly, why I find it inexplicable that your department has not engaged in any substantive way. I hope you will do better. I think the country needs for you to do better. This isn't about partisanship. This is about doing the best by the people of this country to help keep us secure. You have a role in that.

Thank you, Mr. Chair. With that, I yield back the balance of my time.

Mr. MALPASS. Thank you, sir.

Chairman BARR. The gentleman yields back.

The Chair recognizes the gentleman from Minnesota, Mr. Emmer.

Mr. EMMER. Welcome, Mr. Under Secretary.

I want to take a little different approach. I want to go back to your written testimony. Just to put it in context, I am a big supporter of foreign assistance, and I recognize the humanitarian and national security benefits. However, when we have more than \$20 trillion in debt, the assistance that we provide must be smart and effective. I think that is what you were trying to outline, or at least that is what I got from your written testimony.

In your written testimony at page 4, you have a paragraph that begins with a statement that: The role of the multilateral development banks has to change dramatically so that they focus less on the volume of finance they provide and more on the goal of providing high-quality services that are not available elsewhere.

Then you continue that the MDBs must improve the tools and methods they use to analyze additionally, guard against crowding out, maximize development impact, and you have some other suggestions there.

When I went to the next page of your testimony, it looked to me like what you were suggesting really was they should provide, in an efficient and smart method, assistance to allow customer countries in need to develop projects that are going to improve their economic position. But the policies that the Trump Administration is trying to put in place would wean them off, hopefully, of the public assistance so that they could start to not only become self-sufficient, but access private capital. Do I have that correct?

Mr. MALPASS. Exactly right, sir. That was better put than I included in my testimony. The difficulty with that—so as we talk about the quality of the services provided by the MDBs, one thing is they are often very expensive. So you are hiring people from around the world and paying them very high salaries, and then trying to have them interface with countries that are far away, that are very different from their own countries, and that proves to just be a difficult task. How do you add value?

That gets into this idea, especially as more and more of the value that they are doing is not infrastructure finance, the way it was in the old days, but it is actual technical services on how they can do a better job with their accounting system for their pension, for their social safety net. Those are plain hard to do. It raises the question, can you really have a government—if my government advises your government, are you really going to get the value that you are charging?

Mr. EMMER. So how would you fix that?

Mr. MALPASS. One is the graduation policy. So one of the things that we have to get the World Bank to do is let countries stop borrowing so that those resources are more available to the countries that actually are in need. It has resisted doing that.

You know, from their standpoint, they are trying to get their lending totals up, so they want to lend to China and to big borrowers. Brazil is a big brother. Getting them to break that circle is one of our goals.

Then another is simply the pipeline of loans. You know, right now, it is not very transparent, and there was some discussion of that. So I think actually getting people to dig into the loans and say this kind of loan isn't actually going to help the country.

I mentioned earlier the IMF role—they work together, IMF and World Bank—and having it be focused. If you look at a country, what are the two or three things that are most important for them to do, and then let's see a program that actually operates on them.

Because, for example, the World Bank recently made a \$400 million loan to Turkey. When you look—and we opposed the loan, but it goes forward anyway. When you look at the loan, it was diffused. They doled out money to a lot of different government agencies in Turkey, and you can just imagine what happened to that money.

Mr. EMMER. Not necessarily for infrastructure?

Mr. MALPASS. That was not infrastructure. That was what they call assistance—government assistance loans. So then you wonder, from the taxpayer—U.S. taxpayer standpoint, how is that in our national interest, and how do we create an organization that won't bring forward that kind of loan?

Mr. EMMER. Well, I see my time is running out. We look forward to your recommendations as you go forward, and we look forward to working with you on trying to put them into effect. Thank you.

Chairman BARR. The gentleman's time has expired.

The Chair recognizes the gentleman from Ohio, Mr. Davidson.

Mr. DAVIDSON. Thank you, Chairman.

Mr. Malpass, thank you for being here. Thanks for your expertise. It is good to know you are onboard there at Treasury, and I look forward to the work that you guys can accomplish, particularly with our international relationships with IMF and the World Bank.

As we put capital into this—and we continually hear calls for more capital, from donor nations, like the United States, to help others. So at some form it is redistributive across the global system.

We have talked a little bit about—our Ranking Member talked about income distribution around the world. Have you had a chance to assess how effective the World Bank and the IMF have been doing at improving things?

You just mentioned Turkey distributed capital, but really fundamentally promoting capitalism versus socialism. At some point, are we subsidizing failed economic models in some of the developing economies we are helping?

Mr. MALPASS. I think the answer is yes to that, and so then a question is how do we change that. The problem is—now, not to get too ideological, but we can think of a spectrum from capitalism to



socialism and say different types of loans would fall in different spots along that.

If we define socialism as the idea of either ownership or operation by a government of various services, a lot of the lending is going in that direction. My analysis of that or the way you can quantify that is real median income doesn't go up under those circumstances. Real median income is the middle—the amount earned by the middle of the society.

A primary goal should be getting that to go up, as opposed to the rich going up, as opposed to—so getting that to go up. A lot of these loans are simply not doing that, and so we see, I think, a lag.

Now, to be self-critical of the U.S., we saw the odd situation in the 2009, 2010, and 2011. We had an economic recovery going here, but real median income was actually falling in the U.S. So we had programs in place that are high tax rates that the rich can avoid better than average people can avoid. So you end up having a bias in the system that caused real median income to actually go down in the U.S., which is the first time in history that we have seen a recovery where the average guy did worse. So we can work to avoid that in other countries.

Mr. DAVIDSON. So in 2012, the IMF's charter expanded to take into account all issues, all financial sector issues that bear on global stability of the financial system, originally more focused on a system of exchange rates, international payments. Do you see any issues with that shift in focus, or what are the implications as that shift has occurred?

Mr. MALPASS. Sir, I am not as familiar with that shift. One of the things going on often is the institutions often say what they think the donors want to hear in—and then that was part of—if that was an IMF shift, you remembered they were trying to get the U.S. to put money in. At that time, there was a major quota increase that had been negotiated. I think it may be—have related to that. But then, as soon as the money comes in, which it did in 2016 from the U.S., the quota increase was concluded, then the institution loses its focus. So maybe we can discuss that.

Mr. DAVIDSON. Right. When you look at the effectiveness of some of the things they are doing, whether it is the type of capital system they are supporting or the scope of the other metrics they are trying to apply—I guess, one of the big things that is at the center of this balance of payments that the International Monetary Fund helps facilitate is flow of goods and services, flow of capital, intellectual property, via a common means of exchange. Working capital is one of those things that is facilitated. Frankly, it is one of the things that countries do that distort behavior as well and the fact that they—in their trade relationships subsidize some of that trade.

So how do you view our role in influencing a more market-oriented behavior?

Mr. MALPASS. I mentioned in my written statement that China has—is a critical factor in this. They used to be liberalizing in that they have—that has—that seems to have stalled or reversed.

That gets very much into the question of how do you have the world move in a market-based way that allows the payment systems to allow the little guy in countries to actually get access to credit? I think the IFIs, in general, could do a much better job on

that, despite the—I am not as familiar with the reform that you are talking about.

They do look at the payment system. They are kind of aware of this issue, but my impression is it is not the highest priority. We should make it a much higher priority to find a way that small businesses and average individuals, even in poor countries, can find access to credit or to be part of the financial system.

Chairman BARR. The gentleman's time has expired. The gentleman's time has expired.

The Chair now recognizes the gentleman from Indiana, Mr. Hollingsworth.

Mr. HOLLINGSWORTH. Good morning. Thank you so much for being here. I won't take my full 5 minutes.

I appreciate very much what you have said. A lot of what you have said this morning, I couldn't agree with you more, both on your responses with regard to potential tax reform, as well as the continued conversation about how we ensure that these bureaucracies around the world focus on the mission by which they have been handed from their members and not their own mission.

I especially love what you talked about in the sprawl of bureaucracy. It is the duty of members and especially large donor countries to ensure that the mission of that bureaucracy isn't just its own expansion of power, its own expansion of resources, but instead, the mission of ensuring, as you put it, that median incomes around the world, and specifically in countries that are being targeted, continue to go up in a meaningful way. I certainly appreciate that.

I also like what you said about how, if we fail to do that and we enable mission creep to where then we look at the World Bank and the IMF to do a whole host of functions, the primary function for which they are each responsible will be eroded because we have resources that are now diversified over very many functions or very many missions.

I certainly appreciate your work and effort toward that end and ensuring, what I know Hoosiers back home are concerned about domestically, regulatory bureaucracy that continues to push forward its own expansion of power into the everyday lives of Hoosiers back home and the businesses that they own, operate, or work in, but also internationally how challenging your environment in work, I am sure, is.

One of the reasons you, I am sure, mentioned median income versus average is because you're trying to exclude outliers, right?

Mr. MALPASS. Yes.

Mr. HOLLINGSWORTH. You want to push back against some of what Ms. Moore talked about with regard to inequality and focus on the very middle individual in the income distribution in pushing their income up.

I like what you said as well about making sure we do it in a sustainable way. You can certainly ensure government gives dollars to those individuals and their income will go up, but it won't in a sustainable way, and focusing on those projects.

Is there anything else that I haven't covered that you wanted to add that you have really pushed in your testimony today?

Mr. MALPASS. Thank you, sir. With regard to median income versus average, you stated it exactly right. The importance of that

is, if we look at income inequality, the way it is often done, you won't actually get—it is very complicated to calculate. So allowing the IMF, the World Bank to actually calculate median income and see if it is going up—

Mr. HOLLINGSWORTH. Right.

Mr. MALPASS. —That helps us a lot.

The one other point I would put is the importance of dependable currencies, which I mentioned in my statement. For too long, we have had the view and the IFIs allowed the view that you could gain competitiveness by weakening your currency. So the central bank got in the habit of printing money—

Mr. HOLLINGSWORTH. Right.

Mr. MALPASS. —That hurts, desperately hurts the median income—

Mr. HOLLINGSWORTH. Right.

Mr. MALPASS. —Because your—the value of the money—so—and we can see today, Venezuela, for example, is moving toward hyperinflation.

Mr. HOLLINGSWORTH. Yes.

Mr. MALPASS. Median incomes crashing because they don't have money that average people can get to. Only rich people can get to U.S. dollars—

Mr. HOLLINGSWORTH. Right.

Mr. MALPASS. —Preserve their capital.

Mr. HOLLINGSWORTH. Agreed.

I really applaud the work that you are doing and really love the fact that you have a clear metric for success, I think, in managing bureaucracies and in managing mission creep, ensuring that you have a clear metric by which you are going to determine every project, right, by which you are going to determine success or failure for that bureaucracy. I think it is hugely important and a very big step in the right direction. So I appreciate your work.

With that, Mr. Chairman, I will yield back.

Mr. MALPASS. Thank you, sir.

Chairman BARR. The gentleman yields back.

The Chair now recognizes the distinguished Ranking Member of the full committee, the gentlelady from California, Ms. Waters.

Ms. WATERS. Thank you very much.

I have a question for the Honorable David Malpass, Under Secretary for International Affairs, and I thought I would come and share with you my concern.

I am concerned by the statement in your testimony that the United States is not expecting to make any future contributions to the Global Agriculture and Food Security Program, and that this program should be wound down with future reflows returned to donors.

This program is a unique fund with a clear value added, and is on target to reach 12 million farmers in the poorest countries. I am struck by your claim that the MDBs could continue these projects without separate donor support at the same time that the Administration has proposed cuts across the board at nearly every MDB, as well as massive proposed cuts in our bilateral aid programs.

So this brings me to one strong disagreement I have with your reform agenda, and, in particular, with the statement you made in

your testimony that reflects the Administration's approach to international economic cooperation. You said that, quote, "Globalism and multilateralism have gone substantially too far, to the point that they are hurting U.S. and global growth," end quote.

Of course, I disagree with this. I don't think we have gone too far at the international financial institutions. I don't think we have done too much to help feed people in the world who are starving, who are experiencing food insecurity. We have not done too much to help alleviate desperate poverty and suffering in other parts of the world, including that of millions of children and other vulnerable people in Africa, Latin America, and Asia who continue to go without food.

What do you know about the lack of a need for this kind of assistance and that this assistance can be eliminated without causing great harm?

Mr. MALPASS. Yes. Thank you, Ms. Waters. Other parts of my statement emphasized and explained how important it is for the U.S. to be a leader in the world in finding ways to raise people's living standards. We do that in a number of ways: We do that by participating in organizations, by leading by example where we can, and by being engaged. The U.S., I think, remains—the U.S. is the world's largest economy and, in many ways, remains the world's strongest leader in the poorest countries, and will continue to do that.

So the sections that you highlighted are ones where we have allowed multilateral organizations to take over that role, and they don't do it very well in a lot of cases. So they spend a lot of money. They are not very efficient. They are often corrupt in their lending practices, and they don't get the benefit to the actual people in the countries.

They get the benefit to the people that fly in on a first-class airplane ticket to give advice to the government officials in the country. That flow of money is large, but not so much the actual benefit to normal people within poor countries, and that is what I would like to see change.

Ms. WATERS. Do you have an example of that?

Mr. MALPASS. Well, for example, we have countries such as South Africa that are deteriorating rapidly as their government is unable to provide efficiency and effectiveness.

We have, of course, Venezuela. That is not so much an issue for the international financial institutions in that they have basically blocked themselves off from advice from outside for years and years, which is unfortunate.

In the poor parts of Africa, we just saw Gambia have a—there are numerous examples where countries that were closely engaged with the multilateral financial institutions find themselves going downhill.

Ms. WATERS. I didn't understand the example of South Africa. What was that? What were you trying to tell me?

Mr. MALPASS. That South Africa is heavily indebted and not making progress and is not being well served by its relationships with the international financial institutions.

Ms. WATERS. Any other examples?

Mr. MALPASS. I mentioned a recent government turnover in Gambia, which just comes to mind, where the international community is trying to figure out what to do in a country that has severe problems.

What is one—so we—so I work in countries around the world. I am just back from Vietnam where I met with people, with the Thai finance minister, and they are all engaged with the international financial institutions. I have to tell you that, in many cases, it is not benefiting the people of the countries.

Ms. WATERS. Thank you. I yield back.

Chairman BARR. The gentlelady's time has expired.

The Chair now recognizes the gentleman from Arkansas, Mr. Hill.

Mr. HILL. Thank you, Mr. Chairman.

David, it is good to see.

Mr. MALPASS. Hello, Mr. Hill.

Mr. HILL. Welcome to the committee. It was a privilege to both be younger and more handsome many years ago as we were both deputy assistant secretaries for President Bush, 41, so it is good to have you back in government in this important position.

Mr. MALPASS. Nice to see you.

Mr. HILL. I want to start out and talk a little bit about this comment on multilateralism. With your deep experience, I wondered if—what conversations you have had in the Administration about the future of something like TPP (Trans-Pacific Partnership), as we have the President in China today, as a way to ring-fence and project American power in Asia. What thoughts do you have there? What do you see is the Administration's strategy on select use of multilateral trade aspects?

Mr. MALPASS. Thank you, sir. One challenge, as you get many players involved, as was done with TPP, it becomes a hugely difficult negotiation. I am giving you something on the agreement that you are giving Mr. Barr something, and then in TPP there were 11 countries each giving each other something, and it became abstract. Then in the end, you get a deal that is not going to benefit American workers.

So what the President has pointed out is that a more likely way to get benefits for us is to have a bilateral—so two countries talking together about how they can improve their circumstances.

That is where we stand today. We are looking for—the U.S. is looking for trading relationships that are fair and reciprocal where we get benefit and the other trading partner gets benefit for our workers and for their workers. That is hard, but it should be doable. There are a lot of areas where we can liberalize our markets if the other guy—if the other country liberalizes their market.

Mr. HILL. Thank you.

One of my assignments when I was at Treasury, in those dark ages, was in the area of technical assistance. This is an area that reports to you at the Treasury, but also is so critical in the development bank world we are talking about today. That responsibility of effectively providing multilateral assistance, development loans, or technical assistance has to be done with the very best people and with the very best accountability.

This subcommittee has investigated, over the years, this horrible World Bank scandal in Uganda that really resulted in sexual abuse of children, as well as safety problems, and the World Bank's loan program there that resulted in five deaths. It uncovered a real cesspool of management challenges, personnel challenges in the World Bank.

My question for you is, how can the Treasury, as lead director there, and America as a major contributor to the bank, ensure that the bank's employment processes are a meritocracy? What is your view on that?

Mr. MALPASS. As I recall, sir, you were—you ran a medium-sized bank, right, and so those challenges are ones that—you are actually very well qualified to help give us thoughts on how to do that.

So within these sprawling organizations, it really is very hard. Once they have set their direction on growth, it is very hard to keep the governance controls and the personnel controls and so on and do them effectively. So my view on it is, if we get the organizations to focus on the graduation policy, meaning have a beginning and an end of a relationship with a country that succeeds, if they get success, then they move on and try to share that experience elsewhere. That will help the focus of their mission.

So that is one, meaning, if you can simply stop expanding for a moment, you can improve the quality of what you are doing. So I guess that is where I stand on that. I take your point well on—we don't know how deep the problems that you identified there go in other country programs.

Mr. HILL. Well, there is strong bipartisan support, as evidenced by our votes on this committee, to withhold funding for our development banks if they don't cleanup their mission and deliver on what we expect. So we have high expectations. We appreciate your oversight, and thanks for being here today.

Mr. MALPASS. Yes. Thank you, sir.

Chairman BARR. The gentleman yields back.

I would like to thank our witness for his testimony here today. I appreciate your forthright answers. We certainly appreciate your testimony here today, that the Administration views successful international relationships that include multilateral institutions, but that in order to promote a more free and prosperous world, the international financial institutions must have clear focused missions and deliver results effectively and with accountability to participants.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned.]

# **A P P E N D I X**

November 8, 2017

## Statement to the Subcommittee on Monetary Policy and Trade

## House Financial Services Committee

David R. Malpass, Under Secretary of the Treasury for International Affairs

Chairman Barr, Ranking Member Moore, and Members of the Financial Services Monetary Policy and Trade Subcommittee, thank you for holding this hearing and for inviting me to testify this morning.

One of the Trump Administration's top objectives is to achieve faster U.S. and global growth in ways that improve after-tax wages for American workers. This involves ambitious reforms for taxes, regulation, trade, energy, financial regulation, infrastructure, and the budget. As Secretary Mnuchin said in October: "Better policy choices could remove structural impediments and unlock the economy's longer-term growth potential. Our agenda is aimed at restoring much needed dynamism to the U.S. economy."

This growth agenda draws on work throughout the Treasury Department, and we welcome the opportunity to work with your Committee. For example, a key driver of growth is the effectiveness of the financial regulatory framework, so that small- and medium-sized businesses are able to get the capital they need to be more productive and create more jobs. This will require improvements at multiple U.S. regulators, as well as a more growth-oriented approach in multilateral regulatory institutions.

Today's hearing is focused on global growth and the role of the international financial institutions (IFIs). These include the International Monetary Fund, the World Bank Group, and several other multilateral development banks (MDBs). I've presented a table and partial balance sheet of some of these IFIs below.

<b>MDB Balance Sheets</b>			
<i>Billions USD (unless otherwise noted)</i>			
	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
International Bank for Reconstruction and Development	405.9	366.1	39.8
International Development Association	197.0	38.6	158.5
International Finance Corporation	92.3	67.2	25.1
African Development Bank <sup>1</sup>	29.7	20.6	6.6
Asian Development Bank	178.9	129.5	49.4
European Bank for Reconstruction and Development <sup>2</sup>	56.2	40.2	15.4
Inter-American Development Bank	126.0	94.0	32.0
North American Development Bank	1.8	1.2	0.6
<sup>1</sup> Billions UA			
<sup>2</sup> Billions Euro			
All figures are gross of derivatives			



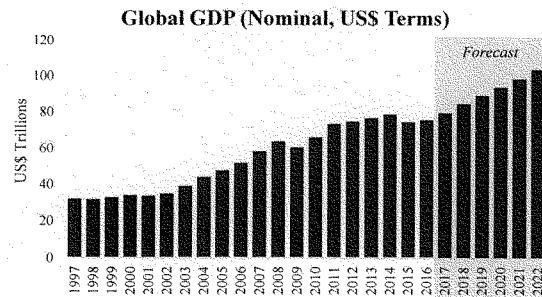
<b>IBRD Balance Sheet</b>			
<i>2017 - Billions USD</i>			
<b>Assets</b>	<b>405.9</b>	<b>Liabilities</b>	<b>366.1</b>
Loans	177	Borrowings	206
Investments/Liquid Assets	73	Derivative Liabilities	153
Derivative Assets	150	Other Liabilities	7
Other Assets	6		
		<b>Equity</b>	<b>39.8</b>
		Paid-In Capital	16
		Retained Earnings	24
<b>Total</b>	<b>406</b>		<b>406</b>

In today's testimony, I will focus primarily on the World Bank and IMF, but all of the IFIs present their own set of challenges and opportunities.

#### Global Growth Taking Hold

The context for today's discussion is a global growth improvement in recent quarters, though it remains well below its true potential. Between 1997 and 2007, the global economy grew 4 percent per year on average; however, average annual growth in the decade since then has slowed to 3.3 percent. We believe faster global growth rates are possible, sustainable, and will be a key factor in improving wages for American workers.

However, following the 2008 financial crisis, there was an unusually weak recovery both in the U.S. and abroad. Per the IMF, world GDP, which stood at \$73 trillion in 2011, was stuck at \$74 trillion in 2015 and \$75 trillion in 2016. For the U.S., the post-2008 recovery was the first in U.S. history to actually result in lower real median income. IMF projections show that a resumption in growth is underway, with world GDP rising to \$79 trillion in 2017 and \$84 trillion in 2018. The acceleration of U.S. growth to 3 percent in the second and third quarters is a welcome contributor to this advance.



Source: IMF World Economic Outlook October 2017

### **Role of Multilateral Development Finance**

With growth accelerating and the world financial system relatively stable and liquid, now is an opportune time to discuss the role of multilateral development finance in global growth and prosperity. As a preface, I want to make a clear distinction between isolationism, which we oppose, and our view that globalism and multilateralism have gone substantially too far, to the point that they are hurting U.S. and global growth.

In his remarks to the United Nations General Assembly in September, President Trump articulated a vision of international affairs in which each country's government has a responsibility, first and foremost, to serve its own people. Out of this self-interest emerges a constructive international order in which nations and their people are enriched through trade, cooperation, and innovation. The President is travelling in Asia this week, promoting growth, investment, security in the Indo-Pacific, and trading relationships that are fair and reciprocal.

It is very clear that the U.S. benefits from freer, more prosperous neighbors, trading partners, and like-minded societies around the world. To promote that, the U.S. needs to be actively engaged in global affairs including global growth efforts and global security. We do this both in our self-interest and as a world leader that champions and embodies personal freedom, property rights, the rule of law, and human progress.

We recognize that successful international relationships include multilateral institutions, but the challenge for them is to have clear, focused missions and deliver results effectively, and with accountability to participants.

To give you a sense of the magnitude of the challenge, Treasury's Office of International Affairs, which I head, is currently participating in nearly 100 international working groups and organizations. Each has the goal of benefiting the world, but each requires staff time, energy, and often travel. I joined Treasury in early August, and I will work to review these various processes to determine which of them can be wound down, scaled back, or converted to financial plans based on restraint rather than expansion. I have had the opportunity to make these points at the IMF, World Bank, G-20, Financial Stability Board, and the Asia-Pacific Economic Cooperation (APEC) Finance Ministerial Meeting, and it will need to be a continuous process in our international affairs work program.

As an example, our U.S. representative gave a statement earlier this week at the Steering Committee meeting of the Global Agriculture and Food Security Program (GAFSP) in Rome that the U.S. is not expecting to make any future contributions to GAFSP and that GAFSP should be wound down, with donors exploring options to return future reflows to donors. The U.S. government and other donors provide funding to support similar agricultural investments in poor countries through other institutions and funding sources. Furthermore, MDBs are capable of institutionalizing the lessons learned and of continuing GAFSP projects without separate donor support. For reference, the United States is the largest historical contributor to GAFSP, having contributed \$653 million.

### **New Sources of Capital**

It used to be the case that a large part of the flow of external capital to developing countries came from banks using syndicated loans, often under encouragement or pressure from governments. This culminated in the Latin American debt crisis of the 1980s. The Brady Plan in 1989 began the process of securitizing large portions of this debt, creating major new sources of capital for development.

For many countries, this securitization of sovereign debt has enabled the availability of local currency debt in longer maturities, providing a cushion against shocks. In the early years of this decade, Chile faced a catastrophic drop in the price of copper, one of its major industries and exports, yet survived without a recession in part due to these innovations in international finance.

Separately, the structure of world interest rates has moved much lower as history moves further away from the devaluations and high inflation of the 1970s. Huge amounts of capital available at lower interest rates than in the past are now available as investors reach for yield globally.

These three transformations – the securitization of sovereigns, the lengthening of maturities for local currency debt, and the decline in the structure of interest rates – are truly stunning in the history of international finance, fostering greater accountability and market-based capital flows that should add materially to global growth and prosperity.

While welcome, these developments also create at least three challenges for multilateral development finance. First, governments increasingly have access to more capital and low-rate credit than their capacity to manage the inflows responsibly. Tajikistan, Mozambique, and Ghana have taken advantage of capital markets access and obtained financing in bond markets, but their experiences are a cautionary lesson to others that the availability of increased financing must be coupled with appropriate transparency, the capacity to prudently manage liabilities, and the capability to deploy resources efficiently.

Second, a growing number of countries have taken advantage of low interest rates and the proliferation of global capital markets to tap investors beyond their ability to repay. Creditors, including the MDBs, should be cautious about exacerbating unsustainable situations in borrowing countries – particularly those with capacity constraints that hinder their ability to properly manage their debt.

And third, the role of the MDBs has to change dramatically, so that they focus less on the volume of finance they provide and more on the goal of providing high-quality services that are not available elsewhere. MDBs must improve the tools and methods they use to analyze additionality, guard against crowding-out, and maximize development impact. We should set as a goal that every project and intervention an MDB undertakes moves a borrower along a continuum toward the ability to finance their own development without donor support. In seeking this transformation, we need to challenge the multilateral organizations to rethink their methods and operations.

The MDBs can use their knowledge and analytical capabilities to not only contribute to this dialogue, but also to continue to work with capacity-constrained countries to create the enabling environment for responsible private sector borrowing.

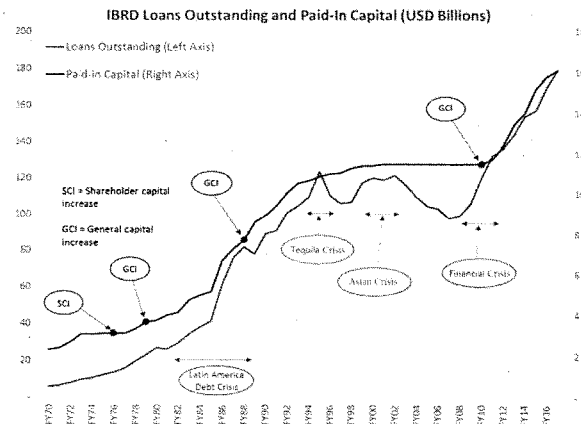
Private capital has been behind many of the innovations that have produced the greatest measurable results in fostering growth and lifting people out of poverty. Some examples of these innovations include financial technology, mobile telecommunications, microloans, digital currencies, and social entrepreneurship.

In sum, we should take full advantage of this period of relative stability in global finance to transform development finance. To this end, the Administration is moving on a constructive and transformative agenda that seeks to reconcile large multilaterals aimed at meeting the challenges of earlier decades with a world of relatively plentiful private sector capital.

### World Bank Reforms

The World Bank is the largest of the development finance institutions. Working with the previous Administration, it secured a 50 percent increase in the financial capacity of the International Development Association (IDA). It has asked the current Administration to work toward large capital increases for the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC).

The business model of the MDBs' non-concessional windows, including the IBRD, is to leverage the capital that shareholders provide (paid-in capital) by borrowing from markets using loan guarantees from shareholders (callable capital). MDB capital increases are generally intended to permit sustainable lending levels to address increased development needs or crises.



We welcome a dialogue on World Bank reforms. As discussed, there is a historic transformation underway in the availability and sophistication of private sector funding for development finance. President Trump has made clear the importance of other donors doing their fair share, and of U.S. and other donor funding not displacing the private sector. Further, we should observe how countries absorb the new capital flows expected from the 18<sup>th</sup> replenishment of IDA, to which the U.S. has committed to contributing \$3 billion and allowing substantial leveraging of IDA's equity capital, the expected reflows of previous concessional lending.

Additionally, the World Bank is facing major problems in its graduation process – implementing a system in which the allocation of its resources moves dynamically from countries where the necessity for external multilateral finance has declined to countries that are capable of effectively absorbing multilateral resources and have substantial needs.

#### **IBRD Engagement with Graduation-Eligible Countries**

A key policy concern at the World Bank is its track record of continuing to lend large amounts to countries that have higher per capita incomes and ready market access. When the World Bank does not graduate these countries, less funding is available to reach countries with greater development needs, and there is an excess burden placed on shareholder capital. The World Bank's relationship with countries should change as they move up the income ladder and gain access to wider sources of financing – shifting from lending to a greater focus on knowledge transfer and the buildup of domestic capital markets.

Between 1985 and 2008, on average, 10 percent of IBRD annual lending went to graduation-eligible countries. Since 2009, countries eligible for graduation have received, on average, 40 percent of IBRD lending. Pre-crisis, World Bank management and graduation-eligible countries generally adhered to the graduation policy. Countries that were wealthier, more creditworthy, more institutionally developed, and less vulnerable to shocks were more likely to have graduated, and between 1990 and 2016, there was an average three year lag between crossing the income threshold and graduation.

During the 2008-2009 financial crisis, access to private capital became more difficult for many developing countries, and IBRD lending to graduation-eligible countries increased significantly, particularly in the form of large, quick-disbursing policy loans.

Many graduation-eligible countries, even those with strong market access, have continued to demand IBRD financing. Graduation-eligible countries tend to see the IBRD as a stable source of financing and development expertise, and also may be reluctant to formally graduate to preserve access to the IBRD in the event of another crisis.

Adherence to the graduation policy has progressively weakened. Currently, 25 countries have incomes above the threshold, though not all borrow from the IBRD every year. 19 of these countries have been above the threshold for longer than five years. Nearly half are rated investment grade or better, and six of these countries are defined by the World Bank as high-income, with per capita income exceeding \$12,475.

This leaves a lot of room for improvement. The Articles of Agreement set forth two broad criteria for IBRD lending: (1) that given prevailing market conditions, a borrower would otherwise be unable to obtain the loan under reasonable conditions, and (2) that private capital is not available on reasonable terms. In 1973, the IBRD established an income threshold (currently \$6,895 per capita) that would signal a country's eligibility for graduation (making it "graduation-eligible") and trigger the start of discussions between World Bank management and country authorities on graduation. A subsequent 1982 policy further called for the consideration of "a country's level of development and overall economic situation" and "a country's capacity to sustain long-term development without further recourse to the bank's financial resources." The policy stipulates that graduation from new IBRD lending should normally occur within five years after a country reaches the income threshold, with the length of the phase-out depending upon a country's ability to access external capital markets on reasonable terms and its progress in establishing key institutions for economic and social development. These subjective factors allow World Bank management and the graduation-eligible country considerable leeway.

According to World Bank management, graduation discussions take place in the context of negotiating new Country Partnership Frameworks (CPFs), which are strategy documents that Bank staff and the borrowing country develop to guide World Bank engagement over a set period (usually three to six years). Treasury has not found these graduation discussions to be serious or meaningful, and based on our observations, the decision on whether to even formulate a graduation plan is left to the borrowing country. We have strenuously argued for a more rigorous, transparent, and rules-based process.

During discussions in 2016 on the Forward Look, a medium-term strategy for the World Bank intended to inform subsequent discussions on a potential capital increase, the previous Administration secured two significant policy commitments. First, there was a commitment in the Forward Look that the IBRD would build up its portfolio for countries below the graduation threshold. Second, the Forward Look indicated that it would more narrowly focus its engagement with graduation-eligible countries on advisory services and the use of more tailored financing instruments for purposes of crisis preparedness, improving domestic resource and private sector mobilization, debt management, and capital markets access.

World Bank management, meanwhile, has neglected these commitments in the Forward Look and instead seeks to maintain or increase its strong engagement with graduation-eligible countries on the view that it wants to work against poverty in middle-income countries; wants the portfolio diversification available from lending to more creditworthy countries; and covers some of its overhead by lending to easier, less risky countries. Even in 2017, the biggest borrower from the IBRD was China, which received \$2.4 billion in new financing and has outstanding exposure of \$13.3 billion.

We think the World Bank can do a better job meeting its commitments to poorer countries while still pursuing a financially-sound business model. An overriding objective for the Administration is to ensure the World Bank is directing its resources to the people who need them most in the countries with the least access to private capital. Not only does this help ensure that each marginal dollar is as impactful as it can be, but it also guards against public money

displacing private investors. Ultimately, the World Bank's success should be marked by the number of countries that eventually graduate from borrowing altogether. This calls for an efficient graduation process based on an enforceable graduation policy with tangible measures of success.

Given this divide in viewpoints, the Administration is seeking a framework in which we can execute a strong growth agenda while working cooperatively with other governments. To that end, the President has nominated, or will soon be nominating, eminently qualified individuals to serve as representatives on the boards of the World Bank and other international financial institutions.

Treasury believes that the World Bank currently has the resources it needs to fulfill its mission and that the Bank should develop proposals in which the Bank's organic capital accumulation alone could be sufficient to support future lending targets. The state of the world, that of capital markets, and that of countries is vastly different today than when the World Bank's capital structure was developed, and we think now is an opportune time to rethink the structure and mission, so that the World Bank can maintain its leadership role in multilateral development finance.

#### **Impact of China in International Finance**

A key driver of global poverty reduction has been the progress major emerging markets have made in moving away from planned economies to market-oriented economies. It is in this context that I have expressed concerns about China's direction. As its portion of world GDP increases, China's market liberalization is a critical factor in whether global growth will be sustained well into the future.

China's gradual liberalization was welcome. Price liberalization was powerful. There was some progress in rebalancing the economy away from excess investment toward consumption and services. China also sought to reduce corporate and financial leverage, and to address growing risks in the financial sector. We welcomed those, but are concerned that the liberalization seems to have slowed or reversed.

Recently, the role of the state in China's economy has been increasing. State-owned enterprises have not faced hard budget constraints, and China's industrial policy has become more and more problematic for foreign firms. Export credits have grown large.

This is not the kind of market-based reform that China has undertaken in the past, or the kind of reform that China needs. It is critical that capital be allocated more effectively and that China stop engaging in massive subsidies that distort global markets and harm U.S. competitiveness. China's unfair trading practices are unsustainable and harmful to the growth and prosperity of the U.S. and many other nations. The Administration is committed to achieving a fair and reciprocal trading and investment relationship with China, including through market-based reforms.

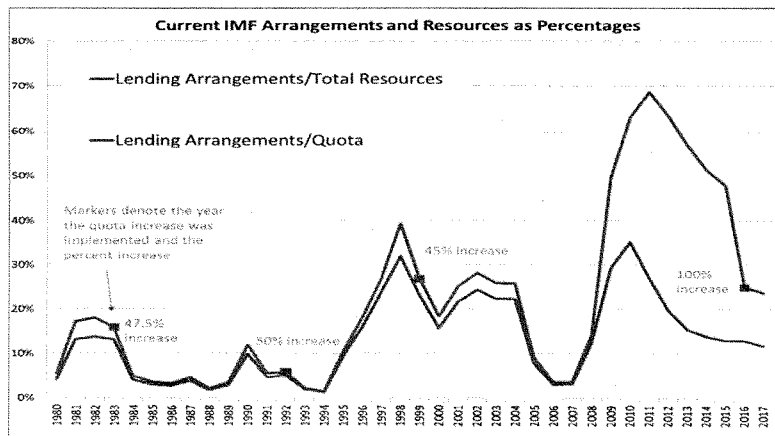
### Role of the International Monetary Fund

The IMF operates in the same global context – an improving world growth outlook with an unusually high availability of private sector capital. It faces the challenge of redefining its role at a time when it currently has ample resources, but faces unknown future challenges.

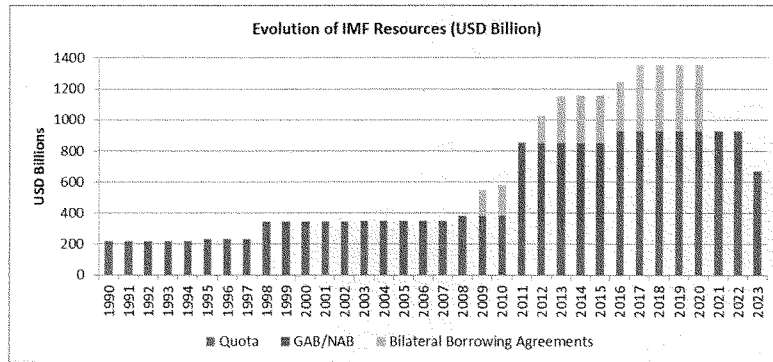
The shift in recent years toward local capital markets large enough to fund a portion of internal development not only reduces reliance on donor resources like those from the World Bank, but also acts as a buffer against volatile capital flows, one of the problems addressed by the IMF.

The pattern of IMF financing has historically tended to respond to global financial cycles rather than the size of available IMF resources. Since 1980, the IMF has, on average, committed only about 20 percent of its available resources. Country requests for assistance surged in the mid-1980s, in part due to the Latin American debt crisis, and in the 1990s as a result of emerging market crises in Russia, Korea, Indonesia, Turkey, and Mexico. Quota increases in the 1990s and in 2016 helped IMF resources catch up to large spikes in crisis lending.

At its peak, the IMF in 2011 had committed about 70 percent of its available quota resources, due to the Global Financial Crisis and its aftermath in Greece and the euro area. By design, IMF lending is generally far below available resources, as the perception of the IMF “running out of resources” during a crisis period could inadvertently cause the market to flee vulnerable countries and worsen global spillover effects.







1. Total IMF resources. Data through 2017 provided by the IMF. Data for future years are based on current quotas and the current schedule for when borrowing arrangements will expire, and thus are subject to change.
2. Most of the Bilateral Borrowing Agreements were absorbed into the New Arrangements to Borrow (NAB) from 2011 onward. The 2016 agreements have an initial term to end-2019, extendable through end-2020 with creditors' consent.
3. The current NAB period ends in November 2022.

The IMF needs to advance reform programs that have, as a goal, higher median incomes and that help incentivize the market-based allocation of capital, underpinned by dependable money at the core.

The IMF has a key role to play in pressing for timely, accurate, and comprehensive debt information from borrowers and creditors. It must promote stronger debt management processes in low income countries. We welcome the IMF's work to strengthen the low-income debt sustainability framework and look forward to its implementation next year. Similarly, we are encouraged by IMF efforts to incorporate a heavier focus on public corruption, which not only wastes limited public resources, but also acts as a deterrent to private sector investment and growth.

Because sustained global excess imbalances pose substantial risks to future economic growth, a key priority for the Administration is overseeing progress in efforts to correct such imbalances. The IMF does, and should, play a critical role in advising, informing, and helping member countries achieve global economic stability and stronger economic growth. The IMF must be a more forceful advocate in making clear policy recommendations that surplus and deficit countries can implement in order to address global imbalances. As a first step, we have urged the IMF to elevate the External Sector Report to flagship status and will engage with the IMF as it seeks to strengthen the External Balance Assessment model next year.

Additionally, the uptick in global growth and the relative calm in international markets has presented us with an opportunity to advance policies to further stimulate both domestic and global growth. Notably, we included the following, new language in the International Monetary and Financial Committee (IMFC) communique and the APEC Finance Ministerial Statement:

*Strong fundamentals, sound policies, and a resilient international monetary system are essential to the stability of exchange rates, contributing to strong and sustainable growth and investment. Flexible exchange rates, where feasible, can serve as a shock absorber.*

Exchange rate instability has been a major cause of investment uncertainty and the cost of cross-border investments, and the current stability, supported by strong fundamentals, should encourage investment and growth worldwide.

The IMF will begin the 15<sup>th</sup> General Review of Quotas in 2018 with a goal, as decided by the IMF's Board of Governors, to complete it no later than the Annual Meetings in October 2019, with any changes taking effect in 2020 and beyond. The review will assess the adequacy of the IMF's resources and determine whether to adjust members' quotas and quota shares. There is no assumption of larger quotas, and the Administration has not yet made any decisions regarding the 15<sup>th</sup> review. It is Treasury's view that the IMF currently has ample resources to fulfill its mission, following the implementation of the 14<sup>th</sup> quota review last year. In the upcoming review, we will support IMF reforms in line with the U.S. goal of promoting global growth, while ensuring that the U.S. maintains its veto on key issues within the IMF.

### **Conclusion**

The Administration wants economic growth not only for the U.S., but for the whole world. It is not a zero-sum game where our achievements must come at another country's expense. Sustainable and inclusive prosperity builds on itself and is critical not only for climbing out of poverty and creating wealth, but also for global security.

U.S. leadership and strong relationships with our allies and partners will be critical to advancing a policy agenda that contributes to rising median income, a level playing field for American firms, and prosperity that contributes to national security. Just as my colleagues are working with Congress to embark on reforms intended to spur domestic economic growth, I look forward to working with you to improve the growth trajectory for the global economy for the benefit of all Americans.

Thank you for your time, and I am pleased to take any questions.

**QUESTIONS FOR THE RECORD FOR  
UNDER SECRETARY FOR INTERNATIONAL AFFAIRS DAVID MALPASS  
SUBMITTED BY REP. DENNY HECK (WA-10)**

**CFIUS MISSION**

1. My understanding is that CFIUS performs three fundamental missions: reviewing transactions, monitoring mitigation agreements, and monitoring for non-notified transactions. For each of these three missions, could you offer your views on the following questions?

- a. Is this mission important?

Response: Yes. CFIUS plays a critical role in protecting the national security of the United States, which it does through each of its three core missions: reviewing transactions that have been submitted to CFIUS and taking action as necessary to address any national security concerns; monitoring and enforcing compliance with mitigation measures; and identifying transactions of concern that have not been notified to CFIUS for review.

- b. Is it being achieved?

Response: CFIUS is accomplishing these three missions; however, recent increases in transaction volume and complexity have strained CFIUS and its member agencies. For example, from 2009 through 2013, 96 covered transaction notices were filed with CFIUS per year on average.<sup>1</sup> In 2016, 172 covered transaction notices were filed with CFIUS. And in 2017, a record 238 notices were filed. This total represents more than a 100% increase as compared to the 2009 to 2013 average. As CFIUS has seen a significant increase in volume, the national security issues it is confronting have also become significantly more complex, due to the way foreign governments are using investments to meet strategic objectives, increasingly complex transaction structures, and increasingly globalized supply chains, among other things.

- c. What is the biggest constraint or difficulty in achieving this mission, statutory authority or budget constraints?

Response: As mentioned in my response to the previous question, the increase in transaction volume and complexity has strained CFIUS and its member agencies.

In addition, CFIUS has observed the increased use of new transaction structures by foreign investors that CFIUS does not have the statutory authority to review, such as certain joint ventures and non-passive, but non-controlling, investments. These transactions often pose similar national security considerations as those currently

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<sup>1</sup> In 2009, 65 covered transaction notices were filed; in 2010, 93 covered transaction notices were filed; in 2011, 111 covered transaction notices were filed; in 2012, 114 covered transaction notices were filed; and in 2013, 97 covered transaction notices were filed. CFIUS Annual Report to Congress for CY 2015 (September 2017).

covered by CFIUS. We support the Foreign Investment Risk Review Modernization Act (FIRRMA), which would expand CFIUS's authorities to cover such transactions, and urge Congress to advance the bill on a bipartisan, bicameral basis.

2. Does CFIUS's mission need to be expanded beyond the three missions outlined in question 1?

Response: CFIUS should remain focused on its three core missions. However, as mentioned in my previous response, it is the view of the Department of the Treasury that CFIUS's statutory authority should be expanded to allow it to review additional transactions beyond those that could result in foreign control of a U.S. business. FIRRMA would accomplish this.

#### **CFIUS ANNUAL REPORT**

3. CFIUS just released its annual report for the 2015 Calendar Year in September of this year. Section 7(b)(m)(1) of the Foreign Investment and National Security Act of 2007 (FISMA) requires the Chairperson of CFIUS to submit an annual report before July 31 of each year describing reviews and investigations of covered transactions during the prior calendar year.
  - a. What are the causes of the significant delays in submitting the CFIUS annual report to Congress? How can Congress help ensure the annual report is submitted in a timely manner?

Response: The increase in transaction volume and complexity throughout 2016 and 2017 has strained the resources of CFIUS and its member agencies. As a result, CFIUS's resources are fully dedicated to achieving its core missions, which has ultimately led to delays in the publication of CFIUS's annual report. Treasury believes that timely publication of the annual report is important and is committed to reducing delays in the publication of future reports.

#### **BUDGET**

4. Did Treasury include a request for additional funds for CFIUS-related activities in Fiscal Year 2018?

Response: Treasury reallocated internal resources to make additional resources available to increase Treasury CFIUS personnel in FY2018, but it did not request additional funds in its FY 2018 budget request. Additional CFIUS-related resources (\$564K) were requested in the FY 2017 budget request and provided for in the Consolidated Appropriations Act 2017 (P.L. 115-31, dated May 5, 2017).

5. Assuming, for this question, that the CFIUS statute remains unchanged, do you intend to request additional resources for CFIUS-related activities in Fiscal Year 2019?

Response: Treasury's FY 2019 budget request maintains the baseline funding to support its CFIUS related requirements. The President's Budget for FY 2019 is reflective of the administration's goals of focusing on rebuilding the country's national defense and investing in our most pressing security needs. .

6. To the extent that CFIUS will draw additional resources to carry out responsibilities it may be charged with by CFIUS modernization proposals, and given the constrained budget environment, what is your strategy to keep greater demands from CFIUS from crowding out other areas of the Treasury budget?

Response: Expansion of CFIUS authority will require additional resources. Should proposed CFIUS reform legislation be enacted, without a prioritization of key areas of concern for national security or a commensurate increase in resources, the Department would need to review all assigned programs and associated funding within its portfolio to determine what resource allocation adjustments were necessary.

#### **THE FOREIGN INVESTMENT RISK REVIEW MODERNIZATION ACT (FIRRMA)**

7. Section 3(a)(5)(C) of FIRRMA requires CFIUS to develop definitions of covered transactions included in the bill through regulation.
  - a. Section 3(a)(5)(C)(iii) of FIRRMA allows CFIUS to exclude certain joint ventures otherwise included in the definition of "covered transaction" contained in the bill on the basis that other provisions of law are sufficient to address national security risks associated with the joint venture.

- i. If FIRRMA is enacted, does Treasury intend to use this discretionary authority to deem other provisions of law sufficient?

Response: Yes. CFIUS would use this discretionary authority to exclude certain "covered transactions" in the event that it determines that other provisions of law—such as export controls—are adequate to address any national security concerns. In this way, Treasury would seek to focus CFIUS resources on only those transactions for which the national security risk is not otherwise adequately addressed under other authorities. Treasury expects that other provisions of law would be adjusted to better enable review of certain transactions for national security risks under those authorities, as necessary.

- ii. If other provisions of law provide an equivalent level of protection to national security exist, does Treasury have a preference as to whether they be reviewed through CFIUS or other provisions?

Response: Treasury believes that CFIUS is most effective as a last line of defense when no other provisions of law are adequate and appropriate to address a national security risk. As such, other provisions of law that are more efficient and tailored to address particular national security risks

should be used before CFIUS is employed. This is because CFIUS, as an interagency committee, is a time- and resource-intensive process that draws upon expertise across the Executive Branch to complete its national security reviews of covered transactions. This is consistent with CFIUS's mandate to only take action when no other provision of law is adequate and appropriate to address the national security risk.

- iii. Are there reforms needed to other provisions of law to achieve a comprehensive solution to the risks the CFIUS process is intended to mitigate?

Response: While CFIUS modernization is critical to ensuring our national security, it is not a silver bullet for addressing all national security concerns posed by an evolving foreign investment landscape. In order to achieve a comprehensive solution, it is important to consider whether the implementation or scope of other authorities can be enhanced or modified to ensure that national security is protected while maintaining an environment that also promotes investment and innovation in the United States.