

**Statement of  
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**Before the**

**Senate Committee on Foreign Relations  
Subcommittee on East Asian and Pacific Affairs**

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**Economic Aspects of the Asia Rebalance**

Chairman Cardin, Ranking Member Rubio, and distinguished Members of the Subcommittee, thank you for the opportunity to appear before you today with Department of Commerce Principal Deputy Assistant Secretary John Andersen to testify on the Economic Aspects of the U.S. Rebalance to the Asia-Pacific. I would also like to thank the Committee for its leadership in supporting and promoting engagement with the East Asia-Pacific region and advancing U.S. interests there. The Department of State looks forward to working with you and other Members of Congress to continue to build on our current efforts in the region.

Recognizing that America's future prosperity and security are very much intertwined with the prosperity and security of the East Asia-Pacific region, President Obama made a strategic commitment when he came into office to rebalance our interests and investments to this region. The President set out a clear, overarching objective for the United States in the region to sustain a stable security environment and advance a regional order rooted in economic openness, peaceful resolution of disputes, and respect for universal rights and freedoms.

The Administration remains committed to this objective and is building an increasingly active and enduring presence in the East Asia-Pacific region, including through our economic engagement. President Obama has hosted seven Asian leaders in 2013 alone, including six visits to the Oval Office; Vice President Biden traveled to Japan, China and Korea in early December; and in addition to Secretary Kerry's four trips to the region since assuming office, other cabinet

members including Secretary Lew, USTR Froman, Secretary Pritzker, Secretary Hagel, Secretary Jewell, Secretary Sebelius, Secretary Moniz, and EPA Administrator McCarthy have all traveled to Asia in 2013.

We have made significant progress on the rebalance in a number of areas—modernizing our alliances, deepening our engagement with emerging powers such as China, strengthening regional institutions, and promoting democracy and human rights. But, during his first major speech on the rebalance to the Australian Parliament in 2011, President Obama framed the rebalance by emphasizing that the Asia-Pacific is critical to achieving his highest priority — creating jobs and opportunity for the American people. For this reason, the economic pillar of the rebalance is paramount and will have widespread and significant positive impacts at home and in the region for many years to come.

The past few decades have produced an extraordinary period of prosperity in the East Asia-Pacific region. It has lifted hundreds of millions out of poverty across the entire region and fostered dynamic, innovative economies that today are fueling global growth. The World Bank recently projected that the East Asia-Pacific region will contribute 40 percent of global growth this year, and some forecasters expect that nearly 50 percent of world growth over the next two decades will be generated in this region, yielding hundreds of millions of new middle class consumers.

Tapping into the economic dynamism of the East Asia-Pacific is vitally important for U.S. interests. Even as we continue to lay the foundation for future economic ties, we are already seeing progress in many areas. For instance, trade with the East Asia-Pacific region grew by 22 percent between 2008 and 2012, far outpacing the 13 percent growth in global U.S. trade. In 2012, U.S. exports of goods and services to the East Asia-Pacific region totaled nearly \$555 billion, an increase of 31 percent since 2008, which supports an estimated 2.8 million U.S. jobs.

Direct investment in both directions has also helped to solidify our bond with the region and demonstrates the lasting commitment of U.S. businesses to the region's development and economic integration. The United States is by far the leading foreign investor in the East Asia-Pacific region with the stock of U.S. foreign direct investment (FDI) standing at around \$622 billion in 2012, up 35 percent from the U.S. investment position in 2008, with nearly one-third located in ASEAN member countries. Investment into the United States from economies of the East Asia-Pacific is also growing, increasing by 31 percent since 2008 to reach \$422 billion by the end of 2012. Between the major investments made by our

private sector and the potential for U.S. industry to tap the region's growing consumer base, American businesses recognize that the future economic growth of the Asia-Pacific region and our increasing economic ties with the region are centrally important to economic growth and job creation in the United States.

While the East Asia-Pacific region offers enormous opportunities, there are certainly critical challenges as well. We have clear shared interests to address these challenges by working together towards greater energy and environmental security. For example, rapid economic and population growth has created enormous strains on the region's food, water, forest, marine and energy resources. In many areas, the increased use of fossil fuel for industries and transportation has resulted in dangerous levels of pollution that in turn pose dangers to people's health and accelerate climate change. On the political and security fronts, the resurfacing of long-standing territorial disputes threatens the stability of the region. How we respond to these challenges will determine our long-term ties to the region, as well as the region's future. The Department recognizes that U.S. economic ties to the region are the fundamental underpinning of our relationship and, for the overall rebalance to be successful, we must get the economic component right.

I would like to emphasize that to get it right requires a whole-of-government effort in close partnership with our private sector. Here in Washington, we need to work on policy formulation and coordination, and in the field, the various agencies within the U.S. missions in the region need to work effectively as teams to implement our programs, initiatives, and policies and to advance U.S. interests. For our part, the Department is dedicating diplomatic, public diplomacy, and assistance resources to the region in a way that is commensurate with the truly comprehensive nature of our engagement. And we are broadening our focus to elevate issues of economic development (including energy, environment, health and education), commercial diplomacy, and entrepreneurship. I want to emphasize that in Washington and through our embassies, we strive to work very closely with the U.S. business community. This partnership is essential to our collective success.

Secretary Kerry is personally committed to and actively involved in the U.S. economic agenda for the region. For example, he undertook extensive engagement with regional leaders, business CEOs, and young entrepreneurs at the Asia-Pacific Economic Cooperation (APEC) Leaders' Week in Indonesia, the East Asia Summit in Brunei, and the Global Entrepreneurship Summit (GES) in Malaysia in October. Secretary Kerry is just now returning from visits to Vietnam and the Philippines in

which we bolstered our bilateral economic partnerships. Economic, energy, and climate issues figured prominently during Vice President Biden's recent trip to the region as well. While trade and investment with the region have increased, we understand there is potential for greater growth, and the State Department, in conjunction with the inter-agency team, has stepped up economic engagement across the board, through regional economic initiatives and bilaterally.

## **Trade and Investment Promotion**

The State Department and the U.S. missions in the region are dedicated to advancing the President's National Export Initiative in support of U.S. jobs. Our missions have established Interagency Commercial Task Forces to provide economic, commercial, agricultural, and trade services in the most efficient and productive manner possible and, where other agencies are not present, our economic sections are on the front line of export promotion. We are actively engaging in commercial advocacy on behalf of U.S. firms. In addition to the advocacy our Ambassadors conduct on a routine basis, we raise commercial concerns with foreign governments on the margins of various fora, such as the UN General Assembly and APEC.

Our missions abroad also have been actively promoting investment and tourism. With respect to tourism, our recent reciprocal visa waiver agreement with Taiwan and significant reductions in visa interview wait times in China have spurred tourist as well as business travel to the States.

On investment, our Ambassadors are hosting investment promotion seminars, talking to business leaders around the region to encourage them to consider job-creating investments in the United States, and working with American service providers to help educate potential investors about how to comply with U.S. laws and regulations. FDI into the United States from economies in the East Asia-Pacific region is already growing, but we cannot rest on our laurels. Just over a month ago, the State Department worked with the Commerce Department to launch the SelectUSA Summit. As a result, over 170 companies from the East Asia-Pacific region attended and received the message that the United States is "open for business."

In announcing an expansion of SelectUSA during the Summit, the President noted there would be an enhanced role for U.S. embassies and consulates around the world to attract investment into the United States. We are committed to build on past success in promoting inward investment from the East Asia-Pacific region;

however, we recognize this may pose resource challenges as we strive also to maintain efforts to promote U.S. exports, assist U.S. companies with commercial deals and disputes, monitor and report on economic conditions, and engage host governments on economic and commercial policy. While we can help identify business opportunities and facilitate information sharing, in the end, decisions on trade and investment transactions are and should be made by companies on business grounds. The United States must continue to be competitive. To do so, in part, means fully resourcing the State Department, the Office of the U.S. Trade Representative, the Foreign Commercial Service, U.S. Export-Import Bank (EXIM), the Overseas Private Investment Corporation (OPIC), and the U.S. Trade and Development Agency (USTDA).

### **Trade and Investment Liberalization – Enabling Environment**

While the promotion of exports sales and investments provide immediate, tangible results for U.S. businesses and, by extension, the country, the Department also understands the importance of laying the policy groundwork on which the East Asia-Pacific region and the United States can continue to grow with shared prosperity. Even before the rebalance, we were actively promoting a more open trade and investment environment in the East Asia-Pacific through our collaboration with economies of the region in APEC, and through the full implementation of free trade agreements with Singapore, Australia and the Republic of Korea (ROK).

These efforts have paid off. Our economic relationship with Singapore is flourishing, with bilateral trade having increased almost 60 percent and U.S. exports by 85 percent since the United States-Singapore FTA entered into force in 2004. While Singapore is host to almost 2,000 U.S. companies, it also accounted for \$26 billion in foreign direct investment stock in the United States at the end of 2012. The United States-Australia Free Trade Agreement has also led to increased trade and investment. The United States is Australia's leading investment partner, with \$132 billion of U.S. investments in Australia and bilateral trade in goods and services has nearly doubled since 2004, topping \$64 billion in 2012.

The United States-Korea Free Trade Agreement, or KORUS FTA, is already providing tangible benefits for U.S. manufacturers, workers, and farmers. It is expanding one of the most vibrant trading relationships in the world, one that topped \$130 billion U.S. dollars in goods and services in 2012. We believe that more benefits await. By January 1, 2016, Korean tariffs on over 95 percent of exports of U.S. industrial and consumer goods to Korea will have been eliminated.

We are working closely with the Korean government to ensure that the FTA is implemented smoothly and fully and that American companies can take full benefit of the trade pact.

We have also continued to build on our past successes within APEC. The U.S. Senior Official to APEC is a part of the Bureau's team. We coordinate and collaborate with interagency colleagues and the U.S. business community to advance a robust work program within the 21-member APEC to address various economic issues of interest to the United States in the region. In the past year, the U.S. interagency APEC team worked with our Indonesian APEC hosts and other APEC members to achieve meaningful results for our stakeholders: 1) advancing cooperation on combating illegal trade in wildlife as well as illegal logging and associated trade; 2) promoting cross-border education opportunities; 3) improving supply chain performance in the region; 4) agreeing on alternative ways to promote job creation and competitiveness without implementing local content requirements; 5) promoting greater regulatory coherence in APEC economies; 6) implementing APEC members' commitment to reduce tariffs on environmental goods; and 7) establishing a public-private dialogue to address non-tariff measures impacting trade in environmental goods and services. The U.S. private sector is heavily involved in APEC, and we collaborate closely with the U.S. business community to achieve tangible, useful outcomes in that forum. We are currently consulting with the U.S. private sector and with other U.S. agencies to develop a comprehensive agenda for the 2014 APEC year, which China will host.

The United States must engage fully both to tap the growth in the region and to ensure that our exports maintain a strong market share in the coming years in light of the rising number of bilateral and regional free trade agreements in the East Asia and Pacific region. As Secretary Kerry noted recently in his October 18 op-ed, "A shared commitment to economic growth and innovation is part of why the Trans-Pacific Partnership (TPP) agreement is a cornerstone of the President's economic policy in Asia." The twelve current TPP partners account for nearly 40 percent of global GDP and one-third of world trade. The agreement will provide the United States with greater access to some of the most important markets in the world, including Japan, which has the world's third largest economy and is our fourth largest trading partner.

The TPP agreement, an important outgrowth of the APEC trade and investment liberalization agenda, will drive growth and create jobs across the Asia-Pacific region and the United States. Substantial progress was made by USTR Froman and his counterparts during the TPP Ministerial in Singapore December 7-10,

generating positive momentum on the remaining negotiating issues. The TPP trade ministers will meet again early next year. We believe this work can move ahead swiftly, but at the same time have been clear that substance will drive the timetable. Looking down the road, we see the TPP agreement not just as an important vehicle to boost U.S. exports, but also as a compelling platform for regional economic integration as the economic benefits of its high standards become apparent and its membership expands over time.

The Association of Southeast Asian Nations (ASEAN) is also an increasingly important U.S. economic partner. Collectively, these ten countries (Brunei Darussalam, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) have a market of approximately 600 million consumers, GDP of more than \$2.2 trillion, and economic growth that has been faster than the world average for the past decade. Last year, in Phnom Penh, President Obama and the leaders of the ASEAN states welcomed the launch of the Expanded Economic Engagement (E3) initiative. The E3 is a framework for economic cooperation designed to expand trade and investment ties between the United States and ASEAN and to lay the groundwork for ASEAN countries to prepare to join high-standard trade agreements like the TPP. As part of the E3 initiative, the Department funded the travel of ASEAN Economic Ministers to the United States in June 2013 to meet with business leaders in IT, healthcare, innovation and logistics. We expect Commerce Secretary Pritzker will lead a trade mission to the region in 2014, and we'll continue to look for opportunities to support U.S. businesses in this dynamic region.

I would like to take a moment to cite our growing relationship with Burma as an example of how we have opened new markets for U.S. business and done so in a responsible manner and consistent with supporting our broad-based human rights agenda. Since 2011, the Burmese government has undertaken a series of political and economic reforms, and, as a result, relations between our two countries have changed dramatically. In that time, the United States has not only eased economic sanctions on Burma, we have worked collaboratively with the Burmese government to strengthen the country's regulatory environment, provided technical assistance to facilitate its reentry into the world economy, and helped advise and encourage American businesses to enter the Burmese market in a manner supportive of Burma's reform efforts. As American businesses have entered Burma, they have brought their corporate best practices with them, including those on labor rights, environmental protection, transparency and corporate social responsibility. This is a great example of our government and private sector complementing each other to help fundamentally transform the Burmese economy.

Through October of this year, U.S. exports to Burma reached over \$124 million, already far exceeding the combined annual exports of 2011 and 2012. Burma will chair ASEAN in 2014 for the first time and has requested U.S. assistance in fulfilling that role, including support for highlighting a key policy theme for its chair year, environment and climate change.

The United States also maintain an intense level of engagement with China in keeping with the priorities that President Obama set with President Xi at Sunnylands in California earlier this year – notably on the agreement to collaborate to phase-down the use of potent greenhouse gasses known as HFCs. We have emphasized practical cooperation to avoid the trap of strategic competition. Our rebalance to Asia is not meant to contain China as part of a zero sum game, but rather to build a foundation of long-term mutual understanding and respect. At the same time, we continue to press China on issues of significant concern, such as human rights. In the economic sphere, we call on China to strengthen household consumption, allow the renminbi exchange rate to be determined by market forces, protect intellectual property rights (including trade secrets), liberalize factor prices, expand market access, adopt greater regulatory transparency, and establish a level playing field in its markets for private and foreign-invested companies.

We engage China in high-level dialogues, including the Strategic and Economic Dialogue (S&ED), which State and Treasury co-chair, as well as the Joint Commission on Commerce and Trade (JCCT), which USTR and Commerce co-lead. These dialogues provide opportunities to raise our top priorities and concerns with the Chinese leadership as well as in comprehensive working-level discussions. Although strictly bilateral, we engage at these dialogues on some of the Asia-Pacific region's most dynamic issues, global challenges, such as energy, climate change, financial stability.

Through these bilateral dialogues and through other engagements with China, we have made progress that dovetails with our engagement in the region. At the S&ED in July, China committed to negotiate a bilateral investment treaty (BIT) that would include the key concepts of establishing protections at the market access phase and negotiating any exceptions in advance in the form of a “negative list.” Although much negotiation still remains, the BIT commitment deepens China's participation in the global rules-based economic system. Such bilateral progress does not preclude multilateral advances, but rather strengthens them by raising the bar for everyone in the region.



We are also partnering with the U.S. private sector and governments in the region to build essential entrepreneurship skills. Since President Obama hosted the first Global Entrepreneurship Summit (GES) in 2010 -- as an outcome of his 2009 Cairo speech -- the United States has expanded programs and built a broad coalition of governments, business people, civil society, investors, and academics to educate and support entrepreneurs around the world. This year, the Government of Malaysia hosted GES 2013, widening the focus from Muslim-majority countries to a greater cross-section of entrepreneurs, including from the East Asia-Pacific. The event brought together over 3,000 entrepreneurs, investors, academics, startup organizers, business people, and government officials from over 100 countries. In his remarks at the Summit, Secretary Kerry highlighted the central role of entrepreneurship for economic development and growth and areas of U.S. collaboration.

### **Sustainable Growth – Creating Shared Prosperity**

The East Asia-Pacific region is poised for economic growth that will make it an even more attractive market for U.S. exports, but for that growth to truly transform the region it must be responsible and sustainable. To promote environmental sustainability, we have advanced work in APEC to improve energy efficiency, increase transparency and reporting of subsidies for inefficient fossil fuels, promote greener standards of building construction, combat illegal logging, and reduce wildlife trafficking. To address the economic dimensions of human security in the region we support work in APEC to promote sustainable health systems, build resiliency in supply chains to natural disaster, and address food security. To build up human resources and expand economic opportunities, we are working to connect SMEs to global value chains, increase mobility of university students, and promote women's economic empowerment.

Given the impact a natural disaster can have on a country's economy, let alone its people, the State Department recognizes the importance of humanitarian assistance and disaster relief. The U.S. Government responded to Typhoon Haiyan by quickly deploying military personnel and a USAID Disaster Assistance Response Team and by arranging airlifts and providing other emergency services for American citizens. In the Philippines today, the Secretary of State announced an additional \$24.6 million in humanitarian assistance, bringing the total to about \$86 million. We are also working hard to facilitate public-private partnerships that will help with the recovery effort. We have also provided support to Palau in the wake of Typhoon Haiyan damage there and continue to look at ways we can assist in

rebuilding in that country. As a Pacific nation, the United States is committed to helping our neighbors cope with and recover from such disasters.

Energy is a key component of U.S. economic engagement with the Asia-Pacific, and we are pleased to welcome Singapore and Vietnam to co-chair the U.S.-Asia Pacific Comprehensive Energy Partnership (USACEP). Through this Partnership we hope to bring cleaner and more secure energy to the region and supply electricity access to many of the 387 million people in Asia without power. Given the region's estimated \$9 trillion needed for investment in electricity alone over the next 20 years, the potential for energy cooperation is substantial. Our work is to help U.S. businesses tap into that potential. Through efforts by the State Department, the Commerce Department, EXIM, OPIC, and USTDA, we are working with U.S. companies to develop potential smart grid, wind, solar, biomass, and geothermal energy projects throughout the region. We have also worked with the Energy Department, Commerce Department, and USTDA to promote the development of China's shale gas sector so that U.S. companies may have new opportunities to invest, apply their expertise, and help China meet its energy needs with cleaner-burning natural gas.

As part of this effort, EXIM and OPIC have made available \$6 billion in financing resources to support the deployment of American clean energy technology, services, and equipment to the region. The State Department, OPIC, and USTDA have also announced the creation of the Asia-Pacific Clean Energy Program, a one-stop shop in Embassy Bangkok that will provide financing and technical support for energy companies seeking to do business in the region. We are confident that this support will produce results throughout the region as OPIC and EXIM have worked with the private sector to provide over \$1.2 billion in financing support for renewable energy and energy efficiency globally last year.

President Obama's FY 2014 budget request to Congress provides \$1.2 billion in State-USAID funding for East Asia and the Pacific. It is essential that funding continue to reflect the priority of the rebalance policy. For instance, the State-funded and USAID managed U.S.-APEC Technical Assistance to Advance Regional Integration (US-ATAARI) program is integral to our efforts within APEC to build members' capacities in areas such as trade and investment liberalization, domestic regulatory environments, and human security. In July 2013, State and USAID launched the five-year ASEAN Connectivity Through Trade and Investment (ACTI) technical assistance program, which complements E3 activities and aims to help ASEAN achieve its goal of forming an ASEAN Economic Community by 2015. The Lower Mekong Initiative is a State- and

USAID-funded partnership between the United States, Cambodia, Laos, Burma, Thailand, and Vietnam that fosters integrated sub-regional cooperation in the areas of education, health, environment and water, connectivity, agriculture and food security, and energy security.

The State Department, USAID, and other interagency partners such as the Millennium Challenge Corporation (MCC), are also working bilaterally to consolidate economic reforms and competitiveness in countries that are emerging in the lower-middle income bracket, and help the poorest EAP nations reduce poverty. In the Philippines, under the Partnership for Growth framework, the United States is addressing the most binding constraints to broad-based economic growth and investment, including helping to promote broad-based, inclusive, and sustainable growth, and improve peace and stability in the conflicted areas in Mindanao. Although Indonesia has experienced robust growth, 50 percent of its population still lives at or below the poverty line. Therefore, U.S. assistance to Indonesia encourages policies that increase competitiveness across a number of sectors and encourage labor-intensive economic activities. Programs in Vietnam have promoted judicial reform and the implementation of its World Trade Organization commitments. In Mongolia, our programs promote private sector competitiveness, financial sector growth, and mining industry reforms. These regional and bilateral economic development programs are designed to work in tandem to help build the economic foundation and capabilities needed to support regional economic integration and facilitate increase bilateral trade opportunities for American businesses.

The United States remains a key partner for Pacific nations in development and addressing global threats like climate change. Since 2010, the U.S. has provided climate change assistance for the Pacific Islands. At the Pacific Islands Forum in Majuro, Secretary of the Interior Jewell announced that USAID has launched the Pacific-American Climate Fund, a grant-making facility to provide and monitor grants for climate change adaptation measures in the Pacific Islands region.

The Department of Treasury's Office of Technical Assistance (OTA) also has a significant presence in the region. ASEAN represents one of OTA's largest investments of technical assistance resources, with 19 projects in six countries (Burma, Cambodia, Indonesia, Philippines, Thailand, and Vietnam) emphasizing five core areas: budget policy and accountability, banking and financial services, government debt issuance and management, financial crimes, and revenue policy and administration. OTA's recently initiated engagements in Burma focus on (1)

helping the Burmese authorities to build a transparent, accountable, and fair revenue administration system and (2) developing an effective anti-money laundering and counter financing of terrorism (AML/CFT) regime. OTA also supports the Partnership for Growth initiative with the Philippines, and Treasury negotiated Tropical Forest Conservation Act debt for nature swaps with the Philippines and Indonesia.

Another very important tool for the reduction of poverty and for fostering good governance and sound economic policies in the region is the MCC Compact agreements. The MCC Compacts have delivered solid results for a number of countries in the Asia-Pacific region, and we are currently implementing Compacts in Indonesia and the Philippines.

I would like to conclude by underscoring the fundamental point that a peaceful and prosperous Asia-Pacific benefits the peoples of United States and of the region. The Department of State is totally committed to the Asia-Pacific rebalance and, in particular, is dedicated to ensuring that our economic engagement with the region continues to be robust and reflects that overall commitment.