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**The Strategic Implications of Trade Promotion and Capacity-Building in the
Asia-Pacific Region**

Chairman Gardner, Ranking Member Cardin, and Members of the Subcommittee: Thank you for the opportunity to testify before you today together with my colleagues, Assistant Secretary of State for Democracy, Human Rights, and Labor, Tom Malinowski, and Jason Foley, the Deputy Assistant Administrator in the Asia Bureau of the U.S. Agency for International Development (USAID).

Over the last six years, the Administration’s sustained “rebalance” to the Asia-Pacific has established a “new normal” of extensive collaboration with Asia-Pacific allies and partners on important global issues, driven by a high tempo of engagement by the President, the Secretary of State, and other Cabinet and senior officials.

Our Vision for the Asia-Pacific Region

The Administration’s rebalance to the Asia-Pacific recognizes that our future prosperity and security are inextricably tied to that region. Economies in the region have witnessed a period of extraordinary growth over the past few decades as they have liberalized trade and opened their borders. Literally hundreds of millions of people have been lifted out of poverty and into a middle class expected to reach 3.2 billion people by 2030. This growing middle class has expanded trade opportunities and growth in countries around the world, including the United States. The rebalance reflects the importance we place on our economic, security, public diplomacy, and strategic engagement in the Asia-Pacific, and our strong support for advancing democracy, good governance, justice, and human rights. These goals are mutually reinforcing elements of a unified strategy.

Our economic engagement with Asia – aimed at creating a system that is open, free, transparent, and fair – creates new opportunities for growth at home, and strengthens our strategic presence abroad. It helps to build more stable societies by encouraging governments to strengthen rule of law. It supports our trade and investment goals by promoting laws and institutions that secure property rights, enforce contracts, and fight corruption. It empowers citizens to hold their governments accountable on issues such as protecting the environment and product safety, which is also important to the health and wellbeing of our own people. It aligns American leadership with the aspirations of ordinary people in the region, and with values that they admire, thus distinguishing us from other great powers past and present.

By the same token, our strategic presence in Asia – our alliances, our trade agreements, our ability to provide security and reassurance to our friends – ensures that our partners in the region maintain confidence in our leadership for peace and prosperity. The United States is not the only great power with a vision for the future of the Asia-Pacific. To advance the vision we share with so many of the region’s people, we must be principled and present at the same time.

These are all reasons why this Administration is committed to advancing our economic engagement with Asia. Our engagement with the region is deep, enduring, and expanding, covering many more issues and programs than we are able to fully discuss here. Most important is America’s private sector presence in the region. Our bilateral trade in goods and services is at an all-time high, reaching over \$1.4 trillion in 2013. U.S. businesses remain the largest source of foreign investment in East Asia and the Pacific. But the U.S. government plays a key market expansion role as well, including by providing hundreds of millions of dollars in assistance each year to developing Asia, and thereby training thousands of officials on issues vital to our interests such as customs and trade facilitation, ICT connectivity, financial regulation, energy efficiency, environmental governance and resources management, and disaster preparedness.

The Trans-Pacific Partnership

Concluding the Trans-Pacific Partnership (TPP) negotiations remains the single most important thing the United States can accomplish in its economic and strategic relationship with the Asia-Pacific this year. The centrality of the TPP to the United States’ Asia policy is fundamental. The Asia-Pacific region is home to some of the world’s most dynamic economies, some of our closest allies, and some

of our most demanding challenges. As our prosperity and security are inextricably tied to the region, so too are foreign policy and trade policy inextricably linked to each other. Trade issues cannot be separated from larger questions about America's global leadership.

As Secretary Kerry recently said, "If we retreat on trade, our influence on the global economy will diminish. And if our economic stature is in doubt, our ability to deliver on defense and political challenges will be increasingly questioned. In today's world, the economic and security realms are absolutely integrated; we simply cannot retreat from one without diminishing our role on the other." We have to be fully engaged in each of these realms – commercially, politically, and diplomatically.

With the TPP, we, along with our partners, are building a stable foundation for trade and investment in the Asia-Pacific region. Through the agreement, we will leverage 40 percent of global GDP to articulate the values that we want to see prevail – values like protecting the rights of workers and the environment, ensuring transparency and participation in regulatory processes, and enforcing laws against bribery and laws protecting intellectual property rights. These are the same values that are vital to a healthy business environment, and are sustainable only in a region where rights are respected, institutions are stable, and disputes are settled in accordance with the rule of law.

TPP will include strong and enforceable labor standards and environment commitments, groundbreaking new rules to ensure fair competition between state-owned enterprises (SOEs) and private companies; commitments to improve transparency and consistency of the regulatory environment, a robust intellectual property framework to promote innovation while supporting access to medicines and an open internet. The agreement will also protect and underscore the need to maintain the free flow of data across borders. This is not only vital to the effective working of a modern digital economy, but also enhances the right of individuals to freedom of information, which reflects our democratic values.

Despite its economic gains, the Asia-Pacific region continues to be plagued by corruption and environmental destruction, and inadequate labor standards persist in many corners of the region. TPP will help ensure the region's future economic growth is sustainable and guided by a framework that is cemented in place by us and our partners.

TPP will also have a broader magnetic effect on the region, beyond its current membership, by encouraging non-members to adopt to open, fair, and transparent trade and investment policies in their efforts to attract new economic partners. The TPP example can help spur them to make reforms to elevate the standards of their trade and investment regimes, and lower tariff and non-tariff barriers to trade and investment.

Trade Policy Leadership in America's Interests

The Asia-Pacific's growing engagement with the world will not wait for us. If we do not take the lead, we risk ceding leadership to other countries that do not share our interests and our values, and are pushing their own regional initiatives with weaker standards. Presently, China and others are negotiating a number of agreements. These agreements do not protect workers' rights or environmental interests. They do not adequately protect intellectual property rights or help maintain a free and open internet. And they do not address unfair competition from state-owned enterprises. If these agreements were to become the model for the fastest growing region of the world, it would not only put our workers and firms at a significant disadvantage, it would also result in Asian markets being carved up, removing us from supply chains, decreasing our linkages to important allies, and seeing our overall influence diminished.

There is another important reason why the United States is pushing for a global system of trade agreements that so heavily emphasizes resolving non-tariff issues, over and above seeking tariff reduction. The comparative advantage theories of the 19th century British economist David Ricardo described a world of arms-length transactions – of commodities sent overseas in simple exchange for other commodities. The economy of the 21st century – and this is especially true for the United States, which stands at the apex of the modern economy – is a much more complex system, where trade in services ranks with trade in goods, and goods and services are often inter-mixed. Today's economy is a system where investment begets trade and trade spurs investment; where products move electronically as well as physically; and where globalized value and supply chains can witness products crossing borders numerous times before being ready for final consumption. In such a globalized economy, fair rules are the key to promoting the interests of our people, workers, and employers alike – fair rules on issues like investment, regulatory transparency and coherence, customs procedures, intellectual property, e-commerce, and data protection.

It is precisely because the United States has the most complex economy – because

we are the leader technologically, and in services, and in higher-value-added manufacturing – that we must use all the tools at our disposal to propagate rules that allow us to harness that complexity to our advantage. “All the tools” includes technical assistance – as we negotiate path breaking reforms in important areas such as labor and the environment, we also want to develop technical assistance tools to ensure that our trading partners are successful in implementing these reforms.

And we need to do this now. Thirty years ago, the majority of the world’s population lived in countries classified as low-income. Now, the lion’s share live in middle-income countries. These nations are active in international trade and investment policymaking, and they influence the rules of the road. While the United States currently has comprehensive trade agreements with 20 countries, primarily in Latin America, there are over 200 such agreements in Asia. As economic power spreads more widely around the world, we need to face the fact that our opportunity to shape the rules to our advantage, as a nation, may be limited in time and scope. Our weight in global economic affairs is challenged as the rest of the world becomes a middle-income economy. We need to act now while we still have the leverage to succeed.

APEC and ASEAN

The Trans-Pacific Partnership, then, is an urgent and vital initiative. At the same time, while the TPP is rightfully considered the centerpiece of our Asia-Pacific economic “rebalance” strategy, it is by no means the only tool at our disposal. And fortunately some other key mechanisms also allow us to reach out effectively and expand economic ties with other Asia-Pacific economies that have not yet volunteered to join TPP, or are not yet ready to meet its standards.

The Asia-Pacific Economic Cooperation (APEC) forum, in particular, has been critical as an incubator for new ideas that are now being incorporated into the TPP. When I served as the U.S. Ambassador to APEC, I saw firsthand the potency of its work in spreading best practices on not only trade and investment, but also other key issues such as environmental protection and promoting more inclusive growth. The United States continues to bolster APEC’s role as the region’s premier economic forum for advancing free and open trade and investment, and fostering sustainable and equitable growth. Its 21 member economies accounted for 44 percent of world trade and 54 percent of global GDP in 2013, consisting of both small and large economies, and more advanced and developing economies. The

practical training and policy deliberations that the United States and other key players sponsor under the APEC umbrella are intensely valuable.

Another critical avenue of U.S. strategic economic engagement is through our Partnership Dialogues with ASEAN and our support of the ASEAN Economic Community (AEC). We continue to work to deepen our trade relations with all of ASEAN through the U.S.-ASEAN Expanded Economic Engagement initiative, as well as through bilateral efforts with the individual ASEAN members. When fully implemented, the AEC will integrate the diverse economies of ASEAN and create a region with freer movement of goods, services, investment, skilled labor, and capital. Thus the AEC has tremendous potential to benefit the people of ASEAN, and as the top investor in ASEAN, it has equal potential to benefit the United States. I believe my colleague from USAID will mention a number of specific examples of highly successful trade capacity-building programs that USAID has implemented through both ASEAN and APEC, among them the ASEAN Single Window project.

In fact, technical assistance on trade-related capacity-building is undoubtedly among the wisest forms of investment we can make. Such work not only accelerates growth in developing economies, it also creates greater opportunities for growth in our own economy – even as it reinforces the “export” of American values such as transparency, good governance, and fair play. When I visit and speak with government officials from middle-income nations around the world, whether in Southeast Asia, Central America, Central Asia, or Eastern Europe, their top request of the United States is consistently that we invest more in teaching and sharing best practices on questions like improving customs facilitation, which can both spur trade and help stem corruption.

Multilateral development banks are also useful partners in this work. When thinking about Asia-Pacific regional economic integration in particular, the Asian Development Bank (ADB) has been at the forefront of supporting shared solutions and approaches to issues such as water resources management and regional energy supply and connectivity. The Greater Mekong Subregion (GMS) program, for example, and the Central Asia Regional Economic Cooperation program, known as CAREC, have worked diligently on a sub-regional basis to promote development through cooperation, leading to accelerated growth and poverty reduction.

The existing multilateral development banks such as the ADB have prioritized transparency, sound governance, and social and environmental safeguards in their own operations and in the standards they set in the region. As these existing

institutions continue their work, there is a set of new actors and institutions that are also poised to contribute to development, particularly infrastructure finance, in the broader Asia-Pacific region and beyond. The United States aims to communicate with such institutions, such as the emerging Asian Infrastructure Investment Bank sponsored by China, to help ensure that they have a positive impact on regional development.

China

No discussion of the Asia-Pacific economy would be complete without considering the important role of China. The past 30 years have seen China undergo an unprecedented transformation, as hundreds of millions of its citizens emerged from poverty, migrated to cities, and reengaged with the world with a voracious appetite driven by voluminous government-led investment. China's economy has grown a staggering 1,600 percent since 1983, reducing the proportion of its population living on the equivalent of less than two dollars a day from almost 93 percent in 1984 to less than 20 percent in 2011. The net result is now an economy that rivals that of the United States in terms of its gross size and scale of activity. China accomplished this, however, at great expense to its environment, and in a manner that emphasized rapid growth over other social and political development considerations. China's internal focus on building a strong economy while retaining firm government control over economic activity remains at odds with the American vision of economic growth led by entrepreneurship, adherence to the rule of law, and a free and strong private sector. Concerns about basic aspects of China's approach to economic policy have deepened in recent months due to the recent spate of regulations and laws introduced by China that could cast doubt on the legality of a wide range of normal economic activities.

Because of these differences between the U.S. and Chinese economic policy models, some commentators have suggested that the United States should feel threatened by China's growing economic role among its neighbors. Indeed, China has made no secret of its ambitions to retake what it considers to be its rightful place in the region and in the world. There are reasons, however, why the United States should not be overly concerned about this, and be confident in our long-term strategies.

First and foremost, we must remember that, when it comes to influencing economic policy affairs, the quality of ideas matters as much as the quantity of transactions. China is in the process of discovering that, in a globalized world economy, possessing a large trading economy does not translate into unilateral

monopoly power or monopsony power that can be used to twist the arms of one's neighbors. At the same time, possessing large cash reserves can allow one to make a positive contribution to regional and global economic development. But it is much harder to use such financial might in aggressive or exclusivist ways when the world's financial markets are highly intertwined and capital is a priced commodity.

In fact, the United States should be reassured, by the experience of the TPP and our other initiatives, about the powerful attractiveness of our model of economic cooperation, which is mutually beneficial and respects the needs of all participants. Any other model will not work for long in the modern world, and that is a good thing.

So, while vigorously pressing China to open its own markets and show greater respect for rule of law inside China, we will continue to confidently prod China in positive directions in the regional context.

Direct bilateral engagement with China is, of course, an urgent business, and the upcoming U.S.-China Strategic and Economic Dialogue is an important opportunity to make progress in advancing U.S. economic priorities and narrowing areas of disagreement. Presently, on a bilateral basis, one of the most interesting initiatives directly involving the State Department is the ongoing negotiation toward concluding a Bilateral Investment Treaty (BIT) with China. These talks offer an important opportunity to support economic reform in China, and to promote a more level playing field for U.S. investors in China's market. We are seeking a high quality BIT with a "negative list" reflecting a high level of openness to foreign investment. We are also pressing for strong investor protections for U.S. investors, supporting transparency, predictability, and the rule of law. We need to see additional progress on the ground in China in terms of economic reform. We need China to do more to welcome American businesses and reassure them that they will not be subject to discriminatory treatment and that their intellectual property will be protected.

Conclusion

In short, the Administration is using a wide range of tools, ranging from the Trans-Pacific Partnership to trade capacity-building programs to APEC and ASEAN and our direct engagement with China, to help build an Asia-Pacific economic system that will allow the United States to realize the full and lasting benefit of being a Pacific power. The Administration remains committed to working with Congress on this high priority agenda.

Thank you for your attention.