

**REBALANCE TO ASIA IV: ECONOMIC ENGAGEMENT  
IN THE ASIA-PACIFIC REGION**

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**HEARING**

BEFORE THE

SUBCOMMITTEE ON EAST ASIAN  
AND PACIFIC AFFAIRS

OF THE

COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE

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## **REBALANCE TO ASIA IV: ECONOMIC ENGAGEMENT IN THE ASIA-PACIFIC REGION**

**WEDNESDAY, DECEMBER 18, 2013**

U.S. SENATE,  
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10:06 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Benjamin L. Cardin (chairman of the subcommittee) presiding.

Present: Senators Cardin, Murphy, Rubio, and McCain.

### **OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, U.S. SENATOR FROM MARYLAND**

Senator CARDIN. Good morning, everyone. It is my understanding that Senator Rubio is on his way, so I am going to get started and welcome everyone to this hearing of the Subcommittee on East Asia and Pacific.

I want to thank Senator Menendez and Senator Corker for their cooperation in the work of the subcommittee and particularly thank Senator Rubio for his help and cooperation as we have worked together to establish an agenda for the subcommittee.

This is one of a series of hearings that we have held in regards to the Rebalance to Asia, and we are going to focus today on the economic engagement issues. Before we get started in my formal comments, let me point out that this has been a year of learning for me. My focus on foreign policy issues previous to this term of Congress was mostly in Europe and Central Asia in my role with the Helsinki Commission. I took on this challenge because of the importance of East Asia and the Pacific and also because of the rebalance programs.

I was aided in this by one of our fellows who come to us from the executive agencies, Elise Mellinger. I mention that because she started with me this year, she is an expert in this area, and she did incredible work in helping us to prepare for this responsibility. This will be the last hearing that she will be attending. The sad news about these detailees is that we lose them after a period of 1 year. I just want to publicly thank her for her service to the United States Senate and to my office. It is a particularly good day to do this because it is her birthday.

So thank you.

Ms. MELLINGER. Thank you.

Senator CARDIN. Economic engagement is a critical part of the rebalance program. It is critical to stability, it is critical to

prosperity, it opens markets to U.S. producers, manufacturers, and farmers. It creates jobs for Americans. It promotes private investment.

It was a major focus of my visit to the region earlier this year and was a primary focus of Vice President Biden's trip recently in his visit to China, Japan, and the Republic of Korea. Secretary Kerry's trip to Vietnam underscored the importance of economic engagement and also indicated that we must use our economic engagement to promote human rights.

I think it is particularly important to underscore that this week as we celebrate the life of Nelson Mandela. The mineral wealth of South Africa only became unleashed as a result of denying the government the opportunity for economic engagement unless it changed its apartheid policies. That policy worked. South Africa changed, with a minimal amount of bloodshed.

I think it really underscores the importance of our economic engagements to advance good governance and human rights. The Secretary said in his recent trip to Vietnam: "We are working very closely with Vietnam and other regional partners in order to complete the TPP negotiations as quickly as possible, but to realize our potential as a partner and for Vietnam to realize its potential as a thriving economy—and this is something we talk about openly and frankly—Vietnam needs to show continued progress on human rights and freedom, including the freedom of religion, freedom of expression, and freedom of association."

So it is clear that we need to talk on the economic engagement front as to the progress made in many countries on labor rights, women's empowerment, and combating corruption, promoting democracy, religious freedom, good governance, and the list goes on and on and on and on.

I was pleased to see that Asia-Pacific Economic Cooperation Forum goals included expanding economic opportunities for women and combating corruption. The ASEAN adopted a declaration to safeguard women and children from violence—an important basic human right. And the East Asian Leaders summit included human rights as a major focus. So we are making progress.

The United States and China share the goals of increasing regional connectivity and prosperity in the Asia-Pacific region. I believe it is in the United States interest for China to be a prosperous, peaceful, and strong partner with respect to its neighbors and international norms, laws, institutions, and rules. I look forward to seeing more economic reform as China recognizes the importance of halting currency manipulation and creating home-grown innovations. I have talked about this before. Currency manipulation is unacceptable, and China needs to respect intellectual property.

Chinese initiatives like creating the new Shanghai pilot free trade zone and granting more market access are steps in the right direction. I was pleased to see that at the Third Party Plenum in November China proposed reforms to boost competition and economic efficiency. Implementing these reforms will be the true test and this will require sincere commitment from President Xi and other Chinese leaders. I hope that China will quickly begin to

implement these reforms and that they will include a reduction in the role of government in promoting state-owned enterprises.

However, as former Secretary of State Clinton has said, over the long run you cannot have economic liberalization without political liberalization. They are connected. And we must emphasize this. I was encouraged to hear that at China's Third Party Plenum the government announced its commitment to "respect and protect human rights"—that is their quote—prohibiting law enforcement authorities from extracting confessions by torture, corporal punishment, or abuse, and abolishing the tortuous reeducation through the labor system. If properly implemented, these will be groundbreaking reforms. These are signs perhaps that China realizes that its authoritarian capitalism cannot be sustained over time because the suppression of a country's people only creates the illusion of stability. It does not keep a people from wanting the freedom to express their own opinions without fear of being jailed or killed and the freedom to live as they see fit.

Democracy remains the model which holds the most promise for economic growth. We can see this idea taking hold throughout the region from Burma to Timor-Leste.

So we come full circle at this hearing back to where we started. The first hearing we held on the rebalance of Asia dealt with good governance and we are back to that issue as we tie it together through economic engagement. Discrimination against women and minorities are contrary to economic development goals. Markets cannot effectively operate unless human rights and civil liberties, including freedom of speech, association, and the press, are protected. Failing to protect workers' basic rights undermines a nation's development and violates internationally recognized human rights norms.

Finally, corruption is a critical issue which we must tackle through cooperation in both the public and private sectors. Corruption is the enemy of the rule of law. It destroys public institutions meant to protect people, denying them the justice and depriving them of their human rights. Corruption in Asia is a drag on growing economies, draining billions of dollars from economic development and the livelihood of Asians. It is also a major obstacle to reducing poverty in Asia. I am glad to see that APEC and ASEAN leaders have recognized the importance of dealing with these issues.

I look forward to hearing from our witnesses about the critical issues and the next step in the economic engagement with the Asia-Pacific region.

With that, I would turn to my colleague and friend Senator Rubio.

**OPENING STATEMENT OF HON. MARCO RUBIO,  
U.S. SENATOR FROM FLORIDA**

Senator RUBIO. Thank you. Thank you for holding this hearing and all of you for being here. I think we are all well aware of the challenges that we face in the region. Especially the security challenges have been in the headlines over the last few weeks. For instance, we have a dictator with nuclear weapons who has just executed his uncle. We have seen China try to assert its territorial

claims in ways that jeopardize peace with Japan, South Korea, and the entire region.

These are real threats. But there also are extraordinary opportunities to which we need to pay close attention and dedicate time, effort, and resources, not just to our security interests there, but also to the real economic opportunities that are a vital component of our own enduring prosperity.

I hope our goals will be ambitious in that regard. The Asia-Pacific will not simply hold onto its current share of global activity. It is actually going to expand. It is going to grow, and I hope we will be an integral part of that growth. For that reason, I think it is important to get the so-called "rebalance" right.

Asia today accounts for about 33 percent of U.S. trade. China is our second-largest trading partner. Japan is No. 4. As a block, the 10 nations in the Association of Southeast Asian Nations would rank fifth. Meanwhile, the top four countries on the 2013 index of economic freedoms are from the Asia-Pacific region.

Therefore, I think the question is what more should we be doing to ensure that the United States is continuing to succeed economically, particularly in this vital region of the world. The Trans-Pacific Partnership, which I know we will hear a lot about today in both testimony and questions, can be an important part of that effort and we should do all we can to finalize those negotiations. I am very interested in the testimony today to hear an update on where we stand with regards to that.

It is also important to remember that, as Senator Cardin pointed out just a moment ago, we are a nation that is built around values, that we cannot leave by the wayside our commitment to promote democracy, but also respect for human rights. A proactive approach for these ideals has to go hand in hand with everything we do everywhere in the world. This is especially true in a region of increasing importance like the Asia-Pacific region. These ideals, by the way, define who we are as a people and as a nation, and they should continue to be an integral part of our efforts overseas.

So I look forward to hearing from the witnesses today. I hope to learn more about the specific initiatives that the administration is pursuing and has in mind to address these challenges and these opportunities. Mr. Chairman, thank you for this hearing.

I would just ask that at the appropriate time the written testimony of Mr. Walter Lohman, who is the Director of Asian Studies at the Heritage Foundation, be included at an appropriate place in the record.

I thank you, and I thank all of you for being here.

Senator CARDIN. Without objection, it will so be included.

We now turn to our first panel. The Honorable Scot Marciel is a well-known face before our committee. We welcome him back, the Principal Deputy Assistant Secretary, Department of State, Bureau of East Asian and Pacific Affairs. Secretary Marciel began his term as Principal Deputy Assistant Secretary in August 2013 after serving for 3 years as the U.S. Ambassador to the Republic of Indonesia. Mr. Marciel previously served as the Deputy Assistant Secretary of East Asia and Pacific Bureau, responsible for relations with Southeast Asia, and the Ambassador to ASEAN Affairs.



Our second witness is the Honorable John Andersen, who is the Principal Deputy Assistant Secretary for Global Markets at the Department of Commerce in the Office of International Trade Administration. He is responsible for overseeing both market access and commercial issues. Previously he was the Principal Deputy Assistant Secretary for Market Access and Compliance, and prior to that the Senior Director for Western Hemisphere Affairs in the International Trade Administration.

We welcome both to the committee, and we will start with Secretary Marciel.

**STATEMENT OF HON. SCOT A. MARCIEL, PRINCIPAL DEPUTY ASSISTANT SECRETARY, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC**

Ambassador MARCIEL. Chairman Cardin, Ranking Member Rubio, thank you very much for the opportunity to appear today before you on the economic aspects of the Asia rebalance. I would like to thank the committee for its leadership in supporting our engagement with the East Asia-Pacific region.

Recognizing that America's future prosperity and security are 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 the region. He set out a clear objective for the United States 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. The President himself has hosted seven Asian leaders this year, including six visits to the Oval Office. The Vice President, as you mentioned, was recently in the region. Secretary Kerry is just returning from his trip, his fourth trip this year, and many other Cabinet members have traveled to Asia this year.

Our economic engagement is aimed at creating jobs and opportunities for the American people, as well as shared prosperity in the region, and reinforcing our longstanding engagement in the region. The past few generations have produced an extraordinary period of prosperity in the East Asia-Pacific region. Tapping into this economic dynamism is important for our interests. Even as we continue to lay the foundation for future economic ties, we are already seeing progress in many areas.

For example, U.S. goods and services exports to the region totaled nearly \$555 billion last year, which is up 31 percent from 2008, and were estimated to have supported as many as 2.8 million jobs here in the United States. Our companies are the leading investors in the region, with cumulative investment of over \$600 billion in 2012. Meanwhile, foreign investment from the region to the United States has also sharply increased, again up about 31 percent since 2008.

But we want to do more. We are using a whole of government effort in close partnership with the private sector, the business community. We are advocating for U.S. businesses, working to attract foreign investment and tourism, reduce trade and investment

barriers, and promote prosperity. Secretary Kerry is personally advancing the U.S. economic agenda in the region through his active engagement with regional leaders, business leaders, and entrepreneurs.

Our embassies and consulates are key partners in this effort. Most of them have established interagency task forces within the embassies to provide economic, commercial, agricultural, and trade services to promote exports and advocate on behalf of U.S. companies. We are very actively engaged, working with our colleagues from the Commerce Department, in commercial advocacy at the highest level on behalf of U.S. firms. In fact, just a few weeks ago the State Department worked with the Department of Commerce to launch the Select USA summit, which over 170 companies from East Asia-Pacific region attended.

Beyond this, we are also laying the policy groundwork for expanded trade and investment. We have a number of bilateral free trade agreements in the region, including recently with Korea, and are now in the final stages of Trans-Pacific Partnership negotiations. As Secretary Kerry noted recently, "A shared commitment to economic growth and innovation is part of why the Trans-Pacific Partnership agreement is a cornerstone of the President's economic policy in Asia. This partnership will drive growth and create jobs across the Asia-Pacific region and the United States."

APEC also remains a key forum in which we are able to advance efforts to reduce barriers to and facilitate trade and investment, promote growth, and strengthen economic integration. APEC is effective in providing a formal role for the private sector and we collaborate closely with the U.S. business community to achieve tangible, useful outcomes.

The TPP negotiations themselves are an important outgrowth of the trade and initiative liberalization agenda of APEC.

We are also increasing our economic engagement with ASEAN and bilaterally throughout the region, including intensive bilateral engagement with key economies in the region such as China, Japan, and Korea, working on things like IPR protection, resolving commercial disputes, expanding market access.

Very importantly, we are also working to do what we can, including with our USDA colleagues, to promote inclusive, sustainable growth in the region so that these markets grow. These markets which are so key to our future continue to grow, creating prosperity there, but also opportunities there. That is why we continue to provide a lot of assistance, with the support of the committee and Congress, supporting this inclusive growth framework.

I would like to conclude by underscoring the fundamental point that the peaceful and prosperous East Asia-Pacific benefits the people of the United States and the region. The State Department is totally committed to the Asia rebalance and in particular is dedicated to ensuring that our economic engagement continues to be strong and focused on creating prosperity for East Asia and for the United States.

Thank you very much.

[The prepared statement of Ambassador Marciel follows:]

## PREPARED STATEMENT OF SCOT A. MARCIEL

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 toward 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 dan-

gerous 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 longstanding 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 interagency 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 U.N. 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 12 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 min-

isters 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 10 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, health care, 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 cochair, as well as the Joint Commission on Commerce and Trade (JCCT), which USTR and Commerce colead. 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 par-

ticipation 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 cochair 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 5-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 subregional 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 antimoney 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.

Senator CARDIN. Thank you for your testimony.  
Secretary Andersen.



**STATEMENT OF HON. JOHN ANDERSEN, PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR GLOBAL MARKETS, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE, WASHINGTON, DC**

Mr. ANDERSEN. Chairman Cardin, Ranking Member Rubio, thank you for the opportunity to speak before you today on the Department of Commerce's engagement in the East Asia-Pacific region. I also want to thank my State Department colleague, Principal Deputy Assistant Secretary Scot Marciel, for his leadership and dedication to advancing U.S. interests in the region.

In 2011 President Obama stated that deepening trade and investment ties between the United States and Asia was critical to our long-term economic expansion and job growth. The Department's International Trade Administration is responsible for strengthening U.S. competitiveness, promoting exports, ensuring compliance with our trade agreements, and enforcing U.S. trade laws. As such, ITA plays a key role in the Asia rebalance, and our efforts are driven by the needs of our primary constituency, the U.S. business community.

The EAP region contains seven of our top 21 priority export markets. These 35 economies account for nearly 28 percent of U.S. goods and services, totaling roughly \$612 billion. ITA staff in 100 locations across the country and in over 70 markets around the world is dedicated to helping companies enter new markets and expand in current ones.

Areas where we are seeing the most opportunities in the EAP region are in health care, energy, and infrastructure sectors. To meet these opportunities in the region, ITA began redeploying its overseas resources. As a result, over the last 3 years our regionally based staff increased from 210 to almost 300.

Doing business internationally can be risky and the EAP region comes with its fair share of challenges and rewards.

For example, China, our second-largest trading partner, presents an extremely complex market. To assist U.S. companies in navigating it, ITA has devoted 14 percent of its overseas resources, representing the largest footprint of any ITA operation outside of the United States. Moreover, in our recent consolidation we created a separate unit to focus greater attention on China's commercial challenges and opportunities.

Beyond China, we are working within ASEAN and APEC. In October, Secretary Pritzker traveled to Indonesia, Singapore, and Malaysia to participate in the APEC CEO summit and to advance U.S. commercial interests. Additionally, ITA also plays the lead role in APEC's small- and medium-sized working group and has hosted capacity-building workshops on ethical business practices for SMEs, energy efficient building standards, and good regulatory practices.

Our FTA's with Australia, Singapore, and South Korea have also helped expand commercial ties with the EAP. While we did not conclude the TPP negotiation during this month's round of meetings, we are closing in on an ambitious next generation comprehensive trade agreement that reflects U.S. economic priorities and values.

In addition, ITA's advocacy and inward investment activities enhance its mission to promote U.S. exports and contribute to U.S. job creation and economic growth. ITA's Advocacy Center, which coordinates all U.S. Government commercial advocacy, helps U.S. companies win government contracts. For 2013, client companies reported wins estimated at over \$12 billion in the EAP region.

To encourage inward investment, the Obama administration created Select USA in the Commerce Department, the only U.S. Government-wide program to attract, retain, and grow business investment in the United States. In 2012 the Asia-Pacific region's stock of foreign direct investment in the United States totaled roughly \$424 billion. Six weeks ago we hosted the first Select USA investment summit, a completely sold-out event, with more than 1,300 participants, including international and domestic firms and more than 200 representatives from 48 States, 4 territories, and the District of Columbia. As my colleague Principal Deputy Assistant Secretary Marciel indicated in his remarks, it was a whole of government exercise.

ITA is also responsible for administering U.S. antidumping and countervailing duty laws. We currently have 162 orders in place against countries in the EAP region, most of which originate in China. In some circumstances, we can refer cases to the U.S. Trade Representative's Office or the recently created Inter-Agency Trade Enforcement Center, the ITEC. The ITEC provides critical research, analysis, translation, and support for a number of our ongoing disputes.

As I noted, the EAP's growing importance is reflected in ITA's mission. ITA staff will continue to participate and support USTR during the TPP negotiations. Today Secretary Pritzker is in China getting ready to begin the 2013 JCCT high-level meeting. In 2014, Commerce will lead two executive trade missions to the Singapore Air Show and to Japan, Korea, and Taiwan to promote the United States travel and tourism industry.

Thank you for the opportunity to speak with you today and I welcome any questions.

[The prepared statement of Mr. Andersen follows:]

#### PREPARED STATEMENT OF JOHN ANDERSEN

##### INTRODUCTION

Chairman Cardin, Ranking Member Rubio, and members of the committee, thank you for the opportunity to speak about the Department of Commerce's role in promoting U.S. businesses abroad, and in particular, our engagement in the East Asia and Pacific (EAP) region.

In 2011, President Obama acknowledged that the Asia-Pacific region is critical to achieving his highest priority, that of creating jobs and opportunities for the American people. To support the President's objectives of advancing economic prosperity by expanding exports and deepening trade and investment ties between the United States and Asia, Secretary of Commerce Pritzker traveled to Indonesia, Singapore and Malaysia in October, to participate in the APEC CEO summit meeting and to advance U.S. trade priorities, including pressing for the conclusion of the negotiations for a Trans-Pacific Partnership Agreement as soon as possible.

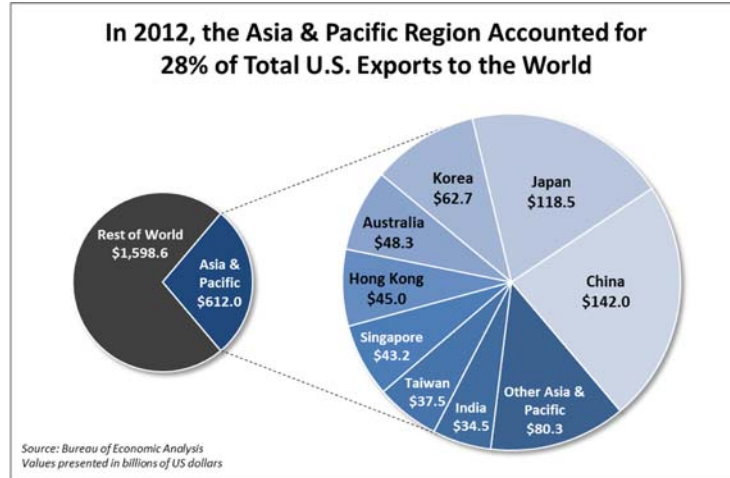
The Department of Commerce's International Trade Administration (ITA) is one of the primary agencies responsible for strengthening the competitiveness of U.S. industry in the global market, promoting U.S. exports, monitoring compliance with U.S. trade agreements, and enforcing U.S. trade laws. ITA's efforts are driven by the needs of our primary constituency—the U.S. business community. In 2013, 7 of our top 21 priority export markets were located in Asia and 41 percent of the clients

we counseled worldwide, were interested in doing business in the EAP region. There is little doubt that Asia is a growing market for companies looking to expand their business and ITA continues to engage aggressively on this front.

#### THE IMPORTANCE OF EAST ASIA AND THE PACIFIC

The 35 EAP<sup>1</sup> economies constitute a total population of more than 2.2 billion people with a combined GDP of \$24.5 trillion in 2012.<sup>2</sup> This dynamic region represents 29 percent of global GDP. The Asia and Pacific region<sup>3</sup> is a major market, accounting for 28 percent of U.S. goods and services exports in 2012. Among U.S. merchandise exports, manufactured goods such as electrical machinery, machinery, and aircraft are among the leading products the U.S. exports to EAP countries. Aside from manufactured goods, oil seeds such as soybeans are a major export to the region, most of which go to China.

A priority for Department of Commerce in the region is to build partnerships and institutions across the Pacific capable of meeting 21st-century challenges and ensuring market access for U.S. firms. Through deeper trade and investment ties we intend to contribute to the peace, security, and prosperity of the region as a whole. The United States relationships with Japan, the Republic of Korea, Australia, the Philippines, and Thailand form a natural cornerstone of our strategic position in the Asia Pacific and complement our multilateral efforts to ensure regional prosperity and development at a time of evolving challenges. At the same time, a key element of our rebalance policy is to continue pursuing a positive, comprehensive, and cooperative relationship with China.



U.S. exports to Asia and the Pacific Region for 2012

Country	Value of Exports in \$	Share of U.S. Exports to the World
China	\$142.0 billion	6.4%
Japan	\$118.5 billion	5.4%
Republic of Korea	\$62.7 billion	2.8%
Australia	\$48.3 billion	2.2%
Hong Kong	\$45.0 billion	2.0%
<i>Asia &amp; Pacific Region Total* total is not for East Asia-Pacific</i>	<i>\$612.0 billion</i>	<i>27.7%</i>
<i>World</i>	<i>\$2,210.6 billion</i>	<i>--</i>

Source: U.S. Bureau of Economic Analysis, "Table 12. U.S. International Transactions, by Area," (accessed September 20, 2013)

## Top U.S. merchandise exported to the East Asia and Pacific Region in 2012

Top Merchandise Sectors	Value of Exports	Share of Sector's U.S. Exports to the World	Top EAP Markets
Electrical Machinery	\$52.3 billion	32.2%	China (\$9.7 billion), Hong Kong (\$7.4 billion), Republic of Korea (\$6.2 billion)
Machinery	\$49.1 billion	22.8%	China (\$11.6 billion), Australia (\$6.9 billion), Republic of Korea (\$6.3 billion)
Aircraft and parts	\$34.2 billion	32.7%	China (\$8.4 billion), Japan (\$8.3 billion), Singapore (\$4.0 billion)
Optic and medical instruments	\$28.8 billion	34.5%	Japan (\$8.2 billion), China (\$7.0 billion), Republic of Korea (\$3.0 billion)
Oil seeds	\$21.2 billion	71.8%	China (\$15.1 billion), Japan (\$1.9 billion), Indonesia (\$1.0 billion)
<i>All Merchandise Exports to East Asia &amp; Pacific</i>	<i>\$396.2 billion</i>	<i>25.6%</i>	<i>China (\$110.5 billion), Japan (\$70.0 billion), Republic of Korea (\$42.3 billion)</i>

Source: Foreign Trade Division, U.S. Census Bureau

## SUPPORTING U.S. COMPANIES

ITA currently has staff in over 100 cities in the United States and 73 markets around the world, whose goal is to help U.S. companies enter new markets and expand in current ones.

ITA understands the EAP region's growing demand for U.S. goods and services and the needs of American companies doing business there. In fact, in 2006, ITA began redeploying its resources from other regions to Asia. From 2010 until 2013, our staff increased from 210 to 299 in EAP. In this time of fiscal constraint, ITA repositioned staff from other parts of the world to take into account the growth in opportunities in Asia. The President's FY 2014 budget requests additional funds to support adding more staff to the region.

While ITA does not have sufficient resources to place staff in all EAP countries, we are maximizing regional coverage in partnership with other agencies. For example, ITA has a formal relationship with the State Department whereby our staff provides guidance and assistance to the State Department in locations where ITA is not present. Our offices in Bangkok, Singapore, Beijing, and Sydney support State Department staff in Burma, Laos, Brunei, Mongolia, Cambodia, and Fiji. This partnership is an important component of our strategy and efforts to leverage resources across the Federal Government. This relationship has also allowed us to maintain staff at the Asian Development Bank (ADB) in the Philippines where we provide information to U.S. companies on projects funded by the ADB.

ITA also runs the Advocacy Center which helps U.S. companies—small, medium, and large enterprises in various industry sectors win government contracts across the globe. Last December, the President established an Interagency Commercial Task Force on commercial advocacy in order to better coordinate U.S. Government efforts and better support U.S. firms competing for foreign project or procurement opportunities. The most active sectors which have requested commercial advocacy include: aerospace, defense, energy and power, health care, infrastructure, computers/IT/security, and telecommunications. The Advocacy Center coordinated the

U.S. Government strategy across the Executive branch (Departments of Commerce, Defense, Energy, State and Transportation) for U.S. exporters during interactions with relevant members of foreign governments. As of September 30, 2013, client companies reported 10 wins with estimated contract values of \$12.4 billion and U.S. export content of \$8.4 billion. In addition, the Advocacy Center is managing 207 cases in the EAP region worth approximately \$70 billion in proposed contracts.

Whether it is educating companies on how to take advantage of growing commercial opportunities in the region, enforcing existing free trade agreements (FTAs) or working more generally to improve the region's business climate, ITA's goal is to ensure U.S. companies have the tools necessary to compete on a level playing field. ITA helps level the playing field by monitoring foreign governments' compliancy with their trade agreement obligations, and by enforcing U.S. trade laws.

#### MEETING THE CHALLENGES OF DOING BUSINESS

Doing business internationally can be risky and confusing for companies, particularly small- and medium-sized enterprises that are at the core of ITA's mission. ITA's policy efforts are geared toward improving short-, medium- and long-term successes in international commerce. We do this in three ways: (1) providing direct support to U.S. companies, using existing tools and relationships to help resolve commercial problems; (2) opening markets and improving the business climate; and (3) by representing U.S. industry interests during trade negotiations.

ITA provides direct support for real-time business needs. Its goal is to ensure that trading partners in the EAP region implement their trade and investment agreement obligations and otherwise afford market access for U.S. exports. Within the EAP region, the United States has FTAs in effect with Australia, Singapore, and the Republic of Korea. In order to monitor implementation of these agreements, ITA uses its close relationship with U.S. industry, as well as its understanding of the region and its presence overseas to ensure that these countries are fulfilling their obligations under the FTAs. ITA's network of foreign and domestic commercial officers, locally employed staff, and industry experts in Washington, DC, and trade specialists around the country work closely with U.S. firms to help them overcome barriers to doing business in foreign markets.

Let me highlight a few key EAP markets and regional associations where ITA plays a critical role helping U.S. companies:

##### *China*

ITA's presence in China, with a total of five posts (Beijing, Chengdu, Guangzhou, Shanghai, Shenyang) and a staff of over 130 representing several ITA units and other Commerce Bureaus, gives us the largest footprint of any ITA operation outside the United States. Our Commercial Service staff in China has seen the highest number of state-supported trade missions since the inception of the State Trade and Export Promotion program over a year ago. In fact, given the growing importance and sophistication of the Chinese market, ITA, as part of its recent consolidation, created a separate unit to focus greater attention on the Chinese economic area.

China is our second-largest trading partner and the relationship continues to grow. In 2012, we exported \$110.5 billion worth of goods to China, with agriculture and transportation equipment representing the largest export sectors. Demand for U.S. goods and services continues to grow in China, however, there are many issues that U.S. companies need to be aware of and vigilant about before attempting to enter the Chinese market. These include registration and protection of intellectual property rights (IPR), due diligence on potential clients and partners, and administrative licensing. In addition, China often lacks predictability in its business environment, and its legal and regulatory systems can be opaque, inconsistent, and often arbitrary. The U.S. Government uses two main bilateral venues for addressing challenges that U.S. companies face in China: the U.S.-China Joint Commission on Commerce and Trade (JCCT) and the U.S.-China Strategic and Economic Dialogue (S&ED).

The JCCT is the primary forum for addressing bilateral trade and investment issues and promoting commercial opportunities between the United States and China. The Secretary of Commerce and the U.S. Trade Representative cochair the annual U.S.-China JCCT forum. ITA serves as the lead bureau for Commerce's participation in the JCCT. At last year's JCCT meeting, the United States made progress in addressing key concerns in our bilateral trade relationship including: protection and enforcement of IPR; localization of intellectual property and technology; certain tax provisions; government procurement practices; regulatory obstacles; regulatory data protection for pharmaceuticals; and market access for U.S. companies in China's strategic emerging industries.<sup>4</sup> The next JCCT High-Level Meeting is scheduled for December 19–20.

For the S&ED, the Commerce Department plays a leading role in the Trade and Investment Session of the Economic Track of the dialogue. The S&ED met this past July and made concrete progress toward expanding U.S. export and investment opportunities in China. Most important, the Chinese Government committed to enter into substantive bilateral investment treaty negotiations with the United States to provide greater protections for U.S. investments in China. China also agreed to prioritize enforcement against the theft of trade secrets, to submit a new and improved offer to accede to the World Trade Organization (WTO) Agreement on Government Procurement in 2013, and to adopt new disciplines on state-owned enterprises (SOEs), which would help level the playing field for U.S. companies competing against SOEs.

#### *Japan*

Japan is the world's third-largest economy and our fourth-largest trading partner. The United States exported \$70 billion in goods to Japan in 2012. Responding to an economic recovery package introduced by new Prime Minister Shinzo Abe, Japan has shown steady economic growth and its Nikkei stock market has increased over 50 percent this year. On July 23, 2013, Japan formally joined negotiations for the Trans-Pacific Partnership (TPP) during the 18th round of negotiations in Malaysia after working out a robust package of actions and agreements with the United States. TPP participation creates for Japan a tremendous opportunity to stimulate domestic economic reform and continue on the track toward sustained economic growth. The participation of Japan, a major U.S. trading partner, as well as close U.S. ally, raises the economic significance of a TPP Agreement. With Japan's entry, TPP countries account for nearly 40 percent of global GDP and about one-third of all world trade. Japan's TPP participation, its nascent economic recovery, and prospect for domestic structural reforms create new opportunities for American exporters and investors. Japanese companies are also key partners for U.S. firms in major sectors, including civil aviation and defense.

Since the March 2011 accident at Fukushima Dai-ichi Nuclear Power Plant, U.S. firms have assisted Japan in various ways including monitoring at the damaged plant, nuclear waste water treatment, decontamination work, and support of integrated dose reduction planning. U.S. firms have the expertise and technology to assist with continued cleanup at the plant (decommissioning, water treatment), remediation of the area outside the exclusion zone surrounding the plant, and waste management. In October 2013, Japan informed the United States of its plans to ratify within the coming year the Convention on Supplementary Compensation for Nuclear Damage (CSC), an agreement that establishes an international framework for nuclear liability. In its official announcement, Japan noted that ratifying CSC would help to facilitate the participation of foreign companies in nuclear decommissioning and contaminated water management at Fukushima. Commerce is working with Japan to facilitate partnerships between U.S. and Japanese firms to best assist with the recovery. In February 2014, Commerce is organizing a business to business forum which will promote these partnerships.

#### *Lower Mekong Initiative*

The Lower Mekong Initiative (LMI) is a multilateral partnership effort initiated by the United States in 2009 for promoting cooperation in the Mekong subregion (Burma, Cambodia, Laos, Thailand, and Vietnam) in the areas of education, health, environment and water, connectivity, agriculture and food security, and energy security.

Under the LMI Connectivity Pillar, ITA is working with other U.S. Government agencies to develop workshops for the health, information and communication technology, aviation, and energy sectors. The workshops will provide an opportunity for the LMI countries to highlight numerous active and potential infrastructure projects. These workshops will also allow the LMI governments and the U.S. Government agencies to develop successful methods of incorporating private investment into infrastructure development through the use of public-private partnerships. The workshops will take place in the LMI countries over the next few years.

#### *Using Existing Tools and Relationships*

ITA is actively engaged with both the Association of South East Asian Nations (ASEAN) and the Asia Pacific Economic Cooperation (APEC) on a variety of economic issues. U.S. engagement within these fora focuses on making improvements in the region, including by addressing trade and investment barriers.

#### *ASEAN<sup>5</sup>*

As part of the rebalance, President Obama announced the Expanded Economic Engagement (E3) initiative with leaders of the 10 ASEAN countries in November

2012. The Commerce Department plays a key role in this initiative, particularly on standards development and practices; small and medium-sized enterprises, and trade and the environment. In addition, ITA works with ASEAN to create an environment that enables and encourages U.S. exports by addressing market-access issues, ensuring nondiscrimination against foreign firms, improving investment protections, increasing transparency and promoting responsible business activities. This past summer, ITA working with the United States Trade Representative (USTR) and State organized roadshows to Los Angeles, San Francisco and Washington, DC, for the ASEAN Economic Ministers. These events allowed companies and policymakers to discuss opportunities and policies aimed at expanding trade and investment. Further, Commerce leads cooperation between the United States and ASEAN on standards and related issues. Together, we introduced initiatives on green buildings, food safety, medical devices, dietary supplements, green chemistry, and electrical and electronic products. Standards, as a core element of U.S. cooperation with ASEAN, were highlighted this year during the ASEAN Ministers Road Show and the recent ASEAN summit in Brunei.

#### *APEC*<sup>6</sup>

Within APEC, ITA spearheaded efforts to implement voluntary codes of business ethics for the medical device, biopharmaceutical, and construction and engineering sectors through public and private organizations. Each of these initiatives was developed in conjunction with U.S. associations and companies to help ensure a more business friendly environment for their industries. ITA also plays a lead role in the APEC Small and Medium-sized Enterprises (SME) Ministerial, which focuses on ways to empower SMEs so they can enter international markets. SMEs comprise the majority of businesses in all 21 APEC member economies, so building the capacity of SMEs to engage in international commerce is a key component of U.S. Government efforts to bolster trade and investment linkages across the Asia-Pacific region.

ITA has also hosted capacity-building workshops on ethical business practices for SMEs, energy-efficient building standards, and good regulatory practices. ITA is opening these workshops to Burma, Cambodia, and Laos so as to further integrate these economies into the global market. Given that APEC and ASEAN have designated energy as a priority sector, it is important to mention that the United States and Indonesia cohosted a regional natural-gas event which was jointly endorsed by APEC and ASEAN. This event focused on the changing global gas markets and the development of unconventional gas. In August, ITA led a trade mission to Thailand, Malaysia, and the Philippines focused on renewable energy equipment, smart grid and green-building technology, water treatment and emissions control, and natural gas exploration and development.

#### *Representing U.S. Industry Interests*

ITA is ensuring that U.S. industry's interests are taken into account and reflected in Trans-Pacific Partnership (TPP) negotiations which will help U.S. companies better compete in the region. The TPP is the focal point of U.S. Government economic policy in the region, and seeks to build on trade agreement advances made in the United States-Korea Free Trade Agreement (KORUS FTA).

#### *TPP*

The TPP agreement is both the economic cornerstone of the Obama administration's rebalance toward the Asia-Pacific, as well as a reflection of the President's commitment to a 21st century trade agenda, including with our NAFTA partners. USTR is the lead U.S. Government agency negotiating the TPP agreement, with extensive assistance from the ITA. Together, we are advancing the U.S. trade agenda, through intensive cooperation preparing for and conducting the TPP negotiations and bilateral meetings with our counterpart ministers from TPP member economies. In doing so, ITA works closely with the U.S. business community to ensure that its interests are fully reflected in the TPP agreement. ITA seeks input from the private sector both informally through its network of business contacts and U.S. offices and more formally through the Industry Trade Advisory Committees (ITAC). The ITACs are composed of private sector representatives covering all sectors of the U.S. economy, as well as important functional priorities, and provides advice to the Secretary of Commerce and the U.S. Trade Representative on the negotiation and operation of trade agreements, as well as development, implementation, and administration of U.S. trade policy.

At a meeting of TPP Ministers in Singapore (December 7–10), considerable progress was made across a wide range of areas. On December 10, the TPP Ministers announced substantial progress had been made toward completing the agreement, with progress identified for the majority of key outstanding issues in the text.



Negotiators will continue their intensive work during the coming weeks. Following that, Ministers intend to meet again early in the coming year.

*Trade Promotion Authority (TPA)*

For over 30 years, Congress has enacted laws providing TPA to guide both Democratic and Republican administrations pursuing trade agreements that support U.S. jobs, eliminate barriers in foreign markets and establish rules to stop unfair trade. TPA provides special procedures for congressional consideration of legislation approving and implementing those agreements. TPA is a critical tool to keep the United States competitive and is connected to the progress that is being made on TPP. Having TPA will help bring home a trade agreement that includes some of the fast-growing economies of Asia Pacific. Since TPA's last renewal in 2002, hundreds of trade agreements between other countries have entered into force and several more are currently being negotiated. While these agreements are not the high-standard, comprehensive trade agreements the United States negotiates, they do offer foreign companies better and cheaper access to these markets. This places U.S. workers, businesses, and farmers at a comparative disadvantage. In fact, China is currently negotiating agreements with other Asia-Pacific partners that could displace U.S. goods, services, and agriculture products and set standards that exclude U.S. exports from these countries' markets. We need TPA to stay competitive. The administration supports TPA and looks forward to continuing to work with Congress on its renewal.

*U.S.-Korea Free Trade Agreement (KORUS)*

The Republic of Korea (ROK) is currently our seventh-largest trading partner with approximately \$101 billion in total (two-way) goods trade during 2012. Since entry into force of the KORUS on March 15, 2012, trade data shows that KORUS has bolstered U.S. exports to the ROK. In fact, exports of U.S. manufactured goods to the ROK from January–October, 2013, the latest data available, are 1.6 percent higher than in the same period of 2011, before the FTA. U.S. exports of motor vehicles to the ROK in the first 10 months of 2013 are also 54 percent higher than in the same period in 2011, pre-FTA. Other industrial goods have also seen notable increases, such as pharmaceuticals and electrical equipment. Services exports for the first two quarters of 2013 are 21 percent higher than in the same time period in 2011 (pre-FTA), and 5.4 percent higher than in the same period last year. Using the same time periods, the U.S. trade surplus in services with the ROK has grown by 52 percent compared to 2011 and by 21 percent compared to last year.

LINKING U.S. BUSINESS WITH BUYERS OVERSEAS AND  
ATTRACTING INVESTMENT BACK HOME

ITA provides numerous tools to help U.S. companies learn more about the EAP markets, and meet potential clients, distributors, and partners. ITA organizes trade missions and trade events, and provides market research and export counseling in the markets of interest.

As demonstrated in the chart below, each year ITA's customers are reporting more export successes to the East Asia and Pacific region.

September 2013	Antidumping	Countervailing	Products	Countries
World-wide	240	52	Over 120	36
EAP Region Orders	162	36	Consumer goods, paper and plastic products, steel products, agricultural/aquaculture products, and chemical	10
EAP Region Investigations	20	5	Various steel and chemical products	8
China Orders	96	27	Consumer goods, steel products, agricultural products, seafood and chemical	

An example of the growing interest in this area is how the ASEAN team in Singapore, in collaboration with numerous ITA domestic offices, provided over 150 Gold Key services in 2013. A Gold Key service is a custom-tailored approach to supporting a company interested in doing business in a specific country and sector. This service includes arranging one-on-one meetings in-country with potential customers or partners. With an average of five appointments per Gold Key Service, this translates to more than 750 direct engagements for U.S. companies looking to do business in the region.

ITA annually hosts a large trade event called Trade Winds. Trade Winds is a multicountry trade mission that takes U.S. companies to a key export market where they meet local companies and attend business conferences to learn about doing business in the region, accompanied by an optional spinoff trade mission with visits to additional markets. This past May, Trade Winds was held in Seoul and was the largest-ever U.S. trade event in the Republic of Korea. Seventy-two U.S. firms participated in the event and over half took part in spinoff trade missions to Hong Kong, Japan, the Philippines, and Taiwan.

ITA prides itself on helping SMEs. For example, ITA's Baltimore staff provided market research to identify opportunities and a financial background report on prospective partners for Haemo-Sol International, LLC, a small manufacturing company with less than five employees headquartered in Maryland. Haemo-Sol International exports specialized cleaning agents and was struggling to break into new markets and to increase sales in existing markets. The Baltimore staff suggested the company participate in the ExporTech exporter education program. ExporTech is a collaborative program between ITA's domestic field offices and the National Institute of Standards and Technology's Manufacturing Extension Partnership Program to provide export training to U.S. manufacturers. Through ExporTech, Haemo-Sol attended two trade missions to Asia which resulted in forging new partnerships. The company has increased sales and acquired new customers in Japan and China, and has seen the export portion of its sales grow from 50 to 66 percent of total revenue since participating in its first trade mission in 2010.

#### *Foreign Direct Investment (FDI)*

While our trade promotion activities are pivotal to improving the U.S. economy, inward investment also contributes significantly to job creation and economic growth. ITA is seizing this potential and has been working diligently around the world to let investors know that the United States is open for business. In total, U.S. subsidiaries of foreign companies accounted for one-fifth of total U.S. exports, showing the important relationship between trade and investment. In 2012, the Asia and Pacific region's stock of FDI in the United States totaled roughly \$424 billion, led by investment in manufacturing, wholesale trade and information and telecommunications.<sup>7</sup> Additionally, U.S. FDI in the region exceeded \$623 billion.<sup>8</sup>

While the EAP region is not our largest source of FDI, it has great potential. As it stands, approximately 16 percent of FDI in the United States originates from Asia in comparison to over 60 percent originating from Europe. In terms of average

annual growth over the past 5 years, China is the fastest-growing source of FDI in the United States. Many of the fastest-growing sources of FDI in the United States are located in the EAP region.<sup>9</sup> Japan and Australia both rank among the 10 largest sources of FDI.

The United States is the world's largest free and open market with a longstanding open-investment policy. SelectUSA is the federal-level resource for firms and U.S. economic development organizations (EDOs). SelectUSA is the only U.S. Government-wide program to attract, retain, and grow business investment in the United States. On October 31 and November 1, 2013, the Department of Commerce and its SelectUSA program hosted the SelectUSA summit. The event was a huge success and was completely sold out. The summit connected 1,300 participants, including 456 foreign or multinational firms, with more than 200 EDOs from 48 states, four territories and the District of Columbia. In addition, over 650 prearranged match-making meetings occurred and a number of impromptu meetings took place during the 2-day conference.

SelectUSA, while relatively new, has proven to be a successful program. In July 2011, RPB Safety Ltd., headquartered in Christchurch, New Zealand, contacted ITA's staff for information on setting up a manufacturing plant in Michigan. RPB Safety is a manufacturer of respiratory protective equipment and was already distributing products via its Michigan office. SelectUSA supplied the company with initial information on establishing a business in the United States and the contact details at the American consulate general in Auckland to assist in the visa process. On August 28, 2012, RPB Safety Ltd. publicly announced its purchase of a new manufacturing facility in Michigan and is now investing more than \$4 million into the commercial venture, with plans to create 30 jobs over the next 3 years.

#### ENFORCING DOMESTIC TRADE LAWS

ITA is also in charge of enforcing certain trade laws, including the application of antidumping duty (AD) and countervailing duty (CVD) laws.<sup>10</sup> ITA also monitors and works with USTR to ensure foreign government compliance with trade agreements to counter foreign trade barriers and unfair trade practices to support the competitive strength of American industry.

With respect to the administration of the U.S. trade remedy laws, as of October 31, 2013, ITA maintains the following AD and CVD orders and ongoing investigations.

ITA also helps U.S. businesses, especially small ones, overcome foreign government-imposed trade barriers to gain access to and fair treatment in foreign markets in Asia, as well as the rest of the world. ITA monitors foreign governments' compliance with trade agreement obligations and engages with these governments when problems arise. An example is when ITA worked with Navistar Inc. from Lisle, IL. Navistar's heavy-duty trucks encountered entry issues when the ROK's Ministry of Environment (MOE) issued a ruling that Navistar's open crankcase engines were noncompliant with the ROK emissions regulations. This determination would have limited Navistar's ability to fully access the Korean market. ITA worked with MOE to resolve this issue and to get Navistar an unconditional certification from the agency showing that Navistar's engines were compliant with ROK emissions standards. Navistar projects that sales to the ROK in 2014 will reach 100 units, including spare parts, totaling US\$15 million. These exports will support several thousand unionized jobs in Illinois and in Ohio.

When ITA is unable to resolve cases, they may be referred to USTR or to the recently created Interagency Trade Enforcement Center (ITEC)—which serves as the primary forum within the Federal Government to coordinate enforcement of U.S. trade rights under international agreements and enforcement of domestic trade laws—for further research and evaluation for action. ITEC provides critical research, analysis, translation and support for a number of ongoing WTO disputes. These disputes include: China Raw Material Export Restraints, China's Autos and Auto Parts Export Bases, and Indonesia Import Licensing, to name a few.

#### CONCLUSION

The United States remains actively engaged in the East Asia and Pacific region. Secretary Pritzker and Ambassador Froman are on their way to Beijing, China, for the JCCT Ministerial meeting. In addition, our TPP negotiators are working to substantially conclude this historic agreement early next year that, once finalized, will significantly support economic and job growth here in the United States.

Secretary Pritzker, at the President's request, will also lead a CEO delegation to Southeast Asia, including Burma, next spring and, in early 2014, Commerce will lead two executive trade missions. In February, we will take U.S. companies to the

Singapore Airshow, and in March, we will take U.S. travel and tourism industry representatives to Japan, the Republic of Korea, and Taiwan.

As you can see, the EAP region is growing and there continues to be an incredible amount of opportunities for U.S. businesses in the region. The Commerce Department and ITA stands ready to help these companies wherever it can.

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#### End Notes

<sup>1</sup> East Asia and Pacific economies include: China, Hong Kong, Macau, the Democratic People's Republic of Korea—North Korea, Taiwan, Japan, Mongolia, the Republic of Korea (ROK-South Korea), Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor Leste, Vietnam, Australia, Cook Islands (Realm of New Zealand), Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand (MNNA), Niue (realm of New Zealand), Palau, Papua New Guinea, Republic of the Marshall Islands, (The Independent State of) Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

<sup>2</sup> International Monetary Fund, World Economic Outlook Database October 2013, Gross domestic product based on purchasing power parity (PPP) valuation of country GDP. Country population and GDP data are unavailable for the Cook Islands (may be included in New Zealand totals), Macau (may be included in China totals), the Democratic People's Republic of Korea, Nauru, and Niue.

<sup>3</sup> Goods and services trade data is limited and only available for the "Asia and Pacific" region as defined by the Bureau of Economic Analysis. This region includes: China, Hong Kong, the Republic of Korea, the Democratic People's Republic of Korea, Macau, Taiwan, Thailand, Mongolia, Japan, Brunei, Burma (Myanmar), Cambodia (Kampuchea), Indonesia, Laos, Malaysia, Philippines, Singapore, East Timor, Vanuatu (New Hebrides), Vietnam, Australia, Cook Islands, Fed States of Micronesia, Fiji, Kiribati (Gilbert Island), Nauru, New Zealand, Niue, Marshall Islands, Palau, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, and Western Samoa.

<sup>4</sup> In 2010, China announced its strategic emerging industries (SEI) industrial policy initiative to propel Chinese companies into leading positions in emerging technologies and to drive its economy in the next decade. These seven industries include biotechnology, new energy, high-end equipment manufacturing, energy conservation and environmental protection, new energy vehicles, new materials, next-generation IT.

<sup>5</sup> ASEAN Economies: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar (or Burma), Philippines, Singapore, Thailand, and Vietnam.

<sup>6</sup> APEC Member Countries: Australia, Brunei, Canada, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, Taiwan, Hong Kong, China, Mexico, Papua New Guinea, Chile, Peru, Russia, Vietnam and the United States.

<sup>7</sup> Information as an industry includes: data processing, hosting and related services; broadcasting (except Internet); motion picture and sound recording industries; newspaper, periodical, book, and database publishers; software publishers; other information; and telecommunications.

<sup>8</sup> U.S. Bureau of Economic Analysis, "U.S. Direct Investment Abroad: Balance of Payments and Direct Investment Position Data" (accessed September 30, 2013).

<sup>9</sup> In 2012, growth rate of Chinese FDI in the United States by Ultimate Beneficial Owner (UBO) was 70.82 percent, Indonesia's was 38.05 percent, Malaysia's was 26.37, the Republic of Korea's was 14.86 percent, New Zealand's was 8.05 percent, Japan's was 6.80 percent and Australia's was 5.51 percent.

<sup>10</sup> U.S. trade remedy cases are governed by U.S. laws and international obligations, which require fair, objective, and transparent factual determinations. Consistent with these laws and obligations, U.S. AD and CVD proceedings are open, transparent and afford all interested parties involved the opportunity to participate and defend their interests. Strong enforcement of the AD and CVD laws plays an important role in supporting the USG's goal of advancing a progressive trade agenda. With respect to the administration of the U.S. trade remedy laws, as of October 31, 2013, ITA maintains the following AD and CVD orders and ongoing investigations.

Senator CARDIN. Well, we thank both of you for your testimony.

Both of you have mentioned that the United States has been pretty active in East Asia this fall, with so many meetings focused on economic dimensions. You mentioned the APEC meeting in Indonesia. We had the ASEAN, the U.S.-ASEAN summit. It was followed by the East Asia summit in Brunei. Then we had the global entrepreneurship summit in Malaysia.

So we participated in a lot of meetings. What got done?

Ambassador MARCIEL. Chairman, that is a good question, because the meetings themselves, wonderful as they are, it is important that we have concrete outcomes. I think in the meetings themselves, I would say two things from the State Department perspective. The meetings themselves, for example the APEC meeting, there were some very substantive things done, which I will list in just a second.

I would say the other thing we really try to do is use these meetings and use these visits as action-forcing events. For example, Secretary Kerry's visit just this week I think was key to getting a long-pending \$90 million wind turbine deal with the Vietnamese done. I think without his—we effectively used his visit to get that finalized. It may have happened anyway, but it probably would have taken much longer.

In terms of APEC itself, there were several outcomes I will just go through briefly. There was a lot of focus on improving supply chain management, in other words working with countries to try to figure out how to reduce barriers to getting the various inputs in place, including the setting up of a fund to support that way, agreement to implement the agreed-upon reduction in tariffs on environmental goods, the APAC environmental goods list, establishing a public-private dialogue to address nontariff measures, and promoting cross-border education, which as you know is not only good for the education, but also there is a lot of—

Senator CARDIN. Let me just comment. I know you will go through the list and we will ask you to supply that. As you point out, these meetings are important and the active U.S. participation is very important. But results are needed and progress needs to be made, and then you have to implement to make sure it is done after the meetings are over.

I would hope that we have a pretty aggressive strategy. You talked about additional commitments of resources to Asia. We should be evaluating our own progress and be pretty transparent about that, so we know whether progress is being made.

I appreciate your keeping us informed on all of those issues. I want to get to TPP, in a couple different contexts. First, it could be perceived to be in competition, particularly with China, with the Regional Comprehensive Economic Partnership, which the United States is not participating in. So I would appreciate your giving us your best information as to how these two initiatives either complement each other or work in cross-purposes.

Then secondly, in your response if you could give us an update. We know that the negotiations have not been completed. There is great concern whether we are going to lower the bar on a trade agreement to accommodate countries that have had very difficult records on human rights—Vietnam and Malaysia. We know that Vietnam enacted labor rights, but we also know that they have not implemented those reforms.

So can you at least give us the politics of what is happening between China and TPP and the other regional discussions and whether we are going to insist and are making progress on basic good governance with all of the countries, but particularly those countries who have a record of not being strong in those areas?

Ambassador MARCIEL. Chairman, maybe I can start and John Andersen will, I am sure, want to add some thoughts. On the question of whether the TPP is in competition with the Regional Comprehensive Economic Partnership, or RCEP, our view is that we do not see that these various multilateral efforts are mutually exclusive. We see them really as complementary efforts to promote regional economic cooperation and hopefully both serving as building blocks toward an eventual free trade area of the Asia-Pacific.

We of course favor the TPP because it does set very high standards, which we think is very important.

On the question about lowering the bar and how we deal with issues like human rights and labor standards, certainly in TPP, the free trade agreement, labor standards are a key part of that. I know there has been intensive discussions between USTR, particularly with the Vietnamese, and others, but particularly with the Vietnamese, on labor standards. I think everyone is very focused on that.

More broadly on human rights—

Senator CARDIN. Well, what progress is being made?

Ambassador MARCIEL. The negotiations have been ongoing for quite a while—

Senator CARDIN. Can you assure us that we will insist upon minimum standards in this agreement and that—worse than failing in TPP would be to negotiate an agreement that does not meet minimum standards.

Ambassador MARCIEL. I think we are very committed to meeting those minimal standards, Senator, absolutely.

Senator CARDIN. And that is not changing? We have a pretty firm grip—

Ambassador MARCIEL. It is not changing. It is not changing.

Senator CARDIN. A lot of us will be watching closely.

Ambassador MARCIEL. I understand. As you have noted, Secretary Kerry raised this, not only labor standards but human rights, not only publicly, but quite directly in his meetings with the Vietnamese Prime Minister, party General Secretary, and Foreign Minister, and highlighted the connection, not only human rights in general, but the connection to things like TPP and other things. So he was very direct in his conversations.

Mr. ANDERSEN. I would just like to add, in Singapore, while we made substantial progress and we had obviously hoped to conclude before the end of the year, and that was where we were moving, we did make significant progress in a number of areas. We also narrowed the differences in some of those areas where we recognized the need to make some additional progress. Negotiations are going to begin again early in January, at which point, as I said in my written statement, I think we are closing in on a high value, high quality agreement.

I would second what Principal Deputy Assistant Secretary Marciel said on labor standards. While I have not actively participated in the negotiations, I have been part of many of the other free trade agreement negotiations that we have negotiated over my 30 years, and high quality labor standards have always been a key part of that.

Senator CARDIN. I have been in Congress now for 27 years, voted on many trade agreements, been on the Finance or Ways and Means Committee most of my career. I must tell you, I do not feel that we have had the open dialogue with Congress which instills confidence in these areas. We are conducting trade negotiations without trade promotional authority. I know that the administration will be seeking that. But I will just tell you this. There has got to be a transparent process with Congress, particularly with TPP, because it involves so many different countries.

I agree with Senator Rubio. A successful TPP offers incredible hope, but it is not going to happen unless there is a close working relationship between Congress and the negotiators.

Senator Rubio.

Senator RUBIO. I would defer to Senator McCain if he wants to go first on your questions.

Senator MCCAIN. Well, I thank the witnesses. I thank the chairman.

It is a bit of a microissue as compared to the macroissues that we are talking about. But I do not know if you are aware or not. I could ask either one of the two witnesses. The 2008 farm bill proposed and established a \$30 million USDA Catfish Inspection Office. The catfish has been called wasteful and duplicative by the GAO. GAO recommended that Congress repeal the office. The President's fiscal year 2014 budget proposed to eliminate it. I have read reports that the Catfish Office would be a violation of our WTO obligations because it places trade barriers on catfish imports from Southeast Asia, particularly Vietnam.

Could you comment on the harm this Catfish Office poses to our Southeast Asia relationship and the administration's views on the issue?

Ambassador MARCIEL. Senator McCain, yes, I am familiar with the issue. When I was in Vietnam last month, my Vietnamese friends reminded me of it pretty much every 5 minutes. So they are very focused on it and have pointed out—and I believe they raised it with Secretary Kerry on this trip as well when he was in the Mekong Delta, which of course is a big area of growing catfish for them. So they certainly see it as very negative and very harmful.

I apologize, but I do not actually know if we have taken an official position on this. If we could—

Senator MCCAIN. I think the administration has made it very clear. Our friends from a certain part of the country allege that this catfish is not a catfish, which is one of the more fascinating and entertaining aspects of the marine life in the world that I have encountered. It is clearly just a blatantly protectionist measure.

As you mentioned, it has now taken on a dimension which is far in exception—it seemed to me far in excess of the issue itself. But it really is—when we complain about discrimination against our products and then we see this calling a catfish a vasa, I think is what they called that catfish which is grown in Vietnam—but I am kind of interested that that is such a high-level issue with our Vietnamese friends. I hope that in response that maybe we said, we agree with you on that issue.

But there is still significant persecution of minorities, of Buddhists, of Christians, in Vietnam that, as the chairman pointed out, really are not acceptable human rights abuses, and we had expected a lot more of the Vietnamese than what they continue to do, which actually saddens me a great deal.

Do you have any comment?

Ambassador MARCIEL. Well, Senator McCain, I know how much you know about Vietnam. What I would say is you are right, there are still significant human rights problems as well as religious freedom problems in Vietnam. We raise these constantly with the Vietnamese. I would say that from my experience, having lived

there 20 years ago and now, there are some areas where it has gotten better and other areas where it really has not. The areas where it has gotten better I would say is, for example, increased space for people to have conversations and offer comments in the blogosphere and these sorts of things, as well as on religious freedom some specific improvements like more increased registration of churches and these sorts of things.

That said, there still remain significant problems both on the religious freedom side, as you have said, and of course with continued imprisonment of dissidents, which Secretary Kerry raised very specifically on his trip.

Senator McCAIN. Thank you.

Mr. Chairman, I know it sounds like a small item, catfish. But it is really just a case of blatant discrimination to call a catfish not a catfish and spend \$30 million of taxpayers' dollars to set up a, "Catfish Office." A lot of people I talk to, they think I am making it up. So I think that we ought to really at some point maybe even enact a repeal of the funding for the "Catfish Office."

I thank the witnesses and I hope—maybe you could give us a written response on this issue.

I thank you, Mr. Chairman.

Senator CARDIN. Senator McCain, it is my understanding that the repeal is included in the House version of the farm bill. So this might be an issue that we can act on in conference on the farm bill. I do not know. I am not a member of the Agriculture Committee and I have not talked to Senator Stabenow about this. But I think the point that you raise, that in the context of our multilateral negotiations there are issues where the United States needs to change. Change is not just one way; and issues concerning the safety standards, where in this case it was one agency—I think it was the Agricultural Department was doing the safety standards and there had been no complaints, and the cost issues were much less than the change that was made to the other agency—does raise questions as to whether it is a nontariff barrier to free access to trade, and the United States also needs to self-evaluate its practices.

So I thank the Senator for raising those issues. On the human rights matter, you know very well that, as one of the strongest proponents in the United States Senate to advance human rights, you know that these subjects do not get attention unless there is something else on the table. So now we have an opportunity to expand economic trade, which is great. We are all for it. But it also is an opportunity to advance human rights, which is critically important to economic growth.

So I appreciate both issues that Senator McCain raised on these matters.

Senator Rubio.

Senator RUBIO. Thank you.

I will begin by prefacing my question. When I look toward my first trip to the region next month, where I will be visiting Japan, South Korea, and the Philippines, my view is that the region has really benefited from a post-World War Two order characterized by freedom of commerce and navigation and also by an expansion of political rights.



We have seen these benefits in places like Japan, clearly the best example of how those two things have benefited a people. In South Korea, a nation whose economy expanded as a result of free enterprise, trade, commerce, and has gone from being a recipient of aid to a donor; and beyond that other places have had similar success. Taiwan, a small place, but again a place with real success stories.

This is an order that I think has benefited not just these countries, by the way, but the Chinese people, for whom access to the American marketplace has really expanded economic opportunity.

But while open trade has benefited the Chinese people, the Chinese Communist Party is not all that enthusiastic about expanding civil liberties, and in fact is challenging the established principles of freedom of navigation and of commerce. As a result, you have seen some of the moves they have recently made, and I want to ask you about that in a moment.

So, I would preface my questions by saying that the United States obviously needs to be economically engaged in the region, but you can see how our security assurances and our security arrangements are also critical to, for example, enable freedom of commerce and navigation, and how our allies look up to our partnership to assure those.

By the way, in my recent trip to London a number of policy-makers there were very complimentary of the administration's decision to place Marines in Australia as a major step forward in terms of reassuring our allies about our commitment in the region.

But let me just ask you this. I would start with you, Secretary Marciel. I would like to get your thoughts on the implications of China's unilateral announcement of an air defense identification zone over territory that the United States recognizes as under the administration of Japan and also overlapping Korean air space.

Does the United States recognize this announced ADIZ?

Ambassador MARCIEL. Senator Rubio, thank you for that question. No, we have told the Chinese—we have said publicly and we have told the Chinese, including during the Vice President's recent trip, that we do not recognize—

Senator RUBIO. Have we asked them to retract it?

Ambassador MARCIEL. What we have told them is we do not recognize it, it is unhelpful, they should not implement it. It has been a consistent message. We have also said that it is extremely unhelpful, it is adding to tensions in the region. Some of this was the way it was done, some of the language that went with it, et cetera, and the fact, as you said, Senator, that it extended over an area that we recognize as administratively controlled by Japan.

So for all these reasons we found it very unhelpful, causing tensions and we have continually repeated—Secretary Kerry either today or yesterday again repeated in the Philippines that this was very unhelpful, we do not accept it, we will not abide by it.

Senator RUBIO. Well, thank you for that statement. I would just add, you said a moment ago that some of it is the way it was done. I would imagine that even if they had said it in very diplomatic and rosy language we would still be opposed to it, right?

Ambassador MARCIEL. Senator, there were so many problems with it. There is a whole host of reasons that we oppose it. It was not just the language.

Senator RUBIO. Explain for a moment the guidance we have given civilian aircraft with regards to reporting in? What is the thought process behind that guidance and how does that contradict or complement the official position you have stated here today?

Ambassador MARCIEL. Right. So the position, as I said, is we do not accept this, we reject it, it will not change the way the U.S. Government, the U.S. military, operates in the region. I want to be careful not to speak for FAA, which of course has the regulatory authority over the airlines. My understanding is that they did not issue specific instructions to the airlines on the Chinese announcement of the air defense identification zone. They did, however, remind airlines that the expected practice, the normal practice, standard practice, what have you, around the world is that airlines will follow notice to airmen around the world.

Senator RUBIO. But again, our official policy is we do not recognize the zone and by and large we are going to ignore it?

Ambassador MARCIEL. That is correct, Senator.

Senator RUBIO. Secretary Andersen, I wanted to ask you. Earlier in the year the administration had stated it hoped to conclude TPP by the end of this year, which is 10 days. So can you just provide an update on the timeline, including the congressional aspect of fast track and so forth?

Mr. ANDERSEN. Yes. Thank you for that question, Senator. As I indicated earlier, we did make substantial progress in Singapore in narrowing differences and coming to agreements in some of the areas. Unfortunately, we were not able to conclude, as we had hoped to, before the end of the year. But what we have agreed to do is set forward and begin again early in January.

I would point out that we were not able to conclude, because there were still some areas where we were not achieving what we had hoped for, particularly in some of the market access areas. As we have stated many times in many agreements over the years, we are not just going to negotiate just to negotiate. We are going to negotiate to get a high quality, high standard agreement, and that is what we are still after and that is what we hope to achieve some time early next year.

Senator RUBIO. What about on the congressional side? What do you anticipate will be the asks here? What are the existing ones? How is that working through?

Mr. ANDERSEN. Well, as we indicated, the ask that we are working with now is enactment of trade promotion, reenactment of trade promotion authority. It will be critical to bringing home and implementing this agreement once it is finally negotiated.

Senator RUBIO. Would you just comment on how do you think that not having trade promotion authority would slow or undermine the process?

Mr. ANDERSEN. It does not undermine the process with respect to our ability to negotiate. What it does is make it difficult to actually implement. It will be critical when we get to the implementation phase.

Senator RUBIO. Does that process and the fact that you need to seek congressional approval from a body that has gone through some friction here over the last couple months, for lack of a better term, does that come up in the negotiations? Are potential partners

aware of how that could slow down the process a bit? Is that in any way a factor in terms of how they are approaching these things?

Mr. ANDERSEN. Good question, Senator. Not to my knowledge has it come up. But then again, I have not been directly involved in those day-to-day negotiations. I know it has come up in previous negotiations.

If I may go off a little bit from some of my previous experience, I was part of the team that negotiated with Chile, the first time we announced that Chile was going to be a free trade agreement member. Once we lost fast track negotiating authority, those negotiations were put on hold for a number of years. But I cannot speak specifically to where or how that is affecting TPP.

Senator RUBIO. Is it safe to say, does it help?

Mr. ANDERSEN. It certainly does not. It certainly does not help.

Senator CARDIN. I have one additional question, Mr. Andersen. That is, two of the critical nontariff barriers in Asia that affect U.S. access to markets would be currency manipulation and protection of intellectual property. Can you just give me an update as to whether we have made progress on these issues during some of the discussions? I am not talking necessarily TPP. I am talking broader than that, obviously, in these two areas.

Mr. ANDERSEN. Well, I cannot speak in detail about currency manipulation, Senator. As you know, that is—

Senator CARDIN. The Secretary of the Treasury. Everybody bounces that issue from one agency—we are well aware of that. But I find it hard to believe that you are not engaged in the impact of currency manipulation for market access for American companies.

Mr. ANDERSEN. But I can speak a bit more with respect to intellectual property rights. It is, as you said, one of the three major areas where we do get concerns from U.S. companies about doing business in the Asia-Pacific. We at the Department of Commerce have an Office of Intellectual Property Rights that is there to specifically help U.S. companies overcome and deal with those issues as they arise. In fact, we have a Web site—[stopfakes.gov](http://stopfakes.gov)—that is very active and very much geared toward helping especially small- and medium-size companies deal with those issues.

We have dealt with intellectual property rights in the JCCT, have made some progress. It is an area, as you can imagine, that is foremost on the negotiations as we move forward.

Senator CARDIN. Thank you.

Mr. Marciel, since Mr. Andersen did not want to take the currency one, I assume that you will give us the answer on currency?

Ambassador MARCIEL. I am searching desperately—Mr. Chairman, I am searching desperately in my long book for a better answer. Unfortunately, I find the same one. But it is really a Treasury issue. I have to defer to Treasury.

Senator CARDIN. Well, you know, we hear that frequently, and of course when Treasury is here they say it is in context to all the diplomatic problems and bilaterals and trade issues. So everybody seems to bounce it.

But the pace of reform has been slow. At one point in globalization, America was strong enough to be able to deal with currency manipulation. Today we need to have a level playing field

for American companies to compete. The currency issue is a huge matter. It involves more than just one country. There are other countries in Asia, other than China, that are also involved in currency manipulation. It is a matter that needs to be on the radar screen of everyone engaged in regional economic discussions.

So I appreciate the fact that Treasury has the lead on this, but I would just urge you to be prepared to answer questions as we deal with the economic integration within Asia, that currency is a matter that is going to be brought up as well as intellectual property.

Senator Rubio.

Senator RUBIO. No.

Senator CARDIN. So let me thank both of you again for your testimony. More importantly, thank you for your service. We look forward to continuing to work with you.

Mr. ANDERSEN. Thank you.

Senator CARDIN. We will now go to our second panel. As they are coming to the table here, let me welcome Mr. Matthew Goodman, who holds the William E. Simon Chair in Political Economy at the Center for Strategic and International Studies. He has extensive experience in three different government agencies and in the private sector. At the White House, Mr. Goodman served as the Coordinator for Asia Pacific Economic Cooperation, APEC, in the East Asia Summit; Director for International Economics on the National Security Council Staff; and Director for Asian Economic Affairs on the staff of the National Security Council.

Let me also welcome Mr. Derek Scissors, who is a resident scholar at the American Enterprise Institute, where he studies Asian economic issues and trends. In particular, he focuses on the Chinese and Indian economies and U.S. economic relations with China and India. He is also an adjutant professor at George Washington University, where he teaches a course on Chinese economy.

We will start with Mr. Goodman.

**STATEMENT OF MATTHEW P. GOODMAN, WILLIAM E. SIMON CHAIR IN POLITICAL ECONOMY, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, WASHINGTON, DC**

Mr. GOODMAN. Thank you, Mr. Chairman, Mr. Ranking member. Thank you for this opportunity to offer my thoughts on U.S. economic engagement in the Asia-Pacific region.

Economics is at the heart of U.S. involvement in the Asia-Pacific region. This statement is as true today as it was in 1784, when the first U.S. merchant ship bound for Canton set sail from New York. Trade, investment, and other economic ties across the Pacific today are measured in the trillions of dollars, support millions of American jobs, and underpin our national security.

Like administrations before it, the Obama administration has put economics at the center of its Asia-Pacific strategy. But it has arguably raised the stakes by making the overall success of its rebalancing to Asia contingent on a successful economic strategy, in particular completion of a high standard Trans-Pacific Partnership trade agreement, which I will come back to.

The economic leg of the rebalance is driven by three broad objectives: promoting growth in jobs, upholding and updating the rules

of the international economic system, and supporting America's long-term presence in the region. It is important to note that these objectives get to both sides of the coin regarding the relationship between economics and foreign policy, that is using diplomatic tools to support better economic outcomes, like growth and jobs, and, arguably more challenging, using economic tools in a strategic way to support foreign policy objectives, such as strengthening the rules and supporting our presence in the region.

In pursuit of these objectives, the Obama administration has used a multilayered approach to economic engagement in the Asia-Pacific. This has bilateral, regional, and global strands from the strategic and economic dialogue with China, to TPP and APEC, to the G20, half of whose members are Asia-Pacific economies. And it encompasses all aspects of economic policy, not just trade but also promotion of strong domestic demand-led growth in large Asian surplus economies like China and Japan, negotiation of bilateral investment treaties, and strategic use of development assistance.

But trade and TPP in particular is the sharp end of the spear when it comes to Obama economic strategy in Asia. Through TPP, the administration seeks to advance all three objectives I mentioned, with an accent on updating the rules. TPP aims to establish disciplines on an array of behind-the-border impediments such as excessive or nontransparent regulation, preferences for domestic, especially state-owned, enterprises, and inadequate intellectual property protection.

I believe the administration's aim is to make a successful TPP the driver and de facto template for a new multilateral system of rules. Failure to reach a TPP deal at this month's ministerial meeting in Singapore was disappointing, but not fatal. Trade talks are always darkest and noisiest before the dawn as differences are narrowed to the most politically contentious issues. I remain optimistic that a basic TPP deal can be reached by the time of President Obama's planned trip to Asia next April.

The stakes could not be higher for the White House. Conclusion of TPP is the sine qua non of success for the Asia rebalancing strategy. In addition to its economic benefits, a successful agreement would anchor the United States more firmly in the Asia-Pacific and bolster American leadership there. Without TPP the rebalance would contain little of substance that is new and would be perceived in the region as driven primarily by military considerations.

I will end by highlighting three ways in which I believe Congress can play a vital role in supporting the economic leg of the rebalance. First, enacting trade promotion authority legislation would give the administration the guidance and certainty it needs to close a high standard TPP deal. Without TPA, it is difficult to see how USTR can persuade its counterparts that it can fulfill its end of the bargain.

Second, Congress should insist that the administration allocate sufficient senior-level staffing and policy attention to Asian economic issues and should provide adequate funding for these activities. In particular, I believe the White House, including both the NSC and USTR, as well as the State Department, do not have sufficient resources or share of mind devoted to Asian economics.

Third, Congress can help explain to the American people that the United States is a Pacific power with deep and enduring economic interests in the region. A successful economic strategy in the Asia-Pacific is essential to sustaining American growth and jobs into the 20th century. It is also essential to our efforts to remain a champion of the global rules-based order and it underpins America's long-term presence in the region, which in turn is critical to the region's security and prosperity.

Thank you for your attention.

[The prepared statement of Mr. Goodman follows:]

PREPARED STATEMENT OF MATTHEW P. GOODMAN

Mr. Chairman, Mr. Ranking Member, members of the subcommittee, thank you for this opportunity to offer my thoughts on U.S. economic engagement in East Asia and the Pacific.

Economics is at the heart of U.S. involvement in the Asia-Pacific region. This statement is as true today as it was in 1784, when the first U.S. merchant ship set sail from New York bound for Canton; or in 1853, when Commodore Perry arrived in Tokyo Bay in his "black ships" seeking refueling rights for the American whaling fleet. Trade, investment, and other economic ties across the Pacific today are measured in the trillions of dollars and are critical not only to U.S. growth and jobs but also to our national security.

The Obama administration has put economics at the center of its Asia-Pacific strategy. Indeed, the overall success of the administration's policy of "rebalancing," or "pivoting," to Asia rests on its ability to carry out a successful economic strategy in the region, in particular completion of a high-standard Trans-Pacific Partnership (TPP) trade agreement.

THE ECONOMIC PULL OF ASIA

U.S. economic engagement in Asia is driven by the numbers. The 21 member economies of the Asia-Pacific Economic Cooperation group (APEC) account for roughly 55 percent of global gross domestic product (GDP).<sup>1</sup> The region contains the world's three largest countries by GDP—the United States, China, and Japan—and half of the top 20 economies. Moreover, according to the International Monetary Fund in its most recent outlook, the Asia Pacific is the fastest-growing region of the world, with real GDP growth in developing Asia expected to average 6.3 percent in 2013.<sup>2</sup>

The APEC region also accounts for 44 percent of world trade, with nearly \$10 trillion worth of goods and services flowing around the Pacific last year.<sup>3</sup> U.S. exports to APEC economies totaled nearly \$1.2 trillion in 2011, accounting for over half of total U.S. exports.<sup>4</sup> Our exports to the Asia Pacific have more than doubled over the past decade, and 6 of our top 10 trading partners are in APEC.

Financial flows across the Pacific in the form of both direct and portfolio investment are also substantial. The stock of U.S. direct investment in Asia totaled nearly \$600 billion at the end of 2011 and grew some \$45 billion that year.<sup>5</sup> In the same year, nearly \$20 billion worth of foreign direct investment flowed into the United States from Asia-Pacific countries, adding to an accumulated stock of over \$400 billion invested here.<sup>6</sup> Meanwhile, China and Japan each hold over \$1 trillion of U.S. Treasury securities,<sup>7</sup> and Asians and Americans have trillions of dollars invested in each other's stock markets and other private financial instruments.

This enormous volume of economic activity across the Pacific translates into jobs for Americans. According to one estimate, roughly 1.2 million American jobs were supported by exports to Asia in 2012.<sup>8</sup> Asian companies investing in the United States directly employed some 900,000 Americans in 2011, with many more jobs supported indirectly by these operations.<sup>9</sup>

Our economic engagement with Asia also poses challenges. We have large and persistent trade imbalances with a number of major Asian countries, including a \$315 billion deficit with China in 2012.<sup>10</sup> American companies face an array of barriers both at and behind the border in these countries, and unfair trade practices in the region burden both our businesses and workers. In addition, macroeconomic imbalances—including an excess of savings in many Asian economies—produce large financial flows from Asia to the United States that bring near-term benefits but may pose longer term risks to the U.S. economy. These challenges require active U.S. policy engagement in the region.

## POLICY OBJECTIVES IN ASIA

Against this backdrop of tremendous opportunities and challenges, U.S. economic policy toward the Asia-Pacific region over the past several administrations has been driven by three broad objectives. The first is growth and jobs. As described above, the Asia-Pacific region is one of the world's largest and fastest-growing economic areas, making it an increasingly important source of demand for the U.S. (and global) economy. Among other benefits, stronger demand and growing purchasing power in Asia mean more U.S. exports, which in turn are a vital source of growth and jobs at home.

The second broad objective is upholding and updating the rules of the international economy. The open, rules-based system of trade and investment championed by the United States since World War II has produced broad benefits not only for this country but for the rest of the world. But the prevailing rules are increasingly out of step with the realities of today's global economy, which is characterized by integrated value chains and digital connectivity; Asia is at the center of these trends. As discussed further below, TPP is designed to address this gap by establishing "21st-century" rules governing not only tariffs and other border measures but also behind-the-border issues such as intellectual property protection, regulatory transparency, labor and environmental standards, and the investment climate.

The third objective of U.S. economic strategy in the Asia Pacific is supporting America's long-term presence in the region. The United States is a Pacific power by nature and necessity (i.e., geography as well as the pull of historical, security, and economic forces) but also by design. Successive administrations since World War II have worked deliberately to embed the United States in the Asia Pacific through an array of political, security, and economic arrangements. The network of U.S. alliances with Japan, South Korea, Australia, and others, and the troops and ships deployed in the region, are the most visible manifestation of that policy. Binding trade arrangements like the U.S.-Korea free trade agreement (KORUS FTA) and TPP can be seen as the economic equivalent of America's security alliances in the region. That is, they enmesh the country in regional affairs and give all Asia-Pacific countries an increased stake in each other's prosperity and security.

## HOW THE UNITED STATES ENGAGES

In support of all three objectives described above—growth, rules, and presence—recent U.S. administrations have pursued a multipronged approach to economic engagement in the Asia-Pacific region. For more than 30 years, Washington has worked to promote strong domestic-demand-led growth in large Asian surplus economies. Japan, then the world's second-largest economy, was the initial target of this policy in the 1970s and 1980s, but attention has broadened in recent years to other large, growing economies with persistent current-account surpluses, notably China. With U.S. and European consumers and governments alike forced to borrow less and export more in the wake of the 2008–09 financial crisis, Washington has argued that large surplus economies need to consume and import more, or global growth will suffer. This is why the Obama administration has made "strong, sustainable, and balanced growth" the mantra of its policy engagement with China and other large Asia-Pacific economies in both the G20 and bilateral channels.

U.S. trade policy has also supported the macroeconomic growth agenda. Recent administrations have pursued an active trade agenda in the region, including President George W. Bush's initial negotiation of the KORUS FTA and the Obama administration's launch of the TPP negotiations. Enforcement of existing trade agreements has also been an increasingly important feature of trade policy in the past two administrations. All of these efforts have been designed to reduce barriers to U.S. exports, enhance America's own competitiveness, boost growth and jobs, and reinforce the rules of the international trading system.

TPP is part of a broader strategy pursued by Presidents since George H.W. Bush to tap into and shape aspirations in the Asia Pacific for regional economic integration. Bush's Secretary of State, James Baker, embraced his Australian counterpart's proposal to create APEC in 1989 as a venue for foreign ministers from the region to discuss trade and investment liberalization and capacity-building. President Bill Clinton invited his APEC counterparts to a summit on Blake Island off Seattle in 1993, giving top-level political imprimatur to the forum's economic integration mission.

Washington's approach to regional economic integration has been marked by two key characteristics that distinguish it from approaches championed by other countries in the region: it is trans-Pacific rather than Asia-centric; and it emphasizes high standards of liberalization and rulemaking.

The first characteristic is, of course, largely driven by the fact that the United States is a Pacific but not an Asian country. But higher level policy considerations also play a part. In promoting APEC, Secretary of State Baker was clearly animated by concerns about East Asian aspirations for community-building that would exclude the United States; he later noted that such efforts would “draw a line down the middle of the Pacific.”<sup>11</sup>

In addition, strategic considerations in the Western Hemisphere have played a part in U.S. insistence on including Pacific-facing Latin American countries in regional economic integration efforts. President Clinton invited the Mexican President to the Blake Island summit and soon after championed Chile and Peru’s membership in APEC. It is no coincidence that the TPP negotiations include all five APEC economies in the Western Hemisphere: Canada, Chile, Mexico, Peru, and the United States.

The second distinguishing feature of the U.S. approach to regional economic integration is a preference for comprehensive trade and investment liberalization and high-standard rules of the road. This has inspired Washington’s approach to APEC since the inception but took on new substance with the launch of “21st-century” treaty negotiations with Korea and the TPP partners. The George W. Bush and Obama administrations have insisted on the broadest and deepest possible liberalization, as well as state-of-the-art disciplines on trade and investment-related policies both at and behind the border. By contrast, Asia-only integration initiatives, including bilateral and subregional FTAs, have generally covered only border measures and included numerous exceptions to full liberalization.

A mix of economic and political considerations lies behind this second feature of U.S. regional integration policy. Removing most impediments to trade and investment and imposing tough rules of the road maximize economic efficiency and growth.

Washington believes that the narrower and “shallower” agreements reached to date in Asia have done little to improve efficiency and may pose a threat to U.S. competitiveness. As U.S. Trade Representative Michael Froman said in a recent interview, “A race to the bottom is not a race we can win.”<sup>12</sup> Moreover, congressional support for trade agreements increasingly hinges not only on breaking down barriers to U.S. exports but also on advancing other American policy objectives such as labor rights, environmental regulation, and intellectual property protection; hence the emphasis on these issues by U.S. negotiators in TPP and other recent trade talks.

#### THE “REBALANCE” TO ASIA

The Obama administration’s economic strategy in the Asia Pacific is broadly consistent with the traditional objectives and approach discussed above. But the stakes have been raised by the administration’s strategy of “rebalancing” to this important region of the world.

From its earliest days in 2009, the administration has put the Asia Pacific at the center of its foreign policy. This can be seen on three levels: symbolism, including Hillary Clinton’s decision to make her first overseas trip to the region as Secretary of State; rhetoric, notably a prominent Clinton article in the fall of 2011 in which she first articulated the administration’s strategy of shifting resources and attention from the greater Middle East to the Asia Pacific;<sup>13</sup> and substance, with the decisions to join a second regional leaders’ forum alongside APEC, the East Asia summit, and to embrace TPP as the centerpiece of the administration’s trade policy in the region.

Economic engagement is critical to the overall rebalancing strategy. In addition to its intrinsic value, it helps balance the military and diplomatic elements and thus bolster the strategy’s credibility both in the region and at home. While most of the focus has been on TPP, the Obama administration has, in fact, pursued a multipronged economic policy in the region, covering three levels of interaction.

Bilaterally, the administration has engaged with most of the major economic powers of the region, in a variety of formats. With China, it reconfigured a high-level forum created by the Bush administration and established the Strategic & Economic Dialogue (S&ED). Along the S&ED’s economic track, the administration has sought to encourage more balanced growth in China, to promote financial liberalization and movement to a more flexible currency system, and to advance a bilateral investment treaty (BIT). Meanwhile, engagement with Japan has been focused on encouraging Tokyo to restructure its economy to generate sustainable growth, including through the decision earlier this year to bring Japan into TPP. Renegotiating, passing, and implementing the KORUS FTA has been the organizing principle for U.S.-Korean



economic relations, while the administration has had active bilateral dialogues with other important regional players such as Australia and Indonesia.

Engagement at the global level is another implicit element of the administration's Asian economic strategy. Largely in recognition of the increasing weight of large emerging countries, including China and India, in the global economy, the administration embraced the G20 as the premier forum for international economic cooperation in 2009 and has worked within that group to encourage strong, stable, balanced growth in Asian economies. The administration has also worked in other international institutions, such as the World Trade Organization and the World Bank, to more deeply embed China and other leading Asian countries in the global rules-based system.

A principal focus of Obama administration economic strategy in the Asia Pacific has been at the regional and subregional level. While the President himself has not attended the last two APEC leaders' meetings, the administration has remained actively engaged in that forum, including as host in 2011. In 2012, the administration launched a so-called "Enhanced Economic Engagement (E3)" initiative with the Association of Southeast Asian Nations (ASEAN); this initiative is ultimately designed to bring all 10 members of that group into high-standard trade arrangements with the United States. Meanwhile, TPP has been the sharp end of the spear when it comes to Obama economic strategy in Asia.

#### THE TRANS-PACIFIC PARTNERSHIP

TPP was conceived in the waning days of the Bush administration, when the White House notified Congress in late 2008 of its intention to negotiate a trade agreement with four small APEC economies—Brunei, Chile, New Zealand, and Singapore—that had already reached their own deal 2 years earlier; Australia, Peru, and Vietnam soon joined the effort. The Obama administration embraced TPP in late 2009, and negotiations among the eight original countries began in March 2010. Malaysia joined the talks later in 2010, Canada and Mexico in 2012, and Japan in the summer of 2013, bringing the total number of participants to 12.

TPP illustrates the objectives and characteristics of U.S. economic strategy enumerated earlier. Its three-part purpose is to stimulate American growth and jobs, strengthen the rules of the regional (and global) trading system, and lock the United States more deeply into regional affairs. As its name and membership suggest, it is trans-Pacific in nature, incorporating North and South American as well as Asian countries. And it is explicitly designed to produce, as President Obama said in announcing his embrace of TPP in late 2009, "the high standards worthy of a 21st-century trade agreement."<sup>14</sup>

In addition to lowering border barriers such as tariffs, TPP aims to establish disciplines on an array of behind-the-border measures that impede trade and investment such as excessive or nontransparent regulation; preferences for domestic, especially state-owned, enterprises; and inadequate intellectual property protection. The hope is that, if successful, TPP will become the driver and de facto template for a new multilateral system of rules.

As I have argued elsewhere, a number of myths cloud regional perceptions of TPP.<sup>15</sup> One is that the negotiations are "splitting Asia," since not all Asian economies are eligible to join, while those that are eligible must choose between joining TPP, viewed as led by the United States, and an alternative track preferred by China, the Regional Comprehensive Economic Partnership (RCEP). Yet in principle, TPP is open to any APEC economy willing to strive for high-standard rules; indeed, U.S. strategy from the outset was to begin the negotiations with a small group of "like-minded" countries and to incentivize others to join over time—a strategy that is ostensibly working. Conceptually there is no reason that even non-APEC economies like India and Myanmar should forever be excluded; indeed, the logic of the E3 initiative is to help all ASEAN countries meet the high standards being sought in TPP.

As for having to "choose" between TPP and RCEP, the seven Asian countries participating in both negotiations clearly view the two approaches as compatible. Moreover, TPP and RCEP could one day converge in a regionwide agreement, or at least become interoperable, with potential annual gains to world income as high as \$2.4 trillion by 2025.<sup>16</sup>

Another myth that until recently was popular in Beijing is that TPP is part of an effort by Washington to "contain" China. Yet no Asia-Pacific country wants to exclude China from regional integration; on the contrary, all want to deepen their economic ties with that country. True, one goal of TPP is to create a level playing field that, among other things, will allow other countries to better compete with China, but this is a far cry from "containment." Over the past few months, elite

opinion in Beijing has shifted substantially from rejecting TPP outright to seeking a better understanding of it; indeed, there are some signs—such as Beijing’s willingness to negotiate a comprehensive BIT with the United States on American terms, as well as the recent launch of the Shanghai Free Trade Zone—that China’s leadership is preparing the ground for eventual membership in a high-standard regional agreement.

A third myth is that the high standards Washington is espousing in TPP are too ambitious for Asia. Yet all participants—including less advanced members like Vietnam—have made clear that they believe there are substantial welfare gains to be had from a high-standard agreement that opens up new market opportunities and helps each country address structural impediments in its own economy. Moreover, participating countries understand the political dynamics in Washington that, alongside the economic benefits, drive U.S. ambition in the talks. And most welcome an active U.S. role in championing high-standard rules and norms in the region.

With the failure to reach agreement at this month’s ministerial meeting in Singapore, it is now clear that the TPP negotiations will not be concluded by the self-imposed deadline of the end of 2013. Although most of the agreement’s 29 chapters have reportedly been closed, significant differences among the parties apparently remain on a number of challenging issues, notably intellectual property, competition, and environmental standards, as well as the market-access provisions. Moreover, in the absence of trade promotion authority (TPA) from Congress, the Obama administration has struggled to persuade TPP partners that it can ultimately deliver on U.S. commitments in the talks.

However, the ministerial statement from Singapore reflects a shared sense of determination to complete the agreement as soon as possible. Trade negotiations are always darkest—and noisiest—before the dawn, as differences are narrowed to the most politically contentious issues. But insofar as they involve political rather than technical decisions, the final deals can be done quickly if the will is there. Thus a basic accord in the next few months—perhaps by the time of President Obama’s planned trip to Asia in April 2014—remains within reach.

The stakes could not be higher for the Obama White House. Conclusion of TPP is the *sine qua non* of success not only for the administration’s regional economic policy but arguably for the entire Asia rebalancing strategy. In addition to its economic benefits, a successful agreement would anchor the United States more firmly in the Asia Pacific and bolster American leadership there. Without TPP, the “rebalance” would contain little of substance that is new and would be perceived in the region as driven primarily by military considerations.

#### CONCLUSION

America’s interests in the Asia Pacific are broad, deep, and enduring. None is more important than the U.S. economic stake in the region. As Hillary Clinton explained in laying out the rationale for the rebalancing strategy, “Harnessing Asia’s growth and dynamism is central to American economic and strategic interests and a key priority for President Obama. Open markets in Asia provide the United States with unprecedented opportunities for investment, trade, and access to cutting-edge technology. Our economic recovery at home will depend on exports and the ability of American firms to tap into the vast and growing consumer base of Asia.”<sup>17</sup>

Even beyond near-term recovery, a successful economic strategy in the Asia Pacific is essential to sustaining American growth and jobs into the 21st century. It is also central to Washington’s efforts to remain a champion of the global rules-based order. And it underpins America’s long-term presence in the region, which in turn contributes importantly to the region’s security and prosperity. For all these reasons, the United States is likely to remain an active—even impatient—participant in the economic affairs of the Asia-Pacific region.

Thank you for your attention.

#### End Notes

<sup>1</sup> U.S. Department of State, “21st Annual APEC Economic Leaders’ Meeting Fact Sheet,” October 8, 2013, <http://www.state.gov/r/pa/prs/ps/2013/10/215195.htm>.

<sup>2</sup> International Monetary Fund, “World Economic Outlook Database,” October 2013, <http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>.

<sup>3</sup> WTO, “World Trade 2012, Prospects for 2013,” April 10, 2013, [http://www.wto.org/english/news\\_e/pres13\\_e/pr688\\_e.pdf](http://www.wto.org/english/news_e/pres13_e/pr688_e.pdf).

<sup>4</sup> U.S. Department of State, “21st APEC Fact Sheet.”

<sup>5</sup> Bureau of Economic Analysis, “Balance of Payments and Direct Investment Position Data,” U.S. Department of Commerce, [http://www.bea.gov/iTable/index\\_MNC.cfm](http://www.bea.gov/iTable/index_MNC.cfm).

<sup>6</sup> *Ibid.*

<sup>7</sup>U.S. Department of the Treasury, "Major Foreign Holders of Treasury Securities," August 2013, <http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt>.

<sup>8</sup>East-West Center, "Asia Matters for America," <http://www.asiamattersforamerica.org/overview>.

<sup>9</sup>Organization for International Investment, "Insourcing Facts," August 2012, <http://www.ofii.org/resources/insourcing-facts>. Estimate based on Asia's share of overall U.S. inbound FDI.

<sup>10</sup>Bureau of Economic Analysis, U.S. Department of Commerce.

<sup>11</sup>Cited in Claude Barfield and Philip I. Levy, "Tales of the South Pacific: President Obama and the Transpacific Partnership," American Enterprise Institute, December 2009, <http://www.aei.org/files/2009/12/18/09-IEO-Dec-g.pdf>.

<sup>12</sup>"U.S. to China: Play by our Economic Rules," The Atlantic, November 13, 2013, <http://www.theatlantic.com/china/archive/2013/11/us-to-china-play-by-our-economic-rules/281433>.

<sup>13</sup>Hillary Clinton, "America's Pacific Century," Foreign Policy, November 2011, [http://www.foreignpolicy.com/articles/2011/10/11/americas\\_pacific\\_century](http://www.foreignpolicy.com/articles/2011/10/11/americas_pacific_century).

<sup>14</sup>White House, "Remarks by President Barack Obama at Suntory Hall," news release, November 14, 2009, <http://www.whitehouse.gov/the-press-office/remarks-president-barack-obama-suntory-hall>.

<sup>15</sup>Matthew P. Goodman, "Global Economics Monthly: Five Myths about TPP," CSIS, April 30, 2013, <http://csis.org/publication/global-economics-monthly-five-myths-about-tpp>.

<sup>16</sup>Peter Petri, Michael G. Plummer, and Fan Zhai, "The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment," Peterson Institute for International Economics, November 2012.

<sup>17</sup>Clinton, *op. cit.*

Senator CARDIN. Thank you very much for your testimony.  
Dr. Scissors.

**STATEMENT OF DR. DEREK M. SCISSORS, PH.D., RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC**

Dr. SCISSORS. Thank you, Mr. Chairman.

I am going to start with something we all know, but I think it is a useful reminder. We certainly need to more effectively engage the Asia-Pacific on human rights. It seems by recent events we need to do so on security. It may be that the public dimension of our economic engagement, the government dimension, needs to be improved. But the private sector does not need to rebalance to Asia. It does not need to pivot to Asia. It never left Asia and it is doing extremely well.

I will give you a quantitative example and a qualitative example. Quantitatively, U.S. total trade has gone from \$2.3 trillion in 2004 to \$3.9 trillion in 2013, as we near the end of the year, and the Asian share is the same. Over that same period, we have seen a deepening intensification, greater sophistication, and greater value in the supply chains that run through Asia.

So when we are talking about rebalancing, thankfully for us, the private sector leads our economy, and the private sector does not need to rebalance. It is doing fine. I want to remind everyone that we have a lot of strengths as well as weaknesses in our engagement in Asia that we should recall.

I want to do some quick run-through of countries that have been mentioned by the committee and one that has not that I would like to emphasize. In doing that, I want to make the point that I think several members of the committee have already made, which is that economic engagement is going to strengthen the security cooperation and security environment in the region and that is a crucial part of the reason for engaging economically.

The country I want to start with is Japan. Japan is obviously engaged in something of a security standoff at the moment and what they need in the long term to strengthen themselves in a

variety of ways is economic reform. That is not happening. Japan has talked about economic reform. They are not implementing it.

A useful tool to spur them that the United States is involved in is in fact the Trans-Pacific Partnership. We want things from the Japanese. We have for a long time on the economic front. The TPP makes that possible. It will also help Japan economically and in terms of security.

My comment on China is that the key element in dealing with the Chinese both indirectly and directly is to deal with state-owned enterprises. It is something that the Congress has brought up before, absolutely correctly. Therefore the negotiations in the Trans-Pacific Partnership concerning competitive neutrality, which is a way of handling state-owned enterprises, are a vital element of our long-term engagement in Asia and with China. We are also going to have to bring up state-owned enterprises bilaterally. This is not an easy issue. Happy to talk about it more in Q and A. But it is vital.

Another country I think is very interesting that has been brought up by Senator Rubio is the Philippines. The Filipino economy is doing better now than it has for some time. It is not a proven, sustained, and durable expansion, but it is an expansion that may make them more amenable to economic engagement with the United States and with the world. They have a large labor force that they are going to need to find employment for. This is a good time for us to engage the Philippines and they may be falling below the radar a little bit.

Similarly, Senator McCain brought up Vietnam. He made a very interesting point about catfish. I would say that textiles are similar in some ways to the catfish issue, but multiplied by a thousand. When we are asking for human rights reform in Vietnam, which the Communist Party is very reluctant to give us, textiles are a lever in which we can make progress on that issue because it is so important to the Vietnamese that they get better access to the United States market.

The last country I want to bring up is Taiwan, which has not been mentioned, partly because there is a very sensitive security situation. They are also not very cooperative economic partners in some cases. But I will say that, for both security and economic interests—because, for example, on human rights Taiwan is an excellent, excellent partner of the United States—we need to not wait for the international environment to be right. We need to take the initiative, push ourselves and push the Taiwanese. That would be another dimension of American engagement I think that could be improved.

I have two themes that I want to close with. One is really directed toward the executive branch, and I will agree with the chairman that the executive branch's cooperation with Congress has been lacking. I do not know why TPA is coming up this late. TPP is almost done and now we are going to get TPA guiding on the negotiations of TPP—does not make a lot of sense to me.

So my advice to the executive branch is that: focus on countries that are ready to make internal reform. Japan seems like it might be ready. The Philippines, given their economic situation, might be ready. There are other countries that are not ready, and simply

negotiating with them endlessly when they are not ready to make those changes is not a good use of American resources in engaging Asia.

My advice to the Congress is that priorities need to be set. I will give a concrete example. It is only one. It is just an example. I do not think currency manipulation is an issue for the Trans-Pacific Partnership. I do not have a problem with Congress saying it is. If Congress says this is an important issue, that is fine. What I want is priorities to be set. It cannot be everything. We have—this is true on China, it is true in the TPP. I know the members are very well aware of it. We have a lot of groups demanding this issue and that issue and the other issue. One thing Congress has to do through TPA and informally is guide the administration: These are where the buck stops, these two, these three things. That would be very helpful in the United States engagement of Asia.

Thank you.

[The prepared statement of Dr. Scissors follows:]

PREPARED STATEMENT DR. DEREK M. SCISSORS

It does not, in fact, “take money to make money.” Ideas and innovation can make money, so can rich land and skilled labor, especially when these are combined with protection of private property and the willingness to compete.

To successfully engage Asia economically, which will enhance prosperity both at home and for American partners, the U.S. does not need to pour in either financial or human resources. Those are luxuries. Our wealth, technology, natural resources, skilled labor, and—making these much more valuable—our willingness to conduct free and open exchange have shaped Asia in the post-war area. If we act wisely, they will do so for decades to come.

It is certainly true that the U.S. must be consistently involved in the institutions (acronyms) that matter to Asia, from the Association of South East Asian Nations (ASEAN) and the East Asia Summit (EAS) to the Trans-Pacific Partnership (TPP) and Asia-Pacific Economic Community (APEC).<sup>1</sup> So a bit more funding for plane flights, hotel stays, and specialists at the office of the United State Trade Representative and elsewhere would be useful. But U.S. economic openness will count far, far more than any combination of government programs and personnel.

The core of engagement with Asia should be to guarantee to maintain and extend that openness, in exchange for steps by our partners to better protect property rights and enhance competition in their markets. These steps will vary by country and characterizing each situation is a book-length endeavor. A partial list of American priorities includes: (i) accepting in policy terms the benefits of imports and the costs of export subsidies; (ii) quickly concluding a strong TPP to boost regional economies, especially Japan’s, and (iii) with more difficult partners, matching the level of ambition in bilateral talks to the extent and direction of internal reform.

WHAT MATTERS MOST

Our economic engagement in the Asia-Pacific rests on more than six decades of access to the U.S. market. This access was transformative in post-war Japanese economic reconstruction and in the development of Korea and Taiwan. It was transformative in the expansion of the Chinese economy.<sup>2</sup> It could yet prove transformative in the development of India and Vietnam. Of course, these countries primarily needed, and still need, to make wise policy decisions concerning savings and other factors but they frequently make them in order to take advantage of the indispensable American market.

The reference point for understanding the American economic role in Asia, both for the U.S. and the region, is our imports from Japan. From zero in 1945, these reached \$69 billion in 1985. This was almost exactly the same as American imports from Canada (our largest trade partner for nearly all of our history) and the equivalent of 5 percent of Japanese GDP, which was then second-largest in the world and fast-rising.<sup>3</sup> American capacity and willingness to import in these quantities was highly visible and highly sought by others.

South Korea did not have Japan’s prewar legacy of development. In 1960, it was comparable in wealth to countries in sub-Saharan Africa and exports to the U.S. were negligible. By 2000, its exports to the U.S. exceeded \$40 billion, or 7.5 percent

of GDP, and South Korea was well on its way to being a rich nation.<sup>4</sup> In 1960, Taiwan was only modestly richer than Korea at the time and exports to the U.S. were negligible. In 2000, exports exceeded \$40 billion, 12 percent of GDP, and Taiwan was solidly upper middle-income.<sup>5</sup> These facts were well-appreciated for decades but now sometimes seem to be forgotten on both sides of the Pacific.

Chinese development was not initially linked to the U.S. However, the second wave of Chinese reform, starting in late 1992, improved corporate efficiency and prepared the way for WTO accession, an accession driven by Sino-American agreement.<sup>6</sup> From 1992 to 2012, Chinese exports to the U.S. increased by a factor of 17, or \$400 billion. In 2012, they were the equivalent of 5 percent of China's GDP, which is second-largest in the world and fast-rising.<sup>7</sup> The parallel to Japan is striking.

In light of the Chinese experience, another obvious candidate to walk this path is India. There is little sign of India being willing to undertake fundamental reform in order to sell on a large scale to the American market, but this was also true in China in 1991. Smaller but still notable in size is Vietnam. Through its negotiations in the TPP, Vietnam is attempting first and foremost to win market access to the U.S. and follow the path of its neighbors.<sup>8</sup>

Investment has been much less important than trade in Asia-American economic relations and can play a larger role. Japan is by far the largest Asian investor in the U.S., while flows from Korea and Taiwan, as well as Australia, are inconsistent in size. Chinese money goes overwhelmingly into low-yield bonds.<sup>9</sup> Drawing steadier investment from the richer countries and more productive investment from China does not require financial incentives—American respect of property rights, huge consumer market, and natural resources are more than enough incentive. All that is needed is information from local governments and a timely, transparent approval process at the federal level.

#### *Some of the implications*

The matter of open American markets to many Asian countries, and the lack of reciprocal openness in some cases, has been subject to extensive political debate in the U.S. In one important respect, the debate is misguided: the large trade deficits the U.S. runs with Asia as a whole, and China in particular, do not necessarily represent lost American jobs.

Imports from Asia-based producers, even improperly subsidized imports, benefit consumers and thus strengthen the American economy. They can even create jobs directly here, in offloading, transportation, sales and so on. It is no surprise that the sharp downturn in 2009 saw the U.S. trade deficit with our top six Asian trade partners at \$290 billion while the recovering economy of 2012 saw the deficit exceed \$430 billion.<sup>10</sup> At the same time, subsidized American exports are a type of income redistribution program—taxpayer money going to certain exporters—and do not benefit the country as a whole.

It is certainly true that many Asian policymakers have shown mercantilist tendencies over the years, inhibiting American exports and denying the associated benefits to American workers and companies.<sup>11</sup> Congress has struggled to influence these policies without resorting to denial of access to the U.S., which would harm both trade partners and American interests. The solution is to continue to leverage our open market.

Leveraging has already occurred—despite domestic political dissatisfaction, American demands for open trade have powerfully shaped Asia compared to the pre-WTO era. More recently, China joined the WTO to protect its access to the U.S., signing up for rules put in place at America's behest.<sup>12</sup> Japan, Vietnam, and Malaysia are willing to go beyond the WTO and join the American-led TPP for the same reason. The institutional engagement with ASEAN and, to a lesser extent at the EAS and APEC, offers additional opportunities.

In contrast, a protectionist turn by the U.S. would be destructive for the region and our role in it. A truly closed American market, featuring high tariff walls imposed for political reasons, would shatter the Sino-American relationship and alienate other countries which are not treaty allies. It would leave the U.S. with an unpleasant and possibly untenable role as security guarantor, only, in an economically damaged and increasingly hostile region.

While withdrawal is not on the table at the moment, fortunately, there is also risk from the failure to engage. If restrictive rules of origin in the TPP make it more like a bloc than the core of an Asia-Pacific free trade zone, it will force countries to decide to be "with us or against us." This may lead to one of the regional endeavors, such as ASEAN+3, becoming a counter-bloc. Even if nothing so dramatic happens, the absence of American economic leadership will almost surely lead to more mercantilist competition within the region, which already lingers just below the sur-

face in exchange rate policy.<sup>13</sup> The region will see more political tension and offer less in the way of benefits to the U.S.

#### U.S POLICY TOUR

Writing about Asia is similar to trying to plan a trip to Asia: there are too many places to go. The economic kingpins, Japan and China, naturally merit the most attention. There are also particularly interesting American choices to be made with regard to Taiwan, India, the Philippines, and Indonesia. All involve leveraging the U.S. market and other economic strengths to drive Asian policy choices.

#### *The large economies*

The TPP is not the only game in town but it is the biggest one. It became the main event when Japan joined and Tokyo now very much needs a good TPP.

Prime Minister Abe's program to end the long period of economic stagnation has begun to founder on delays in much-touted structural reform.<sup>14</sup> The TPP could deliver the painful changes necessary while allowing Abe to claim they are not his doing, but rather unavoidable in light of the economic importance of the TPP group as well as Japan's current standoff with China. Agriculture reform in particular would improve Japan's land usage, which constitutes a fundamental shift, and is a high American negotiating priority.<sup>15</sup> A TPP which both helps reinvigorate Japan's economy and improves access for goods and services in which the U.S. has a comparative advantage would be the single biggest accomplishment of the Asia pivot.

As ever, China's impact is multifaceted. In terms of the TPP, most member states want China to be able to join. Several, including the U.S., want China to be able to join if and only if it fulfills the terms of a high-standard agreement. Negotiating with China will involve the same issues as negotiating with other parties but one stands out as more pointed: the treatment of state-owned enterprises (SOEs). This is being done in the TPP through a chapter on "competitive neutrality."

The idea behind competitive neutrality is SOEs should not be granted competitive advantages over private firms. But existing versions of competitive neutrality, such as Australia's, were formulated for countries that wish to limit SOEs. It is not clear Singapore and Vietnam qualify and it is entirely clear China does not qualify.<sup>16</sup> So this is a two-stage process. First, TPP talks must yield a strong version of competitive neutrality that binds hesitant countries. Second, the TPP grouping must become a sufficiently powerful lure for China to meet the obligations.

Beyond the TPP, Asian countries understand that Chinese policy is based essentially on convenience, while American economic policy is based on principle. China welcomes foreign commodities and other goods and services that it considers valuable at the time, the U.S. welcomes foreign goods and services that offer quality and low prices. This provides the U.S. with a major diplomatic advantage and counterweight to Chinese practices. At the bilateral level, the record shows that negotiating change from outside does not work.<sup>17</sup> Internal Chinese reform must precede an investment treaty, it will not come about from an investment treaty.

#### *Pivotal smaller economies*

A challenge of a different sort for U.S. policy involves Taiwan. With only 23 million people, Taiwan remains in the top 13 of American trade partners. This impressive performance is also a vulnerability: to remain prosperous, Taiwan must remain in the forefront of global trade evolution. This has been extremely difficult due to Chinese intimidation of much of the world with regard to Taiwan's signing bilateral and some multilateral trade agreements.<sup>18</sup>

Offering Taiwan economic alternatives is just as important as the American security commitment in ensuring the island's citizens can choose their own destiny. Given regional politics, the U.S. must either lead a multilateral effort to engage Taiwan or work toward purely bilateral accords. While Taiwan-U.S. economic negotiations have sometimes been unpleasant, American shale shipments could have extremely high value to Taiwan and enable needed improvements in the treatment of agriculture products.<sup>19</sup>

Other difficult economic negotiations have involved India. To be the kind of economic and, ultimately, security partner the U.S. wants, India must fundamentally liberalize rural land ownership, manufacturing labor laws, and economic exchange across its own states. Yet the India-U.S. bilateral economic relationship is shaky and India is often constitutes the chief obstacle to progress at the WTO Doha round.<sup>20</sup>

The best—perhaps the only—place to make progress may be in forums with Asian countries that have successfully liberalized. These have adopted a number of principles India has repeatedly infringed, for example with regard to taxation and intellectual property. Progress may be elusive, but it will certainly damage the relation-

ship and encourage more disruptive Indian behavior in the WTO and elsewhere if the U.S. starts closing the door to Indian workers. Taxing Indian labor to pay for internal American programs, as in early 2011, is harmful in this regard.<sup>21</sup>

Two members of ASEAN not currently involved in the TPP and therefore not receiving much American policy attention are Indonesia and the Philippines. The latter is, of course, a U.S. treaty ally. It boasts an economy where household spending has accelerated to better than 6 percent growth annually and manufacturing and services are now far outperforming the traditional sector leaders agriculture and mining.

To maintain this performance and create the jobs necessary to absorb more than 10 million unemployed will require promarket reform.<sup>22</sup> With reform and given the large Filipino labor force, a maturing industrial sector would become quite competitive on world markets, making this the most promising time yet to enhance the Philippines-U.S. economic relationship. The security relationship means American political support for closer economic ties is high, the question of whether a bilateral or multilateral approach is superior should be answered by internal Philippines politics.

Indonesia is the largest ASEAN member, with a population about equal to that of the U.S. in 1989. It also has a growing labor force and, unlike some of its neighbors, has shown no particular tendency to run large trade surpluses. Indonesia's policy record, though, is uneven at best. It is contemplating a year-long ban of unprocessed ore exports, which would be illegal under the WTO, and a mercantilist turn that could have a considerable impact in the region.<sup>23</sup> It is not clear how best to engage Indonesia economically and the obstacles and potential in doing so are perhaps the best justification for active American participation in the EAS.

#### RECOMMENDATIONS

The U.S. has already changed Asia, especially East Asia, for the better with our openness. The ideal course is to continue to do so. Economic engagement of Asia should be based on, but not limited to, the following guidelines:

(1) Do not treat imports as if they automatically cause job losses here. Do not treat subsidized exports as contributing to national prosperity.

(2) For foreign investors, provide information rather than opaque or politicized review processes.

(3) Ensure the competitive neutrality provisions in the TPP tightly constrain countries that continue to seek to subsidize their state-owned enterprises.

(4) Quickly conclude a strong TPP that offers Japan benefits in autos and elsewhere in exchange for better access to the Japanese agriculture and services markets.

(5) Do not move forward on a bilateral investment treaty with China until it is clear that relevant internal reform is under way there.

(6) In the trade and investment framework talks with Taiwan, bundle two key commodities: Taiwan can be treated as free trade partner in oil and gas if it is also one in agriculture.

(7) Treat India as a vital but long-term partner. Negotiate under the bilateral economic dialogue for basic reform and do not punish Indian services firm for the failure of their government.

(8) Be quick in seizing an unprecedented opportunity to engage the growing but fragile economies in the Philippines and Indonesia either on a bilateral basis or through the TPP.

The U.S. does not need a large commitment of resources to successfully engage Asia economically. We just need the willingness to maintain and extend our openness.

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#### End Notes

<sup>1</sup>"Asia-Pacific Economic Cooperation" is grammatically irritating.

<sup>2</sup>See, respectively, Aaron Forsberg, "America and the Japanese Miracle: The Cold War Context of Japan's Postwar Economic Revival, 1950–1960," (Chapel Hill: UNC Chapel Hill Press, 2000), Charles Harvie and Hyun-Hoon Lee, "Export Led Industrialization and Growth—Korea's Economic Miracle 1962–89," (working paper series, University of Wollongong, 2003), <http://ro.uow.edu.au/cgi/viewcontent.cgi?article=1066&context=commwkpapers>; Robert E. Baldwin, Douglas Nelson, "The Political Economy of U.S.-Taiwanese Trade and Other International Economic Relations," in *Trade and Protectionism*, ed. Takatoshi Ito and Anne O. Krueger (Chicago: National Bureau of Economic Research, 1993) <http://www.nber.org/chapters/c8079>; and Thomas I. Palley, "External Contradictions of the Chinese Development Model: export-led growth and the dangers of global economic contraction," *Journal of Contemporary China* Volume 15, Issue 46, 2006, pg. 69–88.



<sup>3</sup>“Foreign Trade: U.S. Trade in Goods by Country,” United States Census Bureau, Department of Commerce, <http://www.census.gov/foreign-trade/balance/index.html> and “GDP (current US\$),” World Development Indicators, The World Bank, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?page=2>.

<sup>4</sup>Dani Rodrik, “Getting interventions right: how South Korea and Taiwan grew rich,” *Economic Policy* Volume 10, No. 20, 1995, <http://isites.harvard.edu/fs/docs/icb.topic442978.files/Rodrik%20%20How%20Korea%20and%20Taiwan%20grew%20rich.pdf> and Charles R. Frank Jr., Kwang Suk Kim, and Larry E. Westphal, “Economic Growth in South Korea since World War II,” in *Foreign Trade Regimes and Economic Development: South Korea* (Chicago: National Bureau of Economic Research, 1975), <http://www.nber.org/chapters/c4063.pdf>; “Foreign Trade: U.S. Trade in Goods by Country,” United States Census Bureau, Department of Commerce, <http://www.census.gov/foreign-trade/balance/index.html>, and “GDP (current US\$),” World Development Indicators, The World Bank, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?page=2>.

<sup>5</sup>Dani Rodrik, “Getting interventions right: how South Korea and Taiwan grew rich,” *Economic Policy* Volume 10, No. 20, 1995, <http://isites.harvard.edu/fs/docs/icb.topic442978.files/Rodrik%20%20How%20Korea%20and%20Taiwan%20grew%20rich.pdf> and Robert E. Baldwin, Douglas Nelson, “The Political Economy of U.S.-Taiwanese Trade and Other International Economic Relations,” in *Trade and Protectionism*, ed. Takatoshi Ito and Anne O. Krueger (Chicago: National Bureau of Economic Research, 1993) <http://www.nber.org/chapters/c8079>; “Foreign Trade: U.S. Trade in Goods by Country,” United States Census Bureau, Department of Commerce, <http://www.census.gov/foreign-trade/balance/index.html> and “GDP, current prices,” *Econ Stats, World Economic Outlook data*, International Monetary Fund, <http://www.econstats.com/weo/V004.htm>.

<sup>6</sup>Harry G. Broadman, “China’s Membership in the WTO and Enterprise Reform: The Challenges for Accession and Beyond,” (working paper series World Bank, Washington, DC, United States, 2000), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=223010](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=223010) and “Bilateral Agreement on China’s Entry into the WTO Between China and the United States,” Ministry of Foreign Affairs of the People’s Republic of China, 2000, <http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18051.htm>.

<sup>7</sup>“Foreign Trade: U.S. Trade in Goods by Country,” United States Census Bureau, Department of Commerce, <http://www.census.gov/foreign-trade/balance/index.html> and “GDP (current US\$),” World Development Indicators, The World Bank, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?page=2>.

<sup>8</sup>Derek Scissors, “What Indian Economic Reform Could Mean for the U.S.,” (Washington, DC: Heritage Foundation, August 18, 2011), <http://www.heritage.org/research/reports/2011/08/what-indian-economic-reform-could-mean-for-the-us> and “U.S.-Vietnam basic accord clears major hurdle to TPP deal,” *Kyodo News International*, September 14, 2013 <http://www.globalpost.com/dispatch/news/kyodo-news-international/130914/us-vietnam-basic-accord-clears-major-hurdle-tpp-deal>.

<sup>9</sup>“Foreign Direct Investment in the U.S.: Balance of Payments and Direct Investment Position Data,” Bureau of Economic Analysis, U.S. Department of Commerce, <http://www.bea.gov/international/di1fdibal.htm> and “Foreign Portfolio Holdings of U.S. Securities,” Department of the Treasury, Board of Governors of the Federal Reserve (Washington: 2013), <http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/shla2012r.pdf>.

<sup>10</sup>Derek Scissors, Charlotte Espinoza, and Ambassador Terry Miller, “Trade Freedom: How Imports Support U.S. Jobs,” (Washington, DC: Heritage Foundation, September 12, 2012), <http://www.heritage.org/research/reports/2012/09/trade-freedom-how-imports-support-us-jobs> and “Foreign Trade: Top Trading Partners,” United States Census Bureau, Department of Commerce, <http://www.census.gov/foreign-trade/statistics/highlights/top/index.html>.

<sup>11</sup>“The Real Asian Threat: Mercantilism,” *Bloomberg BusinessWeek*, April 14, 1996, <http://www.businessweek.com/stories/1996-04-14/the-real-asian-threat-mercantilism>.

<sup>12</sup>DG Supachai Panitchpakdi, “American Leadership and the World Trade Organization: What is the Alternative?” (speech at the National Press Club, Washington, DC, February 26, 2004), [http://www.wto.org/english/news\\_e/spsp\\_e/spsp22\\_e.htm](http://www.wto.org/english/news_e/spsp_e/spsp22_e.htm).

<sup>13</sup>Derek Scissors, “Rules of Origin Can Make or Break the Trans-Pacific Partnership,” (Washington, DC: Heritage Foundation, August 27, 2013), <http://www.heritage.org/research/reports/2013/08/rules-of-origin-can-make-or-break-the-trans-pacific-partnership> and Vidya Ranganathan, “Korea becomes the red flag for Asia’s currency war,” *Reuters*, January 31, 2013, <http://www.reuters.com/article/2013/02/01/markets-currency-war-idUSL4N0B01SL20130201>.

<sup>14</sup>Alexis Xydias, “Abenomics to Fail Without ‘Third Arrow,’ Allianz Global,” *Bloomberg*, November 12, 2013, <http://www.bloomberg.com/news/2013-11-13/abenomics-to-fail-without-third-arrow-allianz-global.html>.

<sup>15</sup>“TPP or no, aging farm sector needs true reform,” *The Japan Times*, March 26, 2013, <http://www.japantimes.co.jp/news/2013/03/26/business/tpp-or-no-aging-farm-sector-needs-true-reform/#.Uqp8EwJdtac>.

<sup>16</sup>Derek Scissors, “Why the Trans-Pacific Partnership Must Enhance Competitive Neutrality,” (Washington, DC: Heritage Foundation, June 6, 2013), <http://www.heritage.org/research/reports/2013/06/why-the-trans-pacific-partnership-must-enhance-competitive-neutrality>.

<sup>17</sup>“Shade of Grey,” *The Economist*, December 10, 2011, <http://www.economist.com/node/21541408>.

<sup>18</sup>Mac William Bishop, “Taiwan’s free trade troubles,” *Asia Times Online*, July 14, 2004, <http://www.atimes.com/atimes/China/FG14Ad05.html>.

<sup>19</sup>“After five years, Taiwan-US trade talks resume,” *Taiwan Insights*, March 27, 2013, <http://www.taiwaninsights.com/2013/03/27/after-five-years-taiwan-us-trade-talks-resume/> and Song Yen Ling, “Taiwan keen to import US LNG from shale gas-fed projects: report,” *Platts*, June 6, 2013, <http://www.platts.com/latest-news/natural-gas/singapore/taiwan-keen-to-import-us-lng-from-shale-gas-fed-27050534>.

<sup>20</sup>Peter Alford, "India cripples World Trade Organization's Doha Round hopes," *The Australian*, December 4, 2013, <http://www.theaustralian.com.au/news/world/india-cripples-world-trade-organisations-doha-development-round-hopes/story-e6frg6so-1226775236139> and Doug Palmer, "U.S. trade chief urges India to heed to U.S. companies' complaints," *Reuters*, July 12, 2013, <http://in.reuters.com/article/2013/07/12/usa-india-trade-chidambaram-idINDEE96B01J20130712>.

<sup>21</sup>"Ignoring India's concerns, Obama signs 9/11 health care bill," *The Economic Times*, January 3, 2011, [http://articles.economicstimes.indiatimes.com/2011-01-03/news/28430935\\_1\\_obama-signs-health-and-compensation-act-health-care](http://articles.economicstimes.indiatimes.com/2011-01-03/news/28430935_1_obama-signs-health-and-compensation-act-health-care).

<sup>22</sup>"Philippine Economy posts 7.0 percent GDP growth in Q3 2013," National Statistical Coordination Board, Republic of the Philippines, November 28, 2013, <http://www.nscb.gov.ph/sna/andPovertyReductionandEconomicManagementUnit>, "Philippine Economic Update: Accelerating Reforms to Meet the Jobs Challenge," *The World Bank*, May 2013, [http://www.worldbank.org/content/dam/Worldbank/document/EAP/Philippines/Philippine\\_Economic\\_Update\\_May2013.pdf](http://www.worldbank.org/content/dam/Worldbank/document/EAP/Philippines/Philippine_Economic_Update_May2013.pdf).

<sup>23</sup>"Foreign Trade, Export by Month, Year 2013," *Badan Pusat Statistik, Statistics Indonesia*, <http://www.bps.go.id/eng/exim-frame.php?kat=2>, "Indonesia Economic Quarterly, Policies in focus," *The World Bank and Bank Dunia*, December 2012, <http://www.worldbank.org/content/dam/Worldbank/document/IEQ-DEC-2012-ENGLISH.pdf> and "Go-Ahead for Indonesia's Controversial Ban on Unprocessed Mineral Exports," *Indonesia Investments*, December 7, 2013, <http://www.indonesia-investments.com/doing-business/business-columns/go-ahead-for-indonesias-controversial-ban-on-unprocessed-mineral-exports/item1397>.

Senator CARDIN. Well, thank you both for your testimony.

Dr. Scissors is absolutely correct. Congress has to set priorities. If an agreement is negotiated and we do not have TPA, there will be 535 priorities. The good thing about doing TPA first is that collectively we can determine the priorities before the fact rather than after the fact.

So it is a little frustrating to many of us that we have not seen the TPA bill and that there has not been a more transparent process. It is not just TPP, there are a couple other agreements that are floating around, one for Europe particularly that is also very, very important. I also appreciate your comments about leveraging for change and seeking the priorities to do that.

So let me talk about China just for one moment and what is happening. China is the largest authoritarian, one-party regime. It has been slow to change its ways, but it has made some reform, most recently announcing that the reeducation camps are going to be ended, that they are progressing on some of their human rights issues. In my visit to China, you can see that there has been change in this country, there is no question about it.

So is there enough internal reasons for change in China that it is going to happen? Yes, we should try to work on leveraging issues of priorities to us. But what is your assessment of the pace of reform and whether there is hope that the country will become a much more open society in the decades to come?

Dr. SCISSORS. Thank you, sir. If you had asked me that question 2 years ago, I would have said it is just hopeless, just forget it, that we had a government in charge that was in charge for 10 years, that had taken the country backward economically, that had no interest in useful foreign policy engagement as far as I was concerned and was not improving the human rights situations of its people.

As you have said, we now have a new government. We now had a major meeting a month ago where they talked about a number of reforms. That is a good sign. It is certainly better than where we were before. Otherwise, it is far too soon to tell. I remain deeply suspicious, perhaps scarred by the last 10 years.

But for example, the Chinese are treating foreign companies worse than they were 2 years ago. That is not the only issue. It

is not maybe the most important issue. But it is not an encouraging sign. The air defense zone is not an encouraging sign.

So I would say you are right, sir, we should watch the reform promises. But at this moment I am suspicious and I think of China as a place where we are going to have a lot of difficulty making progress on the things we care about.

Senator CARDIN. Mr. Goodman, let me let you elaborate on that, but if you would focus on one area that is a particular concern to me in China. That is the relationship between the local government and the national government. As a businessperson, you would need to deal with local governments, and the inconsistency among local governments and the amount of corruption is legendary.

How do you see that changing and what can we do so that businesses' access to China can be more consistent and without the disadvantages brought on by corruption?

Mr. GOODMAN. Thank you, Mr. Senator. It is a good question. The relationship between the center and the local governments in China is one of the kind of enduring themes of Chinese governance. It has been a sort of pull, tug, and force—a to-and-fro between the center and local governments, including over this 30 years of reform, but going back thousands of years.

In order to really crack this reform nut, they are going to have to find a way to both incentivize the local governments to continue with the needed changes that they need to take to promote more efficient markets and a more competitive playing field, including for our businesses. At the same time, they are going to have to crack down on corruption and they are going to have to find a way to give the local governments the financial resources they need to be able to engage in the kinds of investments that are going to support this market-based reform and not wastefully—well, first of all, seize land and seize assets from farmers in order to generate revenues and then to spend the money wastefully.

So it is a huge challenge for the central government and one of the reasons that I think I share Derek's skepticism, or at least caution, about whether they are going to be able to follow through on this reform. I think the good news is that, like an alcoholic, the first step to recovery is acknowledging you have a problem, and I think they have acknowledged that they have a problem and that is I think the most important first step.

But following through and implementing, including on these issues of getting the incentives right with local governments so they will do the market-based reform, cut down corruption, but make the kinds of investments they need, that are efficient and support a market-based system, I think is going to be the real challenge going forward and one of the things that we are going to be watching very closely.

Senator CARDIN. Well, Dr. Scissors, mentioned the fact of leveraging, which I strongly support. It is in our interest, it is in the interest of the region, it is in the interest of China that they move ahead with these reforms, that they deal with the problems of local government and corruption, that they deal with state-owned enterprises. You are absolutely correct about that issue. That is a huge problem that confronts China and other countries in Asia.

What leverage do we have and how can we advance these issues in a more urgent manner?

Mr. GOODMAN. I think, look. On one level I would say that it is up to the Chinese to figure out how to do this, and we are going to have on one level a limited amount of leverage and we have to I think accept that on one level. On the other hand, there are a lot of things they want from us.

They want our large market. They want our businesses. They want our technology. They want our ideas and our experience with reform.

I think it is very interesting that recently they announced this opening of a free trade zone in Shanghai. That comes right on the heels of the decision to expand TPP to include Japan and I think there is a relationship there. I think they see the competitive challenge from a TPP arrangement that includes high standard rules and liberal markets in this large economic area as a competitive challenge for them and they have to match it in some way.

I think that that has provided some leverage that has generated that change that I mentioned in Shanghai. Their willingness to talk about a bilateral investment treaty with the United States on the terms that we are seeking of preestablishment, market access, and a negative list approach, I think that all came in the wake of these developments externally that we were very much a part of in our strategy on TPP.

So I think we do have leverage. But in the end they have got to figure this out for themselves.

Dr. SCISSORS. I completely agree with what Matt said.

I just want to add one thing. I have been following Chinese outward investment, investment coming out of China, for 15 years and this is a booming area for them, and their preferred destination, frankly, is the United States because we are big and we have resources and we give investor protection. So one discussion with them is: Hey, we want to give you good access to the American market, that is part of our principles. But, by the way, these things that you are asking for, we do not have them in China.

That is not going to solve all of our problems. They are not going to do everything we want in exchange for investment access. But we can improve some of the business conditions for U.S. firms operating in China on the basis of reciprocity. So that is an area where we have some leverage.

Senator CARDIN. Senator Rubio.

Senator RUBIO. Thank you.

I wanted to explore first with you, Dr. Scissors, this notion of free trade and in particular imports. So I get resistance from people who believe that free trade is a destroyer of American jobs. Obviously, free trade has to be fair and there are rules that are important, because, as you have just described, one scenario, not exactly on point, but you have described a scenario that is a one-way street. Our values of openness allow them to invest, the Chinese to invest here, but when we try to reciprocate there are all kinds of impediments to that.

That has always been a challenge to us on multiple fronts, including on the trade front. But in specific on the issue of imports, there is this idea that imports into the United States in and of

themselves destroy American jobs. But in your written statement you have outlined why in fact that is not potentially the case, that in fact there are also jobs created through imports from offloading.

Can you just elaborate on that more, because that is an issue I get a lot when I go out and talk about the need to expand trade opportunities, not just with Asia but with the entire world. Can you elaborate a little bit more on the benefits that imports—obviously, we want to be able to export, too, but the benefits that imports have for American jobs, particularly stable middle class jobs?

Dr. SCISSORS. Yes, sir, I would be happy to. I think this is an important point. This is not to say that unfair competition does not exist and the Chinese do not subsidize their firms and these are things we should not fight. But I do think that the people forget that imports are good for us. They are good for us in a number of ways.

I talked about the electronics supply chain. Not only do we all have good quality phones in our pockets, hopefully turned off, and some people have big flat-screen TVs at home that are incredibly cheap. So that is nice for consumers. But it also saves money, creating resources that are available for other things in the American economy. Clothes used to be a big part of Americans' budget. We are all old enough to remember that. They are not any more. Consumer electronics are a declining part of America's budget. That money goes for individuals and for the country as a whole to other things, including job-creating activities here.

So there is an indirect effect. When you do not spend as much money and as many resources on things that you can import well, you have those things, those resources, available for what you do extremely well, which in our case is high-tech manufacturing, agriculture, and so on.

There is also the direct effect that you referred to, which is imports do not magically appear. You do not say some thing is produced in China or elsewhere and now I have it in front of me. It is shipped, it is offloaded, it is transported within the country, it is sold, it is marketed. All those create jobs.

I will give you a specific example. We found that the number of jobs that are supported just by shipments of clothing from China is larger than the number of jobs supported by the United States textile industry. So I understand people's concern about unfair competition from countries. That exists. There is no denying it. But it is not the case that imports necessarily cost jobs. There are certainly examples where imports in fact create jobs for the United States.

Senator RUBIO. So just to describe the supply chain for this phone for a second, it says here it was innovated and designed in California, but assembled in China. Somebody built this phone over there and then they had to ship it here. They had to offload it at a port of entry. Those were American jobs. Then it had to be transported from the port of entry to a distribution center, again another set of American jobs. Then from that distribution center—there were jobs there—they were shipped out to the retailers, another group of American jobs. Then at the retail level there is somebody selling it, another set of American jobs at the retail level.

Then whoever buys these things is paying less than they normally would, which means whatever money you are saving on this, the difference between how much it would have cost to do it somewhere else and do it where it is happening now and what you actually paid, that difference is now available to spend somewhere else because you did not spend it on this.

Is that an accurate description of how it plays out?

Dr. SCISSORS. A better one than the one I gave; yes, sir.

Senator RUBIO. Well then, let me just ask one last one. I do not know if you know the answer to this, but my guess is that all of those jobs down that supply network that I have described probably pay better than some of the people that are building this.

Dr. SCISSORS. That is a good point to elaborate on. We have kept the higher value-added jobs here. To even extend your supply chain further, it does not—the design does not occur here and then suddenly the phone is in China. We actually have production that routes through Japan, Taiwan, Malaysia, Korea, various of our Asian partners, and then the assembly occurs in China.

The assembly of the phone is not such a great job and in fact the Chinese have very significant labor problems connected to some of those jobs.

Senator RUBIO. Because their wages are increasing and it is forcing it to go elsewhere?

Dr. SCISSORS. Because their wages should be increasing and sometimes they are not, because the conditions are not very good. The better jobs associated with consumer electronics, far better than in China, are here. What we get is a trade number that looks like we are running a consumer electronics deficit with China, but we are getting better jobs than they are out of it.

Senator RUBIO. That is a good way to describe it.

Mr. Goodman, in your testimony you talked about something I thought was interesting, and that is a notion that you said was recently popular, until recently was popular in Beijing, that TPP is part of an effort by Washington to contain China. But in fact, if they decide not to participate in free enterprise and free commerce and free navigation and the benefits of this sort of barrier reductions, that is a decision they have made to contain themselves, right?

I mean, this is not—my understanding of the region is that most, if not all, of the countries would like stronger integration with China, but on a set of rules based on freedom and freedom of commerce and freedom of navigation and mutual reciprocity on rules, et cetera, not on the set of rules that China would like to impose. So really the ones—to the extent that there is anybody excluding anyone, it is Chinese policymakers that have decided to potentially exclude themselves from this and other arrangements because they do not like the rules. The rules they want are actually much more one-sided, to the benefit of China and to the detriment of their neighbors and perhaps the rest of the world.

Mr. GOODMAN. Thank you, Senator. That is I think absolutely correct. I think that the notion of, first of all, of somebody trying to contain China economically does not make any sense, because everybody wants to engage with them. So I think there was a misunderstanding.

In fact, TPP was designed to do the opposite of excluding them, which is to pull them into this global rules-based order and, frankly, make them follow the rules of the road that we have helped champion for half a century. So this notion never made sense in terms of U.S. strategy.

Yes, you are right, on China's own side, it was only about a year ago that they were continuing to say: We do not want these rules, we do not want to be part of this system. Then I think what happened, as I say, I think the big change was Japan joining TPP, because now you have got the third-largest economy in the world, a major competitor for them economically and strategically, joining this agreement, and it becomes suddenly an agreement that has large heft and, frankly, is the place in the world—frankly, I am sorry, but it is not Geneva—where the rules are being written. It is in TPP where the rules of the international trading system are being written.

China realized this and I think said: We have got to be part of this rulemaking exercise whether we are in TPP, which may be challenging, frankly—I am not sure they are ready to reach the kind of standards that are being negotiated in TPP. But if not, they need to find another way to match this, and that is why I mentioned the Shanghai FTZ. That is why I think it helped drive a very forward-leaning reform package at this Third Plenum last month. It is why they are willing to talk about a bilateral investment treaty, and it is why they are talking more positively about TPP.

So I think, yes, I think they themselves were their own worst enemies in this area, and I think they have figured out that this is not the right approach and they have changed course.

Senator CARDIN. Senator Murphy.

Senator MURPHY. Thank you, Mr. Chairman.

I want to continue to explore this question of where the rules of the global economy are being set. You know, if we want more transparency around these trade agreements or we want more public debate, we should probably think about renaming them. "TTP" and "TTIP" creates a little bit of unnecessary confusion out there amongst the public.

But as the chairman of the Europe Subcommittee, we hear a fair bit of consternation in places like China and India that TTIP is an effort between the United States and Europe to gang up on the developing world, to set global standards for product safety and financial instruments and food quality that the rest of the world will have to live with.

Mr. Goodman, you are sort of saying the opposite. You are saying that really if—or I heard you to say that the rules of the road are being set not in Geneva, but in the negotiations on TPP.

So I just would love for the two of you to sort of explore the interaction on the beginnings of negotiation on a Europe agreement coming on the heels of the negotiation with Japan and others in TPP, and to what extent is it a fair characterization of the Europe trade agreement that this is the United States and Europe essentially trying to get together on standards setting so that those standards are not set in Asia, or to what extent—maybe you can continue upon what you began to talk about with respect to the

fact that maybe the game is not in the Europe negotiations, the game is really in what comes out of the TPP negotiations.

Mr. GOODMAN. Thank you, Mr. Senator. A good question, and I am sorry that I was misleading before. What I meant was that the place that these rules should be negotiated is Geneva in the WTO. Everybody I think understands that you need a multilateral framework of rules and that is the first best solution.

But it is like trying to climb Mount Everest. We tried the north face. We tried going up the multilateral route and, frankly, with the exception of this latest thing in Bali, this agreement on trade facilitation, which was encouraging but quite small, we really failed and we have had to come back down the mountain find another way around.

That other way around I think is TPP currently and TTIP, the U.S.-EU negotiations.

So I would say the same thing about TTIP that I said about TPP, that to the extent that is starting to gain momentum and there is a real conversation about the rules, I think that is where the action is. So it is TPP and TTIP. Ultimately I think the idea and the strategy—it is maybe not stated quite this clearly, but now that I am not in government I can say it a little more clearly—I think this is a strategy of trying to move from TPP through TTIP to establish de facto a multilateral set of rules that covers at that point 90 percent of the world economy, and the rest of the world economy I think will be faced with a choice of trying to aspire and attain that level of high standard rules or they are going to be left out of the system. To date a lot of those countries that you mentioned have been free riders on the system and if they are not willing to negotiate and participate actively in these negotiations, then I think this is the best second-best strategy.

Senator MURPHY. I want to hear what you have to say, Mr. Scissors, about this as well. But let me just follow up quickly on that point. So you have got now two enormous sectors of the global economy negotiating simultaneously. What are the potential for inconsistencies in how those two regimes get worked out that frankly will work at cross-purposes with the very notion that you are suggesting as to an effective replacement for the WTO?

Mr. GOODMAN. Well, the good news is that we are on one side of both of those agreements, and so we presumably are bringing into TTIP the same kind of approach and principles that we brought into TPP and have been pushing in TPP. Now, Europe is different, and I used to work in Europe on some of these regulatory issues when I was in the private sector and it is a very different world view. Frankly, I think we are like Mars and Venus on some of these regulatory issues with Europe.

I think in some ways that is going to be a much tougher negotiation. It may not appear that way because of our shared values and history and everything, but actually there are some very tough differences on regulatory issues and GMO's and a range of other issues.

But I think the fact that the United States is pushing a similar approach with similar principles, similar standards, means that there is less risk of fundamental inconsistency. But of course each



negotiation is going to be slightly different and it may come out in a slightly different place.

Dr. SCISSORS. I think it is a big framing question you have asked, which is what is the replacement U.S. strategy after the WTO has stalled. I think I hate to use this phrase, but it is appropriate: We are looking for coalitions of the willing, and if we find a subset of countries in Asia, hopefully a very big subset, hopefully eventually everyone, we are happy to deal with them.

The way I see the trans-Atlantic negotiations is a little bit more positive—of course, they have barely started, so it is easy to be positive—a little bit more positive than you do, which is we are going to use TPP as a base. We used KORUS as a base for the TPP negotiations. We are going to use TPP as a base for the trans-Atlantic negotiations. They are going to be difficult in some respects. They may not work.

But hopefully they will go forward, and so we will start with TPP and we will go beyond that in the trans-Atlantic discussion. And if we cannot, then we should look toward Latin America, and if we cannot do that we should look toward sub-Saharan Africa. We should keep looking for partners who are willing to sign these agreements.

One concrete benefit that I see here is, TPP is pushing the boundaries or trying to push the boundaries on intellectual property protection. It is still only going to be the first step. We are not going to get top-notch intellectual property protection on the first round from Malaysia. But we might get it with Europe. So I think there is an opportunity there not to have a conflict between the agreements, but to use them to build on each other to get to those high standards in areas the United States has been trying to get to for years.

Senator MURPHY. I do not mean to sound pessimistic about TTIP. I am actually optimistic about it, notwithstanding I think the fact that it is going to operate on a very different framework involving tradeoffs that are unfamiliar to a lot of Members of Congress than what we have seen in agreements with developing economies. But I have been a big supporter and supportive of it both from an economic standpoint and a geopolitical standpoint.

Thank you very much, Mr. Chairman.

Senator CARDIN. Let me ask one additional question if I might, and that deals with your recommendations of where priorities should be placed for empowerment of women in Asia. Land reform has been a major area of focus for us. I just would like to get your advice as to where you think the most progress can be made.

Mr. GOODMAN. Thank you, Mr. Senator. A very important issue and one that is very much part of the conversation in our Asian economic discussions. I think you mentioned that in APEC there has been a women's empowerment initiative and a couple of, maybe now three, summits that Secretary Clinton, former Secretary Clinton, began. They have been talking about I think some very specific ways in which women can be given more opportunities to enter the work force, better conditions once they are in the work force, a more inclusive approach to growth strategies in the region. That is I think an important initiative.

APEC is a good forum. I did not have the chance to say this before, but APEC is actually a very good forum for this kind of conversation, because it is nonbinding, it is consensual, it is an opportunity to flesh out ideas and share experiences and build capacity. So I would look to that negotiation or that discussion as an important forum.

As you know, in Japan they are trying to empower women because demographically they are shrinking, dying, frankly, as a country. If they do not bring women into the work force, it is going to be impossible for them to grow and thrive as a country going forward. So there is a very active program that Prime Minister Abe has announced.

Now, whether those things are going to—the problem is these are very difficult issues of social mores and some of these countries do not have traditions of empowering women in this way, and I think it is going to take a lot of time and working and conversation about these issues to change those social mores. But I do think law and policy can contribute importantly, as they have in this country, to social change, and I think in a country like Japan we want to try to encourage that conversation and legal and policy changes.

Dr. SCISSORS. I think this is an area where you need to use carrots rather than sticks. I do not see how threatening countries, even when they are doing things we really do not like, is going to help the standards, living standards for women in those countries. Just my opinion.

The carrots I see, we have a lot of carrots. We have a lot of countries that want access to the U.S. market, better access than they have now, protected access, especially in certain areas. I mentioned Vietnamese textiles before as an example. I can imagine that we can tie access to Vietnamese textiles in the United States to working conditions for women in the textile sector. It seems like a very natural link and it is a very powerful lever on our part.

I would say, to echo Matt's point about Japan's demography, it is not just Japan. Most of northeast Asia is getting older and they are not utilizing women properly in their labor force. So I would think that Korea and to a lesser extent China are also going to be open to these kinds of initiatives for their own reasons, not because they have suddenly seen the light and have the same social view that we do, but because they are going to need more contributions from women economically than they have allowed so far. So I think we could make progress here.

Senator CARDIN. Thank you.

Let me thank both of our witnesses. This has been a very helpful hearing and I appreciate your participation. With that, the subcommittee will stand adjourned. Thank you.

[Whereupon at 11:36 a.m., the hearing was adjourned.]

#### ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF WALTER LOHMAN, DIRECTOR, ASIAN STUDIES CENTER,  
THE HERITAGE FOUNDATION, WASHINGTON, DC

My name is Walter Lohman. I am director of the Asian Studies Center at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

I commend the subcommittee for taking such a concerted, detailed look at America's interests and role—what, I would argue, should be its continued leadership role—in the Asia-Pacific. You will find broad agreement among the foreign policy community with the commitment to Asia implied in the President's rebalance. There are disagreements over the priorities of the commitment, whether "rebalance" is the most constructive way to frame it, or whether enough resources are devoted to it. Some would even question whether a rebalance is actually underway.

It is important, however, for foreign audiences in particular to understand that the American commitment to its interests in the Western Pacific—what Chairman Royce has called America's "near west"—is very widely supported in Washington. As is the case with many national priorities, the debates occur over how the commitment is put into effect and which priorities constitute it.

#### STRATEGIC PICTURE

America's commitment to the Western Pacific is both about the challenge posed by China's rise, and about something much broader. It's about China, yet it's not about China. In that conundrum may lay the reason for confusion and misperceptions in Beijing and other Asian capitals about the rebalance.

On the political and diplomatic side, America's Asia policy is largely about China. This is because whatever may have been the situation in the region more than 150 years ago, before China's "century of humiliation," it is the U.S. and its allies who have shaped today's regional order. That order is best characterized by the pursuit of a secure liberal international order, characterized by such things as freedom of navigation and commerce and promotion of political liberty. It benefits China—if not always the Chinese Communist Party—as much as it does any other country in the region. This is essentially the same vision that the George W. Bush administration and many administrations before it have pursued.

The problem is that Chinese Government does not necessarily see it this way. It poses an alternative to this vision that seems more tightly focused on China's narrowly drawn national interests.

The regional order established by the U.S. in the decades following World War II was not just strategic and institutional. A concrete geographical order accompanied it. It included Taiwan's de facto independence, Japan's administration of the Senkaku Islands, and the claims of Southeast Asian nations to land features in the South China Sea. This is today's status quo. Awakened after 150 years, what the Chinese call their core interests revolve around changing this status quo, and not necessarily through means now acceptable to the rest of the region. China's narrow interests are driving its disposition to the broader order. Thus, much of the diplomatic and security side of America's Asia policy requires pushing back against China and channeling the conflicting interests into administration of established institutions and norms, such as the peaceful settlement of disputes and adherence to customary international law.

The Obama administration has sought to frame this effort by appealing to an ASEAN-centric architecture, that is, a set of institutions created by the Association of Southeast Asian Nations intended to enmesh external regional powers in a web of interlocking regional relationships. Involvement in these institutions, the East Asia Summit, the U.S.-ASEAN Leaders Summit, and many others, is a good thing. My only reservation is that the administration's approach seems to underappreciate ASEAN's severe limitations in dealing with contention. It also seems to either underestimate American power vis-a-vis the ASEAN countries, or seeks to purposely blunt that power in the cause of an amorphous accumulation of soft power. At its worst, this amounts to serving ASEAN's interests in pleasing all comers and muting differences among them—not necessarily American interests. America has some very critical interests in Southeast Asia that in the absence of heavy, uncomfortable pressure on ASEAN will not be served. Among them are human rights and security issues, freedom of the seas being the most important of the latter. At best, excessive deference to ASEAN's sensitivities and mechanisms will result in an underutilization of time, focus, and resources.

It should be noted that the Obama administration, as the Bush administration before it, also believes that conflicts arising from differences in U.S. and China world views can be ameliorated through extensive direct contact with China on political and security issues. The effectiveness of this set of tactics is a topic for another hearing. Suffice it to say for purposes of today's hearing that the effort, and especially the rhetoric representing it, contributes to the perception of incoherence in the rebalance.

## ECONOMIC COMMITMENT TO EAST ASIA AND PACIFIC

The economic side of the American role in Asia is very different. It is not about China. And, there are overwhelmingly more advantages in this engagement than risk. The challenge the U.S. faces lies in simultaneously countering China in the diplomatic and security areas while maximizing the upside of Asia's burgeoning economies, including China. This can be accomplished with a principled clarity in America's vision for the transpacific economy, robust bilateral and ad hoc multilateral economic agreements, engagement of the region's economy-focused diplomatic architecture, and the most effective use of other tools available to American officials.

The vision is pure and simple: the promotion of a liberal economic order. This should be the fundamental goal of our international economic policy. It is not the success of American companies per se, pursuit of which can produce misallocation of resources and inefficiency. It is support for an open, rule-based economic environment in which American companies can fully compete and the market can determine winners and losers. This applies at home as well as abroad. There is nothing of inherently greater value in exports than in imports, and nothing inherently better about American investment at home, than foreign investment here. Politically sensitive market segments at home are not more justifiable objects of protection than the protections of our trading partners. Both are distortions of the market mechanism. Companies ought to be able to avail themselves of international value chains and finance with as few restrictions as possible. They should also bear the cost and risks.

## FREE TRADE AND THE TRANS-PACIFIC PARTNERSHIP

The first thing this economic vision means is energetic presidential-level support for free trade, and in particular the conclusion of a Trans-Pacific Partnership (TPP) that is no less open and encompassing than the agreements that have come before it. The TPP is today the explicit economic "centerpiece" of the administration's rebalance. There are several key areas that free trade advocates will be weighing in order to determine how free the agreement actually is. In general, they will be judging it against the most recent trade agreement the U.S. has struck in Asia, the Korea-U.S. Free Trade Agreement. It was not perfect. It would be nice to see aspects of it—like precedents in managed auto trade and exclusion of trade in rice—rolled back. But at the very least, the TPP should not get worse in terms of protection. It should also redress protectionist provisions in previously concluded agreements, such as the U.S.-Australia Free Trade Agreement, which retains restrictions on Australian access to the U.S. sugar market.

Beyond this general guidance, however, the manner in which the following several specific areas are addressed will determine the nature, quality, and value of the TPP: State-owned enterprises (SOEs), intellectual property rights (IPR), the services sector, and rules of origin.<sup>1</sup>

First, SOEs. As former Heritage Foundation senior fellow Derek Scissors has pointed out, there are two main issues involved in consideration of SOEs in trade talks: definition of SOE and subsidies. "Subsidies" can come in many forms, from actual government budget allocation to favorable access to credit to favorable regulatory treatment. Several of the participants in the TPP talks have major SOEs, especially Vietnam, but also Singapore and Malaysia. The U.S. also has SOEs if one includes "government sponsored enterprises" like Fannie Mae and Freddie Mac, and the precedents set for government involvement in the private sector following the 2008 economic crisis. The TPP ought to embrace the broadest possible definition of SOEs, and get at the wide range of available subsidies by providing for true competitive neutrality.<sup>2</sup> This is one of the most difficult issues at stake in the TPP negotiations. The very nature of state-ownership is preferential and discriminatory. How it is dealt with in the TPP negotiations has broad implications beyond the current participants.

Second, IPR. Poor intellectual property rights protection is essentially a tax on innovation. It is a redistribution of resources from the business that invests in research and development to the business that steals the product. IPR is important to the U.S., as it has a strong comparative advantage in innovation. But it should be important to other economies as well. Some, like Japan, are in desperate, structural need of more innovation. Others have interest in attracting investments from world-class businesses and locking in rules today that will benefit their own businesses in the long run.

Parties should be looking to a TRIPS-Plus approach (Trade-Related Aspects of Intellectual Property Rights-Plus), that is, protection of intellectual property that goes beyond the commitment that negotiators have already made in the World Trade Organization (WTO), to include among other things, data exclusivity and in-

creased protection against coercion of trade secrets. Trips-plus has been the standard in U.S. negotiated FTAs. TPP is certainly not the time to back away from it.

Third, services. In services, negotiators should be looking to apply a negative list—that is, creating a presumption of openness—on both investments and services trade across borders. Open investment regimes and ensuring free flow of data across borders are perhaps the most important factors in maximizing services trade. TPP should also be looking to enhanced liberalization and protection for investment in financial services.

Fourth, rules of origin. The TPP countries are already tied up in a number of free trade agreements (FTAs) among themselves: America's FTAs with six of the TPP countries; the P-4 Agreement among Brunei, Chile, New Zealand, and Singapore, which served as the launching pad for the TPP; the ASEAN Free Trade Area (AFTA); and an ASEAN-Japan FTA, among others. In rationalizing their rules of origin, the aim should be a common set of rules that is as loose as possible across the board, including for textiles and apparel. Rules of origin are extremely important to determining the character of the final agreement. Closed rules create a disposition toward trading blocs. Trading blocs by their nature are predominantly political in purpose and therefore not conducive to maximizing economic benefits. As such, tight rules of origin detract from the broader, longer-term goals of global free trade, and in their worst case implication, can lead to open conflict.

In the end, the traditional supporters of free trade, like analysts at The Heritage Foundation, are going to be looking for a truly economy-freeing agreement.

China ought to be permitted to join the TPP as long as it can fulfill the provisions of the agreement, and as per the process, all the currently participating countries agree to its participation. The only stipulation on China's entry beyond technical compliance with the agreement should be the extension of equal opportunity to Taiwan. Similar arrangements were made for China's entry into the Asia-Pacific Economic Cooperation (APEC) and the WTO. Taiwan's economy is larger than most of those currently represented in the TPP. It would also be among the more developed economies represented in the negotiations. The prevention of its participation would be an artificial political barrier. Taiwan has been generally neglected in the administration's rebalance. Exclusion from the TPP would be a serious blow to its efforts to fully and formally keep pace with the economic integration taking place around it, and would leave it, by default, overly dependent on China.

In lieu of China's inclusion in the TPP, the U.S. can engage China in its free-market perspective through mechanisms such as the strategic and economic dialogue (S&ED), the Joint Commission on Commerce and Trade (JCCT), negotiation of a bilateral investment treaty, and global forums like the WTO.

#### PRINCIPLED ENGAGEMENT OF GOVERNMENT-TO-GOVERNMENT ARCHITECTURE

In addition to ad hoc multilateral trade negotiations like the TPP or bilateral trade talks, the U.S. can pursue its free trade vision through the many pieces of architecture already in place. The TPP, and the 16-member China-centric Regional Comprehensive Economic Partnership (RCEP), have been formally identified by APEC leaders as building blocks for an eventual APEC-wide free trade agreement, or a Free Trade Agreement of the Asia Pacific (FTAAP).<sup>3</sup> Continued leader-level and robust participation in APEC is important to ensure that the FTAAP tracks APEC's American-inspired vision for a "comprehensive, high quality agreement." APEC is important for other reasons besides. U.S. participation in APEC is critical to its broader strategic position in the region. In turn, an active, leader-oriented APEC is a pull on the region to remain outwardly oriented—in this case, looking east across the Pacific.

APEC could do more on this score by also reaching westward toward India. The U.S. should encourage it to do so. APEC has already brought India into its plans for the FTAAP by referencing RCEP negotiations as a basis for its long-term vision for trade liberalization. (India is a part of those negotiations.) If APEC is to maintain its dreams of an FTAAP, it must begin to socialize India in the more routine details of its mission. These include information-sharing on regulatory standards, rules, procedures, capacity needs, and multilateral initiatives conducted by member states outside its rubric, and voluntary harmonization in the direction of freer markets.

The U.S. also has a critical role to play in helping ASEAN achieve its goal of "a stable, prosperous, and highly competitive ASEAN Economic Region in which there is a free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socioeconomic disparities."<sup>4</sup> It can only do that if it is at the table. Forums like the ASEAN Economic (Trade) Min-

isters, the ASEAN Finance Ministers Meeting, and other sector-specific meetings are useful venues for a free-market American message.

Regional economic integration is real. Most of it is organic, that is, the result of millions of individual business decisions, and unilateral government activity to facilitate them. The governments in the region are pushing to formalize and expand integration. ASEAN integration is the most formally developed. Completion of it will be far from European Union-style integration, as ASEAN members have always made abundantly clear. It is also behind schedule to meet its December 2015 completion deadline.<sup>5</sup> Yet, given the size and diversity of the ASEAN market, it will be a major achievement. The U.S. should help it achieve its goal.

#### NUTS AND BOLTS OF ECONOMIC ENGAGEMENT

Because of ASEAN's consultative nature, the history of U.S. economic policy toward it is replete with reference to new initiatives, all essentially aimed at the same thing—building the capacity that will help it achieve its integrated, free-market vision. The alphabet soup of initiatives include the EAI (Enterprise for ASEAN Initiative); the ACP (ASEAN Cooperation Plan); the ASEAN-U.S. Enhanced Partnership; the U.S.-ASEAN TIFA (Trade and Investment Framework Arrangement); ADVANCE (ASEAN Development Vision to Advance National Cooperation and Economic Integration); and, now, at least two more, the E3 initiative (U.S.-ASEAN Expanded Economic Engagement); and ACTI (ASEAN Connectivity through Trade and Investment).

The U.S. has not lacked new initiatives—the latter two being initiatives of the Obama administration. ACTI is essentially the follow-on to the Bush-initiated ADVANCE program. Its most important trade-enabling component is the assistance it provides to the ASEAN effort to establish a single customs window, first at the national, and then the regional level. In concept, ACTI is a very useful, constructive program—as was ADVANCE before it. However, even at its modest price (\$18 million over 5 years) it must maintain a focus on the intersection of America's and ASEAN's free trade visions in order to be of most value.

Some in the business and strategic communities will bemoan the lack of real U.S. investment in the development of ASEAN's infrastructure. But the U.S. Government tinkering at the edges of ASEAN's infrastructure needs—estimated by the Asian Development Bank (ADB) at \$8 trillion—is a distraction. If those needs represent opportunity for American business, they will find their way to them. American participation in ASEAN forums and the assistance that flows from it should support the infrastructure of economic freedom. On an individual country basis—still the much more relevant measure of economic performance in ASEAN—the region lags significantly. Singapore has been consistently ranked No. 2 globally in The Heritage Foundation's annual "Index of Economic Freedom." The closest in the region after that in the 2013 Index were Malaysia at No. 56, and Thailand at No. 61. Roads and rail lines developed by the Japanese, Koreans, Chinese, or ADB are public goods. To see them as an area of national competition that the U.S. is losing is playing ASEAN's game to maximize the economic contributions of all its interlocutors, not America's.

The E3 is also a useful initiative, to the extent it is used as a path for lesser-developed economies, such as the Philippines and Indonesia, to join the TPP. The administration's expressed intention to use it to negotiate a U.S.-ASEAN Trade Facilitation Agreement and regionwide bilateral investment treaty can help reach that goal. However, if the E3 does not succeed in readying governments for participation in the TPP, it will remain just another clever acronym in the alphabet soup—doing good work, but marginal to achieving either ASEAN's or America's economic vision.

#### CONCLUSION

Criticism of the rebalance that it is overly focused on the military is misplaced. Economic engagement for the U.S. is not a government activity. This makes it different from some of the other governments in the region. It is certainly much different from American military engagement. If the Commander in Chief determines that a carrier strike group should move from the Persian Gulf to the South China Sea, it goes. If he determines that 60 percent of the U.S. Navy will now be stationed in the Pacific, it happens. The Secretary of State can make as many visits, and the U.S. Government can participate in as many regional forums, as the Federal Government's budget can support. At modest cost, the U.S. Government can initiate as many new capacity-building programs as the region can absorb. It cannot compel American business participation or even effectively lead it.

On the economic side of policy, what the government does best is create opportunity for business through trade negotiations and otherwise promoting a positive business environment. The TPP is the big bang of America's current economic commitment to Asia. When complete, it will encompass 40 percent of global GDP. However, it must truly be the "comprehensive, high standard" agreement promised in order to be a game-changer and garner the necessary support of real free-traders in Washington.

America's commitment to Asia can both protect its political and security interests vis-a-vis China, and encompass a broader economic element. In order to do that, it must consistently articulate and advocate its vision for, not just transpacific, but global, free trade. If it does this effectively—particularly if it successfully concludes the TPP—all the other pieces of America's economic statecraft in the region will fall into place, and the other elements of the rebalance, both political and military, will assume their proper perspective in the strategy.

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#### End Notes

<sup>1</sup>Derek Scissors, "What a Good Trans-Pacific Partnership Looks Like," Heritage Foundation Backgrounder No. 2772, March 8, 2013, <http://www.heritage.org/research/reports/2013/03/what-a-good-trans-pacific-partnership-looks-like> (accessed November 17, 2013).

<sup>2</sup>Derek Scissors, "Why the Trans-Pacific Partnership Must Enhance Competitive Neutrality," Heritage Foundation Backgrounder No. 2809, June 6, 2013, <http://www.heritage.org/research/reports/2013/06/why-the-trans-pacific-partnership-must-enhance-competitive-neutrality> (accessed November 17, 2013).

<sup>3</sup>APEC, "Pathways to FTAAP," November 14, 2010, [http://www.apec.org/Meeting-Papers/Leaders-Declarations/2010/2010\\_aelm/pathways-to-ftaap.aspx](http://www.apec.org/Meeting-Papers/Leaders-Declarations/2010/2010_aelm/pathways-to-ftaap.aspx) (accessed November 17, 2013).

<sup>4</sup>ASEAN, "ASEAN Vision 2020," December 15, 1997, <http://www.asean.org/news/item/asean-vision-2020> (accessed November 17, 2013).

<sup>5</sup>Asian Development Bank, "Asian Economic Integration Monitor," October 2013, <http://www.adb.org/sites/default/files/pub/2013/aeim-oct-2013.pdf> (accessed November 17, 2013).

