

Statement before the House Foreign Affairs Subcommittee
on Asia, the Pacific, Central Asia, and Nonproliferation

“Strengthening U.S. Ties with Southeast Asia”

Testimony by

Meredith Miller, former Deputy Director, Office of Economic Policy
Bureau of East Asia and Pacific Affairs, U.S. Department of State

September 28, 2021

Chairman Bera, Ranking Member Chabot, distinguished Members of the Subcommittee, thank you for the opportunity to offer my perspective on the importance of strengthening U.S. ties with Southeast Asia and the path forward. It is an honor to share my views.

This hearing is very timely given the tremendous shifts in the geopolitical and economic landscape in Southeast Asia, the critical importance of Southeast Asia to U.S. economic and strategic interests, and the intensified focus of the Biden administration on the Indo-Pacific region. Southeast Asia is the heart of the Indo-Pacific, between China and India and straddling the Indian and Pacific oceans. With a population of more than 662 million people, it is the third largest population in the world and has a GDP of \$3.2 trillion, but for successive administrations it has received far less attention from U.S. policymakers than its giant neighbors. The ten countries of Southeast Asia, which make up the membership of the Association of Southeast Asian Nations (ASEAN), are highly diverse in terms of political systems, levels of economic development, religion, language, and foreign policy. At the same time, ASEAN members share collective interests and challenges, including China’s growing economic and strategic influence and concerns over perceived U.S. disengagement in the region. This necessitates a U.S. foreign policy that includes strong regional and bilateral components.

I have been asked to speak on U.S. economic engagement and will share recommendations for more robust economic diplomacy and goals ahead of U.S. participation in the East Asia Summit, U.S.-ASEAN Summit, and the Asia Pacific Economic Cooperation forum (APEC) this November.

Enhanced high-level engagement from the Biden administration with Southeast Asian countries and ASEAN is a welcome development, but we need to do more. Our economic engagement in Southeast Asia is arguably the most important pillar of our strategy and it is also the weakest. Congressional leadership and support are essential to increase the level of our ambition and successful impact.

Strategic Importance of Economic Engagement

U.S. economic engagement in Southeast Asia is critical to maximize the economic benefits of our trade and investment relationships with this dynamic region. Against the backdrop of China’s dramatically increased economic influence and the devastating health and economic impacts of the global pandemic, it is also an essential means to support countries in the region to maintain independent foreign and domestic policies. Importantly, economic diplomacy and multilateralism are also Southeast Asian

countries preferred platforms for engaging with external powers like the United States and they value multilateral mechanisms that can advance their shared interests.

In the early days of the Biden administration, many in the region feared that Southeast Asia was being overlooked in favor of other priorities. Due to significantly increased outreach in the second half of the year, including visits to Southeast Asia by Deputy Secretary of State Wendy Sherman, Defense Secretary Lloyd Austin and Vice President Kamala Harris as well as USTR Katherine Tai's meeting with the ASEAN Economic Ministers and positive exchanges last week at UNGA, including Secretary Tony Blinken's meeting with ASEAN Foreign Ministers and President Joe Biden's personal invitation to Indonesian President Joko Widodo (Jokowi) to make remarks at the [Global Summit on Covid-19](#), these concerns are less prominent. Upcoming regional meetings in November, such as the East Asia Summit and APEC Leaders and Foreign and Economic Ministers meetings, provide additional opportunities to strengthen ties and demonstrate our commitment to the region. ASEAN countries are enthusiastic about opportunities for increased engagement with the U.S., particularly in the economic arena.

ASEAN Centrality and Regional Economic Integration

This year, the "State of Southeast Asia: 2021" survey report, published by the ASEAN Studies Centre at ISEAS-Yusof Ishak Institute, found that respondents overwhelmingly chose the threat to health from Covid-19 (76% across ASEAN), followed by unemployment and economic recession (63% across ASEAN) as top concerns facing Southeast Asia. Comparatively, only 29.9% selected "increased military tensions arising from potential flashpoints" (South China Sea, Taiwan, Korean Peninsula).

These responses reflect Southeast Asia's traditional weighting of foreign policy considerations. Economic diplomacy has long been the foundation for regional integration, and trust building. When the Association of Southeast Nations (ASEAN) was formed in 1967, the founding five nations had very little in common, and legacies of historical mistrust, including outstanding territorial disputes. This was also true for later entrants like Cambodia, Laos, Myanmar, and Vietnam. The first principle of the ASEAN declaration is *"to accelerate the economic growth, social progress and cultural development in the region through joint endeavors in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations"*. While ASEAN's mandate has grown to encompass many areas including non-traditional security, the South China Sea and other sensitive topics, its most robust agenda remains in the economic arena, in areas where mutual benefits are clearly understood among its diverse membership. Successive Democratic and Republican administrations have recognized and pledged support for the concept of ASEAN Centrality, which positions ASEAN as the driver of multilateral frameworks in the region, including through its leadership of the East Asia Summit, which includes the United States and other regional powers such as Australia, China, India, Japan, New Zealand and South Korea.

An economic prosperity mission is also the impetus for the Asia Pacific Economic Cooperation forum (APEC), a grouping of 21 Asia Pacific economies, including the United States and seven ASEAN members. APEC is an important regional forum for developing and socializing new policy concepts that can be further developed bilaterally or in other multilateral venues such as the World Trade Organization.

While economic diplomacy is a priority for our partners in ASEAN, U.S. leadership of multilateral economic policy discussions waned in the Trump administration and participation in multilateral trade negotiations was curtailed. As a result, the region has moved forward without the U.S., including by

concluding two of the largest and most consequential FTAs outside of the WTO, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership agreement (RCEP). Vice President Kamala Harris' announcement in Singapore in August that the U.S. would petition to host APEC in 2023 was a welcome signal of revitalized U.S. commitment to APEC and its mission, but the U.S. needs to put forward a strong vision and concrete commitments for enhanced economic engagement with the region to make its chairmanship a success.

The void from the U.S. withdrawal from the Trans-Pacific Partnership agreement (TPP) in 2017 remains to be filled. TPP was an ambitious high-level trade agreement including the United States, and eleven other Asia Pacific economies, including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, and Vietnam. Had the United States not pulled out, the agreement would have eliminated tariffs and established standards in critical areas such as intellectual property protection, labor, and the environment, and was estimated by U.S. government agencies to boost U.S. exports and imports by \$57.2 and \$47.5 billion respectively by 2030, while The Peterson Institute of Economics estimated annual exports would increase by \$357 billion (9.1 percent) from 2015 to 2030.

Following the U.S. withdrawal, TPP members forged ahead with the reconstituted CPTPP, completing negotiations in 2018. CPTPP has an open accession clause and has received applications and expressions of interest from a number of countries including Taiwan and the United Kingdom, and China has just formally applied to become a member earlier this month.

In 2020, ASEAN also completed negotiations on the Regional Comprehensive Partnership agreement (RCEP), a free trade agreement between ASEAN and five of its closest dialogue partners, Australia, China, Japan, New Zealand and South Korea, collectively accounting for approximately 30 percent of the world's population and GDP. RCEP is expected to go into effect next year, pending ratification by additional members.

ASEAN is also negotiating an FTA with the European Union (EU) and has upgraded its economic partnership agreement with Japan. Several bilateral free trade agreements have also come into effect in the region since the U.S. withdrawal from CPTPP, including between Indonesia and Australia, and the EU-Vietnam FTA.

The Impact of Covid-19

As the region reels from the impacts of Covid-19, these frameworks become even more important in the context of both pandemic response and economic recovery. As reflected in the ISEAS survey on challenge perceptions, there is an intense focus on the prospects for greater support from the United States on vaccinations, pandemic preparedness and strengthening health systems. Today approximately seventy-five percent of ASEAN is unvaccinated and lockdown restrictions are continuing to depress regional economic growth, which went from 4.5 percent GDP growth in 2019 to a contraction of 3.3 percent in 2020. A recently released International Labor Organization (ILO) report called the impact on jobs "unprecedented" and noted that women and young people are the most affected.

As of this hearing, case counts in Southeast Asia are in decline, but danger of a resurgence remains given low vaccination rates. While Malaysia, Cambodia, and Singapore have fully vaccinated between 60 and 80 percent of their populations, Indonesia, Vietnam, Thailand, Myanmar, the Philippines, and Laos have fully vaccinated just 17 percent of their population on average. Vietnam's rate is particularly low at just 7.3 percent of the population fully vaccinated against Covid-19. These low vaccination rates have been

caused, in large part, by persistent vaccine supply shortages. Without a dramatic expansion of vaccinations in Southeast Asia, the region may be subject to another devastating wave.

Understanding the region's need for support in combatting COVID-19, both the United States and China have made considerable investments to advance health diplomacy with Southeast Asia. China has donated tens of millions of doses of vaccine and hundreds of millions of medical supplies to Southeast Asia, including donations of over a million-and-a-half vaccines to Vietnam and nearly two million to the Philippines. China's largest vaccine manufacturers, Sinovac and Sinopharm have sold over 1.2 billion doses of vaccines, hundreds of millions of which went to Southeast Asia.

Many Southeast Asian countries have relied primarily on Chinese vaccines, which are cheaper and more readily available than other alternatives but concerns over efficacy against the Delta variant have risen. Access to high quality vaccines is a top policy priority across the region and recent announcements are welcome developments. Secretary Tony Blinken highlighted in his meeting with ASEAN Foreign Ministers on September 23 that the United States has provided ASEAN members with more than \$194 million in emergency Covid-19 assistance and shared more than 31 million vaccine doses, including as part of the 500 million Pfizer Covid-19 doses the United States has made available for distribution by COVAX. President Biden's pledge last week to contribute another half billion doses of Pfizer to donate to low- and middle-income countries around the world, bringing the U.S. contribution to 1.1 billion by this time next year is hopefully the beginning of further commitments and a strengthening of the U.S. leadership of the global response to Covid-19.

Beyond support for vaccine access and distribution, Southeast Asian economies need support for economic recovery. The impact of Covid-19 has been devastating on economic growth and poverty reduction goals, particularly in emerging Southeast Asian economies. Southeast Asia was one of the first regions in the world to be impacted by the pandemic and lockdown measures persist to varying degrees throughout the region. This has choked off tourism, led to factory closures and job losses, reduced demand, disrupted supply chains, and pushed many Southeast Asians below the poverty line. An estimated 152 million children and youth have been affected by school closures due to Covid-19. The loss in educational opportunity is disproportionately borne by the poor, who have less access to remote learning options and will impact the future productivity of these countries for years to come.

Southeast Asia's Economic Importance to the U.S.

Southeast Asia is a critically important economic partner for the United States and is poised to increase in significance due to positive demographic trends, rising GDP and geopolitical shifts, including growing tensions between the U.S. and China. ASEAN's economy is projected to grow by over 5.5% per year and become the 4th largest economy in the world by 2030, according to the International Monetary Fund. ASEAN's middle class is expected to more than double in size from 135 million (24% of ASEAN's population) to 350 million (51% of the population) by 2030. The region has a very young population as well, with 58 percent under the age of 35. Sustainable urbanization is a key challenge and opportunity that comes with this demographic growth. It is estimated that nearly 70 percent of ASEAN's population will live in urban areas by 2030, which presents an opportunity to U.S. companies to provide the technology, products, and services to support this transition, including rising demand for high quality education and health services.

ASEAN ranks 4th after Canada, Mexico, and China as a goods export market for the United States, and the United States is the 2nd largest trading partner for ASEAN, representing more than \$122 Billion in U.S. exports to ASEAN. As reported in the fifth edition of *ASEAN Matters for America/ America Matters for ASEAN* this includes \$13.7 billion in food and agricultural good. All fifty states export to ASEAN, supporting more than 625,000 U.S. jobs. ASEAN is also the top destination for U.S. investment in the Indo-Pacific, having received more than \$338 billion in total US foreign direct investment. This is more than the United States has invested in mainland China, India, Japan, and South Korea combined.

ASEAN also presents tremendous opportunities for the U.S. technology sector, as the world's fastest-growing internet market, and one of the largest digital economies in the world. The U.S. economy also benefits greatly from visitors from ASEAN, who added nearly \$8 billion to the economy in 2019, while students from ASEAN countries contributed more than \$2 billion to the U.S. economy. But there is tremendous untapped potential, particularly with some of the larger ASEAN nations, in particular Indonesia. For example, U.S. exports to Vietnam in 2019 with a population of 96.5 million were double our exports to Indonesia, which has a population of 276.79 million and a rapidly growing middle class.

Southeast Asian countries have also become increasingly important nodes in the supply chains of U.S. global manufacturers, particularly as labor costs and geopolitical risks rise in China and the impacts of Covid-19 have led many companies to further diversify their supply chains. Despite these facts, U.S. has ceded its role in leading discussions of regional economic architecture and is not benefiting from any of the major regional multilateral FTAs or participating actively in norms setting.

Increasing Chinese influence

At the same time, China's strategic influence is growing in Southeast Asia in tandem with deepening economic ties. China has been ASEAN's largest trading partner since 2009 and ASEAN was China's largest trading partner in 2020. Annual China-ASEAN trade was valued at \$642 billion in 2020 compared to approximately \$291 billion with the United States. China and ASEAN completed an FTA in 2005 and are both parties to RCEP. While the U.S. is still the top foreign investor in the region, Chinese investment has grown 30-fold over the past decade to nearly 22 billion annually (China and Hong Kong) while the U.S. is at 34 billion annually. Notably, these FDI statistics do not reflect massive Chinese non-commercial lending and programs through the Belt and Road Initiative, which Fitch Solutions estimated at \$255 billion as of [2019](#).

Challenges & Priorities

U.S. companies are facing an increasingly competitive environment in Southeast Asia due to the emergence of domestic competitors and the active engagement of China, Japan, South Korea, the European Union, and others. Companies from these countries are benefiting from the preferential trade benefits provided by the ongoing trade liberalization in the region, which is set to continue with the implementation of RCEP, widening membership of CPTPP and other negotiations in the pipeline such as the EU-ASEAN FTA. The absence of the U.S. from these frameworks puts U.S. companies and foreign investors in the United States at a disadvantage, facing higher tariffs when exporting to most countries

in the region than their competitors based in countries that participate in these regional FTAs. This makes the United States less competitive for FDI and as a production base to export to Asia. This will become a bigger issue over time as Asian countries and their key trading partners continue to deepen and expand their array of preferential trade arrangements. The U.S. absence also means that we are not able to effectively shape many critical discussions around new trade and investment rules, and also are forgoing important opportunities to advocate for the interests of our companies in promoting transparent and non-discriminatory policy frameworks in key markets.

One arena of growing economic importance for the U.S. and Southeast Asian countries is the digital economy. ASEAN is the fastest growing internet economy in the world, with Indonesia alone estimated to have a digital economy valued at \$124 billion by 2030, according to a report by [Bain, Google, and Temasek](#). Policy frameworks in the region are still being developed on key issues such as cross-border information flows, data privacy, cybersecurity, and data localization, all critical issues for our private sector. Collaboration on regional rule-setting for digital connectivity, particularly to promote rules that enable the free flow of data, will help to maximize the potential benefits of the digital economy. Singapore has been leading efforts to develop rules for digital trade, including in bilateral discussions with fellow ASEAN members and through participation in the newly launched Digital Economic Partnership Agreement (DEPA) with Chile and New Zealand.

Our companies are also facing increasing challenges in managing their supply chains due to tensions between the U.S. and China, the impact of climate change, and Covid-19. Many Southeast Asian countries have become even more attractive locations for production as companies seek to diversify and strengthen their supply chains. But as U.S. and global companies make critical strategic decisions on how to adjust their supply chains, they need predictable and stable U.S. policy. For example, the possibility earlier this year that the U.S. might apply Section 301 tariffs across the Vietnamese economy, created uncertainty for U.S. companies and tension with an important economic partner and strategic ally.

The business environment varies across Southeast Asia, but in several markets, companies must also contend with uncertain policy frameworks, preferential treatment for domestic companies and investors, foreign ownership limits, compromises of intellectual property rights, corruption, and weak rule of law. While our business community is actively engaged with Southeast Asian governments on these issues, strong U.S. government support is essential.

Recommendations

Southeast Asia is economically important to the United States and is also home to many close and long-standing partners. It is in our interests to continue to build and strengthen these relationships to make the most of opportunities for growth and to address the tremendous global challenges we collectively face. Secretary of State Tony Blinken pledged this week to develop an Indo-Pacific strategy and economic engagement with Southeast Asia should be an integral part of that. I also urge the Biden administration to continue to take a consultative approach in working with friends and allies in Southeast Asia to develop a strategy together based on strongly shared interests. As the administration

develops this strategy and the annual ASEAN Summits and APEC Leaders Meeting approach in November, I would like to share the following recommendations for the Committee's consideration:

- 1) The U.S. should chart a path for joining CPTPP. This will be a complicated and challenging process both domestically in securing support from key stakeholders and with the CPTPP members. The Biden administration and Congressional supporters of CPTPP, together with the U.S. business and agricultural stakeholders, will need to first work together to build domestic political support. This will not be an easy task, but it is an urgent one. The longer we wait to engage CPTPP, the harder it will be to join, particularly as new potential members, including China, are considered. For the U.S. there is no substitute for CPTPP in terms of its strategic significance, and economic benefits, including safeguarding the competitive position of our companies in these critical markets, and as a forum for addressing trade concerns.
- 2) Equitable economic recovery from Covid-19 should be a priority for the Biden administration and strong focus of our diplomacy in Southeast Asia. The pandemic has particularly hurt the poor, women, youth, and small business owners. The U.S. is well positioned to contribute to policy discussions about priorities for economic recovery plans, which should include special attention and focus on disenfranchised groups and to lend programmatic support. In particular, the pandemic exposed the necessity of strong digital infrastructures and payments systems for providing continuity of operations for economic activity, telemedicine, and education as well as relief to marginalized citizens and the ability to track and trace. Efforts to address inequities in digital access and improve underdeveloped digital and payments infrastructures are well suited to enhanced public-private partnerships. The Biden administration should also continue to work with the private sector to develop shared continuity of operations norms for critical economic activity to minimize job loss and supply chain disruptions due to Covid-19 or future pandemics.
- 3) The Biden administration should commit to negotiating sectoral agreements with regional partners. In particular, a U.S.-ASEAN digital trade agreement or an Indo-Pacific Digital Agreement would provide a platform for accelerating the benefits of the digital economy, which have become even more important in the midst of the global pandemic. The U.S. has a strong track record to build on from the U.S.-Japan Digital Trade agreement and high caliber provisions negotiated into the CPTPP. Such an agreement could also build off the good work of Singapore, New Zealand, and Chile in DEPA, which allows for new entrants to sign off on particular aspects of the agreement in a sequential fashion, making it more accessible for less developed economies in ASEAN like Laos and Cambodia. Given the weaknesses in health systems and trade in medical goods exposed by the pandemic, a sectoral initiative focused on creating new efficiencies and liberalization for medical goods would also be beneficial and further strengthen the U.S. role in economic recovery from Covid-19.
- 4) New investments in economic diplomacy are needed and we need to quickly rebuild our diplomatic profile in Southeast Asia. The U.S. has not had an Ambassador to ASEAN and Singapore, an important economic and security partner has not had an ambassador since 2017. Other posts have also suffered prolonged staffing gaps. Related, Congress should consider new investments in our diplomatic corps and US-ASEAN Connect to build capacity in the economic arena, develop and implement new programs on shared economic interests and develop and deploy stronger public communication strategies around the mutual benefits of United States -

Southeast Asia economic ties. Our companies' investments, strong trade ties, robust philanthropic sector, aid programs and people to people exchanges are often low-profile, particularly compared to other regional powers.

- 5) Increase support for programs and agencies to foster trade and investment in Southeast Asia, including in infrastructure. The level of financial support the U.S. offers for deepening commercial ties is meager compared to China and other regional powers such as Japan, and South Korea. The Build Act and reformation of the Overseas Private Investment Corporation into the Development Finance Corporation in 2020 with an increased budget of more than double OPIC's contingent liability limit of \$60 billion was an important step. Congress should consider ways to work with the Biden administration to accelerate the DFC's programs, and to strengthen the U.S. EXIM Bank and programs of the Trade and Development Agency (USTDA) to enhance our competitiveness.
- 6) The Biden administration should also continue good progress in strengthening U.S. participation in multilateralism in Southeast Asia, including by participating in the upcoming East Asia Summit, U.S.-ASEAN Summit and APEC Leaders meetings, by hosting APEC in 2023 and working closely with Indonesia on its chairmanship of the G20 in 2022. APEC has long enjoyed bipartisan support and is a useful forum for countries to address shared economic and global challenges. APEC Chairs have strong sway over the agenda and the U.S. can advance discussions on core issues such as regional economic integration, pandemic recovery, and the digital economy.
- 7) The United States has a Trade and Investment Framework (TIFA) in place with ASEAN and bilateral TIFAs with eight of the ten ASEAN members (our TIFA with Myanmar was suspended in March following the coup and the U.S. has an FTA with Singapore). These strategic frameworks are important venues for addressing bilateral issues. In her meeting with ASEAN Economic Ministers earlier this month U.S. Trade Representative Katherine Tai highlighted a U.S. commitment to these dialogues and to working with ASEAN on shared priorities including labor, the environment, and SMEs. In particular, USTR leadership in revitalizing and elevating economic dialogue and policy exchanges with Indonesia, would be valuable given the untapped potential for greater trade and investment ties between our two countries. U.S. commercial agencies should also be encouraged to continue to work with Indonesian counterparts to identify new opportunities for collaborations between our private sectors and governments.

Conclusion

In closing, I want to restate how important this pillar of economic cooperation is to our regional partners, sustaining our continued relevance to the region's future, the competitive outlook for our companies, and close relationships in Southeast Asia. As reflected in my recommendations, the U.S. has a number of good initiatives and tools for increasing our economic engagement that can be enhanced for increased impact and to strengthen our relationships in Southeast Asia.

Again, I would like to thank you for the opportunity to share my views.