

**Statement of
Daniel R. Russel
Assistant Secretary
Bureau of East Asian and Pacific Affairs
U.S. Department of State**

Before the

House Foreign Affairs Committee

May 14, 2015

Advancing U.S. Economic Engagement in Asia

Chairman Royce, Ranking Member Engel, and Members of the Committee:

Thank you for the opportunity to appear before you today to testify with my friend and colleague Charlie Rivkin, our Assistant Secretary of State for Economic and Business Affairs, regarding U.S. economic engagement in Asia. I would also like to thank the Committee for its leadership in supporting and promoting our work with the Asia-Pacific region.

As I've testified before you previously, the Administration's sustained *rebalance* to the Asia-Pacific has, over the last six years, established a "new normal" of extensive collaboration with Asian allies and partners on important global issues and a high tempo of engagement by the President, Secretary Kerry, and other Cabinet and senior officials.

Promoting prosperity is at the core of the rebalance. Assistant Secretary Rivkin will testify about the economic aspects of the rebalance in detail. So, I would like to speak about the broader strategic context in which our shared prosperity has blossomed, because security and strong institutions are the foundation for lasting economic growth.

America's alliances and partnerships guarantee security within the region, as they have for decades. That security has helped the region's economies grow, along with our own. The simple fact is that conflict and trade do not mix. That's why we've redoubled our commitment to the region's security by enhancing and modernizing our security alliances with Japan, South Korea, the Philippines, and Australia. That's why we've reinforced partnerships with Indonesia, Malaysia,

Singapore, Vietnam, the Association of Southeast Asian Nations, and others—both to advance our interests and to enhance the entire region’s ability to address shared challenges. And that’s why a strong focus on getting our relationship with China right is also a key part of the *rebalance*.

Strengthening regional institutions, another central tenet of the rebalance, is also essential to shared prosperity. Businesses invest and commerce grows when there is dependable rule of law and disputes that do arise are resolved or managed peacefully. That is why we’ve worked hard to elevate the East Asia Summit to make it the premier forum for dealing with political and security issues throughout the region. We are bolstering the Asia-Pacific Economic Cooperation (APEC) forum as the premier organization in the region for advancing free and open trade and investment, as well as for fostering cooperation in promoting sustainable and equitable growth. We continue to work with the 10-member Association of Southeast Asian Nations (ASEAN) by promoting good trade, investment, and energy policies and support ASEAN as it prepares to launch the ASEAN Economic Community later this year.

The United States’ prosperity and Asia’s prosperity have been shown to be inseparable. The region is home to both the world’s two largest economies, excepting the United States, and has many of the world’s fastest growing economies as well. The UNDP estimates that the Asia Pacific will be home to two thirds of the global middle class by the year 2030, and the OECD predicts the region’s middle class consumers will number 2.7 billion by then.

We’re all aware of the region’s spectacular growth in recent decades, and analysts predict significant growth for years to come. Access to U.S. markets and investment has been crucial for the region’s economic growth and development. Besides growing trade flows, with bilateral trade in goods and services now at an all-time high, is the commitment U.S. business has made as the region’s biggest source of foreign direct investment for decades, with over \$620 billion in investment stock in the region reported in 2013.

For this growth to continue, concluding the Trans-Pacific Partnership (TPP) negotiations remains the single most important thing the United States can accomplish in its economic and strategic relationship with the Asia Pacific this year. There’s an urgent question of which future will define East Asia and the Pacific for the century to come. Will the Asia Pacific reaffirm, strengthen, and expand the open, transparent, and rules-based system that has been the foundation of the region’s peace, stability, development, and prosperity? Or will it engage

instead in a near-sighted race to the bottom, with arrangements that do not promote shared and sustainable economic growth?

Our credibility and our ability to lead are at stake. Countries in the region look to us to help establish the rules and set high standards. While the region seeks greater U.S. economic engagement, the steady loss of U.S. market share in recent years to Asian competitors, particularly China, feeds an inaccurate perception of U.S. economic decline. Put more bluntly, the region still welcomes U.S. leadership, but it also still worries about our economic staying power. Failure to complete and approve TPP this year would be a setback to confidence in the United States.

We say TPP will be a 21st century agreement, and we mean it. TPP will certainly address traditional trade issues such as tariffs, market access, and investment. But, TPP also gives us the opportunity to protect workers and the environment with the highest and most enforceable standards of any trade agreement ever. And it will allow us to tackle a number of issues that have never been addressed in trade pacts -- for instance, it will put disciplines on state-owned enterprises and help ensure a free and open Internet.

That's why TPP is not just an important trade agreement for the Asia Pacific region. TPP is an important environmental agreement. TPP is an important labor agreement. TPP is an important transparency and anti-corruption agreement.

As President Obama has repeatedly noted, if we cede leadership, if we do not set the rules of the road, our competitors surely will. If we don't lead through TPP, who will maintain a free and open Internet or promote innovation by protecting the intellectual property that innovators have developed? How will companies be protected from unfair competition by state owned enterprises? Where will the protections and enforcement of workers' rights or environmental interests come from?

Again, TPP is the most important step we can take in the Asia Pacific this year, both strategically and economically. Nonetheless, the TPP is by no means the only part of our economic policy. This year marks the 10th anniversary of the Australia-U.S. Free Trade Agreement, a high-standard agreement that has nearly doubled bilateral trade and underpins \$160 billion in U.S. investment in Australia and \$44 billion in Australian investment here. Likewise, we have doubled trade under our Free Trade Agreement with Singapore; and we continue to make gains under the Korea-U.S. (KORUS) Free Trade Agreement.

We are aggressively negotiating a high-quality Bilateral Investment Treaty with China that, under a “negative list” approach, holds the promise of opening up China’s highly restrictive markets to foreign investment.

Through the Lower Mekong Initiative (LMI), we have worked with our donor partners and the five countries of the Lower Mekong sub-region -- Burma, Cambodia, Laos, Thailand, and Vietnam -- to support continued economic growth in a manner that protects the fragile Mekong River ecosystem and helps prevent future conflicts over resources.

Working bilaterally, we have worked with Burma to modernize and strengthen legal and regulatory regimes, helping set the stage for major U.S. companies like GE, Ford, Chevrolet, Coca-Cola, and Colgate-Palmolive to enter the market.

In Indonesia, our Embassy and the Export-Import Bank helped secure a credit agreement in 2013 worth over \$90 million to finance the export of 50 GE locomotives. And, Ambassador Blake and our Embassy in Jakarta continue to engage with the new Jokowi Administration to promote the inclusion of U.S. companies in Indonesia’s plans to address its critical infrastructure needs in energy and transportation.

As a result of the work of our Embassy in Ulaanbaatar to improve the regulatory framework in new energy sector areas, Mongolia included international standards in its 2014 amended petroleum law. Special Envoy Amos Hochstein in Mongolia last month pledged to continue this regulatory support and extend it to Mongolia’s nascent renewables sector.

Beyond what we’re doing is how we do it, and how this reflects who we are. In our global economy, the true wealth of a nation lies not in its territory or simple industrial output, but in its ability to maximize its human resources—to help its people to reach their full creative and innovative potential. This requires training and education. It requires the free flow of ideas and information. It requires the rule of law, the protection of intellectual property. And it requires that governments protect the universal rights of their citizens.

The United States does not have an array of state-owned enterprises that can be directed to build and invest regardless of profitability. Our approach is different, but it reflects our strengths. First, the United States’ steady, sustained commitments and engagement over many decades, and our hard work to build fair, inclusive rules that lead to shared growth and opportunity, may not be flashy, but

they have helped maintain peace, lift hundreds of millions of people out of poverty, and protect our national interests.

Second, the value of what I call the “American brand” has held its own despite the historic challenges that have faced our own economy dating to the global financial crisis of 2008.

American investment in the Asia Pacific isn’t just quantitatively larger, it’s qualitatively better. Thousands of U.S. companies have invested in the Asia-Pacific, bringing technology, innovation, transparency, the ability to mobilize capital, and often better working conditions. U.S. investors often partner with local firms, particularly small and medium sized enterprises (SMEs), providing tools such as financing, training, and logistical support that build their capacity and skills. U.S. companies help fight corruption and environmental degradation, and make investments that have broader positive impacts on the local economy. In a classic case of doing well by doing good, this investment not only improves local development and governance but also fosters critical distribution networks and growth needed to support our own increased exports.

For example, U.S. companies working in the Asia-Pacific represented two of three firms the Secretary recognized in 2014 with the State Department’s Award for Corporate Excellence (ACE). Wagner Asia Equipment in Mongolia, a heavy equipment dealership, was honored for its commitment to public-private partnerships with Mongolia’s local and national governments to protect the environment, including through planting more than 900 trees; conducting workshops for students on environment and ecology; implementing a project to build a community garden; and rehabilitating a toxic waste site. Wagner employs persons with disabilities and provides employees with medical care and generous financing for housing. The Coca-Cola Company in the Philippines received its award for providing disaster relief services to areas devastated by Typhoon Haiyan. The company also improved water quality through its efforts to support watersheds, increase access to safe water, and educate communities on water conservation. Additionally, the company partnered with the Philippine Department of Education to increase access to primary education for more than 60,000 disadvantaged children. Two more U.S. companies operating in the region, Chevron in Burma and Linden Center in China, were 2014 finalists. And this is just a small sampling from just one year; there are countless other examples of why Secretary Kerry has said, “American businesses are some of the best Ambassadors our country has.”

In the United States, entrepreneurship and innovation are part of our DNA. America's experience, like many others, teaches us that fostering entrepreneurship is not just about crafting the right economic policy, it's about creating an entire climate in which innovation and ideas flourish. While no two countries do it exactly the same way, there's a common thread through all those that have succeeded in fostering innovation and entrepreneurship.

It takes a legal system that is fair, transparent, and predictable. A system where the judges are not corrupt, where you know the contractual agreement you've made will be upheld and protected, where you can take a chance starting a business and bankruptcy doesn't risk prison. It takes a system that protects and justly rewards the creators and owners of intellectual property. It takes a society that empowers women, because innovation and entrepreneurship thrive when a society engages its entire people, not just half. It takes an education system that is universal and trains people to be skeptical. And, it takes political systems with the rule of law and protection of civil liberties.

Yet, despite these strengths of the "American brand," we can't assume that other countries will adopt our free, open economic model and our values. The major question facing both the United States and the region is where do we go from here? I believe the United States and the other economies of the Asia Pacific will continue to grow and prosper together. That's the future we can build together. But it depends on wise leadership that reinforces our values, reflected in the "American brand" that I've described above. That is why all of our economic policies in the region – from TPP to APEC, to the Lower Mekong Initiative, to supporting ASEAN, to our bilateral work with key allies like Korea and the Philippines and new partners like Indonesia – promote those values. America's engagement with the Asia Pacific reflects the simple fact that the United States is a Pacific nation. Our work supports security and prosperity, which are inherently linked and inseparable. Our commitments to these goals, while not always headline grabbing, are longstanding and have stood the test of time.