



Statement Before the

**House Ways & Means Committee
Subcommittee on Trade**

***“Opportunities to Expand U.S. Trade
Relationships in the Asia-Pacific Region”***

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October 11, 2017

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Introduction

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee, thank you for this chance to offer my thoughts on U.S. trade opportunities in the Asia-Pacific region.

The United States is a Pacific power with compelling national interests in the vital Asia-Pacific region. Over the past 75 years, we have fought three wars and established robust alliances and a forward military presence in the region, all with the goal of maintaining peace and stability. We have long been champion of a democratic, rules-based order that has underpinned both our security and prosperity in the region. And, of greatest interest to this committee, we have developed deep economic ties in the Asia Pacific, including trillions of dollars of two-way trade and investment, which have brought unprecedented prosperity to the region and ourselves.

However, the landscape in the Asia Pacific is changing, and the risks to our interests are growing. From the North Korean nuclear threat to an array of territorial disputes, the security environment in the region is darkening. Mercantilist trade and industrial policies are on the rise. And U.S. leadership is being tested both by new challengers and by uncertainty about our own policies and commitment to the region.

Against this backdrop, the United States urgently needs a comprehensive strategy to promote our interests in the Asia-Pacific region. Core to this strategy must be smart economic statecraft that creates a more level playing field for our exporters and investors and recaptures U.S. leadership in market opening and high-standard rulemaking in the Asia Pacific. Work on articulating this new strategy should begin now, in the run-up to President Trump's first trip to the region next month.

U.S. Economic Interests in the Asia Pacific

U.S. trade and investment in the Asia Pacific is driven by the region's enormous and growing economic size. The region has more than tripled in economic size since the end of the Cold War, and the 21 member economies of the Asia-Pacific Economic Cooperation group (APEC) now account for nearly 60 percent of global gross domestic product (GDP).¹ The broader Asia-Pacific region hosts more than half the world's trillion-dollar economies, and half of the top 20 economies. The APEC region also accounts for around 48 percent of global trade, with nearly \$20 trillion worth of goods and services flowing around the Pacific last year.²

This massive and growing economic activity has corresponded with a significant and sustained rise in U.S. exports to the region. U.S. exports to Asia-Pacific economies—including agricultural

¹ Asia-Pacific Economic Cooperation, "Achievements and Benefits," <https://www.apec.org/About-Us/About-APEC/Achievements-and-Benefits>.

² Asia-Pacific Economic Cooperation, "Key Indicators Database," 2016, http://statistics.apec.org/index.php/key_indicator/kid_result/66.

products, manufactured goods, and services—totaled \$452 billion in 2016³, accounting for over half of total U.S. exports. The region now boasts five of our top 10 trading partners.⁴

Trade and investment with the Asia Pacific has helped drive job growth for American workers. Roughly 3.4 million American jobs were estimated to be supported by exports to the region in 2015.⁵ Asian companies with direct investments in the United States employed over one million Americans in 2015, with many more jobs supported indirectly by those operations and supply chains across North America.⁶

Despite these already substantial gains, the region holds even greater potential for increased U.S. exports in the years ahead. By 2030, Asia is expected to boast 3.2 billion middle-class consumers, more than eight times the projected U.S. population.⁷ As the middle class in Asia grows and its appetite for U.S. goods and services expands, this means more U.S. exports, in turn spurring income growth and job creation at home.

Let me underscore the opportunity in services. The United States is a global leader in services and already accounts for over 15 percent of global services exports, more than any other country by a substantial margin.⁸ However, services trade restrictions worldwide remain high. These may be particularly harmful given the size of the sector in the United States and its potential to drive productivity growth, as goods exports have done in the past. Several countries in Asia have among the highest barriers for services exports of anywhere in the world, including much of Southeast Asia and India.⁹ Bringing these down could create significantly more opportunities for U.S. businesses.

³ United States Census Bureau, “Trade in Goods with Asia,” 2016, <https://www.census.gov/foreign-trade/balance/c0016.html>.

⁴ Bureau of Economic Analysis, U.S. Department of Commerce, “International Accounts Products for Detailed Goods Trade Data,” https://www.bea.gov/international/detailed_trade_data.htm.

⁵ International Trade Administration, U.S. Department of Commerce, “Employment and Trade,” August 2, 2017, <https://www.trade.gov/mas/ian/employment/index.asp>.

⁶ Organization for International Investment, “Insourcing Facts,” August 2016, <http://www.ofii.org/resources/insourcing-facts>.

⁷ Homi Kharas, *The Unprecedented Expansion of the Global Middle Class: An Update*, Working Paper 100, (Washington, DC: Brookings, February 2017), https://www.brookings.edu/wp-content/uploads/2017/02/global_20170228_global-middle-class.pdf.

⁸ United Nations Conference on Trade and Development, “Exports and imports of goods and services, annual, 2005-2016,” October 6, 2017, <http://unctadstat.unctad.org/wds/TableView/tableView.aspx>.

⁹ International Monetary Fund, World Bank, and World Trade Organization, “Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment,” April 10, 2017, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/04/08/making-trade-an-engine-of-growth-for-all>.

A Changing Landscape in the Asia Pacific

While the opportunities for trade and investment in the Asia-Pacific region are enormous, the United States faces an increasingly challenging environment there. Economic and political trends in the region have not been moving in a direction favorable to U.S. interests in recent years, and have deteriorated further in recent months.

While the United States remains among the most open economies in the world, with an average trade-weighted, applied tariff rate of 1.7 percent,¹⁰ American companies have long faced a wide array of barriers in Asia-Pacific markets. These impediments are both at the border (e.g., high tariffs and conditions imposed on market entry), as well as behind the border (e.g., intellectual property theft and regulatory discrimination).

Mercantilist trade and industrial policies have proliferated and hardened across the region in recent years. China, in particular, has stepped up policies that deny market opportunities to U.S. companies, support its own national champions, and distort global markets. Beijing has increasingly shown that it is prepared to target the industries of tomorrow and compete directly with the United States for global technological leadership. Beijing's "Made in China 2025" plan, adopted in 2013, revealed its ambition to drive China higher up the global value chain by any means necessary, including subsidies, forced technology transfers, and abuse of competition policy.¹¹ It was complemented on July 20 of this year with publication of the "New Generation Artificial Intelligence Plan," which set ambitious targets for Chinese AI development through 2030.¹²

Other countries have followed China's lead in pursuit of harmful new rules and industrial policies. For example, Indonesia, South Korea, and Vietnam have all drafted laws in recent months that set new requirements on data localization within their borders.¹³ South Korea, Taiwan, and Thailand have continued to intervene in foreign exchange markets to keep their currencies undervalued relative to the dollar, often skirting just around the criteria for designation as a currency manipulator by the U.S. Treasury Department.¹⁴ These activities not only harm the health of established U.S. industries but also represent a threat to future export opportunities.

¹⁰ World Trade Organization, "United States of America: Tariff Profiles," 2017, http://stat.wto.org/TariffProfiles/US_e.htm.

¹¹ Scott Kennedy, "Made in China 2025," *CSIS Critical Questions*, June 1, 2015, <https://www.csis.org/analysis/made-china-2025>.

¹² Graham Webster, Rogier Creemers, Paul Triolo, and Elsa Kania, "China's Plan to 'Lead' in AI: Purpose, Prospects, and Problems," *New America*, August 1, 2017, <https://www.newamerica.org/cybersecurity-initiative/blog/chinas-plan-lead-ai-purpose-prospects-and-problems>.

¹³ Information Technology Industry Council (ITI), "Data Localization Snapshot," July 29, 2016, <https://www.itic.org/public-policy/SnapshotofDataLocalizationMeasures7-29-2016.pdf>.

¹⁴ Brad W. Sester, "Thailand: Currency Manipulator?" *Council on Foreign Relations*, September 21, 2017, <https://www.cfr.org/blog/thailand-currency-manipulator>.

Meanwhile, countries in Asia have moved ahead to shape the region's trade architecture without the United States. President Trump's early decision to withdraw from the Trans-Pacific Partnership (TPP) gave a boost to the other large regional trade arrangement, the Regional Comprehensive Economic Partnership (RCEP), which brings together China, Japan, South Korea, India, Australia, and New Zealand with the 10 member countries of the Association of Southeast Asian Nations (ASEAN). If that agreement were concluded, it would likely generate diversionary trade effects that would cost jobs and growth for the United States. More damagingly, it could also entrench low-standard economic rules that would tilt the competitive playing field against U.S. firms across the region for years to come.

Despite U.S. withdrawal from the agreement, TPP, too, has continued without our involvement. Led by Japan and Australia, the remaining 11 signatories have met several times this year. Even with some resistance from countries such as Vietnam and Malaysia that had expected significant gains in access to the U.S. market as the price for deep reforms, the TPP-11 countries aim to finish negotiations over modifications to the agreement by the time of the APEC Leaders' Meeting in November. Such an agreement without U.S. involvement is projected to have negative diversionary trade effects for the United States: about \$2 billion in lost real income in 2030, according to a new study from the Peterson Institute for International Economics.¹⁵

In addition, many countries in the region have renewed their efforts to forge bilateral trade deals. The most consequential of these is an economic partnership agreement between the European Union and Japan, initialed by the two sides in July of this year. Among other things, the agreement is likely to contain European rules on data privacy, as well as special protections for so-called "geographic indications" for certain food and alcoholic-beverage products (e.g., parmesan and champagne), to the detriment of U.S. companies, ranchers, and farmers.¹⁶

All told, the remaining 11 TPP signatories are engaged in 27 separate trade negotiations, including with China and the EU, and the pace of negotiations has noticeably accelerated since the United States withdrew from TPP.¹⁷ Taken together, these agreements have the potential to dramatically erode the competitiveness of U.S. exporters and to lock in rules that harm our interests.

Beyond new trade agreements, Asian countries are pushing competing visions for infrastructure investment across the Eurasian supercontinent that could potentially re-order the region's trade linkages, with serious consequences for U.S. interests. The most prominent is China's Belt and Road Initiative (BRI), under which the country has promised to devote hundreds of billions of

¹⁵ Peter A. Petri, Michael G. Plummer, Shujiro Urata, and Fan Zhai, *Going It Alone in the Asia-Pacific: Regional Trade Agreements Without the United States*, Working Paper No. 17-10 (Washington, DC: Peterson Institute for International Economics, October 2017), <https://piie.com/system/files/documents/wp17-10.pdf>.

¹⁶ European Commission, "EU-Japan Economic Partnership Agreement," July 1, 2017, http://trade.ec.europa.eu/doclib/docs/2017/july/tradoc_155684.pdf.

¹⁷ Adam Behsudi, "Trump's Trade Pullout Roils Rural America," *Politico*, August 7, 2017, <http://www.politico.com/magazine/story/2017/08/07/trump-tpa-deal-withdrawal-trade-effects-215459>.

dollars of investment in building roads, railways, and ports in neighboring countries and beyond.¹⁸ In May, Beijing hosted the Belt and Road Forum, a high-level forum with senior officials from over 130 countries, to showcase Beijing's continental ambitions and attract support for the initiative.¹⁹

BRI and similar initiatives by Japan, India, and other regional players have the potential to dramatically change the composition and direction of the region's trade flows. BRI could entrench China at the center of the region's economy, while saddling other countries with onerous debt burdens and low-quality infrastructure, with all the negative social spillovers that entails. Conspicuously absent from this rush to define a new vision for Asia's hard and soft infrastructure connections is the United States.

Assessing Trump Administration Policy To Date

These changes in the economic and political landscape in the Asia Pacific have been met with mixed signals from Washington about the direction of American engagement in the region. The first, and to date most damaging, was the decision by President Trump to withdraw from TPP in January. This ill-considered move not only denied us hard-won economic gains in terms of enhanced market access and stronger rules; it also undermined our credibility in the eyes of our allies and partners in the region and gave comfort to our adversaries.

After repeatedly threatening to withdraw from the North American Free Trade Agreement (NAFTA) with Canada and Mexico, President Trump eventually authorized a renegotiation of the 23-year-old deal, but the outcome is highly uncertain, and the specter of U.S. withdrawal hovers over the talks. In late August it was widely reported that the Administration had decided to withdraw from the bilateral free trade agreement with Korea, popularly known as KORUS, despite an escalating nuclear crisis with North Korea.

Meanwhile, though senior administration officials have indicated their interest in pursuing new bilateral free-trade agreements in the Asia Pacific, none has yet been announced. All of this has created tremendous uncertainty in the region as to the prospective U.S. role in building the region's trade architecture, a traditional pillar of our strategy there.²⁰

The Administration has made clear that it will define its trade objectives by targeting countries with which the United States has persistent bilateral trade deficits. This is a misguided approach, not only because the reality of global supply chains has made measuring bilateral balances nearly

¹⁸ Christopher K. Johnson, *President Xi Jinping's "Belt and Road" Initiative* (Washington, DC: CSIS, March 2016), https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328_Johnson_PresidentXiJinping_Web.pdf.

¹⁹ Shannon Tiezzi, "What Did China Accomplish at the Belt and Road Forum," *The Diplomat*, May 16, 2017, <https://thediplomat.com/2017/05/what-did-china-accomplish-at-the-belt-and-road-forum/>.

²⁰ William Reinsch, "A Series of Unfortunate Events (Lemony Snicket strikes again)," *The Stimson Center*, September 27, 2017, <https://www.stimson.org/content/series-unfortunate-events-lemoney-snicket-strikes-again>.

irrelevant, but also because trade barriers are not a significant driver of trade deficits.²¹ Rather, these are driven by persistent macroeconomic imbalances in many Asia-Pacific economies, exacerbated by foreign currency intervention in some cases.²²

The Administration has also raised the prospect of unilateral trade action against Asian countries under U.S. trade laws. It has launched investigations under Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Act of 1974 to examine the national security implications of steel and aluminum imports and China's forced technology transfer policies, respectively. Here the administration is responding to legitimate grievances from the U.S. business community, given the increasingly problematic market access issues in China described above. These deserve a forceful response. But some of the prospective unilateral actions under these self-initiated trade cases have the potential for significant collateral damage—for the international rules-based trading system, for our allies and partners in the region, and for the U.S. economy.

Finally, the United States continues to suffer from a lack of personnel in key policy positions across the executive branch. Nominations have been slow to emerge from the White House, and the pace of Senate confirmations has also been slow.²³ Particularly troubling in the context of this hearing are the delays in appointing key officials such as the assistant secretary of State for East Asian and Pacific Affairs and ambassadors to South Korea and India.

A Way Forward

Despite the increasingly challenging environment in the Asia Pacific, as well as our own missteps and false starts, there is still an opportunity for the United States to recapture regional economic leadership. Our vast consumer market, abundant capital, innovative capacity, and rule of law make us an attractive partner for every country in Asia. Our long-held commitment to our alliance partners and to upholding the current Asia-Pacific security order has been the lynchpin of regional peace and stability. And, as the world's oldest democracy and an experienced global leader, the United States possesses an unmatched ability to mobilize other nations in support of common objectives.

The President's upcoming trip to Asia provides an opportunity to reaffirm our interests and commitment to the region, and to articulate for the American public and for our Asian partners and challengers a clear regional economic strategy. Any successful strategy in the Asia Pacific will share certain characteristics: it must be comprehensive, have a long-term focus, and be delivered consistently.

²¹ Matthew P. Goodman, "Good Policy Starts with Good Analysis," *The Center for Strategic and International Studies*, July 27, 2017, <https://www.csis.org/analysis/good-policy-starts-good-analysis>.

²² C. Fred Bergsten and Joseph E. Gagnon, *Currency Conflict and Trade Policy: A New Strategy for the United States*, (New York: Columbia University Press, June 2017).

²³ The Washington Post, "Tracking how many key positions Trump has filled so far," October 6, 2017, <https://www.washingtonpost.com/graphics/politics/trump-administration-appointee-tracker/database/>.

Articulating such a strategy begins with a presidential speech before or during the trip outlining broad U.S. interests in the region and the pillars of our engagement, including leadership on regional economic integration. The President should follow through by directing his staff to prepare a presidential policy directive laying out U.S. strategy toward the region, with economics at its core. This will align agency activities across the administration, including on trade. To execute on such a strategy, the White House should work with Congress to ensure the expeditious confirmation of political appointees to key posts relating to Asia and economic policy.

The Administration must also recapture regional leadership on market opening and high-standard rulemaking. Without U.S. participation in TPP or a credible alternative policy, the United States risks ceding leadership on market opening and rulemaking to China and others. We can begin to reassert that leadership by signaling to TPP allies and partners that we support the swift conclusion of a TPP-11 deal, while leaving the door open to future U.S. participation in a regional agreement that addresses our priorities.

Meanwhile, rather than fueling uncertainty by threatening to withdraw from NAFTA and KORUS, we should be working to update and improve those agreements to extend the rulemaking gains in TPP. High-standard agreements like these not only advance U.S. economic interests—creating larger, more contestable markets for U.S. businesses large and small and benefitting American consumers—but also bolster our security position in the region by enmeshing the United States more deeply in regional affairs. We should also work to advance U.S.-preferred norms—on trade, investment, infrastructure, etc.—in regional bodies such as APEC and the Asian Development Bank.

The Administration must also work forcefully to combat unfair trade and investment practices that harm U.S. businesses and workers. This includes robust use of existing trade remedies, provided this does not cause undue harm to our own economic interests, violate our international commitments, or undermine the global trading order. Congress can help by creating new tools to combat harmful foreign practices. This could include strengthening Section 337 of the Tariff Act of 1930 to protect U.S. intellectual property, as recommended by the 2013 Huntsman-Blair IP Commission.²⁴ It could also include sensible reform of the law governing the Committee on Foreign Investment in the United States (CFIUS) to deal more effectively with Chinese investments in strategic technologies that may pose a national security threat.

Finally, we should put greater priority on making needed investments at home. Our economic engagement in the region will only support strong and inclusive growth in the United States if partnered with appropriate infrastructure, tax, regulatory, education, and other domestic policies. Recognizing the linkages between international and domestic policies can start to address many Americans' concerns about the role of the United States in the global economy and ambivalence toward our engagement in the world.

²⁴ IP Commission (IPC), *The Report of the Commission on the Theft of the American Intellectual Property* (Seattle, WA: National Bureau of Asian Research, May 2013), http://www.ipcommission.org/report/ip_commission_report_052213.pdf.

The Asia Pacific is moving on, with or without the United States. We need to get started now on crafting a smart economic strategy toward this vital region.

Thank you.