May 24, 2017

American Leadership in the Asia-Pacific, Part 2: Economic Issues

Subcommittee on East Asia, The Pacific, and International Cybersecurity Policy, Committee on Foreign Relations, United States Senate, One Hundred Fifteenth Congress, First Session

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Statement of the U.S. Chamber of Commerce

ON: American Leadership in the Asia-Pacific,
Part 2: Economic Issues

TO: U.S. Senate Committee on Foreign Relations,
Subcommittee on East Asia, the Pacific,
and International Cybersecurity Policy

BY: Tami Overby
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DATE: May 24, 2017

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The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. In addition to 117 American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Thank you for this opportunity to testify on American leadership in the Asia-Pacific. I am Tami Overby, Senior Vice President for Asia at the U.S. Chamber of Commerce (the "Chamber"). I am pleased to be here on behalf of the Chamber to address U.S. economic relations with the critical Asia-Pacific region. The U.S. Chamber of Commerce is well aware of the linkages between strong economic ties and our political and geostrategic interests in the region. They cannot be easily separated.

U.S. Economic Engagement in the Asia-Pacific

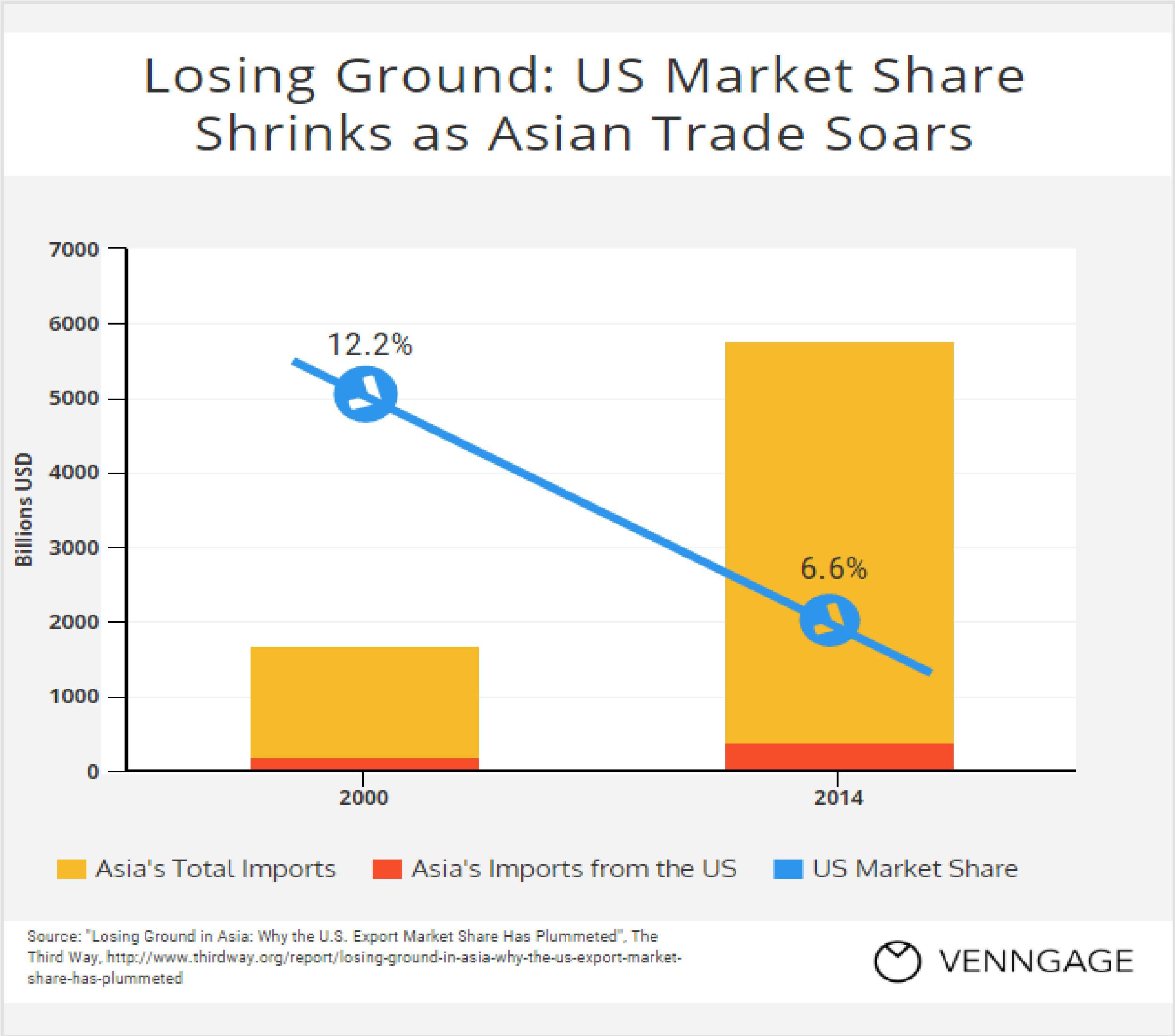
I was just in Hanoi for the meeting of the APEC Ministers Responsible for Trade. The Chamber and American business community are very pleased Ambassador Robert Lighthizer, the new U.S. Trade Representative, made such an effort to get there the week of his confirmation.

In Asia, "showing up" is very important. So this was noted positively by our APEC partners. But as much as Ambassador Lighthizer's message of commitment to the region is welcome, our APEC partners have questions about the direction and substance of U.S. international trade policy, particularly in light of the U.S. withdrawal from the Trans-Pacific Partnership (TPP).

Asian countries want an active U.S. presence in the region. They want to be robust trading partners with the United States, but Asian economies are not waiting or standing still after the U.S. withdrawal from the TPP. They are moving forward across a number of fronts, from trade and aid to investment and infrastructure.

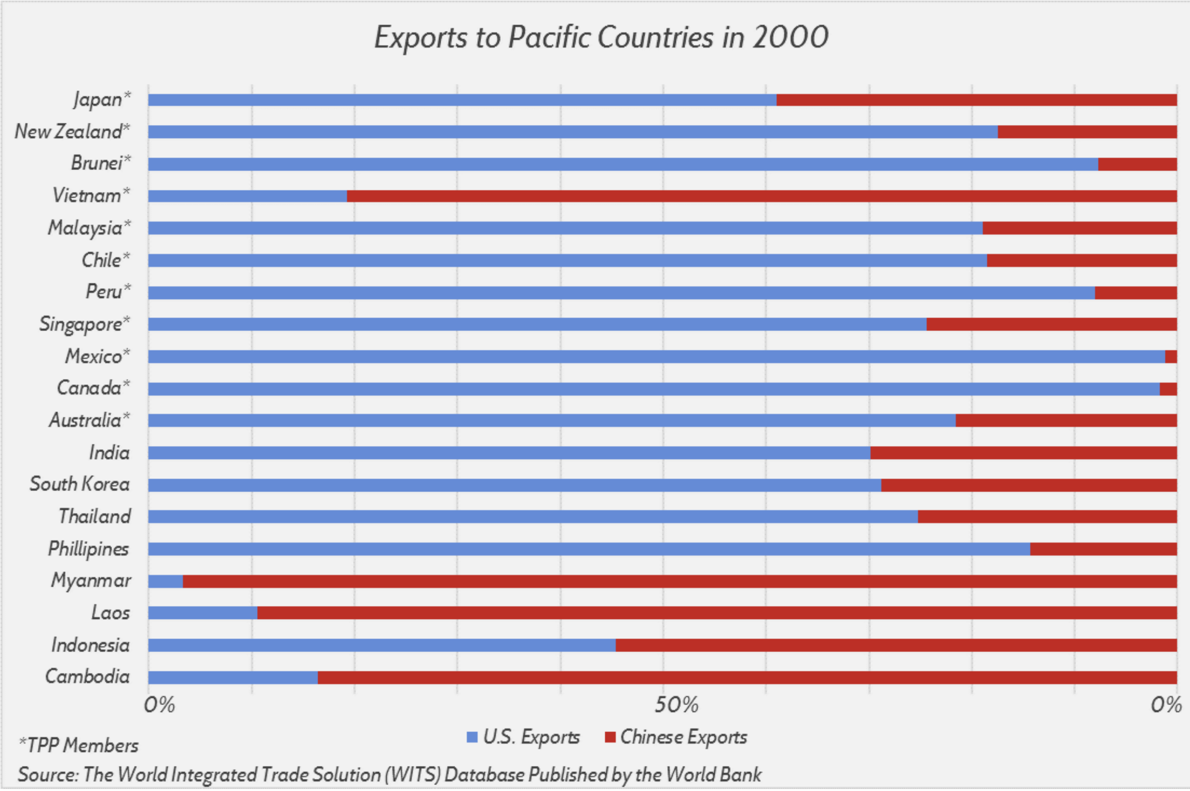
The Asia-Pacific region is critical to current and future U.S. economic growth, competitiveness and job creation. U.S. exporters—whether large or small companies producing goods and services or farmers and ranchers exporting commodities—need access to these fast growing economies and the rising pool of consumers. According to the Organization for Economic Cooperation and Development, the global middle class will expand from 1.8 billion in 2009 to 3.2 billion by 2020 and 4.9 billion by 2030. Most of this growth is in Asia: In fact, Asia's middle-class consumers will represent 66% of the global middle-class population and 59% of middle-class consumption by 2030, doubling these shares since 2009.

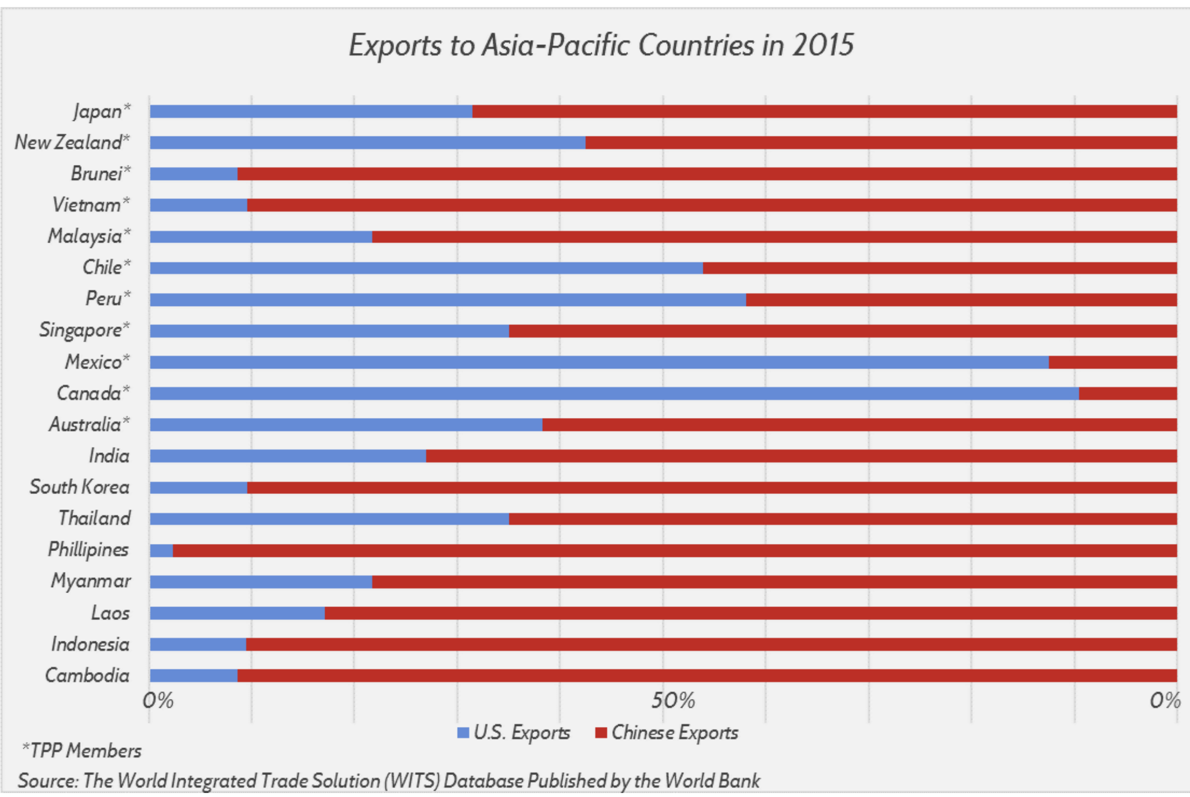
Unfortunately, the United States is falling behind, as the charts below indicate. Trade between Asian countries is surging, but even as total Asian imports have risen more than three-fold, the U.S. share of the pie has dropped dramatically in the past 15 years.



There are four primary reasons for this:

- First is China's dramatic rise. China, not the United States, is the dominant regional economic power. China is the top trade partner for most Asian economies—from Japan and Korea in the northeast to Indonesia and Malaysia in the southeast.





- Second, the United States has only three free-trade agreements (FTAs) in the region, with Australia, Singapore, and South Korea. At the same time, according to the Asia Regional

Integration Center of the Asian Development Bank, Asian countries have signed 140 bilateral or regional trade agreements, and 75 more are under negotiation or concluded and awaiting entry into force. One notable pact now under negotiation is the Regional Comprehensive Economic Partnership (RCEP), involving the 10 ASEAN economies, Japan, Korea, Australia, New Zealand and India.

While RCEP is an ASEAN initiative, China is making efforts to drive negotiations to a conclusion this year. RCEP is a lower-standard agreement than the TPP, but is one of two pathways toward the APEC goal of an eventual Free Trade Agreement of the Asia-Pacific (FTAAP), the TPP being the other.

- Third, our regional and global competitors aggressively support their exporters in Asian markets. Leaders of these countries take trade delegations to the most promising markets in search of commercial deals. They provide export credits and low interest loans for their companies through aggressively funded export credit agencies. Furthermore, they tie foreign assistance to commercial opportunities.

  China's support via One Belt One Road and the Asian Infrastructure Investment Bank (AIIB) is accelerating and will take this activity to a new level. Meanwhile, we have not yet restored the Ex-Im Bank to full capacity, and are arguing over whether we should reduce our foreign assistance budget, which is less than 1% of GDP, and of which only 2% of that goes to Southeast Asia.

- With regard to the U.S. withdrawal from the TPP, the clear takeaway from Hanoi is disappointment that the United States has withdrawn from the agreement. Ambassador Lighthizer conveyed the administration's intention to negotiate bilateral FTAs in the region at some point.

  Japan and New Zealand, which have ratified the TPP, are pushing forward with a possible "TPP-11" arrangement. TPP is in many respects the most advanced trade agreement yet negotiated. In addition to opening markets for goods and services, the TPP sets high standards for digital commerce, competition with state-owned enterprises, regulatory coherence, and in a number of areas relating to intellectual property protection—all of which matter enormously for U.S. exporters of all sizes, but particularly small and mid-sized companies. It is clear their objective is to advance the TPP in some form, so that the strong rules and high standards contained in TPP survive. These rules, not those in RCEP, would then set the benchmark for regional trade and a possible FTAAP.

The Chamber has not yet taken a view on any prospective bilateral FTAs. Our position is that for any new bilateral FTA sought by the United States, Trade Promotion Authority (TPA) sets the right negotiating priorities and the proper process, and it should be followed scrupulously.

Whether bilateral FTAs can deliver much for American exporters is open to question. In an era of global value chains, the TPP had the advantage of cutting through the "Asian noodle bowl" of divergent trade rules under multiple agreements.

In any event, the United States is running out of time. Bilateral FTAs, even with small economies, will take years to negotiate and enter into force. Our exporters will continue to be at a competitive disadvantage.

To illustrate, Australian beef exporters have a 10 percentage point advantage over American beef exporters in Japan due to the Australia-Japan FTA. The TPP would have eliminated the relative disadvantage of U.S. cattlemen. The difference means $400,000 a day in lost sales for U.S. exporters. A bilateral FTA with Japan could potentially close this gap, but according to Japanese officials in public comments, the United States should not expect to get more than we would have with the TPP. Further, negotiating a bilateral FTA with Japan would still take several years.

We also heard in Hanoi several cases in which countries explicitly said they are backtracking on commitments they were prepared to make under the TPP that would help U.S. companies. This problem is especially acute with regard to business priorities that are inaccurately but commonly viewed as primarily beneficial to the United States, such as stronger intellectual property protections and enforcement.

In sum, the United States has withdrawn from the TPP, but the challenges it was designed to address remain. These challenges include:

1) The Asia-Pacific region is growing, and it will soon be home to two-thirds of the world's middle class consumers;
2) Made-in-America products are too often shut out of those promising markets by steep tariffs and other barriers; and
3) U.S. exporters' disadvantages in the region are likely to mount as Asian economies clinch new trade pacts that benefit Asians but shut us out.

The Trump administration will need to devise a strategy to address these challenges. The U.S. Chamber of Commerce is committed to working with the administration to devise one.

U.S.-ASEAN Relations

U.S. engagement in Southeast Asia, and with ASEAN as an institution, will be essential to achieving U.S. objectives in the broader Asia region. American economic interests in Southeast Asia are vast; ASEAN is the fourth largest U.S. export market globally.

It was therefore encouraging that Vice President Pence visited Indonesia—the largest ASEAN country—so early in his tenure, and that he confirmed that President Trump will meet with his ASEAN counterparts as a group later this year. This is a reassuring message both to American business and to a region that seeks U.S. engagement.

Notwithstanding this engagement, a key challenge will be to continue to promote economic openness in the region. Four ASEAN countries were members of the TPP, and made substantial, and often politically difficult, reform commitments in order to be part of it. Others, including the Philippines and Thailand, were very interested in the TPP, and studied the agreement in detail to determine the types of reforms they would need to undertake if they were to join it in the future.

In the TPP's absence, Singapore remains the only ASEAN country with which the United States has a free trade agreement. The dilemma for the U.S. now is to determine the means by which to recapture the important gains that TPP would have provided in those countries, particularly in Malaysia and Vietnam.

Vietnam has sent encouraging signals about its willingness to negotiate bilaterally with the United States. Others have not. It is worth noting that in the 2000s, the United States attempted to negotiate bilateral FTAs with Malaysia and Thailand, both of which faltered in part because of the political difficulty for each in accepting U.S. demands for comprehensive market access in the context of a bilateral agreement. The lessons of these previous failures should be borne in mind should the United States decide to pursue bilateral FTAs with either.

In the meantime, ASEAN is moving forward. The RCEP is an ASEAN, not Chinese, initiative. In addition, individual ASEAN members have negotiations going on simultaneously with other key trading partners. For example, Indonesia, Malaysia, the Philippines, and Thailand are all negotiating with the European Union, and Singapore and Vietnam have both completed (but not yet implemented) deals with the EU. All of those countries individually have FTAs with numerous other markets around the world.

U.S.-China Relations

In addition to China's growing regional role, the United States and China share a highly interdependent yet complex relationship that is critically important to each other and the world. U.S. industry continues to see significant economic opportunity in the China market, which is worth half a trillion dollars annually to U.S. companies—and could be worth considerably more.

Together, the U.S. and China represent around 40 percent of the global economy. China is the third largest goods exports market for the United States. And the American Chamber of Commerce in China *2017 China Business Climate Survey* reports that the majority of U.S. companies experienced revenue growth in 2016.

Challenges to American Companies

At the same time, U.S. and other foreign companies active in the China market have become more concerned about their future there. Nearly four years after the Third Plenum Decision, positive rhetoric on market reforms has yet to materialize into policy that significantly impacts the investment or business environment.

Rather, the legacies of China's command economy are continuing to impact its economic policy and hamper its complete integration into the global economy. These policies are increasing the role of the state in the economy and creating an uneven playing field for U.S. companies.

The American Chamber of Commerce in China and the European Chamber of Commerce in China report in the their latest annual surveys that an overwhelming majority of member companies—80 percent in the case of AmCham China—feel less welcome in the Chinese market than previously. These headwinds are curbing enthusiasm for U.S. investors. The AmCham 2017 Business Climate Survey finds signs that companies' are now deprioritizing China in investment plans.

A number of policy issues contribute to American company concerns, among them:

- An investment regime that is the most restrictive among G20 countries and limits market access in service sectors such as banking, insurance, securities, telecommunications, and cloud computing;
- Cybersecurity, information communication technology (ICT), and data policies that pose challenges for global connectivity;
- An Anti-Monopoly Law that is enforced in a discriminatory manner and used to advance industrial policies;
- IP enforcement that, while improved in recent years, is insufficient to protect against high levels of counterfeiting, piracy, and trade secret theft; and
- Industrial policies like Made in China 2025 that aim to use state resources to create and alter comparative advantage in global markets.

The U.S. Chamber of Commerce has issued a series of reports over the past years assessing Chinese barriers to U.S. exports and investments as well as industrial policies that are relevant as the administration examines foreign trade barriers. They are listed in an annex to this statement.

An uncompetitive China market raises serious concerns not only for its domestic economy but its economic partners. Chinese industrial policies precipitate market inefficiencies and spark overcapacity, resulting in lower prices for global commodities and the potential for predatory pricing—which has forced non-Chinese companies out of business in steel, solar, aluminum, and other industries.

Having a competitive market in China is critical to minimizing these market distortions globally from China. In addition, American companies need to be able to succeed in China to ensure sufficient economies of scale to compete in the global economy against Chinese and other firms. Our two countries need to work together to address these issues and create a level playing field.

Bilateral Engagement

The Chamber welcomed the announcement of a new bilateral Comprehensive Economic Dialogue and the commitment by both governments to a 100-day plan to make progress on our trade relationship, as well as the recently announced interim outcomes. President Trump, Secretary Ross, and Secretary Mnuchin deserve credit for their efforts to address the business community's concerns.

The outcomes on agricultural products and credit ratings agencies are a positive first step. But these initial outcomes should be regarded as a modest down payment for more far-reaching outcomes on market access, subsidies, procurement, and cyber/ICT. It is particularly important to secure outcomes on cybersecurity, ICT, and data, as China is currently issuing sweeping policies that are acting as new barriers for American companies.

Next Steps

The concerns confronting our member companies are real, and significantly important. The Chamber believes a high-standard Bilateral Investment Treaty (BIT) could address many, although not all the business community's concerns with China. As a result, we have long supported supplementing the U.S. Model BIT with robust provisions on state-owned enterprises, cross-border data flows, standards, as well as limitations on the use of excessively broad national security provisions as a pretext for discrimination against our companies.

The U.S. Chamber is doing what we can to track and analyze Chinese polices, but larger, more systematic, efforts are needed. As China advances industrial policies that are distorting global markets, we urge the U.S. government to set up a robust monitoring and forecasting initiative to assess how Chinese industrial policies like Made in China 2025 as well as other policy decisions are impacting critical sectors of the U.S. economy.

The Chinese government is making policy decisions with long-term goals, and the U.S. government has an obligation to approach it in similar terms. Moreover, it is vital for the U.S. government to set clear expectations with China on our trade and investment relationship, and to publicly and dispassionately defend our commercial interests. The new Comprehensive Economic Dialogue can be used to secure and drive time-fixed, tangible outcomes, like those on beef.

It is also critical that the U.S. government develop metrics to assess China's progress on its commitments to ensure full and even implementation. When commitments and dialogue are unable to adequately address unfair trading practices, the U.S. government should enforce our trade laws, consistent with WTO obligations, and consider new tools that would be consistent with WTO rules that begin to address asymmetries in market access and other policies that prohibit or restrict the ability of U.S. companies to compete in China.

U.S.-Japan-Korea Cooperation

Clearly North Korea's escalation of missile testing is something we all need to be focused on. Nowhere else are our economic and strategic interests connected as with Japan and Korea, our two main allies in Northeast Asia. Trilateral cooperation on North Korea is essential, and obviously China's role here is critical.

But the three countries need to find areas of economic cooperation as well. In particular, the United States, Japan and Korea can use fora like APEC to continue to push for good rules and best practices with regard to regulatory transparency, intellectual property, competition policy, and digital trade.

We are having encouraging discussions in the business communities around issues like the digital economy and cybersecurity. To this end, we urge the governments to prioritize policies and concrete measures that support high-standard, internationally harmonized rules in concert with the private sector.

U.S.-Korea Relations

The U.S.-Korea bilateral relationship should not be taken for granted. With the election of their new President, Moon Jae-In, there is a good opportunity to further strengthen our partnership—both in the security and economic spheres—but we must be smart and careful.

The U.S.-Korea Free Trade Agreement, or KORUS, remains the cornerstone of our bilateral trade and investment relationship, and importantly, it underpins our vital security alliance. We cannot overstate how intertwined these relationships are, and need to be prudent and careful not to disrupt them.

U.S. industry has expressed frustration with the unsatisfactory enforcement of KORUS in a number of areas in the five years since it was implemented. Some areas of concern include customs verification, non-tariff measures in the automotive sector, transparency in pharmaceuticals and medical devices, and the process surrounding numerous competition policy cases most notably.

In this regard, the Trump Administration should redouble U.S. efforts to press the Korean government to fully respect the letter and the spirit of the agreement. KORUS established a comprehensive committee structure that allows governments to review progress and problems at regular intervals, and this structure should be employed vigorously. The Chamber regularly provided input to the Obama Administration on these matters and will do the same with the Trump Administration going forward.

The Chamber urges the Trump Administration and the Congress to focus on ensuring full and faithful implementation of KORUS rather than negotiating an entirely new agreement with Korea or a renegotiation. The agreement as it stands set a high bar, and in a number of areas includes the strongest rules yet achieved in U.S. trade agreements.

It is important to note that KORUS has led to sharp increases in U.S. service exports while exports of many U.S. agricultural and industrial goods have increased since KORUS went into effect five years ago. KORUS has helped maintain a steady if unspectacular level of U.S. goods exports at a time when Korea's overall imports have dropped dramatically due to domestic economic difficulties.

These important gains for U.S. companies should not be overlooked, nor should KORUS be alternately be credited or blamed for changes in trade patterns in sectors where it had no impact (more than half of U.S.-Korea goods trade was already duty free before KORUS). The U.S. bilateral trade deficit in manufactured goods should not be viewed as the proper measure of the agreement's quality. KORUS has increased opportunities for U.S. exporters and will continue to do so as tariff cuts take full effect over the next few years.

In short, overall implementation of the agreement can be better. That should be our collective focus and goal—to ensure this high-standard agreement is implemented fully and faithfully so that it is truly a win-win. We are confident that if the Korean government does this, U.S. exports will continue to expand.

Conclusion

The U.S. Chamber of Commerce appreciates the opportunity to testify today and the leadership of this committee on these critical commercial and strategic issues. U.S. economic engagement with Asia is not a luxury but a necessity for any efforts to spur economic growth and job creation here at home and secure a prosperous region for posterity. We look forward to our ongoing engagement with you.

Annex: U.S. Chamber of Commerce Reports on U.S. Economic Relations with China

- *Made in China 2025: Global Ambitions Built on Local Protections* (March 2017)[1] examines China's plan to become an advanced manufacturing leader in industries critical to economic growth and competitiveness. The report catalogues China's policy efforts to use a number of tools, including subsidies, standards, procurement, financial policy, and government-backed investment funds, to reach ambitious domestic and international targets. By leveraging the power of the state to alter competitive dynamics in global markets, MIC 2025 risks sparking economic inefficiencies affecting China and overcapacity affecting the global economy.

- *Cultivating Opportunity: The Benefits of Increased U.S.-China Agricultural Trade* (November 2016)[2] reveals that reducing or eliminating relevant tariffs and other behind-the-border barriers between the United States and China could result in $28.1 billion in additional cumulative gains in two-way agricultural sector trade over 2016-2025. The United States would realize gains of $17.6 billion—a nearly 40% increase over baseline projections.

- *Preventing Deglobalization: An Economic and Security Argument for Free Trade and Investment in ICT* (September 2016)[3] examines threats to the global economy from emerging policies restricting open trade and investment in the information and communications technology (ICT) sector and attempts to quantify their impact. While the report is global in scope, Chinese industrial policies feature prominently.

- *Competing Interests in China's Competition Law Enforcement: China's Anti-Monopoly Law Application and the Role of Industrial Policy* (2014)[4] examined China's use of its Anti-Monopoly Law to advance industrial policy and boost national champions.

- *China's Approval Process for Inbound Foreign Direct Investment: Impact on Market Access, National Treatment and Transparency* (2012)[5] detailed China's inbound investment approval process and identified challenges for potential foreign investors.

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[1] U.S. Chamber of Commerce China Center, *Made in China 2025: Global Ambitions Built on Local Protections*, March 2017: https://www.uschamber.com/report/made-china-2025-global-ambitions-built-local-protections-0.

[2] U.S. Chamber of Commerce China Center, *Cultivating Opportunity: The Benefits of Increased U.S.-China Agricultural Trade*, November 2016: https://www.uschamber.com/report/cultivating-opportunity-the-benefits-increased-us-china-agricultural-trade.

[3] U.S. Chamber of Commerce, *Preventing Deglobalization: An Economic and Security Argument for Free Trade and Investment in ICT*, September 2016: https://www.uschamber.com/sites/default/files/documents/files/preventing_deglobalization_1.pdf.

[4] U.S. Chamber of Commerce, *Competing Interests in China's Competition Law Enforcement: China's Anti-Monopoly Law Application and the Role of Industrial Policy*, September 2014: https://www.uschamber.com/sites/default/files/aml_final_090814_final_locked.pdf

[5] U.S. Chamber of Commerce, *China's Approval Process for Foreign Inbound Direct Investment: Impact on Market Access, National Treatment and Transparency*, October 2012: https://www.uschamber.com/sites/default/files/documents/files/020021_China_InboundInvestment_Cvr.pdf.

- *China's Drive for 'Indigenous Innovation': A Web of Industrial Policies* (2010)[6] highlighted China's efforts to use its powerful regulatory regime to decrease reliance on foreign technology and develop indigenous technologies.

[6] U.S. Chamber of Commerce, *China's Drive for Indigenous Innovation: A Web of Industrial Policies*, June 2010: https://www.uschamber.com/sites/default/files/documents/files/100728chinareport_0_0.pdf.

Testimony before the Senate Foreign Relations
Subcommittee on East Asia, Pacific and International Cybersecurity

Robert C. Orr

May 24, 2017

Chairman Gardner, Ranking Member Markey, and members of the subcommittee, thank you for this opportunity to testify before you on this very timely and important topic.

My name is Robert Orr, and I am the Dean of the School of Public Policy at the University of Maryland. Born and raised in California, and having studied, lived and worked in Japan, Taiwan, and China, I have had decades of exposure to, and engagement with, the Asia Pacific region. In addition, my work as a U.S. government official at the National Security Council and the State Department, combined with a decade at the United Nations, has given me long-term first-hand experience with how the United States is positioned and perceived in the region.

In 2017 I see both huge opportunities and very real threats to U.S. interests. Both can be fundamentally shaped by what policy decisions we take today. We face a global economic landscape that is changing with lighting speed. Nowhere is this more evident than in the Asia Pacific region. If the United States does not engage, compete, cooperate and lead across the width and breadth of the Asia Pacific region, we stand a very real possibility of squandering the unique leading economic and geo-strategic role we have carefully crafted over many decades. If we do not take the long view and invest our resources accordingly, we face the real possibility of ceding our leadership role to others in the region who would welcome the windfall.

The Asia Pacific region is exceedingly diverse in the economic sphere, among others, with competing visions and economic models, distinct geo-economic spheres of influence, and dynamic on-the-ground competition that will define nations' economies, their prosperity, and their relations with each other. The United States is well positioned to take a central role in shaping the global economy of tomorrow, continuing its long tradition of advancing innovation and competition as the pillars of progress. To do so will require full engagement by the United States across three distinct but related spheres of economic policy in the region: trade; development assistance; and investment and business development across the region.

On the question of trade, there can be little doubt that the U.S. pullout from the Trans-Pacific Partnership has left America's friends and allies in the region frustrated, indeed befuddled, and looking for partners. They continue to seek trade partnerships amongst themselves, with the eleven remaining countries of the TPP agreeing to explore how to move forward absent the U.S. on the sidelines of the most recent APEC meeting[1]. If the U.S. doesn't find a way to fill this vacuum and demand for economic partners in the region, it is clear that China will attempt to. We are already seeing this in the discussions regarding the Regional Comprehensive Economic Partnership, which have been spurred on by the U.S. withdrawal from TPP. This agreement would cover nearly half the world's population, almost 30 percent of global GDP, include China and India, and would see no U.S. seat at the table. The U.S. needs a cogent trade policy to respond to the vacuum we ourselves have created; preferably by advancing multilateral trade agreements, but at a minimum through a well-designed set of bilateral trade arrangements with various partners in the region.

The Asia Pacific, despite decades of growth, remains a developing region with the largest numbers of poor people in the world. While the U.S. has systematically pulled back from the Asia Pacific region, China has systematically increased its development assistance through both bilateral and multilateral mechanisms. The establishment of the Asian Infrastructure Investment Bank reflects the increased role China sees for itself in the region, successfully securing capital commitments totaling $100 billion from leading nations worldwide including many U.S. allies. This is only part of China's strategy, with various bilateral agreements used to build relationships and cement economic and political objectives in the region. In the face of China commanding a greater role for itself, cuts to our economic development tools in the region – USAID, the Overseas Private Investment Corporation (OPIC), and EXIM Bank – will only quicken our retreat. Numerous studies show disproportionate economic and political returns on U.S. development assistance dollars. The Trump Administration's budget proposal eliminates USAID's Development Assistance account, winds-down the activities of OPIC, seeks no new funding for EXIM Bank activities, and zeros out all climate-related funding across the federal budget. In this situation, Congress must exercise its authority to completely reverse these draconian and self defeating cuts. Given global competition, especially in the Asia Pacific region, we cannot afford to be penny wise and pound foolish.

Perhaps the most important economic dynamic in the Asia Pacific region is the sheer scope and speed of sustained economic growth – creating massive and growing markets for both goods and productive investment. The geo-economic and geo-strategic game of the 21st Century will increasingly play out in the Asia Pacific region, especially on the issues of energy, infrastructure, natural resources, changing consumer demand, and various forms of economic transformation in the face of climate change. These sectors will shape global markets for decades to come, and how businesses and countries respond to these opportunities and challenges will directly affect their standing, and indeed their relevance.

A few statistics give an idea of the most dynamic, and highest value opportunities:

- More than US$1.6 trillion has been invested in renewable energy capacity since 2010[2], with some US$7.8 trillion forecast to be invested through 2040[3].
- US$90 trillion is expected to be invested globally over the next 15 years to replace ageing infrastructure in developed economies and to build out emerging economies[4].
- Investors with more than US$10 trillion under management are moving to recognize the risk posed by holding carbon-associated assets through performance reporting[5], and individuals and institutions with more than US$5 trillion in managed assets have committed to some form of divestment from fossil fuel assets[6]. These trends are accelerating.
- Innovation in markets is occurring to finance plays in these areas, with a total of US$694 billion in climate-aligned, outstanding bonds in the markets in 2016[7].

These are the moves that economic actors are making globally on the issues that matter to them, and the opportunities of the new 21st Century economy run right through the Asia Pacific region.

China is already moving to take advantage of the opportunities posed by these defining issues, seeing them not just as vehicles for economic development at home and abroad, but also to command regional and global leadership.

It is aggressively pursuing renewable energy development to address domestic energy needs, having been the world's largest investor in the technology since 2012[2] and is preparing to invest more than US$360 billion over four years[8]. This domestic activity has translated to global competitiveness in renewable energy, with Chinese companies, manufacturers and technology firms claiming the dominant share of large public companies worldwide that generate 10 percent or more from clean energy revenues[9].

China's State Grid Corporation has proposed and is now taking a leading role in envisioning a Global Energy Interconnection, which would fundamentally transform the world energy system by creating a global grid to drive clean energy development[10]. This is in addition to continued strong investments in domestic electricity infrastructure, including an expected expenditure of US$62 billion on smart grid technology through the period 2009 to 2020[11].

Innovation is occurring in the finance space, with China clearly signally its intent to be a leader in the field. It is moving towards the rollout of its national emissions trading scheme, following a several year trial of seven regional trading schemes. From the outset this national market will cover over 7,000 firms accounting for nearly half of China's emissions[12], reducing inefficiencies in their economy and making themselves more competitive in the process. Recent global growth in green bonds is also being driven by China, which has gone from almost zero bond issuance in 2015 to accounting for 39 percent of the total global issuance in 2016[13].

Not only furthering its economic rise, China is increasingly being seen as a credible leader on the the 21st Century transition to a cleaner, more efficient economy. Countries throughout the region understand that their future is directly linked to global climate outcomes, and they are investing and striking regional and global alliances accordingly. For the island states this is a matter of survival. For China and India, this is a matter of an economic model that can sustain their populations and reduce poverty without the crushing health effects of the exclusively fossil fuel-based model; for U.S. allies like Japan, Korea, and various members of ASEAN, it is as much an issue of economic competitiveness as it is one of enlightened leadership on the global stage. For all these countries, it is about markets for new technologies to mitigate climate change, but it is also about the need for physical and economic resilience in the face of rising seas and highly disruptive weather events. U.S. moves and pronouncements in recent months aligning itself with fuels and technologies of a bygone era instead of fuels and technologies of tomorrow, make the U.S. a much less attractive and reliable partner. Friends, competitors, and those in between have all begun to respond accordingly: by betting on China.

In this context, the U.S. can do a number of things now to ensure its interests, as well as those of its allies and partners in the Asia Pacific region:

1) Work with allies and partners to construct a global trade regime with the United States at its center;

2) Fully and strategically fund the key instruments of economic development in the region, including USAID, OPIC, EXIM Bank, the World Bank; the Asian Development Bank; and the UN system;

3) Stay in the Paris Agreement and make adjustments to climate policy within that flexible and universally agreed framework. Even having the discussion about whether to pull the United States out of the Paris Agreement is a self-inflicted injury. The Administration should signal its clear intent to stay within the Paris framework given the flexibility offered under the agreement to pursue national policies of its own choosing, not to mention the universal and strong support for the agreement throughout the Asia Pacific and the world.

4) Accelerate our own energy transition to cleaner and more cost effective fuel sources, and build commercial partnerships around the Asia Pacific region based on cooperation in this area;

5) Focus on smart infrastructure and smart energy grids at home and around the Asia Pacific region with friends and allies;

6) Advance work at home and abroad on climate smart agriculture, where the U.S. remains highly competitive;

7) Put a price on carbon, and in so doing squeeze inefficiencies out of our economy to make it as competitive as it can be. Nothing within the global climate agreement prevents a “conservative climate policy” involving carbon taxes the likes of which former Secretary of States’ James A. Baker III and George P. Shultz, and former Secretary of Treasury Henry M. Paulson Jr. have put forward;

8) Support US Federal financing for science, technology, and innovation, and for bringing those innovations to market; and
9) Finally, pay close attention to human capital flows, and how they are affected by exclusionary visa policies. In my university and in those across the country, we are seeing shifts in willingness by the best and brightest students from around the world to come to, and ultimately stay in the United States. Signals from Washington D.C., both the Administration and Congress, can be very helpful or be very harmful in this regard.

The United States has long demonstrated economic leadership in the Asia Pacific region, advancing a vision of innovation and competition to achieve progress. As the nations of the region turn their attention to the opportunities and impacts posed by climate change, China's leadership on the issue is offering an attractive alternative. Countries are only prepared to hook their fate to a global leader who has shown that it understands their interests and their views. It would be the height of folly for the U.S. to give up the leadership role it has played on addressing the climate challenge, an issue seen by all countries as central to the security and prosperity of all.

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