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# THE FUTURE OF APEC

## HEARING

BEFORE THE

SUBCOMMITTEE ON ASIA, THE PACIFIC AND THE GLOBAL ENVIRONMENT

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

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# THE FUTURE OF APEC

**WEDNESDAY, OCTOBER 14, 2009**

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ASIA, THE PACIFIC
AND THE GLOBAL ENVIRONMENT,
COMMITTEE ON FOREIGN AFFAIRS,
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:13 p.m., in room 2172, Rayburn House Office Building, Hon. Eni F.H. Faleomavaega (chairman of the subcommittee) presiding.

Mr. FALEOMAVAEGA. At this time, I would like to call the subcommittee hearing to order.

And I would like to have this opportunity for my opening statement, and then will turn to my good friend and distinguished colleague, the ranking member of our subcommittee, Mr. Manzullo, for his opening statement.

In consultation with my good friend, the ranking member of the subcommittee, we decided to hold this subcommittee hearing concerning APEC and reference to the future of APEC and in anticipation of the upcoming APEC meeting in the course of the next month.

The Asia-Pacific Cooperation Forum will hold its annual leaders' meeting next month in Singapore. The event will mark the 20th anniversary of the advent of the organization, which was created to reflect and enhance the economic dynamism and growing ties among the countries of the Pacific Rim.

APEC's 21-member economies currently encompass 40 percent of the world's population, 45 percent of its trade, 55 percent of its gross domestic product, and 60 percent of the market for U.S. exports. A large proportion of those exports, moreover, are in high value-added products and services that produce good jobs and good wages for American workers.

APEC is also the only significant regional economic organization that includes the United States. Indeed, since its inception, APEC has been central to U.S. efforts to liberalize trade and enhance economic growth. And with the United States hosting APEC in 2011, we will soon take the lead in forging the organization's agenda. U.S. leadership cannot come at a more important time. I say that because APEC has not yet fully lived up to its potential, at least as envisioned by those who launched the organization.

At the 1994 leaders' meeting in Indonesia, APEC released its Declaration of Common Resolve, better known as the Bogor Declaration. In that seminal document, the organization committed

itself to complete the achievement of free and open trade and investment in the Asia Pacific no later than the year 2020.

The pace of implementation would take into account differing levels of economic development among APEC economies, with the industrialized economies achieving the goal of free and open trade and investment no later than the year 2010 and developing economies no later than the year 2020.

At every leaders' meeting since 1994, APEC has reaffirmed its commitment to the ambitious goals of the Bogor Declaration. Despite those annual gestures, however, it appears almost certain that APEC will not—will not—meet its 2010 target. The impending failure reflects, at least in part, APEC's operating principle of consensus. While consensus can be a real strength in tackling some of the most difficult issues, it can also cause delay.

I hope that in Singapore APEC once again commits itself to the Bogor goals and that, in following years, under the leadership of Japan in 2010 and the United States in 2011, it charts a clear and speedy pathway toward achievement.

As the Congressional Research Service has noted, and I quote:

> "The underlying notion of APEC's approach to trade and investment liberalization is that voluntary commitments are easier to achieve and more likely to be implemented than obligatory commitments derived from agreements negotiated by more traditional and potentially confrontational methods. By establishing a common vision or goal for the organization, the belief is that future APEC discussions can make more rapid progress toward the organization's goals by seeking consensus views with which members are willing to comply."

Realizing the Bogor Declaration is especially important for the United States because of a proliferation of regional organizations that do not include the United States since the creation of APEC. For example, the East Asian Summit, ASEAN+3, ASEAN+6, and the Shanghai Cooperation Organization were all initiated without United States membership. The new government in Japan, moreover, has proposed the creation of an East Asian Community that will similarly exclude the United States.

The member economies of APEC have also established more than 150 bilateral and plurilateral free-trade agreements among themselves. Yet, only five of these FTAs include the United States. And labor and environment and other critical provisions in most of them are far less effective than they should be. We would all be better off if we used APEC more aggressively to transform this "noodle bowl" of agreements into an APEC-wide Free-Trade Area of the Asian Pacific.

Beyond the trade and investment issues at its core, APEC also provides its members a chance to engage on other matters of importance, from climate change and human security to disaster management. This year, for example, APEC will seek to further the G–20 response to the global financial crisis.

And on the way to and from APEC, America's first Pacific President will have the chance to visit Japan, China, and Korea for summit meetings. As I have said before, we now have the first President who knows where the Pacific Ocean is located.

In my view, APEC remains vital to America's interests in the Pacific Rim. Today's witnesses are the U.S. Government's two leading figures in the formulation of American participation in APEC. I look forward to working with them and hearing their comments in this afternoon's hearing.

I now would like to turn the time to my good friend, the distinguished ranking member, the gentleman from Illinois, for his comments.

[The prepared statement of Mr. Faleomavaega follows:]

**COMMITTEE ON FOREIGN AFFAIRS**
**U.S. HOUSE OF REPRESENTATIVES**

**STATEMENT OF**
**THE HONORABLE ENI F.H. FALEOMAVAEGA**
**CHAIRMAN**

**before the**
**SUBCOMMITTEE ON ASIA, THE PACIFIC AND THE GLOBAL ENVIRONMENT**

**The Future of APEC**

**October 14, 2009**

The Asia Pacific Economic Cooperation (APEC) forum will hold its annual Leaders' Meeting next month in Singapore. The event will mark the 20th anniversary of the advent of the organization, which was created to reflect and enhance the economic dynamism and ever growing ties among the countries of the Pacific Rim.

APEC's 21 member economies currently encompass 40 percent of world's population, 45 percent of its trade, 55 percent of its gross domestic product, and 60 percent of the market for U.S. exports. A large proportion of those exports, moreover, are in high value-added products and services that produce good jobs and good wages for American workers.

APEC is also the only significant regional economic organization that includes the United States. Indeed, since its inception, APEC has been central to U.S. efforts to liberalize trade and enhance growth. And with the United States hosting APEC in 2011, we will soon take the lead in forging the organization's agenda.

U.S. leadership could not come at a more important time. I say that because APEC has not yet fully lived up to its potential – at least as envisioned by those who launched the organization. At the 1994 Leaders' Meeting in Indonesia, APEC released its Declaration of Common Resolve, better known at the Bogor Declaration. In that seminal document, the organization committed itself "to complete the achievement of our goal of free and open trade and investment in the Asia-Pacific no later than the year 2020. The pace of implementation will take into account differing levels of economic development among APEC economies, with the industrialized economies achieving the goal of free and open trade and investment no later than the year 2010 and developing economies no later than the year 2020."

At every Leader's Meeting since 1994, APEC has reaffirmed its commitment to the ambitious goals of the Bogor Declaration. Despite those annual attestations, however, it appears almost certain that APEC will not meet its 2010 target. That pending failure reflects, at least in part, APEC's operating principle of consensus. While consensus can be a real strength in tackling some of the most difficult issues, it can also cause delay.

I hope that in Singapore, APEC once again commits itself to the Bogor goals, and that in following years, under the leadership of Japan in 2010 and the United States 2011, it charts a clear and speedy pathway toward their achievement.

As the Congressional Research Service has noted, "The underlying notion of the APEC approach to trade and investment liberalization is that voluntary commitments are easier to achieve and more likely to be implemented than obligatory commitments derived from agreements negotiated by more traditional – and potentially, confrontational – methods. By establishing a common vision or goal for the organization, the belief is that future APEC discussions can make more rapid progress towards the organization's goals by seeking consensus views with which members are willing to comply."

Realizing the Bogor Declaration is especially important for the United States because of a recent proliferation of regional organizations that do not include Washington. Since the creation of APEC, for example, the East Asian Summit, ASEAN+3, ASEAN+6 and the Shanghai Cooperation Organization were all initiated without U.S. membership. The new government in Japan, moreover, has proposed the creation of an East Asian Community that will similarly exclude the United States.

The member economics of APEC have also established more than 150 bilateral and plurilateral free trade agreements among themselves. Yet only five of these FTAs include the United States, and labor, environment and other provisions in most of them are far less effective than they should be. We would all be better off if we used APEC more aggressively to transform this "noodle bowl" of agreements into an APEC-wide Free Trade Area of the Asia-Pacific.

Beyond the trade and investment issues at its core, APEC provides its members a chance to engage on other matters of importance, from climate change and human security to disaster management. This year, for example, APEC will seek to further the G-20 response to the global financial crisis. And on the way to and from APEC, America's first Pacific President will have the chance to visit Japan, China and Korea for summit meetings.

In my view, APEC remains vital to America's interests in the Pacific Rim. Today's witnesses are the U.S. Government's two leading figures in formulating of American participation in APEC. I look forward to working with them both in coming months and years to help ensure APEC's continuing promise is fulfilled.

Mr. MANZULLO. Thank you, Mr. Chairman.

First of all, I want to express our deepest condolences to you and the good people of American Samoa for the immense pain and suffering caused by the recent Pacific tsunami. Obviously, our thoughts and prayers are with the fine people there. And we sincerely hope the road to recovery can begin as soon as possible.

Thank you for the opportunity to have this hearing. We have a situation where APEC members account for almost half of all international trade. They have a population of 2.7 billion people. This is obviously an extraordinarily large market for American good and services.

The 16th Congressional District, which I have the opportunity to represent, has in excess of 2,000 manufacturers, making everything from paper boxes to iron foundries and metal stamping to custom gears. One out of four people in the largest city of Rockford, Illinois, are directly involved in manufacturing. So strengthening APEC is an important part of enhancing U.S. exports. In fact, last year, Illinois companies exported more than $33.5 billion worth of goods.

Mr. Chairman, I look forward to the hearing. And I would ask that the rest of my opening statement be made part of the record.

Mr. FALEOMAVAEGA. Without objection.

[The prepared statement of Mr. Manzullo follows:]

**COMMITTEE ON FOREIGN AFFAIRS**
**SUBCOMMITTEE ON ASIA, THE PACIFIC, AND THE GLOBAL ENVIRONMENT**
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

**Donald A. Manzullo (IL-16), Ranking Member**
**Opening Statement**

October 14, 2009

Mr. Chairman, thank you for holding this important hearing regarding the future of the Asia-Pacific Economic Cooperation (APEC) forum. The importance of the Asia-Pacific region to health and wellbeing of the global economy cannot be understated. APEC stands at the center of Asia's economic cooperation, and the United States has an important role to play in this region.

I urge the Obama Administration to its utmost to harness the full potential of APEC to help boost American exports to Asia. The total size of APEC illustrates the importance of this organization for America. For example, APEC members account for approximately 45 percent of all international trade, and it has a population of over 2.7 billion people. This represents an enormous market for American goods and services. It is the only multilateral organization in Asia that meets annually at the presidential level, and the only organization besides the World Trade Organization that includes both the People's Republic of China and Taiwan as members. In fact, APEC is the only Asia-based organization that the U.S. participates in as a full member.

Boosting America's competitiveness overseas is one of the most important jobs that I have as a representative serving the hard working people of the 16th Congressional District of Illinois. The 16th District has over 1,300 manufacturers making everything from paper boxes to iron foundries and metal stamping to custom gears. The vast majority of these manufacturers are small businesses and they are doing their best to stay competitive. I have dedicated my

entire service in Congress to promote products made in America and to keep jobs at home. Strengthening APEC is an important part of enhancing U.S. exports. For example, Illinois companies exported more than $33.5 billion worth of goods to APEC countries in 2008. This represents an amazing growth rate of over $14 billion from 1999 to 2008. I want to see this trend continue.

Earlier this year I introduced an amendment to the State Department Authorization bill (H.R. 2410) that directs the Department to do more to assist small and medium size businesses seeking to participate in APEC. Since small size businesses are the core drivers of the American economy it is only proper for the Administration to do its utmost to help them get the most out of APEC. Thus, I am interested in hearing more from our distinguished witnesses regarding their efforts to help small businesses at APEC.

With the U.S. poised to host APEC in 2011 there remain a number of questions yet to be answered regarding the Administration's plans for the event. While 2011 seems a long ways away, the reality is that a large event such as APEC requires significant long-term planning. For example, what are the costs associated with hosting APEC? What are the prospects for an APEC Travel Card program to be in place and operational by 2011? Will the U.S. seriously consider the Trans-Pacific Partnership as a model for future free trade agreements absent progress at the World Trade Organization?

This year APEC will celebrate its 20th anniversary and begins counting down in earnest to 2011 when the U.S. hosts APEC. I urge the Administration to reach out to Congress as early as possible to build support for this important event. I thank the witnesses for being here today, and I look forward to their testimony.

Mr. FALEOMAVAEGA. I also would like to give an opportunity to our other distinguished colleagues who are with us, if they have an opening statement.

Mr. SHERMAN. Yes, Mr. Chairman?

Mr. FALEOMAVAEGA. The gentleman from California, Mr. Sherman.

Mr. SHERMAN. First, I want to join the gentleman from Illinois in expressing my concern and solidarity with the people of American Samoa at this time. Just last week, I had the opportunity to attend a meeting called by the subcommittee on the condition in American Samoa, even knowing that the chairman had critical things to do in American Samoa and could not attend.

The second point I would like to make is that the United States will be hosting the APEC conference in 2011, and I hope that we will host it in Los Angeles. Not only do the ports of Los Angeles and Long Beach handle over 40 percent of all cargo containers entering the United States, but they handle close to 80 percent of the cargo containers entering or leaving the United States going to the Pacific and going to the APEC region. I don't think any other place in the United States comes close.

Finally, I would like to comment about our trade with the APEC region, which I hope you will not hold against my home city, but I am very concerned about the trade deficit we have with that region. I do not believe that that trade deficit stems from a fair application of free-trade principles, and nor do I think that we can achieve free trade by closing our eyes to the actions taken by others and refusing to take any aggressive action on ourselves and then turning to anyone who does want to be aggressive and say, "Oh, you just don't understand the benefits of free trade." I do understand the benefits of free trade. We do not have trade with many of the members of APEC.

I would hope that you, before your next interaction with the APEC representatives from China, will take a look at the hearing that Ranking Member Royce and I of the Terrorism, Nonproliferation, and Trade Subcommittee did that focused on the outrageous and illegal actions taken by China that affect those Americans doing business in China. I hope that you would look at the field hearings done by the full committee, held in the San Fernando Valley, where we focused on the gross abuse of intellectual property in China.

And so, not only do we have this enormous trade deficit with the region, and with China in particular, but it stems again and again and again, when you peel away the veneer, from unfair practices.

The best illustration of this, though, is the fact that, because of the Chinese system, we can never know what happens. Because here in the United States, if the Federal Government is going to affect purchase decisions, it does so only through printed regulations and statutes and tariff statues, et cetera. Whereas, in China, the government can control the decision of businesses without ever publishing anything. And then people can come to us and say, "Oh, it is a level playing field." It is a level playing field if you ignore every unpublished document and every unpublished oral statement.

But if I call somebody in my district and say, "Hi, I am a Congressman; I think you should buy the American product, not the Chinese product," they will either giggle at me or they will hold a press conference saying, "Congressman trying to intimidate local business." Since I have no capacity to intimidate them, I think they would giggle.

Imagine a Chinese company. They can be instructed by the government not to buy, because the government sits on their board. But if that isn't sufficient, they can call an individual business person and say, "Sir, we know you won't buy the American product because we look at your curriculum vitae and we see you are well-educated. We would hate to think you need re-education."

So any oral statement like this, we can see the results of. We can never bring any action because it is an oral statement over the phone and we never know what happened. What we do know is that the results are horrendous for the American people and are getting more horrendous every year.

I know, during this recession, the degree to which we are being destroyed is not at the same high rate as 2 years ago, but every year we pile up an international debt that is enormous. And I hope that APEC is an opportunity for us to demand a system that gives us balanced trade. And the only way you are going to do that is to threaten or actually deny access to the U.S. market to those who use both detectable and nondetectable methodologies to give us unbalanced results.

So I hope that you will take a look at those two hearings, and I believe I have one other that I will send to you. You have a lot of reading ahead.

Thank you very much.

Mr. FALEOMAVAEGA. I thank the gentleman for his comments.

And, at this time, I would like to turn the time to the gentleman from California, Mr. Royce, for his opening statement.

Mr. ROYCE. Thank you, Mr. Chairman.

And I want to welcome Mr. Tong. I very much appreciated your availability to Members of Congress when the American journalists were held in North Korea for those many months. We appreciate that. Thankfully, that has been resolved.

As we will hear from our witnesses today, APEC is certainly looming in terms of importance to the United States. It is the only economic group where we have a seat at the table in one of the world's most important economic regions. Five of our top seven world trading partners are APEC members, so, certainly, this forum holds great importance for the United States.

But if we are going to be taken seriously at APEC, it would be prudent not to ignore the second-largest trade agreement ever negotiated by the United States, and that is the Korea-U.S. Free Trade Agreement. Both governments, not to mention one of our witnesses, labored for months to get this deal done. And I think turning our backs on KORUS, as we are, is a huge slight to our ally, to South Korea, not to mention a missed economic opportunity.

By all measures, the trade agreement negotiated by the past administration and the Roh government helps both countries. The United States gets better access to South Korean markets; South

Korea gets assurances that its favorable U.S. market access will continue.

By one estimate, the KORUS FTA would increase trade $20 billion—that is from $80 billion to $100 billion—between our two countries. And still there are few amongst the majority that are calling for this agreement to be ratified; fewer still among the leadership.

Despite these sentiments in Congress, Asia is changing. China, not the United States, is now South Korea's largest export market. The European Union has completed a free-trade agreement of its own with South Korea. And India recently signed a trade agreement with South Korea.

And, in these agreements, I think the upshot is the United States loses. And what could be a win-win for the United States in South Korea instead has become a situation where South Korea is beginning to negotiate outside the U.S. market in terms of trade liberalization.

And I would hope that during your opening testimony or maybe later in your discussions you could comment on another thought. And that is, it is my understanding there have been over 500 public comments posted on the USTR Web site regarding the KORUS FTA. And I would just like to ask the witnesses what has been the general nature of these comments, have they largely been in support, and how does your office plan on responding to these comments?

And lastly, on the subject of China, I would just close with the observation that I think that our own Commerce Department has done an awful lot to lure United States investors into China, where they have subsequently lost their shirts. I can't tell you how many times those of us in southern California have heard about the lack of rule of law in Shanghai and Beijing and the consequences to U.S. investors. And I wish that these cheerleading sessions done by the Commerce Department weren't undertaken, because the upshot is the loss for investors. And, certainly, we are not teaching the rule of law to China.

I would suggest that an investor warning system, the likes of which myself and Congressman Brad Sherman, my colleague from California, have laid out the case for, would be championed by those who wish to see some change of conduct. Because the conduct that we are seeing out of China in no way reflects a nation that intends to embark upon adopting the rule of law. And the consequences are that they are undermining trade agreements around the world. Frankly, if they are allowed to get away with it, they are going to wreck the WTO.

And this requires action on our part when China violates the basic norms of international commerce and international law. And I think it is imperative that the U.S. begin to call them on it. And it is equally important that we quit the subsidization or the cheerleading in order to entice more United States investment into China when the consequences are so injurious.

I am familiar with different reports that have been done around the world, in terms of return on investment in China. Things look rosy until you try to get your money out. And I can't tell you how many times we have heard cases of the basic contracts being

changed. And if you attempt to defend yourself in Shanghai or in Beijing in any of these contracts and you are an American company or an American investor, it is a farce.

So those would be my observations. And I thank the chairman again for holding this hearing today.

Mr. FALEOMAVAEGA. I thank the gentleman for his comments.

And now the gentlelady from the State of California also, for her opening statement, Ms. Watson.

Ms. WATSON. Thank you, Mr. Chairman. And welcome back. And I do hope that the island nation that you come from is faring better than they were a few days ago. We certainly wish you well. And I think we sent down a lot of help and assistance, and you were there guiding that. So, thank you.

In 1994, in Bogor, Indonesia, APEC members agreed to voluntarily move forward free and open trade and investment in the Asia Pacific region by 2010 for developed nations and 2020 for developing nations. This vital 21-member organization accounts for 55 percent of the world's gross domestic product, 45 percent of global trade, 40 percent of the world's population, and among America's top trade partners.

However, APEC faces challenges. There are currently 70 bilateral and multilateral trade agreements being negotiated, in addition to the 210 trade agreements that already exist. The United States has been largely excluded from bilateral and multilateral trade agreements in the Asia Pacific region. Several Asia-only organizations have been established. The ways in which the U.S. can participate meaningfully in the region has been reduced.

As markets in Asia and the Pacific continue to grow, the demand for U.S. products will only grow, making APEC member markets and APEC a critical part of America's economic recovery. So I, too, want to be sure that we get to the time to do some agreements with, particularly, South Korea.

We were there a few months ago, and we hope to be able to get back together with them and come up with some kind of free-trade agreement. They are urging us to sit down and talk about it. As you know, we have not really had time, in terms of the priorities we have been dealing with, to think about our trade agreements.

So I look forward to hearing from our witnesses today, and I do hope this subject will come up again in your subcommittee, Mr. Chairman. Thank you.

Mr. FALEOMAVAEGA. I thank the gentlelady.

There seems to be a predominance of California members participating.

Ms. WATSON. I wonder why. I have all of Korea Town in my——

[The prepared statement of Ms. Watson follows:]

**Opening Statement**
***Congresswoman Diane E. Watson***
**Subcommittee on Asia and the Pacific and the Global Environment**
**Committee on Foreign Affairs**
**Wednesday, October 14, 2009**
**2:00 p.m.**

***"The Future of APEC"***

**To our panelist, welcome to this timely hearing on the Asia Pacific Economic Cooperation (APEC). I am Congresswoman Diane Watson from California, in the place of Chairman Faleomavaega, who has been supporting American Samoa in the aftermath of the tsunami that hit late last month. He is currently on the floor supporting a resolution that mourns the loss of life caused by the earthquakes and tsunamis that occurred on September 29, 2009, in American Samoa and Samoa.**

**Now let us begin the task at hand, looking into APEC. In 1994, in Bogor, Indonesia, APEC members agreed to move toward "free and open trade and investment in the Asia-Pacific Region" by 2010 for developed nations and 2020 for developing**

**nations. Known as the Bogor Goals, this agreement called on APEC member states to voluntarily work toward the common goal of improving the economic condition of the Asia Pacific Region.**

**APEC is a 21 member organization that provides a forum for discussion for both developing and developed Asian Pacific nations. Combined, APEC members account for 55 percent of the world's gross domestic product, 45 percent of global trade, and 40 percent of the world's population. Looking at America's top seven trade partners, five are APEC members.**

**These Asian Pacific member nations are a vital and growing part of the US and global economies. While G-7 economies shrank by 3.5 percent in 2009, emerging Asian economies potentially grew by at least 5 percent. APEC markets import higher-value added goods from the US, such as electronics, chemical, and medical equipment. As markets**

**there continue to grow, the demand for US products will only grow, making APEC member markets a critical part of America's economic recovery.**

**However, APEC faces a variety of challenges. As said before, APEC is a voluntary organization. Goals and recommendation lack enforcement. APEC's Ad Hoc Policy Level Group on Small and Medium sized businesses has largely been ignored. There are currently 70 bilateral and multi-lateral trade agreements being negotiated, in addition to the 210 trade agreements that already exist. The US has been largely excluded from bilateral and multilateral trade agreements in the Asia Pacific region. Several Asia-only organizations have been established. The ways in which the US can participate meaningfully in the region has been reduced.**

**With the Bogor Goals 2010 deadline for developed nations quickly approaching, it is necessary to evaluate progress. Next's year conference in Japan provides a forum to assess progress and perhaps formulate a new agreement. APEC has traditionally offered support to multi-lateral trade agreements and has been a "player" in the policies of the World Trade Organization. APEC members recently called for an ambitious conclusion to the Dona Round by 2010. It also provides a forum for this new Administration to weigh in on its APEC policies.**

**APEC is becoming a stronger voice not only in the global economic arena, but also on a variety of issues. In the past, the US has encouraged APEC to consider security and climate issues because of their vital link to economic stability. However, in the face of the current global recession, some member nations wish to re-focus APEC on purely economic matters. In light of the Climate Conference in Copenhagen in**

**the next few months, it is unclear how the Administration will weave together environment and economic policies.**

**Thank you.**

Mr. FALEOMAVAEGA. But I again would like to give the opportunity for another gentleman from California for his opening statement, Mr. Rohrabacher.

Mr. ROHRABACHER. The "Pacific" part of the definition there in the title is very applicable, and that is why you see more Californians.

Let me just note that, first and foremost, I would like to identify myself with remarks dealing with concern about the people of Samoa and the terrible tragedy that they have suffered with the tsunami wave. Let us remember that at least half of Samoa—there is an American Samoa and a non-American Samoa—but at least half there are Americans. But our hearts go out to them, whether they are American Samoans or non-American. They suffered a great tragedy.

I remember visiting the islands with you, Mr. Chairman. Such wonderful people. And such a sad thing that they have had to go through such turmoil in their lives and loss of family and places to work, et cetera. We need to do everything we can to stick by them and to try to help them every bit as much as what we did to help the people of New Orleans, for example, when they suffered a natural disaster.

So my heart goes out to them, and I want to put that on the record.

About some of the points that have been made, I find myself in great consternation when I have to agree almost totally with everything my Democrat colleague, Brad Sherman, said in his opening statement. But I find his remarks and the remarks that were made by my friend, Mr. Royce, to be especially poignant and things that we should pay attention to.

My district includes both the ports of Los Angeles and Long Beach. And, as we know, such a huge percentage of our international trade comes through those ports. Unfortunately, what we are talking about is 10 percent of all the containers that go through the ports are going out of the ports, exporting something that is an American product. Ninety percent is what is coming in, especially coming in from the Asia Pacific region, especially from China.

And so I would suggest that that intolerable situation cannot be permitted to go on. The fact that we have been unwilling to negotiate the type of trade arrangements that would be mutually beneficial, rather than a transfer of wealth and knowledge and technology and investment, especially to China, speaks very poorly of

our Government. Our Government has not been representing the interests of the American people.

And what we have had, then, is a huge transfer of wealth and power, especially to China, at a time when China has not had one bit of liberalization of their political system. It is still the world's worst human rights abuser. Yet we permit this type of unfair transfer of wealth and trade and power to China at the expense of the American people. Over a 10-year period, that amounts to about $1 trillion of wealth transfer. There is no excuse for that.

Who is watching out for the American people? It is supposed to be us. And if we are not doing it and we are permitting that type of scenario to continue, yes, the American people will rise in a righteous anger and a justified anger that they are not being represented by their own government; that 90 percent of the containers coming through the ports are coming in, only 10 percent are going out.

That is after we have permitted the trade policies of China to thwart American products, but encourage Americans to transfer capital and investment to that country so that they can manufacture those items there instead of having to import them from our country. And then they end up exporting those items to our country. It is a double insult.

There are some real problems. We are going through some major changes. This great economic crisis that we are suffering will lead to dramatic changes in policy because the American people will demand it. And those on the other side of "Lake Pacific" have to understand government here is going to start changing its attitude toward the things we have been willing to accept in the past, because our people will not tolerate a major economic decline and suffering here while we permit policies to exist that are unfair to us and lead to this major transfer of wealth.

With that said, Mr. Chairman, I am looking forward to the testimony, hearing more details. Thank you very much.

Mr. FALEOMAVAEGA. I thank the gentleman from California for his comments.

First of all, I just want to note for the record that I deeply appreciate the sentiments and the concerns of my colleagues on the tragic disaster that occurred in my district recently.

We had an earthquake that took place approximately 120 miles south of Samoa. It was on the Tonga Trench. And the earthquake measured 8.3 on the Richter scale, producing a shockwave that traveled about 500 miles an hour.

And what made this disaster so unique was the fact that, for a period of 3 or 4 minutes, the earthquake caused a lot of tremors and shaking on the islands in the surrounding area, but it was only a matter of minutes, 5 or 10 minutes, that 20-foot tidal waves showed up.

I have seen tidal waves before in my life, and usually what happens is the water recedes, leaving the shorelines and the reefs totally dry. And sometimes you get a mistaken notion; you see fish flipping all over the place, thinking that it is okay to start picking up the fish, when, in fact, that is when the tidal wave is coming.

And the most tragic sense is that there was just simply no way that anybody could properly prepare for it. It is not like preparing

for a hurricane or a typhoon that you anticipate in a matter of hours. This took place in a matter of 15 minutes: The earthquake in 3 or 4 minutes, and then 7 or 8 minutes later the tidal wave shows up.

This is what made it very, I say, unique: Because I think it was because of the distance. It was such a short distance between where the epicenter of where the earthquake occurred and where the Samoan Islands are.

At any rate, I do want to deeply thank my colleagues for their expressions of concern. My people are in good spirits. I have so many different stories. I have had to attend several funerals in the process.

But one story that I thought was very interesting: We had one of the 75 Peace Corps volunteers that came from the United States. One gentleman came up to me and said, "You know, what is really unusual about your people, we are here supposedly to help you, and instead your people ask me if I need food, if I need water, if I need anything, so that they could take care of us rather than the volunteers taking care of the people."

But that is the nature of the Samoan people and their culture, wanting to make sure that, regardless of what happens to them, they will always be concerned for their neighbor and people who have been so kind to come and to render assistance and offer help for this.

And I do want to thank the President for his declaration on the area, and that the FEMA officials and various Federal agencies are there to give assistance. I do deeply appreciate the prayers and the faith of the American people.

And, as I have said earlier in my statement on the floor—it is the Chinese proverb—there are many acquaintances but very few friends. And I do count my colleagues truly as friends when the chips are down. And I can certainly also appreciate when tragedies like this happen in other Members' districts, and I can feel their pain and share their suffering and can understand that life goes on. And I deeply appreciate your comments and your expressions of concern.

For our hearing, we have two distinguished officials from the administration. And I deeply appreciate your taking the time for coming to testify before our subcommittee.

We have with us Mr. Kurt Tong, who is the acting U.S. senior official for APEC, managing all aspects of U.S. participation in that organization. Currently, he is the director of Korean affairs for the Department of State, where he is responsible for coordinating U.S. relations with both the Republic of Korea and the Democratic People's Republic of Korea.

Previously, he served as director of Asian economic affairs at the National Security Council from 2006 to 2008. Prior to that, he served as minister-counselor for economic affairs at the U.S. Embassy in Seoul where he promoted U.S.-Korea relations in the area of economics and trade policy and was involved in the launch of the free-trade agreement negotiations between the United States and South Korea.

Before arriving in Seoul, Mr. Tong was counselor for environmental, science, and health affairs at the U.S. Embassy in Beijing

from 2000 to 2003. He was a first secretary, covering macroeconomics and finance at the U.S. Embassy in Tokyo, and also a visiting scholar at Tokyo University. His early service experience included work at the Office of Japanese Affairs at the State Department.

Mr. Tong holds a bachelor's degree, magna cum laude, from the Woodrow Wilson School of Public and International Affairs at Princeton University. He also studied graduate-level economics at the U.S. Foreign Service Institute in Washington, DC.

The gentleman is fluent in both Japanese and Mandarin, is a member of the Senior Foreign Service and a recipient of the 2005 Herbert Salzman Award for Excellence in International Economic Performance awarded by the State Department for outstanding contributions in advancing U.S. international relations in the economic field.

With us also is the gentlelady, Wendy Cutler, who currently serves as Assistant U.S. Trade Representative for Japan, Korea, and APEC affairs. Ms. Cutler became Assistant U.S. Trade Representative for Japan, Korea, and APEC affairs in the Office of U.S. Trade Representative in June 2004.

In this capacity, she is responsible for developing and implementing U.S. trade policies toward Japan and Korea. In addition, she is responsible for developing and implementing the United States trade and investment agenda in the Asia Pacific Economic Cooperation forum.

Since joining USTR in 1988, Ms. Cutler has held numerous positions, including assistant U.S. trade representative for North Asian affairs, as well as for services, investment, and intellectual property. She was the chief U.S. negotiator for the U.S.-Korea Free Trade Agreement, which was signed on June 30, 2007.

She also negotiated bilateral agreements on a wide range of sectoral issues, including telecommunications, insurance, and semiconductors. She has extensive multilateral negotiating experience as a U.S. negotiator for the 1997 WTO Financial Services Agreement and the Uruguay Round Agreements on Rules of Origin and Import Licensing.

Ms. Cutler received her master's degree in foreign service from Georgetown University and her bachelor's from George Washington University.

So we are deeply appreciative to both of you for being here.

I just want to note a basic observation about APEC. It is my understanding two basic things that come out of the organization: One, it was never a formalized organization to the extent that it is structured like you would a WTO or others. It was more of, really, consultations. Whatever principles that we agreed upon in the Bogor, Indonesia, declaration, the principles that were outlined there for 2010 and 2020, again, were just principles, but it really bore no enforcement mechanism that nations had to comply.

But one positive aspect about APEC, according to my understanding, is that it was more of a forum which allowed member states or heads of state to conduct side meetings or agreements and whatever when they had the meetings.

I noticed that when we had the APEC meeting in Australia, it was a disappointment to some of the Members when our President

was there and then all of a sudden he left quickly without waiting there for the time that the meetings took place with the other countries. And there was a disappointment in other countries that our President had to leave so suddenly without being there for the extent of the meetings that took place in Australia. And I suspect that our President will be going to Singapore as a participant on this APEC meeting.

With that, the committee would like to hear the testimonies of our two distinguished witnesses.

Mr. Tong, would you like to begin?

**STATEMENT OF MR. KURT TONG, ACTING U.S. SENIOR OFFICIAL TO APEC, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE**

Mr. TONG. Thank you very much. I have submitted some written testimony.

Mr. FALEOMAVAEGA. Without objection. And any other related materials both of you submit will be made part of the record.

Mr. TONG. Thank you very much.

Thank you, Mr. Chairman, Representative Manzullo, and members of the subcommittee. It is an honor to appear before you today, along with my colleague and friend, Wendy Cutler of USTR, to talk about the Asia Pacific Economic Cooperation Forum, or APEC.

One month from now, President Obama will make his first trip to Asia since taking office and attend his first APEC leaders' meeting in Singapore. The meeting will mark APEC's 20th anniversary, as well as the beginning of an important 2-year period for U.S. economic relations with the Asia Pacific, one that starts with Japan hosting APEC next year and culminates with the United States hosting APEC in 2011.

Hosting APEC will be a tremendous opportunity for the United States to promote U.S. business and investment opportunities which will benefit American workers, farmers, and businesses of all sizes. It will also be an important opportunity for the United States to define a new 21st-century economic policy agenda for the Asia Pacific region.

I would like to discuss with you today why APEC is such a valuable asset to the United States and what we envision for APEC in the years ahead.

APEC is strategically important to the United States because it is the premier venue for economic engagement with the Asia Pacific region. The 21 APEC members account for 55 percent of world gross domestic product, 45 percent of global trade, and 40 percent of the world's population. Sixty percent of U.S. goods exports go to APEC economies. Five of America's top seven trading partners are APEC members.

APEC's role is particularly important in the current economic environment. Although nations on both sides of the Pacific have taken individual steps to respond to the economic crisis, President Obama has emphasized that concerted action is needed to get the global economy back on track and to pursue the reforms needed to protect against future crises.

APEC is unique because it has the tools to promote policies for long-term economic growth and ensure that all our citizens have

the opportunity to thrive in the global economy. It promotes free and open trade and investment and tackles such important issues as energy security, small-business development, and preparing workforces to be globally competitive.

APEC achieves this by emphasizing capacity-building and practical solutions that yield tangible benefits at low cost. These efforts are supported by U.S. foreign assistance contributions and our recent establishment of a technical assistance and training facility at the APEC secretariat.

I note that there has been a proliferation of pan-Asian institutions, with more being proposed. The United States does not want or need to be a member of every organization, and we support Asia's efforts at multilateral cooperation. But given the trans-Pacific nature of economic affairs, we believe that truly effective regional economic institutions must include members from both sides of the Pacific.

We also believe that these institutions must not only be a forum for high-level dialogue, but must also be geared toward producing tangible progress in addressing the challenges facing the Asia Pacific region. On the economic front, we believe APEC provides the best, most established mechanism for practical cooperation and action.

Mr. Chairman, with Japan and the United States hosting APEC back to back, we have a unique opportunity over the next 2 years to take APEC's work to the next level. To this end, we are lining up major priorities and themes for 2010 and 2011.

First, concerning APEC's trade and investment agenda, I will defer to Wendy Cutler to address this issue in detail. But I would note America risks becoming disadvantaged economically if we do not participate in the process of economic integration that is already under way in the region.

Second, APEC can and should contribute to the promotion of global economic recovery. With half of the G–20 being APEC members, APEC has an important role in supporting and implementing G–20 efforts to spur economic recovery and growth. The G–20 and APEC can reinforce one another and lead to the best results possible in a critical region.

APEC is already leading efforts to prevent future crises and improve the region's business environment, including by improving corporate governance and promoting regulatory reform. APEC has also launched an initiative to make it faster, cheaper, and easier to do business in APEC economies, covering such areas as starting a business, obtaining credit, and efficient conduct of trade.

Third, we are working with APEC members on robust efforts to promote balanced, sustainable, and inclusive growth.

Regarding balanced growth, we see APEC reinforcing the G–20's pledge to establish a pattern of global growth that is more balanced by region and less prone to destabilizing booms and busts.

Regarding sustainable growth, we see an increased role in energy security and green development. APEC members are examining ways to promote greater energy trade and investment, liberalize trade and environmental goods and services, and foster development of new energy sources and advanced technologies.

Finally, regarding inclusive growth, APEC seeks to ensure that all citizens have the opportunity to thrive in the global economy. This includes fostering more adaptable workforces and greater investment in education and worker training.

Finally, the United States believes that APEC can make a vital contribution to human security, ensuring the resiliency of economies against a multitude of threats. This means, for example, enhancing food and product safety; bolstering regional food security; protecting the region's financial and trade systems from terrorist attack and abuse; and enhancing disaster preparedness.

With the recent natural disasters in Samoa and Southeast Asia, I want to especially highlight APEC's work on disaster preparedness. APEC is fostering closer collaboration among regional emergency management agencies; examining the impact of climate change on disaster management; and helping schoolchildren prepare for disasters. Going forward, APEC will continue to strengthen public-private partnerships and capacity-building for emergency preparedness.

I would like to conclude by underscoring the Obama administration's commitment to the Asia Pacific region. The United States brings tremendous capability and creativity to bear on the enormous challenges that the region and the world face today.

By hosting APEC in 2011, we have an opportunity to set the agenda for the Asia Pacific region. Of course, the administration cannot realize this vision without the strong support of Congress. I look forward to consulting closely with you on how APEC can further meet the needs of the American people and make APEC 2011 a success for our country.

Thank you for this opportunity to testify, and I look forward to answering your questions.

[The prepared statement of Mr. Tong follows:]

**Testimony of Kurt Tong, Acting U.S. Senior Official for APEC**
**"The Future of APEC"**
**House Foreign Affairs Subcommittee on Asia, the Pacific and the Global Environment**
**October 14, 2009**

Thank you, Mr. Chairman, Mr. Manzullo, and Members of the Subcommittee. It is an honor to appear before you today, along with my colleague and friend Wendy Cutler of USTR to talk about the importance of the Asia Pacific Economic Cooperation forum, or APEC, for U.S. engagement in the Asia-Pacific region.

One month from now, President Obama will make his first trip to Asia since taking office and will attend his first APEC Leaders Meeting in Singapore. His attendance at the meeting demonstrates and reinforces America's strong ties with the Asia-Pacific region.

This event will mark APEC's 20th anniversary, as well as the beginning of an important two-year period for U.S. economic relations with the Asia-Pacific – one that starts with Japan hosting APEC next year and culminates in the United States hosting APEC in 2011, the first time that our nation has hosted the forum in 18 years. Hosting APEC will be a tremendous opportunity for the United States to promote U.S. business and investment opportunities, which will benefit American workers, farmers and businesses of all sizes. It will also be an important opportunity for the United States to define a new, 21st century economic policy agenda for the Asia-Pacific region.

I would like to discuss with you today why APEC is such a valuable asset to the United States, and what we envision for APEC in the years ahead.

**Why is APEC important?**

APEC is strategically important to the United States because it is a primary venue for multilateral engagement with the Asia-Pacific on economic and other key interests. APEC's growing economic importance is clear. The 21 APEC members account for 55 percent of world GDP; 45 percent of global trade; and 40 percent of the world's population. Sixty percent of U.S. goods exports go to APEC economies. Five of America's top seven trade partners are APEC members.

Moreover, the Asia-Pacific economies are leading the global recovery, with recent forecasts suggesting that emerging Asian economies could grow by at least 5 percent in 2009 while the G-7 economies contract by 3.5 percent.

APEC is the only forum in the region that meets annually at the head of state level and includes the United States, providing our country a crucial opportunity to lead as a full member of the Asia-Pacific region. APEC brings together senior and working level officials, including from both China and Taiwan, several times every year to tackle an array of important issues in practical ways. APEC's partnership with the region's private sector – including many of its leading companies – ensures that its initiatives are focused, constructive, and of tangible benefit to U.S. businesses.

APEC's role is particularly important in the current economic environment. Although nations on both sides of the Pacific have taken individual steps to respond to the economic crisis, President Obama has emphasized that concerted action is needed to get the global economy back on track and to pursue the reforms needed to protect against future crises.

APEC is unique in that it already has the tools and focus to ensure regional economic prosperity by promoting policies that will spur long-term economic growth, and ensure all our citizens have the opportunity to thrive in the global economy. It promotes free and open trade and investment, and initiatives to build healthy and resilient economies by tackling such issues as energy security, food security, and preparing workforces for an increasingly competitive global economy.

I note that there has been a proliferation of pan-Asian institutions such as the ASEAN+3 process and the East Asia Summit. The United States does not want or need to be a member of every organization, and we support Asia's efforts at multilateral cooperation. But given the trans-Pacific nature of economic affairs in the region, we believe that effective regional economic institutions must include members from both sides of the Pacific. We also believe that truly effective institutions must not only be a forum for high-level dialogue, but they must also be geared toward producing tangible progress in addressing the challenges facing the Asia-Pacific region. On the economic front, we believe APEC provides the best and most established regional mechanism for practical cooperation and action, in no small part because the United States is an active and contributing member.

**The APEC Agenda**

Mr. Chairman, we have a unique opportunity over the next two years to advance APEC's work and take APEC to the next level.

Our friend and ally Japan will host APEC in 2010, followed by the United States in 2011. There is much that our two economies hold in common, in terms of our vision for APEC and the future of the Asia-Pacific. Both the United States and Japan are already working closely to coordinate and reinforce our host year priorities. Our combined leadership gives us two solid years to shape a strong agenda that would ensure long-term, sustainable, and inclusive prosperity in the Asia-Pacific region.

There are several major priorities and themes that are shaping up for 2010 and 2011:

First, concerning APEC's trade and investment agenda, which is at the heart of APEC's efforts and ambitions, it is critical that the United States remain a leader in strengthening economic integration in the Asia-Pacific. This will lead to more exports for our competitive goods and services, and thus more jobs for Americans. I will defer to my colleague Wendy Cutler to address this issue in detail, but I would note that America risks becoming disadvantaged economically if we do not participate constructively in the process of economic integration that is already underway in the region. By utilizing the tools and opportunities provided by APEC, we can ensure that our country will continue to be a part of the dynamism of the Asia-Pacific in a way that benefits American workers and entrepreneurs.

Second, and closely related, the United States can and should bolster APEC's contributions to the promotion of global economic recovery. With almost half of the G-20 being APEC members, the United States believes that APEC has an important role to play in supporting, reinforcing, and implementing G-20 principles for global economic recovery and future economic growth. This includes the pledge to avoid protectionist measures that would only exacerbate economic distress. We look to APEC to continue to be a strong voice in support of an ambitious and balanced conclusion to the WTO Doha Round Negotiations.

The G-20 and APEC can co-exist and reinforce each other through coordination and cooperation. Like passing a baton back and forth, efforts made in the G-20 can be backed up and emphasized in APEC, while APEC can help forge and influence global consensus in the G-20. In addition, APEC can support the work of the G-20 by undertaking practical implementation of the G-20's principles and goals, including in such niche areas as energy efficiency, food and product safety, disaster preparedness, and public health.

APEC is already leading efforts to facilitate reforms that will prevent future crises and improve the business environment throughout the region. Reform efforts include initiatives aimed at improving corporate governance and promoting regulatory reform. APEC is also using the World Bank's "Ease of Doing Business" indicators to spur progress on making it faster, cheaper, and easier to do business in APEC economies, covering such areas as starting a business, obtaining credit, the efficiency of conducting trade, and enforcing contracts.

Third, we are working with APEC members on robust efforts to promote "balanced, sustainable and inclusive" growth. Each of these calls for some explanation.

Regarding balanced growth, at the recent G-20 Summit in Pittsburgh, President Obama and other G-20 Leaders pledged to work together to establish a pattern of growth across countries that is more balanced and less prone to destabilizing booms and busts. APEC can play an important role in implementing this commitment, leveraging both its economic clout – including nine G-20 countries – and a diverse membership that includes economies with sustained external surpluses as well as those with sustained external deficits. APEC provides a forum for leaders of these economies to coordinate on macroeconomic, financial and structural policies that will promote strong and balanced global demand, led by thriving private sectors.

Regarding sustainable growth, including efforts to stem the impact of climate change we see an increased role for APEC in advancing energy security and "green" development. The challenge of how to achieve both significant greenhouse gas reductions and strong economic growth is particularly acute in the Asia-Pacific region. The APEC region accounts for over half of global energy consumption and demand is predicted to continue rising rapidly. APEC members are already examining ways to promote greater energy trade and investment, as well as foster development of new energy sources and advanced technologies. There is a lot of opportunity for Japan, a recognized leader in energy efficiency, and the United States to advance this issue further within APEC. Progress on liberalizing trade in environmental goods and services is also a high priority in this area.

Under the rubric of inclusive growth, which refers to efforts to ensure that all of our citizens have the opportunity to thrive in the global market economy, initiatives in APEC will include efforts to create more adaptable workforces, flexible labor markets, well-designed social safety net programs, and investment in education and training. We see APEC putting more emphasis on the importance of fostering an environment conducive to innovation as a critical ingredient for economic growth, such as promoting green technologies, fostering digital prosperity through the use and development of information and communications technologies, and cultivating an educated workforce for sustaining a knowledge-based economy. Inclusive growth also means creating an environment that encourages entrepreneurship and development of new ideas, including though enhancing access to credit, including microfinance, and fostering the development of small businesses.

Finally, the United States believes that APEC's "human security" agenda can make a vital contribution to ensuring the prosperity and resiliency of societies against a multitude of threats.

For example, with active U.S. leadership, APEC has established a strong, internationally-recognized public-private partnership to enhance food safety that provides critical training to growers, manufacturers, and government regulators. APEC also has initiatives aimed at improving toy safety and cracking down on counterfeit drugs and medical devices.

In the wake of the spike in food prices in 2008 and long-term challenges to the regional food supply, the United States led efforts to update and strengthen APEC's food security agenda. Japan plans to make food security a major priority next year, which includes hosting an APEC ministers-level meeting on the issue in October 2010.

With the recent natural disasters in Samoa and Southeast Asia, I want to highlight APEC's work on disaster preparedness. APEC is fostering closer collaboration among regional emergency management agencies, examining the impact of climate change on disaster management, and helping school children prepare for disasters. Going forward, APEC will continue to strengthen public-private partnerships and capacity building for emergency preparedness.

APEC is also working to protect the region's financial and economic system from attack and abuse by terrorists. This past year, for example, APEC sponsored initiatives on combating terrorist financing; protecting the food supply from terrorist contamination; and exploring ways to quickly revive trade in the aftermath of a terrorist attack. The United States is also leading new APEC initiatives to enhance air cargo security and better protect port facilities.

**Commitment to the Asia-Pacific and to APEC**

Mr. Chairman – I would like to conclude by underscoring the Obama Administration's clear commitment to the Asia-Pacific region. Secretary Clinton's first trip abroad was to Asia. And as I indicated earlier, President Obama has announced his intention to attend the APEC Leaders Meeting in Singapore in November.

The United States brings tremendous capability and creativity to bear on the enormous challenges that the region – and the world – faces today. In hosting APEC in 2011, we have an

opportunity to advance a 21st century economic agenda for the Asia-Pacific region. It is an agenda that promotes reforms that will bring about greater, more inclusive, and more sustainable economic growth.

But we cannot realize this vision, nor can we confront challenges, alone. By working together as a community with other APEC members to substantively and tangibly address these and other issues, we can achieve greater growth and prosperity in the Asia-Pacific region for years to come.

Of course, the Administration also cannot realize this vision without the strong support of Congress. I look forward to consulting closely with you and your colleagues on how APEC can further meet the needs of the American people and how we can make APEC 2011 a success for our country.

Thank you for this opportunity to testify before you this afternoon. I look forward to answering your questions.

Mr. FALEOMAVAEGA. Thank you, Mr. Tong.

Unfortunately, we have a series of votes, as I am sure both of you are aware. I just wish there was a better way of organizing these votes, but we do have a series of them. And one of the pieces of legislation is in reference to the resolution concerning my own district.

So, if it is all right with both of you, we need a little delay in our hearing for about 15 or 20 minutes, and then we will be back. I deeply apologize for this, but that is the reality that we are faced with here in the Congress.

The committee hearing will be delayed for 20, 25 minutes. All right? Thank you.

[Recess.]

Mr. FALEOMAVAEGA. While my colleagues continue to vote, I would like to continue the subcommittee hearing at this time.

We have just completed the testimony of Mr. Tong and we will now turn to Ms. Wendy Cutler for her testimony.

## STATEMENT OF MS. WENDY CUTLER, ASSISTANT UNITED STATES TRADE REPRESENTATIVE FOR JAPAN, KOREA AND APEC AFFAIRS, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Ms. CUTLER. Thank you, Mr. Chairman, for convening this hearing today. I think I was here about 2 years ago when you held your last hearing on APEC and I continue to applaud you and the subcommittee putting the spotlight on APEC.

The Asia-Pacific region is a significant part of the global economy and has become a driver of world economic recovery and growth. In your opening remarks you underscored the importance of the Asia-Pacific economies for global GDP and global trade. And instead of going through these figures I just want to add that the significance of APEC economies as U.S. export markets—as U.S. exports to these economies have tripled over the past 15 years and now account for 60 percent of all U.S. sales abroad.

Along with the opportunities that this region presents for the United States, there are also challenges. As the developments in regional economic architecture in the Asia-Pacific is moving toward the creation of Asia-only groupings, the United States will increasingly be left out of key decisions. Further, the continued proliferation of free trade agreements in the Asia-Pacific—there are already over 150 agreements in place with about another 70 being negotiated—have gone on without the United States.

Just this past week, of recent note, there has been an announcement by China, Korea, and Japan to begin exploring a trilateral free trade pact, and tomorrow Korea and the European Union will be initialing a groundbreaking comprehensive FTA. APEC is the only regional grouping in which the United States is a member. Therefore, our strong and active participation in this organization provides us with a unique opportunity to play a leadership role in this region.

APEC has a number of other unique characteristics that make it critical to the United States trade and economic agenda. First, the region has benefited greatly from trade and, as a result, APEC members are open to initiatives that lead to further open markets. Second, the nonbinding voluntary nature of APEC often allows economies to be more forward-leaning on issues that would be difficult to reach consensus in other fora such as the WTO. Third, APEC is a flexible institution which allows it to take on more pressing and new cutting-edge 21st issues as they emerge. APEC's members include major economies such as China, Korea, Russia, and Japan, but also key developing economies as well as ASEAN. And, finally, APEC is the only such regional grouping to have members from both sides of the Pacific.

The Obama administration views our hosting APEC in 2011 as a critically important opportunity to take advantage of these unique strengths of APEC to push forward a bolder vision to promote economic recovery and growth and further strengthen regional economic integration in the region.

In preparation for our host year, we have been pursuing a forward-leaning agenda in 2009, including through initiatives that will serve as building blocks for more ambitious outcomes in 2010 and 2011. As my colleague, Kurt Tong, highlighted, APEC has been instrumental in building support and endorsing G–20 outcomes.

APEC continues to work to support the multilateral trading regime and the Doha development agenda specifically. In July APEC Trade Ministers called for an ambitious and balanced conclusion to the Doha Round and called on the establishment of senior officials process that is currently underway in Geneva.

Accelerating efforts to strengthen regional economic integration remains at the core of APEC's mission. And to this end, the United States has emphasized making substantive progress in key trade and investment issues as a way to address specific barriers to doing business in the region. For example, the United States, along with Australia, has launched an initiative to promote trade and services, is taking steps to facilitate trade in information and communications technology, and is examining ways to reduce or eliminate barriers to trade and investment in environmental goods and services. Making it cheaper and easier for companies and particu-

larly for small- and medium-sized businesses to operate in the region is also one of the priority areas in APEC.

APEC is working on simplifying and making trade documentation and procedures more consistent and transparent among APEC economies and is working to make information on tariff rates, rules of origin, and other customs-related information more accessible.

As Singapore's host year approaches its conclusion, we are working closely with Japan to build on this work in 2010 and 2011. As part of that contribution, we will be contributing to Japan's effort to assess whether the Bogor Goals agreed to in 1994 of free and open trade in the Asia-Pacific region have been achieved.

Since 1994 APEC's commitment to free and open trade and investment has resulted in tremendous economic growth, reduction of trade barriers, and lifting millions out of poverty. And as a result, we are looking forward next year to telling a positive story on the role APEC has played toward reaching the Bogor Goals.

Another priority for us going into 2010 and 2011 will be focusing on how APEC's overall trade and investment agenda benefits small- and medium-sized enterprises. This will be part of USTR's recently announced larger effort to bolster trade opportunities for SMEs in recognition of how highly important these companies are to our economy. We will be looking to further help SMEs by seeking to simplify complex and divergent trade rules and reduce transaction costs. We will work to ensure that the benefits of economic recovery and growth in the region are extended to businesses of all size, and we will also focus on making it easier to start a business in the region.

Finally, in 2010 and 2011, we will continue to work closely with all stakeholders, including Congress and this subcommittee, to ensure that the APEC agenda contains a well-rounded, relevant, ambitious and inclusive set of priorities. Within the United States, we have a longstanding and close working relationship with the National Center for APEC, which will be even more important as we prepare for hosting in 2011. Congressional input and support will be critical, and we are encouraged by the interest of this subcommittee as well as the work of the House Caucus for APEC under the leadership of Representatives Brady, Larson, Crowley, and Herger.

In conclusion, I want to thank you for holding this hearing and remind everyone that in 1993 when the United States last hosted APEC, it was a relatively new forum with only 14 members; yet, in recognition of the potential value of the organization, the United States instituted a meeting at the heads-of-state level where, for the first time an Asia Pacific vision of stability, security, and prosperity for our peoples was outlined. We hope that in 2011 when we host again, we will use this opportunity to once again break new ground and put APEC in the forefront of Asia-Pacific economic integration and cooperation. Thank you.

Mr. FALEOMAVAEGA. Thank you very much.

[The prepared statement of Ms. Cutler follows:]

**Written Testimony of**
**Wendy S. Cutler**
**Assistant U.S. Trade Representative for Japan, Korea and APEC Affairs**

**Hearing on "The Future of APEC"**
**House Committee on Foreign Affairs' Subcommittee on Asia, the Pacific, and the Global Environment**

**Room 2172, Rayburn House Office Building**
**Wednesday, October 14, 2009, 2:00 p.m.**

Mr. Chairman and Mr. Manzullo, thank you for convening this hearing today. I am Wendy Cutler, Assistant U.S. Trade Representative for Japan, Korea, and APEC Affairs. I greatly appreciate this opportunity to provide testimony on the Asia-Pacific Economic Cooperation (APEC) forum, and its importance for U.S. economic and trade engagement in the Asia-Pacific region.

The Asia-Pacific region is a significant and growing part of the global economy. With its dynamic economies, technological sophistication, increasingly skilled workforces, and commitment to openness, the Asia-Pacific has become a driver of global economic recovery and growth, and will continue to play this role in years to come. Today, the 21 APEC economies account for over half of global GDP, roughly 45 percent of international trade, and are home to 2.7 billion consumers. APEC economies are also important markets for the United States, with U.S. exports to the region having tripled over the last 15 years and now accounting for 60 percent of all U.S. exports. U.S. exports to the region also trend towards the higher value-added goods and services, such as electrical and other machinery, aircraft and parts, medical equipment, chemicals, and knowledge-based business, professional, and technical services.

Along with the potential benefits that this region presents to the United States, there are also challenges that we have to meet. For one, over the past decade, the region has seen the establishment of several Asia-only organizations, including the ASEAN+3 (ASEAN plus China,

Japan, and Korea) and the ASEAN+6 (ASEAN +3 plus Australia, India, and New Zealand), with others having been proposed. The concern is that these Asia-centric organizations will decrease the ability of the United States to participate fully in the evolving economic architecture of the region.

Another challenge is the proliferation of bilateral and plurilateral free trade agreements (FTAs) in the region. According to some estimates, there are about 70 such agreements currently being negotiated by countries in the Asia-Pacific, including deals between Japan and India, Chile and Vietnam, and Korea and Australia. This is on top of the over 150 FTAs that are already in place. Given that the United States has only five deals in effect with economies in the region (i.e., Australia, Chile, NAFTA, Peru, and Singapore), we are being largely left out of this growing trend. Furthermore, many of these FTAs are of a lower standard, provide substantial carve-outs for sensitive products, and only lock-in existing market access through preferences. In addition, many of these agreements have either weak or no labor and environmental standards. The proliferation of these low-quality and less than comprehensive deals has the potential to distort trade and hamper the growth of high-standard, comprehensive trade agreements that ensure that the benefits of economic globalization are broadly and equitably shared.

U.S. engagement in APEC can play an important role in helping to capture the benefits presented by and address the challenges we confront in the Asia-Pacific. APEC is the only regional economic grouping in the Asia-Pacific, in which the United States is a member; therefore, this is the only organization where we can play a leadership role in addressing trade and investment issues that specifically impact this region.

APEC also has a number of other unique characteristics that make it critical to the United States' trade and economic strategy. First, the region has benefited greatly from trade. APEC members are consequently committed to opening markets and open to initiatives in this regard, as they are most likely to reap the benefits of maintaining free and open trade. Second, the non-binding, voluntary nature of APEC often allows economies to be more forward-leaning on issues that would normally be difficult to reach consensus on in other fora. Third, APEC is also a flexible institution, which helps it take on new and more pressing issues as they emerge, as well as

cutting-edge 21st-century issues. Fourth, APEC's members include major economies, such as China, Korea, Russia, and Japan, and key developing economies, like the ASEAN members, which means that the initiatives agreed in APEC carry significant weight. In addition, APEC is the only such regional grouping to have members from both sides of the Pacific.

This is an unusually important time for APEC – with hosts over the next several years – Singapore (2009), Japan (2010), and the United States (2011) – that are particularly focused on using this organization to further promote free and open trade and investment in the region. Although APEC has a number of strengths that make it important to this Administration's trade and economic strategy in the Asia-Pacific, as I have outlined, we view it in many ways as having untapped potential. The Administration views our hosting APEC in 2011, though, as a rare and important opportunity to push forward a bolder vision for APEC that will help promote economic recovery and serve to accelerate our efforts to strengthen regional economic integration in the Asia-Pacific. Our hosting in 2011 will also give us the chance to explain to American workers, families, and businesses the importance of the Asia-Pacific and the role that trade plays in promoting economic growth and creating jobs, as individual APEC meetings are held all around the country

In preparation for 2011, we have been pursuing a forward-looking agenda this year in APEC, including initiatives that we believe will serve as important building blocks for more ambitious outcomes in APEC during the next couple of years:

- APEC has been instrumental in expanding support for the G-20 response to the financial crisis. For example, in July, APEC Trade Ministers endorsed the G-20 pledge to extend through 2010 the commitment to refrain from raising new barriers to trade and investment in goods and services, imposing new export restrictions, or implementing WTO inconsistent measures in all areas. Since only nine members of the G-20 are APEC members, the extension of the G-20 commitments to all of APEC has a significant impact. We expect that APEC will similarly reinforce its support for the G-20 process at the APEC Ministers and Leaders meetings in November 2009.

- APEC has historically offered strong support to the multilateral trading regime. In July, APEC Trade Ministers called for an ambitious and balanced conclusion to the Doha Round at the WTO by 2010. Trade Ministers also called for the establishment of the APEC senior officials' process that is currently underway to "explore all possible avenues for direct engagement within the WTO." We expect that the Doha Round will also be a key agenda item at the APEC Ministers' meeting in November, which will take place shortly before the WTO Ministerial. In addition, APEC will continue to support the WTO negotiations to liberalize trade in environmental goods and services, including through identifying market-access barriers to these important technologies.

- Accelerating efforts to strengthen regional economic integration (REI) remains at the core of APEC's mission. To this end, the United States has emphasized making substantive progress in key trade and investment issues, as a way to address specific barriers to doing business in the region. For example, the United States, along with Australia, has launched a multi-year initiative to promote trade in services, is taking steps to facilitate trade in information and communications technologies, and as a contribution to APEC's sustainable growth agenda, is examining ways to reduce/eliminate barriers to trade and investment in environmental goods and services.

- Making it cheaper and easier for companies, and particularly for small and medium-sized businesses, to trade in the region is also one of the priority areas in APEC. APEC economies are working to further reduce trade transaction costs by five percent by 2010, following a similar reduction in 2006. APEC is also working on simplifying and making trade documentation and procedures more consistent across APEC economies, and has launched an initiative to improve the transparency and accessibility of tariffs, rules of origin, and other customs-related information. APEC has also recently launched a multi-year initiative to improve the regulatory environment for doing business in APEC. While the United States will focus on improving the ease of starting a business, other APEC economies will focus on making it easier to obtain credit, building trade capacity, and other issues beneficial to SMEs.

As Singapore's host year approaches its conclusion, we are working closely with Japan to build upon these various initiatives and agendas in 2010 and 2011 to ensure more ambitious substantive progress is made in key areas of the Administration's trade and investment agenda in APEC.

Cooperating with Japan will not only help us to ensure that APEC is successful in our respective host years, it will also provide opportunities to strengthen our engagement with Japan's new government. Additionally, our ongoing, detailed work with Japan on behind the border, market access issues can help to frame solutions that facilitate progress in APEC. For example, the new Japanese Government's emphasis on transparency may enable us to make further progress bilaterally with Japan and work side-by-side in APEC to promote common approaches to achieve greater regulatory transparency throughout the region. Intellectual property is another area of common interest, where our progress with Japan has set the stage for us to jointly promote new measures in APEC that encourage and protect innovation.

Also in 2010, we will be contributing to Japan's effort to assess whether the industrialized economies in APEC have achieved the Bogor Goals of "free and open trade and investment in the Asia-Pacific region". Approved by APEC Leaders in 1994 in Bogor, Indonesia, the Bogor Goals have provided APEC with guiding principles to liberalize and facilitate trade and investment in APEC. Since 1994, APEC's commitment to free and open trade and investment has resulted in tremendous economic growth in the region and lifted millions out of poverty. As a result, we are looking forward next year to having the opportunity to tell this story of 15 years of sustained trade and investment liberalization, and the role that APEC has played in that process. Building on the impressive progress APEC has made on liberalizing trade and investment will be a priority during our host year.

Another priority for us going forward into 2010 and 2011 will be examining how APEC's overall trade and investment agenda benefits small- and medium-sized enterprises (SMEs). This will be part of USTR's larger effort to bolster trade opportunities for SMEs, in recognition of how highly important these companies are to our economy. As Ambassador Kirk stated on October 5, "Small- and medium-sized enterprises are at the heart of employment and job creation

in the United States, and so the heightened focus on helping this sector is the right thing for the USTR to do." We will be looking to increase activities in APEC that will help SMEs by seeking to simplify complex and divergent trade rules, and reduce transaction costs.

In addition, as part of APEC's broader agenda on inclusive growth, we will work to ensure that the benefits of economic recovery and growth in the region are extended to businesses of all sizes. Many of the elements of inclusive growth now under discussion within APEC will have positive impact on SMEs. For example, the assurance of adequate social safety nets and investment in training and education will encourage entrepreneurship and foster innovation. We will continue to explore ways in which the APEC inclusive growth agenda can work in concert with our trade and investment liberalization agenda to further assist SMEs.

Finally, in 2010 and 2011, we will continue to work closely with all stakeholders to ensure that the APEC agenda contains a well-rounded and relevant set of priorities. An important element of APEC's success has been its mandate to engage the business community. The APEC Business Advisory Council (ABAC) plays an important role by providing its views and priorities to APEC officials throughout the year. Within the United States, we have a longstanding and close working relationship with the National Center for APEC (NCAPEC), which will be even more important as we prepare for hosting APEC in 2011. We will also be reaching out to other stakeholders, including Congress, in the lead-up to the United States' host year. Congressional input and support for APEC both before and during 2011will be critical to achieving our goals. We are particularly grateful for the interest of this Committee, as well as the work of the House Caucus for APEC, in this regard.

In conclusion, I want to thank you for the opportunity to explain the importance of the Asia-Pacific region to the United States, and the significance of APEC as a means to increase our engagement in the region as part of our overall economic strategy. The United States last hosted APEC in 1993, when there were only 14 members. This was the meeting when we elevated APEC to a Leaders' level organization. At that first APEC Leaders' meeting on Blake Island, Leaders' outlined for the first time an Asia-Pacific vision of "stability, security and prosperity for our peoples". This significant action helped to strengthen the still new organization and establish

its importance as a premier economic forum in the region. We hope that in 2011 we will once again use the opportunity of hosting APEC to break new ground and put APEC in the forefront of Asia-Pacific economic integration and cooperation.

Mr. FALEOMAVAEGA. I do have some questions and wanted to start our dialogue. If my own personal experience is symptomatic of how Washington has operated, I recall when I first became a member of this committee over 20 years ago, nobody wanted to be on the Asia-Pacific Subcommittee. The Asia-Pacific Subcommittee and African Subcommittee were neglected. The whole mentality, not only in the Foreign Affairs Committee, but Washington itself, was focused on Europe and the Middle East. As some observers have noted, we were still fighting World War II in Europe.

That seems to be the mindset of how Washington was, and I may be wrong, but that was my first impression when I became a member of this committee. I would say it has only been in the course of the last 3 or 4 years that this has changed dramatically. I can probably say that maybe before then, but I will say in my own personal experience, this has been the situation.

And I note with interest, Mr. Tong, you mentioned, and I want to emphasize again, the 21 APEC members account for 55 percent of the world's GDP, 45 percent of the global trade and 40 percent of the world population. Sixty percent of U.S. goods exports go to APEC economies. Five of America's top seven trade partners are APEC members. I think that in itself should give some striking understanding and appreciation of our relationship with the Asia-Pacific region or, for that matter, as a member of this organization.

I also note with interest, Mr. Tong, you mentioned that APEC is probably the only organization where we have the People's Republic of China and Taiwan as full members. As you know, in public forums regionally as well as even in the United Nations, there is every effort made by the People's Republic of China never, never to allow Taiwan to be an active participant. Yet in APEC's membership, this is taken very well in terms of how that situation is taken.

But I wanted to ask both of you—from both of your testimonies, I hear a lot of positives. But I would like to hear from you what are some of the downsides; or, you might say, are there problems with APEC in its current situation not just in terms of its operations but just in terms of are there serious problems? Even though you have given such a magnificent picture of how great APEC is, I would like to think that there are problems within APEC, and I would like to ask you if there are problems, I would like to hear from you. Or should I say "challenges," if that's a better way of saying it?

Mr. TONG. If I could go first, I was actually going to suggest we call them challenges because we certainly look forward to trying to address these problems or challenges in APEC.

I think I would like to mention two. One is the question of the level of ambition, and I think several members spoke to this, and the question of whether APEC is really living up to its full potential as an organization. Given the considerable importance of its membership, are we in fact doing all that we can do within APEC? And I think it is really—it is a question of whether the economies are looking for opportunities for results. And the United States I think is recognized within APEC as a leader in pushing for results-oriented approaches, agreements and commitments, which, if not binding by law, are binding at least in the sense of being commit-

ments that are being made in all seriousness and with the intention to fulfill them. That's an important question. I think that a critical question for 2010 and 2011 is: Can we, Japan and the United States, lead the economies of the region in trying to be as ambitious as possible within APEC?

To be honest, one difficulty that we face is the fact that the global economy is not doing well right now. It is a tougher environment for many of the economies to take on new challenges, but it is an important one to face.

Now, you suggested not going beyond APEC operations. There is also a challenge in terms of just how the nitty-gritty of the organization runs; that even in an organization as young as APEC, which has only existed for about 20 years, there is a tendency for things to become bureaucratic and stodgy in terms of how things are done. And I think that we are committed to try and make sure that the focus is on the results rather than the process and that APEC in its operations is efficient and speedy.

Mr. FALEOMAVAEGA. Ms. Cutler.

Ms. CUTLER. Well, I wholeheartedly agree with all the challenges that Kurt put forward, and I would just like to add two more. One, I think APEC could do a better job at setting its priorities and streamlining its work. I have worked on APEC now for about 6 years, and I still find there are different working groups I have never even heard of. A lot of times these groups are easy to establish, but they are hard to shut down. And also I think if you look at some of the statements that are put out after these meetings, there are pages and pages of different work programs. So I think setting priorities could help.

Second, I think we could do a better job with what I call follow-through or implementation on initiatives we have agreed on and arrangements we have endorsed. And this is an area that we are trying very hard to work on to make sure that if in 1 year an initiative is announced and APEC economies agree to the initiative, that next year we can have a discussion on follow-through and actually ask economies to present how they have lived up to these commitments—nonbinding commitments.

Mr. FALEOMAVAEGA. I notice that both of you have made comments of the fact that next year Japan is going to host the APEC conference and the following year the United States is going to host the conference. Does that sound like some kind of a conspiracy going on here with the two most powerful economies? It sounds like they want to dominate the APEC organization by having this little conspiracy going here.

I note with interest that you said that this is a golden opportunity for the United States and Japan to make APEC a more effective organization in terms of its trade and investment policies. Do you consider this as a grand scheme on the part of the United States and Japan to dominate APEC?

Mr. TONG. Well, I certainly hope that our partners, the other 19 economies in APEC, don't view this as a negative that Japan and the United States are hosting back to back. I think APEC has done very well in the years where the most capable economies or the wealthiest economies have led. It has also done very well in years

when developing economies have led APEC as the host, because they throw themselves into it with full enthusiasm and great vigor.

I think actually that the other economies look to the next 2 years with Japan—and also the current year with Singapore—but the next 2 years with Japan and the United States in the chair with anticipation; that they actually are looking forward to us helping set the direction and lead efforts and follow through.

Mr. FALEOMAVAEGA. Ms. Cutler, I hate to impose on you. Go ahead, please.

Ms. CUTLER. I would just add that the United States, we hosted in 1993; Japan hosted in 1995. It is kind of our turn again. Indonesia hosted in 1994 and they are going to be hosting again in 2013. So there is some logic to these hosting years.

Mr. FALEOMAVAEGA. I note with interest also that I am just curious; how do the economies of the Asia-Pacific region compare to the European Union and our trade relations with these two regions of the world? I don't have the figures in my hand, but I am just curious; is our trade with the Asia-Pacific region greater than the Europeans and Europe at this point in time? You can submit it as part of the record.

Mr. TONG. I will have to get back to you with the exact numbers but my impression is it is larger.

Mr. FALEOMAVAEGA. It is larger.

Mr. TONG. I think we said 60 percent of the exports go to Asia-Pacific economies so my hunch is that is the case, but I will check and make sure.

Mr. FALEOMAVAEGA. Don't we currently have about $600 billion in trade with the European countries?

Mr. TONG. They are also extremely important.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM MR. KURT TONG TO QUESTION ASKED DURING THE HEARING BY THE HONORABLE ENI F.H. FALEOMAVAEGA

U.S. trade with the Asia-Pacific is greater than with Europe.

In 2008, total U.S. trade with Europe in goods was $642 billion. If both goods and services are included, U.S.-Europe trade was roughly $953 billion.

In comparison, U.S. goods trade with APEC member economies, including Canada and Mexico, was $2.1 trillion in 2008. U.S.-APEC trade in both goods and services was $2.2 trillion in 2007, the latest year that we have data available for both categories.

Mr. FALEOMAVAEGA. I have some more questions, but I am very glad that I have my good friend and colleague here with us, the gentleman from California, Mr. Rohrabacher, for his questions. I will wait for the second round.

Mr. ROHRABACHER. Thank you very much.

Here we are in the middle of an economic crisis. The American people are justifiably asking some questions about economic policies that perhaps they weren't asking about before. So let me just go over some questions for you.

Have the rules of the trade game been unfairly tilted against the American people, especially concerning China, over these last 20 years?

Ms. CUTLER. With respect to China, it is really the rules of the WTO that govern our trade relationship with them, in addition to additional bilateral agreements that we have reached with them.

In our view, the rules—let us just say we are putting great emphasis on enforcing these rules and making sure that China like other WTO members lives up to its obligations.

Mr. ROHRABACHER. So your answer is no, the rules are fair and we are trying to enforce them, and to the degree that we haven't enforced them, it wouldn't be fair to the American people. But the basic rules of trade between China and the United States have been fair to the people of the United States.

What about you?

Mr. TONG. We are certainly trying to make sure that the interests of the American people are protected and promoted as much as humanly possible in the trade relationship with China. I think several of the members pointed out that there are rules which are agreed upon between nations, including in the WTO, and then there are rules which sometimes operate in practice beyond those which are formally agreed. And certainly our intention is to make sure that all of the rules that we negotiate are favorable to the American worker.

There is a problem with rules being made in either an ex officio way or informally. I think Representative Sherman was referring to informal guidance which was given by the Chinese Government—its different entities, maybe different levels of government—to businesses which can make it more difficult for U.S. businesses to compete in the Chinese environment, and certainly that is an issue of concern to the United States.

Mr. ROHRABACHER. So there is an informal factor rather than actual rules of the game that is working against the American people, but the rules you think are fundamentally fair?

Mr. TONG. Well, I think the intention is to try to make sure that to the extent possible in our discussions government to government, that there is not a situation where the playing field was tilted against the American businesses.

Mr. ROHRABACHER. Is the Chinese currency undervalued? And if the answer is yes, which everybody in the world seems to be saying, how long has it been undervalued?

Mr. TONG. I think the Treasury Department would make sure that I get fired if I comment on that topic. So I am sorry. I would have to ask you for your next opportunity to ask someone from the Treasury Department.

Mr. ROHRABACHER. Do you have any opinion on that, or should we have another set of government officials? Okay.

Let us just note that every information that I have received indicates that it is undervalued, has been undervalued for a long time, and the American people have suffered because of our willingness to permit that basic element of trade to continue. And why haven't we acted upon it? Maybe it is because we have some very corporate elite, rich Americans who are benefiting from the China trade at the expense of the American people, and they have a great deal of influence as to what policies we push; like, for example, pushing on the Chinese and laying down the law that we are not going to permit this unfair valuation of their currency at the expense of the American people.

Mr. FALEOMAVAEGA. Will the gentleman yield?

Mr. ROHRABACHER. Certainly.

Mr. FALEOMAVAEGA. I would just like to add to the gentleman's concerns and questions here, I would like to ask you if you could submit the names and the number of U.S. companies that are doing business right now in China. And as part of the Chinese exports that I recall 2 years ago, $340 billion of exported goods to the United States, how much of that percentage was produced by American companies who do business in China? I think that is pretty much in terms of the concerns of the gentleman.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM MR. KURT TONG TO QUESTION ASKED DURING THE HEARING BY THE HONORABLE ENI F.H. FALEOMAVAEGA

The United States government does not keep statistics on the number of U.S. companies doing business currently in China. I would recommend inquiring with private sector organizations such as the U.S.-China Business Council and the U.S. Chamber Commerce as to whether they have such data. The United States government also does not have the raw data available that would be needed to calculate statistics on the amount of Chinese exports that are actually produced by American companies who do business in China.

Mr. ROHRABACHER. So we end up with 90 percent of the containers that go through the Port of Los Angeles and Long Beach, which I represent, are coming in and only 10 percent are going out, and there is a reason for that. That didn't just happen. That is based on policies that have been established for these last 20 years. And I focus on 20 years, because it was 20 years ago when the Communist Party of China, who controlled the Beijing government at that time, slaughtered the democratic movement in Tiananmen Square.

How much investment have U.S. capitalists put into China over these last 20 years?

Mr. TONG. I would need to get back to you for the exact figure on that. I believe it is a considerable investment. I would point out that the investment that American companies put into China, much of it supports, as you have noted, imports back to the United States; much of it also supports exports from the United States.

Mr. ROHRABACHER. Right. And it also suggests what? Very limited exports for the first couple of years and setting up a factory, and then a long-term drain on the financial resources which are being taken from the pockets of American workers who have been put out of work and now are in the pockets of, yes, a few capitalists who can now make a bigger profit, American capitalists, and Chinese elites as well, as perhaps the Chinese people. But who is watching out for the American people?

So it is considerable. Is $1 trillion, do you think that it would be $1 trillion worth of investment or is that just way too high?

Mr. TONG. I think it would be most responsible for us to get back to you with an exact figure, because there is a question of stock investment and flow investment and how much of it is double-counted. So we will certainly give you that.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM MR. KURT TONG TO QUESTION ASKED DURING THE HEARING BY THE HONORABLE DANA ROHRABACHER

According to the U.S. Bureau Economic Analysis, the total stock of U.S. foreign direct investment (FDI)—that is, the total accumulated amount of U.S foreign in-

vestment in China—in 2008 was $45.7 billion. In 1989, U.S. FDI stock in China was $436 million.

Mr. ROHRABACHER. That would be very helpful. How about the value of tech transfer that we have had, where American taxpayers over these last four decades have spent hundreds of billions of dollars developing new technologies that just end up being sent to increase the manufacturing capabilities of China? What is the value of the tech transfer? Have there been any estimates on that?

Mr. TONG. Again, for an exact figure we can get back to you.

Mr. ROHRABACHER. I would certainly appreciate that.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM MR. KURT TONG TO QUESTION ASKED DURING THE HEARING BY THE HONORABLE DANA ROHRABACHER

The State Department does not keep statistics on the amount of technology transfers between U.S. and Chinese companies. I note that the Obama Administration is committed to fostering development of new technologies, including green technologies, here in the United States that create jobs for Americans. The administration is also committed to ensuring that American workers and businesses stay competitive in the global economy, including through technological innovation.

Mr. TONG. Turning back to APEC,I would point out, and perhaps Wendy can elaborate on this, there is an intense effort within APEC to try to tighten intellectual property rights protection. It is one of the major agenda items for the economies within APEC. We have had some progress.

Mr. ROHRABACHER. That is intellectual property theft. But I was just talking about in terms of actual tech transfer where it might not be theft. It might just be our corporations that have benefited by government research contracts over the years, taking the results of that research and putting it to use for the benefit of people who are our competitors.

But speaking about property theft, what is the estimate on the value of the intellectual property theft in China every year? None? What about——

Mr. TONG. Well, I believe industry have done calculations on that and certainly we can provide that information.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM MR. KURT TONG TO QUESTION ASKED DURING THE HEARING BY THE HONORABLE DANA ROHRABACHER

The private-sector International Intellectual Property Alliance (IIPA) estimates that the amount of U.S. trade losses due to copyright piracy in China of business software and music totaled $3.5 billion in 2008. They also estimate that 79 percent of business software and 90 percent of records and music are pirated in China.

Mr. ROHRABACHER. Okay. Is China the country that—we have spies, we have economic spies that we have here, as well as military and other national security spies, but is not China the number one country—that when we find these economic spies, is not China the number one country that is engaged in economic espionage?

Mr. TONG. That again is something I would need to get back to you on, and probably in a classified forum, for an accurate estimate.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM MR. KURT TONG TO QUESTION ASKED DURING THE HEARING BY THE HONORABLE DANA ROHRABACHER

The State Department is not in a position to give a response to this type of intelligence-related question. I would recommend that you seek information from the FBI or the intelligence community.

Mr. ROHRABACHER. Okay. Over these last 20 years when we have had a massive flow of capital and know-how and value and wealth transferred to China, have there been any government policies on the part of the United States that encouraged this flow? For example, have there been any programs of the United States Government that provided loan guarantees or any other type of, let us say, support for large capitalists to go into China and invest?

Mr. TONG. My understanding is that the Export-Import Bank of the United States is active in China, but the Overseas Private Investment Corporation is not active.

Mr. ROHRABACHER. So the Export-Import Bank. How about IMF and the World Bank, which of course most of their money comes from us anyway? Do they support projects of American capitalists investing there in China?

Mr. TONG. IMF I don't know. World Bank and certainly also the Asian Development Bank are very active in China in investing in infrastructure development, environmental protection, and other areas.

Mr. ROHRABACHER. Right. Okay.

Mr. Chairman, let me just note that the American people are suffering from a nonnatural disaster. Your people in Samoa just went through a catastrophe; it was a tidal wave based on an earthquake. They are suffering tremendously, as we have recognized at the beginning of this.

The American people are going into a time of suffering and hardship not because of a natural catastrophe, but because the policies that have been put in place have led to this. The Chinese Government now owns—what is the Chinese debt that they own half of ours?

Mr. FALEOMAVAEGA. Almost $1 trillion.

Mr. ROHRABACHER. Almost $1 trillion of debt.

Mr. FALEOMAVAEGA. Not debt, but investments in the United States.

Mr. ROHRABACHER. Well, that is what it is going to turn out to be, that they own a lot of——

Mr. TONG. U.S. Government Treasuries.

Mr. ROHRABACHER. They will own a lot now. Where did that $1 trillion come from? Yes, they bought bonds. But I would suggest that we have given at least $1 trillion worth of financial support in building up an economic power to a country that is headed by people who are the worst human rights abusers in the world and have not had one bit of liberalization in their political process. This hoping for the best by making China prosperous and powerful has not worked, and I would hope that the questions that I offered today—and I look forward to your research and reply because I really could use those figures. I hope that alerts us to the fact that our Government has not been—Republican and Democrat administrations have not been watching out for the interests of the American people and now we are paying a horrible price for that.

Thank you very much, Mr. Chairman.

Mr. FALEOMAVAEGA. I thank the gentleman for his comments and questions and I hope that our good friends, the witnesses this afternoon, will provide us with the data that he has requested.

Ms. Cutler, I notice with interest that you had mentioned about the proliferation of trade agreements that seems to be going around, 70 trade agreements, free trade agreements currently being negotiated, and that is on top of 150 other free trade agreements. And it is interesting that I think we only have 5 free trade agreements in place, which brings to bear my next question.

I noticed that you were actively engaged in the free trade agreement negotiations with South Korea, and I know this became one of the big political issues in last year's Presidential campaign. As a strong supporter of the free trade agreement with South Korea, I noticed also there was some concern about auto parts and the automobile trade we have with South Korea. Can you comment on where we are now with our free trade agreement with Korea?

Ms. CUTLER. We are currently undertaking a review of the Korea FTA. As part of this review we have had numerous meetings with various stakeholders including the auto companies and the UAW. We also issued a Federal Register notice in August and received over 300 comments, and we are now looking through these comments. There has been overwhelming support for the agreement based on the comments, but I would also note that there are areas of concern noted by some of the submissions, particularly by two of the automotive companies and the UAW and other workers groups.

We are now looking at the various suggestions that have been put forward of ways to address concerns. We are thinking of our own ways to address concerns, and we will be consulting intensively with our stakeholders and Congress, and we hope to reengage with Korea in the near future with a package of recommendations to build on the existing agreement.

Mr. FALEOMAVAEGA. Given our experience with NAFTA, two basic issues always seem to come up whenever we talk about trade agreements—labor standards and environmental standards. And it seems that South Korea is pretty much transparent when it comes to those fundamental issues.

I have also noticed allegations—and I don't know if there is any truth in this and would like your comment—that some 600,000 Korean cars are purchased here in America versus some 7,000 American cars purchased in Korea. Is there any truth to that allegation?

Ms. CUTLER. First, with respect to the environment and labor, Korea does have some very strong protections in both areas. And Korea also, as part of the FTA, agreed to the May 10th bipartisan package of 2007, so that is part of the agreement.

With respect to automotive trade, yes, there is a huge imbalance. Hundreds of thousands of cars are sold by Korean companies here in the United States and our success in penetrating the Korean market has met with impediments. The current agreement does provide provisions to get rid of Korea's tariffs immediately on autos. It also provides a series of provisions on nontariff measures.

However, based on comments, concerns, and discussions since we concluded this deal 2 years ago, it is apparent that more can be

done and should be done in the automotive sector to help level the playing field for U.S. companies and workers in this important sector.

Mr. FALEOMAVAEGA. Is there a possibility to separate the automotive issue? It seems to be the basic obstacle in agreeing to many other provisions of the proposed free trade agreement which are very positive to the extent that we are looking at possible exports from the United States of over $11 billion as a benefit not only to the American workers but to companies that want to export to Korea. Is there a possibility of looking at this separately if this is really the main impediment to the agreement? I was just wondering if the administration is viewing that rather than continuing to put the auto issue as part of the—almost like 1/10 of 1 percent of the other provisions of the FTA that are both in agreement by both countries.

It seems to me that we are putting on hold the bigger part for something that is just specific and maybe it takes more—it will take more time to negotiate because, as you said, this—I don't know if it is because of the tariffs that the Korean Government puts on our vehicles when we export to Korea. There is a claim that the tariffs that they put in as an offset of some of the things that we export to Korea, especially agricultural products. This is something that comes into the meat industry or the beef. You know, I think Korea is one of the biggest consumers of beef in the world, and I was just curious if we are going to continue to have the auto industry to hold the benefits that could be given to the American people as well as the workers and the businesses who will benefit from this free trade agreement.

Ms. CUTLER. Our focus now is on understanding and trying to address the concerns put forth by the automotive industry but not limited to the automotive industry. The submissions to our Federal Register notice are public, and if you have time to comb through hundreds and hundreds of them you will see that there are other concerns as well.

With respect to beef, the comments do suggest that our beef industry is now pleased with the inroads they have made into the Korean market. But some other concerns have been raised more generally with respect to nontariff measures. In any event, we are looking through all of these concerns. We are trying to come up with a package of proposals which will level the playing field, address the remaining issues so we would be in a position to move this agreement forward in Congress.

Mr. FALEOMAVAEGA. Well, that was our hope as well. But it seemed to have been that the previous administration had really moved to get the free trade agreement for some other exchanges that took place at the time when this proposed free trade agreement was brought for public review.

I wanted to note also that you had commented about APEC and its ability to cope with the global financial crisis. Will this be one of the issues that will be taken up in our meeting in Singapore, Mr. Tong?

Mr. TONG. Yes. I definitely think this will be a major topic for the leaders as well the finance ministers to meet a few days previous to the leaders meeting in Singapore. Our expectation is that

both the finance ministers and the leaders will review some of the outcomes of the Pittsburgh G–20 summit and, we hope, endorse the principles agreed to in Pittsburgh and take on commitments as an Asia-Pacific region to implement those approaches to economic growth and recovery. But I think it is going to be a major theme in Singapore.

Mr. FALEOMAVAEGA. Touching upon the issue that my friend from California had covered earlier, I note with interest that for years Russia and China had been moving or proposing to the global community about having international currency rather than using the dollar as the international currency of exchange. What is your comment on that?

Mr. TONG. I am always real cautious about matters related to the currency, but I think that what we are finding is happening on the ground in actuality is that, while there is some discomfort in some economies to the very prominent role played by the U.S. dollar in the international financial system, that there is also a sense of reality and a sense of the continued importance of the U.S. dollar. So sometimes there is a tradeoff between reality and aspiration on that front.

Mr. FALEOMAVAEGA. I don't know about reality and a tradeoff. But let me just ask you, in the advent of the recent economic crisis, ironically a country that happens to be the most stable economy happens to be China, which is not even a capitalist country other than the fact that they implemented free market principles since the time of Deng Xioping. It think it was in 1978.

What I wanted to note with interest is that on the failure of our own economic institutions, for lack of regulation perhaps, for lack of just greed perhaps in corporate America. And yet somehow we just continue skipping over and not really admitting to ourselves there are some very serious moral and ethical questions raised about how we have gone on doing business, which has completely impacted our economy in a most serious way.

And I think this probably bears on what China and other countries are saying: That if this is the kind of example that is causing economic instability around the world because of our conduct and what we have done, do you think that perhaps the idea of an international currency, with some sense of stabilization efforts, to make sure that the world economic crisis doesn't have another repeat of history, with what we are going through right now?

Mr. TONG. I am not sure whether a change in the way that international currencies are handled would improve things or not. But I will say that we have heard quite a bit from the Asia-Pacific economies over the past year, concern about the United States economy. It is sincere concern. They have the best interests, for the most part, in seeing the U.S. economy recover, and, fortunately, we are starting to see some signs of recovery. But we have heard from the Asia-Pacific economies great concern.

We have also heard some relief that the U.S. Government has tackled the problems of our domestic economy head-on and done our best efforts to try and achieve a rapid recovery in the U.S. economy and a return to growth.

You mentioned the role that the Chinese economy has played in the global macro-economy. I think it is fair to say that continued

Chinese growth has been a source of stability and has assisted the Asia-Pacific region in getting through this past year and returning toward recovery. And our hope is that as the Chinese economy becomes increasingly consumer-oriented and takes a more balanced approach toward its future growth, that that role can continue and can continue in a way that also addresses some of the concerns that we have about the trade balance and the way that our economic relationships with China are structured.

That is a concern that many economies share as they look toward China: Both a sense of the opportunity which China has created through its rapid growth, but a sense of hope that the Chinese will restructure their economy in a way that is beneficial to everyone.

Mr. FALEOMAVAEGA. Ms. Cutler? I didn't mean to put you on the spot there.

Your sense on the Bogor goals of free and open trade and investment in the Asia-Pacific region by 2010 and 2020: Are they realistic goals or are they just a dream?

Ms. CUTLER. They were goals that were agreed to in 1994. The industrialized countries, APEC economies, are scheduled to announce in 2010 how far they have come to achieving them, and we in the United States believe we have made important progress and great progress toward achieving these goals.

The trade landscape in 1994 was very different than it is today. So it is hard to compare what leaders meant when they agreed to those goals in 1994 to what the environment is and all the issues that now come under the trade and investment rubric.

So we think we have a good story to tell. We believe a number of our other 2010 colleagues have a good story to tell. And we hope, then, that next year under Japan's leadership, we will have a successful review of Bogor, and then we can discuss what we need to do to further our trade and investment liberalization objectives looking ahead.

Mr. FALEOMAVAEGA. In my recent meetings with President Lee and several other leaders of South Korea—as you know, South Korea is perhaps one of our closest allies in this region. And to the extent that they have shared with me their concern to the effect that it is not just about free trade, it is not just about having a free trade agreement, it is about a partnership that cuts through not just economics, but the whole region is looking at how our country is treating this democracy or this country that has always been our strongest supporter militarily, economically, and in every way.

And I just wanted to pass that message on to the administration that this proposed free trade agreement now—that has been 2 years in the making—that it is not going to continue on for another 4 years of continued negotiations. It does negatively reflect on our inability to say are we really—do we really have the political will to make this free trade agreement as a good result and seeing that we are serious about our commitments to our friends?

And I sincerely hope that in the coming months, Ms. Cutler, as you have said, that you continue the negotiations, that we don't continue the negotiations for the next 2 years and still with no result. It will bring about tremendous disappointment. And I just want to say that they are anxiously waiting, hopefully, not only as

a benefit to them but certainly as a benefit to our country as well. And I sincerely hope that something positive will come as an outcome of your continued efforts to work out the differences or the problems that we have faced in that proposed free trade agreement.

I truly want to thank both of you for being here. I hope and wish both of you all the best in the upcoming APEC conference. I understand the President also plans to visit China, and maybe even Indonesia where he was raised.

It was very interesting at the height of the last year's Presidential campaign, there was a national blog going on, and that I was a specially appointed agent of Barack Obama who went to Indonesia, which I did. I went to Indonesia and I also visited the school that he went to when he was a young man, and that my mission, as a special agent of President Obama, was to make sure that there was no record whatsoever indicating that he was born in Indonesia.

And I just wanted to let you know that confirmation for those who still think that President Obama is not a naturalized citizen—I get to the point where not only it becomes absurd and this whole thing about, well, why doesn't he show his birth certificate? I think maybe if you go see the application when he filed for the Presidency, I am sure there is an indication of where he was born, which happens to be the Kapiolani Hospital in Honolulu, in the State of Hawaii, if they really are that serious and wanted to know where he was born.

If anybody could find out that he falsely filled those applications to become President of this great country, I would be the first person that would like to shake that person's hand to say that he falsely filled out that application to become President of this great Nation of ours.

Again, I commend both of you for your tremendous work and service to our country. Thank you so much for being here.

The hearing is adjourned.

[Whereupon, at 4:36 p.m., the subcommittee was adjourned.]

# APPENDIX

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## Material Submitted for the Hearing Record

# SUBCOMMITTEE MARKUP AND MEETING NOTICE
# COMMITTEE ON FOREIGN AFFAIRS

*U.S. HOUSE OF REPRESENTATIVES*
*WASHINGTON, D.C. 20515*

**SUBCOMMITTEE ON ASIA, THE PACIFIC AND THE GLOBAL ENVIRONMENT**
**Eni F. H. Faleomavaega (D-AS), Chairman**

October 7, 2009

**TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS**

You are respectfully requested to attend an OPEN meeting of the Subcommittee on Asia, the Pacific and the Global Environment, to be held in Room 2172 of the Rayburn House Office Building, for the purpose of marking up the following legislation:

**DATE:** Wednesday, October 14, 2009

**TIME:** 2:00 p.m.

**SUBJECT:** The Future of APEC

**WITNESSES:** Mr. Kurt Tong
Acting U.S. Senior Official to APEC
Bureau of East Asian and Pacific Affairs
U.S. Department of State

Ms. Wendy Cutler
Assistant United States Trade Representative for
Japan, Korea and APEC Affairs
Office of the United States Trade Representative

**By Direction of the Chairman**

*The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee as noted above.*

## COMMITTEE ON FOREIGN AFFAIRS

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**MINUTES OF SUBCOMMITTEE ON ASIA, THE PACIFIC AND THE GLOBAL ENVIRONMENT**

**Day:** Wednesday

**Date:** October 14, 2009

**Room:** 2172 Rayburn House Office Bldg.

**Start Time:** 2:12 p.m.

**End Time:** 4:36 p.m.

**Recesses:** 2:58 p.m. to 3:45 p.m. (Votes)

**Presiding Member(s): Chairman Eni F.H. Faleomavaega**

*CHECK ALL OF THE FOLLOWING THAT APPLY:*

| | |
|---|---|
| Open Session | X |
| Executive (closed) Session | |
| Televised | X |
| Electronically Recorded (taped) | X |
| Stenographic Record | X |

**TITLE OF HEARING: "The Future of APEC"**

**COMMITTEE MEMBERS PRESENT: Ranking Member Manzullo, Rep. Sherman, Rep. Watson, Rep. Rohrabacher, Rep. Royce, Rep. Inglis**

**NONCOMMITTEE MEMBERS PRESENT:**

**WITNESSES:** Same as meeting notice attached? Yes X No ____ *(If "no", please list below and include title, agency, department, or organization.*

**ACCOMPANYING WITNESSES:** *(Include title, agency, department, or organization, and which witness the person accompanied.)*

**STATEMENTS FOR THE RECORD:** *(List any statements submitted for the record)*
**Chairman Faleomavaega, Ranking Member Manzullo, Rep. Watson, Mr. Tong (witness), Ms. Cutler (witness)**

**Lisa Williams**
**Staff Director**