

**Written Testimony of
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**Hearing on “The Future of APEC”
House Committee on Foreign Affairs’ Subcommittee on Asia,
the Pacific, and the Global Environment**

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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 2011 will 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.