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U.S. Economic Strategy in the Asia Pacific

Update and Recommendations

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Acknowledgments

In September 2015, CSIS launched the Asia Economic Strategy Commission under the leadership of Charlene Barshefsky, Evan G. Greenberg, and Jon M. Huntsman Jr. The goal of this bipartisan commission was to offer recommendations to the next administration on a reinvigorated U.S. economic strategy toward the Asia Pacific. The Commission issued a final report in January 2017. This report provides an update on developments in the region since the inauguration and builds on the Commission's work. We would like to thank the three cochairs of the Commission for encouraging this effort. This report is solely the work of the authors, and neither the experts consulted nor the members of the Commission bear any responsibility for the analysis or recommendations contained here.

The CSIS project team held several roundtables with external experts, who brought a wealth of experience and insights from across the public and private sectors. We would like to thank all of these individuals for giving their time and providing feedback during both the roundtables and the editing stages.

A number of CSIS scholars and staff contributed to the production of this report. Simon Chair research associate Daniel Remler and former associate fellow David Parker led the drafting of this report. Elizabeth Keller provided tireless coordination and administrative support throughout the research and drafting process. Stephanie Segal and Rick Rossow delivered invaluable expertise and editing assistance. Geoffrey Hartman, Benjamin Contreras, and Daniel Sofio provided drafting, research, and coordination support. Casey Rothberg and Sarah Skaluba provided vital research support. James Dunton and Alison Bours provided indispensable editing and design work.

This report was made possible by the generous support of Aflac International Inc.; Bank of America; Chubb Group; and Chevron.

01

Introduction

In January 2017, the bipartisan CSIS Asia Economic Strategy Commission released a report recommending that the incoming U.S. administration adopt a comprehensive economic strategy toward the dynamic Asia-Pacific region. That report, *Reinvigorating U.S. Economic Strategy in the Asia Pacific*,¹ outlined the major economic trends shaping the region, made the case for U.S. leadership in regional affairs, and laid out a comprehensive strategy for securing America's Pacific century.

The paper that follows was prepared by CSIS scholars with input from a range of experts and builds on the Commission's work. It was prepared in advance of President Donald Trump's first trip to the region in November 2017 to attend the Asia-Pacific Economic Cooperation (APEC) leaders' meeting and the East Asia Summit (EAS). It provides an update on developments in the region since the inauguration and offers targeted recommendations for advancing American interests during the president's trip and in the months beyond.

At the heart of this effort is the belief that the United States has critical economic and strategic interests in the Asia-Pacific region that require active U.S. government engagement. The countries that ring the Pacific Ocean represent more than half the world's trillion-dollar economies and every year the United States exports more than \$750 billion to Asia and Pacific countries, which is a powerful driver of growth and jobs in the United States. A stable Asia Pacific, characterized by free and open markets, promises to add to the future prosperity and security of the United States.

We also believe that leadership in the Asia Pacific is ours to lose—or, to put it differently, that reports of America's demise have been greatly exaggerated. The United States remains a vital trade and investment partner for countries in Asia, offering not only the world's largest consumer market but also high-quality products and services, critical know-how, and capital. The United States has long had a firm commitment to its alliance partners and to upholding the current Asia-Pacific security order, providing the lynchpin of regional peace and stability. And, as the world's oldest democracy and an experienced global leader, the United States possesses an unparalleled ability to mobilize other nations in support of common objectives.

Nonetheless, as the Commission noted in its January report, the landscape in the Asia Pacific is changing rapidly—often in ways that do not favor U.S. interests. Partly this is the result of steps taken by the United States itself, such as President Trump's decision to withdraw from the Trans-Pacific Partnership (TPP), as well as mixed signals sent to our allies. Partly it is the product of longer-term trends, including the rise of China as a great power, the unpredictable effects of

¹ Charlene Barshefsky, Even G. Greenberg, and Jon M. Huntsman Jr., *Reinvigorating U.S. Economic Strategy in the Asia Pacific: Recommendations for the Incoming Administration* (Washington, DC: CSIS, January 2017), https://csis-prod.s3.amazonaws.com/s3fs-public/publication/161228_Barshefsky_US_EconomicStrategyAsiaPacific_Web.pdf.

technological progress on patterns of economic development, and a changing demographic outlook across the region, from youth bulges to super-aging.

Despite these challenges, we firmly believe that a comprehensive and thoughtfully executed U.S. economic strategy toward the vital Asia-Pacific region can shape these trends in favor of long-term U.S. interests and bend them in the direction of a more stable, prosperous future for all. It is in this spirit that we present the following paper and recommendations.

02

An Evolving Landscape

The Asia Pacific remains the world's most dynamic economic region. Since the end of the Cold War, its economic size has more than tripled, and trade between Asia and the United States has grown more than 200 percent.² Alongside growing investment from Asia and Pacific countries, this activity supports significant numbers of jobs in every state—and, as the region continues to grow, has the potential to support even more.

While the opportunities for trade and investment in the Asia Pacific remain substantial, the United States has faced an increasingly challenging environment in the region in recent years. Rising tensions over North Korea's nuclear weapons and missile programs have put the region on edge. In the South China Sea, China has continued its construction of artificial islands in defiance of international law. And despite sustained and robust growth, economic trends in the region are not moving in a way favorable to U.S. interests. While the International Monetary Fund (IMF) forecasts annual growth in developing Asia to remain above 6 percent over the medium term, downside risks to the outlook have increased, not least the risk of growing protectionism and financial instability.³

Mercantilist trade and industrial policies continue to proliferate across the region. China, in particular, has stepped up policies that deny market opportunities to U.S. companies, support its own national champions, and distort global markets. Beijing has increasingly shown that it is prepared to target the industries of tomorrow and compete directly with the United States for global technological leadership. Beijing's "Made in China 2025" plan, adopted in 2013, revealed its ambition to drive China higher up the global value chain by any means necessary, including subsidies, forced technology transfers, and abuse of competition policy.⁴ It was complemented in July of this year by publication of the "New Generation Artificial Intelligence Plan," setting ambitious targets for Chinese AI development through 2030.⁵

Meanwhile, new laws and policies continue to constrain the activities of U.S. companies in China. Implementation of a new cybersecurity law, for example, forced Apple to announce in July that it would open its first data center in the country. This was followed just days later by the company quietly taking down virtual private networks (VPNs) from its app store in the country under official

² U.S. Census Bureau, "Trade in Goods with Asia," 2017, <https://www.census.gov/foreign-trade/balance/c0016.html>.

³ International Monetary Fund (IMF), *Regional Economic Outlook: Asia and Pacific: Preparing for Choppy Seas* (Washington, DC: IMF, April 2017), <https://www.imf.org/en/Publications/REO/APAC/Issues/2017/04/28/areo0517>.

⁴ Scott Kennedy, "Made in China 2025," *CSIS Critical Questions*, June 1, 2015, <https://www.csis.org/analysis/made-china-2025>.

⁵ Graham Webster, Rogier Creemers, Paul Triolo, and Elsa Kania, "China's Plan to 'Lead' in AI: Purpose, Prospects, and Problems," *New America*, August 1, 2017, <https://www.newamerica.org/cybersecurity-initiative/blog/chinas-plan-lead-ai-purpose-prospects-and-problems>.

pressure.⁶ Other countries have followed China's lead in their pursuit of harmful new rules and industrial policies. Against protests from the U.S. government and technology companies, for example, Indonesia, Korea, and Vietnam have all issued draft laws in recent months that set new requirements on data localization within their borders.⁷ These activities not only harm the health of established U.S. industries, but represent a threat to future export opportunities.

Against this backdrop, Asian countries have moved ahead to shape the region's trade architecture without the United States. President Trump's decision to withdraw from TPP gave a boost to the other large regional arrangement, the Regional Comprehensive Economic Partnership (RCEP), which brings together China, India, Japan, and other advanced Asia-Pacific economies with the 10 member countries of the Association of Southeast Asian Nations (ASEAN). If this agreement is concluded, not only could it generate diversionary trade effects that would cost jobs and growth for the United States, but it could also entrench low-standard economic rules that would tilt the competitive playing field against U.S. firms.

Despite U.S. withdrawal, TPP, too, has continued without the United States. Led by Japan and Australia, the remaining 11 signatories have met several times and aim to finish negotiations over modifications to the agreement by the time of the APEC Summit in November.

In addition, many countries have renewed their efforts to strike bilateral trade deals. The most consequential of these is a near-final economic partnership agreement between the European Union and Japan. Among other things, this agreement is likely to contain European-style rules on data privacy, as well as geographic indications for food and alcoholic beverage products, to the detriment of U.S. companies and farmers.⁸ Taken together, these agreements have the potential to dramatically erode the competitiveness of U.S. exporters and to lock in rules that harm our interests.

Beyond trade, Asian countries are pushing competing visions for infrastructure investment across the Eurasian supercontinent that are likely to have major implications for U.S. commercial and geopolitical interests. The most prominent of these is China's Belt and Road Initiative (BRI),⁹ under which Beijing has promised hundreds of billions of dollars of investment in roads, railways, and ports to neighboring countries and beyond. In May, Beijing hosted a high-profile forum that attracted senior officials from over 130 countries, including the United States. This was followed by a meeting in June of the so-called "16+1" group, bringing together China and countries in Central and Eastern Europe. These efforts have signaled Beijing's continental ambitions.¹⁰ But China is not alone; other countries, including Japan and India, have championed their own infrastructure

⁶ Paul Mozur, Daisuke Wakabayashi, and Nick Wingfield, "Apple Opening Data Center in China to Comply with Cybersecurity Law," *New York Times*, July 12, 2017, <https://www.nytimes.com/2017/07/12/business/apple-china-data-center-cybersecurity.html>.

⁷ Information Technology Industry Council (ITI), "Data Localization Snapshot," July 29, 2016, <https://www.itic.org/public-policy/SnapshotofDataLocalizationMeasures7-29-2016.pdf>.

⁸ European Commission, "EU-Japan Economic Partnership Agreement," July 1, 2017, http://trade.ec.europa.eu/doclib/docs/2017/july/tradoc_155684.pdf.

⁹ Christopher K. Johnson, *President Xi Jinping's "Belt and Road" Initiative* (Washington, DC: CSIS, March 2016), https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328_Johnson_PresidentXiJinping_Web.pdf.

¹⁰ Jonathan E. Hillman, "Trains from China laden with hype and subsidies," *Financial Times*, July 26, 2017, <https://www.ft.com/content/dd6196f8-715e-11e7-aca6-c6bd07df1a3c?mhq5j=e1>.

visions. Through initiatives such as its Expanded Partnership for Quality Infrastructure, Japan has promoted high standards for infrastructure investment in the region, while Indian Prime Minister Narendra Modi initiated his “Act East” policy to forge closer infrastructure ties with Southeast Asia. In May, Modi announced a partnership with Japan called the Asia-Africa Growth Corridor, an initiative to better integrate the economies of the Indian Ocean.¹¹

These changes in the economic and political landscape in the Asia Pacific have been met with mixed signals from Washington about the direction of American engagement in the region. Following the withdrawal from TPP, the administration initiated a renegotiation of the North American Free Trade Agreement (NAFTA) with Canada and Mexico, with a range of possible outcomes from enhancement of the 23-year-old deal to include labor and environmental obligations to U.S. withdrawal from the agreement. Though senior administration officials have indicated their interest in pursuing new bilateral free-trade agreements in the Asia Pacific, none has yet been announced. On the contrary, the administration has threatened to withdraw from the region’s largest existing agreement, the U.S.-Korea Free Trade Agreement (KORUS). It has also raised the specter of unilateral trade action against Asian countries under U.S. trade laws, most notably launching investigations under Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Act of 1974 to investigate the national security implications of steel and aluminum imports and China’s forced technology transfer policies, respectively.

All of this is creating tremendous uncertainty in the region about the direction of U.S. policy. China has seized on this uncertainty by asserting its own role as champion of the existing regional order. President Xi Jinping’s speech at the World Economic Forum in Davos in January defending globalization seemed to signal a changing of the guard to Western audiences.¹² Of course, this is at odds with China’s steady move toward a more mercantilist, statist approach to economic policy and its use of economic coercion against other states and multinational corporations. Nevertheless, in the absence of consistent U.S. leadership, China’s appeals, backed by initiatives like the BRI and Asian Infrastructure Investment Bank (AIIB), are likely to gain traction in the region.

This suggests a possible future regional economic order where rules and norms designed by Beijing are dominant, where countries abandon the high standards that the United States has fought for decades to uphold, and where free markets and political pluralism across the region are undermined. Not only could this reduce growth and commercial opportunities for the United States and distort global markets, it could also make it more difficult to address a host of regional challenges that will ultimately bear on U.S. interests, ranging from combating the spread of new pandemics to absorbing the growing legions of urban youth in Asia—many at risk of Islamic radicalization—into the workforce.

All of this underscores the imperative of robust U.S. engagement in the Asia-Pacific region. The economic order we have championed since the end of World War II has benefited the United States, driving growth, creating jobs, and setting rules that favor our interests. With the right policies and sustained engagement from Washington, the region’s potential as a market for U.S.

¹¹ Wade Shepard, “India and Japan Join Forces to Counter China and Build Their Own New Silk Road,” *Forbes*, July 31, 2017, <https://www.forbes.com/sites/wadeshepard/2017/07/31/india-and-japan-join-forces-to-counter-china-and-build-their-own-new-silk-road>.

¹² World Economic Forum, “President Xi’s speech to Davos in full,” January 17, 2017, <https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>.

businesses and workers is enormous. Key allies and partners in the region, such as Japan, Australia, and South Korea, can magnify U.S. efforts and reinforce a regional order that supports high standards and can create even more opportunities. However, the landscape in Asia is changing rapidly and will not wait for the United States. There is an urgent need for a comprehensive strategy that reestablishes U.S. leadership in the region, unites like-minded partners in the pursuit of common goals, and advances our many interests there.

03

Elements of a Strategy

In its January report, the Asia Economic Strategy Commission noted that any economic strategy toward the Asia Pacific must be grounded in the United States' enduring strategic interests in the region: promoting peace and preventing the emergence of a regional hegemon, entrenching a trans-Pacific economic order based on free markets and the rule of law, and supporting the spread of liberal democratic values.

The Commission also recognized the necessity of strong domestic foundations for an effective U.S. economic strategy abroad. Our economic engagement in the region can support strong and inclusive growth at home, but only if partnered with adequate infrastructure, tax, regulatory, education, and other domestic policies. Recognizing the linkages between international and domestic policies can start to address many Americans' concerns about the role of the United States in the global economy and ambivalence toward U.S. engagement in the region.

The Commission laid out a number of strategic objectives for economic engagement in the region: promoting strong, sustainable, balanced, and inclusive growth; ensuring open markets for U.S. exports and investors; supporting regional integration through enhanced trade, infrastructural links, and financial ties; and working toward a set of high-standard rules for the regional economy that support U.S. interests.

Any successful strategy in the Asia Pacific will share certain characteristics: it must be comprehensive, have a long-term focus, and be articulated and delivered consistently.

To be comprehensive, the strategy must address the full range of U.S. interests in the Asia-Pacific region and draw on all policy tools at our disposal, matching means to ends. It will integrate our economic strategy with our broader political and security strategy on issues such as the North Korean nuclear crisis and the South China Sea. It will require policymakers at every level and branch of government to work in concert, with effective coordination mechanisms at the White House. It will also mean working closely with U.S. companies and civil society, as well as allies and partners in the region and beyond, particularly those who share key U.S. values and priorities such as Japan, Australia, and South Korea.

The strategy must be squarely focused on addressing our interests beyond the lifetime of one administration. Leaders in Asia are renowned for their future-oriented policymaking and for investing in the long-run determinants of their success, from education to infrastructure. We must match their thinking. Our policies must help lay the foundations for both a competitive U.S. economy and a regional order that works to our strategic advantage.

Finally, our strategy in Asia must be consistent in practice and presentation. As a global power, we have often become distracted with crises in other regions and engaged only episodically in Asia-

Pacific affairs. Our messaging has often been harsh or ineffective. Our partners and rivals in the region are listening closely for signs of lack of staying power or commitment to shared benefit.

04

Recommendations

Ahead of President Trump's November trip to Asia, the White House must begin to lay the groundwork for an effective economic strategy for the region. The first nine months of the administration were a period of uncertainty in both the United States and Asia. However, the need for a comprehensive U.S. strategy remains as clear today as it was on January 20.

The recommendations that follow focus on the first concrete steps the administration can begin to take from today through the next year. Our focus here is on the Asia-Pacific region as a whole. However, recognizing the importance of effective bilateral strategies for major economies in the region, we will offer thoughts separately on U.S. economic policy toward China, Japan, India, Southeast Asia, and South Korea.

1. Articulate a clear strategy for the United States to engage and lead in the region

The U.S. government cannot begin to craft and execute a comprehensive strategy toward the Asia Pacific without clear direction from the highest levels of the administration. In conjunction with the president's trip to the region, the administration should publicly begin to make the case to the American people that the Asia Pacific is essential to our future prosperity and security, and that the United States must remain engaged and lead.

This strategy must also address our allies and partners in Asia, and distinguish them from those who do not share our interests or values. The administration must articulate for them a positive vision for a fair, open, rules-based trans-Pacific order that supports their interests. Support from allies and partners is critical to the success of our strategy and to maintaining the regional economic order that has benefited the United States over the past 70 years. Finally, the U.S. government must be fully resourced and staffed to implement an effective strategy.

Specific Implementation Steps

- a. In conjunction with his trip to the region, the president should deliver a major speech explaining the importance of the Asia Pacific for America's security and prosperity and containing the pillars of the administration's strategy toward the region.
- b. Following his trip and ahead of his state-of-the-union address in early 2018, President Trump should immediately direct his national security and economic teams with preparing a presidential policy directive (PPD) on U.S. strategy toward the region, with economics at the core. This will orient and align agency activities throughout the administration and specify how economic policy can support peace and stability in the region.

- c. Redouble efforts to work with Congress to ensure that political appointees to positions relating to Asia and economic policy across the government are nominated and confirmed as soon as possible. In particular, the administration should prioritize confirmation of the assistant secretary of state for East Asian and Pacific affairs, assistant secretary of state for South Asian affairs, U.S. ambassador to South Korea, U.S. ambassador to India, and assistant administrator for Asia at the U.S. Agency for International Development (USAID).
- d. Engage and mobilize the support of the U.S. private sector and civil society already embedded in Asia-Pacific economies.

2. Recapture leadership on market opening and high-standard rulemaking in the region

U.S. leadership in opening markets and setting regional rules and standards in the Asia Pacific serves our interests in three ways: it supports U.S. growth and jobs, drives favorable patterns of economic integration, and helps reinforce America's long-term strategic presence in the region.¹³ By contrast, pulling out of existing trade deals, or threatening to do so, will create no opportunities or jobs.

High-standard rules promote U.S. exports and protect U.S. investments abroad. They also protect the free flow of data, which is vital to the ability of U.S. companies—from insurers to aircraft manufacturers—to compete at the highest levels of efficiency. Strong rules also help American workers. When workers in Asia are allowed the right to organize and paid a fair wage, U.S. workers can compete on a level playing field. When state-owned enterprises are subject to strong disciplines and competition policies are fairly enforced, U.S. companies are able to compete on the quality of their goods and services, the efficiency of their production, and the strength of their workforces.

TPP had established high-standard rules in many of these areas. Without U.S. participation in TPP or an equally comprehensive strategy, the United States risks ceding leadership on market opening and rulemaking to strategic rivals. Absent support from the United States, even our allies and partners may end up accepting lower standards. Progress in China's BRI and trade agreements like RCEP that exclude the United States could result in rules on everything from infrastructure investment to the digital economy that run contrary to U.S. interests.

Washington can and should reassert U.S. leadership in these areas. It can begin by signaling that it is not opposed to partners in the region like Japan, Australia, and Singapore moving ahead with agreements like TPP, while leaving the door open to future U.S. participation in a regional agreement that addresses U.S. priorities. The administration can also work through APEC and bilateral arrangements like the Comprehensive Economic Dialogue with China and the high-level economic forum with Japan to advance U.S.-preferred rules and norms in trade and investment.

¹³ Matthew P. Goodman, "U.S. Economic Engagement in East Asia and the Pacific: Testimony before the U.S. Senate Foreign Relations Committee Subcommittee on East Asian and Pacific Affairs," December 18, 2013, https://www.foreign.senate.gov/imo/media/doc/Goodman_Testimony.pdf.

And it can work constructively with partners in the region to build on progress toward contestable markets.

Specific Implementation Steps

- a. In public statements, such as the speech recommended in 1.a. above, and in bilateral meetings with counterparts in the region, senior administration officials should signal that the United States in no way objects to the early completion of a TPP agreement among the remaining signatories, and may be willing to join a future regional agreement provided that it addresses U.S. priorities.
- b. At the APEC meetings in Vietnam, advocate for U.S.-preferred rules and norms on trade and investment, energy security, intellectual property, cyber security, state-owned enterprises, infrastructure, and financial integration. In particular, focus on improving conditions for U.S. services exporters, an area where the United States is highly competitive.
- c. Begin an interagency review of U.S. objectives and priorities in bilateral investment treaties, and craft a strategy for addressing investment issues through potential future agreements, such as with China, India, and Indonesia.
- d. Working through multilateral development banks and bilateral channels, seek to gain acceptance for a set of principles governing infrastructure investment in the Asia Pacific that promote an open regional economic order, transparency, regulatory certainty, and opportunities for U.S. business. Prioritize cooperation with select regional partners, such as Singapore, to promote soft infrastructure development, particularly in financial integration and financial-market deepening.

3. Develop tailored bilateral strategies for key economies in the region

An effective U.S. economic strategy toward the Asia Pacific requires an approach that is regional, but it must be complemented by effective strategies toward individual countries. The reality of policymaking and the region's diversity demands that we engage with our partners on a bilateral basis as well. This engagement must not be to the exclusion of a regional strategy; on the contrary, it should complement our regional goals.

Priorities will necessarily vary depending on the country or economy in question. In some cases, the focus will be on addressing irritants in the bilateral relationship or disagreements in international institutions. In other cases, there will be opportunities to deepen bilateral cooperation. Smart bilateral strategies can act as force multipliers for U.S. policies, allowing Washington to leverage the networks and capabilities of other countries in the service of shared objectives.

Bilateral approaches should be appropriately scoped to the needs and particular political and economic circumstances in each country. With a country like China, a fast-growing strategic rival, our strategy must be firmly focused on a mutually beneficial relationship that both addresses our

underlying disagreements, such as on forced technology transfer, and promotes cooperation where possible. For Japan, a likeminded treaty ally that shares our interests in high standards for the region, our approach should leverage our respective strengths to work together in third countries and in multilateral institutions to advance our preferred rules and norms. For South Korea, where withdrawing from KORUS would harm both our economic and security interests, our approach should address our legitimate concerns in the context of the agreement, along with supporting Korea's position as a key U.S. ally in the region and its own efforts to promote market dynamism and more contestable markets.

Priorities for bilateral strategies with key economies in the region include but are not limited to:

- *China*: Establish a regular channel between the U.S. national security adviser and director of the National Economic Council and the closest and most senior advisers to President Xi Jinping to define the contours of a mutually beneficial U.S.-China relationship. This 2x2 group should begin work to develop an agenda for addressing areas of contention and cooperation, and meet in person at least twice a year.
- *Japan*: At the next meeting of the U.S.-Japan economic dialogue led by the vice president and deputy prime minister, establish a pillar focused on identifying shared interests in third countries and multilateral institutions, and task senior officials with developing a division of labor for U.S.-Japan cooperation to address these. Both sides should also recommit to continued cooperation on regional and global regulatory reform that supports our shared interests.
- *India*: Recognizing the importance of India's unmatched economic potential, including its young demographic profile, expand U.S. economic engagement with India's powerful state leaders, including by channeling senior U.S. private-sector engagement with India's state leaders to discuss reform priorities directly.
- *Southeast Asia*: Continue to support the efforts of ASEAN toward economic integration and the ASEAN Economic Community through initiatives like the ASEAN Single Window. President Trump should invite ASEAN leaders to the United States in 2018 to discuss regional economic as well as strategic issues, building on the gains made at the Sunnylands summit in 2016. Bilaterally, work with Indonesia to reduce barriers to U.S. trade and investment, and push for Vietnam to continue with reforms, particularly on labor standards, that it agreed to as part of the TPP negotiations.
- *South Korea*: Work constructively with South Korea to negotiate improvements to KORUS that would deepen liberalization in key sectors such as financial services, legal services, and digital trade, and result in a more fair and equitable bilateral trading relationship.

For more detailed recommendations on bilateral strategies for these key economies, please see separate CSIS writings, forthcoming.

4. Work to combat trade-restrictive policies in the region

Trade- and investment-restrictive policies have been on the rise worldwide since the financial crisis. Most economies in Asia have adopted these restrictive measures, which have hurt U.S. exporters and American workers. Localization measures have been especially pernicious, reducing the effectiveness of investment in technology by both local and foreign firms.¹⁴ The combined effects of intellectual property (IP) theft from counterfeiting and pirating of goods, software piracy, and trade secret theft cost the U.S. economy as much as \$600 billion each year.¹⁵ While the United States remains a highly open economy, with an average trade-weighted, applied tariff rate of 1.7 percent and one of the most stable, open investment regimes in the world,¹⁶ U.S. products and companies are still frequently subjected to a wide array of discriminatory policies and market-access barriers in Asian markets.

The openness of the U.S. economy remains a great strength, putting more money in the pockets of American consumers, helping U.S. manufacturers stay competitive by sourcing the highest-quality inputs for the lowest prices, and keeping America at the forefront of innovation.

At the same time, the U.S. government could and should do more to deter other countries from engaging in short-sighted, discriminatory policies that distort markets and harm the U.S. economy. In order to deter harmful practices in the future, Washington must demonstrate that it is willing both to impose reasonable but tough remedies and to work with trading partners on mutually beneficial liberalizing actions.

Those efforts begin with the vigorous use of existing laws to tackle unfair trade practices, consistent with World Trade Organization (WTO) rules and in coordination with our allies. Over the long term, protecting globally engaged U.S. firms and workers from the abuses of statist policies will require strengthening a wide range of policy tools. The goal here must be to use our existing tools more effectively, while building new, sustainable mechanisms for further actions that support our broader interests.

Specific Implementation Steps

- a. Use existing U.S. trade remedies to more actively investigate unfair trade and investment practices (and prepare corresponding action plans to address them) in a manner consistent with WTO rules and avoiding collateral harm to our other interests.
- b. Avoid the use of broad macroeconomic outcomes such as reduction of trade imbalances as objectives for trade negotiations, recognizing that such outcomes are the result of many

¹⁴ Cathleen Cimino-Isaacs, Gary Clyde Hufbauer, and Jeffrey J. Schott, "A Proposed Code to Discipline Local Content Requirements," Peterson Institute for International Economics, February 2014, <https://piie.com/sites/default/files/publications/pb/pb14-6.pdf>.

¹⁵ IP Commission, *IP Commission Report Update: The Theft of American Intellectual Property: Reassessments of the Challenge and United States Policy* (Washington, DC: National Bureau of Asian Research, February 2017), http://www.ipcommission.org/report/IP_Commission_Report_Update_2017.pdf.

¹⁶ World Trade Organization, "United States of America: Tariff Profiles," 2017, http://stat.wto.org/TariffProfiles/US_e.htm.

factors such as economic growth, savings and investment, and wealth differentials between trading partners.

- c. The Office of the U.S. Trade Representative (USTR) should begin developing a strategy for using the WTO's dispute-settlement system more aggressively, particularly in cases involving state-supported economic sectors.
- d. Begin implementation of key recommendations of the 2017 IP Commission Report Update,¹⁷ including:
 - i. As granted by the International Emergency Economic Powers Act (IEEPA), empower the secretary of the treasury, on the recommendation of the secretary of commerce, to deny use of the U.S. banking system to foreign companies that repeatedly use or benefit from the theft of American IP.
 - ii. Require the Securities and Exchange Commission (SEC) to judge whether companies' use of stolen IP is a material condition that ought to be publicly reported.
 - iii. Establish the capability to sequester imported goods that incorporate stolen or pirated materials or were made with a business process that includes illegally procured intellectual property, working with Congress to strengthen the Section 337 of the Tariff Act of 1930.
- e. Work with Congress to initiate a comprehensive, bipartisan review of strategic technology leakage through exports and foreign investment, and propose appropriate modifications to the U.S. export-control regime, the investment-screening process overseen by the Committee on Foreign Investment in the United States (CFIUS), and other relevant tools.
- f. Instruct the national security adviser and director of the National Economic Council to develop a joint plan for selective and calibrated reciprocal actions against policies in critical markets such as China that put U.S. businesses at a competitive disadvantage.

¹⁷ IP Commission, *IP Commission Report Update*.

About the Authors

Matthew P. Goodman is senior adviser for Asian Economics and holds the William E. Simon Chair in Political Economy at CSIS. The Simon Chair examines current issues in international economic policy, with a focus on the Asia-Pacific region. Previously, he served as director for international economics on the National Security Council staff, working on the G-20, APEC, and other presidential summits. Before joining the White House, Mr. Goodman was senior adviser to the undersecretary for economic affairs at the U.S. Department of State. He has also worked at Albright Stonebridge Group, Goldman Sachs, and the U.S. Treasury Department. Mr. Goodman holds an M.A. from the Johns Hopkins School of Advanced International Studies and a BSc from the London School of Economics.

Scott Miller has been a senior adviser and the William M. Scholl Chair in International Business at CSIS since 2012. The Scholl Chair focuses on key issues in the global economy, such as international trade, investment, competitiveness, and innovation. From 1997 to 2012, Mr. Miller was director for global trade policy at Procter & Gamble, a leading consumer products company. In that position, he was responsible for the full range of international trade, investment, and business facilitation issues for the company. He has led many campaigns supporting U.S. free trade agreements and has been a contributor to U.S. trade and investment policy over many years. Mr. Miller advised the U.S. government as a liaison to the Advisory Committee on Trade Policy and Negotiations, and he is a member of the State Department's Advisory Committee on International Economic Policy. He was the founding chairman of the Department of Commerce's Industry Trade Advisory Committee (ITAC) Investment Working Group. Earlier, he was a manufacturing, marketing, and government relations executive for Procter & Gamble in the United States and Canada.

Amy Searight serves as senior adviser and director of the Southeast Asia Program at the Center for Strategic and International Studies (CSIS) in Washington, D.C. Dr. Searight has a wealth of experience on Asia policy—spanning defense, diplomacy, development, and economics—in both government and academia. Most recently, she served in the Department of Defense (DOD) as deputy assistant secretary of defense for South and Southeast Asia, from 2014 to 2016. Prior to that appointment, she served as principal director for East Asian security at DOD and as senior adviser for Asia in the U.S. Agency for International Development (USAID). She has also served on the policy planning staff and as special adviser for Asia Pacific Economic Cooperation (APEC) in the State Department as a Council on Foreign Relations international affairs fellow. Before entering government, Dr. Searight was an assistant professor at the Elliott School of International Affairs at George Washington University, where she taught international relations of Asia and directed the mid-career master's program in international policy and practice. She was also an assistant professor at Northwestern University and a postdoctoral fellow at the Weatherhead Center for International Affairs at Harvard University. She holds a Ph.D. in political science and an M.A. in East Asian studies from Stanford University, and she graduated magna cum laude from Williams College with a B.A. in political economy.

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