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"ARIA in Action: The Benefits of Economic Diplomacy"

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Introduction

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee, thank you for this chance to offer my thoughts on how the United States can use economic diplomacy as a strategic tool to advance its interests in the vital Indo-Pacific region.

Let me first commend the Chairman and fellow Members for their work in the previous Congress to pass the Asia Reassurance Initiative Act (ARIA; P.L. 115-409). I could not agree more with the core finding of the Act in its preamble: “Without strong leadership from the United States, the international system, fundamentally rooted in the rule of law, may wither, to the detriment of the United States, regional, and global interests. It is imperative that the United States continue to play a leading role in the Indo-Pacific region by defending peace and security, advancing economic prosperity, and promoting respect for human rights.”

I am particularly pleased to see economics get equal billing in the Act with security and values as one of three pillars of a successful U.S. strategy in the Indo-Pacific region. International economic policy plays a critical role in shaping both U.S. economic and foreign policy interests. As I have written before,[1] smart economic statecraft is a two-sided coin: on one side, it involves using diplomacy to advance our exports, investment, and other commercial activities that enhance our growth and prosperity; on the other—the more strategic side—it is about using economic tools to shape international rules and norms and promote broader U.S. foreign policy objectives and national security.

Nowhere is it more important that we deploy smart economic statecraft than in the Indo-Pacific region. I will use the rest of my testimony to explain why and how we should do that, but I want to emphasize one key point at the start: in the competition for economic leadership in the Indo-Pacific region, *the United States starts with a huge lead*. This has been built up over 70 years, not only through massive flows of trade and investment, but also through our demonstrated commitment to allies’ and partners’ success, our support for the rule of law, and our reputation for reliability. These are advantages we cannot afford to squander and need to work harder to reinforce.

The Indo-Pacific Landscape

ARIA captures well the economic opportunities and risks in the Indo-Pacific, but I would like to briefly underscore here how dynamic the region is and to highlight some of the key trends there that affect U.S. interests. The Indo-Pacific is home to more than half the world’s population and seven of its 16 trillion-dollar economies by gross domestic product (GDP).[2] According to the International Monetary Fund (IMF), emerging and developing Asia is the fastest-growing region

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[1] Matthew P. Goodman, “Economics as Strategy,” Center for Strategic and International Studies, January 26, 2014, https://www.csis.org/analysis/global-economics-monthly-economics-strategy.

[2] The White House, “President Trump’s Administration is Advancing a Free and Open Indo-Pacific Through Investments and Partnerships in Economics, Security, and Governance,” November 18, 2018, https://www.whitehouse.gov/briefings-statements/president-trumps-administration-advancing-free-open-indo-pacific-investments-partnerships-economics-security-governance.

in the world, with real GDP growth expected to average 6.3 percent in 2019 and 2020.[3] The Indo-Pacific contains 58 percent of the world's youth, positioning it for sustained growth in the coming decade.[4]

Countries in the Indo-Pacific are rapidly connecting to take advantage of this economic dynamism. In 2017, Asian intraregional trade growth accelerated to 7.1 percent from 1.7 percent in 2016, nearly double the pace of global trade growth.[5] While inward foreign direct investment (FDI) from the rest of the world to the region slowed in 2017, investment flows from the rest of Asia grew. As Indo-Pacific capital markets continue to deepen, Asia's financing needs are increasingly met locally, with the intraregional share of cross-border bank claims rising from 18.2 percent in 2012 to 22.6 percent in 2017.[6]

Two evolving regional trade agreements will facilitate this integration: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). On December 30, 2018, CPTPP came into force, lowering trade barriers between 11 countries representing 495 million consumers and 13.5 percent of global GDP.[7] Despite U.S. withdrawal from the original TPP agreement on President Trump's third day in office, Japan marshaled the remaining members and preserved many of the high-quality standards in the original text. As CPTPP countries begin to implement their obligations, trade within the bloc has increased, sometimes to the disadvantage of the United States.

Although RCEP negotiations have dragged on through 26 rounds, countries in the agreement have made progress toward integration. For example, on May 2, finance ministers from the Association of Southeast Asian Nations (ASEAN), plus China, Japan, and Korea, agreed to consider the Japanese yen and Chinese yuan for currency swap arrangements in addition to the U.S. dollar.[8] Some RCEP countries have concluded new or revised bilateral trade agreements in the last year, including Indonesia and Australia. All that said, the prospects for concluding RCEP in the short-term remain low, given highly divergent trade and economic policies among its potential signatories (notably India).

Meanwhile, Beijing has launched several ambitious programs to expand its economic influence in the region. Under President Xi Jinping's signature foreign policy effort, the Belt and Road Initiative (BRI), China has invested billions of dollars in Indo-Pacific infrastructure and other forms of connectivity.[9] Despite concerns about corruption and predatory lending, countries in the

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[3] International Monetary Fund, "World Economic Outlook Database," April 2019, https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/index.aspx.
[4] United Nations Economic and Social Council, "8th Economic and Social Council Youth Forum," April 8, 2019, https://www.un.org/ecosoc/sites/www.un.org.ecosoc/files/files/en/2019doc/yf2019-asia-and-pacific.pdf.
[5] Asian Development Bank, "Asian Economic Integration Report 2018," October 2018, https://www.adb.org/sites/default/files/publication/456491/aeir-2018.pdf.
[6] *Ibid*.
[7] Matthew P. Goodman, "From TPP to CPTPP," Center for Strategic and International Studies, March 8, 2018. https://www.csis.org/analysis/tpp-cptpp.
[8] "Joint Statement of the 22nd ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting," May 2, 2019, https://asean.org/storage/2019/05/final-JMS-of-22nd-AFMGM-3_cleaned.pdf.
[9] Reconnecting Asia interactive project map and database, Center for Strategic and International Studies, https://reconnectingasia.csis.org/map/.

region remain receptive to Chinese loans to fill infrastructure-financing gaps. China also launched the Asian Infrastructure Investment Bank (AIIB) in 2016 to complement lending efforts by the World Bank and Asian Development Bank (ADB).

Yet at the same time that it pushes out this charm offensive, Beijing has also increasingly turned to economic coercion to achieve its political objectives. In 2016, it effectively shut down South Korean retail and tourism interests in China after Seoul's agreement to deploy a U.S. missile defense system.[10] More recently, it arrested two Canadians after Ottawa took into custody the daughter of the founder of Chinese telecommunications giant Huawei on fraud charges. Beijing's behavior has given the region a stark picture of what a return to a Chinese-led order in the Indo-Pacific might look like.

Other powers are active in the region in more benign ways. Australia and Japan have invested especially heavily in regional economic affairs, while encouraging free and open economic rules. Australian direct investment in East and South Asia nearly quadrupled between 2007 and 2017, and in November last year, Canberra announced a $2 billion Australian Infrastructure Financing Facility for the Pacific.[11] Japan, the second biggest investor in Southeast Asia after the United States, has responded to the BRI with various efforts. In 2015, Japanese Prime Minister Shinzo Abe unveiled the Partnership for Quality Infrastructure, a $110 billion (later increased to $200 billion) collaborative effort with the ADB to finance infrastructure projects.[12] During its current Group of Twenty (G20) host year, Japan hopes to gain wider adoption of its Ise-Shima Principles for Promoting Quality Infrastructure Investment.[13]

U.S. Interests and Position in the Region

The overarching U.S. policy objective in the Indo-Pacific—one that has traditionally enjoyed bipartisan support—is to promote a peaceful, prosperous, and rules-based regional order. Economic engagement in the region serves that goal—and U.S. interests—in several ways. First, open and connected economies promote stability and decrease the likelihood of conflict. Countries that trade together and play by the rules tend not to fight. Second, maintaining a free and open rules-based economic order facilitates two-way trade and investment that supports millions of American jobs. A prosperous Indo-Pacific means billions of middle-class customers for U.S. products, new markets for U.S. services companies, and millions of new tourists visiting the United States. Finally, U.S. engagement is critical because if we do not lead and shape the

[10] Bonnie S. Glaser, Daniel G. Sofio, and David A. Parker, "The Good, the THAAD, and the Ugly," *Foreign Affairs*, March 17, 2017, https://www.foreignaffairs.com/articles/united-states/2017-02-15/good-thaad-and-ugly.
[11] Gordon de Brouwer, Matthew P. Goodman et al, "Delivering Prosperity in the Indo-Pacific," Center for Strategic and International Studies, April 2019, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/190418_DeliveringProsperity_WEB_v2.pdf.
[12] Ministry of Foreign Affairs of Japan, "Announcement of 'Partnership for Quality Infrastructure: Investment for Asia's Future," May 21, 2015, https://www.mofa.go.jp/policy/oda/page18_000076.html. Ministry of Economy, Trade, and Industry of Japan, "The Expanded Partnership for Quality Infrastructure," May 23, 2016, https://www.meti.go.jp/english/press/2016/0523_01.html.
[13] "Japan to propose G-20 aid rules to check China's Belt and Road," *Nikkei Asian Review,* March 18, 2019, https://asia.nikkei.com/Economy/Japan-to-propose-G-20-aid-rules-to-check-China-s-Belt-and-Road.

rules, others will. Beijing seeks to validate its brand of authoritarianism that may deliver economic growth but undermines basic freedoms.

We will not achieve our goals without active engagement in the region. U.S. leadership encourages market-oriented reform and demonstrates to our allies, partners, and potential adversaries our continued commitment to a free, open, and prosperous Indo-Pacific. Our absence or lack of effective engagement has the opposite effect. For example, under U.S. persuasion, Vietnam agreed to unprecedented digital rules as part of TPP, including no data localization requirements. However, after the United States left the agreement, an emboldened Vietnam passed a controversial cybersecurity law modeled after China's restrictive 2016 law that included localization requirements.[14]

As I mentioned earlier, the United States starts with huge advantages in the competition for economic leadership in the region. Our large economy and consumer market are a major attraction for Asian trading partners. U.S. companies offer the region high-quality products and services and the transparent, reliable business practices that come with them. Despite the mythology of BRI, U.S. direct investment in ASEAN between 2010-2017 was twice as large as China's.[15] U.S. portfolio investment in the region, meanwhile, is measured in the trillions of dollars, providing valuable capital to support Asian countries' growth.

For over 70 years, U.S. economic diplomacy has supported these market advantages. Our development assistance has boosted growth, reduced poverty, improved health, built technical capacity, and earned the United States tremendous goodwill in the region. Until recently, we were the undisputed leader in regional trade negotiations, culminating in the TPP agreement signed in 2016. We have also worked to develop mutually beneficial economic rules and norms through regional institutions such as the Asia-Pacific Economic Cooperation forum (APEC).

All of this economic engagement is undergirded by our security presence in the region, as well as by our soft power. Our alliances with Japan, South Korea, Australia, Thailand, and the Philippines, as well as our partnerships with many other countries from Singapore to New Zealand, provide the stability that underpins economic activity in the region. These countries are also vital partners in our efforts to uphold and extend market-based rules and norms. Meanwhile, the traditional openness of our society, our world-leading universities, our movies, and other aspects of our soft power give us a tremendous advantage over regional competitors.

But there is little doubt that the advantages we enjoy in the Indo-Pacific region are being eroded. Partly this is the result of external forces, notably the economic rise of China and Beijing's more assertive policies in the region, mentioned earlier. But much of the fault is our own. The back-to-

[14] Murray Hiebert, "Vietnam's New Cyber Law Could Hobble Foreign Investors and Limit Basic Freedoms," Center for Strategic and International Studies, July 2, 2018, https://www.csis.org/analysis/vietnams-new-cyber-law-could-hobble-foreign-investors-and-limit-basic-freedoms.
[15] United Nations Conference on Trade and Development, "ASEAN Investment Report 2018," November 2018, https://unctad.org/en/PublicationsLibrary/unctad_asean_air2018d1.pdf.

back blows of the Asian financial crisis of 1997-98 and the global financial crisis of 2008-09 did enormous and lasting damage to the U.S. brand in the region and raised severe doubts about our model of economic governance.[16]

Recent policy mistakes have further undermined our position in the region. The failure of the Obama Administration to win passage of TPP in 2016 and President Trump's ill-considered decision to withdraw from the agreement days after he took office have arguably exacted the single most damaging cost to U.S. economic leadership in the region. Abandoning the main tool of our strategic economic engagement in the region was a severe blow to our credibility and kicked the legs out from under our leadership of regional trade arrangements. Moreover, it left the Trump Administration's "free and open Indo-Pacific strategy"—a reasonable conceptual framing for a regional strategy—empty of the credible economic content that is crucial to the broader strategy's success.

Toward a Smarter Economic Statecraft

To restore its advantageous position in the Indo-Pacific region, the United States needs a comprehensive economic strategy, involving both defensive and offensive elements. I have written elsewhere about four pillars of a successful strategy,[17] namely:

1. "Protecting the crown jewels," that is, securing key technologies and other assets critical to our economic competitiveness and/or national security;
2. Enforcing the rules, including pushing back against countries like China when they violate established rules and norms in trade, finance, or other areas;
3. Deploying a set of positive economic tools that build out existing rules and norms and incentivize the kind of constructive behavior we seek; and
4. Investing in the domestic foundations of our economic strength, from infrastructure to skills to R&D spending.

Critically, across all of these pillars, we need to work closely with allies and partners and to honor the rules ourselves.

Given the focus of this hearing on economic diplomacy, I will spend the rest of my testimony on the third pillar above. In my view, a positive economic statecraft in the Indo-Pacific region involves at least four key elements.

First, we need to show up. It is trite but true to say that, "80 percent of success in Asia is showing up." One advantage the United States does *not* have in Asia is geographical proximity; we have to earn our position as an engaged participant in regional affairs. Asians measure U.S. commitment to the region by the presence or absence of senior U.S. officials at regional

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[16] Homi Kharas and Johannes F. Linn, "Hypocrisy in Financial Crisis Response: East Asia 1998 versus the USA 2008," *Emerging Markets*, April 30, 2008, https://www.brookings.edu/articles/hypocrisy-in-financial-crisis-response-east-asia-1998-versus-the-usa-2008/.

[17] Matthew P. Goodman and Ely Ratner, "A Better Way to Challenge China on Trade," *Foreign Affairs,* March 22, 2018, https://www.foreignaffairs.com/articles/china/2018-03-22/better-way-challenge-china-trade.

gatherings. This means that presidents need to attend the two annual Asian summits, the APEC Leaders' Meeting and the East Asia Summit (EAS); Cabinet secretaries need to attend meetings of their peers in APEC and other forums; and lower-level American officials need to be a visible presence at other regional gatherings.

Second, U.S. policy in the region needs to credibly speak to all main substantive areas of economic policy, including trade, development, finance, and energy. The biggest gap at present is trade policy. The Trump Administration's bilateral approach to trade negotiations is simply not sufficient to fill the void left by the U.S. withdrawal from TPP. These deals will take too long to negotiate and, even if completed, will not produce the collective benefits of TPP, either commercially or strategically. If we are not going to apply for membership in CPTPP—and in my view, we should—the Administration needs to develop an alternative that tries to come as close as it can to replicating TPP's power in incentivizing others to follow us in building out U.S.-preferred rules and norms in trade in the region.

Nowhere are the stakes higher in rulemaking than in the digital domain. TPP included the first binding rules on digital commerce in a trade agreement, calling for substantially free cross-border flows of data, no data localization requirements, no customs duties on electronic commerce, and other disciplines.[18] These rules were updated and expanded in the U.S.-Mexico-Canada (USMCA) agreement now pending before Congress. With China, Europe, and others pushing out models of digital governance starkly different from that preferred by the United States, we have a compelling interest in leading rulemaking efforts in this area.

We also need a credible strategy to compete in the historic infrastructure build-out in the Indo-Pacific. The need for infrastructure in the region over the next decade is estimated to be in the tens of trillions of dollars.[19] Despite the noise surrounding BRI, China is not going to fill this need alone—or fill it well. As CSIS argued in a recent report, "The Higher Road,"[20] there is a tremendous opportunity for the United States to compete in the regional infrastructure build-out, if we articulate a strategic vision and draw on our competitive advantages. These include great companies offering high-quality products and services; commitment to the rule of law and to social, environmental, and financial sustainability; and tens of trillions of dollars of private capital—particularly pension and insurance monies—looking for long-term returns.

A third dimension of a successful U.S. economic strategy in the Indo-Pacific is active participation in regional institution-building. Messy and painstaking as it can be, there is a strong demand for such institution-building and U.S. participation in it—provided we are seen as constructive and willing to do things "the Asian way." The economic architecture in the region

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[18] U.S. Trade Representative, "The Digital 2 Dozen," April 2016, https://ustr.gov/sites/default/files/Digital-2-Dozen-Final.pdf.
[19] Sungsup Ra and Zhigang Li, "Closing the Financing Gap in Asian Infrastructure," Asian Development Bank, June 2018, https://www.adb.org/sites/default/files/publication/431261/swp-057-financing-gap-asian-infrastructure.pdf.
[20] Charlene Barshefsky and Stephen J. Hadley, "The Higher Road: Forging a U.S. Strategy for the Global Infrastructure Challenge," Center for Strategic and International Studies, April 2019, https://www.csis.org/higherroad.

revolves around APEC. Since we co-founded the forum exactly 30 years ago, it has been an invaluable tool for spreading U.S.-preferred norms on a wide range of issues, from trade liberalization to energy security to women's economic empowerment. There is also a demand for U.S. participation in ASEAN-centered institution-building that Washington should tap into by doubling down on initiatives such as U.S.-ASEAN Connect and the U.S.-ASEAN Smart Cities Partnership.[21]

Fourth, we need to reinforce our regional economic strategy with active engagement on the bilateral and global levels. Bilaterally, we should encourage—and sometimes cajole—allies and partners from Japan to Singapore to support our regional rulemaking and norm-setting initiatives. To win the support of developing countries in the region, we should use a combination of diplomacy and increased development assistance to help these countries build capacity and understand the benefits of our preferred approach. Globally, we should increase financial and policy support for multilateral institutions working in the region, from the IMF to the World Bank, and use the G20—half of whose members are in the Indo-Pacific—to amplify the economic rules and norms we are working to spread regionally.

Recommendations: Putting ARIA into Action

ARIA covers many of the critical elements of an effective economic strategy in the Indo-Pacific region. Funding the specific programs authorized in the Act would be an excellent starting point to put it into action. Let me offer seven other ideas that build on some of the points in the Act and would support a smarter economic statecraft in the Indo-Pacific, with an accent on the role for Congress.

1. ***Develop a credible regional trade strategy:*** The single most powerful step the United States could take to bolster its strategic economic position in the Indo-Pacific is to announce its intention to accede to CPTPP. In addition to rectifying the loss of U.S. competitive position in key markets like Japan and Vietnam due to withdrawal from TPP, joining CPTPP would send a strong statement of U.S. commitment to the region—one that China and others could not fail to notice.[22] While no substitute for a regional trade approach, pursuing bilateral deals with important Asian partners not currently in CPTPP such as the Philippines and Taiwan would also be a valuable part of a comprehensive strategy. In addition to its Constitutional authority to direct trade policy, Congress also has an important role to play in investing in the domestic economic foundations I mentioned in my fourth pillar above—infrastructure, education and skills, R&D, etc.—which in my view are essential to win the support of the American people for an active

[21] U.S. Mission to ASEAN, "U.S.-ASEAN Connect," https://asean.usmission.gov/connect/. The White House, "Remarks by Vice President Pence at the 6th U.S.-ASEAN Summit," November 14, 2018, https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-6th-u-s-asean-summit/.
[22] Matthew P. Goodman, "United States and Japan Finally Exorcise Trade Ghosts," Center for Strategic and International Studies, October 5, 2015, https://www.csis.org/analysis/united-states-and-japan-finally-exorcise-trade-ghosts.

trade policy.

2. ***Launch a major digital governance initiative:*** As mentioned above, nowhere is there more at stake in Indo-Pacific—indeed, global—economic rulemaking than in the digital arena. Congressional passage of USMCA and U.S. accession to CPTPP would give major impetus to the U.S.-preferred digital rules contained in both agreements. In parallel with work on those deals, the United States should propose a high-level regional initiative on digital governance that makes the case for the benefit of its approach and seeks to shape regional decisions on critical issues such as an open internet, cross-border data flows, and digital taxation. Endorsement of Japanese Prime Minister Shinzo Abe's proposed concept of "data free flow with trust"[23] would give a useful push to an approach that appears broadly in line with U.S. interests.

3. ***Articulate and implement a regional infrastructure strategy:*** Again, there is an active competition in the Indo-Pacific to fill the region's massive infrastructure needs, and the United States needs a strategy and tools to compete in this arena. In our recent report, "The Higher Road," CSIS offers a strategic framework, seven topline recommendations, and a number of specific implementation steps to shape a U.S. global infrastructure strategy.[24] In addition to policy recommendations for the executive branch, such as working to win international agreement on a set of principles for high-quality infrastructure investment, our report includes several proposals requiring Congressional action, *e.g.:*
    a. Contributing $200 million from the new U.S. Development Finance Corporation (USDFC) to the Currency Exchange Fund, which helps mitigate foreign exchange risks in infrastructure projects;[25]
    b. Reauthorizing the U.S. Export-Import Bank when its charter expires at the end of September;
    c. Substantially increasing funding for the U.S. Agency for International Development (USAID) and the U.S. Trade and Development Agency (USTDA) to support capacity building and other programs that support quality infrastructure investment;
    d. Expanding the interagency Infrastructure Transaction and Assistance Network (ITAN), including by funding the proposed Transaction Advisory Fund (TAF) to send experts to recipient countries to assist with contract negotiation[26]; and
    e. Contributing to the World Bank's Global Infrastructure Facility (GIF) and other relevant programs at multilateral development banks.

[23] Shinzo Abe, Remarks at the 2019 World Economic Forum, January 23, 2019, https://www.weforum.org/agenda/2019/01/abe-speech-transcript/.
[24] Charlene Barshefsky and Stephen J. Hadley, "The Higher Road," https://www.csis.org/higherroad.
[25] "Infrastructure Finance," Currency Exchange Fund, https://www.tcxfund.com/infrastructure/.
[26] U.S. International Trade Administration, "The Infrastructure Transaction and Assistance Network," March 2019, https://build.export.gov/build/idcplg?IdcService=DOWNLOAD_PUBLIC_FILE&RevisionSelectionMethod=Latest&dDocName=eg_ip_127502.

4. ***Increase support for regional institutions and initiatives:*** As discussed above, Asian countries generally welcome U.S. participation in regional institution-building efforts. With a relatively small investment, the United States can leverage these institutions to spread U.S.-preferred rules and norms. Accordingly, Congress should support increased funding for regional institutions and initiatives that promote our economic and strategic interests. These include APEC, the ADB, U.S.-ASEAN Connect and the U.S.-ASEAN Smart Cities Partnership, and the Lower Mekong Initiative (LMI).

5. ***Invest in economic expertise:*** To carry out effective economic statecraft, the U.S. Government needs to substantially enhance its staffing, skills, and incentives at relevant agencies. Action is needed at several levels. Congress should move quickly to confirm an administration nominee for Under Secretary of State for Economic Growth, Energy, and the Environment. It should support expansion of the number of Foreign Commercial Service attachés at post (including digital attachés; see "The Higher Road," p.30). Congress should also support increased training and incentives for State Department officers on both sides of the coin of economic statecraft that I mentioned earlier, *i.e.*, commercial diplomacy and strategic use of economic tools to promote U.S. foreign policy objectives.

6. ***Deepen educational exchange:*** Attracting Asian students to our colleges and universities is one of the most powerful tools of U.S. soft power. In addition to the skills they take back home (or keep here if they are allowed to stay), exposure to our open society and way of life shapes lifelong attitudes—overwhelmingly positive—toward the United States. Expanding scholarships for students from strategically important Asian countries like Indonesia, as well as creating incentives for U.S. colleges and universities to set up branches in Asia, are among the useful programs that Congress might consider supporting. It is also important that visa and deemed-export policies not unduly hinder legitimate foreign students from opportunities to study in the United States.

7. ***Work with allies and partners:*** It cannot be said often enough that our alliances and partnerships are among the most important advantages the United States has over its competitors in the Indo-Pacific region. We should be seeking more opportunities to cooperate and coordinate regional economic policies with allies and like-minded partners. Over the past six months, CSIS has issued two reports exploring such opportunities with Japan and Australia and offering specific recommendations for joint or complementary action in the region.[27] These cover a wide range of substantive areas of economic policy,

[27] Gordon de Brouwer, Matthew P. Goodman et al, "Delivering Prosperity in the Indo-Pacific," https://csis-prod.s3.amazonaws.com/s3fs-public/publication/190418_DeliveringProsperity_WEB_v2.pdf.
Matthew P. Goodman, Ann Listerud, and Daniel Remler, "The Article II Mandate: Forging a Stronger Economic Alliance between the United States and Japan," Center for Strategic and International Studies, December 2018, https://www.csis.org/analysis/article-ii-mandate-forging-stronger-economic-alliance-between-united-states-and-japan.

including infrastructure, digital governance, finance, and energy.

This is just a sampling of ideas for putting ARIA into action. My CSIS colleagues and I would be happy to work with the Committee to flesh out other ideas as you take this important legislation forward.

Before closing, I would like to briefly mention two areas in which I believe Congress should consider *not* acting—or pausing to weigh costs and benefits—in the interest of encouraging more effective economic statecraft.

The first is avoiding excessive reporting requirements for State and Commerce officers at post. While understanding Congress' legitimate interest in being informed of developments on the ground in other countries, I believe much of this demand can be met through the plethora of public news and analytical sources available in today's media environment; certainly this is true when it comes to basic economic data and trends in most countries. The time of officers at post would be better spent "doing things"—advocating for U.S. commercial or policy interests—rather than reporting facts and trends readily available elsewhere.

Second, when considering economic sanctions—a legitimate tool of statecraft to shape other countries' behavior where appropriate—Congress should weigh the unintended short- and long-term costs of proposed action. The most obvious of these is the burden on legitimate commerce, which can impede U.S. international competitiveness and ultimately growth. There can also be diplomatic costs for our relations with allies and partners, particularly where secondary sanctions are in play. Potential long-term costs include driving other countries away from the U.S. financial system and ultimately use of the dollar as a reserve currency. These costs may not outweigh the benefits of sanctions in particular cases but should always be considered, in my view.

Conclusion

There is a fierce competition for leadership underway in the vital Indo-Pacific region. The stakes for the United States in this competition are enormous, given the opportunities and risks involved in the world's most dynamic region. Fortunately, the United States has been dealt a strong hand and has worked to strengthen it over time. But there is a clear and present risk of complacency or of playing the hand badly. With smart economic statecraft incorporating the ideas I have discussed here, I believe we can maintain our strong position in the Indo-Pacific region and ensure a peaceful, prosperous, and rules-based order there.

Thank you again for the opportunity to offer my views on this important set of issues.