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U.S. STRATEGIC INTERESTS AND THE APEC AND EAST ASIA SUMMITS

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U.S. STRATEGIC INTERESTS AND THE APEC AND EAST ASIA SUMMITS

WEDNESDAY, DECEMBER 2, 2015

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

The subcommittee met, pursuant to notice, at 2:35 p.m., in room 2255, Rayburn House Office Building, Hon. Matt Salmon (chairman of the subcommittee) presiding.

Mr. SALMON. This subcommittee will come to order.

Good afternoon. We convene this hearing today to gain a deeper understanding of the administration's continued efforts to engage with Asia at the Asia-Pacific Economic Cooperation and East Asia Summits. This hearing will examine the outcomes of APEC and EAS and determine how Congress can support the expansion of U.S. presence in the region.

The APEC Summit convened 21 member economies in Manila to discuss economic growth and integration in the region, which is no light task. As a bloc, APEC countries represent over half the world's GDP and 44 percent of all their global trade.

Given that summit occurred immediately following the Paris attacks, the fight against ISIS was a large part of the conversation. The heads of state at the summit rightly took a united stance against terrorism and stressed the importance of using economic tools to address the root causes of such evils. I am curious about how Asia's views of terrorism may or may not have changed at this event.

I just returned from a trip to Taiwan where I had the opportunity to meet with President Ma and leaders of the opposition DPP party. As a strong supporter of Taiwan's participation on the global stage, I am encouraged to see Taiwan's membership and the engagement in APEC. Still, I would like to see additional partners in the Asia-Pacific region take advantage of membership in APEC, including India, the region's third-largest and fastest-growing economy. As APEC would greatly benefit from the inclusion of the next global economic powerhouse, I urge our administration to support India's candidacy for APEC membership.

APEC also provided a platform for leaders of TPP countries to hold meetings following the completion of the agreement. We will be watching closely as the parties work toward ratification, though it seems that the TPP strategic value continues to hold. Indonesia and the Philippines and South Korea have each expressed interest

or intent to seek inclusion in the deal. Experts say the completed negotiation of TPP is a major blow to RCEP, China's rival to the agreement.

I would be interested, though, to hear from our administration witnesses how they see or foresee TPP fitting into the regional architecture with a number of competing trade deals in Asia. And I am sure Mr. Sherman will have his thoughts and comments, too, which I welcome. I actually find it quite refreshing. It is kind of fun.

President Obama also visited the Gregorio del Pilar, a former Coast Guard cutter that is now a centerpiece of the Philippine Navy, to talk about the defense of our allies' maritime security and the South China Sea. He announced a $250 million plan to provide assistance to regional partners to improve their maritime capabilities, signaling that China's belligerent activities would be a prominent agenda item at both summits, even in light of APEC's economic focus. And I welcome that. I think that kind of clarity is badly needed, so thank you.

Maritime security was discussed in depth at the East Asia Summit in Kuala Lumpur immediately following APEC bringing 18 members of consultations on political and strategic issues. Even after President Xi gave his assurance to President Obama and the public that China would not militarize the manmade islands of the South China Sea, China continues to build dual-use facilities on them.

China's paper-thin efforts to characterize the construction of assets with military applications as a public service made clear the dishonesty in prior statements. Despite this, I was really glad to see the summit chairman's statement reaffirm the importance of the freedom of navigation and overflight in the region and supported a rules-based order in the maritime space.

The EAS also provided an opportunity for discussions of other interests to include terrorism, energy, health, development, combating human trafficking, and poverty reduction. I had the recent opportunity to meet with representatives from all the ASEAN nations and reassured them of our support for the development of democracy and security in their countries and across the region.

Summits such as APEC and EAS have provided substantial opportunities for the United States to bolster our foreign policy goals in the region, strengthen our partnerships and alliances, open our markets, and promote sound international law and norms.

And with that, I look forward to hearing from our witnesses. Members present will be permitted to submit written statements to be included in the official hearing record. And without objection, the record will remain open for 5 calendar days to allow for statements, questions, and extraneous materials subject to the length limitation in the rules.

And, Mr. Sherman, I will turn to you.

Mr. SHERMAN. I oppose the Pivot to Asia if by that phrase we mean redirecting our military focus to a place where there are few reefs that we can quibble about at a time when ISIS and the Iranian-led Shiite alliance are killing tens of thousands of people and killing as many Americans as they can.

It may be useful politically in Beijing to focus nationalist attention on these reefs, and of course it meets the desire of some in our Pentagon to focus on a confrontation of uniformed and advanced militaries with which they are comfortable. But the fact is these so-called islands, reefs, are basically useless. We are told they are important because ships passing close to them involve hundreds of billions of dollars of trade. That is true. They are all going in and out of Chinese ports, and I do not think that China will blockade its own ports.

That being said, we do believe in freedom of navigation. We should continue to assert that, but not as the chief focus of our military. What is happening now at the Pentagon is they are abandoning the research and procurement and structuring and planning necessary to deal with the problems of the Middle East and focusing their attention to building advanced naval systems designed solely to confront China. Keep in mind if these so-called islands are of any economic value, that value does not accrue to the U.S. taxpayer. It accrues to Japan, Korea, the Philippines, et cetera, while we are without much attention, spending hundreds of billions of dollars in procurement and planning at the Pentagon redirecting our military efforts to the defense of these supposedly valuable islands. The amount of additional money being spent on defense by the countries that claim to own these islands pales in insignificance.

Much brouhaha about Japan making the slightest change in where it will deploy its forces, the fact that there is so much brouhaha over that proves how insignificant the Japanese—I hope I said Japan and not China as to the application of their forces. The fact is Japan claims the islands but claims that we should defend them and has not insignificantly increased its military budget.

The one exception to this on burdening-sharing is Taiwan. They want to buy a couple frigates for them. The Congress has authorized it. It has been planned. They are ready and it is time to deliver them. And we will have legislation on that to push the delivery of those frigates.

We do need to focus on the interests of the American middle class and the American taxpayer that sends us to Washington. This TPP is such a terrible economic deal for the American middle class that it is being sold as good geopolitics because it can't be sold on the basis of economics. As a method of containing China, it is a fantastically good deal for China and they didn't even have to show up to the negotiations.

Two things: First, we are told this deal sets precedence of a world adopting America's rules. They are not America's rules. They are the rules that have destroyed the American middle class over the last 30 years. They are Wall Street's rules. But the one case the rules reflected in the TPP are not Wall Street's rules; they are Beijing's rules. This is the holy grail that establishes that currency manipulation is allowed and almost glorified in the text of this agreement, or should I say the missing pages of the text of this agreement. So it establishes for China's benefit and, I hate to say it, but also for Japan's benefit that currency manipulation is allowed and cannot be stopped.

Second, under the rules of origin, goods that are admitted to be 30 percent made in Vietnam or Malaysia but 70 percent made in China get duty-free access to the United States. Now, it is not just 30 percent because if a Chinese company creates a factory in Vietnam and then labels things saying, well, at least 30 percent of the goods were—they are making all the decisions as to how to allocate the costs of production. They are doing the intercompany invoicing. Goods that are 3 percent made in Vietnam could be labeled 30 percent made in Vietnam. And this agreement does not employ 50 or 100,000 accountants to go look at every intercompany invoice, which is what would be necessary.

So this is a free trade deal par excellence for China. Now, I know they are fainting and saying, oh, we want to join the deal. They get all the benefits of the deal just as soon as Congress approves it. Well, maybe only 97 percent of the benefits. They will still have to do a little bit of the work in Vietnam or Malaysia.

So if this deal cannot be sold as good economics for the American middle class, it would be sold on the basis of patriotism because Americans are patriotic. And we will tell our constituents you have got to lose jobs but it is necessary for our security. No. It is necessary to further enhance China and Wall Street.

And I yield back.

Mr. SALMON. Thank you. Mr. Bera?

Mr. BERA. Thank you, Mr. Chairman.

You know, I want to thank the chairman for having this hearing because obviously when we are thinking about the Asian markets, you know, some of the fastest-growing markets that are critically important to our economy and growing our economy, making sure that we have fair access to those markets and our companies.

Also, you know, I would like to align myself with the chairman's statements that what is happening in the South China Sea is critically important, both strategic value, as well as—it is quite important to make a statement today so we don't have to engage militarily in the future. And it is incredibly important that international law, international waterways, and international norms in the South China Sea are recognized.

And, you know, I have stated in committee many times that, you know, China has incursions here. The building of these manmade islands really goes outside international norms. And it is very important that we send a strong message that that is not okay.

Extremely important that we keep these markets open, extremely important that we create a fair playing field for American companies, for the American worker and, you know, evaluate how we engage again in an incredibly important region of the world.

So, again, thank you, Mr. Chairman, for holding this hearing, and I look forward to the testimony of the witnesses.

Mr. SALMON. I thank the gentleman.

We are really appreciative to have both the very distinguished witnesses joining us this afternoon.

First, Mr. Michael Fuchs is the deputy assistant secretary of State for Strategy and Multilateral Affairs in the Department of State's Bureau of East Asian and Pacific Affairs.

And Mr. Bruce Hirsh is the assistant U.S. Trade Representative for Japan, Korea, and APEC, and you have been really busy lately.

We would like to start with you, Mr. Fuchs.

STATEMENT OF MR. MICHAEL H. FUCHS, DEPUTY ASSISTANT SECRETARY OF STATE FOR STRATEGY AND MULTILATERAL AFFAIRS, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. FUCHS. Thank you, Mr. Chairman, Ranking Member Sherman, members of the subcommittee. Thank you for the opportunity to appear before you today to testify on the recently concluded East Asia Summit and U.S.-ASEAN Summit. I would also like to thank the committee for your continued leadership and supporting and promoting engagement in the Asia-Pacific region.

Two weeks ago, as you know, President Obama made his ninth trip to the Asia-Pacific, which is a reflection of a continued importance of the region to U.S. national interests and the administration's commitment to advancing the rebalance strategy. A central component of this strategy is what I would call a "rebalance within the rebalance" to Southeast Asia and those 10 countries that make up the Association of Southeast Asia Nations, or ASEAN.

Given its strategic location and the essential role it plays in the region's multilateral institutions, ASEAN is at the core of one of the world's most dynamic regions. This year in particular has been a historic one for our engagement with ASEAN. At the U.S.-ASEAN Summit, the President and ASEAN leaders elevated the U.S.-ASEAN relationship to a strategic partnership and agreed on a new plan of action for 2016 to 2020. And we were pleased to announce that the ASEAN leaders had accepted the President's invitation to attend a special summit in the United States in 2016.

Taken together, these summits are charting a course forward with ASEAN, guiding our efforts to work together on everything from climate change to trafficking-in-persons to maritime security and beyond.

The President also participated in the East Asia Summit, which has quickly become the premier forum for addressing political and security issues in the Asia-Pacific region. This year was its 10th anniversary, and leaders used the occasion to endorse a number of institutional reforms to move the EAS closer to being the strong, effective institution that the region needs to support the rules-based order.

This year, the leaders of EAS also endorsed statements on key regional challenges, including maritime cooperation, cyber issues, preventing health pandemics, and countering violent extremism, which will help build a foundation for regional cooperation.

And as the region's premier institution for addressing political and security concerns, the leaders also focused on the South China Sea. At both the EAS and the U.S.-ASEAN Summits, the President directly addressed the maritime disputes in the South China Sea. All countries of the EAS, claimants and non-claimants alike, have a vested interest in how this issue is addressed. While the United States is not a claimant and takes no position on the sovereignty of particular features in the South China Sea, the President used the East Asia Summit to convey the United States' deep and abiding commitment to freedom of navigation and overflight and other

lawful uses of the sea, upholding international law, and the maintenance of peace and stability in the region.

He made clear that the United States will stand by our treaty obligations and our security commitments. The President encouraged ongoing efforts to develop a code of conduct between ASEAN and China. He also urged parties to take more immediate steps to lower tensions, including a halt to land reclamation, construction of new facilities, and any further militarization of outposts.

He noted the unanimous October 29 decision of the arbitral tribunal regarding its jurisdiction in the case between the Philippines and China and expressed support for the arbitration process as a peaceful mechanism to resolve disputes.

The level of concern over events in the South China Sea was clear from across the region during the summit. At the East Asia Summit, 15 of the 18 leaders present expressed concerns over tensions in the South China Sea, and 10 of those leaders emphasized the importance of the non-militarization of outposts. And this year, ASEAN itself sent a direct and unmistakable signal to China on the South China Sea referring in its own summit statement to concerns about the possible militarization of outposts. This chorus of support on the issue of non-militarization is a step forward and one we intend to work with others to build on in the coming weeks and months.

Fundamentally, of course, these maritime security issues are about rules, not rocks. The question is whether countries work to uphold international legal rules and standards or whether they flout them. It is about whether countries work together with others to uphold peace and stability or use coercion and intimidation to secure their interests.

And I want to reaffirm here today that we will continue to champion respect for international law, freedom of navigation and overflight and other lawful uses of the seas, unimpeded lawful commerce, and the peaceful resolution of disputes.

Finally, while my colleague Bruce Hirsh will address APEC in more detail, I would like to note quickly that we view APEC as the premier economic forum in the region for advancing free and open trade and investment, as well as for fostering cooperating and promoting sustainable and equitable growth. The United States' priority in APEC is to enhance regional integration and stability while establishing systems conducive to U.S. economic competitiveness.

So in conclusion, I thank the committee for its interest in these issues and look forward to working with you in pursuit of U.S. interests in the Asia-Pacific. I look forward to answering any questions you may have.

[The prepared statement of Mr. Fuchs follows:]

Testimony of Michael Fuchs
Deputy Assistant Secretary for Strategy and Multilateral Affairs
Bureau of East Asian & Pacific Affairs, Department of State

House Foreign Affairs Committee
Subcommittee on Asia & The Pacific

December 2, 2015

Thank you for the opportunity to appear before you today to testify on the very important and timely issue of the recently concluded East Asia and U.S.-ASEAN Summits. I would also like to thank the Committee for its continued leadership in advancing U.S. interests and supporting and promoting engagement with the Asia-Pacific region.

Advancing the Rebalance

Let me begin by noting that just two weeks ago, President Obama made his ninth trip to the Asia-Pacific, a reflection of the continued importance of the region to U.S. national interests and the Administration's commitment to advancing the Rebalance strategy. With nearly half of the earth's population, more than one-third of global GDP, and some of the world's most capable militaries, the Asia-Pacific is increasingly central to U.S. political and economic interests. The *quality* of that growth is essential to ensuring that the benefits reach the most vulnerable people, promote environmental responsibility, and ensure the rule of law and a free and fair market economy. The region's dynamism, expanding trade and investment, growing ranks of capable powers, and increasing people-to-people ties with the United States present extraordinary opportunities that this Administration is seizing. At the same time, Asia presents clear challenges in the years ahead, including concerns related to nuclear proliferation, intensifying maritime and territorial disputes, a mixed human rights record across the region, and transnational challenges ranging from climate change to extreme poverty to terrorism. It was in recognition of these opportunities and challenges for the United States that President Obama launched the Asia Rebalance early in his Administration. Our priority is to strengthen cooperation among our partners in the region, leveraging their significant and growing capabilities to build a network of states that sustains and strengthens a rules-based regional order and addresses regional and global challenges. Today, our strategy is yielding concrete results as we continue to lay the groundwork for U.S. engagement in the years ahead.

One of the most vital aspects of the rebalance is the sustained focus that we have placed on Southeast Asia and the ten countries that make up the Association of Southeast Asian Nations or ASEAN. Collectively, the members of ASEAN are home to 660 million people and make up the world's seventh largest economy. ASEAN is the United States' fourth largest trading partner, and our private sector is the largest investor in ASEAN. It is a region where some countries have seen significant progress in consolidating democracy and respect for human rights – Burma's recent elections are an example of this – but there continue to be setbacks as well. Given its strategic location and the essential role it plays in the region's multilateral institutions, including the East Asia Summit, ASEAN is at the core of one of the world's most dynamic regions. In recognition of this, we have pursued what I would call a "rebalance within the rebalance" to place appropriate emphasis on Southeast Asia and to engage more broadly and deeply than ever

before. That's why we made the decision to appoint a resident U.S. Ambassador to ASEAN and to join the East Asia Summit. It's why we decided to create the Lower Mekong Initiative, which is helping to promote sustainable economic development in mainland Southeast Asia to close the development gap within ASEAN. And it's why we decided to start the Young Southeast Asian Leaders Program, which now engages 55,000 people between the ages of 18 and 35 across all ten ASEAN nations.

Taking the US-ASEAN Partnership to the Next Level

This year in particular has been a big one for ASEAN and for our engagement with the organization. At the end of this month, ASEAN will formally launch what it calls the ASEAN Community, after a decades-long process in which ASEAN member states have made a concerted effort to deepen their political, economic, and social ties with one another to form a more cohesive bloc. ASEAN's deeper integration supports U.S. economic and geopolitical interests, and the United States has made a significant contribution to the development of the ASEAN Community. Through our regional assistance funds we have, for example, helped ASEAN create a Single Window customs facilitation system that will help to expedite intra-ASEAN trade and make it easier for U.S. businesses to operate in the region. We have supported young scientists, women entrepreneurs, judges and small business, all in the name of fostering integration as well as good governance and human rights. For instance, the U.S.-ASEAN Business Alliance for Competitive SMEs, a public-private partnership between USAID and the U.S.-ASEAN Business Council, has already trained 3,500 SMEs — with nearly half of the individuals trained being women entrepreneurs — in all ten member states since its launch just over one year ago.

At the U.S.-ASEAN Summit, the President and the leaders of ASEAN endorsed the formal elevation of the U.S.-ASEAN relationship to a strategic partnership, signifying our shared commitment to strengthen cooperation across a broad set of strategic priorities. We also launched our US-ASEAN Plan of Action 2016-2020, outlining the policy and programmatic areas of focus in our relationship over the next five years, including a renewed focus on maritime cooperation, trafficking in persons, and women's empowerment. We are pleased to note that on November 21, ASEAN signed the ASEAN Convention Against Trafficking in Persons, Especially Women and Children. This regional legal instrument represents an important step forward in preventing trafficking, prosecuting the perpetrators, and protecting the survivors. USAID supports ASEAN to establish regional standards that member states can use to adjust legal frameworks to implement the Convention's provisions to support victims of trafficking, allowing better collaboration and coordination among countries to protect victims and prevent trafficking. Over the last five years we have established a strong foundation for the US-ASEAN partnership – now we are looking ahead to set ambitious goals for what we can achieve together. The President invited the ASEAN leaders to a special summit in the United States in 2016 to build on the momentum of our new strategic partnership and focus our relationship on future opportunities and challenges. The ASEAN leaders accepted the invitation, evidence of their strong interest in further propelling U.S.-ASEAN relations.

Charting a course for the future of the US-ASEAN relationship not only strengthens our partnership with that institution and the ten countries of ASEAN – it also bolsters the platform for working with ASEAN to advance our broader regional goals, including: affirming the EAS as the region's premier, leader-led forum for strategic discussions of political and security issues; promoting greater regional cooperation on transnational challenges, including countering violent

extremism, cyber security, trafficking in persons, and climate change; lowering the barrier to cooperation in addressing regional challenges; and, strengthening the region's cohesiveness in upholding a rules-based order to manage disputes peacefully, including maritime and territorial disputes in the South China Sea.

East Asia Summit: Premier Forum for Political Security Issues

While the region has a number of institutions and arrangements to address economic and trade issues, the EAS is the region's sole leaders-led institution focused on political and security issues. With a range of complicated and contentious transnational issues – from maritime disputes to countering violent extremism – facing the region, the United States is committed to strengthening the EAS as the go-to forum for tackling these issues in the Asia-Pacific. Over the life of our membership, we have successfully shaped the EAS agenda to focus on political and security issues. EAS members have embraced the goal of using this institution to promote a rules-based approach to managing inter-state relations, promote strategic trust, and ensure transparent and predictable behavior.

The EAS began as a forum to bring together leaders for open discussion on key issues, and has rapidly developed into an agenda-setting organization for the region. In just the last twelve months, the EAS has demonstrated its relevance by taking proactive stances on a range of political-security issues facing the region and the world including ISIL and violent extremism, Ebola and global health security, Iran's nuclear program, and maritime cooperation in the South China Sea.

Now, the EAS members are moving to strengthen the institution itself to make it more capable of advancing regional goals. A key achievement at the recent Summit was the endorsement by leaders of a 10th anniversary declaration that sets out concrete steps for further strengthening the institution. These include:

- An enhanced role for the EAS chair to ensure leaders' decisions are implemented, and to connect the work of the EAS with other ASEAN-based regional institutions;
- Establishing regular engagement in Jakarta between the Ambassadors to ASEAN of EAS members to follow up on leaders' decisions and exchange information on regional security policies and initiatives; and,
- The creation of a dedicated unit to support the EAS within the ASEAN Secretariat in Jakarta.

These steps will help move the EAS toward being an institution that can prioritize issues, discuss and respond to them in a timely fashion, and lay the foundation for tackling them.

Tackling Transnational Challenges

In Kuala Lumpur, the leaders of the EAS also came to consensus on key regional challenges including maritime issues, cyber-security, preventing health pandemics, and countering violent extremism.

In adopting a statement on Countering Violent Extremism, EAS leaders sent a clear signal of the region's determination to tackle the challenge posed by ISIL and other violent extremist groups, and to respond to their efforts to spread their ideology of violence and terrorism. This followed up on last year's EAS statement where leaders committed to take actions to stem the flow of

foreign fighters to and from Syria and Iraq. At the Summit, Malaysia highlighted its new commitment to establish a digital center for countering violent-extremist messaging. We have worked closely with Malaysia as it developed the concept for this center, and we are exploring ways to support it.

This year leaders adopted a statement proposed by the United States on transnational cyber issues, reflecting the priority we place on cyber issues. The statement emphasized the importance of regional cooperation to improve the security and stability of cyber networks. It set an important precedent for strengthening practical cooperation, risk reduction, and confidence-building in cyberspace among EAS members.

Leaders also adopted a statement on regional health security in responding to diseases with pandemic potential. So far this century, the East Asia region has seen the outbreaks of Severe Acute Respiratory Syndrome (SARS) in 2003; Avian Influenza (H5N1) in 2005; a further Influenza Pandemic (H1N1) in 2009; and the outbreak this year in Korea of Middle East Respiratory Syndrome (MERS). Leaders committed to improve health surveillance systems in each nation, and emphasized the importance of information sharing to ensure the region can quickly detect and respond to potential pandemics.

Finally, Leaders adopted a statement on Maritime Cooperation sponsored by Indonesia, which commits all EAS members to upholding a rules-based maritime order. It commits EAS members to cooperate in tackling regional maritime problems, including preventing incidents at sea, illegal, unreported and unregulated fishing, irregular migration and piracy, and to work together to protect the marine environment. Members committed to observe international law, as reflected in the 1982 UN Law of the Sea Convention (UNCLOS), to ensure all countries enjoy freedom of navigation and overflight. As we work to address the rising tensions in the South China Sea, this statement is an illustration of the strong regional consensus in working together to uphold rules and norms in the maritime space in the Asia-Pacific.

While the East Asia Summit is a relatively new organization, its members are building the consensus necessary to not only prioritize key regional issues, but also to begin forging solutions to them.

South China Sea

At the EAS and the ASEAN Summits the President directly addressed the maritime disputes in the South China Sea, and strongly encouraged the relevant countries in the region to take steps to lower tensions and to address disputes peacefully and in accordance with international law.

As we have outlined previously, this administration has a comprehensive strategy on the South China Sea, which includes building regional consensus behind principles that undergird the rules-based order; standing up for the right of claimants to pursue peaceful dispute settlement mechanisms such as the arbitration process; enhancing maritime capacity of claimants; strengthening coordination with and among partners and allies on maritime issues; increasing our military presence; urging reciprocal steps by all claimants to lower tensions; and, engaging candidly and consistently with Beijing at all levels to underscore our expectation that China will adhere to assurances about not militarizing outposts, upholding freedom of navigation and overflight, and peacefully resolving disputes. We view events in the South China Sea as linked

to our fundamental national interest in upholding a rules-based international order, where rules and norms, not size or strength, guide outcomes to disputes.

Tension over the South China Sea is a serious concern for all EAS members, a fact reflected in the statements by 15 of the 18 leaders on the subject during the EAS Summit conversation. It also was noteworthy that ten leaders at the EAS Summit also emphasized the importance of non-militarization of outposts, reflecting a growing regional coalescence around the importance of reducing risk of unintended incidents. By bringing the region's leaders together to focus on this issue, the EAS reaffirmed in no uncertain terms that it has a vital role to play in tackling this challenge.

While the United States is not a claimant and takes no position on the sovereignty of particular features in the South China Sea, the President used the East Asia Summit to convey the United States' deep and abiding commitment to upholding the principles of freedom of navigation and overflight and other lawful uses of the sea, adherence to international law, respect for unimpeded lawful commerce, and peaceful management and resolution of disputes. The President made clear that the United States will stand by our treaty obligations and security commitments. He also expressed support for the region's effort to accelerate negotiation of a China-ASEAN Code of Conduct to provide rules of the road in the South China Sea. And the President also noted the unanimous October 29 decision of the arbitral tribunal regarding its jurisdiction in the Law of the Sea Convention case between the Philippines and China, expressing support for the right of states to pursue arbitration.

The President, along with many other leaders, highlighted the region's expectation that China follow through on President Xi's recent assurance that China would not militarize new outposts. The East Asia Summit's Chairman's Statement – a reflection of the leaders' discussion – specifically referenced President Xi's commitment to non-militarization of outposts. The Statement also reaffirmed the importance of peace, stability and security and upholding freedom of navigation in, and overflight above, the South China Sea. The Chairman's Statement encourages all claimants to resolve their differences through peaceful means, in accordance with the UN Law of the Sea Convention. In other words, the aspirations of the region, as reflected in the Chairman's Statement, closely align with our whole-of-government approach to maritime issues.

U.S. engagement has been crucial in placing the South China Sea and maritime cooperation at the top of the agenda in the region's multilateral forums. The South China Sea was also discussed at other Summits hosted in Malaysia in November – the ASEAN's own Summit, the ASEAN-United States Summit and the ASEAN-China Summit. ASEAN sent a strong signal this year, referring specifically in its own Summit statement to the concern of some leaders about the possible militarization of outposts. In the language of these Summits, that was a direct and unmistakable signal to China expressing concern over its extensive reclamation and construction activities. ASEAN leaders also indicated their commitment to conclude an ASEAN-China Code of Conduct for the South China Sea, which the President encouraged countries to speed up as an important tool to lower tensions.

More so than in years past it was clear that the countries of the Asia-Pacific are concerned about China's activities and the increasing tensions – and are using the ASEAN meetings to express those concerns openly to China's top leaders. Furthermore, the chorus of support voiced for no further militarization of outposts and for upholding freedom of navigation and overflight in the

South China Sea is a real step forward, one that we intend to work with others in the region to build on in the coming weeks and months.

These diplomatic efforts are supported by our provision of maritime assistance to the region. Over the next two years, and subject to appropriations, we are committed to providing over $250 million from across the U.S. government to support the maritime capabilities of Southeast Asian countries, including the Philippines, Vietnam, Indonesia, and Malaysia. This assistance will also help our partners develop the necessary infrastructure and logistical support, strengthen their institutions, and enhance their practical skills to develop sustainable and capable maritime forces.

Fundamentally, these maritime security issues are about rules, not rocks. The question is whether countries work to uphold international legal rules and standards, or whether they flout them. It's about whether countries work together with others to uphold peace and stability, or use coercion and intimidation to secure their interests.

The peaceful management and resolution of disputes in the South China Sea is an issue of immense importance to the United States, the Asia-Pacific region, and the world. This is a key strategic challenge in the region. And I want to reaffirm here today that we will continue to champion respect for international law, freedom of navigation and overflight and other internationally lawful uses of the seas related to those freedoms, unimpeded lawful commerce, and the peaceful resolution of disputes.

APEC

Finally, while my colleague Bruce Hirsh will address APEC in more detail, I'd like to note that as we view the EAS as the premier forum for political and security issues, we view APEC as the premier economic forum in the region for advancing free and open trade and investment, as well as for fostering cooperation in promoting sustainable and equitable growth. The United States priority in APEC is to enhance regional integration and stability, while establishing systems conducive to U.S. economic competitiveness. APEC is also a vital forum to address transnational issues such as health and the environment.

At the recent APEC Ministerial and Leaders' meetings in Manila, in addition to trade-related outcomes, the United States also advanced continuing priority initiatives which reduce barriers to trade and investment; advance climate efforts; enhance emergency preparedness and disaster resiliency; strengthen health systems, and promote women's economic participation.

Conclusion

In summary, in 2015 we built on the progress of recent years with ASEAN and established a strong foundation for advancing our interests with ASEAN and the region's multilateral institutions in 2016, and look forward to working with incoming Chair Laos to push forward on our shared goals.

Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to appear before you. I will be happy to answer any questions you may have.

Mr. SALMON. Thank you.
Mr. Hirsh?

STATEMENT OF MR. BRUCE HIRSH, ASSISTANT U.S. TRADE REPRESENTATIVE FOR JAPAN, KOREA, AND APEC, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Mr. HIRSH. Chairman Salmon, Ranking Member Sherman, and members of the subcommittee, thank you for the opportunity to testify on the recently concluded APEC Leaders' Meeting and on APEC's importance for U.S. economic and trade engagement in the Asia-Pacific region.

The Asia-Pacific region continues to be a dynamic and growing part of the global economy. The 21 APEC economies account for nearly 60 percent of global GDP and international trade and are home to 2.8 billion consumers, 40 percent of the world's population.

U.S. engagement in APEC plays an important role in helping to secure the economic benefits offered by the Asia-Pacific region and to address the challenges we face there. APEC remains the premier regional forum through which we are able to advance U.S. trade policy objectives in a leadership role. With other economic powers vying for influence in the region, U.S. active engagement remains essential.

The unique characteristics of APEC make it an effective forum to advance work on emerging issues in the trade and economic area. First, given how much the region has benefitted from trade, APEC economies generally embrace open markets and ideas that advance free trade.

Second, APEC outcomes are nonbinding and voluntary in nature, thus allowing APEC economies to be more forward-leaning and open-minded when exploring new issues in contrast to other venues where achieving consensus is more difficult.

Third, APEC initiatives can take a variety of forms with varying levels of participation by economies. This flexibility allows for more creative and diverse approaches to new and emerging issues.

Finally, APEC has a diverse membership. As a result, initiatives that emerge from APEC carry significant weight in other fora. For example, the WTO Information Technology Agreement and a subsequent expansion have their origins in APEC. Similarly, the 2011 commitment by APEC leaders to reduce tariffs on environmental goods gave impetus to the launch of the WTO Environmental Goods Agreement. And APEC's long-term work on supply chain facilitation helped lay the groundwork for the WTO Trade Facilitation Agreement.

In 2015, with the Philippines as host, APEC continued its work to improve the business environment in the Asia-Pacific and to facilitate trade. This work culminated in a number of outcomes at the November 18 to 19 Leaders Meeting, including on topics of great interest to U.S. stakeholders such as the reaffirmation of the commitment to reduce environmental goods tariffs, endorsement of substantive work on the internet and digital economy, a mandate to elevate APEC work on services trade, and the instruction to complete work on APEC best practices on trade secrets protection and enforcement. Other outcomes were reached on electric vehicle standards, trade and health care products, and advertising stand-

ards, among others. The U.S. has been a leader on all of these issues.

Finally, APEC leaders also noted the recent conclusion of the Trans-Pacific Partnership negotiations. All 12 TPP members are in APEC, and most other APEC economies have expressed an interest in the agreement. Given this connection, the United States and other APEC members have a real opportunity over the coming years to educate APEC members about the benefits of adopting policies that will meet the requirements of high-standard agreements like the TPP. In this way, U.S. engagement in APEC will further serve to support the objective of creating a rules-based trading system for the Asia-Pacific region.

Looking ahead to 2016 when Peru will serve as APEC host, the United States will have an opportunity to push for significant outcomes on digital and services trade, as well as on trade secrets protection and enforcement. APEC will assess progress on its target of improving supply chain performance by 10 percent and look beyond that target. And we will continue to explore ways to ensure that the benefits of economic growth extend to businesses of all sizes.

One of APEC's successes lies in its mandate to engage with the business community. The APEC Business Advisory Council plays an important role by providing its views and priorities to APEC officials throughout the year. In the United States we have a longstanding and close working relationship with the National Center for APEC. We will also continue to consult with Congress as we plan our agenda for APEC in 2016. We are grateful for the interest of this subcommittee in this regard.

In conclusion, I want to thank you for the opportunity to discuss the outcomes of the APEC Leaders Meeting and the importance of APEC to U.S. engagement in the Asia-Pacific region. As that region continues to grow in economic and strategic importance, U.S. leadership in APEC will be increasingly vital. Thank you very much.

[The prepared statement of Mr. Hirsh follows:]

Written Testimony of

Bruce Hirsh
Assistant U.S. Trade Representative for Japan, Korea and APEC Affairs

Hearing on "U.S. Strategic Interests and the APEC and East Asia Summits"
House Committee on Foreign Affairs' Subcommittee on Asia and the Pacific

Wednesday, December 2, 2015

Chairman Salmon, Ranking Member Sherman, and Members of the Subcommittee, thank you for the opportunity to testify on the recently concluded Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting held in the Philippines and on APEC's importance for U.S. economic and trade engagement in the Asia-Pacific region.

The Asia-Pacific region continues to be a dynamic and growing part of the global economy. The United States' active involvement in the region's economic expansion is critical for our continued economic growth. Indeed, the 21 APEC economies account for nearly 60% of global GDP and international trade (57% and 59%, respectively), and are home to 2.8 billion consumers, 40% of the world's population. Since APEC's inception in 1989, Asia-Pacific trade with the world has grown to over $20 trillion, with U.S. goods and services trade with APEC economies totaling $3.0 trillion in 2014. With respect to services trade, the U.S. had a trade surplus with APEC economies in 2014 of over $126 billion.

U.S. engagement in APEC plays an important role in helping to secure the economic benefits offered by the Asia-Pacific region and to address the challenges we face there. APEC remains the premier regional forum through which we are able to advance policy objectives that strengthen our economy and expand our economic relations with its 20 other diverse members. It is the key organization in which we can play a significant leadership role in addressing trade and investment issues that specifically affect this region. It is also a forum where we are able to promote American values and support economic growth that is sustainable and equitable. With other economic powers vying for influence in the region, U.S. active engagement remains essential.

The unique characteristics of APEC make it an effective forum to advance work on emerging issues in the trade and economic arena. First, given how much the region has benefited from trade, APEC economies generally embrace open markets and ideas that advance free trade. The 1994 "Bogor Goals" to liberalize and facilitate trade and investment among APEC economies have served as the guiding principles of APEC and underscore the organization's strong commitment to advancing free and open trade in the Asia-Pacific.

Second, APEC outcomes are non-binding and voluntary in nature, thus allowing APEC economies to be more forward-leaning and open-minded when exploring new issues, in contrast with other venues where achieving consensus is more difficult.

Third, APEC initiatives can take a variety of forms with varying levels of participation by

economies. This flexibility allows for more creative and diverse approaches to new and emerging issues, and for economies with differing views to build bridges as they work together to develop a path forward and test various policy approaches.

Finally, APEC has a diverse membership, including major economies like China, Korea, Russia, and Japan as well as key developing economies in ASEAN, and some FTA partners in the Americas. As a result, initiatives that emerge from APEC carry significant weight in other fora. When 21 economies as diverse and dynamic as those in APEC have forged a common understanding and approach to an issue, this can be used as a building block to a binding commitment in other institutions.

Indeed, initiatives undertaken in APEC have led the way to expanding trade liberalization in the broader multilateral trade system, particularly in recent years. For example, the World Trade Organization Information Technology Agreement (ITA) and its subsequent expansion has its origins in APEC. Through APEC's efforts and U.S. leadership, the negotiations to expand the ITA are moving toward the conclusion of the first tariff-cutting agreement at the WTO in 18 years.

Similarly, the 2011 commitment by APEC Leaders to reduce tariffs on environmental goods gave impetus to the launch of the WTO Environmental Goods Agreement. APEC's long-term work on supply chain facilitation, helped lay the groundwork for the WTO Trade Facilitation Agreement (TFA). APEC economies continue to demonstrate leadership on this issue, with 11 APEC members notifying the WTO of their acceptance of this agreement. APEC economies already are getting a head start on implementing TFA commitments through capacity building work specifically geared towards meeting those commitments. At the same time, APEC continues to push towards achieving its goal of a 10 percent improvement in supply chain performance by reducing the time, cost, and uncertainty of moving goods and services through the Asia-Pacific. These are concrete ways in which APEC has served as a catalyst for improving the business environment and facilitating trade both in the region and globally.

APEC continued its work to improve the business environment in the Asia-Pacific and facilitate trade in 2015 with the Philippines as host. Work advanced on several initiatives intended to deepen regional economic integration, foster small and medium enterprise (SME) participation in regional and global markets, invest in human capital development, and build sustainable and resilient communities. This work culminated in a number of outcomes at the November 18-19, 2015 Leaders' meeting, including on topics of great interest to U.S. stakeholders, such as environmental goods, the digital economy, services trade, electric vehicle standards, trade in healthcare products, advertising standards, trade secrets protection, and others.

With respect to environmental goods, APEC Leaders reaffirmed that they would reduce applied tariffs on the APEC List of 54 Environmental Goods by the end of this year. APEC economies are on track to meet this groundbreaking commitment first made in 2011 when the United States hosted APEC.

Also in Manila, APEC Leaders endorsed substantive work on facilitating the Internet and digital economy. The United States has been a leader in recognizing the importance of the Internet and

data flows to trade in the future, as businesses throughout the world increasingly rely on the Internet to stream music, videos, and applications, link to global supply chains, and sell their innovative goods and services directly to customers in other markets. APEC is now in a position to pursue work on identifying and avoiding unnecessary barriers to digital trade, such as data flow restrictions and data and server localization policies. APEC Ministers likewise endorsed a Digital Economy Action Plan for Micro, Small and Medium-Sized Enterprises, which identified specific ways in which individual economies could integrate SMEs into the global economy through e-commerce and the Internet. SMEs account for one-third of the $1.6 trillion in annual goods exports from the United States, yet less than 5% of SMEs currently export goods. Thus, initiatives like those underway in APEC provide a good opportunity to facilitate greater involvement of our SMEs in global export markets.

APEC Leaders also endorsed the APEC Services Cooperation Framework and instructed officials to develop by the end of 2016 a roadmap for actions and targets in the services area. These outcomes elevated APEC's focus on services trade in recognition of this sector's increasingly important role in contributing to economic growth and development. The United States is a leading world exporter in services, and working through APEC to secure an open and liberal services trade regime will have tangible benefits to U.S. service suppliers and consumers.

APEC Ministers at Manila welcomed progress towards developing APEC Best Practices in Trade Secrets Protection and Enforcement and pushed for early conclusion of this work.

Finally, APEC Leaders also noted the recent conclusion of the Trans-Pacific Partnership Agreement negotiations. The TPP announcement has made a significant impression on countries around the world, and in particular, APEC economies. All 12 TPP members are in APEC, and most other APEC economies have expressed an interest in the agreement. Given this connection, the United States and other APEC members have a real opportunity over the coming years to educate APEC members about the benefits of adopting policies that will meet the requirements of high standard agreements like the TPP. Thus, in addition to the direct, concrete benefits APEC provides U.S. stakeholders through its various initiatives, U.S. engagement in APEC will further serve to support the objective of creating a rules-based trading system for the Asia-Pacific region.

Looking ahead to 2016 when Peru will serve as APEC host, the United States will have an opportunity to push for significant outcomes on digital and services trade, as well as on trade secrets protection and enforcement. APEC will assess progress on its target of improving supply chain performance by 10 percent and look beyond that target. We will continue to explore ways to ensure that the benefits of economic growth extend to businesses of all sizes through SME-related work, which will be one of Peru's priorities.

In pursuing work in these areas, we will continue to work closely with all stakeholders to ensure that the APEC agenda covers issues that are relevant to their interests. One of APEC's successes lies in its mandate to engage with the business community. The APEC Business Advisory Council plays an important role by providing its views and priorities to APEC officials throughout the year. In the United States, we have a longstanding and close working relationship with the National Center for APEC. We will also continue to consult with

Congress, as we plan our agenda for APEC in 2016. We are grateful for the interest of this Committee in this regard.

In conclusion, I want to thank you for the opportunity to discuss the outcomes of the APEC Leaders' meeting and the importance of APEC to U.S. engagement in the Asia-Pacific region. As that region continues to grow in economic and strategic importance, U.S. leadership in APEC will be increasingly vital.

Mr. SALMON. Thank you both very much.

You know, for the last several administrations we have operated on an overarching policy toward China under the umbrella of a term that just makes me feel about like, you know, the time I remember getting my tooth drilled without Novocain, it is called strategic ambiguity because I believe if we need clarity anywhere, we need it with China.

And on that vein I would like you to pass something on to your boss. I applaud him for what he said about the rules of the road in maritime space in the South China Sea and the overflights. I think that kind of strategic clarity and that recommitment to something that is incredibly important not just to the United States but to the world at large was badly needed, and thank him for showing that leadership. I don't think we do that enough.

We have all been concerned about how we juxtapose this Pivot to Asia with the needs and the crisis in the Middle East. Based on this year's Asia-Pacific Summits—and by the way, I think the Pivot to Asia is a great thing. I want to go on record saying that. I think it is incredibly important that we can walk and chew bubblegum at the same time and that we can do more than one thing.

But based on this year's Asia-Pacific Summits, how do you assess the region's views toward transnational terrorist threats? And have these summits yielded any lessons or insights we can apply to better balance global crises with long-term policy goals and to remain engaged in Asia while handling responsibilities elsewhere? Do you feel that the recent events in the Middle East and Europe have changed Asia-Pacific perceptions about terrorism and how to address it? Mr. Fuchs, can I start with you?

Mr. FUCHS. Thank you, Mr. Chair. I think it is obviously a very important issue that you have raised. And I think coming back from these summits I can say without a doubt that the countries of the region are focused on this issue. And this is something that, obviously, many of the countries in the region and Southeast Asia have been focused on for a number of years. These are threats to them as well. And so this is why this has been a priority for us working both bilaterally with many of these countries to strengthen their capacity, information-sharing, to deal with these issues and to coordinate and cooperate on them. And it is also why we have tried to engage through these regional institutions, including ASEAN and East Asia Summit, to build broader cooperation throughout the region in dealing with these issues.

In 2014, last year's summit in Burma, the leaders of the East Asia Summit adopted a statement about the need to stem the flow of foreign fighters to and from Iraq and Syria and agreed to take a number of steps to do so and to cooperate on that endeavor.

This year, following up on that—and obviously the horrible attacks of Paris had just taken place right before the leaders of the EAS met this year, and so that was very much on their minds as well. And they adopted a statement on countering violent extremism and again trying to set out some actions and some principles at least that countries can use to cooperate when it comes to this important issue. So without a doubt I can say this is on their minds and this is something the region has to deal with.

Mr. SALMON. Well, and one of the rationales I used for trying to get Taiwan observer status in INTERPOL is that when we have a global terrorist crisis, then it needs to be all hands on deck. And hopefully, all of these countries understand that. It is nobody's responsibility solely. It is collectively our responsibility to deal with this horrible global threat.

I have a question for you, Mr. Hirsh. Twelve out of the 21 APEC countries are members already of TPP. How does the conclusion of the TPP affect where APEC fits in the U.S. policy toward Asia? And how do you reconcile APEC's principles of volunteerism and open regionalist with the TPP, which is a binding agreement?

Mr. HIRSH. Thank you very much. And those are very good questions.

You know, the TPP is going to serve as a race to the top, we hope, in terms of the rules of the road in Asian trade. We have had a lot of interest from a number of non-TPP parties in what is in the agreement, and we believe that the conclusion of the agreement will help to emphasize the importance of maintaining high standards.

With regard to reconciling APEC's volunteerism with the approach in the TPP, APEC has a very useful and important role to play by virtue of the fact that not every member of APEC is in the TPP. Because it is a voluntary organization, APEC members who are not members of TPP will be more open to experimentation and exploration of ideas that ultimately will allow them to adopt policies that are consistent with high-standard agreements like the TPP. So APEC can continue to serve as an incubator for good policy ideas in the region, and it can help us to educate countries in the region about the value of high standards such as those in TPP.

Mr. SALMON. Thank you. Mr. Bera?

Mr. BERA. Thank you, Chairman.

You know, I applaud the work that the administration has done in the Pivot in laying some of the groundwork, working with the APEC nations. Obviously, they are creating economic cooperation to help their region, and our partnership there certainly is important. I also think, you know, a good TPP certainly starts to build a framework for economic cooperation throughout the Pacific Rim nations.

So as we evaluate the TPP and look at that and consider it here in this body, I think many of us will be doing it with that eye to the future, does it lay the foundation for a fairer trade policy across the entire Pacific Rim region.

You know, as I think about APEC, though, and some of the steps, you know, I have a unique focus on the U.S.-India relationship and certainly a lot of the discussion that is going on in economic cooperation between the United States and India. Certainly, Prime Minister Modi and President Obama have, you know, both echoed a similar theme to, you know, open up stronger economic ties between both countries. You know, while the bilateral investment treaty is not moving as quickly as I would like to see, you know, certainly is a starting point. But another starting point that many of us have talked about is India's desire to join APEC and, you know, some have suggested that the United States should take a more active role in, you know, pushing for India's inclusion.

I would be curious as to what challenges and what suggestions either one of you would have for both, you know, Members here in Congress who might suggest that we push to include India, but then also what India ought to be doing to make it more palatable to join APEC.

Mr. HIRSH. Thank you very much. Well, we welcome India's interest in joining APEC. It is important for economies that are interested in APEC to align their trade and investment policies and their economic reform plans with APEC's longstanding commitments to trade and investment liberalization and market-driven economic reforms.

APEC is an important consensus-based economic institution that deals with a wide range of issues, and it will be important for India to demonstrate its commitment to that consensus-based approach, as well as to the free and open trade and investment policies that APEC espouses. So we certainly will want to understand better how APEC fits into India's economic reform efforts.

Mr. FUCHS. If I may add, Congressman, perhaps taking a step back as well, I think as you mentioned, this administration and President Obama have taken a real interest in engaging with India and strengthening our partnership with India. And that includes, you know, the top of that list, engaging with India with respect to the Asia-Pacific region. Obviously, President Obama's trip there earlier at the beginning of this year, they released a joint vision statement on cooperation between our two countries and the Asia-Pacific, the goals that we share.

In this administration we have begun a series of other dialogues, including a bilateral U.S.-India dialogue about the Asia-Pacific, a trilateral dialogue with India, as well as Japan, covering issues with respect to the Asia-Pacific region. And so, broadly speaking, we are engaged in multiple different levels with India trying to deepen the relationship and the cooperation that we can pursue together on a wide range of issues in the Asia-Pacific.

Mr. BERA. Great. And I agree, laying that foundation today, you know, which, again, we may not see the return on this investment, for, you know, several years or maybe a decade. But it is important that we start to lay that foundation of economic cooperation not just in the region but again across the Pacific, which I do believe, as that partnership strengthens, as the economic relationship between the TPP countries, as well as the APEC countries, strengthens, I do think China will actually see the importance of, you know, normalizing its economy in a way that, you know, allows it to consider joining the TPP. I don't see this as a giveaway to China. I see this actually as the United States strengthening our rules of economic engagement.

And actually hearing the desire of the countries in the region to play by our economic rules, which are much fairer, which are much more equitable, and much more benevolent in helping those countries grow their economies, grow their stability. And I do see this as a key to building stability in the region. So, you know, again, I applaud the administration's efforts. And I will yield back.

Mr. SALMON. Thanks, Mr. Bera.

Mr. Lowenthal, did you have any questions?

Mr. LOWENTHAL. Yes, I have—thank you, Mr. Chairman—statement by also applauding not only the Pivot to Asia but the administration moving towards—in much more way moving toward policies, a strong stance on the South China Sea and making sure that, you know, being the adult in the room and talking about how we have freedom of navigation and that territorial disputes must be kind of resolved in a rational way. And I think that is really a very, very important message for the United States not only to shift but to send that message.

I have three issues wanting to understand more about our role and maybe either in ASEAN or APEC. One of them is human rights, another one is climate change, and the third one is Taiwan. And human rights, we have seen how human rights abuses in one nation can have a regional impact. The persecution of the Rohingya Muslims in Burma has created a refugee crisis that affects surrounding countries. Are these issues that are discussed and in this kind of context? I would really kind of like to know how those issues are being discussed.

The same thing by climate change, how is the United States bringing up climate change in the context of these talks? Developing nations in ASEAN that are expected to rapidly grow and develop in coming years, have they been receptive to discussing emissions and how to limit them? And beyond emissions, how have the Asia-Pacific nations been preparing for adaptation and resiliency? And so that is the second.

And the third one, again, with a lot of questions is, you know, we have known that the Presidents of mainland China, President Xi and President Ma, have held a historic meeting last month. And APEC is one of the few international bodies where the PRC and Taiwan both participate. Has APEC been historically a place where the two can cooperate? And do other APEC participants, have they facilitated any dialogue between Taiwan and the PRC? So take a stab at any of the three: Human rights; climate change, our role; and Taiwan.

Mr. FUCHS. Thank you, Congressman. I think that those are, again, I think very important and relevant questions. I will try to tackle the first two——

Mr. LOWENTHAL. Okay.

Mr. FUCHS [continuing]. If I can start. Human rights issues without a doubt are regularly discussed in a variety of different manners in these summits. For instance, trafficking in persons is an issue that is front and center in Southeast Asia and in this region obviously. We do a lot of work programmatically and otherwise with the countries of ASEAN bilaterally at 10 to try to address these issues and to strengthen regional cooperation.

Just the other week during the series of ASEAN summits, ASEAN itself actually inaugurated its own convention against trafficking in persons, especially women and children, which is a real step forward——

Mr. LOWENTHAL. Okay.

Mr. FUCHS [continuing]. For ASEAN. And we are doing some work now with the member countries of ASEAN to try to ensure that they can begin to implement that convention. And so that is without a doubt a feature of these conversations.

Other human rights issues obviously are regular features of our conversations, especially at the bilateral level and with all of these countries on the sidelines of them. You saw President Obama make some comments about these issues when he was in Malaysia as well. And so again, this is a regular feature of all of our engagement in the region.

With respect to climate change, this is obviously, again, a top priority for the administration. And with respect to ASEAN in particular, we in the last couple of years have been doing a lot of work with ASEAN. Last year, in the 2014 summit, the leaders in the U.S.-ASEAN Summit, the 11 leaders agreed to a statement on climate change, which the first time had all 11 countries and all 10 countries of ASEAN agreeing to put forth their intended nationally determined contributions well before Paris. At that point I believe only one of the countries of ASEAN had done so. And to date I think all but two now have done so.

And the process of engaging with them on the negotiation of that statement, again, was a real boost and a chance for us to discuss a wide variety of these issues.

Mr. LOWENTHAL. But I was wondering, you know, we are seeing a dramatic—I think—dramatic change in China. China a few years ago said there is a critical difference between developing nations and developed nations in terms of setting standards. They have subsequently changed that position and really have come to now address that this is a critical issue for them also.

Are we seeing with these developing nations—what is the discussion because they are further behind and so I just would like to understand how do they see themselves as—you know, on one hand they will be tremendously impacted, especially those in the Southeast Asia that are on sea level rise. On the other hand, they have a long way to go. And so I am just kind of wondering how that dynamic has been played out.

Mr. FUCHS. Well, I think if I can—just to add, I think, to answer your question, I think you have summed it up actually quite well, the way in which they see this. This is both something that is going to affect them so they need to adapt, they need to find ways to grow their economies in sustainable ways, and they are grappling with these issues right now in a very real and tangible way.

They also recognize, though, that with respect to the global negotiations and the fact that this is a global issue and that there are many economies in Southeast Asia that are very large and are growing rapidly in terms of emissions and so they also have a responsibility to contribute when it comes to reducing emissions. And so I think that they are trying to grapple with both of these issues at the same time. And for our part again, we are trying to engage on both sides. The statement with respect to climate change last year was engaging them, I would say, a lot more on the latter side of it, how can we work together to reduce emissions?

On the former side and the adaptation and growing sustainable economies, we have done a lot of work, including through one of our sub-ASEAN initiatives called the Lower Mekong Initiative, which works with the five countries of mainland Southeast Asia on a variety of transnational issues, frankly the top one of which is climate change and the environment and water and the nexus be-

tween that and energy. And so we have been doing a lot of work with those five countries to build local capacity.

Mr. SALMON. The chair recognizes Mr. Chabot.

Mr. CHABOT. Thank you very much, Mr. Chairman. And I apologize for being a little late for this meeting. As some may have already mentioned, there is a Middle East committee hearing going on at the same time so I am trying to cover both areas.

But just a couple questions, and if you already asked these—somebody already asked and they were answered, I apologize for that. But India sought membership in APEC for 20 years and has been an observer since, I believe, 2011. However, some members of the U.S. business community have expressed doubts about India's role in APEC and feel that the U.S. should refrain from proactively supporting India's membership. Could you comment on that? And does the administration believe India has shown enough commitment to economic reform to warrant U.S. support in India's membership, whoever wants to handle that?

Mr. HIRSH. Sure. Yes, again, we do welcome India's interest in joining APEC, but we are evaluating some of the considerations that you mentioned. It is important for economies that are interested in APEC to demonstrate that their policies are aligned with the approaches in APEC for trade liberalization and economic reform.

Also, APEC is a consensus-based organization, and so it is important for prospective members to indicate their ability to work in that environment, as well as to demonstrate their commitment to free trade and open trade and investment. So we are certainly examining these criteria as we look at this question.

Mr. CHABOT. Thank you. Next, President Xi continues to argue that China does not intend to pursue militarization in the South China Sea, but many experts would argue that it has already done so and that the artificial islands have both civilian and military applications. How are President Xi's arguments received by other Asian neighbors, many of whom are our allies? What steps is the U.S. taking to display an active leadership role in preventing China's militarization of the area? And what further steps might we contemplate from the administration?

Mr. FUCHS. Congressman, that is a great question and one on the front of a lot of our minds, as well coming out of these summits.

First, to take a step back and get the second part of your question, I think that this administration has pursued a consistent strategy with respect to the South China Sea that is focused on upholding our interests, our interests in upholding international law and the freedom of navigation, the peaceful resolution of disputes, and that is where our energy is focused. So we are doing that in a variety of ways. It is by making concerns directly known to the Chinese. It is by increasing our maritime security capacity-building, just as the President announced some more funding for during his stop in Manila. It is by actively supporting the development of crisis mechanism tools, the availability of—supporting the ability of countries to avail themselves of international legal mechanisms like arbitration such as the Philippines is doing. And it is includ-

ing, of course, by strengthening our defense posture in the region so we can ensure that we are upholding these variety of interests.

But obviously we are clear-eyed about the challenges that we face in the South China Sea. This is about, I think, shaping an environment to ensure that we can uphold these interests.

So with respect to President Xi's comments about militarization, I think that coming out of the East Asia Summits and the various summits, to your first question, the response is very clear from—the majority of the region is concerned about the actions taking place in the South China Sea. Ten of the leaders in the room at the East Asia Summit, including Premier Li, mentioned the importance of non-militarization of these outposts.

And so we are looking to ensure that there is a regional consensus to ensure that there is no militarization and no further militarization of these outposts. That is our goal.

Mr. CHABOT. Thank you. Just one final comment—my time is ready to run out—but one of my real concerns that the administration has been sending in the whole defense area—and I am sure this has some concern with our allies in the region—is that, you know, we are now down—or we will be if the President's proposals go forward—to have an army that we haven't seen as low in numbers since World War II, an Air Force that is getting older and apparently numbers under when we first had an Air Force. And on the naval front, whereas Ronald Reagan was trying to get it up to a 600-ship Navy, we are now down to 200 and some, which is levels that are all the way back to 1916 in the Navy area. And that is of particular concern in that part of the world.

So I think some of the actions and some what we talk about and what the President is proposing are inconsistent, and I will leave it there since my time has run out. I yield back.

Mr. SALMON. Up for another round of questions? I have got——

Mr. SHERMAN. I didn't get my first round.

Mr. SALMON. What?

Mr. SHERMAN. I am up to my first round.

Mr. SALMON. Oh, you didn't have your first round. Okay. Go ahead.

Mr. SHERMAN. I will try to make my questioning memorable enough to——

Mr. SALMON. We will give you a second round, too.

Mr. SHERMAN. Oh, good for me, maybe not for the witnesses. We will see.

Mr. Fuchs, I will ask you to just answer for the record just basic questions on the law of the sea, at least as interpreted by the United States. How big is the economic zone for an uninhabited reef or island that is submerged at high tide? What is the size of the economic zone for an uninhabited island or reef that at least a little bit is above the water at high tide? And what is the economic zone for an inhabited island? And what is the economic zone for an island that has been uninhabited for the last few millennia but the Chinese Government puts one fisherman's family on it and gives him a free boat and tells him that he has got to live there whether he likes it or not? But he does get a free boat, and then after maybe 5 or 10 years they put a different—in other words, habitation that begins only after the South China Sea becomes a

huge area of dispute but islands that have been uninhabited for at least the last millennia as far as we know.

Now, for questions for an oral response, we got a $600 billion military budget, especially if you throw in veterans' benefits or the cost of compensating our troops. And it is hard for any cost accountant to tell you what portion of that $600 billion is properly allocable to the cost of defending world security in the Eastern Pacific or the Asia-Pacific area. But when I talk to the military about, say, research projects, they say we are not interested in doing research on anything that is going to help us in the Middle East. We want all of our research to be how to shoot down Chinese planes over the South China Sea.

And so knowing that no one could possibly refute it because we can't possibly know, I will say that we are now spending, say, one-third of our military budget focused on the Asia-Pacific area and we are on our way to spending half or $300 billion. So whether it is $200 billion, whether it is $300 billion or it is $200 billion now, whether it is $300 billion later, how much collectively is Japan, the Philippines, and South Korea spending on their total military, all of which is devoted to the East Asia area? And any chance they are increasing their budgets or collective budgets by $100 billion or anything close to that?

Mr. SALMON. Before you answer all those questions, I just want to say if you can get them all off the top of your head, I am going to buy you a milkshake.

Mr. SHERMAN. I am going to buy him a drink.

And if you prefer, you can just respond for the record and answer the more general—give me solid numbers for the general—but is there any evidence of tens of billions of dollars of increase in the defense budgets of Japan, South Korea, and Philippines?

Mr. FUCHS. Well, Congressman, I will have to look into some of these questions to get back to you with some specific answers for the record so that I can make sure that they are accurate.

What I can tell you about your first question, although I am not a lawyer, is that my understanding is that with respect to some of the general explanations of features is that if there is a feature that is submerged, it derives nothing——

Mr. SHERMAN. Right——

Mr. FUCHS [continuing]. No territorial sea, no exclusive economic zone——

Mr. SHERMAN. We agree on that, yes.

Mr. FUCHS. Yes. Right.

Mr. SHERMAN. I just threw that in to give you more questions to answer for the record.

Mr. FUCHS. Right. So we can provide you with some of the other answers to those.

Mr. SHERMAN. Yes. But what will be interesting is the inhabited and then the "never inhabited before, but now that there is a dispute, there is a fisherman."

Mr. FUCHS. Okay.

Mr. SHERMAN. Mr. Hirsh, okay, we have got the rules of origin under TPP, but if you controlled the entire supply chain, if you own the factory in China and you own the factory in Vietnam or you just have a cooperative relationship but you could own it, a factory

that is Chinese-owned and the goods are 70 percent made in China, 30 percent made in Vietnam, if the rule of origin is 30 percent, they get duty-free in the United States, right?

Mr. HIRSH. The rule of origin varies by product so——

Mr. SHERMAN. Right. And for many products. And then for others it will be 40 percent and others will be 45 percent.

Mr. HIRSH. There has to be a verification or there can be verification in examining the eligibility of a product so——

Mr. SHERMAN. How would you possibly do that with less than 50,000 accountants?

Mr. HIRSH. Well, the way that we—I am sorry, Congressman.

Mr. SHERMAN. Yes.

Mr. HIRSH. Yes. Yes, the way that we have approached that in our past FTAs that we would approach here, as well, is just through a multilayered approach where there are spot-checks, verifications——

Mr. SHERMAN. Spot—okay. Every invoice, every intercompany billing decision is totally in the control of those who want the free entry of the product. What spot-checking—I mean, your spot-checking could verify that nothing was being done to the product in Vietnam, but how would you possibly know whether it was 33 percent or 23 percent Vietnamese-made?

Mr. HIRSH. Well, spot-checks are one of the mechanisms which are used to confirm rule of origin. Customs also conducts verifications in which they actually go onsite and examine the company's books in great detail——

Mr. SHERMAN. But the books are made by the company. I mean have you ever done a—you have never been involved on the tax side but we do this in the section 482 audits. There is no chance of catching. Every invoice, every decision, every booking—you get to look at the company's books? They will put on the books what they need to put on the books. How are we supposed to say that if the left side of the product was made in China and the right side of the product was made in Vietnam that it is incorrect to say that the Chinese portion is only 42 percent?

Mr. HIRSH. Well, they have to follow generally accepted accounting principles and customs——

Mr. SHERMAN. I am probably the only CPA in the room and I know generally accepted accounting principles do not answer the question. So what it means is goods that are maybe 10 or 15 percent in reality made in Vietnam get duty-free into the United States. So China knows that even if we decide to push them with higher tariffs on their own goods, they can just stamp the made-in-Vietnam sticker on it, bring it into the United States.

I yield back.

Mr. SALMON. We are going to do another round.

Mr. SHERMAN. Yes.

Mr. SALMON. If you want to ask another question——

Mr. SHERMAN. I am going to go ahead, yes.

Mr. SALMON [continuing]. Then we will go to the next one because I will get you another chance so he can get——

Mr. SHERMAN. Okay. Then I will——

Mr. SALMON. How about we move on to Mr. Connolly and then——

Mr. SHERMAN. Yes.

Mr. SALMON [continuing]. You think about the answer to that one because we are going to go back around again.

Mr. SHERMAN. We will give you a chance, yes.

Mr. CONNOLLY. Thank you, Mr. Chairman.

I have got to say the implication here is that Vietnam and China are in collusion because Vietnam is just so much in love with China and everything Chinese. I think that is a false premise.

Mr. SHERMAN. If the gentleman will yield?

Mr. CONNOLLY. I would yield.

Mr. SHERMAN. My question was a company in Vietnam entirely owned by China would cooperate with its parent company, and of course it would be in the interest of the Vietnamese Government to let this happen——

Mr. CONNOLLY. But I am not——

Mr. SHERMAN [continuing]. Because at least they are getting some of the jobs.

Mr. CONNOLLY. Okay. But you seem to be making sweeping conclusions from that as if everyone is going to cheat and that clearly—apparently Chinese companies are going to dominate trade in 12 countries involving 40 percent of the world's economy. I think that is a false premise and I think it is a misleading suggestion. The fact that some people may cheat is sort of the human condition.

My question, Mr. Hirsh, would be, you know, you got ridiculed for talking about spot-checks so please don't talk about spot-checks. Surely, we have some other mechanisms, however, for verifying the nature of goods and services coming into the United States or crossing borders pursuant to this pending trade agreement.

Mr. HIRSH. Well, we do. As with other mechanisms in other FTAs, we have onsite verifications in which the books are examined in great detail, and if anything incorrect is found, there is the potential for enforcement actions where there would be penalties involved for providing inaccurate information.

Mr. CONNOLLY. So, for example, the example used, a Chinese-owned company operating in, say, Cholon in former Saigon, now Ho Chi Minh City, if we were able to catch them cheating, there would be consequences?

Mr. HIRSH. Yes, there would.

Mr. CONNOLLY. What would those consequences be?

Mr. HIRSH. Well, in addition to the obvious consequence of denying them the benefits of the agreement, there are penalties under our customs statutes for providing incorrect information.

Mr. CONNOLLY. So when a company decides to cheat, pursuant to the example given by my friend from California, they have to calculate the risk here. And it is not a consequence-free risk if caught, is that correct?

Mr. HIRSH. That is correct.

Mr. CONNOLLY. Would there be consequences for the host country, for Vietnam, since the private company—the example given by my friend Mr. Sherman—is not a signatory to the agreement? The Government of Vietnam is. Are there consequences to the Government of Vietnam for either turning a blind eye, acquiescing, or simply being malfeasant with respect to this cheating?

Mr. HIRSH. Well, at the very least they would have an interest in not seeing their exporters cheating because it is going to expose their other exporters to closer scrutiny.

Mr. CONNOLLY. No, but my question was does the pending agreement penalize the host country if it knowingly or even blindly allows such blatant cheating, as described by my friend from California?

Mr. HIRSH. I would probably have to take a closer look at that question. But if it is merely a question of one of their companies doing this, I don't know that the country itself would be penalized.

Mr. CONNOLLY. Okay. If it were a pattern, however, if there were thousands of Chinese-owned companies engaging in this kind of subterfuge, would there be consequences for the Government of Vietnam?

Mr. HIRSH. I will have to take a closer look at that question and get back to you. But, if in fact they were involved in encouraging that behavior, then——

Mr. CONNOLLY. Well, it is a pretty significant question my friend from California is asking, and I think it is pretty important that you answer it hopefully forthrightly and forcefully because, frankly, this goes to the question of are there teeth in the enforcement of this agreement or not? Are there consequences for serious patterns of evasion and cheating or not? If there aren't, then the treaty isn't worth much.

Mr. HIRSH. I understand.

Mr. CONNOLLY. We already have cheating without a treaty.

My friend also asked, Mr. Fuchs, questions about defense spending. Our NATO allies, are they all meeting their goals in defense spending? They are all spending billions of dollars more in defense spending right now, too, right?

Mr. FUCHS. Congressman, I work in the Bureau of East Asian and Pacific Affairs so——

Mr. CONNOLLY. How compartmentalized.

Mr. FUCHS. I——

Mr. CONNOLLY. Well, are you aware of the fact that there is a 2-percent goal for NATO members, that we want you to be spending 2 percent of your GDP on defense? Are you aware of any besides the United States, member of NATO, who in fact is meeting that goal?

Mr. FUCHS. I would have to get back to you on that, Congressman.

Mr. CONNOLLY. Well, would it surprise you to learn not one? Would it surprise you to learn that most of them in fact are retreating from the goal rather than advancing toward the goal? I only point that out because it is not unique to Asia that our allies in fact are not meeting defense investment goals.

And my friend mentioned the Middle East, too, but I would be interested in seeing data on the Middle East when you can talk to your colleagues, you know, how is Jordan doing, how is Israel doing, how is Egypt doing? And what percentage of their current defense spending is coming from the United States?

Japan's defense budget, we provide a protective umbrella. We have a collaborative relationship but we don't subsidize their de-

fense that I am aware of. But when you get back to us for the record, I would be interested in seeing that data.

But I think it is important that the State Department give us the comparative data because I don't want—the suggestion being that Asia is unique. It isn't. So I would request you add to that, knowing and stipulating that you are in your compartment, but the State Department covers the world and if you could get back to us, I would appreciate it.

Mr. FUCHS. Absolutely.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Mr. SALMON. Thank you.

Mr. Hirsh, I have a question for you. And before I ask the question, I want to precursor it by saying that this is my 10th year in Congress. It was kind of bifurcated. I started in '94 and I served to 2000. Bill Clinton was the President. And now I am going on my—well, next year will be my 4th year back, my second time around. During that whole time, I have supported every free trade agreement that has come before us in the Congress. I voted for TPA, and so I am very robust. I have held many hearings trying to be very supportive of the TPP process because I know how important it is both to our country and to the region.

That having been said, what are you guys at USTR or with the administration doing to manage the expectations of the other 10 TPP countries that—it is probably pretty likely that we are not going to get something out of the Congress approving that next year. I mean we are entering the silly season, and the leading candidate on the President's side has come out against it even though she helped shepherd it through when she was Secretary of State. Many of our candidates on the Republican's side are coming out against it as well. It is a bizarre world.

But the fact is TPA passed this body by four votes. And given some of the challenges now—and the vote will be sometime at best in the spring—I think it is very likely that TPP is not going to be ratified by the Congress next year. And I say that not because I hope that or because I want that. I think it is just a fact of life that we are all going to have to deal with.

I have had lots of conversations with the Ambassadors from these TPP countries, and they have expressed to me their interest in being patient and staying the course and waiting for a good deal. I know that your real concern, as I am, about a vacuum being filled by China, and all those arguments are very good and forthcoming, but the fact remains that, politically, it is going to be a real heavy lift if not impossible to get it through next year. What are you doing to manage the expectations of those TPP partners so that they will stay patient and stay in the boat?

Mr. HIRSH. Thank you, Mr. Chairman. Right now, we are focused on making the case for TPP here in Congress and for the American people. And we are confident that when we have made that case that there will be the support.

With regard to our trading partners, our colleagues in TPP are following our processes closely, and I think they are aware of the challenges we face but share our optimism as well.

Mr. SALMON. It is always great to be really optimistic, and I know every football team goes in with the idea that they are going

to come out victorious, but at the end of the game, somebody comes out winning and somebody comes out losing. And I think there has to be a plan B. This is too important to not have a plan B. And I hope that the administration is managing the expectations because I don't want our partners to lose heart and think that, you know, if it doesn't pass next year then it is off the table because I don't believe that is the case.

Mr. CONNOLLY. Mr. Chairman?

Mr. SALMON. Yes, Mr. Connolly, I yield.

Mr. CONNOLLY. I just want to echo what you said. I couldn't agree with you more. I think timing is everything actually. And, Mr. Hirsh, I wish we lived in a world of pure reason and rational actors, but I don't think the dynamic for approval of this agreement is simply a matter of more information, the more people know, the more they will come to love it. I wish that were true but I don't think it is.

You have got to do your job and we understand that, but I think timing is everything, and I think the chairman has said it well. And if the timing is wrong, it is not like we have some huge cushion to fall back on in terms of support up here. I believe TPA passed by a margin of 10.

Mr. SALMON. Was it 10?

Mr. CONNOLLY. Was it 10?

Mr. SALMON. I thought it was four.

Mr. CONNOLLY. I thought it was 218 to 208 but——

Mr. SALMON. Anyway——

Mr. CONNOLLY [continuing]. Whatever.

Mr. SALMON. It was not a lot——

Mr. CONNOLLY. It was not a lot to spare, to the chairman's point. And that is why, frankly, getting the timing right is really critical. So I echo what he said as a supporter of the agreement and of TPA. But this is going to be a slog and a bit of trench warfare.

Mr. SALMON. And it would be prudent to have a plan B. The chair recognizes Mr. Sherman.

Mr. SHERMAN. I would very much hope the trade decisions were made on the basis of pure reason and rational actors, in which case we would have a completely different trade policy than we have had for the last 30 years when we have decimated the American middle class.

I do want to agree with the gentleman from Virginia that as much Chinese cheating as may go on under this agreement, that will not be the lion's share of all the trade that occurs under this agreement. Toyota will be a Japanese company whether we ratify—ratify is the wrong word—whether Congress approves the agreement or not.

But just to show you how incredibly difficult it is to stop cheating, I want to put in the record two articles. One is "U.S. put China-made parts in the F–35 fighter program." There is no way that we are auditing Vietnamese and Chinese textile firms as carefully as our national security is focusing on the parts in the F–35. Even there, cheating happens. "Counterfeit Chinese parts slipping into U.S. military aircraft," ABC News is the second article that I would put in the record if there is no objection.

Mr. SALMON. Can I just say to my friend, we are willing to audit every one of those firms if we get your vote.

Mr. SHERMAN. Don't promise what you can't deliver.

And the idea that you can catch this and will penalize it when you catch it, yes, you can audit the books but I am the only one in the room who has ever written one of these books, and you put in the books what you want to put in the books. You could easily value at zero for intercompany transactions the value of Chinese intellectual property in the product and value at a high value intellectual property that happened to be owned by one of the subsidiaries in Vietnam or Malaysia.

There are so many ways to handle this, not to mention the profit margins. You could set a profit margin at zero of what the Chinese company ships to its Vietnamese subsidiary. And those are the above-board, legitimate ways to cheat. That doesn't even involve lying, just setting the prices differently.

But the other concern I have is on coproduction agreements. Now and then, China does import something from the United States, and what they do is they say, okay, you think you are getting jobs because we are buying these planes, but in order to buy your planes, you have to build a factory in China to build the fuselages not just for the planes that you are selling to China but the planes you are selling all over the world.

Now, that is great if all you are concerned with is Wall Street profits because you move the fuselage factory to China, maybe you will make even more money, but you of course lose the jobs. And once this deal goes forward and China has another route to ship its goods into the United States, we will never be able to demand that we don't have coproduction agreements.

But, Mr. Hirsh, is there anything in this agreement that says that a Vietnamese airline or Malaysian airline can't prefer one aircraft supplier over the other based on which one is willing to produce parts for its plane or to have manufacturing facilities in the buying country? Are coproduction agreements bad?

Mr. HIRSH. Thank you, Congressman. That is a very specific question that I don't have the answer right here.

Mr. SHERMAN. Furnish it for the record, please.

Mr. HIRSH. And we will look into that. Thanks.

Mr. SHERMAN. Good. And I think I had asked another question prior to others that you might want to respond to. And do you have any other comments on any of the other parts of my diatribe that have been focused on you?

Mr. HIRSH. Sir, only to say that we have a number of FTAs and that the enforcement of rules of origin is something which is an issue in every single FTA. We do have a track record there. And customs does look at these issues very seriously.

Mr. SHERMAN. Okay. We here in Washington are cut off. Even I should probably be required to go and sit in the back of a Trump rally. If you think that our prior FTAs' enforcement is what America wants, that we have been doing a great job, that there is no cheating under our existing rules, that everything is hunky-dory and the middle class is doing well in the United States, then you and I should sit in the back of a Trump rally together and see the anger. I won't say that the focus of the solution for that anger,

electing Mr. Trump as President, is the solution, but the anger is there and the anger is because for 30 years America hasn't gotten a raise, especially those who do not have grad school degrees.

So I have gone way over time. I thank the chairman for his indulgence and I yield back.

Mr. SALMON. You have given Steve and I an opportunity to think about a present that we could give you, maybe one of those Trump Make America Great hats.

Mr. SHERMAN. The greatest present that you could give to my party and the worst thing or one of the worst things you could do for my country is to nominate the Presidential candidate who has got the hat.

Mr. SALMON. All right. And on that note, ba-dum-bum, Mr. Chabot.

Mr. CHABOT. Thank you very much. Rather than discuss—never mind. I am just going to stay away from that altogether and go to something less controversial, and that is TPA and TPP. As one who also supported TPA and is inclined to support TPP or certainly was inclined and TTIP and other trade agreements, I have generally been considered a free-trader over my career, I was at a meeting this morning where a fairly prominent person indicated that in chapter 20 of TPP is language that in essence requires that TPP implementation of any environmental agreements that are agreed to in other forums, forums similar to the one that President Obama recently participated in in Paris.

And a lot of ears perked up, including mine at that point, and I went and read the language myself, and it seemed relatively vague. I see that you could interpret it that way. I think you could perhaps interpret it a different way. But, Mr. Hirsh, on behalf of the administration, can you give us some clarification on that issue?

Mr. HIRSH. I will have to defer to my colleagues back at USTR who are more familiar with the details of that particular issue, if that is okay.

Mr. CHABOT. Okay. Yes, I would like to get that as quickly as we can and as much detail as we can and clarification because if that is the case, you know, that would give a lot of people some real heartburn. So I will yield back at this point.

Mr. SALMON. Great and lively discussion. I really congratulate the two of you for sitting through this and being so patient and diligent in your answers and your testimony. We really appreciate it. So thank you very much.

And this committee is now adjourned.

[Whereupon, at 3:48 p.m., the subcommittee was adjourned.]

APPENDIX

Material Submitted for the Record

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Subcommittee on Asia and the Pacific
Matt Salmon (R-AZ), Chairman

November 25, 2015

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held by the Subcommittee on Asia and the Pacific in Room 2255 of the Rayburn House Office Building (and available live on the Committee website at http://www.ForeignAffairs.house.gov):

DATE: Wednesday, December 2, 2015

TIME: 2:00 p.m.

SUBJECT: U.S. Strategic Interests and the APEC and East Asia Summits

WITNESSES: Mr. Michael H. Fuchs
Deputy Assistant Secretary of State for Strategy and Multilateral Affairs
Bureau of East Asian and Pacific Affairs
U.S. Department of State

Mr. Bruce Hirsh
Assistant U.S. Trade Representative for Japan, Korea, and APEC
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.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON *Asia and the Pacific* HEARING

Day *Wednesday* **Date** *December 12, 2015* **Room** *2255*

Starting Time *2:35pm* **Ending Time** *3:50pm*

Recesses [ ] (to) (to) (to) (to) (to) (to)

Presiding Member(s)

Salmon

Check all of the following that apply:

Open Session [✓]
Executive (closed) Session [ ]
Televised [ ]

Electronically Recorded (taped) [ ]
Stenographic Record [ ]

TITLE OF HEARING:

U.S. Strategic Interests and the APEC and East Asia Summits

SUBCOMMITTEE MEMBERS PRESENT:

Brooks, Chabot, Connolly
Sherman, Meng, Bera, Lowenthal

NON-SUBCOMMITTEE MEMBERS PRESENT: *(Mark with an * if they are not members of full committee.)*

HEARING WITNESSES: Same as meeting notice attached? Yes [✓] **No** [ ]
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

Lowenthal, Connolly

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED *3:50pm*

Subcommittee Staff Director

MATERIAL SUBMITTED FOR THE RECORD BY THE HONORABLE BRAD SHERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Counterfeit Chinese Parts Slipping Into U.S. Military Aircraft: Report

http://abcnews.go.com/Blotter/counterfeit-chinese-parts-slipping-us-military-aircraft-senate/story?id=16403599

- By Lee Ferran

May 22, 2012



U.S. Navy/Getty Images

A new report released by the U.S. Senate Armed Services Committee claimed to have found one million suspected counterfeit electronic parts in the Department of Defense supply chain, Some of which were to be installed on the Navy's SH-60B helicopter. more +

Counterfeit electronic parts from China are "flooding" into critical U.S. military systems, including special operations helicopters and surveillance planes, and are putting the nation's troops at risk, according to a new U.S. Senate committee report.

A year-long investigation conducted by the Senate Armed Services Committee found more than one million suspected counterfeit parts made their way into the Department of Defense's supply chain and were bound for use by "critical" military systems, according to the 70-plus-page document released Monday. In addition to Navy helicopters and surveillance planes, the parts were slated to be put into the Air Force's newest cargo planes.

"The failure of a single electronic part can leave a soldier, sailor, airman, or Marine vulnerable at the worst possible time," the report says. "Unfortunately, a flood of counterfeit electronic parts has made it a lot harder to prevent that from happening."

Chinese companies were identified as the "primary source" of the counterfeit goods and the Chinese government was criticized for its alleged disinterest in cracking down on counterfeiting there. The report said that Chinese companies take discarded electronic parts from all over the world, remove any identifying marks, wash and refurbish them, and then resell them as brand-new – a practice that poses a "significant risk" to the performance of U.S. military systems.

But the committee also pointed a finger at the Pentagon and U.S.-based defense contractors that rely on "hundreds of unvetted independent distributors."

According to the document, the investigation "revealed failures by defense contractors and [the Department of Defense] to report counterfeit parts and gaps in DoD's knowledge of the scope and impact of such parts on defense systems."

"Our committee's report makes it abundantly clear that vulnerabilities throughout the defense supply chain allow counterfeit electronic parts to infiltrate critical U.S. military systems, risking our security and the lives of the men and women who protect it," said Senate Armed Services Committee ranking member Sen. John McCain (R.-Arizona). "As directed by last year's Defense Authorization bill, the Department of Defense and its contractors must attack this problem more aggressively, particularly since counterfeiters are becoming better at shielding their dangerous fakes from detection."

Pentagon spokesperson George Little said the Defense Department is taking the new report "very seriously," has taken action to address the infiltration of counterfeits and is "constantly evaluating" parts that are already installed in military equipment.

"We're unaware, to date, of any loss of life or catastrophic mission failure that has occurred because of counterfeit parts," Little told reporters. "But that doesn't mean we should stop addressing the issue. We will not stop until we strengthen our efforts to identify, prevent and detect these pieces of equipment from entering our supply chain."

Months after the Senate committee launched its investigation, the Pentagon said in November it was moving to protect against counterfeit parts by modifying policies and improving its internal process as well as working more closely with private companies in the industry. In March, acting undersecretary of acquisitions, Frank Kendall, issued a memo that was "designed to take initial steps to stand up an aggressive and comprehensive anti-counterfeiting program," Little said today.

Representatives for the Chinese government at its embassy in Washington, D.C., and consulate in New York, New York did not immediately respond to request for comment on this report.

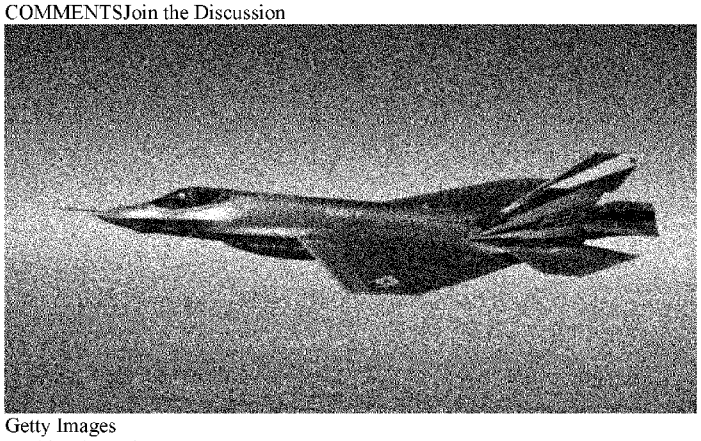
ABC News' Luis Martinez contributed to this report.

MATERIAL SUBMITTED FOR THE RECORD BY THE HONORABLE BRAD SHERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

US put China-made parts in F-35 fighter program

http://www.cnbc.com/2014/01/03/us-put-china-made-parts-in-f-35-fighter-program.html

Friday, 3 Jan 2014 | 4:49 PM ETReuters
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COMMENTSJoin the Discussion



Getty Images
Lockheed Martin's F-35.

The Pentagon repeatedly waived laws banning Chinese-built components on U.S. weapons in order to keep the $392 billion Lockheed Martin F-35 fighter program on track in 2012 and 2013, even as U.S. officials were voicing concern about China's espionage and military buildup.

According to Pentagon documents reviewed by Reuters, chief U.S. arms buyer Frank Kendall allowed two F-35 suppliers, Northrop Grumman and Honeywell International, to use Chinese magnets for the new warplane's radar system, landing gears and other hardware. Without the waivers, both companies could have faced sanctions for violating federal law and the F-35 program could have faced further delays.

"It was a pretty big deal and an unusual situation because there's a prohibition on doing defense work in China, even if it's inadvertent," said Frank Kenlon, who recently retired as a senior Pentagon procurement official and now teaches at American University. "I'd never seen this happen before."

The Government Accountability Office, the investigative arm of Congress, is examining three such cases involving the F-35, the U.S. military's next generation fighter, the documents show.

The GAO report, due March 1, was ordered by U.S. lawmakers, who say they are concerned that American firms are being shut out of the specialty metals market, and that a U.S. weapon system may become dependent on parts made by a potential future adversary.

(Read more: The Battle of 2014: A shrinking defense industry)

The waivers apply to inexpensive parts, including $2 magnets, installed on 115 F-35 test, training and production aircraft, the last of which are due to be delivered in May 2014. Lawmakers noted that several U.S. companies make similar magnets.

Kendall said the waivers were needed to keep production, testing and training of the Pentagon's newest warplane on track; avert millions of dollars in retrofit costs; and prevent delays in the Marine Corps' plan to start using the jets in combat from mid-2015, according to the documents. In one case, it would cost $10.8 million and take about 25,000 man-hours to remove the Chinese-made magnets and replace them with American ones, the documents indicate.

Lockheed is developing the F-35, the Pentagon's costliest arms program, for the United States and eight countries that helped fund its development: Britain, Canada, Australia, Italy, Norway, Turkey, Denmark and the Netherlands. Israel and Japan have also placed orders for the jet.

The program is already years behind schedule and 70 percent over initial cost estimates. At the time Kendall was granting the waivers, officials were acutely worried that further delays and cost increases would erode the foreign orders needed to drive down the future cost of each warplane.

In the documents, Kendall underscored the importance of the F-35 program to ensure continued U.S. military superiority and counter potential emerging threats from nations developing their own stealth fighter jets, including Russia and China.

He said additional delays would force the United States and its allies to keep its legacy fighters flying longer, which would result in higher maintenance costs. It would also leave them with older jets, which Kendall said "cannot match the offensive and defensive capabilities provided by F-35."

The Pentagon first disclosed problems with non-U.S. magnets in a little-noticed written statement to Congress in the spring of 2013. But the statement did not name companies involved and did not disclose that some of the parts came from China.

Officials at Northrop, Honeywell and Lockheed declined to comment on the issue, referring queries to the Pentagon.

2014 Defense industry predictions CNBC's Jane Wells shares her predictions for the defense industry in 2014 and weighs in how international sales impact Lockheed's bottom line.

Joe DellaVedova, spokesman for the F-35 Joint Program Office (JPO) at the Pentagon, said the office was committed to ensuring that federal defense acquisition laws were strictly followed.

"There was never any risk of technology transfer or other security breach associated with these manufacturing compliance issues," he said. "The JPO is working with industry to put in place long-term solutions to avoid the need for future waivers."

In his statement to Congress, Kendall said he took the matter "extremely seriously" and said Lockheed was told to take aggressive steps to identify any further cases, and correct its compliance process.

Bill Greenwalt, a former senior defense official and now an analyst with the American Enterprise Institute think tank, said the risk to national security appeared low since the magnets in question had no programmable hardware.

However, he added: "This is an area that will need considerable due diligence in the future to ensure that components for more high-risk applications are safe from potential tampering and foreign mischief."

Specialty metals

Since 1973, U.S. laws have banned the procurement of specialty metals produced outside the United States for use on U.S. weapons. A separate 2006 law also bans the purchase of end-use items and components that include such specialty metals.

The documents reviewed by Reuters show that Northrop first discovered the use of non-compliant Japanese magnets on the Active Electronically Scanned Array (AESA) radar it builds for the F-35 in August 2012, alerting the prime contractor, Lockheed, which then told the Pentagon.

(Watch: Honeywell Aerospace: Asia to drive growth)

A subsequent investigation of all parts on the F-35 turned up two more cases in which non-U.S. specialty metals were used on the F-35's radar, and on target assemblies built by Honeywell that are used for positioning doors and landing gear.

Northrop's radar was also found to contain $2 magnets made by Chengdu Magnetic Material Science & Technology, in China's Sichuan region, according to the documents.

The magnets used on the Honeywell target assemblies were acquired through Illinois-based Dexter Magnetic Technologies.

Dexter and Chengdu Magnetic did not immediately respond to requests for comment.

Knowing and willful?

In June, the House Armed Services Committee asked the GAO to determine whether the companies involved "knowingly and willfully" supplied non-compliant magnets, and how the Pentagon investigated that question. The committee also asked GAO for recommendations on

potential changes, such as fines or penalties for non-compliance to deter future problems, as well as suggestions for beefing up Pentagon supply chain management procedures.

In a document approving use of Chinese magnets on the batch of 32 F-35 fighter planes now being built, Kendall said neither Lockheed nor Northrop knowingly allowed the parts to be used.

In his waiver, Kendall wrote that Northrop's initial mistake, involving magnets built in Japan, was an "administrative oversight" and noted the firm quickly reported the matter when it was discovered in August 2012. It led to the comprehensive review that found two additional issues involving Chinese-built magnets.

It is not clear from the waiver documents whether Kendall determined that Honeywell's use of Chinese-built magnets involved a similar mistake.

—By Reuters

Statement for the Record

Submitted by Mr. Connolly of Virginia

President Obama's recent swing through Asia included stops at the Asia-Pacific Economic Cooperation (APEC) Leaders Meeting, the U.S.-Association of Southeast Asian Nations (ASEAN) Summit, and the East Asia Summit.

The summits represented an opportunity to demonstrate shared resolve on issues including climate change, security, economic integration, and development in an area of the world that is growing quickly in terms of both population and purchasing power.

Prior to President's the trip, the U.S. and China announced a sweeping climate deal that sets the stage for coordinated action on climate change by the world's two largest producers of greenhouse gases. Among the commitments President Obama secured from Chinese President Xi Jinping were China's implementation of a cap-and-trade system for emissions, the contribution of $3.1 billion for climate finance in developing countries, and the achievement a 20 percent share of energy consumption from non-fossil fuel sources by 2030. This is a particularly relevant deal to secure prior to the President's trip to Asia as many of the nations represented at the various summits were countries most prone to threat of climate change.

In a demonstration of how the U.S. must manage a complicated relationship with China, shortly after President Xi's visit to Washington, DC in September and the issuance of the U.S.-China Joint Presidential Statement on Climate Change, a U.S. Navy ship, the USS Lassen, was sent on a patrol near Subi Reef in the South China Sea. China angrily protested the patrol near one of its artificial islands as an infringement on its sweeping sovereignty claims in the South China Sea.

Despite these protests, the President used the forum of the APEC Leaders Summit to repeat U.S. demands that China cease its reclamation and construction activities in the South China Sea. He also used the backdrop of the ASEAN Summit to announce a $250 million maritime security package for the Philippines, Vietnam, Indonesia, and Malaysia. Cooperation on climate goals and the uncomfortable enforcement of international law cannot be mutually exclusive in the U.S.-China relationship.

The assertion of maritime rights is an important demonstration of solidarity with our Asia-Pacific allies that have sovereignty disputes with China in the South China Sea. Maritime issues in the region are at the nexus of security and economic growth. It is imperative to our allies' economic interests and sense of stability in the region that the U.S. communicates to China that international law and norms will be observed in the Asia-Pacific.

The U.S.-led effort to secure the Trans-Pacific Partnership (TPP) – the largest free trade deal in history – is another initiative in the Asia-Pacific that seeks to bring our regional partners closer while

demonstrating to China that an international system that relies on clearly defined standards is the clearest path to peace and prosperity for the region. The TPP negotiations were concluded on October 5 and the official text was released one month later – just weeks before the President's visit. During the APEC Leaders Summit – which included the leaders of all 12 TPP nations – the TPP leaders issued a joint statement reiterating that TPP will set high standard trade rules, create jobs, and further integrate the TPP member nation's national economies. As Congress reviews the details of the agreement, each Member of Congress owes it to our partners in the Asia-Pacific and the U.S. workers who would benefit from expanded global trade to consider supporting the trade agreement. If TPP proves to be the most progressive trade deal in history and allows the U.S., not China, to write the rules for trade in the Asia-Pacific, it would be geopolitical malpractice to forego this historic opportunity.

PREPARED STATEMENT OF THE HONORABLE ALAN S. LOWENTHAL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

House Foreign Affairs Committee / Asia & the Pacific Subcommittee:

Strategic Interests and the APEC and East Asia Summits

Opening Statement & Questions

Friday, January 15, 2016

Thank you Mr. Chairman, and thank you to the witnesses for joining us today.

US engagement with these regional groupings is an important way to advance our economic and security interests in Asia and the Pacific.

I would like to first applaud the President and the administration for taking a strong stance on the South China Sea in favor of freedom of navigation and the rule of law. Territorial disputes in the region must be solved peacefully through multilateral diplomacy. China's unilateral moves to reclaim land and declare territorial waters have only served to destabilize the region and fuel mistrust between neighbors.

APEC and ASEAN are vital forums for resolving these disputes. That is why I was glad to see the President make clear at APEC that the United States supports freedom of navigation and an end to militarization of the South China Sea.

As we speak, nations all across the world are meeting in Paris to reach consensus on how we deal with the critical issue of climate change. There is no greater challenge to our generation then how we address climate change. The Asia Pacific region, with its large population and lengthy coastlines, will be one of the epicenters for the adverse effects of climate change and sea level rise.

The economies of APEC represent over half of global gross domestic product and include the world's two largest carbon emitters. APEC and

other regional summits can provide an important forum to facilitate multilateral cooperation to tackle what is truly a global problem.

I have been heartened by the President's strong commitment to address climate change and reach agreements with countries to limit emissions, including China.

I recently returned from a trip to China in which climate change was one of the key topics of discussion. I appreciate the Chinese government's willingness to engage in dialogue on how to combat climate change, and their commitment to peak emissions by 2030.

The United States must continue to be a leader on this issue, and I look forward to the administration continuing to advocate for swift action to restrict and reduce carbon emissions.

Thank you, and I yield back.

U.S. Strategic Interests and the APEC and East Asia Summits
Subcommittee on Asia and the Pacific
House Committee on Foreign Affairs
Wednesday, December 2, 2015, 2:00 p.m.

Questions for the Record

Questions from Ranking Member Sherman:

- Please clarify State's legal views on maritime entitlement generated by inhabited and uninhabited islands, especially on previously uninhabited islands where a government may decide to locate a new population.
- What are Japan, Korea and the Philippines spending on their militaries and are those figures increasing?
- How can we verify adherence to Rules of Origin under TPP?
- Does TPP address co-production agreements, particularly for state airlines?

Questions from Mr. Connolly of Virginia:

- How do the percentage-of-GDP defense spending figures of our Asian partners and allies compare to those of our NATO allies? Could you please provide comparative data on how much our partners and allies in Asia are providing for their own defense spending, and how that matches up to U.S. subsidies?
- Does the TPP agreement penalize a party government for turning a blind eye, acquiescing, or simply being malfeasant in regards to cheating under the terms of the agreement? How? Are there teeth in the enforcement provisions of this agreement, and if so, how do they differentiate between individual violations and patterns of evasion and cheating?

Question from Mr. Chabot of Ohio:

- In chapter 20 of the TPP is language that in essence requires that TPP parties implement any environmental agreements that are agreed to in other forums, forums similar to the one that President Obama recently participated in in Paris. The language seemed relatively vague. Can you please clarify this issue?

TAKEN QUESTIONS FROM REPRESENTATIVES SHERMAN AND CONNOLLY

December 2, 2015

Michael Fuchs

Representative Sherman. How big is the economic zone for an uninhabited reef or island that is submerged at high tide? How much – what is the size of the economic zone for an uninhabited island or reef that at least a little bit is above the water at high tide? How – and what is the economic zone for an inhabited island?

And what is the economic zone for an island that's been uninhabited for the last few millennia, but the Chinese government puts one fisherman's family on it and gives them a free boat and tells him that he's got to live there whether he likes it or not, but he does get a free boat, and then after maybe five or 10 years, they put a different – in other words, habitation that begins only after the South China Sea becomes a huge area of dispute, but islands of the been uninhabited for at least the last millennium as far as we know…

But when I talk to the military about, say, research projects, they say we're not interested in doing research on anything that's going to help us in

the Middle East, we want all of our research to be how to shoot down Chinese planes over the South China Sea. And so knowing that no one could possibly refute it because we can't possibly know, I'll say that we're now spending, say, a third of our military budget focused on the Asia-Pacific area and we're on our way to spending half, or 300 billion (dollars).

So whether it's 200 billion (dollars), whether it's 300 billion (dollars), whether it's $200 billion now, whether it's $300 billion later, how much collectively is Japan, the Philippines and South Korea spending on their total military, all of which is devoted to the East Asia area, and any chance they're increasing their budgets or collective budgets by a hundred billion or anything close to that?

Mr. Fuchs. The maritime entitlements of ocean features under the international law of the sea are reflected in Article 121 of the 1982 Law of the Sea Convention:

"1. An island is a naturally formed area of land, surrounded by water, which is above water at high tide.

2. Except as provided for in paragraph 3, the territorial sea, the contiguous zone, the exclusive economic zone and the continental shelf of an island are determined in accordance with the provisions of this Convention applicable to other land territory.

3. Rocks which cannot sustain human habitation or economic life of their own shall have no exclusive economic zone or continental shelf."

The Philippine defense budget in 2014 was 1.2 percent of GDP. Philippine defense budgets from 2012 to 2015 are the following: $2.3 billion (2012 at today's exchange rate); $2.6 billion (2013); $2.6 billion (2014); $3.0 billion (2015). The Philippine defense budget in 2016 grew by 12 percent to $3.6 billion. The above defense budget amounts are independent of an additional $1.82 billion that Manila is spending from 2013 – 2017 on military modernization.

From 2012-2014, the Republic of Korea's (ROK's) defense spending ranged between 2.39 and 2.42 percent of GDP. The ROK's 2015 defense spending was $34 billion, amounting to 2.18 percent of its GDP. The ROK allocated $33.2 billion for its 2016's defense budget. Although this is a 3.6 percent increase, the decreased dollar amount is the result of changing foreign exchange rates. As of now, there is no data to indicate what percentage of GDP this is.

For Japanese fiscal year 2015, Japan's defense related expenditures for are $39.1 billion dollars. In addition, Japan spends $1.19 billion dollars on projects relating to realignment of U.S. forces and facilities in Japan.

Representative Connolly. Well, are you aware of the fact that there's a two percent goal for NATO members, that we want you to be spending two percent of your GDP on defense? Are you aware of any, besides the United States, member of NATO who in fact is meeting that goal? Well, would it surprise you to learn not one? Would it surprise you to learn that most of them in fact are retreating from the goal rather than advancing toward the goal? I only point that out because it's not unique to Asia that our allies in fact are not meeting defense investment goals.

And my friend mentioned the Middle East, too, but I'd be interested in seeing data on the Middle East when you can talk to your colleagues, you know, how's Jordan doing, how's Israel doing, how's Egypt doing. And what percentage of their current defense spending is coming from the United States? Japan's defense budget, we provide a protective umbrella. We have a collaborative relationship, but we don't subsidize their defense that I'm aware of. But when you get back to us for the record, I'd be interested in seeing that data. But I think it's important that the State Department give us the comparative data, because I don't want the suggestion being that Asia is

unique. It isn't. So I would request you add to that, knowing and stipulating that you're in your compartment, but the State Department covers the world, and if you can get back to us, I'd appreciate it.

Mr. Fuchs. The United States does not subsidize Japan's defense budget.

The NATO alliance comprises 28 members and is based in Brussels. Besides the United States, only four NATO members are expected to meet the alliance's two percent target for defense spending in 2015. These four nations are Poland, the United Kingdom, Estonia, and Greece.

NATO Heads of State and Government committed at the 2014 Wales Summit to invest more on defense. Specifically, Allies agreed over the next decade to aim to move toward spending two percent of GDP on defense, and to devote twenty percent of their defense budgets on equipment and capabilities.

Including the United States, in 2015 five Allies spent two percent of GDP on defense and seven Allies invested at least twenty percent of their defense budgets on equipment and capabilities. After years of declining defense spending, most Allies are reversing that trend. In 2015, only four Allies spent less on defense as a percentage of GDP, excluding those already meeting the two percent goal. Additionally, in 2015 twenty four Allies spent a higher percentage on equipment and capabilities than in 2014.

My colleagues in the Near East Affairs Bureau would be happy to arrange a classified briefing for you on the details of defense spending in Jordan, Israel, and Egypt.

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