

Remarks at the Makati Business Club Luncheon & Policy Forum

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U.S. Policy Toward Southeast Asia and the Philippines: Political Challenges and Economic Prospects

Good afternoon and thank you for that warm introduction. A special thanks to Ramon Del Rosario and the Makati Business Club for letting us join your annual general meeting luncheon. It's nice to see friends, old and new, from the Philippine business community, AmCham, the foreign affairs community, including Ambassador Joey Cuisia, officials from the American embassy, and other distinguished guests. I am reassured by the caliber of people here today, a sure sign the Makati Business Club continues to play a vital role in Philippine economic growth and strengthening business ties between our two countries.

I am back in Manila as part of the bi-national US-Philippines Society's Board of Directors program and Business Mission. Since its launch in May 2012, I have had the privilege of co-chairing the Society with Manny Pangilinan, who thought the Society's 2015 work in America would be enriched by starting the new year in the Philippines. Thank you for welcoming our members here today, including Society President John Maisto, and former ambassadors Dick Murphy and Tom Hubbard who will join me shortly in a "policy forum."

Over the years I have grown to appreciate the many strengths of the Philippines and its people, and the unique historical ties that have developed into a mature 21st century bilateral relationship. At a personal level, I recall back in the early 1960's when my grandmother visited me in Hong Kong, where as a young Foreign Service Officer I was a newly minted Vice Consul. It was the Christmas holiday season, and after a couple of days in Hong Kong, grandmother said, "John, let's go to Manila; it's more fun there!" --- So, now the true story behind the slogan has been revealed for the first time.

Activities over the past two days began with a "welcome" from Society Honorary Chair Wash Sycip, and highlighted by substantive meetings this morning at Malacanang, and with Cabinet officers and the House and Senate leadership. The program is also providing an opportunity for our members to network with private sector counterparts and visit Tacloban to view Typhoon Haiyan recovery projects assisted through donations received by the Society from across America, including a significant contribution from Honorary Chair Hank Greenberg.

The theme of my remarks today centers on political challenges and economic opportunity in the region, with a special focus on the Philippines. During my days in Hong Kong, challenges in Southeast Asia centered on Cold War era competition in a region where recently independent countries were trying to find their footing. They faced daunting tasks in confronting revolutionary ideology and insurgency, crafting systems of governance, and promoting socio-economic development. Over the decades, the dynamics evolved from "insurgency to stability" and from "aid to trade." The *challenge* embedded in this evolution today is to enhance stability. The *opportunity* lies in promoting trade. The dynamics are reinforcing. Stable bilateral and multilateral relationships are essential for smooth trade flows. And, of course, the reverse is true. Instability scares away investment and inhibits trade expansion.

Challenges

In sifting through the many challenges shared by the United States and the Philippines today, let's consider three areas of concern.

First is the South China Sea jurisdictional disputes. Confrontation over maritime claims from Northeast Asia to the South have a disruptive potential that could spark conflict and change the tone of regional political relationships from one of cooperation to rivalry. They represent unresolved problems which, if not managed properly, could lead to serious miscalculations. The Philippines and the United States share an interest in maintaining cooperative ties with China, while at the same time pursuing maritime policies aimed at preserving freedom of navigation, adherence to a Code of Conduct, and support for a "rules based" settlement of claims disputes.

In a Position Paper released last month in "indirect" response to proceedings at the ongoing arbitration tribunal, China carried forward the misguided assertion that "historic rights" can serve as justification for the so-called "nine-dash line" claiming virtually all of the South China Sea as part of Chinese territory. At the same time, China persists with the position that it will not formally participate in the arbitration case.

South China Sea disputes are a concern not only for claimants but for ASEAN and all Pacific countries, including the United States, that support freedom of navigation and depend on open sea lanes for strategic and commercial activities.

U.S. policy on the South China Sea has evolved over the past two decades from what was sometimes characterized as a "non-position" to one of far greater engagement. When I served as ambassador here, I recall how the 1995 Mischief Reef dispute set off alarm bells. We encouraged Washington to pay attention and, as President Ramos will remember, established a pattern of close consultation with our Philippine allies. Since then, the U.S. has made discussion of conduct in the South China Sea part of our regular dialogue with both China and the Philippines. It was important for the U.S. to support our Philippine ally then, and it is even more critical to show support now.

For reasons both practical and principled, the United States backs a claims settlements process based on recognized maritime law - related to land features, not historic claims - as reflected in the United Nations Convention on the Law of the Sea. As the claims are addressed, however, a recommitment to the 2002 Declaration on a Code of Conduct offers the best way to reduce tensions and avoid the risk of escalation.

I salute the smart policy course toward arbitration taken by President Aquino and Secretary Del Rosario, a determined and enlightened approach with broad bipartisan support in Washington that is also gaining appreciation by other claimants. For example, just last month I understand Vietnam made a formal submission to the Arbitral Court in support of the Philippine position.

It is no surprise that last week's Bilateral Security Dialogue here in Manila, including senior officials from the Philippines and the U.S., addressed the South China Sea question and discussed concrete ways we can support enhanced maritime domain awareness, maritime security, and high-value exercises. This is positive follow-through on a long process and on President Obama's "rock solid" pledge on our alliance articulated during his visit to Manila last year.

And, this leads to the next challenge -- how to sustain "the Rebalance."

With a mission to restore the American economy while meeting a seemingly endless array of foreign policy challenges across the globe, some have questioned whether it is realistic or even possible for the Obama Administration to follow-through with a meaningful rebalance of priorities toward the Asia-Pacific region.

We all know the reasons behind the "pivot." Asia is the global demographics leader; it is a global growth center with markets and opportunities for integrating production and services for international markets; it is largely stable - despite maritime tensions and problems with North Korea; America is a Pacific nation that contributed to Asia's successful growth in the post-war period; a re-emphasis on an Asia-Pacific presence can help underpin continued regional stability. In short, the Asia Pacific region has become the demographic and economic epicenter of the world.

But, as the policy was articulated, some on both sides of the Pacific raised questions about the actual content of the pivot. What sort of tangible steps would be taken to increase military power projection capabilities; would it bring new energy behind a push for trade agreements; more U.S. "soft power" to promote good governance and human rights, more development aid, more visits and high level engagement that would be a prerequisite for successfully addressing regional problems. Skepticism was growing that expectations would be unfulfilled and a loss of credibility would follow, chipping away at America's standing and influence here even as it promised more focus on Asia.

Some of those expectations questions are still around, but my sense is that America's standing in the Asia-Pacific remains solid. Two factors contribute to this. First, our alliance partners and others from Northeast to Southeast Asia view the U.S. as a "balancer of choice" against what they worry is a resurgent China. Second, the American economy has shown its strength through a much faster recovery than in other parts of the world and remains the global leader in innovation and market opportunities.

Washington also began to respond well. After postponements, senior U.S. officials, including the President and Secretary of State, visited the region carrying a message that, as a Pacific nation, American interests are securely linked to Asia. That there should be no doubt about America's sustained engagement with the Philippines was clearly stated and well received.

The economic side of the "pivot" has become embodied in TPP, the Trans-Pacific Partnership free trade trade negotiations. But, even outside TPP discussions the administration has accorded high level attention to our regional trade and investment partners, including the Philippines. Last June's visit by Commerce Secretary Penny Pritzker was a clear signal that the administration is looking for ways to promote U.S. business ties. As part of that delegation, I observed firsthand how she advocated effectively and came away with a better understanding of where the opportunities lie for improving trade ties. Moreover, Secretary Pritzker articulated the reasons why economic engagement is fundamental to a comprehensive and meaningful U.S. "rebalance."

It is through the level, frequency, and fields of engagement that policies embodied in the concept of a rebalance "or pivot" will be judged. And, you understand how important "*staying engaged with people*" is in the Asian context. Non-government, private sector ties, through business or organizations like the US-Philippines Society serve to complement official efforts to keep attention in the U.S. on this dynamic region. So, I encourage you to build on a year of productive bilateral exchanges by supporting more of the same in 2015, when the APEC Leaders Meeting this fall will offer a capstone opportunity. Your voices do make a difference in helping leaders maintain focus.

A third set of challenges we face is dealing with the impact of climate change, responding to natural disasters, and building resilience. Make no mistake, these are political issues that require policy attention. These challenges are especially acute in the Philippines and will become an increasingly important part of our bilateral agenda.

Consider the devastating effects of Typhoon Haiyan that gripped the world. And, consider the vulnerabilities of countries along the Pacific Rim, including the Philippines, to earthquakes, tsunamis and volcanoes, as well as tropical storms. Consider the population densities, and you will understand why this country's leaders attach such importance to these issues.

At the international level, the Philippines is a strong, progressive voice in support of efforts to meet the global challenge of climate change. The Philippine government cooperated closely and successfully with the U.S. during the recent UN Conference in Lima, Peru, and we can expect bilateral cooperation in this area to continue.

The response to Haiyan over the past year was in many ways a model of cooperation, bringing international partners together with the considerable human and material resources of the Philippines to assist victims and their families in the recovery. The United States responded quickly and effectively with nearly \$90 million in assistance and critical military airlift that brought 20,000 survivors to safety and delivered tons of relief supplies in the immediate aftermath.

These capabilities, so graphically demonstrated after Haiyan, are now an important element in the overall bilateral security cooperation equation. Arrangements under the Enhanced Defense Cooperation Agreement on humanitarian assistance and disaster relief illustrate both the seriousness of the natural disaster threats and the policy level attention now being accorded to those threats. The business community has a stake in preparedness and building resilience as a way to mitigate damage, recover operations and serve customers more quickly after disaster strikes. In this connection, I recognize those businesses represented here, including the many American firms that assisted with Haiyan recovery. And, I applaud forward-looking programs to build resilience like the initiative launched last July by Roberto Romulo. This is indeed a challenge every bit as critical as the South China Sea and sustaining the "rebalance."

Opportunities

Meeting challenges creates opportunity. Three areas come to mind as we address Philippine-U.S. economic relations.

First is a new climate of opportunity for business to succeed, matching innovative technologies with Filipino skills. Let me point to some "Good News Stories" to illustrate the point and perhaps encourage by example. When I was posted here in the mid-90's bases at Subic and Clark had just closed; activity had ceased. Now, just twenty years later they have been transformed into thriving commercial and transportation hubs. *Let me recognize Society Board member Dennis Wright of Peregrine for his role in Clark's development.* In the heyday of military operations, those bases had about 45,000 Filipino employees. Today, the number in the two economic Freeport Zones is roughly 175,000. Combine that with an annual export value of \$5.5 billion, and you have a success story.

Top companies from Texas Instruments to Samsung and Yokohama have identified opportunities, including improvements to the Clark International Airport, which just received the highest ICAO status upgrade. Those firms and others have invested heavily in their manufacturing facilities. Clark and Subic, while unique in many ways, are also a microcosm of the larger Philippine success story that is playing out across the country. More and higher value investments create better jobs locally, offering opportunities for workers who might prefer employment in their own country.

It is not just the Fortune 500 who are investing in the Philippines. Entrepreneurs like high tech innovator Jeff Peterson, who recently joined the Society, has established operations in the Philippines employing 100 workers, with an eye on expansion. Dave Rappa from New York and Karen Brooks with the Texas Pacific Group are also with us today because of their interest in strengthening investment positions in the Philippines.

Opportunities abound in sectors across the economy, including energy, services, mining, tourism, real estate and more. But, there is growing buzz about infrastructure needs in the Philippines and throughout the region. It is estimated that over the next five years ASEAN countries will require more than \$1 trillion in infrastructure investment to meet the demands of a growing population. The Aquino Administration has flagged infrastructure as a priority. The Millennium Challenge Corporation is moving ahead with a second compact here that will provide additional business opportunities and help attract investment.

Second, countries in the region are deepening trade and investment ties and expanding prosperity through multilateral initiatives like TPP. For the Obama Administration, TPP is a cornerstone of the American rebalance with Asia. The President addressed trade in his State of the Union speech last week in Congress saying, "*China wants to write the rules for the world's fastest-growing region... Why would we let that happen?*" He asked for trade promotion authority to negotiate TPP and a proposed Trans-Atlantic trade deal. With the United States Congress now under Republican leadership, the chances for approval of President Obama's request are good.

While the U.S. is focused on concluding TPP with current partners, there will be scope for future expansion. Benefits of TPP membership in terms of export and GDP growth are substantial, and I expect the Philippines will want to become part of this 21st century trade agreement.

A third opportunity lies in using the APEC process to support shared Philippine-U.S. goals as we look ahead to the November APEC Leaders Meeting here in Manila. During this APEC year, the U.S. has indicated it would like to explore ways to work with the Philippines to "expand corporate responsibility practices" and "promote inclusive economic growth" in the region. The President's personal participation in Manila will be vital in retaining U.S. leadership in the process. APEC is a unique and central feature of the Asia-Pacific architecture, and we need to ensure that it continues to enjoy public understanding and political support across the Pacific.

Conclusion

Let me conclude by recalling that in remarks at a US-Philippines Society event in New York honoring Foreign Secretary Del Rosario, I argued that "the Philippines is the logical partner for the U.S. to anchor its ties to the ASEAN region." I believe that statement is every bit as true today as it was then.

Economic and Security dimensions of the relationship are robust, but do require tending. Meeting the challenges and realizing the opportunities reviewed here today require continued engagement, along with a clear-eyed vision of what can get in the way. Our two countries have come a long way in forging a 21st century relationship. This year marks the 110th anniversary of the Taft Mission to Asia with stops throughout the Philippine archipelago in 1905 led by the American Secretary of War that included a large delegation from the House and Senate. Some called it the "Imperial Cruise." We will also observe the 70th anniversary of the liberation of Manila and the end of World War II, which opened the way at mid-century for re-building and ushered in a new phase in bilateral partnership between independent nations.

Our 21st century ties are shaped by shared experience, but are not hostage to the past.

- New mutual security arrangements will be adapted to modern requirements to meet today's challenges in the maritime and cyber domains, and to counter terrorist threats.

- Business innovation and economic growth will produce ever greater opportunity, with benefits reaching more families here and throughout the Asia-Pacific community.

The task before us then is to steer a steady course of engagement -- at the official level, through the private sector, and people-to-people exchanges -- to meet today's challenges effectively and reap the benefits of opportunity for us and generations to come.

Thank you very much.