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STRATEGIC IMPLICATIONS OF TRADE PROMOTION AND CAPACITY-BUILDING IN THE ASIA-PACIFIC REGION

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Deputy Assistant Administrator, Asia Bureau, U.S. Agency for International
Development

Tomasz P. Malinowski [\[view PDF\]](#)
Assistant Secretary, Bureau of Democracy, Human Rights, and Labor, U.S.
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**Written Testimony of Kurt Tong
Principal Deputy Assistant Secretary for the
Bureau of Economic and Business Affairs
U.S. Department of State**

**Before the
Senate Foreign Relations Committee –
Subcommittee on East Asia, the Pacific and International Cybersecurity
Policy**

June 16, 2015

**The Strategic Implications of Trade Promotion and Capacity-Building in the
Asia-Pacific Region**

Chairman Gardner, Ranking Member Cardin, and Members of the Subcommittee: Thank you for the opportunity to testify before you today together with my colleagues, Assistant Secretary of State for Democracy, Human Rights, and Labor, Tom Malinowski, and Jason Foley, the Deputy Assistant Administrator in the Asia Bureau of the U.S. Agency for International Development (USAID).

Over the last six years, the Administration’s sustained “rebalance” to the Asia-Pacific has established a “new normal” of extensive collaboration with Asia-Pacific allies and partners on important global issues, driven by a high tempo of engagement by the President, the Secretary of State, and other Cabinet and senior officials.

Our Vision for the Asia-Pacific Region

The Administration’s rebalance to the Asia-Pacific recognizes that our future prosperity and security are inextricably tied to that region. Economies in the region have witnessed a period of extraordinary growth over the past few decades as they have liberalized trade and opened their borders. Literally hundreds of millions of people have been lifted out of poverty and into a middle class expected to reach 3.2 billion people by 2030. This growing middle class has expanded trade opportunities and growth in countries around the world, including the United States. The rebalance reflects the importance we place on our economic, security, public diplomacy, and strategic engagement in the Asia-Pacific, and our strong support for advancing democracy, good governance, justice, and human rights. These goals are mutually reinforcing elements of a unified strategy.

Our economic engagement with Asia – aimed at creating a system that is open, free, transparent, and fair – creates new opportunities for growth at home, and strengthens our strategic presence abroad. It helps to build more stable societies by encouraging governments to strengthen rule of law. It supports our trade and investment goals by promoting laws and institutions that secure property rights, enforce contracts, and fight corruption. It empowers citizens to hold their governments accountable on issues such as protecting the environment and product safety, which is also important to the health and wellbeing of our own people. It aligns American leadership with the aspirations of ordinary people in the region, and with values that they admire, thus distinguishing us from other great powers past and present.

By the same token, our strategic presence in Asia – our alliances, our trade agreements, our ability to provide security and reassurance to our friends – ensures that our partners in the region maintain confidence in our leadership for peace and prosperity. The United States is not the only great power with a vision for the future of the Asia-Pacific. To advance the vision we share with so many of the region’s people, we must be principled and present at the same time.

These are all reasons why this Administration is committed to advancing our economic engagement with Asia. Our engagement with the region is deep, enduring, and expanding, covering many more issues and programs than we are able to fully discuss here. Most important is America’s private sector presence in the region. Our bilateral trade in goods and services is at an all-time high, reaching over \$1.4 trillion in 2013. U.S. businesses remain the largest source of foreign investment in East Asia and the Pacific. But the U.S. government plays a key market expansion role as well, including by providing hundreds of millions of dollars in assistance each year to developing Asia, and thereby training thousands of officials on issues vital to our interests such as customs and trade facilitation, ICT connectivity, financial regulation, energy efficiency, environmental governance and resources management, and disaster preparedness.

The Trans-Pacific Partnership

Concluding the Trans-Pacific Partnership (TPP) negotiations remains the single most important thing the United States can accomplish in its economic and strategic relationship with the Asia-Pacific this year. The centrality of the TPP to the United States’ Asia policy is fundamental. The Asia-Pacific region is home to some of the world’s most dynamic economies, some of our closest allies, and some

of our most demanding challenges. As our prosperity and security are inextricably tied to the region, so too are foreign policy and trade policy inextricably linked to each other. Trade issues cannot be separated from larger questions about America's global leadership.

As Secretary Kerry recently said, "If we retreat on trade, our influence on the global economy will diminish. And if our economic stature is in doubt, our ability to deliver on defense and political challenges will be increasingly questioned. In today's world, the economic and security realms are absolutely integrated; we simply cannot retreat from one without diminishing our role on the other." We have to be fully engaged in each of these realms – commercially, politically, and diplomatically.

With the TPP, we, along with our partners, are building a stable foundation for trade and investment in the Asia-Pacific region. Through the agreement, we will leverage 40 percent of global GDP to articulate the values that we want to see prevail – values like protecting the rights of workers and the environment, ensuring transparency and participation in regulatory processes, and enforcing laws against bribery and laws protecting intellectual property rights. These are the same values that are vital to a healthy business environment, and are sustainable only in a region where rights are respected, institutions are stable, and disputes are settled in accordance with the rule of law.

TPP will include strong and enforceable labor standards and environment commitments, groundbreaking new rules to ensure fair competition between state-owned enterprises (SOEs) and private companies; commitments to improve transparency and consistency of the regulatory environment, a robust intellectual property framework to promote innovation while supporting access to medicines and an open internet. The agreement will also protect and underscore the need to maintain the free flow of data across borders. This is not only vital to the effective working of a modern digital economy, but also enhances the right of individuals to freedom of information, which reflects our democratic values.

Despite its economic gains, the Asia-Pacific region continues to be plagued by corruption and environmental destruction, and inadequate labor standards persist in many corners of the region. TPP will help ensure the region's future economic growth is sustainable and guided by a framework that is cemented in place by us and our partners.

TPP will also have a broader magnetic effect on the region, beyond its current membership, by encouraging non-members to adopt to open, fair, and transparent trade and investment policies in their efforts to attract new economic partners. The TPP example can help spur them to make reforms to elevate the standards of their trade and investment regimes, and lower tariff and non-tariff barriers to trade and investment.

Trade Policy Leadership in America's Interests

The Asia-Pacific's growing engagement with the world will not wait for us. If we do not take the lead, we risk ceding leadership to other countries that do not share our interests and our values, and are pushing their own regional initiatives with weaker standards. Presently, China and others are negotiating a number of agreements. These agreements do not protect workers' rights or environmental interests. They do not adequately protect intellectual property rights or help maintain a free and open internet. And they do not address unfair competition from state-owned enterprises. If these agreements were to become the model for the fastest growing region of the world, it would not only put our workers and firms at a significant disadvantage, it would also result in Asian markets being carved up, removing us from supply chains, decreasing our linkages to important allies, and seeing our overall influence diminished.

There is another important reason why the United States is pushing for a global system of trade agreements that so heavily emphasizes resolving non-tariff issues, over and above seeking tariff reduction. The comparative advantage theories of the 19th century British economist David Ricardo described a world of arms-length transactions – of commodities sent overseas in simple exchange for other commodities. The economy of the 21st century – and this is especially true for the United States, which stands at the apex of the modern economy – is a much more complex system, where trade in services ranks with trade in goods, and goods and services are often inter-mixed. Today's economy is a system where investment begets trade and trade spurs investment; where products move electronically as well as physically; and where globalized value and supply chains can witness products crossing borders numerous times before being ready for final consumption. In such a globalized economy, fair rules are the key to promoting the interests of our people, workers, and employers alike – fair rules on issues like investment, regulatory transparency and coherence, customs procedures, intellectual property, e-commerce, and data protection.

It is precisely because the United States has the most complex economy – because

we are the leader technologically, and in services, and in higher-value-added manufacturing – that we must use all the tools at our disposal to propagate rules that allow us to harness that complexity to our advantage. “All the tools” includes technical assistance – as we negotiate path breaking reforms in important areas such as labor and the environment, we also want to develop technical assistance tools to ensure that our trading partners are successful in implementing these reforms.

And we need to do this now. Thirty years ago, the majority of the world’s population lived in countries classified as low-income. Now, the lion’s share live in middle-income countries. These nations are active in international trade and investment policymaking, and they influence the rules of the road. While the United States currently has comprehensive trade agreements with 20 countries, primarily in Latin America, there are over 200 such agreements in Asia. As economic power spreads more widely around the world, we need to face the fact that our opportunity to shape the rules to our advantage, as a nation, may be limited in time and scope. Our weight in global economic affairs is challenged as the rest of the world becomes a middle-income economy. We need to act now while we still have the leverage to succeed.

APEC and ASEAN

The Trans-Pacific Partnership, then, is an urgent and vital initiative. At the same time, while the TPP is rightfully considered the centerpiece of our Asia-Pacific economic “rebalance” strategy, it is by no means the only tool at our disposal. And fortunately some other key mechanisms also allow us to reach out effectively and expand economic ties with other Asia-Pacific economies that have not yet volunteered to join TPP, or are not yet ready to meet its standards.

The Asia-Pacific Economic Cooperation (APEC) forum, in particular, has been critical as an incubator for new ideas that are now being incorporated into the TPP. When I served as the U.S. Ambassador to APEC, I saw firsthand the potency of its work in spreading best practices on not only trade and investment, but also other key issues such as environmental protection and promoting more inclusive growth. The United States continues to bolster APEC’s role as the region’s premier economic forum for advancing free and open trade and investment, and fostering sustainable and equitable growth. Its 21 member economies accounted for 44 percent of world trade and 54 percent of global GDP in 2013, consisting of both small and large economies, and more advanced and developing economies. The

practical training and policy deliberations that the United States and other key players sponsor under the APEC umbrella are intensely valuable.

Another critical avenue of U.S. strategic economic engagement is through our Partnership Dialogues with ASEAN and our support of the ASEAN Economic Community (AEC). We continue to work to deepen our trade relations with all of ASEAN through the U.S.-ASEAN Expanded Economic Engagement initiative, as well as through bilateral efforts with the individual ASEAN members. When fully implemented, the AEC will integrate the diverse economies of ASEAN and create a region with freer movement of goods, services, investment, skilled labor, and capital. Thus the AEC has tremendous potential to benefit the people of ASEAN, and as the top investor in ASEAN, it has equal potential to benefit the United States. I believe my colleague from USAID will mention a number of specific examples of highly successful trade capacity-building programs that USAID has implemented through both ASEAN and APEC, among them the ASEAN Single Window project.

In fact, technical assistance on trade-related capacity-building is undoubtedly among the wisest forms of investment we can make. Such work not only accelerates growth in developing economies, it also creates greater opportunities for growth in our own economy – even as it reinforces the “export” of American values such as transparency, good governance, and fair play. When I visit and speak with government officials from middle-income nations around the world, whether in Southeast Asia, Central America, Central Asia, or Eastern Europe, their top request of the United States is consistently that we invest more in teaching and sharing best practices on questions like improving customs facilitation, which can both spur trade and help stem corruption.

Multilateral development banks are also useful partners in this work. When thinking about Asia-Pacific regional economic integration in particular, the Asian Development Bank (ADB) has been at the forefront of supporting shared solutions and approaches to issues such as water resources management and regional energy supply and connectivity. The Greater Mekong Subregion (GMS) program, for example, and the Central Asia Regional Economic Cooperation program, known as CAREC, have worked diligently on a sub-regional basis to promote development through cooperation, leading to accelerated growth and poverty reduction.

The existing multilateral development banks such as the ADB have prioritized transparency, sound governance, and social and environmental safeguards in their own operations and in the standards they set in the region. As these existing

institutions continue their work, there is a set of new actors and institutions that are also poised to contribute to development, particularly infrastructure finance, in the broader Asia-Pacific region and beyond. The United States aims to communicate with such institutions, such as the emerging Asian Infrastructure Investment Bank sponsored by China, to help ensure that they have a positive impact on regional development.

China

No discussion of the Asia-Pacific economy would be complete without considering the important role of China. The past 30 years have seen China undergo an unprecedented transformation, as hundreds of millions of its citizens emerged from poverty, migrated to cities, and reengaged with the world with a voracious appetite driven by voluminous government-led investment. China's economy has grown a staggering 1,600 percent since 1983, reducing the proportion of its population living on the equivalent of less than two dollars a day from almost 93 percent in 1984 to less than 20 percent in 2011. The net result is now an economy that rivals that of the United States in terms of its gross size and scale of activity. China accomplished this, however, at great expense to its environment, and in a manner that emphasized rapid growth over other social and political development considerations. China's internal focus on building a strong economy while retaining firm government control over economic activity remains at odds with the American vision of economic growth led by entrepreneurship, adherence to the rule of law, and a free and strong private sector. Concerns about basic aspects of China's approach to economic policy have deepened in recent months due to the recent spate of regulations and laws introduced by China that could cast doubt on the legality of a wide range of normal economic activities.

Because of these differences between the U.S. and Chinese economic policy models, some commentators have suggested that the United States should feel threatened by China's growing economic role among its neighbors. Indeed, China has made no secret of its ambitions to retake what it considers to be its rightful place in the region and in the world. There are reasons, however, why the United States should not be overly concerned about this, and be confident in our long-term strategies.

First and foremost, we must remember that, when it comes to influencing economic policy affairs, the quality of ideas matters as much as the quantity of transactions. China is in the process of discovering that, in a globalized world economy, possessing a large trading economy does not translate into unilateral

monopoly power or monopsony power that can be used to twist the arms of one's neighbors. At the same time, possessing large cash reserves can allow one to make a positive contribution to regional and global economic development. But it is much harder to use such financial might in aggressive or exclusivist ways when the world's financial markets are highly intertwined and capital is a priced commodity.

In fact, the United States should be reassured, by the experience of the TPP and our other initiatives, about the powerful attractiveness of our model of economic cooperation, which is mutually beneficial and respects the needs of all participants. Any other model will not work for long in the modern world, and that is a good thing.

So, while vigorously pressing China to open its own markets and show greater respect for rule of law inside China, we will continue to confidently prod China in positive directions in the regional context.

Direct bilateral engagement with China is, of course, an urgent business, and the upcoming U.S.-China Strategic and Economic Dialogue is an important opportunity to make progress in advancing U.S. economic priorities and narrowing areas of disagreement. Presently, on a bilateral basis, one of the most interesting initiatives directly involving the State Department is the ongoing negotiation toward concluding a Bilateral Investment Treaty (BIT) with China. These talks offer an important opportunity to support economic reform in China, and to promote a more level playing field for U.S. investors in China's market. We are seeking a high quality BIT with a "negative list" reflecting a high level of openness to foreign investment. We are also pressing for strong investor protections for U.S. investors, supporting transparency, predictability, and the rule of law. We need to see additional progress on the ground in China in terms of economic reform. We need China to do more to welcome American businesses and reassure them that they will not be subject to discriminatory treatment and that their intellectual property will be protected.

Conclusion

In short, the Administration is using a wide range of tools, ranging from the Trans-Pacific Partnership to trade capacity-building programs to APEC and ASEAN and our direct engagement with China, to help build an Asia-Pacific economic system that will allow the United States to realize the full and lasting benefit of being a Pacific power. The Administration remains committed to working with Congress on this high priority agenda.

Thank you for your attention.

Statement of Jason Foley
Deputy Assistant Administrator, Bureau for Asia
United States Agency for International Development

Before the Senate Foreign Relations Committee

Subcommittee on East Asia, the Pacific and International Cybersecurity Policy

Strategic Implications of Trade Promotion and Capacity-Building in the Asia-Pacific Region

Tuesday, June 16, 2015 at 2:30 p.m.

Chairman Gardner, Ranking Member Cardin and Distinguished Members of the Subcommittee:

Thank you for the invitation to testify on the role of the U.S. Agency for International Development (USAID) in supporting trade capacity building in the Asia-Pacific region. It is an honor to appear before the committee, and a pleasure to be here alongside my colleagues from the U.S. Department of State, Assistant Secretary Tom Malinowski and Principal Deputy Assistant Secretary Kurt Tong.

It is an exciting and pivotal time for U.S. policy in the region. More people live in Asia than anywhere else on the planet. Over the past three decades, the region has experienced an unprecedented period of prosperity, propelling hundreds of millions out of extreme poverty. A growing middle class has expanded trade opportunities and driven reciprocal growth in countries around the world, including the United States. The 10 member states of the Association of Southeast Asian Nations (ASEAN) alone comprise our fourth largest export market. In the next decade, trade volume in Asia is expected to double, and by 2050, Asia's gross domestic product (GDP) is projected to account for more than half of the world's GDP.

At the same time, the region faces complex development challenges that threaten to derail this growth trajectory — and compromise stability. Governance challenges in certain countries limit the full participation in economic growth of marginalized segments of society, such as smallholder farmers and women — holding countries back from reaching their full potential. Small and medium enterprises — the backbone of any economy — lack the tools and financing they need to succeed in creating jobs for the region's massive youth bulge. In some cases, governments are not doing enough to protect their most vulnerable and marginalized from exploitation and abuse. The incidence of sex trafficking and forced labor is higher in the region than anywhere else in the world, and regulating legitimate labor migration is an ongoing challenge. The region's voracious appetite for natural resources has resulted in some of the fastest rates of deforestation in the world, which affects everything from air quality to water supply.

The U.S. Government's rebalance to the Asia-Pacific recognizes that our future prosperity and security are inextricably tied to the region. It is in our strategic interest to ensure that economic growth in Asia is sustainable and inclusive and contributes to strengthened stability across the region and the United States. USAID plays an integral role in achieving this vision. Key to achieving our mission of ending extreme poverty and promoting resilient, democratic societies is addressing the *quality* of economic growth — that it is widely shared and inclusive of all ethnic groups, women and other marginalized groups; that it is compatible with the need to reduce climate change impacts and to manage natural and environmental resources responsibly; and that

it ensures international markets function properly, complies with international rules-based, transparent frameworks and obligations, and improves the well-being of all members of society.

The economies of the Asia-Pacific region are at varying stages of development — from emerging to established. USAID works both at a regional level — primarily through ASEAN, the Asia-Pacific Economic Cooperation (APEC) forum and the Lower Mekong Initiative — and at a bilateral level to overcome the barriers to closing this development gap.

Regional Economic Connectivity & Inclusion

A hallmark of USAID’s regional work is our five-year ASEAN Connectivity through Trade and Investment (ACTI) project, which helps to improve ASEAN’s regulatory framework for trade and investment and private sector competitiveness — further opening markets for U.S. exports. Specifically, we provide support for customs integration, advancing renewable and sustainable energy solutions, the development and application of regulatory and technology solutions to rural broadband access, leveraging of information and communication technologies, and trade and investment facilitation — which includes harmonizing business standards in collaboration with the private sector to create a more level playing field and boost consumer confidence in the quality of products.

ACTI prioritizes the economic inclusion of small and medium enterprises (SMEs) — which account for the majority of employment in ASEAN member states — through business development training, access to financing and market linkage support. We are targeting the vast youth population — which represents 60 percent of ASEAN’s total population — as well as women. We know if we can erase gender inequities, we can unlock human potential on a transformational scale. Investing in women has a well-documented multiplier effect. Research has found that women typically invest more of their income than men do in their children and communities.

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 10 member states since its launch just over one year ago. On removing barriers to financial access, USAID recently entered into a partnership with some of ASEAN’s largest banks to fund research grants to study how to improve access to capital for SMEs. This program will target and explore the particular issues women face in Southeast Asia in accessing capital.

Regional economic integration presents tremendous potential for global growth. USAID is providing support for the establishment and upcoming launch of the ASEAN Single Window (ASW), a key benchmark in the establishment of the ASEAN Economic Community. By enabling all 10 member states to exchange cargo clearance data through a ‘single window,’ the ASW will increase transparency in customs systems and improve customs compliance, speed customs clearance procedures, and lower the cost of doing business in the region, allowing increased trade that supports jobs and business opportunities in the United States and ASEAN. This single window for conducting trade with ASEAN countries will also facilitate ASEAN’s

participation in global supply chains, creating opportunities for expansion for American business.

We are also supporting APEC members in meeting their commitments by providing technical assistance in a number of U.S. priority areas through the five-year U.S.-APEC Technical Assistance to Advance Regional Integration (U.S.-ATAARI) project. Through APEC, we are working to advance regional economic integration, harmonize product standards, improve domestic regulations, and reduce or eliminate behind-the-border barriers to cross-border trade in 21 member countries. U.S.-ATAARI's supply chain connectivity assistance, for example, is working to speed up and reduce costs associated with customs measures. APEC's work to reduce trade transaction costs, including through these streamlined customs procedures, has saved tens of billions of dollars for businesses across the region.

Leveraging Partnerships to Maximize Impact

Across all our programming, we leverage strategic partnerships wherever possible — including with U.S. universities and businesses — to introduce new skills training and financial access opportunities, modern technologies, international standards, and the American brand of responsible investment.

In Burma, increased U.S. trade and responsible investment promotes inclusive economic development, contributes to the welfare of the people of Burma and assists regional integration. As investors begin to turn their attention to Burma, the United States Government is encouraging businesses to be a model for responsible investment and business practices, encouraging further change, promoting inclusive economic development and contributing to the welfare of all the country's people. In partnership with USAID, U.S. companies are not only seeking investment opportunities in Burma, but also actively engaging local communities to support broad-based development to benefit all sectors of the population. They are investing millions of dollars in advancing information technology, building the capacity of women entrepreneurs, training engineers and managers, and offering apprenticeship opportunities for youth.

For example, USAID partnered with Hewlett-Packard (HP) to launch HP's Learning Initiative for Entrepreneurs (LIFE) in Burma, an online business and information technology program. So far, HP has established six of 12 planned LIFE centers equipped with computers, learning solutions and Internet to enable access to HP LIFE e-Learning for urban and rural entrepreneurs. And just this past December, we initiated a U.S.-Burma Information Communications Technology Council in collaboration with leading U.S. technology companies — Cisco, Google, HP, Microsoft and Qualcomm Incorporated — to maximize ways in which technology can spur broad-based economic growth, increase transparency and support Burma's integration into regional and global markets.

Strengthening Good Governance that Enables Growth

Critical to sustainable and inclusive economic growth is good governance that encourages an enabling environment where entrepreneurship and innovation can flourish. That is why we work with governments, the private sector and civil society in countries across Asia to modernize laws

and regulations affecting trade and responsible investment. We promote a legal and regulatory process that strengthens the rule of law, increases transparency, safeguards worker rights, and enables citizens to play an active role in economic reform.

In Vietnam, USAID partners with civil society and others to help structure an inclusive economic environment that enables trade that benefits all citizens, helping Vietnam continue its responsible integration into the global economy. We focus on addressing reforms and accountability and expanding the rule of law — both of which are of great relevance to Vietnam’s likely commitments under the Trans-Pacific Partnership (TPP) trade agreement, while the rule of law underpins nearly every U.S. policy priority in Vietnam.

In Vietnam, USAID works in close coordination with other U.S. Government agencies to facilitate activities that are critical TPP-related reforms. This includes implementation of and compliance with obligations on worker rights and on the environment, including in such areas as wildlife trafficking. This work is critical: We want to make certain that our trade agreement partners have both the capacity to implement and ultimately follow through with any commitments that they agree to undertake. Through our Governance for Inclusive Growth (GIG) program, USAID is providing technical assistance to improve compliance with trade agreements, the rule of law and expand our access to Vietnam’s growing market for U.S. exports — with an emphasis on improving the regulatory environment and labor issues, systems for accountability, and inclusion of vulnerable and historically disadvantaged groups, such as women. And our efforts with the Vietnam Chamber of Commerce and Industry are driving regulatory reforms and new business enabling policies at the local government level, thanks to a Provincial Competitiveness Index we’ve implemented.

Our work in this area also extends to economies achieving year-on-year high growth rates, such as that of the Philippines, where one-fifth of the population still lives in extreme poverty. Through the Partnership for Growth (PFG), a White House initiative implemented in only four countries worldwide, the United States and the Philippines collaborate to address the country’s most serious constraints to lasting equitable growth that benefits all Filipinos. USAID activities promote trade and investment, greater competition, increased transparency, and improved fiscal policy and management — which have a direct correlation to reducing the cost of doing business.

Our assistance has resulted in unprecedented economic growth for the country, and has made it a more reliable trade and investment partner. In 2014, foreign direct investment in the Philippines increased by 66 percent over 2013, with the United States being the largest source of private investment. At the same time, the Philippines has become one of the fastest growing markets for U.S. food and farm products.

The next stage of the PFG is to address the income inequality that persists outside the national capital area, through USAID’s Cities Development Initiative, which is envisioned to develop growth hubs in a select number of outlying cities.

In the Philippines, we also work through the Trade-Related Assistance for Development (TRADE) project to assist the government in improving trade and investment policy, trade

facilitation, competition policy, and public outreach and advocacy in line with ASEAN commitments. At the request of the Philippines' Bureau of Customs, TRADE assisted in the compilation and posting of a comprehensive database on import regulations (licenses, clearances and permits) of various trade regulatory government agencies. This led to the issuance of the country's first-ever Regulated Imports List covering more than 7,200 commodities, which is now available online and used as a reference by customs officers and the trading public. In the process of compiling this list, TRADE also identified redundant, overlapping or unnecessary requirements that are effectively serving as non-tariff measures that inhibit trade. The project thus plans to work toward rationalizing and streamlining these various requirements.

And in Laos, where USAID assistance was instrumental to World Trade Organization (WTO) accession in 2013, regulatory capacity remains limited and threatens future sustainable growth. Through the Lao People's Democratic Republic (PDR) – U.S. International and ASEAN Integration project, USAID supports key legal reforms needed to fully implement WTO and ASEAN Economic Community commitments, as well as the U.S.-Lao PDR Bilateral Trade Agreement. The reforms contribute directly to modernizing the legal, policy and institutional framework for dynamic private sector growth, the integration of Laos into regional and international markets, and contribute to advancing the rule of law and improving governance throughout many sectors in Laos.

Ensuring Environmental and Social Safeguards

Across the Asia-Pacific, we help ensure that investments, particularly in natural resource and infrastructure projects, meet domestic and international standards for protecting the environment and labor rights, and are sensitive to local communities.

Indonesia is one of the most biodiverse regions in the world, but it also ranks among the world's top ten countries with the highest rates of deforestation. The United States serves as a long-term partner in helping Indonesia conserve its biodiversity. Through the Tropical Forest Alliance 2020, which the U.S. Government created in partnership with the Consumer Goods Forum, a network of over 400 global companies, the Government of Indonesia is actively engaged in efforts to reduce commodity-driven tropical deforestation from soy, beef, palm oil, and pulp and paper — which account for nearly 40 percent of global tropical deforestation. Illegal and unsustainable deforestation not only puts vulnerable populations at further risk, but it also contributes to greenhouse gas emissions and the loss of endangered species, such as tigers and rhinos.

Together with the Department of State, USAID is currently hosting the Lower Mekong Initiative Renewable and Clean Energy Business Dialogue in Manila on the margins of the Asia Clean Energy Forum. To ensure energy security for a region with a 6 to 9 percent annual increase in electricity demand, Lower Mekong countries must collaborate across borders, while leveraging the private sector and establishing sound energy and investment policies essential to help set the countries on a path to sustainable low-emissions development. The LMI Business Dialogue will directly facilitate this collaboration, while at the same time, creating opportunities for U.S. businesses by giving them a seat at the table to discuss clean energy solutions that promote

energy security and sustainability in the Mekong sub-region — home to roughly 60 million people.

Throughout the region, USAID's Global Labor Program supports improved working conditions and workers' livelihoods and promotes safe labor migration. The program links migrant labor organizations throughout the Asia-Pacific region to advocate collectively for strengthened global and regional frameworks to protect migrant labor rights. USAID will support a major conference on labor migration in Indonesia, bringing together representatives from government, civil society, multilaterals and business in August 2015.

In Cambodia, our labor program is active, focusing on providing technical assistance and training on policy issues and labor dispute resolutions to trade unions and union federations in all economic sectors. USAID is also supporting the Community Legal Education Center, a local non-governmental organization, to promote core labor standards and freedom of association of workers. USAID has provided key assistance to facilitate collective bargaining agreements between companies and trade unions. For instance, over the course of a politically charged year post 2013 elections, USAID encouraged constructive dialogue between unions and the Ministry of Labor. This dialogue led to a reduction in violence and improved communication resulting in successful talks between the two parties. Ultimately, this resulted in an agreement for an increase in the minimum monthly wages for garment workers.

USAID is also supporting a five-year program in Cambodia to improve health outcomes for garment workers and their families. It focuses on improving the regulatory environment related to workplace health; improving access to and utilization of affordable quality healthcare for the garment industry workforce through private sector, host government and service provider engagement; and informing regional and global health standards improvement through a robust evaluation learning agenda.

Conclusion

Mr. Chairman, the Asia-Pacific has become a key driver of global politics and economic prosperity and presents tremendous promise for the future — *if* growth is inclusive and sustainable. Our continued engagement in the region will be critical for our own prosperity and security. USAID's trade capacity building work helps to ensure the region follows this trajectory and contributes the type of global growth that lifts up the poorest of the poor, empowers the disenfranchised, and brings rule of law where it's needed most.

I appreciate the opportunity to share USAID's work on trade capacity building in the Asia-Pacific and look forward to hearing your counsel. I welcome any questions you may have.

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**Statement of Assistant Secretary Tom Malinowski, Bureau of Democracy,
Human Rights and Labor**

**Senate Foreign Relations Committee, Subcommittee on East Asia, the Pacific,
and International Cybersecurity Policy**

***Strategic Implications of Trade Promotion and Capacity-Building in the
Asia-Pacific Region***

June 16, 2015 at 2:30pm

Mr. Chairman, thank you for the opportunity to testify today. You have asked us to discuss the strategic implications of trade promotion in the Asia-Pacific region. This is obviously a timely question given the intense debate now underway on Trade Promotion Authority (TPA) and the Trans-Pacific Partnership (TPP) agreement.

The TPP is, first and foremost, an economic agreement, for which the economic case is clear. But as the first trade agreement spanning both sides of the Pacific, the TPP will deliver larger strategic benefits as well. The TPP will be a community of common interest – a group of nations that have consented to join their economic destinies together, according to rules that all must respect and that will be enforced if violated. America’s central role in this partnership further cements our leadership in the Asia-Pacific, and ensures that the rules being negotiated reflect our interests and values.

The alternative to the TPP, should it fail to materialize, would not be an absence of trade in this region. Trade across the Pacific, with all of its creative and disruptive consequences, has been expanding steadily for years, between countries already linked by trade agreements and those, like the United States and China, that are not. But absent TPP, there would be far less political cooperation between nations in shaping the rules governing this growing commerce, including rules that protect labor rights and the environment. And to the extent rules and values might still develop, countries other than the United States would be shaping them. The fact is that the high standards we seek will only happen if we are there to insist on them.

By binding its parties’ economic futures together, the TPP also can deepen cooperation across the region on other matters of importance to the United States. There are historical parallels. The European Coal and Steel Community of the 1950s, for example, was also an economic agreement, but few people remember it solely as a common market for two industrial commodities. We remember it as the

first transnational community forged in post-war Europe, and a foundation for European and transatlantic unity on political and security issues as well.

In evaluating the potential strategic benefits of TPP, I will focus on how it could help us advance human rights and labor rights. Promoting human rights is one of America's core objectives in the Asia-Pacific, and in our Asia "rebalance." It helps build more stable societies by encouraging governments to give people peaceful outlets for political expression and to seek the most reliable source of legitimacy: the consent of the governed. It supports our economic goals by promoting laws and institutions that secure property rights, enforce contracts, fight corruption, and ensure the free flow of data and information. It empowers citizens to hold their governments accountable on issues like the environment and product safety, which are important to the health of our own people. It aligns American leadership with the aspirations of everyday people in the region, and with values that they admire. And it distinguishes us from other great powers that define their interests in narrower and more cynical terms.

To say that TPP can help us advance these goals is to say something not immediately obvious to many people who have followed the debate over the agreement. TPP is a trade agreement, not a human rights treaty, and some of its parties – Vietnam in particular – have poor human rights records.

Many people are skeptical of the argument that free trade itself encourages democracy. I am one of those people. Authoritarian government can coexist with a McDonalds in every city and an iPhone in every pocket. Democracy and the rule of law are built by political effort, usually in the face of stubborn political resistance.

But I am convinced that, on balance, TPP will greatly aid the effort to advance human rights in the Asia-Pacific region.

Promoting human rights in the region depends on using our voice, our assistance, and our economic and diplomatic leverage to stand up for universal values and the people who are defending them. But governments in the Asia-Pacific are more likely to respect our voice on these issues if they know the United States also remains committed to maintaining our leadership for security and prosperity in their region. In other words, to champion human rights effectively, we must be principled and present at the same time.

TPP will be a cornerstone of our strategic presence in the Asia Pacific. Its conclusion is the single most important thing the United States can accomplish in its economic and strategic relationship with the region this year. It will help ensure that we, the United States and our partners, will continue to play the leading role in shaping the region's institutions and norms.

And when it comes to labor rights, specifically, TPP is also principled. I know that some people have doubts about this, perhaps because many past trade agreements put such issues to the side, or had weaker standards than the TPP. But as a candidate for president, then Senator Obama promised to put labor and environmental standards at the core of trade agreements and to make them enforceable like any other core commitment in the agreements. TPP keeps that promise. In addition, we have leveraged the interest of countries to be part of TPP to advance an even broader range of human rights and worker rights objectives – for example to press Malaysia to take stronger action against human trafficking, and Brunei's recent commitment to sign the Convention against Torture.

Let me discuss how this will work with respect to the country with some of the broadest human rights challenges among potential TPP countries – Vietnam.

We have no illusions about how far Vietnam must still go to become a country that fully respects the human rights of its people. It is a one party state. It has laws that criminalize political dissent. It does not yet fully guarantee freedom of expression, assembly, or association.

At the same time, there is a high stakes debate underway in Vietnam about whether and how to build a more democratic society under the rule of law. That debate is being driven by civil society, but has also been joined by many within the government who do not want changes in their society to leave them behind. The reformers' most powerful pragmatic argument is that reform is necessary to secure something everyone – from Communist Party leaders to democracy activists – says the country needs: a closer economic and security partnership with the United States.

Under the spotlight of the TPP negotiations, Vietnam has released prisoners of conscience, bringing the total number down to around 110 from over 160 two years ago. In 2013, Vietnam convicted 61 people for peaceful political expression; thus far in 2015, there has only been one case in which activists were convicted under statutes criminalizing peaceful expression. Vietnam has recently ratified the Convention Against Torture and the UN Convention on the Rights of Persons with

Disabilities, and promised to bring its domestic laws – including its penal and criminal procedure codes – into compliance with its international human rights obligations. This will be a long and hard process, which some in the Vietnamese government will resist. But the government has been sharing drafts of new laws with its public and invited the input of other countries, including the United States, which would have been unthinkable a few years ago.

What's more, the TPP agreement will include a requirement that Vietnam guarantee freedom of association, by allowing workers to form genuinely independent trade unions. Allowing workers for the first time under their system to establish and join trade unions of their own choosing would be an historic breakthrough in a one party state. Vietnam will have to make the necessary legal reforms or miss out on the agreement's benefits. And its commitments will be subject to the same enforcement provisions as every other core obligation of the TPP agreement.

These developments may not by themselves guarantee full respect for human rights and labor rights in Vietnam. But the question we must ask is, will we be better or worse off with TPP? I believe there is no question that advocates for human rights and the rule of law in Vietnam will be better off if by next year, their country has independent trade unions, fewer dissidents in prison, legal reform, and a foreign policy that links its destiny with the United States. Without the chance to join TPP, it is not likely Vietnam would be making any of these choices. Passage of TPA legislation, which helps preserve that chance, gives us bargaining power to keep pushing Vietnam for more progress. And if Vietnam then meets the conditions for TPP itself, we will still have leverage, such as via Vietnam's strong desire for a full lifting of restrictions on the transfer of lethal arms.

It's hard to see how these goals would advance if TPA fails. The Vietnamese understand our political process, and calendar. They know that approval of a trade pact is less likely in the United States next year. If Congress closes the door to an agreement now, the Vietnamese government will turn its focus to internal political consolidation – with a Communist Party leadership contest coming up in 2016 – rather than on what it will take to improve its relationship with the United States. In this scenario, there would be zero chance of seeing independent unions legalized in Vietnam, less support for the legal reforms we are seeking, and a greater likelihood of a political crackdown.

Members of Congress concerned about human rights in Vietnam are right to maintain a healthy skepticism about its government's intentions. Congress should

keep demanding more progress. But Members should also recognize the critical role TPA and TPP play in sustaining a process that facilitates securing more progress. TPP is not a leap of faith; it is an instrument of leverage, with respect to Vietnam and all the nations aspiring to participate in the TPP. I hope that the Congress will enable us to continue to use that leverage, and to maintain America's role as the nation shaping the future of the Asia-Pacific.

Thank you for the opportunity to testify today. I'd be pleased to answer any questions you may have.