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

## HEARING

BEFORE THE

SUBCOMMITTEE ON EAST ASIA, THE PACIFIC, AND INTERNATIONAL CYBERSECURITY POLICY

OF THE

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UNITED STATES SENATE

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

**TUESDAY, JUNE 16, 2015**

U.S. SENATE,
SUBCOMMITTEE ON EAST ASIA, THE PACIFIC, AND
INTERNATIONAL CYBERSECURITY POLICY,
COMMITTEE ON FOREIGN RELATIONS,
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:50 p.m. in room SD–419, Dirksen Senate Office Building, Hon. Cory Gardner (chairman of the subcommittee) presiding.

Present: Senators Gardner and Cardin.

## OPENING STATEMENT OF HON. CORY GARDNER, U.S. SENATOR FROM COLORADO

Senator GARDNER. This hearing will come to order.

First of all, thank you for understanding the delay. The Senate is still expected to vote on one more in a three-vote series. So we will be tag-teaming in terms of making that vote once it is called. So I apologize for that and thank you for waiting.

Welcome to the second hearing for the Senate Foreign Relations Subcommittee on East Asia, The Pacific, and International Cybersecurity Policy.

I want to thank Senator Cardin for his continued efforts in this subcommittee and support for holding this important hearing, as well as his work as ranking member on the full committee.

Today's hearing comes at a critical time. The United States and 11 nations in the Asia-Pacific are on the cusp of concluding perhaps the most consequential free trade agreement in history, the Trans-Pacific Partnership.

The potential economic benefits for the United States are enormous. According to the Congressional Research Service, total trade in goods between TPP member countries reached $1.6 trillion in 2014. That represents nearly 40 percent of all global trade.

In my own State of Colorado, trade with countries involved in the TPP currently supports more than 260,000 jobs.

Removing barriers to trade is vital to growing our economy, but the TPP is more than just an economic agreement. It is a critical test of U.S. strategic leadership in the Asia-Pacific region, a region that will be integral to our economic and national security for generations to come.

As stated in the 2015 National Security Strategy, sustaining our leadership depends on shaping an emerging global economic order that continues to reflect our interests and values. Despite its success, our rules-based system is now competing against alternative, less open models. To meet this challenge, we must be strategic in the use of our economic strength to set new rules of the road, strengthen our partnerships, and promote inclusive development.

Defense Secretary Ash Carter echoed that sentiment when he said on April 6 of this year, the "TPP is as important to me as another aircraft carrier."

But when the United States is absent, others rush to fill the vacuum with such alternative, less open models, as the National Security Strategy diplomatically stated. So we cannot be surprised when a rising China fills that vacuum with policies and programs crafted from their own vision of what is beneficial for themselves and the region.

China's establishment of the Asian Infrastructure and Development Bank is the prime example. While on the face of it the AIIB is a positive response to address the infrastructure challenges in the region, it is also the clearest evidence yet that the United States has a serious credibility gap in the Asia-Pacific region.

The question before us then, do we want the United States or China writing the rules? It is clear that while our partners and allies in the region may welcome additional Chinese investment, they want more American leadership and more American standards.

We know that the standards TPP and U.S. engagement bring include not only economic benefits, such as removal of tariff or nontariff barriers, but fundamental American values such as transparency, good governance, and respect for basic human rights.

So I hope our witnesses today can address how U.S. economic statecraft in the Asia-Pacific reflects our values and cements our leadership in this critically important region.

And with that, I will turn it over to Senator Cardin for his opening remarks.

**OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, U.S. SENATOR FROM MARYLAND**

Senator CARDIN. Well, thank you, Mr. Chairman. To Chairman Gardner, I want to thank him for his leadership on this subcommittee. I continue to look forward to working with him, and I think today's subject is one of great importance to us, "Strategic Implications of Trade Promotion and Capacity-Building in the Asia-Pacific Region."

I want to underscore the points that our chairman made. The IMF projects that in the next 5 years we are going to see the global economy grow by over $22 trillion and almost 50 percent of that is going to be in Asia. So we have a U.S. economic interest to make sure that we are engaged in Asia from a trade point of view. It affects our U.S. manufacturers, producers, and farmers, and we know that they can compete as long as they have a level playing field. So part of our responsibility is to make sure they have that level playing field.

And when we take a look at most of the trade conditions and our trading partners, it is barriers in other countries that we have to

get removed. Some of them are direct, such as tariffs. Others are a little bit more difficult, such as intellectual property. And some are even more difficult when we deal with issues such as labor laws, environmental laws, or governance laws. But it is in our economic interest to pursue those.

It is also in our strategic interests. The alliances for security in Asia are critically important to the United States. And we know alliances are being made and we want the United States to have the strategic partners we need for U.S. security interests.

And there is an opportunity here to advance regional stability, which should be in all of our interests. Our involvement here gives us the opportunity to make it a safer place for people to live, helping U.S. national interests.

But to me one of the key points is how we leverage this opportunity to advance good governance because good governance is a key challenge to all of the issues that we care about in that region on stability and values. As one of our witnesses on today's panel recently said, Tom Malinowski, TPP offers the best hope of giving the Vietnamese people the space to pursue their rights. I could not agree with Mr. Malinowski more.

It is critically important that as we look at these alliances for economic reasons, we are allowing our markets to be open to countries that are challenged in good governance, that we do everything to make it clear that they must pursue and enforce internationally recognized human rights. They must have a strategy to combat corruption that includes an independent judiciary, an independent prosecutor, the funds necessary to operate that, the laws necessary to enforce any corruption, the transparency that becomes critically important in dealing with anti-corruption, and that they have the labor commitments to provide labor protection for their population, environmental laws, and just as importantly, that within the trade agreement itself, there is enforcement so that we learn the lessons from past agreements and so that we have a way to make sure that the commitments made under the spotlight of negotiating a trade agreement in fact will be carried out after that agreement has been ratified.

TPP presents a particular challenge for us. When you are dealing with Vietnam—I have been to Vietnam—it is a country that offers tremendous opportunity for the United States. It is a country, though, that does not have a tradition of protecting its workers, and there is really no right to join a union. We have to make sure that those rights exist and are real as a result of what we are doing in TPP.

Malaysia, as you know, is a Tier 3 trafficking country. We have got to make sure that those issues are corrected and that there is a path forward that is enforceable and workable.

Brunei has its own challenges on recognizing international human rights.

So there are countries there that have a history that gives us pause to say, look, moving forward, we have to make sure that we really do have the wherewithal to make the type of progress that we know is necessary.

And then the challenge of capacity-building and the way that we use our development assistance. That is a critical factor that has

to be reevaluated as we move forward in our trade relations with Asia.

The U.S. strategic challenges are clear. There are other trade initiatives in the region. We have to be mindful about that. We have free trade agreements among many countries in Asia that obviously affects the ability of the United States to gain market share and influence. And of course, there is the Regional Comprehensive Economic Partnership that includes not only the ASEAN nations but many of the other key players in that region, including China.

So I welcome the discussion we are having today. I think it is a critically important subject, and I think that as a result, we can have a better understanding as to why it is critically important for the United States to be actively engaged in the Asia region.

Senator GARDNER. Thank you, Senator Cardin.

And now turning to our distinguished panel, our first witness is the Honorable Tom Malinowski, the Assistant Secretary of State for Democracy, Human Rights, and Labor, a position he has held since April 2014. Previously from 2001, he was Washington Director of Human Rights Watch, a leading global organization dedicated to protecting human rights. From 1998 to 2001, he served as Senior Director on the National Security Council at the White House, where he oversaw the drafting of President Clinton's foreign policy speeches and strategic communications efforts around the world. And from 1994—I almost said 1948. I do not know where that came from. From 1994 to 1998, he was a speech writer for Secretaries of State Warren Christopher and Madeleine Albright and a member of the policy planning staff at the Department of State.

Welcome, Mr. Malinowski. After your testimony, we will hear from Kurt Tong, but please, Mr. Malinowski.

**STATEMENT OF HON. TOMASZ P. MALINOWSKI, ASSISTANT SECRETARY, BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR, U.S. DEPARTMENT OF STATE, WASHINGTON, DC**

Mr. MALINOWSKI. Thank you, Mr. Chairman. And I did not get that job with Secretary of State George Marshall in 1948. It has hurt me ever since. [Laughter.]

Thank you for the opportunity to testify, Senator Cardin, Senator Gardner. This is obviously a very, very timely topic given the low-key little debate we have been having on this issue in the last week. So let me offer some thoughts on TPP from my perspective.

This is, first and foremost, obviously an economic agreement, but as you have suggested, it has huge strategic implications. For the first time in the Asia-Pacific, if TPP happens, we will have a group of nations that have consented to join their economic destinies together under commonly agreed, enforceable rules with America at its center. And that is a big deal.

The alternative to TPP is not less trade, because trade has been expanding with or without trade agreements with all of its creative and admittedly disruptive consequences. The alternative would be far less cooperation in shaping the rules of trade, including rules that protect labor rights and the environment. And whatever rules do develop will be shaped by somebody other than the United States.

Now, my focus, obviously, is on how TPP can help us advance values of human rights, democratic freedoms, labor rights. And it is not immediately obvious because this is a trade agreement. It is not a human rights treaty. And there are critics out there who have legitimate doubts. But I believe that it will help us greatly.

Now, in making the argument, I am not going to suggest to you that trade somehow by itself leads to democracy and human rights. I think that is a simplistic argument you should be skeptical of. Here is what I believe.

Number one, to promote democracy and human rights and labor rights in the Asia-Pacific effectively, we have to stand up for those values. We have to speak out. We have to use our voice. We have to use our leverage. We have to use our assistance.

But number two, we also have to continue to lead in the region on matters of security and prosperity, otherwise governments in the region are not going to listen to us on these other issues we care about. In other words, we have to be principled, but we also have to be present, and TPP does both.

Number one, it will be a cornerstone of our strategic presence in the Asia-Pacific. It will enable us to continue to play the leading role in shaping the region's institutions and norms for years to come. TPP is also principled. Labor rights objectives are built into the treaty, enforceable like every other core commitment within it.

In addition, we have leveraged the interests of countries to be part of TPP to advance a broader human rights agenda, for example, to press Malaysia to take stronger action against trafficking, Brunei's recent commitment to sign the Convention Against Torture, which would not be happening absent TPP.

Now, let me focus in particular on how this will work with respect to the country with some of the biggest human rights challenges among the TPP member countries, Vietnam. We have got absolutely no illusions about how far Vietnam still has to go. It is still a one-party state. It is still a country where many forms of dissent are prohibited by law. But there is a profound debate going on within Vietnamese society and within the government about the future direction their country should take, and reformers within the government are using the prospect of membership in TPP as a way of winning the internal argument in favor of greater openness and freedom.

Under the spotlight of TPP negotiations, Vietnam has released prisoners of conscience. Convictions for political offenses are way down from about 61 in 2013 to 1 or 0, depending on who you listen to this year, a huge decline. It has ratified human rights treaties. It has committed to reforming domestic laws, and it is consulting with us on how to do it. Right now in the Vietnamese national assembly, there is a debate underway on introducing the right against self-incrimination into the criminal code, something that we are working with them on.

Now, most dramatically TPP requires freedom of association, the right to form independent trade unions for the very first time in that country's history. Now, breaking the Communist Party's monopoly on trade union organizing in Vietnam would be an absolute breakthrough, and Vietnam must make this reform or miss out on the benefits of TPP.

Now, will this be enough? Will this guarantee Vietnam's transformation into a country that respects human rights? No, it will not. Nothing we can do will guarantee that.

But the question we have before us is, will we be better off in pursuit of that goal if this process is allowed to continue with the passage of TPA, which preserves that prospect that gives us the leverage to keep Vietnam moving in this direction? Will Vietnam be better off if next year its workers have the right to form independent unions, if this debate about legal reform continues, if there are fewer political prisoners in jail? From where I sit, the answer is absolutely yes. And very few of these things would likely be happening if not for the prospect of TPP membership. I think we would be set back considerably if that prospect were taken away.

So from my standpoint, as the person who has to go to Vietnam, negotiate improvements in human rights, TPA and TPP—this is not a leap of faith. It is an instrument of leverage, and I hope that the Congress will find a way to give us that leverage so that we can use it over the next few months to achieve the progress that we want to see.

Thank you.

[The prepared statement of Mr. Malinowski follows:]

PREPARED STATEMENT OF TOM MALINOWSKI

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 U.N. 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 a 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.

Senator GARDNER. Thank you, Mr. Malinowski.

Next up we have the Honorable Kurt Tong, who serves as Principal Deputy Assistant Secretary for the Bureau of Economic and Business Affairs at the Department of State, a position he has held since 2014, not 1948. Before joining the Bureau, Mr. Tong served for 3 years as the Deputy Chief of Mission in Tokyo, Japan. Prior to his time in Tokyo, he was the U.S. Ambassador for Asia-Pacific Economic Cooperation, or APEC, managing all aspects of U.S. participation in APEC while concurrently serving as the Economic Coordinator for the State Department's Bureau of East Asian and Pacific Affairs, organizing bureau-wide efforts on economic policy. Mr. Tong has been a economic affairs diplomat for the State Department since 1990, including serving as Director for Asian Economic Affairs at the National Security Council from 2006 to 2008, and as Economic Minister Counselor in Seoul from 2003 to 2006. Prior to that, he was Counselor for Environment, Science, and Health in Beijing, and served as Deputy Treasury Attaché in Tokyo and as an Economic Officer in Manila.

Welcome, Mr. Tong. Thank you for your testimony today.

**STATEMENT OF HON. KURT TONG, PRINCIPAL DEPUTY ASSISTANT SECRETARY, BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC**

Mr. TONG. Thank you, Mr. Chairman. I really appreciate this opportunity to testify.

Today you have asked us to consider how the administration's work on trade promotion and capacity-building supports our Nation's broader Asia-Pacific strategy, and I look forward to addressing that.

As you know, economic policy engagement with the region is deep and expanding, covering many more issues and programs than we could possibly discuss fully here today. This engagement aims at creating a regional economic system that is open, free, transparent, and fair, thereby creating new opportunities for growth and jobs here at home, even as it strengthens our strategic presence overseas.

Our work in this area supports American trade and investment interests by securing property rights, enforcing contracts, and fighting corruption. It also empowers citizens to hold governments accountable on protecting the environment and product safety. And as Assistant Secretary Malinowski explained, it aligns American leadership with the aspirations of ordinary people in the region and with the values that they admire.

It is worthwhile to note that our most potent tool in all of these efforts is America's private sector presence in the region. And as you noted, total trade in goods and services with the region is at an all-time high, reaching over $1.6 trillion last year. And U.S. businesses remain the largest source of foreign investment in the region.

But the U.S. Government plays a critical role, including by training thousands of officials on issues vital to our interests, such as customs and trade facilitation, information technology connectivity, financial regulation, and the like.

Mr. Chairman, concluding the Trans-Pacific Partnership negotiation remains the single most important thing the United States can accomplish with the Asia-Pacific this year. The region is home to vibrant economies, some of our closest allies, and some of our most demanding challenges. Foreign policy and trade policy are closely linked. Trade issues cannot be separated from larger questions about America's global leadership and our global security.

With the TPP, we are building a stable foundation for our trade and investment in the region. TPP unites 40 percent of global GDP in articulating the values that we American people want to see prevail, values like protecting worker rights and the environment, ensuring transparency in regulatory processes, and enforcing laws fighting bribery and protecting intellectual property rights.

TPP will also have a broad magnetic effect on the region beyond its current membership. In fact, we are already seeing that encouraging more open, fair, and transparent policies among potential future TPP members.

Mr. Chairman, despite the mixed results of last Friday's votes in the House of Representatives, the administration is committed to working with Congress to see trade promotion authority passed, and we are committed to concluding the TPP agreement as soon as possible. TPP is profoundly in the best interests of the American people, but the world will not wait for us.

If we do not lead, we risk ceding leadership to countries that do not share our interests and values. Indeed, China and others have already reached agreements that disadvantage us, and they are negotiating more such agreements, which do not protect worker rights or environmental interests, do not adequately protect intellectual property rights or help maintain a free and open Internet. And they certainly do not address unfair competition from state-

owned enterprises. If these lower quality agreements become the standard for the fastest growing region of the world, it will put our firms and workers at a disadvantage, result in markets being carved up against us, remove us from supply chains, and cause our overall national strategic influence to be diminished.

And, Mr. Chairman, let me stress that this is an urgent matter. We need to act now. As economic power spreads more widely around the world, we need to face the fact that our opportunity to shape 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, and we need to act now while we still have the leverage to succeed.

Mr. Chairman, in my written testimony, I provided additional detail about other important matters such as our critical engagement with ASEAN as it prepares to launch the ASEAN Economic Community this year. That work has great potential to benefit the people of ASEAN, and as the top investor in ASEAN, it has great potential also for the United States. In fact, technical assistance on trade capacity-building is undoubtedly among the wisest forms of investment that we can make, and I expect Mr. Foley to share more ideas with you about that in a minute. Such work not only accelerates growth in developing economies, it also creates greater opportunities in our own economy, even as it reinforces American values such as transparency, good governance, and fair play.

When I visit and speak with government officials around the world, regardless of which corner we are in, Southeast Asia, Central America, Central Asia, Eastern Europe, the top request that I consistently hear is for the United States to invest more in teaching and sharing best practices on questions like improving customs facilitation, which can both spur trade and help stem corruption.

And finally, another important priority, of course, for the administration, as well as for Congress, is our economic policy engagement with China. The upcoming strategic and economic dialogue is an important opportunity to make further progress, as are the ongoing negotiations toward concluding a bilateral investment treaty.

So we look forward to support from Congress on all aspects of this high priority agenda, and thank you for your attention. I look forward to your questions.

[The prepared statement of Mr. Tong follows:]

PREPARED STATEMENT OF KURT TONG

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 6 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 well-being 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 Inter-

net. 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 nonmembers 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 nontariff 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 nontariff 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 intermixed. 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 eco-

nomic "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 subregional 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 $2 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.

Senator GARDNER. Thank you, Mr. Tong.

Last but certainly not least, we have the Honorable Jason Foley, who serves as the Deputy Assistant Administrator in the Asia Bureau of the U.S. Agency for International Development, USAID, overseeing East Asia and the Pacific. Mr. Foley is a career member of the Senior Executive Service. Previously Mr. Foley served as the Director of Strategic and Program Planning in the Bureau of Policy, Planning and Learning. Mr. Foley has worked as the Budget Director for Immigration and Customs Enforcement, the Director of

Strategic Planning for the State Department, and a Peace Corps volunteer in—I am not sure where he was.

Mr. FOLEY. Benin.

Senator GARDNER. Benin. Very good.

Prior to his U.S. Government service, Mr. Foley was a senior manager for a consultancy firm where he focused on financial sector reform issues in East Asia. Welcome, Mr. Foley.

**STATEMENT OF JASON FOLEY, DEPUTY ASSISTANT ADMINISTRATOR, ASIA BUREAU, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC**

Mr. FOLEY. Thank you, Mr. Chairman, for this opportunity to testify today on the role of USAID in trade promotion and capacity-building in the region.

As previously mentioned, the region has experienced remarkable growth and prosperity over the past three decades and has lifted hundreds of millions of people out of extreme poverty. But in order for this growth to be sustainable and therefore continue to benefit the region and the United States, there are several development challenges that need to be addressed.

The first, inequitable growth, which can lead to a playing field that is not level and also can exclude underprivileged and marginalized groups like women. And as Senator Cardin mentioned, the second key challenge is weak governance, which leads to ineffective and not well-informed laws and regulatory frameworks. And finally, inadequate social and environmental standards, which can lead to forced labor and environmental degradation.

USAID is best positioned to address these development challenges through sustained U.S. leadership on trade. Specifically, the Trans-Pacific Partnership offers us, the agency, an unparalleled opportunity to help reduce poverty, improve human rights, and promote environmental safeguards in the region. I will talk about a few examples of what we are doing to address these development challenges.

To help create open and inclusive economies, USAID is working with ASEAN, for example, to, one, improve the regulatory framework for trade and investment and thus open markets for U.S. exports; two, harmonize customs regulations that will lower the cost of doing business; and three, train small- and medium-sized enterprises, including women entrepreneurs and provide them greater access to capital.

To help strengthen governance, USAID is working with governments, civil society, and the private sector to strengthen the rule of law, increase transparency, and enable citizens to play an active voice. In Vietnam, for example, we are providing assistance to improve the rule of law in compliance with trade agreements. In Burma, we are working to increase land tenure security for smallholder farmers by supporting public participation in the development of a land use policy. In the Philippines, we are helping to make the country a more reliable trade and investment partner. And in Laos, we are supporting key legal reforms needed to fully implement trade commitments.

To help establish social and environmental safeguards, USAID is working to ensure that investments meet domestic and inter-

national standards for protecting the environment and workers rights. For example, at this week's Asia Clean Energy Forum in the Philippines, USAID is bringing together U.S. and Lower Mekong countries or businesses to explore sustainable and renewable energy development. Through the Tropical Forest Alliance 2020, which extends to over 400 global companies, USAID supports the Government of Indonesia in its efforts to reduce commodity-driven tropical deforestation. And in Cambodia, we are supporting improving working conditions and workers' livelihoods and promoting safe labor migration, freedom of association, and labor dispute resolution.

In conclusion, Mr. Chairman, East Asia has become a key driver of global economic prosperity. USAID has helped to make this growth more equitable and sustainable, but our continued success requires strong U.S. leadership on trade. For example, our best leverage to improve labor rights and ensure appropriate environmental safeguards comes from 21st century trade agreements such as the TPP.

I appreciate the opportunity to testify today. I look forward to your counsel and questions.

[The prepared statement of Mr. Foley follows:]

PREPARED STATEMENT OF JASON FOLEY

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 5-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 1 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 5-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 invest-

ment 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 6 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 nontariff 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 subregion—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 nongovernmental 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 5-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 health care 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.

Senator GARDNER. Thank you, Mr. Foley.

I will begin questions. And again, I apologize. I will be leaving when Senator Cardin returns to take the third vote and then return.

Mr. Malinowski, you mentioned in your testimony that some of the reforms highlighted during your testimony would not have happened without the prospect of the Trans-Pacific Partnership or the talks that are being held. What are you hearing now from our trade partners with the failure of the House to move forward in a meaningful way?

Mr. MALINOWSKI. All of us are hearing a tremendous amount of anxiety. There is a sense of doubt among many of our partners in the region about whether the United States is—not only about whether we are going to go through with TPP, but with respect to our overall posture in the Asia-Pacific. And I think as a result of that doubt, my understanding is that the discussions over the specific provisions that we want to see in TPP on labor rights, on the environment, on all of the issues that people are rightly concerned about are essentially—you know, people are waiting to see how this debate turns out. If there is no TPA, then these countries have far less reason to make the many times very painful and difficult choices we are asking them to make as a condition of entry into TPP. They are only going to take those painful steps, politically painful in many cases, if they know that there is a realistic prospect at the end of the day that this is going to work out. And that is in doubt right now.

Senator GARDNER. And I do apologize. We are going to have to take a short recess so I can go vote before they close it out. When Senator Cardin returns, we can resume the hearing, but for now, this committee will stand in recess and we will resume when I return or Senator Cardin returns.

[Recess.]

Senator CARDIN [presiding]. So with the consent of Senator Gardner, I am going to reconvene the Subcommittee on East Asia and The Pacific for the purposes of questioning. I know Senator Gardner will be back as soon as he has a chance to vote on the last of

our rollcall votes this afternoon. There should not be any further interruptions beyond that.

And I apologize for not hearing the second two witnesses, but let me at least start the discussion with Mr. Malinowski. And the other two—you are more than welcome to respond as well.

I agree with you that we see progress being made on issues important to the United States during these trade negotiations with the Trans-Pacific Partnership countries. Yes, they are making progress on not arresting people for their conduct that previously would have been arrested. They are releasing people from prisons. They are showing some sign of legislative action. They are making certain commitments on moving forward with labor protections. They are dealing with some of the other issues that we have brought up.

My question is that we sign an agreement and then it is much more difficult to get the continued interest of these countries. They have got what they want—the trade commitments. And enforcement is not easy. If it is not spelled out in specific detail under dispute settlement resolution procedures, good governance is very difficult to enforce. If you have a commitment to reduce tariffs, you know whether those tariffs are being collected or not collected. If you have a commitment that you will not require corrupt activities in order to participate in government procurement, it is not as easy to demonstrate that American companies had an honest shot at those issues.

So how do you recommend that we proceed to make sure that the type of progress that we have seen on good governance is not only for the purposes of negotiating an agreement but will be permanent changes made to protect the way a country deals with its citizens?

Mr. MALINOWSKI. Thank you, Senator Cardin. That is the most important question. I would say several things.

First of all—and maybe let us stick to Vietnam because it is, I think, the most challenging and important example here. Some of the things that we are talking about have to happen before TPP enters into force with respect to Vietnam. So on freedom of association, they have to change the law and they have to change it before they get the benefits of the treaty. And we will know when they have changed the law. We have been engaged in intensive conversations with them about exactly what that needs to mean. So it is not just a slogan, "freedom of association," but we are bearing down on the specific details.

Then, as you say, they have to enforce the law. And that enforcement becomes subject to the same dispute settlement mechanisms as anything else, including the commercial aspects of the trade agreement. Enforcement, as you said, is still hard even under those circumstances, as we have seen with other trade agreements. But will we be better off if we have the law changed and a provision in place to enforce it? I would argue, yes, much better off. Will we be better off if they continue down the path that they have started on in the last year under the spotlight of these negotiations? I would argue yes.

We will also have other leverage in the relationship. For example, Vietnam is very, very eager to see the United States lift the existing ban on lethal arms sales, which we have very partially lift-

ed, but made clear that a full lift depends on significant progress on human rights.

So this will happen in stages. We have multiple forms of leverage. We have a high degree of commitment across every agency of the U.S. Government to move Vietnam, to try to encourage them to move in the right direction. And there are many people within the Vietnamese system who also, for their own very good reasons of national interest, wish to build a more open political system. And there is a synergy between what we want and what they want.

So I cannot think of a better way. It is not perfect, but I cannot think of another strategy that gives us a better chance of achieving our goals.

Senator CARDIN. And I appreciate the honesty of that answer, and it is true that there will be dispute settlement provisions that will be included in, I hope, the trade agreement. At least that is if the TPA that passed the Senate and the House is ultimately signed. It is certainly in the language that they must, in fact, do that.

The challenge I find with laws in countries that are ruled by a Communist Party is that you do not normally find the Communist Party written into their constitution or into their laws for that matter. And when you look at the constitutional protections, you look at the human rights that are embedded in their principles, they are not bad, but everything is subject to the Communist Party. And what concerns me is that if we have strong laws, laws that would enforce their commitments, that because of the way that a Communist system is organized, it is subject to an authority that is not spelled out in statute. How do you overcome that hurdle?

Mr. MALINOWSKI. It will take time, of course. You have identified a central problem within Vietnam and other one-party states.

I have found in my experience in dealing with them that it is in many ways a legalistic society despite the problem that you have identified. So, for example, when I have met with senior leaders in the Vietnamese Government, including within essentially their secret police, and we talk about cases of political prisoners who have been arrested, they cite the law to me, and they are right on the law because the law in Vietnam does explicitly allow the government to arrest people for criticism of the Communist Party and other so-called crimes. The law does explicitly forbid independent trade union organizing. So were they to stop a strike, they would be within the law.

So if we can get changes in the law, we are not all the way there, but when we have that argument with them and, more importantly, when their own civil society has that argument with them, the law will be on the side of the angels as against now when it is not on the side of the angels. So that is one step in what we are trying to achieve but not the full step.

Senator CARDIN. Well, I would just urge us to be as clear as we can in the enforcement provisions in TPP, and I would urge you to talk not only with our trade partners here in the United States in the administration but also with our trading partners. I must tell you I was not encouraged in talking to other TPP countries, where governance is not an issue as to their lack of interest in the good governance provisions of a TPP agreement. They were much more

concerned about a particular industry or one of their issues or whether we are going to get an agreement—more so than the niceties of us worrying about good governance and human rights and anticorruption, et cetera.

I would just tell you this is an incredible opportunity. It is going to be looked upon as the model moving forward, and if we do not get this right, it is a huge opportunity loss. And I do not want to put too much on your plate, but you are the point person in the administration that we look to that will raise these issues and make sure that our trade representatives press upon how results have to be shown.

Mr. Tong, if I might, I want to get on to one other issue, and that has to do with other trade initiatives in the region and what impact it has on the TPP and the U.S. involvement. We know that there is the Regional Comprehensive Economic Partnership in which the ASEAN countries are trying to enter into agreements with Australia, China, India, Japan, New Zealand, and South Korea. That would certainly be a pretty dynamic region if they can come to an agreement on trade.

We also know that there are bilateral free trade agreements in the region. We know that all the countries are actively engaged beyond just the TPP, although we do understand there is a good focus right now on what is happening with TPP in that region.

There is the ASEAN Economic Community which is trying to become more significant on trade rules.

Tell us where the United States currently stands as far as our opportunities for strategic partnerships versus other activities that are taking place in the region, which we are not part of.

Mr. TONG. Well, thank you for that question, and I think it is a very astute one.

By way of background, the United States currently has 20 free trade agreement partners. In the past few years, there have been 200 such agreements reached just within the Asia-Pacific that exclude the United States. So there are a lot of activity out there.

What I would like to convey is a sense that over the past few years—I have been working on this for a quarter century. Over the past few years, the U.S. has been the one setting the agenda, and the momentum has been building behind our initiative in the Trans-Pacific Partnership. And what we risk if we do not maintain that momentum is dissipation of that momentum in the direction of others setting the agenda.

So what happens to the United States? Well, there is the classic question about trade diversion to our disadvantage. If people are reaching tariff reduction agreements that exclude us, that does disadvantage the United States.

The more important question, I believe, is with respect to the nontariff aspects because these agreements that are being reached among the nations of Asia characteristically do not have the kind of nontariff provisions that a high value-added, high-technology, sophisticated economy like the United States needs to see in order to fully benefit from participation in this region. And once those agreements are reached, the system tends to get locked into place, and the expectation for what the rules of the road will be becomes lower. And the United States loses its leverage to change that

agenda in a more sophisticated way that benefits our firms and our workers by having these more complex and, frankly, invasive nontariff measures, whether it is labor rules or any of the other aspects of these trade agreements. So really, we need to maintain momentum behind the Trans-Pacific Partnership.

Now, you mentioned the ASEAN Economic Community. That is an opportunity—and we want to support that because these are all developing economies, and their greater integration among themselves is less likely than some of these other agreements to result either in diversion to the detriment of the United States or a low-bar approach toward the nontariff measures. And so what we are doing is working with the ASEAN Economic Community to try and build up the nontariff aspects of what they are attempting to accomplish, as well as help them implement that agreement because that will help our firms set up in a regional basis and create more export opportunities for the United States.

Senator CARDIN. I have one followup question for you, if I might, Mr. Chairman, and that deals with China.

In my conversations in the region, including with China, you get the impression that China looks at TPP as an effort to isolate China and to—for particularly the United States since it is the leader in the TPP—of trying to get an advantage over China. I try to do my best to assure them that that is not our desire, that we want to see China as a strong country. We want them to buy more of our products. We want to move forward with our commerce with China. In the meantime, China has reached out with certain trade arrangements with other countries and they are involved in this regional cooperation. There have been some rumors that they may be interested in TPP.

Can you just share with us your view as to how you see China reacting to TPP and what opportunities do we have in the United States in regards to China?

Mr. TONG. Certainly. A few years back, China definitely viewed the TPP as an aggressive American attempt to contain their economic space in the Asia-Pacific region. Their view of that has softened over time, and the reason for that is that they have come to understand better—not well enough yet in my opinion, but better—that the United States objectives for the region of having an open and fair system for trade and investment in the Asia-Pacific is something that over the long run would be something that China would value itself.

A real issue is Chinese protectionism. Even as China starts to realize that an open system outside its borders is not such a bad thing, China continues to take a very protectionist approach toward the regulation of its own economy. And therefore, when it reaches bilateral agreements in particular with other countries, they tend to keep the bar very low both in terms of the amount of tariff relaxation, as well as the nontariff rules. And again, I am repeating myself here, but locking the region into a set of low-quality arrangements is to the detriment of the United States. Therefore, we need to maintain momentum behind our initiatives.

Mr. MALINOWSKI. If I may add to that, Senator Cardin. You mentioned some inklings of interest within China and the TPP. I would just say from my standpoint, I would be very happy if China were

interested in the TPP because then they would have to meet the freedom of association requirement, and that would be a very good thing.

Senator CARDIN. I hope there is more than just freedom of association requirements.

Mr. MALINOWSKI. And many, many other requirements.

Senator CARDIN. Thank you very much for clarifying.

Mr. MALINOWSKI. As the Assistant Secretary for Human Rights, Democracy, and Labor——

Senator CARDIN. I am sure you read all the principal negotiating objectives that are included in the TPA that we expect are going to be complied with in the TPP agreement.

Mr. MALINOWSKI. Indeed.

Senator CARDIN. Thank you.

Senator GARDNER [presiding]. Thank you again for putting up with our vote schedule today.

I wanted to go back to Mr. Tong in terms of following up on one of the questions I asked Mr. Malinowski, and that was about the aftermath of the House vote this week. In your statement, in your opening testimony, you mentioned that foreign policy and trade policy are closely linked. What are you hearing? What is the feedback you are receiving after the House aftermath of the vote?

Mr. TONG. Well, I think Assistant Secretary Malinowski answered this accurately a moment ago in saying that the fundamental reaction is one of anxiety. Our 11 partners in the Trans-Pacific Partnership endeavor very much want this to be a successful initiative. They have put a lot on the line politically, and they have put an enormous amount of effort into reaching a high quality agreement. And so they are anxious and watching us very closely to see if the United States can deliver on its promise of having the capability of coming to closure and the trade promotion authority being that capability. Trade promotion authority, as you know, is Congress telling the administration what to achieve in the agreement in return for promising to consider that agreement as a whole once it is reached, not a promise to pass it, just a promise to consider it.

With respect to the region, if you think about the rebalance strategy, which I think both Congress and the administration have internalized as an important priority for the United States, there is a diplomatic aspect to it. A few years back, we would hear from friends across the Pacific constantly that we were not showing up enough, and the United States has been showing up. We heard that they were very concerned and anxious about us maintaining our military presence, and we have both maintained and augmented our military presence. And they have asked us to be more engaged in the region economically, not just in a material sense, but in the sense of shaping the rules of the road for how the Asia-Pacific economy works because they know, as was pointed out earlier, that only the United States has that unique commitment to actually emphasize in the long term issues of fairness and transparency and how trade investment takes place.

So this is fundamentally part of a piece in how the United States expresses its aspirations and its interests in the Asia-Pacific re-

gion. So we really cannot be successful in an overall sense without the economic piece.

Senator GARDNER. Thank you.

I want to follow up, Mr. Foley, with you on that engagement question. In your testimony, you stated that 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 to the type of global growth that lifts up the poorest of the poor, empowers the disenfranchised, and brings the rule of law where it is needed most.

Mr. Tong mentioned the rebalance as well as part of that engagement.

What percentage of the total would you estimate USAID currently spends on its trade capacity-building efforts in the Asia-Pacific region?

Mr. FOLEY. Thank you for the question.

Before I get into specifics in terms of the portfolio, just to add on previous comments on the rebalance and how important these issues are of human rights and governance and improving the livelihoods of people out there, our role is to help ensure that there is an appropriate balance within the rebalance that these core issues are focused on. And we do work in Vietnam in improving transparency and accountability. We do work in other countries. But what TPP and these type of trade deals allows us to do is to shine the spotlight even further and actually get the support of the reformers in these governments that we are working with to push deeper. So they provide us the opportunity to do so.

In terms of our overall portfolio for trade capacity-building, we work very closely with the State Department, with USTR, with the Department of Commerce. And so we collectively look at what the needs are in these different areas that we are working on either regionally that we do through APEC or ASEAN, in addition to bilaterally. And so we calibrate based on what the needs are. I can get you an exact percentage. I do not have it off hand.

Senator GARDNER. If you could give me that percentage, that would be fantastic, just the estimate of what we currently spend on trade capacity-building efforts in the Asia-Pacific region. I think that is important to know as we talk about the rebalance and if we are actually focusing the proper energy into the rebalance or whether we need to reenergize the rebalance.

Senator GARDNER. Following up on that, the countries in the region where these challenges are most prominent—what are they, and what is USAID's plan to address these challenges?

Mr. FOLEY. The challenges imposed by?

Senator GARDNER. In the region when it comes to the trade challenges, trade barriers. And we talked about some of the work you are doing. What countries in the region face the most significant challenges and what are you doing right now?

Mr. FOLEY. So our work in APEC and ASEAN is sort of the centerpiece of the regional trade that we are doing that works in a number of our countries in Southeast Asia. Looking at Vietnam, looking at Burma, looking at Cambodia. And so we address most of our trade issues regionally through streamlining customs

through our ASEAN Single Window programs, and through APEC, ensuring that we reduce the costs of doing business in the region.

Our bilateral work also supports our regional work, and that deals more with the one-to-one U.S. Government and the individual countries in areas like improving transparency, rule of law, such as we are doing in Vietnam.

So we come at it regionally and we come at it bilaterally.

Senator GARDNER. As we negotiate the TPP and the opening that it creates, is USAID planning on increasing trade capacity-building efforts in the Asia-Pacific region? And if so, to what extent?

Mr. FOLEY. So that is what we are in discussions right now about with our interagency partners, about what the needs are particularly around labor rights, environmental safeguards. What are we doing already to support. What are we doing regionally, bilaterally. And then based on what those needs are, should the agreement pass, we will then be determining what our role is within the interagency and then support as appropriate.

Senator GARDNER. Do you think efforts to continue building out our trade capacity-building efforts within the region would be set back with the failure of TPA?

Mr. FOLEY. You know, I think that my colleagues at the State Department could probably answer broadly diplomatically in terms of our programs. We are doing this work whether TPP passes or not. This is important work that we are doing in building trade capacity. So we continue to do it. Would it be helpful to have this? Absolutely.

Senator GARDNER. Continuing, Mr. Foley, last year the Government Accountability Office produced an assessment of the agency's trade capacity-building efforts and concluded—and I will quote the report—"the U.S. Agency for International Development's 2003 trade capacity-building strategy does not directly guide TCB activities and parts of the strategy no longer reflect the current TCB environment."

Have you responded in any way to the GAO study, and what steps have you taken to update TCB strategy?

Mr. FOLEY. I do not know. I will have to follow up and get back to you.

Senator GARDNER. If you would get back to myself and Senator Cardin, that would be appreciated.

Senator GARDNER. My time is up, Senator Cardin. If you would like anything——

Senator CARDIN. I have one more question.

Senator GARDNER. Please go ahead and we will go back and forth.

Senator CARDIN. Well, Mr. Foley, I want to follow up on the development assistance program and capacity-building for trade. I must tell you there are some who are pretty critical, saying that our aid policies were established for a developing world in Asia that has turned into an emerging world where you have economies that are getting more sophisticated and that we have not really changed our aid programs in Asia to reflect the current needs for trade capacity.

There is also a concern, as we rebalance to Asia, that the total size of the foreign development assistance in that area is relatively

small compared to the other regions and, therefore, you do not have the size going in. And whenever you try to redesign aid programs, you have political problems not just within the agency, but within the countries we are dealing with. So these are hard issues to change.

But here we are talking about the most modern trade agreement, the largest trade agreement, in which a large part depends upon countries being capable of handling the commitments that they are making under this agreement, and if we have not focused our development assistance to make these modifications and changes in the country, then we are not going to succeed.

So it seems to me that USAID has to take a pretty bold step here and be able to tell us how they plan to deal with the realities of the nations we are dealing with, particularly in TPP, but also beyond TPP, because the template here, we expect, will be used for other participants in TPP to have countries prepared to be capable of dealing with a modern trade agreement.

Mr. FOLEY. It is a very good question, and it raises an issue that we grapple with in terms of our resources and how that is shaped. Economic governance resources for us, as well as democracy and governance—they are sort of part of the discretionary pot. They are not earmarked. They are not directives. They are not part of the administration-identified initiatives. And so it is often hard to ensure that we have adequate levels to support what the needs are. And so we are continuing to look through, as budgets are being developed and implemented, how we can assure that we do have appropriate resources to support this very critical set of issues that you have raised.

Senator CARDIN. Well, I am glad I identified a problem. I would like to have some hope of an answer here.

You know, we adopt these policies for a developing world and developing countries, and there have been changes, somewhat dramatic changes. Vietnam today is not what it was 20 years ago. And we need to be prepared to change our priorities to meet American needs. I understand budgets are tight. Believe me. I would like you to have a larger budget. I really would. But it does mean you have to make hard decisions.

And if what you have said here today—to this panel—that trade is critically important to America's strategic interests and economic interests and this is a critical moment with the TPP negotiations taking place, then I think we all have to be working in the same direction. And therefore, I hope that you will come forward with some concrete ways that will give some of us confidence that we can vote for a TPP knowing that there will be the tools available so that, in fact, particularly the countries of challenge will have the ability to comply with the commitments that Congress expects will be included in this TPP.

Mr. FOLEY. We are working on it, and we will seek your counsel as we put forth our plans.

Senator CARDIN. Thank you.

Senator GARDNER. As you can tell, I think both Senator Cardin and I continue to seek answers on how well we are doing and what our progress is in the rebalance. And that is why I appreciated Senator Cardin's efforts with my office to make sure that we were

able to include in the base bill of the State Department operations authorization that we just did last week in the markup that passed unanimously out of our committee—we asked that very question. Are we doing enough when it comes to the rebalance? What resources have we focused, and what can we learn from where we are today with that focus?

And keeping in line with that same question to Mr. Tong, I will turn to you. Depending on how you measure it, in the fiscal year 2016 foreign operations request, the East Asia and Pacific Bureau is about 4 percent of that total, the fiscal year 2016 foreign operations, which basically makes it dead last amongst all of the bureaus for funding. Is that directing enough resources to make the rebalance successful?

Mr. TONG. Boy, I am tempted to answer that question.

Senator GARDNER. We would encourage you to answer the question. [Laughter.]

Mr. TONG. Well, I do not work in the East Asia Bureau now, so I cannot really speak to the adequacy of its budget. I will say that the challenges in the Asia-Pacific are enormous. Certainly having worked in that region over the last 25 years, I have never felt flush in terms of the amount of resources available in pursuing those objectives. As for which region versus which budget, I am not in a position to address that question.

I would like to comment a bit on what Senator Cardin brought up. There was a question about the relationship between trade capacity-building and TPA, and I do think there is a linkage there, if a subtle one, which is that trade capacity-building activities will be more successful if they are tied to a specific initiative such as TPP.

I think there was also a question about bilateral versus regional approaches. And the regional approaches tend to be very efficient whether through APEC or through ASEAN or through a TPP framework because you have peer pressure from the participating economies reinforcing one another as they move forward in their understanding about trade policy.

And then finally, this question about middle income versus—how to be providing appropriate support to middle income countries versus those that are most in need of poverty alleviation, I do think there is a question there that needs to be looked at both in terms of trade policy but also in trade capacity-building and our assistance programs. And I look forward to working with USAID on that question.

Senator GARDNER. Thank you, Mr. Tong.

Shifting to the Asian Infrastructure and Investment Bank, or AIIB, I think 56-some nations are now a part of the AIIB, including some of our closest allies. There are people who are very concerned about the transparency, accountability of the AIIB. They talk about rules and governance that remain unclear when it comes to the AIIB. But when the United States expressed strong reservations, we had a number of allies that went ahead to become a part of it.

Why do you think they ultimately decided to join the AIIB despite the reservations by the United States?

Mr. TONG. I think that the nations that have volunteered to negotiate—it is still not yet launched, but negotiate the terms of the

AIIB to get under Chinese leadership have identified an opportunity for themselves to participate in something which may provide additional funding to them or in cooperation with them to the very important question of infrastructure financing in the Asia-Pacific.

The United States approach to this question has been less clear than it should have been from the beginning. The President made a very clear statement on our approach toward this emerging institution in Brisbane last year, but it did not get much public attention, and we should have amplified it more.

The fundamental view of the administration toward this emerging organization is that it both presents an opportunity, as well as a challenge. There is an opportunity in that there may be more funding available to this question of infrastructure financing, which is a very legitimate demand or concern that there be more funds available. The challenge is that with any new institution, that it do its business in a way that actually reinforces the best practices in the region rather than undermines them.

And so from the United States approach, we have been trying to communicate our concerns, questions, cautions to the participants in the initiative both directly with China as the leader of the initiative, as well as with other participants. For example, when I was in Beijing a couple weeks ago, I met with the Secretary General of the design part of this institution to discuss through some of the ways that they are answering all of the concerns that are coming from the United States and other partners. And so we need to continue to engage to express in our unique American leadership role as, in a way, custodians of the global financial system and the global development policy apparatus that we really want this AIIB organization to make a positive contribution. And so we will continue to speak with them on this.

The other thing that we need to keep in mind is that the amount of cash being brought to the problem by this new institution is just a supplement of existing organizations, and even with those existing organizations, plus the AIIB, their resources will fall far short of the actual demand for infrastructure build-out in the Asia-Pacific region. And so really the more fundamental challenge is designing good projects and getting the private sector engaged, including the U.S. private sector, in meeting this demand.

Senator GARDNER. And I think that is the interesting point that you make because talking about our unclear reaction or I think as you said it, we were less clear than we should have been in response to the AIIB, talking about the amount of investments that the AIIB will be making in terms of falling short of real needs. Should the United States have been more assertive in its efforts to create a viable alternative to the AIIB? Should the administration have put forward a viable alternative, or should we have worked to improve our existing multilateral institutions like the Asian Development Bank? What should have been the response?

Mr. TONG. We have been working with the Asian Development Bank and the World Bank to nudge them, encourage them to be more efficient and more effective in the infrastructure space. They have other priorities as well in poverty alleviation and health and the like, and resources are finite in these questions. But you iden-

tify a very important channel for us to express our desires in this, which is the multilateral development banks.

Another is our own efforts through the Ex-Im Bank, OPIC, the Trade and Development Agency to help support American business and developing economies link up in creating infrastructure solutions. I do not have a new game plan for you or an alternative to the Chinese approach led by the United States, but rather, I think we just need to do what we have been doing, do more of it, and continue to try and do it better.

Senator GARDNER. Thank you.

And, Senator Cardin, if you would like to jump in.

Senator CARDIN. I have no further questions. I found this discussion to be very helpful, and I know we all share the same values of what we are trying to achieve. I just think that President Obama is committed to a rebalance to Asia.

Senator Gardner is correct. I share a concern that we understand what that really means and whether we are devoting the adequate resources to it because I think for a long time the East Asia and Pacific Bureau did not get the same attention, same resources in all of the different areas, including the attention of the political structure of America, including the size of its budget within the State Department, including the programs under USAID, including some who received grants under the major initiatives. You look at the number of countries in Asia, a rebalance to me means that because of the importance, because of the growth, that we are going to evaluate how we can do things more effectively in that region. Some of it means reallocating resources, but others mean changing programs to meet the current needs. And clearly the Trans-Pacific Partnership is part of that strategy. I know we are moving in that direction, but I do think it is important that we have a coordinated effort and that Congress understand that, the American people understand that.

Senator GARDNER. Thank you.

And we have another hearing that we are going to be going to this afternoon. So we do appreciate the opportunity for everyone to participate in this afternoon's hearing.

And with that, I think if there is no further business, we can conclude this hearing. So thank you for your testimonies today. Thank you to the witnesses for appearing before us today and for providing us your testimony and responses.

For the information of members, the record will remain open until the close of business this Friday, including for members to submit questions for the record. We ask the witnesses to respond as promptly as possible. Your response will also be made a part of the record.

With the thanks of this committee, the hearing is now adjourned. Thank you very much for your time and testimony today and your willingness to put up with our vote schedule. The committee is adjourned.

[Whereupon, at 4:00 p.m., the hearing was adjourned.]

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