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Subcommittee on East Asia, the Pacific and International Cybersecurity Policy

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

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

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

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

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

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

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

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

Regional Economic Connectivity & Inclusion

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

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

The U.S.-ASEAN Business Alliance for Competitive SMEs, a public-private partnership between USAID and the U.S.-ASEAN Business Council, has already trained 3,500 SMEs — with nearly half of the individuals trained being women entrepreneurs — in all 10 member states since its launch just over one year ago. On removing barriers to financial access, USAID recently entered into a partnership with some of ASEAN’s largest banks to fund research grants to study how to improve access to capital for SMEs. This program will target and explore the particular issues women face in Southeast Asia in accessing capital.

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

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

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

Leveraging Partnerships to Maximize Impact

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

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

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

Strengthening Good Governance that Enables Growth

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

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

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

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

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

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

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

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

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

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

Ensuring Environmental and Social Safeguards

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

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

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

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

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

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

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

Conclusion

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

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

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