

Response of His Excellency Surangel S. Whipps, Jr.
to
Questions from the Honorable Bruce Westerman
Chairman, U.S. House of Representatives Committee on Natural Resources

1. *The Biden Administration's proposal includes provisions to continue support for mutually agreed institutional capacity through assistance and cooperation between the judicial branches of our respective governments. Given the importance of independent judiciaries and rule of law in preserving democracy and individual liberties, can you please describe your assessment of the value of the Judicial Training program? In light of the press reports and government actions in the region relating to, and in some cases confirming, criminal malign and corrupt PRC political warfare aggression, are your government prosecutors and law enforcement agencies prepared and do you have the capacity to investigate, prosecute criminal acts of corruption?*

Mutually agreed institutional capacity building for Palau's judiciary and members of the Palau Bar provides essential support and training for our judiciary. Palau is one of the few U.S. modeled systems of government in the Indo-Pacific region. As such, recruiting and retaining U.S. trained attorneys and judges to support democracy, our preferred system of government, requires competitive resources. The Judicial Training Program helps provide it.

The Program in addition to other Compact Agreement assistance provides critical resources to support Palau's sustainability as a democratic, free market state in free association with the U.S. Especially because the Agreement continues the policy of not letting our Judicial branch receive monies from annual U.S. budgetary assistance or from the Compact Trust Fund, the Judicial Training Program is vital for supplementing the continued education of our legal professionals. Without this training, other governments in the region offer to step in and provide training shaped by legal systems that are different from our own – and from the U.S.' In the interests of both of our nations, I do not want to see a gap created that will facilitate this.

Palau has the legal framework and institutions to investigate and prosecute corruption, but greater resources and mutual assistance would be an invaluable contribution to recruiting and retaining the quality U.S.-trained attorneys and judges needed to implement our laws and combat the challenge you cite. We are deeply committed to this endeavor.

The Compact also makes U.S. law enforcement assistance available.

U.S. assistance is key in ensuring justice and security in Palau and, therefore, in the Indo-Pacific region. We are grateful to the U.S. Government and its Congress for the support it has provided in these regards and hope that it will continue.

2. *What has been the economic performance of Palau's trust fund under the COFA? What sort of ways has Palau worked to improve fiscal responsibility and democratic processes?*

The economic performance of Palau's Compact Trust Fund has been quite good. The Fund was established in Fiscal Year 1995 with \$66 million, \$4 million was added in FY1997, and \$65.25 million in FY18. After \$151 million in withdrawals, it recently had a balance of \$278,456,000.

Raymond James and Associates is the Fund's Custodian and the Investment Consultant. Previous Custodians have been Morgan Stanley, the Bank of Hawaii, and,

initially, Merrill Lynch. A dozen firms, including some of the biggest names in the business in the U.S., manage different elements of the portfolio.

The \$100 million in additional U.S. contributions that the Compact Agreement would provide would help the Trust meet needs that would not otherwise be met through other U.S. assistance and local revenue. It would also reduce the need for borrowing for essential government functions. The unexpected and devastating shock to the economy from China's tourism political pressure tactic and the Covid pandemic underscore the necessity and vital nature of this assistance as well as the need to continue prudent, professional management of the Fund.

In general, Palau's record for responsible fiscal management has been recognized by the U.S. Executive branch, as is reflected in the Compact Agreement.

We work closely with the Interior Department, which, as you know, administers Compact assistance, to improve and enhance our capacity in this regard. For example, we sought, and Interior granted, funds and technical assistance for upgrading our financial management system. This will further improve the capabilities of the various departments of our government and our overall reporting on spending. It will also help reduce staffing needs.

My Administration's signature achievement in this area is a major Fiscal Responsibility and Debt Management Act. It codifies best practices and strengthens our ability to manage our increased debt.

A major portion of the debt is for just continuing basic government services in addition to amounts borrowed for infrastructure that will help grow our economy. Borrowing for government services has been unavoidable but is not a practice that is sustainable.

The debt for government operations is due to China's effort to pressure us into shifting alliances by making our major industry, tourism, dependent upon visitors from that nation and our refusal to comply and due to the Covid-19 pandemic, which suspended visits from other nations. These factors combined to shrink our economy by 30% in five years.

We tried to cope by cutting spending and taking other fiscal responsibility measures but had to borrow to continue essential government services. Because our economy had been better before, the Asian Development Bank (ADB) only offered us loans instead of grants (unlike the other two states in free association with the U.S.) for Covid revenue losses. With U.S. States and territories, municipalities, and Native American nations receiving Federal grants for Covid revenue losses, Palau became the only U.S.-affiliated jurisdiction to have to incur substantial debt to continue government operations during the pandemic.

Our tourism industry is recovering as we try to develop markets other than China, but the recovery is slower than ADB and other economists have projected. Developing new tourism markets is not easy, particularly because of our limited air service. To improve it, the runway of our international airport needs to be extended.

Another major accomplishment in fiscal responsibility is a complete overhaul of our tax system. It features a Value Added Tax and a fairer business profits tax. The modernized system is compliant with U.S. and international standards and should grow our economy.

Major goals of my Administration are to improve Palau's investment climate and, in particular, to attract U.S. in addition to regional investors. In this, we are working to diversify Palau economy beyond tourism and fisheries into finance in particular. As the westernmost area that a top U.S. military commander has said is "part of the homeland," we are uniquely positioned for this. U.S. companies should, for example, relocate from Chinese influence locations to the security of Palau. So, we are making great efforts in this regard with U.S. agencies in addition to Interior, such as the U.S. Trade and Development Agency and the U.S. International Development Finance Corporation, with the help of the U.S. National Security Council We are very grateful for the bipartisan support in Congress that we have received for this as well.

U.S. investment will not only benefit our private sector but will advance and secure democracy in Palau. Along with U.S. financial and programs assistance, it will make it more difficult for those who are tempted by Chinese investment and economic activity offers that come with the price of shifting our alliances from feeling that Palau has no alternative but to do so.