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Statement before the House Committee on Foreign Affairs

Subcommittee on Asia and the Pacific

"THE TRANS-PACIFIC PARTNERSHIP: PROSPECTS FOR GREATER U.S.TRADE"

A Statement by:

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Introduction

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee, thank you for this opportunity to offer my thoughts on the prospects for the Trans-Pacific Partnership (TPP).

TPP is a regional trade agreement that the United States is negotiating with 11 other Asia-Pacific economies (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam). The goal of the negotiations is to produce a comprehensive, high-standard agreement that supports economic growth and addresses twenty-first century trade issues. The office of the U.S. Trade Representative is leading the negotiations for the United States, and has been consulting with Congress and private sector stakeholders at all stages of the negotiations.

A completed TPP would create the largest free-trade area in which the U.S. participates, representing 40 percent of all U.S. merchandise trade, with potential for expansion to other regional economies. TPP would establish a modern set of commercial rules for the Asia-Pacific, where U.S. firms have a large and growing stake. Further, TPP reinforces U.S. presence in the region, "embedding" the United States as a Pacific power.

TPP negotiations are now nearing the end of a long arc. The George W. Bush administration joined the P-4 (Singapore, Brunei, Chile, and New Zealand) in 2008 to launch TPP. The Obama administration embraced the initiative in early 2010, which helped expand the deal to its current 12 parties. Talks are now nearing completion: during the Asia-Pacific Economic Cooperation (APEC) meetings in November 2014, leaders stated, "with the end coming into focus, we have instructed our Ministers to make concluding this agreement a top priority."[1]

Commercial Importance of the Asia-Pacific

The United States has compelling economic interests in the Asia-Pacific. In 2014, the 21 member economies of the Asia-Pacific Economic Cooperation (APEC) grouping, which includes the United States, accounted for 58 percent of global gross domestic product (GDP).[2] The region is home to the world's three largest economies by GDP – the United States, China, and Japan – and 8 of its 15 economies with GDP in excess of $1 trillion/year. The Asia-Pacific is home to fast-growing, relatively stable economies: the International Monetary Fund (IMF) projects that emerging and developing Asia will grow 6.4 percent in 2015, consistent with its growth rates for

[1] Leaders' Statement, 2014 APEC Leaders Meeting, Beijing

[2] White House Office of the Press Secretary, "Fact Sheet: 22nd Annual APEC Economic Leaders' Meeting," November 11, 2014, http://www.whitehouse.gov/the-press-office/2014/11/11/fact-sheet-2nd-annual-apec-economic-leaders-meeting.

over a decade.[3] By 2030, it is expected that Asia will be home to over three billion middle-class consumers.[4]

These trends will likely boost the already high levels of economic integration in the region. Last year, more than $10 trillion in goods and services flowed around the Pacific, and the APEC region accounted for 44 percent of total global trade.[5] Six of America's top 10 trading partners are in APEC, and U.S. exports to APEC member economies have more than doubled over the past decade. Continued growth in the Asia-Pacific will lead to even greater demand for high-quality U.S. goods and services.

Economic growth in the Asia-Pacific translates to jobs at home. The International Trade Administration estimates that exports to Asia and the Pacific supported 3.2 million jobs across the United States in 2013, the largest share of any single region.[6] That same year, Asian companies with investments in the United States directly employed nearly one million Americans, with many more jobs supported indirectly by these operations.[7]

Core Benefits of TPP

The Trans-Pacific Partnership is expected to deliver three critically-important benefits to the U.S. economy: modernized rules, improved market access opportunities for U.S. exporters, and a durable new commercial architecture for economies in the Asia-Pacific.

First, TPP intends to address an array of new issues for which existing trade rules are incomplete or outmoded. Technological progress in information, communication, and transportation, where American innovators frequently play a leading role, has dramatically changed the nature of international trade and investment. Often referred to as "globalization," these technological advances have led to rapidly-falling barriers to the movement of goods, people, ideas, and culture, as well as a concurrent rise in inter-country competitiveness. Firms now have the ability to coordinate tasks across broad geographies, and at the same time technology has expanded the range of tradable goods and services. Production now

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[3] International Monetary Fund, "January Update: Cross Currents," *World Economic Outlook,* January 2015, https://www.imf.org/external/pubs/ft/weo/2015/update/01/.
[4] Dominic Wilson and Raluca Dragusanu, "The Expanding Middle: The Exploding World Middle Class and Falling Global Inequality," Goldman Sachs, Global Economics Paper #170, July 7, 2008. https://360.gs.com
[5] White House Office of the Press Secretary, *op cit.*
[6] Chris Rasmussen and Elizabeth Schaefer, "Jobs Supported by Export Destination 2013," International Trade Administration, U.S. Department of Commerce, July 7, 2014, http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005372.pdf.
[7] Organization for International Investment, "Insourcing Facts," August 2012, http://www.ofii.org/resources/insourcing-facts. Estimate based on Asia's share of overall U.S. inbound FDI.

takes place in "global value chains," with goods being "made in the world" rather than originating from a single economy.[8]

The rules-based trading system established by the GATT has helped to advance prosperity and peace, but the underlying idea of the GATT – regulating arm's-length transactions between unrelated parties – no longer represents the bulk of trade and investment flows. UNCTAD estimates that over 80 percent of merchandise trade is firm-directed.[9] For the United States, trade rules and the negotiations that define them need to keep pace with the speed of innovation, and TPP seeks to modernize the rules to better reflect the changed trading environment.

Since the conclusion of GATT 1994, the most recent multilateral agreement, technological progress has changed not just how we trade, but what we trade. Goods and services previously considered non-tradable, or which did not exist at all, are now a part of global commerce. Digital services are a good example. At the time GATT 1994 entered into force, there was essentially no commercial use of the internet, and digital services exports were insignificant. Since then, digital services have grown to become a major factor in U.S. export performance: the U.S. International Trade Commission estimates that U.S. exports of digital services in 2011 totaled $356 billion, more than double the $136 billion of U.S. agricultural exports that same year.[10]

TPP negotiators are working to modernize the "rules of the road" for emerging issues like cross-border data flows, regulatory cooperation, and competitive neutrality for state-owned enterprises. Importantly, because six parties already have FTAs with the United States, TPP represents the best way to update existing U.S. FTAs to better reflect current commercial practices and allow the United States to maximize the gains of commercial innovation.

Second, TPP will expand U.S. trade and investment opportunities. This is especially the case in the five economies that are not currently U.S. FTA partners, including Japan, the world's third largest economy. In 2013, the U.S. exported $87.0 billion in goods and $51.1 billion in services to these five "new FTA" partners. Improved market access achieved in the TPP negotiations holds the promise of substantial economic gains from this strong base. The Peterson Institute for International Economics has estimated $223.4 billion in annual global welfare gains from a concluded TPP in 2025, including $76.6 billion in GDP gains for the United

[8] For a more complete description of this process, see OECD (2013), "Interconnected Economies: Benefiting from Global Value Chains," OECD Publishing, http://www.oecd.org/sti/ind/interconnected-economies-GVCs-synthesis.pdf

[9] UNCTAD (2013) "World Investment Report: Global Value Chains, Investment, and Trade for Development," EISBN 978-92-1-056212-6

[10] USITC (2014) "Digital Trade in the United States and Global Economies, Part Two," Publication no. 4485, Investigation no. 332-540.

States and a $123.5 billion increase in U.S. exports relative to the baseline scenario.[11]

Third, TPP is intended to have "open architecture," which will allow it to incorporate new members after its conclusion. This strengthens its potential as a driver and *de facto* template for a new system of rules. A new high-standard regime would have positive effects for U.S. economic and commercial interests, positive spillover effects for our allies and partners in the region, and create new incentives for countries to seek to upgrade their own standards.

TPP would embed the United States more deeply in the Asia-Pacific region and reinvigorate American leadership there. It would strengthen trade and investment ties across the Pacific and deepen regional economic integration. It would also demonstrate a long-term American commitment to the region that complements our security presence there. Our Asian partners want the U.S. military to remain in the region, but they do not want only that; they also seek our markets, capital, ideas, and leadership in advancing economic rules of the road.

The Obama administration has invested substantial prestige in a successful conclusion of TPP. Concluding and ratifying TPP is not just central to the administration's regional economic policy but also the entire Asia rebalancing strategy, as a complement to the U.S. security and diplomatic presence in the region.

Conclusion

TPP is at the core of U.S. economic strategy in the Asia Pacific. A successful conclusion will promote economic growth at home, and help modernize and advance an open, rules-based trading system which has long been central to U.S. interests. And TPP will advance a commercial architecture which embeds American presence in the Asia-Pacific, continuing the longstanding U.S. commitment to the region's security and prosperity.

Thank you for your attention.

[11] From Peter A. Petri, Michael G. Plummer, Fan Zhai, *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment,* Peterson Institute for International Economics and East-West Center, Updated May, 2013, http://asiapacifictrade.org/wp-content/uploads/2013/05/Adding-Japan-and-Korea-to-TPP.pdf.