Statement of the U.S. Chamber of Commerce

ON: The Trans-Pacific Partnership:
Prospects for Greater U.S. Trade

TO: U.S. House of Representatives Committee
on Foreign Affairs
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BY: Tami Overby, Senior Vice President for Asia
U.S. Chamber of Commerce

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1615 H Street NW | Washington, DC | 20062

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on issues are developed by Chamber members serving on committees, subcommittees, councils, and task forces. Nearly 1,900 businesspeople participate in this process.

On the occasion of this hearing of the House Foreign Affairs Subcommittee on Asia and the Pacific on "The Trans-Pacific Partnership (TPP): Prospects for Greater U.S. Trade," the U.S. Chamber of Commerce is pleased to take this opportunity to offer its own views and those of its members in support of the TPP and renewal of Trade Promotion Authority (TPA). The Chamber is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

In the Chamber's view, reinvigorating economic growth and creating good jobs are the nation's top priorities. More than 17 million Americans are unemployed, underemployed, or have given up looking for work. Participation in the workforce stands near 62%, the lowest since 1978, reflecting a significant level of discouragement.

World trade must play a central role in reaching this job-creation goal. After all, outside our borders are markets that represent 80% of the world's purchasing power, 92% of its economic growth, and 95% of its consumers. The resulting opportunities are immense, and many Americans are already seizing them. One in three manufacturing jobs depends on exports, and one in three acres on American farms is planted for hungry consumers overseas.

Nor is trade important only to big companies. Often overlooked in the U.S. trade debate is the fact that 98% of the 300,000 U.S. companies that export their products are small and medium-sized enterprises (SMEs), and they account for one-third of U.S. merchandise exports, according to the U.S. Department of Commerce. In fact, the number of SMEs that export has more than doubled over the past 15 years.

The bottom line is simple: If America fails to look abroad, our workers and businesses will miss out on huge opportunities. Our standard of living and our standing in the world will suffer. With so many Americans out of work, opening markets abroad to the products of American workers, farmers, and companies is a higher priority than ever before.

The Problem: Foreign Tariffs and Other Trade Barriers

The chief obstacle to achieving greater economic benefits from trade is the complex array of foreign barriers to American exports. While the United States receives substantial benefits from trade, there is more than a grain of truth in the observation that the international playing field is unfairly tilted against American workers. The U.S. market is largely open to imports from around the world, but other countries continue to levy tariffs on U.S. exports that in some cases are quite high. Further, foreign governments have erected other kinds of barriers against U.S. goods and services that both block access and distort competition.

Americans rightly sense that this status quo is unfair to U.S. workers, farmers and businesses. U.S. exporters face higher tariffs abroad than nearly all our trade competitors. The United States received a rank of 130th among 138 economies in terms of "tariffs faced" by its exports, according to the World Economic Forum's Global Enabling Trade Report. That means U.S. exporters are often at a marked disadvantage to our competitors based in other countries.

No one wants to go into a basketball game down by a dozen points from the tip-off—but that is exactly what American exporters do every day. These barriers are particularly burdensome for America's small- and medium-sized exporters. The U.S. Chamber believes that American workers, farmers and businesses must be allowed to operate on a level playing field when it comes to trade.

Benefits of U.S. Trade Agreements

The good news is that America's trade agreements do a great job creating a level playing field—and tremendous commercial gains are the proof in the pudding. According to data from the U.S. Department of Commerce, nearly half of U.S. exports go to countries with which the United States has free-trade agreements (FTAs) even though they represent just 6% of the world's population. By tearing down foreign barriers to U.S. products, these agreements have a proven ability to make big markets even out of small economies.

To settle once and for all the debate over whether these FTAs have benefitted American workers and companies, the U.S. Chamber recently released a study entitled *Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA Partners*. The study examined U.S. FTAs implemented with a total of 14 countries. It employed a widely used economic model known as the Global Trade Analysis Project (GTAP), which is also used by the numerous federal agencies, the U.S. International Trade Commission, and the World Trade Organization (WTO).

The results of this comprehensive study are impressive: 17.7 million American jobs depend on trade with these 14 countries; of this total, 5.4 million U.S. jobs are supported by the increase in trade generated by the FTAs. No other budget neutral initiative undertaken by the U.S. government has generated jobs on a scale comparable to these FTAs, with the exception of the multilateral trade liberalization begun in 1947.

The trade balance is a poor measure of the success of these agreements, but the trade deficit is often cited by trade skeptics as a principal reason why the United States should not negotiate additional FTAs. However, taken as a group, the United States ran a trade surplus with its FTA partner countries in 2012 and 2013, and while services trade data for 2014 is not yet available, this surplus has plainly continued. In fact, the United States has recorded a trade surplus in manufactured goods with its FTA partner countries for each of the past seven years, according to the U.S. Department of Commerce. This surplus reached $27 billion in 2009 and had expanded to $61 billion by 2013.

Broadly, trade has been a lifeline for the U.S. economy in recent years. Exports have risen by more than 50% over the past five years, and one-third of the American jobs created in this period are in industries that depend on trade. However, the picture is not all rosy. U.S. trade is up, but we are still falling behind our competition. The U.S. share of global exports fell from 18% in 2000 to 12% in 2010. What can we do about this?

The Solution: The Trans-Pacific Partnership

The most immediate trade opportunity before us, and the topic of this hearing, is the 12-country Trans-Pacific Partnership (TPP) agreement. Launched over five years ago, these negotiations include Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States and represent nearly 40% of global GDP.

As U.S. companies scour the globe for consumers, the booming Asia-Pacific region stands out. Over the last two decades, the region's middle class grew by 2 billion people, and their spending power is greater than ever. That number is expected to rise by another 1.2 billion by 2020. According to the International Monetary Fund, the world economy will grow by $21.6 trillion over the next five years, and nearly half of that growth will be in Asia.

U.S. businesses and workers need better access to those lucrative markets if they are going to share in this dramatic growth. But U.S. companies are rapidly falling behind in the Asia-Pacific. While U.S. exports to the Asia-Pacific market steadily increased from 2000 to 2010, America's share of the region's imports declined by about 43%, according to the think tank Third Way. In fact, excluding China, East Asia in 2014 purchased a smaller share of U.S. exports in 2014 than it did five years earlier, despite a 54% increase in total U.S. merchandise exports in that period.

One reason U.S. companies have lost market share in the Asia-Pacific region is that many countries maintain steep barriers against U.S. exports. A typical Southeast Asian country imposes tariffs that are five times higher than the U.S. average while its duties on agricultural products soar into the triple digits. In addition, a web of nontariff and regulatory barriers block market access in many countries. Trade agreements are crafted to overcome these barriers, and without them, U.S. goods and services—and the U.S. workers that provide them—will continue to be blocked from these lucrative opportunities.

However, the U.S. disadvantage does not end there. Other countries are plowing ahead with trade deals that are leaving the United States on the outside, looking in. For example, China, India and 14 other countries are negotiating a trade deal called the Regional Comprehensive Economic Partnership (RCEP) that does not include the United States. Broadly, the number of trade accords between Asian countries surged from three in 2000 to more than 50 in 2011, with some 80 more in the pipeline. Meanwhile, the United States has just three trade agreements in Asia.

The Trans-Pacific Partnership (TPP) is America's best and only chance to ensure the United States is not stuck on the outside—looking in—as the countries in the most economically dynamic region of the world pursue new trade accords among themselves.

Working closely with the Office of the U.S. Trade Representative (USTR), the Chamber has led the business community's advocacy for an ambitious, high-standard, commercially meaningful TPP agreement that eliminates or substantially reduces tariffs on agricultural and industrial goods. By engaging in a free trade agreement, we will not only knock down those barriers and open the door for American companies, but we will set a model for liberalization that has the potential to be adopted across the region.

High Standards, New Disciplines

According to the World Trade Organization (WTO), 398 bilateral or plurilateral FTAs are in force around the globe today. Unlike most of these other agreements, the TPP promises to set a new standard for trade and investment that will generate greater benefits for all participating countries. It is a chance to introduce ground-breaking disciplines in new areas so that trade and investment norms can keep pace with the rapidly evolving global economy and the behind-the-border measures that governments are increasingly using to block access and obstruct market-based competition.

In a statement issued in Honolulu in November 2011, the leaders of the TPP countries committed that this agreement will be:

> "*… a model for ambition for other free trade agreements in the future, forging close linkages among our economies, enhancing our competitiveness, benefitting our consumers and supporting the creation and retention of jobs, higher living standards, and the reduction of poverty in our countries*."

Only by embracing open and competitive markets will we be able to truly level the playing field and realize the potential of the TPP agreement. Indeed, whenever one party in a trade negotiation excludes a given commodity or sector from an agreement, others invariably follow suit, limiting its reach. All TPP members—including the United States—must commit to open access across agriculture, manufacturing, and services, without exclusions. Carving out specific commodities, products, or sectors risks setting a negative precedent which will ultimately expose U.S. companies to similar treatment by our trading partners.

In addition to being comprehensive in scope, the rules of the TPP must be crafted in a way which protects U.S. exports and investors and promotes new growth in emerging sectors and markets.

Investment

U.S. firms that invest overseas are more globally competitive, export more, invest more in research and development in the United States, and pay their workers more compared to firms that serve only domestic markets. Additionally, multinationals' investments abroad serve as the gateway to the global economy for American small and medium-size businesses as they purchase 90% of their intermediate inputs from other U.S. companies.

The TPP must include gold standard obligations that support an open investment climate. These obligations should ensure companies have the freedom to own and control their investments, assurances that foreign direct investment receives fair and non-discriminatory treatment, and an expectation that host governments will adhere to rule of law. TPP parties must agree to uphold contract and property rights, prohibit discrimination against foreign companies, avoid onerous performance requirements as conditions for investment, and provide recourse to investor-State arbitration as a mechanism for settling dispute. Any derogation from these principles will be inconsistent with the ambition of the TPP leaders and unacceptable to U.S. industry.

Intellectual Property

One U.S. priority is to ensure the TPP protects intellectual property (IP), which plays a vital role in driving economic growth, jobs, and competitiveness. According to the U.S. Department of Commerce, IP-intensive companies account for more than $5 trillion of U.S. GDP, drive 60% of U.S. exports, and support 40 million American jobs.

For the United States to remain the most innovative economy on Earth, we must ensure that our IP-intensive industries remain confident that copyrights, patents, and trademarks will be enforced. Policies that protect and enforce IP rights abroad are essential to advancing America's competitiveness and export growth and creating high-quality, high-paying American jobs. In the TPP, U.S. negotiators must continue to press for robust IP protection and enforcement provisions that build on the U.S-Korea Free Trade Agreement and provide 12 years of data protection for biologic medicines consistent with U.S. law.

Additionally, the TPP must provide enhanced protections for trade secrets, which are critical to the competitiveness and strength of many U.S. companies across sectors as diverse as manufacturing, climate change technologies, chemicals, defense, biotech, IT services, and food and beverages. The TPP must prevent governments from masquerading industrial policy as competition policy through forced licensing of trade secrets solely because a trade secret owner refused to grant an unconditional license to a third party that wants or needs access to proprietary information to innovate and/or compete. This bright line between the right to keep proprietary information secret and competition enforcement should be articulated as a matter of Administration policy, advocated overseas on a regular basis, and included in the TPP.

State-Owned Enterprises

U.S investors and exporters are increasingly disadvantaged by the unfair practices of companies that are owned and assisted by governments. State-owned enterprises (SOEs) engaged in commercial transactions are increasingly distorting competition and allowing governments to circumvent their multilateral and bilateral trade and investment obligations. The TPP represents a precedent-setting opportunity to establish a basic set of rules for fair play that would place state-owned commercial companies on an equal footing with private sector competitors and ensure that commercial actors have the same opportunities for market access. We understand that government involvement in the marketplace will always be present in various forms and to various degrees within each country, but in order to prevent an undermining of trade commitments, anti-competitive SOE behavior and government favoritism toward commercial SOEs must be held in check.

Regulatory Coherence

As tariff rates have been lowered around the world, exporters and importers are left to deal with the emerging barriers of behind-the-border regulations which can impede trade and investment flows. Regulatory inconsistencies, conflicting standards and duplicative testing requirements can diminish the benefits of trade agreements, resulting in fewer jobs and less growth and competition. These inconsistent regimes across countries at times represent a pernicious form of both unintentional and intentional protectionism.

At the suggestion of the Chamber's Center for Global Regulatory Cooperation, the TPP partner countries have agreed to address regulatory barriers through a new horizontal chapter. The TPP's chapter on regulatory coherence presents an opportunity to align regulatory best practices among signatories to the agreement with the aim of minimizing unnecessary regulatory divergence. Doing so will help avoid the creation of new non-tariff barriers by calling for increased regulatory cooperation between U.S. regulators and their foreign counterparts across the TPP countries.

The TPP will encourage our trading partners to follow the principles that underlie U.S. administrative law and which are hallmarks of the APEC-OECD joint regulatory checklist. These principles include increased transparency and public participation, evidence-based regulation, accountability under the law, and impartiality. These basic disciplines will help to ensure that TPP regulators do not use regulations and standards as tools to unfairly restrict or hinder the competitiveness of U.S. companies.

Supply Chain

Trade facilitation is critically important to the trade community and the economic competitiveness of businesses. Manufacturers, retailers, and other businesses rely on the efficiency of the supply chain for their products and services in a just-in-time delivery environment. In order to ensure that the market openings are reached, we need to promote trade facilitation and get away from the errors of the past.

Chokepoints—such as excessive customs mandates, ineffective security mandates, and inadequate infrastructure—can have the same detrimental impact on the flow of trade. These hidden costs contribute to trade inefficiencies and can impose costs as high as 15% of the product value (OECD). In many countries, the benefits of improving trade facilitation could be as high as eliminating tariffs. A seamless TPP supply chain would unleash growth for a wide variety of businesses, especially small and medium-size companies, by connecting them to international markets. Trade facilitation enables economic growth, creates jobs, decreases the transaction costs of trade, and is critical to reaching the full potential of a TPP.

Cross Border Data Flows

The movement of electronic information across borders, including via cloud computing, is critical to the success of businesses operating in the today's global market. U.S. companies are increasingly using digital platforms to reach and sell to new customers in the TPP countries and around the world. Business, financial, insurance, information, communication, education, entertainment, retail and other services rely heavily on digital data and information flows, and many of these services act as enablers for the rest of the economy.

To accommodate this growing area of trade, the TPP agreement must ensure that enterprises and individuals can move and maintain information and data across borders in a reliable and secure manner. It is therefore critical that the TPP negotiations ensure that trade and investment rules promote, rather than inhibit, the growth of the digital economy. A successful TPP agreement must promote rules that are consistent with international best practices, are transparent, and allow businesses the flexibility to transact business through e-commerce platforms without establishing a commercial presence in each country.

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In short, completing the TPP would pay huge dividends for the United States. The agreement would significantly improve U.S. companies' access to the Asia-Pacific region, which is projected to import nearly $10 trillion worth of goods in 2020. A study by the Peterson Institute for International Economics estimates the trade agreement could boost U.S. exports by $124 billion by 2025, and it could support hundreds of thousands of American jobs.

Trade Promotion Authority

First, however, Congress must approve legislation to renew Trade Promotion Authority (TPA). TPA is a vital tool to help Americans sell their goods and services to the 95% of the world's customers living outside our borders. Without TPA, we simply cannot enter into new trade agreements. We are pleased to see that Congress is preparing to consider legislation to renew TPA, which promises to spur economic growth and job creation at home.

The case for TPA is simple. In today's tough international markets, we need our trade negotiators to tear down the foreign tariffs and other barriers that too often shut out U.S products. However, to secure new growth-creating trade pacts such as the TPP, Congress must first approve TPA.

While the Constitution gives the president authority to negotiate with foreign governments, it gives Congress authority to regulate international trade. TPA allows the Congress to show leadership on trade policy by doing three important things: (1) It allows Congress to set negotiating objectives for new trade pacts; (2) it requires the executive branch to consult extensively with Congress during negotiations; and (3) it gives Congress the final say on any trade agreement in the form of an up-or-down vote. The result is a true partnership stretching the length of Pennsylvania Avenue.

If we fail to renew TPA, U.S. workers and companies will be left at a sharp disadvantage. To oppose TPA is to guarantee that foreign markets remain closed to U.S. exports. To reject TPA is to accept a playing field skewed against American workers and companies.

Congress has granted every president from Franklin D. Roosevelt to George W. Bush the authority to negotiate market-opening trade agreements in consultation with Congress. However, TPA lapsed in 2007. That is unacceptable; every American president should have TPA.

Conclusion

For the Chamber, the agenda is clear. The United States cannot afford to sit on the sidelines while others design a new architecture for the world economy and world trade.

A comprehensive, ambitious, and enforceable market-opening TPP has the potential to create a dramatic increase in trade, spurring economic growth and the creation of American jobs. It would also demonstrate continued U.S. engagement and leadership across the region. It is an exciting vision which, on the right terms, can be an economic shot in the arm for the United States and for our friends and allies in the region. It can send a clear, unmistakable message that America's leadership in the Pacific is here to stay.

At stake is the standing of the United States as the world's leading power, our ability to exert positive influence around the world, our reputation and brand overseas, and our best hopes for dynamic economic growth and job creation. The U.S. Chamber of Commerce looks forward to working with the members of the Committee to secure a commercially strong TPP agreement as soon as possible.