Trade Promotion Agencies and U.S. Foreign Policy

Testimony before the House Foreign Affairs Subcommittee on Terrorism, Nonproliferation and Trade

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May 19, 2015

Thank you, Chairman Poe, Ranking Member Keating, and other members of the Subcommittee. I appreciate the opportunity to appear before you today to discuss the vital role that U.S. trade promotion agencies play in advancing U.S. economic and security interests across the globe.

Few people who have experienced war would suggest armed conflict as anything but a last, strategic resort. Yet in times of geopolitical uncertainty like the present, we find ourselves groping for tactical, short-term responses to crises we have neither prevented nor anticipated, and all too often the proposed solutions involve military force.

Obviously, we must defeat entities like the Islamic State in Iraq and al-Sham that are a cancer on world civilization. But we also need to broaden opportunities for peace by preventing competitors from becoming adversaries and giving violent extremism a chance to flourish.

In my view, employing American leadership to expand international trade presents precisely such an opportunity--one we squander at the risk of US interests, lives, and national honor.

Promoting robust international trade contributes to national prosperity--a simple, empirically based fact of modern economic life. A strong economy won't solve all our problems, foreign or domestic, but without it we can solve very few of them. Last year, U.S. exports supported 11.7 million American jobs. Since-mid 2009, the increase in U.S. exports has accounted for one-third of our overall economic growth.

More broadly, however, trade runs right to the heart of international security in the 21st century. Maintaining global stability, essential to America's peace and prosperity, is no longer a function solely of our ability to deploy and defeat, but rather of our capacity to engage and endow--and ultimately to turn promise and opportunity into jobs and a higher quality of life. By leading on trade, the United States tightens our bonds with allies around the globe, strengthens our influence in would-be hotspots, and fosters greater global stability through expanding economic cooperation.

Three initiatives highlight the critical need for trade leadership in these challenging times.

An ambitious and comprehensive Trans-Pacific Partnership (TPP) free trade agreement amongst the United States and 11 other countries around the Pacific Ocean will open markets and expand our influence in this critical region. Once finalized, this agreement will increase trade and investment across 40% of the world's GDP and help American farmers, workers, and businesses reach new customers and grow their sales. The Transatlantic Trade and Investment Partnership (TTIP) will strengthen the already significant U.S.-European economic relationship which encompasses $1 trillion in annual trade, $4 trillion in investment, and supports 13 million jobs. An ambitious TTIP will strengthen the American and European economies which will also strengthen our security alliance and NATO to help keep the world free and safe.

Last Thursday, the Senate passed 97-1 a trade preferences bill that extends the Africa Growth and Opportunity Act (AGOA) for ten years, extends the Haiti preferences bill for an additional 5 years, and renews and extends the Generalized System of Preferences. Taken together, these programs expand economic opportunity and improve development outcomes in the developing world while also creating new trade and investment opportunities for American businesses in many of the fastest growing countries in the world. On the African continent and around the developing world, increasing U.S. economic engagement through trade and investment today may well obviate the costly need for security-based crisis response tomorrow.

All three of these initiatives must advance and enter into force. To achieve this goal, Congress must pass Trade Promotion Authority(TPA), which the Senate will debate next week and that the House should take up after TPA passes in the Senate . For four decades, bipartisan Senators and Congressmen alike worked with every President-- Republican and Democrat - to grant trade negotiating authority. I hope in the ensuing weeks the 114th Congress will continue this critically important tradition of bipartisan cooperation to advance our economic and strategic goals around the world.

Ex-Im Bank

Over two centuries ago John Adams observed that "facts are stubborn things." Whether they are resilient enough to prevail over ideological passions is being sorely tested in the current Congressional debate whether to reauthorize the Export-Import Bank (EX-IM Bank) whose charter is set to expire this summer.

Despite the opposition's extreme rhetoric, the basic facts remain.

Fact: America's prosperity and strength depends upon vigorous trade and reaching markets abroad. Fact: Ninety-five percent of the world's customers live outside our national borders, where massive middle classes with huge purchasing power are emerging.

Fact: America must fiercely compete for these markets with other countries for sales, for investments, and to develop supply chains. Fact: Export credit – the kind provided by the EX-IM bank – anchors a critical component of America's competitiveness toolkit.

Since its founding during America's effort to emerge from the Great Depression, the Ex-Im bank has supported American jobs by financing our exports when competitive, affordable rates are not commercially available or when U.S. companies face competition in foreign markets from foreign state-backed competitors provided financing by their governments. Ex-Im levels the playing field for American businesses so they can compete in foreign markets against foreign competitors.

Many opponents of reauthorization base their arguments on a vision of a world with no export financing and no government support for our foreign competitors, and where markets are untrammeled by state-directed export finance. In today's real world, approximately 60 export credit agencies are jockeying to offer enticing financing terms to win more and more sales for their foreign companies often at the expense of U.S. companies.

Russia and China have expanded their state-backed export support even as Congress continues to deliberate on the future of EX-IM Bank. One of China's multiple export credit arms has authorized more financing in the last two years than EX-IM Bank has since its founding eight decades ago.

Last year alone, the Ex-Im Bank backed U.S. exports valued at approximately $27.5 billion and supported 164,000 export-related U.S. jobs, while turning a $674.7 million profit for taxpayers. Ex-Im's record of strengthening U.S. exports and competitiveness while generating revenue for the U.S. treasury explain its long history of bipartisan support from Republican and Democratic presidents and the U.S. Congress.

There is no evidence that Vladimir Putin and Xi Jinping will suddenly about-face and dam their tidal waves of export credits to support Russian and Chinese if Congress were to shutter EX-IM Bank's doors. They and the leaders of America's other economic competitors would welcome the United States unilaterally disarming and ending its export finance program – which means more business for their companies around the world. If Ex-Im is shut down, and the United States leaves the field on export financing, such a vacuum will not only undermine U.S. business abroad and risk jobs at home but undermine American influence and economic leadership at a time when it's needed more than ever.

I would agree that a world without state-funded export credits is one to which we should aspire. However, unilaterally disarming by eliminating the EX-IM bank is not the answer. It would destroy the U.S. Treasury's leverage in negotiating reductions to state-backed export finance that would be observed by all—creating the level playing field that we should all seek.

As Americans, we hope and trust that despite the divisive rhetoric and fractiousness in our political system, we can still overcome gridlock to advance our own clear national interest. Reauthorizing the EX-IM bank helps our neighbors and businesses sell more American products abroad; expands U.S. global influence and economic leadership; supports American jobs; and returns money back to the Treasury. EX-IM's record advancing all of these national interests goals demands our support and renewal.

The stubborn fact is that reauthorizing the Ex-Im bank is squarely in our national interest. Whether this stubborn fact trumps short-sighted slogans remains to be seen. For our country's sake, let's hope that John Adams was right and the facts and our national interest prevail.

OPIC

The Overseas Private Investment Corporation (OPIC) is an agency that has global development as its primary mission. OPIC partners with expanding business enterprises in more than 150 countries worldwide, and over its history has supported more than $200 billion of investment in over 4,000 projects, generating an estimated $76 billion in U.S. exports and supported more than 278,000 American jobs.

OPIC operates on a self-sustaining basis and has provided positive net transfers to the US Treasury for nearly 40 consecutive years. OPIC's has generated a net profit of more than $6 billion for the U.S. Treasury.

With the majority of capital flows into developing countries coming from the private sector, the U.S. government should expand and improve its development finance capabilities in order to steer private investment towards key development sectors and to better align private sector investment with development grants. In 1980, aid to developing nations was three times larger than private investment flows. Today, for every $1 in aid going to developing nations, nearly $7 in private investment flows goes to developing nations. Put simply, FDI is now a bigger lever for development than aid by far.

Roughly $6.1 billion of OPIC's current $18 billion portfolio – or 34 percent – supports U.S. national security by investing in regions in or vulnerable to current violent conflict. And despite these being challenging investment destinations, OPIC's full portfolio is prudently managed, with write-off rates net of recoveries at less than one percent, and 37 consecutive years of federal deficit reduction

Almost a third of OPIC's total 2014 commitments were in the world's poorest countries, places where U.S. support can be the most catalytic. OPIC has also significantly increased commitments in post- conflict regions, helping to serve as a stabilizing force in an unstable world and further advancing our national security interests. Today, 34 percent of OPIC's portfolio is invested in regions such as Afghanistan, Yemen, Ukraine and Nigeria, that are in or are vulnerable to violent conflict.

I would submit to the committee that given it's critical mission and record of success, we should be looking for ways to bolster and strengthen OPIC, ensuring that it has the tools and authorities it needs to compete. Unlike other development finance banks, OPIC does not have the authority to utilize a portion of its proceeds for equity investments in the projects it finances. The lack of this authority prohibits OPIC from making strategic, minority-share equity investments into the countries and regions with the most opportunity for growth and enormous strategic importance to the United States. OPIC has forged partnerships with other grant-making agencies (e.g. USAID, State Department) and development banks (e.g. the World Bank's International Finance Corporation), but this does not create sufficient nor reliable access to technical assistance resources. The end result is that OPIC is forced to leave hundreds of millions in promising finance deals on the table because of its inability to provide technical assistance.

USTDA

The U.S. Trade and Development Agency (USTDA) has a successful program in countries around the world that is built on cooperation and results. Over the last 10-year evaluation cycle, USTDA identified over $25 billion in U.S. exports to emerging markets that are directly attributable to its programs, supporting an estimated 110,000 American jobs. Put another way, for every $1 programmed, the Agency has identified over $76 in U.S. exports.

Utilizing USTDA's programs to engage with countries provides the United States with the opportunity to reorient its relationship from one of "aid donor" to one based on partnerships. USTDA aims to assist the U.S. private sector's increased involvement in emerging economies to develop the infrastructure necessary to facilitate trade.

As a member of the Export Promotion Cabinet, USTDA is working hard to realize the goals of increasing trade and expanding international business partnerships. As exports are proven job creators for U.S. businesses, enhancing our trade partnerships is imperative to continue to bring the unemployment figure down.

Conclusion

As a former NATO commander, service chief, and national security advisor I have seen firsthand the geostrategic importance of American economic engagement. Where U.S. private sector is not present, American interests and values suffer. The result is a less stable and secure world. Having served for over 40 years in uniform, I am deeply concerned with threats to our national well-being. The undermining of our own economic competitiveness counts among them.

Among the enduring lessons of the past century is that a prosperous America is far better able to protect the country's values and advance its interests in a dangerous world.

Again, I thank the Chairman, ranking member and your colleagues for your leadership and service. With your permission I would like to submit two items for the full hearing record: an op-ed I authored on the national security implications of the Trans-Atlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership and a piece called Task Ahead on the dynamics of U.S. global engagement in the 21st Century, with trade and commercial diplomacy as pillars fostering the security, development, and good governance that is the foundation of sustainable security.