

**Testimony of Edward F. Gerwin, Jr.  
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***The Trans-Pacific Partnership: Outlook and Opportunities***

**House Committee on Foreign Affairs  
Subcommittee on Terrorism, Nonproliferation, and Trade**

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Mr. Chairman, Ranking Member Sherman, and Members of the Subcommittee. Thank you for inviting me to testify today on the Trans-Pacific Partnership. My name is Ed Gerwin. I'm an international trade consultant and lawyer and was previously Senior Fellow for Trade and Global Economic Policy at Third Way.

As you and your colleagues consider the TPP in the coming months, you'll hear repeatedly that the TPP can be a "21<sup>st</sup> Century" trade deal. The TPP—if done right—does have great promise to be a transformative, modern trade agreement—one that could help American producers and workers win fairer treatment for their goods and services in important global markets, while supporting stronger economic growth, good jobs, and key American values.

**The TPP as a 21<sup>st</sup> Century Trade Deal**

There are three ways in which the TPP has the potential to be a new kind of trade agreement for the United States:

*First, the TPP could strongly orient the United States toward the growing 21<sup>st</sup> Century markets of the Asia-Pacific, especially the dynamic countries of East Asia.*

Economists project that, in the coming decades, U.S. economy will grow at an annual rate of less than 2.5 percent. That would be a full percentage point less than America's average growth rate in the six decades before the Great Recession. And this slower growth would have serious negative impacts on America's fiscal position, and on jobs, wages, and the quality of life for average Americans.

Tapping into Asia-Pacific economies that are projected to grow two, three, or even four times faster than America's could provide a vital jolt to U.S. economic growth.

The IMF projects, for example, that nearly half of global growth in the next five years will be in Asia. Much of this growth will be driven by a burgeoning Asia-Pacific middle class, which will surge by an estimated 1.2 billion by 2020 and make up half of the world's middle class consumers. These increasingly urban and affluent consumers will want high-quality goods, Western foods, modern financial services, and vacation travel. And, together with Asia's rapidly expanding business sector,

they'll press for modern infrastructure and increased spending on education, health care, and the environment.

Here are a few of the many examples of how a fast-growing Asia will drive global demand:

- The UN estimates that Asia needs to spend \$600 billion annually, just for infrastructure to support new development.
- By 2020, Asia's demand for food will double, to some \$3 trillion.
- Boeing projects that surging Asia-Pacific air travel will require 11,450 new aircraft, valued at \$1.5 trillion, by 2030.

As I detailed in a September 2012 report for Third Way, America's producers and workers are extraordinarily well positioned to seize these and many other opportunities in the Asia-Pacific.

Among its many strengths, the United States is the world's largest manufacturer, a global power in food production, and the #1 global exporter of services. Our companies are world leaders in construction equipment, infrastructure, and environmental services. We supply a third of the world's corn, cotton, and soybean exports and are home to a third of the world's leading food and beverage producers. Our companies are global leaders in health services, drugs, and medical devices, as well as finance and logistics. And we excel in building the planes, trains, and vehicles that move people and cargo around the world.

In short, America makes what the Asia-Pacific increasingly wants.

But for America to reach its full potential in a fast-growing Asia-Pacific, we'll need a strong and comprehensive TPP to overcome steep trade barriers in key regional markets, including duties that average many times higher than America's, and a wide array of unfair technical, farm, service, and regulatory barriers.

*Second, the TPP can address new issues that America's exporters must overcome if they are to compete and win in the global economy of the 21<sup>st</sup> Century.*

As countries continue to eliminate high duties and the most egregious non-tariff trade barriers, U.S. negotiators are increasingly focusing on a series of new, cross-cutting issues that can significantly impede U.S. trade—especially for the small and medium-sized enterprises (SMEs) that make up over 97 percent of America's exporters.

Our TPP negotiators are, for example, seeking e-commerce rules that would assure the free flow of data over the Internet, and rules requiring that competition laws be applied and enforced in a fair, transparent, and non-discriminatory manner. And TPP negotiators are scrubbing all sections of the TPP to assure that its various provisions are as user-friendly as possible for our SMEs.

Inconsistent and duplicative regulations and other regulatory barriers can significantly increase the cost and complexity of American trade—without advancing vital health, safety, financial, or environmental protections. For example, regulatory differences between the United States and Canada require General Mills to run separate production lines for Cheerios sold in Canada and the United States, while Campbell’s is required to sell soup in different-sized cans in the two markets.

The TPP could help assure greater coherence among national regulatory systems by, for instance, requiring our trade partners to establish central authorities to coordinate and evaluate regulations and to provide sufficiently long comment periods for stakeholders to provide input on proposed regulations. And it could create mechanisms—like our current regulatory cooperation council with Canada—that bring countries together to eliminate unnecessary regulatory differences and assure the regulators are on the same page in evaluating emerging areas like nanotechnology.

*Third, the TPP—together with other U.S. trade initiatives—could help America maximize its leverage in the vital contest to shape global trade rules for the 21<sup>st</sup> Century.*

The World Trade Organization’s decade-long effort to write new global trade rules is—in the words of *The Wizard of Oz*—not merely dead, but really most sincerely dead. With the demise of Doha, countries and blocs are now locked in a serious and important competition to define international trade norms for the 21<sup>st</sup> Century.

A number of countries, including leading developing countries, often favor weaker rules that would lock in their current markets and perpetuate a wide range of barriers to foreign trade and investment. These countries seek to advance this vision through weak regional trade deals (which often exclude key products and important issues like services and intellectual property), as well as national policies that favor their state-owned companies, force the transfer of valuable intellectual property, or require local content or operations. India, for example, increasingly appears to be the latest practitioner of this approach.

A trade future based on growing acceptance of these norms would put America’s competitive and innovative producers and workers at a serious disadvantage in key global markets.

The TPP could provide the United States with a powerful platform to push back and advance an alternative vision that stresses open, transparent, and fairer trade. When combined with the Transatlantic Trade and Investment Partnership (T-TIP) that America is negotiating with the European Union, the TPP could enable the United States to team with a growing coalition of like-minded and economically powerful countries in the Pacific, North America, and Europe. While America certainly has any number of differences with these countries, we generally share a broad commitment to enforcing and enacting comprehensive and high-standard rules for global trade.

Other countries are concerned about being left out of the TPP—additional Latin American and Asian countries have expressed interest in linking up with the United

States and its TPP partners. Even China has announced recently that it is studying the possibility of joining the TPP. While China is undoubtedly many years away from meeting the high level of ambition that the TPP would require, its apparent interest in a U.S.-led TPP is a stark illustration of the pivotal role and considerable influence that a strong TPP could potentially give the United States in writing new rules for global trade.

### **Key Trends in the 21<sup>st</sup> Century Global Economy**

As you analyze the TPP, it's also important to keep in mind the new realities of the 21<sup>st</sup> Century economy. Too often, when we discuss trade agreements, it's tempting for many of us—supporters and opponents alike—to simply dust off old talking points about trade. But, if we do this, we'll miss some important recent trends that could strongly influence 21<sup>st</sup> Century trade, especially U.S. trade prospects in the Asia-Pacific region.

There are three trends that merit your particular attention:

*First, there has been a surge in new trade deals among countries in Asia.*

In the last decade, the number of trade deals among Asian countries has exploded from three to over 50, and some 80 new deals are being negotiated. These include a pending megadeal—called the Regional Comprehensive Economic Partnership or RCEP—that would tie together 16 countries, including China, India, Japan, Korea, and the 10 ASEAN nations.

As these countries eliminate barriers to trade with each other, existing duties and barriers to U.S. exports will loom even larger. This, in turn, will sap the competitiveness of America's manufacturers, farmers, and service providers in these vital markets and cause them to lose both current and potential business opportunities. The USDA has forecast, for example, that new trade deals that the ASEAN countries have cut with China, Australia, and New Zealand will reduce U.S. fruit and processed food exports by some \$350 million.

*Second, America's share of trade into key Asian markets has plummeted.*

Between 2000 and 2010, America's share of exports to 15 key East Asian markets countries plummeted by over 42 percent. None of our major competitors in the region lost market share at anywhere close to this rate. (Japan had the next greatest loss, at 23 percent.) Meanwhile, during this same period, China and Korea grew their regional market shares by some 14 percent.

While there are a number of reasons for this sharp decline in America's market share, the fact that America currently has only three market-opening trade deals in the region is likely a key reason for this alarming trend. And if this trend continues, America would, according to estimates by Third Way, leave hundreds of billions of dollars in potential exports and millions of good jobs on the table for our global competitors to grab. On the other hand, restoring America's share of major regional

markets to past levels would—in the year 2020 alone—increase U.S goods exports by an estimated \$600 billion and support over three million jobs.

*Third, countries increasingly make things together.*

A recent landmark study by the OECD and WTO underscored the fact that products that are labeled as “made in” a particular country most often contain significant content from a variety of countries. The study especially highlighted the particularly close integration of the U.S., Canadian, and Mexican economies in making things together. It revealed, for example, that U.S. content accounts for \$1 of every \$5 of Mexico’s global electrical exports and \$1 for every \$6 of Canada’s global exports of transport equipment. Another study estimates that American content accounts for 40 percent of Mexico’s U.S.-bound exports and 25 percent of Canada’s exports to the United States. (China’s U.S.-bound exports, on the other hand, contain only four percent U.S. content.)

This new research highlights the importance of assuring that America gets a robust share of the business of globally produced products. It shows how closely integrated trading partners can serve as export platforms for American goods and services—as well as input suppliers for products made in America by American workers.

This research also underscores why it’s especially important that trade agreements like the TPP better facilitate trade flows—through clear, common rules of origin, increasing the efficiency of customs processing, and other measures—to assure that America has greater access to opportunities in global supply chains.

### **What Makes a Good TPP?**

As you and your colleagues evaluate the TPP, you’ll no doubt receive detailed advice on specific issues, chapters, and provisions and their effects on various sectors of the American economy. As someone who’s looked at the prospects for a TPP more generally, I’d like to offer four broader tests for assessing whether the TPP is a good deal for the United States:

*First, is it comprehensive?*

Many of America’s trading partners play only a few notes in international trade, relying on their competitive advantage in a limited group of resources, products, or services.

The United States, on the other hand, plays a virtual symphony. Our producers, investors, and exporters are global leaders in consumer goods, transport equipment, and industrial machinery; farm commodities and processed foods; financial services, health care, and express deliveries; movies and innovative software; and a whole host of other products and services.

As a consequence, America does best when our trade deals are truly comprehensive; we have consistently insisted on trade agreements that broadly open markets for all goods, services, and investment and apply core trade rules to all signatories.

But achieving a comprehensive TPP will not be easy. Our negotiators, for instance, face strong pressures to exclude or significantly water down coverage of sensitive domestic sectors that are important to our TPP partners, like dairy, sugar, and apparel. However, excluding these sectors and others would quickly lead our negotiating partners to respond in kind, by excluding sectors that are important to American exporters, such as insurance and farm products in Japan. This, in turn, could lead to a downward spiral that would result in a seriously weakened TPP that would fail to deliver significant benefits to the United States.

*Second, does it embody high standards?*

The sophisticated nature of America's trade and investment also means that we benefit most from trade deals that are not only broad, but also deep—agreements that include high standards on key issues.

An effective TPP must, for instance, build on existing WTO rules by establishing new requirements to assure that technical and farm standards are developed and applied in a fairer, more transparent, and more certain manner. It must facilitate regional trade and supply chains by assuring greater transparency, certainty, simplicity, and speed in customs operations. It should provide American investors with substantive legal protections and access to fair dispute resolution, while assuring the rights of countries to regulate in the public interest. And, because most American exports are based on some facet of intellectual property, it should include strong rules against infringement, piracy, and counterfeit products; strong IP protections for medicines and biotechnology products; and effective enforcement provisions.

*Third, is it built to grow?*

America's 11 current TPP negotiating partners together form a very significant market—one that accounts for a combined \$12 trillion in annual GDP and over 45 percent of America's exports of goods. Employing the TPP to streamline trade and knock down remaining barriers among these countries has the potential to open significant new opportunities for American manufacturers, farmers, and service providers in these key markets.

Studies by the Peterson Institute and others emphasize that even greater potential benefit for the United States lies in a broader, comprehensive, high-standard Asia-Pacific trade deal that spans the entire region, including Korea, the ASEAN nations, Latin America, and, eventually, even China and India.

It is vital, therefore, that the TPP include mechanisms for efficiently adding other nations to a growing TPP, while assuring that the TPP remains comprehensive and high-standard. Additionally, it's important that the TPP establish programs that will

drive continuing, further progress on key issues like trade facilitation, technical and farm standards, and regulatory coherence, and that it provide procedures and forums for addressing emerging trade issues.

*Fourth, does it reflect American values?*

For all their complexity, America's modern trade agreements can often be an exercise in promoting basic American values in the context of international trade. In chapter after chapter, these trade agreements contain detailed rules and requirements that promote such principles as openness and transparency, nondiscrimination, notice and comment, and due process. A successful TPP will maximize the spread of these vital values.

The TPP also provides the United States with the opportunity to extend strong, enforceable rules on labor and the environment to additional trading partners and to highlight the importance of these issues in global trade. (Interestingly, it also offers the opportunity to strengthen our NAFTA-era understandings with Canada and Mexico.) It is important for the United States to lead in this regard, since many of our global competitors ignore these critical issues in their own trade deals. China, for instance, recently took labor and environmental issues off the table in its new trade negotiations with Korea and Japan.

### **The TPP and a Comprehensive U.S. Strategy for Global Trade**

Finally, for America to prosper in the 21<sup>st</sup> Century economy, it is vital that trade agreements like the TPP be part of an overall, comprehensive approach to America's global competitiveness.

America must aggressively enforce existing trade rules to assure a level playing field for our producers and workers. We must fund modern infrastructure, promote policies that assure our continued leadership in innovation, and provide training and—when needed—adjustment assistance so that our workers are prepared to succeed in an increasingly competitive global economy. And—especially in an era of seemingly random sequesters—we need to provide our dedicated trade officials in Washington and around the world with the resources they need to continue to open doors and break down barriers for America's producers and workers and their exports.

### **Conclusion**

Thank you, again, for the opportunity to testify today.

I believe that a comprehensive, high-standard TPP would have great potential to boost American growth and exports, support good jobs for our workers, and advance global trade rules that reflect America's priorities and values.

I look forward to working with you and your colleagues as you evaluate the TPP.