Statement
of the
U.S. Chamber
of Commerce

ON: The Status of President Barack Obama's Trade Policy Agenda

TO: Hearing of the U.S. House of Representatives Committee on Ways and Means

BY: U.S. Chamber of Commerce

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The Chamber's mission is to advance human progress through an economic,
political and social system based on individual freedom,
incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged 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 national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

The U.S. Chamber of Commerce is pleased to submit this written statement to the House of Representatives Committee on Ways and Means on the status of President Obama's trade policy agenda. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber serves as secretariat for both the U.S.-Korea FTA Business Coalition and the Latin American Trade Coalition, which represent hundreds of American companies, business and agricultural organizations, and chambers of commerce that support approval of the pending free trade agreements with South Korea, Colombia, and Panama.

No priority facing our nation is more important than putting Americans back to work. Nearly 10% of the U.S. workforce is unemployed — a figure that soars beyond 17% when those who have stopped looking for jobs and the millions of part-time workers who want to work full time are included. As a nation, the biggest policy challenge we face is to create the 20 million jobs needed in this decade to replace the jobs lost in the current recession and to meet the needs of America's growing workforce.

World trade will play a vital role in reaching this job-creation goal. When President Barack Obama delivered his State of the Union address in January, the U.S. Chamber and the rest of the business community welcomed his call for a national goal to double U.S. exports within five years. The rationale is clear: We cannot rely on domestic consumption to generate more demand for the goods and services we produce. The American consumer is likely to spend more frugally in the years ahead, and the federal government faces unsustainable budget deficits.

Most importantly, outside our borders are markets that represent 73% of the world's purchasing power,[1] 87% of its economic growth,[2] and 95% of its consumers. The resulting opportunities are immense.

Trade already sustains millions of American jobs. More than 50 million American workers are employed by firms that engage in international trade, according to the U.S. Department of the Treasury.[3] President Obama has noted that one in three manufacturing jobs depends on exports,[4] and one in three acres on American farms is planted for hungry consumers overseas.[5]

Nor is trade important only to big companies. Often overlooked in the U.S. trade debate is the fact that more than 97% of the quarter million U.S. companies that export are small and medium-sized enterprises (SMEs), and they account for nearly a 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 reaching the goal of doubling U.S. exports by 2014 is the complex array of foreign barriers to American exports. Those barriers are alive and well, and they pose a major competitive challenge to U.S. industry and agriculture and the millions of U.S. workers whose jobs depend on exports.

From the perspective of the U.S. business community, the foremost goal of U.S. trade policy should be to tear down those barriers. Casting light on this challenge, the World Economic Forum issues an annual *Global Enabling Trade* report, which ranks countries according to their competitiveness in the trade arena.[6] One of the report's several rankings gauges how high the tariffs are that a country's exporters face. Leading the pack as the country whose exporters face the lowest tariffs globally is Chile, with its massive network of free trade agreements with more than 50 countries around the globe.

While the report found the United States did well in a number of areas, America ranked a disastrous 121st out of 125 economies in terms of "tariffs faced" by our exports overseas. In other words, American exporters face higher tariffs abroad than nearly all our trade competitors. It is also worth noting that tariffs are just part of the problem, as they are often found alongside a wide variety of non-tariff barriers that shut U.S. goods and services out of foreign markets.

Historically, the only way the U.S. government has ever enticed a foreign government to open its market to American exports is by negotiating agreements for their elimination on a reciprocal basis. This is done in bilateral free trade agreements (FTAs), such as those pending with South Korea, Colombia, and Panama, or the Trans-Pacific Partnership, which is under negotiation. In addition, reciprocal market openings can be accomplished multilaterally, as in the Doha Round, the global trade agreement currently being negotiated under the WTO by the United States and 152 other countries.

The Solution: Free Trade Agreements

The pending FTAs with South Korea, Colombia, and Panama are pro-growth agreements will create good American jobs, bolster important allies, and confirm that America is not ready to cede its global leadership role in trade. They will generate billions of dollars in new American exports within a few short years.

Most importantly, these are "fair trade" agreements that promise a level playing field for American workers and farmers. Many Americans don't know that the U.S. market is already wide open to imports from these countries, with most imports from South Korea, Colombia, and Panama entering our market duty free. However, these countries impose tariffs on U.S. products that often soar into the double digits, limiting our competitiveness overseas. These agreements would knock down those barriers, opening the door for American companies like mine to sell to these consumers.

If the United States is to double exports within five years, the proven export-boosting record of these reciprocal trade agreements will be indispensable. In 2003-2008, for example, U.S. exports rose 79%, their fastest growth in nearly two decades. It is no coincidence that this period also saw the United States implement FTAs with 10 countries and saw earlier agreements such as NAFTA attain their full implementation with the elimination of all tariffs.

To settle once and for all the debate over whether these FTAs have benefitted American workers and companies, the U.S. Chamber commissioned a study entitled *Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA Partners,*[7] which was released in May 2010. The study examined U.S. FTAs implemented over the past 25 years with a total of 14 countries. It excluded three other countries where FTAs have only recently been implemented. The study employs a widely used general equilibrium economic model which is also used by the U.S. International Trade Commission, the WTO, and the World Bank.

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 study also shows that U.S. merchandise exports to our FTA partners grew nearly three times as rapidly as did our exports to the rest of the world from 1998 to 2008.

The trade balance is a poor measure of the success of these agreements, but deficits are often cited by trade skeptics as a reason why the United States should not negotiate free trade agreements. However, taken as a group, the United States is now running a *trade surplus* in manufactured goods with its 17 FTA partner countries, according to the U.S. Department of Commerce (on top of the U.S. global trade surpluses in services and agricultural products).

America Left Behind

The success of reciprocal trade agreements has led to their proliferation around the globe. Countries are rushing to negotiate new trade accords — but America is being left behind.

According to the WTO, there are 283 regional trade agreements in force around the globe today, but the United States has just 11 FTAs with just 17 countries.[8] There are more than 100 bilateral and regional trade agreements currently under negotiation among our trading partners. Unfortunately, the United States is participating in just one of these (the Trans-Pacific Partnership).

The United States is standing on the sidelines while other nations clinch new trade deals. This is painfully evident in the case of South Korea, Colombia, and Panama. The pending U.S. agreements with those countries would create good American jobs, bolster important allies, and confirm that America is unwilling to cede its global leadership role in trade.

While these U.S. agreements languish, other nations are moving forward. The European Union has concluded a comprehensive FTA with South Korea, and Canada has done so with

Colombia; both of these FTAs are expected to enter into force in mid-2011. Also, in May, the EU signed FTAs with Colombia and Panama, and Canada has signed an FTA with Panama.

If Washington delays, U.S. exporters will be put at a marked competitive disadvantage in South Korea, Colombia, and Panama. Canadian wheat farmers will be able to sell their crop to Colombians and Panamanians at a huge discount, and European manufacturers will easily undercut their American competitors in the South Korean market.

The cost of these delays will be high. According to a study commissioned by the U.S. Chamber, the United States could suffer a net loss of more than 380,000 jobs and $40 billion in lost export sales if it fails to implement its pending trade agreements while the European Union and Canada move ahead with their own agreements.[9]

Unfortunately, this scenario is already unfolding. Following implementation of a new trade accord between Colombia and Mercosur, the U.S. share of Colombia's market for soybean meal, yellow corn, and wheat dropped by 67%, 53%, and 37%, respectively, in 2008-2009.[10]

Although Colombia has doubled its agricultural imports in the last five years, the United States has seen its market share shrink by half, according to the Embassy of Colombia. In 2008, the products of U.S. farmers and ranchers controlled nearly half the Colombian market; today that share has diminished to 22%. In the absence of an FTA, the average tariff paid by American farmers shipping their goods to Colombia is 16.9 %.

The implications have a profound significance in the rapidly growing Asia-Pacific region. U.S. trade with Asia continues to grow, but our market share is dropping as other countries boost their own commerce more rapidly. Over time, expanding Asian production supply chains will tend to shut out U.S. suppliers of intermediate goods and undermine U.S. manufacturers. U.S. farmers are shut out because highly protected agricultural markets are open to U.S. competitors but not to American food products. The United States will be left on the outside, looking in.

Washington's failure to negotiate more trade agreements not only hurts U.S. companies and workers, but it limits America's ability to advance its broader interests around the globe. A stronger U.S. economic presence abroad would boost America's ability to achieve its security, political, and economic goals.

A Closer Look at the Agreements

South Korea: The huge scale of trade and investment between the United States and South Korea makes the Korea-U.S. FTA (KORUS) the most commercially significant trade agreement in 15 years. This agreement will stimulate new demand in South Korea for U.S. goods and services which are at times shut out by tariffs and other trade barriers. Increased U.S. exports to Korea under the agreement, in turn, will generate new U.S. jobs and economic growth.

Korea, with a $1 trillion economy, is the United States' eighth-largest trading partner in terms of two-way trade, which surpassed $80 billion last year. Korea is a major market for U.S. producers across numerous sectors. Over 80% of U.S. merchandise exports to Korea are manufactured goods. The United States is also Korea's leading supplier of agriculture products, and Korea is the fifth-largest market worldwide for U.S. agricultural goods, with U.S. agricultural exports totaling nearly $4 billion in 2009. In addition, Korea is the second-largest market for U.S. services in Asia, and U.S. cross-border exports of services to Korea totaled $12.6 billion in 2009. Korea boasts the highest broadband internet penetration levels in the world, making it an important growth market for U.S. companies in the information and communications technology sector.

KORUS will create substantial new opportunities and economic benefits for U.S. businesses and farmers by eliminating high tariffs and restrictive non-tariff market access barriers in Korea. Under the agreement, almost 95% of bilateral consumer and industrial goods trade will become duty-free within five years, with almost all remaining tariffs on goods eliminated within ten years. Korean average applied tariffs on U.S. non-agriculture goods are now 6.6%, as compared to the average U.S. applied tariff of 3.2%. Korea's tariffs on imported agricultural goods average 54%, as compared to the average U.S. tariff on these products of 9%. The elimination of these tariffs on almost all goods will significantly benefit U.S. producers and exporters by making their products more price-competitive in the Korean market.

In agriculture, the agreement will eliminate immediately Korean tariffs on nearly two-thirds of U.S. agricultural exports to Korea. It will phase out over 90% of all Korean tariffs on major U.S. agricultural exports, including beef, pork, poultry, and oranges, over 15 years. The U.S. Chamber expects the elimination of these tariffs to boost significantly U.S. agricultural exports to Korea and to create important new growth opportunities for U.S. ranchers and farmers.

U.S. small and medium enterprises play an important role in exporting goods and services to Korea, and these firms accounted for 89% of all U.S. companies exporting in Korea in 2007 and $10.8 billion of total U.S. exports to Korea that year. These exports in every category are expected to grow significantly once the agreement is passed.

Implementation of KORUS will not only bolster trade and investment between the United States and Korea, but will also reinforce the two countries' important political and security partnership. For more than sixty years the U.S.-Korea security alliance has contributed to peace, stability, and prosperity in Asia. By expanding trade and investment and deepening the links between the United States and Korea, KORUS will be a significant step forward in updating our countries' relationship to reflect changing regional dynamics and Korea's increasingly important role as an engine of regional and global economic growth. It will also send a strong signal of the United States' commitment to maintain its leadership in Asia.

As noted above, the timing of implementing KORUS is crucial for the United States to realize the maximum possible economic benefits of the agreement. South Korea is rapidly expanding its network of bilateral trade agreements, including with major U.S. global competitors. In particular, if the EU-Korea FTA enters into effect in mid-2011 as announced, it will likely generate significant trade diversion in the Korean market away from U.S. exports as Korean consumers turn towards more price-competitive EU member country goods and services by virtue of benefits under the EU-Korea agreement. A comparison of leading U.S. and EU exports to Korea reveals the significant degree of overlap between them — indicating the competitive disadvantage that U.S. manufacturers, farmers, and ranchers could be placed in under an EU-Korea FTA without implementation of KORUS.

Korea also concluded a Comprehensive Economic Partnership Agreement with India in August 2009, and it has ongoing negotiations with Canada, Australia, Peru, New Zealand, the Gulf Cooperation Council, and Japan and is exploring the possibility of FTA negotiations with China.

Colombia: Similarly, the U.S.-Colombia FTA is a critical component to increasing U.S. exports and strengthening a longstanding partnership with the second largest Spanish-speaking country in the world. The FTA's provisions are virtually indistinguishable from those in the U.S.-Peru FTA, which Congress approved by an overwhelming bipartisan majority in 2007. Like the agreement with Peru, the U.S.-Colombia FTA is a comprehensive agreement that will accelerate Colombia's progress as a resilient and strong democracy and a committed ally of the United States.

U.S. exports to Colombia have more than tripled since 2003, exceeding $11 billion in 2010. A wide range of industries — including food and other agricultural products, chemicals, computers and electronic products, electrical equipment and appliances, and motor vehicles to name just a few — have seen exports grow into the hundreds of millions of dollars each year. More than 10,000 U.S. small and medium sized businesses were selling to Colombia, totaling 85% of all U.S. companies exporting to Colombia.

Building on these strong ties, the Colombia agreement will do away with a trade relationship built on temporary unilateral preferences and replace it with one that is mutually beneficial, reciprocal, and permanent. In 1991, Congress approved the Andean Trade Preference Act (ATPA), which has been renewed by bipartisan majorities several times in recent years. Thanks to the ATPA, the average U.S. import duty imposed on imports from Colombia was a stunningly low 0.1% in 2009, according to the U.S. International Trade Commission.[11] By contrast, Colombia's average duty on imports from the United States is 14% for manufactured goods and far higher for key agricultural exports. In short, Colombians enjoy nearly free access to our market while our access to theirs remains limited.

In fact, since the agreement was signed in November 2006, U.S. exports to Colombia have been penalized by the imposition of over $3.2 billion in tariffs that could have been eliminated by the implementation of the agreement (*see* Colombia Tariff Ticker — www.latradecoalition.org). This sum is not only money out of the pockets of U.S. companies; it likely deterred hundreds of millions of dollars worth of additional sales.

This agreement will remedy the unfairness of today's U.S.-Colombia trade relationship by sweeping away most of Colombia's tariffs immediately, ushering in a mutually beneficial, reciprocal partnership. The day the agreement enters into force, four-fifths of U.S. consumer and industrial products and more than half of current U.S. farm exports will enter Colombia duty-free. Remaining tariffs will be phased out, most in just a few years. For example:

Without the U.S.-Colombia FTA		Products	With the U.S.-Colombia FTA	
We Pay	**They Pay**		**We Pay**	**They Pay**
35%	2.5%	Automobiles	0%	0%
20%	0%	Furniture	0%	0%
5-15%	0-3.9%	Audiovisual (film and DVDs)	0%	0%
5-15%	0%	Mineral fuels and coal	0%	0%
10%	0%	Cotton	0%	0%
5-15%	0-3.9%	Copper, gold, silver products	0%	0%
5-21%	0-1.9%	Cereals (oats, corn, soybeans)	0%	0%
10%	0%	Computers & related products	0%	0%

In addition, the agreement will open services markets, secure the intellectual property of U.S. inventors, researchers, and creative artists, and introduce enforceable protections for worker rights and the environment. Colombia's Congress has already enacted into law all of the provisions on labor, the environment, public health and enforcement agreed to in the bipartisan trade deal of May 10, 2007.

The geostrategic importance of the agreement is also profound. It will help Colombians lock in the gains of the past decade, which has seen violence fall to its lowest level in a generation. More than 40,000 fighters have been demobilized as insurgent groups have lost legitimacy, and the number of Colombians enrolled in school and the health care system has risen sharply. These sustained results are a triumph of brave Colombians as well as bipartisan U.S. foreign policy. The U.S.-Colombia FTA will build on this solid foundation.

In short, the U.S.-Colombia FTA is a job-creating imperative, a geostrategic imperative, and moral imperative. Four years of delay is already too much; it's time to approve and implement this agreement.

Panama: In similar fashion, the U.S.-Panama FTA will strengthen the century-old U.S.-Panama geostrategic partnership. From the time of the canal's construction, the United States and Panama have made common cause on issues from security to commerce. Panama has major ports on both the Atlantic and the Pacific, and fully five percent of world trade passes through the canal. With a remarkable one-third of its population speaking English fluently and a fully dollarized economy, Panama is a good friend and partner of the United States. The trade agreement will help both nations get even more benefits from these longstanding ties.

Like the other two FTAs, the U.S.-Panama FTA will level the playing field for American workers, farmers, and companies by eliminating over 88% of Panama's tariffs on U.S. consumer and industrial goods and a majority of the most competitive U.S. farm exports immediately upon implementation. Panama's average duty on imports from the United States is 7%, whereas the United States eliminated nearly all its tariffs on imports from Panama through the Caribbean Basin Initiative in 1984. The agreement will make these trade openings reciprocal — a two-way street that will benefit both countries.

Real money is at stake. The $5.25 billion expansion of the Panama Canal is now moving ahead and presents significant opportunities for U.S. companies to provide goods and services to the government of Panama as it embarks on one of the largest public works project since the Three Gorges Dam in China. If approved, the agreement will grant U.S. firms ready access to the Panamanian market and the chance to compete in selling everything from heavy equipment to engineering services in a market that has reached annual growth rates above 8% in recent years.

Further, the agreement will bolster the rule of law, investor protections, internationally recognized workers' rights, and transparency and accountability in business and government. The agreement's strong intellectual property rules and related enforcement provisions will help protect and promote America's dynamic innovation-based industries and creative artists.

Panama is also an important market for U.S. small business. More than 7,500 U.S. companies export their products to Panama. Of this total, more than 6,000, or 83%, are small and medium-sized enterprises. These SMEs exported $1.1 billion worth of merchandise to Panama in 2009. This represented one-third of all U.S. merchandise exports to the country.

With its economy overwhelmingly based on services, Panama's economy complements the strengths of the U.S. economy. Panama's export crops are mostly tropical products that largely do not compete with U.S. farm and ranch products. Panama has already ratified all eight International Labor Organization conventions on core labor standards, and Panama's National Council of Organized Workers, the umbrella group for all of the country's trade unions, endorsed the agreement in June 2007.

One of the supposed reasons not to move forward with the agreement was recently swept away. Anti-trade activists had charged that Panama is a tax haven and thus an unsuitable partner for a trade accord. Demolishing the idea that Panama is a tax haven, the United States and Panama in November signed a Tax Information Exchange Agreement (TIEA), guaranteeing close cooperation between U.S. and Panamanian tax authorities and a world-class level of transparency in Panama's system of taxation. There is no justification for further delay in seeking approval of the U.S.-Panama FTA.

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.

The United States needs a laser-like focus on opening foreign markets. This means approving the pending trade accords with South Korea, Colombia, and Panama and negotiating more of them, including the Trans-Pacific Partnership and an ambitious Doha Round agreement. To this end, Congress should renew the traditional trade negotiating authority that every president since Franklin D. Roosevelt has enjoyed. Moreover, we need to enforce our existing trade and investment agreements. International accords aren't worth the paper they're written on if we don't act to enforce them.

World trade is again expanding rapidly, and it is generating new opportunities around the globe. However, this is too often a story of missed potential. The business community could be doing much more to create jobs, lift people out of poverty, foster greater understanding and stability among nations, and solve vexing social problems if we weren't missing so many of the opportunities that global commerce can create.

If we stand still on trade, we fall behind. 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 escaping high unemployment, massive deficits, and exploding entitlements. The U.S. Chamber of Commerce looks forward to working with the members of the Committee to secure swift approval and implementation of the three pending FTAs.

[1] David Wessel, “Asia’s Latest Export: Recovery,” *The Wall Street Journal*, February 24, 2010, http://online.wsj.com/article/SB10001424052748703510204575085280515242598.html.

[2] Office of the U.S. Trade Representative, Executive Office of the President, *The President’s 2010 Trade Policy Agenda*, March 2010, http://www.ustr.gov/webfm_send/1673. “IMF forecasts indicate that nearly 87% of world growth over the next 5 years will take place outside of the United States.”

[3] U.S. Department of the Treasury: https://ustreas.gov/press/releases/hp285.htm.

[4] The White House: http://www.whitehouse.gov/the-press-office/remarks-president-announcing-presidents-export-council.

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[6] World Economic Forum, *The Global Enabling Trade Report 2010*, May 19, 2010, http://members.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm.

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[9] U.S. Chamber of Commerce, *Trade Action—or Inaction: The Cost for American Workers and Companies*, September 2009, http://www.uschamber.com/trade.

[10] Brian Wingfield, “U.S. Losing Out As Congress Dallies On FTAs,” *Forbes*, April 21, 2010, http://blogs.forbes.com/beltway/2010/04/21/u-s-losing-out-as-congress-dallies-on-ftas/.

[11] United States International Trade Commission, *Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution* (Investigation No. 332-352, USITC Publication 4188, September 2010), p. 2-2, http://www.usitc.gov/publications/332/pub4188.pdf.