Statement of the U.S. Chamber of Commerce

ON: “Made in America: Increasing Jobs through Exports and Trade”

TO: Hearing of the U.S. House of Representatives Committee on Energy and Commerce Subcommittee on Commerce, Manufacturing and Trade

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% of the Chamber's members are small businesses with 100 or fewer employees, 70% 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.

I am pleased to testify before the Committee on Energy and Commerce Subcommittee on Commerce, Manufacturing and Trade, and would like to extend my thanks for the opportunity to Chairman Mary Bono Mack and Ranking Member G. K. Butterfield. 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.

No priority facing our nation is more important than putting Americans back to work. Nearly 9% of the U.S. workforce is unemployed — a figure that doubles 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 2010, 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.

In the Words of Business Executives

Understanding the link between trade and jobs is easier when we get the perspective of business executives from firms both large and small. For instance, Leon Trammel was the

Founder of Tramco and serves on the Board of Directors of the U.S. Chamber of Commerce. Mr. Trammell points out:

> "Tramco jumped into the world of exporting in 1972, and we've never looked back. Today we sell our high-production conveyer product lines to 56 countries around the globe. In fact, exports make up over 50% of our sales. That means about 70 of our 135 employees owe their jobs to exports. You can call Tramco a small business if you like, but we're a big exporting success."

In fact, many small businesses prosper thanks to exports even though their owners and workers may not think of themselves as exporters. Consider this insight from Jim McNerney, Chairman, President and CEO of The Boeing Company:

> "Did you know that every time a Boeing 777 lands in China (or India or anywhere else in the world, for that matter), it lands with about four million parts reflecting the workmanship of some 11,000 small, medium and large suppliers — the vast majority are from the United States?"

Indeed, some of America's largest companies owe a significant part of their own success to the exports of U.S. small and medium-sized companies, as Scott Davis, Chairman and CEO of UPS attests:

> "In my own company, trade is clearly creating American jobs. UPS is the nation's second-largest private employer with more than 400,000 people. Each time we add 22 new international packages in the United States — in other words, 22 packages imported or exported by our customers — we create another new U.S. job somewhere in our system."

The Problem: Foreign Tariffs and Other Trade Barriers

For all of these firms — large and small — 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 (TPP), 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 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, according to the U.S. Department of Commerce, the United States is now running a *trade surplus* in manufactured goods with its 17 FTA partner countries — taken as a group — 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 2010, 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 (a customs union that includes Argentina and Brazil), "U.S. exports of agricultural products to Colombia dropped by 48% in 2009 and an additional 45% in 2010. Meanwhile, Argentina's and Brazil's sales to Colombia have climbed by over 20 percent. In dollar figures, U.S. exports of corn, wheat, and soybeans to Colombia dropped from $1.1 billion in 2008 to $343 million in 2010, a decline of 68%."[10]

In the absence of an FTA, the average tariff paid by American farmers shipping their goods to Colombia is 16.9%, while competitors in the Mercosur countries have duty-free access to the Colombian market. When the Canada-Colombia FTA enters into force — an event expected in June — American farmers and ranchers risk losing more of their market share and sales.

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.

Defense of Intellectual Property

Another priority to ensure the success of U.S. trade policy and to enhance the competitiveness of U.S. companies is a vigorous defense of intellectual property (IP) rights. IP rights promote economic growth; foster innovation, creativity, and competition between brands benefitting consumers; and create high paying jobs. America's IP-intensive industries employ more than 19 million Americans across all 50 states and in all sectors from manufacturing to agriculture to services, and studies have shown that these industries account for approximately 60% of total U.S. exports.

Notwithstanding these achievements, the IP industries face relentless challenges to the integrity of their products, challenges which are making it increasingly difficult to bring new creative and innovative products and services to the international marketplace.

For U.S. companies to retain high-quality, knowledge-and skills-based jobs in this country and for the United States to further develop its comparative advantage in the global trading arena, the U.S. government must aggressively press for the strongest IP substantive and enforcement provisions in the TPP. These provisions should build on the world-class provisions of the free trade agreement with Korea to level the playing field outside the United States for industries dependent on IP protection for market access.

As the most innovative and creative economy in the world, the United States has the most to lose from weak and ambiguous IP standards and from a failure to protect those IP rights or to allow counterfeiting and piracy to go unchecked. America's IP intensive industries are keen to lead the way to accomplishing the objective of doubling exports by 2014. The U.S. government can play a vital role in helping us accomplish this objective by ensuring that U.S. trade agreements embrace strong IP rights, that governments fulfill the IP commitments in international trade agreements and their own domestic laws, and that governments, businesses, and international organizations work together to combat counterfeiting and piracy, particularly online.

When Domestic Policies Discourage Exports

However, the impediments to U.S. export success aren't only found overseas; sometimes, U.S. domestic policies block the way of American exporters.

The Chamber has been working over the past several years to support the modernization the U.S. export control regime, which is rooted in Cold War-era laws. As a founding member of the Coalition for Security and Competitiveness (CSC), we released recommendations for reforms over a year ago and began a series of meetings with administration and congressional officials to press the issue. We have been pleased that, early on, the Obama Administration seized on export control modernization as a priority.

In the vision of Defense Secretary Robert Gates, the United States needs an export control system "where higher walls are placed around fewer, more critical items." "Frederick the Great's famous maxim that 'he who defends everything defends nothing' certainly applies to export control," he has said. In general, those few sensitive technologies with significant military applications must be protected, but when technologies are no longer considered "cutting edge" or are already widely available from America's trade competitors, controls make no sense.

While national security concerns are rightly at the fore in this reform process, the economic stakes are also significant. A study issued earlier this year by the Milken Institute and the National Association of Manufacturers found that modernizing U.S. export controls "could enhance real GDP by $64.2 billion (0.4 percent), create 160,000 manufacturing jobs, and heighten total employment by 340,000."

With notable leadership from Secretary Gates, a longtime champion of export control reform, as well as Commerce Secretary Gary Locke, the administration in August 2009 launched a review of the U.S. export control system by an interagency task force including all agencies with a role in the U.S. export control regime. Chamber members have supported its work to date with considerable enthusiasm.

Beyond the realm of trade, there are plenty of U.S. policies that throw sand in the gears of commerce and sap U.S. competitiveness. Arguably at the fore is U.S. tax policy. Under our antiquated universal system of taxation, American worldwide companies are taxed in the United States on their U.S. profits, taxed abroad on their foreign profits, and then taxed again when those foreign profits are brought back home. By contrast, almost all other countries use or have shifted to a territorial system of taxation which avoids the double taxation of foreign profits. Further, these countries have dropped their corporate tax rates in recent years.

While other countries are taking steps to increase their competitiveness, the United States not only maintains a high corporate rate and universal system of taxation, we actually consider proposals that would further decrease our competitiveness. Some proposals, such as limiting the ability of American worldwide companies to defer U.S. income tax on foreign earnings or curtailing the use of foreign tax credits, would significantly increase the risk of double taxation, thus hampering U.S. competitiveness even more. While these proposals have been cast as raising taxes on "companies that ship jobs overseas," these provisions are actually essential components of our tax system that mitigate some, but not all, of the double taxation American worldwide companies face.

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.

We must resist economic isolationism at home. Measures such as "Buy American" rules delay shovel-ready projects, add to costs, and elicit retaliation from our trading partners. Failure to comply with our own obligations under trade agreements endangers American jobs and cuts us off from lucrative export markets, as witnessed in the case of the U.S.-Mexico cross-border trucking dispute.

We need to modernize the U.S. export control system. Sensitive technologies with military applications must be protected, but U.S. export controls cover too many products that lack a significant military application or are readily available from other countries.

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 forge a trade agenda that will create jobs, opportunity, and growth for the United States.

[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.

[5] American Farm Bureau Federation: http://www.fb.org/index.php?fuseaction=newsroom.fastfacts.

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

[7] U.S. Chamber of Commerce, *Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA Partners*, May 2010, http://www.uschamber.com/trade.

[8] WTO: http://www.wto.org/english/tratop_e/region_e/region_e.htm.

[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] Doug Palmer, "Bush and Clinton aides prod Obama on Latam trade deals," *Reuters*, March 2, 2011, http://www.reuters.com/article/2011/03/02/us-usa-colombia-trade-idUSTRE7217CN20110302.

Committee on Energy and Commerce
U.S. House of Representatives
Witness Disclosure Requirement - "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

1. **Your Name: John Murphy**

2. **Are you testifying on behalf of the Federal, or a State or local government entity?** Yes **[No]**

3. **Are you testifying on behalf of an entity that is not a government entity?** **[Yes]** No

4. **Other than yourself, please list which entity or entities you are representing:**

The U.S. Chamber of Commerce

5. **Please list any Federal grants or contracts (including subgrants or subcontracts) that you or the entity you represent have received on or after October 1, 2008:**

Granting Agency: The US Chamber of Commerce is a subrecipient to the National Chamber Foundation under a grant from the Department of Commerce
Award #: IT10MAS112004
Project Title: Export Green: Growing SME Exports to Brazil
Award Period: November 1, 2010 to March 31, 2013
Award Amount: $194,400

7. **If your answer to the question in item 3 in this form is "yes," please describe your position or representational capacity with the entity(ies) you are representing:**

Vice President for International Affairs

8. **If your answer to the question in item 3 is "yes," do any of the entities disclosed in item 4 have parent organizations, subsidiaries, or partnerships that you are not representing in your testimony?** Yes **[No]**

9. **If the answer to the question in item 3 is "yes," please list any Federal grants or contracts (including subgrants or subcontracts) that were received by the entities listed under the question in item 4 on or after October 1, 2008, that exceed 10 percent of the revenue of the entities in the year received, including the source and amount of each grant or contract to be listed:**

Signature:____________________ Date: 3-14-11