OPPORTUNITIES TO EXPAND U.S. TRADE RELATIONSHIPS IN THE ASIA-PACIFIC REGION

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

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U.S. HOUSE OF REPRESENTATIVES

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OPPORTUNITIES TO EXPAND U.S. TRADE RELATIONSHIPS IN THE ASIA–PACIFIC REGION

WEDNESDAY, OCTOBER 11, 2017

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to call, at 2:06 p.m., in Room 1100, Longworth House Office Building, Hon. Dave Reichert [chairman of the subcommittee] presiding.

[The advisory announcing the hearing follows:]

WAYS AND MEANS
CHAIRMAN KEVIN BRADY

Chairman Reichert Announces Hearing on Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region

House Ways and Means Trade Subcommittee Chairman Dave Reichert (R-WA) announced today that the Subcommittee will hold a hearing entitled "Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region." The hearing will examine the significant opportunities for U.S. manufacturers, services providers, farmers, ranchers, fishermen, workers, and consumers in the Asia-Pacific region and explore how to expand and improve our access to the markets in the region through existing and new trade agreements. **The hearing will take place on Wednesday, October 11, 2017 in room 1100 Longworth House Office Building at 10:00 AM.**

In view of the limited time to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Wednesday, October 25, 2017.** For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the

Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days' notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at http://www.waysandmeans.house.gov/

Chairman REICHERT. The committee will come to order.

Welcome to the witnesses. Good afternoon. The subcommittee will come to order as I said.

Welcome to the Ways and Means Trade Subcommittee hearing on Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region.

Before hearing from our witnesses, I would like to make a few points. Many of the largest and fastest growing economies in the world are in the Asia-Pacific region. The 21 Asia-Pacific Economic Corporations, or APEC, members account for 59 percent of the global GDP and 49 percent of world trade. U.S. companies can sell only so much to the 4 percent of the world's population that lives in the United States, so we must improve our access to global markets. If we want to remain competitive, then we must focus on doing more in the Asia-Pacific region.

Washington is one of the most trade-dependent States in the country, with 40 percent of all jobs tied to trade. Given our location on the West Coast, my constituents are very aware of the importance of export markets in the Asia-Pacific region. Far too often, U.S. companies are held back in this region by high tariffs, non-tariff barriers, and discriminatory policies and regulations. And all too often it is much more difficult to do business in the region than it should be.

Reducing these barriers would increase opportunities for the United States companies to compete and win, and would also increase prosperity throughout the Asia-Pacific, enhance security in the region, and set high standards for future agreements.

One important tool that the United States can use to address these issues is negotiating trade agreements. But we have trade agreements with only three countries in the Asia-Pacific region, Korea, Australia, and Singapore. We must expand our presence. I am convinced that KORUS, our trade agreement with Korea has been a great success for both the United States and Korea.

KORUS has been in place only 5 years, and some of the tariff reductions are still being phased in and evaluated, especially for sensitive agricultural products. So we can expect even greater gains in the future. Even still, we have seen the benefits of KORUS throughout the United States, and particularly in my home State of Washington. And I mention this quite frequently, we have nearly doubled our cherry exports to Korea since this agreement was put into effect, making it our third largest market for cherries in the world.

At the same time, Korea's implementation of certain portions of the agreement have been very disappointing. And I know some tough conversations are ongoing to address these problems. The best way to resolve these issues and instill confidence in both countries about the future of the agreement is to use the committee structure it set up under KORUS. That structure has helped us put an end to several disputes already. But Korea needs to do much more.

I am eager today to hear from each of our witnesses about your experiences in Korea and throughout the region, both where you are having success and where you see some continuing challenges. I hope that this hearing will help us policymakers more effectively push our trading partners to ensure a level playing field for U.S. companies and their employees.

When we have a trade agreement in place, we can work to enforce that agreement and push our trading partner to live up to its side of the bargain. But our limited number of trade agreements in the Asia-Pacific region greatly reduces our leverage relative to the competitors in other countries that have been more aggressive in negotiating trade agreements. Therefore, I firmly believe we need to pursue new bilateral agreements in the Asia-Pacific region.

High standard, ambitious, and enforceable agreements would benefit all Americans, including farmers, ranchers, workers, fishermen, fisherwomen, manufacturers, and service providers. The longer we wait, the more we will fall behind. We simply cannot afford to delay.

I am eager to hear from our witnesses again about how such new agreements can help us force markets open and make sure we are treated fairly.

I now yield to the ranking member, Mr. Pascrell, for his opening statement.

Mr. PASCRELL. Thank you, Mr. Chairman.

I want to thank our witnesses. We have a great, great five of you, all terrific backgrounds.

But I wanted to thank the chairman for putting us together today.

With rapidly growing economies, and more than half the world's population, it is critical that we engage with the Asia-Pacific countries in a constructive trade relationship. In addition to considering these important issues, as all of you know, this administration is in the middle of renegotiating our trade agreement with Canada and Mexico, the NAFTA agreement. But we have yet to have one administration witness come before this committee to testify on these negotiations.

Considering the President has threatened more than once to withdraw the United States from NAFTA, I think it is critical that we have a public hearing on the trade agreement, the renegotiation process, and what the threat of withdrawal means to our economy, our workers and our communities. And I look forward to a response from the chairman on this matter soon.

President Trump has had an incoherent and unpredictable trade policy. And nowhere is this more clearly on display than with China. In April, the President initiated a 232 investigation on steel and aluminum to try to address the crisis facing our producers and our workers because of the well-documented market distortions created by China's steel and aluminum overcapacity.

But since initiating the investigation, the administration has pushed off making a decision or releasing its findings. This is what you are getting into now. So be aware in context what is going on around you not only in terms of what we are here to talk about today.

The result of this uncertainty has been an increase to steel imports because of consumers' fear of pending trade restrictions. According to the Commerce Department's most recent steel import monitoring and analysis data, steel imports rose 21.4 percent through the first 8 months of 2017 compared to the same time last year. Think about that and think of all the rhetoric that you and I have heard.

In July, President Trump told the Wall Street Journal that he was not going to act on the 232 investigation at that time. It is unclear when, if ever, the President intends to take action. Right now it seems that paradoxically, the President has exacerbated the problem of increasing steel imports that has been devastating the U.S. steel industry. Boy, we have a knack of making things worse.

The President has also threatened to withdraw from the Korean free trade agreement, or KORUS. I believe KORUS has flaws. We all have flaws. It could be improved. It could work better for American companies seeking market access, particularly American auto companies. And it still contains some troublesome dispute settlement mechanisms that favor powerful corporations in the form of investor-state dispute settlements. However, our relationship with South Korea is critical and is a valuable trade partner, and some elements of the KORUS agreement set very high standards.

So let's not do something drastic by blowing up the agreement and creating chaos. That serves no one. So we have threats to blow that up. We have threats to blow up NAFTA. And I am reading newspapers lately, like all of you, I don't know what the heck he is planning to blow up next. That is the context in which you are here. Our relationship with South Korea is critical. It is a valuable trade partner. And some elements of the KORUS agreement set very high standards. I said this, but I want to repeat it because this is important and critical before we go onto the discussion.

I look forward to discussing how we can improve our trade relationship with the Asia-Pacific countries. This region represents nearly half of the global trade, 60 percent of global gross domestic product, and nearly $20 trillion worth of goods and services flowing through the region. This rapidly growing economic zone is critical to our continued success as an economy as we look to the future. This is not going to be answered by bumper stickers. And thank you for coming today.

Mr. Chairman.

Chairman REICHERT. Thank you, Mr. Pascrell. Today we are joined by five witnesses.

Mr. Matthew Goodman, the William E. Simon chair in political economy and senior adviser for Asian economics at the Center for Strategic and International Studies.

Ms. Kelley Sullivan, owner-operator of Santa Rosa Ranch in Crockett, Texas.

Our third witness is Ambassador Demetrios Marantis, senior vice president and head of global government relations for Visa, Incorporated. He served as deputy U.S. Trade Representative in the prior administration, covering Asia-Pacific.

And though seafood from the Pacific northwest needs no introduction, our fourth witness is Ms. Stefanie Moreland, director of government relations and seafood sustainability for Trident Seafoods in Seattle in my home State of Washington. A special welcome to you, Ms. Moreland.

Finally, our fifth witness is Mr. Scott Paul, president of the Alliance for American Manufacturing.

Before recognizing our first witness, let me note that our time is limited, so you should please limit your testimony to 5 minutes. And your statements will all be entered into the record.

Mr. Goodman, you are recognized for 5 minutes.

STATEMENT OF MATTHEW GOODMAN, WILLIAM E. SIMON CHAIR IN POLITICAL ECONOMY & SENIOR ADVISOR FOR ASIAN ECONOMICS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. GOODMAN. Thank you, Mr. Chairman. I have submitted more complete written testimony, but I would just like to make three points here.

First, the United States is a Pacific power, and we have compelling national interests in this vital Asia-Pacific region. Those include, as the chairman and ranking member said, a critical economic stake in a region that accounts for nearly 60 percent of global GDP, and has more than tripled in economic size since the end of the Cold War. U.S. exports of agricultural goods, manufactured products, and services to the Asia-Pacific region totaled nearly half a trillion dollars last year, about half our total exports.

According to the Commerce Department, about 3.4 million American jobs were supported by exports to the region in 2015. Asian companies with direct investments in the United States employ over one million Americans, with many more jobs supported indirectly by those operations and supply chains across North America. And the region holds even more potential in the future. By 2030, Asia will be home to more than three billion middle class consumers. This means more export opportunities for U.S. companies and more growth in jobs at home.

My second point is the landscape in the Asia-Pacific region is changing, and not necessarily in ways favorable to our interests. American companies have long faced an array of barriers in Asia-Pacific markets, both at the border, tariffs and conditions on market entry, for example, and behind the border, intellectual property theft, regulatory discrimination, and so on. But mercantilist trade policies persist, and more assertive industrial policies in the region have grown in recent years.

China in particular has stepped up policies that deny market opportunities to American companies, support its own national champions, and distort global markets. Beijing's so-called Made in China 2025 policy or plan shows that it is targeting the industries of tomorrow, artificial intelligence, robotics, aviation, and is prepared to use subsidies, forced technology transfers, and abusive competition policy to get there.

Other countries have adopted policies harmful to U.S. interests, such as data localization requirements in Indonesia and Vietnam. While all of this argues for stepped up U.S. engagement, particularly with our allies in the region, the administration's statements and actions on trade risk isolating the United States. At the same time, countries in Asia have moved ahead without the United States to shape the region's trade architecture and the rules of the road for trade and investment. President Trump's early, and in my view mistaken, decision to withdraw from the Trans-Pacific Partnership gave a boost to Asia's other large trade agreement, the Regional Comprehensive Economic Partnership, or RCEP, which brings China together with 15 other Asia-Pacific countries, but not the United States.

TPP itself has continued without our involvement, as Japan, Australia, and 11 other signatories try to salvage a deal. On the plus side, this would preserve some of the high standards in TPP, but it would also have negative diversionary trade effects for the United States. Countries have also moved ahead with bilateral trade deals. The largest of these is between the European Union and Japan, initialed this past summer. This agreement is likely to contain European-style rules on data privacy and special protections for so-called geographic indications for food and beverage products like parmesan and champagne.

Together, these other deals have the potential to significantly erode the competitiveness of U.S. exporters and to lock in rules that hurt our interests. Beyond trade agreements, Asian countries are pushing competing visions for infrastructure investment across the Eurasian supercontinent that could reorder the region's trade linkages and affect our commercial and geopolitical interests. Most prominent among these is China's so-called belt and road initiative, which is literally making all roads—or intended to make all roads lead to Beijing.

My third point is that despite this changing and increasingly challenging environment, the United States can still recapture economic leadership in the Asia-Pacific region and take advantage of the huge opportunities there. We are still a uniquely attractive trading partner for the region with our huge market, abundant human and financial capital, innovative capacity, and rule of law. But we have to have a strategy and policies to back it up.

The President's upcoming trip to Asia provides an opportunity to reaffirm our interests and commitment to the region, and to articulate for the American public and for our Asian trading partners a comprehensive, consistent, and long term economic strategy for the region. CSIS will be issuing a short report tomorrow outlining such a strategy, and I am happy to share it with the committee. We recommend the President give a speech before or during the trip outlining U.S. interests in the region and the broad pillars of engagement, including an economic strategy. We have other recommendations, but in the interests of time I will skip through those.

I just want to say one final thing, which is that there is something we should not do, which is to withdraw from NAFTA, the North American Free Trade Agreement, or KORUS, the Korea bilateral deal, as the administration has signaled it may intend to do. It would be extremely harmful to our economic and political interests in the Asia-Pacific region. This would take away hard-won market opening gains for our ranchers, manufacturers, and service providers, and undercut the rules that will give our companies and workers the long term basis to compete.

Moreover, withdrawing from these agreements would be a serious blow to our credibility in the region and the world, and make it harder for us to persuade others to follow us, not just on trade, but in addressing other serious political and security challenges.

Again, I have made a number of recommendations in my written testimony and in this CSIS report, and I am happy to discuss those in the question period. Thank you very much.

[The prepared statement of Mr. Goodman follows:]

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

Statement Before the

House Ways & Means Committee
Subcommittee on Trade

"Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region"

A Testimony by:

Matthew P. Goodman

William E. Simon Chair in Political Economy

Center for Strategic and International Studies (CSIS)

October 11, 2017

1100 Longworth House Office Building

Introduction

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee, thank you for this chance to offer my thoughts on U.S. trade opportunities in the Asia-Pacific region.

The United States is a Pacific power with compelling national interests in the vital Asia-Pacific region. Over the past 75 years, we have fought three wars and established robust alliances and a forward military presence in the region, all with the goal of maintaining peace and stability. We have long been champion of a democratic, rules-based order that has underpinned both our security and prosperity in the region. And, of greatest interest to this committee, we have developed deep economic ties in the Asia Pacific, including trillions of dollars of two-way trade and investment, which have brought unprecedented prosperity to the region and ourselves.

However, the landscape in the Asia Pacific is changing, and the risks to our interests are growing. From the North Korean nuclear threat to an array of territorial disputes, the security environment in the region is darkening. Mercantilist trade and industrial policies are on the rise. And U.S. leadership is being tested both by new challengers and by uncertainty about our own policies and commitment to the region.

Against this backdrop, the United States urgently needs a comprehensive strategy to promote our interests in the Asia-Pacific region. Core to this strategy must be smart economic statecraft that creates a more level playing field for our exporters and investors and recaptures U.S. leadership in market opening and high-standard rulemaking in the Asia Pacific. Work on articulating this new strategy should begin now, in the run-up to President Trump's first trip to the region next month.

U.S. Economic Interests in the Asia Pacific

U.S. trade and investment in the Asia Pacific is driven by the region's enormous and growing economic size. The region has more than tripled in economic size since the end of the Cold War, and the 21 member economies of the Asia-Pacific Economic Cooperation group (APEC) now account for nearly 60 percent of global gross domestic product (GDP).[1] The broader Asia-Pacific region hosts more than half the world's trillion-dollar economies, and half of the top 20 economies. The APEC region also accounts for around 48 percent of global trade, with nearly $20 trillion worth of goods and services flowing around the Pacific last year.[2]

This massive and growing economic activity has corresponded with a significant and sustained rise in U.S. exports to the region. U.S. exports to Asia-Pacific economies—including agricultural

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[1] Asia-Pacific Economic Cooperation, "Achievements and Benefits," https://www.apec.org/About-Us/About-APEC/Achievements-and-Benefits.
[2] Asia-Pacific Economic Cooperation, "Key Indicators Database," 2016, http://statistics.apec.org/index.php/key_indicator/kid_result/66.

products, manufactured goods, and services—totaled $452 billion in 2016[3], accounting for over half of total U.S. exports. The region now boasts five of our top 10 trading partners.[4]

Trade and investment with the Asia Pacific has helped drive job growth for American workers. Roughly 3.4 million American jobs were estimated to be supported by exports to the region in 2015.[5] Asian companies with direct investments in the United States employed over one million Americans in 2015, with many more jobs supported indirectly by those operations and supply chains across North America.[6]

Despite these already substantial gains, the region holds even greater potential for increased U.S. exports in the years ahead. By 2030, Asia is expected to boast 3.2 billion middle-class consumers, more than eight times the projected U.S. population.[7] As the middle class in Asia grows and its appetite for U.S. goods and services expands, this means more U.S. exports, in turn spurring income growth and job creation at home.

Let me underscore the opportunity in services. The United States is a global leader in services and already accounts for over 15 percent of global services exports, more than any other country by a substantial margin.[8] However, services trade restrictions worldwide remain high. These may be particularly harmful given the size of the sector in the United States and its potential to drive productivity growth, as goods exports have done in the past. Several countries in Asia have among the highest barriers for services exports of anywhere in the world, including much of Southeast Asia and India.[9] Bringing these down could create significantly more opportunities for U.S. businesses.

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[3] United States Census Bureau, "Trade in Goods with Asia," 2016, https://www.census.gov/foreign-trade/balance/c0016.html.

[4] Bureau of Economic Analysis, U.S. Department of Commerce, "International Accounts Products for Detailed Goods Trade Data," https://www.bea.gov/international/detailed_trade_data.htm.

[5] International Trade Administration, U.S. Department of Commerce, "Employment and Trade," August 2, 2017, https://www.trade.gov/mas/ian/employment/index.asp.

[6] Organization for International Investment, "Insourcing Facts," August 2016, http://www.ofii.org/resources/insourcing -facts.

[7] Homi Kharas, *The Unprecedented Expansion of the Global Middle Class: An Update*, Working Paper 100, (Washington, DC: Brookings, February 2017), https://www.brookings.edu/wp-content/uploads/2017/02/global_20170228_global-middle-class.pdf.

[8] United Nations Conference on Trade and Development, "Exports and imports of goods and services, annual, 2005-2016," October 6, 2017, http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx.

[9] International Monetary Fund, World Bank, and World Trade Organization, "Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment," April 10, 2017, https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/04/08/making-trade-an-engine-of-growth-for-all.

A Changing Landscape in the Asia Pacific

While the opportunities for trade and investment in the Asia-Pacific region are enormous, the United States faces an increasingly challenging environment there. Economic and political trends in the region have not been moving in a direction favorable to U.S. interests in recent years, and have deteriorated further in recent months.

While the United States remains among the most open economies in the world, with an average trade-weighted, applied tariff rate of 1.7 percent,[10] American companies have long faced a wide array of barriers in Asia-Pacific markets. These impediments are both at the border (e.g., high tariffs and conditions imposed on market entry), as well as behind the border (e.g., intellectual property theft and regulatory discrimination).

Mercantilist trade and industrial policies have proliferated and hardened across the region in recent years. China, in particular, has stepped up policies that deny market opportunities to U.S. companies, support its own national champions, and distort global markets. Beijing has increasingly shown that it is prepared to target the industries of tomorrow and compete directly with the United States for global technological leadership. Beijing's "Made in China 2025" plan, adopted in 2013, revealed its ambition to drive China higher up the global value chain by any means necessary, including subsidies, forced technology transfers, and abuse of competition policy.[11] It was complemented on July 20 of this year with publication of the "New Generation Artificial Intelligence Plan," which set ambitious targets for Chinese AI development through 2030.[12]

Other countries have followed China's lead in pursuit of harmful new rules and industrial policies. For example, Indonesia, South Korea, and Vietnam have all drafted laws in recent months that set new requirements on data localization within their borders.[13] South Korea, Taiwan, and Thailand have continued to intervene in foreign exchange markets to keep their currencies undervalued relative to the dollar, often skirting just around the criteria for designation as a currency manipulator by the U.S. Treasury Department.[14] These activities not only harm the health of established U.S. industries but also represent a threat to future export opportunities.

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[10] World Trade Organization, "United States of America: Tariff Profiles," 2017, http://stat.wto.org/TariffProfiles/US_e.htm.
[11] Scott Kennedy, "Made in China 2025," *CSIS Critical Questions*, June 1, 2015, https://www.csis.org/analysis/made-china-2025.
[12] Graham Webster, Rogier Creemers, Paul Triolo, and Elsa Kania, "China's Plan to 'Lead' in AI: Purpose, Prospects, and Problems," New America, August 1, 2017, https://www.newamerica.org/cybersecurity-initiative/blog/chinas-plan-lead-ai-purpose-prospects-and-problems.
[13] Information Technology Industry Council (ITI), "Data Localization Snapshot," July 29, 2016, https://www.itic.org/public-policy/SnapshotofDataLocalizationMeasures7-29-2016.pdf.
[14] Brad W. Sester, "Thailand: Currency Manipulator?" *Council on Foreign Relations*, September 21, 2017, https://www.cfr.org/blog/thailand-currency-manipulator.

Meanwhile, countries in Asia have moved ahead to shape the region's trade architecture without the United States. President Trump's early decision to withdraw from the Trans-Pacific Partnership (TPP) gave a boost to the other large regional trade arrangement, the Regional Comprehensive Economic Partnership (RCEP), which brings together China, Japan, South Korea, India, Australia, and New Zealand with the 10 member countries of the Association of Southeast Asian Nations (ASEAN). If that agreement were concluded, it would likely generate diversionary trade effects that would cost jobs and growth for the United States. More damagingly, it could also entrench low-standard economic rules that would tilt the competitive playing field against U.S. firms across the region for years to come.

Despite U.S. withdrawal from the agreement, TPP, too, has continued without our involvement. Led by Japan and Australia, the remaining 11 signatories have met several times this year. Even with some resistance from countries such as Vietnam and Malaysia that had expected significant gains in access to the U.S. market as the price for deep reforms, the TPP-11 countries aim to finish negotiations over modifications to the agreement by the time of the APEC Leaders' Meeting in November. Such an agreement without U.S. involvement is projected to have negative diversionary trade effects for the United States: about $2 billion in lost real income in 2030, according to a new study from the Peterson Institute for International Economics.[15]

In addition, many countries in the region have renewed their efforts to forge bilateral trade deals. The most consequential of these is an economic partnership agreement between the European Union and Japan, initialed by the two sides in July of this year. Among other things, the agreement is likely to contain European rules on data privacy, as well as special protections for so-called "geographic indications" for certain food and alcoholic-beverage products (e.g., parmesan and champagne), to the detriment of U.S. companies, ranchers, and farmers.[16]

All told, the remaining 11 TPP signatories are engaged in 27 separate trade negotiations, including with China and the EU, and the pace of negotiations has noticeably accelerated since the United States withdrew from TPP.[17] Taken together, these agreements have the potential to dramatically erode the competitiveness of U.S. exporters and to lock in rules that harm our interests.

Beyond new trade agreements, Asian countries are pushing competing visions for infrastructure investment across the Eurasian supercontinent that could potentially re-order the region's trade linkages, with serious consequences for U.S. interests. The most prominent is China's Belt and Road Initiative (BRI), under which the country has promised to devote hundreds of billions of

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[15] Peter A. Petri, Michael G. Plummer, Shujiro Urata, and Fan Zhai, Going It Alone in the Asia-Pacific: Regional Trade Agreements Without the United States, Working Paper No. 17-10 (Washington, DC: Peterson Institute for International Economics, October 2017), https://piie.com/system/files/documents/wp17-10.pdf.
[16] European Commission, "EU-Japan Economic Partnership Agreement," July 1, 2017, http://trade.ec.europa.eu/doclib/docs/2017/july/tradoc_155684.pdf.
[17] Adam Behsudi, "Trump's Trade Pullout Roils Rural America," *Politico*, August 7, 2017, http://www.politico.com/magazine/story/2017/08/07/trump-tpp-deal-withdrawal-trade-effects-215459.

dollars of investment in building roads, railways, and ports in neighboring countries and beyond.[18] In May, Beijing hosted the Belt and Road Forum, a high-level forum with senior officials from over 130 countries, to showcase Beijing's continental ambitions and attract support for the initiative.[19]

BRI and similar initiatives by Japan, India, and other regional players have the potential to dramatically change the composition and direction of the region's trade flows. BRI could entrench China at the center of the region's economy, while saddling other countries with onerous debt burdens and low-quality infrastructure, with all the negative social spillovers that entails. Conspicuously absent from this rush to define a new vision for Asia's hard and soft infrastructure connections is the United States.

Assessing Trump Administration Policy To Date

These changes in the economic and political landscape in the Asia Pacific have been met with mixed signals from Washington about the direction of American engagement in the region. The first, and to date most damaging, was the decision by President Trump to withdraw from TPP in January. This ill-considered move not only denied us hard-won economic gains in terms of enhanced market access and stronger rules; it also undermined our credibility in the eyes of our allies and partners in the region and gave comfort to our adversaries.

After repeatedly threatening to withdraw from the North American Free Trade Agreement (NAFTA) with Canada and Mexico, President Trump eventually authorized a renegotiation of the 23-year-old deal, but the outcome is highly uncertain, and the specter of U.S. withdrawal hovers over the talks. In late August it was widely reported that the Administration had decided to withdraw from the bilateral free trade agreement with Korea, popularly known as KORUS, despite an escalating nuclear crisis with North Korea.

Meanwhile, though senior administration officials have indicated their interest in pursuing new bilateral free-trade agreements in the Asia Pacific, none has yet been announced. All of this has created tremendous uncertainty in the region as to the prospective U.S. role in building the region's trade architecture, a traditional pillar of our strategy there.[20]

The Administration has made clear that it will define its trade objectives by targeting countries with which the United States has persistent bilateral trade deficits. This is a misguided approach, not only because the reality of global supply chains has made measuring bilateral balances nearly

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[18] Christopher K. Johnson, *President Xi Jinping's "Belt and Road" Initiative* (Washington, DC: CSIS, March 2016), https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328_Johnson_PresidentXiJinping_Web.pdf.
[19] Shannon Tiezzi, "What Did China Accomplish at the Belt and Road Forum," *The Diplomat*, May 16, 2017, https://thediplomat.com/2017/05/what-did-china-accomplish-at-the-belt-and-road-forum/.
[20] William Reinsch, "A Series of Unfortunate Events (Lemony Snicket strikes again)," *The Stimson Center*, September 27, 2017, https://www.stimson.org/content/series-unfortunate-events-lemony-snicket-strikes-again.

irrelevant, but also because trade barriers are not a significant driver of trade deficits.[21] Rather, these are driven by persistent macroeconomic imbalances in many Asia-Pacific economies, exacerbated by foreign currency intervention in some cases.[22]

The Administration has also raised the prospect of unilateral trade action against Asian countries under U.S. trade laws. It has launched investigations under Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Act of 1974 to examine the national security implications of steel and aluminum imports and China's forced technology transfer policies, respectively. Here the administration is responding to legitimate grievances from the U.S. business community, given the increasingly problematic market access issues in China described above. These deserve a forceful response. But some of the prospective unilateral actions under these self-initiated trade cases have the potential for significant collateral damage—for the international rules-based trading system, for our allies and partners in the region, and for the U.S. economy.

Finally, the United States continues to suffer from a lack of personnel in key policy positions across the executive branch. Nominations have been slow to emerge from the White House, and the pace of Senate confirmations has also been slow.[23] Particularly troubling in the context of this hearing are the delays in appointing key officials such as the assistant secretary of State for East Asian and Pacific Affairs and ambassadors to South Korea and India.

A Way Forward

Despite the increasingly challenging environment in the Asia Pacific, as well as our own missteps and false starts, there is still an opportunity for the United States to recapture regional economic leadership. Our vast consumer market, abundant capital, innovative capacity, and rule of law make us an attractive partner for every country in Asia. Our long-held commitment to our alliance partners and to upholding the current Asia-Pacific security order has been the lynchpin of regional peace and stability. And, as the world's oldest democracy and an experienced global leader, the United States possesses an unmatched ability to mobilize other nations in support of common objectives.

The President's upcoming trip to Asia provides an opportunity to reaffirm our interests and commitment to the region, and to articulate for the American public and for our Asian partners and challengers a clear regional economic strategy. Any successful strategy in the Asia Pacific will share certain characteristics: it must be comprehensive, have a long-term focus, and be delivered consistently.

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[21] Matthew P. Goodman, "Good Policy Starts with Good Analysis," *The Center for Strategic and International Studies*, July 27, 2017, https://www.csis.org/analysis/good-policy-starts-good-analysis.

[22] C. Fred Bergsten and Joseph E. Gagnon, *Currency Conflict and Trade Policy: A New Strategy for the United States*, (New York: Columbia University Press, June 2017).

[23] The Washington Post, "Tracking how many key positions Trump has filled so far," October 6, 2017, https://www.washingtonpost.com/graphics/politics/trump-administration-appointee-tracker/database/.

Articulating such a strategy begins with a presidential speech before or during the trip outlining broad U.S. interests in the region and the pillars of our engagement, including leadership on regional economic integration. The President should follow through by directing his staff to prepare a presidential policy directive laying out U.S. strategy toward the region, with economics at its core. This will align agency activities across the administration, including on trade. To execute on such a strategy, the White House should work with Congress to ensure the expeditious confirmation of political appointees to key posts relating to Asia and economic policy.

The Administration must also recapture regional leadership on market opening and high-standard rulemaking. Without U.S. participation in TPP or a credible alternative policy, the United States risks ceding leadership on market opening and rulemaking to China and others. We can begin to reassert that leadership by signaling to TPP allies and partners that we support the swift conclusion of a TPP-11 deal, while leaving the door open to future U.S. participation in a regional agreement that addresses our priorities.

Meanwhile, rather than fueling uncertainty by threatening to withdraw from NAFTA and KORUS, we should be working to update and improve those agreements to extend the rulemaking gains in TPP. High-standard agreements like these not only advance U.S. economic interests—creating larger, more contestable markets for U.S. businesses large and small and benefitting American consumers—but also bolster our security position in the region by enmeshing the United States more deeply in regional affairs. We should also work to advance U.S.-preferred norms—on trade, investment, infrastructure, etc.—in regional bodies such as APEC and the Asian Development Bank.

The Administration must also work forcefully to combat unfair trade and investment practices that harm U.S. businesses and workers. This includes robust use of existing trade remedies, provided this does not cause undue harm to our own economic interests, violate our international commitments, or undermine the global trading order. Congress can help by creating new tools to combat harmful foreign practices. This could include strengthening Section 337 of the Tariff Act of 1930 to protect U.S. intellectual property, as recommended by the 2013 Huntsman-Blair IP Commission.[24] It could also include sensible reform of the law governing the Committee on Foreign Investment in the United States (CFIUS) to deal more effectively with Chinese investments in strategic technologies that may pose a national security threat.

Finally, we should put greater priority on making needed investments at home. Our economic engagement in the region will only support strong and inclusive growth in the United States if partnered with appropriate infrastructure, tax, regulatory, education, and other domestic policies. Recognizing the linkages between international and domestic policies can start to address many Americans' concerns about the role of the United States in the global economy and ambivalence toward our engagement in the world.

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[24] IP Commission (IPC), The Report of the Commission on the Theft of the American Intellectual Property (Seattle, WA: National Bureau of Asian Research, May 2013), http://www.ipcommission.org/report/ip_commission_report _052213.pdf.

The Asia Pacific is moving on, with or without the United States. We need to get started now on crafting a smart economic strategy toward this vital region.

Thank you.

Committee on Ways and Means
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

Your Name:		
1. Are you testifying on behalf of a Federal, State, or Local Government entity? a. Name of entity(ies). b. Briefly describe the capacity in which you represent this entity.	Yes ☐	No ☑
2. Are you testifying on behalf of any non-governmental entity(ies)? a. Name of entity(ies). Center for Strategic and International Studies b. Briefly describe the capacity in which you represent this entity. Senior adviser for Asian economics and William E. Simon Chair in Political Economy at CSIS.	Yes ☑	No ☐
3. Please list any Federal grants or contracts (including subgrants or subcontracts) which you have received during the current fiscal year or either of the two previous fiscal years that are related to the subject matter of the hearing: N/A		
4. Please list any grants, contracts, or payments originating from foreign governments which you have received during the current calendar year or either of the two previous calendar years that are related to the subject matter of the hearing: N/A		
5. Please list any offices or elected positions you hold. N/A		
6. Does the entity(ies) you represent, other than yourself, have parent organizations, subsidiaries, or partnerships you are not representing?	Yes ☐	No ☑
7. Please list any Federal grants or contracts (including subgrants or subcontracts) which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal years, which exceed 10 percent of entity(ies) revenues in the year received. Include the source and amount of each grant or contract. Attach a second page if necessary. **FY2018** Department of State - $250,000		

FY2017
Department of State - $500,000

8. Please list any grants, contracts, or payments originating from foreign governments which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal
years related to the subject matter of the hearing. Include the source and amount of each grant or contract. Attach a second page if necessary.

FY2017
Government of Japan - $270,000
Government of Taiwan – $170,000

FY2016
Government of Japan - $310,334
Government of Taiwan - $170,000

Chairman REICHERT. Thank you Mr. Goodman. Ms. Sullivan, you are recognized.

STATEMENT OF KELLEY SULLIVAN, OWNER/OPERATOR, SANTA ROSA RANCH

Ms. SULLIVAN. Good afternoon. Mr. Chairman, distinguished members of the committee. My name is Kelley Sullivan, and I am a beef cattle producer. I own and operate Santa Rosa Ranch in Crockett, Texas, and I am here today on behalf of the National Cattlemen's Beef Association, and I am honored to provide you with our perspective on the importance of trade with our customers in the Asia-Pacific region.

As someone who personally visited our customers in July in both Korea and Japan, I have firsthand observations of the strong demand for U.S. beef. Over the years, exports have become critical to the success of the U.S. beef industry and rural economies. In 2016, we sold over $6.3 billion worth of beef products to other countries, with exports alone accounting for over $290 of value per head. We expect these values to increase in response to growth in foreign demand.

Our perspective on international trade stems from a basic premise. If we are going to raise the cattle and produce beef, we need competitive access to consumers who are willing to pay for our products. For many years, Americans have been our primary focus because Americans prefer ribeyes, tenderloins, and hamburger, and are willing to pay a higher price. But other beef cuts, such as short ribs, tongues, and livers fetch a lower price on the domestic market, but actually yield great premiums in foreign markets. For this reason, we are increasingly looking beyond our borders for opportunities to maximize sales, and Asia is a prime target.

As more Asian consumers join the middle class, they are adding proteins like beef to their diets. Simply put, trade allows us to capitalize on the differences in consumer preferences and capture value that would not exist if we sold to the domestic market alone.

Today, the success or failure of the U.S. beef industry depends on our level of access to global consumers. Our top export markets include Japan, Korea, Mexico, Canada, Hong Kong, and Taiwan. In 2016, 84 percent of our export sales came from these six markets. So you can see why we get nervous about market access being threatened.

We have consistently encouraged the U.S. Government to aggressively pursue opportunities to remove tariff and nontariff barriers around the world. As a result, the U.S. beef industry has reaped the benefits of trade policies such as implementation of NAFTA and KORUS. Our future success hinges on our ability to avoid the mistakes of the past and take an aggressive nature in support of trade liberalization.

We are very excited that after 14 years in exile, U.S. beef access has been restored to China. While previous administrations worked diligently to address China's concerns and negotiate terms, it was the Trump administration that closed the deal and restored U.S. beef access to China this summer. Our negotiators worked hard to secure market access terms that are superior to terms of our competitors, and we view China as an important investment for the future of our industry. While we are excited about the opportunities that China holds, we are very concerned with statements from our government that may jeopardize our success under KORUS. Let me be clear, we have absolutely nothing to gain by walking away from KORUS.

Despite criticism of KORUS from anti-trade groups and even some leaders within our government, the U.S. beef industry has thrived under KORUS. Korea is now our second largest export market, accounting for over a billion dollars in annual sales. In fact, annual U.S. beef sales have increased 82 percent during KORUS. If we dissolve KORUS, Korea will undoubtedly reinstate a 40 percent tariff on U.S. beef, and we will lose our competitive advantage over Australia and other countries.

While Korea is our second greatest export market, Japan is the top export market for U.S. beef. In 2016, Japanese consumers purchased $1.5 billion worth of U.S. beef, even with a 38.5 percent tariff in place. 2017 has been a record year for U.S. beef in Japan, reaching nearly $1.1 billion in sales just through July. Due to that success, however, Japan triggered a snapback tariff of 50 percent on frozen beef. It went from 38.5 percent to 50 percent overnight. Without a free trade agreement in place, U.S. frozen beef will continue facing a 50 percent tariff until April 2018, and we could face this higher tariff again in future years without a trade agreement.

In contrast, Australian beef imports are not subject to the 50 percent snapback tariff because they have a trade agreement in place with Japan. Instead, Australia enjoys a stable 27 percent tariff rate. Many U.S. beef producers are eagerly looking for a solution, and NCBA strongly supported the TPP because it would have lowered the tariff on U.S. beef from 38.5 percent to 9 percent in 16 years. Remember, we are currently sitting at 50 percent because TPP is not in place, or some sort of bilateral agreement.

Unfortunately, the decision to remove the United States from TPP puts us at a significant disadvantage. We would ask U.S. negotiators to focus on securing new market access for U.S. beef exports, starting with making up the ground we lost walking away. It is time for the U.S. Government to make it right and expend all necessary resources to secure strong market access for future generations of U.S. beef producers. Thank you.

Chairman REICHERT. Good job on getting that all out right at the end.

Ms. SULLIVAN. That was not easy for a talkative person, I will promise you. Thank you.

[The prepared statement of Ms. Sullivan follows:]

NCBA National Cattlemen's Beef Association

Statement of Ms. Kelley Sullivan, Santa Rosa Ranch
On behalf of the National Cattlemen's Beef Association
Submission for the record to the
United States House Committee on Ways and Means
"Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region"
October 11, 2017

The National Cattlemen's Beef Association (NCBA) submits the following comments regarding "Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region". Ms. Kelley Sullivan of Santa Rosa Ranch in Crockett, Texas, is a member of the National Cattlemen's Beef Association and will represent the views of the National Cattlemen's Beef Association pertaining to the economic impact of international trade to the U.S. beef industry. The Santa Rosa Ranch, located in southeastern Texas, is a family-owned and operated seed-stock and cow-calf operation. The Sullivan Family is from Galveston, Texas and has been in the beef cattle industry for over 100 years. Trade has been a fundamental part of the ranch since its beginning when cattle were grazed in salt grass pastures along the Coastal Bend of Texas and then loaded onto cattle boats at the Port of Galveston, bound for Caribbean nations such as Haiti and Cuba. Today the cattle of the Santa Rosa Ranch produce beef that is consumed in markets around the world.

Comments of the National Cattlemen's Beef Association Regarding the Significance of International Trade to the U.S. Beef Industry

The National Cattlemen's Beef Association (NCBA) has represented America's cattlemen and women since 1898, preserving the heritage and strength of the industry through education and public policy. As the largest and oldest national association of cattle producers, NCBA represents a diverse group of producers who deliver top-quality beef products to consumers in foreign markets and work tirelessly to increase global demand for beef. NCBA appreciates the opportunity to participate in this hearing and provide testimony to educate members of this committee on the importance of international trade to the U.S. beef industry.

Our perspective on international trade stems from a basic premise: If we are going to grow, raise, and produce beef, we need consumers who will eat and pay for it. U.S. consumers traditionally fill this role, and for many years Americans have been the primary focus for U.S. beef producers. Beef sold in the U.S. commands a strong market price and serves as a staple of the American diet. From Fourth of July burgers to the New York Strip, beef is synonymous with America.

Most of our annual beef production continues to be consumed here at home, but the U.S. beef industry is increasingly looking beyond our borders for opportunities to grow. As consumers throughout the Asia-Pacific region join the middle class, they are more willing to pay for high-quality beef. International trade allows our industry to increase our export sales and meet consumer demand in fast-growing markets. Exports are critical to U.S. beef producers – and the rural economies that depend on them – because they allow us to maximize the value of each carcass.

Americans prefer ribeyes, tenderloins, and hamburgers and are willing to pay a higher price for these cuts. Other beef cuts, such as short ribs, skirt steak, tongues, and livers, are viewed as less desirable and fetch a lower price in the domestic market. However, many of the lower-priced cuts in America are preferred by foreign consumers, who are willing to pay much higher prices for the same cuts of beef that Americans find less desirable. Trade allows U.S. producers to capitalize on the differences in consumer preferences. Through exports, we capture additional value on each head of cattle – value that would not exist if we sold to the domestic market alone.

Today, the success or failure of the U.S. beef industry depends on our level of access to global consumers. Our top export markets include Japan, Korea, Mexico, Canada, Hong Kong, and Taiwan. In 2016, we sold \$6.3 billion of U.S. beef overseas, with 84 percent of our sales coming from those six markets. According to the U.S. Meat Export Federation, export value per head of fed slaughter averaged \$290.05 in August 2017, up 13 percent from 2016. For U.S. beef producers, we have seen a correlation between increased cattle prices and increased export value. Exports are becoming more essential to our profit margin as foreign demand increases.

Given the importance of trade to our industry, we have consistently encouraged the U.S. government to aggressively pursue opportunities to remove tariff and non-tariff barriers to U.S. beef exports around the world. While the United States has some of the lowest import tariffs in the world, our beef exports face high tariffs and other protectionist trade barriers that hinder our access to consumers in some markets. As we have learned from the North American Free Trade Agreement (NAFTA), the Korea-U.S. Free Trade Agreement (KORUS), and other similar pacts, trade agreements help to level the playing field for U.S. beef by tearing down tariff barriers and establishing science-based standards that replace politically-motivated restrictions on U.S. beef exports.

Finally, it is critical to accurately understand the role of beef imports to the U.S. industry. Even though the United States is one of the top beef exporters in the world, we are also one of the largest beef importers in the world. U.S. beef is primarily from cattle finished on grain in feedlots, giving our beef a marbled finish that consumers enjoy. Beef imported to the United States is primarily from Australia, New Zealand, and other countries who finish their cows on grass instead of grain. These lean beef trimmings are imported primarily for use in the production of commercial ground beef. Contrary to the claims of protectionist groups, beef imports do not displace U.S. beef sales and are not dangerous for consumption. Every country that is approved to export beef to the United States must have standards equivalent to the rigorous American safety standards.

The U.S. beef industry has reaped the benefits of effective trade policies, such as the implementation of NAFTA and KORUS. At the same time, we have been the victim of misguided trade policies, such as non-science based trade restrictions and mandatory country-of-origin labeling. Our future success hinges on our ability to avoid the mistakes of the past and take an aggressive nature in support of trade liberalization.

Restoring U.S. Beef Access to China

In December 2003, the U.S. beef industry suffered a massive economic blow from an event commonly referred to as "The Cow that Stole Christmas". That was the United States first and only classical case of Bovine spongiform encephalopathy (BSE), known as mad cow disease, that was discovered in a Canadian-born dairy cow in Washington state. Overnight the United States lost access to our international markets including Japan, Korea, and China. The U.S. beef industry has worked closely with the U.S. government to take the necessary steps to ensure this event never happens again, and as a result the United States has some of the safest BSE safety standards in the world. Over time, many of the countries who closed their borders to U.S. beef reopened their markets albeit with arbitrary, non-science based age restrictions on the cattle. Even with those restrictions in place, U.S. beef exports have soared in Japan and Korea. More recently, after 13 years, China lifted its ban on U.S. beef and restored market access for U.S. producers.

Restoring access to China has been a priority for the U.S. beef industry for over a decade. While previous administrations worked diligently to address China's concerns and negotiate terms of access, it was the Trump Administration that closed the deal and restored U.S. beef access to China this summer.

U.S. negotiators worked hard to secure market access terms that are superior to terms of our competitors in China. For example, China has agreed not to close its market to U.S. beef if we have another BSE case, unless the World Organization for Animal Health changes our safety designation status—and that is not something the industry will allow. China also recognizes the equivalence of our food safety systems, so that it will be United States Department of Agriculture (USDA) that determines which packing plants are eligible to export to China instead of China approving individual plants. Chinese approval of packing plants is required of our competitors like Canada, Brazil, and Australia. China also agreed to allow a broad range of U.S. beef cuts (both fresh and frozen, bone-in and boneless) along with numerous offal cuts (liver, hearts, tongue, etc.).

Unfortunately, China does place some significant restrictions on U.S. beef that will make it difficult for us to capitalize on this market for a few years. Specifically, China has two laws that ban the use of certain technologies that are deemed safe in the United States (and most of the world) and are commonly used in beef production. The first banned technology is ractopamine, a beta agonist used to promote leanness in meat. Ractopamine is fed to cattle (steers and market heifers) in feedlots during the last 28 to 42 days of the finishing period to safely increase carcass gain, feed efficiency and carcass leanness while maintaining beef's natural taste, tenderness and juiciness. The Codex Commission, the international food safety standards-setting body as recognized in the WTO-SPS Agreement, has established a set of Maximum Residue Levels (MRLs) for veterinary drugs widely accepted in international trade. In 2012 Codex adopted standards for maximum residue levels for ractopamine – standards that have been recognized in many countries. Regardless, China has a law that bans the use of this technology for both domestic production and for imported products. If any U.S. beef shipments to China test positive for ractopamine the shipment will be returned.

China also bans the use of hormones in domestically-produced beef and in beef imports. While beta agonists are used at the feedlot level, hormones are more commonly used at the cow-calf and stocker levels to help add weight. The U.S. industry has used this safe technology for decades, and non-science based restrictions on the use of hormones have been ruled illegal by the World Trade Organization (WTO) (see WTO Case DS26 - European Communities — Measures Concerning Meat and Meat Products (Hormones). Nonetheless, as part of the protocol with China, any shipments that test positive for synthetic hormones and naturally-based hormones will be returned.

These combined restrictions mean that only a small number of cattle in the U.S. beef herd will be eligible for the Chinese market in the first few years. In fact, it may take roughly two to three years to convert a cattle operation to comply with these restrictions. But we anticipate that more producers will start to produce for the Chinese market once demand for U.S. beef is firmly established.

China represents a population of nearly 1.4 billion people and is quickly becoming the largest beef importer in the world. For example, in 2011 China imported 27,000 metric tons of beef, and that volume increased to 600,000 metric tons in 2016. Today, most of the beef imported to China is from grass-finished cattle from Australia, New Zealand, Brazil, and Uruguay, with only 5 percent of beef imports from grain-finished beef from Australia and Canada. The U.S. Meat Export Federation estimates that our sales will reach $300 million annually in the first five years. We look forward to growing this market and becoming a leading source of beef for China.

KORUS: The Success Story for U.S. Beef

The relationship between Korean consumers and U.S. beef has not always been positive. In June 2008, hundreds of thousands of protestors took to the streets of downtown Seoul to hold a candle-light protest against the Korean government's decision to restore U.S. beef access. Korean consumers did not trust the safety of U.S. beef and harbored concerns about BSE. The U.S. beef industry invested heavily in restoring consumer trust in Korea, and in less than ten years Korea has become a $1 billion market for U.S. beef.

According to the U.S. Meat Export Federation, in 2016 we sold nearly $1.1 billion of U.S. beef to Korean consumers and in the first six months of 2017 our sales totaled $528 million, an increase of 21 percent. Korea has been an excellent export market for U.S. beef short ribs, tongues, and other cuts that Americans find less desirable but Koreans are willing to purchase at a premium.

Despite criticism of KORUS from anti-trade groups and even some leaders within our government, the U.S. beef industry has thrived under the terms of the agreement. Korea is now our second largest export market and annual U.S. beef sales have increased 82 percent. This increase – representing nearly $500 million in additional sales – is a direct result of our tariff rate decreases. Starting from 40 percent the year the agreement was signed, the tariff rate decreases about 2.7% each year, eventually reaching zero in 2027.

The United States' aggressive pursuit of KORUS secured preferential access for U.S. beef nearly two years before our leading competitor in the Korean market, Australia, signed their own free trade agreement. As a result, U.S. beef enjoys an eight percent tariff rate advantage over the Australians. This advantage, combined with market demand for U.S. beef, resulted in the United States becoming the leading import source for beef in Korea in 2016. We expect the trend to grow as Korean demand for U.S. beef increases. For example, earlier this year Costco announced that it is replacing all Australian-sourced fresh beef with fresh U.S. beef in its Korea-based stores. This is very exciting news because it will add upwards of 15,000 metric tons of fresh U.S. beef sales.

The rumors of possible withdrawal from KORUS over the Labor Day weekend stirred an immediate and negative reaction from U.S. beef producers across the country. We have absolutely nothing to gain by walking away from KORUS. U.S. beef has a competitive advantage in Korea, a market that now represents over $1 billion in annual sales. If we dissolve KORUS, Korea will undoubtedly reinstate a 40 percent tariff on U.S. beef.

Japan: Top Export Market for U.S. Beef…for Now

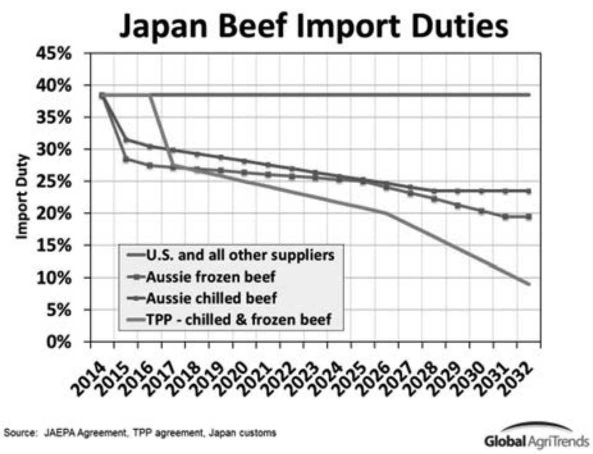
Japan is the top export market for U.S. beef exports. In 2016, Japanese consumers purchased $1.5 billion of U.S. beef products, even with a 38.5 percent tariff in place. Due to the prolonged drought and herd shortage in Australia, U.S. beef sales have skyrocketed in 2017, reaching nearly $1.1 billion in sales just through July. Unfortunately, our resounding success in Japan triggered a "snapback" tariff of 50 percent on frozen beef. Without a free trade agreement in place, U.S. frozen beef will face the 50 percent tariff through March 31, 2018, and we could face this higher tariff again in future years if the situation is repeated.

Like in Korea, Australia is our leading competitor in Japan. Together our two countries account for 90 percent of all imports of frozen beef, which is mostly used by beef bowl, hamburger and other fast food outlets. However, in Japan, our relative market access positions are reversed. Since Australia already has a trade agreement in place with Japan, Australian beef imports are not subject to the 50 percent snapback tariff. Instead, Australia enjoys a stable 27 percent tariff rate. Some analysts predict that the continued high price of Australian beef will help U.S. beef remain competitive in the short term, but we are concerned about the long-term implications once our luck runs out and the Australian herd recovers.

Many U.S. beef producers are eagerly looking for a solution. NCBA strongly supported the Trans-Pacific Partnership (TPP) because it would have lowered our standard tariff from 38.5 percent to 9 percent in 16 years. Analysis by the United States International Trade Commission concluded that beef exports to TPP countries would grow by $876 million per year by the end of the transition period, and that most of that growth would be in trade to Japan. TPP would have also lowered the snapback tariff and increased the volume amount necessary to trigger the safeguard.

Unfortunately, President Trump made the decision to remove the United States from the TPP and pursue bilateral agreements instead. According to Reuters, on August 2, Japan's Finance Minister Taro Aso was asked about the safeguard frozen beef tariff and said: "This measure would be abolished if the TPP were implemented, but it remains because the U.S. withdrew from TPP." We hope that Vice President Pence may be able to help us find a short-term solution at the upcoming round of the Japan – U.S. Economic Dialogue. Either way, we need a long-term solution in the form of a bilateral trade agreement that meets or exceeds the terms of TPP.

Japan is moving forward with negotiations with our competitors. Recently, Japan and the European Union announced they are close to finalizing terms of a trade agreement. The Japanese have stated they are willing to give the European Union beef producers similar terms to those negotiated in TPP. Canada and New Zealand are also pursuing trade agreements with Japan. How will U.S. beef remain competitive in the long run if our competitors have preferential tariff treatment?



Source: JAEPA Agreement, TPP agreement, Japan customs

Conclusion

While we are extremely grateful to the Trump Administration and our supporters on Capitol Hill who worked hard to restore U.S. beef access to China, we are extremely concerned that prolonged NAFTA negotiations and withdrawal/modifications to KORUS will pose unnecessary setbacks for the U.S. beef industry. In these cases, we stand to lose more than we stand to gain. Our ardent desire is for U.S. negotiators to focus on securing new market access for U.S. beef exports, starting with making up the ground we lost by walking away from TPP. We need President Trump to deliver on the promise of a better deal with Japan, Vietnam, Malaysia, and the other TPP countries that are vital to the long-term success of the U.S. beef industry. There is no question that the political rhetoric of the previous election poisoned the well for TPP, with negative consequences for U.S. beef producers and rural economies. It is time for the U.S. government to make it right and expend all necessary resources to secure Asia-Pacific markets for future generations of U.S. beef producers.

Committee on Ways and Means
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

Your Name:		
1. Are you testifying on behalf of a Federal, State, or Local Government entity? a. Name of entity(ies). b. Briefly describe the capacity in which you represent this entity.	Yes ☐	No X
2. Are you testifying on behalf of any non-governmental entity(ies)? a. Name of entity(ies). National Cattlemen's Beef Association (NCBA) b. Briefly describe the capacity in which you represent this entity. I am a NCBA member and volunteer.	Yes X	No ☐
3. Please list any Federal grants or contracts (including subgrants or subcontracts) which you have received during the current fiscal year or either of the two previous fiscal years that are related to the subject matter of the hearing: None		
4. Please list any grants, contracts, or payments originating from foreign governments which you have received during the current calendar year or either of the two previous calendar years that are related to the subject matter of the hearing: None		
5. Please list any offices or elected positions you hold. Board of Directors, Texas Beef Council; Board of Directors, Texas and Southwestern Cattleraisers Association. However, I am not representing these organizations.		
6. Does the entity(ies) you represent, other than yourself, have parent organizations, subsidiaries, or partnerships you are not representing?	Yes ☐	No X
7. Please list any Federal grants or contracts (including subgrants or subcontracts) which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal years, which exceed 10 percent of entity(ies) revenues in the year received. Include the source and amount of each grant or contract. Attach a second page if necessary. None		
8. Please list any grants, contracts, or payments originating from foreign governments which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal years related to the subject matter of the hearing. Include the source and amount of each grant or contract. Attach a second page if necessary. None		

Chairman REICHERT. Ambassador Marantis, you are recognized.

STATEMENT OF DEMETRIOS MARANTIS, SENIOR VICE PRESIDENT AND HEAD OF GLOBAL GOVERNMENT RELATIONS, VISA INC.

Mr. MARANTIS. Thank you. Chairman Reichert, Ranking Member Pascrell, distinguished members of this committee, it is really nice to be here. And thank you very much for inviting me to testify on behalf of Visa about the importance of Asia-Pacific trade to U.S. jobs and exports.

I spent a career working on these issues as a congressional staffer, at USTR, and now in the private sector. And it is always an honor to testify before this committee.

For almost 60 years, Visa has facilitated the growth of commerce through electronic payment services technology. Today, we connect more than 3 billion Visa cards and millions of merchants globally. We are a major U.S. exporter, operate in more than 200 countries and territories around the world, and employ thousands of high skilled workers across the United States. To grow our business and extend the benefits of digital commerce globally, we need open markets and the ability to compete on a level playing field internationally.

The global leadership role of the U.S. payments industry and the well-being of our workers and their families and our customers depends on it. Worldwide, there are tremendous opportunities to strengthen economies through increased use of electronic payments. A Visa-commissioned report released this morning projects that increasing digital payments in 100 international cities could produce annual net benefits of $470 billion through greater efficiencies, cost savings, and expanded commerce.

Visa also estimates that Asia-Pacific economies stand to gain more than $6 trillion by shifting from cash and checks towards credit, debit, or prepaid forms of digital payments. Exciting things are happening throughout the Asia-Pacific region. Australia has one of the world's highest rates of contactless transactions. China has become a world leader in mobile payments. And in India, the volume of digital payments increased dramatically since Prime Minister Modi removed 86 percent of bank notes from circulation last November.

In the months that followed, Visa, together with the Indian Government, and other key stakeholders, introduced an interoperable low cost acceptance solution to accelerate the transition to electronic payments. However, there are still significant challenges in the region. In many countries, trade barriers and regulatory discrimination distort the market. My written testimony describes challenges facing U.S. payment companies in China, where Visa recently submitted an application for a license to begin operating in the domestic market, and Korea, where strong regulatory preference for local brands tilts the playing field.

But the most urgent challenge we now face is in Vietnam, where U.S. electronic payment suppliers are on the brink of being forced out of the domestic market. We are grateful for the strong bipartisan leadership from this committee, including Chairman Reichert and Ranking Member Pascrell in highlighting concerns with Circular 19, a regulation issued by the State Bank of Vietnam, that grants a de facto monopoly on domestic payment processing to the state-owned National Payments Corporation, known as NAPAS.

Despite grave concern raised by the current and former administration, as well as dialogue between governments and industry, NAPAS is charging ahead and pressuring banks to prepare to process all transactions, including those of Visa and Mastercard, over its network. This fundamentally threatens the ability of U.S. payment companies to continue operating in Vietnam. To ensure a level playing field for U.S. electronic payment suppliers, such blatant discriminatory treatment should not be allowed to occur in Vietnam or elsewhere in the region. As APEC chair this year, Vietnam should instead be a champion of fair and open trade. Given the consistent message from Congress and the administration on this issue, we remain hopeful that the Vietnamese Government will suspend and revise Circular 19 before President Trump's visit to Vietnam for the APEC leaders meeting next month.

Achieving a positive outcome in Vietnam will send an important signal about the beneficial effects of sustaining open and fair trade across the region.

In that spirit, we look forward to working with the committee to strengthen trade relationships throughout the Asia-Pacific, and to help further expand U.S. exports in support of Visa's workers and their families in communities across the country. Thank you.

[The prepared statement of Mr. Marantis follows:]

Statement of

Ambassador Demetrios Marantis

Senior Vice President and Head of Global Government Relations

Visa Inc.

House Ways and Means

Subcommittee on Trade

Hearing on

Opportunities to Expand U.S. Trade

Relationships in the Asia-Pacific Region

October 11, 2017

Chairman Reichert, Ranking Member Pascrell, distinguished members of the Subcommittee, my name is Demetrios Marantis, Senior Vice President and Head of Global Government Relations for Visa Inc. Thank you for inviting me to speak about the importance of Asia-Pacific trade to U.S. jobs and exports. I have spent most of my career on this topic – as a congressional staffer, then a USTR official, and now in the private sector. It is always an honor to testify before this Subcommittee, which has demonstrated tremendous leadership on many issues important to those whose livelihoods are impacted by international trade.

For almost 60 years, Visa has facilitated the growth of global commerce through electronic payment services (EPS) technology. Visa is not a bank, and does not issue cards, extend credit or set rates and fees for account holders on Visa-branded cards and payment products. Rather, we connect more than 3 billion Visa cards and millions of merchant locations worldwide through a global network of approximately 16,300 financial institution partners and VisaNet, one of the world's most secure, reliable and interoperable global payment networks. Today, VisaNet processes more than 160 billion transactions a year, and we are continually developing advanced analytics and fraud detection technology to ensure consumers and businesses can transact seamlessly and securely, with trust and confidence.

Visa is a major U.S. exporter, operates in more than 200 countries and territories, and employs thousands of talented people – primarily in high-skill positions – across the United States. To grow our business, and extend digital commerce to parts of the world previously excluded from its many benefits – we need free trade, open markets, and the ability to compete on a level playing field internationally just as we do in the United States. The world-leading role of the U.S. payments industry – and the well-being of our workers, their families, and our customers – depends on it.

Worldwide, there are tremendous opportunities to help economies thrive through the increased use of electronic payments. A Visa-commissioned report released today projects that increasing digital payments adoption in 100 cities around the world could result in net benefits of $470 billion, which takes into account time-savings for consumers, increased sales revenues, and more efficient revenue collection. Visa also estimates that Asia-Pacific economies stand to gain more than $6 trillion by shifting from cash and checks toward credit, debit, or prepaid forms of digital payment[1]. For example, in India, the volume of digital payments increased dramatically when Prime Minister Modi removed 86 percent of bank notes from circulation[2]. In the months that followed, Visa was proud to work with the Indian Government and other domestic and international payment networks to introduce Bharat-QR[3] or, as translated "India QR"– an interoperable and low-cost acceptance solution to help accelerate India's transition to electronic payments.

Visa is working across the Asia-Pacific region to help bring state-of-the-art payment security and innovation to as many people as possible. In emerging markets such as Myanmar, Visa partners with governments, financial institutions, and merchants to enable electronic payments and bring unbanked populations into the formal financial system. In maturing markets such as Thailand, Visa has facilitated the adoption of QR code (Quick Response barcode) payment standards that will allow more small- and medium-sized enterprises – engines of economic growth – to accept electronic payments.

Several Asia-Pacific markets are highly advanced in certain key payment categories. For example, Australia has one of the highest rates of contactless transactions in the world[4]; China has pioneered popular new forms of mobile payment[5]; and South Korea has the highest overall rate of payment card usage globally[6]. Visa's new Innovation Center in Singapore is a key hub for our collaborative work with governments, clients, and partners in all of these areas, as we seek to leverage Visa's

[1] Visa analysis of data from Oxford Economics, The Nilson Report, Euromonitor, Haver Analytics, The Bank of Thailand, Reserve Bank of Australia, Federal Reserve, and Statistics New Zealand. Available at http://s1.q4cdn.com/050606653/files/doc_presentations/2017/Investor/2017_Investor_Day_CLARK_web.pdf

[2] Martin Wolf. "India's Bold Experiment with Cash." The Financial Times. February 21, 2017. https://www.ft.com/content/e3f2aaa8-f77d-11e6-bd4e-68d53499ed71

[3] Visa website. "About Bharat QR-mVisa." https://www.visa.co.in/pay-with-visa/featured-technologies/mvisa/about-mvisa.html

[4] Visa analysis of VisaNet data for Australia.

[5] "The Rise of China FinTech." Goldman Sachs Group, Inc., 2017.

[6] According to the Korea Credit Finance Association (CREFIA)'s data, payment card penetration is approximately 88 percent. CREFIA's figure is based on private sector card spend and private consumption expenditure.

open Application Program Interfaces (APIs) and develop scalable solutions for the Asia-Pacific region.

Despite the tremendous capacity for growth and change across the Asia-Pacific, in many of these markets, there are still steep challenges to fulfilling the potential of electronic payments to drive economic growth and financial inclusion. Foremost among the obstacles is the lack of a level playing field for payment providers, which is often due to trade barriers and other forms of regulatory discrimination. In several cases, U.S. trade policy tools have played a critical role in helping to address market access and other discriminatory trade barriers facing U.S. EPS suppliers. For illustrative purposes, I will highlight three examples from Vietnam, China, and South Korea.

Vietnam is the most urgent. A rapidly deteriorating situation now threatens to shut U.S. companies out of the domestic electronic payments processing market. We are grateful for the strong bipartisan support from members of the Ways & Means Committee, including efforts from Chairman Reichert and Ranking Member Pascrell, for their leadership in highlighting concerns with Circular 19. For those unfamiliar with Circular 19, it is a regulation written by the State Bank of Vietnam (SBV) that grants a de facto monopoly on domestic payment processing to the state-owned National Payments Corporation of Vietnam (known as NAPAS). The Office of the U.S. Trade Representative and both the current and previous Administrations have raised this issue repeatedly with the Vietnamese government. Despite substantial dialogue between both governments and industry, state-owned NAPAS is now pressuring Vietnamese banks and sending them written instructions to prepare for processing all domestic transactions, including Visa and Mastercard-branded payment cards, over the NAPAS network. If implemented, this regulation will fundamentally threaten the ability of U.S. payments companies to operate in Vietnam.

Establishing NAPAS as the sole connection point between all banks and any other payment network would skew the playing field. It would reduce the speed, security, and reliability of services that U.S. EPS suppliers can currently provide to their customers in Vietnam. It would disrupt longstanding existing commercial relationships.

And, it would create a single point of failure that would dramatically increase cybersecurity risk.

More broadly, giving NAPAS an advantage over U.S. companies that have done business in Vietnam for many years sends a negative signal about Vietnam's commitment to open and fair trade with the United States. These actions would also appear to run contrary to Vietnam's vision to privatize state-owned enterprises, introduce more competition in the market, and further integrate Vietnam with the global economy.

To ensure a level playing field for U.S. EPS suppliers, such blatant discriminatory treatment should not be allowed to occur in Vietnam or elsewhere in the region. As APEC Chair this year, Vietnam should be a champion for fair and open trade, not shutting established suppliers out of its market. Given the consistent message from both Congress and the Administration, we remain hopeful that the SBV will act to suspend and revise Circular 19 before President Trump's upcoming visit to Vietnam for the APEC Leaders Meeting in early November.

In China, Visa has been operating since 1979 but is limited to processing cross border transactions. In other words, unlike its Chinese competitor, China UnionPay, U.S. EPS suppliers cannot process domestic transactions. The United States government challenged China's restrictions on foreign suppliers processing domestic payments and won a World Trade Organization (WTO) case in 2012. After the WTO decision, both Congress and the Administration maintained a focus on China fulfilling its WTO obligations, and in 2015, China created a licensing process to open up the domestic market.

This year, the Administration placed EPS domestic market opening at the top of the U.S.-China bilateral trade agenda. As part of the 100-Day Action Plan following President Trump and President Xi's first meeting in April, China affirmed its commitment: "By July 16, 2017, to issue any further necessary guidelines and allow wholly U.S.-owned suppliers of EPS to begin the licensing process. This should lead to full and prompt market access."

With appreciation for the joint efforts of both governments to open China's domestic EPS market, Visa was pleased to submit a bank card clearing institution (BCCI) license application to the People's Bank of China (PBOC) in July 2017. Our application is currently with the PBOC. We look forward to consideration of our application in line with the Chinese Government's public commitments to market opening and the guidelines for BCCI applicants. Looking ahead, we would also appreciate more transparency and a time-bound process for any National Security Review of our application, if one is required.

South Korea is an important market for U.S. EPS suppliers as it has the world's highest rate of payment card usage. For many years, Visa has worked with our local Korean clients and partners to offer the latest in payment technology and value-added services. However, since 2008, Korean financial authorities have required Korean financial institutions issuing payment cards to offer and operate a local brand card product (for use only in Korea) with identical benefits/services for each U.S. brand card product (such as Visa or Mastercard) introduced in Korea. For example, if a U.S. credit card brand partners with a hotel chain or airline company to offer a reward card, a comparable local card must also be offered. In addition, regulators have mandated that the annual fee for domestic cards for cardholders must be less than that for foreign brand cards. Following introduction of these provisions, the market position of U.S. card brands in Korea dropped sharply and has kept falling as local brand cards are being issued increasingly more than foreign brand cards.

The U.S.-Korea Free Trade Agreement (KORUS) has been a useful tool to address level playing field concerns related to regulatory discrimination against U.S. EPS suppliers in South Korea. In 2014, South Korean financial regulators suspended a policy that would have dramatically reduced the ability of U.S. EPS suppliers to compete after the U.S. government brought concerns to the attention of the Korean government through the KORUS Financial Services Committee. Unfortunately, despite this constructive dialogue, the government preference for domestic over U.S. payment card networks puts companies like Visa at a competitive disadvantage.

Concerns about regulatory discrimination against U.S. EPS suppliers have been raised in the Office of U.S. Trade Representative's National Trade Estimate (NTE) report for the past several years and it remains a top priority on the bilateral trade agenda. Restoring the ability for U.S. EPS suppliers to offer creative card products on market-based terms would help level the playing field and enhance the potential for increasing U.S. exports of EPS to South Korea.

Beyond Vietnam, China, and South Korea, the U.S. EPS industry faces level playing field challenges in other large and growing markets such as Indonesia, Thailand, and Bangladesh that are similar in nature to those mentioned above.

I hope this testimony helps to illustrate the tremendous opportunities in the Asia–Pacific region, and the need to overcome challenges with the partnership of Congress and the Administration. Similarly, I hope that achieving a positive outcome for U.S. electronic payment service suppliers in Vietnam will send an important signal about the beneficial effects of sustaining free and fair trade across the region. We look forward to working with the Committee to strengthen trade relationships throughout Asia-Pacific, and to help further expand U.S. exports of electronic payment services in support of Visa workers and their families in communities across the country. Thank you.

Committee on Ways and Means
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

Your Name: Demetrios James Marantis		
1. Are you testifying on behalf of a Federal, State, or Local Government entity? a. Name of entity(ies). b. Briefly describe the capacity in which you represent this entity.	Yes ☐	No ■
2. Are you testifying on behalf of any non-governmental entity(ies)? a. Name of entity(ies). Visa Inc. b. Briefly describe the capacity in which you represent this entity. Senior Vice President, Head of Global Government Relations	Yes ■	No ☐
3. Please list any Federal grants or contracts (including subgrants or subcontracts) which you have received during the current fiscal year or either of the two previous fiscal years that are related to the subject matter of the hearing: N/A		
4. Please list any grants, contracts, or payments originating from foreign governments which you have received during the current calendar year or either of the two previous calendar years that are related to the subject matter of the hearing: Visa has not been the recipient of any significant grants or other payments related to regulatory issues and trade from Governments in Asia Pacific.		
5. Please list any offices or elected positions you hold. None		
6. Does the entity(ies) you represent, other than yourself, have parent organizations, subsidiaries, or partnerships you are not representing?	Yes ☐	No ■
7. Please list any Federal grants or contracts (including subgrants or subcontracts) which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal years, which exceed 10 percent of entity(ies) revenues in the year received. Include the source and amount of each grant or contract. Attach a second page if necessary. N/A		

Chairman REICHERT. Thank you. Ms. Moreland, welcome.

STATEMENT OF STEFANIE MORELAND, DIRECTOR OF GOVERNMENT RELATIONS AND SEAFOOD SUSTAINABILITY, TRIDENT SEAFOODS INC.

Ms. MORELAND. Thank you. Chairman Reichert and Ranking Member Pascrell, on behalf of Trident Seafoods, I thank you for convening today's hearing. Trident is one of the largest vertically integrated seafood companies in North America, headquartered in Washington. We own and operate a dozen facilities in coastal Alaska, and a fleet of modern harvesting and at-sea processing vessels that fish and process within U.S. waters of the Bering Sea and off the coast of the Pacific Northwest.

These platforms, in combination with an independent fisherman fleet that we partner with, harvest and process hundreds of millions of pounds of U.S. seafood. Trident has value-added reprocessing facilities in the State of Washington, Minnesota, and Georgia, as well as overseas in Japan, China, and Germany.

We employ approximately 8,000 men and women in the U.S. during peak production. We sell finished seafood products directly to restaurants, distributors, and retail, primarily throughout North America, Asia, and Europe. It is often reported that as much as 85 percent of seafood that is consumed in the U.S. is imported, and that the United States runs a significant seafood trade deficit. What is less reported is U.S. seafood producers export over $5 billion worth of seafood products annually, or approximately two-thirds of the U.S. seafood production by volume. Our industry can only thrive with strong export markets, particularly in the Pacific and northwest, where 80 percent of all seafood exports originate.

Asia-Pacific markets, specifically China, Japan, and Korea, are critically important. In 2015, U.S. seafood exports to those nations accounted for about half of all U.S. seafood exports. As with other export-dependent sectors, years of a strong U.S. dollar negatively impacted our ability to sell products abroad in countries with relatively weaker currencies. At home, low cost imports undercut U.S. seafood products. Both resulted in the global seafood market depressing prices.

In addition, we increasingly compete in a global market against foreign producers that have very low labor costs and much less rigorous fisheries management, air and water quality, and food safety standards. That said, Trident supports a free market approach to trade over a protectionist approach. We cannot afford retaliatory market restrictions that could result in reaction to protectionist U.S. trade policy. However, more needs to be done to create a level playing field to ensure U.S. seafood producers remain competitive in the U.S. and in important export markets.

My testimony covers the promising market growth in China and Korea, remaining competitive in the Japanese market, and challenges we face from Russia far east seafood producers. Regarding U.S.-China trade policy, China produces most of the seafood in the world, and is the largest seafood exporting Nation globally. However, China is also one of the largest seafood importing nations.

China's seafood imports are projected to rise to 10 million tons by 2020. Rapid expansion of the Chinese domestic market makes it the largest growth opportunity for U.S. seafood products. We could substantially increase U.S. seafood exports to China if U.S. trade negotiators could reduce or eliminate stiff tariffs and value-added tax rates on U.S. seafood exports for consumption in China, currently at 23 percent for many of our products.

Regarding U.S.-Japan trade policy, the Trans-Pacific Partnership contained favorable terms for U.S. seafood exports to Japan. We urge U.S. trade officials to continue to negotiate the favorable TPP provisions.

Trident, along with other U.S. seafood producers, were looking forward to significant benefits from TPP, including elimination of Japanese tariffs on some of the most abundant U.S. resource and product forms. TPP tariff reductions would have improved the U.S. industry's position in relation to non-TPP-covered Russian products, and could have created important new market opportunities.

U.S. and South Korea trade policy. U.S. seafood exports to South Korea markets have increased by 20 percent since implementation of the U.S.-Korea Free Trade Agreement. Withdrawing from that agreement would erase positive gains already achieved and prevent future negotiated gains from coming into effect.

Before the free trade agreement, Alaska pollock was subject to a 30 percent import tariff in South Korea. And this was a critical barrier to entry, particularly with Russian pollock imported into South Korea at virtually duty free level. Since implementation of a tariff-reduced quota under the free trade agreement, awareness and availability of Alaska pollock quickly spread. The quota is now insufficient. We urge U.S. trade negotiators to pursue a substantial increase in the quota for Alaska pollock under the free trade agreement.

Regarding U.S.-Russia policy, American seafood producers compete directly in Chinese, Japanese, and South Korean markets, as well as the U.S. As stated in my written testimony, we really urge equity access to that market. In closing, I am grateful for the opportunity to share Trident's input, and applaud you for your efforts to examine opportunities and challenges related to Asia-Pacific trade policy.

[The prepared statement of Ms. Moreland follows:]

U.S. House Ways and Means Committee
Trade Subcommittee

Hearing on

Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region

Wednesday, October 11, 2017

Testimony of

Stefanie Moreland, Director of Government Relations and Seafood Sustainability
Trident Seafoods Corporation

Chairman Reichert and Ranking Member Pascrell, on behalf of Trident Seafoods, I thank you for convening today's hearing on opportunities and challenges for U.S. trade relationships in the Asia-Pacific Region. My name is Stefanie Moreland, and I serve as the Director of Government Relations and Seafood Sustainability for Trident. Trident is the largest vertically integrated, privately held seafood company in North America, headquartered in Seattle, Washington. Trident owns and operates more than a dozen shore-based seafood processing facilities in remote fishing communities across coastal Alaska, as well as, a fleet of modern harvesting and at-sea processing vessels that fish and process within the U.S. 200-mile zone in the Bering Sea and off the coast of the Pacific Northwest. These platforms harvest and process hundreds of millions of pounds of U.S. seafood that ship directly to, or are reprocessed for distribution to markets in more than 50 countries.

Trident has value-added reprocessing facilities and research and product development innovation centers in Washington State, Minnesota, and Georgia, as well as overseas in Japan, China, and Germany. Trident employees nearly 10,000 people globally during peak production, approximately 8,000 men and women in the U.S.

Trident purchases and takes delivery of fish from hundreds of independent fishermen, mostly small businesses, and sells finished seafood products directly to restaurants, distributors, club stores, retail, and food service throughout North America, Asia, and Europe.

Two important new market opportunities for Trident are China and South Korea. In my testimony, I will address challenges and opportunities related to trade policy for each of these two markets, and touch on overall priority trade issues in the Asia-Pacific Region.

It is often reported that as much as 85% of seafood consumed in the U.S. is imported and that the U.S. runs a seafood trade deficit of nearly $14 billion. To oversimplify, Americans like to eat shrimp, and we don't produce nearly enough domestically to meet consumer demand. Farmed salmon, tilapia, and pangasius also contribute to the U.S. seafood deficit. What is less often reported is that U.S. seafood producers export over $5 billion worth of seafood products annually, representing approximately two-thirds of U.S. seafood production, by volume. The U.S. seafood industry can only thrive with strong export markets, particularly in the Pacific Northwest and Alaska where 70% of all U.S. seafood landings occur, by volume, and where 80% of all U.S. seafood exports originate.

Asia-Pacific markets, specifically China, Japan and Korea, are critically important to U.S. seafood exporters. In 2015, according to U.S. Commerce Department figures, U.S. seafood exports to China totaled $1.12 billion, exports to Japan totaled $847 million, and exports to Korea totaled $513 million. U.S. seafood exports to those nations accounted for about half of all U.S. seafood exports.

As with other U.S. exporting sectors, several years of a strong U.S. dollar negatively impacted our ability to sell seafood products abroad in countries with relatively weaker currencies. At home, low cost imports undercut U.S. seafood products. Both circumstances resulted in the global seafood market depressing prices for our products. In addition, we increasingly compete in a global market against foreign producers that have very low labor costs and much less rigorous fishery management, air and water quality, and food safety standards.

Notwithstanding the low production costs available to most of our foreign competitors, Trident supports a free market approach to trade over a protectionist approach. We cannot afford to risk becoming subject to retaliatory market restrictions that could result in reaction to protectionist U.S. trade policy. That said, more needs to be done to create a level playing field to ensure U.S. seafood producers remain competitive in the U.S. and in important export markets.

My testimony focuses primarily on four seafood sectors—Alaska pollock, Alaska salmon, Alaska groundfish and Pacific Northwest/Alaska crab fisheries. These four sectors alone account for 60% of all U.S. seafood exports, and, as I mentioned previously, Asia-Pacific markets are critically important.

The Alaska pollock fishery is the largest U.S. fishery. That fishery alone accounts for nearly one-third of all U.S. seafood landings annually. Consumers know Alaska pollock as the fillet in McDonald's Filet-O-Fish sandwich or as the imitation crab in a California roll. It is a $1.0 billion dollar fishery at first processing. While it is one of the five most consumed fish species in the U.S., we export three-quarters of the Alaska pollock products produced.

Salmon is second in volume and fourth in value among U.S. seafood landings, and U.S. producers earn nearly $1.0 billion annually in export revenues. Non-pollock groundfish, including Pacific cod and Alaska flatfish, are individually top ten in volume and value for U.S. seafood landings annually. And Pacific Northwest and Alaska crab fisheries are also top ten in value.

Sustaining the success of U.S. seafood exporters and creating new market opportunities requires a focus on the critical Asia-Pacific region. My testimony covers the promising market growth in China and Korea, remaining competitive in the Japanese market, and the challenges we face from Russian Far East seafood producers.

U.S.-China Trade Policy. China produces the most seafood in the world and is the largest seafood exporting nation globally. However, China is also one of the three largest seafood importing nations. China's seafood imports are projected to rise from 7.6 million tons, currently, to 10 million tons by 2020, as global seafood suppliers increasingly partner with domestic e-commerce platforms.

In 2015, U.S. seafood exports to China from the Seattle and Anchorage Customs Districts alone totaled more than $900 million. The vast majority of the U.S. exports of frozen seafood to China, however, are reprocessed in China and then re-exported to other nations because U.S. exports to China that are re-exported are not subject to Chinese duties or the Value Added Tax (VAT). U.S. seafood exports that are imported for consumption in China face stiff tariff rates. For example, frozen Alaska pollock, Alaska flatfish species, and other Alaska seafood exports to China that are consumed in China currently face a duty of 10% and are also subject to a 13% VAT.

The rapid expansion of the Chinese domestic market makes it the largest growth opportunity for U.S. seafood products. We could substantially increase U.S. seafood exports to China if U.S. trade negotiators can reduce, or eliminate tariff and VAT rates on U.S. seafood exports for consumption in China.

U.S.-Japan Trade Policy. The Trans-Pacific Partnership (TPP) contained favorable terms for U.S. seafood exports to Japan, and we urge U.S. trade officials to pursue the terms of the TPP accord either through a bilateral agreement with Japan or through a renegotiated TPP agreement. Trident, along with other U.S. seafood producers, were looking forward to the following benefits from TPP:

1. The TPP, as negotiated, would have eliminated Japanese tariffs of 3.5% for Alaska salmon products in all product forms (i.e., surimi, roe, fillet, etc.). The TPP deal promised to improve the U.S. industry's position in relation to non-TPP covered Russian salmon product exports to Japan. U.S. exporters of Atka mackerel and Pacific Ocean perch also face a 3.5% tariff on products into the Japanese market.
2. The TPP agreement also eliminated tariffs of 4.2% on U.S. Alaska pollock and Pacific whiting surimi products and pollock roe. Japan is the principal market for Alaska pollock roe and surimi products. If adopted as drafted, the TPP agreement would have markedly improved the position of U.S. pollock roe exporters to Japan in relation to Russian pollock roe producers. This is significant since the Russian pollock fishery is that nation's largest fishery. A TPP trade agreement that includes the U.S. would not only have improved our competitive position for pollock roe, but it would have also improved the competitive position of American surimi exporters to Japan where low cost, lower-quality Thai surimi exports already enjoy a zero to 2.0% tariff on sales into Japan (depending upon the fish species) under Japan's bilateral trade agreement with the Association of Southeast Asian Nations (ASEAN).
3. The TPP agreement eliminated a 10% Japanese tariff on Alaska pollock fillet products, as well. If this tariff elimination had gone through, it could have created an important new

market for U.S. fillet-type products, reducing the U.S. industry's reliance on the EU and U.S. fillet markets.

In addition, U.S. exporters of Alaska pollock, Pacific cod, and herring, among others, are subject to Japan's anachronistic Import Quota (IQ) system. Over time, Japan's markets have opened up, making quota accessible, but the process for obtaining such quota is needlessly time consuming and expensive. TPP did not address streamlining export processes by exempting U.S. exports from IQ requirements. U.S. trade negotiators are encouraged to explore such an option in future negotiations.

In any trade agreement—bilateral or otherwise—with Japan, the U.S. should push to end the application of the antiquated IQ system to U.S. seafood exports and to match the zero tariff rates negotiated under the TPP.

U.S.-South Korea Trade Policy. U.S. seafood exports to South Korean markets have increased by 20% since implementation of the U.S.-Korea Free Trade Agreement (FTA). Withdrawing from that agreement would erase positive gains already achieved under the FTA, and prevent future negotiated gains from coming into effect.

We do see potential benefits, however, from U.S. trade negotiators approaching their South Korean counterparts about accelerating tariff and quota reductions. For example, the current FTA provides duty-free opportunities for the export of Alaska pollock in a "whole round" and "headed and gutted" form, though the allotment of product subject to duty-free treatment is severely restricted. This is an issue for some Alaska pollock producers and other U.S. groundfish producers who incidentally catch Alaska pollock and export it minimally processed. South Korea's tariff-reduced quota (TRQ) for such products is only about 6,000 metric tons in 2017, which is insufficient. When the TRQ is reached, tariffs of 22% are applied.

While the FTA provides for a 9% annual increase in TRQ through 2025 when the TRQ expires (and slightly declining tariff rates over that time period), it will be a decade until U.S. producers can be competitive in the South Korean markets with these product forms. Before the implementation of US-Korea FTA in 2012, Alaska pollock was subject to 30% import tariff in South Korea, and this was a critical entry-barrier for Alaska pollock in the first place, yielding to Russian pollock that is imported into South Korea virtually duty-free through various bilateral joint-venture companies and Russian government-issued catching quota. Since the implementation of TRQ, however, awareness and availability of Alaska pollock quickly spread, and current TRQ was subsequently deemed too insufficient to meet the increasing demand. This is evidenced by how early TRQ is reached; by early May in 2016, and by early March in 2017. We urge U.S. trade negotiators to pursue an increase in the TRQ for Alaska pollock to at least 40,000 metric tons under the existing FTA.

U.S.-Russia Trade Policy**.** American and Russian seafood producers compete directly in the Chinese, Japanese, and South Korean markets. The U.S. and Russian Federation are the third and fifth largest seafood producers globally. Russian Far East fisheries landings are substantial and are comprised of most of the same species landed by American fishermen and processors operating within the U.S. 200-mile zone off Alaska, which as I've noted is the region which accounts for most seafood exports to the Asia-Pacific region. I've suggested trade priorities that can boost U.S. competitiveness in each of those key markets.

There remains an inequity in U.S.-Russia bilateral seafood trade policy that needs to be addressed. In 2014, the U.S. imposed certain trade sanctions on Russia in response to that nation's Ukraine aggression. None of the U.S. sanctions related to seafood products. However, Russia retaliated with sanctions against the U.S., and a host of nations, that included banning seafood exports to Russia. Russia's import ban has been particularly harmful to U.S. exporters of Pacific whiting and Alaska salmon roe products. We ask our trade and diplomatic corps to prioritize regaining access to the Russian market.

The Russia sanctions also created a perverse situation domestically where a loophole in the National School Lunch Act's (NSLA) Buy American requirement has allowed the use of federal dollars to buy lower-cost, lower-quality Russian pollock for school lunches. The U.S. Alaska pollock sector cannot sell its products in Russia, but Russian pollock is being purchased with U.S. tax dollars for school lunches. Congress should tighten the NSLA's Buy American requirement. H.R. 1241, the American Foods for American Schools Act, introduced by Congressmen LaMalfa and Garamendi strengthens the Buy American requirement, and we urge Congress to pass this legislation.

In closing, I'm grateful for the opportunity to share Trident's input with you, and I applaud your efforts to examine opportunities and challenges related to Asia-Pacific trade policy that impact U.S. businesses, fishing communities, and the men and women dependent on access to global seafood markets. I look forward to your questions.

Committee on Ways and Means
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

Your Name:		
1. Are you testifying on behalf of a Federal, State, or Local Government entity? a. Name of entity(ies). b. Briefly describe the capacity in which you represent this entity.	Yes ☐	No ☒
2. Are you testifying on behalf of any non-governmental entity(ies)? a. Name of entity(ies). TRIDENT SEAFOOD CORP. b. Briefly describe the capacity in which you represent this entity. DIRECTOR OF GOVERNMENT RELATIONS	Yes ☒	No ☐
3. Please list any Federal grants or contracts (including subgrants or subcontracts) which you have received during the current fiscal year or either of the two previous fiscal years that are related to the subject matter of the hearing: NONE		
4. Please list any grants, contracts, or payments originating from foreign governments which you have received during the current calendar year or either of the two previous calendar years that are related to the subject matter of the hearing: NONE		
5. Please list any offices or elected positions you hold. NONE		
6. Does the entity(ies) you represent, other than yourself, have parent organizations, subsidiaries, or partnerships you are not representing?	Yes ☐	No ☒
7. Please list any Federal grants or contracts (including subgrants or subcontracts) which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal years, which exceed 10 percent of entity(ies) revenues in the year received. Include the source and amount of each grant or contract. Attach a second page if necessary. NONE		
8. Please list any grants, contracts, or payments originating from foreign governments which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal years related to the subject matter of the hearing. Include the source and amount of each grant or contract. Attach a second page if necessary.		

Chairman REICHERT. Thank you. Mr. Paul.

STATEMENT OF SCOTT PAUL, PRESIDENT, ALLIANCE FOR AMERICAN MANUFACTURING

Mr. PAUL. Thank you, Chairman Reichert, Ranking Member Pascrell, and members of the subcommittee for the opportunity to testify on behalf of the Alliance for American Manufacturing.

It is an honor to appear before you as we look to expand trade relationships in the Asia-Pacific region. I believe it is vital to the success of U.S. companies and American workers that we concurrently seek to adopt policies that strengthen U.S. competitiveness, open foreign markets, and counteract massively lopsided trade deficits with China and other nations.

You have copies of my written testimony with detailed data and recommendations. I will briefly summarize a few of the key points here.

It is impossible to talk about trade in the Asia-Pacific region without coming to terms with massive trade imbalances. Since Beijing's 2001 entry into the WTO, the U.S. bilateral trade deficit with China has more than quadrupled. Our global market share in manufactured exports over that same period have shrunk from 14 percent in 2000 down to 9 percent in 2013. Authoritative research performed by MIT economist David Autor and other colleagues estimates net losses of up to 2.4 million jobs from rising Chinese imports into the United States from 1999 to 2011.

The challenges are not limited to China. The U.S.-Korea Free Trade Agreement was predicted to increase exports of American goods by up to $11 billion, yet the U.S. trade deficit with South Korea actually has more than doubled between 2011 and 2015, displacing up to 95,000 jobs. The agreement hasn't opened new markets for U.S. automobiles and for some other products. And it should stand for some reconsideration or renegotiation.

When President Trump gave perhaps the most detailed speech on trade policy, which was last year on the campaign trail in Monessen, Pennsylvania, he endorsed a philosophy of reciprocity and rebalancing and promised to pursue many trade policy reforms that some members of this subcommittee have been steadfastly calling for.

In May, we applauded the Trump administration for prioritizing the elimination of significant trade deficits through an executive order. Yet after nearly 10 months in office, the administration's words have resulted in either inaction or confusion as to the path forward. We believe it is time for clarity as well as for action. Here are a few of our recommendations.

First, we have urged the administration to accelerate the work of the G–20 Global Forum on Steel Excess Capacity and to press for verifiable and enforceable net reductions in global overcapacity, including that of China and other Asian nations.

Second, China is and should continue to be treated as a nonmarket economy, as it fails to meet any of the six criteria laid out in our trade laws for market economy status.

Third, it is critical that the government provide support when foreign interests steal trade secrets to manufacture products abroad and send them to the United States. We are deeply concerned that section 337 has proven to be an ineffective remedy for U.S. manufacturing companies injured by cyber theft, transshipments, and duty evasion. If the statute does not work as it was intended, Congress needs to modernize it.

Fourth, we urge passage of legislation to treat foreign currency manipulation as a subsidy under trade remedy laws, and we support the inclusion of strong enforceable rules in all trade agreements to deter and penalize currency manipulation. We will also be closely watching as the administration prepares to release yet another semiannual report on international economic and exchange rate policies due in 4 days.

Finally, I want to focus your attention, as Mr. Pascrell has, on the pending section 232 steel investigation, on the impact of imports on U.S. national security. In April, President Trump directed the Department of Commerce to complete the self-initiated investigation under an expedited timeline by July 1st. That date has come and gone. More recently, the President and the Secretary of Commerce said they intend to complete tax reform before focusing on the section 232 investigation. It is difficult to understand how one issue has anything to do with the other, and America's workers deserve a better explanation.

Steel workers are suffering. Since the investigations were announced, as Mr. Pascrell noted, steel imports have soared 21 percent as foreign countries have rushed product into the U.S. market in anticipation of promised action. And we recently received news that several steel mills in Pennsylvania are reducing operations, including one that produces armor plate for the U.S. military, and played an active and important role in supporting the production of armored vehicles to protect our servicemen and women from IED attacks in Iraq and Afghanistan.

Domestic production of steel and aluminum are vital in the manufacture of America's military and critical infrastructure. If domestic manufacturing capabilities deteriorate further, we may be forced to rely on countries like China and Russia to supply steel for our military and critical infrastructure needs. We cannot let that happen, and it is time to complete the section 232 investigation and take decisive action to safeguard America's economic welfare and national security.

Thanks for the opportunity to testify today. I look forward to your questions.

[The prepared statement of Mr. Paul follows:]

TESTIMONY OF SCOTT N. PAUL
PRESIDENT, ALLIANCE FOR AMERICAN MANUFACTURING
BEFORE THE COMMITTEE ON WAYS AND MEANS TRADE SUBCOMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON OPPORTUNITIES TO EXPAND U.S. TRADE RELATIONSHIPS IN THE ASIA-PACIFIC REGION
OCTOBER 11, 2017

Chairman Reichert, Ranking Member Pascrell, and members of the committee, thank you for the opportunity to testify on behalf of the Alliance for American Manufacturing (AAM) at today's hearing on opportunities to expand U.S. trade relationships in the Asia-Pacific region.

The Alliance for American Manufacturing is a non-profit, non-partisan partnership formed in 2007 by some of America's leading manufacturers and the United Steelworkers. Our mission is to strengthen American manufacturing and create new private-sector jobs through smart public policies. We believe that an innovative and growing manufacturing base is vital to America's economic and national security, as well as to providing good jobs for future generations. AAM achieves its mission through research, public education, advocacy, strategic communications, and coalition building around the issues that matter most to America's manufacturers and workers.

As AAM approaches its 10-year anniversary, we are proud to have helped call attention to some of the most pressing trade issues impacting American manufacturing – including global industrial overcapacity, dumping and subsidies, state-owned enterprises, currency manipulation, theft of trade secrets, and the need to better negotiate trade agreements. As we look to determine ways to expand trade relationships in the Asia-Pacific region, it is vital to the success of U.S. companies and American workers that we concurrently seek to adopt policies that strengthen U.S. competitiveness and counteract the massively lopsided and growing trade deficit with China, as well as the significant and increasing deficits with South Korea, Japan, and other nations.

U.S-China Trade Deficit is Unparalleled in its Magnitude and Adverse Impact

Since Beijing's 2001 entry into the World Trade Organization (WTO), the U.S. bilateral trade deficit with China has more than quadrupled, from $83 billion in 2001 to $347 billion in 2016. The U.S.-China trade deficit in 2017 in on pace to go even higher. In just 15 years, the impact of the surging U.S-China trade deficit on U.S. companies and American workers has been severe and too often overlooked. Our communities have shed more than 54,000 manufacturing facilities and we've seen our global market share in manufactured exports shrink from 14 percent in 2000 to 9 percent in 2013. Altogether, a staggering 3.4 million jobs, largely in manufacturing, have been lost because of this massive trade imbalance. Each state and every congressional district in the United States has experienced lost jobs. And the losses extend into nearly every sector of the economy, ranging from computer and electronic parts to textiles and apparel, furniture, steel, aluminum, and other capital-intensive sectors.[i]

While the United States maintains significant and growing trade deficits with other Asia-Pacific region countries, none come close to the unparalleled magnitude and adverse impact of the China trade deficit on our economy. Still, they are significant and merit the consideration of this committee as it looks at ways to expand trade.

- **South Korea.** It was promised that the U.S.-Korea Free Trade Agreement (KORUS) would support 70,000 U.S. jobs and increase exports of American goods by $10 to $11 billion. Yet, the U.S. trade deficit with South Korea jumped $15.1 billion between 2011 and 2015 (from $13.2 billion to $28.3 billion), resulting in the estimated elimination of more than 95,000 jobs.[ii] And, in 2016, it remained at a stubborn $27.6 billion – a clear sign that the trade agreement hailed as a job creator has not opened new markets for U.S. automobiles and other products, as was promised.

- **Japan.** Meanwhile, it has been estimated that the trade deficit with Japan – fueled by currency practices – is estimated to have eliminated nearly 900,000 U.S. jobs as the goods deficit reached $78.3 billion in 2013.[iii] It has remained at unacceptable levels ever since.

Reducing Trade Deficits Should be a Measure of Success

In May, we applauded the Trump administration for prioritizing the elimination of significant trade deficits and for issuing Executive Order 13876 to examine the causes of our bilateral trade deficits with China and other major trade partners. The United States has been running persistent trade deficits since the 1980s, turbocharged by the entrance of China into the world trading system. A wide range of respected economists point to trade deficits and increased imports as a drag on the U.S. economy, leading to job loss and harm to our innovation base.

David Autor, Daron Acemoglu, and Brendan Price of *MIT*, joined by other respected economists, argue that "the increase in U.S. imports from China, which accelerated after 2000, was a major force behind recent reductions in U.S. manufacturing employment and that…it appears to have significantly suppressed overall U.S. job growth." Their research shows "net job losses of 2.0 to 2.4 million stemming from the rise in import competition from China over the period 1999 to 2011." [iv]

Meanwhile, we have become all too familiar with stories of U.S. technology moving to China; or, of U.S. technology being manufactured offshore. In 2016, the U.S. amassed an $83 billion advance technology products trade deficit with the rest of the world.[v] China alone enjoyed a $120.7 billion bilateral surplus in advanced technology products with the United States in 2015.[vi]

Trade deficits matter and there is compelling research showing that reducing trade deficits would yield positive outcomes for our economy. For instance, a reduction of the U.S. global trade deficit by between $200 billion and $500 billion each year "could increase overall U.S. GDP by between $288 billion and $720 billion and create between 2.3 million and 5.8 million U.S. jobs."[vii]

To those who have made unfounded claims that the loss of five million U.S. manufacturing jobs, or roughly a third of the total amount, since 2000 was the result of increased productivity, and not trade deficits, the data does not support your claim.[viii] According to the Economic Policy Institute (EPI), between 2000 and 2007, 3.6 million manufacturing jobs were lost. Yet, productivity growth declined, falling from 4.1 percent per year in the 1990s to 3.7 percent per year. The drop in the rate of growth of manufacturing output to 0.5 percent per year is largely the result of the rapid growth of the manufacturing trade deficit. Meanwhile, the Great Recession and financial crisis was largely responsible for the decline in manufacturing output and job loss from 2007 to 2014. Manufacturing trade deficits continued to surge over this period following the Great Recession.[ix]

The Information Technology & Innovation Foundation (ITIF) attributes a "significant share of the [manufacturing job] losses to increased trade pressure and dwindling U.S. competitiveness, which suggest that the nation could reclaim manufacturing jobs with the right policies." *ITIF* adds that "the precipitous loss of U.S. manufacturing jobs in the last 17 years was not natural nor inevitable, nor was it primarily caused by automation." Countering critics' arguments, *ITIF* suggests that "If the United States is to reduce the trade deficit in goods, it will need to find a way to produce more here, in part by significantly increasing manufacturing productivity growth rates. If it can do that and eliminate the manufactured trade deficit, *ITIF* estimates the nation would gain an additional 1.3 million manufacturing jobs."[x]

Proactive Approach is Necessary to Expand Trade and Eliminate Trade Deficits

For too long, our trade policies haven't been focused on supporting our manufacturing sector but, in many ways, have undermined it. The United States is long overdue for a new approach to trade, especially with China. It is both possible and desirable to create a trade policy framework to support a resurgent, made in America manufacturing base.

The United States has considerable economic leverage to shrink our $347 billion 2016 trade deficit with China. U.S. exports to China account for less than a percent of our GDP, our banks hold less than a percent of their assets in China, and multinational companies derive less than two percent of their revenue from there.

Taking action to strengthen key U.S. sectors is hardly a radical proposition and there is clear precedent in our not too distant past of bold leadership and outside the box thinking. President Ronald Reagan adopted a flurry of measures to address an uneven playing field with European nations and Japan. His administration's aggressive actions helped revitalize our semiconductor industry and the iconic Harley Davidson. The Plaza Accords, which raised the value of currencies in Japan and Europe relative to the dollar, had a positive effect in lowering our trade deficits.

It's Time for the White House to Complete Key Trade Actions

After nearly 10 months in office, President Trump and his administration have promised to crack down on unfair trade and negotiate better trade agreements. Yet, on many key issues, the administration's words have resulted in either inaction or confusion as to the path forward. We remain encouraged that the President shares the goal of changing the status quo of persistent trade deficits, lost jobs, theft of our innovation base, and the steady erosion of our manufacturing capacity and workforce. But, it's time to act.

For example, the President repeatedly promised to label China a currency manipulator. However, China was not listed as a currency manipulator on the Treasury Department's Semiannual Report on International Economic and Exchange Rate Policies.

Also, the President initiated Section 232 investigations on steel and aluminum imports' impact on U.S. national security. However, we are now well beyond the administration's own self-imposed deadlines and American workers have been left without a clear timeline as imports continue to surge. I will discuss this issue later in my testimony.

Again, it is our hope that the administration, working with Congress, will follow-through on its tough trade rhetoric and begin to take proactive steps to mitigate the continued damage being done to our manufacturing base. For many communities across America, this can't come soon enough.

Recommended Actions for the Administration and Congress
Outlined below are some of the issues AAM believes need to be addressed for the United States both to expand trade relationships in the Asia-Pacific region in a manner that increases domestic production and to ensure that our markets do not become flooded with unfairly traded products.

- **Global Industrial Overcapacity.** Many U.S. industrial sectors are suffering from unprecedented challenges due to global overcapacity – largely fueled by China – which dampens prices and has forced plant closures and massive layoffs. Despite slowing demand in the Chinese market, Beijing continues to maintain high levels of production with subsidies and other state support, undermining U.S. companies that compete based on market considerations. In fact, a recent report shows that, despite China's claims of capacity closures in 2016, its net steelmaking capacity actually *increased*.[xi] The G20 established the Global Forum on Steel Excess Capacity as a venue to directly engage China on this issue. For it to yield meaningful results, it will be necessary to establish verifiable and enforceable criteria for the elimination of industrial capacity in key sectors like steel and aluminum.

  China will only respond, and America will only benefit, if there are enforceable mechanisms to ensure that Beijing is living up to its commitments. For the past ten years, China has delayed concrete action with lofty promises to cut capacity that never materialize. Despite repeated public pronouncements dating back to 2009 of plans to aggressively cut capacity, China's steelmaking capacity has increased over 400 million metric tons, roughly equivalent to five times the total production of the U.S. steel industry in 2016. The G20 Global Forum on Steel Excess Capacity cannot be another tool to be used by the Chinese government to delay meaningful change. We have urged the administration to accelerate the work of the Global Forum and press for verifiable and enforceable net reductions in global overcapacity.

- **Trade Enforcement.** America's trade enforcement laws are the backbone of U.S. trade law and represent that last line of defense for workers facing unfair trade. Strict enforcement is vital to the preservation of a rules-based trading system – one in which American workers are not forced to compete against the endless resources of a foreign government that props up its state-run companies. Timely enforcement of U.S. trade remedy laws is vital to leveling the playing field for U.S. companies and American workers impacted by unfair trade practices – like dumping and subsidies. While our trade remedy laws help mitigate the damage, rarely do they restore all the lost jobs or make an impacted community whole again. Significant time and cost – and injury – is required to proceed with a trade enforcement case. In some cases, entire plants must be shut down before relief can be delivered. This makes no sense. We must ensure that timely and effective relief from such market distortions is available before plants are forced to close and workers lose their jobs.

  We appreciate the work of this committee in the passage of the Trade Facilitation and Trade Enforcement Act of 2015, which provided new tools to speed trade enforcement and to crack down on evasion of existing trade orders. It is simply unfair to U.S. companies and their workers for trade remedies to be circumvented – resulting in further harm and larger trade deficits.

- **Maintain China's Non-Market Economy Status.** No one can seriously claim that Beijing runs a market economy, but the Chinese government desperately wants to be treated that way. Under U.S. law, China is and should continue to be treated as a non-market economy (NME). Any change to this status would severely undermine America's trade remedy laws and expose U.S. companies and American workers to more dumped imports. Such changes can only be made if China meets six specific criteria demonstrating that market forces, and not the government's party leadership, are directing the economy. China fails to meet any of the six criteria and should focus on reforms rather than its attempts to shortcut this issue by way of the WTO.

- **Cyber Theft.** It is critical that the government provide support when foreign interests steal trade secrets to manufacture products abroad and send them to the United States. Theft of intellectual property and trade secrets has been a serious problem with China. U.S. companies report that Chinese interests have not only stolen sensitive trade secrets, but that Chinese firms are now commercializing that valuable intellectual property into Chinese products. It is outrageous that U.S. companies are being forced to compete against the very products that they spent years and significant financial resources to develop.

We are deeply concerned that Section 337 of the Tariff Act of 1930 has proven to be an ineffective remedy for U.S. manufacturing companies injured by cyber theft, trans-shipments and duty evasion, and other predatory trade practices. If the statute does not work as it was intended, Congress needs to change it so that our companies are not subjected to dishonest and criminal activity without the opportunity to seek effective and timely relief.

- **State-Owned Companies.** China has many state-owned and state-directed enterprises (SOEs) that send dumped and subsidized goods into the U.S. market. In a disturbing trend, China's SOEs are also now aggressively seeking to invest here in America, putting further strain on U.S. firms that make decisions based on market forces. It is vital that we strengthen our system of reviewing foreign acquisitions of strategic U.S. companies and operations so that they do not fall under the control of the Chinese government.

- **Currency Manipulation.** A strong dollar remains a heavy burden on the U.S. economy. Cheap imports, combined with weak demand from overseas, hinders growth in America's manufacturing sector. This trend has played out from 1987 to 2009 and 2011 to present as periods of sustained manufacturing trade deficits in the United States coincide with strong dollar policies. Making matters worse, China, Japan, South Korea, and other major trading partners have a long history of currency manipulation, which contributed to the loss of five million U.S. jobs.[xii] Despite claims that the yuan is no longer undervalued, there is ample evidence that Beijing continues to play an active, daily role in setting exchange rates.

  We urge the passage of legislation to treat foreign currency manipulation as a subsidy under trade remedy laws. And, we support the inclusion of strong, enforceable rules in trade agreements to deter and penalize currency manipulation. We will also be closely watching as the administration prepares to release yet another Semiannual Report on International Economic and Exchange Rate Policies, due by October 15th.

- **Automobiles and Rules of Origin in Trade Agreements.** A trade agreement's rules of origin determine the national source of a product. This is important because only those countries bearing the risks and responsibilities of signing an agreement should obtain its benefits. We believe the rule of origin on automobiles in NAFTA and other trade agreements should be strengthened, so that workers in signatory countries can enjoy more of the benefits, while minimizing the advantages of non-participating countries. In the context of the NAFTA negotiations, automobiles and auto parts from countries such as Japan, South Korea, and China, all of which heavily protect their own industries, should not be permitted to displace North American production through rules of origin that are set too low.

As it relates to KORUS, more work must be done to open the Korean market – one of the most difficult for our automakers to export into despite the signing of a trade agreement intended to open the market. Our companies and workers face countless non-tariff barriers that continue to protect the Korean market. According to Secretary Ross, "Only 25,000 cars per Big Three manufacturer are allowed in based on U.S. standards. Anything above that needs to be on Korean standards… So that kind of rule-making affects quite a few industries and really restricts the access that U.S. companies have to the Korean market."[xiii]

It's Time to Act on the Section 232 Investigation

Last, but certainly not least, I want to focus your attention to the pending Section 232 investigations on the impact of steel and aluminum imports on U.S. national security. In April President Trump directed the Department of Commerce to complete these self-initiated investigations under an expedited timeline. Here's what he said in an Oval Office ceremony:

> *"For decades, America has lost our jobs and our factories to unfair foreign trade. And one steel mill after another has been shut down, abandoned and closed and we're going to reverse that…As I traveled the country, I saw the shuttered factories and the shuttered dreams and I pledged that I would take action. And I think it's probably one of the primary reasons I'm sitting here today as president… Today, I'm directing the Department of Commerce to immediately prioritize the investigation…into foreign steel arriving into our markets and to submit a report on the effects of these foreign steel products on the national security of the United States…Maintaining the production of American steel is extremely important to our national security and our defense industrial base. Steel is critical to both our economy and our military. This is not an area where we can afford to become dependent on foreign countries… Based on the findings of this report, Secretary Wilbur Ross will make formal recommendations to the*

White House in [the] very, very near future. He'll be back very soon with those recommendations that we will implement." - President Trump, April 20, 2017 - The Oval Office

In late-May, the administration said the reports would be released in June and, just days later, the President himself publicly said the 232 reports would be coming "very soon" and that "we're going to stop the dumping."

"…we have no intention of taking 270 days. Our hope would be to complete the report by the end of June." - Commerce Secretary Wilbur Ross, May 24, 2017 – Section 232 Public Hearing

"I look forward to reading the @CommerceGov 232 analysis of steel and aluminum- to be released in June. Will take major action if necessary." - President Trump, May 27, 2017 – Twitter

"Wait until you see what I'm going to do for steel and for your steel companies…We're going to stop the dumping, and stop all of these wonderful other countries from coming in and killing our companies and our workers. You'll be seeing that very soon. The steel folks are going to be very happy." - President Trump, June 7, 2015 – Cincinnati, OH

Months have now passed and we do not have a clear understanding of when they will be completed. Just recently, American workers were told that the administration intends to complete tax reform and other legislative priorities before it can again focus on the Section 232 investigation. It is difficult to understand how one issue has anything to do with the other, and America's workers deserve a better explanation.

All the while, the import problem is worsening for American workers and U.S. companies. Since the investigations were announced, steel imports have soared 21 percent as foreign countries have rushed product into the U.S. market in anticipation of promised action to adjust imports. And, we recently received news that several steel mills in Pennsylvania would be reducing operations, including one that produces armor plate for the U.S. military and played an important role in supporting the production of armored vehicles to protect our service men and women from IED attacks in Iraq and Afghanistan.[xiv]

Further delay results in a greater threat to America's economic welfare and national security. Our national security rests on a healthy industrial base. Domestic production of steel and aluminum are vital in the manufacture of America's military and critical infrastructure, including everything from ships and tanks to bridges and energy infrastructure. If domestic manufacturing capabilities deteriorate further, we may be forced to rely on countries like China and Russia to supply steel for our military and critical infrastructure needs. We cannot let that happen. It is time to complete the Section 232 investigations and take decisive action to safeguard America's economic welfare and national security.

Conclusion

Thank you for the opportunity to testify today. We look forward to working with each of you to advance policies that will benefit American manufacturing and revitalize America's manufacturing sector – a major economic driver, foundation of U.S. national security, and source for millions of family-sustaining jobs. Together, we can *Keep It Made in America*.

[i] Scott, Robert E. "Growth in U.S.–China trade deficit between 2001 and 2015 cost 3.4 million jobs." *Economic Policy Institute*, 31 January 2017. Web. 9 May 2017.
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[iii] Scott, Robert E. "Currency Manipulation and the 896,600 U.S. Jobs Lost Due to the U.S.-Japan Trade Deficit." *Economic Policy Institute*, 4 February 2015. Web. 9 May 2017.
[iv] Autor, David et al. "Import Competition and the Great U.S. Employment Sag of the 2000s." August 2014.
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[vi] Scott, Robert E. "Testimony before the Subcommittee on Asia and the Pacific of the House Subcommittee on Foreign Affairs." *Economic Policy Institute*, 26 April 2017. Web. 9 May 2017.
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[x] Nager, Adams. "Trade vs. Productivity: What Caused U.S. Manufacturing's Decline and How to Revive It." *ITIF*, February 2017. Web. 9 May 2017.
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[xii] Peterson Institute for International Economics
[xiii] http://www.detroitnews.com/story/business/autos/2017/06/30/trump-criticizes-south-korea-automotive-trade-barrier/103324590/
[xiv] http://chestertontribune.com/Business/arcelormittal_closing_part_of_pa.htm

Committee on Ways and Means
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

Your Name: SCOTT N PAUL		
1. Are you testifying on behalf of a Federal, State, or Local Government entity? a. Name of entity(ies). b. Briefly describe the capacity in which you represent this entity.	Yes ☐	No ☒
2. Are you testifying on behalf of any non-governmental entity(ies)? a. Name of entity(ies). ALLIANCE FOR AMERICAN MANUFACTURING. b. Briefly describe the capacity in which you represent this entity. I'M PRESIDENT OF AAM, DIRECTING DAY-TO-DAY OPERATIONS.	Yes ☒	No ☐
3. Please list any Federal grants or contracts (including subgrants or subcontracts) which you have received during the current fiscal year or either of the two previous fiscal years that are related to the subject matter of the hearing: Ø		
4. Please list any grants, contracts, or payments originating from foreign governments which you have received during the current calendar year or either of the two previous calendar years that are related to the subject matter of the hearing: Ø		
5. Please list any offices or elected positions you hold. NO PUBLIC OFFICES.		
6. Does the entity(ies) you represent, other than yourself, have parent organizations, subsidiaries, or partnerships you are not representing?	Yes ☐	No ☒
7. Please list any Federal grants or contracts (including subgrants or subcontracts) which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal years, which exceed 10 percent of entity(ies) revenues in the year received. Include the source and amount of each grant or contract. Attach a second page if necessary. N/A		
8. Please list any grants, contracts, or payments originating from foreign governments which were received by the entity(ies) you represent during the current fiscal year or either of the two previous fiscal years related to the subject matter of the hearing. Include the source and amount of each grant or contract. Attach a second page if necessary. N/A.		

Chairman REICHERT. Thank you, Mr. Paul. I would like to begin the questioning with Ms. Moreland. Naturally, I would be a little bit interested in Trident's success in the Asia-Pacific. You mentioned that the U.S.-Korea Free Trade Agreement reduced the tariff by 23 percent I think was in your testimony. If you could be more explicit on how the Korea Free Trade Agreement has made a difference in Trident's ability to export to Korea. And would Trident's competitors have an advantage if KORUS wasn't in place?

Ms. MORELAND. Mr. Chairman, the free trade agreement created a tariff-reduced quota for some of the most abundant products that we have, specifically Alaska pollock. That fishery has been able to harvest 1.3 million metric tons annually in recent years. It is an abundant resource.

Russians also harvest an Alaska pollock species, the same species, and have long relationships with Korea. Product harvested on the Russian side of the border by Russian companies that work bilaterally with Korean companies are able to bring that fish into the market with no tariff.

Chairman REICHERT. Now when you say work bilaterally, what do you mean? What is the advantage that Russia has there?

Ms. MORELAND. There has been both joint venture as well as quota allocations to Korean companies of the Russian resource. And that fish brought into the South Korean market is able to enter duty free. We have achieved a reduced tariff quota. That quota level is quite low. There is interest by many of our customers to grow their relationship and dependence on U.S.-produced Alaska pollock. We would like an opportunity to do that.

Chairman REICHERT. Thank you. Ambassador, your testimony made clear that Visa and other electronic payment services, EPS providers, face unwarranted barriers to prevent you from doing business in Vietnam. If the opportunity arose to negotiate a bilateral FTA with Vietnam, do you think we could build on the work done with TPP negotiations to open the EPS market? And secondly, how can we address that issue in other Asia-Pacific markets?

Mr. MARANTIS. Thank you, Chairman Reichert. And thank you very much for your support and for the letter that you have circulated on the Vietnam issue. It is a real challenge for us. I mean on the one hand, there is a huge opportunity in markets like Vietnam. I mentioned in my testimony that there is a $6 trillion opportunity to move from cash and checks to digital form of payments.

And Vietnam is a huge market. They have embraced a market opening philosophy on most everything except on this one particular issue, where we continue to face a severe level playing field issue, where the government action is really tilting the playing field in favor of a domestic competitor and is driving U.S. payments companies essentially out of the market. We have an opportunity over the course of the next month, before President Trump travels to Vietnam, to resolve that issue. And working together with you and the administration, we are hopeful we can get there.

TPP had a provision on electronic payment services, which was a very useful provision, and would have helped us to address this issue in Vietnam. We don't have that now, so we are open to exploring every possible tool we can use to solve this problem. And the President's upcoming trip is one of them.

You also asked about other challenges we face. Korea is another one, where government action is essentially favoring local brands over international brands. So what happens in Korea is the government basically says you, bank, if you are going to issue a card, you have to make sure that the local brand has the exact same products and services as the international brand. And oh, by the way, offer that at lower cost. So as a result of that action, our market position in Korea has deteriorated significantly over the course of the past 10 years.

Chairman REICHERT. Great. I appreciate your answers. Thank you. Mr. Pascrell.

Mr. PASCRELL. Thank you very much, Mr. Chairman. Mr. Paul, the question of trade deficits is a fascinating subject area I think. We seem not to have a handle on it in any of the deals that we are talking about.

The United States has lost five million manufacturing jobs in the last 16 years. So there seems to be a strong correlation between China entering the WTO in 2001 and establishing permanent, normalized trade relationships in 1998, and the acceleration of low-cost China imports into our market. Look at those three things.

So I think you mentioned or referred to our largest trading partner is China, $578 billion in trade between our countries, and a trade deficit of $347 billion. Economist Robert Scott found in 2015 in the Economic Policy Institute report, growing trade deficits in manufacturing goods led to the loss of 3.6 million manufacturing jobs from 2000 to 2007, prior to our Great Recession. He found that it is not just increasing productivity or automation driving the job losses.

The Information Technology Innovation Foundation similarly attributes significant job losses to trade pressures, and not primarily to automation or to immigration. Anyway, so my question is to you, Mr. Paul, you mention in your testimony, a couple times, that the trade deficit with China since its entry into the WTO has quadrupled, from $83 billion to $347 billion, a number I referred to before. How would you reduce the trade deficit with China? And how would it impact U.S. GDP?

Mr. PAUL. Mr. Pascrell, thank you for the question. It is a question that I think the past couple of administrations have struggled with.

First, I think we have to look at the terms under which China entered into the WTO. And by all accounts, they were extraordinarily favorable to China. And the commitments that China made to market reform, to adhere to international trade standards, have been widely ignored. It has led the current U.S. Trade Ambassador Bob Lighthizer to say that the types of challenges that China presents cannot be well addressed through normal WTO mechanisms, they are so broad in scope. We hear the central planning.

With respect to the steel industry, the largest steel companies in China are run by the government. There is systematic violation of intellectual property rights. And there is, you know, the annual list of trade barriers that the U.S. Trade Representative puts together is the stick. Mr. Marantis and the Obama administration, the current USTR, could spend all day filing cases against China. There are plenty of them to be filed.

I think the challenge is that this is going to take greater leadership and is going to take a priority from this administration to seek that kind of deficit reduction. You know, we have seen very specific commercial deals that have been beneficial or could be beneficial to narrow aspects of American industry. But to get an economy-wide effect, and one that is going to have a significant impact on reducing the trade deficit, is going to require China to purchase more U.S. products and is going to have to reduce China's industrial overcapacity, which is present not only in the steel and aluminum industries, but also in semiconductors and other advanced technology products, in clean energy products, and in other types of manufactured goods. And it is going to take a serious negotiation, one that we haven't yet seen so far.

Mr. PASCRELL. Well, we are relying on China to do our bidding, help us in our bidding in terms of the North Korean crisis. If you remember the commitments that were made about trade with China, we forgot them as soon as we asked China to do its job, live up to its responsibilities. That has not happened. They may have tried, but it hasn't happened.

We need to take very careful—I just leave this question in the air right now. Should we use trade as a bargaining chip in terms of international relations, particularly in times of conflict, as exists right now? We will come back to that maybe. Thank you very much.

Chairman REICHERT. Thank you. The gentleman's time has expired. Ms. Jenkins.

Ms. JENKINS. Thank you, Mr. Chairman. And I thank the panel for joining us today. All across my district there are rural families who either own or work in small businesses and ag operations that are substantially dependent on exporting their products that they produce, raise, or grow. Kansas is called the Wheat State for good reason, but we also have much more.

Soybeans and corn fields also dot our landscape, and our expansive grasslands provides some of the best pastures and ranges in the world to produce the highest quality beef. Therefore, successful trade agreements to ship out and add value to their products are one of the top priorities expressed by my constituents in conversations.

For Kansas wheat growers, new trade deals in Vietnam, the Philippines, and Indonesia would be ideal. For cattle producers, Ms. Sullivan, spoke a moment ago about China and Japan. It is clear that the barriers to access these markets have detrimental aspects to so many families across Kansas and the Nation.

So Ms. Sullivan, to you, with regards to the U.S.-Korean trade agreement, or KORUS, can you give us a sense of the challenges that farmers and ranchers would face today in accessing the South Korean market if KORUS and the recent gains made in the region were nonexistent?

Ms. SULLIVAN. Ms. Jenkins, thank you for the question.

Again, as I mentioned in my testimony, I personally visited Korea and Japan, both, in May. And it was really refreshing, as a producer, and that is where I derive my entire livelihood, to see the demand for the product that I and your constituents produce. So what would be troubling to me as a producer is, quite frankly, from any of the barriers where a tariff is concerned.

Right now we enjoy an 8 percent or so tariff within KORUS. And what would happen with the elimination, it would jeopardize all of that, and in fact increase our tariff to 40 percent. I mentioned earlier that we saw a tariff increase in Japan take place from 38.5 to 50 percent. If we were to see that, it would significantly—I mean just logic tells you what happens if families, Korean families are threatened with increased costs, they are going to find alternatives. And what we have been able to do as producers is actually build such a strong demand for our product just recently.

I will give you a case in point when I was there. Costco has a huge presence in Korea, and have recently converted all of their beef from Australian beef to U.S. beef. And I visited a Costco, the largest in the country, in one of the suburbs of Seoul, and I watched as consumers stood six, seven deep at the meat case, buying up U.S. beef. And they have to refill their meat case six times a day. So it is a tremendous market for us.

And we enjoy that because of KORUS being in place. If KORUS were to go away, it really frightens me to think about what could happen. And again, these are items that as U.S. citizens we don't consume. They have a demand for items, for cuts that we do not utilize in the American diet. And that automatically reduces that economic value of those cuts tremendously, and basically brings it to nil.

So that is one of the most frightening parts about those trade agreements going away or any adjustment being made, is that actually we will see that market disappear. And it would significantly impact all of our American ranchers.

Ms. JENKINS. Thank you. Helpful information. Mr. Chairman, I will yield back.

Chairman REICHERT. Mr. Kind.

Mr. KIND. Thank you, Mr. Chairman. I want to thank the witnesses for your testimony today. Mr. Chairman, hopefully we can tee up some more hearings like this to explore U.S. trade policy and where we go from here.

Just for the whole panel, out of curiosity, do any of you think that now is an appropriate time for us to be withdrawing from the South Korea trade agreement? I would like the record to reflect no hands are up. What about this being the appropriate time for us to be withdrawing from NAFTA trade agreement? Again, no hands are raised.

Does anyone on the panel believe that it was appropriate or wise for us to unilaterally withdraw from the Trans-Pacific Partnership agreement without further consideration of those terms in the agreement? Mr. Paul, you want to be recognized. Yeah, go ahead.

Mr. PAUL. Yeah. I would just say from a manufacturing perspective, it was lacking. There were no enforceable currency disciplines. It was projected to increase the manufactured goods trade deficit. That was the Peterson Institute as well as an ITC estimate, and to lose manufacturing jobs. As it stood, I didn't think it was a well negotiated agreement.

Mr. KIND. I appreciate that. With the chairman's leadership, he and I both submitted a bipartisan letter that we worked on that we sent to the administration, saying that it would be a terrible idea for us to be withdrawing from South Korea, although there are certainly areas of improving that agreement.

And many of us are quite concerned about the loss of market down in Mexico in particular if we were to withdraw from NAFTA at this time. But what is frustrating is the whole perception of trade right now. It is more than just goods and products crossing borders. But I believe that when that does happen, armies don't. It is an important tool in our diplomatic and national security arsenal.

And when we vacate that space, I think bad things happen for our country and, quite frankly, for the entire global trading regime. I mean since our withdrawal from TPP, for instance, the EU now has stepped up their negotiations with Mexico, with Indonesia, Japan, has made overtures to Australia and New Zealand. The EU has concluded FTAs with Vietnam and Canada.

They have established geographic indicator standards now, which may be tough for us to try to go back and revise, which will be detrimental to our agriculture producers. This is what is happening. The rest of the world is moving on without us. And we have created a vacuum. And Mr. Goodman, you have pointed out that China is more than happy to step in with the Regional Comprehensive Economic Partnership.

In fact, during the whole course of TPP negotiations, China negotiators were following on our heels telling these same countries we were talking to, don't listen to those crazy Americans. They are asking too much of you. Environmental standards, labor standards, human rights standards, they are crazy. Come to us, because we don't care about any of that.

How withdrawing from that right now puts us in a stronger position, especially in the fastest growing economic region in the world today, the Pacific rim area, I fail to comprehend or understand. So working with all of you, we have obviously got a stake in the whole trade, we are trying to figure out a way how to get back in the game again. And it is difficult when you have a current President and the administration threatening to withdraw from a lot of crucial trade agreements now, but without any real clear objective or end goal with any of this. And it is very, very frustrating, but also a very dangerous game that is being played. Because the more that we recede and pull back in isolationism, I think the world is in a worse place then. And there is more at stake than what we are——

Mr. Paul, I appreciate your concerns about manufacturing, the impact TPP might have. But right now we only have 20 trade agreements with nations around the globe. There are 198 of them. And of those 20 countries, we are actually running a trade surplus in manufacturing, in agriculture, in services. And I said for some time that it is the countries that we don't have a trade agreement with that gets us into trouble. That is a race to the bottom, with no standards, no values, no rules to enforce, no disciplines to enforce. It is just a race to the bottom. And no one should be happy with that.

But we live in a very dangerous climate right now. And there is economic anxiety at home, because the easiest political card to play is blame the foreigners, blame the immigrants, blame trade agreements, and somehow all of that is going to solve the problems that we face. And that is going to be a problem as we move forward too.

Mr. Marantis, we will continue trying to work and trying to resolve the electronic payment issue. I know the chairman and I have teamed up, and others, to try to resolve that with Vietnam. I am afraid we have given up tremendous leverage by withdrawing from TPP. But as you pointed out, it is not just Vietnam, it is China, it is South Korea, it is other nations too now trying to establish their de facto monopolies.

So leading up to the Vietnam meeting, I would be happy to continue to work with you and all of you on the panel as far as what more we need to be doing with the administration to make sure we are at the table and we are ultimately getting a fair shake on all that.

So I guess that was more of a statement than a question, but I appreciate your testimony here today, and look forward to working with you in the future.

Thank you, Mr. Chairman.

Chairman REICHERT. Thank you, Mr. Kind.

Mr. Paulsen.

Mr. PAULSEN. Thank you, Mr. Chairman. Let me also just thank all of our witnesses for being here today.

And it is a given that our trade agreements need to eliminate tariffs faced by our exports. Equally important, though, as many of you have mentioned, is the need to negotiate the right rules. And in the modern economy today it is critical that we address issues like restrictions on data flows and data server, localization requirements that so many governments have used to limit the availability of our companies to do business, ability of our companies to do business.

And Ambassador Marantis, just to follow up a little bit, you talked about Korea, Vietnam a little bit. Can you elaborate a little bit more for Visa or for other electronic payment service providers on the importance of limiting those barriers? I mean, just elaborate just a little bit more.

Mr. MARANTIS. Sure. I mean, you point to some very real challenges we are facing in the region, including data onshoring requirements. But I think as the committee thinks about agreements and being modernized, for us, from the electronic payment services perspective, I think three provisions are key.

Market access, obviously, is important. Because you can't have anything else without getting into a market. But, second, and equally as important, is national treatment. We are facing significant level-playing-field challenges where governments are deciding to favor a local competitor over U.S. companies. Vietnam is a great example, Indonesia, Korea. So national treatment is very, very important.

And then, I think the third area, Mr. Paulsen, is what you have identified, are some of the provisions that were in the TPP electronic commerce chapter. The digital trade provisions, are enormously relevant for us. Having free flow of data. We can't offer our services without being able to do that. We are seeing increased data localization requirements. So addressing that issue will help a company like Visa be able to provide their services on a cross-border basis and be as efficient as possible. So I would point to those three as, at least for us, the big three.

Mr. PAULSEN. And, of course, for those of us that are watching the modernization discussions now on NAFTA, digital trade didn't exist decades ago when it was first put together. And so we want to make sure that a chapter on digital trade is included that recognizes e-commerce and those challenges that ag producers use, manufacturers use, minors use in today's world.

I want to follow up, Mr. Goodman, I will start with you. Yesterday I met with a company in Minnesota, and they are doing a lot more exporting. But they identified a challenge they have with regards to streamlining customs clearance. And they just brought up an example. They got a product that is registered for the first time in another country, and they don't think it should be necessary to file additional product registrations with that regulatory agency over and over.

Can you just talk about how important it is to have a streamlined customs clearance process in place in the context of trade agreements?

Mr. GOODMAN. It is enormously important. I don't have the statistics off the top of my head, but it has a real impact on actual trade flows, significant additional cost imposed at the border from those procedures. And this is, again, an example of something the TPP was trying to take on. There was a good chapter on these procedures that helped to eliminate a lot of those unnecessary regulations and to put disciplines on how you could use custom procedures or not use it as a barrier to trade, de facto to slow trade and leads to the bigger point about—and I just want to echo your point—about digital and what Demetrios said as well.

You know, this was something that I would say almost more than any other chapter was absolutely critical part of TPP, the digital economy chapter. The Obama administration, at the end of the administration, created a list of what they called the digital two dozen, of two dozen of the commitments that were made that, you know, a person like me who is not an expert in digital, an ordinary citizen could look at the list, see no duties on digital trade, free and open internet, free data flows, no localization requirements, a simple list which you understand.

The U.S. has a huge stake in ensuring that these rules are the ones that govern international digital commerce. And if we are not going to do it in TPP, we need to find a way back to that leadership on those issues. And I would say if we can do that in NAFTA, if we can put a digital chapter equivalent or similar to the TPP chapter, I think that would be great.

Same thing on the customs procedures. I think those are the kinds of things that there is an opportunity with renegotiating NAFTA to try to import—some people call it the organ transplant strategy, which is to take the best parts of TPP and transplant them into NAFTA. That would be encouraging. Locking away or putting on onerous, unrealistic burdens that Canada and Mexico are not going to agree to, I think, would be a real mistake.

Mr. PAULSEN. Thank you, Mr. Chairman. I yield back.

Chairman REICHERT. Mr. Doggett.

Mr. DOGGETT. Thank you, very much, Mr. Chairman. I commend you on conducting a hearing. It is something we have not had in the tax policy subcommittee or in the full committee concerning the Republican tax bill, which, as Mr. Paul indicated, is apparently going to be coming up here before some trade matters are.

Indeed, we have been here for the entire month of September. We will have soon, with next week's recess, have gone through half of October, and not one expert, not one business with the varying impact on business, has appeared before any subcommittee or the full committee to talk about taxes or the impact of the Republican tax plan on business.

It would appear that the approach will be the same jack-in-the-box approach that was used in the failed attempt to destroy healthcare coverage for millions, and that is to pop out a bill without ever having a thorough public discussion of its impact on the American economy and the American taxpayer.

But, having an appreciation for the fact that we are having a hearing today does require some consideration of what the hearing is on. And, with all due respect to the chairman and the witnesses, this seems to me to be the wrong hearing at the wrong time. Yesterday, President Trump said that NAFTA—and I quote, NAFTA will have to be terminated if we are going to make it good. Otherwise, I believe you can't negotiate a good deal. While our trade relationship with Vietnam, and Korea, and the various countries in Asia, is important, we just had the prime minister of Canada, Mr. Trudeau, remind us that America sells more goods to Canada than it does to China, Japan, and the United Kingdom combined. And Morning Trade is quoting one business representative as saying this is absolutely headed for a disaster. This is an absolute crisis.

The New York Times is reporting, while we have been meeting, about the far-reaching consequences for the economy for so many businesses and the disruption of supply chains if President Trump proceeds to terminate NAFTA, which he is empowered to do.

It is particularly surprising that we would be having this hearing about Asia while Mexico and Canada and our trade with them and so much is at stake. But whether it is Asia or NAFTA, we have no one here from the administration who is been asked to come and explain the administration trade policy. That may be because the administration can't seem to agree on its trade policy any more than it can agree with fellow Republicans about its foreign policy, as Senator Corker has acknowledged.

It would seem to me that the importance of having the administration come here on NAFTA is emphasized by the fact that when NAFTA was first approved, we had 8 days of hearings on it. We had 8 appearances by administration officials to explain the administration position. And I think it is very important that the administration be summoned here to explain its trade policy, whether it is Asia or perhaps much more important what it is doing with reference to NAFTA and what the consequences of terminating NAFTA will be on one sector of our economy after another and how many job losses will result from it.

I very much favor reform of NAFTA. There are many things that need to be changed in it after two decades. But the idea of terminating or repealing it will have far-reaching consequences in Texas, and it will have far-reaching consequences across our country.

I think that for the subcommittee and for our full committee to not summon the administration officials here to explain their position on NAFTA and on other aspects of our trade policy really just empowers President Trump to make this very significant blow against NAFTA.

Mr. RICE. Would the gentleman yield?

Mr. DOGGETT. On your time.

Ms. Moreland, let me ask you. What effect will terminating NAFTA have on your business?

Is it good or bad?

Ms. MORELAND. Thank you for the question.

With respect to NAFTA, it is an area—it is an agreement that would least impact us depending on the extent of change or reach.

Mr. DOGGETT. Thank you.

Ms. Sullivan, how does it affect your business?

Ms. SULLIVAN. Mr. Doggett, it is deeply concerning for our industry, for the beef industry. It would have a significant impact. I believe that—and I am speaking as a producer.

Mr. DOGGETT. Sure.

Ms. SULLIVAN. So it is my personal opinion alone. I think that there are some items, as you had mentioned, that are worth readdressing. But for the beef industry it would have a significant impact.

Mr. DOGGETT. Thank you. And I will be glad to yield on your time.

Chairman REICHERT. The gentleman's time has expired.

Mrs. NOEM. Thank you, Mr. Chairman.

And I would like to reiterate that all of our recent conversations with the administration, with all the members on this committee, with the U.S. Trade Representative, indicate that we are modernizing NAFTA, that we are not eliminating NAFTA. Nobody is talking about throwing it out, that the discussions have been on what can we improve while we continue to negotiate on other bilateral trade agreements.

And so I want to thank all of ours witnesses for being here today. I know it is never easy to take this much time away from your businesses and your schedules are tight. And so I do appreciate you being willing to come.

Ms. Sullivan, I related to you because I am from South Dakota, and I spent decades raising cattle in a commercial cow/calf operation and then we backgrounded them, as well, for the market. So I appreciated your testimony today. And I also recognize the concern that you showed on tariffs, because we also were crop farmers as well. And so we were in several different areas of caring about making sure that we could export our food and make sure we not only take care of this country's food supply but we feed many, many other people as well. So thank you for being here.

In fact, beef production is so important in our State of South Dakota that there is actually more cattle than there are people. So it is incredibly important to our economy and to our State. And so I thank you for making those comments.

I did want to ask you, one of the concerns that I have had, is while we revisit current trade agreements such as NAFTA, we are going back and looking at South Korea, that we could lose market access. We are seeing that now as Australian beef is flowing into Japan. And they do have a trade agreement there, and it is sucking up more market access. And so we not only have the tariffs that impact that, but this lost market share that we are having, as well, because we are banned from the country.

So I was wondering if you had a perspective on that as to impact on the industry that you have seen as well on market access and the concerns you may have if we don't aggressively pursue these bilateral agreements while we are renegotiating important agreements like NAFTA?

Ms. SULLIVAN. Ms. Noem, thank you. I appreciate the question. You know, from my perspective, it is hard to find more free market capitalists than agriculture producers.

Mrs. NOEM. Yeah.

Ms. SULLIVAN. And what we do is we produce a product that needs to be consumed. I mean, we like to say that agriculture produces the food and fiber that feeds the world. And that is what we do.

We need access to those markets and without barriers. Because, without question, we produce the safest, most consistent, nutrient-dense form of protein, in our opinion—although I do love seafood. I am from the coast, believe it or not. But we do. In the world.

And all we need is access. And that is what we seek more than anything. Because, again, we are family farmers. Everyone likes to talk about corporate farms this. Well, that is not the case. Families are producing these animals that are feeding everyone. Families are producing those crops.

I am actually originally from Galveston, Texas. And we have the Port of Galveston, which is a primarily agriculture export facility there along the Gulf Coast of Texas. And so we have a lot of your grain from South Dakota that has gone out of the Port of Galveston. Our economies, my local economy in my hometown, exists because of exports.

So the trickle-down effect, if you will, of market access is tremendous where the U.S. economy is concerned. Again, this is my personal opinion. I have a lot of them. So I am willing to share them, if only asked. But having access is so critically important because we can provide what the world needs to feed and clothe all of our neighbors. We just need the ability to get that product there without barriers.

Mrs. NOEM. That is great. And that is exactly the discussion that I had last week with the U.S. Trade Ambassador Lighthizer was the fact that we appreciate that you are modernizing these agreements. We appreciate that you are fixing different issues that have been in there. He indicated that he felt agriculture usually comes out pretty well in agreements. And, you know, I said that we have at times, but then we face regulatory barriers once our grain and beef hits the border of that country as well. And so we need to pay attention that we don't get shut out of those markets by regulatory actions that may happen from those foreign governments.

But he indicated that he understood the value of agriculture. But, also, what I drove home to him was the speed that he needs to use to negotiate these bilateral agreements. Because every single day other countries are looking to fill those markets, and we can do it better than anybody else. So thank you for being here today.

With that, I yield back.

Chairman REICHERT. Mr. Levin.

Mr. LEVIN. Thank you, and welcome. I am glad you are here.

Let me just say a few words if we are talking about Asia and the Korean free-trade agreement.

Mr. Goodman, as I read your testimony, I had these recollections and feelings. I was one who helped to negotiate the Korea free trade agreement. We attempted to strengthen it, and, at times, the administration, we had to renegotiate it or redo it. The Obama administration was willing to settle for something less than some of us, both in the labor movement and the auto industry, myself, thought essential. So they returned, the Obama negotiators, to try to strengthen the agreement. The problem is in some respects it was strengthened. It was far from perfect. And I think the rule of origin was defective.

But if you look at what has happened since then in the industrial sector, it is woeful. And those of you who support expanded trade need to help focus on the problems we have in making agreements real. Because otherwise the public, and I think rightfully, thinks that we are putting together something that may look okay on paper but in terms of their real lives is truly defective.

And one of the auto companies invested a lot in trying to help put together the agreement. And they invested a considerable amount in establishing places, auto dealers in Korea, to try to break through. It has been frightfully difficult.

So those of you who are in the agricultural business who want to point to where there has been a breakthrough, also, I think, need to look at other areas where there has been a stone wall. Because, otherwise, any plea to negotiate further trade agreement really hits a wall with good parts of the public.

The same is true, really, of currency. You know, some of us have tried endlessly to get past administrations to step up to the plate on currency. They never really have. And so now you have—not China. It isn't manipulating its currency. But it did frightfully. And we let it happen, and it lost millions of jobs.

Korea has been manipulating their currency. And there is no outcry. And I meet with businesspeople in Korea who are part of the U.S.-Korea business roundtable or entity, and they just pull back. So what was missing, I think, in this testimony, was a sense of urgency.

And so let me also say something about NAFTA since we are talking about Asia. Mexico has this industrial policy, and we have had no hearings on it, which essentially attract industry from the United States to go to Mexico, keeping wages frightfully low, a dollar, a dollar and a quarter an hour. And it is not only true of automotive where there have been movement of plants to Mexico, but I was reading about the washing machine industry. And the two large Korean producers have now moved increasingly their production to Mexico.

And I asked someone in Mexico to check. And they are paying a dollar and a quarter an hour to their workers. And the American company, Whirlpool, that pays a decent wage, is now in danger of losing its production capacity because of a failure to have an honest discussion, here and elsewhere, about the key problem with the original NAFTA agreement.

So I just want to finish my 6 seconds to urge that everybody who thinks expanded trade can work needs to help out pointing to areas where it isn't working. Otherwise, you won't have credibility.

Chairman REICHERT. Thank you.

Mr. Holding.

Mr. HOLDING. Thank you, Mr. Chairman.

The Investor-State dispute system has been in the news lately, and we have all seen that. I have always considered ISDS as an important part of our trade agreement that helps ensure that U.S. companies have a meaningful remedy if they are treated unfairly by a foreign government. That is why, during the TPP negotiations, I was adamant that no sector or part of the economy should be carved out of ISDS.

So I am going to address this to the panel if any of you-all can elaborate the importance of ISDS in your sector or things that you have seen with ISDS that are important and relevant that you might want to bring forward.

And, Mr. Goodman, do you want to start? And we will just go down the line.

Mr. GOODMAN. Well, the Investor-Dispute settlement provisions are obviously one of the most controversial in these new agreements. And there is—you know, I mean—I think there is a legitimate argument about what the best way is to protect investors. But these provisions were set up really with our investors' challenges in challenging markets. Not so much the ones—the advanced markets that we are dealing with in—you know, some of the bigger economies in Asia. But for countries where our investors are subject to arbitrary and unreasonable treatment of our investors, they are important mechanisms that allow our investors to get their rights enforced. And, so far, there have been no cases in which the United States has been subject to a finding that was, you know, adverse to us. So I think it has been shown to be helpful to our interests.

But it is certainly something that has been a subject of a lot of scrutiny. And I think, frankly, as an analyst, I think there is a set of discussions that need to be had about the best way to do this investor protection and future agreements.

Mr. HOLDING. Sure.

Ms. Sullivan, in your sector of the economy have you had any dealings with the ISDS?

Ms. SULLIVAN. It is not really something that we have confronted just on that regard. It was more than anything the tariffs in particular. But as far as just the investor protection mechanisms, it wasn't necessarily a threat that we were really—discussed as a real—something that really put us in jeopardy very much.

Mr. HOLDING. Good.

Mr. Marantis.

Mr. MARANTIS. Strong investor protections are extremely helpful. Let me give you a live example. We own our entity in Indonesia. We have been told by the bank of Indonesia that if you want to continue to process domestic payments in Indonesia, you will have to divest—we will have to divest 80 percent of our ownership to a domestic Indonesian entity. So we don't have an investment treaty with Indonesia, but that is an example of a situation where strong investment protections could help.

Mr. HOLDING. So let's just explore the situation that you are facing there a little bit. What recourse do you have without ISDS? Where are you turning to, the Indonesian courts?

Mr. MARANTIS. We have been working very closely with the U.S. Embassy in Indonesia which has been enormously helpful. We have raised the issue with the foreign business community in Indonesia. We are actually starting to make some headway, but we don't have a specific trade tool to rely on other than the trade and investment framework agreement, that we have with Indonesia, which provides for bilateral dialogue between the two countries.

Mr. HOLDING. So if the advocacy section of the embassy isn't able to make any headway on the diplomatic front and you ultimately had to go to Indonesian courts to try to protect your interests there, what are your lawyers telling you, if you would like to divulge, as to your chances in Indonesian courts?

Mr. MARANTIS. Sir, I am not sure. I don't know Indonesian law well enough, but I can look into that and get back to you.

Mr. HOLDING. All right. Ms. Moreland.

Ms. MORELAND. Of course dispute resolution is something of great interest anywhere that we have investments in ensuring that there is a structure to be able to support any elevated dispute resolution would be important to us, but it is nothing that is an immediate threat.

Mr. HOLDING. Thank you. Mr. Chairman, I yield back.

Chairman REICHERT. Thank you.

Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

We keep hearing that looking at deficits is not necessarily a good way to evaluate trade policy. Let me ask each one of you, perhaps beginning with Mr. Goodman, what should we be looking for in trade policy as benefits to this country, especially job creation and income?

Mr. GOODMAN. I think it is legitimate to look at deficits if we are doing that on a global, macro basis. It is the question of whether it makes sense at a bilateral basis with individual countries. Because some of that reflects just patterns of supply chains and the way things are produced in various markets, and then the last country to ship the product to the U.S. gets credited for the full value of the export to the U.S. So that can often look like—that will skew the deficit for that country, or surplus for them and deficit for us.

But if you look on a global basis, I think there is a real issue, which is that our current account surplus, which is the global position, overall, of our trade, is a—you know, is a result of the way—is a combination of our savings and investment, how we save and invest in our country. And, frankly, we don't save enough to cover the investment we need. And so that creates a fundamental problem.

And then there are practices in other countries and some have been alluded to, like currency manipulation, which has been a problem historically in a lot of other countries that has skewed these overall deficits. And I think those are issues that we should be legitimately looking at.

But, you know, the bottom line is that trade is not, you know, zero sum. There are benefits that are not just measured by a bilateral trade deficit, and we shouldn't be too focused on that in my opinion.

Mr. DAVIS. Ms. Sullivan.

Ms. SULLIVAN. Yes, sir. In our industry, we have really found that trade agreements actually have given more predictability, if you will. We have been able to secure and protect our market access better and without trade agreements in place, it is not really holding our trading partners accountable. It is defining how we actually work with our trading partners. And so by having bilateral trade agreements in place, it gives greater predictability, if you will, to our industry. And I think that is something that makes it more equitable as we move forward in trading, particularly beef, but any agriculture products, as far as I am concerned.

Mr. DAVIS. Thank you.

Ambassador.

Mr. MARANTIS. Mr. Davis, that is a great question. I think, from Visa's perspective, a really good proxy to measure the success of our trade policy is, do we operate on a level playing field? I think whether we are a payments company, whether beef, whether seafood, manufacturing, U.S. companies can compete and win wherever they are, but we need a level playing field in order to be able to do that. And if we can use our trade policy to push for a level playing field, so much the better for all of us.

Mr. DAVIS. Ms. Moreland.

Ms. MORELAND. Thank you for the question.

We can't change the fact that U.S. consumers want to eat a lot of shrimp. And they are eating shrimp that needs to be imported. Similarly, with farmed Atlantic salmon, tilapia, pangasius. So we just need market access elsewhere. We are providing it to everybody else here.

Mr. DAVIS. Mr. Paul.

Mr. PAUL. I think it is a great question, and I do think trade deficits are one important data point in measuring both the competitiveness of an economy and also in identifying some other barriers.

Exchange rates. I am glad that was mentioned, because I think that is important. Also, countries that tend to run higher surpluses either have very strong industrial policies or very mercantilist practices without much regard for the agreements that they signed. And it is helpful in identifying where some of these barriers are. And, you know, sometimes trade deficits decline because of really bad reasons like recessions. And so you can't look at it in a vacuum.

But I am pleased that this administration is trying to take a look at trade deficits. I don't know where they are going to end up on this. But the trade deficit we have with China is not a natural occurrence. It is something when you are trying to marry a free-market economy like the United States with a State-run economy like China that has an aggressive industrial policy and historical currency manipulation, that is going to be the end result. And it is important to note that that does mean it displaces some production in the United States as a result of import competition and impacts jobs in the United States and job quality as well.

Mr. DAVIS. Thank you very much.

Thank you, Mr. Chairman.

Chairman REICHERT. Thank you, Mr. Davis.

Mr. Rice.

Mr. RICE. Thank you, Mr. Chairman.

First, I want to respond to what Mr. Doggett said earlier. I am sorry he left. But, you know, it is alarming his commentary that we haven't had any hearings on tax reform or on NAFTA. But the only problem with that is, it is just not true. We have had at least two full committee hearings in the last few months on that. And I am not on the tax policy subcommittee, but I am told the tax policy subcommittee has had two hearings on tax reform as well.

With respect to NAFTA, I know that Secretary Ross has been here in closed-door meetings at least twice, I think three times, and once in front of the full committee. And the primary topic of discussion was certainly trade policy and NAFTA in particular.

And I know Mr. Lighthizer, Ambassador Lighthizer, has been here at least once and the primary topic of discussion is on NAFTA. So the plain fact is we have had hearings. We are having hearings, and we will continue to have hearings.

Now, with respect to the Korean trade agreement and TPP, you know, everybody here today has generally been decrying the demise of TPP. But, again, the plain fact of that is that both presidential candidates said it was a bad deal. Whether Donald Trump got elected or Hillary Clinton got elected, TPP was going nowhere. And the plain fact of it is the majority of the Democratic caucus thought TPP was a bad deal. So to sit here and complain about the fact it has gone away now is, you know, crying over spilt milk. Both presidential candidates felt we could get a better arrangement.

And so, you know, what I want is everybody on this panel, with the exception of maybe one or two, agree that we need trade agreements. And I think we certainly need some form of the Trans-Pacific Partnership, but I also want to make sure that our interests are protected.

With respect to this Korean trade agreement, Ms. Sullivan, you were saying that there is a Korean tariff on U.S. beef of 9 percent and Japanese of 50 percent, correct?

And do we get any meat products from Korea?

Ms. SULLIVAN. Not that I am aware of.

Mr. RICE. Do we get any seafood from Korea, Ms. Moreland?

Ms. MORELAND. Not of significance.

Mr. RICE. I didn't hear your answer.

Ms. MORELAND. Not of significance relative to the other—

Mr. RICE. Is there any tariff on Korean seafood?

Ms. MORELAND. Coming into the U.S.?

Mr. RICE. Yes.

Ms. MORELAND. It would only be subject to up to maybe a half of a percent, a set of fees.

Mr. RICE. Okay. And so you said you have a very small reduced tariff quota. Correct?

Ms. MORELAND. Correct.

Mr. RICE. And so what is your reduced tariff with Korea.

Ms. MORELAND. For the product form that I am talking about, Alaska pollock, heading got a particular category, 6,000 metric tons.

Mr. RICE. And what is the tariff on that reduced quota.

Ms. MORELAND. I have to look at my notes.

Mr. RICE. Okay. And what is the tariff when you get passed the reduced quota?

Ms. MORELAND. Thirty percent is what we——

Mr. RICE. Thirty percent.

And there is maybe a half percent on their seafood coming in here, correct?

Ms. MORELAND. Correct.

Mr. RICE. And yet we are running a trade deficit, I think, of like $17 billion a year with South Korea. And you are paying a, what is it, 9 percent tariff.

Ms. SULLIVAN. Eight.

Mr. RICE. And I suspect there are meat products coming from South Korea, and I suspect that their tariff, if there is any, is minimal. So, you know, we have a very large market that they want access to like you want access to their market.

And, you know, I don't want to do anything to unduly disrupt this arrangement and these trade agreements, but it is pretty obvious to me that we can do better than this. And I personally am glad that the Secretary and Ambassador Lighthizer are going to look at this and try to make sure that the American worker gets a fair shake here.

As you, Mr. Paul, pointed out. We have had 2.4 million jobs lost in manufacturing. Mr. Pascrell said the number was 5 million jobs. I think we can do a little bit better than that. I think we gotta make this country competitive. We need to look at tax reform as an aspect. Do you agree tax reform can make this country more competitive, Mr. Paul?

Mr. PAUL. If it is done in the right way.

Mr. RICE. Do you think that it could restore American jobs.

Mr. PAUL. Again, I think a lot depends on the product which we have yet to see.

Mr. RICE. Do you think lowering the corporate tax rate will help make American corporations more competitive worldwide.

Mr. PAUL. Certainly having a competitive Tax Code that recognizes that we are in a global economy——

Mr. RICE. So tax reform, trade reform, we need to look at all these things, and we need to give the American worker a fair shake. My time is up. I yield.

Chairman REICHERT. Thank you, Mr. Rice.

Mr. Smith, follow that.

Mr. SMITH. I will try. Thank you, Mr. Chairman. Thank you to our panel.

Ms. Noem kind of got to some of the topics that I wanted to. But I might ask for you to further elaborate.

The 50 percent tariff that Japan levees on U.S. beef, ridiculous. It was bad even before it reached the 50 percent. And there were plenty of reasons to engage in a bilateral trade agreement. That would carry out some of what TPP may have accomplished with Japan. But a bilateral trade agreement, that I think there could be strong support for, would give us the opportunity to achieve so many of the same things with a major economy. I don't have to tell you that, obviously, with—and that is just beef.

And so I am hoping that we can continue to head in that direction. A lot of things happening right now with trade. But we cannot be distracted from getting this done.

Ms. Sullivan, can you speak perhaps more specifically in how beef trade could be enhanced through a bilateral trade agreement with Japan, more specific?

Ms. SULLIVAN. Well, I find—I will reflect back on Mr. Rice's statements about TPP. There is no such thing as the perfect trade agreement. Again, this is my opinion, Kelly Sullivan. I am speaking for me. There is no such thing as the perfect trade agreement. But I will say agriculture would have benefitted greatly had TPP been pursued. It is gone. You are right. It is gone. There is no reason to talk about it anymore.

So let's go back to the table, and we need to aggressively pursue a bilateral trade agreement with our number one trading partner, Japan, right now. It is of tremendous urgency for our industry, not just for the beef industry, but for agriculture in general. And, again, I am just speaking from our point of view.

You know, we went from—we were seeing a tremendous increase in beef imports to Japan up through July, as I mentioned in my opening statement. And that was prior to the tariff increase that was implemented. It is yet to be seen what impact it is going to have. Inventory levels in Japan were built to a point that we are still seeing absorption of that in the market. I just kind of follow, as a morbid fascination, a lot of these economic indicators that we are watching. And so we haven't seen any adjustment yet. But, again, logic will tell you that if something goes from 38 and a half to 50 percent, there is going to be a detrimental effect. That is why we have to be aggressive to, again, as we said earlier, get on a level playing field.

Our number one competitor is Australia. They pay 27 percent on Australian beef. That is—you can't compete. Now, granted, I will say that the beef that we produce in the United States is far superior, as I should, because we do. But——

Mr. SMITH. More specifically, Nebraska beef are you saying?

Ms. SULLIVAN. Oh, no, actually, you know, Texas beef. But, hey, we are all beef producers. Right? You know, I have my pin on with my stars and stripes. We are all U.S. beef producers. I don't care. We are here to do the same thing. We are all in this together.

But we have to appreciate the fact that Australia is our greatest competitive threat. We are in their sights. They are going to take every advantage—all of our competitors are, but I will just use Australia as an example—are going to take full advantage of the fact that we do not have any trade agreements in place, and they are going to try to absorb as much market share as they possibly can as quickly as they can. And they are moving very, very quickly. They are nimble.

And so we need to make this a tremendous priority. Because the problem is that those agreements are going to get in place, and it is going to be very difficult for us to get back in and recapture any of that market once it has gone away.

Mr. SMITH. Well said. Thank you very much.

I yield back, Mr. Chair.

Chairman REICHERT. Thank you Mr. Smith.

I want to thank all the witnesses for your testimony and your very clear answers to the questions that were posed to you today. Some very good points have been made.

And I think just to sort of revisit some of the comments and discussion that occurred, just to follow up on some of Mr. Rice's comments, not only have we had hearings on some of the issues that Mr. Doggett referred to, but we have also, all of us on this dais, and members of the committee, have opportunities to meet with members of legislative branches from all of these countries. They are visiting us almost daily.

The Canadians have been very active in visiting with all of us, especially those of us who are on this committee. The prime minister today spent an hour with the full committee in discussing some of the issues that we talked about today. And even though the title of this hearing has been Asia-Pacific, we have had discussion about NAFTA. This all ties together as it relates to all of you and the businesses that you represent, and the thoughts that you represent around trade and around the economy that it creates, and the jobs that it creates here in the United States. But we also know that there are improvements to be made and especially when we look at Korea. There are some concerns there with implementation.

So I think that, you know, in highlighting some of the things that haven't been implemented in agreements that we have made, going back and reviewing and taking a new look at NAFTA and Korea, I think is a good exercise. But, on the other hand, as you-all know, and as some of you have said today, we cannot allow much more time to lapse in creating opportunities to have other agreements. And especially when you look at Japan, as has been mentioned, a great friend and trading partner, it is critical that we keep that open market to our products.

Also, looking at Vietnam, we have got to move forward quickly on these bilateral agreements so that our industries, our ag industries, manufacturing, et cetera, services, have the opportunity to compete fairly across this world, sell their products, create more jobs, and raise wages here in the United States. All those things happen if we are able to sell our products. When we sell products, we have to make more products. Right?

So thank you, again, for all of your testimony. Thank the members for their questions.

And as just a reminder, be advised that members will have 2 weeks to submit written questions to be answered later in writing. Those questions and your answers will be made a part of the formal hearing record.

Our record will remain open until October 25th, and I urge interested parties to submit statements to inform the committee's consideration of these issues discussed today.

Committee is adjourned.

[Whereupon, at 3:46 p.m., the subcommittee was adjourned.]

[Member Questions for the Record follows:]

Responses to Questions for the Record

Matthew P. Goodman,

Representative Patrick Meehan

House Ways and Means Committee, Subcommittee on Trade

November 9, 2017

1. Chinese Predatory Investment

U.S. trade relationships in the Asia-Pacific region are simply dominated by China. China's theft of intellectual property and offensive cyber capabilities have brought negative attention and political pressure on Chinese motives in investing in the United States. Chinese companies—often state owned and/or financed—flood the market over long periods of time to gain market share, with little concern about earning a profit. They undercut existing American producers, gain market share and destroy existing American jobs. Can you summarize Chinese "predatory investment" in the United States in critical sectors such as energy, chemicals, defense and technology and how these targeted investments fit into a broader national strategy by China?

Chinese investment in the United States has risen dramatically in recent years. According to data from the Rhodium Group, inflows of foreign direct investment from the People's Republic of China grew over 200 percent in 2016 compared to 2015, reaching a record high of $46.2 billion, which was more than the preceding three years combined. In the first three quarters of 2017, foreign direct investment from China has declined, especially in announced new mergers and acquisitions, from last year's record level. Chinese investment has historically been largely concentrated in real estate, information and communication technology, energy, and agriculture, though investment across a broad range of sectors has expanded in recent years.

The recent surge in Chinese inbound investment is driven by various considerations, ranging from macroeconomic to strategic. First, as economic growth in China has slowed, Chinese companies have looked abroad for higher returning investments, including in the United States. Other macroeconomic factors also motivate Chinese investment, with many Chinese companies and wealthy individuals seeking investments abroad, for example, in real estate, to hedge against local currency risk and/or high local asset valuations.

Increasingly, the growth of Chinese investment in the United States also appears to be driven by China's strategic goal of becoming "the world's major science and technology power," a goal articulated by Chinese President Xi Jinping and enshrined in plans such as Made in China 2025. A key element of this strategy is the acquisition of strategic assets abroad, particularly in the technology sector, backed by the large financial resources of the state. Some of these acquisitions appear designed to support the growth of China's national champions and contribute to the country's military modernization. Separately, China's acquisitions in the agriculture sector are aimed at helping the country maintain food security for its growing population, as consumption per person continues to expand.

2. Chinese Investment Tactics

How do you believe the Chinese are adapting to the new political environment when investing in the United States? Has this caused China to shift tactics?

Growing concerns in China about the pace of capital outflows and the underlying health of the Chinese economy, combined with a growing wariness of Chinese investment in the United States have contributed to a shift in tactics in China's overseas investment strategy. Beijing announced a series of new rules and guidelines last summer to rein in "irrational" overseas acquisitions in sectors ranging from real estate to gambling to professional sports teams. These guidelines appear to be targeted at curbing capital outflows as well as addressing domestic economic concerns in China. Chief among these concerns is financial stability, where mounting debt in the non-financial corporate sector has reached 166 percent of GDP. Beijing believes a portion of this debt buildup is related to the foreign acquisition spree.

As relates to mechanisms for investing in the United States, China has increased its allocations to private equity (PE) and venture capital (VC) firms, which in turn, increase its indirect economic interests in PE and VC portfolio investments, and exposure to technology sectors in particular. China has also used special purpose vehicles (SPV) to channel its investment, and in at least one instance, the use of an SPV was allegedly used to hide the source of capital as Chinese for a foreign acquisition.

3. Chinese Greenfield Investments

Can you summarize the Chinese strategy of pushing state owned and financed domestic champions to make greenfield investments in the United States and the potential downside impacts it may bring to existing American companies?

Greenfield investments refer to investments where the enterprise value is developed "from the ground up" – for instance through research and development – rather than acquired by the investor. To the extent China uses "state owned and financed domestic champions" to make such investments in the United States, the practice likely lowers the cost of capital for the investor. Unlike many "start-up" ventures, which typically do not have recurrent revenue streams to fund operations, a greenfield investment supported by a state actor may not face binding financing constraints; as a result, such a venture may have greater flexibility in building its operations, including greater flexibility to attract high-cost talent. Therefore, state-financed Chinese companies can outbid their competitors – including U.S. firms – in the United States and elsewhere for talent and other inputs such as real estate. That said, greenfield investments, like other forms of foreign investment, can also bring significant benefits to the U.S. economy by fueling growth, innovation, and job creation in the United States.

4. CFIUS Authorities

Do you believe the U.S. process for vetting sensitive foreign acquisitions of U.S. assets through CFIUS is adequately addressing these concerns? Should CFIUS authority be broadened to include greenfield investments in the energy, chemical, defense and technology sectors? Is there anything more the U.S. could be doing in the trade space to combat China's negative and growing influence?

Based on information available to me as someone outside the formal CFIUS process and therefore not privy to classified information, I believe the CFIUS process, for the most part, works well in striking an appropriate balance between maintaining the general openness of the U.S. investment climate while protecting U.S. national security against threats from specific transactions. The flexibility of the CFIUS process, which gives the Committee's staff and member agencies significant discretion, paired with its dedicated focus on national security has proven effective. Both characteristics should be preserved in any new legislation.

That said, it may be appropriate to consider modifications to the CFIUS process that would support the Committee's ability to monitor investments in strategic sectors that may be evading scrutiny. Given the scale of inbound investment to the United States from China and the opacity of some transactions, particularly in technology-related areas, it would be reasonable to give CFIUS more resources and analytical capacity. This should include the ability to share information with allies and partners where appropriate.

Beyond inbound investment, the United States should do more to combat China's problematic trade practices. These issues should be pursued both within the World Trade Organization (WTO) and, where appropriate, through the use of domestic tools that are consistent with U.S. commitments to the WTO, and done in coordination with allies and partners such as Japan and the European Union. These actions should be part of a comprehensive strategy for U.S. engagement not only with China, but more broadly in the Asia-Pacific region. For more on what such a strategy should look like, please read CSIS's updated recommendations for a U.S. economic strategy in the Asia Pacific.

House Ways and Means Committee, Subcommittee on Trade
Hearing on the Asia-Pacific (October 11, 2017)

Questions for the Record
Rep. Meehan to Ambassador Demetrios Marantis, Visa Inc.

1. **Data Localization Requirements**

The TPP missed the mark in its data localization policy as it relates to financial services. But in this modern economy it is essential to address prohibitive restrictions on data flows or server localization requirements for all industries. Could you expound upon the importance of eliminating such barriers for Visa and other electronic payment services providers?

Visa Inc. Answer

At Visa, we seek to compete on a level playing field everywhere. Unfortunately, many foreign governments continue to take action that restricts U.S. technology and digital exports, and disrupts broader trade flows. Strong digital trade principles – including protections for cross-border data flows and prohibitions on data localization – are absolutely fundamental for Visa and U.S. services companies at large, and support the competitiveness of the U.S. economy as the world's leader in digital trade.

[Public Submissions for the Record follows:]

Statement of BSA | The Software Alliance on Expansion of U.S. Trade in the Asia-Pacific Region

BSA | The Software Alliance (BSA),[1] the leading advocate for the global software industry, welcomes the opportunity to submit this statement on "Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region", in connection with the sub-committee's October 11, 2017 hearing. BSA members engage in digital commerce of many types, including through the provision of cloud computing services, and through data analysis services that utilize the latest technological innovations such as artificial intelligence.

Digital trade plays an important and expanding role in US trade relationships with Asia-Pacific countries. It consistently generates trade surpluses for the United States. But digital trade is also susceptible to governmental interference with data flows, imposition of data localization requirements and technology transfer demands, among other challenges.

BSA recently put forth a modernized digital trade agenda.[2] We are pleased that the United States Trade Representative (USTR) has included many of these items in its negotiating objectives for the North America Free Trade Agreement (NAFTA). The same principles are important in expanding digital trade in the Asia-Pacific region.

The United States has additional tools at its disposal to ensure that digital trade can continue to grow. It participates in the Asia-Pacific Economic Cooperation (APEC) Cross-Border Privacy Rules (CBPR) program, a mechanism that is designed to allow companies to transfer personal data among the twenty-one member economies in the APEC region subject to stringent privacy protections. Congress should encourage the Administration to redouble its efforts to expand this valuable system more widely in the region. In addition, it should incorporate digital trade chapters in bilateral free trade agreements with Asia-Pacific countries.

Scale of Asia-Pacific Digital Trade

U.S. trade in digital services is a significant and growing component of overall U.S. services trade, according to statistics from the U.S. Bureau of Economic Analysis. In 2015, the United States exported $65.4 billion in digital services and imported $40.8 billion, yielding a trade surplus of $24.6 billion. Digitally-enabled services – a broader measurement that captures potentially ICT-enabled services across economic sectors – are even more substantial. Exports of such services totaled $398.7 billion in 2015, while imports were $237.1 billion, resulting in a surplus of $161.6 billion. Digitally-enabled services constituted approximately half of total U.S. services trade that year.

The Asia-Pacific region is the second-largest market for U.S. digital services exports, and the largest market for U.S. imports of these services. Between 2006-2014, both U.S. exports and imports of digital

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[1] BSA | The Software Alliance (www.bsa.org) is the leading advocate for the global software industry before governments and in the internationals marketplace. Its members are among the world's most innovative companies, creating software solutions that spark the economy and improve modern life.

BSA's members include: Adobe, ANSYS, Apple, Autodesk, Bentley Systems, CA Technologies, CNC/Mastercam, DataStax, DocuSign, IBM, Intel, Intuit, Microsoft, Oracle, salesforce.com, SAS Institute, Siemens PLM Software, Splunk, Symantec, The MathWorks, Trend Micro, Trimble Solutions Corporation, and Workday.

[2] BSA's digital trade agenda is available at http://www.bsa.org/~/media/Files/Policy/Trade/05222017BSANAFTAHandoutPress.PDF

services with this region expanded steadily. Exports have risen from over $12 billion to more than $18 billion during this period, while imports have increased from more than $7 billion to $15 billion.

Need for Digital Trade Legal Frameworks

BSA | The Software Alliance strongly supports the development of rule-based legal frameworks to enable this growth in digital trade. Such frameworks are essential to ensure the free movement of data across borders, and to discourage governments from imposing requirements that data be localized, such as by requiring that data centers be built within their territories as a condition for doing business there. Similarly, governments should not force companies to transfer their technology, or to disclose trade secrets, source code or algorithms in order to secure market access.

A sizeable number of governments in the Asia-Pacific region have imposed data transfer restrictions. Some of these sectoral restrictions bar data transfers entirely, while others allow transfers but only subject to onerous conditions. Localization requirements also are increasingly being imposed. "In almost all [APEC] economies, national security interests trump the necessity for cross-border data flows," according to a 2017 study by the APEC Policy Support Unit. The study cites restrictions in Australia, Canada, China, Indonesia, Korea, Malaysia, Russia, Chinese Taipei, and Vietnam, among APEC members.

APEC Cross-Border Privacy Rules System

APEC has established an important system to facilitate cross-border data flows and enhance consumer privacy and interoperability across the region -- the Cross-Border Privacy Rules (CBPR). This system consists of a set of privacy principles and implementation guidelines. It was developed and is implemented through a process that brings together the governments and privacy enforcement authorities of participating economies with a range of other stakeholders, including businesses and civil society.

BSA has joined other industry associations across the Asia-Pacific region to urge member economies to join the CBPRs. The United States has been an early participant in the system, along with Canada, Mexico and, most recently, Japan and Korea. Singapore recently applied to join the program, and a number of other APEC economies – Chinese Taipei and the Philippines – have indicated that they are taking steps towards participation. Several others, including Hong Kong and Vietnam, are exploring joining as well.

The CBPR system requires participating companies to develop and implement data privacy policies consistent with the principles espoused in the APEC Privacy Framework.[3] An accountability agent selected by a participating government in turn assesses whether a company is complying with the CBPR requirements. Any divergence that is found between a company's privacy commitments and its compliance with CPBR requirements is enforceable under the domestic privacy laws of participating economies.

[3] The CBPR applies to companies that are controllers of personal data, i.e. that decide how such data is to be processed. APEC also has developed a parallel and similar regime for data processors, Privacy Recognition for Processors (PRP), designed to ensure that companies which process data effectively implement controllers' privacy requirements.

An increasing number of companies participate in the CBPR program and intend to use the framework as a legal basis for transfer of personal data among participating economies. It thus can serve as one of the important cross-border data transfer mechanisms.[4]

Free Trade Agreements

Free trade agreements (FTAs) between the United States and Asia-Pacific countries also are an important tool in assuring that data, the lifeblood of the digital economy, may flow freely in the region. FTAs also can be critically important in protecting U.S. digital companies from requirements imposed by Asia-Pacific governments to transfer their technology, or to disclose trade secrets, source code or algorithms in order to secure market access.

The US-Korea FTA (KORUS) took a first step in this direction by calling for the parties to "endeavor to refrain from imposing or maintaining unnecessary barriers to electronic information flows across borders." The Trans-Pacific Partnership (TPP) went further, imposing binding obligations with respect to data flows, localization and compelled source code disclosure, among other disciplines. If the eleven governments other than the United States that signed TPP decide to proceed with its application, these important protections would protect and promote digital trade in the region.

The United States has drawn upon precedents including TPP in developing its proposed digital trade chapter in a modernized North American Free Trade Agreement (NAFTA). Agreement on a strong digital trade chapter among the United States, Canada and Mexico would send a clear message to other countries in the Asia-Pacific region of North America's commitment to digital trade. If the United States considers possible amendment of KORUS, a state-of-the-art digital trade chapter should be a priority. Similarly, the United States should pursue such chapters as it explores bilateral free trade agreements with other countries in the Asia-Pacific region.

[4] In the future, as the APEC CBPR framework expands geographically in the region and is utilized by additional companies, it holds promise as a unifying mechanism among the disparate national and regional mechanisms for data transfer. For example, the European Commission, responsible for administering the EU's comprehensive General Data Protection Regulation, and APEC have analyzed the similarities and differences between the two regimes. They are expected to begin further discussions on the possibility of a formal EU certification of the APEC CBPRs, which in turn could be a potentially significant step in eventual global inter-operability for data transfer.

Comments to Ways and Means Committee in Response to Hearing on Opportunities to Expand U.S. Trade Relationships in the Asia-Pacific Region

Submitted on behalf of HanesBrands Inc.
Headquarters located:
1000 East Hanes Mill Road
Winston Salem, NC 27105

October 10, 2017

Many Asia-Pacific countries have become manufacturers of products that are destined for the U.S. market over the past thirty years. Over time, the progress in shipping and transportation have drawn the United States closer to the Asia-Pacific countries. As a result, the production value chain has matured and in the last decade we have seen increased opportunity to use U.S. origin/formed inputs in this value chain.

These countries are an opportunity not only for finished U.S. goods, but for U.S. inputs that can be used to manufacture other goods. However inherent in our current system is a bias that negates the value of U.S. inputs when they are used to manufacture a good outside the U.S. and returned. This imbalance is a disincentive to U.S. manufacturers of inputs, to U.S. exporters and to U.S. companies developing a global value chain. Modifications to U.S. law which today penalizes a competitive U.S. industry -the textile sector- would spur increased U.S. manufacturing, U.S. exports and use of U.S. goods in global supply.

For example, let's look at an item for which production has migrated offshore: apparel - where 98% of all apparel sold in the U.S. is manufactured abroad and imported. Apparel production notwithstanding, the U.S. cotton, manmade fiber, yarn and fabric industries remain vibrant and globally competitive. Currently, U.S. origin yarns and fabrics that are exported for manufacturing into a finished garment and then re-imported into the United States are subjected to a duty on the <u>full value</u> of the finished article, at an average duty rate of 12.55% and up to 32%.

A significant opportunity exists for U.S. textile manufacturers to expand exports and to encourage the use of U.S. yarns and fabrics in apparel made in the Asia-Pacific region for the U.S. market. This opportunity is an extension of the current U.S. outward processing program that allows the deduction of the value of U.S. origin yarns and fabrics from the total value of the finished article for duty purposes, thereby preventing a tax on U.S. materials and promoting the incorporation of U.S. materials into Asia-Pacific manufactured goods.

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The U.S. laws that exist today have been in place since the 1960's. Current U.S. law on outward processing has not been not updated since then and does not apply to our example of apparel because it only takes into consideration materials that U.S. Customs and Border Protection defines as "fabricated components" that are "assembled" abroad. This limited language doesn't allow for commodities or materials shipped in forms other than as "components" or that are incorporated into manufactured articles through means outside of an antiquated concept of "assembly" processes.

U.S. law notwithstanding, global law has been updated as recently as 2016 to reflect and encourage outward processing of intermediary or inputs globally. In fact, the WTO Trade Facilitation Agreement specifically advocates this type of outward processing program. Article 10, Paragraph 9.2 provides:

9.2 Inward and Outward Processing

(a) Each Member shall allow, as provided for in its laws and regulations, inward and outward processing of goods. Goods allowed for outward processing may be re-imported with total or partial exemption from import duties and taxes in accordance with the Member's laws and regulations.

(b) For the purposes of this Article, the term "inward processing" means the customs procedure under which certain goods can be brought into a Member's customs territory conditionally relieved, totally or partially, from payment of import duties and taxes, or eligible for duty drawback, on the basis that such goods are intended for manufacturing, processing, or repair and subsequent exportation.

(c) For the purposes of this Article, the term "outward processing" means the customs procedure under which goods which are in free circulation in a Member's customs territory may be temporarily exported for manufacturing, processing, or repair abroad and then re-imported.

Thus, not only would such a program promote the export of U.S. inputs as well as the use and incorporation of those inputs into manufactured goods, it would also be a natural and WTO-consistent update of U.S. law to facilitate trade in U.S. materials.

Further, a modification to U.S. law that would promote U.S. manufacture, U.S. exports and benefits to U.S. companies is in alignment with current U.S. trade policy and is long overdue. In fact, with respect to the example of an apparel item, it has been the practice of the United States, when it is negotiating free trade agreements to specifically include the use of U.S. made yarns and fabrics when making apparel abroad by the form of the rules of origin. This rule system ingrains the practice of using U.S. origin inputs. However, the conflict is that outside of the free trade agreements, there is no incentive to use U.S. origin inputs in apparel manufacturing. We

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need to modify U.S. laws to incentivize the use of, manufacture of and export of U.S. inputs in products such as apparel or other goods that have migrated offshore to build our domestic textile industry. Such a policy is consistent with the U.S. domestic textile industry which has advocated that a yarn forward rule of origin promotes exports of U.S. textiles in U.S. free trade agreements. We urge Congress to recognize that such a change in policy would expand our market in the Asia Pacific countries to drive even greater exports U.S. yarns and fabrics.

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Written Testimony of
Sahra English
Vice President, Global Public Policy
Mastercard

House Ways and Means
Subcommittee on Trade

Hearing on
Opportunities to Expand U.S. Trade
Relationships in the Asia-Pacific Region

October 25, 2017

Mastercard is a technology company in the global electronic payments services ("EPS") industry that connects consumers, financial institutions, merchants, governments and businesses worldwide, enabling them to use electronic forms of payment instead of cash and checks. As the operator of what we believe is the world's fastest payments network, we facilitate the switching (authorization, clearing, and settlement) of payment transactions and deliver related products and services. We also provide value-added offerings such as safety and security products, information services and consulting, issuer and acquirer processing, and loyalty and reward programs. Our network is designed to ensure safety and security for the global payments system. Mastercard is headquartered in Purchase, New York.

Mastercard contributes billions of dollars to the U.S. services trade surplus. Roughly half of our revenue is generated by processing payments in countries around the world using our centralized global operations center in St. Louis. Whenever technically feasible and legally permissible, we provide services from our base in the United States. This approach is not only efficient, but it keeps jobs and technology in the United States. For example, since 2010, Mastercard global revenues have nearly doubled, which has coincided with a growth domestically of U.S. jobs of over 50%.

Mastercard's centralized business model, however, is coming under threat as many countries around the world have turned to policies that require localization of payment infrastructure or data, or that seek to displace U.S. companies like Mastercard by establishing government-created, -supported, or -protected domestic competitors. We group these policies under the broad rubric of "disintermediation." Disintermediation policies make it difficult or impossible for Mastercard to continue exporting services from the United States.

In many cases, international trade rules provide the sole or main tool to protect against disintermediation policies. For this reason, Mastercard strongly supports the enforcement of trade agreements and the negotiation of new trade agreements to ensure open and level playing fields in foreign markets.

I highlight below examples illustrating the growing problem of disintermediation policies in China, Vietnam, Thailand, and Bangladesh.

CHINA

For decades, Mastercard has processed what we call "cross-border" transactions in China. Cross-border transactions primarily involve purchases by individuals traveling to and from China, and take place in a currency other than renminbi ("RMB"). Until last year, there was no legal avenue for non-Chinese companies to obtain a license to process RMB-denominated (domestic) transactions that take place in China on cards issued in China. As a result, a Chinese company called China UnionPay ("CUP") has had a stranglehold on the domestic market in China, and has been able to leverage its position to build an acceptance footprint around the world and compete directly with established U.S. EPS companies. In fact, in just 15 years, CUP has become the largest network in the world.

When China joined the WTO in 2001, it committed to allow non-Chinese EPS companies to compete and do business in its domestic market on equal terms with Chinese companies, including by processing RMB-denominated transactions in

China. Unfortunately, China ignored their WTO commitments. The United States challenged China's EPS regulations in WTO dispute settlement, and prevailed in 2012.

After several years of consistent, high-level engagement by the U.S. government, China adopted new Administrative Measures in 2016 that allow non-Chinese EPS companies to obtain licenses to process domestic transactions. However, the Administrative Measures impose many regulatory hurdles, and it remains to be seen how China will implement certain requirements related to, for example, national security reviews and cybersecurity. It also remains uncertain whether China will restrict the ability of non-Chinese EPS companies to process cross-border transactions using infrastructure located outside China.

It is critically important to U.S. EPS companies to be able to process both domestic and cross-border transactions in China. In July 2017, the U.S. secured China's agreement as part of the 100-day plan in the U.S.-China Comprehensive Economic Dialogue to allow U.S. EPS companies to begin to apply for licenses, which in turn should lead to "full and prompt market access."

VIETNAM

U.S. EPS companies have actively participated in Vietnam's payment market for more than twenty years. Last year, the State Bank of Vietnam ("SBV") issued Circular 19/2016/TT-NHNN ("Circular 19"). Article 24 of Circular 19, if implemented, would require all non-Vietnamese (including U.S.) EPS companies to route all their transactions through a local "payment gateway." It is widely understood that the gateway will be a local Vietnamese company known as the National Payments Corporation of Vietnam ("NAPAS"), which is majority owned by SBV.

NAPAS already directly competes against U.S. EPS companies as it continues to build a full-service payments network, with its own brand, contractual relationships with banks, and the ability to perform transaction processing. If SBV implements Article 24, Circular 19 as originally planned, NAPAS would be given an unfair, and perhaps insurmountable, advantage as the sole connection point for all payment transactions in Vietnam.

The U.S. government has raised concerns with Vietnam over the commercial impact of Article 24, Circular 19 and pointed out that Vietnam's policies will ultimately lead to a less secure, less reliable, inefficient, and non-competitive EPS sector. In response to these concerns, Vietnam has agreed to suspend implementation of the gateway requirements in Circular 19 for one year, to allow time for further study.[1] The suspension is a welcome development, but we remain deeply concerned that Vietnam might, at the end of the suspension period, move forward with its proposal.

Article 24, Circular 19 is an ill-conceived, protectionist measure. If implemented, it would be detrimental not only to U.S. companies but to Vietnam itself. The EPS

[1] With the exception of Article 24, which deals with the gateway, Circular 19 has been in effect since it was issued. Article 24 was originally intended to enter into force on January 1, 2018. As of the time of writing, the one-year suspension has been communicated to Mastercard and Visa but has not yet been officially communicated to the wider industry.

sector in Vietnam has great commercial potential. Article 24, Circular 19 threatens to undermine that potential and unfairly lock U.S. EPS companies out of the market.

THAILAND

Since 2013, Thailand has required that all domestic debit transactions on cards issued domestically be processed on-soil in Thailand. As a result, suppliers must establish a local presence and build on-soil processing facilities to process debit transactions. As Mastercard does not have processing facilities deployed on-soil, it does not process domestic debit card transactions, even if they are executed on Mastercard-branded debit cards. Those transactions are routed to a local entity for processing. Recently, Thailand adopted a new Payment System Act, which will empower the Bank of Thailand to regulate the payments industry. Mastercard may be classified under the new legislation as a "regulated payment system" (implementation regulations are in the process of being drafted). The risks to Mastercard include being subject to conditions that could further restrict our ability to provide services from the U.S.

Thailand is also reviving the Credit Card Bill, which had been stalled due to the change in government. An initial draft of the law included a requirement to process domestic credit card transactions on-soil. That requirement was removed but might be re-introduced. As with domestic debit transactions, if there is an on-soil processing mandate for domestic credit card transactions, Mastercard will either lose its ability to process domestic credit card transactions or be forced to establish processing facilities in Thailand.

BANGLADESH

Since 1997, Mastercard has made considerable investments in Bangladesh by partnering with 16 domestic banks to help establish a payment system with world class security standards and a reliable acceptance network.

The National Payments Switch of Bangladesh (NPSB) was launched on December 27, 2012 with a mandate to route ATM transactions. Officially, on August 24, 2017, Bangladesh Bank required that all domestic point of sale ("POS") transactions also be switched through the NPSB. With the introduction of NPSB, the Bangladesh Bank has become both a regulator and a market player while setting pricing (interchange fees), downgrading security standards, and requiring banks to route domestic transactions only through the NPSB, with a systemic risk of a single point of failure. With this mandate implemented, international players are being denied access to large sections of the Bangladesh payments market.

CONCLUSION

Mastercard welcomes fair competition, but opposes any government policies that create an unlevel playing field, particularly those that provide advantages to local entities operated or favored by governments. The examples provided above are merely illustrative of the types of disintermediation policies U.S. EPS companies face around the world.

International trade rules provide the best protection against the continued spread of these protectionist policies and the best tool for persuading countries to change the policies and positions they have already adopted. Mastercard supports a rigorous trade agenda to enforce existing trade agreements and negotiate new, modern agreements to open markets around the world.

Statement of the U.S. Chamber of Commerce

ON: Opportunities to Expand U.S. Trade Relations in the Asia-Pacific Region

**TO: U.S. House of Representatives
Committee on Ways & Means
Subcommittee on Trade**

BY: U.S. Chamber of Commerce

DATE: October 11, 2017

1615 H Street NW | Washington, DC | 20062

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. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

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. In addition to 117 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.

The U.S. Chamber of Commerce is pleased to submit this statement for the record to address U.S. economic relations with the Asia-Pacific region, which is critical to current and future U.S. economic growth, competitiveness and job creation. U.S. exporters—whether large or small companies producing goods and services or farmers and ranchers exporting agricultural products—need access to these fast growing economies and the rising pool of consumers.

According to the Organization for Economic Cooperation and Development, the global middle class will expand to 3.2 billion by 2020 and 4.9 billion by 2030, from 1.8 billion in 2009. Most of this growth is in Asia: In fact, Asia's middle-class consumers will represent 66% of the global middle-class population and 59% of middle-class consumption by 2030, doubling these shares since 2009.

It is essential, therefore, that U.S. agricultural, industrial, technology and service exporters have access to these dynamic markets. Unfortunately, the United States is falling behind. There are four primary reasons or factors at play:

1) First and foremost is China's growing economic dominance of the region through trade, investment, infrastructure, and other major initiatives.

2) Second is the decision by the Trump Administration to withdraw from the Trans-Pacific Partnership (TPP), a decision that sent confusing signals about the U.S. commitment to the region. This action potentially excludes the United States from the largest regional agreement as the so-called "TPP-11" countries work to bring the agreement into force without the United States in a slightly altered form.

3) Third is the proliferation of new trade agreements from within and outside the Asia-Pacific region. With the TPP decision, the United States has only three free-trade agreements (FTAs) in the region, with Australia, Singapore, and South Korea. Meanwhile, the European Union, Canada, and others are aggressively seeking to negotiate and conclude FTAs with countries ranging from Japan to Vietnam in order to gain preferential access for their exporters.

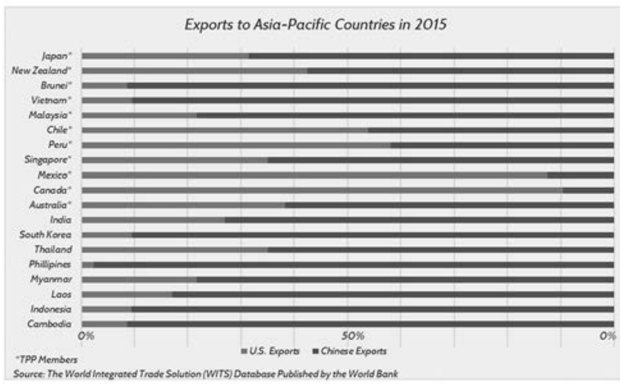
4) Last but not least is the spread of domestic policies, regulations, standards and administrative practices in various countries across Asia that both inadequately protect intellectual property and restrict U.S. companies' ability to compete on a level playing field, particularly in sectors such as the digital economy, health care, financial services, and advanced manufacturing in which U.S. companies are among the most competitive.

Asian countries want an active U.S. presence in the region. They want to be robust trading partners with the United States. But Asian economies are not standing still as the United States seeks a strategy for economic engagement with the region. They are moving forward across a number of fronts, from trade and aid to investment and infrastructure with all manner of partners.

Trade between Asian countries is surging, but even as total Asian imports have risen more than three-fold, the U.S. share of the pie has dropped dramatically in the past 15 years.

China's Dramatic Rise: Regional Dominance and Domestic Challenges

As the charts below indicate, China has become the dominant regional trade power since the turn of the century. China is the top trading partner for most Asian economies—from Japan and Korea in the northeast to Indonesia and Malaysia in the southeast.



In addition to China's growing regional role, the United States and China share a highly interdependent yet complex relationship that is critically important to each other and the world. U.S. industry continues to see significant economic opportunity in the China market, which is worth half a trillion dollars annually to U.S. companies—and should be worth considerably more.

Together, the U.S. and China represent approximately 40% of the global economy. China is the third largest merchandise export market for the United States. The American Chamber of Commerce in China (AmCham China) *2017 China Business Climate Survey* reports that the majority of U.S. companies experienced revenue growth in 2016.

While top-line revenue growth for some of our members is encouraging, more far-reaching outcomes are urgently needed to address the myriad structural impediments that inhibit U.S. companies from accessing and competing in the China market. Long-standing concerns are intensifying regarding market access restrictions, national security policy, and industrial policy support for domestic champions.

Overall, an increasingly burdensome and restrictive regulatory environment in China is undermining optimism as well as the hope for market-based reforms and market opening that companies held when the *Third Plenum Decision*[1] was released in 2013. For example, the successive adoption of China's *Counterterrorism, National Security, and Cybersecurity Laws*, along with the draft *Encryption and Export Control Laws*, have created burdensome new market access, operating, and compliance challenges for our members. According to the AmCham China 2017 Survey, 31% of surveyed businesses reported a deteriorating investment environment (a record amount), and 81% of members reported feeling less welcome now than they did in previous years.[2]

As a result, China, while remaining a significant market overall for American companies, is becoming less of an investment priority for some of our members than it once was. According to the AmCham China 2017 Survey, China's status as a top-three investment priority has declined to a record low of 56% from 78% in 2012. According to China's Ministry of Commerce (MOFCOM), China's total inbound foreign direct investment (FDI) from the world for January to July 2017 dropped 6.5% year-over-year.[3] Investment restrictions in China's market, coupled with a restrictive regulatory environment, continue to limit the ability of U.S. companies to provide goods and services in China. Furthermore, these restrictions are a source of increasing tension in the relationship.

A number of policy issues contribute to American company concerns, among them:

- an investment regime that is the second most restrictive among G20 countries, only behind Saudi Arabia, and limits market access in service sectors such as banking, insurance, securities, telecommunications, and cloud computing;
- industrial policies like Made in China 2025 that are using state resources to create and alter comparative advantage in global markets;
- cybersecurity, information communication technology (ICT), and data policies that pose challenges for global connectivity and that use security as a pretext to pursue and disguise industrial policies in these areas;
- an Anti-Monopoly Law that often is enforced in a discriminatory manner and used to advance industrial policies; and

[1] http://cpc.people.com.cn/n/2013/1115/c64094-23559163.html
[2] 2017 AmCham China White Paper, pg. 10
[3] http://data.mofcom.gov.cn/channel/includes/list.shtml?channel=wzsj&visit=C

- IP enforcement that, while improved in certain areas in recent years, is insufficient to protect against high levels of counterfeiting, piracy, and trade secret theft.

The Chamber has been forthright in expressing our serious concerns regarding a range of Chinese government policies and practices that restrict access to its market, condition participation in the market on technology transfer, and broadly seek to undermine the value of IP held by American companies. These are global concerns that have also been voiced by stakeholders from around the world over many years. We have therefore published a series of reports covering indigenous innovation (2010),[4] investment restrictions (2012),[5] state-owned enterprises (2012),[6] China's antitrust policies (2014),[7] China's ICT policies (2016),[8] and Made in China 2025 (2017),[9] all of which describe the wide range of ways China uses its regulatory regime and localization policies to support domestic champions, disadvantage foreign companies, and induce technology transfer.

China's regulatory regime and its enforcement, including but not limited to IP policies, presents a unique and complex set of challenges for U.S. industry. Regrettably, the regime and its enforcement too often exact a cost to our members—most often in the form of technology and IP—to access and compete in the market. As China's economy takes on greater significance and its companies ascend the value chain, policies that force or induce technology transfer or support domestic champions by discriminating against U.S. companies risk compromising our nation's overall competitiveness.

Today, the Chinese economy, the world's second largest, moves global markets, and its companies across many industries are no longer laggards but fierce global competitors. China's Railway Rolling Stock Corporation has contracts to build subway cars in Boston, Chicago, and Los Angeles,[10] and seven of the top 10 global handset makers, in terms of market share, are Chinese. Moreover, Chinese companies, private and state-owned, expect the best treatment available as they enter and compete in markets around the world—even as they enjoy significant protection and support at home.

An uncompetitive China market raises serious concerns not only for its domestic economy but its economic partners. Chinese industrial policies precipitate market inefficiencies

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[4] "China's Drive for 'Indigenous Innovation' A Web of Industrial Policies," U.S. Chamber of Commerce (2010) https://www.uschamber.com/sites/default/files/documents/files/100728chinareport_0_0.pdf

[5] "China's Approval Process for Inbound Foreign Direct Investment: Impact on Market Access, National Treatment and Transparency," U.S. Chamber of Commerce (2012) https://www.uschamber.com/sites/default/files/documents/files/020021_China_InboundInvestment_Cvr.pdf

[6] "No Ancient Wisdom, No Followers: The Challenges of Chinese Authoritarian Capitalism," Jim McGregor (2012)

[7] "Competing Interests in China's Competition Law Enforcement: China's Anti-Monopoly Law Application and Role of Industrial Policy," U.S. Chamber of Commerce (2014) https://www.uschamber.com/sites/default/files/aml_final_090814_final_locked.pdf

[8] "Preventing Deglobalization: An Economic and Security Argument for Free Trade and Investment in ICT," U.S. Chamber of Commerce (2016) https://www.uschamber.com/sites/default/files/documents/files/preventing_deglobalization_1.pdf

[9] "Made in China 2015: Global Ambitions Built on Local Protections," U.S. Chamber of Commerce (2017) https://www.uschamber.com/sites/default/files/final_made_in_china_2025_report_full.pdf

[10] "China's High-Speed Rail Diplomacy," Michelle Ker, U.S.-China Economic and Security Review Commission (February 2017) https://www.uscc.gov/sites/default/files/Research/China%27s%20High%20Speed%20Rail%20Diplomacy.pdf

and spark overcapacity, resulting in lower prices for global commodities and the potential for predatory pricing—which has forced non-Chinese companies out of business in steel, solar, aluminum, and other industries.

Having a competitive market in China is critical to minimizing these market distortions globally from China. In addition, American companies need to be able to succeed in China to ensure sufficient economies of scale to compete in the global economy against Chinese and other firms.

Bilateral Engagement

The range of discriminatory policies and other factors (e.g., inadequate legal protections) that affect U.S. industries are significant. They require a long-term and comprehensive strategy. It is important that the ongoing Section 301 investigation form part of this comprehensive strategy so that the United States can continue to make progress on the full panoply of issues in our bilateral relations over time. While the various dialogues and commissions have proven to be less productive and slower-moving than needed, they have provided a mechanism to achieve progress on discrete issues. Along with the Section 301 tool, the U.S. government should prioritize the development of new, revitalized, and effective outcomes-focused dialogues/commissions to ensure continuous improvement of access to China's market, including not only through the Comprehensive Dialogue but also through Joint Commission on Commerce and Trade-like mechanisms.

To achieve success in the future, the Chamber believes the U.S. government should not only develop a comprehensive strategy, but also articulate it publicly. A successful strategy should emphasize diplomacy and use both bilateral and multilateral policy tools that are consistent with U.S. international obligations, with the aim of achieving enduring solutions. It must also prioritize the development of strong coalitions with like-minded countries. The U.S. government has a unique opportunity to lead allies in a concerted effort to address technology transfer challenges with China, but doing so will require it to increase substantially the priority it attaches to working effectively with allies on the underlying challenges, perhaps at the expense of other priorities on the trade agenda.

Despite the immense challenge that China's actions and policies present, the bilateral economic relationship continues to produce significant benefits for U.S. companies, workers, and consumers. The Chamber believes the U.S. government should ensure that U.S. businesses and workers benefit from any actions to address the technology transfer and other challenges with China, and make maximum efforts to minimize harm to American companies and workers stemming from the investigation, its findings, and any subsequent actions.

Developing strategies to counter China's unfair policies and practices is important. Equally, if not more important, is taking the steps at home that can reestablish the U.S. economy as the most successful and admired in the world. This includes improving our healthcare system, reforming our tax policies, maintaining immigration policies that support growth and innovation, and investing heavily in education, R&D, and infrastructure.

The Consequences of TPP Withdrawal

To say that U.S. trade partners that had worked so hard to conclude the TPP agreement over seven years of negotiations were disappointed with the Trump Administration's decision to withdraw is an understatement. The TPP was by no means a perfect agreement, but in many important respects it is the most advanced trade agreement yet negotiated. In addition to opening markets for goods and services, the TPP sets high standards for digital commerce, competition with state-owned enterprises, regulatory coherence, and in a number of areas relating to intellectual property protection—all of which matter enormously for U.S. exporters of all sizes, but particularly small and mid-sized companies.

In the aftermath of the U.S. decision, Japan and New Zealand, which have ratified the TPP, have assumed leadership roles in trying to push forward with a possible "TPP-11" arrangement. It is clear their objective is to advance the TPP in some form, so that the strong rules and high standards contained in TPP survive.

Other countries in Southeast Asia, notably the Philippines and Thailand, had signaled their interest in joining the TPP, and undertook significant analytical work in preparation for potentially joining the agreement. They may still ultimately join a TPP-11 should that arrangement move forward, as seems likely.

There are direct economic losses for American exporters as a result of the TPP withdrawal. For example, Australian beef exporters have a 10 percentage point advantage over American beef exporters in Japan due to the Australia-Japan FTA. The TPP would have eliminated the relative disadvantage of U.S. cattlemen. Similar stories are found in other agricultural and industrial sectors across the region, where a few percentage points of tariff advantage often confer major commercial gains to U.S. competitors.

A bilateral FTA with Japan could potentially close this gap, but according to Japanese officials in public comments, the United States should not expect to get more than we would have with the TPP. Further, negotiating a bilateral FTA with Japan would still take several years.

Another cost of the TPP withdrawal is harder to quantify but no less important. Some TPP countries have explicitly said they are backtracking on commitments they were prepared to make under the TPP that would help U.S. companies. This problem is especially acute with regard to business priorities that are inaccurately but commonly viewed as primarily beneficial to the United States, such as stronger intellectual property protections and enforcement.

In sum, the United States has withdrawn from the TPP, but the challenges — and opportunities — it was designed to address remain. These include: (1) the Asia-Pacific region is growing, and it will soon be home to two-thirds of the world's middle class consumers; (2) made-in-America products are too often shut out of those promising markets by steep tariffs and other barriers; and (3) U.S. exporters' disadvantages in the region are likely to mount as Asian economies clinch new trade pacts that benefit Asians but shut us out.

Should the TPP-11 move forward, the extreme disadvantages that U.S. exporters will face will likely incentivize many companies to establish operations in Asia in order to retain their access to these valuable markets.

Regional Trade Agreements are Proliferating

As indicated, the U.S. has only three FTAs in the region, with Australia, Singapore, and South Korea. At the same time, according to the Asia Regional Integration Center of the Asian Development Bank, Asian countries have signed 140 bilateral or regional trade agreements, and 75 more are under negotiation or concluded and awaiting entry into force.

In addition to the TPP-11, one notable pact now under negotiation is the Regional Comprehensive Economic Partnership (RCEP), involving the 10 ASEAN economies, Japan, China, Korea, Australia, New Zealand and India. While RCEP is an ASEAN initiative, China is making efforts to drive negotiations to a conclusion this year. RCEP is a lower-standard agreement than the TPP, but is one of two pathways toward the APEC goal of an eventual Free Trade Agreement of the Asia-Pacific (FTAAP), the TPP being the other.

Moreover, the lack of U.S. strategic economic engagement in the region is creating a void that will be filled by our competitors. For example, the European Union is currently negotiating trade agreements with Indonesia, Malaysia, the Philippines, and Thailand, and has completed (but not yet implemented) deals with Japan, Singapore and Vietnam. All of those countries individually have FTAs with numerous other markets around the world as well, compounding the problems for U.S. exporters into the region.

Our regional and global competitors also aggressively support their exporters in Asian markets. Leaders of these countries take trade delegations to the most promising markets in search of commercial deals. They provide export credits and low interest loans for their companies through aggressively funded export credit agencies. Furthermore, they tie foreign assistance to commercial opportunities. China's support via One Belt One Road and the Asian Infrastructure Investment Bank (AIIB) is accelerating and will take this activity to a new level.

Meanwhile, we have not yet restored the Ex-Im Bank to full capacity, and are arguing over whether we should reduce our foreign assistance budget, which is less than 1% of GDP, and of which only 2% goes to Southeast Asia.

The Trump Administration has frequently and clearly stated its preference to pursue bilateral trade negotiations with Asian trading partners. To date, there are no specific plans underway in this regard, so it is difficult for the Chamber to take a view on any prospective bilateral FTAs. Our position is that for any new bilateral FTA sought by the United States, Trade Promotion Authority (TPA) sets the right negotiating priorities and the proper process, and it should be followed scrupulously.

Whether bilateral FTAs can deliver much for American exporters is open to question. In an era of global value chains, the TPP had the advantage of cutting through the "Asian noodle bowl" of divergent trade rules under multiple agreements.

Further, it is unclear if any other countries in the region are genuinely interested in negotiating bilaterally with the United States. Among other actions, the Administration's repeated threats to withdraw from KORUS and NAFTA have not engendered confidence toward the United States on the part of our Asian trading partners. In any event, the United States is running out of time. Bilateral FTAs, even with small economies, will take years to negotiate and enter into force. Our exporters will continue to be at a competitive disadvantage.

The U.S.-Korea FTA (KORUS)

The U.S.-Korea Free Trade Agreement (KORUS) remains the cornerstone of our bilateral trade and investment relationship, and importantly, supports our vital security alliance with the Republic of Korea. We cannot overstate how intertwined these relationships are, and we must be careful not to disrupt them.

Since early July, when Korean President Moon Jae-in visited Washington, the Trump Administration has placed KORUS under scrutiny. There has been strong criticism of the U.S. trade deficit with Korea, discussion of renegotiation, and rumored threats of withdrawal. All of this has occurred against the backdrop of escalating missile launches and a nuclear test by the regime of Kim Jong-Un of the Democratic People's Republic of Korea (DPRK).

U.S. industry has expressed frustration with the unsatisfactory implementation of KORUS in a number of areas in the five years since it entered into force. Some areas of concern cited by U.S. companies include customs verification, non-tariff measures in the automotive sector, transparency in pharmaceuticals and medical devices, financial services, and others. While some of issues have been resolved, some issues have lingered.

KORUS established a comprehensive committee structure that allows governments to review progress and problems at regular intervals, and this structure should be employed vigorously. Indeed, given the current effort underway between the governments under Article 22.2 of the KORUS agreement, this is an opportunity to redouble U.S. efforts to press the Korean government to fully implement and respect the letter and the spirit of the agreement.

The Chamber believes this approach to ensure full and faithful implementation of KORUS and, if necessary, "amend and modify" the agreement in some areas is greatly preferable to withdrawal or a renegotiation. The agreement as written sets a high bar, and in a number of areas includes the strongest rules yet achieved in U.S. trade agreements.

It is important to note that KORUS has led to sharp increases in U.S. service exports while exports of many U.S. agricultural and industrial goods—namely, those that have benefitted from tariff elimination—have increased since KORUS went into effect five years ago. KORUS has helped maintain a steady level of U.S. goods exports at a time when Korea's overall imports have dropped dramatically due to domestic economic difficulties. Trade through the first half of 2017 shows that U.S. exports to Korea have increased by over 20%.

These important gains for U.S. companies should not be overlooked, nor should KORUS be alternately credited or blamed for changes in trade patterns in sectors where it had no impact (more than half of U.S.-Korea goods trade was already duty free before KORUS). The U.S.

bilateral trade deficit in manufactured goods should not be viewed as the proper measure of the agreement's quality. KORUS has increased opportunities for U.S. exporters and will continue to do so as tariff cuts take full effect over the next few years.

At the same time, withdrawal from KORUS would subject U.S. exports to Korea to some of the highest tariffs of any developed economy. Korea's average most-favored nation tariff was 13.9% in 2016, a level about four times higher than the U.S. equivalent. Leaving KORUS would hit U.S. exports hard as these steep levies were reestablished. The gains U.S. exporters have achieved under KORUS — U.S. aerospace exports to Korea have doubled to $8 billion, and U.S. beef exports have risen 82% to $1 billion, to cite two examples — would be lost.

In short, there are positive forces at work, and trends in trade are moving in a positive direction. Overall implementation of the agreement must be improved. That should be our collective focus and goal—to ensure this high-standard agreement is implemented fully and faithfully so that it is truly a win-win. The Chamber is confident that if the Korean government does this, U.S. exports will continue to expand.

Conclusion

The U.S. Chamber of Commerce appreciates that the Ways & Means Committee called this hearing to discuss the critical importance of trade in Asia to U.S. exporters. U.S. economic engagement with Asia is not a luxury but a necessity for any efforts to spur economic growth and job creation here at home and ensure a secure and prosperous region for posterity.

Unfortunately, given the TPP decision and threats to withdraw from KORUS, U.S. policy toward the Asia-Pacific is being perceived in the region as economic "disengagement" more than anything else. The U.S. business and agriculture community faces tremendous competitive pressures and significant market access barriers in Asia. In the absence of a forward-leaning trade policy toward the region, we can expect that we will continue to lose market share and that important trading partners in Asia will continue to forge deals with other countries, to the exclusion of the United States.

The bottom line is that the United States needs to deploy the full array of tools to help boost American competitiveness in this dynamic region. This includes ensuring full compliance with and enforcement of existing trade agreements; the conclusion of new TPA-compliant trade agreements, bilateral investment treaties, or other formal commercial agreements; and full support for the Ex-Im Bank, U.S. Commercial Service, and other U.S. government agencies that can help address barriers and advise companies — particularly small and medium-sized companies — seeking new opportunities in these dynamic markets; and full enforcement.

We appreciate the opportunity to share these comments and look forward to our ongoing engagement with you.

Annex: U.S. Chamber of Commerce Reports on U.S. Economic Relations with China

- *Made in China 2025: Global Ambitions Built on Local Protections* (March 2017)[11] examines China's plan to become an advanced manufacturing leader in industries critical to economic growth and competitiveness. The report catalogues China's policy efforts to use a number of tools, including subsidies, standards, procurement, financial policy, and government-backed investment funds, to reach ambitious domestic and international targets. By leveraging the power of the state to alter competitive dynamics in global markets, MIC 2025 risks sparking economic inefficiencies affecting China and overcapacity affecting the global economy.

- *Cultivating Opportunity: The Benefits of Increased U.S.-China Agricultural Trade* (November 2016)[12] reveals that reducing or eliminating relevant tariffs and other behind-the-border barriers between the United States and China could result in $28.1 billion in additional cumulative gains in two-way agricultural sector trade over 2016-2025. The United States would realize gains of $17.6 billion—a nearly 40% increase over baseline projections.

- *Preventing Deglobalization: An Economic and Security Argument for Free Trade and Investment in ICT* (September 2016)[13] examines threats to the global economy from emerging policies restricting open trade and investment in the information and communications technology (ICT) sector and attempts to quantify their impact. While the report is global in scope, Chinese industrial policies feature prominently.

- *Competing Interests in China's Competition Law Enforcement: China's Anti-Monopoly Law Application and the Role of Industrial Policy* (2014)[14] examined China's use of its Anti-Monopoly Law to advance industrial policy and boost national champions.

- *China's Approval Process for Inbound Foreign Direct Investment: Impact on Market Access, National Treatment and Transparency* (2012)[15] detailed China's inbound investment approval process and identified challenges for potential foreign investors.

- *China's Drive for 'Indigenous Innovation': A Web of Industrial Policies* (2010)[16] highlighted China's efforts to use its powerful regulatory regime to decrease reliance on foreign technology and develop indigenous technologies.

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[11] U.S. Chamber of Commerce China Center, *Made in China 2025: Global Ambitions Built on Local Protections*, March 2017: https://www.uschamber.com/report/made-china-2025-global-ambitions-built-local-protections-0.
[12] U.S. Chamber of Commerce China Center, *Cultivating Opportunity: The Benefits of Increased U.S.-China Agricultural Trade*, November 2016: https://www.uschamber.com/report/cultivating-opportunity-the-benefits-increased-us-china-agricultural-trade.
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