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Trade Policy Staff Committee Hearing on Proposed Trans-Pacific Partnership Free Trade Agreement with Singapore, Chile, New Zealand, Brunei Darussalam, Australia, Peru and Vietnam

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Members of the Committee:

Thank you for the opportunity to testify at this important hearing on the Trans-Pacific Partnership (TPP) free trade agreement. AMTAC is a trade association founded by domestic manufacturers who are committed to manufacturing here in the United States. Our objective is to seek the establishment of trade policy and other measures designed to stabilize the U.S. industrial base and thus preserve and create American manufacturing jobs.

AMTAC represents a significant component the U.S. textile industry, including the yarn, fabric, dyeing and finishing, and apparel sectors. We also represent companies from the tool and die, chemical, furniture, mold making, metal products, packaging products and corrugated container industries.

AMTAC has long-standing concerns with the failed Bush Administration policy of rampant proliferation of free trade agreements (FTAs) with countries that are major exporters to the U.S. market who, in return, buy comparatively few finished U.S. goods. These “one-way” trade deals have contributed significantly to the massive debt crisis and job losses plaguing the U.S. economy.

The proposed TPP agreement with Singapore, Chile, New Zealand, Brunei, Australia, Peru and Vietnam replicates this flawed trade policy model. Because Vietnam, Brunei and New Zealand would represent new FTA partners, the bulk of AMTAC’s remarks will focus on these three countries.

Despite their relative affluence, consumers in New Zealand and Brunei represent market of just $153 billion, less than 1.1 percent of the U.S. economy. Together these countries equate to the economy of San Diego or Minneapolis. As a result of the small scale of their economies, New Zealand and Brunei have limited ability to purchase finished U.S.-made goods.

Vietnam, on the other hand, with a per capita GDP of $2,900, has virtually no ability to purchase finished goods made in the United States with our comparatively high wages and strong environmental, labor, safety, and health standards. Nor does Vietnam use substantial amounts of U.S. component products in its industrial supply chain because of the proximity of China and other large Asian industrial exporters. A potential free trade agreement with Vietnam would be a disaster and would represent the worst aspects of the failed “one-way” trade policy of the Bush Administration.

This “one-way” free-trade agreement model disproportionately benefits multinational corporations who are anxious to shift U.S. production to countries that have some of the weakest labor, environmental and safety standards in the world, like Vietnam. Many of these agreements also include third-party loopholes that allow component parts made in countries like China.

While Americans are constantly told that free trade agreements are a major win for the U.S. economy, the truth is that the replication of this type of unbalanced arrangement in agreement after agreement is exacerbating the U.S. trade deficit. By providing free access to the U.S. market for producers from low labor cost regions or mercantilist economies, these agreements undermine our manufacturing base and fuel record U.S. trade deficits.

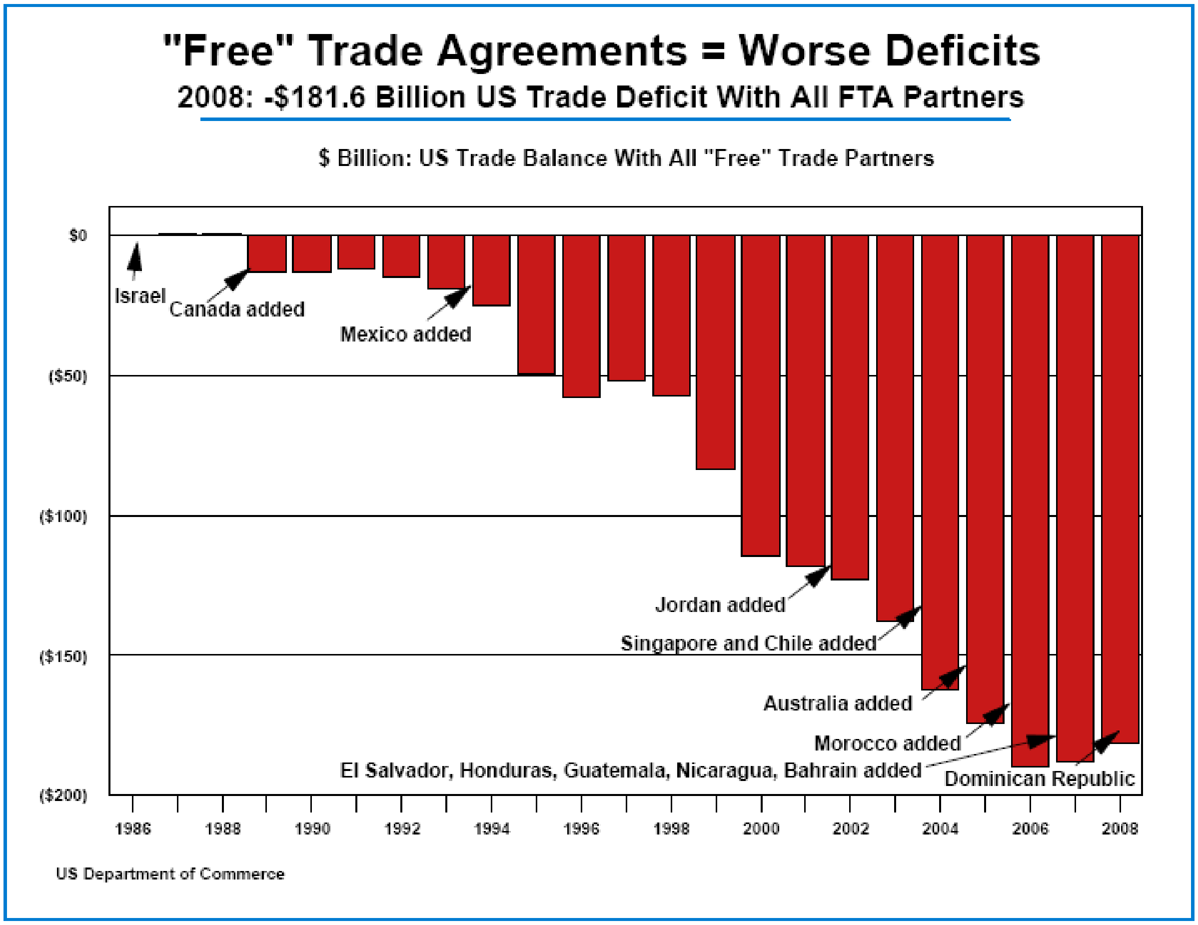
Thanks to our unbalanced free trade agreements and problematic trade relationships with China and other large Asian trade partners, the U.S. current account deficit grew by approximately $5 trillion during the Bush Administration.[1] The overall trade deficit with our free trade partners has skyrocketed from $13.55 billion in 1989 to a massive $181.59 billion in 2008. In addition, over the lifetime of our existing FTAs, the United States has amassed a cumulative $1.79 trillion deficit with our free trade partners.[2]

In many instances, data show that the United States went from a trade surplus with a country prior to signing an FTA to a trade deficit following the agreement’s implementation. For example, the United States went from a small surplus of $1.3 billion with Mexico in 1994 to a $64 billion trade deficit in goods by 2008. And contrary to popular belief, these deficits are not solely driven by oil imports. In fact, in 2008, $49 billion, or just over 27 percent, of our trade deficit with FTA partners was attributable to manufactured products.[3]

[1] U.S. Department of Labor, BLS and MBG Information Services.

[2] Trade deficit figures calculated from U.S. International Trade Commission statistics for Domestic Exports FAS minus Imports for Consumption Value.

[3] U.S. International Trade Commission statistics for HS 28-96.



These trade deficits are a key reason why the U.S. industrial base is hemorrhaging jobs. During the Bush Administration, the United States lost 4.4 million manufacturing jobs. Today's U.S. manufacturing employment of 12.7 million is the lowest such figure since September 1941. In fact, total U.S. industrial production actually declined 1.4 percent during the Bush Administration; this is the first eight-year decline since 1930-1938. For manufacturing, production fell 3.5 percent during the last eight years.[4]

In the context of our current debt-driven economic crisis, these stark figures demand that America pause and conduct a careful analysis of what does and does not work in terms of U.S. trade policy. Such an analysis would determine how our various agreements are affecting key issues such as GDP growth, the trade deficit, worker wages and the impact on industries essential to our nation's defense industrial base.

Beyond these general objections relating to the continuation of a flawed model, AMTAC has considerable specific concerns with the TPP agreement and its structure. This free trade agreement would be first in which the United States is considering joining an existing framework with ambitions for rapid expansion to additional countries. There are many questions to be answered, but an overriding concern is the level of control the United States will have over important issues such as the process for adding new

[4] U.S. Department of Labor, BLS and MBG Information Services.

members and for settling disputes that may arise. When the United States enters a multiparty agreement, it cedes a substantial level of sovereignty over key decisions that affect our economy and workers.

If it is possible for U.S. interests to be outvoted by the other seven existing participants of the TPP, this problem will only increase as more and more members are added to the agreement. We believe it would be detrimental to the interests of U.S. workers and the manufacturing base for the United States to enter into an agreement where it has no veto power over major decisions. Access to a city-sized market is not worth the loss of sovereignty.

Furthermore, it will be hard to have a "one size fits all" agreement for countries as dissimilar as New Zealand and Vietnam. There will undoubtedly need to be special provisions for Vietnam taking into account its non-market economy status and history of utilizing unfair trading practices.

For the U.S. textile and apparel sector in particular, an FTA with Vietnam would be nothing short of catastrophic. Paying full duties, Vietnam is currently the second largest textile and apparel supplier to the United States behind China. The apparel sector is Vietnam's largest foreign exchange earner and employs 1.1 million people. Vinatex, fully owned by the Vietnamese government, is the 10th largest garment producer in the world. Furthermore, according to information revealed during its WTO negotiations, Vietnam subsidizes its textile and apparel sector through preferential interest rates, wage controls, rent holidays, export subsidies, preferential tax rates and direct investment from the Vietnamese government. Vietnam's apparel industry is also heavily dependent on sourcing components from China

Vietnam's ability to flood the U.S. import market with subsidized products is also well documented. Since Vietnam was given "normal trade relations" access to the U.S. textile and apparel market on December 10, 2001, its exports have increased by 10,897 percent and totaled $5.4 billion in 2008. China, already the world's largest exporter of textile and apparel products, is a major beneficiary of Vietnam's growth as its primary supplier of apparel fabrics.

If TPP negotiations move forward, we would strongly urge U.S. negotiators to exclude textiles and apparel and other sensitive products from any agreement with Vietnam. The United States must acknowledge that Vietnam's progress towards a market-based economy is woefully short of what would be necessary to marry our economies in such a dramatic fashion. Their producers and exporters, who still enjoy numerous state-sponsored subsidies, would only reap an even bigger unfair advantage in the U.S. market through U.S. duty free treatment.

Another major concern is how the agreement will deal with the value-added tax issue. Of the seven countries, only Brunei does not have a value-added tax. The remaining six countries have an average VAT rate of 12.9 percent. In 2007, U.S. exporters faced $6.1 billion in value added taxes upon entry to these countries' markets, and the six countries rebated $5.9 billion in taxes to their producers upon export to the United States. Any future U.S. free trade agreement should include a VAT remedy to eliminate this massive tax disadvantage for U.S. producers.

Finally, monitoring and enforcing an FTA with the TPP countries will be especially burdensome for the U.S. Customs Service. Given the scale of the agreement and the inclusion of cumulation provisions, it will be virtually impossible for Customs to follow components moving between countries in various hemispheres.

In addition, the current agreement appears to contain a value-added rule of origin. Because value-based rules provide an additional level of complexity in verifying origin in that once a product is assembled and shipped, it is impossible for a Customs agent to determine the precise value of components used in a product. Documentation can be easily falsified with very little ability for Customs to question assigned values associated with a particular product.

Given Vietnam's close proximity, China will have an enormous incentive to take advantage of Vietnam's zero duty access to the U.S. market through illegal transshipment and false documentation. At a time when U.S. Customs is stretched thin with critical counter-terrorism efforts, it is nonsensical to keep adding complex free trade agreements that simply cannot be properly enforced.

In conclusion, while the majority of the TPP countries have substantial capability to produce finished goods for export, they have limited ability to consume finished goods manufactured in the United States. This replicates the flawed Bush Administration trade model, which has cost to millions of jobs, crippled key manufacturing sectors such as the U.S. textile industry, and badly damaged the U.S. economy.

It is time for a more pragmatic, economically sound trade agreement model. The TPP is the wrong endeavor at the wrong time. It has the potential for severe, negative consequences for U.S. companies. We respectfully urge the U.S. government to withdraw from the negotiations. Resources should be used to study and modify our current FTA agreements and trade policy instead of continuing on the same path that has helped usher in the worst economic crisis since the Great Depression.

Thank you again for this opportunity to testify today and for your consideration of AMTAC's views.