



# THE OPEN DOOR OF TRADE

The Impressive Benefits of  
America's Free Trade Agreements



**U.S. CHAMBER OF COMMERCE**  
International Affairs



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America's oldest free trade agreement (FTA) will celebrate its 30th anniversary this year. The U.S.-Israel FTA entered into force on September 1, 1985. Since that time, the United States has entered into an additional 14 FTAs covering 19 more countries.<sup>1</sup>

As this report explains, these agreements have succeeded spectacularly in facilitating cross-border trade, boosting economic growth, raising productivity, and improving conditions for the creation of good jobs. Understanding this success is more important than ever as the proposed Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP), and the Trade in Services Agreement (TISA) come into sharper focus.

In the fast-changing world of international trade, the United States cannot rest on its laurels. The U.S. Chamber of Commerce calls on our elected leaders to reflect on the success of our past FTAs as they set the future course of American trade policy—particularly as Congress considers legislation to renew Trade Promotion Authority (TPA).

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## The Rationale

In assessing the record of our past trade agreements, it's worthwhile considering the basic premise on which they were negotiated.

While the United States receives substantial benefits from trade, the international playing field is sometimes tilted unfairly against American workers. The U.S. market is largely open to imports from around the world, but many other countries continue to levy steep tariffs on U.S. exports, and foreign governments have erected other kinds of barriers against U.S. goods and services.

U.S. goods arriving in foreign markets face an average tariff of 5.9%, according to the World Economic Forum's *Global Enabling Trade Report 2014*.<sup>2</sup> That's more than four times the U.S. level, but tariffs often average in the double digits in emerging markets, particularly for key U.S. manufactured goods and agricultural exports.

One of the report's rankings gauges the level of tariffs that a country's exporters face. Leading the pack as the country whose exporters face the lowest tariffs globally is Chile, with its extensive global network of FTAs.

While the report shows that the United States did well in a number of areas, it ranked a disastrous 130th out of 138 economies in terms of the "tariffs faced" by our exports overseas. In other words, American exporters face higher tariffs abroad than nearly all our trade competitors. It is also worth noting that tariffs are just part of the problem, as they are often found alongside a wide variety of nontariff barriers that shut U.S. goods and services out of foreign markets.

One major reason American exporters are often at a disadvantage in key foreign markets is that so many other countries have negotiated FTAs with one another. According to the World Trade Organization (WTO), 398 bilateral or plurilateral FTAs are in force around the globe today,<sup>3</sup> but, as noted, the United States has FTAs with just 20 countries. This means U.S. exporters are often among a minority paying tariffs to sell their wares in key markets.

No one wants to go into a basketball game down by a dozen points from the tip-off—but that's exactly what American exporters do every day. Nor is the situation getting easier: More than 100 FTAs are currently under negotiation among our trading partners.

At the same time, the benefits of imports are incontrovertible. Imports mean lower prices for American families: Access to imports boosts the purchasing power of the



average American household by about \$10,000 annually.<sup>4</sup> Companies' imports of intermediate goods, raw materials, and capital goods account for more than 60% of all U.S. goods imports—lowering costs for manufacturers and other businesses and helping them hone their competitive edge.

The U.S. Chamber believes that trade policy must take into account the needs of Americans as both consumers and producers. Fairness should be our watchword: American workers, farmers, and companies must be allowed to operate on a level playing field when it comes to trade.

This is the principal rationale for FTAs—to generate economic growth, new exports, and good jobs through the mutual elimination of trade barriers and do so in a way that is fundamentally fair. On this score, U.S. FTAs have been a dramatic success for the United States—as they have been for our FTA partners.

## Exports

The remarkable results of America's FTAs are most obvious in the booming trade we enjoy with the 20 countries with which we have entered into these agreements. While these countries represent just 10% of the world economy outside the United States, in recent years they have purchased nearly half of all U.S. exports, according to the U.S. Department of Commerce.<sup>5</sup>

It should come as no surprise that eliminating tariffs and other trade barriers enables trade to expand. As Table 1 indicates, U.S. exports to new FTA partner countries have grown roughly three times as rapidly on average in the five-year period following the agreement's entry-into-force as the global rate of growth for U.S. exports. U.S. exports to Chile and Morocco quadrupled in the five years after FTAs entered into force. This boost to U.S. export growth is especially pronounced with more recent FTAs, which are front-loaded to eliminate tariffs rapidly, open services markets, and eliminate nontariff barriers more comprehensively than earlier FTAs.

**MORE CUSTOMERS:** Growth and jobs at home depend on our ability to sell American goods and services to the 95% of humanity that lives outside the United States.

The trade balance is a poor measure of the success of these agreements, but the trade deficit is often cited by trade skeptics as a principal reason why the United States should not negotiate additional FTAs. However, taken as a group, the United States ran a *trade surplus* with its FTA partner countries in 2012 and 2013, and this surplus likely has grown since then (see Table 2).



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**Table 1: Increase in U.S. Exports Since FTA Entry into Force**  
Merchandise exports, millions of U.S. dollars

FTA Partner Country	Date of Entry-into-Force of FTA	Year Before FTA Entered into Force (Baseline)	U.S. Exports to FTA Partner in Baseline Year	U.S. Exports to FTA Partner Five Years Later	% Increase
Israel	9/1/1985	1985	2,579.6	3,203.0	24.2%
Canada	1/1/1989	1988	71,622.0	100,444.2	40.2%
Mexico	1/1/1994	1993	41,580.8	56,791.6	36.6%
Jordan	12/17/2001	2001	339.0	650.3	91.8%
Chile	1/1/2004	2003	2,715.0	11,857.4	336.7%
Singapore	1/1/2004	2003	16,560.2	27,853.6	68.2%
Australia	1/1/2005	2004	13,957.9	19,599.3	40.4%
Morocco	1/1/2006	2005	480.8	1,947.0	305.0%
El Salvador	3/1/2006	2005	1,854.3	2,433.1	31.2%
Honduras	4/1/2006	2005	3,253.8	4,606.4	41.6%
Nicaragua	4/1/2006	2005	625.5	981.3	56.9%
Guatemala	7/1/2006	2005	2,835.4	4,478.3	57.9%
Bahrain	8/1/2006	2005	350.8	1,249.6	256.2%
Dominican Republic	3/1/2007	2006	5,350.5	7,346.2	37.3%
Costa Rica	1/1/2009	2008	5,679.8	7,223.5	27.2%
Oman	1/1/2009	2008	1,382.0	1,571.3	13.7%
Peru	2/1/2009	2008	6,183.0	10,101.8	63.4%
South Korea	3/15/2012	2011	43,461.6	NA	NA
Colombia	5/15/2012	2011	14,335.7	NA	NA
Panama	10/31/2012	2011	8,251.6	NA	NA
Average annual % change in U.S. exports for all FTAs in first five years:					18.0%
Average annual % change in U.S. exports to the world 2000 - 2010 (for comparison):					6.3%

Note: As the U.S.-Israel and U.S.-Jordan FTAs entered into force late in the calendar year, those years are used as the baseline in this table.

Source: U.S. Department of Commerce

**Table 2: U.S. Trade Balance with FTA Partners**

	2011	2012	2013
Merchandise	\$ (79,918)	\$ (70,820)	\$ (66,612)
Services	\$ 65,841	\$ 70,876	\$ 75,034
<b>Total</b>	<b>\$ (14,077)</b>	<b>\$ 56</b>	<b>\$ 8,422</b>

Source: U.S. Department of Commerce



In fact, the United States has recorded a trade surplus in manufactured goods with its FTA partner countries for each of the past five years, according to the U.S. Department of Commerce. This surplus reached \$27 billion in 2009 and had expanded to \$61 billion by 2013.<sup>6</sup>

## Imports

Imports from FTA partners provide direct benefits to Americans as well. They mean lower prices for American families as they try to stretch their budgets—and for companies seeking raw materials and other inputs. In recent decades, lower tariffs have stimulated U.S. productivity through greater competition in the marketplace and have brought greater product choices to U.S. producers and consumers. According to the Peterson Institute for International Economics, this has brought “a gain in annual income of about \$10,000 per household.”<sup>7</sup>

In fact, half a century of trade liberalization has made it less and less relevant to look at international commerce through a mercantilist lens focused solely on exports. North America offers a useful case study: After more than two decades of free trade, officials and business leaders in Canada, Mexico, and the United States point out with growing frequency that workers and firms across the continent increasingly “make things together,” employing “global value chains” that cross national borders.

This approach leads to efficiencies that have proven vital to the global competitiveness of North American industry. In the highly integrated auto sector, for example, it is common for cars assembled in the Great Lakes region to cross the U.S.-Canada border half a dozen times as they are assembled. In turn, American auto exports increased 82% between 2009 and 2012, according to the International Trade Commission, reaching an all-time high of approximately 2 million cars and trucks in 2013. A growing share is headed to Asia, the Middle East, and other locations: U.S.-built cars shipped to China have risen nearly sixfold since 2009.<sup>8</sup>

One study found that “one-quarter of U.S. imports from Canada consist of value added from the United States itself, and a huge 40% of U.S. final good imports from Mexico consist of its own [U.S.] value added.”<sup>9</sup> As Mexican officials have pointed out, “For every dollar that Mexico earns from exports, 50 cents are spent on American goods.”<sup>10</sup>

North America’s mature global value chains reduce costs for businesses and enhance their global competitiveness, but there are other examples where U.S. firms are operating with a host of partners in other regions. For example, one study found that 70% of the final retail

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price of apparel assembled in Asia—and sold in the United States—is created by American innovators, designers, and retailers.<sup>11</sup> Further, even though nearly all apparel and footwear sold in the United States is imported, these industries employ 4 million Americans.

## Jobs

To provide a serious economic analysis of the relationship between FTAs and job creation, the U.S. Chamber of Commerce commissioned a study in 2010 entitled *Opening Markets, Creating Jobs: Estimated U.S. Employment Effects of Trade with FTA Partners*.<sup>12</sup> The study examined U.S. FTAs implemented with a total of 14 countries but set aside the most recent agreements for which data remain insufficient.

The study employed a computable general equilibrium economic model used by economists worldwide known as the Global Trade Analysis Project (GTAP). This model, developed in the early 1990s, is now maintained—and constantly enhanced—by a consortium of 31 U.S. and international organizations, including the U.S. International Trade Commission, the WTO, the World Bank, and half a dozen U.S. government agencies.

The results of this comprehensive study are impressive. The increased trade brought about by these FTAs boosted U.S. output by more than \$300 billion and in turn supported 5.4 million U.S. jobs. No other budget neutral initiative undertaken by the U.S. government has generated jobs on a scale comparable to these FTAs, with the exception of the multilateral trade liberalization begun in 1947.

### **RIISING EMPLOYMENT:**

The expansion in trade spurred by U.S. FTAs supports more than 5 million American jobs.

A simple review of history is also helpful in rebutting critics who claim that FTAs have led to the net loss of U.S. jobs. For instance, one study by a labor-backed group contends that 60.8% of 682,000 U.S. jobs

claimed to have been “lost or displaced” due to trade with Mexico were in manufacturing industries. However, Bureau of Labor Statistics (BLS) data refute this claim: U.S. manufacturers added more than 800,000 net jobs in the four years after NAFTA entered into force.

In addition, the U.S. unemployment rate was markedly lower in the years immediately after NAFTA came into force, according to BLS data. In the period 1994–2007, the U.S. unemployment rate averaged 5.1%. This compares with an average rate of 7.1% during a period of similar length just before NAFTA entered into force (1982–1993). While the 2007–2009 recession caused U.S. unemployment to rise sharply, it had nothing to do with NAFTA.



Finally, a large majority of economists believe that the most significant effect of trade and trade agreements on jobs—particularly in a period of low unemployment—is to gradually alter the mix of jobs available by creating more high-skill, high-wage jobs and fewer low-skill, low-wage jobs. According to Commerce Department research, manufacturing jobs tied to exports pay wages that are typically 18% higher than those that aren't, so the shift in the mix of U.S. jobs toward more export-oriented industries represents a net gain for working Americans.<sup>13</sup>

## Manufacturing

U.S. manufacturers have been among the principal beneficiaries of FTAs. Again, the broad historical context is important to this assessment.

Looking at value-added in manufacturing—an approach that avoids the double counting that can otherwise result along manufacturing supply chains—U.S. manufacturing value-added rose by 58% between 1993 and 2013 in real terms, according to the U.S. Department of Commerce. This represents the continuation of a long trend: U.S. manufacturing value-added has grown eightfold since 1947 in real terms.

Contrary to popular misconception, the U.S. share of world manufacturing output, on a value-added basis, has remained fairly steady at approximately 20% for about four decades. American manufacturers were hammered by the painful 2007–2009 recession and a steep fall in demand. But throughout the preceding two decades, U.S. manufacturers set new records for output, revenues, profits, profit rates, and return on investment.

The same can't be said for factory jobs. According to the BLS, U.S. manufacturers employed 16.8 million workers when NAFTA entered into force in January 1994, a figure that then rose over the next four years to top 17.6 million in 1998. Sharp job losses in U.S. manufacturing in the recessions of 2001–2002 and 2007–2009 brought the number of Americans employed in manufacturing to a new low of 11.4 million in early 2010. Manufacturing employment had risen to approximately 12 million by the end of 2014.

Where have the lost manufacturing jobs gone? Not to Mexico—or China. Survey data from the federal government consistently show that less than 1% of layoffs is attributable to

### MANUFACTURING STRENGTH:

One in four U.S. manufacturing jobs depends on exports, and these workers' wages are 18% higher on average than those of other factory workers.



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offshoring. Further, a RAND study found that China shed 25 million manufacturing jobs between 1994 and 2004, 10 times more than the United States lost in the same period.<sup>14</sup>

Rather, most of these jobs have been lost to a country called “productivity.” Technological change, automation, and widespread use of information technologies have enabled firms to boost output even as some have cut payrolls.

This productivity revolution is a complex phenomenon. Critics of FTAs are correct when they say that manufacturing employment hit a peak and then began a steady decline. However, the peak was in 1979, long before the United States negotiated its first FTAs.

More recently, U.S. manufacturers have enjoyed steady growth, aided by the expansion in U.S. exports to FTA partner markets. Consumers and businesses in those 20 countries purchased \$658 billion of U.S. manufactured goods in 2013—a sum representing nearly 48% of all the exports produced by the 12 million Americans employed in manufacturing.

Do the math, and you'll find that FTA markets generate export revenue of \$54,800 for each American factory worker. Compare this with the average annual earnings—including pay and benefits—of an American manufacturing worker: \$77,506.<sup>15</sup> How could manufacturers make their payrolls without the revenues they earn by exporting to FTA markets? The short answer is, they couldn't.

## Agriculture

For American farmers and ranchers, America's FTAs have been a bonanza. According to the U.S. Department of Agriculture, exports of U.S. farm and food products to FTA partner countries increased by more than 130% between 2003 and 2013, increasing from \$24 billion to \$56 billion.<sup>16</sup> As noted, America's recent FTAs are front-loaded to eliminate foreign tariffs rapidly, particularly in the case of key exports. This is evident in the following results reported by the U.S. Department of Agriculture (USDA):

- Under the U.S.-Chile FTA, U.S. agricultural exports to Chile have grown by more than 525%, increasing from less than \$145 million in 2003 to more than \$900 million in 2013.
- Under the U.S.-Peru FTA, U.S. agricultural exports to Peru have grown by 230%, rising from less than \$215 million in 2005 to more than \$700 million in 2013.
- Under the U.S.-Central America-Dominican Republic FTA (CAFTA-DR), U.S. agricultural exports to Costa Rica, the Dominican Republic, El Salvador,



Guatemala, Honduras, and Nicaragua doubled from \$1.9 billion in 2005 to \$3.8 billion in 2013.

- Under the U.S.-Australia FTA, U.S. agricultural exports to Australia have risen by nearly 240%, increasing from \$410 million in 2004 to \$1.4 billion in 2013.
- Under the North American Free Trade Agreement (NAFTA)—which maintained significant agricultural tariffs for some products until 2008—U.S. exports to Canada and Mexico rose by nearly 50% between 2007 and 2013, increasing from less than \$27 billion to nearly \$40 billion.

The North American success story deserves special attention. The share of U.S. agricultural exports destined for Canada and Mexico grew from 21% in 1993 to 27% in 2011, according to USDA. The American Farm Bureau Federation makes the point that 1 in 3 acres on American farms is planted for export,<sup>17</sup> so roughly 1 in 10 acres is planted to feed hungry Canadians and Mexicans.

Canada was the largest agricultural export market of the United States in 2012, and U.S. farms and ranches supplied 59% of Canadian imports. (In 2013, China, with its population of 1.3 billion, overtook Canada, population 35 million, as the top market for U.S. agricultural exports.) Meat, grains, fruit, vegetables, and related products make up about 60% of U.S. agricultural exports to Canada in 2012.<sup>18</sup>

As in manufacturing, however, Canadian and U.S. farmers and ranchers work in an integrated and interdependent marketplace. According to USDA, “Much of Canada-U.S. agricultural trade consists of intra-industry trade, meaning that each country exports products to the other within certain sectors.”<sup>19</sup> This includes co-production of processed foods such as pet foods, bakery products, breakfast cereal, and pastas. There is significant intra-industry trade in wheat products and beef, for example.

NAFTA did even more to open the Mexican market for U.S. farmers and ranchers. According to USDA, “Mexico does not produce enough grains and oilseeds to meet internal demand, so the country’s food and livestock producers import sizable volumes of these commodities to make value-added products, primarily for the domestic market.”<sup>20</sup>

U.S. agricultural exports to Mexico have quintupled since NAFTA entered into force even as Mexican agriculture has enjoyed steady growth. According to USDA, grains, oilseeds, meat, and related products make up about three-quarters of U.S. agricultural exports to Mexico.<sup>21</sup>

**FARM BONANZA:** One in three acres on American farms is planted for export.

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The integration of North America's agricultural markets exemplifies the value of America's FTAs, as USDA explains: "In general, it enables agricultural producers and consumers in the region to benefit more fully from their relative strengths and to respond more efficiently to changing economic conditions. For producers, it opens new territories for the sale of their output... For consumers, market integration gives them access to new varieties of food products and off-season supplies of fresh produce. Greater competition along the food supply chain is also likely to make food more affordable, thereby expanding consumer purchasing power."<sup>22</sup>

## Services

America's FTAs have brought significant benefits to U.S. services industries, which generate about 80% of U.S. economic output and 80% of U.S. private sector employment. The United States is by far the world's largest exporter of services, which surpassed \$682 billion in 2013. It is home to large numbers of successful services firms in such sectors as audiovisual, banking, energy services, express delivery, information technology, insurance, and telecommunications.

### SERVICES GROWTH:

American services providers generate nearly \$700 billion in exports.

Contrary to popular misconception, many jobs in services pay well. For instance, approximately 18 million Americans are employed in business services such as software, architectural

services, engineering and project management services, and insurance—all of which generate billions of dollars in exports. Wages in these sectors are 20% higher on average than those in manufacturing, which employs only two-thirds as many American workers.<sup>23</sup>

In this context, America's FTAs have provided significant gains for U.S. services providers. These agreements have expanded access to foreign markets for cross-border sales of services and barred discrimination against services providers on the basis of their nationality. They have also opened up services sectors that had previously been closed to foreign investment and ushered in greater transparency in the regulations that set the rules of the road for services markets.

Consider these highlights from the U.S. Department of Commerce's Bureau of Economic Analysis:

- Under NAFTA, U.S. services exports to Canada and Mexico have more than tripled, rising from \$27 billion in 1993 to \$93 billion in 2013. Services imports from Canada and Mexico have grown from \$17 billion to \$48 billion.



- Under the U.S.-Singapore FTA, U.S. services exports to Singapore have grown by 93%, increasing from \$5.9 billion in 2003 to \$11.4 billion in 2013. Services imports from Singapore have grown from \$2.1 billion to \$5.6 billion.
- Under the U.S.-Chile FTA, U.S. services exports to Chile have grown by 250%, increasing from \$1 billion in 2003 to \$3.6 billion in 2013. Services imports from Chile have grown from \$622 million to \$1.2 billion.
- Under the U.S.-Australia FTA, U.S. services exports to Australia have grown by 176%, increasing from \$6.9 billion in 2004 to \$19 billion in 2013. Services imports from Australia have grown from \$3.9 billion to \$6.9 billion.

While these benefits are impressive, one reason U.S. services industries are not enjoying even greater success in global markets is that foreign regulatory barriers have multiplied in unforeseen ways over recent years. New challenges are particularly prevalent in the digital economy—including barriers to cross-border data flows and “forced localization” measures—and in barriers that make global value chains less efficient. To tackle these emerging trade barriers, new FTAs must include strong and evolving rules to guarantee meaningful market access for services providers.

## Small Business

Often overlooked in the U.S. trade debate is the fact that more than 98% of the nearly 300,000 American companies that export are small and medium-size enterprises (SMEs). These firms account for one-third of U.S. merchandise exports, according to the U.S. Department of Commerce.<sup>24</sup> The number of SMEs that export has risen by about threefold over the past two decades.

It comes as no surprise that FTA markets are top export destinations for SME exporters. By value, approximately 40% of all merchandise exports by American SMEs go to FTA markets. More SMEs export to Canada than to any other market; by value, American SMEs export more to Mexico than to any other country (see Table 3).<sup>25</sup>

**SMALL BUSINESS:** FTAs sweep away trade barriers that are especially tough on the 300,000 small and medium-size companies that account for 98% of all U.S. exporters.

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**Table 3: Small and Medium Enterprise (SME) Exporters and FTA Markets (2012)**

Country	No. of SMEs Exporting to Market	Value of SME Exports (\$m)	Value of SME Exports as % of Total	No. of SME Exporters as % of Total
[All Countries]	297,995	449,400	32.6	97.7
Canada	91,411	56,381	25.2	95
Mexico	52,342	60,901	30.7	93.9
Australia	31,245	7,148	25.6	92.3
Singapore	20,761	8,192	28.5	90.5
South Korea	20,448	12,681	33.6	90.1
Colombia	14,594	5,218	33.9	89
Chile	13,364	6,382	36.2	87.7
Israel	13,100	4,128	35.3	88.6
Panama	9,993	3,256	35.3	86.8
Peru	9,672	2,640	30.6	86.1
Dominican Republic	9,101	2,739	43.3	86.4
Costa Rica	8,536	1,915	30	85.1
Guatemala	7,600	2,792	53.8	85.3
Honduras	5,199	2,335	44.2	84.3
El Salvador	4,736	1,354	47.3	82.8
Jordan	3,274	820	66.6	82.9
Nicaragua	3,161	635	61.7	82
Bahrain	2,324	293	32	77.9
Oman	1,943	438	27	77.7
Morocco	1,234	962	48.6	75.3

Note: As some firms export to multiple locations, exporter counts cannot be summed across markets to generate accurate totals. Source: Commerce Department's Exporter Database (EDB).

While some critics argue that FTAs only benefit large multinationals, the truth could hardly be more different. Consider how the kinds of trade barriers addressed by FTAs impact entrepreneurs and smaller firms—and how these agreements can open the door to their success:

- Many countries where the United States does not have an FTA in place have already implemented FTAs with other countries. In this context, a multinational corporation may be able to serve a market that levies steep tariffs on goods from the United States by sourcing from its affiliates in other countries. America's small businesses have no such luxury.
- Nontariff barriers are especially harmful to smaller companies because they add disproportionately to their fixed costs of doing business. A \$10,000 permit may be a nuisance for large firms, but they can usually absorb the added expense with relative ease; it can be a showstopper for small businesses.





- By opening government procurement markets and ensuring transparency in bidding, FTAs give small exporters expanded access to lucrative opportunities. These contracts for health care equipment, schools, and IT services are often too small for multinationals to perform profitably, but they are just the kinds of contracts that smaller medical equipment providers, distance learning companies, and others can fulfill beautifully.

In sum, policymakers should think globally as they consider how to foster a business environment in which entrepreneurs and small businesses can flourish. Tearing down trade barriers is critical for firms of all sizes.

## The Future

How can America seize more of the benefits of FTAs? The good news is that the United States is taking part in several major trade negotiations, including the Trans-Pacific Partnership (TPP) with 11 countries in Asia and the Americas, the Transatlantic Trade and Investment Partnership (TTIP) with the 28 countries in the European Union (EU), and the Trade in Services Agreement (TISA), a services-specific agreement now under negotiation among 50 countries.

### *The Trans-Pacific Partnership*

The booming Asia-Pacific region is a logical focus for America's trade negotiators. Over the last two decades, the region's middle class grew by 2 billion people, and its spending power is greater than ever. That number is expected to rise by another 1.2 billion by 2020.<sup>26</sup> According to the International Monetary Fund, the world economy will grow by more than \$20 trillion over the next five years, and nearly half of that growth will be in Asia.

U.S. workers, farmers, and businesses need access to those lucrative markets if they are to share in this dramatic growth. However, U.S. companies are falling behind in the Asia-Pacific. While U.S. exports to the Asia-Pacific market steadily increased from 2000 to 2010, America's share of the region's imports declined by about 43%, according to the think tank Third Way.<sup>27</sup> In fact, the growth in U.S. exports to Asia lagged overall U.S. export growth in that period.

**BIG MARKETS:** America's 20 FTA partners represent just 10% of global GDP but buy nearly half of U.S. exports.

One reason U.S. companies have lost market share in the Asia-Pacific region is that some countries maintain steep barriers against U.S. exports. A typical Southeast Asian country imposes tariffs that are 5 times higher than the U.S. average while its duties on

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agricultural products often soar into the triple digits. In addition, a web of nontariff and regulatory barriers block market access in many countries.

FTAs are crafted to overcome these barriers. However, Asia-Pacific nations are clinching trade deals among themselves that threaten to leave the United States on the outside, looking in. The number of FTAs between Asian countries surged from 3 in 2000 to more than 50 today. Some 80 more are in the pipeline.<sup>28</sup> Meanwhile, the United States has just 3 trade agreements in Asia (with Australia, Singapore, and South Korea).

This challenge is growing: 16 countries are launching expedited negotiations for a trade deal called the Regional Comprehensive Economic Partnership (RCEP). It includes Australia, China, India, Japan, Korea, and New Zealand as well as the 10 ASEAN countries—but not the United States.

The TPP is America's best chance to secure a level playing field for trade in the Asia-Pacific region. Its objective is to achieve a comprehensive, high-standard, and commercially meaningful trade and investment agreement with 11 other Asia-Pacific nations, including Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, and Vietnam. Also taking part are Canada, Mexico, Peru, and Chile, thus offering a chance to integrate existing U.S. trade agreements in the Americas.

The TPP must be a comprehensive agreement. In trade talks, whenever one party excludes a given commodity or sector from an agreement, others follow suit, limiting its reach. For the United States to achieve the goal of a true 21st century agreement—with state-of-the-art rules on digital trade, state-owned enterprises, investment, and other key areas—its negotiators must hold fast to the goal of a comprehensive accord.

One top U.S. priority is to ensure that the TPP protects intellectual property (IP), which plays a key role in driving economic growth, jobs, and competitiveness. According to the U.S. Department of Commerce, IP-intensive companies account for more than \$5 trillion of U.S. GDP, drive 60% of U.S. exports, and support 40 million American jobs. To leverage these strengths, the TPP must include robust IP protection and enforcement provisions that build on the U.S.-Korea Free Trade Agreement and provide 12 years of data protection for biologics consistent with U.S. law.

Completing the TPP would pay huge dividends for the United States. The agreement would significantly improve U.S. companies' access to the Asia-Pacific region, which is projected to import nearly \$10 trillion worth of goods in 2020.<sup>29</sup> A study by the Peterson Institute for International Economics estimates the trade agreement could boost U.S. exports by \$124 billion by 2025.<sup>30</sup>



The TPP has the potential to strengthen our nation's commercial, strategic, and geopolitical ties across one of the fastest-growing and most influential parts of the world. It would be an economic shot in the arm, boosting growth and jobs across the country.

### *The Transatlantic Trade and Investment Partnership*

As we consider new trade accords with our biggest commercial partners, Europe also calls out for attention. Indeed, the EU remains by far America's largest commercial partner.

Together, the United States and the EU account for nearly half of global economic output, with each producing approximately \$17 trillion in GDP. Total U.S.-EU commerce—including trade in goods and services and sales by foreign affiliates—tops \$6.5 trillion annually and employs 15 million Americans and Europeans.<sup>31</sup>

The U.S.-EU investment relationship is even more impressive. Companies headquartered in EU Member States had invested nearly \$1.7 trillion in the United States by the end of 2013 and directly employed more than 3.5 million Americans.

Similarly, U.S. firms have invested \$2.4 trillion in the EU—a sum representing more than half of all U.S. investment abroad. It's also nearly 40 times as much as U.S. companies have invested in China. Because of this unique investment-based relationship, approximately 40% of U.S.-EU trade is intra-industry and intra-firm, which means that removing barriers to this trade will substantially boost the competitiveness of our companies in global markets.

The United States and the Member States of the EU share common values as strong democracies with an enduring commitment to civil liberties and the rule of law. We uphold similar social, labor, and environmental standards in our laws and regulations.

For these reasons and more, the United States and the EU in July 2013 launched negotiations for a comprehensive and ambitious Transatlantic Trade and Investment Partnership (TTIP). The goal is to eliminate tariffs; open up services, investment, and procurement; and promote regulatory cooperation to ensure high levels of health, safety, and environmental protection while cutting unnecessary costs.

The benefits could be immense. The sheer volume of transatlantic commerce is so large that eliminating today's relatively modest trade barriers could bring big benefits. According to the London-based Centre for Economic Policy Research (CEPR), the TTIP would boost U.S. exports to the EU by \$300 billion annually, add \$125 billion to

**FASTER GROWTH:** U.S. exports to new FTA markets tend to grow three times faster in the five-year period following the agreement's entry-into-force than U.S. exports globally.

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U.S. GDP each year, and increase the purchasing power of the typical American family by nearly \$900—with similar benefits for Europeans.<sup>32</sup>

One key goal in the negotiations is to tackle regulatory barriers to trade. Companies selling their products on both sides of the Atlantic incur high costs complying with both U.S. and European regulations, even when they are very similar.

For example, U.S. automakers run crash tests to comply with U.S. safety regulations but must do so a second time to comply with EU standards—and vice versa. Mutual recognition of these regulations would save consumers up to 7% on each car or truck and enhance the global competitiveness of U.S. and European companies.<sup>33</sup>

The TTIP is also an opportunity to raise global standards. With a combined GDP of more than \$30 trillion, the sheer size of the transatlantic economy will incentivize other countries to look to standards set in the TTIP. Accordingly, the United States and the EU should establish a high bar in such areas as cultivating the digital economy and combating trade and investment protectionism.

Indeed, refusing to pursue this agreement would exact a price as other countries enter into new trade pacts with the EU. Already, the EU has dozens of FTAs in force with such countries as Mexico, Central America, Colombia, South Africa, and South Korea. It has concluded negotiations for additional agreements with Canada, Singapore, Ukraine, and others.

The EU is currently in negotiations with India, Japan, Malaysia, Thailand, Vietnam, and the Mercosur bloc. Without a trade agreement in place with the EU, U.S. workers and companies could be put at a disadvantage in the giant European marketplace.

For too long, the United States has ignored the untapped potential of its ties to the world's other economic colossus. For the sake of jobs and growth, it's time to turn that around.

## *Trade in Services Agreement*

While it hasn't made national headlines, the United States has joined with more than 50 other countries to launch negotiations for a high-standard trade agreement in services dubbed the Trade in Services Agreement (TISA). This exciting new accord, covering about two-thirds of the global market for services, has the potential to ignite economic growth and job creation in the United States and abroad.

Services are a clear strength for the United States, which is by far the world's largest exporter of services. U.S. services exports reached \$682 billion in 2013, and the U.S.



services trade surplus reached \$232 billion. In addition, services sales by foreign affiliates of U.S. multinational corporations topped \$1 trillion. Combined, total sales of U.S. services abroad reached approximately \$1.7 trillion in 2013.

Even so, the potential for services industries to engage in international trade is almost untapped. One in four U.S. factories exports, but just one in every 20 providers of business services does so. Just 3% of U.S. services output is exported, according to the Peterson Institute for International Economics.<sup>34</sup>

The chief goals of the United States in the TISA are to expand access to foreign markets for U.S. services industries and prohibit discrimination against American services providers in foreign markets. In addition, the TISA will put in place rules to prevent regulations from being used as disguised trade barriers that shut out U.S. services exports.

The TISA also aims to safeguard cross-border data flows. In today's global economy, companies often move data across borders as they create new products, enhance productivity, deter fraud, protect consumers, and grow their businesses. This is particularly important for services, many of which were considered “non-tradeable” before the advent of the Internet. Recent studies estimate that within 10 years products and services reliant on cross-border data flows will add more than \$1 trillion annually to the global economy, with the United States at the fore. To seize these benefits, the TISA should prohibit restrictions on legitimate cross-border information flows and bar local infrastructure mandates relating to data storage.

**TRADE SURPLUS:** The United States actually has a trade surplus with its 20 FTA partners.

Finally, the TISA should include rules to ensure that private companies are not put at a disadvantage when they compete with state-owned enterprises (SOEs) and other national champions. It should guard against anti-competitive behavior by SOEs and ensure a level playing field.

The payoff from the TISA could be huge. Eliminating barriers to trade in services could boost U.S. services exports by as much as \$860 billion—up from 2013's record \$682 billion—to as much as \$1.4 trillion, according to the Peterson Institute. Such a dramatic increase could create as many as three million American jobs.<sup>35</sup>

The TISA may not be making headlines anytime soon, but its potential to drive economic growth and job creation in the United States and beyond is significant. The American business community is committed to working closely with U.S. negotiators, foreign governments, and Congress to press for a strong agreement that translates this potential into reality.



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## Trade Promotion Authority

As this brief review of ongoing trade negotiations suggests, new trade agreements have great potential as a tool to stimulate growth and job creation. However, to make these or any other growth-driving FTAs a reality, Congress must first approve Trade Promotion Authority (TPA).

With the exception of the U.S.-Jordan FTA, the United States has never entered into a free trade agreement or multilateral trade agreement without it. A simple form of TPA was first enacted in 1934, but the latest iteration lapsed in 2007.

TPA is premised on the notion that the executive and legislative branches of the federal government should work together on trade. The Constitution gives Congress authority to regulate international commerce, but it gives the president authority to negotiate with foreign governments.

TPA directs Congress to set negotiating objectives for trade agreements and requires the executive branch to engage in close consultations with legislators throughout the course of negotiations. In turn, when an agreement is reached, Congress must approve or reject it but may not amend it.

While foreign governments may initiate negotiations with the United States without TPA in place, they have historically proven leery of making the difficult political choices associated with the final stages of negotiations in its absence. In this sense, TPA strengthens the hand of U.S. negotiators, helping them secure the best possible deal for U.S. workers, farmers, and companies.

As noted, 398 FTAs are in force around the globe today, but the United States has FTAs in place with just 20 countries. There are more than 100 FTAs currently under negotiation among our trading partners.

The United States cannot afford to stand aside as foreign governments rewrite the rules of international trade and American companies are placed at a competitive disadvantage in market after market. If we do, American workers, farmers, and companies will pay the price.

If TPA is not renewed, it will close the door to new FTAs such as those discussed in this report. American workers, farmers, and companies will continue to be shut out of lucrative foreign markets. For all these reasons, renewal of TPA should be a bipartisan imperative.



## Conclusion

The record of success of America's FTAs is impressive. American workers, farmers, and companies may not always recognize these benefits, though they are often hidden in plain sight. FTAs have generated new opportunities for commerce, boosted economic growth, raised productivity, and improved conditions for the creation of good jobs. To secure more of these benefits for generations of Americans to come, we need more of these agreements.

Finally, to secure more market-opening FTAs, renewal of TPA is essential. To oppose TPA is to guarantee that foreign markets remain closed to U.S. exports. To reject TPA is to accept a playing field skewed against American workers and companies. Without it, our standard of living and our standing in the world will suffer. The time has come to renew TPA and seize the benefits of a robust international trade agenda.

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## Endnotes

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