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Testimony before the Senate Finance Committee on the U.S.-Chile and U.S.-Singapore Free Trade Agreements

On behalf of the U.S. Chamber of Commerce

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Mr. Chairman, I am Larry Liebenow, President and CEO of Quaker Fabric Corporation. I am also serving as Chairman of the Executive Committee of the U.S. Chamber of Commerce. Thank you for inviting me to appear before this panel today to present testimony regarding the recently signed U.S. free trade agreements with Chile and Singapore.

Quaker Fabric is a textile manufacturer headquartered in Fall River, Massachusetts. Originally a small family-owned fabric mill that began operations in 1945, Quaker is today one of the largest producers of upholstery fabric in the world and one of the undisputed leaders in the $2-billion-plus U.S. upholstery fabric industry.

I am pleased to submit this testimony on behalf of the U.S. Chamber of Commerce, which is the largest business federation in the world. Representing nearly three million companies of every size, sector, and region, the Chamber has supported the economic growth of communities throughout the United States for nearly a century. International trade plays a vital part in the expansion of economic opportunities for our members, and provides increased job opportunities and better consumer alternatives in local communities throughout our country. As such, the U.S. Chamber of Commerce is an active and ardent proponent of the expansion of commercially viable free trade agreements with our trading partners throughout the world.

And the fact is, the U.S.-Chile and the U.S.-Singapore free trade agreements will help America maintain competitiveness and grow business in these countries. The experience of Quaker Fabric in Chile is particularly illustrative of this point. By 2001, Quaker Fabric had made significant inroads into the Chilean market, with just over half a million dollars in exports. Those sales were reduced to almost nothing in 2002, when Quaker was essentially displaced from the Chilean markets amidst lingering doubts about the United States' ability to conclude and implement a free trade agreement with Chile. Coupled with Chile's rapid progress towards free trade agreements with the European Union and other key U.S. competitors, these developments led our customers to reconsider their sourcing strategy, much to our disadvantage.

Conclusion of the U.S.-Chile free trade agreement in December 2002 has enabled Quaker to begin to recapture and grow business in Chile - progress that would likely be lost should Congress now fail to approve the agreement. It would be a similar story in Singapore, where Quaker has been competitive and sees significant growth potential. Passage and implementation of the U.S.-Chile and U.S.-Singapore free trade agreements will allow us to expand our market share in these new and exciting markets more rapidly.

U.S. businesses have the expertise and resources to compete globally – if they are allowed to do so on equal terms with our competitors. Delay in passing and implementing these important trade agreements will hurt American companies and their employees by shutting them out of new markets where there is the most potential for growth. Ultimately, this is to the detriment of the U.S. economy and American consumers.

In my view, the U.S.-Chile and the U.S.-Singapore Free Trade Agreements are landmark accords that, as part of a comprehensive agenda of worldwide trade liberalization, will help slash trade barriers for U.S. exports, enhance protections for U.S. investment, and strengthen the competitiveness of American companies - both big and small - throughout the world. We believe these agreements are worthy of your support.

The Bracing Tonic of TPA

America's international trade in goods and services accounts for nearly a quarter of our country's GDP. As such, it is difficult to exaggerate the importance of the victory obtained last summer when the Congress renewed Presidential Trade Promotion Authority (TPA). When President George W. Bush signed the Trade Act of 2002 into law on August 6, it was a watershed for international commerce. As we predicted, this action by the Congress has helped reinvigorate the international trade agenda and has given a much-needed shot in the arm to American businesses, workers, and consumers struggling in a worldwide economic slowdown.

When TPA lapsed in 1994, the U.S. was compelled to sit on the sidelines while other countries negotiated numerous preferential trade agreements that put American companies at a competitive disadvantage. As we pointed out to Congress last year during our aggressive advocacy campaign for approval of TPA, the U.S. remains party to just three of the roughly 150 free trade agreements in force between nations today.

The passage of TPA allowed the United States finally to complete negotiations for bilateral free trade agreements with Chile and Singapore, in December and January, respectively. These are the first significant free trade agreements negotiated by the United States since the NAFTA.

The U.S.-Chile and U.S.-Singapore Free Trade Agreements are excellent accords that raise the bar for rules and disciplines covering a host of economic sectors, from services and government procurement to e-commerce, and intellectual property. The fact that no products were excluded from the agreements' market access commitments, shows that the United States remains committed to an aggressive agenda of trade liberalization.

Contrary to comments by some observers, the U.S. Trade Representative does not expect these agreements to be templates to which any country's name can be added. Instead, these agreements strike a crucial balance between raising the bar for future trade agreements — including the Free Trade Area of the Americas (FTAA) and discussions for trade liberalization in the context of the Asia-Pacific Economic Cooperation (APEC) forum — and recognizing the inherent disparities that exist between our trading partners throughout the world in their levels of economic development and preparedness to implement free trade agreements.

Maintaining Competitiveness

The two agreements have much in common, but each has its particular advantages. One factor adding urgency to our request for quick Congressional action on the agreement with Chile is the heightened competition U.S. companies face in the Chilean marketplace. In this sense, Chile is an example of how the world refuses to stand still — and how American business is losing its competitiveness in the absence of an ambitious program of trade expansion.

Let me illustrate. Many of you know that Chile's free trade agreement with the European Union came into force on February 1. On that day, tariffs on nearly 92% of Chilean imports from the EU were eliminated. Consequently, it is not surprising to note that Chilean imports from the EU expanded by 30% in the year ending in February 2003, with Chilean imports from Germany up 47% and those from France up 41%. In the same period, Chilean imports from the United States grew by less than 6%.

The reason is simple: While U.S. exporters wait for a free trade agreement, our exports to Chile continue to face tariffs that begin at 6% and, for some products, range much higher. The upshot is that European companies are seeing their sales in Chile rise five times as quickly as those of U.S. firms.

In a similar fashion, the free trade agreement with Singapore will further anchor U.S. competitiveness in the Asia-Pacific region, where Singapore is already actively engaged in negotiating trade agreements. Singapore has implemented free trade agreements with Australia, Japan, New Zealand, and the European Free Trade Area and is negotiating with Canada, Chile, and Mexico. It is also a participant in the framework agreement between ASEAN and China aimed at reducing tariffs and non-tariff trade barriers.

The comprehensive nature of the free trade agreement with Singapore is a testament that Singapore shares many of our country's views on global trade liberalization. As such, the agreement will contribute to our global and regional trade liberalization objectives and will serve as a barometer for other countries in Asia that are interested in completing free trade agreements with the United States.

Gauging the Benefits

How might these two agreements benefit the United States? There is a strong economic argument to be made for free trade agreements. As U.S. Trade Representative Robert Zoellick has pointed out, the combined effects of the North American Free Trade Agreement (NAFTA) and the Uruguay Round trade agreement that created the World Trade Organization (WTO) have increased U.S. national income by $40 billion to $60 billion a year. This helped lead to the creation of more than 20 million new American jobs in the 1990s. Many of these jobs were created in the export sector where, on average, jobs pay 13 to 18 percent more. In addition to the increased wages, the lower prices generated by NAFTA and the Uruguay Round on imported items, mean that the average American family of four has gained between $1,000 to $1,300 in spending power — an impressive tax cut, indeed.

From a business perspective, the following are a few examples of specific market-opening measures in the two free trade agreements, provided here to give some insight on how U.S. companies stand to benefit:

Tariff Elimination. In the case of Singapore, the free trade agreement will immediately eliminate all Singaporean customs duties on all U.S. products upon entry-into-force, unequivocally meeting one of the principal negotiating objectives set forth in the Trade Act of 2002. The agreement will also remove a number of significant non-tariff barriers, such as Singapore's excise taxes on imported automotive vehicles. The agreement with Chile will eliminate tariffs on more than 90% of all U.S. goods immediately, with the remainder to be phased out in a fairly rapid fashion. Today, most U.S. exports to Chile face a tariff of 6%, which can constitute a significant barrier indeed, but tariffs are substantially higher in some sectors. For instance, Chile continues to impose a luxury tax of 85% on vehicles imported from the United States valued at more than $15,000 — a significant barrier to U.S. exports that the free trade agreement will eliminate.

Services. Services accounts for over 80% of GDP and employment in the United States. The services chapters of both agreements provide enhanced market access for U.S. firms across different service sectors using a "negative list" approach (full market access for all service providers except those in sectors specifically named). U.S. service suppliers will also be assured fair and non-discriminatory treatment in both countries. Banks, insurers, and express delivery providers are among the sectors that will benefit immediately from new opportunities in both markets if the two agreements are approved and implemented.

Electronic Commerce. The landmark e-commerce chapters of the U.S.-Chile and U.S.-Singapore agreements will help ensure the free flow of electronic commerce, champion the applicability of WTO rules to electronic commerce, and promote the development of trade in goods and services by electronic means. Provisions in this chapter guarantee non-discrimination against products delivered electronically and preclude customs duties from being applied on digital products delivered electronically (video and software downloads). For hard media products (DVD and CD), custom duties will be based on the value of the carrier medium (e.g., the disc) rather than on the projected revenues from the sale of content-based products.

Intellectual Property Rights. The agreements with Chile and Singapore provide important new protections for copyrights, patents, trademarks and trade secrets, going well beyond protections offered in earlier free trade agreements. Once again, the two agreements serve as a useful benchmark for future agreements with other countries. Both agreements have important new enforcement provisions. In the case of Chile, the agreement criminalizes end-user piracy and provides strong deterrents against piracy and counterfeiting. The agreement also mandates both statutory and actual damages under Chilean law for violations of established norms for the protection of intellectual property.

Movement of Personnel. Under the two agreements, U.S. professionals will be granted special temporary entry visas into Singapore and Chile for a period of 90 days. The special visa would be based on proof of nationality, purpose of the entry and evidence of professional credentials. The visas would provide for multiple entries and would be renewable. The Chamber welcomes this provision in the free trade agreements, as it will make it easier for U.S. companies to deploy (a) executives to oversee operations of their overseas affiliates ("intra-company transfers") and (b) specialists for training and customer service ("business visitors") while also allowing (c) temporary entry of professionals for business development and other specific business objectives. In all of these ways, the provisions on movement of personnel will further the advancement of investment and trade in goods and services in those markets.

Provisions on Labor and the Environment. The longstanding policy of the U.S. Chamber is that trade agreements should not hold out trade sanctions as a remedy in response to labor and environmental disputes. Our interpretation of the enforcement mechanism of the labor and environmental provisions of the Chile and Singapore free trade agreements is that monetary compensation is the remedy of first choice and that trade sanctions would be employed only as a last resort.

What the Chamber is Doing

The U.S. Chamber is helping to lead the charge in the effort to win approval of these two agreements. In concert with our partners in the U.S.-Chile and U.S.-Singapore Free Trade

Coalitions, the Chamber has met face-to-face with over 120 members of Congress since January to make the case for approval of the two agreements. We have also met with members of Congress in their districts throughout the country as part of our ongoing "TradeRoots" program to educate business people and workers about the benefits of open trade. We have found extremely broad support for the agreements, both in the Congress and in the business community.

As part of this "TradeRoots" effort, the Chamber has published two "Faces of Trade" books to highlight small businesses in the United States that are already benefiting from trade with Chile and Singapore — and that stand to benefit even more from *free* trade with these two markets. I invite you to review these success stories and see the face of American trade today. It isn't just about multinationals, which can usually find a way to access foreign markets, even where tariffs are high. It's about hundreds of thousands of small companies that are accessing international markets — and that are meeting their payroll, generating jobs, and growing the American economy.

We've generated a wealth of information about the potential benefits of these agreements and our efforts to make them a reality. In the interest of brevity, I would simply urge you to contact the Chamber if you need more information. A good place to start is our website: www.uschamber.com. Another good place for information on the Chamber's broader coalition efforts is the U.S.-Chile Free Trade Coalition website at www.uschilecoalition.com or the site for the U.S.-Singapore Free Trade Coalition at http://www.us-asean.org/ussfta/index.asp.

Conclusion

Trade expansion is an essential ingredient in any recipe for economic success in the 21st century. If U.S. companies, workers, and consumers are to thrive amidst rising competition, new trade agreements such as these two will be critical. We cannot continue standing by while our competitors shape trade rules to their advantage and our disadvantage. In the end, U.S. business is quite capable of competing and winning against anyone in the world when markets are open and the playing field is level. All we are asking for is the chance to get in the game.

Mr. Chairman, we appreciate your leadership in reviving the U.S. international trade agenda, and we ask you to move expeditiously to bring these agreements to a vote in the Congress.

Thank you.