

Prepared Testimony of
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The Promise and Challenge of Increased Trade Engagement in the Indo-Pacific Region

Mr. Chairman. Ranking Member Crapo. Members of the Committee. It is an honor to appear before you today as you evaluate “The Promise and Challenge of Increased Trade Engagement in the Indo-Pacific Region.”

My name is Michael Wessel, and I am appearing today on behalf of organized labor. For many years I have been a staff liaison for the United Steelworkers union to the Labor Advisory Committee (LAC), one of the statutory advisory committees to the USTR and Secretary of Labor, and currently serve as the staff chair of that committee because Tom Conway, the International President of the Steelworkers is the current LAC chair. The LAC, as you know, is deeply involved in trade issues and was involved in assessing the Trans-Pacific Partnership (TPP) negotiations, the US-Korea Free Trade Agreement (KORUS) and many other trade initiatives.

I also serve as a commissioner on the US-China Economic and Security Review Commission (USCC) and have been a member since its creation in 2000. Over the years the Commission has evaluated not only bilateral trade, economic and security issues between the U.S. and China, but also regional issues relating to that relationship and U.S. interests. While travel by the Commission has been curtailed as a result of the COVID-19 pandemic over the past two years, the Commission has traveled to many of the countries in the region. Our hearings and research, as well as our annual reports to Congress are available on our website at www.uscc.gov.

My testimony is based on my work with organized labor, my service as a commissioner and other work, but my comments are my own.

Today’s hearing occurs at a critical time as we all know.

With rising global insecurity, recently fueled by Russia’s invasion of Ukraine, U.S. engagement around the globe is critical. Russia’s actions are not isolated attacks on international norms and ideals. China’s abuse of human rights in Xinjiang and across the country, its trampling on democratic rights in Hong Kong and continued coercive and military pressure on Taiwan are of tremendous concern as well.

The question is not whether we should be engaged; the question is what will be the terms, architecture and commitments that will be required. For far too long, the jobs and economic prospects of America’s workers have been pawns in the pursuit of foreign policy objectives. Trade agreements in the past have primarily been a tool of foreign policy, often premised on the alleged effects of investment flows, rather than a tool for advancing the rights, interests and futures of our workers and workers across the globe. There have been improvements, most

notably with the passage and entry into force of the United States-Mexico-Canada Agreement (USMCA), but much more needs to be done and we can't revert to the old playbook

Some act as if we aren't already engaged in the Indo-Pacific. We don't need false debates or faulty analysis. In fact, our engagement in the Indo-Pacific is broad and deep:

- We have collective defense arrangements with several countries in the region.
- We have Free Trade Agreements with:
 - Australia
 - Korea
 - Singapore
- We have reached Section 232 arrangements with Japan, South Korea and Australia.
- With Vietnam there was a more than \$90 billion trade deficit in 2021.
- With Japan there is more than \$200 billion in bilateral trade, with a goods trade deficit of more than \$60 billion in 2021, most of that in autos. For the first nine months of 2021, the U.S. imported 1,041,625 new passenger vehicles and light trucks from Japan, while the U.S. exported just 12,536 new passenger vehicles and light trucks to Japan over the same period.
- The goods trade deficit with the major Pacific Rim Countries in 2021 was \$503 billion (this excludes a lot of data – for example, the good deficit with Thailand was almost \$35 billion). Excluding China, the goods trade deficit with the Indo-Pac countries was well over \$215 billion).
- The goods trade deficit with India was \$33 billion in 2021 (an increase of more than 37% over 2020).
- The U.S. has more than \$1 trillion in foreign direct investment in the Indo-Pacific.
- The 7th Fleet regularly transits the South and East China Seas. We have forces located across the region.
- We have expanded defense cooperation with Japan, Australia and other regional allies including the recent US-UK-Australia trilateral security partnership.
- The revitalized Quadrilateral Security Dialogue is an effective forum for strategic cooperation and military preparedness, and President Biden has shown its usefulness for cooperation on COVID and reaching a common understanding on Ukraine.

In short, the question is what should be our future engagement in the region and what are the opportunities and challenges posed by such engagement. The diversity and breadth of the landscape of the Indo-Pacific defies a one-size-fits-all analysis or approach. I will first comment on past initiatives, then current approaches, and finally what provisions must be included in any enhanced engagement to advance the interests of working people.

Despite the length of my prepared testimony, it only touches upon the important issues before this committee and the Congress, and I look forward to working with you as the debate unfolds.

Today marks the 12th anniversary of the commencement of the first round of negotiations on the TPP which were held in Melbourne, Australia. As the members of this committee know, the TPP was an integral part of the Obama Administration's pivot to Asia. Organized labor spent thousands of hours engaged on the TPP negotiations.

The U.S. was right to have refused to join that agreement. The TPP was poorly designed and many of its critical provisions were inadequate. Organized labor strongly opposed the agreement.

Some said that TPP was about writing the rules so that China didn't get to. In my view, China didn't need to write the rules, because in many areas, we did it for them. The TPP was not the kind of high ambition trade agreement that advanced the interests of working people here at home, or in the signatory countries.

There were numerous important flaws in the TPP agreement:

- It failed to include robust provisions on enforceable workers' rights that would have adequately advanced the interests of workers and ensured that their internationally recognized worker rights were an integral part of economic liberalization in the region. For example, while signatory countries would have to have a minimum wage, it could be 5 cents an hour and fulfill the labor requirements of the agreement. In addition, the enforcement mechanisms and standards were deficient.
- It failed to adequately discipline State-Owned Enterprises allowing all previously granted subsidies and benefits to be grandfathered and limiting action regarding the non-market impact of SOE activities in many instances to situations where the injury occurred for a year or more, tying the hands of producers and workers who were serially injured by the SOE predatory practices.
- It included a rule of origin in the auto area that, according to its provisions and analysis by the House Ways and Means Committee staff, would have allowed roughly two-thirds of an automobiles content, for example, to originate from non-TPP countries but still be eligible for TPP trade benefits.
- It included unacceptable Investor State Dispute Settlement (ISDS) provisions.
- It failed to include disciplines on currency manipulation.
- It failed to address growing overcapacity in key sectors.

Many are now advocating that the U.S. join the successor Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), but that would be unwise and unacceptable as it includes many of the flaws in the TPP.

We have been asked whether we support the President's Indo-Pacific Economic Framework (IPEF). That's impossible to answer as there is not yet enough detail to know whether it is an agreement that advances the interests of working people. It is still a framework being developed. We have engaged and will continue to work with the Administration on what the architecture of the IPEF should be.

We support enhancing America's relations with allies and friends to foster growth with opportunity, democratic values, human rights and workers' rights. Economic reform in a Western sense and greater freedom, as we have seen all too clearly with China, are not the automatic result of expanded economic relations. Free trade is simply a theoretical construct

and workers know the reality is far different – particularly in the Indo-Pacific. How we shape our economic engagement is the critical issue.

There are a number of initial questions that must be answered, which I outline below. There are also a number of consequential design issues that must be addressed for any agreement to have the support of organized labor. As the IPEF is still very much a work in progress, I look forward to working with you, other Members of Congress and the Administration in the coming days and know that my labor colleagues stand ready as well.

Some key initial questions:

1. Which countries will be participants in the IPEF?
2. Will the framework include “docking” provisions allowing others to sign on and what will be the requirements for participation?
3. Will market access commitments be included in the framework? While initial answers are no, what are the long-term plans?
4. What will be the role for stakeholders and Congress?
5. Will enforceable workers’ rights and corporate accountability measures apply to all modules?

These are important questions, and I am sure I am missing some. In addition to these threshold questions, there are key design questions relating to the substance of the provisions. Below I identify several important issues. In the coming days, as more information becomes available, we will be able to provide further thoughts.

Workers’ Rights and Corporate Accountability:

The number one concern for organized labor is how workers’ rights will be protected, enforced, and promoted in the region. Workers’ rights are the key to ensuring that trade will promote growth and opportunity for workers rather than driving a race to the bottom.

There is cause for some optimism about workers’ rights in light of the impact of the first two USMCA Rapid Response Mechanism (RRM) cases in Mexico. At the GM facility in Silao and the Tridonex facility in Matamoros, entrenched protection unions were voted out and have been replaced by independent unions. Following these votes, workers at the Mazda facility in Salamanca rejected the contract negotiated by the protection union at the facility. There is still a long way to go to harvest these successes at these facilities and to expand these wins at facilities across the country. But the early signs are positive.

The RRM created a facility specific enforcement mechanism that allows specific products to be sanctioned and potentially denied entry, the first time in any trade agreement. Coupled with the Labor Chapter’s requirement in the USMCA and the changes in Mexican law that were required, the requirement that workers’ rights be respected, implemented, monitored and enforced has advanced. The agreement, however, is only a floor and significant improvements are needed in future trade agreements and trade initiatives.

There can be no question that workers' rights are a priority for this administration. Its record has been noteworthy in terms of a real commitment to ensuring that not only are workers' rights a priority, but that the necessary resources, implementation, and enforcement efforts back up their stated commitment. The recent signature into law of the Uighur Forced Labor Protection Act shows that words will be backed up by real action.

Administration officials have indicated that workers' rights will be part of the IPEF. But how broad that coverage is, what standards will be applied, and what enforcement mechanisms will be included is very much an open question.

Workers' rights commitments and enforcement provisions must cut across all of the separate modules that may be part of the IPEF. Participants in the IPEF should not be able to cherry-pick which modules they want to participate in to avoid having to adhere to high standards and advance the interests of working people. There have been some indications that workers' rights may only be contained within the module being negotiated by the USTR. This would be a blow to the administration's overall advocacy for and commitment to a worker centered trade policy.

Access to enforcement efforts must be available to workers as it is their interests that are most affected. There must be no requirement to show that a violation is "in a manner affecting trade" or that there be a "sustained or recurring" course of violations to merit an enforcement effort. Those concepts and requirements are outdated, and a worker centered trade policy must ensure that abuse of workers' rights be actionable.

We are willing to assess different approaches to advancing workers' rights to ensure that corporations cannot continue to engage in labor and environmental arbitrage, scouring the globe for the cheapest and most lax regimes in which to operate. The IPEF must create enforceable tools to hold corporations accountable for labor rights across their global supply chains to ensure that trade is based on fair competition, not worker exploitation.

Digital Trade:

Efforts to promote a digital trade agreement predate the announcement by the Administration for the IPEF. Digital trade remains a key module and is presently being shepherded by the USTR. The issue of digital trade has garnered considerable attention from organized labor in recent years as utilization of "gig" worker platforms have skyrocketed, the power of technology companies has exploded, and digital outsourcing of jobs has accelerated.

The digital issues are highly complex and require enormous study and evaluation. Rushing to adopt new digital trade measures could have serious adverse consequences for U.S. economic and national security interests. Congress must be broadly engaged, along with other stakeholders, in assessing what the road ahead should look like.

Technology's role in everyday life is difficult to comprehend. As some say, data is the new oil with the potential to fuel economic engagement at every level. Certainly, technology has provided enormous benefits from connecting the world, to promoting democratic advances, to facilitating working-from-home during the pandemic, to countless other applications.

But technology has also been used by governments as a tool to surveil and suppress, as has been evident in China, Russia and elsewhere. While technology originally helped foster democracy advocates in Hong Kong, it was later turned into a weapon against the population.

Data and technology are not only open to abuse by governments, but by the private sector as well. Unregulated digital platforms like Google and Facebook, collect massive amounts of users' data that is then mined, packaged, and sold to third parties. Meanwhile, employers are increasingly using "bossware" programs to monitor employees' remote work and collect other data often without their knowledge or consent – sometimes even when they are off the job.

Wejo, a publicly traded company, collects vehicle data to be used by government and business. Of course, mapping congestion, enhancing traffic safety and other uses can be for the good, the data can also potentially be used for adverse purposes and to monetize every action an individual takes. Wejo's website indicates that it has curated more than 489 billion miles and, as of the date that this testimony was written, has 13.2 trillion data points.

Similar collection platforms are expanding around the globe, and we need to understand how digital trade provisions advance individual rights and interests, rather than undermine them, and how any framework does not just pad the bottom line of corporations.

These questions, of course, also go to data localization, privacy, online fraud, worker misclassification, and many others. Those are issues that organized labor is wrestling with.

We also must examine how a digital trade agreement addresses the use, and abuse, of algorithms which can have a discriminatory effect on users and communities. Digital employment tools have been criticized for the costs imposed on communities of color, for example, and an agreement must help abate that practice.

The potential direct employment impacts of digital trade provisions are significant. At the outset, let me make clear that many jobs are already being outsourced through digital means and via digital platforms. Agreements that are properly structured, implemented, monitored and enforced could make a significant difference. Poorly constructed, however, they could mean accelerated outsourcing of jobs. We cannot afford another trading arrangement that will ship more jobs overseas.

Let me provide two examples of why we are concerned about the offshoring of jobs via digital platforms.

- Call center jobs are increasingly being outsourced with India and the Philippines being significant locations for lost jobs. These are good family-supporting jobs, a substantial number of them being union jobs. The Wall Street Journal reported last year on a startup that had received significant funding for software "that modifies pronunciation to make

accented speech more like Standard American English.”¹ Wealthy corporations will do just about anything to lower costs by shipping jobs overseas.”

- Health care jobs are also increasingly at risk. The Department of Labor estimated that there were 341,600 jobs for Medical Records and Health Information Specialists in 2019 paying a median wage of \$40,090 per year with much faster than average job growth estimated during the 2019-2029 period (8%).² A web page ad for Healthcare Outsourcing Services Philippines, promotes its services highlighting that “Hire Dedicated Offshore Healthcare Professionals and save up to 75% compared to hiring locally.” The site stresses that “The Healthcare Business Process Outsourcing (BPO) Market is estimated to grow at a CAGR of +10% from 2019 to 2025 to reach \$312 billion by 2025 from \$191.68 billion in 2019.”³ Teleradiology is increasingly being used to offshore high-skilled radiology jobs.

The potential impact of digital trade provisions on public sector workers, and those who service the public sector may also be significant. The Australia-Singapore Digital Economy Agreement, for example, included provisions that would open up access to government data allowing “for the development of new and customised products and services demanded by business, government and the community.”⁴ This is a potential pathway towards privatization.

Many content creating workers – actors, musicians, writers, and the people who work behind the scenes – earn a portion of their collectively bargained pay and contributions to their healthcare and pension funds from the sales and licensing of works on digital platforms. Because of the economic threat from stolen and unlicensed content, these workers’ very livelihoods depend on strong copyright protections. Yet past U.S. trade agreements have enshrined outdated, overbroad rules that allow digital providers to avoid any liability when they profit off of stolen content that appears on their platforms, and which robs workers of just compensation and future work opportunities. At stake is more than \$2 billion in annual, collective compensation for hundreds of thousands of middle-class creative professionals⁵. A digital trade agreement must protect and promote copyright protections for creative professionals, not facilitate additional wage theft.

Education unions have also participated in discussions about the digital trade issues. As distance and remote learning spiked during the pandemic, the risk to our domestic education workforce – teachers and others spiked as well. We cannot allow the education of our children be put at risk to offshoring along with the provision of services from so many other professions.

¹ David Carnevali, The Wall Street Journal, Startup That Reduces Accents in Real Time Draws Seed Capital: Sanas.ai raises \$5.5 million after developing software that modifies pronunciation to make accented speech more like Standard American English, September 2, 2021, <https://on.wsj.com/3MEDmK0>

² Bureau of Labor Statistics, U.S. Department of Labor, *Occupational Outlook Handbook*, Medical Records and Health Information Specialists, at <https://www.bls.gov/ooh/healthcare/medical-records-and-health-information-technicians.htm> (visited June 28, 2021).

³ Outsourced, <https://outsourced.ph/services/staffing-categories/healthcare/> (visited July 27, 2021)

⁴ “Australia-Singapore Digital Economy Agreement: summary of key outcomes” <https://www.dfat.gov.au/trade/services-and-digital-trade/australia-singapore-digital-economy-agreement-summary-key-outcomes>

⁵ Creative Professionals Depend on Strong Copyright Protections, <https://www.dpeaflcio.org/other-publications/creative-professionals-depend-on-strong-copyright-protections>

Until there is a better understanding of the design and direction of a digital trade agreement, it is impossible to know its impact but, clearly, without proper provisions including strong workers' rights and corporate accountability measures that are enforceable, the possibility for significant job loss and downward pressure on wages and compensation exists.

As with the TPP, advocates for a digital trade agreement are arguing that we need to write the rules so that China doesn't get to. Certainly, we cannot allow China's vision of the digital economy with the Great Firewall, 50,000 or more Internet Cops, suppression of rights and freedoms to win the day. But we also cannot allow today's digital rules to guide the future with virtually unregulated corporate control of workers' and citizens' data, harvesting of value, fostering of hate-filled speech and other abuses to be the model.

A digital trade agreement, done right, could advance the interests of workers. Again, as with other issues within the IPEF, much work remains to be done.

Resilient Supply Chains:

One of the pillars of the proposed Indo-Pacific Economic Framework is resilient supply chains. Until several years ago, the American public rarely gave a thought to supply chains. Their attention to the issue was often sparked by press accounts such as those highlighting dog food tainted with melamine and kids toys with lead paint from China. There were occasional concerns for the public, but rarely consistent attention.

The pandemic changed all that. Overnight the public became aware of just how painfully dependent we are on China for many of our critical products – pharmaceutical ingredients, personal protective equipment (PPE) and other products. Autoworkers found their factories idled by limited supplies of semiconductors. The availability of other products, from toilet paper to paper towels and other daily needs, suddenly became a concern for our citizens.

The increasing dependence on other nations for many of our needs has increased dramatically as globalization has accelerated. This dependence has been used as a political tool, such as when China weaponized supplies of rare earth minerals many years ago. During the pandemic, China engaged in so-called mask and vaccine “diplomacy” to curry favor and advance its interests.

Russia's attack on Ukraine has also informed the public of our dependence on overseas supplies. Energy is top of mind. But supplies of critical minerals and materials are also highlighted as being at risk.

Most Americans want supply chains to be strengthened here at home. Certainly, they recognize that we live in a global world and enjoy – and depend on -- products sourced from around the globe

Organized labor's approach to supply chains is easy to articulate: We want the vast bulk of production to occur here in the U.S. with the jobs held by union workers. Of course, we know that not all products will be sourced here.

So when we hear that the IPEF will include a module to promote more resilient supply chains, we look at the idea through the prism I just offered. Indeed, with this Administration's efforts to ensure domestic capacity to meet critical needs – an approach started under the previous Administration – we wonder whether the IPEF's supply chain approach will advance or undermines that goal. Are they consistent objectives?

In discussions with the Administration to date, there simply has not been enough information on what will be included in the supply chain module. Shifting sourcing from China to other countries in the Indo-Pacific may have some benefits in terms of reduced dependence for supplies from China which, all-too-often benefit from its non-market and predatory trade practices, and by signaling that we know our economic engagement helps support the power of the Chinese Communist Party (CCP).

But simply shifting the supply base around will at best only have marginal benefit, and we will still face potential shocks from geopolitical and natural events. We may lose the capacity to build our own industrial and technological capacity as research and development (R&D) and production moves offshore. For example, according to a staff study issued by the US-China Economic & Security Review Commission based on Commerce Department data, between 2001 and 2017, the rate of increase on R&D spending by U.S. multinationals increased in China at three times the rate of their R&D investments here in the U.S..⁶

A resilient supply chain module should also include provisions ensuring that new investments be subject to corporate accountability measures that require recognition and enforcement of workers' rights and advance shared goals such as decarbonization and environmental sustainability. An IPEF must promote our standards and interests, not undermine them.

Conclusion:

Mr. Chairman. Ranking Member Crapo. Members of the Committee. My testimony today has only touched upon the issues that are involved in the design and development of the Indo-Pacific Economic Framework. Issues like overcapacity, currency manipulation and others deserve attention. I fully recognize that this is not a market access agreement and, therefore, there are limits to what it can achieve. However, we are not interested in an agreement that advances the interests of multinational companies without significantly advancing the interests of workers.

There is no question that we should be engaged in the region – we already are. The question is what the forward path is and what opportunities, and challenges, exist for our workers...our citizens.

In past years, trade and international economic initiatives have largely been fueled by foreign policy concerns. In many respects, the agreements have either failed to produce the promised benefits or, worse, have dramatically undermined U.S. interests. The admission of China to the

⁶ Malden, Kaj, Trends in U.S. Multinational Enterprise Active in China, 2000-2017, the U.S.-China Economic and Security Review Commission, July 1, 2020, at page 12, https://www.uscc.gov/sites/default/files/2020-06/US_Multinational_Enterprise_Activity_in_China.pdf

World Trade Organization, facilitated by the grant of Permanent Normal Trade Relations, is the prime example of that failure.

In seeking to expand America's role in the region and to strengthen our economic and national security interests we must not rush forward without paying proper attention to the needs and interests of our workers, and workers in the Indo-Pac countries. Workers here in the U.S. have increasingly used their voices to speak out on trade issues and their impact has been significant in politics and on policy. America's leadership would be significantly undermined if another bad agreement is brought forward that cannot garner the support of our people.

Organized labor is committed to working with you, your colleagues, and the Administration to try and develop the right path forward. We are not against negotiations, but we will fight for the interests of our members.

Thank you.