

Testimony to the Senate Finance Committee
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Introduction

Thank you, Chairman Baucus and Senator Hatch for holding this important hearing on APEC.

My name is Peter Scher, and I am Executive Vice President of Global Government Relations and Public Policy at JPMorgan Chase. Before I start, I want to first express that our thoughts and prayers are with the people of Japan following the recent events there. I was just in Yokohama last year for the APEC meetings that Japan hosted. Japan is an important partner in so many ways, and in this interconnected world, I think everyone understands that what happens there matters here.

I appreciate the opportunity to appear before your committee today as one of the three U.S. representatives of the APEC Business Advisory Council (ABAC), but also as someone who believes that APEC has the potential to provide needed leadership and momentum on advancing more open trade and economic integration in the Asia-Pacific.

Chairman Baucus, I want to thank you in particular for your leadership on APEC and Asia-Pacific economic issues. There is tremendous excitement about the APEC meetings that will take place later this year in Montana, and a firm belief that those meetings will provide real progress on trade issues generally, as well as a focus on how small businesses can benefit from our relationship with Asia. It is particularly appropriate to have small business representation at this hearing, as small business may stand to benefit the most from APEC and harmonized trade rules.

As this committee knows well, 2011 is really a crossroads for the U.S. international economic agenda. It is the year that we need to see action on our three pending free trade agreements. It is the year to decide whether the WTO negotiations will move forward. And most importantly for purposes of today's hearing, it is also the year that the United States is hosting APEC.

This presents serious questions about the future of APEC, and how the U.S. engages economically in the region. Will the U.S. continue to make APEC a priority? Will we advance a strong agenda that drives us toward regional economic integration? Will we make concrete

progress on trade issues that really matter to businesses – both big and small, and that help grow the global economy?

Our trading partners are watching closely. How we come together to capitalize on hosting this year's APEC meetings will be important not only to our domestic growth, but also U.S. leadership in Asia.

APEC Then and Now

The United States last hosted APEC in 1993. The world of business and trade has changed dramatically since then:

- In 1993, the internet was just getting started. Today, it is estimated that 2 billion people use the internet – and have the ability to access more than 110 million websites.
- In 1993, the first PDA mobile phone was released, costing \$900 dollars, weighing almost a pound and a half, and including a “fax” function. The blackberry was still a decade away.
- In 1993, NAFTA was not yet in place. China had not yet joined the WTO. And the United States was the leading trading partner for most regional economies. Today, it is China that is the leading trading partner for most regional economies, and it is China that is moving aggressively to negotiate – and implement – free trade agreements in the region, and around the world.

So what does all of this mean? Everyone appreciates that technology and business are changing at a breathtaking pace. What is concerning, though, is that while other countries seem to be rapidly changing their policies to keep up with this fast-changing environment, U.S. policies often seem a step behind. Nowhere is this more evident than with respect to international trade policy and attitudes toward global competitiveness.

The U.S. in Asia and APEC

It is in this context that the United States is hosting APEC. We must use this year to demonstrate credibility and leadership in the region.

APEC's 21 members together represent approximately 2.5 billion consumers and around 60% of global income. Since 2000, “Emerging Asia,” which excludes Japan, experienced average GDP growth of 7.8%, faster than any other region in the world, and well above the 1.9% pace at which the US economy expanded. Asia is where the world's growth is, and it will be a critical growth market for the United States in years and decades to come.

Enhanced engagement in Asia offers significant opportunities to stimulate U.S. economic growth and job creation. But too often, APEC's core mission of advancing regional economic

integration gets diverted to dealing with the crisis of the day. Of course, when twenty-one leaders from the world's strongest economies gather, they are going to discuss the issues that are grabbing headlines. But it is important that APEC not get distracted from its core economic mission. And the United States must ensure that we are driving an agenda in APEC that keeps us competitive in Asia – or simply risk becoming less relevant.

One concern is the decline of America's share of merchandise trade. Since 2000, Emerging Asia trade with the US has declined from 16 percent of total trade to 12 percent. In 2000, Asia imported 11 percent of its goods from the United States. Today, it imports 7 percent. Instead, the dynamic, high-growth countries of Emerging Asia are increasingly trading with each other. Since 2000, intraregional trade has risen from 30 percent of total trade to 33 percent. Intraregional exports have risen from 31 percent to 34 percent, while intraregional imports have risen from 29 percent to 33 percent.

APEC is the best opportunity to seize on these challenges

Of course, this is not a zero sum game, but these trends make clear the fact that Asia is moving ahead on economic integration whether the U.S. is in the game or not. Our competitors, both inside and outside the region, have recognized the benefits of economic integration.

We cannot sit on the sidelines. So the question is: Is APEC is the best forum to reinvigorate U.S. economic leadership in Asia? Based on my experience – both in government and now in the private sector – APEC is one of the few forums where the United States has consistently made progress.

We know that when it comes to U.S. economic growth, no region is more important than the Asia Pacific. We need a forum like APEC where the U.S. can focus on this critical region without distractions.

At the same time, we need a negotiating structure that does not get bogged down. While nearly everyone supports the ongoing work in the World Trade Organization, progress there is incredibly slow, and success far from assured. Creating consensus among the WTO's 150 member countries is, to state the obvious, excruciatingly difficult. And many of our trading partners are simply dragging their feet, calculating that they benefit more from the status quo.

APEC, in many respects, is almost the opposite of the WTO. It is a group of the most vibrant economies that has the ability to focus on the most important issues. Because APEC involves only 21 economies, it is simply a more manageable group. Just as important, not all 21 economies have to participate in any given negotiation. If a group of countries agrees to move forward on a particular initiative, they can.

APEC has found success in the past by focusing on sector-by-sector goals, and making progress on priority issues, without being hamstrung by issues where there is political gridlock. This year, for example, there is a focus on non-tariff barriers and clean energy – two areas of vital importance to the United States.

How does this work in practice? I would argue that the results are clear. By just about any measure, APEC has set a tone of integration and cooperation in the region. One clear example: in 1993 there were 15 FTAs involving Asian countries, today there are roughly 233.

APEC certainly helped set the stage for the United States and Korea to negotiate a free trade agreement – our most commercially significant free trade agreement since NAFTA. And APEC was the launching pad for the current Trans-Pacific Partnership talks, a trade agreement that currently includes 8 of our 20 APEC partners, and may grow to include more.

At the same time, APEC has been an incubator for key sectoral initiatives, across a broad range of areas: customs harmonization, business travel, standards, and hundreds of other projects. The Information Technology Agreement, which eliminates tariffs on all IT products, was generated in APEC before being adopted by the WTO.

Part of the reason APEC has been so successful is the partnership with the private sector, focused on specific barriers to trade and economic growth. In fact, the vast majority of projects and initiatives undertaken by APEC over the years have been driven by U.S. business and government cooperation.

APEC has a unique commitment to incorporating private sector input in its policy process. The APEC Business Advisory Council (ABAC) allows the government to seek business input and expertise and to coordinate with government policymakers to produce outcomes that are directly meaningful and relevant to the real needs of companies seeking to trade in the region.

The close interaction with the private sector is increasingly important as our trade negotiations become more and more complex. In 1993, our negotiations focused almost exclusively on tariffs. Tariff reduction is an issue that is fairly transparent, and ultimately controlled by governments. Today, the focus is completely different. Most tariffs have been negotiated down. The real challenge is non-tariff, or so-called “behind the border” barriers. These are the real, everyday issues that American businesses of all sizes face on the ground – and where companies need a strong partnership with the U.S. government to find solutions. This is vitally important to small and medium sized businesses if they want to successfully export. They rely on certainty and rules that are harmonized across many borders.

Goals for 2011

So, as we look at the trade and economic landscape in 2011 – and our own ability to shape the APEC agenda – what should our priorities be?

Let me start with an observation. We have been negotiating the WTO Doha round for the better part of a decade. Negotiations are stalled, and our trading partners are moving ahead with other priorities. We cannot fall into the trap of putting all of our eggs in one negotiating basket. We must move ahead on multiple fronts, and APEC should be a key part of our trade arsenal.

Within APEC, our leaders should aspire to more than promoting lofty goals about free trade throughout the region, and our government should ensure that APEC is not simply an Asian forum in which the United States is represented. APEC needs to demonstrate that it can deliver progress on the issues that matter most – and for our purposes today, and the U.S. in particular – stimulating economic growth and job creation.

What does that mean for this year's agenda? First, the government and the private sector need to start being practical about what we can accomplish. We should pursue first class trade agreements. But whether that means multilateral, bilateral, or sectoral agreements, we need to start acting. Too often, we seem like a team mapping out complicated plays in the locker room, while our competitors are already out on the field. We are now seeing our Asian trading partners looking elsewhere for the markets and products they need, while American workers and employers bear the cost of inaction. We should not look at incremental progress as a failure, but rather as a necessary stepping stone to successful trade negotiations for this century.

We should ensure that the APEC Ministerial meetings in May and September – and the Leaders meeting in November – create internal benchmarks for progress and action. Completing work on the Trans Pacific Partnership is one goal that we all share.

Second, we should increase the focus on sectoral initiatives. The Information Technology Agreement, which resulted in the lifting of tariffs on all IT products, started in APEC before it was part of the WTO. This is an example that should be replicated in other areas. We should update previous successful sectoral initiatives, and prioritize new efforts that show the most promise.

One area of focus that has strong support is sustainable growth and energy security. The United States should do all that it can to advance an agenda on environmental goods and services, an area where we are leading in technology, but face a number of challenges in foreign markets.

Finally – I would encourage the Administration to put forward a focused workplan with measurable objectives and specific timelines. Leaders meetings – whether in APEC or in any other forum – too often result in a negotiated document that is the “lowest common denominator.” The “deliverable” is a lofty goal, a press announcement – and then limited follow through.

In today's competitive environment, that's no longer enough. And since the U.S. is driving this year's agenda, we should work hard to deliver concrete results.

Conclusion

Getting the most out of APEC will require the business community to demonstrate to U.S. political leaders, and to the American public, that job creation and economic recovery are closely linked to exports and that Asia is a primary opportunity for this kind of export-driven growth. We will need to make the case that if the U.S. does not participate in the Asian economic boom, we may simply miss the boat. Asia is not waiting for the United States, and the clock is ticking.

But let me conclude where I began: 2011 is going to be a true crossroads – for APEC and its member-nations, and particularly for U.S. engagement in the region.

We must collectively seize this chance, and use this year to demonstrate that APEC can be the preeminent forum in which the nations of the Asia-Pacific work together to restore global economic growth and international stability.

Given these stakes, it is critical that the U.S. engage APEC to move forward in the coming years with a sense of urgency and purpose. Working together, the leaders of APEC, national policymakers, and businesses around the region can help make APEC a leading driver of restored prosperity and growth in the region.

I again want to thank the Committee for your dedication to these critical issues. I look forward to your questions.