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SENATE COMMITTEE ON FINANCE HEARING ON THE PRESIDENT'S
2020 TRADE POLICY AGENDA

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Introduction

Chairman Grassley, Ranking Member Wyden, and Members of the Committee, it is a pleasure to appear before you today to testify on the President's 2020 Trade Agenda.

By placing trade at the center of his agenda in 2019, the President achieved more trade successes over the last year than most administrations achieve over multiple terms. And while the coronavirus has negatively affected the economy in recent months, the benefits of the President's trade and economic policies were unmistakable prior to the onset of the pandemic. Wages were growing faster for nearly all groups, especially those at the lower end of the income scale. Since President Trump took office, average wage growth for Americans without a bachelor's degree has outpaced wage growth for those with a bachelor's degree or higher. Average wage growth for individuals at the 10th percentile of the income distribution has outpaced wage growth for individuals at the 90th percentile. Wealth inequality also declined, as the share of net worth held by the bottom 50 percent of households increased, while the share held by the top one percent decreased.

Net worth for the bottom 50 percent of households increased at an annual rate 15 times higher than the average growth seen under the three prior administrations' expansion periods. Average wage growth for African Americans and Hispanics has outpaced overall average wage growth. At more than \$66,000, real median household income hit the highest level ever

recorded. 15,000 manufacturing jobs were lost in the 12 months prior to President Trump's election, but more than 500,000 manufacturing jobs were added to the American economy from November 2016 to January 2020. This contributed to unemployment reaching historic lows in 2019, with job openings exceeding people looking for work by more than one million.

These figures represent a blue-collar boom under the Trump Administration, a boom that will continue as we reopen our economy and establish a path forward that better protects our economic security.

President Trump promised to make fundamental changes to U.S. trade policy to achieve results that benefit all Americans, and the President has kept that promise. The President directly confronted China's abusive trade practices through substantial tariffs, resulting in the groundbreaking Phase One trade agreement signed on January 15 of this year. The agreement secured enforceable commitments from China to cease its abusive trade practices – including intellectual property theft, forced technology transfer, discriminatory regulations, and currency manipulation. It also committed China to significantly increase its purchases of U.S. goods and services by at least \$200 billion over 2017 purchase levels.

By establishing a strong dispute resolution system and maintaining tariffs on approximately \$370 billion in goods from China, the Administration has maintained the authority and leverage to enforce China's compliance with the agreement while pursuing additional reforms under a future Phase Two agreement.

On January 29 of this year, President Trump signed the United States–Mexico–Canada Agreement into law after Congress overwhelmingly approved the deal by a vote of 89-10 in the Senate and 385-41 in the House of Representatives. The landmark agreement fulfilled the President's promise to rebalance the U.S. trade relationship with Mexico and Canada while

incentivizing manufacturing in the United States, defending our competitive advantage in technology and innovation, protecting workers and the environment, and securing even greater market access for America's businesses, farmers, and ranchers. USMCA was a bipartisan victory for the American people, and I would like to thank all of the Members who contributed so much to the negotiations and implementing bill.

Last year, the United States also entered into two agreements with Japan that established preferred or zero-rate tariffs on more than 90 percent of U.S. food and agricultural products imported into Japan and enhanced the existing \$40 billion in digital trade between our countries.

In addition to new trade agreements, the Administration has continued to seek strong and effective enforcement of our existing trade agreements and the WTO commitments of our trade partners. Last year, the United States won the largest award in WTO history, obtaining the right to impose countermeasures on \$7.5 billion of goods from the European Union in response to the harms caused by EU Airbus subsidies. The U.S. also secured increased access to the EU's beef market after successfully challenging a non-science-based ban on certain hormones.

In addition, the United States initiated action against France for its "digital services tax," which targeted American technology companies. This action resulted in an agreement to suspend collection of the tax while OECD countries discuss a fairer and more standardized approach. USTR is continuing to analyze similar measures worldwide, and recently initiated Section 301 investigations of digital services taxes in ten additional countries.

Furthermore, the United States has successfully challenged distortive Chinese agricultural trade practices; Indian export subsidies for steel, pharmaceuticals, chemicals, information technology products, and textiles; and retaliatory tariffs unfairly levied by five countries in response to the President's steel and aluminum tariffs.

Lastly, the United States has engaged extensively with WTO Members on a range of issues. After years of complaints by multiple administrations, the Trump Administration took action against WTO Appellate Body abuses by exercising our right to not approve new members. This action has forced the WTO to engage in a long-overdue debate about the role of the Appellate Body.

Alongside this action, USTR issued its Report on the Appellate Body, which details how the body frequently fails to apply WTO rules as agreed to by WTO Members, imposing new obligations and violating Members' rights. The United States also offered a proposal to establish consequences for non-compliance with WTO notification obligations, as well as a proposed General Council decision that would establish objective criteria for determining which WTO Members should qualify for blanket "special and differential treatment."

Trade Policy Agenda

This year, President Trump will continue to pursue new trade agreements that benefit all Americans, aggressively enforce our trade laws, respond to unfair trade practices by other nations, and work toward reform at the World Trade Organization.

The Trump Administration has taken numerous steps to pave the way for negotiating a trade agreement with the UK, including a review of public comments, a public hearing, and extensive consultations with congressional and trade advisory committees. USTR published detailed negotiating objectives on February 28, 2019, and aims to reach an agreement with substantive results for U.S. consumers, businesses, farmers, ranchers, and workers as soon as possible.

On February 6, 2020, President Trump announced that the United States intends to initiate trade agreement negotiations with the Republic of Kenya. This action falls in line with Congress' support for mutually beneficial trade agreements with the countries of sub-Saharan Africa. A trade agreement between the United States and Kenya will complement Africa's regional integration efforts, including the landmark African Continental Free Trade Area. Such an agreement will also serve as a model for additional agreements in Africa, expanding U.S.-Africa trade and investment across a continent that will account for nearly a fifth of the world's consumers by 2030.

The United States also seeks to rebalance our trade relationship with the European Union. For many years, U.S. businesses have been at a disadvantage in doing business in the EU. Both tariff and non-tariff barriers in the EU have led to increasing and unsustainable trade deficits with the EU – reaching \$179 billion in 2019. With recent changes in EU leadership, the United States is hopeful for more progress in the coming year.

The United States also seeks to build on the accomplishments of the past year and work toward more comprehensive agreements with Japan and China that promote fairer and more reciprocal trade. In the case of Japan, the two countries intend to enter into further negotiations on customs duties, barriers to trade in services and investment, and other trade restrictions. With China, “Phase Two” will focus on issues of overcapacity, subsidization, disciplines on China's state-owned enterprises, and cyber theft.

More broadly, the Trump Administration will continue to aggressively enforce U.S. trade laws to protect the interests of American businesses and workers, taking strong actions to ensure America's trade partners comply with the terms of our trade agreements. The Phase One Agreement with China established a strong process for ensuring that China honors its

commitments and imposing proportionate measures if it fails to do so. Likewise, the USMCA contains a detailed process for enforcing commitments, and the President has established working groups to monitor the implementation and maintenance of the labor and environmental provisions.

USTR will also pursue formal challenges to acts, policies, or practices of foreign governments that are inconsistent with WTO rules and other recognized standards. For example, USTR is investigating the digital services taxes of ten additional countries, as mentioned above. USTR has also launched eight GSP reviews under this Administration, ensuring that countries enjoying favorable tariff rates in the United States follow the clear labor, IP, and market access standards necessary to qualify for the program.

The Administration will also look for ways to strengthen our existing trade policies to better protect American producers and consumers. One option is to tighten *de minimis* thresholds for American imports, including those subject to Section 301 tariffs. At \$800, the U.S. *de minimis* threshold far exceeds that of our major trade partners. For example, the EU threshold is only \$150, while China's stands at a mere \$7. This results in massive numbers of shipments to the U.S. receiving duty-free treatment and virtually no screening. In FY2018 and FY2019, there were a combined 1.2 billion *de minimis* shipments, with 719 million (or roughly 60 percent) coming from China. In contrast, the U.S. received only 68 million formal entries during this period, with only 7.3 million (or less than 11 percent) coming from China. The disproportionately high volume of these shipments indicates China and others are likely exploiting the high U.S. *de minimis* threshold to avoid paying duties.

Lastly, the United States will continue to pursue reforms at the WTO aimed at limiting the organization to its original role as a forum for nations to negotiate trade agreements, monitor

compliance, and facilitate trade dispute resolutions. At present, over 150 disputes have been filed against the United States at the WTO, while no other Member has faced even one hundred. Worse, up to 90 percent of these disputes have resulted in a report finding the U.S. at least partially at fault. This averages out to five or six successful WTO disputes against the United States every year.

In other words, the WTO has effectively treated one of the world's freest and most open economies – with an enormous trade deficit – as the world's greatest trade abuser. In so doing, the WTO's Appellate Body has often created new obligations out of thin air, preventing the United States from taking action to address unfair trade practices that hurt U.S. workers, and usurping the U.S. government's accountability to the American people. This situation has also greatly undermined the negotiating process at the WTO, as countries now believe they can obtain better outcomes through litigation than through negotiation, especially with the United States.

In addition to reigning in the Appellate Body, the United States will also seek a broader reset at the WTO. Currently, outdated tariff determinations are locked in place that no longer reflect Members' policy choices and economic conditions. As a result, many countries with large and developed economies maintain very high bound tariff rates, far above those levied by the United States. The United States must ensure that tariffs reflect current economic realities to protect our exporters and workers. To that end, the United States will also seek broader support for our proposals concerning notification enforcement and "special and differential treatment" for developing countries.

The President's trade agenda has benefitted all Americans, but especially those most harmed by the failed policies of the last 25 years. In the decades following the North American Free Trade Agreement's (NAFTA) implementation and China's accession to the WTO, America

lost 1 in 4 manufacturing jobs and more than 60,000 American factories were shut down. Over the last three and a half years, that trend has finally started to reverse. President Trump promised to end the disastrous trade deals of the past and put America's workers, farmers, ranchers, and businesses first. He has delivered – and will continue to deliver – on that promise.