

STATEMENT OF
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BEFORE THE FINANCE COMMITTEE
UNITED STATES SENATE

IN SUPPORT OF THE U.S.-AUSTRALIA FREE TRADE AGREEMENT

JUNE 15, 2004

Mr. Chairman, Members of the Committee. Good morning. My name is Harold McGraw III. I am chairman of the Business Roundtable's International Trade and Investment Task Force and Chairman, President and CEO of The McGraw-Hill Companies. It is a pleasure for me to speak to you today in support of the U.S.-Australia Free Trade Agreement (FTA) on behalf of leading U.S. corporations with a combined workforce of more than 10 million employees in the United States.

Mr. Chairman, we want to thank you, Senator Baucus and your Committee for your essential leadership in moving the trade agenda forward with your action to pass the Trade Promotion Authority and the U.S.-Singapore and U.S. Chile Free Trade Agreements, and your action now on Australia and Morocco. The Business Roundtable believes that U.S. policies that promote trade – like the U.S.-Australia FTA – coupled with policies that promote education and training, and investment and innovation, will result in more economic growth and job creation in the United States.

Trade Fuels Economic Growth

Trade expansion is one of the most important catalysts for economic growth. As we know, 95 percent of the world lives outside the United States. U.S. trade agreements to open up foreign markets are more important than ever. Isolating the United States from the world economy is a losing strategy for American companies, workers, farmers, and consumers.

Although this simple truth often gets lost in the popular debate, there is an increasing array of economic evidence that is clarifying and quantifying the benefits of more open economies and expanded trade. Our recent report, "Securing Growth and Jobs: Improving U.S. Prosperity in a Worldwide Economy," a copy of which is attached to my testimony, sets out many of these facts in detail.

Having just returned from trips to China and to Europe, I can tell you first hand that government and business leaders are looking to the U.S. for leadership in moving the trade agenda forward. Reforms and economic growth brought about by trade agreements clearly improve the quality of life for Americans and foreign citizens – through access to

a broader set of products and services, and to competition that improves quality, lowers prices and spurs job growth.

In short, more trade means more domestic economic growth, and more and better jobs for Americans. Isolating the United States from the world economy by foregoing opportunities to liberalize trade is a losing strategy.

The Australia FTA Is an Important Piece of the Larger Trade Expansion Effort

Expanding U.S. trade opportunities is vitally important for American workers, farmers, consumers, and companies. As international business executives, the members of the Business Roundtable know from personal experience how competitive the U.S. economy is if foreign trade barriers can be eliminated. The Business Roundtable has always been in the front lines of U.S. efforts to open markets, and we commend this Committee for its continued leadership on these efforts.

For many years, however, the United States lost ground to its foreign competitors who forged ahead, recognizing the benefits of trade liberalization, and negotiated one bilateral FTA after another. Prior to the enactment of trade promotion authority, for example, the European Union had 27 FTAs in force and was negotiating another 15, compared to three FTAs benefiting American companies (the North American Free Trade Agreement, the U.S.-Israel FTA, and the U.S.-Jordan FTA). Mexico had FTAs in effect with at least 28 countries. Even Japan was contemplating FTAs with six trading partners. U.S. companies and their workers were forced to stand on the sidelines and export growth languished.

Congressional enactment of trade promotion authority permitted the United States to get back onto the field. Today, because of Congressional action, the U.S.-Singapore and U.S.-Chile Free Trade Agreements are already helping to boost U.S. exports and employment. The U.S.-Australia FTA is another important opportunity for promoting U.S. economic growth and the good jobs that come with it, and we urge the Congress to put this agreement to work for the United States.

The U.S.-Australian trading relationship has always been a strong one. Even without a free trade agreement, U.S.-Australian trade totaled \$28 billion in 2003. Our trade surplus with Australia has been growing steadily, reaching nearly \$6 billion in 2003. Australia, like the United States, is an advanced economy; workers in both countries earn similar wages, and both countries have the same strong commitment to worker rights and environmental protection.

The U.S.-Australia FTA Is a Solid “Win” for America

The U.S.-Australia FTA would improve this picture even more. The FTA represents a strong “win” for the American economy and for American workers. As U.S. companies’ competitiveness improves, the economy expands and incomes grow. Significant transition and adjustment times have been included in the Agreement for

sensitive products to ensure that they do not disrupt the U.S. economy. We expect these benefits because the Agreement includes the following important features:

●**The FTA opens Australia's industrial goods markets to U.S. exports.** The FTA more than meets the trade promotion authority objective to expand competitive market opportunities for U.S. exports and obtain fairer, more open and reciprocal conditions of trade. More than 99 percent of U.S. manufactured exports to Australia will become duty-free immediately upon entry into force of the Agreement. This is an unprecedented achievement for any U.S. free trade agreement negotiated to date. Manufactured goods account for over 90 percent of total U.S. exports to Australia, so this feature of the Agreement has special significance. While U.S. exports to Australia are large (\$12.4 billion in 2003), the European Union currently is Australia's largest supplier and our companies face stiff competition from Japanese, Korean, and other suppliers.

●**The FTA liberalizes Australia's services markets, and this will benefit U.S. exporters.** U.S. services exports to Australia totaled \$5.2 billion in 2002, most of that reflecting transactions between U.S. parent corporations and their Australian affiliates. Overall, as with merchandise trade, the United States enjoys a surplus in its services trade balance with Australia. Trade promotion authority instructed U.S. negotiators to reduce or eliminate barriers to international trade in services, and the U.S.-Australia FTA achieves this objective. Australia's services commitments are total: all services sectors are covered. Indeed, the Agreement will also cover services yet to be developed. Moreover, the FTA gives American services companies and business professionals greater regulatory certainty and increased transparency.

●**The FTA opens Australian government procurement to U.S. competition.** The FTA establishes new disciplines on purchases made by most Australian central government agencies, as well as the vast majority of regional and municipal governments. This is significant because Australia is not a signatory to the World Trade Organization's Government Procurement Agreement. The FTA guarantees U.S. firms a fair and transparent process to sell goods and services to a wide range of Australian government entities. Australia will no longer apply provisions for local manufacturing or local content requirements to U.S. firms.

●**The FTA provides American investors in Australia with a higher level of certainty regarding investment rules.** Worldwide investment is also a key component in the ability of American firms to remain competitive at home. Most U.S. foreign investment is located in other developed countries, and Australia is an important destination for U.S. investment. It is important to remember that Australia is also an important investor in America. In 2002, Australian investments here totaled \$24.5 billion, and supported 80,400 jobs in 2001. U.S. negotiators have brought back an Agreement that meets Congressional objectives stipulated in trade promotion authority for foreign investment, including reducing or eliminating artificial or trade-distorting barriers to foreign investment. For example, the FTA excludes all new investment from screening by Australia's Foreign Investment Review Board, and increases the threshold

for review/screening of other U.S. investments from A\$50 million to A\$800 million (US\$519.5 million).

Congress Should Move Quickly to Approve the U.S.-Australia FTA

Mr. Chairman, sector by sector, this FTA is a big plus for America, and yet it is also important to recognize the importance of this FTA to overall U.S. trade policy.

Timely Congressional enactment of legislation to implement the FTA is important to keeping the momentum of trade liberalization going, both bilaterally and multilaterally. The Congressional approval of the Singapore and Chile FTAs last year shows how well the new Trade Promotion Authority has enabled the United States to be a full player in international trade again, after many years on the negotiation sidelines. The Australia FTA and other new agreements are helping to make up for the years that America lost ground.

Now that the U.S. economy is growing again, the Congress should avail itself of every tool to strengthen the U.S. economy in the months ahead through new trade opportunities. Indeed, it is no exaggeration to say that the world is watching what Congress does with the FTA. Delay in approval could slow down other trade negotiations under way at the bilateral, regional, and multilateral levels. As I stated at the outset, the world is looking to U.S. leadership to move the trade agenda forward.

The Business Roundtable is convinced that the choices we make as a nation on international trade rank among the important decisions that will define the American economic and social landscape decades from now. Forward-looking trade policies that include the U.S.-Australia FTA will create increased economic opportunity and higher standards of living. A retreat on trade would imperil the prosperity and quality of life available to Americans of all ages and walks of life. Further, it would be inconsistent with the leadership expected of us by our global partners.

We urge this Committee and the Congress to approve the U.S.-Australia FTA as soon as possible this year, so that the United States can start enjoying its benefits.

Thank you, Mr. Chairman, for this opportunity to share our views with you today.