



Business Roundtable

We Can't Stand Still:
The Race for International Competitiveness

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Business Roundtable

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The Race for International Competitiveness



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We Can't Stand Still:

The Race for International Competitiveness

America's major international competitors are not standing still. We cannot afford to either.

Every major trading nation in the world is actively negotiating free trade agreements, to ensure that their businesses and workers can compete successfully in a global economy and to secure strategic commercial, foreign policy and natural resource advantages. U.S. economic success demands that the United States continue to match the energy of other major traders. The alternative is an international economy where U.S. businesses and their workers compete at a disadvantage, and where the international economic landscape is shaped without the United States in a leadership role.

Every major trading nation in the world is actively negotiating free trade agreements. U.S. economic success demands that the United States continue to match the energy of our competitors.

Six years ago, Business Roundtable called attention to a new era in trade, one of greatly expanded negotiating activism on the part of our trading partners, generally without the United States at the table. At that time, there were an estimated 130 FTAs with the United States only a party to 3. Business Roundtable sounded the alarm then that the United States had fallen behind. To a certain extent, this warning was heeded, with the Congress reauthorizing Trade Promotion Authority (TPA, or "Fast Track") in 2002. Since then, the United States has been able to resume a leadership role in trade by negotiating new free trade agreements (FTAs) and actively participating in the Doha Round of World Trade Organization negotiations.

This leadership, and the ability to use trade and investment agreements to promote U.S. interests, is again in doubt with the coming expiration of TPA in July 2007. As this paper shows, regardless of what happens in the United States, our leading international competitors will continue to negotiate trade agreements at an even more aggressive pace. The United States has only 10 FTAs with three more in active negotiation and three awaiting Congressional implementation; in contrast, there are approximately 300 FTAs around the world with many more in active negotiation. If we do not match these efforts of other leading powers, the United States will be the loser.

To keep the United States on pace with our international competitors, the Congress and Administration have critical roles to play. TPA/Fast Track must be renewed based on an open and bipartisan discussion among the Administration, the Congress and stakeholders. FTAs that have already been negotiated need to be implemented in the coming year, and ongoing FTA negotiations and the Doha Round must be concluded on commercially meaningful terms.

The future negotiating agenda, which should focus attention on the most significant commercial markets, also needs to be developed, again based on close coordination between the Administration, the Congress and private sector.

Regardless of what happens in the United States, our international competitors will continue to negotiate trade agreements at an even more aggressive pace.

What must the U.S. do NOW?

- *Implement already negotiated FTAs.*
 - *Conclude ongoing FTA negotiations and the Doha Round.*
 - *Renew TPA/Fast Track.*
 - *Develop our future negotiating agenda.*
-

Below is a summary of the negotiating activity that is ongoing around the world, and the likely impact if the United States were not to pursue an active trade agenda.

Our Competitors Are Moving Forward, With or Without Us

Approximately 300 FTAs have been negotiated globally,¹ with over half coming since 2002.² In the Asia Pacific alone, the number of FTAs has tripled over the past five years, from 57 in 2002 to 176 in October 2006.³

This activity is occurring across many countries – indeed, FTAs have become a regularized part of the international landscape, and every country in the world has entered into at least one FTA.⁴ Today, *more than 50 percent of world trade occurs through FTAs.*⁵

-
- ~300 = FTAs negotiated globally*
 - 119 = FTAs negotiated since 2002
in Asia Pacific*
 - 50+ = Percentage of world trade
occurring through FTAs*
 - 28 = countries in FTAs being
negotiated or proposed
by China*
 - 21 = EU FTAs*
 - 10 = US FTAs**
-

*Israel, NAFTA, Jordan, Morocco, Chile, Singapore, Australia, Bahrain, Oman, and CAFTA-DR

This activity includes negotiations by key economic partners and competitors of the United States:

- ▶ The European Union has actively negotiated FTAs for years – it is party to 21 FTAs, more than any other economy in the global trading system.⁶ Having paused in some of its negotiating activity in the earlier part of this decade, pending the outcome of the WTO Doha negotiations, the EU announced in October 2006 that it was again actively negotiating FTAs and identified a new wave of strategic FTA partners in Asia and elsewhere where U.S. companies, farmers, and workers compete head-to-head with their European counterparts.

- 12 negotiations proposed or underway.

- ▶ Japan, which rejected FTAs for many years as a derogation from the multilateral trading system, is negotiating or preparing for negotiations of more than a dozen FTAs, after having concluded four agreements since 2002.

Every country in the world has entered at least one FTA and more than 50% of world trade occurs through FTAs.

- 13 negotiations proposed or underway.

- ▶ China, a new player in the world trading system, is using FTAs to negotiate preferential access to markets in Southeast Asia, the Middle East, and elsewhere.

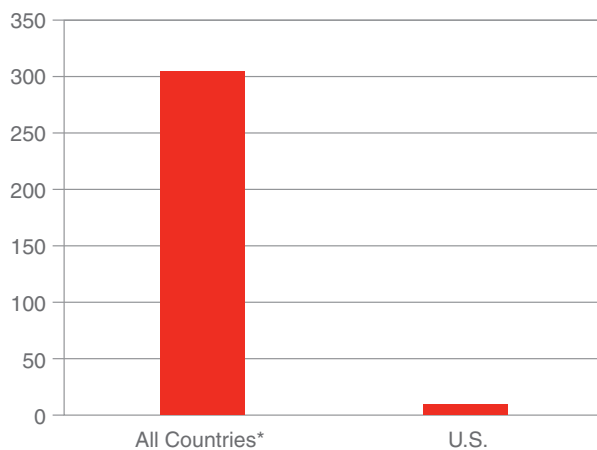
- 11 negotiations proposed or underway.

- ▶ India is negotiating agreements around the world that stand to open its closed markets in selective fashion, including with the EU, MERCOSUR, and South Korea.
 - 19 negotiations proposed or underway.

- ▶ Brazil, through MERCOSUR and on its own, is engaged in negotiations with the EU, Mexico, and South Africa.
 - 5 negotiations proposed or underway.

In total, these key economic competitors are negotiating or have proposed negotiations of 60 FTAs. The United States, in contrast, is negotiating 7 FTAs, a number that can be expected to dwindle if TPA is not renewed.

Negotiated FTAs



*Approximate.

Source: ADB Paper No. 57

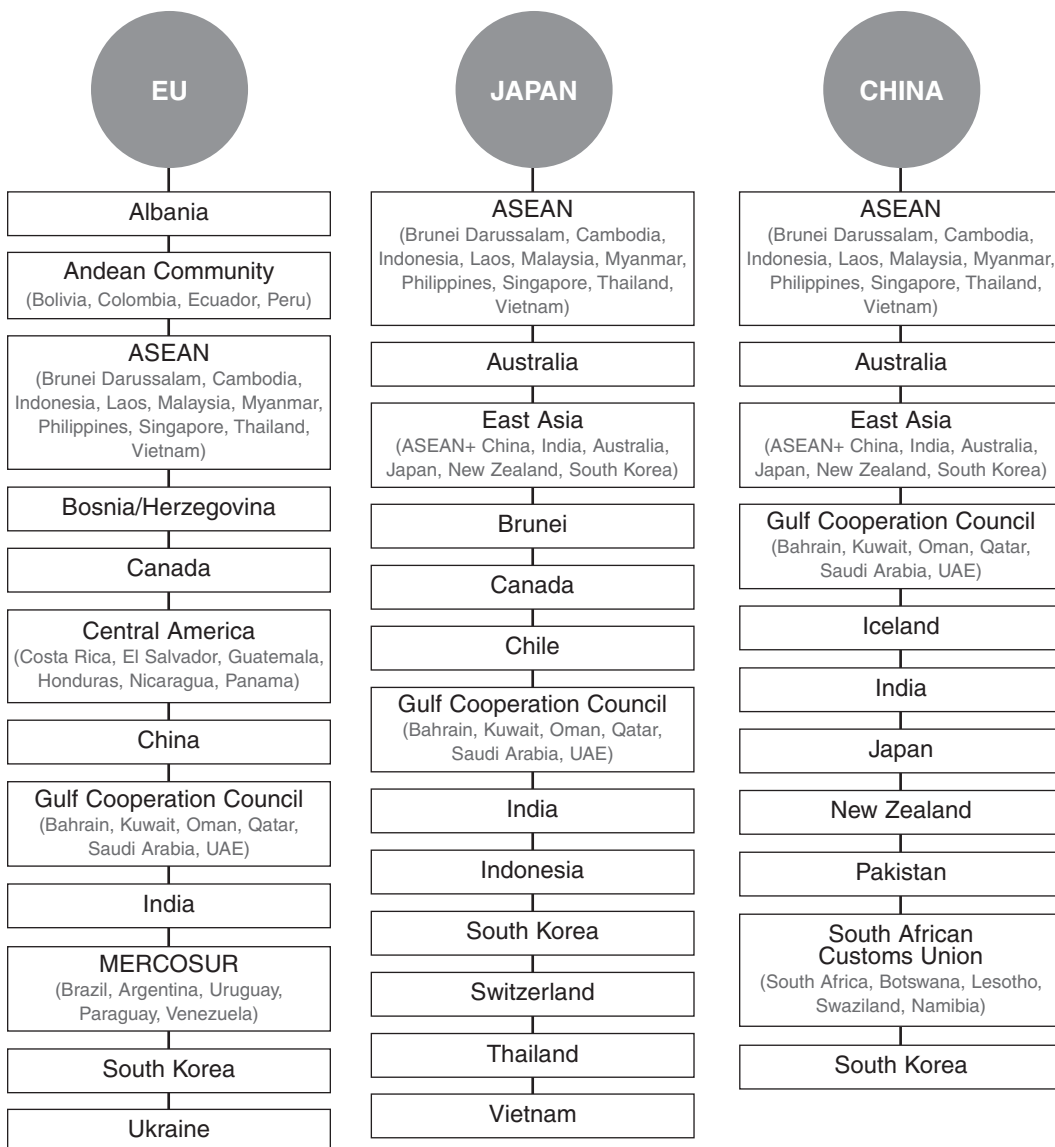
International Trade Map: Negotiations Either Underway or Proposed

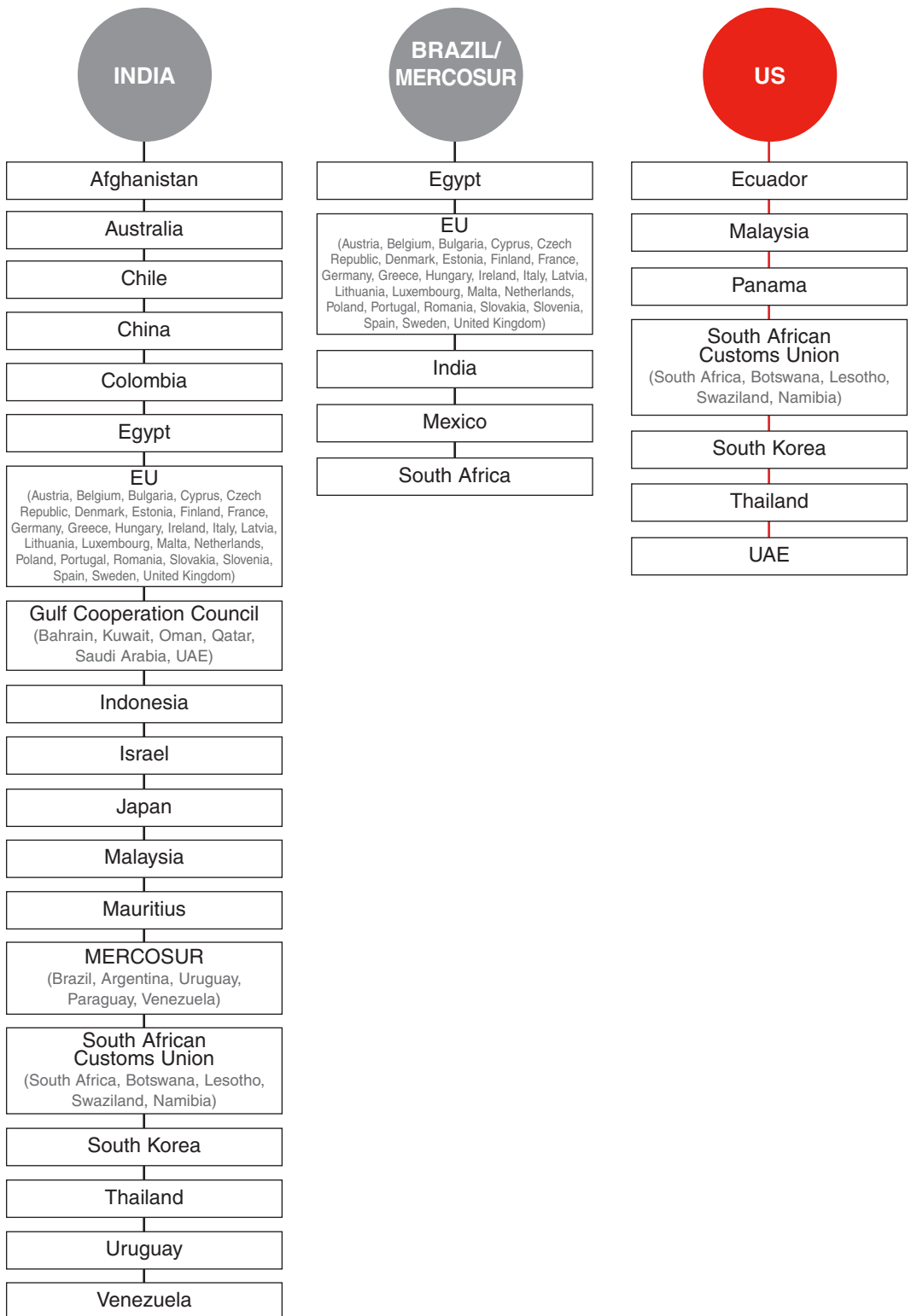


Though the European Union has actively negotiated FTAs for years, Japan, China, India and Brazil are recent entrants to the bilateral and regional trade liberalization process. These economic powerhouses are now pursuing an aggressive plan for trade negotiations, dwarfing American attempts to extend its network of free trade agreements. The map and chart to follow illustrate the negotiations either underway or proposed by America and its largest global competitors.



International Trade Chart: Negotiations Either Underway or Proposed





Here is a more detailed look at negotiating activity by some key trading powers.

European Union. EU Trade Commissioner Mandelson has identified as priority negotiating partners key countries in Asia: India, South Korea, and the Association of Southeast Asian Nations (ASEAN). The EU has also identified China as a possible FTA candidate. As the EU said in its October 2006 formal strategy paper on FTAs (“Global Europe: Competing in the World”), FTAs “can help drive EU competitiveness, spur wider economic growth and sustainable development and prepare the ground for global trade rounds.”

In addition, the EU is seeking to negotiate with Russia, the Gulf Cooperation Council, and the Andean and Central American countries. This activity supplements what is already the world’s largest set of FTAs (21 in all), illustrated by the fact that in 1999, total trade between countries with which EU countries have free trade and preferential agreements was over three times U.S. trade with its FTA partners.⁷

The European Union is party to more FTAs than any other economy in the global trading system.

Japan. Following a long-standing policy of refusing to negotiate bilateral and regional trade agreements, Japan changed course earlier this decade and is negotiating or preparing to negotiate 14 agreements, to complement the four FTAs it has already negotiated and signed. This includes agreements throughout Asia as well as with Canada, the Gulf Cooperation Council, and Switzerland. Most ambitiously, it has proposed a free trade area that would comprise Southeast Asia, Japan, China, South Korea, India, Australia, and New Zealand.

China. China, a new entrant to the world trading system, has pivoted off of its 2001 entry into the WTO to launch an active FTA diplomacy, with negotiations involving 28 countries underway or proposed,⁸ including a

partially completed agreement with ASEAN, negotiations with the Gulf Cooperation Council, Australia, New Zealand, Pakistan, and the South African Customs Union.

In January 2007, China and ASEAN expanded their free trade agreement to cover services, to advance “their common desire to deepen economic linkages, minimize trade barriers, increase intra-regional trade and investment and create a larger market with greater opportunities,” as Philippine President Arroyo put it. “We are happy to have China as our big brother in this region.”⁹

Japan has proposed a free trade area that would comprise Southeast Asia, Japan, China, Korea, India, Australia, and New Zealand.

India. India is negotiating or planning negotiations of 19 FTAs as far a field as South America, Europe, Southeast Asia and East Asia.

MERCOSUR. The Southern Common Market, or MERCOSUR, is itself an FTA among Brazil, Argentina, Uruguay, Paraguay and, as of July 2006, Venezuela. MERCOSUR has negotiated various FTAs, most significantly with the Andean Community, and is negotiating with the EU, Mexico, and Egypt, while Brazil is negotiating a trilateral agreement with India and South Africa.

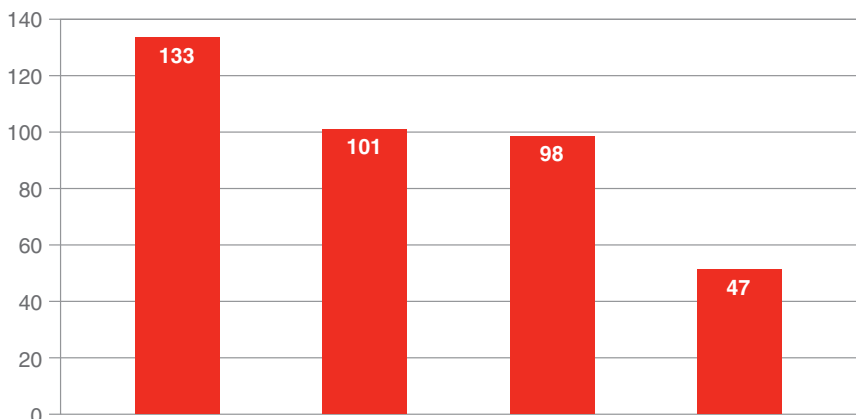
Movement by Our Competitors on Other International Agreements

In addition to FTAs, governments are actively negotiating bilateral investment treaties (BITs) and mutual recognition agreements (MRAs) to maximize their firms’ and workers’ opportunities for success in the global economy.

BITs are international agreements that provide for an open and secure investment environment, generally prohibiting discrimination and expropriation without just compensation, guaranteeing the transferability of funds and providing a neutral international arbitration mechanism for resolving disputes. According to UNCTAD, the number of BITs

quintupled during the 1990s and now exceeds 2200. The United States ranks only 25th in terms of the number of BITs concluded,¹⁰ lagging well behind such peer economies as Germany, the UK, and France.

The United States Lags Behind Its Peer Economies in BIT Coverage



MRAs are also being actively negotiated by some economies, especially the EU, as a way to ensure that their exporters do not face unfair regulatory barriers in the form of divergent product standards and conformity assessment procedures.

The Negative Impact of U.S. Inaction

Discriminatory Tariffs and Services Market Access. When an FTA is concluded that excludes the United States, and the United States does not have an FTA with that economy, U.S. exporters suffer trade discrimination; they face higher tariffs than their competitors, as well as more limited access to services markets. For instance, prior to negotiation and implementation of the U.S.-Chile FTA, U.S. exporters faced an across-the-board 11 percent tariff, while Canadian exporters – by virtue of the Canada-Chile FTA – could sell to Chile duty-free. The U.S.-Chile FTA now ensures that U.S. exports enjoy the best possible terms of trade.

This discrimination is particularly significant where U.S. businesses are trying to gain a competitive foothold in key strategic markets. The result of a lack of agreements is weaker positioning in the global economy. Here's how EU Trade Commissioner Mandelson put it: "[O]ur exports are not sufficiently focused on the very economies that are growing the fastest. These agreements can help change that."¹¹

Setting Dangerous Precedents and Bad Rules of the Road.

Trading powers use FTAs to set precedents for how issues should be dealt with more broadly in the international trading system. For instance, the United States has addressed certain regulatory and transparency problems common around the world, and as more parties sign on to these, it may one day become feasible to pursue such issues in the WTO. Other economic players have used FTAs to promote their own objectives -- for instance, the EU's use of trade agreements to pursue international competition policy objectives, or attempts to establish a "cultural" carve-out to trade in audio-visual goods and services. Commissioner Mandelson noted that "our aim in these agreements will be to go beyond what can be achieved at the global level ... by covering issues which are not yet ready for multilateral discussion, such as rules for competition..."¹²

What is the cost of not keeping pace?

- *U.S. exports could be subject to higher tariffs.*
 - *U.S. service providers will face limited access to international markets.*
 - *U.S. competitors will be allowed to set the global trade agenda.*
 - *Opportunities to build strong alliances are foregone.*
 - *Chances to lower NTBs are lost.*
 - *U.S. investors may face discrimination abroad.*
-

Of course, some of the precedents set in bilateral agreements by the EU and others would be supported by the United States and consistent with U.S. interests if adopted more broadly, but if the United States does not engage at the bilateral and regional level, it will be leaving the field to others to set the global agenda.

Blocked Alliances. Our major trading partners understand that FTAs provide an opportunity to build strong alliances before entering into negotiations that might involve the United States in the future. For instance, MERCOSUR has negotiated the entry of Venezuela as a full member and concluded an FTA with the Andean Community, before serious negotiations of a Free Trade Agreement of the Americas (FTAA) can be pursued. Said Brazil's Foreign Minister Amorim upon conclusion of the MERCOSUR-Andean negotiations in 2004: "This will put us in a stronger position in negotiations with the rest of the world, like the free trade accord with the European Union and the FTAA".¹³

Unfavorable Product Standards and Regulatory Models. U.S. exports are regularly delayed or blocked because they must comply with mandatory product standards that differ from U.S. or international standards, or must undergo duplicative local testing requirements. FTAs often facilitate cooperation on standards issues, and MRAs obligate trading partners to recognize each other's product standards and conformity assessment procedures. The result: where a competitor from the EU or elsewhere can rely on its own standards, conformity assessment procedures or other regulatory procedures to enter or operate in the market and the U.S. firm cannot, the United States is hurt.¹⁴

Preferential Investment Protection and Liberalization. Businesses from a country that has concluded a BIT, or an FTA with an investment chapter, enjoy increased investment opportunities and protection against discrimination and expropriation without just compensation. When foreign competitors enjoy such advantages by virtue of a BIT and U.S. firms do not, the United States is hurt.

Conclusion: Action Plan to Keep the United States Ahead

To keep the United States on pace with our international competitors, to not fall backwards by standing still, to ensure continued U.S. international economic leadership, the work of the next two years and the 110th Congress is critical.

- ▶ Negotiated free trade agreements with Peru, Colombia and Panama need to be implemented in the coming year.
- ▶ Current negotiations with South Korea, Malaysia, and United Arab Emirates need to be concluded on commercially meaningful terms.
- ▶ Trade Promotion Authority/Fast Track needs to be renewed based on an open discussion among the Administration, the Congress and stakeholders.
- ▶ The future negotiating agenda, with attention to the most significant markets, needs to be developed, again based on close coordination between the Administration, the Congress and private sector.

Approximately 300 FTAs have been negotiated around the world, with more in the offing; the United States has implemented only 10. Our major international competitors are not standing still. Neither should the United States.

- ¹ ADB Paper No. 57, p. 1. The WTO records more than 200 FTAs having been notified to the WTO and in force around the world, but some agreements have not been notified.
- ² WTO website.
- ³ ADB Paper No. 57, p. 1.
- ⁴ ADB Paper No. 57, p. 3.
- ⁵ Jeffrey Robertson, *The Price of Free Trade*, *Asian Times*, July 12, 2005 (reporting figure of 55 percent); Economic Report of the President, Feb. 2002, p. 276 (projecting figure of 51 percent by 2005).
- ⁶ Speech by Peter Mandelson at London School of Economics, Oct. 9, 2006; List of EC Regional Trade Agreements, available at <http://ec.europa.eu/trade>. Also: about 33 percent of total world exports were covered by EU free trade and customs agreements as of 1999.
- ⁷ Congressional Research Service, *Europe's New Trade Agenda*, Dec. 6, 2006, p. CRS-3.
- ⁸ See, e.g., Xinhua, "China to Advance Bilateral and Regional Free Trade Negotiation", Sept. 16, 2006.
- ⁹ Jason Gutierrez, "New Pact Clears ASEAN to Tap into China's Huge Services Sector", BNA Daily Report for Executives, Jan. 17, 2007, p. C-1.
- ¹⁰ The last UNCTAD data showing rankings covers the period through 1999, when the US had 44 BITs. That number has increased only to 47 or 48, so the ranking number should be roughly the same.
- ¹¹ Speech by Mandelson at the LSE, Oct. 9, 2006.
- ¹² Remarks by Mandelson, Luxembourg, Oct. 16, 2006.
- ¹³ Raul Pierri, "Region's Two Major Blocs Sign Free Trade Deal", IPS, Oct. 19, 2004.
- ¹⁴ See Congressional Research Service, *Europe's New Trade Agenda*, Dec. 6, 2006, p. CRS-6 (quoting article in *Journal of European Public Policy*).



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