progressive
policy
institute

1200 New Hampshire Ave., NW
Suite 575
Washington, DC 20036
http://www.progressivepolicy.org

Tel 202 525 3926
Fax 202 525 3941

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Ms. Lisa R. Barton
Secretary
United States International Trade Commission
500 E Street, SW
Washington, D.C. 20436

Re: Trans-Pacific Partnership: Likely Impact on the U.S. Economy and on Specific Industry Sectors (Investigation No. TPA-105-001)—Written Submission and Summary of Position of the Progressive Policy Institute

Dear Secretary Barton:

The Progressive Policy Institute (PPI) is pleased to submit these comments in the Commission's investigation of the economic impact of the Trans-Pacific Partnership (TPP) trade agreement.

PPI is an independent Washington, D.C.-based think tank founded in 1989. PPI has a long legacy of promoting modern, innovative ideas aimed at boosting economic growth. PPI believes that slow growth is America's fundamental challenge and that expanding trade under market-opening rules is integral to a progressive, pro-growth economic strategy for the United States.

PPI strongly supports the Trans-Pacific Partnership and believes that the agreement is in the economic interests of the United States. Among other things, the TPP would significantly enhance the ability of American manufacturers, service providers, and farmers—and their workers—to tap into global growth by selling world-leading American products into an overall region that is expected to add some 2 billion middle class consumers by 2030. The agreement would also level the playing field for U.S. exporters by eliminating high tariffs in TPP countries; by significantly reducing regulatory, customs, and other nontariff barriers; by increasing transparency and due process; by incorporating strong and fully enforceable labor and environmental standards; and by addressing a range of new trade challenges, like unfair competition from state-owned enterprises.[1]

The TPP includes significant, groundbreaking provisions in two closely related areas that have been a major focus of PPI's recent work: 1) exporting by American small and medium-sized enterprises (SMEs), and 2) the digital economy and global e-commerce. As explained below, by supporting and deepening these transformative trends, the TPP could play a key role in assuring that Americans can benefit broadly from expanded trade with important economies in the Asia-Pacific region.

Attached to and incorporated in these comments are two recent PPI studies on SME trade and global digital commerce:

- Attachment 1 is PPI's November 2015 Policy Brief, "The Trans-Pacific Partnership and Small Business: Boosting Exports and Inclusive Growth," and
- Attachment 2 is PPI's May 2015 Policy Brief, "The Digital Opportunity: Democratizing Trade for the 99 Percent."

We highlight below key findings in these reports that we believe are relevant to the Commission's analysis of the economic effects of the TPP.

1. Digital Platforms Are Rapidly "Democratizing" Trade

Studies show that digitally enabled trade—including trade through Internet platforms like eBay and PayPal and logistics firms like FedEx and UPS—has very significantly reduced the cost and hassle of global commerce, especially for smaller firms. Many of the traditional impediments to trade—including distance and differences in legal systems, traditions, and levels of corruption—matter much less when trade happens on line. According to one study, by significantly reducing the "search costs" involved in

[1] See Ed Gerwin, "The Obama Trade Agenda: Five Things for Progressive to Like," Progressive Policy Institute, Policy Brief, Feb. 2015, http://www.progressivepolicy.org/wp-content/uploads/2015/02/2015.02-Gerwin_The-Obama-Free-Trade-Agenda.pdf.

multiple phone calls, faxes, and visits, online marketplaces can, in effect, reduce the negative effects of distance on trade by 65 percent.

Not surprisingly, Internet-enabled traders are incredibly active participants in global commerce. eBay, for example, reports that 97 percent of its commercial sellers (i.e., those selling over $10,000 annually) are exporters, and that a remarkable 81 percent of these exporters sell to five or more foreign markets.

The modern digital economy is also rapidly "democratizing" trade, making it increasingly possible for small firms and nontraditional traders to sell to customers around the world—often as easily as large, established traders. In the words of a recent eBay study, "cross-border trade is no longer an activity exclusive to global corporate elites."

(Please see Attachment 2, especially pages 2-4, for additional discussion, representative stories, and sources on how digital tools are broadening participation in global trade.)

2. Smaller Firms That Trade Are Key Economic Contributors

Of America's 300,000 exporters, 98 percent are small and mid-sized firms, and SME exports account for about 35 percent of America's export revenue. In 2013, U.S. SMEs exported about $180 billion in goods to TPP countries, accounting for about 10 percent of America's worldwide goods exports.

Small and mid-sized firms that export tend to be higher performing firms. Numerous studies (including multiple studies by the Commission) have found that SMEs that export, on average, are more productive and resilient, hire more employees, and pay higher wages than non-exporting SMEs. The Commission has noted, for example, that between 2005-09, SME manufacturers that exported grew their revenues by some 37 percent, while revenues for non-exporting SME manufacturers declined by almost 7 percent. Smaller exporters also support good jobs in both upstream and downstream businesses, and contribute significantly to innovation and productivity in the overall economy.

(Please see Attachment 1, especially pages 7-8, for additional discussion and sources on the performance and economic contributions of American SME exporters.)

3. The United States Has Significant Potential to Boost SME Exports

Exporting SMEs account for only about one percent of America's 29 million SMEs and about five percent of America's six million employment-providing SMEs. Of those SMEs that export, most ship to only one country. Smaller firms export at much higher rates in economies like South Korea (19 percent) and the European Union (25 percent). Even accounting for the opportunities presented by America's large domestic market, America's SME exports clearly have considerable room to do much better.

Recent surveys show a significant uptick in U.S. SMEs that are interested in exporting. In a 2013 survey by the National Small Business Association and the Small Business Exporters Association, for example, 63 percent of non-exporting small businesses expressed interest in selling to foreign customers, up from 43 percent in 2010. Other analysts note that American small business exports are "poised to grow, possibly dramatically."

(Please see Attachment 1, especially pages 8-9, for additional discussion and sources on the significant prospects for growing U.S. SME exports.)

4. Expanding Trade by Smaller Firms Can Support More Inclusive Economic Growth

Small and entrepreneurial firms play an outsized role in U.S. job creation and economic opportunity. In recent decades, for example, small businesses have accounted for some two-thirds of America's net new jobs. American entrepreneurship can also be a critical conduit for greater economic mobility and inclusiveness—especially if previously marginalized people and groups have new opportunities to get into the game.

Increasing small business participation in trade can provide such an opportunity.

Expanding opportunities for small business exporters could enable a broader—and more diverse—group of American small business owners to share in the higher returns that trade can generate. By reducing barriers to key Asian and Latin American export destinations, for example, the TPP would provide particular opportunities for Asian-American and Hispanic-owned exporters, whose U.S. export sales are often highly concentrated in these markets. According to U.S. Census Bureau data, Hispanic-owned firms sell 81 percent of their export value to Latin America, while Asian-American-owned firms sell 57 percent to Asian Pacific Rim countries.

Growing and diversifying the pool of small business exporters—and fostering new export opportunities for existing SME traders—would also support more, higher-paying jobs for a wider group of workers. Census Bureau data shows that the average woman-owned exporting firm, for example, employs over five times more workers (42 vs. 8) and pays an average salary of almost $17,000 higher ($42,553 vs. $25,682) than non-exporting firms owned by women. Similarly, compared with their non-exporting counterparts, minority-owned exporters average three times more workers (21 vs. 7), and pay a wage premium of nearly $16,000 ($42,899 vs. $27,292).

Supporting the growth of digitally enabled trade can also help support greater trade participation among America's younger small business owners. Surveys show that three-quarters of U.S. entrepreneurs between 18 and 34 already use the Internet to sell products and services, making them prime candidates to take their business global through e-commerce.

(Please see Attachment 1, especially pages 9-10, for additional discussion and detailed sources on how expanding U.S. small business trade can support more inclusive growth

5. The TPP Includes Key Provisions to Support the Growth of Digitally Enabled Trade

The Internet's ability to empower entrepreneurs and small businesses to participate more directly in global trade is a direct result of the Internet's greatest virtue: openness. But, as the Internet expands globally and becomes an increasingly vital part of modern life and commerce, governments worldwide are adopting or considering an array of restrictions on the Internet and digital commerce. This is, in turn, leading to fears that the many benefits of inclusive, digitally enabled trade would be eroded—perhaps significantly—by a growing trend toward data protectionism.

A growing list of countries—including a number of TPP countries—have adopted or considered rules that bar or significantly restrict the ability to send personal data across borders. Countries are also enacting or considering rules that force the "localization" of digital services or related operations and infrastructure, including databases and servers.

These and other digital barriers can cause particular harm to small and non-traditional traders. Unlike their larger competitors, smaller traders often lack the bandwidth to deal with the growing array of different national data rules, the resources to establish separate operations in foreign markets, or the budgets to pay the higher costs that can result from foreign digital restrictions.

The TPP includes groundbreaking provisions that would support the continued growth of digital commerce in the TPP region. It would require countries to allow electronic data flows for business purposes, while providing that regulatory restrictions on such data flows cannot be discriminatory, constitute disguised restrictions on trade, or be more trade restrictive than necessary. With certain exceptions, the TPP also restricts data localization and similar rules that mandate that businesses locate servers, databases, or other digital infrastructure in foreign markets.

The TPP would also enhance the ability of SMEs—and other traders—to connect globally through e-commerce by:

- prohibiting governments from imposing customs duties on electronic transmissions:
- providing for electronic authentication and signatures in e-commerce transactions;
- requiring TPP members to enact consumer protection laws against online fraud;
- requiring TPP members to enact privacy protections for online consumers; and
- encouraging electronic trade transactions, such as the use of electronic customs forms.

(Please see Attachment 2, especially pages 4-6, and Attachment 1, especially pages 3-4, for additional discussion and sources on how the TPP would help assure data flows and foster digital commerce, particularly for SMEs.)

6. The TPP Includes Key Provisions to Support the Growth of American SME Exports

Foreign trade barriers negatively impact American exporters of all sizes, but they often place disproportionate burdens on small traders that lack the resources, personnel, contacts, and extensive support networks of bigger competitors.

As the Commission's extensive work on small business trade has shown, for example, SME exporters:

- often have particular difficulties in connecting with foreign markets and prospects and in obtaining information on foreign trade requirements;
- are more likely than other exporters to see foreign duties as a serious barrier to exports;
- can face costly and often disproportionate burdens from nontariff barriers such as excessive and unnecessary testing, certification, licensing, and paperwork requirements; and
- very frequently confront burdens posed by transport and shipping costs, customs procedures, and problems in receiving and processing payments.

The TPP negotiators identified small business trade as a high-priority, "crosscutting" issue that the agreement would address on a comprehensive basis. The final TPP text contains many significant—and, in some cases, groundbreaking—provisions that reflect this important commitment.

The TPP contains—for the first time in any U.S. trade deal—a specific chapter dedicated to the concerns of small and medium-sized enterprises. This chapter establishes a permanent TPP Small and Medium-Sized Enterprises Committee that would, on an ongoing basis, review how smaller firms are using the TPP and consider further reforms to assist SME traders. The SME chapter also requires TPP countries to establish user-friendly digital portals to provide small traders with easily accessible information on the TPP, how to benefit from the agreement, and other key trade requirements.

TPP countries often impose especially high duties on top export products for America's smaller firms, including chemicals (up to 35 percent), consumer goods (up to 70 percent), machinery (up to 70 percent), footwear and apparel (up to 100 percent), information technology products (up to 35 percent), and fresh fruit (up to 40 percent). The TPP would boost U.S small business exports by eliminating most tariffs on industrial goods immediately, and by eliminating or significantly reducing tariffs, quotas, and other restrictive policies on farm goods.

The TPP would also reduce regulatory and other nontariff barriers that can place particular burdens on SME exporters. The agreement, for example, includes annexes that would establish common TPP regulatory approaches to key export products for SMEs, including wine and spirits, information and communications technology products, medical devices, prepared foods, and organic farm products, as well as an annex promoting common approaches to professional licensing. The TPP would also promote transparent, science-based regulatory approaches, reduce duplicative and unnecessary product testing, and make it easier for SMEs to protect their intellectual property rights.

Finally, the TPP would significantly improve the speed and efficiency of U.S. small business exporting to TPP markets. The agreement would require expedited customs procedures for express shipments—a particularly important delivery channel for many SMEs—as well as increased transparency and speed, and new performance standards for customs systems. As noted previously, the TPP's focus on e-commerce would further expedite customs processing and deliveries for SMEs, while the agreement's requirement that TPP countries accept electronic payment and debit systems would provide American SMEs with greater assurance of payment.

(Please see Attachment 1, especially pages 1-8, for additional discussion, examples, and detailed citations on how the TPP agreement would facilitate trade for U.S. small businesses.)

* * *

The TPP—like past U.S. free trade agreements—would substantially enhance the ability of U.S. firms to compete in key global markets by eliminating high foreign duties and reducing regulatory, customs, and other nontariff barriers. At the same time, the TPP represents a major advancement over previous U.S. trade agreements, incorporating strong, new trade obligations in areas including environmental protection, labor rights, transparency, regulatory cooperation, and the conduct of state-owned enterprises.

The TPP's groundbreaking new rules for global digital commerce and SME trade are especially important, and have considerable potential to support increased U.S. trade and to help assure that the benefits of this trade are shared more widely by more Americans. PPI urges the Commission to highlight the significant, beneficial economic effects of these potentially transformative TPP innovations in its report in this investigation.

Respectfully submitted,

/s/ Edward F. Gerwin, Jr.

Edward F. Gerwin, Jr.
Senior Fellow for Trade and Global Opportunity
Progressive Policy Institute

Summary of Position of the Progressive Policy Institute
for Inclusion in the Appendix to the Commission's Report

Investigation No. TPA-105-001

The Progressive Policy Institute (PPI) strongly supports the Trans-Pacific Partnership and believes that the agreement is in the economic interests of the United States. PPI believes that slow growth is America's fundamental challenge and that expanding trade under liberal rules is integral to a progressive, pro-growth economic strategy.

PPI notes, in particular, that the TPP includes significant, groundbreaking provisions that will support and deepen two transformative trends that will help Americans benefit more broadly from expanded trade: 1) increasing exports by America's small and medium-sized enterprises (SMEs), and 2) the growth of the digital economy and global e-commerce.

PPI urges the Commission to focus on the following points in its analysis of the TPP's economic impact:

1. Studies show that digitally enabled trade—including trade through Internet platforms like eBay and PayPal and logistics firms like FedEx and UPS—is rapidly "democratizing" trade, making it increasingly possible for America's small firms and nontraditional traders to sell to customers around the world—often as easily as large, established traders.

2. America's small and medium-sized exporters are key economic contributors, accounting for about a third of U.S. goods exports. Numerous studies show that SMEs that export, on average, are more productive and resilient, hire more employees, and pay higher wages than non-exporting SMEs.

3. The United States has significant potential to grow SME exports. Exporting SMEs currently account for only about one percent of America's 29 million SMEs and about five percent of America's six million employment-providing SMEs. There is growing interest among American SMEs in exporting.

4. Expanding opportunities for small business exporters could enable a broader—and more diverse—group of American small business owners and workers to share in the higher returns that trade can generate. The TPP would provide particular opportunities, for example, for Asian-American and Hispanic-owned exporters, whose U.S. export sales are often highly concentrated in TPP markets, and would support woman-owned and other minority-owned exporters, who, on average, employ more workers and pay significantly higher wages than their non-exporting counterparts.

5. The TPP includes groundbreaking provisions to support the growth of digitally enabled trade. Among other things, the agreement would: (i) require countries to allow electronic data flows for business purposes, (ii) restrict data localization and similar rules that mandate where

businesses locate servers, databases, or other digital infrastructure, and (iii) require privacy, consumer protection, and other key rules to foster regional e-commerce.

6. The TPP includes groundbreaking provisions to support the growth of U.S. small business exports. Among other things, the agreement would: (i) create a special committee to assure that the agreement works for SMEs; (ii) require countries to create user-friendly trade information portals to assist SME traders; and (iii) eliminate or significantly reduce high duties, regulatory barriers, and customs delays that studies by the Commission and others show can place particular burdens on small business exporters.