



Testimony of Linda Schmid,
International Trade and Development Adviser
Trade in Services International

Before the
United States International Trade Commission

Investigation: (No. TPA-105-001) “Trans-Pacific Partnership Agreement: Likely Impact on the U. S. Economy and on Specific Industry Sectors.”

January 15, 2016

Thank you, Chairman Broadbent, and Commissioners, for the opportunity to testify¹ on the Trans-Pacific Partnership Agreement (TPP). Trade in Services International (TiSI) is dedicated to helping small and medium enterprises and service firms leverage the global services² economy for export expansion, employment, and sustainable development. My testimony will focus on the development aspects of the TPP.

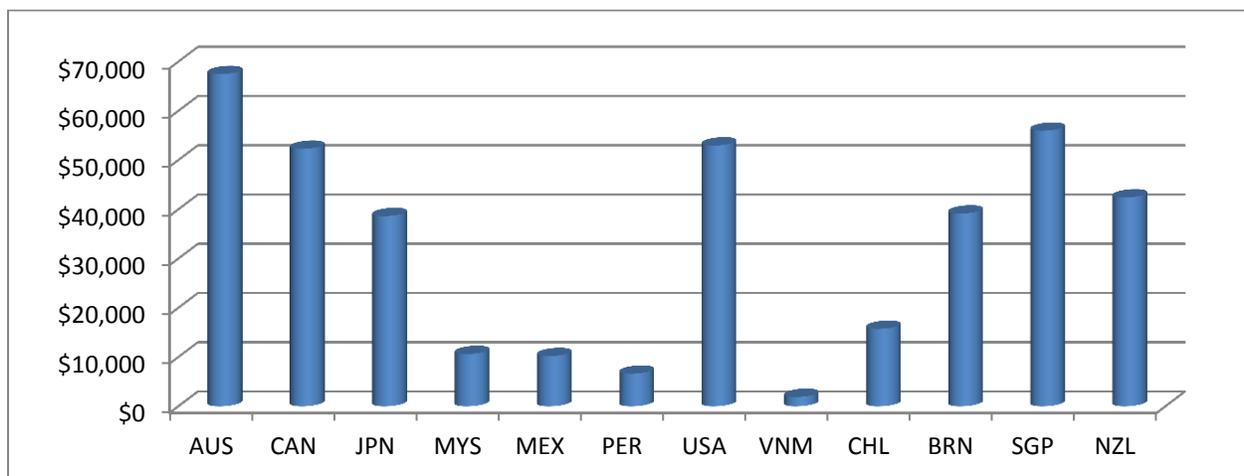
TPP provisions on governance, e-commerce, and development advance trade policy in support of economic growth and development. The U.S. will benefit from the full implementation of TPP market oversight provisions that create robust competition authorities, transparent regulatory authorities, and institutionalize anti-corruption practices in TPP member economies. Small and medium enterprises (SMEs) will benefit from a legal framework governing electronic commerce. The US and TPP members will also gain from deepening women’s engagement in the economy.

¹ Submitted via USITC Electronic Document Information System (EDIS), <https://edis.usitc.gov>.

² Services include: business, communication, construction, distribution, educational, environmental, financial, health related, tourism and travel, recreational, cultural and sporting, and transport services, WTO, Services Sectoral Classification List, July 1991, MTN.GNS/W/120, <http://WTO.org>.

The 12 Members³ of the Trans-Pacific Partnership (TPP) circle the Pacific with diverse economies at different levels of development. For example, TPP members experience a wide range in GDP per capita from below US\$10,000 in Mexico, Peru, Malaysia, and Vietnam to over US\$50,000 in Australia, Canada, the U.S., and Singapore (figure 1). Market oversight provisions in TPP will strengthen market oversight institutions and the rule of law. This will help middle income countries build their economies and grow into more valuable trading partners for the United States.

Figure 1: GDP per capita (current US\$) 2013



Source: World Bank, [World Development Indicators](http://www.data.worldbank.org), November 2015

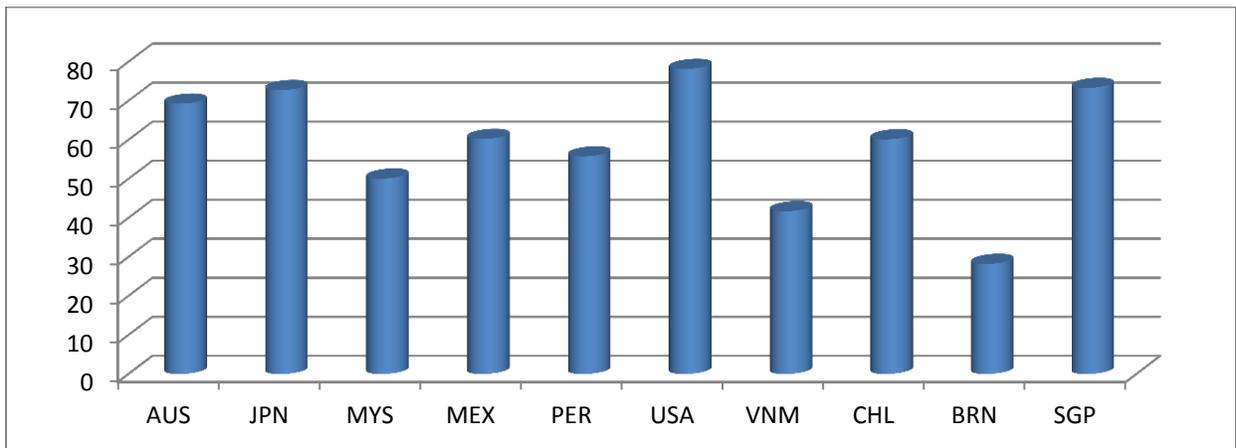
The size of the services economy also varies in TPP member countries. In 2012, services as a percentage of GDP represented only 41% in Vietnam, 55% in Peru, and 49% in Malaysia, while in the U.S. services represented 78% of GDP (figure 2).⁴ The scope and depth of the U.S. services economy⁵ will benefit TPP members. For example, the US is a leader in production of finance, insurance, professional, scientific, and technical services; all valuable inputs into agricultural, manufacturing, and service industry production in TPP economies.

³ TPP members include: Canada, the United States, Mexico, Peru, Chile, New Zealand, Australia, Singapore, Malaysia, Brunei, Vietnam, and Japan.

⁴ World Bank, World Development Indicators, November 2015, <http://www.data.worldbank.org>.

⁵ Finance, insurance, professional, scientific, and technical services were primary contributors to real U.S. economic growth in the 2nd quarter of 2015 US Bureau of Economic Analysis, Quarterly Gross Domestic Product by State, 2005 through Second Quarter 2015, 2015 <http://www.bea.gov>.

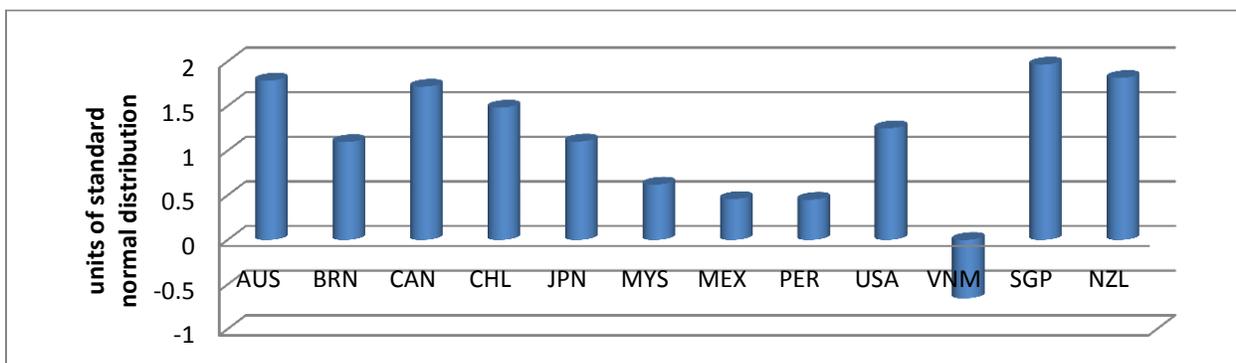
Figure 2: Services value added⁶ (% of GDP) 2012



Source: World Bank, [World Development Indicators](#), November 2015

Regulatory quality differs among TPP members. For example, TPP members score from -0.6 for Vietnam to 1.9 for Singapore on the Worldwide Governance Indicators (figure 2).⁷ Regulatory quality influences business operations, such as, the scope of products offered, time-to-market, and how firms access capital. TPP market oversight provisions will help middle income countries build institutional integrity. With clear, contestable rules of the road, TPP middle income economies will grow into more valuable trading partners.

Figure 3: Regulatory Quality: Estimate⁸ (Score on the Aggregate Indicator) 2013



Source: World Bank, Worldwide Governance Indicators Database, <http://databank.worldbank.org/>

⁶ "Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs." World Bank, World Development Indicators, <http://databank.worldbank.org/>

⁷ World Bank, Worldwide Governance Indicators on Regulatory Quality, November 2015, <http://www.databank.worldbank.org>.

⁸ Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5. Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2010), "The Worldwide Governance Indicators: Methodology and Analytical Issues". World Bank Policy Research Working Paper No. 5430.

TPP members have reached common ground on market oversight provisions critical to economic development and prosperity. Important chapters on competition policy, state owned enterprises (SOEs), regulatory coherence, as well as transparency and anti-corruption support domestic reform initiatives underway in Malaysia, Mexico, Vietnam, and Peru.

For example, under the TPP, members commit to strengthening their competition authorities and cooperating on competition policy and enforcement. Comprehensive competition policy and astute competition authorities can level the playing field and re-energize growth in moribund economies. The competition chapter supports Malaysia's and Mexico's initiatives to strengthen competition authorities and boost growth.⁹

The chapter on state owned enterprises (SOEs) provides a framework of rules for SOEs engaged in commercial activities. Within TPP economies, SOEs are found primarily in the energy sector while in Vietnam SOEs accounted for over 30% of GDP in 2013.¹⁰ This chapter will help Vietnam and TPP members prevent anti-competitive business practices by SOEs engaged in commercial activities. The SOE chapter will also set the standard for U.S. trading partners who may wish to join the TPP in the future.

Under the transparency and anti-corruption chapter, TPP parties agree to transparency provisions focusing on the publication of information, transparent administrative proceedings as well as review and appeal. Malaysia initiated a national policy, in 2013, to ensure the public sector adheres to certain rules and procedures in the creation of regulations that influence business, trade, and investment.¹¹ Peru has taken steps to improve transparency in government

⁹ WTO, Trade Policy Review, Report by the Secretariat, Mexico, 2013. <http://www.wto.org> & WTO, Trade Policy Review, Report by the Secretariat, Malaysia, 2013. <http://www.wto.org>.

¹⁰ WTO, Trade Policy Review, Report by the Secretariat Vietnam, 2013. <http://www.wto.org>.

¹¹ WTO, Trade Policy Review, Report by the Secretariat, Malaysia, 2013. <http://www.wto.org>.

procurement.¹² The TPP will help Malaysia, Peru, and other TPP members improve and expand transparency practices across institutions.

TPP members agree to measures that combat corruption, promote integrity among public officials, and strengthen enforcement of anti-corruption laws. Vietnam introduced, “independent anti-corruption steering committees at the central and local levels,” in 2013 to fight corruption.¹³ In Malaysia, the World Bank estimates that corruption costs 1% to 2% of annual GDP.¹⁴ Implementation of the TPP will help Malaysia, Vietnam, and other TPP members reduce corruption.

SMEs will benefit from implementation of the e-commerce chapter. The chapter prompts members to maintain a legal framework governing electronic transactions, authentication, and signatures, which will reduce overhead costs and facilitate online commerce for SMEs. Under TPP, countries may not require companies to maintain data facilities locally as a condition of trade or investment. Such a requirement would be a particular burden to SMEs.

The TPP development chapter envisions cooperative activities to boost women’s engagement in the economy. TPP members will consider initiatives to help women, “build their skills and capacity, and enhance access to markets, technology, and financing.”¹⁵ TPP members will work to strengthen “women’s leadership networks.”¹⁶ This will help expand female labor force participation rates in each TPP country (figure 4).

¹² WTO, Trade Policy Review, Report by the Secretariat, Peru, 2013. <http://www.wto.org>.

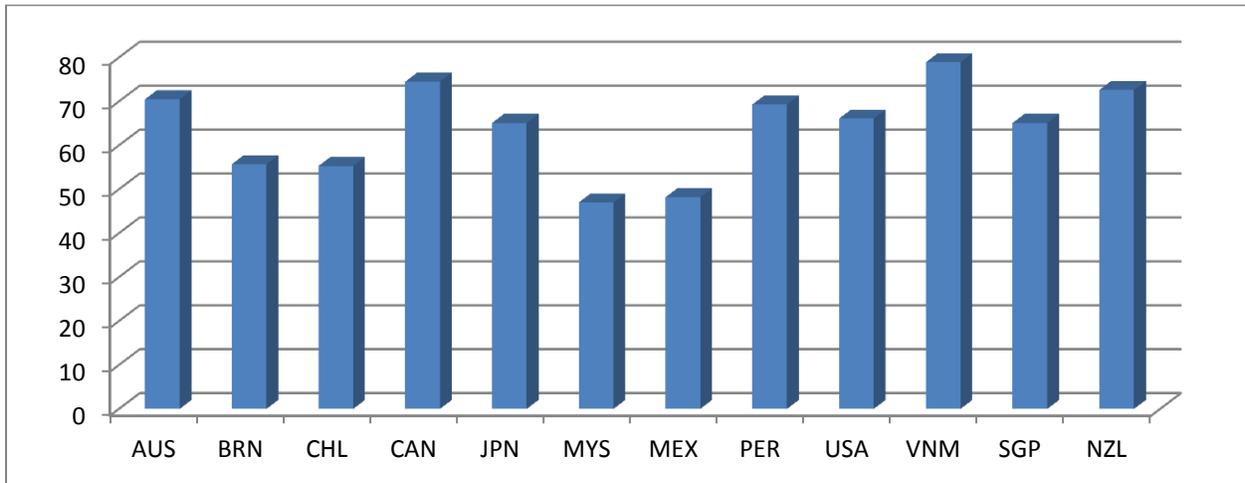
¹³ WTO, Trade Policy Review, Report by the Secretariat Vietnam, 2013. <http://www.wto.org>.

¹⁴ WTO, Trade Policy Review, Report by the Secretariat, Malaysia, 2013. <http://www.wto.org>.

¹⁵ Office of the United States Trade Representative, [TPP Full Text](#), November 2015, <http://ustr.gov/>.

¹⁶ Ibid.

Figure 4: Labor Force Participation Rate, Female (% of Female Pop. Ages 15 to 64) 2013



Source: World Bank, [World Development Indicators](#), November 2015

The TPP fosters good governance among the 12 member countries to achieve economic prosperity and sustainable development. The U.S. will benefit from a robust trade relationship with TPP member economies as they deepen market oversight reforms, create a positive policy climate for electronic commerce, and boost women’s economic engagement. The TPP also sets the international standard for trade rules on competition policy, SOEs, transparency, and anti-corruption. At the same time, TPP members recognize the right to regulate, safeguard public welfare, and protect the environment. TPP provisions are also valuable for other countries interested in moving toward a sustainable market-based economy.

Thank you for the opportunity to comment on the TPP.