

**BEFORE THE HOUSE
TERRORISM, NONPROLIFERATION AND TRADE SUBCOMMITTEE**

**TESTIMONY REGARDING THE PROPOSED
TRANS-PACIFIC PARTNERSHIP FREE TRADE AGREEMENT**

**CELESTE DRAKE
THE AMERICAN FEDERATION OF LABOR &
CONGRESS OF INDUSTRIAL ORGANIZATIONS (AFL-CIO)**

MAY 17, 2012

The American Federation of Labor-Congress of Industrial Organizations (“AFL-CIO”) has long recognized that workers everywhere live in a global economic environment. The key decision is not about whether or not to increase trade, but about what rules should govern such trade and who benefits.

With this in mind, the Trans-Pacific Partnership Free Trade Agreement (TPP or Trans-Pacific FTA) is a particularly important agreement. Of course, the vast majority of the trade among the current TPP participants and the U.S. is already covered by free trade agreements. But the TPP, unlike past trade agreements, is being specifically designed as an open-ended agreement and potential new entrants, including China and the Philippines, are already being discussed. In that sense, it is especially important to re-examine our trade policy—as the rules set down in the TPP may govern the majority of our international trade in years to come.

Trade agreements must advance domestic economic development, increasing employment for American workers and improving our prospects for future sustainable growth—otherwise, why engage in them? If the TPP results in simply maximizing profits for global corporations, many of which are increasingly globalizing their supply chains and the jobs that support them, it will sadly be another trade agreement that exacerbates our trade deficit, promotes overseas investment, contributes to joblessness, and widens the income gap that exists in this country—and in others.

Unfortunately, it has not been the practice of U.S. trade policy to engage in such economic evaluations until after an agreement is finished. Only when the text is complete do we learn of its potential to harm particular industries and their employees or to increase our global trade deficit.¹ As a result, the United States Trade Representative (USTR) is typically flying

¹¹ And even then, the potential gains are often maximized while potential losses are minimized—as with the International Trade Commission’s (ITC’s) evaluation of the probable effects of China joining the World Trade

blind in the agreements, unsure exactly how the agreement would help our domestic economy or bolster American workers, but secure in the belief that free trade will always do so.

Unfortunately, that confidence, largely based on David Ricardo's 1817 theory of comparative advantage, specialization, and mutual gains from trade, relies on a set of assumptions that do not accurately describe the global trading system.

In the 1990s, Ralph Gomory and William Baumol demonstrated how adversarial relationships, economies of scale, technological innovation, foreign direct investment, and indeed, even government policy, undermine the predicted Ricardian outcome of mutual gains from trade.² Under today's globalized system, there are winners and **losers**, instead of winners and **winners**.³ And it is the workers of the U.S. and many of our trading partners who have been the losers—especially in the most recent decade, while global capital has taken an ever increasing share of the world's wealth.

American workers have seen nearly 700,000 jobs displaced by growing trade deficits with our NAFTA partners, while workers in the territories of trading partners Colombia, Guatemala, Honduras, Mexico, Bahrain, and other countries have experienced increasing labor repression, including the detention, persecution, and murder of union and human rights activists. This repression has kept workers from sharing fairly in any gains from trade—and has seen global corporations keeping larger and larger shares of the gains from our trade agreements.

A trade agreement, properly constructed, can be a force for progress. But that requires updating and reforming the existing approach. Much work remains to be done to achieve that

Organization. The Economic Policy Institute has called the ITC's predictions about trade with China "wildly optimistic and inaccurate." Robert E. Scott, *Trade Policy and Job Loss: U.S. Trade Deals with Colombia and Korea Will Be Costly*, EPI Briefing Paper, Economic Policy Institute, Feb., 25, 2010, 4 <<http://www.epi.org/temp727/WorkingPaper289-2.pdf>>.

² RALPH E. GOMORY AND WILLIAM J. BAUMOL, *GLOBAL TRADE AND CONFLICTING NATIONAL INTERESTS* (2000); CLYDE PRESTOWITZ, *THE BETRAYAL OF AMERICAN PROSPERITY: FREE MARKET DELUSIONS, AMERICA'S DECLINE, AND HOW WE MUST COMPETE IN THE POST-DOLLAR ERA* 168-174 (2010).

³ PRESTOWITZ, *supra* note 2.

goal. For the vast majority of working Americans, the results of past trade agreements have been unacceptable. They have increased our trade deficit to the point that it is unsustainable over the long term and a major contributor to global financial instability and growing inequality. As our trade deficit has grown, real wages have stagnated, health benefits have shrunk, and retirement prospects have become increasingly insecure. Instead of re-evaluating its trade agenda, the U.S. government has sought ever more “free trade agreements.”

The AFL-CIO has been working hard with the Administration, as well as our affiliates and allied advocacy groups, to ensure that the TPP embarks on a new course that includes not just more progressive trade rules, but an implementing bill and associated legislation that includes a robust industrial strategy; investment in needed infrastructure as well as lifelong training and education for all workers; a procedure to address currency manipulation—which artificially suppresses American exports by making American goods more expensive; and labor law reform that restores the promise and power of the original National Labor Relations Act.

The AFL-CIO believes that, regardless of whether the TPP concludes in the near term, it will not be possible to successfully exit the neo-liberal crisis and create a Global New Deal without generating the demand for new goods that high wages bring; the global slump should already be teaching us about the limits to low-wage growth. Trade policy should work to change, not reinforce, the incentives facing U.S. corporations and encourage more domestic investment in cutting-edge manufacturing jobs.⁴

The AFL-CIO has commented numerous times on the shortcomings of past trade agreements and the need for specific, achievable changes that would help domestic workers and producers who are competing in a global marketplace. I will not reiterate all of our specific

⁴ Richard Trumka, Address to the Council on Foreign Relations (March 17, 2011) < <http://www.aflcio.org/Press-Room/Speeches/Remarks-by-AFL-CIO-President-Richard-L.-Trumka-Council-on-Foreign-Relations-Washington-DC>>.

concerns here, but suffice it to say that past agreements have failed to address our concerns regarding jobs, investment, services (including public and financial services), government procurement, intellectual property protection, worker rights, environmental safeguards, food and product safety, rules of origin, and other issues important to working families.⁵

Without addressing the still-secret text of the TPP, I will discuss a few of our concerns and recommendations with regard to some of the most pressing topics of the agreement. Before I do, I would note that this Administration deserves to be commended for the outreach in which it has engaged. The cleared advisors for the AFL-CIO and its affiliates have spent dozens of hours discussing with Administration negotiators the specific issues that are involved in the TPP talks and offering concrete recommendations. We have appreciated the spirit of cooperation and dialogue exhibited by the Administration at all levels. Of course, access does not equal influence, and it remains to be seen just how many of our suggestions will be incorporated into the final text. Moreover, the AFL-CIO has concerns about the overall secrecy of trade negotiations in general and would recommend broader sharing of USTR's negotiating goals and proposals beyond the cleared advisor community. However, the level of engagement has been noteworthy—particularly when compared to the prior Administration.

Labor

It is imperative that USTR address economic justice and the societal infrastructure that can promote or discourage it, not as an adjunct goal, but as a central part of its trade and economic development efforts. Freedom of association and the existence of free civil society organizations, including trade unions, are essential to a democracy. These institutions provide a venue for ordinary citizens to raise their voices collectively, claim their rights, advocate for

⁵⁵ For a more complete discussion of our suggestions in all areas, please refer to the AFL-CIO's Testimony Regarding the Proposed United States-Trans-Pacific Partnership Trade Agreement, submitted to the USTR, January 25, 2010.

policies that serve their constituents and the broader public interest, and hold government accountable. As large membership-based institutions advocating for social and economic justice for workers and citizens, independent trade unions are among the most important of these institutions. Their democratic nature provides an excellent model for citizens newly empowered, but without experience in self-government. As such, the USTR should nurture, support, and strengthen them as part of its larger economic development efforts.

To achieve these goals, the AFL-CIO recommends that the Trans-Pacific FTA should build upon the changes achieved in the U.S.-Peru FTA in 2007 (also known as the “May 10” provisions). These provisions represented an important step forward for labor rights, but did not contain all of the essential elements of an effective labor chapter. Specifically, the labor chapter should explicitly reference ILO conventions with respect to labor rights and omit Footnote 2 from the Peru text to clarify that ILO jurisprudence will help give meaning to fundamental labor rights. The labor provisions should also apply in the broadest context possible: limiting available redress solely to violations which are “sustained or recurring” and “in a manner affecting trade or investment,” as is the case in the Peru agreement, should be modified because they exclude too many workers from coverage and make it exceedingly difficult to effectively pressure recalcitrant governments to do the right thing and protect their own workers. In addition, the Trans-Pacific FTA should include enforceable standards for acceptable conditions of work and the treatment of migrant workers.

The enforcement mechanism must be timely, accessible, and reliable—aggrieved workers should not have to “hope and pray” that a meritorious complaint will actually be advanced through the system, as has been the case with the Guatemala complaint. Four years after the AFL-CIO first raised problems in Guatemala, we are still awaiting action, and, because of the

lack of automatic access to dispute resolution, the Guatemalan government has been blocking resolution. Worker's livelihoods, whether in Guatemala or elsewhere, depend on swift justice; they do not have the luxury of time. Should countries not resolve their differences during consultations or dialogue and require resort to dispute settlement, the process must be at least as strong and swift as that available to business interests, and penalties should likewise be trade-related and high enough to encourage parties to resolve violations at the initial stages. Token fines unrelated to the economic sectors where the violations occur do little to encourage private sector compliance or deter future violations.

A final comment on labor: it is but one chapter in a multi-chapter agreement. The AFL-CIO strongly believes that, in addition to strengthening the labor chapter, it is crucial to address the other provisions that incentivize the offshoring of jobs, bolster monopoly power, promote a race to the bottom in regulations, and take other steps to weaken domestic policy space while failing to create jobs here in the U.S.

State-Owned Enterprises

The potential disciplines that will cover State-Owned and State-Influenced Enterprises (SOEs) represent, perhaps, the most important area for new disciplines in the TPP. Unlike in the U.S., SOEs are common in Vietnam, Malaysia, and Singapore. Moreover, given that USTR Ron Kirk recently indicated he "would love nothing more" than to have China join the TPP, SOEs are of increasing concern for U.S. workers. The AFL-CIO does not oppose SOEs *per se* and does not seek to privatize them. However, especially given America's lack of a comprehensive manufacturing strategy or adequate governmental support for that sector, without strict

disciplines on the behavior of SOEs, U.S. workers and producers remain at risk from those entities. The U.S. cannot afford to get disciplines in this area wrong.⁶

An SOE can be a threat to the U.S. economy when it “competes” in the commercial arena with a thumb on the scale that disadvantages U.S. businesses and their employees. That “thumb” can take many forms. For instance, China’s SOEs may receive raw materials and other inputs at below-market rates and have access to preferential debt and equity financing, including soft “loans” from state-owned banks that do not need to be repaid.

Many SOEs consistently operate in a manner that gains them market share—rather than profits. A private enterprise would not long remain in business if it failed to respond to the market, but, because they are propped up by state resources, SOEs not only can, but do. While losing money by selling goods at below-market prices, they have forced numerous U.S. competitors out of business, gaining market share which can be exploited later.

I will concentrate my remarks on SOE activities here in the U.S. From the workers’ perspective, the location of the corporate headquarters is increasingly unimportant. There are good and bad employers no matter where they are headquartered. The critical question for workers is the behavior of the employer.

If the U.S. imports a product from an SOE that injures a company and its workers, we have existing trade remedies (such as countervailing duties) to address the impact. But if that SOE instead becomes a foreign investor in the U.S. and produces a product at a cost far below that of an existing U.S. firm because of the subsidized capital or other inputs that SOE may enjoy, there is no existing remedy in U.S. law to address that harmful activity. In addition, in certain circumstances, an SOE invested and producing in the U.S. might have standing under our

⁶ This is true as regards our so-called “defensive interests” as well: the disciplines on SOEs should not put at risk U.S. entities that could be considered SOEs, such as the Tennessee Valley Authority or Amtrak.

trade laws to challenge an action by a domestic producer here against unfairly traded products from overseas.

Several Chinese entities have already entered into or announced transactions that could pose problems for U.S. producers and their workers. Tianjin Pipe, a Chinese SOE, is investing \$1 billion in a Texas facility. But we know little about its cost of capital and whether it will operate on the basis of commercial concerns. It is important that the TPP include appropriate rules to discipline non-commercial or anti-competitive behavior of SOEs that invest in the U.S. The AFL-CIO has recommended that all SOE transactions be based on commercial considerations. The AFL-CIO has also recommended that domestic laws be updated to ensure that an effective remedy is readily available to the private sector to fight for its interests when SOE behavior on U.S. soil injures U.S. businesses and their employees. We have also recommended increased transparency, the creation of a rebuttable presumption that an SOE is acting on its home country's behalf, not the interests of our workers, if it seeks to block action to protect an injured party in the U.S., and the consideration of a screening mechanism for SOE investments.

Rules of Origin

The TPP must include strong rules of origin that will target benefits to the parties to the agreement (particularly, of course, the United States)—rather than weak rules of origin that will allow non-parties, who have made no reciprocal obligations to the U.S., to reap the rewards. Our primary goal must not be to expand supply chains, but to expand employment opportunities here in America.

In a trade agreement with at least nine parties, it is critical that the rules of origin are carefully crafted to promote production within those parties. After all, given the rate of

economic growth in the Asia-Pacific region, this agreement is one in which strong rules of origin can create a “pull” factor that producers and service suppliers will use when making decisions regarding where to locate their production. Potential tariff benefits combined with strong rules of origin can tip the scale on a decision to build a new plant or keep a plant open in the U.S. or in a TPP country. On the other hand, a weak rule of origin undermines that “pull” factor and gives producers a free pass to locate in a non-TPP country, knowing that only a token percentage of the value of the product, or a token transformation of a product from one tariff line to another, will be required to occur within a TPP country in order to reap the tariff benefits of the deal without having to subscribe to the other disciplines and provisions of an agreement. Because workers bear the brunt of decisions to produce elsewhere, we cannot emphasize strongly enough the importance to American workers of strong rules of origin that promote production within the TPP.

Moreover, in a trade agreement which is designed to grow in membership, and has no maximum number of contracting countries, the proposed rules of origin must be designed to accommodate these potential changes. The rules of origin must take into account the promotion of domestic job growth in the U.S., not just for today or tomorrow, but for the next decade and into the future. Rules of origin that respond more to the corporate needs of today (looking forward only to next quarter’s stock prices) than to the long-term needs of America’s domestic economy and the workers who make it run will not achieve the domestic economic growth we need.

A decision based on a simple calculation of where a product is currently produced does nothing to provide the right incentives to locate production within the TPP in the future. Our goal must be to maintain and then reclaim supply chains that have outsourced and offshored U.S.

production and jobs. Simply cementing in place the status quo is not good enough. Given that the TPP model is designed to include an ever-growing list of countries, these rules of origin should also be aspirational. Like NAFTA's rule of origin on automobiles, some should be designed to become more stringent—not less so—over time, allowing TPP countries to bring more and more of their supply chains within the agreement, rather than incentivizing choices to maximize production elsewhere.

Without such a forward-thinking structure, the current trend of factory closures and depressed job growth is likely to continue. American workers have already seen 2.8 million jobs displaced due to growing trade deficits with China (1.9 million of them in manufacturing) since it joined the World Trade Organization (WTO). If the TPP is going to be an effective counterbalance to the powerful job-pull of China, it must be designed with domestic job creation at the forefront, not as an afterthought.

Investment Rules

There is nothing inherently good or bad about inward or outward bound foreign investment *per se*—but too often U.S. trade policy assumes all foreign investment is good, and promotes it for its own sake rather than on the basis of its effects on employment, wages, and standards of living either here or abroad. Past U.S. FTAs, such as the U.S.-Korea FTA, have protected broader concepts of property than would apply under U.S. takings law, have given wider latitude for determining whether an “indirect expropriation” has occurred, and have included the obligation to provide “fair and equitable treatment” as part of a “minimum standard of treatment” that foreign investors can claim a right to receive—but which domestic investors have no claim to. This minimum standard of treatment—an obligation whose scope is

determined by reference to “customary international law”—provides no fixed obligation.⁷

Together, these provisions grant foreign investors with enhanced opportunities to seek compensation from the public purse for a variety of real or perceived injuries.^{8,9}

The investor-state dispute settlement mechanism (“ISDS”), however, is the investment provision in U.S. FTAs that the AFL-CIO finds most troublesome. ISDS allows foreign investors to bypass domestic courts and challenge a government directly before an international arbitration panel.¹⁰ The right to bypass the judicial system is a right domestic investors do not have. Not only is the forum different, but so is the standard of review. Using the U.S. as an example, ordinary considerations, including the possibility of sovereign immunity and the “rational basis” standard, need not apply—nor is a panel required to consider whether the good of the public should outweigh the private right to make a profit. Since the panels are not governed by the principle of *stare decisis*, a foreign investor is always free to pursue a failed but potentially lucrative challenge, and a subsequent panel is free to rule favorably.¹¹ Moreover, past U.S. investment provisions have excluded minimal constraints, such as exhaustion of domestic remedies, a standing appellate mechanism, or a diplomatic screen, each of which could act to limit abuse of this private right of action.

⁷ Customary international law, like common law, can develop over time. However, due to use of arbitrators (who may cycle between acting as advocates and acting as neutrals) rather than judges and the lack of binding precedent in investment cases, bad arbitral decisions (e.g., decisions which expand the concept of customary international law by taking inappropriate factors into account) can improperly expand the obligation a nation may owe as part of the minimum standard of treatment.

⁸ For example, investors have claimed that a state ban on a toxic gasoline additive constituted an indirect expropriation. *Methanex Corp. v. U.S.* <<http://www.state.gov/s/l/c5818.htm>>.

⁹ Even the very labor standards the U.S. fights for in its current trade model are not definitively exempt from an investor challenge should a foreign investor decide that a particular provision for the benefit of workers denies him or her fair and equitable treatment or goes too far in interfering with an assumption of risk or expectation of profit.

¹⁰ Peru Trade Promotion Agreement, Chapter 10 (available at: <http://www.ustr.gov/sites/default/files/uploads/agreements/fta/peru/asset_upload_file78_9547.pdf>).

¹¹ Of course, the lack of *stare decisis* may cut in the opposite direction as well because it can result in a decision favoring government action even where a prior panel found for a private party. In the long run, however, the lack of binding precedent is likely to generate more challenges, greater costs to the public, less certainty for policymakers, and a stronger chilling effect against measures similar to those which attracted prior challenges.

Perhaps the most telling fact about the benefits of ISDS is that they *only* apply to investors. This special privilege to sue a national government in an international arbitration forum is denied to labor and human rights groups pursuing enforcement of the labor chapter, as well as to environmental advocacy groups seeking redress for a violation of environmental obligations. No credible legal or philosophical argument has ever been offered to explain this differential treatment of property rights and labor rights.

These investment provisions may provide U.S. producers an incentive to invest offshore (compounding the incentive provided by U.S. tax treatment of foreign income). Of course, lower wages, safety standards, and environmental regulations can provide incentives of their own, but businesses must also be aware of the power of the mere threat of an ISDS arbitration to stop new policies from being implemented. Such threats may be particularly effective in developing nations whose legal resources can be dwarfed by those of a large global corporation. Unfortunately for developing countries, the evidence is mixed on whether there is even a correlation—much less a causal relation—between granting extraordinary investor rights and attracting foreign direct investment and whether such foreign investment has had the desired development effects.¹²

Government Procurement

In its trade agreements, the U.S. must ensure that it and its trading partners retain the ability to stimulate their domestic economies through domestic infrastructure and spending programs. The AFL-CIO has long maintained that trade agreements should not constrain federal and sub-federal procurement rules that serve important public policy aims such as local economic development and job creation, environmental protection and social justice—including

¹² See, e.g., FOREIGN INVESTMENT AND SUSTAINABLE DEVELOPMENT: LESSONS FROM THE AMERICAS (Kevin P. Gallagher, Roberto Porzecanski, Andrés López, and Lyuba Zarsky, eds., 2008).

respect for human and workers' rights. Rather than further blunting our ability to engage in economic stimulus, new trade agreements should protect Buy American policies for procurement projects and ensure that our trading partners can implement domestic stimulus programs to alleviate a recession or depression without running afoul of TPP obligations. On the basis of comments made at the recent TPP Stakeholders' Forum in Dallas on May 12, the Government of Malaysia agrees that government procurement policy is an important domestic policy tool. On this point, the accompanying statement that sub-federal procurement may not be included in initial TPP commitments is welcome news.

Financial Services

To protect the global financial system, the TPP should ensure that financial services provisions protect the right of governments to secure the integrity and stability of their financial systems. In particular, it would be helpful to clarify that prudential measures include the right of a nation to institute capital controls when necessary to stabilize the economic system in a time of crisis. As the IMF has recognized, capital controls can be and have been useful in addressing both macroeconomic and financial stability concerns.

Appropriate Trading Partners

The AFL-CIO believes that the choice of partners for any "free trade agreement" should be carefully weighed. In choosing such a partner, the USTR should analyze not only the likely commercial effects of reduced tariffs, increased investor rights, and the like, but also consider the human and labor rights conditions prevailing in the territory of the proposed partner. In this regard, the AFL-CIO has specific but very different concerns about including Vietnam and Japan in the TPP.

With regard to human and labor rights, due to existing commitments, the U.S. has already lost the use, in certain circumstances, of important economic tools such as boycotts and divestment, to address human rights goals. The AFL-CIO would not support further limits on our ability to exert economic, rather than military pressure, to address nations that engage in egregious human rights violations. That is why we believe that an open-ended agreement ought not to simply allow “any willing partner” to join.

The U.S. government should negotiate a democracy clause in the TPP. Linking market access and democracy is not without precedent in regional economic agreements. For example, the members of the Southern Cone Common Market (MERCOSUR), which includes Brazil, Argentina, Uruguay, and Paraguay, signed onto the Ushuaia Protocol on Democratic Commitment in the Southern Common Market in 1998.¹³ In the event of a “breakdown of democracy” in any of the member states, Article 5 of the Protocol allows that the other state parties may apply measures that range from suspension of the right of the offending nation to participate in various bodies to the suspension of the party’s rights and obligations under the Treaty of Asuncion (the MERCOSUR foundational agreement). We have also seen that economic engagement in the form of a trade agreement does not necessarily yield democratic reform and respect for human rights. The Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) provides a tragic example, with violent repression of union and other human rights advocates increasing since implementation. The U.S. government has already accepted submissions under the labor chapter regarding violations in Guatemala, Honduras, and the Dominican Republic.

¹³ Text of the Protocol is available online at http://untreaty.un.org/unts/144078_158780/20/3/9923.pdf. Associate Mercosur members Chile and Bolivia also signed onto the Protocol in 1998.

With respect to Vietnam, though we welcome cooperative efforts to further empower Vietnamese workers—who are already engaging in wildcat strikes to better their wages and working conditions when existing mechanisms fail them—the AFL-CIO is still unclear how Vietnam will meet anything close to minimum acceptable labor standards upon implementation of the agreement should it conclude in 2012, Ambassador Kirk’s stated goal. We fear that Vietnam will go the route of Colombia, with the imposition of a Labor Action Plan that lacks measurable benchmarks for progress and fails to require sustained action or thorough implementation. Such a cursory approach would benefit neither the workers of the U.S. or Vietnam—and would likely encourage the transfer of U.S. jobs to Vietnam, where unscrupulous employers would take advantage of inadequate laws to abuse workers’ rights.

With respect to Japan, our concerns are commercial in nature. Although it is a high wage nation with a well-unionized workforce, its markets are notoriously closed to foreign goods, and this is not the result of high tariff barriers. To gain significant and substantial market access to Japan, the USTR would have to adopt a new and revolutionary approach. It would have to address non-tariff barriers (NTBs) with an approach different to the simplistic and reflexive economy-wide deregulatory approach it has used in past trade agreements. There is no evidence that the status-quo approach has successfully pried open markets in ways that create jobs for U.S. workers.

Approximately 75 percent of the bilateral merchandise trade deficit with Japan is in automotive products. The U.S. auto trade deficit with Japan reached \$44.2 billion in 2010, up 35 percent from 2009, as Japanese imports (\$45.9 billion) greatly exceeded U.S. exports to Japan (\$1.7 billion). The 2010 auto deficit with Japan far exceeded that of the next negative auto

trading partner, Mexico (\$31.2 billion). The resulting loss of well-paying American automotive jobs is “multiplied” in related sectors and throughout the rest of the domestic economy.

The US currently imposes a light-truck tariff of 25 percent, a car tariff of 2.5 percent, and a 2.5 percent tariff rate on most auto parts. With the removal of these tariffs, it is likely that the U.S. automotive trade deficit with Japan would increase following the extension of the TPP to Japan. The 2.5 percent tariff on a small-to-medium-sized vehicle amounts to approximately \$625, essentially the entire profit margin for a car sold by our domestic automakers. Maintaining American employment in this highly-competitive market segment would be extremely difficult following this windfall to the Japanese automakers.¹⁴ Our trade relationship with Japan has failed, over many decades, to change, despite repeated negotiations and Japan’s participation in the WTO. It could be considered economic recklessness to allow Japan to join the TPP without a sustained, measurable track record of market opening to foreign products and without reliable safeguard measures (such as snap-back tariffs).

CONCLUSION

USTR and its partners must embark on economic development policies that explicitly address the creation of good jobs, the development of a thriving middle class, and respect for domestic policy space. Such an approach would require abandonment of the status quo. It would also require the cooperation of global corporations, many of which are used to using their leverage to play off one nation against the other in a race to the bottom in wages, benefits, social protection strategies, conservation, and public health and safety measures. The AFL-CIO cannot recommend strongly enough that, for a trade agreement to benefit workers here and abroad, it

¹⁴ Given the sheer magnitude of the U.S. economic relationship with Japan, which is dominated by international trade and investment in the automotive sector, there is a possibility that a bilateral approach to trade issues with Japan might better achieve the domestic job creation we seek.

must prioritize fundamental labor rights, the creation of high wage, high benefit jobs, and balanced and sustainable trade flows. When workers can exercise their fundamental rights, as well as have a secure and hopeful future and sufficient incomes, their demand will help businesses and the global economy grow in a sustainable way.

United States House of Representatives
Committee on Foreign Affairs

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee require the disclosure of the following information. A copy of this form should be attached to your written testimony and will be made publicly available in electronic format, per House Rules.

1. Name: Celeste Eileen Drake	2. Organization or organizations you are representing: AFL-CIO
3. Date of Committee hearing: May 17, 2012	
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
6. If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
	
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