October 2, 2019

Edward Gresser
Chair, Trade Policy Staff Committee
Office of the United States Trade Representative
600 17th Street NW
Washington, D.C. 20508

Comments on China's Compliance With WTO Commitments (Docket Number: USTR-2019-0010)

Dear Mr. Chairman:

These comments are being filed on behalf of the U.S. Global Value Chain Coalition – a coalition of U.S. companies and associations – that is on a mission to educate policymakers and the public about the American jobs and the domestic economic growth our companies generate through their global value chains.

Global value chains include those jobs we traditionally associate with creation of a product – such as those in a factory or on a farm – as well as those positions involved in the conceiving of and delivery of those products – such as design, marketing, research and development, logistics, compliance, and sales. Simply put, the global value chain accounts for all the jobs that add value to the good or service sold in the global marketplace. These positions are essential to the creation or sale of a good or service. Moreover, these jobs are primarily here in the United States and are usually high-paying, accounting for much of the value that U.S. consumers now expect and that is paid at the cash register.

Thank you for holding this hearing to evaluate China's compliance with the World Trade Organization (WTO) and indeed the larger U.S./China trade partnership. It is imperative that our trade relationship continue to be grounded on the rules-based trading system. We should hold China accountable for following those rules, but we should also ensure that our own actions and behavior are strictly compliant with those rules as well. This is vitally important given the many U.S. jobs that are dependent on U.S./China trade links. With that in mind, we'd like to make two broad points.

<u>First</u>, while our members are heartened by the prospect that the U.S. and China are negotiating a comprehensive agreement, we are concerned that such an agreement may not adequately reflect the role that global value chains have on the U.S. economy. We note that Congress, through the Bipartisan Congressional Trade Priorities and Accountability Act of 2015 made "utilization of global value chains" a priority in the first two negotiating objectives – relating to goods and services – for trade agreements. Such a priority is well placed because, in today's global economy, global value chains measure the full impact of trade policies on jobs. This is particularly important with our trading relationship with China.

Please consider the following:

- During 2018, two-way trade with China accounted for approximately $660 billion, equivalent to more than 15 percent of total trade that transited our nation's ports. Cargo activities at our nation's seaports – imports, exports and domestic shipments – support more than 23 million American jobs and over a quarter of annual U.S. GDP.

- U.S. companies design and market consumer products in China that are sold in China, in the United States, and around the world. Although these everyday items – articles such as U.S. branded clothes, shoes, and backpacks – are physically produced in China, they support millions of U.S. jobs in such disciplines as design, quality control, marketing, and compliance.

- Chemicals imported from China make their way through a network of U.S. distributors employing tens of thousands of Americans into industries, employing millions, including agriculture, automotive, pharmaceuticals, textiles, plastics, paints and coatings, and more.

These are just a few examples of how global value chains dependent upon trade with China create jobs and economic opportunities across the United States.

Second, we wish to stress that the actual and threatened imposition of tariffs on U.S. imports from China have been very damaging to these U.S. global value chains. These tariffs have led to considerable costs and uncertainty for our members because tariffs are no more than U.S. taxes that U.S. companies pay. Please consider the following:

- These tariffs have required companies to make painful choices – usually at the expense of U.S. jobs – as they figure out ways to manage these new costs. In some cases, these new U.S. taxes are passed along to customers and consumers, in the form of price increases, which can result in lost sales and lost jobs.

- In cases where companies can absorb those U.S. taxes, the extra unforeseen costs come at the expense of other planned activities, such as investments in innovation or hiring of new staff.

- To add insult to injury, Chinese retaliatory tariffs often mean that U.S. companies face double taxation since U.S. corporate entities control many of the supply chains that are targeted by Chinese tariffs. Again, these extra taxes come at the expense of U.S. jobs.

The bottom line is that many jobs in the United States depend on trade with China. Tariffs – both those levied by the U.S. as well as those levied by China in response to those U.S. tariffs – interfere with the proven ability of trade linkages with China to create and sustain jobs throughout the United States. Unfortunately, much of the bilateral tariff activity has occurred outside the framework of the WTO, which is a troubling development since the WTO was established precisely to handle such disputes. Further, the possible use of non-tariff retaliation, which would impact many U.S. companies operating in China, is an additional concern.

Going forward, we strongly urge the U.S. and China to ensure that bilateral trade relations and trade disputes are carried out within the confines of the WTO. This approach maximizes predictability and fairness, while limiting the disruption we are witnessing through the current disputes.

Sincerely,

The U.S. Global Value Chain Coalition