

Leveraging Trade to Stimulate Growth

Recommendations for the New U.S. Administration
From Americans Working in Asia

The Spring Conference of the
Asia-Pacific Council of American Chambers of Commerce

Singapore
March 2009



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Twenty-seven American Chambers of Commerce in twenty-one economies in Asia comprise the Asia-Pacific Council of American Chambers of Commerce (APCAC). APCAC held its annual meeting in Singapore to exchange ideas on the regional business environment and offer recommendations to President Barack Obama's new Administration.



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DEAR POLICY-MAKERS AND BUSINESS LEADERS:

In these extraordinary times, the Asia Pacific Council of American Chambers of Commerce (APCAC) had a unique opportunity at its annual meeting in 2009 to offer the attached recommendations to the new Obama Administration.

An enormous amount of gratitude is extended to the host, The American Chamber of Commerce in Singapore, for planning and developing the conference as well as the paper which follows this letter. We are also indebted to APCO Worldwide for helping to collect and write the final product.

We hope these views and recommendations will be helpful to the U.S. government as well as the governments across Asia Pacific. We stand ready to help the U.S. and the countries of the Asia Pacific region to emerge from the challenges of the past year stronger than ever.

Sincerely,

Kristin Paulson
Chair, APCAC

EXECUTIVE SUMMARY: U.S. COMMERCIAL ENGAGEMENT WITH ASIA-PACIFIC

APCAC believes that the U.S. government's Asian trade policy can best strengthen the American economy by supporting the private sector with trade and investment initiatives oriented toward partnership with the region.

It is crucial to stand against protectionism. Our keynote speaker, Singapore's Minister of Trade and Industry, Lim Hng Kiang, stated, "It is precisely at this moment and given these circumstances that the U.S. should not neglect trade, but rather set its sights on crafting a robust free trade agenda that will not only benefit the world but also U.S. farmers, businessmen, and workers." We agree.

Our country's commercial diplomacy begins with the President and other senior political figures in the Administration.

- The U.S. government should bolster its participation in APEC at the leader, minister, and working group levels with the aim of using the forum to build consensus on policies that promote trade and investment among the APEC economies. New policy and program initiatives, such as the Trans-Pacific Partnership, should be coordinated with the private sector to promote concrete outcomes bolstering economic development in the region.
- The guiding objectives for USTR should be promotion of open markets and national treatment, negotiation of high standard free trade agreements and bilateral investment treaties, and WTO-consistent trade enforcement.
- Higher labor and environmental standards in trade agreements encourage sustainable development and should not restrict trade or close the U.S. market.
- APCAC applauds the fact that Secretary of State Clinton's first overseas trip was to Asia and included visits to Indonesia as well as Korea, Japan, and China.
- Secretary Clinton's recent announcement that the U.S. will pursue accession to the Treaty of Amity and Cooperation is welcome confirmation of new attention to ASEAN.
- We support the review by the U.S. government of policy toward Myanmar (Burma).
- APCAC urges rejection of self-defeating "Buy America" provisions and similar measures designed to restrict imports or prevent foreign companies from competing for U.S. projects.
- We strongly support and urge Congressional ratification of the Korea-U.S. Free Trade Agreement because it would materially improve access to a large market, and is the most commercially relevant opportunity to stimulate U.S. exports and employment.
- We support a significant increase in the budget of the Foreign Commercial Service of the U.S. Department of Commerce.

AMERICANS ABROAD IN ASIA

The U.S. is the only developed country to tax its citizens on their worldwide income. The U.S. tax system coupled with recent changes to U.S. tax law has weakened the competitiveness of individual Americans relative to non-Americans. Companies and universities are finding it less burdensome to hire English speaking non-Americans than Americans for overseas positions.

- In the interest of supporting Americans who are working abroad to sell U.S. products that create jobs, APCAC and the Alliance for a Competitive Tax Policy (ACTP) urge Congress to reverse the provisions of the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), which significantly raised taxes on working Americans overseas. APCAC and ACTP also urge Congress to enact tax reform measures that will make the U.S. tax code more competitive with the rest of the industrialized world.

Although Americans living abroad pay U.S. taxes, as foreign residents they are ineligible to receive federal health care benefits from programs such as Medicare.

- American taxpayers living abroad should be eligible for federal health care benefits.

The U.S. is the only member of APEC that has not adopted the APEC Travel Card, which facilitates cross-border travel for business purposes. Given the heavy regional travel schedules of many managers of American companies, having the APEC Travel Card would make commercial activity easier.

- APCAC encourages the U.S. government to address security issues in the framework of accepting the APEC Travel Card.

The number of Americans living abroad is estimated at 4.3 to 7.2 million. The exact number is unknown because we are not counted by the U.S. Census. It is too late to develop methods to count Americans abroad in time for the 2010 census.

- We urge that new procedures be developed and tested in time to include this substantial population in the 2020 census.

BACKGROUND

Asia-Pacific and the United States are inextricably connected by historical ties and common security interests as well as by intricate patterns of cross-border and trans-Pacific movement of people, data, goods, services, and capital. The Asia-Pacific region is the destination of 60% of U.S. exports. The region accounts for 60% of the world's GDP and 50% of global trade, even though it contains only 40% of the world's population. More than fifty-seven million Americans work for companies that benefit from exports, according to the U.S. Treasury. Leveraging these dense and powerful connections is one of the most effective ways to stimulate growth and restore confidence in the U.S. and in Asia-Pacific.

The broad global downturn now engulfing Asia presents opportunities to emerge renewed and stronger.

After the Asian financial crisis of 1997-98, governments, central banks, and companies significantly strengthened their balance sheets. A strong commitment by regional governments and the United States to the rules-based international trade system embodied in the World Trade Organization led to rapid growth and economic development. Many Asian economies therefore face the current financial crisis with stronger reserves, less external debt, and the fiscal flexibility to respond with stimulus programs. With the Chinese and U.S. stimulus programs leading the way, the policy response in Asia and globally has been a combination of fiscal stimulus and monetary ease.

The depth and synchronized timing of the crisis suggest that recovery may take longer than following the downturn of the 1990s. Governments in the past could stimulate exports by currency devaluation, tax rebates, or subsidies, and simply grow out of cyclical difficulties. Companies could increase market share by cutting prices, investing for increased productivity and capacity during the downturn, and improving logistics, thereby positioning themselves for a resumption of fast growth. However, if unemployment in the U.S. reaches 10% and declines slowly while home values gradually regain lost ground, U.S. demand may remain weak for a prolonged period. Given the collapse of end-user demand, the traditional Asian response to downturns of investing in additional capacity and stimulating exports now look like pushing on a string.

A sustainable recovery in the U.S. and Asia may depend on both structural changes to restore confidence as well as a stimulus response to the cyclical downturn. In the short term, Asia needs more domestic spending, and the only way to achieve it is through government investment. In the medium term, Asia needs to achieve a better balance between export-led growth and domestic consumer demand. This will be difficult to accomplish quickly in many countries, as it implies better social safety nets, development of weak service sectors, a lower savings rate, and more balanced income distribution that will help raise the living standards of workers. Those changes will ultimately strengthen their economies for the future and will strengthen U.S.-Asia trade when demand levels return.

THE CHALLENGE

The Obama Administration has taken office at a time of historic U.S. and global economic challenges.

How should American policy and the American private sector rise to the opportunities of leveraging trade and investment links with Asia-Pacific to restore confidence and build our common prosperity?

REGIONAL INTEGRATION FOR GROWTH ACROSS THE PACIFIC

APCAC believes that the U.S. government's Asian trade policy can best strengthen the American economy by supporting the private sector with trade and investment initiatives oriented toward partnership with the region. The acceleration of regional integration to create larger, more open markets is one of the best ways to stimulate growth in Asia and the U.S. The U.S. gains from Asian prosperity.

- Negotiations to expand the P-4 free trade area (Brunei, Chile, Singapore, New Zealand) to the Trans-Pacific Partnership (TPP) Free Trade Agreement by adding Australia, Peru, the U.S. and Vietnam were announced last year. A strong TPP would improve American access to key markets, while positively influencing the pace and terms of ASEAN integration. Coupled with greater ASEAN integration, it could be the foundation of a broad Free Trade Area of the Asia Pacific. Thus TPP situates ASEAN in a broader arena, and mitigates the confusion caused by proliferation of bilateral free trade agreements in recent years. We believe a commercially viable TPP is attainable and urge that this process be a high priority of U.S. trade policy.
- Regional integration should be an important step toward greater global integration. Trade agreements among Asian countries and agreements between parts of the region, such as ASEAN, and other countries should advance business and investment opportunities for all participants in the region, including US companies.
- Protectionism is widely understood to be self-defeating, but is nevertheless a universal response to economic downturn. We call on the U.S. government to lead by example by rejecting it at home and supporting the architecture of free trade globally.
- The necessary adjustments to the current downturn will occur more rapidly and successfully if they are based on mutual cooperation, transparency, and adherence to the rules-based trading system. The U.S. and other governments should provide wide scope for private sector initiative and support open participation.

ENERGY

The consensus energy outlook is that fossil fuels will continue to supply a large majority of the world's energy in 2030, with a larger role for gas and significant growth in alternative energy sources.

Energy policy will be driven by the need to improve energy efficiency, reduce and mitigate greenhouse gas emissions, and expand supply. Technology is at the heart of all three and all three will require huge capital investments. The policy environment must therefore support technological innovation by protecting intellectual property and facilitate investment by efficient capital markets and a sound legal framework.

Climate change, the need for greater efficiency in energy usage, the development of alternative energy, and mitigation of past environmental loading are important challenges that affect trade. These challenges will be addressed by Asian governments, and offer major commercial opportunities for U.S. companies.

- To improve transparency, we support promotion and funding for the Extractive Industries Transparency Initiative (EITI), which encourages governments to voluntarily disclose the revenues received from oil, gas and mining, with revenues verified by reports of company payments.
- We support U.S. technical assistance funding to advise Asian governments on the need to build critical infrastructure to connect alternative and renewable energy facilities to the existing power grid concurrently with building the facilities themselves.
- Security for energy-related projects is sometimes problematic. We support funding for International Narcotics and Law Enforcement (INLE) programs and similar efforts to train Asian governments on security issues, including human rights aspects of law enforcement.

FINANCIAL SERVICES AND INVESTMENT

Asia needs deeper, more flexible capital markets to improve the efficiency of capital allocation, and at the same time requires a regulatory regime that reduces systemic risk in the financial system; this can only be accomplished through international cooperation among regulators and market participants.

Asian bond markets are underdeveloped, equity markets are thin and have divergent listing standards, corporate governance and transparency are poor, and currencies other than the yen are mainly in managed regimes.

Asian banks are significantly less leveraged than U.S. or European banks. Given an appropriate regulatory framework, there is room for top tier regional banks to broaden their regional activity and support the revival of regional trade and commerce while maintaining capital adequacy.

We urge U.S. leadership in the process of strengthening global financial system regulation by promoting the following objectives and principles:

- Support for regulatory frameworks that treat similar financial products equally, allow risk-based pricing, and avoid displacing borrowers from the formal credit sectors.
- Promotion of cross-border investment through high standard Bilateral Investment Treaties and by elimination of foreign ownership caps and product restrictions (with a national security exception). The goals should be national treatment, and the freedom to choose the form of business establishment that makes the most commercial sense to the investor.
- Recognition of the complementary role of well-regulated non-banks to promote greater financial market deepening and choice.

- Harmonization of accounting rules and regulatory standards strengthens the financial system.
- Improvement of legal architecture, including development of clear systems to perfect security interests in collateral (both movables and receivables) and assignment of claims. This would facilitate asset-based lending and factoring, which are important sources of liquidity for Small and Medium-sized Enterprises and others. More generally, upgrading the professional standards of courts and the legal profession throughout Asia and expedited procedures for enforcement of judgments would support trade and investment.
- Improvement of risk management by mandating greater transparency, modernizing credit information systems, and sharing information.
- Where private sector liquidity is insufficient, governments, multi-lateral agencies and pan-regional groups should offer targeted programs and make them available to qualified foreign financial institutions as well as domestic ones. In the current situation, we recommend giving particular attention to the availability of trade finance. Furthermore, cross-border funding and capital flows should be encouraged, including by removing unnecessary restraints on cross-border commercial borrowing.
- We urge U.S. support of the Asian Development Bank's call for a major capital increase to increase its capacity to improve economic development in Asia.

INFORMATION, COMMUNICATIONS, AND TECHNOLOGY

Asia is a change agent and a leader in many Information, Communications, and Technology (ICT) sectors. In cell phone handsets, for example, Asia is the leading manufacturer, its markets are the largest, and it has the most innovative suite of products and services. It is not an accident that this sector is also one of the most open to foreign participation.

Singapore is leading by example in its funding for a cutting edge broadband network. Better broadband access is also part of the U.S. stimulus program. We applaud both.

The value of goods and services in this sector is tied to the value of innovative design, content, presentation, and branding. This value is captured and protected by intellectual rights. Across Asia, innovation and investment by domestic as well as foreign players are held back by ineffective enforcement of IPR and widespread infringement.

- The U.S. government should continue to support strong Intellectual Property Rights (IPR) standards and better enforcement and should particularly focus on keeping pace with developments in technology and distribution.
- Since governments are major buyers of ICT hardware and services, the U.S. should encourage regional governments to join the WTO Government Procurement Agreement.
- Standards are particularly important in the ICT sector. We urge U.S. government support for harmonization of local standards with international standards to improve interoperability. Standards setting systems in all countries should be transparent and open to participation by foreign as well as domestic companies. For the sake of innovation and growth, it is essential that standards not become a non-tariff barrier to protect domestic interests.

PHARMACEUTICALS AND HEALTHCARE

We are ready to engage governments in the region to help address the balance of supporting innovation and access to health care. These are not mutually exclusive. Compulsory licensing of patented medicines should be a last resort and implemented only following appropriate consultation with rights holders, as well as other stakeholders.

- The fundamental concepts of regulatory data protection/data exclusivity and patent linkage of patented medicines are absent or poorly applied in many economies and are important to maintaining the commercial interests of patent applicants and protecting innovation. The U.S. should lead in influencing the implementation of these concepts.
- American pharmaceutical companies invest heavily in research and development in areas of medical science that have seen increasingly lower yields and more complex development pathways, in order to save and improve the quality of lives of patients around the world. We urge the U.S. government to act in strong support of safeguarding these investments and hard-won discoveries through a strong IPR regime.
- There is growing understanding that widespread counterfeiting of pharmaceuticals is a danger to public health and the safety of medicines, not only in the country of manufacture, but around the world, which is also affecting U.S. citizens. Loopholes favoring counterfeiters such as ineffective regulation of active pharmaceutical ingredients and medical devices in China and India should be closed.
- We support active cross-border cooperation among enforcement agencies attacking IPR infringement, especially the global trade in counterfeit pharmaceuticals.

Pricing and reimbursement mechanisms are often opaque and unpredictable, with poor recourse for appeals in markets such as Taiwan and Korea. They are also perceived to favor local and generics manufacturers.

- We believe that open market mechanisms based on the merits of fair competition and quality of products are the best determinants of pricing and reimbursement and are desirable for both providers and payers to maximize efficiency.

Investment in health care is a driver of economic development, not a lagging indicator that follows prosperity.

- We support investment programs and reforms, such as are currently underway in China, to improve health care delivery.

Non-traditional public health threats, such as avian flu, SARS, dengue fever, MRSA (multi-drug resistant staphylococcus aureus), and other infectious diseases with new or faster vectors of transmission require coordinated regional and global preparation for pandemics, including transparent monitoring and reporting and cooperation on scientific research.

- We recommend strengthening the WHO and the global network of Centers for Disease Control to promote timely sharing of crucial information and a shift in health policy focus toward preventative medicines and the appropriate use of vaccines through a review of national immunization programs in the region.

SMALL AND MEDIUM-SIZED ENTERPRISES AND THE GLOBAL ECONOMY

The SME sector in Asia employs a majority of the workforce and accounts for over 90% of registered enterprises. Heavily dependent on international trade, this sector has been disproportionately hurt by lack of cash reserves and reduced availability of trade finance, as well as collapsing demand.

In the U.S., the SME sector is traditionally a high growth sector, but one which finds it difficult to participate in export markets. District export councils of the Commercial Service and the Gold Key programs of the Foreign Commercial Service are crucial export windows for SMEs.

SMEs globally are hurt more than large companies by protectionism, non-tariff barriers, and IPR infringement because they lack the scale and resources to respond effectively. Conversely, the SME sector has the most to gain from improvements in these areas and the most potential to increase employment rapidly as a result. The APCAC agenda of trade facilitation, mitigating behind the border barriers, regional integration, and better IPR protection is therefore an SME agenda.

Singapore, the first Asian country to fall into recession, launched a plan to help SMEs upgrade by providing grants to support technology innovation, branding, IPR management, HR, and design. Other regional governments are similarly focused.

- We urge the U.S. government to support American SMEs utilizing e-commerce to improve productivity and enter export markets.
- We support additional funding for the Commerce Department's export promotion program.
- Finally, we urge the U.S. government to monitor the availability of trade finance to SMEs and take steps to augment it as needed.

TRANSPORT & LOGISTICS

While the global transport system is under severe stress, the level of integration is strong and irreversible. Trade facilitation is crucial in this sector. Protectionism is widespread in the industry and is holding back trade and economic development.

- We urge the U.S. government to seek the removal of non-tariff barriers, harmonization of customs standards and procedures, adoption of a reasonable regional de minimis value below which goods are not subject to duty, development of Electronic Data Interchange (EDI) systems with the capacity to process large volumes of electronic transactions, common standards for labeling food and agricultural ingredients, common standards for labeling pharmaceuticals and cosmetics, and uniform standards for electrical interconnection and power generation.
- Supply chain security should be addressed through cooperation among governments and industry in ways supportive of global standards such as the World Customs Organization SAFE framework. We believe that the U.S. approach has been overly unilateral and call for cooperative engagement with all stakeholders so that security chain vulnerabilities are addressed while simultaneously enhancing efficiency and reducing cost.
- One concrete, near term step by governments should be to publish for comment at an early stage draft customs regulations, postal law amendments, and other legal or regulatory documents affecting the sector. The industry stands ready to ensure that all technical issues are fully understood, so that laws or regulations when issued are in the greatest public interest and have minimal unanticipated consequences. We urge the U.S. government to support transparency.

- The APEC Single Window program will help combat corruption by simplifying and harmonizing Customs formalities and documentation. The Single Window concept requires that Customs administrations effectively link with other agencies regulating the flow of goods so that there will be a single point for submission and processing of data and a single decision-making point for release and clearance with each country. We recommend adoption of international best practices, such as the World Customs Organization's Immediate Release Guidelines. We urge U.S. support for the Single Window program within APEC.

GOING FORWARD

As the global economy resets, the American business community in Asia understands that we need a fresh approach emphasizing fundamental principles. Our member companies rededicate themselves to:

- The value we offer clients and customers,
- Maintaining our global standards of health, safety and environmental practices while complying with local regulations,
- Investing in people,
- Conducting ourselves with integrity,
- Consistently improving standards of corporate responsibility and corporate governance, and
- Regularly engaging with the U.S. and host governments.

We are convinced that this is the most effective way to manage our companies profitably, restore confidence, and participate in balanced, sustainable growth.



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The Asia-Pacific Council of American Chambers of Commerce (APCAC) was founded 42 years ago as a way for the now 27 American Chambers of Commerce in 21 economies spanning Asia-Pacific to share best practices and address issues of mutual concern.

This year, APCAC's Annual Conference in Singapore gave the AmChams and business leaders across the region a unique and timely opportunity to shape U.S.-Asia business and trade relations, especially in light of recent changes in the global business environment. With the help of APCO Worldwide, APCAC leveraged the insights discussed during the Annual Conference to draft the enclosed recommendations to the new U.S. Administration on how it can support and promote economic growth between and within the U.S. and Asia.

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