FedEx®

"How Trade Keeps America Great"

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National Competitiveness Forum - Dec. 9, 2016

Let me first congratulate President-elect Trump and Vice President-elect Pence. The caliber of cabinet nominees to date is reassuring given the many major economic challenges the United States faces today:

- Our economy has been growing too slowly.
- National debt has increased from 63% to 105% of GDP since 2007.
- The U.S. now owes almost $20 trillion and it is projected to grow.
- Federal investment is at the lowest level since the late 1940s as a percent of GDP. Net business investment is subdued.
- Infrastructure is deteriorating.
- Protectionist tendencies are increasing here and abroad.
- And election results show that too many people feel they're being left behind.

Some blame these problems on trade, but the facts indicate otherwise.

- History shows that people have always wanted to travel and trade.
- Today that desire is stronger than ever. With our constantly growing digital economy, almost anyone with a mobile phone can reach new markets in nanoseconds, funneling tremendous digital connectivity into more buying power, more economic growth, and a higher standard of living.

FedEx is at the nexus of global trade. We move 12 million shipments daily, serving 220 countries and territories, so we see the value of trade every day. In fact, the largest customs clearance port of entry in the U.S. is the Memphis airport, where our FedEx Superhub is located.

- We at FedEx are passionate about supporting trade, and we consider all FedEx jobs to be trade jobs. We have more than 450,000 team members

around the world who help enable the supply chains of companies from the United States to Uganda…or from Singapore to South Africa.

- We know that trade equals more markets and greater opportunities for U.S. companies, especially small and medium businesses, which comprise about 97% of U.S. exporters.

Based on what we've seen over the past 40 years at FedEx, and beyond that from 20th century history, we know several things to be true.

Centrally planned, government-directed economies don't work. They can't sustain growth; they can't respond quickly to changing market conditions. They innovate more slowly and don't attract much foreign investment.

- Look at what's happened in socialist Venezuela. When the price of oil, Venezuela's main export, was at an all-time high, the government used its revenue to fund massive social programs without investing to diversify its economy. When oil prices dropped, the country had to discontinue most of its social programs and couldn't even afford to import basics such as milk and eggs. Grocery shelves stood empty and citizens stood in lines to get their food rations.

Protectionism doesn't work either.

- A November 25 *Wall Street Journal* article examined the impact of Brazil's and Argentina's protectionist policies based on high tariffs and promotion of domestic production over imports. Such policies have created factory jobs, but they've come at great cost to consumers, who pay higher prices for goods and to taxpayers, who foot the bill for the subsidies. The article notes, "Taken together, these measures essentially transfer wealth from society at large to a smaller group of workers."
- A December 2nd article in the *New York Times* did an excellent job describing global supply chains and U.S. manufacturing's dependence on imported content. The article discussed the reduced competitiveness U.S. manufacturing firms would experience if the prices of their inputs were to rise because of new tariffs.

- We have the best example of protectionism from our own history. The devastating Smoot-Hawley Act of 1930 raised tariffs on more than 20,000 items. This contributed to a 66% decline in world trade from 1929 to 1934. This misguided act of Congress ignited the Great Depression.
- In 1934, with the leadership of Secretary of State Cordell Hull, Franklin Roosevelt overturned the Smoot-Hawley Act and established the trade policy the United States has pursued ever since—one of competitive, open markets.

History has shown repeatedly that free-market economies create human opportunity.

- The post-war General Agreement on Trade and Tariffs or GATT, which sought to reduce tariffs and other trade barriers, was a decisive factor in the post-war growth of the United States, which became the richest country in the world. U.S. trade policy was also a major factor in the recovery of Japan, Germany and other devastated countries.

Trade certainly got its fair share of attention in the recent presidential campaign, but much of what was said is inaccurate. I'd like to set the record straight.

First, trade is good for—and absolutely essential to—American prosperity.

- Trade is a two-way street, in which both imports and exports are vital. Keep in mind that the U.S. exports goods <u>and</u> services. In 2015, the U.S. exported more than $750 billion in services. (Census Bureau)
- We also import products from other countries. Imports secure materials needed to create American products. And imports give our families more choices and lower prices.
- From 1960 to 2015, trade rose as a percent of U.S. economic activity from 9% to 28%. (World Bank).

Even though we're the world's largest economy, 80% of the world's purchasing power and 95% of its consumers lie outside the U.S.

- Our farmers rely on foreign markets to remain financially strong. In fact one-third of American farmland is planted for exports.

- American manufacturers depend on foreign markets, with about 25% of all manufacturing jobs being supported by exports. (U.S. Chamber)
- Overall, trade supports over 40 million U.S. jobs or more than one of every five in our nation. Tens of thousands of those jobs are at FedEx.
- Trade-related jobs pay an average of about 18% more than non- trade-related jobs (Dept. of Commerce), and in general, trade has added more than $13,000 a year in purchasing power for the average American household (U.S. Chamber).

Second fact: Market access and e-commerce are changing the world of trade. Thanks to the internet and global logistics services offered by FedEx and others, e-commerce is booming.

- Worldwide retail ecommerce sales are approaching $2 trillion and projected to exceed $4 trillion by 2020. (eMarketer)
- While much of this is domestic trade, cross-border e-commerce will unlock even more growth potential for companies of all sizes, especially small and medium-sized companies.
- A great example of this is FedEx customer OriGene Technologies headquartered close by in Rockville, Maryland. They develop RNA/DNA clones, antibodies, and plasmids used for research. Starting with eight employees in 1996, OriGene now employs 80 in the U.S. and approximately 500 worldwide. And their network of international distributors reaches more than 35 countries.

Fact #3: The U.S. wins when we enter free trade agreements.

- The U.S. has free trade agreements in place with only 20 of our trading partners.
- Contrary to public perception, the U.S. enjoys a surplus with those trading partners in manufacturing, and has global surpluses in services and agriculture.
- According to the Department of Commerce, our 20 free trade partners buy nearly half of all U.S. exports. On a per-capita basis these 20 countries buy 13 times as many U.S. goods and services as other countries.

- This is because free trade agreements remove barriers to our goods and services and make our exports more competitive.
- These free trade agreements are the solution to trade deficits, not the problem.

American workers and businesses need agreements like the Trans-Pacific Partnership (TPP). It's an important step toward achieving free trade agreements between the United States and 11 other countries in the Pacific Rim. We are 100% behind the TPP. This recently negotiated agreement will unlock more trade opportunities with the other fast-growing TPP countries.

- TPP represents more than 480 million potential customers for U.S. businesses.
- The agreement would eliminate 18,000 tariffs on U.S.-made products, thus increasing global demand for made-in-America goods.
- It will spur greater investment in the U.S., which correlates to new jobs here.
- Our strong recommendation to the Trump administration is to not abandon the TPP but to improve it toward full free trade with these countries.

There was also a great deal of negative talk about NAFTA during the election campaign. But NAFTA is the lynchpin of our current economic competitiveness. Here's what NAFTA does:

- It eases trade among 450 million people in the Unites States and our trading partners, Canada and Mexico. NAFTA trade more than quadrupled in 20 years, which boosted the economies of all three countries.
- NAFTA has made the United States the centerpiece of a huge North American production platform. Nearly 14 million U.S. jobs depend on trade with Canada and Mexico. (US Chamber)
- Economist Gary Hufbauer estimates that NAFTA makes the U.S. $127 billion richer every year. (Peterson Institute)

- And U.S. private sector jobs have increased by more than 29 million - a 32% rise - since NAFTA began. (BLS data, Jan-94 to Nov-16)

Of course, NAFTA was written in the 1990s, and the nature of trade has changed substantially mostly due to the internet and the digital economy.

- Modern trade agreements like TPP address 21st century trade issues such as e-commerce, cross-border data flows, state-owned enterprises, small businesses, and global supply chains.
- All these improvements, plus others in the areas of labor and environment, are included in TPP.

If President-elect Trump wants to improve NAFTA, he could start with these types of provisions, many of which have already been agreed to by Mexico and Canada as part of TPP.

- He may also want to address the advantage that Mexican exporters receive through the rebate of value-added taxes or VAT on all their exports to the U.S. We don't have similar rebates on corporate taxes paid on U.S.-made goods, and this puts our exports at a serious disadvantage.

While NAFTA could be updated and strengthened, as noted, withdrawal is another matter entirely.

- There are myriad reasons why that would be catastrophic for the U.S. economy, but a main one is the nature of North American supply chains.
- Few people understand how NAFTA has woven the productive capacity of North America into one integrated platform. The United States, Canada and Mexico make so many things together. Forty percent of the value of Mexico's exports to the United States is U.S. content.
- The auto industry is a great example. It's been said that the average American car crosses the U.S.-Canadian border seven times during its production. A November 10th *Wall Street Journal* article cited an example in which a seat had parts from four U.S. states and four Mexican locations.
- NAFTA makes the U.S. one of the most attractive manufacturing locations in the world because of value-added productivity of both Canada and Mexico in an integrated North American supply chain.

- And if we could complete free trade agreements with Asia and Europe, the U.S. could be the undisputed champion in manufacturing.

Withdrawal from NAFTA would have massive economic repercussions.

- Thousands of U.S. companies would have to shift their supply chains at great cost and disruption to their businesses.
- Americans should understand that pulling out of NAFTA does not ensure that production in Mexico would come back to the United States. In fact, it's possible that many U.S. manufacturers would either find suppliers in other countries or use Mexican production to export to other markets under Mexico's 40-plus free trade agreements.

We've talked about TPP and NAFTA, but we haven't mentioned the huge economy that is a part of neither of those agreements - China.

The U.S.-China relationship is the most consequential global relationship of the 21st century.

- It comprises the two largest economies in the world—two economies that are highly inter-dependent. We have numerous common interests and challenges. Many of the toughest global issues cannot be solved without Sino-U.S. cooperation.
- For years the bedrock of our relationship has been based on three principles:
    - First, that China's rise is good for the U.S.;
    - Second, that both countries must work together where we have common objectives; and
    - Third, we must manage our differences carefully so they don't spiral out of control.

Those principles are still valid and should continue to govern our relationship going forward.

Both sides, however, have to acknowledge that attitudes in the United States are changing toward globalization, international trade, and China itself. Let's look at

these changing attitudes crystallizing in the minds of American business leaders, policymakers, and the public who elect them.

No one can reasonably deny that China's joining the WTO has brought about enormous benefits for China and the rest of the world.

- Having China inside the global rules-based system will always be preferable to having them outside it.
- China's WTO membership has brought great benefits and opportunities for consumers and companies around the world, including FedEx. It has also propelled dramatic economic growth and change in China.
- I would add that FedEx strongly advocated China's entry into the WTO. It was the right call then and still is today.

But there are trade-offs, and many people here have been hurt by China's economic rise, especially in the manufacturing sector.

- When we talk about the manufacturing issue, it's important to note that not all our problems can be blamed on China. Much of the U.S. decline in manufacturing employment is due to automation and productivity improvements. U.S. manufacturing output was more than $2 trillion in 2015. We make things today with fewer people, and that will continue into the future.
- In addition, our trade deficit with China is really a trade deficit with Asia and the vast network of Asian supply chains. Even if we imposed massive tariffs on China, much of their production would simply shift to other Asian markets such as Vietnam. Tariffs on China will not bring back large numbers of low value-added manufacturing jobs. Training our workforce for the future and reforming our tax code will grow high-paying manufacturing jobs in a truly open trade regime. Protectionism will reduce them.

But there are legitimate concerns about Chinese mercantilist policies that promote domestic companies and industries while restricting foreign competition.

- The list of troubling Chinese economic and trade policies includes the "indigenous innovation" initiative, support of national champions, massive investment in state-owned companies, intellectual property violations including cyber-espionage, and forced technology transfer.
- FedEx has experienced protectionist policies in Asia first hand. Both Japan and then China tried to deny FedEx its commercial rights. Japan and China did this to protect their domestic competitors. Many other companies have faced similar forms of protectionism.
- Prime Minister Abe in Japan and President Xi in China are well aware of their own economic challenges due to protectionism. This is why Prime Minister Abe has taken a strong stance in favor of TPP against significant domestic opposition. In the same vein, President Xi has strongly supported a more open and dynamic Chinese economy with a more consumer-driven GDP.
- Unfortunately, progress to these ends in China has been slow, as evidenced by recent increased support of debt for state-owned enterprises.

While its growth in the last 20 years has been remarkable, China is now approaching the outer limit of investment and export-led mercantilist growth.

- History shows us that China will not be able to take the next, more difficult step of transitioning to an innovative, higher-income country while still a state-run economy. China can look at what's happened in Japan. Its mercantilist approach for so many years gradually slowed its economic growth almost to a halt; now Japan avidly embraces TPP.
- A sustainable culture of innovation does not grow through government fiat. Nor does it occur through state-supported acquisition of foreign technologies, brands, and businesses, while keeping one's own economy closed.
- Instead, China needs to pull back from state ownership, reduce regulations, and move towards becoming a true free-market system.

Here are three recommendations regarding China for the incoming Trump administration:

- First, make the U.S.-China relationship a top priority to avoid a downward spiral in economic and commercial relations that would harm millions of people. This is critical.
    - The Peterson Institute has modeled the impact on the U.S. economy from a full blown trade war with China and Mexico - and the results are not pretty. It would throw the U.S. into a recession and cost close to 5 million jobs.
    - The presidents of both countries must commit to maintaining the relationship as we work through our differences.
- Second, focus on increasing U.S. export opportunities to China rather than restricting Chinese imports. We need more trade, not less.
    - This requires the Trump administration to address both Chinese and U.S. policies that inhibit U.S. exports.
    - Of course, we must be prepared to address situations where China or other countries export to the U.S. in violation of trade rules. The Trump administration will have an extensive array of tools to apply in these situations.
    - Equally important, don't ignore the services sector. Export services jobs pay wages that average 20% higher than the United States' average. The U.S. enjoys a huge comparative advantage with a services trade surplus of over $250 billion. Private services account for about 68% of our GDP, but only about 50% in China since many important service sectors are closed. Opening these services markets will help China achieve its own economic objective of moving from an export-based economy to a more consumption-based GDP. (Peterson Institute)
    - The Bilateral Investment Treaty or "BIT" that the U.S. is negotiating with China could give the Trump administration its first opportunity to get a better bi-lateral agreement and help China achieve its internal market reform goals.
- Third, we need to enforce our trade agreements and address policies that penalize the U.S. economy and our workers. But of course we must always

act consistently with U.S. law and WTO rules as the U.S. has been the primary architect of a rules-based system.

  - It's important to recognize blanket tariffs imposed across the board are not the right response. Such tariffs would erode support for the global rules-based system and undoubtedly unleash a wave of protectionist retaliation around the world.

China should understand that under a Trump administration there will be stronger and more rapid consequences for "closed door" commercial practices. How China reacts to this will be critically important. All the while, we support President Xi's stated commitment to a more open Chinese economy.

To these ends, we hope the Trump administration will take another look at TPP and realize not only its benefits to the U.S., but also the consequences if it's not approved. TPP is a bulwark against current Chinese practices, and China is aggressively moving ahead with its own regional trade agreement—the Regional Comprehensive Economic Partnership or RCEP.

- Many TPP member countries have said that without TPP they'll have no choice but to move closer to the RCEP model.
- We urge the Trump administration to put its stamp on a revised TPP by addressing any concerns it sees and making any additional improvements to promote trade, rather than restrict it.
- We also hope that other existing trade negotiations can be picked up and strengthened under the Trump administration. The two most important of these are the Trade in Services Agreement or TISA and the Transatlantic Trade & Investment Partnership or T-TIP with the EU.
- Trade facilitation should be another priority. One of the most cost-effective ways to increase trade is to simplify the administrative regulations that apply to goods at the border. FedEx has been promoting this for years. The WTO Trade Facilitation Agreement, which has been ratified by 102 countries and only needs 8 more to come into effect, will reduce customs and administrative costs by up to 14%, which is significantly more than the

average global tariff. In a world of slower trade growth, customs modernization is a smart way to boost trade and the U.S. economy.
- Finally, I would note that the Trade Promotion Authority or TPA that Congress passed last year has a detailed list of all the areas where the U.S. has a competitive trade advantage. We need to lean into those opportunities rather than walk away from them.

It's important to recognize that U.S. success in the world economy depends equally on three changes:

- First, we must overhaul our corporate tax code. Our 35% federal corporate tax rate is one of the highest in the world and is inconsistently applied across industries. In addition, the United States and Chile are the only two major economies with a worldwide tax system. That means we tax earnings of U.S. companies anywhere in the world, making our goods more expensive overseas and our companies less competitive. We need a territorial system like every other advanced economy. This, combined with a lower corporate rate, will resolve many of the disadvantages I've talked about today. A lower corporate tax rate and a territorial system will equal more investment, and higher investment means more better-paying U.S. jobs for American workers.
- Second, we must train our workers for the innovative jobs of tomorrow. A McKinsey study reported that in a few years, employers worldwide could face a shortage of 85 million high- and medium-skilled workers. So we should strengthen our trade adjustment and assistance programs to provide the retraining of workers impacted by global trade and automation. A large number of those jobs will stay in the U.S. if we adapt the policies I've mentioned today.
- Third, we must modernize our infrastructure. Unless we make major improvements to our roads, ports, airports and other facilities, we'll lack capacity to handle a growing economy and the global supply chains that supports it. Our federal and state governments must urgently work toward modernizing our infrastructure for maximum competitiveness.

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Trade has made America great, and expanding trade has been a bi-partisan pursuit for over 80 years. The failure to continue to do so would be a severe mistake with enormous consequences for America and the world.

Thank you.