January 7, 2016
"Trading Views: Real Debates on Key Issues in TPP" hearing on currency manipulation
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Thank you for the opportunity to provide Ford Motor Company's views on the Trans-Pacific Partnership and currency issues.

Ford Motor Company is a global automotive industry leader. With 197,000 employees and 67 plants worldwide, Ford manufactures and sells automobiles and related services in more than 200 international markets. Founded in 1903, we have a long and proud history, and our drive to innovate has made the Ford brand among the most recognized and respected around the globe.

Ford has a strong and well-established trade pedigree. Henry Ford exported the sixth vehicle he assembled in 1903, and we have built on this legacy ever since. Today, Ford exports over 40 percent of the vehicles it produces worldwide.

To meet global demand, Ford is in the midst of its most ambitious manufacturing expansion in 50 years. In the United States, we have more than 79,000 employees, and we have committed to investing $9 billion in our U.S. plants and adding 8,500 hourly jobs in six states over the next four years. Automotive is driving a manufacturing renaissance here in the United States, and this translates into high quality jobs, vibrant communities, and investments in R&D that sustain and extend America's technology leadership in the 21st century.

Trade issues are hugely consequential to Ford Motor Company, our U.S. employees, and our 5,200 U.S. suppliers and their employees across the country. Ford is a top exporter of U.S.-built vehicles, and automakers, together with their suppliers, are America's largest exporters – exceeding the next best performing industry by more than $118 billion over the last five years.

As a global company, it is our experience that the very best business conditions exist when trade barriers and tariffs are removed, allowing for the free flow of goods and services.

To that end, I am pleased to have the opportunity today to share Ford's perspective on the Trans-Pacific Partnership. Despite our consistent support for opening markets, and our hope that a TPP text will eventually emerge that addresses 21st century trade barriers, Ford is recommending to Congress that TPP not be approved in its current form.

The Trans-Pacific Partnership Agreement represented a tremendous opportunity to set high-standard trade rules and establish an economic architecture that would shape regional growth and prosperity for decades to come.

TPP was touted as a "21st century trade agreement" and one that would level the playing field for American manufacturers and workers. Unfortunately, what has landed on desks here in Washington, DC is an agreement that falls woefully short in delivering on both those fronts.

In the President's statement on TPP, he said the United States should write the rules of the global economy. Yet this agreement abjectly fails to do that on the critical and fundamental issue of currency manipulation.

Without strong and enforceable rules prohibiting currency manipulation, TPP is an agreement that does not live up to its billing as a 21st century trade agreement, and puts at risk hard-fought gains and concessions on market access and other trade reforms.

Tariffs were the trade barrier of the previous century. Today, the 21st century trade barrier facing American manufacturers is currency manipulation.

Currency is the medium in which trade occurs, and exchange rates can be an important determinant of trade outcomes and competitiveness. When governments intervene to depress the value of their currencies in order to increase export competitiveness for domestic manufacturers and decrease imports through the imposition of higher pricing, they are widely understood to be manipulating their currency. In the context of a free trade agreement, currency manipulation can completely negate the trade liberalizing effects of tariff reductions. It is equivalent to a simultaneous export subsidy and import surcharge – which is why it has been called "the mother of all trade barriers."

World trade rules have long obliged countries to refrain from such practices precisely because they dilute and distort the impact of negotiated trade reforms, and confer unfair competitive advantages on those countries that engage in the practice of currency manipulation.

Yet, despite the rules in place at the IMF and WTO to prohibit currency manipulation, NO multilateral enforcement actions have been taken in the almost 70 years that this global economic system has been in place. Not one single enforcement action.

If the Administration wants to deliver real market openings and a level playing field, then TPP must include enforceable rules prohibiting currency manipulation.

We believe that exchange rate values should be determined in the marketplace, not by governments. And this view is shared by many – a recent IPSOS poll showed that 79 percent of Americans say TPP should penalize trade distorting currency manipulators.

This is also why Congress took unprecedented action to set a clear negotiating objective for addressing currency manipulation in all future trade agreements when it enacted Trade Promotion Authority last summer.

United States trade negotiators, driven in part by demands from the U.S. Treasury Department, instead chose to initiate a side agreement called The Joint Declaration of the Macroeconomic Policy Authorities of the TPP Countries, the so-called "currency forum", that falls outside the TPP Agreement. While the currency forum will improve data sharing and transparency on monetary policy between TPP members, it fails to deliver on two very important counts. First, it provides no enforcement mechanisms or penalties against transgressors, and second, it does not meet the demands of a substantial majority of the Congress or the will of the American people. The currency forum is simply a recreation of the same, unenforced mandate that for 70 years has seen global trade rules against currency manipulation flagrantly ignored to the deep disadvantage of American manufacturers. It does nothing to change the status quo.

Directly following the signing of the TPP agreement, Japanese Finance Minister Taro Aso said the Joint Declaration – the currency forum – will not have any binding power or influence on Japan's monetary and currency policies. When asked about TPP members questioning further interventions by the Bank of Japan and the effects on exchange rates, Aso said it was wrong and “there won’t be any change” in Japan’s currency policies.[1]

Without an enforcement mechanism, there won’t be any change in Japan’s currency policies because currency manipulation is so lucrative for Japanese businesses and the Japanese economy.

The unearned trade subsidy derived from currency manipulation makes Japanese vehicles more competitive around the world – not only in the US, but in every other market where Ford competes. Ford Motor Company can compete against Japanese automakers, but it cannot compete against the Bank of Japan.

In fact, we have been down this road before. The U.S.-Korea free trade agreement or KORUS is the textbook example of how currency manipulation negates any trade liberalization gains in an agreement and how broadly its damaging impact is felt.

It would therefore appear logical that TPP – as a 21st century trade agreement with the potential to write the rules for the next era in global free trade – would have included enforceable rules prohibiting currency manipulation.

This would not have required a wholesale reinvention of the global economic order – instead, these provisions could have been based on previously agreed upon IMF commitments by all TPP member countries. But, they could also have gone one step further to include an effective dispute settlement mechanism and penalties against violators. This would ensure that international obligations are met and kept.

In the Joint Declaration, greater transparency and data reporting requirements will do little to deter countries from manipulating their currencies. Instead of finding themselves on a level playing field within TPP, U.S. manufacturers and workers find themselves in a one-sided game.

Ford Motor Company therefore continues to recommend Congress not approve TPP in its current form and asks the Administration to renegotiate TPP to incorporate strong, enforceable rules on currency manipulation. This would change the game and make sure all TPP countries play by the same set of rules.

Ford Motor Company operates in what is already – by any objective measure – the most open auto market in the world. Yet, we have never sought protectionist policies to close off opportunities for importers in the U.S. market, and you will not hear this today. To the contrary, all we have asked for is the level playing field and 21st century rules that were the original promise of TPP.

Free trade must truly be free – with companies and industries succeeding on their own – not with a government thumb on the scale. If a trade agreement without strong and enforceable currency disciplines were approved, it would send the message that the status quo is acceptable –that countries can continue to subsidize their exports and undercut U.S. manufacturers and workers. We can do better. We must do better.

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[1] Kajimoto, Tetsushi. "Finance Minister Aso: TPP Deal Won't Have Binding Power on Japan's Forex Policy." Reuters. Thomson Reuters, 05 Nov. 2015. Web. 06 Jan. 2016.