

**Testimony of Christopher A. Padilla
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Before the United States International Trade Commission

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Madam Chairman, Commissioners, thank you for the opportunity to appear before you today to present IBM's views on the recently concluded Trans-Pacific Partnership agreement.

The Trans-Pacific Partnership is a landmark free trade agreement because it addresses a key commercial challenge of the 21st century – it is the first trade agreement designed specifically for the global digital economy.

In today's networked world, international commerce simply cannot function without constant streams of information flowing across borders, and the TPP contains binding commitments to prevent digital trade barriers that could harm American companies and workers.

Because IBM operates in over 170 countries and is investing billions of dollars in data-driven innovation, our company strongly supports the agreement and will forcefully advocate for its ratification in the United States and every other TPP country.

Information technology is advancing at amazing speed, driven by developments in data, analytics, cloud, mobile, social media and the Internet of Things. This is creating one of the most profound and dynamic transformations in economic history, ushering in what IBM refers to as the era of "cognitive business," in which information systems can understand, reason and learn, enabling better decision making and enhancing competitiveness.

To illustrate the scope and potential of data-driven innovation and the cognitive era:

- IBM estimates that there are currently over 1 trillion devices generating data around the world.
- And these devices generate 2.5 billion gigabytes of data every day – yet 80% of the data are unstructured or "raw," creating a largely untapped new "natural resource."

In the digital economy, competitive advantage will be gained by harnessing data through effective use of analytics and cognitive computing, business models will be shaped by access to the cloud, and all sorts of unimagined individual interactions will be powered by mobile and social technologies.

The economic opportunities are great, and American companies are leading the way in the global marketplace, both in creating and applying these new technologies. These opportunities in digital trade and investment exist not only for the IT companies like IBM that are creating the technologies, but for innovative companies across all sectors.

Indeed, it is notable that the digital trade provisions of this agreement are supported by all sectors of the business community, not just technology-focused companies. U.S.-based companies in manufacturing, financial services, telecommunication services, retail, express delivery services and other sectors are the biggest users and fastest adopters of new information technology. They know that data is the essential enabler of modern commerce. But these dynamic American companies therefore have the most to lose from the threat of “digital protectionism.”

Restrictions on cross-border data flows and requirements to use local data centers would undermine a major source of U.S. competitive advantage. The United States is the top creator of digital content of all types – from business software to entertainment – and the world’s leading exporter of services, exporting more than \$700 billion per year with a trade surplus of more than \$230 billion. With nearly 60 percent of U.S. services exports being “digitally deliverable” via the Internet, the United States relies on the free flow of data to expand its gains from international trade.

For these reasons, from the perspective of the U.S. economy, the TPP’s guarantees on cross-border data flows and the freedom to store, process and move data may well turn out to be the most important new provisions in the TPP.

Digital trade is especially important for entrepreneurs and small businesses that would not be able to reach their customers in other countries if it were not for the Internet. The TPP will ensure that these critical engines for U.S. economic growth will not be shut down by digital protectionism.

TPP also recognizes that privacy is fundamental to maintaining trust online, and it strengthens data privacy protection by requiring that every signatory has a legal framework in place to provide for the protection of the personal information of e-commerce consumers.

Since the days of Cordell Hull and the General Agreement on Tariffs and Trade, the United States has led the postwar world in seeking to tear down *existing* trade barriers, such as tariffs on goods. Now through TPP our nation is leading again, this time by preventing *emerging* trade barriers on the Internet before they can take hold.

At a time of growing cyber-nationalism, the United States should use trade agreements and other policies to strengthen cyber-freedom and economic openness. This is why, as we look to the future, the TPP’s digital trade commitments will establish an excellent model for other agreements, such as TTIP and TiSA – and these commitments should apply equally to all commercial sectors, including financial services.

The United States has been the leading Pacific economic power for more than six decades, and U.S. leadership in the region will be enhanced by the TPP. We should consider the strategic as well as economic significance of an agreement that will establish free trade between the United States and Japan, modernize the rules of NAFTA and the North American economic powerhouse it created, draw Vietnam more deeply into the global economy, finally establish free trade with long-time ally New Zealand, and deepen economic ties between U.S. allies and friends from Australia to the southern tip of the Western Hemisphere. Already South Korea, the Philippines, Colombia and others are considering how they, too, could join the TPP.

Were the United States foolishly to turn away from closer economic ties with virtually every major ally in the Pacific, the damage to U.S. security – and the U.S. economy – would be grave indeed. It is particularly important for the United States to ensure that a rules-based trading system that operates on open-market principles is firmly rooted as the best economic model for the Pacific region.

The Trans-Pacific Partnership is about American leadership:

- Leadership in preventing virtual walls to the modern data economy;
- Leadership in deepening economic ties with vital U.S. allies; and
- Leadership in setting new digital commerce standards for all trade agreements that will follow.

The TPP will have a profound impact in allowing American businesses to harness the transformative powers of data in today's Internet age, and IBM is proud to have been one of its earliest supporters.

Thank