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The Best U.S. Export-Promotion Strategy: Free Trade

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The interagency Trade Promotion Coordination Committee (TPCC) is required by the Export Enhancement Act of 1992 "to develop a government-wide strategic plan for carrying out Federal export promotion and export financing programs" and to submit to Congress annual reports describing the plan and how TPCC member agencies will implement the strategy.[1]

The 2007 National Export Strategy is the latest plan describing the year's government priorities of supporting e-commerce as a means of boosting exports, promoting greater participation of small and medium-sized firms in exporting activities, and advancing key projects in "priority" markets—China, India, and Brazil.[2] While the document lays out more of an agenda of key priorities than a coordinated strategy for implementing agencies to follow, it does provide a look back over the previous year at what activities were accomplished by the agencies to give a general sense of how well they met high-level objectives.

The value of such export-promotion activities to the U.S. economy continues to be debated, especially for certain agencies, including the Export–Import Bank and the Overseas Private Investment Corporation, and for various programs carried out by other member organizations. While it remains difficult to assess how much explicit federal export-promotion programs actually bolster U.S. jobs, economic growth, or overall prosperity, policymakers remain intent on advancing a formal U.S. export-promotion strategy.

Talking Points

- U.S. government programs that subsidize risk offer above-market returns, in effect privatizing gains while potentially socializing losses. They are not an efficient or necessary use of taxpayer resources.
- Policymakers should consider advancing policies aimed at eliminating costly barriers to trade and investment, subsidies, and government-run activities that are better provided by the private sector.
- Advancing freer trade through a comprehensive and substantive conclusion to the Doha Round of trade negotiations and ratification of the three pending free trade agreements with Colombia, Panama, and South Korea would promote both U.S. prosperity and economic development abroad.
- Claims that U.S. organizations like OPIC and the Export–Import Bank play a role in counteracting other state-sponsored financing by "leveling the playing field" for U.S. firms ignore the fact that these subsidies are not beneficial to the economy as a whole.

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Fortunately, *The 2007 National Export Strategy* gives a nod to the contribution of free trade agreements (FTAs). One need look no further than the chapter on the impact of trade liberalization and an Appendix at the end of the document to see the most effective policy answer to advancing exports: freer trade.

Benefits of Trade Liberalization

Ideally, free trade would be achieved without any negotiations at all. So pervasive are the benefits of trade liberalization for the country doing the liberalization that countries would be smart to lower their protectionist barriers on their own, irrespective of what other countries do. It is true that the more widespread such liberalization becomes, the greater the benefits for all, and multilateral trade negotiations, which seem to provide valuable political cover to help politicians do what is best for their country, should be encouraged. However, as the current round of global trade talks ably demonstrates, the pace of such negotiations is slow, and consensus can be hard to achieve.

Yet the expected benefits of a meaningful conclusion to the current Doha Round of multilateral trade negotiations make the effort to reach agreement worthwhile. Numerous studies have estimated the potential gains under various trade-liberalization scenarios. While their results and methodologies differ, these studies consistently show that real economic gains are associated with further trade liberalization:

- The Institute for International Economics has calculated that moving from today's trade environment to one characterized by perfectly free trade and investment would generate an additional $500 billion in annual income for the U.S., or about $5,000 per household each year.[3]
- A University of Michigan study concludes that reducing agriculture, manufacturing, and services trade barriers by just one-third would add $164 billion, or about $1,477 per American household, annually to U.S. economic activity. Completely eliminating trade barriers would boost U.S. annual income by $497 billion.[4]
- The World Bank estimates that the continued reduction of tariffs on manufactured goods, the elimination of subsidies and non-tariff barriers, and a modest 10 percent to 15 percent reduction in global agricultural tariffs would allow developing countries to gain nearly $350 billion in additional income by 2015. Developed countries would stand to gain roughly $170 billion.[5]

Free Trade Agreements

FTAs negotiated by smaller groups of countries are the next best thing to promote global trade liberalization.[6] FTAs can provide institutional competition to help keep multilateral talks on track and provide the U.S. an option of pursuing agreements with countries

1. Sec. 2312 (a) (2) of the Export Enhancement Act of 1992, 15 V. C. ~ 4727 (a)(2). Member agencies are the U.S. Department of Commerce, Export–Import Bank of the United States, Overseas Private Investment Corporation, U.S. Trade and Development Agency, U.S. Small Business Administration, U.S. Department of Agriculture, U.S. Department of State, U.S. Department of the Treasury, Office of the U.S. Trade Representative, U.S. Agency for International Development, U.S. Environmental Protection Agency, U.S. Department of Defense, U.S. Department of Energy, U.S. Department of the Interior, U.S. Department of Labor, U.S. Department of Transportation, Office of Management and Budget, National Security Council/National Economic Council, and Council of Economic Advisers.
2. Trade Promotion Coordinating Committee, *The 2007 National Export Strategy*, June 2007, at *www.ita.doc.gov/media/Publications/pdf/nes2007FINAL.pdf* (April 22, 2008).
3. Gary Clyde Hufbauer and Paul L. E. Grieco, "The Payoff from Globalization," *The Washington Post*, June 7, 2005, p. A23.
4. Drusilla K. Brown, Alan V. Deardorff, and Robert M. Stern, "Multilateral, Regional, and Bilateral Trade-Policy Options for the United States and Japan," University of Michigan, Research Seminar in International Economics, *Discussion Paper* No. 490, December 2002; and "Computational Analysis of Multilateral Trade Liberalization in the Uruguay Round and Doha Development Round," University of Michigan, Research Seminar in International Economics, *Discussion Paper* No. 489, December 2002.
5. World Bank, *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda* (Washington, D.C.: World Bank, 2004).

willing to engage in serious liberalization of foreign trade. In the process, FTAs formed with smaller groups of countries can serve as starting blocks to facilitate a transition to broader agreements.

Free trade agreements can also help developing countries to lock in and effectively implement economic and political reforms, spur regional integration, and enhance prospects for investment and economic growth. While some of the United States' trade partners may be small now, over time they will mature into larger, more sophisticated markets more closely integrated with the U.S. economy. As these economies develop, they will demand more and more U.S. products. As the data demonstrate, America has experienced growth in trade with all of the countries with which it has formalized free trade agreements.

As of the beginning of 2008, the U.S. has 11 FTAs with 17 countries. Congress has approved free trade agreements with Israel; Canada and Mexico (North American Free Trade Agreement, or NAFTA); Jordan; Singapore; Chile; Australia; Morocco; the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua (DR–CAFTA); Bahrain; Oman; and, most recently, Peru.[7]

Even though the agreements with Oman and Peru have not yet been fully implemented, the U.S. has already seen impressive results from the bilateral trade deals. In 2007, the FTAs in force accounted for more than $1 trillion in two-way trade, which is about 34 percent of the total of U.S. trade with the world.[8] Along with the economic benefits of the agreements, the FTAs have also strengthened the political relationships that the U.S. shares with strategic allies around the world.[9]

In the first year of the U.S.–Singapore FTA, America's trade surplus with that country more than tripled, growing to $4.3 billion. Just four months after the U.S.–Australia FTA was implemented, America's trade surplus with Australia grew almost 32 percent to more than $2 billion. Exports to Chile and Singapore expanded by $4 billion in the first year after implementation of free trade agreements with these countries.[10]

Benefits of International Trade

Increased trade is just part of the gains stemming from free trade agreements. Economy-wide, the net number of jobs displaced each year by international trade is estimated to be no more than a relatively small 3 percent of the workforce.[11] Far more important in changing the composition of America's workforce have been improvements in technology and shifts in consumer preferences. The combined impact of innovation and reduced barriers to trade has served to help the economy, not harm it. Today, more than 57 million Americans are employed by firms that engage in international trade—roughly 40 percent of all non-farm jobs.[12]

Any negative impact that freer trade may have on job numbers is mitigated by the benefits that trade brings to the economy as a whole. While produc-

6. Edward Hudgins, "Regional and Multilateral Trade Agreements: Complementary Means to Open Markets," *Cato Journal*, Vol. 15, No. 23 (Fall/Winter 1995/96); and Fred Bergsten, "Open Regionalism," Institute for International Economics *Working Paper* No. 97, 1997.

7. Office of the United States Trade Representative, "Bilateral Trade Agreements," at *www.ustr.gov/Trade_Agreements/Bilateral/Section_Index.html* (April 8, 2008).

8. Based on calculations using data from the TradeStats Express National Trade database, at *http://tse.export.gov/ITAHome.aspx?UniqueURL=02dxjrynb2mvcgerd5jd2k55-2008-4-9-3-22-49* (April 8, 2008).

9. Office of the United States Trade Representative, *The 2008 Trade Policy Agenda and 2007 Annual Report*, at *www.ustr.gov/assets/Document_Library/Reports_Publications/2008/2008_Trade_Policy_Agenda/asset_upload_file649_14563.pdf* (April 8, 2008).

10. Office of the United States Trade Representative, "Free Trade Agreements Are Working for America," at *www.ustr.gov/assets/Document_Library/Fact_Sheets/2005/asset_upload_file204_7872.pdf* (April 8, 2008).

11. Daniel Griswold, "Trading Up: How Expanding Trade Has Delivered Better Jobs and Higher Living Standards for American Workers," Cato Institute *Trade Policy Analysis* No. 36, October 25, 2007, at *www.freetrade.org/node/782* (May 6, 2008). Similar results were derived on 2003 jobs statistics in Erica L. Groshen, Bart Hobijn, and Margaret M. McConnell, "U.S. Jobs Gained and Lost through Trade: A Net Measure," Federal Reserve Bank of New York, August 2005, at *www.ny.frb.org/research/current_issues/ci11-8/ci11-8.html* (April 8, 2008).

tion may fall in less competitive industries, exporters and domestic producers that use lower-cost imported inputs gain a competitive boost that promotes investment, productivity, and growth in these industries. Lower prices for imported goods also help households to stretch their incomes, enabling them to buy more of everything, including goods and services that are produced domestically. With freer trade, resources flow from less competitive uses to more competitive and efficient uses, creating opportunity and bolstering long-run economic growth and job creation.

U.S. FTAs generally strengthen the transparent and efficient flow of goods, services, and investments between member countries. Trade agreements open markets, protect investors, and increase economic opportunity and prosperity. In short, free trade agreements serve to promote U.S. interests, not to weaken them or to place an unfair burden on Americans.

Federal Export-Promotion Activities

In 2007, the enacted budget authority for the Trade Promotion Coordinating Committee was $1.37 billion.[13] These taxpayer dollars go toward the financing of numerous endeavors aimed at boosting U.S. exports, including education, data collection and dissemination, international trade missions, business services, and market research. While some of these activities certainly add value, much of what is being accomplished can be and is being done better by trade associations, business coalitions, and private business.

In fact, the importance of the private sector in enabling the national export-promotion strategy is stated time and again throughout *The 2007 National Export Strategy*. The "Strategic Partnership Initiative" is designed to enhance cooperation between the private sector, exporters, and government at all levels. Recognizing that "the Federal government simply lacks the resources, marketing channels, and points of contact with businesses to reach most companies," the Partnership will ideally lead to a phaseout of government involvement in many of these activities.[14]

The Overseas Private Investment Corporation (OPIC) and the Export–Import Bank of the United States (Ex–Im Bank) may not directly cost U.S. taxpayers as much as other export-promotion programs do today; however, they do impose significant indirect costs on the economy as a whole and run the risk of costing taxpayers in the future. Both programs should be eliminated.

OPIC. First established in 1971, OPIC today provides U.S. government-backed loans, loan guarantees, and investment insurance to U.S. businesses that invest around the world. Today, according to its mission statement:

> The Overseas Private Investment Corporation's (OPIC) mission is to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from non-market to market economies.[15]

OPIC's rationale rests on the perception that it can help fill the demand for international financing that the private sector is unwilling to chance, while at the same time boosting U.S. exports. Although it may have been the case that financial markets and financial instruments were less able to fulfill development requirements in the 1970s, today's markets are far more robust.

In fact, the U.S. is already the largest source of foreign direct investment (FDI) worldwide and has more than $585 billion in direct investment located in developing and other non-OECD (Organization for Economic Cooperation and Development) countries.[16] In 2006, the level of total FDI grew $248.5 billion from the previous year, with $87.1 billion of the increase occurring in developing

12. Council of Economic Advisers, *Economic Report of the President 2007*, p. 169, at *www.nber.org/erp/2007/2007_erp.pdf* (May 6, 2008).
13. Trade Promotion Coordinating Committee, *The 2007 National Export Strategy*, Appendix B, at *www.ita.doc.gov/media/Publications/pdf/nes2007FINAL.pdf* (April 22, 2008).
14. *Ibid.*, p. 76.
15. Overseas Private Investment Corporation, "About Us," at *http://www.opic.gov/about/mission/index.asp* (April 22, 2008).

countries.[17] In the same year, OPIC projects amounted to just over $1.9 billion in total finance, insurance, and investment fund activity—a relatively small fraction of the total amount of U.S. investment that has flowed to developing countries without the assistance of the U.S. government.[18]

The impact on development itself is also questionable. Because OPIC effectively transfers the risk of an investment venture from the company involved to taxpayers, commercial investment levels will be higher than would otherwise be the case based on market conditions alone. While this seems to support the development component of OPIC's mission, it in fact promotes the continuation of poor economic policymaking in developing countries. Investment that effectively promotes long-term development occurs as a consequence of sound economic reform, not as a reward for poor economic management.

The Export–Import Bank. Much like OPIC, the Ex–Im Bank was designed to provide financial services when private trade financing is unavailable to support an international transaction. It was created in 1934 as America's official export credit agency, and its mission is to provide working capital guarantees, export credit insurance, and loan guarantees and direct loans to support U.S. exports. Also like OPIC, the rationale for the Bank's ongoing role in facilitating international trade by providing subsidized export credit has weakened as private financing sources have developed. The Ex–Im Bank reports that it authorized more than $12 billion in loans in support of an estimated $16 billion in U.S. exports in 2007—a fraction of the $1.16 trillion in total exports the U.S. reported in the same year.

Government subsidies promote neither U.S. exports nor effective economic development. When the government shifts labor and capital from the economy through taxation and then gives it to specific private companies in the form of export or foreign direct investment subsidies, it does so at the expense of the economy as a whole. Rather than flowing toward the most efficient activities as determined by the market, these resources are instead redirected to boost output in less efficient sectors. In the somewhat dated but still very accurate words of the Congressional Research Service, there is "little theoretical support or empirical evidence that supports claims that subsidizing exports or overseas investment offers a positive net gain in jobs to the U.S. economy."[19]

Both OPIC and the Ex–Im Bank date from a time when the United States economy was far more insular than it is at present—a time when foreign investment and foreign trade were truly exotic and potentially high-risk undertakings. In the age of globalization, the exotic has become commonplace, and the risks of exports and foreign investment, while perhaps not quite the same as operating in the United States, are both known and manageable.

If we have learned anything from the recent crisis in the sub-prime lending markets, it is that risk needs to be fully accounted for, and fully acknowledged, in pricing investment options. U.S. government programs that subsidize risk offer above-market returns, in effect privatizing gains while potentially socializing losses. They are not an efficient or necessary use of taxpayer resources.

Recommendations

In general, policymakers looking to bolster U.S. trade should consider advancing policies aimed at eliminating costly barriers to trade and investment, subsidies, and government-run activities that are better provided by the private sector. While it is tempting to embrace subsidies as a means to promote U.S. exports and jobs, in fact the cost of those

16. Marilyn Ibarra and Jennifer Koncz, "Direct Investment Positions for 2006—Country and Industry Detail," Bureau of Economic Analysis, U.S. Department of Commerce, July 2007, p. 34, at *www.bea.gov/scb/pdf/2007/07%20July/0707_dip_article.pdf* (May 6, 2008).

17. *Ibid.*

18. Overseas Private Investment Corporation, *2006 Annual Report*, "2006 Investment Activities," at *www.opic.gov/pdf/OPIC_AR.pdf* (April 22, 2008).

19. James K. Jackson, "OPIC: Employment and Other Economic Effects," Congressional Research Service *Report for Congress*, May 23, 1997.

subsidies on the economy as a whole will be less than the benefit that might accrue to the firms receiving government handouts.

Instead, the following recommendations embody some of the more important elements of a successful U.S. export-promotion strategy that bolsters both long-term growth and economic opportunity.

1. Advance freer trade policies. Advancing freer trade through a comprehensive and substantive conclusion to the Doha Round of trade negotiations and ratification of the three pending free trade agreements with Colombia, Panama, and South Korea would promote both U.S. prosperity and economic development abroad.

- *Colombia.* The U.S.–Colombia Trade Promotion Agreement was signed in November 2006 and later amended to include provisions stemming from the Bipartisan Agreement on Trade. While more than 90 percent of Colombian exports enter the U.S. duty free under the Andean Trade Preference Act (ATPA) and the Generalized System of Preferences (GSP), U.S. agricultural, manufacturing, and services exports to Colombia face tariffs and other barriers to trade. The U.S.–Colombia Free Trade Agreement will promote a more balanced economic relationship in which, upon entry into force of the agreement, over 80 percent of U.S. manufacturing exports to Colombia will enter duty free immediately. An additional 7 percent will be duty free within five years, and all remaining tariffs will be eliminated within 10 years.[20]

  U.S. agricultural exports will benefit from the agreement as well: More than half of current U.S. farm exports to Colombia will become duty free immediately, and remaining tariffs will be phased out within 15 years.[21] Fully implementing the agreement would boost U.S. exports overall by an estimated $1.1 billion.[22]

  The agreement would help lock in Colombia's continued economic reform and development and promote investment—essential for the U.S.–Colombia relationship to reach its full long-term economic potential. Moreover, by forging stronger economic ties with U.S. allies in Latin America, America strengthens its strategic position vis-à-vis countries in this important but turbulent region while promoting economic prosperity and opportunity.

- *Panama.* The U.S.–Panama Trade Promotion Agreement was signed in June 2007. Like Colombia, Panama enjoys preferential access to U.S. markets via the Caribbean Basin Initiative and GSP, with approximately 96 percent of Panama's exports entering duty free.[23]

  The U.S.–Panama TPA will open Panamanian markets to U.S. firms and farmers: More than 88 percent of U.S. manufacturing exports will be duty free immediately upon entry into force of the agreement, with remaining tariffs phased out over 10 years.[24] More than 60 percent of current U.S. agricultural exports to Panama will receive duty-free treatment, and remaining tariffs will phase out within 15 years.[25]

  Approval of the U.S.–Panama trade deal would also support further improvements in Panama's economic development and help keep the momentum behind economic reforms high.

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20. International Trade Administration, "U.S.–Colombia Trade Promotion Agreement Sectoral Benefits: Overview of Sectoral Benefits," at *http://export.gov/fta/Colombia/SectoralInfo.asp?dName=Colombia* (April 8, 2008).
21. U.S. Department of Agriculture, Foreign Agricultural Service, "U.S.-Colombia Trade Promotion Agreement: Fact Sheet," February 2008, at *www.fas.usda.gov/info/factsheets/Colombia/colombia1pager07.pdf* (April 8, 2008).
22. U.S. International Trade Commission, "U.S.–Colombia Trade Promotion Agreement: Potential Economy-Wide and Selected Sectoral Effects," Investigation No. TA-2104-023, USITC Publication 3896, December 2006.
23. Office of the United States Trade Representative, "The Case for the U.S.–Panama Trade Promotion Agreement," August 2007, at *www.ustr.gov/assets/Document_Library/Fact_Sheets/2007/asset_upload_file192_13310.pdf* (April 9, 2008).
24. International Trade Administration, "U.S.–Panama Trade Promotion Agreement Sectoral Benefits: Overview of Sectoral Benefits," at *http://www.export.gov/fta/Panama/mrktaccess.pdf* (April 9, 2008).
25. U.S. Department of Agriculture, Foreign Agricultural Service, "U.S.–Panama Trade Promotion Agreement: Benefits for Agriculture," July 2007, at *www.fas.usda.gov/info/factsheets/Panama/Panamaoverall0707.pdf* (April 9, 2008).

Panama is yet another important ally in the Americas—one that is more than worthy of a trade deal that advances a deeper relationship with the U.S.

- *South Korea.* The KORUS (Korea–U.S.) FTA was signed in June 2007. Given the significant levels of trade and foreign investment already occurring between the U.S. and South Korea, a bilateral trade agreement is a natural and logical step to further strengthen economic and political relations between the two countries. The U.S. International Trade Commission has estimated that the impact of the trade pact would result in U.S. gross domestic product increasing by $10 billion–$11.9 billion and result in a significant expansion of two-way manufacturing, agriculture, and services trade.[26]

  In general, U.S. exports to Korea face higher tariffs and tariff rate quotas than do Korean exports to the U.S. The agreement will eliminate all industrial tariffs in the United States and Korea within 15 years of implementation, with most tariffs phased out within 10 years. More than 80 percent of U.S. industrial exports by value to Korea will receive duty-free treatment immediately upon implementation of the agreement.[27] U.S. agricultural exports will also benefit: Almost two-thirds of Korean imports of U.S. farm products will become duty free immediately upon entry into force of the agreement.[28] A trade pact would generate significant economic gains and would be the second-largest free trade area for the United States, in terms of dollar value, after NAFTA.[29]

  By formalizing bilateral economic ties with South Korea through an FTA, America also solidifies its ties to Northeast Asia through international trade, providing a counterbalance to China's growing economic influence in the region. The FTA would reinforce the strong and mutually beneficial economic and strategic relationship that exists between the U.S. and South Korea and ultimately serve both countries' national interests.

2. Continue to promote trade capacity building and facilitation, as well as regulatory improvements. Of the various activities advanced in *The 2007 National Export Strategy,* member agency efforts focused on providing technical assistance to developing countries to enhance trade capacity and improve the practices and policies supporting international trade in these countries are in line with advancing development goals. As developing countries are able to better engage global goods and services markets, the real potential for trade expansion around the world is improved. U.S. organizations, such as the Millennium Challenge Corporation, which ties investment to proven progress in economic and other important reforms, play an important role in advancing this objective.

3. Continue to work through multilateral and other channels to address anti-competitive and protectionist policies that limit trade flows, with the aim of eliminating such practices rather than relying on retaliation. Claims that U.S. organizations like OPIC and the Ex–Im Bank play a role in counteracting other state-sponsored financing by "leveling the playing field" for U.S. firms ignore the fact that these subsidies are not beneficial to the economy as a whole. Instead of adopting the same "unfair" practices as a response to real or perceived inequities across countries trading in the world's markets, the better approach is to work to dismantle inefficient and anti-competitive programs in the first place.

26. U.S. International Trade Commission, "U.S.–Korea Free Trade Agreement: Potential Economy-Wide and Selected Sectoral Effects," Investigation No. TA-2104-24, USITC Publication 3949, September 2007.
27. International Trade Administration, "U.S.–Korea Free Trade Agreement Market Access Results: Industrial Goods Summary Report," at *www.ita.doc.gov/td/tradepolicy/sectorreports_korea.html* (April 9, 2008).
28. U.S. Department of Agriculture, Foreign Agricultural Service, "U.S.–Korea Free Trade Agreement: Benefits for Agriculture," July 2007, at *www.fas.usda.gov/info/factsheets/korea.asp* (April 9, 2008).
29. Office of the United States Trade Representative, "Trade Facts: Free Trade with Korea," June 2007, at *www.ustr.gov/assets/Document_Library/Fact_Sheets/2007/asset_upload_file302_11035.pdf* (April 9, 2008).

Conclusion

The TPCC's *2007 National Export Promotion Strategy* illuminates some of the best and worst of America's policy approach to promoting trade, growth, and jobs. Policymakers should objectively assess the merit of the various member agencies' activities, especially in light of the evolution of private markets to address the "market failures" of the past. Wherever possible, government endeavors should be phased out in favor of more efficient private-sector approaches to facilitating international trade and investment.

Ultimately, the best export-promotion strategy is one that fosters ever freer trade. More than half a century of gradual trade liberalization has helped to raise U.S. living standards and has led to America's economic preeminence around the world. Congress should take steps to keep the momentum behind dismantling trade and investment barriers moving forward.

—Daniella Markheim is Jay Van Andel Senior Trade Policy Analyst in the Center for International Trade and Economics at The Heritage Foundation. These remarks were given April 24, 2008, before the U.S. House of Representatives, Committee on Foreign Affairs, Subcommittee on Terrorism, Nonproliferation, and Trade.