



The *United* States and Global Trade

A State Legislator's Guide to Maximizing Economic Opportunity through Trade

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Table of Contents

Introduction	1
The Need for a <i>National</i> Trade Policy	4
The Mechanics of U.S. Trade Policy Development	6
Trade Agreements: Opening Markets and Expanding Growth	8
Trade Promotion Authority: Vital to America’s Economic Success	10
America’s Workers: Improving Adjustment Assistance	12
Trade in Services: Expanding Opportunity for Americans	14
Investment Rules: Protecting Americans	17
Procurement Rules: Battling Corruption and Building Opportunity	20
Getting Involved in U.S. Trade Policy: A State Action Plan	22
Appendix 1: State Revenue and Jobs from Exports	24
Appendix 2: Facts on the Benefits of Trade Promotion Authority	25
About The National Foreign Trade Council	28

Introduction

The United States has the largest and most successful economy in the world, providing more than 300 million citizens unprecedented opportunities for upward mobility through good education and hard work. From 1967 to 2005, the real median income of American households rose from \$35,379 to \$46,326,¹ providing a significantly higher standard of living for millions of Americans. That progress has reduced the poverty rate in America from 22.4 percent in 1959 to 12.6 percent in 2005,² allowing millions more a chance to share in the nation's prosperity.

The economic success of the United States has not occurred by accident, but rather through the hard work and ingenuity of the American people and the development of a highly-skilled and adaptive workforce. In the last 150 years, the United States has achieved a dramatic transformation from an agrarian society to a manufacturing economy that drove economic growth through much of the 20th century, and now to a highly-skilled and innovative service-driven economy with extraordinarily productive workers. Even with high incomes and healthy appetites, Americans cannot consume everything they produce. Successful engagement in the global economy, with 95 percent of the world's population living outside of the United States, is vital to U.S. employment and economic growth. Without new markets to sell U.S. goods, services, and agricultural products, Americans would face the prospect of fewer economic opportunities and a lower standard of living.

FACT CHECK

MYTH:

The United States does not need to negotiate trade agreements.

FACT:

With nearly one quarter of U.S. GDP tied to trade and 95 percent of the world's consumers living outside of the United States, trade agreements must be negotiated to remove trade barriers and expand access to those markets to ensure continued U.S. economic and job growth.

Developing these markets has been a necessary priority for the United States Government and has required painstaking negotiations with foreign governments to remove barriers to market access, to ensure fair treatment in foreign markets, and to protect the investments of Americans abroad. Without such agreements, the millions of Americans whose jobs come directly from trade would have no job security, and American investors would have no assurance that their foreign investments could not be expropriated at the whim of a foreign leader.

The sophistication of modern finance, taxation, customs rules, and supply chains, just to name a few of the issues confronting those that trade, often result in government-to-government agreements that are exceedingly complex and nuanced. Moreover, U.S. trade negotiators must study, analyze, and represent the national economic interests, including the interests of all fifty states, business and labor constituents, farmers, and consumers in a bilateral or multilateral trade negotiation.

¹ DeNavas-Walt, Carmen; Proctor, Bernadette D.; and Lee, Cheryl Hill. "Income, Poverty, and Health Insurance Coverage in the United States: 2005." U.S. Census Bureau, U.S. Department of Commerce. August 2006. <http://www.census.gov/prod/2006pubs/p60-231.pdf> (Accessed April 3, 2007)

² *Ibid.*

In an attempt to advance a protectionist trade agenda, some organizations have alleged that states' rights are adversely affected by trade negotiations, which help generate billions of dollars in economic activity and thousands of new jobs.³ The truth of the matter is that the federal government's constituents are also the state governments' constituents, and the future economic prosperity of the country is inextricably linked to the prosperity of the individual states. States benefit not from crippling or blocking trade deals but from being engaged in the process that leads to those deals. In fact, the constitutional framers recognized the importance of trade in fueling economic growth and included in the Constitution the interstate commerce clause to ensure that trade barriers could not be erected between the states.

Even with federal control of trade policy, states do have a vital role in advising and consulting with the federal government on international trade. They also have an important role in promoting their states' exports and investment interests. By regularly monitoring trade negotiations and engaging U.S. trade negotiators in an ongoing dialogue, state leaders can maximize trade benefits and ensure that issues unique to their individual state are adequately addressed in trade negotiations. Several states have even had the foresight to place a trade-focused representative in Washington, D.C., where they are able to regularly engage U.S. trade negotiators and serve as an informed advisor to state leaders, as well as to help promote their state's export of goods, services, and agriculture.

Americans have benefited enormously from international trade, a fact that is evident in the low prices and wide product selection available at virtually every local supermarket and department store. The U.S. government estimates that Americans are one trillion dollars, or nine thousand dollars per family, wealthier because of the trade liberalization achieved over the last 60 years. At the same time, the 12 million American jobs connected to exports typically pay up to 18 percent more than other jobs in the economy and are often more secure.⁴

For example, in the case of the North American Free Trade Agreement ("NAFTA"), the average American family gained more than \$930 in new spending power within 10 years of the agreement's passage, U.S. manufacturing wages increased 14.4 percent during the same period, and U.S. exports to Canada and Mexico increased by \$121 billion.⁵

FACT CHECK

MYTH:

NAFTA has been bad for America.

FACT:

By the tenth anniversary of NAFTA's passage, the U.S. had experienced dramatic job and income growth, and increased exports to Mexico and Canada by 85 percent.

³ Interestingly, one of these groups, Public Citizen, has advocated limiting states' rights to regulate transportation policy (where states have clear legal jurisdiction) when necessary to achieve policy goals. See Claybrook, Joan. "Lower Drunk-Driving Threshold Would Save Lives..." Public Citizen. July 27, 2000. <http://www.citizen.org/pressroom/release.cfm?ID=745> (Accessed April 3, 2007)

⁴ "Trade Delivers Growth, Jobs, Prosperity and Security at Home." United States Trade Representative. July 2006. http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2006/asset_upload_file451_9646.pdf (Accessed April 3, 2007)

⁵ "NAFTA at 10: Myth - NAFTA Was a Failure for the United States." United States Trade Representative. 2003. http://www.ustr.gov/Document_Library/Fact_Sheets/2003/NAFTA_at_10_Myth_-_NAFTA_Was_a_Failure_for_the_United_States.html (Accessed April 3, 2007)

However, there is much more work to be done to reduce and remove barriers to U.S. exports and to create a level playing field through transparent and non-discriminatory trade rules. America's greatest comparative advantage is in trade in services, where the United States maintained a \$70 billion trade surplus in 2006.⁶ Yet, many foreign markets remain either completely closed to U.S. services or maintain significant barriers to entry, impeding America's ability to maintain balance in its trading relationships. The only way to open these markets is through the negotiation of bilateral or multilateral trade agreements.

While the potential benefits of liberalized trade are quite substantial for the U.S. economy in the long-term, not everyone has had the opportunity to benefit fully from America's prosperity. Since Thomas Jefferson put pen to parchment and declared that all people have an "unalienable" right to pursue happiness, Americans have held a common view that everyone should have an opportunity to achieve their dreams.

Some have suggested that the solution to fixing these problems is to retreat into the isolationism of the past, abandon America's drive to grow and expand opportunity, and give up on America's workers by closing the door to higher paying jobs and more rewarding work. We tried that path in the 1930s by raising tariffs and cutting off access to American markets, and the result was a prolonged Great Depression.⁷ This country has never been afraid of competition, nor have Americans ever been willing to leave the next generation with a country that is weaker and less prepared for the future. Yet, that is what the isolationists offer: lower incomes, fewer opportunities, and a weakened economy. America can do better. To achieve our national economic goals, the United States must continue to negotiate major trade agreements and ensure that Presidents of any political party have trade negotiating authority. Opening markets and economic engagement with the rest of the world is a key part of the solution to America's economic challenges and continued economic growth and prosperity.

Whenever Americans have undertaken great endeavors, whether connecting two oceans by a canal or building the transcontinental railroad, there have always been challenges. Pursuing new economic opportunity through trade expansion is no different. Together, state and federal legislators, with the advice of business, labor, farmers, and consumers, can develop policy solutions that improve education and worker training, help workers adjust to higher-paying and more rewarding jobs through improved trade adjustment assistance, and expand the economic opportunities for the generations that follow through a forward looking trade agenda that seeks to open markets and expand trade.

This guide is meant to serve as a resource for legislators who want to better understand the basis and substance of U.S. international trade policy, what role individual states can play in developing those policies, and how best to position their state to benefit from international trade. It is also meant to set the record straight in response to unsubstantiated claims about the negative effects of international trade agreements on states.

⁶ "U.S. International Trade in Goods and Services." U.S. Census Bureau, Department of Commerce. http://www.census.gov/foreign-trade/Press-Release/current_press_release/exh1.pdf (Accessed April 3, 2007)

⁷ Samuelson, Robert J. "Great Depression." The Library of Economics and Liberty. The Concise Encyclopedia of Economics. 2002. <http://www.econlib.org/LIBRARY/Enc/GreatDepression.html> (Accessed April 3, 2007)

The Need for a *National* Trade Policy

Since the very formation of the *United* States of America, there has been common agreement that a single international trade policy would most benefit the nation and that such a common policy should be determined principally by the national legislature. Writing as Publius in *Federalist 11*, Alexander Hamilton argued that “. . . the aggregate balance of the commerce of the United States would [be] much more favorable than that of the thirteen States without union or with partial unions.”

“The Congress shall have the power...to regulate commerce with foreign nations, and among the several states, and with the Indian tribes[.]” -- United States Constitution, Article I, Section 8

The Framers of our Constitution established clearly that Congress has the exclusive power to regulate foreign commerce. Their reasoning was not that states were incapable of regulating foreign trade, but rather that only a national legislature that could view the interests of all the states, in unity, would be able to develop policies that could maximize the benefits accrued by the nation as a whole from foreign trade. While the legal basis for congressional power over international trade policy is well-established and undisputed, a practical concern has emerged that further buttresses the justification for an international trade policy that is formulated by the federal government, not in fifty diverse and unique state capitals.

Technological and financial innovations have exponentially increased the complexities of modern society. Hamilton wrote about the importance of a single, national trade policy at a time when America traded primarily in commodities like tea and tobacco and had not even conceived of the global supply chains that now drive the global economy, allow Americans new markets to sell their goods and services, while also providing consumers access to products and services that were previously unavailable or too costly for common consumption. One example is the Chile Free Trade Agreement (“FTA”), which allowed U.S. companies to increase exports to Chile by 91 percent within the first two years of the agreement’s implementation, providing new markets for automobiles, bulldozers, and even petroleum oils.⁸ Under the recently concluded 10 FTAs with 15 countries, U.S. exports to those countries have grown twice as fast as U.S. exports to the rest of the world.

With those new opportunities, however, come increasingly complex questions about financial transactions, customs procedures, and health and safety standards, just to name a few. The difficulty in negotiating these issues is evident in the prolonged nature of today’s trade negotiations and the extensive consultation and education that is required in seeking congressional approval. To reach agreement on these issues, the U.S. must speak with one voice on behalf of the national economic interest. Since the post-World War II era, and based on lessons learned from isolationist and protectionist trade policies during the Great Depression, the United States has negotiated trade agreements to reduce and eliminate trade barriers. While many tariffs remain in place, particularly in developing countries, non-tariff barriers are among

⁸ “U.S.-Chile Trade Ties Strengthen as FTA Completes Second Year in Force Bilateral Trade Analysis: January-December 2005.” U.S. Department of Commerce and U.S. International Trade Commission. http://www.export.gov/fta/Chile/Trade_Analysis_2005.pdf (Accessed April 3, 2007)

the most complex and non-transparent impediments to U.S. companies seeking access to foreign markets.

A national trade policy focused toward the establishment of a global, rules-based marketplace—in consultation with state governors and legislators, businesses, farmers, workers, and consumers—will ensure that Americans gain the greatest benefit possible from global trade.

The Mechanics of U.S. Trade Policy Development

The Constitution gives Congress the authority to regulate trade, and Congress has periodically delegated that authority to the President and the United States Trade Representative, a cabinet-level, Senate-confirmed official who advises the President on international trade matters and represents the United States in most trade negotiations and proceedings. Through the Trade Expansion Act of 1962 and subsequent legislation, Congress chartered the Office of the U.S. Trade Representative (“USTR”) as part of the Executive Office of the President and provided USTR with responsibility for developing and coordinating the implementation of U.S. trade policy, negotiating trade agreements, and protecting “the rights of the United States under all bilateral and multilateral international trade and commodity agreements.”⁹

Carrying out USTR’s mission are more than 200 highly-skilled and experienced trade negotiators who cover all economic sectors and international regions. They negotiate directly with foreign governments to create trade agreements, resolve disputes, and participate in global trade policy organizations, while coordinating those activities with the more than 15 federal agencies that have jurisdiction over international trade matters (known as the “interagency process.”)

FACT CHECK

MYTH:

State governments have no meaningful input into the development of trade policy.

FACT:

Congress established formal consultative mechanisms through a series of trade advisory committees where state officials may provide advice. Some states have Washington-based trade representatives to monitor federal activities and advise U.S. trade negotiators. Moreover, many states are increasingly proactive in promoting their state’s exports and actively seek foreign direct investment.

Underscoring the importance of U.S. trade policy, Congress established a consultative process to assist USTR with developing policies and negotiating agreements that are beneficial to the United States. Through an advisory committee system of more than 700 state government, industry, agriculture, and labor representatives (collectively known as “cleared advisors”), the President and USTR receive advice on trade negotiations, agreements, and policy issues. At the top of this system is the Advisory Committee for Trade Policy and Negotiations, which is made up of 45 presidentially-appointed representatives, followed by the industry-specific and intergovernmental policy advisory committees (where states and local governments are exclusively represented), and then the sector-specific trade advisory committees, which are more technically oriented.

Once USTR and other federal agencies, using the interagency process, develop a proposed course of action to address a particular policy issue, often based on congressional

⁹ “Overview and Compilation of U.S. Trade Statutes.” Committee on Ways and Means Staff, U.S. House of Representatives. June 2005. (p.325) <http://waysandmeans.house.gov/media/pdf/109cong/wmcp/wmcp109-4.pdf> (Accessed April 16, 2007)

direction through the trade negotiating objectives, the cleared advisors are briefed and asked for input. (Through informal meetings and discussions, cleared advisors and other representatives are often already aware of new policy deliberations and have been given the opportunity to comment throughout the process.) USTR has extensive and ongoing consultations and briefings for Members of Congress and their staffs on the development and implementation of trade policies. Ultimately, Congress exerts oversight of U.S. trade policy development through public hearings and passage of trade laws that include detailed negotiating objectives, and Congress must consider and approve each major trade agreement.

Unfortunately, many states choose not to fully engage in the trade policy development process and then find themselves surprised at policy outcomes. Other states, however, have recognized the significant employment and revenue opportunities that come from international trade and participate fully; some have even gone as far as establishing a state trade representative's office in Washington to monitor and help shape those policies and to promote their state's export and investment priorities. Knowing that congressional reaction to a trade policy proposal is often informed by the views of the state and private sector representatives, USTR and the other federal trade agencies are sensitive to the input of state government, industry, agriculture, and labor representatives.

Action Item

Evaluate your state's current infrastructure for monitoring and providing input into federal trade policy development and promoting export and investment opportunities. Work closely with USTR and other federal trade agencies to ensure that the advisory committee mechanism is being effectively used. Some states may see a benefit in establishing a Washington-based trade representative to focus on these important goals.

Trade Agreements: Opening Markets and Expanding Growth

The United States has one of the most open economies in the world, with an average tariff rate of two percent and markets that are quite accessible to foreign traders. Unfortunately, the story across the globe is quite different, where U.S. exporters face high tariffs, major barriers to entry, and sometimes outright exclusion. The primary mechanism for leveling that playing field for Americans businesses, farmers, and workers is the negotiation of bilateral and multilateral trade agreements, which are a form of contract between governments that describe each party's commitments and then govern the continuing trade relationship.

FACT CHECK

MYTH:

The United States does not need free trade agreements and can avoid future trade negotiations without any fear of negative consequences.

FACT:

The U.S. is a party to only 10 ratified FTAs with 16 countries. While the U.S. often takes a leadership role in international trade negotiations, foreign governments are in the process of negotiating their own free trade agreements that exclude the United States. For example, China has begun negotiating trade agreements with several U.S. allies and trading partners that would exclude the United States.

America's trade with other countries has spurred U.S. growth, jobs, and prosperity. Since World War II, trade liberalization has increased annual incomes by \$9,000 per American household and more than 57 million American jobs are connected to international trade. America's global economic engagement is a key ingredient in U.S. economic strength because that engagement fosters innovation, competition and investment, and generates high-paying jobs. In the fourth quarter of 2006, for example, U.S. trade accounted for approximately 50 percent of U.S. GDP growth. A forward-looking trade agenda that seeks to open markets and expand trade is a vital component of continuing to advance this growth.

FACT CHECK

MYTH:

Trade agreements take away a government's sovereignty to regulate its internal affairs.

FACT:

Trade agreements are an exercise of sovereignty that are negotiated for the sole purpose of eliminating trade barriers and creating ground rules to manage a trade relationship in a beneficial and peaceful manner. In the absence of these agreements, the global marketplace would be dramatically more risky and unpredictable for businesses, consumers, and workers.

Some anti-trade groups have argued that trade agreements take away the sovereignty of governments to regulate their territory, but nothing could be further from the truth. Entering into international trade agreements is an exercise of sovereignty and helps expand trade and establish predictable and transparent rules in a country's trade relationships. For example, trade agreements often spell out the conditions under which one government can apply trade sanctions (*e.g.* market access restrictions or higher tariffs) against another government. Without a trade

agreement, there would simply be no rules to govern when trade sanctions could be applied, creating uncertainty in the global marketplace and endangering well-paying jobs tied to trade.

As importantly, trade agreements establish agreed upon parameters and timelines for the opening of markets to outside goods and services. As one of the largest producers of countless goods, services, and agricultural products, Americans have among the most to gain from the establishment of trade agreements. That serves as a key reason the United States Government has been one of the most vocal supporters of the Doha Round of WTO negotiations, a multilateral trade negotiation designed to lower tariff and non-tariff barriers to trade. While the U.S. has successfully opened 16 foreign markets through bilateral trade agreements, that success pales in comparison to the benefit Americans would accrue from a successful Doha Round. One estimate is that a one-third reduction in global trade barriers would equate to an average gain of \$2,500 for each American household of four, thus highlighting that businesses and families benefit from liberalized trade.¹⁰

ACTION ITEM

Communicate to your congressional delegation the importance of continuing trade negotiations, particularly at the WTO, so your state's businesses, farmers, and workers can benefit from the elimination of tariffs and the removal of non-tariff barriers to trade.

¹⁰ "Trade Negotiating Authority—A Vital Tool for Advancing U.S. Economic Growth, Leadership and Competitiveness." National Foreign Trade Council. (See Appendix 2.)

Trade Promotion Authority: Vital to America's Economic Success

The U.S. government has worked hard to lower barriers to trade in goods and services through bilateral and regional trade agreements, and multilateral negotiations as part of the Doha Round of WTO negotiations. Those efforts are in danger, however, as trade promotion authority ("TPA"), which is the primary authority under which the President (through USTR) negotiates trade agreements, expires on July 1, 2007.

FACT CHECK

MYTH:

Congress has ceded its power over international trade to the President.

FACT:

Congress provides the President authority to negotiate trade agreements, but requires regular consultation, imposes strict negotiating objectives, and must approve agreements.

While Franklin D. Roosevelt in 1933 was the first President authorized by Congress to enter into "foreign trade agreements" for the purpose of promoting the "foreign commerce," it was not until Congress passed the Trade Act of 1974 and then through subsequent legislation that every President since Gerald Ford has been granted authority to negotiate trade agreements and to submit those agreements for congressional consideration under expedited legislative procedures to assure a timely vote. In return, each President has agreed to consult Congress extensively and to abide by trade negotiating objectives (which include strong labor and environmental provisions) that serve as a roadmap for USTR in negotiating trade agreements.

Without TPA, it would be virtually impossible to enter into a meaningful trade negotiation with a foreign government. There would be no assurance that Congress would ever consider approving the agreement in a timely manner, and a strong possibility that a small minority in Congress or even an individual Member would block approval of an agreement over relatively minor issues. TPA ensures that the United States negotiates with one voice, prevents special interests from overriding the national economic interest, and helps to ensure the negotiation of trade agreements that are beneficial to the *entire* nation. In the absence of TPA, the United States could never negotiate trade agreements credibly with other countries.

As evidence, TPA expired in 1994 and was not renewed for eight years. During that period, no new trade agreements were concluded and virtually no progress was made in opening foreign markets to U.S. goods and services. After TPA was renewed in 2002, the United States was able to restart the Doha Round of WTO negotiations to reduce global tariffs and market access barriers among 150 member countries and put into effect trade agreements with 10 new countries. Moreover, U.S. negotiators continue working on several bilateral trade agreements. While some countries will wait for TPA to negotiate a trade agreement with the United States, others are negotiating bilateral or regional trade agreements that exclude the United States. For example, China has begun negotiating trade agreements with U.S. trading partners like Australia, India, Thailand, and the ASEAN countries,¹¹ while U.S. negotiators have been hampered by

¹¹ "Bilaterals.org: everything that's not happening at the WTO."
http://www.bilaterals.org/rubrique.php?id_rubrique=2. (Accessed on May 2, 2007)

uncertainty over the future of trade promotion authority. Today, there are about 300 free trade agreements in existence, in one form or another, most of which do not include the United States.

In January 2007, the President asked Congress to renew trade promotion authority. Without that authority, it is likely that Doha Round of WTO talks will be indefinitely suspended, and U.S. progress toward opening new markets through bilateral and multilateral trade agreements will end.

ACTION ITEM

Contact your state's congressional delegation and encourage them to support the urgent renewal of Trade Promotion Authority, allowing USTR to negotiate trade agreements that will open foreign markets to U.S. goods and services.

America's Workers: Improving Adjustment Assistance

The American economy is among the most dynamic and competitive economies in the world. Over the past decade, the U.S. economy has, on average, eliminated about 16 million jobs and created 17 million jobs each year,¹² reflecting a highly flexible job market that adapts to changes in technology, worker productivity, and consumer demand, among other things. Polling data collected over the past several years seem to reflect a concern among Americans that international trade is a major factor in overall U.S. employment levels.¹³ For instance, some who oppose international trade have attempted to draw a parallel between America's trade deficit (*i.e.* when an economy imports more than it exports) and unemployment.

FACT CHECK

MYTH:

Countries like the United States that import more than they export have higher unemployment levels.

FACT:

Economic studies indicate that international trade balances have no measurable effect on a country's overall employment levels. In fact, Germany exports significantly more than it imports, but has a nine percent unemployment rate, twice the U.S. unemployment rate.

In fact, research on the economic connection between international trade and overall employment has illustrated that no connection exists, a conclusion reinforced by the recent comments of the Federal Reserve Board Chairman, Ben Bernanke.¹⁴ For example, Germany exports far more than it imports, giving it a substantial trade surplus. Yet, that country still has a nine percent unemployment rate, far higher than the United States has experienced in the last two decades.¹⁵ However, that is not to say that international trade does not have an effect on the types of jobs available in an economy or how fast economic changes take place.

While the U.S. unemployment rate has been below five percent for most of the past decade,¹⁶ international trade has accelerated the pace of economic change in the United States, sometimes causing job dislocations. When those dislocations occur, particularly in communities with few employment alternatives, workers and their families suffer, and they lose confidence in the opportunity that international trade can offer.

That is why federal and state governments must work together to ensure that effective policies are in place to help dislocated workers adjust to rapidly changing economic conditions. International trade offers workers the chance to engage in more rewarding and more highly compensated work. However, many of the jobs created by international trade require new or

¹² Ben Bernanke. "Embracing the Challenge of Free Trade: Competing and Prospering in a Global Economy ." Federal Reserve Board. May 1, 2007

<http://www.federalreserve.gov/boarddocs/speeches/2007/20070501/default.htm> (Accessed on May 9, 2007)

¹³ "International Trade / Global Economy." PollingReport.Com. <http://www.pollingreport.com/trade.htm>. (Accessed on May 9, 2007)

¹⁴ Bernanke. "Embracing the Challenge of Free Trade: Competing and Prospering in a Global Economy ."

¹⁵ "Employment Status of The Civilian Noninstitutional Population, 1940 to date." Bureau of Labor Statistics, Department of Labor. <http://www.bls.gov/cps/cpsaat1.pdf>. (Accessed on May 9, 2007)

¹⁶ *Ibid*

updated skills. Together, federal and state governments can help smooth that transition through programs that provide training, temporary income, job search assistance, and continued health care benefits.

Some of these programs already exist through Trade Adjustment Assistance and initiatives designed to help trade-impacted firms, but many of them need to be reviewed and updated to reflect the challenges facing today's workers. Moreover, new ideas like the creation of a wage insurance program, which would provide workers additional flexibility in finding and taking new jobs, should be considered by state and federal leaders. Many of these programs are linked to the unemployment insurance program, and state leaders are often the best positioned to understand how best to design and deliver the services their working citizens need.

ACTION ITEM

State leaders should work with their congressional delegations and federal agencies to update existing adjustment assistance programs and develop new ones that will help workers transition to higher skilled and better paying jobs.

Trade in Services: Expanding Opportunity for Americans

The United States has one of the most advanced and efficient service sectors in the world, accounting for more than 80 percent of domestic employment and spanning virtually every industry.¹⁷ Despite dramatic technological advances in communications and the internet, which provide small and medium enterprises (“SMEs”) the opportunity to expand their markets beyond American borders, many countries have barriers to trade in services that effectively shut out American businesses.

One signal of the impact of these barriers on U.S. trading activities may be found in a comparison of U.S. domestic economic activity and U.S. trade activity. While only 28.6 percent of U.S. economic activity came from consumption of goods in 2006, trade in manufactured goods accounted for more than 70 percent of U.S. exports during the same period.¹⁸ That difference illustrates that the largest part of the U.S. economy, *i.e.* services, is largely locked out of global trade, partly because of market access barriers and high tariffs. Recognizing the potential value of opening new markets for American businesses and workers, and America’s competitive advantage in many service sectors, USTR has vigorously pursued liberalization of foreign markets through bilateral trade agreements and multilateral negotiations on trade in services. An important step in that effort was the negotiation of the General Agreement on Trade in Services (“GATS”) in 1995, which is now being supplemented by broader multilateral negotiations as part of the Doha Round of WTO negotiations.

Trade negotiations involving services are more complex than traditional goods-focused negotiations, because services can be delivered through four different means, known as “modes”:

- Cross-border supply (mode 1): The service is supplied from one country to another, such as a U.S.-based accountant preparing a London client’s tax return and sending it to the client in London.
- Consumption abroad (mode 2): The consumer physically travels to another country to receive the service, such as the London client visiting the office of the U.S.-based accountant for tax preparation assistance.
- Commercial presence (mode 3): A business establishes an office or subsidiary in a foreign country and supplies the foreign country services through that office, such as a London client receiving tax preparation assistance from the London office of the U.S.-owned accounting firm.
- Presence of natural persons (mode 4): A business employee travels temporarily to the consumer’s country to provide the service, such as a U.S.-based accountant visiting London for a week to meet with the foreign client to provide tax preparation assistance.

One can easily imagine how each of these scenarios implicates a broad range of domestic regulatory and legal issues that require flexibility in the rules governing trade in services. The United States has several primary goals in the services negotiations, including greater regulatory

¹⁷ “Employment Situation Summary.” Bureau of Labor Statistics, United States Department of Labor. 2007. <http://www.bls.gov/news.release/empsit.nr0.htm> (Accessed April 3, 2007)

¹⁸ *Ibid.*

transparency, the elimination of discriminatory domestic regulations on services meant solely to protect local service producers from competition, distinguishing regulations that are genuinely intended to safeguard the health and safety of residents, and creating rules flexible enough to accommodate advancing technology that allows for new, innovative trade in services such as internet distribution of online audio or video content.

FACT CHECK

MYTH:

Negotiations over trade in services will offer Americans only minimal benefits, while putting at risk service jobs in the United States performed by lower skilled workers.

FACT:

Much of the U.S. service sector—which includes leading-edge economic sectors like financial services, information technology, and telecommunications—is already liberalized, far more than other countries. With more than 93 million Americans working in service jobs, the vast majority of U.S. employment is tied to the service sector.

Some have argued that the United States will suffer from trade liberalization in the service sector, even though strong evidence exists that liberalization will improve efficiency in the economy, provide U.S. businesses and workers better opportunities to export the services they produce, lower costs for consumers because of increased competition, and offer an opportunity to gain greater balance in U.S. trading relationships. Moreover, liberalized services trade is expected to improve the efficiency of the manufacturing and agricultural sectors through more affordable and improved telecommunications, banking, insurance, and transport services.

It is important to understand that not all service jobs are “tradable,” even if the underlying service is. For example, a grocery store located in the United States may be owned by a foreign company (*i.e.* mode 3 services trade), but still must employ a local worker. Thus, that worker has a job regardless of who owns the store. Conversely, many professional services may be performed wherever skilled labor is available, such as two competing architects who reside in New York and London, respectively. The builder looking for architectural services, for example, would likely see little difference in the quality of the services based on geographic location alone. At least one economic study suggests that service workers in tradable jobs make on average 20 percent more than other service workers and are more highly educated, making them more flexible in adjusting to market conditions and more attractive to potential employers.¹⁹

FACT CHECK

MYTH:

The GATS takes away state sovereignty and results in weaker health and social regulations.

FACT:

The GATS leaves for each national government the decision to open a particular services sector and what limitations should be placed on market access. Beyond that, governments are left to regulate as they see fit, subject to basic “good governance” and non-discrimination standards. And, services supplied in the “exercise of governmental authority” are not covered by the agreement.

¹⁹ Jensen, Bradford J. and Kletzer, Lori G. “Tradable Services: Understanding the Scope and Impact of Services Outsourcing.” Peter G. Peterson Institute for International Economics. May 2006.
<http://www.iie.com/publications/papers/paper.cfm?ResearchID=638> (Accessed April 3, 2007)

Some anti-trade organizations state inaccurately that the GATS takes away a state’s right to regulate environmental, health and safety, and even land-use policy. Those assertions are completely inaccurate. Under Article VI of the GATS, also known as the “domestic regulation” provision, regulations can be applied to virtually any service as long as they are administered in a “reasonable, objective and impartial manner” – a standard of treatment that is no different than that already required generally under U.S. and state laws. Moreover, any service supplied in the exercise of governmental authority, such as public education or publicly provided health care, are completely exempt from the definition of “services” under the GATS.

FACT CHECK

MYTH:

The GATS would require state governments to open government provided services to foreign competition.

FACT:

The GATS specifically excludes government supplied services. Under Article I, Section 3(b) of the GATS: “Services” is defined as “any service in any sector except services supplied in the exercise of governmental authority[.]” The GATS does not force the privatization or deregulation of any service, including public water systems.

Americans have a great deal to gain from liberalized trade in services. With much of the U.S. service sector already liberalized, Americans stand to gain substantially from greater international trade in services. The highly-skilled and efficient labor pool of Americans working in the service sector provides the United States a significant comparative advantage in many service industries, particularly financial services, telecommunications, express delivery, education and training, and professional services (*e.g.* legal and accounting services), just to name a few.

Without a strong commitment from state leaders, business and labor representatives, and Members of Congress, the benefits American businesses would gain from liberalizing trade and opening new markets could be diminished or even lost.

ACTION ITEM

Consider establishing a state commission to evaluate: (1) the service, as well as manufacturing and agricultural, industries in your state that are best positioned to benefit from liberalized trade and where those industries face the greatest barriers to market entry, (2) what trade assistance programs could be developed by the state to help small and medium enterprises compete globally, (3) how the state, in conjunction with the private sector, can attract foreign direct investment and best promote the state’s exports, and (4) how public education programs, both K-12 and colleges, can be tailored to improve your state’s labor competitiveness in the global market.

Investment Rules: Protecting Americans

With more than \$10 trillion in foreign assets,²⁰ Americans, their pension funds, and their businesses are the largest foreign investors in the world and have much to be concerned about when it comes to the safety of their investments. Contrary to the belief of some, these foreign investments are not just held by the super rich or by big corporations, but also by state and corporate pension funds, 401(k) plans, and other retirement vehicles. For example, California's state pension fund ("CALPERS") is the largest in the country and has more than 23 percent of its \$250 billion in assets invested in foreign equities.²¹

FACT CHECK

MYTH:

Foreign direct investment ("FDI") is bad for Americans.

FACT:

FDI provides resources to Americans for expansion and economic growth, while creating millions of U.S. jobs. U.S. subsidiaries of foreign parents employ about 5.1 million Americans, who earn on average 32 percent more than those Americans working for U.S. based companies.

Foreign direct investment ("FDI") in the United States provides important benefits to American entrepreneurs, who use foreign investment to expand businesses, develop new products and services, and even collaborate with foreign investors through joint ventures. Moreover, subsidiaries of foreign companies are responsible for 21 percent of U.S. exports,²² much of which is sold from a U.S. subsidiary to its parent company.

FDI by U.S. companies and markets overseas bring significant economic benefits to Americans. Studies have shown that one dollar of additional foreign investment from U.S. companies is related to three dollars and fifty cents of additional domestic capital spending,²³ which demonstrates the beneficial and complementary relationship between inward and outward investment. With nearly 5.1 million jobs coming from U.S. subsidiaries of foreign companies that pay on average 32 percent more than jobs from U.S. companies,²⁴ the benefits of FDI are not limited to businesses. In either the example of an American investing abroad or a foreigner investing in the United States, investors want some assurance that their investments are protected.

²⁰ "Survey of Current Business: International Investment Position of the United States at Year End, 2004 and 2005." Bureau of Economic Analysis, U.S. Department of Commerce. March 2007.

https://www.bea.gov/scb/pdf/2005/03March/D-Pages/0307Dpg_G.pdf (Accessed April 3, 2007)

²¹ "Facts at a Glance." California Public Employees' Retirement System. February 28, 2007.

<http://www.calpers.ca.gov/eip-docs/about/facts/investme.pdf> (Accessed April 3, 2007)

²² "Fact Sheet: Open Investment." U.S. Treasury.

<http://ofii.org/insourcing/Open%20Investment%20Fact%20Sheet.pdf>. (Access May 1, 2007)

²³ "Economic report of the President." Council of Economic Advisers, White House. February 2007.

http://www.whitehouse.gov/cea/2007_erp.pdf. (Accessed May 8, 2007)

²⁴ "Insourcing Statistics: The Fact about Insourcing." Organization for Foreign Investment.

<http://www.ofii.org/insourcing-stats.htm> (Accessed May 2, 2007).

Recognizing that the actions of foreign leaders could have a dramatic impact on the economic well-being of Americans, particularly in some developing countries where impartial judicial systems are unavailable and corruption is prominent, the United States began to pursue common rules for foreign investment that would provide some guarantee to investors that foreign assets would be safe from illegal expropriation or other arbitrary and discriminatory government activities. These rules are codified in U.S. trade agreements, including NAFTA, and in more than 2,300 bilateral investment treaties (“BITs”) and other investment agreements around the world.²⁵ By comparison, the United States is only a party to 47 BITs and trade agreements with investment chapters, meaning that U.S. investments abroad may not have adequate protection in well over 100 countries.

While rules differ between agreements, they generally provide for what is commonly called “investor-state” arbitration, which allows individual investors to pursue their claims against a government before a neutral arbitrator. The benefit of allowing investors to directly challenge a foreign government’s action, as opposed to dispute settlement systems, like the WTO that only permits government-to-government challenges, is that investors can pursue cases (at their own expense) that a government might be unwilling to bring for political or diplomatic reasons or because it thinks the case is too small.

FACT CHECK

MYTH:

Investment rules, like NAFTA’s investor-state provision, create special rights for foreign investors that are not available to U.S. citizens.

FACT:

The investor-state provisions of NAFTA and similar agreements simply require that a government treat a foreign investor like its own domestic investors and compensate that investor for the “fair market value” of the investment if it is taken away without fair compensation. Such protections are already enshrined in U.S. law, and Congress has instructed U.S. negotiators to ensure that treaties promise no greater rights to foreign investors than those already found in U.S. law.

Some anti-trade groups have alleged that investor-state provisions provide foreign investors more rights in the United States than American investors have. That is simply not true. Investment rules provide predictability for investors in foreign markets and provide some assurance that if a government takes an action that unfairly reduces or eliminates the value of their investment, they have some impartial mechanism available to redress their grievances. U.S. investors have the same ability in U.S. courts to challenge unfair compensation by a government entity for illegal condemnation of property, for example.

Even with the investor-state provisions found in U.S. trade agreements and the more than 2,300 BITs and other investment agreements in force around the world, only around 220 investor-state cases had been filed by November of 2005.²⁶ In fact, under the NAFTA investor-state provisions, which draw particular criticism from some anti-trade groups, only eight cases

²⁵ Yannaca-Small, Katia. “Improving the System of Investor-State Dispute Settlement: An Overview.” Investment Division, Directorate for Financial and Enterprise Affairs, Organisation for Economic Co-operation and Development. February 2006. <http://www.oecd.org/dataoecd/3/59/36052284.pdf> (Accessed April 3, 2007)

²⁶ “Latest Developments in Investor-State Dispute Settlement.” United Nations Conference on Trade and Development. 2005. http://www.unctad.org/en/docs/webiteit20052_en.pdf (Accessed April 3, 2007)

(including consolidated cases) have been filed against the United States since the agreement went into effect in 1994.²⁷ Of those cases, five are ongoing, two were dismissed, and one additional case was dismissed with an award ordering the investor to pay \$4 million in legal fees to the United States.

Events in other countries, such as the recent actions of Venezuelan leader Hugo Chavez to nationalize oil and communications companies, where U.S. companies are not protected by an investment treaty, make clear that it is critically important to protect U.S. investors operating abroad.²⁸ Emphasizing these concerns, a coalition of business organizations, including the NFTC, wrote to the U.S. Trade Representative in late 2006 expressing serious concern that existing investment rules do not provide enough protection for the foreign investments of U.S. financial institutions.²⁹ American and foreign investors are increasingly making investment choices based on whether a country is party to a BIT, illustrating the important role these agreements play in investment decisions.

ACTION ITEM

Ensure that U.S. trade negotiators understand the importance to states of having strong investment protection in all U.S. trade agreements, and evaluate whether your state pension fund's foreign investments are protected by U.S. trade agreements or BITs.

²⁷ "International Claims and Investment Disputes (L/CID)." Office of the Legal Advisor, U.S. Department of State. <http://www.state.gov/s/l/c3741.htm> (Accessed April 3, 2007)

²⁸ Gallegos, Raul. "Chavez Ally Says Leader is Committed to Socialism." Wall Street Journal. March 2, 2007. <http://online.wsj.com/article/SB117286576793825123-search.html?KEYWORDS=nationalize&COLLECTION=wsjie/6month> (Accessed April 3, 2007)

²⁹ "Letter to Ambassador Susan C. Schwab." American Council of Life Insurers, American Insurance Association, Coalition of Service Industries, Council of Insurance Agents and Brokers, Emergency Committee for American Trade, Financial Services Forum, Financial Services Roundtable, National Foreign Trade Council, Securities Industry Association, U.S. Chamber of Commerce, U.S. Council for International Business. September 29, 2006. http://www.uscsi.org/publications/papers/Investor_State_Schwab.DOC (Accessed April 3, 2007)

Procurement Rules: Battling Corruption and Building Opportunity

Government procurement activities throughout the world are thought to account, on average, for about 10 to 15 percent of a country's gross domestic product.³⁰ Prior to the implementation of NAFTA, most trade agreements excluded government procurement activities, meaning that roughly \$4.5 trillion to \$7 trillion dollars in annual government expenditures (in 2005 terms) was left untouched by trade agreements.

Realizing the tremendous opportunities that a government procurement agreement would bring to American businesses, particularly small and medium businesses that are disadvantaged by non-transparent and corrupt procurement regimes, the United States embarked on an effort to include government procurement chapters in U.S. FTAs and to negotiate a WTO Agreement on Government Procurement ("Government Procurement Agreement" or "GPA") that would provide American companies global access to foreign government procurement. With an initial agreement concluded in 1979 and an expansion approved by the U.S. Congress in 1994, the current GPA took force in the United States on January 1, 1996. (The 1994 NAFTA contains similar provisions, but excludes state and local procurement and only applies to Canada.)

Governments voluntarily sign on to the GPA and are only obligated to provide preferences to those countries that are also party to the agreement. Moreover, the parties select the specific economic sectors to which the GPA applies. At present, 37 countries are parties to the GPA, with another nine countries negotiating accession.³¹ The GPA also presented an opportunity for national governments to sign on their state and local governments, with 37 U.S. states ultimately agreeing to be included in the agreement.³²

Under the GPA, participating governments must provide foreign firms, for the covered economic sectors, the same opportunity that domestic firms have to compete for government procurement dollars. Additionally, the agreement assures greater transparency and fairness through requirements like confidentiality in bidding and fair selection procedures for domestic and foreign suppliers.

FACT CHECK

MYTH:

The GPA is bad for states and localities, because it provides access to foreign firms.

FACT:

State and local communities benefit from improved competition for procurement dollars, particularly in the case of local monopolies that seek government procurement contracts, and the opportunity for more U.S. businesses, particularly SMEs, to compete for foreign contracts.

³⁰ "Government Procurement: The Plurilateral Agreement. Overview of the Agreement on Government Procurement." World Trade Organization. http://www.wto.org/english/tratop_e/gproc_e/over_e.htm (Accessed April 3, 2007)

³¹ "Government Procurement: The Plurilateral Agreement. Committee on Government Procurement." World Trade Organization. http://www.wto.org/english/tratop_e/gproc_e/memobs_e.htm (Accessed April 3, 2007)

³² An affirmative written indication of a state's desire to participate was required by USTR, with 37 Governors indicating that they approved inclusion of their state in the agreement.

Some protectionist groups have charged that the GPA somehow lessens a state's sovereignty over its procurement activities. To the contrary, the 37 states that are a party to the agreement chose to be a part of it and are benefiting from increased competition for state and local procurement dollars and new opportunities for local businesses to pursue the procurement dollars of foreign governments. The GPA also helps U.S. businesses, particularly small and medium size enterprises, that are often disadvantaged in seeking foreign procurement contracts because of confusing and nontransparent procurement procedures. Yet, the GPA seeks to make the process more manageable for smaller businesses and provides new opportunities for American companies and workers by opening major government procurement markets, combating corruption, and leveling the playing field.

Action Item

Encourage service businesses in your state to take advantage of the GPA by pursuing government procurement contracts from the 37 countries party to the agreement and encourage USTR to actively encourage other countries to join the agreement. The list of countries includes:

Aruba	Korea
Austria	Latvia
Belgium	Liechtenstein
Canada	Lithuania
Cyprus	Luxemburg
Czech Republic	Malta
Denmark	Netherlands
Estonia	Norway
Finland	Poland
France	Portugal
Germany	Singapore
Greece	Slovak Republic
Hong Kong China	Slovenia
Hungary	Spain
Iceland	Sweden
Ireland	Switzerland
Israel	United Kingdom
Italy	United States
Japan	

Getting Involved in U.S. Trade Policy: A State Action Plan

The Constitution gives Congress the power to regulate international trade, but that does not exclude states from playing a more active role in the formation of U.S. trade policy, particularly if they are to benefit from the opportunities presented by opening new markets. Whether or not the United States continues to expand into other markets, foreign countries are establishing trade agreements with each other and maximizing the efficiency of their economies while growing their export markets. American companies deserve the same opportunities.

As the most adaptive and advanced economy in the world, the United States has a natural advantage in competing globally by opening new markets to American businesses and ensuring that American workers are prepared for the opportunities that await. Throughout this guide are suggested action items that states might take to increase their involvement in U.S. trade policy development and their preparation for the modern economy.

- Evaluate your state's current infrastructure for monitoring and providing input into federal trade policy development and promoting exports and investment opportunities. Work closely with USTR and other federal trade agencies to ensure that the advisory committee mechanism is being effectively used. Some states may benefit from establishing a Washington-based trade representative to focus on these important goals.
- Communicate to your congressional delegation the importance of continuing trade negotiations, particularly at the WTO, so your state's businesses, farmers, and workers can benefit from the elimination of tariffs and the removal of non-tariff barriers to trade.
- Contact your state's congressional delegation and encourage them to support renewal of Trade Promotion Authority, allowing USTR to negotiate trade agreements that will open foreign markets to U.S. goods and services.
- State leaders should work with their congressional delegations and federal agencies to update existing adjustment assistance programs and to develop new ones that will help workers transition to higher skilled and better paying jobs.
- Consider establishing a state commission to evaluate: (1) the service, as well as manufacturing and agricultural, industries in your state that are best positioned to benefit from liberalized trade and where those industries face the greatest barriers to market entry, (2) what trade assistance programs could be developed by the state to help small and medium enterprises compete globally, (3) how the state, in conjunction with the private sector, can attract foreign direct investment and best promote the state's exports, and (4) how public education programs, both K-12 and colleges, can be tailored to improve your state's labor competitiveness in the global market.
- Ensure that U.S. trade negotiators understand the importance to states of having strong investment protection in all U.S. trade agreements, and evaluate whether your state pension fund's foreign investments are protected by U.S. trade agreements or BITs.

- Encourage service businesses in your state to take advantage of the GPA by pursuing government procurement contracts from the 37 countries party to the agreement and encourage USTR to actively encourage other countries to join the agreement.

With more than 90 years of experience in international trade policy, the National Foreign Trade Council stands ready to advise state leaders on policies that will maximize the opportunity for their constituents to benefit from international trade and investment.

Appendix 1: State Revenue and Jobs from Exports

State	Revenue from Exports (billions)	Export Related Jobs	Exports as Percentage of Economy
Alabama	\$10.8	78,000	7.2
Alaska	\$3.6	4,100	9.0
Arizona	\$14.9	125,900	6.9
Arkansas	\$3.9	47,000	4.4
California	\$117	730,000	7.2
Colorado	\$6.8	61,600	3.1
Connecticut	\$9.7	83,900	5.0
Delaware	\$2.5	9,100	4.6
Florida	\$33.4	124,900	5.0
Georgia	\$20.6	147,000	5.6
Hawaii	\$1.0	3,800	2.0
Idaho	\$3.3	25,200	6.9
Illinois	\$35.9	250,000	6.4
Indiana	\$21.5	167,000	9.0
Iowa	\$7.3	79,700	6.4
Kansas	\$6.7	68,400	6.4
Kentucky	\$14.9	90,000	10.6
Louisiana	\$19.2	69,000	11.6
Maine	\$2.3	17,700	5.1
Maryland	\$7.1	40,200	2.9
Massachusetts	\$22	147,100	6.7
Michigan	\$37.6	221,900	9.9
Minnesota	\$14.7	121,200	6.3
Mississippi	\$4.0	36,400	5.0
Missouri	\$10.5	87,700	4.8

State	Revenue from Exports (billions)	Export Related Jobs	Exports as Percentage of Economy
Montana	\$0.71	5,100	2.4
Nebraska	\$3.0	55,300	4.3
Nevada	\$3.9	12,100	3.6
New Hampshire	\$2.5	26,000	4.6
New Jersey	\$21.1	113,500	4.9
New Mexico	\$2.5	23,900	3.7
New York	\$50.5	186,900	5.2
North Carolina	\$19.5	170,600	5.6
North Dakota	\$1.2	11,000	4.9
Ohio	\$34.8	312,000	7.9
Oklahoma	\$4.3	53,100	3.6
Oregon	\$12.4	65,500	8.5
Pennsylvania	\$22.3	205,000	4.6
Rhode Island	\$1.3	16,700	2.9
South Carolina	\$13.9	118,000	10.0
South Dakota	\$0.94	9,100	3.0
Tennessee	\$19.1	137,400	8.4
Texas	\$128.8	455,000	13.1
Utah	\$6.1	56,000	6.7
Vermont	\$4.2	17,400	18.3
Virginia	\$12.2	88,100	3.5
Washington	\$37.9	217,000	14.1
West Virginia	\$3.1	20,900	5.9
Wisconsin	\$14.9	137,400	6.9
Wyoming	\$0.67	3,600	2.4

Source: "Impact of Trade." Trade Roots, U.S. Chamber of Commerce. 2006.
<http://www.traderoots.org/FOT/impactoftrade.pdf> (Accessed April 3, 2007)

Appendix 2: Facts on the Benefits of Trade Promotion Authority

Trade Negotiating Authority—A Vital Tool for Advancing U.S. Economic Growth, Leadership and Competitiveness

- **Renewing Trade Promotion Authority (TPA) is vital to U.S. economic leadership and growth, centered on a forward-looking trade agenda that eliminates tariff and non-tariff barriers to U.S. goods, services and agriculture.** TPA is based on a partnership between the Congress and Executive Branch in support of trade negotiations to open markets and to establish transparent and mutually beneficial rules to govern trade. This, in turn, generates economic growth and opportunity for Americans through trade expansion and improved trading rules.
- **Presidents have had some form of special trade negotiating authority since 1934 when the Congress provided President Roosevelt authority to negotiate reciprocal trade agreements to lower tariffs.** The 1934 Reciprocal Trade Agreements Act reversed the harmful consequences of the Smoot-Hawley Tariff Act, which dramatically increased U.S. tariffs on imports and helped deepen a global economic depression through beggar-thy-neighbor policies of spiraling trade protection. The more recent form of TPA - which also addresses non-tariff barriers - first took shape in the landmark Trade Act of 1974.
- **Trade negotiating authority, based on extensive congressional consultation and input into the U.S. trade negotiating process, is essential to concluding major trade agreements for two overriding reasons.** First, it allows the United States to negotiate in good faith and with one voice on behalf of the U.S. national economic interest, thus ensuring that what is actually negotiated is voted on by Congress. Second, countries will not agree to eliminate politically sensitive trade barriers without a process that prevents special interests from unraveling beneficial trade agreements and overriding the broader national economic interest.

Timely TPA Renewal – Critical to Concluding the Doha Round and Assuring the United States is not Sidelined on Trade

- **Launched in 2001, the Doha Round of multilateral trade negotiations under the World Trade Organization (WTO) has the potential to be a powerful stimulus to economic growth and development worldwide.** For the United States, an ambitious market access outcome to the Doha Round would open major emerging markets to U.S. goods, services and agriculture, including Brazil, India, and many other markets with which the U.S. does not have free trade agreements. The Doha Round also will improve transparency and trade rules in important areas such as trade facilitation.
- **The WTO and its predecessor the GATT are the foundation of the global trading system.** First created after the Second World War, the GATT/WTO was designed to prevent mercantilist, beggar-thy-neighbor trade policies which led to economic isolationism and protectionism in the lead up to World War II. The WTO is based on pillars of openness, non-discrimination, transparency and peaceful dispute settlement. It also provides a forum among its

150 members for negotiating the removal of trade barriers. Importantly, it has established a trading system based on the rule of law, not the rule of the jungle.

- **An ambitious conclusion to the Doha Round is in the vital economic interest of the United States.** According to some estimates, even a one-third cut in global trade barriers to goods and services could provide an annual real income gain of \$2,500 for a family of four. A successful Doha Round is also a moral imperative for the United States because it will help lift millions out of poverty and further the economic development of poorer countries, which are core objectives of the Doha Round.
- **Countries are not waiting for the United States to negotiate trade agreements.** There are some 300 preferential trade agreements in existence in one form or another today. The majority of these agreements exclude the United States to the disadvantage of U.S. workers, firms and farmers.
- **The U.S. has seen impressive trade growth with FTA countries.** Under recently concluded 10 FTAs with 15 countries, U.S. exports have grown twice as fast as U.S. exports with the rest of the world. Approving pending FTAs with Peru, Colombia, Panama and Korea and concluding new FTAs with other countries is a cornerstone of a forward-looking trade strategy focused on eliminating barriers to trade and creating win-win trade expansion.

Open and Rules-Based Trade and Investment -- Essential Components of U.S. Economic Growth and Competitiveness

- **The United States is the world's largest trader and 24 percent of U.S. GDP is tied to U.S. trade with other countries.** With over 95 percent of the world's population outside the United States, expanding trade and investment is a core component of U.S. economic and jobs growth today and in the future. More than 57 million American jobs are tied to international trade. Some 400,000 U.S. farm-related jobs are supported by U.S. agriculture exports. Engaging with fast-growing emerging markets overseas will be critical to future U.S. economic growth.
- **U.S. global economic engagement is a key ingredient of U.S. economic strength and competitiveness because it fosters innovation, competition and investment, and generates high-paying jobs.** Globally-engaged firms pay their employees about 20 percent more on average. In manufactured goods alone, the U.S. exported \$891 billion in 2006. Services exports in 2006 totaled \$414 billion. In agriculture, one of every three acres is planted for export and the U.S. is the largest agricultural exporter with a 9.7 percent share of world exports in 2005. Eliminating barriers to trade will expand these exports and the jobs associated with them.
- **Trade is win-win, not zero-sum.** Strengthening economic ties with the rest of the world helps alleviate poverty and builds a more peaceful and stable world. Both imports and exports are positive for a nation's economy. Imports ensure Americans have the best product at the best price, particularly for working families. Imports also serve as key inputs into final products manufactured in the United States. It is important to keep in mind that our exports to another country are that country's imports. Both are mutually beneficial.

The United States must have effective policies to help workers adjust to changing economic competition, among other important policies related to U.S. competitiveness.

- Trade is often the scapegoat for worker dislocation that has been caused by the rapid pace of technological change globally. We cannot turn the clock back on technology or global integration, and neither would we want to because it has enhanced millions of lives. Whether it is technology, trade or other reasons, workers dislocated from their jobs due to economic change deserve effective training and worker readjustment programs under an improved Trade Adjustment Assistance program or broader U.S. worker retraining programs.
- To ensure the United States remains competitive globally, it is vital that Americans have the best education possible and are fully prepared to compete in the 21st century in leading-edge and innovative industries. Also critical to U.S. global competitiveness include policies relating to intellectual property rights, taxes, export financing, visas and export controls.

About the National Foreign Trade Council

The National Foreign Trade Council advocates an open, rules-based world economy. Founded in 1914 by a group of American companies that supported an open world trading system, the NFTC now serves nearly 300 member companies through its offices in Washington and New York. The NFTC represents its member companies on trade and investment, export finance, economic sanctions and international tax policies that affect the competitiveness of U.S. companies overseas. It supports open markets, opposes unilateral sanction restrictions on trade, and assures U.S. business access to needed risk insurance and export and project finance.