



National Foreign Trade Council Policy Brief
Trade, Taxes and Competitiveness: Strategies for a New Era
December 12, 2016

Introduction and Overview

The National Foreign Trade Council (NFTC) is dedicated to making America more competitive in the global economy by ensuring the adoption of forward-looking tax and trade policies, by strengthening global rules and by opening foreign markets to United States (U.S.) products and services. Our strong support for these objectives, and our belief that their fulfillment is essential to our members' success in a globalized economy, have been unwavering for decades. We therefore believe it is critical to provide policymakers in a new Administration and Congress with our clear and unambiguous views about the role trade and tax policies play in unleashing a new era of U.S. competitiveness.

NFTC represents more than 200 companies and our membership spans the breadth of our national economy. It includes sectors such as energy products, capital goods, transportation, consumer goods, technology, healthcare products, services, e-commerce and retailing. Our companies account for more than \$3 trillion in total sales worldwide, employ over five million Americans and produce a huge share of our nation's total exports. Our stake in ensuring a healthy national economy and promoting our global leadership is enormous.

Our members understand the realities of today's world: That it is essential to be competitive on a global scale; that 95 percent of the world's consumers live outside our borders; and that we need national policies to advance our competitive interests, because only an economically vibrant America, with a favorable investment climate, a skilled and educated workforce and a growing middle class, can be successful in a competitive world. Global companies also understand why maintaining global stability and reciprocal relations with our trading partners is vital to our own economic security.

It is difficult to overstate the importance of global markets in assuring America's economic future. America is a great trading nation. Contentions that "we are only a nation of importers" and that "we don't produce anything anymore" are simply untrue: U.S. companies exported over \$2 trillion worth of goods and services in 2015. Our exports cover a vast range of sectors: basic commodities, capital equipment, consumer goods, agricultural products, technology equipment, pharmaceuticals and virtually every type of service imaginable. Our exporters include not only large companies, but a huge and rapidly increasing number of small and medium-sized enterprises, now better able to trade because of the digital economy and faster, cheaper means of delivering their goods. American companies are connected to the world through vast global supply chains, which are essential to American production, employment and competitiveness. One in five American jobs is directly dependent on trade. One in three acres of American agriculture is grown for export.

As critical as exports are to our economic success, it is also important to maintain an open domestic market. Competitively-priced imports benefit American consumers by reducing costs of many products and ensuring adequate competition. They are also essential to assuring our success as an exporter, because we need large quantities of intermediate goods from around the world to support value-added production in the U.S. Without robust two-way trade, where we accept fairly traded goods from around the world in exchange for more open markets abroad, we cannot increase our volume of exports, nor expand the most competitive sectors of our own economy.

We also need a competitive tax structure, with lower corporate rates and a territorial-style system akin to those of our major competitors. This fundamental shift in our tax structure is an essential complement to any successful trade policy, because we cannot have robust investment, thereby supporting greater exports, unless our tax structure is competitive.

Because American entrepreneurship and technological skills enable us to compete globally, the progressive dismantling of foreign trade barriers and the strengthening of an open, rules-based trade system -- all accomplished in the past 60 years -- have been good for the U.S. overall. However, while our market has been open for many decades, many other countries, especially those with whom we have negotiated trade agreements in the past 20 years, have only recently become more open. Our success in lowering tariffs and non-tariff barriers around the world has benefitted huge sectors of our economy, spurred tremendous growth in jobs and investment and vastly expanded our export opportunities. And U.S. leadership has been instrumental in fostering a belief in our economic values and principles -- free markets, non-discriminatory treatment and transparent and accountable institutions -- in a growing majority of nations around the world.

It has become increasingly clear, however, that not all Americans have shared in the country's economic progress. While trade overall has been beneficial to our economy, and while polling data indicates that most American voters still see trade as a positive force, too many communities and individuals in regions or sectors impacted by the combined forces of technological change and globalization have been left behind. Our national policies in a whole range of areas -- from taxation to education and training to infrastructure -- have not addressed the adjustment challenge. It is vital that governmental policies and private sector efforts address these effects and ensure broader sharing of the gains from globalization.

Finally, we must remember that trade policy forms part of our national security policy, and our leadership in ensuring rules-based cooperation in world trade is vital to our national security interests. The establishment of predictable, secure rules for world trade has helped to create many stable, prosperous and democratic societies around the world. The adherence by these countries to the rule of law and respect for their international commitments furthers our own interests. Our greatest national security threats today are in regions of the world that have not developed their economic systems with sufficient adherence to these principles.

Towards a New Competitive Economy: A Strategy for Growth and Renewal

The new Administration and Congress face a watershed moment in the evolution of our economy. The policy challenges are daunting, but they cannot be overcome without accepting that the international economy and the national economy are inextricably linked, and that no set of policies can ever succeed in delivering prosperity or security to the American people without addressing this reality. To this end, NFTC and its members support a national economic strategy that leverages America's great strengths – our innovation and entrepreneurship, our belief in the rule of law and our deep-seated confidence in market economics. Its goals should be simple and straightforward: To promote higher economic growth rates and job creation, to substantially improve our competitive position globally and to enhance the attractiveness of the U.S. as a place to invest, produce and work. Operating within our existing, robust framework of U.S. trade laws and international norms we should advance these goals with a dynamic set of new policies and actions. This should contain, at a minimum, the following core elements:

- An outward-looking and dynamic trade policy that maintains a commitment to open markets, appropriately addresses unfair trade and economic policies and creates better, more transparent rules for global competition;
- Tax policies that will significantly strengthen our global competitiveness, spur investment across broad sectors of our economy and benefit working Americans;
- A strategy to better position our workforce to take advantage of new economic opportunities, one that effectively enables workers to close the skills gap in manufacturing and value-added services industries and that supports labor mobility; and
- A national infrastructure program that is aligned at the federal, state and local level, that ensures more public-private cooperation and that enhances both our quality of life and our global competitiveness.

In order to translate these goals into concrete policies, the new Administration should consider the following guidelines:

Trade Policy: Trade policy should be structured to maintain and expand U.S. leadership in creating a more open and rules-based global economy through the use of a muscular but strategic negotiating and enforcement effort. It should be aimed at addressing unfair trade while strengthening global norms that reflect our principles of open markets and non-discriminatory treatment. We also need to keep in mind that, with 95 percent of the world's consumers outside our borders, it is vital for us to be part of the growing network of preferential trading arrangements in the world's fastest growing markets, so that our exporters don't end up at a competitive disadvantage.

This means we need both regional and multilateral engagement in building stronger trade rules, disciplining unfair practices and protecting the investments our companies have made in innovation and technology. We strongly support efforts such as the Trans-Pacific Partnership agreement because it advances the critical task of building forward-looking global rules that would ensure openness in the areas vital to our economic future – the digital economy and technology—as well as in more traditional sectors where we have a significant comparative advantage, such as agriculture, value-added services and high-end manufacturing. It would create new disciplines on state-owned enterprises,

strengthen protection of intellectual property and commit other countries to better labor and environmental policies that make competition more fair.

We should build on progress made through trade agreements, as well as the value achieved from the international system of rules and institutions, to reduce global tariffs and expand trade disciplines. We should examine the specific gains made under existing trade agreements, such as the World Trade Organization, North America Free Trade Agreement and other bilateral deals, and consider those agreements as platforms on which to build new disciplines to meet the needs of 21st-Century international competition. We support vigorous enforcement of such agreements, recognizing that all parties, including the U.S., must make a continuing commitment to live by their disciplines.

Equally important, we cannot afford to cede leadership over the drafting of norms and rules to other great economic powers that do not yet understand or embody the democratic, open-market ideals to which we aspire. The *Bipartisan Congressional Trade Priorities and Accountability Act of 2015 (TPA 2015)* provides a road-map of objectives, including with respect to digital trade, state-owned enterprises, currency manipulation and localization policies, which should guide the selection of future negotiating opportunities. Embracing a robust role in the international engagement on trade and investment will solidify U.S. leadership and prevent countries who do not share our economic and national security interests from acting against our interests.

Tax Policy: In the area of tax policy, we must work to create a more globally competitive tax system in the U.S. that will act as a positive incentive for companies to produce, invest and build employment at home. As stated earlier, 95 percent of the world's consumers reside outside our borders. A U.S. system for taxation of global operations of worldwide American companies that is consistent with international norms is critical to maintain and improve the competitiveness of the U.S. economy. To do this we need a corporate tax structure that is competitive, and that offers the necessary incentives to both big and small corporations to produce and export from the U.S. Further, tax policy should avoid taxing American producers at higher rates than our competitors based on a concept of global taxation that is out of step with our competitors.

The economy is best served when companies, wherever headquartered, compete on a level playing field in every geographic location. The U.S. needs to have a tax system where U.S. domestic-only companies, worldwide American companies and companies headquartered outside the U.S. compete in the U.S. under the same tax rules and the same tax rate. Economic and job growth in the U.S. is contingent upon a strong and competitive tax code that encourages American companies to reinvest at home, encourages more foreign direct investment into the U.S. and allows world-wide American businesses to compete in the global marketplace.

Strengthening the U.S. tax system will not only encourage more investment into the U.S., but it will also work to stem the backlash against U.S. companies operating globally. When U.S. companies are able to repatriate offshore income for reinvestment in the U.S., other governments will not be able to have a claim on that income. By remaining an active participant in global tax discussions, the U.S. will be able to encourage more open and transparent international tax rules, based on a rule of law that will bring clarity and certainty to worldwide American companies, and enhance their ability to remain competitive.

Workforce Development: As technology and productivity growth make American companies more efficient, fewer workers are needed to produce the same quantity of goods and services. It is therefore essential to expand our markets and gain the greater economies of scale that world markets offer if we want to generate enough good, high paying jobs for all Americans.

But this strategy will only succeed if we have the best trained workers in the world, so that our workers can compete effectively with technologically skilled workforces abroad. To achieve this, government and the private sector need to cooperate more fully in creating comprehensive and coordinated programs that, taken together, promote workforce mobility, adaptability to changing skill needs and occupational opportunities.

Most manufacturing and service sector companies have been transformed by the knowledge-based, digital revolution during the past two decades. The pace of change in the production of goods and services has accelerated as market-based global supply chains have been put in place across sectors. We need to respond to these daunting changes by creating widely-accessible, skills-based training systems grounded in the needs of our communities and workplaces.

Without functioning, adequately-scaled skills-based programs, we will have neither the workers to fill our real needs nor the means to address those displaced by disruptive change. Our human capital problem is the gap between the skills of employable individuals and the skills required in our technology-driven manufacturing and services sectors. A collective national effort is needed to change this unfortunate reality. Our competitors realize this --- Germany, for example, spends seven times as much as we do on government training and apprenticeship programs. American business is ready to help close that gap.

Infrastructure Development: To accompany these better trade, tax and workforce development programs, NFTC strongly supports a smart infrastructure program for the nation that will make us more competitive internationally, improve our living standards and produce real, long-term economic benefits for all segments of society.

Critical aspects of our nation's infrastructure support trade. Significant investment in our seaports, airports, roads, railway, energy and digital infrastructure will enable companies to move products via more efficient and modernized means. Their ability to use best practices in logistics and to manage supply chains will also be enhanced. The potential gains in U.S. competitiveness and economic efficiency are well worth the investment.

In addressing this need, we should aim for programs that will bring about more significant cooperation between federal, state and local governments, and that will harness the potential of private-public partnerships. Rebuilding and enhancing our infrastructure in a way that increases economic efficiency and enhances our quality of life will also have a positive effect in restoring American leadership of the global economy. If we want to be the world's leader in the new technological age, we need the best infrastructure.

Conclusion

NFTC stands ready to work with a new Administration and Congress on a positive agenda to achieve broadly-shared goals of a more globally competitive American economy. We want to see changes that are based on the needs, imperatives and realities of the future, and that recognize our need to coexist and compete with a rapidly-changing world. Only by working together on a bipartisan basis with both Congress and the Administration, and with an effective partnership between government, businesses and other stakeholders, can we forge a successful path forward. We will continue to work towards that goal. We look forward to engaging further with policymakers as they formulate a new set of policies to tackle these challenges.