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Trade Winds or Head Winds? U.S. Government Export Policy Revisited

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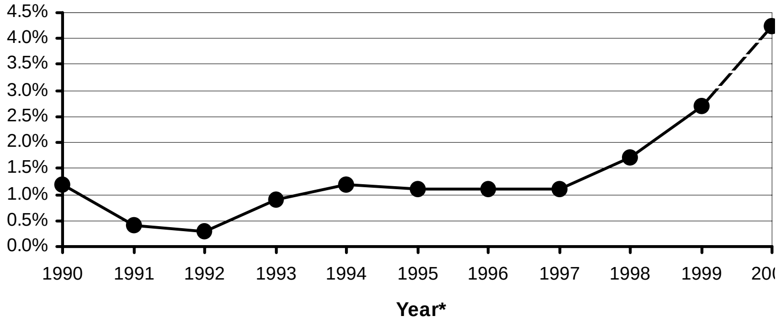
Introduction

The U.S. trade deficit continues to soar—imports exceeded exports in goods and services by $254 billion in 1999, representing about 2.7 percent of GDP, more than double the GDP rate of 1.1 percent just two years earlier. A further, dramatic increase is under way in 2000, with the deficit expected to reach some $425 billion, about 4 percent of GDP.

Figure 1

Trade Deficit as a Percent of GDP, 1990-2000 (Goods and Services)



* For the year 2000, the number is based on a six-month estimate.

Source: Joint Economic Committee, *Economic Indicators, July 2000* (Washington, D.C.: U.S. Government Printing Office, 2000), p. 1.

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In the short term, U.S. trade deficits can often be heavily influenced by the relative health of economies—strong ones like that of the U.S. buying more than do weak ones. Or spikes in the price of oil can be a major factor. In the first six months of 2000, the U.S. had a trade deficit of $51 billion in oil versus only $60 billion for all of 1999.[1] Of course, deficits can also have a positive side—drawing in lower-priced goods that help keep inflation down. But *sustained* trade deficits, at *increasing* percentages of GDP, can be a strong indicator of a lack of international competitiveness and can have significant consequences if left unchecked. Among them, two stand out:

- Foreign holders of U.S. "paper" might decide that such a massive scale of investment in the United States poses an undue economic risk. This could require the U.S. to raise interest rates substantially in order to continue to induce foreign credit to support the import-export imbalances.
- Political pressures can demand protectionist moves in response to the actual or perceived loss of jobs caused by rising imports. The consequences would be serious if we and our trading partners were to undo the trade liberalizations of recent years, which have had such a positive effect on world economies. A possible shift toward protectionism brings back memories of the infamous Smoot-Hawley tariff legislation. That law raised average U.S. tariffs on dutiable imports to 59 percent by 1933. Partly as a consequence of ensuing foreign retaliation, which further contracted demand for U.S. goods, the United States slid faster and deeper into the Great Depression.[2]

In order to examine if U.S. government policy could be modified to help increase exports, I conducted a survey among CEOs of the 100 leading U.S.-based international companies. I asked them: "When you consider U.S. regulatory, legislative, or executive government bodies:

1. What government actions, if any, have been very *helpful* in your export success?
2. What government actions, if any, have *hampered* your export capability?
3. What specific government actions, if any, would you like to see take place to help your export success?"

Thirty-two of the CEOs responded.

In the fall of 1997, I had asked the same three questions of CEOs of the 100 leading U.S.-based exporters at that time and published the results in a CEO Series essay titled: *Trade Winds or Head Winds? U.S. Government Export Policy*. Twelve of the respondents were the same companies in both years, and the industry profile was about the same except there were no energy company respondents in the 1997 survey and four were in the current survey.[3] In both years, most of the export sectors were represented and the CEO responses were related to their industry issues except for a few company-specific trade barriers. The 1997 respondents represented more than 10 percent of U.S. exports. Similar export numbers are not available for year 2000 respondents, but in reviewing the company profiles and similarities and the increase in number of respondents, it is likely to be at least as high as a percentage of total U.S. exports.

The comparison of comments—both similarities and differences, in just three years—is at once instructive and disturbing. If policy is what you *do*, not what you *say*, then on balance, explicit government policy has deteriorated—more head winds than tail winds. Correction will require a sustained and concerted effort.

Results

Positive Government Actions

- In 1997, export advocacy was, by far, the positive action taken by the U.S. government most applauded by CEOs—three-fourths of responding CEOs cited it. Then-Secretary of Commerce Ron Brown's personal efforts were especially and uniquely praised. Trade help from the USTR received good comments, as did the State Department embassies and trade missions, an effort launched in the 1980s and continued into the 1990s. In 1997, some cited direct help from the White House. By contrast, in the 2000 survey, only one-third cited U.S. government advocacy—and no other positive comment category rose to replace it.
- GATT, NAFTA, and other trade-opening actions were cited positively in 1997 by one-half of respondents and by 45 percent in 2000. Those citing it in both years were effusive in their praise.
- Ex-Im Bank, OPIC, and other financial trade support activities were the third most-cited in both years—roughly the same at a little more than one-fourth of respondents.

However, questions were raised in the current survey as to whether these programs are still competitive with similar ones of trade competitors—especially European countries. Only one other government action was cited positively in 2000 by more than one respondent. Three companies mentioned a perceived easing of government export controls on only moderately “security sensitive” products—but those three comments were more than offset by the one-third of all respondents who said much more needs to be done to reduce controls—especially on products readily available in international commerce. Likewise, a few commented that government had helped get trade barriers dropped by certain countries. But just as many cited market-opening activities by our government as inadequate.

Negative Government Actions

> *After three years of effort by a coalition of U.S. exporters, it seems incredible that government-imposed sanctions are still considered the top issue hurting exports.*

- In 1997, nearly two-thirds cited unilateral government sanctions as hurting trade. In 2000, roughly an equal number cited the same problem. After three years of major, concerted effort by a coalition of several hundred U.S. exporters, it seems incredible that government-imposed sanctions are still considered the top issue hurting exports.

  A summary of comments: Using trade restrictions largely to punish countries for social behavior we don’t like doesn’t accomplish the goal and simply lets other countries supply the needed products. There was recognition that Congress seems to be getting the message against sanctions—but the old sanctions still apply in most cases. In addition, Congress was cited by one company as adding a more subtle sanction: withholding Ex-Im support or blocking export approvals to certain countries deemed “security risks.”

- As mentioned above, the placing of export controls on commonly available products was the next most frequently cited action in both years—cited by one-fourth of respondents in 1997 and slightly more in 2000. Typical was the comment of a computer manufacturer: "...widely available U.S. commercial computers are subject to export restrictions...foreign manufacturers therefore enjoy a significant advantage in the international market."

- Negative tax policy doubled in cites, increasing to one-fourth of respondents in 2000. Most of the complaints were that "somehow" our government had allowed the WTO this year to declare Foreign Sales Corporation (FSC) an unfair U.S. trade practice. FSC, passed by Congress in 1984, provides about $4 billion annually in tax relief from foreign source income. It was based on a long negotiation with U.S. trade competitors at that time and was deemed to be no more than other countries were offering their constituents. Efforts are currently under way in Congress to replace FSC with another program that will satisfy WTO while providing help "equivalent to the Europeans' aid to their businesses." The new proposal voted by the House has already been rejected by European Union officials. Europeans are proposing retaliatory tariffs, and a potential major trade fight looms.
- Failure of our government to remove the non-tariff barriers of potential trading partners was cited by about 30 percent of respondents in both years. Failure of our government to remove corruption in trade practices by potential U.S. customer-nations was more commonly cited in 2000, though the government effort to help on this issue was recognized and appreciated.

Actions Government Should Take

Besides doing more of the positive things (more advocacy, more trade liberalization treaties and "fast-track" presidential negotiating authority, more financial support for exports) and fewer of the negative (sanctions, export controls, inadequate "leveling of the playing field"), government was urged (in rank order of citations) to:

- Complete the effort to grant China permanent normal trade status—as is accorded most of our trading partners. With major business lobbying, this measure passed in the

Congress and was signed into law by the president in September.

- Persuade the WTO to retain FSC or get a new program to compete with other nations' programs.
- Educate the public and nongovernmental organizations (NGOs) on the benefits of international trade to help defeat protectionist initiatives.
- Reduce corruption in foreign trade practices.
- Enforce intellectual property rights in developing countries.
- Pass fast-track presidential negotiating authority.
- Provide a thoughtful policy on e-commerce tariffs.
- Liberalize immigration policy, especially for technically qualified people.
- Reduce extraterritorial application of export regulations—leading especially to excessive control of intracompany exports, as well as to inhibiting efforts of the USTR to open trade.
- Eliminate the "cost baggage" American companies carry, which saps the company's strength in international competition—unique legal costs, excessive regulatory demands, etc.
- Eliminate various company- or industry-specific trade barriers imposed around the world in addition to the more general non-tariff barriers cited above.

The comments between the two years—both in quantitative, and importantly, qualitative fervor—give the strong impression that government policy regarding exports, in all its forms, has not improved and has likely deteriorated.

There are clearly actions that government can take to improve our trade balance. Although even if taken in the aggregate they will not eliminate it, they would increase exports substantially. How much of a dent it would make in our estimated $400+ billion 2000 trade deficit is not easily quantifiable—but it is surely in the hundreds of billions of export dollars. The most comprehensive study for just one aspect—patent enforcement—was done in 1988 by the U.S. International Trade Commission (ITC). Based on data collected from 431 U.S. companies, weak foreign intellectual property protection cost these companies $24 billion in 1986 in fees, revenues, lower profit margins, etc. Starting in January 1995, a phase-in of a patent agreement under the World Trade Organization (WTO) called Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) was to occur in developing countries over various schedules (between five and 11 years). Results have been spotty so far. A recent study commissioned by the Pharmaceutical Research and Manufacturers of America (PhRMA) took just 20 drug products in five countries (Argentina, Brazil, Egypt, India, and Israel) and estimated annual profit and revenue loss by U.S. PhRMA members at $120 million. And the Institute for International Economics, in a 1995 study on government sanctions, said that exports to 26 target sanction countries were reduced by $15 billion to $20 billion due to those sanctions, resulting in job losses as high as 200,000 to 250,000.

Removing U.S. government-imposed burdens that have been shown as ineffective or unfair while at the same time leading trade-opening initiatives around the world is a worthy target since high-tech products and services dominate our exports and represent the strongest potential for the well-being of our future economy.

Trade is too important for the well-being of the U.S. economy for this positive-negative government dichotomy to continue.

This paper obviously acknowledges the benefits of trade. In my December 1997 CEO Series piece, I cited my colleague, CSAB Director Murray Weidenbaum, who wrote the following in his widely used textbook, *Business and Government in the Global Marketplace*. I repeat it for its relevance to the year 2000 and beyond:

> Aside from its direct and measurable aspects, trade stimulates competition, stirs creative energies, rewards individual initiative, and increases national productivity. Among nations, it speeds the exchange of new ideas and technology. In the long run, international trade means the creation of new jobs and the reduction of inflation. In sum, it contributes to a healthier economy—one with more job opportunities and a wider variety of goods and services.[4]

While it was not within the scope of this study to examine U.S.-erected *import* barriers (they are many, but they generally help non-exporters—not the strong international players of this study), it is clearly the feeling of these major exporters that the playing field is still tilted heavily against U.S. exporters—and that government in one sector works to help, while government in another sector works diametrically in the opposite direction. Trade is too important for the well-being of the U.S. economy for this dichotomy to continue. We need the trade winds at our back—not in our face.

Tally of Most Frequent Comments

	1997	2000
Positive		
Advocacy	76%	34%
Trade Opening (NAFTA, GATT, etc.)	52	45
Trade Support (EX-IM, OPIC, etc.)	29	28
Negative		
Sanctions	62%	64%
Non-Tariff Barriers	29	29
Export Controls	24	29
Tax Policy (including FSC)	14	26

Selected Comments

Industrial and consumer goods manufacturer: "The current U.S. administration advocates policies that will raise the cost of manufacturing products in the U.S., and thus threaten the ability of our company to use some U.S.-based production as an export platform. Policies that have significant price tags and poor cost-benefit ratios, and that detract from export competitiveness include the proposed OSHA ergonomic regulations, the proposed DOT Hours of Service regulations, the administration's advocacy of health-care policies that will help reignite double-digit cost increases (e.g. Norwood-Dingell Patients' Bill of Rights), and the administration's love affair with the plaintiffs' bar. All these policies raise costs and put our U.S.-based employees at a cost disadvantage globally."

Consumer products company: "Clearly defined, effective, and efficient export regulations and administrative structures are needed; they are overly complex and should be simplified."

Industrial products manufacturer: "Under the guise of 'nonproliferation' or 'sensitive technologies' or 'dual use,' congressional opponents of trade with various countries have resorted to this backdoor attempt to micromanage our export policies."

Electronics manufacturer: "Export controls are applied to 'commodity' or 'mass market' products that are not controllable. Once an item is mass market, the controls should be removed."

Aerospace manufacturer: "U.S. export control rules have hampered our export capability in at least two ways. First, the list of items subject to controls needs to be updated. Currently, the lists include technology and hardware that should not be controlled because export of the items does not pose real threats to U.S. national security or foreign policy goals. Further, other countries do not control many of the items on the U.S. control lists; therefore, these items are freely available on the international market despite U.S. controls. In such cases, U.S. export controls operate solely to limit the export opportunities of U.S. companies. The second problem with U.S. export controls is that, notwithstanding some recent improvements, the process for obtaining licenses to export controlled items is still too needlessly cumbersome and time-consuming, causing many U.S. companies to miss out on export sales."

"No single agency of government has contributed more to our export success than the USTR."

Energy company: "Our competitive issues usually arise in the context of our ability to negotiate petroleum production sharing agreements with host governments. The chief U.S. governmental policies which affect our operations are those which involve the U.S. propensity towards unilateral economic sanctions. The unreasonable, shortsighted application of such policies quite often places U.S. companies at a severe disadvantage and hurts American energy security by reducing the diversity of supply sources."

Energy company: "We have received strong support from U.S. advocacy agencies in Washington and in the many nations where this government maintains an embassy or consulate with an economic or commercial officer. This advocacy effort has evolved over the last several administrations. It sells U.S. goods and services. There is considerable concern that many nongovernmental organizations are becoming increasingly influential in convincing policymakers that globalization has a growing negative effect, especially on developing nations. Yet, these are the nations that desperately need infrastructure projects such as energy, communication, clean water, and health which U.S. companies bring to improve life and economic opportunity."

Consumer products manufacturer: "No single agency of government has contributed more to our export success than the USTR. The reduction of tariffs and nontariff barriers engineered by the USTR and enforced through the WTO is a linchpin of the freer trade we are enjoying today. We have also taken advantage of the foreign network of offices maintained by the Departments of Commerce and State to have friendly on-the-ground support, eyes and ears in countries where we cannot afford to have our own government affairs capability. On the negative side, poorly targeted retaliatory tariffs, such as in the bananas case, have forced us to shift sourcing to nontargeted countries on short notice, while apparently not achieving the objective of securing European compliance with the WTO ruling in question."

Communications company: "Government actions that have had the most positive effect on the exports of telecommunications services include negotiation and implementation of the new trade agreements under the WTO, including the Agreement on Basic Telecom, which provides market access and national treatment for basic telecommunications services. The negotiation of this agreement helped to propel many countries towards liberalization of their telecommunications markets and locked that liberalization into place. Going forward, it will be very important for all of the agencies involved in trade to ensure that the United States government is taking proactive steps to assist China in fully implementing its WTO commitments and taking timely remedial action where China has failed to do so. The Clinton administration has sought a $22 million war chest to step up its monitoring and enforcing efforts. We need to make sure that there is such a war chest established and at least part of this money is earmarked for working with China as it drafts the laws and regulations that will implement its WTO commitments—we cannot wait for these to become final before engaging. Other important goals for the further expansion of U.S. exports include: additional resources at USTR to respond to the growing demand for recourse to the WTO dispute settlement mechanism; measurable progress in the WTO Services 2000 negotiations; a new round of comprehensive trade negotiations in the WTO; passage of fast-track negotiating authority; and ongoing efforts to educate the U.S. public on the benefits of trade."

General manufacturer: "We need to create a more effective working relationship between government and business to promote the kind of globalization on which our future growth and standards of living so vitally depend."

Consumer products company: "Ron Brown, and more recently Bill Daley, led the charge in making government more responsive to business, but credit must also go to people like Larry Eagleburger (Deputy Secretary of State, Political Affairs in the Reagan administration) who helped change generations of anti-business bias in the Foreign Service at the State Department. We would hope that more political attention would be devoted to launching a new round of trade negotiations, including talks to finally eliminate most tariffs on industrial products."

"Continued exercise by the government of its influence directly with restrictive countries and with such organizations as IMF would be very helpful."

General manufacturing: "In order not to dwell entirely on the negative, I would commend the U.S. government for its support of free trade, commercial advocacy from its embassies and the Commerce and State Departments, and its recognition of strong foreign government support for their companies. We have witnessed each year a stronger and more sustained commitment to supporting U.S. business and its exports from the executive branch. The Congress has done little to support but at least has been relatively unsuccessful in hurting exports."

Consumer products company: "Cooperative partnerships have been helpful. For example, working with the U.S. Department of Commerce (DOC) and the Bureau of Export Administration (BXA) in a cooperative manner has resulted in numerous positive changes for our export business (e.g. the development of a user-friendly internet-based process for export license applications to DOC/BXA, eliminating the need for a third-party service provider and therefore the cost.) On the other hand, the cumbersome export regulation process of the U.S. Department of State, Office of Defense Trade Controls (DOS/ODTC), has caused delays in export license approval, and other administrative requirements have either stopped the export of some of our products or created indecision as to whether government approval was required at all to export certain products."

Employment services company: "For our company, which needs to establish a local presence wherever it operates, a trade barrier of sorts is encountered in the foreign investment laws of some countries (e.g. Philippines, Malaysia). Such laws may restrict the level of ownership allowed to nonlocal investors and/or restrict participation in particular segments of the economy, such as employment-related activities. Some barriers have fallen (for example, we were able to become established in Korea a couple of years ago after wholesale changes in the investment laws were made under pressure from the IMF), but many still remain. Continued exercise by the government of its influence directly with restrictive countries and with such organizations as IMF in this area would therefore be very helpful."

Paper manufacturer: "Different regulatory requirements and standards can act as export barriers. For example, an eco-labeling program in Europe gives preference to European paper products based on a different manufacturing process and measurements than commonly used in the U.S."

Consumer products manufacturer: "Agencies like EPA support European application of the 'precautionary principle' (don't do it if it might cause harm, while awaiting the facts). Specifically, I am referring to the USTR being 'trumped' by other agencies that prevent it from aggressively pursuing non-tariff barriers that are erected in the name of protecting labor, the environment, or public health."

Pharmaceutical company: "The failure of more than 50 developing countries to honor their commitment to the TRIPS agreement on patents and trademarks (as trade-related aspects of intellectual property rights enacted in the GATT agreement and administered by the Word Trade Organization [WTO]) is a serious threat to a global trading system. In addition, quick Senate action to ratify the complementary Organization of American States Convention Against Corruption, recently approved by the Foreign Relations Committee, would be a positive step for the unfettered movement of goods and services around the world."

Electronics manufacturer: “The export controls system has been improved to reflect technological and competitive reality. However, the process...still creates enough uncertainty sufficient to complicate comprehensive marketing strategies.”

Financial services company: “In the area of e-commerce, the U.S. government has exhibited great leadership in favor of industry-led, market-driven standards in response to the desire of other countries to heavily regulate many aspects of the new and evolving marketplace.”

Electronics manufacturer: “There are too many agencies issuing too many regulations with too much extraterritorial reach. In addition, government hampers our export capability with its unrealistic expectation that export control requirements developed for the physical world can be applied to e-business.”

Entertainment company: “When it passed FSC in 1984, Congress relied on an understanding after a decade of negotiation (with Europeans) that foreign sourced income need not be taxed and failing to tax such income is not a subsidy. European and other exporters are not taxed on such income, and enjoy value added tax rebates as well. WTO has now ruled against FSC (Foreign Sales Corporation). We’re working with our government for an appropriate replacement for FSC which both preserves a competitive balance with the Europeans and conforms with the WTO decision.”

“In the area of e-commerce, the U.S. government has exhibited great leadership in favor of industry-led, market-driven standards.”

Aerospace company: “In 1998, trade—imports plus exports—accounted for nearly 24 percent of the size of the U.S. economy. (The percentage was the same in 1999.) Approximately 12 million U.S. jobs—nearly 10 percent—are directly linked to exports. These jobs typically pay between 13 and 16 percent more than the average worker is paid. U.S. businesses and workers have the most to gain from removing foreign barriers to our goods and services since 95 percent of the world’s consumers live outside the U.S. Our nation currently has trade sanctions on 70 countries, representing over two-thirds of the world’s population.”

Electronics manufacturer: “Export regulatory requirements are imposed on hiring foreign nationals to work in the U.S. Such transactions are treated as 'deemed exports' of company technology to the home country of the foreign national. This is in conflict with the increase of H1B visa grants and ignores efficacy of company proprietary interests in preventing diversion of technology."

Agricultural products company: "The continued, systematic opening of markets for agriculture is clearly in this country's interest. The U.S. has, after all, some of the world's best farmland literally in our backyards, plus an excellent distribution system for getting crops to market, and ready access to highly productive farm machinery. Open agriculture markets are also in the interest of consumers in this country and around the world who benefit from the lower food prices that are driven by world competition."

Notes

1. Table 1.6 "Merchandise Trade Value," *Monthly Energy Review* (Washington, D.C.: Energy Information Administration, August 2000) [DOE/EIA-0035(2000/08)], p. 11. Downloaded from www.eia.doe.gov/mer/

2. Gary Clyde Hufbauer and Kimberly Ann Elliott, *Measuring the Cost of Protection in the United States* (Washington, D.C.: Institute for International Economics, January 1994), p. 1.

3. Industries in Survey

Industries in Survey	Number in Category 1997	2000
Space/Defense	5	5
Electronics	5	5
Chemicals	2	3
General Manufacturing	3	3
Energy	—	4
Automotive	2	1
Agriculture	2	2
Pharmaceutical	1	2
Consumer Products	1	2
Entertainment	—	1
Financial Services	—	1
Paper Manufacturing	—	1
Employment Services	—	1
Telecommunications	—	1
Total	21	32

4. Murray L. Weidenbaum, *Business and Government in the Global Marketplace* (Englewood Cliffs, New Jersey: Prentice Hall, 1995), p. 258.

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