CHALLENGES AND SOLUTIONS FOR THE NEXT PRESIDENT AND CONGRESS

COMPETING TO WIN

TRADE IN FOCUS

NATIONAL ASSOCIATION OF
Manufacturers

TRADE IN FOCUS

Open Trade Makes a Successful Nation, Delay and Uncertainty Hold Us Back

Introduction

Over the past quarter century, hundreds of millions of foreign consumers have entered the middle class, contributing to an exponential increase in global trade and increased demand for made-in-the-USA exports. In spite of projected slow economic growth across the globe, the demand for manufactured goods and the need for market-opening trade agreements continues. With the world's most productive manufacturing sector, but a domestic market that represents only 10 percent of global consumption, manufacturers in the United States need to tap into the growth beyond our borders to promote a robust and growing U.S. manufacturing sector that can continue to sustain and increase good-paying American jobs.

The United States is no longer alone as a global manufacturing hub; manufacturing has been embraced by many countries as a successful path to raise living standards and production. Supply chains now stretch across national borders and even continents. As a result, U.S. producers face fierce competition overseas, fueled by hundreds of trade agreements between foreign countries that exclude and disadvantage the United States. Furthermore, anticompetitive and market-distorting actions taken by foreign governments to boost their own manufacturers at the expense of ours add another set of barriers to doing business overseas and negatively impact manufacturers in the United States. Unfortunately, U.S. trade and investment policies, agreements and enforcement tools have failed to keep pace.

To compete in the expanded global marketplace, manufacturers in the United States need advanced trade agreements that open markets and break down unfair barriers overseas. Manufacturers also need to modernize trade tools to boost our global competitiveness, from improving export financing options to eliminating self-inflicted barriers that impede U.S. manufacturing, exports and our participation in global supply chains. Manufacturers also require more rapid and robust trade enforcement to ensure that trade agreement commitments are honored, our innovative technologies are not stolen and U.S. trade rules are effectively enforced.

With the growth of standards of living overseas, foreign consumers now purchase far more manufactured products than ever before—presenting opportunities for our manufacturers to produce even more. Over the past quarter century, our manufacturers have quadrupled U.S. exports, helping also to quadruple U.S. manufacturing output to record levels. In 2015, substantial overseas demand enabled manufacturers to export $1.3 trillion in manufactured goods, more than half of value-added manufacturing output in the United States.

Three Big Trends Shaping the Global Economy for Manufacturers

Trend 1: Growth of the Global Economy and the Middle Class

While Americans spend more than any other country, U.S. consumption accounts for less than 10 percent of the world total.[1] Economic growth over the past quarter century has lifted hundreds of millions of foreign citizens out of poverty. Since 2000, such growth has propelled almost 600 million people, mostly in Asia, into the middle class.[2] While global economic growth and world trade and investment flows have slowed recently, forecasts continue to predict substantial growth worldwide, with 75 percent of that growth expected to take place outside the United States.

Substantial overseas economic growth and the explosion of new middle class consumers have created record levels of demand for advanced and high-quality consumer and durable manufactured goods, ranging from personal care, medical equipment and food products to major capital and electrical equipment to build new cities and modernize infrastructure. With global, bilateral and regional trade agreements that lower barriers and set basic rules of commerce coupled with improved telecommunications and transportation services that better connect global customers and suppliers, manufacturers in the United

[1] Bureau of Economic Analysis, U.S. Department of Commerce and World Bank.

[2] Kathrin Brandmeir, Dr. Michaela Grimm, Dr. Michael Heise and Dr. Arne Holzhausen, Allianz Global Wealth Report 2015, Allianz SE, September 2015. Available at https://www.allianz.com/v_1444215837000/media/economic_research/publications/specials/en/AGWR2015_ENG.pdf.

States have been able to benefit substantially from this growth beyond our borders. The massive growth of U.S.-manufactured goods production and sales to foreign consumers, businesses and governments reflects the strengths of more open trade and the untapped potential to be harnessed by new agreements.

Rising living standards worldwide have been stimulated to a significant degree through the growth of manufacturing worldwide, which, in turn, has expanded competition for manufacturers in the United States. While manufacturers in the United States produce and export substantially more than they did decades ago, they also face more competition than ever before. Indeed, the U.S. share of global manufactured goods trade has fallen as manufacturing in Europe, Asia and other parts of the world has expanded. Global growth and competition have also been part of a broader set of influences that are changing U.S. manufacturing, particularly with the creation of new technologies and the expansion of U.S. sectors that have a strong emphasis on high-quality, innovative and high-value manufacturing that plays to America's competitive advantages. Manufacturers in the United States need policies to improve global competitiveness and expand the sale of high-quality U.S.-manufactured goods to a growing global middle class. The growth occurring outside U.S. borders and the highly productive nature of manufacturers in the United States demand nothing less. By winning new customers overseas, the United States will continue to promote domestic manufacturing growth and strong employment in the United States.

Trend 2: Internet-Enabled Foreign Market Opportunities for Small Manufacturers

The retail storefront for many companies, particularly small manufacturers, is increasingly web-based, helping companies sell their products across the United States and around the world directly to consumers and businesses. The rapid growth of internet and telecommunications networks has boosted global connections and spurred massive growth in internet-enabled commerce both at home and abroad. Two-thirds of the world's population now use the internet,[3] and sales made through e-commerce portals are predicted to make up 27 percent of global manufacturing trade by 2020.[4]

This technological revolution, combined with more affordable, competitive and reliable international freight services, enables manufacturers of any size to sell their wares virtually anywhere in the world. For small manufacturers in particular, internet-enabled commerce provides a relatively low-cost model to enter new markets and reach new customers without entering into distribution arrangements with foreign dealers or investing in a foreign retail or foreign distribution network. The impact of internet-enabled commerce is already substantial: exporters selling online are more engaged in international sales and more likely to reach multiple markets. One study of eBay users found that 94 percent of its smallest sellers were exporting, and 81 percent of eBay online merchants sell to five or more countries.[5] In contrast, less than 1 percent of total U.S. small businesses export, and of those that do, 58 percent sell to only one foreign market.[6]

Trend 3: Growth in Global Supply Chains

Technological innovations, improved transportation and communications infrastructure, and lower trade barriers have not only accelerated trade flows, but have changed how production occurs. These trends have made it possible and, in many cases, more efficient for manufacturers to expand production in separate units across the globe by creating global supply and production chains. These supply chains have disrupted the vertically integrated manufacturing structure that had previously characterized most of the world's manufacturing.

Global supply and production chains are used in both durable and nondurable goods manufacturing from aircraft to mobile phones, where research and development, suppliers and final assembly may be located in multiple countries. These supply chains rely on specialization and the comparative advantages of separate industries in multiple countries to utilize resources efficiently to create better and lower-cost goods. Already, the World Trade Organization (WTO) estimates that approximately 40 percent of goods trade is in "intermediate goods," or inputs to the final production process, rather than trade in final goods.[7]

Global supply chains, however, bring greater risk and complexity. From natural disasters and growing protectionism in many parts of the world to the growth of divergent product standards and pressures to produce closer to the final consumer, global supply chains are undergoing rapid transformations that make it more difficult to predict and plan future production trends.

As trade has increased, so does the need for trade agreements. The WTO reports that there are now more than 270 bilateral and regional agreements that provide improved access and better rules for those countries that are participating. The United States is only party to 14 such agreements with 20 countries that make up only 6 percent of the world's population and 10 percent of the global economy. U.S. trade agreements have been enormously successful. Those 20 countries purchase more than 12 times more from the United States than the rest of the world. Yet, manufacturers in the United States are at a global disadvantage and face higher trade barriers than most of the world as the United States is now excluded from most of the world's trade agreements.

[3] Keith Breene, "This is the extent of the demographic digital divide," World Economic Forum, March 22, 2016. Available at https://www.weforum.org/agenda/2016/03/this-is-the-extent-of-the-demographic-digital-divide?utm_content=buffer5fa04&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer.

[4] http://ww2.frost.com/news/press-releases/global-b2b-e-commerce-market-will-reach-67-trillion-usd-2020-finds-frost-sullivan/.

[5] "Enabling Traders to Enter and Grow on the Global Stage," eBay Inc., July 2013. Available at http://www.ebaymainstreet.com/sites/default/files/EBAY_US-Marketplace_FINAL.pdf.

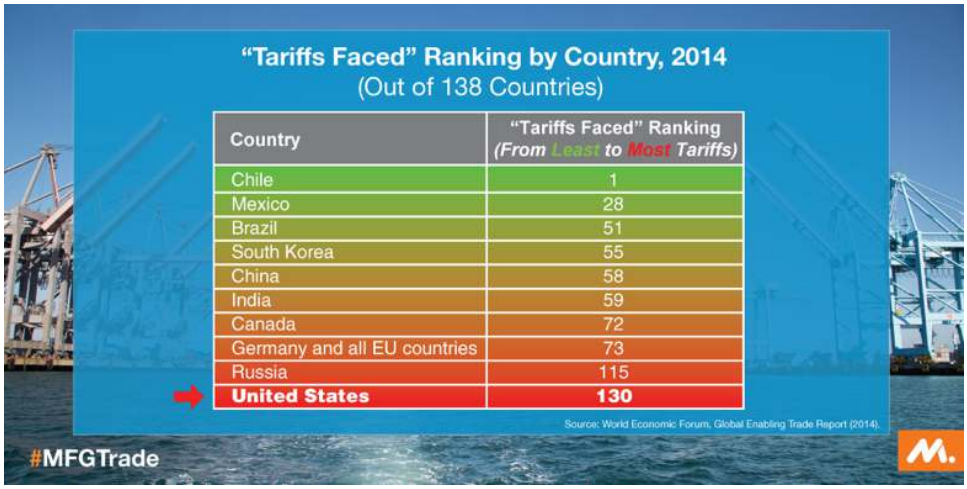
[6] "Exporting Is Good for Your Bottom Line," International Trade Administration, U.S. Department of Commerce, 2013. Available at http://trade.gov/cs/factsheet.asp.

[7] Mr. Andreas Maurer, "Trade in value added: what is the country of origin in an interconnected world?," World Trade Organization (WTO), 2012. Available at https://www.wto.org/english/res_e/statis_e/miwi_e/background_paper_e.htm.

America's Challenge: A Trading Economy Agenda That Is Open and Fair

We must seek trade agreements and other outcomes to eliminate tariff and foreign barriers overseas, improve global standards and promote a more level playing field.

The Challenge



Country	"Tariffs Faced" Ranking (From Least to Most Tariffs)
Chile	1
Mexico	28
Brazil	51
South Korea	55
China	58
India	59
Canada	72
Germany and all EU countries	73
Russia	115
United States	**130**

While the U.S. market is generally wide open, with more than two-thirds of all manufactured imports entering the United States duty-free in 2014, our manufacturers face significant trade barriers overseas that provide foreign producers with unfair advantages that limit access to foreign consumers. U.S. exporters face steeper trade barriers abroad than virtually any other major country, including Mexico, China or every member of the European Union. In many cases, this is because those countries have entered into market-opening agreements that exclude and disadvantage the United States.[8] Manufacturers also encounter the theft of our innovation and intellectual property by foreign competitors—a problem that threatens continued growth and the high-paying jobs our innovative manufacturing sector provides. Manufacturers also confront not only the spread of technical barriers that serve as nontariff barriers for U.S.-manufactured products, but also a growing tide of guidelines and regulations being developed by international institutions that disadvantage the United States when they spread to key markets.

The Stakes

Manufacturers in the United States have generally been most successful globally when there is a level playing field and agreed upon rules of fairness and open trade are honored. For example, the United States' 20 free trade agreement partners purchase more than 12 times more manufactured goods from the United States than other countries—equal to nearly half of total U.S.-manufactured goods exports in recent years. However, if Washington sits on the sidelines as other countries negotiate trade agreements or set global rules without us, manufacturers and our manufacturing communities here in the United States lose. Manufacturers cannot turn back the clock to a past generation or even a previous decade. In the new global competitive environment, manufacturers have no choice but to compete with firms in China, Europe and elsewhere. Trade agreements and negotiations are crucial tools to push back against rules that exclude and disadvantage U.S. products, innovation and standards. Left unchecked, those rules will limit manufacturers' ability to access growth and new consumers overseas as well as our ability to sustain and grow jobs in the United States. If the United States does not accelerate its negotiation of market-opening agreements to level the playing field and set strong global rules, manufacturers in the United States will be increasingly shut out of new opportunities to the detriment of U.S. jobs and manufacturing communities.

[8] "Global Enabling Trade Report 2014," World Economic Forum, March 2014. Available at http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2014.pdf.

The Solutions

Leaders should take the following actions and build on these key principles to improve manufacturers' access to foreign consumers:

- Negotiate new, binding trade and investment agreements that eliminate tariff and non-tariff barriers to goods manufactured in the United States and set high standards to ensure fair treatment of our manufacturers, including with respect to transparency, intellectual property, investment and product standards.
- Negotiate and implement sectoral agreements globally to eliminate tariffs and promote market opening in priority sectors for manufacturers in the United States, such as environmental goods and technologies.
- Seek to eliminate foreign subsidies, forced localization barriers and other discriminatory, market-distorting and unfair foreign government actions that limit the ability of our manufacturers to access foreign markets and harm U.S. manufacturing.
- Seek to eliminate unfair, discriminatory and nonscience- based regulatory and standards barriers overseas that disadvantage our manufacturers.
- Promote improved standards and respect for property in overseas markets, including the protection of all forms of intellectual property for all products and core standards to prohibit discriminatory and unfair treatment and uncompensated expropriations of private property.
- Promote trade agreement outcomes that improve the ability of small businesses to access foreign markets, including those that promote internet-enabled commerce and eliminate red tape at the border as well as costly and onerous barriers in foreign markets.
- Strengthen U.S. and other global voices to promote respect for international trade rules by global institutions, including the United Nations, World Health Organization, United Nations Environment Programme and the World Intellectual Property Organization.

We must adopt custom, financing and export control policies and rules that facilitate trade and improve manufacturers' cost competitiveness in the global economy.

The Challenge

Whether it is a sale across town, across the nation or around the world, manufacturers in the United States compete in a global economy. In making those sales, our manufacturers face stiff competition from competitors around the world, in many cases propelled by foreign government assistance. From the massive growth of foreign export credit agencies to the spread of onerous and discriminatory foreign standards and technical regulations, manufacturers in the United States find themselves at an increasing disadvantage where the U.S. government does not provide comparable tools or address new barriers. Manufacturers also encounter barriers of the U.S. government's own making, including (1) red tape at the U.S. border, placing unnecessary time and cost burdens on manufacturers; (2) an outdated tariff code, placing border taxes on inputs not even produced domestically; (3) counterproductive unilateral sanctions; and (4) an onerous and obsolete export control system that undermines the ability of our manufacturers to participate in foreign defense and technology sales that support U.S. government, military and intelligence interests overseas.

The Stakes

Countries around the world view the growth of their own manufacturing sectors as critical to their long-term growth—and in many cases are seeking to improve their own domestic manufacturers' competitiveness through a variety of tools that disadvantage U.S. manufacturing. As a result, manufacturers in the United States face even tougher competition than a decade ago, oftentimes by government-backed foreign competitors who are not required to play by the same rules, or through discriminatory standards that shut made-in-America products out of foreign markets. With technological and other changes that have given rise to global supply chains, the United States' ability to attract new manufacturing investment cannot be taken for granted if we continue to impose significant impediments to exports and manufacturing competitiveness that undermine our reliability as a global supplier.

The Solutions

Leaders should take the following actions to improve trade rules to advance the global competitiveness of manufacturing in the United States:

- Ensure fully operational, cost-effective and predictable export financing options for businesses of all sizes that improve competitiveness in the face of substantial export credit aid offered by foreign governments.
- Cut red tape and streamline operations at U.S. and foreign customs agencies, including through electronic processing, for imports and exports, and the implementation of a risk-management approach to the underlying policies and practices.
- Expedite legitimate trade at U.S. and foreign borders building on the "trusted trader" model to provide meaningful benefits to participating companies.
- Promote foreign country adoption of meaningful de minimis levels to facilitate low-value small business trade.
- Strengthen coordinated commercial advocacy across the U.S. government, improve trade promotion coordination functions between federal and state governments, increase

foreign commercial officers in key emerging markets and provide user-friendly foreign market data to promote U.S. exports and small business access to overseas markets.

- Promote more sustained and effective participation of U.S. agencies in international organizations to shape foreign and global standards and prevent the adoption of discriminatory and non-science-based standards.
- Modernize the U.S. export control system to ensure that it is more predictable, efficient and transparent, including through establishment of efficient and effective licensing procedures for exports of defense and security technologies to allies, program licenses for commercial technologies, intra-company license exceptions for "deemed exports" and encryption controls that will support U.S. government interests abroad.
- Eliminate on a temporary and periodic basis U.S. tariffs on manufacturing inputs and other products not available in the United States.

We must enable the United States to lead by example and enforce global rules.

The Challenge

Foreign governments continue to create artificial competitive advantages for their industries through a host of unfair actions, from subsidies and discriminatory localization policies to the theft of intellectual property. Such actions distort markets and put manufacturers in the United States at a competitive disadvantage and damage manufacturers' ability to win sales overseas. Some foreign governments are also seeking to distort or weaken long-established global trading rules in areas such as intellectual property to confer advantages to their domestic interests. While trade agreements, trade rules and other actions can address these distortive and unfair practices, the United States and other like-minded countries must demonstrate a commitment to more rigorous and timely enforcement of trade agreements and trade rules and continue to seek the establishment of new rules to address emerging challenges in the global economy.

The Stakes

Continued unfair trade practices overseas cost jobs and new innovations and impede growth in the U.S. manufacturing sector. Failure to ensure full enforcement of trade agreement obligations and U.S. trade rules will lead to continued harm and greater mistrust of the world trading system that is critical for both past and future U.S. manufacturing growth. Such failure would also embolden critics of the global trading system and of U.S. economic leadership, thus undermining the ability of the United States to seek to enforce these rules in the future.

The Solutions

Leaders should take the following actions to improve enforcement of trade agreements and other trade rules:

- Promote significant investments in U.S. government enforcement infrastructure.
- Improve monitoring of foreign trade commitments and aggressively enforce those commitments when broken.
- Ensure full and prompt enforcement of U.S. trade rules and ensure adequate resources and activity to implement and prevent the evasion of such rules.
- Comply with U.S. international obligations in trade agreements to show leadership and avoid retaliation against U.S. exports.
- Work to improve international rules and their enforcement through new trade and investment agreements and through international institutions, such as the WTO and the International Monetary Fund.

COMPETING TO WIN
THE UNITED STATES WINS WHEN WE LEAD

Conclusion

Opportunities are growing for manufacturers in the United States to find new customers across the globe and continue to expand U.S. manufacturing. Yet, the United States has fallen behind in concluding new market-opening trade agreements that lower costs and set strong standards, allowing competitors in Europe, China and others in North and South America to be more aggressive in winning new export markets. Our business owners also face a global disadvantage from the failure of our domestic policies to keep pace, such as inadequate export financing and facilitation tools or burdensome and unreliable export procedures. America needs more open and fairer trade to build our economy and make our manufacturers stronger. We need trade and investment agreements and policies to open foreign markets and level the playing field so manufacturers in the United States are viewed as the producers of choice for high-end and high-quality products and inputs for sale in markets around the world. Manufacturers need trade and related policies to improve our global competitiveness and knock down border and other unfair barriers. Manufacturers in the United States also need vigorous enforcement of trade agreement commitments and trade rules to ensure an open and fair global trading system.

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