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 **Renewing America**
Progress Report and Scorecard



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Trading Up: U.S. Trade and Investment Policy

INTRODUCTION

The United States depends far more on the global economy than it did two decades ago, and international trade and foreign investment are increasingly vital to U.S. prosperity. Yet on most measures of trade and investment performance, the United States remains in the middle of the pack among advanced economies, though with some recent signs of progress.

The United States is among the more open economies in the world, the world's biggest importer of foreign goods, and the largest overseas investor. But the United States still does not export as much as would be expected, given the size of its economy and the mix of goods and services it produces. Its share of global exports has fallen more sharply than that of most other advanced countries over the past decade in the face of competition from emerging markets such as China. The United States is in the middle of advanced economies in attracting foreign investment as a percentage of gross domestic product, and has also lost ground in this area over the past decade. Where it is most competitive—in services—is also where trade obstacles are largest.

The Obama administration has explicitly tried to tackle some of these shortfalls and challenges, but has had only mixed results to date. The National Export Initiative (NEI), launched in 2010, for the first time set a target for export growth, calling for doubling U.S. exports from 2009 to the end of 2014. After strong gains in the first two years, exports have grown much more slowly in the past three years, largely due to weaker economic growth overseas and a rising dollar, and the NEI has fallen far short of its target. President Obama has made attracting foreign investment a bigger priority than it was for previous administrations, overhauling the Commerce Department's investment promotion arm with the creation of SelectUSA and engaging business leaders on

strategies for increasing investment. Foreign investment flows to the United States have generally been strong coming out of the recession, though the U.S. share of global investment has fallen significantly over the past decade. The Obama administration has also followed the Bill Clinton and George W. Bush administrations by embracing an increasingly ambitious set of international trade negotiations to reduce non-traditional and services barriers and to open new market opportunities around the world. These include the Trans-Pacific Partnership agreement with eleven Asia-Pacific countries, the Transatlantic Trade and Investment Partnership negotiations with Europe, and a renewed effort to liberalize service sector trade and expand coverage for information technology through the World Trade Organization (WTO).

These initiatives should open more opportunities for the United States in global markets. But the country needs to do more to take full economic advantage of those openings.

WHERE THE UNITED STATES STANDS

Over the past half century, the United States has gone from being a fairly self-sufficient economy to one far more integrated into the world economy. In 1960, exports and imports were equivalent to less than 10 percent of U.S. GDP; by 1990, that had risen to 20 percent; and today the figure is more than 30 percent.¹ U.S. investment abroad and foreign investment into the United States have increased enormously as well.

Indeed, the same could be said of the world. Practically every country is importing and exporting more and receiving and sending more investment. Global trade has historically expanded faster than global output. Except for dips in the business cycle, including the most recent steep drop-off following the 2008 financial collapse, global trade and investment have been on a historically upward trend since World War II.

The big trade story, beginning in the early 1990s, has been the rise of the developing world, especially China. The developing world's share of international trade has increased from 33 percent in 2000 to 48 percent in 2012, with China accounting for almost all of that increase.² Global investment flows to the developing world are now larger than those going to the advanced economies.

There is no simple measure of success in trade and investment policies. China is the world's largest exporter; the United States is the

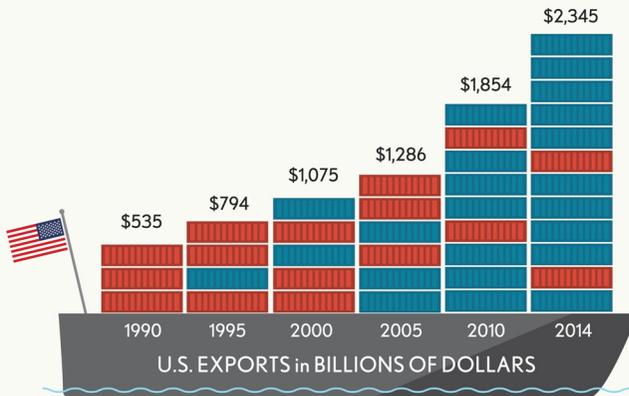
Trading Up

U.S. Trade and Investment Policy

Integrating into the World Economy



International trade is growing as a share of gross domestic product.



U.S. exports are at record levels.

second. The United States is also the world's largest importer, but its market is not as open to imports as some other advanced economies, including the United Kingdom, Germany, France, and Australia. Germany runs the largest trade surplus in the world; the United States runs the largest trade deficit. The United States is also the largest source of outbound foreign direct investment (FDI) and attracts more inward FDI than any other country; however, relative to the size of its economy, many other countries attract more investment. Jobs in internationally competitive sectors in the United States pay more than jobs in other sectors, but rising productivity means that exports must grow rapidly to support additional job growth.

A full range of measures can be used to assess how the United States is doing in international economic participation. These include openness to imports, success at exporting goods and services, the U.S. ability to attract direct investment on its own soil, and overseas direct investment by U.S. companies. The picture is a mixed one: areas of progress are interspersed with big economic challenges and future economic opportunities. Some other advanced countries have been more strategic than the United States in identifying and responding to those opportunities, but the United States is narrowing the policy gap.

IMPORTS AND EXPORTS

Over the past two decades, nearly all countries in the world have been removing barriers to imports. The reasons are many. The end of the Cold War created huge new consumer markets and brought hundreds of millions of new workers into the global economy, growth of container shipping dramatically reduced the costs of sending goods overseas, new communications technologies have permitted companies to build elaborate global supply chains and take advantage of the most competitive business locations, and successive rounds of global trade negotiations and regional pacts have sharply lowered tariffs and other barriers to trade. The *Wall Street Journal*/Heritage Foundation index of trade freedom shows that trade barriers fell steadily from 1995 to 2010—even through two recessions.³

The United States is a reasonably open economy, and U.S. import growth has remained strong over the past two decades. Openness to imports has helped keep prices of intermediates and consumer goods low, which improves the ability of U.S. companies to produce goods at

competitive prices. Two decades ago, the domestic content share in U.S. exports was close to 90 percent; today it is about 77 percent, meaning that nearly a quarter of the content of U.S. exports comes from imported intermediate goods.⁴ Imports also lower costs to American consumers; one estimate suggests that import competition led to the equivalent of a 5.4 percent drop in consumer merchandise prices between 1992 and 2005.⁵

Every administration since the end of World War II has favored policies that continue to reduce import protection at home while also pushing for the removal of tariffs and other barriers in foreign markets. The United States has moved faster than some countries and more slowly than others to reduce import tariffs. The simple average tariff on goods in the United States has fallen from 5.2 percent in 1990 to 2.8 percent in 2012, which is about the same as Canada and slightly higher than the European Union (EU) and Japan.⁶

Some sectors continue to enjoy high levels of protection, however, which limits benefits to U.S. consumers. The U.S. sugar program, for instance, restricts sugar imports through tariffs and quotas and has kept U.S. sugar prices at roughly twice the world price for decades, though the gap has narrowed significantly in recent years due to record domestic production and duty-free imports from Mexico permitted under the North American Free Trade Agreement (NAFTA).⁷ The International Trade Commission estimates that the higher retail prices for sugar and sugar-containing products caused by these tariffs and quotas have added \$277 million in extra costs, though other estimates are as high as \$3.5 billion per year.⁸ U.S. farm subsidies also effectively restrict imports of many agricultural goods. The U.S. government recently paid \$300 million to Brazilian cotton growers as compensation for the U.S. refusal to eliminate cotton subsidies, following a ruling by the WTO that those subsidies violate international trade rules.⁹ And though U.S. tariffs are generally low, they remain high for certain essential consumer products like clothing, shoes, and bedding, imposing the heaviest burden on poorer Americans. These tariffs persist even though domestic production of these goods has all but disappeared. Of the roughly \$26 billion that the United States collects annually in tariffs, more than half is for such necessary items as clothing, shoes, towels, bed sheets, and tableware. Tariffs are especially onerous on the least-expensive goods—polyester men's shirts face a 32 percent tariff, for example, but silk shirts only 0.9 percent. Trade analyst Edward Gresser has estimated that these tariffs cost low-income American families some \$2 billion each year.¹⁰

Although the United States is still the world's largest importer, other countries are catching up. In 2000, the United States accounted for more than 18 percent of global imports of goods and services.¹¹ In that same year, Germany had the next largest share, at just below 8 percent, and China accounted for around 3 percent. By 2013, the U.S. share had dropped to 12 percent and China, at nearly 10 percent, had become the second-largest importer.

Export growth also matters. Sales abroad of U.S. goods and services boost overall GDP and create jobs, and those jobs generally pay higher wages than in companies that do not export.¹² The good news is that U.S. exports of goods and services grew rapidly coming out of the recession, and are now at record dollar levels, despite the recent slowdown in growth in big export markets like China. The bad news is that the United States is still underperforming against some peer economies in global market share and is struggling to improve its export performance, given the recent strength of the dollar. Although the United States was once the world's leading exporter of goods and services, it has lost significant ground over the last decade, particularly to rising economies such as China. As recently as 2000, the United States held the largest share of global exports, nearly 14 percent.¹³ That share has since dropped, to under 10 percent in 2013. Other developed economies, with the exception of Germany, have seen similar relative declines. China's share, on the other hand, has grown rapidly. Accounting for only 3.5 percent of the world total in 2000, China's export share grew to more than 10 percent in 2013, surpassing the United States.

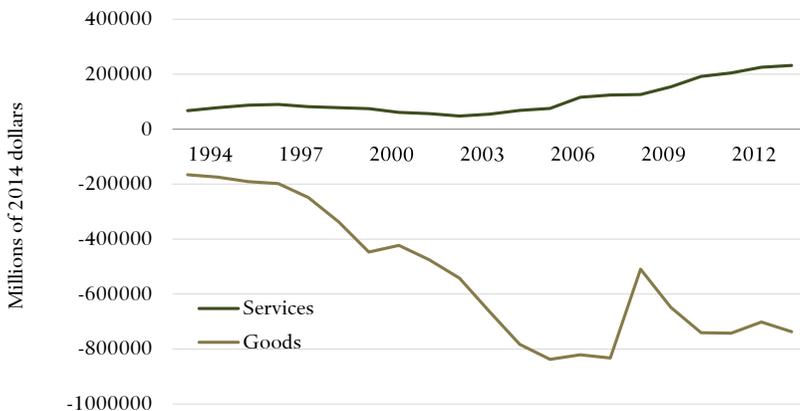
Although the rise of China and other developing economies has reduced export shares for almost all the advanced economies, the United States has lost relatively more ground. Given its historical mix of products and relative currency values, it exports less with respect to the size of its economy than other peer countries, though its level of imports is similar.¹⁴ Much of the difference is likely due to the large and prosperous U.S. domestic market; most small- and medium-sized U.S. companies succeed simply by producing for the domestic market. That large domestic market has likely discouraged some U.S. companies from pursuing new market opportunities abroad. But even though the United States is the world's single-largest consumer market, an estimated three-quarters of world purchasing power is outside U.S. borders.¹⁵ The fastest U.S. export growth has been to developing

economies such as China and Mexico rather than to traditional markets such as Canada and the European Union; from 2004 to 2014, the share of U.S. exports going to emerging economies rose from 35 percent to 47 percent.¹⁶ The global middle class is expanding at an unprecedented rate, particularly in emerging markets, and future U.S. growth will depend heavily on capturing a share of those markets.

The United States also has one of the most competitive service industries in the world, and it is one of the bright spots for U.S. trade performance. The United States consistently runs a trade deficit in goods and a surplus in services (see figure 1).¹⁷ The United States has a highly skilled workforce, and most tradable services—such as engineering, architectural design, financial consulting, and legal services—are skill intensive. There is also plenty more export potential for U.S. services. Only 5 percent of U.S. business services firms export, versus 25 percent of manufacturers.¹⁸

The business services sector has also been a solid job creator and now accounts for 25 percent of employment in the United States, more than double the manufacturing sector.¹⁹ From 1997 to 2007, employment in the business services sector increased nearly 30 percent as manufacturing employment fell by 20 percent. It is a common misconception that most services-sector jobs are low wage. In 2007, the business services sector, which made up 25 percent of U.S. employment, paid an average of \$56,000 per year.²⁰

FIGURE 1. U.S. TRADE BALANCE, BY GOODS OR SERVICES



Source: U.S. Census Bureau.

Overall, the steadily high level of imports and the comparatively weaker U.S. export performance has led the United States to run large trade deficits since the mid-1970s. Trade deficits alone are not a good measure of the U.S. competitive position because they are influenced by the comparative growth rates of different economies, the relative value of currencies, and the levels of national savings. U.S. trade deficits tend to rise when the economy is strong and fall when it is weak, so that a rising trade deficit normally signals U.S. economic strength rather than weakness. That said, the sharp rise in the U.S. trade deficit as a percentage of GDP from about 1 percent of the economy in the early and mid-1990s to more than 5 percent by the mid-2000s was clearly a sign of competitive weakness. After falling sharply during the recession in 2009, the U.S. trade deficit has remained at a lower level—less than 3 percent of GDP—even as the economy has recovered. But the United States continues to run large trade deficits with export-oriented economies such as China, Korea, and Japan.

FOREIGN DIRECT INVESTMENT

One of the clearest signs of a competitive economy is that foreign companies want to invest there. When companies buy assets or establish businesses through direct investment, they are expressing confidence in that country as a place to make money. The United States is the largest recipient of FDI in the world, and foreign investment has grown rapidly in recent decades; the stock of FDI in the United States grew from \$83 billion in 1980 to nearly \$2.8 trillion in 2013, and the United States was the largest recipient of FDI flows, totaling \$236 billion in new investments in 2013.²¹ The European Union, Canada, and Japan remain the largest sources of investment in the United States.²² FDI from countries like China has also been growing strongly, though from a small base. Chinese FDI in the United States has soared over the past five years from almost nothing to a cumulative value of nearly \$50 billion.²³ Huge opportunities will exist in the coming years to court foreign investors from advanced and developing economies. One estimate suggested that China alone is expected to make more than \$1 trillion in foreign investments by 2020.²⁴

Although the United States remains a strong magnet for investment, its performance relative to other countries has been mediocre. It has slipped against its competitors in terms of its global share of

FDI; the U.S. share of total world stock of FDI fell from 37 percent in 2000 to 19 percent in 2013.²⁵ Much of the relative decline reflects the rise of developing countries like China, India, and Brazil as investment targets, but FDI shares have remained more stable and growth has been stronger in most other advanced countries. The stock of FDI in the European Union, for instance, rose from 31 percent of the world share in 2000 to 34 percent in 2013, though inflows have been weaker to Europe since 2007.²⁶

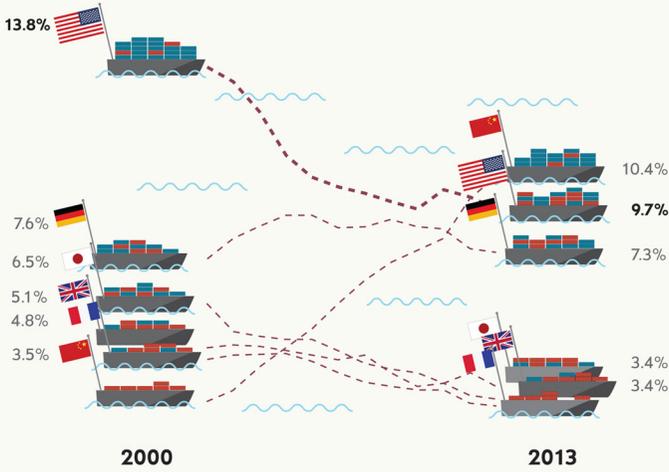
In international surveys, U.S. performance as a destination for foreign investment has been varied. The Conference Board of Canada has developed a barometer that compares the relative success of advanced economies in attracting FDI. In 2011, the United States ranked tenth of sixteen peer countries, behind the United Kingdom, Canada, Sweden, Australia, and Ireland, but slightly ahead of France and Germany and well ahead of Japan.²⁷ In a 2012 OECD study on openness to foreign investment, the United States placed thirty-fourth of fifty-five countries, behind such countries as Brazil, South Africa, and Argentina.²⁸ Again, however, some encouraging signs of progress are evident—over the past two years the A. T. Kearney annual survey of global executives has listed the United States as the most desirable location for foreign investment, and investor sentiment has turned strongly positive.²⁹ Falling energy costs have contributed to this shift, as new drilling technologies have made huge shale gas and oil deposits in the United States accessible and caused U.S. energy production to surge. This has reduced the price of natural gas in the United States to one-third or less of European prices and has been a major factor in the global oil price plunge. These changes have encouraged expanded investment in energy-intensive sectors such as chemicals and steel. Rising wage costs in China, flat wages for Americans, and the growing use of advanced manufacturing techniques that require higher skills have also boosted the attractiveness of the United States for investors.³⁰

Outward foreign investment by U.S. companies has been comparatively stronger. The United States is the world's largest foreign investor and accounted for about 25 percent of global FDI outflows in 2013.³¹ Investment abroad by U.S. companies has also been growing strongly, and in most years over the past decade, direct investment abroad by U.S. companies has been larger than foreign investment in the United States. With economic growth in developing countries far outpacing U.S. growth, successful U.S. companies have expanded overseas investments to take

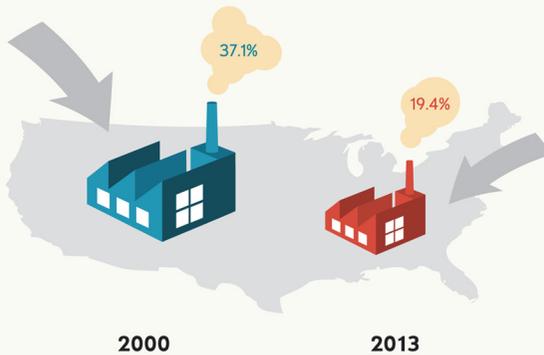
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U.S. Trade and Investment Policy

Losing Ground



The U.S. share of global exports is down.



The share of global foreign direct investment into the United States is down.

advantage of those opportunities. From 1999 to 2009, profits at foreign affiliates of U.S. companies grew much faster than in their U.S. headquarters, by an average of 7 percent versus just 1.7 percent for the U.S. parent companies.³² Ninety percent of overseas production by these companies was sold abroad rather than being imported back to the United States.

The overall U.S. record on trade and investment flows is mixed—the United States has seen strong growth in both imports and exports and in both inward and outward direct investment. But relative to many other advanced economies, the United States continues to underperform in exports and has fallen behind in attracting foreign investment. The policy challenge facing the U.S. government is to continue to address those areas of weakness so that greater economic benefits will flow from increasing U.S. integration into the global economy.

WHAT HAS BEEN DONE SO FAR

The Obama administration has embraced an active trade and investment policy, though it took several years to develop. President Obama was elected in 2008 after a campaign in which he expressed considerable skepticism about the benefits of continued trade opening. His administration waited nearly three years before sending to Congress three bilateral trade agreements—with South Korea, Colombia, and Panama—that the George W. Bush administration had negotiated. Since then, however, Obama has embraced what has become the most ambitious trade agenda in nearly two decades. The turnaround is not entirely surprising. Since the end of World War II, U.S. presidents have consistently favored policies that have accelerated U.S. integration into the global economy.

THE RISE OF THE REST: A STALLED WTO AND THE GROWING PROBLEM OF NONTARIFF/SERVICE BARRIERS

The United States has long been a leader in negotiations under the General Agreement on Tariffs and Trade, now a part of the World Trade Organization, and in a series of bilateral and regional trade negotiations, which have brought the average tariff on goods in most advanced nations down to well under 5 percent.³³ Agreements in the 1990s on financial services and telecommunications also helped set some basic rules for services trade, as did the accession agreements for new WTO

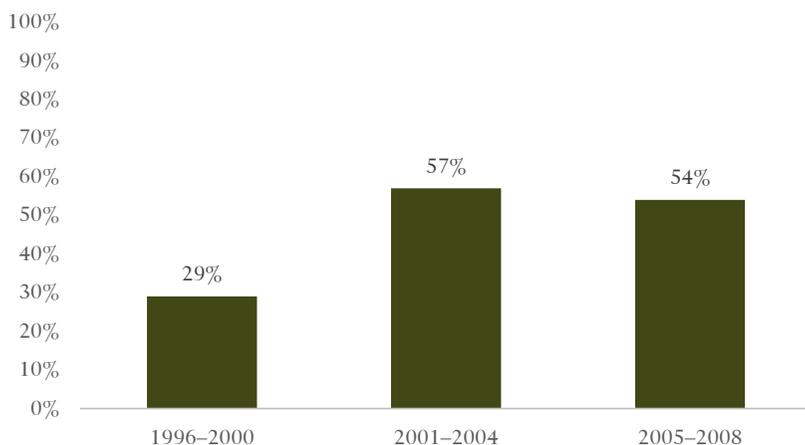
members like China and Russia. Until recently, global rounds of trade negotiations were dominated by the advanced economies, particularly the United States and the European Union, and their interests largely dictated the final terms of the agreements.

But the rise of wealthier and more influential developing countries—such as China, India, Brazil, and South Africa—has made global trade negotiations far more complex and difficult to conclude. The most recent round of WTO negotiations, the Doha Development Round, which began in 2001, has stalled. An important agreement to improve trade facilitation was reached in 2013 and finalized in 2014, though it has yet to be ratified by a sufficient number of countries to enter into force. Although average tariff levels on goods in emerging markets are much lower than in the past, they continue to be two to three times higher than in the developed world, ranging from 9 to 15 percent.³⁴

As conventional tariffs have become less of a problem, however, nontariff barriers have become a larger one, especially in emerging markets. These protective measures favor domestic industries at the expense of foreign competition. In multiple surveys since 2012 by the U.S.-China Business Council, for example, tariffs and quotas did not rank in the top ten problems for U.S. companies in doing business with China.³⁵ Instead, business leaders cited things like licensing approvals, intellectual property theft, foreign investment restrictions, competition with state-owned enterprises, and unfair regulatory standards. According to the WTO, the percentage of global trade affected by these nontariff barriers grew from less than 30 percent in the mid-1990s to more than half in the 2000s (see figure 2).³⁶ Although methodologies differ for estimating the effects of these various nontariff measures on trade, they are thought to impose costs at least twice as large as those added by tariffs and possibly much larger.³⁷

These kinds of barriers are especially problematic for services trade, where the United States is most competitive. The European Commission (EC) has developed estimates of the tariff equivalent of various protective measures around the world. In developing countries, the EC estimates that the telecommunications sector enjoys the equivalent of a 50 percent tariff but that exporters of construction services face an 80 percent hurdle.³⁸ Again, the problem is worse in emerging markets. Whereas average tariff-equivalent barriers on services are generally below 15 percent in advanced economies, they are many times higher in the major emerging markets, from 45 to 70 percent.³⁹ The United

FIGURE 2. SHARE OF GLOBAL TRADE VALUE COVERED BY NONTARIFF BARRIERS



Source: World Trade Organization (2012).

States, with a share of global services trade more than twice its nearest competitor, the United Kingdom, has the most to gain from removing such barriers.

Existing WTO negotiations have so far been inadequate for dealing with nontariff and services barriers. Many of these restrictions pose challenges for trade negotiators because the use of certain nontariff measures are allowed under WTO rules, and it is often difficult to distinguish between legitimate measures to safeguard consumers or the environment and measures intended to circumvent the rules in favor of domestic industries at the expense of foreign competition. In the service sector, the Uruguay Round's General Agreement on Trade in Services resulted in only modest commitments by member states to remove obstacles for foreign services providers, and little progress has been made in the Doha round negotiations.

FAVORING FREE TRADE AGREEMENTS AND PROTECTING INVESTMENT

Although the United States remains committed to multilateral trade liberalization, it has—like other countries—pursued bilateral and

regional free trade agreements (FTAs) as a second-best alternative, given the stalemate in WTO negotiations. FTAs also tend to be more comprehensive, eliminating tariffs and reducing nontariff and services barriers. FTAs have an added political and strategic advantage in that they signal a specific U.S. commitment to a country or region.

To date, the United States has entered into FTAs with twenty countries that account for about 40 percent of total U.S. trade, though two countries—Mexico and Canada—make up most of that share.⁴⁰ No FTAs have been reached with some of the largest emerging markets, including China, India, and Brazil.

The first FTA was signed with Israel in 1985. NAFTA, which was signed in 1994, created a trading bloc among the United States, Mexico, and Canada, and eliminated virtually all tariffs and most nontariff barriers on goods traded in the region within fifteen years. Many FTAs with smaller economies were negotiated under the George W. Bush administration, including the U.S.-South Korea FTA and the Central American FTA.

It is unclear what effect FTAs are having on overall U.S. trade levels. To some extent, FTAs divert U.S. trade from other countries as companies shift production to take advantage of tariff preferences, so it is difficult to assess whether overall trade is growing more rapidly than it would have in the absence of FTAs. Coming out of the recession since 2009, however, both U.S. exports and imports have grown more strongly with FTA partners than with countries that are not part of the preference arrangements. From 2009 to 2014, U.S. exports to FTA partners grew by 64 percent (versus 45.5 percent for non-FTA partners), and imports grew by 57 percent (versus 47 percent from the rest of the world).⁴¹

The United States has also sought to expand protection for its companies that are investing around the world, largely through the negotiation of bilateral investment treaties (BITs). BITs establish predictable rules for foreign investors, and in particular protect companies against arbitrary government expropriation of their assets. The United States has long favored provisions in these agreements, and in free trade agreements, that permit neutral arbitration in such disputes, commonly known as Investor-State Dispute Settlement (ISDS). The Obama administration recently reiterated its support for ISDS in the face of growing criticisms that the provision may weaken domestic laws.⁴² The TPP agreement, however, includes some changes to the ISDS procedures, and excludes tobacco companies from using private

dispute settlement. The EU is seeking broader changes, including the creation of an appeal mechanism, in the TTIP talks. Since 2013, the United States has been in BIT negotiations with China, which may address long-standing U.S. concerns over the treatment of investors in China and may also help facilitate Chinese investment in the United States. If successful, it would be the most important trade-related agreement between the United States and China since China's entry into the WTO in 2001.

***PUBLIC OPINION: EMBRACING TRADE, WORRIED
ABOUT UNEQUAL BENEFITS***

Though U.S. public opinion on trade has long been divided, in recent years Americans appear to be more persuaded that the potential gains outweigh the costs. Since 1992, Gallup has asked Americans whether they see foreign trade as primarily “an opportunity for economic growth through increased U.S. exports” or as “a threat to the economy from foreign imports.” Although public support for trade declined during the recession, over the past three years the poll has shown a comfortable majority of Americans view trade positively. In 2015, 58 percent of those surveyed responded that foreign trade is an “opportunity for growth,” an all-time high, and 33 percent saw it as a “threat to the economy,” an all-time low.⁴³ The last time the American public was this positive about trade was in 2000, which came at the end of nearly a decade of strong economic growth.⁴⁴

Americans are concerned, however, about what they perceive as unequal benefits from growing international trade. A 2012 Harris poll that looked at growing American concerns over economic inequality found that 81 percent of Americans believed that the loss of manufacturing jobs to China, India, and other low-cost countries has been a source of rising inequality. That was greater than the numbers pointing to any other cause, including education, the tax system, and the influence of big business and the wealthy.⁴⁵

This concern—that the benefits of trade are not being spread widely enough—has driven many of the recent Obama administration initiatives. Administration policies have focused particularly on boosting exports and attracting investment, with the explicit goal of creating more and better-paying jobs for Americans.

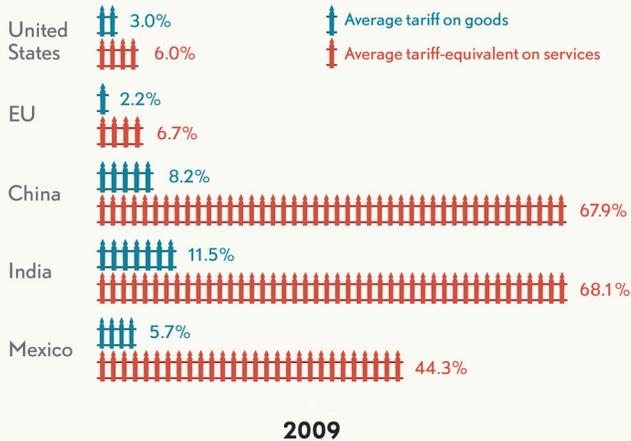
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U.S. Trade and Investment Policy

High Hurdles



The United States is most competitive in exporting services.



But barriers are much higher for services than for goods.

OBAMA ADMINISTRATION INITIATIVES

The Obama administration is pursuing an ambitious trade agenda that has renewed efforts to open foreign markets through trade negotiations and increased federal government support and advocacy for U.S. exports and FDI into the United States. Current trade negotiations with the Asia-Pacific and the European Union could lead to a significant expansion in U.S. trade opportunities, though the overall economic effects on the United States will likely be modest.

EXPORT PROMOTION: NATIONAL EXPORT INITIATIVE

The administration's first major trade initiative was aimed explicitly at turning around the historical U.S. underperformance in exports. In his 2010 State of the Union address, President Obama launched the National Export Initiative, promising that "we will double our exports over the next five years, an increase that will support two million jobs in America."

Under the NEI, the United States followed countries like France, Germany, and Canada in advocating more aggressively for its own exports. Advocacy efforts have involved a range of measures in which Commerce and State Department officials helped to find overseas buyers for U.S. goods and open doors in foreign markets. The U.S. Export-Import Bank's support for financing and insuring foreign purchases of U.S. products rose sharply during the recession and its aftermath, when private sources of financing were less available. Since then, lending has returned to historic norms. U.S. Export-Import Bank authorizations more than doubled from fiscal year (FY) 2008 to FY 2012, reaching a record \$35.8 billion, but in FY 2014, that number fell to \$20.5 billion.⁴⁶ These figures, however, remain small compared to authorizations made by other competitors.⁴⁷ The administration has also taken steps to boost tourism in the United States, which is the largest source of services exports, by speeding up consular processing of tourist visas and by concluding a 2014 deal with China to mutually extend the validity of tourist and business visas from one year to ten, so that Chinese who travel frequently to the United States will no longer have to renew their visas each year.

Although difficult to measure, given the larger macroeconomic factors that chiefly determine trade flows, the NEI has likely had a positive

effect. The number of U.S. firms exporting topped three hundred thousand in 2012, a new record, and is up more than 10 percent from 2009, despite a slight dip in 2013. Exports reached an all-time high of over \$2.3 trillion in 2014. In comparison with other countries, however, the rate of U.S. export growth coming out of the recession was roughly on par with the global trend.⁴⁸

The NEI fell well short of the president's goal of doubling exports by the end of 2014. From 2009 to 2012, exports grew by 40 percent, but growth has slowed dramatically since then. Since 2012, exports have grown by less than 3 percent per year, which is less than half of the historical average since 1990. The NEI also fell short of its job goals, though rising exports have supported a growing number of jobs. According to Commerce Department preliminary estimates, exports supported 11.7 million U.S. jobs in 2014, an increase of 1.8 million jobs since 2009.⁴⁹

In 2013, the NEI transitioned into a new phase called NEI/NEXT, which shifted the focus away from broad numeric goals in favor of specific policies that create a favorable export climate. Government agencies will continue to provide firm-level assistance like export financing and guidance from government staff, as well as complete larger projects like implementing a digital "single window" portal for trade documents.

INVESTMENT PROMOTION: SELECTUSA

Investment promotion has also been a high priority for the administration, though the effort remains a fledgling one. The administration launched its new SelectUSA initiative in June 2011. The program works at the federal level to coordinate FDI promotion efforts, reach out to foreign governments and investors, support investment promotion at the state level, and address investor concerns about the U.S. business climate. Since 2013, the Commerce Department has hosted an annual SelectUSA Investment Summit aimed at connecting international businesses that are looking for investment opportunities with U.S. economic development organizations at the state, regional, and local levels that are looking to attract foreign investment. FDI flows are volatile; foreign investment in the United States was \$236 billion in 2013, the third-highest level over the past decade, but then fell to just \$98 billion in 2014, the lowest in more than a decade.

SelectUSA remains a small operation, however, and most efforts to attract foreign investment are led by individual states. President Obama has asked Congress for \$20 million for the program in his FY 2014 and FY 2015 budgets, but Congress has only authorized a fraction of that amount. In comparison, competitor economies such as France, Germany, Canada, and the United Kingdom each spend an average of nearly \$60 million each year on investment promotion.⁵⁰ Congress has also considered, but failed to pass, legislation that would require the administration to develop new strategies for boosting foreign investment.

TRADE NEGOTIATIONS: TPP, TTIP, AND TACKLING TECHNOLOGY AND SERVICES BARRIERS

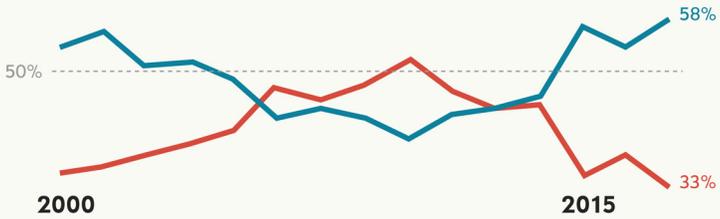
In October 2015, the United States reached an agreement in the TPP talks with its eleven negotiating partners—Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, Japan, and Vietnam. The Obama administration played a crucial role in bringing Japan into the talks, and Japan formally joined the negotiations in July 2013. South Korea has announced its desire to join the TPP as well, and other countries including Indonesia and the Philippines have expressed interest. The Obama administration has called TPP a “twenty-first century agreement” that goes beyond previous pacts in removing trade barriers and raising standards in areas such as environmental protection, workers’ rights, and intellectual property rights. The agreement, if successfully ratified, will include an accession clause, and participants hope that other countries, especially China, will sign on to the high-standard, comprehensive agreement after it is formed. In addition to lowering or eliminating traditional trade barriers like tariffs and quotas on agricultural and industrial goods, the TPP is aimed at reducing regulatory barriers that hinder the performance of U.S. companies, especially in services sectors, ensuring the free flow of data and reducing subsidies and other government support to state-owned enterprises.

In June 2013, the United States and the European Union launched the Transatlantic Trade and Investment Partnership negotiations, aimed at creating what would be the world’s largest trading pact, encompassing nearly half of global economic output. The most difficult issues concern

Trading Up

U.S. Trade and Investment Policy

Looking Ahead

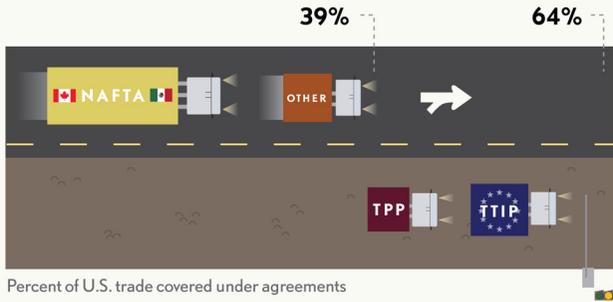


What Americans think foreign trade means for the United States:

"A threat to the economy from foreign imports"

"An opportunity for economic growth through increased exports"

Americans are again positive about trade.



U.S. government trade talks with Asia (TPP) and Europe (TTIP) could deliver the biggest market opportunities in a generation.

ways to mesh U.S. and EU regulations. The Centre for Economic Policy Research in the United Kingdom has estimated that 80 percent of the potential economic gains from the TTIP will come from reducing conflicts and duplication between U.S. and EU rules on regulatory issues ranging from food safety to automobile parts.⁵¹

Neither of these agreements promises enormous short-term economic gains. The TPP is estimated to add 0.4 percent annually to U.S. GDP by 2025, while the TTIP will similarly boost U.S. growth by about 0.4 percent of GDP after ten years.⁵² But both agreements could have significant longer-term benefits. The TTIP, by increasing cooperation on regulatory standards in the world's two biggest consumer markets, could increase investment in the United States by ensuring that goods made to U.S. standards can be sold freely in Europe, and vice versa. Other countries will face increased pressure to adopt similar regulatory standards. By setting new trade rules for much of the Asia-Pacific, the TPP will likely encourage large developing countries such as China and India to either seek membership or harmonize their trading practices with the TPP rules.⁵³

The Obama administration is also taking on nontariff and services trade barriers in other negotiations. The United States, the European Union, Japan, and twenty other WTO economies began talks on a “plurilateral” services agreement in March 2013, aimed at further liberalizing trade in services industries. The big developing economies, including China, Brazil, and India, are not participating, though China has indicated some interest in joining. The demand for services will likely expand in the coming years with the growth of middle-class populations around the world and further advances in Internet and communications technology. Thirty-three WTO members, including the United States, also recently reached an accord to further liberalize trade in high-technology products, updating the 1996 Information Technology Agreement. And in 2014, forty-three WTO members finalized revisions to the Government Procurement Agreement, which opens government purchases to foreign providers. This agreement also has twenty-eight observer members, of which ten—including China—are currently working to become full members. Efforts are being made bilaterally as well. For example, the U.S.-China Strategic and Economic Dialogue and the U.S.-China Joint Commission on Commerce and Trade are attempting to address a range of regulatory, licensing, and standards barriers.

Besides negotiating new trade agreements, the administration has also emphasized enforcement of existing trade agreements. It created a new Interagency Trade Enforcement Center in 2012 to better coordinate U.S. government actions to prevent violations of trade agreements and to challenge violations through the WTO and other mechanisms. The United States has won several big WTO disputes with China, including China's restrictions on electronic payment services, its subsidies for auto and auto-parts exports, and its export restraints on certain raw materials. These cases have been aimed at opening the Chinese market to exports of U.S. goods rather than at protecting the U.S. market from Chinese imports.

FUTURE PROSPECTS

If the United States completes and ratifies the various trade negotiations currently under way, it will mark the biggest expansion of trade liberalization since the conclusion of NAFTA and the Uruguay Round in the early 1990s. The TPP and TTIP would increase the share of U.S. trade covered under FTAs from 39 to 64 percent. In addition, the negotiations on services and high-technology goods promise additional market opening in sectors where the United States is highly competitive. The result will be not only future opportunities for exports and investment, but also an increasingly competitive landscape to which U.S. companies and governments will need to respond. Although U.S. performance has been improving, the United States is still far from realizing the potential to strengthen its economy through trade and foreign investment.

The Obama administration also faces challenges in winning congressional approval for its trade agenda. Despite broad agreement between most Democrats and Republicans on the value of increasing trade, deals with developing regions such as Mexico and Central America have been more controversial than those with more advanced economies because of concerns over competition from low-wage countries. The TPP includes both developing countries, such as Vietnam, and more advanced ones, such as Japan, that have traditionally run large trade surpluses with the United States.

If these agreements are concluded successfully and ratified by Congress, challenges will still remain in exploiting these new market

opportunities in ways that bring broad benefits to U.S. workers and consumers. The Obama administration's initiatives on exports and foreign investment have targeted the right problems, but the results are still modest to date. Future progress will require concerted focus by governments to make the United States a more attractive place for companies to invest in, produce, and export goods and services.

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