Global Markets and Resources to Reach Them

By Jack Cobb and Andy Karellas

Looking to the global marketplace for economic development and paying attention to export and import trends is no longer an option for state policymakers—it is a necessity.

Less than 5 percent of the world's population lives in the United States, which means that over 95 percent of the potential customer base for American businesses lives beyond our borders. While the U.S. does hold a disproportional 20 percent of global purchasing power, our businesses can only truly succeed if they find ways to tap into consumers abroad. Unfortunately, as of 2014, only 11.7 million jobs in the U.S. were built directly on exports.[1] In addition, foreign-owned companies employ 6.1 million Americans with an additional 2.4 million employed in these firms' supply, distribution and other indirectly supported jobs.[2] Jobs from both exporting and foreign direct investment, or FDI, account for only 14 percent of the total U.S. workforce.

Looking to the global marketplace for economic development and paying attention to export and import trends is no longer an option for state policymakers—it is a necessity. As the U.S. continues to recover from the Great Recession and reinvent multiple industries, particularly manufacturing, international engagement on both exports and FDI must be a baseline activity for state trade promotion agencies rather than a best practice.

There was a time when the federal government was the gatekeeper for international trade policy and engagement. Today, states have more opportunities and resources at their disposal to drive trade policy, making it very important for state leaders to understand those policies—particularly how free trade agreements affect their state—as they craft their job growth strategies.

Free Trade Agreements

The federal government does play the predominate role in negotiating trade agreements. Although these can be contentious, free trade agreements are, at their essence, an agreement between two or more countries to abide by certain rules that affect trade and offer protections for investors and intellectual property rights. They are designed to reduce barriers to trade, protect U.S. competitive interests abroad and enhance the rule of law among partner countries.

The U.S. has completed negotiations on the Trans-Pacific Partnership agreement, or the TPP. TPP is a proposed multilateral trade agreement with 11 other nations: Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. These nations collectively have a market size of nearly 800 million consumers and account for nearly 40 percent of the world's Gross Domestic Product. In 2014, U.S. businesses exported roughly $726 billion in goods—or 45 percent of total U.S. material exports—and $178 billion in services to TPP countries.[3] These exports support an estimated 15.6 million direct and indirect American jobs while foreign direct investment in the U.S. from companies based in TPP countries was valued at $720 billion and employed 1.6 million people. The proposed TPP would remove 18,000 foreign taxes and barriers on U.S. goods and services in the other 11 partner nations. Under the terms of the Trade Promotion Authority, or TPA, signed into law in 2015, TPP must be reviewed and receive a vote in the House and Senate within 90 days of the agreement's formal submission by the President to the Congress.

In addition to projected increases in exports from the manufacturing and service sectors, food and agricultural exports in the U.S. reached $150 billion in 2014, supporting more than 1 million jobs. The U.S. Department of Agriculture released a report in April 2015 showing how a finalized trade agreement would benefit all 50 states. The report details the market potential for American-grown agricultural products, such as apples and wheat, in the other 11 participating TPP nations.

While the White House prepares for TPP's formal submission to Congress, a similarly ambitious trade deal with the European Union, the Transatlantic Trade and Investment Partnership, or TTIP, is in advanced stages of negotiation. This partnership would bring together two of the world's leading economies and estimates suggest the increase in bilateral trade could see a net employment gain of nearly 750,000 jobs for the U.S.

A report produced by the Atlantic Council, Bertelsmann Foundation and the British Embassy in Washington, D.C., "TTIP and the Fifty States: Jobs and Growth from Coast to Coast," suggests each state will not only see employment gains but that household income could rise by up to 13 percent per capita. According to this analysis, states that currently have the highest unemployment rates could benefit the most with better-than-average job growth. According to the report, states set to benefit the most from a transatlantic trade agreement in terms of employment are those that rank highest in population—California, Florida, New York and Texas. Some states—such as Georgia, North Carolina and Pennsylvania—will outperform the average in relation to population.

Federal and State Collaboration

Through the TPP and TTIP agreements, U.S. trade negotiators seek to eliminate foreign tariffs and reduce many of the nontariff barriers that prevent American small businesses from competing in foreign markets. A corresponding challenge is to increase the number of American businesses that export, as less than 1 percent of American companies export. According to the National Small Business Association, one of the largest challenges for small businesses is a lack of understanding about the export process. While small account for 98 percent of exporting firms, they represent only 34 percent of exports in terms of value.[4] By decreasing barriers, red tape, and overall cost of doing business, small businesses can greatly benefit from free trade agreements and realize the potential these markets offer.

A wide variety of federal departments and independent agencies provide direct assistance to firms looking to export their goods as well as indirect assistance through grants to state and local partners. Part of the challenge the National Small Business Association identified is navigating this web of resources. A step toward improving this situation has been made through the Trade Facilitation and Trade Enforcement Act of 2015, signed into law by President Barack Obama in February 2016. This Act requires the development of a framework to improve coordination between federal trade promotion offices and states in an effort to help small businesses navigate and utilize the various federal and state export promotion resources available to them.

As the federal government focuses on concluding large free trade agreements on the international front, the act's domestic work to improve federal-state coordination will ensure American businesses are better positioned to navigate the export process and capitalize as these new markets and opportunities become available.

While those efforts are underway, state trade offices vary in capability and resources as they work to develop their presence and services in a post-recession global economy. Many state offices assist American businesses by facilitating foreign trade missions and local events, providing counseling and training, as well as offering a number of technical services to identify suppliers and produce pricing analyses. The Trade Facilitation and Trade Enforcement Act also helps facilitate states' work in this area through the reauthorization of the State Trade and Export Promotion, or STEP, program.

State Trade and Export Promotion Program

Recently reauthorized and entering its fifth year, the Small Business Administration's STEP program competitively awards matching grants to state trade promotion agencies. These grants are designed to help states provide resources to small businesses so that they can more easily begin exporting and increase the value of their exports. The grants also support state efforts to help small businesses participate in, and organize their own, international trade missions. In its first four years the program awarded more than $84 million to state trade agencies, making possible the technical assistance and guidance necessary for small businesses to navigate and compete in markets around the world.

According to a survey conducted by the State International Development Organizations, or SIDO, more than 80 percent of state trade directors find STEP to be "very important" or "extremely important" to the success of their export promotion efforts. In fact, eight states report that the STEP program provides more than half of their total budget for export promotion activities. This impact is part of the reason the program was reauthorized by Congress through 2020.

According to Ann Pardalos, manager of the International Trade and Investment Office in Missouri's Department of Economic Development, "The STEP program was able to assist many states with extending their reach overseas and, in some instances, by establishing representative offices for the purpose of export and trade promotion." In 2012, Missouri received a STEP grant that was used to assist 155 small businesses engage in exporting. Overall, the STEP program has resulted in more than $26 million in export transactions for Missouri companies, while helping to create 155 new jobs.

Notes

[1] Office of the U.S. Trade Representative. "The Trans-Pacific Partnership: Economic Benefits" *https://ustr.gov/sites/default/files/TPP-Economic-Benefits-Fact-Sheet.pdf*

[2] Richards, Julian and Schaefer, Elizabeth. Jobs Attributable to Foreign Direct Investment in the United States. Office of Trade and Economic Analysis, International Trade Administration, U.S. Department of Commerce. February 2016

[3] Business Roundtable. "The Trans-Pacific Partnership Agreement: An Opportunity for America" *http://businessroundtable.org/sites/default/files/reports/TPP%20 Overview%202016.pdf*

[4] "Exporting is Good for Your Bottom Line." International Trade Administration, U.S. Department of Commerce *http://www.trade.gov/cs/factsheet.asp*

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