UNITED STATES COUNCIL FOR INTERNATIONAL BUSINESS

USCIB Comments Regarding Causes of Significant Trade Deficits for 2016
Docket Number: **DOC 2017-0003**
May 10, 2017

The United States Council for International Business (USCIB) supports opening foreign markets for U.S. companies so American companies and American workers can compete, win, and prosper. The Administration should make a priority removing barriers of all kinds as well as unfair trade practices that undermine Americans' jobs as they compete for customers at home and around the world. To that end, USCIB supports policies that will establish a level playing field for U.S. businesses while ensuring that trade and investment delivers the widest benefits for the most people here at home.

On the specific issue of trade deficits, particularly bilateral deficits (or surpluses) with individual countries, USCIB supports the view of most mainstream economists, who are convinced that trade deficits are a product of broader macroeconomic factors, not trade policy, and that the trade balance should not be viewed as a straightforward indicator of a country's economic health.[1] While it is useful to address trade barriers that impede access for U.S. goods and services exporters to specific markets, we should not set up bilateral trade balances as the metric of successful trade policies.

It is also important to include services trade in any analysis of trade balances. In the United States, services account for almost 80% of GDP, and services jobs account for more than 80% of private sector employment. Accordingly, a trade policy focused solely on trade deficits in manufacturing is misleading. According to the November 9, 2016 Congressional Research Service (CRS) report on U.S. Trade with Free Trade Agreement (FTA) Partners, while the U.S. had a merchandise trade deficit of $762.6 billion in 2015, the U.S. experienced a trade surplus in services of $262 billion.[2] The goods and services balance with our FTA partners fares even better, clearly showing the benefit of trade agreements. For example, while in 2015 the United States had a goods deficit with Canada of $15.5 billion, when looking at goods *and* services, the United States had an overall *surplus* of $11.9 billion. It is also notable that the United States runs trade surpluses in services with all but one of the markets of focus for the CRS report.

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[1] See Peterson Institute for International Economics, *Free Trade Agreements and Trade Deficits*, March 31, 2016. https://piie.com/blogs/trade-investment-policy-watch/free-trade-agreements-and-trade-deficits.
[2] Congressional Research Service, *U.S. Trade with Free Trade Agreement (FTA) Partners,* November 9, 2016. https://fas.org/sgp/crs/misc/R44044.pdf.

Focusing just on U.S. trade with our 20 existing FTA partners, including the North American Free Trade Agreement (NAFTA) partners Canada and Mexico, as well as the Central America Free Trade Agreement (CAFTA) and the 11 bilateral FTAs, the data is particularly instructive. **With the U.S. 20 FTA partners, some large, others small, in 2015 (the latest year for which data is available) the United States ran a merchandise trade deficit of $64.0 billion and a services surplus of $71.8 billion, yielding an overall trade *surplus* of $7.8 billion.** In contrast, the largest overall (goods and services) deficits were with countries (e.g. China, Japan, Vietnam and major European Union (EU) members like Germany and France) with which the United States does *not* have FTAs.

Further, if one subtracts petroleum that the United States *must* import, the manufacturing deficit looks very different, and substantially smaller. It must be recognized that the United States cannot produce (or in sufficient quantity) every good it needs or wants to consume. Moreover, due to global value chains (GVCs), the U.S. content in imports from FTA countries must be considered, as it is significantly higher than in imports from non-FTA countries. Accordingly, focusing on a single data point, i.e. the deficit, is extremely misleading and will result in a faulty analysis.

The CRS report also cites the U.S. International Trade Commission's (ITC) economic analysis from June 2016, which found that bilateral and regional trade agreements have not only increased bilateral trade, but also U.S. exports, real GDP, total employment, and real wages.[3] The positive impact of trade and trade agreements is clearly reflected in the data, demonstrating that looking at only one part of the equation is insufficient for an accurate determination of the impact of trade on the economy.

Trade and investment are essential for economic growth, competitiveness, development and jobs. Investment, including foreign direct investment (FDI), drives economic growth, innovation, international trade, competition, job creation, and prosperity in the United States. For this to work, however, the playing field must be level among all trade and investment partners. Market distortions, such as subsidies, regulation, or legislation, are harmful to growth. In some instances, the regulatory environment and trade rules, particularly for services, are behind and need to be modernized.

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[3] *Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2016 Report*, Publication number 4614, United States International Trade Commission, June 2016. https://www.usitc.gov/publications/332/pub4614.pdf.

This includes harmful policies like forced localization, which require companies to locate operations or source products within a country and restrict the ability of U.S. companies to compete in that market. Not only do these policies negatively affect the global economy, they also negatively affect the domestic economies in which they are implemented.

These policies can include forced local ownership, employment, data storage and restrictions on e-commerce, local production as a condition of market access and of preferential investment, tax, and pricing policies, forced use of a certain percentage of local content, discriminatory customs requirements, and prejudice against FDI. Localization policies can be injurious to domestic economies in several ways, such as increased costs, limiting competition and thus choices for businesses and consumers, and discouraging innovation. We note that the work on the Trans-Pacific Partnership (TPP) in this area was praised by Secretary Wilbur Ross and USTR-designate Robert Lighthizer as an area of future importance to the economy.

Resorting to protectionist measures, while perhaps providing short-term relief for favored sectors, can counterproductively also severely damage other U.S. companies (upstream, downstream, or competing technologies) as well as hurt hard-pressed U.S. consumers. Further, such an approach invites countries with which we may have a trade surplus to undertake similar measures, and cause a downward spiral that will not benefit the U.S. economy.

FTAs have, on balance, been beneficial to the U.S. economy. In addition to providing concrete economic benefits, they serve the purpose of raising the standards of the rule of law in other markets to approach those we have developed in the United States. FTAs, therefore, provide the opportunity for the United States to write the global rules on issues important to our businesses, including customs and trade facilitation; digital trade, including freedom of cross-border data flows; and State-Owned Enterprises (SOEs). Digital trade issues are important for businesses of every size and across every industry that use technologies powered by the Internet and cloud computing to be more productive and reach new customers. The benefits are especially pronounced for American small and medium sized enterprises (SMEs): according to a 2013 study by the Boston Consulting Group (BCG), if more U.S. SMEs used the full range of available IT tools, including productivity software, Internet connectivity and new cloud-based services, these businesses could add more than $350 billion into the economy and hire more than 2 million additional employees.[4] What's more, plurilateral FTAs and multilateral trade agreements provide the same trade rules to the widest number of trading partners. This creates predictability and

[4] Boston Consulting Group, *Ahead of the Curve,* 2013. https://www.bcgperspectives.com/content/articles/technology_software_globalization_ahead_curve_lessons_technology_growth_small_business_leaders/

efficiency, allowing manufacturers and exporters to not have to design their production to meet multitudinous trade requirements that individual bilateral agreements necessarily entail.

USCIB continues to work on improving existing trade relationships for our companies, as well as supporting new initiatives that improve the trade and investment climate for companies competing in the global market. Twenty-three years ago, NAFTA resulted in major trade and investment opportunities with Canada and Mexico, our second and third largest trading partners, which together purchase one third of our exports. Since the implementation of NAFTA, U.S. trade with these two markets has more than tripled, with a positive impact on U.S. GDP of 0.5%, or several billion dollars of added growth per year. Regarding some of the critiques of NAFTA, the Peterson Institute for International Economics (PIIE) has found that NAFTA did not foster a noticeable growing U.S. trade deficit, nor did trade with Mexico raise U.S. unemployment at a perceptible level.[5] However, there are many new issues of concern for business which should be addressed in an update of the agreement, including on electronic commerce, telecommunications, digital trade, cross-border data flow, and state-owned enterprises. Several other areas currently covered by the agreement also require an update, including intellectual property protections and services.

The way business is done here at home and around the world has also changed over the years. Trade relationships are no longer simply bilateral in nature, rather companies operate within GVCs, where the different stages of the production process are located across different countries. This also means that the value added by any particular country into a particular good or service has become more difficult to determine. The OECD, with which we work as the sole U.S. representative to the Business and Industry Advisory Committee (BIAC – Business at OECD), has attempted to address this issue in their joint OECD-WTO Trade in Value-Added (TiVA) initiative.[6] TiVA covers 63 economies and 23 unique industrial sectors and provides insight for example into domestic value added content of imports, and bilateral trade relationships based on flows of value added embodied in domestic final demand, among many others.

Trade is not a zero-sum game. Others do not have to lose for the United States to gain from trade and investment relationships with other markets. USCIB supports the view shared by most economists that open trade and investment leads to economic growth and development, as well as jobs. While trade deficits are certainly part of the equation, they do not capture the entirety of the issues surrounding international trade and investment, particularly if one only looks to goods and

[5] Peterson Institute for International Economics, *NAFTA 20 Years Later*, PIIE Briefing No. 14-3, November 2013. https://piie.com/publications/briefings/piieb14-3.pdf.

[6] See http://www.oecd.org/industry/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm.

fails to include services. A most holistic narrative is necessary to capture the effects of trade and trade agreements.

USCIB's core function is representing U.S. business internationally, including in the International Chamber of Commerce (ICC), the Organization for Economic Cooperation and Development (OECD) and in the International Labor Organization (ILO) and other United Nations (UN) organizations and agencies. USCIB enjoys an unparalleled network of international partner business organizations. International trade and investment policy has long been a primary focus of our policy work. We have been a strong and consistent voice, both here at home and internationally, for open and competitive trade systems, and have supported efforts of various U.S administrations to open foreign markets and ensure a level playing field for U.S. business.

In summary, when it comes to trade deficits, USCIB recommends that the Administration:

- Examine the trade deficit within the broader set of macroeconomic factors that determine it and include all elements of trade (services, agriculture, and manufacturing) in the analysis, instead of focusing solely on bilateral manufactured goods trade balances.
- Work with experts around the U.S. Government, international organizations, and academia to get the best data possible to guide the best policy making. We need much better measurements of real trade flows and value added, including in complex global supply chains and in services. We also need better data on FDI flows, both inward and outward.
- Move aggressively to open foreign markets, identify and combat foreign trade barriers to increase U.S. exports and improve our trade balance. We support the use of appropriate enforcement tools including the WTO, bilateral and regional trade agreements, U.S. trade laws, and efforts to open those markets and to combat illegal foreign subsidies and dumping into the United States.
- Accelerate U.S. Government "commercial diplomacy" efforts to support U.S. companies (small as well as large) competing to win deals overseas.
- Reform the U.S. Government's economic policies, including tax reform, regulatory reform, and energy development, to bolster the competitiveness of our firms (and workers), allowing them to win more and bigger deals overseas.

USCIB and our member companies appreciate the opportunity to comment on the Administration's review of Trade Deficits. We would welcome an opportunity for an in-depth follow-up discussion with those leading the Administration's review.