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National Export Initiative

Only a Passing Grade.

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It took a while, but the Obama Administration has finally drawn the connection between international trade and job creation. After neglecting trade policy for a year, President Obama, in his State of the Union address, announced the goal of doubling U.S. exports over the next five years, an increase that would support two million jobs, and he launched the National Export Initiative (NEI) to promote American exports. Like other Administration initiatives, the ambition was soaring. The problem has been with the execution.

Six months after launching the NEI, the White House held an event on July 7 where the President gave a progress report and touted its success. He said the NEI was "off to a solid start" giving it, in effect, an "A" for effort. Measured against objective criteria, however, it only deserves a passing grade.

The most notable "success" attributed to the NEI has been increasing U.S. exports by almost 17 percent over the first four months of this year compared to the same period last year. That statistic is hardly due to the NEI. During the same period last year, the world was in the midst of the worst recession since the 1930s. Global trade actually declined. The economy has since stabilized and the U.S. has begun a slow, stuttering recovery. From such a low base, exports would have increased regardless.

The NEI is mostly about shuffling the bureaucracy around, creating new government programs and cheerleading. The United States Trade Representative has set up an office to help small business and the Commerce Department has led 18 trade missions. The U.S. government has been promoting U.S. exports through dozens of trade advocacy programs for years. The NEI is more of the same.

The Export-Import Bank has increased its loan authorizations, but still places other policies ahead of job creation. It took intense political pressure to get the bank to reconsider an application from Bucyrus, a heavy equipment manufacturer in Wisconsin, to sell mining equipment to build a power plant in India. The bank had rejected the application because the plant's carbon footprint was too large, even though the project would support 1,000 U.S. jobs.

The White House takes credits for enforcing trade agreements, citing the recent WTO ruling in favor of Boeing in its subsidies dispute with Airbus, but neglected to mention that the dispute has been pending

for almost a decade and the work to prepare the case and argue it before the WTO was done before the current Administration took office.

Export control reform is included in the NEI. There are many reasons to reform U.S. export controls, but those reasons are grounded on national security, technology leadership and industrial base considerations. A simpler licensing system may have some impact on jobs by making it easier for companies to export, but job creation is a collateral benefit that in any case will not be seen for years.

Worse than inaction, the Administration wants to impose higher taxes on companies that invest overseas by changing the provision in the tax code that allows U.S.-based multinationals to defer paying taxes on overseas income until repatriation.

The main news of the White House event was the appointment of 16 CEO's to an Export Council, a largely symbolic gesture. The announcement overshadowed thetwo concrete results for which the Administration can fairly claim credit, i.e., the agreement with China to reopen its market to U.S. pork products and the agreement with Russia to reopen its market to U.S. poultry exports.

In sum, there is not much to show for the NEI to date. If one measure of progress is the number of jobs created, there is still a long way to go, as is evident from the unemployment number, which still stubbornly hovers at about 9.5%.

The NEI is not a substitute for policies that improve the conditions for companies to do business internationally. It was encouraging to hear at the White House event that the President supports the three Free Trade Agreements with Colombia, Panama and Korea that have been pending for years, and he said he will push for enactment of the Korean FTA, or KORUS, this year. To date, the President's support for the FTA's has only been rhetorical. Their enactment in the earliest days of the recession would have "created or saved" thousands of jobs. In the meantime, these countries have been concluding FTA's with other countries, who are taking market share from U.S. exporters.

It is also encouraging that the Administration has agreed to take part in the Trans Pacific Partnership (TPP) initiative, but these negotiations will take years to complete and will not have any effect on today's employment. It is not clear in any event whether a TPP agreement could be enacted given the united opposition of Democrats in the House of Representatives, who follow the lead of labor and environmental groups that insist their policies should trump all others, including job creation. For the Administration, TPP is another example of voicing rhetorical support for free trade agreements without having to use any political muscle to enact one.

The Administration's lack of leadership on trade is evident in the failure to resolve the lingering trucking dispute with Mexico, even after four meetings with President Calderon. Mexico has imposed duties of $2.4 billion to retaliate against the cancellation of a program to demonstrate the safety of Mexican trucks as required by NAFTA.

The Doha Round too is essentially dead, despite the Administration's repeated calls for an "ambitious" result. The U.S. is by no means entirely to blame, but it is necessary for the largest economy in the world to lead, not take a back seat while other countries and their interests dominate the agenda.

Making the U.S. more attractive for foreign investment should be an obvious way to create jobs. At home, however, we have one of the highest corporate tax rates in the world with the prospect of higher taxes next year and beyond. The Administration's frequent economic interventions and demonization of foreign businesses have caused uncertainty. Foreign investors are holding back.

Investment abroad also boosts exports and creates U.S. jobs. This may not seem obvious, but in a recent study commissioned by the U.S. Council for International Business and the Business Roundtable, Prof. Matthew Slaughter of the Tuck School of Business at Dartmouth analyzed data from the Bureau of Economic Analysis and concluded that American multinational enterprises create new and better paying jobs at home through their participation in the global economy. Overseas investment of these companies

complements rather than substitutes for domestic employment, employee compensation and investment. With just 20% of our domestic output, 30% of capital investment, 45% of our exports and 75% of domestic R&D, U.S. based multinational companies account for approximately 45% of U.S. exports to facilities overseas—facilities that have been established (for the most part) not to take advantage of cheap labor but to be closer to customers and growing markets.

Instead of actively promoting international investment, however, the Administration launched a review of the model Bilateral Investment Treaty (BIT) used in negotiations with other countries to protect U.S. investments abroad. The need for such an exercise is questionable since the previous model BIT review took place less than a decade ago. Labor union and environmental members of the committee, still wedded to the belief that investment ships jobs overseas, have used the platform to advocate changes to the model BIT that would make it easier for other countries to expropriate property without compensation and avoid international legal obligations.

India is a case in point. As part of the new strategic partnership with the U.S., India has expressed a willingness to discuss a bilateral investment treaty which would, among other things, address the formidable regulatory obstacles to foreign investment in India. Negotiating a BIT with India will not be easy, but there has been no progress while the model BIT review is underway.

Worse than inaction, the Administration wants to impose higher taxes on companies that invest overseas by changing the provision in the tax code that allows U.S.-based multinationals to defer paying taxes on overseas income until repatriation. In the same State of the Union Address that launched the NEI, the President declared that "it is time to slash the tax breaks for companies that ship our jobs overseas, and give those tax breaks to companies that create jobs right here in the United States of America." Increasing taxes on the companies that account for 45% of U.S. exports completely contradicts the NEI.

Business groups have begun to criticize the President for pursuing a regulatory and political agenda that trumps a growth agenda. It is a criticism that rings true for international trade as well as for other aspects of the U.S. economy.

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