

## ***Promoting Open Markets and a Level Playing Field***

American manufacturers support an open trading system in which both they and their competitors face the same rules. Leveling the playing field internationally will require a three-part strategy:

1. It will require the encouragement of economic growth and the pursuit of trade agreements that eliminate barriers to exports of U.S. manufactured goods.
2. It should include the aggressive enforcement of current trade rules, particularly in the context of the World Trade Organization, to ensure compliance.
3. It should reinforce current efforts to promote exports of U.S. manufactured goods and services in growing foreign markets. Increasingly, those efforts must be adapted to the needs of U.S. manufacturers and service providers, particularly small and medium-sized businesses, by focusing on their ability not just to enter foreign markets, but also to become a part of global supply chains.

The following recommendations build on President Bush's strong commitment to ensure free and fair trade. They represent a further step toward fulfilling the three-part strategy outlined above.

### **Encourage Economic Growth and Open Trade and Capital Markets Abroad**

One of the key features hampering both the prospects for a stronger recovery in U.S. manufacturing and ensuring a better balance in U.S. trade is the slow economic recovery among many major U.S. trading partners. The United States should encourage the adoption of growth-oriented economic policies as a means of spurring growth and expanding markets for U.S. manufacturers.

President Bush has taken the lead in promoting economic growth and open trade among America's trading partners. The coming year presents a number of significant opportunities to reinforce that effort, including G7 finance ministers' meetings, the G8 economic summit that the United States will host in June 2004, and the prospect of concluding trade agreements with a number of significant U.S. trading partners.

As President Bush has indicated, the goals of raising growth and increasing stability can best be accomplished in an international financial system that relies on the principles of free trade, free capital flows, and market-based flexible exchange rates among the major economies.

In addition, the following steps should be taken:

#### ***Encourage the Growth and Development of Foreign Capital Markets***

Efficiently functioning capital markets are key to promoting economic growth. The United States should promote market-based prices and interest rates, including the phase-out of government subsidies and directed lending, in order to allocate capital more efficiently, raise productivity, and encourage economic growth.

#### ***Negotiate Liberalization of Markets for Financial Services in All Trade Agreements***

Consistent with the Bush administration's proposal in the ongoing WTO negotiations, the United States should press for the elimination of all barriers to trade in financial services within the WTO and as a part of any bilateral or regional free trade arrangement, subject to prudential measures. Removing such barriers and introducing competition to the markets for financial services not only creates new market opportunities for U.S. services companies that serve U.S. manufacturers,

but also serves as a necessary predicate for efficiently functioning capital markets that are key to economic growth.

### **Negotiate Trade Agreements That Benefit U.S. Manufacturers**

Most manufacturers believe that the most effective step that the U.S. government can take to promote a level playing field is to eliminate the barriers that inhibit market access for U.S. exports and to discipline the unfair trade practices that other countries use to afford their firms an unfair competitive advantage in the global marketplace. They also understand that doing so means strengthening engagement in the process of trade negotiations with America's trading partners.

The following steps would ensure that such negotiations focus on what counts for U.S. manufacturing:

#### ***Pursue the Elimination of Foreign Tariff and Non-tariff Barriers to Exports of U.S. Manufactured Goods***

Among the highest priorities established by Congress in passing trade promotion authority was the elimination of tariff and non-tariff barriers to the export of U.S. manufactured goods through bilateral, regional, and multilateral agreements. The Bush administration's proposal on non-agricultural market access in the context of the ongoing WTO negotiations represents a model to be pursued in all negotiations. It would ensure the elimination of all tariffs on manufactured goods worldwide, thereby eliminating the current disparity between U.S. tariff levels and higher tariffs imposed by major trading partners on manufactured goods. Pursuing a counterpart strategy for non-tariff barriers is essential, particularly in industries like the automotive sector, where tariff barriers are already relatively low and non-tariff measures have become a significant means of barring U.S. access to foreign markets.

#### ***Negotiate the Elimination of Trade-distorting Subsidy Practices***

Current international trade rules prohibit export subsidies, but they do not limit the means by which governments can confer a competitive advantage by subsidizing production at home. In future trade agreements, the United States should pursue the approach adopted by the administration in the context of WTO negotiations that seek to expand the existing prohibitions to include a broader range of subsidies as well as strengthen the rules against government financing of the private sector, including government involvement in, or distortion of, capital markets that insulate foreign firms from competition. In particular, future negotiations should pursue the elimination of the border adjustability of indirect taxes to address the disadvantages to countries relying primarily on direct taxes.

#### ***Enhance the Effectiveness of Trade Enforcement Tools***

As the Bush administration has done in the context of the WTO negotiations, the United States should seek improvements in the tools available for the enforcement of trade agreements. Dispute settlement procedures should encourage the prompt resolution of disputes, as well as a reading of trade agreements that is consistent with the negotiators' intent. The administration should also pursue (within the WTO, bilateral or regional free trade arrangements, and other fora such as the current steel negotiations underway in the Organization for Economic Cooperation and Development) stronger mechanisms for countering trade practices that are not subject to existing or future trade disciplines.

## **Enforce U.S. Trade Agreements and Combat Unfair Trade Practices Affecting U.S. Manufacturers**

American manufacturers are entitled to the benefits of the agreements that U.S. negotiators reach at the negotiating table. They are also entitled to the aggressive investigation of unfair trade practices that undercut those agreements, even where such actions are not subject to specific trade disciplines.

There are a variety of ways in which U.S. trade agencies could improve their approach to the enforcement of trade agreements and their response to foreign unfair trade practices. They include the following steps:

### ***Reinforce the Efforts of the National Intellectual Property Enforcement Coordination Council***

To the extent that U.S. investment in research and development provides a competitive edge in the marketplace, the protection of the intellectual property developed by U.S. manufacturers, which embodies the product of that research, becomes critical to the future of the manufacturing sector. The National Intellectual Property Enforcement Coordination Council—made up of the Commerce Department (including the USPTO), the United States Trade Representative, the Bureau of Customs and Border Protection, and the Department of Justice—is responsible for ensuring a coordinated approach to such efforts. It is time to reinforce the council's mission in two important respects. The first should be to promote the protection of U.S. intellectual property abroad by expanding cooperative efforts with developing country trading partners to encourage the full implementation of their obligations under the WTO's Agreement on Trade Related Aspects of Intellectual Property (TRIPS). One measure could include the placement of U.S. intellectual property experts within certain countries to provide in-country support. The second

would involve the aggressive investigation of allegations of theft of intellectual property that would violate commitments made under TRIPS or similar provisions of bilateral or regional agreements, particularly allegations in which American manufacturers are compelled to divulge intellectual property as a condition of market access or investment.

### ***Establish an Office of Investigations and Compliance within the Commerce Department***

Congress created the position of Assistant Secretary of Commerce for Market Access and Compliance in order to improve the Commerce Department's focus on compliance with trade agreements as well as on their negotiation. The Assistant Secretary works closely with the USTR and the Trade Policy Staff Committee agencies to identify and pursue the elimination of foreign trade practices that violate U.S. trade agreements or distort markets to the disadvantage of American manufacturers and other sectors of the U.S. economy. To improve the Commerce Department's ability to support the USTR and investigate allegations of trade agreement violations and market-distorting practices, the Assistant Secretary for Market Access and Compliance should establish an office of investigations and compliance. That office should be staffed with skilled investigators trained in the development of the factual basis for potential enforcement action, particularly in those areas that have a significant effect on market access for U.S. manufactured goods.

### ***Establish a Task Force within the Commerce Department's Import Administration to Pursue the Elimination of Foreign Unfair Trade Practices***

Foreign unfair trade practices that distort markets represent a unique subset

of trade barriers. Current trade arrangements have significantly reduced the visible tariff and non-tariff barriers to trade worldwide. They do not, however, in every instance, impose disciplines on other forms of intervention in markets, such as subsidies, that governments may use to confer a competitive advantage on their firms. Unchecked, such actions not only can injure U.S. manufacturers, but also can significantly undercut the benefits of the trade agreements for U.S. producers while undermining support for the global trading system in general.

The existing international trade rules, as well as their counterparts in U.S. law, generally require that an industry prove injury from unfair trade practices in the context of either an antidumping or countervailing duty action before the U.S. government can take remedial action on its behalf. Furthermore, antidumping and countervailing duties at best only act indirectly to help eliminate the underlying unfair trade practices at the heart of U.S. industry's complaints.

The Assistant Secretary for Import Administration should form a task force to investigate allegations of such trade practices and develop a strategy for pursuing their elimination. This would eliminate the underlying distortions and thereby reduce the use of anti-dumping and countervailing duty actions. As part of that effort, the task force should review the implementation of current trade remedy rules, such as the procedures governing new shipper reviews. The Commerce Department should further establish an office within Import Administration to coordinate cases involving non-market economies in order to develop an experienced core of investigators familiar with the facts of such investigations and to ensure consistency in terms of the methodological approach.

## **Reinforce Efforts to Promote the Sale of American Manufactures in Global Markets**

U.S. exports of manufactured goods have fallen significantly in the past two years. Although the pace of economic growth abroad appears to be accelerating, an expanded export promotion strategy should help ensure U.S. manufacturers have access to foreign markets that U.S. negotiators have opened. The following steps are designed to both improve the coordination of and accountability for U.S. export promotion activities, as well as to focus those efforts in a way that is consistent with the current challenges facing U.S. exporters of manufactured goods. The recommendations include:

### ***Enhance the U.S. Government's Efforts on Behalf of U.S. Manufacturing by Consolidating Commerce Department Export Promotion Functions***

Consolidation of all Commerce Department export promotion functions under a new Assistant Secretary for Trade Promotion, who would serve concurrently as the director general of the Commercial Service, would represent a solid first step toward improving the promotion of exports of manufactured goods in global markets. That consolidation would improve coordination and ensure accountability for the implementation of the National Export Strategy.

### ***Accelerate Implementation of the President's National Export Strategy***

Consistent with the legislation creating the Trade Promotion Coordinating Committee (TPCC), the administration published a comprehensive approach to improving the delivery of government export promotion services. The National Export Strategy contains a series of innovations designed to improve the promotion of U.S. exports. Given the sharp decline in U.S. exports in the recent past, the Commerce Department, as chair of the TPCC, should accelerate the implementation of

those innovations to improve the prospects for American manufacturers seeking new markets abroad.

### ***Implement a Global Supply Chain Initiative to Promote Access to the Global Marketplace***

Manufacturers at every roundtable reinforced the importance of focusing on access not just to export markets, but to global supply chains that would take American manufactured goods into the international stream of commerce. The Commerce Department, in conjunction with the TPCC, should develop and implement a joint public-private global supply chain initiative to promote access by America's small and medium-sized manufacturers into global supply chains.

As part of the initiative, the Commerce Department should assess the benefits of establishing new venues in major foreign commercial centers to enhance the services offered to U.S. exporters while in the country and to provide for on-the-ground expertise, including market research capabilities.

### ***Promote Global Recognition and Use of U.S. Technical Standards***

One significant means of expanding the access of small and medium-sized U.S. manufacturers to global supply chains is to encourage the adoption of U.S. technical standards in world markets for manufactured goods. With U.S. standards in place, a small or medium-sized U.S. manufacturer is, in effect, already "export ready," saving the manufacturer from the expense of satisfying more than one technical standard. Recognition and use of U.S. standards would have the additional benefit of reducing the ability of foreign governments to use technical specifications as a means to bar access to their markets for manufactured goods. Secretary Evans launched a global standards initiative in spring 2003 that was designed to

achieve these objectives and to promote a private-sector based approach to standards development in other nations. The initiative should be accelerated and given a high priority by the various Commerce Department offices involved.

### ***Update and Reauthorize U.S. Export Control Laws***

Manufacturers in some sectors identified U.S. export control laws as an impediment to their competitiveness in international markets. Although necessary, such controls should be focused on truly sensitive goods and technologies consistent with U.S. national security concerns. The United States should work to ensure that such controls are applied uniformly by our multilateral export control regime partners. The administration should continue its support for the early passage of a revised Export Administration Act that would take into account the changes in technology and the international marketplace, as well as defense-acquisition practices.

The administration should also review the existing structure of the U.S. foreign-trade zone program to determine how it could be enhanced to provide a greater incentive to manufacture in the United States. The Commerce Department, which is responsible for administering the existing program, should do a benchmark analysis of how other countries make use of their foreign-trade zone mechanisms to determine whether there are features of those programs that the U.S. government should consider implementing, particularly as a means of lowering the cost of such programs for small and medium-sized businesses in the United States.

## **Notes**

<sup>1</sup> The research and experimentation tax credit is commonly referred to by manufacturers as the R&D tax credit.

<sup>2</sup> President's Council of Advisors on Science and Technology, *Technology Transfer of Federally Funded R&D* (Washington, D.C.: President's

Council of Advisors on Science and Technology, May 2003).

<sup>3</sup>The Manufacturing Extension Partnership was created with the enactment of the Omnibus Trade Act of 1988 (Public Law 100-418).

<sup>4</sup>Researchers at the Census Bureau's Center for Economic Studies found that manufacturing extension clients experienced between 3.4 and

16 percent more growth in labor productivity over a five-year period than similar non-client firms. The productivity growth of the 1,559 firms studied translates into \$484 million in additional value-added at client firms.

<sup>5</sup>The Technology Administration Act of 1998 (Public Law 105-309).