Trade Facts

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State Government Procurement and Trade Agreements: Sending A Positive Signal About Welcoming International Business and Investment

The United States has successfully used trade agreements to pry open government purchasing markets around the world to U.S. goods and services. Today, U.S. free trade agreements (FTAs), along with the WTO Government Procurement Agreement, require foreign governments to apply the same kinds of fair, transparent, non-discriminatory purchasing procedures that our states and the federal government already generally employ.

Most federal and state purchasing markets have long been open to overseas firms. The U.S. trade agreements level the playing field by giving American products and services a fair chance to compete for tens of billions of dollars in government contracts abroad.

Recently, some state legislatures and officials have questioned whether it makes sense to continue having the purchasing rules in U.S. trade agreements apply to their states. Here are some reasons why it is in the best interests of participating states:

States gain when their purchases are covered under U.S. trade agreements.

- When a state decides to include its procurement under a U.S. trade agreement, companies in that state are ensured greater opportunities to sell their products and services in the foreign partner's government purchasing market.
- By guaranteeing open competition, the state can choose from the widest range of products and services, and can stretch scarce taxpayer dollars.
- The state sends an important signal that it is a reliable place for job-creating foreign businesses to operate and invest.

If a state walks away from its commitments, it could send the wrong signal.

- It could lead foreign companies to hesitate before opening new businesses or partnering with firms in the state.
- If a state signals that it is not committed to transparent and competitive purchasing, foreign governments may respond by discriminating against products and services from that state.
  - Governments in Europe, Asia, and Latin America have voiced concerns about legislation in states that have considered abandoning their commitments.

Each state decides for itself whether to have its purchases covered in a U.S. trade agreement, and if so, what state purchases the agreement will cover.

- So, for example, a state can decide trade agreement rules will apply only to contracts with specified agencies and will not apply to purchases of certain sensitive products or services.

- Similarly, a state can choose to maintain preference programs; for example, for small businesses, distressed areas, minorities, or women.

- Also, the agreements explicitly permit states to make purchases in accordance with their own state environmental policies.

Current procurement rules apply to a limited range of state contracts.

- Trade agreement rules only apply to state product and service contracts exceeding $526,000 and construction contracts over $7.4 million.

States already use transparent, competitive procurement procedures. Our trade agreements simply require them to continue doing so. State taxpayers benefit, and states send a positive signal that they welcome international business and investment.