TRADE PROMOTION COORDINATING COMMITTEE

The 2007 National Export Strategy

The Administration's
Trade Promotion Agenda

UNITED STATES OF AMERICA

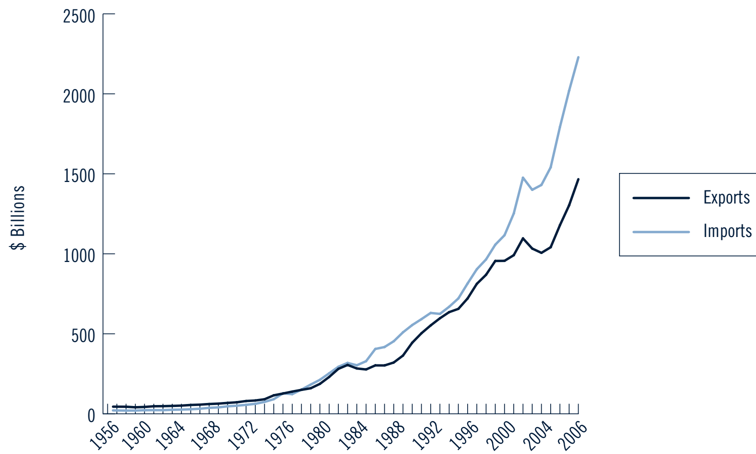
The State of Trade and U.S. Competitiveness

The 2006 trade numbers tell a very positive story about the state of America's trading relationships with the rest of the world. U.S. exports are booming and at an all-time high. International measures of competitiveness tell the same story, with the United States continuing to rank at or near the top for factors such as overall business setting, microeconomic market conditions, ease of doing business, and innovation. Global economic numbers suggest that the world economy is in the midst of one of its longest and broadest periods of growth, with economic expansions in every region and forecasts of the rapid expansion of a global middle class. All of these factors should boost the confidence of the U.S. business community that American companies can thrive in the global marketplace.

AN OVERVIEW OF U.S. TRADE

Trade volume is up and both trade and exports in dollar terms are at all-time highs (*Chart 1*). After growing almost 11 percent from 2004 to 2005, U.S. exports grew 13 percent in 2006. With 22 of our top 30 trading partners, U.S. exports grew by double-digit percentages in 2006. U.S. exports grew faster than imports with 21 of our top 30 trading partners. At $1.4 trillion, U.S. exports were greater than the entire economies of countries such as Canada or Spain.

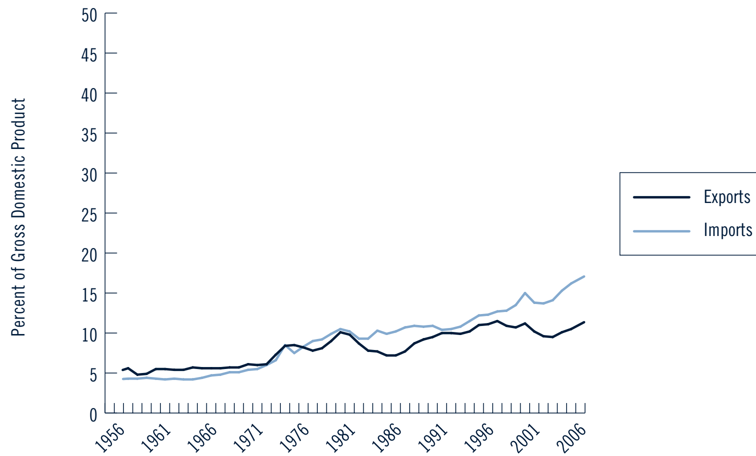
Chart 1. U.S. Trade Volume, 1956–2006



Note: Trade figures are for the export and import of goods and services.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Account Tables.

Chart 2. Trade as Percentage of U.S. Economy



Note: Trade figures are for the export and import of goods and services.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Account Tables.

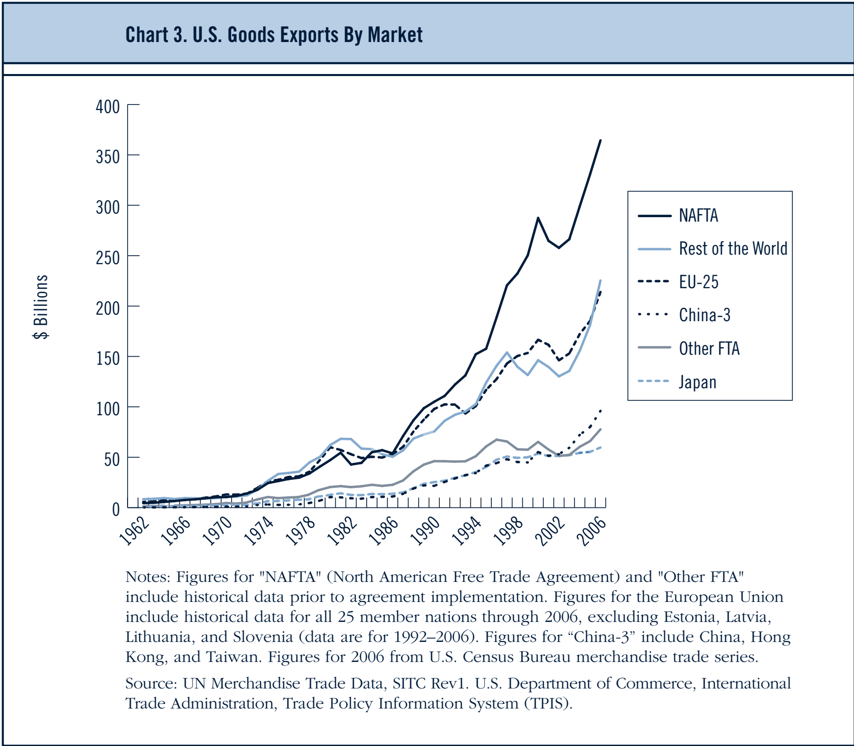


Chart 3. U.S. Goods Exports By Market

Notes: Figures for "NAFTA" (North American Free Trade Agreement) and "Other FTA" include historical data prior to agreement implementation. Figures for the European Union include historical data for all 25 member nations through 2006, excluding Estonia, Latvia, Lithuania, and Slovenia (data are for 1992–2006). Figures for "China-3" include China, Hong Kong, and Taiwan. Figures for 2006 from U.S. Census Bureau merchandise trade series.

Source: UN Merchandise Trade Data, SITC Rev1. U.S. Department of Commerce, International Trade Administration, Trade Policy Information System (TPIS).

In percentage terms, trade makes up a larger share of the U.S. economy than ever before; exports are near an all-time high and will likely continue to be an increasingly important part of the U.S. economy (*Chart 2*).

A look at the most important destinations for U.S. exports shows the rapidly growing importance of emerging markets, as well as the continued importance of Europe and our North American Free Trade Agreement (NAFTA) partners (*Chart 3*).

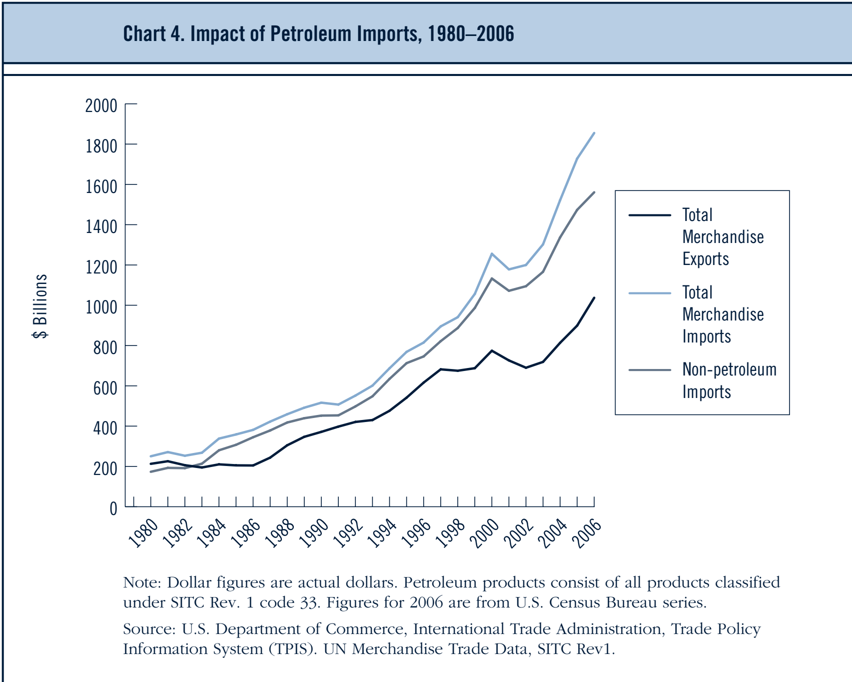


Chart 4. Impact of Petroleum Imports, 1980–2006

Note: Dollar figures are actual dollars. Petroleum products consist of all products classified under SITC Rev. 1 code 33. Figures for 2006 are from U.S. Census Bureau series.

Source: U.S. Department of Commerce, International Trade Administration, Trade Policy Information System (TPIS). UN Merchandise Trade Data, SITC Rev1.

If oil imports are removed from the picture, narrowing of the U.S. trade deficit is apparent in the last half of 2006, as 80 percent of our trade deficit increase resulted from increased prices of petroleum imports (*Chart 4*).

Exports are growing in all areas of the U.S. economy—most rapidly in the manufactured goods industries (*Chart 5a*). Services trade and agricultural trade continue to show a surplus (*Chart 5b*). Manufacturing output continues its steady rise, although manufacturing employment has continued to decline due to productivity gains. Manufacturing employment is reliant on exporting, with one in six manufacturing jobs related to exports. Manufacturing continues to be a significant portion of U.S. exports, in 2006 representing 89 percent of merchandise exports.

Chart 5. U.S. Trade by Major Sector of the Economy: Manufacturing, Services, Agriculture, 1990–2006

Chart 5a.Exports

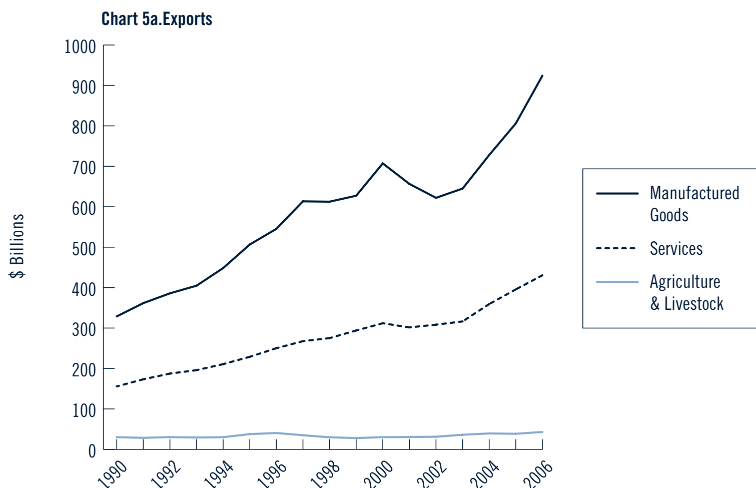
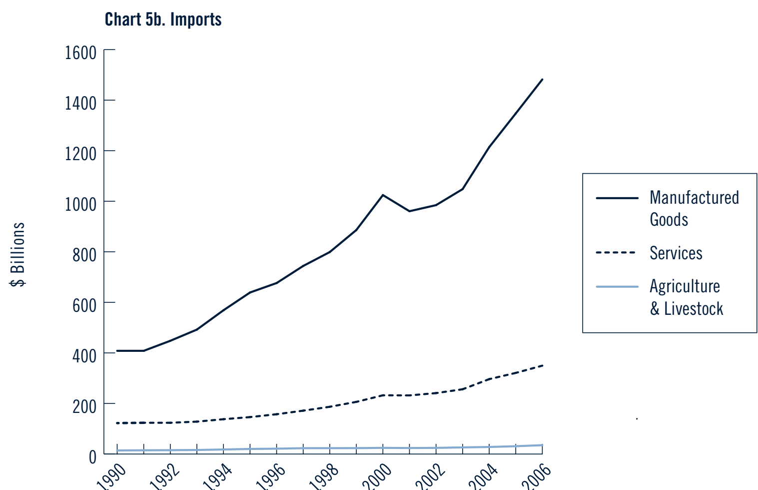
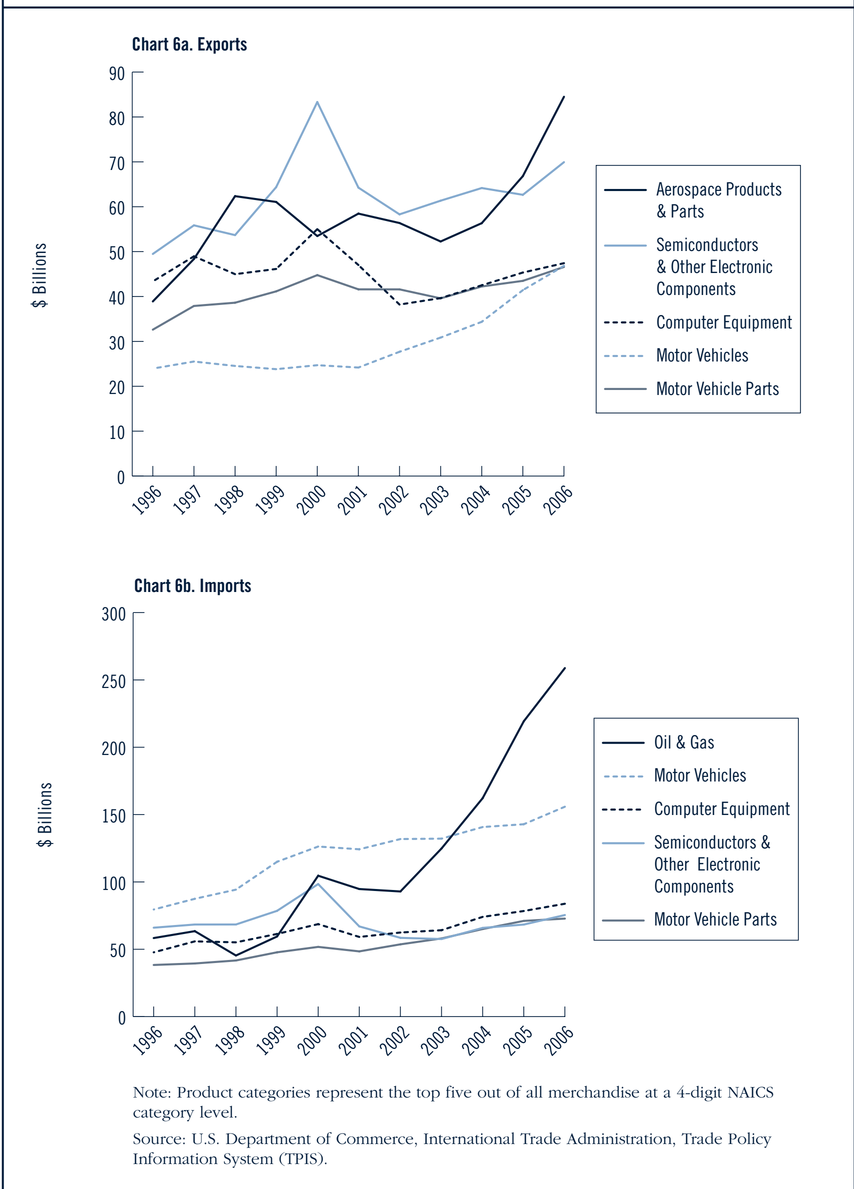


Chart 5b. Imports



Note: Manufactured goods includes products classified in North American Industry Classification System (NAICS) categories 31, 32, and 33. Agriculture & Livestock includes products in NAICS 11. Services trade is calculated on a Balance of Payments basis. Sectors cannot be added to arrive at a trade total.

Source: U.S. Department of Commerce, International Trade Administration, Trade Stats Express; Bureau of Economic Analysis, National Income and Product Account tables.

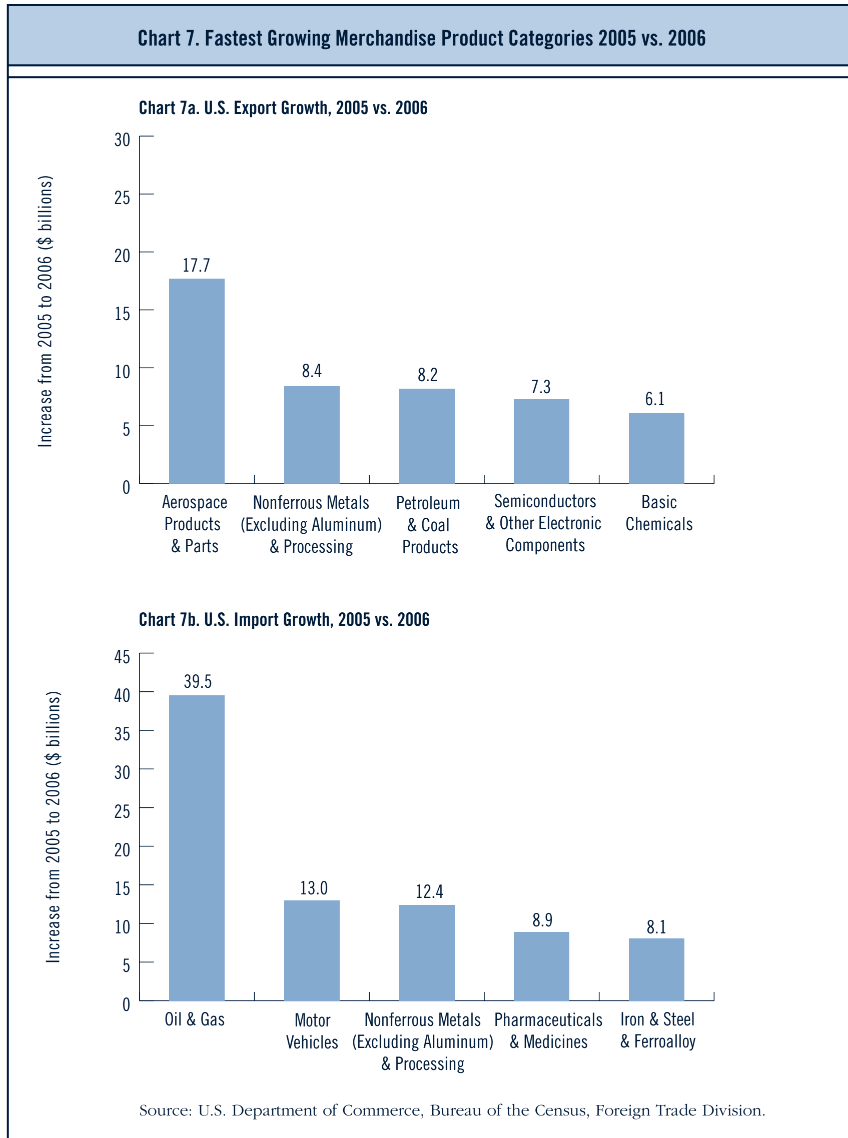


Note: Product categories represent the top five out of all merchandise at a 4-digit NAICS category level.

Source: U.S. Department of Commerce, International Trade Administration, Trade Policy Information System (TPIS).

Our greatest overall strength in manufacturing exports continues to be in the high-tech and high value-added industrial sectors such as aerospace, electronics, and computers (*Chart 6a*).

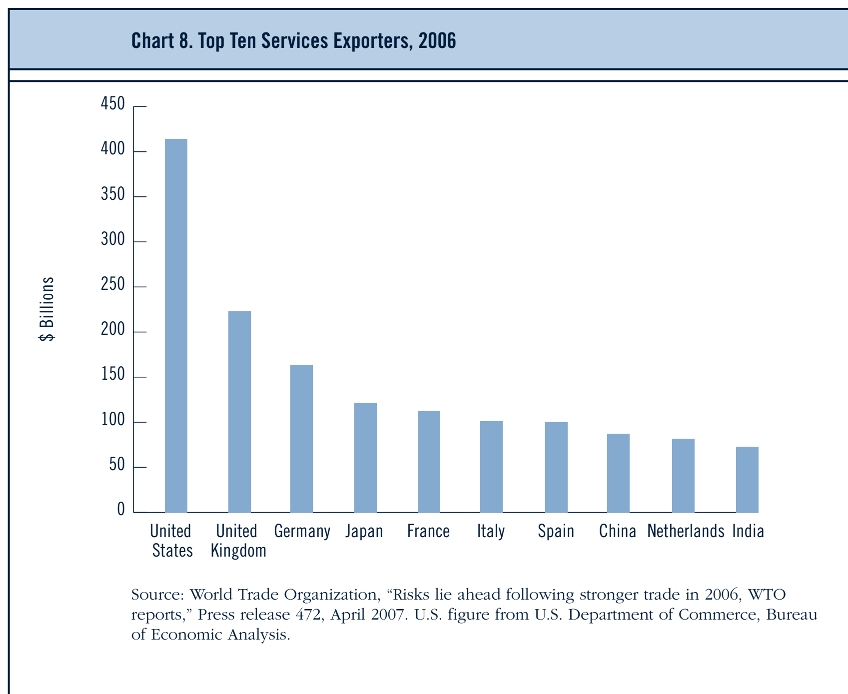
However, industrial raw materials experienced some of the biggest gains in 2006 in both exports and imports (*Chart 7a, 7b*). It is notable that amongst top import sectors, oil and gas represented both the largest percentage growth (*Chart 6b*) and dollar increase (*Chart 7b*) of any sector from 2005 to 2006.



Source: U.S. Department of Commerce, Bureau of the Census, Foreign Trade Division.

The United States remains the world's leading exporter of services by a wide margin (*Chart 8*), and we continue to run a sizable surplus in services trade. For 2006, exports of services were $414.1 billion, up $33.5 billion from 2005. Increases occurred in areas such as business, professional, and technical services, insurance services, and financial services ($20.2 billion), freight and port services ($5.9 billion), royalties and license fees ($4.5 billion), travel ($5.1 billion), and passenger fares ($1.1 billion).[1] These are some of the industries where the United States is a global leader and where we have a strong competitive advantage. Technology is changing the nature of trade in services, and services exports are highly reliant on the protection of intellectual property rights for their success. Consequently, one of our highest priorities is to extend that protection wherever possible.

Chart 8. Top Ten Services Exporters, 2006



Source: World Trade Organization, "Risks lie ahead following stronger trade in 2006, WTO reports," Press release 472, April 2007. U.S. figure from U.S. Department of Commerce, Bureau of Economic Analysis.

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1 U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Trade in Goods and Services," news release, February 13, 2007, *http://www.bea.gov/newsreleases/international/trade/2007/trad1206.htm/*.

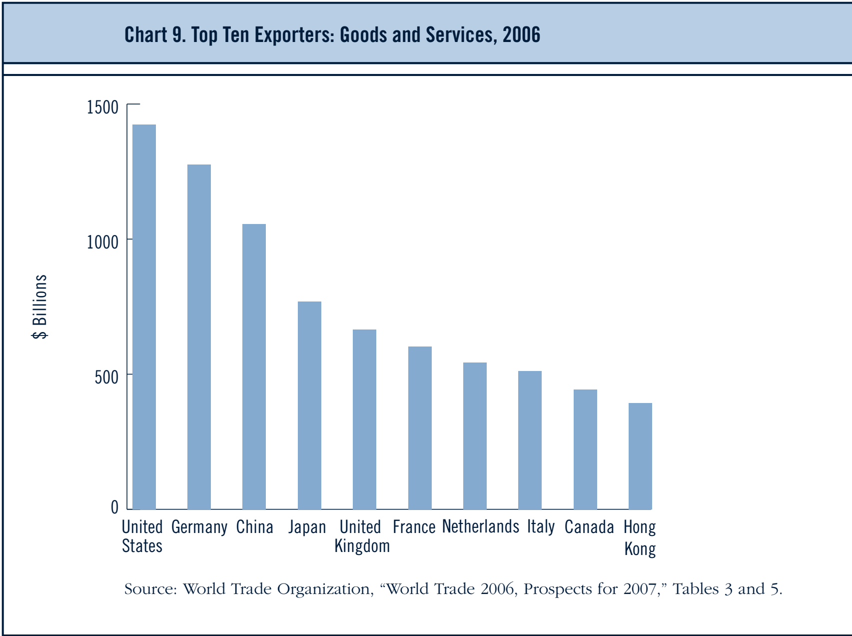

Chart 9. Top Ten Exporters: Goods and Services, 2006

Source: World Trade Organization, "World Trade 2006, Prospects for 2007," Tables 3 and 5.

U.S. COMPETITIVENESS IN THE GLOBAL ECONOMY

Strong services exports and the increasing growth of U.S. goods exports have together kept the United States the world's largest exporter, followed by Germany, China, and Japan (*Chart 9*).

One of the most important factors keeping U.S. exports competitive has been strong U.S. labor productivity growth. Since the early 1990s, the United States has experienced the fastest increase in productivity growth among major developed countries. *Chart 10* shows that, after lagging behind most of the countries in the G7 between 1990 and 1995, the United States became the G7 country with the fastest growth in productivity (measured as growth of GDP per hour worked) between 2000 and 2005. Moreover, only the United States and Japan had faster productivity growth in the most recent period than they did in the early 1990s, and only the United States has shown consistent acceleration over this time period.[2]

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2 Council of Economic Advisers, *Economic Report of the President*, 2007, (Washington, D.C: GPO, 2007): 58-59, *http://www.whitehouse.gov/cea/2007_erp.pdf*.

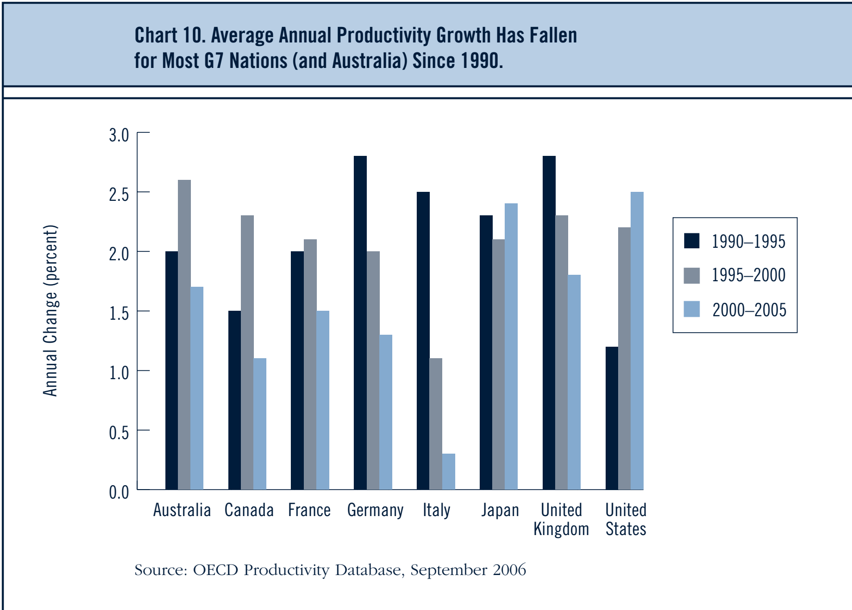

Chart 10. Average Annual Productivity Growth Has Fallen for Most G7 Nations (and Australia) Since 1990.

Source: OECD Productivity Database, September 2006

Citing these trends, the Council of Economic Advisers' 2007 *Economic Report* points to a number of key factors driving strong U.S. productivity, including international openness (e.g., to investment, financial markets, and trade), flexible labor markets, and the low costs of starting a business in the United States.[3] These factors also put the U.S. economy in a position to more quickly take advantage of the rapid advance of information technology.

Other Independent Measures of Global Competitiveness: Several independent international research groups point to many of the same factors when placing the United States at or near the top of their measures of global competitiveness (*Table 1*). While some of these measures look at how connected the United States is to the rest of the world, others focus on macroeconomic and microeconomic efficiencies within the U.S. economy that characterize U.S. companies and the business environment.

3 *Ibid.*, 58-61.

Table 1. U.S. Rankings in Global Competitiveness

	U.S. Ranking	Countries Ahead of the U.S.	Countries Behind the U.S.
Globalization Index 2006 (A.T. Kearney/Foreign Policy)	3	Singapore (1) Switzerland (2)	Ireland (4) Denmark (5) Canada (6) Netherlands (7) Australia (8)
Global Competitiveness Index (World Economic Forum)	6	Switzerland (1) Finland (2) Sweden (3) Denmark (4) Singapore (5)	Japan (7) Germany (8) Netherlands (9) United Kingdom (10) Hong Kong, SAR (11)
Business Competitiveness Index 2006 (World Economic Forum)	1		Germany (2) Finland (3) Switzerland (4) Denmark (5) Netherlands (6)
Ease of Doing Business 2006 (World Bank)	3	Singapore (1) New Zealand (2)	Canada (4) Hong Kong, SAR (5) United Kingdom (6) Denmark (7) Australia (8)
Global Innovation Index 2007 (World Business/INSEAD)	1		Germany (2) United Kingdom (3) Japan (4) France (5) Switzerland (6)

The **2006 Globalization Index** of *Foreign Policy* magazine looks at whether countries are becoming more or less globally connected. The index examines underlying international trends such as economic integration, personal contact, technological connectivity, and political engagement.

- By this measure, the United States ranked third, behind only Singapore and Switzerland. The United States moved up one place from fourth in 2005 due to an "off-the-charts" technology score.[4] The United States had more Internet users, more Internet hosts, and more secure servers per capita than any other country. In the previous year, the Index had moved the United States up three places, making the United States the first large country to enter the top five. Other factors boosting the United States were more inward foreign investment and stronger engagement with international organizations, and a greater financial commitment to U.N. peacekeeping. Holding back the U.S. ranking was its last-place rating (among the 62 countries ranked) for economic integration, based on the low number of treaties or trade agreements ratified by the United States.

The **Global Competitiveness Index (GCI)** published by the World Economic Forum (WEF) is a broad measure of a country's overall competitiveness, with the United States remaining a world leader in a number of key areas such as market efficiency, technological innovation, higher education and training, and business sophistication.

- The GCI's 2006/2007 measure ranked the United States as the world's most competitive large economy, placing sixth overall behind five smaller countries (Switzerland, Finland, Sweden, Denmark, and Singapore). The United States previously ranked in first place (2005), but the WEF cited large macroeconomic imbalances (particularly public indebtedness associated with repeated fiscal deficits and historically high trade deficits) as the main reason for lowering the U.S. ranking in 2006. Additional factors counted against the United States were the levels of efficiency and transparency of public institutions relative to those of most developed industrial countries.[5]

Of greater significance to individual U.S. companies considering their own global competitiveness is the WEF's **Business Competitiveness Index (BCI)**, which ranks 121 countries by their microeconomic competitiveness in terms

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4 *Foreign Policy*, "The Globalization Index," November/December 2006, 74–81.

5 World Economic Forum, *Global Competitiveness Report*, 2006–2007 (Geneva: WEF, 2007), xv.

of business environment and company operations and strategies. This measure, in turn, provides an assessment of the sustainability of a country's level of prosperity.

- According to the BCI rankings, the United States remains first, ahead of Germany and Finland. Key factors keeping the United States at the top include measures of domestic rivalry (intensity of local competition and effectiveness of antitrust policy), financial markets (venture capital availability, local equity market access, and financial market sophistication), and innovative capacity (company R&D spending, local availability of specialized research and training services, and quality of scientific research institutions).[6]

The World Bank's **Ease of Doing Business** is an aggregate ranking based on ten factors such as ease of starting a business, employing workers, and getting credit.

- By this measure, the United States ranks third behind Singapore and New Zealand, indicating that the U.S. regulatory environment is more conducive to the operation of business than any other major economy.[7]

A new measure, the **Global Innovation Index (GII)** was developed by INSEAD[8] to help show the degree to which individual nations and regions respond to the challenge of innovation.

- The GII puts the United States in first place, well ahead of second-place Germany.[9] The GII credits the United States with having a better environment for innovation and with being more effective in exploiting innovation. U.S. universities attract the brightest minds from around the world. Efficient U.S.

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6 *Ibid*., xxiv.

7 Doing Business: Economy Rankings, *http://worldbank.org/EconomyRankings/Default.aspx?direction=asc&sort=1*

8 Note: INSEAD was originally founded as the "Institut Européen d'Administration des Affaires" (European Institute for Business Administration). However, having extended its roots to Asia, it is now known as INSEAD (pronounced IN-SEE-ADD).

9 Sumitra Dutta and Simon Caulkin, "The World's Top Innovators," *World Business*, January 17, 2007. *www.worldbusinesslive.com/article/625441*

markets and capital flows support innovation, and U.S. companies effectively apply new technology and processes in innovations. With the emergence of new competitors such as China and India, the GII raised questions about the United States' continued ability to draw overseas talent, directing attention to our primary and secondary education and to the need to produce more scientists and engineers from within. The GII also noted the United States' need to improve aging communications and transportation infrastructure.

Another possible indicator of competitiveness is the ability to attract inward foreign direct investment (FDI). The United Nations Conference on Trade and Development (UNCTAD) has developed two measures of this ability. The **Inward Foreign Direct Investment (FDI) Performance Index**[10] ranks 141 countries by the FDI they receive relative to their economic size. While frequent changes occur in the rankings of the Performance Index, there are few changes from year to year in the rankings of the **Inward FDI Potential Index**,[11] a reflection of the stability of the structural variables measured. This index is based on 12 economic and structural variables—an unweighted average of scores on factors ranging from GDP per capita and GDP growth to telecommunications infrastructure, education, country risk, exports of natural resources and services as a percentage of the world total, and inward FDI stock as a percentage of the world total.

- The Performance Index shows the United States in decline since 1990 (from 43 in 1990, to 76 in 2000, to 120 in 2005), a trend driven largely by investments in extractive industries (especially oil and gas) in smaller countries, but also by the rise of new competition for FDI from emerging markets. By this

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10 United Nations Conference on Trade and Development, *World Investment Report 2006*, *www.unctad.org/Templates/Page.asp?intItemID=3198&lang=1* (Country fact sheet: United States).

11 United Nations Conference on Trade and Development, Inward Foreign Direct Investment Potential Index, *www.unctad.org/Templates/WebFlyer.asp?intItemID=2472&lang=1*.

measure, 12 of the top performers in 2005 were developing countries and three were transition economies. By region, the largest declines were in the EU. The highest regional index was that of Southeast Asia, while the sharpest rises were for North Africa and West Asia.

- In contrast, the Potential Index has had the United States dominating the top position since it was first published in 1991, with the United Kingdom ranking second in 2005. Developed countries accounted for 15 of the top 20 economies. Singapore, Qatar, Hong Kong, South Korea, and Taiwan, in that order, were the developing economies featured among the top 20.[12]

GLOBAL ECONOMY AND TRADE

While U.S. competitiveness is "pushing" more exports to foreign markets, the rest of the world is "pulling" more U.S. goods and services exports abroad with growing economies, consumption, and demand for imports. An in-depth look at global economic growth and import consumption numbers shows an important shift of activity to emerging markets.

Global Economic Growth: The global economy is enjoying one of its longest periods of sustained growth in decades. Through the first half of 2006, global expansion has been buoyant, exceeding expectations in most regions.[13] In addition to strong growth in the United States, economic expansions continued in both Europe and Japan. Emerging markets, like China, are growing rapidly, and many low-income countries have been growing well due to strong commodity prices.

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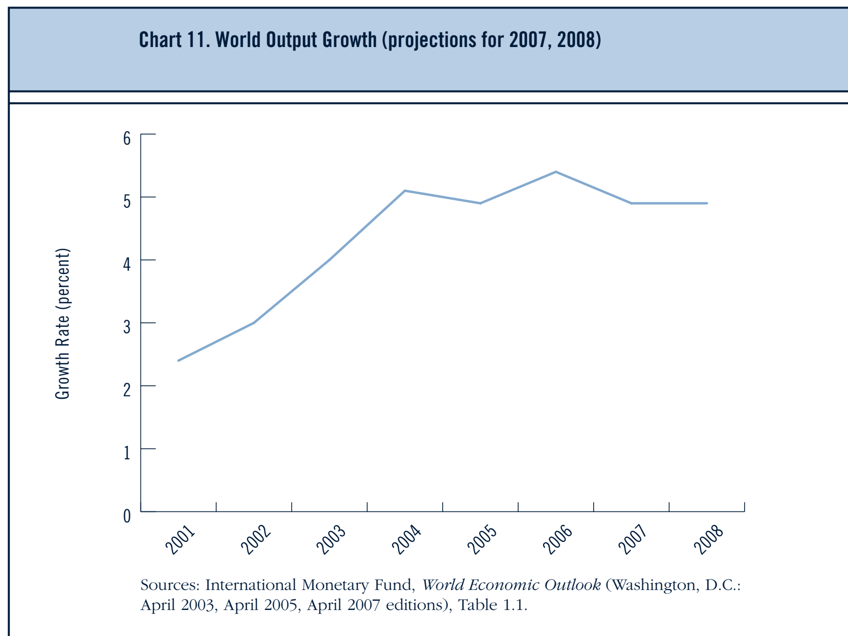
12 United Nations Conference on Trade and Development, *World Investment Report 2006*, *www.unctad.org/Templates/Page.asp?intItemID=3198&lang=1* (Country fact sheet: United States).

13 International Monetary Fund, *World Economic Outlook*, (Washington D.C: September 2006), xiii.

As a result, global GDP is likely to sustain about a 5 percent growth rate through 2008, following a steep increase from 2001 to 2004 (*Chart 11*).

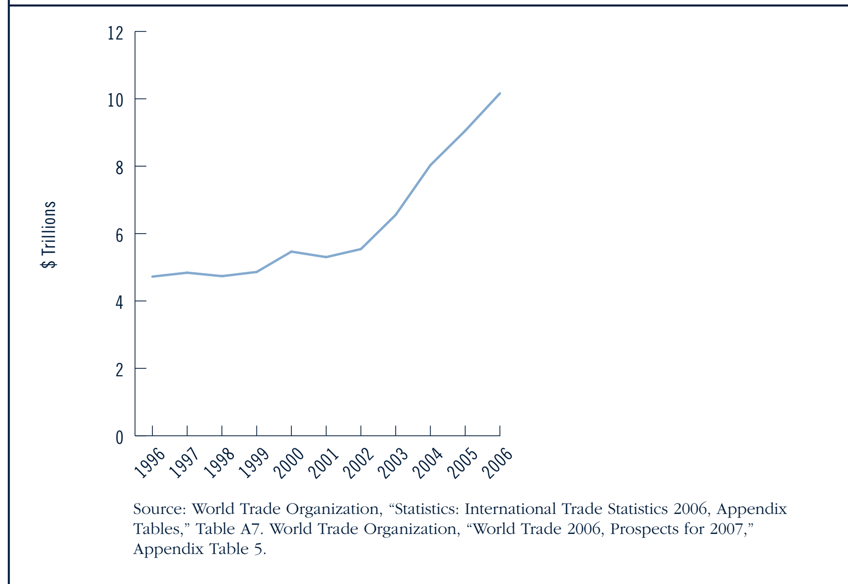
Looking ahead, the World Bank predicts the global economy could expand from $35 trillion in 2005 to $72 trillion in 2030. While this would represent only a slight increase in global growth rates relative to the last 25 years, a growing share of that growth would come from developing countries. Such growth would result in a substantial reduction in poverty. The number of people living on less than $1 a day would be cut in half, from 1.1 billion today, to 550 million in 2030. Forecast growth in the emerging markets of the developing world would also result in the rapid expansion of the global middle class. According to the World Bank, the ranks of the world's middle class will triple

Chart 11. World Output Growth (projections for 2007, 2008)



Sources: International Monetary Fund, *World Economic Outlook* (Washington, D.C.: April 2003, April 2005, April 2007 editions), Table 1.1.

Chart 12. World Merchandise Imports Excluding the U.S., 1996–2006



Source: World Trade Organization, "Statistics: International Trade Statistics 2006, Appendix Tables," Table A7. World Trade Organization, "World Trade 2006, Prospects for 2007," Appendix Table 5.

from 400 million today to 1.2 billion in 2030 if developing country growth continues. While about half of middle-class consumers currently reside in developing countries, by 2030, 92 percent will.[14]

Global Import Demand: Strong global economic growth has fueled the strong growth of world imports. World imports exclusive of the United States more than doubled from 1996 to 2006, reaching more than $10 trillion in 2006—with the most rapid growth occurring since 2002 (*Chart 12*).

Shift to Emerging Markets: While imports are growing in all regions, imports have in recent years consistently grown more rapidly in developing countries than in developed countries (*Chart 13*). Especially in key emerging markets, growing consumption and productive investment are fueling import demand.

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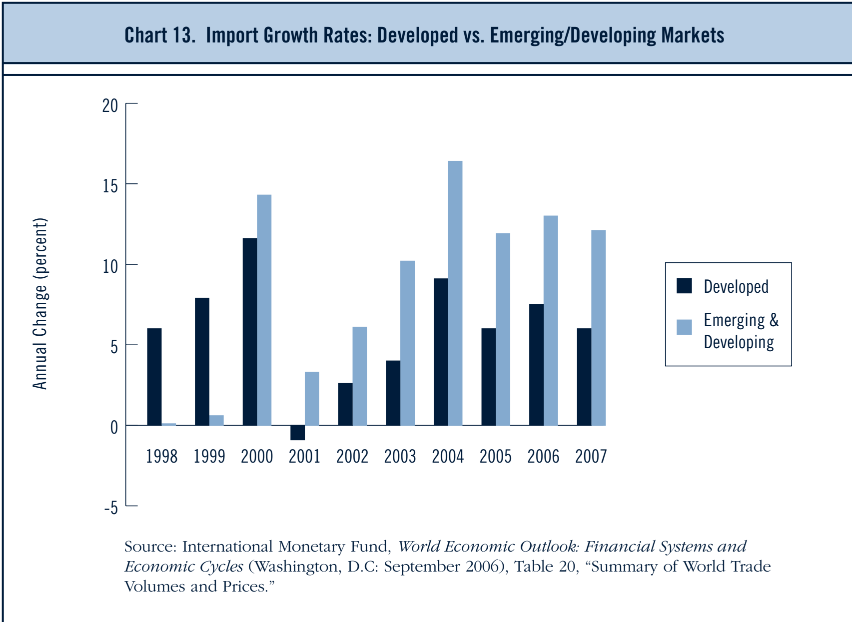
14 World Bank, "Growth Prospects Are Strong, But Social, Environmental Pressures from Globalization Need More Attention," Press Release 2007/159/DEC, December 13, 2006.

Chart 13. Import Growth Rates: Developed vs. Emerging/Developing Markets



Source: International Monetary Fund, *World Economic Outlook: Financial Systems and Economic Cycles* (Washington, D.C: September 2006), Table 20, "Summary of World Trade Volumes and Prices."

Shift to Emerging Markets: Over time, these trends have resulted in an important shift of global import consumption. Since 1988, the developed countries' share of global imports (excluding the United States) has declined by 11 percent, from 65 percent in 1988 to 54 percent in 2005 (*Chart 14*). Conversely, the developing countries' share of imports has grown 11 percent. While developing countries accounted for only 35 percent of global imports (excluding the United States) in 1988, they accounted for 46 percent in 2005.

The World Bank forecasts that trade, as a share of the global economy, will rise from about one-quarter today to more than one-third by 2030 resulting in more than a tripling of global trade in goods and services to $27 trillion by 2030.[15]

15 *Ibid.*, xxiv.

This projected growth in world trade has major implications for U.S. exporters as import demand from developing countries becomes ever more an engine of the global economy. U.S. multinational corporations are well aware of these trends, and project that their overseas sales, particularly in emerging markets, will account for a growing share of their bottom line—already over 50 percent for many. Future U.S. export growth potential will depend on the extent to which other U.S. businesses, particularly small and medium-sized enterprises, become aware of these trends and respond.

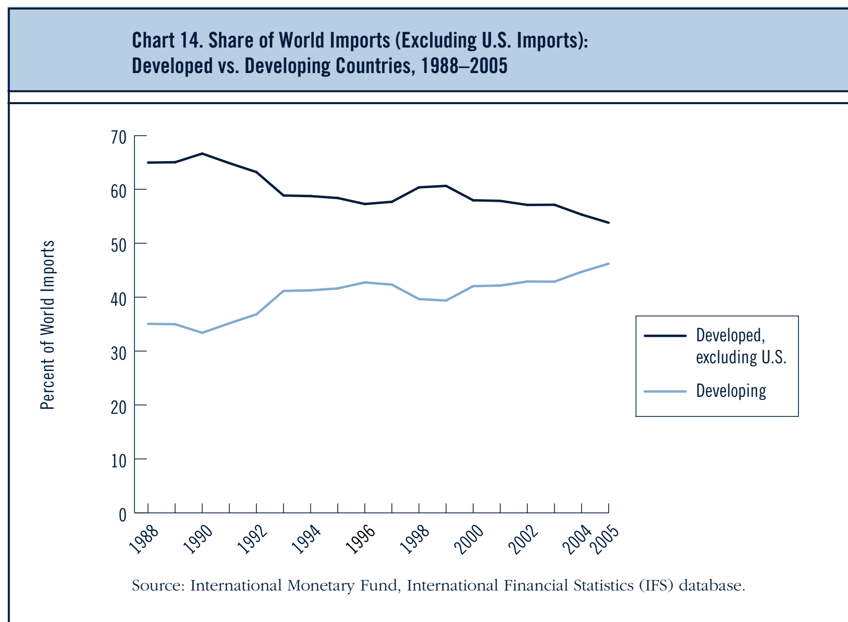


Chart 14. Share of World Imports (Excluding U.S. Imports): Developed vs. Developing Countries, 1988–2005

Source: International Monetary Fund, International Financial Statistics (IFS) database.

CONCLUSIONS

American competitiveness in the global marketplace is due in large part to an economy and culture that welcome and encourage innovation and flexible, open markets. The Administration is committed to maintaining this economic environment through sound economic policy based on free-market principles. The February 2007 *Economic Report of the President* points to several Administration priorities for maintaining a strong and dynamic U.S. economy, including: keeping taxes low, breaking down barriers to trade, making private-sector health insurance affordable, diversifying our energy supply, maintaining a strong and vibrant education system, and pursuing a variety of other pro-growth policies that promote strong productivity growth.[16]

Building on this agenda, the trade promotion agencies of the Federal Government are pursuing a number of initiatives to ensure that American companies can take advantage of growing emerging markets, to acknowledge the importance to our economy of inward foreign direct investment and services sector exports, and to facilitate travel to the United States as an activity critical to all of these business endeavors.

Transformational Commercial Diplomacy and Repositioning: While most global output and growth are still accounted for by the developed countries, developing countries account for a growing share of global growth–led by several key emerging markets. In the emerging markets, we see burgeoning middle classes, economic reform, and new industrial competition. The Commercial Service's on-the-ground contributions to shaping the commercial environment are critical to the long-term success of U.S. business interests in these markets.

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16 Council of Economic Advisers, *Economic Report of the President, 2007*, (Washington, D.C: GPO, 2007): 58–59, *www.whitehouse.gov/cea/2007_erp.pdf*.

The Commercial Service, therefore, has submitted a transformational commercial diplomacy proposal to the Congress to shift resources and enhance its diplomatic and program support in emerging markets. Similar to the State Department's Transformational Diplomacy Initiative, this proposal responds to a changing global marketplace in which emerging markets are of increasing importance to future opportunities for U.S. business.

The Commercial Service proposal will close a number of small satellite offices in well-developed markets or in small markets with limited commercial potential. These resources will be used to open offices in new emerging markets and to augment Commercial Service staff in existing markets with greater commercial potential, such as China and India.

The Joint Commercial Service–State Partner Post Program is intended to provide the best possible service to American companies seeking assistance in countries where the Commercial Service has no presence (non-Commercial Service). Partnership Programs operate at more than 75 U.S. Embassies, where the State Department Economic Sections draw on the specialized advice and experience of nearby Commercial Service offices to provide a higher level of support worldwide for U.S. business. We continue to seek ways to strengthen these partnerships; these efforts include training and regional strategic planning programs, IT improvements, and enhanced cooperation between the two Departments. To date, 40 non-Commercial Service embassies have participated in the Joint Commercial Service–State Training Program launched in 2006.

Investment In America Initiative: Foreign direct investors employ 5.1 million Americans, pay on average 32 percent higher wages than the national average, account for 19 percent of U.S. exports, and in 2005 reinvested $59 billion in profits back into the U.S. economy. Although the United States has historically been the world's largest recipient of inward investment with 16 percent of the global share, in recent years competition for inward investment has intensified. With the emergence of new industrial competitors, we must ensure that we continue to attract such investment.

In March, the International Trade Administration (ITA) launched the Invest in America Initiative to use ITA's global resources to promote the United States as the best market in the world for investment. The initiative will focus on:

- **Outreach to Foreign Governments and Investors**: We will engage foreign governments and major investors abroad, with particular attention to countries that invest heavily in the United States and those with concerns about investing in the United States. This outreach could also highlight opportunities in the Gulf Coast recovery efforts.

- **Outreach to State and Local Governments**: We will bring state and local groups together to discuss best practices, highlight successes, and coordinate messaging. Importantly, ITA will remain neutral in decisions affecting the location of inward investment.

- **Address Business Climate Concerns**: We will stress the need for further action on issues that would improve the business climate (e.g., tax reduction, healthcare cost reduction, litigation reform, faster visa processing, and reform of the Committee on Foreign Investment in the United States).

These efforts will help ensure that the United States maintains its reputation as having the most open investment climate in the world and partially offset concerns about outsourcing and the migration of businesses overseas.

Service Sector Export Promotion: The United States has a global comparative advantage in services, yet significant barriers to trade remain abroad. Services such as financial services, insurance, transportation and storage, telecommunications, express delivery, and business services generate 68 percent of world GDP but account for just 20 percent of global trade. While global advances in information and communications technology are making services increasingly tradable, the trade barriers are significant. In addition to increasing its focus on services trade barriers in current trade negotiations, the Federal Government continues to develop new programs and initiatives for strengthening the services sector:

- **Travel and Tourism Promotion**: International travel is one of the largest exports of the United States, accounting for 7 percent of all U.S. exports and 26 percent of services exports. In 2006, international visitors spent a record

$107.8 billion in travel receipts.[17] Travel and tourism exports have increased by 20 percent since the lows after September 11, 2001, and now exceed the peak in 2000. The 51.1-million total of international travelers hosted by the United States in 2006 is expected to grow by 21 percent in the next five years, reaching about 62 million visitors in 2011. Recent public–private promotional initiatives are contributing to this growth:

- Since December 2004, the Commerce Department has had great success with its U.S. Tourism Promotion Campaign in the United Kingdom, with at least 362,500 U.K. travelers visiting the United States as a direct result of seeing the advertising from this campaign. While traveling in the United States, these visitors spent an estimated $481 million, yielding $117 in additional visitor spending for every $1 spent on advertising. In 2005 and 2006, the campaign was expanded to Japan and featured television, underground, cinema, and department store advertising.

- In February 2007, the Travel and Tourism Advisory Board announced a $3.9-million cooperative agreement with the Travel Industry Association (TIA) to create and market a destination Web site for the United States. The multi-language Web site will target Canada, Germany, Japan, Mexico, and the United Kingdom.

- **Franchising**: The 767,000 franchised small businesses in the United States generate more than 18 million jobs and $1.53 trillion in economic activity, according to "The Economic Impact of Franchised Businesses," a study performed by PricewaterhouseCoopers for the International Franchise Association (IFA) Educational Foundation and released in 2004.[18] Franchising, as a method of doing business, is increasing worldwide. Rapidly growing markets now include the Pacific Rim (especially Singapore, Taiwan, and Malaysia), the Middle East Gulf States, South America, Eastern

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17 U.S. Department of Commerce, Bureau of Economic Analysis, News Release, "U.S. International Transactions: Fourth Quarter and Year 2006" (March 14, 2007).

18 International Franchise Association, "The Economic Impact of Franchised Businesses," (Washington, D.C.: IFA Educational Foundation), *www.franchise.org/impactstudy.aspx*.

and Western Europe, and recently China and the countries of the former Soviet Union. In addition to promotion of key trade shows and missions, we will rely increasingly on public–private partnerships:

- In September 2006, Secretary Carlos Gutierrez addressed 450 members of the franchise community at the Annual Franchise Appreciation Day sponsored by the IFA in Washington, D.C., highlighting a landmark agreement between the Commercial Service and the IFA to promote U.S. franchise systems. The Commercial Service is promoting the Virtual Franchise Opportunities Mall on IFA's website and the International Franchise Expo, the world's largest franchise show, which attracts franchisors and potential franchisees from around the world.

- The International Franchise Association has teamed with the Department of Commerce to bring trade and economic development to Southern Africa and led a mission of six U.S. franchisors to Johannesburg, South Africa, to participate in a regional forum on "Franchise as an Engine of Economic Development" on May 2. This event was held in conjunction with the Franchise Association of Southern Africa's International Franchise Exhibition. The U.S. Agency for International Development (USAID) and the State Department are supporting the participation of government regulators and e ntrepreneurs from 10 other countries in the Southern Africa Development Community. Another highly successful program was held in 2006 in Dakar, Senegal, promoting franchise opportunities in West Africa. The exchange between American franchisors, African government regulators, and indigenous entrepreneurs focuses on the practical challenges of realizing the potential of franchise to contribute to economic development. Specifically, in an enabling environment, franchise offers African countries entrepreneurship, capital formation, technology transfer, and skills development.

- **Education Promotion**: Education services are one of America's most visible exports around the globe. International receipts for education increased 4 percent in 2005 to $14.1 billion. This increase was due to tuition increases as the number of foreign student enrollments decreased 1 percent in 2005 and 2 percent in 2004.

- The Commerce Department in partnership with the Department of State (and with the support of the Department of Education), has led an effort to develop a promotion strategy for American higher education. This effort has been dubbed the Electronic Education Fair Initiative. A pilot project in China reached over 180 million people through an innovative multimedia campaign which let Chinese students studying in the United States tell America's education story to their peers back home through television programs and the Internet. Secretary Gutierrez, during his February 2007 visit to New Delhi, announced that the initiative will expand to India in the fall of 2007.

Facilitating Business Travel to the United States: Business travel to the United States by foreign employees, customers, and potential clients of U.S. firms is critical to the success of U.S. businesses. Over the past few years, numerous improvements were made to facilitate and, when necessary, expedite travel for business travelers of interest to U.S. companies.

To address rising passport and visa demands, the State Department has added 570 consular positions worldwide since 2001. Visa applicants use an electronic application form, which reduces data entry errors and increases efficiency. All consular offices post their visa appointment wait times online. All visa-issuing U.S. embassies and consulates around the world have put in place special procedures to facilitate the processing of business visas for urgent business travelers at the request of U.S. companies. In 2006, the State Department's Business Visa Center fielded over 5,000 inquiries from U.S. firms, assisting 311,531 prospective travelers in navigating the business visa application process. As a result, the speed with which visas, especially business visas, were processed improved between fiscal year 2002 and fiscal year 2006:

- Total visa issuance up 8 percent worldwide
- Business/tourist visa issuance up 12 percent
- Wait for a temporary business/tourist visa appointment (April 2007): 30 days or less, 90 percent of posts; 15 days or less, 78 percent of posts; seven days or less, 62 percent of posts

- Visa issuance following interview within two days: 97 percent of visas
- Over 18,000 visas processed in Beijing, Shanghai, and Guangzhou through the American Chamber of Commerce Business Facilitation program in China.

The U.S. Government took a number of other initiatives recently to improve travel to the United States. The State Department's budget includes $1.3 billion for the Border Security Program, to facilitate the lawful entry of legitimate foreign visitors, while protecting against illegal entry. A Private Sector Advisory Committee comprised of representatives from academia, business, and the travel and tourism sector is working on recommendations for how the U.S. Government can improve travel security and facilitation. Pilot programs at the Washington Dulles and Houston Intercontinental airports have been launched to make traveler processing at our airports quicker and more pleasant.

The Impact of Trade Liberalization

American companies, farmers, workers, and consumers benefit significantly from liberalized trade. Free markets and open trade play an important role in the growth of the U.S. economy and spur economic growth throughout the world.

Over the past 60 years, eight rounds of multilateral trade negotiations have brought the tariffs of industrial countries down from an average of 38.5 percent to 4 percent. As global economic growth strengthens in new emerging markets, it is important that tariffs also come down in developing countries. China, for example, has reduced tariff rates from an average of 25 percent in 1997 (before China joined the World Trade Organization (WTO)) to under 10 percent by the end of 2005. While the ultimate outcome of the current round of WTO talks, the Doha Development Round, is unknown, an agreement would further liberalize trade among the WTO's 150 members. If Doha were to achieve even a one-third cut in global tariff barriers to trade in goods and services, it is estimated that the real income gain to a U.S. family of four could be around $2,500 annually.[1]

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1 Council of Economic Advisers, *Trade and the American Economy: The Case for Trade Promotion Authority*, *www.whitehouse.gov/cea/pubs/html*. D. Brown, A. Deardorff, and R. Stern, "Impacts on NAFTA Members of Multilateral and Regional Trading Arrangements and Initiatives and Harmonization of NAFTA's External Tariffs," University of Michigan, Research Seminar in International Economics Discussion Paper 471, June 2001. (Population Data from Department of Commerce, U.S. Census Bureau, and family gains calculations by Council of Economic Advisers.)

In addition to multilateral negotiations, another effective tool for increasing U.S. market access and expanding trade has been Free Trade Agreements (FTAs). FTAs are comprehensive trade agreements that address tariffs and non-tariff barriers to trade in goods and services, government procurement opportunities, and investment. FTAs also promote the rule of law and encourage transparent and enforceable regulatory practices in the areas of competition, intellectual property, labor, and the environment. Currently the United States has a total of ten[2] FTAs in force with 14 countries.

Since 2001, the Administration has implemented seven of these FTAs with 11 countries, working with Congressional guidance on what types of trade and investment practices should be addressed in a trade agreement. Looking at the most recent year-over-year data (2005 to 2006), we can see that the growth rate of U.S. exports in seven of 10 countries with FTAs in force at the end of 2006 outpaced the growth rate of U.S. exports to the world (*Chart 15*).[3]

The 13 countries with which America implemented FTAs through 2006, including our NAFTA partners and Israel, account for 7.3 percent of world GDP (excluding the United States), but account for 42.1 percent of U.S. exports (*Charts 16a, 16b*).

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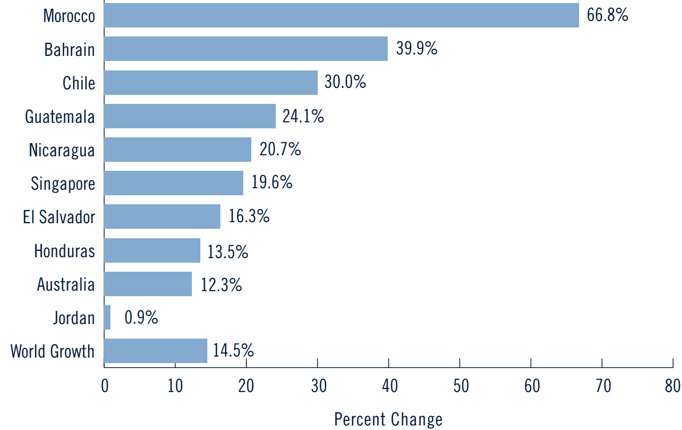
2 Agreements in effect are the Israel FTA, NAFTA, CAFTA–DR (other than Costa Rica), and FTAs with Jordan, Singapore, Chile, Australia, Morocco, and Bahrain. The U.S.–Canada FTA has been suspended since the entry into force of NAFTA.

3 Excludes Dominican Republic, for which CAFTA–DR entered into force on March 1, 2007.

Chart 15. 2005 to 2006 Growth in U.S. Exports to Trading Partners with FTAs Entering Into Force Between 2001 and 2006



Note: Morocco and Chile figures reflect large aircraft deliveries.

Source: U.S. Department of Commerce, Bureau of the Census.

Chart 16. U.S. Free Trade Agreement Partners in the Global Economy

Chart 16a. Percent of World GDP, 2006

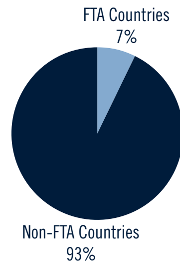
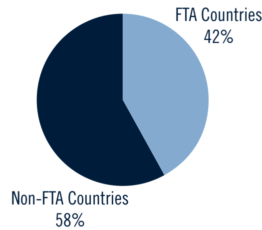


Chart 16b. Percent of U.S. Exports, 2006



Notes: World GDP excludes the United States. GDP figures on a purchasing power parity basis. Export figures are for total U.S. exports. Figures include all countries with free trade agreements in force with the United States through 2006: Australia, Bahrain, Chile, CAFTA–DR (El Salvador, Guatemala, Honduras, Nicaragua), Israel, Jordan, Morocco, NAFTA (Canada, Mexico), and Singapore.

Source: International Monetary Fund, World Economic Outlook Database (September 2006); U.S. Department of Commerce, Bureau of the Census.

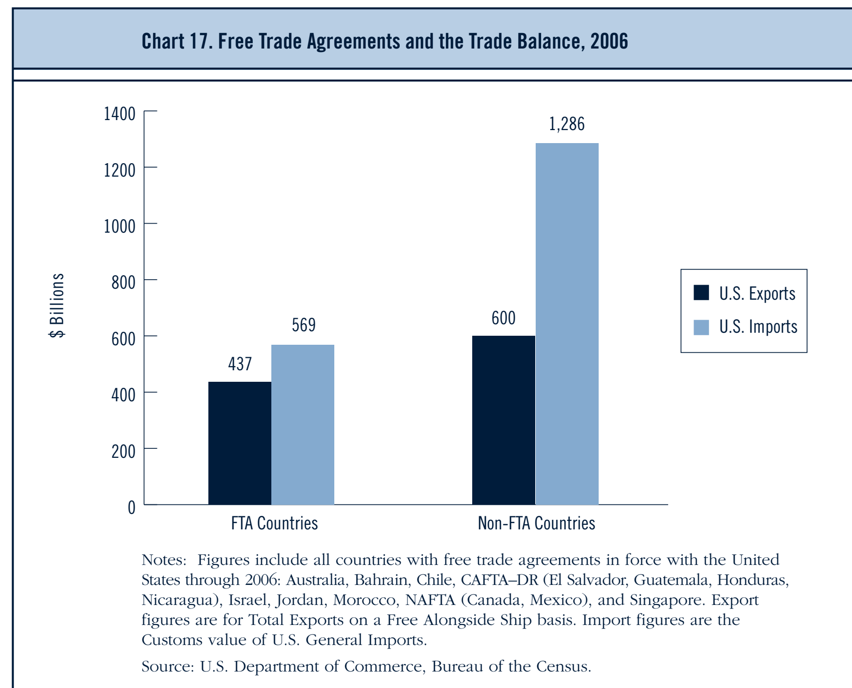
FREE TRADE AGREEMENTS AND THE TRADE BALANCE

Trade barriers are just one of many factors that can affect the U.S. trade deficit, and eliminating trade barriers would by no means result in a disappearance of the trade deficit. Nevertheless, it is noteworthy that our combined trade deficit with FTA partner countries is smaller than with non-FTA countries. In fact, 16 percent of our overall trade deficit results from trade with FTA trading partners, while 84 percent is attributable to non-FTA trading partners (*Chart 17*). Prior to the implementation of a free trade agreement, U.S. producers face higher barriers to trade in foreign markets than foreign producers face in the United States. This is especially true with regard to developing countries, which maintain foreign import duties much higher than in developed countries.

IMPORTANCE OF COMPREHENSIVE FREE TRADE AGREEMENTS

U.S. FTAs have a successful track record because they are comprehensive, cutting-edge, and tailored to today's high-tech world. Such agreements are difficult to negotiate, but the United States has always held out for high-quality

Chart 17. Free Trade Agreements and the Trade Balance, 2006



Notes: Figures include all countries with free trade agreements in force with the United States through 2006: Australia, Bahrain, Chile, CAFTA–DR (El Salvador, Guatemala, Honduras, Nicaragua), Israel, Jordan, Morocco, NAFTA (Canada, Mexico), and Singapore. Export figures are for Total Exports on a Free Alongside Ship basis. Import figures are the Customs value of U.S. General Imports.

Source: U.S. Department of Commerce, Bureau of the Census.

FTAs, with benefits for both the United States and our trading partners. The FTAs negotiated by the United States are comprehensive, addressing many other issues besides tariff reductions important to U.S. businesses, workers, farmers, and investors. For both parties to an agreement, these issues are fundamental to enhancing efficiency, lowering the cost of capital, and creating the economic conditions for businesses to compete effectively. These issues include:

- Improved operation through trade facilitation measures that lower barriers to trade (such as customs administration)
- Encouragement of innovation through protection of intellectual property rights and promotion of e-commerce and telecommunications
- Market access for services and financial services
- Promotion and protection of investment
- Transparency and fairness of procurements
- Regulatory improvements:
    - Labor
    - Environment
    - Transparency and anti-corruption measures
- Compliance tools for rules clarification and establishment of dispute resolution processes
- Adoption of international standards to address sanitary and phytosanitary barriers to trade

IMPORTANCE OF FREE TRADE AGREEMENTS TO SME EXPORTERS

U.S. small and medium-sized enterprises (SMEs) are a significant source of innovation and jobs for the U.S. economy, and free trade agreements expand markets for SMEs. FTAs lower foreign market tariffs, thus reducing SMEs' to-market costs. FTA transparency obligations are also very important to SMEs, which may not have the resources to cut through customs and regulatory

red tape. In 2005 (latest data available), U.S. merchandise exports from SME exporters to our FTA partners totaled $82.1 billion. Similarly, over 90 percent of U.S. companies exporting to Canada, Mexico, and Australia are SMEs. At least 70 percent of all U.S. companies that exported to Chile, Morocco, and the individual Central America–Dominican Republic FTA (CAFTA–DR) countries are SMEs. SMEs accounted, by value, for 29 percent of all U.S. exports to the world in 2005 (latest available). In comparison, the SME share of U.S. exports exceeded 30 percent in eight of our 14 current FTA partners (*Table 2*).

Table 2. U.S. SME Exports to FTA Trading Partners, 2005

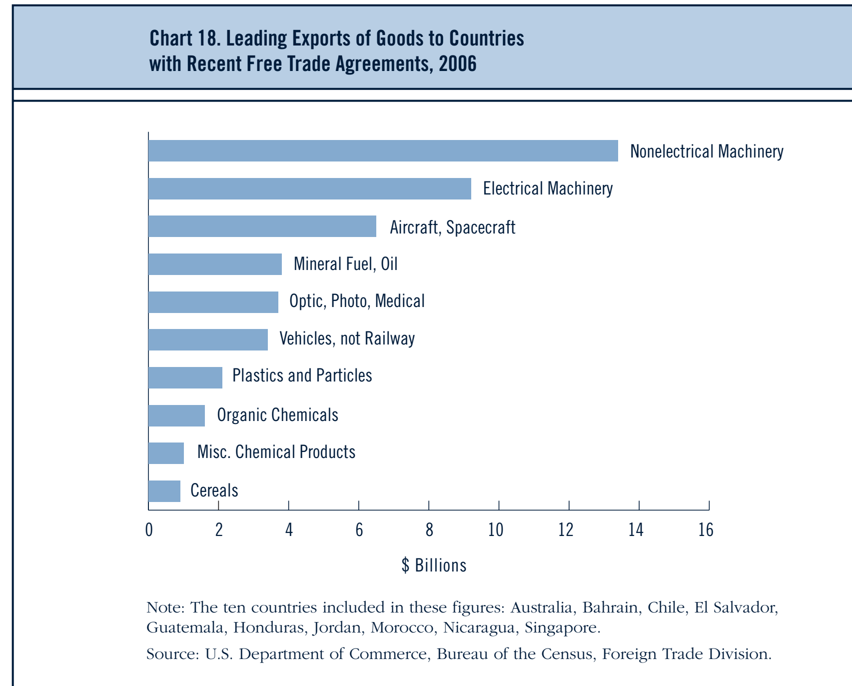
Country	SME Export Value ($ millions)	SME Share of Total Exports (percent)
Australia	3,618	25.9
Bahrain	65	27.0
Canada	33,355	21.2
Chile	1,430	31.2
Dominican Republic	2,264	53.5
El Salvador	841	52.8
Guatemala	1,268	50.9
Honduras	1,173	40.6
Israel	3,196	45.2
Jordan	221	42.9
Mexico	30,614	29.0
Morocco	129	26.2
Nicaragua	403	73.5
Singapore	3,550	18.5

Source: U.S. Department of Commerce, Exporter Database.

TRACK RECORD OF SUCCESS IN INDIVIDUAL MARKETS

Chart 18 shows the aggregate leading sectors in 2006 for the seven FTAs with 10 countries that came into force between 2001 and 2006.

Chart 18. Leading Exports of Goods to Countries with Recent Free Trade Agreements, 2006



Note: The ten countries included in these figures: Australia, Bahrain, Chile, El Salvador, Guatemala, Honduras, Jordan, Morocco, Nicaragua, Singapore.

Source: U.S. Department of Commerce, Bureau of the Census, Foreign Trade Division.

A more detailed look at the four FTAs implemented since 2001 that have been in force the longest (the Jordan, Singapore, Chile, and Australia FTAs) shows that U.S. exports in certain sectors have experienced incredibly rapid growth, often as a direct result of particular market access gains included in the FTA.

Jordan: Since the implementation of the United States–Jordan FTA in 2001, U.S. exports to Jordan have risen 92 percent. Immediately prior to the FTA, the United States' annual exports of goods to Jordan were $339 million. In 2006,

exports were $650 million. U.S. agricultural exports accounted for $142 million of this amount, representing a 60 percent increase in agricultural exports to Jordan since 2005. Among the biggest growth sectors between 2001 and 2006:

- Vehicle (not railway) exports rose 1,573 percent to $133 million.
- Aluminum exports rose 610 percent to $20 million.
- Books, newspapers, and manuscripts exports rose 360 percent to $5 million.

Singapore: Building on an already strong trade relationship, U.S. exports to Singapore have risen by 49 percent since the entry into force of the United States–Singapore FTA in 2004. In 2003, prior to the FTA, the United States exported $16.6 billion in goods to Singapore. In 2006, U.S. merchandise exports totaled $24.7 billion and resulted in a $6.9 billion trade surplus with Singapore. The biggest dollar gains were in established export sectors. Between 2003 and 2006:

- Tools and cutlery of base metals exports rose 143 percent to $110 million.
- Mineral fuels and oil exports rose 136 percent to $1.1 billion.
- Organic chemicals exports rose 128 percent to $1.1 billion.
- Precious stones and metals exports rose 71 percent to $122 million.

Chile: Exports to Chile from the United States rose by over 150 percent, from $2.7 billion in 2003 prior to implementation of the United States–Chile FTA, to $6.8 billion in 2006. Among the strong performers between 2003 and 2006:

- Aircraft and spacecraft exports rose 2,968 percent to $916 million. 2006 exports in this sector were double the previous all-time high of $455 million in 1998:
- Mineral fuels and oil exports rose 1,615 percent to $1.1 billion.
- Vehicles (other than railway) exports rose 182 percent to $629 million.
- U.S. financial services firms may now offer financial services to participants in Chile's highly successful privatized pension system.

While U.S. exports to Chile constituted 25 percent of the Chilean import market in 1995, that share consistently dropped in subsequent years as other trading partners, including the EU, Mexico, and Canada, all negotiated FTAs with Chile. U.S. import share reached a low of 14.5 percent in 2003. With the implementation of the FTA in January 2004, U.S. import share in Chile has begun to climb again, reaching 16 percent in 2006.

Australia: The United States has significantly strengthened and diversified its exports to Australia. U.S. exports to Australia in 2006 totaled $17.8 billion, having grown 12.3 percent since the United States–Australia FTA was implemented in January 2005. This agreement has already eliminated tariffs on over 99 percent of lines for exports of U.S. industrial and consumer goods. As a result, the execution of this FTA has contributed to a $9.6 billion U.S. trade surplus in 2006. In 2004, prior to the implementation of the agreement, the United States had exports of $500 million or greater in two categories. One year later, in 2005, the United States had five categories over $500 million, and in 2006, the number of categories valued over $500 million grew to seven. Significant gains between 2004 and 2006 include:

- Rubber and rubber products exports rose 69 percent to $249 million.
- Precious stones and metals exports rose 52 percent to $249 million.
- Perfumery and cosmetics exports rose 39 percent to $272 million.
- Total U.S. agricultural exports to Australia were a record $520 million in 2006. Exports of pork totaled $47.0 million and exports of fresh fruit reached a record $48.6 million.

RECENT AND FUTURE FTAS

Morocco: The United States–Morocco FTA entered into force on January 1, 2006. In the last full year prior to entry into force (2005), the United States exported $525 million in goods to Morocco. In 2006, U.S. exports increased to over $876 million, bringing total bilateral trade to almost $1.4 billion. U.S. agricultural exports were $294 million, representing a 79 percent increase in U.S. agricultural exports to Morocco since 2005. The market liberalization under the FTA includes preferential market access for all agricultural products in accordance with negotiated schedules. In addition, the FTA provides preferential

duty treatment for textile and apparel products that meet the FTA's rule of origin requirements. Under the FTA, all remaining tariffs on consumer and industrial products will be eliminated by 2015.

Bahrain: The free trade agreement with Bahrain took effect August 1, 2006. In the last full year prior to entry into force of the FTA (2005), the United States exported $351 million in goods to Bahrain. In 2006, U.S. exports totaled $491 million, a 40 percent increase.

CAFTA–DR: The United States, five countries of Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), and the Dominican Republic signed the Dominican Republic–Central America–United States Free Trade Agreement (CAFTA–DR) on August 5, 2004. Since March 2006, CAFTA–DR has entered into force with respect to five countries: El Salvador, Honduras, Nicaragua, Guatemala, and the Dominican Republic. Entry into force for Costa Rica is expected to follow a public referendum and completion of its implementation process during 2007.

- **El Salvador**: CAFTA–DR entered into force with El Salvador on March 1, 2006, and expanded market access opportunities in El Salvador for U.S. companies (about 7 million consumers and $17 billion in GDP). In the last full year prior to entry into force of the FTA (2005), the United States exported $1.9 billion in goods to El Salvador. In 2006, U.S. exports totaled $2.2 billion—a 16.3 percent increase.

- **Honduras**: CAFTA–DR entered into force with Honduras on April 1, 2006, and expanded market access opportunities in Honduras for U.S. companies (over 7 million consumers and $8 billion in GDP). In the last full year prior to entry into force (2005), the United States exported $3.3 billion in goods to Honduras. In 2006, U.S. exports totaled $3.7 billion—a 13.5 percent increase.

- **Nicaragua**: CAFTA–DR entered into force with Nicaragua on April 1, 2006, and expanded market access opportunities in Nicaragua for U.S. companies (about 6 million consumers and $5 billion in GDP). In the last full year prior to entry into force (2005), the United States exported $625 million in goods to Nicaragua. In 2006, U.S. exports totaled $755 million—a 20.8 percent increase.

- **Guatemala**: CAFTA–DR entered into force with Guatemala on July 1, 2006, and expanded market access opportunities in Guatemala for U.S. companies (about 13 million consumers and $32 billion in GDP). In the last full year prior to entry into force of the FTA (2005), the United States exported $2.8 billion in goods to Guatemala. In 2006, U.S. exports totaled $3.5 billion—a 24.1 percent increase.

- **Dominican Republic**: CAFTA–DR entered into force with the Dominican Republic on March 1, 2007, and expanded market access opportunities in the Dominican Republic for U.S. companies (about 9 million consumers and $28 billion in GDP). In 2006, U.S. exports totaled $5.4 billion.

Reopening of Guatemalan Beef Market

Following the detection of Bovine Spongiform Encephalopathy (BSE) in the United States in 2003, most countries banned imports of live U.S. cattle. In early 2006, U.S. Livestock Genetics Export, Inc. (USLGE), the Texas Department of Agriculture (USDA), and the Foreign Agricultural Service (FAS) jointly arranged for Guatemala's Vice Minister of Agriculture to visit Texas and meet with livestock contacts for advice on establishing a beef genetics improvement center in Guatemala. Soon after, USDA was able to renegotiate Guatemala's bovine health protocol and, in March 2006, Guatemala announced the reopening of its borders to live U.S. cattle and bone-in beef. USLGE representatives visited Guatemala in May 2006 to offer technical advice to the Guatemalan Agriculture Ministry. In July 2006, U.S. beef cattle arrived in Guatemala for the first time since 2003, a direct result of the successful matching of Market Access Program, industry funds, and close coordination between FAS, USLGE, and the Texas Department of Agriculture.

Oman: The United States signed a free trade agreement with Oman on January 19, 2006. President Bush signed the agreement into law, following Congressional approval, on September 26, 2006. Oman is working on the necessary implementing legislation. Oman accounts for approximately 3.2 million consumers and a GDP of over $43 billion. In 2006, U.S. goods exported to Oman totaled $853 million.

Panama: In December 2006, the United States and Panama announced completion of negotiations on a free trade agreement, with the understanding that it is subject to further discussions regarding labor. The Administration notified Congress on March 30, 2007, of its intent to sign the agreement following a 90-day waiting period, after which it would be subject to Congressional consideration.

Panama Canal Expansion

In 2008, the Panama Canal will undergo its first major expansion at an estimated cost of $5.25 billion, representing one of the largest infrastructure project in the Western Hemisphere. TPCC agencies, including Ex-Im Bank, the Departments of Commerce, State, and Transportation, U.S. Trade and Development Agency (USTDA), Overseas Private Investment Corporation(OPIC), and other TPCC agencies are working together to increase awareness of U.S. Government financing and other support available. The goal is to assist U.S. engineering, project management, construction, and equipment firms seeking to participate in Canal contract awards.

- During its April 2007 Annual Conference, Ex-Im Bank organized a roundtable discussion on the expansion project. Ricaurte Vásquez, Chairman of the Panama Canal Authority, the institution directly responsible for overseeing the project, briefed U.S. exporters, lenders, and brokers interested in participating in the project. Through similar outreach activities, Ex-Im Bank will continue to work within the TPCC to advance U.S. participation in the project.
- Representatives from the Commerce Department's Advocacy Center attended the Panama Canal Authority's conference in March and are working with U.S. companies interested in bidding on each of the individual tenders.
- U.S. Transportation Secretary Mary E. Peters traveled to Panama in May to meet with interested U.S. companies and representatives of the Canal Authority.

Peru and Colombia: The United States signed a free trade agreement with Peru on April 12, 2006, and a free trade agreement with Colombia on November 22, 2006. The Administration is working towards securing Congressional approval of both agreements. Together, Peru and Colombia account for approximately 72 million consumers and a combined GDP of almost $550 billion, representing a substantial market for U.S. businesses, farmers, and workers. In 2006, U.S. goods exports to Peru totaled $2.9 billion and our exports to Colombia totaled $6.7 billion. Colombia is currently the largest market for U.S. agricultural exports in South America.

South Korea: On April 1, 2007, President Bush notified Congress of the intent to sign a free trade agreement with the Republic of Korea. South Korea accounts for approximately 48 million consumers and a GDP of over $897 billion. In 2006, U.S. goods exported to South Korea totaled $32.5 billion.

CONCLUSIONS

Together with pre-existing FTA partners Israel, Canada, and Mexico, these new free trade alliances are beginning to form a critical mass for the stimulation of trade-led growth. Collectively, new and pending FTA partners would constitute America's third-largest export market and the third-largest economy in the world. In countries and regions throughout the world, the United States is achieving market gains for U.S. exporters, economic growth and development opportunities for our free trade partners, and enhanced leadership stature for the United States in the global economy.

A priority of the trade promotion agencies is sustained follow-up in FTA markets, ensuring that U.S. businesses are aware of new market openings and have access to the tools and opportunities they need to expand their exports to these markets. Whether a new FTA trading partner represents a large or small market, the U.S. Government must ensure that all U.S. businesses are informed and enabled to take advantage of negotiated market openings. Our strategy is to increase U.S. companies' activities in all of these markets so that citizens in the FTA partner countries and in the United States see the benefits of increased trade. We will work with all of our partners (corporate, U.S. States, and trade and industry associations) to broaden U.S. business awareness of opportunities. Highlights of our trade promotion activities in recent FTA markets include: