



American  
Business  
Conference A Coalition of Growth Companies

February 25, 2013

The Honorable Tim Kaine  
United States Senate  
Washington, DC 20510

Dear Senator Kaine:

We write on behalf of the American Business Conference (ABC). ABC is a non-partisan coalition of leaders of midsize companies. Midsize companies are just 3.2% of all US companies, but they provide 34% of all jobs, 31% of all revenues, and 44% of all private sector job growth in the US.

ABC members advocate policies to promote economic growth. Economic growth is important not for itself but for what it makes possible. The late Democratic Senator Paul Tsongas had it right when he said that, as a society, "everything we hope to do depends on an expanding economic pie. And only a vibrant, competitive, thriving private sector can create that."

One important element of growth is expanded international trade and investment, which is the topic of this letter.

**We have no trade policy**

The United States today lacks a trade policy. In fact, trade has all but disappeared from political debate.

This neglect is odd. We are a nation that once prided itself on its trading ability and we came into being in part as a reaction to the efforts of England to limit our freedom to trade. Our economy boasts millions of trade and investment-related jobs. We are the world's largest trading

nation and we were the major architect of the postwar trading and investment regime.

Now, it is true that some leaders talk about the need to expand American exports, a sentiment with which we all can agree. The single focus on exports, of course, is a function of the belief that export expansion is politically “safe.” But trade includes more than exports. Even the popular conception of exports, where goods are made here and sold “over there,” is itself anachronistic in an era of complex international supply chains.

Those who speak solely of export growth and assume the old model of exporting, are caught in an intellectual time-warp *circa* 1950 when much of the developed world was in ruins and America was an economic colossus. Those days are gone.

If the private sector is to remain, in Tsongas’s words, “vibrant, competitive,” and “thriving,” it must be more internationally active. And the United States government must pursue policies that recognize the value for our society of increased economic activity across borders, whether exporting, importing, or direct investment, both outward and inward. If we want the economy to grow, if we want our citizens to prosper, there is no choice. As is so often pointed out, about 95% of the world’s population live outside of the U.S. An insular view of commercial relations is anti-growth and unrealistic.

### **The New International Reality**

Since the end of World War II, world trade has grown more quickly than world GDP. In 1960, trade in goods accounted for 20% of world GDP. In 2010, that percentage had reached nearly 50%. Total trade in goods *and* commercial services in 2010 accounted for a remarkable 61% of world GDP.

As impressive as these data are, they are outstripped by estimates for trade activity over the next decades. According to economists Willem Buiter and Ebrahim Rahbari, “world trade is set for...a prolonged boom.” They expect world trade to expand at an average annual rate of 6.15% between now and 2030, and 4.4% per year between 2030 and 2050. By 2050, world

trade will equal \$270 trillion, up from \$37 trillion in 2010 (constant dollars), an increase of 730%.

The United States will not lead this trade expansion; Asia will.

- China will likely be the world's largest trading nation by 2015 (it already leads in trade in goods).
- What Buitter and Rahbari call "Emerging Asia" will become the world's largest trading region that same year, displacing Western Europe.
- By 2050, India, from virtually out of nowhere, will overtake the United States and Germany to become the second largest trading nation.
- In terms of bilateral relationships, Advanced Asia and Emerging Asia will be the world's largest trading corridor by 2030.
- Emerging markets in Latin America and Africa will increasingly depend for growth on their economic relationship with Asia.

Projections are by their nature imprecise, but the trend is clear. The changes in trade patterns will profoundly alter our economy and the place of the United States, financially, culturally, and politically, in the world (and in the eyes of our citizens). The United States is not going to disappear as a world economic and political leader, but our preeminence will no longer be a given, even in so-called "sphere of influence" regions as Latin America.

### **Making Trade Relevant**

As we have seen in the non-discussion of the nation's debt crisis (itself the biggest threat to the American economy), neither Congress nor the President are at their best tackling long-term problems. Nevertheless, what follows are some ideas for reintroducing trade as a relevant topic for consideration by the 112<sup>th</sup> Congress.

1. **Congress should examine the state of affairs at the Office of the US Trade Representative (USTR).** Once a model of a small, efficient, and aggressive Executive agency staffed by an extraordinarily talented group of employees, USTR has been in decline in influence and effectiveness.

An underreported survey by the Partnership for Public Service (PEP) placed USTR at the bottom of the list of small government agencies in terms of employee morale. Job satisfaction among USTR employees fell both in 2011 and 2012, with the decline in 2012 amounting to 15 points (47.7 to 32.7).

Something is wrong at USTR. The decline of trade as a national priority (with corresponding budget cuts) is likely at the root of the problem. Simply “folding” USTR into some larger department, as some have suggested, will not solve that problem, only bury it. If we regard, as we should, the expansion of trade as a top priority, we need a vital USTR where top-flight personnel want to come to work every morning on behalf of the American economy and our people.

2. **ABC recommends the development of new trade negotiating strategies and goals.** Congress and the White House should work toward a new model for trade negotiations, one that focuses on resolving specific issues along supply or value chains that are roadblocks to trade (both imports and exports). We ought to be looking at trade, but also at other policies and ask “What impediments (domestic and foreign) do we need to remove to help make a given sector/value or supply chain successful or more successful?”

This new approach would necessarily mean relying on the views and experiences of American businesses of all sizes active in the world market *when negotiating strategies and tactics are set*. At present, business leaders serve on various advisory committees to the USTR and Department of Commerce, but these positions, in effect, tend to be downstream validators of previous negotiations. There is also a role for the active involvement of specialists at business schools in helping policymakers to understand the real state of trade and investment and their underlying trends.

3. **Restore Presidential Trade Promotion Authority (TPA).** Congress last extended TPA to the President in 2002; the authority expired on July 1, 2007. No other fact points more clearly to the neglect of market-opening trade negotiations and the political strength of protectionists

than the nearly five-year failure of the President to request, and Congress to grant, TPA.

We already know that, if the Trans-Pacific Partnership negotiations are completed, TPA will be necessary. Other possible negotiations, whether multilateral talks on services, a possible free trade agreement with the European Union, or a trade facilitation package at the World Trade Organization, will also likely require TPA.

Congress should not wait to extend trade promotion authority until it is absolutely necessary in order to implement a completed negotiation. Instead, we recommend that a general TPA extension be passed as soon as possible. To do so would send a message that America is awakening to the realities of the world market after a five-year slumber, thereby giving the President greater credibility in international economic affairs.

**4. We need to get sensible on tax, energy, and infrastructure policy.**

Many things contribute to a nation's competitiveness. In this letter, we highlight three.

First, it is time to recognize that our worldwide tax system is not well-suited to help American companies tap future international opportunities. It is also a compliance nightmare. There are virtually no other developed countries that do not already have a territorial system, making the U.S. corporate income tax increasingly uncompetitive. That means we stand in severe danger of sending corporate headquarters abroad, which would cost jobs and harm whole communities depending upon a corporate presence. We need to make the corporate tax territorial in scope.

Second, the United States should seek to become energy independent. Energy remains a significant factor in production and our ability to provide a secure and cost-effective supply of energy would keep plants here and attract new operations from elsewhere. We acknowledge that exploiting new sources of natural gas or moving toward nuclear power present environmental challenges – indeed, some ABC members are active in environmental groups. But we cannot simply block new energy sources. We can and should find a way to use those sources in a

manner consistent with intelligent environmental stewardship and effective regulation.

Third, like nearly everyone else, ABC is concerned with our crumbling infrastructure. By some estimates, it would take a \$2.2 trillion investment just to repair existing infrastructure. Beyond that, if we are to attract new investment in plants and facilities, we have to provide a world-class infrastructure.

It is telling that the ABC company most involved in infrastructure projects earns more than half of its total revenues from overseas projects. Clearly our competitors understand the importance of infrastructure. We need a strategic, cost-benefit-driven infrastructure policy that takes into account the importance of the states and that looks at nontraditional means of finance.

### **Trade and Growth**

In the United States, the private sector is the primary creator of wealth and employment. One need not be part of the business culture, or much admire it, to recognize that fact.

This is a point not emphasized nearly enough, although it is well known. Thus a fact sheet tucked away on the website of the Office of the U.S. Trade Representative notes that “trade expansion benefits families and businesses” by supporting “higher paying jobs in our export sectors,” expanding “the variety of products for purchase by consumers and business” [*i.e.*, imports], and encouraging “investment and more rapid economic growth.” Yet how often have these simple ideas, *taken together*, been vigorously asserted in the face of protectionist pressures?

Leaders in both government and business have a responsibility to talk candidly to the American people about our country’s changing place in the world. Increasing, or even just maintaining, our standard of living, will not be an automatic process. We have to decide to excel.

That requires above all else that we address our growing debt crisis. It also means recognizing that the world is changing and not in ways that are

necessarily in our domestic economic interest. To win in the new world market, we are going to have to work harder than before.

That work begins, in Washington, by ending what often looks like a conspiracy of silence about international trade and investment. As you begin your new duties in Congress, you are as well placed to insist that we start talking about securing America's place in the new international economy.

Sincerely,

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Chairman and CEO  
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