Boosting U.S. Exports: Selected Issues for Congress

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Summary

For many years, the U.S. government has played an active role in promoting U.S. commercial exports of goods and services by administering various forms of export assistance through federal government agencies. Congress has had a long-standing interest in the effectiveness and efficiency of federal export promotion activities and may exercise export promotion authority in a number of ways, including through oversight, authorization, and funding roles.

The recent global economic downturn has renewed congressional interest in U.S. government efforts to expand U.S. exports levels. In addition, in 2010, President Obama introduced a National Export Initiative (NEI), a strategy for doubling U.S. exports by 2015 to generate U.S. jobs. The NEI's key components are to (1) improve advocacy and trade promotion efforts on behalf of U.S. exporters; (2) increase access to export financing; (3) reinforce efforts to remove barriers to trade, such as through free trade agreements (FTAs); (4) enforce trade rules; and (5) pursue policies to promote strong, sustainable, and balanced global economic growth. The NEI also contains a focus on expanding specific U.S. exports, such as exports from small businesses.

The growing interest in federal export promotion raises a number of issues for the 112th Congress. One debate involves export promotion definitions. Based on varying views, activities that constitute export promotion can range from direct forms of export assistance (such as commercial advocacy or export financing) to broader forms (such as negotiating FTAs). Although the main goal of export promotion policy generally is to boost U.S. exports, policymakers may use export promotion to advance other goals, such as macroeconomic, economic sector-specific, or international trade policy goals, and may differ on how to prioritize such goals.

From an economic perspective, much of the debate over export promotion involves whether some market failure actually has occurred, and whether government intervention can produce net benefits for the economy as a whole. Opponents of export promotion programs dispute that significant market failures have occurred, and warn that government intervention may interfere with efficient operation of the market. Although export promotion might increase the ability of certain U.S. firms to export, a combination of macroeconomic and other factors may determine the overall level of U.S. exports. Another aspect to the economic debate is the existence of foreign countries' export promotion programs. Supporters of export promotion often argue that such policies are needed to offset the effects of similar programs used by foreign governments.

Congressional debate on the effectiveness of U.S. export promotion has grown with the introduction of the NEI. Many argue that providing export assistance to U.S. firms would be of limited help if such firms faced significant tariff and non-tariff trade barriers and poor protection of intellectual property rights overseas. Thus, it is argued that efforts to ensure foreign compliance with existing trade agreements and the negotiation of new FTAs should be part of a strategy to boost U.S. exports. Others argue that more can be done to address U.S. barriers to exports, such as U.S. export controls on dual-use products, which some contend may be too restrictive and may put U.S. exporters at a disadvantage vis-à-vis foreign competitors. Finally, many argue that greater efforts should be made to induce countries with high savings and relatively low consumption and that are heavily dependent on exporting for their economic growth to implement policies that would make private consumption the engine of future economic growth, which would enhance their demand for U.S. goods and services. The NEI also has drawn greater attention to whether the trade policy structure and organization of the federal government is suited to boosting U.S. exports and supporting U.S. jobs effectively and efficiently.

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Introduction

Historically, the U.S. government has played an active role in promoting U.S. exports of goods and services by administering various forms of export assistance through federal government agencies. In 2010, President Obama introduced a National Export Initiative (NEI), a strategy for doubling U.S. exports to $3.14 trillion in 2015, to generate and support U.S. jobs. The NEI comes at a time when the United States faces challenges in recovering from the global economic downturn that began in December 2007, interrupting the prior decades-long expansion of international trade. The U.S. unemployment level soared from 5% at the onset of the crisis to over 10% by October 2009, and dropped to 9.0% by November 2011.[1] The NEI also coincides with increasing U.S. interest in global commercial opportunities, given that an estimated 95% of the world's consumers live outside of the United States.

Congress has had a long-standing interest in the effectiveness and efficiency of federal export promotion activities and their role in generating economic growth and jobs. The introduction of the NEI, as well as slower growth in the U.S. economy, has increased congressional interest in U.S. export promotion policy. Congress may exercise export promotion authority in a number of ways, including through oversight, authorization, and funding of federal export promotion programs. The 112th Congress may choose to examine a number of issues related to federal government efforts to expand U.S. exports.

This report discusses and analyzes (1) U.S. export trends to provide context; (2) federal export promotion efforts, with a focus on the NEI; and (3) policy issues raised for Congress by such activities. For information on the specific federal government agencies involved in supporting U.S. exports, their budgets, and activities, see CRS Report R41495, *U.S. Government Agencies Involved in Export Promotion: Overview and Issues for Congress*, coordinated by Shayerah Ilias.

U.S. Export Trends

Overall U.S. Trade Trends

Over the past few decades, U.S. trade in goods and services has generally grown, although imports have grown faster than exports, leading to an overall U.S. trade imbalance (see **Table 1**).

- **Goods exports:** In the past decade, U.S. exports of goods (merchandise) have increased, with exceptions in years of economic downturn. U.S. merchandise exports peaked in 2008 at $1.3 trillion before dropping to $1.1 trillion in 2009, and then recovered to near-2008 levels in 2010. Since 1975, the value of U.S. merchandise exports consistently has been less than the value of imports, contributing to a growing trade deficit in goods that stood at a record $840 billion in 2006. In 2010, the United States had a negative merchandise trade balance of $647 billion.

[1] U.S. Department of Labor, available at http://www.dol.gov/; latest available data on unemployment rate as of report publication date.

- **Services exports:** The United States traditionally runs a trade surplus in services. U.S. exports of services constitute about one-third to one-half of the value of merchandise exports, but are a growing part of the economy. Exports of services reached $534 billion in 2008, before declining to $502 billion in 2009. In 2010, services exports recovered to $546 billion, higher than 2008 levels. The services balance is positive and growing, reaching $151 billion in 2010.
- **Total exports:** Taken together, U.S. exports of goods and services have grown from $272 billion in 1980 to a high of $1.84 trillion in 2008. After dropping in 2009, exports grew by 17% in 2010, returning to 2008 levels. Because of the U.S. trade surplus in services, the overall trade deficit for goods *and* services is lower than the trade deficit for goods alone.

Table 1. U.S. Trade in Goods and Services, 2000-2010

(billions of U.S. dollars)

Year	Exports			Imports			Balance		
	Total	Goods	Services	**Total**	Goods	Services	**Total**	Goods	Services
2000	**1,070.6**	784.2	286.4	**1,449.4**	1,230.4	219.0	**-378.8**	-446.2	67.5
2001	**1,004.9**	730.3	274.6	**1,369.3**	1,152.3	217.0	**-364.4**	-422.0	57.6
2002	**977.5**	696.3	281.2	**1,398.0**	1,171.6	226.4	**-420.5**	-475.3	54.8
2003	**1,019.9**	728.3	291.6	**1,514.1**	1,269.8	244.3	**-494.2**	-541.5	47.4
2004	**1,158.6**	819.9	338.7	**1,767.9**	1,485.5	282.4	**-609.3**	-665.6	56.3
2005	**1,281.2**	909.0	372.2	**1,995.4**	1,692.8	302.5	**-714.2**	-783.8	69.6
2006	**1,452.8**	1,035.9	416.9	**2,212.0**	1,875.3	336.7	**-759.2**	-839.5	80.2
2007	**1,648.7**	1,160.4	488.3	**2,350.8**	1,983.6	367.2	**-702.1**	-823.2	121.1
2008	**1,839.0**	1,304.9	534.1	**2,537.8**	2,139.5	398.3	**-698.8**	-834.7	135.9
2009	**1,570.8**	1,068.5	502.3	**1,945.7**	1,575.4	370.3	**-374.9**	-506.9	132.0
2010	**1,834.2**	1,288.7	545.5	**2,329.9**	1,935.7	394.2	**-495.7**	-647.1	151.3

Source: U.S. Census Bureau, adapted by CRS.

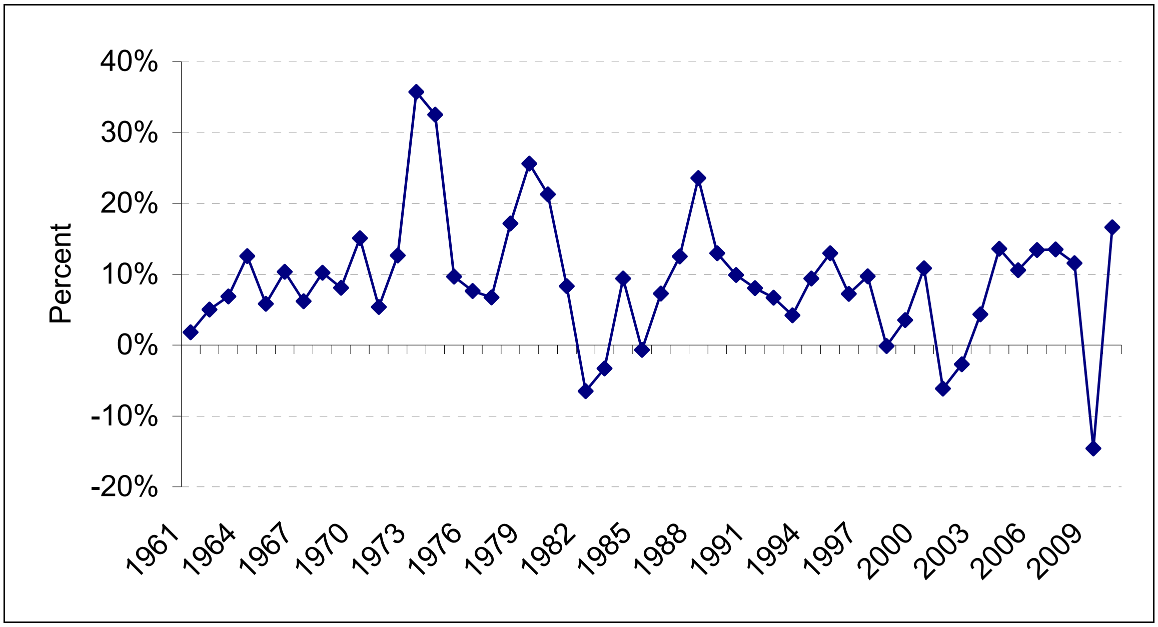
Notes: Data presented on a balance-of-payments basis.

The NEI introduces a goal of doubling U.S. exports of goods and services, from $1.57 trillion in 2009 to $3.14 trillion in 2015.[2] In order for exports to double between 2009 and 2015, it is estimated that U.S. exports would have to grow annually at a rate of 15%. In 2010, U.S. exports grew by 17% over 2009 (see **Figure 1**). Since 1960, U.S. export levels have experienced year-to-year increases of above 15% generally in times of high inflation in the United States, such as 1979-1980, or times of global economic recovery, such as 2009. U.S. exports have doubled roughly every 10 years since 1960.

[2] Report to the President on the National Export Initiative: The Export Promotion Cabinet's Plan for Doubling U.S. Exports in Five Years, Washington, DC, September 2010, http://www.whitehouse.gov/sites/default/files/nei_report_9-16-10_full.pdf.

Figure 1. Year-on-Year Change in U.S. Goods Exports to the World, 1961-2010

(billions of U.S. dollars)



Source: CRS analysis of U.S. Census Bureau data.

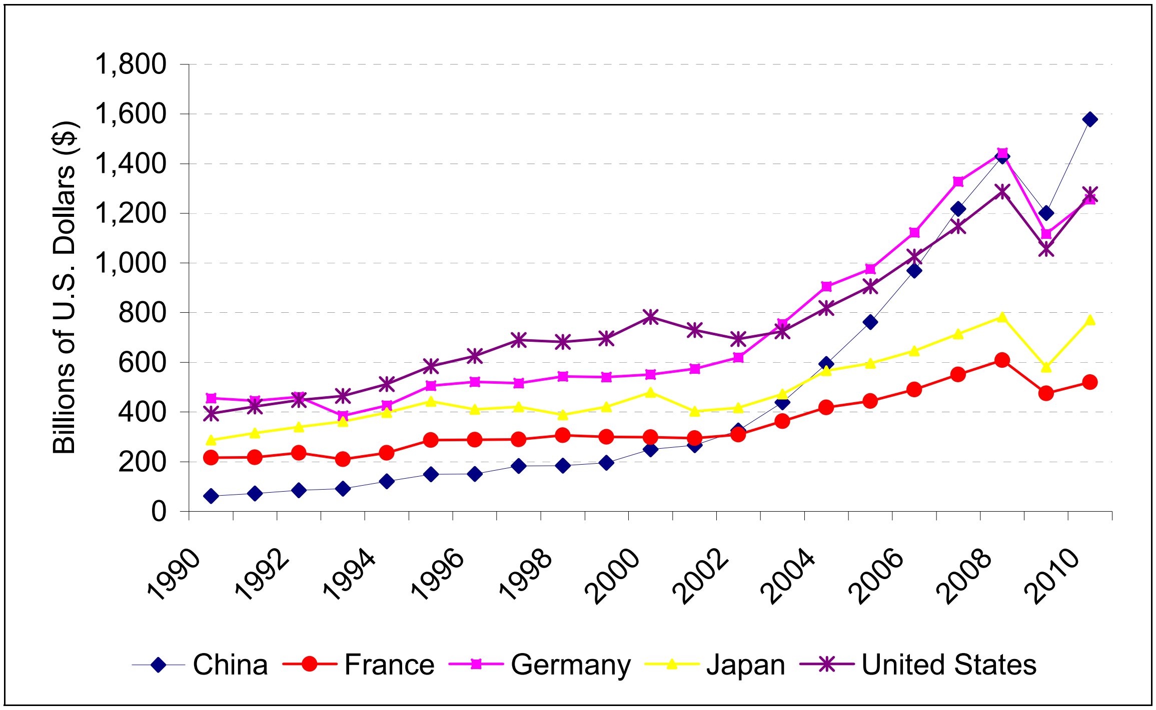
Notes: Data presented on a balance-of-payments basis.

U.S. Export Activity Compared to Major Foreign Exporters

A major focus of the debate over export promotion is whether the United States is "underperforming" or has "lost its competitiveness" as a global exporter. Analysts often examine trends in U.S. merchandise trade to make such determinations. **Figure 2** shows major global exporters for the period 1990-2010. According to these data, Germany overtook the United States to become the world's largest merchandise exporter in 2003. In 2007, China surpassed the United States as the second-largest merchandise exporter, and in 2009, China became the world's largest merchandise exporter.[3] **Figure 3** shows the percentage share of global exports by the top five merchandise exporters. The U.S. share of global exports of goods declined from a high of 12.6% in 1998 to 7.9% in 2008, but rose above 8% in 2009 and 2010.

[3] If the European Union is treated as a single trading unit, it becomes the world's largest exporter.

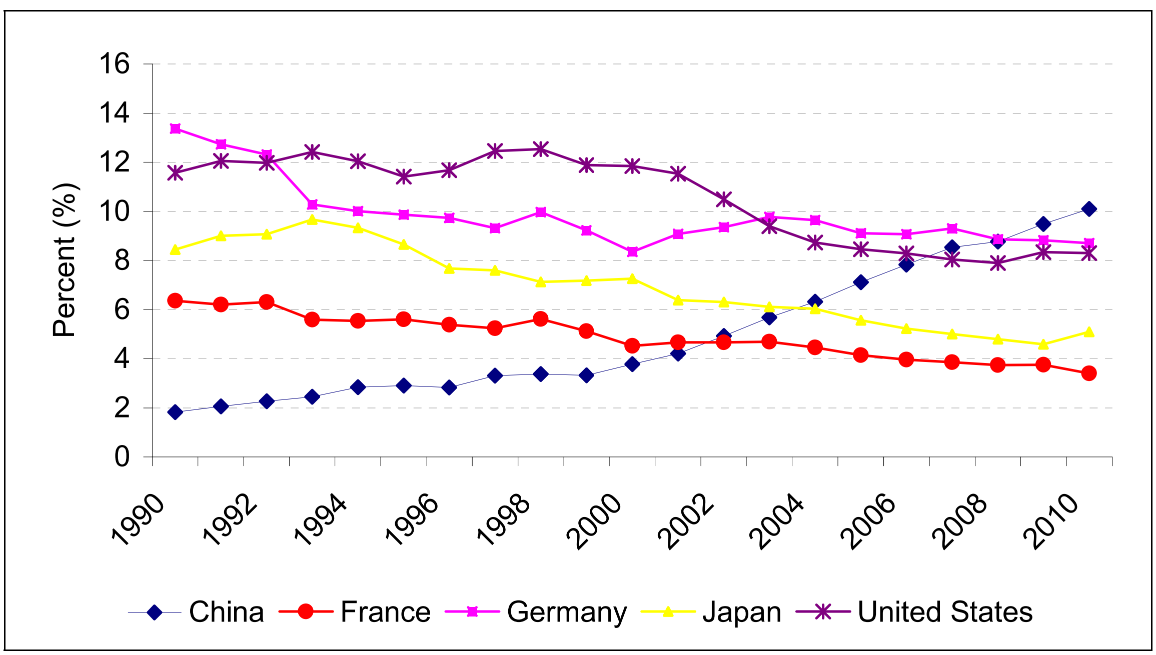
Figure 2. Major Exporters' Goods Exports to the World, 1990-2010



Source: Economist Intelligence Unit database, adapted by CRS.

Notes: Data are for the top five merchandise exporters in 2010, and show the value of goods exported to the world by each of the top five merchandise exporters in 2010.

Figure 3. Major Exporters' Share of Goods Exports to the World, 1990-2010

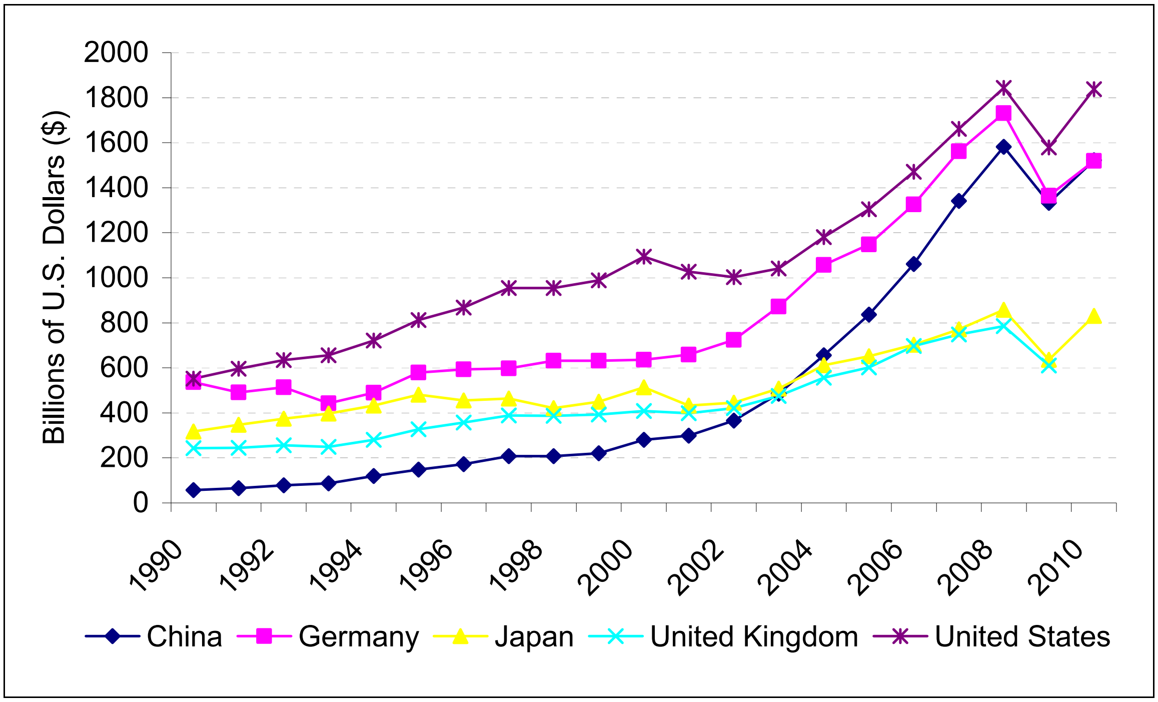


Source: Economist Intelligence Unit database, adapted by CRS.

Notes: Data are for the top five merchandise exporters in 2010, and show each country's exports of goods to the world, as a share of total world exports of goods.

The results are somewhat different when trade in commercial services is included. The United States consistently has been the world's largest exporter in this category. **Figure 4** shows that the United States was the world's largest exporter of goods and services in every year during 1990-2010. China was the second-largest overall exporter of goods and services in 2009, followed by Germany, Japan, and the United Kingdom. In terms of exports of goods and services as a percent of total global exports of goods and services, **Figure 5** shows that the U.S. share peaked in 1998 at 14.0% and declined to 9.4% by 2008, although it grew to exceed 10% in 2009 and 2010.

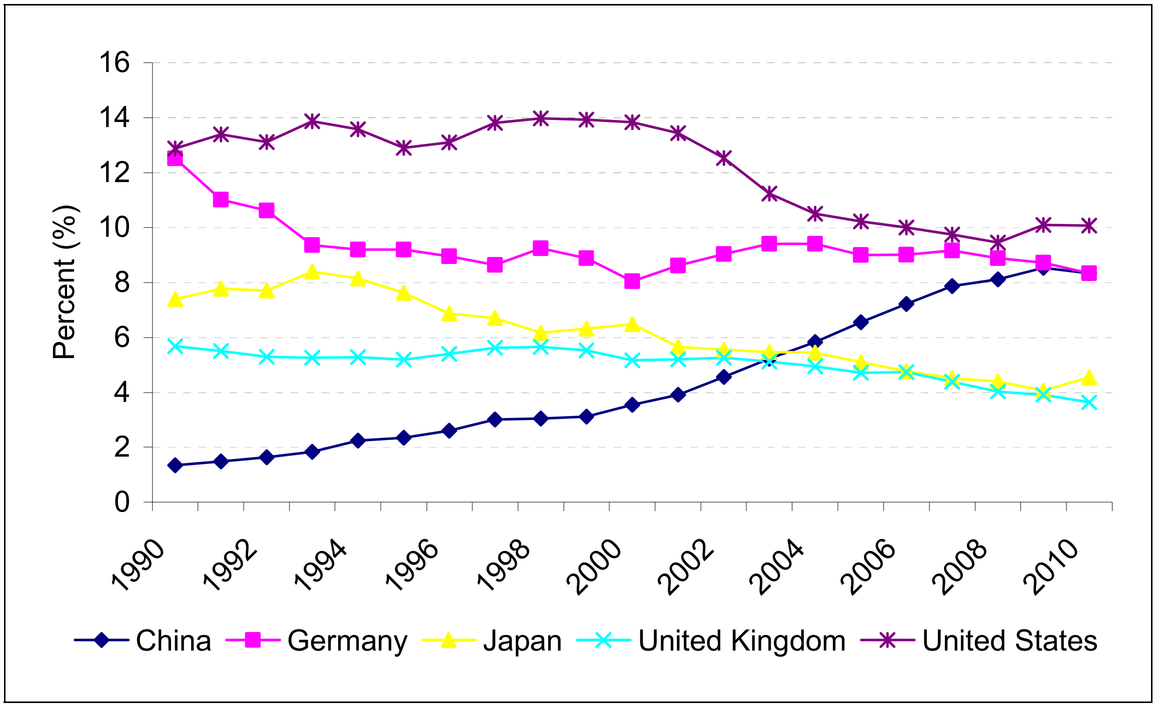
Figure 4. Major Exporters' Goods and Services Exports to the World, 1990-2010



Source: Economist Intelligence Unit database, adapted by CRS.

Notes: Data are for the top five exporters of goods and services in 2010, and show the value of goods and services exported to the world by the top five exporters of goods and services in 2010.

Figure 5. Major Exporters' Share of Goods and Services Exports to the World, 1990-2010

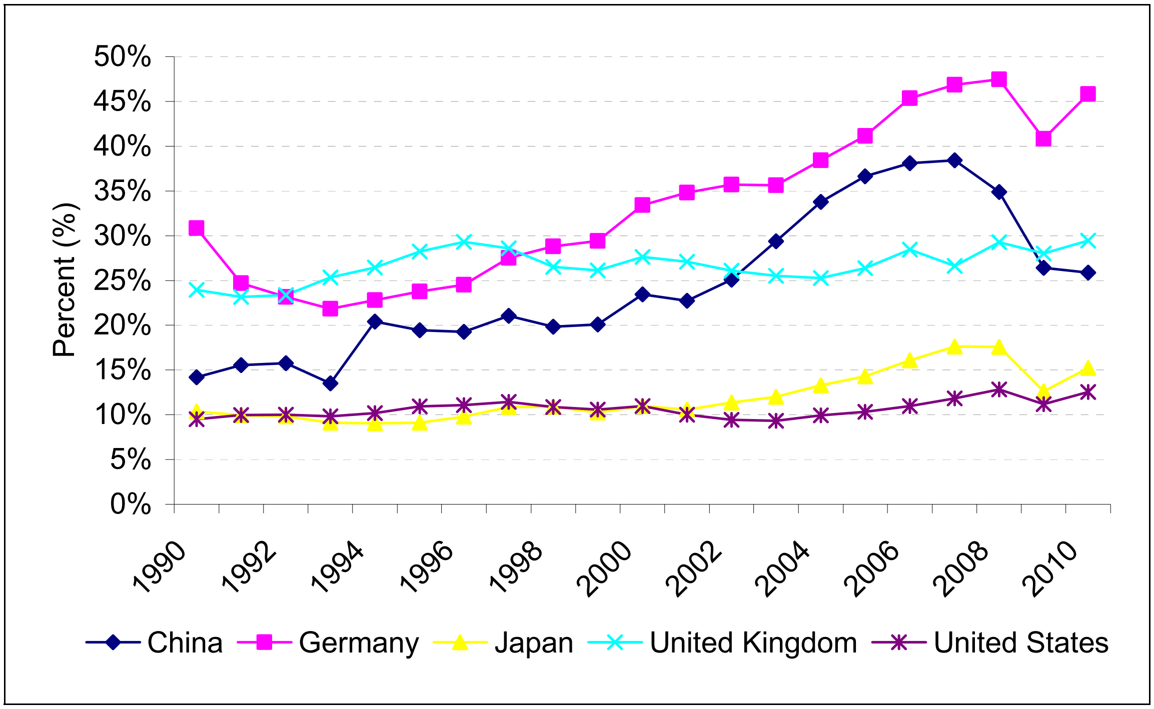


Source: Economist Intelligence Unit database, adapted by CRS.

Notes: Data are for the top five goods and services exporters in 2010, and show each country's exports of goods and services to the world, as a share of total world exports of goods and services.

Paradoxically, although the United States is the world's largest exporter of goods and services, the share of these exports as a percent of U.S. gross domestic product (GDP) is relatively small compared with other countries and country groupings, and has been relatively constant since 1990. GDP is the output of goods and services produced in the United States. As indicated in **Figure 6**, U.S. exports of merchandise and services, as a percent of GDP, increased from 9.5% in 1990 to 12.7% in 2008, fell to 11.0% in 2009, and rose to 12.5% in 2010. In comparison, Germany's exports of goods and services exports as a percent of GDP rose from 32.3% in 1990 to 47.5% in 2008, while China's rose from 14.2% to 34.9% during that same period; both countries experienced sharp declines in 2009 before recovering to near-2008 levels in 2010. As indicated in **Figure 7**, U.S. exports of goods and services as a percent of GDP are small compared to the other top four major exporters, and compared to most of the 31 industrialized countries that make up the Organization of Economic Co-operation and Development (OECD), the European Union, and the world as a whole.

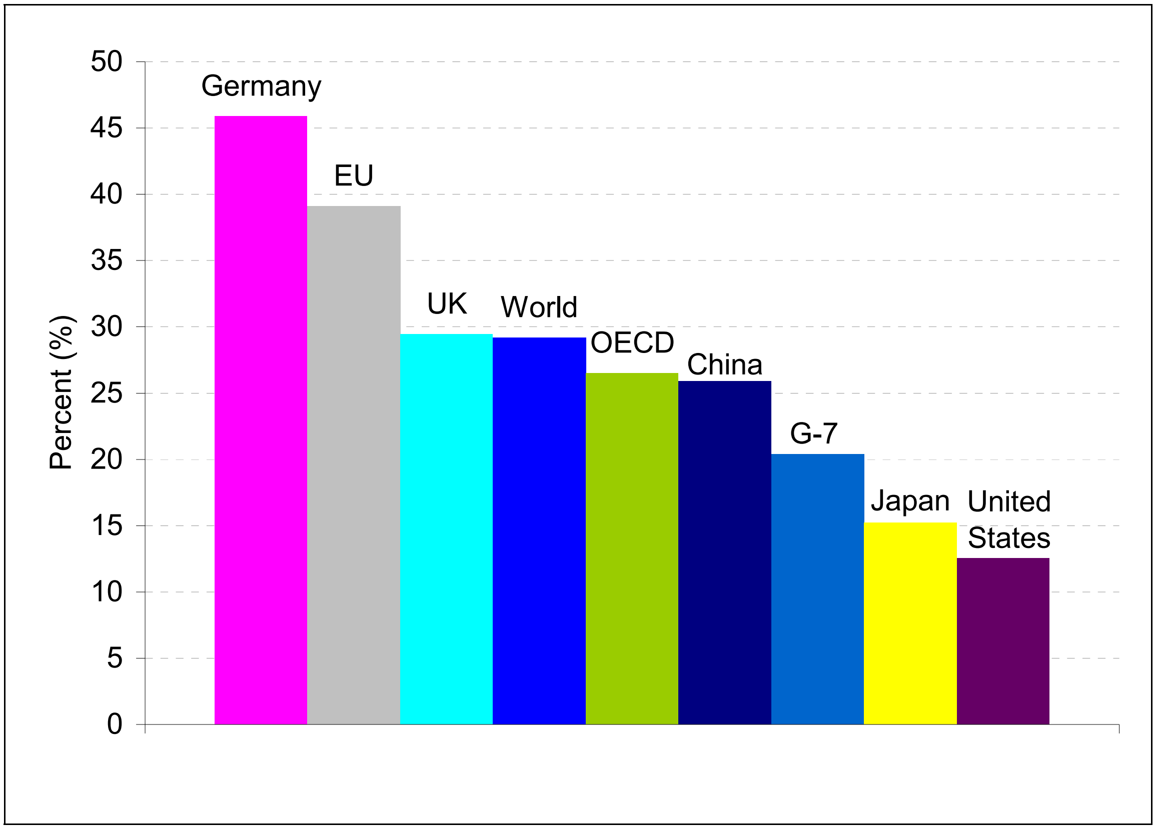
Figure 6. Major Exporters' Goods and Services Exports as a Percent of GDP, 1990-2010



Source: Economist Intelligence Unit database, adapted by CRS.

Notes: Data are for the top five exporters of goods and services in 2010, and show each country's exports of goods and services as a percent of its GDP.

Figure 7. Exports of Goods and Services as a Percentage of GDP for Selected Countries and Groupings, 2010



Source: Economist Intelligence Unit database, adapted by CRS.

Notes: Data are for exports of goods and services as a percent of GDP for selected countries and groupings.

GDP is calculated as the sum of consumption (C), investment (I), and government spending (G), less exports (X) minus imports (M)—that is, GDP = C + I + G – (X – M). Thus, an increase in net exports, or in the other components of GDP, would boost economic growth.[4] In other words, boosting exports is one way to increase GDP, but it is not the only way, nor is it necessarily the best way. The United States has historically relied more on its domestic market than trade with other countries to drive economic growth, compared to other countries, such as Germany and China. In light of the economic downturn and its effect on the consumption, investment, and government spending, coupled with the maturation of the U.S. economy, policymakers have focused increasingly on promoting exports as a source of economic growth.

[4] Although the United States has run annual trade deficits for the past 30 or so years, a decrease in the deficit over the previous year will act as a positive contribution to GDP growth. This occurred in 2009, when the U.S. merchandise trade deficit fell by nearly $300 billion. The drop in the deficit (improvement to net exports) produced a 1.0% point of GDP growth, even though other sectors of the economy have declined and the overall U.S. economy was in recession.

Some Fundamental Concepts Concerning Exports

- Generally, firms produce and sell abroad primarily to earn a profit and increase market share. Conceptually, the main reason why a nation trades is to achieve a higher standard of living for its population. That is, by producing those goods for which it has a relative advantage vis-à-vis other countries, and then trading for those it produces less efficiently, a nation is able to enjoy a higher standard of living than if everything were produced domestically. Thus, in many cases, exporting is not an end unto itself, but rather it can be viewed as a means to obtain imports.[5]
- While many firms sell exclusively to large U.S. domestic firms, many other firms, especially large, multinational ones, export a major share of their production overseas. Through globalization, the global economy is becoming more integrated. U.S. firms increasingly are participating in global supply chains, whereby design, assembly, and marketing for products take place in different countries, based on comparative advantage.
- Exporting offers both opportunities and risks. The additional demand that originates in overseas markets beyond domestic demand can enable a firm to expand in good times and to weather the storm in bad times, if the domestic economy declines (but overseas markets continue to expand).[6] On the other hand, relying heavily on foreign markets means that a downturn abroad makes the company more vulnerable.
- According to economic theory, in the long run, an economy, through fiscal and monetary policies, could achieve full employment with zero trade. Conversely, it could achieve full employment if its economy were completely dependent on trade. Thus, economists state that U.S. exports "support" a certain level of U.S. jobs, but do not "create" jobs. Exports are a factor in determining the *composition* of jobs, not the *total level* of jobs in the long run.[7] However, it is worth noting that export-oriented firms often have higher rates of employment and tend to provide higher wages to their employees than firms that are less export-intensive.
- The global economic slowdown sharply reduced global output and trade flows. Although export promotion efforts might increase the ability of certain U.S. firms to export, their impact on the overall level of U.S. exports could arguably be marginal, since export levels may be determined by an array of macroeconomic, microeconomic, institutional, and cultural forces.

Trade Data Limitations

Traditional trade statistics record trade across borders on a gross basis and attribute the value of a good to the country where the good was manufactured. While serving as indicators for analyzing global commerce patterns and conducting comparative analysis, such statistics come with some limitations. Traditional statistics do not accurately reflect the value-added taking place at each step of the production process in the global supply chain and may misrepresent trade imbalances between countries. For example, while the research and design for a cell phone (a significant proportion of its value-added) may take place in the United States and the final assembly of the cell phone may take place in China, traditional statistics accord the value of the entire production to China. Globalization also has led to an increased trade in intermediate goods, components that are used in the production of "final" goods. Traditional statistics may not distinguish between intermediate and final goods, and may over-represent trade in intermediate goods. More accurate quantification of trade is complicated and requires extensive micro-level data that may not be available. Efforts are being undertaken by the World Trade Organization (WTO), government trade agencies, academics, and others to enhance trade statistics. Meanwhile, traditional trade statistics continue to serve as sources for analyzing trade trends, despite their limitations.

[5] Nations that run trade deficits by importing more than they export are consuming more than they produce, which requires them to borrow from abroad to finance that deficit.

[6] In many instances, a U.S. recession weakens the U.S. dollar, which makes U.S. products cheaper in many foreign markets. U.S. firms that already are focused on exporting likely will be able to expand their sales quickly.

[7] In the short run, things are often different. In the case of the United States, for example, recent fiscal and monetary policies appear to have produced some positive effects for the U.S. economy, but economic growth remains weak.

Federal Export Promotion Activities and the NEI

The United States, like most countries, maintains programs to assist its companies to sell goods and services abroad. Federal government agencies perform a wide variety of functions that contribute to export promotion. Key agencies involved in U.S. export promotion efforts include the Department of Agriculture (USDA), Department of Commerce, Export-Import Bank (Ex-Im Bank), Overseas Private Investment Corporation (OPIC), Small Business Administration (SBA), Department of State, Trade, and Development Agency (TDA), Office of the United States Trade Representative (USTR), and Department of the Treasury.[8] In addition, state and local agencies and non-governmental agencies are involved in export promotion. Federal agencies may work with non-federal actors to promote exports.

A combination of congressional mandates and executive branch actions have directed U.S. export promotion efforts. Most recently, such activity has been focused through the National Export Initiative (NEI), the Obama Administration's plan to double U.S. exports by 2015 to $3.14 trillion, to generate and support U.S. jobs. President Obama introduced this national goal in the 2010 State of the Union Address[9] and formalized it in Executive Order 13534, which stated that the NEI

> shall be an Administration initiative to improve conditions that directly affect the private sector's ability to export. The NEI will help meet my Administration's goal of doubling exports over the next 5 years by working to remove trade barriers abroad, by helping firms—especially small businesses—overcome the hurdles to entering new export markets, by assisting with financing, and in general by pursuing a Government-wide approach to export advocacy abroad, among other steps.[10]

The NEI introduced a new level of coordination of federal export promotion activities. It established a President's Export Promotion Cabinet to ensure that export promotion is a high priority for all relevant agencies. Members of the Export Promotion Cabinet include the nine key Secretaries or Directors of agencies having a role in export promotion that are a part of the previously established Trade Promotion Coordinating Committee (TPCC), an interagency taskforce chaired by the Department of Commerce that has been charged with coordinating the export promotion and financing activities of federal agencies and proposing an annual unified budget proposal on federal trade promotion activities.[11] The Export Promotion Cabinet is to coordinate with the TPCC in order to "operationalize" the NEI. The executive order also reestablished the President's Export Council (PEC), the chief private-sector advisory committee on international trade.[12]

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[8] For detailed information on the federal government agencies involved in directly and indirectly supporting U.S. exports, see CRS Report R41495, *U.S. Government Agencies Involved in Export Promotion: Overview and Issues for Congress*, coordinated by Shayerah Ilias.

[9] The White House, "Remarks by the President in State of the Union Address," press release, January 27, 2010, http://www.whitehouse.gov/the-press-office/remarks-president-state-union-address.

[10] Executive Order 13534, "National Export Initiative," 75 *Federal Register* 12433, March 16, 2010. In issuing E.O. 13534, the President exercised authority granted to him by the Export Enhancement Act of 1992, among other laws.

[11] The TPCC was established by President Clinton and enacted in statute by the Export Enhancement Act of 1992 (15 U.S.C. 4727).

[12] In addition to the advisory structures established by the NEI, the Office of the United States Trade Representative (USTR) maintains other advisory committees, such as the Advisory Committee for Trade Policy and Negotiations (continued...)

The five key components of the NEI are to (1) improve advocacy and trade promotion efforts on behalf of U.S. exporters; (2) increase access to export financing; (3) reinforce efforts to remove barriers to trade, such as through free trade agreements (FTAs); (4) enforce trade rules; and (5) pursue policies to promote strong, sustainable, and balanced growth at the global level. In September 2010, the Export Promotion Cabinet submitted a report to the President containing recommendations on implementing the NEI in these five components.[13]

The cabinet proposed recommendations in eight priority areas of the NEI, which are outlined in Executive Order 13534: (1) enhance export assistance to small- and medium-sized enterprises (SMEs); (2) promote federal resources currently available to assist exports by U.S. companies; (3) ensure effectiveness of U.S. trade missions; (4) ensure effectiveness of U.S. commercial advocacy efforts; (5) increase the availability of export financing to SMEs; (6) promote balanced and strong macroeconomic growth; (7) improve market access for U.S. exporters by opening new markets, reducing trade barriers, and enforcing U.S. trade agreements; and (8) develop a framework for promoting services trade. **Table 2** shows agencies identified in the report that may play a key role in implementing the recommendations.

Table 2. Key Federal Government Agencies and Departments Involved in NEI Priority Areas

Priority Area	Key Federal Government Agencies and Departments
SME Exports	Commerce Department, Ex-Im Bank, SBA
Federal Export Assistance	USDA, Commerce Department, State Department, TDA
Trade Missions	USDA, Commerce Department, SBA, TDA
Commercial Advocacy	Commerce Department, State Department
Increasing Export Credits	USDA, Ex-Im Bank, SBA
Macroeconomic Rebalancing	Department of the Treasury
Reducing Barriers to Trade	Office of the USTR
Export Promotion of Services	No specific agencies highlighted

Source: CRS analysis of Export Promotion Cabinet's report on the NEI.

The cabinet noted four general themes that apply to the recommendations: (1) strengthening interagency information-sharing and coordination; (2) leveraging and enhancing technology to reach potential exporters and provide U.S. businesses with the tools necessary to export successfully; (3) leveraging combined efforts of state and local governments and public-private partnerships; and (4) having unified goals for TPCC member agencies to support the NEI's implementation.[14]

(...continued)

(ACTPN).

[13] Report to the President on the National Export Initiative: The Export Promotion Cabinet's Plan for Doubling U.S. Exports in Five Years, Washington, DC, September 2010, http://www.whitehouse.gov/sites/default/files/nei_report_9-16-10_full.pdf.

[14] Ibid., pp. 23-24.

Selected Issues in Federal Export Promotion

The growing interest in federal export promotion activities raises a number of key issues for the 112th Congress. Congress may choose to examine the activities that constitute government export promotion, as well as their goals and priorities; the economic justifications for and against federally supported export assistance; efforts to measure the effectiveness of export promotion activities; and proposals to reorganize the export-related functions of federal government agencies so as to enhance the effectiveness of export promotion.

Debate About Export Promotion Activities, Goals, and Priorities

Defining Export Promotion Activities

Views differ on what constitutes government export promotion policies or efforts. Some policymakers use a relatively narrow definition to refer to programs that provide *direct* assistance to individuals and firms with the specific goal of helping to expand their sale of goods and services overseas. Others view export promotion as an activity much broader in scope. They may consider any program or policy that results in the expansion of U.S. exports abroad, regardless of its intended purpose, to constitute export promotion. Such activities may support broader trade and other policy goals and may *indirectly* lead to an expansion of exports. The NEI, for example, tends to focus primarily on direct forms of export assistance, while acknowledging the importance of some of the broader factors in expanding exports.

Activities that may constitute export promotion in a narrow sense include

- **Market intelligence.** Government information-gathering (such as market research) and dissemination of export-related information, which helps U.S. businesses examine their sales potential and learn about foreign markets.
- **Export counseling.** Counseling for U.S. businesses on planning for entry or expansion in targeted export markets; determining export licensing needs; understanding global standards and regulatory requirements; and formulating export finance strategies.
- **Business matchmaking.** Helping U.S. businesses identify and meet with qualified buyers, partners, and sales representatives in foreign countries. Services include personalized business matchmaking, trade missions (official business development missions led by senior U.S. government leaders to foreign countries), reverse trade missions (bringing foreign buyers to the United States to meet with U.S. firms), and trade shows (where U.S. businesses meet with qualified buyers, receive export counseling, and exhibit their products).
- **Funding feasibility studies.** Assessing potential projects to determine whether they are economically, financially, and technically possible.
- **Government export finance programs.** Direct loan, loan guarantee, and insurance programs that provide working capital and term loans to U.S. exporters to support their exports, finance foreign buyers purchasing U.S. goods and services, and provide insurance to exporters wanting to mitigate foreign commercial and political risk.

- **Commercial diplomacy.** Government advocacy to foreign governments or foreign government-owned corporations on behalf of U.S. companies' interests, to support their bids for government procurement contracts, to assist in overcoming foreign trade barriers, and for other reasons.

Approach of the NEI

In general, the NEI appears to focus on improving the effectiveness of existing forms of direct export assistance, more so than introducing new forms of export assistance. For example, the Export Promotion Cabinet's report on implementing on the NEI contains recommendations that suggest several central ways in which the NEI plans to enhance current federal export promotion efforts:

- **Expanding export promotion activities**, such as by recruiting more potential foreign buyers to U.S. trade shows; increasing the number of U.S. companies attending major trade shows; increasing the number of trade and reverse trade missions; and making more export financing available by expanding existing lines and creating new credit products.
- **Increasing U.S. companies' awareness of and access to federal export assistance**, such as by increasing their awareness of the benefits of commercial advocacy; expanding outreach and focusing it on globally competitive U.S. industries and underserved sectors of the economy; and expanding the eligibility criteria for providing export financing to SMEs.
- **Better aligning the federal government's resources**, such as by strengthening the federal export promotion infrastructure to support trade missions and improving coordination of federal activities to promote services exports.
- **Increasing collaboration with export promotion partners**, such as by increasing the number and scope of public-private partnerships that build awareness of export financing assistance and expanding coordination with state-level export promotion programs and non-profit associations.
- **Increasing the efficiency of export promotion assistance**, such as by upgrading the federal export assistance website (http://www.export.gov) to facilitate customized access to relevant training, matchmaking events, and financing opportunities for SMEs; promptly bringing exceptional advocacy cases to the attention of the White House; and streamlining the application and review process of U.S. exporters applying for federal export credit and insurance.
- **Increasing funding**, such as by increasing the budget for trade promotion infrastructure, for instance, in order to increase Foreign Commercial Service staff levels or export finance levels.

Notes: Categorization by CRS.

Activities that may constitute export promotion in a broader sense include

- **Free trade agreements (FTAs).** Proponents of trade liberalization contend that FTAs are the most effective trade policy tool to boost U.S. exports because they open markets for U.S. goods and services by lowering and eliminating foreign trade barriers in other countries. Possible ways to expand exports include concluding the World Trade Organization (WTO) Doha round of trade negotiations; negotiating new FTAs, such as the proposed Trans-Pacific Partnership Agreement (TPP); or enforcing existing FTAs.[15] While supporters argue that trade liberalization opens international markets for U.S. businesses, critics express concern that it comes at the expense of U.S. workers by providing

[15] National Association of Manufacturers, "Manufacturers Welcome President Obama's Export Initiatives," press release, March 11, 2010.

incentives for companies to move U.S. jobs offshore.[16] The NEI includes a focus on negotiating new market access through FTAs.

- **Foreign direct investment (FDI).** U.S. investment abroad allows U.S. firms to establish distribution bases and access local markets for exports.[17] By some estimates, companies that invest abroad generate close to half of all U.S. merchandise exports. Likewise, foreign investment in the United States can support U.S. production and employment, and in turn, support U.S. trade. In 2009, U.S. affiliates of foreign companies accounted for 21% of U.S. exports of goods and 31% of imports of goods, and employed 5.3 million workers (4.7% of U.S. private industry employment).[18] Supporters of FDI encourage the United States to pursue bilateral investment treaties with trading partners and other forms of investment protection. Critics contend that U.S. companies invest abroad to take advantage of low labor, environmental, and other standards in foreign countries, and express concern about the national security implications of foreign ownership in the United States.[19]
- **Changes to export controls.** Exporters have long held that the current U.S. export control system places U.S. high-technology exporters at a competitive disadvantage with overseas firms that do not face such export control requirements. They maintain that the current dual-use system does not respond to changing economic and strategic relationships, the development of the global supply chain, and increased competition from foreign high-technology industries offering similar goods and services. However, the export control system has evolved subtly during this period. U.S. and multilateral controls are more focused on nonproliferation and on the end uses and end users of controlled technology, rather than on broad country embargoes, except in the case of a few sanctioned countries. While process changes may make the system more user-friendly for exporters, certain policy questions, such as the extent to which the United States maintains unilateral controls on certain exports to China, likely will continue to be debated in the context of U.S. national interests.[20]
- **Intellectual property rights (IPR).** U.S. businesses claim to lose billions of dollars each year due to counterfeiting and piracy in foreign countries. Many U.S. businesses consider efforts to strengthen international protection and enforcement of IPR as key to boosting exports and supporting high-paying U.S. jobs.[21]

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[16] For more information on FTAs, see CRS Report RL31356, *Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy*, by William H. Cooper.

[17] Trade and Competitiveness Coalition, "Reaching the World's Consumers Requires the United States to Invest Abroad," press release, April 2, 2010.

[18] Thomas Anderson, *Survey of Current Business*, Department of Commerce, Bureau of Economic Analysis, "U.S. Affiliates of Foreign Companies: Operations in 2009," August 2011.

[19] For more on the role of FDI in the U.S. economy, see CRS Report RS21857, *Foreign Direct Investment in the United States: An Economic Analysis*, by James K. Jackson.

[20] For more information on the U.S. export control system, see CRS Report RL31832, *The Export Administration Act: Evolution, Provisions, and Debate*, by Ian F. Fergusson.

[21] For more information IPR, see CRS Report RL34292, *Intellectual Property Rights and International Trade*, by Shayerah Ilias and Ian F. Fergusson.

- **Building U.S. supply chain infrastructure.** Some groups express concern that the ability of the United States to increase export levels is hindered by inadequate U.S. supply chain infrastructure.[22] According to some experts, U.S. ports are designed to focus on imports rather than export cargoes, resulting in bottlenecks for shipping U.S. goods abroad.[23] In addition, foreign shipping companies often craft their schedules and routes to cater to U.S. imports rather than exports.[24] Shipping bottlenecks cause delays in transporting goods and can raise costs for shipping goods abroad. According to congressional testimony, "the growth of exports will require new investments and more efficient operations at U.S. ports and the intermodal connections and road, rain and air networks that serve them."[25]
- **Global economic factors.** Some economists contend that, in the long run, global economic factors, such as global economic growth and demand, macroeconomic policies, and the exchange rate of the U.S. dollar, are important factors affecting U.S. export levels.[26]

Determining the Goals of Export Promotion

Although the main goal of export promotion policy generally is to increase U.S. exports, supporters of such policies often have other goals as well. For example, while the central goal of the NEI is to double the level of U.S. exports, the Obama Administration has cited a number of other goals in promoting exports, including supporting U.S. economic growth and employment, supporting SMEs in accessing foreign markets for exports, targeting support of U.S. exports in specific industries and to specific geographic regions, and leveling the playing field for U.S. exporters. Some possible goals of U.S. export promotion activities are discussed below.

Macroeconomic objectives may include

- **Supporting U.S. economic growth and employment.** Some argue that more focused U.S. government trade policies and programs (including export promotion) could significantly boost U.S. exports, create new jobs for U.S. workers, and help accelerate economic recovery in the United States. Given weakened domestic consumer demand, limited scope for expanding U.S. GDP through investment and government spending, and the maturation of the U.S.

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[22] U.S. Congress, Senate Committee on Finance, Subcommittee on International Trade and Global Competitiveness, *Doubling U.S Exports: Are U.S. Sea Ports Ready for the Challenge?*, statement of Nicole Y. Lamb-Hale, Assistant Secretary for Manufacturing and Services, International Trade Administration, U.S. Department of Commerce, 111th Cong., 2nd sess., April 29, 2010.

[23] Jennifer Levitz, Tamara Audi, and John H. Miller, "Export Revival Threatened by Shipping Bottlenecks," *Wall Street Journal*, March 11, 2010.

[24] Ronald D. White, "Export Firms Missing the Boat, Outgoing Containers are in Short Supply as Demand for U.S. Goods Rises and Imports Fall," *Los Angeles Times*, May 12, 2009.

[25] U.S. Congress, Senate Committee on Finance, Subcommittee on International Trade and Global Competitiveness, *Doubling U.S Exports: Are U.S. Sea Ports Ready for the Challenge?*, Statement of Polly Trottenberg, Assistance Secretary for Transportation Policy, U.S. Department of Transportation, 111th Cong., 2nd sess., April 29, 2010. For more information on supply chains, see CRS Report R40167, *Globalized Supply Chains and U.S. Policy*, by Dick K. Nanto.

[26] Sherle R. Schwenninger and Samuel Sherraden, *Getting Serious About Doubling U.S. Exports*, New America Foundation, Talking Points, March 17, 2010.

economy, U.S. policymakers increasingly have turned to exports as a primary way to boost GDP. Export-intensive jobs also tend to be higher-paying than jobs that are not export-intensive. In 2008, by some estimates, exports of goods and services supported over 10.3 million jobs.[27] The level of jobs supported by exports of goods and services declined to 8.5 million in 2009 with the global economic downturn.[28]

- **Reducing the U.S. trade deficit.** Since the 1970s, when the United States first began experiencing consistent trade deficits, a central priority of U.S. export promotion policies has been to reduce the size of the U.S. trade deficit. Many policymakers have viewed the trade balance as a gauge for the competitiveness of U.S. firms.
- **Global economic rebalancing.** Many economists contend that a sustainable global economic recovery will require many of the world's largest economies, including the United States, to change some of their macroeconomic polices. For example, they argue that the United States needs to consume less and save more, and, in turn, export more and import less, in order to decrease the size of its current account deficit. Thus, efforts by the federal government to promote U.S. exports are viewed as a helpful step toward rectifying global imbalances.

While U.S. export promotion activities have spanned firms of all sizes, a range of economic sectors, and many foreign markets, such programs frequently have contained certain firm-specific, sectoral, or geographical objectives. These focus areas may be considered to have high export potential and value, or be viewed as areas in which federal export assistance can make the most difference. Examples include

- **Exports by SMEs.** A long-running focus of U.S. export assistance efforts, SMEs hold significant exporting potential, but may face greater challenges in accessing information about foreign markets, connecting with potential overseas buyers, and securing export financing, relative to larger companies.[29]
- **"Green" exports.** A growing focus in U.S. export promotion activities is energy-efficient and environmentally friendly goods and services, buoyed by changing global energy resources and demand. Such exports often rely on newer forms of technology and may entail greater real or perceived risks than other types of exports, resulting in limited private-sector financing and other support.
- **Infrastructure-related exports.** Many emerging and developing economies are planning to upgrade transportation, telecommunications, energy, tourism, and other forms of infrastructure to support their economic development. Such

[27] John Tschetter, *Exports Support American Jobs*, Department of Commerce, International Trade Administration, International Trade Research Report no. 1.

[28] Trade Promotion Coordinating Committee, *2011 National Export Strategy: Powering the National Export Initiative*, Washington, DC, June 2011.

[29] Small- and medium-sized enterprises (SMEs) generally are classified based on the number of employees and revenues, although the U.S. government does not have a generally accepted definition of SMEs. The Small Business Administration (SBA) Office of Advocacy identifies small businesses as those with less than 500 employees. This definition was used for recent studies by the U.S. International Trade Commission (ITC) on SMEs and exports. USITC Publication 4125, January 2010.

infrastructure projects may represent significant opportunities for U.S. exporters of manufactured goods and construction, engineering, and other services.

- **Exports to emerging markets and developing economies.** Federal export promotion activities have focused on facilitating U.S. export opportunities in emerging economies such as China, Brazil, and India. The NEI also gives increased attention to "next tier" markets, economies expected to experience high GDP growth rates in the next few years. The TPCC identified six countries—Colombia, Indonesia, Saudi Arabia, South Africa, Turkey, and Vietnam—and the Asia-Pacific region as a whole as "next tier markets."[30]

International trade policy objectives also have played a role in export promotion activities. Goals in this area include

- **Accessing foreign markets.** Markets in emerging and developing economies may serve as important sources of U.S. export-led growth. They are experiencing high rates of economic growth, contain rising middle classes, and have growing infrastructure needs.
- **Leveling the "playing field" for U.S. exporters.** U.S. export promotion programs seek to offset the effects of similar programs used by foreign governments (in many cases to prevent a U.S. exporting firm from losing a sale because of intervention by other governments). For example, export assistance, such as preferential export financing, by the U.S. government could offset the attractiveness of terms offered by other countries, providing a level playing field for U.S. firms and increasing their ability to win contracts that may involve multibillion dollar awards.
- **Serving trade policy objectives.** Export promotion activities, such as export financing, may serve as leverage for the United States to negotiate reductions in and elimination of trade-distorting subsidies by foreign countries in international trade negotiations through the World Trade Organization (WTO) or other international forums, such as the Organization for Economic Cooperation and Development (OECD).

[30] At the same time, U.S. export promotion efforts focus on maintaining and expanding relations with long-standing U.S. trading partners, such as the European Union, Canada, Mexico, and Japan.

Comparison of U.S. and Foreign Export Promotion Activities

The export promotion policies and programs of countries vary. Compared to other countries, the United States tends to spend a lower proportion of the value of its total exports on export promotion activities. However, U.S. export assistance support may be higher than other countries for specific sectors. For example, according to a U.S. International Trade Commission (ITC) study on U.S. and EU support for SME exporters, the United States offers a wider range of support for pre-export financing and short-term export credit than generally is available in EU countries. Still, EU country agencies appear to provide greater support for trade fair participation, which is reported consistently to be "one of the most cost-efficient and effective ways for helping SMEs achieve international recognition and make contact with foreign customers," and they appear to equip their SMEs with access to more extensive networks of assistance in foreign markets than does the United States.

In international comparative analysis, Germany's export promotion model often draws attention, as it has been credited for enabling the country to recover rapidly from the global economic downturn. Some policy experts consider Germany's export promotion model to be more strategic. Germany has displayed a commitment to conducting trade missions and commercial advocacy with participation from government leaders at the highest levels.

Cross-country comparisons of federal export promotion activities tend to focus on export financing activities conducted by Ex-Im Bank, the official export credit agency of the United States. According to the Ex-Im Bank's 2010 competitiveness report, Ex-Im Bank generally maintained its overall standing relative to the export credit agencies of the G-7 countries, but a number of its policies may lower its competitiveness, including its policies related to environmental impact analysis, national and foreign content requirements, shipping requirements, and tied aid. In addition, a number of emerging market economies outside of the Organization for Economic Cooperation and Development (OECD),[31] such as China, India, and Brazil, are becoming major providers of official export credit finance. There is growing concern that these non-OECD countries may not be playing by the rules of the OECD in their official export financing activity.

Sources: USITC, *Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms*, Investigation No. 332-509, Publication 4169, July 2010, p. 2-30; The American Chamber of Commerce in Shanghai, *U.S. Export Competitiveness in China: Winning in the World's Fastest-Growing Market*, Viewpoint, September 2010, http://blog.amchamshanghai.org/wp-content/uploads/View_Point_US_Export.pdf; CRS Report 98-568, *Export-Import Bank: Background and Legislative Issues*, by Shayerah Ilias; and Export-Import Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, For the Period January 1, 2010 Through December 31, 2010*, June 2011.

Prioritizing the Goals of Export Promotion

Supporters of government export promotion often differ on the priorities for such policies or goals. In some cases, it may seem that goals conflict or compete. To illustrate:

- Some argue that government programs should provide assistance to any firm that requests it, regardless of the firm's size. Others counter that the federal government should not be assisting large U.S. firms, but instead should be helping SMEs, which lack basic resources to engage in exporting (but where government help could make a difference).
- Some argue that federal programs should be neutral in terms of the goods and services exports they promote. Others support promoting certain types of exports, such as agricultural, environmentally friendly, or energy-efficient goods.
- Some support a geographically neutral export promotion strategy, while others support identifying and targeting certain "big emerging markets" for U.S. export promotion efforts, such as Brazil, China, India, and other countries.

[31] The OECD is the international body that sets guidelines for the export credit and insurance activities of Ex-Im Bank and other the export credit agencies of foreign countries.

- Some support a somewhat decentralized government export promotion regime, where different federal agencies (such as the USDA and the Department of Commerce) develop and implement export promotion strategies for the products under their jurisdiction. Others believe that there should be one central trade agency (such as a proposed Department of Trade) that handles and prioritizes export promotion programs and strategies.

With respect to the NEI, there is debate about whether the overall goal and sub-goals of the initiative are in conflict. For instance, some critics ask if it is possible to double exports in five years by focusing on SME exporters or “green” exports, which comprise a small percentage of total U.S. exports but have potential to grow. Rather, they argue, the NEI should support U.S. exports in general or exports by large companies.

Economic Arguments For and Against Export Promotion

A number of economic justifications have been given for supporting or opposing government export promotion programs and policies. Economic theory generally holds that free markets should determine the most efficient allocation of scarce resources, based on supply and demand factors. However, market failures may prevent the market from operating at its “optimal” or most efficient level, causing the market to either over-allocate or under-allocate resources to various economic activities and leading to economic waste. Thus, in order to remove such market failures and promote economic efficiency, some form of government intervention may be warranted. The existence of imperfect information in the market, spillovers, and imperfect competition are examples of market failures that often are cited as justifying government export promotion programs, the presumption being that either the composition or level of U.S. exports is below that which would maximize U.S. living standards.

From an economic perspective, much of the debate over export promotion involves whether some market failure actually has occurred, and whether government intervention can produce net benefits for the economy as a whole. Supporters of export promotion programs assume that market failures have occurred and have led to significant misallocation of resources in the economy. Some view export promotion as a corrective tool to ensure that resources are directed to their most efficient use. Proponents argue that these policies can boost exports substantially, improve national living standards, and (during periods of less than full employment) increase output and employment.

Opponents of export promotion programs dispute that significant market failures have occurred, and warn that government intervention may interfere with the efficient operation of the market. Such critics argue that export promotion policies are little more than distortive subsidies that favor some firms over others, reduce efficiency within the economy, result in terms-of-trade losses, and diminish national living standards. In addition, while critics concede that trade promotion programs may help boost employment and production during periods of less than full employment, they question why exporting firms should be favored for assistance over other U.S. firms. Many argue that monetary and fiscal policies aimed at stimulating domestic demand may provide a more effective means of stimulating the economy. Most economists would argue that addressing market failures would boost U.S. economic efficiency, but that in the long run, global macroeconomic policies, economic growth rates, trade policies, and exchange rates will be the dominant forces determining the level of U.S. trade exports.

Another aspect to the economic debate about export promotion is the existence of foreign countries' export promotion programs. Supporters of government export promotion often argue that such policies are needed to offset the effects of similar programs used by foreign governments. However, critics question whether the export promotion programs of other countries have a negative effect on U.S. exports. Some economists contend that the export promotion programs of other countries are likely to have little effect on the overall level of U.S. exports, although certain foreign government export policies may have harmed certain U.S. industries. For additional treatment of the economic debate about export promotion, see the **Appendix**.

Effectiveness of Export Promotion Activities

Congressional debate on the effectiveness of U.S. export promotion efforts has grown with the introduction of the NEI. Many argue that providing export assistance to U.S. firms would be of limited help if such firms faced significant tariff and non-tariff trade barriers and poor protection of intellectual property rights overseas. Thus, it is argued that efforts to ensure foreign compliance with existing trade agreements and the negotiation of new FTAs should be part of a strategy to boost U.S. exports. Others argue that more can be done to address U.S. barriers to exports, such as U.S. export controls on dual-use products, which some contend may be too restrictive and may put U.S. exporters at a disadvantage vis-à-vis foreign competitors. Finally, many argue that the United States should make a greater effort to induce countries that are heavily dependent on exports to implement policies that increase domestic consumption. They contend that countries with high savings and relatively low consumption should put more efforts into increasing private consumption as an engine for future economic growth.

The effectiveness of export promotion programs often is assessed in terms of how such activities directly lead to U.S. export opportunities and in terms of the relationship between government-supported exports and U.S. employment levels ("exports-to-jobs ratio").

Progress Toward the NEI

Federal government agencies have cited a number of statistics as evidence of working towards the goals of the NEI. The following are some examples.

- From the announcement of the NEI in January 2010 through September 2010, the Department of Commerce's Advocacy Center has assisted American companies competing for export opportunities, by its account supporting $11.8 billion in U.S. exports and an estimated 70,000 jobs. High-level commercial advocacy included efforts that resulted in the sales of aircraft to Saudi Arabia ($2.6 billion in U.S. export content) and Turkey ($2.5 billion in U.S. export content).
- In 2010, U.S. export promotion agencies conducted 35 trade missions, with 400 companies participating. They conducted trade missions to key markets, such as China, India, Indonesia, and Saudi Arabia. Missions often focused on key sectors such as health care, renewable energy, and civil nuclear energy.
- In FY2011, Ex-Im Bank authorized $32.7 billion in loans, guarantees, and export credit insurance (3,751 transactions), up from $24.5 billion in FY2010 (3,532 transactions), to support U.S. exports sales. Ex-Im Bank estimates that its FY2011 transactions supported approximately $41.3 billion in U.S. exports and an estimated 290,000 U.S. jobs, up from $34.3 billion in exports and 227,000 jobs in FY2010.

Sources: Trade Promotion Coordinating Committee, *2011 National Export Strategy: Powering the National Export Initiative*, Washington, DC, June 2011; and Export-Import Bank, 2010 and 2011 annual reports.

The data used to measure the impact of federal export assistance on export and employment levels may be imprecise. One challenge is that the measures may be based on estimates by U.S. companies that use these government services and report the *anticipated* number of exports and employment that will be supported, not the actual numbers that ultimately are judged to be supported. Another challenge is that changes in exports and employment levels arising from federal export support are marginal changes (such as the impact of the first or last dollar of output on export or job creation), while the data used to measure such changes often are industry averages. Without relevant information on the marginal changes, using other proxies such as industry average data may be reasonable, but can lead to less precise estimates of the impact of federal export promotion activities on export and employment levels.

It also may be difficult to determine the opportunity cost of federal government export assistance. In supporting exports and employment, federal export assistance draws from the capital and labor resources within the economy that would be available for other uses, such as alternative exports and employment. In addition, a challenge arises in determining whether those sales of exports and resulting employment that are attributed to federal government support would have occurred in the *absence* of such support. For example, if federal export financing was not available, would firms have used services and financing from the private sector, perhaps at a higher cost, to export? Or would the private-sector costs be prohibitive owing to market failures, such as imperfect information, and discourage U.S. firms from exporting?

Moreover, although federal government support may contribute to an increase in exports and employment, it is a combination of factors, such as domestic macroeconomic factors and global economic developments, that generally determine a nation's level of exports and employment. Thus, it may be difficult to identify the precise impact that federal export assistance may have on changes in export values and employment levels.

Reorganization of Federal Agencies Involved in Export Promotion

The introduction of the NEI has drawn greater attention to whether the trade policy structure of the federal government is suited to boosting U.S. exports and supporting U.S. jobs effectively and efficiently. While the export promotion efforts of the United States tend to be distributed across multiple different agencies, the export promotion efforts of other countries tend to be consolidated into one central or a few national agencies, as in a number of European countries and Japan.[32]

In the 2011 State of the Union Address, President Obama discussed the need to reorganize the federal government to ensure that it is "more competent and more efficient." Along those lines, the President noted that multiple federal government agencies have export-related functions. On March 11, 2011, President Obama issued a memorandum directing the Office of Management and Budget (OMB) to conduct a review of "[f]ederal agencies and programs involved in trade and competitiveness, including analyzing their scope and effectiveness, areas of overlap and duplication, unmet needs, and possible cost savings" and to submit recommendations on reorganizing and streamlining federal government functions in these areas.[33]

[32] U.S. General Accounting Office, *A Comparison of Programs in Five Industrialized Nations*, GAO/GGD-92/07, January 1992.

[33] The White House, Office of the Press Secretary, "Presidential Memorandum—Government Reform for Competitiveness and Innovation," press release, March 11, 2011, http://www.whitehouse.gov/the-press-office/2011/03/11/presidential-memorandum-government-reform-competitiveness-and-innovation.

Over the years, Congress has debated, and in some cases enacted, proposals to reorganize the trade policy structure of the federal government. A number of these proposals have called for the consolidation of all U.S. export- or trade-related programs under one federal agency, such as a "Department of Trade," which could provide the U.S. exporting community with a "one-stop" source of export promotion services. Past initiatives have called for the termination or transfer of functions of departments and agencies considered to be duplicative or unnecessary to U.S. trade policy priorities.[34] Other proposals have aimed for better coordination of federal agencies involved in export promotion. For example, Congress enacted the Export Enhancement of 1992 (P.L. 102-429), which codified the Trade Promotion Coordination Committee, in an attempt to rectify perceived shortfalls in the export promotion regime, including concerns that existing export promotion programs lacked coordination and an overall strategy.[35]

Reorganization, supporters argue, would facilitate a more coherent, unified message by the federal government on U.S. trade policy goals, priorities, and activities. For example, in December 2010, the Center for American Progress proposed trade reorganization that would create a Department of Business, Trade, and Technology by combining the relevant agencies within the Department of Commerce with other trade- and business-focused agencies and offices (including the Office of the USTR, SBA, Ex-Im Bank, OPIC, and TDA). The Center for American Progress stated

> By combining the major trade, business, and technology functions from throughout the government, it would be easier to set priorities, enlist resources of diverse programs in services of a national strategy for competitiveness and align agencies' work to deliver outcomes that matter to the public.[36]

Supporters also maintain that reduction of duplicative programs would reduce overall costs of government. Under this view, duplicative programs are associated with "increasing administrative costs and creating a bureaucratic maze that confuses people seeking assistance."[37]

Critics contend that such proposals could result in the creation of a large, costly federal bureaucracy. For example, some Members of Congress maintain that the smaller size of agencies such as the Office of the USTR allows them to be agile and "non-bureaucratic."[38] Some especially are concerned that a "one-stop" federal source may not be responsive to the specific needs of certain exporters, such as small- and medium-sized or agricultural businesses. While critics may concede that terminating certain agencies may result in cost savings, they point to possible costs associated with transferring their functions, if deemed necessary, to other agencies.

Enacting major structural reforms to merge trade agencies may be politically difficult. Jurisdiction of federal government agencies involved in export promotion is spread across multiple congressional committees. Some observers predict that congressional committees "will

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[34] For general background on government reorganization efforts, see CRS Report R41841, *Executive Branch Reorganization Initiatives During the 112th Congress: A Brief Overview*, by Henry B. Hogue.

[35] P.L. 102-429, approved October 21, 1992.

[36] John Podesta, Sarah Rosen Wartell, and Jitinder Kohli, *A Focus on Competitiveness: Restructuring Policymaking for Results*, Center for American Progress, December 2010.

[37] Brian M. Riedl, *How to Cut $343 Billion from the Federal Budget*, The Heritage Foundation, No. 2483, October 28, 2010.

[38] "World Trade Online," *News Briefs: Baucus Critical Of Obama On Reorganizing Federal Export Agencies*, February 17, 2011.

be reluctant to agree to such changes due to concerns about an impact on their jurisdiction." In addition, efforts to reorganize export functions may spur turf battles among federal government agencies, making it difficult to reach interagency consensus on how best to restructure the export promotion-related agencies.[39]

Congressional Activity on Export Promotion

Export promotion remains a debated topic with many unresolved questions facing Congress. The 112th Congress may approach the issues raised by U.S. export promotion policy in a number of ways. Among its range of options, Congress could

- conduct oversight hearings on the effectiveness of the NEI and the role of individual federal government agencies involved in export promotion;
- examine, and possibly renew or revise, the authority of federal agencies with export promotion functions, such as Ex-Im Bank and OPIC;
- review appropriations for federal agencies and programs related to export promotion, through which Congress could examine the allocation of resources to fulfill various U.S. export promotion goals and priorities; and
- introduce legislation related to export promotion issues, such as legislation concerning the organizational structure for federal export promotion activities or coordinating mechanisms among federal agencies involved in export promotion.

The 112th Congress has introduced a number of pieces of legislation related to export promotion, including the following.

- H.R. 2987 (Berman) would require the TPCC to review the proposed annual budget of each federal agency before it is submitted to the OMB and the President when assessing the federal export promotion and financing budget; require the government-wide strategic plan for federal trade promotion efforts developed by the TPCC to take into account recommendations from a representative number of U.S. exporters, including SMEs and U.S. workers; direct the President to issue an executive order and regulations necessary to provide the TPCC with the authority to carry out its duties and to implement the strategic plan; require the Secretary of Commerce to conduct an assessment once every five years on overseas markets with the greatest potential for increasing U.S. exports and to redeploy the U.S. and Foreign Commercial Service based on the assessment; and to amend the Foreign Service Act of 1980 to require each chief of mission to develop a plan for effective diplomacy to remove or reduce obstacles to U.S. exports.
- H.R. 2988 (Berman) would require the Secretary of Commerce to establish a public directory for foreign buyers to identify U.S. manufacturers and service providers prepared to export clean and efficient energy and environmental products and services; require the Secretary of Commerce to establish a governmental database on foreign sales opportunities in clean and efficient

[39] "Observers Doubt Success, Necessity of Trade Agencies Reform Proposal ," *Inside U.S. Trade*, February 3, 2011.

energy and environmental products and services; require the Secretary of Commerce to monitor and evaluate U.S. export promotion activities with respect to clean and efficient energy and environmental products and services; and require the GAO to submit reports to Congress comparing the effectiveness of U.S. export promotion activities with respect to clean and efficient energy and environmental products and services with those of other major trade competitors;

- H.R. 2072 (Miller) and S. 1547 (Johnson) would both reauthorize Ex-Im Bank through FY2015. The bills differ to some degree on the changes that they would make to Ex-Im Bank's authority and activities.
- H.R. 2762 (Manzullo) would reauthorize OPIC through FY2015.

Appendix. Theoretical Discussion of the Economics of Export Promotion

Imperfect Information

Supporters of government export promotion programs contend that imperfect information (such as a lack of awareness of export opportunities, information on how to export, or availability of export financing), has caused U.S. firms (especially SMEs) to export below their efficient level. An important assumption behind this argument is that U.S. firms would seek to boost their level of exports if they had better information on export markets, and that overseas demand for U.S. exports would increase if foreign buyers were more aware of U.S. products. It is further assumed that imperfect information has prevented firms from becoming more active in providing export services or has made the costs for such services prohibitive. For example, some contend that SMEs often have difficulty obtaining export financing (such as loans, insurance, and guarantees), or must pay "high costs" for such services, due to the perceived "high risks" of exporting by banks and other financial institutions. This implies that if better information about the actual risks (and potential benefits) of providing export financing existed in the market, more banks would be involved in providing such financing, and the charges for such services to exporters would be substantially lower.

Another argument for government involvement in promoting exports is that the government may be the most efficient institution for collecting, evaluating, and disseminating information to firms on foreign market trends, new trade opportunities, and guidelines on how to export. The resources available to the federal government afford it certain economies of scale in the collection and dissemination of trade information. Private-sector firms, especially SMEs, may not have the resources to obtain such information on their own. In addition, the information provided by the government may help firms respond more efficiently to changes in the market, such as increased overseas demand for various commodities produced by U.S. firms.

Spillovers and Industrial Policy

Another possible justification for government involvement in promoting exports is that certain products or technologies may have significant spillover effects on other parts of the economy. Such spillovers could include the development and diffusion of new technology throughout the economy, an improvement in a nation's terms of trade, growth in other related industries, an increase in productivity, and the creation of high-paying jobs. Government intervention, such as export promotion, to ensure the development and growth of such industries is often referred to as "industrial policy."[40] Such a policy would be more concerned with boosting exports of certain products than increasing the overall level of exports. For example, countries may offer tied aid, "concessional" below-market financing provided by a donor government to induce the borrower

[40] The issues of industrial policy and spillover effects of technology were sometimes used during the 1980s to justify support for promoting U.S. exports of technology. This occurred in large part as a result of perceptions by some that Japanese industrial policies posed a threat to U.S. international competitiveness in technology.

to purchase equipment from suppliers in the donor's country, to acquire market share in target countries, or to promote strategic sectors.[41]

Proponents of industrial policy argue that, in some instances, firms may fail to produce the desired level of "critical products," absent government involvement, because the value of such products to society may not be reflected adequately in the market, and hence may not be recovered fully by the developing firm. For example, firms generally will be motivated to develop new technology only if it is perceived that doing so will boost company profits. The benefits of such technology on the economy as a whole, however, may not be reflected in the prices of such products in the market. That is, firms will be unable to obtain through the market system (prices) the benefits such products provide through spillovers to other sectors of the economy. This implies that the benefits (value) such products provide to the economy as a whole may far outweigh the benefits that can be obtained by the producer (through prices); hence the market failure. As a result, firms may be less likely to develop and market such products or technology.

This market failure may occur especially in cases where the development of high-technology products requires substantial investment in R&D. Firms may be concerned that investments may not be recovered fully after the product is marketed because other firms may be able to acquire the results of the R&D at little or no cost. In addition, firms may be concerned about the uncertainties of being able to recover potentially large investments for the development new products through future sales. Government intervention is intended to help firms capture a larger share of the benefits resulting from spillover effects to ensure the development of "critical" or "key" products and technologies. Under an industrial policy, government export promotion programs would be used to help "critical" or "key" industries, mainly high technology, expand into overseas markets.

An important assumption behind this theory is that the resulting foreign demand for such products would enable the key industries to increase production, leading to economies of scale and other efficiency gains obtained from "learning by doing" and specialization. These gains would enable firms to achieve lower production costs and could lead to the development of "important" new products and innovations. The development of such products and innovations would enable other sectors of the economy (through spillover effects) to realize significant efficiency gains as well. It is assumed that the economic growth generated from these efficiency gains would be greater than the amount of government subsidy used to support the key industries, thus resulting in net benefits to the economy.

Imperfect Competition and Strategic Trade Policy

Closely related to the concept of industrial policy is the theory of "strategic trade policy," which holds that, under certain circumstances, the government can help influence which products will yield a comparative advantage for a nation's firms and hence can affect an economy's composition, patterns, and terms of trade. Strategic policy differs somewhat from industrial policy in that a strategic policy is essentially a "predatory" practice based on the presumption that a nation's welfare can be improved at the expense of another's, while an industrial policy does not necessarily seek to improve national welfare at the expense of other nations. In addition, while an

[41] Export-Import Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States*, for the period January 1, 2010 through December 31, 2010, p. 63.

industrial policy attempts to "rectify" market failures, a strategic trade policy seeks to take advantage of them.

A strategic trade policy assumes that government intervention can increase world market shares for certain industries by inducing foreign firms to reduce output, withdraw from the market, or refrain from entering the market. As a result, domestic firms would be able to obtain "higher than normal returns" to production (or rents), the sum of which would be greater than the level of subsidies provided to targeted firms.[42] If successful, a strategic trade policy would improve a nation's terms of trade by increasing the value of its exports and thereby increasing the level of imports it can obtain through trade.

For example, some policy analysts have called for a strategic U.S. trade policy to focus on boosting exports of high-technology products, which are high-growth industries for the United States.[43] During the 1990s, the United States had a positive trade balance in advanced technologies products, in contrast to the overall trade deficit in U.S. merchandise trade. However, this surplus in trade in advanced technology goods turned into a deficit in 2002, and U.S. imports of advanced technology products have exceeded exports of such goods. Some experts maintain that a focus on such products will boost U.S. industrial competitiveness in the global marketplace.

Theoretically, in order for a strategic trade policy to be successful, several assumptions must generally prove valid.

- The government is in the best position (as opposed to free market forces) to identify "strategic industries" and can implement policies (such as subsidies, trade promotion, etc.) effectively for their development and growth.
- Imperfect competition exists within the international market in which there are only a few producers, due to high barriers to entry, and hence firms which are able to gain early market entry will be able to obtain higher than normal returns (rents).
- Firms within this market have the ability to affect prices, and are influenced strongly by the actions of their competitors. As a result, government assistance (export promotion) to domestic firms will induce foreign firms to exit the market (due to a realization that they would be unable to compete against firms which have government backing) or will cause them to minimize their level of production and market share.[44]
- Other foreign governments will not attempt to provide similar assistance to their firms or will not retaliate against such policies.
- The returns to the economy realized by such a policy will be greater than their costs. This assumes that imperfect competition exists due to economies of scale and steep learning curves that enable firms to continue to lower costs as production increases.

[42] The terms "rents" and "higher than normal returns" essentially mean the amount of profits firms in a noncompetitive environment would be able to earn above the rate of return earned by firms in a completely competitive market.

[43] Christian E. Weller and Luke Reidenbach, *The Case for Strategic Export Promotion: Addressing a Persistent U.S. High-Tech Trade Deficit*, Center for American Progress, February 2011.

[44] As a result, domestic firms are able to gain a larger share of high rents that exist in the market due to imperfect competition.

> Government subsidies to domestic firms lower their costs and allow them to expand production and gain a larger market share at the expense of foreign competitors.

A Critique of Export Promotion Policies and Programs

Opponents of government export promotion programs argue that market distortions caused by imperfect information are minimal and do not warrant government intervention. They contend that U.S. firms generally are producing for export the level of goods and services demanded in the international market as determined by supply and demand conditions, access to world markets, and macroeconomic forces (principally exchange rates). As a result, they argue that export promotion programs will have little effect on the ability of firms to sell products overseas.

Critics of trade promotion programs further argue that the availability and prices of export services (including financing) simply reflect supply and demand for such services in the market, and thus contend that there is no "shortage" of export financing or services. If prices charged by firms providing export services were "unusually high" or offered returns that were greater than other types of services in the economy, then other firms would attempt to enter the export services market, driving down prices. In fact, opponents argue, the existence of some government export promotion programs impedes greater involvement by private-sector firms in the provision of export services. According to this view, the provision of government assistance to exporters at little or no charge lowers the demand (and prices) of export promotion services in the private sector, and hence discourages greater private-sector involvement.

While opponents of strategic trade and industrial policies agree that the government, under certain circumstances, may be able to influence the growth and development of individual industries, they question whether the benefits of such policies to targeted firms will exceed their costs to society. Many also question the ability of the state, rather than market forces, to provide the most efficient allocation and use of scarce economic resources. For example, many economists argue that, while such policies may assist certain industries, they may harm the economy as a whole by causing resources to be drained away from other important industries, making them less productive and competitive. In addition, the government could be wrong in its choice of strategic or key industries, which may prove inefficient, incapable of competing internationally, or unsuccessful in providing the anticipated returns to the economy. A related concern is that political pressures, rather than economic considerations, could play a significant role in choosing and supporting industries, hence leading to government support of inefficient firms.

Finally, many economists warn that the use of government assistance by nations to promote strategic or key industries could undermine international support for free trade. In the long run, this trend could lead to subsidy wars among nations, resulting in greater economic distortions, a reduction in international trade, and declining world living standards. However, such risks may be mitigated by the existence of international trade rules through the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD) to counter export-related subsidies.

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