



Thanks to IGPAC and SIDO members for comments

State Trade Development Strategies – requests of and collaboration with Department of Commerce

Summary. Promoting exports by small and medium-sized businesses (SMEs) is a core concern of the Department of Commerce, as seen for example in the 2008 National Export Strategy. USTR’s 2009 Trade Policy Agenda also highlighted the importance of helping SMEs become more effective competitors and exporters. In a recent GAO survey, 72% of responding states said they devoted more than ¾ of their total export-promotion budgets to helping SMEsⁱ. To better support those activities, state international economic development officials seek:

1. A standstill or reduction in Department of Commerce Commercial Service fees charged to small and medium-sized businesses participating in trade promotion activities, better coordination between state and federal programs, and an increase in funding for the Commercial Service;
2. Improvements in the data available to state trade directors for better targeting export promotion activities, particularly for services; and
3. As part of a future National Export Strategy report, an analysis of the export-promotion activities and strategies of major U.S. trading partners.

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1. Trade Coordination and Affordability of CS programs for SMEs. Since 2005, the Washington DC-based Secretariat for SIDO, which represents State International Development Organizations, has spearheaded a dialogue with the Department of Commerce to ensure the continued affordability of Commercial Service programs for small and medium sized enterprises. SIDO’s 2008 report notes that:

Most states...partner with the Department of Commerce to ensure that client companies have access to additional federal services, particularly in markets where the state lacks their own overseas offices. Some states subsidize the costs for companies to access matchmaking services in foreign markets....However, these [Commercial Service] programs are highly dependent on the affordability of federal user fees relative to services available from private consultants and other sources.ⁱⁱ

Last year, following input from SIDO, the Department of Commerce (DOC) negotiated with the Office of Management and Budget a new fee structure that provides a break for small businesses utilizing ‘Gold Key’ and other DOC services. This development is to be welcomed. In a survey of state export promotion agencies released earlier this year, GAO found that state trade directors find the new fees generally comparable to those charged by private-sector providers; and found that if SMEs were required to pay the higher fees required of large companies, Commerce should expect a great decrease in the utilization of these DOC programs.ⁱⁱⁱ One-third of states responding to

the GAO survey said that they help defray the costs to their firms in order to enable them to access DOC programs.

In sum, ***continued affordability of DOC programs is critical to their utilization by small and medium-sized enterprises.***

2. **Improvements in import/export data available to state trade directors.**

State trade officials argue that the lack of specific data sets related to exports (as well as on foreign investment into their state) obscures the important contribution that export-promotion and investment-attraction programs make to job creation and economic activity in their state, and inhibits their ability to help businesses identify and take advantage of new market opportunities around the world. They argue for the reintroduction of zip-code specific data to merchandise export, as well as major improvements in the provision of state-level export data on services. Similarly, they feel that states and regions will continue to have difficulty assessing their trade balances and relative global competitiveness unless the federal government makes significant progress in collecting state level merchandise and services *import* data.

"We're the catalysts for international sales and investment. But without comprehensive data, it's very difficult to demonstrate return-on-investment for state trade offices."

--Vermont State Trade Director

To make strategic decisions, businesses should be able to track the volume and destination of goods imports. But those crucial data are not available. State international economic development officials say that they routinely use Export Canada's numbers for imports and exports. Finally, they note the importance of improved data at the state level on new investment flows from FTA partner countries and regions. Among other benefits, states would then be better able to assess the favorable job creation, productivity, technology transfer and R&D implications of free trade agreements (FTAs) through tracking new flows of FDI.

Improvements in the programs used to track goods exports have been promised by DOC, which plans to reintroduce a system for tracking manufactured goods to the zip code level. But the United States still doesn't track services exports at levels that are useful to state, county, and city economic development specialists.

These concerns were nicely summarized by the InterGovernmental Policy Advisory Committee (IGPAC), which provides input from state and local governments to the Office of the United States Trade Representative (USTR) regarding the negotiation and implementation of free trade agreements, in its 2007 report on the pending US-Panama Trade Promotion Agreement:

IGPAC also stresses the importance of expanding American trade promotion capacity and improving the collection and dissemination of trade data....IGPAC members applaud the recent actions undertaken by the Department of Commerce to improve the quality of state and local-level trade information by reintroducing zip code specificity to merchandise export data. However, as the US economy is increasingly driven by services, it is vital that state-level services export data collection be improved....While IGPAC recognizes the challenges inherent in collecting such data,

Canadian data track product exports and imports by province, country, and US states, offering an impressive example.^{iv}

Heeding this concern, and pursuant to Section 8001 of the ‘America Competes’ Act, the Department of Commerce’s Bureau of Economic Analysis last year provided an analysis of the “feasibility, costs, and benefits of a statistical program relating to trade in services.”^v The report noted at the outset that DOC does not collect data on states’ involvement in services trade, and argued that there are serious difficulties involved in collecting such data. These include high costs, the necessity of relying on indirect estimation methods, issues of subcontracting, and the fact that most service firms are not set up to keep the kinds of origin- and destination-based data of most use to state export promotion offices. The report acknowledges that it would be ‘feasible to provide order-of-magnitude estimates of international trade in services at the state level’ but because of the difficulties inherent in gathering this data it should be “one-time or periodic” rather than ongoing, and “estimates would necessarily rely to a great extent on assumptions about how exported services are produced and how imported services are used.” The report concludes that such data “would provide valuable information...but would require additional staff, links between Bureau of Economic Analysis [BEA] and Census bureau data sets, new data collections,” and would be a multi-year effort costing between four and five million dollars.^{vi}

To summarize, ***geographically-specific data pertaining to services imports and exports, to goods imports, as well as to in-bound foreign investment are lacking, greatly complicating the ability of state trade officials to assist their businesses with strategic marketing advice.***

The difficulties and expense associated with the collection of services data must be acknowledged. However, cost-effective partnerships between states, service exporters, and the federal government should be advanced. Barriers to the provision of information regarding imports and in-bound investment appear less daunting. States will continue to advocate with the Department of Commerce for improvements on all fronts.

“At a time when state budgets are under stress, it is especially important to fully fund and reinvigorate federal trade promotion and data gathering efforts, which have been seriously under-funded in recent years.”

-- Governor’s Trade Policy Advisor,
State of Washington

3. Analyze the export-promotion and investment attraction strategies— and fees charged to companies— of major U.S. trading partners.

State trade officials as well as spokespersons for major U.S. industry associations have noted the difficulties they have in gauging areas of competitive advantage for U.S. businesses, and the relative performance of U.S. trade development and promotion activities, in the absence of any comparative metrics. As such, they are calling for a National Export Strategy document or a future DOC ‘White Paper’ to provide that comparative perspective. Such a study could include comparative information on national investment-attraction programs; funding and staffing levels for field offices; the fee structure used by U.S. competitors in working with their companies; analysis of the data available

to those companies; and other trade development, export promotion and technical assistance programs provided to their private sectors.

In its 2007 report to USTR, IGPAC argued that the absence of comparative data also makes it difficult to assess the economic contributions from specific trade agreements:

States and regions will continue to have difficulty assessing their trade balances and relative global competitiveness unless the federal government makes significant progress in collecting state-level merchandise and services import data....The challenges of assembling national, let alone subcentral, information on procurement contracts and merchandise and services trade render reporting on specific trade agreement results quite problematic for the United States....These data gaps make it difficult to conduct an informed analysis of the specific costs or benefits of trade liberalization for a given industry or US location....Trade data analysis should compare state and federal trade performance against major trading partners and regions with successful trade development agencies...and evaluate performance measures, program outcomes, and customer satisfaction at the subnational level.^{vii}

A similar note was struck by Frank Vargo, Vice-President of the National Association of Manufacturers, in recent Congressional testimony. Testifying before the Subcommittee on Commerce, Trade, and Consumer Protection, he noted the trend in the U.S. toward shifting costs to the 'users' of these export-promotion programs, and contrasted that with the low- or no-cost support provided by U.S. competitor nations to their exporters. He asked Congress to consider the importance of additional resources for DOC:

The U.S. export promotion strategy has been one of doing the best we can with the available resources, rather than seeking the resources that would be commensurate with moving us toward a more rapid export growth path.^{viii}

SIDO echoed this concern in a recent letter to Congress, calling for an increase in funding to support DOC's export promotion and technical assistance functions:

SIDO supports...additional funding for the Commerce Department and would specifically like to see funding used to expand two of its services: foreign Commercial Service offices in strategic locations and improved international trade data.^{ix}

Finally, a number of state economic development specialists have remarked on the fact that the export promotion budget for agricultural products is twice as large as that for manufactured goods—despite the fact that exports of manufactured goods are ten times as large as farm exports. Similarly, the Intergovernmental Policy Advisory Committee has suggested greater prioritization of federal support for high technology manufactured goods and services exports.

An Appendix to this report expands further on the concerns that IGPAC has raised with USTR and the Department of Commerce. A consistent theme of IGPAC's reporting has been the need for an improved federal-state dialogue on trade. As IGPAC's Chair points out, this is of particular importance now, in light of new "Buy American" provisions in the ARRA federal stimulus law. State trade and procurement officials have questions about implementing those

requirements and about the implications of USTR's current sub-federal reciprocity policy.

Conclusion. Continued support for small business participation in export promotion activities; improvements in trade and investment data for imports, exports, and foreign direct investment; integrated strategies of technical assistance on trade and competitiveness; and the development of comparative metrics that lay out areas of advantage in the global economy can help us move beyond the sterile political debate about whether trade is 'good' or 'bad' by demonstrating how smart trade policy leads to successful economic development and a thriving small- and medium-sized business sector.

It is clear that our nation's economic recovery at this time depends to a great extent on a reduction in our national trade deficit. We must improve our export performance by expanding technical assistance on trade to small and medium sized firms. An improvement in export performance rests upon the ability of our states and cities to work with small and medium-sized businesses in making smarter, strategic choices about economic development risks and opportunities.

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- ⁱ "Export Promotion: States Export Promotion Agency Survey" (GAO 09-148SP), an E-Supplement to GAO 09-144, March 2009; pg. 11.
 - ⁱⁱ "SIDO Survey 2008: Trends in State International Business Development", pg. 11.
 - ⁱⁱⁱ "Export Promotion: States Export Promotion Agency Survey," pp. 20-23.
 - ^{iv} "US-Panama Trade Promotion Agreement, Report of the InterGovernmental Policy Advisory Committee", 24 April 2007; pg. 2.
 - ^v "Report to Congress by the Secretary of Commerce Under Section 8001 of the America Competes Act," cover letter dated 31 January 2008; 31 pages.
 - ^{vi} "Report to Congress by the Secretary of Commerce," at page 28.
 - ^{vii} "US-Panama Trade Promotion Agreement," IGPAC report pp. 2, 9-10.
 - ^{viii} "Testimony of Franklin Vargo before the Subcommittee on Commerce, Trade, and Consumer Protection, Committee on Energy and Commerce," 17 March 2009; pg. 6.
 - ^{ix} Letter from SIDO to Chair and Ranking Member, Senate Appropriations Subcommittee on Commerce, Justice, Science, and Related Agencies," 23 April 2009.