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NAFTA and TPCC [Trade Policy Coordinating Committee]: So What?!

by

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NAFTA AND the TPCC: SO WHAT?!

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As the debate on the North American Free Trade Agreement (NAFTA) looms in Congress and the Clinton Administration releases the national export initiative produced by the multi-agency Trade Policy Coordinating Committee (TPCC), "trade policy" is in the headlines again. Yet for all the headlines, the newspapers—and for that matter, the Administration—are missing the real story.

The hard truth is that for all but a tiny percentage of American firms, GATT, NAFTA, TPCC and the other trade acronyms are irrelevant. According to the latest Census Bureau data, fewer than 2.7 percent of the nation's 3.9 million non-agricultural enterprises do any exporting at all. And of that tiny fraction, a mere 66 firms account for 54 percent of all merchandise exports. In short, most U.S. companies don't export and, of those that do, most export so little, so infrequently, and to so few markets that they hardly make a dent in our trade balance.

This doesn't mean trade policy is unimportant. Far from it. But it's easy to get caught up in the romance and political intrigue of trade negotiations and lose sight of the fact that the most enlightened policies in the world won't help America's largely non-exporting companies compete in a global economy if they don't play.

The barriers to exporting for smaller firms are tangible and significant. The difference between the U.S. and the Europeans on the other side of the trade negotiation table is that the Europeans--in both the public and private sector--are doing something about them. From the wide array of pubic and private sector export assistance initiatives underway in Europe, ten basic lessons emerge that should guide those who seek to improve American competitiveness in general and the trade deficit in particular.

Strategic Thinking

1. The biggest barriers to export success are inside small firms, not out in the marketplace.
2. Export development is part of company development; it's a process, not an event.

Triage

3. Export technical assistance should be provided only to firms that are "export-ready."
4. For firms that are merely "export-willing," provide training first.

Real Services

5. There are genuine external barriers to small firm exporting, but they are surmountable.
6. The most effective export assistance is deep, specific, and customized to meet the needs of individual firms.

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[1] William E. Nothdurft is a writer and public policy consultant based in Bethesda, Maryland. His latest book is "Going Global: How Europe Helps Small Firms Export," published by the Brookings Institution. Drawn from his comments offered at Humphrey Institute's "State and Local Economic Development Strategy Conference." December 4-5, 1992.

Broad View

7. The real issue isn't exporting, it's increasing two-way trade flow.

Focused Delivery

8. Export assistance works best when delivered by private or quasi-private sector providers, with governmental playing an enabling role.
9. The more assistance is targeted geographically and sectorally, the more effective it will be.

Market Test

10. Exporting is only worthwhile if it's profitable; if it's profitable, assistance should be paid for.

These lessons—principles, if you will—for creating high-yield trade development programs are, when taken as a whole, very different from the way trade development is done (to the extent its done at all) here in the United States.

There are isolated examples of high-yield trade assistance in the U.S., but there is seldom a coherent whole. Indeed, few states have a clear answer to the most basic strategic questions--for example, "Is your objective to increase the number of exporters, or to increase the total value of your exports?" These are very distinct strategies that require quite different tactics!

Perhaps even more troubling, few states have been able to pull together the three key elements of any competitiveness strategy: technology development and deployment, workforce skill development, and trade development.

In Europe these three elements are so tightly woven together, the joint objectives so coherently and single-mindedly pursued, that it's very hard to get officials to distinguish among them.

If there is a weakness in these 10 principles it is this: If what works best is very intensive, company-by-company, deal-by-deal export market development services, how can a state, a region, or a locality make a difference with only a buck and a quarter in its pockets?

The simplest answer is: you can't. What's more, you shouldn't. This is an economy that functions not by government fiat, but by corporate enlightened self-interest. We might argue whether this is good or bad, but it is nonetheless a fact of life. Within our private sector economy, there is a natural—and powerful—constituency for approaching trade development in the manner I've just outlined. It is what I've come to call the "Triad for the Next Economy." It includes: (1) Financial Institutions (not just banks); (2) Telecommunications Companies; and (3) Electrical Utilities.

Think about these institutions for a moment. They can only grow if new businesses continue to be born and if those businesses are able to compete, not just within their local service area but worldwide. If you want to achieve scale in the change in the behavior of small and medium sized businesses, you will never be able to do it successfully without mobilizing the interest of, and the resources possessed by these leading beneficiaries. They are capable of creating the "demand pull" crucial to achieving globally competitive businesses and state and local economies.

In the end, export trade development is not magic; it cannot be conjured by exhortation. It happens one deal at a time, and while it promises profits and growth, it is also fraught with difficulty. Otherwise savvy business owners will not lurch into globalism simply because federal officials encourage them to do so or because new trade agreements have been signed.

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