

GLOBAL ENGAGEMENT

*How Americans Can Win and Prosper
In the Worldwide Economy*



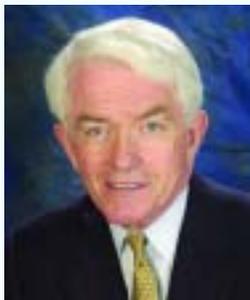
U.S. Chamber of Commerce



U.S. Chamber of Commerce
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MESSAGE FROM THE CHAMBER



Dear Reader:

It is time to replace fear with the facts about our nation's role in the worldwide economy and the benefits Americans derive from global engagement. That is the purpose of this report.

America has the most open economy and society in the world. Many citizens are now questioning this openness, wondering whether the unfettered flow of goods, capital, and people helps or hurts the average family. The facts will show that while some are hurt and should be helped, the overwhelming majority of Americans derive great benefits from global engagement.

Total trade is now equivalent to 27% of the nation's gross domestic product. Our exports alone directly support 12 million good-paying jobs and indirectly support millions of additional jobs. Ninety-seven percent of America's exporters are small businesses, not large, multinational corporations.

Imports help Americans too. They keep inflation low and expand consumer choice and quality. Recent tariff reductions have increased the typical family's purchasing power by \$1,300 to \$2,000 per year.

Foreign investors want to bring their money here because we have an economy that is second to none among major countries. Our markets are safe and profitable. Foreign companies directly employ 5.1 million Americans and millions more indirectly. Global capital helps finance our deficit and contributes to affordable interest rates and home mortgages.

U.S. investment overseas benefits Americans as well. While making 70% of their investments here in the United States, American businesses also invest abroad, and overseas affiliates of U.S. companies racked up \$3.3 trillion in sales last year. Above and beyond exports, these sales generate earnings and profits, boosting stock prices, business expansion, and job creation back home.

The benefits of global engagement extend far beyond the exchange of trade and capital.

Immigrants now supply from 12% to 22% of our workforce in highly skilled occupations like medicine, engineering, the physical sciences, and computers and mathematics. Foreign-born workers also hold a quarter of the jobs in construction, a third in building cleaning and maintenance, and 44% in agriculture.

With unemployment at just 4.8%, serious labor shortages in some communities and sectors, and 77 million baby boomers preparing to retire, it is clear that we need these workers—now and in the future.

Global sourcing is another way to secure needed workers. It allows our companies to focus on their core businesses, investing more in research, expansion, and job creation in the United States. Even so, we still insource more than \$50 billion more than we outsource.

The facts will show that while some are hurt and should be helped, the overwhelming majority of Americans derive great benefits from global engagement.

Our engagement with the world also enables us to win the global race for talent and tourists. Fifty million legal visitors enter our country each year, spending an estimated \$100 billion in our critical travel and tourism sector. More than 500,000 foreign students and the world's leading researchers, scientists, and professors attend or are employed by our universities.

Global engagement has also improved the state of the world, promoting peaceful exchange and lifting hundreds of millions of people out of poverty through more open markets and trade-generated growth.

Yet despite these facts, global engagement is under attack. It is important to understand why, to respond to such attacks, and to enact the positive reforms Americans need to win and prosper in the worldwide economy.

Without question, the competitive environment facing our workers and businesses is challenging. Many nations have followed our lead in reforming their economies, opening their markets, and investing in training and technology. Now they are competing with us for customers, capital, resources, and jobs—not only around the world but right here in our country.

In the face of this tough competition, we have a choice.

We can blame the competitors and attribute our own problems to the faults of others. We can retreat from the world and close our markets and borders in an effort to shield our workers and industries.

Or we can remake ourselves and provide our people and businesses with the skills and tools they need to succeed. We can heed the lessons of history which suggest that no nation has ever remained prosperous by walling itself off. We can do a better job ensuring that the opportunities of global commerce are extended to all.

The path to success lies in openness and engagement, not in retreat and isolationism.

The U.S. Chamber of Commerce is dedicated to ensuring that Americans make the right choice.

It is neither an accident nor a coincidence that the world's most open economy is also the world's most successful and envied economy. We at the U.S. Chamber of Commerce invite you to consider the facts, reflect on what's at stake, and join us in a vigorous effort to knock down market barriers abroad, stay engaged in the world, and remove the impediments that make it harder for Americans to compete.

The path to success lies in openness and engagement, not in retreat and isolationism.

Thomas J. Donohue
President and CEO
U.S. Chamber of Commerce
Washington, DC
August 2006

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PART ONE: The Benefits of Working With the World

American workers, families, and businesses gain in many ways from the movement of goods and services, capital, and people across borders. Let's take stock.

The Exchange of Trade

America cannot have a growing economy or continue to lift wages and incomes of citizens unless we continue to reach beyond our borders and sell products, produce, and services to the 95% of the world's population that lives outside the United States.

In 2005, our exports to the world totaled \$1.2 trillion, a 58% increase in 10 years.¹

This includes some \$180 billion of our leading high-technology products, \$396 billion in services, and the produce from one out of every three farm acres.²

Two-thirds of all exports are from our highly productive and efficient manufacturing sector.³

Small businesses represent 97% of all U.S. exporters, and the future for entrepreneurs in the trading arena is phenomenal.⁴ With advances in high-speed Internet technology and logistics services, small businesses now have extraordinary opportunities to unearth and supply foreign customers.

The appetite for U.S. products and services stretches around the globe.

Due in large part to the success of the North American Free Trade Agreement (NAFTA), Canada and Mexico are our number one and number two trading partners—followed by China, Japan,

Germany, the United Kingdom, South Korea, Taiwan, France, and Malaysia.⁵

Exports mean jobs—good-paying jobs. Exports already directly support an estimated 12 million workers who earn as much as 18% more than their counterparts in nontrade occupations.⁶

America's Top 10 Trading Partners (Goods)

Country	Exports + Imports (billions of dollars)
Canada	\$499.2
Mexico	290.2
China	285.3
Japan	193.5
Germany	119.0
United Kingdom	89.7
South Korea	71.4
Taiwan	56.9
France	56.2
Malaysia	44.2

Source: Census, 2005 Data



Foreign sales account for approximately one out of every five factory jobs in this country.⁷ The more we sell abroad, the more Americans benefit at home.

Caterpillar, for example, has more than doubled its Chinese workforce and significantly expanded its sales there over the last few years—increasing exports to China by 40% in 2005. This kind of strong global demand has enabled the company to add some 5,000 new production jobs here in the United States.⁸

We must continue to expand our access to export markets—and that means keeping our own markets open and staying engaged in the global trading system.

States that are home to the nation’s key seaports—including California, Texas, Florida, New York, and New Jersey—support millions of workers through transportation, logistics, and other services related to the processing of international commerce.

Even states that have been buffeted by foreign competition can point to major compensating benefits through their involvement in trade. For example, 9.5% of Michigan’s private-sector jobs and 10.5% of South Carolina’s private-sector jobs are supported by trade—exceeding the percentage of autoworkers in Michigan and textile workers in South Carolina.⁹

All these benefits underscore the value in knocking down unfair trade barriers in other countries through free trade agreements, vigorous enforcement of trade rules, and, eventually, a new multilateral agreement under the World Trade Organization.

Our workers, companies, and farms are the most productive in the world. We must continue to expand our access to export markets—and that means keeping our own markets open and staying engaged in the global trading system.

Imports

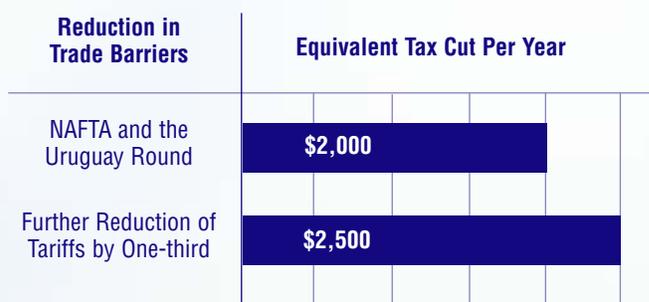
Imports have helped Americans too.

Open markets, rapid economic growth, a massive consumer economy, and an overreliance on foreign energy help explain why imports have grown from \$849 billion in 1995 to more than \$1.8 trillion in 2005, a 114% increase.¹⁰

In some cases, the influx of cheap consumer goods, textile products, and cars has hurt some workers and communities. Those affected should be given the assistance and training they need to succeed in new careers.

Yet, overall, our nation’s appetite for imports has improved the performance of our economy and has greatly benefited American consumers by boosting choice, quality, and purchasing power.

Imports Increase Purchasing Power for Americans



Source: The White House and USTR

“Notably, despite its large trade deficit, the United States has experienced significantly greater expansion in employment over the past decade than either Germany or Japan, both of which have enjoyed perennial trade surpluses.”

Federal Reserve Board Chairman,
Ben S. Bernanke¹³

For example, NAFTA and the Uruguay Round, which lowered barriers and tariffs regionally and around the globe, produced \$1,300 to \$2,000 in increased buying power for the typical family each year.¹⁰ Further reducing tariffs by even one-third would mean an additional \$2,500 a year in savings for the typical American family of four.¹¹

Imports also directly support millions of American workers in shipping, port operations, logistics, transportation, wholesaling, and retailing and marketing.

Our energy needs alone make a compelling case for the nation’s continued engagement around the world and our support for a smoothly functioning international trade marketplace. Fifty-eight percent of all the crude oil America needs to run its cars, businesses, and homes is imported, as is much of the uranium needed to run and expand our nuclear power plants.¹²

Those who propose punitive tariffs and other measures—even when seeking to protect a domestic industry or punish a trading partner for not playing by the rules—are, in effect, proposing a tax increase on Americans.

And they are overlooking the potential for trade retaliation abroad—retaliation that could cost millions of their fellow Americans their livelihoods and jobs.

The trade gap must be narrowed not by raising prices on our consumers through import tariffs and restrictions but by prying open foreign markets and selling more of our products overseas.

The Flow of Money

The worldwide movement of capital has been massive and freewheeling in all directions. For the average citizen who is trying to follow who owns what or which companies are buying or merging with others, this movement of capital has caused confusion and uncertainty.

The facts show that no one country or region is “buying” another.

In 2004, foreign direct investment (FDI) in the United States (investment in which a resident of one country obtains a lasting interest in and a degree of influence over the management of a business enterprise in another country) totaled \$1.5 trillion. Yet the stock of U.S. investment in other countries totaled \$2 trillion.¹⁴

Investments by foreign companies in our country have directly created 5.1 million American jobs and millions more indirectly.

Top 5 Foreign Job Creators in the United States

Country	Number of Jobs
United Kingdom	996,000
Germany	674,000
Japan	599,000
The Netherlands	503,000
France	452,000

Source: BEA, 2003 Data

In fact, Americans derive great value on both sides of the FDI equation.

Investments by foreign companies in our country have directly created 5.1 million American jobs.¹⁵

This number does not include the millions of people who work for companies that supply parts and materials to foreign-owned firms. Toyota Motors, for example, directly employs some 29,135 Americans. With dealers and suppliers added, the company is responsible for 386,300 U.S. jobs.¹⁶

Studies have found that foreign employers have paid wages averaging 15% higher than wages paid by U.S. companies. Average annual compensation at foreign-owned firms typically exceeds \$60,000.¹⁷

U.S. affiliates of foreign companies spent \$30 billion on research and development in 2003 and \$109 billion on plants and equipment.¹⁸

These investments help give the United States extraordinary access to cutting-edge technology and productivity tools.

Which foreign employers create the most jobs in the United States? Companies from the United Kingdom

employ 996,000 Americans; from Germany, 674,000; from Japan, 599,000; from the Netherlands, 503,000; and from France, 452,000.¹⁹

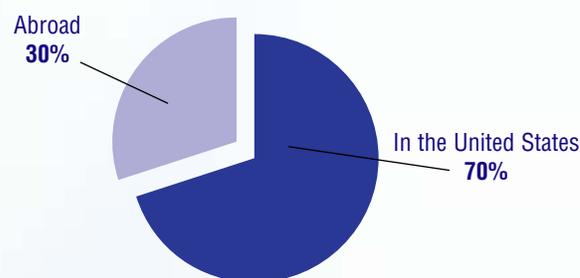
Meanwhile, U.S. companies employed an estimated 8.4 million people abroad in 2003.²⁰

How does it help Americans when our companies employ workers overseas?

The primary means by which our firms deliver goods and services to foreign customers is through foreign affiliates. Many workers hired by American companies abroad work for these affiliates to service local markets.

All told, sales by these affiliates in 2004 totaled \$3.3 trillion, generating earnings for American companies—earnings that ensure that our companies grow, innovate, and create better jobs at home.²¹

Where American Companies Invest



Source: CRS, 2004 Data

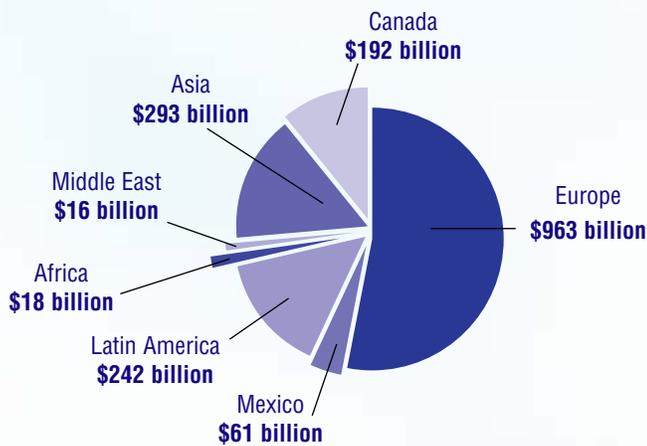
A common myth is that overseas hiring by U.S. corporations is all about finding cheap labor. While the search for affordable labor drives some investment decisions, 70% of our FDI is concentrated in highly

developed countries. Europe—a region that is hardly known for low wages and cheap labor—accounts for more than half of all U.S. FDI abroad.²²

And even with significant investments overseas, more than 70% of American business investment (including employment and capital expenditures) occurs right here in the United States—not in other countries.²³

U.S. Direct Investment Position Abroad

More than 70% of U.S. Direct Investment Is in Highly Developed Nations



Source: CRS, 2003 Data

It is true that some foreign workers are hired to produce low-cost goods that are shipped back to value-conscious American consumers.

In developing economies, U.S. factories and facilities often stand out as models and contribute to raising local labor and environmental standards. Workers routinely make more than they ever had the opportunity to earn in the past. Our companies in the developing world are major contributors to social and charitable initiatives.

With lower value products being produced elsewhere, Americans can focus on high technology, high-value manufactured products, and a broad range of professional and business services.

That’s where we want to be in the global pecking order!

The Race for Capital

While our country currently holds the edge in FDI, when we use a broader measurement of capital flows, we see that foreigners send more money here than we send overseas. Foreign-owned assets of all types in the United States were valued at \$11.5 trillion in 2004. The value of foreign assets owned by the United States was \$9 trillion.²⁴

While many economists are troubled by this imbalance, it is also a sign of our economy’s strength and stability. All countries are competing in a global race for capital. Even with burdensome new regulations now saddling U.S. capital markets, America is still winning the race as the best and safest country in the world in which to invest money.

Some foreign capital has been used to buy U.S. Treasury debt instruments to finance our large budget deficit. An estimated \$2.1 trillion of this debt is held by foreigners, including \$687 billion by Japan, \$252 billion by China, and \$182 billion by the United Kingdom.²⁵

Top Foreign Holders of Federal Debt

Total	\$2.1 trillion
Japan	\$687 billion
China	\$252 billion
United Kingdom	\$182 billion

Source: CRS, September 2005 Data

While it would be preferable not to have a budget deficit, the availability of foreign capital has helped keep markets flush and interest rates affordable, fueling business expansions and our housing market. Although some view foreign holdings of our debt as a noose around our neck, remember that the countries that hold this debt have built their prosperity on a growing American economy. Any precipitous move to “unload” U.S. bonds would be self-defeating.

In fact, the percentage of privately held U.S. government debt by foreigners has been declining recently, with no signs of either economic calamity here or geopolitical “blackmail” by other countries.

The accelerating flow of money in all directions may create a blurry definition of “who owns what” in the worldwide economy, but its benefits to Americans are clear: more jobs, successful companies, cheaper consumer products, and contributions to economic progress around the world. Far from threatening our national sovereignty, the free flow of capital provides Americans with a vital source of revenue to finance homes, innovation, and business expansion.

It is critically important that we continue to welcome investors from around the world and not impose undue restrictions on them. Their money is a vote of confidence in the strength and the resiliency of the American economy.

The Movement of People And Work

Global engagement is much more than the exchange of trade and the flow of capital. The movement of

people and work in the form of immigration, international education, travel and tourism, and outsourcing is occurring on an unprecedented scale.

Nations that fully engage in the global race for talent will be the winners in the 21st century worldwide economy. Those that close themselves off will be the losers.

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This reality is particularly compelling for highly developed economies such as those of the United States, Western Europe, and Japan, where low birthrates and rapidly aging populations have already produced labor shortages. In our country, 77 million baby boomers are preparing to retire. Starting this year and for the next 19 years, a boomer will hit 60 years of age every seven seconds.

Moreover, as a result of failings in our education system and the insufficient numbers of math, science, and engineering majors elected by American-born students, we are not producing enough highly skilled knowledge workers.

There is simply no way that America could run a successful, growing economy without reaching across our borders and around the world for talent and labor at all skill levels.

Legal and illegal immigrants already play a major role in both highly skilled and less-skilled occupations.

Immigrants in Key Occupations

Occupation	Immigrant Share of Occupation (%)
Farming, Fishing, and Forestry	44%
Construction	26
Building Cleaning and Maintenance	34
Computers and Mathematics	22
Life, Physical, and Social Sciences	18
Architecture and Engineering	15
Medical Practitioners	12
National Unemployment Rate	4.8%

*Source: Center for Immigration Studies, 2005 Data;
BLS, August 2006 Data*

According to one analysis, immigrants account for 44% of the labor in farming, fishing, and forestry; 26% in construction; and 34% in building cleaning and maintenance.²⁶

They also comprise 22% of the workers in computer and mathematical fields; 18% in the life, physical, and social sciences; and 15% in architecture and engineering. Additionally, 12% of our medical practitioners are immigrants.²⁷

Foreign-born Ph.D. physicists make up 45% of all Ph.D. physicists in the United States, and 25% of the engineering faculty members at U.S. universities were born abroad.²⁸

Not only do immigrants fill employment gaps, they also contribute significantly to the innovation that drives our economy. Between 1990 and 2004, more than one-third of Nobel prizes in the United States were awarded to foreign-born scientists.²⁹ According to one estimate, 3,000 of the technology firms created in Silicon Valley since the 1980s—more than

30% of the total—were founded by entrepreneurs with Indian or Chinese roots.³⁰

Between 2000 and 2005, the United States took in more immigrants than in any previous five-year period in its history—7.9 million legal and illegal newcomers.³¹ Are these immigrants “taking away our jobs,” as some critics have suggested?

With a jobless rate of just 4.8%, this charge does not hold up. Who would be available to harvest our food, build our homes, care for our sick and elderly, and teach in our outstanding universities if immigrants were not available?

New arrivals also create new consumer markets, keep prices down across the economy, and pay taxes. In an open letter to President Bush in June 2006, more than 500 prominent economists, including five Nobel laureates, declared that “immigration has been a net gain for American citizens.” The letter adds that “while a small percentage of native-born Americans may be harmed by immigration, vastly more Americans benefit from the contributions that immigrants

“The genius of America’s success is that the United States is a rich country with many of the attributes of a scrappy developing society. ... A huge amount of this has to do with immigration, which keeps America constantly renewed by streams of hardworking people, desperate to succeed.”

*Newsweek Special Report, June 12, 2006*³³

make to the economy, including lower consumer prices. As with trade in goods and services, gains from immigration outweigh the losses.”³²

Immigrants also send billions of dollars back home annually, easily outstripping foreign aid programs in many countries; lifting families and communities out of poverty; and helping spur development and, eventually, new markets for U.S. products.

As millions of baby boomers retire—with too few workers to replace them—we should welcome a steady flow of *legal* immigrants into our country. These immigrants play a vital role in both our skilled and unskilled labor markets and keep the American economy competitive and strong.

International Students and Tourists

The stream of short-term visitors in and out of the United States is another important and lucrative way Americans engage with the world.

The U.S. travel and tourism industry is the largest in the world. It is one of the most important sectors of our economy, contributing 10.5% of gross domestic product, supporting one in nine jobs, and generating \$100 billion in tax revenue for local, state, and federal governments.³⁴

Foreign visitors represent an important segment of this crucial industry. This year, they will spend more than \$100 billion in the United States.³⁵

And foreign students pay our institutions of higher education an estimated \$13.4 billion annually. These revenues support outstanding faculty and educational programs and free up resources for scholarships for native-born students. Such payments are counted as U.S. exports to the world, and we earn more from these exports than we do from arms sales.³⁶

We earn more from the tuition dollars of foreign students, which count as exports, than we do from foreign arms sales.

While important security measures have been taken since the terrorist attacks of September 11, 2001, overly cumbersome and restrictive policies for the 50 million legal travelers who visit our country will hurt American workers and the millions of businesses, large and small, involved in travel and tourism.³⁷

Likewise, restrictive entry requirements for the half-million international students who enroll in our universities each year threaten to cut off important talent and revenue sources from the higher education industry.³⁸

We must find a way to secure our borders while maintaining our mobility and our legacy as a friendly nation that welcomes law-abiding workers, students, businesspeople, and tourists to our shores.

Global sourcing is a strong net plus for American workers and businesses.

Outsourcing

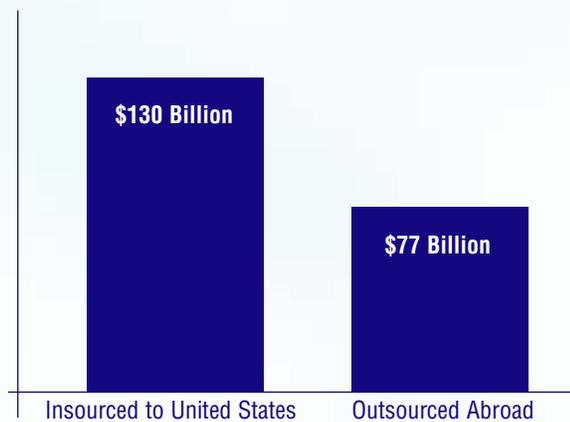
Owing to revolutionary advances in low-cost, high-speed information technologies, a growing number of employers are able to secure the labor they need through global sourcing. Even those who oppose immigration should support sourcing. After all, it is an efficient way to “import” labor without importing the worker and his or her family.

Instead, outsourcing has been attacked as the latest method of shipping American jobs overseas to low-wage countries.

The facts disprove this charge. Global sourcing is a strong net plus for American workers and businesses.

In terms of the office work occupations most frequently associated with outsourcing, the United States actually insources far more than it outsources.

U.S. Insources More Office Work Than It Outsources



Source: Federal Reserve Bank of San Francisco, 2003 Data

According to the Federal Reserve Bank of San Francisco, in 2003, we bought about \$77 billion worth of office work from foreigners, but the value of the services we sold to foreigners was far higher—more than \$130 billion.³⁹

When sourcing from our country does occur, it allows firms to focus on inventing new products and services, making them more successful, competitive, and profitable. These benefits are passed on to

consumers, employees, investors, and government tax coffers.

According to the McKinsey Global Institute, every dollar of costs the United States moves offshore brings America a net benefit of \$1.12 to \$1.14 (in addition to the benefit to the country receiving the investment).⁴⁰

The impact on U.S. jobs and white collar workers has been small. McKinsey has calculated that, in 2003, 1.5 million service jobs were outsourced abroad from major developed countries, including the United States, to the developing world. This number is projected to rise to 4.1 million by 2008.⁴¹ The American labor force alone is now nearly 150 million, and the unemployment rate among college-educated white collar professionals is a negligible 2.1%.

While we will see some growth in global sourcing, we will not see a dearth of job opportunities for Americans in computer and other information technology jobs. According to the Bureau of Labor Statistics, these will be among the fastest-growing occupations for Americans over the next decade.

According to BLS, computer and other technology jobs will be among the fastest-growing occupations over the next decade in the United States.

Improving the State of The World

Opening markets for goods, capital, and labor have made Americans more prosperous and competitive.

They have also made a measurable contribution to reducing poverty and fostering stability worldwide, thereby improving our own long-term security.

Economists at the World Bank report that per capita real income grew three times faster for developing countries that lowered trade barriers (5.0% per year) than for other developing countries (1.4% per year) in the 1990s. World Bank economists also found that the faster growth rates from expanded trade in the globalizing countries resulted in income gains for the poor in proportion to gains for other income groups.⁴²

Over the past 25 years, an estimated 500 million people have been lifted from poverty, in large part as a result of global trade and market reforms.

Over the past 25 years, an estimated 500 million people have been lifted from poverty, in large part as a result of global trade and market reforms. In the next 10 years, it is projected that another 400 million will escape poverty.⁴³

With this record, advocates for the world's poor should be first in line to support comprehensive global trade agreements and other initiatives to reform struggling economies and help nations build the institutions and rule of law that support free enterprise.

Americans should also understand that while some of our government policies have been unpopular abroad, the thirst for American products and culture and the lure of the American dream and lifestyle are stronger than ever. Our engagement with the world on many levels beyond politics and policy plays an immense role in sustaining and improving our image and standing around the globe.

PART TWO: Global Engagement Under Attack

We have laid out the significant ways in which most Americans and the nation as a whole benefit from global engagement.

Yet despite these facts, global engagement is under attack.

This can be seen in the increasingly bitter debates and ever closer votes on trade deals, in spite of their clear benefits to American workers, farmers, and businesses.

Congress is also considering legislation to make it more difficult for foreign companies to invest and create jobs in the United States.

Most Americans and the nation as a whole benefit from global engagement. Yet despite these facts, global engagement is under attack.

A Senate proposal would raise prices for American consumers through a 27.5% tariff on Chinese imports.

And there have been repeated attempts in Congress to attach “Buy America” amendments to pending legislation, many of which violate treaties and would invite retaliation.

America’s legacy as a welcoming nation has been put at risk too. A House immigration bill would address the legitimate issue of border security in part by criminalizing 12 million undocumented immigrants.

At least 195 measures were proposed in 45 states last year to restrict and punish companies that choose to source around the world.

International student enrollments dropped in 2004 for the first time since 1972, owing in large part to visa delays and fees.⁴⁴ Business travel, tourism, and the convention business have also been affected.

Disturbingly, vitriolic attacks on immigrants, trade, foreign investment, and companies that source and invest overseas are carried in major media outlets, on blogs, and on talk radio.

America is not alone. Observers have noted a rise of “economic nationalism” across Europe and Latin America and a backlash against immigrants in many societies. Global trade negotiations, which have the potential to lift additional hundreds of millions of people from poverty, have broken down.



Responding to the attacks

It is important to identify the reasons for these attacks and vigorously respond to the critics, while also recognizing valid points and the need for improvement and reform.

Some, but not all, of the criticism of America’s international trade and investment policies, as well as its reliance on immigration and outsourcing to meet workforce needs, begins with an attack on the performance of the American economy itself. Critics have charged that the influx of cheap goods and labor has triggered a “race to the bottom” that is jeopardizing the middle-class lifestyle and the American dream.

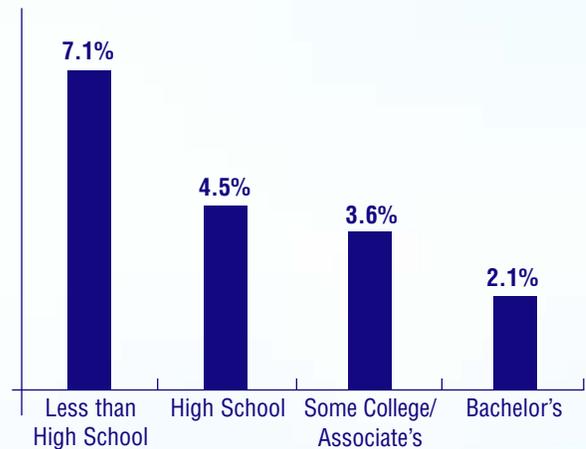
“Economic isolationists have seized on people’s sense of insecurity about the rapid pace of change even when the facts are not on their side.”

Former U.S. Trade Representative Rob Portman ⁴⁵

However, by most measures, average families are not only maintaining but are building upon their middle-class lifestyles and prospects for the future:

- ◆ Household wealth, home ownership, and college enrollments are at all-time highs.
- ◆ Unemployment stands at just 4.8%; among the college educated, it is just 2.1%. A recent report in the *Los Angeles Times* shows that 2006 college graduates are in such great demand by employers that many have multiple job offers. ⁴⁶

Unemployment Rate by Education Level



Source: BLS, July 2005

- ◆ Wages and salaries have grown modestly in recent years, with total compensation increasing faster—but both have outpaced inflation. Hourly compensation increased 4.4% in 2005. ⁴⁷
- ◆ America’s manufacturing base is not only surviving, but by many measures it is prospering. The year 2005 posted a record year for manufacturing output. ⁴⁸ Highly skilled manufacturing workers are once again in demand. ⁴⁹

Statistics aside, many Americans feel that their place in the constantly changing economy is less certain and secure. Critics fan these fears by focusing on the relatively few citizens who are harmed by global engagement while conveniently and cynically ignoring the vast majority who benefit. We should help those who need assistance and training rather than reducing the benefits of global engagement for everyone.

In addition, rising health care, housing, and energy costs, as well as the pressures facing private and public pension systems, are real. Yet for the most part, these problems are problems of our own making. They cannot honestly be blamed on global engagement.

For example, rising health care costs are driven by longer life spans and expensive medical advances as well as an inefficient delivery system and frivolous litigation—not international commerce.

Soaring energy prices might be partially attributed to competition for supply from the developing world. But we are doing little to help ourselves, continuing domestic policies that for years have locked away our own vast energy resources.

Critics have not proved their case that global engagement is undercutting the American dream. Nor have they explained how closing our markets would expand that dream.

For those who have not shared in the benefits of recent economic growth, experts can show that it is education—not immigration, outsourcing, or foreign investment—that has the greatest impact on the pay and job prospects of Americans.

Today, an estimated 30% of our young people don't even graduate from high school, with even higher dropout levels among ethnic and minority communities.⁵⁰ More than 60% of employers rate high school graduates as inadequately prepared in math and writing.⁵¹ One study estimates the cost to

a single state's employers for remedial training at nearly \$40 million a year.⁵²

How can trade be blamed for the inferior performance of so many of the nation's public schools?

How can trade be blamed for the inferior performance of so many of the nation's public schools?

It is clear that some critics of global engagement have expropriated a turbulent environment for their own purposes. While many citizens are uncertain about the future, critics have not proved their case that global engagement is undercutting or destroying the fundamentals of the American dream. Nor have they explained how closing our markets and borders would expand that dream.

Finding common ground

Other critics have raised more constructive arguments. They assert that America is being played for a fool by keeping its own markets open without receiving corresponding access to foreign markets. They contend that those being left behind by today's increasingly skills-focused global economy deserve greater attention and assistance.

Others believe that the nation has lost control of its borders and has done an inadequate job of checking and monitoring those allowed to enter the United States.

In fact, supporters of engagement have made many of these same arguments. Free trade supporters and

opponents can find common ground on the need to address these issues, if not on the solutions themselves.

Trade, investment, and market access barriers—According to the World Bank and the International Monetary Fund’s *Global Monitoring Report*, the United States maintains the most open major economy in the world. Still, many markets remain unfair and closed to American goods and services.

The U.S. Trade Representative’s 2006 report documenting foreign trade and investment barriers covers 62 major trading partners and is 720 pages long.⁵³ Even trade supporters believe that more must be done to level the playing field.

But the agreement ends when it comes to the response. To level the playing field, we need more trade agreements, not fewer—from a multilateral agreement to promising bilateral deals that open closed markets to U.S. products and services. It makes no sense to try to open foreign markets by raising taxes on American consumers through high tariffs, which would also trigger retaliation and throw Americans whose jobs depend on exports out of work.

Intellectual property theft, counterfeiting, and piracy—Americans are also losing jobs and business because of the failure of our own and other countries to adequately protect intellectual property rights and enforce counterfeiting and piracy laws. U.S. companies lose an estimated \$250 billion a year, which has cost 750,000 American jobs.

These are serious crimes that put consumers at risk with fake prescription drugs, untested consumer electronics, harmful cosmetics, exploding batteries, and substandard automobile and aircraft parts.

The U.S. Chamber of Commerce is leading an unprecedented global initiative to fight these illegal activities. Making the worldwide economy a miserable place for intellectual property thieves, counterfeiters, and pirates is essential to leveling the playing field for American workers and businesses.

Retraining displaced workers—While open trading, investment, and labor markets are a strong net plus for our economy and most workers, there is no question that some Americans have lost jobs to foreign competition.

The business community, the government, and society at large share a responsibility to retrain, reemploy, and assist workers who are dislocated by the changes inherent in a worldwide economy.

Supporting and Training U.S. Workers

Trade Adjustment Insurance	\$1.1 billion
Job Training, Federal Government	\$23 billion
Business Community Training and Retraining	\$70 billion

Source: The White House and the Business Roundtable

In 2005, the nation spent at least \$1.1 billion for the Trade Adjustment Assistance program, which augments standard unemployment insurance benefits and provides training and cash for workers dislocated by increased imports or a shift of production overseas.

The federal government spent an estimated \$23 billion in job training last year, and the states spent billions more. The business community spends an estimated \$70 billion annually on job training and retraining.⁵⁴

These programs and commitments must be maintained and strengthened. Nevertheless, we must not react

to the misfortune of some by imposing restrictive, isolationist policies that deny the overwhelming majority of Americans the benefits and opportunities of global markets.

Educating domestic workers—With 77 million baby boomers preparing to retire, the employer community asserts that immigration and outsourcing are essential if we are to meet the workforce needs of a growing economy. Critics of both immigration and sourcing ask a fair question: Why not train Americans who are already here to do these jobs?

In fact, with our changing demographics, we will need to employ *all* strategies to secure workers, including encouraging and making it easier for older workers, parents with young children, and persons with disabilities to join the workforce and stay in it longer.

Most critical, there must be vast improvements in K–12 education. The quality of education we are giving our students today is the equivalent of national economic suicide. We must also meet a goal set by the U.S. Chamber of Commerce and others of doubling the number of math and science college graduates by 2015.

Strategies to expand workforce opportunities for Americans left behind are right, fair, and essential to the viability of the American dream—yet they will not overturn the compelling math of America’s changing demographics. They will not remove our

With our changing demographics, we will need to employ all strategies to secure the workers we need.

“Americans have heard from politicians for more than 200 years that immigration will cause the sky to fall. Yet each time it has only made us stronger.”

Tyler Cowen and Daniel M. Rothschild,
George Mason University⁵⁵

continuing need to access a talented and hard-working global labor market.

Regaining control of our borders—Critics of current immigration policies say that, in an age of terrorism and a growing influx of illegal immigrants, America must act to regain control of its borders. They are correct. We must protect America’s borders. This can be done while also recognizing America’s need for immigrant workers and the value that foreign business travelers, tourists, and students bring to our economy and society.

Our porous borders are gateways for illegal entrants from all over the world. By entering illegally, these immigrants avoid background checks for criminal records, outstanding warrants, or terrorist affiliations.

An estimated 45% of illegal immigrants entered the United States by first obtaining valid visas.⁵⁶ These persons have been able to remain after their visas expired because few efforts are made to enforce rules or track overstays.

New policies and strategies using advanced technologies, more personnel, tamper-proof identification, and a workable employee verification system can correct many abuses. Yet such policies must always balance

security with mobility. Secure borders are needed to screen out those we don't want in our country, but they must not be used as an excuse to deny legitimate visitors the opportunity to come here or to deny our economy the workers and customers it needs to thrive and prosper.

We must also consider the extent to which we are competing with other nations to attract foreign talent and innovation. In FY 2001, the United States' cap for highly skilled workers under the H-1B temporary visa program stood at 195,000; by FY 2004, the cap had shrunk to 65,000. In a recent letter to Congress, Microsoft Chairman Bill Gates warned that the lack of temporary H-1B visas and permanent immigrant visas (green cards) for skilled workers was threatening American competitiveness, "as other countries benefit from the international talent that U.S. employers cannot hire or train."⁵⁷

The CFIUS process should be used to assess potential national security risks. It should not be used as an excuse for those who, for whatever reason, oppose international participation in the U.S. economy.

Improving the foreign investment approval process—With 5.1 million American jobs directly dependent on foreign investment and tens of millions supported indirectly, any changes in the process by which foreign purchases of U.S. assets are approved must be made with great care.

For nearly 20 years, the executive branch's Committee on Foreign Investment in the United States (CFIUS) has adequately met the responsibility of screening purchases for their potential impact on national security. Given heightened security concerns and the rapid increase in foreign investment flows in all directions, it is reasonable to make some improvements in the CFIUS process.

Before acting on proposals to restrict foreign investment in the United States, policymakers should consider the security review process already in place and the billions of dollars in investment and millions of jobs that may be at risk—not to mention the business and sales we generate through even greater investments of our own around the world.

The CFIUS process should be used for the legitimate purpose of assessing potential national security risks. It should not be used as an excuse for those who, for whatever reason, oppose international participation in the U.S. economy.

PART THREE: A Strategy for Success

Advocates of global engagement must do what the critics mostly fail to do—deal with facts, not fear, and offer a clear vision and comprehensive strategy by which American workers, families, and businesses can compete and succeed in the worldwide economy.

As we have shown, the American economy is more open than those of its major trading partners. While progress has been made in leveling the playing field, our companies and workers remain vulnerable to tariff and nontariff trade barriers, discriminatory treatment of investments, and theft of intellectual property.

We must work to open foreign markets, not close our own. We must keep the American economy and society open to the free flow of trade, investment, workers, and visitors through a vigorous trade agenda, comprehensive immigration reform, and robust engagement with other people and societies on all levels. If we do not, we will pay a terrible price.

We must work to open foreign markets, not close our own. Yet open markets do not in themselves guarantee success in an increasingly competitive world.

Yet open markets do not in themselves guarantee success in an increasingly competitive world. As the business community has warned for years, a series of impediments are driving some jobs and industries out of our country. We will continue to lose markets to competitors unless serious reforms are enacted.

Rather than return to isolationist and protectionist policies, we should enhance our competitiveness through a vigorous program of mostly domestic reforms:

- ▶ Reform our legal system and the current \$240 billion annual cost of America's tort system.
- ▶ Expand domestic production of all forms of energy—including clean, safe nuclear power and promising alternative technologies—while promoting new energy technologies and greater energy efficiency.
- ▶ Pass President Bush's competitiveness initiative, which includes making the private-sector Research and Experimentation tax credit permanent and boosting federal support for basic research and math and science education for high school and younger students.
- ▶ Improve K–12 schools and vocational education to ensure that future workers are competitive in the global economy. A special effort must be made to retrain those whose lives and livelihoods have been disrupted by global competition.

- ◆ Strengthen U.S. capital markets through sensible regulations, correcting the regulatory overreach and unintended consequences of the otherwise well-meaning Sarbanes-Oxley reforms.
- ◆ Modernize tax, regulatory, health, pension, and entitlement systems to remove competitive impediments while expanding opportunities and security for American workers.
- ◆ Expand and improve the nation’s infrastructure—roads, highways, seaports, airports, air traffic system, intermodal connectors, and telecommunications systems.
- ◆ Combat the growing threat that intellectual property theft, counterfeiting, and piracy pose to the U.S. economy, the global business community, and consumers.

The process known as globalization may be inevitable, but America’s engagement in the worldwide economy is not.

We could indeed blunder our way into a new era of isolationism—slapping a broad range of restrictions on trade, investment, travel, and immigration. We

“History shows that retreating from competition will hurt our economy and weaken our position in the world. ... We can’t take our ball and go home. Greater competition requires renewed focus and engagement, not retreat and withdrawal.”

U.S. Commerce Secretary Carlos M. Gutierrez⁵⁸

With confidence and determination, we must do what we have always done best—embrace change and lead it.

could impose massive tariffs on our own people in the name of “protecting” them. We could order our companies not to invest or outsource and build walls and fences to keep needed workers away—and watch jobs and industries move overseas. Global disengagement is an option, but one that must be resoundingly rejected.

We Americans control our own future. We are not controlled by other countries or some alien force called globalization. With confidence and determination, we must do what we have always done best—embrace change and lead it. We must engage the competition, not run from it. We must reject the path of fear and vigorously embrace the reforms needed here at home to ensure that America remains a global leader and winner and that the fruits of success are shared by all.



SPECIAL FEATURE: Trade, Investment, and Jobs, State by State

Trade, Investment, and Jobs, State by State

State	Exports to the World (billions of dollars)	Jobs Supported by Exports	Employed by Foreign Companies	Percent of Exporters That Are Small and Medium Size
Alabama	\$9.0	100,000	73,000	75%
Alaska	3.2	5,600	11,700	70
Arizona	13.4	115,100	59,800	85
Arkansas	3.5	70,000	33,700	72
California	110.0	1,000,000	561,000	94
Colorado	6.7	88,600	73,500	84
Connecticut	8.6	83,900	104,900	86
Delaware	2.1	12,500	26,500	75
DC	1.2	1,200	16,500	75
Florida	29.0	146,000	248,900	92
Georgia	19.6	170,000	182,800	83
Hawaii	0.4	5,400	36,100	84
Idaho	2.9	53,600	11,200	82
Illinois	30.2	300,000	254,900	87
Indiana	19.0	225,000	134,200	81
Iowa	6.4	100,000	38,100	78
Kansas	4.9	70,600	35,600	80
Kentucky	13.0	110,000	87,000	75
Louisiana	20.0	75,800	48,000	80
Maine	2.4	22,200	30,100	84
Maryland	5.7	51,900	104,100	83
Massachusetts	21.8	158,500	189,000	88
Michigan	35.6	342,700	205,000	87
Minnesota	12.7	146,700	84,600	84
Mississippi	3.2	43,200	22,800	72
Missouri	9.0	124,000	87,200	80
Montana	0.6	4,700	NA	86

These statistics capture the direct impact of trade and foreign investment in the states. They do not include the substantial indirect benefits in terms of jobs, business activity, and state and local tax revenues.

Trade, Investment, and Jobs, State by State *(continued)*

State	Exports to the World (billions of dollars)	Jobs Supported by Exports	Employed by Foreign Companies	Percent of Exporters That Are Small and Medium Size
Nebraska	\$2.3	54,900	18,900	76%
Nevada	2.9	15,300	27,200	82
New Hampshire	2.3	33,700	41,900	85
New Jersey	19.2	147,900	223,200	90
New Mexico	2.0	54,000	12,500	85
New York	44.4	255,300	382,600	92
North Carolina	18.0	255,000	204,600	83
North Dakota	1.0	7,500	7,900	85
Ohio	31.0	391,000	208,600	87
Oklahoma	3.2	55,300	32,500	80
Oregon	11.0	136,600	48,400	86
Pennsylvania	18.5	240,000	227,700	86
Rhode Island	1.3	17,800	25,900	86
South Carolina	13.0	150,000	127,500	80
South Dakota	0.8	27,400	7,000	73
Tennessee	16.0	145,000	127,400	75
Texas	117.0	615,000	340,000	90
Utah	4.7	50,800	32,200	83
Vermont	3.3	45,300	10,400	81
Virginia	12.0	120,700	138,600	82
Washington	34.0	235,400	82,800	88
West Virginia	3.3	21,600	22,200	69
Wisconsin	12.7	168,600	97,600	84
Wyoming	0.7	2,200	8,800	70

Source: BEA, U.S. Office of Trade and Industry Information, Census Bureau, 2004 Data

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