IMPACT ANALYSIS
Issues Impacting Global Business

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Dear Friends:

It's no surprise that the October unemployment rate barely improved. To put people to work, the U.S. economy must achieve considerably higher levels of growth. In the short-term, green industries won't generate enough output, but issuing more green cards will help. Read how today's realities are making old assumptions obsolete (p1-3).

Many believe exports are good and imports are bad. This incorrect assumption leads to poor policies that hurt U.S. manufacturers (p4-6).

New legislation could injure U.S. importers that are not intentionally evading the law. To protect yourself, it's essential to understand what's ahead (p7).

What will China bring in 2012? Consider our predictions (p8).

I hope you find this issue informative and welcome your comments.

Sincerely,

Tim J. Nowak
Executive Director
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Today's Critical Jobs Issues Are Tomorrow's Drivers of Growth and Competitiveness

How is your company impacted?

By John Manzella

In today's volatile post-recession era, emerging trends are forcing companies to redesign business models and enhance value propositions. At the same time, access to talent, which is in short supply, is becoming just as critical as access to capital.

With elevated unemployment levels in the United States and abroad, an abundance of qualified labor should be available to employers. However, in our ever-changing hyper-competitive global business environment, this is not the case as new realities are making old assumptions invalid.

The news that U.S. gross domestic product (GDP) growth reached 2.5 percent in the third quarter is good. It's well above the sub-1 percent growth rates during the first half of 2011, and reduces concerns of a double dip recession. However, it's far from what's needed to significantly reduce the high U.S. unemployment rate, which stood at 9 percent in October.

To drive it down, the U.S. economy must produce many more jobs than it has in the past. In fact, according to a McKinsey Global Institute report, "To return to prerecession employment level by 2020 and accommodate the new entrants into the labor force, the United States needs to create 21 million net new jobs this decade." This tall order, which has never been achieved before, will be very difficult at best for a variety of reasons.

To fully grasp the complexities, it's helpful to understand American job churn: the overall number of jobs gained and lost in the economy. Thus, with the exception of recessions, on average, the United States loses approximately 30 million jobs each year,

but gains slightly more, the Bureau of Labor Statistics estimates. The problem: net job gains have been falling for some time.

Throughout the 1970s, 1980s and 1990s, the Department of Labor says the net gains or total number of people employed in the United States rose by 20.9 million, 18.5 million and 16.1 million, respectively. In the last decade, the number of employed rose by less than 5.6 million, according to the Department of Labor's Household data. What's worse, from 2007 through October 2011, the total number of people employed fell from a high of 146 million to 140 million.

Moving forward, what will drive American growth and create jobs?

For decades, a major contributor to American job growth was consumer spending. Defined as Personal Consumption Expenditures by the Bureau of Economic Analysis, it represented $10.2 trillion or 70.5 percent of GDP in 2010. The good news: it topped its last high in 2008. But when accounting for inflation, it's slightly less than in 2008. And when considering the steep decline in purchases of newly-built residential homes, which is categorized as Gross Private Domestic Investment, the picture becomes even worse. Purchases of newly built homes declined by half from 2004 through 2010.

Consumer demand has slowed for a variety of reasons. These include less use of credit cards, tighter home mortgage restrictions, higher consumer savings, the desire of individuals to pay off debt, and of course, higher numbers of unemployed Americans. In turn, less demand has translated into less output from businesses, which require fewer employees.

Replacing this loss of demand is difficult as demonstrated by several stimulus programs that did not achieve anticipated results. Moving forward, some analysts believe the output in new alternative energy sectors that produce "green jobs" will pick up much of the slack. Unfortunately, the technologies required to make this a reality still may be years away. Although not a panacea, in the short term, the U.S. may help boost output by giving green cards or permanent residency status to more foreign investors and brilliant foreigners studying at American universities.

Output in new alternative energy sectors that produce "green jobs" is unlikely to fill the GDP gap. Giving more green cards to foreign students after graduating from American universities can help.

What do foreigners contribute? "In a quarter of the U.S. science and technology companies founded from 1995 to 2005, the chief executive or lead technologist was foreign-born. In 2005, these companies generated $52 billion in revenue and employed 450,000 workers. In some industries, the numbers were much higher; in Silicon Valley, the percentage of immigrant-founded startups had increased to 52 percent," says Vivek Wadhwa, Visiting Scholar at UC-Berkeley.

According to *The Wall Street Journal* columnist L. Gordon Crovitz, former Apple CEO Steve Jobs stressed to President Obama that the United States needed more trained engineers and suggested foreign engineering students be given visas to remain here. A policy that educates the world's brightest and then sends them home to compete against us is a failed policy.

Today's only sustainable competitive advantage is knowledge—the driver of innovation. Unfortunately, the United States has one of the lowest high school graduation rates in the industrialized world. As a result, it's essential to attract the world's sharpest minds, as well as expand investment in research and development, and enhance corporate training and life-long learning programs.

And since companies need to increasingly specialize in their core competencies in order to retain leadership in their ever-more competitive

industries, their employees need to continually enhance their skills. If not, many workers risk becoming unemployable in an environment where a growing number of jobs require a minimum of a college education.

Quoted in *Time Magazine*, Louis Gerstner, former CEO of American Express and IBM, said, "Most jobs that will have good prospects in the future will be complicated... They will involve being able to juggle data, symbols, computer programs in some way or the other, no matter what the task. To do this, workers will need to be educated and often retrained."

Jobs that require left-brained routine quantitative functions increasingly will be automated or moved offshore. Those that require critical thinking and reasoning, as well as abstract analytical, intuitive and creative problem solving skills increasingly will be demanded. The problem: there are too few to satisfy demand in the United States and abroad. Stated in September 2011 by Fareed Zakaria, an Indian-American journalist and author, "There are over three million job openings in America today. Many workers simply lack the skills to qualify."

Others agree. "Almost one-third of U.S. manufacturing companies responding to a recent survey say they are suffering from some level of skill shortage," a recent McKinsey Quarterly report indicates. The Manpower Group, a world leader in innovative workforce solutions, says 52 percent of American respondents cited difficulty in filling jobs in the first quarter of 2011. Many employers attribute the problem primarily to a lack of skills or knowledge.

This isn't only an American problem. Employers in India, China and Germany also report the most dramatic talent shortage surges compared with last year, the Manpower Group says.

If the U.S. had raised its academic performance to the levels of those of Finland and Korea between 1983 and 1998, U.S. GDP would have been between $1.3 trillion and $2.3 trillion higher in 2008.

Plus, one in three employers surveyed in 39 countries report difficulties in filling positions. These shortages will become even worse once the global economy picks up.

The costs of the American skills shortage are steep. According to a McKinsey & Company report, if the United States had raised its academic performance to the levels between 1983 and 1998 to those of Finland and Korea, U.S. GDP would have been between $1.3 trillion and $2.3 trillion higher in 2008.

Simply put, the future success of American businesses very much will depend on their ability to find talented employees who can quickly learn new skills and implement increasingly sophisticated technologies. And it must develop creative strategies to retain them. Due to the corporate trend of focusing on core competencies and outsourcing the rest, the depth and range of skills required of employees only will increase.

Consequently, employers will need to establish more attractive working conditions, invest more in employee training programs, continually refresh and upgrade employee skills, and work with local universities and community colleges to ensure courses offered satisfy market demands.

Even if we overcome current biases against increased spending for public education, those investments may require two decades to fully bear fruit. Until then, we need to supplement our current supply of home-grown talent by making it easier to hire and retain foreign-born skilled workers and professionals. ■

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The Bias Against Imports

Our trade account is not the scoreboard

By Daniel J. Ikenson

Too many U.S. policymakers, from Capitol Hill to the various executive branch agencies in Washington, tend to focus on foreign policies and foreign barriers when considering how best to improve the competitive prospects for U.S. firms. The presumption is that the major impediments to the success of U.S. firms are foreign born. Closed foreign markets, complex laws and regulations, overt flaunting of the trade rules, subtle protectionism, and unfair trade are the primary culprits that subvert the success of U.S. firms, discourage investment and hiring, and encourage offshoring of production.

But that premise is myopic and, frankly, irresponsible. It reinforces arguments for nonsensical policies, such as preserving our own barriers to trade and investment, which are nothing more than costs to U.S. businesses and families. Policies that raise the cost of doing business in the United States—such as our tariff regime and the trade remedies duties that the U.S. government imposes on broad swaths of industrial inputs—encourage manufacturers to at least consider moving operations abroad, where those materials are available at better prices.

Governments are competing for business investment and talent, which both tend to flow to jurisdictions where the rule of law is clear and abided, where there is greater certainty to the business and political climate, where the specter of asset expropriation is negligible, where physical and administrative infrastructure is in good shape, where the local work force is productive, and where there are limited physical, political, and administrative frictions.

This global competition in policy is a positive development. But we are kidding ourselves if we think that the United States is somehow immune from this dynamic and does not have to compete and earn its share with good policies. The decisions made now with respect to our policies on immigration, education, energy, trade, entitlements, taxes, and the role of government in managing the economy will determine the health, competitiveness and relative significance of the U.S. economy in the decades ahead.

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We live in a globalized economy where more and more U.S. jobs depend upon transnational collaboration—through integrated supply chains and cross-border investment. Most Americans enjoy the fruits of international trade and globalization every day: driving to work in vehicles containing at least some foreign content; communicating, shopping, navigating, and recreating on foreign-assembled smart phones; having higher disposable incomes because retailers like Wal-Mart, Best Buy, and Home Depot are able to pass on cost savings made possible by their own access to thousands of foreign producers; earning paychecks on account of their companies' growing sales to customers abroad; and enjoying salaries and benefits provided by employers that happen to be foreign-owned companies. Nearly 6 million Americans work for foreign subsidiaries in the United States.

Still, too many Americans are of the view that exports are good, imports are bad, the trade account is the scoreboard, the trade deficit means the United States is losing at trade, and it is losing because our trade

partners cheat. Many point to the trade deficit as the obvious explanation for the much exaggerated death of U.S. manufacturing.

According to polling data, Americans are generally skeptical about trade and its impact on jobs, manufacturing, and the U.S. economy. And come to think of it: why shouldn't they be? After all, the public is barraged routinely with misleading or simplistic coverage of trade issues by a media that is too often heavy on cliché, innuendo, and regurgitated conventional wisdom, and lacking in analytical substance or balance. And demagogic politicians only fan the flames of misconception and misgiving.

The Obama administration has not been particularly helpful about correcting these misperceptions. In fact, the president is prone to using these scoreboard metaphors to describe trade, exhorting U.S. exporters to "win the future" or to secure foreign market share before other countries' firms get there or to beat the Chinese in developing this technology or that. This encouragement, with its incessant emphasis on exports as the benefits of trade and imports as its incidental costs, only reinforces the misconception that trade is a zero-sum game with distinct winners and losers.

But trade does not lend itself to scoreboard metaphors because both parties to a trade are made better off. There are no losers, else the transaction wouldn't occur.

The centerpiece of the administration's almost indiscernible trade policy is the National Export Initiative, with its goal of doubling U.S. exports over five years (to $3.12 trillion by the end of 2014). That would be fine, except that nowhere in the administration's 68-page plan to double exports is the word "import" mentioned, except with respect to the section that speaks about strengthening the trade remedies laws to better discipline "unfair" imports. Some of the components of the NEI—such as streamlining U.S. export control procedures and concluding and signing trade agreements—are laudable ideas. But the plan is simply not good enough.

As currently executed, the NEI systemically neglects a broad swath of opportunities to facilitate exports by contemplating only the export-oriented activities of exporters. It presumes that U.S. exporters are born as exporters. But they are not. Before those companies are exporters, they are producers. And as producers, they are subject to a host of domestic laws, regulations, taxes, and other policies that handicap them in their competition for sales in the U.S. market and abroad.

According to a World Economic Forum survey of 13,000 business executives worldwide, there are 52 countries with less burdensome government regulations than those of the United States. Those regulations impose additional costs on U.S. businesses that sell domestically and abroad. As put by Andrew Liveris, chairman and CEO of the Dow Chemical Company, "How we operate within our own borders, what we require of business here, often puts us at a competitive disadvantage internationally." By neglecting these domestic impediments, the administration pretends that the obstacles to U.S. competitiveness and export success are all foreign-born.

The policy reform focus must be broadened to include consideration of the full range of home grown poli-

According to a World Economic Forum survey of 13,000 business executives worldwide, there are 52 countries with less burdensome government regulations than those of the United States.

cies—such as taxes, regulations, tariff policy, and contingent protectionism—that affect U.S. producers and put them at a disadvantage vis-á-vis foreign competitors. As producers first, most U.S. exporters are consumers of capital equipment, raw materials, and other industrial inputs and components. Many of the inputs consumed by U.S. producers in their operations are imported or the costs of the inputs are affected by the availability and prices of imports. Indeed, "intermediate goods" and "capital equipment"—items purchased by producers, not consumers—accounted for more than 55 percent of the value of all U.S. imports last year—and 57 percent through the first half of 2011.

This fact alone indicates that imports are crucial determinants of the profitability of U.S. producers and their capacity to compete at home and abroad. Yet the NEI commits not a single word to the task of eliminating or reducing the burdens of government policies that inflate import prices and production costs.

The president exhorts U.S. exporters to "win" a global race, yet he ignores the fact that the government's hodgepodge of rules and regulations has tied their shoes together.

If the administration were serious about helping U.S. companies become more competitive and making the NEI a long-lasting institution committed to U.S. international competitiveness, it would compile an exhaustive list of laws, regulations, policies, and practices that are undermining the stated objectives of increased competitiveness, economic growth, investment, and job creation through expanded trade opportunities.

Near the top of that list would be America's self-flagellating treatment of imported intermediate goods and other industrial inputs required by U.S. producers to make their final products. Last year, U.S. Customs and Border Patrol collected $32 billion in duties on $2 trillion of imports, over $1 trillion of which were ingredients for U.S. production—such as chemicals, minerals and machine parts. Normal tariffs and special trade remedies duties (i.e., antidumping and countervailing duties) added roughly $15-20 billion to the overall price tag, which would have been even higher had companies not been compelled to shutter domestic operations and, in some cases, relocate abroad on account of the higher input costs.

Many of the inputs consumed by U.S. producers in their operations are imported. They are crucial determinants of the profitability of U.S. producers and their capacity to compete at home and abroad.

What is so frustrating is that President Obama understands this dynamic. Last year, when signing into law the Manufacturing Enhancement Act of 2010, a bill to temporarily reduce or eliminate duties on certain imported raw materials, the president said the following:

"The Manufacturing Enhancement Act of 2010 will create jobs, help American companies compete, and strengthen manufacturing as a key driver of our economic recovery. And here's how it works. To make their products, manufacturers—some of whom are represented here today—often have to import certain materials from other countries and pay tariffs on those materials. This legislation will reduce or eliminate some of those tariffs, which will significantly lower costs for American companies across the manufacturing landscape—from cars to chemicals; medical devices to sporting goods. And that will boost output, support good jobs here at home, and lower prices for American consumers." ■

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The Latest Lurking International Trade Liability

Understanding the impact

By David Forgue

Customs is about to get new responsibilities in the anti-dumping and countervailing duty ("AD/CVD") areas that will require the agency to undertake evasion investigations. This could lead to substantial additional liabilities for importers. However, companies that recognize the threat to their bottom line, and act to remove it, will be at a competitive advantage when Customs gains this responsibility.

AD/CVD duties are collected by United States Customs and Border Protection on certain imports. These imports have generally been found to be harming a U.S. industry, and represent either unfairly low prices in the United States (antidumping duties) or unfair subsidies by foreign governments (countervailing duties).

Antidumping duties are calculated based on a comparison of sale prices in the United States and sales prices in the "home market," which is usually the country of export. Countervailing duties are calculated to offset the benefit derived by the exporter or producer from an unfair government subsidy. These duties can be very substantial, with rates of 200 percent or 300 percent of the value of the imported merchandise not uncommon.

Due to the very high duties in many cases, some manufacturers or importers resort to deceptive means to avoid paying the duties. In these situations the manufacturers or importers obscure the true identity of the producer, the country of origin of the merchandise, and/or the nature of the goods. In some cases this means the goods are shipped through a third country, with that country declared as the origin of the goods. In other cases the goods are classified as articles other than what they are, often as parts of goods. These actions are against U.S. law and cost the United States millions of dollars.

These actions also perpetuate injury to the U.S. industry that is harmed by the imports and put honest foreign manufacturers, as well as honest importers, at a competitive disadvantage. On the other hand, there also are circumstances where products are legitimately exported from a country subject to an AD/CVD order and are transformed into a product of a third country that is not subject to the order, or the product is otherwise exempt from the order. Knowing how to distinguish these two types of situations is the key to a strong defense of evasion allegations made against importers.

Customs has long had the authority to investigate allegations that goods had their origins falsified or were improperly described. In fact, if undertaken by the importer these means of evasion are already violations of 19 U.S.C. 1592.

However, for a variety of reasons, Customs has not pursued allegations of evasion as aggressively as domestic parties would like. Therefore, Congress is considering legislation that would focus on evasion without regard to whether the importer acted to evade the law. Where Customs finds evasion of these orders, even innocent importers can face antidumping or countervailing duty bills that are 200 percent or 300 percent the value of the imported goods. This is not the penalty; it merely represents the lawful duties owed.

Congress is considering legislation that would focus on evasion without regard to whether the importer acted to evade the law... innocent importers can face duty bills, plus a penalty.

In recent years a variety of industries have alleged that there has been AD/CVD evasion. These industries include such diverse products as steel wire hangers, wooden bedroom furniture, uncovered inner springs, steel nails, steel plate, diamond saw blades, tissue paper, honey, laminated woven sacks, crawfish, and ferrovanadium. In some of these cases there have been criminal prosecutions; in others there has been no apparent action by Customs.

As a result, Congress has drafted legislation that will mandate that Customs formally investigate allegations of evasion and sets strict time limits for those investigations. The law also will require periodic reports to Congress regarding the evasion investigations undertaken by Customs. There is broad support for this legislation and we fully expect it to become law. ■

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China in 2012

Predictions and expectations

By David Hofmann

China's current administration is in a relatively stable position having engineered an apparently successful soft landing of the economy following the global economic crisis. Its main political objectives have been maintained, while increasingly focusing on the economic transformation to ensure sustainable long-term development.

The 12th 5-year plan (2011-2015) will play an important role in solidifying these gains. As the country gears up for a leadership transition in late 2012, an even greater emphasis will be placed on stability, which will deter directional changes in policy. A main political objective of the current leadership has been redressing the social and environmental damage caused by 20 years of rapid growth. The creation of a "harmonious socialist society" is central to the overall plan that strives to maintain a growth rate above 7 percent in the coming years.

The Chinese leadership also is focusing on improving governance, reducing corruption, widening social security coverage, improving health and education systems, enforcing environmental regulations and supervision, and lowering the income gap. To achieve this, it must overcome increasing resistance from a coalition of interest groups that benefit from the current status quo. These include regional governments and politicians, and in particular, the wealthy and powerful state-owned monopolies and their related ministries.

The 2008-2009 stimulus plan further strengthened these groups, which favor a stronger position for state-owned companies, market protectionism, market access controls, and government interference in procurement. This coalition of interest groups will create obstacles for foreign and Chinese public and private companies. In the longer term, this could lead to social and economic instability as the growing middle class feels increasingly disenchanted.

A main priority of the government is to achieve a more sustainable and consumption-driven model. A number of new policies to be drafted encourage growth of China's service industries, which are anticipated to contribute more to the overall economy. The government also will continue to implement measures to further combat inefficiency and overcapacity problems in a number of industries. Plus, it plans to develop new emerging industries in biotech, energy conservation, alternative energy and new materials, as well as encourage domestic innovation. Foreign companies will have the opportunity to enter or gain limited access to several industry sectors which were previously restricted to foreign investment.

This coalition of interest groups will create obstacles for foreign and Chinese companies. This could lead to social and economic instability.

On the international scene, China is paying more attention to its image, in order to appear less as a contender for global dominance with the U.S. and more as a developing country focused on its own development. It also is attempting to position itself as a responsible (and indispensable) player in the global political arena, especially in relation to the continuing reverberations following the international financial crisis.

Trade relations with the United States and the European Union remain complex and are becoming part of a wider range of issues. These not only include market access, a level playing field for western companies in China, quality control of Chinese exports and the Chinese trade surplus, but also China's cooperation in addressing the aftermath of the global financial crisis and its support in solving international problems such as the North Korean issue.

Political developments in the U.S. and Europe are increasing the risk of greater protectionism. Although the Chinese currency issue has been somewhat mitigated as the Yuan resumed appreciation in 2011, lingering tensions could resurface by U.S. lawmakers challenging the administration's approach on a whole range of U.S.-China issues leading up to the 2012 national elections. ■

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