August 11, 2017

The Honorable Wilbur Ross
Secretary of Commerce
1401 Constitution Ave., N.W.
Washington, D.C. 20230

The Honorable Robert E. Lighthizer
United States Trade Representative
600 17th St., NW
Washington, D.C. 20508

The Honorable Steven Mnuchin
Secretary of the Treasury
1500 Pennsylvania Ave., NW
Washington, D.C. 20220

The Honorable Gary Cohn
Director of the National Economic Council
1600 Pennsylvania Ave., NW
Washington, D.C. 20500

Dear Secretary Ross, Secretary Mnuchin, Ambassador Lighthizer, and Director Cohn:

The Bankers Association for Finance and Trade (BAFT) is an international financial services trade association whose membership includes a broad range of financial institutions throughout the global community. Our members represent the transaction banking segment of financial institutions globally, including the trade finance and cash management business lines which provide financing for the export and import of goods and services. As a worldwide forum for analysis, discussion, and advocacy in international financial services, BAFT member banks provide leadership to build consensus in preserving the safe and efficient conduct of the financial system worldwide.

BAFT supports a strong rules-based trading system and strategies for increasing the number and value of exports as a means for enhancing global competitiveness. We support a U.S. trade policy that promotes free and fair trade, and increases economic growth and job creation. The Administration's efforts to strengthen the manufacturing base, and expand agricultural industry exports are well received. As the Administration constructs its trade policy and begins the NAFTA modernization effort, we urge that the following be considered:

1. Emphasize increasing exports without harm to competitive access to imports, forcing disruption of supply chains and potentially triggering retaliatory measures that could harm U.S. companies and the purchasing power of the American households.
2. Ensure that the service sector, which represents a competitive advantage (and generates a trade surplus) for the U.S., can continue to thrive.
3. Improve access to trade finance for companies that rely on it to grow.

Care should be taken to prevent unintended consequences, such as retaliatory protectionist measures by trade partners. According to the OECD, each dollar of increased protection leads to a drop of 66 cents in gross domestic product. Hence, while trying to protect U.S. industries, measures could have the opposite effect of reducing growth. A forward-looking trade policy that bolsters U.S. competitiveness will pave the way for globally competitive U.S. industries to succeed, and will ensure that business of all sizes can effectively engage in global commerce.

Small businesses, which account for a significant percentage of employment growth through trade, bear a heavier burden when retaliatory protectionist measures are effected, as they often lack the knowledge and resources to navigate through additional restrictions. Tariffs and non-tariff barriers result in increased cost and/or a reduction in international trade activity, which adversely affects growth.

The Value of Trade for Economic Growth and Employment

Trade is critical to the success of many sectors of the U.S. economy and one in five U.S. jobs is linked to the trade of goods and services. It should be noted that trade jobs support both imports and exports. In fact, according to the National Retail Federation, imports support more than 16 million U.S. jobs. Also, trade in intermediate goods and services account for almost two thirds of total global trade. Hence, while targeting a reduction in the U.S. trade deficit, emphasis should be placed on growing exports and increasing access for U.S. companies, rather than restricting or raising the cost of imports, which could have an unintended net adverse effect on U.S. jobs.

Companies of all sizes utilize increasingly complex supply chains to get their products to market. According to the U.S. Chamber of Commerce, imports directly help American consumers by increasing the purchasing power of the average American household by $13,000. Those consumers then buy goods and services from U.S. businesses. In addition, by ensuring that U.S. companies have access to competitively priced raw materials and inputs, regardless of being sourced domestically or internationally, we ensure they can also be competitive when exporting their finished goods. Increases to the cost of internationally sourced raw materials and inputs would not automatically result in global supply chains becoming more domestic and an increase in U.S. jobs, but it could result in decreased cost competitiveness and a reduction of U.S. exports.

More can be done to educate U.S. small businesses about the opportunities available to grow through exports. According to 2015 U.S. Census Bureau data, there were roughly 5.5 million employer firms. While approximately 300,000 U.S. companies exported goods and services, reflecting an increase from 2014, that was still less than 5.5% of the total number of companies. With 95% of the world's consumers living outside of the U.S., there is a tremendous opportunity for economic growth through increasing the number and volume of U.S. exporting companies.

Enabling the Service Industry to Succeed and Boosting the Delivery of Trade Finance

The U.S. services industries are the most competitive and innovative in the world. They provide new economic opportunities and support the successful production of agriculture and manufacturing in the United States and abroad. The volume of trade that is financed, both imports and exports, has a direct impact on the health of the financial services sector and the 6.4 million people it employs. Financial services account for almost 16 percent of both total U.S. cross-border services exports and imports and was the third-largest category of U.S. services trade in 2015. According to the U.S. Bureau of Economic Analysis, in 2015, U.S. financial services exports reached $119.6 billion, resulting in a trade surplus of $46.7 billion. Policies aimed at supporting further job creation in the service sector, where we currently boast a trade surplus, can complement efforts to boost manufacturing, energy and infrastructure growth, and aid in the creation of additional job growth.

Financial institutions have played an important role in cross-border trade for years, providing payment execution, risk mitigation, financing and working capital services to internationally active companies of all sizes. Given rapid changes in the delivery of financial services worldwide, new trade agreements must ensure that financial services, like other industries, are not harmed by policies that constrain the free flow of data and require institutions to maintain separate data infrastructure in particular jurisdictions. New agreements should also seek to expand access and not allow for discrimination against foreign financial institutions.

Similar to the clients they support, financial institutions have international supply chains and networks that allow knowledge and capital to be shared across borders to improve efficiency for all parties. In fact, "network trade", where a financial institution can assist both the importer and exporter, reduces risk, improves efficiency and makes financing more widely available to companies that need it to complete trade transactions. Hence, greater market access for financial institutions likely results in greater access to financing, less risk, and lower costs for companies looking to finance trade.

Trade finance supports over $15 trillion in global commerce annually. According to the World Trade Organization, up to 80 percent of global trade is supported by some sort of financing or credit insurance. Data from the International Chamber of Commerce's (ICC) Trade Register shows the low risk nature of trade finance when judged against comparable asset classes. It is important to highlight that despite the fall in commodity prices and slowdown in global trade, trade finance remains low risk. Regulatory policy must also reflect the low-risk nature of trade finance, and financial institutions should not be unfairly constrained by regulatory policies that inhibit their ability to support companies seeking to leverage trade as a means to growth.

Small businesses typically rely on trade finance to a greater extent than larger corporates to get their product or service to market. Given that 98 percent of America's exporters are small businesses, the importance of having access to trade finance cannot be underestimated. Nevertheless, the level of unmet demand for trade financing is significant and continues to grow. Small businesses, in particular, have experienced a reduction in access to bank lending as a result of capital rules, monetary policy, funding rules, tax policy, anti-money laundering and know your customer requirements that have inflated the cost of providing financing to this segment. This has created an estimated gap of $1.6 trillion in trade finance.

Regulatory changes, changes in monetary or tax policy could reduce the funding gap. These regulatory efforts could be further complemented with existing and enhanced U.S. Government programs including reinstating a fully-functioning Export-Import Bank, enhancing the U.S. Small Business Administration trade finance guarantee programs to accommodate the complexities of doing business globally, and effectively deploying U.S. Export Assistance Centers to provide information to prospective exporters about available resources. Business' ability to secure trade financing is critical for achieving economic growth through trade.

Conclusion and Industry Recommendations

Tighter trade and financial integration has contributed to a dramatic increase in living standards, but adjustment costs and financial risks need to be carefully managed. Though some specific industries have seen reductions in labor force, trade, like technological innovation, has been an integral part of overall economic growth in the U.S. over the last several decades.

Automation will continue to replace some manufacturing jobs and labor cost arbitrage will continue to exist. No trade policy can completely stop all job losses. However, the U.S. can implement policies that boost resilience, including policies that enhance adaptability to shifting labor requirements. Therefore, trade policy must align with U.S. competitive advantages to ensure growth in areas where the U.S. can maintain a sustainable advantage, and a net growth in jobs and wages across sectors.

The government should support programs to educate and prepare U.S. workers for employment in emerging growth industries. Here, industry can play a complementary role by offering training and apprenticeship programs, and by demonstrating to workers the link between trade and jobs. While individual U.S. businesses' ability to compete and succeed globally can be aided through well negotiated and implemented trade agreements, the collective competitiveness of U.S. businesses will be best served by optimizing sustainable advantages, and training workers and companies to capitalize on the opportunities afforded through global trade.

Many U.S companies offer products or services that are globally competitive but they lack the knowledge, financing or resources to enter international markets. For example, indirect exporters and

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e-commerce business are prime targets for additional growth via trade. Additional coordination by the Trade Promotion Coordinating Committee and resources aimed at new-to-export companies can help more U.S. businesses sell globally, and also expand the number of markets to which they sell.

As the U.S. strives to facilitate new and improved access to markets outside of U.S. borders, financial institutions will continue to be trusted partners enabling the exchange of goods and services, and the growth of U.S. companies.

Trade Policy Priorities

- Expand market access and do not allow for discrimination against foreign financial institutions in new and modernized trade agreements.
- Seek commitments that ensure that financial services, like other industries, are not harmed by policies that constrain the free flow of data and require locating servers in particular jurisdictions.
- Ensure that before any measures to protect U.S. industries are taken, a thorough assessment is made of their impact to prevent any unintended consequence such higher prices for U.S. consumers or businesses, or retaliatory measures that harm U.S. exporters.
- Avoid policies that disrupt cross-border supply chains, which help support U.S. companies of all sizes and their consumers. Raising existing barriers to trade would only undermine U.S. competitiveness.

Improving Access to Trade Finance

- Ensure regulations do not unfairly constrain the ability of financial institutions to provide trade finance to support the growth of U.S. companies. Regulations pertaining to the financial services industry should recognize the vital role that trade financing plays in supporting global exchange and account for the low risk nature of such products.
- Return Ex-Im Bank to fully operational status so that it can continue to support U.S. exporters.
- Enhance SBA's international trade guarantee programs so that it better aligns with market demands, and functions independently of domestic guarantee programs.
- Coordinate effectively across trade agencies to ensure that information about trade finance is available on all trade promotion material, and ensure that businesses have access to trade finance information ahead of participation at trade shows and trade missions.

Increasing the Number and Scale of U.S. Exports

- Expand market education for new-to-export companies, and help new exporters increase the number of markets to which they export.
- Establish public-private partnerships to re-train displaced workers for opportunities with companies in growth industries.
- Target companies within industries that are underutilizing market opportunities negotiated in trade agreements with countries where trade deficits exist.

We look forward to further dialogue on these important issues going forward, and would be glad to discuss our thoughts and recommendations. If you have any questions, please contact Diana Rodriguez, Senior Director, International Policy at drodriguez@baft.org or 202-663-5514.

Very truly yours,

Tod R. Burwell

Tod R. Burwell
President and Chief Executive Officer