The Economist Intelligence Unit

A report by The Economist Intelligence Unit

TERMS OF TRADE

Understanding trade dynamics in the US

Commissioned by: AMERICAN EXPRESS

CONTENTS

ABOUT THIS RESEARCH

Terms of Trade: Understanding trade dynamics in the US is an Economist Intelligence Unit (EIU) report, commissioned by American Express, which examines key aspects of trading with the world's largest economy from the perspective of foreign companies. The findings are based on an executive survey of 531 companies that trade with the US, conducted by The EIU in March and April 2016, as well as desk research and interviews with experts.

The survey sample is global, spanning Asia-Pacific (49%), Europe (22%), North America (19%) and South America (9%). Nearly half of those surveyed are C-level executives, and another 40% hold senior executive positions (SVP, VP, director, head of business unit, head of department). The firms in the survey are split almost evenly between those with an annual revenue of US$250m-500m and those with US$500m-1bn in annual revenue. Of the 23 sectors covered, the best-represented are financial services, manufacturing, consumer goods and services, IT and retail.

The EIU would like to thank the following experts who participated in the interview programme (listed alphabetically):

- Geoffrey de Mowbray, CEO and chairman, Dints International, UK
- Sean Doherty, head of international trade and investment, World Economic Forum, Switzerland
- Deborah Elms, executive director, Asian Trade Centre, Singapore
- Dario Murkovic, CFO, Geotab, Canada
- Andrew Siciliano, practice leader, trade and customs, KPMG, US
- Stanley Szeto, CEO, Lever Style, Hong Kong
- Duncan Wood, director, Mexico Institute at the Wilson Centre, US

The EIU bears sole responsibility for the content of this report. The findings and views expressed in the report do not necessarily reflect the views of American Express. Iain Douglas authored the report. Melanie Noronha was the editor.

EXECUTIVE SUMMARY

The US is the world's largest economy, and few companies can ignore the opportunities it presents for both sales and sourcing. A range of free-trade agreements (FTAs) has facilitated trade with the US, a trend that is expected to continue as the Trans-Pacific Partnership (TPP) is ratified and if other deals, such as the Transatlantic Trade and Investment Partnership (TTIP), come to fruition. However, international trade brings with it a raft of additional complexities, and even the US's closest trading partners—Canada and Mexico—face some challenges, as do the countries trading further afield, which operate without the advantages of an FTA. In an increasingly interconnected world, where trade is a core component of economic activity, creating a more seamless global supply chain will be beneficial. This report takes a closer look at the experiences of companies that trade with the US, focusing on trade-related infrastructure, customs regulation and payments and building on the findings of a survey and expert interviews.

Key findings

Companies are optimistic about future trade activity with the US. The US accounts for 13% of global imports and 9% of global exports and will continue to remain a key market for companies in North America, Europe and Asia. Two-thirds of respondents in our survey anticipate that their company's trade with the US will increase over the next five years, with over 43% expecting an increase of 10% or more.

Companies face a number of issues in trading with the US, but none of these are perceived to be insurmountable. Exchange-rate volatility presents the largest issue for companies, with over four out of ten respondents (41%) citing this as a concern. Close to one-third of respondents cite transport costs and delays, trade-related infrastructure and making payments as their top challenges. Other challenges cited by close to 30% of respondents are access to trade finance, unfair competition, communication challenges and cultural hurdles. However, many of these are challenges that companies experience in other markets as well, and the overarching consensus is that these challenges are not viewed as deal-breakers when it comes to trading with the US, given the sheer size of the market opportunities there.

The overall quality of trade-related infrastructure in the US is rated highly, with 69% of respondents stating that the current overall quality of trade-related infrastructure in the US is either "very good" or "excellent". Deeper investigation, however, points to shortcomings with ports and land borders, revealing that infrastructure development has not kept pace with the increase in trade activity and requires significant investment for expansion and automation. Along the border with Mexico, for example, there are severe infrastructure bottlenecks. This has been partially alleviated through the expansion of the Tijuana-San Diego crossing, but additional investment is needed.

Delays at ports and land-border crossings arise primarily as a result of regulatory requirements. According to our research, customs procedures and rules, in particular the Merchant Marine Act of 1920, are complex and add to the costs facing foreign companies. Stringent safety standards, such as seat-belt standards for trucks, have resulted in some experiencing delays at the Mexican border. The top sources of regulatory challenges include customs duties and valuation (26% of respondents), licensing requirements (23%) and product-quality standards (20%). Initiatives such as the Automated Commercial Environment (ACE) system and Base Erosion and Profit Shifting (BEPS) will go some way towards easing the burden.

The post-9/11 security paradigm shift has increased the administrative requirements faced by foreign companies. Under the Customs-Trade Partnership Against Terrorism (C-TPAT) programme the focus at customs has shifted from expediting the clearance of good-quality and safe items to preventing high-risk products from entering through the use of new screening and tracking technology. Firms exporting from the US are also restricted in shipping options unless they are certified.

Trade-related regulatory challenges impose significant additional costs on foreign companies. Over 40% of survey respondents indicate that trade-related regulatory challenges increase the cost of doing business by 10-30%, with an additional 15% reporting an increase of more than 30%. In a competitive market like the US, companies are highly sensitive to these challenges, particularly issues with customs regulation.

Payment-related challenges arise from a range of issues, particularly process inefficiencies (52%) and limited payment visibility (52%). Limited international exposure of many US firms means that critical information, such as the international bank account code, is not readily available, making money transfers and securing credit insurance particularly challenging for foreign companies. For firms in Asia-Pacific, incompatibility of payment systems means that more expensive alternatives, such as bank transfers and wire transfers that incur hefty fees, have to be used. Our survey reveals that challenges with payments impact these companies mainly through increased foreign-exchange-rate exposure (24%), increased costs (23%) and limited flexibility to respond to emergency payments (22%).

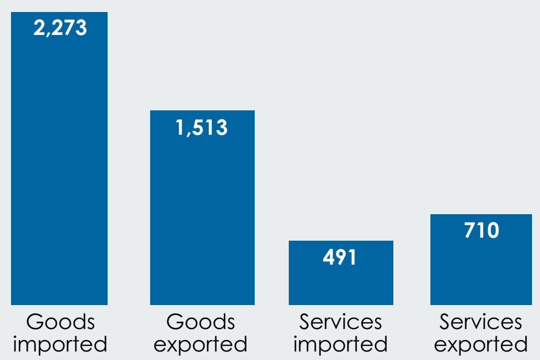
Foreign companies look to key developments in policy and politics to understand the outlook for trading with the US, closely tracking the rhetoric on the campaign trail for the 2016 US presidential election. The negotiation of new trade deals, the Trans-Pacific Partnership (TPP) in particular, will bring new opportunities. Survey findings strongly corroborate this sentiment: 49% of respondents expect the TPP to improve opportunities for trade with the US market moderately, while an additional 29% believe it will improve opportunities substantially.

CHAPTER 1: THE UNITED STATES: AN ESSENTIAL MARKET

The US is the world's largest economy as well as its largest trader. In 2015, according to the US Bureau of Economic Analysis, it purchased US$2.3trn worth of physical goods—equivalent to 13% of global imports and to the combined imports of China and Japan. It is also a vital supplier and accounts for 9% of global exports, although here it was pushed into second place by China in 2004. With respect to services it remains the world's largest market, with services imports worth US$500bn in 2015 and exports worth US$700bn. Among its largest trade partners are China and Japan in Asia, its neighbours Canada and Mexico, and Germany, UK and France across the Atlantic.

Figure 1

Value of US trade, 2015
(US$ bn)

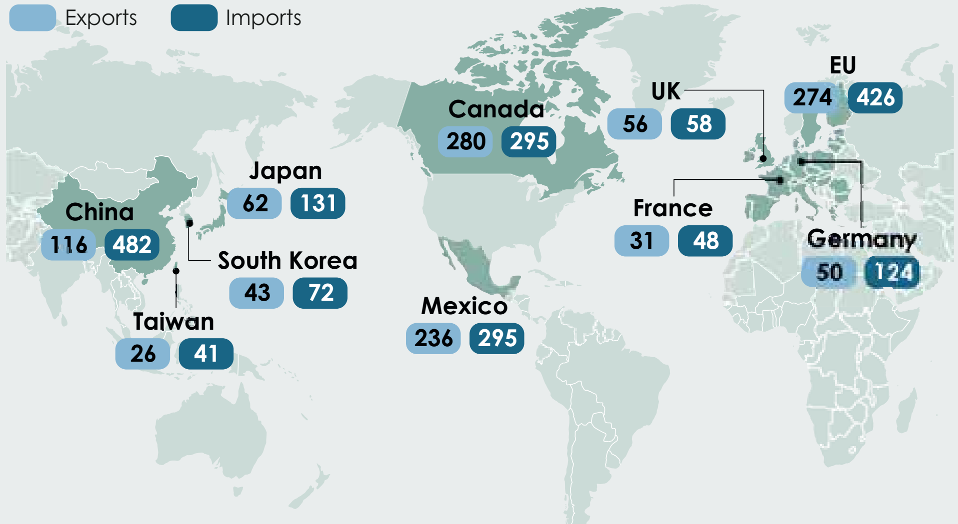


Source: US Bureau of Economic Analysis.

Trading in such volumes with a diverse set of countries creates a complex trading environment. A survey conducted by The

Figure 2

US's largest trade partners, 2015
(US$ bn)



Source: IMF Direction of Trade Statistics.

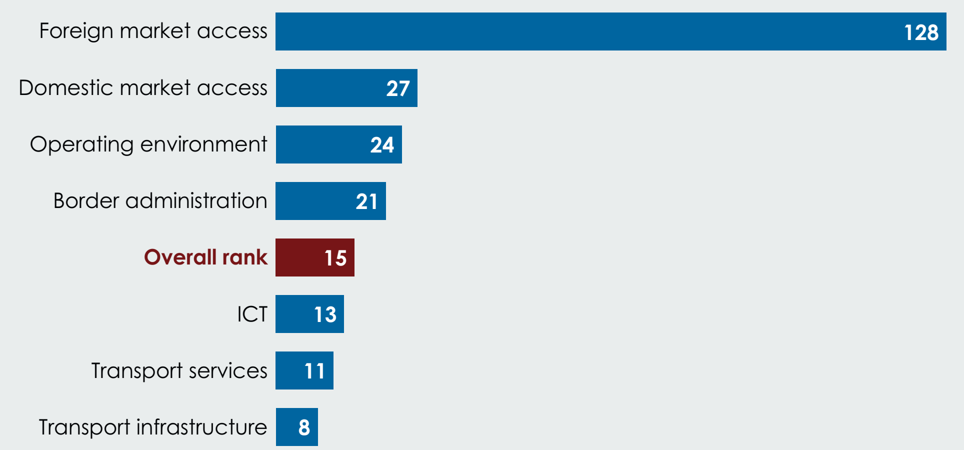
“The major challenges for trading with the US are common to other major markets and, as a general rule of thumb, the US does better than most others.”

- Sean Doherty, head of international trade and investment, World Economic Forum

Economist Intelligence Unit (EIU) of over 500 companies that trade with the US reveals that they face a varied and comprehensive set of regulatory and financial challenges, although none of these is seen as dominant. While exchange-rate volatility is cited as a challenge by 41% of survey respondents, close to one-third of respondents cite transport costs and delays, trade-related infrastructure and making payments as the top challenges they face.

Figure 3

Enabling Trade index 2014: US rankings by pillar
(out of 138)



Source: World Economic Forum.

Many of these challenges are common to other markets these companies trade with, and the overall impression is that none of these is a deal-breaker. Sean Doherty, head of international trade and investment at the World Economic Forum (WEF) and co-editor of its *Global Enabling Trade Report*, concurs: “The major challenges for trading with the US are common to other major markets and, as a general rule of thumb, the US does better than most others.” This is confirmed by the US’s overall ranking in the WEF’s 2014 Enabling Trade Index,[1] where it is placed 15th globally out of 138 countries, similar to the rankings of Canada and the UAE.[2]

The sheer size of the US market means that companies across regions continue to find it appealing, despite the challenges they face. As Stanley Szeto, the CEO of Lever Style, an apparel manufacturer headquartered in Hong Kong, explains: “The US is the single largest consumer market in the world, so whatever the inconveniences, you just have to deal with them, and whatever the requirements, you have to figure out how to comply with them.” In fact, the companies surveyed are largely optimistic about trade with the US over the next five years. Close to two-thirds of survey respondents expect their company’s trade with the US to grow, with 27% expecting growth between 10-30% and 16% expecting growth of over 30%.

[1] The World Economic Forum’s Enabling Trade Index ranks 138 countries across seven pillars related to trade, spanning market access, border administration, infrastructure and the operating environment.

[2] https://www.weforum.org/reports/global-enabling-trade-report-2014/

Figure 4

Trade challenges faced by foreign firms

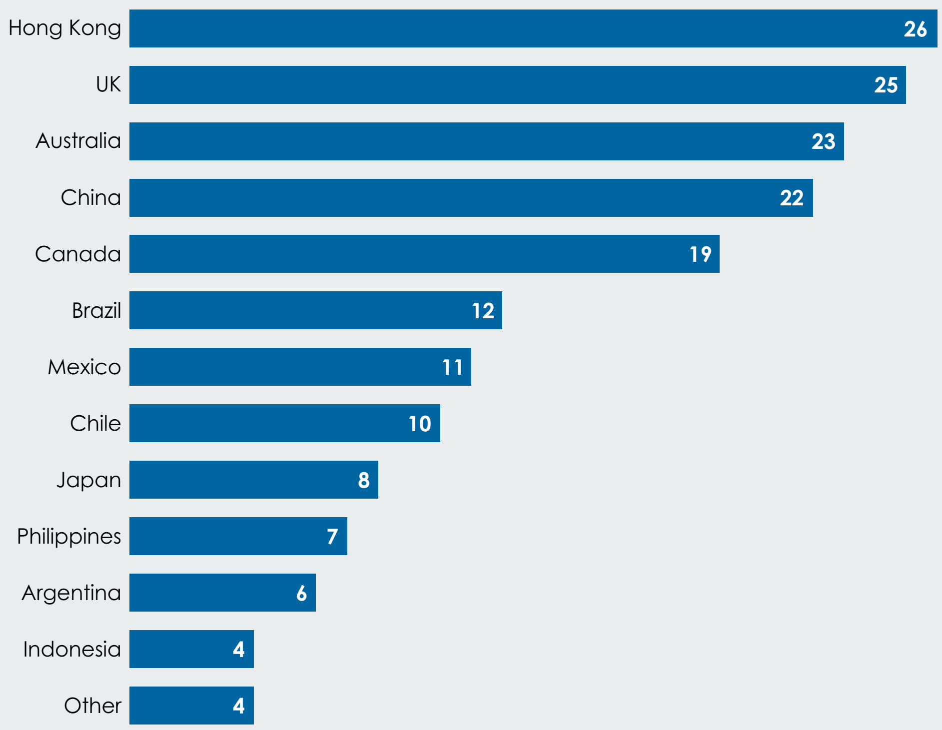
(% of respondents)

Source: EIU survey.

However, this implies that competition will remain stiff, and even minor cost variations may prevent exporters from accessing the US market altogether. Given this sensitivity, it is important to take a closer look at key aspects of the trade process—including infrastructure, customs and payments—to understand where there are barriers and costs, some of which can be addressed so that companies trading with the US can remain competitive.

Figure 5

Other markets respondents' companies trade with
(%)



Source: EIU survey.

CHAPTER 2: EXPLORING THE KEY CHALLENGES

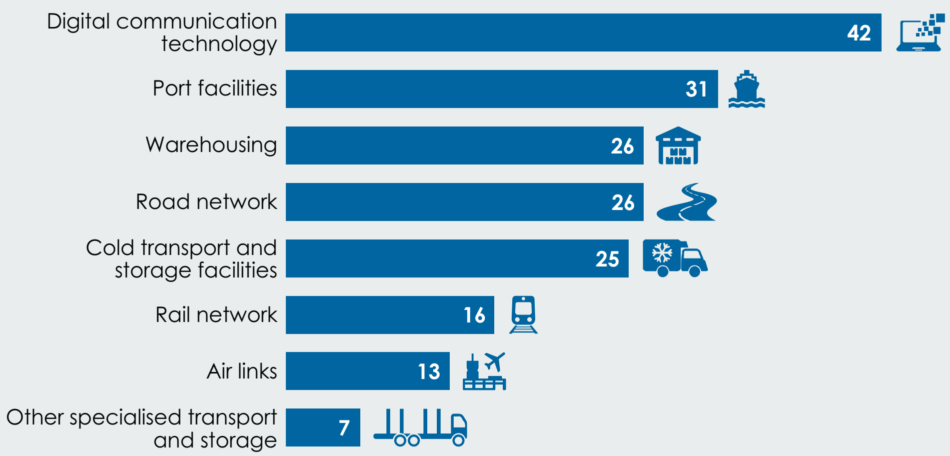
Trade-related infrastructure

Our survey finds that the overall quality of trade-related infrastructure in the US is highly rated. Over two-thirds of respondents to the EIU survey rate the US infrastructure as "very good" or "excellent", and only 2% consider it to be "poor". Despite this, close to one-third of the executives surveyed cite trade-related infrastructure among the top challenges they are facing.

A deeper investigation reveals shortcomings in places where the infrastructure does not always function as it should. Among the leading physical channels utilised by survey respondents are port facilities and the road network, and our analysis takes a closer look at these.

Figure 6

What trade-related infrastructure within the US do you rely on the most?
(% of respondents)



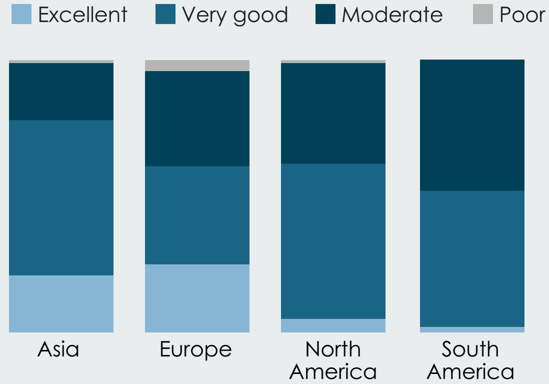
Source: EIU survey.

Port pain points

According to the WEF's Mr Doherty, there is "a chronic problem with blockages in the West Coast ports, which cause delays and additional costs that can be a barrier to entry". Challenges with ports arise primarily from two sources—physical infrastructure and labour. The physical infrastructure of ports, such as docks and cranes, has struggled to keep up with the growth in trade volume and the increased usage of larger container ships. These require significant investment to expand and automate to keep up with

Figure 7

Quality of US trade-related infrastructure
(% of firms by region)



Source: EIU survey.

increasing trade activity. Labour issues are partly a result of periodic industrial action by port workers, including a year-long contract dispute that included a period of "work slow-down" from October 2014 to February 2015 across 29 West Coast ports.

Border logjam

Land-border issues are related mainly to infrastructure bottlenecks at the Mexican border. Border posts are struggling to keep up with the extremely rapid rate of trade growth. Duncan Wood, the director of the Mexico Institute at the Wilson Centre in Washington, DC, explains that "while there has been a piecemeal modernisation of the US-Mexico border, the funds have not been made available by both countries".

There have been some recent improvements, such as a substantial expansion at the Tijuana-San Diego border crossing, one of the world's busiest, and the opening in 2015 of the first new rail link between the two countries in over a century, at Brownsville-Matamoros on the Gulf Coast. At the opening of the link the US secretary of commerce, Penny Pritzker, admitted that the bilateral infrastructure had not improved much since the launch of the North American Free-Trade Agreement (NAFTA) in 1994, but said that this was now a priority.[3]

Part of the problem is the infrastructure within Mexico, where progress on highways is often slower than in the US and the existing routes do not always meet the demands of trade flows. This is important for transshipment through Mexico as well as for direct exports. Mr Wood explains that Walmart in Texas, for example, imports all of its Chinese goods through Mexico's southern port of Lázaro Cárdenas and trucks them to the Laredo-Nuevo Laredo crossing, which handles over one-third of Mexican-US trade. It would be more efficient if there was a highway link from a more northerly Mexican port to another Texas crossing, but at present this infrastructure does not exist.

Issues with the implementation of free-trade agreements have led to additional delays. Although NAFTA should have permitted the free movement of trucks across borders, access for Mexican trucks was at one stage barred on the pretext that the vehicles and their drivers did not meet the safety requirements for US highways. This meant that goods had to be unloaded at the border and reloaded onto a US truck, adding materially to time and costs. Mexico successfully challenged this through NAFTA's dispute-resolution

[3] *The Guardian* (Aug 15), "US and Mexico open first new rail link in more than a century".

mechanism and was able to apply US$2bn in punitive tariffs. As a result, the trucking ban was ended, initially through a pilot programme in 2011 and then finally in 2015.

The highways and crossings infrastructure along the Canadian border is better, according to Dario Murkovic, the CFO of Geotab, a Canadian firm which provides fleet-management solutions and makes about 80% of its sales in the US. Nonetheless, the international border does add time and costs, and so Geotab keeps goods in US warehouses to be able to ensure next-day delivery to clients. "We can ship overnight from Canada, but it's far more expensive and cumbersome," Mr Murkovic explains.

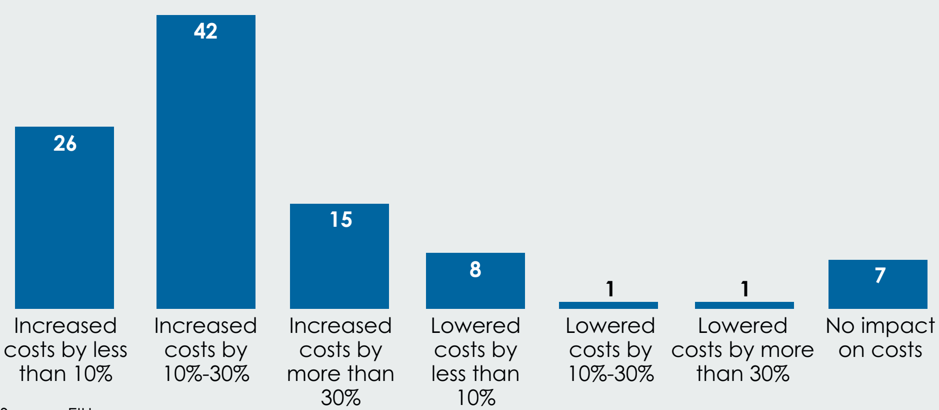
Customs regulation

Given the immense trade volumes, the complexity of regulation in the US and the multitude of entry points by land, air and sea, it is not surprising that the customs process poses problems for foreign companies trading with the US.

The knock-on effect of the challenges posed by trade-related regulation, our survey reveals, is the increase in the cost of doing business with the US. A vast majority of respondents (83%) report that trade-related regulation results in an increase in costs, with 42% of respondents reporting a cost increase of 10-30%. This problem is the most acute for Asia-Pacific businesses, with 51% of respondents saying that trade-related regulation pushes up their costs by 10-30%, compared with 37% and 36% of respondents in Europe and North America, respectively. In a competitive market like the US, this creates a broader challenge, as "even very small additional costs can prevent exporters from accessing the US market", according to Mr Doherty. Such regulatory challenges lead to a perception among firms in Asia and Europe that they are not competing on a level playing field, with 34% of European and 35% of Asia-Pacific firms citing "unfair competition" as a top challenge, compared with just 18% of North American

Figure 8

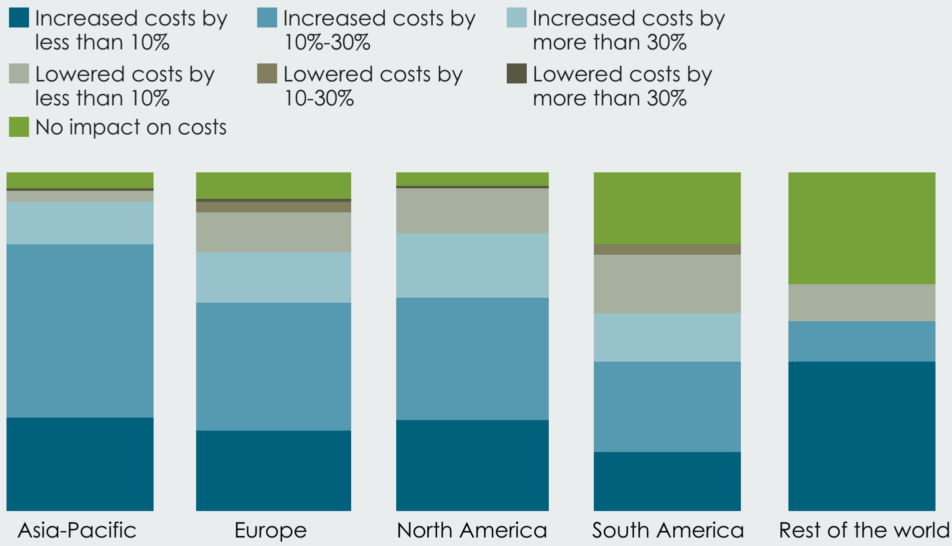
Impact of trade-related regulation on cost of doing business
(% of respondents)



Source: EIU survey.

Figure 9

Impact of trade-related regulation on cost of doing business by region
(% of regional respondents)



Source: EIU survey.

respondents. One explanation for this discrepancy may be that European companies benefit from more harmonised regulation within the European Union and Asian firms face less stringent regulation for intra-Asian trade.

Which aspects of trade regulation, then, are most problematic for companies trading with the US? In this segment we explore three facets of customs regulation—security, standards and procedures—that emerged in our conversations with companies and trade experts.

The new security paradigm

In the aftermath of 9/11 new customs procedures were introduced in an attempt to prevent the entry of explosives or other dangerous materials. Mr Wood notes that "we saw new procedures put in place under an overwhelming security paradigm rather than an economic prosperity paradigm. This meant that a lot more effort was spent trying to prevent bad things coming in than on enabling good things to cross quickly and efficiently." However, as people began to realise that security and efficiency are not mutually exclusive, this security paradigm began to change gradually, partly through the use of new screening and tracking technology and partly through procedures such as Trusted Traveller programmes and remote pre-clearance systems.

Companies sourcing from the US also face security requirements. The parallel to the Customs-Trade Partnership Against Terrorism (C-TPAT) is the "Known Shipper" programme, and without certification the options for transporting from the US by air are very limited. This is an issue for Dints International, a UK-based supply-chain solutions company, which often sources goods from US firms and ships them to clients in emerging markets. Its CEO, Geoffrey de Mowbray, explains: "Because we don't have a physical office in the US, we don't qualify as a 'Known Shipper', and so everything has to be screened, which takes time and a bit of cost."

CUSTOMS-TRADE PARTNERSHIP AGAINST TERRORISM

The Customs-Trade Partnership Against Terrorism (C-TPAT) is a supply-chain security programme that was launched in November 2001 by US Customs and Border Protection (CBP). Although voluntary, major companies were strongly encouraged to join, and currently over 4,000 US importers, accounting for over half of imports, are enrolled in the programme. These importers certify the packing and shipping procedures in their supply chain, which is supposed to speed up the processing of cargo, including fewer CBP examinations.

This process creates costs for foreign companies. Stanley Szeto, the CEO of Lever Style, a textile manufacturer based in Hong Kong, explains that meeting the C-TPAT requirements "requires a lot of paperwork, setting up manufacturing facilities to comply, and arranging audits from customers. You have to submit [information on cargo contents] to customs in advance of shipment and pack the goods in a controlled manner that is secure and trackable until you load it onto a truck."

Once the factory is configured appropriately, he says, the process is less of a hassle, but is a unique element of exporting to the US, worthwhile because of the sheer size of the US market. However, more work could probably be done by CBP to expedite certified imports. According to Andrew Siciliano, KPMG's US practice leader for trade and customs services, "many of our clients find that the intended benefits of C-TPAT don't equate to the cost, the customs fast lanes for certified shipments don't seem to function much, apart from at the Mexican border."

Setting standards

The US is highly regulated, and so firms exporting to it often have quite onerous standards to meet. Mr Szeto worries mainly about product-safety standards: "There are stringent requirements in areas such as flammability, but the US is such a litigious society that there is a risk that consumers could sue [clothing companies we supply to] if they think chemicals in the garment are making their skin itch."

Mr Doherty adds that the standards "tend to be problematic for exporters from developing markets who don't have the sophistication or scale to meet them. Moreover, the variability of standards by state, such as Californian environmental standards, is an additional complexity." Deborah Elms, executive director of the Asian Trade Centre, agrees: "[Companies in Asia] have no idea that there are different states and that they are regulated differently. They think they have this figured out, but then discover that it's different in Kansas than in Missouri, and they had no idea there even was a Kansas."

Foreign firms frequently rely on local partners to identify and resolve issues with state-level regulatory discrepancies. According to Ms Elms this problem is more acute among Asian firms, where the business culture is dominated by relationships. In the US, where business relationships are contractual, assistance from local partners rarely extends beyond what is defined in writing.

Among countries with very close trade relations with the US, such as Mexico and Canada, misalignments between standards are steadily being mitigated. As Mr Wood explains: "Regulations and norms have been gradually harmonised, so little things like seat-belt standards or the colourings in breakfast cereals are steadily been negotiated by the two governments, facilitating trade." This means that although they do still occur, disputes related to standards, such as recent efforts to block Mexican tuna on environmental grounds, are rare relative to the volume of bilateral trade. FTAs such as the Trans-Pacific Partnership (TPP) should help to harmonise standards with a broader range of countries.

Customs procedures: Running a tight ship

Rules are complex and hard to navigate, burdening foreign companies with significant additional costs. One of the US's weakest scores in the WEF's Enabling Trade Index is for the complexity and number of tariffs, where it ranks in the bottom quartile globally. Ms Elms explains: "You have to employ incredibly trained lawyers, accountants and compliance officials to make sure you are not out of compliance with the complicated rules." High penalties for non-compliance ensure that this rigorous process is undertaken.

Determining the customs valuation can be a difficult process, according to KPMG's Mr Siciliano, and is cited as the top regulatory challenge in our survey (26%). This is mainly due to the different import pricing rules applied by the US Customs and Border Protection (CBP) and the US Internal Revenue Service (IRS). The systems required by the two government agencies are based on key differences in methodology as they are aimed at maximising different kinds of taxes, which can create difficulties for companies that have to comply with both. Mr Siciliano notes that ongoing global efforts to standardise transfer pricing, as part of the Base Erosion and Profit Shifting (BEPS) initiative,[4] may help provide more visibility on the appropriate pricing for customs.

Among the procedures widely cited as problematic is the Merchant Marine Act of 1920, commonly called the Jones Act, which remains in force and requires that all cabotage—

[4] The OECD/G20 BEPS Project delivers solutions for governments to close the gaps in existing international rules that allow corporate profits to disappear or be artificially shifted to low- or no-tax environments, where companies have little or no economic activity.

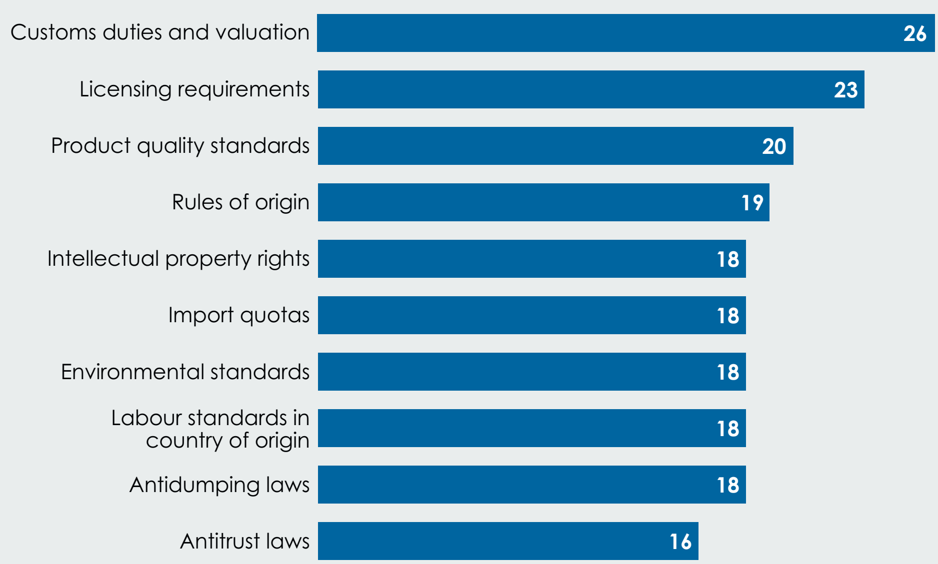
goods transported between US ports—be carried on ships that are manufactured and flagged in the US and crewed mainly by US citizens. "This means that a Japanese ship cannot, for example, stop at Hawaii and offload some of its goods, fill the cargo space with mainland-bound goods and then continue to San Francisco," notes Mr Doherty.

Procedural discrepancies are exacerbated by inconsistencies in their implementation at different ports. This is not unexpected, given the wide range of products passing through customs and the different treatments based on their origin and type, which often requires judgment calls from customs officers. This is particularly acute for Asia-Pacific firms participating in our survey, with more than one-fifth saying that "rules of origin" are problematic. In an attempt to address this, CBP has created Centres of Excellence & Expertise, and Andrew Siciliano, US practice leader, trade and customs at consultancy KPMG, explains that "an industry is encouraged to use a particular port of entry to get more consistency of treatment". For example, Los Angeles specialises in electronics and New York in pharmaceuticals.

Customs procedures are improving as the Automated Commercial Environment (ACE) system is rolled out as well. This is a single window for dealing with CBP and 47 partner government agencies, which collectively require nearly 200 different forms related to imports. This is not only simplifying the paperwork but is also providing improved data for companies that make it easier, for example, to track their aggregate customs duty payments, something which could previously only be done through a cumbersome freedom of information request to CBP.

Figure 10

Most restrictive elements of trade regulation
(% of respondents)



Source: EIU survey.

Payments

Prompt and full payment, particularly for small- and medium-sized enterprises (SMEs), can mean the difference between survival and bankruptcy. Evidence from our survey reveals that "making payments" is among the top challenges companies face in trading with the US (cited by 32% of respondents). This arises from a range of issues, including currency fluctuations (61%), process inefficiencies (52%), limited payment visibility (52%) and bank fees (51%), among others.

Process inefficiencies and limited payment visibility manifest themselves in numerous ways. For firms looking to pay by wire transfer, US firms often do not list sufficient information, such as IBAN codes, providing just the local US routing number. This makes it difficult to track payments, leaving many to resort to more expensive payment methods. Mr de Mowbray of Dints International says that he sometimes uses advance-payment credit insurance with wire transfers, but warns that "we've been burnt in the US in the past when we've paid and the goods haven't been shipped", and that arranging insurance can be difficult as "American corporate accounts aren't as transparent as in the UK, and so finding company information can be challenging".

In Asia, challenges with payment systems impede trade activity with the US. As Ms Elms explains: "Payment systems across this region are incompatible, or if they do work, the fees can end up being too high for a lot of small companies." Alternatives, such as bank transfers, are time-consuming and expensive. "If you're running a company, you could go out of business while waiting for the bank transfer to clear."

Beyond inefficiencies of payment methods, there are issues with experience and exposure as well. Given the vast size of the US domestic market, some firms have little experience selling to or buying from a foreign firm. Geotab's Mr Murkovic encourages clients to make payments by wire transfer, but notes that "we do still get a lot of US checks being posted, which isn't ideal given postage and processing delays". He has tried to mitigate this by establishing a US subsidiary to handle cash management. Mr de Mowbray echoes this sentiment, explaining that US firms are often "very uncomfortable in dealing with companies offshore, even if the payment is secured, as they don't necessarily understand finance instruments". As a consequence, Dints largely pays by credit card, despite incurring additional foreign-exchange charges.

Our survey reveals that challenges arising from payment issues impact these companies primarily through increased foreign-exchange-rate exposure (cited by 24% of respondents), increased costs (23%) and limited ability to respond to emergency payments (22%). These have broader implications for company profitability and competitiveness.

A volatile situation: Foreign exchange

Increasing foreign-exchange-rate exposure is of particular concern. Foreign-exchange volatility, which is inevitably a challenge for companies trading internationally, is the most common payment challenge, mentioned by 61% of respondents to our survey. This has arisen from the strengthening of the US dollar over the last few years, which reached record levels against many emerging-market currencies as a result of the US's comparatively steady recovery from the 2008 financial crisis and the tightening of monetary policy by the Federal Reserve (the US central bank).

Broadly speaking, this dollar strength has naturally benefitted importers in the US and harmed exporters. The picture is a little more complex, though, as Mr Wood explains: "For some US producers a weaker Mexican peso is a very good thing, as the heart of the North American economic relationship is not just about trade but integrated production platforms. Lower costs for importing automotive parts from Mexico makes US car companies more competitive both domestically and internationally."

Figure 11

Challenges with payment methods when trading with the US
(% of respondents)

Source: EIU survey.

Figure 12

Impact of payment challenges on firms trading with the US
(% of respondents)

Source: EIU survey.

CONCLUSION: POLICY AND POLITICS

The US is the largest market for trade in the world, and companies engaged in trade with the US are generally optimistic about growth prospects over the next five years. Over 43% of survey respondents expect their company's trade with the US to increase by more than 10%. Foreign companies look to future developments in policy and politics, which will shape the environment for trading with the US.

The 2016 US presidential election is also likely to be pivotal in determining the outlook for trade with the US, given the rhetoric on the campaign trail. Mr Wood explains: "The fact that US politics goes through cycles where the public and politicians question free trade creates considerable uncertainty for countries and companies doing business with the US." If there appears to be a significant risk of a return to protectionism, this might conceivably cause some companies to delay making investments in production facilities in the US. Mr Wood fears that this is a problem that could worsen in the future if the economic situation of the middle class, which has been largely stagnant since the 2008 crisis, fails to show signs of improvements. Mr Doherty suggests that in response to these challenges the US government needs to make "[not only] an economic case for trade, but also a more philosophical one about the benefits of interaction across borders and being part of a global community".

The negotiation of new trade deals presents a mixture of opportunities for some and new competitive threats for others. One such agreement, the TPP, aims to chip away at some of the regulatory challenges faced by companies trading with the US. "It'll be a game changer," declares Ms Elms, "because it opens up markets and sectors in ways we haven't seen before." Our survey echoes her opinion: 78% of respondents expect the TPP to improve trade opportunities with the US, with 29% expecting substantial improvements. According to Ms Elms, better trade prospects may force the hand of protectionist governments because "people will move to regions where you can do business easily and out of those areas where it's more complicated". And it will have implications for neighbouring North American countries too, as Mr Wood explains: "If [they] don't want to lose their competitiveness within the Pacific Rim and globally, they need to work harder on harmonisation and transport and border infrastructure."

This report identifies some of the key challenges that need to be addressed. While foreign companies face a range of issues, our survey points to exchange-rate volatility, transport costs and delays, making payments and trade-related infrastructure among the top challenges. The trade-related physical infrastructure, particularly around ports and land borders, has been one of the factors contributing to border congestion and is in need of investment for expansion and automation.

Of even greater importance, however, are the delays and unforeseen costs that arise from the complexities around customs regulation. Our survey reveals that the most restrictive elements of trade-related regulation are customs duties and valuation (26% of respondents), licensing requirements (23%) and product-quality standards (20%).

All these issues have a knock-on effect on the cost of doing business, with a majority of respondents reporting a significant increase in costs as a result of trade-related regulation. Over 40% report that issues with regulation push up costs by 10-30%, and an additional 15% report cost increases of more than 30%. Given the stiff competition in the US market, these increases can be crippling, particularly for small business owners. Key measures to alleviate this, such as the Automated Commercial Environment system that streamlines the documentation process, can help to reduce the administrative and cost burden. Such measures will go a long way towards improving conditions for foreign companies trading with the US, and ultimately also for the US consumer.

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