

Trade

When a country lowers its barriers to trade, it opens its economy to competition and a wider variety of goods and services than was previously available. Competition spurs the movement of labor and capital from industries that cannot compete to those that can, enabling a nation to both produce more efficiently and attract new investment—critical elements of any long-term economic growth (or recovery) strategy.

The need to adhere to such a strategy is no less important today than it was after World War II, when nations started formalizing the economic ties that have come to bind them so strongly. Yet, while the U.S. has long been a leading advocate for open markets and trade liberalization, the recent financial crisis and global economic downturn have led some to question the worth of policies creating economic freedom.

Focusing on job losses in the U.S.—particularly the small minority of such losses that can be directly linked to foreign imports—critics charge that trade is unfair to U.S. firms and employees. Unfortunately, they see only a small part of the story. Balanced against the pain that any job loss can cause to individuals and their families must be the overall increase in U.S. employment, productivity, and wage rates that results from an open, liberal trading environment. Free trade fosters economic efficiency, and economic efficiency is the basis for growth and improved standards of living.

The tale of America's growth and rising prosperity after World War II is based on reducing the state's role in the economy, breaking down barriers to international trade and investment, and streamlining the rules and regulations that shape and define the market. Tariffs, quotas, government subsidies and cheap loans to businesses, outright nationalization of industry and other policy mechanisms serve not only to distort and reduce international markets for goods and services, but also have a chilling effect on private investment and do little to boost consumer and business confidence in the future.

Trade has opened markets around the world to U.S. goods and services and has created a level of competition that leads to innovation, better, less expensive products, higher-paying jobs for Americans,

Notes

and the investment needed for long-term economic growth and continued prosperity.

However, America can still do much more to better embrace globalization and realize the economic potential inherent in its own economy and the world as a whole. Successive rounds of multilateral trade liberalization and bilateral free trade agreements have lowered many of the tariffs that limit international trade in goods and services, but not all. Excessive regulation, investment controls, government subsidies, punitive and retaliatory duties, and other non-tariff barriers to trade continue to distort markets and add to the cost of living for all of America's families.

With most countries' economies and well-being linked through trade and investment, the need for all nations to embrace trade and investment liberalization has become even more critical to help the global economy recover from today's economic turmoil and grow in the future. The U.S. and other members of the World Trade Organization (WTO) should commit to getting multilateral trade talks back on track and should reverse the protectionist measures they have adopted in response to today's tougher economic times.

Because of the vital link between economic prosperity and trade freedom, it is crucial that countries strive to advance liberal trade rules and dismantle new and existing trade-distorting non-tariff barriers. Agriculture protections that have largely survived over six decades of trade liberalization, market restrictions in services, manufacturing tariffs and subsidies, and the multitude of trade barriers to which developed and developing countries so tenaciously cling need to be eliminated to reap fully the economic benefits from international trade.

RECOMMENDATIONS

1. The U.S. should spur global economic growth and prosperity by leading the Doha Round of trade negotiations to a successful and ambitious conclusion. The absence of a new, comprehensive trade pact reduces countries' discipline in keeping a rein on protectionist measures designed to prop up inefficient domestic companies during today's economic slump. Moreover, without the new market access a multilateral deal would bring, it will be more difficult for firms that are struggling domestically to export instead. When all sales opportunities dry up, companies go out of business, jobs are lost, and the chance for economic recovery is postponed.

As its name implies, the current Doha Development Round was founded on the principle of promoting economic development along with freer trade. With most countries' economic well-being linked through trade and investment, the need for all nations to embrace trade and investment liber-

alization has become even more critical to help the global economy recover from today's economic turmoil and grow in the future. The U.S. should commit to getting multilateral trade talks back on track in the World Trade Organization and should remain vigilant against protectionist policies that could undermine economic progress. The sooner an agreement in the WTO can be reached, the faster the world can move on from today's economic downturn and the sooner the benefits of more open markets can accrue to developed and developing countries alike.

2. The U.S. should enhance existing relationships with important trade and investment partners. NAFTA and other free trade agreements (FTAs) the U.S. has in place have spurred competition, job creation, and economic growth. These agreements have an important role in maintaining American competitiveness and prosperity, spreading freedom around the world, and fostering economic development in poor countries. Similar to the objectives sought after by U.S. negotiators in the WTO, U.S. FTAs go beyond winning lower tariffs on American agriculture, manufacturing, and services exports. FTAs include provisions that safeguard investors from discrimination, increase regulatory transparency, combat corrupt practices, and protect and enforce intellectual property rights. U.S. trade agreements include transparent dispute resolution and arbitration mechanisms to guarantee that the agreements are upheld and fully respect the rights of U.S. firms and consumers.

While it is certainly the case that these agreements can always be improved, that does not mean they are broken. Indeed, renegotiating them would do more damage than good. The agreements were signed because both sides found them fair. Any attempt by the U.S. to extract further concessions would undoubtedly generate countervailing demands from the other parties. In such an environment, the gains from the agreements could quickly evaporate.

U.S. trade agreements have working groups and formal committees designed to ensure that the rules of trade defined in the agreements continue to work effectively for all parties. More can be done to help U.S. families, workers and business by vigorously supporting these efforts to improve the implementation and effectiveness of the agreements than by opening them to an onslaught of special interest demands for protection.

3. Free trade agreements with Colombia, Panama, and South Korea should be ratified without delay. Timely passage of the pending trade agreements with Colombia, Panama, and South Korea would demonstrate a solid economic and strategic commitment to America's allies and, more importantly, to America's families.

The agreements with Colombia and Panama will result in significant new market access and lower tariffs for America's businesses and farmers: most Colombian and Panamanian products already enter the U.S. duty-free under

various preference programs. Because these countries have already had preferential access to U.S. markets, any impact on U.S. jobs from imports from those countries has already occurred. Instead, these agreements will result in new economic opportunity for America's exporters and the U.S. businesses that support them—opportunity that will grow over time as these countries continue to develop through trade and mature into larger, more sophisticated markets more closely integrated with the U.S. economy.

Similarly, America stands to gain from expanding what is already a rich trade relationship through an FTA with South Korea. The agreement resolves many of the problems currently thwarting the full potential of U.S.–South Korea bilateral trade and establishes channels through which ongoing trade concerns can be addressed. Tinkering with the agreement for the sake of political advantage or what are effectively minor improvements is more likely to lead to no agreement rather than a better one, and may place new barriers in the way of global talks for more open trade.

4. The U.S. should resist climate change agreements or legislation that would inhibit free trade with other nations. For some advocates of climate change legislation, trade-related measures are considered the best method to counteract the loss of competitiveness that such environmental regulations impose on U.S. businesses and a tool to compel other countries to adopt similar climate regimes. In addition to explicit tariffs or quotas on imports from countries without comparable environmental restrictions, free or discounted emissions allowances, tax credits, subsidies, government loan guarantees and other policy mechanisms designed to compensate partially for the cost of carbon controls on U.S. firms could be enacted. All would raise costs for American consumers and further hurt the competitiveness of U.S. exporters who depend, as many do, on imports of raw materials or intermediate goods in fabricating their finished products.

The idea that punitive trade measures against carbon-intensive products would motivate countries to implement carbon restrictions depends critically on the ability to measure carbon intensity in imports and on the level of trade that would be affected by U.S. policy. Countries might not export enough carbon-intensive products to the U.S. for trade measures to drive nations to adopt carbon restrictions. More problematic, because production processes, energy sources, and capital stock vary by country, industry and even by product, the information needed to accurately tax imports for carbon content would be very difficult to obtain. The most likely result is the imposition of a more bureaucratically feasible one-size-fits-all approach to pricing carbon-intensive products at the border. Unfortunately, such an approach has the perverse effect of penalizing clean foreign producers, who may have higher costs, at the expense of dirtier ones and reduces the incentive to better internalize the cost of carbon in traded goods.

Moreover, energy standards and regulations may run up against trade rules that dictate that domestic and foreign firms should be treated iden-

tically and may create technical barriers to trade disallowed under WTO agreements. Trade measures that treat countries differently undermine the non-discriminatory basis for global trade that has helped promote prosperity around the world.

The gains from trade include economic growth and rising incomes in all countries. For developing countries—which would likely be hardest hit by trade restrictions in climate legislation—the economic stress will be particularly great. This, perversely, will likely increase the harm done to the environment rather than reduce it.

Historically, as a nation's prosperity increases, the desire—and more importantly, the resources available—to adopt environmental protections become stronger and result in policies that accommodate the individual needs of the country. In contrast, economic contraction drives families, businesses, and governments into survival mode, where the value of human life takes precedence over that of the luxury of capping emissions. Engaging in freer trade is a fundamental part of a strategy to better promote the evolution of good regulations by empowering countries with the economic opportunity to develop and raise living standards.

FACTS AND FIGURES

■ Trade is a mainstay of the U.S. economy, accounting for more than 30 percent of U.S. GDP in 2008. The U.S. remains the world's top exporter of goods and services combined. Roughly 2 percent of U.S. job losses may be attributed to foreign trade and about 1 percent of job loss to outsourcing. Far more important to the changing composition of America's workforce have been improvements in technology, productivity gains, and shifts in consumer preferences. Today, more than 57 million Americans are employed by firms that engage in international trade—roughly 40 percent of all non-farm jobs.

■ Since its inception NAFTA has generated significant gains for the U.S. Together, Canada and Mexico constitute America's largest trade partner, accounting for 83 percent of all merchandise trade between the U.S. and our FTA partners and 29 percent of all U.S. merchandise trade in 2008. Each day NAFTA countries conduct more than \$2 billion in trilateral trade. Since 1994, U.S. GDP grew more than 50 percent in the first 13 years of the agreement, the economy created a net 26 million new jobs, U.S. manufacturing output rose 63 percent, and the unemployment rate averaged 5.1 percent, versus 7.1 percent during the prior period.

■ The World Trade Organization forecasts that world trade flows may contract as much as 10 percent this year, the largest decline in trade since World War II. The worsening climate for trade is largely being driven by

falling global demand and by growing uncertainty over the impact of an increase in the number of protectionist measures implemented by countries around the world to help certain industries, or in retaliation for trade measures elsewhere.

■ According to data from the *2009 Index of Economic Freedom*, published by The Heritage Foundation and *The Wall Street Journal*, countries with freer trade policies experience significantly higher per capita economic growth than countries that maintain trade barriers. The top 10 percent of countries in terms of trade freedom had five-year compound per capita gross domestic product (GDP) growth rates averaging 5.6 percent. By contrast, the 10 percent of countries with the lowest levels of trade freedom had five-year per capita GDP growth averaging just half as much, or 2.8 percent.

■ Since the WTO was established in 1995, up to the current economic downturn, real growth in trade of goods and services among lower-income and lower-middle-income countries has averaged more than 7.5 percent, and 7.2 percent for high-income countries—faster growth on average than these countries' average rates of GDP growth.

■ As of the beginning of 2008, the U.S. had 11 FTAs with 17 countries. Congress has approved FTAs with the following nations: Israel; Canada and Mexico (NAFTA); Jordan; Singapore; Chile; Australia; Morocco; the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua (DR-CAFTA); Bahrain; Oman; and, most recently, Peru.

■ While agreements with Oman and Peru have not yet been fully implemented, the U.S. has already seen impressive results from its bilateral trade deals. In 2008, the FTAs currently in force accounted for more than \$1 trillion in two-way merchandise trade, which is about 35 percent of U.S. trade worldwide.

ADDITIONAL RESOURCES

Daniella Markheim and Terry Miller, "Global Trade Liberalization Continues, But Risks Abound," Heritage Foundation *Backgrounder* No. 2320, September 28, 2009, at <http://www.heritage.org/Research/TradeandEconomicFreedom/bg2320.cfm>

Bruce Klingner and Daniella Markheim, "KORUS FTA Strengthens the U.S. Economy and Alliance with Korea," Heritage Foundation *WebMemo* No. 2485, June 15, 2009, at <http://www.heritage.org/Research/TradeandEconomicFreedom/wm2485.cfm>

Daniella Markheim, "Climate Policy: Free Trade Promotes a Cleaner Environment," Heritage Foundation *WebMemo* No. 2408, April 24, 2009, at <http://www.heritage.org/Research/TradeandEconomicFreedom/wm2408.cfm>

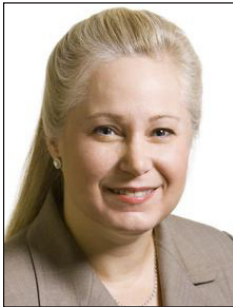
Daniella Markheim, "Obama Administration: Yet to Show Strong Leadership on Trade Policy," Heritage Foundation *WebMemo* No. 2328, March 6, 2009, at <http://www.heritage.org/Research/TradeandEconomicFreedom/wm2328.cfm>

Daniella Markheim, "Pass Pending Trade Agreements with Colombia, Panama, and South Korea in 2009," Heritage Foundation *WebMemo* No. 2167, December 12, 2008, at <http://www.heritage.org/Research/TradeandEconomicFreedom/wm2167.cfm>

Daniella Markheim, "Free Trade: The Fairest Trade Policy for America," Heritage Foundation *WebMemo* No. 2169, December 12, 2008, at <http://www.heritage.org/Research/TradeandEconomicFreedom/wm2169.cfm>

Daniella Markheim, "The Future of the WTO Doha Round," Heritage Foundation *WebMemo* No. 2179, December 22, 2008, at <http://www.heritage.org/Research/TradeandEconomicFreedom/wm2179.cfm>

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