NATIONAL CENTER FOR POLICY ANALYSIS

Congressional Brief: Trade

International trade — the essence of globalization — allows people, regions and nations to specialize in the production of what they do best and to buy more cheaply those things that others do best. Impediments to trade limit its benefits. Freer trade — from reduced tariffs, regulations and restrictions — permits an economy to make better use of its resources. Trade liberalization stimulates growth and efficiency by allowing domestic producers to concentrate their resources on areas in which they have a comparative advantage over foreign producers, thereby reducing their real costs.

Key Facts about the U.S. Trade System

North American Free Trade Agreement

- Under the North American Free Trade Agreement (NAFTA), annual U.S. exports to Mexico increased 242 percent between 1993 and 2007, while Mexican exports to the United States grew 437 percent.
- Over that period, gross domestic product (GDP) grew 50 percent in the United States and 46 percent in Mexico.
- U.S. employment rose from 110.8 million in 1993 to 137.6 million in 2007, an increase of 24 percent, and in the first 13 years after NAFTA, U.S. unemployment averaged 5.1 percent compared to 7.1 percent during the 13 years prior to the agreement.
- In a five-year report on NAFTA, the Department of Commerce reported that export-related jobs pay 13 to 16 percent more than other U.S. jobs.
- In 2011, the United States reinstated a pilot program allowing Mexican trucks to drive in the United States.
  - Citing safety concerns, the United States had barred Mexican truckers for 16 years, despite a NAFTA requirement that trucks of each nation be allowed to operate in the other country.
  - The Congressional Research found that "Mexican trucks are as safe as U.S. trucks and that the drivers are generally safer than U.S. drivers."
  - During that time, U.S. businesses faced higher transportation costs and a $2.4 billion retaliatory tariff on U.S. goods.

Free Trade Agreements

- Due in part to increased trade from 11 free trade agreements (FTAs), nine since 2001, U.S. exports grew an average of 11.1 percent annually from 2001 to 2006, and trade with 17 FTA countries accounted for almost 43 percent of U.S. exports.
- FTAs with Colombia, Korea and Panama signed in 2008 have been renegotiated and will likely be voted on by Congress in 2011.
  - The Colombia FTA would increase U.S. exports by $1.1 billion, according to the U.S. International Trade Commission. The delay in approving the pact has cost over $3.5 billion in duties.
  - The agreement with Korea would boost U.S. exports by an estimated $10 billion and create 70,000 new jobs.
  - In 2008, 46 percent of Colombia's food imports came from American farms, but because a trade agreement with Colombia has not been approved, the U.S. market share has been cut in half.

Trade Deficits

- The U.S. trade deficit has grown in recent decades, but the flip side of the deficit is the large surplus in the capital account, which measures investment flows in and out of the United States.
- International investors have found that the United States has a far more attractive business climate than any other major country; thus they believe they will earn more on an investment here than in Europe, Canada or Japan.

Effects of Tariffs on the Domestic Economy

- After tariffs on steel imports of 8 percent to 30 percent were imposed by President Bush in 2002, steel prices rose about 30 percent on average.
- The result was a loss of 200,000 jobs among manufacturers that use steel to make other products in 2003 — more than the total number of people employed in the steel industry.
- Consequently, profits rose among steel producers and declined among steel users — including the automotive, machine tool and fabricated metal products industries.

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- After Congress levied a 27 percent "antidumping" tariff on Canadian softwood lumber in May 2002, sales to the United States plunged 40 percent and U.S. lumber prices rose.
- For every $50 increase in the price of 1,000-feet of framing lumber, 300,000 potential homeowners are priced out of the housing market, according to the National Association of Homebuilders.
- Since 2006, a new system of quotas and tariffs has kept lumber prices high, benefiting lumber producers but hurting lumber-dependent industries. Lumber-dependent industries support 25 times as many jobs as the lumber-production industry, according to the National Association of Homebuilders.
- Tariffs and other trade barriers, such as loans to producers and import quotas, also harm consumers; for example, subsidies to the sugar industry cost U.S. consumers more than $2 billion annually.

Trade Liberalization

- It is the exception, not the rule, to find a country or area where international trade has *not* grown faster than its GDP sometime during the last 50 years.
- Most of the "growth miracle" cases — Japan, Taiwan, Korea, Brazil, Spain, Portugal, Greece, Singapore, Hong Kong, Thailand, Malaysia, Indonesia, China and now India — have experienced such episodes of export-led growth.
- Economists Jeffery Sachs and Andrew Warner examined trade policies of 117 countries over 20 years and found that the rate of economic growth was three to six times higher in open economies than in closed ones.

Agricultural Tariffs and Subsidies

- Ending subsidies to U.S. producers who compete with African farmers would aid those countries — the International Cotton Advisory Committee estimates world cotton prices would rise 26 percent if the United States repealed cotton subsidies. This amounts to an increase of over $300 million per year in income for African cotton farmers.
- U.S. tariffs on agricultural products average 18 percent, much higher than the 5 percent average tariff on other imports.
- Tariffs on bulk agricultural imports can be much higher; for example, tariffs on groundnuts, cultivated by more than 1 million farmers in Senegal, are as high as 150 percent.

Trade Sanctions

- Currently, the United States has sanctions against more than 80 countries, ranging from limits on the transfer of technology to barring entry of specified goods into the United States.
- Policies that claim to protect American businesses actually hurt the U.S. economy.
  - U.S. antidumping tariffs penalize imports from countries that allegedly sell subsidized goods to Americans.
  - Subsidized exports come at the expense of the exporting country but benefit consumers in the countries importing those goods.
  - Tariffs hurt consumers and businesses in the importing countries by raising the prices of goods that exporting countries produce at less cost.

NCPA Policy Recommendations

- Eliminate tariffs and other barriers so that U.S. consumers are able to purchase goods at world prices, which are much lower than what consumers pay currently.
- Eliminate subsidies to domestic producers. International competition typically stimulates real cost reduction, and people in the affected industries will probably work harder to reduce costs than they would have under the umbrella of protection, thereby improving efficiency.
- Eliminate sanctions on foreign companies and countries. Sanctions rarely achieve their desired result and may cause U.S. trade partners to retaliate with their own trade barriers.
- Open markets so that countries, companies and regions can specialize in the production of what they do best and import products that can be made more efficiently elsewhere.
- Ratify pending free trade agreements with Colombia, Panama and South Korea. Strengthening the economies of these U.S. allies would improve the national security of the United States.
- Revive the World Trade Organization talks on trade liberalization, which collapsed in 2008 over the issue of agricultural subsidies. Since countries that trade have powerful incentives to maintain peaceful relations, liberalizing world trade is in the national security interest of the United States.