A Global Economy: Implications of Free Trade for the U.S.

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The increasing interdependence of economies around the world has expanded the role of international trade in the United States. Trade liberalization allows the United States to cooperate with other nations to increase the overall wealth of all parties and to promote the effective allocation of resources; as one of the world's largest economies, the United States depends on international trade to fuel growth. Free trade measures such as lifting tariffs and restrictions enable access to the vast markets of other nations and permit each nation to produce the goods and services that offer the greatest comparative economic advantage. The subsequent increase in competition leads to an increase in productivity and reduction of real costs. In addition to benefitting the economy, international trade is also integral to the spread of ideas, technology, and culture. Since international free trade agreements (FTAs) are imperative in the maintenance of economic competitiveness on a global scale, they are in the best interest of the United States.

Lifting tariffs and other barriers to free trade increases the gross domestic product (GDP) of the United States and supports American competition in the expanding global economy. Although international trade does not significantly alter the rate of GDP growth in the long run, the higher growth rate during the process of cutting tariffs elevates the level of GDP before it reverts back to the original rate (Harberger). According to Harberger, trade liberalization most notably impacts the rate of export growth by mobilizing resources to free markets and encouraging international capital investments. Exports, including agriculture and services such as audiovisual and information technology, may reach a wider market more easily. Imports, at more competitive prices, provide greater access to raw materials and capital goods as well as lower prices for American consumers. Data from the U.S. Department of Commerce reveals that American trade surpluses exist in services and agricultural products, suggesting that FTAs should not compound trade deficits when drawn properly (U.S. Chamber of Commerce).

The 1994 North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico offers insight into the effects of free trade on the United States. The agreement successfully expanded trade, increasing total merchandise trade from $81.5 billion in 1993 to $506.7 billion in 2013, and heightened productivity 170 percent by 2011 since it was enacted (Shaiken). Despite the increase in productivity and expansion of trade, the treaty formed a deficit in American trade with Mexico and workers' wages have declined. Flaws in NAFTA and other previous FTAs may be addressed in future agreements by enforcing regulations and, to some degree, restrictions to guarantee workers' rights while ensuring fair trade.

Despite these potential pitfalls, measures to expand free trade are vital in many ways. Failure to participate in international trade is detrimental, as exhibited by 19th century China and other historical cases in which isolationism caused economic competitiveness to fall behind that of the rest of the world and ultimately led to downfall or collapse. Thus, participation in international FTAs is critical to prevent similar effects.

Although free international trade is crucial to promote the United States' economic interests, some scholars claim that alternative approaches

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would be more effective. For instance, Choate and Linger argue that the concept of free trade assumes that the Anglo-American system is dominant in international trade. However, most of the world's trading systems are comprised of centrally planned, mixed, developing, and plan-driven economies; only 27 percent of world trade is accounted for by the Anglo-American economic system (Choate and Linger). These systems vary in several aspects including the utilization of a process-oriented approach, as in Anglo-American economies, or results-oriented approach, as in plan-driven economies such as that of Japan. The different approaches, along with varying degrees of government involvement in market processes, lead to difficulty and complications in trade negotiations. Rather than attempting to disseminate the process-oriented system to the United States' trading partners, tailored trade involves negotiating based on the economic systems of the nations it is dealing with. Choate and Linger claim that "a tailored-trade approach would elevate bilateral and plurilateral negotiations from a secondary to a primary role" in the expansion of trade.

Although a network of tailored trade agreements with the United States' most prominent trading partners may be effective initially since bilateral trade would allow for efficient resolution of two-party trade disputes, these "parallel negotiations" present potential barriers to the creation of a coherent international trade network because they do not account for larger-scale matters or trade disputes that may erupt. Focusing on the individual connections between the parties of bilateral or plurilateral agreement may fail to address any multinational matters requiring a broader perspective. Thus, tailored trade agreements would function optimally within an encompassing multilateral trade framework incorporating some aspects of free trade; this would serve not only to include nations excluded from the bilateral and plurilateral negotiations, but also to monitor potential sources of large-scale conflict. The tailored agreements would then address more minute details and resolve specific disputes more effectively and efficiently.

Another method of addressing differences between United States and non-Anglo-American economic systems would be to integrate aspects of results-oriented economic strategies into the process-oriented American trade policy. While allowing market processes to dominate economic relations facilitates the development of a business-oriented policy, a plan-driven economy presents considerable advantages on a long-term scale by focusing on economic objectives. The United States has already incorporated certain facets of tailored trade ideas by negotiating a series of Bilateral Investment Treaties (BIT) and establishing FTAs with 20 countries (Office of the United States Trade Representative). By adopting aspects of this alternate system, the United States would be more capable of anticipating results of particular decisions and act accordingly based on its economic interests.

International free trade agreements are essential to maintain the United States' competitiveness with other nations and support the efficient exchange of goods, services, and ideas. To overcome difficulties in negotiating with nations adhering to different economic systems, implementation of tailored bilateral or plurilateral agreements within the broader multinational free trade agreements would streamline more detailed negotiations. Additionally, modifying the current process-oriented trade policy to emphasize results and objectives may preserve the economic interests of the United States while mitigating unforeseen adverse effects of international trade. Under international free trade agreements, the United States is capable of achieving economic growth and success.