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, to enjoy economies of scale in production and to buy more cheaply those things that others do best. Freer trade — reduced tariffs, regulations and restrictions — 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 and increasing their competitiveness.

- It is the exception, not the rule, to find a country or area where international trade has not grown faster than its gross domestic product at one point or another 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. The opening of these economies to freer international trade was an important factor.
- Economists Jeffery Sachs and Andrew Warner examined the 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.

NCPA Recommendations

- Eliminate tariffs and other barriers so that U.S. consumers are able to purchase goods at world prices, and U.S. producers can export goods they produce, such as crude oil.
- Eliminate subsidies to favored industries and foreign competitors, including financing subsidies through such agencies as the Exim bank. Protectionist measures distort the incentives of producers, who face less competition, and distorts prices of both imported and domestically supplied goods and services.
- Resolve trade disputes through mediation or arbitration rather than through retaliatory tariffs or fees on specific imports. Trade sanctions rarely achieve the desired result and may cause other countries 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.
- Pursue trade liberalization talks through the World Trade Organization. Since countries that trade have powerful incentives to maintain peaceful relations, liberalizing world trade is in the national security interest of the United States.

Key Facts about the U.S. Trade System

World Trade Organization (WTO) — The United States has been a member of the WTO since its inception in 1995, joining 160 other countries (as of April 2015). The WTO is the only global international organization dealing with the rules of trade between nations. The WTO replaced the General Agreement on Tariffs and Trade

(GATT), in effect from 1948 to 1994. It is recognized by its member countries as the governing body of trade, facilitating negotiations, implementing and monitoring agreements, and settling disputes.

Office of the U.S. Trade Representative (USTR) — USTR was officially established in 1979, as part of the Executive Office of the President. It is responsible for developing and coordinating U.S. international trade, commodity and direct investment policy, and overseeing negotiations with other countries. The U.S. Trade Representative is a cabinet member who serves as the president's principal trade adviser, negotiator and spokesperson on trade issues.

Trade Promotion Authority (TPA) — Also known as "Fast Track," TPA greatly reduces the time it takes to negotiate trade agreements. Congress must hold an up or down vote on any trade agreements, but doesn't have the opportunity to amend them. TPA was signed into law on June 29, 2015, and remains in effect until 2018, but can be extended by Congress to 2021.

Trade Adjustment Assistance (TAA) — This state-administered federal program provides nearly $1 billion annually in various aid to U.S. workers who have lost their jobs as a result of foreign trade. The program was extended to 2021 as part of the Trade Preferences Extension Act, signed into law on June 29, 2015.

Free Trade Agreements

North American Free Trade Agreement (NAFTA) — Under NAFTA, a 1994 agreement among the United States, Canada and Mexico, annual U.S. exports to Mexico increased 444 percent from 2001 to 2014, while Mexican exports to the United States grew 603 percent.

- Between 1993 and 2013 gross domestic product (GDP) grew more than 144 percent in the United States and 150 percent in Mexico.
- U.S. average annual employment rose from 120.3 million in 1993 to 146.3 million in 2014, an increase of 21.7 percent during the first 22 years after NAFTA. During this period, U.S. unemployment averaged 6.06 percent compared to 6.98 percent during the 22 years prior to the agreement.
- In 2014, the United States completed a pilot program allowing Mexican truckers to drive into the United States and will begin issuing permits to truckers that meet U.S. Department of Transportation requirements. This policy change is expected to result in the permanent termination of more than $2 billion in annual retaliatory tariffs on U.S. exports to Mexico.

Other Free Trade Agreements — The United States is currently committed to 14 FTAs — 12 new ones since 2001. U.S. exports grew an average of 7.1 percent annually from 2001 to 2013, and trade with 20 FTA countries accounted for 47 percent of U.S. exports. In 2014, the United States enjoyed a $55 billion trade surplus in manufactured goods with FTA partners. FTAs with Colombia, Korea and Panama were all successfully adopted and entered into force in 2012.

- The Colombia FTA resulted in $18.6 billion worth of U.S. exports to Columbia in 2013, up 30 percent from 2011 (pre-FTA); 80 percent of tariffs on U.S. consumer and industrial exports to Columbia were eliminated by this agreement.
- The Korea FTA increased U.S. - Korean goods and services trade 14.8 percent, from $126.5 billion in 2011 (pre-FTA) to $145.2 billion in 2014.
- U.S. exports to Panama in 2013 were $10.8 billion, up 9.6 percent in 2012 (pre-FTA). The U.S. trade surplus with Panama was $10.3 billion in 2013, an 11.2 percent increase over 2012.
- The Dominican Republic-Central American Free Trade Agreement (CAFTA-DR) among El Salvador, Guatemala, Honduras, Nicaragua, Dominican Republic, Costa Rica and the United States, first enacted in 2006, represents the third largest U.S. export market in Latin America. Total two-way goods trade between the United States and its six CAFTA-DR partners increased over 71 percent from $35 billion in 2005 to $60 billion in 2013. In 2013, U.S. exports to the CAFTA-DR countries totaled $30 billion; imports totaled $30 billion.

New and Pending Trade Agreements

Trade in Services Agreement (TiSA) — Launched in 2013 between the United States and 22 other economies representing 75 percent of the global services market, TiSA promotes trade across the full spectrum of service industries and focuses on new technology issues, such as restrictions on cross-border data flows.

Transatlantic Trade and Investment Partnership (TTIP) — The TPP is a U.S. trade agreement with all 28 European Union countries that would eliminate nontariff trade barriers, such as different standards and regulations

in each EU country.

- With $650 billion of goods traded in 2013, Europe ranks second in U.S. imports and exports among free trade areas and other trade groups.
- In 2013, Europe accounted for 16.2 percent of all U.S. exports and 17.1 percent of all U.S. imports.
- In 2011, small businesses exported $76 billion worth of goods to the European Union, representing nearly 17.5 percent of all U.S. exports to those countries.
- An estimated 32 percent of U.S. small businesses export to Europe.

Following congressional approval of TPA, a final agreement on TPP is expected in the near term.

The Trans-Pacific Partnership (TPP) — For a number of years, the United States has been negotiating the largest free trade agreement in history with 11 Asian and South American Pacific-rim countries. Following congressional approval of TPA, a final agreement on TPP is expected in the near term.

- The Asia-Pacific region presents some of the world's most sought-after business opportunities, accounting for 60 percent of global gross domestic product and 50 percent of international trade.
- The partnership represents 40 percent of all U.S. trade and 25 percent of U.S. services trade.
- TPP is projected to increase U.S. exports a cumulative $125 billion by 2025.

Free Trade Area of the Americas (FTAA) — The FTAA has been under negotiation by 35 countries since 1994. Some of these countries have protectionist policies that are incompatible with trade liberalization. Given the difficulty of achieving agreement among all these countries, some trade analysts have suggested that the United States pursue negotiations among the 12 or so New World countries with which it already has trade agreements to merge those existing agreements so that trade rules are consistent, and later add other countries with which these U.S. trade partners have their own agreements.

Trade Disputes and Sanctions

- Trade disputes under free trade agreements are settled according to the process laid out by the agreement itself. Disputes with WTO members are settled in accordance with the process specified by the WTO. This can include retributions, tariffs or quotas on imported goods from a violating country.
- Since 2009, the United States has filed 18 trade enforcement filings, winning all 6 that have been decided to date and favorably settling one, affecting numerous industries and several billions of dollars.
- Since 2009, enforcement cases against China have doubled and now represent half of cases filed.
- In 2014, the United States settled a long standing WTO dispute with Brazil over U.S. subsidies that artificially kept the global price of cotton low. By paying $300 million to Brazil, the U.S. avoids possible retaliatory tariffs that could have reached $829 million annually.
- According to the National Crime Prevention Association (NCPA), intellectual property violations are estimated to cost the U.S. economy over $250 billion and 750,000 jobs annually. Of the top 30 global economies, Ukraine and China were ranked last in intellectual property enforcement by the 2015 Global Intellectual Property Center's international IP index.
- Currently, the United States has sanctions against more than 28 countries and other designated organizations, such as terrorist groups and narcotics trafficking cartels. Sanctions range from limits on the transfer of technology to barring entry of specified goods into the United States.

Trade Preferences

The United States established five trade preference programs since 1974 (3 still active) which give temporary, non-reciprocal, duty-free U.S. market access to select exports of eligible countries. These programs are designed to foster economic growth, reform, and development in less developed countries.

- The Generalized System of Preferences (GSP) was the oldest and largest U.S. trade preference program, providing trade benefits to 128 countries. It expired on July 31 2013, and has not been renewed to date.
- Active preference programs include:
- Caribbean Basin Trade Partnership Act (CBTPA), authorized until 2020.
- Haitian Opportunity through Partnership

Encouragement Act (HOPE), authorized until 2020.

- African Growth and Opportunity Act (AGOA), renewed in 2015 until 2025.

Trade Subsidies

The U.S. Export-Import Bank (Exim) — An independent federal agency that provides export financing to American businesses or their customers who cannot obtain private export funding, the Exim bank's charter expired on June 30, 2015; it could be renewed by Congress. Bank critics argue that U.S. taxpayers ultimately guarantee the more than $100 billion in outstanding loans, which mainly benefit large corporations, such as commercial aircraft manufacturers and their foreign customers. According to the U.S. Chamber of Commerce, there are about 60 export credit agencies like Exim worldwide that have extended a combined $1 trillion in export financing to U.S. competitors.

Agriculture subsidies from rich countries, including the United States, have been the subject of recent WTO disputes and put developing countries at a competitive disadvantage. Disagreements over global farm subsidy rules were partially responsible for the collapse of the Doha round of WTO negotiations.

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