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U.S. Trade Policy in the 110th Congress

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U.S. trade policy is regularly the subject of contentious debate on Capitol Hill, and the 110th Congress promises an even more volatile debate. Although a new study of voting records and campaign platforms released by the National Foreign Trade Council and USA*Engage asserts that the overall impact of the elections will result in a Congress only “slightly less supportive” of freer trade policies, even a slight change is meaningful.¹ In today’s policy world, free trade legislation passes on the margin, and every single vote is critical. The loss of even a few proponents of freer trade policies could result in a costly shift away from the open market policies that have helped bolster America’s economic growth.

Incoming congressional Democratic leaders have promised to work with the Administration on international trade issues. After all, free trade is about beating poverty and expanding economic opportunity—markedly non-partisan issues. Over the coming months, the strength of their promise will be tested repeatedly when many forthcoming pieces of trade legislation are submitted for debate and approval.

In the process of working through the policy proposals, Congress will have the opportunity to advocate free trade and help America and the world reap the rewards that accrue from such policies. Or Congress could choose to isolate and deprive the U.S. of the benefits of leading and engaging the global economy. Prosperity in the U.S. and around the world has a real chance to thrive under the 110th Congress, but only if the

Administration and Congress work as partners to advance a sound trade agenda.

Free Trade is Fair

An artificial distinction has been drawn between “free” trade and “fair” trade. The idea that free trade is only fair if countries share identical labor costs and economic regulations, or if domestic producers are compensated for market losses to more competitive foreign producers, is false. The major economic benefits of free trade are derived from the differences among trading partners, which allow any country embracing world markets a chance at being competitive. Free trade is fair when countries with different advantages are allowed to trade and capitalize on those differences.

Low wage costs, access to cheap capital, education levels, and other fundamental variables all play a role in determining what comparative advantages one country has over another in the global marketplace. To “fairly” equalize those differences—provided those differences are based on a country’s economic and demographic reality—only serves to negate or reduce the ability of a country to benefit from participating in the global trade system.

Such “fairness” also prevents countries from realizing the real gain from freer trade—a more compet-

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itive economic environment and better, more efficient domestic resource allocation. This effect drives greater long-term economic potential, creates economic opportunity, and improves living standards at home.

Free trade allows a country to compete in the global market according to its fundamental economic strengths and to reap the productivity and efficiency gains that promote long-run wealth and prosperity. Indeed, there is no distinction between “free” and truly “fair” trade.

Tangible Benefits of Trade

The gains from freer trade are substantial. Today, the \$12 trillion U.S. economy is bolstered by free trade, a pillar of America’s vitality. American exports support one in five U.S. manufacturing jobs. Jobs directly linked to the export of goods pay 13 to 18 percent more than other U.S. jobs. Moreover, agricultural exports hit a record high in 2005 and now account for 926,000 jobs.

The service sector accounts for roughly 79 percent of the U.S. economy and 30 percent of the value of American exports. Service industries account for eight out of every 10 jobs in the U.S. and provide more jobs than the rest of the economy combined. Over the past 20 years, service industries have contributed about 40 million new jobs across America.

Because today’s global economy offers unparalleled opportunities for the U.S., it is in America’s economic interest to continue to expand trade by lowering trade barriers in goods and services. Freer trade policies have created a level of competition in today’s open market that leads to innovation and better products, higher-paying jobs, new markets, and increased savings and investment.

Freer trade enables more goods and services to reach American consumers at lower prices, giving families more income to save or spend on other goods and services. Moreover, the benefits of free trade extend well beyond American households. Free trade helps spread freedom globally, reinforces the rule of law, and fosters economic development

in poor countries. The World Bank estimates that the continued reduction of tariffs on manufactured goods, elimination of subsidies and non-tariff barriers, and a modest 10 percent to 15 percent reduction in global agricultural tariffs would allow developing countries to gain nearly \$350 billion in additional income by 2015. Developed countries would stand to gain roughly \$170 billion.

Whether the U.S. pursues freer trade through multilateral negotiations or via bilateral agreements, the result is fair and beneficial for America. Similar to the objectives sought after by U.S. negotiators in the World Trade Organization (WTO), U.S. free trade agreements (FTAs) go beyond winning lower tariffs on American agriculture, manufacturing, and services exports. FTAs include provisions that safeguard investors from discrimination, increase regulatory transparency, protect and enforce intellectual property rights, combat corruptive practices, protect labor rights, and strengthen environmental protection. The U.S. Trade Representative (USTR) negotiates agreements that include transparent dispute resolution and arbitration mechanisms to guarantee that the agreements, along with the rights of U.S. firms and consumers, are upheld.

Each element of an FTA strengthens the transparent and efficient flow of goods, services, and investments among member countries. Both FTAs and multilateral trade liberalization open markets, protect investors, and increase economic opportunity and prosperity. In short, freer trade policies serve to promote U.S. interests, not weaken them or unfairly burden Americans.

A Very Busy Time for Trade

In order to continue reaping the benefits of free trade, the U.S. can make tangible progress in four main areas: bilateral trade deals, global trade negotiations via the WTO, trade preference programs for developing economies, and renewed presidential authority to negotiate trade policy.

Congress should start with vocal support for bilateral free trade agreements (FTA) negotiations, ratification of concluded agreements. It should also

1. USA*Engage and the National Foreign Trade Council, “2006 Elections Analysis,” November 21, 2006, at <http://www.usaengage.org/MBR0088-USAEngage/newsflash/newsflash.asp?Mode=View&articleid=1596&Category=pressreleases>.

call for help in seeking additional partners to engage via bilateral trade agreements. The Administration and Congress should strive to insure the timely ratification of concluded agreements with Colombia and Peru. FTA negotiations with Panama, Ecuador, South Korea, Malaysia, and the United Arab Emirates are at various stages of progress and would advance the interests of U.S. businesses and consumers and maintain America's leadership on trade.

U.S. leadership in the WTO and a successful conclusion of the current Doha round of multilateral trade negotiations are essential. Support of USTR negotiations in the WTO and effective reform of U.S. agriculture programs through the upcoming review of the farm bill are important elements of achieving this goal. Congressional approval of most-favored nation status to countries acceding to the WTO, such as Vietnam and Russia, is needed to insure that America benefits from WTO member expansion.

Tariff and trade preferences granted under the Generalized System of Preferences (GSP), Andean Trade Preference Act (ATPA), the African Growth and Opportunity Act (AGOA), and other programs extend market access to countries struggling to develop, and often, reform their economies. Changes made to these programs in 2006 will need to be addressed in 2007 to insure their effectiveness. Continued implementation of these programs is a critical element of any meaningful aid strategy for eligible countries.

Congress should renew Trade Promotion Authority (TPA). TPA is vital to strengthen the hand of the United States at the negotiating table and provides a framework for strengthened consultation with the Congress at key trade negotiating stages. The President, regardless of political affiliation, needs the ability to sign good trade deals that expand U.S. access to overseas markets and strengthen international trade norms.

Conclusion

American and global prosperity have a real chance to flourish under the 110th Congress. That chance is dependent upon both the Administration and Congress having the will to work toward solutions on policy differences, rather than using trade as a means to advance a partisan agenda. The economic cost of politicizing trade policy is high; the benefits of evaluating and implementing free trade policy based on its merits are even higher. For over 50 years, the U.S. and the world have reaped the economic benefits of trade and investment liberalization. Congress should continue its liberalization policies and allow Americans to enjoy the wealth and opportunities that come with freeing trade even more.

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