

42. International Trade Policy

THE U.S. trade agenda will further test the will of Congress in supporting the President's push to open markets bilaterally, regionally, and globally. In the coming year, Congress must resist "free trade fatigue" and strong protectionist sentiment and instead objectively debate the merits of approving and implementing free trade agreements and of supporting U.S. leadership and negotiations in the World Trade Organization's Doha Round. It must not be distracted by histrionics about a misleading signal: the trade deficit.

by *Daniella Markheim*

Recommendations

1. Maintain the U.S. leadership that is essential to successful conclusion of the current WTO round of multilateral trade negotiations.

Considering the proven benefits of trade liberalization, the modest progress made at the December 2005 ministerial meeting of the WTO's Doha Round was disappointing. Although the United States introduced a strong proposal to liberalize trade at the Hong Kong meeting, other countries held back from making serious counterproposals, inhibiting the momentum needed for a substantive conclusion. Regrettably, the meeting degenerated into negotiators seeking guaranteed market access in foreign markets without offering in return any meaningful opening in their home economies.

Trade negotiators agreed to work toward a more meaningful pact by the end of 2006—just in time to send the agreement through Congress before TPA (Trade Promotion Authority, or "fast track") expires in July 2007. Over the coming months, negotiations to eliminate non-tariff trade barriers and open the more politically sensitive services, industrial products, and consumer goods sectors will likely intensify. Ideally, negotiations on agricultural trade barriers will use the current, aggressive U.S. trade proposal as a starting point to move forward to the final agreement.

Failure to conclude the Doha Development Agenda successfully means significant lost opportunities for economic gains for countries around the world. Numerous studies have attempted to measure these gains under various trade liberalization scenarios. While their results and methodologies differ, these studies consistently show real economic gains associated with further trade liberalization.

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The Heritage Foundation's *Index of Economic Freedom* reinforces this evidence of the gains from free international trade by clearly showing that countries implementing freer trade policies experience higher growth in per capita GDP than countries maintaining barriers to protect themselves from global trade.

2. Reduce U.S. agricultural trade barriers to promote WTO negotiations and improve the impact of free trade agreements. The benefits of reducing protectionist policies in agriculture markets include reducing the tax burden and cost of living on American families and promoting greater efficiency in U.S. industry and agriculture. Global barriers to trade in agricultural products artificially prop up domestic prices for food and food products, raising the cost of living for families and distorting market decisions.

Barriers to agricultural trade not only are a burden on American households, but also depress world agricultural prices, hurting farmers in developing countries and undermining their efforts to rise from poverty and improve their living standards. The U.S. argues for free trade and economic liberalization, yet it refuses to eliminate the very policies that would truly allow developing countries to pursue and achieve economic prosperity. William Cline, at the Institute for International Economics, estimates that by removing trade barriers, developed countries could convey economic benefits to developing countries worth about double the amount of their annual aid transfers.

3. Make tangible progress in ongoing bilateral and regional FTA negotiations, ratify recently concluded agreements, and seek additional partners to engage by means of bilateral trade agreements. Recent setbacks in WTO negotiations reflect the difficulty of reducing trade barriers through multilateral negotiations. There is another way for Americans to benefit from more open trade with other countries: bilateral free trade agreements (FTAs).

4. Recognize that the focus on America's trade deficit, particularly with China, is misplaced and counterproductive. As the economy grows, new jobs are created, incomes grow, and the demand for all goods, including imports, rises. A growing trade deficit is generally a sign of a healthy, expanding economy. The large trade deficit numbers are misleading. By definition, a trade deficit indicates an inflow of foreign capital. Growing economies present attractive opportunities for profitable investment; hence the net inflow of foreign investment.

Imposing trade barriers or manipulating the value of currencies will neither reverse the U.S. trade deficit nor have any beneficial effect on America's economic potential. Instead, Congress should consider policies that positively affect economic growth, investment, and job creation, such as lower tax rates and reduced regulations. Unlike policies

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that attempt to alter the trade deficit, these economic steps increase the incentives that promote a healthy U.S. economy.

Facts and Figures

- In years during which the current account deficit increased between 1980 and 2004, the U.S. economy grew by an average of 3.5 percent. The economy grew by only 1.9 percent in years in which the current account deficit shrank.
- The deficit with China as a percentage of the total U.S. deficit is approximately the same as it was in the 1990s, when the U.S. economy and jobs were growing strongly.
- The U.S. Trade Representative recently concluded agreements with Oman and Peru. The Bush Administration and Congress should strive to insure quick ratification of both agreements.
- FTAs with Colombia, Ecuador, the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland), South Korea, Thailand, and the United Arab Emirates would advance the interests of U.S. businesses and consumers, expand trade and investment opportunities, and maintain America's leadership on trade.
- According to a 2004 Organisation for Economic Co-operation and Development study, by increasing food prices, U.S. farm programs effectively gave domestic farmers more than \$16 billion from the pockets of American households over and above what farmers received from direct government assistance.
- The Office of Management and Budget estimates that American taxpayers paid \$26 billion in direct agricultural subsidies in 2005. Reducing or eliminating costly farm programs means greater benefits to the U.S. economy.
- A University of Michigan study concludes that reducing agriculture, manufacturing, and services trade barriers by just one-third would add \$164 billion, or about \$1,477 per American household, annually to U.S. economic activity. Completely eliminating trade barriers would boost U.S. annual income by \$497 billion. Freeing trade stimulates economic growth, creates better jobs, encourages innovation, and improves living standards for millions of Americans.
- The Institute for International Economics has calculated that moving from today's trade environment to one characterized by perfectly

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free trade and investment would generate an additional \$500 billion in annual U.S. income, or about \$5,000 per household each year.

This chapter can be read online at issues2006.org/freetrade.

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Additional Reading

Daniella Markheim, "Moving Forward After Hong Kong Trade Talks," Heritage Foundation *Backgrounder* No. 1915, February 22, 2006, at www.heritage.org/Research/TradeandForeignAid/bg1915.cfm.

Daniella Markheim, "America's Free Trade Agenda: The State of Bilateral and Multilateral Trade Negotiations," Heritage Foundation *Backgrounder* No. 1891, November 2, 2005, at www.heritage.org/Research/TradeandForeignAid/bg1891.cfm.

Tim Kane, Ph.D., "The Brutal Price of a Dollar," Heritage Foundation *Backgrounder* No. 1855, May 31, 2005, at www.heritage.org/Research/TradeandForeignAid/bg1855.cfm.

Tim Kane, Ph.D., and Marc Miles, Ph.D., "Trade Deficits, Dollars, and China: Wrong Lessons Make Dangerous Policy," Heritage Foundation *WebMemo* No. 743, May 12, 2005, at www.heritage.org/Research/Economy/wm743.cfm.