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Do Free-Trade Agreements Represent Fair Trade?

Mark Crawford (Q2 2016)

We've been hearing a lot about free-trade agreements lately from our presidential candidates — points of view range from free trade has wrecked the American economy and killed jobs, boosted the economy and created jobs, or can be better negotiated to improve U.S. interests.

But what do most people really know about free trade and the intricacies of how it works?

According to the U.S. government, a free-trade agreement (FTA) is an agreement between "two or more countries where the countries agree on certain obligations that affect trade in goods and services, and protections for investors and intellectual property rights. For the United States, the main goal of trade agreements is to reduce barriers to U.S. exports, protect U.S. interests competing abroad, and enhance the rule of law in the FTA partner country or countries." For example, a country that normally charges a tariff of 5 percent of the value of the incoming product will eliminate that tariff for products that originate in the U.S.

“Free-trade agreements are always a double-edged sword,” says Tim Feemster, managing principal for Foremost Quality Logistics in Dallas, Texas. “On one hand, they open up trade between countries, usually at a lower cost for both as there are no duties. The downside is that some markets/segments may be less competitive without the duties and lose business and potentially jobs to the other country.”

Survey data from the federal government consistently show that less than 1 percent of layoffs are attributable to offshoring. Rather, most of these jobs have been lost to "productivity". John Murphy, senior vice president for International Policy at the U.S. Chamber of Commerce Most of these products, however, are commodities that can be made at a lower cost in the other country. “The upside to this,” continues Feemster, “is that the U.S. typically has the advantage in advanced manufacturing and/or manufactured products developed with high levels of intellectual capital, and that these products bring more value add and export trade value per unit than the commodity products lost.”

Free Trade in Action

The U.S. h as 14 FTAs in force with 20 countries and is currently negotiating the Trans-Pacific Partnership (TPP). The North American Free Trade Agreement with Canada and Mexico (NAFTA) took effect in 1994. Even with more than two decades of economic data and analysis, experts still can’t agree on its impact to the U.S. economy. In general, considering the blame NAFTA has received for job losses and trade imbalances, most economists agree its impact on U.S. workers has been modest.

“Indeed, almost 17 million jobs were added to the U.S. economy in the seven years following enactment of NAFTA, and the unemployment rate dropped from 6.9 percent to 4.0 percent,” writes economist Gary Clyde Hufbauer with the Peterson Institute for International Economics. “Increased exports from Mexico and Central American countries had no significant effect on U.S. wages in the manufacturing sector.”

American manufacturing jobs remained fairly stable in the years following NAFTA until China entered the World Trade Organization in 2001 and developed into an economic powerhouse, penetrating U.S. markets and forcing companies to go offshore to be competitive.

However, John Murphy, senior vice president for International Policy at the U.S. Chamber of Commerce, doesn’t blame FTAs, or China, for the loss of American jobs. He says the culprit is innovation.

“Survey data from the federal government consistently show that less than 1 percent of layoffs are attributable to offshoring,” Murphy says. “Rather, most of these jobs have been lost to ‘productivity.’ Technological change, automation, and widespread use of information technologies have enabled firms to boost output, even as some have cut payrolls. This productivity revolution is a complex phenomenon. Critics of FTAs are correct when they say that manufacturing employment hit a peak, and then began a steady decline. However, the peak was in 1979, long before the U.S. negotiated its first FTAs."

Free-Trade Agreements

THE UNITED STATES HAS FREE-TRADE AGREEMENTS IN FORCE WITH 20 COUNTRIES:

- AUSTRALIA
- BAHRAIN
- CANADA
- CHILE
- COLOMBIA
- COSTA RICA
- DOMINICAN REPUBLIC
- EL SALVADOR
- GUATEMALA
- HONDURAS
- ISRAEL
- JORDAN
- KOREA
- MEXICO
- MOROCCO
- NICARAGUA
- OMAN
- PANAMA
- PERU
- SINGAPORE

The United States has completed negotiations of a regional, Asia-Pacific trade agreement, known as the Trans-Pacific Partnership (TPP) Agreement and is in negotiations of the Transatlantic Trade and Investment Partnership (T-TIP) with the European Union, with the objective of shaping a high-standard, broad-based regional pact. **Source:** Office of the United States Trade Representative

Trans-Pacific Partnership

The U.S. is the process of negotiating the TPP — the largest trade agreement in history, which involves more than 40 percent of the world's GDP.

A top proponent of TPP is Senator Patty Murray (D-WA) — and for good reason: about 40 percent of Washington's jobs are tied to exports. Asian consumers are especially fond of the state's agricultural products, including apples, potatoes, wheat, and beans.

John H. Boyd, principal with The Boyd Company in Princeton, New Jersey, recently visited with Senator Murray in Washington, D.C., regarding a food-processing project Boyd is handling in eastern Washington. "She clearly pointed out that what her state makes and grows is sold worldwide and she wants the U.S. to be part of writing the rules of the road when it comes to trade," says Boyd. "If the U.S. goes it alone, we will be dictated to by other countries as to how our products are going to be sold and welcomed in foreign markets."

Drew Greenblatt, president of Marlin Steel Wire Products in Baltimore, is also a staunch supporter of the TPP. "The TPP will have deals with countries we did not have deals with before," he says. "We are creating rules of the road that make us more competitive. Countries like Vietnam and Japan will finally follow deals that make it fairer for the U.S. Almost 18,000 tariffs will melt away."

Harry Moser, founder and president of the Reshoring Initiative, is not so enthusiastic about the TPP: "It would probably would be okay if we were starting from an even position in the trade war, but we have been losing that for decades," he says. "Our lack of competitiveness, measured by the trade deficit, is clear. TPP is much too granular. No actions have been taken on the broad factors that have made the U.S. uncompetitive abroad and at home. There is too much concern for the interests of specific companies, and not enough for U.S. manufacturing, and thus the country."

This last statement by Moser is telling — one of the purposes of an FTA is to create a "transparent trading and investment environment," but the TTP is anything but transparent. It has been negotiated in secret for more than five years, with major corporate influencers at the table, at the exclusion of other key stakeholders, such as labor unions and environmental groups.

Almost 17 million jobs were added to the U.S. economy in the seven years following enactment of NAFTA, and the unemployment rate dropped from 6.9 percent to 4.0 percent. Gary Clyde Hufbauer, economist with the Peterson Institute for International Economics David Seegar, president of JMC Steel Group, is concerned about countries "dumping" their products in the U.S. and selling goods at prices far below market value. "Manufacturing has felt the residual effects of NAFTA and KORUS (Korea-U.S. FTA), among other trade agreements," he writes on the corporate website. "As an industry, we are lobbying for trade agreement verbiage that supports anti-dumping and countervailing duties, and discourages manipulation of currency. Other than the leaked TPP sections, we don't really know what the rest of this 29-chaptered trade deal entails."

Other Considerations

Having more FTAs can also be leveraged to attract foreign direct investment. Take Mexico, for example, and its superior network of free-trade agreements around the globe. The U.S. has free-trade agreements in force with 20 countries, while Mexico has free-trade agreements with 45 different countries.

"Both GE and Ford cite Mexico's vastly superior free-trade agreements as a key reason to manufacture in Mexico," says Boyd. "Canada, where our firm is especially active, has free-trade agreements with 40 countries, and enjoys an especially strong free-trade relationship with Europe. Support for free trade with Japan and China is much higher in Canada than the U.S., and the TPP is expected to be ratified in Canada later this year."

Free-trade agreements have been "wonderful" for Marlin, says Greenblatt. "They have opened up new markets for us to sell toward," he says. "We cannot just sell to the U.S. and grow. About 95 percent of the world's consumers are overseas. We export to 39 countries. We trade mostly with countries we have deals with. We are dinged when we export to countries with tariffs. We need more deals."

If the U.S. does not join free-trade agreements, will it lose out and become an isolated economy? "Yes, it has already happened," adds Greenblatt. "We miss out while the EU is closing deals and opening markets. We are way behind and the U.S. worker is getting the shaft. [Europeans] can sell to countries with no tariffs and our exporters have tariffs. We need more trade deals to provide more opportunities to U.S. employees. No deals are perfect. A good deal is better than no deal. We need more trade to grow the U.S. economy. Every trade deal struck has improved our export climate, which grows jobs."

Moser feels there is no risk of U.S. isolation, citing that the U.S. is the world's largest market, and everybody wants in: "All other countries need to sell here," he says. "If we negotiated in our interest with the objective to balance the trade deficit, not to necessarily increase trade, the other countries would have to cooperate or we could cut them off from our market. We still have that power, but have lost a lot and will, in coming decades, totally lose that advantage unless we balance the trade deficit. If we can do this, we will increase our manufacturing by about 30 percent and our GDP by about 10 percent. Thus, the key is not trade agreements, but preparation for them and to compete and reduce the trade deficit to zero," he concludes.