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Audaciously Hopeful

How President Obama Can Help Restore the Pro-Trade Consensus

by Daniel Ikenson and Scott Lincicome

Executive Summary

There is reason for grave concern about the direction of U.S. trade policy. The bipartisan, pro-trade consensus that served U.S. economic and diplomatic interests so well for so long collapsed during the final two years of the Bush administration. Trade skeptics have increased their ranks in the new Congress, a majority of Americans perceive trade as threatening, and grim economic news has made the political climate inhospitable to arguments in support of trade.

But restoring the pro-trade consensus must be a priority of the Obama administration. If the United States indulges misplaced fears, restrains economic freedoms, and attempts to retreat from the global economy, the country will suffer slower economic growth and have greater difficulty facing future economic and foreign policy challenges.

America's trade skepticism is largely the product of a top-down process. Perceptions have been shaped overwhelmingly by relentless political rhetoric that relies on three myths. Congress and the media have spoken for years about the decline of U.S. manufacturing as though it were fact, when the overwhelming evidence points to a sector that, until the onset of the current recession, was robust and setting performance records. Both lament the U.S. trade deficit without attempting to convey or even understand its causes, meaning, or implications. And both attribute these alleged failures of policy to lax enforcement of existing trade agreements.

President Obama should reexamine these premises. He will find that they are long on fallacy and short on fact. Meanwhile, the president will find it necessary to rein in the congressional leadership's increasingly provocative approach to trade policy if he is to have success repairing America's foreign policy credibility.

The determination of the president to arrest and reverse America's misguided and metastasizing aversion to trade could dramatically improve prospects for restoring the pro-trade consensus.

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For the sake of the economy and the prudent exercise of foreign policy, restoring the pro-trade consensus should be an economic and diplomatic priority of the new administration.

Introduction

There is reason for grave concern about the direction of U.S. trade policy. The bipartisan, pro-trade consensus, which served U.S. economic and diplomatic interests so well for so long, collapsed during the final two years of the Bush administration. Congressional skeptics, who helped derail the U.S. trade agenda, have increased their ranks in the new Congress. And, already grim economic conditions appear to be growing worse, making the political climate even less hospitable to arguments favoring trade and globalization.

Yet, touting trade's virtues is exactly what President Obama and his cabinet should be doing. For the sake of the economy and the prudent exercise of foreign policy, restoring the pro-trade consensus should be an economic and diplomatic priority of the new administration.

U.S. consumers' access to imported goods extends family budgets. U.S. manufacturers' access to imported raw materials, components, and capital equipment helps hold down production costs, which enables producers to pass on savings to consumers and increase profitability and investment. And, access of U.S. manufacturers, farmers, and service providers to the 95 percent of the world's consumers that are living outside the United States is needed to accelerate the nation's return to economic growth.

President Obama has expressed a desire to repair America's damaged credibility abroad. But making amends for unilateralist missteps during the Bush years will be difficult without first challenging—and reversing—the congressional leadership's increasingly unilateralist approach to trade. The president's repudiation of the "Buy American" language in the so-called stimulus package was a commendable start. But he must do more. Reaching out to Hugo Chavez in Venezuela, while Congress continues to deny Colombia—our staunchest ally in the region—the courtesy of a vote on the long-pending U.S.-Colombia Free Trade Agreement, will further damage America's credibility. Turning our backs on another long-pending trade agreement with South Korea will be seen as a sign of U.S. disengagement from an increasingly China-centric Asia.

According to public opinion polls, American sentiment toward international trade and globalization has been souring steadily throughout this decade. Recent surveys find Americans believing, in historically large numbers, that free trade leads to job losses, lower wages, higher prices, and economic contraction. Other surveys find that Americans believe there is more to fear than to embrace about international trade and globalization.

That Americans hold these views is one of the great ironies of the early 21st century. After all, increasing international trade and investment over the past several decades have been catalysts for the unprecedented wealth creation and robust economic growth experienced in the United States and around the world. Most Americans have been beneficiaries of sustained U.S. economic growth. Most Americans enjoy the fruits of international trade and globalization every day. Most do not harbor antipathy toward trade because they or someone they know lost a job to foreign competitors or because of outsourcing. It is simply implausible that the degree of antipathy toward trade reflected by survey results is driven by past personal experiences or any realistic fears about the future.

Could it be that U.S. policymakers and the media have helped shape and reinforce these negative attitudes? After all, anti-trade rhetoric flows from Congress and the media into America's livingrooms via cable news—sometimes shortly before pollsters call, seeking opinions about trade. Those opinions are then cited by policymakers as evidence that their own hostility toward trade reflects the views of a worried American public. And the vicious circle spins on.

Congress and the media have indeed been central to the perpetuation of three myths. Both have spoken for years about the decline of U.S. manufacturing as though it were fact, when the overwhelming evidence points to a sector that, until the onset of the current recession, was robust and setting performance records. Both ascribe bloated significance to the U.S. trade deficit without attempting to convey or even understand its causes, meaning, or implications.

And both contend that this alleged decline of manufacturing and the rising trade deficit attest to the Bush administration's failure to enforce existing trade agreements.

The media's motive is straightforward: it is giving its customers what they seem to want. Frankly—and regrettably—Americans seem to be more captivated by stories of gloom and doom than by factual, logical arguments that are devoid of sensational imagery. For that reason, the media seem to favor the anti-trade narrative.

Members of Congress are motivated by the imperative of reelection, which for the Democratic Party means doing the bidding of organized labor—a special interest that opposes international economic engagement and allowing Americans the choices that trade affords. Meanwhile, economic nationalists from the Republican Party see trade as a zero-sum game, and a losing proposition from a national security perspective. They oppose U.S. policies that benefit potential adversaries, regardless of how enriching those policies may be to Americans.

The Bush administration was also complicit—although sometimes unintentionally—in this shaping of adverse public opinion. The very fact that former president George W. Bush (one of the least popular presidents in history) supported trade liberalization was reason enough for many people to question its virtues. But more substantively, President Bush and his trade policy team spent too much time touting the benefits of exports while downplaying or ignoring the benefits of imports. In so doing, the administration reinforced public misconceptions that imports are bad and that our large trade deficit is proof that the United States is losing at trade.

For our part, pro-trade advocates have failed to make a convincing and durable case for why free trade is superior to the alternatives. The factual arguments are compelling, but tend to be lost on a public that is more susceptible to depictions of worst-case scenarios and the ill-conceived policy bromides that follow. The scholarship is there, but we need better salesmanship.

The authors' intention in this paper is to make the arguments for freer trade more accessible and compelling so that the Obama administration may be more inclined to carry that message. Restoring the pro-trade consensus in America should be among the most important—and least expensive—objectives of the Obama presidency. Particularly in this time of economic contraction, if the United States indulges misplaced fears and attempts to retreat from the global economy, the country will suffer perennially slower economic growth, which could adversely affect U.S. living standards. Neither Democrats nor Republicans want this to be our nation's fate or their political legacies.

The steadfast determination of the U.S. president to arrest and reverse America's misguided and metastasizing aversion to trade would help restore the pro-trade consensus. But that first requires that the president be familiar with the lingering misperceptions and political circumstances that have driven the backlash against trade. Thus, the first section of the paper provides some historical context for that backlash. The next section exposes some of the pervasive myths that have motivated the backlash. The third section offers suggestions for changing the terms of the debate. And the fourth section lays out some objectives for the Obama administration as it works to restore the pro-trade consensus.

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The Backlash against Trade

Not too long ago, Bush administration officials spoke optimistically about a free-trade zone from Alaska to Tierra del Fuego, and a world free of industrial tariffs by 2015. U.S. trade policy held promise as a tool to reduce global trade barriers and to achieve greater economic integration and growth.

With international solidarity strong and good will running high in the wake of the 9/11 terrorist attacks, a new multilateral trade negotiating round was launched in Doha, Qatar, under the auspices of the World Trade Organization in November 2001. Within nine months—and after an eight-year lapse—Congress granted "Fast Track" trade negotiating authority,[1] or "Trade Promotion Authority," to the president,

who then initiated bilateral trade talks with dozens of countries as part of the administration's program of "Competitive Liberalization," hoping that it would build momentum to spur a relatively quick and successful conclusion to the Doha Round.[2]

The administration's efforts produced bilateral and regional trade agreements with 16 countries between 2002 and 2007.[3] And U.S. exports to the 11 trading partners with free-trade agreements that entered into force between 2001 and 2007 grew nearly 80 percent faster on average than did U.S. exports to the rest of the world.[4]

However, it is difficult to credit Competitive Liberalization with advancing U.S. trade-policy objectives more broadly. After all, TPA has expired, a Doha Round agreement remains elusive, pro-trade voices in the Congress have dwindled through consecutive elections, the fates of three completed bilateral trade agreements hang in legislative limbo, and enforcement and litigation seem to have supplanted negotiation and cooperation as the overriding theme of trade policy in Congress. Meanwhile, major U.S. trading partners continue to pursue their own bilateral and regional agreements, extending advantages to their businesses and consumers as U.S. trade policy remains grounded.[5]

Although organized labor, through its influence on Democratic policymakers, is ultimately behind the congressional backlash against trade, it is reasonable to suggest that Competitive Liberalization helped fan the flames of that backlash—one that was hot during the 1990s, went to embers in the wake of 9/11, was stoked again in 2002, and began to rage with the election of the 110th Congress in 2006. The tactics of the Bush administration, and the Republican leadership in Congress until 2006, probably helped spawn that backlash.

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In seeking support for TPA from Democrats in the first place, the Bush administration determined that it would need to capitulate to demands that new trade agreements include enforceable labor and environmental provisions. But the administration also knew that such demands would cripple multilateral trade negotiations from the outset, as well as limit options for bilateral agreements, since most developing countries were—and remain—adamantly opposed to their inclusion.[6] At the Singapore Ministerial Meeting of the World Trade Organization in 1996, trade ministers issued a declaration of support for core labor standards while simultaneously opposing the idea of enforceable labor standards in trade agreements. Labor standards are promoted by "economic growth and development fostered by international trade and further trade liberalization," the statement read.[7]

Thus, the administration and the congressional leadership decided to pursue a strategy to secure enough Republican votes for trade promotion authority without the need of Democratic support. To win that support from wavering Republicans in import-competing states—and to forgo the need to make concessions across the aisle—the administration imposed steel tariffs, under Section 201 of the Trade Act of 1974, and changed the rules of origin for certain apparel imports to favor domestic processors.

Were steel tariffs and tightening the already protectionist textile trade rules too high a price to pay to avoid TPA language that mandated enforceable labor and environmental standards? They were certainly a high price, particularly since the Doha Round is now hopelessly off track and the administration ultimately capitulated to the Democratic leadership's demands for such standards in May 2007. Protectionist backsliding on steel and textiles helped solidify developing-country suspicions of U.S. negotiating objectives, and it helped produce the intransigent negotiating positions of the various developing-country groups in the Doha Round. But it is also unlikely that the developing countries would have allowed the negotiations to proceed if enforceable labor and environmental conditions had been required by Congress in the TPA language.

Perhaps more importantly for U.S. trade policy today, the Republican leadership's decision to try to advance trade policy without the support of the minority leadership ultimately alienated important Democrats who now control the congressional trade agenda. It would be naive to

believe that the experiences of those Democrats, as members of the minority in the 108th and 109th Congresses, didn't color their anti-trade moods in the 110th Congress. Perhaps their dispositions will change with a fellow Democrat in the White House.

With each new trade agreement announced or concluded under TPA between 2002 and 2007, Democrats in Congress seemed to raise new objections. If it wasn't specific provisions in the agreement that bothered them, it was the Bush administration's alleged failure to keep them informed of developments in the negotiations that ruffled Democratic feathers. If it wasn't allegations of being kept in the dark, it was that trade policy formulation rightfully belonged to the legislative branch in the first place (even though Congress delegated such authority to the executive branch under TPA). Rep. Charles Rangel (D-NY)—now chairman of the House Ways and Means Committee and historically a supporter of free trade—objected to the process of the Oman FTA's negotiations:

> Over the years, it appears more and more that the United States Trade Representative will deal with the Republican leadership, but on issues that Democrats think are important, we have to deal with the country itself. This is wrong. Whatever political divisions we have in our country, we ought to keep on this side of the flag and not expose our differences to foreign nations.
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> . . .
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> Democrats may be in the minority, but we should not be excluded from discussions and negotiations with the USTR. USTR should not send Democrats to foreign representatives to see what we can get in the bill, they are supposed to be our negotiator the same way they are the negotiators for the majority party. That does not happen, but it should.[8]

That same day, Rangel voted against the Oman FTA, and the agreement passed the House by a slim margin of 221–205, with only 22 Democrats in support.[9]

Competitive Liberalization, and the eight up-or-down votes that its fruits required from the Congress, ensured that Democrats were reminded frequently that their concerns were being marginalized. They were reminded frequently of the fact that President Bush was granted TPA with the support of only 25 Democrats in the House of Representatives. They were reminded frequently that the trade agenda appeared to be a partisan enterprise. And that period gave ample opportunity for Democrats, with the encouragement of their benefactors, to concoct new reasons to oppose trade agreements. Opposition to trade liberalization became a reflexive and reactionary policy position, shaped predominantly by political imperatives and devoid of compelling rationale.

Notwithstanding the partisan trade divide that became stark between 2002 and the election of 2006, the seeds of Democratic Party opposition to trade liberalization were sown earlier. From the mid-1990s forward, there appears to have been a steady erosion of what was once fairly broad bipartisan support for a liberal trade agenda. Although foreign policy hawks in the Republican Party became disenchanted with the pro-trade consensus—particularly as China's economy began to emerge—by and large the erosion is best characterized as a fraying of the pro-trade consensus along party lines.

Democrats Ditch the Pro-trade Consensus

Given today's stark partisan differences over trade policy, it is easy to forget the Democratic Party's enlightened past. It was the Democratic Party that opposed—and the Republican Party that supported—tariffs from the end of the Civil War to World War I. President Woodrow Wilson slashed tariffs considerably in 1913, only to have those tariffs raised again during the Republican administrations of the 1920s, culminating in the Smoot-Hawley Act of 1930.

It was President Franklin D. Roosevelt and his secretary of state, Cordell Hull, who began to repair the damage caused by Smoot-Hawley by promoting the Reciprocal Trade Agreements

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Act, which became law in 1934 and enabled completion of new bilateral trade agreements. It was President Harry Truman who presided over America's joining the General Agreement on Tariffs and Trade in 1947, and it was President John F. Kennedy who championed expansion of GATT, endorsing a new round of negotiations in 1961. The "Kennedy Round" was concluded in 1967 under the administration of President Lyndon Johnson.

Most of the Tokyo Round, the next major round of trade liberalization, was conducted during the Carter administration, and signed in 1979. And President Bill Clinton carried the internationalist, pro-trade banner during his administration, a period during which the Uruguay Round Agreements Act (which created the WTO) and the North American Free Trade Agreement were implemented and China was granted Permanent Normal Trade Relations status.

But during the 1990s, signs of fissure began to emerge. The NAFTA vote in 1993 revealed differences between the parties (though not as pronounced as they would become). Over 70 percent of House Republicans and less than 40 percent of House Democrats voted for passage of NAFTA. Almost four times as many Democrats (156) as Republicans (43) voted against NAFTA.[10]

Of the three most important trade bills considered by Congress during the 1990s, only the Uruguay Round Agreements Act garnered the support of a majority of House Democrats.[11] In fact, more Democrats than Republicans voted in favor of the URAA (167 versus 121). As a proportion of their respective caucuses, 65 percent of Democrats and 68 percent of Republicans voted for passage of the URAA in 1994—a solid majority of both parties.[12] But that was the high-water mark for congressional bipartisanship on trade. Democratic support for pro-trade legislation has never returned to that level.

In 1998, Congress rejected President Clinton's attempt to secure Fast Track authority, which had lapsed in 1994. That rejection is often mischaracterized as a vote to deprive a president who was regarded with contempt by the Republican majority in Congress. But a review of the vote indicates that President Clinton's defeat came at the hands of his fellow Democrats. Only 29 House Democrats voted in favor of Fast Track (14 percent of all Democratic votes), joining 151 Republicans (68 percent of all Republican votes). Of the 243 votes against Fast Track, 171 (over 70 percent) were cast by Clinton's fellow Democrats.[13] Thus, the anti-trade stance of the 110th Congress cannot be explained fully as an indictment against George W. Bush, given the post-URAA votes of the 1990s. Democrats have been slowly drifting away from the postwar, pro-trade consensus.

The decade ended with some ominous developments on the trade front. In 1999, at the biannual WTO ministerial meeting in Seattle, the anti-globalization movement burst onto the scene. Demonstrators took to the streets, protesting international trade and globalization and its alleged costs and unfairness, and preaching disdain for the WTO as an institution (and revealing their ignorance of its purpose, functions, and modest authority).

Over the next few years, the sentiments expressed during those two days in Seattle were expressed again in cities around the world hosting WTO, World Bank, or International Monetary Fund meetings. Thomas Friedman of the *New York Times* aptly described this anti-globalization movement at the time as "the well-intentioned but ill-informed being led around by the ill-intentioned and well-informed."[14] Friedman, of course, was referring to the exploitation of youthful idealists (and run-of-the-mill vandals) by labor unions, environmentalists, and other organizations, in efforts to shroud their own pecuniary, anti-trade agendas in cloaks of morality and righteousness.

And somehow, as the current decade progressed, the Democratic Party's trade perspectives came to reflect the anti-globalization movement's mantra that trade is exploitative and benefits only rich corporations—at great cost to workers and the environment. Prior to 2000, these perspectives had not been a prominent feature of Democratic Party thinking on trade.

A comparison of the language in the official Democratic Party Platforms in 1996 and 2008

is instructive here. Indeed, the international trade sections diverge at the opening sentence and never look back. The 1996 Platform begins with a positive view of trade and engagement and a commitment to opening export markets for American products:

> We believe that if we want the American economy to continue strong growth, we must continue to expand trade, and not retreat from the world. America's markets are open to the world, so America has a right to demand that the world's markets are open to our products. American products are the best in the world. When American workers and American companies have the chance to compete around the world, we do not take second place.[15]

By 2008, the international trade section of the Democratic Platform opens with a passage that treats trade as the source of inequality and "unsustainable" economic growth:

> We believe that trade should strengthen the American economy and create more American jobs, while also laying a foundation for democratic, equitable, and sustainable growth around the world. Trade has been a cornerstone of our growth and global development but we will not be able to sustain this growth if it favors the few rather than the many. We must build on the wealth that open markets have created, and share its benefits more equitably.[16]

The 1996 platform next lauds the Clinton administration's strong history of commitment to bilateral and multilateral trade agreements—including NAFTA and GATT—that expand export markets and create American jobs:

> In the last four years, the Clinton-Gore Administration has signed over 200 trade agreements, including NAFTA and GATT, to open markets around the world to American products, and create more jobs for the people who make them here at home. We have put in place the most sweeping agreements to lower foreign trade barriers of any administration in modern American history, including over 20 such agreements with Japan alone—and American exports to Japan in the sectors covered by those agreements have increased by 85 percent. All over the world, barriers to American products have come down, exports are at an all time high—and we have created over one million high-paying export-related jobs.

In 2008, the platform demotes trade to only part of a broader strategy that creates "good jobs" but emphasizes "enforcement" to close the U.S. market to all sorts of nefarious foreign cheating. Indeed, the only reference to a trade agreement in the platform is in its commitment to use the WTO as a means to fight "unfair" trade:

> Trade policy must be an integral part of an overall national economic strategy that delivers on the promise of good jobs at home and shared prosperity abroad. We will enforce trade laws and safeguard our workers, businesses and farmers from unfair trade practices—including currency manipulation, lax consumer standards, illegal subsidies, and violations of workers' rights and environmental standards. We must also show leadership at the World Trade Organization to improve transparency and accountability, and to ensure it acts effectively to stop countries from continuing unfair government subsidies to foreign exporters and non-tariff barriers on U.S. exports.

Finally, the 1996 platform promised a future of *more* trade (along with the usual sops to enforcement, labor and environmental standards, product safety, and adjustment assistance):

> In the next four years, we must continue to work to lower foreign trade barri-

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As such, the Democratic Party Platform in 2008 is difficult to distinguish from the anti-globalization movement's views on trade, inequality, labor, and the environment.

> ers; insist that foreign companies play by fair rules at home and abroad; strengthen rules that protect the global economy from fraud and dangerous instability; advance American commercial interests abroad; and ensure that the new global economy is directly beneficial to American working families. As we work to open new markets, we must negotiate to guarantee that all trade agreements include standards to protect children, workers, public safety, and the environment. We must ensure adequate trade adjustment assistance and education and training programs to help working families compete and win in the global economy.

In 2008, the tone of the platform changed dramatically, promising only to negotiate trade agreements with enforceable labor and environmental standards and committing to "stand firm against" agreements (like President Clinton's NAFTA) that are implied to be responsible for a litany of awful things:

> We need tougher negotiators on our side of the table—to strike bargains that are good not just for Wall Street, but also for Main Street. We will negotiate free trade agreements that open markets to U.S. exports and include enforceable international labor and environmental standards; we pledge to enforce those standards consistently and fairly. We will not negotiate free trade agreements that stop the government from protecting the environment, food safety or the health of its citizens, give greater rights to foreign investors than to U.S. investors, require the privatization of our vital public services, or prevent developing country governments from adopting humanitarian licensing policies to improve access to life-saving medications. We will stand firm against agreements that fail to live up to these important benchmarks.

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Figure 1 illustrates the decline in bipartisanship on trade matters. Only 35 percent of Democratic members voted for Permanent Normal Trade Relations with China in 2000, as compared to 73 percent of Republicans.[17] Only 12 percent of House Democrats voted to grant Trade Promotion Authority to President Bush in 2002, as compared to 87 percent of Republicans.[18] In 2003, about 37 percent of House Democrats voted for the U.S. trade agreements with Chile and Singapore, whereas 87 percent and 88 percent of Republicans voted for those agreements, respectively.[19] In 2004, agreements with Morocco and Australia both passed the Congress with majority support in both parties. Opposition to those agreements by traditional Democratic Party benefactors was more muted than usual.

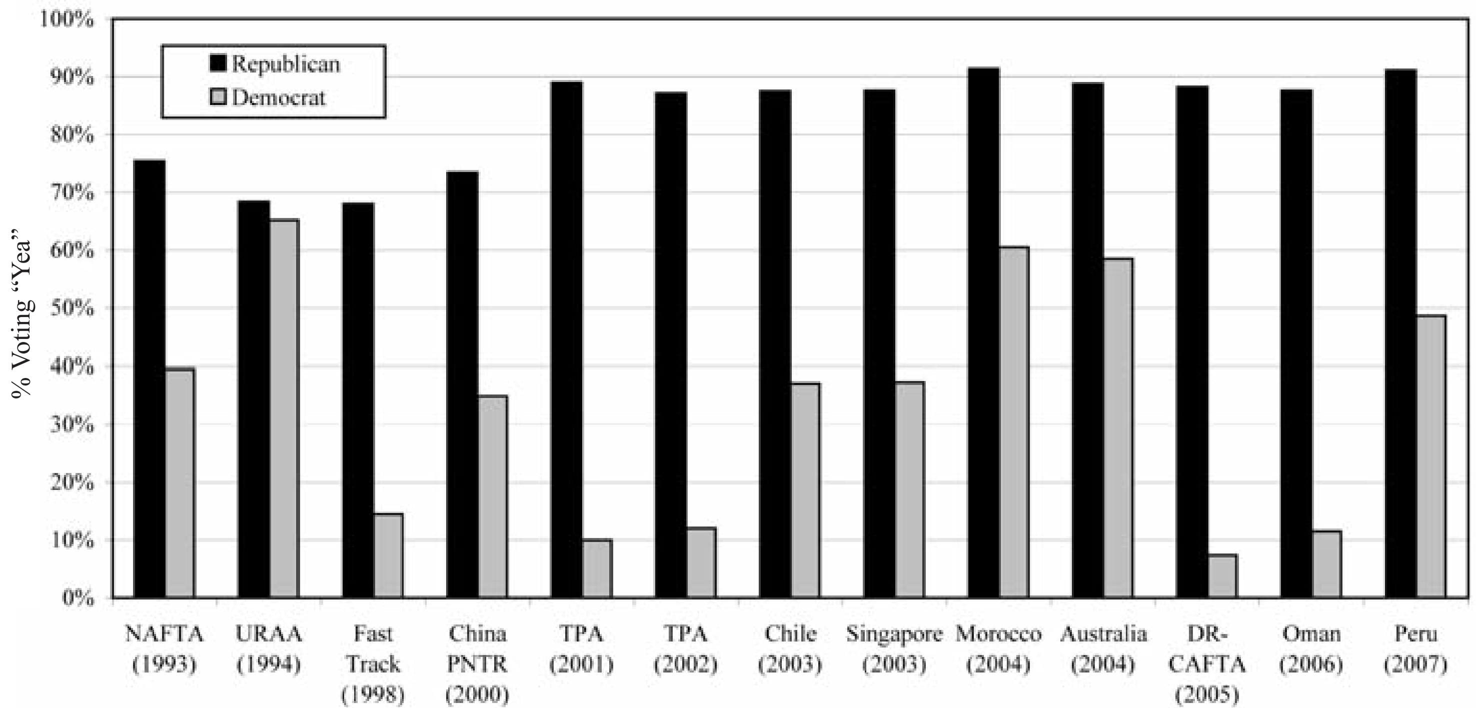
But in 2005, partisan battle lines were redrawn over the Dominican Republic–Central America Free Trade Agreement (DR-CAFTA); just 15 House Democrats (7 percent of all Democrats) voted for DR-CAFTA, which passed by only two votes.[20] And the U.S.-Oman Free Trade Agreement, which passed Congress in 2006, attracted support from less than 12 percent (23) of House Democrats.[21]

Public Sentiment Follows the Political Rhetoric

During the final two years of the Bush administration—a period coinciding with the return of Congress to Democratic Party control—once-giddy expectations for comprehensive international trade liberalization yielded to the realization that free trade has its committed opponents who are intent on halting—if not reversing—60 years of trade expansion.

In 2007, TPA expired and serious efforts to extend or renew that historically crucial tool of trade diplomacy never materialized. Progress in the multilateral Doha Round also remained elusive. And completed bilateral trade agreements with Colombia, Panama, and South Korea were shunted aside by a Congress seemingly more interested in trade enforcement and

Figure 1
Trade Votes in the U.S. House of Representatives, Percent of Respective Party Voting in Favor



Source: Compiled from tabulation of House voting records, http://clerk.house.gov/art_history/house_history/index.html.

prosecution than in commerce and negotiation. Dozens of pieces of anti-trade legislation were introduced in the 110th Congress.[22]

Perhaps most indicative of the new dispensation in Washington was the so-called "New Trade Policy for America" put forth by the Democratic trade leadership in May 2007. The document was a Democratic Party manifesto elevating enforceable labor and environmental standards in trade agreements to priority status, just ahead of "stand[ing] up for American workers, farmers, and businesses, especially in the hard-hit U.S. manufacturing sector."[23] The concept of opening foreign markets to create new opportunities for U.S. workers, farmers, and businesses (traditionally the first priority of trade policy) was even further down the list.

From this document was negotiated a "Grand Bargain" on trade, under which Democrats vowed support for the pending bilateral trade agreements, provided those agreements be reopened to include enforceable environmental provisions and more stringent, enforceable labor conditions. Of course, the agreements had already been negotiated and concluded pursuant to the TPA language from 2002, which required that our trade partners enforce, and not degrade, their existing labor laws.

Nevertheless, the Bush administration agreed to those conditions and our trade partners who were vested heavily in the agreements' success had no real choice but to reopen the agreements. The required language was inserted, and eventually the Peru agreement was passed. However, after all that, new objections were raised to the other three agreements.[24]

About the Colombia agreement, House Speaker Nancy Pelosi and Chairman Rangel issued a statement in April 2008—almost a full year after the "Grand Bargain"—that read: "Despite progress made by [Colombian] President Uribe, Colombia remains a dangerous place to be

For two years, anti-trade rhetoric spewed from the halls of the 110th Congress and onto the 2008 presidential campaign trail, helping spook Americans about trade and globalization.

a labor activist, and for those who commit these acts of violence, there is little threat of prosecution or punishment. Sustained progress on the ground remains a prerequisite for our support [for the trade agreement]."[25] That excuse was echoed by then-presidential candidate Barack Obama in the final presidential debate, as he explained his own opposition to the agreement.[26] Hopefully, as president, Obama will heed the facts about what has been happening in Colombia and shed this abused, anachronistic excuse for rebuking a crucial U.S. ally in South America.[27]

Spearheading the post-"Grand Bargain" opposition to consideration of the U.S.-Korea agreement has been House Ways and Means Subcommittee on Trade chairman Rep. Sander Levin (D-MI). Levin's opposition is predicated on the agreement's failure to incorporate an absurd proposal that he, Chairman Rangel, and 13 other members—mostly from Michigan—foisted upon the U.S. trade representative in the waning weeks of the negotiations. Chairman Levin insists that the agreement be revised to condition-improved Korean access to the U.S. auto market on the success of U.S. auto sales in Korea. Hence, in a given year, if U.S. auto producers sell 10,000 more cars in Korea than in the previous year, then Korean producers would get duty-free access to the United States for 10,000 more cars in the following year. Only after American sales success in Korea had been demonstrated would the U.S. market be opened further to Korean autos. In other words, Korean producers' access to the U.S. market would be determined by the sales objectives of the U.S. producers. By electing to sell nothing in Korea, the U.S. producers would preempt any duty-free Korean sales in the United States.

To Levin and the other architects of the proposal, the fact that Korea's auto market has been notoriously tough to penetrate renders Koreans untrustworthy enough to warrant perpetual probationary treatment. But that characterization is all part of an elaborate smokescreen for sinking the agreement unless its terms favor the U.S. auto industry. In this case, U.S. auto producers would dictate whether and to what extent they have Korean competition in the United States by whether and to what extent they try to sell in Korea. It's a "heads I win, tails you lose" proposition for Detroit. It's a losing proposition for everyone else—especially consumers.

Beyond the refusal to consider completed trade agreements, members of the 110th Congress introduced a few dozen bills, objectively characterized as antagonistic of U.S. trade partners, including legislation that makes enforcement of trade agreements systematic and mandatory;[28] lowers the current evidentiary thresholds for imposing anti-dumping, anti-subsidy, and China-specific safeguard duties;[29] establishes a panel of retired federal judges to review adverse WTO decisions and advise Congress on the propriety of those decisions before any steps toward compliance are undertaken;[30] forbids the United States from entering into any new trade agreements;[31] revokes China's "normal trade relations" status;[32] defines and treats currency manipulation as a "countervailable" subsidy;[33] requires the president to pursue concrete measures to achieve greater trade balance with countries that have persistent trade surpluses with the United States;[34] and, expands trade adjustment assistance programs to cover people who have allegedly lost jobs in the services sectors because of outsourcing.[35] Implicit in all of this legislation: trade liberalization is bad, U.S. trade partners cheat, and the folly of America's embrace of globalization is evidenced by its massive human toll.

To complement the legislation there has been an orgy of political rhetoric. For two years, anti-trade rhetoric spewed from the halls of the 110th Congress and onto the 2008 presidential campaign trail, helping spook Americans about trade and globalization. And it has taken a toll on the public psyche. The results of several different opinion polls support the conclusion that public wariness about trade increased throughout the decade. The same Gallup Poll question asked in five different opinion surveys between February 2002 and February 2008, reveals a sharp decline in favorable public sentiment toward trade. It asks:

> What do you think foreign trade means for America? Do you see foreign trade more as an opportunity for

> economic growth through increased U.S. exports, or a threat to the economy from foreign imports?

In 2002, a 52 percent majority viewed trade as an opportunity, while 39 percent viewed trade as a threat. In each successive poll, the percentage viewing trade as an opportunity decreased and the percentage seeing trade as a threat increased. By 2008, the tables had turned entirely, with 51 percent seeing trade as a threat and only 40 percent seeing it as an opportunity.[36] It is worth noting, however, that even Gallup pollsters have succumbed to the "exports good, imports bad" fallacy. The phrasing of the question steers the respondent toward the negative response. The question associates exports with "opportunity" and imports with "threat" (even though rising imports are empirically associated with economic growth). The most commonly referenced trade statistic in America is the trade balance, which is published on a monthly basis by the Commerce Department. Is it possible, then, that the increase in unfavorable responses simply reflects the fact that the trade deficit increased between 2002 and 2008?

A long-running Pew Research Center survey question asks respondents whether they think the impact of trade agreements on the country is a "good thing" or a "bad thing." In six surveys dating back to September 1997, the percentage of people choosing "bad thing" ranged from 29 percent in September 2001 to 35 percent in December 2006. In the April 2008 poll, that figure shot up to 48 percent and was 13 percentage points higher than the figure for those people indicating it is a "good thing."[37] Could that spike have something to do with the heated presidential campaign, which filled the airwaves and television channels with anti-trade rhetoric during the debates? It was at the end of February 2008, during a debate at Cleveland State University on the eve of the Ohio primary, that the late Tim Russert extracted renunciations of NAFTA and promises to reopen the agreement from both Democratic candidates, Hillary Clinton and Barack Obama. Those exchanges kept trade issues in the news cycle for the duration of the primary election campaigns.

Congress often cites this growing antipathy toward trade as justification for its strident rhetoric and provocative proposals. In introducing the Trade Enforcement Act of 2008, Chairman Rangel offered:

> The American public is skeptical about U.S. trade policy in part because the public does not believe that our trading partners are playing by the same rules as the United States. Our trading partners need to open their markets to U.S. exporters. They need to stop providing trade-distorting subsidies, and to stop dumping their products in our market. They need to protect intellectual property rights, and they need to ensure that their exports to the United States are safe. The Trade Enforcement Act of 2008 will help to regain confidence in U.S. trade policy.[38]

Subcommittee Chairman Levin added:

> For international trade to work for U.S. workers, farmers and businesses, we must be sure that trade is a two way street. We need to start enforcing the agreements that have been reached, rather than passively accepting their breach. We need a more assertive approach to the enforcement of our international agreements and trade laws. The Trade Enforcement Act of 2008 is a major step in the right direction.[39]

It is grossly misleading—but increasingly par for the course—for the two highest-ranking members of the House of Representatives on matters of trade to concoct a feeble excuse for U.S. protectionism by implying that foreign markets are closed to U.S. exports when, in fact, U.S. exports have been setting new records year after year. Chairman Rangel states that the American public is skeptical about trade without noting the irony of his own role in perpetuating that skepticism. The backlash against trade is demonstrably a top-down, rather than

Chairman Rangel states that the American public is skeptical about trade without noting the irony of his own role in perpetuating that skepticism.

a bottom-up, phenomenon. Trade has been demonized because important political interests want it curbed, and because politicians can exploit the public's naivete about the topic.

The actions and rhetoric of the 110th Congress have signaled to the world that U.S. trade policy is at a crossroads. It is difficult not to conclude that the post-WWII preference for engagement, negotiation, and cooperation between the United States and other nations is yielding to a burgeoning desire for isolation, litigation, and enforcement. That conclusion is particularly troubling considering how essential America's global engagement has been to U.S. and world economic growth during the past 60 years. It would be irresponsible of Congress and the new president to pretend that this change in attitude toward trade is driven by facts and logic, rather than the worst kind of political maneuvering.

President Obama famously said there is neither a Red America nor a Blue America, only the United States of America. Anti-trade demagoguery tends to hail from the far left and far right of the traditional political spectrum. The president has stated that he intends to govern from the center. Most of President Obama's cabinet and adviser appointees in the economic sphere seem to have centrist sensibilities. And freer trade has been the policy objective of the moderate center through Democratic and Republican administrations and Congresses since the Reciprocal Trade Agreements Act of 1934.

Hopefully, President Obama will be more successful than his predecessor at convincing Congress that trade bashing is destructive and wrongheaded. Hopefully, he will see the light and do his vital part to restore the bipartisan, pro-trade consensus.

It is simply implausible that the degree of antipathy toward trade reflected in opinion polls is driven by past personal experiences or *realistic* fears about the future.

Exposing the Myths that Malign Trade

That trade and, more broadly, U.S. engagement in the global economy have been so badly maligned is one of the great ironies of the early 21st century. After all, during the past quarter century (between 1983 and 2007), as the value of U.S. trade increased more than five-fold in real terms, U.S. employers added 46 million jobs to payrolls and real GDP more than doubled to $14.5 trillion.[40]

Most Americans enjoy the fruits of international trade and globalization every day: driving to work in vehicles containing at least some foreign content; talking on foreign-made mobile telephones; having extra disposable income because retailers like Wal-Mart, Best Buy, and Home Depot are able to pass on cost savings made possible by their own access to thousands of foreign producers; eating healthier because they now can enjoy fresh imported produce that was once unavailable out-of-season; paying lower mortgages on account of the availability of foreign capital in the lending market; depositing bigger paychecks on account of their employers' growing sales to customers abroad; and enjoying health or vacation benefits provided by an employer that happens to be a foreign-owned company.

It is simply implausible that the degree of antipathy toward trade reflected in opinion polls is driven by past personal experiences or *realistic* fears about the future. The overwhelming majority of Americans have not lost jobs to import competition or outsourcing, nor do they know someone who has. Less than 3 percent of U.S. job loss is attributable to import competition or outsourcing.[41] Nevertheless, surveys indicate that Americans, by large margins, fear rather than embrace trade and globalization. So this all raises a crucial question: Why?

Why have Americans grown so skeptical and fearful of trade and globalization? Could it have something to do with the fact that they are barraged routinely with reports from the media, campaigning politicians, and from Congress that trade is a scourge that threatens their jobs and their futures? These tales usually rely on one or more of three prominent myths.

Myth 1: Manufacturing Is in Decline . . . and Trade Is to Blame

A popular refrain heard on cable news channels, from members of Congress, and during the 2008 presidential campaign is that U.S.

manufacturing is in decline and that trade and globalization are to blame. Unfair import competition, closed foreign markets, and "Benedict Arnold" corporations that outsource or use offshore production have caused deindustrialization and manufacturing job loss in the United States.

Consider the following quote from Sen. Sherrod Brown (D-OH), a long-time opponent of globalization and free trade:

> Having lost more than 3 million manufacturing jobs since 2000, it is imperative that U.S. trade negotiators rigorously defend our trade laws. Strong trade laws ensure there is a level playing field for our farmers and workers. . . . If our trading partners seek any weakening of these trade laws, they should understand it will be met with steadfast opposition in Congress.[42]

As with most political speeches about manufacturing and trade these days, Sen. Brown relies on the "assumptive close" to guide his audience around a debatable proposition and straight to his solution. The assumptive close is a psychological technique commonly used by sales people to get you to agree to something to which you're not prepared to agree. You're asked: "What color sedan will you be buying?" before you've even decided that you're going to buy a car in the first place, or "Shall I hold that dress at the counter for you, while you find matching accessories?" before you're even sure the dress is for you.

The myth of U.S. manufacturing decline has been sold to the public with a classic assumptive close. Before sparing even a moment to assess the premise that manufacturing is in decline, the assertion is inoculated from close scrutiny by shifting attention to the follow-up: that trade is to blame for the condition of manufacturing. After all, Americans are aware that imports are more ubiquitous today than in the past, and that products bearing the "Made in America" label are harder to find in retail stores. So if people are aware their shopping carts contain imports, they should just assume those imports have come at the expense of—or caused a "decline" in—U.S. manufacturing.

The success that trade's detractors have had in smothering an honest dialogue about the condition of U.S. manufacturing has kept the myth of manufacturing decline alive. In the process, those detractors have inflicted damage on Americans' confidence in their country's future, raised undue fears about trade, and helped perpetuate a divisive and highly misleading narrative about Main Street versus Wall Street.

The success that trade's detractors have had in smothering an honest dialogue about the condition of U.S. manufacturing has kept the myth of manufacturing decline alive.

According to nearly every financial statistic that is relevant to evaluating the health of the manufacturing sector, it was unequivocally thriving until the onset of the recent U.S. financial crisis and recession. In 2006, U.S. manufacturing achieved record highs for output, revenues, profits, investment returns, exports, and imports.[43] Yes, imports. In fact, U.S. producers accounted for *at least* 55 percent of U.S. import value in 2006 and 2007.[44] And not just by coincidence: in 2007 new records were set for output, revenues, value added, and exports in the manufacturing sector.[45] Profits and return on investment tailed off in 2007 because of the rising costs of commodities and transportation.

According to economists at the National Bureau of Economic Research, in December 2007 the U.S. economy slipped into recession and the manufacturing sector has not been spared. Like other sectors of the economy, manufacturing value added has contracted, and sales, profits, and return on investment have suffered. But it is important to make this crucial distinction: manufacturing is suffering a cyclical downturn, not a structural shift reflecting deindustrialization.

The U.S. and global economic slowdown—and not import competition or outsourcing—explains the 2008 contraction in American manufacturing. Manufacturing performance records were achieved in 2006 and 2007, amid record-high imports. Manufacturing contracted throughout 2008, as imports began a steep decline after July. Thus import penetration did not cause the U.S. manufacturing sector's problems in 2008. Moreover, trade skeptics like Sen. Brown have been lamenting manufacturing's demise for several years now, even during

For starters, it is incomplete and misleading to speak of the "advantages" held by foreign-based producers in the realm of international competition without speaking of the advantages held by American-based producers.

years when output and operating performance were setting new record highs.

It is true that there are fewer workers in the manufacturing sector today than in years past. But manufacturing employment peaked in 1979 and started to decline well before trade accounted for even a fraction of GDP. Strong productivity gains and the continuing shift of the U.S. economy toward services explain the decline in manufacturing employment.

Between 1979 and 2007 the number of U.S. manufacturing jobs declined from 19.4 million to 13.9 million, or by 196,429 per year. In the 14 years between 1979 and the launch of NAFTA, the U.S. manufacturing sector shed 2.7 million jobs. In the 14 years between the launch of NAFTA and 2007, the sector shed an almost identical 2.8 million jobs. During the manufacturing recession period that encompassed months during 2000–2003, the rate of job decline increased five-fold to 933,333 per year. But from 2004 to 2007, the decline was only 100,000 per year. In other words, the period of steep employment declines ended six years ago and, despite unrelenting political rhetoric to the contrary, the rate of job attrition in manufacturing remained well below the 28-year average from 2004 through 2007.[46]

Trade critics like to attribute the decline in manufacturing employment to competition from producers who have shuttered operations in the United States to relocate abroad, where they have the unfair advantage of access to low-wage workers and lax business operating standards. But that is a far-fetched proposition.

For starters, it is incomplete and misleading to speak of the "advantages" held by foreign-based producers in the realm of international competition without speaking of the advantages held by American-based producers. Sure, lower wages abroad can serve as an incentive to off-shore manufacturing or to outsource services functions, but wages are neither the only—nor the most important—consideration in these production/investment decisions. If wage differentials were determinative, there would be very little manufacturing or services activities in the United States. It would all be gone.

Instead, we see large and increasing foreign direct investment flowing into the U.S. industrial base year after year. Why is ThyssenKrupp building a $3.7 billion green field steel production facility in Alabama?[47] Why do foreign nameplate automakers continue to invest in U.S. manufacturing facilities?[48] Why do the 5.3 million Americans employed by U.S. subsidiaries of foreign-owned companies earn on average 32 percent higher compensation than workers at U.S.-owned companies?[49] Because there is no race to the bottom in pursuit of lower wages and lax standards, as some suggest. Rather, there is a race to the top—for skilled workers, for access to production facilities closer to markets, for investment in countries where the rule of law is clear and abided, where there is greater predictability to the business climate, where tax rates are more favorable, where the specter of asset expropriation is negligible, where physical and administrative infrastructure is in good shape, and so on. Labor costs are but one of a multitude of considerations driving investment decisions. With respect to virtually all of the other factors, the United States fares extremely well relative to most other countries.

Indeed, a recent study by McKinsey & Company found that in 2008 rising oil prices, the declining value of the U.S. dollar, and logistics concerns, among others, could cause many investors to rethink off-shoring strategies and even to consider "re-shoring" manufacturing facilities in the United States.[50] The study makes clear that sourcing decisions require a complex calculation in which labor costs are one of many factors.

The manufacturing sector's declining share of total U.S. gross domestic product is often cited as evidence of deindustrialization. But the sector's share of the economy peaked in 1953 and also started to decline long before trade accounted for little more than a rounding error in the calculation of GDP.

Relative to the value of our total economy, manufacturing has declined on account of growing output from our burgeoning services sector. But in absolute terms, manufacturing output typically sets new records year after year. In fact, in the 48 years between 1959 (the

first year in Table B-51 of the *2009 Economic Report of the President*) and 2007 (the last full year of the report), manufacturing output exceeded the previous year's output 42 times.[51] In 2007, manufacturing output was at an all-time high, breaking the record set in 2006—which broke the record from 2005.

In the past quarter century, annual manufacturing output contracted just twice—during the recessions of 1991 and 2001. Where's the deindustrialization in those figures? Official figures for 2008, when they are released, may very well show a contraction in manufacturing output. But like the previous six contractions over the last half-century, it will reflect a cyclical downturn from which the manufacturing sector will recover.

Another common misperception encouraged by the shallow political discourse on this topic is that we don't make anything anymore—that everything on the store shelves is made in China; that the Chinese are "eating our lunch." Certainly, foreign-made goods have a much greater presence in retail stores than they once had. In fact, many of the product categories that Americans purchase in retail establishments—clothing, electronics, tools, housewares, furniture—are all dominated by foreign producers nowadays. So what?

Consumers are more likely to see "Made in China" or "Made in Vietnam" than they are likely to see "Made in the U.S.A." But that doesn't mean U.S. producers don't make anything anymore. American factories make lots of things, and in particular, higher-value products that aren't typically sold in retail stores—like airplanes, advanced medical devices, sophisticated machinery, and biotechnology products. Figure 2 provides a glimpse of the changing composition of U.S. manufacturing since the 1940s. As the steel and textile industries have diminished in terms of their relative contribution to overall manufacturing value added, more sophisticated and less labor-intensive industries have become more meaningful.

In fact, American factories are the world's most prolific, accounting for over 25 percent of the world's manufacturing value added in 2006.[52] China accounted for about 10.6 percent.[53] Thus, for every dollar of output coming from Chinese factories, U.S. factories produce almost $2.50. The main reason for continued American industrial preeminence is that the U.S. manufacturing sector has continued its transition away from labor-intensive industries toward higher value-added production. It is the value of production that matters. It is the value of output that determines the size of the economy, not whether producers make highly visible consumer goods. And, contrary to the rhetoric, it is not how many workers a producer employs that matters, but really how few, or put differently, how productive each is. If 10 workers are required to produce $1,000 worth of output, then each worker (all things equal) accounts for an average $100 of output and, assuming a simple example, an average $100 of income. But if five workers can produce that same $1,000 worth of output, not only do incomes rise to $200 for those workers, but there are now five additional workers who are free to add value in some other endeavor. It is the freed-up capacity of those five workers—when applied elsewhere in the economy—that fuels economic growth.

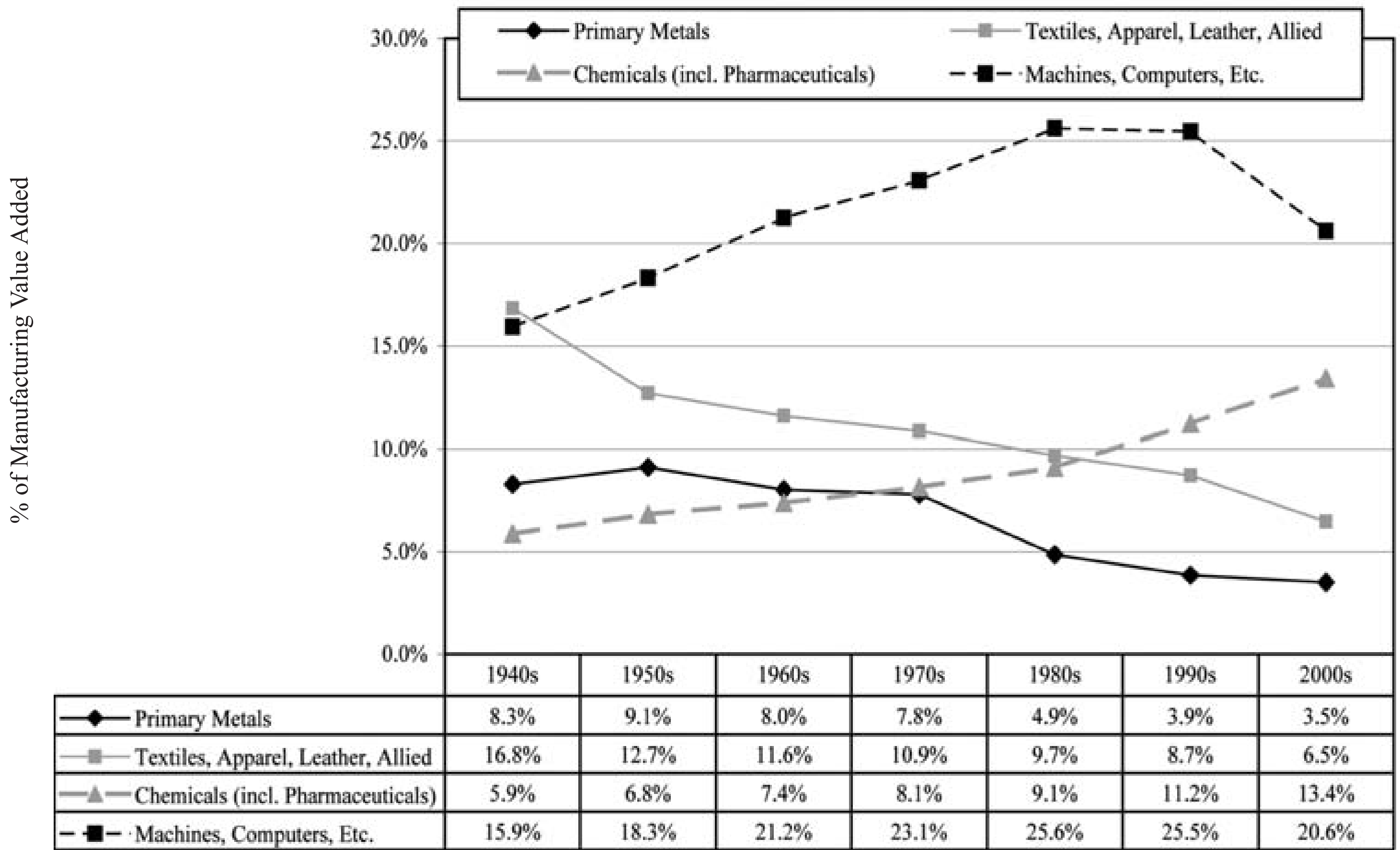
If it wasn't the value of output that mattered, but was instead its physical weight, then one could reasonably assert that Chinese producers dominate world manufacturing. But it is value that matters, and U.S. factories produce more value than factories in any other country.

U.S. manufacturing has ceded most of its lower value-added production to other countries, which has enabled it to ascend the value chain to focus on the next generation of machinery, instruments, chemicals, and biotechnology applications, while U.S. consumers have been afforded greater variety and better prices for everyday products. If that process were stunted, if American manufacturers were forced to devote resources to the production of goods of yesteryear—toys, clothes, hand tools, mass-produced furniture—then our ascent up the value chain would be retarded and our rising standards of living threatened.

The capacity to pioneer the manufacturing frontier is crucial to the health of American manufacturing and the health of the broader

American factories make lots of things, and in particular, higher-value products that aren't typically sold in retail stores—like airplanes, advanced medical devices, sophisticated machinery, and biotechnology products.

Figure 2
Changing Composition of U.S. Manufacturing Value Added by Select Industry Groups (as % of Manufacturing Value Added) 1947–2007 by Decade Average



	1940s	1950s	1960s	1970s	1980s	1990s	2000s
Primary Metals	8.3%	9.1%	8.0%	7.8%	4.9%	3.9%	3.5%
Textiles, Apparel, Leather, Allied	16.8%	12.7%	11.6%	10.9%	9.7%	8.7%	6.5%
Chemicals (incl. Pharmaceuticals)	5.9%	6.8%	7.4%	8.1%	9.1%	11.2%	13.4%
Machines, Computers, Etc.	15.9%	18.3%	21.2%	23.1%	25.6%	25.5%	20.6%

Source: Bureau of Economic Analysis, Gross Domestic Product by Industry Data, http://www.bea.gov/industry/gdpbyind_data.htm.

economy because new innovations create revenues for U.S.-based producers (exclusively for a period of time), and spur the creation of new jobs in the manufacturing and the services sectors that transport, market, advertise, retail, and engineer those new innovations. An open trading system facilitates this process: access to export markets increases revenue potential and creates economies of scale for U.S. producers, while access to imported raw materials reduces the cost of production, enables Americans to buy and save more, and provides foreigners with the resources to purchase U.S. exports.

The assertion that U.S. manufacturing is in decline is an enduring myth—perpetuated by politicians and the media. In fact, the complete opposite is true. U.S. manufacturing has been thriving. And it has been thriving, in large measure, because of trade. Access to foreign markets for export sales and access to foreign suppliers for U.S. manufacturing inputs are important parts of the manufacturing sector's success story.

Myth 2: The Trade Balance Is the Scoreboard

The second pervasive myth is that exports are good, imports are bad, and the trade account is the scoreboard. According to this perspective, the large U.S. trade deficit confirms that the United States is losing at trade.

Consider the following quote from TV's loudest trade skeptic, CNN's Lou Dobbs, at a 2007 congressional hearing on U.S. trade policy:

> The United States has sustained 31 consecutive years of trade deficits, and those deficits have reached successively higher records in each of the past five years. The trade deficit has more than doubled since President George W. Bush took office. The U.S. trade deficit has been a drag on our economic growth in 18 of the 24 quarters of George W. Bush's presidency.
>
> The current account deficit in 2006 reached almost $857 billion, also a new record, and now represents 6.5 percent of our total GDP. Since 1994, the first full year in which the North American Free Trade Agreement was in effect, the United States has accumulated more than $5 trillion in external or trade debt. . . .
>
> As I've already pointed out, free trade has been the most expensive trade policy this nation has ever pursued. There is nothing free about ever-larger trade deficits, mounting trade debts and the loss of millions of good-paying American jobs.[54]

But Dobbs is confused. His indictment of trade policy is impossible to link to the trade balance because the trade account is not a function of trade policy. Trade imbalances reflect disparate patterns of saving and consumption in different countries, which are functions, to some degree, of monetary policy, fiscal policy, faith in public institutions (like banks, markets, and the justice system), culture, and degrees of confidence about what the future may hold, among other things.

It is easy to understand why Dobbs and many other Americans are confused about these matters. After all, the fallacy is reinforced, often unknowingly, by policymakers who purport to champion open trade. President Bush and his trade policy team frequently reinforced these misconceptions. The former U.S. trade representative Susan Schwab liked to speak of the fact that the United States was running a trade surplus with the dozen or so countries with whom free-trade agreements were implemented during the Bush years. Implicit in her selling point was that trade surpluses are an unequivocally good thing and that maximizing exports and minimizing imports are worthy objectives. Well, if net exports are the metric by which to measure success, then it does not require a sophisticated analysis to conclude that, with a $700–$800 billion aggregate trade deficit, overall U.S. trade policy is an abject failure. But that would be wrong—or at least impossible to conclude from those data.

The Chinese have been big savers throughout their process of economic liberalization, which began in 1978. Americans, on the other hand, have tended not to save very much. Some might want to chalk that up to American profligacy or evidence of declining industriousness and virtue, but the fact is that one of the reasons for low U.S. savings rates is that foreigners have traditionally preferred investing in the United States over other economies. The availability of foreign capital has helped drive U.S. business expansion as well as helped tip the balance in favor of spending over saving for many Americans. Relatively low interest rates have made spending more affordable and saving less prudent.

Foreign investment in U.S. real estate, factories, equities, and government debt—all reflected in the large U.S. capital account surplus—helps explain low U.S. saving rates. The surplus of foreign capital (which mirrors the deficit in the current account) has kept U.S. interest rates low, and interest rates are the cost of current spending vis-à-vis saving. When interest rates fall, the cost of spending versus saving also falls.

It is these differences between the United States and other countries in levels of consumption and saving that explain the current large U.S. account deficit and the equally large capital account surplus. Neither is much a function of trade policy.

Dobbs is confused. His indictment of trade policy is impossible to link to the trade balance because the trade account is not a function of trade policy.

The trade deficit is maligned because imports are maligned, but the fact is that imports *declined* precipitously in the second half of 2008 as the U.S. economy entered recession and unemployment began to climb.

Second, the idea that balanced trade or a trade surplus should be an explicit goal of policymakers is utter folly. Between 1983 and 2007, the annual U.S. trade deficit increased from $67.1 billion to around $819.4 billion—or by nearly six-fold in real terms.[55] During that same period real GDP grew at an average annual rate of 3.2 percent and employers added an average of 1.8 million net new jobs to payrolls every year.[56] The unemployment rate also declined over the period: the average rate in the 1980s was 7.2 percent; in the 1990s it was 5.7 percent; and, between 2000 and 2007 it averaged 5.0 percent.[57]

The surge in unemployment during 2008 from 4.9 percent in January to 7.2 percent in December cannot be attributed to a growing trade deficit, since the deficit shrunk considerably during the year.[58] The January–November trade deficit in goods and services stood at $631 billion in 2008, $643 billion in 2007, and $693 billion in 2006. The November 2008 deficit was $40.4 billion, 34 percent lower than the $61.4 billion registered during the peak 2008 deficit month of February.[59]

The trade deficit is maligned because imports are maligned, but the fact is that imports *declined* precipitously in the second half of 2008 as the U.S. economy entered recession and unemployment began to climb.[60] According to a report from the Progressive Policy Institute, a centrist Democratic think tank, November's import decline of $25 billion, or 12 percent from the previous month, and the $46 billion five-month decline from July's peak, were the steepest drops in import values since 1942. The author corroborates what Cato scholars have been reminding policymakers for years: that there is a positive correlation between imports and economic growth:

> The normal pattern of American economics is for imports to grow, as shoppers pick up mall purchases and businesses buy metal, semiconductor chips, and energy. Anxiety emerges when this growth speeds dramatically, reflecting an upheaval in commodity prices or a rearrangement of global industry—but almost invariably, except in the case of sudden surges in energy prices, total job numbers rise when imports are rising. When imports go down, on the other hand, it means nobody is buying things and the economy is in recession. Since World War II, therefore, periods of recession and job loss match falls in imports almost perfectly.[61]

Figures 3 and 4 support PPI's assertion that imports are pro-cyclical. Figure 3 plots annual GDP growth on the x-axis and annual import growth on the y-axis for the years 1960 through 2007. Each point represents the rate of GDP growth and the rate of import growth during a particular year. The trend line running through the scatter plot shows a strong direct correlation between the two series. In only two of the 48 years plotted are GDP growth and import growth not moving in the same direction, while the remaining 46 years fall into the top right (positive, positive) or bottom left (negative, negative) quadrants.

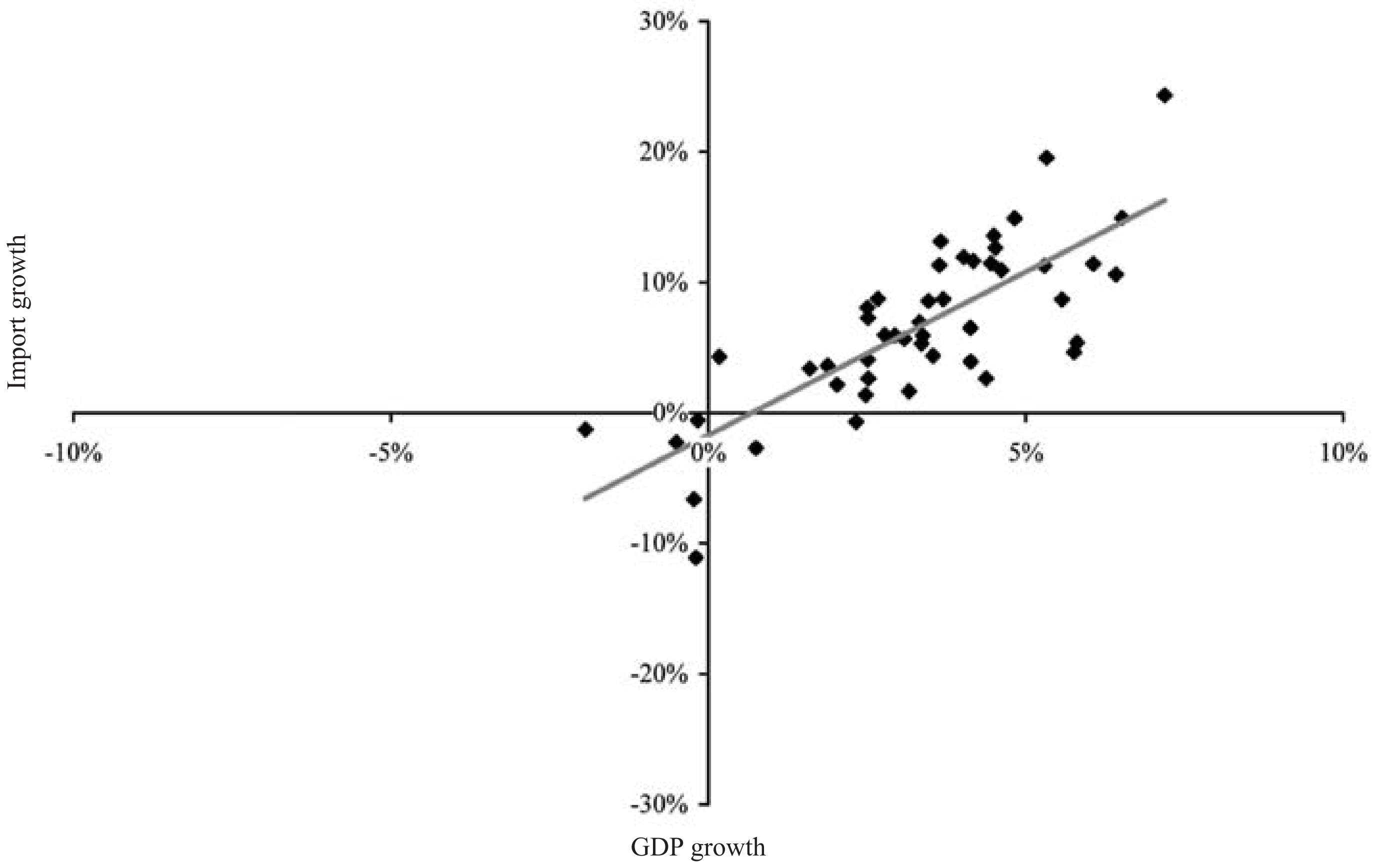
Figure 4 shows average annual import growth by ranges of GDP growth. The picture clearly demonstrates that import growth increases when GDP growth increases, and import growth increases faster when GDP growth is faster. The same is true of the trade deficit and the current account deficit, although politicians have tended to muffle that fact to please important constituents.

An excerpt from a 2008 opinion piece written by Chairman Levin captures the essence of the trade balance myth:

> The U.S. trade deficit was $711.6 billion in 2007—among the highest in history and a full 5 percent of the U.S. economy. This deficit is a drag on economic growth and on job creation at a time when our nation can afford neither.[62]

Levin's conclusion affirms the conventional wisdom, but it is demonstrably incorrect. A 2007 Cato Institute study examined annual changes in the U.S. current account balance

Figure 3
Annual Import Growth Rates and GDP Growth Rates 1960–2007



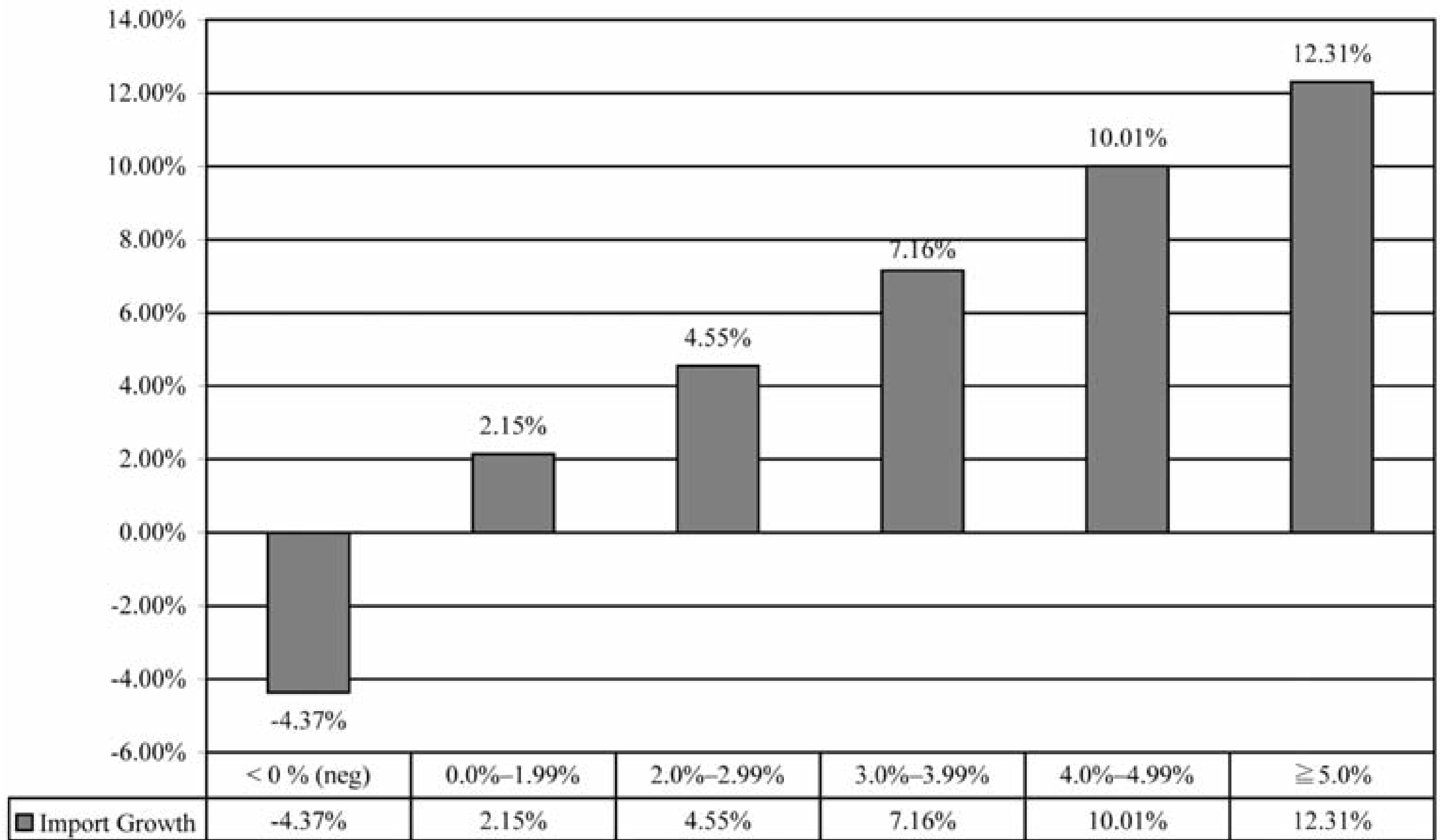
Source: Compiled from tables in the *2009 Economic Report of the President*.

and U.S. GDP growth since 1980. It found that a rising deficit is typically associated with faster economic growth, and a shrinking deficit with slower growth. In those years in which the deficit grew modestly, between 0.0 and 0.5 percent, GDP growth averaged 3.0 percent. And in those years in which the current account deficit expanded by more than 0.5 percent of GDP, real GDP growth grew by an average of 4.1 percent. In other words, economic growth was more than twice as strong, on average, in years in which the current account deficit grew sharply compared to those years in which it actually declined.[63]

The U.S. experience, as discussed above, suggests that rising imports and an increasing trade deficit are associated with increasing economic activity, while declining imports and a decreasing trade deficit are associated with slowing economic activity. That relationship may not hold in every country—as economic structures and resource endowments differ by country—but there is evidence from abroad that should give pause to those who think that balanced trade or a trade surplus should be a national policy objective.

Japan has run a trade surplus every year since 1980. Japan ran its largest trade surpluses in the 1990s, a decade often referred to as Japan's "lost decade." Since 1991, Japan's average annual economic growth rate has been a moribund 1.2 percent.[64] Likewise, France suffered anemic economic growth and double-digit unemployment throughout the 1990s, while running fairly large

Figure 4
Import Growth Rates by Ranges of GDP Growth Rates 1960–2007



	< 0 % (neg)	0.0%–1.99%	2.0%–2.99%	3.0%–3.99%	4.0%–4.99%	≧5.0%
Import Growth	-4.37%	2.15%	4.55%	7.16%	10.01%	12.31%

Source: Compiled from tables in the *2009 Economic Report of the President*.

current account surpluses.[65] There simply isn't much real-world evidence supporting the notion that a trade surplus leads to economic growth or that a trade deficit stymies it. But policymakers should ask themselves this question: What is the proper objective of economic policy—trade balance or economic growth?

An even more inane assertion commonly heard from trade's detractors is that U.S. trade policy should concern itself with bilateral trade balances and that our bilateral trade deficit with China, for example, is evidence of a flawed trade policy. The Economic Policy Institute, a Washington-based clearinghouse for ideas promoted by organized labor, likes to alert the public to what it sees as the perils of unbalanced bilateral trade. In the zero-sum worldview of EPI's Robert Scott:

> Unbalanced U.S. trade with China since 2001 has had a devastating effect on U.S. workers. Between 2001 and 2007, 2.3 million jobs were lost or displaced, including 366,000 in 2007 alone. These jobs were displaced by the growth of the U.S. trade deficit with China, which increased from $84 billion in 2001 to $262 billion in 2007.[66]

It's difficult to pick a place to begin exposing the absurdity and recklessness of that statement. But one might start by pointing out that China—with its big bilateral surplus—has actually shed many millions more manufactur-

ing jobs than the United States has in recent years—and for the same reasons U.S. jobs vanished: increased labor productivity.[67] Or one could question the premise that the $178 billion net increase in imports from China between 2001 and 2007 was offset by an equal reduction in American purchases of goods that were produced mostly in American factories, and not imported from other low-wage countries before 2001. Or one might reject Scott's apparent assumption that U.S. workers and Chinese workers (with their different physical and human capital endowments) are close substitutes, or the validity of the proposition that exports create jobs, therefore imports destroy jobs. The fact is that U.S. labor and Chinese labor are better characterized as complements in a transnational production supply chain rather than competing substitutes in a zero-sum world. That is a relatively new reality of international commerce that trade policy, trade negotiations, and too many trade commentators have yet to fully grasp.

Over the past couple of decades, China has become a prime destination for investment in low-to-medium-value manufacturing operations and final assembly processing. Many companies around the world that used to produce entirely in one locale—typically in the companies' home countries—have adopted transnational production processes, and China often features prominently in their supply chains. Thus, a good portion of what used to show up on U.S. trade statistics as imports from Japan or Korea or Taiwan or Thailand, now register as imports from China simply because of China's usual position at the end of the production supply chain. Because China is the final country from which these transnationally produced goods are shipped to the United States, the value of the cargo is registered as an import from China.

This change in production processes is made evident by a review of the trade data, which reveals that imports from east Asia (as a percent of total U.S. import value) have been remarkably steady over the past 15 years.[68] In 1995, imports from east Asia accounted for 30 percent of all U.S. imports of goods and services. In 2001, the relative value from east Asia fell to 26 percent before rising slightly to 28 percent in 2007.[69] However, China's share of the east Asian total has grown considerably—from 20 percent in 1995 to 34 percent in 2001, and to 58 percent in 2007.[70]

So, although a significantly larger percentage of imports comes to the United States directly from China, the overall value of imports from the region, as a percentage of all U.S. imports, has been steady (and, in fact, declined slightly). Japan's, Taiwan's, and South Korea's share of U.S. import value declined over the period, while China's grew considerably. There has simply been a shift in production processes—which speaks to the internationalization of supply chains more than anything else—with China featuring prominently as the final assembly point for goods destined for the United States. These data also strongly support the argument that Chinese exports to the United States have not come at the expense of U.S. workers, but rather at the expense of workers in other Asian countries that used to perform these relatively low-skilled functions before transnational production became so common.

Further evidence that the bilateral trade account scaremongers are wrong can be found in some recently published research from more objective sources. A recent study from the U.S. International Trade Commission found that only about 50 percent of the value of a typical container of imports from China is Chinese value-added. The other half comprises material and labor from other countries.[71] A 2003 Stanford University study found Chinese value-added to be even smaller—at around 35 percent.[72] A recent Congressional Budget Office survey of these and other studies puts Chinese value-added in the range of 35 to 55 percent of the value of "Chinese imports."[73]

The fact of the proliferation of transnational supply chains renders bilateral trade accounting almost entirely meaningless. What significance should be attached to the fact that the United States runs a trade deficit with China with respect to Apple iPods? For Christian Weller and Holly Wheeler at the Center for American Progress, the deficit in high-tech products is "worrisome since it shows that many of our

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trading partners are *eating our lunch* in the high-tech competition where they can develop individual niches."[74] But that conclusion really misses the big picture. The proper conclusion should account for the words inscribed on the back of every iPod: "Designed by Apple in California; Assembled in China." Imports of iPods from China—like many (perhaps most) high-tech products imported from China—support high-paying American jobs in engineering, design, marketing, manufacturing, and logistics, as well as jobs in the transportation and retail sectors.

A 2007 study published by the University of California–Irvine sought to determine "who captures value in a global innovation system" by disaggregating the components contained in an Apple iPod and determining the companies and countries involved in manufacturing a unit in China. The authors found that the components were produced in the United States, Japan, Singapore, Taiwan, Korea, and China by companies headquartered in the United States, Japan, Taiwan, and Korea. The total cost of producing the iPod (components plus labor) was estimated to be about $144. Most of the profits on the constituent components accrue to Japanese companies, who produce the most important and most expensive parts. Two U.S. and some other foreign components' producers all capture small shares of the value. But the lion's share of value accrues to Apple since iPods retail for $299 and the cost of production is $144 (at the time this article was written). Some of the $155 per-unit mark-up goes toward compensating U.S. distributors, retailers, and marketers, while the rest is distributed to Apple shareholders or devoted to research and development, which supports engineering and design jobs higher up the value chain.[75]

Should we lament a trade deficit in iPods or any other products assembled abroad that comprise U.S. value-added and support high-paying U.S. jobs, as some scholars of trade policy do? Before jumping to conclusions, it would be wise to consider this important point in the iPod study:

> [T]rade statistics can mislead as much as inform. For every $300 iPod sold in the U.S., the politically volatile U.S. trade deficit with China increased by about $150 (the factory cost). Yet, the value added to the product through assembly in China is probably a few dollars at most.[76]

For all those reasons, worrying about the bilateral trade deficit with China is a bit hysterical and misplaced.

Myth 3: Our Trade Partners Cheat with Impunity

The third myth is that the United States is losing at trade because its trade partners cheat with impunity, and that better enforcement of our current trade agreements would help reverse myths one and two. Chairman Levin is fond of this theory:

> Take, for example, the WTO where we should be insisting each and every day that our trading partners play by the same internationally negotiated rules as we do. Under the Clinton administration, from 1992 through 2000, the United States filed an average of 11 WTO cases per year to pry open foreign markets for U.S. exporters of goods and services. From 2001 to now, the United States has filed an average of just three cases per year.[77]

There is no doubt that our trade partners have violated trade rules over the years, both knowingly and unknowingly. And so has the United States. But the implication that violations are so endemic as to require daily, high-profile enforcement efforts is misleading. It could be that more WTO cases were brought during the Clinton administration than during the Bush administration because the former had a hand at negotiating the Uruguay Round, which created the WTO. That experience gave Clinton administration negotiators active knowledge about which countries were already likely to be out of compliance with provisions of the various new agreements. Many of the cases filed during the Clinton years addressed residual

issues from the negotiations or had been on the USTR's radar for a long time, and thus were essentially low-hanging fruit with which to test the dispute settlement system. Also, it is reasonable to assume that, in response to the growing body of WTO jurisprudence over the years, WTO members have, at least to some extent, amended their rules, regulations, and practices. Accordingly, a comparison of the two administrations' records in this area is misleading.

All trade agreement member countries should have recourse to resolving problems and curbing chronic violations. That's part of what the rules-based system of trade is about, as Chairman Levin implies. But it is also important to recognize that trade enforcement is not an end in itself. Countries enter trade agreements to increase trade flows, not to claim the title of having initiated the most trade litigation or having won the most disputes. The United States has recourse to formal dispute settlement in the WTO and in its other trade agreements, but those are not the only channels for resolving disputes. Trade enforcement does not always need to be antagonistic, nor must it be so high-profile—as though its purpose were to avail politicians of the opportunity for theatrics.

Communication between the United States and its trade partners about issues that could evolve into formal trade disputes is an ongoing process. Potential issues are frequently identified, defused, and resolved through bilateral exchanges away from the cameras in capital cities and through WTO delegations in Geneva. Every year, the United States publishes its Special 301 and National Trade Estimates Report on Foreign Trade Barriers, which alert other countries to America's trade policy concerns and often trigger resolution of disputes—well before the issues become prominent political footballs. And the Strategic Economic Dialogue between the United States and China during the latter part of the Bush administration led to quiet reforms in China and helped resolve concerns about various Chinese trade practices without the need of WTO adjudication.

However, Chairman Levin and others in Congress hold the view that China is the most prominent cheater on matters of trade, engaging in subsidization of industry, currency manipulation, intellectual property theft, unfair labor practices, dumping, and other underhanded methods. Although some of those allegations have merit—and resolution of some claims is being pursued through different channels—the total impact on trade is quite small. For example, trade enforcement hawks have for years alleged that illegal Chinese subsidization was a root cause of the U.S. bilateral trade deficit with China, and that better enforcement would help balance trade.

In 2007, the U.S. Department of Commerce reversed its long-standing policy of not applying the Countervailing Duty (or anti-subsidy) Law to so-called nonmarket economies when it initiated a CVD investigation of *Coated Free Sheet Paper from China*. Subsequent to that policy change, 12 more CVD cases were filed. The results in some of those 2007 and 2008 CVD investigations are not yet final. But even if countervailable subsidies are ultimately found in each case, the total value of "unfairly" subsidized imports would be, at most, less than 1 percent ($1.6 billion) of the total U.S.-China trade deficit in 2006 ($232.6 billion).[78] When one adds 2006 import values of Chinese products subject to anti-dumping investigations that were initiated after 2006, the total value of potentially unfair imports rises to only slightly more than 1 percent ($2.38 billion) of the total 2006 deficit.

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If Chinese unfair trade practices are so insidious, where are all of the cases? Why has U.S. industry been unwilling to avail itself of the opportunity to demonstrate the unfairness of Chinese competition, particularly when—as many of our policymakers assert—U.S. manufacturing is on life support? And why do "unfairly traded" imports represent such a tiny fraction of the total bilateral trade deficit? All of the inflammatory accusations of cheating hurled at China cannot be justified by the dearth of evidence thus far presented. If unfair trade practices amount to only 1 percent of our trade deficit with China, then surely the acrimony that characterizes the U.S. debate about the trade relationship should yield to comity.

Last year a study was commissioned by Chairman Rangel to investigate, among other

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things, the relationship between Chinese government policies and the U.S. trade deficit with China. But that study was abruptly terminated when Rangel decided, after seeing a draft of the International Trade Commission's report, that proper treatment of the topic was impossible because of "limitations on the Commission's time, resources, and lack of experience to date in investigating, identifying, obtaining, and analyzing the kinds of information critical to the analysis sought in the Committee's request."[79] The chairman cited numerous "mischaracterizations" in the draft. But the termination of this much-ballyhooed and long-awaited study on a highly controversial issue has raised suspicions that Rangel cancelled the report because it found no significant linkage between Chinese government policies and the bilateral trade deficit. Unless the ITC is allowed to publish its research, the public will never know for sure.

Chairman Levin also cites the Bush administration's failure to implement the ITC's recommendations for trade restrictions in four so-called China-specific safeguard cases as evidence of lax enforcement.[80] But President Bush was simply exercising his discretion to overrule the ITC on the grounds that relief was not in the national economic interest—a perspective that members of Congress, representing state and local interests, are unlikely to consider.[81] But if you ask U.S. importers, retailers, and manufacturers who rely on Chinese inputs for their own production and sales, few would complain of lax enforcement under the Bush administration.

Less than one year after expiration of the long-standing textile and apparel quota regime on January 1, 2005—which had restricted imports of textiles and clothing from most developing countries since 1974—the Bush administration forced the Chinese to accept three more years of quotas under threat that it would otherwise unilaterally impose restrictions on hundreds of products by way of the the so-called China-specific textile safeguard. The China textile safeguard was another concession granted by China to the United States upon its accession to the WTO. Those quotas were just lifted on January 1, 2009. Also, during the years of the Clinton administration, 15 anti-dumping measures were imposed on imports from China, but during the Bush presidency, 42 anti-dumping measures were imposed, restricting imports on a variety of products.

Of course, the number of measures imposed depends on a variety of factors and does not support a conclusion that the Bush administration has been tougher on China. But nor does Chairman Levin's implication that the greater number of WTO cases brought by the Clinton administration supports the conclusion that the Bush administration was asleep at the wheel on enforcement issues.

Certainly, there have been violations and allegations of violations that fall outside the reach of U.S. trade remedies laws. In 2006, the USTR published its "Top-to-Bottom Review" of U.S.-China trade relations, in which it proclaimed the beginning of a new phase in the relationship, stating, effectively, that the honeymoon period (of reform implementation) was over and foreshadowing greater resort to the WTO dispute settlement system to achieve further compliance. One month after publication of that report, the USTR filed a WTO complaint alleging that certain Chinese policies discriminate against imported automobile parts. In 2008, a dispute settlement panel ruled in favor of the United States. The WTO Appellate Body upheld the major findings of that panel in December 2008.

Before the auto parts case, only one complaint about Chinese practices had been lodged with the Dispute Settlement Body. It concerned a value-added tax on integrated circuits that was allegedly applied in full to imports only. During the consultation phase of the dispute (and without need of formal adjudication), the Chinese agreed to change their practice and the dispute was resolved.

In 2007, the USTR filed three WTO cases against China. The first involved certain tax provisions that allegedly amounted to subsidization of Chinese exporters. In response to the allegations, China changed its tax rebate practices (although the dispute is not completely resolved yet). The second concerned enforcement of intellectual property rights. After failing to resolve this dispute during the consultations phase, the United States requested the establish-

ment of a dispute settlement panel, which ruled in favor of the U.S. position on two of the three issues raised (finding that both China's copyright law and customs law were inconsistent with another WTO agreement). The third WTO case concerned alleged barriers facing foreign traders and distributors of copyrighted materials like books, videos, and DVDs. As of publication of this study, the dispute settlement panel has not produced its report.

In early 2008, the USTR brought a sixth case, alleging discrimination against U.S. providers of financial services information in China. That dispute also was resolved during the consultations phase, when China agreed to remedy the measures at issue. In December 2008, the United States brought a seventh case against China in the WTO when it requested consultations over various government grants and loans alleged to be available to Chinese enterprises.

Enforcement is an important part of the rules-based system of trade. But enforcement efforts are more nuanced than some policymakers care to admit. Certainly, the emphasis placed by some on lax enforcement is not commensurate with the relatively small impact of trade "violations" on the trade account or the economy. All of the harping has conferred undue significance on the issue and has reinforced damaging perceptions about trade and our trade partners.

Changing the Terms of the Debate

Although there is nearly a consensus among economists that the benefits of free trade dwarf its costs, the public appears to be less receptive to pointy-headed economic analysis than it is to visuals and anecdotes. And that reality favors purveyors of protectionist gloom-and-doom. While the benefits of free trade for American families and businesses are large, they are diffuse and often taken for granted. On the other hand, the much smaller "costs" resulting from such trade tend to be concentrated within industries or geographies, or among people with similar skill sets.[82]

What, then, leaves a more a lasting impression: a story about how a new trade agreement will add $1,200 per year to the average family's purchasing power, or a story about a shuttered steel mill and the residual effects of that closure on the community and its once-proud people? Ironically, protectionists appear to have a comparative advantage in cultivating messages about trade that stick. Given the incessant competition for the American public's attention, and the apparent necessity of those competing for that limited attention span to break everything down into short bullet points and compelling visuals, protectionists may be better suited to make their case than are free traders.

Without some explanatory discussion first, once the public's mind has been filled with stories of doom and gloom, it's tough to put into context—and refute in a 10-second sound bite—the exaggeration that three million good-paying manufacturing jobs have been lost since 2000; or that the $800 billion current account deficit reflects a failure of U.S. trade policy; or that we don't make anything in the United States anymore; or that China is eating our lunch; or that the U.S. market is wide open, while our trade partners keep U.S. imports out. Free-trade advocacy has assumed a defensive posture, but it must find a way back to the other side of the 50-yard line. It must force protectionists to refute the abundance of evidence—anecdotal and empirical—that argues against their policy prescriptions, rather than let the anti-trade crowd moralize its perspectives with diversions, half-truths, and outright lies.

In November 2007, a centrist Democratic think tank called Third Way published the first installment of a study titled, "Why Lou Dobbs Is Winning." It's an important contribution to the discussion about why the pro-trade consensus collapsed and what to do about it. About free-trade advocates (and advocacy), it offers three broad conclusions that are good launching points for further discussion.

First, the authors conclude that free traders are "guilty of a failure of vision":

> The cause of open trade has been most compelling when linked to a broader

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> political and economic vision. In the post–World War years, that goal was preserving the peace; during the Cold War, the goal was fighting communism. Today, the overall goal of American global engagement is far less clear, and trade's role in achieving that goal is murky. How do open-traders envision the world and America's place in it 20 years down the road? At the moment, we have no compelling answer.[83]

The most principled case for free trade is a moral case. It is rooted in some of the very ideals upon which the United States was founded: the pursuit of life, liberty, and happiness, and the rule of law. Every American should be free to transact with whomever he wishes to transact, regardless of the nationality or location of the other party. Voluntary exchange is inherently fair, benefits both parties, and allocates scarce resources more efficiently than a system under which government dictates or limits choices. Individuals deciding for themselves how and with whom to conduct commerce will advance their own well-being, and thus the nation's, far more efficiently than would some centralized authority that tries to influence private decisions by tipping the scales.

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Furthermore, government intervention in voluntary economic exchange on behalf of some citizens at the expense of others is inherently unfair, inefficient, and subverts the rule of law. Instead of individuals seeking to optimize their conditions subject to the rules, they are incentivized to divert resources from productive endeavors to changing the rules to their advantage through politics and backroom dealmaking.

Alas, this very sound and simple justification for free trade has been distorted over the years by groups seeking to tip the scales in their favor. They mischaracterize trade in the ancient but false dichotomy of the haves versus the have-nots. Evil corporations, they say, benefit from trade while regular people suffer its wrath. The public is told that companies like Wal-Mart profit from trade, but that the vast benefits afforded Americans who shop at Wal-Mart—benefits like more-affordable clothing, food, and other everyday products—count for nothing. The public is told that trade enriches the Chinese government, but that the benefits to U.S. manufacturers and their workers from record export sales to Chinese customers over the past few years are meaningless. In the political realm, trade is never about individuals acting in their own best interest by transacting with whom they choose to transact. Instead, trade is a zero-sum game featuring the collective "Us" versus the collective "Them," and "they" are gunning for "our" jobs and wealth using underhanded tactics.

Of course the prescribed "elixir" of limiting or regulating trade invariably benefits those who speak the loudest against free trade. Trade barriers are no different from earmarks. Trade barriers are like pork projects. Trade barriers are akin to the auto bailout. In all three cases, special interests persuade rulemakers that their circumstances justify expropriation of other people's resources to subsidize their own endeavors. Each is an affront to the rudimentary concept of fairness, individual liberty, and the rule of law.

Beyond the moral case for free trade, there is the burgeoning reality that trade policy is badly lagging commercial reality. Many Americans—including policymakers—still embrace this anachronistic view of trade as a zero-sum contest between "our" producers and "their" producers. The belief that we are "winning at trade" when our producers sell more stuff than their producers requires ignorance of the evolution of global business and trade patterns and sets us up for some pretty awful public policy.

Moreover, the U.S. economy comprises not only insular domestic producers, but consumers, wholesalers, retailers, importers, shippers, designers, engineers, marketers, financiers, and integrated producers who have great stakes in an open world economy. What is in one producer's interest is not necessarily in the interest of the other constituents in the economy or even other producers in the same industry. That has always been the case.

But today, international competition can hardly be described as a contest between "our"

producers and "their" producers. Whereas a generation ago a product bearing the logo of an American company comprised exclusively U.S. labor, materials, and overhead, today that is much less likely. Products bearing the names of U.S. companies often comprise substantial foreign value-added, regardless of whether the product was "completed" in the United States or abroad. Moreover, the distinction between U.S. nameplate production and foreign nameplate production has been blurred by foreign direct investment, cross-ownership, equity tie-ins, and transnational supply chains. As but one of myriad examples, consider the "U.S." auto industry, as described by the *Wall Street Journal*:

> Once you put down the flags and shut off all the television ads with their Heartland, apple-pie America imagery, the truth of the car business is that it transcends national boundaries. A car or truck sold by a "Detroit" auto maker such as GM, Ford or Chrysler could be less American—as defined by the government's standards for "domestic content"—than a car sold by Toyota, Honda or Nissan—all of which have substantial assembly and components operations in the U.S.[84]

As noted earlier, the outdated "us-versus-them" view of trade is reinforced by trade negotiations, where representatives of governments offer the "concession" of access to their markets in exchange for the "benefit" of access to others' markets. But on whose behalf are those negotiations conducted? Better access to the Brazilian market for U.S.-based exporters benefits U.S.-headquartered companies as well as Stuttgart- or Tokyo-headquartered companies. Likewise, better access to the U.S. market benefits foreign-based producers as well as U.S. and foreign producers operating in the United States, who rely on access to imported raw materials, components, and capital equipment.

The reality is that globalization has been making this old adversarial framework obsolete. Companies are not competing for markets through their governments' trade negotiations as much as their governments are competing to secure valuable positions for their people in the global supply chain. All countries are competing for investment in production processes and all countries aspire to attract investment in the highest value-added processes. Only the countries that have the highest-skilled human capital will occupy the most lucrative links of the global supply chain. All countries, to compete successfully for investment now and into the future, need to have business and regulatory environments that can accommodate the fast-moving nature of global, just-in-time, transnational production processes. That means countries must eliminate administrative and physical frictions that might slow the process and deter investment. Good transportation and communications infrastructure, access to ports and to the country's interior, rule of law, administrative transparency, low or no trade barriers, a relatively stable policy environment, and a work force whose skills are suited for particular value-added activities in the supply chain are increasingly the keys to attracting investment.

International competition is no longer us versus them. Instead it is more appropriately characterized as a competition between different supply chains, many of which comprise value added from many different countries. This description of how the international trading system really works must become second nature to policymakers and the public if we are to vanquish, once and for all, the outdated, destructive characterization upon which rests the argument for protection and insularity.

Second, Third Way concludes that "our battleground is data, not values":

> Defenders of trade are losing public support in part because of their strategy and tactics. While critics of trade speak evocatively of "fairness" and justice," trade-liberalizers counter with economic numbers and opaque economic theories. It is not only elitist; it is like bringing a knife to a gun fight. It is not enough to win the minds of the public; we must win hearts as well.[85]

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In the legal profession, there is an old adage that says that if the facts aren't on your side, then pound the table. In essence, opponents of trade follow that adage.

It is a bit harsh to characterize the marshalling of facts in support of an argument as "elitist." However, the point is well taken. In the legal profession, there is an old adage that says that if the facts aren't on your side, then pound the table. In essence, opponents of trade follow that adage. They pound away with imagery and evocative stories to compensate for the dearth of facts supporting their positions. On numerous occasions, supporters of trade have advocated the free-trade position in debates, summoning the facts, demonstrating how those facts support the conclusion that free trade leads to greater opportunity and prosperity than the alternatives, only to lose the crowd's sympathies to a protectionist argument that ignores the facts and relies exclusively on a story about the "unfair" impact of a plant closure. Of course, there is never the concession that the existence of the tariff or quota in the first place was the real unfair burden; that it taxed the resources of other Americans (mostly, lower-income Americans) to subsidize the incomes of the plant's owners and workers.

Rather than focus on appealing new visuals or anecdotes, trade advocates should take back what has been commandeered by protectionists—namely, the claim to fairness and justice. There is nothing "fair" about government policies that force some Americans to subsidize the decisions and livelihoods of other Americans. But to whom is it unfair when Americans are free to exchange with anybody else in the world? It's certainly not unfair to U.S. producers or their workers, who know they must earn each consumer's business. It may constitute a competitive reality that keeps profits lower than the U.S. producers might like, but there's nothing unfair about that.

Recent studies demonstrate that U.S. trade barriers are most pervasive and highest on basic necessities, like food, clothing, and footwear. If one also considers longstanding anti-dumping and countervailing duty restrictions on steel, lumber, and cement, the necessity of shelter is also highly taxed through U.S. trade policy. These tariffs benefit a few politically connected industries at U.S. consumers' expense. And by virtue of the fact that lower-income Americans spend higher proportions of their budgets on necessities, U.S. tariffs are the most regressive taxes under law.[86]

Consider the case of U.S. shoe tariffs. The weighted average U.S. tariff rate for all goods is 1.6 percent. But on footwear, tariffs start at 8.5 percent for leather dress shoes, increase to 20 percent for running shoes, and exceed 60 percent for some low-cost sneakers. To put that in perspective, the tariff on cheap sneakers is roughly three times the federal tax on a similarly-priced pack of cigarettes, four times the national gas tax, and twice the tax on whiskey, vodka, and other spirits.[87] Meanwhile, most footwear consumed in the United States is produced by poor workers in lower-income countries. Thus, U.S. protectionism is a double whammy, disproportionately harming poor families at home and abroad. It is unfair and unjust, and its elimination should be something that both engenders broad bipartisan support and puts protectionists where they rightfully should be—on the defensive.

Third, "**our policies do nothing to restore middle-class confidence in the future**":

> Middle-class economic anxiety is widespread and legitimate. And fairly or not, much of the blame for this anxiety is landing squarely on trade. As a consequence, advocates of trade must free themselves from the narrow silo of trade-specific policy and embed their goals in a broader agenda that addresses all of the sources of middle-class economic anxiety—as well as middle-class hopes for success. Reforming and expanding Trade Adjustment Assistance is necessary but far from sufficient. Americans have to feel secure and confident in their own economic future before they are comfortable reaching out to the world.[88]

The Third Way identifies a legitimate problem—that much of the blame for middle-class anxiety has landed squarely on trade. But, in this case, its solution is wrong. Free trade is very simply about the natural right of people to choose how and with whom they transact. Assertion of

those rights need not—and indeed should not—take a defensive posture. We need not compensate others or apologize for making the choices that optimize our own well-being. As economist Steven Landsburg put it:

> Suppose, after years of buying shampoo at your local pharmacy, you discover you can order the same shampoo for less money on the Web. Do you have an obligation to compensate your pharmacist? If you move to a cheaper apartment, should you compensate your landlord? When you eat at McDonald's, should you compensate the owners of the diner next door? Public policy should not be designed to advance moral instincts that we all reject every day of our lives.[89]

Americans no more owe the textile worker who lost his job because J. C. Penney decided it would be better for its shareholders to source its clothing primarily from Vietnam than we owe a bodega clerk who lost his job because we prefer to shop at the new supermarket. In fact, there is a stronger case to be made that the textile worker should compensate the consumers of the products he made, if tariffs and quotas forced consumers to subsidize his job.

Trade is not the reason for so-called "middle class" angst. But scaremongering about trade is certainly one of them. Purveyors of the trade myths described earlier tend also to perpetuate the related myth that import growth has created greater income disparity, which has led to the erosion of the middle class. But that's just not true. As imports have risen, so have real wages and benefits in the United States.

Over the last decade, average real compensation—wages plus benefits—increased by 22 percent. Real median household income was 6 percent higher at the peak of the current business cycle (2007) than it was at a comparable point in the previous business cycle. And, while doomsayers point to the decrease in the number of households earning between $35,000 and $75,000 as evidence of middle-class erosion, they tend to ignore the fact that the number of households earning more than $75,000 has increased, while the number earning less than $35,000 has declined.[90]

If Americans break away from the oppressive political rhetoric about trade and the economy and make their own observations, they are likely to conclude that the country has strengths and competitive advantages unmatched anywhere else in the world. The continuing flow of foreign investment into the U.S. economy is testament to that fact.

Beyond these strengths and competitive advantages enjoyed by U.S. residents, there is the fact that 95 percent of the world's consumers live outside of the United States. Yet when politicians and the media speak about trade, they usually focus exclusively on the Malthusian fiction of six billion people competing for 100 million U.S. jobs. From the perspective of the American worker, under this slanted premise, trade and globalization can only upset the apple cart. There are only ramifications—and negative ones at that—on the supply side of the equation. All that trade has to offer under this portrayal is increasing competition for my job, and downward pressure on my wages.

But an accurate accounting of the effects of trade and globalization on the lives of Americans across the income and wealth spectrum must include a consideration of the fact that the preponderance of world-demand growth henceforth will occur outside of the United States. And the preponderance of the value of global production will happen pursuant to a global division of labor, which renders American jobs complementary to —and not in competition with—labor in the world's most populous countries. One must thus discount predictions of U.S. wage suppression and consider the positive impact on U.S. wages of foreign demand growth. The media and Congress have their motives for wanting Americans to see the glass as half empty. But we need not follow the script.

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Rebuilding the Consensus with Truth and Transparency

More than a decade of Democratic opposi-

tion to trade liberalization has almost erased from memory the fact that the fathers of the modern American free-trade movement were not Republicans, but Democrats like Secretary of State Cordell Hull, Presidents Harry Truman and John F. Kennedy, and Sen. Albert Gore Sr., who each understood the economic and diplomatic importance of open trade.[91]

When freedom to trade is properly cast as a fundamental right and impediments to exercising that right are cast as coercive and immoral, trade liberalization can once again be a bipartisan endeavor. When protectionism can be properly equated to earmarking and backroom dealmaking, and cast as a regressive tax, with onerous effects on poorer people in the United States and abroad, the cause of free trade can transcend partisanship. When trade liberalization can be seen as strengthening the ties that bind people in different nations and reducing prospects for conflict, free trade can become a goal shared by all Americans.

Unfortunately, the heated partisan debate about trade over the past several years—and the tactics used to spread skepticism across the country—probably precludes resumption of an ambitious agenda of U.S.-led trade liberalization during the next couple years. But it certainly should not preclude the steps necessary to start rebuilding the pro-trade consensus.

When freedom to trade is properly cast as a fundamental right and impediments to exercising that right are cast as coercive and immoral, trade liberalization can once again be a bipartisan endeavor.

Repair Perceptions First

President Obama would do the country a great service by encouraging an open dialogue about trade and globalization, by challenging critics and proponents of trade to support their assertions, and by supporting the publication of objective studies about manufacturing, imports, trade agreements, and the trade account. Finding and sharing the truth about trade should be among the first steps toward rebuilding the pro-trade consensus.

To repair unfavorable perceptions about trade, President Obama should speak openly and honestly about the myths that have been the catalysts for the backlash against trade. He should emphasize that U.S. manufacturing is not in decline, but rather that U.S. factories remain the world's most prolific, generating more value than the manufacturing sector of any other country in the world.

President Obama should try to reverse the effects of years of needless misconception about imports and the trade deficit. Americans enjoy sports metaphors, but the trade account and the current account cannot be likened to scoreboards. The fact of our large trade deficit is not evidence that we are losing at trade. It is evidence that foreigners have confidence in the U.S. economy and that their investments here have supplemented Americans' income streams by keeping interest rates lower than they would have otherwise been. It is also evidence that there is a lot of pent-up demand among the 95 percent of the world's population living in other countries, and that the United States must stay engaged in the global economy to benefit from the likely explosion of global demand in the near future.

In many cases, imports directly support U.S. jobs. U.S. producers routinely account for the majority of the value of U.S. imports. Those imports are used as complements to U.S. workers to produce the wares coming out of U.S. factories. Without imports, the cost of production would be higher, and the expedient to reduce labor costs would be more likely to materialize quickly.

The iPod example described earlier speaks to the complementary nature of global production. Rising imports are often a necessary condition of U.S. job growth. Without access to assembly operations in lower-cost countries, the mass production and proliferation of iPods and similar devices likely would not have been possible. Instead of $299, iPods would cost perhaps $500 or more if they had to be produced entirely in the United States. At that price point, it is unlikely that sales of iPods would ever have been as successful as they have been, and the need for all of those American jobs in engineering, logistics, transportation, advertising, web design, and retailing might never have materialized.

The president should also clarify that the allegations about the Bush administration's failure to enforce trade agreements have been driven by the politics of special interests. Sure,

it is likely that some violations have occurred and persisted that should have been addressed and resolved. But the fact is that so-called unfair trade constitutes a small fraction of the total trade and the emphasis placed on our failings to better enforce trade laws is simply not justified by the economic stakes. That emphasis only raises American suspicions and hostility toward trade when the overwhelming majority of trade is unobjectionable.

That is not to say that the president should forswear trade litigation and systematically ignore violations. The president should explain in clear terms to the public that the United States is part of a rules-based system of trade that is not perfect, but that has worked with great success over the years. Since the advent of the WTO there have been virtually no trade wars, but rather, the evolution of a fairly robust system for resolving disputes. Its continued success will ensure that U.S. industries have recourse to resolution of important violations. However, its continued success also requires that the United States lives up to its own commitments and respects the findings of the WTO Dispute Settlement Body.

He should explain that the WTO is not anti-American (as detractors suggest), but that the dispute settlement system has a pro-complainant bias that reflects the fact that member countries tend not to seek WTO adjudication of issues willy-nilly. Rather, members tend to bring cases about which they are reasonably confident of success. And that confidence comes from careful deliberation about the pros and cons of filing particular complaints.

The president should also remind Americans that they have some profound competitive advantages in our solid institutions and way of life. He should explain that for all those reasons, trade must be embraced. And on top of that, by the way, 95 percent of the world's consumers live outside of the United States. As they grow richer, the pie will grow larger even faster. To partake of that growing pie, America needs to stay front and center in the global economy.

Some Specific Initiatives

Concurrent with President Obama's efforts to reassure Americans that trade is not a scourge and is vital to economic growth, the Obama administration should undertake specific initiatives to reinforce those assurances, rebuild U.S. credibility on trade, and demonstrate how trade liberalization benefits lower-income families in the United States and around the world.

1. Establish a "Trade Transparency Initiative." To those ends, President Obama should announce something like a "Trade Transparency Initiative," with the goal of publishing independent findings about the effects of trade and trade barriers on the U.S. economy and its constituent elements without political interference. As of now, the ITC serves that role, but in a manner that denies full independence and objectivity. One of the ITC's functions is to provide economic research in accordance with the research parameters established by a requesting congressional committee member or a designated executive-branch official. That Congress or an administration official can limit or expand the scope of a ITC research project—and can commission and decommission those studies on a whim—subjects the process to bias, politics, and grandstanding. The ITC, or some other agency that is sufficiently shielded from political influence, should be allowed to fulfill its statutory authority to conduct independent research and publish findings on matters related to trade, and the public should be directed to those findings as objective sources of analysis. An independent process like that—which is properly publicized by a president promoting change—would probably help disentangle trade from the truth-suppressing effects of politics and help fulfill the president's goal of having a more transparent and open government.[92]

Perhaps the Obama administration's first study under the Trade Transparency Initiative should focus on the U.S. Tariff Schedule. The report would likely reveal that U.S. tariffs are highest on shoes, clothing, clothing inputs (like fabric, yarn, and cotton), food (including fruits and vegetables), and food ingredients (like sugar, wheat, and soybean). In conjunction with trade remedy duties on imported steel, lumber, and cement, U.S. tariffs and quotas on food and

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clothing ensure that the prices of life's most basic necessities (food, clothing, and shelter) are artificially inflated by government policies. And since lower-income Americans spend a higher proportion of their budgets on life's necessities, these trade policies amount to the kind of regressive tax that Democrats profess to abhor.

In a similar vein, a Trade Transparency Initiative report profiling recipients of U.S. agricultural subsidies would likely help put to rest the notion that poor family farms are the beneficiaries of taxpayer subsidies. In reality, thousands of households across the United States (including some addresses in Manhattan) receive checks from the federal government to *not* produce agricultural products. Real estate in certain jurisdictions is bought and sold with agricultural subsidies listed as a conveyance with the sale of the property.[93] And, as is the case with respect to imported footwear, many U.S. tariffs are vestiges of a bygone era and no longer have patron industries or producers to provide even the faintest veil of justification for their existence.

President Obama can help relieve the burden that is borne, in particular, by lower-income Americans from the tariffs on food and clothing, and reduce subsidy transfers to America's already wealthy agricultural sectors by challenging Congress to finally abolish regressive tariffs and farm programs. The economic benefits of those reforms would be a permanent stimulus for the U.S. economy, and would cost American taxpayers nothing. The unbiased empirical results of the Trade Transparency Initiative would give President Obama the ammunition he will need to put congressional protectionists of both parties where they rightfully belong—on the permanent defensive.

2. Reinforce for Congress the Fact that a Unilateralist Trade Policy Undermines a Multilateralist Foreign Policy. Over the last few years, Democrats have expressed a desire to repair America's damaged credibility abroad. President Obama shares that goal, which would be supported by eliminating trade barriers on clothing and food and rescinding agricultural subsidies. After all, it is factory workers and farmers in developing countries who produce the kinds of products most heavily penalized by U.S. protectionism.

But to really make progress toward repairing America's damaged credibility abroad, President Obama will have to challenge the congressional leadership to abandon its increasingly provocative and unilateralist positions on trade. The president was successful at convincing Congress that "Buy American" provisions do not help advance U.S. standing in the world. But there is much more to be done.

For example, the 2008 Democratic Platform includes this criticism of the Bush administration's foreign policy:

> In Asia, we belittled South Korean efforts to improve relations with the North. In Latin America, from Mexico to Argentina, we failed to address concerns about immigration and equity and economic growth.[94]

However, these are the same countries that are most affronted by Democratic Party antagonisms on trade: Mexico on NAFTA, and Colombia, Peru, and Korea on pending free-trade agreements. Chairman Rangel and Chairman Levin traveled to Peru in 2007 for the purpose of overseeing the Peruvian government's rewriting of its labor laws, as a condition of passing the Peru FTA. The agreement was implemented in January, but the chairmen have hinted that the Peruvians have more hoops to jump through yet. Both chairmen continue to ignore the tremendous progress that the Colombian government has made in reducing violence and prosecuting thugs who have terrorized labor organizers in the past. Both chairmen continue to demand more progress as a condition of passing the Colombia FTA. And both are so openly distrustful of the South Korean government that they are demanding what amounts to managed trade and conditional market access terms as an insurance policy.

It is difficult to appreciate any rhetorical differences between the Democratic leadership's approach to our trade partners and the Bush administration's approach to foreign relations that Congress so condemned. President

Obama should help Congress come to terms with this glaring inconsistency and recognize the significance of leaving three partners at the altar, after multi-year courtships, by failing to even consider their signed free-trade agreements.

President Obama must push Congress to at least make good on the U.S. government's promises to subject those agreements to votes in the legislature. He need not push for new trade agreements at this point and he need not continue ongoing negotiations. Better to rebuild consensus first. But he must push hard for congressional consideration of the pending agreements because U.S. failure to live up to this most basic of obligations casts a pall over U.S. trade policy and tarnishes America's image as a credible and reliable partner. Moreover, congressional refusal to consider the agreements represents an immense diplomatic failure that strains critical U.S. alliances and emboldens America's detractors in two key regions: Asia and Latin America.

As important as our military and diplomatic alliances are, a majority of America's allies care as much or more about the economic relationship. That is why many of our closest allies—from Canada to Australia to Colombia to Korea—have sought to cement bilateral economic ties with the United States. And some of these economic relationships serve to increase American influence in regions that are prone to episodic anti-Americanism.

Continued American economic engagement with the rest of the world is essential to national security, and building economic ties with less-friendly nations raises the cost of confrontation and discourages rogue behavior. Moreover, if President Obama is to succeed in "renewing American leadership in the world," he must renew U.S. leadership on trade—a cornerstone of the global framework since World War II.

3. Craft a Pragmatic, Principled Approach to Enforcement. In keeping with the idea that trade enforcement—as abused as that term has become—can be a constructive tool for opening markets where liberalization has been too slow in coming, President Obama should continue the practice of producing annual foreign trade barrier reports to alert trade partners to U.S. concerns and to put them on notice that formal dispute settlement proceedings could be lodged if progress toward resolution is not forthcoming. And, indeed, when U.S. exporters are experiencing chronic problems with market access in foreign countries, or their expectations of national treatment continue to go unmet, and it is determined to be in the national interest to pursue dispute settlement, then the Obama administration should not be shy about lodging formal WTO complaints.

However, efforts to systematize and commoditize trade complaints—which seems to be an objective of the Trade Enforcement Act of 2009, with its creation of an Office of the Congressional Enforcer—are likely to be perceived as provocative and could undermine global support for the rules-based system of trade.

Relatedly, if the administration and the aggrieved U.S. parties in trade cases expect our partners to take seriously the outcomes of the dispute settlement process, then by all means the United States should take seriously and act expeditiously to comply with dispute settlement outcomes requiring changes in U.S. policies. Presently, the United States remains out of compliance with several Appellate Body decisions regarding various technical anti-dumping procedures and agricultural policies. Congress also recently reauthorized a farm bill containing provisions that have been ruled WTO-inconsistent.

If we are to ignore WTO rules and dispute settlement outcomes, how can we legitimately expect our trade partners to behave any differently? American constituencies cannot expect their complaints about violations and lax enforcement to fall on sympathetic ears while the U.S. government continues to be remiss in its own compliance. They should only expect similar behavior from our trade partners. And if more and more WTO members choose to ignore the outcomes of dispute settlement, the system will cease to function properly and the rules-based system of trade could fall into disrepair.

If we are to ignore WTO rules and dispute settlement outcomes, how can we legitimately expect our trade partners to behave any differently?

4. Adopt a China Policy of Carrots and Sticks. Of course the elephant in the room is China.

President Obama would invigorate the relationship if he were to grant China "market economy" treatment in anti-dumping cases.

The success of the Obama administration's approach to trade relations with China is likely to set the tone for overall trade policy for the next four years. It is important that the Obama administration appreciate the complementary nature of the U.S.-China trade and economic relationship so that it is not baited into an unnecessarily confrontational stance. The president should continue to push China to open more of its markets faster and wider. But that objective would best be served by avoiding fireworks-prone exchanges through the media.

In that regard, President Obama should continue the tradition established by his predecessor of engaging in quiet dialogue where issues can be defused or resolved in that manner, and to resort to the WTO dispute settlement system only when the situation and facts support doing so.

President Obama should also consider that the public U.S.-China dialogue during the past few years—the tenor of which was set by a Congress that was in perpetual protest of the Bush administration's China tack—has been more of a litany of U.S. gripes than a dialogue. Demands that China stop dumping, stop subsidizing, stop manipulating the currency, stop stealing intellectual property, and stop engaging in unfair labor practices came to characterize the dialogue. Some of the allegations have merit; some are exaggerated; others are fabrications. But most policymakers would be hard pressed to recite any of the Chinese government's requests of the United States.

The time has come to seriously consider carrots and not just sticks—particularly since the pain from the sticks is not limited to its intended targets, but is felt in the United States and in other countries, given the transnational nature of supply chains. President Obama would invigorate the relationship if he were to grant China "market economy" treatment in anti-dumping cases. While such a reform would take very little out of petitioning industries' hides, the gesture would win vast sums of goodwill from the Chinese—goodwill needed to resolve more important issues going forward. Indeed, repeal of the non-market economy (NME) designation presents a "win-win" scenario for several reasons.

First, graduation from NME status is one of the Chinese government's top international trade priorities. China wants to be treated like all other major economies, and accordingly, the Chinese government is likely willing to make important concessions in other contested areas of trade policy to achieve market economy status. But the longer we wait to grant market economy status to China, the less valuable that concession becomes. Under the rules governing China's accession to the WTO, the United States must repeal China's NME designation by 2016. Thus, the value of that "concession" will be greater in 2009—seven years early—than it will be in 2010 or 2012. Much beyond 2012, and the concession looks a bit like Confederate money.

Second, China's NME designation has drawn intense criticism from domestic consuming industries, trade policy experts, and U.S. trade partners because of its incongruous application (for example, Russia was deemed a "market economy" in 2002, yet still is not a WTO member, while China became a WTO member in 2001) and the latitude for abuse of administrative discretion it affords.[95] Also, the relatively recent change in policy that opened the door to countervailing duty cases against China has sparked controversy about whether NME treatment in anti-dumping cases should still be permissible. U.S. revocation of China's NME status would alleviate many of those domestic concerns at virtually no cost to domestic petitioning industries, but petitioners value NME because of the trade-suppressing uncertainty the process engenders.

It is important that President Obama understand that our trade relationship with China has been mutually beneficial, that the rhetoric about the impact of unfair Chinese practices has been highly exaggerated, and that unnecessary provocation could open a Pandora's Box of economic problems.

5. Craft a Proactive Agenda for Implementation When Trade Consensus Reemerges. Finally, after a year or two of reconsidering the importance of trade, consolidating gains, and demonstrating how trade benefits the country as a whole, the administration should contemplate

the next steps for U.S. trade policy. When the United States is ready to reembrace a liberal trade agenda, policymakers will need to consider further unilateral measures, as well as the viability of pursuing the Doha round, some other multilateral trade round, or individual bilateral agreements. But for now, President Obama's trade policy should focus on restoring the pro-trade consensus.

Conclusion

Trade has been a crucial component of U.S. and world economic growth for over six decades. But during the past decade—and particularly in the last few years—trade policy has become partisan, rancorous, and divisive. That divisiveness has encouraged myth making, tale telling, and fear mongering, all of which has undermined Americans' confidence that they can survive—and indeed, thrive—in the global economy. In the process, important facts about the benefits of trade have been lost beneath mountains of misconceptions and fears.

Still, there is a potential silver lining in these dark clouds. Despite all of the rhetoric, despite the occasional ill will, and despite the piles of anti-trade legislation introduced in the last Congress, not a single provocative trade measure was passed into law during the 110th Congress. Some would argue that the presence of a Republican president and the absence of both a filibuster-proof majority in the Senate and a veto-proof majority in Congress explain the lack of action, and that the 111th Congress will produce nasty trade fireworks. That's quite possible.

But there is also this more hopeful interpretation: the leadership in Congress is mindful of the adverse ramifications of punitive, unilateral trade actions; does not really believe the anti-trade rhetoric it has proffered to change the terms of debate; realizes that trade barriers are regressive taxes; wishes to honor America's commitment to the rules-based system of trade; and does, in fact, recognize the importance of trade to the U.S. and global economies. And it will be more willing to work with a Democratic president—or just a new president.

If the more optimistic interpretation is the right one, then there is hope that the pro-trade consensus can be restored under the Obama administration. For that to happen, the congressional leadership will need to afford President Obama the opportunity to start repairing the damage and to begin changing minds about trade within Congress and across the country. President Obama is in a unique position to rise above parochial interests and the partisan fray and really speak to the broader national interest. In so doing, he should dispel the persistent myths that have damaged Americans' perspectives on trade and summon the wide variety of facts that strongly support a policy of U.S. international commercial engagement.

The President's success at restoring the pro-trade consensus will build a strong foundation for future prosperity. It will foster economic growth and rising living standards at home and abroad, particularly among those most adversely affected by trade barriers. It will engender goodwill among nations and augment a resurgent American multilateralism. It will help reestablish U.S. leadership in the global economy and thwart growing protectionist sentiment around the world. And it will serve as a testament to America's dedication to, and belief in, the indispensability of liberty and free markets during a period in our history that desperately needs such an example.

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Notes

1. Fast Track (renamed "Trade Promotion Authority" by the Bush administration) enables the executive branch to negotiate trade agreements with other countries, within certain congressional parameters, and then present those completed agreements to Congress for an "up-or-down" vote without amendments. The measure also imposes strict timetables for congressional consideration of a trade agreement and mandates passage of the agreement should Congress fail to meet prescribed deadlines.

2. Under the "Competitive Liberalization" approach, the United States entered into bilateral/regional trade negotiations with several countries simultaneously to induce competition for access to the U.S. market and to help motivate WTO members to complete the Doha round more quickly.

Former U.S. trade representative Robert Zoellick coined the term and describes its intent in Robert B. Zoellick, "Unleashing the Trade Winds: A Building-block Approach" (2003), http://usinfo.state.gov/journals/itps/0803/ijpe/pj81zoellick.htm.

3. Since 2002, the United States has completed and implemented trade agreements with Australia, Bahrain, CAFTA countries (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua), Chile, Morocco, Oman, Singapore, and Peru. It also completed agreements with South Korea, Panama, and Colombia, but Congress has not approved those agreements. Prior to 2002, the United States had agreements with Canada and Mexico (NAFTA), Israel, and Jordan.

4. Office of the United States Trade Representative, "Highlights of Bush Administration Trade Accomplishments," *Trade Facts*, December 2008, http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2008/asset_upload_file570_15256.pdf. One of the 11 agreements (with Jordan) was negotiated during the Clinton administration, but implemented starting in 2001.

5. Recent statistics from the World Trade Organization and other sources indicate that close to 100 bilateral/regional free-trade agreements are now under negotiation—without the United States as party.

6. Many developing countries fear that the inclusion of enforceable labor and environmental provisions in trade agreements would invite bogus claims of violations. That would create an uncertain business climate that could dissuade business with or investment in local factories, which undermines the primary objectives of trade agreements in the first place.

7. World Trade Organization, "Singapore Declaration," 1996, http://www.wto.org/english/theWTO_e/minist_e/min96_e/wtodec_e.htm#core_labour_standards.

8. "Oman FTA is the Product of a Broken Process," (press release, office of Rep. Charles Rangel (D-NY), July 20, 2006).

9. Roll Call Vote 392, July 20, 2006, http://clerk.house.gov/evs/2006/roll392.xml.

10. Roll Call Vote 575, November 17, 1993, available at http://clerk.house.gov/evs/1993/roll575.xml.

11. The URAA implemented the GATT agreements that were concluded during the Uruguay Round (1986–94), and created the World Trade Organization.

12. Roll Call Vote 507, November 29, 1994, http://clerk.house.gov/evs/1994/roll507.xml.

13. Roll Call Vote 466, September 25, 1998, http://clerk.house.gov/evs/1998/roll466.xml.

14. Thomas L. Friedman, "Foreign Affairs; Protesting for Whom?", *New York Times*, April 24, 2001, http://query.nytimes.com/gst/fullpage.html?res=9A0CEEDE1639F937A15757C0A9679C8B63#.

15. The 1996 Democratic National Platform: *Today's Democratic Party: Meeting America's Challenges, Pro-tecting America's Values*, http://www.presidency.ucsb.edu/showplatforms.php?platindex=D1996.

16. The 2008 Democratic National Platform: *Renewing America's Promise*, pp. 26–27 (emphasis added).

17. Roll Call Vote 228, May 24, 2000, http://clerk.house.gov/evs/2000/roll228.xml.

18. Roll Call Vote 370, July 27, 2002, http://clerk.house.gov/evs/2002/roll370.xml.

19. Roll Call Vote 436 (Chile FTA), July 24, 2003, http://clerk.house.gov/evs/2003/roll436.xml; and Roll Call Vote (Singapore FTA), July 24, 2003, http://clerk.house.gov/evs/2003/roll432.xml.

20. Roll Call Vote, 443, July 28, 2005, http://clerk.house.gov/evs/2005/roll443.xml.

21. Roll Call Vote 392, July 20, 2006, http://clerk.house.gov/evs/2006/roll392.xml.

22. According to statistics from the U.S.-China Business Council, approximately 50 pieces of legislation were introduced in the U.S. House of Representatives or Senate that sought to slow or cease Chinese imports into the United States. Sponsors of these bills routinely blamed imports for harming U.S. jobs and businesses, citing the expanding U.S.-China trade deficit as proof of China's adverse impact on the U.S. economy. See http://www.uschina.org/public/documents/2008/110th-congress-legislation-related-to-china.pdf.

23. U.S. House of Representatives, 110th Congress, "A New Trade Policy for America," http://waysandmeans.house.gov/media/pdf/NewTradePolicy.pdf.

24. The agreement with Panama has been sidelined, ostensibly because the president of the Panamanian National Assembly was tried in a Panamanian court and absolved of the killing of an American soldier in 1992.

25. Office of the Speaker of the House of Representatives, "Pelosi and Rangel Statement on

Administration Sending Colombia Free Trade Agreement to Congress," (press release, April 7, 2008), http://speaker.house.gov/newsroom/press releases?id=0596.

26. Remarks of Candidate Barack Obama, Transcript of Presidential Debate, Hofstra University, October 15, 2008, available at http://www.hofs tra.edu/debate/.

27. There has been a huge reduction in Colombian violence under the government of Alvaro Uribe. Between 2002 and 2007, common homicides have declined by 40 percent; the number of trade unionists killed has dropped by 88 percent (to 25 in 2007); kidnappings have declined by 82 percent; and, total terrorist attacks are down by 77 percent. See Daniel Griswold and Juan Carlos Hidalgo, "A U.S.-Colombia Free Trade Agreement: Strengthening Democracy and Progress in Latin America," Cato Free Trade Bulletin no. 32, February 6, 2008.

28. H.R. 6530.

29. H.R. 6530.

30. S. 1919.

31. H.R. 294.

32. H.R. 1958.

33. H.R. 782.

34. H.R. 169.

35. H.R. 910.

36. PollingReport.com, http://www.pollingreport .com/trade.htm.

37. The Pew Research Center for the People and the Press, "Public Support for Free Trade Declines," *Survey Reports, Section IV, Trade and the Economy*, May 1, 2008, http://people-press.org/ report/?pageid=1295.

38. "Chairmen Rangel and Levin Introduce Trade Enforcement Bill: H.R. 6530 Would Help to Ensure that Trading Partners Play by the Rules" (press release, office of Congressman Sander Levin, July 17, 2008), http://www.house.gov/apps /list/press/mi12_levin/PR071708.shtml.

39. Ibid.

40. Council of Economic Advisers, *2009 Economic Report of the Presiden*t, Tables B-1 and B-2, (January 2009).

41. Council of Economic Advisers, "The History and Future of International Trade," *2006 Economic Report of the President* (January 2006).

42. "Brown, Snowe, Stabenow, Bayh, Rockefeller Call on USTR to Defend U.S. Trade Law at WTO Meeting," (office of Senator Sherrod Brown, press release, July 21, 2008), http://brown.senate.gov/new sroom/press_releases/release/?id=ab1f3785-bde4-431d-a7db-729c6e877553.

43. See Daniel Ikenson, "Thriving in a Global Economy: The Truth about U.S. Manufacturing and Trade," Cato Institute Trade Policy Analysis no. 35, August 28, 2007, p. 5, available at http:// www.freetrade.org/files/pubs/pas/tpa-035.pdf.

44. Bureau of Economic Analysis, *Survey of Current Business* (January 2009), U.S. International Transactions, Table 2 (figure calculated as line 82 minus line 96 minus line 116, as a share of line 82), http: //www.bea.gov/scb/pdf/2009/01%20January/0109 _itaq_tables.pdf.

45. Council of Economic Advisers, *2009 Economic Report of the President*, Tables B-51, B-93, B-13, and B-104, (January 2009).

46. Ibid., Table B-46.

47. "ThyssenKrupp Picks Alabama for $3.7 Billion Steel Plant," *International Herald Tribune*, May 11, 2007.

48. "Honda Opens New U.S. Plant as Detroit Seeks Bailout," *Reuters*, November 17, 2008, http: //www.reuters.com/article/americasDealsNews/i dUSTRE4AG7DU20081117.

49. Organization for International Investment, "Insourcing Statistics" (as of February 1, 2009), http://www.ofii.org/insourcing-stats.htm.

50. "Time to Rethink Offshoring?" *McKinsey Quarterly*, http://www.mckinseyquarterly.com/Time_ to_rethink_offshoring_2190.

51. *2009 ERP*, Table B-51.

52. UN Industrial Development Organization, "Share in Regional and World MVA," obtained from interactive database at http://www.unido.org/in dex.php?id=o3474.

53. Ibid.

54. Lou Dobbs, "Trade, Foreign Policy, and the American Worker." (testimony before the House Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade), March 28, 2007.

55. *2009 ERP*, Table B-104, adjusted for inflation using B-60.

56. *2009 ERP*, Table B2 for GDP; B-35 for labor.

57. *2009 ERP*, B-35.

58. Bureau of Labor Statistics, "Employment Situ-

ation: December 2008," *Economic News Release*, January 9, 2009.

59. U.S. Census Bureau, "U.S. International Trade in Goods and Services, November 2008," news release, January 13, 2009, http://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf. The January–November trade deficit in goods and services stood at $631 billion in 2008, $643 billion in 2007, and $693 billion in 2006.

60. Ibid.

61. Progressive Policy Institute, "U.S. Imports Fell by $25 Billion in November," *PPI Trade Fact of the Week*, January 14, 2009.

62. Sandy Levin, "A Policy that Goes on the Offense for U.S. Business and Workers," *The Hill*, June 10, 2008, http://thehill.com/op-eds/a-policy-that-goes-on-the-offense-for-u.s.-businesses-and-workers-2008-06-10.html.

63. Daniel Griswold, "Are Trade Deficits a Drag on U.S. Economic Growth?" Cato Institute Free Trade Bulletin no. 27, March 12, 2007, http://www.freetrade.org/node/598.

64. International Monetary Fund, "World Economic Outlook Database," http://www.imf.org/external/pubs/ft/weo/2008/02/weodata/weorept.aspx?sy=1980&ey=2008&scsm=1&ssd=1&sort=country&ds=.&br=1&c=158&s=NGDP_R&grp=0&a=&pr.x=46&pr.y=12.

65. Ibid.

66. Robert E. Scott, "China Trade Costs Trade in Every State," Economic Policy Institute, *Economic Snapshot*, July 30, 2008.

67. Between 1995 and 2002, China lost 15 million manufacturing jobs, while the United States lost 2 million. See "China Losing More Manufacturing Jobs than U.S. but Adding Service Jobs at a Rapid Pace" (press release, The Conference Board, July 8, 2004), http://www.conference-board.org/utilities/pressdetail.cfm?press_id=2432.

68. East Asia is defined as China, Japan, South Korea, and Taiwan.

69. When the definition is broadened to Pacific Rim countries, which includes East Asia (see note 68) and several other countries, the relative percentage goes from 39% in 1995, to 33% in 2001, and to 33% in 2007.

70. U.S. Bureau of the Census, Foreign Trade Statistics, Series FT900: *U.S. International Trade in Goods and Services, Compiled from Year End Revisions 1995, 2001, and 2007*, http://www.census.gov/foreign-trade/Press-Release/current_press_release/press.html.

71. U.S. International Trade Commission, *Technical Assistance on Domestic Value Added to Exports in China*, (prepared for the staff of the House Committee on Ways and Means), April 20, 2005.

72. Lawrence J. Lau et al., *Estimates of U.S.-China Trade Balances in Terms of Domestic Value-Added*, Working Paper no. 295 (Palo Alto, CA: Stanford University, October 2006; updated November 2006).

73. Congressional Budget Office, "How Changes in the Value of the Chinese Currency Affect U.S. Imports," July 2008, http://www.cbo.gov/ftpdocs/95xx/doc9506/07-17-ChinaTrade.pdf.

74. Christian Weller and Holly Wheeler, "Our Nation's Surprising Technology Trade Deficit: A Wide Array of High-Tech Imports Overtake U.S. Exports," Center for American Progress, March 10, 2008 (emphasis added).

75. Greg Linden, Kenneth L. Kraemer, and Jason Dietrick, "Who Captures Value in the Global Innovation System? The Case of Apple's iPod," Personal Computing Industry Center, University of California, Irvine, June 2007, http://pcic.merage.uci.edu/papers/2007/AppleiPod.pdf.

76. Ibid, p.10.

77. Levin.

78. Authors' calculations based on U.S. International Trade Commission figures and data from the United States Census Bureau (http://www.census.gov/foreign-trade/balance/c5700.html#2006). The authors note that USITC data were not publicly available for four CVD cases, and thus the authors calculated import values using data corresponding to the Harmonized Tariff Schedule codes provided in the USITC's public determinations. Thus, these figures are very likely overinclusive and the percentage cited above is likely much lower. Data are available upon request.

79. Chairman Charles Rangel, letter to U.S. ITC Commissioner Daniel Pearson, April 1, 2008, http://insidetrade.com/secure/pdf12/wto2008_4378b.pdf.

80. Levin.

81. When China acceded to the WTO in 2001, it agreed to allow other WTO members recourse to, among other things, temporary trade restrictions if imports from China were found to be "surging" and causing "market disruption," as determined by the U.S. International Trade Commission. Though the USITC voted in 4 of 5 cases to grant import relief under this provision (Section 421 of

the Trade Act of 1974), President Bush exercised his discretion to deny relief. See Daniel J. Ikenson, "Bull in a China Shop: Assessing the First Section 421 Trade Case," Cato Free Trade Bulletin no. 2, January 1, 2003.

82. The word "costs" is in quotes to acknowledge that some people are made worse off by free trade, but that we should not necessarily think of that as a cost. They are made worse off relative to their previous levels of well-being, which were attained or sustained in part by protectionist policies that forced others to subsidize their well-being. There is more discussion of this later in the text.

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95. See, e.g., Daniel Ikenson, "Nonmarket Nonsense: U.S. Antidumping Policy toward China," Cato Institute Trade Briefing Paper no. 22, March 7, 2005.

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