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June 19, 2006 No. 33

CENTER FOR TRADE POLICY STUDIES

Leading the Way
How U.S. Trade Policy Can Overcome Doha's Failings

by Daniel Ikenson

Executive Summary

The relationship between openness to trade and economic growth is today well documented. Study after study has shown that countries that are more open to trade grow faster than those that are relatively closed. But four and a half years after the launch of the World Trade Organization's Doha Development Agenda, with its goals of further reducing barriers to trade in goods and services, prospects for an auspicious outcome look remote.

But increased trade does not require new trade agreements. Through unilateral liberalization, policymakers can achieve the U.S. objectives of the Doha Round: better opportunities for American businesses, more affordable products for consumers, improved prospects for farmers and producers in developing countries, alleviation of poverty, and greater international receptivity to U.S. policies.

At 1.4 percent in 2005, the average applied tariff rate in the United States is relatively low. But that average obscures the fact that duty rates on many products are in double-digit percentages, which discourages importation of those products and keeps domestic prices higher than they would be otherwise. Most of the products subject to high U.S. tariffs are necessities such as clothing, footwear, and food, all products to which lower-income families devote a larger proportion of their budgets than do higher-income families. Those are also the products that developing countries are likely to produce and export.

U.S. tariffs and quotas are not assets to be relinquished only in exchange for better access abroad. In fact, they are liabilities that raise the costs of production for U.S. producers and the cost of living for American consumers.

Convincing a Congress that is growing more skeptical about trade of the merits of unilateral liberalization will require some new thinking. But on moral grounds alone, there should be every reason to expect bipartisan support for a plan that would cut the most regressive U.S. taxes, reduce wasteful government spending, boost economic prospects for U.S. firms, and give the developing world a better chance to share in the benefits of the global economy.

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Introduction

The relationship between openness to trade and economic growth is well documented. Study after study has shown that countries that are more open to trade grow faster than those that are relatively closed. But four and a half years after the launch of the World Trade Organization's Doha Development Agenda, with its goals of further reducing barriers to trade in goods and services, prospects for an auspicious outcome look remote. Trade negotiators' ever-present rhetorical commitment to trade liberalization is irrelevant in the face of their stubborn reluctance to match deeds to words.

The problem is that negotiators have forgotten, or just fail to recognize, how economies realize the benefits of trade. By conditioning improved access to their own markets on similar access commitments of others, negotiators mock the incontrovertible truth that reducing one's own barriers is beneficial regardless of whether others open as well. Reciprocal agreements that induce multilateral market liberalization are arguably preferable to unilateral liberalization because such concerted reform can induce broader and faster economic growth. But the "all or nothing" ethos that dominates trade negotiations is simply fallacious.

Regardless of whether a breakthrough that will enable negotiators to meet the ambitious goals of the Doha Round is achieved, U.S. policymakers should recognize that those laudable objectives can be realized through alternative means. Increased trade does not require new trade agreements. Neither are trade agreements requisite to advancing U.S. economic and foreign policy aims.

All by itself—without need of foreign consent—the U.S. Congress can show its support for American businesses, consumers, and taxpayers by pursuing a policy of unilateral trade liberalization. U.S. tariffs and quotas are not assets to be relinquished only in exchange for better access abroad. In fact, they are not assets at all. They are liabilities that raise the costs of production for U.S. producers and the cost of living for American consumers, and they are especially burdensome for lower-income families. Lavish agricultural subsidy programs are a heavy burden on the U.S. federal budget and egregiously unfair to farmers in developing countries, whose livelihoods are most adversely affected by the market distortions caused by those programs.

U.S. trade barriers also make it more difficult for American producers to compete with foreign firms at home and abroad. When access to raw materials and other inputs is constrained by quantitative restrictions or tariffs, the cost of production for U.S. manufacturers is higher than it should be. And by impeding the sales of foreign firms in the United States, import barriers deprive foreigners of income that could be used to purchase U.S. goods and services. By eliminating those distortions, policymakers would render American businesses more cost competitive and foreign consumers more capable of purchasing U.S. products.

Rather than continue pretending that U.S. trade barriers are assets to be exchanged as "concessions" for the privilege of better market access abroad, policymakers should acknowledge that our barriers are liabilities that reduce U.S. competitiveness and tax disproportionately the world's least well to do. Certainly, the same can be said of the effects of foreign barriers, but others' ill-considered policies are no excuse for our own.

By deciding to remove barriers unilaterally, Congress would create better opportunities at home and abroad for U.S. business, extend family budgets, give consumers greater choice and better quality, and provide greater opportunity for developing countries to benefit from the global economy. Removing barriers would also go a long way toward advancing foreign policy objectives by breaking the links—both real and perceived—between U.S. trade policies and economic hardship in the developing world. Unconditional access to the U.S. market could foster goodwill toward the United States at a time when antipathy toward U.S. policies is ascendant.

Those are the stated and implicit goals of the United States vis-à-vis the Doha Round. They can be achieved even if the Doha Round fails. Convincing a Congress that is growing more skeptical about trade of the merits of unilateral liberalization will require some new thinking. But on moral grounds alone, there should be every reason to expect bipartisan support for a plan that would cut the most regressive U.S. taxes, reduce wasteful government spending, boost economic prospects for U.S. firms, and give the developing world a better chance—all objectives profoundly in our national interest.

The Mercantilist Misconception

As David Dollar and Aart Kraay of the World Bank put it, "Openness to international trade accelerates development: this is one of the most widely held beliefs in the economics profession, one of the few things on which Nobel prize winners on both the left and the right agree."[1]

The proliferation of negotiated trade agreements in recent years and the pursuit of still more are fairly strong evidence that more and more countries recognize that commercial engagement with the world at large is an economic imperative. Although there were 23 original contracting parties to the General Agreement on Tariffs and Trade in 1948, by the founding of the World Trade Organization in 1995, there were 127 members. In the 11 years since the founding of the WTO, membership has increased to 149, and the number of bilateral and regional agreements of which the WTO has been notified has increased from 70 to 220.[2]

If the benefits of openness to trade are so widely recognized, why has agreement in the Doha Round been so elusive? Why have negotiations at all? As it turns out, while economists generally agree about the benefits of trade, most negotiators—and the politicians to whom they must answer—are committed to a less robust formulation of the premise: exports are beneficial and imports are the price we pay for them. Trade negotiations are informed—or rather misinformed—by that perspective.

Too many policymakers have adopted the view that exports are good, imports are bad, and the trade balance keeps score. The mistaken objective of trade negotiations, according to that view, is to simultaneously minimize "concessions" (access of imports to the domestic market) and maximize "gains" (access of exports to the foreign market). Thus, free trade abroad, not at home, is the political ideal. That view lends credibility to the arguments of protectionist lobbies: agreements that shield domestic barriers from reform are preferable to those that do not. The more products excluded, or the smaller the cuts to import barriers, the better the agreement. Advocacy of self-serving preservation of the status quo by domestic interests can be portrayed as consistent with the national interest when policymakers keep score that way.

And policymakers indulge this worldview. Even the Office of the U.S. Trade Representative, which has responsibility for negotiating trade agreements and whose job is made more complicated by domestic resistance to imports, reinforces the fallacy by how it chooses to highlight its negotiating successes. A section of the USTR's website contains information about the benefits of the various U.S. free trade agreements (FTAs). There are fact sheets and other summaries of each concluded agreement and most ongoing negotiations. With only a few exceptions, those documents tout the benefits exclusively in terms of actual or potential export growth.

One document, titled "Free Trade Agreements Are Working for America," presents 18 bullet points to promote the Central American Free Trade Agreement (which had not at that time passed Congress). A sample of those points follows:

- U.S. exports to Chile grew 33.5 percent in 2004, making the United States Chile's leading trade partner.
- The U.S. trade surplus with Singapore tripled after the first year of the U.S.-Singapore FTA, reaching $4.3 billion.
- In the first quarter after the U.S.-Australia FTA went into effect, the U.S. trade surplus with Australia grew 31.7 percent to $2.13 billion.
- Together, U.S. exports to Chile and

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Singapore grew $4 billion in the first year of our FTAs with those countries.[3]

Seventeen of the 18 bullet points in that document touted the export benefits or export potential of the free trade agreements with Chile, Singapore, Australia, or Central America. The one point that even made mention of the U.S. market was offered to reinforce the export benefits of the agreement. It reads, "Eighty percent of everything Central America sends to the United States today enters the U.S. duty-free. *CAFTA does not open America's market much more: it opens the Central American market to U.S. products.*"[4]

In another USTR document highlighting the prospective benefits of CAFTA, explicit reference is made to two U.S. markets that the agreement would nudge slightly more open: textiles and sugar. But neither discussion espouses the benefits of imports. Instead, benefits are used as rationalizations. With respect to textiles, the passage reads:

> Garment factories in Central America and the Dominican Republic purchase large amounts of fabric and yarn from the United States: the region is the 2nd-largest world market for U.S. textile fabrics and yarns. Garments made in the region will be duty-free and quota-free under the Agreement *only if they use U.S. or regional fabric and yarn, thereby supporting U.S. exports and jobs.*[5]

About sugar, the USTR is even more defensive:

> Sugar was handled with great care in the CAFTA. In fact, increased sugar imports under the agreement equal little more than one day's U.S. production. To put sugar imports under CAFTA into perspective, many Americans consume 10–20 teaspoons of sugar per day. By comparison, increased imports in the first year under CAFTA amount to about a teaspoon and half per week per American. There are no provisions in CAFTA for changing very high over-quota U.S. tariffs on sugar.[6]

An agreement that seems to concede greater import potential than the export potential it permits is considered a political failure, which is why the USTR is inclined to tout the export-oriented achievements and rationalize the import "concessions" in its fact sheets. This selective promotion of trade liberalization is part of a vicious circle, which creates and reinforces public skepticism about trade, which then requires more rationalization when agreements are under consideration.

In its 2006 report to Congress on the president's trade policy agenda, the USTR bucks the trend and affirms some significant benefits of import liberalization before succumbing to mercantilist politics:

> In terms of imports, the United States is among the most open markets in the world. Although we have experienced a healthy increase in our exports, imports have grown even more rapidly. These imports have lowered costs and increased choices for American consumers. Free trade [imports] enhances competition, contributes to price stability, and helps support high rates of non-inflationary growth. This helps keep interest rates low so more Americans can afford to buy homes and small businesses can have greater access to capital.
>
> The World Trade Organization Uruguay Round and the North American Free Trade Agreement (NAFTA) lowered U.S. tariffs and provided an average savings of $1,300 to $2,000 a year for a family of four. That means parents can more easily afford clothes, shoes, and toys for their children, and all Americans have more choices—from tropical fruits to consumer electronics. Accordingly, American companies can produce higher-valued goods more efficiently and price these goods more competitively when they are able to purchase parts and components from overseas.

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> Reducing trade [import] barriers also encourages higher productivity and higher incomes. Partially because of trade [imports], Americans have average real incomes 40 percent greater than the nearly 700 million people living in other countries classified as "high income" by the World Bank.[7]

That ringing endorsement of the benefits of imports is then spoiled with the concluding non sequitur:

> These are among the many reasons why President Bush has pledged to continue to open up the U.S. market *so long as our trade partners open up their markets*.[8]

Even though the United States benefits considerably from imports, and even though the United States is better off than the rest of the developed world because our markets are more open, we will open them further only on condition that others do too! It seems that there is no political space for speaking the truth unconditionally: unfettered access of American consumers and producers to imports is unambiguously beneficial to the U.S. economy.

Not only does such political two-stepping deprive U.S. consumers and producers of better economic circumstances, as President Bush acknowledges, it contributes to the problem of enduring poverty in the developing world. Speaking before the United Nations last September, President Bush proclaimed:

> The United States is ready to eliminate all tariffs, subsidies and other barriers to the free flow of goods and services *as other nations do the same*. This is key to overcoming poverty in the world's poorest nations. It's essential we promote prosperity and opportunity for all nations.[9]

Thus, trade's great promise is restrained by the misconceptions it breeds. The most persistent misconception is that, unless one receives better market access in exchange, opening one's market is to be avoided, even if doing so would "promote prosperity and opportunity for all nations." The wholesale acceptance of that illogical premise is what gives rise to the fallacy that reciprocity-based negotiations are requisite to trade liberalization.

The Pros and Cons of Reciprocity

Even though liberalization is beneficial if undertaken without regard to others' reforms, the economic benefits can be much greater if liberalization is mutual. The fewer obstacles there are to the free flow of goods and services throughout the world, the greater the potential for economic growth. In that regard, the concept of negotiated reciprocity has merit. Agreements that dismantle more barriers and abolish more market-distorting subsidies, and in the process lock in more countries to those commitments, can be more liberalizing than the commitment of one country to unilateral reform. Thus, trade agreements can play a constructive role in trade liberalization.

Another important benefit of trade agreements is that they can facilitate the consolidation of domestic reforms and then lock countries into commitments that become difficult to reverse. If a country with a long record of protecting its industries reaches a moment in history when trade reform is in favor and the political conditions for liberalization exist, it might be prudent to lock in any reforms that might be subject to backsliding when the political temptation to do so arises. Brink Lindsey of the Cato Institute points out that Mexico began dismantling its protectionist policies on its own well before it approached the United States about joining the U.S.-Canada Free Trade Agreement and forming what became the North America Free Trade Agreement. "Mexico pushed for NAFTA primarily as a means to lock in prior unilateral reforms; the Salinas administration believed that it would be more difficult for future administrations to undo those reforms if they had been made a matter of international obligation."[10]

Likewise, U.S. WTO commitments might prove to be the prevailing argument against pro-

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tectionist considerations such as the Schumer-Graham bill, which would impose a 27.5 percent tariff on all imports from China unless and until China revalues its currency by an amount deemed sufficient by Congress. That legislation would clearly violate U.S. obligations under various WTO agreements, and it would open a Pandora's Box of problems with which Congress presumably would not want to be burdened.

Furthermore, international trade negotiations can carry a certain gravitas that can be tapped by reform-minded constituencies to overcome resistance to liberalization on the part of entrenched domestic interests. Prospects for reforms that are in a country's best interest, but are opposed by politically powerful domestic constituencies, can improve when external pressure is harnessed and brought to bear. U.S. agricultural programs are a good example. Even though those programs are unnecessary and egregiously wasteful of taxpayer dollars, members of Congress still support them and the fiscal bleeding continues. But when international pressure for reform is present and reformers can cite the adverse impact of those farm programs on farmers in poor countries, resistance to change becomes less tenable.

Reciprocity-based negotiations are not costless, however. First, reciprocal negotiations reinforce the notion that import barriers are assets to be dispensed with only in exchange for better market access abroad. That misperception can retard the liberalization process in countries that are already inclined toward reform. The idea that elimination of barriers already under consideration might be viewed as desirable by current or prospective negotiating partners can change the perception of those barriers from burdensome liability to negotiating chit.

Likewise, a country's reform efforts could be stunted through negotiations with countries that are less ambitious about liberalization. For example, in October 2005 the United States proposed a sweeping reform of agricultural subsidies and tariffs in an effort to energize the Doha negotiations before the Ministerial Meeting in Hong Kong two months later. But that proposal was conditioned on the European Union's acceptance of its terms. Although EU trade commissioner Peter Mandelson wrote it off as a political stunt to which the U.S. Congress would never agree, the fact is that the EU has not agreed to the terms but has offered its own, less ambitious, proposal. Should the EU proposal represent the most far-reaching plan to which members can agree, then, arguably, the negotiations will have limited the scope of the reform that the United States was willing to undertake.

The same can be said about the concept of a "single undertaking" generally. If agricultural liberalization is conditioned on industrial market access liberalization, which is conditioned on rules of special and differential treatment, and so on, then the final agreement—should one be forthcoming—would necessarily be less ambitious than one to which one or some or many other countries would have been willing to agree. In that respect, there are real costs to reciprocal negotiations.

Although agreements might help to consolidate and buffer domestic reforms from subsequent political motivation to backtrack, negotiations could cause countries to recoil from reforms they might otherwise undertake. Countries may be more willing to liberalize when they do it on their own terms, knowing that if push comes to shove they can reverse course. Sacrificing retention of decisionmaking—even if that includes the capacity to undo reforms—could deter countries from agreeing to international commitments.

The stasis in the Doha Round regarding the negotiations on nonagricultural market access has been widely attributed to the unwillingness of developing countries to take on new commitments. That unwillingness stems in part from concern about competition from China and other emerging economies. While they may recognize that opening their own markets is in their interest—or, at a minimum, is a necessary condition for others to open their markets—some countries do not want their policy options to be limited by international agreements. And external pressure to do more than is wanted domestically or than is politically feasible could sour the mood for any liberalization at all.

The prospect of negotiations also may precipitate illiberal trade policies. Throughout history, it has been common for countries to raise their tariffs just before the commencement of trade negotiations—a practice known as tariff padding—so that they would have more chits for bargaining. Concessions subsequently made in negotiations would look, on paper, much larger than they actually were.

Variations of that theme have been on display in the Doha Round. One of the major points of contention at the Cancun Ministerial Meeting in September 2003 involved the so-called Singapore Issues.[11] The EU and Japan, in particular, were insisting that those topics be part of the official negotiating agenda, but most developing countries were adamantly opposed. Eventually, all but one of the Singapore Issues were dropped in acknowledgement that there was no consensus to negotiate them. But some observers have speculated that the EU and Japan knew the issues would not be well received but proposed them for the agenda so that they could score credit for agreeing to withdraw their requests. Their agreement to abandon pursuit of the issues was a concession that might insulate them from more meaningful reforms to agricultural policies.

The U.S. version of tariff padding was even more obvious. In preparing the ground for the Doha Round, the administration first turned its attention to securing trade promotion authority (TPA). As part of that effort, President Bush imposed tariffs and quotas on steel imports in 2002 under the U.S. safeguards law, arguably for the express purpose of winning support from members of Congress from steel states for passage of the TPA legislation. Then, to secure the final House vote that provided the margin of victory in passing TPA, the administration turned once again to protectionist handouts. This time, the administration agreed to revise certain provisions of the Caribbean Basin Initiative, a U.S. trade preference program, to effectively raise the threshold of qualification for duty-free access for textiles. The change required that the finishing and dying of fabrics used in clothing imported from CBI countries be performed in the United States in order for those articles to enter the United States duty-free. Ironically, in both of these cases, the administration had to indulge protectionist wishes in order to get the green light from Congress to try to achieve freer trade.

Trade negotiations also feature an asymmetry of negotiating power between or among the participants. While there are some significant benefits to having more leverage, there are also responsibilities and burdens. As the world's largest economy, the United States has a lot of negotiating leverage. But its positions are often perceived—or can be distorted to be perceived—as heavy-handed.

Within the context of the Doha Round, developing countries, and the organizations that purport to represent their interests, often complain that their interests are ignored or pushed to the margins by the bigger and richer countries. The Zambian minister of commerce, trade, and industry wrote recently in the *Financial Times*: "Given this common acceptance of the benefits of free trade it would seem obvious to grant LDCs [least developed countries] the special treatment they have been asking for. Yet, the LDCs have been forced to fight hard to wring even the smallest of concessions, despite the public commitments from politicians in the developed world to assist them."[12]

The British nongovernmental organization Oxfam summarizes the problem of asymmetry as follows: "Proposals and draft texts typically emerge from small groups of the more powerful countries and are presented on a 'take it or leave it' basis to other members."[13] Oxfam also has been critical of what it perceives to be U.S. bullying of bilateral trade negotiating partners with respect to intellectual property rights commitments:

> The US Trade Representative also has a practice of bullying countries that it feels do not offer adequate levels of protection for US companies' intellectual property. In response to industry complaints, the USTR pressures countries bilaterally, in some cases even threatening or imposing trade sanctions against them. There is already a multilateral WTO Agreement governing intellectual property (TRIPS), which was concluded after much wrangling over how to balance innovators' rights and broader social interests. Seeking to tip the

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> balance in favor of US-based corporations by pressuring poor countries to adopt higher IP protection outside of the multilateral system is unfair, inappropriate, and even immoral in light of the grave public health crises affecting the developing world.[14]

Furthermore, this asymmetry requires—in perception if not in reality—that the United States assume a greater share of the responsibility for the consequences of any agreement. That means that if trade liberalization does not deliver the advertised benefits expeditiously to the smaller countries—even if that failure may be attributable to purely domestic policy errors of omission or commission unrelated to the agreement—then the agreement, and by extension the United States, is to blame. Witness the large anti-American backlash throughout Latin America in response to what is popularly perceived as the failure of the so-called Washington Consensus on lower taxes, less regulation, and privatization, which was being counseled as a means of reversing stagnation and hyperinflation in Latin America.

Although reciprocal agreements can inspire greater trade flows, and have certainly been a popular vehicle for liberalizing trade, there are costs and potential pitfalls to that process. Reinforcing the prevalence of reciprocal agreements is a vicious circle of misconception. Imports are bad, so trade barriers are assets. As assets, trade barriers should be removed only when our trading partners agree to do the same. That requires negotiations, which reinforce the notion that imports are bad. Breaking that link is essential to convincing Congress of what is in our national interest.

Economic Benefits of Openness

Most research on the benefits of trade liberalization affirms the following conclusion from an International Monetary Fund staff paper: "Although there are benefits from improved access to other countries' markets, countries benefit most from liberalizing their own markets."[15] Yet most U.S. political rhetoric equates the benefits of trade with the benefits of exports and treats openness at home as the cost of those export benefits. The Bush administration is partial to speaking about the benefits of trade in terms of the export potential for our fabled "farmers, ranchers, and manufacturers," but it has on occasion spoken unconditionally about the benefits of imports. In late 2002 the United States offered a proposal in the WTO negotiations that would eliminate all tariffs on nonagricultural trade by 2015.

Then-USTR Robert Zoellick remarked that the proposal would "turn every corner store in America into a duty-free shop for working families."[16] The USTR's summary of the proposal went on to say that "elimination of U.S. tariffs would significantly benefit U.S. families and consumers through lower import taxes and a more-competitive economy. Last year [2001] alone, hidden import taxes cost American consumers $18 billion. Duty-free trade would eliminate these hidden costs and lower prices for consumers."[17]

Zoellick's emphasis on the benefits of greater imports stood out as a departure for trade officials, who normally downplay that effect and emphasize the benefits to exporters when discussing a prospective trade deal. Unfortunately, advocacy along those lines remains rare. Convincing members of Congress of the merits of an agreement still seems to require evidence that the export potential will more than make up for the "disruption" caused by imports. In accommodating that half-a-loaf perception of trade, advocates of liberalization deprive themselves of the full battery of evidence and argumentation that could be mustered to reverse misconceptions about trade.

The case for open markets at home, according to Brink Lindsey, boils down to common sense: "It is now widely recognized that free markets are indispensable to our prosperity: when people are free to buy from, sell to, and invest in each other's markets as they choose, they are able to achieve far more than when governments attempt to control economic decisions."[18]

Trade barriers and subsidies, while burdensome to foreign firms, are foremost matters of domestic budgetary and economic policy. Domestic reform does not require international trade agreements. The fact that foreigners may also have an interest in seeing those distortions removed does not mean that they are U.S. assets to be discarded only in exchange for similar measures abroad. The most compelling case for dismantling protectionist barriers and subsidy programs is not that they are "concessions" that will buy U.S. exporters access to foreign markets. The best reason is that it would be incontrovertibly good for the U.S. economy, regardless of what other countries do with respect to their own trade barriers.

In the nearly 60 years since the signing of the original General Agreement on Tariffs and Trade, industrialized countries have lowered their average tariffs on industrial goods from 40 to 4 percent, and exports have grown from $58 billion to $9 trillion.[19] During that period world GDP increased more than sevenfold, from $3.9 trillion in 1948 to $28.1 trillion in 2000.[20]

Research shows that people living in countries that are more open to trade attain higher incomes and achieve higher living standards than citizens of countries that are relatively closed. The 2001 version of the annual *Economic Freedom of the World* report spotlights the effects of trade openness on measures of real income. James Gwartney, Charles Skipton, and Robert Lawson derive a trade openness index for 109 countries, which is based on each country's tariff rates, black-market exchange premium, restrictions on capital movements, and the actual size of the trade sector relative to its expected size. During the period from 1980 to 1998, the world's 12 most open economies had an average GDP per capita of $23,387, which was seven times higher than the comparable figure of $3,250 for the 12 least open economies. And annual per capita GDP growth for the 12 most open was 2.5 percent between 1980 and 1998, while the growth rate of the 12 least open was only 0.3 percent per year.[21]

Likewise, research by David Dollar and Aart Kraay reaches similar conclusions. They identify developing countries whose trade as a percentage of GDP increased between 1980 and 1999—approximately one-third of all developing countries—and compare their growth rates to those of developing countries that have experienced relative declines in trade.

First, the researchers found that the "globalizing" group of developing countries had lowered their tariffs significantly—by 22 points on average, compared to 11 points for the non-globalizers. That might help explain the increase in trade. Second, they found that average growth rates of the globalizers increased from 2.9 percent per year in the 1970s to 3.5 percent per year in the 1980s to 5 percent per year in the 1990s. On the other hand, the non-globalizers experienced a decline in growth rates from 3.3 percent per year in the 1970s to 0.8 percent in the 1980s before recovering slightly to 1.4 percent in the 1990s.[22]

In its 2006 assessment of U.S. trade policies, the WTO Trade Policy Review Body observed: "The United States has undergone solid economic growth since its last Trade Policy Review in early 2004. This has been aided by the openness and transparency of its trade regime, which has supported the continuous drive for change and efficiency characteristic of the U.S. economy as a whole. . . . [U.S. openness] is one of the factors that foster U.S. growth, as it allows U.S. producers and consumers to access required goods, services, and capital from abroad at the best conditions."[23]

Import competition boosts productivity and living standards by inspiring a shift in resources away from activities in which Americans are less productive toward activities in which we are relatively more productive. It also extends family budgets, increases quality and choice, raises average productivity, and reduces the costs of production for U.S. manufacturers.

In this year's *Economic Report of the President,* the Council of Economic Advisers writes about the tendency of imports to help lower prices and benefit consumers:

> There is now ample evidence across many countries that greater trade openness and the resulting exposure to foreign competition reduces the ability of a country's firms to charge high markups above production costs. Pressures for lower prices arise from the direct impact

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of cuts in trade barriers being passed through to cuts in prices. They also arise from the broader impact of raising market contestability.[24]

That statement affirms the adage of the Progressive Era: "The tariff is the mother of the trust." Competition among firms helps keep prices in check and frees resources for savings or consumption elsewhere in the economy. Import barriers stymie that process.

To demonstrate that imports have played an important role in curbing price inflation, the CEA compares the trend in overall consumer prices—including those of nontraded goods and services—to the trend in import prices. The findings show that overall consumer prices have risen much more than have import prices. Between 1990 and 2004 the average annual increase in import prices was just 0.6 percent, while the rate was 2.2 percent for overall consumer prices.[25]

Nontraded products and services are subject to less competition than are traded products, and that has an apparent effect on prices. Here, the CEA found that "between 1997 and 2004, real prices fell for an array of highly traded goods, such as audio equipment (-26%), TV sets (-51%), toys (-34%), and clothing (-9%). In contrast, real prices rose for largely nontraded products, such as whole milk (+28%), butter (+23%), ice cream (+18%), peanut butter (+9%), and sugar and sweeteners (+9%)."[26]

An earlier study by the Federal Reserve Bank of Dallas produced similar findings but went further to demonstrate that consumer price inflation was most pronounced for services that cannot be traded, including inpatient hospital services, admission to sporting events, cable television, college tuition, dental services, and funeral expenses.[27]

Benefiting from openness to imports is not the exclusive domain of consumers. Americans also benefit as producers, investors, and workers when access to imports is improved.

In addition to their salutary effects on prices, imports allow consumers to benefit from a wider variety and better quality of products and services. Here the CEA found that "welfare gains from variety growth alone have been estimated to be a remarkable 2.8 percent of GDP, which translates into gains of over $4,000 for the average American family of four."[28]

Benefiting from openness to imports is not the exclusive domain of consumers. Americans also benefit as producers, investors, and workers when access to imports is improved. U.S. producers require access to imported raw materials and components to lower their own costs of production. And competition for their final goods inspires greater efficiencies, exposes them to international best practices, and ultimately helps to raise productivity. When productivity rises, wages and profits tend to follow suit, benefiting workers and investors. Through all these channels, imports help U.S. industries remain competitive at home and abroad and help the economy to grow and living standards to rise.

There is a strong positive correlation between goods imports and manufacturing output. In other words, imports and output rise and fall together, indicating that imports are pro-cyclical and in greater demand when U.S. production is increasing.[29] U.S. producers rely heavily on imported raw materials and components to manufacture final goods. Lumber, oil, iron ore, steel, rubber, copper, computer chips, bearings, and mechanical parts, which are almost exclusively consumed in the production of downstream products, make up a large and growing proportion of annual U.S. imports. In fact, U.S. imports of raw materials that are mined (which include oil, gas, iron ore, aluminum, and the like) rose from 9 percent of U.S. imports in 1998 to 16.2 percent in 2004. Over the same period, imports of manufactures declined from 80.2 percent of total imports to 74.3 percent.[30]

The benefit of better access to imports for U.S. producers translates into better access to foreign markets. Trade liberalization at home reduces costs in the supply chain, which renders businesses more competitive abroad. And when foreigners have better access to the U.S. market, they have the opportunity to earn more dollars. The income effect of their sales in the United States has a measurable impact on their demand for U.S. products. In 2005 more than $900 billion of U.S. production was exported.[31]

When the reliance of U.S. producers on imports is appreciated, it is easier to grasp that import restrictions raise the costs of production and are ultimately akin to restrictions on exports. By raising the costs of production and by depriving foreigners of sales opportunities in the

United States, import barriers force U.S. exporters to try to sell at higher prices to foreign customers with less income. Lower input prices mean lower production costs, which enable U.S. companies to sell more competitively abroad to customers who have greater income because of their access to the U.S. market.

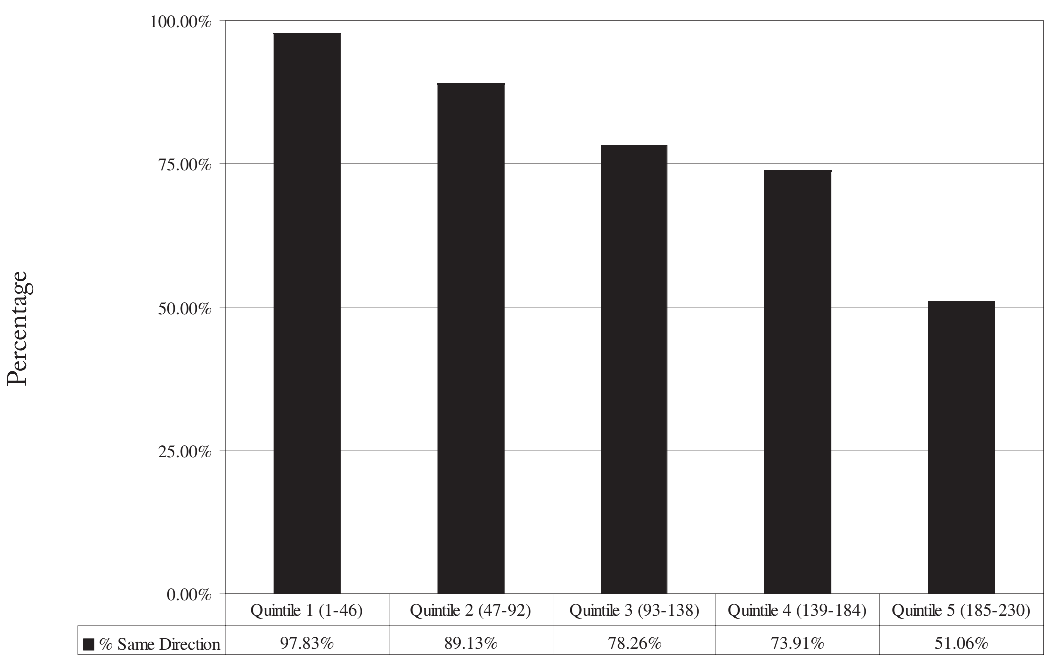
There appears to be some correlation between import growth and export growth. During the four years between and including 2002 and 2005, the United States traded goods with 230 different countries.[32] Over that period, U.S. imports increased from 181 of those 230 countries and decreased from 49. Nearly 89 percent, or 161 of the 181 countries from which U.S. imports increased, also increased their own imports of U.S. products during the same period. Only 63 percent, or 31 of the 49 countries from which U.S. imports declined, increased their imports of U.S. products. The percentage increase in U.S. export value to countries from which the United States increased its imports was 31 percent, as compared to only 19 percent growth in exports to countries from which imports declined.

Imports and exports changed in the same direction (either both increased or both decreased) for 179 of the 230 countries (78 percent) from which the United States imported in both periods. Figure 1 shows that the correlation seems to be stronger as imports rise. Imports and exports moved in the same direction for 98 percent of the countries in the first quintile by import volume but by only 51 percent for the countries in the fifth quintile.

Furthermore, the magnitude of export growth seems to have some relation to the magnitude of import growth. The 225 countries with which the United States traded in 2002 were sorted in descending order of import growth and divided into thirds. The first group comprises the top 75 countries in terms of import growth, the second comprises the middle 75, and the third corresponds to the bottom 75 in terms of import growth. As Figure 2 shows, U.S. exports increased the most to the group of countries from which U.S. imports

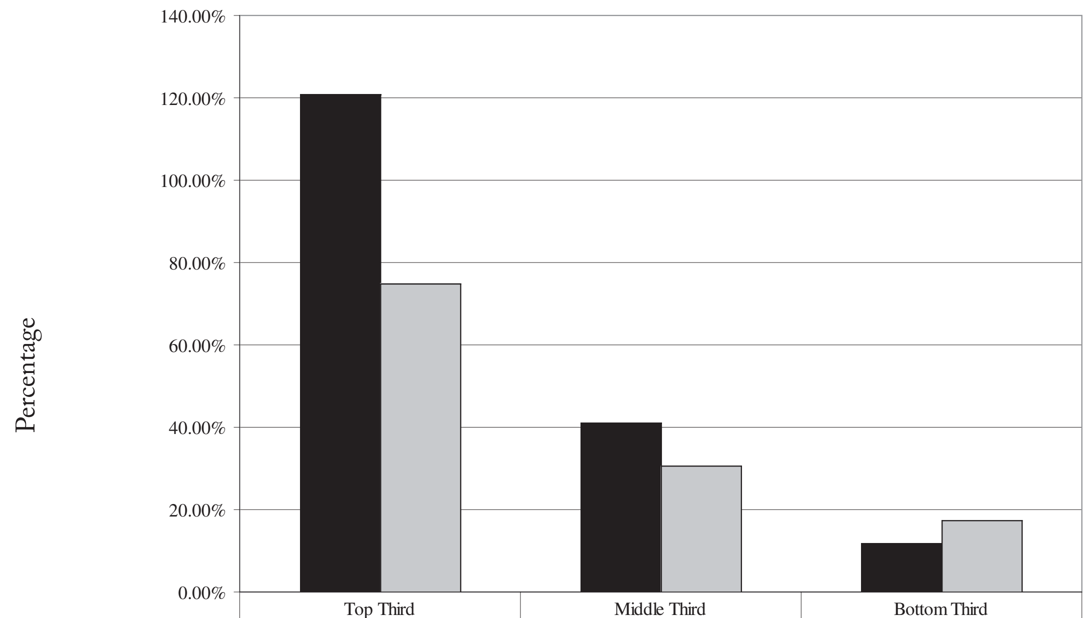
When the reliance of U.S. producers on imports is appreciated, it is easier to grasp that import restrictions raise the costs of production and are ultimately akin to restrictions on exports.

Figure 1
U.S. Imports and Exports (2002–05), Percentage of Countries for Which Imports and Exports Moved in the Same Direction, by Import Volume Quintile



Source: Based on official U.S. trade data available on the U.S. International Trade Commission's Dataweb (www.usitc.gov).

Figure 2
U.S. Import and Export Growth by Top Third, Middle Third, and Bottom Third of Trading Partners Ranked by Import Growth



	Top Third	Middle Third	Bottom Third
■ % Chg. Import Value	120.92%	41.11%	11.80%
□ % Chg. Export Value	74.98%	30.57%	17.52%

Source: Based on official U.S. trade data available on the U.S. International Trade Commission's Dataweb (www.usitc.gov).

rose the most, and exports increased the least to the group from which U.S. imports rose the least.

Thus, contrary to popular rhetoric, imports do not come at the expense of domestic production. In fact, they may help to spur export growth. Imports have been a crucial component of the nearly continuous economic expansion in the United States over the past two decades. Between 1990 and 2005, real imports of goods and services more than tripled, while real GDP increased by 56 percent and 23 million net new jobs were created.[33] The record level of imports in 2005 occurred alongside the creation of two million net new jobs, a reduction in the unemployment rate to 4.7 percent, and economic growth of 3.5 percent.

With a record like that, the time has come to stop vilifying imports. They have played a crucial role in U.S. competitiveness and growth. It is the remaining U.S. import barriers that deserve the scrutiny and ire of policymakers.

The time has come to stop vilifying imports. They have played a crucial role in U.S. competitiveness and growth. It is the remaining U.S. import barriers that deserve the scrutiny and ire of policymakers.

Overview of U.S. Trade Barriers

With an average applied tariff rate of 1.4 percent in 2005, the United States is one of the most open economies in the world. That fact is often cited as an argument against further trade liberalization. But that logic belies the fact that relative U.S. openness helps to explain our strong economic performance. And averages often obscure important facts, as is the case here.

There are just over 10,000 individual tariff lines in the U.S. Harmonized Tariff Schedule. All imports correspond with an HTS code and description, and the associated duty rate, if any, is applied. In 2005 about $1.16 trillion worth of goods, or nearly 70 percent of the $1.66 trillion worth of U.S. imports, entered duty-free. While the average applied tariff was 1.4 percent in 2005, the "average nominal tariff"[34] was much higher because products subject to higher tariffs tend to be imported in lower volumes. In 2004 the average applied tariff was 1.6 percent, while the average nominal tariff was three times higher at 4.9 percent, reflecting a range of 0 to 350 percent (for tobacco products).[35]

Table 1 presents a summary of U.S. imports in 2005 after aggregating import value, dutiable value, duties collected, and various residual variables by each chapter of the HTS in descending order of applied tariff rate.[36] As is evident, while the average applied tariff on all imports was just 1.4 percent, the average was much higher for products in several HTS chapters. Products in Chapters 61 and 62, which cover all imports of apparel and clothing accessories, were the most heavily taxed at duty rates eight times higher than the overall average. While imports under those chapters accounted for only 4.3 percent of total U.S. import value in 2005, duties collected on them accounted for nearly 35 percent of all duties collected by the U.S. Customs Service.

Although protectionist policymakers like to claim that our trade agreements and preference programs provide the world's clothing producers with duty-free access to the U.S. market, the fact is that fewer than one-third of those shipments enter the United States duty-free (31 percent and 23.1 percent for Chapters 61 and 62, respectively). Those figures should be interpreted as a strong indictment of the rigid rules of origin and exorbitant costs of complying with the terms of those agreements and preference programs.

Imports of footwear (Chapter 64) are the products least likely to receive duty-free treatment. Only 5.2 percent of the value of footwear imports entered the country duty-free, while the remaining 95 percent were subject to duties averaging 9.9 percent. Certain food and agricultural products, including dairy (Chapter 4), vegetables, fruits, and nuts (Chapter 20), miscellaneous edible preparations (Chapter 21), preparations of meat and fish (Chapter 16), sugar (Chapter 17), meat (Chapter 2), and milling industry products (Chapter 11), are all subject to duties in excess of the average. Clothing, footwear, food, textile products, and agricultural products are all more likely to be subject to duties than are most other imported products, and those duties exceed, often substantially, the overall average of 1.4 percent.

The costs of those duties are borne most significantly by lower-income Americans. Most of the high-duty products are basic necessities for which demand is not very price elastic. Everybody needs to consume some base quantity of necessities. Accordingly, lower-income Americans tend to spend a higher proportion of their incomes on necessities, and thus that demographic group bears the heaviest brunt of U.S. tariff policy. U.S. trade barriers are, on average, regressive because they raise the relative price of goods consumed by lower-income Americans disproportionately.

The CEA estimates that footwear accounts for 1.3 percent of income expenditures for lower-income households (1.5 percent for single-parent household) compared to 0.5 percent for higher-income households. Lower-income households spend 6 percent of their income on clothing, while higher-income households spend just 4 percent. Furthermore, within particular product categories, the tariff schedule discriminates against products most commonly purchased by lower-income households. Lower-priced sneakers—like those ranging from $3 to $6 per pair—are hit with a 32 percent tariff, while high-priced running shoes are subject to a lower 20 percent duty.[37]

As U.S. tariff policy disproportionately burdens America's lower-income families, it also punishes exporters from developing countries. Many of the items subject to high tariffs in the United States are precisely the products that developing countries are most likely to produce and export. Table 2 presents a summary of U.S. imports in 2005 similar to the presentation in Table 1. It aggregates import value, dutiable value, duties collected, and various residual variables, but this time by country instead of HTS chapter. Again, the data are presented in descending order of applied tariff rate.

It is of no relevance to exporters in Macau, Cambodia, Bangladesh, Sri Lanka, Pakistan, and Vietnam (to name a few) that the average applied tariff rate in the United States is 1.4 percent. What matters to them is that their exports are subject to duties ranging 6 to 12 times higher than that average. What matters to them is

Although protectionist policymakers like to claim that our trade agreements and preference programs provide the world's clothing producers with duty-free access to the U.S. market, fewer than one-third of those shipments enter the United States duty-free.

Table 1

2005 U.S. Import Data by Harmonized Tariff Schedule Chapter Number, Total and Select Chapters with Above-Average Applied Tariff Rates

	Chapter Description	2005 Import Value ($)	% of Total Value	Dutiable Value ($)	Duties Paid ($)	% of Total Duties Paid	% Duty Free	Applied Tariff Rate
Total	All Products	1,662,379,668,854	100.0%	505,627,116,353	23,223,673,513	100.0%	69.6%	1.4%
61	Articles of apparel and clothing accessories, knitted or crocheted	33,236,086,151	2.0%	22,940,098,986	3,862,582,163	16.6%	31.0%	11.6%
62	Articles of apparel and clothing accessories, not knitted or crocheted	37,482,082,260	2.3%	28,834,351,311	4,211,252,317	18.1%	23.1%	11.2%
42	Articles of leather; saddlery and harness travel goods, handbags and similar containers; articles of gut (other than silkworm gut)	8,617,500,914	0.5%	7,998,797,577	921,062,461	4.0%	7.2%	10.7%
64	Footwear, gaiters and the like; parts of such articles	17,834,046,828	1.1%	16,907,840,070	1,766,795,015	7.6%	5.2%	9.9%
51	Wool and fine or coarse animal hair, including yarns and woven fabrics thereof; horsehair yarn and woven fabric	335,224,598	0.0%	240,446,712	30,972,885	0.1%	28.3%	9.2%
60	Knitted or crocheted fabrics	1,025,912,764	0.1%	679,189,046	83,036,315	0.4%	33.8%	8.1%
52	Cotton, including yarns and woven fabrics thereof	1,652,070,386	0.1%	1,396,639,627	118,086,845	0.5%	15.5%	7.1%
4	Dairy produce; birds' eggs; natural honey, edible products of animal origin NESOI*	1,547,939,254	0.1%	1,111,490,314	107,906,248	0.5%	28.2%	7.0%
63	Made-up textile articles NESOI; needlecraft sets; worn clothing and worn textile articles; rags	9,102,527,651	0.5%	7,697,185,342	617,826,327	2.7%	15.4%	6.8%
55	Manmade staple fibers, including yarns and woven fabrics thereof	1,461,859,270	0.1%	1,183,252,897	88,608,613	0.4%	19.1%	6.1%
58	Special woven fabrics; tufted textile fabrics, lace; tapestries; trimmings; embroidery	808,206,191	0.0%	605,524,947	46,785,456	0.2%	25.1%	5.8%
54	Manmade filaments, including yarns and woven fabrics thereof	2,227,407,649	0.1%	1,180,597,740	125,648,840	0.5%	47.0%	5.6%
65	Headgear and parts thereof	1,508,863,648	0.1%	1,054,665,897	82,595,298	0.4%	30.1%	5.5%
69	Ceramic products	5,044,028,907	0.3%	3,499,455,165	268,874,248	1.2%	30.6%	5.3%
91	Clocks and watches and parts thereof	3,794,833,170	0.2%	3,087,660,083	191,949,047	0.8%	18.6%	5.1%
67	Prepared feathers and down and articles thereof; artificial flowers; articles of human hair	1,291,288,819	0.1%	712,784,560	58,680,152	0.3%	44.8%	4.5%
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof	371,199,314	0.0%	248,745,465	16,698,421	0.1%	33.0%	4.5%
20	Preparations of vegetables, fruit, nuts, or other parts of plants	3,933,915,232	0.2%	1,721,917,146	169,128,780	0.7%	56.2%	4.3%

Source: Official U.S. trade statistics downloaded from the U.S. International Trade Commission's Dataweb (www.usitc.gov).
*NESOI = not elsewhere specified or included.

Table 2
2005 U.S. Import Data by Country Grouping and Select Countries

Country	2005 Import Value ($)	% of Total Value	Dutiable Value ($)	Duties Paid ($)	% of Total Duties Paid	% Duty Free	Applied Tariff Rate
Total	1,662,379,668,854	100.0%	505,627,116,353	23,223,673,513	100.0%	69.6%	1.4%
OECD Countries	971,246,607,314	58.4%	256,337,658,520	8,119,267,876	35.0%	73.6%	0.8%
Non-OECD Counties	691,133,061,540	41.6%	249,289,457,833	15,104,405,637	65.0%	63.9%	2.2%
Select OECD Countries							
Japan	137,831,262,902	8.3%	79,526,780,045	2,319,969,671	10.0%	42.3%	1.7%
Germany	84,344,641,788	5.1%	48,268,761,804	1,348,005,295	5.8%	42.8%	1.6%
France	33,499,240,789	2.0%	10,286,508,880	359,223,896	1.5%	69.3%	1.1%
United Kingdom	50,758,258,749	3.1%	20,659,096,867	463,976,975	2.0%	59.3%	0.9%
Netherlands	14,854,405,663	0.9%	6,483,242,725	127,369,639	0.5%	56.4%	0.9%
Ireland	28,384,776,272	1.7%	1,149,575,804	35,932,977	0.2%	96.0%	0.1%
Select non-OECD countries							
Macau	1,249,311,879	0.1%	1,215,297,225	210,835,093	0.9%	2.7%	16.9%
Cambodia	1,767,086,372	0.1%	1,732,662,436	281,450,518	1.2%	1.9%	15.9%
Bangladesh	2,692,443,030	0.2%	2,468,503,139	396,421,750	1.7%	8.3%	14.7%
Sri lanka	2,079,710,191	0.1%	1,722,469,647	276,648,023	1.2%	17.2%	13.3%
Pakistan	3,254,193,379	0.2%	2,904,034,446	327,566,926	1.4%	10.8%	10.1%
Vietnam	6,522,326,720	0.4%	4,312,035,077	588,205,281	2.5%	33.9%	9.0%
Guatemala	3,123,214,597	0.2%	1,068,233,559	180,718,874	0.8%	65.8%	5.8%
Indonesia	11,934,389,862	0.7%	4,782,949,871	656,229,856	2.8%	59.9%	5.5%
Philippines	9,236,723,480	0.6%	2,835,568,991	369,926,574	1.6%	69.3%	4.0%
United Arab Emirates	1,367,912,747	0.1%	621,554,640	51,036,063	0.2%	54.6%	3.7%
India	18,709,993,474	1.1%	6,461,565,499	651,556,689	2.8%	65.5%	3.5%
El Salvador	1,982,422,282	0.1%	489,300,231	65,255,766	0.3%	75.3%	3.3%
China	242,637,963,605	14.6%	105,751,746,811	7,379,164,140	31.8%	56.4%	3.0%
Romania	1,167,736,783	0.1%	347,814,482	29,868,910	0.1%	70.2%	2.6%
Thailand	19,802,516,079	1.2%	4,989,687,250	491,912,728	2.1%	74.8%	2.5%
Taiwan	34,574,352,720	2.1%	13,625,118,687	766,651,481	3.3%	60.6%	2.2%
Honduras	3,758,407,595	0.2%	631,400,859	78,807,670	0.3%	83.2%	2.1%
Egypt	2,076,460,046	0.1%	560,839,805	43,258,496	0.2%	73.0%	2.1%
Brazil	24,345,863,267	1.5%	7,407,323,067	380,384,592	1.6%	69.6%	1.6%

Source: Official U.S. trade statistics downloaded from the U.S. International Trade Commission's Dataweb (www.usitc.gov).

that, although their exports are a tiny fraction of total U.S. imports, their shares of total U.S. duties collected are substantial. Combined, those six poor countries account for 1 percent of U.S. imports but 9 percent of U.S. duties collected.

By contrast, duties applied to imports from many OECD countries are at, near, or below the 1.4 percent average, and the duties collected on their imports as a percentage of total duties collected are more in line with the value of their imports relative to total imports. Imports from Germany, for example, are subject to an average applied tariff of 1.6 percent. Those imports are 5.1 percent of total imports, and the duties account for 5.8 percent of the total duties collected. Imports from France, which are subject to an average applied tariff of 1.07 percent, account for 2 percent of total imports and 1.5 percent of total duties.

Our most prominent tariff barriers thus have the distinct feature of disproportionately penalizing poorer families in the United States and abroad.

Our most prominent tariff barriers thus have the distinct feature of disproportionately penalizing poorer families in the United States and abroad. One would expect there to be bipartisan support to remedy this appalling feature of the U.S. tariff schedule.

Still U.S. protectionism goes beyond perverse tariff peaks to include "voluntary" export restraints (which are voluntary insofar as foreigners wish to avoid mandatory quotas or other penalties), import quotas, antidumping measures, anti-subsidy measures, government subsidies, rules-of-origin requirements, "Buy-American" provisions, and more.

The Doha negotiations have drawn attention to America's trade-distorting agricultural policies. Oxfam has been instrumental in exposing some of the adverse consequences of the U.S. cotton program (and, indeed, other agricultural subsidy programs) for poor cotton farmers in West Africa. As Oxfam describes the problem:

> Agricultural subsidies in the United States are at the heart of a deep crisis in world cotton markets. American cotton farmers are first among equals in the harvesting of subsidies, reaping windfall financial gains from government transfers. Rural communities in some of the world's poorest countries suffer the consequences. While the US advocates free trade and open markets in developing countries, its subsidies are destroying markets for vulnerable farmers. No region is more seriously affected by unfair competition in world cotton markets than sub-Saharan Africa.[38]

According to Oxfam's report, U.S. government subsidies transferred under the cotton program amounted to about $4 billion in 2000—an amount in excess of the entire GNP of several of the world's cotton-producing nations and the entire USAID budget for the continent of Africa.[39] Abolishing or significantly reducing U.S. agricultural tariffs and subsidies would help farmers in developing countries make ends meet.

U.S. government support for the farm sector amounted to $46.5 billion in 2004. The market distortions caused by those programs amounted to a $16.2 billion transfer from U.S. food consumers to producers.[40] A recent Cato Institute study argues that farm reform would benefit Americans in six important ways: it would deliver lower food prices to Americans; it would lower the costs of production for U.S. industries that use agricultural commodities in the manufacture of their final products; it would save U.S. taxpayers tens of billions of dollars during the next decade; it would improve the environment by reducing soil runoff and the use of damaging fertilizers and pesticides and would enable current farmland to be reforested; it would stimulate innovation and productivity in the agriculture sector by giving farmers incentive to produce crops in higher demand; and it would help raise incomes of farmers in poor countries, reduce global poverty, and create an environment more hospitable to U.S. foreign policy and security interests.[41]

Antidumping measures are also quite notorious for raising prices and blocking consumer access to final goods.[42] Everyday grocery products subject to antidumping restraints include sugar, honey, salmon, pasta, canned mushrooms, fresh tomatoes, fresh garlic, apple juice concentrate, frozen concentrated orange juice, canned pineapple, frozen raspberries, and dozens more products purchased routinely by consumers. The prices of car parts such as windshields, brake rotors, and rubber are also inflated because of antidumping duties.

The cost of protectionism goes beyond its direct impact on prices to consumers. Many of the products subject to excessive tariffs, quotas, and trade remedy duties are important inputs consumed by downstream industries in their production processes. The construction industry faces higher costs, which are passed on to consumers, due to longstanding antidumping restrictions on lumber, cement, structural steel, sheet steel, paint, and other products.[43] Restraints against those products raise the costs of production, adversely affect competitiveness and profitability, and cause job loss through lost sales and the relocation of manufacturing facilities to locales where access to those inputs is less inhibited.

The U.S. sugar program, through its effects on the confectionary and processed-foods industries, offers a prime example of this phenomenon. Sugar imports are subject to tariff rate quotas, which limit the availability of foreign sugar in the U.S. market. The premium by which the U.S. price exceeds the world price has fluctuated over the years but has averaged between two and three times the world price over the past 25 years. In 2004 the U.S. price was slightly more than double the world price (although prices have been converging in recent months).[44]

U.S. industries that produce sugar-containing products (SCP) bear the direct impact of barriers to sugar imports. As of 2002 the SCP industries employed approximately 987,810 workers, while those employed in the growing and harvesting of sugar cane and sugar beets totaled about 61,000. Thus, for every one worker in sugar production, there were 16 employed in the downstream industries that require sugar as an input.[45]

According to the U.S. Department of Commerce, the annual cost per job saved in the sugar-producing industry is about $826,000.[46] But that figure doesn't capture all of the costs, which should also include job losses in the SCP industries, plant relocations abroad, and sales lost to imported SCP on account of their lower costs of production.

Between 1997 and 2002, employment in the SCP industries decreased by more than 10,000 jobs. For each job saved in sugar production through higher prices, nearly three jobs were lost in confectionery manufacturing. Many U.S. SCP manufacturers have closed or relocated to Canada or Mexico, where sugar prices are less than half and two-thirds of the U.S. price, respectively.[47] Sugar prices have been cited as a significant factor in decisions to close or relocate. Meanwhile, imports of SCP nearly tripled from $6.7 billion in 1990 to $18.7 billion in 2004.[48]

Table 3 appeared in a 2002 report from the Federal Reserve Bank of Dallas. That report cites an average cost of $231,289 (figured across just 20 of the many protected U.S. industries) to save a single U.S. job from import competition:

> Costs range from $132,870 per job saved in the costume jewelry business to $1,376,435 in the benzenoid chemical industry. Protectionism costs U.S. consumers nearly $100 billion annually. It increases not just the cost of protected items but downstream products as well. Protecting sugar raises candy and soft drink prices; protecting lumber raises home-building costs; protecting steel makes car prices higher; and so forth. Then there are the job losses in downstream industries. Workers in steel-using industries outnumber those in steel-producing industries by 57 to 1. And the protection doesn't even work. Subsidies to steel-producing industries since 1975 have exceeded $23 billion; yet industry employment has declined by nearly two-thirds.[49]

U.S. trade barriers have far-reaching adverse consequences. Tariff peaks, quotas, antidumping measures, farm subsidies, and the like drive up prices for U.S. consumers and costs for U.S. producers. Protectionism results in a stealth transfer of resources from more productive sectors of the economy to less productive sectors and in the process stymies innovation, economic growth, and improvements in living standards. Such policies also deprive our trade partners of economic opportunities and set a bad example, which undermines U.S. credibility and complicates our foreign policy goals.

The United States does not need reciprocal trade agreements to remedy the costs of its protectionist policies. As a matter of economic self-

The cost of protectionism goes beyond its direct impact on prices to consumers. Many of the products subject to excessive tariffs, quotas, and trade remedy duties are important inputs consumed by downstream industries.

Table 3
Cost of "Protecting" U.S. Jobs

Protected Industry	Jobs Saved	Total Cost ($ millions)	Annual Cost per Job Saved ($)
Benzenoid chemicals	216	297	1,376,435
Luggage	226	290	1,285,078
Softwood lumber	605	632	1,044,271
Sugar	2,261	1,868	826,104
Polyethylene resins	298	242	812,928
Dairy products	2,378	1,630	685,323
Frozen concentrated orange juice	609	387	635,103
Ball bearings	146	88	603,368
Maritime services	4,411	2,522	571,668
Ceramic tiles	347	191	551,367
Machine tools	1,556	746	479,452
Ceramic articles	418	140	335,876
Women's handbags	773	204	263,535
Canned tuna	390	100	257,640
Glassware	1,477	366	247,889
Apparel and textiles	168,786	33,629	199,241
Peanuts	397	74	187,223
Rubber footwear	1,701	286	168,312
Women's nonathletic footwear	3,702	518	139,800
Costume jewelry	1,067	142	132,870
Total	191,764	44,352	
Average (weighted)			231,289

Source: W. Michael Cox and Richard Alm, "The Fruits of Free Trade," Federal Reserve Bank of Dallas, 2002 Annual Report, p. 19.

interest, policymakers should dismantle remaining U.S. barriers. The residual benefits would include improved growth prospects for developing countries and some degree of restoration of U.S. credibility abroad, which would help to create a better climate for U.S. foreign policy and security objectives.

The United States does not need reciprocal trade agreements to remedy the costs of its protectionist policies. As a matter of economic self-interest, policymakers should dismantle remaining U.S. barriers.

Leadership by Example

Developing countries evince a great deal of distrust of the motives of the United States (and other rich countries). Some of that distrust has been earned.

A common sentiment in developing countries is that the previously concluded multilateral trade negotiating round, the Uruguay Round (1986–94), benefited rich countries disproportionately, if not at the expense of poorer ones. Although that conclusion is debatable, developing countries have some legitimate complaints.

The Agreement on Textiles and Clothing, widely considered the most important achievement for developing countries in the Uruguay Round, specified a 10-year phaseout of the longstanding textile and apparel quota regime, maintained by the United States and a few other rich countries, known as the Multifiber Arrangement. The ATC called for quota elimination in four stages between 1995 and 2005. At each stage, a minimum percentage of products subject to quotas was to be liberated, and the growth rates of imports of products subject to the remaining quotas were to be accelerated. But the ATC left which products to liberalize at each stage to the discretion of the importing countries.

In the first stage (1995), the United States chose to eliminate quotas on products such as tents, parachutes, awnings, sails, and other items that had never been subject to quota in the first place.[50] Most meaningful liberalization was deferred until the final stage in 2005, which deprived exporters in developing countries of sales opportunities during nearly the entire 10-year period. In fact, between the third and final stage (2002 and 2005), when no less than 51 percent of products subject to quota in 1990 should have already been liberalized, approximately 80 percent of products were still under quota.[51]

Likewise, the failure of the Uruguay Round to seriously address trade-distorting agricultural policies[52]—and to even condone rich-country subsidies with the so-called peace clause—left an impression among developing countries that they got a raw deal. That belief was only reinforced when Congress passed the 2002 Farm Security and Rural Investment Act, which significantly increased price supports and subsidies over those established in the 1996 farm legislation.

Many developing countries harbor the belief that they were double-crossed by the rich countries in the Uruguay Round. But some of the distrust is the product of anti-globalization rhetoric and political rabble-rousing. Compounding the developing countries' sense of victimization is the emergence of the anti-globalization movement and all the nongovernmental organizations it has spawned, which offer sometimes good, but often bad, advice to the developing countries. Much of that advice has been at least implicitly critical of the United States (and other rich countries).

Oxfam has characterized the Non-Agricultural Market Access negotiations as efforts by the rich countries to further exploit the poor: "Talks on industrial tariffs give even greater cause for concern. The draft text agreed in July 2004 could destroy industry in many poor countries. Developed countries have pushed hard to cut tariffs more in developing countries than rich ones—in direct contradiction to the promises made in Doha to allow poor countries to do less."[53] Oxfam has been insistent that reductions in developing countries' trade barriers should not be required as part of a deal and that developing countries should be allowed to protect "infant industries" (however they may be defined) and to reduce tariffs selectively (not in accordance with any formula) and only after their industries have become internationally competitive.

Many developing countries are concerned about the implications of the emergence of China for their industries. So are the EU and the United States. The EU recently imposed new antidumping duties on footwear to complement its restrictions on textiles and clothing and is pursuing restrictions on other products as well. Meanwhile, the U.S. Congress is threatening some very provocative reactionary legislation this election year, including the Schumer-Graham bill, which proposes a 27.5 percent tariff on all Chinese imports.

If the EU and the United States are worried about import competition from China, imagine the level of discomfort in the developing world. China does or can produce almost anything most developing countries can produce. Thus, some countries are averse, even unwilling, to agree to tariff cuts in the Doha Round because they are afraid of Chinese competition. In an interview in February, EU trade commissioner Peter Mandelson said that he and USTR Rob Portman talked "about the fear of China's growth that is making some in the [Doha] talks more inhibited, more reserved in opening up their markets and economies than they might otherwise be because they are nervous about China's rapid growth."[54]

However, it is profoundly in the interest of countries—particularly developing countries—to open their own markets wide. According to the IMF, "No country in recent decades has achieved economic success, in terms of substantial increases in living standards for its people, without being open to the rest of the world."[55] But to require that countries open as part of an agreement may be too heavy-handed, particularly in the currently polarized environment.

The fact is that there are now 149 members in the WTO at disparate levels of economic development with different negotiating priorities and ambitions and asymmetric negotiating resources attempting (presumably) to reach consensus on a diversity of issues in an increasingly contentious environment. At this point, success is doubtful. Even if agreement is reached, it will likely tax U.S.

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credibility further, as naysayers will inevitably allude to arm-twisting and blackmail. The United States should not expose itself to such assertions lest the blame for disruptive adjustments to, or ill effects from, greater import competition be placed at its feet.

When Britain was the world's largest economy and greatest trading nation in the mid-19th century, it faced similar difficulties attempting to negotiate trade agreements with other countries. Finally, it resolved to liberalize its trade regime further by repealing its agricultural tariffs without demanding reciprocity:

> We came to the conclusion that the less we attempted to persuade foreigners to adopt our trade principles, the better; for we discovered so much suspicion of the motives of England, that it was lending an argument to the protectionists abroad to incite the popular feeling against free-traders, by enabling them to say, "See what these men are wanting to do; they are partisans of England and they are seeking to prostitute our industries at the feet of that perfidious nation. . . ." To take away this pretense, we avowed our total indifference whether other nations became free-traders or not; but we should abolish Protection for our own selves, and leave other countries to take whatever course they like best.[56]

If the United States were to take the lead and remove its remaining trade barriers without demands for reciprocity abroad, not only would it reap the economic benefits of greater openness, but others might be inclined to follow suit.

The explanation for England's repeal of the Corn Laws in 1846, as proffered by its great champion Richard Cobden in the quotation above, could not be more relevant to the Doha situation today. The problem identified then was the same as that today. So is the solution.

If the United States were to take the lead and remove its remaining trade barriers without demands for reciprocity abroad, not only would it reap the economic benefits of greater openness described above, but others might be inclined to follow suit. As the eminent trade economist Jagdish Bhagwati puts it: "There *is* an economic case for reciprocity in freeing trade; but where others will not go along with oneself, it makes sense to go with unilateral freeing of trade; but this conventional case for unilateralism is incomplete: such unilateral freeing of trade can, and occasionally will, trigger a reciprocal response, implying what I call 'sequential reciprocity.'"[57]

If others are not inspired to emulate U.S. policies because U.S. unilateral actions have removed the cause for their suspicion of U.S. motives, emulation may be inspired simply because countries realize that it is in their best interests to do so. The IMF reports that "the poorest countries have seen their share of world trade decline substantially, and without lowering their own barriers to trade, they risk further marginalization."[58] In this new world of just-in-time supply chains and relentless competition among emerging countries for investment and markets, developing countries really have no alternative but to open up.

The developing countries understand that. In fact, according to a World Bank study, most comprehensive trade reforms in developing countries were undertaken unilaterally to increase productivity in the domestic economy. Between 1983 and 2003, developing countries reduced their weighted average tariff by 21 percentage points. Unilateral reforms accounted for 66 percent of the cuts, and multilateral and regional agreements accounted for 25 percent and 10 percent, respectively.[59]

More liberalization in developing countries is needed. But the United States should allow those countries to reform at their own pace. By not insisting on anything in return for its own liberalization, the United States could lead by example, reap the benefits of greater openness, and start rebuilding trust.

Conclusion

Economists are in agreement that openness to trade is a determinant of economic growth. Numerous studies from authoritative sources affirm that relationship. Yet 149 countries are bogged down in multilateral trade talks that appear to be going nowhere because policymakers refuse to yield to the truth. By conditioning the opening of their own markets on reciprocal openings abroad, negotiators make a mockery of the fact that the primary benefits of trade come from liberalization at home.

Increased trade, and the economic growth it spurs, does not require new trade agreements. U.S. trade barriers and subsidies are matters of domestic economic policy. Congress, if it so chooses, can lend a hand to American businesses, consumers, and taxpayers by abolishing those policies without need of consent from our trade partners.

Unilateral liberalization would create more opportunities at home and abroad for U.S. businesses by reducing their costs of production, raising productivity, and enabling them to sell more competitively abroad to foreign consumers with greater income. It would provide consumers with more and better choices at better prices, which would help, in particular, lower-income American families. It would help relieve the burden of U.S. protectionism on developing countries, whose exports are perversely penalized under current U.S. trade policy. Furthermore, unconditional access to the U.S. market could foster goodwill toward the United States, which would be a welcome development in light of rising hostility around the world toward U.S. policies.

Those are the stated and implicit goals of the Doha Round. Fortunately, and most important, a successful conclusion to the Doha Round is not the only path to attaining them.

Notes

1. David Dollar and Aart Kraay, "Trade, Growth, and Poverty," World Bank, Development Research Group, June 2001, p. 1.

2. Murray Gibbs and Swarnim Wagle, "The Great Maze: Regional and Bilateral Free Trade Agreements in Asia: Trends, Characteristics, and Implications for Human Development," Asia-Pacific Trade and Investment Initiative Policy Paper, December 2005, pp. 8–10, www.bilaterals.org/IMG/pdf/Policy_Paper_Book_ 3.pdf.

3. Office of the United States Trade Representative, "Free Trade Agreements Are Working for America," *Cafta Facts,* May 26, 2005, www.ustr.gov/assets/Document_Library/Fact_Sheets/2005/asset_upload_file204_7872.pdf.

4. Ibid. (emphasis added).

5. Office of the United States Trade Representative, "The Case for CAFTA: Growth, Opportunity, and Democracy in Our Neighborhood," *Cafta Facts,* February 2005 (emphasis added).

6. Ibid.

7. Office of the United States Trade Representative, "2006 Trade Policy Agenda and 2005 Annual Report," March 2006, p. 2.

8. Ibid. (emphasis added).

9. George W. Bush, Speech at the United Nations, September 14, 2005 (emphasis added).

10. Brink Lindsey, "Free Trade from the Bottom Up," *Cato Journal* 19, no. 3 (Winter 2000): 362.

11. The Singapore Issues refer to negotiations on investment, competition policy, government procurement, and trade facilitation.

12. Dipak Patel, "The Rich Are Still Cheating Developing Countries," *Financial Times,* March 29, 2006.

13. Oxfam International, "Blood on the Floor: How the Rich Countries Have Squeezed Development out of the WTO Doha Negotiations," December 7, 2005, p. 11.

14. Ami Vitale, "Trips-Plus Provisions," Oxfam, www.oxfamamerica.org/whatwedo/issues_we_work_on/trade/news_publications/trips/art5391.html.

15. International Monetary Fund (IMF), "Global Trade Liberalization and the Developing Countries," November 2001.

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17. Ibid.

18. Lindsey, p. 360.

19. Office of the United States Trade Representative, "The President's Trade Policy Agenda," March 2006.

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21. James Gwartney, Charles Skipton, and Robert Lawson, *Economic Freedom of the World: Annual Report 2001* (Vancouver: Fraser Institute, 2001), p. 76.

22. Dollar and Kraay, p. 1.

23. WTO, "Trade Policy Review, United States," February 15, 2006, p. 1.

24. Council of Economic Advisers, *Economic Report of the President* (Washington: Government Printing Office, 2006), p. 155.

25. Ibid., p. 156.

26. Ibid.

27. W. Michael Cox and Richard Alm, "The Fruits of Free Trade," Federal Reserve Bank of Dallas, 2002 Annual Report, p. 12.

28. Council of Economic Advisers, p. 158.

29. See Daniel Griswold, "A Package Deal: U.S. Manufacturing Imports and Output Rise and Fall Together," Cato Free Trade Bulletin no. 17, February 24, 2005, www.freetrade.org/pubs/FTBs/FTB-017. html.

30. WTO, "Trade Policy Review, Report by the Secretariat, United States," February 15, 2006, Table AI.2, p. 126.

31. U.S. Bureau of the Census, U.S. Export Statistics in the EX545 records.

32 The following discussion of imports and exports is based on official U.S. trade data available on the International Trade Commission's trade database (www.usitc.gov). The author keeps track of the databases from which all of the factual observations are made, and they are available to the public by request.

33. Data compiled from Council of Economic Advisers, Tables B-9, B-25, B-36.

34. The average nominal tariff is a straight average of the duties listed in the U.S. Harmonized Tariff Schedule.

35. WTO, "Trade Policy Review," p. 138.

36. Dutiable value differs from total import value because imports from different countries may be subject to different duty rates. Some countries may receive duty-free access pursuant to a trade agreement or preference program, while others may be subject to the general Most Favored Nation duty rate.

37 Council of Economic Advisers, p. 157.

38. Oxfam, "Cultivating Poverty: The Impact of U.S. Cotton Subsidies on Africa," Oxfam Briefing Paper, 2002, p. 1.

39. Ibid., p. 2.

40. Daniel Griswold, Stephen Slivinski, and Christopher Preble, "Ripe for Reform: Six Good Reasons to Reduce U.S. Farm Subsidies and Trade Barriers," Cato Institute Trade Policy Analysis no. 30, September 14, 2005, Executive Summary.

41. Ibid.

42. For a detailed assessment of how U.S. antidumping duties are calculated, see Brink Lindsey and Dan Ikenson, "Antidumping 101: The Devilish Details of 'Unfair Trade' Law," Cato Institute Trade Policy Analysis no. 20, November 21, 2002.

43. For a handy, though incomplete, list of products subject to antidumping measures, see Cox and Alm, p. 17.

44. U.S. Department of Commerce, International Trade Administration, "Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices," February 14, 2006.

45. Ibid., p. 3.

46. Ibid., p. 4.

47. Ibid.

48. Ibid., p. 9.

49. Cox and Alm, p. 19.

50. Laura Baughman et al., "Of Tyre Cords, Ties and Tents: Window-Dressing in the ATC?" *World Economy* 20, no. 4 (July 1997): 412.

51. Supachai Panitchpakdi, WTO director general, "The Importance of Quota Elimination for the Strengthening of the Multilateral Trading System," Speech in Brussels, May 5, 2003.

52. The peace clause, which is specified in the Article 13 of the WTO Agriculture Agreement, stipulated that domestic farm supports that met all the requirements of the Agriculture Agreement could not be challenged as actionable subsidies under the Subsidies and Countervailing Measures Agreement. It expired at the end of 2004.

53.. Oxfam, "Blood on the Floor," p. 4.

54. "Developing Countries' Fear of China Exports Likely to Shape NAMA Package," quoted in *Inside U.S. Trade,* February 24, 2006, www.insidetrade.com/secure/dsply_nl_txt.asp?f=wto2001.ask&dh=211896544&q=NAMA.

55. IMF.

56. Richard Cobden, chief proponent of repeal of the British Corn Laws, quoted in Jagdish Bhagwati, *Going Alone* (Cambridge, MA: MIT Press, 2002), p. 1.

57. Bhagwati, p. 4 (emphasis in original).

58. IMF.

59. World Bank, "Global Economic Prospects: Trade, Regionalism, and Development," 2005, p. 42. Figures add to 101 percent because of rounding errors.

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