TRADE AND THE AMERICAN ECONOMY:
THE CASE FOR TRADE PROMOTION AUTHORITY

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EXECUTIVE SUMMARY

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- The US is deeply and increasingly linked to the international economy. The strength and well-being of the American economy is tied to that of the global economy. On a pure volume basis, global merchandise trade increased 277 percent from 1975 to 2000. The United States exported over $1 trillion in goods and services in 2001. About eight percent of the labor force is engaged in producing goods and services that will be sold in foreign markets.

- We have benefited from increasing integration. International economic integration produces efficiency. A typical worker at an exporting plant earns wages that are 10 percent higher and benefits that are 11 percent higher, in comparison to a worker at a non-exporting plant.

- And from recent trade agreements. The 1993 Uruguay Round of the GATT, upon full implementation, has been estimated to produce imply a per-year income gain of between $600 and $800 for the average household of four.

- There are opportunities to extend the gains from international economic integration. As the world's largest exporter and one of the most open countries in the world, the United States stands to gain from continued reductions in foreign barriers to our goods and services. For example, one study concludes that a new round of global trade negotiations that reduced world barriers to trade in goods and services by one-third would be equivalent to a $2,500 per-year increase in the annual income of the average family of four.

- TPA is an important part of continued progress. Trade Promotion Authority facilitates the passage of trade agreements and is thus essential for convincing our trade partners that the United States is serious about the negotiations and that U.S. negotiators have the support of the Congress. Progress toward enactment of Trade Promotion Authority has been significant in recent months. Trade Promotion Authority will help the United States with a number of pending trade initiatives, including the Free Trade Area of the Americas (FTAA), the new multilateral trade negotiating round, and a potential free trade agreement with Central America.

- The price of inaction. Inaction carries a high price for the United States. Many foreign barriers to U.S. exports remain, and other countries have moved ahead with their own trade agreements. Any time a trade agreement reduces trade barriers and does not include the United States, U.S. producers are at a disadvantage. New areas of commerce are emerging in which the United States has a productive advantage, including trade in services, telecommunications, e-commerce, etc. Global rules must be written ensuring that foreign markets remain open, or the United States will find that other countries could restrict access through special taxes and arbitrary and discriminatory regulations.

- Conclusion. The United States must remain an active leader in the continued liberalization of trade in goods and services. Restoration of the President's Trade Promotion Authority (TPA) will provide the Administration with the flexibility and bargaining power to promote this liberalization more effectively.

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The strength and well-being of the American economy is tied to that of the global economy. For the United States to advance its long-standing interest in an open world trading system, it must provide the leadership necessary to reduce trade barriers around the world. But over the past seven years, as the Executive branch has lacked Trade Promotion Authority, this process of opening trading markets has stalled. The costs of inaction are mounting: significant trade barriers hampering U.S. exports remain, and the commercial disadvantage of the United States is growing as countries around the world conclude trade agreements without us. The need for Trade Promotion Authority is urgent. The United States must not be a spectator, but a participant in the process of shaping international trade relations in the new century. Without active U.S. involvement in world trade negotiations, other countries will continue to move ahead with agreements that ignore U.S. economic interests.

This paper begins by reviewing the benefits of trade overall, and the specific benefits of exports and imports in particular. The paper then examines the often misunderstood link between trade and jobs, and describes how the expansion of trade raises average incomes. The final section focuses on the need for Trade Promotion Authority. The benefits are great: one study finds that a one-third reduction in barriers to trade in goods and services around the world could improve U.S. welfare by about $177 billion.[1]

Trade is Good for the American Economy

Over the last few decades, international trade has become an integral part of the U.S. economy. The United States exported over $1 trillion in goods and services in 2001 – 10 percent of our gross domestic product (GDP).[2] About eight percent of the labor force is engaged in producing goods and services that will be sold in foreign markets; these jobs depend on exports.[3] In addition, imports of foreign raw materials and capital goods help the U.S. economy run smoothly and efficiently. The availability of foreign consumer goods gives American families the freedom to choose from a wider variety of products at lower prices than would otherwise be the case.

International trade brings enormous benefits to the United States and to the rest of the world. Trade between countries is mutually beneficial in the same way that a voluntary transaction between individuals makes both parties better off. Most of us do not produce for ourselves even a fraction of the goods we consume; instead, we "export" the goods and services that we produce with our own labor and "import" the goods and services that we wish to consume. This division of labor enables us to enjoy a higher standard of living than would be possible if we tried to produce everything for ourselves.

Trade between nations is the international extension of this division of labor. Trade is a two-way street. The United States exports some of the goods and services it produces in exchange for imports of the goods and services produced by other countries. The United States, for example, specializes in the production of aircraft, industrial machinery, and agricultural commodities (particularly corn, soybeans, and wheat). In exchange for exports of these products, the United States purchases, among other things, coffee, crude oil, automobiles, and shoes.[4] Both exports and imports are beneficial and help make the United States a richer and

more efficient economy. Trade helps raise the productivity of the average American worker. And increased productivity – the ability to produce more goods and services with the same labor and capital inputs – is the ultimate determinant of rising standards of living.

The Benefit of Exports

When foreign markets are open to the United States, American workers have another market in which they can sell the goods and services that they produce. Over 12 million American jobs are supported by exports.[5] Opening foreign markets for U.S. producers allows them to expand their output and hire more American workers. Before the North American Free Trade Agreement (NAFTA), for example, U.S. shipments of assembled motor vehicles to Mexico were severely hampered by high tariffs and other regulations designed to protect their local automotive industry. Under NAFTA, Mexico was required to reduce these barriers. In 1998, Mexico eliminated its tariffs on light trucks produced in the United States and is scheduled to eliminate all remaining tariffs on medium and heavy trucks and buses in 2003.[6] As a result of these new sales opportunities, and despite a major recession in Mexico, U.S. exports of motor vehicles rose from $975 million in the five years preceding NAFTA to $6.6 billion in the five years after NAFTA.[7]

The health of many sectors of the American economy depends upon trade. America's farmers, for example, rely on sales to foreign markets. Exports of agricultural products amounted to almost $55 billion in 2001.[8] Roughly 25 percent of cash sales by farmers and ranchers comes from sales to foreign consumers.[9] According to the Department of Agriculture, exports of beef and processed tomatoes to Canada as well as cattle, dairy products, apples and

pears to Mexico are 15 percent higher because the U.S.-Canada Free Trade Agreement, and later NAFTA, reduced barriers to U.S. goods in those markets.[10]

Key manufacturing industries also depend upon foreign markets. The aerospace industry exports over 40 percent of its output, while the chemical industry exports nearly 20 percent of its output.[11] Even the service sector increasingly looks to foreign markets for its expansion. Service exports, which include sales of insurance, financial, educational, and telecommunications services, are among the most rapidly increasing part of U.S. trade, reaching nearly $314 billion in 2001.[12]

The opportunity to sell goods in the competitive international marketplace forces domestic firms to raise their productivity. Studies have shown that exporting plants have four to 18 percent higher total factor productivity than comparable non-exporting plants.[13] This expansion of trade allows the most efficient producers to grow, thereby helping to improve domestic productivity performance. Real exports of goods and services rose 34 percent between 1995 and 2001 and contributed to the rapid productivity growth that the United States experienced during this period.[14]

The Benefit of Imports

Because trade is a two-way street, exports are exchanged for imports. Imports of foreign goods and services give domestic businesses and consumers access to a wider variety of goods at lower prices than would otherwise be available. This enables businesses to lower their costs and become more efficient, and enables consumers to increase the real purchasing power of their income. Furthermore, imports provide the competition that forces domestic firms to operate more efficiently, and serves as a catalyst to improve their productivity.

Another benefit of imports is that it gives businesses and consumers access to different types of goods that may not be produced at home, as well as inputs that are necessary for domestic production. Imports of specialized equipment help American businesses acquire world class technologies, enabling them to compete on an equal footing with foreign competitors who already have access to those technologies. The domestic textile industry, for instance, relies on imported machinery and equipment.[15] About 27 percent of U.S. imports are non-automotive capital goods: machinery, equipment, instruments, parts, and various other components. And daily staples of American households, such as coffee, tea, and bananas, are imported because the United States lacks the climatic resources necessary to produce them.

Imports bring about lower prices for consumers on a number of everyday goods, such as food and clothing. These lower prices increase the purchasing power of every consumer dollar spent. Mineral fuels, such as crude petroleum, constitute almost 6 percent of U.S. imports.[16] Not only do these imports ensure that the cost of energy is much lower than otherwise, but these supplies literally help to keep the economy running

It is interesting to note that a significant portion of the value of U.S. imports is simply the value of previous U.S. exports. Many domestically produced goods are shipped abroad for further processing or assembly and then returned to the United States. This is a particularly striking feature of U.S. trade with Mexico. In 1998, for example, the United States imported $93 billion of goods from Mexico, $27 billion of which entered the country under a special "production sharing" provision of U.S. law that gives duty-free treatment to the re-importation of goods produced with U.S. components. Of this $27 billion, $14 billion represented the U.S. content of these imports. Thus, 53 percent of the value of goods that entered under the production-sharing provision actually reflects the value of U.S.-made components – or at least 15

percent of all U.S. imports from Mexico.[17] This feature highlights the fact that trade helps both countries by allowing specialization in that part of the production process that each does best.

This "production-sharing" trade also strengthens the economies of poorer neighboring countries in Central America and the Caribbean. Trade with the United States helps create economic opportunities in those countries, spreading prosperity to those who need it most. As these countries grow, they not only consume more American-made goods and increase the demand for U.S. exports, they also acquire a taste for economic freedom. As President George W. Bush has stated, economic freedom helps foster political freedom. "There's a vital link between freedom of people and freedom of commerce," said the President on April 17, 2001. President Bush continued, "Democratic freedoms cannot flourish unless our hemisphere also builds a prosperity whose benefits are widely shared. And open trade is an essential foundation for that prosperity and that possibility."[18] Indeed, trade is frequently a catalyst for strengthening economic freedoms around the world. This in turn generates pressures for political freedom, as Chile, South Korea, Mexico, and other countries have demonstrated.

Trade Promotes Good Jobs

Exports and imports generate major benefits for the economy, but imports often raise concerns about worker displacement. Yet imports are responsible only for a fraction of the job displacements in any given year. Import competition accounted for only 1.9 percent of the non-seasonal layoffs in the United States in the third quarter of 2001, according to the Department of Labor.[19] In America's dynamic labor market, most layoffs are due to seasonal work, contract completion, or internal company restructuring due to domestic factors.[20]

Workers who are displaced from their jobs due to imports are given special financial assistance by the Federal government to smooth their transition to new jobs. The Bush Administration is committed to reauthorizing and improving existing Trade Adjustment Assistance programs that are due to expire. These programs help ease the effects of economic change to workers by providing additional financial assistance to them as well as worker retraining opportunities. Adjustment assistance is an essential part of the trade promotion package.

While recognizing that some workers may be displaced due to increased imports, one should never lose sight of the workers who owe their jobs to exports. Trade should be viewed as a mechanism that shifts jobs, displacing import-competing positions but often increasing opportunities in export-competing sectors.[21] Some estimates suggest that trade will not only secure the 12 million jobs already linked to exports,[22] but may also enhance the employment opportunities of others. The displacement of some workers by imports should not be an excuse for discouraging trade, just as the costs to some workers of technological change should not stop the development of innovations. It would have made little sense to discourage the diffusion of the personal computer just because it jeopardized the workers of typewriter producers.

Indeed, the expansion of trade raises the average income of the American worker. This is because wages in import-competing industries are well below average, whereas wages in exporting industries are well above average. The United States tends to export more skill-intensive manufactured products, such as aircraft, construction machinery, engines and turbines, and industrial chemicals.[23] Workers in exporting firms and industries typically earn about 10 to 15 percent more than the average worker.[24] Average hourly earnings in the aircraft industry

were 56 percent above the average in manufacturing, for example, and were 21 percent higher in the pharmaceutical industry.[25]

As noted above, workers displaced due to trade are provided with financial assistance and retraining opportunities. Imposing trade restrictions in an effort to save those jobs will only destroy jobs in other sectors of the economy. If government trade barriers hinder access to imported capital goods, then domestic firms purchasing those inputs will be forced to operate with higher costs of production. This adversely affects their competitive position vis-a-vis foreign rivals who have free access to such capital goods. Domestic producers may lose sales, forcing them to downsize their workforce or even to shift production abroad where the inputs are freely available.

Trade Agreements Are Good for the American Economy

As the world's largest exporter and one of the most open countries in the world, the United States stands to gain from removing foreign barriers to our goods and services. Since World War II, the United States has led the world in seeking to establish rules for trade policy and reduce barriers to international trade, allowing domestic producers to gain greater access to foreign markets. This leadership grew out of the experience of the world economy during the 1930s, when a proliferation of trade barriers – including the infamous Smoot-Hawley tariff – intensified the effects of the Great Depression. A key lesson from the economic disaster of the 1930s is that arbitrary and discriminatory trade barriers can easily spread and are ultimately destructive. When countries lacked established rules about trade policy and could not contain the spread of trade barriers, the world economy suffered grievously.

Since World War II, a bipartisan consensus in the United States has supported the idea that multilateral trade negotiations should establish rules for world trade and should free that trade from artificial barriers imposed by governments. The freeing of world trade would not just benefit the U.S. economy, but would also strengthen the world economy. A strong world economy makes countries less vulnerable to domestic upheavals and war, thereby serving the nation's foreign policy interests. World trade rules include the overriding principle of non-discrimination. This rule has prevented other countries from discriminating unfairly against U.S. products. The United States has also sought to expand the scope of rules and reductions to include new sectors of trade, such as services and e-commerce.

The American effort to establish trade rules and reduce trade barriers over the postwar period has been a success, though more needs to be done. Through its commitment to the multilateral world trading system, the United States has helped provide a stable framework under which trade can function smoothly and efficiently. The results have been overwhelmingly positive: as trade barriers have fallen – tariffs on manufactured goods have fallen 90 percent over the past 50 years – the growth in trade and income over the postwar period has been extraordinary. During the same period, world trade volume increased by a factor of nearly 20 and world real GDP increased nearly sixfold.[26] The rapid expansion of world trade has helped make the postwar period the most prosperous in history.

The United States has benefited tremendously from recent trade agreements. The 1993 Uruguay Round of the GATT, upon full implementation, has been estimated to imply a per-year income gain of between $600 and $800 for the average household of four. The cuts in tariffs contained in this agreement mean that U.S. consumers can purchase goods more cheaply; the tariff cuts under the Uruguay Round were similar to a $310 tax cut for an average household of

four.[27] The NAFTA, when fully implemented, yields an increase in U.S. GDP of between 0.1% and 0.5%. Relative to the size of the economy in 2001, these estimates suggest an income gain of between $10 billion and $50 billion. For an average household of four, this translates into a per year income gain of $140 to $720.[28]

Unfortunately, this process of dismantling trade barriers and updating trade rules had, until recently, stalled. Nearly a decade has passed since the Uruguay Round, the most recent set of trade negotiations to be completed. There are many reasons why the pace of trade liberalization has slowed in the United States; one is that trade negotiations have been made more difficult because our trading partners recognize that approval of trade agreements may involve renegotiating terms with the U.S. Congress.[29] The President's current inability to have trade agreements implemented in a timely manner is exceptional: presidents have had such ability almost continuously since 1934.

This is why Trade Promotion Authority is an urgent priority. Trade Promotion Authority involves the promise by the Congress that it will give thorough, yet expedited, consideration to any trade agreement reached by the President, and that it will not amend any agreement submitted by the president. Note that the Congress must give its consent to any agreement reached by the Executive branch before it is implemented, and retains the option to reject an agreement it finds unacceptable. For this reason, the President would consult closely with members of the Congress during the negotiations to ensure that any agreement would have their support. Trade Promotion Authority, however, is essential to convince our trade partners that the United States is serious about the negotiations and that U.S. negotiators have the support of the Congress. The President's ability to negotiate with other countries is seriously compromised without such authority from the Congress.[30]

Progress toward enactment of Trade Promotion Authority has been significant in recent months. In December 2001, both the House and the Senate Finance Committee approved Trade Promotion Authority bills. This momentum needs to continue in order to give upcoming negotiations their best chance for success, as Trade Promotion Authority will help the United States with a number of pending trade initiatives, including the Free Trade Area of the Americas (FTAA), the new multilateral trade negotiating round, and a potential free trade agreement with Central America. The FTAA aims to establish free trade in the Western Hemisphere, from Hudson Bay to Tierra del Fuego. This is an enormous potential market for U.S. firms: the combined GDPs of Central and South America amount to $2 trillion.[31] The obstacles faced by American exporters in Latin America are formidable. By eliminating barriers to trade in agricultural and industrial goods and in services among the countries in the hemisphere, the United States could reap a gain of $53 billion, according to one study.[32] The FTAA will also promote greater economic integration and regional cooperation, bringing greater economic opportunity and political stability.

In addition, the United States helped to launch a new multilateral trade negotiating work program at the World Trade Organization ministerial meeting in November 2001. Negotiations will commence in a number of areas, including agriculture, services, industrial market access, a limited set of environmental issues, antidumping and subsidies, and WTO dispute settlement rules. Members also committed to maintaining their current practice of not imposing customs duties on electronic transmissions until the Fifth Ministerial Session (which is likely to occur in 2003).

Some of the issues slated for discussion have proven particularly difficult to deal with in the past, suggesting that gains from such negotiations could be large. For example, many

countries maintain high barriers on agricultural products; the new work program will attempt to address both impediments to trade in agricultural products and government subsidies in this sector. Indeed, because the multilateral negotiations promise to reduce barriers to U.S. trade around the entire world, the potential gains from a new trade round are even larger than the FTAA. *One study finds that if a new trade round reduces world barriers on agricultural and industrial products and on trade in services by one-third, the gains to the United States could amount to $177 billion annually, or about $2,500 for the average American family of four.*[33] While there are many factors related to the successful completion of the work program, the prospects would improve with a clear signal from the Congress that it supports Trade Promotion Authority.

Finally, on January 16, 2002, President Bush announced that the United States intends to explore a free trade agreement with five countries in Central America.[34] Such an agreement would provide a number of benefits. For example, it would promote U.S. exports. The United States exported $9.1 billion to these Central American countries in 2000 -- more than we sold to Russia, Indonesia, and India combined.[35]

Mexico and Canada – our NAFTA partners – have already recognized the potential of the Central American market and the need to support Central American reforms by pursuing their own free trade agreements with countries in the region. Chile has done the same.[36] The U.S. should not be left behind in North America's economic engagement with Central America. A U.S.-Central America free trade agreement would ensure that American workers and companies are not disadvantaged, build on the $4 billion of U.S. investment in the region, and avoid erosion of U.S. competitiveness.[37] U.S. duties for the region are already low, as these countries are beneficiaries of the Caribbean Basin Initiative.[38] Thus the proposed free trade agreement is

likely to lower barriers to U.S. exports proportionally more than we lower ours. U.S. imports from these Central American countries totaled $11.5 billion in 2000. [39]

As other countries move ahead to reduce barriers on their own, inaction carries a high price for the United States.

First, many foreign barriers to U.S. exports remain in place. These barriers deny us access to foreign markets. U.S. producers face extremely high tariffs in many developing countries. The taxes on U.S.-produced goods are 13.7 percent in Brazil, roughly 17 percent in Thailand, and up to 35 percent in India.[40] Many of our trading partners, including the European Union (EU) and Japan, maintain high barriers on agricultural goods. The United States also faces discriminatory regulations in many countries. Questionable health and safety regulations cost the United States over $5 billion in agricultural exports in 1996, according to the Department of Agriculture.[41] These obstacles must be tackled in future trade negotiations.

Second, while the United States is deciding whether to pursue further trade agreements, other countries have moved ahead with their own. The EU has proceeded with bilateral and regional negotiations that reduce tariffs on their products but not on those produced in the United States.[42] Since 1990, the EU has reached trade agreements with 20 countries, including Mexico, South Africa, and Morocco.[43] The EU is actively involved in other negotiations that, if concluded, would give EU producers preferential access to those foreign markets. This access could undercut U.S. exports to those markets.

Any time a trade agreement is concluded that reduces trade barriers among other countries but does not include the United States, U.S. domestic producers are put at a competitive disadvantage in those markets. For example, when Chile and Canada recently concluded a bilateral free-trade agreement, Chile's across-the-board 8 percent tariff was

eliminated on Canada's exports – but remains in effect on U.S. exports.[44] The MERCOSUR trade arrangement in Latin America has meant that trade between Argentina, Brazil, and other countries is largely duty-free, while U.S. exporters face average tariffs of almost 15 percent.[45] The FTAA promises to eliminate the discrimination against U.S. products in these markets.

The importance of breaking down barriers throughout the hemisphere is epitomized by the experience of Caterpillar. Caterpillar's motor graders made in the United States for export to Chile face nearly $15,000 in tariffs. When Caterpillar manufactures motor graders in Brazil for export to Chile, the tariff is just $3,700. Finally, if Caterpillar's competitors produced the same product in Canada, it could be exported to Chile free of tariffs because of the Canada-Chile free trade agreement.[46]

The damage to American interests from foreign trade agreements is not just confined to discriminatory tariff treatment in these areas. Most trade agreements include provisions dealing with trade in services, product standards, regulatory treatment, and investment provisions. Trade agreements that do not include the United States can result in discriminatory regulations and unfavorable standards for American business and workers.

Third, new areas of commerce are emerging in which the United States has a productive advantage, including trade in services, telecommunications, e-commerce, etc. Unless global rules are written ensuring that foreign markets remain open, the United States will find that other countries could restrict access through special taxes and arbitrary and discriminatory regulations. The United States must begin to negotiate now to prevent the use of taxes and regulations that harm our commercial interests.

The costs of not participating in ongoing world trade negotiations means that U.S. exports will face increasing discrimination in foreign markets. When U.S. firms labor under

disadvantageous tax treatment in foreign markets, it translates into lost sales for American firms. This clearly harms America's commercial interests.

Conclusion

Active promotion of trade by the United States serves our commercial, foreign policy, and security interests. Expanding trade helps the American economy become more productive and competitive and grow more rapidly. Expanding trade generates economic opportunities in other countries, creating a climate for economic and political freedom.

Other countries will continue to actively promote their commercial interests, even if the United States remains on the sidelines. If we remain a spectator, the United States will begin to lose its influence in the world and its influence over what the rules governing world trade will be in the future. Not only will formidable barriers to U.S. exports remain in place, but the United States will face an international economic environment that increasingly discriminates against it. Congress needs to build on the momentum established by the recent passage of TPA bills in the House and in the Senate Finance Committee. It is time to give trade negotiations a better chance for success by enacting Trade Promotion Authority.

Endnotes

1. Brown, D., A. Deardorff, and R. Stern. "Impacts on NAFTA Members of Multilateral and Regional Trading Arrangements and Initiatives and Harmonization of NAFTA's External Tariffs." University of Michigan, Research Seminar in International Economics Discussion Paper 471, June 2001. For more estimates of the gains from a new trade round, see the following studies. Francois, J. *The Next WTO Round: North-South Stakes in New Market Access Negotiations*. Adelaide, Australia: Center for International Economic Studies, 2001. Hertel, T. "Potential Gains from Reducing Barriers in Manufacturing, Services and Agriculture," Review of the Federal Reserve Bank of St. Louis: July-August 2001.

2. Department of Commerce (Bureau of Economic Analysis). "National Income and Product Accounts," (updated quarterly).

3. Based on calculations by the Office of the U.S. Trade Representative.

4. Department of Commerce (Bureau of the Census). "U.S. International Trade in Goods and Services," (monthly release).

5. Calculations by the Office of the U.S. Trade Representative.

6. North American Free Trade Agreement, Chapter 3.

7. Department of Commerce (International Trade Administration), (1999). "Fifth Annual Report to Congress Regarding the Impact of NAFTA upon U.S. Automotive Trade with Mexico." Note that some of the U.S. exports may contain intermediate inputs originally produced in Mexico. In 1999, Mexico was a leading source of automotive components, supplying $3.4 billion, or 16 percent, of such imports. In that same year, we exported $2.3 billion of autos to Mexico, as well as $5.1 billion in parts.

8. Department of Commerce (Bureau of Economic Analysis). "National Income and Product Accounts," (updated quarterly).

9. Department of Agriculture, (2001). "Food and Agricultural Policy: Taking Stock for the New Century."

10. Department of Agriculture, (1999). "NAFTA International Trade and Agriculture Report."

11. Department of Commerce (Bureau of the Census). "Annual Survey of Manufactures."

12. Department of Commerce (Bureau of Economic Analysis). "National Income and Product Accounts," (updated quarterly).

13. Bernard, Andrew B. and J. Bradford Jensen, (1997). "Exceptional Exporter Performance: Cause, Effect, or Both?" NBER Working Paper 6272.

14. Department of Commerce (Bureau of Economic Analysis). "National Income and Product Accounts," (updated quarterly).

15. Department of Commerce (Bureau of the Census). "U.S. International Trade in Goods and Services," (monthly release).

16. Department of Commerce (Bureau of Economic Analysis). "National Income and Product Accounts," (updated quarterly).

17. Data on production sharing are collected under tariff provision 9802 and compiled by the U.S. International Trade Commission. Additional calculations by the Council of Economic Advisers. This figure in fact significantly understates the value of U.S. imports that actually are U.S.-made components. (The value is understated because the majority of imports from Canada and Mexico incorporate U.S.-made parts but are already eligible for duty-free treatment under the North American Free Trade Agreement.)

18. Speech by President George W. Bush to the Organization of American States, April 17, 2001.

19. Department of Labor (Bureau of Labor Statistics). "Extended Mass Layoffs," (quarterly release). Note that reasons for layoffs are reported by employers, who may not attribute layoffs to import competition, even though that is the cause.

20. Department of Labor (Bureau of Labor Statistics). "Extended Mass Layoffs," (quarterly release).

21. Note that trade does not affect overall employment; fiscal and monetary policies do.

22. Calculations by the Office of the U.S. Trade Representative.

23. Department of Commerce (Bureau of the Census). "U.S. International Trade in Goods and Services," (monthly release).

24. Bernard, Andrew B. and J. Bradford Jensen, (1997). "Exceptional Exporter Performance: Cause, Effect, or Both?" NBER Working Paper 6272.

25. Department of Labor (Bureau of Labor Statistics). Data from the National Compensation Survey.

26. World Trade Organization. *International Trade Statistics 2000.*

27. Council of Economic Advisers, "America's Interest in the World Trade Organization: An Economic Assessment," November 1999, and calculations by the Office of the U.S. Trade Representative.

28. President's Report on the three-year review of NAFTA, (1997). "A Study on the Operation and Effects of the North American Free Trade Agreement." This report reviews many studies including U.S. International Trade Commission Publication, "Economy-wide Modeling of the Economic Implications of an FTA with Mexico and a NAFTA with Canada and Mexico," May 1992, and calculations by the Office of the U.S. Trade Representative.

29. For example, President Lagos of Chile, in an interview with the Los Angeles Times in November 2000, has stated "I can't negotiate one agreement with the executive, then negotiate the same thing with the Congress." Pascal Lamy, the European Union Commissioner on Trade, noted in March 2001, "If Trade Promotion Authority is denied by Congress, it would be hard for the U.S. Administration to establish itself as a credible trading partner."

30. This point has been emphasized by Alan Greenspan, who noted in his testimony before the Senate Finance Committee on April 4, 2001, "If the party on the other side of the table knows that the particular agreement you are negotiating is subject to a wide variety of potential amendments from a lot of different sources, he very clearly is going to be very reticent to put his final set of cards on the table."

31. World Bank. *World Development Indicators 2000*.

32. Brown, D., A. Deardorff, and R. Stern. "Impacts on NAFTA Members of Multilateral and Regional Trading Arrangements and Initiatives and Harmonization of NAFTA's External Tariffs." University of Michigan, Research Seminar in International Economics Discussion Paper 471, June 2001. Their FTAA calculations are actually for an FTAA-type group of countries.

33. Brown, D., A. Deardorff, and R. Stern. "Impacts on NAFTA Members of Multilateral and Regional Trading Arrangements and Initiatives and Harmonization of NAFTA's External Tariffs." University of Michigan, Research Seminar in International Economics Discussion Paper 471, June 2001. Population data from the Department of Commerce (Bureau of the Census), and family gains calculations by CEA.

34. These five countries are Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. All numbers cited in this section refer to this group unless otherwise specified.

35. These are total exports from the five proposed partners in the U.S.-Central America Free Trade Agreement. Numbers are compiled by the U.S. International Trade Commission from data from the Department of Commerce, Department of the Treasury, and the U.S. International

Trade Commission.

36. World Trade Organization. "Mapping of Regional Trade Agreements," Note by the Secretariat, October 2000. See also the Canada-Costa Rica Free Trade Agreement, and the Central America-Chile Free Trade Agreement.

37. Department of Commerce (Bureau of Economic Analysis). "Survey of Current Business," (monthly release). The region is assumed to be Central America minus Mexico and Panama.

38. Presidential Proclamation. "To Implement the United States-Caribbean Basin Trade Partnership Act," October 2, 2000.

39. These are general imports from the five proposed partners in the U.S.-Central America Free Trade Agreement. Numbers are compiled by the U.S. International Trade Commission from data from the Department of Commerce, Department of the Treasury, and the U.S. International Trade Commission.

40. Office of the U.S. Trade Representative. *2001 National Trade Estimate Report on Foreign Trade Barriers.* The numbers for Brazil and Thailand are average applied rates; that is, averaged over all imports from the US. The rate for India is a ceiling rate, which means that no tariff is supposed to be higher than 35 percent.

41. Department of Agriculture (2001). "Overview of Technical Barriers to U.S. Agricultural Exports."

42. Some economists criticize these types of bilateral and regional agreements, suggesting that they conflict with multilateralism. (See *The Economics of Preferential Trade Agreements*, edited by Bhagwati, J., and A. Panagariya, 1996.) Others disagree. (See Freund, C. "Spaghetti regionalism," Board of Governors of the Federal Reserve System, International Finance Discussion Paper 680, September 2000.)

43. World Trade Organization. "Mapping of Regional Trade Agreements," Note by the Secretariat, October 2000.

44. Office of the U.S. Trade Representative. *2001 National Trade Estimate Report on Foreign Trade Barriers.*

45. Office of the U.S. Trade Representative. *2001 National Trade Estimate Report on Foreign Trade Barriers.*

46. Speech by U.S. Trade Representative Robert Zoellick to the National Foreign Trade Council, July 26, 2001.