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The USITC's Roundtable on Quantifying the Economic Effects of Trade Agreements:

Discussion Summary

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Author:
Caitlyn Carrico[1]

Abstract

The roundtable on quantifying the economic effects of trade agreements hosted by the U.S. International Trade Commission brought together professionals representing a variety of ideas, perspectives, and expertise. The discussion presented in this summary represents major topics that were covered by speakers at the roundtable. Overarching themes throughout the discussion included the need to ensure that both analytical methods and results are accessible to policymakers and the public as well as the necessity of expanding economic analysis beyond tariffs to incorporate investment and services.

[1] Correspondence may be addressed to both the author (Caitlyn.Carrico@usitc.gov) and the principal organizer of the event Michael Ferrantino (Michael.Ferrantino@usitc.gov). The author would like to thank Michael Ferrantino for organizing the roundtable as well as his input in the writing of this article. This article summarizes views expressed by roundtable participants. These views are strictly those of the participants and do not represent the opinions of the United States International Trade Commission or of any of its commissioners. This paper should not be cited as an official Commission document. Even though the summary often cites instances of general agreement among some participants, this does not necessarily reflect a consensus view of every participant.

Introduction

The U.S. International Trade Commission (USITC) hosted a roundtable on quantifying the economic effects of trade agreements on April 25, 2012. The roundtable facilitated discourse between representatives of government, think tanks, academia, and other organizations, including both producers and users of economic analysis. The first part of the discussion addressed how economists and policymakers can effectively communicate results from analyses of free trade agreements amongst themselves as well as with the public at large. The second part dealt with the analysis of new issues in free trade agreements. Participants presented a variety of ideas and perspectives on key topics, including the perceived gap between policy questions and economic answers, ensuring public access to data and resources, issues related to the numerical presentation and interpretation of results, the effects of trade on labor, and challenges to analyzing new provisions in free trade agreements. These are discussed in more detail below.

The gap between policy questions and economic analysis

Several roundtable speakers discussed a gap between questions asked by policymakers and answers provided by economists. Attendees noted that whereas economic studies analyzing the effects of trade agreements tend to emphasize market access issues, important topics such as tariffs, services trade, and foreign direct investment (FDI) are often neglected. Attendees also discussed the possibility of incorporating more case studies into analyses, and combining more specific modeling results with the case studies. Participants suggested that less aggregated results would be helpful for policymakers.

One attendee asserted that political decisions precede economic analyses, which then are used to justify pre-existing political positions. In contrast, other discussants emphasized the importance of economic analyses in informing policy. One participant noted that changes in economic trends naturally precede policies, citing as an example the growth in trade flows that anticipates the implementation of certain institutional arrangements, such as trade agreements. The participant suggested that, once in place, these agreements are only the institutionalization of the pre-existing economic forces.

Public access to information

Roundtable speakers discussed the difficulty of ensuring public access to data, much of which is confidential. One discussant emphasized that data should be considered a public good. Attendees also suggested: (1) that economists publicly post the data inputs for their computer models as well as the code used to perform quantifications; (2) that the names of large exporting and importing firms be identified in order to demonstrate the benefits of trade agreements; and (3) that the heterogeneity among firms should be more strongly emphasized, enabling policymakers to better assess the potentially different economic impacts of trade agreements on firms. One speaker specifically discussed how multinational firms dominate trade through strategic interactions with other firms and by seeking to induce competition among governments offering financial support. Revealing the identities of these multinationals, the speaker contended, would not only permit a greater understanding of their roles in global trade and agreements but also allow for more accurate economic modeling.

Several attendees noted that much of the currently available public data may not be appropriate to address policy questions because of issues with quality and availability. For example, mismatches in mirror trade data were said to illustrate discrepancies within trade data sets. In response, one participant emphasized the need for more investment in public data.

Presentation and interpretation of numerical results

Roundtable attendees discussed the public emphasis on the numerical results presented in economic analyses of trade agreements. One discussant mentioned that often the public will focus on key numbers presented in the report without actually reading the entire report for context. Suggestions included assessing results in terms of magnitude and sign as opposed to an absolute number, as individual numbers reported often overshadow other important results, and reporting results in ranges as opposed to providing a single number so as to help economists convey the complexity of their analyses.

Several attendees stressed the importance of making the results accessible to policymakers. Speakers repeatedly discussed issues of transparency and the necessity to explain the nuances embedded in the models and methodology employed in economic analysis without extraneous jargon. One discussant recommended that economists should take more responsibility to provide better context to accompany analytic results. Additionally, participants suggested that economists should make an explicit distinction between net and gross trade when presenting results, as a misunderstanding between the two may result in a misleading analysis of the impact on jobs. One attendee discussed this distinction in the context of bilateral trade agreements, noting that third country effects may be overlooked in analyses focusing on bilateral effects. Another discussant asserted that although current analyses may only consider the effects of exports on the job market, the impact of imports, which were cited as displacing jobs, also needs to be considered.

Trade effects on labor

A recurring topic was how to appropriately quantify and present the effects of trade on the labor force. One attendee described common misconceptions of economic analyses of trade as stemming from misunderstandings of economic drivers behind the labor market, of relations between labor and trade, and of the distinction between economic simulation and economic projection.

Several participants discussed misinterpretations of the employment figures reported in economic analyses. One roundtable speaker emphasized the difference between jobs and job opportunities, conveying the importance of transparently presenting analytical results. Other participants discussed the need for an enhancement of labor-related analytical results. For example, citing the current convention of quantifying labor as skilled or unskilled, discussants contended that results should be reported at more detailed levels in terms of skill types. One speaker suggested that labor data from the Bureau of Labor Statistics be integrated into economic models.

Attendees addressed concerns over how labor may adjust to economic changes brought on by free trade agreements, stating that economic models do not account for the full cost of adjustment to a worker. One speaker suggested increased collaboration between trade economists, industrial organization economists, and labor economists. Other discussants recommended relaxing the “full employment” assumption typically used in computable general equilibrium (CGE) models and providing transparent documentation highlighting how differences in model assumptions will affect the results.

Quantifying the effects of new issues in free trade agreements

Speakers indicated that modern free trade agreements contain provisions which may not be directly accounted for in current, tariff-focused economic analyses. They discussed the challenges that economists face in assessing these non-tariff provisions, including building appropriate economic models and determining how these provisions may be incorporated into existing CGE models. One attendee noted that although FDI is not accounted for in a typical tariff-focused model, FDI does have the ability to influence trade flows and should be reflected in the analytical framework. Another speaker asserted that institutions and infrastructure play an important role in attracting investment and discussed the difficulty of incorporating these structural factors into economic models. One participant also brought up the need to develop stronger economic analysis incorporating services trade. Although services data are less reliable than commodity data, the participant emphasized the importance of including services in analysis because of the unique ways that the sector influences employment and financial flows.

Roundtable attendees also discussed techniques to expand current economic analysis of free trade agreements. One discussant recommended that the effects of tariffs and other barriers should be modeled using a hurdle approach, e.g. raising the hurdle would prohibit trade whereas lowering the hurdle would promote trade. Another speaker advised implementing more econometric analysis, as econometric modeling of past free trade agreements and provisions could be used to assess current trade agreements. The speaker also noted that econometric analysis could be used to model changes in uncertainty resulting from adjustments to trade barriers.

Concluding Comments

The U.S. International Trade Commission's roundtable on quantifying the effects of trade agreements included a wide variety of participants, representing the public and private sectors, academia, think tanks, and other organizations. Throughout the roundtable, speakers emphasized the importance of fostering the accessibility of economic analyses for policymakers and the public at large, as well as the need to expand current economic models beyond a tariff-focused style of analysis. Participants also discussed current efforts to address issues discussed during the roundtable. One individual cited a current project to incorporate FDI into a CGE model, while another noted recent work that combined econometric analysis of previously implemented policies as part of an analysis of the economic impact of intellectual property rights. Others discussed boards within various government agencies established to oversee model validation. Overall, participants agreed on the need for more research addressing the issues discussed, and looked forward to continuing the discussions initiated by the roundtable.

List of external participants at the USITC Roundtable on Quantifying the Economic Effects of Trade Agreements on April 25, 2012

Participant	Title and Affiliation
Laura Baughman	President, The Trade Partnership and Trade Partnership Worldwide, LLC
Douglas Bell	Counselor and the Assistant U.S. Trade Representative for Trade Policy and Economics, Office of the U.S. Trade Representative
Joseph Francois	Professor of Economics, International Business Joahannes Kepler University of Linz, Austria
Mitchell Ginsburg	Senior International Economist, Office of the U.S. Trade Representative
Paolo Giordano	Lead Economist, Trade and Intergration Sector, Inter-American Development Bank
Gary Hufbauer	Reginald Jones Senior Fellow, Peterson Institute for International Economics
Jason Kearns	International Trade Counsel, House Ways and Means Committee
Sean Kulkarni	International Trade Policy Fellow, House Ways and Means Committee

David Leborde Debucquet	Senior Research Fellow, International Food Policy Research Institute
Thea Lee	Deputy Chief of Staff, American Freedom of Labor and Congress of Industrial Orgaizations
Rodney Ludema	Professor of Economics and Foreign Service, Georgetown University
Renee Mathieu	International Economist, U.S. Department of the Treasury
Travis McArthur	Trade and Finance Researcher, Public Citizen
Sherman Robinson	Senior Research Fellow, International Food Policy Research Institute
Howard Rosen	Resident Visiting Fellow, Peterson Institute for International Economics
Robert Scott	Director of Trade and Manufacturing Policy Research Economic Policy Institute
Bill Shpiece	Deputy Assistant U.S. Trade Representative for Economic Affairs, Office of the U.S. Trade Representative