



Free Trade Agreements: Issues and Outlook

by Frances B. Smith

Trade has surfaced over the past decade as one of the most contentious political issues—both internationally and domestically. The increased divisiveness of trade policy was evident at the World Trade Organization's (WTO) Seattle meeting in December of 1999, where anti-globalization took over the streets and helped cause a breakdown of those negotiations.

Since then, trade debates have only grown more contentious. Most intellectuals, economists, and journalists continue to support open trade as advancing the best interests of the public in both rich and poor countries. However, their well-reasoned arguments are losing out to populist slogans claiming that trade harms the economy and destroys jobs.

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A recent NBC News/ *Wall Street Journal* poll asked members of the public whether they believed foreign trade had been good or bad for the U.S. economy. Sixty percent said that trade has had a negative effect, with only 30 percent saying trade's effects have been positive.

And this picture might get worse, as presidential aspirants, Members of Congress, and attention-seeking pundits increasingly propagate the myth that trade is responsible for just about every job lost over the past decade.

Increased trade does affect employment—by destroying some jobs *and creating others*. There is constant churning in the labor market, but the jobs created by trade are more likely to demand higher skills and provide higher pay.

Federal Reserve Chairman Ben Bernanke eloquently made these and other points last May. He noted that over the past decade 16 million jobs have been lost annually, mostly due to factors other than trade. But those have been more than offset by the creation of about 17 million jobs per year. He also pointed out that imports' share of GDP quadrupled between 1965 and 2006. Yet employment more than doubled during that period.

Two recent studies on the relationship of trade to jobs—from very different points of view on the political spectrum—came to similar conclusions.

The first study, recently published by the Progressive Policy Institute, is by prominent labor economist Stephen J. Rose, who points out that trade growth has not reduced middleclass jobs

It is very common to think that trade—particularly a high level of imports—leads to middle-class job loss. However, over the last 60 plus years middle-class jobs have generally become more plentiful...Simply put, the alarmists across the political spectrum are wrong when it comes to the theory that trade leads to a loss of middleclass jobs.

Dan Griswold of the libertarian Cato Institute recently published a study showing that increased trade has not lowered American living standards. He explains that the economy has 16.5 million more people working today than 10 years ago.

Although there has been about a 3.3 million job loss in manufacturing over the past decade, Griswold notes that there has been a net gain of 11.6 million jobs in sectors with higher average wages than in manufacturing. And many of those manufacturing jobs have disappeared not because of trade, but because of technological advances and productivity improvements.

Obviously, job losses and job insecurity in some areas have contributed to stronger protectionist sentiments. Indeed, it is devastating to lose one's job, whatever the cause. Yet the better response is to focus on ways to soften such economic blows— through greater portability of health insurance and pensions, for example—or an increased emphasis on private job training and education.

Other issues have fueled the anti-trade flames. For instance, free trade advocates seem to have lost their footing with the breakdown of the World Trade Organization's Doha Development Round negotiations.

Most trade supporters view the multilateral WTO system as superior to bilateral and regional trade pacts, since it allows the 151 member countries—rich and poor—to negotiate more equally. Developing countries can band together to curb rich countries from imposing non-trade related protectionist rules. Through moral suasion—and sometimes the threat of a WTO challenge— they also can push developed countries to provide greater market access.

Moreover, the recent U.S. focus on bilateral free trade agreements (FTAs) has both strengthened the anti-trade, antiglobalization forces and weakened the involvement of many groups that would support more open trade. The renowned economist Jagdish Bhagwati has pointed out that bilaterals use up limited political capital for trade liberalization.

Moreover, when a trade agreement is fairly narrow in its focus and impact—when broad-based gains are not apparent—special interests that feel threatened by specific provisions come to the forefront to oppose those agreements. Those interests' members or constituents can rally behind the cause, contributing money, coordinating media campaigns, and lobbying policymakers in a field largely vacated by free trade champions.

The Central America-Dominican Republic Free Trade Agreement (CAFTA-DR), for example, galvanized not only labor unions and environmental groups, but also powerful sugar producers, who claimed that the minuscule increase in sugar imports allowed under CAFTA-DR would destroy their industry. Labor unions called for stringent labor standards to be included in the pacts. Environmental groups pressed for expanded environmental provisions. The House vote on CAFTA was 217-215, in sharp contrast to the 1993 NAFTA vote of 234-200, which came under a Democratic president who was a strong proponent of trade.

Such lopsided debates on recent FTAs have amplified the anti-trade voices and discouraged supporters of more open trade.

The pending agreements are a case in point. The Peru FTA passed the House last year by a vote of 285-132. That may seem like strong support, but this treaty was the first trade pact to include enforceable labor and environmental provisions as demanded by the Democratic leadership in Congress. In May, the Bush administration agreed to the Bipartisan Trade Deal, which requires that such standards be included in all pending and future trade agreements.

The Colombia , Panama , and South Korea FTAs all face serious challenges for various reasons. All three countries are strategically important American allies. They negotiated in good faith and then agreed to renegotiate the FTAs following the Bipartisan Trade Deal.

Under time-limited preferential agreements previously approved by Congress , Peru , Panama , and Colombia enjoyed duty-free access for most of their exports to the U.S. The FTAs will provide them more certain access to the U.S. market, while opening up their markets to U.S. products and services.

The pending Korea FTA is a landmark economic agreement with one of America 's most important trading partners and geopolitical allies. As stated by President Bush, the Korea FTA will “further enhance the strong United States-Korea partnership, which has served as a force for stability and prosperity in Asia .”

If the U.S. turns its back on these friends and trading partners by voting down the trade pacts, it is likely to trigger a backlash in those countries and a loss of U.S. credibility in those regions and elsewhere.

With 2008 a presidential election year, populist, protectionist sentiments are likely to increase. Supporters of open trade must market the benefits of trade more creatively. If free trade proponents fail to communicate these benefits to the American public, more members of the intellectual community and the media are likely to abandon their support for open markets in favor of the populist sentiments expressed in the NBC News/Wall Street Journal poll noted earlier. Isolationist trade policies—destructive to geopolitical stability as well as to economic prosperity, and job growth—would be the result.