



FREE TRADE UNDER ASSAULT

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Free trade is under assault and has been since NAFTA was passed nearly three decades ago. However, it was not until Donald Trump assumed the presidency that trade agreements found themselves in the sunsights of vociferous nationalists, protectionists, and isolationists--on both the left and the right. As Trump proudly declared in 2018: “I am a tariff man!”.

Lamentably, were today’s vigorous champions of free trade to hold an annual conference it would most likely take place in a broom closet.

If we assume that free trade (in reality, managed trade) is a desirable goal, how likely is the U.S. and the world to return to a relatively open, rules-based, liberalizing framework for as enjoyed previously? Certainly, the economic conditions are right. In 2022 worldwide commerce is expected to recover to its pre-pandemic level and global GDP to come in at 4.4%.¹

From the U.S. perspective, external trade challenges to the nation are numerous and varied. (A full compendium is listed yearly the government’s *National Trade Estimate on Foreign Trade Barriers*.) While average tariff rates are low—5% in general, 2% in the U.S.—it is non-tariff barriers that are most troublesome. In Brazil, for example, subsidy programs, import licensing and customs and services barriers are notable impediments for U.S. firms, whereas in China cyber-enabled theft, technology transfer pressures, and investment restrictions stifle U.S. business. Intellectual property protection is a severe problem in both of these nations.²

But is the United States a paragon of virtue when it comes to free trade? Not at all. The U.S. president can institute tariffs at will. In fact, President Trump imposed 25% tariffs on imported steel and 10% on imported aluminum from most countries in 2018, arguing that these protections were necessary for U.S. national security, by maintaining healthy domestic production. The U.S.

¹ <https://www.icaew.com/technical/economy/economic-insight/global-trade-in-decline-long-before-the-pandemic;https://news.un.org/en/story/2022/02/1112182#:~:text=%F0%9F%8C%8D%20global%20trade%20is%20up,relative%20to%20pre%2Dpandemic%20levels>.

² [https://ustr.gov/about-us/policy-offices/press-office/reports-and-publications#:~:text=The%20National%20Trade%20Estimate%20Report%20on%20Foreign%20Trade%20Barriers%20\(NTE,the%20value%20of%20U.S.%20exports](https://ustr.gov/about-us/policy-offices/press-office/reports-and-publications#:~:text=The%20National%20Trade%20Estimate%20Report%20on%20Foreign%20Trade%20Barriers%20(NTE,the%20value%20of%20U.S.%20exports).

also imposed a series of tariff increased on China from 3% to 20%; but the two nations reached an agreement for the U.S. to reduce that rate in return for China purchasing \$200 billion in additional goods from the U.S. by December 2021. (To date, China has honored only 57% of that commitment.³)

In addition to U.S. restrictions on foreign investment in energy, transportation, financial services, state and local government purchases⁴, the U.S. maintains “Buy American” provisions governing the \$1.7 trillion procurement market. This pertains to all iron, steel, and manufactured products used in public works and building projects. In March of this year President Biden announced even tougher “Buy American” requirements, mandating that at least 60% of products obtained under the program to be made in the U.S.⁵

Just what are the impacts of American protectionism? Examples abound. The Trump tariffs on steel cost U.S. consumers between \$900,00 and \$1.2 million per steel job saved, as companies have had to pay 10% more for steel. As thousands more companies use steel than manufacture steel, one can see the economic illogic at play here.⁶ Protectionism applied to construction materials such as Canadian softwood lumber have raised home prices, and government price supports for sugar cost consumers \$ 3 billion in higher food prices.⁷

Most interesting, however, is a comprehensive study of the impacts of the trade war of 2018. It found that imports declined 31.5% and exports fell 11%, and annual consumer and producer losses from higher costs of imports were nearly \$70 billion. *Ironically, the most negatively affected were workers in heavily Republican counties.*⁸

The benefits from trade are numerous and include better resource allocation, increased productivity, economies of scale, higher wages, job growth in exporting industries and greater choice and lower prices for consumers and firms. Admittedly there are serious costs, as well such as job losses and firm contraction or closure due to import competition and relocation of production.⁹

Nevertheless, the case for free trade is compelling. Over the last 30 years U.S. jobs dependent on trade have increased by 186%, four times faster than total U.S. employment with over one in five jobs tied to trade; and of the 42 million jobs involved in trade nearly 40% are held by minority

³ <https://www.piiie.com/blogs/realtime-economic-issues-watch/china-bought-none-extra-200-billion-us-exports-trumps-trade>

⁴ <https://www.trade.gov/sites/default/files/2021-05/Chapter%206%20-%20FDI%20Restrictions.pdf>

⁵ <https://www.wsj.com/articles/biden-to-finalize-buy-american-rule-for-government-procurements-11646388000>

⁶ <https://www.washingtonpost.com/business/2019/05/07/trumps-steel-tariffs-cost-us-consumers-every-job-created-experts-say/>

⁷ <https://www.forbes.com/sites/realspin/2017/02/16/calculating-the-costs-of-protectionism/?sh=60fb107f5596>

⁸ https://www.nber.org/system/files/working_papers/w25638/revisions/w25638.rev0.pdf

⁹ <https://sgp.fas.org/crs/row/IF10156.pdf>

workers.¹⁰ Of the nearly 290,000 U.S. exporters, 97% are small and medium-size firms that account for more than 40% of U.S. exports.¹¹

For the great many who expected a return to pre-Trump normalcy in trade policy, the results to date have been extremely disappointing, as the Biden administration has kept most of the Trump administration tariffs in place. As Stuart Malawer of George Mason University scornfully observes: “I consider Biden’s trade policy to be Trump without the tweets.”¹²

Especially disappointing is the Biden administration’s cloak of woke draping over trade policy. At the request of the administration, the ITC has launched a fact-finding investigation as part of USTR’s efforts to institute trade policy initiatives that consider gender, race, ethnicity, wage and salary level—emphasizing impacts on the underrepresented and underserved.¹³

The quest to incorporate social objectives in trade policy is not just a U.S. phenomenon. The U.K. is facing this issue as well; but as British trade advisor Daniel Hannan asserts: “Such important moral questions should be treated as issues in their own right, not shoe-horned into trade deals.”¹⁴

Be that as it may, if the United States is to maintain, strengthen and expand its role as a champion of American competitiveness, it needs to pursue an agenda emphasizing both market openness and trade law enforcement; sensible industrial and policies; innovation and entrepreneurship; consumer-centric policies; and skills upgrading and workforce development. Nothing less will do.

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¹⁰ <https://www.businessroundtable.org/updated-business-roundtable-study-trade-supported-over-41-million-american-jobs-pre-pandemic>

¹¹ <https://www.businessroundtable.org/updated-business-roundtable-study-trade-supported-over-41-million-american-jobs-pre-pandemic>

¹² https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3991157

¹³ <https://insidetrade.com/daily-news/tai-itc-study-trade-and-underserved-be-%E2%80%98pillar%E2%80%99-ustr-policy>

¹⁴ <https://www.politico.eu/article/how-trade-went-woke/>