Insight

SOTU: Three Principles for Pro-Growth Trade

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President Trump will give his first State of the Union Address tonight, likely with a heavy focus on international trade. Thus far, the president has taken several significant actions to overhaul trade policy in the United States, including withdrawing from the Trans-Pacific Partnership (TPP) and renegotiating the North American Free Trade Agreement (NAFTA). If President Trump wants to better U.S. trade policy, promote economic growth, and increase the standard of living for all Americans, he should consider these three important points.

Trade is Beneficial Regardless of the Trade Balance

The president often uses the term reciprocal trade when describing his trade priorities. In his address to the World Economic Forum last week, he stated "we support free trade, but it needs to be fair and it needs to be reciprocal." Likewise, in remarks at the Asia-Pacific Economic Cooperation (APEC) summit last year he explained "we seek robust trade relationships rooted in the principles of fairness and reciprocity … the current trade imbalance is not acceptable." While President Trump's desire for fairness in international trade may be well founded, using the trade balance as a measure of fairness and reciprocity is not.

International trade has widespread economic benefits for the United States. In a world without trade, U.S. consumers would have limited access to goods and services and producers would not be able to take advantage of global supply chains. To the contrary, trade lowers production costs for American businesses, lowers prices for consumers, increases productivity, and spurs economic growth.

The United States has run a trade deficit since 1976, meaning we buy more from the rest of the world than we sell. Some (including the president) believe that this reflects a major problem in our trade policy. However, this way of thinking ignores the economic benefits of

imports, which increase our standard of living and bring down costs for American consumers. It also disregards the value of foreign investment, which by definition increases with the trade deficit. When international trade increases the United States experiences growth, even when the trade deficit increases along with it.

Multilateral Trade Agreements Promote Both Economic Growth and Global Leadership

The president may also tout his decision to renegotiate NAFTA, a multilateral trade agreement he often criticizes for giving Mexico an unfair advantage over the United States. To date, negotiators from the United States, Canada, and Mexico have completed six negotiating rounds in which some common ground has been found, but several large sticking points remain. One example is a U.S. proposal to increase the percentage of automobile content that must be manufactured in North America in order to qualify for lower tariffs. This, along with efforts by the United States to eliminate a dispute settlement mechanism in which nations can challenge duties placed on their products by other countries, has been met with disdain from our trading partners.

After round six, U.S. Trade Representative Robert Lighthizer reiterated the warning that if the United States cannot negotiate a good agreement, it is prepared to completely withdraw from NAFTA. This would be a mistake; NAFTA has significantly increased North American trade, expanded options for consumers, and created jobs for U.S. workers. Withdrawing from the agreement would reverse these gains. Estimates suggest that consumer prices would rise by at least $11 billion, as many as 1.8 million workers would lose their jobs, and U.S. gross domestic product (GDP) would be permanently depressed by over 0.2 percent. Furthermore, North American supply chains would be jeopardized, and U.S. businesses could be exposed to over $15 billion in new tariffs.

In addition to economic benefits, multilateral trade agreements are in the strategic interest of the United States because they foster international cooperation. NAFTA has helped to stabilize the North American continent by strengthening relationships among the United States, Canada, and Mexico. President Trump has also expressed interest in rejoining TPP, a trade agreement with 11 nations in the Asia Pacific he withdrew the United States from in his first week in office. This would produce significant benefits for the U.S. economy as well as help to solidify the United States' position as a global leader in trade.

Reasonable Enforcement is Necessary for Instilling Confidence in International Trade

Finally, the president will likely discuss recent actions his administration has taken to

enforce trade laws. This concept of enforcement is vital; without the proper mechanisms to ensure that nations adhere to the global rules of trade, trading partners would lose confidence in international commerce and global trade could decline. This would harm relationships between nations, consumers around the world, and the global economy.

The Trump Administration has taken notable steps to increase trade enforcement. Under President Trump, the Department of Commerce has started to self-initiate investigations into underpriced imports from other nations, as opposed to only initiating import investigations at the request of U.S. industry. Furthermore, U.S. Trade Representative Lighthizer recently initiated an investigation into China for intellectual property theft, a practice U.S. businesses have protested for years.

Proper trade enforcement can benefit all parties involved by preserving the integrity of trade agreements. However, it is also important to consider the role of the World Trade Organization (WTO) in enforcement. When one WTO member enacts trade barriers (like tariffs) against another, that nation may either retaliate or challenge the action at the WTO. In the case of the United States, both China and the EU have threatened to retaliate if trade restrictions are imposed. The president must balance the need for enforcement with the potential ramifications of retaliation on the U.S. economy.

Conclusion

The State of the Union gives President Trump an opportunity to lay out his trade agenda for 2018. Adhering to these three principles will ensure that Americans can experience the economic growth generated by international trade.