Research

Primer: The Many Economic Benefits of Free Trade

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The U.S. is a trade titan. We are the world's largest trader, exporting nearly $2.3 trillion worth of goods and services.[1] With free trade agreements in place with 20 countries, the U.S. and its trading partners account for a third of global GDP.[2] These trade agreements are an important part of our economy, supporting millions of American jobs and giving consumers more affordable goods and services. The U.S. should pursue more free trade agreements to continue to reap these benefits.

EXPORTS

Exports are vitally important to our economy, comprising over 13 percent of U.S. GDP.[3] Perhaps more important to the average American, exports support over 11 million jobs—nearly 6,000 jobs for every billion dollars in exports.[4] The millions of jobs are not the entire story, though—jobs in export-intensive industries also pay approximately 18 percent more per year.[5]

The U.S. and our trading partners combine to control 25 percent of the global goods trade.[6] While we have a robust presence in goods trade, services exports, such as telecommunications and insurance, are increasingly important. The U.S. economy is heavily weighted to services—80 percent of jobs in the U.S. are in the service sector[7]—and we are the largest exporter of services in the world.[8] With the majority of the U.S. workforce in the service sector, service exports will play an increasingly important role in our economy. Small businesses are big beneficiaries of free trade, too. Nearly 98 percent of the exporting businesses in the U.S. are small and medium-sized companies.[9]

THE ADDED VALUE OF IMPORTS

Exports generally are the darling of trade policy, but imports are great for both consumers and producers. Imports provide Americans with a variety of consumer goods, often at low prices. While some imports are goods that can be produced more cheaply abroad, other imports, like some fruits and vegetables, are items that simply cannot be produced in the U.S. in the quantities demanded in the absence of trade. American consumers would face far fewer choices and much higher prices without free trade agreements.

TRADE AGREEMENTS MOVING FORWARD

The U.S. currently is in negotiations on two multilateral trade agreements, the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), as well as a new multilateral agreement on services trade, the Trade in Services Agreement (TiSA). These potential agreements will extend the U.S.'s trade footprint to many emerging markets and millions more consumers. The TiSA, in particular, will only become more important as we continue to be a heavily service-oriented economy.

Negotiations in these agreements are ongoing, but an important component is missing. Trade Promotion Authority (TPA) is legislation that facilitates free trade agreements by delegating negotiating powers to the executive branch. Congress fulfills its constitutional obligations over trade by voting on the agreements without amendments. The U.S. and its potential trade partners can negotiate with confidence that the agreement reached will be the final version implemented. TPA lapsed in 2007 and has not yet been reauthorized.

Trade benefits Americans, and more free trade agreements are needed to expand these benefits. The free trade agreements currently in negotiations are an important part of the U.S.'s larger trade agenda, but trade promotion authority is needed to facilitate these agreements.

[1] USTR.gov