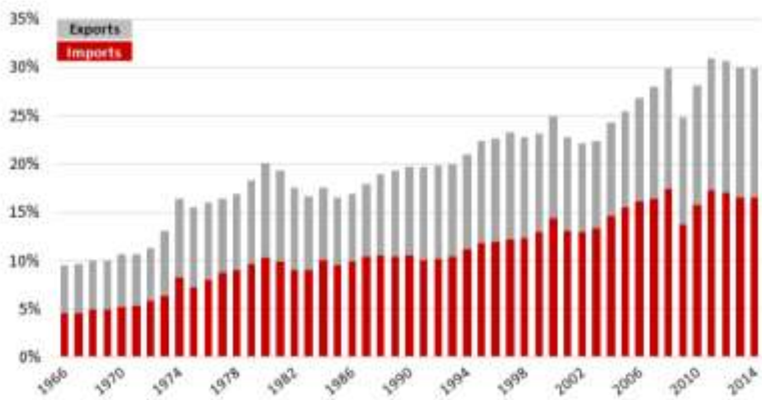
The Trans-Pacific Partnership:
The Economics of Trade Support the TPP

Trade Buoys U.S. Economic Growth

The need to reinvigorate economic growth is a point of rare consensus across the U.S. political spectrum. A slow and gradual economic recovery since the 2008-2009 recession has reduced the overall unemployment rate, but participation in the workforce and wage growth are not as strong as they should be. World trade plays a central role in buoying economic growth and job creation. After all, outside our borders are markets that represent 80 percent of the world's purchasing power, 92 percent of its economic growth, and 95 percent of its consumers.

Trade already provides critical support for many companies and workers. The U.S. Department of Commerce estimates that exports of manufactured goods directly supported approximately 6.2 million jobs in 2014, or nearly half of the 12.3 million Americans employed in manufacturing.[1] One in three acres on American farms is planted for export.[2] Overall, international trade today supports nearly 40 million American jobs[3] and has raised the income of the average American household by more than $13,600 per year.[4] Further, exports support American jobs that pay up to 18 percent higher salaries on average.[5]

U.S. Trade Intensity
(Total Value of Traded Goods and Services as a Share of GDP)



Source: Bureau of Economic Analysis, National Income & Product Accounts. Table 1.1.5

Often overlooked in the U.S. trade debate is that 98 percent of the nearly 300,000 American companies that export are small and medium-sized enterprises (SMEs). Not only have these firms created nearly two-thirds of the nation's net new jobs over the past decade and a half, they account for one-third of U.S. merchandise exports, according to the U.S. Department of Commerce.[6] The number of SMEs that export has risen threefold over the past two decades.

Opening Restricted Foreign Markets

While the U.S. market is largely open to imports, the international market is often skewed against American industries and workers. U.S. exporters face high foreign tariffs and other barriers to their exports. This status quo is unfair to U.S. workers, farmers and businesses. Tariffs often average in the double digits in emerging markets, particularly for key U.S. manufactured goods and agricultural exports. Overall, U.S. goods arriving in foreign markets face an average tariff of 5.9 percent, according to the World Economic Forum's latest *Global Enabling Trade Report*.[7] That's more than four times the average U.S. tariff level. Indeed, the United States ranked 130th out of 138 economies in terms of "tariffs faced" by our exports overseas. In other words, American exporters face higher tariffs abroad than nearly all of our trade competitors.

Benefits of Imports

The other side of the trade coin is also important. Imports mean lower prices for American families: Access to imports boosts the purchasing power of the average American household by about $10,000 annually.[8] Companies' imports of intermediate goods, raw materials, and capital goods account for more than 60 percent of all U.S. goods imports – lowering costs for manufacturers and other businesses and helping them maintain their competitive edge. One recent study found that low-import tariffs have stimulated U.S. productivity through greater competition in the marketplace and have brought greater product choices to U.S. producers and consumers.[9]

The True Track Record of U.S. Trade Agreements

In assessing the potential of the TPP, it is worth considering the record of America's past trade agreements. Their results are most obvious in the robust trade we enjoy with the 20 countries with which we have entered into these agreements. While these countries represent just 6 percent of the world's population outside the United States, in recent years they have purchased nearly half of all U.S. exports, according to the U.S. Department of Commerce.[10]

Eliminating tariffs and other trade barriers enables trade to expand. U.S. exports to new FTA partner countries have grown roughly three times as rapidly (on average) in the five-year period following an agreement's entry-into-force as the global rate of growth for U.S. exports. For example, U.S. exports to Chile and Morocco quadrupled in the five years after their FTAs entered into force. This boost to U.S. export growth is especially pronounced with more recent FTAs, which are front-loaded to eliminate tariffs rapidly, open services markets, and eliminate nontariff barriers more comprehensively than earlier FTAs.

While the trade deficit is often cited by trade skeptics as a principal reason why the United States should not negotiate additional FTAs, the facts paint a different picture. Taken as a group, the United States ran a *trade surplus* with its FTA partner countries in 2012 through 2015. In fact, the United States has recorded a trade surplus in manufactured goods with its FTA partner countries for each of the past five years, according to the U.S. Department of Commerce.

Conclusion

The principal rationale for trade agreements is to generate economic growth, and thus jobs, through the elimination of trade barriers. Trade agreements seek to eliminate barriers and correct commercial impediments in a way that is fundamentally fair. Tapping the Asian-Pacific potential through trade is an economic no-brainer.

---

[1] Jeffrey Hall and Chris Rasmussen, *Jobs Supported by State Exports 2014*, International Trade Administration, U.S. Department of Commerce (April 9, 2015): http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005411.pdf, viewed on December 21, 2015.

[2] "Fast Facts About Agriculture," American Farm Bureau Federation: http://www.fb.org/newsroom/fastfacts/, viewed on December 21, 2015.

[3] Laura M. Baughman and Joseph F. François, *Trade and American Jobs: The Impact of Trade on U.S. and State-Level Employment Update*, The Trade Partnership (2014): http://tradepartnership.com/reports/trade-and-american-jobs-the-impact-of-trade-on-u-s-and-state-level-employment-update-2014/, viewed on December 21, 2015.

[4] Matthew J. Slaughter, *How America is Made for Trade*, HSBC Bank USA, N.A. (October 2014): https://globalconnections.hsbc.com/us/en/articles/comprehensive-trade-agenda-could-create-10-million-us-jobs-new-report-finds, viewed on December 21, 2015.

[5] Selig, Stefan. "Why Trade Matters," *The Hill* (March 23, 2016)

[6] "More than 304,000 U.S. Companies Exported in 2013," International Trade Administration, U.S. Department of Commerce (April 2015): http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005369.pdf, viewed on December 21, 2015.

[7] Margareta Drzeniek Hanouz, Thierry Geiger, and Sean Doherty, eds., *The Global Enabling Trade Report,* World Economic Forum (April 1, 2014): http://www.weforum.org/reports/global-enabling-trade-report-2014, viewed on December 21, 2015.

[8] Gary Clyde Hufbauer and Paul L.E. Grieco, "The Payoff from Globalization," *The Washington Post* (June 7, 2005): http://www.iie.com/publications/opeds/oped.cfm?ResearchID=524, viewed on December 21, 2015.

[9] Slaughter, *How America is Made for Trade*.

[10] "Fact Sheet: National Export Initiative," International Trade Administration, U.S. Department of Commerce (May 24, 2013): https://www.commerce.gov/news/fact-sheets/2013/05/fact-sheet-national-export-initiative, viewed on December 21, 2015.