THE DAILY CALLER

One cheer (at most) for our new free trade agreements

By Scott Lincicome   10/16/2011

The recent congressional passage of U.S. free trade agreements with South Korea, Panama and Colombia has elicited an outbreak of Beltway backslapping. Some congratulations are certainly warranted, but a closer look at just how these FTAs arrived on the president's desk reveals serious problems with not only the agreements themselves, but also the current state of U.S. trade policy.

Of course, implementation of these trade deals is laudable. Enhanced economic freedom is always cause for celebration. And these agreements will open important foreign markets to U.S. goods, services and investment and provide American families and business with improved access to high-quality imports. They'll also solidify bilateral relations with close allies in critical regions.

However, the FTAs' economic benefits should not be oversold. Over $10 billion in projected GDP gains is nothing to sneeze at, but given our $15 trillion economy, it won't be a panacea. Furthermore, the agreements' path to final implementation presents a laundry list of problems.

Most obviously, these Bush-era agreements should have been implemented years ago, and their politically motivated delay by congressional Democrats and the Obama administration has caused measurable damage. American consumers and exporters have wasted billions of dollars on domestic and foreign tariffs — $1.9 million per day in Colombian tariffs alone — that would have been eliminated had the FTAs been ratified before then-Speaker Pelosi put the kibosh on the Colombia FTA. Accordingly, U.S. exporters lost foreign market share to chief competitors that benefited from their own governments' market-opening agreements. For example, due in part to the Canada-Colombia FTA, U.S. corn, soybeans and wheat exports have dropped from 78 percent of the Colombian market to 28 percent today. Meanwhile, European automobile exports to Korea have exploded in the wake of the E.U.-Korea FTA. These agreements were each signed well after their U.S. counterparts, and the U.S. FTAs still won't enter into force for several more months.

Equally troubling, the Obama administration weakened the agreements to placate anti-trade groups and favored industries. After sitting on the deals for two years, the White House demanded that each be reopened and that the partner governments agree to additional terms and conditions. In the case of Korea, this meant textual renegotiation to preserve automobile tariffs — most notably the 25% U.S. tariff on Korean truck imports — much longer than originally agreed. The Colombians and Panamanians also were forced to accept new labor and tax conditions, respectively.

The products of these efforts were “less free” trade agreements and, just as disconcerting, the erosion of trust in America’s good word. The Obama administration’s insistence on renegotiating already-signed agreements eviscerated the letter and spirit of Trade Promotion Authority, which is intended to assure trade negotiating partners that any deal signed with the United States will not subsequently be altered when the political winds change. Future U.S. negotiating leverage is now weakened as a result.

Getting the agreements through Congress was to capitulate to extortion, which resulted in new taxes and government spending. First, to grease the palms of Big Labor, the Obama administration insisted that the House reauthorize a $1.1 billion expansion of the Trade Adjustment Assistance program as a precondition of sending the trade agreements to the Hill. Second, to offset lower tariff revenues, $6.7 billion in new “merchandise processing fees” on U.S. imports were inserted into the implementing legislation, essentially raising consumer taxes in order to pay for a reduction in consumer taxes (seriously). In addition to being irrational, this provision might violate WTO rules, which require customs fees to match the cost of services rendered, rather than to be used for revenue purposes.

The costs of FTA passage might be higher still. In order to appease Senate protectionists, Majority Leader Reid allowed a vote on legislation that would authorize new tariffs on imports from China and any other country found to have a “misaligned” currency. Should the bill become law, it would likely lead to higher domestic prices and Chinese retaliation against American exporters and investors. The Senate approved the bill right before it passed the FTAs.

Finally, the agreements were sold to the American public in a way that could actually undermine future free trade initiatives. Instead of touting the agreements’ expansion of economic freedom and elimination of protectionist earmarks, supporters in government and the business community too often emphasized their benefits in terms of exports and job growth. As we’ve learned from NAFTA, these claims can be expected to animate future anti-trade crusades should exports and job growth trail expectations.

The conclusion of these three trade agreements should have been a nice little victory for free trade advocates. But let’s face the facts: It took almost five years of lost market share and needless tariffs, politically motivated renegotiations, a protectionist currency bill, competitor FTAs in the E.U. and Canada, billions in dubious spending and taxes, and a massive, if not misguided, lobbying effort to get three valuable trade agreements signed into law.

Clearly it’s time for free traders to put away the bubbly and get back to work.