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Nicklaus: Delay in trade deals made little sense

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President Barack Obama welcomes South Korean President Lee Myung-bak during a state arrival ceremony on the South Lawn of the White House in Washington, Thursday, Oct., 13, 2011. (AP Photo/Pablo Martinez Monsivais.

South Korea, Colombia and Panama have been staunch U.S. allies, so it makes sense to reward them with free-trade agreements, as Congress agreed to do last week.

What doesn't make sense is the four-year delay in approving the three deals. While these pacts were stuck in the Capitol Hill in-basket, our trade partners signed agreements with other nations that put U.S. products at a disadvantage.

South Korea and the European Union, for instance, implemented a free trade agreement this summer. Until the U.S. deal takes effect sometime next year, Korean car buyers can import a Mercedes duty-free but will pay a 4 percent tariff on a Ford.

U.S. farmers used to sell a lot of wheat in Colombia, but trade agreements gave Canadian and Argentinian farmers a substantial edge. Colombia's agricultural tariffs average 20 percent.

"If you're a competitor in a commodity that's traded worldwide, a 20 percent price disadvantage is impossible to overcome," says Dan Griswold, director of trade policy studies at the Cato Institute. "Our market share in Colombia has dropped sharply over the last three or four years."

It didn't have to be that way. In fact, it was the U.S. success in negotiating better access to the Korean market that spurred the EU to seek its own deal. "We should have been first, but we basically sat on our hands and let other countries leapfrog us," says Jeffrey Schott, a senior fellow at the Peterson Institute for International Economics.

Politics, unfortunately, got in the way. The Democratic leaders who took control of the House in 2007 vowed to block the trade agreements, and they succeeded. Only after the Republicans recaptured the House, and President Barack Obama negotiated a few changes to the agreements, did the in-basket get unclogged.

The U.S. International Trade Commission estimates that the three agreements will add between $12 billion and $14 billion a year to U.S. exports, and a similar amount to gross domestic product.

That's only 0.1 percent of GDP, so it won't make much of a dent in the unemployment rate. It will, however, provide a bit of positive momentum in an economy that's been stuck in neutral.

Opponents of freer trade argue that the export gains will be illusory, or will be overwhelmed by a flood of imports. That defies logic, however. The Koreans have higher barriers against American products than we have against theirs, and most Colombian products already enjoy duty-free access to the U.S.

The Central American Free Trade Agreement, which Congress passed in 2005, shows that the gains from such pacts are real.

The U.S. ran a $5 billion manufacturing trade deficit with the CAFTA nations in the five years before the agreement, and a $13 billion surplus in the five years after.

Exports aren't the only measure of an agreement's success. When U.S. firms invest in an overseas plant or sales office, they need to know whether a country will remain a reliable partner.

"These agreements impose discipline and the rule of law," Schott said. "You get better policy predictability, and therefore firms can better plan their trade and investment decisions. You remove uncertainty."

Next up on the trade agenda could be a Trans Pacific Partnership with eight Asian and Pacific nations. Negotiations are going well, Schott says, but probably won't be completed until after next year's U.S. elections.

By then, let's hope Congress can move faster on important trade legislation. We only hurt ourselves when it stays in the in-basket too long.