

The Fruits of Free Trade



Almost any American supermarket doubles as an international food bazaar. Alongside potatoes from Idaho and beef from Texas, stores display melons from Mexico, olive oil from Italy, coffee from Colombia, cinnamon from Sri Lanka, wine and cheese from France, and bananas from Costa Rica.

The grocery store isn't the only place Americans indulge their taste for foreign-made products. We buy cameras and cars from Japan, shirts from Bangladesh, videocassette recorders from South Korea, paper products from Canada and fresh flowers from Ecuador. We get oil from Kuwait, steel from China, computer programs from India and semiconductors from Taiwan. In 2001, U.S. imports of goods and services totaled \$1.6 trillion.

Most Americans are well aware of our penchant for importing, but they may not realize the United States ranks as the world's greatest exporter, selling \$1.3 trillion a year to the rest of the world. U.S. companies sell personal computers, bulldozers, financial services, movies and thousands of other products to just about all parts of the globe.

International trade and investment are facts of everyday life. Over the past three decades, the sum of U.S. imports and exports increased from 11 percent of GDP to about 30 percent. International financial transactions have grown

A Global Fruit Basket

On a trip to the grocery store, consumers can find goods from all over the globe.

Apples	New Zealand
Apricots	China
Bananas	Ecuador
Blackberries	Canada
Blueberries	Chile
Coconuts	Philippines
Grapefruit	Bahamas
Grapes	Peru
Kiwifruit	Italy
Lemons	Argentina
Limes	El Salvador
Oranges	Australia
Pears	South Korea
Pineapples	Costa Rica
Plums	Guatemala
Raspberries	Mexico
Strawberries	Poland
Tangerines	South Africa
Watermelons	Honduras



rapidly, too. Incoming and outgoing investments rose from less than 1 percent of total output to more than 3 percent. (See Exhibit 1.)

The United States isn't alone. The rest of the world has seen a similar surge in cross-border business. As foreign trade and investment touch communities from Orléans, France, to New Orleans, Louisiana, they've become lightning-rod issues. One of the great debates of the early 21st century centers on globalization, a shorthand term for the intermingling of the world's economies in an era of jet travel, instant communications, mass migration and falling trade barriers.

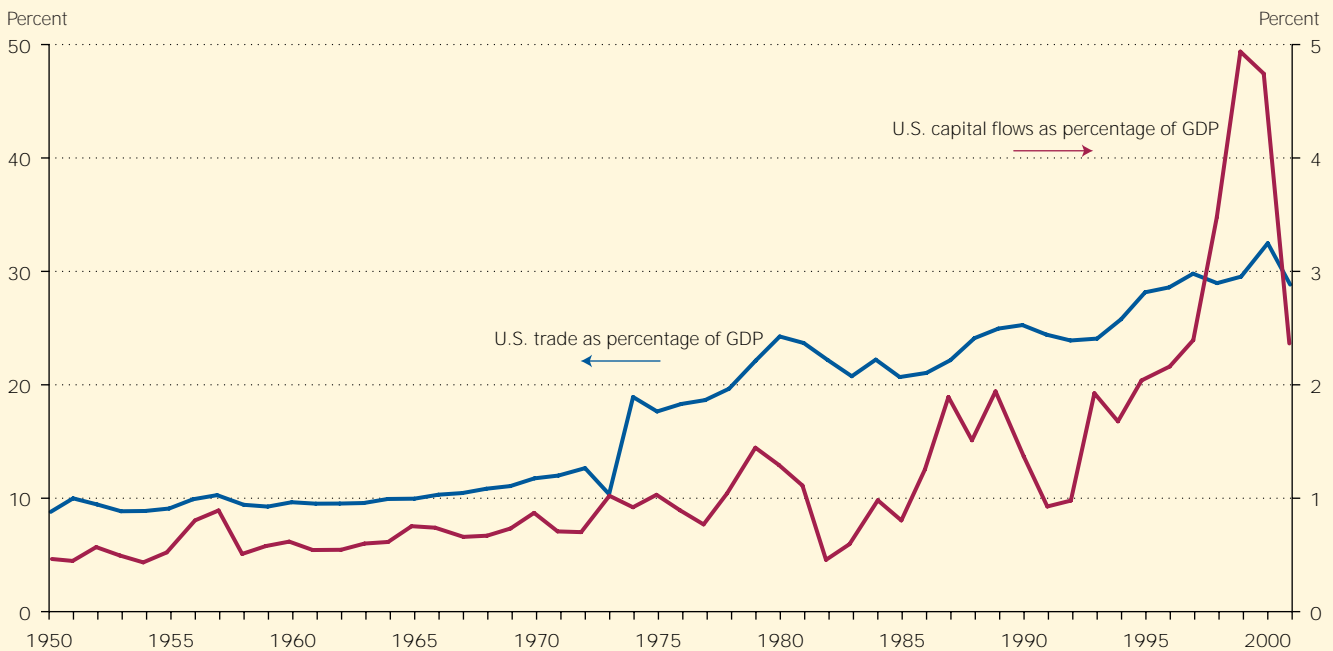
Globalization's critics attack open markets as a pernicious force that destroys local industries, breeds poverty and dilutes cultures. Protesters attack the open trading system Western nations have forged since the end of World War II. Their favorite targets are often American multinationals, such as McDonald's.

EXHIBIT 1. A Trading Nation

Over the past three decades, U.S. trade in goods and services (exports plus imports) increased from 11 percent to roughly 30 percent of GDP, and capital flows more than tripled. The economy's increased openness helped create 50 million new jobs, and per capita disposable income nearly doubled. Free trade helps the economy grow.



U.S. Trade and Capital Flows



Even as they snap up food, cars and electronic goods from overseas, some Americans fear that foreign competition is destroying jobs for factory workers, fishermen and others. They worry, too, that the nation is becoming dependent on overseas suppliers of oil, computer chips and other inputs.

Attacks on free trade don't make economic sense. In fact, the critics often get it backwards.

We hear that trade makes us poorer. It's just not so. Trade is the great generator of economic well-being. It enriches nations because it allows companies and workers to specialize in doing what they do best. Competition forces them to become more productive. In the end, consumers reap the bounty of cheaper and better goods and services.

We hear that trade costs jobs and depresses wages. Again, it's just not so. By spurring economic activity and reducing costs, trade helps create jobs. By enhancing productivity, it keeps U.S. companies vibrant, leading to fatter paychecks and added benefits. Workers protected by trade barriers might keep their jobs a while longer, but the costs in inefficiency and higher prices make it economic folly. Whenever we erect barriers to trade, we negate the gains from free exchange and competition. Trade protection degenerates into a negative-sum game in which special interests jostle for advantage at the expense of the common good.

We hear that exports are good because they support U.S. industry but imports are bad because they steal business from domestic producers. Actually, imports are the real fruits of trade because the end goal of economic activity is consumption. Exports represent resources we don't consume at home. They are how we pay for what we buy abroad, and we're better off when we pay as little as possible. Mercantilism, with its mania for exporting, lost favor for good reason.

We hear that free trade isn't fair trade. Cheap imports can hurt higher-cost U.S. suppliers, but consumers certainly will gain. Why penalize them with tit-for-tat retaliation that only raises prices in the United States? Other countries' trade transgressions don't warrant missteps of our own. A nation will consume more whenever it opens its markets, even if other nations don't reciprocate.

We hear that trade makes us dependent on foreign suppliers, but America doesn't have the climate and resources to make everything it needs. Other nations can produce many goods and services at lower cost. The price of independence is too steep.

Americans can't afford to buy into these trade fallacies. As a society, we often have to choose between protecting domestic industries and opening markets. In a weakened economy, steelmakers, catfish farmers and other producers are lining up to declare war on imports, creating a potential hit on Americans' wallets. At the same time, U.S. negotiators are seeking to expand the world trading system with new free trade agreements.

We need to understand what's at stake. Being wrongheaded on trade increases the risk of making bad choices that will sap our economy and sour our relations with other nations. Getting it right will promote prosperity and peace.

