Obama vs. Romney on Trade

Elections 2012 Where Do the Candidates Stand?

Small Business & Entrepreneurship Council

October 2012

International trade is more important to the wellbeing of the U.S. economy than ever before in our history. While trade always has been critical to expanding economic opportunity and growth, the free-trade imperative in a global economy where capital and labor are more mobile than ever, and technology has vastly expanded opportunities for cross-border business, should be clear to all. In order to spur economic growth, trade barriers, such as tariffs, quotas, and assorted regulatory barriers, must be reduced and eventually eliminated, along with all other forms of protectionism, including the manipulation of currencies in futile attempts to gain trade advantages.

Trade and the U.S. Economy

Consider the following facts on trade and the U.S. economy:

• In 1960, U.S. exports equaled 5.1 percent of GDP. In 2011, exports grew to 13.8 percent of GDP.

• In 1960, U.S. total trade (exports plus imports) came in at 9.5 percent of GDP. As of 2011, total trade equaled 31.5 percent of GDP.

• From 1990 to 2011, the growth in real U.S. exports equaled 22.3 percent of real GDP growth, while growth in real total trade came in at 50.9 percent of real GDP growth.

• And from 2000 to 2011, real U.S. export growth accounted for 28.1 percent of real GDP growth, and the expansion in real total trade equaled 54.3 percent of real overall growth.

That's a breathtaking expansion of trade as a share of our economy and as a share of our economic growth.

Trade and Small Business

Make no mistake, trade matters to small businesses.

Most U.S. exporters are small to mid-size businesses: The International Trade Administration (ITA) has reported: "Small and medium-sized enterprises (companies with fewer than 500 workers) would be among the major beneficiaries of U.S. initiatives to reduce foreign barriers to U.S. exports. A total of 286,661 SMEs exported from the United States in 2010, accounting for 97.8 percent of all U.S. exporters. SMEs also accounted for 97.2 percent of identified importers in 2010, with 176,635 SME companies reporting imports."

The value of exports is vast: As for the value of exports and imports, the ITA noted: "The known export revenue of SMEs rose to $383.4 billion in 2010, up 24.1 percent from 2009. SMEs were responsible for 33.7 percent of goods exports in 2010. On the import side, SMEs imported $531.3 billion in goods in 2010, which was a 23.2 percent increase from 2009. SME imports accounted for 31.6 percent of goods exports in 2010."

In addition: "Of those companies that engaged in trade, 80,640 both exported and imported merchandise in 2010. Of these, 76,335 were SMEs, accounting for 94.7 percent of companies that both export and import."

So, with expanding trade critical to U.S. small businesses, their employees, and the economy in general, where are the two major party presidential candidates on trade issues?

Where the Candidates Stand

• Trade Promotion Authority

Trade promotion authority allows a president to negotiate trade agreements with other nations, with Congress either voting thumbs up or thumbs down on the deal, without the addition of, for example, special-interest amendments that would undermine the entire effort. TPA was in effect from 1975 to 1994, and again from 2002 to the middle of 2007.

President Barack Obama has not asked for TPA to be renewed during his first term, but various news reports say that administration officials will ask for TPA at some point in the future.

Governor Mitt Romney favors the immediate renewal of trade promotion authority.

• Trans-Pacific Partnership (TPP)

The TPP initiative began under the administration of President George W. Bush. It is a proposed regional free trade accord that would include the United States, Australia, New Zealand, Vietnam, Malaysia, Singapore, Chile, Peru, Brunei, Canada and Mexico.

Both candidates – President Obama and Governor Romney – favor completing negotiations for the TPP. The Obama administration has pushed forward on TPP, and has played a role in expanding the number of nation's involved in the talks. Governor Romney would use TPA to accelerate and complete the TPP pact.

• New Trade Agreements

In this fast-moving global economy, it is critical that the U.S. take a leadership role in reducing barriers to trade. After all, if we are not actively doing so, other nations most certainly are.

President Barack Obama has not been aggressive in pursuing free trade agreements during his first term in office. He did sign three trade accords – with South Korea, Panama, and Colombia – in October 2011, but those deals were originally negotiated during the administration of George W. Bush. Meanwhile, other than the Trans-Pacific Partnership, the Obama campaign has been relatively silent on free trade matters. The administration has explored free trade talks with the European Union nations. His campaign website declares that Obama "is working to double American exports over the next five years by promoting U.S. goods and removing trade barriers…" But specifics are lacking with regard to an aggressive plan to move forward with initiatives that will open new markets to U.S. goods and services. The administration's National Export Initiative has focused its work on maintaining traditional government outreach to the business community, assisting businesses through trade missions, technical training and tools, as well as on-the-ground support through U.S. Commercial Services.

Governor Mitt Romney, in his economic plan, points to the need for negotiating additional new trade agreements. Highlighted in the plan are possible accords with Brazil, India, the European Union, and a broad "Reagan Economic Zone" open to "like-minded nations genuinely committed to the principles of open markets." Neither candidate has talked much about WTO talks and concluding the Doha round.

• Intellectual Property Protections

Free trade must include treaties and other joint efforts meant to improve intellectual property rights, protections and enforcement internationally. Not only will such improvements in other nations benefit U.S. businesses and workers competing in the international marketplace by protecting IP and further spurring innovation and investment, but it also will improve economic growth in those nations. Without intellectual property protection, economic development is severely constrained.

Both candidates – President Obama and Governor Romney – have made clear through assorted means their intentions to work to protect U.S. intellectual property in the international arena. Governor Romney would embed such protections in trade agreements. President Obama has increased educational and enforcement efforts on IP, and the White House and U.S. Commerce Department released a new government report quantifying the value of IP-intensive industries to U.S. economic growth and its competitiveness.

• China

China presents huge opportunities and challenges on the trade front for U.S. entrepreneurs, businesses and workers. The U.S. International Trade Administration has pointed out that small and medium-sized enterprises (SMEs) with fewer than 500 employees "are known to have exported goods to China worth $30.4 billion in 2010 (i.e. exports to China that can be linked to individual companies using information on U.S. export declarations). China was the third largest market for U.S. merchandise exports from SMEs and these businesses are responsible for a significant share of U.S. exports to China. In 2010, SMEs generated 35.3 percent - over one-third - of all known U.S. merchandise exports to China. This is higher than the SME share of overall U.S. merchandise exports of 33.7 percent." A key challenge is the protection of intellectual property, or more specifically, the lack thereof, in China.

Unfortunately, other criticisms of China have been ginned up via the political world, specifically, claiming that China manipulates its currency for trade advantage. In reality, U.S. politicians criticizing and threatening retaliation against China's currency policies amount to nothing more than protectionist cries. In essence, these politicians prefer China to manipulate its currency in a manner they deem more beneficial to the U.S. In reality, the trade deficit with China that drives this political agenda is a natural occurrence given the position each nation is in in terms of income levels, investment opportunities, and so on.

As noted above, both candidates – President Obama and Governor Romney – have made clear through assorted means their intentions to work to protect U.S. intellectual property in the international arena. However, both candidates also have threatened to retaliate against China's currency policies. Such retaliation comes with great risk. The last thing that the economy needs is a war of protectionism between the world's two largest economies.

Raymond Keating
Chief Economist
Small Business & Entrepreneurship Council

SBE COUNCIL
Small Business & Entrepreneurship Council

301 Maple Avenue West · Suite 690 · Vienna, VA 22180 · 703-242-5840 • www.sbecouncil.org

Protecting Small Business, Promoting Entrepreneurship