

**MEMORANDUM**

**To:** Jackson Cox, Chairman of APCAC  
**Subject:** Election 2016 and Free Trade  
**Date:** April 5, 2016

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As part of BGR's ongoing commitment to providing APCAC and its Member AmChams with relevant and timely information, please find the below memorandum assessing the ongoing debate surrounding free trade in the United States. The memorandum provides a contextual background on free trade in the United States and explores the issue within the framework of the 2016 elections. The underlying goal is to provide a clear synthesis of the various positions and perspectives driving the debate, and to establish a foundation heading into the 2016 Doorknock. As always, please do not hesitate to reach out should you need additional information or have any questions.

## **I. Overview**

Since 2000, the United States has entered into major trade agreements with nearly 20 countries spread out across Central and South America, Asia, and the Middle East. This dramatic shift towards trade expansion can be explained both on economic and foreign policy grounds. On the economic front, trade liberalization has opened new markets and allowed American exporters to sell more U.S. goods abroad than ever before. In turn, increased imports into the U.S. have raised the overall standard of living for consumers, who are afforded more choices at lower prices. From a foreign policy perspective, bilateral and/or multilateral trade agreements have and continue to be used by U.S. policymakers as a "soft" form of diplomacy to export American standards and values abroad to countries not sharing as stringent regulatory requirements protecting consumers, workers and the environment.

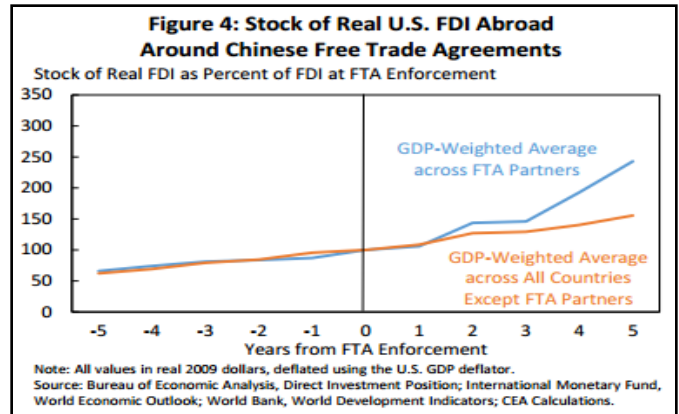
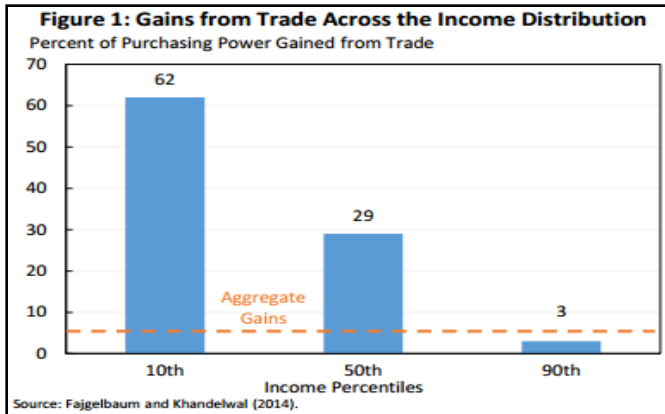
Despite nearly 40 years of commitment to trade liberalization, free trade has emerged as a contentious topic of debate on both sides of the political spectrum this election cycle. Much of the focus on trade can be attributed to voter unease over the state of the U.S. economy combined with presidential election year politics. More specifically, polling shows that Americans are deeply concerned about the direction of the country and the pace of economic recovery. These sentiments are buttressed by data illustrating that many rank-and-file Americans are still struggling to recover from the 2008 recession, while Wall Street and corporate America are recording near record profits. Presidential contenders and down ballot House and Senate candidates on both sides of the aisle have tapped into corresponding voter anxieties and modeled their campaign messages accordingly in bids to secure their party's respective nomination. This has, among other outcomes, lead to the politicization of free trade and thrust the issue to the forefront of the debate.

## **II. The United States, Free Trade, and Election 2016**

### **A. Free Trade and the Economy**

Before assessing the impact of free trade on the U.S. economy, it is worth looking at the broader economic picture over the past decade. While a variety of job-market gauges show the economy improving, the middle class has largely not benefited from the country's economic recovery. From World War II through the 1970s, virtually all working Americans saw paychecks and incomes rise; however, those gains have become uneven since the 1980s and virtually stopped for some families over the course of the past 15 years. Americans at the middle of the income ladder now earn less, adjusted for inflation, than they did in 2000. [According to the U.S. Census Bureau](#), 47.7 million Americans – or 14.8 percent of the population – were living in poverty last year,

about the same as the previous year. Median income last year – \$53,700 per household – was also statistically unchanged from 2013. Meanwhile, real income is still lower than it was before the most recent recession, or even the 2001 economic downturn, with low-and middle-income households suffering the most. While high-income earners are taking in 2.8 percent more than they did in 1999, the poorest tenth of Americans saw their incomes drop by 16.5 percent, after inflation, during that period. These numbers stand in stark contrast to those in corporate America. From 1999 through 2014, U.S. annual corporate profits after taxes rose about 250 percent to nearly \$1.7 trillion.

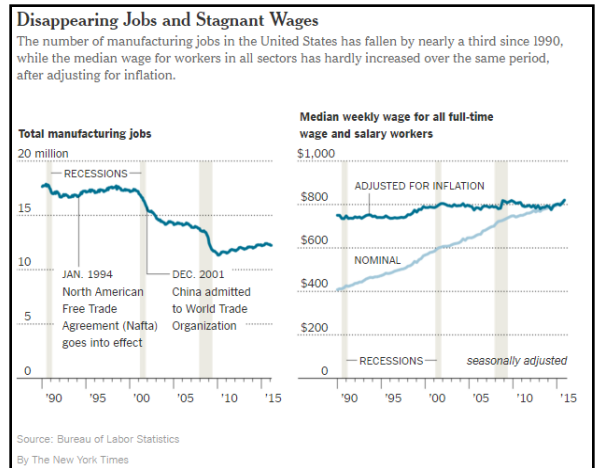


Against this macroeconomic backdrop, it is appropriate to assess the impact of free trade on the U.S. economy from both a business and individual consumer perspective. Broadly speaking, most economists agree that free trade provides a net overall benefit to the U.S. economy. Under the current free trade regime, the United States is the world’s second largest manufacturer, with 17.2 percent of global output, and the third largest exporter. According to the Commerce Department, U.S. exports supported 7.1 million jobs in 2013. Overall goods and services exports combined, totaling \$2.3 trillion, supported more than 11.3 million. Further, the U.S. is the top destination for foreign direct investment with \$384 billion in inbound investment in 2015 alone. That figure is more than double second-place Hong Kong and almost triple third-place China. For consumers, free trade provides a net overall benefit by increasing the availability of more affordable goods. In *The Payoff to America from Global Integration*, economists with the Peterson Institute found that greater choice and access to affordable goods generated via global trade liberalization generated between \$2,800 and \$5,000 in additional income for the average American and between \$7,100 and \$12,900 for the average household. An [additional study](#) concluded that these economic benefits are disproportionately concentrated among low and middle income earners because these groups tend to focus the majority of their spending in more trade-dependent sectors, such as food and clothing.

The issue with trade liberalization, however, is that the net benefits for the U.S. are not evenly distributed throughout the whole of the United States. In some regions of the country reliant on traditional industries like steel, automobile and textile production, free trade has had a detrimental impact. This has, among other economic outcomes, resulted in the realignment of industries and corresponding production and jobs cuts. Though the U.S. trade deficit, which was \$62.9 billion dollars at the end of February, is often cited as the outward culprit driving these disproportionate economic impacts throughout the country, many economists [argue](#) that a trade balance should not be viewed as a simple scorecard determining trade’s winners and losers. Rather, the underlying factors are much more nuanced and region/industry specific. Take, for example, research assessing the normalization of trade relations with China. In a paper for the National Bureau of Economic Research, economists David Autor, David Dorn and Gordon Hanson [concluded](#) that the parts of the country dependent on industries most exposed to significant import penetration from China - like Tennessee and its furniture manufacturing sector - have been hit the hardest. The paper went on to conclude that local labor-market adjustment to trade is “stunningly slow,” with labor-force participation remaining depressed and unemployment elevated for a decade or more after the initial import shock. This helps explain, at least in part,

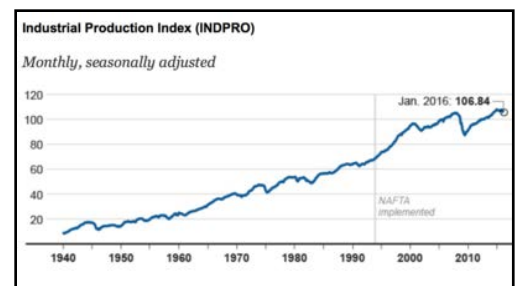
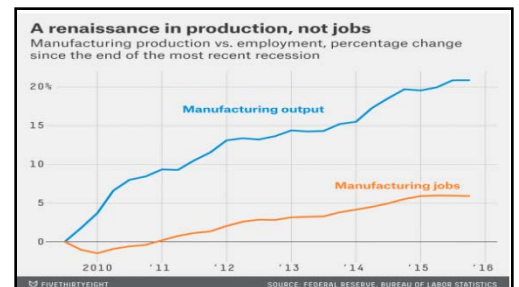
why trade is such a polarizing issue in different parts of the country. It also highlights how other ancillary factors to trade, like workforce development, are also contributing to the evolving economic environment.

Looking at recent trade agreements like the North American Free Trade Agreement (NAFTA) and the U.S.-Korea Free Trade Agreement (KORUS), the unbalanced impact of free trade is evident. Since NAFTA entered into force in 1994, the U.S. has lost more than 4.5 million manufacturing jobs. Critics argue that KORUS has continued this trend citing data showing that the country has lost some 75,000 jobs since the agreement entered into force, due in large part to the ballooning trade deficit (\$13 billion) with Korea. Senate Finance Committee Chairman Orrin Hatch (R-UT) recently took up this matter [sending a letter](#) to the Korean ambassador raising concerns regarding Korea's implementation of and compliance with KORUS. "Implementation of and compliance with the agreement has fallen short in several areas, resulting in limited benefits to U.S. firms seeking to benefit from the agreement and to expand their economic partnerships," the letter stated. The Senate Finance Committee also [held a corresponding hearing](#) assessing implementation issues with past trade agreements and the need for more executive branch oversight in the implementation of future trade agreements (i.e. TPP).



The Rust Belt has been particularly hit hard with the loss of manufacturing jobs. In Wisconsin alone, the state has shed about 30,000 manufacturing jobs over the past 30 years. In Michigan, annual median household income continues to drop as high paying manufacturing jobs leave the state for cheaper locales like Mexico. Since 1994, the inflation-adjusted annual median household income fell by about \$14,000 a year – down to about \$52,000. Other parts of the country have been as equally impacted by trade liberalization, including Ohio and Pennsylvania, once capitals of the steel industry. It is worth noting, however, that despite the slow deterioration of the U.S. steel industry, [Census Bureau data shows](#) that in the formerly steel-reliant Pittsburgh area, per-capita incomes roughly doubled from the beginning of steel's downturn in 1978 to 2014. In inflation-adjusted constant dollars, average personal income rose from \$23,239 in 1978 to \$45,231 in 2014. This is due in large part to the city's [development of and shift towards other industries](#). Maine and North Carolina have witnessed the slow disappearance of the textile industry that once fueled their economies. Between 1993 and 2007, U.S. textile and apparel employment decreased from 1,662,000 to less than 750,000.

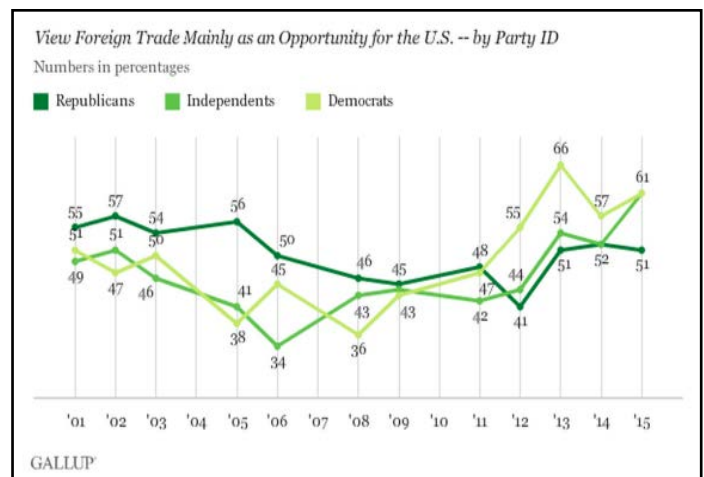
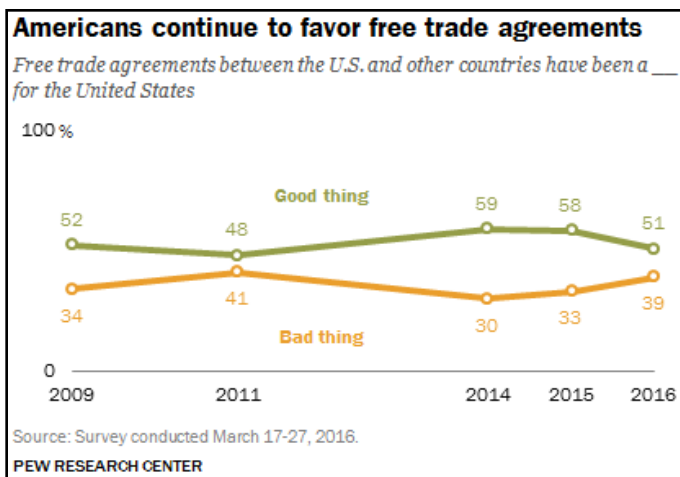
[Other economists and scholars disagree](#) with the proposition that free trade alone is responsible for the demolition of the American manufacturing industry, and with it, middle class jobs and wages. While they acknowledge that overall employment in the manufacturing sector is shrinking, these economists maintain that the real culprit is not free trade in and of itself but rather productivity growth driven by technological advancements and automation. While U.S. employment in manufacturing has been on a steady decline since 1979, long before the passage of free trade agreements like NAFTA and KORUS, overall industrial production in the U.S. has steadily risen. Further, since the recession ended in 2009, manufacturing output has risen by more than 20 percent because of a combination of “reshoring” and increased domestic demand. However, overall manufacturing employment is up just 5 percent. This all goes to say, according to economists on the other end of the thought spectrum, that the real culprit for the decline of U.S. manufacturing is not the expansion of



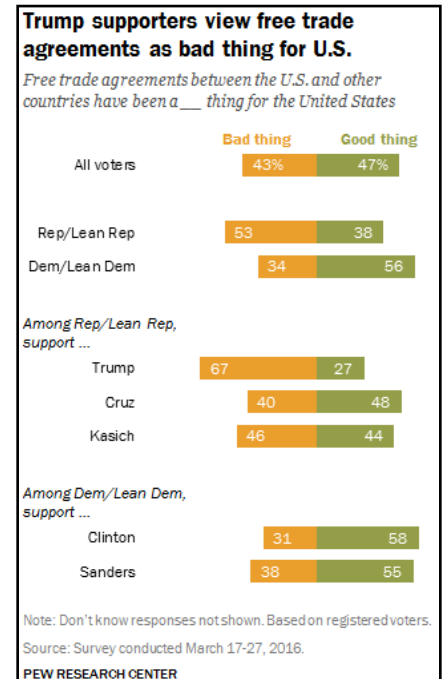
free trade but rather technological advancements and other efficiencies developed and achieved in the sector.

## B. Politicalization of Free Trade

Overall, Americans are deeply conflicted about globalization and free trade. This is largely a reflection of trade's uneven impact across the economy and the country; a fact highlighted most recently by [Carrier's announcement](#) that it was relocating some 1,400 jobs from Indianapolis, IN to Mexico. In a recent [Gallup poll](#), a majority of Americans surveyed (58 percent) saw foreign trade as an economic opportunity with just 33 percent seeing it as an economic threat. Interestingly, the share of respondents who are optimistic about trade has increased since the financial crisis, according to the poll. The Gallup poll contrasts with a [Bloomberg poll](#), which suggests a deep skepticism of international foreign exchange. For example, nearly two-thirds of respondents said that there should be more restrictions on imported goods, and 82 percent said they would be willing to pay "a little more" for domestically produced goods. Taken together, these results show that Americans hold largely contradicting views of free trade. This unique political environment, in turn, has allowed politicians at all levels of government to play both sides of the trade debate, as dictated by regional and/or state-specific circumstances.



Against this polling backdrop, outsider presidential candidates in the likes of Donald Trump and Bernie Sanders have turned the political world upside down behind a wave of populist support from voters angry with Washington and the slow pace of economic recovery. With the Democratic and Republican nominating contests moving into the country's industrial heartland, both candidates have been successful in capturing public sentiment by criticizing globalization and free trade, which they contend hurt average American workers by depressing wages and off-shoring jobs. Their positions on trade stand in stark contrast to those of Ohio Governor John Kasich, a Republican candidate, who is widely considered the only contender on both sides of the aisle to [fully embrace free trade](#) throughout the primaries. Trump and Sanders' message on trade has helped propel them to victories across states where once powerful industries have given way in the face of trade liberalization and a host of other economic factors. In Michigan, for example, Sanders pulled a surprise upset against Hillary Clinton with a tough message on trade that sold well in a state where large swaths of the auto-dependent economy never recovered from the Great Recession. Michigan Republicans gave Trump an easy win as well. In an exit poll, [55% of Republicans](#) agreed that trade kills U.S. jobs. Among Democrats, [57% thought the same](#).



While the trade issue continues to play an important role in the presidential nominating contest, it could also have a material impact on the general election as well. As the race stands now, most pundits believe that the GOP frontrunner, Donald Trump, would be an underdog against Hillary Clinton, the presumptive Democratic nominee. Current [polling](#) shows the former Secretary of State ahead by double digits in a hypothetical head-to-head matchup. However, Trump's unorthodox positions on a range of issues, including trade, has the potential to shakeup the electoral map, a point Trump continuously makes on the campaign trail. More specifically, the idea is that Trump's economic agenda, of which opposition to current U.S. trade policy is a key plank, will allow his campaign to build a similar coalition akin to that assembled by Reagan during his presidency (i.e. Reagan Democrats) and compete in a broader range of states.

While Trump must hold all of the states Romney carried in 2012 in addition to Florida, his campaign will have to be competitive elsewhere to cross the 270 Electoral College vote threshold to win the presidency. This brings us to the Rust Belt, where Trump has already performed well among the high concentrations of white, working class voters prevalent in the region. The region is relatively uncharted terrain for Republicans in a presidential election year given that the majority of these states have gone with the Democratic nominee for the past six elections. Further, to carry any of the states in the region, like Ohio (18 electoral college votes), Wisconsin (10), Michigan (16) and Pennsylvania (20), Trump will have to improve on the GOP's 2012 margin with working-class whites. In Michigan, Trump would need to improve this margin by 18 points, Wisconsin 12 points, Pennsylvania 13 points, and 6 points in Ohio.

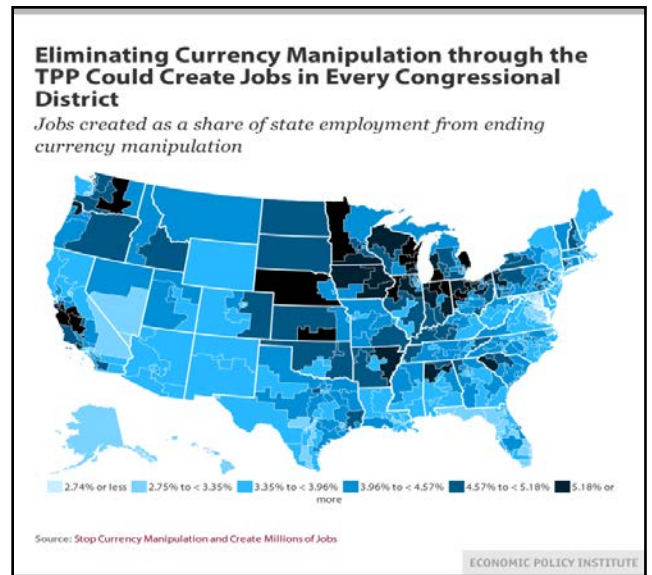
### **C. The Trans-Pacific Partnership**

In 2015, opposition to free trade reached its apex in Congress with the fight over Trade Promotion Authority (TPA) legislation and reauthorization of the Export-Import Bank (Ex-Im Bank). Though the intersection of these issues had more to do with timing than anything else, the debate surrounding them highlighted the fault lines in both parties with respect to international business and trade. For TPA, the legislation passed with strong support from the majority of Republicans combined with the backing of the New Democrat Coalition, a group of centrist, pro-trade Democrats led by Rep. Ron Kind (D-WI). The opposition to TPA was an unlikely alliance between more liberal Democrats, opposed on labor and environmental grounds, and subsets of conservative Republicans, who distrusted President Obama and who were unwilling to cede the White House more executive authority. On Ex-Im, the script flipped to an extent with most Democrats joining a sizable portion of establishment Republicans in reauthorizing the bank's charter. Unlike with TPA, much of the support among Democrats was [driven in part by big labor](#) that saw the bank as a vital lifeline for U.S.-based manufacturers and workers in allowing both to compete fairly with global competitors. Tea Party oriented Republicans continued in opposition on the grounds the bank epitomized "crony capitalism" and distorted free market economics.

Since TPA and Ex-Im's passage, the opposition to free trade has grown and crystallized around ratification of the Trans-Pacific Partnership (TPP). Democrat opposition continues to be robust and centered primarily on economic and labor concerns. Specifically, liberal opponents of TPP [argue](#) that the pact places corporate interests over those of workers both in America and in poorer trading partners. They also argue that labor and environmental standards are not enforced in other countries, so the U.S. is effectively rewarding trading partners that continue abusive practices. Among Republicans, the opposition tends to be more nuanced and focused on specific provisions of the agreement and their respective impact on American businesses. By way of example, Senate Majority Leader Mitch McConnell (R-KY) opposes the agreement's exclusion of tobacco products from the investor-state dispute settlement mechanism; Senate Finance Committee Chairman Orrin Hatch (R-UT) wants stronger language on market exclusivity for biologics; and House Ways and Means Trade Subcommittee Chairman Dave Reichert (R-WA) opposes the rules that prohibit countries from preventing the free flow of data or forcing local storage of data because they fail to cover financial data.

Within the larger debate over TPP, supporters and opponents of the agreement have been producing conflicting estimates of TPP's impact on the U.S. economy. Opponents of the pact [argue](#) that TPP is simply another extension of a long line of free trade agreements that will lead to the further demolition of U.S. industry and the off-shoring of domestic jobs. By way of example, one specific area they point to is the pact's "rules of origin" provisions, which govern how much of a good can be produced outside a member country while still qualifying as originating from inside a member country, have been widely criticized by labor unions in the automotive industry. Under NAFTA, 62.5 percent of a car had to be made in one of the three member countries to be traded tariff-free. In TPP, that number was reduced to 45 percent, and an appendix states that other car part components would be automatically considered as coming from a TPP country regardless of its origin, lowering the number in many cases to 35 percent. So a car could be labeled "Made in America," even if a majority of its parts, including the steel, originates from China.

The issue of currency imbalances between the United States and its trading partners is another high profile issue that has drawn a lot of attention from TPP detractors, including Donald Trump on the campaign trail. Those focused on the issue argue that currency manipulation is one of the key driving forces behind the high and rapidly rising U.S. trade deficit with the 11 other members of the TPP. [According to some estimates](#), the U.S. deficit with TPP countries translated into 2 million U.S. jobs lost in 2015, more than half (1.1 million) of which were in manufacturing. Though Congress passed, and the President signed, legislation streamlining trade rules that aim to keep importers from avoiding U.S. antidumping and countervailing duties and provides more tools to identify and address currency manipulation, opponents argue that it does not go far enough in assuaging concerns about TPP. Specifically, the legislation stops short of sanctions on currency manipulation, but does allow the U.S. to bar countries from trade deals and government procurement contracts if they artificially devalue their currencies to gain a competitive advantage through cheaper exports.



Economists who have studied the TPP carefully argue that the perception that the agreement will lead to continued job losses and other detrimental economic impacts is misplaced. Take, for example, a recent [report](#) published by the Peterson Institute, arguably the foremost authority on TPP. The report concludes that between 2017 and 2026, when TPP would have its major impact, the costs to displaced workers would be 6 percent of the benefits to the economy — or an 18-to-1 benefit-to-cost ratio. Other economists argue that the stakes are simply too high for the U.S. to not ratify the TPP. David Autor, David Dorn and Gordon Hanson [outlined](#) this position last year arguing that although import competition helped produce a "momentous decline" in U.S. manufacturing, "We believe blocking the TPP on fears of globalization would be a mistake." They noted that the pact would promote trade in knowledge industries where the United States has a big advantage and that "killing the TPP would do little to bring factory work back to America." On the opposite end of the spectrum, several development economists [have argued](#) that free trade is one of the best tools the U.S. has for fighting extreme poverty and reversing course would negatively impact millions of people around the world.

On the campaign stump, the presidential contenders have been quick to capitalize on the controversy surrounding free trade and TPP. For Democrats, frontrunner Hillary Clinton has had to backtrack from her previous support of the agreement in a bid to stave off a continued challenge from Vermont Senator Bernie Sanders, who scored a major upset victory in Michigan behind strong support from voters concerned about the impact of trade on the economy. Clinton's evolving position also reflects support for her campaign among labor unions, which are opposed to the pact. For Republicans, frontrunner Trump, and to a lesser extent Ted Cruz, has

focused the majority of his criticism not on TPP specifically but rather how past trade deals have undercut the manufacturing sector, led to job cuts and depressed wages, and contributed to an overall trade imbalance with countries like China. Among other proposals, Trump has called for rolling back NAFTA and imposing a 35 percent tariff on goods made in Mexico by U.S. firms in addition to a 45 percent across-the-board tariff on manufactured imports from China. [Analysts have warned](#) against such measures arguing that they would not only lead to a [trade war](#) but also a sharp decrease in imports. This would in turn, the argument goes, amount to a tax on American companies and households equal to 1.5 percent of GDP – 1.3 percent from the 45 percent tariff on Chinese products and another 0.3 points from the 35 percent tariff on goods made in Mexico by American firms.

Disagreements over TPP's text reflect the political realities of passage of the agreement. Given the fact that anti-trade rhetoric is clearly resonating among voters, as evidenced by polling from the ongoing presidential primaries, GOP leadership in Congress is unwilling to push TPP ratification until at least the "lame duck" session following the elections on November 8<sup>th</sup>. The basis for this is that the incoming while the GOP has a firm hold on the House, their majority in the Senate is much more precarious. Republicans have 24 seats to defend - including seven in states that President Barack Obama won in 2012 - versus 10 for Democrats, who only have to pick up a net gain of five seats to clinch a Senate majority. The issue for the GOP is that several of the most vulnerable seats are in Illinois, Ohio and Pennsylvania, where trade is a hot button issue. In Ohio, for example, a majority of Republicans and Democrats believe trade costs jobs, according to exit polls from the March 15<sup>th</sup> presidential primary. Not surprisingly, trade has become a central issue in the ongoing Senate race with the candidates sparring over whether free trade has created higher paying jobs or devastated Ohio's manufacturing base. Ted Strickland, the Democratic nominee, has aggressively attacked incumbent Republican Rob Portman for his support of past trade pacts and vote on TPA legislation. For his part, Portman, who was U.S. Trade Representative under President George W. Bush, has said that he opposes TPP "in its current form."

Even if leadership agrees to bring TPP up for a vote following the elections, there is no guarantee that the support will be there even under a simple majority vote as provided for under TPA. Already House Speaker Paul Ryan has backtracked on his previous optimism that a deal could be reached and [acknowledged](#) that there are not enough votes in the House to push the agreement through. For pro-trade Democrats, big labor [has vowed](#) to oppose if not directly campaign against any member supporting TPP. For Republicans, Trump's continued march to the nomination will only serve to embolden detractors in the Republican Party and potentially win over new converts, which could further delay, if not block, TPP's ratification. In a troubling sign for TPP supporters, this trend has already started to unfold. Just recently, Rep. Tom Reed (R-NY) joined 19 other House members in a [letter](#) outlining their "firm opposition" to TPP. Reed, who is a Trump supporter, is a previous backer of free trade deals who also voted for TPA. Other known Trump supporters like Representatives Scott DesJarlais (R-TN), Lou Barletta (R-PA), and Tom Marino (R-PA) voted for TPA and the three most recent free trade agreements but have not publicly staked out a position on TPP.

In conclusion, between building controversy to various provisions in the agreement, to a shortened congressional calendar, to election year politics, it is clear that TPP will not be brought up for a vote before the November elections. Taking up the pact in the lame duck session of Congress is no guarantee either and will ultimately depend on the partisan balance in Congress and which party controls the White House. While Trump is considered a wild card in the trade debate, Clinton could shift back towards a more pro-trade stance after she clinches the nomination, which would smooth TPP's passage. After all, Clinton and Obama both criticized free trade agreements in the 2008 election, before backing them as president and secretary of state. The same logic also applies to Ted Cruz, should he emerge as the eventual GOP nominee. Though he continues to speak out against TPP on the campaign stump, Cruz previously backed TPA even co-authoring an [op-ed](#) in the Wall Street Journal in support of the legislation. This suggests Cruz' opposition, like Clinton's, is grounded in the political realities of the ongoing primary contests.

Looking ahead to the Doorknock in June, APCAC delegates will need to be ready to discuss the immediate need for TPP from both an economic and geopolitical perspective. Within this discussion, it will be imperative to provide specific examples of how free trade agreements, like KORUS, help level the competitive playing field and open new doors for U.S. businesses. Conversely, delegates should also be prepared to illustrate how the U.S. risks falling behind both strategically and economically in the Asia-Pacific, should Congress not ratify TPP.