



# International Trade

## Summary and Key Talking Points

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### Policy Proposals

1. Expand and improve the existing network of trade agreements.
2. Reassert congressional authority over trade and amend trade laws to ensure appropriate oversight.
3. Eliminate tariffs on intermediate goods because such tariffs inflate costs for U.S. manufacturers and undermine the competitiveness of final goods made in the U.S.

### Quick Facts

1. More than half of U.S. imports consist of capital goods, such as machinery, and intermediate goods, such as chemicals that are used to make plastics.
2. Nearly 39 million Americans—one in every five—owe their jobs to trade.
3. During the past 10 years, real manufacturing output has increased by more than \$220 billion, and real wages have increased by 10 percent.

### Power Phrases

#### Economic Freedom Promotes Prosperity

- Free and open trade puts American businesses, families, and workers first.
- The freedom to buy and sell throughout the world without government intervention is an essential component of a free society.
- Societies with greater trade freedom also have greater levels of prosperity.

#### Free Trade Benefits Americans

- Policies that eliminate tariffs and other barriers to trade help American families and businesses to make decisions based on their individual needs.
- Americans also achieve greater purchasing power through free trade so that each dollar buys more than it otherwise would.
- Imports and exports are of great benefit to the U.S. economy, and investment by foreign companies supports hundreds of thousands of American jobs.

## The Issue

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The freedom to buy and sell throughout the world without government intervention is an essential component of a free society. The Heritage Foundation's annual *Index of Economic Freedom* has found year after year that increases in trade freedom around the world correlate strongly with greater levels of prosperity. Here at home, policies that eliminate tariffs and other barriers to trade help American families and businesses to make decisions based on their individual needs. Access to imported products allows American businesses to specialize in what they do best, thereby using resources more effectively, increasing competition, and encouraging innovation. Americans also achieve greater purchasing power through free trade so that each dollar buys more than it otherwise would. The freedom to export goods around the world helps American business to grow and reach new customers and is made easier when foreign barriers to trade are lower. The U.S. economy derives significant benefit from imports and exports, and the ability of Americans to invest freely abroad and for foreign companies to invest in the U.S. also supports hundreds of thousands of American jobs.

For decades, America has been committed to promoting free trade at home and around the world, recognizing its overall benefits. The U.S. was a principal architect of the World Trade Organization and established one of the world's most prosperous free trade areas with the North American Free Trade Agreement. In recent years, however, commitment to advancing free trade has waned, and some have begun to doubt its benefits. Citing trade deficits, national security, and negotiating tactics, the U.S. has imposed tariffs on hundreds of billions of dollars' worth of imports from nearly every country in recent years. Imposing or threatening new tariffs may have been seen as a useful negotiating tactic, but these policies have also led to severe economic costs for Americans. Although there may be some justification for restricting trade to support defense programs, any moves to restrict the freedom of Americans to trade should be targeted and implemented in consultation with Congress. The Biden Administration has largely left these tariffs in place or traded them in for other managed trade schemes when removing tariffs could help to reduce the pressure of rising prices on Americans.

Unfortunately, this approach misdiagnoses the negative issues that are sometimes assigned to free trade. The American economy does not suffer because of its exposure to global competition; it is unable to optimize the benefits of global commerce because of excessive regulation and stifling taxation. Instead of denying American families and businesses access to foreign markets, policymakers should work to make the American economy more competitive.

The direction of trade policy today largely reflects decades of action by Congress, which has delegated significant unchecked authority to the executive branch. The power to regulate trade is a congressional power under Article 1, Section 8 of the U.S. Constitution, but Congress today has only a small role in setting trade policy. Given the increased use of tariff and non-tariff barriers that restrict Americans' economic freedom, it is time for trade authority to be rebalanced and for Congress to exercise greater influence in the trade policy process. Americans should have the freedom to buy and sell as they wish, but that freedom is in peril if taxes, through trade restrictions, continue to be levied on imports.

## Recommendations

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**Reform trade laws to rebalance trade authority.** A host of trade laws have put too much power in the hands of bureaucrats to raise taxes on Americans through new tariffs. These include Sections 201 and 301 of the Trade Act of 1974, Section 232 of the Trade Expansion Act, and U.S. antidumping and countervailing duty laws. Another law, Trade Promotion Authority, that helps to implement trade agreements is not structured to ensure that these agreements lower barriers to Americans' freedom to buy and sell. The use of these laws to apply tariffs on goods from U.S. allies and diminish the freedom to trade for Americans has highlighted their

severe weaknesses in the areas of process and oversight. Congress should reform trade laws that delegate tariff powers to ensure that they are narrower in scope and that Congress has proper oversight when these laws are used.

**Permanently eliminate tariffs on all intermediate goods.** More than two-thirds of all U.S. imports are intermediate goods, such as parts for automobile manufacturers, specialized steel pipe for pipeline manufacturers, and sugar for candymakers. Access to competitively priced parts and machinery from around the world allows U.S. industries to produce high-quality goods at affordable prices. Specifically, a Heritage Foundation trade model has estimated that eliminating tariffs on manufactured goods (which are 1.1 percent on average) would increase U.S. exports in all sectors, reduce prices paid by consumers, increase U.S. gross domestic product, and create more and better-paying jobs.

**Reverse all “Buy American” product mandates.** Buy American (domestic content) laws limit competition in government procurement, and this can increase costs for taxpayers. Except in cases of legitimate national defense concerns, the government should purchase the best-quality product at the most competitive price, no matter where it is produced. Congress and the Administration should expand competition in government procurement by eliminating these costly mandates.

## Facts + Figures

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**FACT: American businesses, especially small businesses, benefit from international trade and investment.**

- Small and medium-sized U.S. businesses engage the most in trade, and free trade agreements make the process easier by eliminating tariffs, excess paperwork, and red tape.
- More than half of U.S. imports consist of capital goods such as machinery and intermediate goods like car parts and chemicals that are used to make plastics.
- Free trade agreements help the United States to produce competitive and innovative manufactured goods. Exports of manufactured goods represent more than half of all exports annually.

**FACT: American workers benefit from free trade, and there has been no net job loss in America because of trade with China, Mexico, or any other country.**

- Nearly 39 million Americans—one in every five—owe their jobs to the freedom of businesses and individuals to buy and sell goods and services throughout the world.
- Real manufacturing and wages are at an all-time high. In the past 10 years, real manufacturing output has increased by more than \$220 billion, and real wages have increased by 10 percent.
- Between 1999 and 2017, private-sector employment in the U.S. increased by 14 percent. While employment in manufacturing decreased over this period, Americans gained jobs in other sectors of the economy.

**FACT: The trade deficit is not a budget deficit and does not mean that America is losing money to foreign countries.**

- The trade deficit represents the difference between exported and imported goods and services, and the number is not an indicator of the health of the U.S. economy.
- The last time America had a significant decrease in its trade deficit was in 2009 during the Great Recession.

- The U.S. imports more than it exports, but it is increasing the number of exports while also increasing the number of imports, which is a positive sign for the U.S. economy.
- The trade deficit leaves out an important component of trade: investment. America has a capital surplus as scores of companies around the world invest more money in the U.S. than U.S. companies invest abroad.

## Additional Resources

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The Heritage Foundation, “Heritage Explains: The Importance of Trade.”

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The Heritage Foundation, “2022 Index of Economic Freedom: Economic Freedom Declining Worldwide,” *Factsheet* No. 229, February 14, 2022.

Tori K. Smith, “Trade Promotion Authority: A Road Map for Congress,” Heritage Foundation *Backgrounder* No. 3621, May 27, 2021.

Tori K. Smith, “Biden Administration’s Approach to ‘Buy American’ Will Harm Taxpayers,” Heritage Foundation *Issue Brief* No. 6048, February 25, 2021.

Tori K. Smith and Anthony B. Kim, “Three Trade Policy Priorities for Washington in 2021,” Heritage Foundation *Issue Brief* No. 6050, February 18, 2021.

Gabriella Beaumont-Smith and Tori K. Smith, “Eliminating Tariffs on Manufactured Goods Is a Pro-Growth Strategy,” Heritage Foundation *Backgrounder* No. 3551, November 10, 2020.

Tori K. Smith, “A Free Trade Guide for the Next Administration and the 117th Congress,” Heritage Foundation *Issue Brief* No. 6024, November 2, 2020.

Tori K. Whiting and Riley Walters, “Fixing America’s Broken Trade Laws: Section 232 of the Trade Expansion Act of 1962,” Heritage Foundation *Backgrounder* No. 3411, May 22, 2019.

Riley Walters, “Enforcement: How the U.S. Should Hold China Accountable in the 301 Negotiations,” Heritage Foundation *Issue Brief* No. 4948, April 5, 2019.