CHAPTER 12

International Trade and Cooperation

Since the end of the Second World War, international trade has grown steadily relative to overall economic activity. Countries that have been more open to international flows of goods, services, and capital grew faster than countries that were less open to the global economy. The United States has been a driving force in constructing an open global trading system. A series of international trade agreements has reduced barriers to trade in goods and services and has been an important element in U.S. and global growth.

During this period, new types of trade emerged and delivered new benefits to consumers and firms in trading countries. Growing international demand for goods such as movies, pharmaceuticals, and recordings offered new opportunities for U.S. exporters. A burgeoning trade in services provided an important outlet for U.S. expertise in sectors such as banking, engineering, and higher education. The ability to buy goods and services from new places has made household budgets go farther, while the ability of firms to distribute their production around the globe has cut costs and thus prices to consumers.

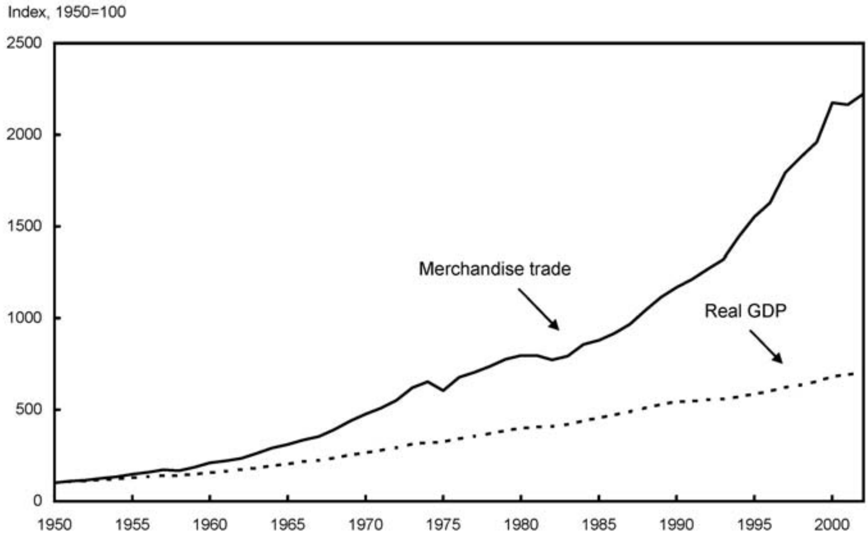
The key points in this chapter are:

- Trade has grown significantly since World War II. The benefits from new forms of trade, such as trade in services, are no different from the benefits of traditional trade in goods.
- The benefits of integration are substantial.
- International cooperation is an essential part of realizing the potential gains from international trade. A system through which countries can resolve disputes can play an important role in realizing these gains.

Increased Trade Flows: Facts and Trends

One way to measure the relative importance of international trade is to compare the value of trade flows to overall economic activity. In the latter half of the twentieth century and into the twenty-first, growth in world trade has outpaced growth in world output (Chart 12-1). As recently as 1950, the sum of merchandise exports of all countries equaled only 8 percent of world GDP. In 2002, the most recent year for which data are available, exports had increased to 19 percent of world output. For the United States, the sum of merchandise exports and imports rose from 7 percent to 18 percent of GDP over the same period.

Chart 12-1 **World Trade and GDP**
World merchandise exports have grown faster than world GDP from 1950 to 2002.



Source: World Trade Organization.

Increased trade has been accompanied by increased output growth, which can be attributed, at least in part, to the opening of markets and to the benefits derived from the international trading system. The growth in world trade also reflects lower transportation costs, which facilitate trade; new production processes, which allow companies to produce and assemble goods in different countries; and information technology, which facilitates communication between buyers and sellers. These allow trading countries to take advantage of variations in resource endowments and sectoral productivities across countries.

The United States is the largest importer and exporter of goods and services in the world, although its prowess at exporting is sometimes less apparent to the casual observer than the country's demand for imports. This is because many of the products that U.S. firms export are capital goods used in production and are not sold at the retail level to consumers (Table 12-1). The composition of U.S. exports reflects its abundance of skilled labor and high-technology expertise relative to other countries. This relative abundance explains why the United States is more likely to export aircraft and semiconductors and import footwear and clothing.

U.S. export levels depend partly on the vitality of export markets. When U.S. trading partners such as Europe and Japan experience slow growth, as has occurred in recent years, they import fewer goods from the United States. The developed countries of North America, Europe, and Japan still account for roughly two-thirds of world imports and exports of goods, and over 70 percent of world trade in services.

TABLE 12-1.—*Leading U.S. Net Exports of Goods, 2002*

Rank	Category	Millions of dollars
1	Aircraft	15,675
2	Semiconductors and related devices	15,233
3	Aircraft parts and auxiliary equipment	9,482
4	Plastics materials and resins	6,819
5	Soybeans	5,597
6	Oil and gas field machinery and equipment	5,296
7	Corn	4,988
8	Aircraft engines and engine parts	4,624
9	Motor vehicle parts	3,976

Source: Department of Commerce (International Trade Administration).

The Benefits of Free Trade

The benefits of free trade are often misunderstood. Discussions of the gains from trade often focus on the jobs created in industries that export goods and services rather than the benefits to consumers and producers from importing. The jobs created by exports are important—indeed, some research suggests that workers in export industries tend to have higher wages than those in other industries. The benefits of trade, however, are much greater. In fact, the claim that free trade is good mainly because it allows us to export misses much of the story. Free trade is good not just because it allows us to export, but also because it allows us to import. Providing goods and services to people in other countries is worthwhile because it allows Americans to consume the goods and services made in other countries. This is analogous to why most people work at their jobs—to earn the income with which to buy goods and services. That is, people "export" the product of their efforts and in return receive income with which to buy goods and services made by other people.

The benefits of exports are similar. The advantage of selling goods and services abroad is that U.S. exporters receive funds that can be spent on imports for Americans to consume. Imports allow Americans to purchase more varieties of goods and services at lower cost than if the same items were obtained from domestic producers. These cost savings free up resources to be used to produce other products. In this way, imports raise the standard of living in the United States.

Comparative Advantage

Free trade does not require that one country gains at another country's expense. Free trade is win-win. Just as the United States benefits from goods produced more cheaply abroad, other countries benefit from goods built more efficiently here. Each country gains from these exchanges because each has different capabilities. Free trade encourages countries to specialize in what they do best. Such a division of tasks raises economic well-being around the world, just as the specialization of individual workers into different jobs makes a company more productive.

Free trade also pushes American businesses to become as efficient as possible by exposing them to competition from foreign firms. For example, foreign competition over the past several decades has spurred improvements on the part of U.S. automakers. American firms and workers responded to the challenge of international competition by improving American cars and making them less expensive. American consumers are better off as a result of increased choice and better value.

Barriers to trade, in contrast, tend to help a relatively small number of firms and their workers at the expense of harming a much larger number of consumers who pay more for their goods as a result of protection. Each consumer might pay only modestly more while the beneficiaries of the protection gain substantially. The total financial costs of protection borne by consumers, however, are typically larger than the benefits that accrue to producers and workers.

The effects of trade policy on economic growth and the mechanisms by which trade affects growth have been controversial. In part, this is because it is difficult to disentangle the effects of trade liberalization on economic growth from the effects of the multitude of other policies that countries adopt. As late as the 1950s and 1960s, the idea that open markets spur economic growth was somewhat unconventional. The more common belief was that developing countries should close their borders to imports in order to support and encourage the growth of their own firms. This approach became known as "import substitution" because countries sought to develop home industries in place of imports. This was believed to be particularly important for the manufacturing sector. Advocates of this view pointed to positive past experiences with protection among currently developed countries. Developing countries that followed this strategy and tried to substitute domestic production for imports often found initial success, but subsequently encountered serious economic difficulties.

Broad comparisons of countries' experiences support the assessment that openness to trade is significantly correlated with economic growth. One study examined the experience of 133 countries from 1950 to 1998. Countries' annual real incomes per capita grew about ½ percentage point faster after liberalizing trade policies than under their closed regimes. Further, the income gains from opening up to free trade have become increasingly significant; countries that removed trade barriers in the 1990s raised their growth rates 2½ percentage points, an additional 2 percentage points per year. While the results of these cross-country studies are not irrefutable, their findings are bolstered by studies of individual countries' problems with trade protection and successes with liberalization.

Assisting People and Communities Affected by Free Trade

Although openness to trade provides substantial benefits to the Nation as a whole, foreign competition can require adjustment on the part of some individuals, businesses, and industries. To help workers affected by trade develop the skills needed for new jobs, the Administration has built upon and developed programs to assist workers and communities that are negatively affected by trade. The Administration has reformed existing programs to make them more responsive and flexible. For example, the long-standing Trade Adjustment Assistance program offered training and income support to workers directly hurt by greater imports. This program was significantly enhanced by new legislation signed by the President in 2002 to extend eligibility to workers indirectly affected, such as upstream suppliers of the firms hurt by imports. The new legislation also expanded the benefits to include a health insurance tax credit and a wage supplement for older workers who found new jobs that did not pay as well as the jobs they had lost. This assistance, which will total $12 billion over 10 years, helps ease the adjustment for displaced workers and helps them move into jobs where they are most needed. In addition, the President has proposed a pilot program for Personal Reemployment Accounts, which would offer an innovative approach to worker adjustment. These accounts would provide unemployed individuals funds they can use for training, for job-search assistance, or as a cash reemployment bonus if they find new work quickly.

The creation and destruction of jobs is part of the way in which people and materials move from less-productive to more-productive functions in a free-market economy. Businesses fail and jobs are lost for many reasons; for example, changes in technology or new domestic competition can shake up industries and communities. In the 1980s, 70 percent of the changes in employment in U.S. manufacturing resulted from less demand for relatively low-skilled workers and greater demand for high-skilled workers within the same industry. This indicates that the job losses in the 1980s were not primarily due to foreign trade pushing workers out of a sector, but to the changing nature of manufacturing. Import competition, however, often receives a disproportionate share of the blame. This may be because there is less that can be done to prevent the dislocations associated with technological change.

New Facets of Trade

The nature of U.S. trade has changed dramatically over the last several decades. Whereas the United States once would have exported your father's Oldsmobile in exchange for foreign-made food or clothing, the United States is now as likely to export financial or educational services, Hollywood blockbusters, or life-saving medicines. The United States still imports food and apparel, but it also imports components that go into sophisticated products (such as computer hard drives). This section explores several ways in which modern trade has evolved from the classic exchange of manufactured and agricultural goods.

Intellectual Property

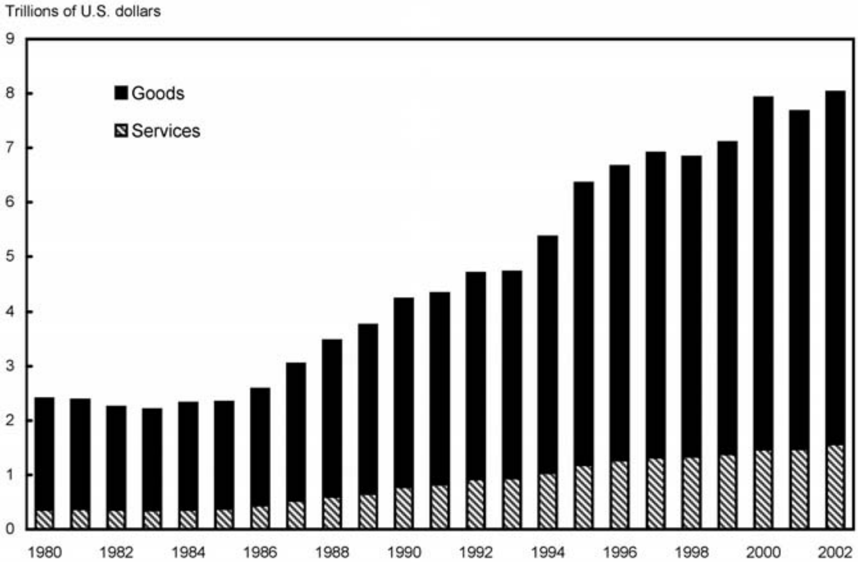
The kinds of goods that have been traded for centuries, such as wine or clothing, have two important attributes: the value of the good is linked to the physical object, and it costs roughly the same to produce the second unit of the good as the first. Many of the goods in which the United States now excels—movies, books, music, software, and pharmaceuticals—are dramatically different from traditional goods. The value of a book, movie, or computer software program lies in the ideas contained within, more than in the paper and binding or disk. The cost of producing the first book includes not just the paper and ink, but the intellectual contribution of the author. To produce the second copy of the book, however, only the raw materials are required, which makes it significantly less expensive. As discussed later in the chapter, trade in goods with valuable intellectual property raises different policy questions than does more-traditional trade.

Services

Services trade is growing in importance in the world economy (Chart 12-2). The services sector, for trade purposes, includes travel and transportation-related services, royalties and license fees, and other private services, such as finance, insurance and telecommunications. The service-providing sector is the largest component of the private economy in the United States, providing more than 86 million jobs in 2003 and accounting for over half of total GDP. In 2002, the United States exported services worth almost $300 billion, about 30 percent of total exports of goods and services.

Worldwide services trade totaled $1.5 trillion in 2002, compared to goods trade of over $6 trillion, but services trade has been growing faster. Unlike

Chart 12-2 **World Trade in Goods and Services**
Imports and exports of services are a growing part of total trade.



Source: World Trade Organization.

goods trade, in which a product can be loaded on a ship at one port and off-loaded anywhere in the world with little need for the exporter and importer to interact, services trade generally requires extensive interaction. Some services can be provided at a distance, such as software services. For others, such as tourism, the customer must come to the location of the service provider. For others, such as some consulting work, the service provider must come to the customer. The liberalization of services trade involves the movement of individuals as well as the regulation of investment and other business activity. For American banks to sell many of their services abroad, they must open branches in their target markets (Box 12-1). As a result, negotiations to liberalize trade in services have moved beyond border measures such as *tariffs* (taxes on imports) to deal with subjects that have traditionally been the domain of domestic regulation.

One facet of increased services trade is the increased use of *offshore outsourcing* in which a company relocates labor-intensive service industry functions to another country. For example, a U.S. firm might use a call-center in India to handle customer service-related questions. The principal novelty of outsourcing services is the means by which foreign purchases are delivered. Whereas imported goods might arrive by ship, outsourced services are often delivered using telephone lines or the Internet. The basic economic forces behind the transactions are the same, however. When a good or service is produced more cheaply abroad, it makes more sense to import it than to make or provide it domestically.

Box 12-1: Trade in Financial Services

The United States is the world's top producer and exporter of financial services, with exports of roughly $16 billion in 2002. Foreign clients rely on U.S. firms for financial advice, fund management, credit-card services, credit-rating services, and housing finance. In developing countries that suffer from a shortage of capital or qualified human resources, foreign-provided services can offer vital support for economic development. Financial services can introduce new technologies, promote better business practices, and provide access to the global capital market.

The experience of foreign financial services firms in Mexico provides an example of the benefits of trade in financial services. In the aftermath of the peso devaluation in 1994, thousands of business went bankrupt. As a result, a number of Mexican banks failed and the government was forced to purchase $100 billion worth of nonperforming loans to prevent a systemic banking crisis. The Mexican government also encouraged foreign banks to invest in Mexican banks. The government hoped that foreign banks would inject much-needed liquidity into the financial system. U.S. and other foreign financial service companies are credited with helping to stabilize Mexico's financial sector. Together, foreign firms now manage a significant fraction of the assets of the Mexican banking system.

Intra-industry Trade and Intermediate Products

In classical descriptions of trade, a country with abundant land sends corn to a country with abundant capital in exchange for automobiles. In modern trade, it is common for two countries to send machine tools back and forth to each other. While the items traveling in both directions might all be machine tools, they are distinct products that draw on similar production capabilities. Even when a country is technologically capable of producing all varieties of a product, it is cost-effective to specialize in producing particular varieties and then trade with partner countries to obtain other types of the product. This type of trade is referred to as *intra-industry trade*.

Modern trade also differs from classical trade because the production of any given product may be spread across several countries. Final assembly might occur in the United States, for example, using parts (*intermediate inputs*) that were built in Canada and Brazil. In fact, a good deal of U.S. trade involves flows of intermediate inputs used for domestic production.

This kind of trade can have very different economic effects. In the conventional trade model, an increase in imports would drive out domestic production and jobs in the import-competing sectors. Evidence indicates, however, that increases in imports are correlated with increases in domestic employment in the same product category. One explanation for this result is that when production is integrated across countries, an increase in demand can stimulate both domestic and foreign production.

International Cooperation and Disputes

Countries can benefit from cooperation that increases trade. This has always been true for the shipment of goods across borders, but it is even more essential for the new types of trade described above. Trade in services and goods with high intellectual-property content often requires a deeper involvement on the part of the exporter in the importing country, as in the case of U.S. bank branches overseas.

Why Is There a Need for Cooperation?

Even if a nation understands and accepts the benefits of importing, there may still be an incentive to intervene in trade through policies such as tariffs. Countries that are large enough to affect world prices can potentially benefit by limiting their demand for imports and moving the *terms of trade* (the relative price of exports to imports) in their favor. If two large countries try to do this to each other, however, they can make their situations worse than under free trade.

One reminder of this lesson was the aftermath of the Smoot-Hawley Tariff Act of 1930. Though the United States had a trade surplus before 1930, the pressures of the nascent Great Depression led Congress to raise tariffs in an ill-conceived attempt to protect American jobs. Trading partners around the world responded by raising their own trade barriers. This was an important factor in the ensuing breakdown of international commerce, contributing to lower employment worldwide.

Many of the post-World War II international economic institutions established under U.S. leadership, such as the World Bank and the International Monetary Fund, were responses to perceived failures in international economic policy in the prewar period. The plan under which these two institutions were created also included a proposal for an organization, the International Trade Organization (ITO), to oversee cooperation in international trade. The ITO was never established due to political disputes.

For more than four decades the trading system was governed instead by a series of agreements known as the General Agreement on Tariffs and Trade

(GATT). GATT only became part of a formal organization, the World Trade Organization (WTO), in 1995. Despite the absence of a standing international body, substantial progress was made in global trade liberalization.

In the first GATT negotiations in the late 1940s, a relatively small group of countries, including the United States, looked for opportunities in which they could all benefit from reciprocally lowering barriers. This gathering to seek mutual gains from cooperation was known as a "round." The current multilateral trade talks were launched by well over 100 countries in Doha, Qatar, in 2001.

Early trade talks were primarily devoted to cutting tariffs. This era of import liberalization coincided with and contributed to an era of rapid worldwide economic growth. While tariff cuts could be painful for industries that faced new competition from imports, the United States gained better market access for exports, while consumers and firms benefited from lower prices of imports. At a practical level, tariff cutting was relatively easy. If the United States and France each had 40 percent tariffs in sensitive sectors, they could agree to cut those tariffs to 20 percent. Because of this simplicity, as well as the limited number of participating countries, the early GATT trade rounds were brief. Over time, however, GATT negotiations became more comprehensive and more complex. The negotiations were held less frequently and lasted much longer. Nonetheless, a good deal of progress was made in liberalizing world trade. Among developed countries, successive tariff cuts on manufactured goods lowered average tariff levels to below 5 percent. Barriers remained higher in developing countries.

Nontariff barriers to trade remain, but they are often more difficult to address. For example, countries' policies on protecting intellectual property can constitute a nontariff barrier with important trade consequences (Box 12-2). Other types of regulations could, if misused, also constitute a barrier to trade. For example, "sanitary and phytosanitary regulations" are rules designed to protect the health of people, plants, and animals. A foreign government seeking to block competition in a sensitive agricultural sector could seek to ban imports on the basis of a product-safety claim that is without a sound basis in science. The standard that was agreed upon in the Uruguay Round of trade talks in 1994 was that such claims must be based on sound scientific evidence. What constitutes such evidence has been the subject of dispute. This circumstance poses a challenge: trade restrictions based on sound science must be allowed and claims not founded on sound science must be avoided or dismissed, but determining the difference is frequently not an easy process.

Box 12-2: International Cooperation on Intellectual Property Rights

The protection of intellectual property is an important new trade issue. The United States has worked to ensure that copyrights, trademarks, and patents given to authors, companies, programmers, or other inventors are protected in other countries.

One implication of the high development and low production costs of goods with high intellectual property content is that they are relatively easy to steal. While it may cost $80 million to create a feature film, the blank videotape or DVD used to copy that film may cost just a few dollars. It is a fairly straightforward matter for the United States to prevent other countries from taking U.S. wheat without paying. It is more difficult to prevent an exported copy of a movie, recording, or drug from being reproduced, though the loss to the United States in forgone exports would be just as significant. These losses can occur not only through unauthorized duplication, but also through foreign government policies such as controls on drug prices. These price controls reduce the return that U.S. producers can earn from abroad and shift the burden of paying for development costs to the American consumer.

As trade in goods embodying valuable intellectual property has grown, the protection of intellectual property has emerged as an important policy concern. In the Uruguay Round of trade talks, which concluded in 1994, participating countries agreed to adopt high standards of intellectual property protection in the accord on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Some have misconstrued it as preventing developing nations from addressing health emergencies such as the spread of AIDS in Africa. At Doha in 2001, WTO members agreed that the TRIPS Agreement does not and should not prevent members from taking measures to protect public health. Furthermore, in 2003, the United States and other WTO members agreed that developing countries that lack domestic manufacturing capacities in the pharmaceutical sectors should be able to override patent rights to import needed medicines from abroad in order to deal with domestic health problems.

The Administration has actively pursued measures in trade agreements to ensure the security of U.S. intellectual property rights. The inclusion of these measures in trade agreements illustrates a new way in which international cooperation benefits the United States. If countries are found to be in violation of their obligations under a trade agreement, the United States could retaliate against those countries across the entire range of transactions covered by the agreement.

The Benefits of Dispute Settlement

Another issue that arises with international cooperation in trade is the need for some way of solving disagreements among trading partners. Disputes might occur when one country disregards a commitment it made in negotiations, or when there is a disagreement over the interpretation of an agreement.

If one WTO member has a complaint about the behavior of another member, there is an established process for addressing the concern. First, the two countries are required to consult and determine whether the dispute can be resolved amicably. If this is not possible, a dispute settlement panel is established at the WTO. This panel consists of experts, generally selected from countries not involved in the dispute, who hear evidence from the complaining and responding countries and then issue findings. The panel determines whether a country has failed to follow through on commitments previously made in its trade agreements. Panel findings can be appealed to a standing body, which issues its own report and findings on the issues on appeal. Panel and Appellate Body reports are then submitted to the Dispute Settlement Body (DSB), also a standing body, for adoption. Once adopted, these findings become DSB recommendations and rulings.

After the conclusion of the dispute process, the difference between the WTO system and the domestic legal system becomes apparent. All WTO members have agreed that when a country loses a dispute settlement case at the WTO, the first preference is to bring the domestic law into compliance with the DSB recommendations and rulings. However, if the losing country chooses to maintain its initial policies, it must either negotiate compensation to the complaining country or else the complaining country can get authorization from the WTO to retaliate by withdrawing concessions of comparable value. If the latter happens, the net effect is the unwinding of the reciprocal liberalization that the countries had undertaken.

The virtue of an orderly dispute-settlement system that has the confidence of all participants is that the unraveling of cooperation is limited. Parties not involved in the dispute handle the facts and interpretation of the dispute, reducing the scope for disagreement over whether retaliation is legitimate.

The United States has had much success in complaints it has initiated against other countries' trade practices. As of September 2003, the United States had filed 63 complaints against other countries. Of the 39 that have been resolved through panel proceedings, the United States lost only 3 in litigation. In turn, the United States was a respondent in 77 cases over the same time period and successfully defended its practices in 4 of the resulting 38 panel proceedings. These statistics suggest that WTO complaints are not brought frivolously, in the sense that complaints, whether by or against the United States, have a high probability of success.

An effective dispute-settlement mechanism that has the confidence of all participants is an important part of the cooperative trading system. A dispute-settlement system can help to ensure that all parties to trade agreements receive the benefits on which they agreed.

Progress Toward Free Trade

The United States has pursued trade liberalization through negotiations at the global, regional, and bilateral levels. This multipronged approach allows for continuing progress even when one avenue for liberalization is blocked or stalled. Due to its global reach, the broadest and most important forum for liberalization is the World Trade Organization. This body now has 148 members. Among the central principles of the WTO is the requirement that the lowest tariff offered to one WTO member must be offered to all members. This principle, known as most-favored-nation (MFN) treatment, ensures that even if cooperative agreements are reached among a smaller group of countries, those countries will extend the benefits broadly to other WTO members. Although WTO rules permit important exceptions to the MFN principle, such as allowing countries to lower barriers with trade-agreement partners and as part of trade preference programs for poor countries, when the MFN principle is observed it creates a “level playing field” of equal tariffs on all trading partners so that countries will buy goods from the most-efficient producer.

The WTO encompasses agreements made under the GATT, as well as agreements on trade in services, intellectual property, and other issues. The WTO is driven by its members. It does not serve as a legislative body and passes no laws. What the WTO provides is a forum for countries to come together to negotiate. When there are decisions to be made, they are reached by consensus of the members rather than by majority vote. The principal task of the WTO Secretariat is to support the work of member countries as they pursue the goal of trade liberalization.

The Administration played a critical role in launching the Doha Development Agenda negotiations in 2001, following the failure of the 1999 Seattle ministerial meeting to initiate new multilateral trade negotiations. Participating nations agreed that the negotiations would focus on the needs of developing countries and their integration into the global trading system. The United States has put forward proposals for liberalization of trade in agriculture, consumer and industrial goods, and services—the three major areas for market access under negotiation. The Administration is committed to a successful completion of the Doha Development Agenda. This would substantially lower barriers to trade in all countries and provide expanded market access for American goods and services, while boosting economic prospects for developing countries. One study estimates that removal of tariff barriers, production subsidies, and export subsidies could raise annual world income by over $355 billion by 2015. According to another study, a successful round that lowered trade barriers around the world could raise the level of U.S. GDP by $144 billion each year, which translates into additional annual income of $2,000 or more for a family of four.

The WTO operates by consensus, so it takes little to halt progress. While the Administration seeks to continue work on global trade negotiations through the WTO, it has also independently pursued trade liberalization with developed and developing nations through far-reaching bilateral and regional agreements (Table 12-2). These free trade agreements (FTAs) remove substantially all barriers to trade between participants and allow for cooperation in other areas of concern, such as regulation of investments and the protection of intellectual property, the environment, and labor rights. Under WTO rules, countries may undertake preferential liberalization in a free trade agreement, as long as the accord is comprehensive and the liberalization is completed in a reasonable period of time.

TABLE 12-2.—*Status of Free Trade Agreements (FTAs) with the United States*

Country or Region	Status
Israel	In effect since April 22, 1985
Mexico and Canada (NAFTA)	In effect since January 1, 1994
Jordan	In effect since December 17, 2001
Singapore	In effect since January 1, 2004
Chile	In effect since January 1, 2004
Australia	In negotiation as of January 2004
Morocco	In negotiation as of January 2004
Central America (CAFTA)	
El Salvador, Guatemala, Honduras and Nicaragua	Negotiations concluded on December 17, 2003
Costa Rica	Negotiations concluded on January 25, 2004
Dominican Republic	In negotiation
Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland)	In negotiation
34 Western Hemisphere Countries (FTAA)	In negotiation
Bahrain	In negotiation
Thailand	Intentions to negotiate announced
Panama	Intentions to negotiate announced
Columbia, Peru, Bolivia, and Ecuador	Intentions to negotiate announced

Source: U.S. Trade Representative.

For each potential trading partner in a free trade agreement, the United States assesses the economic benefits such an agreement would bring to the United States, the extent to which the country is ready to undertake free trade obligations, and the role that the agreement would play in furthering the broader, worldwide trade-liberalization agenda. Throughout the process of selecting and negotiating with FTA partners, the Administration consults with members of Congress, public-interest groups, and industry representatives. The United States has demonstrated its willingness to liberalize trade with countries from around the world, both developing and developed. These agreements offer the benefits of trade and investment to the United States and our partner countries and help build a coalition of nations interested in achieving progress in multilateral talks.

The United States has worked to rapidly expand its set of FTA partners, while maintaining low trade barriers to goods and services from all countries through our global commitments.

Conclusion

The United States has benefited and continues to benefit enormously from the international exchange of goods and services. Trade allows countries to specialize in those activities that make the best use of their skills and resources, as well as to reap the benefits in terms of imported goods. These gains have increased as lower barriers, better transportation, and easier communication have expanded existing international markets and created new ones.

Another important but often overlooked benefit to the expansion of free trade is the expansion of freedom and democracy. Involvement in the global economy provides incentives for nations to ensure a degree of transparency and stability in order to attract investors and trading partners. It also encourages countries to embrace a more democratic and less corrupt system of government. Economic freedoms can lead to greater political freedoms.

As the complexity of international trade has increased, so too has the complexity of the agreements that govern it. The dispute-settlement mechanism in the WTO has been useful for resolving disagreements between WTO members. The United States has been challenged on certain trade practices, but in turn has used the dispute settlement system to assert its rights and challenge the practices of other countries.

The Administration is committed to an open and unfettered trading system to promote economic growth in the United States and around the world.