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A trade agreement for US manufacturers



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Members of Congress and presidential candidates Barack Obama and John McCain are all talking about “saving U.S. manufacturing” and “leveling the playing field” on trade for American business. But for the most part, it is more talk than action.

Efforts to change our trade laws have failed to gain ground because they violate trade agreements and/or tilt toward protectionism, helping a narrow slice of the industrial sector at the expense of the broader U.S. economy and American consumers. That is, until a bill introduced in late June by Rep. Bill Pascrell, D-N.J., called the Trade Agreement Parity (TAP) initiative. The new bill, Pascrell says, offers a “trade agreement for U.S. manufacturers.” It neither violates our trade agreements nor is it protectionist. It is a balanced, pro-manufacturing and pro-trade bill with the potential to boost U.S. manufacturing to the tune of 95,000 U.S. jobs.

TAP applies fresh thinking to a well-established if underutilized government program — the U.S. foreign-trade zone program — and in doing so eliminates an important incentive for U.S. companies to move manufacturing offshore to free-trade agreement countries such as Canada or Mexico. TAP offers manufacturers in U.S.-based FTZs the same tariff benefits that companies in FTA countries enjoy.

The U.S. foreign-trade zone program has existed for more than 50 years, encouraging U.S.-based companies to keep their manufacturing operations in the U.S. by allowing them to defer, reduce or eliminate Customs duties altogether on products admitted

to a zone. Companies in an FTZ can import merchandise to store, sort, repack or use it for manufacturing inside the zone without paying Customs duties; only products subsequently shipped to destinations in the U.S. become subject to Customs duties.

A total of 2,650 companies operate in 256 foreign-trade zones across the United States. In 2006, these companies generated nearly \$500 billion in economic activity, employed more than 360,000 Americans in all 50 states, and produced \$30 billion in exports to foreign countries.

In recent years, both the FTZ program and U.S. manufacturing as a whole have faced a challenge in the growing number of FTAs signed by the U.S. On top of lower labor, input and distribution costs, factories in FTA countries often benefit from access to better tariff treatment for products shipped into the FTA country and then sent on to the U.S. market than U.S.-based manufacturers pay to import those same products directly — including manufacturers located in FTZs. This disparity provides an incentive for companies to serve the U.S. market from offshore, taking U.S. manufacturing jobs along with them.

Enter Pascrell’s bill. TAP addresses this tariff disparity by offering U.S.-based manufacturers the same duty treatment they would get if operating in an FTA country. The premise of the bill is straightforward: U.S. rules should permit the same tariff treatment for U.S.-based manufacturers as provided to manufacturers in FTA countries. Failing to do so only encourages companies to move production and jobs elsewhere in search of better duty treatment.

To ensure that companies in the U.S. outside FTZs are not hurt by the trade agreement parity initiative, the bill would require companies in FTZs to apply to the U.S. Foreign Trade Zones Board (based in the Commerce Department) to qualify for FTA duty treatment.

The board would ensure fairness among all U.S.-based manufacturers, safeguard the public interest and prevent unintended competitive harm to other domestic industries by employing the same tested and effective methods it uses to oversee FTZs today.

Needless to say, there is no such public interest test for companies that move their facilities from the U.S. to FTA countries.

While the idea behind TAP is simple, its economic impact would be significant: According to a study by respected economists Dean DeRosa and Gary Hufbauer, implementing TAP would result in a \$530 million annual gain to the U.S. economy, 95,000 new jobs in FTZs, a 20 percent increase in U.S. shipments for companies in FTZs and \$25 billion in additional fixed-asset investment inside the zones.

At a time when U.S. policymakers are grasping for ideas to “save U.S. manufacturing,” Rep. Pascrell’s TAP bill provides a pro-manufacturing, pro-trade solution that preserves and creates jobs in the United States. His “trade agreement for U.S. manufacturers” deserves consideration by Congress as soon as possible.

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