International Trade Boosts U.S. Economy

International trade contributes to higher incomes and stronger productivity growth in the United States and abroad. U.S. businesses enjoy greater access to overseas markets. American families enjoy a greater variety of choices and lower prices. Trade lowers costs through economies of scale by giving firms access to world markets. It also fosters competition by opening up domestic producers to foreign competition, and it enhances the flow of ideas, which drives innovation.

Michigan is a major beneficiary of trade with the additional benefit of being one of the top destinations for foreign-headquartered multinational firms in the U.S.

The benefits of trade are unevenly distributed, however, and some people are negatively affected by increased global competition. For example, the textile industry in the U.S. has declined and workers lost their jobs because other countries have a comparative advantage in the production of textiles.

Despite some negative consequences, expanded textile trade increases prosperity. American families benefit from the lower cost of imported textile products. Countries producing textiles obtain the resources to purchase goods from American companies. The gains from international trade increase living standards for most workers, while providing the resources to help displaced workers.

The U.S. is in the final stages of negotiating trade agreements with Asia, the Trans-Pacific Partnership (TPP), and with Europe, the Transatlantic Trade and Investment Partnership (TTIP). Congress is debating Trade Promotion Authority (TPA) that provides for an up or down vote on these agreements, without amendments, and thereby encourages our trade partners to put their best offers on the table.

Michigan's Senators Debbie Stebanow and Gary Peters are leading an effort to add a currency manipulation clause to the TPA. A full page ad in the *Detroit Free Press* on April 22 paid for by Ford Motor Co. states "without strong and enforceable rules against currency manipulation in trade deals, foreign countries can tip the scales in their favor."

The domestic auto industry is concerned that Japan is manipulating its currency (depreciating it against the dollar), giving Toyota, Honda and Nissan a competitive edge selling cars in the U.S. In similar fashion, the appreciation of the dollar against the Euro in the last six months gives BMW and Mercedes an advantage selling cars in the U.S.

The auto industry has worldwide production capacity. The foreign competitors have U.S. production facilities to hedge against currency fluctuation, while parts can still be sourced from overseas. One of the major issues in the negotiations with Japan is Tokyo's demand that the U.S. eliminate immediately its 2.5 percent tariff on auto parts imports. Washington's demand is that Japan substantially increase its imports of rice for consumer use. The domestic auto industry will lose a cost advantage; American rice farmers will gain access to a large market.

Currency manipulation occurs when a government buys or sells foreign currency to push the exchange rate of its own currency away from market value or to prevent the exchange rate from moving toward its market value.

However, it's important to note that many factors influence exchange rates, including monetary policy. It can be difficult to distinguish between currency fluctuations arising from monetary policy and those driven by currency manipulation. Case in point: the U.S. monetary policy of Quantitative Easing had the side effect of depreciating the dollar, making U.S. exports cheaper and benefiting Ford Motor Co. when they exported cars from domestic factories.

In a March 5 letter to the Congressional leadership, the 14 chairs of the President's Council of Economic Advisors under Presidents Ford, Carter, Reagan, Bush, Clinton, Bush and Obama addressed the issue of currency manipulation. The letter stated, "It is not desirable for trade agreements to include provisions aimed at so-called currency manipulation. This is because monetary policy affects the value of currencies. Attempts to penalize countries for supposedly manipulating exchange rates would thus impose constraints on U.S. monetary policy, to the detriment of all Americans."

The trade agreements with Asia and Europe will increase U.S. economic growth with net benefits to American businesses, families and workers. Currency manipulation issues should not be permitted to stand in the way of economic progress.

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