CENTER FOR TRADE POLICY STUDIES

Free Trade Bulletin

No. 43 • January 31, 2011

Beyond Exports: A Better Case for Free Trade

by Daniel Ikenson and Scott Lincicome

Introduction

The 112th Congress begins its term amid renewed optimism about prospects for U.S. trade liberalization. Big labor's stranglehold over the congressional trade agenda was broken with the election in November. The U.S. government finally appears willing to end its disgraceful ban on Mexican trucks. And in his State of the Union address, President Obama implored Congress to pass the trade agreement with South Korea as soon as possible, and articulated his commitment to bringing the other two pending bilateral agreements, as well as the Transpacific Partnership negotiations and the Doha Round, to successful conclusions.

After four years of stasis on the trade front, the new environment is a welcome change. Removing barriers to trade—in both directions—is essential to sustained economic recovery and long-term growth.

But how long will this window of opportunity remain ajar? Despite trade's benefits, American sentiment toward it is lukewarm in the best of times, and always vulnerable to manipulation by politicians and media charlatans looking to blame foreigners for domestic shortcomings. Before the end of this year, the 2012 presidential election campaigns will be in high gear—and trade has been a particularly dirty word in stump speeches and political debates in the past. Indeed, one of the reasons for the energetic trade policy push in 2011 is that the political environment next year is expected to be less hospitable to trade initiatives.

The fact that public opinion about trade is so malleable and arguments for restricting it so resonant at times speaks to a failure of free trade's proponents to make their compelling message stick. It is sad but true that so many Americans need to be reminded of the benefits of being free to choose how and with whom to conduct commerce. But in an atmosphere where demagogues peddle myths to mislead the public into believing that it is preferable for government to limit their choices and direct their resources to chosen ends, it is crucial that the case for free trade be made more clearly, comprehensively, and consistently than it has been in the past.

Thus, in addition to securing the immediate goal of concluding and passing trade liberalizing agreements in 2011, advocates of trade in Congress, the administration, the business community, think tanks, academia, and among the general public should update their arguments and invest in the process of winning the trade debate once and for all. Some of the most compelling arguments for free trade have been only modestly summoned or absent from the discussion for too long.

Message Matters

Most Americans enjoy the fruits of international trade and globalization every day: driving to work in vehicles containing at least some foreign content, relying on smart phones assembled abroad from parts made in multiple countries (including the United States), having more to save or spend because retailers pass on cost savings made possible by their access to thousands of foreign producers, designing and selling products that would never have been commercially viable without access to the cost efficiencies afforded by transnational production and supply chains, enjoying fresh imported produce that was once unavailable out of season, depositing bigger paychecks on account of their employers' growing sales to customers abroad, and enjoying salaries and benefits provided by employers that happen to be foreign-owned companies.

Nevertheless, public opinion polls routinely find tepid support among Americans for free trade. Regardless of the prevailing economic conditions; how the questions are phrased; or whether the subject is attitudes toward free trade, trade agreements, or the impact of trade on the U.S.

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Table 1
Pew Research Poll Question: Impact of Free Trade Agreements on the Country

In general, do you think that free trade agreements like NAFTA, and the policies of the World Trade Organization, have been a good thing or a bad thing for the United States?

	Sep-97	Sep-01	Dec-03	Jul-04	Oct-05	Dec-06	Nov-07	Apr-08	Apr-09	Nov-09	Oct-10
Good Thing %	47	49	34	47	44	44	40	35	44	43	35
Bad Thing %	30	29	33	34	34	35	40	48	35	32	44
Don't Know %	23	22	33	19	22	21	20	17	21	25	21
Total %	100	100	100	100	100	100	100	100	100	100	100
By Party Affiliation											
Republican											
Good Thing %							40	42	41		
Bad Thing %							43	43	38		
Democrat											
Good Thing %							41	34	47		
Bad Thing %							37	50	30		
Independent											
Good Thing %							39	35	43		
Bad Thing %							43	52	40		

Source: Pew Research Center, available at http://pewresearch.org/pubs/1205/support-for-free-trade-up.

economy, most polls typically find that fewer than half of all Americans view trade favorably, and that skeptical views have become more prevalent in recent years.

Some of that skepticism can be attributed to the perpetuation of myths about how unfair foreign trade practices have destroyed the U.S. manufacturing sector or about how the trade deficit reflects a failure of trade policy and constitutes a drag on economic growth—the staple arguments of most protectionists.[1] However, we free trade advocates need to bear some of the responsibility for not winning Americans' hearts and minds. In a Cato Institute study published nearly two years ago, the authors of this paper asserted: "Pro-trade advocates have failed to make a convincing and durable case for why free trade is superior to the alternatives. The factual arguments are compelling, but tend to get lost on a public that is more susceptible to depictions of worst-case scenarios and the ill-conceived bromides that follow. The scholarship is there, but we need better salesmanship."[2]

The poll data make clear that better salesmanship—or a better strategy—could change minds. As shown in Table 1, a significant segment of the population—at least 10 percent—changes its views on trade fairly regularly. Given that most Americans have not lost their jobs to import competition or outsourcing, nor do very many Americans know someone who has, it seems unlikely that deteriorating attitudes toward trade have much, if anything, to do with personal experience.[3] As suggested in our 2009 paper, American attitudes toward trade are shaped largely by what Americans hear from their elected officials and what they absorb from the media.

The dramatic decline in pro-trade sentiment between 2007 and 2008 coincided with a U.S. presidential primary election campaign season in which the Democratic candidates routinely criticized U.S. trade policy and certain trade partners. Perhaps most memorable was the late-February 2008 debate at Cleveland State University on the eve of the Ohio primary, when the late Tim Russert extracted renunciations of NAFTA and pledges from candidates Hillary Clinton and Barack Obama to reopen and renegotiate terms of the agreement.[4]

The fairly significant increase in pro-trade sentiment during 2009 was likely attributable in part to the fact that a very public disavowal of protectionism took place on the international stage, as governments grappled with alternative policies to combat the recession. Throughout the year, economists exhorted politicians to avoid protectionist policy responses, reminding them of the deleterious impact on the global economy of the Smoot-Hawley tariff and the retaliatory policies it inspired in the 1930s. And politicians pledged to heed that advice before domestic audiences and before international institutions, such as the G-20. Throughout the year those pledges were repeated and the public was reminded frequently of the dangers of protectionism.

Furthermore, in early 2009, President Obama visited heads of state in Canada and Mexico, offering reassurances that his campaign pledge to reopen NAFTA may have been a bit too hasty. And his instructions to Congress, at about the same time, that emerging Buy American provisions should not violate U.S. trade commitments, signaled to the public that the president might be less hostile to trade than he appeared to be during the previous year. The president's first *Trade Policy Agenda*, published one month later, revealed an administration far more approving than skeptical of free trade.[5]

The results of the 2009 Pew poll (shown in Table 1) suggest that political leaders can indeed influence public opinion about trade. The greatest fluctuation in public support for trade between 2007 and 2009 came from self-identified Democrats—those paying most attention to the Democratic primary elections and President Obama's early speeches—with opposition swinging wildly from 37 percent in 2007 up to 50 percent in 2008 and down to 30 percent in 2009. Meanwhile, support among Republicans remained steady during this period, as the issue was almost nonexistent during the GOP primaries and rarely discussed by Republican nominee John McCain during the general election campaign.

The subsequent decline in public support between 2009 and 2010 might have had something to do with rising tensions in the U.S.-China trade relationship, which was covered intensively—perhaps even incited[6]—by the media, and which spawned numerous congressional hearings into various Chinese policies and practices[7] and a Democratic Party 2010 campaign strategy—"Make It In America"—that placed much of the blame for America's alleged manufacturing decline squarely on China.[8] Also, during this period, President Obama frequently asserted that China's "undervalued currency" was to blame for the U.S.-China trade deficit.[9] These results support the theory that the attitudes of policymakers can shift public opinion, particularly among those who most closely identify with those policymakers.

The Stock Pro-Trade Message Contains the Seeds of Its Own Destruction

Despite the window of opportunity to move the trade agenda forward this year, it is fair to say that trade skeptics have the upper hand in the battle over messaging. After all, trade's proponents are intent on getting so much accomplished in 2011 because it is assumed that in 2012—an election year—the trade agenda will again be radioactive on Capitol Hill. But why shouldn't campaigning politicians in both major political parties feel comfortable explaining the benefits of trade in the face of constituent skepticism?

One explanation for the resonance of anti-trade sentiment is that it is easier to whip up public opinion by playing to stereotypes and characterizing trade as a zero sum game between "us" (Americans) and "them" (foreigners) than it is to explain the process by which economic value is created and how free trade facilitates that process. Theirs is a black and white message. Once the public's mind has been filled with images of shuttered factories and unemployed workers—regardless of the real cause of those conditions—it becomes more difficult to convey the truth about how Americans benefit from trade and how much poorer we would be without it.

But that hurdle can be overcome. The solution requires more than rationalization; it requires introspection, then change. Many of trade's most vocal and active proponents in government and the private sector have relied too heavily and for too long on a faulty marketing strategy, which posits that more trade and more trade agreements mean more export opportunities, and more exports mean more economic growth and more jobs.[10] The political appeal of that message is obvious, and there is nothing dishonest about it. Exports do contribute to economic growth, which is essential to job creation.

However, that message invites the following retort: if exports help grow the economy and create jobs, then imports must shrink the economy and cost jobs. In failing to explain why that conclusion about imports is wrong, trade proponents have yielded the floor to trade skeptics, who have been more than happy to manufacture talking points about the "deleterious" impact of imports on the U.S. economy.[11] Most of those talking points are misleading or plain wrong, but there has been inadequate effort to correct the record. As a result, too many Americans accept the mercantilist fallacy that exports are good, imports are bad, and the trade account is a scoreboard.

The pervasive view that exports are good and imports are bad is a central misconception upon which rests the belief that trade negotiations and "reciprocity" are essential to trade liberalization.[12] Under this formulation, an optimal trade agreement, from the perspective of U.S. negotiators, is one that maximizes U.S. access to foreign markets and minimizes foreign access to U.S. markets. An agreement requiring large cuts to U.S. tariffs, which would thus deliver significant benefits to consumers, would not pass political muster unless it could be demonstrated that even larger export benefits were to be had. This misguided premise that imports are the cost of exports and should be minimized lies at the root of public skepticism about trade. Ironically, it is also a prominent feature of the favored pro-trade argument.

George W. Bush's last trade representative, Susan Schwab, in pitching to Congress the pending bilateral trade agreements with South Korea, Colombia, and Panama, cited the U.S. trade surplus with the dozen or so countries with whom free trade agreements were implemented during the Bush years.[13] Implicit in her selling point was that a trade surplus is a measure of trade policy success, and that maximizing exports and minimizing imports are therefore worthy objectives. But if that is the proper metric, then it does not require sophisticated analysis to conclude that, with a $700-$800 billion aggregate trade deficit at the time, overall U.S. trade policy is an abject failure—the central argument of protectionists.

Ambassador Schwab is certainly not the only one to commit this messaging foul. Many prominent trade advocates have made similar arguments.[14] In his State of the Union speech, President Obama referred to his administration's goal of doubling exports by 2014—a goal for which an entire bureaucracy has been erected—to make the point that "the more we export, the more jobs we create at home." Not once in that speech did the president acknowledge the importance of imports to the bottom lines of those U.S. companies that he expects to create American jobs. The problem is not that export potential is used as a selling point. The problem is that it is too often the exclusive selling point.[15] And that contributes to unfavorable impressions about imports and the trade deficit—two statistics, by the way, that typically increase when the economy is expanding and fall when the economy is contracting.[16]

Likewise, the business community—in its efforts to promote trade—tends to fixate on the export potential of this or that agreement.[17] Of course that is important information to disseminate. But in ignoring or downplaying the primary benefits of trade to consumers—that is, greater access to imports—the business community's message reinforces false impressions that trade only benefits rich corporations at the expense of working Americans.

Of the "Top Ten Reasons Trade is Good for America," a list extracted from a recent letter to Congress from a coalition of businesses and posted on the website of the U.S. Chamber of Commerce, only one made reference to imports.[18]

If proponents want to avoid the perennial disruptions to the trade agenda caused by the perceived need to tiptoe around the electoral calendar, we will need better selling points. We must articulate a more resonant message, so that the benefits of trade need not be rationalized or couched in defensive rhetoric.

A More Compelling Case for Free Trade

The case for free trade is much broader than the one that trumpets only export potential. And it is more elegant. The most principled case is a moral one: voluntary economic exchange is inherently fair, benefits both parties, and allocates scarce resources more efficiently than a system under which government dictates or limits choices. Moreover, government intervention in voluntary economic exchange on behalf of some citizens necessarily comes at the expense of others and is inherently unfair, inefficient, and subverts the rule of law. At their core, trade barriers are the triumph of coercion and politics over free choice and economics. Trade barriers are the result of productive resources being diverted to achieve political ends and, in the process, taxing unsuspecting consumers to line the pockets of the special interests that succeeded in enlisting the weight of the government on their side.

Protectionism is akin to earmarks, but it comes out of the hides of American families and businesses instead of the general treasury. Policymakers on the right should support free trade because it is consistent with their principled opposition to higher taxes on American businesses and consumers and to big government telling people how and where they should spend their money. A vote for free trade is a vote to cut taxes and to get government out of the business of picking winners and losers in the market. Policymakers on the left should support free trade because it is consistent with their opposition to corporate welfare and regressive taxation.

Beyond the moral case for free trade, when people are free to buy from, sell to, and invest with one another as they choose, they can achieve far more than when governments attempt to control their decisions. Widening the circle of people with whom we transact brings benefits to consumers in the form of lower prices, greater variety, and better quality, and it allows companies to reap the benefits of innovation, specialization, and economies of scale that larger markets afford. Free markets are essential to prosperity, and expanding free markets as much as possible enhances that prosperity.

When goods, services, and capital flow freely across U.S. borders, Americans can take full advantage of the opportunities of the international marketplace. They can buy the best or least expensive goods and services the world has to offer, they can sell to the most promising markets, they can choose among the best investment opportunities, and they can tap into the worldwide pool of labor and capital. Study after study has shown that countries that are more open to the global economy grow faster and achieve higher incomes than those that are relatively closed.[19]

Retorting Some Common Myths

In the bright light of these broader free trade arguments, it becomes clear that those seeking to restrict trade are trying to commit an offense. They are attempting to enlist the force of government—via higher taxes, more regulation, or corporate welfare—to prevent individuals from engaging in consensual, mutually beneficial exchange. And they should be forced to explain themselves in terms of the harm they would inflict on others through state coercion. Regrettably, that never happens.

Instead, those seeking protection claim immunity from the logic and equity of those moral and economic parameters, preferring to invoke claims of exceptional circumstances, labeling those opposed to their agenda as unpatriotic, or playing on fears about the consequences of exercising one's rights to trade. Of course free trade is ideal in theory, they will say, but reality demands special consideration in our case. Or, of course individuals should be free to choose with whom they transact, but their expressed preferences for imports imperil their jobs and America's future.

Trade skepticism is rooted in fear, which thrives on the propagation and acceptance of recycled myths. Thus, in making the case for free trade, proponents must be better prepared to refute the plausible-sounding fallacies about imports, trade deficits, and zero-sum games that have been allowed to linger for too long.[20]

The allegation that imports have destroyed the U.S. manufacturing sector persists despite the wealth of evidence to the contrary. U.S. manufacturing took its lumps during the recent recession (as did all other sectors of the economy), but by all credible metrics it has been thriving for decades. In fact, U.S. factories account for more manufacturing value-added than the factories of any other country in the world.[21]

If imports detract from growth and reduce the number of jobs in the economy, then why does import value tend to rise when the economy is expanding and adding jobs and fall when the economy is contracting and shedding jobs?[22] Imports are vital to economic growth. U.S. producers account for the majority of imports. More than 55 percent of what Americans purchase from abroad is classified as industrial supplies or capital goods—inputs used in manufacturing and other value-added activities, such as the construction and transportation industries.[23]

By limiting Americans' access to imports, production costs and other business costs would be higher, necessitating higher prices, lower wages, and other cost savings to make enterprises profitable. Consumers, businesses, and government would have less purchasing power, which would curtail economic growth and hurt U.S. companies trying to compete abroad, thus reducing exports. In fact, export sales would be even more difficult to come by, as foreigners, deprived of their sales to Americans, would have fewer dollars to spend on U.S. goods.

Contrary to some assertions, imports actually support jobs in U.S. manufacturing and in many other sectors of the economy. In addition to the imported intermediate goods that keep U.S. companies competitive and able to provide jobs, a significant percentage of U.S. imports are final goods that were simply assembled abroad from components produced, designs engineered, and ideas hatched in the United States. Without access to lower-cost labor in places like China, products like Apple's iPod, iPhone, and iPad might never have been commercially viable.[24] These ubiquitous products—which have spawned the creation of new industries producing dozens of accessory items (think docking stations and apps)—might have been too expensive to produce for mass consumption had all of the manufacturing and assembling been required to occur in the United States. Instead of $300–$400 iPhones, the devices might have retailed for double or triple that price and their consumer potential never realized.

The example of the iPhone production and supply chain also reveals the absurdity of hand wringing over trade deficits. The alleged U.S. high-tech trade deficit with China is simply a function of antiquated trade flow accounting that has failed to keep up with the reality of globalization. Even though each iPhone imported from China registers as a $179 import (the full cost of its production), only $6.50 of that amount represents the cost of Chinese inputs.[25] The bottom line is that each iPhone imported from China supports U.S. employment up and down the supply chain, from Apple's designers and engineers to independent component manufacturers to logistics providers, truckers, port workers, and retail employees. And misguided policies designed to "fix" the trade deficit would imperil this wealth-creating process.

The arguments of trade's critics remain valid only to those who fail to examine the facts about our modern global economy. Illuminating those facts is the burden of free trade advocates.

Conclusion

In order to win the hearts and minds of a skeptical American public, trade advocates need to broaden their arguments to include more than just happy talk about potential export growth. The case for free trade is more compelling than that. In light of the arguments above, we conclude with the five most compelling reasons free trade is good for America.

1. **Free trade is fair trade.** Trade occurs between individuals, not countries. This voluntary economic exchange is inherently fair, benefits both parties, and allocates scarce resources more efficiently than a system under which government dictates or limits choices. It is thus morally imperative that Americans have the freedom to engage in commerce with whomever they choose.[26]
2. **Free trade is appealing across the political spectrum.** Free trade is consistent with the imperative of smaller government (lower taxes and fewer restrictions), greater transparency (fewer backroom deals—think Mexican truck ban), opposition to corporate welfare, and opposition to regressive taxation.
3. **Free trade is just the extension of free markets across national borders.** Widening the circle of people with whom we transact brings benefits to consumers in the form of lower prices, greater variety, and better quality, and it allows companies to reap the benefits of innovation, specialization, and economies of scale that larger markets afford. Free markets are essential to prosperity, and expanding free markets as much as possible enhances that prosperity.
4. **Free trade creates prosperity and supports rising living standards.** Study after study has shown that countries that are more open to the global economy grow faster and achieve higher incomes than those that are relatively closed. When goods, services, and capital flow freely across U.S. borders, Americans can take full advantage of the opportunities of the international marketplace. They can buy the best or least expensive goods and services the world has to offer; they can sell to the most promising markets; they can choose among the best investment opportunities; and they can tap into the worldwide pool of labor and capital.
5. **Free trade is essential to America's continued prosperity.** As the world's leading producer of goods and services, the United States needs to ensure that production and supply chains remain open in both directions so that foreigners can sell intermediate goods to U.S. producers and final goods to U.S. consumers, and so they can earn U.S. dollars with which they can consume U.S. products and services and invest in the United States.

Notes

1. For a refutation of these myths that malign trade, see Daniel Ikenson and Scott Lincicome, "Audaciously Hopeful: How Presi-

dent Obama Can Help Restore to Pro-Trade Consensus," Cato Institute Trade Policy Analysis no. 39, April 28, 2009, p. 12.

2. Ibid., p.3.

3. According to the Council of Economic Advisers, less than 3 percent of U.S. job loss is attributable to import competition or outsourcing. See Council of Economic Advisers, "The History and Future of International Trade," *2006 Economic Report of the President* (January 2006).

4. MSNBC, http://www.msnbc.msn.com/id/23354734/ns/politics-the_debates/.

5. United States Trade Representative, http://www.ustr.gov/about-us/press-office/reports-and-publications/2009/2009-trade-policy-agenda-and-2008-annual-report.

6. For a discussion of the hype surrounding U.S.-China relations in 2009 and 2010, see Daniel Ikenson, "Manufacturing Discord: Growing Tensions Threaten the U.S.-China Economic Relationship," Cato Institute Trade Briefing Paper no. 29, May 4, 2010.

7. C-Span, http://www.c-span.org/Events/House-Ways-and-Means-Hearing-on-Chinese-Currency/19027/.

8. Scott Lincicome, http://lincicome.blogspot.com/2010/08/democrats-give-us-very-good-reason-to.html.

9. Reuters, http://www.reuters.com/article/idUSTRE68S3QE20100929.

10. See, e.g., Scott Linicome, http://lincicome.blogspot.com/2010/01/potus-trade-pitch-misses-plate.html.

11. See, e.g., Economic Policy Institute, http://www.epi.org/publications/entry/bp171/.

12. For a discussion of the perils of insisting on reciprocity, see Scott Lincicome, http://lincicome.blogspot.com/2010/02/perils-of-reciprocal-trade-policy.html. For a comprehensive analysis of the costs and benefits of reciprocity and the costs and benefits of unilateral trade liberalization, see Daniel Ikenson, "Leading the Way: How U.S. Trade Policy Can Overcome Doha's Failings," Cato Institute Trade Policy Analysis no. 33, June 19, 2006.

13. Encyclopedia Britannica, http://www.britannica.com/bps/additionalcontent/18/34319223/QampA-With-US-Ambassador-Susan-C-Schwab-US-Trade-Representative.

14. See, e.g., *New York Times*, http://www.nytimes.com/1996/11/02/business/mickey-kantor-gutsy-campaigner-has-smoothed-clinton-s-path.html?scp=31&sq=kantor%20NAFTA%20exports&st=cse; and http://www.america.gov/st/texttrans-english/2009/November/20091106140537xjsnommis0.3027002.html#ixzz1AYNyoXYp; see also Scott Lincicome, http://lincicome.blogspot.com/2010/03/hocus-potus-2010-us-trade-policy-agenda.html.

15. See, e.g., the statements of the current chairs of the House Ways and Means Committee and the Trade Subcommitee in regards to legislation proposing a commission to investigate the causes of the trade deficit, available at http://republicans.waysandmeans.house.gov/News/DocumentSingle.aspx?DocumentID=201198.

16. Cato Institute, http://www.cato-at-liberty.org/media-feeds-americas-skepticism-about-trade/#more-20197.

17. See, e.g., *Washington Post*, http://www.washingtonpost.com/wp-dyn/content/article/2011/01/20/AR2011012007089.html.

18. ChamberPost, http://www.chamberpost.com/2011/01/top-ten-reasons-trade-is-good-for-america.html?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed:+Chamberpost+(The+ChamberPost).

19. See, e.g., David Dollar and Aart Kraay, "Trade, Growth, and Poverty," World Bank, Development Research Group, June 2001, or Council of Economic Advisers, "The History and Future of International Trade."

20. See, e.g., Public Citizen, http://www.citizen.org/documents/SOTU.pdf.

21. For a comprehensive treatment of this subject, see Daniel Ikenson, "Thriving in a Global Economy: The Truth about U.S. Manufacturing and Trade, Cato Institute Trade Policy Analysis no. 35, August 28, 2007. See also *The American*, http://blog.american.com/?p=25164.

22. Cato Institute, http://www.cato-at-liberty.org/media-feeds-americas-skepticism-about-trade/#more-20197.

23. Blogspot, http://1.bp.blogspot.com/_otfwl2zc6Qc/TQWl8UsaCuI/AAAAAAAAOuA/LkdxeTbfABI/s1600/imports.jpg.

24. For a comprehensive treatment of this subject, see Daniel Ikenson, "Made on Earth: How Global Economic Integration Renders Trade Policy Obsolete," Cato Institute Trade Policy Analysis no. 42, December 2, 2009. For a shorter analysis and updated statistics, see http://lincicome.blogspot.com/2010/01/explaining-ipads-stunning-price.html.

25. See Cato Institute, http://www.cato-at-liberty.org/lies-damned-lies-and-trade-statistics/.

26. Of course, certain exceptions, such as those based on valid national security concerns, should apply. As Milton Friedman stated, "it cannot be denied that on occasion [national security] might justify the maintenance of otherwise uneconomical productive facilities." However, more often than not, anti-trade policies based on national security, such as unilateral sanctions or steel tariffs, have proven to be ineffectual or unnecessary.