

Consuming Interest

Since the days of Adam Smith, economists have preached that competition is the consumer's best friend. The principle doesn't change with the nationality of the suppliers. Imports enrich the marketplace by adding to the variety of goods and services. Sometimes, foreign products offer higher quality, better design or added features. Often, imports are cheaper.

Imagine the American consumer without foreign goods and services. Car buyers couldn't drive off the lot in eight of the 10 highest-rated vehicles. Brides' fingers would no longer sparkle with the best diamonds from Africa. Restaurants couldn't serve real margaritas because Mexico makes the only genuine tequila. There'd be no titanium to forge the high-tech clubs that help golfers hit monster tee shots. We'd have no Swiss chocolate or German cutlery.

The United States imports nuts from 67 different countries. Italy sends us almonds. We get cashews from India, pistachios from Turkey and Brazil nuts from Bolivia. Variety is the spice of life, and we'd lose some of it without imports: cloves from Madagascar, nutmeg from Guatemala, pepper from India.

In millions of everyday decisions, American shoppers show they're quite aware of the value of imports. Just look at what we're buying from one country—China. The Asian giant has become one of the United States' leading sup-

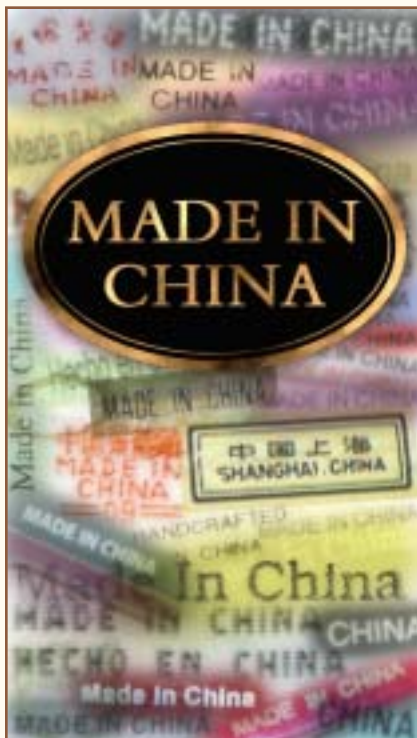
The World in a Can

In the average can of mixed nuts, you might find almonds from Italy, walnuts from China, Brazil nuts from Bolivia, cashews from India, pistachios from Turkey, hazelnuts from Canada—a true international assortment. Imports add spice to life by offering consumers a nearly limitless array of choices.



EXHIBIT 5. **Made in China**

You don't have to shop at Pier 1 Imports to see "Made in China." A trip to just about any major U.S. retailer—Wal-Mart, Best Buy, Toys"R"Us, Banana Republic—will turn up troves of Chinese imports that we enjoy in everyday life. We get 88 percent of our imported radios from China, 83 percent of our imported toys, 70 percent of leather goods and 67 percent of shoes. In 2002, the United States imported more than \$8 billion in sneakers and other shoes from China, \$6 billion in toys and \$3 billion in VCRs. It adds up to 11 percent of overall U.S. imports, up from just 0.5 percent in 1980. What would we do without China? Pay more and have less, that's for sure.



Stocking Up on Chinese Goods

Top imports (billions of dollars)	Top imports (percentage of all imports)
8.6 Shoes	88 Radios
6.1 Toys	87 Christmas and festive items
5.6 Input–output units	83 Toys
5.1 Data processing machine parts	70 Leather goods
3.2 VCRs	67 Shoes
2.6 Wood furniture	67 Handbags
2.0 Transmission equipment	65 Lamps and lights
1.7 Data storage units	64 Cases for cameras, eyeglasses, etc.
1.6 Christmas items	60 Drills, power tools
1.6 Video games	56 Household plastics
1.6 Telephone sets	54 Sporting goods
1.4 Sweaters and pullovers	53 Ceramic kitchenware

pliers of toys, leather goods, power tools, shoes and electronics. Americans bought \$123 billion in products from China in 2002. (See Exhibit 5.)

If imports only added variety and quality to the marketplace, they'd be a boon to consumers. But foreign goods also help keep a lid on prices. They do it in two ways—by being cheaper themselves and by encouraging U.S. competitors to lower their prices.

Over the past five years, U.S. prices have actually fallen for a wide range of traded goods, such as computers, clothing, toys and photographic supplies. Most television sets now come from overseas, and their prices are down nearly 10 percent in the past five years. Americans pay 15 percent less for other video equipment and more than 25 percent less for computers and peripherals.

At the same time, inflation hit hardest at goods and services that face little or no foreign competition, such as college tuition, medical services and cable television service. (See Exhibit 6 on the next page.)

Above all else, trade is a pocketbook issue. Consumers' well-being, not corporate profit, is the true measure of an economy's success. When producers from all over the world vie with our homegrown companies for Americans' dollars, our consumers win.

EXHIBIT 6. Wanted: More Cheap Imports

Trade fosters competition, which rewards productivity and restrains cost. That's why products that cross borders tend to have lower inflation rates than ones that don't. Between 1997 and 2002, prices fell for a whole array of highly traded goods—TV sets, toys, dishes, clothing, cars, rice and more—while rising for largely nontraded ones—sugar, peanut butter, haircuts, rent, prescription drugs, hospital services and the like. Free trade is the consumer's best friend.

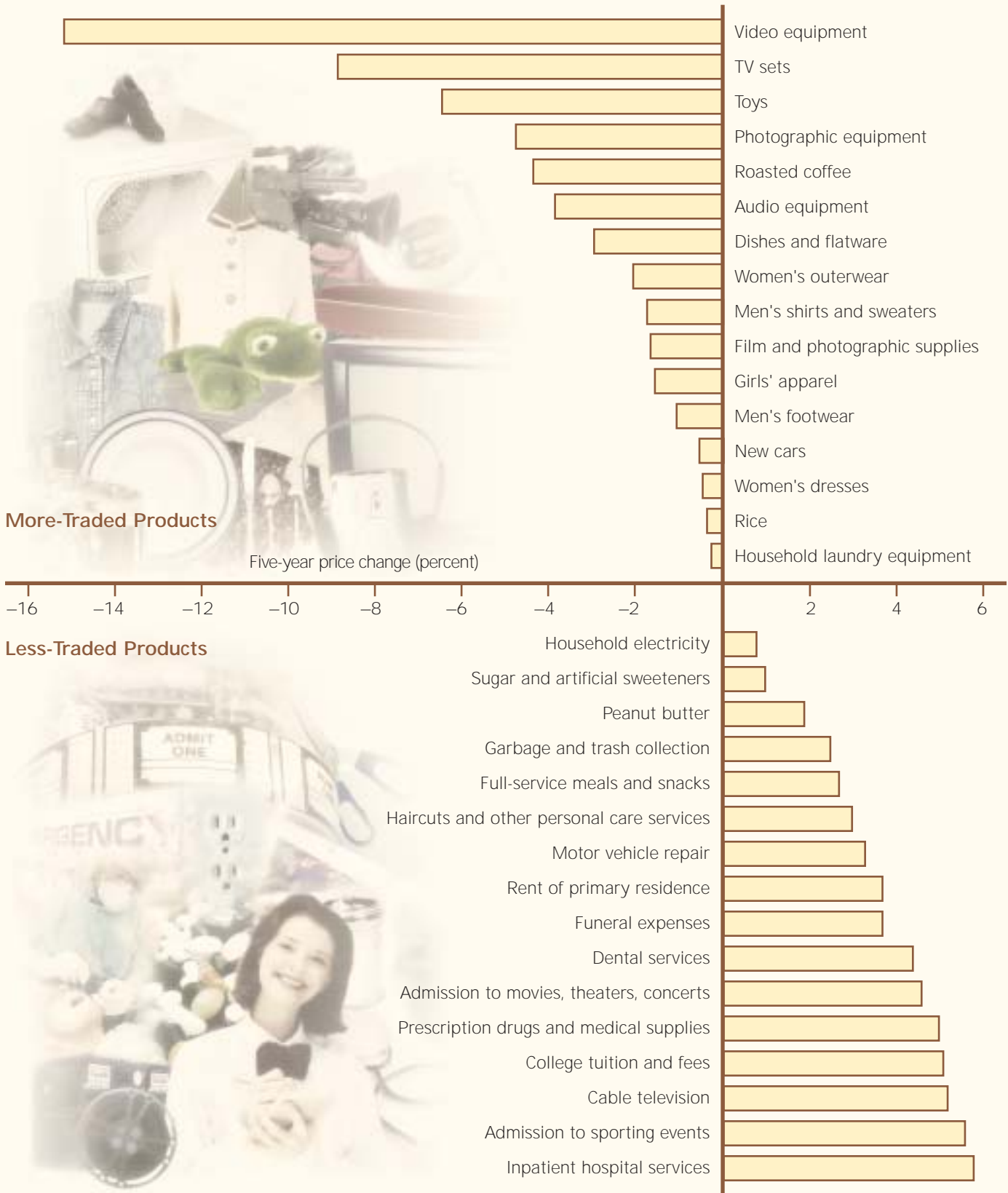
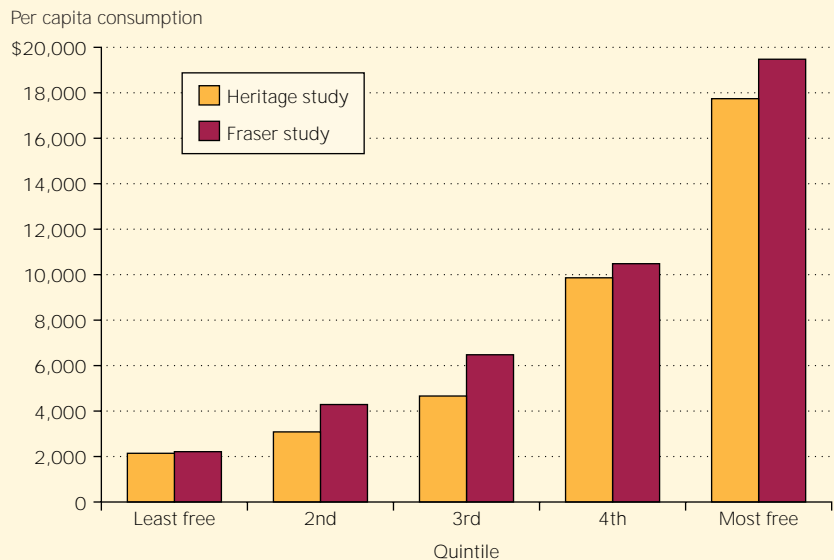


EXHIBIT 7. Free to Consume

People who live in free countries enjoy substantially higher living standards than those living in repressive countries. The World Bank collects data on per capita consumption by country. Two independent research groups—the Heritage Foundation in Washington, D.C., and the Fraser Institute in Canada—measure economic freedom across the world using a broad variety of criteria based on key components of free enterprise, including trade policies and openness to foreign investment. Relating the consumption and freedom data sets, one finds that per capita consumption in the economically freest fifth of countries is eight to nine times that of the least free fifth.

Economic Freedom and Consumption



A Tale of Two Countries



In North Korea, which ranks lowest in economic freedom, consumers must wrangle for the most basic items, even food. Per capita income averages just \$950 annually.



South Koreans enjoy the bounty of a capitalist-oriented, economically free society. Per capita income is \$11,428—12 times that of North Korea.

Nations open to the world economy prosper, while those that hide behind trade barriers do not. Consider China. Once a leading economic power, China closed itself off from the rest of the world in the 15th century. The result was hundreds of years of economic decline, only now being reversed by more open policies. Research comparing nations' economic freedom with their economic performance finds that citizens of countries ranking in the top fifth in economic freedom consume almost twice as much per capita as those living in the next lower 20 percent. They're eight to nine times better off than residents of the least free nations. (See *Exhibit 7*.)

Not surprisingly, the United States and other capitalist nations rank high in both per capita consumption and economic freedom. For the most part, U.S. tariffs are low, averaging just 1.7 percent of the value of imports. What tariffs



we do impose impact only a few industries, such as agriculture, textiles and apparel. (See Exhibit 8.)

The poorest consumers live in countries ranked as the most closed to the outside world, including Cuba, Zimbabwe, Laos, Libya and Belarus. Communist North Korea sits at rock bottom in terms of economic freedom, and its standard of living pales in comparison with that of capitalist South Korea, a much more open country with similar cultural roots.

Competition makes nations stronger. Protectionism condemns them to weakness. Countries that hide behind barriers don't perform as well as free traders. Switzerland's International Institute for Management Development generates an annual index of competitiveness, based on hundreds of factors that reflect economic strength. A strong correlation exists between the most competitive nations and countries that rank high on measures of economic openness. Closed economies, of course, are among the least competitive.

Liberal trade policies aren't a panacea, of course. Like Argentina, countries can continue to struggle after opening their markets to foreign competition. They fail to understand that free trade works when nations integrate it with other key tenets of capitalism, such as respect for property rights, free labor markets and less government regulation.

Competition from abroad can dislocate some workers, sap some company profits and roil some markets. So do new products, new technologies and new business strategies. We've learned to endure—even celebrate—the home-grown forces of economic change as essential elements of economic progress. We should do the same for international trade and investment.

EXHIBIT 8. The Tax on Trade

Reduced tariff rates lowered trade barriers and helped stimulate economic growth in recent decades. A growing number of nontariff barriers, however, threaten to undo the good. Voluntary export restraints; antidumping laws; government subsidies; licensing, labeling and packaging restrictions; domestic-content laws and others have emerged as the new enemies of free trade.

