

Issue Brief

FEBRUARY 1, 2022
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America COMPETES Act Would Make America Less Competitive

The House of Representatives is currently considering H.R. 4521, the [America Creating Opportunities for Manufacturing Pre-Eminence in Technology and Economic Strength \(America COMPETES\) Act of 2022](#).¹ Many provisions of the bill would make us less competitive and weaker relative to China and other countries.

The trade section of the bill, “Division K: Matters Relating to Trade” contains several questionable provisions, including:

The Level the Playing Field Act 2.0: This provision would exacerbate the unlevel playing field between interest groups seeking tariffs and Americans as a whole by making it easier for the government to impose tariffs even when everyone agrees they would do far more harm than good. That’s because federal law prohibits government agencies from accounting for the impact of trade remedy duties on downstream industries or the economy as a whole.

Consider recent tariffs on fertilizers and fertilizer inputs. According to the president of the [National Corn Growers Association](#), “Farmers are feeling the pain from these tariffs. We’re facing severe cost hikes on our fertilizers, and we are worried about fertilizer shortages.”² Or consider U.S. homebuyers affected by tariffs on lumber imported from Canada. According to the chairman of the [National Association](#)

¹ Text of H.R. 4521, The America COMPETES Act of 2020. U.S. House of Representatives Rules Committee Print 117031, January 25, 2022.

² Whitlock, Jennifer. “U.S. court to review farm groups’ request on fertilizer tariffs.” Texas Agriculture Daily, December 1, 2021.

Key Facts:



Many provisions of the America COMPETES Act could make us less competitive.



The bill’s trade provisions appear to have largely been designed by people who think the solution to a frayed American supply chain is to sever it entirely.



The government should not provide preferential treatment to someone who loses their job due to trade as opposed to those who lose their job due to an economic downturn, government-mandated business closures, technological changes, or domestic competition.

[of Home Builders](#), “If the administration’s decision to double tariffs is allowed to go into effect, it will further exacerbate the nation’s housing affordability crisis, put even more upward pressure on the price of lumber and force millions of U.S. home buyers and lumber consumers to foot the bill for this ill-conceived protectionist action.”³

In 2021, 96 Members of Congress expressed concern about [lumber prices](#) and [11 Senators](#) urged against the imposition of tariffs on fertilizer.^{4 5} In response, the Department of Commerce [doubled the tariff](#) on lumber imports from China and the U.S. International Trade Commission (ITC) approved duties of up to [47.05 percent](#) on phosphate fertilizer imports from Morocco and Russia.^{6 7}

No changes should be made to U.S. trade remedy laws until Congress first allows trade agencies to consider the impact of proposed new tariffs on the competitiveness of the American economy. The need for this change is highlighted by shortages, inflation, and supply chain disruptions that have been amplified by tariff costs.

The Import Security and Fairness Act: This measure proposes to weaken U.S. de minimis provisions relating to imports. Currently, imports valued at \$800 or less are exempted from duties and taxes. In 2015, Congress increased the de minimis threshold to boost the U.S. economy.

According to the Trade Facilitation and Trade Enforcement Act of 2015: “Higher thresholds for the value of articles that may be entered informally and free of duty provide significant economic benefits to businesses and consumers in the United States and the economy of the United States through cost savings and reductions in trade transaction costs.”⁸ This legislation passed 256 to 158 in the House of Representatives and 75 to 20 in the Senate.

Soon after the United States increased the de minimis threshold to \$800, China increased its de minimis [exemption](#) for goods imported from the United States and other countries to 5000 Chinese Yuan Renminbi, or about \$791.⁹

The Imports Security and Fairness Act would eliminate the de minimis exemption for imports from countries like China, reducing the economic benefits the \$800 de minimis level provides for American businesses and consumers and increasing the burden on U.S. Customs and Border Protection (CBP) agents by requiring them to review every low-value good purchased on eBay and other platforms, exacerbating U.S. supply chain problems. Surely, CBP has more pressing priorities than attempting to tax every 34-cent pair of [nail clippers](#) imported from China.¹⁰

The National Critical Capabilities Defense Act: This provision would create a new burden on U.S. businesses by requiring them to report on their proposed offshoring of supply chains and creating a whole-of-government screening process for outbound investments, giving the federal government a blank check to screen outbound U.S. investments to “foreign adversaries.”

This provision is superficially designed to target investment flows to China, but its supporters “have made it clear that they want to discourage all outgoing investment flows. According to the official [summary](#) of this proposal, “The frayed American supply chain and our continued bleeding of industrial capacity offshore represents a dangerous national security threat to the United States.”¹¹

³ “Move to Double Lumber Tariffs Shows White House Does Not Care About Housing Affordability.” National Association of Home Builders, May 22, 2021.

⁴ “Hern leads bipartisan letter to USTR Amb. Tai on lumber shortage.” Press Release, May 17, 2021.

⁵ “Sen. Moran Leads Call on the ITC to Oppose New Duties on Phosphate Fertilizers.” News Release, March 1, 2021.

⁶ “Move to Double Lumber Tariffs is a Gut Punch to American Home Buyers, Home Owners.” National Association of Home Builders, November 24, 2021.

⁷ Tomson, Bill, “Court to weigh farm entreaty on fertilizer tariffs.” AgriPulse, November 24, 2021.

⁸ Public Law No: 114-125 (2016).

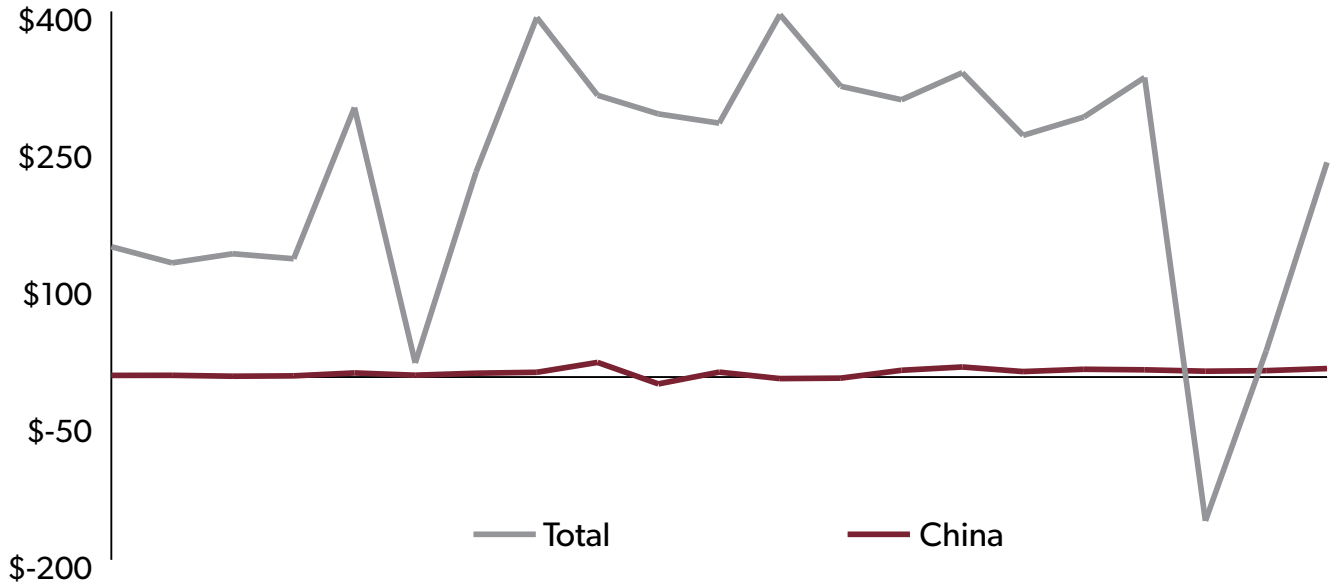
⁹ “China Widens Door to E-Commerce by Easing Duty-Free Import Limit.” Sandler, Travis & Rosenberg, P.A., March 18, 2018.

¹⁰ “Stainless Steel Nail Cutter Clippers.” Alibaba.com.

¹¹ “H.R. 4521, The America COMPETES Act of 2022.” Office of Speaker of the House Nancy Pelosi.

The United States is not bleeding industrial capacity. Prior to the global pandemic, U.S. industrial capacity had [never been higher](#). That's in part because of foreign direct investment in the United States totaling [\\$4.6 trillion](#) and another [\\$13.6 trillion](#) in foreign investment in U.S. corporate stocks as of 2020.^{12 13} It seems strange to call U.S. investment abroad a “dangerous national security threat” given that the value of foreign investment in U.S. companies and the stock market exceeds U.S. investment in foreign companies and markets by \$3.55 trillion.

Figure 1: Annual U.S. Direct Investment Abroad, Financial Outflow Transactions Without Current-Cost Adjustment (Billions)



Moreover, U.S. foreign direct investment in China represents just [2.01 percent](#) of total U.S. foreign direct investment.¹⁴ Obstacles to investment growth in China include rising [labor costs](#) and, as the Office of the U.S. Trade Representative has [documented](#), a variety of Chinese policies ranging from weak protection of property rights to unfair investment rules that encourage companies to locate elsewhere.^{15 16}

One danger is that the National Critical Capabilities Defense Act would encourage other countries to adopt copycat restrictions on new foreign investment in the United States. Another is that U.S. outbound restrictions would expand from narrowly targeted foreign adversaries like China to other countries. Just look at the “national security” tariffs and quotas the U.S. government currently [maintains](#) on steel and aluminum imports from our closest allies to see how investment restrictions might work in practice.

Resolution Reaffirming the Commitment of the United States as a Member of the World Trade Organization: Fortunately, the America COMPETES Act recognizes the [benefits](#) of U.S. membership in the World Trade Organization (WTO): “The United States Trade Representative should continue to lead and work with other countries to pursue reforms at the WTO that create new rules and structures that can serve the United States interests while promoting peace, prosperity, and open markets and societies.” The WTO has enabled major reductions in world trade barriers and provided a neutral forum to mediate disputes that might otherwise escalate to trade wars. The resolution would reassure our trading partners that the U.S. is committed to continued progress.

Generalized System of Preferences: Before it expired in 2020, the Generalized System of Preferences (GSP) provided for limited tariff-free treatment for some goods imported from low-income countries. If Congress

¹² “Direct Investment & Multinational Enterprises (MNEs).” Bureau of Economic Analysis.

¹³ “Foreign Residents’ Holdings of U.S. Long-term Securities by Security Type.” Federal Reserve Bank of the United States.

¹⁴ “Direct Investment & Multinational Enterprises (MNEs).” Bureau of Economic Analysis.

¹⁵ Donaubauer, Julian, and Christian Dreger, “The End of Cheap Labour: Are Foreign Investors Leaving China?” IZA Discussion Paper, July 2016.

¹⁶ “Findings Of The Investigation Into China’s Acts, Policies, And Practices Related To Technology Transfer, Intellectual Property, And Innovation Under Section 301 Of The Trade Act Of 1974.” Office of the U.S. Trade Representative, March 22, 2018.

cares about helping people in developing countries, it should [expand](#) the number of countries eligible for GSP and give all imports from those countries tariff-free treatment.¹⁷ As an added benefit, this approach would encourage sourcing shoes, clothing, and other products from countries other than China.

Instead, the America COMPETES Act includes a watered-down version of GSP that makes it more difficult for countries to qualify for GSP benefits.

Miscellaneous Tariff Bill Act: The legislation also reauthorizes the Miscellaneous Tariff Bill Act, which provides temporary tariff reductions on certain imports to support U.S. manufacturers. This is a positive step, but unfortunately the bill also narrows the list of products eligible for tariff reduction. If Congress really wants to boost U.S. economic strength, it should permanently eliminate tariffs on all inputs used by U.S. manufacturers and ranchers.

Trade Adjustment Assistance (TAA): The bill includes several provisions designed to help workers and firms who are harmed by international trade. This approach is misguided. The government should not provide preferential treatment to someone who loses their job due to trade as opposed to those who lose their job due to an economic downturn, government-mandated business closures, technological changes, or domestic competition.

Economist Donald J. Boudreaux of the Mercatus Center [pointed out](#): “Relative to overall routine job destruction and creation — ‘job churn’ — the number of American jobs destroyed by trade is minuscule.”¹⁸ With respect to imports from China, [Adam Posen](#), president of the Peterson Institute for International Economics, observed: “for each manufacturing job lost to Chinese competition, there were roughly 150 jobs lost to similar-feeling shocks in other industries.”¹⁹

Instead of the proposed “TAA for Farmers,” agricultural producers would be much better served by renewal of Trade Promotion Authority, allowing the president to negotiate new trade agreements that remove barriers to expanded trade. As the Department of Agriculture [reports](#): “Trade is essential to the U.S. agricultural sector, with agricultural exports accounting for more than 20 percent of the volume of U.S. agricultural production.”²⁰

Overall, the America COMPETES Act could be improved by replacing limited TAA provisions with more broad-based legislation designed to benefit all American workers. During the last session of Congress the House [Republican Study Committee](#) (RSC), led by Rep. Mike Johnson (R-LA), at the time RSC Chairman, and Rep. Andy Barr (R-KY), compiled more than 100 proposals worth looking at.

Conclusion

The National Taxpayers Union has characterized the America COMPETES Act as a [\\$320 billion grab bag of waste](#).²¹ The bill’s trade provisions appear to have largely been designed by people who think the solution to a frayed American supply chain is to sever it entirely. While the America COMPETES Act contains some beneficial provisions, most of the tariff and investment measures would tend to exacerbate supply chain problems and contribute to inflationary pressures.

About the Author

Bryan Riley is the Director of NTU's Free Trade Initiative.

¹⁷ Riley, Bryan, “Tariffs Aren’t Working to Change China. Here’s a Better Idea.” National Taxpayers Union Foundation, November 26, 2019.

¹⁸ Boudreaux, Donald J., “Trade is Not a Job Killer.” New York Times, March 28, 2018.

¹⁹ Zakaria, Fareed, “Candidate Biden was right on trade. President Biden is wrong.” The Washington Post, October 7, 2021.

²⁰ Frequently Asked Questions. Economic Research Service, U.S. Department of Agriculture, updated December 1, 2021.

²¹ Lautz, Andrew, “The House Chips Bill Is Not Just \$50B for Semiconductors; It’s a \$320B Grab Bag of Waste.” National Taxpayers Union, January 27, 2022.



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