

Debate

Should Footwear Tariffs Be Eliminated Under the Trans-Pacific Partnership?

ISSUE: Should tariffs on footwear be eliminated under the Trans-Pacific Partnership Agreement if it means the loss of American jobs?

Tariffs are a type of tax imposed on imports being shipped into a country. Such a tax has both advantages and disadvantages for the economy. Imports that are subject to tariffs often cost consumers more because they are sold at higher prices. Additionally, multinational companies such as Nike, which manufactures its shoes in foreign countries, have to pay more to have them imported into the United States. On the other hand, tariffs give domestic products the ability to compete against products manufactured in foreign countries. Labor and materials often cost less in other countries than in the United States. Without tariffs imported products could be priced much lower, which could in turn undercut domestic manufacturers that pay their workers more and/or use more costly materials. One example is footwear. Because labor costs are so low in countries like Vietnam, companies like Nike have contracted with factories there to manufacture shoes. Yet tariffs on footwear have made them more expensive to import into the United States, giving rival companies such as New Balance a chance to compete on price.

All this might change, however, with the Obama administration's drive to enter into the Trans-Pacific Partnership Agreement. The Trans-Pacific Partnership is a trade agreement that seeks to increase trade and economic cooperation between Asia-Pacific countries. The partnership would include the United States, Australia, Brunei, Chile, New Zealand, Malaysia, Vietnam, Peru, and Singapore. If enacted the agreement would lower barriers of trade between the countries. Tariffs between the countries would be phased out, making importing easier and less costly.

The possibility that tariffs on footwear could be eliminated has garnered mixed reactions from American shoe companies. Nike has jumped at the idea of eliminating tariffs. Although it is an American company, Nike manufactures all of its shoes overseas. The Trans-Pacific Partnership's agreement to phase out tariffs would make importing the shoes less expensive. Nike argues that this would decrease the cost of footwear for American consumers. It also anticipates being able to create more jobs, from engineering to product design. Many other business owners are happy as well. They believe that getting rid of tariffs will increase trade and business opportunities between the United States and countries such as Vietnam, which will also create additional job opportunities.

However, many domestic companies oppose the elimination of tariffs. They claim that in a country where manufacturing has largely been shipped overseas, it is important to protect the few businesses left that still manufacture domestically. One of these businesses is footwear company New Balance. New Balance does have factories in Asia but also manufactures domestically in the United States. New Balance claims that it offers essential jobs to communities where other factories have closed. New Balance pays its workers \$10 per hour, whereas factories in Vietnam and China pay approximately 46 cents per hour. One of the reasons New Balance is

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able to compete in spite of higher labor and production costs is because tariffs level the playing field. Because tariffs make imported products more expensive, footwear products from Nike and New Balance are closer in price. Yet New Balance warns that eliminating tariffs will make the marketplace uncompetitive because companies like Nike would be able to sell their shoes at much lower prices. New Balance would therefore have to close down its U.S. factories and move all manufacturing overseas.

The dilemma facing the U.S. government is a tricky one. On the one hand, eliminating tariffs could increase trade, lower prices for consumers, and create additional investment opportunities in Asian countries. Supporters believe that it is unfair to ignore the many benefits and opportunities this could create for Americans simply to protect a few domestic companies. On the other hand, it could also force the closure of some of the few remaining domestic manufacturing facilities. Additionally, some critics point out that there is no guarantee that companies such as Nike will keep prices low even if tariffs are eliminated. Some claim that it is just as likely that large companies will lower prices for a little while and then increase them in order to increase their profits. The government must weigh these decisions carefully to arrive at the best solution.

There are two sides to every issue:

- 1. The benefits of eliminating footwear tariffs through the Trans-Pacific Partnership Agreement would greatly help the U.S. economy.*
- 2. Eliminating tariffs through the Trans-Pacific Partnership Agreement would damage the U.S. economy by shutting down America's few domestic footwear factories.*

Sources:

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