



# Executive Memorandum

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## FIGHTING FOR AMERICA'S ECONOMY WITH FREE TRADE

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The terrorist attacks on September 11 brought not only death and destruction to the United States, but also economic hardship. The rumblings of recession heard before the attacks quickly intensified; the stock market plummeted; and news of layoffs came almost daily. It became clear to many that without immediate action from Washington, America's economic situation could worsen.

The U.S. government must fight back by adopting policies that encourage economic growth and free trade. Signing free trade agreements with other nations is one such step. The fact that the United States, historically the world's leading proponent of free trade, trails the world in free trade agreements is troubling. In this time of economic need, Congress should waste no time in granting the President trade promotion authority (TPA) to negotiate more trade agreements. Doing so will help Washington boost the sagging economy, improve the global marketplace, re-establish America's leadership on trade, and prove to those behind the terrorist attacks that the United States remains strong.

**Importance of Trade Promotion Authority.** Of the 130 existing trade and investment agreements throughout the world, the United States is party to only two: the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on Tariffs and Trade. Many countries would like to sign a free trade agreement with the United States, but they are hesitant to enter negotiations on agreements that could be subject to countless amendments debated at length in

Congress. Trade promotion authority would assure potential trade partners that the agreements they sign with the Administration will be approved or rejected by Congress quickly and without debilitating amendments.

Since 1993, Congress has failed to grant the President trade promotion authority, formerly called "fast track." Yet, with or without TPA, U.S. Trade Representative Robert Zoellick will be at the negotiating table every day trying to forge agreements that benefit Americans. Without TPA, he is limited in what he can accomplish. Zoellick explained this point in a speech before the Institute for International Economics on September 24:

If I am pressing my counterpart from another country to his or her bottom line—or even a bit beyond—he or she will balk if the Congress makes it clear it may reopen the deal. My counterparts will fear negotiating once with me and then a second time through congressional amendments driven by special interests.

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It is possible to negotiate agreements without TPA, but it is far more difficult and thus less likely to occur. Countries are more likely to negotiate with others that possess such authority, which ensures a quick negotiating process, not a tedious one. Meanwhile, as other countries freely trade back and forth, the United States continues to fall behind.

As Pascal Lamy, the European Commissioner for Trade, has observed, "If Trade Promotion Authority is denied by Congress, it would be hard for the U.S. Administration to establish itself as a credible trading partner." Granting the President trade promotion authority at a time when the U.S. economy is struggling to respond to the massive assaults affecting vital industries would show the world that America will not retreat from its efforts to open markets to trade and investment.

**Keeping Trade Agreements Focused on Trade.** Any TPA bill before Congress must be carefully worded. Its language must be straightforward and focused on advancing trade with other nations, not bogged down with provisions for special interests or burdensome oversight. The purpose of TPA legislation is solely to grant the President authority to negotiate trade agreements with the least possible red tape. Efforts, for example, to make labor and the environment central parts of a TPA bill would neither further trade nor advance labor and environmental standards.

As occurred during the NAFTA negotiations, side agreements should be implemented to address issues like labor and the environment so that trade is not held hostage to other disputes in the future. In NAFTA's case, the side agreements actually gave labor and environmental standards higher visibility. Such side agreements effectively use fines instead of sanctions for noncompliance and require that a plan to solve a labor or environmental problem be submitted by the government at fault. By comparison, trade sanctions are counterproductive, and most countries will not sign an agreement that includes such measures.

**How Trade Benefits Americans.** Trade agreements reduce or eliminate tariffs (essentially, invisible taxes) and non-tariff barriers such as quotas and stringent regulations. Such obstacles contribute to higher costs and lower economic efficiency. In this time of economic uncertainty, maintaining high-paying jobs is crucial to economic stability. According to Ambassador Zoellick,

In the seven years since NAFTA's implementation, U.S. exports to Mexico and Canada now support 2.9 million American jobs—900,000 more than in 1993. Such jobs pay wages that are 13 to 18 percent higher than the average American wage.

Government data also reveal that the lower tariffs and higher incomes that followed the signing of NAFTA and the Uruguay Round resulted in benefits of \$1,300 to \$2,000 a year for the average American family of four. According to a recent University of Michigan study, a new trade round could deliver an annual benefit of \$2,450 for this same family.

Past trade agreements clearly have benefited Americans, but many barriers still need to be dismantled. Each barrier that is torn down will give way to new opportunities for American industry and translate into more opportunities for American workers.

**Fighting Back with Trade.** The terrorists declared war on America: its values, beliefs, culture, and products. By signing new trade agreements with other countries, the United States will show the terrorists that America, which has many allies and business partners, is undeterred by their actions. There is no better time for Congress to grant the President trade promotion authority and add a strong international economic program to the global fight against terrorism.

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