

# WebMemo



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## Free Trade with the UAE Supports America's National Security Interests

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The sale of port facilities to Dubai World Ports, a government-owned company in the United Arab Emirates (UAE), has sparked an outcry that now threatens America's free trade agenda. Legitimate concern over the sale has led Congress to review the oversight of foreign direct investment in the U.S. Some in Congress, however, would move beyond that inquiry and use national security concerns as an excuse to erect barriers to trade. Their proposals include halting free trade negotiations with the UAE, requiring annual congressional certification of existing trade agreements, and subjecting major foreign investments to congressional approval.

Protectionism of this sort is no way to boost national security. In fact, it would do the opposite. Protectionism would endanger U.S. prosperity—the cornerstone of security—strain relationships with important allies in the war on terrorism, and make it more difficult to use trade as a tool to spread American values and bolster U.S. interests. A successful strategy for improving national security must include free trade and investment.

### Free Trade and Free Markets

A strong economy, bolstered by free trade, is a pillar of national defense. The Bush Administration's 2002 National Security Strategy correctly identifies "free trade and free markets" as the keys to a secure America and necessary components of our national security strategy. As pointed out in the U.S. National Security Strategy: "Economic growth supported by free trade and free markets creates new jobs and higher incomes. It allows people to lift their lives out of poverty,

spurs economic and legal reforms, and the fight against corruption, and it reinforces the habits of liberty."

Last week, U.S. Trade Representative (USTR) Rob Portman re-emphasized this point by warning that "canceling this port deal would be contrary" to U.S. beliefs that fighting terrorism means promoting policies that create "opportunities for people to improve their lives and the lives of their families." The opportunity to promote economic freedom in the UAE through free markets and free trade should not be sacrificed in the current debate on the port deal.

Economic freedom, of which free trade is a major component, leads to faster economic growth and improved standards of living. According to The Heritage Foundation's *Index of Economic Freedom*, countries with freer trade policies experience higher per-capita GDP growth than countries that maintain trade barriers. Countries that opened their trade policies between 1995 and 2004 saw their per-capita GDP grow at an average compound rate of 2.5 percent. Countries whose trade policies were unchanged experienced an average compound growth rate of 2.1 percent in per capita GDP. Finally, countries that increased their barriers to trade managed only a 1.8 percent average compound growth rate.

This paper, in its entirety, can be found at:  
[www.heritage.org/research/tradeandforeignaid/wm1006.cfm](http://www.heritage.org/research/tradeandforeignaid/wm1006.cfm)

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These results support the 9/11 Commission's recommendation that "a comprehensive U.S. strategy to counter terrorism should include economic policies that encourage development, more open societies, and opportunities for people to improve the lives of their families and to enhance prospects for their children's future."

Consistent with the 9/11 Commission's recommendations, the Administration authorized the negotiation of a free trade agreement with the UAE in 2004 as part of President Bush's plan to create a Middle East Free Trade Area (MEFTA) by 2013. This move enjoyed broad bipartisan support at the time of the Administration's initial consultations with Congress. Last month, the USTR announced that it intends to resume free trade talks with the UAE in March.

This move is about far more than just trade. America's free trade agreements (FTAs) go beyond winning lower tariffs on U.S. agriculture, manufacturing, and services exports. FTAs contain provisions that safeguard investors from discrimination and uncompensated expropriation of property, increase regulatory transparency and eliminate excessive red tape, protect and enforce intellectual property rights, combat corruptive practices, insure nondiscriminatory government procurement, protect labor rights, and strengthen environmental protection. The USTR negotiates agreements that include transparent dispute resolution and arbitration mechanisms to guarantee that the agreements are upheld, along with the rights of U.S. firms and consumers.

Each element of an FTA strengthens the transparent and efficient flow of goods, services, and investments between member countries. FTAs open markets, protect investors, and increase economic opportunity and prosperity. In short, FTAs serve to promote U.S. interests, not weaken them.

A U.S.-UAE FTA would strengthen the spirit of entrepreneurship in the UAE and lead to new economic opportunities there. Economic liberalization, as well as economic and democratic development, would benefit immensely, and with it, a variety of U.S. interests. In every possible way, negotiating an FTA with the UAE makes sense for America.

### **A Partner and an Ally**

The UAE is one of the more open and dynamic economies of the Middle East and is the world's

third most active re-export center, after Hong Kong and Singapore. The *2006 Index of Economic Freedom* scores the UAE as "mostly free," a strong score for the Middle East. In 2005, the UAE was the U.S.'s third-largest trading partner in the Middle East, behind Israel and Saudi Arabia. The U.S. exported almost \$8.5 billion in goods to the UAE, making the country the 21st most important destination for American goods. As well, the UAE is a staunch supporter of U.S. interests in Iraq and Afghanistan and in America's war against terrorism.

This relationship could be stronger still. Free trade talks with the UAE should aim at encouraging reforms that will promote economic freedom. The UAE's economy is still shackled by a restrictive foreign investment regime and interventionist government policies. Such regulations are often restrictive and nontransparent. Tariffs on agricultural products, a ban on U.S. beef, and barriers against foreign entry into the UAE's service sector combine to keep elements of its economy well protected from competition. Removing these barriers would unblock inflows of investment and bolster economic opportunity, leading to the diversification of the UAE's economy and greater economic prosperity.

### **Conclusion**

America's national defense is Congress's chief responsibility; considering the potential security risks of a proposed sale of U.S. assets to a foreign firm is legitimate. However, this is no reason to backslide into protectionism, which would actually harm America's security interests. Improving the transparency of its oversight process may be appropriate; provoking a new wave of anti-trade policy is not.

By supporting the countries of the Middle East as they expand their trading and investment relationships with the U.S., the Administration provides a concrete and mutually beneficial path to enhance opportunity and hope in this critical region. That is no threat at all to national security.

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