

# Background

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## Why Free Trade Works for America

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U.S. trade policy and the impact of globalization on America are regularly the subjects of contentious debate both on Capitol Hill and in the media, and 2007 promises more of the same. The free trade argument is played out between those that fear the perceived negative effects of freer trade on their own narrow interests and those that embrace the economic and strategic benefits that open market policies will bring to the economy as a whole. Consequently, in today's policy world, free trade legislation passes on the margin, where every vote is critical. The loss of even a few proponents of freer trade policies could result in a costly shift away from the open market policies that have helped to bolster America's economic growth.

With free trade agreements (FTAs) with Peru, Colombia, Panama, and South Korea needing congressional approval; Trade Adjustment Assistance up for renewal; the struggle to advance multilateral trade talks in the World Trade Organization (WTO); and, critically, the need to extend the President's trade promotion authority (TPA) this summer, policymakers have ample opportunity to implement a more protectionist policy stance or to stay the course and continue to allow America to reap the benefits of open market policies.

Hiding from or ignoring the debate about globalization and its effect on the U.S. will not promote a free trade agenda. Rather, this approach merely leaves the voice of protectionism as the only voice heard on trade policy issues. Instead, a firm public commitment to

### Talking Points

- The economic benefits of free trade derive partly from the fact that trading partners are different, allowing any country embracing world markets a chance to be competitive.
- Free trade is fair when countries with different advantages are allowed to trade with a minimum of restriction and capitalize on those differences. There is no distinction between free trade and truly fair trade.
- Today's global economy offers unparalleled opportunities, and continuing to expand trade by lowering trade barriers is in America's economic interest.
- Freer trade policies have created a level of competition in today's open market that engenders innovation and leads to better products, higher-paying jobs, new markets, and increased savings and investment.
- High corporate tax rates, a relatively high minimum wage, weak protections of property rights, corruption, and other policy failures are the real threats to American jobs. Erecting trade barriers will not address these issues.

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advancing sound open market policies coupled with a presentation of the facts about the effect of freer trade and investment on America will better help to advance the cause of open market policies. For America to continue to reap the benefits of globalization and to lead the world in demonstrating how globalization progresses and evolves, the President and Congress should make a solid and public commitment to advancing open market policies.

Without political leadership on trade issues, the facts behind the benefits of America's international trade and investment policies will have to suffice in the battle to keep U.S. markets open and global trade liberalization moving forward. Not only does trade liberalization make sense from a theoretical perspective, but the data show that freer trade promotes economic growth and prosperity.

Free trade is about beating poverty and expanding economic opportunity—markedly nonpartisan issues. While working through trade policy legislation this year, Congress will have the opportunity to advocate free trade and to help America and the world reap the rewards that accrue from such policies. It is essential that lawmakers separate myth from fact and assess upcoming trade initiatives objectively. Armed with the facts, they can then help to ensure that prosperity in the U.S. and around the world has a real chance to thrive, both this year and in the longer term.

### The Tangible Benefits of Trade

The gains from freer trade are substantial. Today, the \$12 trillion U.S. economy is bolstered by free trade, a pillar of America's vitality. In 2005, U.S. exports to the rest of the world totaled \$1.2 trillion

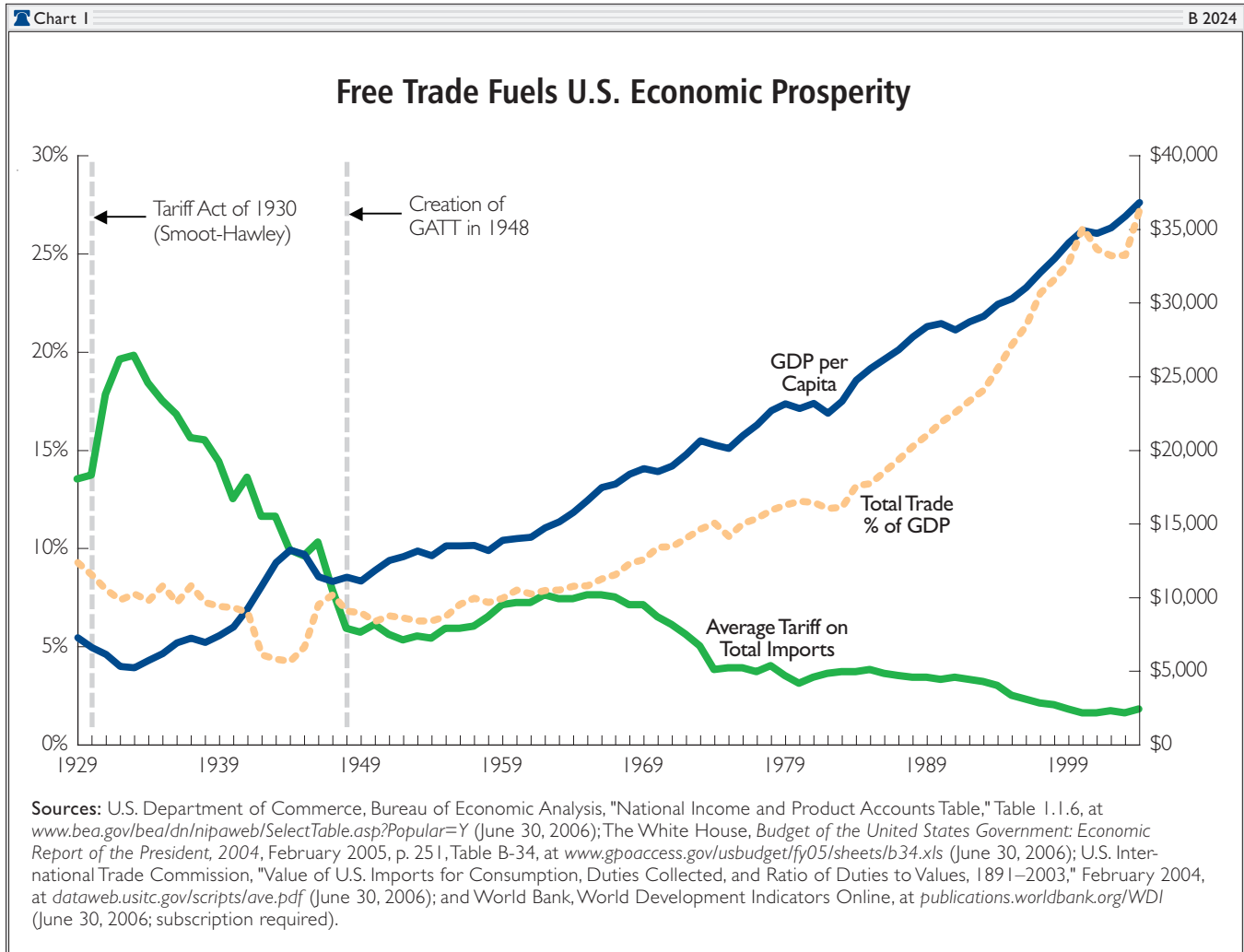
and supported one in five U.S. manufacturing jobs. Jobs directly linked to the export of goods pay 13 percent to 18 percent more than other U.S. jobs.<sup>1</sup> Moreover, agricultural exports hit a record high in 2005 and now account for 926,000 jobs.<sup>2</sup>

In Colorado, international trade supports one of every 20 private-sector jobs and more than 16 percent of manufacturing jobs. International trade supports an estimated 6.1 percent of Ohio's total private-sector employment and more than 20 percent of all manufacturing jobs. In South Carolina, trade supports one of every 10 private-sector jobs and more than 23 percent of manufacturing jobs.<sup>3</sup> State by state across America, international trade promotes opportunity.

The service sector accounts for roughly 79 percent of the U.S. economy and 30 percent of the value of American exports.<sup>4</sup> Service industries account for eight out of every 10 jobs in the U.S. and provide more jobs than the rest of the economy combined. Over the past 20 years, service industries have contributed about 40 million new jobs across America.<sup>5</sup>

As today's global economy offers unparalleled opportunities for the U.S., continuing to expand trade by lowering barriers to goods and services is in America's economic interest. Freer trade policies have created a level of competition in today's open market that engenders innovation and leads to better products, higher-paying jobs, new markets, and increased savings and investment. Small business, a critical component of the U.S. economy, creates two out of every three new jobs and accounts for about one-quarter of America's exports.<sup>6</sup>

1. Office of the U.S. Trade Representative, *2006 Trade Policy Agenda and 2005 Annual Report*, March 2006, at [www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2006/2006\\_Trade\\_Policy\\_Agenda/asset\\_upload\\_file765\\_9077.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Trade_Policy_Agenda/asset_upload_file765_9077.pdf) (January 24, 2007).
2. *Ibid.*
3. U.S. Department of Commerce, International Trade Administration, "Exports, Jobs, and Foreign Investment," at [http://ita.doc.gov/td/industry/otea/state\\_reports](http://ita.doc.gov/td/industry/otea/state_reports) (April 1, 2007).
4. U.S. Department of Commerce, Bureau of Economic Analysis, "International Economic Accounts," at [www.bea.gov/International/Index.htm](http://www.bea.gov/International/Index.htm) (January 24, 2007).
5. Office of the U.S. Trade Representative, "Free Trade in Services: Opening Dynamic New Markets, Supporting Good Jobs," May 31, 2005, at [www.ustr.gov/Document\\_Library/Fact\\_Sheets/2005/Free\\_Trade\\_in\\_Services\\_Opening\\_Dynamic\\_New\\_Markets,\\_Supporting\\_Good\\_Jobs.html](http://www.ustr.gov/Document_Library/Fact_Sheets/2005/Free_Trade_in_Services_Opening_Dynamic_New_Markets,_Supporting_Good_Jobs.html) (March 30, 2007).
6. George W. Bush, "President Bush Addresses Small Business Week Conference," The White House, Office of the Press Secretary, April 13, 2006, at [www.whitehouse.gov/news/releases/2006/04/20060413-2.html](http://www.whitehouse.gov/news/releases/2006/04/20060413-2.html) (March 30, 2007).



With more than 95 percent of the world's consumers living outside of the United States, the global marketplace is important to U.S. firms. Free trade opens the door to that marketplace and promotes America's continuing prosperity.

For over five decades, the U.S. has earned benefits from reducing its trade barriers, paving the way for substantial economic expansion and higher standards of living. Chart 1 illustrates some specific facts about free trade and the U.S. economy:

- The average U.S. tariff rate on all goods has fallen from over 19 percent in 1933 to 1.8 percent in 2004.
- As a percentage of GDP, the importance of trade in the economy has climbed from single digits in the 1930s to nearly one-quarter of U.S. GDP in 2004.
- At the same time that trade has become freer, real per capita GDP in the U.S. (in constant 2000 dollars) has climbed from a low of \$5,061 in 1933 to about \$36,000 in 2004.

Freer trade has been a driving force behind America's high standard of living and promises even more if trade barriers can be broken down even further. The Institute for International Economics estimates that over the past 50 years, trade liberalization has brought an additional \$9,000 per year to the typical American household.<sup>7</sup> The North American Free Trade Agreement (NAFTA) and the Uruguay Round of the WTO—the two major agreements of the 1990s—generate annual benefits of \$1,300–\$2,000 for the average American family of four.<sup>8</sup>

Freer trade enables more goods and services to reach American consumers at lower prices, giving

families more income to save or spend on other goods and services. Moreover, the benefits of free trade extend well beyond American households. Free trade helps to spread freedom globally, reinforces the rule of law, and fosters economic development in poor countries. The World Bank reports that in the 1990s, per capita real income grew three times faster in developing countries that lowered trade barriers than in developing countries that did not do so. In fact, over the past 25 years, roughly 500 million people have been lifted from poverty largely as a result of freer trade and market reforms.<sup>9</sup>

### U.S. Free Trade Agreements

With 150 members in the WTO, the United States benefits from the increased market access generated by past multilateral agreements. Along with multilateral trade liberalization in the WTO, regional and bilateral free trade agreements also serve as important U.S. trade policy tools.<sup>10</sup> The U.S. has been seeking comprehensive and high-standard trade agreements that are “tailored to reflect a world of high technology, complex new intellectual property standards, labor and environmental considerations, and the growth of the service sector.”<sup>11</sup>

While multilateral negotiations take time, FTAs allow the U.S. to make agreements with countries that are willing to dismantle foreign trade barriers rapidly. In the process, FTAs formed with different countries or regions can serve as building blocks for broader agreements and provide institutional competition that helps to keep multilateral talks on track.

As of April 2007, the U.S. has 10 FTAs with 16 countries: Israel; Canada and Mexico (NAFTA); Jordan; Singapore; Chile; Australia; Bahrain; Oman; Morocco; and the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua (DR–CAFTA<sup>12</sup>).

While some countries are still working to implement more recent trade agreement legislation, the U.S. has already seen impressive results. The FTAs account for more than \$900 billion in two-way trade, which is about 36 percent of the total of U.S. trade with the world. U.S. exports to FTA partner countries are growing twice as fast as U.S. exports to countries that do not share FTAs with the U.S.<sup>13</sup>

The oft-demonized NAFTA has in fact generated significant gains for the U.S. since its inception. Canada and Mexico are America’s first and second largest trade partners, accounting for about 36 percent of all U.S. export growth in 2005.<sup>14</sup> Between 1993 and 2005, U.S. manufacturing and agriculture exports to Canada and Mexico grew by 133 percent and 55 percent, respectively. Each day, NAFTA countries conduct roughly \$2.2 billion in trilateral trade.<sup>15</sup> This trade supports U.S. jobs, bolsters productivity, and promotes investment.

Whether the U.S. pursues freer trade through multilateral negotiations or through bilateral agreements, the result is fair and beneficial for America. Similar to the objectives sought by U.S. negotiators in the WTO, U.S. free trade agreements go beyond winning lower tariffs on American agriculture,

7. C. Fred Bergsten, “A New Foreign Economic Policy for the United States,” in C. Fred Bergsten, ed., *The United States and the World Economy* (Washington, D.C.: Institute for International Economics, 2005), at [www.iie.com/publications/chapters\\_preview/3802/iie3802.pdf](http://www.iie.com/publications/chapters_preview/3802/iie3802.pdf) (March 30, 2007).
8. Office of the U.S. Trade Representative, “Trade Delivers Growth, Jobs, Prosperity and Security at Home,” July 2006, at [www.fas.usda.gov/itp/Policy/2006-07factsheettradedelivers2.pdf](http://www.fas.usda.gov/itp/Policy/2006-07factsheettradedelivers2.pdf) (January 24, 2007).
9. Paul Wolfowitz, “The Challenges of Global Development,” speech before the Frankfurt, Germany, Chamber of Commerce and Industry, May 31, 2006, at <http://go.worldbank.org/DLWIJNDAK0> (March 30, 2007).
10. Based on the strategy of “competitive liberalization,” the Bush Administration has been working to advance free and open trade simultaneously on all fronts: bilateral, regional, and multilateral.
11. Office of the U.S. Trade Representative, *2006 Trade Policy Agenda and 2005 Annual Report*, p. 3.
12. Dominican Republic–Central America Free Trade Agreement.
13. Office of the U.S. Trade Representative, *2006 Trade Policy Agenda and 2005 Annual Report*, p. 3.
14. U.S. Department of Commerce, “International Economic Accounts.”
15. Office of the U.S. Trade Representative, “NAFTA: A Strong Record of Success,” March 2006, at [www.ustr.gov/assets/Document\\_Library/Fact\\_Sheets/2006/asset\\_upload\\_file242\\_9156.pdf](http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2006/asset_upload_file242_9156.pdf) (January 24, 2007).

manufacturing, and services exports. FTAs include provisions that safeguard investors from discrimination, increase regulatory transparency, protect and enforce intellectual property rights, combat corruptive practices, protect and strengthen labor rights, and support environmental protection. The U.S. Trade Representative (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. Both FTAs and multilateral trade liberalization open markets, protect investors, and increase economic opportunity and prosperity. In short, freer trade policies serve to promote U.S. interests, not to weaken them or to place an unfair burden on Americans.

### Free Trade Is Fair Trade

An artificial distinction has been drawn between “free trade” and “fair trade.” The idea that free trade is fair only if countries share identical labor costs and economic regulations or if domestic producers are compensated for market losses to more competitive foreign producers is false. The economic benefits of free trade derive partly from the fact that trading partners are different, allowing any country embracing world markets a chance to be competitive. Free trade is fair when countries with different advantages are allowed to trade with a minimum of restriction and capitalize on those differences.

Low wage costs, access to cheap capital, education levels, and other fundamental variables all play a role in determining the comparative advantages that one country has over another in the global marketplace. To “fairly” equalize those differences—provided those differences are based on a country’s economic and demographic reality—only negates or reduces a country’s ability to benefit from participating in the global trade system.

Such “fairness” also prevents countries from realizing the tangible gains from freer trade: a more competitive economic environment and better, more efficient domestic resource allocation. These positive effects drive greater long-term economic

potential, create economic opportunity, better promote a cleaner environment, and improve living standards at home.

Free trade allows a country to compete in the global market according to its fundamental economic strengths and to reap the productivity and efficiency gains that promote long-run wealth and prosperity. In reality, there is no distinction between free trade and truly fair trade.

### Trade in 2007

To continue reaping the benefits of free trade, the U.S. needs to make real progress in three main areas: bilateral trade deals, global trade negotiations via the WTO, and renewed presidential authority to negotiate trade policy.

**New FTAs.** Congress should start by actively supporting negotiations on bilateral free trade agreements and ratifying concluded agreements. The Administration and Congress should strive to ensure the timely ratification of concluded agreements with Peru, Colombia, Panama, and South Korea. FTA negotiations with Malaysia and the United Arab Emirates, as well as new opportunities with other willing partners, should be advanced. Each FTA promotes the interests of U.S. businesses and consumers and helps to maintain America’s leadership on trade.

**Completing the Doha Development Round.** U.S. leadership in the WTO and a successful conclusion of the Doha Round of multilateral trade negotiations are essential. Support of USTR negotiations in the WTO and effective reform of U.S. agriculture programs through the upcoming review of the farm bill are important elements of achieving this goal.

The stumbling block for the Doha Round is agricultural trade. While tariffs, quotas, subsidies, and other trade distortions in manufactured goods have been reduced or eliminated since the end of World War II, protectionist agricultural policies were allowed to remain until the Uruguay Round (1986–1994). The process of eliminating agricultural trade barriers was initially defined in the Agreement on Agriculture. The agreement called for trade liberalization on three fronts: market access, which refers to the regulation of imports through various poli-

cies such as tariffs and quotas; domestic support, which is aimed at protecting domestic agriculture producers through production subsidies and price support programs; and export subsidies, defined as the various policies that directly promote agricultural exports.

While the Uruguay Round did reduce agricultural tariffs, market access today remains much more restricted for agricultural products than for manufactured goods. Globally, the trade-weighted average agricultural tariff in 2001 was more than three times the average for merchandise trade. In the United States, agricultural products face a level of protection that is 1.3 times the rate of manufactured items.<sup>16</sup> On the basis of trade-weighted averages, the U.S. has low restrictions on foreign agriculture, with an average ad valorem rate of 9.5 percent. However, when extreme tariffs and tariff rate quotas (such as those on sugar and milk) are included, U.S. tariff rates can go as high as 350 percent. Both tariffs and tariff rate quotas are set to be reduced under the ongoing Doha Development Round.

Subsidies supporting agriculture producers are significant and widespread around the world. WTO members report average subsidies totaling more than \$221 billion per year,<sup>17</sup> which is a little more than 18 percent of global agricultural value added.<sup>18</sup> Based on World Bank and WTO data, the European Union and the United States each contributed a little more than one-third of total subsidies in 2001. A 2004 Cato Institute study indicates that farmers in Organisation for Economic Co-operation and Development (OECD) countries received \$279 billion (30 percent of total farm income) in some form of production support. U.S. farmers

received \$46.5 billion (18 percent of total U.S. farm income) from the American government.<sup>19</sup>

Contrary to perceptions that support goes only to small low-income farmers, large high-income farms are increasingly the beneficiaries of U.S. support programs. A recent U.S. Department of Agriculture report found that both the number and market dominance of large farms (those with sales of at least \$500,000) grew significantly between 1989 and 2003. At the same time, the number of small farms (those with sales between \$10,000 and \$250,000) fell from 40 percent of all farms in 1989 to 26 percent in 2003. With structural changes and economies of scale driving a competitive shift in farm size and earnings, commodity payments from support programs now flow increasingly to farms with little need for them. Large farms received 32 percent of all commodity payments in 2003, up from 13 percent in 1989.<sup>20</sup>

Export subsidies are the most distorting trade barriers; however, they are also the least widespread of protectionist policies implemented by countries around the world. The European Union dominates the world in the use of export subsidies, providing almost 90 percent of the total worldwide.<sup>21</sup> The U.S. ranks a distant fourth place with less than 2 percent of all export subsidies. Due to the market disruptions induced by such policies, WTO member countries are required to eliminate export subsidies, with the temporary exception of some developing nations.

Export subsidies are to be reduced under the ongoing Doha Development Round. Global barriers to agricultural trade artificially prop up domestic prices for food and food products, raising the cost of

16. Congressional Budget Office, "Policies That Distort World Agricultural Trade: Prevalence and Magnitude," August 2005, at [www.cbo.gov/ftpdocs/66xx/doc6614/08-22-Doha.pdf](http://www.cbo.gov/ftpdocs/66xx/doc6614/08-22-Doha.pdf) (March 30, 2007).

17. *Ibid.*, p. 22, Table 12.

18. Based on calculations using data from the World Bank, World Development Indicators database, at <http://devdata.worldbank.org/data-query> (April 1, 2007).

19. Daniel Griswold, Stephen Slivinski, and Christopher Preble, "Ripe for Reform: Six Good Reasons to Reduce U.S. Farm Subsidies and Trade Barriers," CATO Institute, Center for Trade Policy Studies *Trade Policy Analysis* No. 30, September 5, 2005, at [www.freetrade.org/pubs/pas/tpa-030.pdf](http://www.freetrade.org/pubs/pas/tpa-030.pdf) (March 30, 2007).

20. U.S. Department of Agriculture, Economic Research Service, "Growing Farm Size and the Distribution of Farm Payments," *Economic Brief* No. 6, March 2006, at [www.ers.usda.gov/publications/EB6/EB6.pdf](http://www.ers.usda.gov/publications/EB6/EB6.pdf) (March 30, 2007).

21. Congressional Budget Office, "Policies That Distort World Agricultural Trade."

living for families in the distorted markets. According to a 2004 OECD study, U.S. farm programs resulted in higher food prices and had the effect of transferring more than \$16 billion from American households to domestic farmers over and above the assistance received directly from the government.<sup>22</sup> The Office of Management and Budget estimates that American taxpayers paid over \$20 billion in agricultural subsidies in 2006.<sup>23</sup>

Barriers to agricultural trade not only burden American households, but also depress world prices of agricultural products, harming farmers in developing countries and preventing them from rising above poverty and improving their standards of living. The U.S. argues for free trade and economic liberalization, yet it refuses to eliminate the very policies that would truly allow developing countries to pursue and achieve economic prosperity. William Cline, senior fellow at the Institute for International Economics, estimated that by removing trade barriers, developed countries could convey economic benefits to developing countries that are worth about double the amount of their annual aid transfers.<sup>24</sup>

Failure to conclude the Doha Development Agenda successfully means significant lost opportunities for economic gains for countries around the world. Numerous studies have attempted to measure these gains under various trade liberalization scenarios. While the results and methodologies differ, these studies consistently show real economic gains associated with further trade liberalization. For example:

- The Institute for International Economics has calculated that moving from today's trade environment to one characterized by perfectly free trade and investment would generate an additional \$500 billion (\$5,000 per household) in annual U.S. income.
- A University of Michigan study has concluded that reducing agriculture, manufacturing, and services trade barriers by just one-third would add \$164 billion (\$1,477 per household) annually to U.S. economic activity and that completely eliminating trade barriers would boost U.S. annual income by \$497 billion.<sup>25</sup>

Overall, freeing trade stimulates economic growth, creates better jobs, encourages innovation, and improves living standards for millions of Americans. The World Bank estimates that the continued reduction of tariffs on manufactured goods, elimination of subsidies and non-tariff barriers, and a modest 10 percent to 15 percent reduction in global agricultural tariffs would allow developing countries to gain nearly \$350 billion in additional income by 2015. Developed countries would gain roughly \$170 billion.<sup>26</sup>

These gains to developing countries result both from export expansion and from reducing their own high-tariff and non-tariff barriers. Regrettably, however, developing countries generally believe that reducing protectionist policies at home will lead to economic catastrophe. As a consequence, many of these countries have thwarted progress in WTO trade negotiations by demanding preferential access to world markets without

22. Organisation for Economic Co-operation and Development, "Agricultural Policies in OECD Countries: Monitoring and Evaluation 2005," June 2005.
23. Office of Management and Budget, "Budget of the United States Government: Detailed Functional Tables Fiscal Year 2008," at [www.gpoaccess.gov/usbudget/fy08/fct.html](http://www.gpoaccess.gov/usbudget/fy08/fct.html) (April 2, 2007).
24. William R. Cline, "Effective Economic Growth for People: The Role of the United States," Center for Global Development, December 2004, at [www.cgdev.org/doc/commentary/cline\\_12\\_04.pdf](http://www.cgdev.org/doc/commentary/cline_12_04.pdf) (March 30, 2007).
25. Drusilla K. Brown, Alan V. Deardorff, and Robert M. Stern, "Multilateral, Regional, and Bilateral Trade-Policy Options for the United States and Japan," University of Michigan, School of Public Policy, Research Seminar in International Economics Discussion Paper No. 490, December 2002, at [www.fordschool.umich.edu/rsie/workingpapers/Papers476-500/r490.pdf](http://www.fordschool.umich.edu/rsie/workingpapers/Papers476-500/r490.pdf) (March 30, 2007), and "Computational Analysis of Multilateral Trade Liberalization in the Uruguay Round and Doha Development Round," Research Seminar in International Economics Discussion Paper No. 489, December 2002, at [www.fordschool.umich.edu/rsie/workingpapers/Papers476-500/r489.pdf](http://www.fordschool.umich.edu/rsie/workingpapers/Papers476-500/r489.pdf) (March 30, 2007).
26. The World Bank, *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda*, 2003, at <http://siteresources.worldbank.org/INTRGEP2004/Resources/gep2004fulltext.pdf> (March 30, 2007).

embracing trade liberalization in their domestic economies.

A 2005 Cato Institute report that examined a number of studies on trade and economic performance in sub-Saharan Africa concluded that the region's poor growth rates and low measures of economic freedom are partially a function of the countries' protectionist policies.<sup>27</sup> If the countries embraced more open trade policies and initiated other economic reform, they would reduce poverty and experience greater economic opportunity.

**Renewing Trade Promotion Authority.** TPA is vital to strengthening the hand of the United States at the negotiating table and provides a framework for improved consultation with the Congress at key trade negotiating stages. The President, regardless of political affiliation, needs the ability to sign good trade deals that expand U.S. access to overseas markets and reinforce international trade norms.

Under TPA, formerly known as fast-track authority, Congress can approve or reject an entire trade agreement but cannot alter specific provisions in the agreement. In return, the President must fulfill certain criteria specified by Congress in each free trade agreement.

Beyond the requirement for negotiating robust trade agreements, a fundamental criterion is consultation with Congress throughout the negotiations process. Once the Administration decides to pursue a trade deal, it must notify Congress at least 90 days before launching official negotiations. Relevant congressional committees and congressional oversight groups must be consulted about the possible FTA before and after the notice. TPA guidelines require the Administration to consult with Congress throughout the negotiating process. The USTR conducts the actual negotiations.

Due to the way that TPA is implemented, countries are assured that Congress will not amend an FTA after negotiations conclude. Consequently, TPA enhances America's ability to negotiate trade agreements by ensuring that U.S. commitments are made in good faith, minimiz-

ing the cost and uncertainty associated with the negotiations process.

TPA is not designed to address trade or industrial policy concerns that may be different across trade partners. TPA has two primary roles: defining the basic standards of FTAs and providing the President with the legal authority to negotiate and conclude trade agreements quickly and effectively. TPA sets the foundation from which trade talks start. As negotiations move forward, policy concerns that are unique to the bilateral trade relationship are identified and addressed. Not all trade partners are created equal; TPA should retain the flexibility needed to conclude FTAs that are beneficial to all parties.

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 and the TPA legislation that defines them do not weaken U.S. interests; they promote them.

TPA has helped the U.S. negotiate and conclude new FTAs in an efficient and timely manner. Trade liberalization through these FTAs and multilateral channels has significantly benefited the American economy.

TPA should be renewed this year without extensive changes in form. Modifying TPA opens the door to protectionist policies aimed at saving jobs in declining industries, but trade is not the key issue with jobs. Exposing uncompetitive companies to the rigor of serious competition, whether domestic or international, is not the cause of lost jobs. A better policy is to redress the factors that lead to uncompetitive firms.

High corporate tax rates, a relatively high minimum wage, weak protections of property rights, corruption, and other policy failures are the real threats to American jobs, and erecting trade barriers will not address these issues. Instead, policy-makers should use more appropriate policy tools to address these concerns. America's competitive advantages in the global market would not be

27. Marian L. Tupy, "Trade Liberalization and Poverty Reduction in Sub-Saharan Africa," CATO Institute *Policy Analysis* No. 557, December 6, 2005, at [www.cato.org/pubs/pas/pa557.pdf](http://www.cato.org/pubs/pas/pa557.pdf) (March 30, 2007).



served by making FTAs harder to negotiate, but they could be improved by healthy debates on U.S. tax and regulatory policy.

### What Congress Should Do

To continue expanding economic prosperity in the U.S. and around the world, Congress should:

- **Actively support** U.S. negotiations on bilateral free trade agreements;
- **Ratify** the concluded FTAs with Peru, Colombia, Panama, and South Korea;
- **Support** USTR negotiations in the WTO by, among other things, using the upcoming review of the farm bill to reform U.S. agricultural programs; and
- **Renew** trade promotion authority this year without extensive changes.

### Conclusion

Armed with the facts, Congress should bolster itself against “free trade fatigue” and protectionist sentiment and revitalize the drive to promote economic growth and prosperity by eliminating international trade barriers. Renewing the President’s trade promotion authority to facilitate the completion of new bilateral free trade agreements, reforming and reducing the scope of the U.S. farm bill to promote a successful conclusion to the WTO Doha Development Round, and generally guarding against populist, protectionist trade policy changes would go far toward expanding economic opportunity in the U.S. and around the world.

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