

# WebMemo



Published by The Heritage Foundation

No. 1830  
February 27, 2008

## Want More Economic Stimulus? Pass the Pending Free Trade Agreements!

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As Congress considers a second round of economic stimulus measures, it needs to look no farther than the pending free trade agreements (FTAs) with Colombia, Panama, and South Korea. These agreements have been in limbo since congressional leaders delayed action on them last summer.

International trade has been one of the biggest drivers of economic growth in recent years, and passing more agreements would accelerate that growth. FTAs also come without the baggage of an increased federal deficit or the inflationary pressure of government spending. What they bring instead are productivity gains, lower prices, and more jobs. Congress should pass the pending FTAs to stimulate the economy.

**FTA Success Stories.** Expanding trade is one of the fastest routes to economic expansion. U.S. Secretary of Commerce Carlos Gutierrez recently noted that in 2007, “U.S. exports...increased 12.7 percent to \$1.4 trillion, an all-time record. We’re on track to beat that this year with continued, double-digit growth.”<sup>1</sup> Much of the growth in gross domestic product (GDP) was a result of free trade agreements that the United States has negotiated with 14 countries.

The following facts, compiled by the U.S. Department of Commerce, provide concrete examples of the benefits that FTAs have brought to Americans.

- Since January 2000, the U.S. has implemented seven FTAs with 11 countries. Between 1999 and

2007, U.S. merchandise exports to these countries increased by 75.1 percent, compared to the 66.7 percent growth in these exports to the rest of the world.

- From 1999 to 2007, U.S. merchandise exports to Chile increased by 170 percent, or \$5.2 billion, to reach \$8.3 billion.<sup>2</sup>
- Since the United States began implementing its free trade agreement with Central American nations and the Dominican Republic (CAFTA-DR) last year, U.S. exports have grown by 13 percent.<sup>3</sup> This growth accelerated a trend. From 1999 to 2007, U.S. merchandise exports to the CAFTA-DR region increased by 78.5 percent, or \$9.9 billion, to reach \$22.4 billion. The U.S. trade balance with the CAFTA-DR region improved from a \$2.8 billion deficit in 1999 to a \$3.7 billion surplus in 2007.
- FTAs increased U.S. merchandise exports to Singapore by 61.8 percent to \$26.3 billion (in 2007); to Jordan by 211.0 percent to \$857 million; to Australia by 62.5 percent to \$19.2 billion; to Morocco by 137.3 percent to \$1.3 billion; and to Bahrain by 69.9 percent to \$591 million.<sup>4</sup>

This paper, in its entirety, can be found at:  
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Produced by the Center for International  
Trade and Economics (CITE)

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

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Taken individually, some of these figures might not seem impressive, but behind every dollar of export earnings are U.S. businesses and workers who are benefiting in a wide variety of manufacturing and service sectors. The sectors that have benefited the most include transportation equipment, machinery, electrical equipment, appliances and parts, textiles and fabrics, petroleum and coal products, computer and electronic products, agricultural products, chemicals, and miscellaneous manufactured commodities.<sup>5</sup>

**The Benefits of Free Trade.** Congress was quick to pass the first stimulus passage, but some in Congress are opposed to the FTAs. Secretary Gutierrez was worried “that there appear[s] to be a rise in U.S. protectionist sentiment that made free trade ‘a tough sell’ at the same time that governments in Europe as well as China were moving aggressively to increase their share of global trade.”<sup>6</sup>

Americans have nothing to fear from free trade. The U.S. is the world’s largest exporter. U.S. exports amounted to \$1.6 trillion in 2007 alone, and those exports generated 25 percent of U.S. GDP growth. According to Secretary Gutierrez, “The benefits of open markets are increasingly important to stabilizing and strengthening our nation’s economy.”<sup>7</sup> The Commerce Department estimates that the pending

FTAs with Colombia, Panama, and Korea (plus the recently approved FTA with Peru) would “open up markets with a combined GDP of \$1.1 trillion and 126 million consumers.”<sup>8</sup>

Surely this is a better path to economic stimulus than short-term tax rebates or increased government spending. The economy will certainly get a boost from the \$152 billion fiscal stimulus program signed into law by President Bush earlier this month, mostly as a result of the business tax cuts. However, other portions of the bill are counterproductive. As Heritage expert Rea Hederman writes, the tax rebate is “poorly targeted” and will “not have a significant effect on the economy.”<sup>9</sup>

Expanding exports by approving the FTAs, however, has all of the positives of a stimulus package and none of the negatives. As President Bush has noted, the three FTAs would expand sales opportunities for U.S. companies, thus providing “greater access for our exports and supporting good jobs for American workers.”<sup>10</sup> The President pointed to one example: In Colombia, helicopter parts face a 5 percent surcharge and a 15 percent tax that make it harder for U.S. companies to compete. The FTAs will eliminate those surcharges across the board for U.S. products, goods, and services going to these countries.<sup>11</sup>

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3. Forrest Laws Farm Press Editorial Staff, “Completing Doha Round Bush Goal,” *Delta Farm Press*, February 8, 2008, p. 2.
4. U.S. Department of Commerce, International Trade Administration, “U.S. Export Fact Sheet—2007 Export Statistics.”
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7. Carlos M. Gutierrez, “Congress should pass three free trade agreements,” *South Florida Sun-Sentinel*, February 15, 2008, at [www.sun-sentinel.com/news/opinion/sfl-forum15commercesbfeb15,0,7808417.story](http://www.sun-sentinel.com/news/opinion/sfl-forum15commercesbfeb15,0,7808417.story) (February 25, 2008).
8. Gutierrez, “Remarks at the Heritage Foundation, Washington, D.C.”
9. Rea S. Hederman, Jr., “The House Stimulus Package: The Good and the Bad,” Heritage Foundation *WebMemo* No. 1778, January 24, 2008, at [www.heritage.org/Research/Economy/wm1778.cfm](http://www.heritage.org/Research/Economy/wm1778.cfm).
10. Associated Press, “Bush urges Congress to do more for economy, but president said \$168 billion rescue package will help labor force,” MSNBC, February 11, 2008, at [www.msnbc.msn.com/id/23108344](http://www.msnbc.msn.com/id/23108344) (February 25, 2008).
11. George W. Bush, “President Bush Discusses Trade and Economy at Robinson Helicopter Company in Torrance, California,” January 30, 2008, at [www.whitehouse.gov/news/releases/2008/01/20080130-6.html](http://www.whitehouse.gov/news/releases/2008/01/20080130-6.html) (February 25, 2008).

**Conclusion.** The export sector is the brightest spot in the U.S. economy and the main reason it has avoided a recession. Boosting exports will do more to keep Americans working and put more money in the pockets of American workers than will any of other stimulus package proposed thus far.

Contrary to the propaganda of Big Labor and other anti-globalization and protectionist special interests, the three FTAs will help the economies of Colombia, Panama, and South Korea as well as

stimulate the sagging U.S. economy. Rapid passage of these pending agreements would be a win-win strategy: It would send a strong signal of our continuing commitment to global economic expansion and increase business and employment opportunities for Americans for years to come.

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