

# WebMemo



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## Win–Win Trade Agreements Would Boost the U.S. Economy

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Debates about trade and tariffs are a recurring element in U.S. history, and each time they have been resolved in favor of more freedom, Americans have enjoyed long periods of greater prosperity. Legislators should keep this history in mind and advance pending trade agreements with Colombia, Panama, and South Korea without delay or extraneous conditions.

**Our First 230 Years: More Trade, More Prosperity.** Before the Declaration of Independence mentioned taxation without representation, it accused the king of Great Britain of “cutting off our Trade with all parts of the world.” A few years later, the Founding Fathers drafted a Constitution that created the world’s most successful free trade area by strongly restricting the ability of state politicians to interfere with interstate commerce.

Following the Great Depression and World War II, the United States led the way in creating the General Agreement on Tariffs and Trade (GATT). The U.S. economy continued to grow as the number of countries participating in GATT increased from 23 to more than 150, and average tariffs fell from 38 percent in 1947 to about 4 percent today.<sup>1</sup>

In addition to declining trade barriers, improvements in transportation and technology have increased the role of trade in the U.S. economy tremendously. Since 1960, the volume of trade relative to U.S. gross domestic product (GDP) has more than tripled, from 9.3 percent to 28.7 percent.<sup>2</sup>

President Ronald Reagan made a succinct case for keeping U.S. trade robust in his 1988 State of the Union Address:

One of the greatest contributions the United States can make to the world is to promote freedom as the key to economic growth. A creative, competitive America is the answer to a changing world, not trade wars that would close doors, create greater barriers, and destroy millions of jobs.

We should always remember: protectionism is destructionism. America’s jobs, America’s growth, America’s future depend on trade—trade that is free, open, and fair.<sup>3</sup>

President Reagan understood that reducing trade barriers fuels economic growth. This relationship between freedom and prosperity is illustrated every year in The Heritage Foundation’s *Index of Economic Freedom*, which assigns each country a trade freedom rating from 0 to 100, with 100 being a perfect score. In the most recent *Index*, the world’s 10 poorest countries—those with the lowest per capita GDP—had an average trade freedom score of 64.5, while the world’s 10 richest countries had a much better average score of 87.<sup>4</sup>

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**U.S.–South Korea Free Trade Agreement.** The rationale behind The Heritage Foundation’s support for a U.S.–South Korea Free Trade Agreement (KORUS FTA) is no different now from what it was in 2006 when we wrote:

A stronger partnership cemented by advancing the KORUS FTA negotiations makes sense for both countries. Solid progress would augment the bilateral and regional strength of the two countries. Accordingly, a successful conclusion of negotiations would serve the national interests of both South Korea and the U.S. by strengthening their strategic and economic alliance. America and South Korea should capitalize on the KORUS FTA as a special opportunity.<sup>5</sup>

More recently, Heritage observed:

KORUS would be America’s largest free trade agreement in Asia. KORUS would also reduce the vulnerability of a key U.S. ally to Chinese pressure by diversifying Korea’s trading base and decreasing its economic reliance on Beijing.<sup>6</sup>

According to the U.S. International Trade Commission (ITC), KORUS would add a minimum of \$9.7 billion to U.S. exports and boost U.S. GDP by at least \$10.1 billion.<sup>7</sup>

**U.S.–Colombia Trade Promotion Agreement.** While South Korea would represent America’s third-largest free trade partner behind Canada and Mexico, FTAs with Colombia and Panama would move the U.S. closer to a Free Trade Area of the Americas.

In 1994, Heritage echoed President Reagan’s call for free trade throughout the Western Hemisphere.<sup>8</sup> More than three years ago, Heritage noted that “Free-trade agreements are one of the best tools the U.S. has to counter anti-American and anti-democratic forces in Latin America.”<sup>9</sup> We recently reiterated this point:

Failure to ratify the FTA will only generate more insecurity in Colombia. Since taking office, [President Juan Manuel] Santos has grappled with Colombia’s dual isolation—perceived isolation from the U.S. because of failure to pass the FTA and isolation from the region because of close ties with the

1. World Trade Organization, “Understanding the WTO,” at [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact4\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm) (July 11, 2011), and Thomas Oatley, “The Multilateral Trade System,” *International Political Economy* (Longman, 2011), Chapter 2, p. 4, at [http://www.unc.edu/~toatley/poli140/Chapter\\_2.pdf](http://www.unc.edu/~toatley/poli140/Chapter_2.pdf) (July 11, 2011).
2. U.S. Census Bureau, “U.S. Trade in Goods and Services, 1960 thru 2010,” June 9, 2011, at <http://www.census.gov/foreign-trade/statistics/historical/gands.pdf> (July 11, 2011), and *Historical Tables, Budget of the United States Government, Fiscal Year 2012* (Washington, D.C.: U.S. Government Printing Office, 2011), Table 1.2, at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/hist01z2.xls> (July 11, 2011).
3. President Ronald Reagan, “Address Before a Joint Session of Congress on the State of the Union,” January 25, 1988, at [http://reagan2020.us/speeches/state\\_of\\_the\\_union\\_1988.asp](http://reagan2020.us/speeches/state_of_the_union_1988.asp) (July 11, 2011).
4. Bryan Riley and Ambassador Terry Miller, “Trade Freedom Continues to Advance—Barely,” Heritage Foundation *Backgrounder* No. 2472, September 29, 2010, at <http://www.heritage.org/research/reports/2010/09/trade-freedom-continues-to-advance-barely>.
5. Anthony B. Kim, “An Agreement Among Allies: Advancing the Korea–U.S. FTA,” Heritage Foundation *WebMemo* No. 1253, November 14, 2006, at <http://www.heritage.org/Research/Reports/2006/11/An-Agreement-Among-Allies-Advancing-the-Korea-US-FTA>.
6. Bruce Klingner and James M. Roberts, “FTAs with South Korea, Colombia, and Panama Would Create U.S. Jobs and Exports,” Heritage Foundation *WebMemo* No. 3254, May 13, 2011, at <http://www.heritage.org/Research/Reports/2011/05/FTAs-with-South-Korea-Colombia-and-Panama-Would-Create-US-Jobs-and-Exports>.
7. U.S. International Trade Commission, “U.S.–Korea Free Trade Agreement: Potential Economy-Wide and Estimated Sectoral Effects,” USITC Publication 3949, September 2007, p. xvii, at <http://www.usitc.gov/publications/pub3949.pdf> (July 11, 2011).
8. Michael Wilson, “Building on the NAFTA: Forging a Free Trade Agreement,” Heritage Foundation *Backgrounder* No. 991, June 27, 1994, at <http://www.heritage.org/research/reports/1994/06/bg991nbsp-building-on-the-nafta>.
9. Helle C. Dale, “Nuance in Chavez’s Rhetoric Tells of Future Plans for Region,” Heritage Foundation *WebMemo* No. 1360, February 15, 2007, at <http://www.heritage.org/Research/Reports/2007/02/Nuance-in-Chavezs-Rhetoric-Tells-of-Future-Plans-for-Region>.

U.S. Many see Santos's new understandings with Venezuela as a species of appeasement induced by Chavez's economic pressures and by his capacity to manipulate support for FARC. Without a strong U.S. to counterbalance Chavez's bid for influence, Colombians will likely yield to an inevitable erosion of national self-esteem and security before the *Chavista* onslaught.<sup>10</sup>

According to the ITC, this agreement would boost exports by \$1.1 billion and add \$2.5 billion to U.S. GDP.<sup>11</sup>

**U.S.–Panama Trade Promotion Agreement.** Although Panama is smaller than Colombia and South Korea, its fast-growing economy is creating new opportunities for U.S. industries. Most imports

from Panama already enter the U.S. duty-free, so the trade agreement would have little impact on imports. However, the ITC estimates a big potential boost for many U.S. exporters, including increases of more than 60 percent for grain and meat exports.<sup>12</sup>

**A Significant Opportunity.** The economies of Colombia, Panama, and South Korea are as large as the combined economies of New Jersey, Arizona, and Massachusetts.<sup>13</sup> Approving pending FTAs with no strings attached would boost U.S. GDP by billions of dollars and add a positive chapter to the country's trade history. Failure to approve them would be a costly missed opportunity.

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10. Ray Walser, Ph.D., and Bruce Klingner, "Enhance U.S. Security: Pass Free Trade Agreements with Colombia, Panama, and South Korea," Heritage Foundation *WebMemo* No. 3298, June 21, 2011, at <http://www.heritage.org/research/reports/2011/06/enhance-us-security-pass-free-trade-agreements-with-colombia-panama-and-south-korea>.
11. Office of the U.S. Trade Representative, "U.S.–Colombia Trade Agreement: Increasing American Competitiveness," at <http://www.ustr.gov/uscolombiatpa/facts> (July 11, 2011).
12. U.S. International Trade Commission, "U.S.–Panama Trade Promotion Agreement: Potential Economy-wide and Selected Sectoral Effects," USITC Publication 3948, September 2007, pp. 2–7, at <http://www.usitc.gov/publications/docs/pubs/2104/pub3948.pdf> (July 11, 2011).
13. World Bank, *World Development Indicators Database*, December 2010, at [http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=&REPORT\\_ID=9147&REQUEST\\_TYPE=VIEWADVANCED](http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=&REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED) (July 11, 2011), and U.S. Census Bureau, "Gross Domestic Product by State in Current Dollars 2008," at <http://www.census.gov/compendia/statab/2011/ranks/rank28.xls> (July 11, 2011).