

# Background

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## Renew Trade Promotion Authority

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The clock is ticking on free trade. On June 30, 2007, the President's trade promotion authority (TPA) will expire. Without TPA, the Administration will no longer be able to negotiate timely, effective trade agreements.

The debate over whether or not Congress should renew TPA will be one of the main issues for the first half of 2007—and not just between free traders and protectionists. Within each camp, different ideas for modifying TPA are emerging. Some would leave TPA as it is; some would require additional guarantees and restrictions to protect U.S. workers and firms from foreign trade partners; some would seek to expand the role of Congress in the negotiation process; and, of course, some would do away with TPA all together.

In today's global economy of unparalleled opportunities for the U.S., continuing to expand trade by lowering trade barriers to goods and services is in America's economic interest. Moreover, freer trade helps to spread freedom globally, reinforces the rule of law, and fosters economic development in poor countries.

TPA has played a successful and critical role in advancing free trade policy. Congress should renew TPA as it is, allowing America to continue reaping the benefits of good policy.

### Promoting U.S. Prosperity

Ideally, free trade should be achieved through multilateral trade negotiations, but the pace of such negotiations can be slow, and consensus can be hard to achieve. Free trade agreements (FTAs) negotiated by smaller groups of countries are the next best way to

### Talking Points

- Trade promotion authority (TPA) has played a successful and critical role in advancing free trade policy. Congress should renew TPA as it is, allowing America to continue reaping the benefits of good policy.
- Adding new conditions to TPA means opening the door to protectionist policies that would harm rather than help America's ability to remain a dynamic and dominant player in the global economy.
- Trade promotion authority is vital to giving the United States a strong hand at the negotiating table and provides a framework for strengthened consultation with Congress at key trade negotiating stages.
- Current TPA rules support the development and protection of effective labor and other economic policies without forcing unrealistic and detrimental regulations on developing economies.

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promote global trade liberalization. By giving the U.S. an option of pursuing agreements with countries willing to liberalize foreign trade, FTAs can provide institutional competition to help to keep multilateral talks on track. In the process, FTAs formed with smaller groups of countries can also serve as building blocks for broader agreements in the multilateral forum.

Formerly known as fast track authority, TPA has helped the U.S. to negotiate and conclude new FTAs in an efficient and timely manner. Since the first trade agreement was signed with Israel in 1985, 10 bilateral or regional FTAs with 16 countries have been implemented.<sup>1</sup> Trade liberalization through these FTAs and multilateral channels has resulted in significant benefits to the American economy.

Today's \$12 trillion U.S. economy is bolstered by free trade, a pillar of America's vitality. The United States is the world's largest economy and largest exporter. The growth in U.S. exports accounted for about 25 percent of U.S. economic growth in the 1990s and 20 percent in 2005.<sup>2</sup> American exports support one in five U.S. manufacturing jobs. Jobs directly linked to exports pay 13 percent to 18 percent more than other U.S. jobs.<sup>3</sup> Moreover, agricultural exports hit a record high in 2005 and now account for 926,000 jobs.<sup>4</sup>

The service sector accounts for roughly 79 percent of the U.S. economy and 30 percent of the value of American exports.<sup>5</sup> Service industries account for eight out of every 10 jobs in the U.S. Over the past 20 years, service industries have contributed about 40 million new jobs across America.<sup>6</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. The United States has one of the most open markets in the world. The World Trade Organization (WTO) Uruguay Round and the North American Free Trade Agreement (NAFTA) have lowered U.S. tariffs and provided an average savings of \$1,300 to \$2,000 a year for a family of four.<sup>7</sup>

Freer trade policies have created a level of competition in today's open market that leads to innovation and better products, higher-paying jobs, new markets, and increased savings and investment. The expansion of international trade has helped to make America one of the world's wealthiest and most productive economies.

## The TPA Debate

The call for redesigning TPA reflects a growing sense that TPA legislation is the appropriate vehicle to address the perceived costs of globalization for the U.S. economy. However, using TPA to redress the alleged costs of trade is a bad idea for a number of reasons.

First, TPA is not designed to address trade or industrial policy concerns that may be different across trade partners. TPA's primary role is twofold: to establish the basic standards that each FTA should uphold and to provide 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 iden-

1. As of January 2007, the U.S. has free trade agreements with Israel; Mexico and Canada (NAFTA); Jordan; Chile; Singapore; Australia; Morocco; Costa Rica, the Dominican Republic, El Salvador, Guatemala, and Honduras (CAFTA); Bahrain; and Oman.
2. Office of the U.S. Trade Representative, *2006 Trade Policy Agenda and 2005 Annual Report of the President of the United States on the Trade Agreements Program*, March 1, 2006, at [www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2006/2006\\_Trade\\_Policy\\_Agenda/asset\\_upload\\_file151\\_9073.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Trade_Policy_Agenda/asset_upload_file151_9073.pdf) (January, 10, 2007).
3. *Ibid.*
4. *Ibid.*
5. 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) (March 5, 2007).
6. Office of the U.S. Trade Representative, "Free Trade in Services: Opening Dynamic New Markets, Supporting Good Jobs," May 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 5, 2007).
7. Office of the U.S. Trade Representative, *2006 Trade Policy Agenda and 2005 Annual Report*.

tified and addressed. Not all trade partners are created equal. TPA should retain the flexibility needed to conclude FTAs that are beneficial to all parties.

*Second*, adding more restrictive conditions to the structure of each FTA could eliminate the benefits that partner countries receive from making free trade agreements with America. This could especially affect developing countries that use U.S. FTAs to promote development and to lessen poverty. The idea that forcing more stringent labor and other standards on potential FTA partners will make freer trade “fairer” for America is false. The major economic benefits of free trade derive from the differences among trading partners, which allow any country embracing world markets a chance to become competitive. Free trade is fair when countries with different advantages are allowed to trade and capitalize on those differences.

Low wage costs, access to cheap capital, education levels, and other fundamental variables all play roles in determining what comparative advantage one country has over another in the global marketplace. To equalize those differences “fairly”—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 real gain from freer trade—a more competitive economic environment and better, more efficient domestic resource allocation. These effects drive greater long-term economic potential, create economic opportunity, and improve living standards at home.

Free trade allows a county 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. Indeed, there is no distinction between free trade and truly fair trade, and TPA legislation should continue to support that ideal.

*Finally*, adding new conditions to TPA means opening the door to implementing protectionist policies that would harm rather than help America’s

ability to remain a dynamic and dominant player in the global economy. Any negative consequences of freer trade—usually thought of as lost jobs or market share—are generally a consequence of restrictive or inappropriate economic policies, not trade liberalization. Exposing uncompetitive companies to the rigor of serious competition through international trade is not the cause of lost jobs. Instead, even in a country with relatively low tariffs and few investment restrictions, the interplay of tax, regulatory, labor, and other economic policies with relatively free flows of goods and capital can lessen or even negate the benefits of an open market.

Internationally uncompetitive corporate tax rates, a relatively high minimum wage, weak property rights protection, corruption, and other policy failures often add to the cost of freer trade, but erecting barriers will not help. Instead, policymakers should use appropriate policy tools to focus on the real issues. Making FTAs harder to negotiate will not serve America’s competitive advantages in the global market, but a healthy debate on U.S. tax and regulatory policy could make America more competitive.

### **TPA Requirements in Current Legislation**

Since 1974, Congress has granted fast track authority five times to Presidents from both parties. The first major trade bill that was approved under trade promotion authority legislation was the Trade Agreements Act of 1979, which implemented the results of the Tokyo Round of GATT<sup>8</sup> negotiations.

Under current law, congressional approval for the President’s trade promotion authority must be renewed every two years to allow the President uninterrupted authority to conduct trade negotiations efficiently and quickly. Under TPA, Congress can approve or reject an entire free trade agreement, but it cannot alter specific provisions in the agreement. In return, the President must fulfill certain criteria in each FTA, as specified by Congress.

One of these criteria is consultation with Congress throughout the negotiation process. Once the Administration decides to pursue a trade deal, it must notify Congress at least 90 days before launching official negotiations. Relevant congressional

8. General Agreement on Tariffs and Trade, created in 1947 and replaced in 1995 by the WTO.

committees and congressional oversight groups must be consulted about the possible FTA before and after the notice. According to TPA guidelines, the Administration is then required to consult with Congress throughout the negotiating process.

Additionally, TPA rules require that America's free trade agreements 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, eliminate excessive red tape, protect and enforce intellectual property rights, combat corruptive practices, ensure nondiscriminatory government procurement, protect labor rights, and strengthen environmental protection. The U.S. 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.

Due to the way that TPA is implemented, countries are assured that U.S. trade policy commitments in an FTA will not be amended by Congress after negotiations are concluded. Consequently, TPA enhances America's ability to negotiate trade agreements by ensuring that U.S. commitments are made in good faith. This minimizes the cost and uncertainty associated with the negotiation process.

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

## Conclusion

Trade promotion authority is vital to giving the United States a strong hand at the negotiating table and provides a framework for strengthened consultation with 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 strengthen international trade norms. Current TPA rules support the development and protection of effective labor and other economic policies without forcing unrealistic and detrimental regulations on developing economies.

In the process of working through TPA policy proposals, Congress will have the opportunity to become an advocate of free trade and to help America and the world reap the rewards that accrue from such policies. Or Congress could choose to isolate and deprive the U.S. of the benefits of leading and engaging the global economy. Prosperity in the United States and around the world has a real chance to thrive under the 110th Congress, but only if the Administration and Congress work as partners to advance a sound trade agenda.

One piece of legislation intends to do just that. On February 14, Representative Jeb Hensarling (R-TX) introduced a bill (H.R. 1042) that would extend current TPA an additional five years and automatically extend the President's authority unless Congress passes a concurrent resolution disapproving renewal. Such legislation not only preserves the negotiators' flexibility in bilateral and multilateral trade talks by maintaining current TPA guidelines, but also enhances the President's ability to engage in consistent, longer-term negotiations.

Eliminating the biannual fight to renew TPA would enable negotiators to devote more time and resources to working through complex issues and trade relationships. The result would be better trade agreements—both for America and for America's trading partners.

Ultimately, Congress should renew TPA without substantial, restrictive new provisions defining U.S. FTA content. Any legislation that would either erect new barriers to trade or add TPA provisions that would be too costly for the U.S. is not worthy of support. Even if Congress is able to authorize only a temporary one-year extension of TPA, this is preferable to passing bad legislation burdened with new restrictions on trade authority.

Defending free trade and fighting for new trade agreements are central tasks for Congress. Expanding global trade and America's role in world markets is fundamental to building a stronger economy at home and promoting better relationships abroad.

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