HERBERT A. STIEFEL CENTER FOR TRADE POLICY STUDIES

Free Trade Bulletin

No. 45 • June 7, 2011

As Promised, Free Trade Agreements Deliver More Trade: Manufacturing Exports Receive an Extra Boost

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Introduction

As Congress and the administration decide the fate of pending free-trade agreements (FTAs) with Korea, Panama, and Colombia, advocates and opponents will likely point to the experience of other recent bilateral and regional trade deals to support their positions. In the past decade, FTAs with 14 other nations have been signed, approved, and enacted, providing evidence to evaluate the effects of such agreements on bilateral trade flows.

After a hiatus in the 1990s, a number of free-trade agreements have been enacted in the past decade. The U.S. government entered into an FTA with Jordan in December 2001, an agreement first negotiated by the Clinton administration. After Congress approved trade promotion authority during the Bush administration in 2002, the United States entered FTAs with Chile and Singapore in January 2004, Australia in January 2005, Morocco and Bahrain in January 2006, El Salvador in March 2006, Honduras and Nicaragua in April 2006, Guatemala in July 2006, the Dominican Republic in March 2007, Costa Rica and Oman in January 2009, and Peru in February 2009.[1]

Collectively, these countries accounted for $96.4 billion in U.S. goods exports in 2010 and $71.3 billion in imports. If these 14 nations were considered a single economic unit, they would collectively be America's third largest export market, and our sixth largest source of imports.[2]

An analysis of trade flows with each of these 14 countries reveals that, on the whole, these agreements have delivered on their central promise to promote more trade between the United States and its agreement partners. Both U.S. exports and imports with this group of countries have expanded more rapidly than overall U.S. trade since each agreement was enacted.[3] This has delivered a double benefit to the U.S. economy, as exports have expanded markets for U.S. producers, while imports have delivered lower prices and more variety for American consumers and more affordable inputs for U.S. producers.

Specifically, total U.S. exports to our more recent FTA partners were 5 percent higher in 2010 than they would have been if exports to each country had grown at the same rate as our overall exports since each agreement was enacted. Imports from our FTA partners were 9 percent higher compared to overall import growth. By this rough method, imports were $5.9 billion higher and exports $4.5 billion higher, for a total boost to trade of $10.4 billion.[4]

For the politically sensitive manufacturing and agricultural sectors, the story was similar, with the recent FTAs boosting two-way trade compared to the overall trend in U.S. trade, with the additional growth concentrated in exports. Although country-specific data on services exports are more limited, the agreements appear to have delivered a boost to both imports and exports with Chile, Singapore, and Australia.

FTAs Deliver a Boost to Manufacturing Exports

Politically sensitive manufacturing trade with the 14 FTA partners has expanded more rapidly than overall U.S. manufacturing trade, especially on the export side. U.S. manufacturing exports to the recent FTA partners were 10.5 percent higher in 2010 compared to our overall export growth since each agreement was signed. That represents an additional $8 billion in manufacturing exports. Manufacturing imports from the FTA partners were actually down slightly, about 0.4 percent, compared to overall import growth (see Table 1).[5]

Manufacturing exports to Chile grew the most above the overall trend, up an additional $5.6 billion in 2010 compared to what they would have been if they had grown at the same rate as overall U.S. manufacturing exports since 2003, the year before the agreement went into effect.[6] The U.S. export categories to Chile showing the strongest

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Table 1
FTAs and Manufacturing Trade (in millions of U.S. dollars)

Country	FTA Enacted	2010 (Actual) Exports from U.S.	2010 (Actual) Imports to U.S.	Projected Exports from U.S.	Projected Imports to U.S.	Above Projected Exports from U.S.	Above Projected Imports to U.S.
Jordan	Dec–01	906	923	334	338	571	585
Chile	Jan–04	9,686	4,049	4,055	2,595	5,631	1,454
Singapore	Jan–04	27,005	15,441	26,400	19,926	604	–4,485
Australia	Jan–05	19,264	5,614	18,944	5,476	320	138
Bahrain	Jan–06	1,113	367	407	380	706	–14
Morocco	Jan–06	1,081	303	399	284	683	19
El Salvador	Mar–06	1,787	1,805	1,930	1,950	–142	–145
Honduras	Apr–06	3,608	3,136	3,716	3,570	–108	–434
Nicaragua	Apr–06	516	1,457	503	1,013	13	445
Guatemala	Jul–06	3,223	1,512	2,792	2,220	431	–708
Dominican Repub.	Mar–07	4,861	2,882	5,242	3,953	–381	–1,071
Costa Rica	Jan–09	4,379	7,077	4,756	2,365	–377	4,712
Oman	Jan–09	1,001	384	1,232	203	–231	181
Peru	Feb–09	5,620	3,225	5,363	4,091	257	–866
FTA Total		84,050	48,176	76,074	48,365	7,976	–189

Source: U.S. Census Bureau, "Foreign Trade," Country Product Trade Data.
Note: Projected exports and imports are calculated by assuming a growth rate from the base year equal to the growth of total U.S. manufacturing exports and imports. The base year is the full calendar year before the individual agreement was enacted.

growth since then were plastic materials, fertilizers and other chemicals, excavating machinery, materials handling equipment, and telecommunications equipment.[7]

Manufacturing exports to the four FTA partners in the Greater Middle East—Morocco, Jordan, Bahrain, and Oman—were $1.7 billion above the baseline of overall export growth.[8] The strongest post-agreement export growth to those markets was in the categories of passenger cars, civilian aircraft, drilling and oil field equipment, and industrial engines.[9]

On the other side of the ledger, manufacturing imports from Costa Rica in 2010 were $4.7 billion higher than they would have been if they had grown at the overall pace of U.S. imports.[10] Virtually all that growth occurred in two categories: computer accessories, peripherals, and parts; and semiconductors and related devices.[11] Imports from Chile were $1.5 billion above the baseline.[12] The extra $585 million increase in imports from Jordan was concentrated almost entirely in the apparel sector.[13] Meanwhile, imports from Singapore were $4.5 billion below the overall growth rate, and imports from the Dominican Republic were $1.1 billion below the baseline.[14]

The trade figures should offer comfort to those who fret about the manufacturing trade balance. In 2010 the United States ran a cumulative trade surplus of $36 billion in manufactured goods with the 14 most recent FTA partners.[15] That compares to a cumulative surplus of less than $7 billion with those same countries a decade ago.[16] Our largest surpluses among them are with Australia and Singapore, followed by Chile, Peru, and the Dominican Republic.

By far the most contentious of the recent agreements was the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA), which passed a Republican-controlled Congress in 2005 by a narrow margin. The regional agreement went into effect with Guatemala, Honduras, El Salvador, and Nicaragua in 2006, with the Dominican Republic in 2007, and with Costa Rica in 2009. Opponents anticipated, predictably, that the agreement would lead to a surge of imports from the lower-wage region, further eroding U.S. manufacturing. The actual results of DR-CAFTA contradict those predictions.

As the DR-CAFTA agreement has been implemented, two-way manufacturing trade with our six neighbors has grown robustly. Between 2005 and 2010, U.S. manufacturing exports to the six DR-CAFTA countries increased by 34 percent, while manufacturing imports increased 25 percent.[17] For those worried about the manufacturing trade balance, the effect of DR-CAFTA appears to be entirely benign. In the five years leading up to the passage of the agreement, 2001–2005,

the cumulative U.S. manufacturing trade balance with the six DR-CAFTA countries was a deficit of $5.2 billion.[18] In the five years since passage, 2006–2010, the cumulative balance has been a surplus of $13.0 billion.[19]

Agricultural Exports to FTA Partners Surge Ahead of Global Growth

Another politically sensitive sector is agriculture. The 14 most recent FTA partners together account for 6 percent of U.S. agricultural exports and 11 percent of U.S. imports.[20]

As with manufacturing, agricultural trade with our new FTA partners has grown faster than overall U.S. agricultural trade, with all of the additional growth coming on the export side. Among the recent FTA countries, U.S. agricultural exports were 16 percent higher in 2010 than they would have been if exports to each FTA country had grown at the world rate since enactment.[21] That amounts to just under $1 billion in additional exports above the baseline. Agricultural imports from the recent FTA partners were actually 7 percent (or $800 million) below the baseline in 2010.[22]

The most significant gains in agricultural exports were to Morocco, Peru, and Australia. For Morocco, the biggest gains since the trade agreement have come in oilseeds, food oils, and animal feeds.[23] For Peru, the biggest gains were for wheat, corn, and cotton.[24] For Australia, the gains were concentrated in animal feeds, meat and poultry, and fruits and frozen juices.[25]

For those who focus on the difference between exports and imports, the record of the trade agreements on agriculture trade has been positive. The total agricultural trade balance with the 14 recent FTA partners was a $3.2 billion deficit in 2010, compared to a projected $5 billion deficit if agricultural imports and exports to the FTA partners had grown at the overall rate of U.S. agricultural trade.[26]

Given the record of the most recent FTAs, the support of certain agricultural sectors for the agreements appears to be justified.

Services Trade Grows More Rapidly with Key FTA Partners

Data on services trade with individual countries is more limited, but the data available on bilateral trade with Chile, Singapore, and Australia show further evidence of a boost from the free trade agreements.

Two-way private services trade with those three countries grew substantially faster than overall U.S. services trade since the agreements were enacted. In 2010, total services exports to the three countries were $1.8 billion higher than they would have been if they had grown at the same rate as overall U.S. service exports. Service imports from the three partners were $1.3 billion above the baseline.[27]

For those who worry about the trade balance, our bilateral surplus in services trade with each of the three countries has grown since enactment. The total services trade surplus with the three major FTA partners has almost doubled since 2003, from $7 billion to $13 billion in 2010. As predicted by their advocates, these three recent FTAs appear to have allowed U.S. service providers to more effectively compete in key foreign markets.

Assessing the Record of Recent FTAs

After examining post-implementation trade flows, the 14 most recent trade agreements do appear to stimulate trade between the signing countries. Both our exports to and imports from our recent FTA partners have grown more rapidly than our overall trade. It is difficult to determine how much of the additional trade has been created by the agreements and how much has simply been diverted from non-agreement countries, or created by factors other than the agreement. But for whatever reasons, our imports and exports have tended to grow more rapidly with our FTA partners, fulfilling a key promise of the agreements.

Trade agreements do appear to deliver an extra kick to exports. This is what can usually be expected since most FTA partners were maintaining barriers to U.S. exports before the agreements that were generally higher than U.S. barriers to imports from the FTA partners. In this way, these agreements deliver the "level playing field" that politicians say they want. If the Obama administration hopes to double U.S. exports between 2009 and 2014, as the president has called for in his National Export Initiative, enacting trade agreements such as those pending with Korea, Colombia, and Panama should be an essential part of the strategy.

For those concerned about U.S. manufacturing, there is no evidence from the most recent trade agreements that they in any way undermine the U.S. industrial base. Judging from the 14 agreements enacted in the past decade, FTAs appear consistent with a robust increase in manufacturing exports. The often predicted and much dreaded flood of manufacturing imports from low-wage countries is nowhere to be seen in post-agreement trade flows.

Indeed, the agreements appear to boost manufacturing exports above the overall trend while having no discernable impact on manufacturing imports. Even for mercantilists obsessed with the manufacturing trade balance, the past decade of agreements appears to offer nothing but an upside. U.S. manufacturing has struggled in the past decade, but the cause has not been the passage of new bilateral and regional trade agreements.

Judging by actual U.S. trade flows since their enactment, the 14 most recent FTAs give strong evidence that trade agreements deliver the predicted boost to trade with the partner countries. Based on this record, we can expect the pending agreements with Korea, Colombia, and Panama to promote both U.S. imports and exports for the benefit of U.S. manufacturing, agriculture, and the overall U.S. economy.

Notes

1. For the dates of enactment of the various agreements, see Office of the United States Trade Representative, "Free Trade Agreements," www.ustr.gov/trade-agreements/free-trade-agreements. This study excludes the three other U.S. free-trade agreements enacted earlier with Israel (1985), Canada (1989), and Mexico (1994). Those agreements are excluded because much more time has passed since their enactment, mitigating their effects on current trade flows.

2. U.S. Census Bureau, "U.S. International Trade in Goods and Services (FT900)," December 2010, Exhibit 14, Part B, released February 11, 2011, www.census.gov/foreign-trade/Press-Release/2010pr/12/exh14.pdf.

3. This study compares the actual growth of exports and imports with a trade agreement partner to the growth of total U.S. exports and imports since the date of enactment of the FTA with that particular partner. It then calculates the difference in actual exports and imports with the trading partner in 2010 to what they would have been if they had grown at the same rate as total U.S. exports and imports since enactment. Total goods trade is analyzed on the basis of the 12 months of trade prior to enactment, while manufacturing and agricultural trade is analyzed on the basis of trade in the calendar year before enactment.

4. For monthly goods trade with individual nations, see U.S. Census Bureau, "Foreign Trade," Table: Trade in Goods with World, Not Seasonally Adjusted (data from January 1987 to present), www.census.gov/foreign-trade/balance/c0015.html.

5. For annual manufacturing trade with individual nations, see U.S. Census Bureau, "Foreign Trade," Country Product Trade Data, Product Detail and Partner Country–North American Industry Classification System (2000–present), www.census.gov/foreign-trade/statistics/country/.

6. Ibid.

7. U.S. Census Bureau, "Foreign Trade," U.S. Exports by 5-digit End-Use Code (2002–2010), www.census.gov/foreign-trade/statistics/product/enduse/exports/index.html.

8. U.S. Census Bureau, "Foreign Trade," Country Product Trade Data, Product Detail and Partner Country–North American Industry Classification System (2000–present), www.census.gov/foreign-trade/statistics/country; and United States International Trade Commission, "Interactive Tariff and Trade DataWeb," dataweb.usitc.gov/scripts/user_set.asp.

9. U.S. Census Bureau, "Foreign Trade," U.S. Exports by 5-digit End-Use Code (2002–2010).

10. U.S. Census Bureau, "Foreign Trade," Country Product Trade Data, Product Detail and Partner Country; and United States International Trade Commission, "Interactive Tariff and Trade DataWeb."

11. U.S. Census Bureau, "Foreign Trade," U.S. Imports by 5-digit End-Use Code (2002-2010), www.census.gov/foreign-trade/statistics/product/enduse/imports/index.html.

12. U.S. Census Bureau, "Foreign Trade," Country Product Trade Data, Product Detail and Partner Country–North American Industry Classification System (2000–present), www.census.gov/foreign-trade/statistics/country; and United States International Trade Commission, "Interactive Tariff and Trade DataWeb."

13. U.S. Census Bureau, "Foreign Trade," U.S. Imports by 5-digit End-Use Code (2002–2010).

14. U.S. Census Bureau, "Foreign Trade," Country Product Trade Data, Product Detail and Partner Country–North American Industry Classification System (2000–present); and United States International Trade Commission, "Interactive Tariff and Trade DataWeb."

15. U.S. Census Bureau, "Foreign Trade," Country Product Trade Data, Product Detail and Partner Country.

16. Ibid.

17. Ibid.

18. Ibid.

19. Ibid.

20. Ibid.

21. Ibid.

22. Ibid.

23. U.S. Census Bureau, "Foreign Trade," U.S. Exports by 5-digit End-Use Code (2002–2010).

24. Ibid.

25. Ibid.

26. U.S. Census Bureau, "Foreign Trade," Country Product Trade Data, Product Detail and Partner Country; and United States International Trade Commission, "Interactive Tariff and Trade DataWeb."

27. U.S. Bureau of Economic Analysis, International Economic Accounts, "U.S. International Services: Cross-Border Trade 1986–2008," Table 2: Summary Data for private service trade by area and country, 1992–2008, U.S. Commerce Department, www.bea.gov/international/intlserv.htm.