HOW DO FTAS AFFECT THE U.S. TRADE BALANCE?

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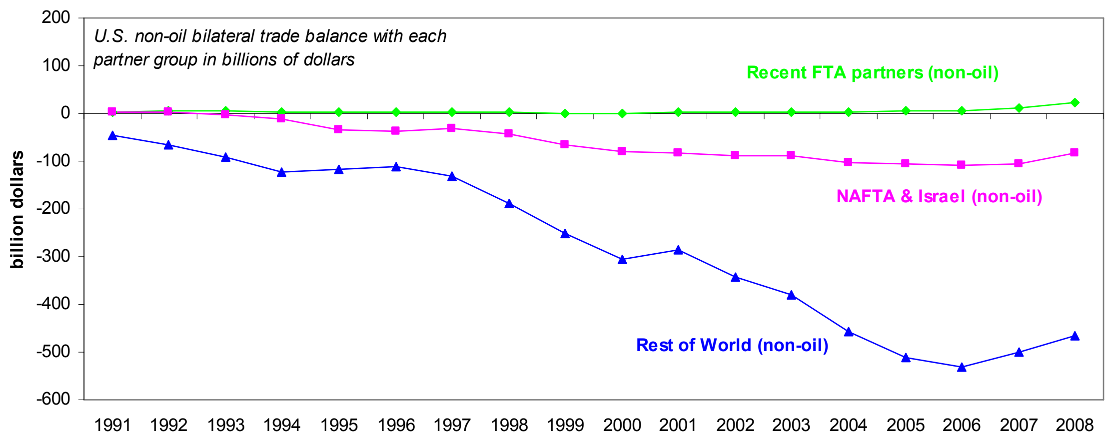
The trade policy debate has recently included a discussion of the effect of U.S. Free Trade Agreements on the U.S. trade balance. This brief is intended to present several notable trends relevant to that discussion.

- U.S. FTAs can be split into two groups: NAFTA and Israel (which have been fully implemented), and the FTAs that have entered into force since 2002, Australia, Bahrain, Chile, Jordan, Morocco, Oman, Singapore, and the CAFTA-DR (which have not been fully implemented).

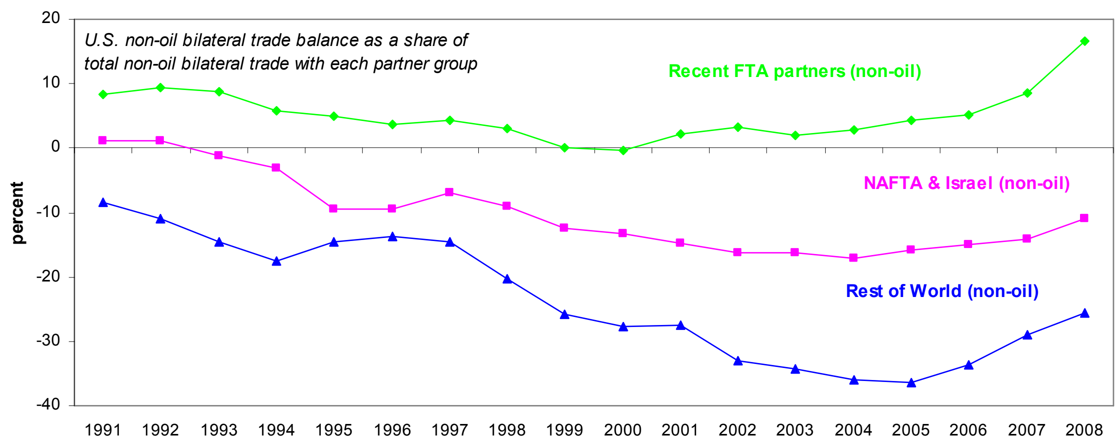
U.S. non-oil trade balance with recent FTA partners has been in surplus. [1]



Source: U.S. Department of Commerce

- The U.S. non-oil merchandise trade surplus with recent FTA partners increased by $20.1 billion, from $1.7 billion in 2003 to $21.8 billion in 2008. The U.S. non-oil trade deficit with NAFTA and Israel decreased by $5.7 billion, from $88.4 billion to $82.7 billion over the same period. These changes are relatively small when compared to the overall U.S. trade deficit.
- Total non-oil trade with recent FTA partners is less than 15 percent of total non-oil trade with all FTA partners, and less than 5 percent of total non-oil trade with the world. For this reason, it is helpful to see changes in the non-oil merchandise trade balance as a share of total non-oil bilateral trade with each group.

Relative trade surplus with recent FTA partners has increased.



Source: U.S. Department of Commerce

- Historically, the U.S. non-oil merchandise trade balance with recent FTA partners has stayed between virtually even and a surplus representing 10 percent of total non-oil bilateral trade. However, in 2008 the trade surplus as a percent of total non-oil bilateral trade with those partners was more than 15 percent.

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[1] In 2008, more than 35 percent of U.S. imports from NAFTA partners and Israel were oil, compared to less than 5 percent of imports from recent FTA partners. It is often necessary to exclude oil from comparisons of U.S. trade relationships due to the relatively large impact of oil price volatility.

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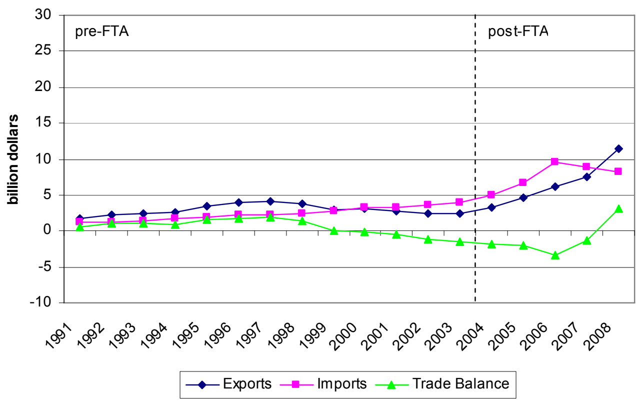
Chile, Singapore, Australia, and the CAFTA-DR countries account for more than 90 percent of U.S. trade with the recent FTA partners. Trade in oil is included since it is relatively small and consists mainly of refined products.

U.S.-Chile trade

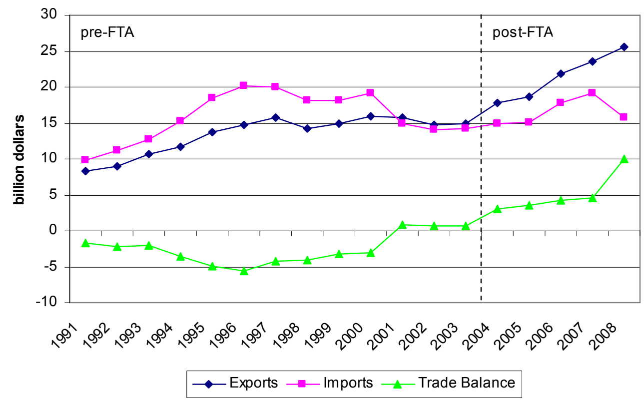


Source: U.S. Department of Commerce

The U.S. trade balance with Chile reached a surplus of $3.2 billion in 2008, a net increase of $4.7 billion reversing the pre-FTA (2003) deficit.

- Imports from Chile increased from $4.0 billion to $8.2 billion from 2003 to 2008, peaking in 2006 at $9.6 billion due mainly to high prices for raw materials, mostly copper.
- U.S. exports to Chile increased broadly from $2.4 billion to $11.4 billion or 36.3 percent per year, compared to 12.4 percent for U.S. global exports.

U.S.-Singapore trade

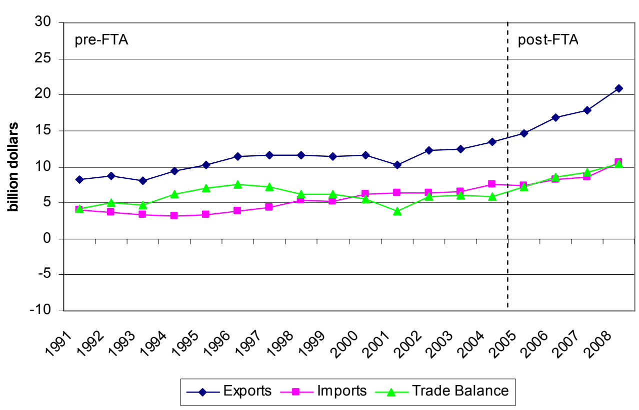


Source: U.S. Department of Commerce

The U.S. trade balance with Singapore increased steadily from a pre-FTA (2003) surplus of $0.6 billion to a $9.9 billion surplus in 2008.

- U.S. imports from Singapore increased slightly to $15.7 billion post-FTA, with growth in imports of pharmaceuticals and electronics offsetting a drop in imports of machinery and organic chemicals.
- U.S. exports to Singapore increased broadly from $14.9 billion to $25.7 billion or 11.6 percent per year during the post-FTA period.

U.S.-Australia trade

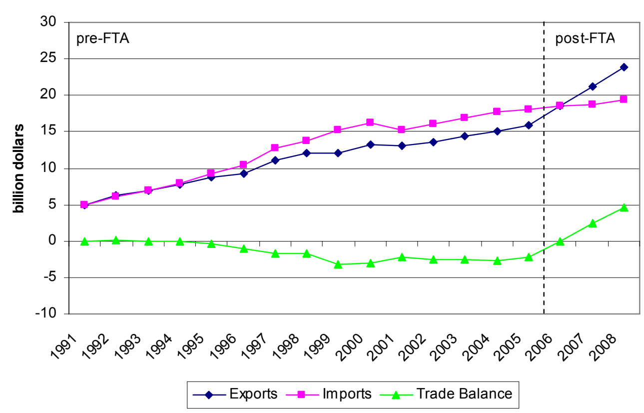


Source: U.S. Department of Commerce

The U.S. trade surplus with Australia nearly doubled from $5.9 billion in 2004 to $10.4 billion in 2008.

- Imports from Australia increased from $7.6 billion to $10.5 billion during the post-FTA period, driven primarily by oil and vehicle imports.
- U.S. exports to Australia increased from $13.5 billion to $20.9 billion, due primarily to exports of machinery and vehicles.

U.S.-CAFTA-DR trade



Source: U.S. Department of Commerce

The U.S. trade balance with its CAFTA-DR partners was a $4.6 billion surplus in 2008, a reverse from a pre-FTA (2005) deficit of $2.2 billion.

- U.S. imports from CAFTA-DR countries increased from $18.0 billion to $19.3 billion post-FTA, despite declining imports of clothing manufactures.
- U.S. exports to CAFTA-DR countries increased broadly during this period, from $15.8 billion to $23.9 billion.

Source: U.S. Department of Commerce (via USITC Dataweb). All trade data are merchandise trade.

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