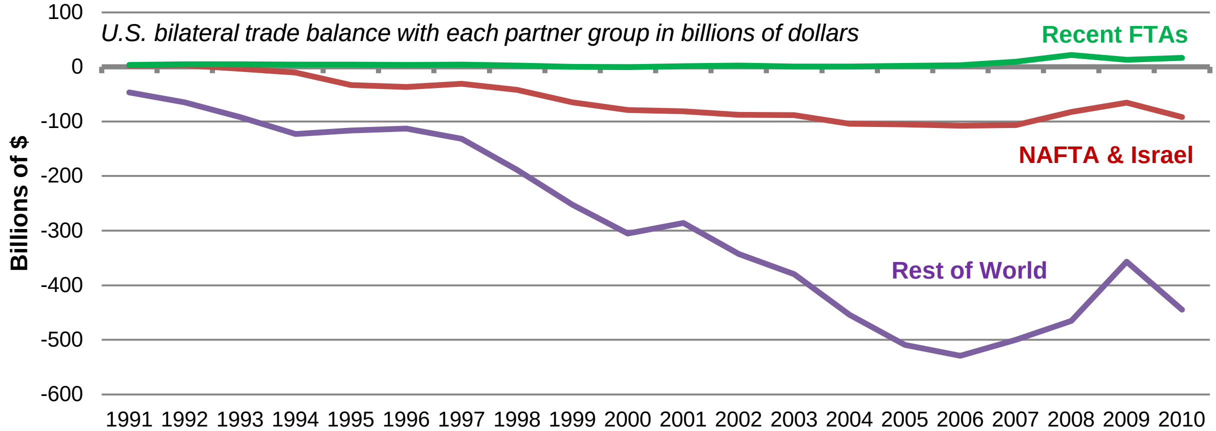
HOW DO FTAS AFFECT THE U.S. TRADE BALANCE? A 2009-10 UPDATE

-Nick Grossman (nicholas.grossman@usitc.gov) and Dylan Carlson (dylan.carlson@usitc.gov)

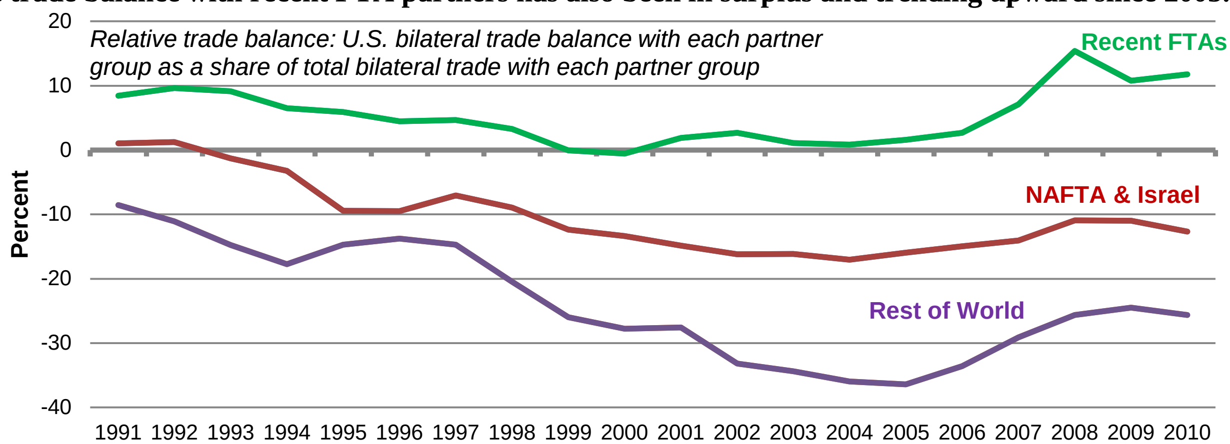
Debates over U.S. trade policy commonly include discussions of the effects that U.S. Free Trade Agreements (FTAs) might have on the U.S. economy. This briefing shows that 1) despite its large overall trade deficit, the United States has a trade surplus with recent FTA partners, and 2) the trade surplus has become large relative to the amount of trade with those partners.[1]

The U.S. non-oil trade balance with recent FTA partners[2] has been in surplus and trending upward since 2005, when most recent FTAs began phasing in. [3]



- The U.S. non-oil trade surplus with recent FTA partners increased by $15.0 billion, from $1.7 billion in 2005 to $16.7 billion in 2010, driven mainly by a $24.5 billion increase in exports. Non-oil exports to recent FTA partners increased 23 percent from 2005 to 2010, while non-oil imports from recent FTA partners increased only 3 percent over the same period.
- The U.S. non-oil trade deficit with NAFTA and Israel increased during the 1990s and early 2000s, reaching $107.6 billion in 2006 before dropping to $92.0 billion in 2010.

Relative trade balance with recent FTA partners has also been in surplus and trending upward since 2005.[4]



- Historically, the relative trade balance with recent FTA partners has stayed between virtually even and a surplus equaling 10 percent of total non-oil bilateral trade. Since 2008, however, the relative trade balance has been more than 10 percent of total non-oil bilateral trade.
- The overall U.S. trade *deficit* was 20 percent of total non-oil bilateral trade with the world in 2010. In comparison, the trade *surplus* with recent FTA partners was 12 percent of total non-oil bilateral trade with these partners.
- The trade deficit with NAFTA and Israel has remained between 13 and 17 percent of total non-oil trade with these partners since 2000 after falling from a near even trade balance in the early 1990s, before Mexico's entrance into NAFTA.

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[1] The previous version of this briefing which examined trade from 1991-2008 can be found here: http://www.usitc.gov/publications/332/Executive_Briefings/FTAs_USTradeBalance.pdf

[2] 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 (2005), Bahrain (2006), Chile (2004), Jordan (2002), Morocco (2006), Oman (2008), Peru (2009), Singapore (2004), and the CAFTA-DR (2006, 2007, and 2009).

[3] 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. Oil is excluded from comparisons of U.S. trade relationships due to the relatively large impact of oil price volatility.

[4] It is helpful to see changes in the trade balance as a share of total non-oil bilateral trade since trade with recent FTA partners is a small share of U.S. trade (5 percent).

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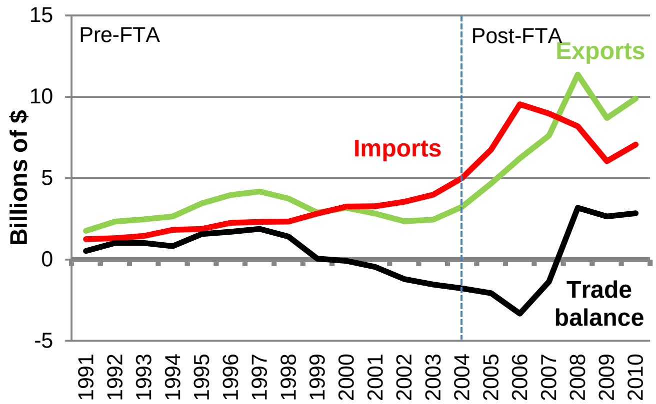
Chile, Singapore, Australia, and the CAFTA-DR countries account for almost 90 percent of U.S. trade with the recent FTA partners. Trade in oil is included since it is relatively small and consists mainly of refined products.

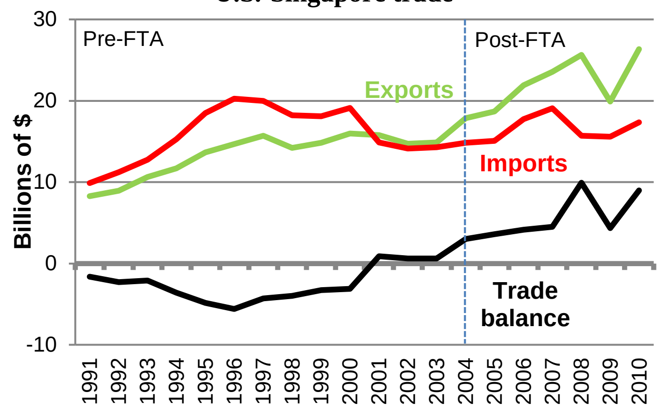
U.S.-Chile trade



The U.S. trade surplus with Chile increased to $2.8 billion in 2010. The trade balance with Chile remained steady throughout the recession.

- U.S. imports from Chile increased from $4.0 billion in 2003 to $9.6 billion in 2006, but fell to $7.1 billion by 2010. The value of total imports from Chile is driven by the prices of raw materials, such as copper.
- Since the FTA was signed in 2004, U.S. exports to Chile increased by about 30 percent per year until 2009 when they decreased 24 percent. Exports to Chile were $9.9 billion in 2010, up from $8.7 billion in 2009.

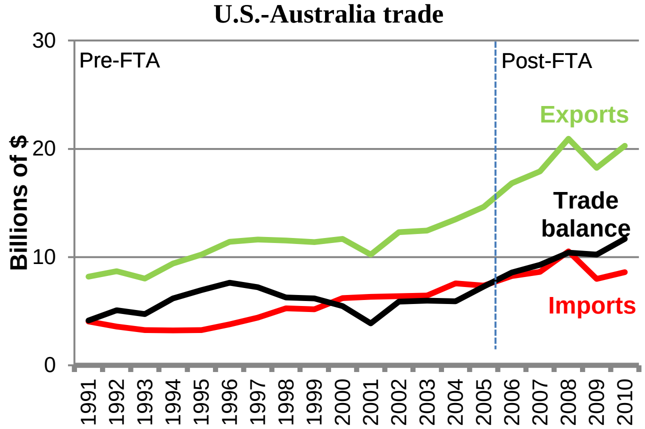
U.S.-Singapore trade



The U.S. trade balance with Singapore increased from a pre-FTA (2003) surplus of $0.6 billion to a $9.0 billion surplus in 2010.

- U.S. imports from Singapore increased to $17.3 billion post-FTA, with growth in imports of pharmaceuticals and electronics offsetting a drop in imports of machinery. Imports from Singapore reached a peak in the pre-FTA years of $20.2 billion in 1996.
- U.S. exports to Singapore increased broadly from $14.9 billion to $26.3 billion or 11 percent per year during the post-FTA period.

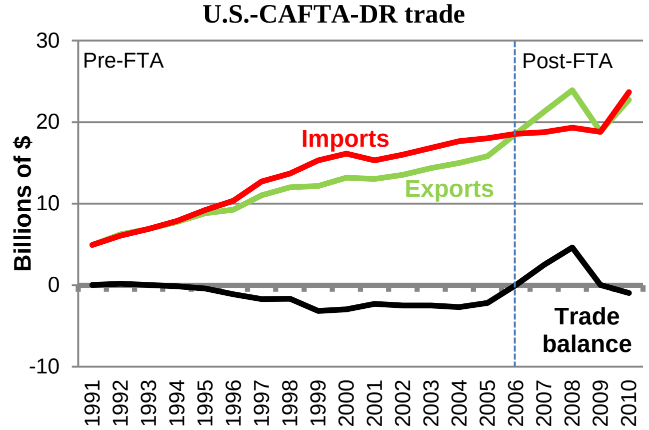
U.S.-Australia trade



The U.S. trade surplus with Australia nearly doubled from $5.9 billion in 2004 to $11.7 billion in 2010, led by manufactured goods exports.

- Imports from Australia increased from $7.6 billion to $10.5 billion from 2004 to 2008, but fell to $8.6 billion by 2010. Import growth has been driven primarily by raw materials, especially minerals.
- U.S. exports to Australia increased from $13.5 billion in 2004 to $20.3 billion in 2010 after peaking at $20.9 billion in 2008. Export growth came mostly from machinery and vehicles.

U.S.-CAFTA-DR trade



The U.S. trade balance with its CAFTA-DR partners reached a $4.6 billion surplus in 2008, but has since receded to a deficit of $1.0 billion.

- U.S. imports from CAFTA-DR countries increased from $18.0 billion to $23.7 billion post-FTA, led by a surge of machinery and electronics imports from Costa Rica. Imports were barely affected by 2009's global decline in trade.
- U.S. exports to CAFTA-DR countries increased broadly during this period, from $15.8 billion to $22.7 billion.

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

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