Export Expansion Estimates for Additional Trade Agreements

Summary

A significant increase in U.S. exports is necessary to achieve the President's goal of doubling exports in five years under the National Export Initiative (NEI). Such an increase will necessitate having greater access to foreign markets by reducing foreign trade barriers to U.S. manufactured goods exports. The only way to cut these foreign barriers is through negotiation of trade agreements—either bilaterally or multilaterally. As the World Trade Organization (WTO) Doha Round would not result in significant cuts in foreign tariffs until 2019 at the earliest, new market access will most likely have to come from bilateral (or plurilateral) trade agreements.

In an effort to make an order-of-magnitude estimate of just how much new bilateral or plurilateral agreements might be expected to contribute to additional export growth, the National Association of Manufacturers (NAM) applied methodology from the U.S. International Trade Commission (USITC) to possible additional developing country free trade agreement (FTA) candidates and applied standard econometric techniques to industrial nation candidates. Based on these approximations, we believe it is reasonable to estimate that additional FTAs could generate an increment in the order of $100 billion in additional U.S. exports of manufactured goods by 2014.

Our estimate comprises four categories of FTAs:

1. The three pending FTAs with Colombia, Korea and Panama, which we believe could add $19 billion in manufactured goods exports by 2014;
2. The countries currently negotiating the Trans Pacific Partnership (TPP) that do not already have FTAs with the United States (Brunei, New Zealand and Vietnam), which could add a further $2 billion in 2014 manufactured goods exports;
3. Nineteen additional potential developing nation FTA partners not currently in negotiations with the United States, which could add $50 billion of additional manufactured goods exports by 2014; and
4. The European Free Trade Agreement (EFTA) countries, the European Union (EU) and Japan, which we estimate could add a further increment of $31 billion of manufactured goods exports by 2014.

Methodology

Since we are estimating the differential effect in 2014, the first part of the estimate required approximating a 2014 baseline – i.e., estimating what U.S. manufactured goods exports to each economy could be expected to be in 2014 in the absence of an FTA. To construct that 2014 baseline estimate, we first estimated exports to each economy in 2010 by applying the January-May 2010 growth rate to full year 2009 exports. Since over the last 40 years, manufactured goods exports have increased by about 10 percent per year in current dollar terms—faster in some periods, and slower in others—we then assumed that long-term trend rate would apply in 2011-2014.

The results were considered to be the baseline approximation of what could be expected in the absence of additional FTAs. The incremental export expansion effects of FTAs were then applied to those baselines to obtain our FTA estimates.

Pending FTAs

As percentage increases in manufactured exports were produced by the USITC in its studies of the Colombian and Korean FTAs, we simply applied those to our 2014 baseline estimates for those countries. The USITC did not calculate an export percentage increase for Panama. For our Panama estimate, we applied the 18 percent FTA export increment calculated for new FTAs (below) to our 2014 baseline for Panama. The manufactured goods FTA 2014 export increment for the three countries added up to $19 billion.

Trans Pacific Partnership

The United States is currently negotiating the TPP, a plurilateral agreement involving Australia, Brunei, Chile, New Zealand, Peru, Singapore, Vietnam and the United States. Of these countries, only Brunei, New Zealand and Vietnam do not already have FTAs with the United States. U.S. manufactured goods exports to those three countries were $3.2 billion in 2009, and our estimated 2014 baseline with no FTA is $6.3 billion. Utilizing the 18 percent USITC average explained below, and providing an added increment for the non-tariff systemic improvements we expect from Vietnam, our estimated manufactured goods export increment for the TPP is $2 billion. We believe the figure would probably be higher because of the synergy of a regional agreement, particularly if it could harmonize standards, customs practices, rules of origin and the like. However, the most significant way of increasing the export enhancement effect of the TPP would be to have it include additional, larger Asian economies into the agreement.

Potential Additional Developing Country FTAs

To approximate the manufactured goods export expansion effect of FTAs with additional countries, we relied on studies the USITC conducted of the likely effects on U.S. exports of FTAs already negotiated—and applied these to the additional candidate countries. We examined the USITC's individual estimates of the export expansion effect in their analyses of Australia, CAFTA, Chile, Colombia, Panama and Taiwan.

For each USITC analysis, we calculated the percent increase in exports by summing the USITC's expansion estimates for goods and calculating that sum as a percent of U.S. goods exports to that country in the year the USITC conducted its analysis. We then averaged the results across the countries, arriving at an average export expansion factor of 18 percent. That is the figure we applied to the prospective FTA candidates to estimate the export expansion effect of additional agreements.

The average 18 percent growth rate was applied to data from all developing countries accounting for at least $1 billion of U.S. manufactured goods exports in 2008: Algeria, Argentina, Brazil, Caribbean Community (CARICOM), Egypt, Gulf Cooperation Council (GCC), India, Indonesia, Iraq, Malaysia, Netherlands Antilles, Nigeria, Pakistan, Philippines, South Africa, Taiwan, Thailand, Turkey and the Ukraine.

Russia was excluded as it has not yet agreed to the basic WTO principles. China was excluded because of its difficulties in living up to its WTO and other obligations, and Venezuela was excluded for its retrograde movement from its obligations.

Applying the 18 percent average USITC export expansion margin to our estimates of 2014 baselines resulted in a 2014 manufactured goods export increment of $50 billion. Sixty percent of that total was accounted for by the GCC (principally UAE, Saudi Arabia, Kuwait), Brazil, Taiwan and India.

Potential Industrial Country FTAs

The European Union, Japan and the European Free Trade Area (EFTA) comprise high-income developed industrial economies that accounted for 28 percent of U.S. manufactured goods exports last year. In estimating what gains might accrue from FTAs with these industrial areas, alternative means were employed.

Tariffs in industrial countries tend to be very low, and a large proportion of trade is intra-company trade (between parent and affiliate companies) that tends to be less responsive to price changes than third party trade. Hence, we believed that utilizing the average increase from the USITC studies, which were conducted for the most part on developing nation economies with higher tariffs, would over-estimate FTA results for advanced industrial countries. Instead, we chose to make an estimate using import price elasticities. These price elasticities have been estimated by many economists over the years to calculate the responsiveness of industrial nation imports to price changes such as would result from tariff reductions. (An import price elasticity figure states what percent change in imports could be expected from a 1 percent change in import prices.)

The literature[1] indicates that import price elasticities have been calculated as high as 7 and as low as 1. Manufactured goods have generally been estimated as having a higher elasticity, between 3.5 and 6.5, depending upon the industry. Although a higher elasticity could be considered for the European Union and Japan, our analysis was based on a very conservative estimate of 2. This price elasticity assumption was applied to the countries' respective tariff rates for manufactured goods to generate a percentage by which U.S. exports of manufactured goods would be expected to increase.

That figure was applied against the 2014 baseline we had calculated for U.S. manufactured goods exports, resulting in a $30 billion increment for U.S. manufactured goods exports. Most observers would consider this to be a low estimate, in large part because non-tariff barriers such as standards and conformity assessment differences are considered to be more significant than tariffs. Estimating non-tariff barrier effects was beyond the scope of our simple order-of-magnitude tariff analysis.

In concluding, it must be stressed this paper is only a very rough approximation of what additional FTAs might be expected to produce in terms of added exports of manufactured goods. The basic foundation for the estimates is an average of what previous estimates the USITC has made, and also a very conservative import price elasticity for industrial countries. The approximations in this paper also assume the additional FTAs would be negotiated quickly, within the next two to three years.

More Information

Visit www.nam.org/NEI or e-mail export@nam.org.

[1] Import Elasticities Revisited by Pingfan Hong and Import Price-Elasticities: Reconsidering the Evidence By Hélène Erkel-Rousse and Daniel Mirza.