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Have Recent Free Trade Agreements Boosted Michigan’s Exports?

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On January 1, 2004, a free trade agreement (FTA) between the U.S. and Chile went into effect. In 2011, Michigan’s merchandise exports to Chile were 316% greater than in 2003. That is impressive growth, perhaps convincing observers that this is clear evidence that FTAs are vital to Michigan’s exports and economy. But would that opinion change upon learning that Michigan’s annual merchandise exports to Chile’s neighbor, Bolivia—with whom the U.S. has no FTA—have increased by over 1500% during the same period? This paper presents a straightforward comparison of the state’s export growth for both recent FTA and non-FTA partners to see if FTAs have significantly benefited Michigan exports.

One legacy of former President George W. Bush’s two terms in office is the substantial increase in the number of FTAs that the U.S. has with various countries. At the time of his inauguration, the U.S. had FTAs in force with just three countries—Israel, Canada, and Mexico (the latter two under NAFTA). At present, the U.S. has FTAs with an additional 17 countries: Australia, Bahrain, the CAFTA-DR countries (Costa Rica, The Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua), Chile, Colombia, Jordan, Morocco, Oman, Panama, Peru, Singapore, and South Korea. All of these were either signed into law by President Bush or were negotiated during his time in office and signed into law by President Obama.

There are strong opinions on both sides of the debate over FTAs, with opponents arguing that they cost sales, jobs, and worker pay for domestic businesses that compete with imports, and proponents arguing that they result in greater sales, jobs, and pay for domestic exporters as well as lower production costs for businesses who use the cheaper, imported inputs.

Economists as a rule, however, favor free trade, concluding that the benefits outweigh the costs, at least in the long term. But it must be noted that FTAs are not what economists call free trade—FTAs only involve trade between specific countries, not between all countries and, despite the name, FTAs never eliminate all trade barriers between the partners. As a result, a complete economic analysis of FTAs is an extremely complex issue and beyond the scope of this paper. Instead, the intent of this paper is to focus on the impact on merchandise exports alone, and to ascertain if there is a clear difference in the pattern of exports to FTA partners and to non-FTA partners.

To draw meaningful conclusions about the impact of FTAs on Michigan exports, I restrict the analysis to countries with at least five full years’ worth of data both before and after the FTA with them went into effect. All data used here come from the U.S. International Trade Administration’s TradeStats Express database (http://tse.export.gov). This database provides information on merchandise exports from any U.S. state (“merchandise exports” refers to all exports of goods, but not services). Unfortunately, comprehensive state data is only available from 1999 on. This then excludes from the study the FTA with Jordan (and the pre-G.W. Bush FTAs with Israel, Canada, and Mexico) as there is too little data before it went into force, and the FTAs with Oman, Peru, The Dominican Republic, Costa Rica, Panama, Colombia, and South Korea, as there is too little data after those FTAs went into force.

This leaves the following nine countries: Australia, Bahrain, Chile, El Salvador, Guatemala, Honduras, Morocco, Nicaragua, and Singapore. Hereafter, I refer to this group as the “9 FTAs.”

First, some perspective. Figure 1 shows Michigan’s merchandise export markets for 2011, by percentage. About 64% of the state’s $51 billion in merchandise exports went to Canada and Mexico. The “9 FTAs” group accounted for just over 3% of Michigan’s exports, as did exports to the remaining FTA countries. About 30% of exports went to countries with which the U.S. has no FTA.

Figure 2 shows Michigan’s annual merchandise exports in millions of current dollars, for 1999–2011, to the 9 FTAs and to all the countries with which the U.S. has no FTA at the present time. This shows that, broadly speaking, exports to these two groups of countries follow the same basic path, including the substantial drop in exports during the recent “Great Recession.” The similarity in the pattern makes it difficult to discern any consistent difference in the behavior of exports between
the two groups. However, the problem is compounded by differences in the timing of the implementation of the FTAs. To more easily visualize the changes in exports over time, I separate the 9 FTAs into two groups: Australia, Chile, and Singapore, whose FTAs all went into effect in 2004, and Bahrain, El Salvador, Guatemala, Honduras, Morocco, and Nicaragua, whose FTAs all went into effect in 2006. Figures 3 and 4 illustrate how the volume of Michigan’s merchandise exports to each of the nine FTA countries varies in the years before and after their FTAs went into effect. Columns for the group of non-FTA countries are shown for comparison.

Figure 3 shows that annual exports to non-FTA countries grew on average by 0.3% during 1999–2003 and by 9.7% during 2004–2011. In contrast, annual exports to Chile grew on average by about 12% during 1999–2003, but after the Chile-U.S. FTA went into effect on January 1st 2004, exports grew on average by over 30%. Annual exports to Singapore fell by over 3% on average during the five years prior to the Singapore-U.S. FTA, but rose by over 24% on average during the 8 years after. Figure 3 clearly shows that Michigan’s merchandise exports to Australia, Chile and Singapore grew more rapidly after 2004—but so did exports to non-FTA countries. More importantly, Figure 3 shows that the growth of exports to Chile and Singapore far exceeded that to non-FTA countries after 2004, while exports to Australia kept pace with the group of non-FTA countries. Interestingly, these three FTA countries were all in the top 20 largest export markets for Michigan in 2011.

Figure 4 tells a different story. Michigan exports to all six of the countries shown experienced greater average growth during 1999–2005 than to the group of non-FTA countries. For five of them (the exception being El Salvador), Michigan exports also had greater average growth than the non-FTA group during 2006–2011. However, the interesting distinction is between the pre- and post-FTA period. Exports to non-FTA countries as a whole averaged greater growth from 2006 on than before, but exports to four of the six FTA countries averaged weaker growth from 2006 on. In comparison to the countries in Figure 3, all six of these FTA countries ranked in the 50-80 range of Michigan’s largest merchandise export markets in 2011.

To conclude, although this analysis focuses only on one aspect of the impact of FTAs on Michigan—exports—and is not an attempt to provide a comprehensive analysis of the effect on the state’s economy, it nevertheless provides some interesting information. State exports to five of the nine FTA partners in this study have grown more rapidly after the FTAs went into effect, but for only four of these (Bahrain, Chile, Guatemala, and Singapore) was this post-FTA improvement greater than for non-FTA partners on average. The growth in exports to some of the countries post-FTA has been impressive (eg. 49.9% annual average growth for exports to Nicaragua). However, the comparison with the pre-FTA time period and with the pattern for exports to non-FTA countries, shows that such strong average export growth cannot be clearly attributed to the FTAs themselves.
One difficulty, though, is that the timeframes used here are short, and a different pattern might emerge given a longer adjustment period after an FTA goes into effect. Additionally, the post-FTA time period includes the recent Great Recession, and the accompanying drop in Michigan’s exports across the board. Although this would be reflected in the data for FTA and non-FTA partners alike, it could be argued that these FTA partners are likely to be hurt more by a recession in the U.S. because of the closer connections to the U.S. that the FTA brought about. This could help explain their drop in performance post-FTA.

Nevertheless, the evidence that FTAs enhance Michigan’s overall exports to a country is mixed, and it would be best to avoid generalizations concerning their impact.