

Benefiting from US Free Trade Agreements

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Successes and Challenges: Overview from Three Countries

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Background

- Currently the US has free trade agreements in effect with 14 countries: Australia, Bahrain, Canada and Mexico, Israel, Jordan, Morocco, Oman, Singapore, and four of the five members of the Central American Common Market (El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic.
- US imports from free-trade agreement partners were approximately US\$568 billion in 2006, around 31% of total imports.

- These agreements share several characteristics, including with respect to coverage and the scope of tariff elimination. However, their impact has varied and success is neither automatic or across the board in all sectors.
- The increase in US imports from, US investment in and degree of trade reform and liberalization has sometimes differed.
- Three examples....



Singapore



- US-Singapore FTA went into effect on 1/1/ 2004
- Singapore's exports to the U.S. increased from \$15.1 billion in 2003 to \$17.6 billion in 2006, an 18 percent increase.
- Almost all of this \$2.5 billion increase was in pharmaceutical products.
- The FTA did not lower the U.S. tariff rate for pharmaceuticals, since such products already enter the United States duty free.
- So why the increase?

- This occurred as a result of the development of Singapore as a regional center for pharmaceutical companies.
- This was triggered by FTA provisions that required Singapore strengthen intellectual property protection.
- The Singapore government provided incentives for biomedical companies to locate research and production in the country.



- US direct investment (cumulative) in Singapore went from \$ 51.1 billion in 2003 to \$ 60.4 billion in 2006.
- One of the strongest increases in the value added of overseas affiliates of U.S. multinational corporations in 2004 and 2005 was in manufacturing operations in Singapore.
- The US Department of Commerce said the attractiveness of the country as a "manufacturing base for the Asia-Pacific region was heightened by the enactment of the FTA, which facilitates the shipment of inputs to production from the US."

- Singapore's imports from the U.S. increased from \$16.6 billion in 2003 to \$24.7 billion in 2006, a 49 percent increase. However, even with this rapid increase in U.S. exports, the U.S. share of Singapore's imports declined from 16% in 2003 to 13% in 2006.
- This suggests that factors other than the FTA, particularly the overall growth in Singapore's imports, contributed greatly to the increase. The major increase in U.S. exports were in machinery and electrical machinery.



- The U.S.-Singapore FTA provides for national and most-favored nation treatment for foreign investors. Investors have the right to make financial transfers freely and without delay.
- The FTA also provides for disciplines on performance requirements, for international law standards in the case of expropriation, and for access to binding international arbitration.



- In the modern globalized economy, much trade is intra-industry. In many cases, the United States both imports and exports products in the same sector. Some of this trade may occur within a manufacturer's supply chain that may straddle several countries.
- For example, an electronic product may be designed and marketed in the United States, but final assembly may be in Singapore using components from the United States as well as from other economies in the region, and then exported.



Morocco



- US-Morocco FTA went into effect on 1/1/ 2006
Morocco's exports to the U.S. increased from \$521 million in 2006 to \$878 million in 2008, a 70 percent increase.
- Most of this \$350 million increase was in phosphates.
- During this period woven apparel exports to the US increased from \$69 million to 71 million, while knit apparel exports decreased from \$31 million to \$19 million.

- US direct investment in Morocco went from \$107 million in 2006 to \$193 million in 2007.
- US investment is in many sectors including apparel, mining, aeronautics and automobile parts. For most of these companies, Morocco is a platform for production and export to different countries.
- To support this Morocco has built a new seaport for Tangiers which includes container terminals, a free trade zone, a logistic zone and an industrial zone.



Jordan



- The US-Jordan FTA went into effect on 12/17/2001
Jordan's exports to the U.S. increased from \$229 million in 2001 to \$1.4 billion in 2006.
- Almost all of this increase was in apparel.
- Jordan's exports decreased from \$1.4 billion in 2006 to \$1.1 billion in 2008, as a result of increased global competition and the financial crisis.

- More than 75 percent of these Jordanian apparel items enter the US through the Qualifying Industrial Zone program.
- The reason is that the FTA mandates a gradual phasing out of import duties by 2010 while the QIZ agreement grants immediate duty-free access for goods that meet certain rules of origin.
- Most QIZ investors are from Asian countries although some are from other Arab countries, as well.



- Like Singapore, Jordan improved its Intellectual Property Rights protection in accordance with its FTA and as a result, the pharmaceuticals industry has grown. In 2006, pharmaceutical products comprised approximately 11%, or \$500 million of Jordan's exports, a nearly 20 % increase over 2005. This is expected to double to \$1 billion by 2010.
- Jordan now sends products to around 60 countries throughout the Middle East and North Africa region, Eastern Europe and Asia. Several multinational pharmaceutical companies have expanded there.



- Like both Singapore and Morocco Jordan took several others steps to increase the possible impact of its FTA, including improving its infrastructure, especially ports, strengthening export promotion agencies and assistance to businesses, as well as streamlining customs and other procedures
- These activities took place in cooperation with bilateral donors, multilateral institutions, regional organizations as well as many public and private institutions.



Conclusions

- These three countries have therefore all benefited from their FTAs with the US and have :
 1. Increased exports from their country to the US.
 2. Increased US investment in their country.
 3. Increased exports by US companies in their country to other countries in their region.

This is also generally the case with other countries the US has FTAs with.



Experience with other FTAS

US Imports (past 5 years)

	Entry into Force	2004	2008
Australia	2005	\$7.5 billion	\$10.9 billion
Bahrain	2006	\$405 million	\$538.9 million
CAFTA - DR	2006	\$17.6 billion	\$19.3 billion
Chile	2004	\$3.7 billion	\$8.2 billion
Israel	1985	\$16.8 billion	\$22.7 billion
NAFTA	1994	\$1.4 trillion	\$2.1 trillion

These successes of these three countries have varied however and are somewhat different with regard to:

1. Sectors: pharmaceuticals, resource based, textiles.
2. Characteristics: labor and capital intensity, high and low tech, local and foreign investment.
3. Opportunities resulting from FTA: duty reduction, improvement in regulatory environment, infrastructure.

FTAs can be successful, but it is often important to focus on specific sectors and take additional actions to make them even more so.



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Facilitating Success for Bahrain

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**The FTA creates the environment
for expanded bilateral trade, but
does not, by itself, lead to growth
in trade!**



- The FTA should be seen as both a symbol and system.
 - Symbol of closer economic cooperation between the two countries but also a system (albeit incomplete) for improving economic cooperation .*
- Success will come from sustained company to company interactions—facilitated by governments and trade associations.
- Export development is a time consuming and difficult undertaking—focus should be not only on the US but on developing regional partners to enter US market.



Challenges for Bahrain Exporters

- US simple average tariff in 2007 was 3.5%. Approximately 17 percent of U.S. imports from Bahrain (\$65 million), entered duty-free under the U.S. Generalized System of Preferences program in 2003—thus FTA's tariff benefits are relatively modest for Bahrain exporters.
- Competitive advantage vis-à-vis the US market will therefore have to come from areas other than tariff benefit.
- Trade growth FTA for Bahrain is likely to come primarily come from FDI targeting toward export opportunities

Trade Facilitation

- As tariff barriers are eliminated, addressing non-tariff barriers and trade facilitation issues become of greater importance to the trading community.
- Trade facilitation looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated cost burdens and maximize efficiency while safeguarding legitimate regulatory objectives.



- US-Bahrain FTA includes Customs Administration provisions, but there is opportunity for further improvements. (Remember: Trade Facilitation is broader than just Customs reform!)


- Trade Facilitation negotiations are a part of the WTO Doha Round of negotiations —binding and enforceable commitments will come from this process

- Trade facilitation affects both imports and exports.

- Sustained improvements in trade facilitation can serve as the basis for the competitive advantage that can propel Bahrain to be a regional trading gateway.



Benefits of Trade Facilitation

- Expands participation in international trade, especially by SMEs.
 - Lowers transaction costs by some 2% to 5% for imports and some 6% to 10% for exports, according to UNCTAD.
 - Increases Customs collections and strengthens tax and revenue base.
 - Helps reduce corruption through better training and pay, standardization and simplification of trade documents, and reduction in opportunity for discretion and bribery as a result of automation of the clearance process.
 - Increases cooperation between the public and private sectors through more transparent trade transactions and more facilitative clearance processes.
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Meaningful trade facilitation reform must include reform and capacity building for all border control agencies.

National standards organization –TBT (e.g. Bureau of Standards)

National body responsible for animal and plant health issues - SPS (e.g. Ministry of Agriculture)

National body responsible for public health (e.g. Ministry of Health, Food and Drug Department)

National body responsible for infrastructure (e.g. Ministry of Transportation)

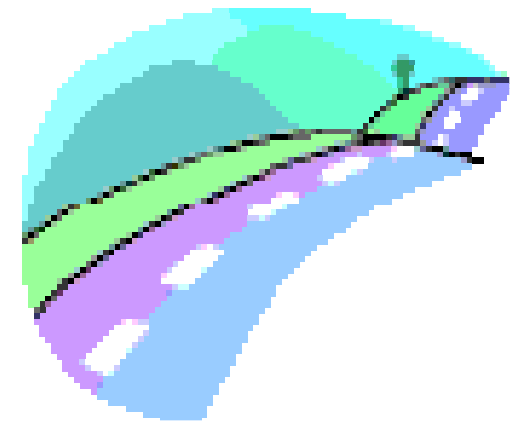
Enforcement agencies (often including domestic police force)

National body responsible for legislative and regulatory framework (e.g. Ministry of Trade/Commerce, Justice, legislative assembly)



Bahrain as an Export Platform

- Regional approach is necessary (e.g. outward processing)
- Supply chain integration that includes transportation, manufacturing, finance
- Export promotion will also dependent on import promotion.
- Similar model has been followed by many countries both with and without an FTA including:
 - Mexico
 - Singapore
 - Morocco
 - East Germany – post-1989 unification of Germany



Outward Processing

Regional Cooperation—Singapore

Outward Processing —a shuttling of parts and components of products between Singapore and the region. Many of Singapore's products are manufactured/processed in the region. For instance, electric irons are assembled in Batam, Indonesia, from parts and components made in Singapore. The iron is then tested in Singapore before exported to the US. Usually, the rules of origin only count for the final stage of the process – i.e. the value of testing as the Singapore content, but by including outward processing, it will count the value of the Singapore parts and components as well thereby raising the Singapore content.

Exporting Basics – Company level

Successful exporting depends on:

- Development of an export-marketing plan.
- Focus on specific markets and opportunities;
- Sustained commitment of dedicated resources.
- Careful selection of export partners (e.g. agents, customs brokers)
- Adaptation of products and services to meet the export market.
- Use expert export resources—specialists in government, trade associations, financial institutions, and freight forwarders.



Trade Development

- ✓ *Trade Development* – Because growth depends on both imports growth and export growth.
- ✓ Strategies need to be sector and company specific.
- ✓ Take advantage of the one-on-one consulting opportunities afforded by this conference and the resources made available by governments and organizations.

Thank You

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