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Do Free Trade Agreements Benefit Developing Countries? An Examination of U.S. Agreements

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What Is the Issue?

Free trade agreements (FTAs) (in general) increase trade, lower prices for consumers, and provide export opportunities for producers. As such, FTAs are usually described as beneficial to a country as a whole; however, gains from FTAs are not always shared equally within the country. For instance, some industries are not able to compete with imports—and production might decrease in that country and lead to job losses. Given that developed countries might be more productive, developing countries might hesitate to enter into an FTA with a developed country if they believe they cannot compete with the developed country's imports. Previous literature examined the impacts of FTAs on trade and other macroeconomic factors, but these studies are often outdated and/or are not specific to the United States and its FTAs. This report examines whether developing countries' FTAs with the United States are beneficial to those countries by providing a comparison of trade and other macroeconomic indicators before and after the implementation of the FTAs.

What Did the Study Find?

FTAs are generally associated with an increase in aggregate trade flows. Our trend analysis was found to be generally supportive of this point, in the context of agricultural trade with U.S. FTAs, including those with developed countries.

- U.S. FTA partners (with the exception of Australia) showed annual increases in agricultural exports to the United States, ranging from 5 percent (Canada) to 46.2 percent (Singapore) in the 5 years following their respective trade agreements.
- U.S. agricultural exports to FTA partners also increased annually, from a low of 4.8 percent (Canada) to a high of 82.7 percent (Bahrain) in the 5 years following their respective trade agreements.

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Trends in U.S. agricultural trade with FTA partners are consistent with trade being supported by FTAs.

- From 1989 to 2020, U.S. agricultural imports from FTA partners increased from $16.5 billion (a 48.9-percent share of total imports) to $101.9 billion (53.7-percent share of total imports).
- In the same period, the value of U.S. agricultural exports to these same partner countries increased from $11.8 billion (22.5-percent share of total exports) to $67.5 billion (41.7-percent share of total exports).
- The share of U.S. imports from developing FTA partner countries rose from 21.6 percent in 1989 to 31.4 percent in 2020.

As countries specialize in the production of goods for which they maintain a comparative advantage relative to member FTA countries, specific commodities often see the largest changes in trade. This finding is especially true for developing countries in Central and South America.

- Since the accession of the U.S.-Peru Trade Promotion Agreement (PTPA), U.S. imports of Peruvian fruit commodities more than tripled, with Peru becoming the third largest supplier of fresh fruit to the United States in 2021.
- Nicaraguan sugar exports to the United States increased an average of 102.7 percent in the 5 years following the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR).
- In the 5 years following the implementation of the North American Free Trade Agreement, Mexico's beef exports to the United States increased annually by an average of 38.2 percent.

How Was the Study Conducted?

This report provides information on the trends following FTAs, focusing on FTAs between the United States and its lower- and middle-income partners—noted as developing countries for purposes of this report and by the United Nations. Background information is provided on tariffs, both those tariffs available to all members of the World Trade Organization (WTO) and those negotiated in FTAs. To illustrate some of the benefits from FTAs, changes in agricultural trade (both imports and exports) are provided by using statistics from 5 years before and 5 years after the trade agreement. The average year-over-year changes are compared with the statistics from 5 years before the trade agreement to 5 years after, which allows any distortionary effects to be mitigated from large trade volume changes in a single year. For instance, a large jump in exports in any year prior to a trade agreement, followed by several years of no growth (or even a slight decline) in exports, would lead to 5-year average export volumes that indicate exports increased after the trade agreement. In several instances of this report's trade data, there is a long phase-in period for tariffs to be lowered—and for countries to respond to those changes—which provides a longer time period for the trade numbers. This report only provides a descriptive empirical analysis and does not use statistical inference. It is also important for readers to note there are many other factors influencing the previously mentioned development indicators (such as other trade agreements or other policy factors) beyond market openness due to an FTA.