

# Economic and Long-Term Impacts of Free Trade Agreements (FTAs) with the U.S.A.

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## Abstract

In the World Trade Organization (WTO) agreements, United States has continued to enforce trade agreements with many countries through the World Trade Organization (WTO), with 14 of the 20 countries being active participants in these agreements. Free trade agreements (FTAs) have grown in importance as essential trade agreements that facilitate trade negotiations among member countries. These FTAs could have a wide range of positive effects, including the ability to strengthen a country's overall economy and open new economic opportunities. Whether they support or oppose trade agreements, economists can agree that they are good for the economy. Trade agreements, in a brief, are the "rules of the road" that guide American companies on how to do international business while simultaneously defending American interests and utilizing international trade regulations. According to recent data, the US has continued to enter trade deals with several other countries, including the UK, Mexico, and Canada. One of the most important trade agreements for the US in recent years is the United States-Mexico-Canada Agreement (USMCA), which replaced the North American Free Trade Agreement (NAFTA) provides a crucial framework for commercial relations with these neighboring nations. The Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), two other recent trade deals, intended to improve trade ties between countries in the Pacific Rim and the European Union, respectively. Businesses in the United States can sign a variety of trade agreements, including Free Trade Agreements, Agreements with the World Trade Organization, Suspension Agreements, Bilateral Investment Treaties, Agreements on Intellectual Property Rights, Trade Agreement Guides, and the Florence Agreement Program. The purpose of this paper is to provide valuable insights into the benefits and drawbacks of these trade agreements and their long-term effects on the US economy and future generations.

## Keywords

Free trade agreements with the US, trade agreements, bilateral trade agreements, future of free trade agreements, the impact of free trade agreements

## Introduction

There are several ways that the country's overall economic conditions are impacted when businesses are permitted to trade internationally. Businesses may perceive it as both profitable and detrimental. The enforcement of FTAs results in an increase in manufacturing output and manufacturer competition, which in turn creates job opportunities. However, as competition rises, small businesses tend to shrink. Products of higher quality and lower prices are available to consumers. As a result, although trade expansion may not be beneficial to all workers and businesses, economists agree that it can be more beneficial. Trade agreements are done keeping economic and political gains in mind. Therefore, establishing free trade agreements is a difficult process. Free trade would be an optimal trade policy for any country involved with the production. However, the process of free trade becomes complex if, for example, a larger country tries to manipulate the trade terms which leaves the trading partner country with a weaker hand. Additionally, free trade agreements can lead to an increase in environmental damage as countries may be incentivized to lower their environmental standards to remain competitive. To protect such instances, trade agreements are created. Trade agreements become difficult to comprehend and implement due to the complexity of a nation's production and economic power. To create trade agreements that are in everyone's best interest, economists and political bodies have conducted extensive research for many years. The United States economy has benefited from free trade agreements (FTAs) in several ways, including reduced tariffs, improved intellectual property protection, and new opportunities for trading production with partner nations.

The following table lists the updated bilateral FTAs currently active with the United States and member countries (Alghabbabsheh et al. 2022a):

Table 1. Bilateral Free Trade Agreements in force with the USA

Year	Country	Trade Agreement
1985	Israel	BFTA
1994	Canada	NAFTA
1994	Mexico	NAFTA
2001	Jordan	BFTA
2004	Chile	BFTA
2004	Singapore	BFTA
2005	Australia	BFTA
2006	Bahrain	BFTA
2006	El Salvador	CAFTA-DR
2006	Guatemala	CAFTA-DR
2006	Honduras	CAFTA-DR
2006	Morocco	BFTA
2006	Nicaragua	CAFTA-DR
2007	Dominican Republic	CAFTA-DR
2009	Costa Rica	CAFTA-DR
2009	Oman	BFTA
2009	Peru	BFTA
2012	Colombia	BFTA
2012	Panama	BFTA
2012	South Korea	BFTA
2020	Japan	BFTA

*BFTA – Bilateral Free Trade Agreement; NAFTA - North American Free Trade Agreement; CAFTA-DR - Central America Free Trade Agreement-Dominican Republic*

### Research Objectives

Objective 1: Do international FTAs, while increasing trading options, negatively impact small business owners? Can they survive and operate with the increased globalization of trade?

Objective 2: What is the future of FTAs in terms of job creation, political aspects, and accommodation of small businesses?

### Methodology

This study was conducted using freely accessible databases such as Google Scholar and APA-accepted online sources (websites ending with .edu, .org, .gov, etc). The study is therefore a detailed systematic review exploring some key questions around free trade agreements. A list of articles was reviewed and selected using a range of keywords. Finally, a handful of articles were filtered and chosen based on relevance. Keywords used for the search were: free trade agreements with the US, trade agreements, bilateral trade agreements, free trade agreements, future of free trade agreements, and the impact of free trade agreements. Figure 1 shows initially only 58 articles were found. After further screening, it was decided that only 11 papers were within the scope of the study, and hence these papers were reviewed, and the findings were documented.

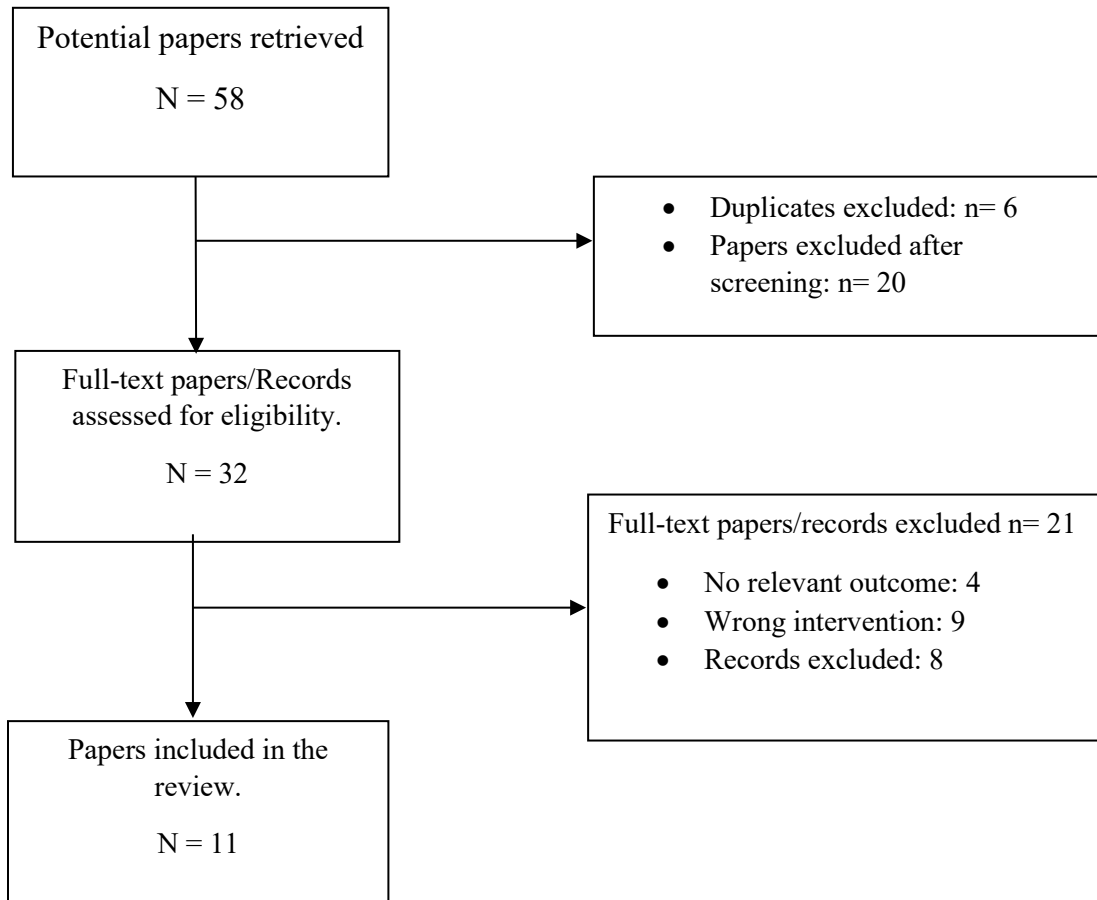


Figure 1. Screening process for the articles reviewed

## Findings

The expansion of free trade agreements has been primarily driven by globalization in recent decades. Outward foreign direct investment (FDI) stocks grew nearly five times faster than exports between 1990 and 2009, surpassing intermediate goods export growth, according to the World Investment Report (2010) and the United Nations World

Trade Data Base.

The following table shows the bilateral U.S.A. imports pre and post FTAs enforced with partner countries listed respectively (Alghabbabsheh et al. 2022b):

Table 2. Bilateral U.S imports from trade partners before and after FTAs entered into force

FTA Partner	Before	After	Total Import (In USD)		Average Import (In USD)	
			Pre-FTA	Post-FTA	Pre-FTA	Post-FTA
Australia	1992-2004	2005-2017	149,072,702,794	299,223,540,589	11,467,130,984	23,017,195,430
Bahrain	1992-2005	2006-2017	5,578,371,761	11,343,321,064	398,455,125	945,276,755
Chile	1993-2003	2004-2017	38,920,840,776	166,424,660,066	3,242,403,398	11,887,475,719
Colombia	1993-2011	2012-2017	120,614,629,005	97,518,521,197	6,030,731,450	16,253,086,866

Jordan	1992-2001	2006-2017	3,273,100,000	18,993,840,929	327,310,000	1,187,115,058
Morocco	1992-2005	2009-2017	6,878,499,458	22,500,900,955	491,321,389	1,875,075,080
Oman	1992-2008	2013-2017	7,353,360,765	15,143,096,576	432,550,633	1,682,566,286
Panama	1992-2012	2009-2017	61,157,763,668	46,012,640,997	2,912,274,460	9,202,528,199
Peru	1992-2008	2004-2017	36,871,284,394	74,852,980,945	2,168,899,082	8,316,997,883
Singapore	1992-2003	2004-2017	184,249,974,923	375,885,369,000	15,354,164,577	26,848,954,929
South Korea	1992-2011	2012-2017	526,537,833,547	262,677,390,814	26,326,891,677	43,779,565,136

Implementing trade agreements with all eleven of the listed nations results in a significant increase in both total and average imports, as shown in the table above. This indicates that as a result of the FTAs' implementation, member countries saw an increase in production and increased demand for imported goods, which had a direct impact on job creation in all sectors.

The latest review suggests that FTAs were liable for 38% of all exchanges between the US and its part nations in 2017 (Alghabbabsheh et al. 2022c). This shows how many goods were traded around the world because of the FTAs that were in place. As a result, it is evident that a greater number of trading agreements can encourage investment in a market that is more robust, competitive, and resource-efficient, resulting in better economic growth for the participating nations. FTAs also play a significant role on the political front because economic agreements between nations signify cooperation on the institutional fronts of governments. FTAs are increasingly making political diplomacy easier (Chia 2010), and signatory nations can use FTAs to harmonize their regulatory and institutional frameworks (Kawai and Wignaraja 2008). FTAs that were signed with Jordan and Israel is an illustration of this. These agreements were made to strengthen political ties and show support for those nations (Cooper 2014).

As a result, we can assert that the larger benefits of a greater number of FTAs—economic and political—are apparent. However, there are always discussions regarding whether additional FTAs should be required. Global trade liberalization is viewed differently by three general groups. One opposes more agreements because they hinder the expansion of the nation's multilateral trading system and have an impact on local businesses and production. They are supported by another group because they see it as a "building block" for simpler trading regulations, which can be advantageous to many businesses. The third group opposes FTAs because they affect employees of import-sensitive or environmentally conscious businesses. Every one of these groups has legitimate reasons to support or protest. At the end of the discussion, the implementation of an FTA is done by weighing all these points and making a strategic decision based on the end value that it may potentially generate.

When evaluating the benefits and drawbacks of FTAs, the long-term effects on small businesses operating in a globalized trading environment must be taken into consideration. Smaller businesses will suffer and eventually fail if more goods are produced locally at higher costs rather than imported at lower prices. On the other hand, it forces businesses to outsource or purchase imported goods in order to lower their final costs and remain competitive in the market. In this scenario, the country's total increase in value and the impact on smaller businesses must be compared. Countries that have FTAs that let foreign industries into their economies gain access to the international market or give access to a particular nation, either for economic reasons or to strengthen political ties and soft power (Alghabbabsheh et al. 2022d). It is therefore worthwhile to investigate the industry level in order to precisely identify the most profitable industries within each BFTA. Consequently, the direct effect of BFTAs on trade size on economic growth is directly impacted in developed economies. NAFTA aims to "strengthen" economic ties and the unique bond of "friendship" and "cooperation" in addition to expanding trade agreements. On the other hand, the US's BFTAs with Morocco, Bahrain, and Oman did not appear to have increased imports from those nations.

In fact, the agreement between the United States and Morocco has not decreased imports but rather only increased exports. Nontrade political motives are directly demonstrated by the value of trade flows. The Advisory Committee on Trade Policy and Negotiations (ACTPN) initially supported the Moroccan Free Trade Agreement due to its benefits

beyond employment opportunities and trade. These advantages provide a solid foundation upon which additional regional or bilateral agreements can be constructed. As a result, we can agree that FTAs frequently have a positive effect on a nation's and its businesses' growth. Even though some businesses may suffer, the bigger picture reveals their overall advantages. FTAs also help underdeveloped regions grow their economies and create jobs. Additionally, the sole purpose of some trade agreements in these regions is to enhance economic growth by enhancing political relations with member nations. In a globalized market, smaller businesses have the chance to save capital by outsourcing production, which can help them lower the price of their products and increase their profit margins.

A group of economists oppose some FTAs because they reduce the market for small businesses (Alghabbabsheh et al. 2022e). They typically include representatives of social action groups and labor unions, as well as businesses that are primarily concerned about imports. They claim that these trade liberalizations result in the export of jobs to other nations. The larger businesses outsource a significant portion of their operations abroad in order to obtain lower labor costs while maintaining quality. This seems unfair to many people in the country who think that trade liberalizations hurt small businesses and make fewer people work. However, as trade becomes more globalized, there will be more competition, and small businesses can take advantage of this to expand. They can trade more freely than larger corporations, which can encourage growth. This idea needs to be adopted by businesses, labor unions, and social groups, and they need to figure out how to make it work for them. Because the benefits outweigh the drawbacks, the government's political position will always be to use FTAs whenever possible. Before putting any FTA into effect, the policymakers, without a doubt, keep common concerns like the employment rate and its effects on small businesses in mind. As previously stated, numerous agreements are made to strengthen political ties between nations.

FTAs of this kind are signed with an eye toward the future in order to establish a long-term partnership in which profits and goods are shared. Because there is a profit-sharing exchange, both countries stand to benefit from them. It results in an increase in the creation of manufacturing and service-related jobs. Based on demand, more businesses can open, and established businesses can adjust their business models to capitalize on the shifting market. The majority of the 14 FTAs that the United States of America has signed with other nations are with countries with lower or middle incomes. Most of these nations' agricultural trade and imports have increased in recent years, according to recent trends (Ajewole 2022). According to the data, the shift from agriculture had no effect on the unemployment rate, and GDP per capita increased. A peer reviewed study looks at how U.S.A. FTAs influence work reviewers and the quantity of assessments in accomplices in Latin America presuming that, except for Mexico, the US's FTA marking seems to improve work policing the expansion of examination assets and exercises (Dewan 2018). As a result, expanding free trade typically has a positive impact on small businesses as well, resulting in increased production and job creation. Cheaper options to produce or acquire goods and services are readily available with a globalized market.

## **Discussion**

The economic, political, and long-term effects of FTAs were examined in this paper. Many social groups, political parties, and businesses accept and want more of these agreements. There is some consensus among the parties opposed to it: these are organizations that support preserving the working class's and unions' power to boost local production and employment. On the other hand, they can provide local businesses with opportunities to adapt to shifting market conditions. Even though these opportunities may not be plentiful, any company can take advantage of them if it chooses to.

The United States of America, as one of the most powerful nations in terms of wealth, education, and resources, should negotiate FTAs with as many countries as possible. This helps struggling, smaller nations in overcoming economic instability. The development of exchange and trade between Mexico and the USA through FTAs has prompted the creation of millions of jobs in Mexico as demand increased. If countries such as the U.S.A., Canada, the United Kingdom, etc. make trade deals that allow outsourcing production to smaller nations, it helps the economy grow by creating jobs and making the country more industrial. Numerous of these agreements have been reached through cooperation between partner nations. There are involvements of corrupted parties that take advantage of these situations and only profit from themselves. It becomes the duty of both governments to monitor the proper execution of their agreements without any kind of corruption. In addition, FTAs are beneficial for environmental and labor laws, as well as for expanding trade. This helps the United States maintain its position as the economic powerhouse of the world and opens up new opportunities both domestically and among partner nations.

FTAs with partner nations and the United States of America has always been uncertain. This is because FTAs have political repercussions that have the potential to affect international relations in addition to their economic benefits. They can be used as instruments to further foreign policies and build stronger relationships with other countries. For

instance, the Trans-Pacific Partnership (TPP) was viewed as a means for the United States to strengthen its relations with the Asia-Pacific region and counter China's growing influence. The Trump administration's withdrawal from the TPP, however, brought attention to the difficulties in maintaining political support for FTAs. The current situation makes it simpler for member nations to trade goods and boost their national incomes at the same time. The impact of BFTAs on trade size will have a direct impact on economic growth in developing economies. Since the advantages of FTAs have influenced most governments in the past, we can anticipate a positive future for them.

## Conclusion

In general, the evidence indicates that FTAs have benefited the American economy. They have contributed to lower prices for American consumers and have boosted growth and employment. Better policies ought to be implemented by political parties in order for these benefits to continue. Due to different views on trade agreements, this is still uncertain. As a result of trade negotiations and open trading agreements, member nations have seen economic, political, and production growth. By examining the overall effects of FTAs with the United States, this study contributes to the existing body of research on the topic. The United States of America and its allies have demonstrated economic and political expansion, as well as an increase in imports and commodities. The impact on a smaller business in the economy and the formation of a group of opponents are key outcomes here. We have observed that, in the grand scheme of things, free trade regulations benefit the majority of businesses, and smaller businesses can pivot or expand to maintain market relevance. Trade agreements are a crucial tool for nations seeking to promote prosperity and economic growth. To balance the interests of all parties, they must be properly developed.

By its participation in organizations such as the World Trade Organization and the North American Free Trade Agreement, the United States has been a pioneer in advocating free trade. It will be essential for nations to keep cooperating to develop trade policies that are advantageous to all parties as the global economy develops. Dealing with issues related to environmental and labor standards is one of the major difficulties in FTA negotiations. FTAs have the potential to enhance economy, but there is also a chance that they may lead to worsening labor conditions and environmental deterioration. To address these issues, there has been an increasing focus on including labor and environmental measures in recent years. For instance, the United States-Mexico-Canada Agreement (USMCA) has clauses that protect the environment and the rights of workers by, among other things, mandating Mexico to tighten its labor laws and undertake pollution control measures. By addressing social and environmental issues, these clauses can ensure that FTAs encourage sustainable and equitable growth.

FTAs have emerged as a popular mechanism for enhancing economic growth and fostering closer political ties between countries. While some of these agreements primarily focus on boosting trade and the economy, others are aimed at improving diplomatic relations between nations. Future research on this topic should examine the impact of such agreements both before and after their implementation, taking into account political changes that could affect their success. It is important to assess which industries stand to benefit the most from these agreements, to identify potential areas of growth and expansion. For example, the United States has recently shown an increased interest in executing trade agreements with smaller nations. Such agreements hold promise for the future of economic growth and closer political ties within the United States and its partners. However, the success of these agreements is often contingent upon the prevailing government's political stance, making it imperative to consider the broader political context when evaluating their impact. To fully understand the effects of these agreements on economic growth and diplomatic relations, more research is necessary to assess their effectiveness in different regions and industries. Policymakers can use these insights to make informed decisions and ensure that free trade agreements promote sustainable economic growth and foster closer political ties between nations.

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## Biographies

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**Pawan Bhandari, Ph.D.** is an Assistant Professor in the Department of Manufacturing Engineering Technology at Minnesota State University, Mankato, USA. He earned a B.S. and M.S. in Manufacturing Engineering Technology from Minnesota State University, Mankato, USA, and Ph.D. in Technology Management (Quality Systems) from Indiana State University, USA. Prior to joining academia, he worked as a Principal Health Systems Engineer at Mayo Clinic, Rochester, Minnesota where he provided end-to-end consulting to internal clients between department, region, and enterprise level. He was also an instructor in the Health Care Systems Engineering, at the College of Medicine, Mayo Clinic. Prior to joining Mayo Clinic in 2013, he worked as a Manufacturing Engineer. He is also a professional member of the American Society for Quality (ASQ) and IEOM. He is also an ASQ Certified Six Sigma Black Belt and ASQ Certified Quality Improvement Associate. His research interests are quality and process improvement, technology management, quality systems, performance improvement in healthcare, and applied business analytics which includes but is not limited to machine learning, Artificial Intelligence, and data science.