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Have Regional Trade Blocs Diverted U.S. Exports?

Recent decades have seen a significant increase in the number of regional trade blocs, which lower barriers on trade between member countries. All else equal, because goods from another member country are given preferential treatment, a country joining a trade bloc should reduce its levels of imports from non-members, an effect called *trade diversion*. Because many of the United States' trading partners formed trade blocs during the 1990s, there is concern that these blocs will lead to a diversion of U.S. exports from important markets.

Three of the largest of these blocs were: the Association of South East Asian Nations Free Trade Area (AFTA), which began implementation of a free trade area in 1993; the Andean Community, which began implementation of a free trade area for Bolivia, Colombia, Ecuador, Peru, and Venezuela in 1993; and Mercosur, formed by Argentina, Brazil, Paraguay, and Uruguay, which came into effect in 1995. Note that the blocs' starting dates indicate when member countries began, rather than completed, the process of integration—processes that continue to this day.

The table summarizes the differences in real dollar-valued U.S. exports to these blocs between the year before they began and 1997. The year 1997 is the most recent for which data are available from the *World Trade Flows* data set, which reconciles many discrepancies in the bilateral trade statistics found in other data sources. As indicated in the first column, by 1997, the United States was exporting more to each of the blocs, suggesting that trade diversion did not occur. This does not tell the complete story, however, because U.S. exports could have risen simply through increases in the sizes of the countries' economies. It is useful, then, to compare the changes in exports to the change in some measure that combines the Gross Domestic Products (GDPs) of the United States and the members of the bloc. One such measure is provided by the gravity model of trade, which holds that, all else constant, the volume of imports or exports should be proportional to the product of the trading partners' GDPs. If the percentage change in real exports differs substantially from the growth in the product of the real GDPs, the trade bloc may have had a significant effect on the level of trade.

The second column in the table provides the percentage changes in the products of real U.S. GDP and the real dollar value of the combined GDPs of the countries in each of the trade blocs. Comparing these numbers to the previous column suggests: AFTA has not had much of an effect on U.S. exports; the formation of the Andean Community might have led to a decrease in U.S. exports; and Mercosur might have led to an increase in U.S. exports. These numbers are by no means conclusive, but they do suggest that these regional trade blocs have not always led U.S. exports to be diverted. This might be because there is more going on with these agreements than simply the formation of a trade bloc. They also tend to be part of a general liberalization of the economies of the member countries, thus opening up more opportunities for trade with non-members like the United States.

—Howard J. Wall

Regional Trade Blocs and U.S. Exports

	% Change in U.S. Exports	% Change in Product of GDPs
AFTA 1992-97	62.1	60.3
Andean Comm. 1992-97	24.7	65.0
Mercosur 1994-97	50.6	38.8

Source: *World Trade Flows, 1980-1997* and the World Bank.