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HEADLINE: Free Trade's Net Worth; Politically charged agreements with South Korea, Colombia and Panama would boost exports, but are they the economy's white knight?

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In the seven years since the U.S.-Chile free trade agreement took effect, U.S. exports to the South American country spiked more than 300 percent, while U.S. imports grew a more moderate 90 percent. Like the Chilean deal, pending FTAs with South Korea, Colombia and Panama were negotiated by the last Bush administration. Unlike the Chilean agreement, those pacts have languished on the sidelines for years, amid heated political debate and rhetoric, back-and-forth renegotiation, and outright hostility.

But sometime this fall, the Obama administration almost surely will bring the three treaties to Congress for a vote, as long as it can overcome the latest in a long line of political battles: revival of the Trade Adjustment Assistance program that grants training to workers whose jobs are outsourced.

Frustrated boosters of the pacts point to the jolt they could provide for exports & mdash; especially important in light of the administration's National Export Initiative and its goal to double exports in the five years to 2015 — and to an economic recovery stuck in quicksand. GDP growth would accelerate, they say, and unemployment would fall, especially in the manufacturing sector. U.S. exporters would gain access to new markets. U.S. consumers would have a wider choice of lower-priced products, from electronics to cars.

And transportation providers up and down the supply chain, from international air and sea carriers to domestically focused trucking and rail operators, would benefit from rising volumes filling their equipment.

Quantifying how much the agreements would increase trade and benefit the economy is, of course, an open question, dependent on the many variables of international trade, from currency fluctuations to economic indicators such as consumer sentiment and fuel prices. But if FTAs such as the North American Free Trade Agreement and Chile are an indication, trade growth with South Korea and Colombia would be measured in the billions of dollars.

In the absence of the pacts, U.S. manufacturing exports have been robust, though not robust enough to lift the U.S. out of its economic doldrums. U.S. exports grew 13 percent in May from a year earlier, tying the record of $95.8 billion set in March, but that's slightly below the 15 percent annual growth rate needed to fulfill the administration's goal of doubling U.S. exports, creating 2 million jobs in the process.

"Unless manufactured goods exports accelerate to a faster rate of growth, the manufactured goods deficit could slip into record territory by next year," said Frank Vargo, executive vice president of the National Association of Manufacturers.

Sidebar: TAA, as in Toil, Angst and Aggravation

To get an idea of the potential impact, however, one need only look as far as the 14 similar agreements the U.S. entered over the past decade. Collectively, those 14 countries accounted for $96.4 billion in U.S. goods exports in 2010 and $71.3 billion in U.S. imports. That would make them America's third-largest export market and sixth-largest source of imports.

And, despite the widespread public perception that free trade is bad for the U.S. trade balance, the U.S. enjoys a collective surplus with those partners. "Over the first five months of this year, the U.S. enjoyed a $17 billion surplus in manufactured goods with our FTA partners while, at the same time, the U.S. had a $190 billion deficit in those goods with non-FTA partners," Vargo said.

The U.S. ran a modest deficit of $3 billion in manufactured goods with Canada and Mexico, its partners in the North American Free Trade Agreement, in the first five months of the year — a $13 billion deficit with Mexico and a $16 billion surplus with Canada. "That's not a great deficit when compared with the $117 billion deficit with China over the same period," Vargo argued.

"Both U.S. exports and U.S. imports with this group of countries have expanded more rapidly than overall U.S. trade" since these agreements were established, said Daniel Griswold, director of the Center for Trade Policy Studies at the **Cato Institute**. "This has delivered a double benefit to the U.S. economy, as exports have expanded markets for U.S. producers, while imports have delivered lower prices and more variety for American consumers and more affordable inputs for U.S. producers."

U.S. imports from FTA partners were 9 percent higher than overall import growth, Griswold said. Because of the FTAs, U.S. imports were $5.9 billion higher and exports were $4.5 billion higher than what would have been recorded in their absence.

In its reports on the agreements, the U.S. International Trade Commission forecast the South Korea agreement would raise U.S. exports to that country by a maximum of $10.9 billion, and U.S. imports by a maximum of $6.9 billion.

If both of those higher numbers proved accurate, it would mean a maximum positive impact of $4 billion on the U.S. trade balance, and an $11.9 billion boost to U.S. GDP. The U.S.-Colombia pact would boost U.S. exports by $1.1 billion and U.S. imports by $500 million, the ITC predicted, bolstering the U.S. trade balance by $600 million, and raising the U.S. GDP by 2.5 percent.

The U.S. Chamber of Commerce pro-jects the combined impact of the three pacts would boost U.S. exports by $40.2 billion, U.S. GDP by $44.8 billion, and increase U.S. jobs by 338,352.

Jeffrey Schott, a senior fellow at the Peterson Institute for International Economics, said the Korean agreement "is a big deal in many respects. By the usual metric for assessing trade pacts, it covers more bilateral trade in goods and services — more than $100 billion in two-way trade in 2010 — than any U.S. trade pact since the North American Free Trade Agreement. It was also the largest venture Korea engaged in until the comparable FTA with the European Union was completed and implemented on July 1."

The economic impact of the U.S.-Korea pact should be felt relatively quickly, Vargo said, because the "vast bulk" of tariff cuts on U.S. exports to those countries "will be immediate." Vargo expects cumulative U.S. exports to the three FTA partners — currently at $50 billion a year — to expand by an additional $10 billion to $12 billion a year by the end of 2012 or mid-2013, and grow that much each year thereafter.

Sidebar: Missing the Target .

The ITC predicted the agreement with Panama, a significant financial services center, would have only a small impact.

Those numbers only begin to tell the story of the impact of the three FTAs, according to economists who support them. FTAs have two sorts of "big benefits," said Walter Kemmsies, chief economist at transportation infrastructure consultant Moffatt & Nichol. One major benefit difficult to quantify is that "the cost of goods in the U.S. falls — and for several reasons."

Take, for example, the impact of free trade on imports of electronics goods, such as laptops. Not only have prices for laptops declined precipitously, Kemmsies said, but "productivity in the U.S. has skyrocketed because everyone can now get a laptop."

Vargo calculates the three FTAs will be worth a cumulative net growth of 100,000 jobs, "although not all of them will be in manufacturing."

Some U.S. jobs will inevitably be lost, supporters of the FTAs acknowledge, but what counts is the net gain. "Even if we lose some jobs to Korea because of some cheap electronics imports, we gain jobs in other areas," Kemmsies said.

The big attraction in Colombia will likely be the energy sector. Rich in oil and coal, Colombia could attract more than $40 billion in new foreign investment over the next decade, Foreign Minister German Cardona said. There will be no rush, however, to shift manufacturing jobs there.

Of the three trading partners, South Korea is by far the most significant for U.S. exporters and importers of containerized goods. That country surpassed Japan last year as the United States' second-largest source of containerized goods after China, according to JOC Economist Mario O. Moreno. From January through May 2011, U.S. imports from Korea grew rapidly, especially in automotive parts, up 29 percent; refrigeration equipment, up 24 percent; and auto and truck tires and tubes, up 30 percent.

Overall, containerized imports from South Korea grew at a rapid rate in the first three quarters of 2010 — 35, 42 and 36 percent in the first three quarters — before slowing to 13 percent in the fourth quarter and 14 percent in the first quarter of 2011. Moreno forecasts a further slowdown in exports to Korea, to 4 percent in the second quarter of 2011, and 6 percent in the third quarter.

Growth rates for U.S. exports to Korea — led by paper/paperboard, including wastepaper; mixed metal scrap; meat; oranges; and logs and lumber — have been volatile. In the first quarter of 2010, U.S. exports to Korea rose 37 percent year-over-year, before slumping to 5 percent growth in the second quarter, and then declining 10 percent in the third quarter.

In part, this reflects the volatility in the dollar-won exchange rate, Moreno said. "The Bank of Korea intervenes often in currency markets to bring the value of the Korean won down to support their own exporters."

Moreno's forecasts for 2011-12 don't yet reflect any further tariff reductions that result from the U.S.-Korea pact, but he believes the agreement "will be beneficial for both" countries, especially for U.S. importers of Korean auto parts.

Unlike resource-poor Korea, Colombia is rich in natural resources, including coal and oil, which have attracted sizable investments from Asia. China has discussed building a "dry canal" across the neck of Colombia south of the Panama Canal, largely to carry coal to Pacific ports.

Longer term, Colombia's prospects for containerized cargo growth will depend on how aggressively the government pursues a strategy of promoting value-added manufacturing, and then exporting high value-added, resource-based goods, rather than shipping raw materials transported as bulk or breakbulk. "Colombia has to go beyond its narrow base," Kemmsies said. "It needs to go beyond raw materials," even if prices for those raw materials remain high.

Kemmsies predicts U.S. exports to South Korea "will really pick up" as a result of the improved market access built into the agreement. U.S. exports of beef and grains to Korea could grow 10 percent a year for the next four to five years, he said, although those numbers are starting from a low base — only 16,315 TEUs from January through May 2011.

The Korea FTA could have another benefit for the U.S. economy, Kemmsies said, if it helps Korea become more competitive against Japan. That would force the Japanese and Chinese to lower their prices, "which is a huge benefit for Americans" who import from them. "This agreement will force the Chinese to work even harder," he said.

Although U.S. exports to Colombia will grow, it is U.S. imports from that country that will grow more significantly, Kemmsies forecasts. "Colombia is a really good hedge" for many U.S. companies that outsource overseas, he said, because of its proximity. At a time when fuel costs are rising, "Asia is not a good idea" when it comes to outsourcing many U.S. manufactured goods. "Colombia is a great place to manufacture; the labor is cheap."

For Colombia to reach its full potential, however, it will have to improve its infrastructure. The ITC's optimistic forecasts for Colombia may not work out, because "we don't have the physical infrastructure in place" to handle the extra cargo volumes, Kemmsies said. "We'll run into capacity problems very quickly," as trade flows increase.

Like Mexico, Colombia also faces the prospect of falling short of potential because of major security risks, especially related to drug trafficking and crime networks. The war on drugs in that country is nearing 30 years.

How many jobs will be won or lost because of these pacts? Economic forecasts vary widely, and the economic models seem fuzzy at best. A White House spokesman recently cited a figure of 70,000 additional jobs, without explaining how that number was calculated. Rep. Dave Camp, the Michigan Republican who is chairman of the House Ways and Means Committee, has mentioned a figure of 200,000 additional jobs.

At best, calculating the impact of trade deals on jobs is a tricky business, said Robert E. Scott, director of trade and manufacturing policy research at the Economic Policy Institute, a Washington think tank, and a vocal critic of U.S. trade policy. Take, for example, when U.S. companies relocate a production facility to Mexico to take advantage of NAFTA duty provisions, and the parts they once used for final production in the U.S. are now shipped as intermediate goods to plants in Mexico, and used for final production.

"Those were domestic jobs, and now they are export jobs. The company gets credit for having jobs that are supported by exports, but when it re-imports the final products back to the U.S., the company is displacing domestic job opportunities," not creating new ones through these "new" exports.

Beyond all those considerations, the full potential of the free trade pacts will likely be moderated by the impact of recent bilateral pacts signed by South Korea with the European Union, and by Colombia with Canada. "The EU agreement with Korea will negate some of the gains that we (the U.S.) expected to get" when the agreement was originally negotiated, Vargo said.

- Washington.