

United States Employment Impact Review of the United States-Bahrain Free Trade Agreement

Pursuant to section 2102(c)(5) of the Trade Act of 2002, the United States Trade Representative, in consultation with the Secretary of Labor, provides the following United States Employment Impact Review of the United States-Bahrain Free Trade Agreement. The report was prepared by the U.S. Department of Labor.

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Executive Summary

This employment impact review was prepared pursuant to section 2102(c)(5) of the Trade Act of 2002. Section 2102(c)(5) requires the President to review and report to the Congress on the impact of future trade agreements on U.S. employment, including labor markets. This review describes the contents of the United States-Bahrain Free Trade Agreement (FTA), including a summary of the labor provisions of the FTA, and assesses the potential economic and employment effects of the FTA. In addition, the review summarizes the content of the labor provisions of the FTA.

The major finding of this review is that the United States-Bahrain FTA is expected to have a negligible effect on employment in the United States. This finding regarding the absence of any significant domestic employment effects from the FTA is attributable to, among other factors, the relatively small volume of bilateral trade between the two countries, the fact that slightly under half of all U.S. imports from Bahrain already enter the United States duty-free, provisions in the FTA for the gradual removal of U.S. tariffs on import-sensitive goods from Bahrain over a ten-year period, and safeguards contained in the FTA to attenuate the effects of any increases in imports that might cause serious injury to a domestic industry.

When the United States-Bahrain FTA enters into force, all U.S. industrial and consumer goods currently traded with Bahrain will gain immediate duty-free access to Bahrain's markets and tariffs on all goods will be eliminated within ten years. U.S. service providers will also gain greater market access. As U.S. goods and service-producing industries become more competitive in the Bahraini market, it is expected that U.S. merchandise and service exports to Bahrain will increase. This especially should be the case for the current leading U.S. merchandise exports to Bahrain in areas such as aerospace products, automobiles, fabricated metal products, computer equipment, and machinery and equipment; and services such as financial and other business related services. New U.S. export opportunities may also arise in the areas of manufacturing, services, and agriculture as the Bahraini market—though extremely small—becomes more open.

I. Introduction: Overview of the United States Employment Impact Review Process

A. Scope and Outline of the United States Employment Review

This employment impact review consists of this introduction and two additional parts that follow. Part II discusses the background and contents of the United States-Bahrain Free Trade Agreement (FTA), including the bilateral economic setting; current barriers to bilateral trade; and the major elements of the FTA, including rules in the FTA to ensure that only products which satisfy the FTA's origin requirements benefit from the FTA, mechanisms to attenuate the effects of any increases in imports that may cause serious injury to a domestic industry, longer phase-in of tariff reductions for especially sensitive products, and the labor provisions of the FTA and labor cooperation mechanism. Part III considers the potential economic and employment effects in the United States of the FTA.

B. Legislative Mandate

This review of the employment impact of the United States-Bahrain FTA is pursuant to section 2102(c)(5) of the Trade Act of 2002 ("Trade Act") (Pub. L. No. 107-210). Section 2102(c)(5) provides that the President shall:

review the impact of future trade agreements on United States employment, including labor markets, modeled after Executive Order 13141 to the extent appropriate in establishing procedures and criteria, report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on such review, and make that report available to the public.

The President, by Executive Order 13277 (67 Fed. Reg. 70305 (Nov. 19, 2002)), assigned the responsibility for conducting reviews under section 2102(c)(5) to the United States Trade Representative (USTR), who delegated such responsibility to the Secretary of Labor with the requirement that reviews be coordinated through the Trade Policy Staff Committee (67 Fed. Reg. 71606 (Dec. 2, 2002)).

The employment impact review is modeled, to the extent appropriate, after Executive Order 13141 (68 Fed. Reg. 63169) on the environmental review of trade agreements; the guidelines developed for the implementation of that order have been adapted for use in this employment review.¹

¹ Executive Order 13141, on Environmental Review of Trade Agreements, was signed on November 16, 1999. The Order commits the U.S. government to a policy of careful assessment and consideration of the environmental impacts of trade agreements, including factoring environmental considerations into the development of its trade negotiating objectives. The Order directs that, in certain instances, written environmental impact reviews be made available to the public in final form. Also, the Order directs the Office of the U.S. Trade Representative (USTR) and the Council on Environmental Quality (CEQ) to oversee the implementation of the Order, including the development of procedures or guidelines pursuant to the Order. In December 2000, USTR and CEQ published *Guidelines for the Implementation of Executive Order 13141--Environmental Review of Trade Agreements*. The Order and Guidelines are

C. Public Outreach and Comments

1. Responses to Federal Register Notice

The U.S. Department of Labor and USTR jointly issued a notice on September 4, 2003 in the *Federal Register* announcing the initiation of a review of the potential impact on U.S. employment of the proposed United States-Bahrain FTA, including the effects on domestic labor markets, and requesting written public comment on the review and provision of information on potentially significant sectoral or regional employment impacts (both positive and negative) in the United States, as well as other likely labor market effects of the FTA.² Four submissions were received in response to the notice.³

2. Reports of the Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) and Other Advisory Committees

Section 2104(e) of the Trade Act requires that advisory committees provide the President, USTR, and Congress with reports under section 135(e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement. All of the advisory committee reports were submitted on July 14, 2004, and are available on the USTR web site.⁴

The Advisory Committee on Trade Policy and Negotiations (ACTPN) and virtually all of the other 26 trade advisory committees expressed the view that the United States-Bahrain FTA is in the economic interest of the United States and stated their support for the FTA. The unanimous findings of the ACTPN were that the FTA “is strongly in the economic interest of the United States” and should “be adopted quickly.” ACTPN also noted that the FTA would not be disruptive to the U.S. economy since “adequate transition and adjustment times have been built into the agreement.”

The Industry Sector Advisory Committees (ISACs) on Aerospace Equipment (ISAC-1) and Automotive Equipment and Capital Goods (ISAC-2), in particular, commented that

available on the USTR web site at: http://www.ustr.gov/Trade_Sectors/Environment/Guidelines_for_Environmental_Reviews/Section_Index.html. USTR and CEQ jointly oversee implementation of the Order and Guidelines, while USTR, through the Trade Policy Staff Committee (TPSC), is responsible for conducting individual reviews.

² See 68 Fed. Reg. 52622 (Sept. 4, 2003).

³ Comments submitted by the American Dehydrated Onion and Garlic Association (ADOGA) reiterated the same concerns about the FTA that they had expressed in each of their submissions on the U.S. employment impact of the FTAs with Singapore, Morocco, Australia, and the Central American countries and the Dominican Republic. Comments submitted by the Tile Council of America, Inc. (TCA) reiterated the same concerns about the FTA that they had expressed in their submission for the United States-Australia FTA. These ADOGA and TCA comments were summarized in the Department of Labor’s *United States Employment Impact Review of the United States-Australia Free Trade Agreement* (June 2004), and are not repeated here. The two other submissions were submitted by human rights groups in Bahrain; these submissions are not discussed here.

⁴ See http://www.ustr.gov/Trade_Agreements/Bilateral/Bahrain_FTA/Reports/Section_Index.html.

the FTA would benefit the exports of their respective industries. The Committee on Textiles and Clothing (ISAC-13) had "mixed views on many aspects of the agreement relating to rules of origin, market access, and customs procedures." Textile industry members were supportive of the rules of origin, but expressed concerns about tariff preference levels for the use of third-country components in apparel, while apparel industry members said that those provisions were necessary because the rules of origin are too restrictive. Some ISACs welcomed retention of duty-drawback privileges under the FTA; several expressed concerns about rules of origin based only on content value.

The Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) argued that the FTA would lead to a deteriorating U.S. trade balance and the loss of U.S. jobs, citing its views of NAFTA. The LAC noted that "it is possible that the agreement will result in a deteriorating trade balance in some sectors, including sensitive sectors such as apparel." Reiterating the concerns it raised regarding the recently negotiated free trade agreements with Chile, Singapore, Australia, and Morocco, the LAC expressed concerns about the FTA's labor provisions that only commit the Parties to enforce their own labor laws. The LAC argued that the FTA's dispute resolution procedure provides for lower penalties that are capped, with little punitive or deterrent effect for violations of the Labor Chapter. The LAC also opined that the FTA's rules of origin and safeguard provisions would invite circumvention by producers and fail to protect workers from import surges that may result, and that the FTA provisions on procurement and services would constrain the ability of the U.S. Government to regulate in the public interest and provide public services.

II. Background and Contents of the FTA

Bahrain is an archipelago of 36 islands located off the eastern coast of Saudi Arabia. By virtue of its location and tradition, Bahrain is a major regional trade and financial center.

The United States-Bahrain FTA will not only strengthen bilateral ties, but also advance the U.S. goal of a Middle East Free Trade Area within a decade. While the economic effects of the FTA on the United States are expected to be negligible, especially due to the small volume of existing trade between the United States and Bahrain, the FTA will serve, over time, to reinforce the process of economic reform and economic development in Bahrain.

The FTA will create some new opportunities for U.S. workers, farmers, businesses, and consumers by eliminating current barriers to trade with Bahrain. One hundred percent of current bilateral trade in consumer and industrial products will become duty-free immediately upon entry into force of the FTA. In addition, Bahrain and the United States will provide immediate duty-free access to virtually all products in their tariff schedules and will phase out tariffs on the remaining handful of products not currently traded within ten years.⁵ Several key U.S. export sectors that are likely to benefit include information technology products, construction equipment, machinery, and chemicals, among others. When the United States-Bahrain FTA enters into force, U.S. service providers will also gain greater access to the Bahraini market. The Bahraini textile and apparel sector may benefit from the FTA through elimination of tariffs on these exports.

A. Bilateral Economic Setting

1. *Population and the Economy*

With a land area 3.5 times larger than the District of Columbia, Bahrain's population was 711,700 in 2003 (or about 1.28 times that of the District of Columbia). Bahrain's gross domestic product (GDP) was \$7.7 billion in 2002, approximately 0.07 percent the U.S. GDP of \$10.4 trillion.⁶ Bahrain's economy is comparable in size to about 11 percent of that of the District of Columbia, which had a gross state product of \$67.2 billion in 2002. Bahrain's gross national income (GNI) per capita in 2002 was \$10,850, approximately 30.6 percent of U.S. per capita GNI of \$35,430.

2. *Labor Force*

a. U.S. Labor Force

⁵ The United States will phase out its tariffs on several sensitive agricultural products over ten years, while Bahrain will phase out its tariffs on tobacco products, wine and liquor, and a few other products over the same time period.

⁶ The most recent year for which GDP data is available for Bahrain is 2002. See World Bank, World Development Indicators database, available at: <http://devdata.worldbank.org/data-query/>.

In 2004, the civilian U.S. labor force totaled 147 million workers; approximately 46 percent (68 million) of the labor force was female.⁷ The service-producing industries are the major source of employment in the United States. In 2004, service-producing industries accounted for 78 percent of total U.S. employment of 139 million. Other major sectors of employment include manufacturing, which accounted for 12 percent of total U.S. employment in 2004, mining and construction, which accounted for about 8 percent, and agriculture, which accounted for about 2 percent. On an occupational basis, in 2004, approximately 35 percent of all employed persons were in either management, business and financial operations professions (15 percent of total employment) or professional and related occupations (20 percent of total employment); other major occupational categories of U.S. employment were sales and office occupations (25 percent of total employment) and service occupations (16 percent of total employment). On the industrial basis used for cross-country analysis, U.S. employment in 2004 was distributed across industrial sectors as follows: 1.6 percent in the agricultural sector, 20.0 percent in industry, and 78.4 percent in the service sector.⁸

The unemployment rate in the United States was 5.5 percent in 2004. The majority of the unemployed in 2004 were job losers and those who had completed temporary jobs (52 percent). Reentrants to the labor force made up 30 percent of the unemployed in 2004, new entrants represented 8 percent, and job leavers accounted for 11 percent.⁹

b. Bahrain's Labor Force

In 2001, Bahrain's labor force consisted of approximately 308,000 workers, of whom 291,000 were employed; 58.8 percent (181,000) of the labor force and 61.9 percent (180,000) of the employed population were non-Bahraini.¹⁰ Females made up about 21 percent (60,000) of total employment in 2001.¹¹ The major sectors of employment in Bahrain in 2001 were: government defense, foreign affairs, and security (18.0 percent); manufacturing (17.2 percent); trade and repairs (11.8 percent); and households with employed persons (10.2 percent).¹² The leading occupations of employment in 2001 were: service workers (26 percent); plant and machine operators, assemblers, and laborers (25 percent); clerical workers (11 percent); and professional workers (9 percent).¹³ On the industrial basis used for cross-country analysis, Bahrain's employment in 2001 was distributed across industrial sectors as follows: 1.5 percent in agricultural,

⁷ The labor force consists of employed and unemployed persons in the civilian non-institutional population age 16 and older. See *Employment and Earnings* 52:1(January 2005).

⁸ *Agriculture* includes agriculture, forestry, hunting and fishing; *Industry* includes manufacturing, mining, and construction; and *Services* includes transportation, communication, public utilities, trade, finance, public administration, private household services, and miscellaneous services. See *Comparative Civilian Labor Force Statistics, Ten Countries: 1960-2004*, U.S. Bureau of Labor Statistics, May 13, 2005; available at: <http://stats.bls.gov/fls/home.htm>.

⁹ See *Employment and Earnings* 52:1(January 2005).

¹⁰ The most recent year for which Bahraini census data are available is 2001. See Kingdom of Bahrain, *Statistical Abstracts 2003*, Tables 11.01 and 11.02, available at <http://www.bahrain.gov.bh>.

¹¹ *Id.*, Table 11.02.

¹² *Id.*, Table 11.10. The category "households with employed persons" refers to individuals providing services in households other than their own, for example, domestic workers, gardeners, and private tutors.

¹³ *Id.*, Table 11.12.

27.2 percent in industry, and 71.3 percent in services.¹⁴

The unemployment rate was 5.5 percent in 2001.¹⁵ Approximately 66 percent of the unemployed in Bahrain were workers seeking their first job.¹⁶ Approximately 11 percent of the unemployed were previously employed in engineering positions, 6.2 percent were formerly clerical workers, and 5.7 percent were service workers.

3. *International Trade in Goods*

a. Global and Bilateral Trade in Goods

U.S. trade in goods represented 18.6 percent of its GDP in 2004. U.S. goods trade with the world amounted to \$2.2 trillion (\$727.2 billion exports and \$1,460.2 billion imports) in 2004. Based on available statistics from the World Trade Organization (WTO), the United States was the world's second largest merchandise exporter (behind Germany) and number one merchandise importer on a country basis in 2004.¹⁷

Bahrain's trade turnover in goods represented 130 percent of its GDP in 2002. During 2003, Bahrain's goods trade with the world amounted to \$12.0 billion (\$6.6 billion in exports and \$5.4 billion in imports). Bahrain's imports consisted primarily of crude oil, machinery, and chemicals, while its exports consisted primarily of petroleum and petroleum products, aluminum, and textiles and apparel.

U.S. bilateral goods trade with Bahrain represents a very small share of total U.S. merchandise trade with the world, accounting for 0.04 percent (\$277.7 million) of overall U.S. merchandise exports to the world and 0.03 percent (\$405.6 million) of overall U.S. merchandise imports from the world in 2004. Bahrain ranked as the 89th largest U.S. goods export market and the 88th largest source for U.S. goods imports in 2004. In 2003, Bahrain's primary export partners were Saudi Arabia, the United States, Taiwan, India, and the United Arab Emirates; and its major import partners were Japan, Saudi Arabia, Australia, Germany, the United Kingdom, and the United States.¹⁸

b. U.S. Merchandise Exports to Bahrain

U.S. domestic goods exports to Bahrain amounted to \$277.7 million in 2004, down from \$497.1 million in 2003. Over the past five years, on a five-digit export-based North American Industry Classification System (NAICS) industry basis, one-third (33.4

¹⁴ Calculation based on data from Kingdom of Bahrain, *Statistical Abstracts 2003*, Table 11.12.

¹⁵ Kingdom of Bahrain, *Statistical Abstracts 2003*, Table 11.06.

¹⁶ Kingdom of Bahrain, *Census 2001 Report – Part 2*, Table 0863.04, available at: <http://www.bahrain.gov.bh/census/Part2/01/e312.asp>

¹⁷ Trade rankings, which are based on a general trade definition, are compiled by the World Trade Organization (WTO); see *International Trade Statistics 2003* (Geneva: World Trade Organization, 2003), Tables I.5, p. 19.

¹⁸ Kingdom of Bahrain, *Statistical Abstracts 2003*, Foreign Trade (excluding oil), Tables 21.09 and 21.10.

