Questions for PubPol/Econ 541
Nov 6

Preferential Trading Arrangements

KOM, Ch 10, selected pages:

- Why does the text say that the GATT permission for countries to form FTAs is a "rather strange exception"? **<a: Because it takes something that countries are not normally allowed to do and then permits them to do it if they do it in extreme form, lowering tariffs not just partially but to zero and not just on some goods but on all.>**
- If consumers in an FTA buy imports from their FTA partner rather than a non-member due to their paying a lower price, how can that be harmful for the country? **<a: This is trade diversion, and it is harmful because the import from the nonmember must have been cheaper than from the partner if it was preferred when both faced the same tariff.>**
- Why do members of a customs union "cede part of their national sovereignty to a supranational entity"? **<a: Because they must charge the agreed-upon common tariff.>**
- Why are rules of origin needed in a Free Trade Agreement but not in a Customs Union? **<a: Because the customs union has common external tariffs, so it doesn't matter into which member country a good was imported.>**

WTO, "Causes and Effects of PTAs: Is it all about preferences?" 2011, pp. 94-109.

- If consumers in an FTA buy imports from their FTA partner rather than a non-member due to their paying a lower price, how can that be harmful for the country? **<a: Because their country does not get the tariff revenue.>**
- Why are rules of origin needed in a Free Trade Agreement but not in a Customs Union? **<a: Because all members of a customs union apply the same tariff, so there is no incentive to import through one to reach another.>**
- The WTO examples (in the text, not the appendix) show only trade creation if the PTA is with the low-cost country. Should countries therefore only form PTAs with low-cost countries? **<a: That doesn't make sense, as the PTA covers all goods, and no country will be low cost in all. In fact, comparative advantage assures that no country can be low cost in all.>**
- What is the main difference between the effects of a PTA in goods and one in services? **<a: Barriers in services are not tariffs, and are instead typically regulations that create real costs. Thus there is an extra benefit from reducing and/or harmonizing them.>**
- What is diagonal cumulation? **<a: "all participating countries agree bilaterally that in all PTAs concluded among themselves materials originating in one country can be considered to be materials originating in all the other countries.">**

Posen, "The Errors of Conservatives Obscure the Case for Trade," 2014.

- How does Posen counter the argument against new trade agreements that they will have the same harmful effects as the NAFTA? **<a: Not by saying that they will be different from NAFTA, but rather by arguing that NAFTA was beneficial.>**
- Posen seems to accept the critics' claim that the NAFTA caused 45,000 job losses in the US per year, but he seems not to care. Why? **<a: Because he says this was less than 0.1% of regular turnover.>**
- What were some of the other claims by critics of the NAFTA, and how does Posen respond to them? **<a:**
    - **Workers have suffered, but not from NAFTA.**
        - **"Recent research has found that, on average, for every 100 jobs US manufacturers created in Mexican manufacturing, they added nearly 250 jobs at their larger US home operations…"**
        - **Until the financial crisis of 2008, US unemployment was lower after NAFTA than before.**
    - **Concern that displaced Mexican farmers would come north were not justified, as border apprehensions have declined steadily since 2000. The recent surge of minors crossing from Central America has nothing to do with NAFTA.>**

Deardorff and Sharma, "The Simple Analytics of Trade Creation and Diversion," 2019.

- Why is trade diversion harmful if both exporters initially charge the same price? **<a: Because as you buy more from one and less from the other, the marginal cost rises for the former and falls for the latter, so that costs are rising.>**
- Why is adding a second FTA not harmful for the world in the graphs, but may be harmful for the world in the equations? **<a: Because the graphs assume both exporters are alike, but the equations do not.>**
- Under what circumstances will adding a second FTA be harmful for the world? **<a: If trade reversion is less than trade diversion.>**

Russ, "Yes, US trade agreements led to economic gains, especially in services, new report says," 2021.

- Can you tell from this what TPA was? **<a: Not really. It is Trade Promotion Authority, aka Fast Track, and we'll need to talk about that.>**
- How many US trade agreements were covered in this study? **<a: 12 bilateral and 2 regional.>**
- Does the study cover all agreements that were done under TPA, and all aspects of the ones that it does cover? **<a: No, it omits the Uruguay Round, and even for FTAs it is not able to quantify many aspects of the agreements.>**
- How large were the effects of the FTAs according to the reported study? **<a: Several numbers are given for GDP and jobs. Two are a ½ percent increase in GDP, and a gain of $800 per US household.>**

- Was there trade diversion? From whom? **<a: Yes. In the FTA with South Korea it was quite large and mostly from China.>**

Optional to Read:

WTO, "Causes and Effects of PTAs: Is it all about preferences?" 2011, pp. 109-120.

- What is deep integration? **<a: "arrangements that go beyond extending preferential tariff concessions to include areas such as investment.">**
- Why does the welfare analysis in the Appendix to the WTO reading not mention gain or loss of tariff revenue? **<a: Because it interprets the gains and losses using changes in the terms of trade, instead of the more direct effects on consumers and government. Results are the same. Area B, the terms of trade gain from RoW, is equal to the part of the gain in consumer surplus directly above it. Area C, the terms of trade loss from Partner, is the portion of the lost tariff revenue that is not part of the gain in consumer surplus.>**