

PubPol/Econ 541

Class 20

FTAs and Other Trade Deals

by

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2024

Quiz

	Q7	Q8	Q9
Mean	8.06	7.24	6.58
Median	8	7	6.5
Max	9.5	9	9.5
Min	6	4.5	5
Standard deviation	0.84	1.09	1.18

Pause for News

Outline

- FTAs in general
- Multi-country
 - North America
 - NAFTA, USMCA
 - RCEP
 - CPTPP
- EU and Other
- UK and Other
- US and Other
- Other

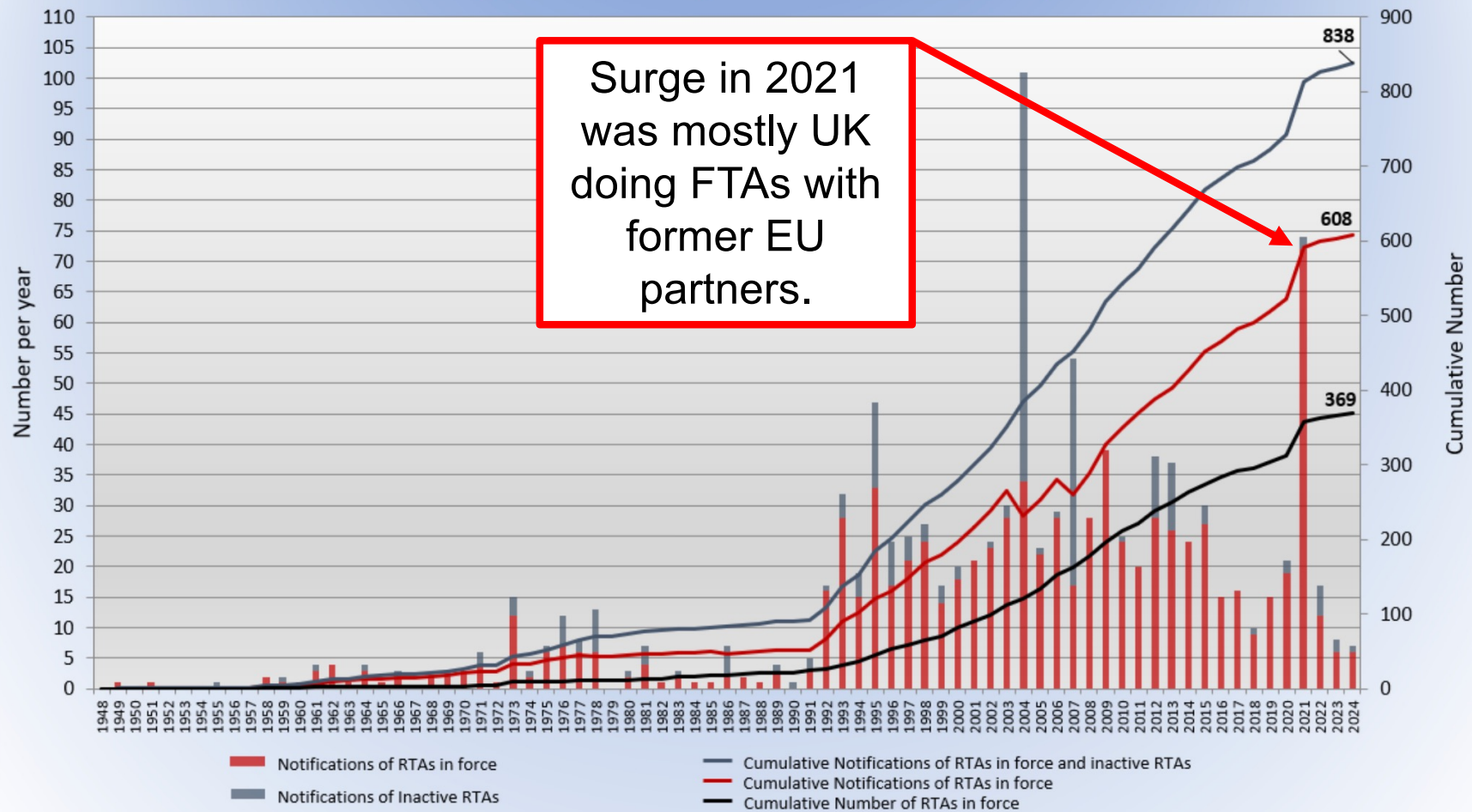
FTAs in General

- Types
 - Free Trade Agreement (FTA)
 - Zero tariffs on (most) imports from partners
 - Unequal tariffs on imports from outsiders
 - Rules of origin (ROOs)
 - Customs Union
 - Zero tariffs on imports from partners
 - Common external tariffs on outsiders
 - No need for ROOs
 - Common Market
 - Customs Union plus other free movement of capital, labor

FTAs in General

- Proliferation: Now more than 300, involving a significant fraction of possible country pairs
- Most are FTAs
- WTO reports all as “Regional Trade Agreements” (RTAs), though many include distant countries

Evolution of Regional Trade Agreements in the world, 1948-2024



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. The cumulative lines show the number of RTAs/notifications that were in force for a given year. The notifications of RTAs in force are shown by year of entry into force and the notifications of inactive RTAs are shown by inactive year.

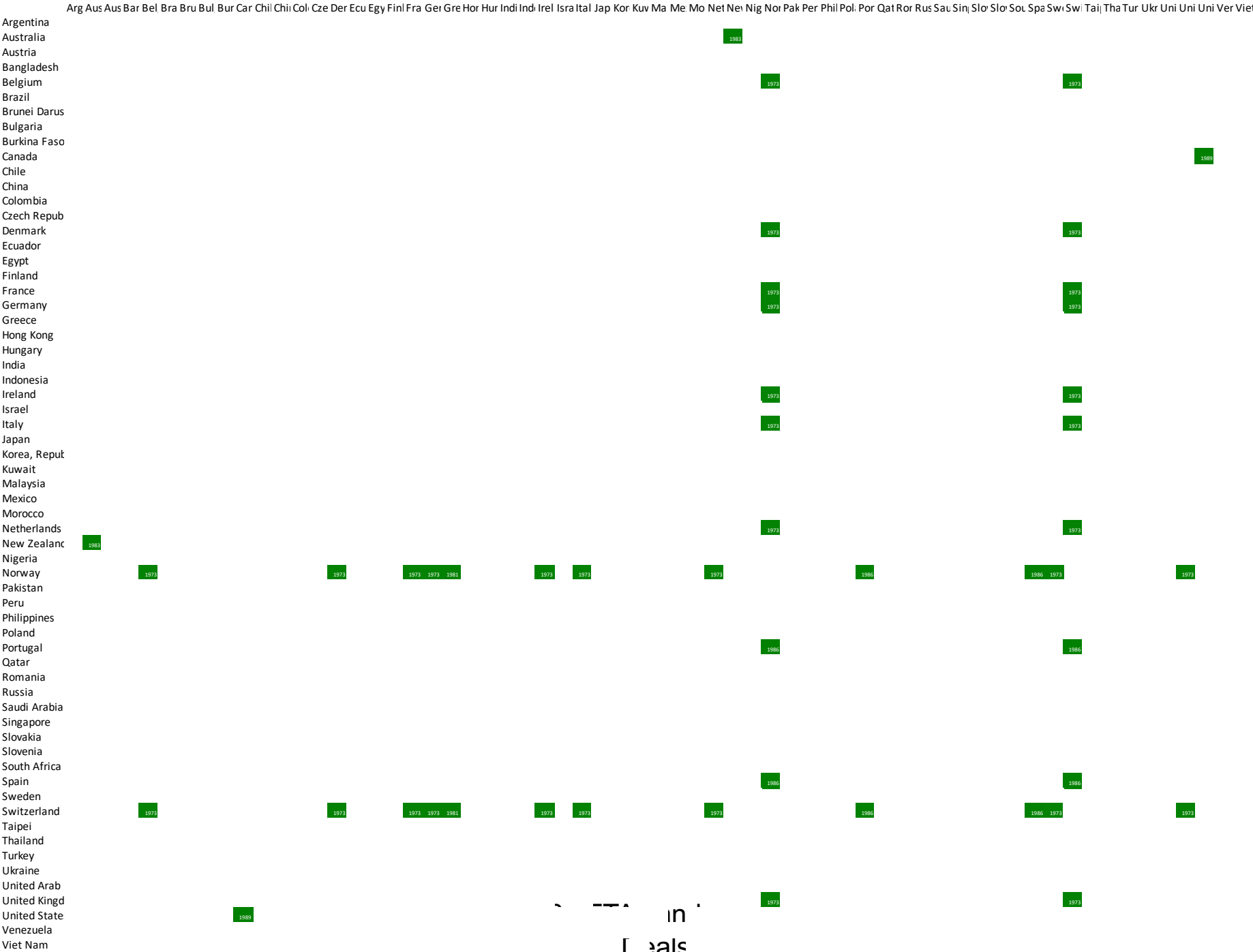
Source: RTA Section, WTO Secretariat, August 2024.

Source: WTO

Class 20: FTAs and Other Trade Deals

Countries connected by FTAs only, as of 1990

1%

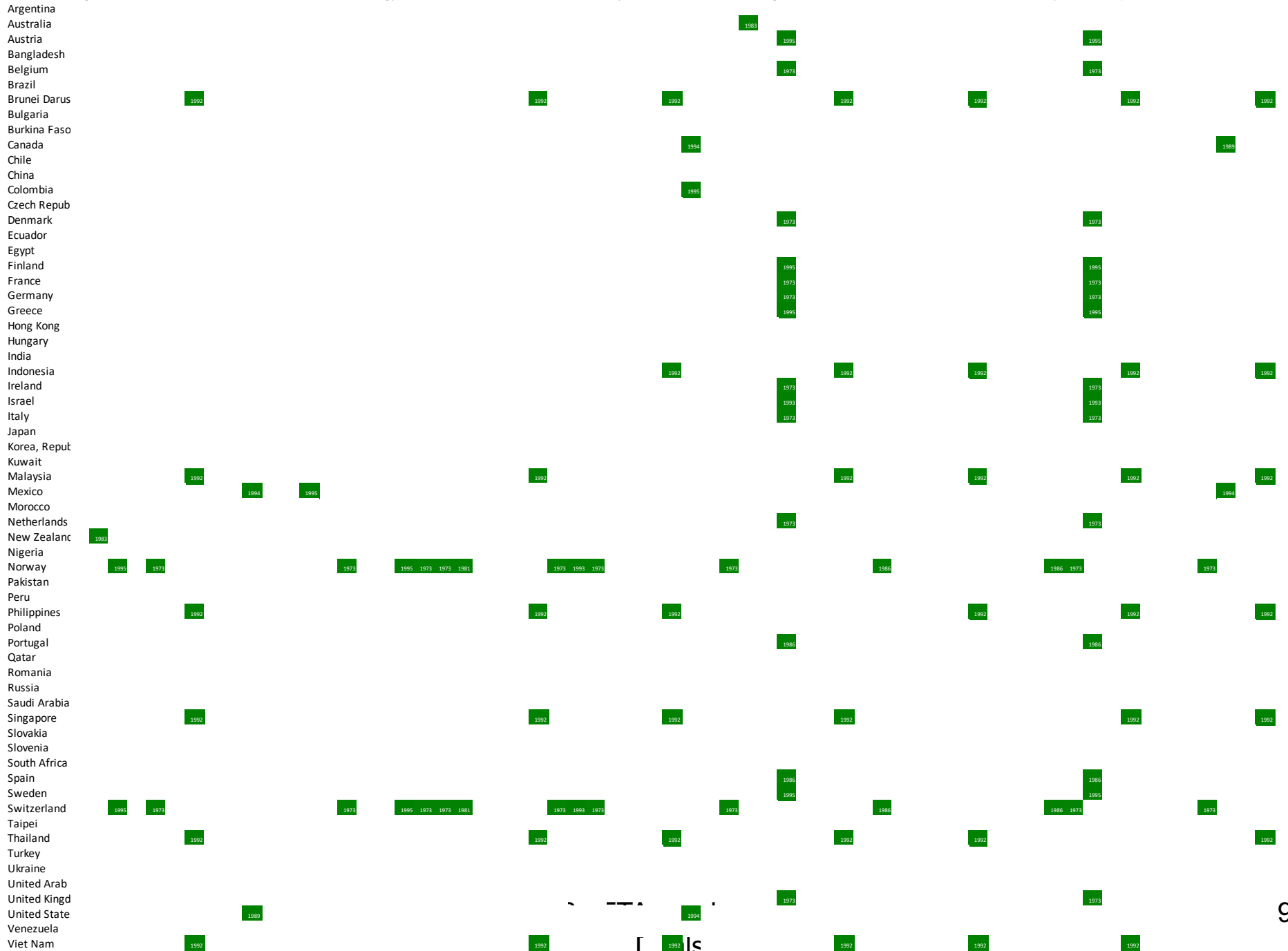


in
Leals

Countries connected by FTAs only, as of 1995

3%

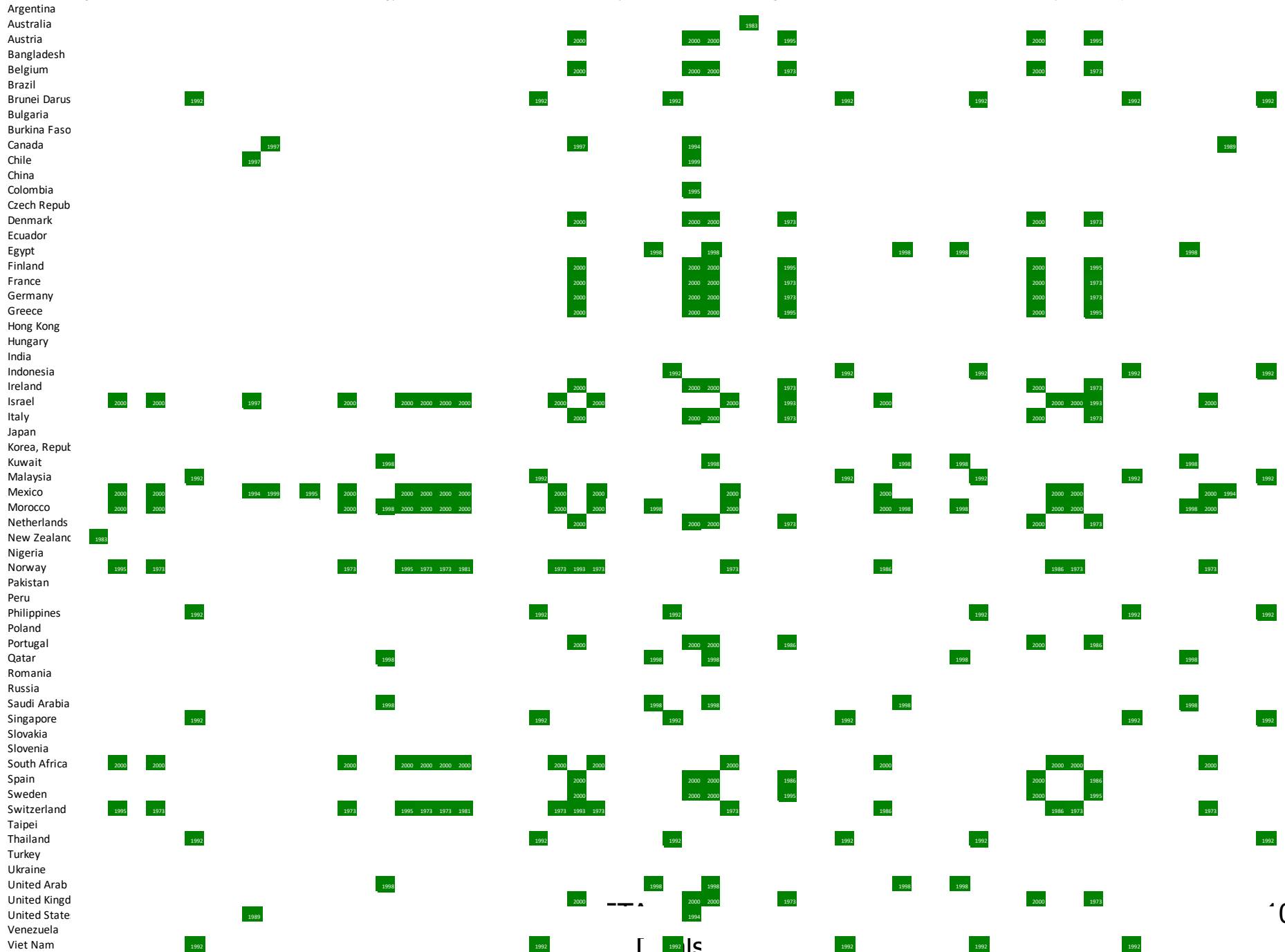
Arg Aus Aus Bar Bel Bra Bru Bul Bur Car Chil Chii Coli Cze Der Ecu Egy Finl Fra Ger Gre Hor Hur Indi Indl Irel Isra Ital Jap Kor Kuv Ma Me Mo Net Nei Nig Nor Pak Per Phil Pol. Por Qat Ror Rus Saa Sin Slo Slo Sol Spa Swi Swi Taij Tha Tur Ukr Uni Uni Uni Ver Vie!



Countries connected by FTAs only, as of 2000

7%

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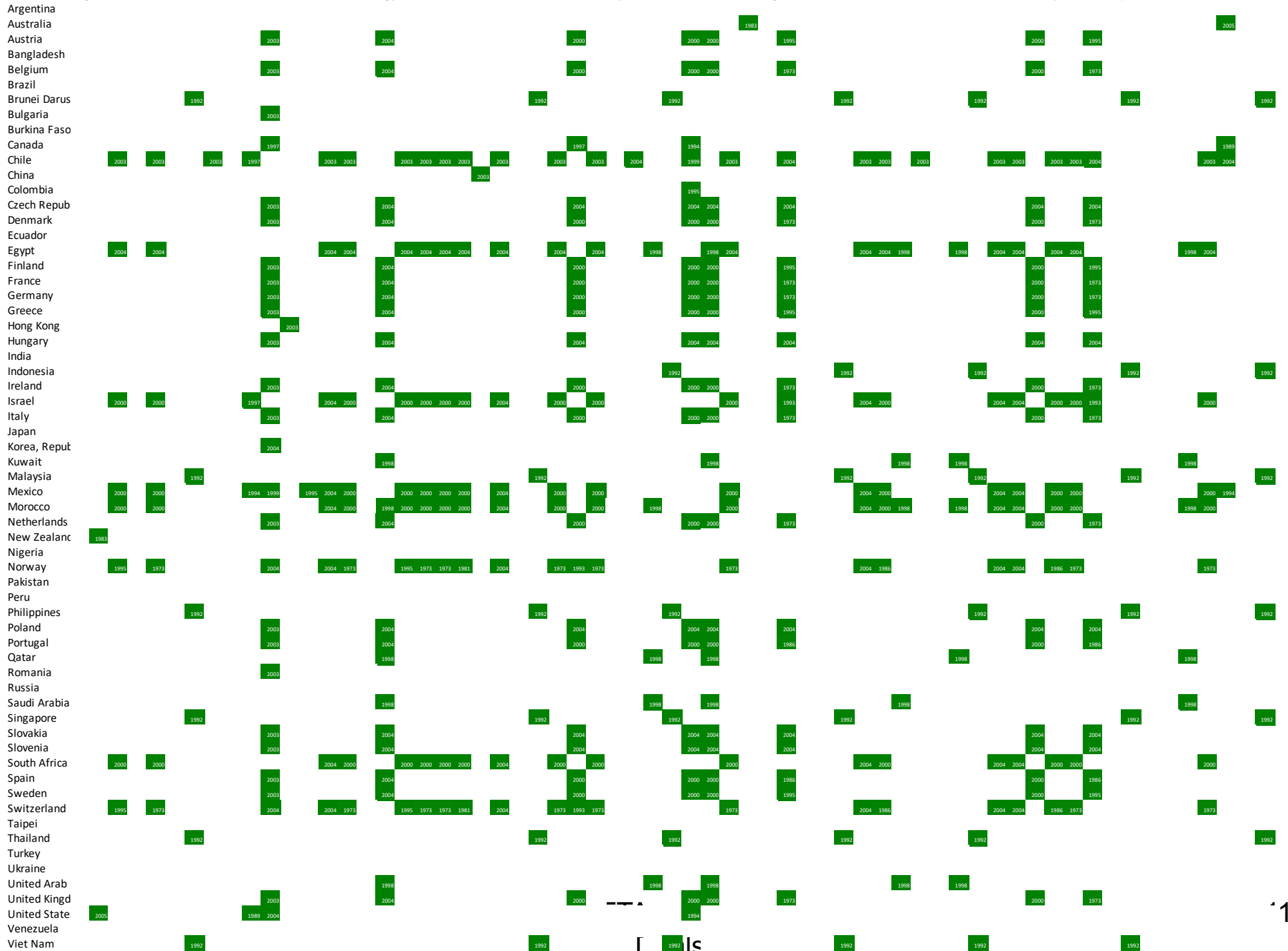


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Countries connected by FTAs only, as of 2005

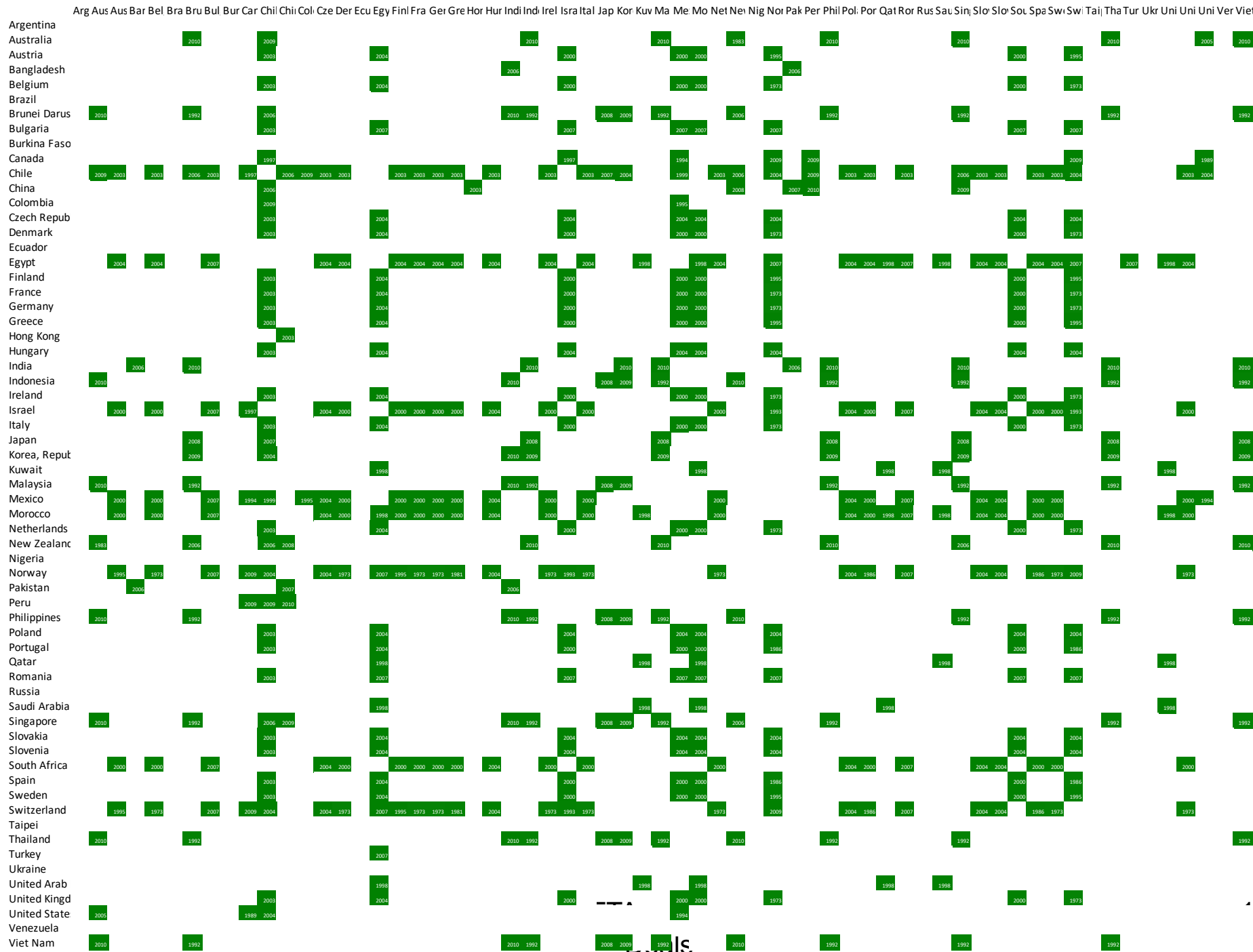
11%

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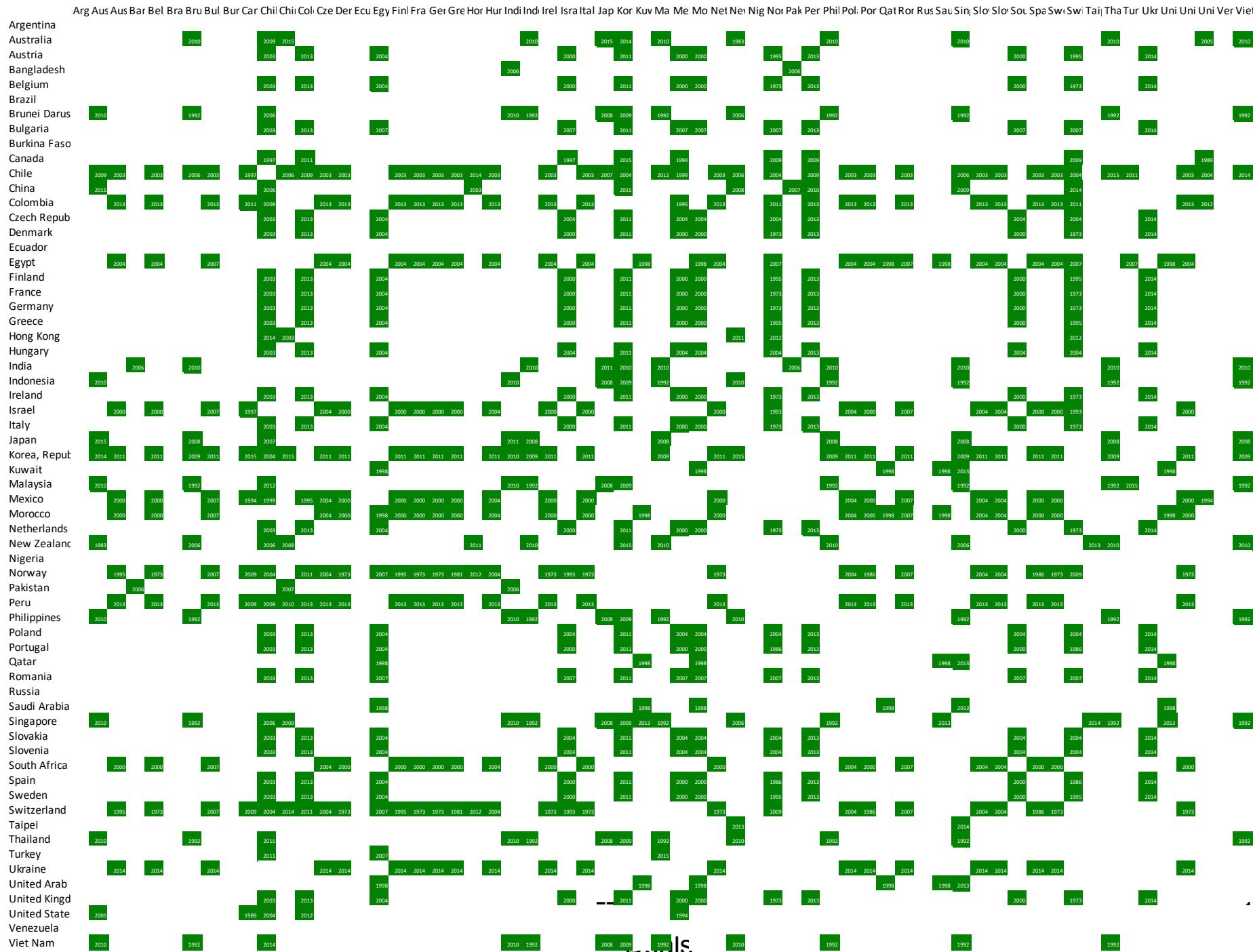
Countries connected by FTAs only, as of 2010

14%



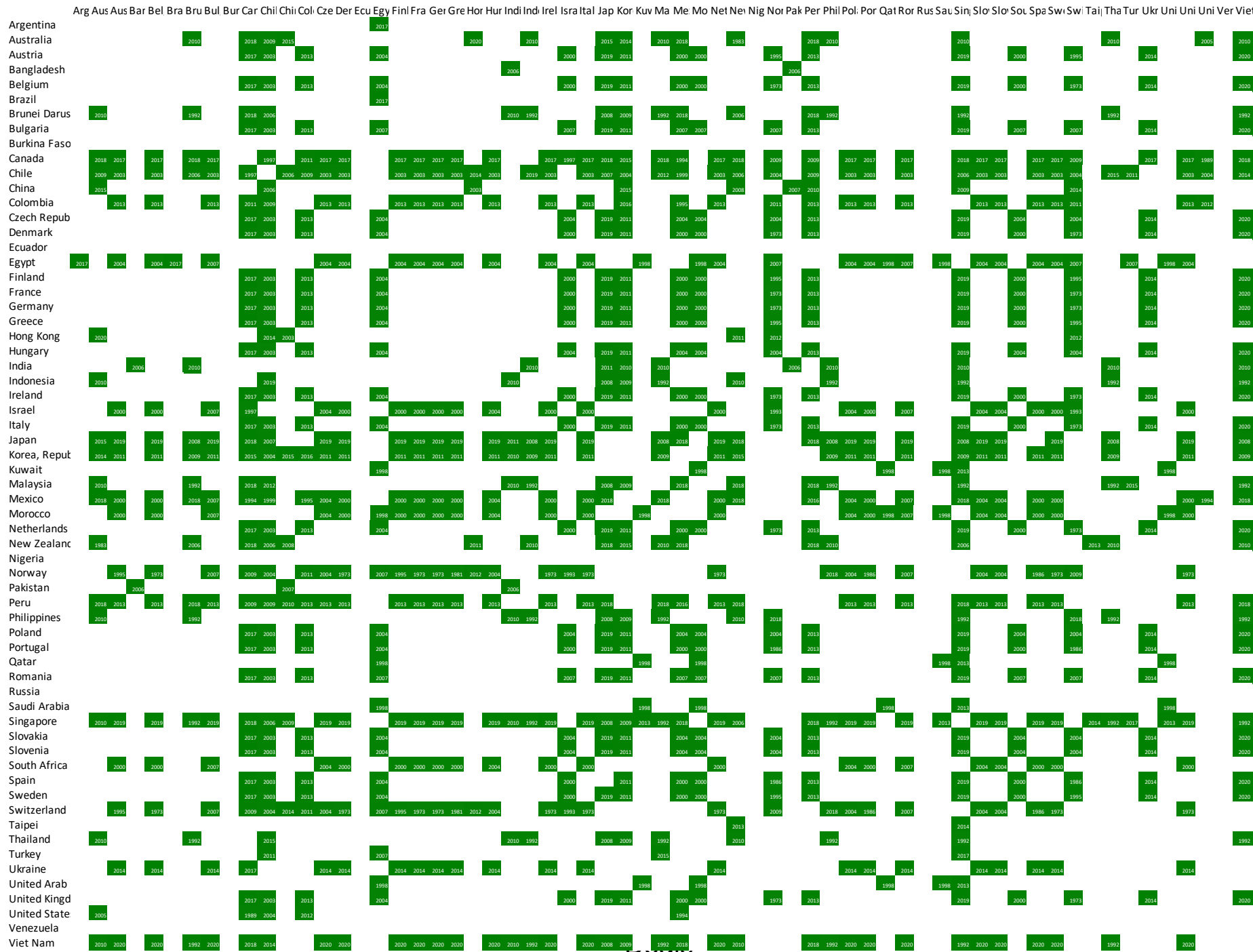
Countries connected by FTAs only, as of 2015

20%



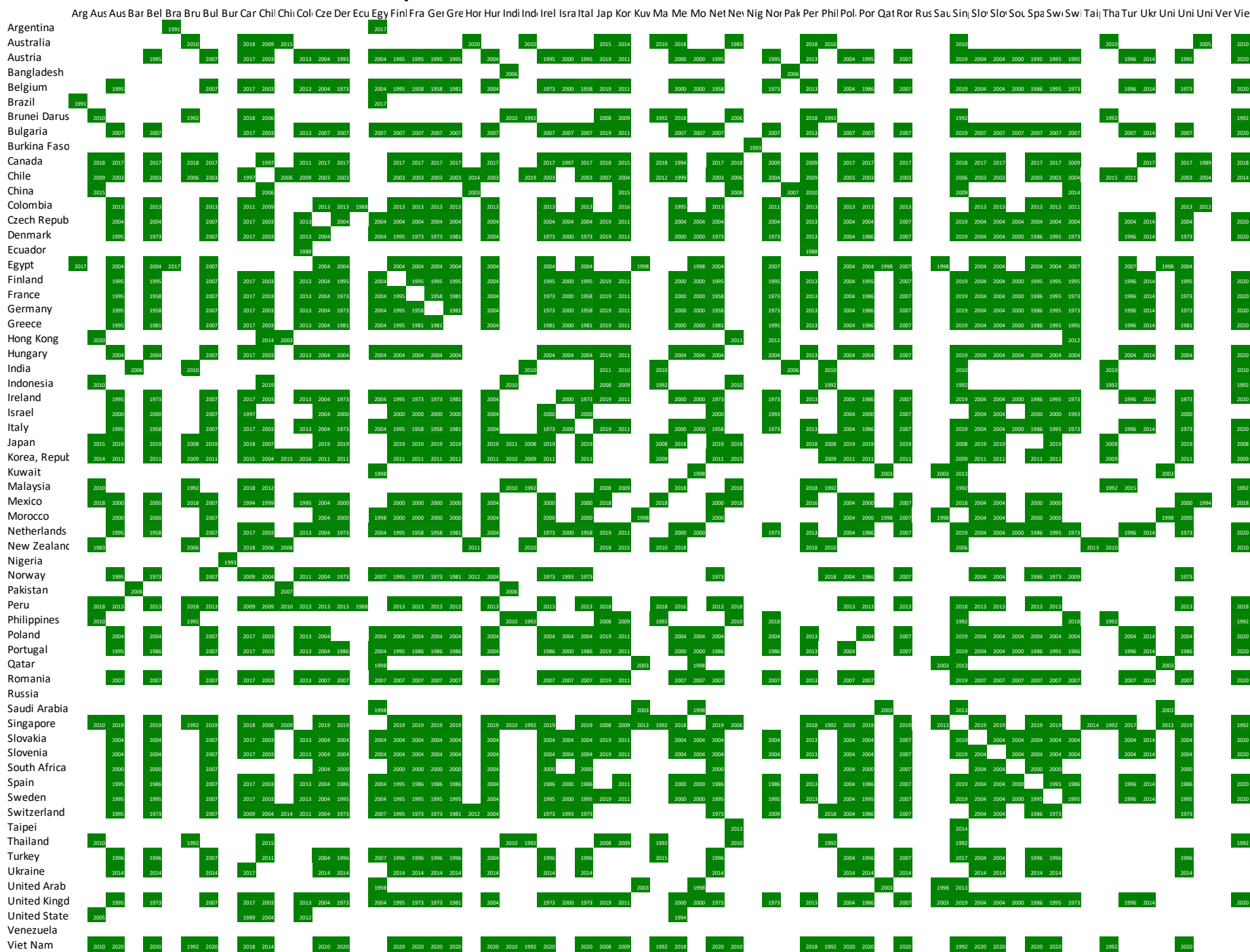
Countries connected by FTAs only, as of 2020

26%



Countries connected by FTAs or CUs as of 2020

38%



Pause for Discussion

Questions (Not asked before)

- Why are ROOs necessary in FTA but not in Customs Union?
- Why is the matrix of FTAs plus CUs so much fuller than the matrix of just FTAs? Are there really a lot of CUs?

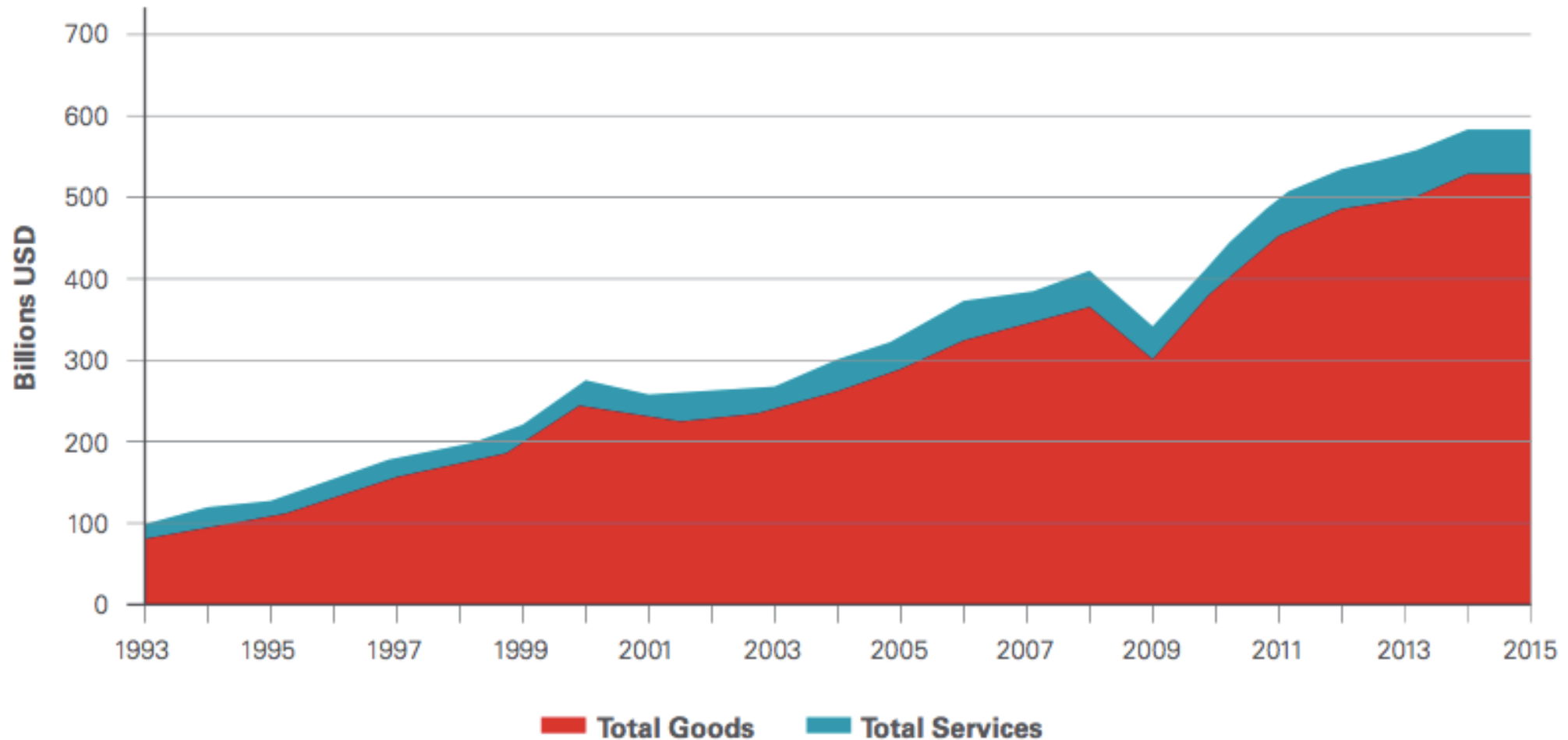
NAFTA

- What it was
 - An FTA between US, Canada, and Mexico
 - Went into effect Jan 1, 1994
- Effects
 - Trade
 - Wages
 - Employment
 - Supply chains
 - Consumers

NAFTA Effects

- Trade
 - Grew massively across N. America
 - US bilateral trade with Mexico became deficits: US imports > US exports
 - Supply chains, especially in autos, extended across North America

Figure 1. U.S.-Mexico Trade in Goods and Services (1993-2015)



Source: U.S. Census Bureau for goods trade; U.S. Bureau of Economic Analysis and OECD for services trade. See endnote two for more details.

From: Wilson, Christopher, *Growing Together and Economic Ties between the United States and Mexico*, Wilson Center, March 2017.

Figure 1. U.S. Merchandise Trade with NAFTA Partners: 1993-2014

(billions of nominal U.S. dollars)

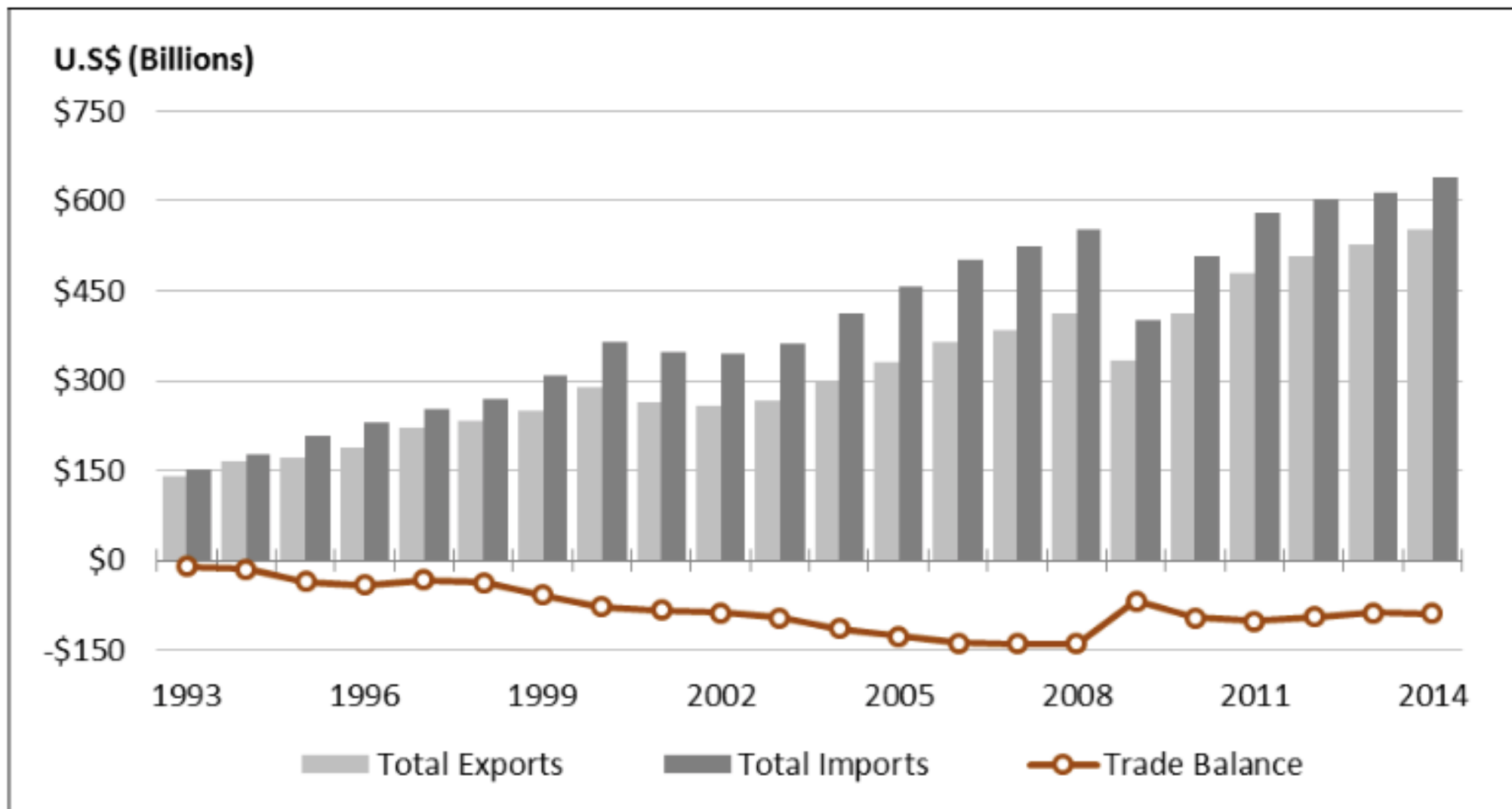
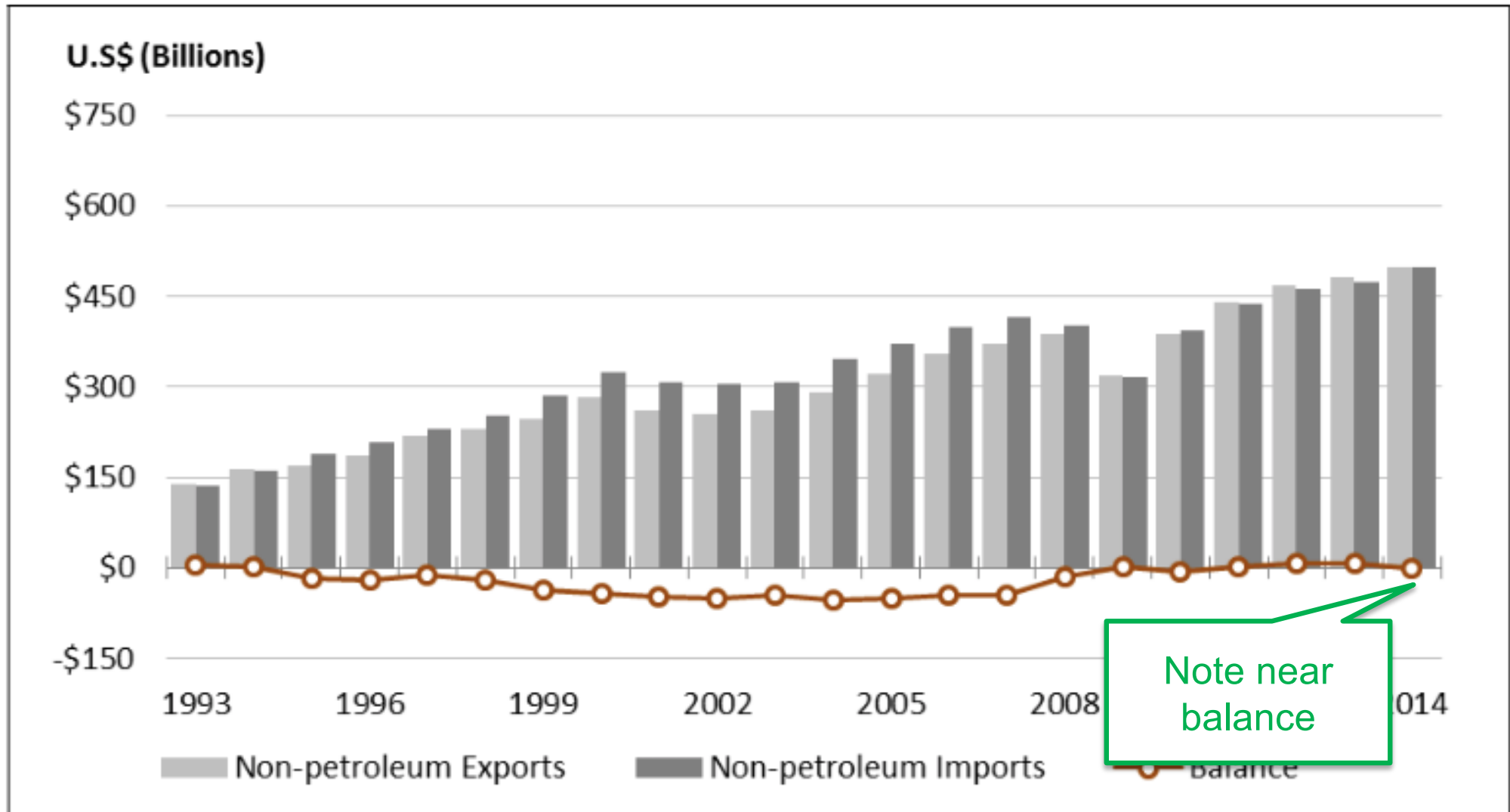
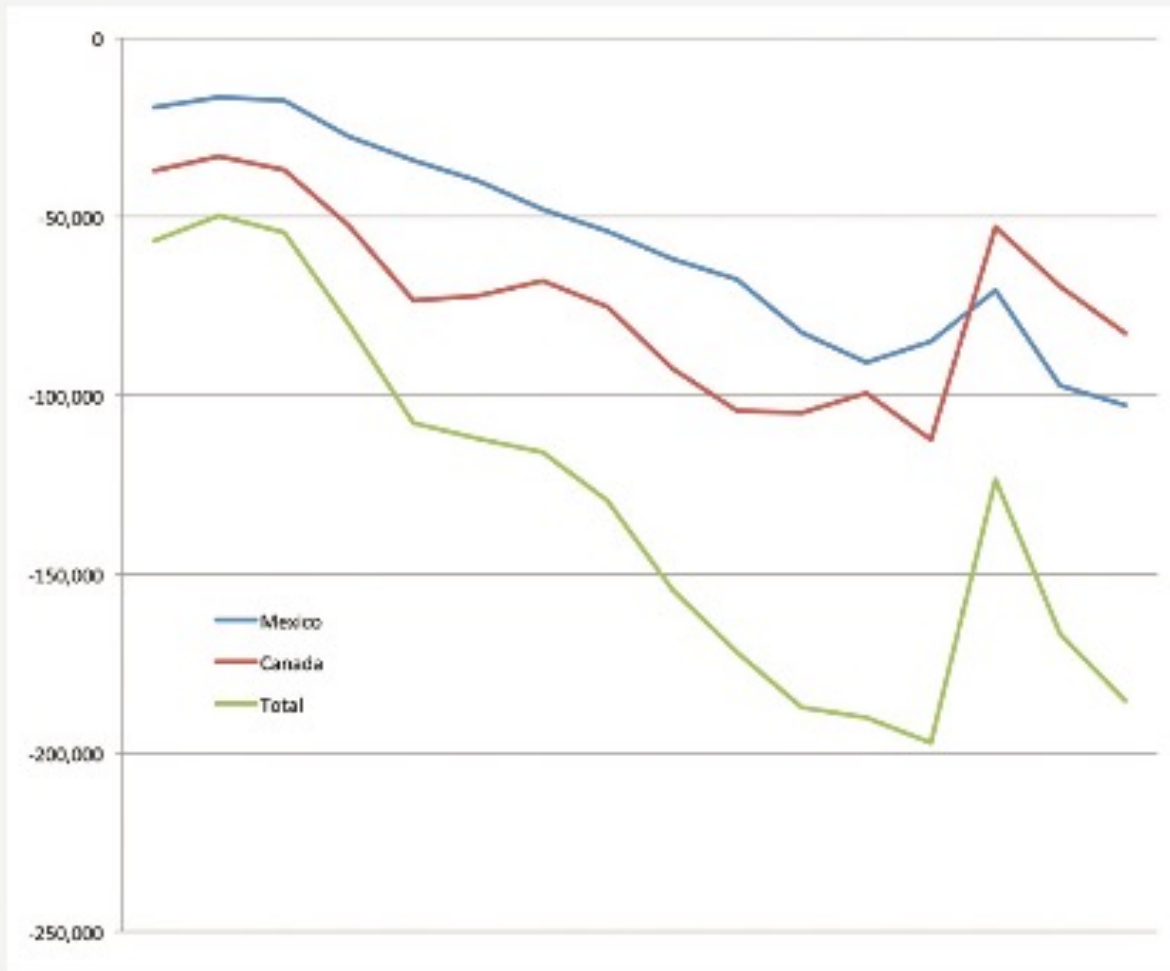


Figure 2. Non-Petroleum Trade with NAFTA Partners: 1993-2014

(billions of nominal U.S. dollars)



Trade Deficits with NAFTA Countries, 1996-2011 (USITC Dataweb)



U.S. trade deficits increased after NAFTA came into effect.

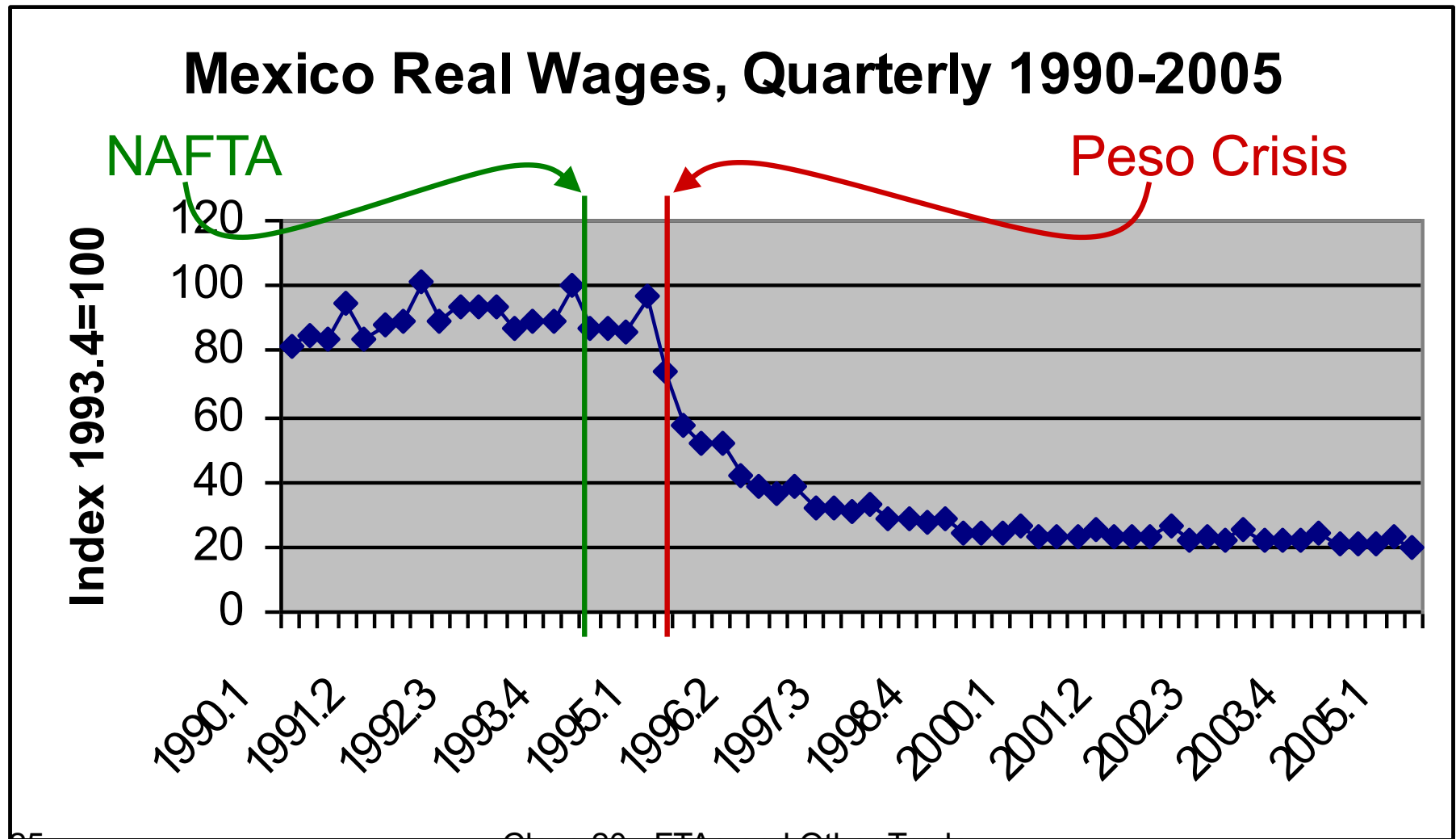
Source:
AFL-CIO,
"NAFTA at
20"

NAFTA Effects

- Wages
 - Fell in Mexico
 - No effect on average in US

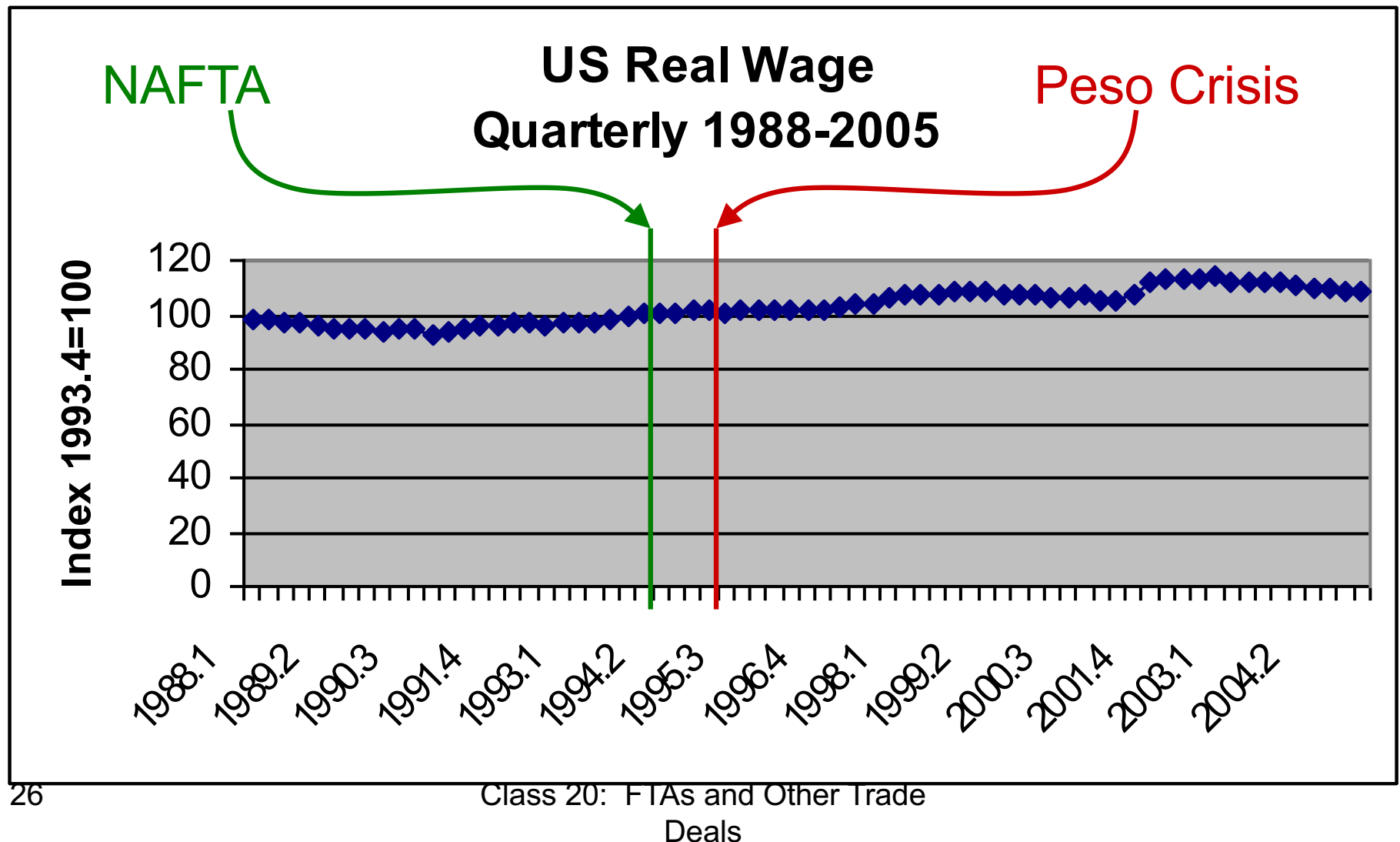
What Happened: Mexico

Real Wages Plummeted!



What Happened: U.S.

Real Wage: No Change



NAFTA Effects

- Employment
 - No effect on overall US employment or unemployment
 - Pockets of disruption across US

What Happened: U.S.

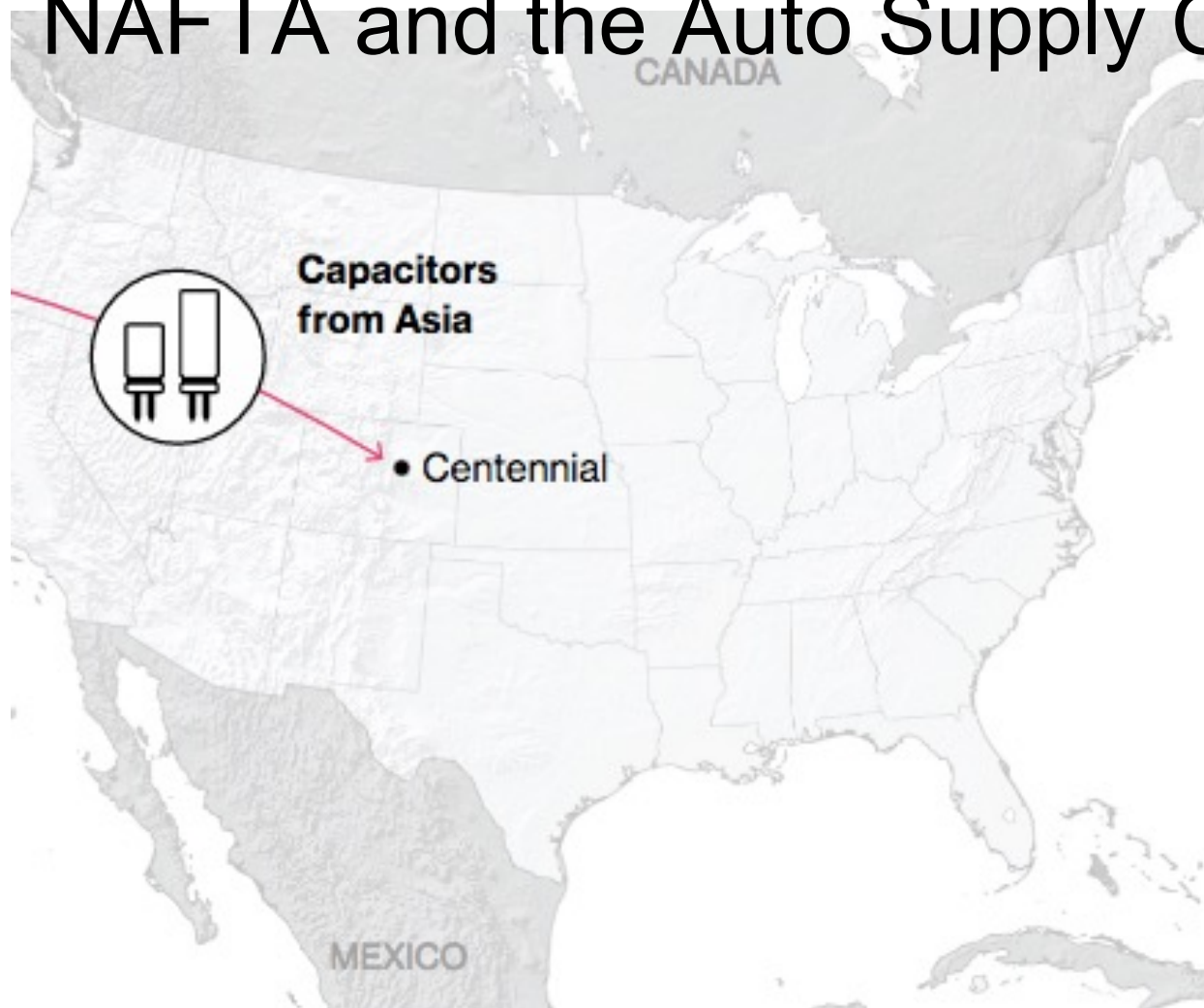
Unemployment: No effect (or fell)



NAFTA Effects

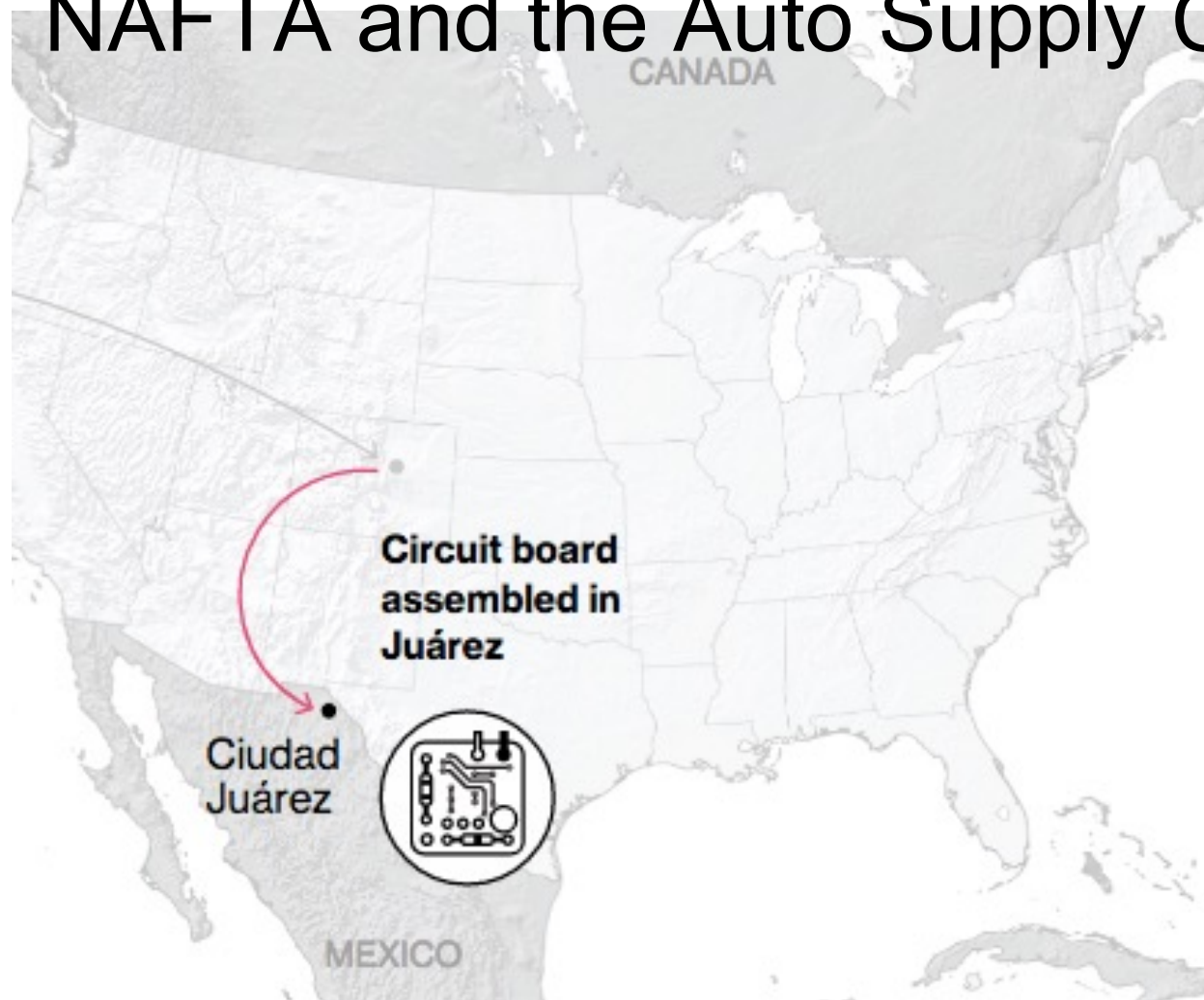
- Supply chains
 - US manufacturing moved inputs to low-cost locations across N. America

NAFTA and the Auto Supply Chain



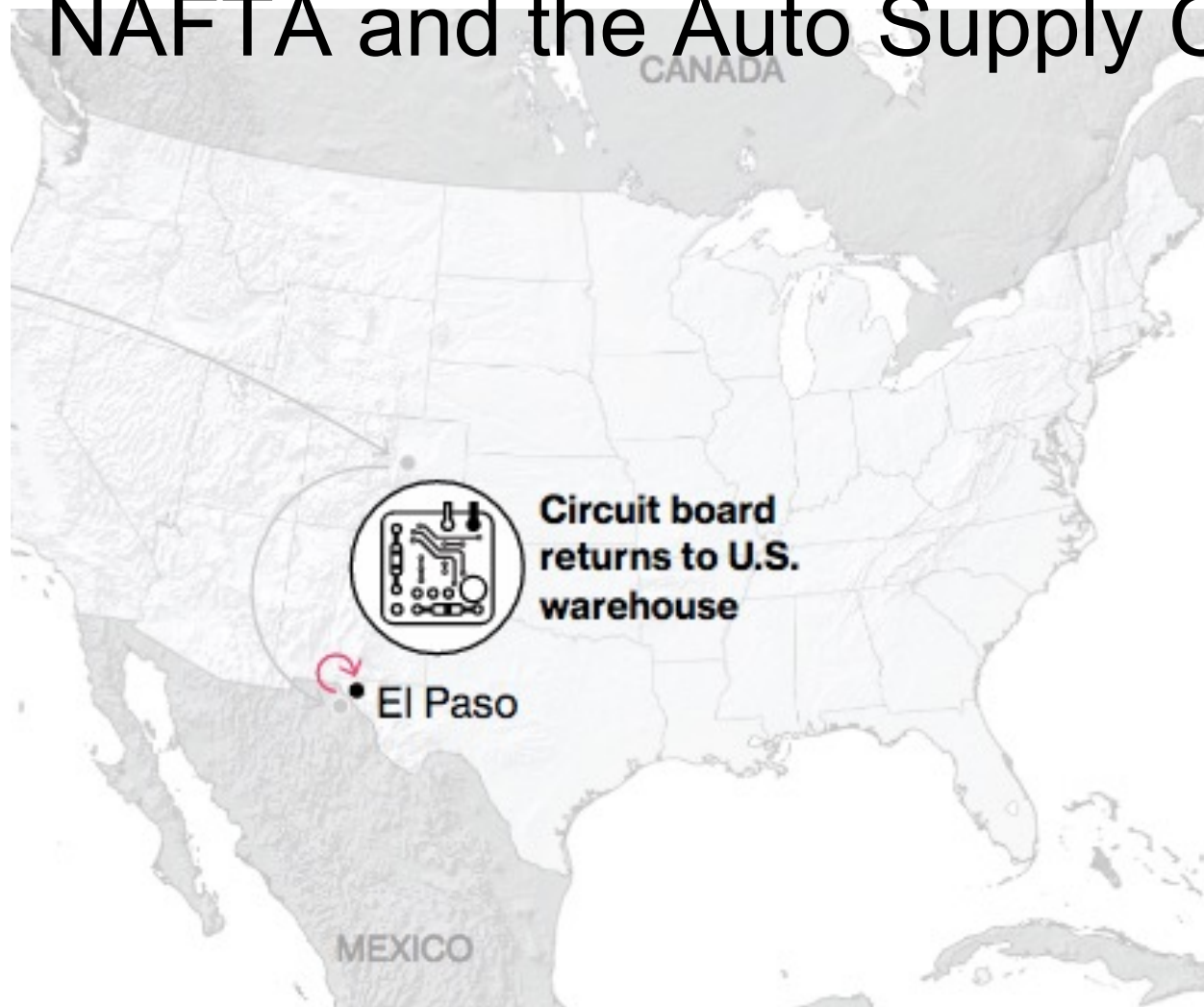
Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

NAFTA and the Auto Supply Chain



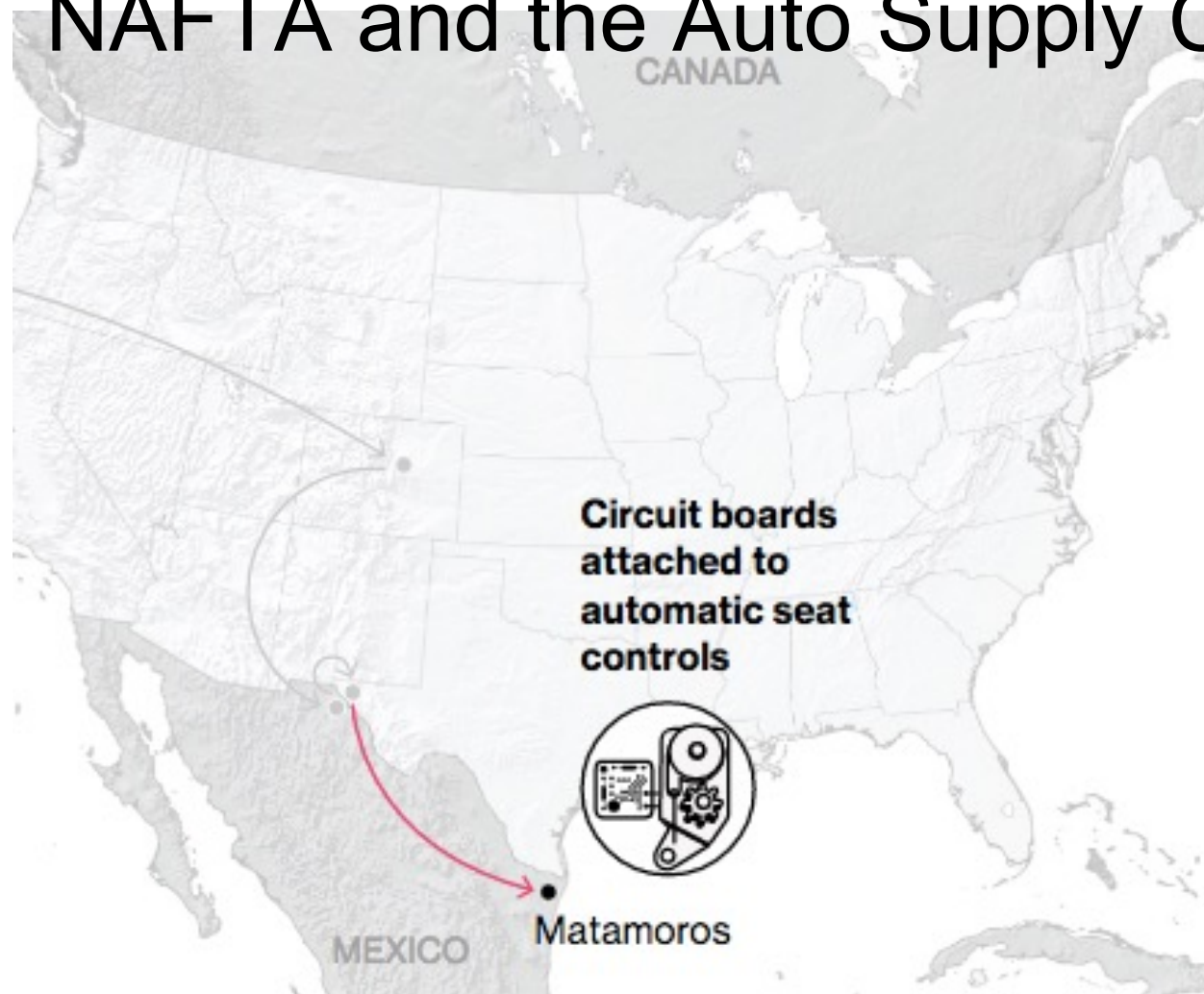
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NAFTA and the Auto Supply Chain



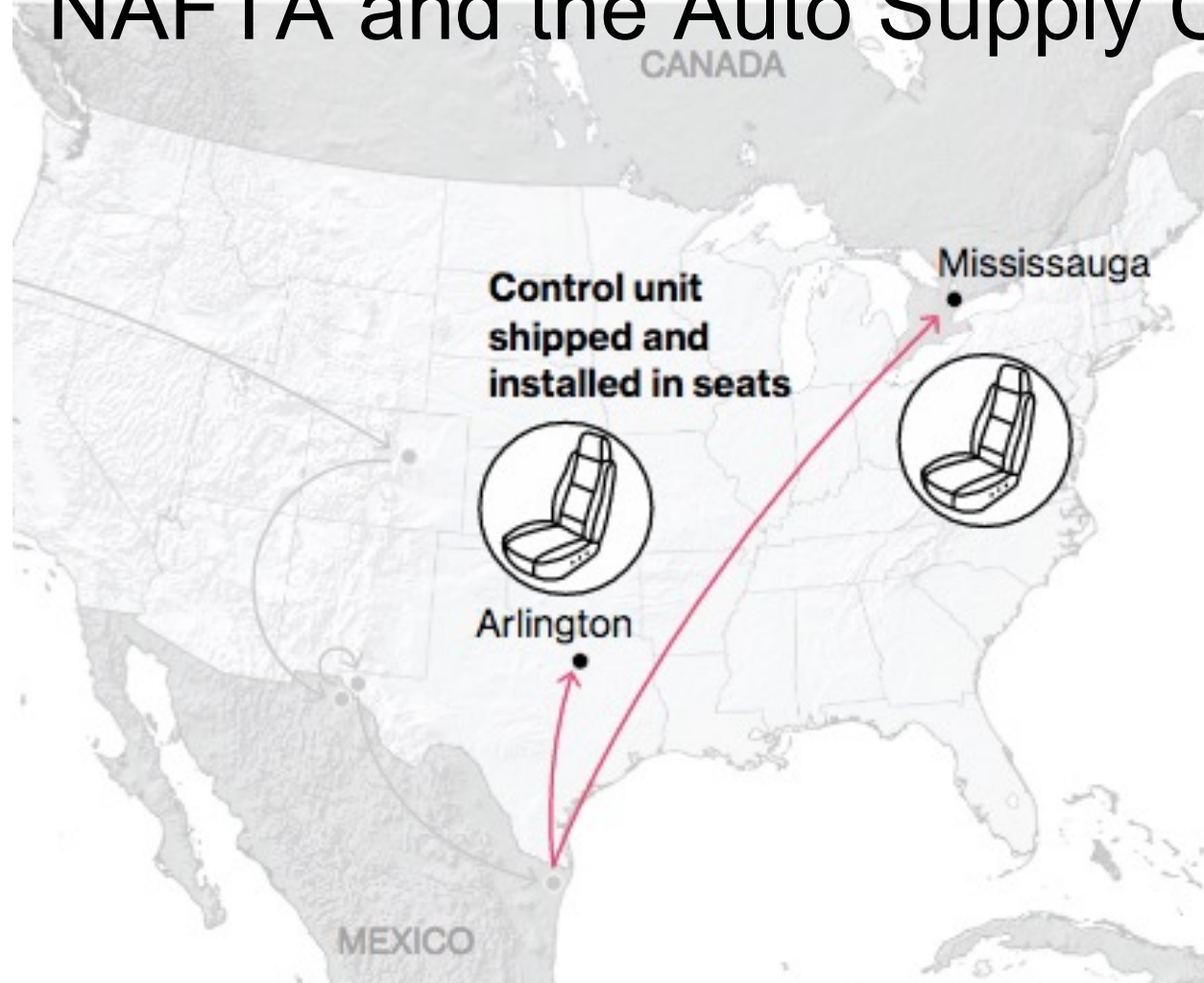
Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

NAFTA and the Auto Supply Chain



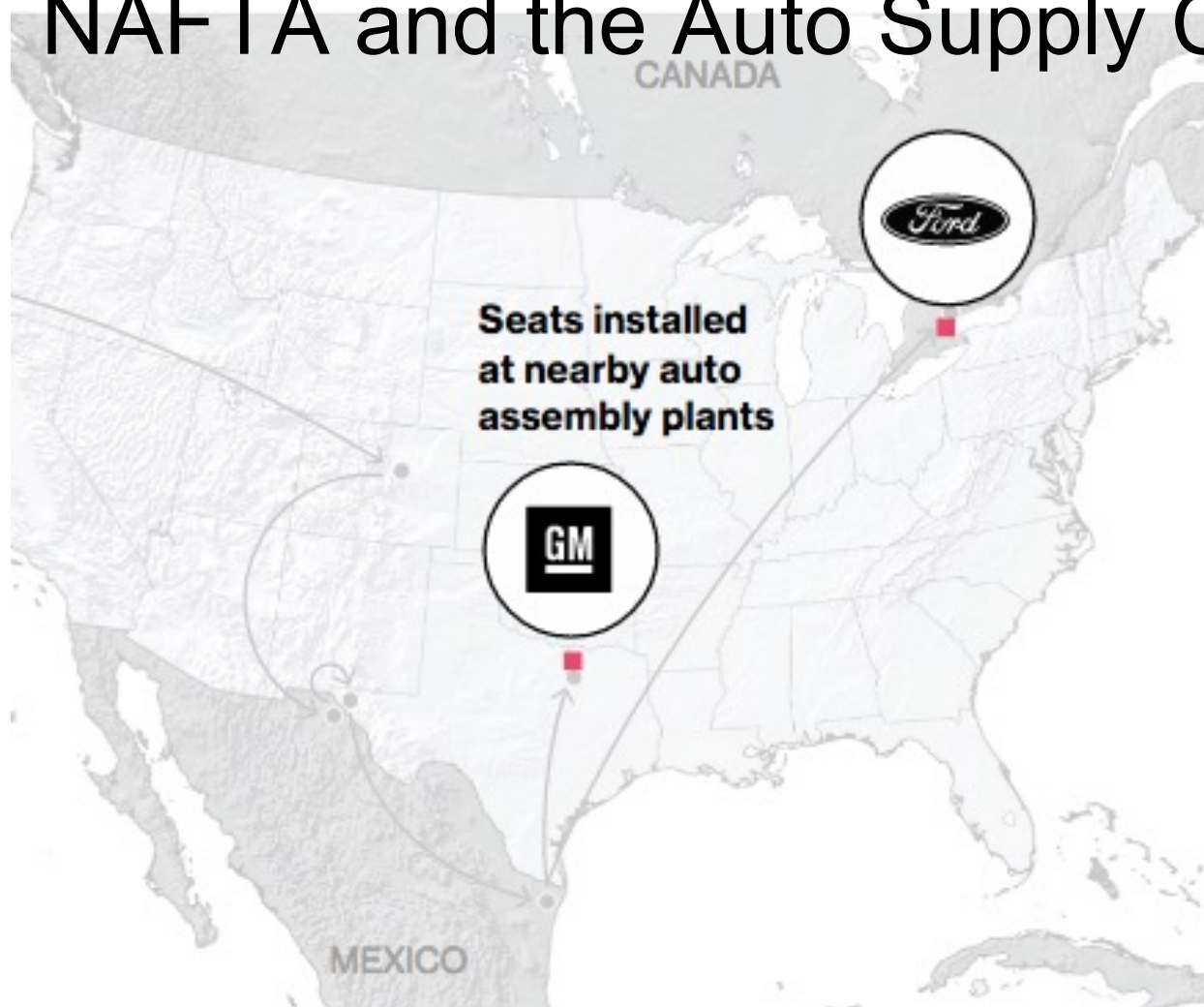
Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

NAFTA and the Auto Supply Chain



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NAFTA and the Auto Supply Chain



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NAFTA Effects

- Consumers
 - As always with freer trade, the ultimate beneficiaries are consumers
 - Lower prices for
 - Imported consumer goods
 - Domestically produced goods and services that use cheaper imported inputs
 - Greater variety of goods to choose from
 - These gains are hard to measure
 - One indicator may be the low rates of price inflation experienced under NAFTA

Pause for Discussion

Questions

- I've not assigned anything evaluating NAFTA, since it's been replaced by USMCA. But what were, and are, your and/or your family's impressions of NAFTA?

USMCA

- What it is
 - “United States, Mexico, Canada Agreement”
 - Result of Trump’s renegotiation of NAFTA
 - Mostly the same as NAFTA
- Why replace NAFTA?
 - Trump opposed NAFTA as early as 1993
 - “The Mexicans want it, and that doesn't sound good to me.”
 - Trump sees trade as zero-sum game
 - Opposition to NAFTA was popular

USMCA Timeline

- Renegotiation
 - May 18, 2017: Renegotiation began
 - Aug 27, 2018: Agreement between US and Mexico
 - Sep 30, 2018: Agreement with Canada to join
- Approval and Implementation
 - Dec 19, 2019: US House approved (contentious)
 - Jan 17, 2020: Senate approved (expected)
 - Jan 29, 2020: Trump signed into law
 - Jul 1, 2020: Agreement went into effect

USMCA Features

- Car incentives
 - ROO raised from 62.5% to 75%
 - 70% of steel & aluminum must come from NA
 - 40-45% of value added from >\$16/hr labor
- Dairy: Some opening of US dairy to Canada
- ISDS only between US & Mexico (was for all in NAFTA)
 - ISDS = Investor-State Dispute Settlement
- Commitments on labor & IP standards
- “Sunset Clause”: Review after 6 years **Due July 1, 2026**
- Inform US if negotiate with NME (China)
- Commitment not to manipulate currencies

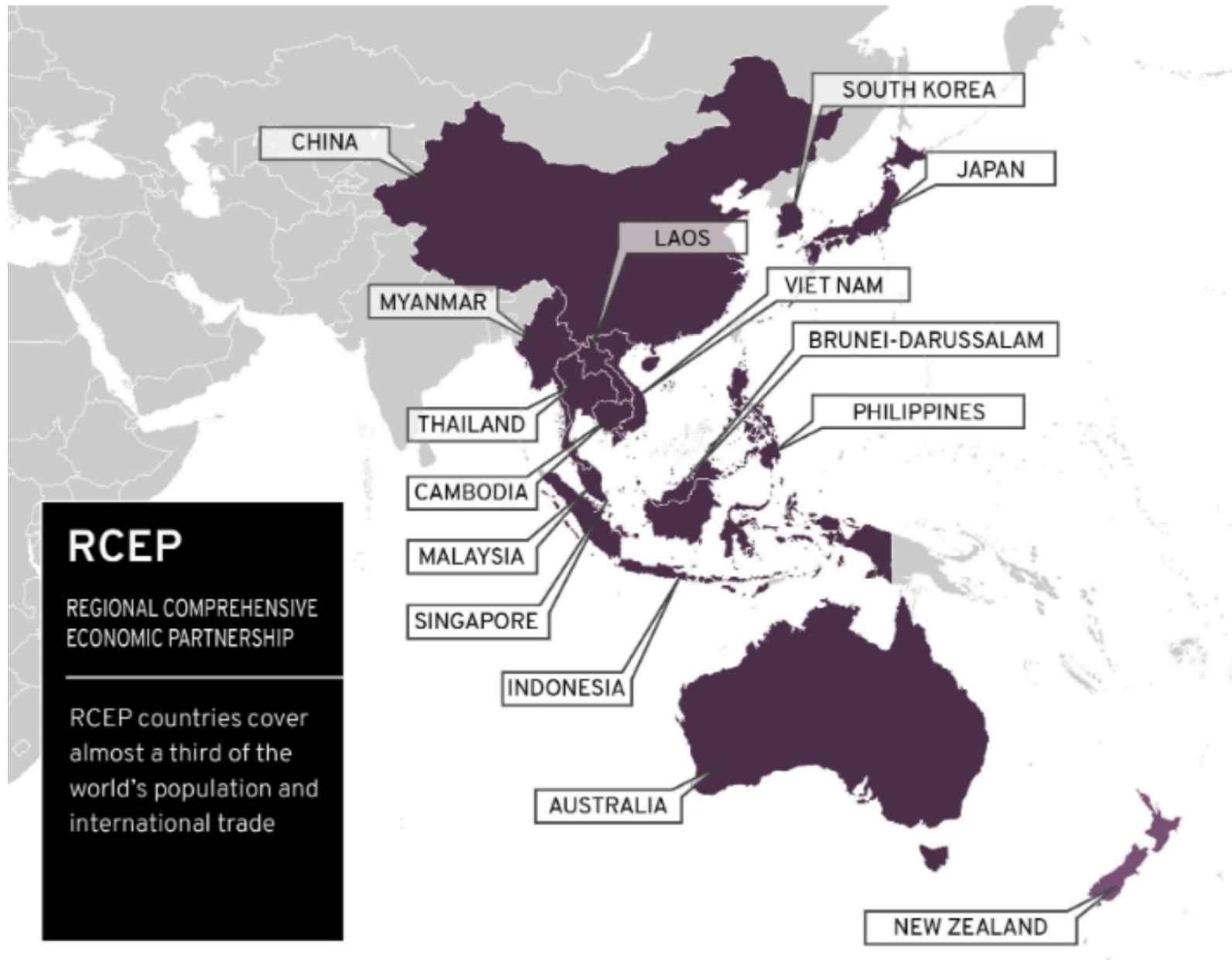
Pause for Discussion

Questions on Kirby

- How big a change is USMCA compared to NAFTA?
- What industry or product seems to have gotten the most attention in the changes made to USMCA?
- How are the rules of origin for cars and car parts changed in USMCA compared to NAFTA?
- What is the “rapid-response mechanism”?

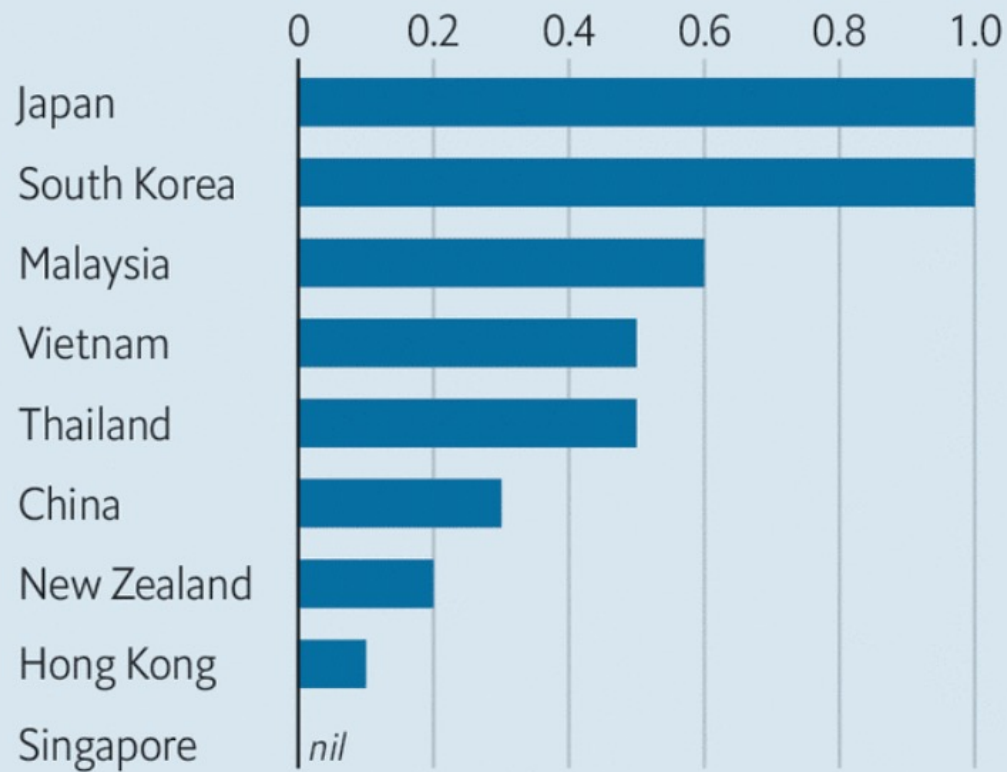
RCEP

- RCEP
 - “Regional Comprehensive Economic Partnership”
 - Large FTA negotiated since 2013 by
 - ASEAN 10 countries plus 5: China, Japan, South Korea, Australia and New Zealand
 - India also, until it dropped out in November 2019
 - Signed Nov 15, 2020



Variable RCEption

Expected impact of RCEP* on real income
Selected countries, % change 2020-30

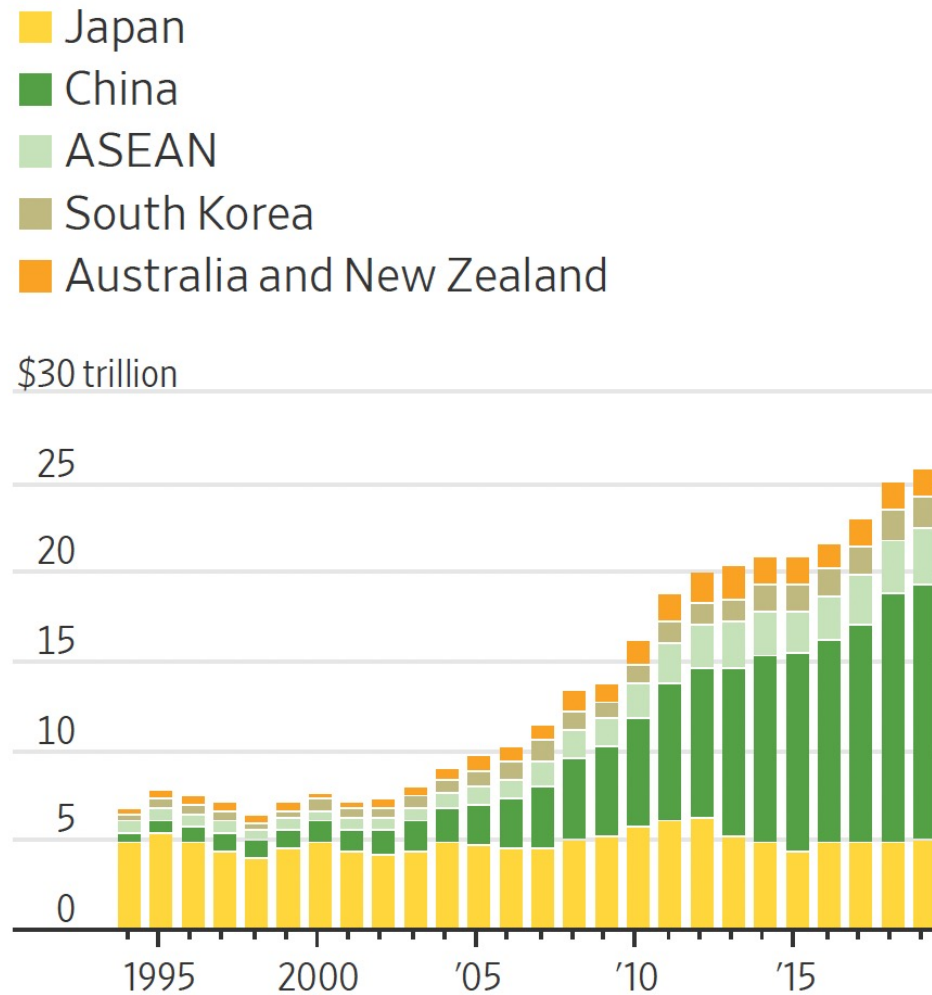


Source: Peterson Institute for
International Economics

*Free-trade agreement in
the Asia-Pacific region

The Economist

RCEP member gross domestic product



Note: Myanmar data missing from ASEAN total

Source: FactSet

Pause for Discussion

Questions on Hayashi, “U.S. on Sidelines as ...”

- How many countries are in RCEP, and how does it compare in size to other trade agreements?
- Who initiated the negotiations for RCEP?
- Over what period are the tariff reductions of RCEP scheduled?
- Does it eliminate all tariffs among the countries?
- What rule of origin is applied in RCEP?

CPTPP

- CPTPP
 - “Comprehensive and Progressive Trans-Pacific Partnership”
 - Successor to TPP after Trump pulled US out
 - Includes 11 countries, including
 - Japan
 - Canada
 - Mexico
 - Australia
 - Chile



Figure 3: Infographic of current CPTPP membership⁵⁴

- Signed and ratified CPTPP
- Signed CPTPP



Source:
Edmond
April 2023

There are 11 CPTPP members currently, accounting for 14% of global GDP.

Table 1: CPTPP Members MFN Tariffs, 2019

	Simple average – MFN applied	Simple average – MFN applied – agricultural products	Simple average – MFN applied – non-agricultural products	% of tariff lines liberalized – MFN applied	% of tariff lines with duties > 15% MFN applied
Australia	2.4%	1.2%	2.6%	52.0%	0.0%
Brunei	0.3%	0.0%	0.3%	95.8%	0.0%
Canada	3.9%	15.1%	2.1%	77.7%	6.5%
Chile	6.0%	6.0%	6.0%	0.3%	0.0%
Japan	4.3%	15.5%	2.5%	53.1%	3.5%
Malaysia	5.6%	7.7%	5.3%	66.3%	13.2%
Mexico	7.1%	13.9%	6.0%	49.0%	12.1%
New Zealand	2.0%	1.4%	2.1%	64.9%	0.0%
Peru	2.4%	2.8%	2.3%	68.5%	0.0%
Singapore	0.0%	0.0%	0.0%	100.0%	0.0%
Vietnam	9.5%	17.2%	8.4%	35.3%	24.4%

Source: World Trade Organization, “World Tariff Profiles 2019,” Database, per data accessed in May 2021, https://www.wto.org/english/res_e/publications_e/world_tariff_profiles19_e.htm.

Pause for Discussion

Questions on Edmond, “The United Kingdom Is Set ...”

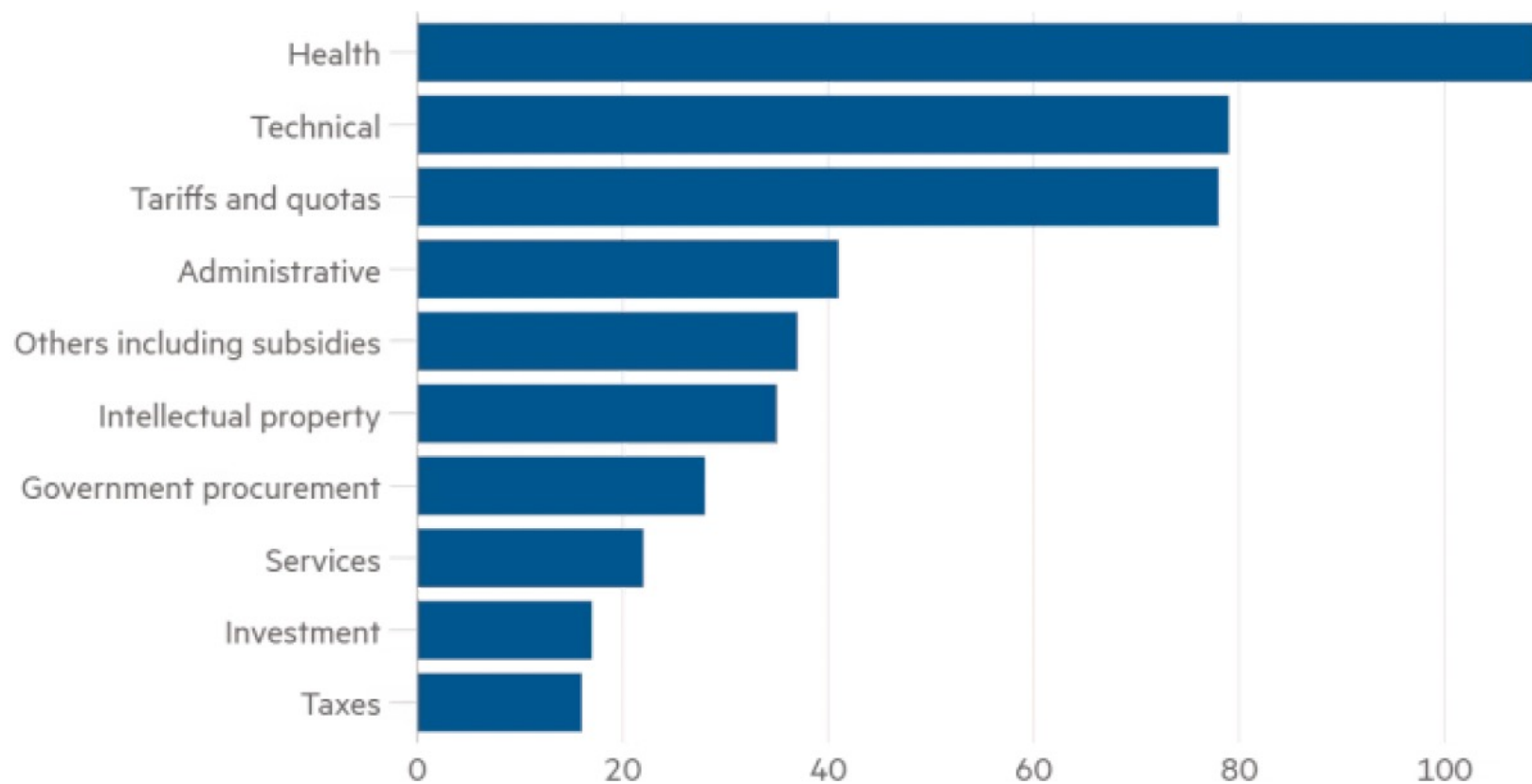
- How many countries are in the CPTPP including UK, and how many will be in it after those who've applied join?
- Will all tariffs be removed for trade among these countries?
- By how much does UK GDP stand to grow as a result of joining the CPTPP?

EU and Other

- The EU has trade agreements with many other countries
 - These have all reduced tariffs
 - But the EU is concerned that many tariffs have been replaced by NTBs
- It is dealing with possible FTAs with
 - Chile
 - MERCOSUR
 - Australia
 - Kenya

Not so free trade

Barriers to trade across 67 EU partners



Source: European Commission

© FT

Pause for Discussion

Questions on Bounds, “EU Seals Chile Trade Deal ...”

- Will Chile remove all tariffs on EU exports?
- Will the EU remove all tariffs on Chile?
- What objections had to be overcome to achieve this agreement?
- Is this just a simple FTA dealing only with tariffs?
- Is this a done deal, or do more things have to happen for it to be final?

Questions on Fildes & Bounds, “Australia and EU Fail ...,”

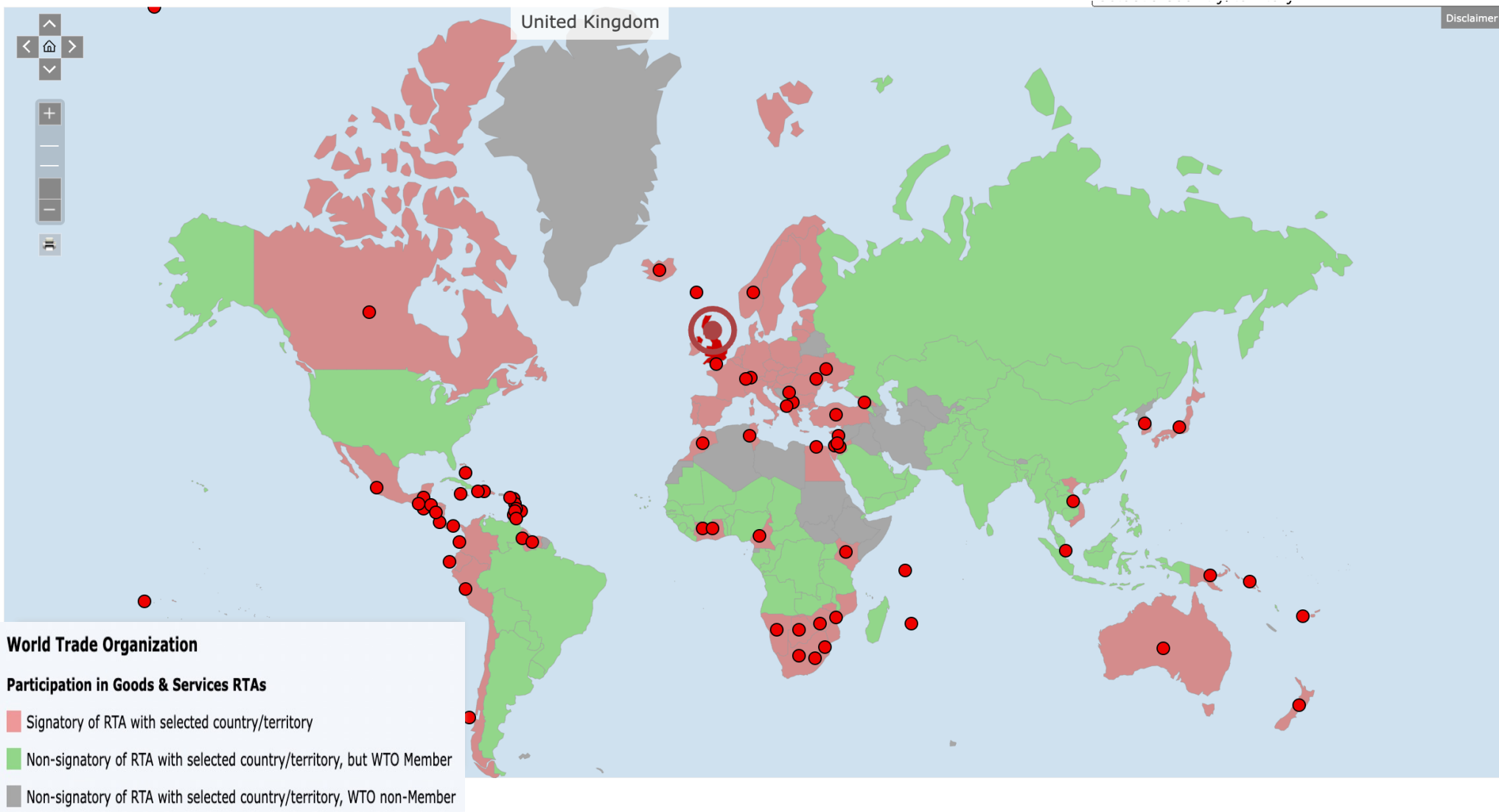
- For how long had Australia and the EU been negotiating a trade deal?
- After this impasse, when is the earliest that a deal might be reached, and why?
- What issues seem to have blocked the agreement?
- What other trade agreement efforts are mentioned here?

Questions on Bounds, “Brussels to proceed with ...”

- Who negotiates trade agreements between the EU and other countries, and how are they then approved?
- What does French President Macron not like about what has been negotiated?
- Is the EU doing anything for the environment?
- What others are mentioned as for or against the pact?
- When is Dombrovskis hoping for a deal to be done?

UK and Other

- UK was unable to do FTAs while part of EU.
- Since leaving EU,
 - It completed 30 FTAs with former EU partners and the EU, effective Jan 1, 2021
 - It has completed 8 more FTAs, including one with EU. (Per WTO, Oct 30, 2024)



Pause for Discussion

Questions on Fedor & Politi., “US Calls for Revived UK...”

- Why was the Windsor Framework important for getting negotiations on a UK-US FTA?
- What action was actually taken toward that objective?
- Has the Biden administration said it wants to pursue this?

Questions on Edgington, “Trade deals: What has the UK done...”

- Why does the UK need new FTAs after Brexit?
- What is a “rollover” FTA?
- How many new FTAs has UK done, and do they cover lots of trade?
- What bigger deal is likely soon?
- Since UK now has an FTA with the EU, is this the same for trade as being an EU member?

US and Other

- US has not attempted any actual new FTAs since 2012
- What it has done instead:
 - US-Japan trade agreement, 2020
 - Improved market access for US into Japan
 - US reduced or eliminated some tariffs on Japan
 - Indo-Pacific Economic Framework (IPEF)
 - Trade deal with Taiwan

Pause for Discussion

Questions on Economist, “The Great Steeplechase”

- What are the two trade agreements that are competing here?
- Which of them reduce tariffs the most?
- What does IPEF mainly do?
- What does RCEP mainly do?
- What is taken to signal that the US will do little in the near future to liberalize trade?

Questions on Beattie, “US Trade Pledge to the Indo-Pacific”

- How many countries other than the US are included in this agreement?
- What new bodies does it set up, and with what purpose?
- Why does this author say that this agreement can accomplish little?
- Since IPEF is “empty,” has it met no resistance?

Questions on Areddy, “U.S., Taiwan Reach Trade Deal...”

- What does the agreement cover?
- What does the agreement NOT cover?
- Why is the agreement not an FTA?
- When did US cease formal diplomatic relations with Taiwan, and why?

Other Trade Deals

- China is negotiating deals with various countries in Latin America
- United Arab Emirates is having trade talks with Ukraine

Pause for Discussion

Questions on Daniels & Leahy, re China-Ecuador FTA

- With what Latin American countries did China have FTAs before this?
- Why does Ecuador prefer having an FTA with China rather than the US?
- Will this FTA be ratified in Ecuador?
- Does Ecuador export more to China or to the US?

Questions on Lawal, “Can Africa’s new free trade treaty boost ...”

- How many countries are part of the African Union, and how many of these signed the AfCFTA?
- How does intra-Africa trade compare to intra-Asia, intra-North American, intra-South America, and intra-Europe?
- How is AfCFTA supposed to change this?
- Is there any other policy mentioned to encourage manufacturing in Africa?
- Has AfCFTA so far increased any intra-Africa trade?
- What does it mean that “AfCFTA shuns informal trade on the continent?”

