

# PubPol/Econ 541

Class 20

## **FTAs and Other Trade Deals**

by

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2023

# Quiz

	Q7	Q8	Q9
Mean	7.73	8.00	7.67
Median	7.5	9	8
Max	10	10	10
Min	6	4	3.5
S.D.	1.35	2.07	2.21

# Pause for News

# Outline

- FTAs in general
- Multicountry
  - North America
    - NAFTA
    - USMCA
  - RCEP
  - CPTPP
- EU and Other
- UK and Other
- US and Other
- Other

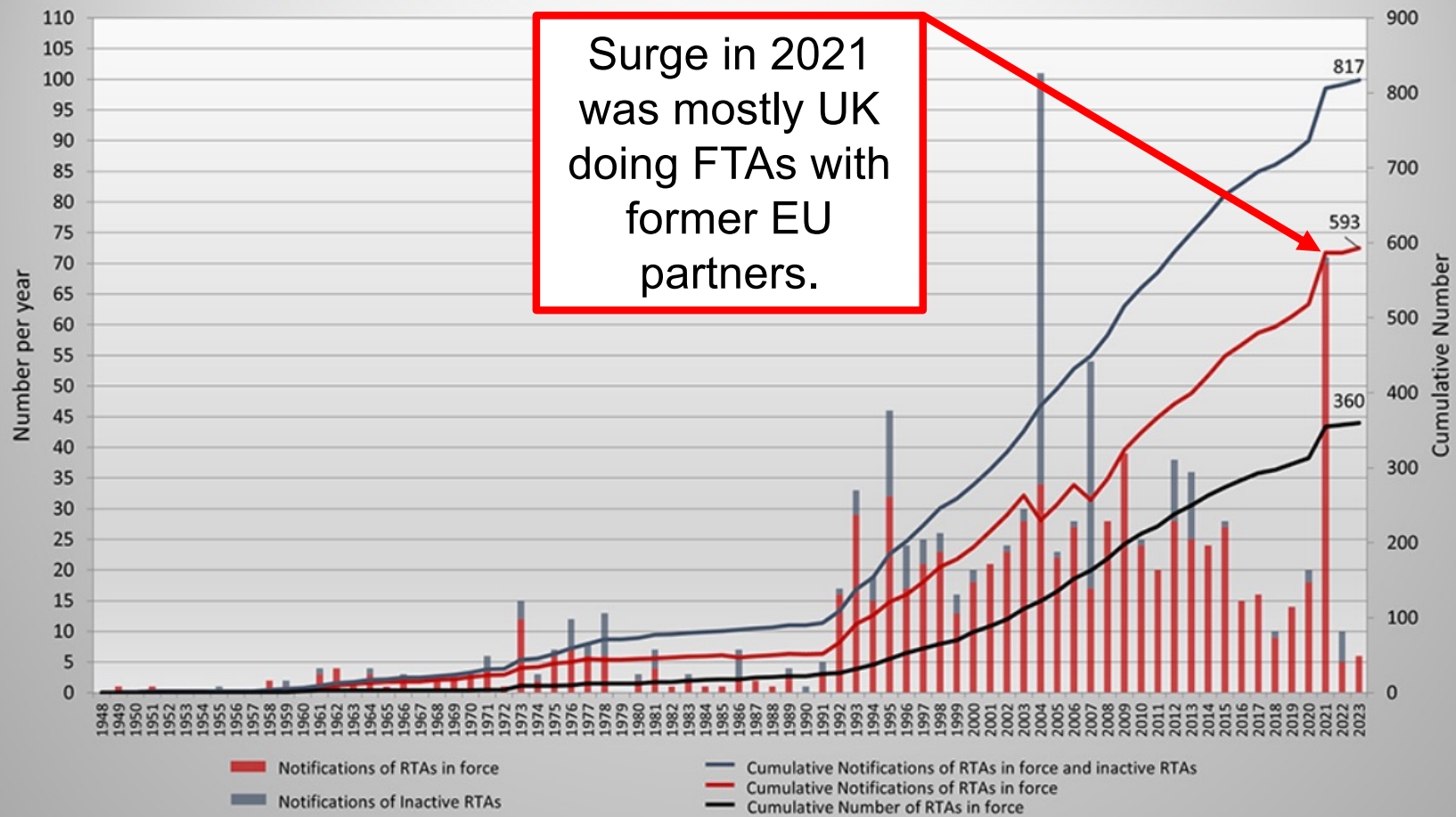
# FTAs in General

- 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

# 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, 1948-2023

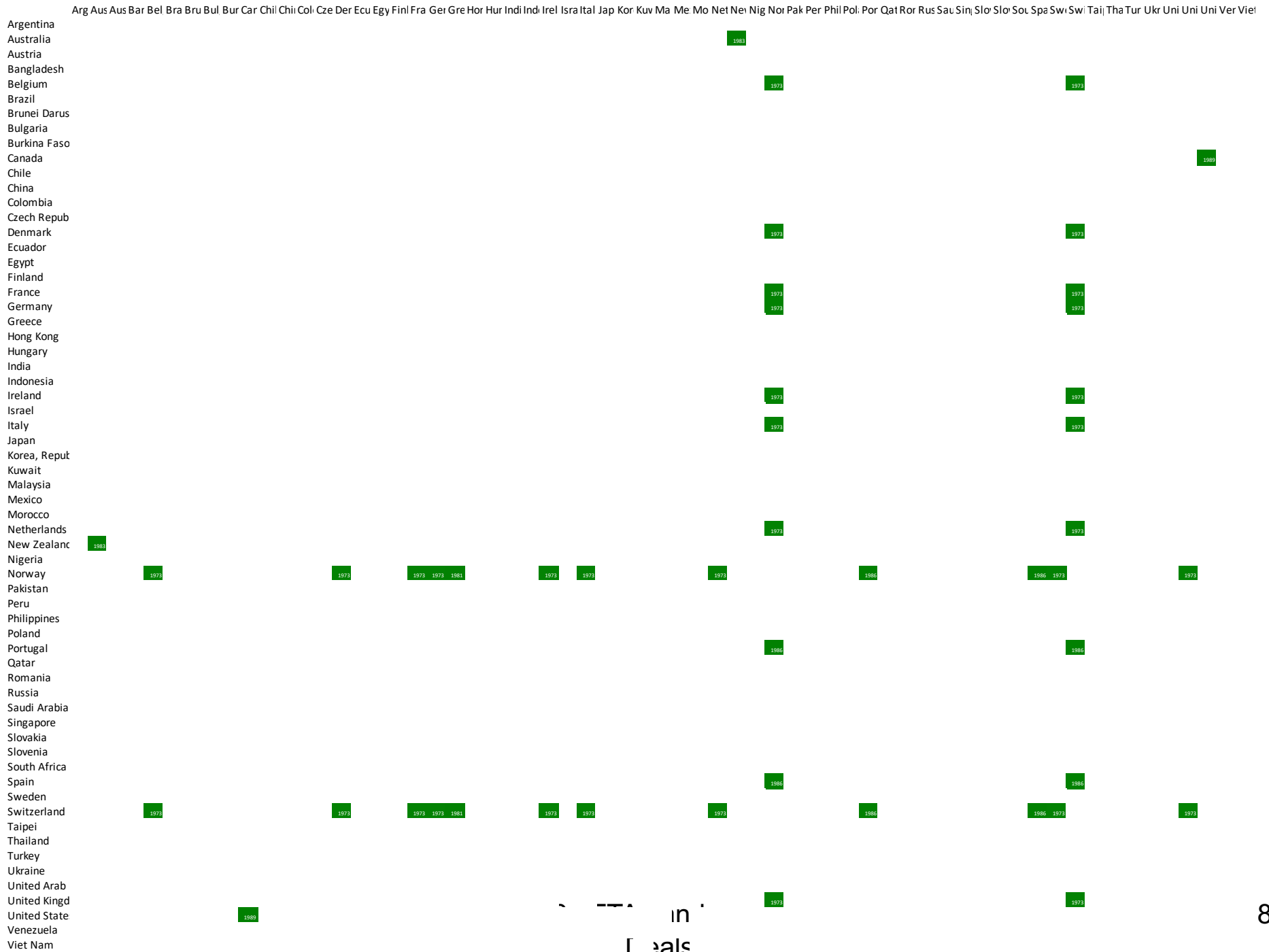


Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. The cumulative lines show the number of RTAs/notifications that were in force for a given year. The notifications of RTAs in force are shown by year of entry into force and the notifications of inactive RTAs are shown by inactive year.  
 Source: RTA Section, WTO Secretariat, August 2023.

Source: WTO

# Countries connected by FTAs only, as of 1990

1%

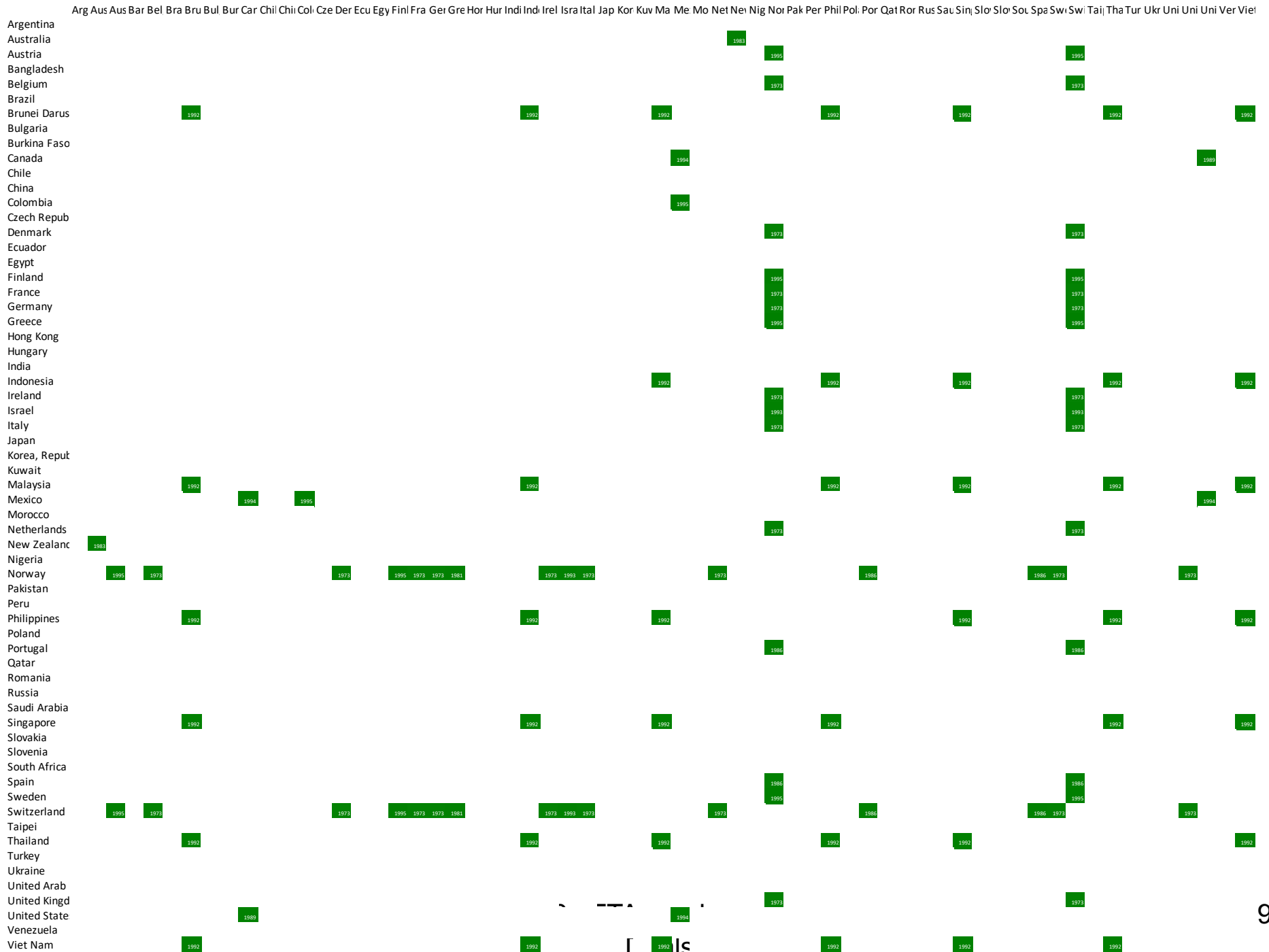


in  
Local



# Countries connected by FTAs only, as of 1995

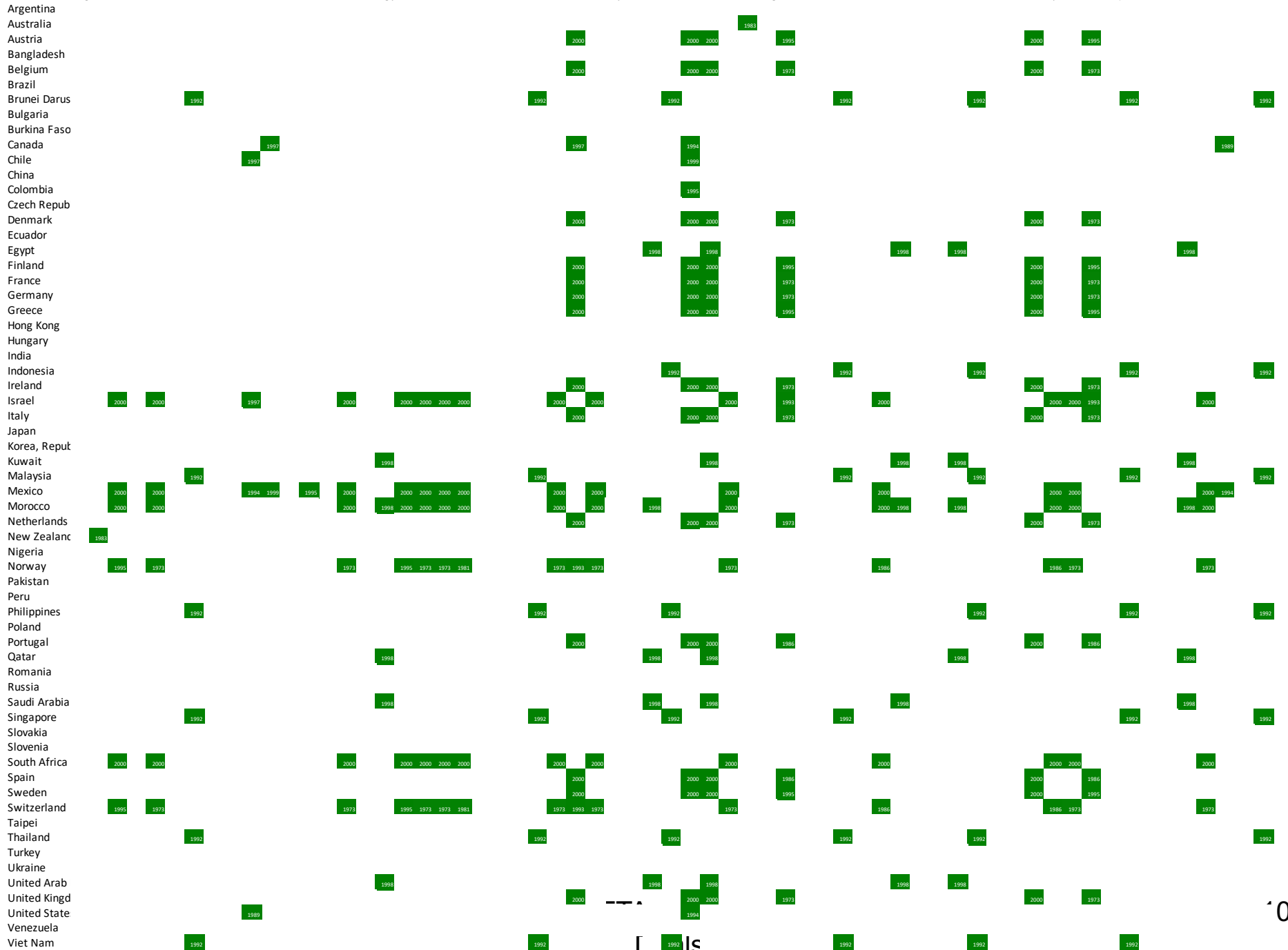
3%



# Countries connected by FTAs only, as of 2000

7%

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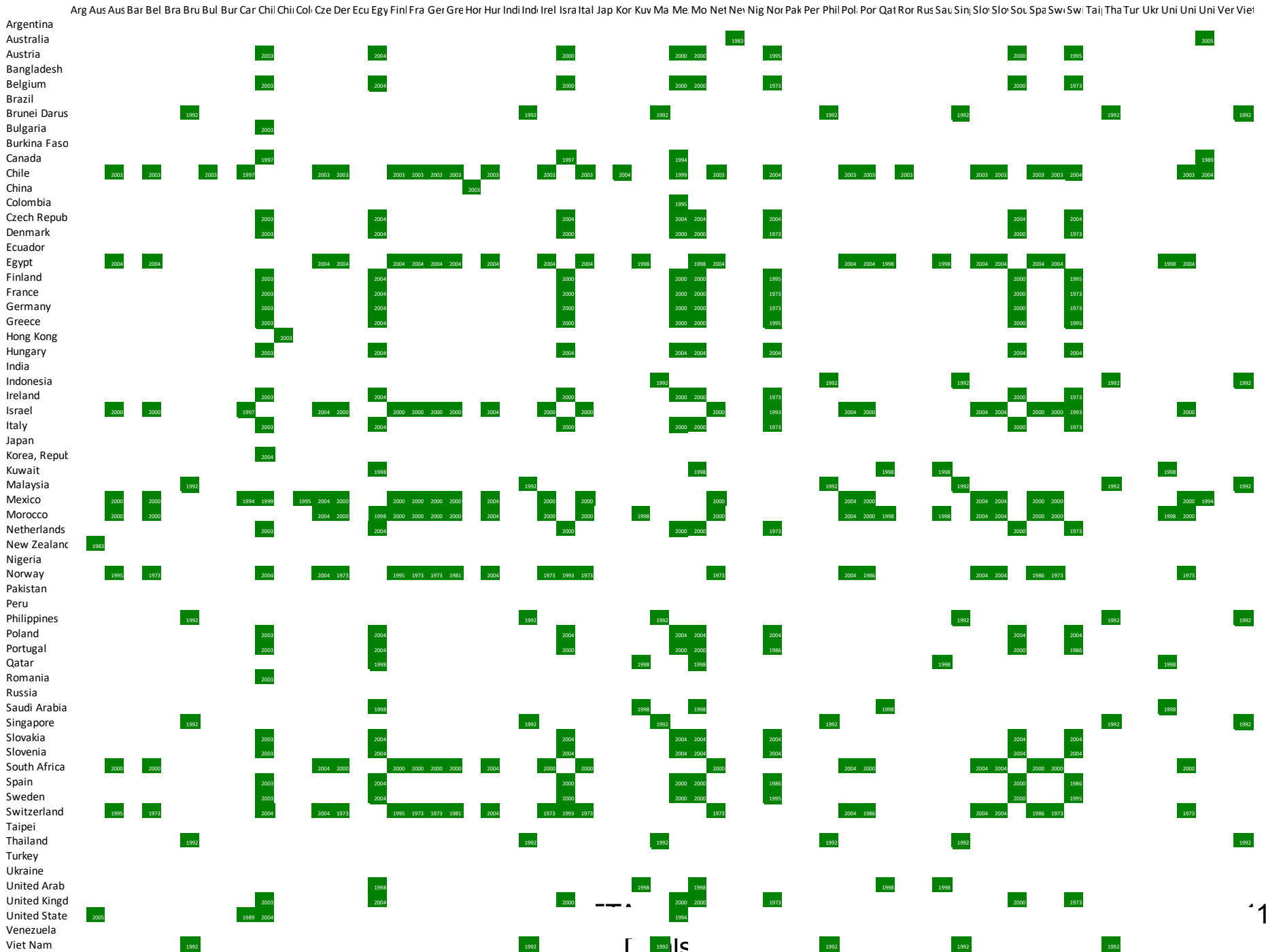


Loops

0

# Countries connected by FTAs only, as of 2005

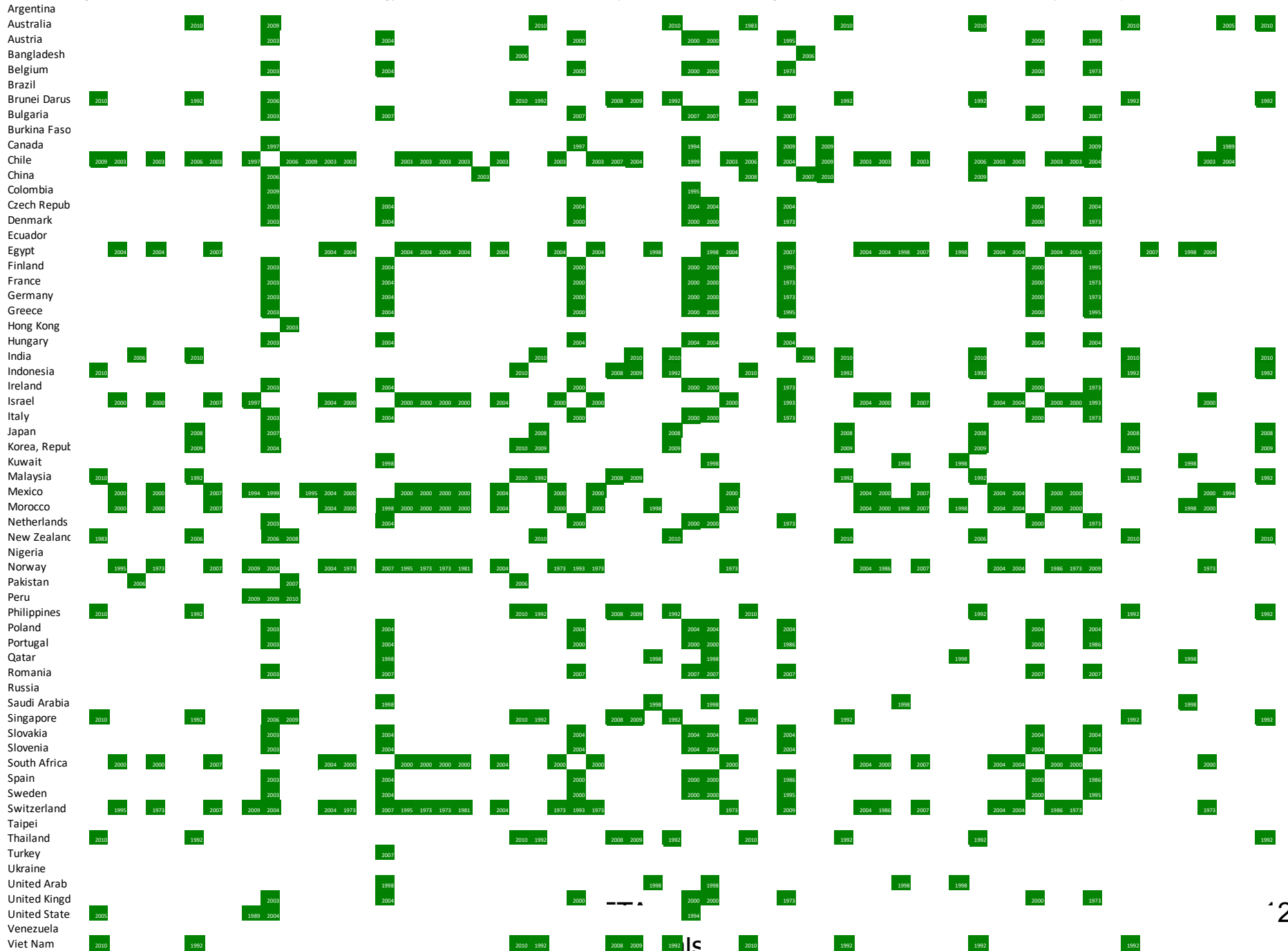
11%



# Countries connected by FTAs only, as of 2010

14%

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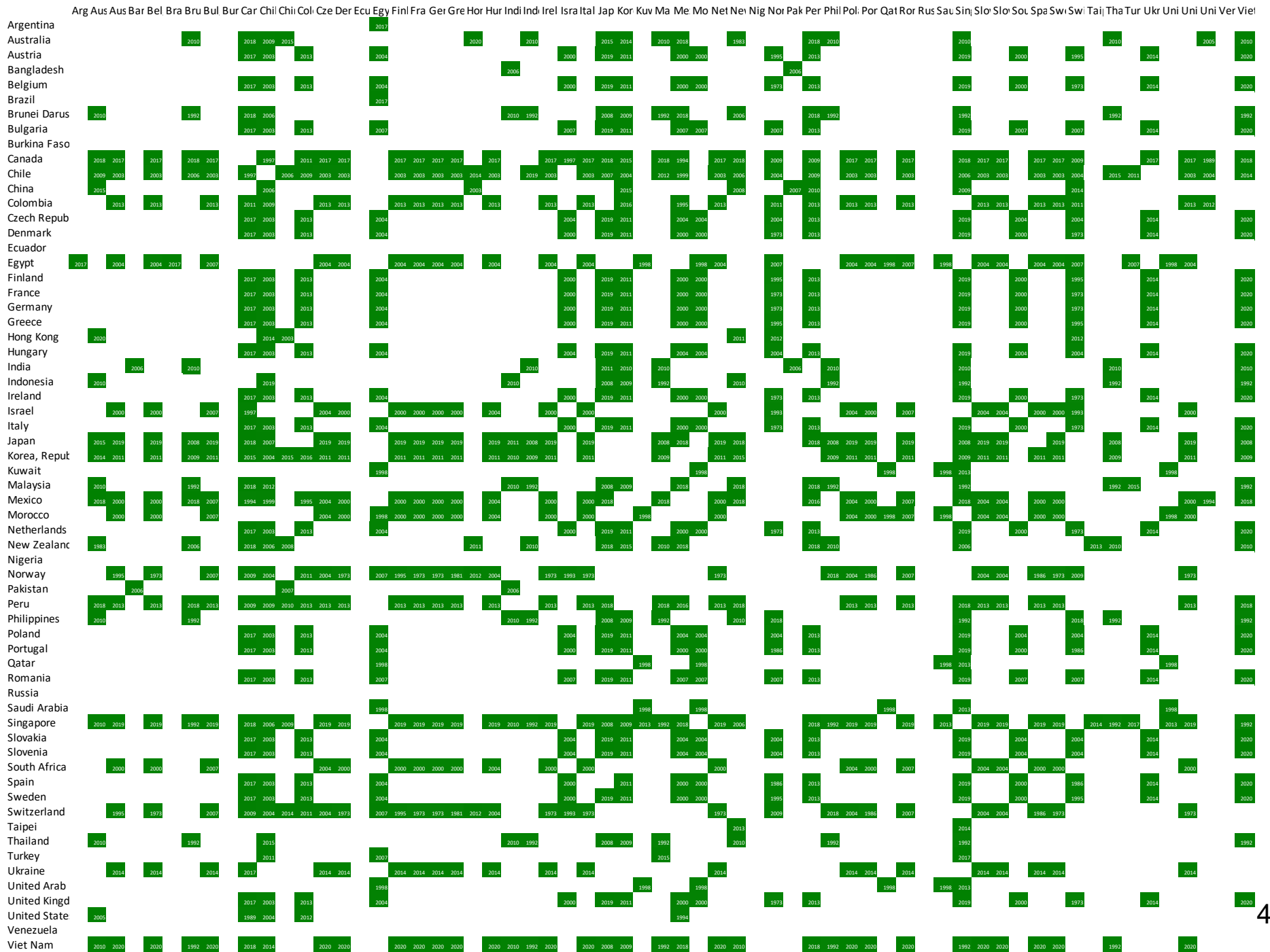
# Countries connected by FTAs only, as of 2015

20%



# Countries connected by FTAs only, as of 2020

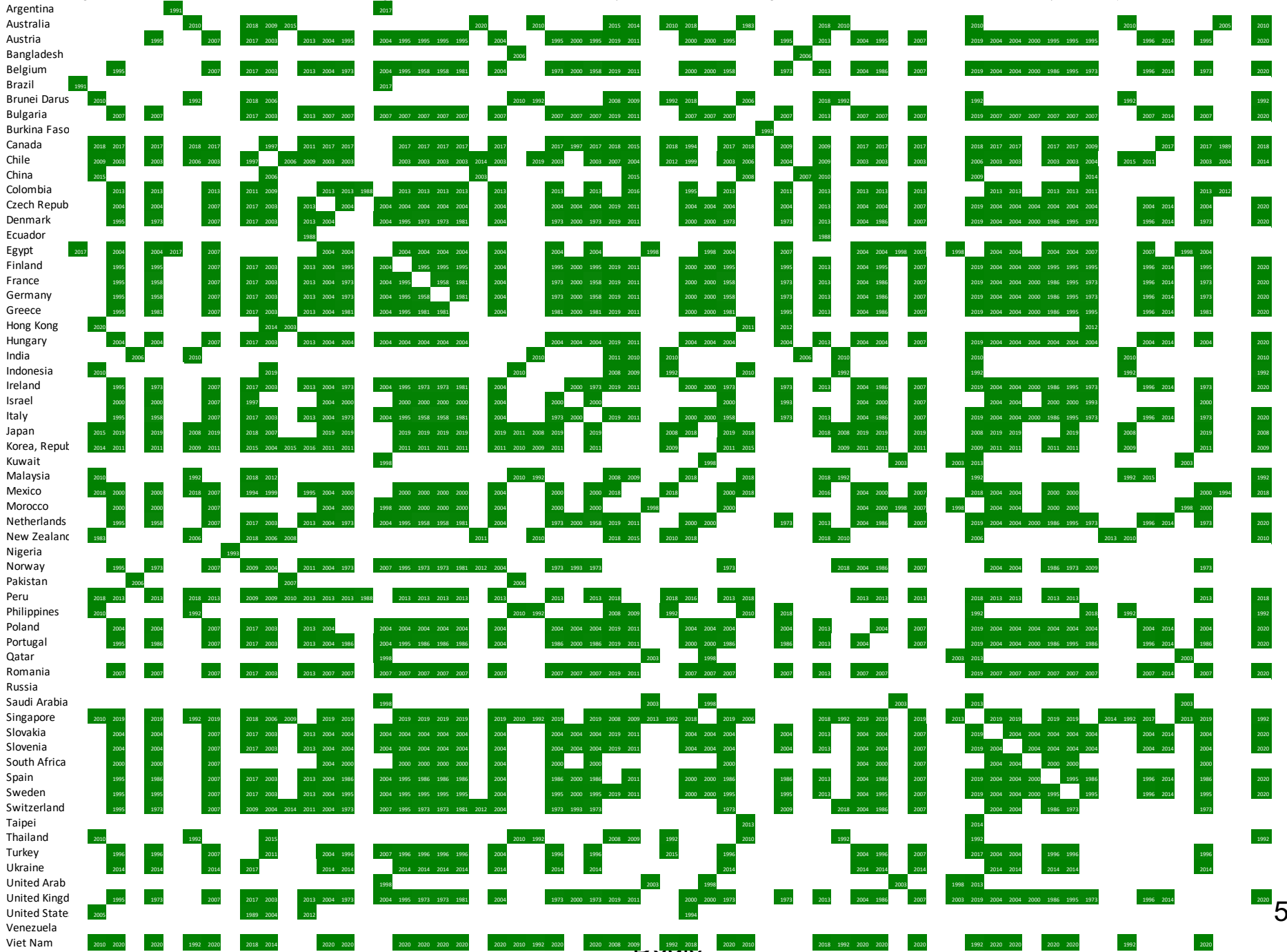
26%



# Countries connected by FTAs or CUs as of 2020

38%

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# 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?

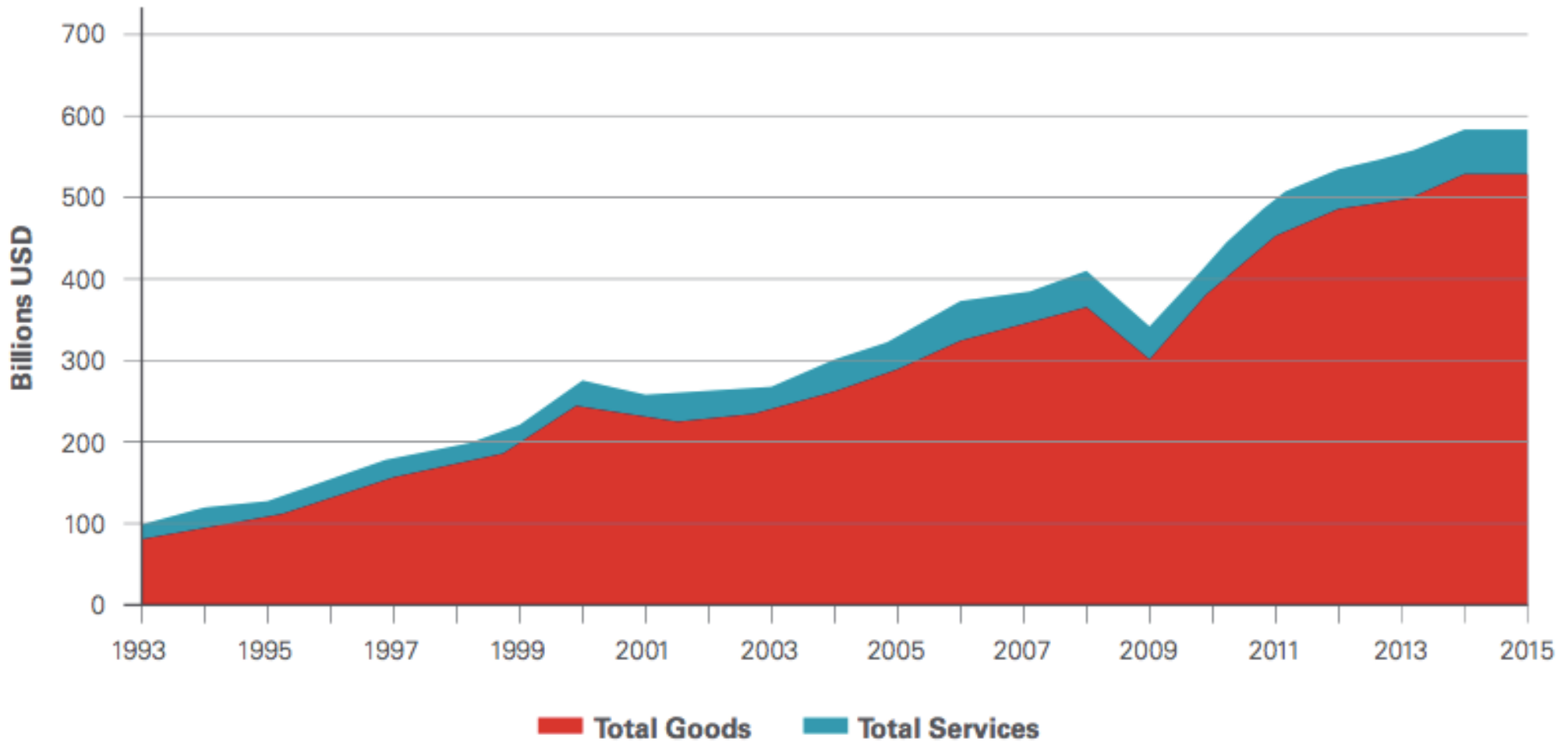
# NAFTA

- 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)

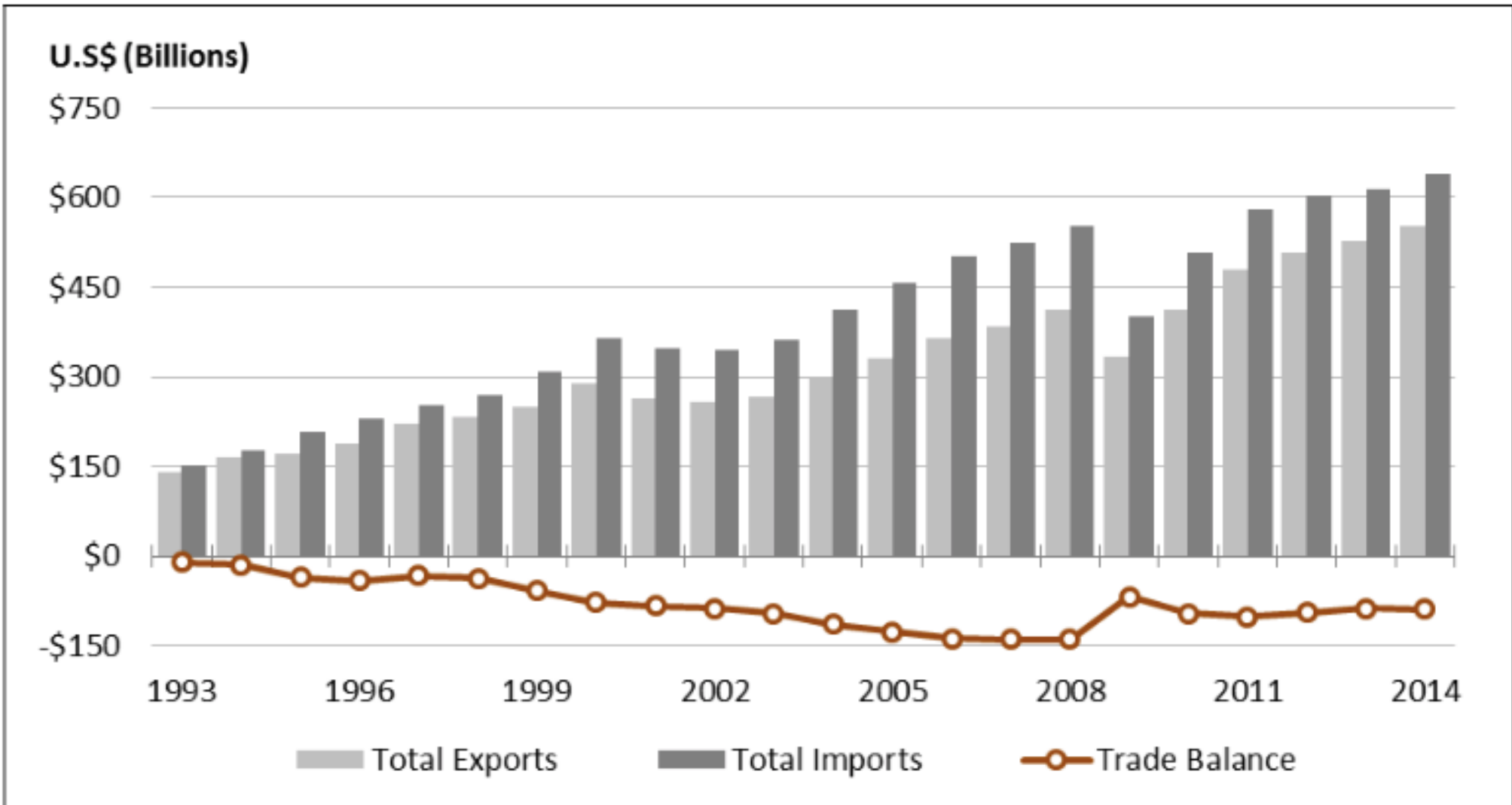


Source: U.S. Census Bureau for goods trade; U.S. Bureau of Economic Analysis and OECD for services trade. See endnote two for more details.

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

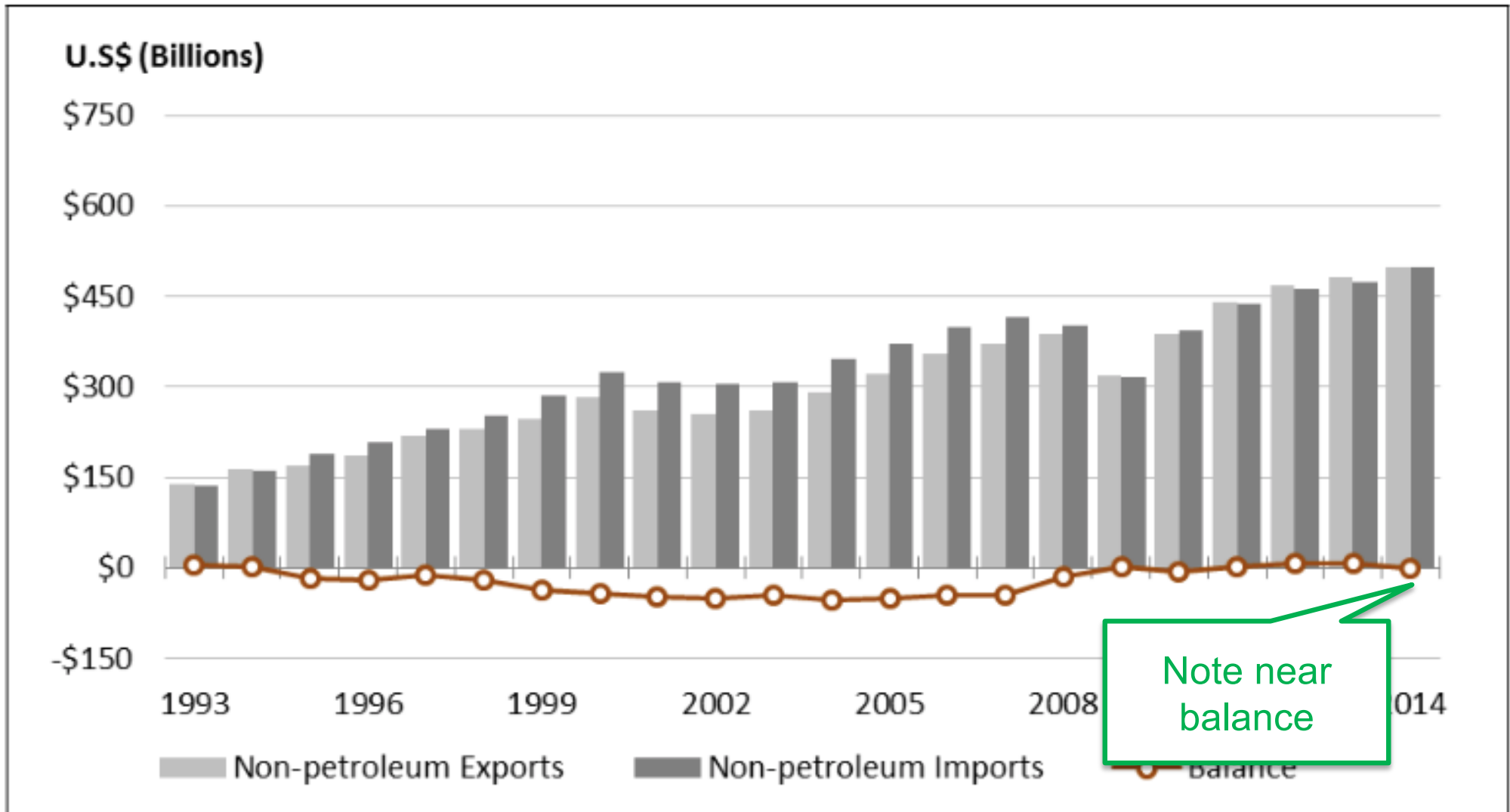
**Figure I. U.S. Merchandise Trade with NAFTA Partners: 1993-2014**

(billions of nominal U.S. dollars)

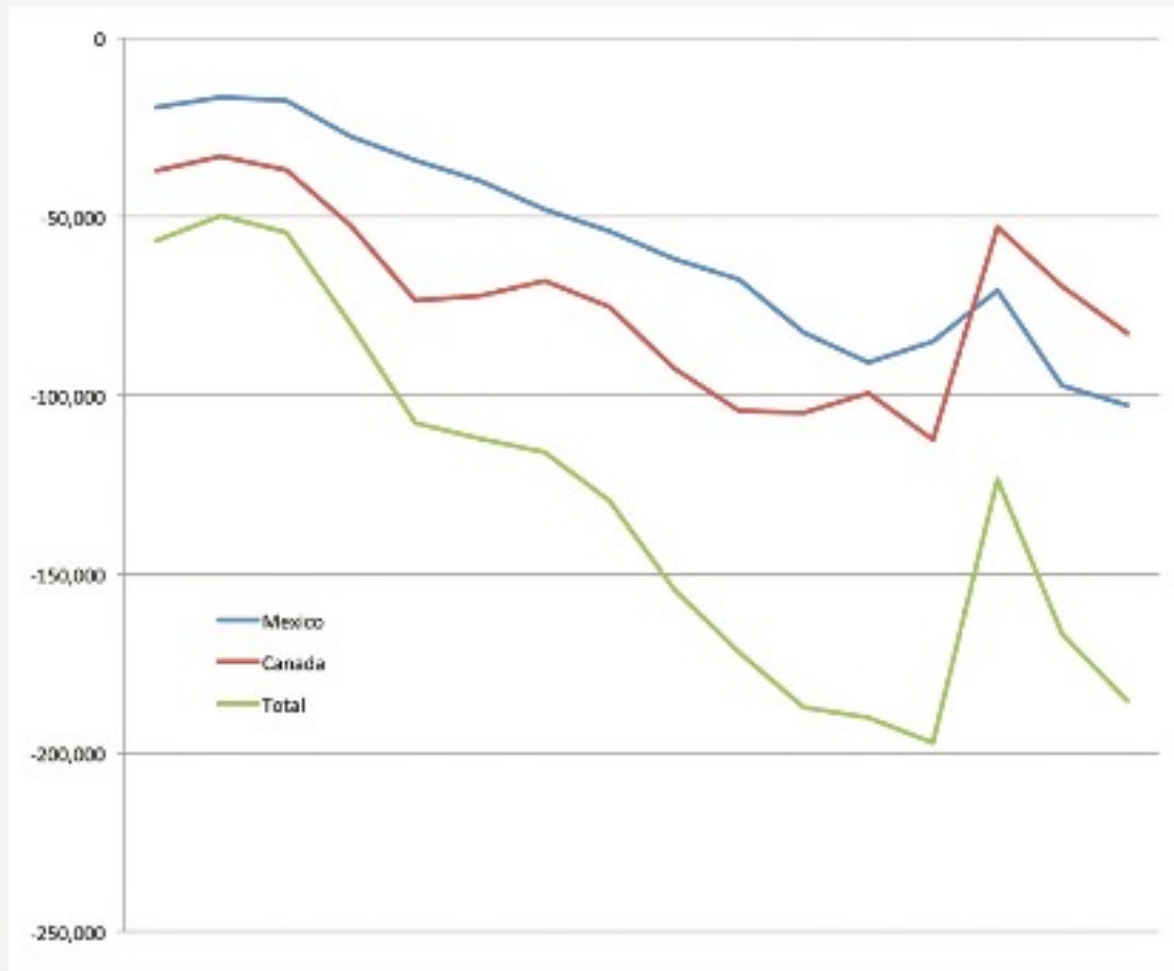


**Figure 2. Non-Petroleum Trade with NAFTA Partners: 1993-2014**

(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"

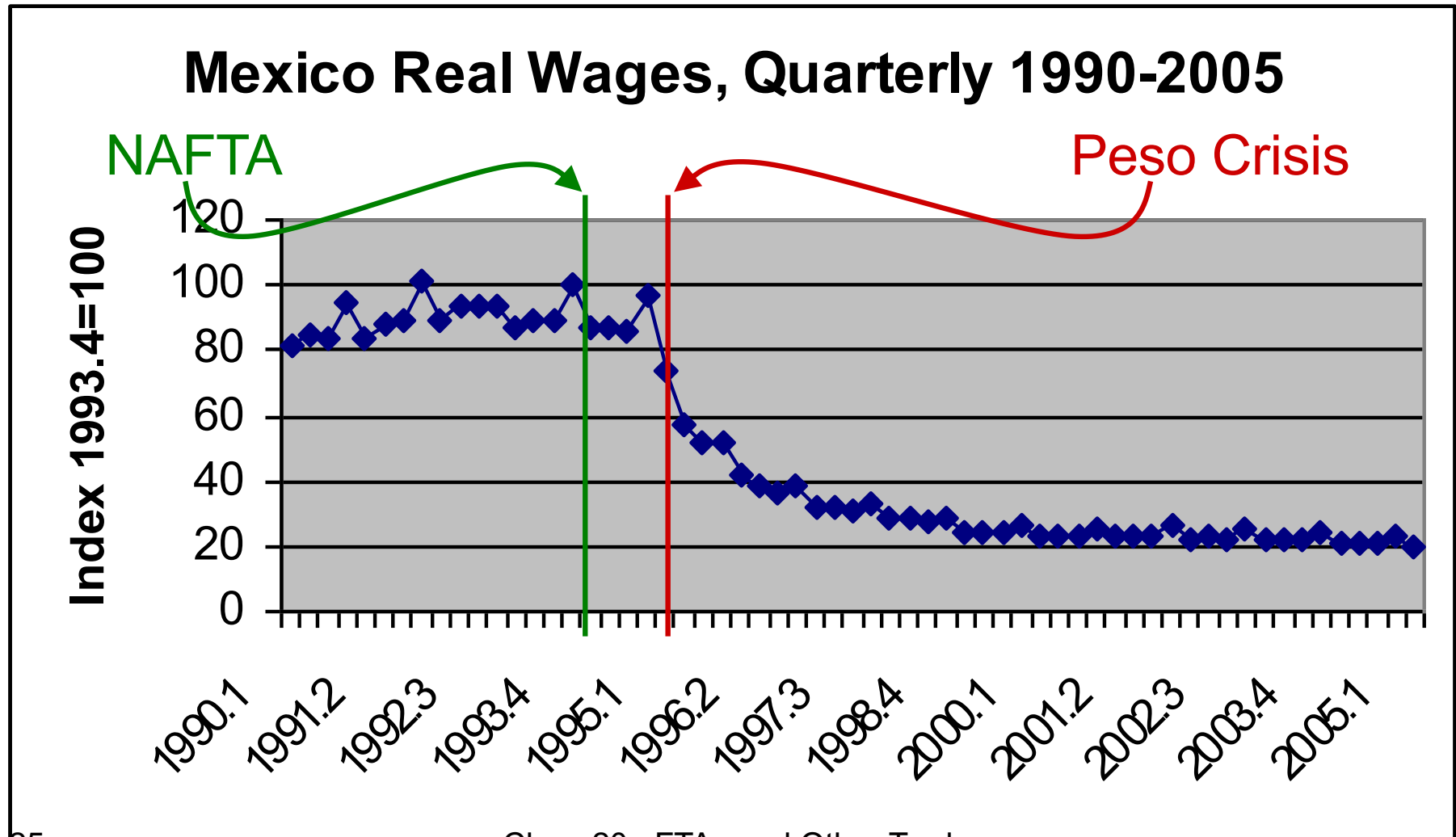
# NAFTA Effects

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



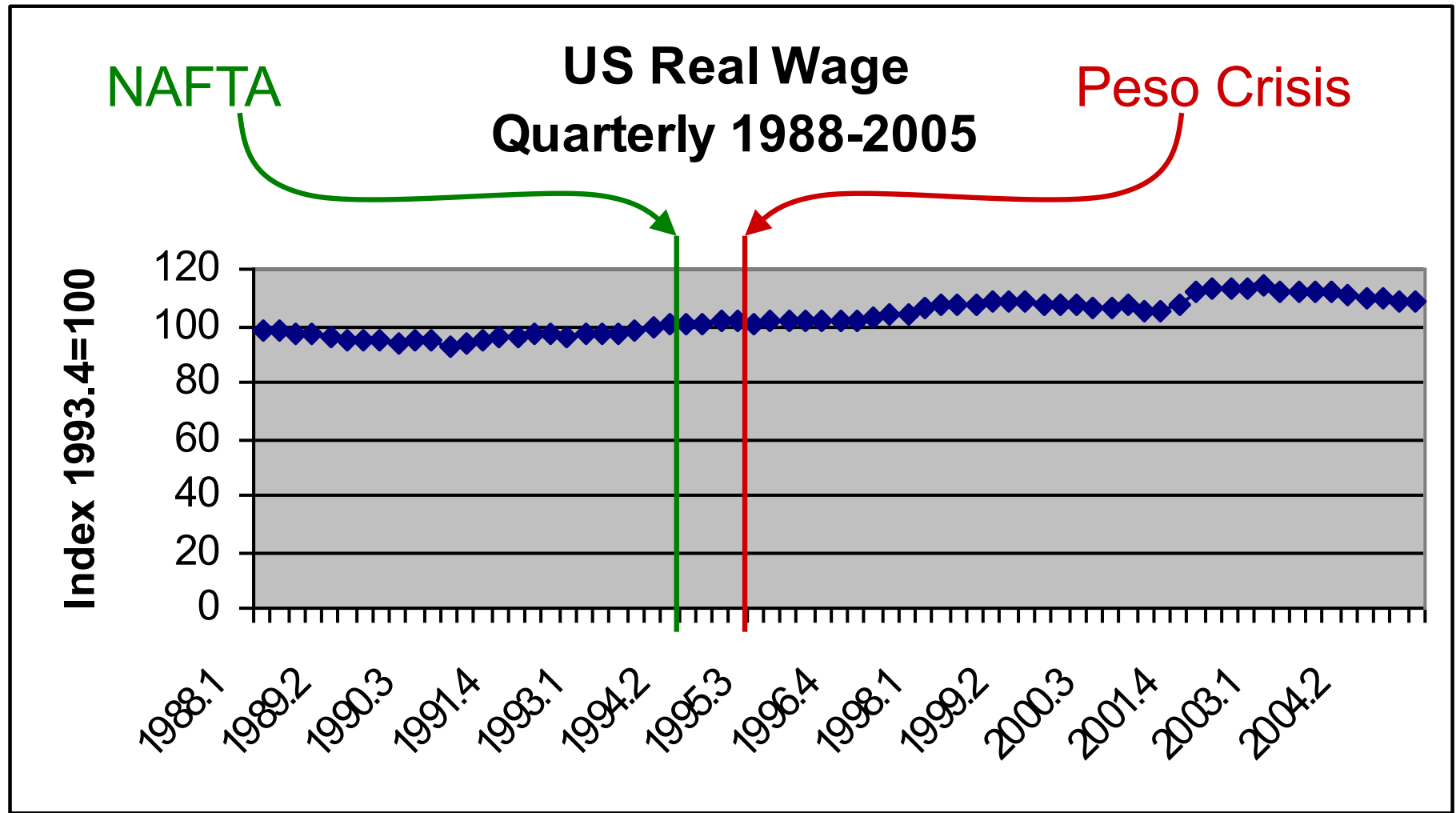
# What Happened: Mexico

## Real Wages Plummeted!



# What Happened: U.S.

Real Wage: No Change

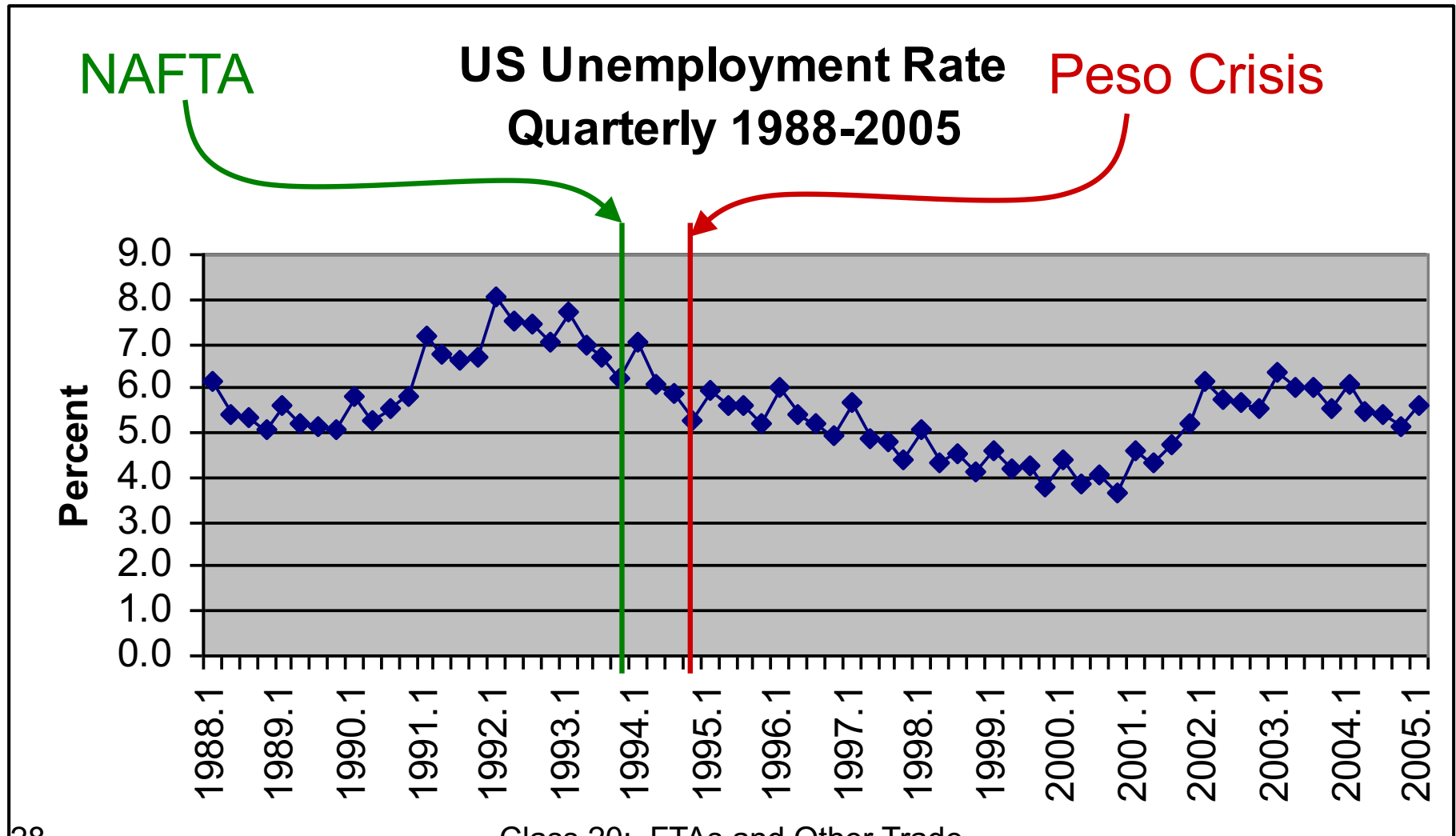


# NAFTA Effects

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

# What Happened: U.S.

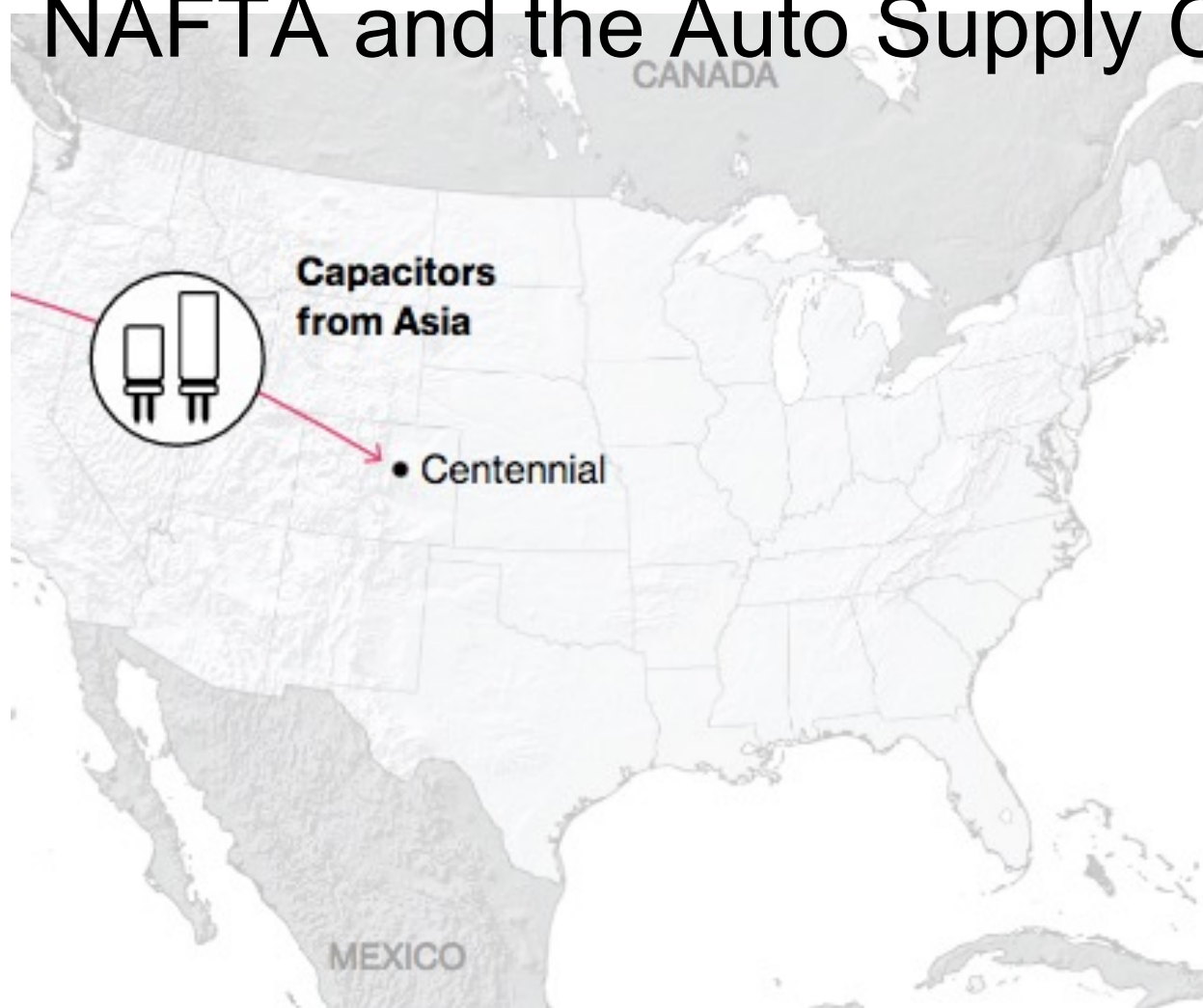
Unemployment: No effect (or fell)



# NAFTA Effects

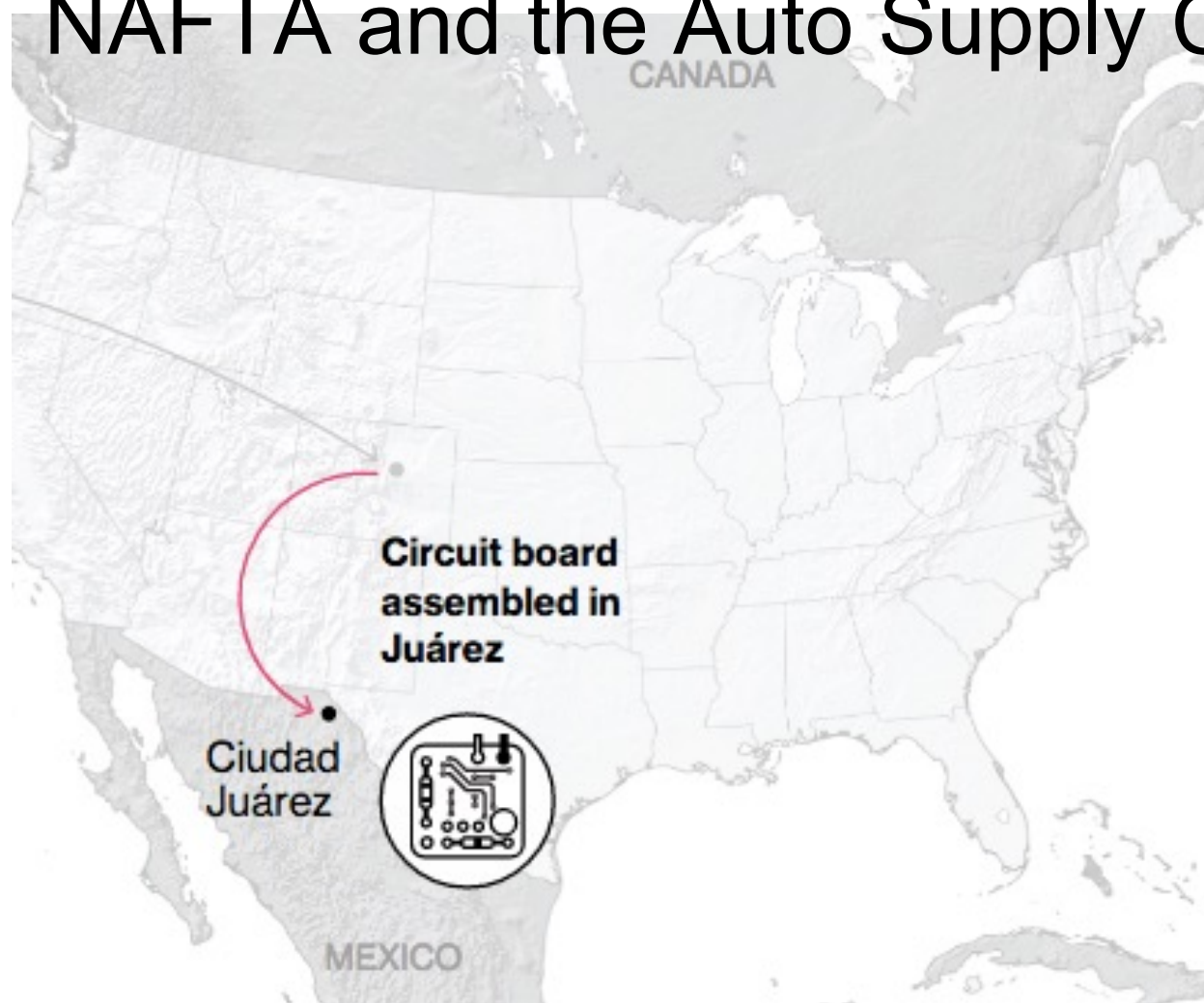
- Supply chains
  - US manufacturing moved inputs to low-cost locations across N. America

# NAFTA and the Auto Supply Chain



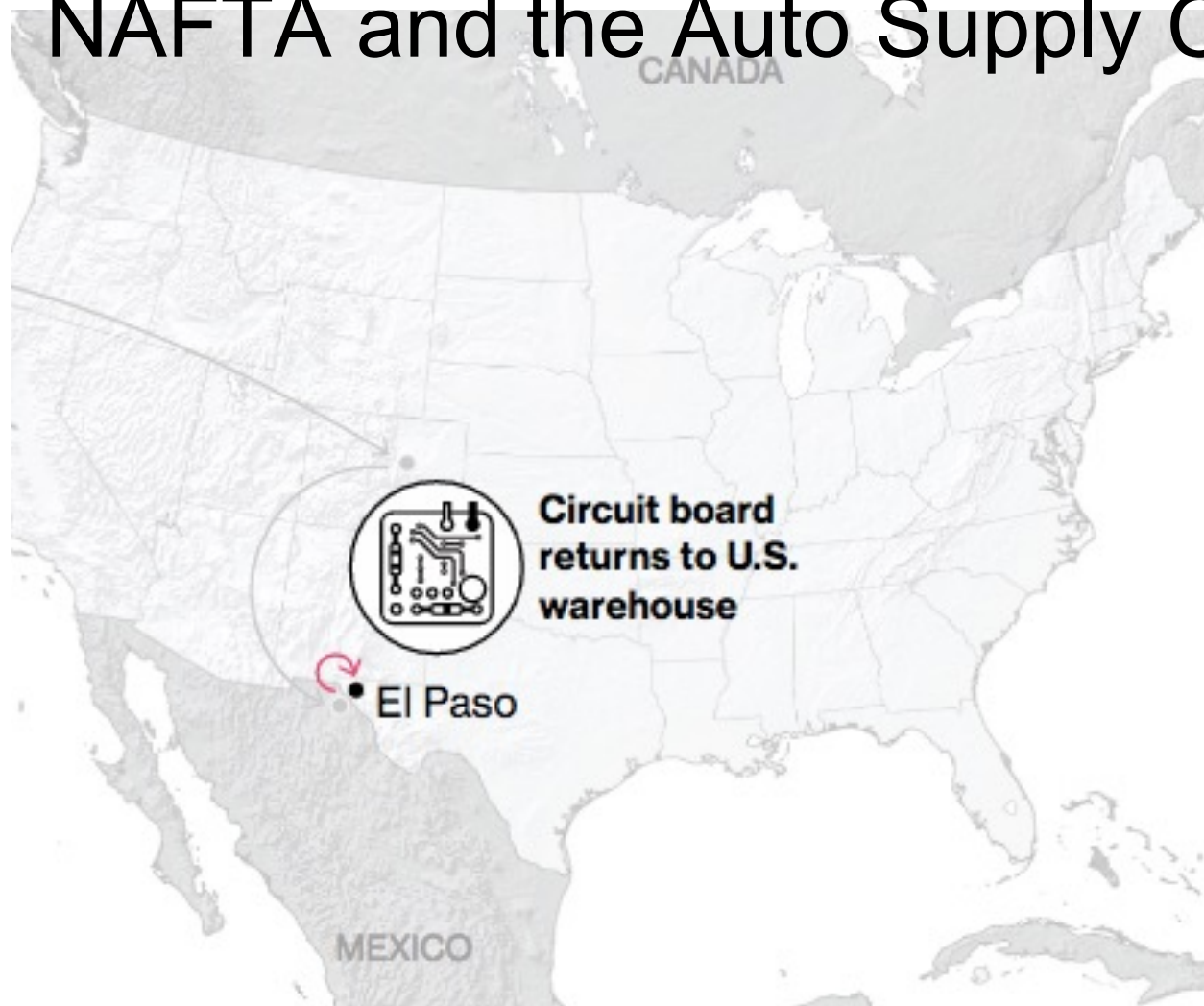
Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

# NAFTA and the Auto Supply Chain



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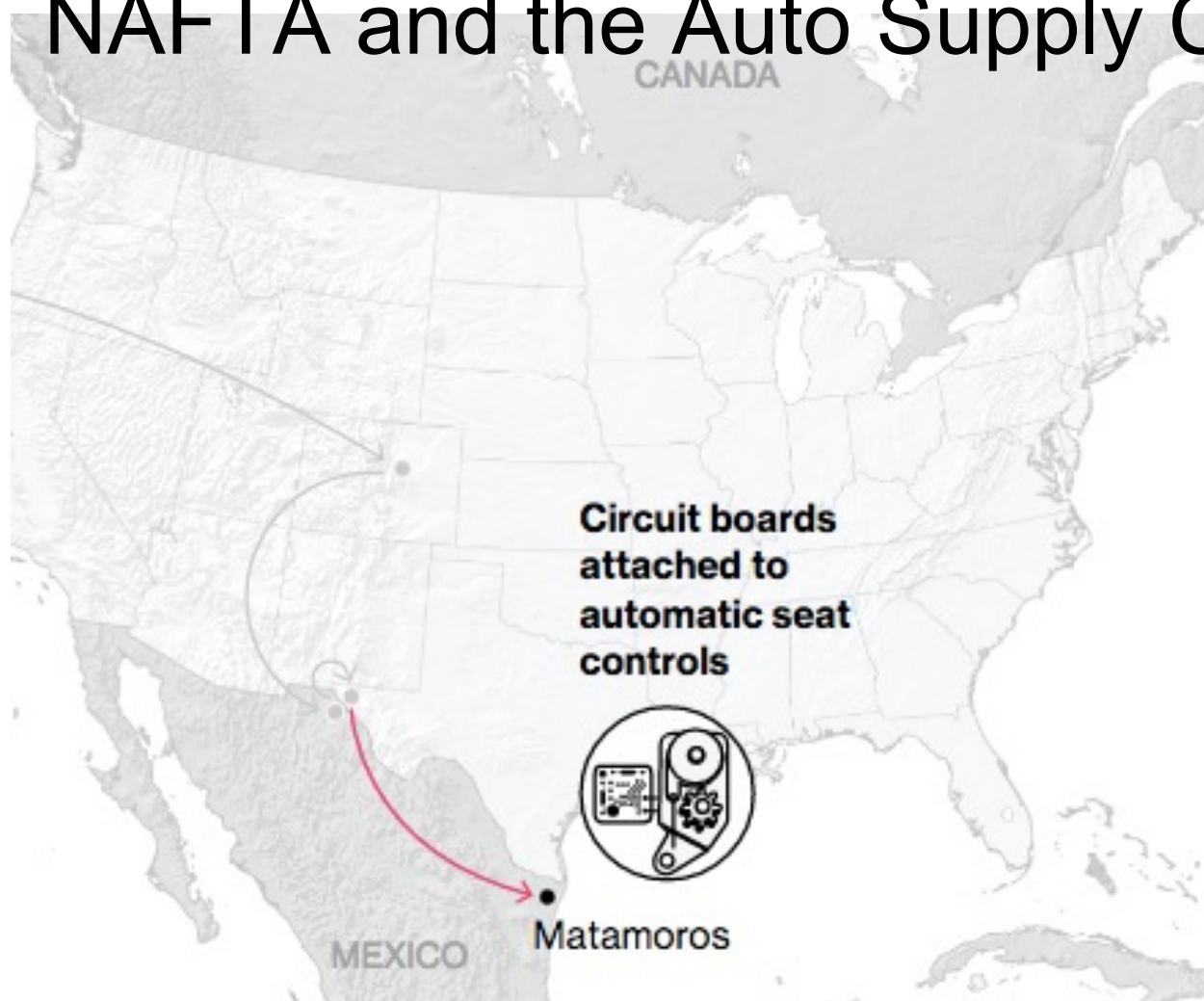
# NAFTA and the Auto Supply Chain



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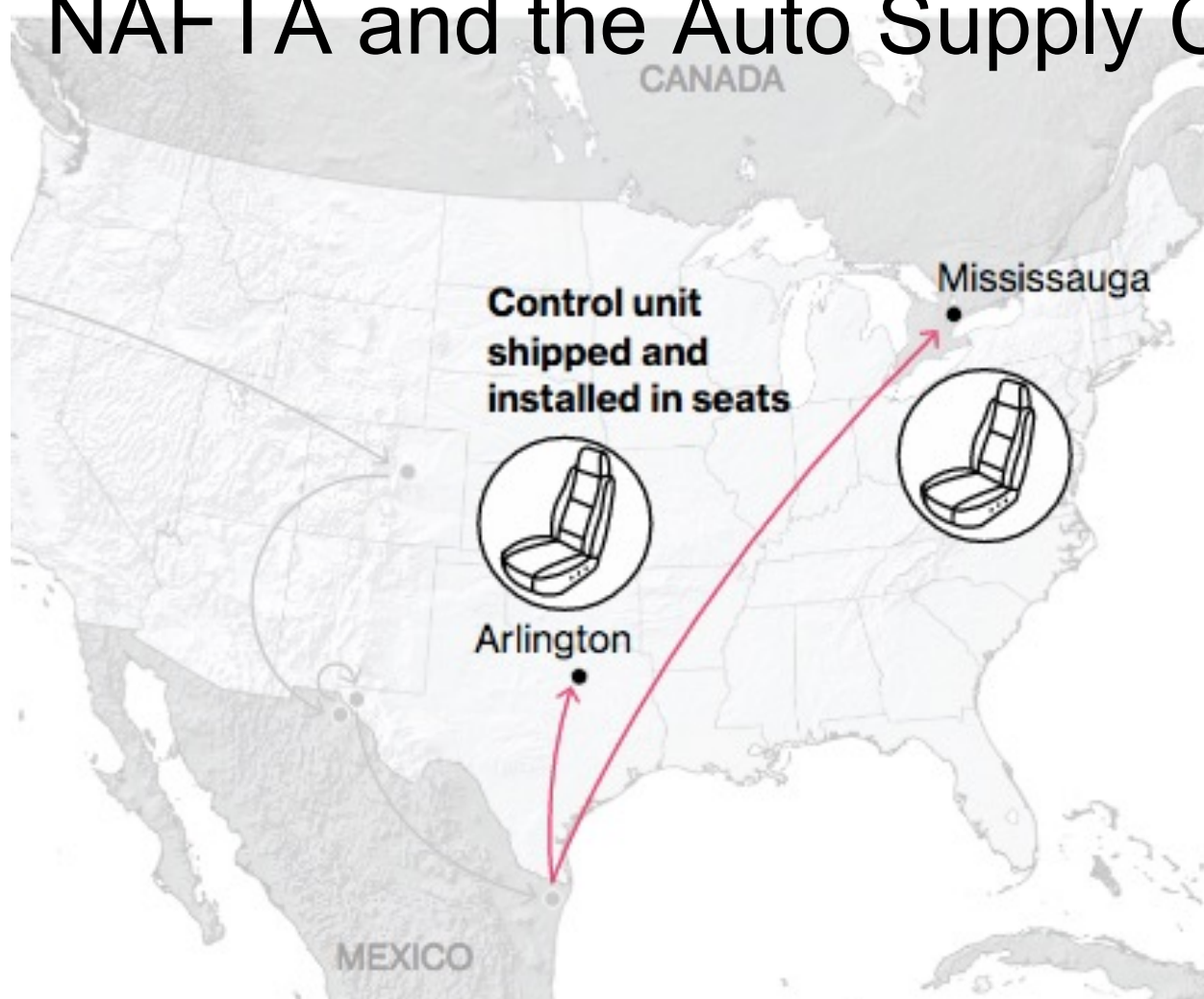


# NAFTA and the Auto Supply Chain



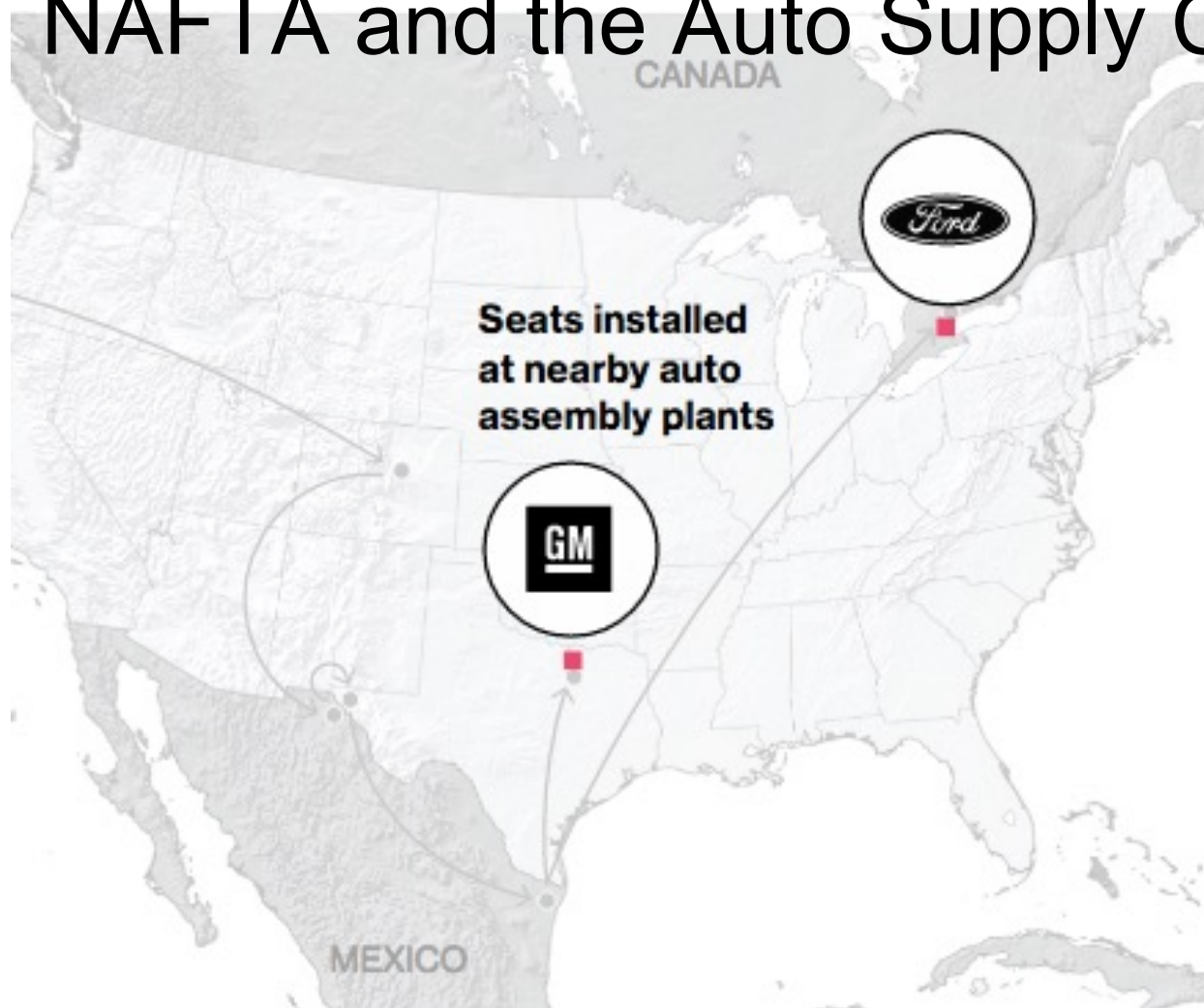
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# NAFTA and the Auto Supply Chain



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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 own 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
- Inform US if negotiate with NME (China)
- Commitment not to manipulate currencies

} NEW

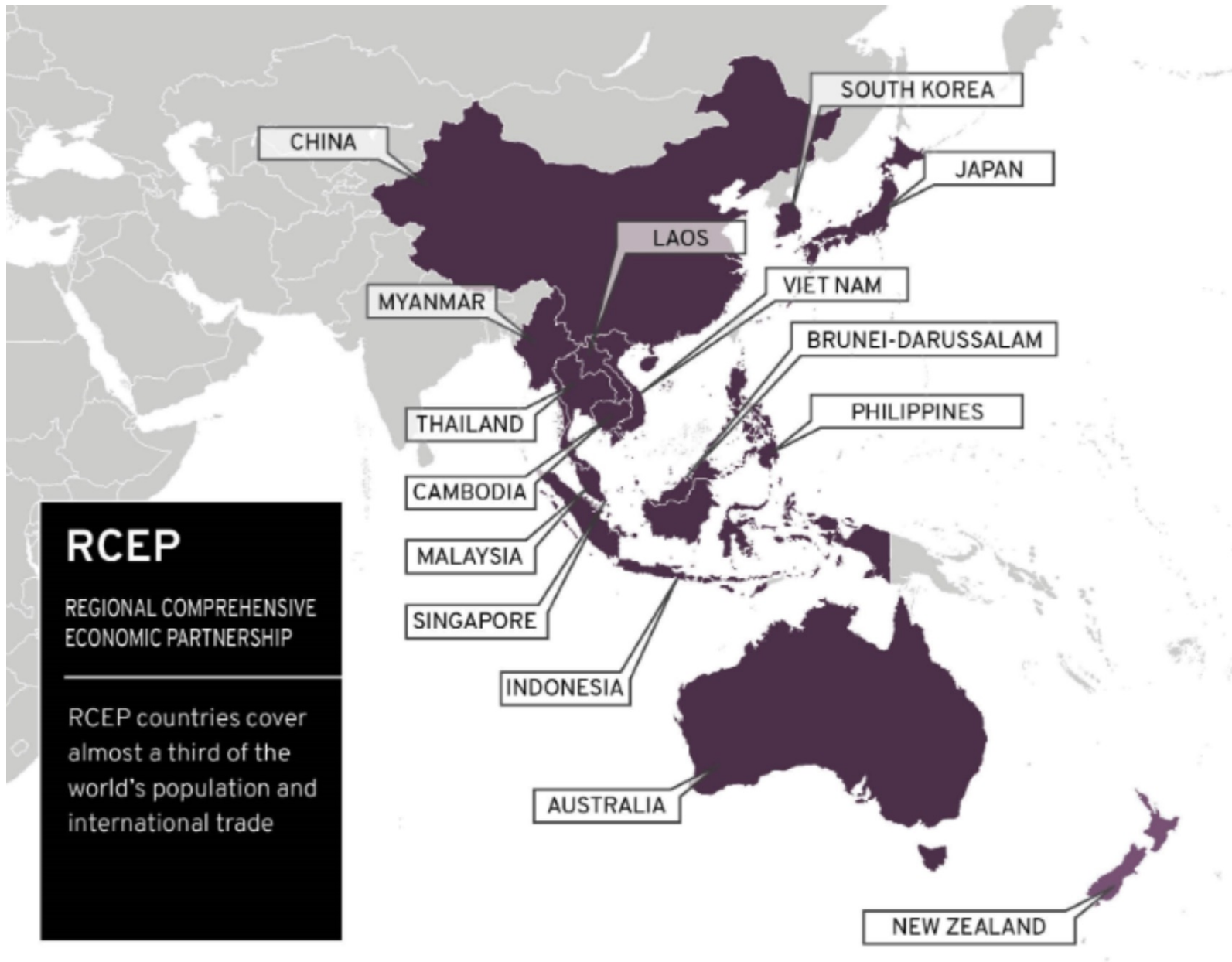
# Pause for Discussion

# 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”?

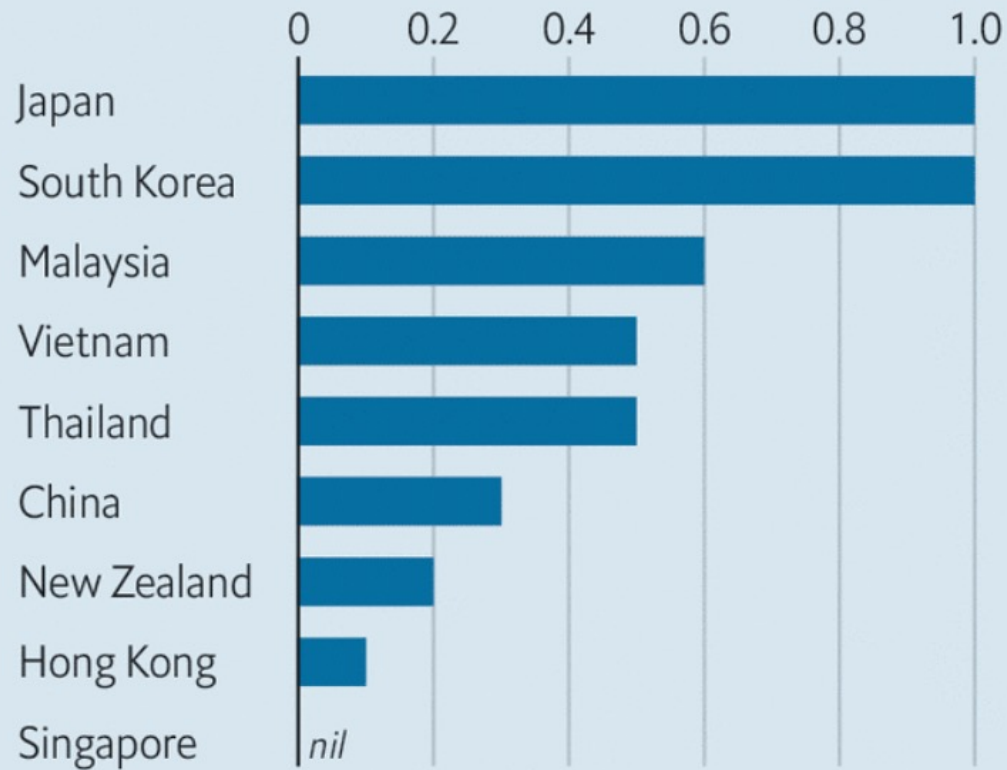
# RCEP

- 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

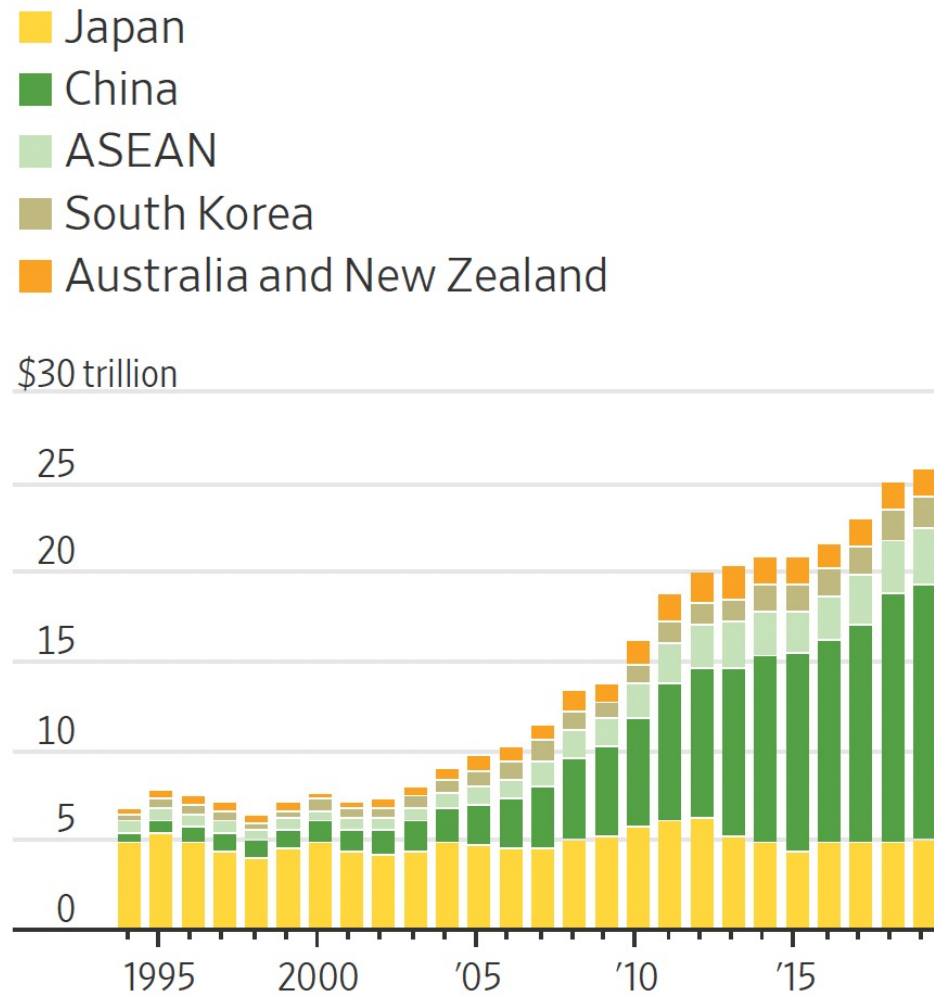


Source: Peterson Institute for  
International Economics

\*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



Source: More Than Shipping

Figure 3: Infographic of current CPTPP membership<sup>54</sup>

- 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
<b>Australia</b>	2.4%	1.2%	2.6%	52.0%	0.0%
<b>Brunei</b>	0.3%	0.0%	0.3%	95.8%	0.0%
<b>Canada</b>	3.9%	15.1%	2.1%	77.7%	6.5%
<b>Chile</b>	6.0%	6.0%	6.0%	0.3%	0.0%
<b>Japan</b>	4.3%	15.5%	2.5%	53.1%	3.5%
<b>Malaysia</b>	5.6%	7.7%	5.3%	66.3%	13.2%
<b>Mexico</b>	7.1%	13.9%	6.0%	49.0%	12.1%
<b>New Zealand</b>	2.0%	1.4%	2.1%	64.9%	0.0%
<b>Peru</b>	2.4%	2.8%	2.3%	68.5%	0.0%
<b>Singapore</b>	0.0%	0.0%	0.0%	100.0%	0.0%
<b>Vietnam</b>	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](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

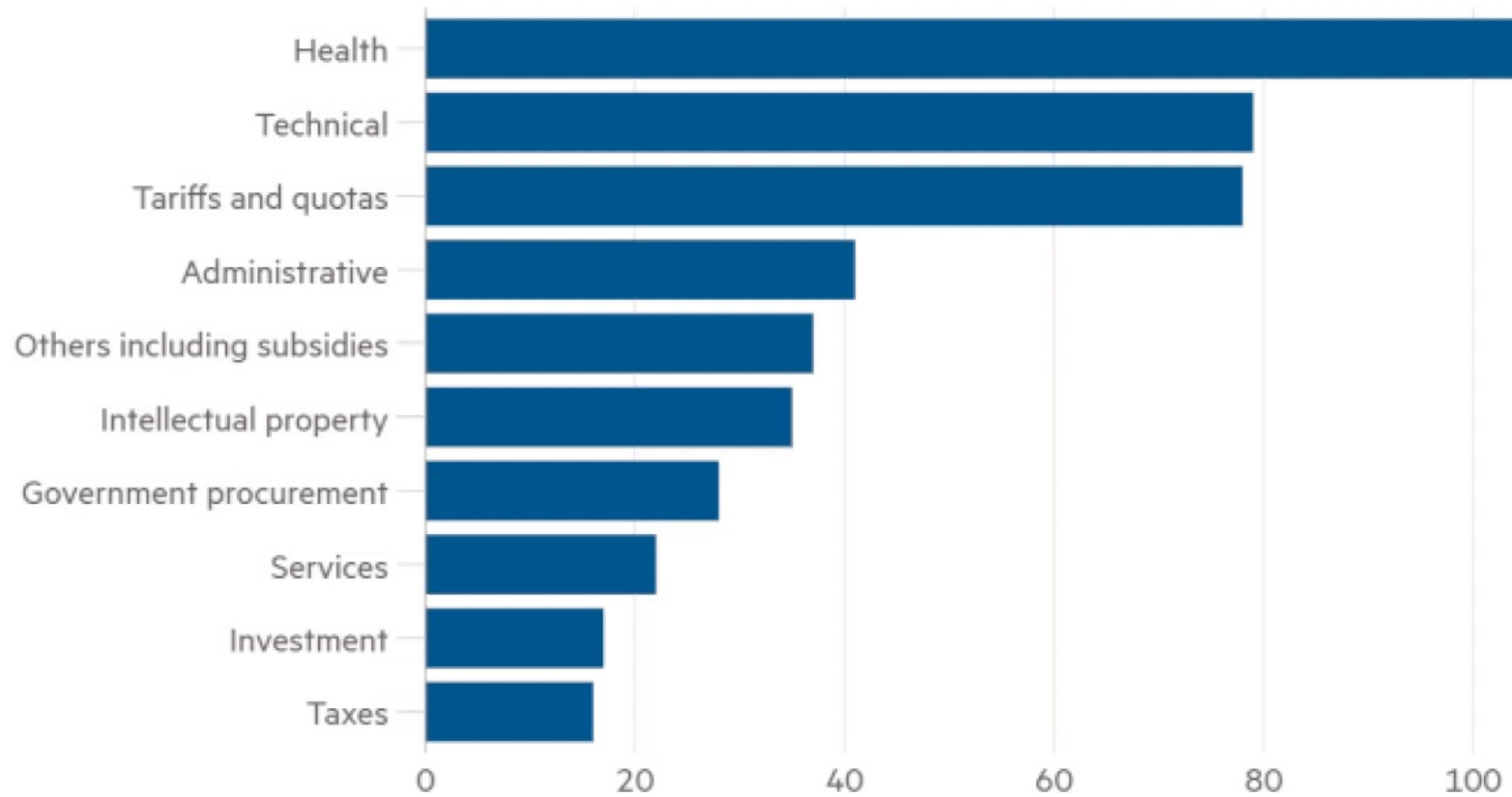
- The EU has trade agreements with many other countries
  - These have all reduced tariffs
  - But the EU is concerned that many tariffs have been replaced by NTBs
- It is dealing with possible FTAs with
  - Chile
  - MERCOSUR
  - Australia
  - Kenya



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## 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 Bounds & Johnston , re EU FTA with Brazil

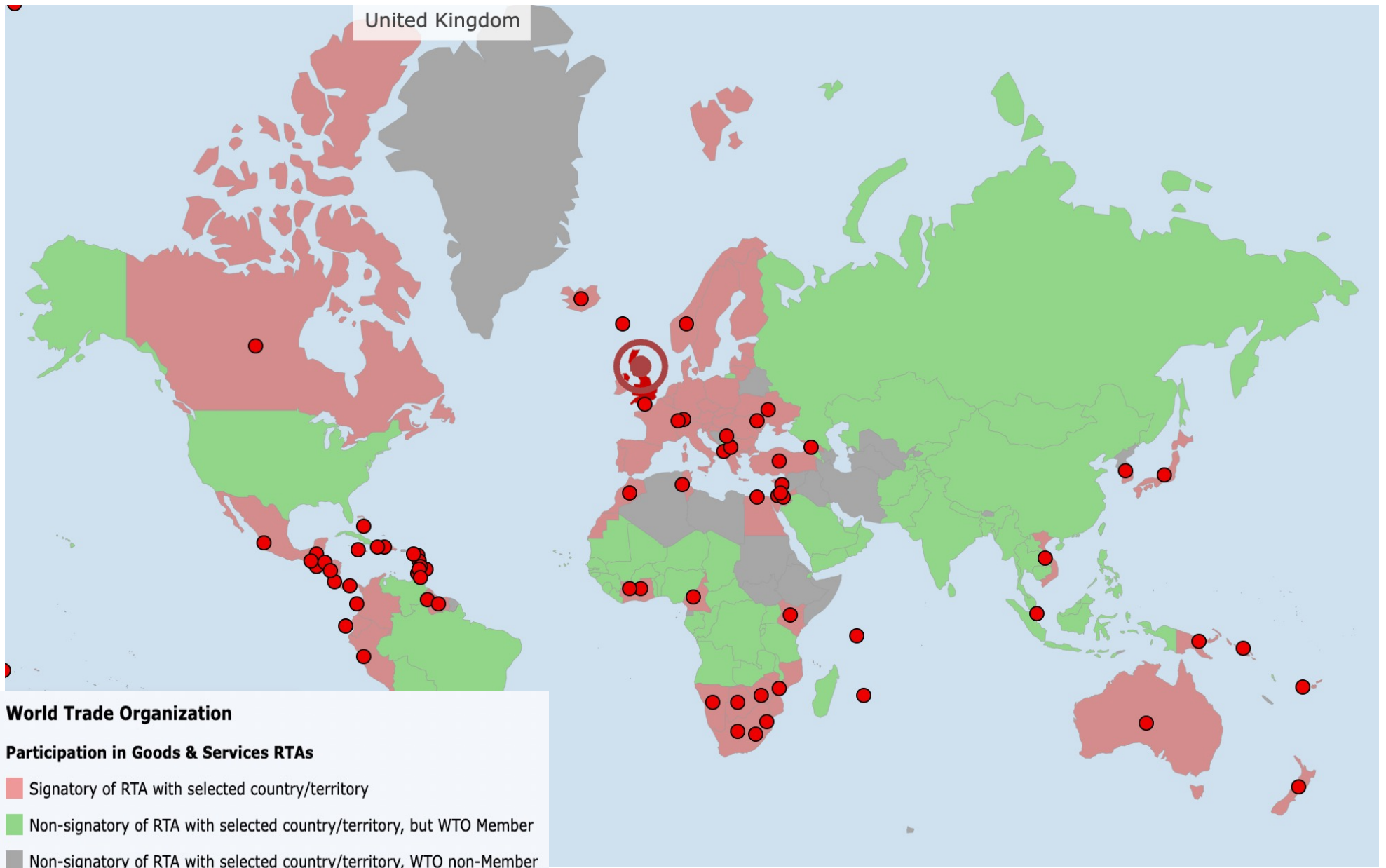
- What is the trade deal that is discussed here?
- Why is Lula refusing to sign?
- When was this agreement provisionally reached, and how long did the negotiations to achieve it take?
- What does China have to do with any of this?

# Questions on Johnston & Bounds, “Australia-EU trade deal stalls ...”

- Why does Australia want an FTA with the EU?
- Why does the EU want an FTA with Australia?
- What is the main issue in the way of agreement?
- What other issues are mentioned as outstanding?

# 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, Aug 23, 2023)



# Pause for Discussion



# Questions on Alim, re UK FTA with Australia

- When was the FTA between UK and Australia signed?
- What does the environmental group claim is wrong with it?
- Is there evidence to support their claim?
- How does the UK government respond?

# Questions on Reed et al., re UK FTA with India

- What is the deal being discussed?
- What is the visa issue?
- What is the issue about automotive and spirits?
- How big is the India economy compared to the UK?
- When might the trade deal be reached?

# 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?

# 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 relations with Taiwan 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 Kerr, “UAE and Ukraine Trade Talks”

- What do these talks hope to achieve?
- Where does UAE stand on the Russia-Ukraine war?
- Does UAE have, or is it pursuing, other such trade deals?

