

PubPol/Econ 541

Class 20

FTAs and Other Trade Deals

by

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University of Michigan

2020

Outline

- FTAs in general
- North America
 - NAFTA
 - USMCA
- Recent efforts and deals
 - Africa
 - EU & other
 - China & other
 - UK & other
 - US & other

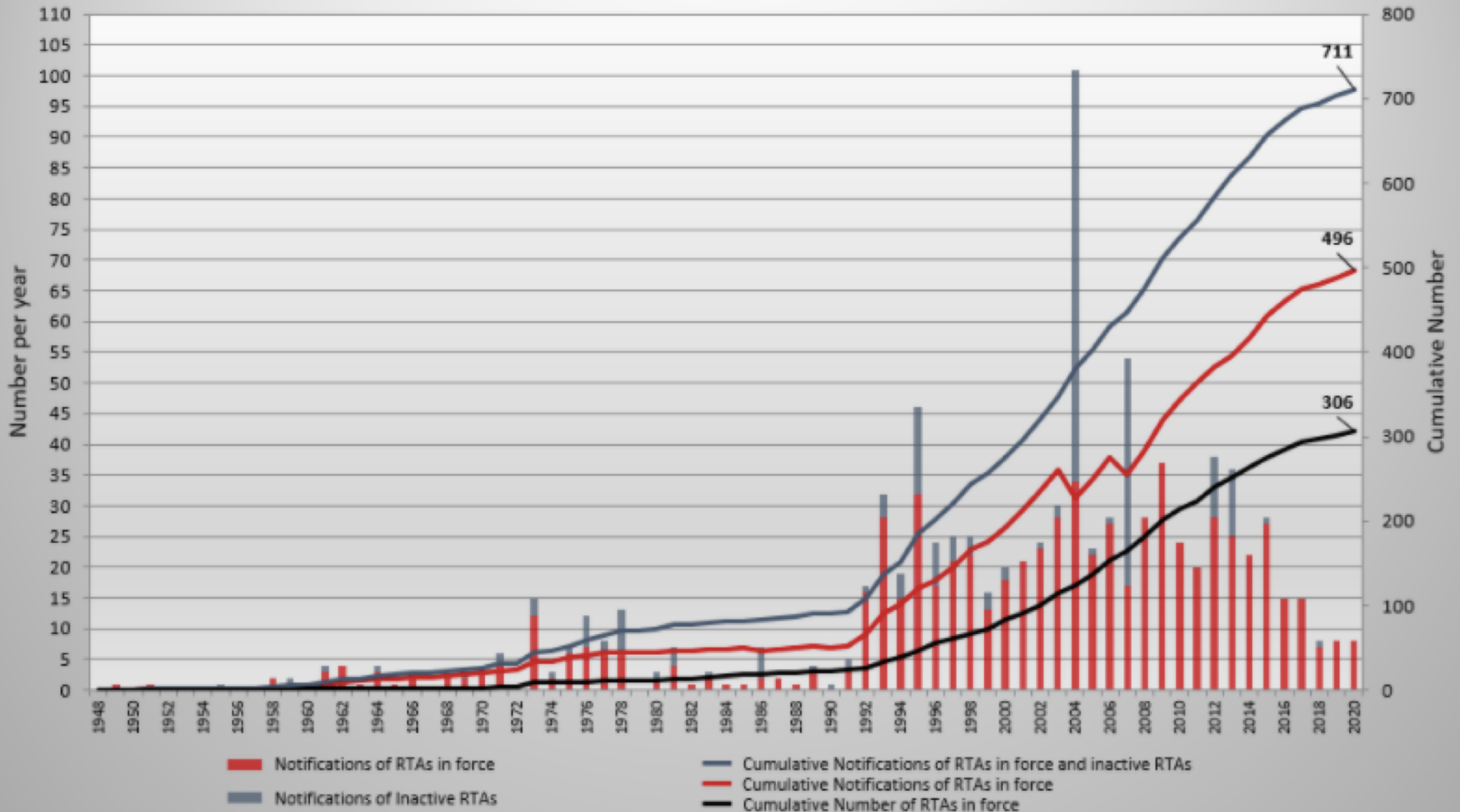
FTAs in General

- 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, 1948-2020



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, September 2020.

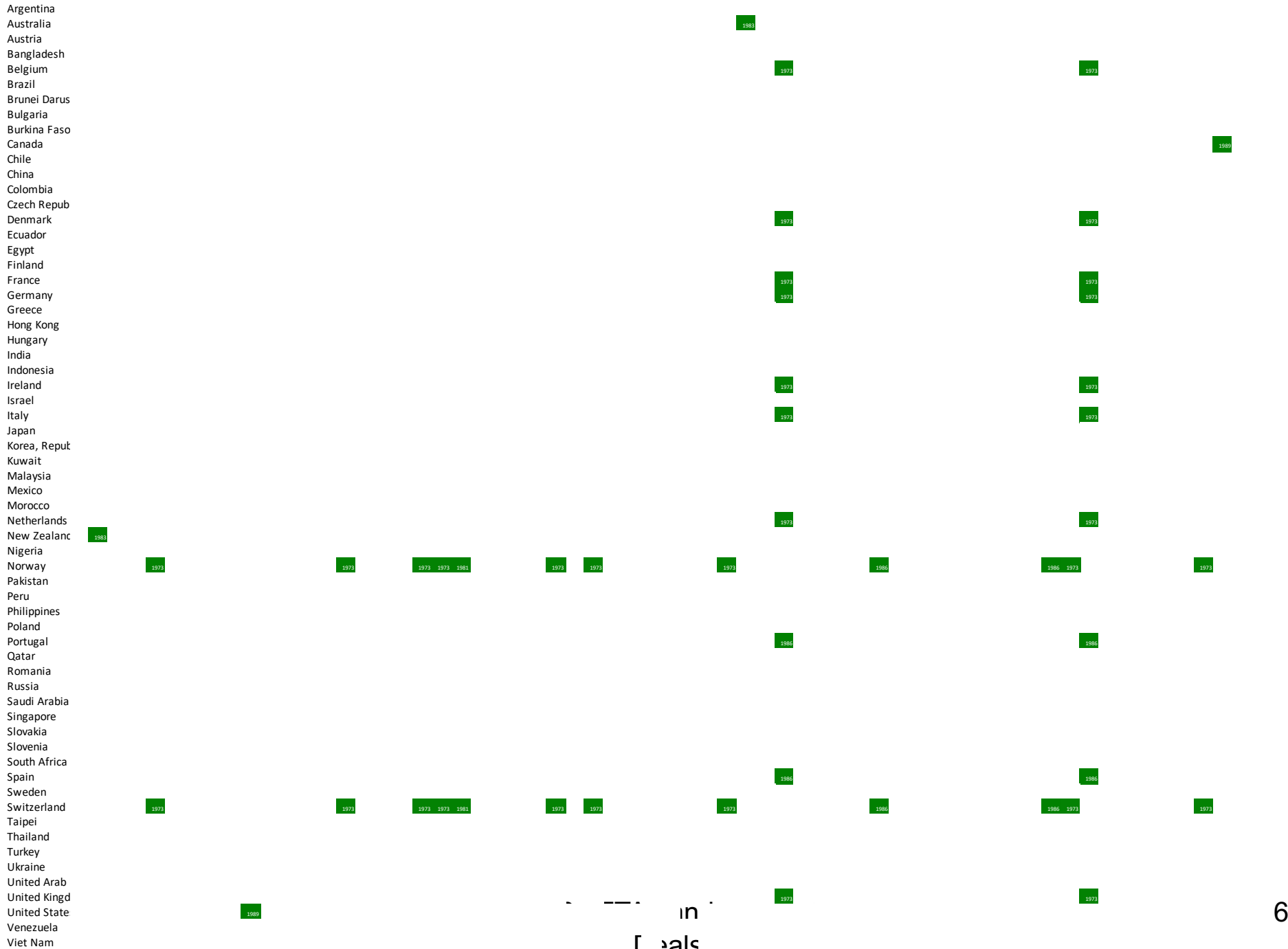
Source: WTO

Class 20: FTAs and Other Trade Deals

Countries connected by FTAs only, as of 1990

1%

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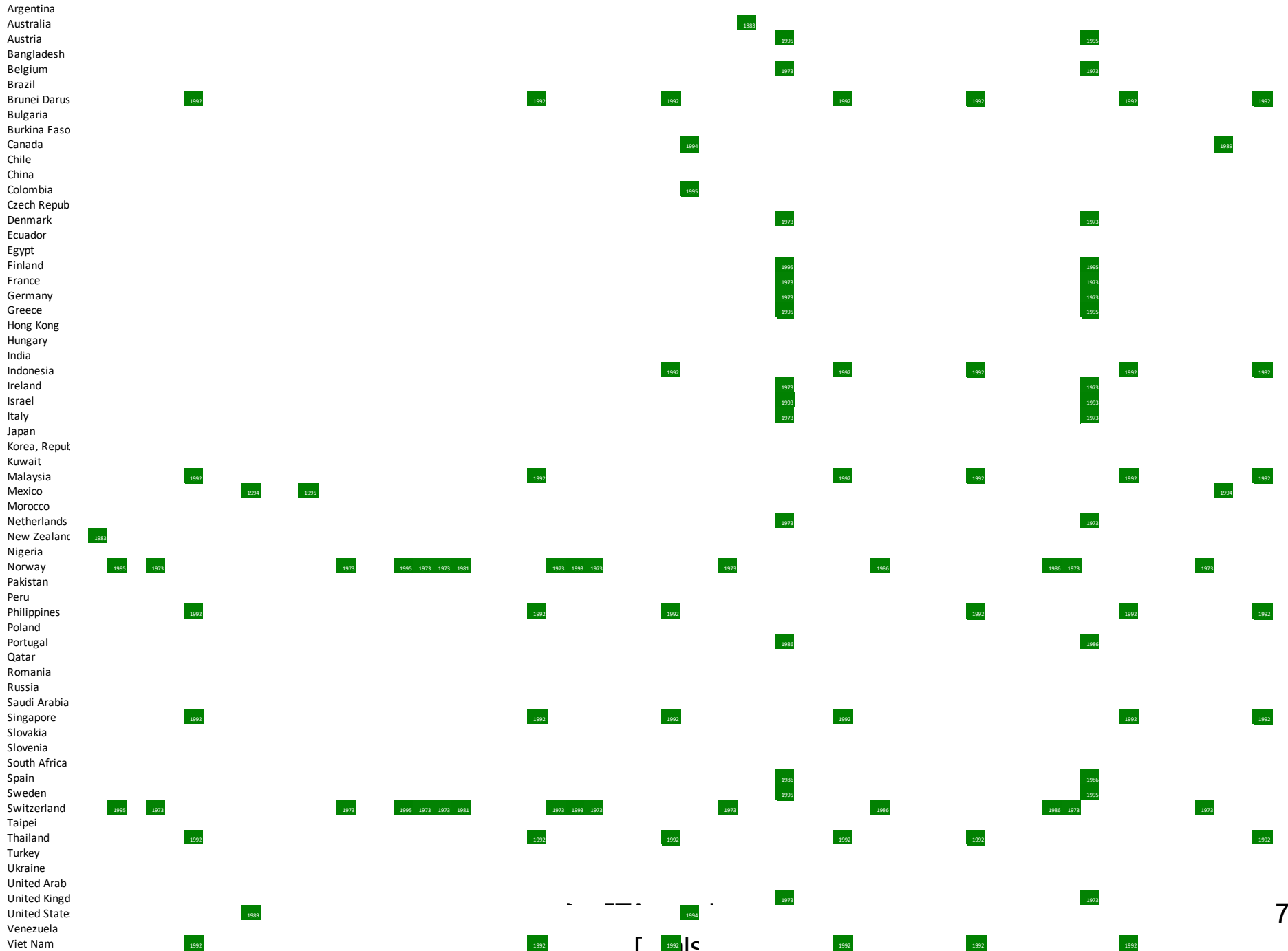


Goals

Countries connected by FTAs only, as of 1995

3%

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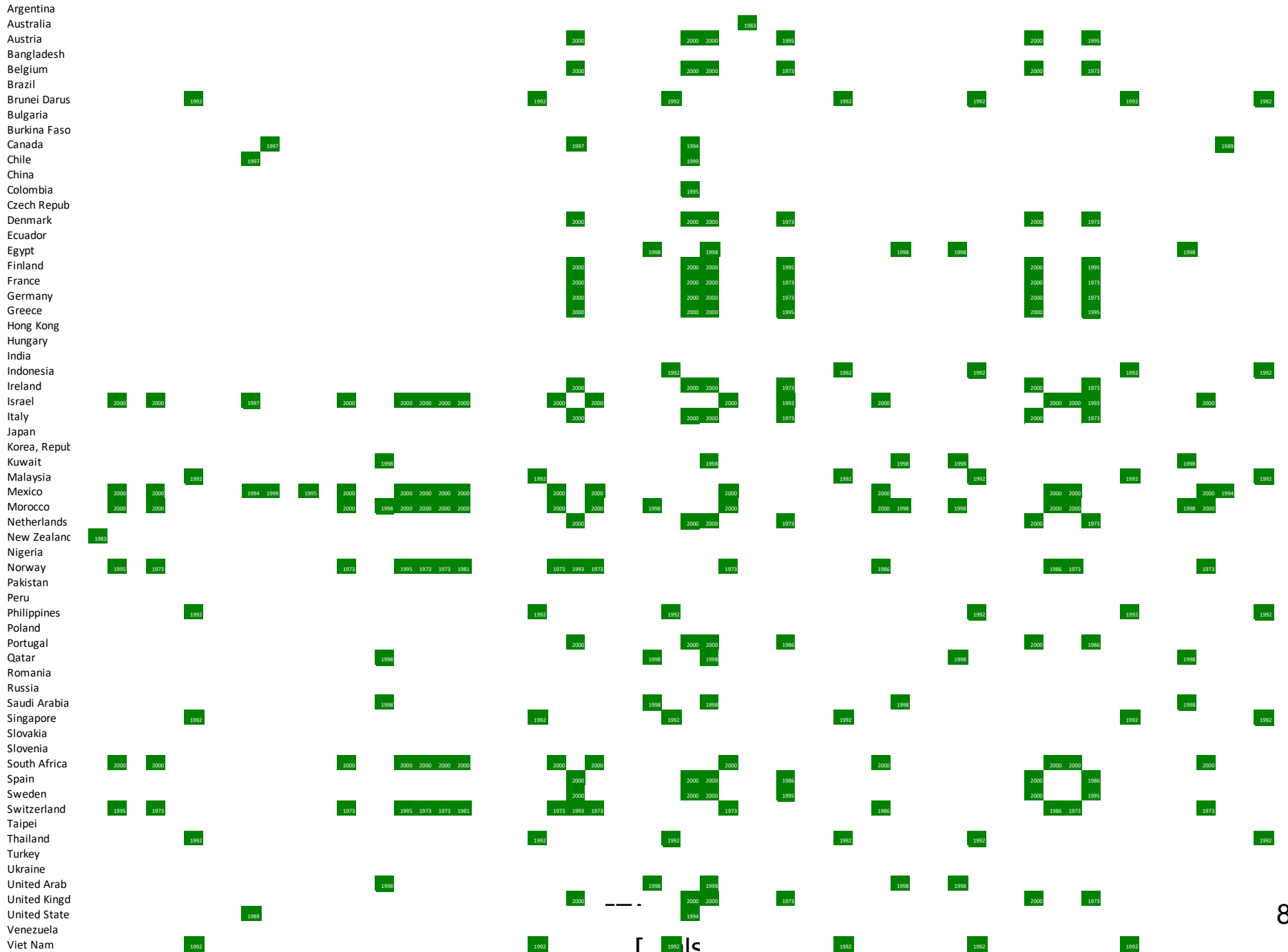
Labels

7

Countries connected by FTAs only, as of 2000

7%

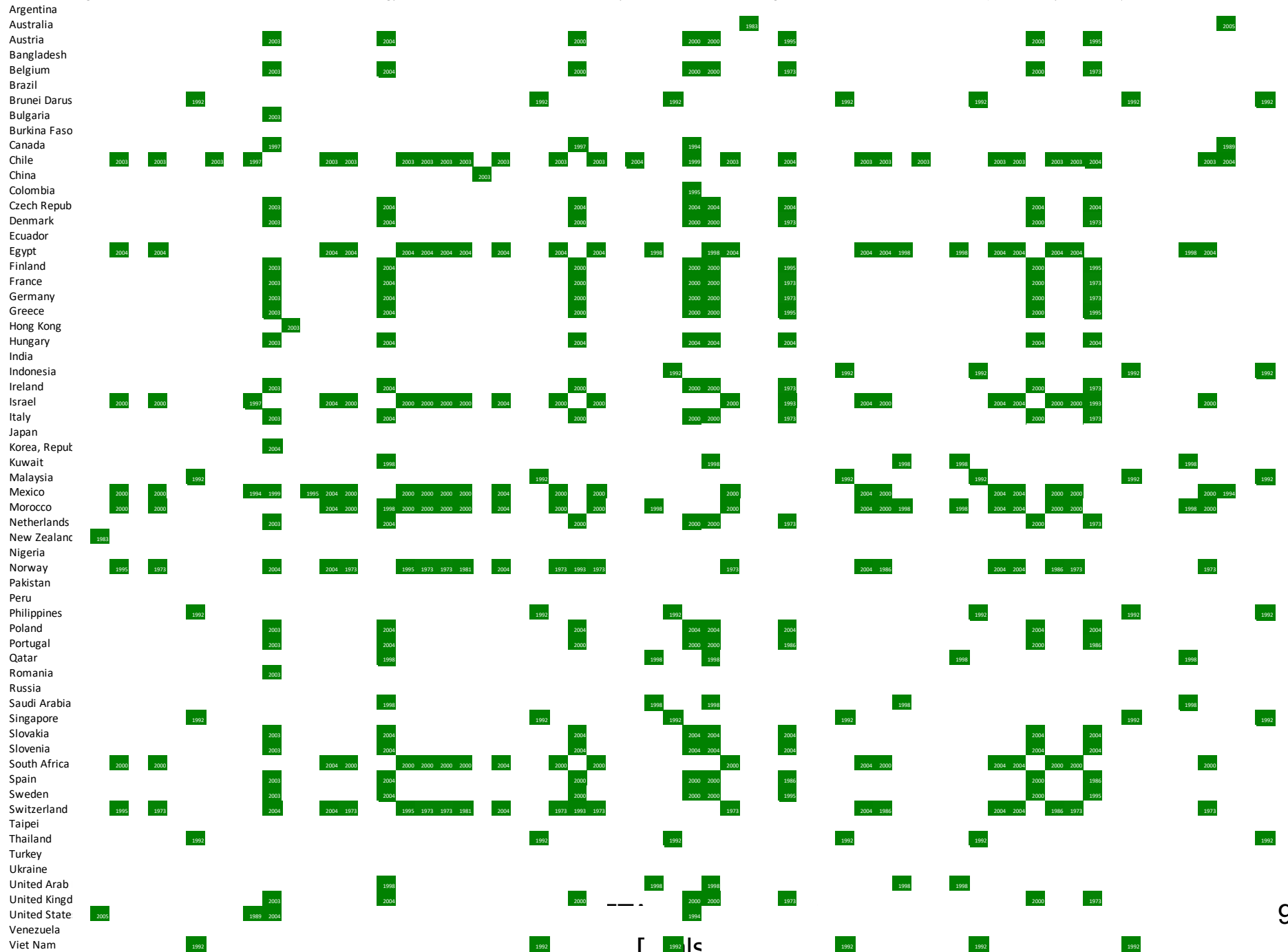
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Countries connected by FTAs only, as of 2005

11%

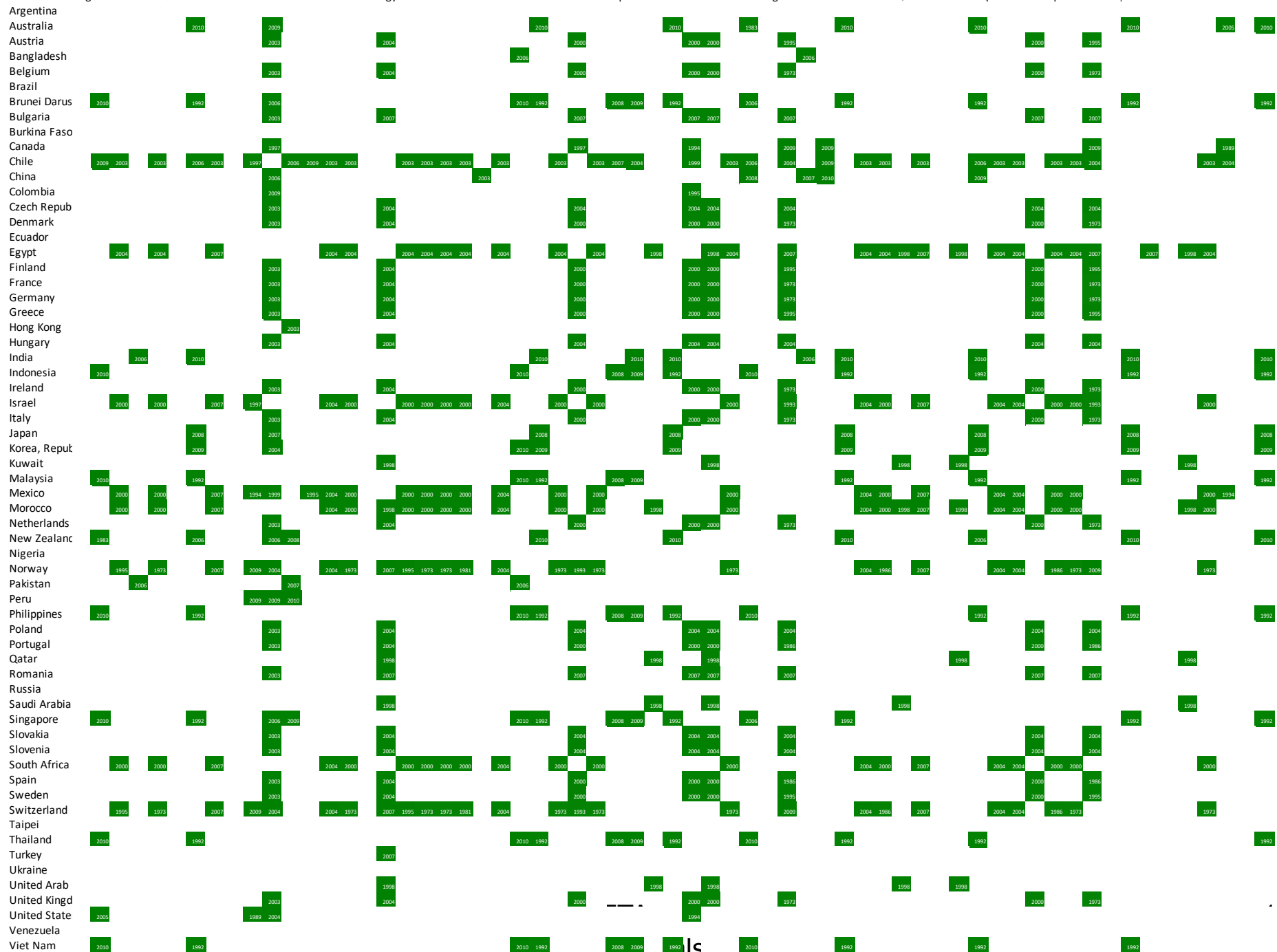
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Countries connected by FTAs only, as of 2010

14%

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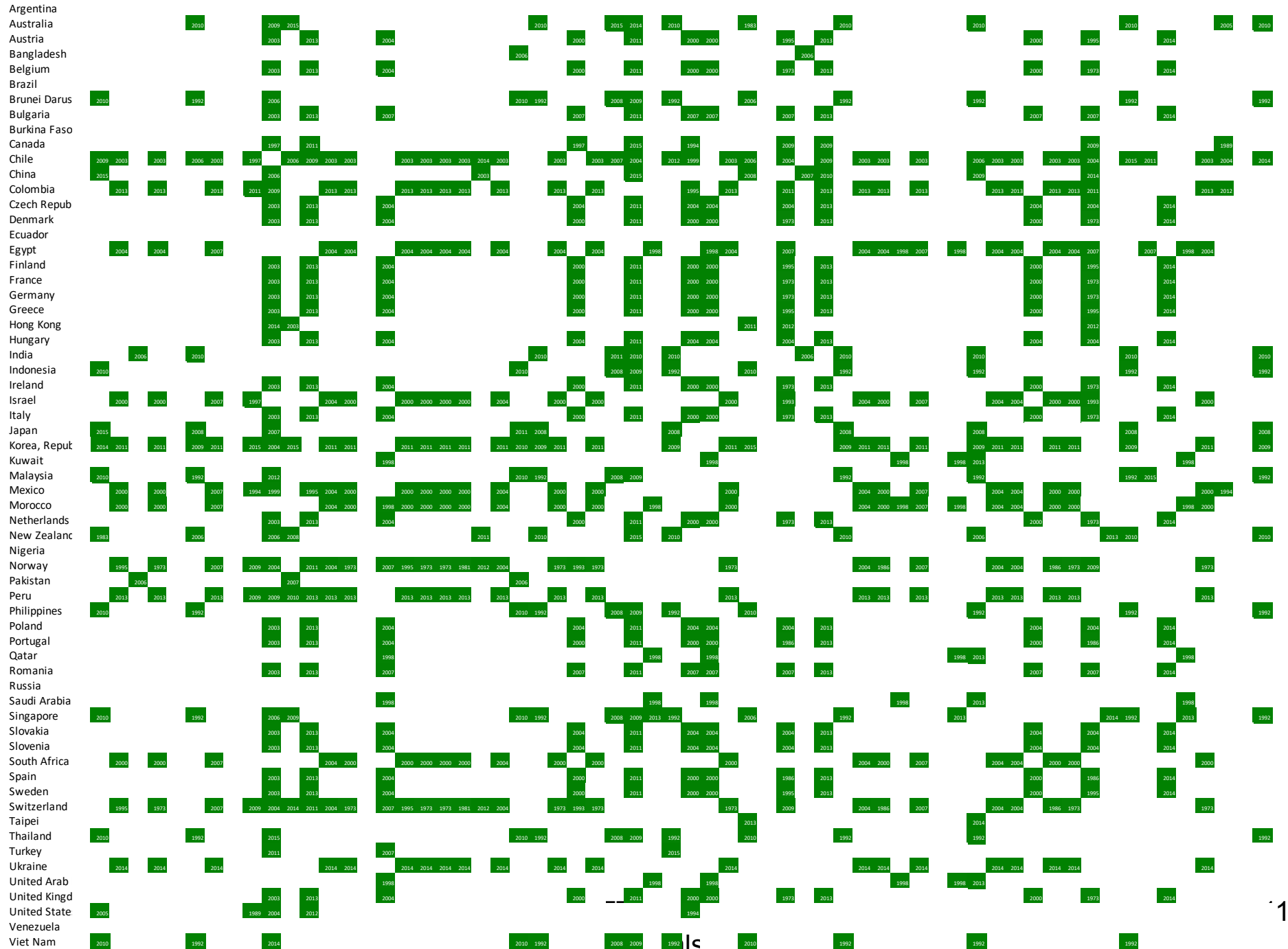


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Countries connected by FTAs only, as of 2015

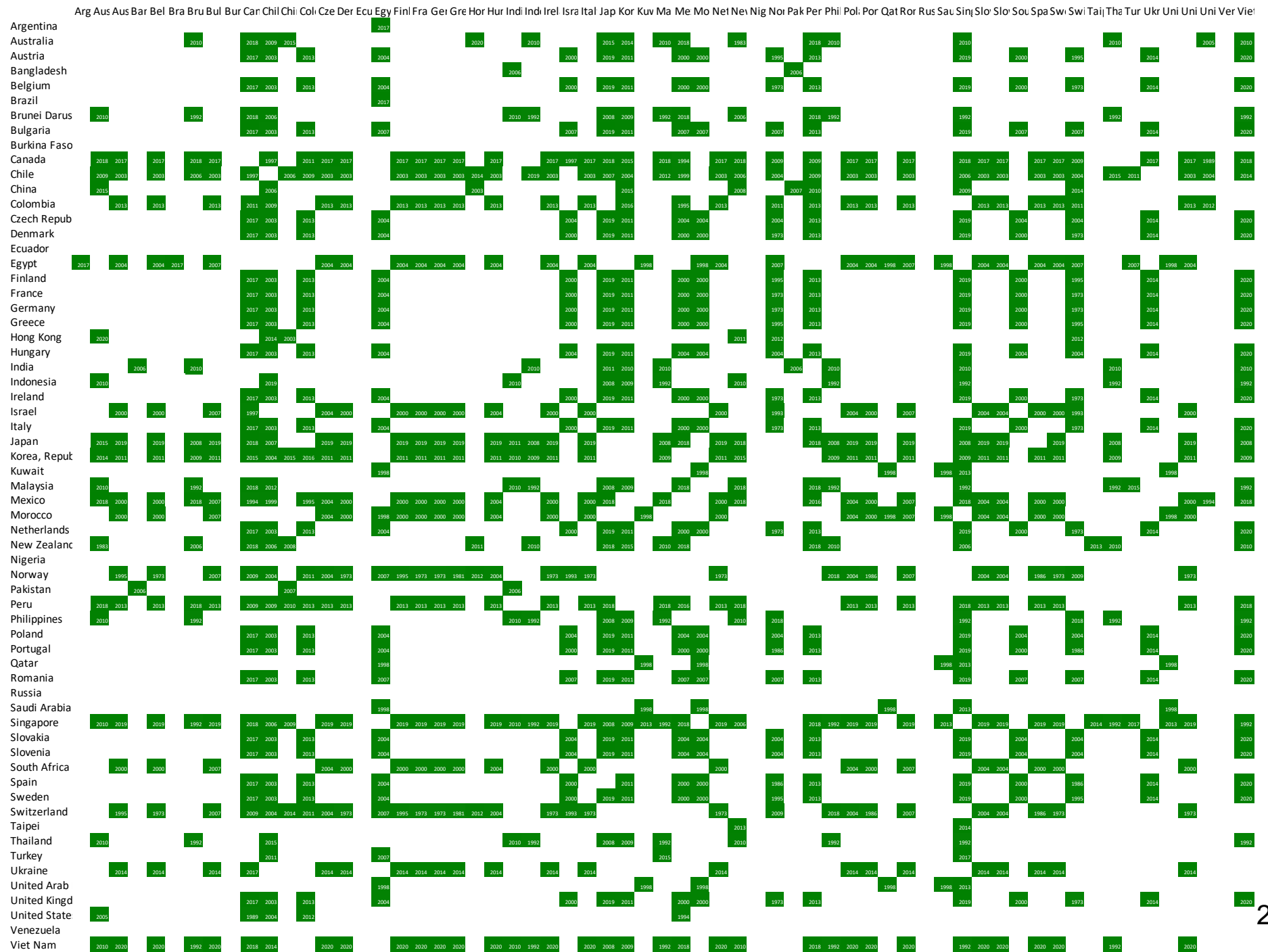
20%

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Countries connected by FTAs only, as of 2020

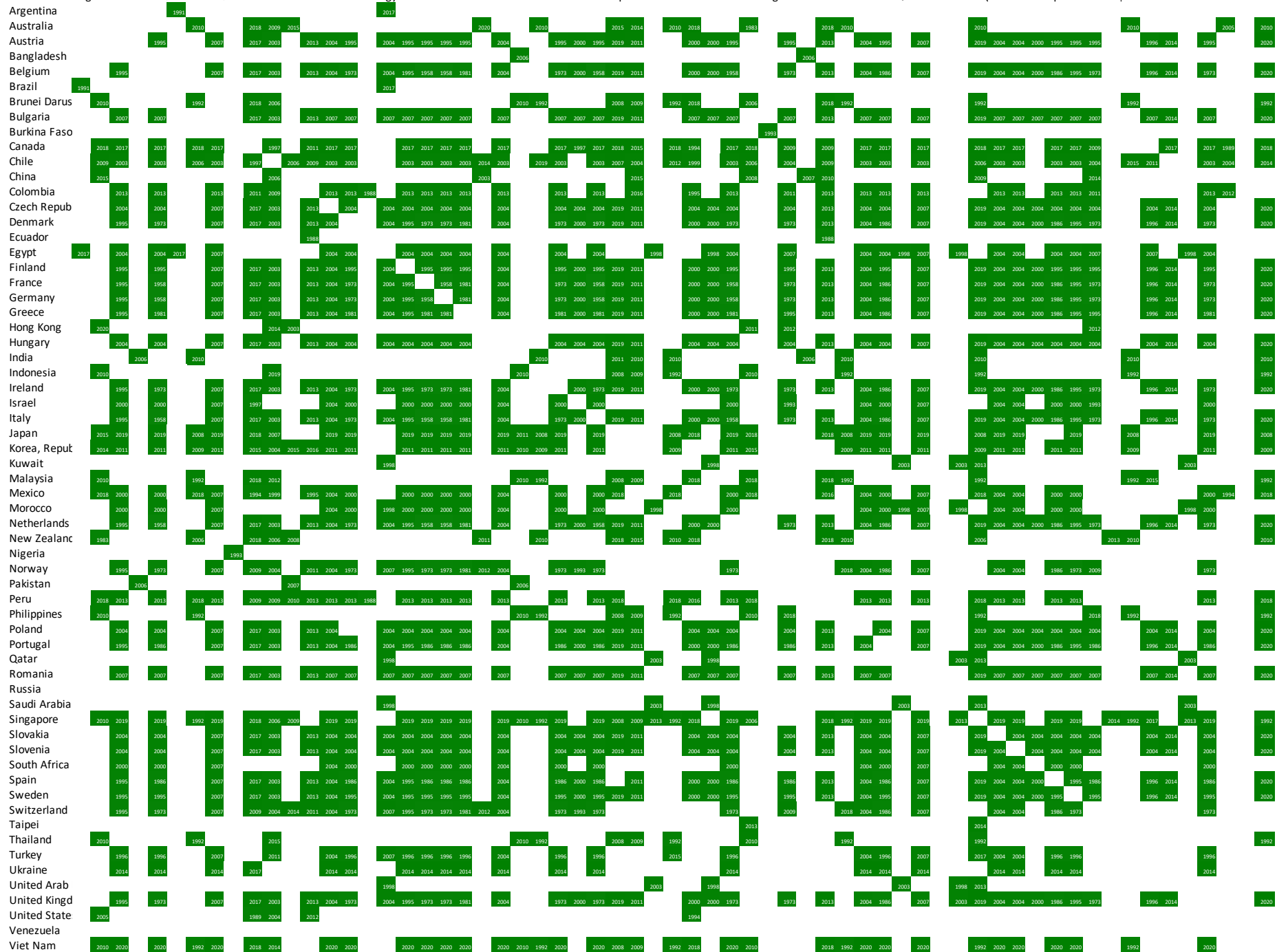
26%



Countries connected by FTAs or CUs as of 2020

38%

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Pause for Discussion

Questions

- Why are ROOs necessary in FTA but not in Customs Union?

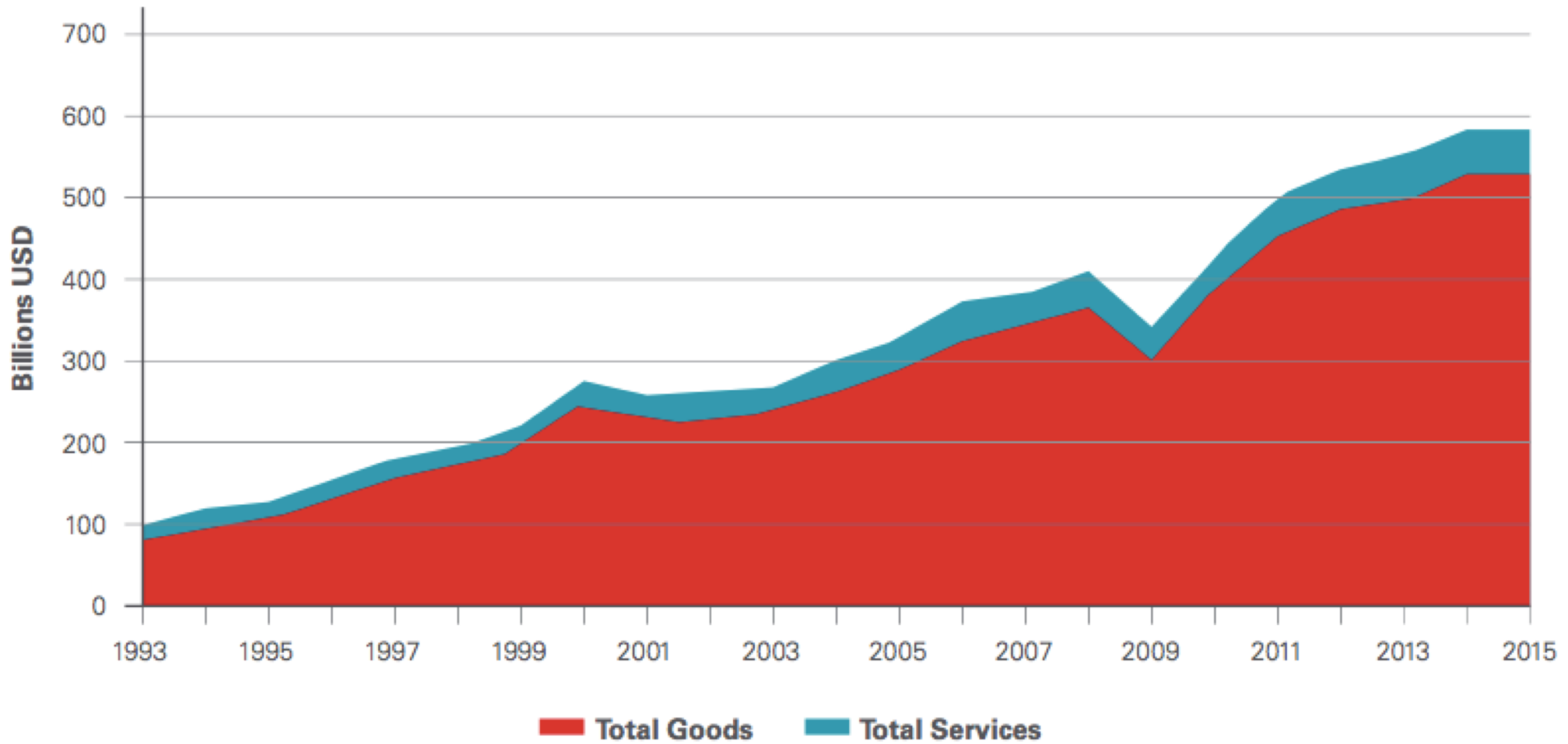
NAFTA

- 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: The 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)

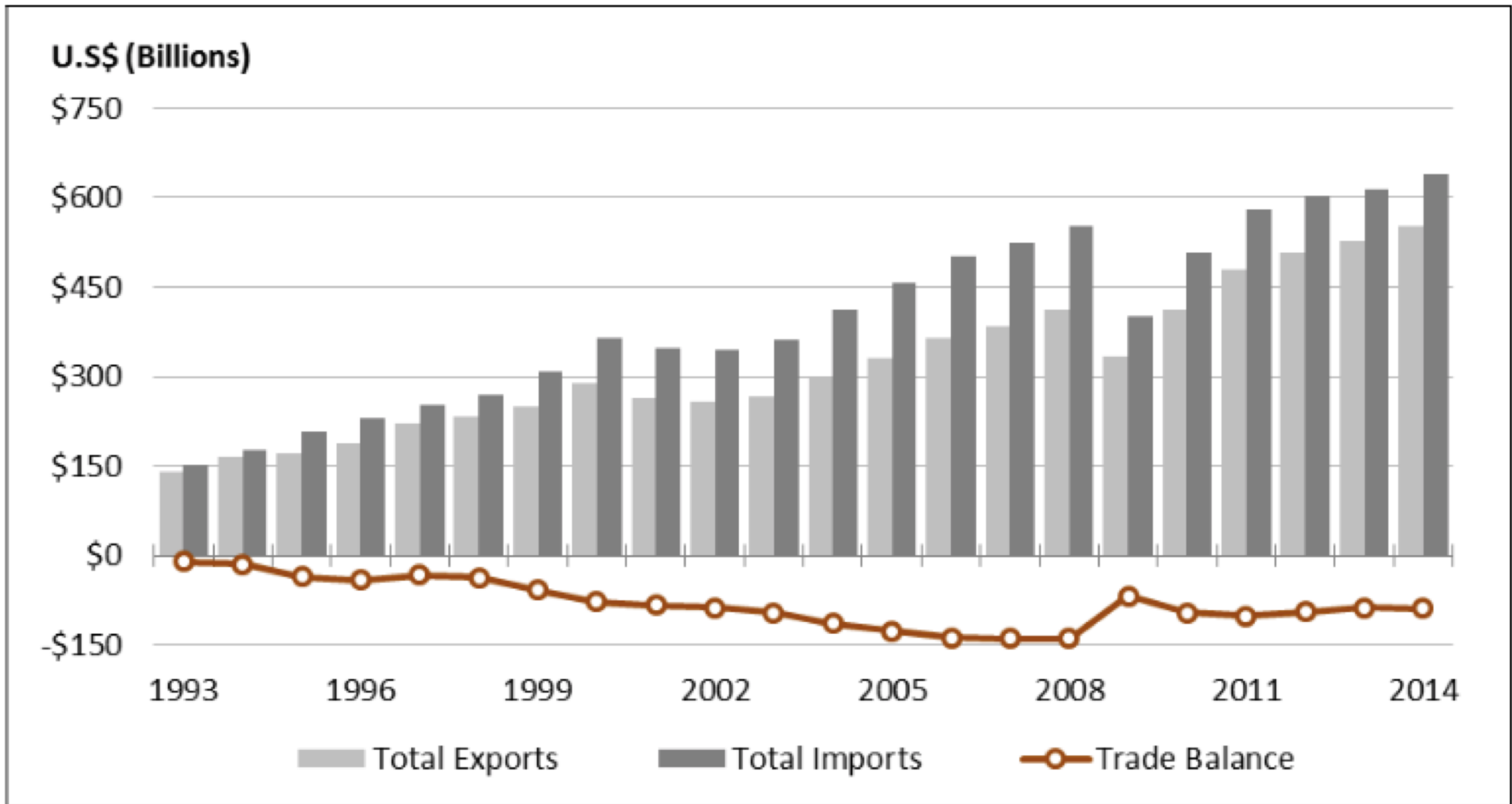
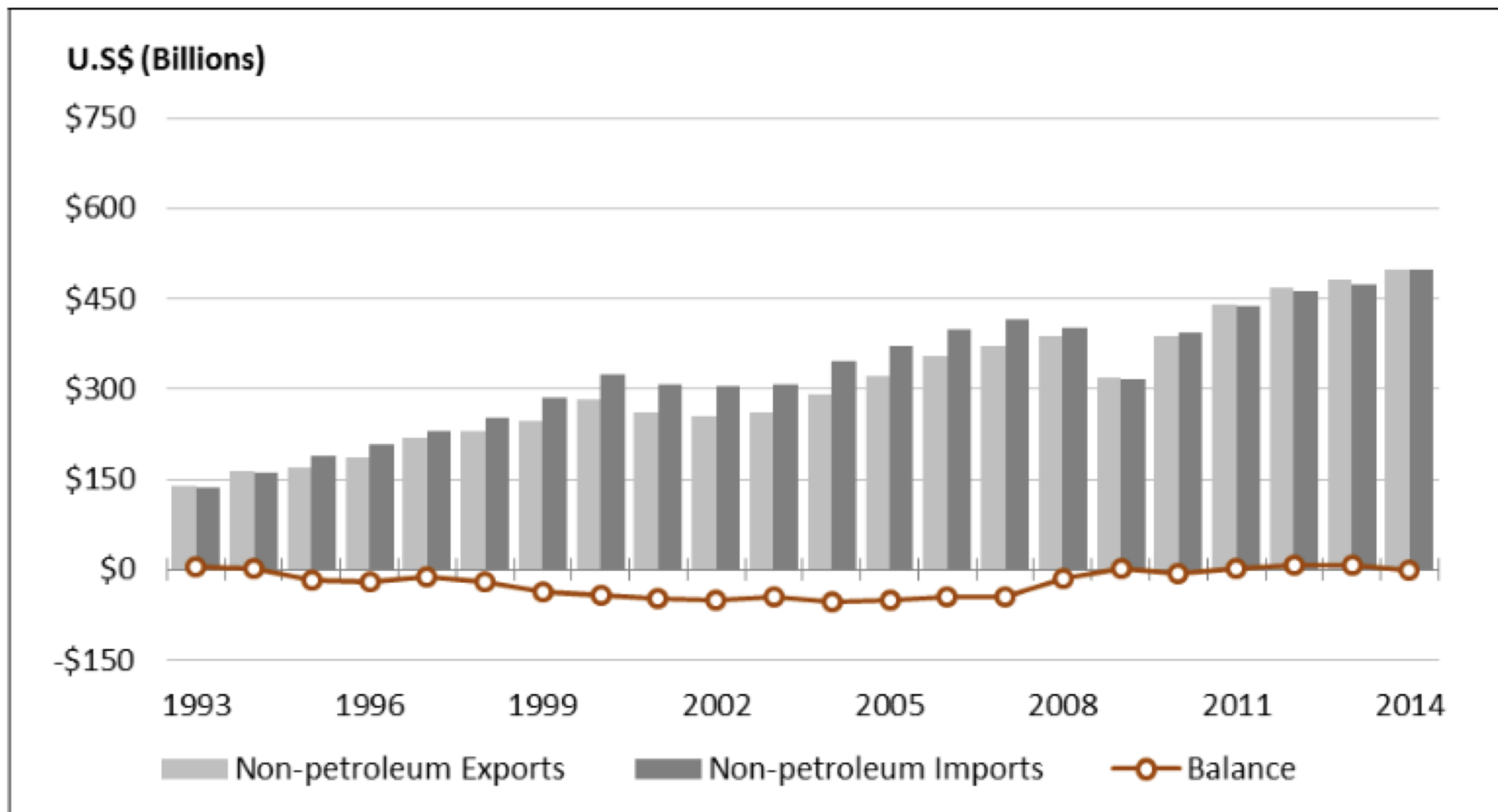
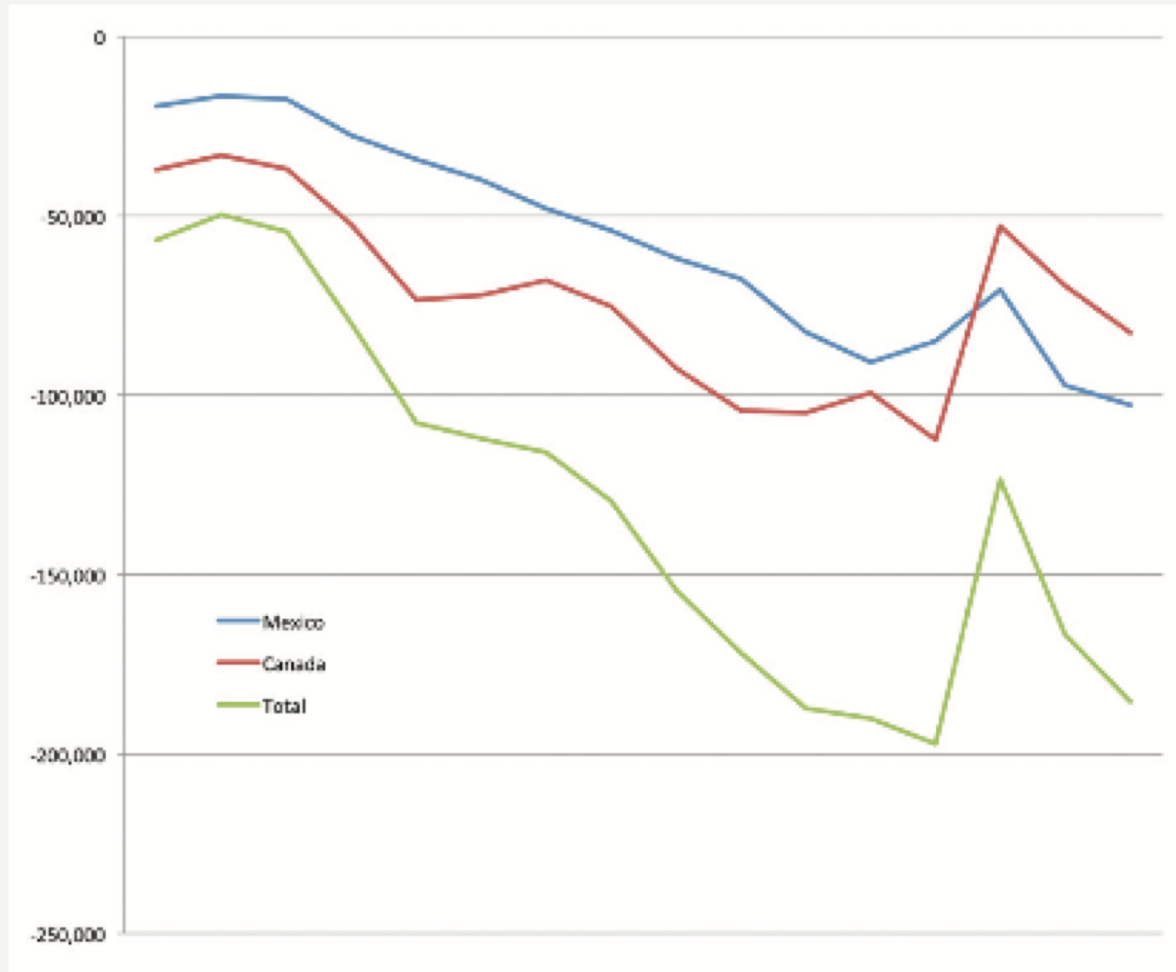


Figure 2. Non-Petroleum Trade with NAFTA Partners: 1993-2014
 (billions of nominal U.S. dollars)



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



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

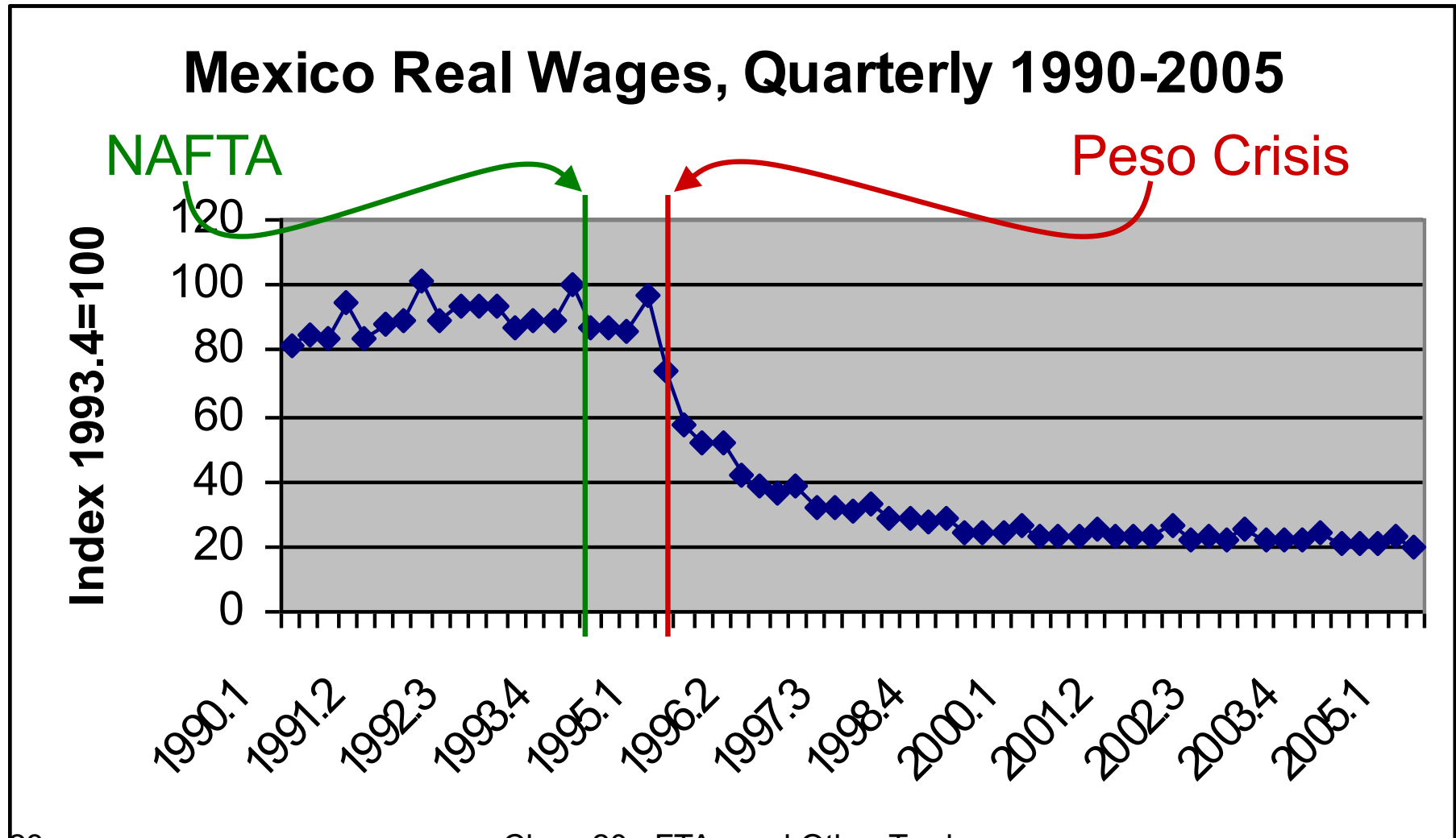
Source:
AFL-CIO,
"NAFTA at
20"

NAFTA Effects

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

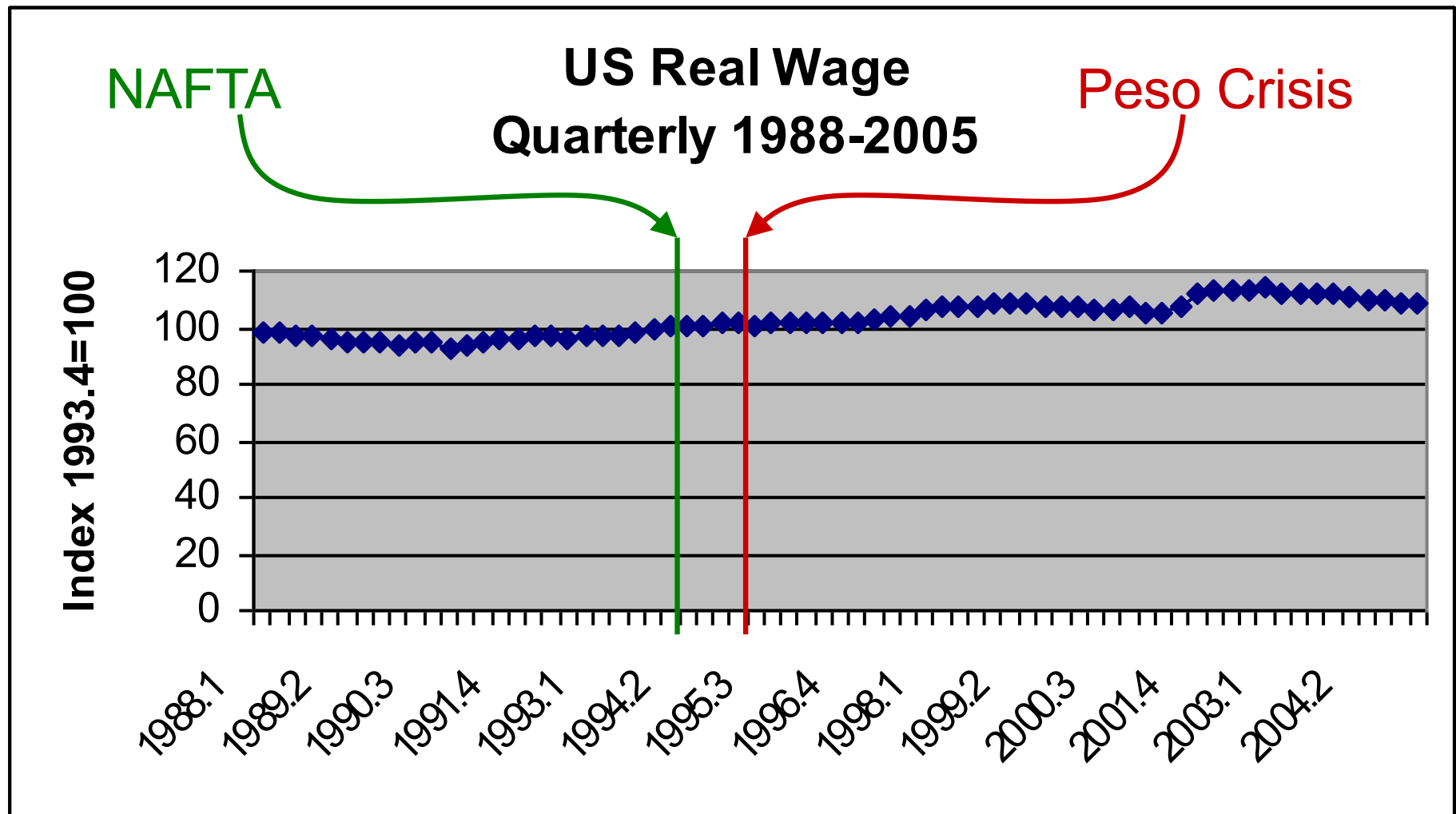
What Happened: Mexico

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)

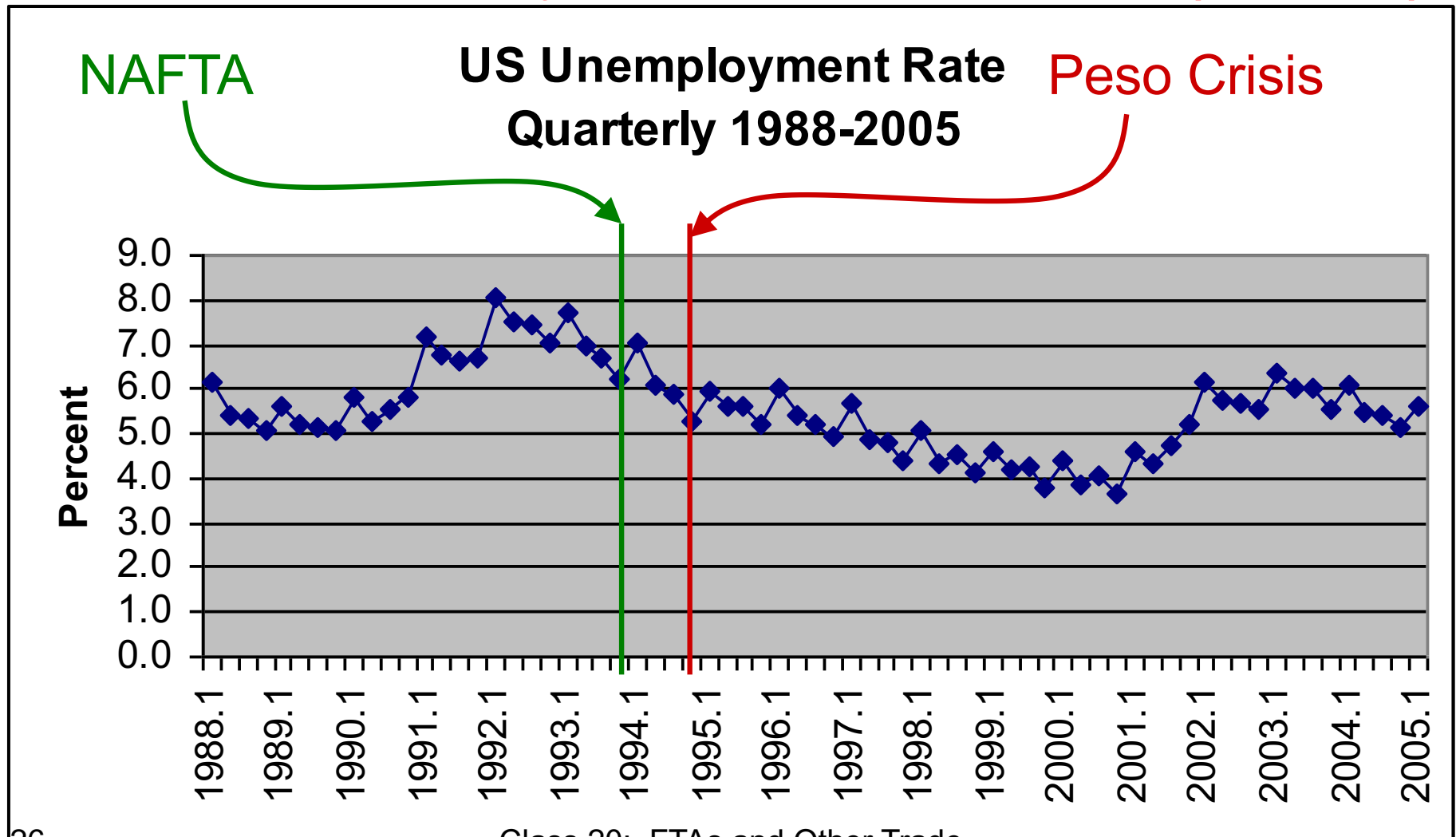


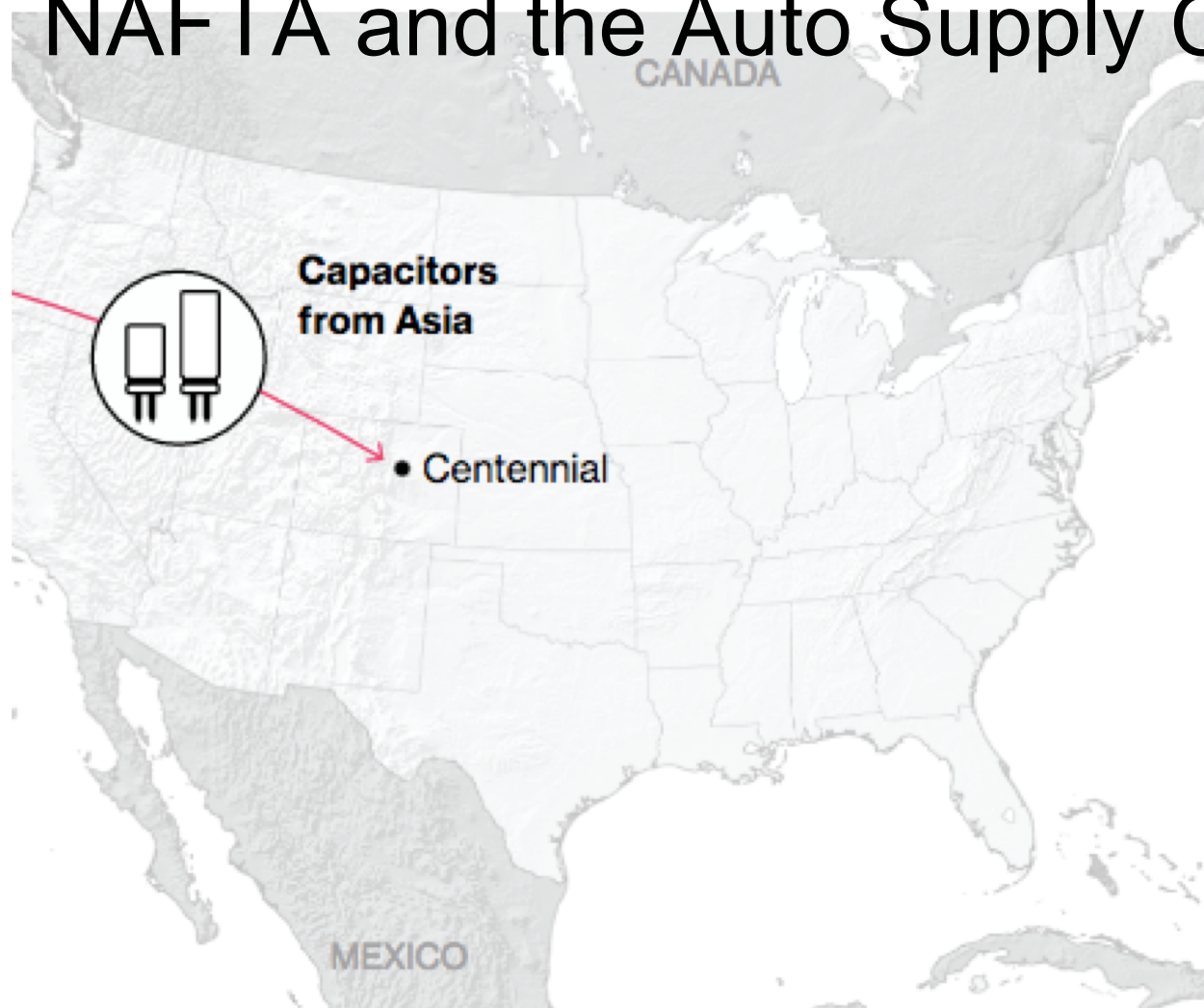
TABLE 3.—MOST AND LEAST VULNERABLE CONSPUMAS, EXCLUDING AGRICULTURE

State	Counties/Cities	$loc\tau_{1990}^c$ (%)
<i>A: Top Ten Most Vulnerable Conspumas</i>		
Georgia	Catoosa, Dade, Walker	4.74
North Carolina	Alamance, Randolph	4.41
South Carolina	Oconee, Pickens	4.24
South Carolina	Including Cherokee, Chester, Chesterfield, Clarendon	3.67
South Carolina	Anderson	3.62
North Carolina	Cabarrus, Rowan	3.54
North Carolina	Alexander, Burke, Caldwell	3.51
South Carolina	Including Abbeville, Edgefield, Fairfield	3.47
North Carolina	Cleveland, McDowell, Polk, Rutherford	3.46
Indiana	Gary	3.32
<i>B: Top Ten Least Vulnerable Conspumas</i>		
D.C.	Washington	0.09
Washington	Kitsap	0.19
Virginia	Arlington	0.21
Maryland	Calvert, Charles, St. Mary's County	0.23
Montana	including Flathead, Lincoln, Missoula, Ravalli	0.27
Maryland	including College Park, Hyattsville, Prince George's	0.28
Virginia	Alexandria	0.29
Montana	Including Big Horn, Blaine, Carter, Chouteau	0.30
South Dakota	Including Aurora, Beadle, Bennett, Brule, Buffalo	0.30
Iowa	Calhoun, Hamilton, Humboldt, Pocahontas, Webster	0.30

NAFTA Effects

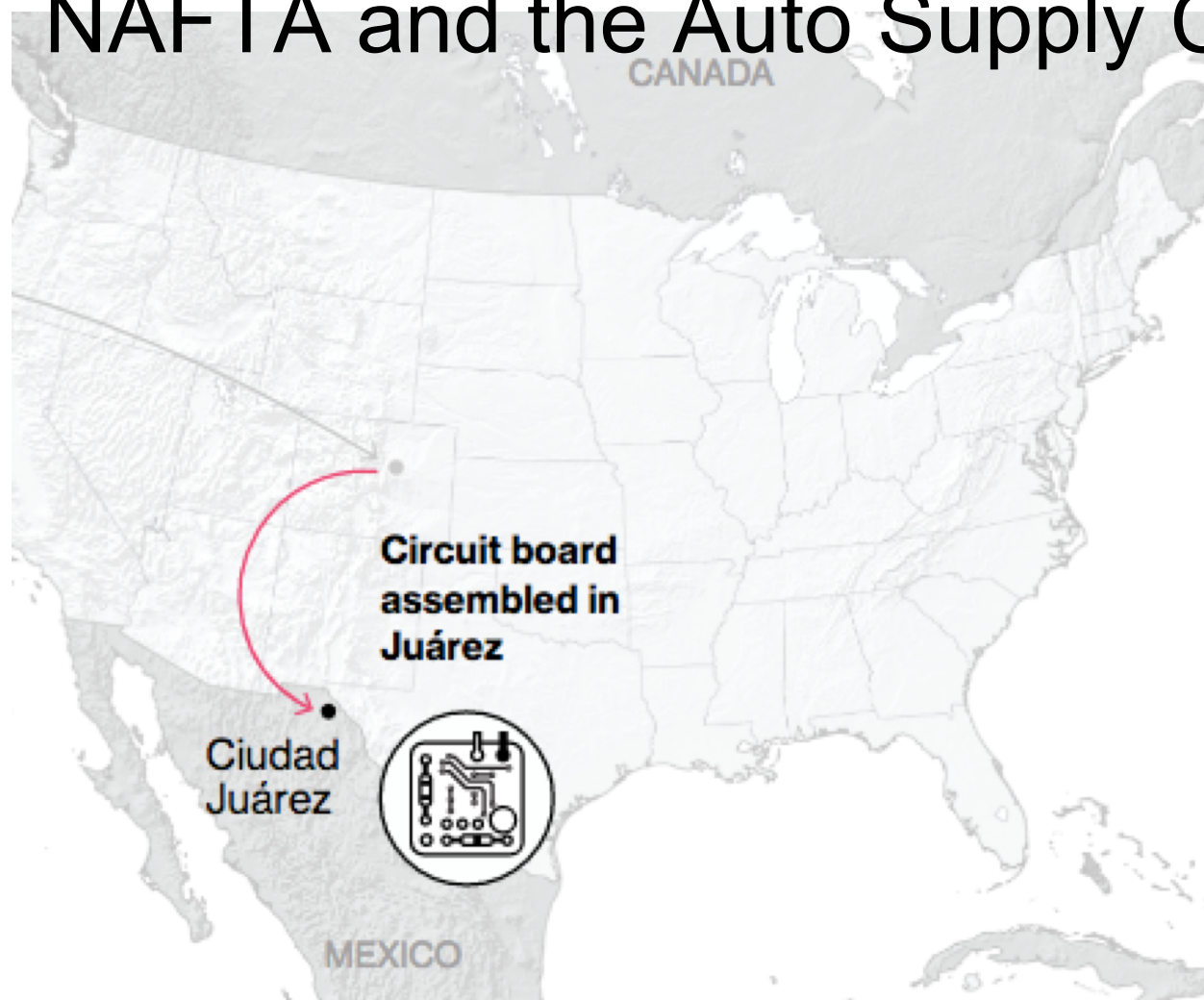
- Supply chains
 - US manufacturing moved inputs to low-cost locations across N. America

NAFTA and the Auto Supply Chain



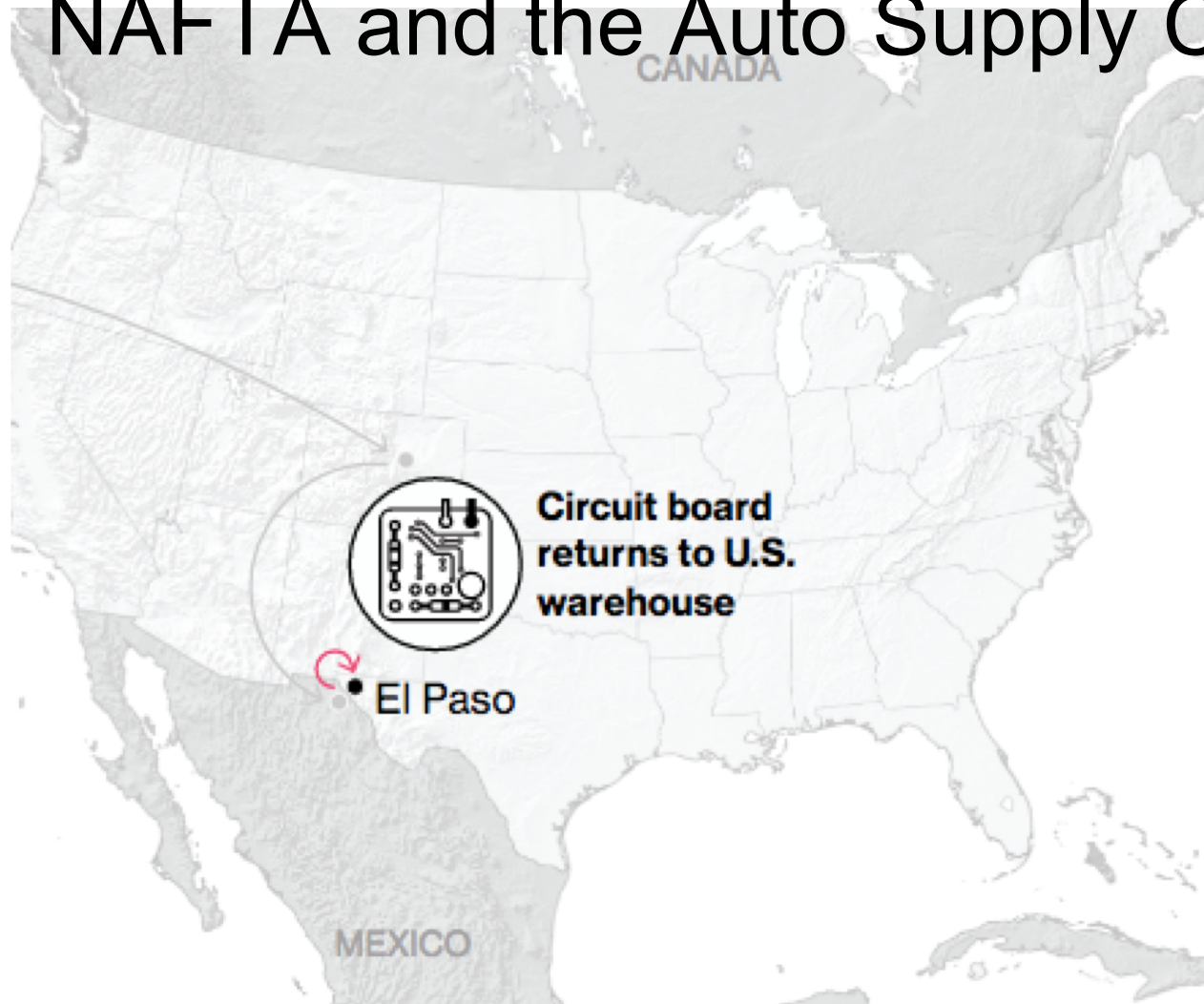
Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

NAFTA and the Auto Supply Chain



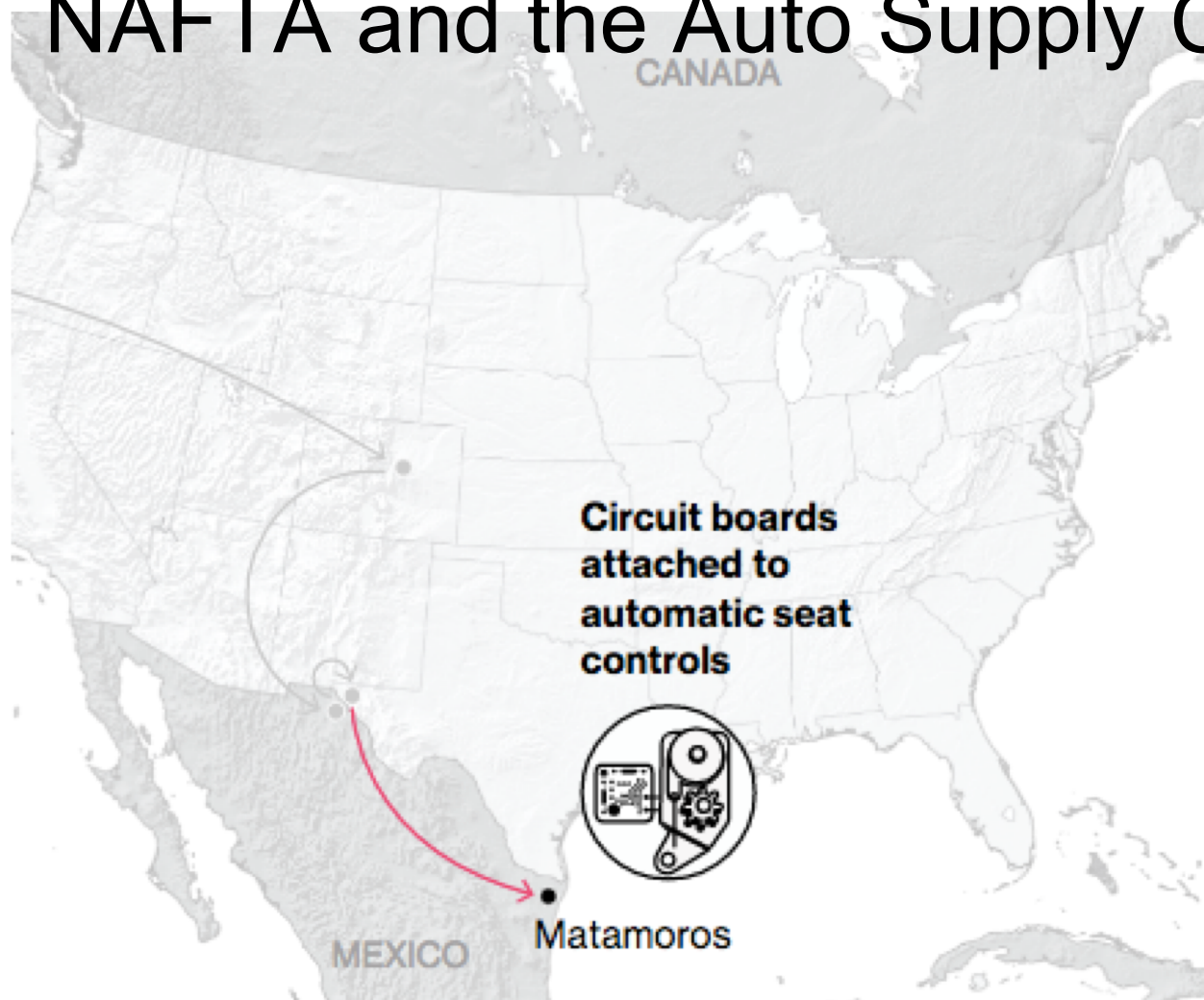
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NAFTA and the Auto Supply Chain



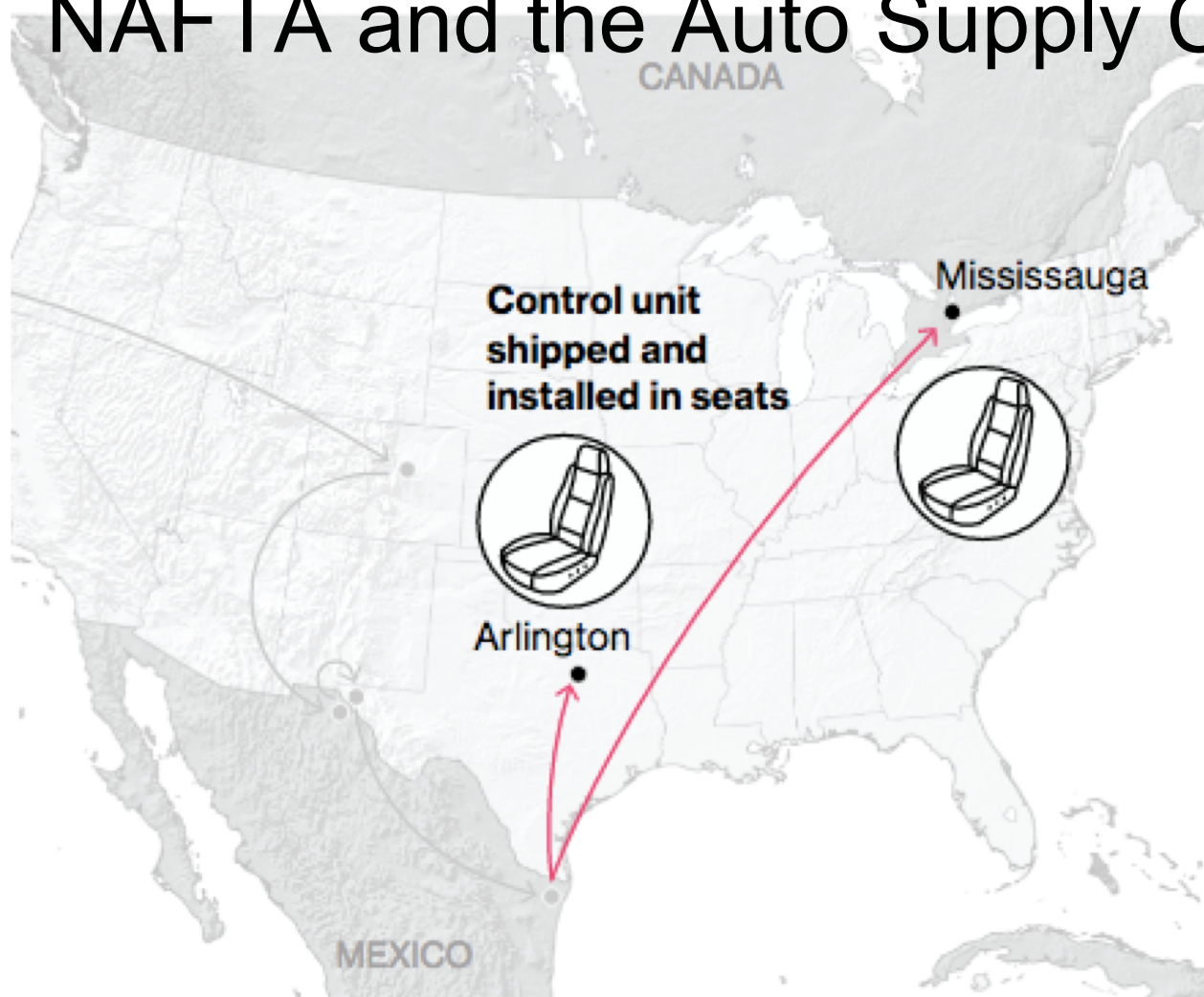
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NAFTA and the Auto Supply Chain



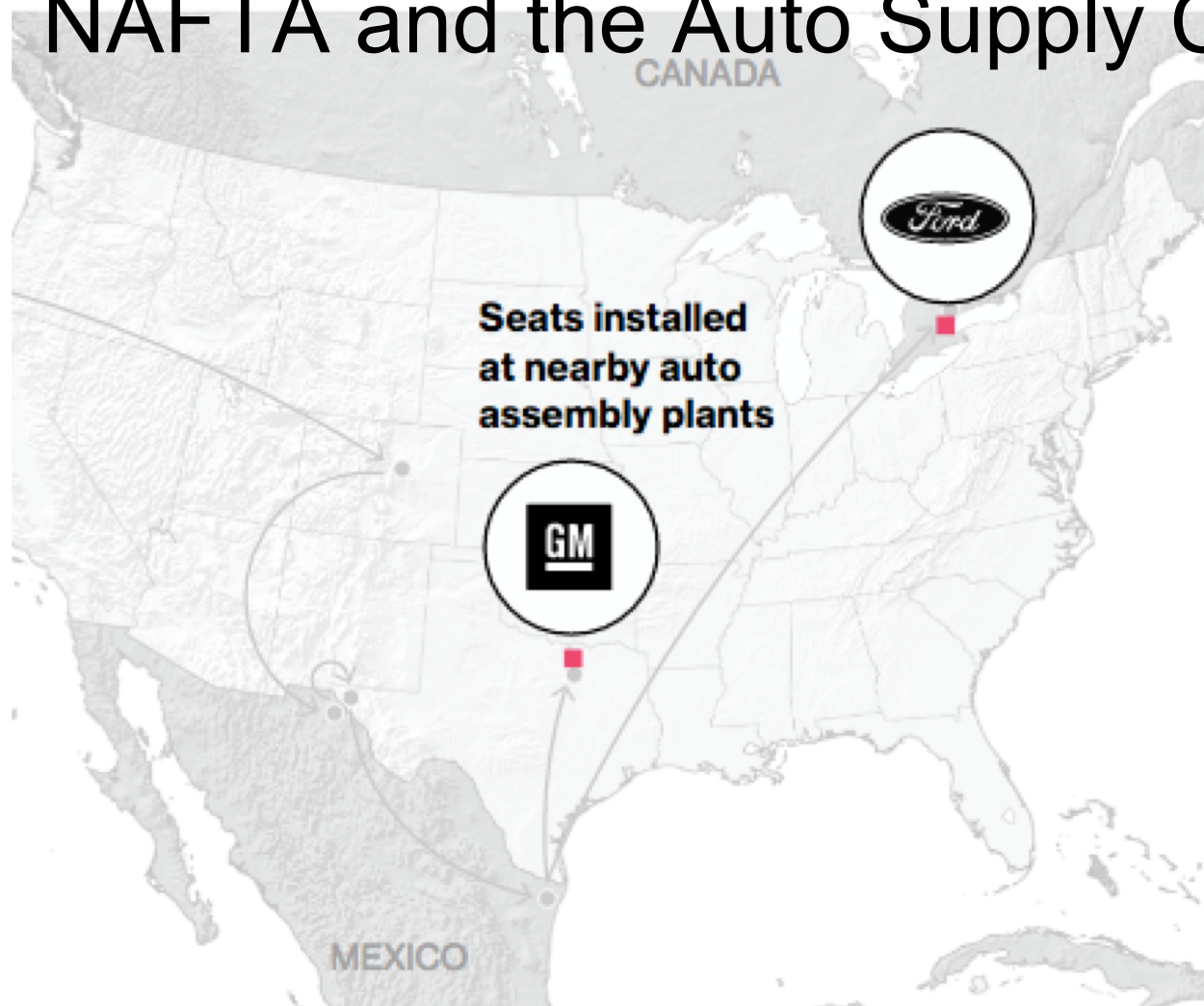
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NAFTA and the Auto Supply Chain



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NAFTA 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 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.”
 - 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 goes 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
- Commitments on labor & IP standards
- “Sunset Clause” Review after 6 years
- Inform US if negotiate with NME (China)
- Commitment not to manipulate currencies

Pause for Discussion

Questions

- 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?
- Is Canada dropping its protectionist policies on dairy?
- Is intellectual property protection being increased or decreased?

Questions on Swanson, “Much Remains Undone”

- USMCA included stronger rules on labor standard, particularly in Mexico. Are these going to be followed immediately?
- Is there any reason why companies might not immediately follow the rules of origin that were included in USMCA?

Questions on Nakayama, “Japanese carmakers ...”

- How are Japanese car companies responding to USMCA rules?
- Can you tell from this what the tariff rate would be if cars made in Mexico don't have 40% of value from high-wage workers?
- What are companies doing to respond to the USMCA rules?
- What will USMCA do to the prices of cars in the US?

Recent FTA News

- Africa
 - AfCFTA: African Continental Free Trade Area
 - Came into force May 2019
 - “Strips away tariffs on 90 per cent of goods”

Pause for Discussion

Questions on AfCFTA

- How many countries does AfCFTA include?
- What reasons are given for trade among the member countries to be smaller than within the EU, NAFTA, etc.?
- What do the countries of Africa currently mostly export, and why is this a problem according to this?

Recent FTA News: EU

- EU and Canada
 - CETA: Comprehensive Economic and Trade Agreement
 - FTA between EU and Canada
 - Implemented 2017
 - Includes “export quotas” for agricultural products
 - Includes MFN clause, relevant for EU-UK FTA

Recent FTA News: EU

- EU and MERCOSUR (CU of Brazil, Argentina, Uruguay, & Paraguay)
 - FTA “sealed” in June 2019, but not yet ratified
 - Ratification was to begin in 2020
 - Advantages expected:
 - Access to Brazil for EU industrial goods and wine
 - Access to EU for South American beef, poultry, and sugar
 - Problems with ratification include:
 - “decision to allow sugarcane cultivation in the Amazon region.”

Recent FTA News: EU

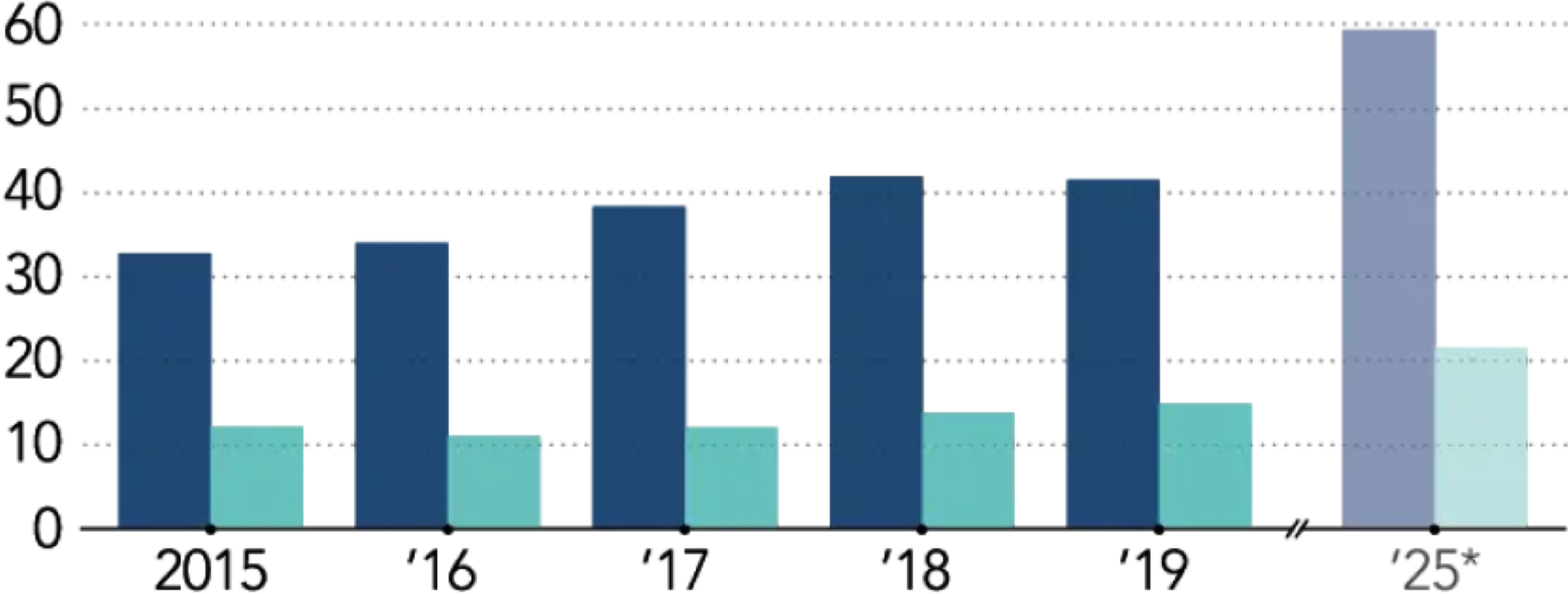
- EU and Mexico
 - EU & Mexico had FTA from 2001. This is to replace it.
 - Features:
 - Duty-free trade in almost all goods
 - Measures to fight corruption and money laundering
 - Investment protection,
 - Sustainable development
 - Simpler customs rules to boost exports.

Recent FTA News: EU

- EU and Vietnam
 - EVFTA: EU-Vietnam Free Trade Agreement
 - Approved in Vietnam June 8, 2020
 - Features
 - Zero tariffs immediately on 65-71% of trade
 - 99% of other tariffs phased out over 7-10 years
 - Trade is mostly textiles and apparel to EU, aircraft and cars to Vietnam
 - Models predict Vietnam growth by 2030 of 2.4% in GDP and 12% in exports

Vietnam's trade with the EU *(In billions of dollars)*

■ Exports ■ Imports



*Forecast

Source: Vietnam official data

Pause for Discussion

Questions on CETA

- When was Ceta implemented, and when did it go fully into effect? Why?
- Which sectors have taken most advantage of Ceta in Canada, which have not, and why?
- Does Ceta remove all trade barriers between Canada and the EU?
- What is the importance of the “most-favoured nation clause” in Ceta?

Questions on EU-MERCOSUR

- Why is Brazil's change of sugar policy opposed by the EU?
- How is the EU able to use so much sugar from Brazil?
- What is the "soy moratorium"?

Questions on EU-Mexico

- Is this new agreement in effect now?
- Does it remove all tariffs?
- What features are mentioned that are apparently new?

Questions on EVFTA

- Was EVFTA controversial?
- What is the main product that Vietnam exports to the EU? Will this have zero tariff immediately?
- How is trade between Vietnam and the UK affected?

Recent FTA News: China

- RCEP
 - RCEP: Regional Comprehensive Economic Partnership
 - Large FTA being negotiated since 2013 by
 - ASEAN 10 countries plus 5: China, Japan, South Korea, Australia and New Zealand
 - India also, until it recently dropped out
 - "Bulk of negotiations" done last November
 - Hope to finish by end of 2020

Recent FTA News: China

- China and Iran (reading optional)
 - Iran and China are believed to have reached agreement on an “economic and security partnership”
 - Agreement covers
 - Chinese operations in Iran in “banking, telecommunications, ports, railways and dozens of other projects”
 - Discounted supplies of oil over the next 25 years.
 - Military cooperation

Pause for Discussion

Questions on RCEP

- When did negotiations for RCEP begin, and when are they expected to conclude?
- Is RCEP to be just an FTA?

Recent FTA News: UK

- UK couldn't do deals while still in EU, since it's a customs union
- What is hard to do in new FTAs?
 - Tariffs? No
 - Rules & regulations? Yes, much harder
- Needs FTA with EU to replace its status as member
 - Even with FTA, EU will check some imports, such as food, as it does other non-EU imports

Recent FTA News: UK

- EU has about 40 deals with about 70 countries
- Post-Brexit UK trade deals done:
 - 19 deals covering 50 countries, about 8% of its trade (list on next slide)
 - Largest:
 - Switzerland (£32.4bn of trade in 2018)
 - South Korea (£14.8bn in 2018)
 - Also: Japan, as of 10/23/20

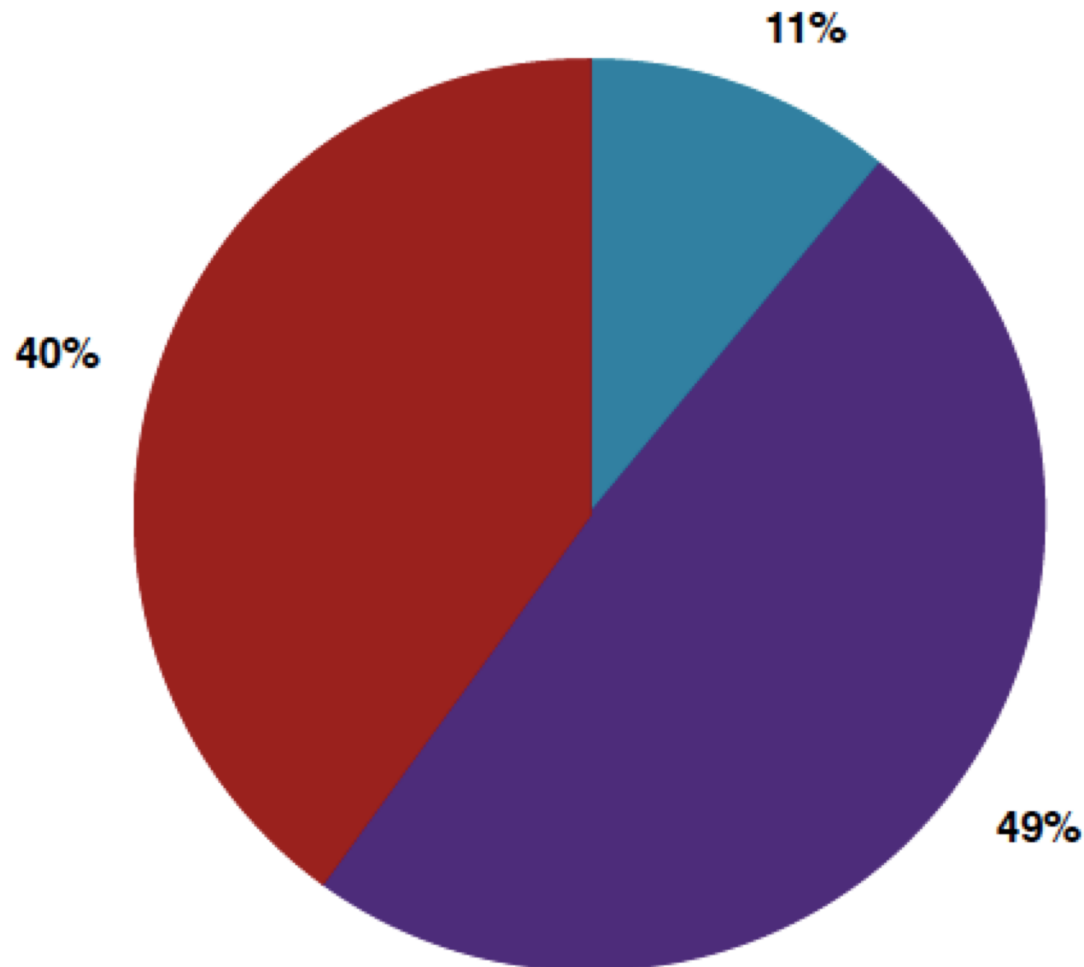
UK Trade Deals Done (with amount of trade)

- Kosovo (£8m)
- Jordan (£448m)
- Morocco (£2.5bn)
- Georgia (£123m)
- Southern African nations (£10.2bn)
- Tunisia (£542m)
- Lebanon (£762m)
- South Korea (£14.8bn)
- Central America (£1.1bn)
- Andean countries (£3.4bn)
- Caribbean countries (£3.7bn)
- Pacific Islands (£163m)
- Liechtenstein (£146m)
- Israel (£4.2bn)
- Palestinian Authority (£41m)
- Switzerland (£32.4bn)
- The Faroe Islands (£252m)
- Eastern and Southern Africa (£2bn)
- Chile (£2bn)

Where does the UK trade?

% of total UK trade in 2018

■ Countries with EU trade agreements ■ The EU ■ Rest of the world

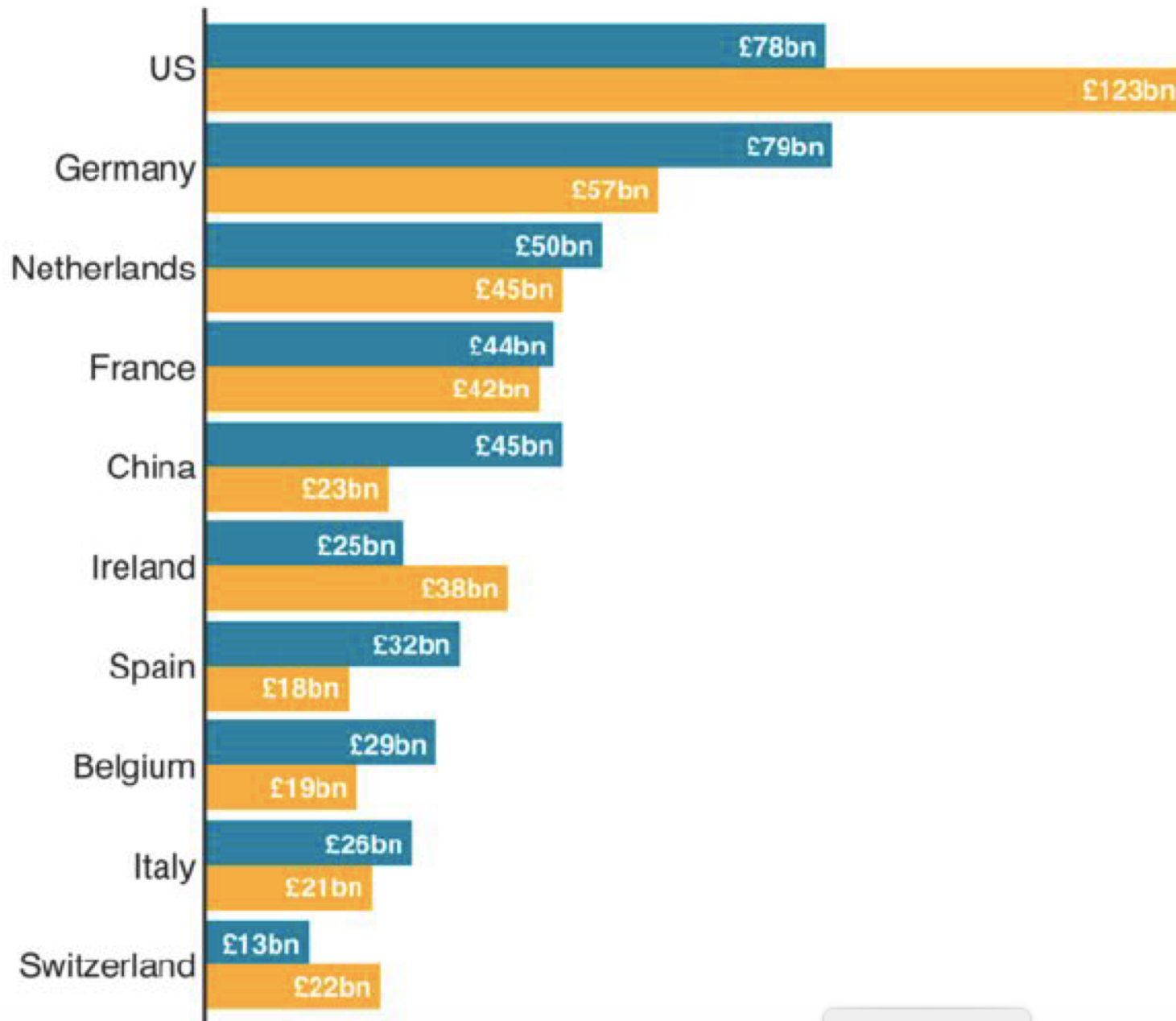


Japan and Singapore are included in the "rest of the world" as their EU trade deals had not come into force in 2018

Source: Department for International Trade

UK's top 10 trading partners in 2018

■ UK imports from ■ UK exports to



Source: Office for National Statistics

Screenshot

BBC

Recent FTA News: UK

- Japan-EU
 - (Deal completed 10/23/20)
 - Japan resists deal better than with EU
 - UK (as of August) wanted better deal on British Stilton cheese
 - Would be "symbolic" that Brexit was worth it

Recent FTA News: UK

- UK-US
 - Talks began in May, with 30 groups
 - UK benefits of deal: increase UK GDP by 0.15% over 15 years.
 - Difficulties
 - Uncertainty about EU-UK deal
 - US election
 - Farming standards: UK doesn't want
 - chlorine-washed chicken
 - genetically modified crops

Recent FTA News: UK

- UK-US (cont.) WSJ on Issues
 - What are hard:
 - U.K. Agricultural trade (“a needless sticking point”)
 - US insistence on scientific food-safety standards
 - chlorine-washed American poultry and beef treated with certain medications
 - Britain’s socialized National Health Service
 - U.K. imposed its version of a digital services tax on American tech giants in April
 - Trump’s tariffs in the Boeing-Airbus dispute

Recent FTA News: UK

- UK-US (cont.) WSJ on Issues
 - What should be hard:
 - banking regulations
 - mutual recognition of professional qualifications
 - reciprocal recognition of product-safety rules and inspections

Pause for Discussion

Questions on Post-Brexit Deals

- What are the main policies that a trade deal covers? Of these, which will likely be hardest to agree on between the UK and the EU?
- What happens to UK if there is no deal with the EU?
- Why does the UK need trade deals with non-EU countries? To what extent it is getting them?

Questions on Japan-UK

- Why does the UK trade secretary want a better deal on cheese exports to Japan than the EU has?

Questions on UK-US

- What form to negotiations take?
- What is the most prominent issue that will be a UK-US FTA difficult to achieve?
- Is an agreement in 2020 likely?

Questions on UK-US, per WSJ

- What are some of the sticking points in the UK-US negotiations that the WSJ thinks the UK is foolish to insist on?
- What are the issues that they say should be addressed and are being ignored?
- Is President Trump doing anything that also makes it hard, in their view?

Recent FTA News: US

- Not including US: CPTPP = Comprehensive and Progressive Trans-Pacific Partnership
 - US pulled out of TPP under Trump
 - Now wants FTA with many of its members
 - To undo the disadvantage of being out
- US is now seeking FTAs with several CPTPP countries:
 - Japan, Australia, New Zealand, Vietnam

Recent FTA News: US

- Georgia-US
 - This is probably not happening, but is advocated in a reading by Bacchus, former Congressman and also Chair of WTO Appellate Body
 - Reasons given:
 - Georgia deserves it
 - Support for democracy
 - Moral case: Georgia serves with US in Afghanistan

Recent FTA News: US

- Kenya-US
 - Feb 2020: Trump announced negotiations
 - Kenya is US's 98th largest trading partner
 - But deal would be model for deals with other African countries
 - Fear is that US will lose out to China and its Belt and Road Initiative
 - Kenya already has preferences under AGOA, but it doesn't cover all trade and might not be renewed.

Recent FTA News: US

- Taiwan-US
 - Aug 2020: Taiwan President wants FTA with US
 - Previous attempts were stepped by Taiwan's restrictions on imports of US beef and pork
 - Stopped in 2003 due to mad cow
 - Now they block them due to additives
 - President seems to think this issue can be resolved

Pause for Discussion

Questions

- Why does the Trump Administration want these agreements with Japan and others?
- Is the case made here for a Georgia-US FTA mostly economic or political?
- How many countries in Africa now have an FTA with the US?
- How quickly might an FTA with Kenya be agreed upon, and what are its chances of approval in the US once agreed?
- Are US officials in favor of FTA with Taiwan?

