

PubPol/Econ 541

Class 20

FTAs and Other Trade Deals

by

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2021

Outline

- FTAs in general
- North America
 - NAFTA
 - USMCA
- RCEP
- CPTPP
- Other

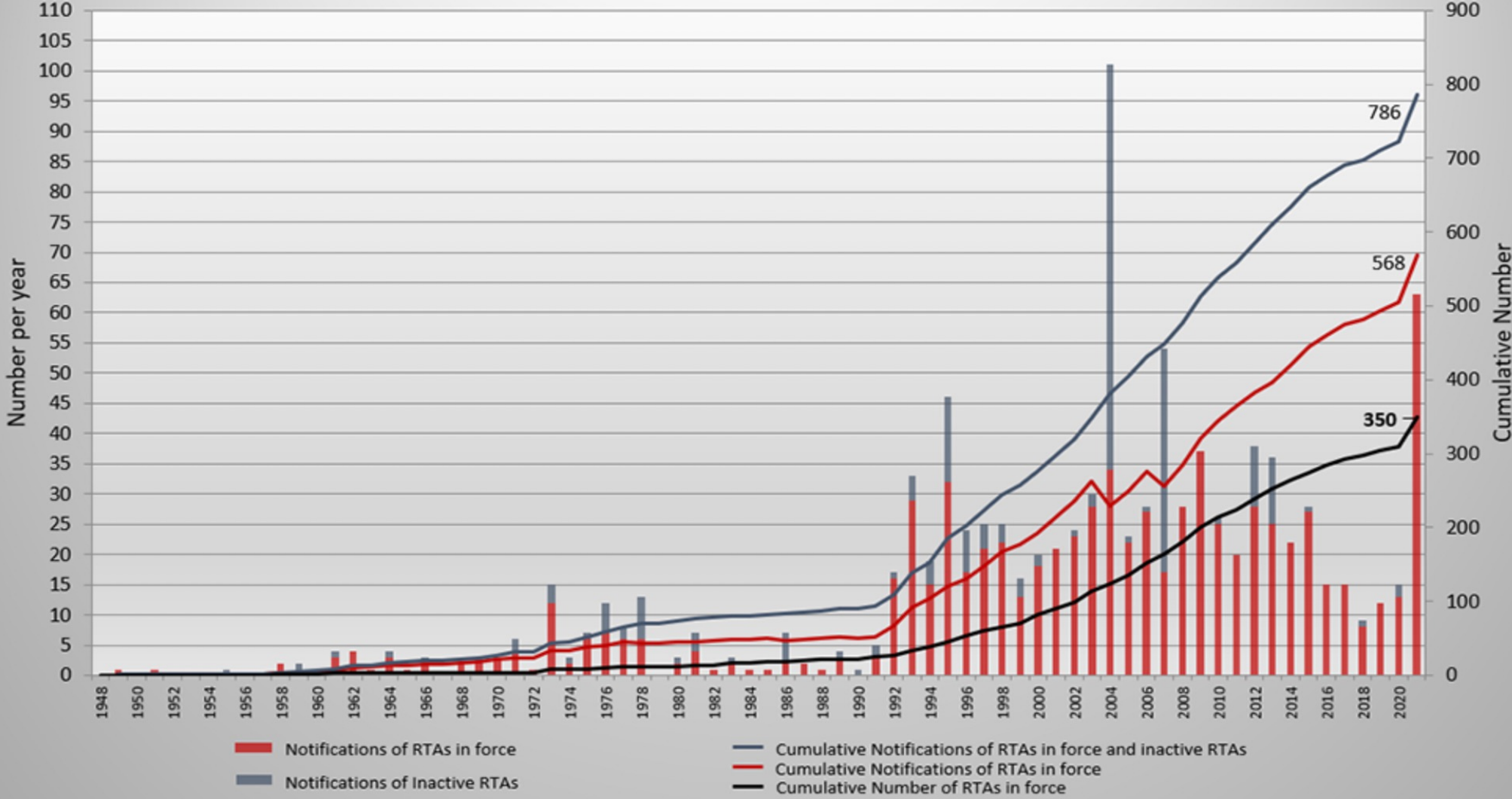
FTAs in General

- 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, 1948-2021



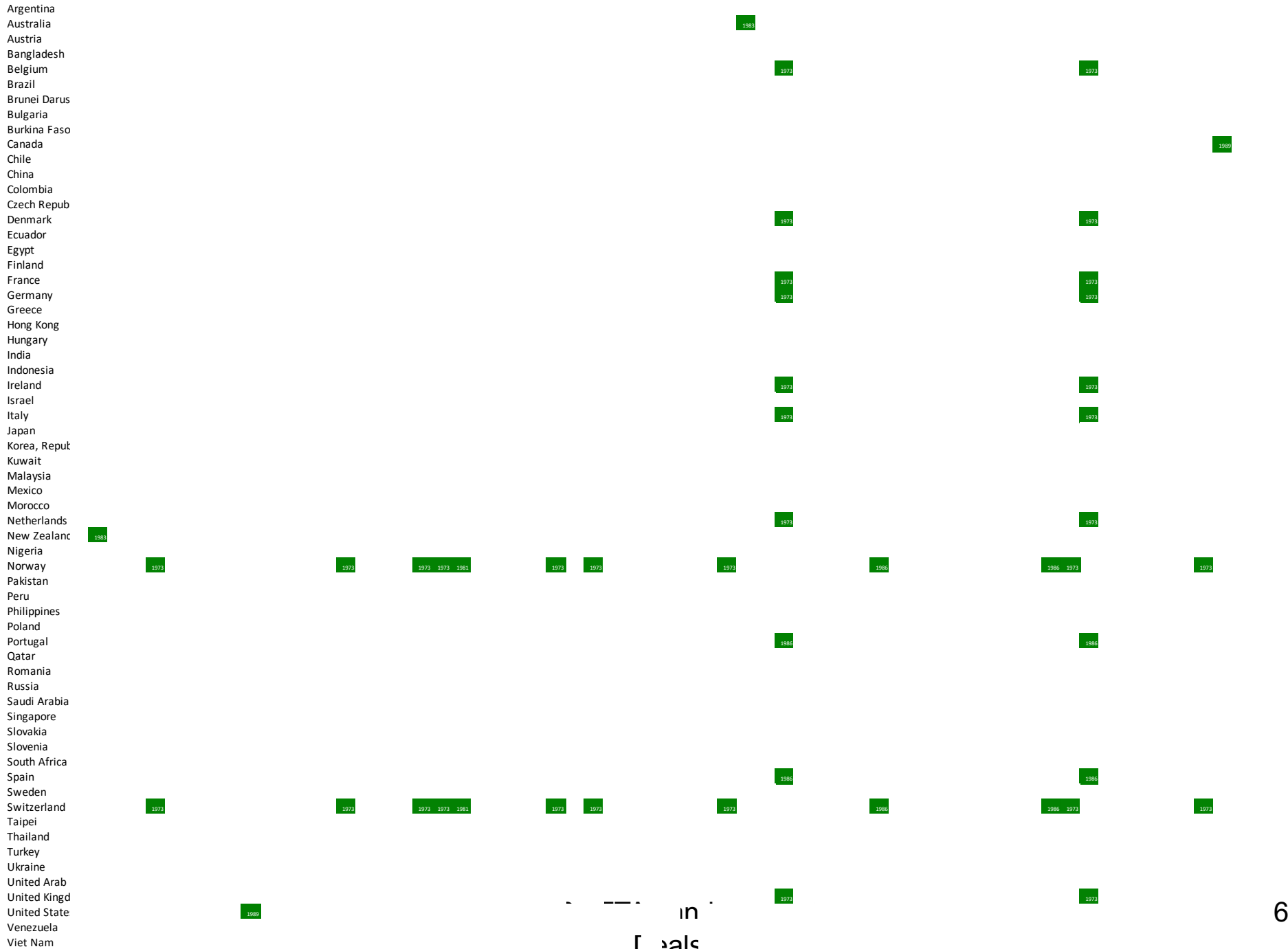
Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. The cumulative lines show the number of RTAs/notifications that were in force for a given year. The notifications of RTAs in force are shown by year of entry into force and the notifications of inactive RTAs are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

Source: RTA Section, WTO Secretariat, October 2021.

Countries connected by FTAs only, as of 1990

1%

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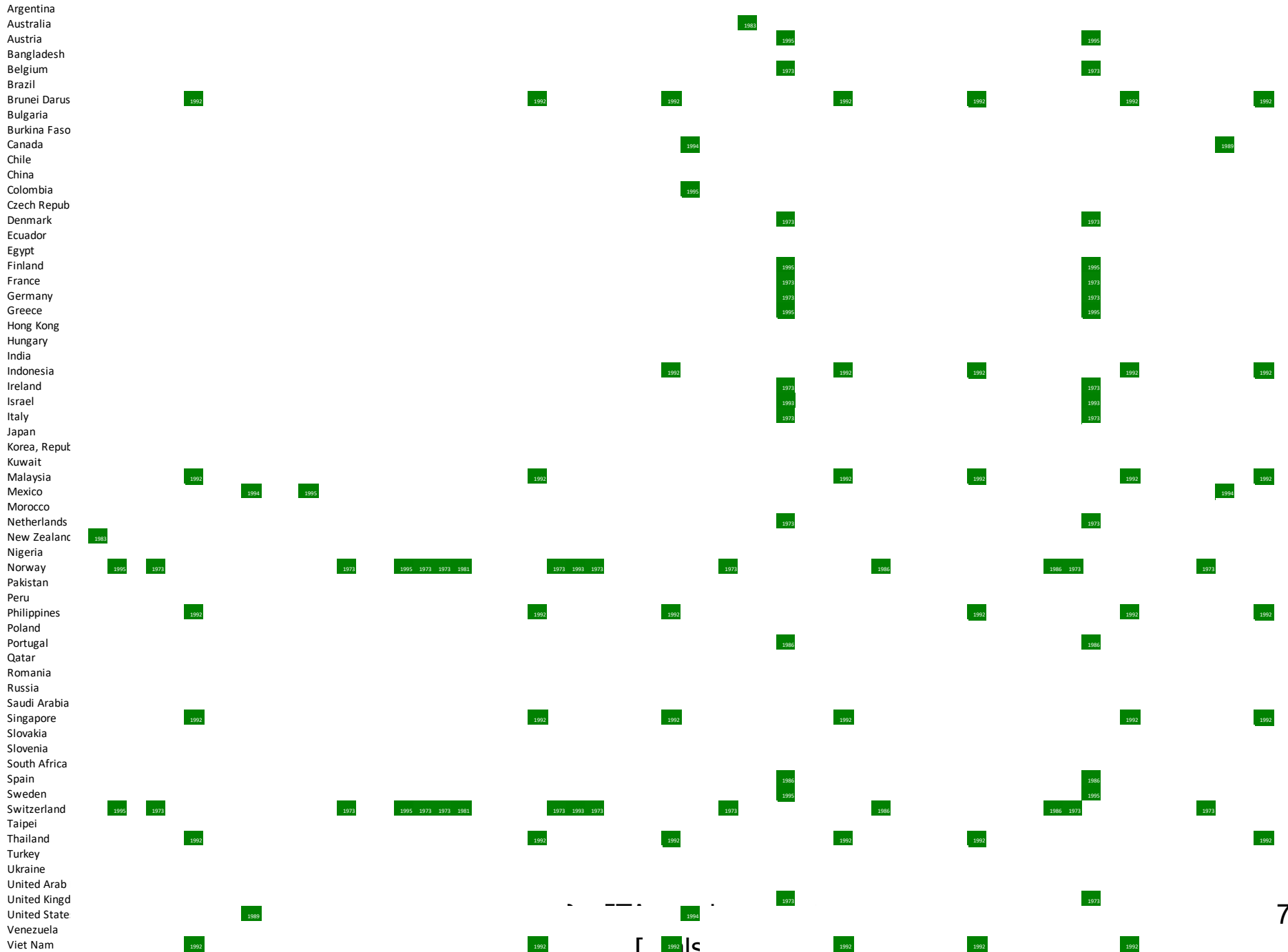


Goals

Countries connected by FTAs only, as of 1995

3%

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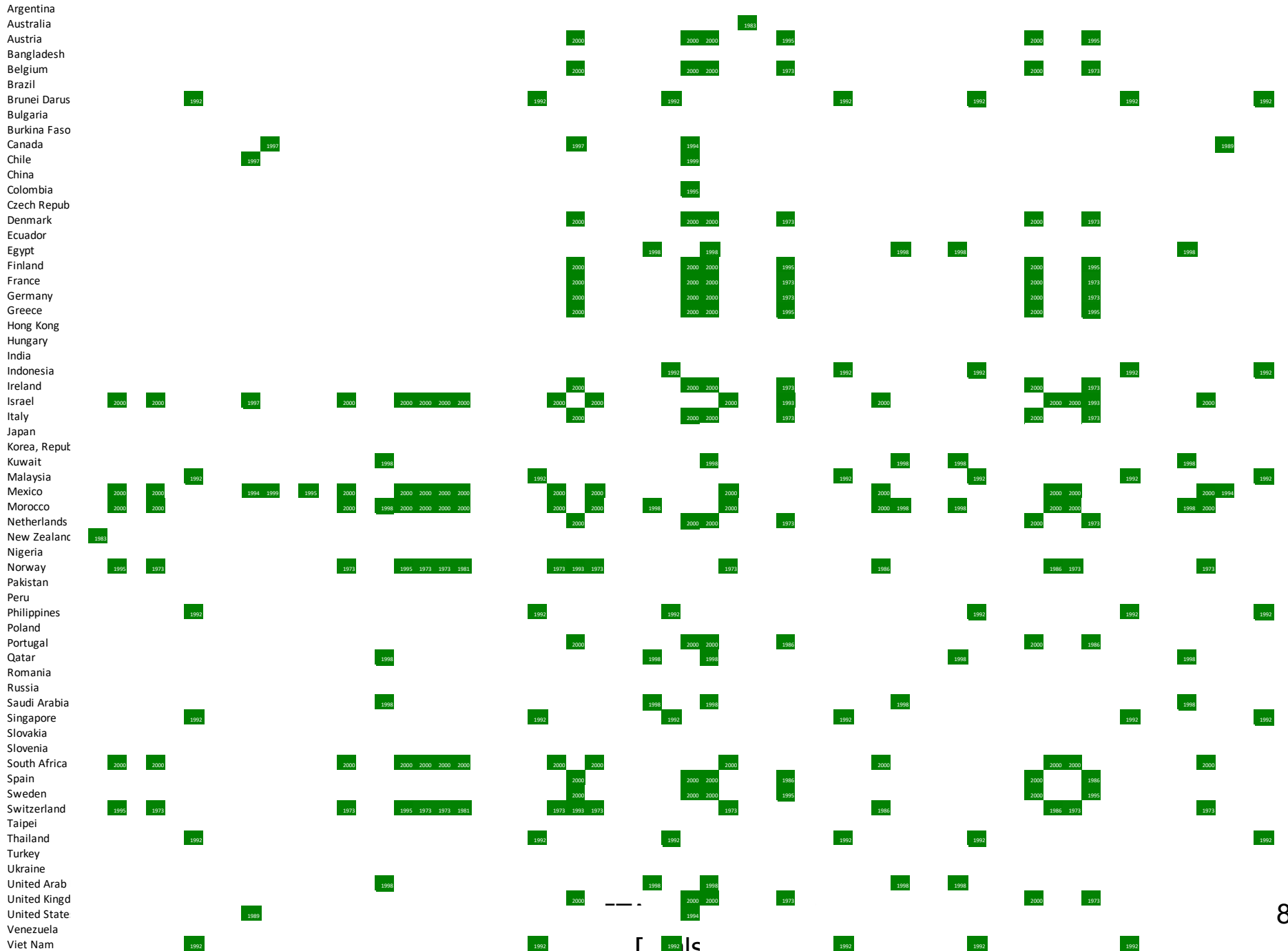


Labels

Countries connected by FTAs only, as of 2000

7%

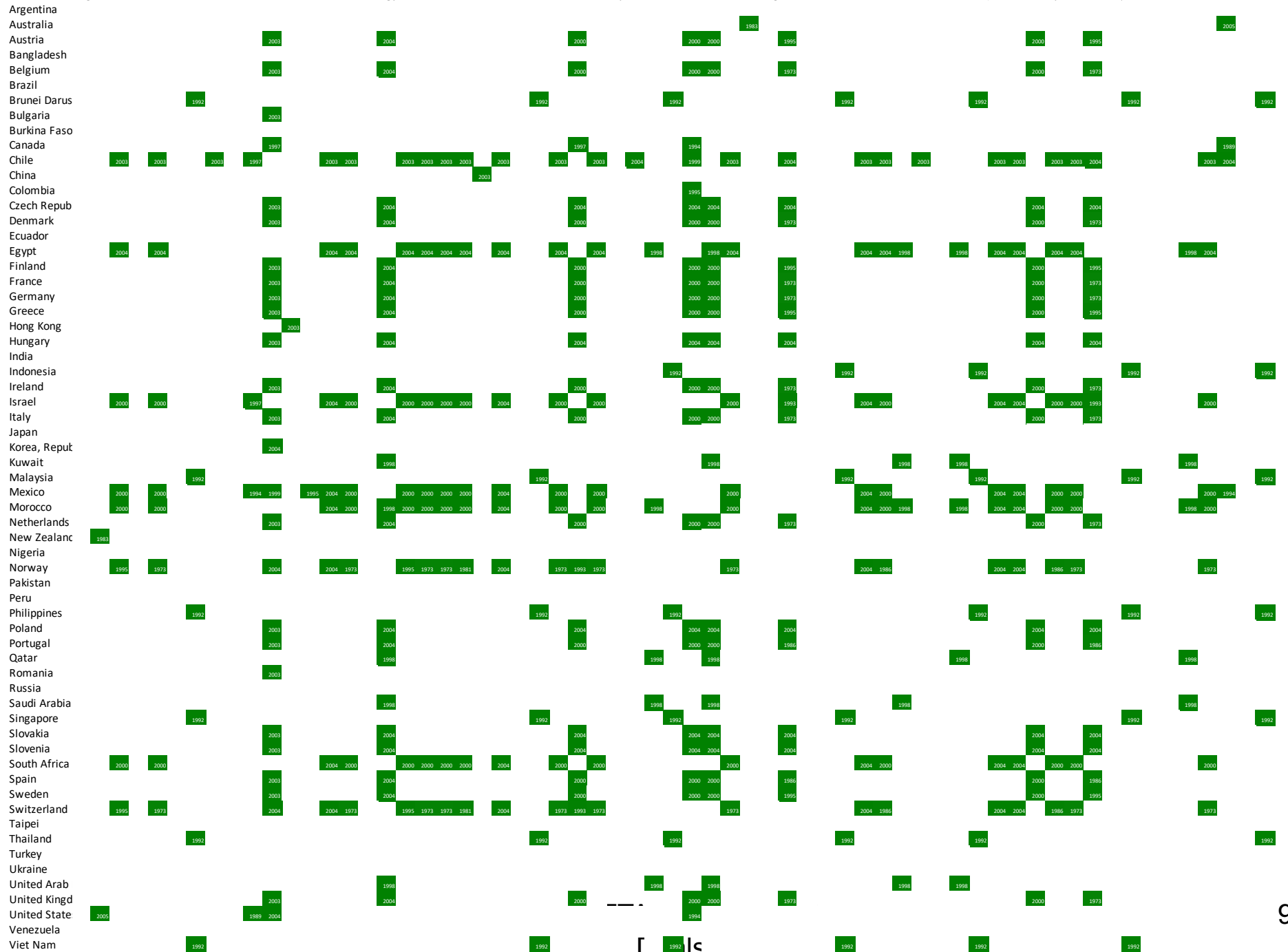
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Countries connected by FTAs only, as of 2005

11%

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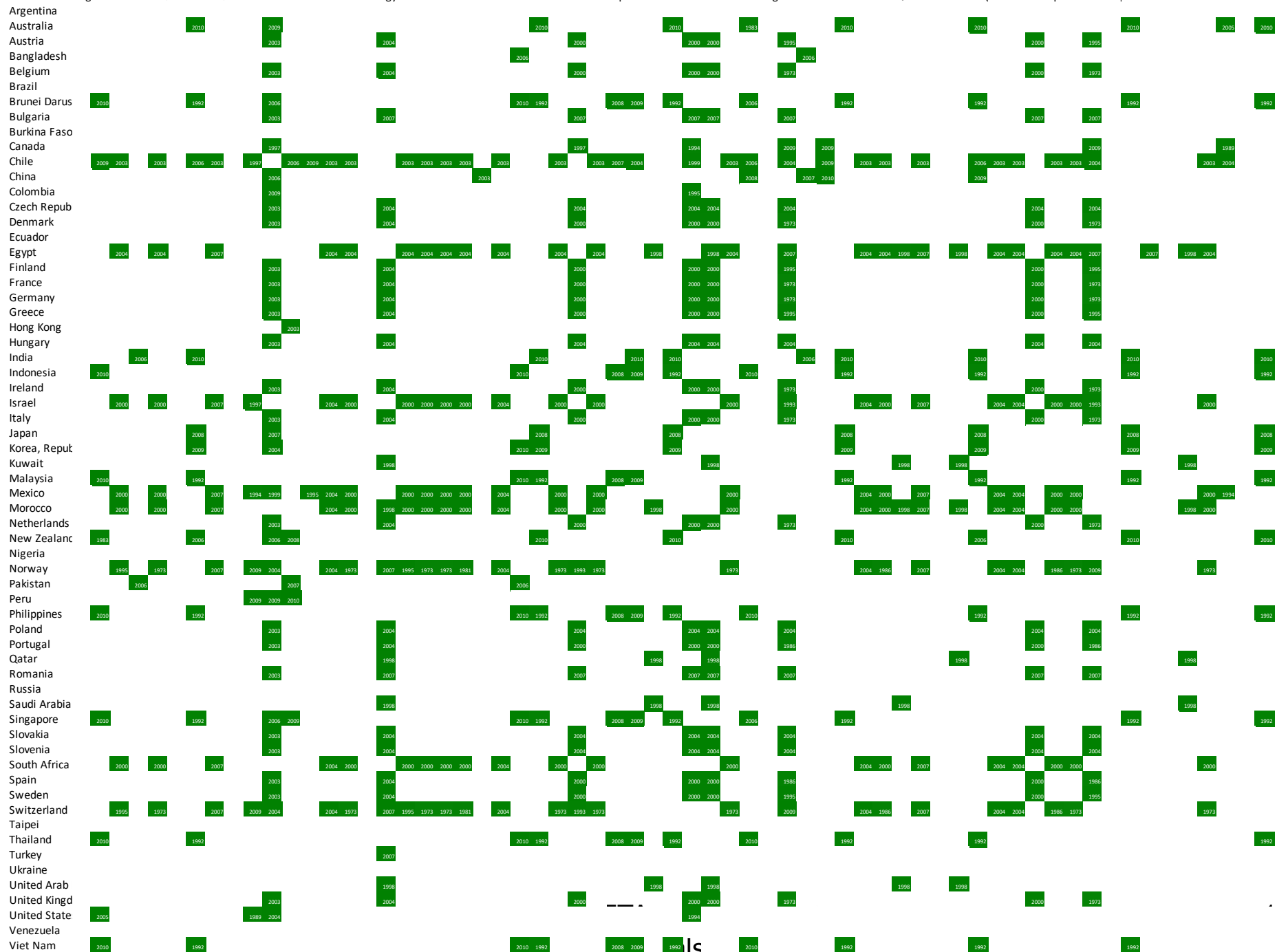


Labels

Countries connected by FTAs only, as of 2010

14%

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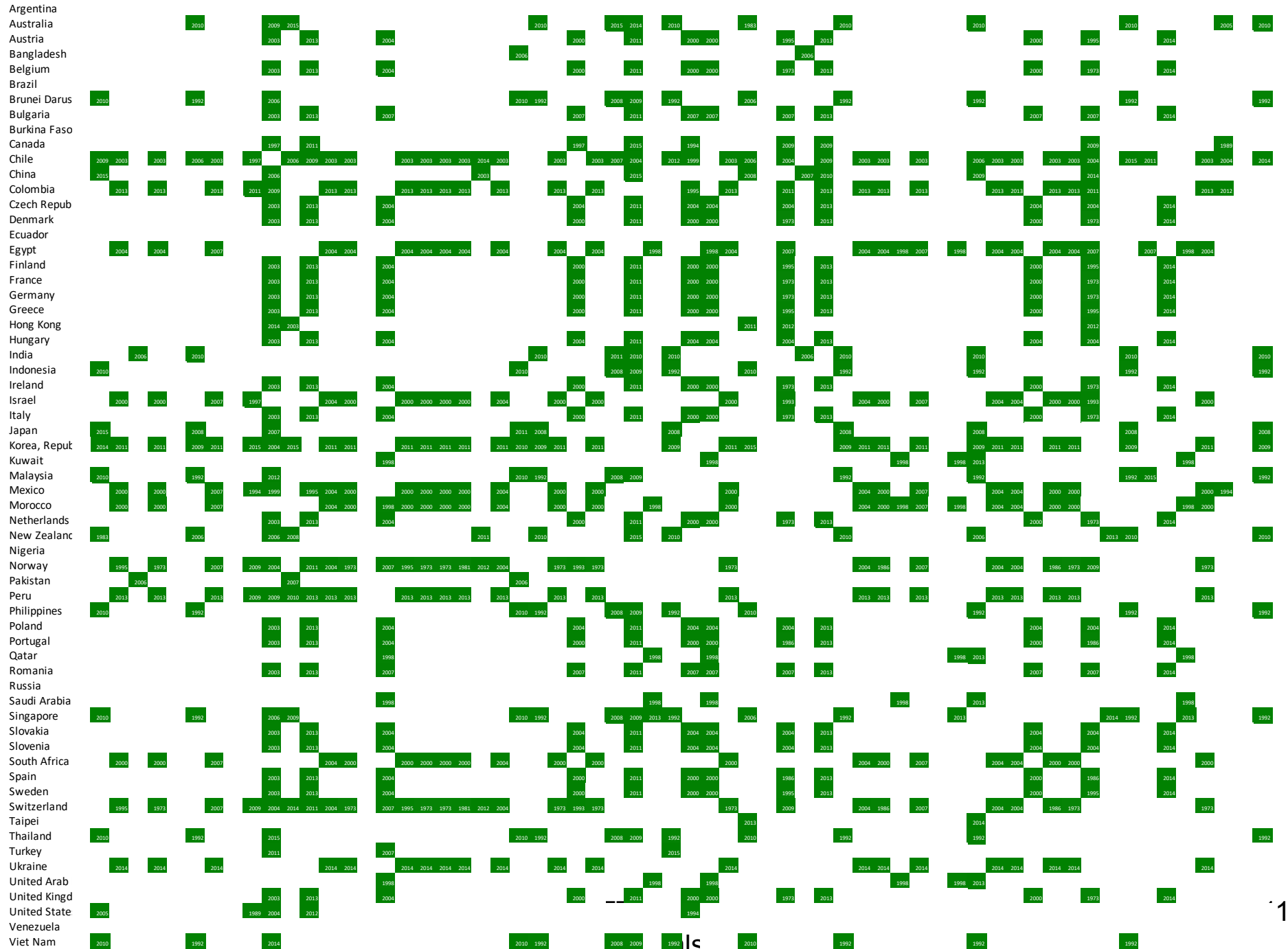


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Countries connected by FTAs only, as of 2015

20%

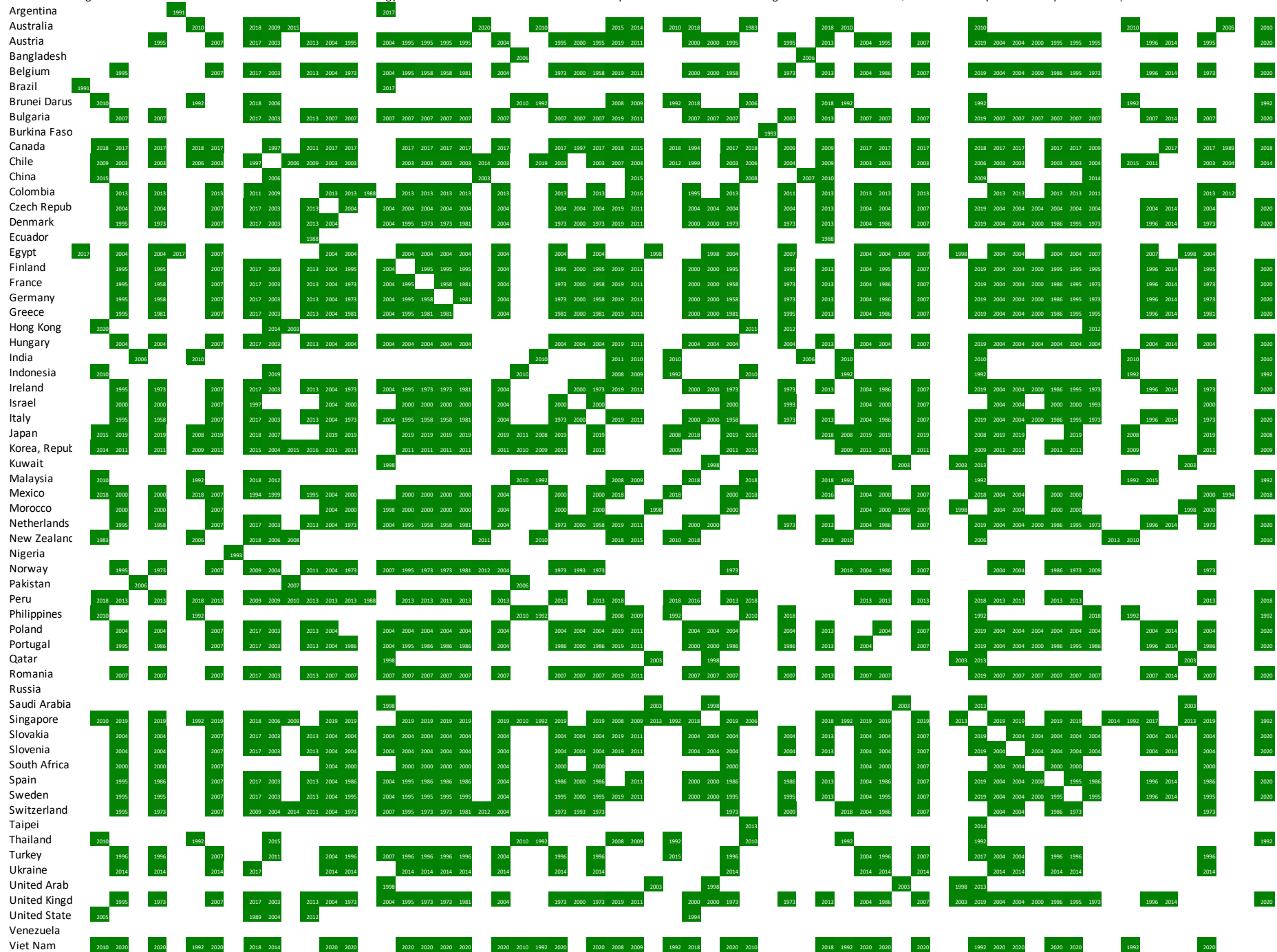
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Countries connected by FTAs or CUs as of 2020

38%

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Pause for Discussion

Questions

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

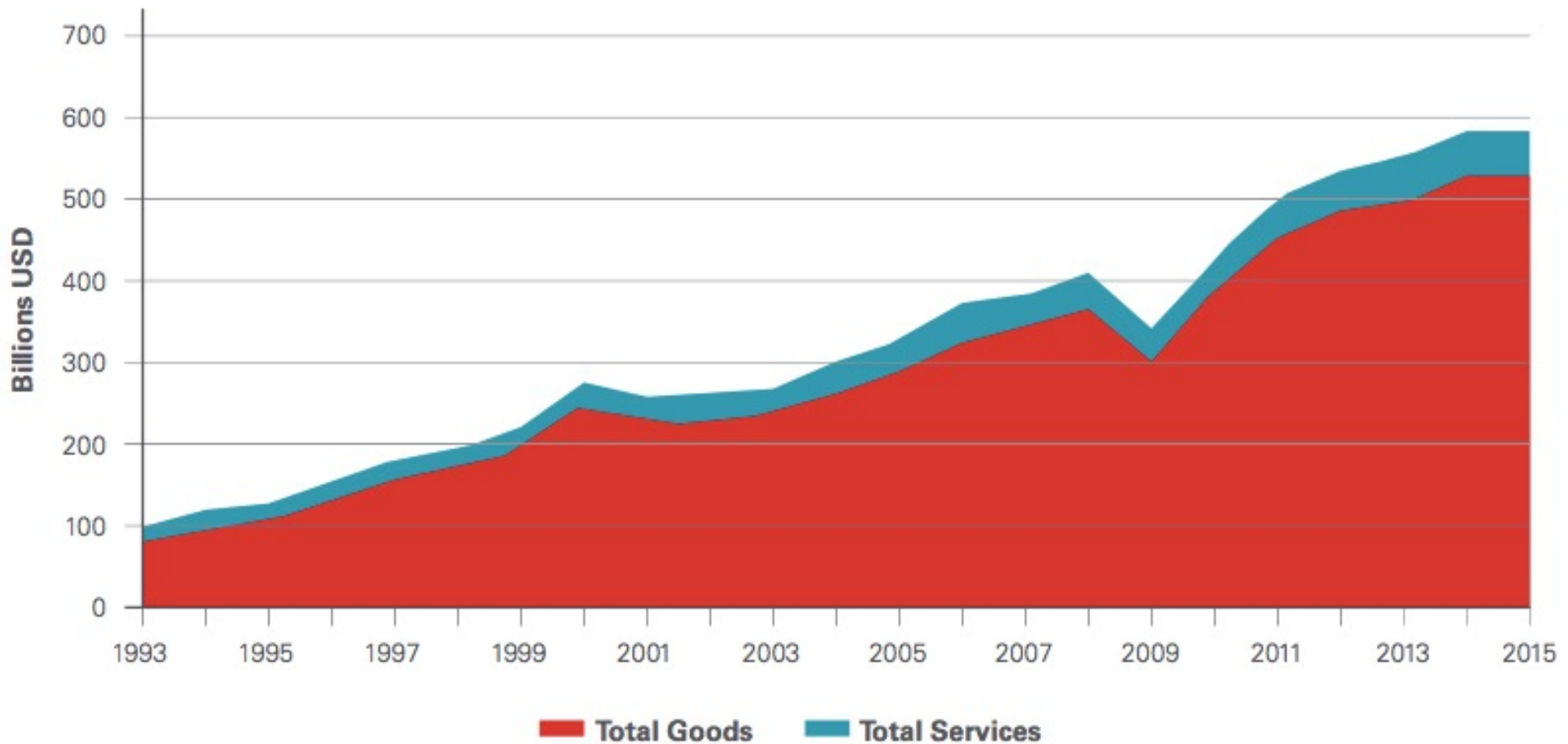
NAFTA

- 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: 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)

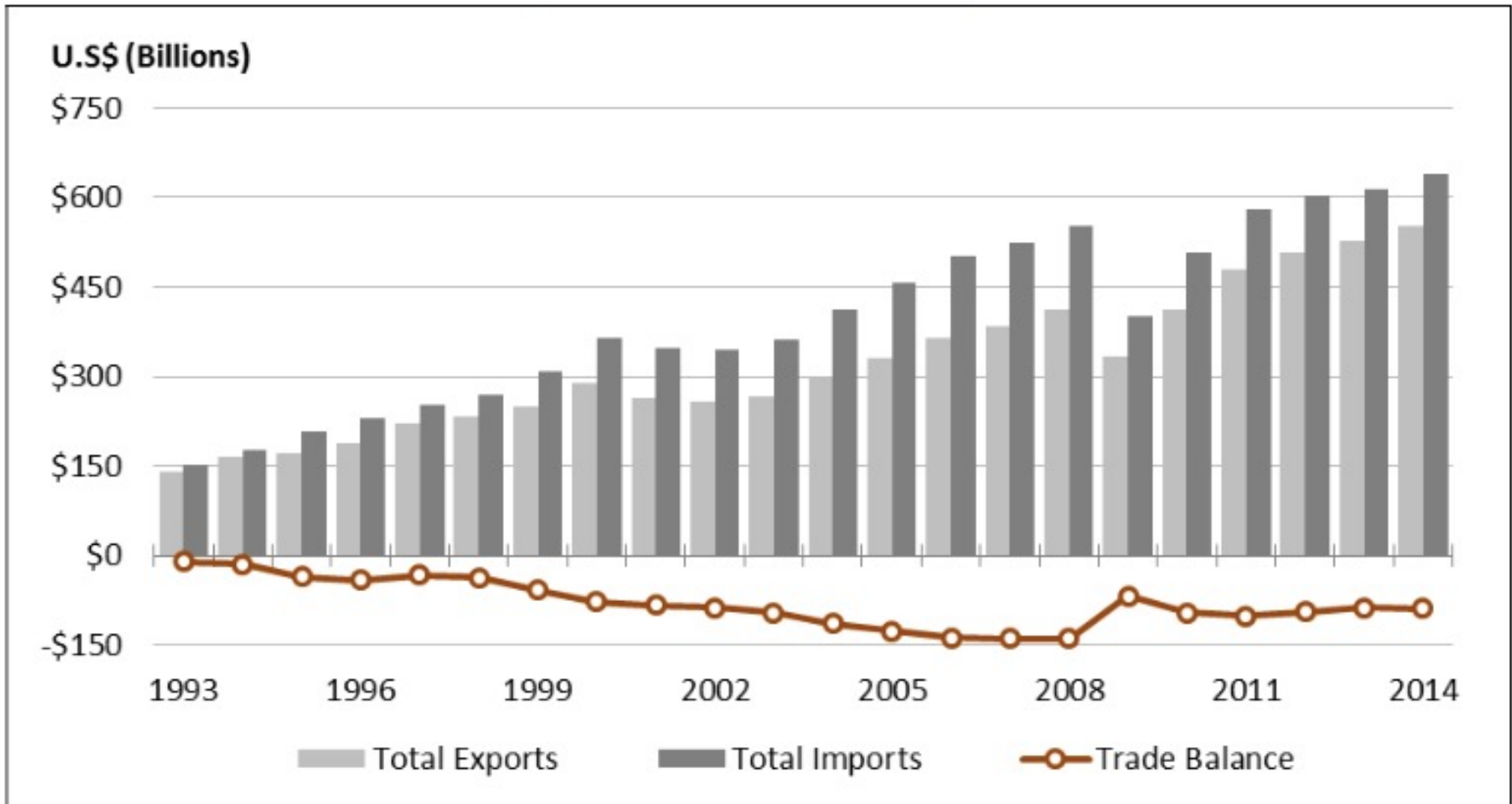
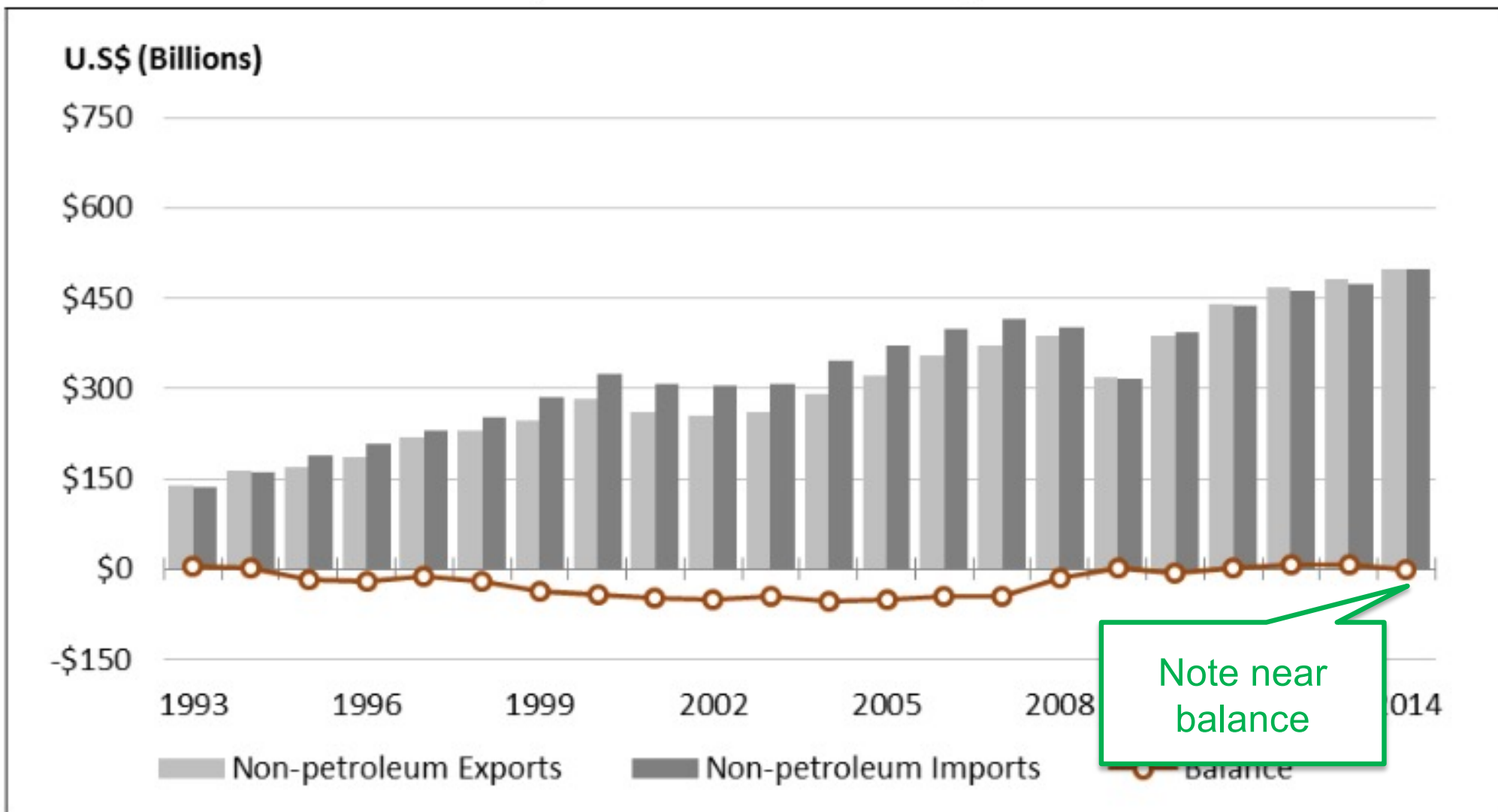
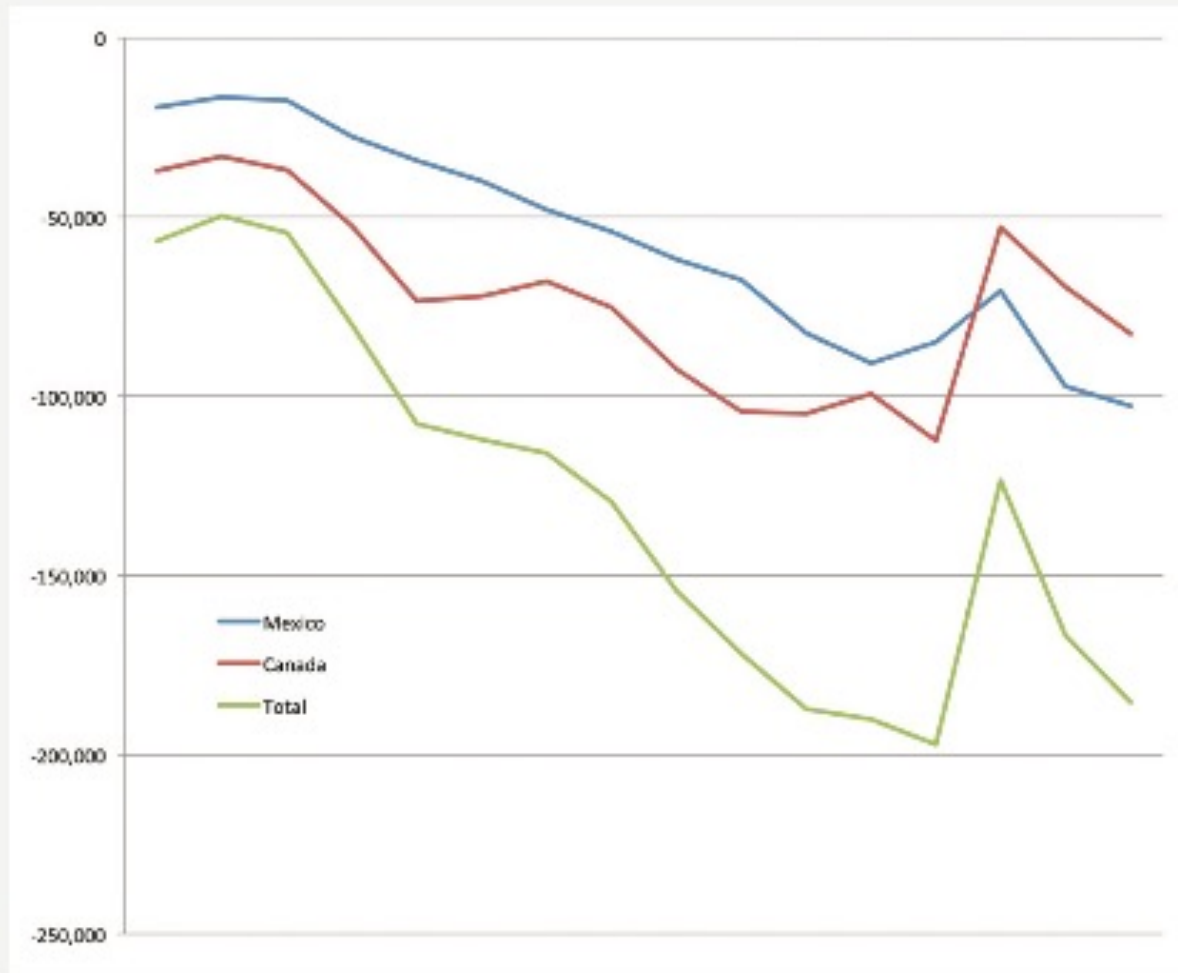


Figure 2. Non-Petroleum Trade with NAFTA Partners: 1993-2014

(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.

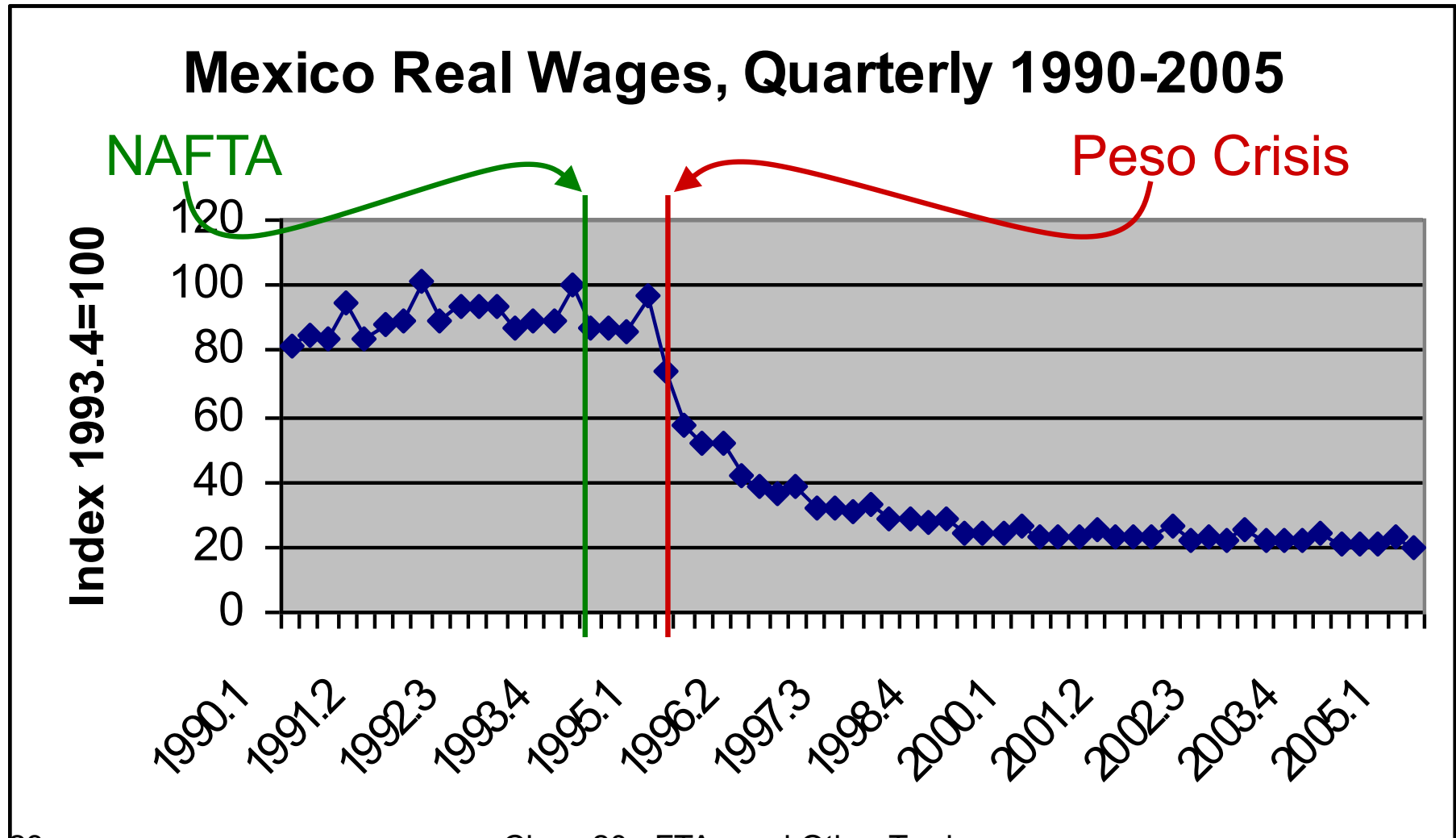
Source:
AFL-CIO,
"NAFTA at
20"

NAFTA Effects

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

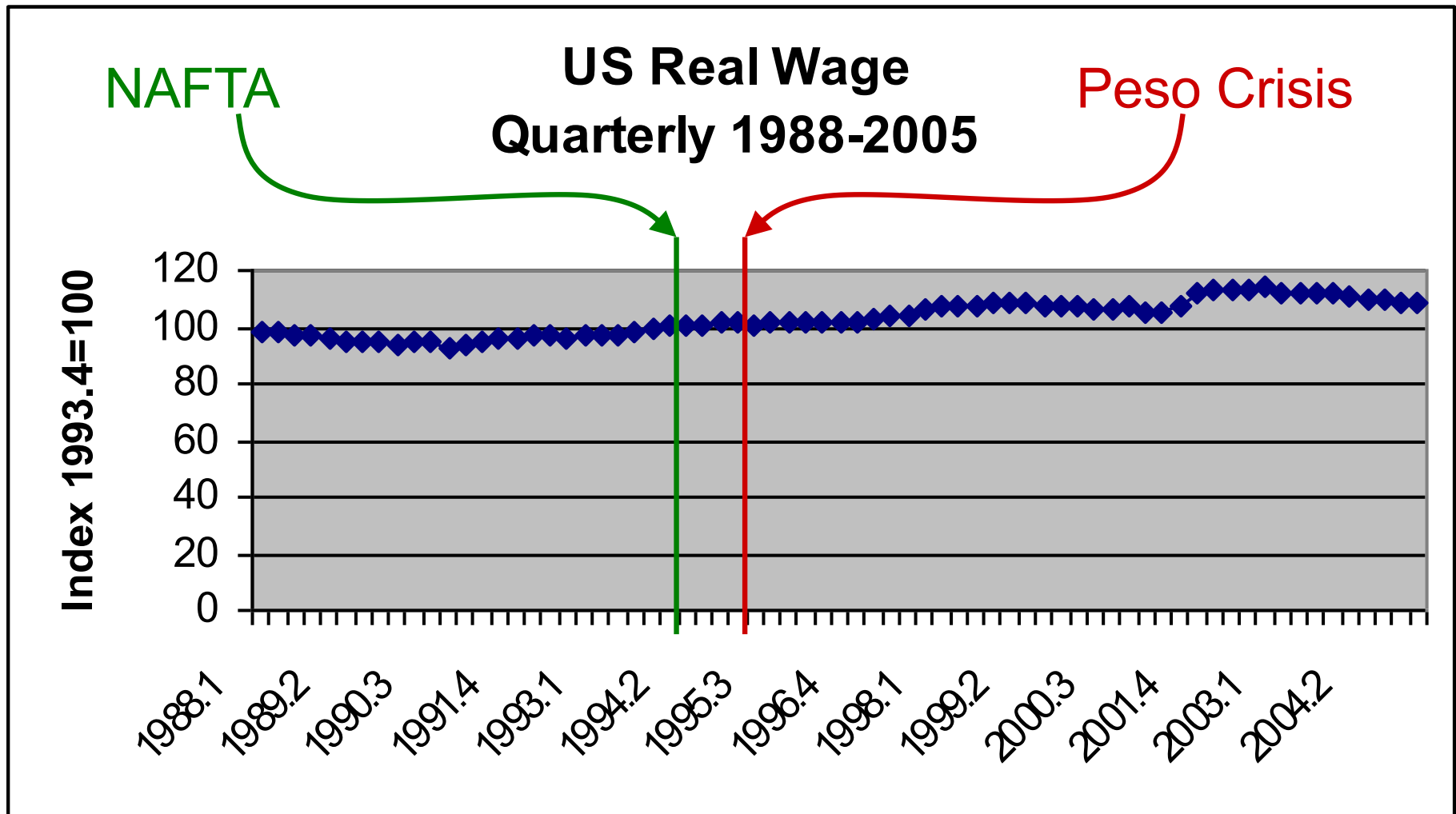
What Happened: Mexico

Real Wages Plummeted!



What Happened: U.S.

Real Wage: No Change

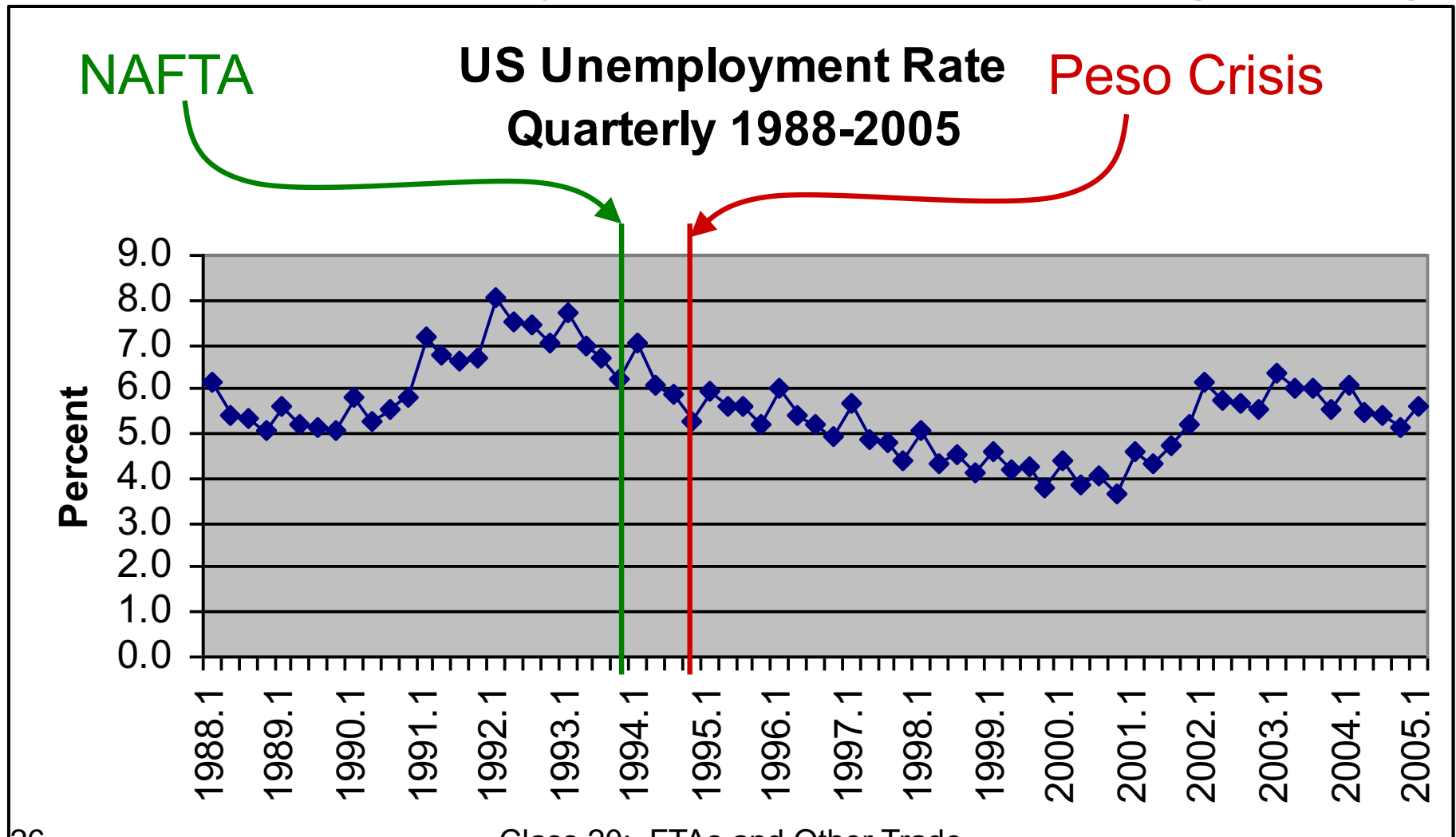


NAFTA Effects

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

What Happened: U.S.

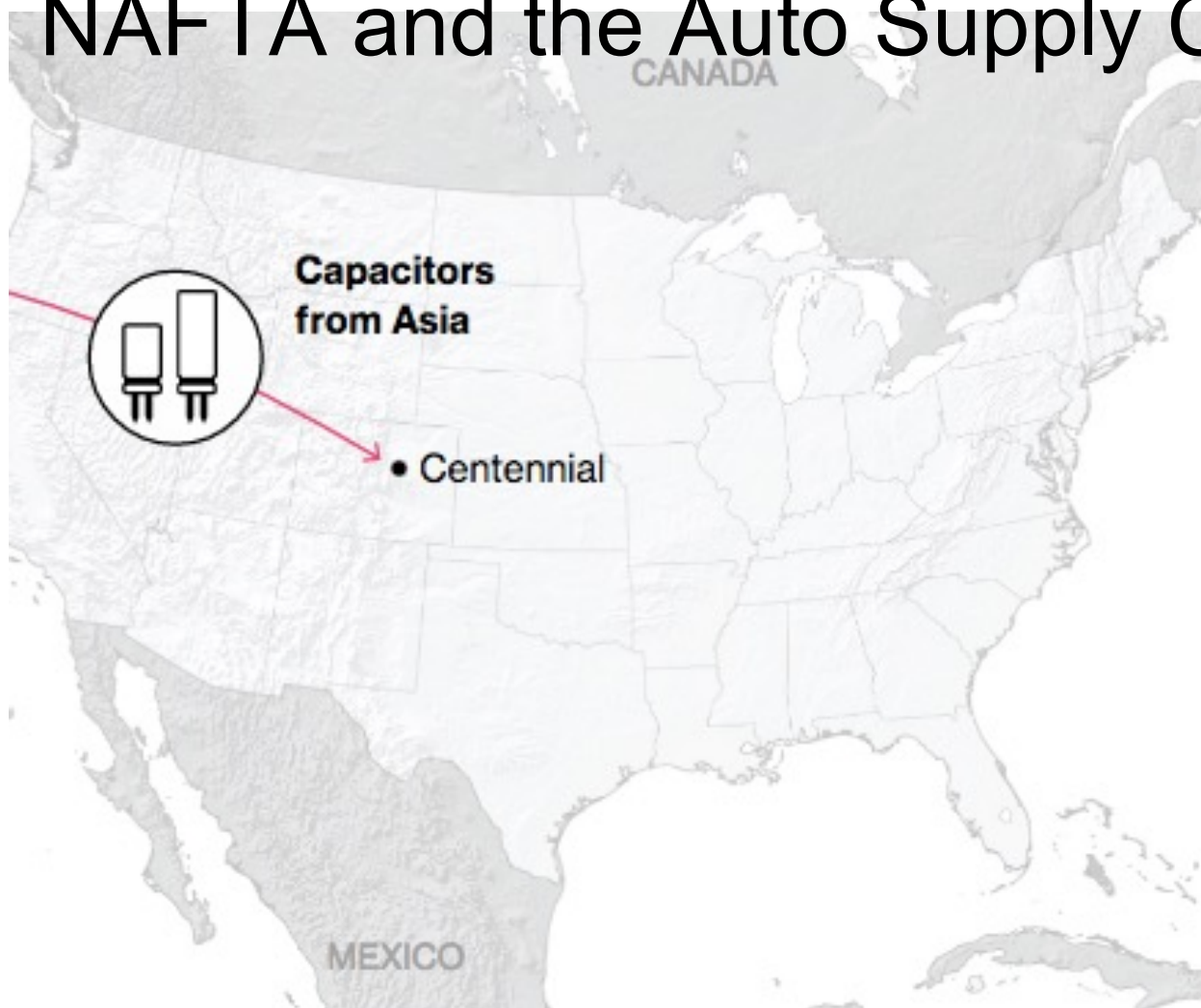
Unemployment: No effect (or fell)



NAFTA Effects

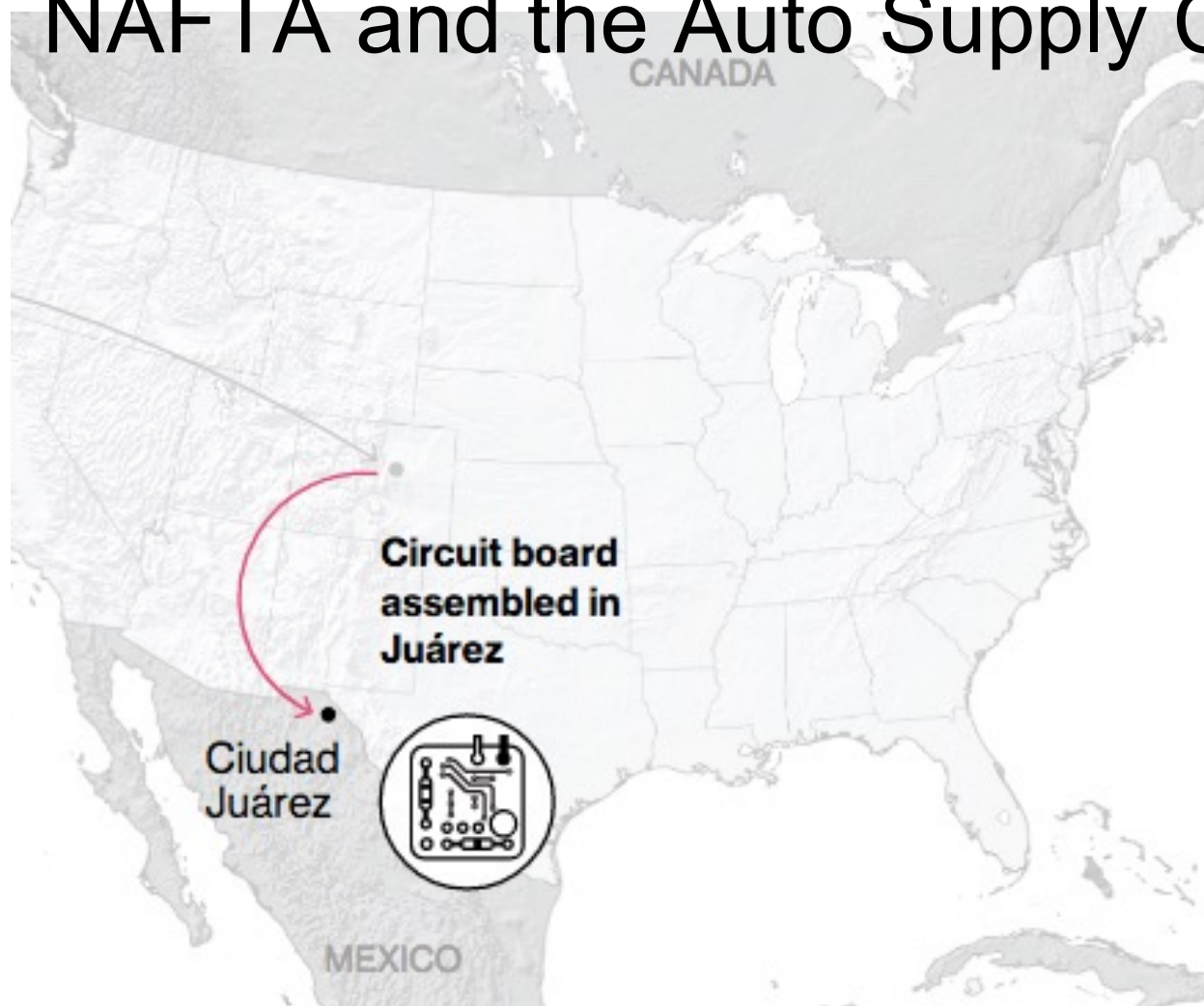
- Supply chains
 - US manufacturing moved inputs to low-cost locations across N. America

NAFTA and the Auto Supply Chain



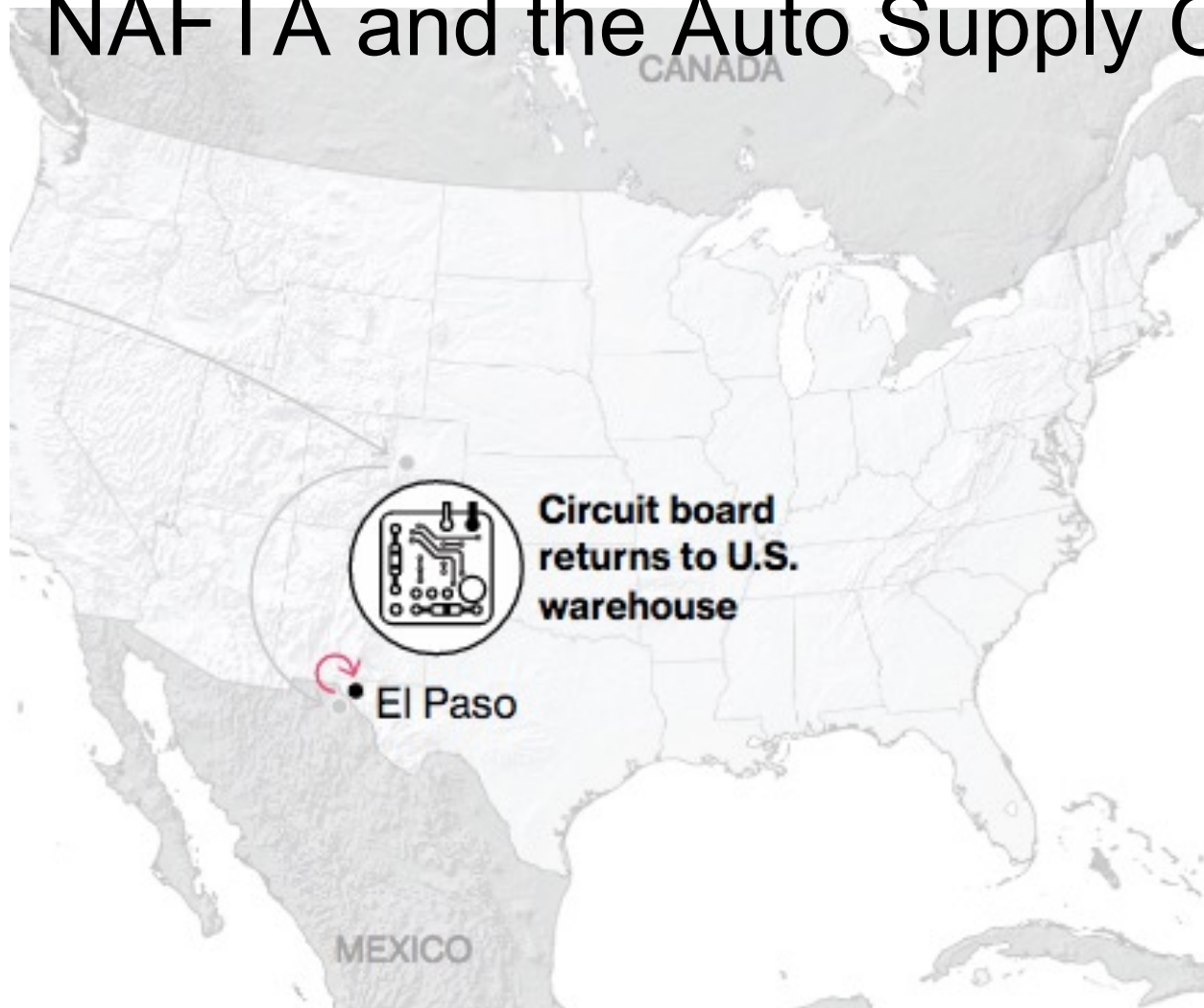
Black, Diamond, and Merrill, “One Tiny Widget’s Dizzying Journey Shows Just How Critical Nafta Has Become,” *Bloomberg*, February 2, 2017.

NAFTA and the Auto Supply Chain



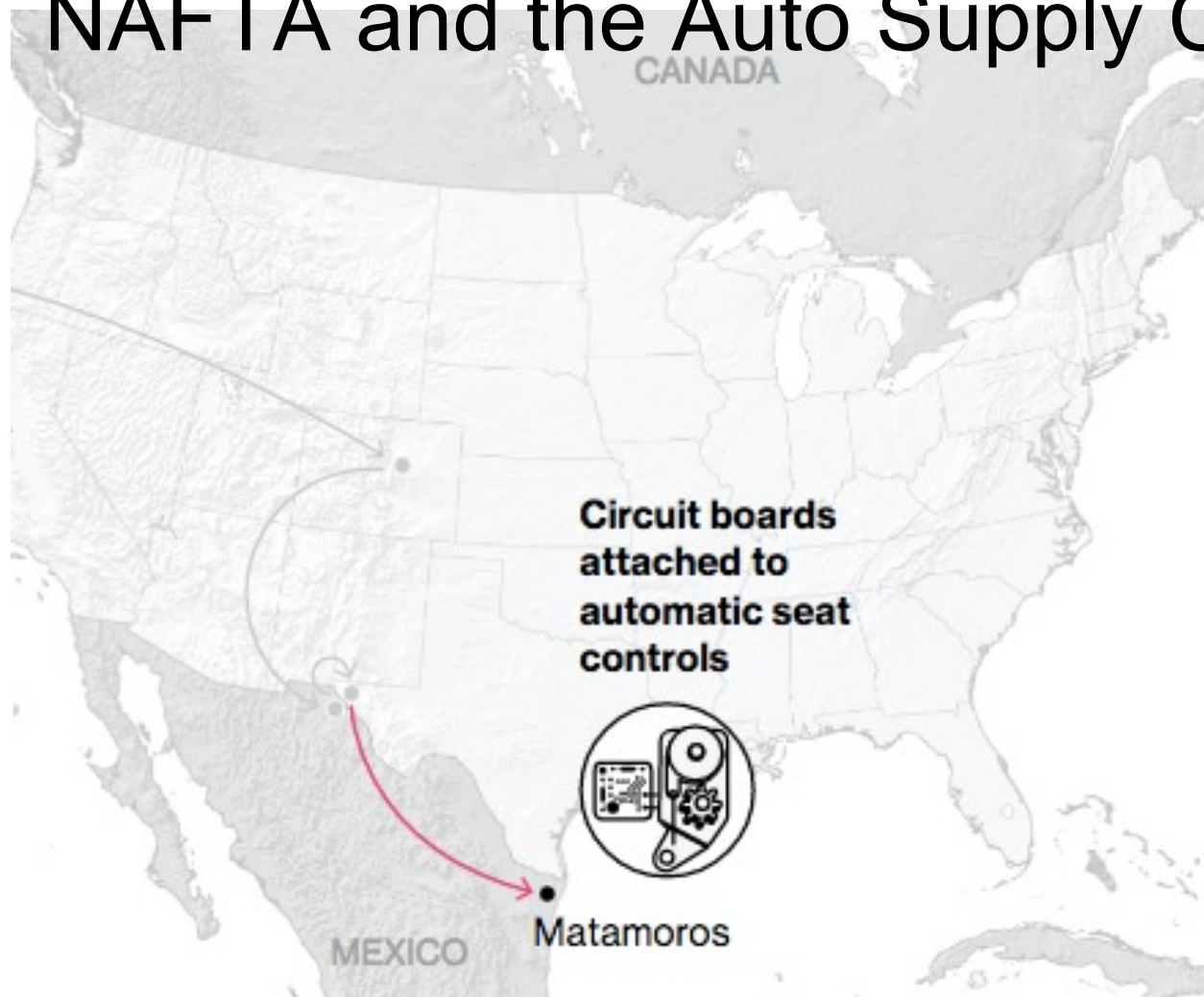
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NAFTA and the Auto Supply Chain



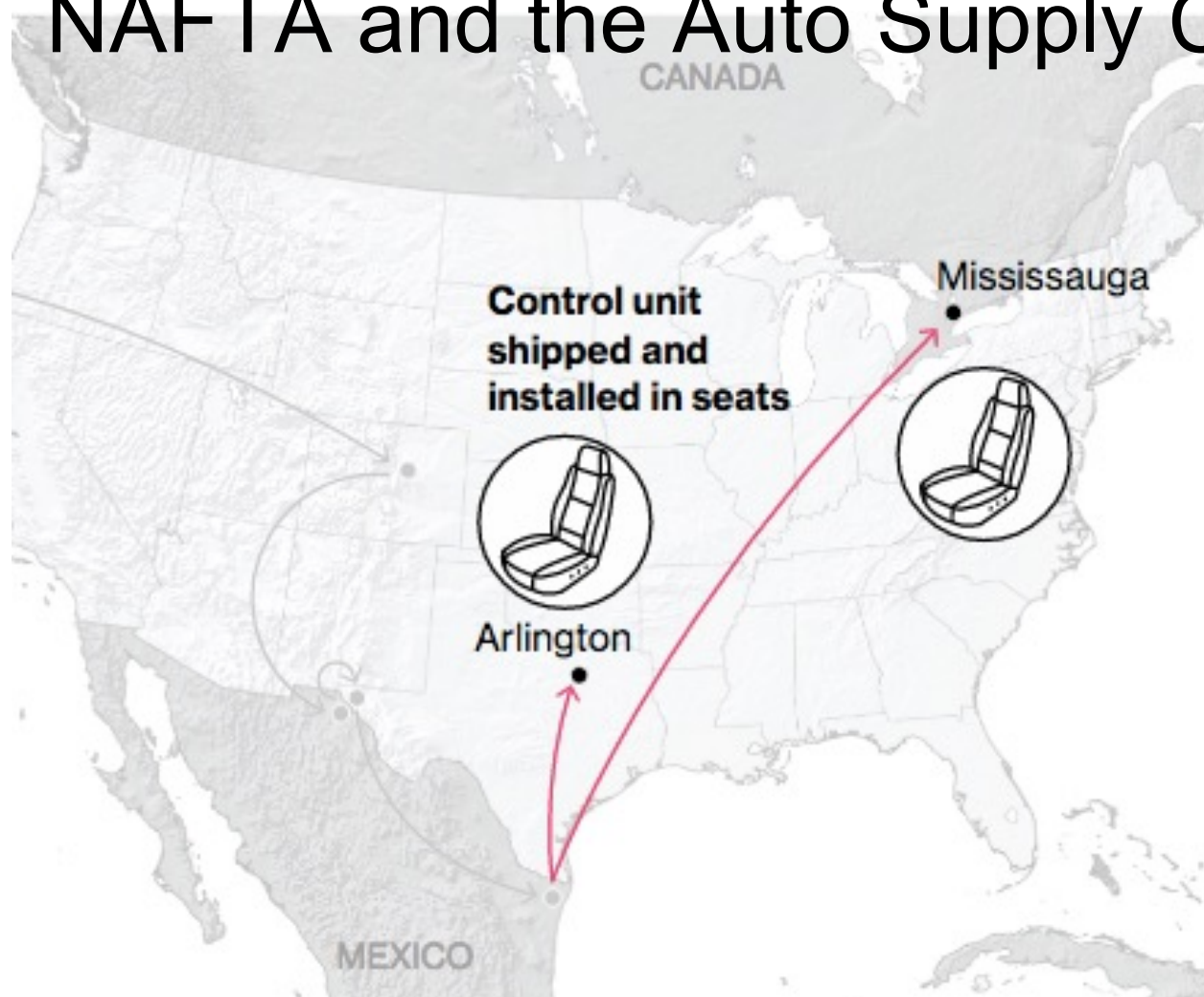
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NAFTA and the Auto Supply Chain



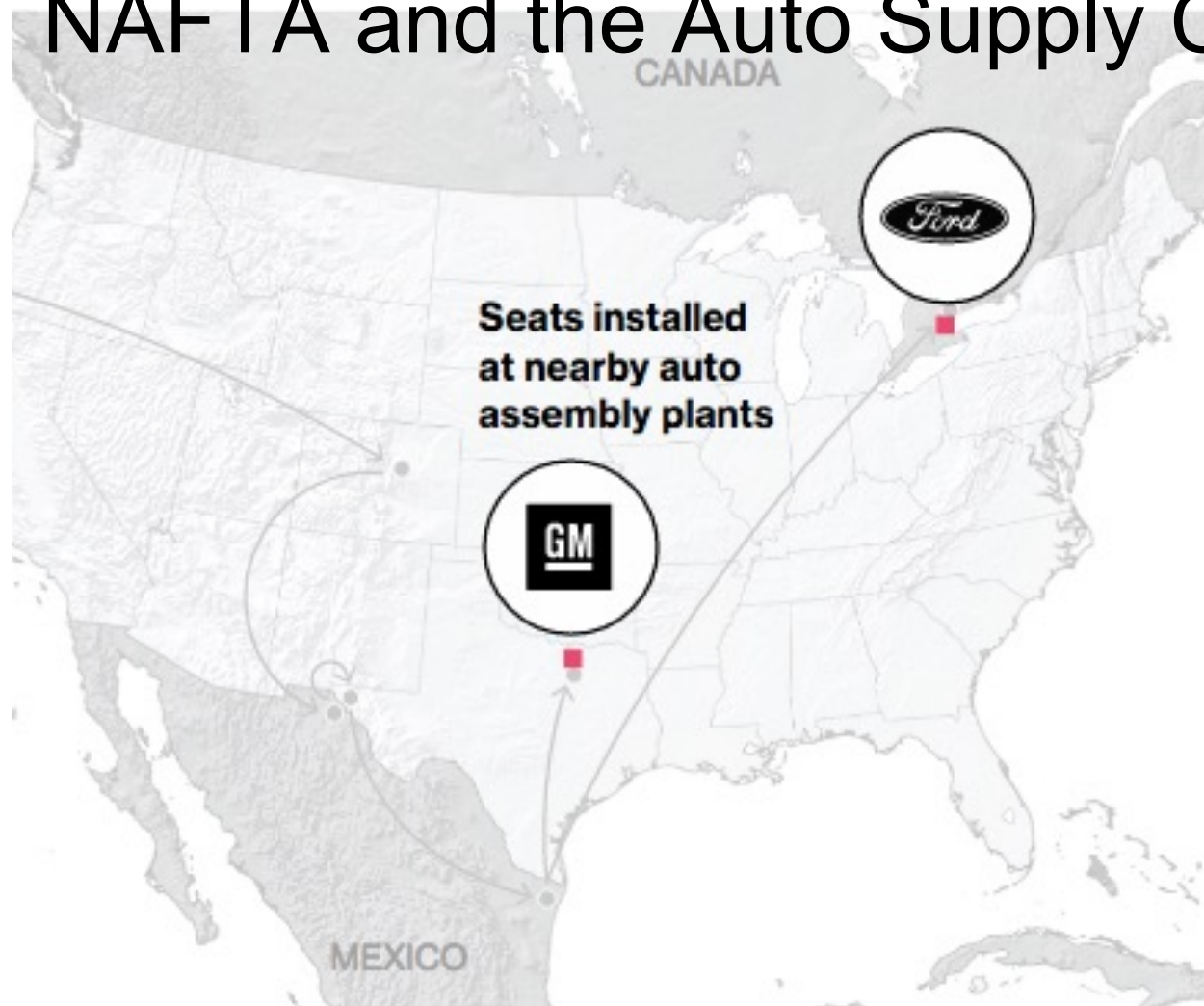
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NAFTA and the Auto Supply Chain



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NAFTA 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.”
 - 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 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 (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

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”?

Questions on Swanson & Tankersley

- Is Canada dropping its protectionist policies on dairy?
- Is intellectual property protection being increased or decreased?
- What is the Sunset Clause?

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?

Questions on Kaplan, “Complaint Accuses Mexican Factories ...”

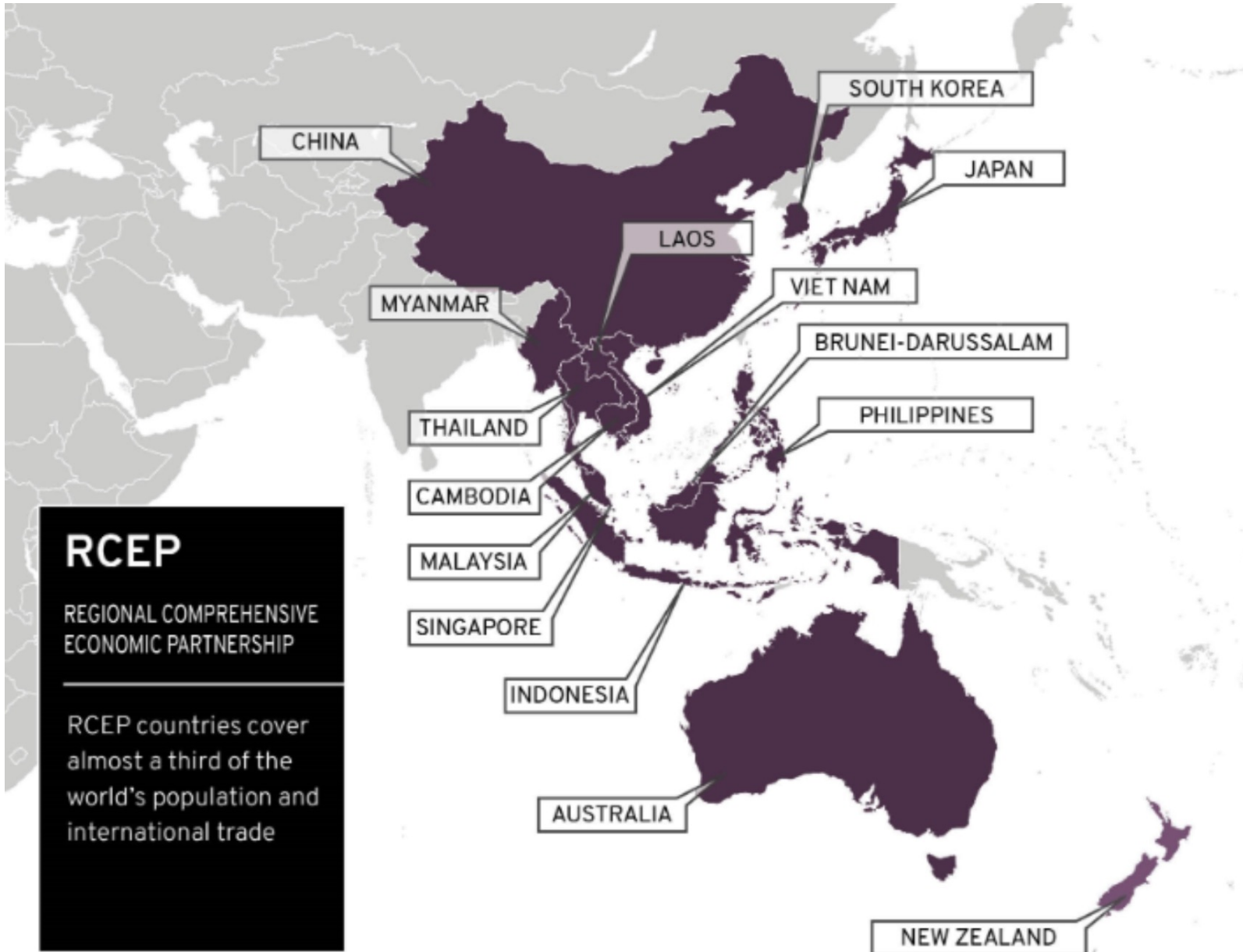
- What “trade pact” is being tested here, and in what sense?
- What is the company accused of doing?
- Does the company allow a union for its workers?
- Is the company Mexican owned?

Questions on Zumbrun, “U.S. Initiates Trade Dispute...”

- What does the US claim?
- What can you tell, from this, about the process for a dispute under the USMCA?
- Is dairy a new issue between the US and Canada?

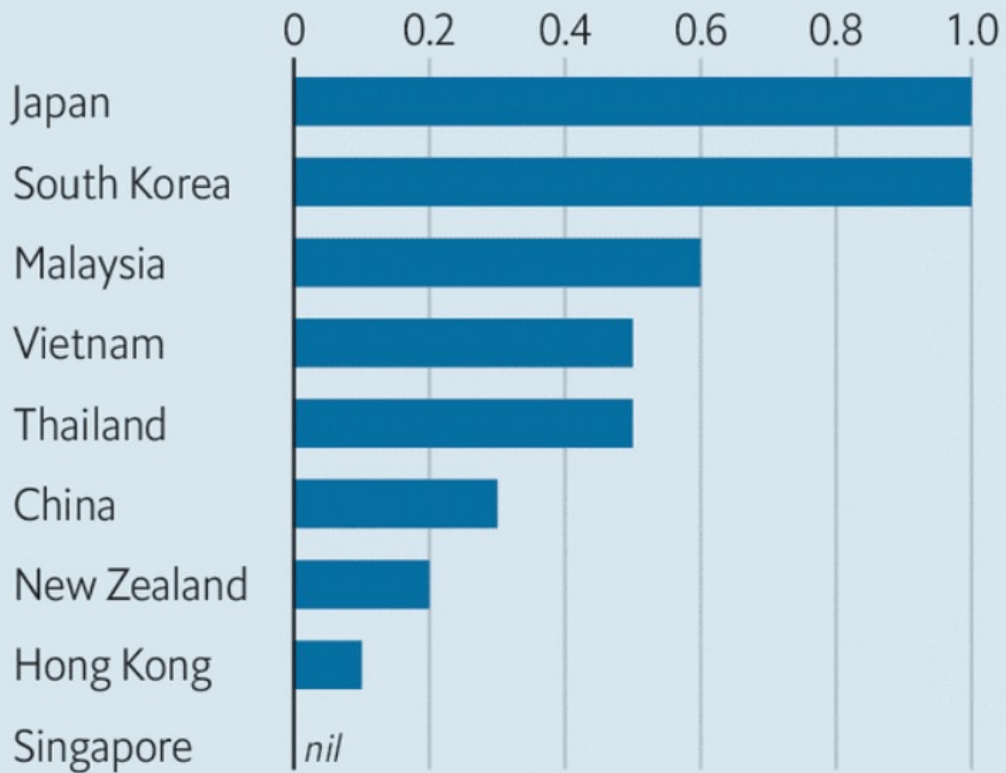
RCEP

- 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 recently dropped out
 - Signed Nov 15, 2020



Variable RCEPtion

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

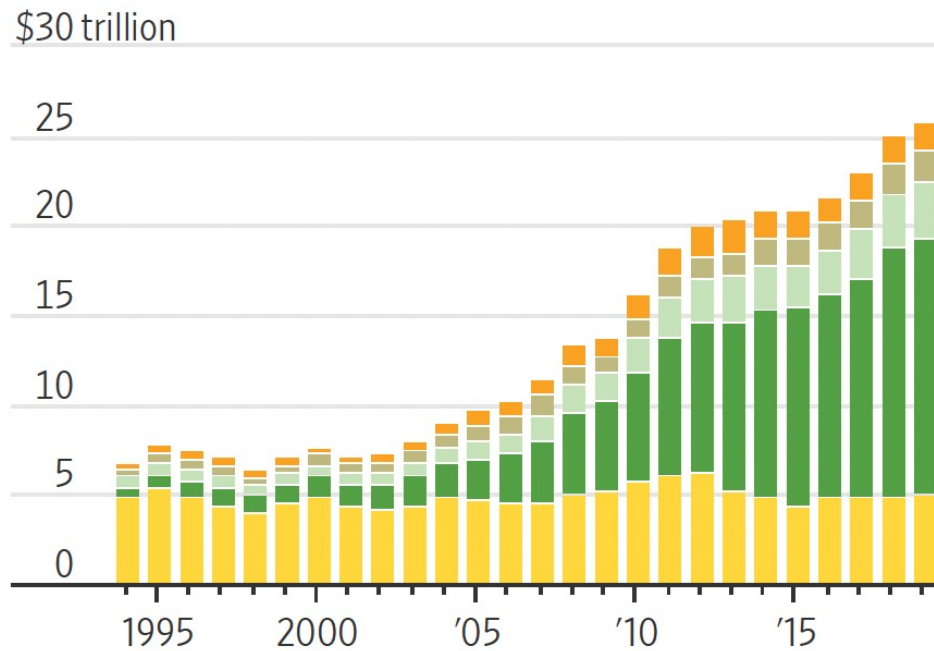


Source: Peterson Institute for
International Economics

*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 Economist, “Big Deal...”

- When was RCEP signed, by whom, and after how many years of negotiation?
- By when is it expected to be ratified?
- In what ways is RCEP weaker than other agreements?
- Of the trade of these countries, how much will be newly covered by a trade agreement? Why?

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

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 Bird, “...Japan’s Beef With American Farmers”

- Why are US beef exporters at a disadvantage selling to Japan?
- If beef exports by US or others to Japan surge in the future, will Japan levy a higher tariff?
- Why is this author hoping that the US will join CPTPP?

Questions on Donnan, “Biden’s Road Back to TPP”

- If this is about the US and TPP, why does it start with China and RCEP?
- What does this suggest to make rejoining TPP more palatable politically?

Other FTA News

- UK-US
 - Brexit was motivated, in small part, by UK wanting freedom to have FTA with US, which it could not do as part of EU customs union
 - US under Biden is not pursuing this
 - UK government still wants it, but population is concerned about US food standards
 - Chlorinated chicken

Pause for Discussion

Questions on Segal, “ ‘Chlorinated’ US Chickens... ”

- Why are chickens a sticking point in the negotiation of a trade agreement between the UK and the US?
- Why is this said to be a deeper issue than just chicken?
- What is the “precautionary principle” and how is it relevant here?
- How much of US chicken is actually chlorinated?

Other FTA News

- Africa: AfCFTA
 - “African Continental Free Trade Area”
 - Founded 2018, in effect since Jan 1, 2021
 - Includes 54 of the 55 African Union countries

Pause for Discussion

Questions on Pilling, “African countries not ready ...”

- How many had ratified it as of this writing?
- In what ways are the countries not ready?
- What is the main purpose of AfCFTA?
- What is the relevance of “economies of scale”?

Other FTA News

- EU and other
 - Switzerland:
 - Not EU member but has many agreements
 - Frictions may undermine these
 - India: Discussion of FTA has been renewed
 - Mercosur
 - EU-Mercosur FTA was signed in 2019
 - Still not ratified, and may never be

Pause for Discussion

Questions on FT, “Switzerland’s slow-motion Swexit”

- What, apparently, is “Swexit”? Is it Switzerland leaving the European Union?
- What benefits does Switzerland enjoy with respect to the EU?
- Who wanted these negotiations for a “framework agreement” and why?
- Was it the Swiss government that ended this by pulling out of the negotiations?

Questions on Fleming & Brunsden, “EU and India agree to relaunch ...”

- Have the EU and India had talks like these before?
- What motivates them to talk now?
- What are some of the contentious issues between them?

Questions on Brunsden & Fleming, “... EU ‘credibility’ on the line ...”

- What is holding it up the EU-Mercosur FTA?
- Does the agreement remove all of Mercosur’s tariffs on EU exports?
- How are views divided among EU countries?
- Why is re-opening the agreement said to be a bad idea? What is the alternative?

Other FTA News

- UK and other
 - First job after Brexit was to get new FTAs with EU FTA partners
 - Now free to do FTAs with new countries
 - Australia (as of Jun 16, 2021)
 - New Zealand (as of Oct 20, 2021)
 - Has also applied to join the CPTPP

Pause for Discussion

Questions on Economist, “Britain successfully rolled over”

- How many trade deals had the UK completed by the date of this article (January 20, 2021)?
- Why were these deals easier to reach than future ones will be?

Questions on Nelson, “Britain ... Deal With Australia ”

- How long did these negotiations take?
- Will this eliminate all tariffs? When?
- What will the UK be able to export more freely to Australia?
- Why is this a “gateway”?

Questions on Parker & Williams, “UK applies to join ...”

- What is the main benefit the UK Prime Minister Johnson seems to be hoping for by joining the CPTPP?
- Is he likely to get this benefit?
- Why are the economic benefits of UK joining CPTPP so small?

Other FTA News

- US and other
 - Negotiating with Taiwan
 - Earlier negotiations collapsed
 - Now restarting
 - Signed a “Limited Trade Deal” with Brazil
 - Note that Brazil is part of Mercosur, so not free to do FTA with US

Pause for Discussion

Questions on Zumbrun & Deng, “U.S., Taiwan Revive Trade Talks”

- These talks are being restarted. What had been a “sticking point” for such negotiations previously?
- The countries pledged to “keep supply chains free of forced labor”? Why?
- Do they expect an agreement as comprehensive as the USMCA?

Questions on Swanson, “U.S. to Sign ... Deal With Brazil”

- Why was Trump negotiating such “mini” trade deals, and with whom has he succeeded?
- Why could it be agreed and finalized so quickly?
- What does this say the deal will do?
- What does this do to tariffs?

Other FTA News

- Other
 - Uruguay is seeking FTAs with countries outside Mercosur

Pause for Discussion

Questions on Mander, “Uruguay roils Mercosur bloc ...”

- What countries are part of Mercosur, and what kind of trade agreement is it?
- Why does Uruguay want to do separate trade deals with outside countries?
- Is it possible for a member of Mercosur to agree on tariff cuts with outside countries?
- Does Mercosur as a group have any trade agreements with outside countries?

