

# PubPol/Econ 541

Class 20

## **FTAs and Other Trade Deals**

by

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2022

# Quiz

	Q6	Q7	Q8	Q9
Mean	7.20	7.20	7.50	6.30
Median	8	7.5	7	6.5
Max	9.5	10	10	10
Min	3	3.5	4.5	1
S.D.	1.86	1.65	1.76	2.39

# Pause for News

# Outline

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

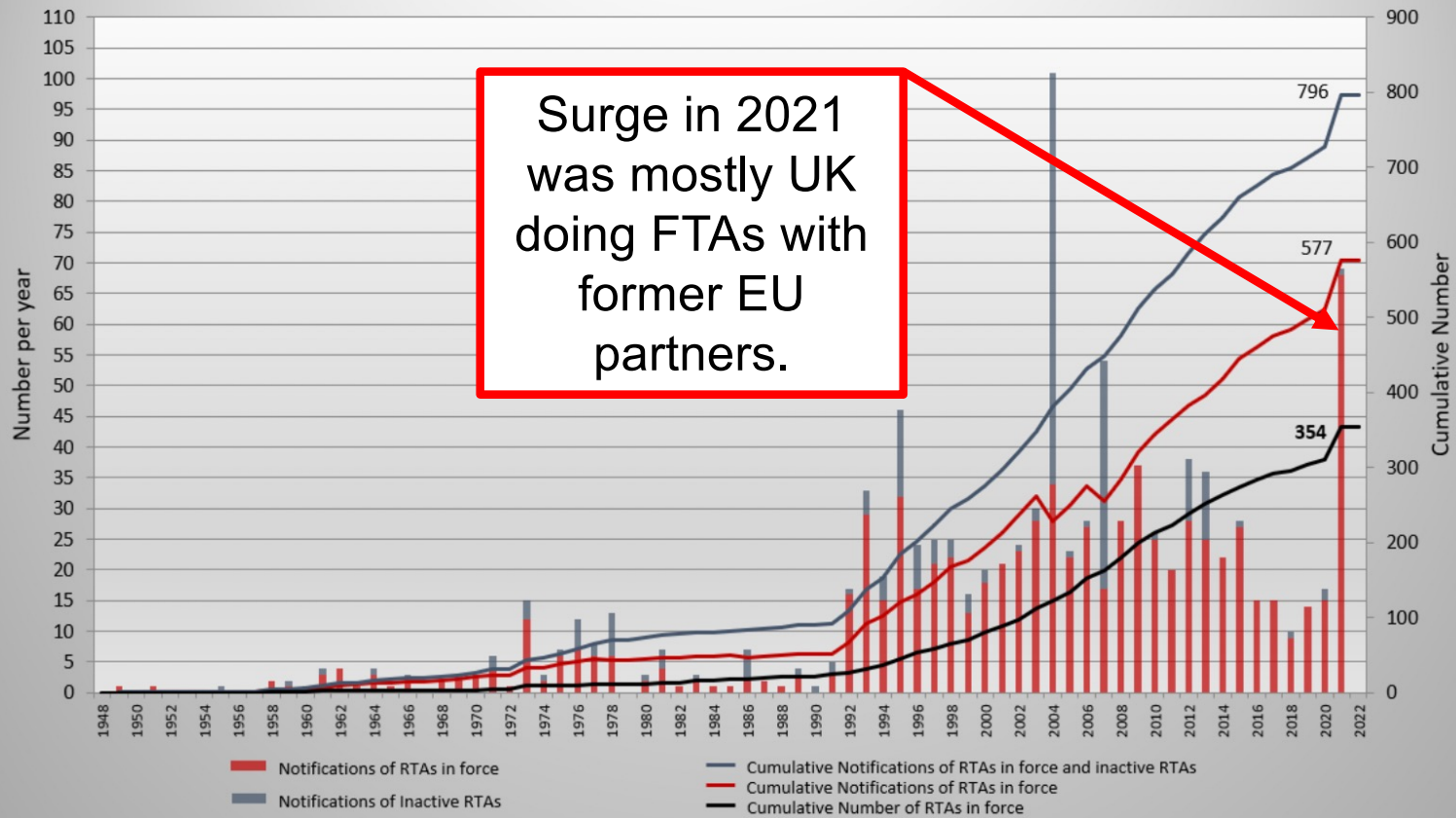
# FTAs in General

- 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, 1948-2022



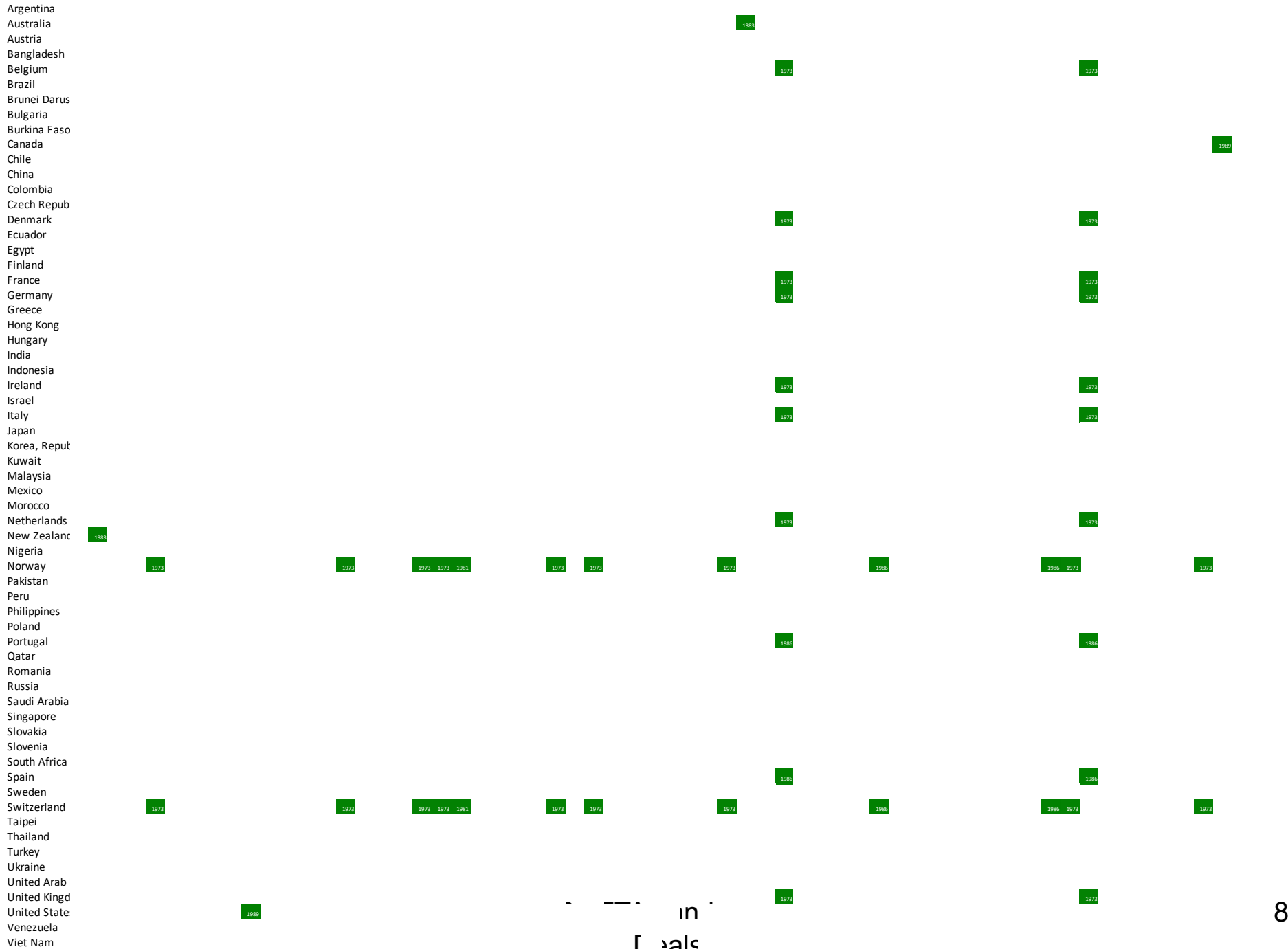
Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. The cumulative lines show the number of RTAs/notifications that were in force for a given year. The notifications of RTAs in force are shown by year of entry into force and the notifications of inactive RTAs are shown by inactive year.  
 Source: RTA Section, WTO Secretariat, March 2022.

Source: WTO

# Countries connected by FTAs only, as of 1990

1%

Arg Aus Aus Bar Bel Bra Bru Bul Bur Car Chil Chi Col Cze Der Ecu Egi Finl Fra Ger Gre Hor Hur Indi Indl Irel Isra Ital Jap Kor Kuv Ma Me Mo Net Nei Nig Nor Pak Per Phi Pol Por Qat Ror Rus Sau Sinj Slo Slo Sou Spa Swi Swi Taij Tha Tur Ukr Uni Uni Uni Ver Vie



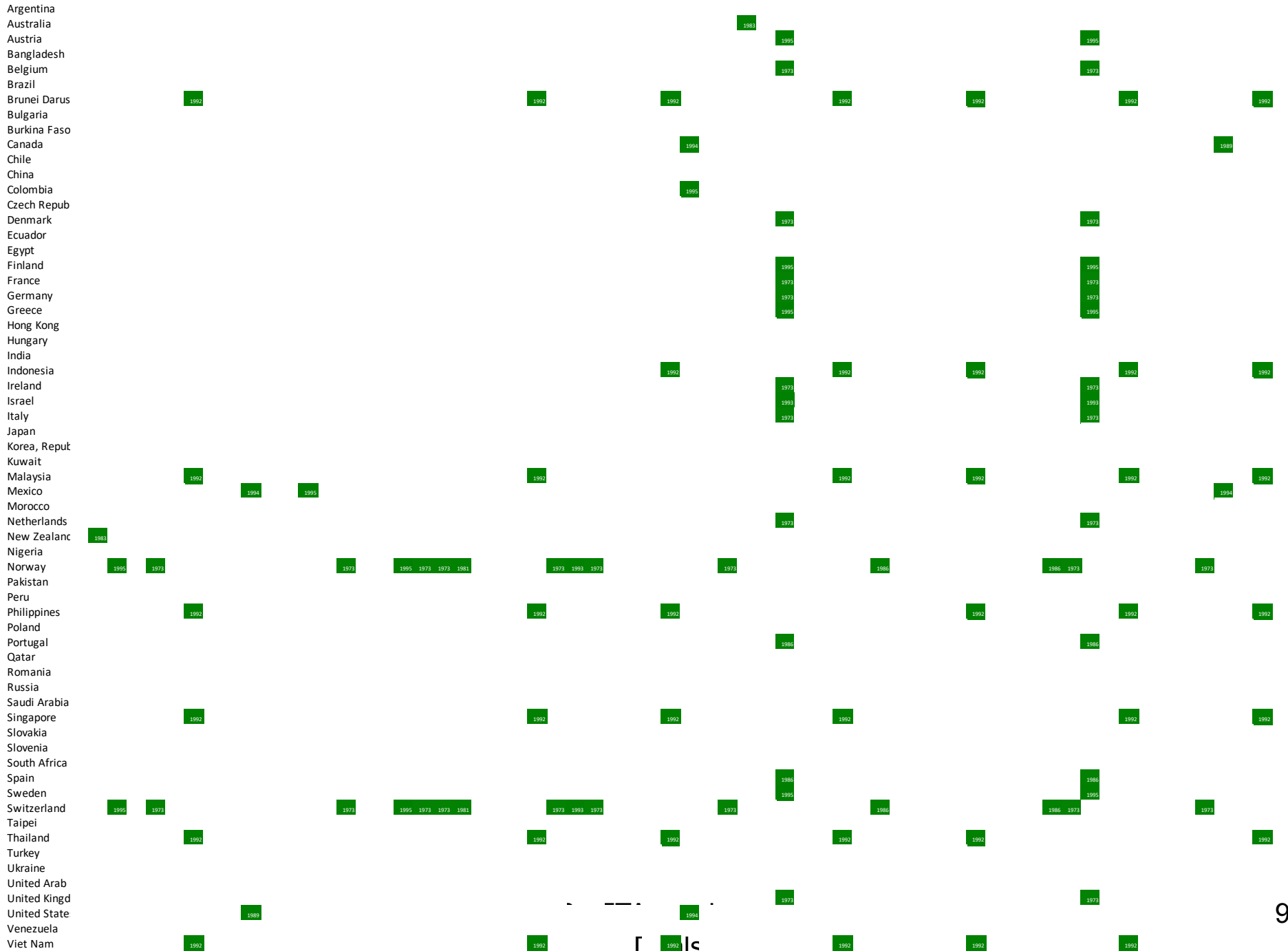
Goals



# Countries connected by FTAs only, as of 1995

3%

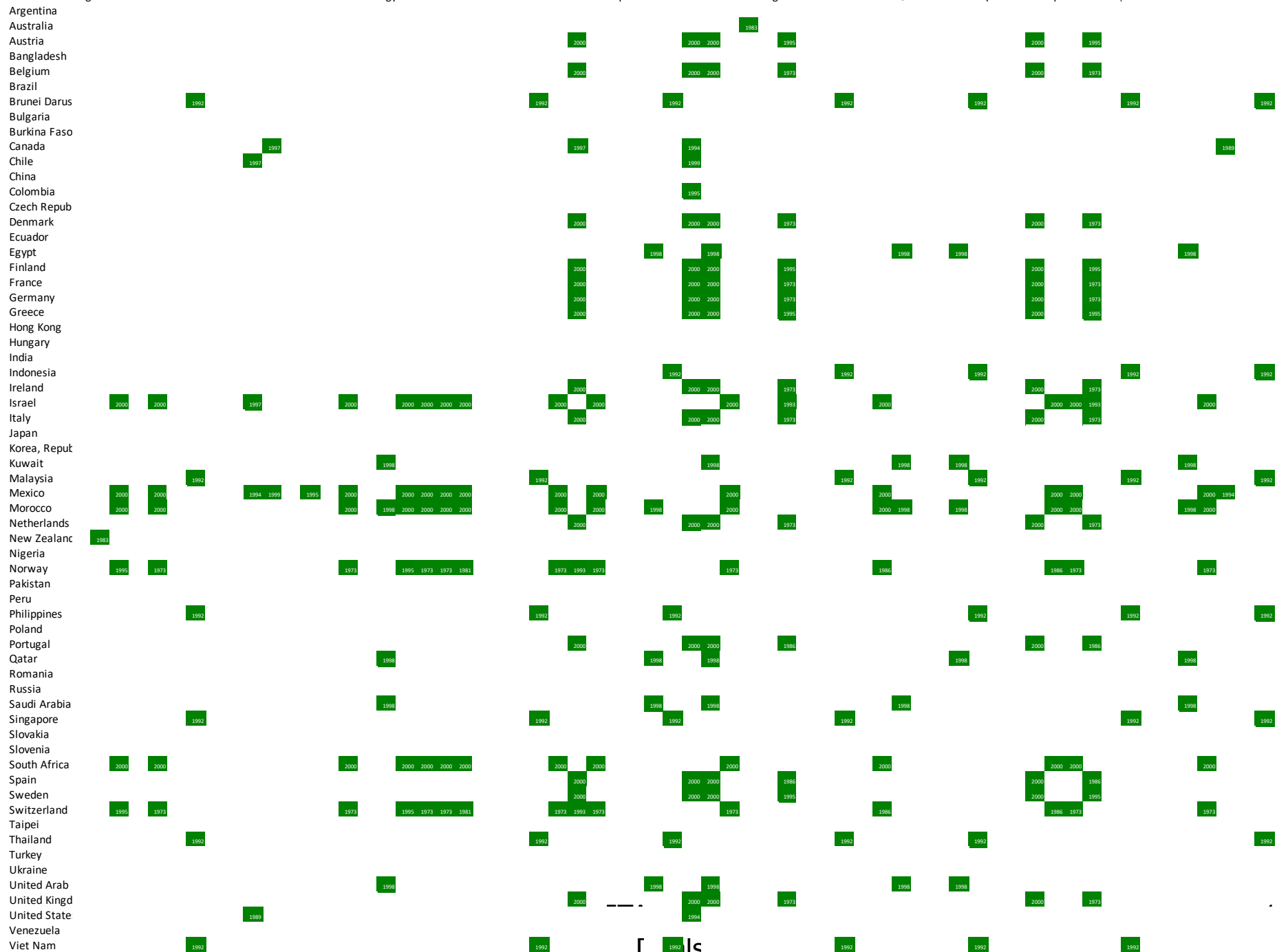
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# Countries connected by FTAs only, as of 2000

7%

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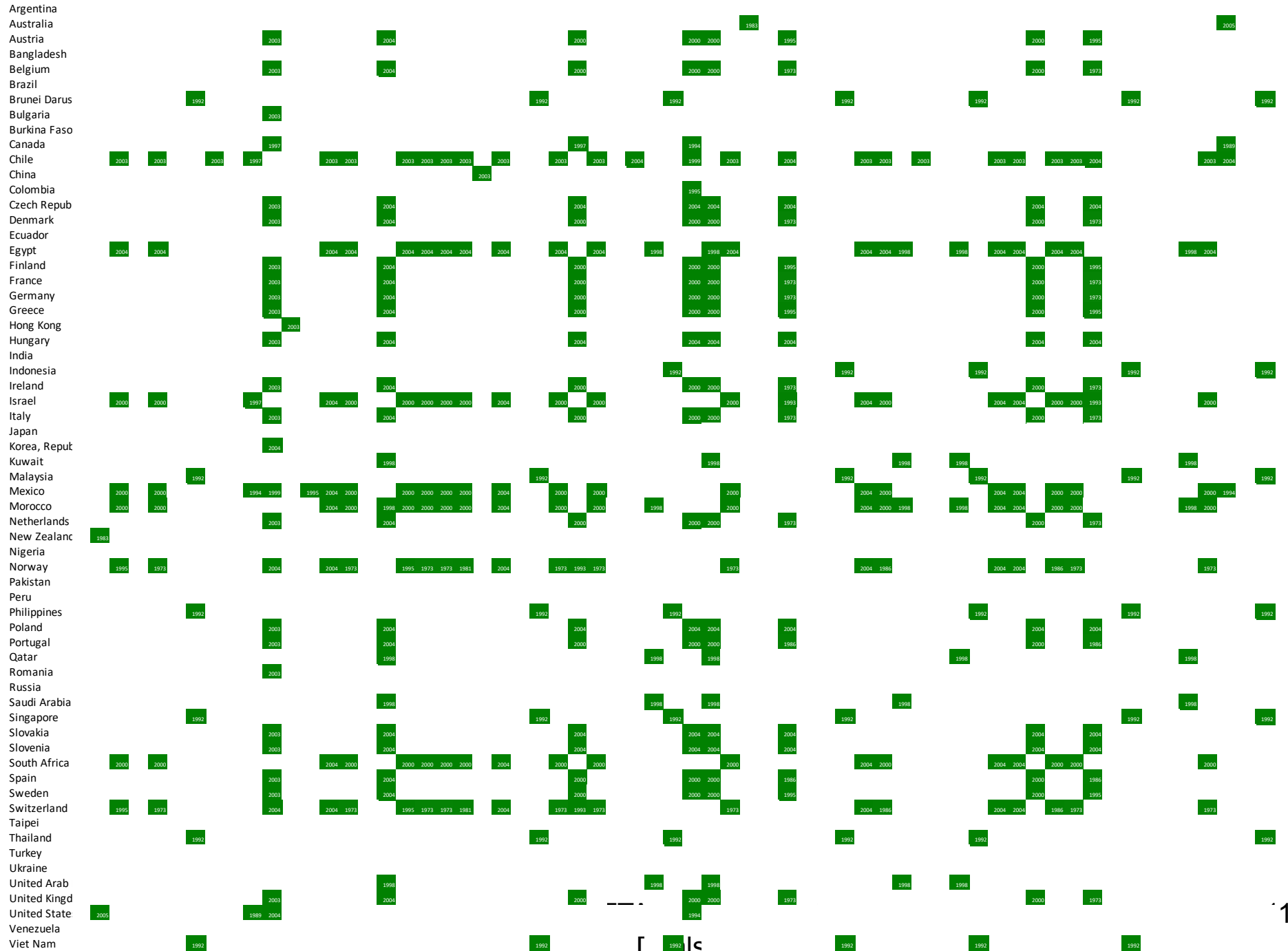
Labels

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# Countries connected by FTAs only, as of 2005

11%

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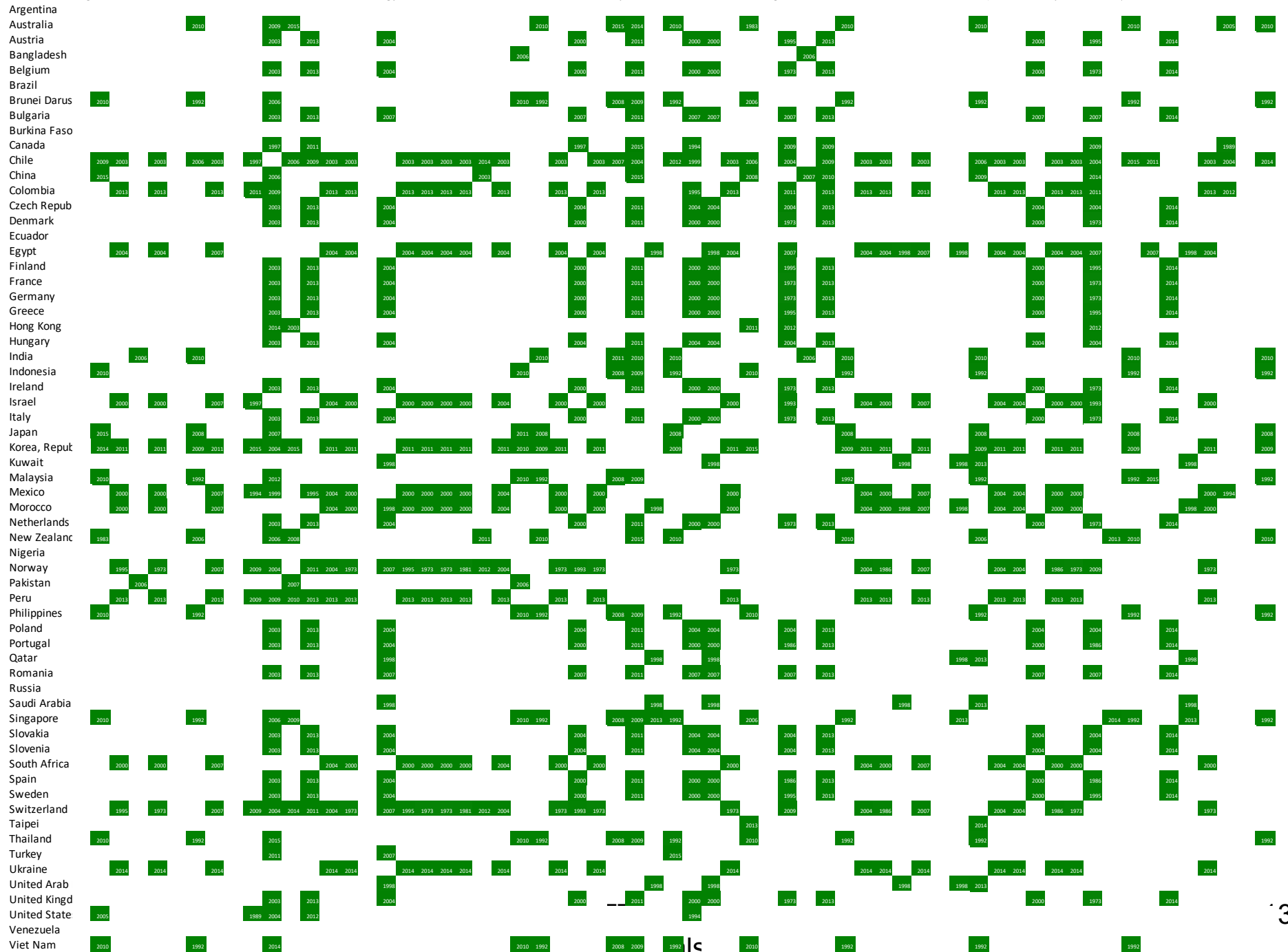
Levels



# Countries connected by FTAs only, as of 2015

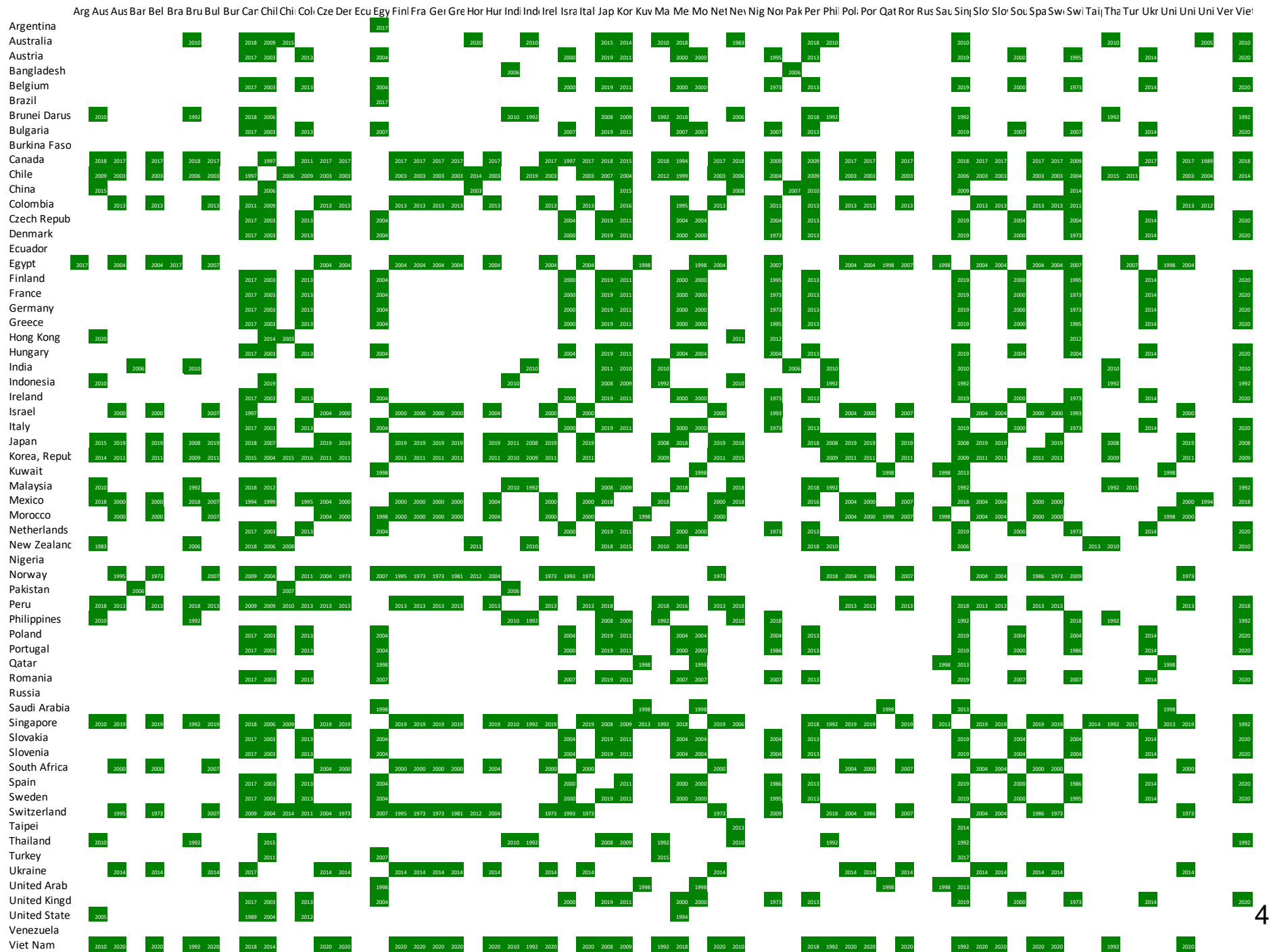
20%

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# Countries connected by FTAs only, as of 2020

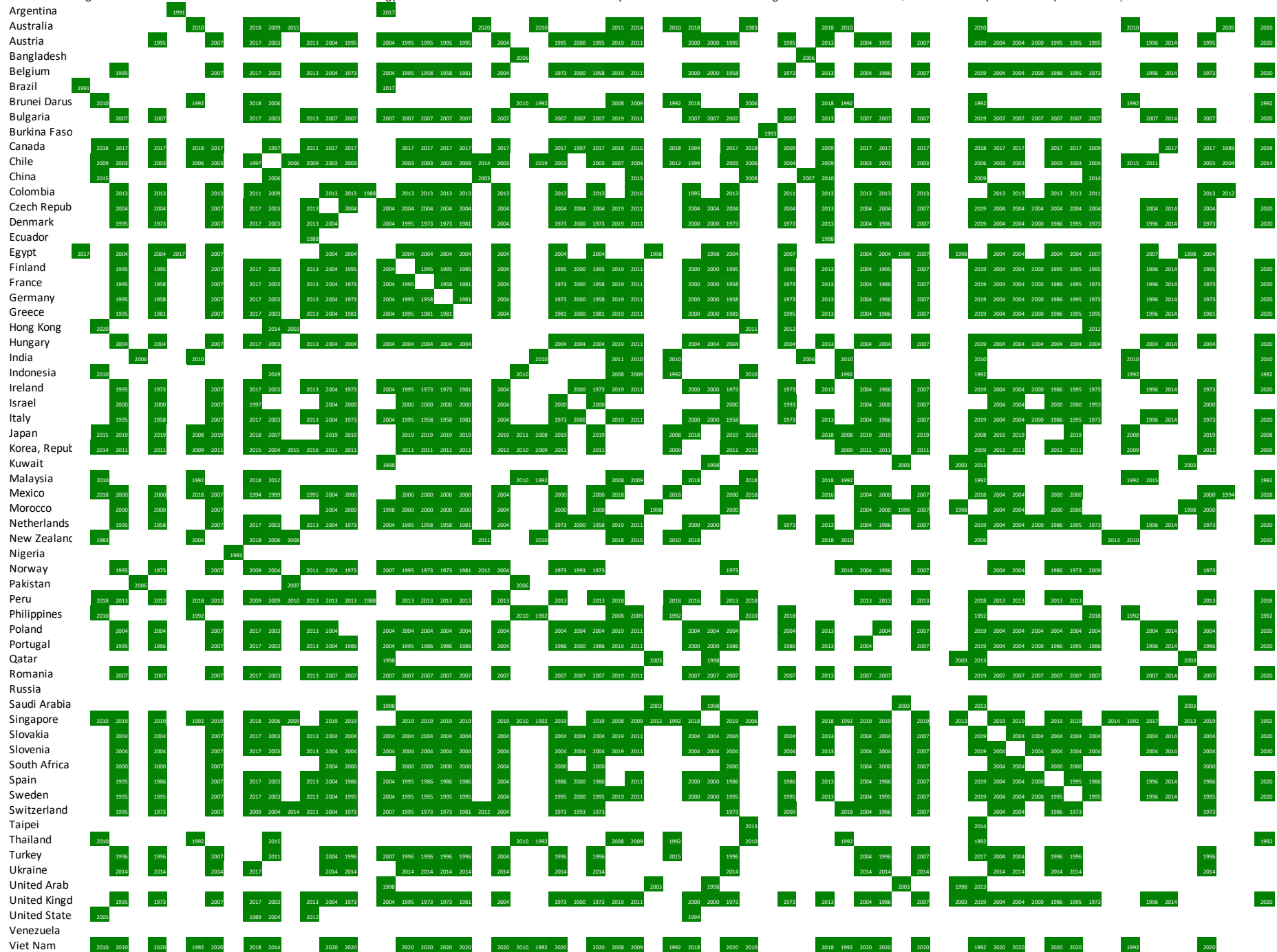
26%



# Countries connected by FTAs or CUs as of 2020

38%

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# Pause for Discussion



# Questions (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?

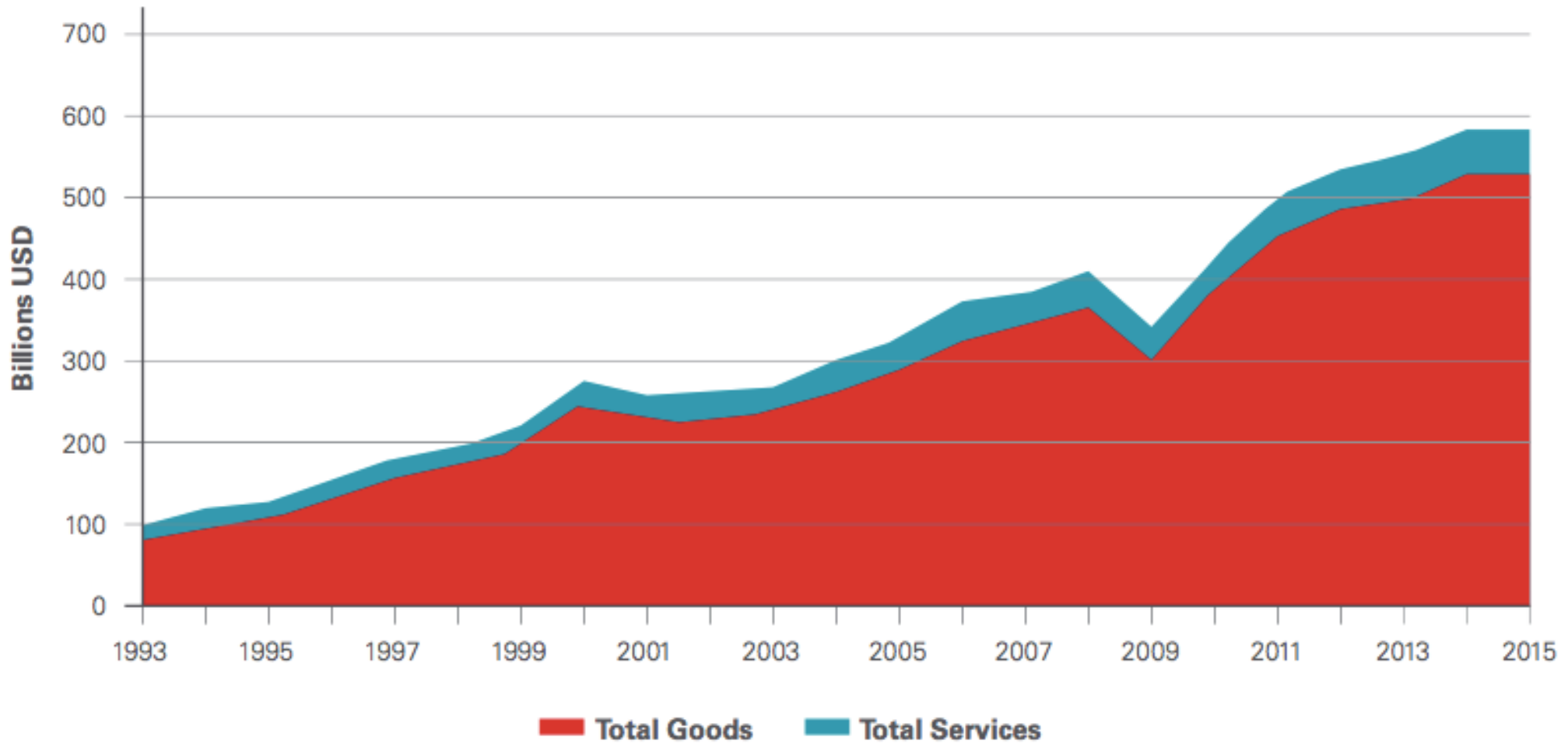
# NAFTA

- 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)

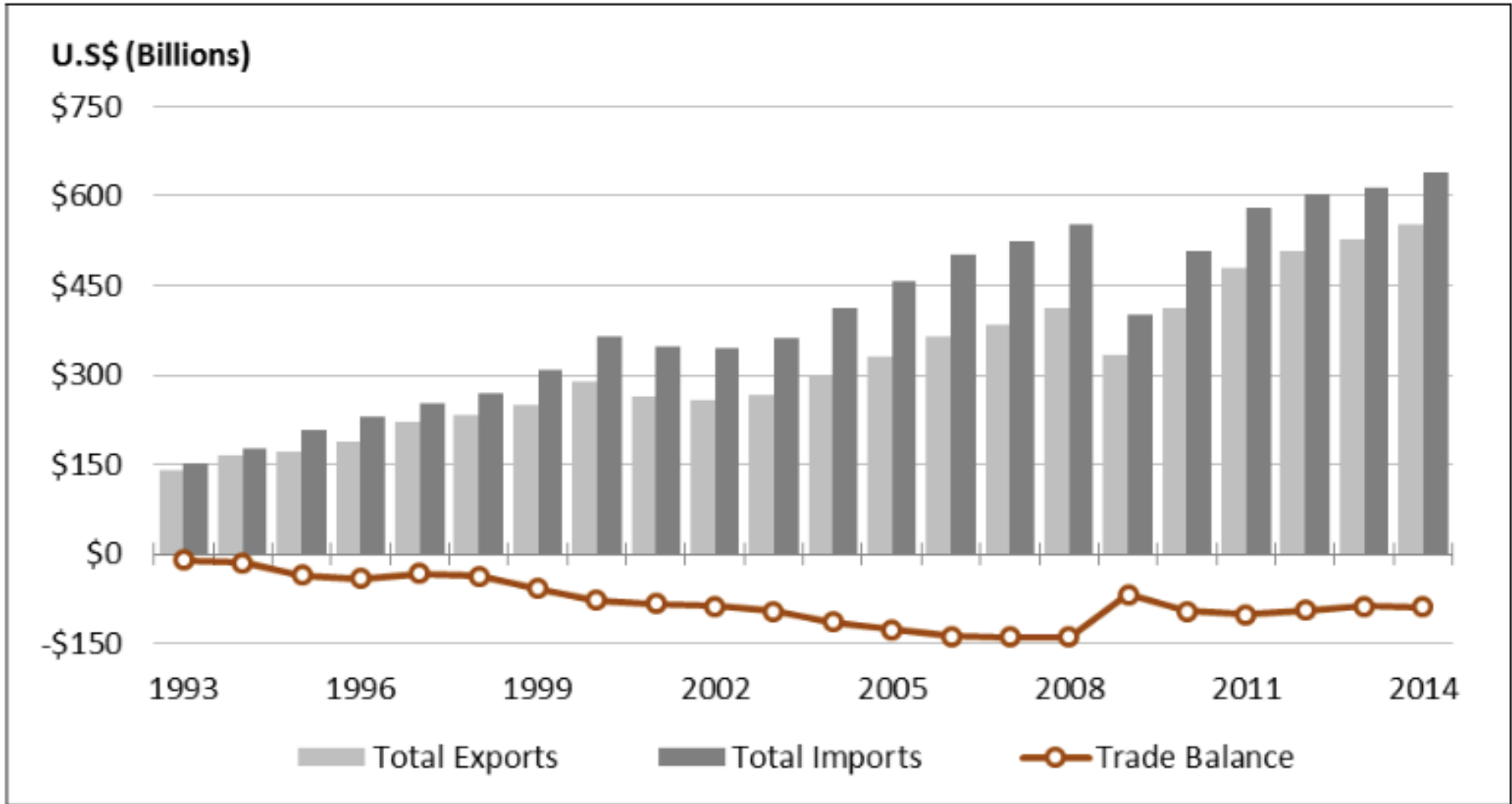


*Source: U.S. Census Bureau for goods trade; U.S. Bureau of Economic Analysis and OECD for services trade. See endnote two for more details.*

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

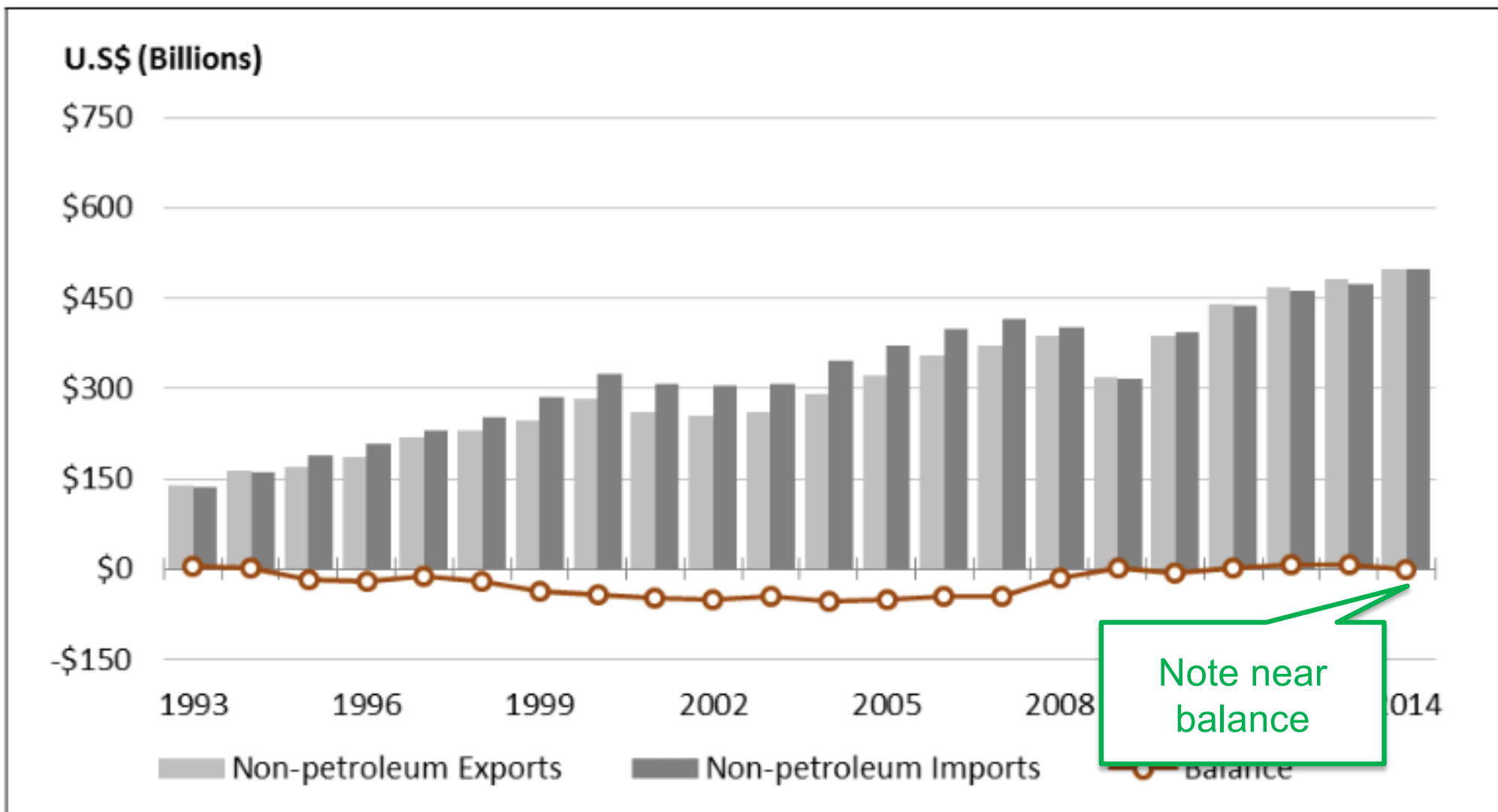
**Figure I. U.S. Merchandise Trade with NAFTA Partners: 1993-2014**

(billions of nominal U.S. dollars)



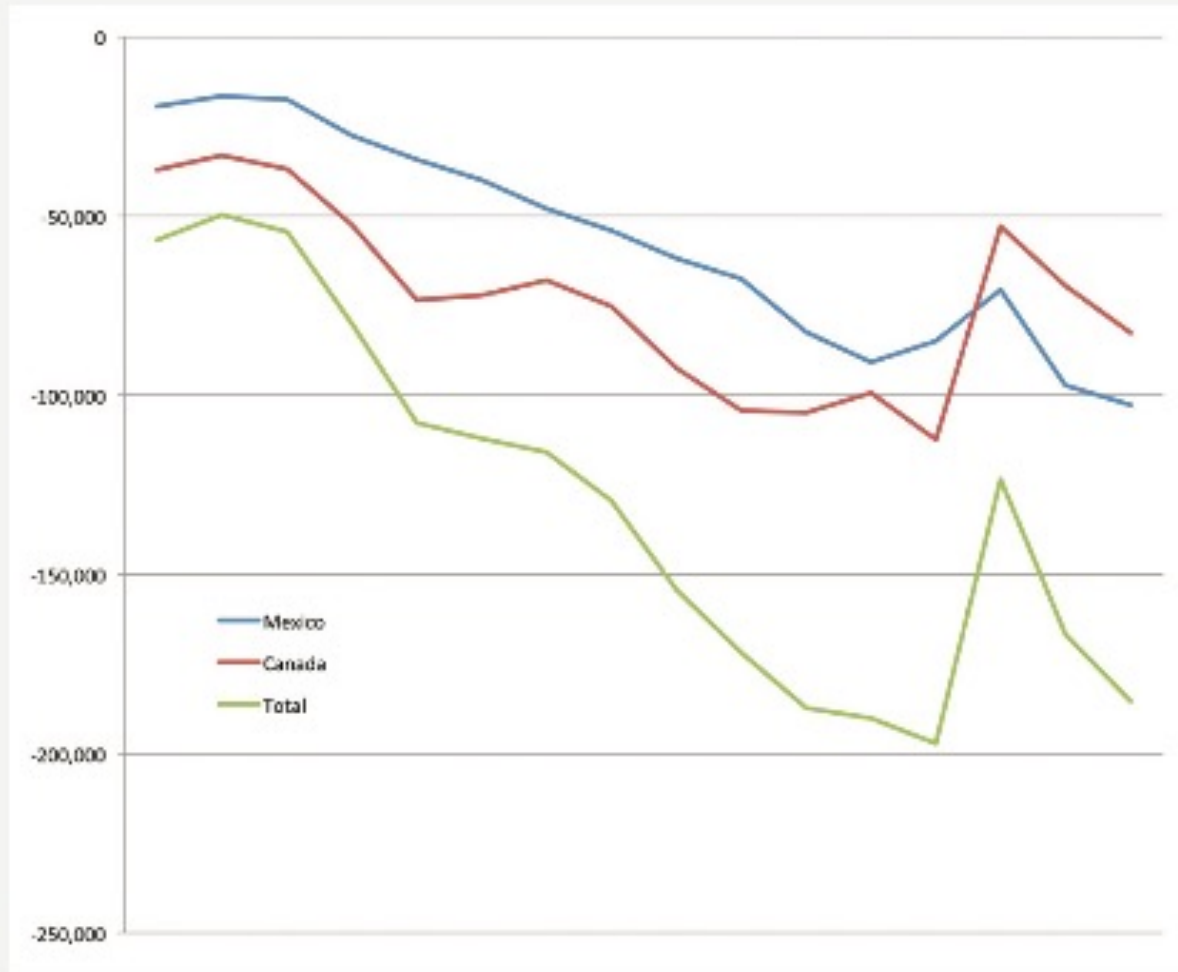
**Figure 2. Non-Petroleum Trade with NAFTA Partners: 1993-2014**

(billions of nominal U.S. dollars)



Note near balance

## 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"

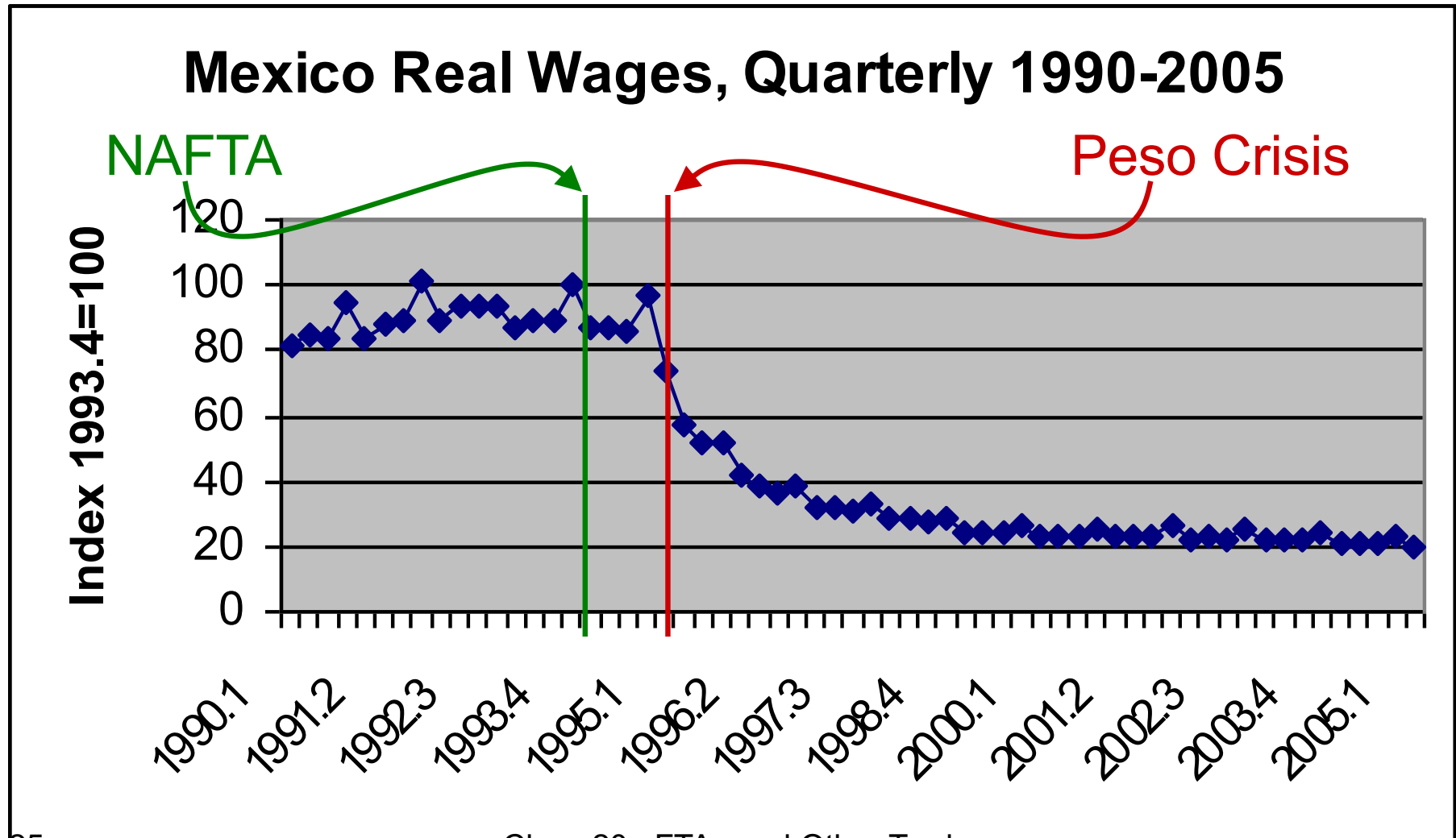
# NAFTA Effects

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



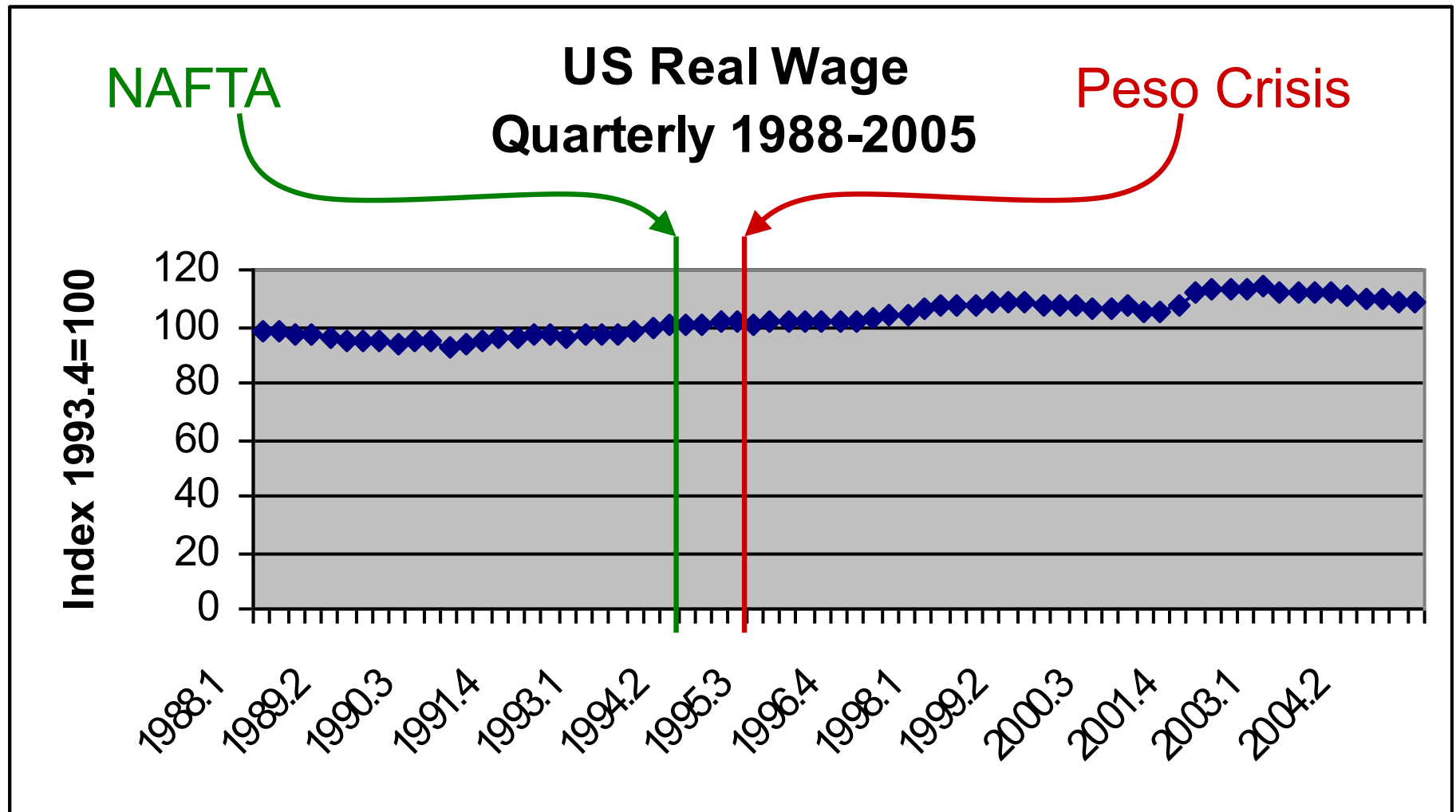
# What Happened: Mexico

## Real Wages Plummeted!



# What Happened: U.S.

Real Wage: No Change

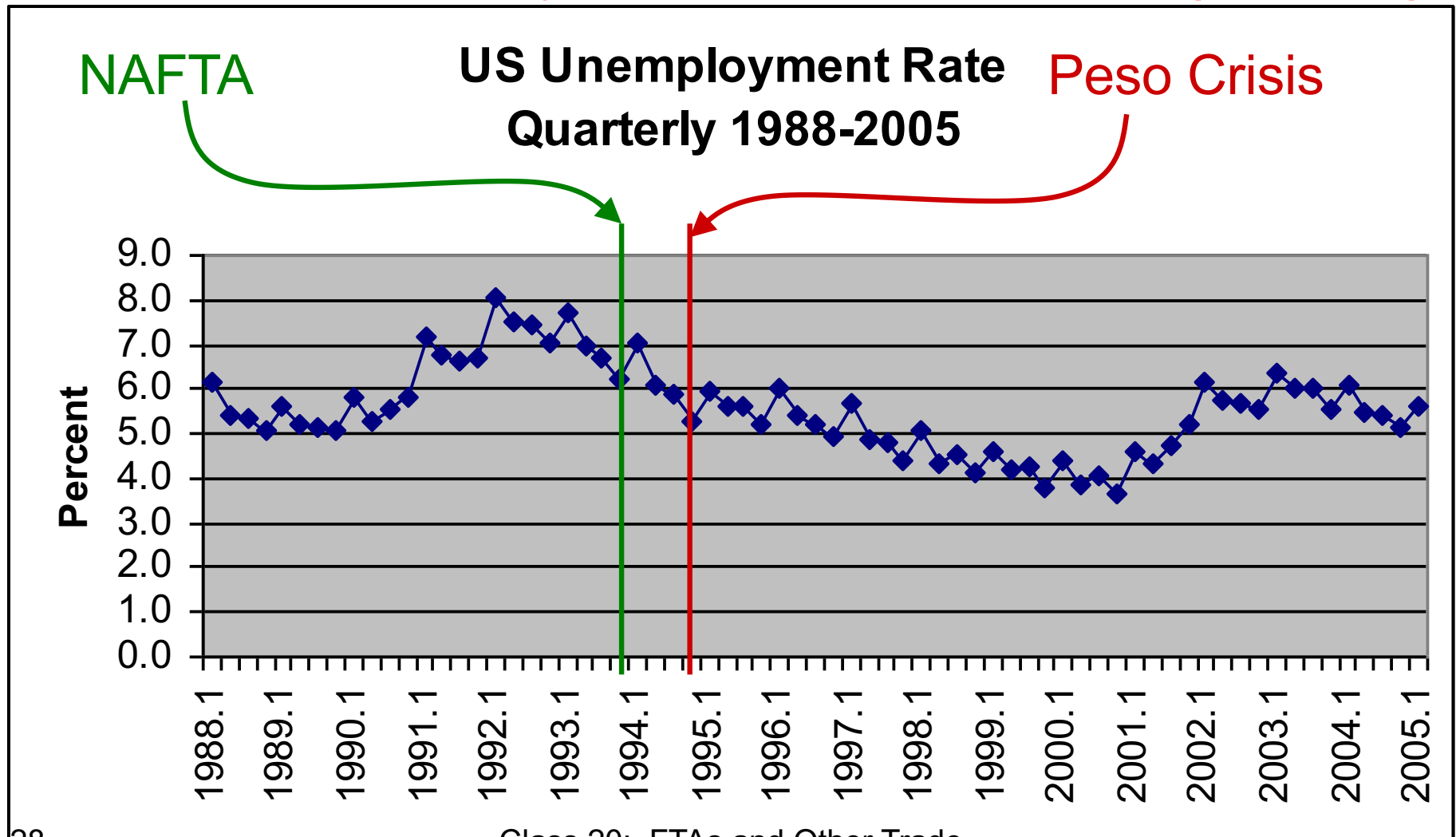


# NAFTA Effects

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

# What Happened: U.S.

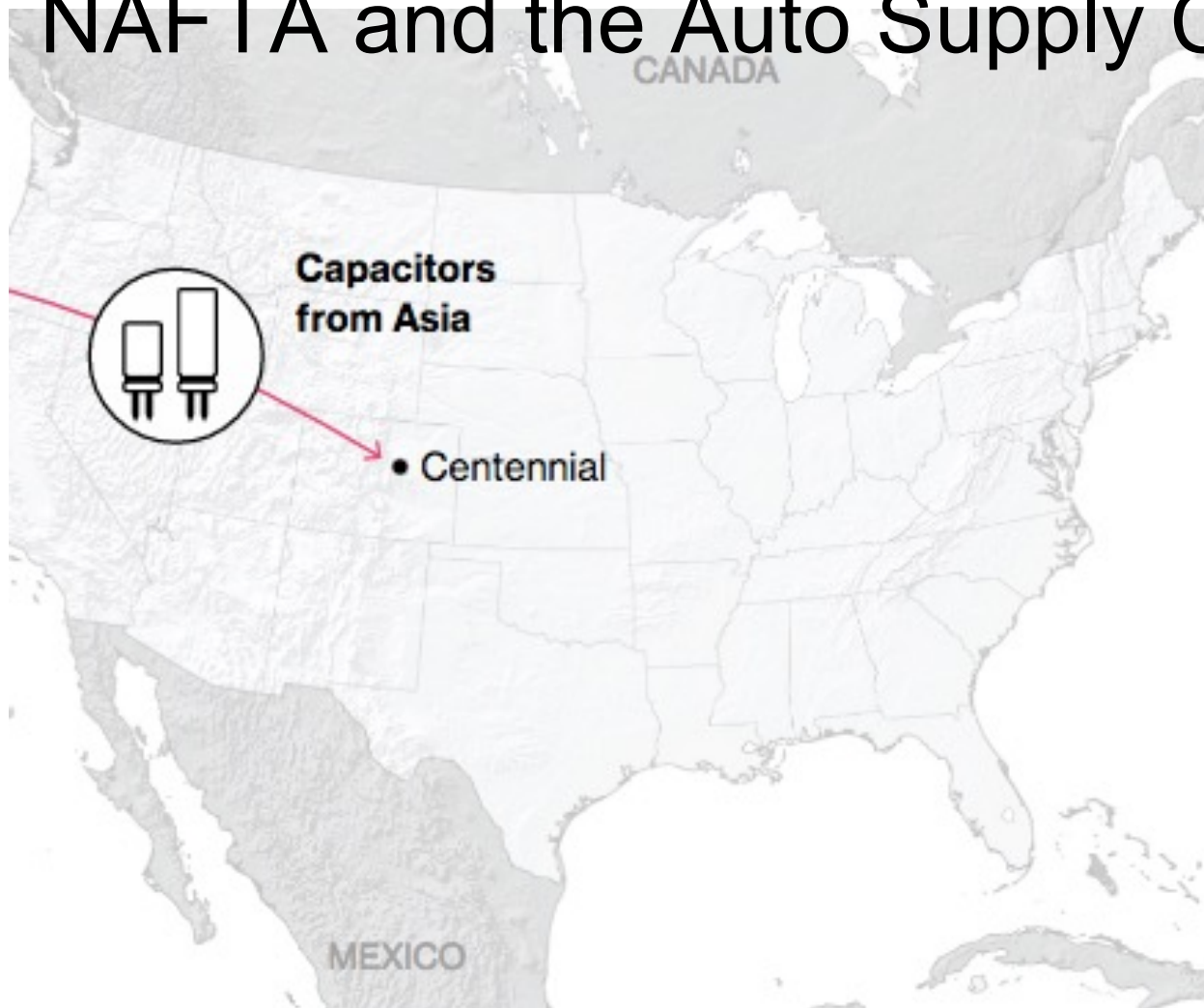
Unemployment: No effect (or fell)



# NAFTA Effects

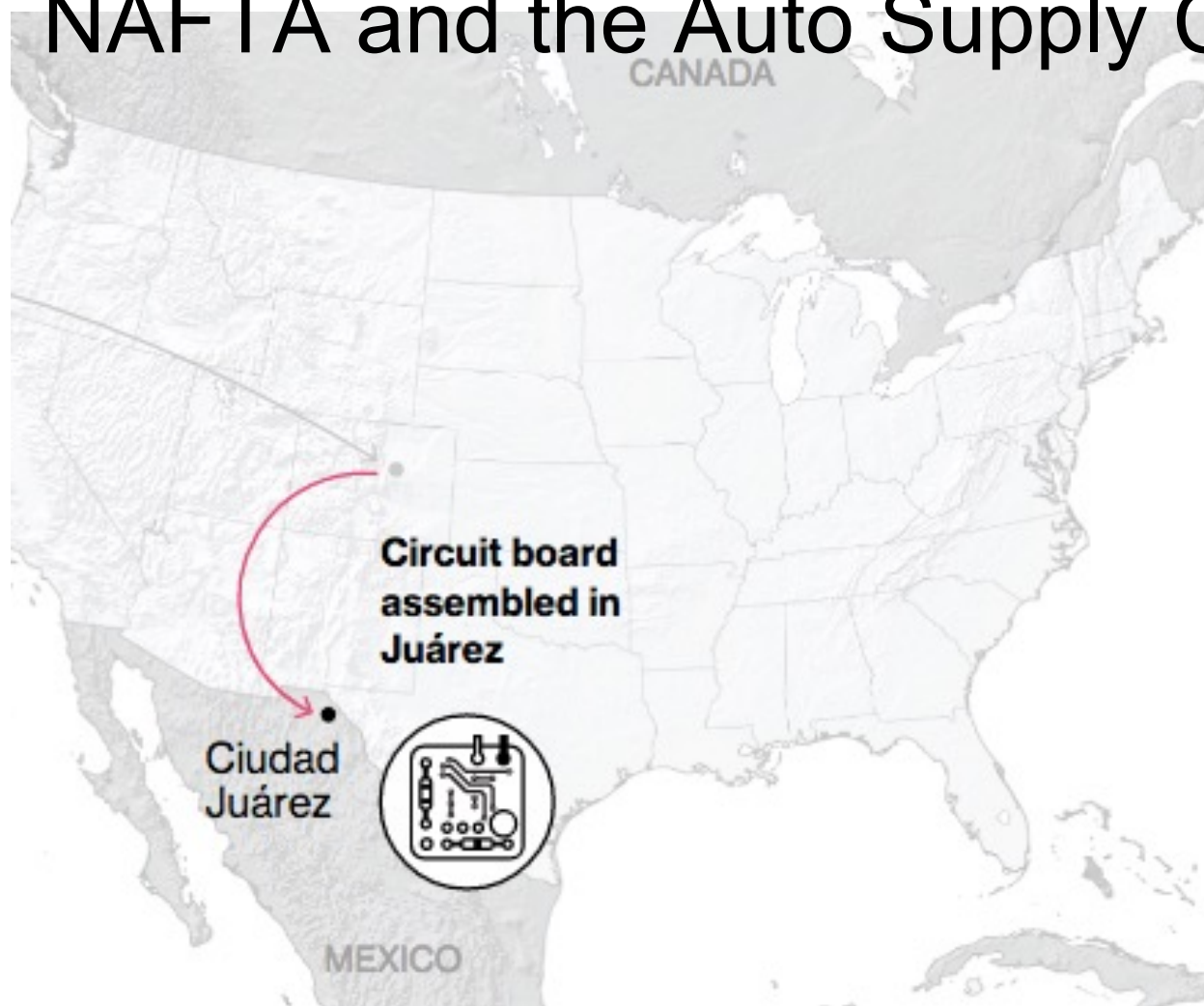
- Supply chains
  - US manufacturing moved inputs to low-cost locations across N. America

# NAFTA and the Auto Supply Chain



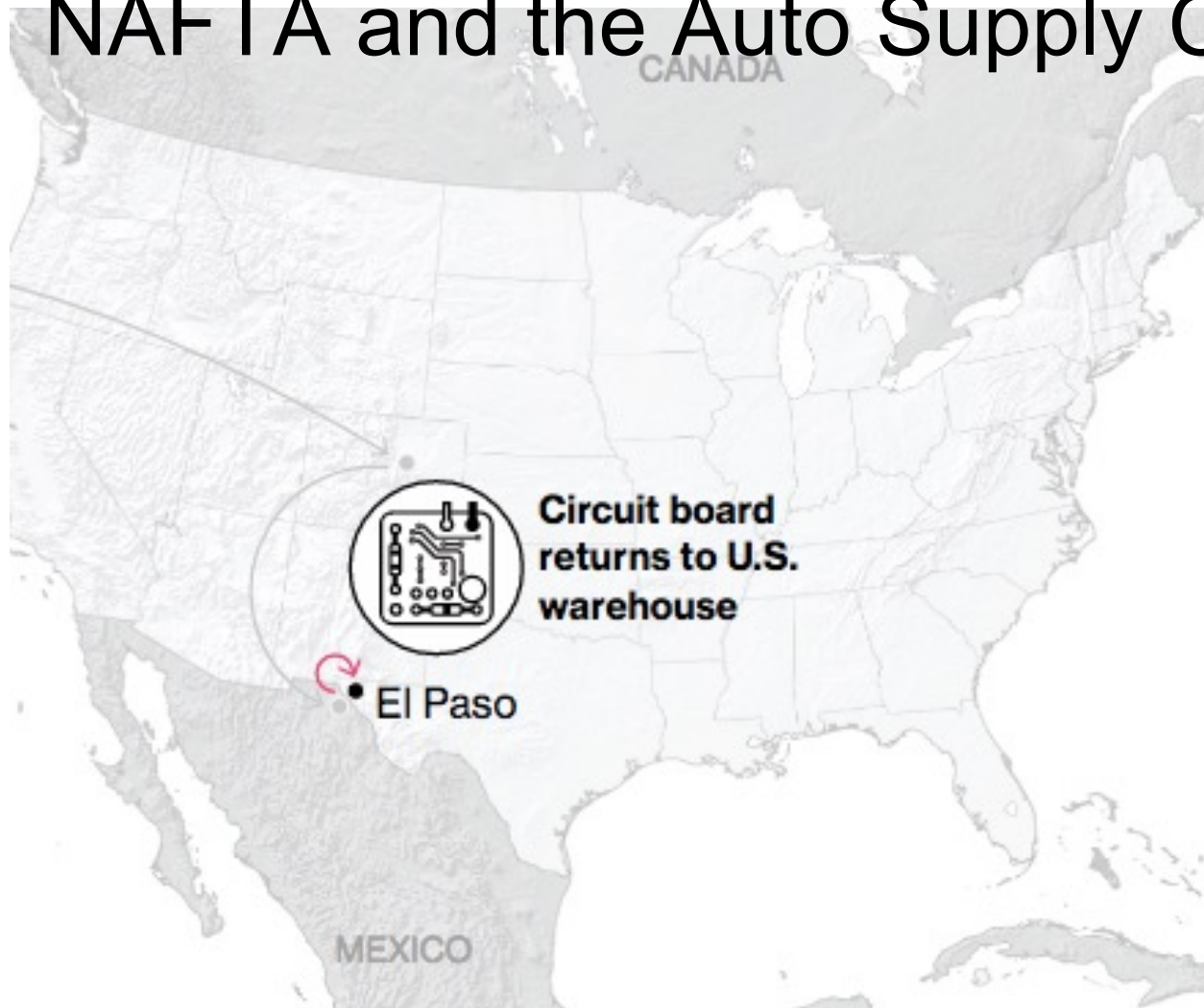
Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

# NAFTA and the Auto Supply Chain



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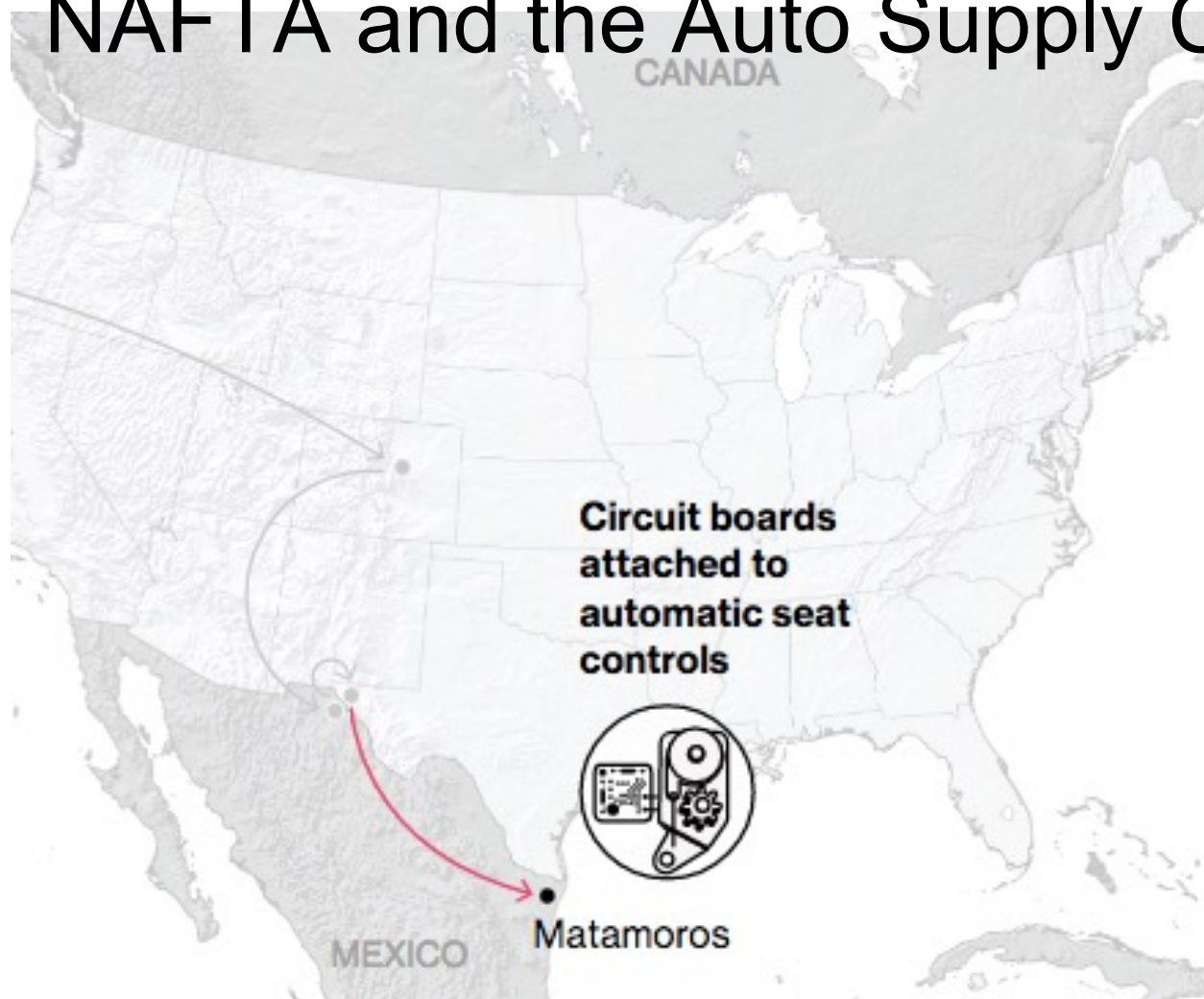
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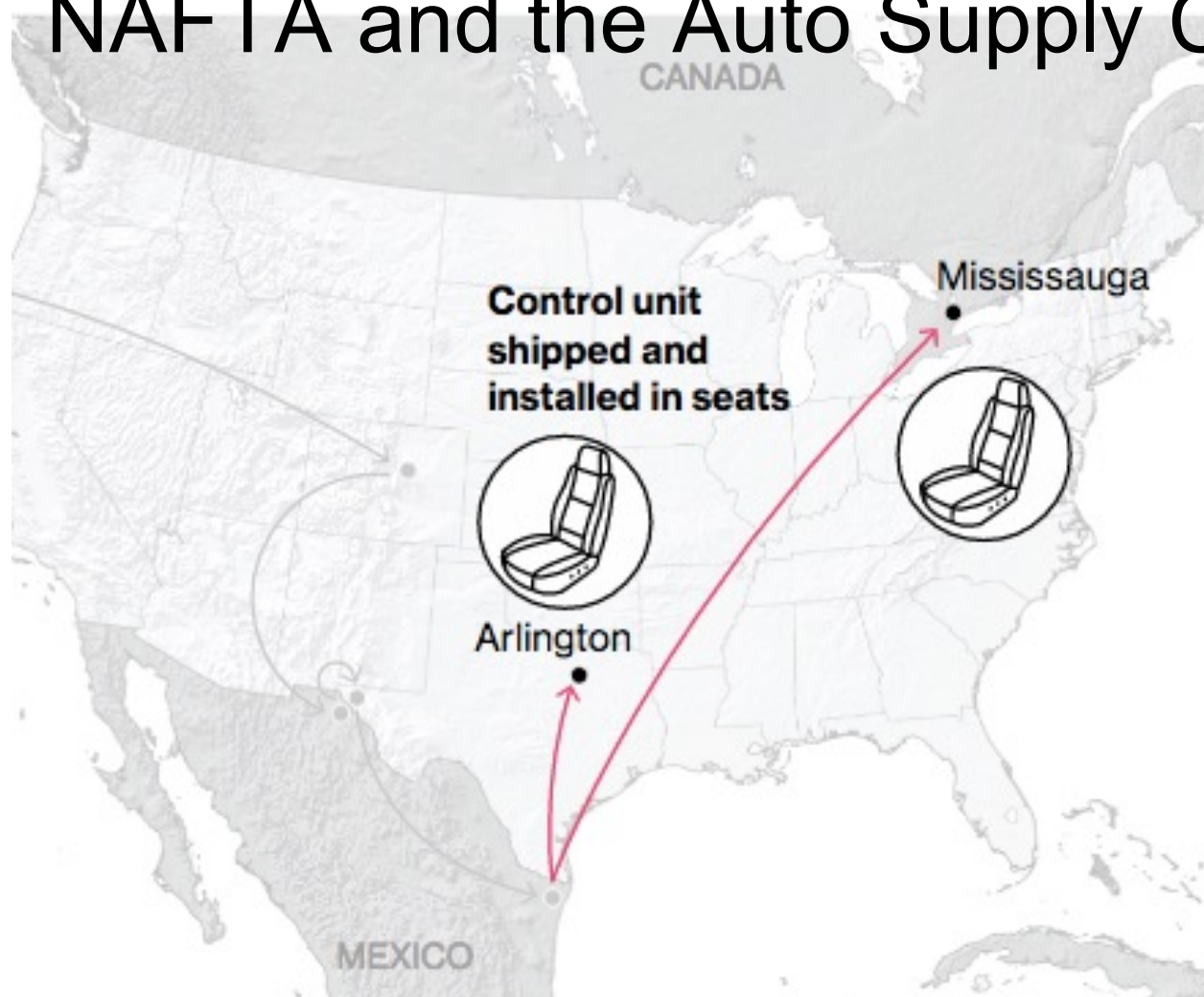


# NAFTA and the Auto Supply Chain



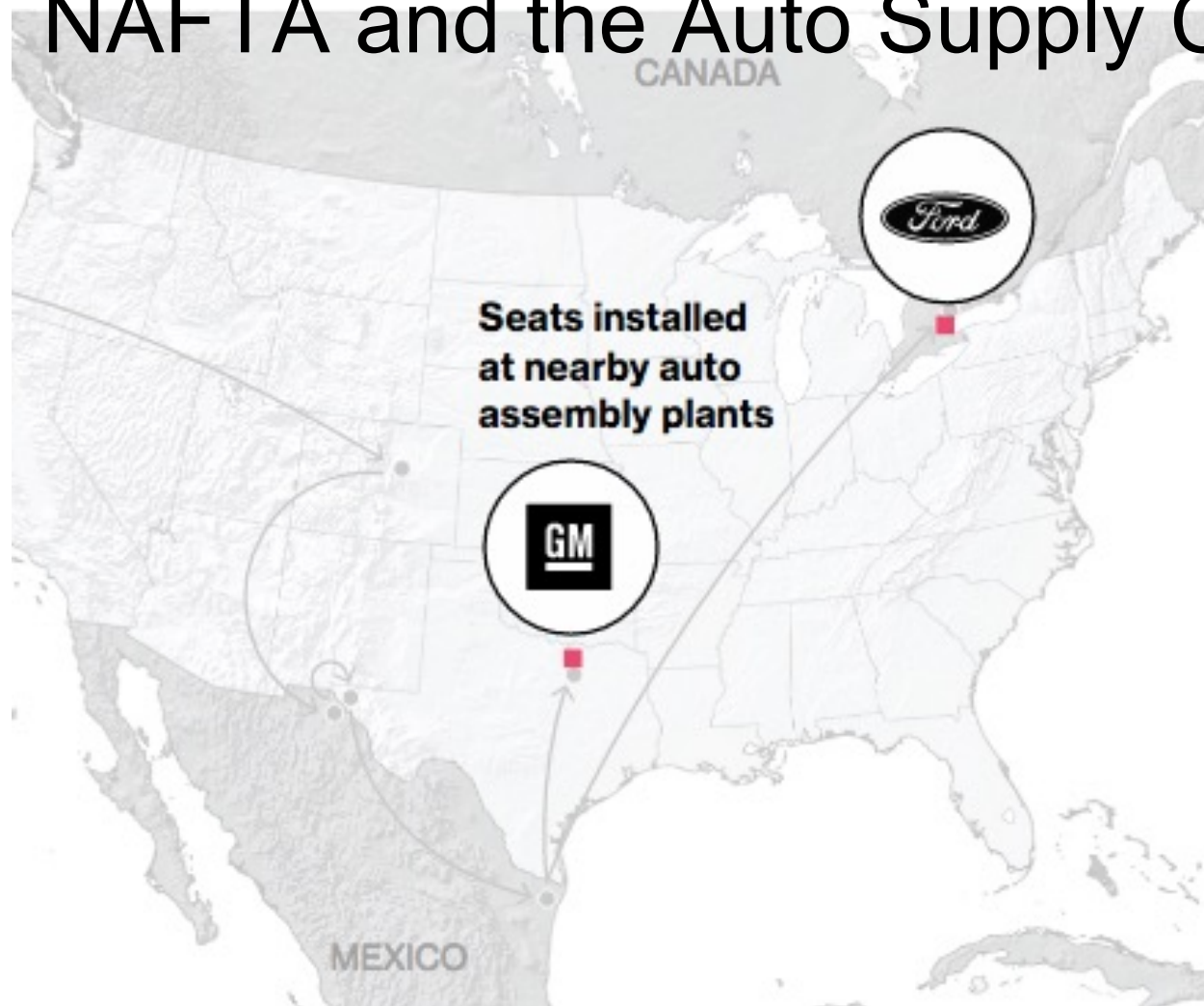
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Black, Diamond, and Merrill, "One Tiny Widget's Dizzying Journey Shows Just How Critical Nafta Has Become," *Bloomberg*, February 2, 2017.

# 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 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”?

# 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 Zumbun, “U.S. Prevails Over Canada...”

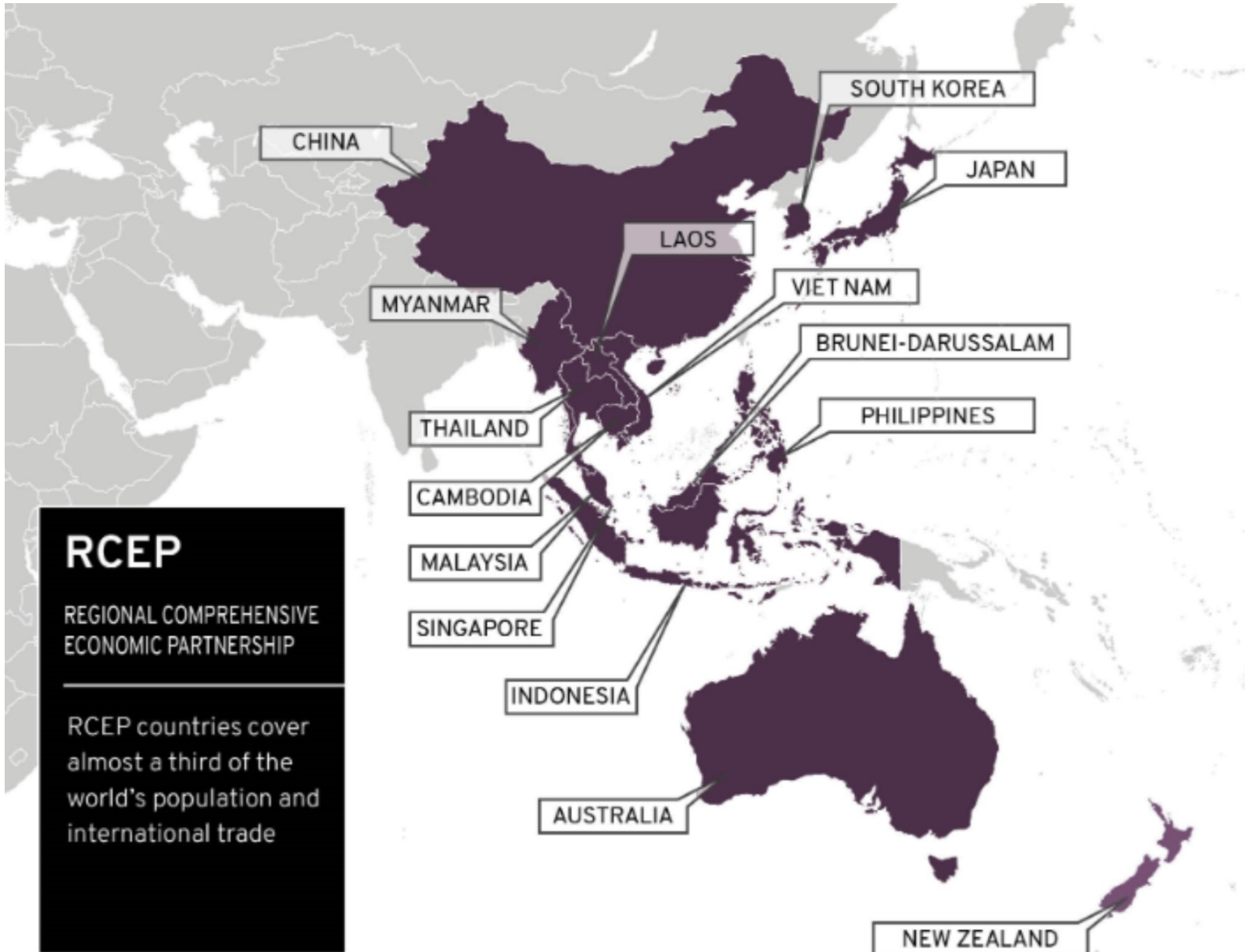
- Who made this decision favoring the US?
- If Canada does not respond as instructed, what will the US do?
- What Canadian policies did the US object to?

# Questions on Agren, “US, Canada Launch Dispute ...”

- At what stage is this dispute?
- If they don't resolve the issue in this stage, what happens next? Tariffs?
- What are the US and Canada complaining about Mexico doing?
- Does this have anything to do with clean energy?

# RCEP

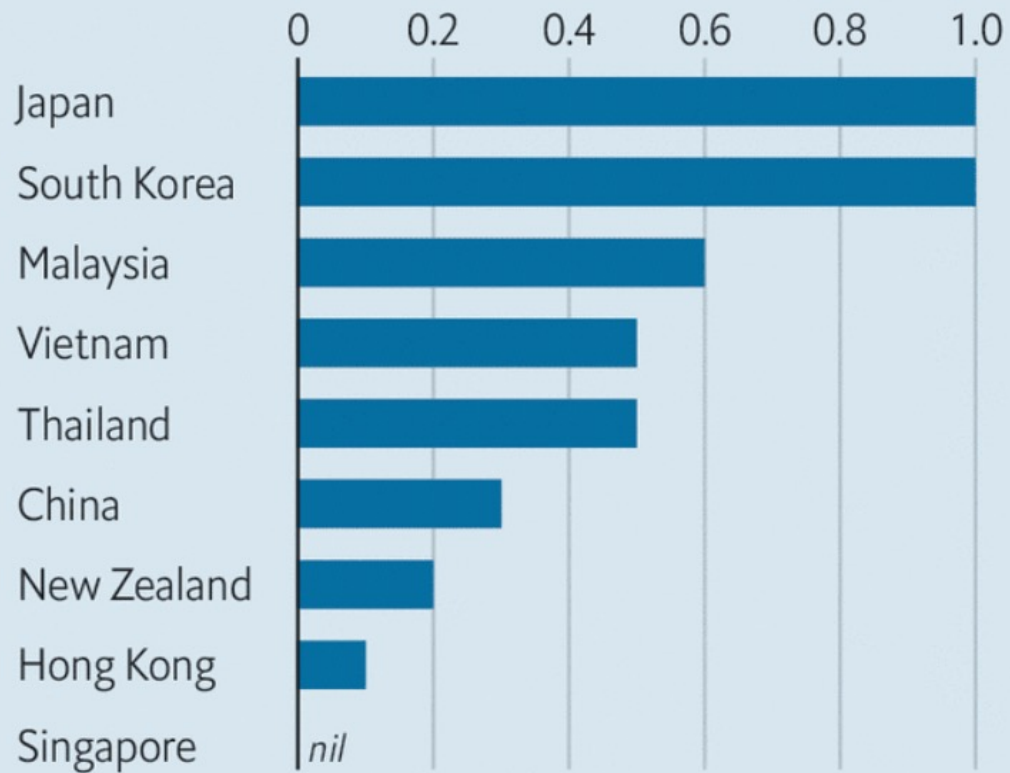
- RCEP
  - “Regional Comprehensive Economic Partnership”
  - Large FTA being negotiated since 2013 by
    - ASEAN 10 countries plus 5: China, Japan, South Korea, Australia and New Zealand
    - India also, until it dropped out in November 2019
  - Signed Nov 15, 2020





## Variable RCEPtion

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

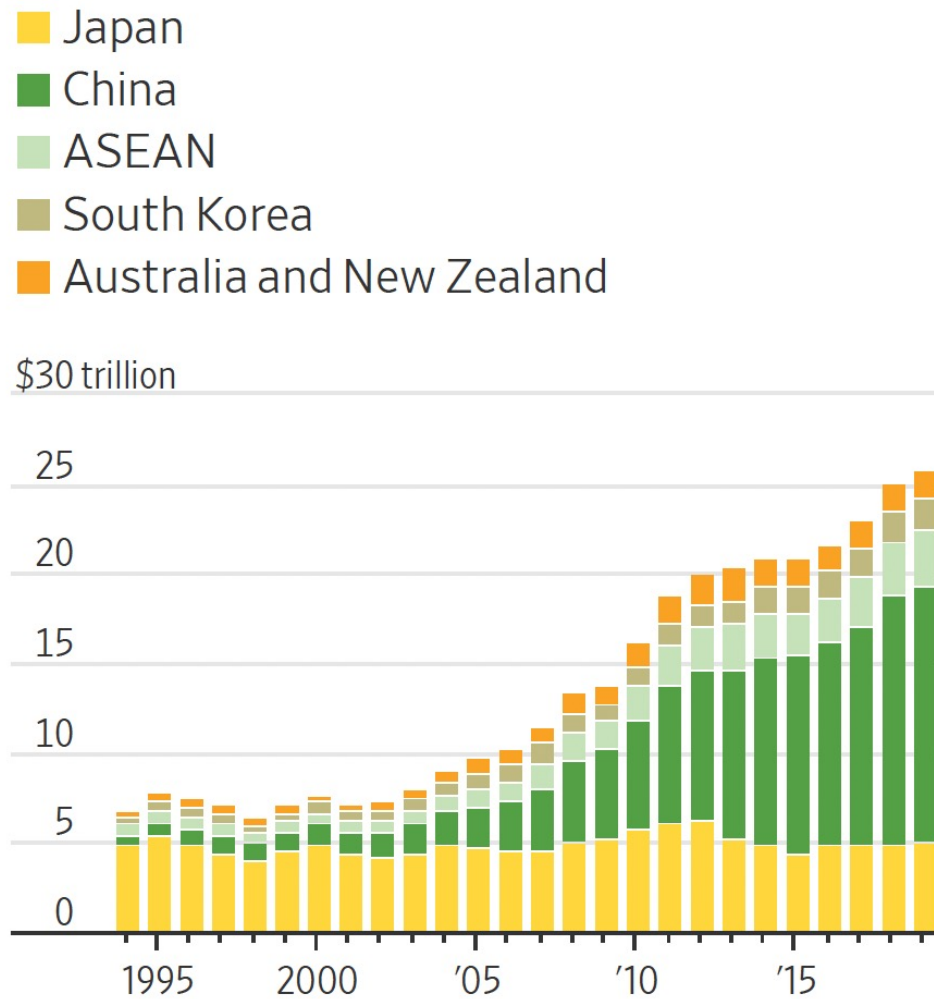


Source: Peterson Institute for  
International Economics

\*Free-trade agreement in  
the Asia-Pacific region

The Economist

## RCEP member gross domestic product



Note: Myanmar data missing from ASEAN total

Source: FactSet

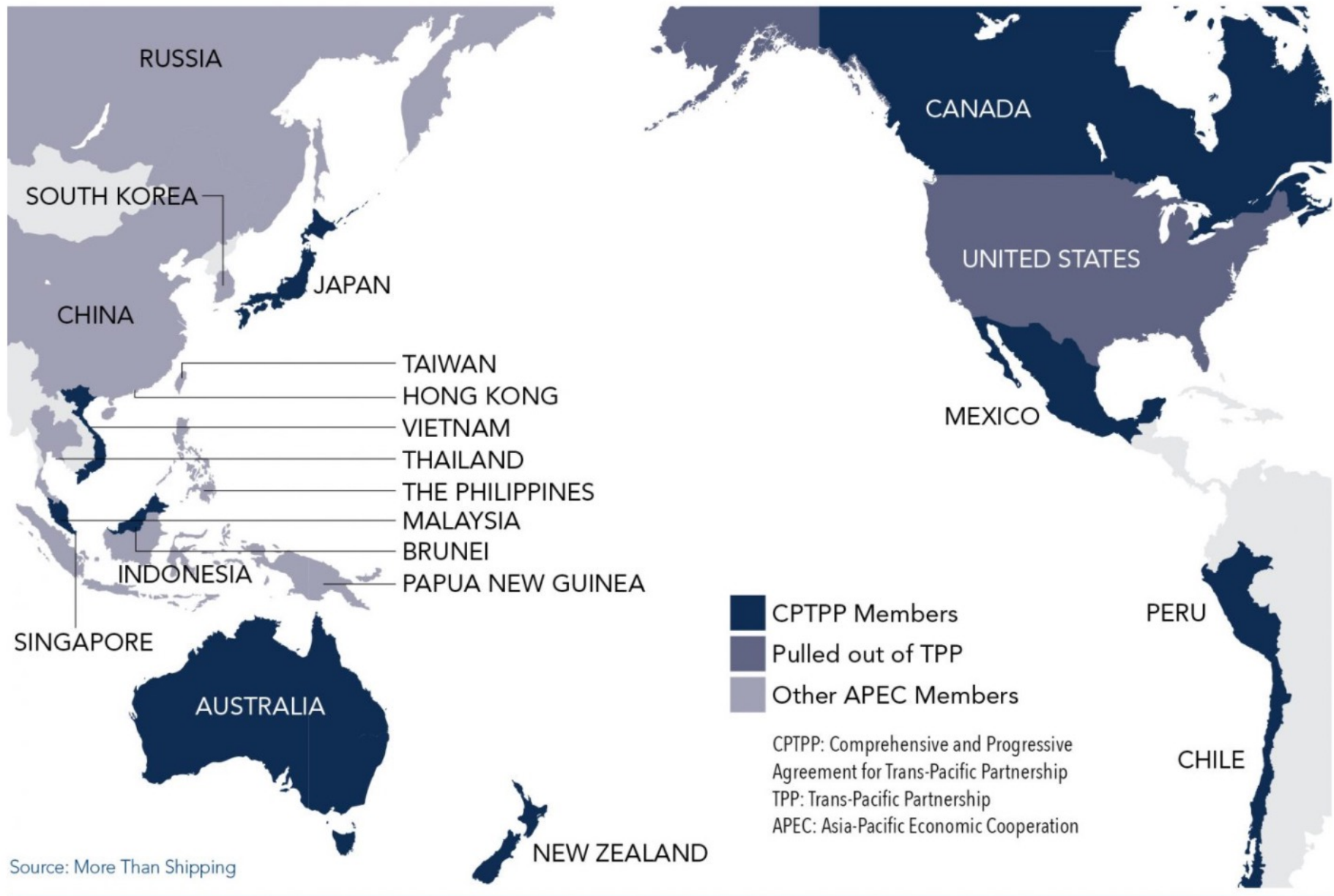
# Pause for Discussion

# 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

**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 Landers & Wright, “China’s Bid to Join TPP...”

- What are reasons why China may find it difficult to meet the requirements of CPTPP membership?
- Who else is mentioned here as having “expressed eagerness” to join CPTPP? Why would that be a problem?
- Is President Biden likely to have the US rejoin this?

# Questions on Davies & Song, “South Korea Applies to Join...”

- Why did South Korea not ask to join CPTPP earlier, and what changed?
- Is anyone in South Korea fearful of joining CPTPP?
- The idea of “trade diversion” is mentioned. Why?
- Joining CPTPP will create free trade between South Korea and Japan. Why might this be a problem?

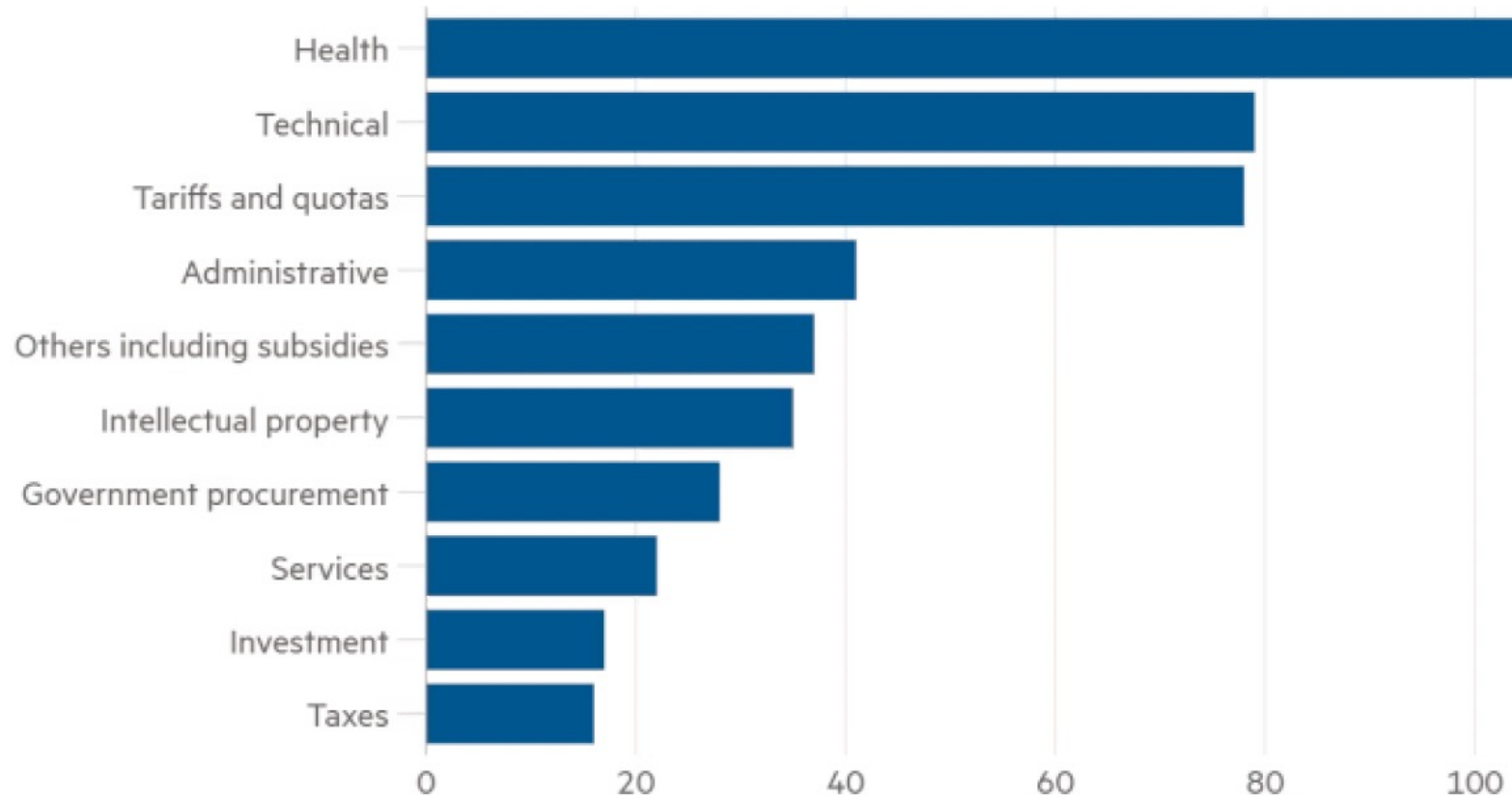
# EU and Other

- 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

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## Not so free trade

Barriers to trade across 67 EU partners



Source: European Commission

© FT

# EU and Other

- After a 3-year delay, the EU completed a deal for an FTA with New Zealand
  - Most difficult were negotiations on agricultural trade
  - Regarding the agricultural package, the N.Z. trade minister said:
    - “No one likes it, so we must have got it about right.”

# Pause for Discussion

# Questions on Bounds, “EU steps up pressure...”

- Are countries with which the EU has free trade agreements not lowering their tariffs?
- What four countries are reported to have the most NTBs against EU exports? Do these have FTAs with the EU.
- What are examples of the NTBs?
- What actions has the EU taken, or planned, to deal with this?

# Questions on Bounds, “EU and New Zealand agree ...”

- Who announced the agreement and who “finalized” it?
- When will this deal probably be signed and ratified?
- What other trade deals has the EU done recently and where do they stand?

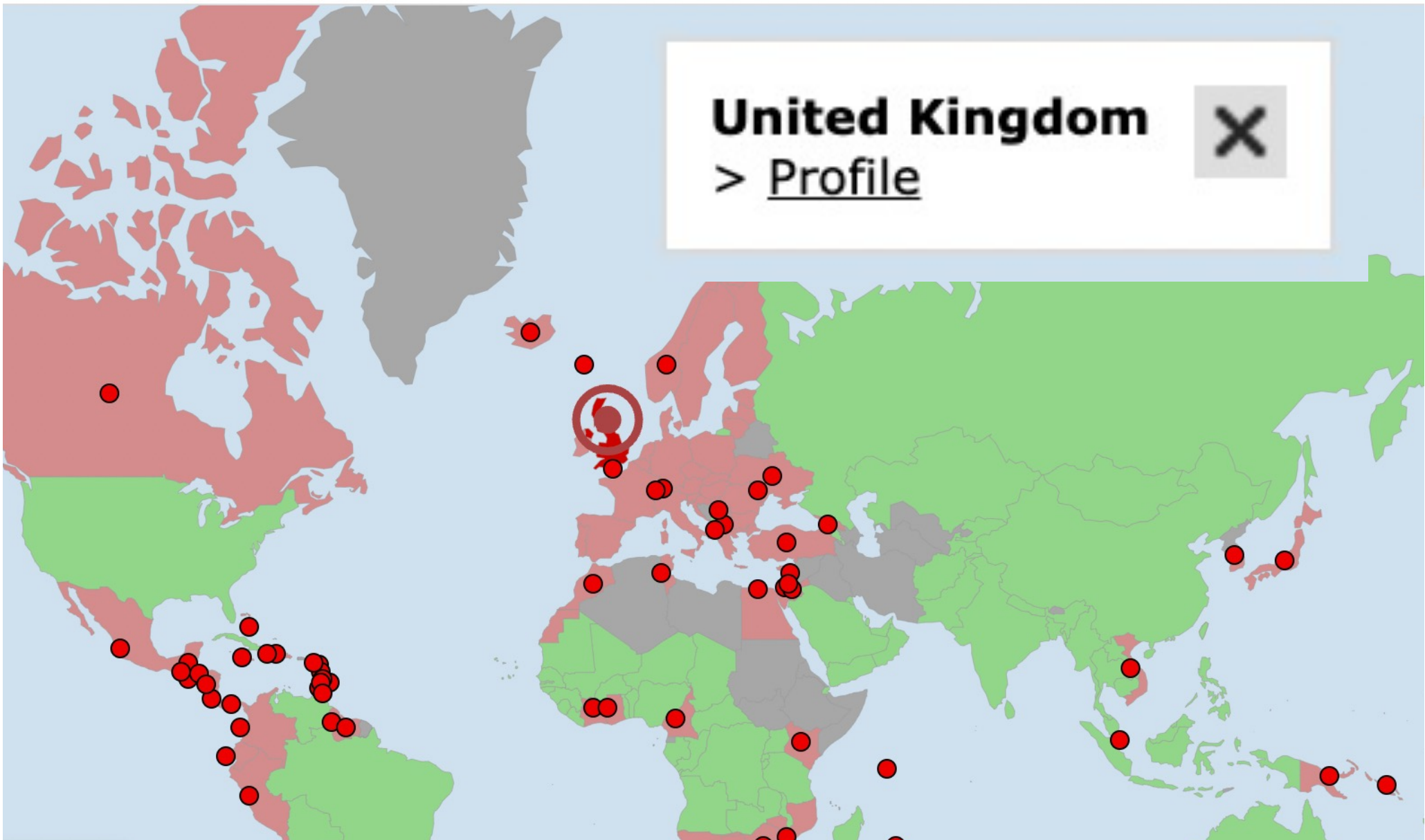


# UK and Other

- UK was unable to do FTAs while part of EU.
- Since leaving EU, it has completed 37 FTAs, including one with EU. (Per WTO, Oct 21, 2022)

# United Kingdom

> [Profile](#)



## World Trade Organization

### Participation in Goods & Services RTAs

- Signatory of RTA with selected country/territory
- Non-signatory of RTA with selected country/territory, but WTO Member
- Non-signatory of RTA with selected country/territory, WTO non-Member

# 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 Pikard, “Boris Johnson overselling ...”

- Though the title here speaks of “post-Brexit trade deals,” what is the only such deal that is mentioned?
- What are the complaints?
- How do estimates of the effects on UK GDP of this deal and of Brexit compare?
- What UK geographic indications are not protected in this deal, and why?

# Questions on Parkin and Reed, “India and UK to seal trade deal ...”

- How much remains to be done on the agreement?
- Is this important to the UK?
- What specific items of trade does this mention as opening up?
- Does it extend beyond trade in goods?

# Other Trade Deals

- US is negotiating a deal with Taiwan, though it will not be an FTA.
- Uruguay is seeking FTAs with countries outside Mercosur.
- Israel completed a FTA with the United Arab Emirates

# Pause for Discussion



# Questions on Swanson, “...Trade Dialogue With Taiwan”

- Will this agreement, if reached, reduce US tariffs? Why or why not?
- What issues will be discussed that are particularly relevant in contrast to China?
- What sort of other issues will it address?
- Is the negotiation being done by USTR?
- What did Taiwan do in 2020 to facilitate these negotiations?

# 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?

# Questions on Kingsley, “Israel ... Deal With U.A.E.”

- Why is this agreement unprecedented?
- What percent of tariffs between the countries will be removed, and when?
- How long did it take to negotiate the deal?

