


Economics of FTAs



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Outline

- The World Trade Organization
- Multilateralism
- Regional Trade Agreements
 - Free Trade Agreements
 - Customs Union
 - Monetary Union
- Trade creation vs. trade diversion
- How to model FTAs



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The World Trade Organization

- Non-discrimination among trade partners
 - MFN status
- RTAs are discriminatory – allowed under WTO with rules applied
 - Must cover substantially all trade
 - Cannot raise tariffs on non-members
- RTAs must complement multilateral trade



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Multilateral Free Trade

- All WTO member countries reduce tariffs among themselves
 - Kennedy Round (1964 – 1967)
 - Tokyo Round (1974- 1979)
 - Uruguay Round (1986 – 1993)
 - Doha Round (2001.. ???)
 - ????



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Regional Trade Agreements

- Free Trade Agreements
 - Remove tariffs among members
 - Independent trade policy with other regions
 - Rules of origin
 - FTA vv P(referential)TA
- Customs Unions
 - Remove tariffs among members
 - Common external tariff against non-members



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Regional Trade Agreements

- Common Market
 - Remove tariffs among members
 - Common external tariffs
 - Free movement of labor and capital among members
- Monetary Unions
 - All features of a common market
 - Share a common currency
 - Common monetary and exchange rate policies



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Examples of RTAs

- Free Trade Agreements
 - North American Free Trade Agreement (NAFTA)
 - Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
 - US South Korea (KORUS)
- Customs Union
 - Southern African Customs Union (SACU)



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Examples of RTAs

- Common Market
 - Southern Common Market (MERCOSUR)
- Monetary Union
 - Economic and Monetary Union (EMU), also called the euro area
 - West African Monetary Union (WAMU)



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Trade Creation vs. Diversion

- Trade creation –a shift in production from domestic producer whose costs are high, to member producer whose costs are low
 - Movement towards free trade
 - Welfare gain
- Trade diversion – a shift in production away from non-member producer whose costs are low to member producer whose costs are high
 - Inefficient
 - Welfare loss



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How to Model Economic Integration

- Free Trade Agreement
 - Remove or reduce tariffs on a subset of countries
- Customs Union
 - Remove or reduce tariffs on a subset of countries
 - Assign the same tariffs by commodity for all non-members
- Multilateral reform
 - All regions remove tariffs
- Unilateral reform
 - One country removes tariffs against all countries



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ANARRES

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The End

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