

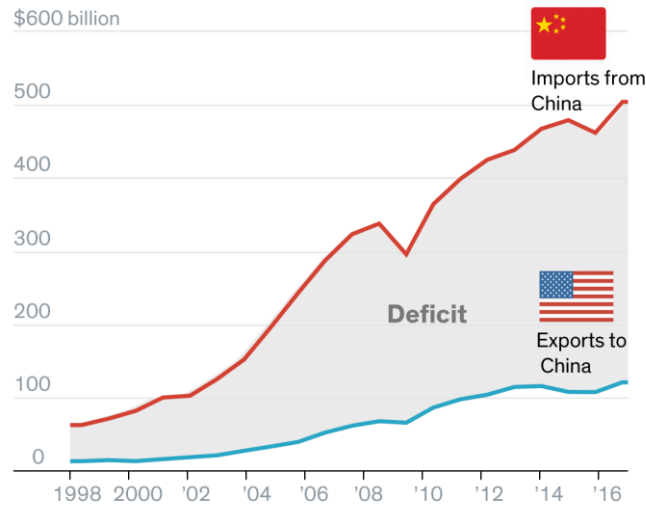
International Economics

Trade Agreements

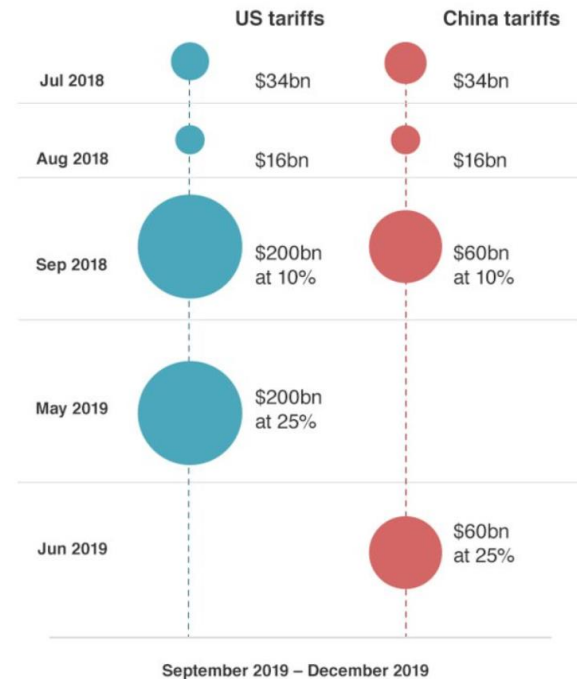
Thomas Goda

Describe the trade war between the USA and China

The widening trade gap

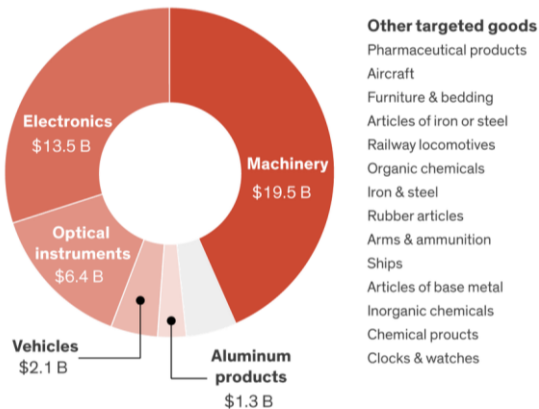


How the US-China trade war has escalated



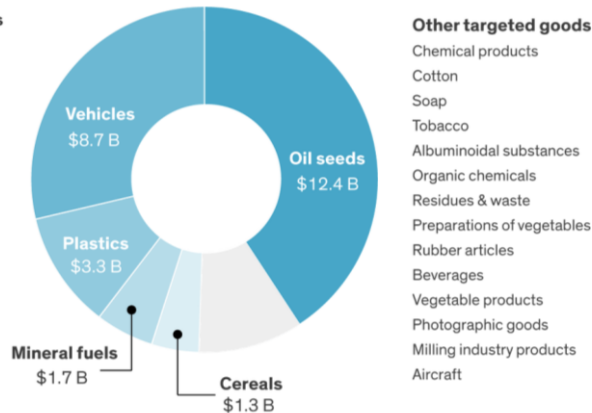
The 1300 Chinese products targeted by the Trump administration

Value of Imports from China, 2017*



The 106 U.S. products targeted by the Chinese government

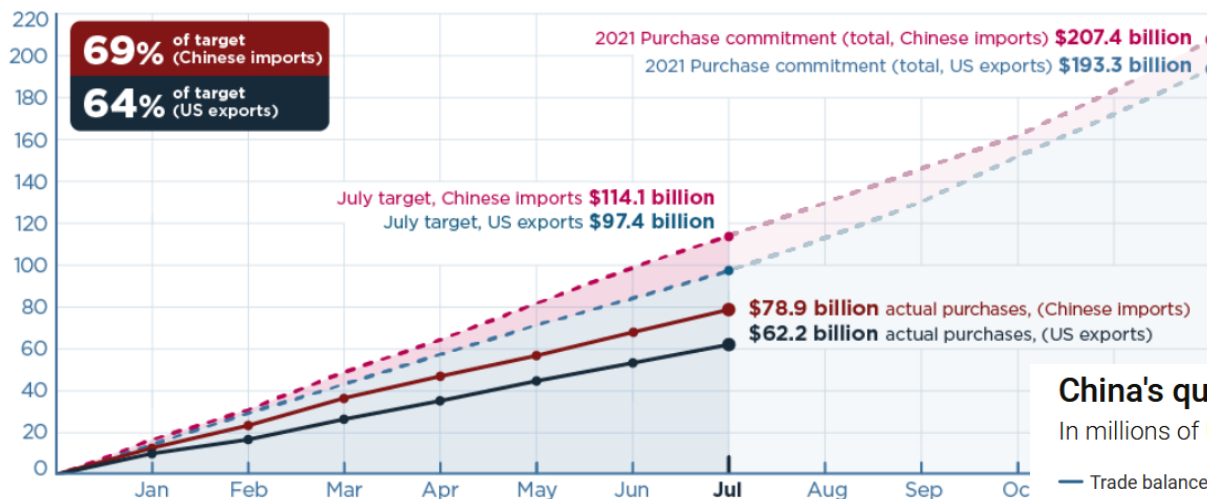
Value of Exports to China, 2017*



Phase one trade agreement from 2019 (China agreed to expand imports \$200 billion until 12/2021); U.S. tariffs on Chinese products remain in place

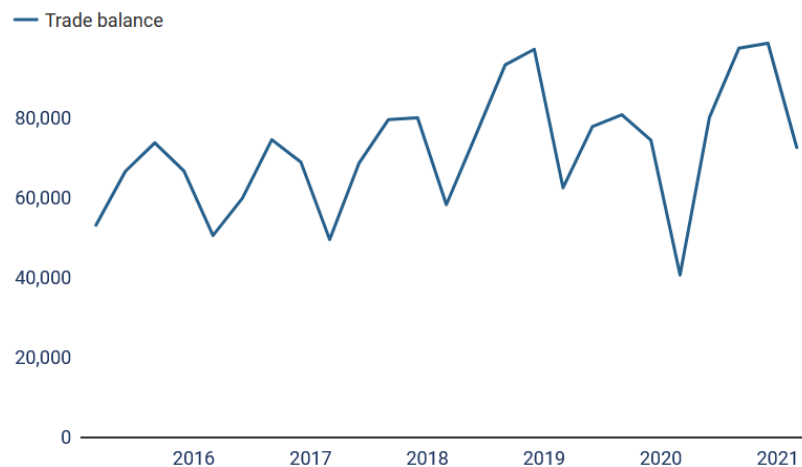
US exports and China's imports of all goods covered by the phase one deal as of July 2021

a. US exports and China's imports of all covered goods, billions USD

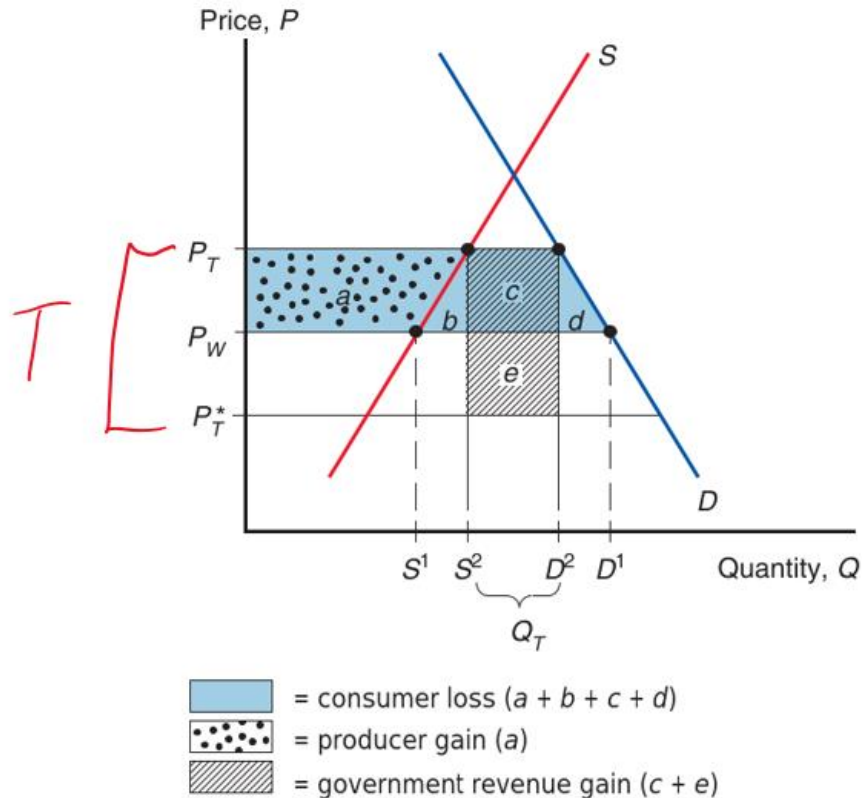


China's quarterly trade surplus with US

In millions of USD



Expected welfare impacts for both countries (microeconomic perspective)



$b + d = \text{deadweight loss (efficiency loss)}$

$e - (b + d) = \text{overall welfare loss}$

Imports before tariff: $D^1 - S^1$

Imports after tariff: $D^2 - S^2 \Rightarrow$ imports decrease

Domestic price before tariff: P_W

Domestic price after tariff: $P_T \Rightarrow$ domestic price increases

Global price before tariff: P_W

Global price after tariff: $P_T^* \Rightarrow$ global price decreases

Agenda

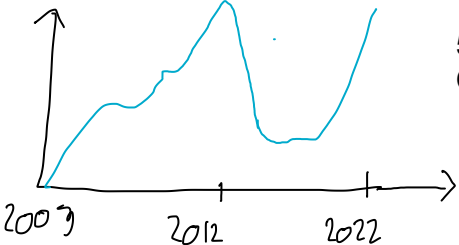
Bilateral trade agreements

Regional trade agreements

Multilateral trade agreements

An example of a bilateral trade agreement is the TLC (tratado de libre comercio) between Colombia and the USA that was signed in 2012

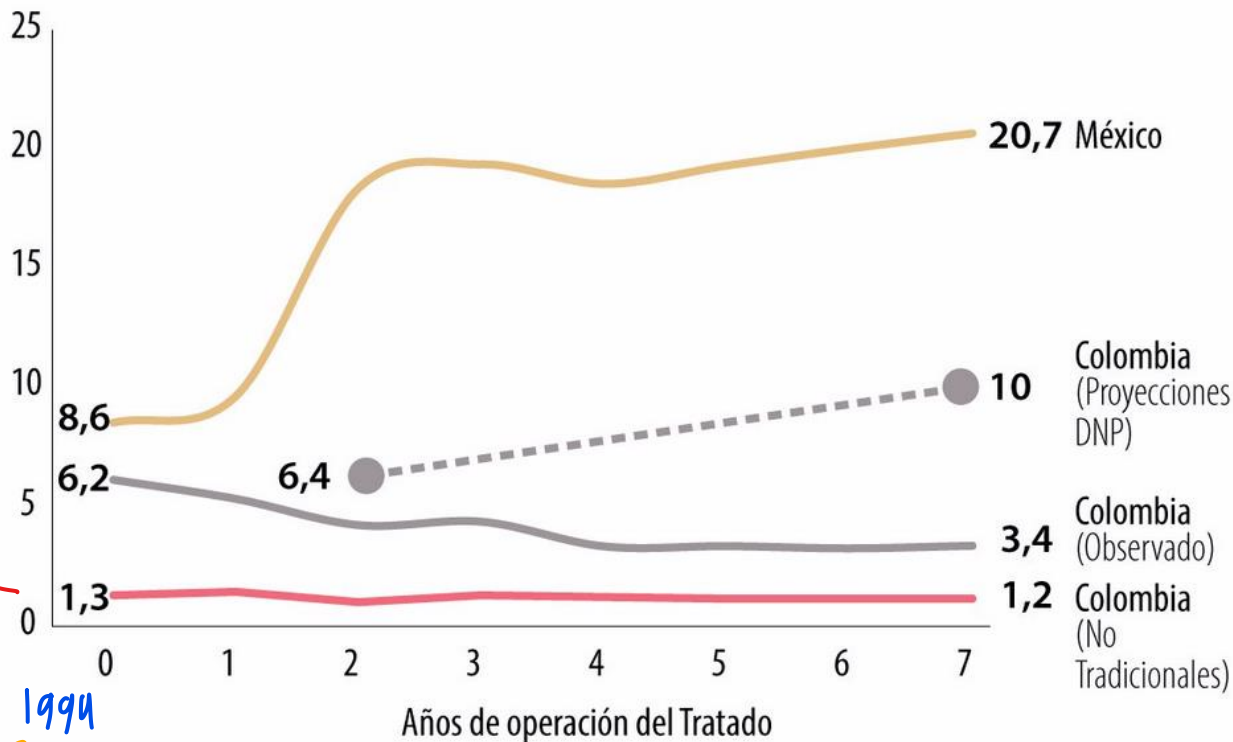
50% of the Colombia's exports are oil.
Oil is inelastic, so if the P go down X decrease.



*Before the U.S.-Colombia FTA entered into force, the U.S. average tariff on Colombian goods was **3%**, while Colombia's average tariff on U.S. goods was **12.5%**.*

Prior to the agreement, about 90% of U.S. imports from Colombia came into the country duty-free under trade preference programs (EveryCRSReport, 2018)

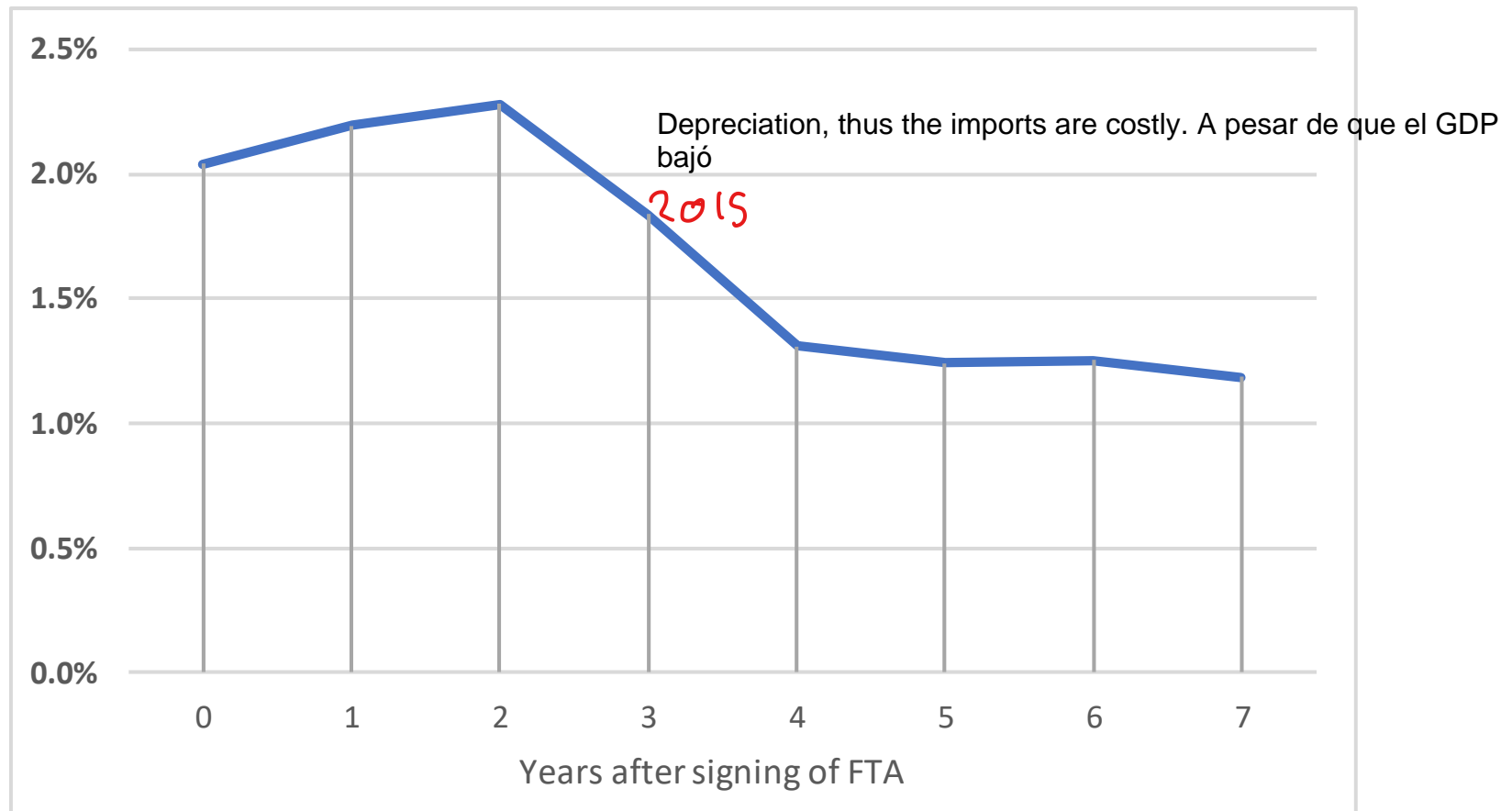
EVOLUCIÓN EXPORTACIONES: TLC EE.UU.- COLOMBIA VS. NAFTA (% del PIB)



Source: Clavijo (2019)

An example of a bilateral trade agreement is the TLC (tratado de libre comercio) between Colombia and the USA that was signed in 2012

Colombian imports from the USA (% of GDP)



Data source: DANE (2019)

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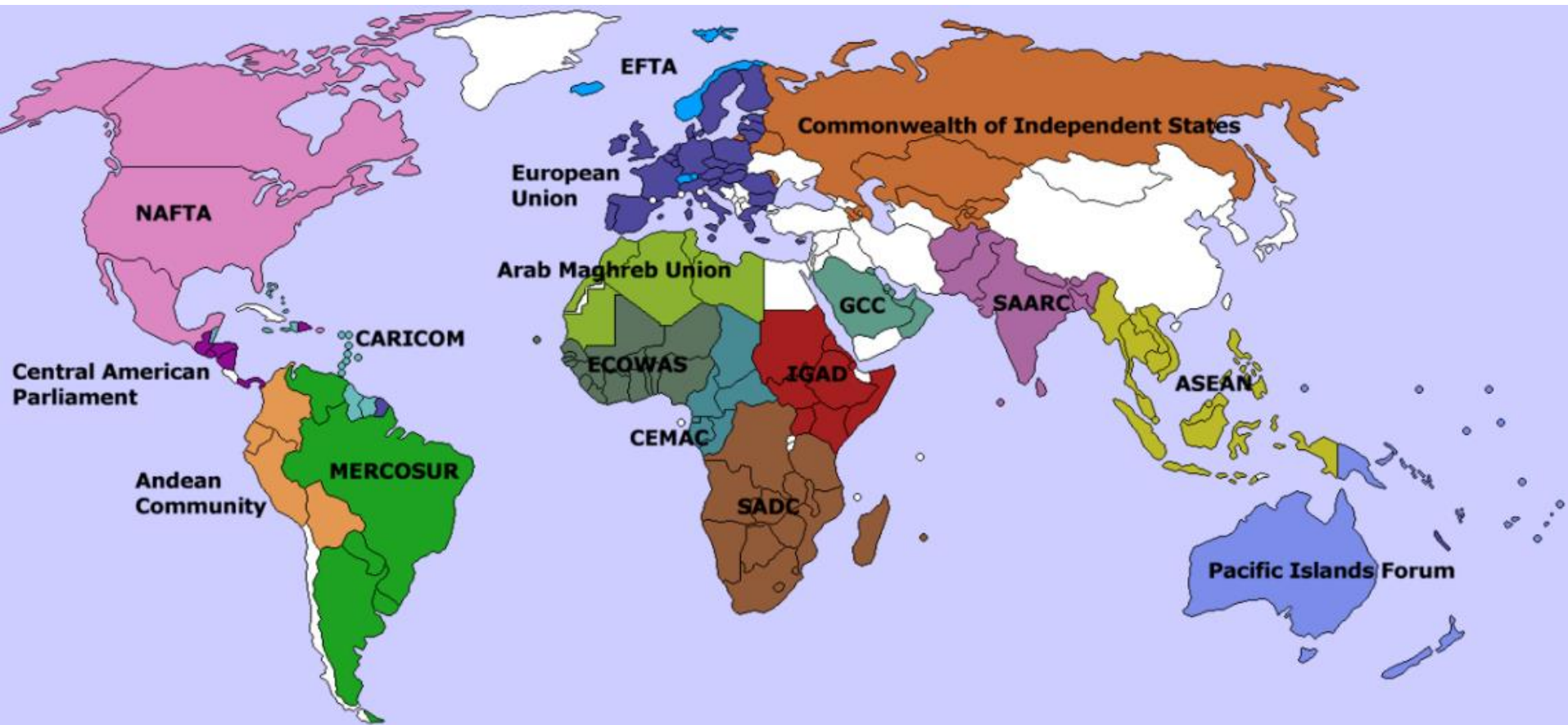
Multilateral trade agreements

Regional trade agreements are free trade agreements between more than two countries that typically are neighbouring countries

- Under regional trading arrangements member nations agree to impose lower barriers to trade within the group than to trade with non-member nation
- Countries still discriminate against the rest of the world (ROW) but reduce trade barriers significantly between each other (i.e. overall global protection decreases)
- Each nation still determines its domestic policies, but the trade policy of each includes preferential treatment for group members
- Getting a large number of countries to agree on reforms can be extremely difficult, therefore regional trade agreements are seen as a *second best option* to foster free trade

Nowadays, most countries in the world are part of at least one regional trade agreement

Apparently this trade agreements are good.



There are different types of agreements with different degrees of deepness

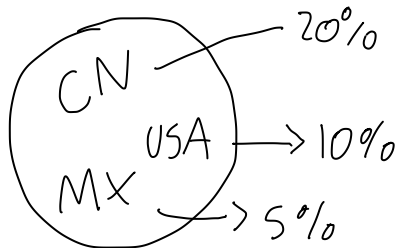
- **Free trade agreement:** Elimination of tariffs in intra-regional trade (often with rules of origin)
- **Customs Union:** FTA + common tariffs against rest of the world
- **Common Market:** CU + factor mobility (free migration and capital flows)
- **Economic Union:** CM + common regulations and sometimes also common currency

NAFTA

Mercosur

European Union

USA; URSS



- All don't have the same currency.
- Common regulation
- Common politics
- Free migration
- Capital flows



Sovereign, flexibility



Other countries could avoid barriers from allies

There exist various reasons why regional trade agreements are so popular

- An expanded regional market can
 - Lead to economies of scale ✓
 - Foster specialisation ✓
 - Attract foreign investment (larger market, better/more human resources etc.) ✓
 - Lead to the spillover of technology and knowledge ✓
 - Ensure higher bargaining power in international arrangements ✓

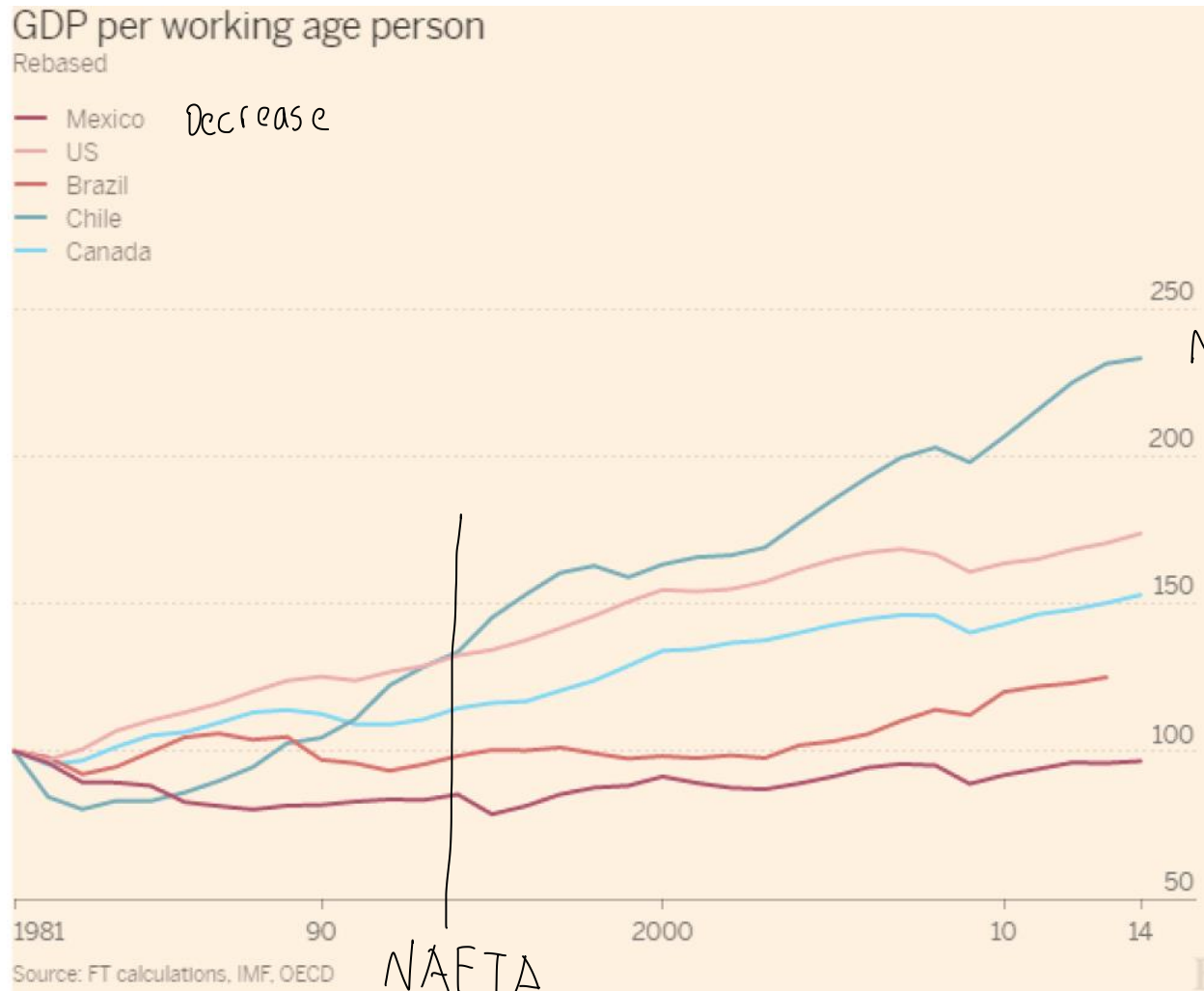
Common currency, the currency is more stable

Trade creation vs. trade diversion

- Regional trade agreements have trade creation and trade diversion effects
 - **Trade creation:** trade between countries in the RIA is increasing
 - Specialisation
 - More efficient use of resources (production[↑], consumption[↑])
 - **Trade diversion:** imports from outside the RIA are decreasing
 - World production is less efficient than under global free trade
- It is therefore assumed that RIA are more beneficial if
 - The region is big (many members and/or large economies)
 - The countries in the agreement are diverse (i.e. producing different products)

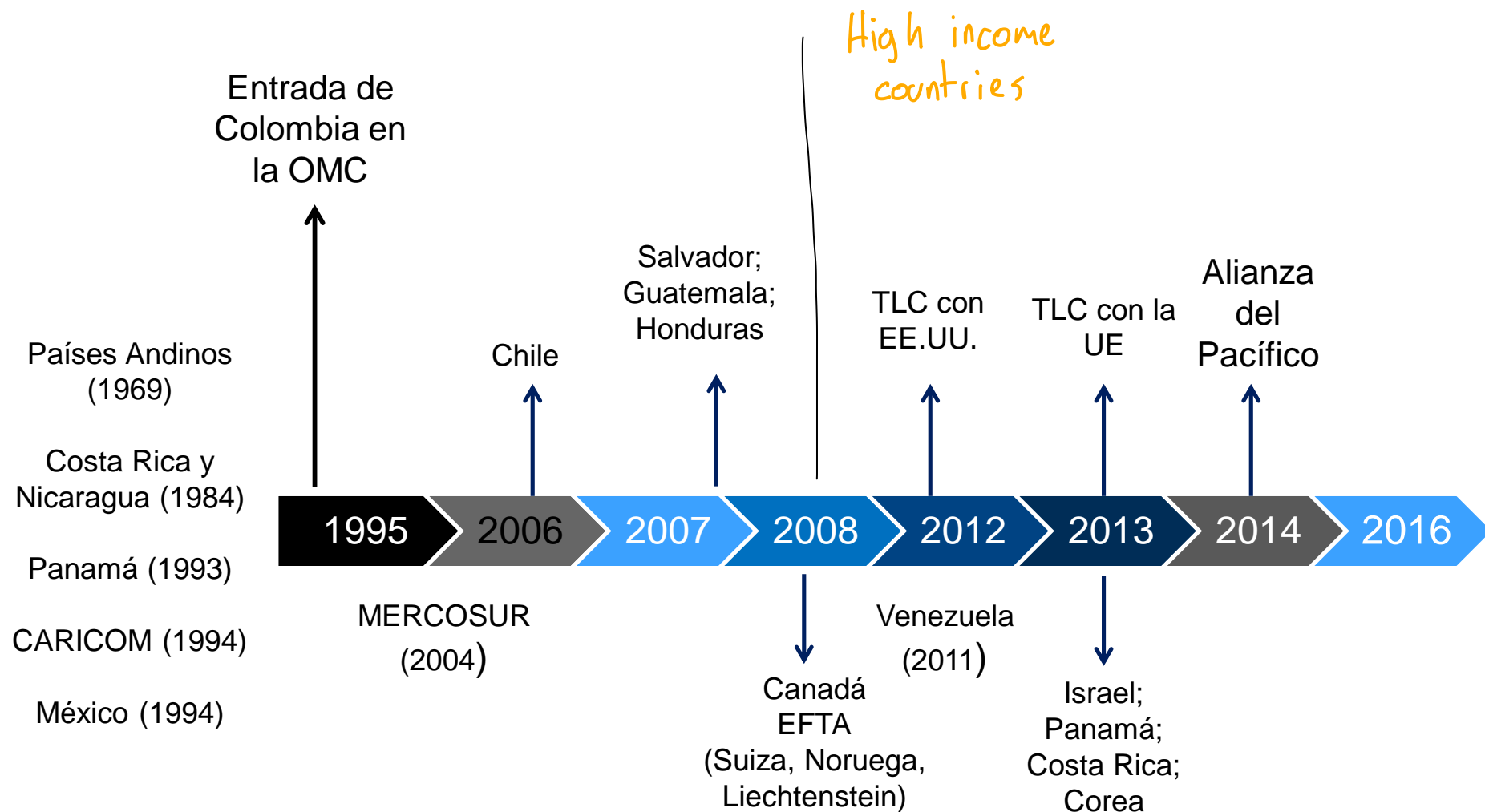
Better NAFTA than Mercosur

NAFTA casts doubts on the view that North-South Agreements are more beneficial



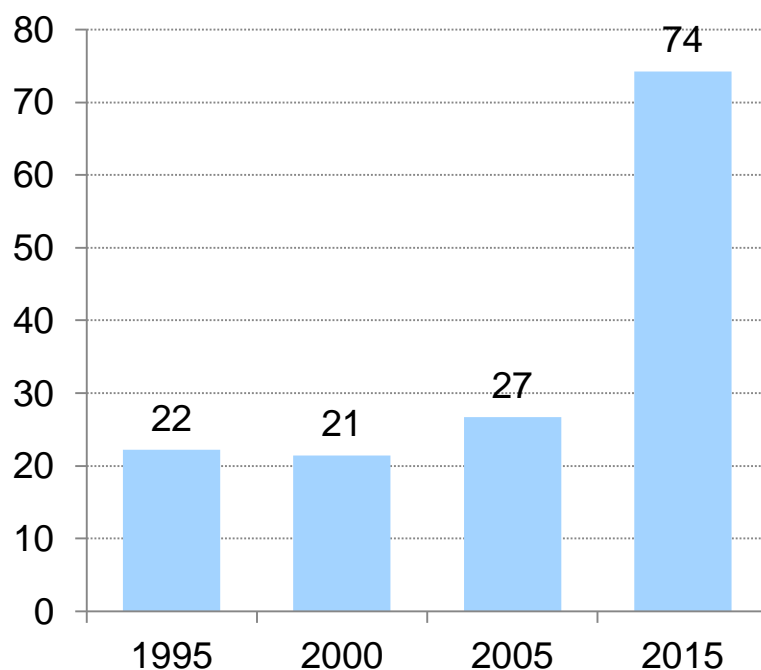
Source: Financial Times (2017)

Historical evolution of Colombia's trade agreements (country count today 68)

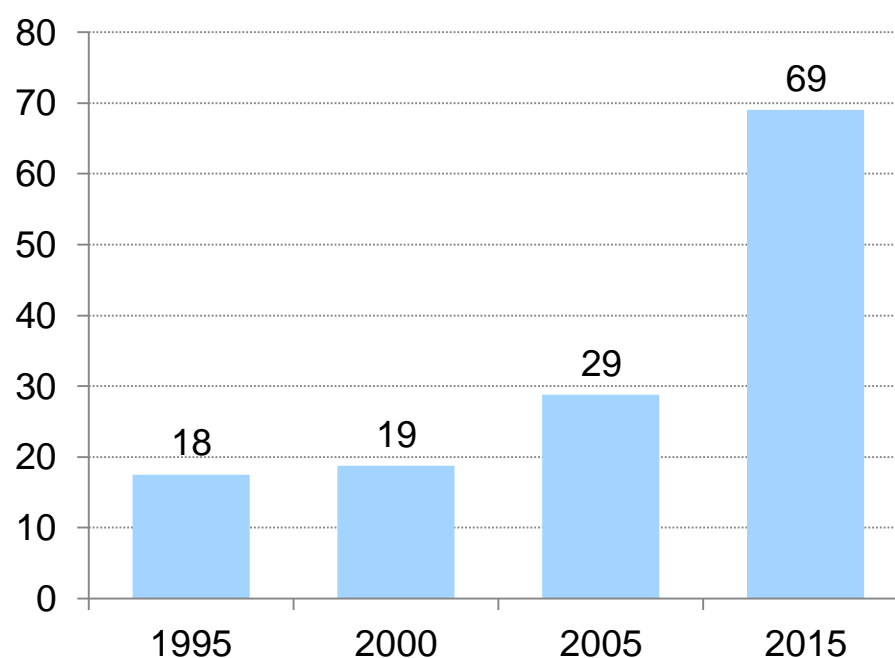


More than 70% of Colombia's trade has no tariffs

Exportaciones

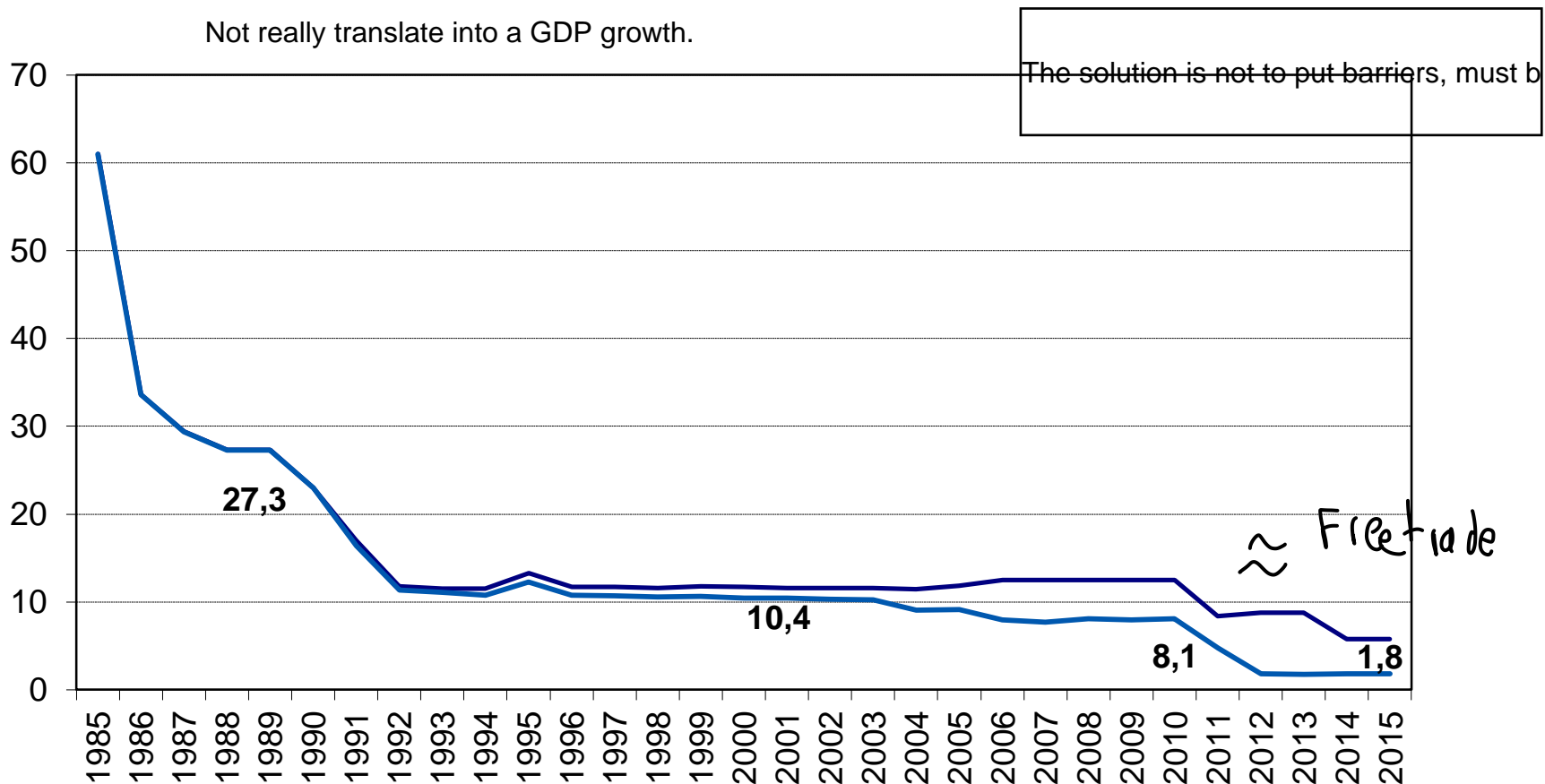


Importaciones



Source: CEPAL, sobre la base de información oficial de la base de datos COMTRADE

Nowadays, Colombia's average tariff rate is less than 2%



Source: CEPAL, sobre la base de información oficial del Banco Mundial, OMC y García y otros (2014)

Agenda

Bilateral trade agreements

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The predecessor of the World Trade Organisation (WTO) was the General Agreement on Trade and Tariffs (GATT)

GATT Negotiating Rounds

| Negotiating Round and Coverage | Dates | Number of Participants | Tariff Cut Achieved (%) |
|--|-------------------------|------------------------|-------------------------|
| Addressed tariffs | | | |
| Geneva | 1947 | 23 | 21 |
| Annecy | 1949 | 13 | 2 |
| Torquay | 1951 | 38 | 3 |
| Geneva | 1956 | 26 | 4 |
| Dillon Round | 1960–1961 | 26 | 2 |
| Kennedy Round | 1964–1967 | 62 | 35 |
| Addressed tariff and nontariff barriers | | | |
| Tokyo Round | 1973–79 | 99 | 33 |
| Uruguay Round | 1986–93 | 125 | 34 |
| Doha Round | 2002–terminated in 2015 | 149 | — |

WTO birth

Source: Carbaugh (2018)

Division between rich and developing countries.

GATT was based on the idea that members should not discriminate trading partners

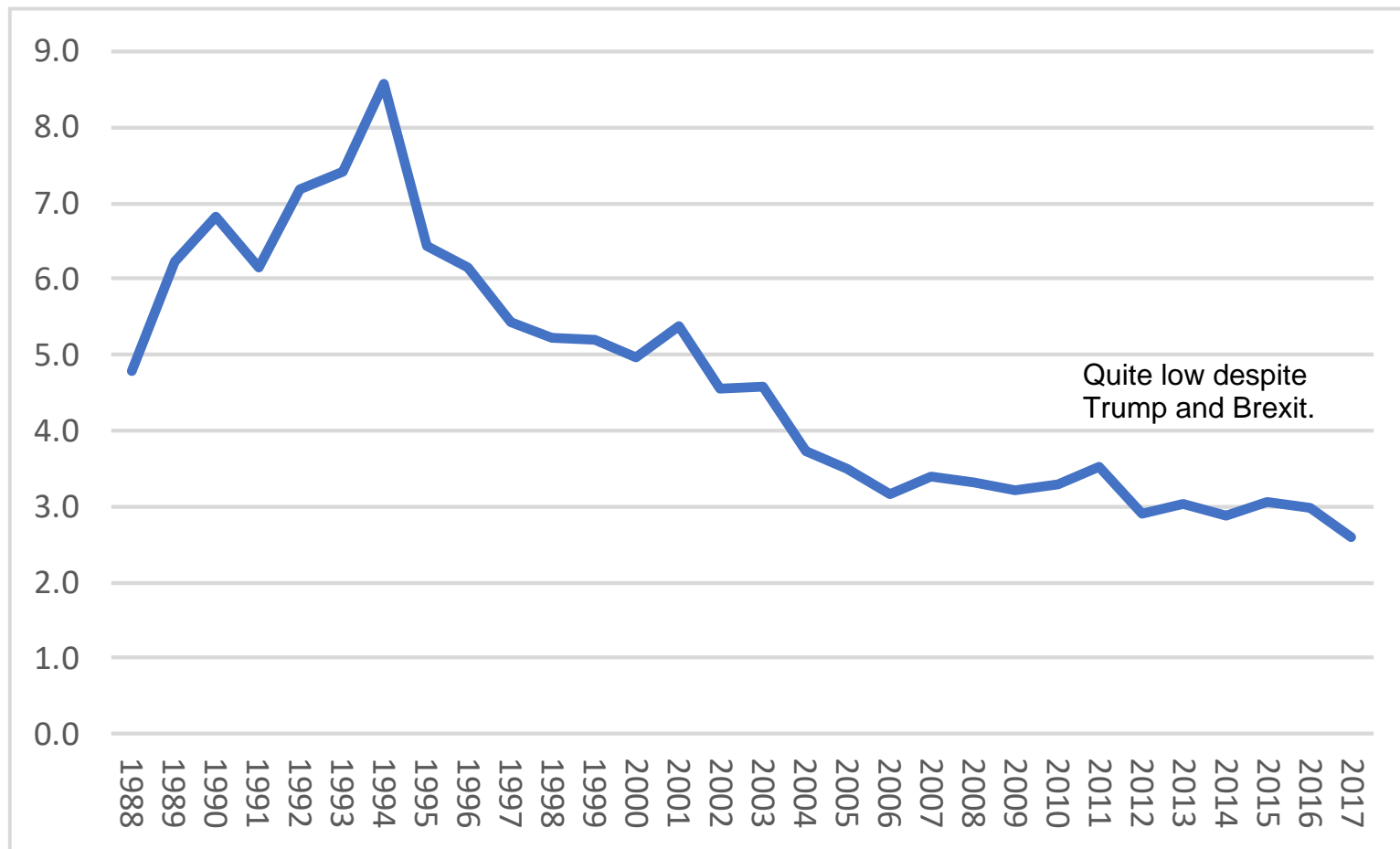
- **Most favoured nation clause**
 - All have members have the same preferential access to all countries
 - If a member negotiates a tariff reduction or quota exemption with another country, all member-countries benefit from this reduction
 - Two **exemptions**:
 - Industrial countries can grant preferential access to low income countries
 - Countries can grant preferential access to partners from regional trade agreements
- **National treatment clause**
 - Members have to treat imported and domestically produced goods equally, once the foreign goods entered the market

How different is the WTO from the old GATT?

- WTO came into existence on January 1995; headquartered in Geneva, Switzerland
- It oversees the implementation of the tariff cuts and reduction of non-tariff measures agreed to in the negotiations
- WTO is also a watchdog of international trade, regularly examining the trade regimes of individual members
- When members open their markets through the removal of barriers to trade, they “bind” their commitments
- **Wider scope:** not only trade in goods but also
 - trade in services
 - intellectual property, and
 - Investment

Has not been working so well.

Global tariff rate, applied, weighted mean, all products (in %)



Source: World Bank (2020)

The most protected sectors are agriculture and the textile industry

TABLE 10-4 Percentage Distribution of Potential Gains from Free Trade

| Economy | Full Liberalization of: | | | |
|------------|-------------------------|-----------------------|-------------------|-----------|
| | Agriculture and Food | Textiles and Clothing | Other Merchandise | All Goods |
| Developed | 46 | 6 | 3 | 55 |
| Developing | 17 | 8 | 20 | 45 |
| All | 63 | 14 | 23 | 100 |

Source: World Bank (2020)

How different is the WTO from the old GATT?

- Major objective of the WTO is to strengthen the GATT mechanism for settling trade dispute
- **Consultations:** If a member country feels that a trade policy of another member country is in violation of WTO agreements, it may call for consultations
- **Dispute Panel and Appellate Body:** If the dispute panel declares that a country is in violation of WTO rules, the country has a reasonable period of time to bring the policy into compliance and can appeal the findings
- **Retaliatory Tariffs:** Countries can choose to suffer the costs of retaliation instead of reforming an illegal trade policy; authorization of retaliatory tariffs arising from a WTO dispute can take >4 years from the time the violation first occurred

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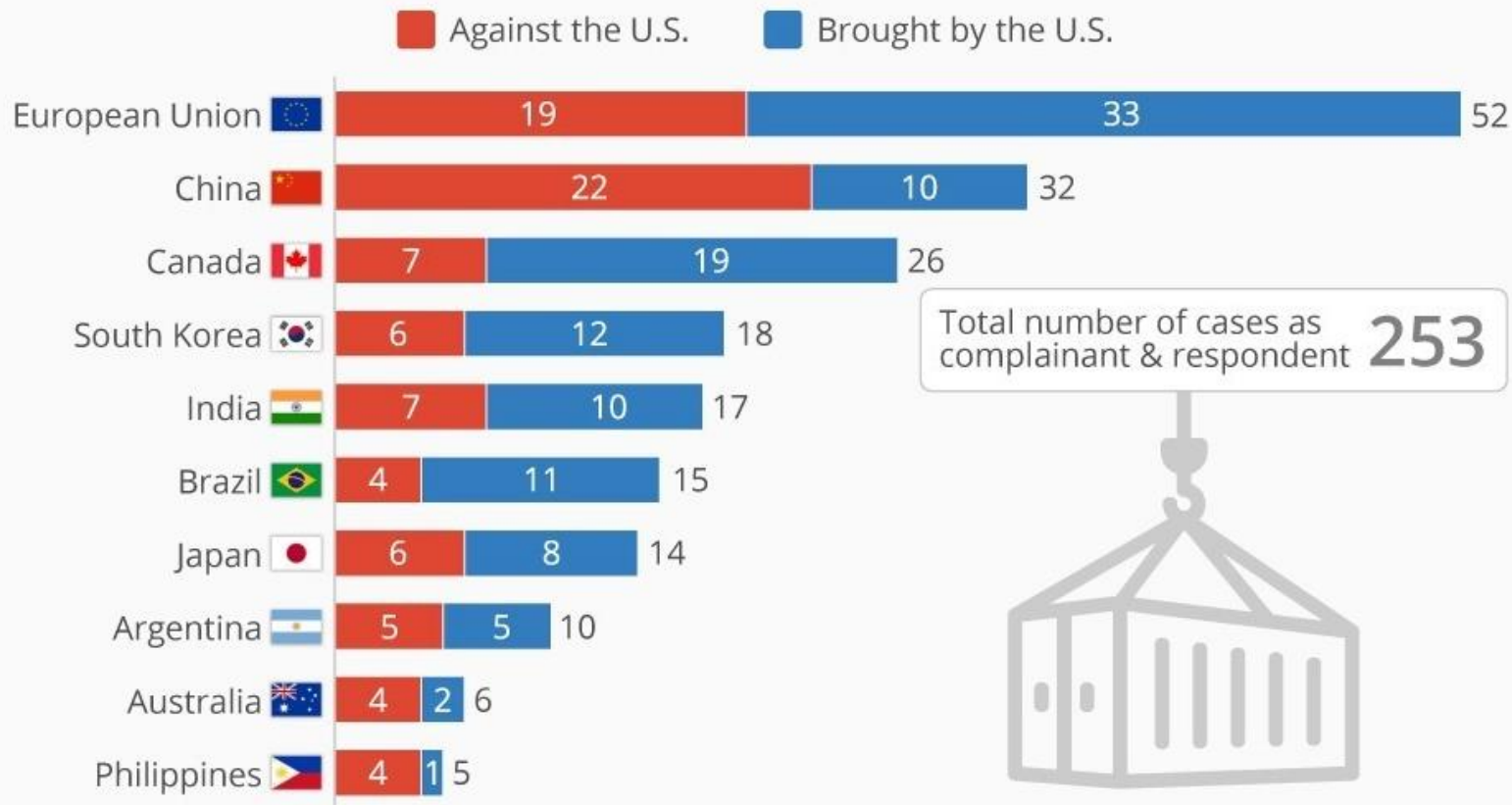
Top users of the WTO dispute settlement system (1995 – 2019)

| Top complainants | | Top respondents | |
|------------------|-----------------|-----------------|-----------------|
| Economy | Number of cases | Economy | Number of cases |
| United States | 124 | United States | 155 |
| European Union | 102 | European Union | 85 |
| Canada | 40 | China | 44 |
| Brazil | 33 | India | 32 |
| Japan | 26 | Canada | 23 |
| Mexico | 25 | Argentina | 22 |
| India | 24 | Korea | 18 |
| Argentina | 21 | Australia | 16 |
| China | 21 | Brazil | 16 |
| Korea | 21 | Japan | 16 |
| Thailand | 14 | Mexico | 15 |
| Indonesia | 11 | Indonesia | 14 |
| Chile | 10 | Chile | 13 |
| Guatemala | 10 | Turkey | 12 |
| Australia | 9 | Russia | 9 |
| New Zealand | 9 | | |

Source: VOX (2020)

Who the USA has trade disputes with

Number of U.S. trade disputes with WTO members in 2018*



Group Exercise

- Considering the information from the videos “What global trade deals are really about” and “The EU - America Trade Deal: Why The TTIP Failed” (see Interactiva) which type of **comprehensive measures** –beside tariffs and quotas trade in goods– are covered by trade agreements?
- Which of these measures are included in the Colombian – US free trade agreement that was signed in 2012 (see <https://ustr.gov/uscolombiatpa/facts>)?
- Do you think that it is good that these comprehensive measures are included in the Colombian – US free trade agreement? Why?