

Questions for PubPol/Econ 541
Nov 6

Preferential Trading Arrangements

KOM, Ch 10, selected pages:

- Why does the text say that the GATT permission for countries to form FTAs is a “rather strange exception”?
- If consumers in an FTA buy imports from their FTA partner rather than a non-member due to their paying a lower price, how can that be harmful for the country?
- Why do members of a customs union “cede part of their national sovereignty to a supranational entity”?
- Why are rules of origin needed in a Free Trade Agreement but not in a Customs Union?

WTO, “Causes and Effects of PTAs: Is it all about preferences?” 2011, pp. 94-109.

- If consumers in an FTA buy imports from their FTA partner rather than a non-member due to their paying a lower price, how can that be harmful for the country?
- Why are rules of origin needed in a Free Trade Agreement but not in a Customs Union?
- The WTO examples (in the text, not the appendix) show only trade creation if the PTA is with the low-cost country. Should countries therefore only form PTAs with low-cost countries?
- What is the main difference between the effects of a PTA in goods and one in services?
- What is diagonal cumulation?

Posen, “The Errors of Conservatives Obscure the Case for Trade,” 2014.

- How does Posen counter the argument against new trade agreements that they will have the same harmful effects as the NAFTA?
- Posen seems to accept the critics’ claim that the NAFTA caused 45,000 job losses in the US per year, but he seems not to care. Why?
- What were some of the other claims by critics of the NAFTA, and how does Posen respond to them?

Deardorff and Sharma, “The Simple Analytics of Trade Creation and Diversion,” 2019.

- Why is trade diversion harmful if both exporters initially charge the same price?
- Why is adding a second FTA not harmful for the world in the graphs, but may be harmful for the world in the equations?
- Under what circumstances will adding a second FTA be harmful for the world?

Russ, “Yes, US trade agreements led to economic gains, especially in services, new report says,” 2021.

- Can you tell from this what TPA was?
- How many US trade agreements were covered in this study?
- Does the study cover all agreements that were done under TPA, and all aspects of the ones that it does cover?
- How large were the effects of the FTAs according to the reported study?
- Was there trade diversion? From whom?

Optional to Read:

WTO, “Causes and Effects of PTAs: Is it all about preferences?” 2011, pp. 109-120.

- What is deep integration?
- Why does the welfare analysis in the Appendix to the WTO reading not mention gain or loss of tariff revenue?