PubPol/Econ 541

Class 19

Preferential Trading Arrangements

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2020

Outline

- Background

- Simplest model: horizontal supplies

- Upward-sloping supplies

  - 3-country case, in graphs

  - Somewhat more general case, in equations

  - 4-country case, in graphs

- Are FTAs Beneficial?

Outline

- **Background**

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  – Somewhat more general case, in equations

  – 4-country case, in graphs

- Are FTAs Beneficial?

Background

- A Preferential Trading Arrangement (PTA)
  - Exists when a country uses a lower tariff on one country than on another

- Examples
  - Free Trade Agreements and Customs Unions
    - Zero tariff on (almost) all goods from partner country
  - Generalized System of Preferences (GSP)
    - Lower than WTO tariffs on some exports of selected developing countries
  - ADD, CVD (<u>not</u> Safeguards tariffs, which must apply to all)

Background

- A PTA is not the same as lowering a tariff on imports from all countries

- Reason: There is both
  - "Trade creation"
    - Increased imports from the favored partner instead of from domestic producers
  - "Trade diversion"
    - Switch to import from favored partner instead of from another country ("third country")

Background

- Viner's (1950) trade creation and trade diversion are usually illustrated with
  - Constant costs
  - 2-country FTA or CU plus rest of world
- Then we'll look at cases with
  - Upward sloping supplies
  - And in the last case, an FTA when there is another pre-existing FTA

Pause for Discussion

Questions

- Why does the text say that the GATT permission for countries to form FTAs is a "rather strange exception"?

- 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?

- What is diagonal cumulation?

Outline

- Background

- **Simplest model: horizontal supplies**

- Upward-sloping supplies
  - 3-country case, in graphs
  - Somewhat more general case, in equations
  - 4-country case, in graphs

- Are FTAs Beneficial?

Simplest Model

- ## Assume
  - Partial-equilibrium model of trade in a good
    - All the same assumptions we've used before for tariffs
  - 3 countries:
    - Home, A
    - Potential Partner 1, B, and
    - Potential Partner 2, C
  - B and C have constant costs of exporting to A, at prices $P_B < P_C$
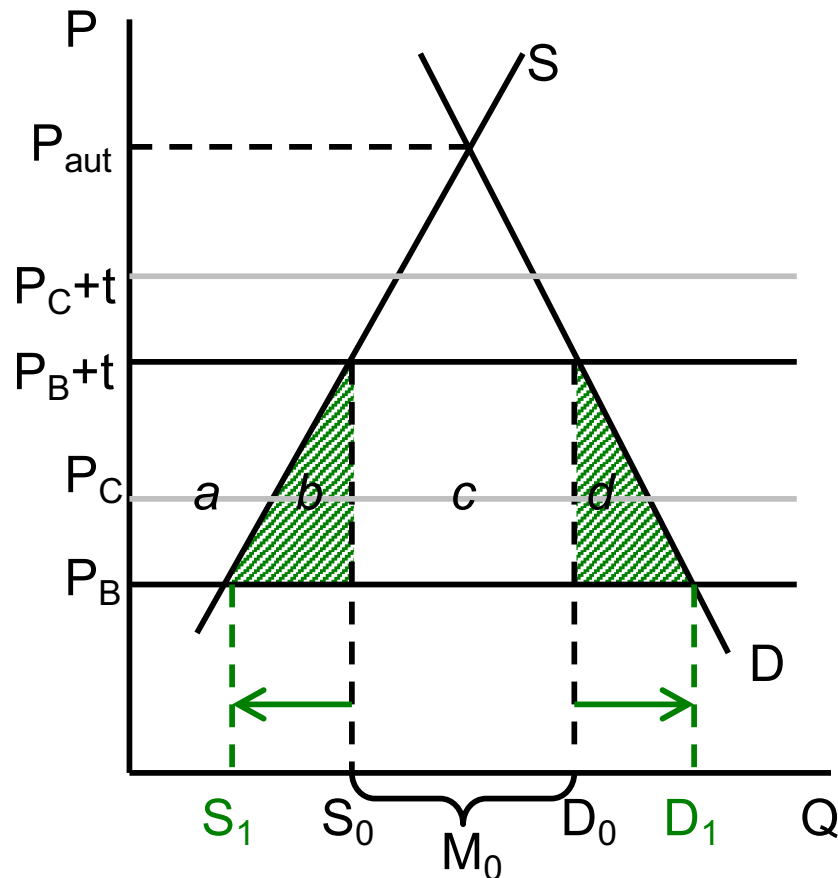 - A has tariff, t $>$ $P_C - P_B$

No FTA

Home Country A
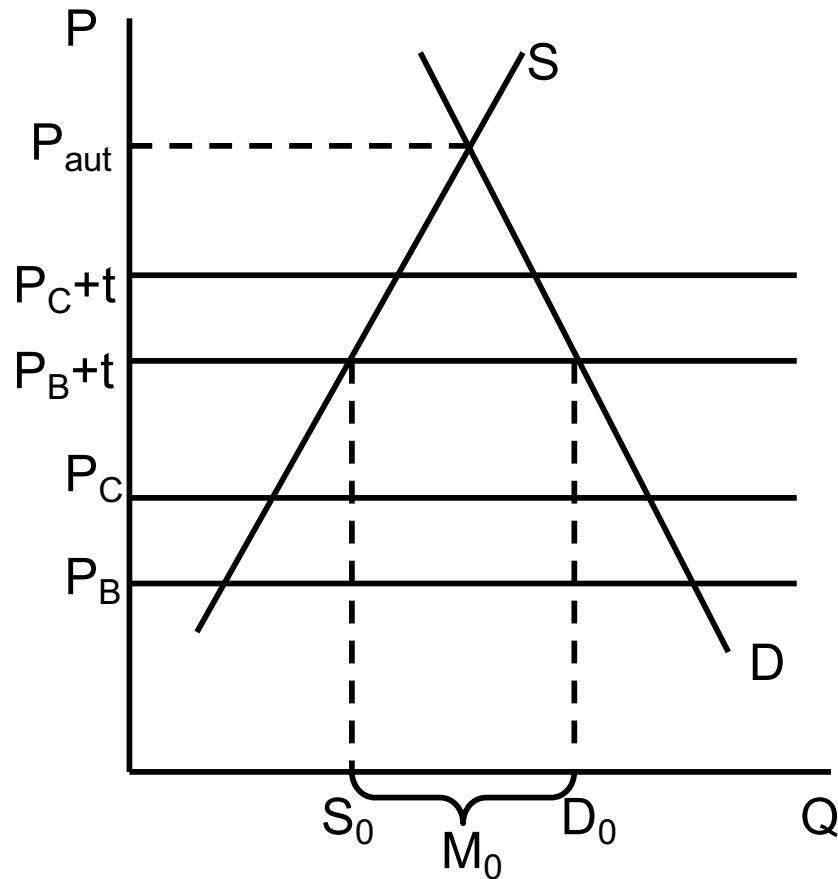
- Without FTA
  - Since $P_B + t < P_C + t$ Home imports <u>only</u> from B

FTA with low-cost country, B

Home Country A

FTA with B

- Since $P_B < P_C + t$ Home still imports only from B
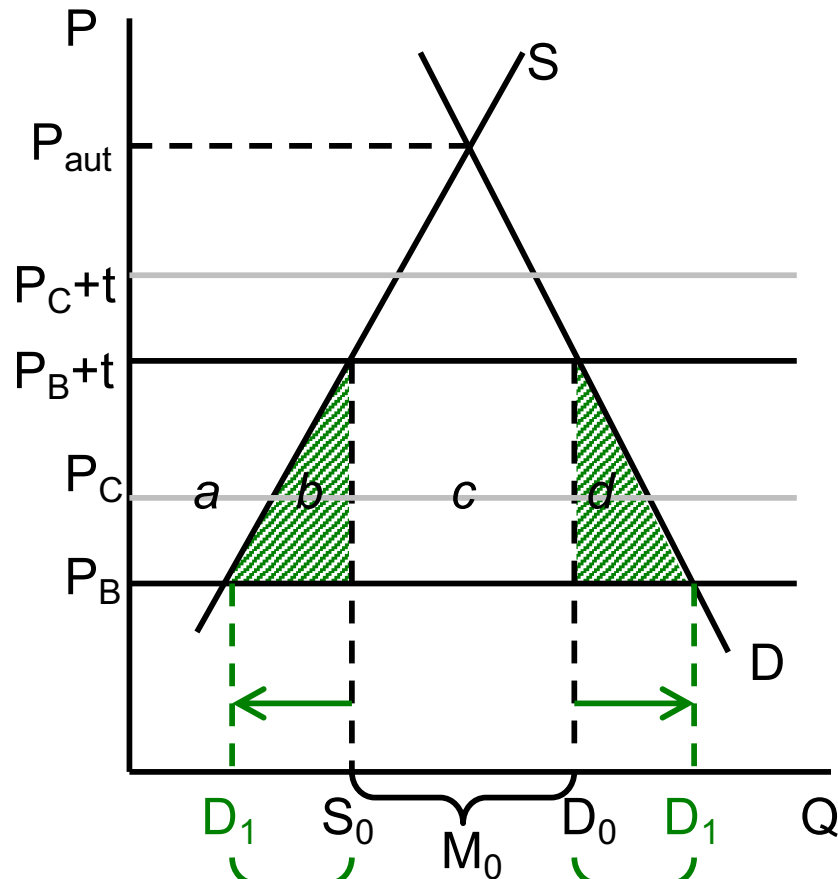- Country C plays no role

Welfare

Suppliers lose	$-a$
Demanders gain	$+(a+b+c+d)$
Government loses	$-c$
Country gains	$+(b+d)$

Same as Free Trade

FTA with low-cost country, B

Home Country A

FTA with high-cost country, C
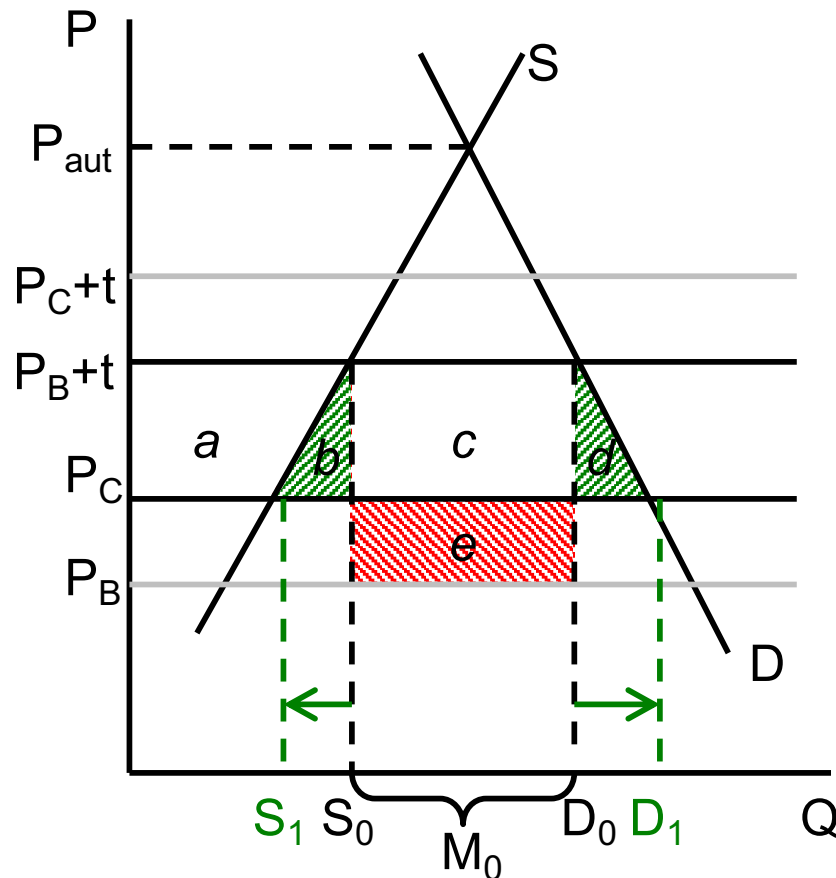
Home Country A

FTA with C

- Since $P_C < P_B + t$ Home now imports <u>only</u> from C

Welfare
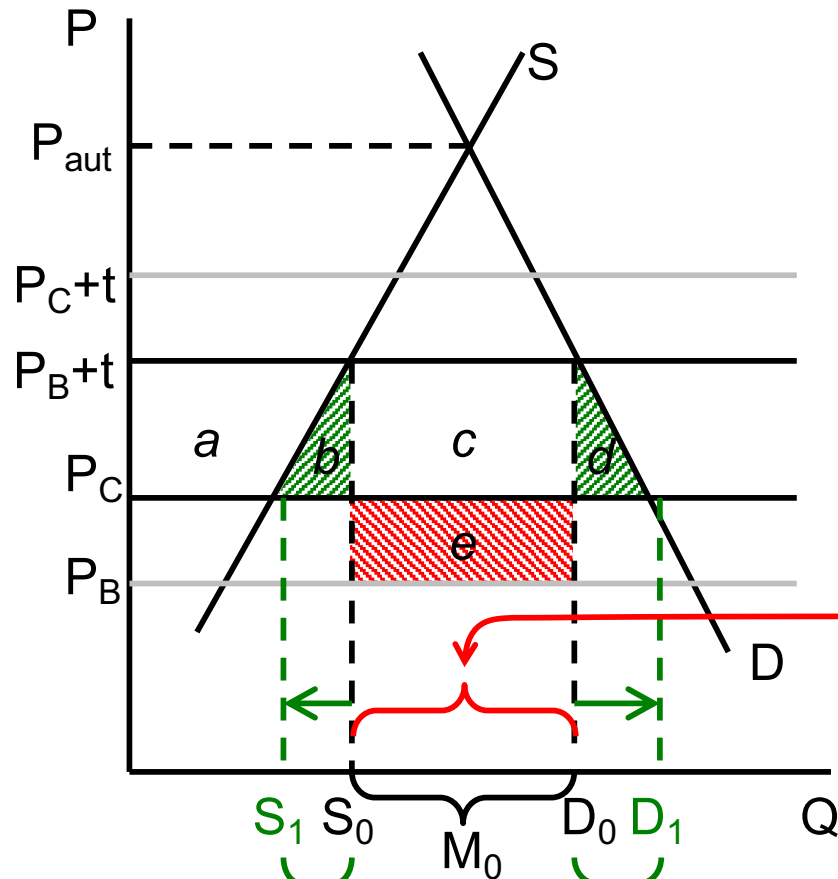
Suppliers lose	$-a$
Demanders gain	$+(a+b+c+d)$
Government loses	$-(c+e)$
Country loses	$-e+(b+d)$

<u>Not</u> same as Free Trade and may be a loss, if $e>(b+d)$

FTA with high-cost country, C
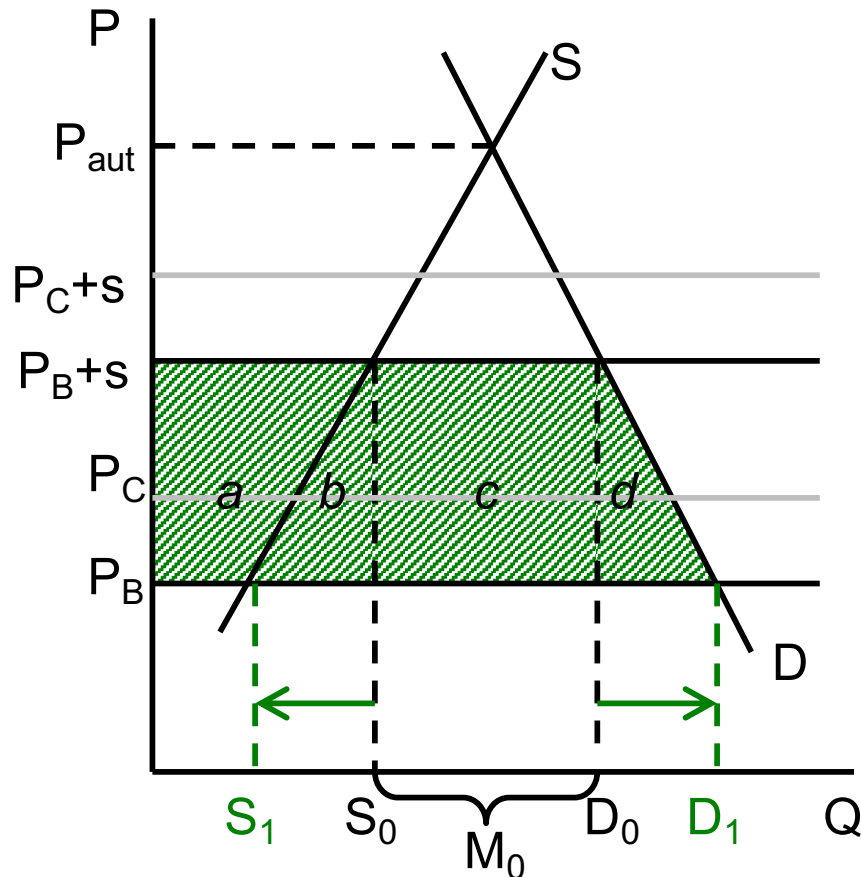
Home Country A

Pause for Discussion

Questions

- 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?

- The examples show only trade creation if the PTA is with the low-cost country. Should countries therefore only form PTAs with low-cost countries?

Trade in Services

- Trade in a service is not subject to tariffs, since nothing physical crosses borders

- It is subject to regulatory standards, which also raise cost, by some amount, say "s"

- Assume that FTA removes this cost through
  - Harmonization of standards
  - Mutual recognition

- The difference is that
  - Tariff t is revenue to government
  - Regulatory cost s is a real cost, using real resources, and not a transfer or benefit to anyone

- Pictures look the same as before, except for interpretation of this cost.

Service FTA with low-cost, B

Home Country A

FTA with B

- Since $P_B < P_C+s$ Home still imports only from B
- Country C plays no role

Welfare

Suppliers lose   –a

Demanders gain   +(a+b+c+d)

Government loses 0

Country gains   +(b+c+d)

Service FTA with high-cost, C

Home Country A
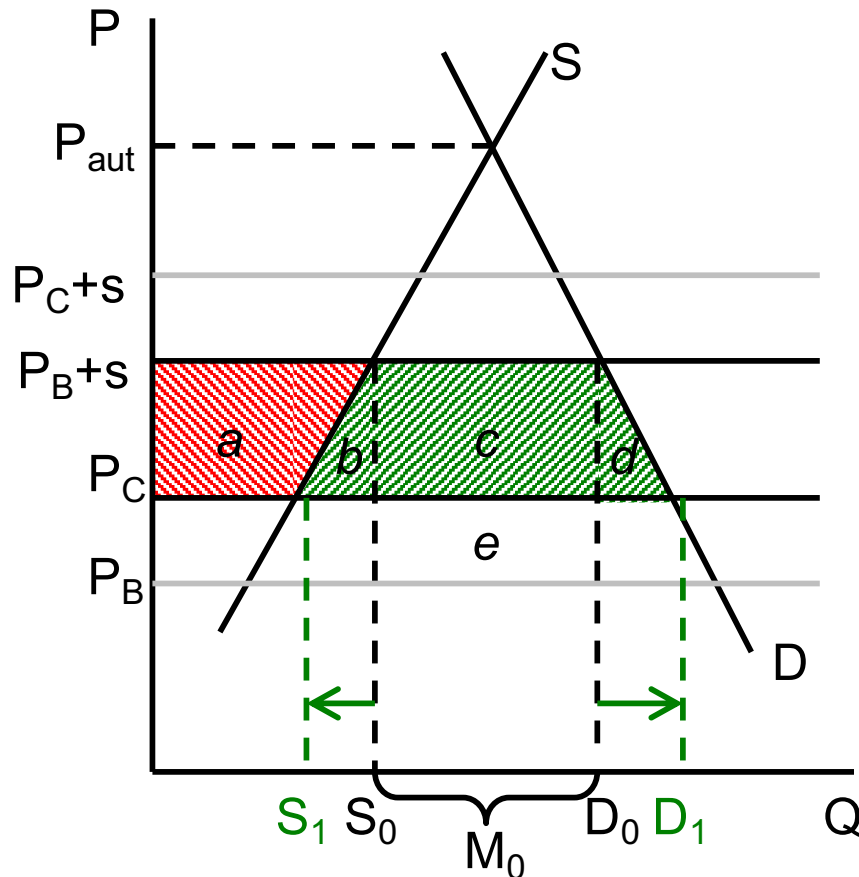
FTA with C

- Since $P_C < P_B+s$ Home now imports only from C

Welfare

Suppliers lose	$-a$
Demanders gain	$+(a+b+c+d)$
Government loses 0	
Country gains	$+(b+c+d)$

Certain gain, but not as large as with country B

Pause for Discussion

Questions

- What is the main difference between the effects of a PTA in goods and one in services?

Outline

- Background

- Simplest model: horizontal supplies

- **Upward-sloping supplies**

  - **3-country case, in graphs**

  - Somewhat more general case, in equations

  - 4-country case, in graphs

- Are FTAs Beneficial?

Upward-sloping Supplies 3-country case*

- **Assume**
  - Partial-equilibrium model of trade in a good
    - All the same assumptions we've used before for tariffs
  - Three countries, one importer A, and two exporters B, and C
  - Export supply and import demands are linear
  - Countries B and C are identical | For simplicity

*Much of this is an elaboration of material in World Trade Organization, "Causes and Effects of PTAs: Is it all about preferences?", Ch. C: *World Trade Report 2011*, pp. 92-121.

Upward-sloping Supplies 3-country case*

- Two equilibria:
  - 0: MFN specific tariff t on exports of both B and C
  - 1: FTA of A and B:
    - tariff t on exports of C;
    - zero tariff on exports of B

- Assume also: A imports from both B and C in both equilibria
  - That's not guaranteed, but it's possible as we'll see, and other cases would be harder

Export Supplies

Export Supplies of B <u>and</u> C

X^{Bt}, X^{Ct}

X^{Bf}, X^{Cf}

t

$a^B = a^C$

P

Q

Exports to Country A

$X^{Bt} + X^{Ct}$ — MFN

FTA

$X^{Bf} + X^{Ct}$

P

Q

MFN Equilibrium

Export Supplies

P

X^{Bt}, X^{Ct}

X^{Bf}, X^{Cf}

p_0^A

t

$a^B = a^C$

$X_0^B = X_0^C$

Q

Import Market

P

$X^{Bt} + X^{Ct}$ MFN

FTA

$X^{Bf} + X^{Ct}$

M^A

$M_0^A = X_0^B + X_0^C$

Q

FTA Equilibrium

Export Supplies

X^{Bt}, X^{Ct}

X^{Bf}, X^{Cf}

p_0^A

p_1^A

t

$a^B = a^C$

X_1^C X_0^B X_1^B $\quad$ Q

$= X_0^C$

Import Market

$X^{Bt} + X^{Ct}$ $\quad$ MFN

FTA

$X^{Bf} + X^{Ct}$

M^A

M_0^A M_1^A $\quad$ Q
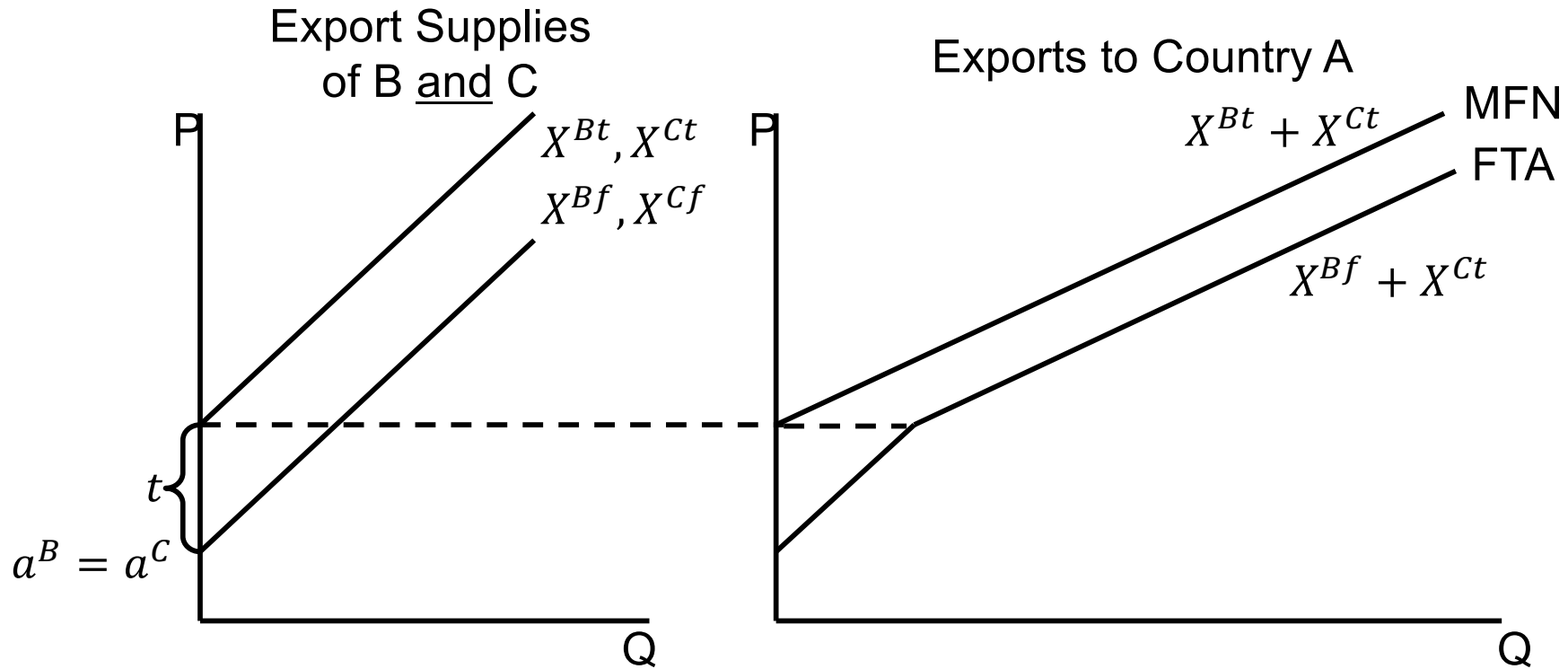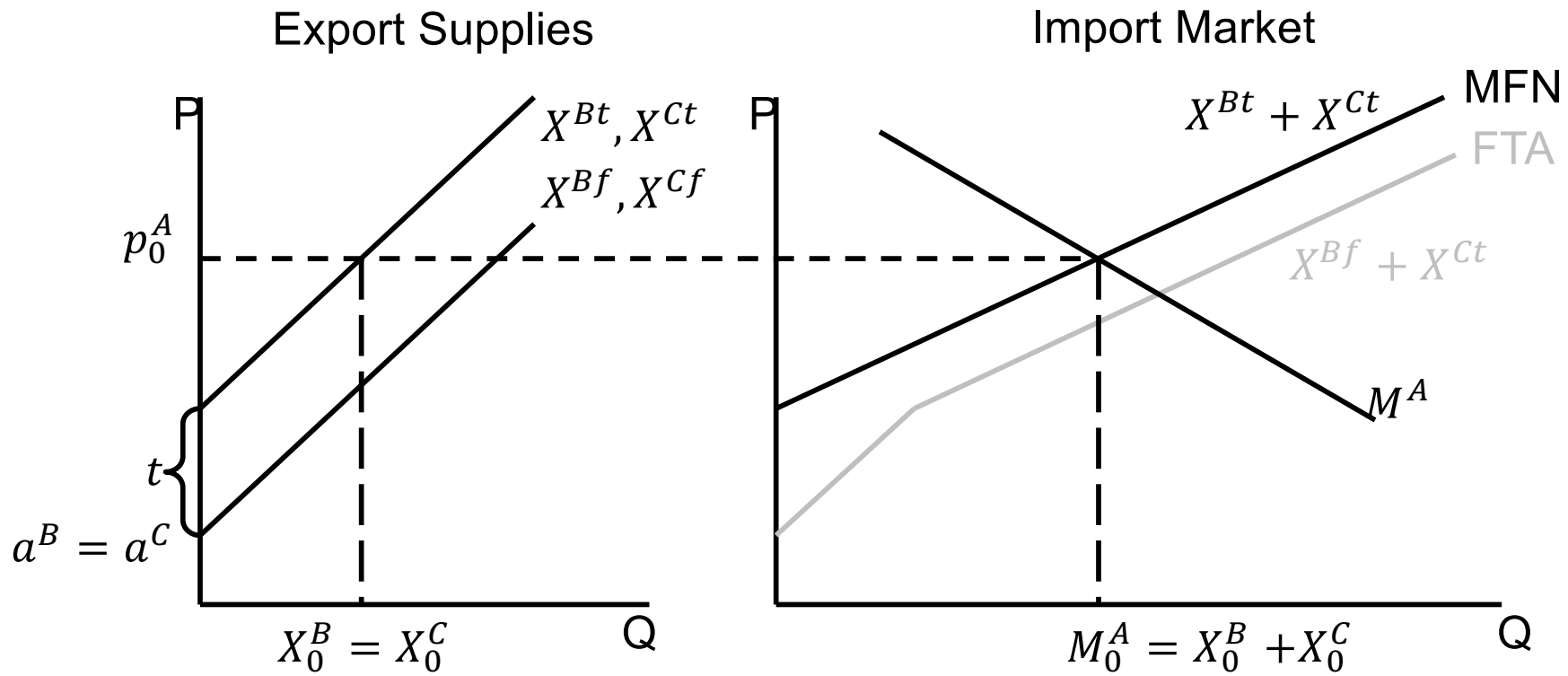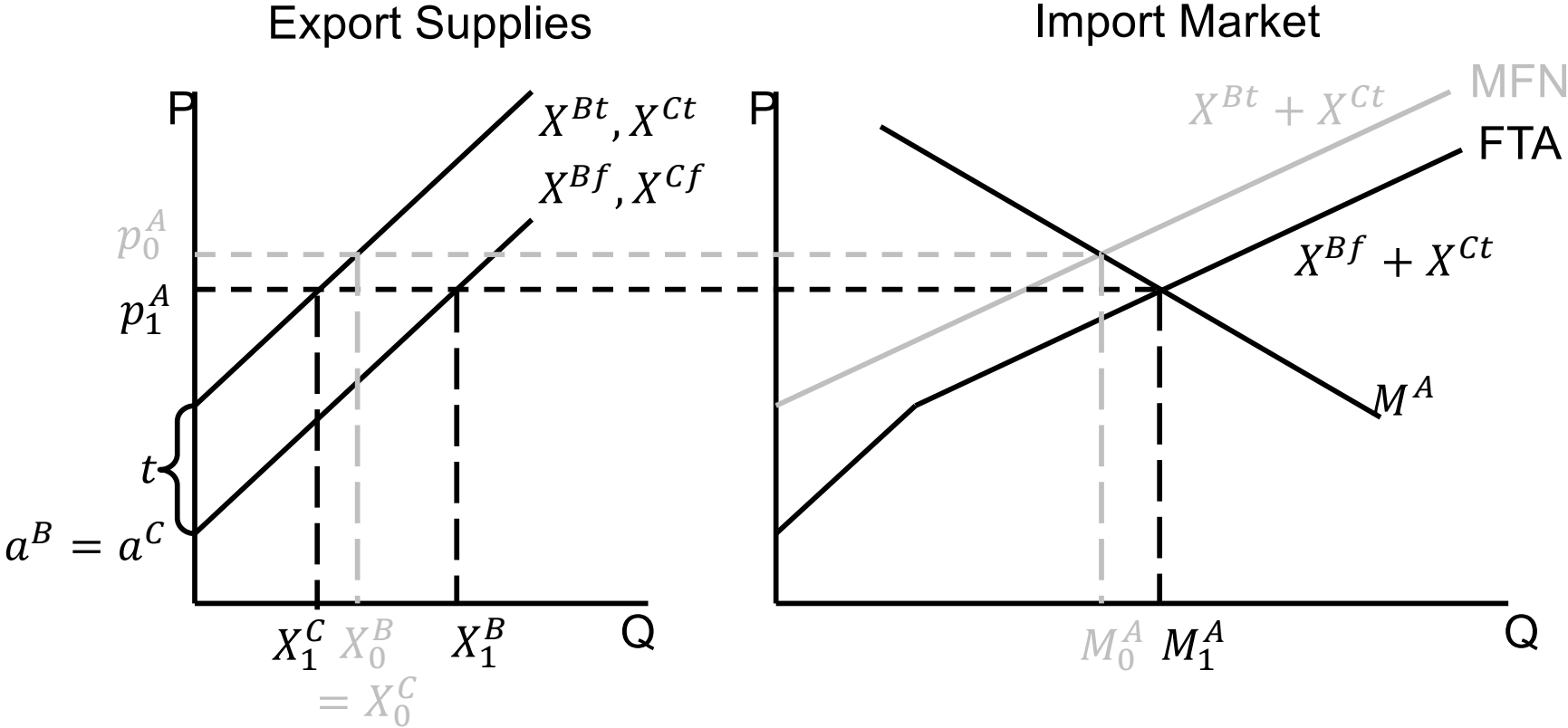
Trade Creation and Diversion

Export Supplies

Import Market

p_0^A, p_1^A, t, $a^B =$, a^C

X^{Bt}, X^{Ct}

X^{Bf}, X^{Cf}

TD

X_1^C X_0^B X_1^B

$= X_0^C$

$X^{Bt} + X^{Ct}$ MFN

FTA

$X^{Bf} + X^{Ct}$

M^A

TC

M_0^A M_1^A

TC & TD, another View

Export Supplies

Import Market

Welfare Effects on Country A

Export Supplies

Tariff revenue lost from

X^{Bt}, X^{Ct}

X^{Bf}, X^{Cf}

p^A

B   C

p_0^A

p_1^A

t

a^B

$= a^C$

TD TC

TD

X_1^C X_0^B X_1^B

$= X_0^C$

Q

Import Market

Net gain of A's private sector

$X^{Bt} + X^{Ct}$ MFN

FTA

p^A

$X^{Bf} + X^{Ct}$

M^A

TC

M_0^A M_1^A

Q
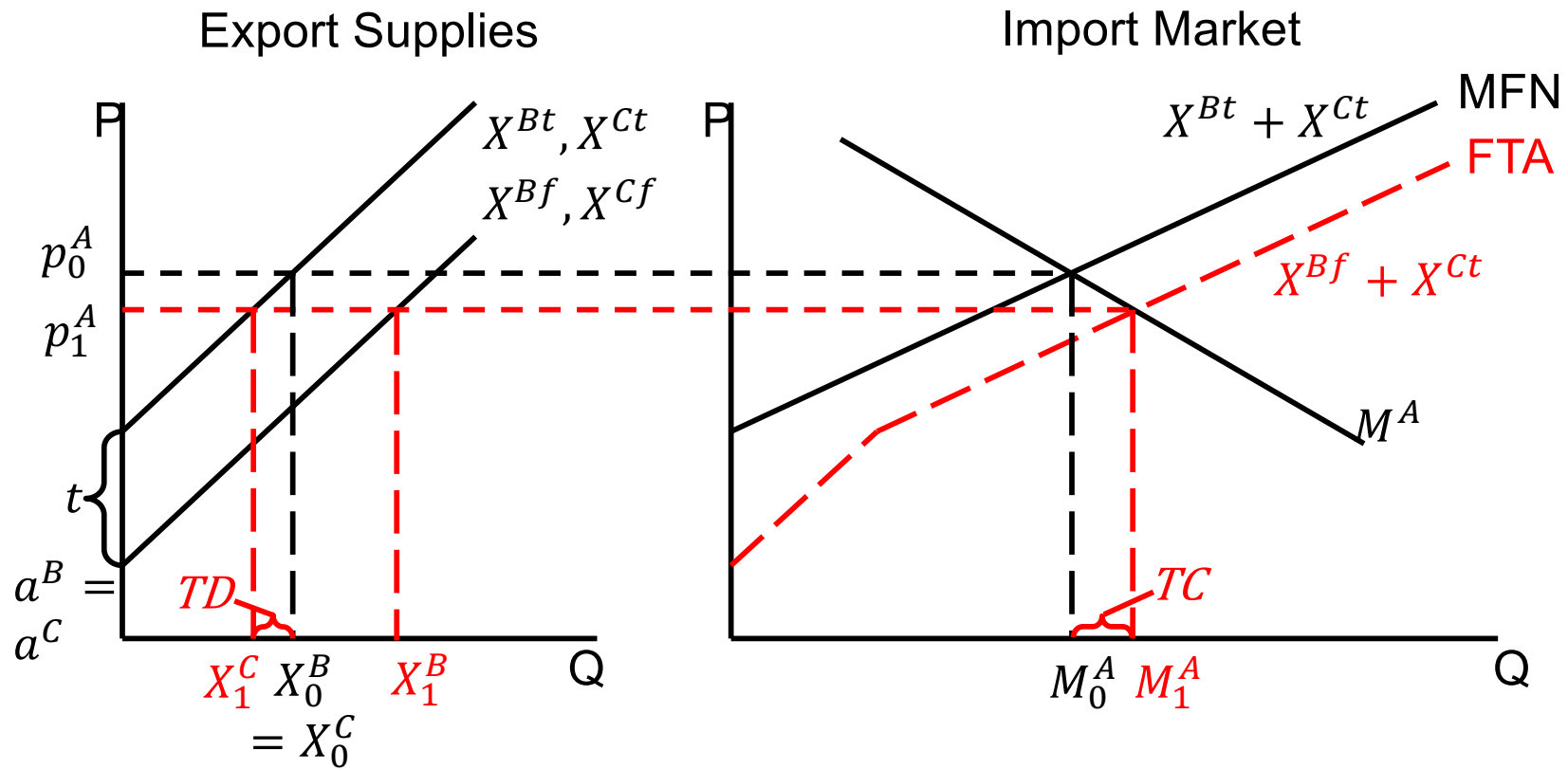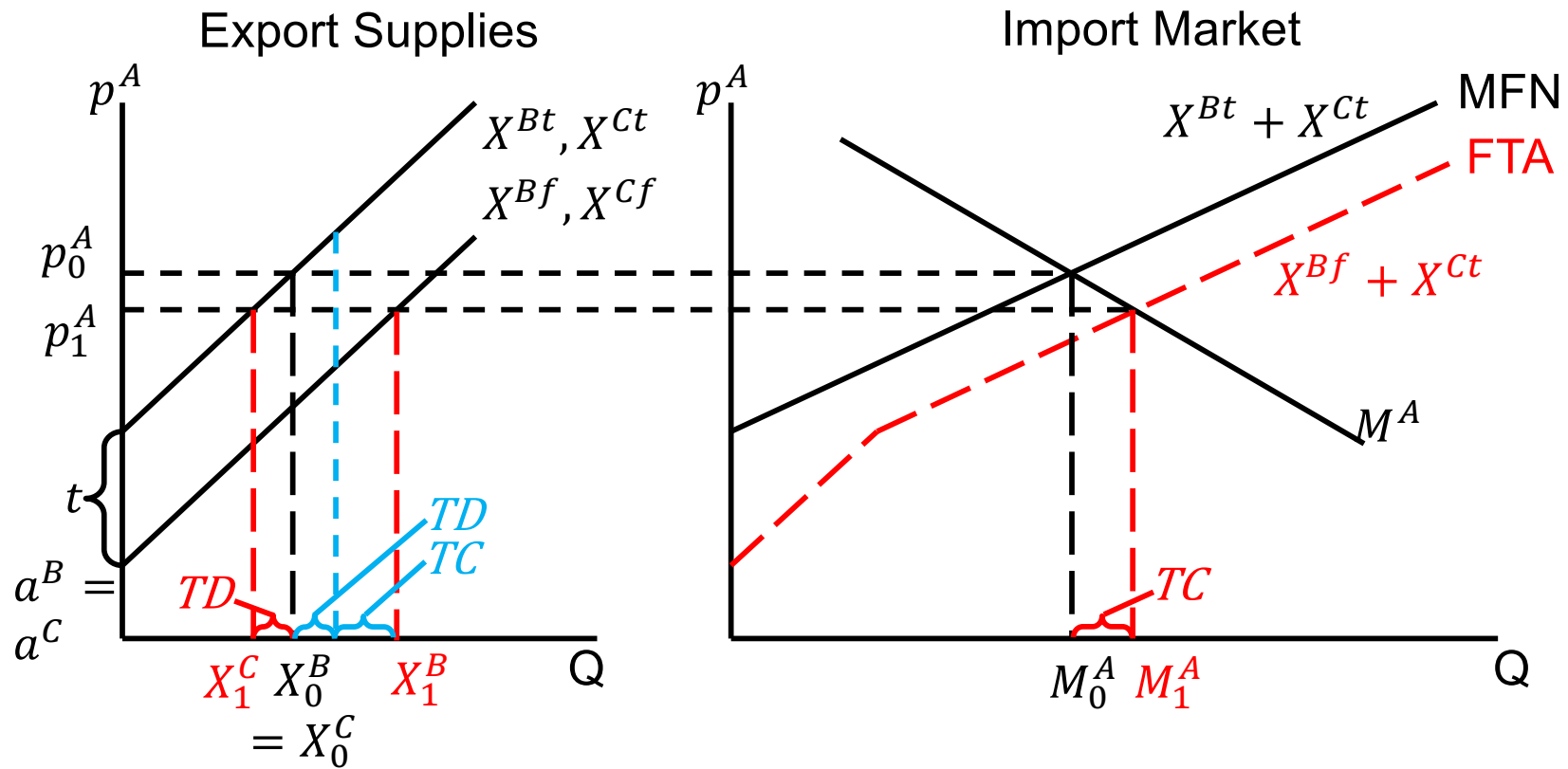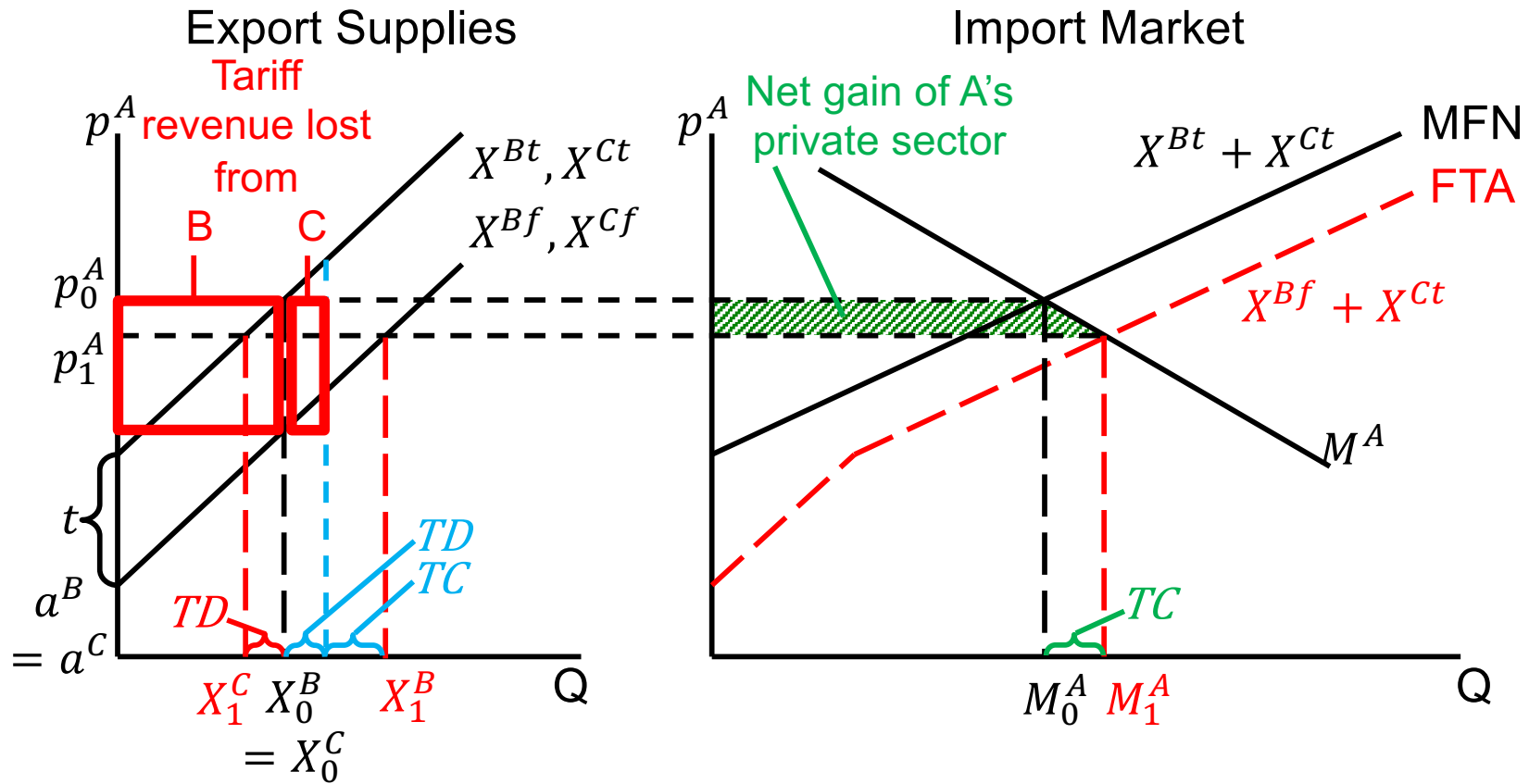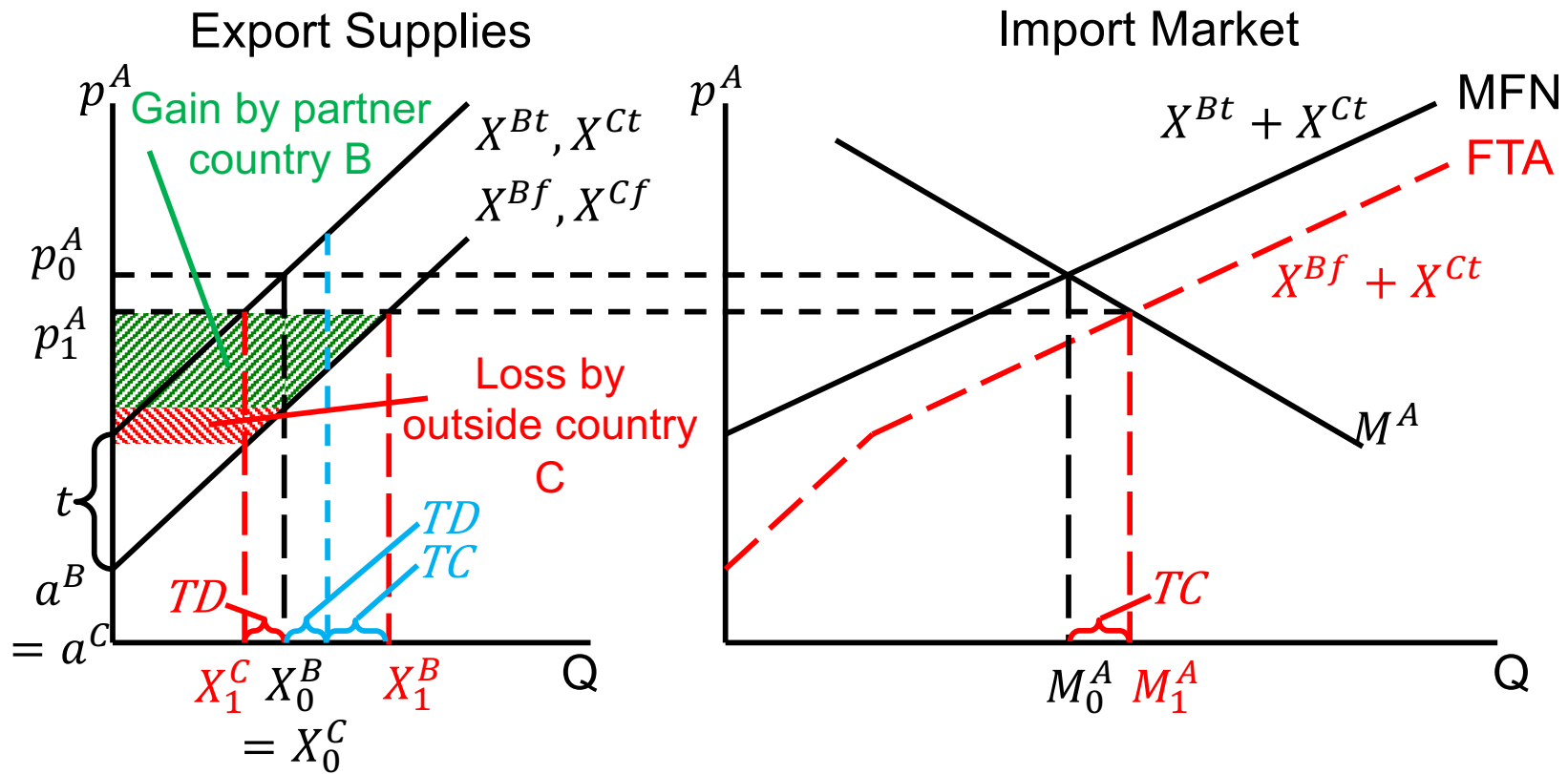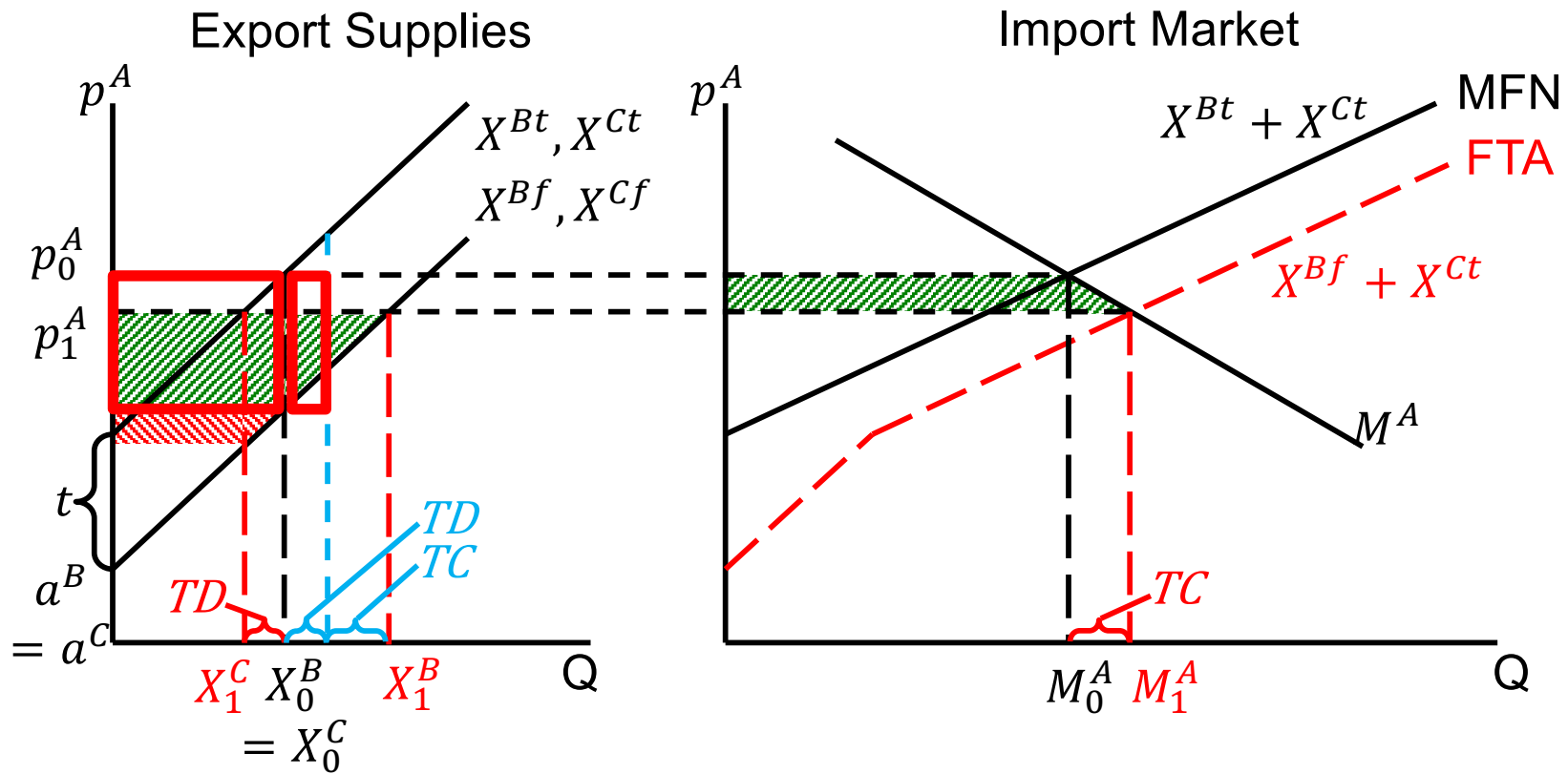
See immediately that country A
- Gains from trade creation
- Loses from trade diversion
- As well as from lost revenue from country B

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Welfare Effects on Countries B and C

Welfare Effects on the World

Export Supplies

Import Market

These add up, with much cancellation to yield the following:

Welfare Effects on the World

Export Supplies

Import Market

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Welfare Effects on the World

Export Supplies

Import Market

These add up, with much cancellation to yield the following:

Welfare Effects on the World

Export Supplies

Import Market

p^A

X^{Bt}, X^{Ct}

X^{Bf}, X^{Cf}

p^A

$X^{Bt} + X^{Ct}$

MFN

FTA

$X^{Bf} + X^{Ct}$

p_0^A

p_1^A

M^A

t

TD
TC

a^B

TD

TC

$= a^C$

X_1^C X_0^B

X_1^B

Q

M_0^A M_1^A

Q

$= X_0^C$

These add up, with much cancellation to yield the following:

Welfare Effects on the World

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These add up, with much cancellation to yield the following:

Welfare Effects on the World

Export Supplies

Import Market

These add up, with much cancellation to yield the following:

Welfare Effects on the World

Export Supplies

Import Market

Why the Loss from Trade Diversion

Export Supplies

Import Market
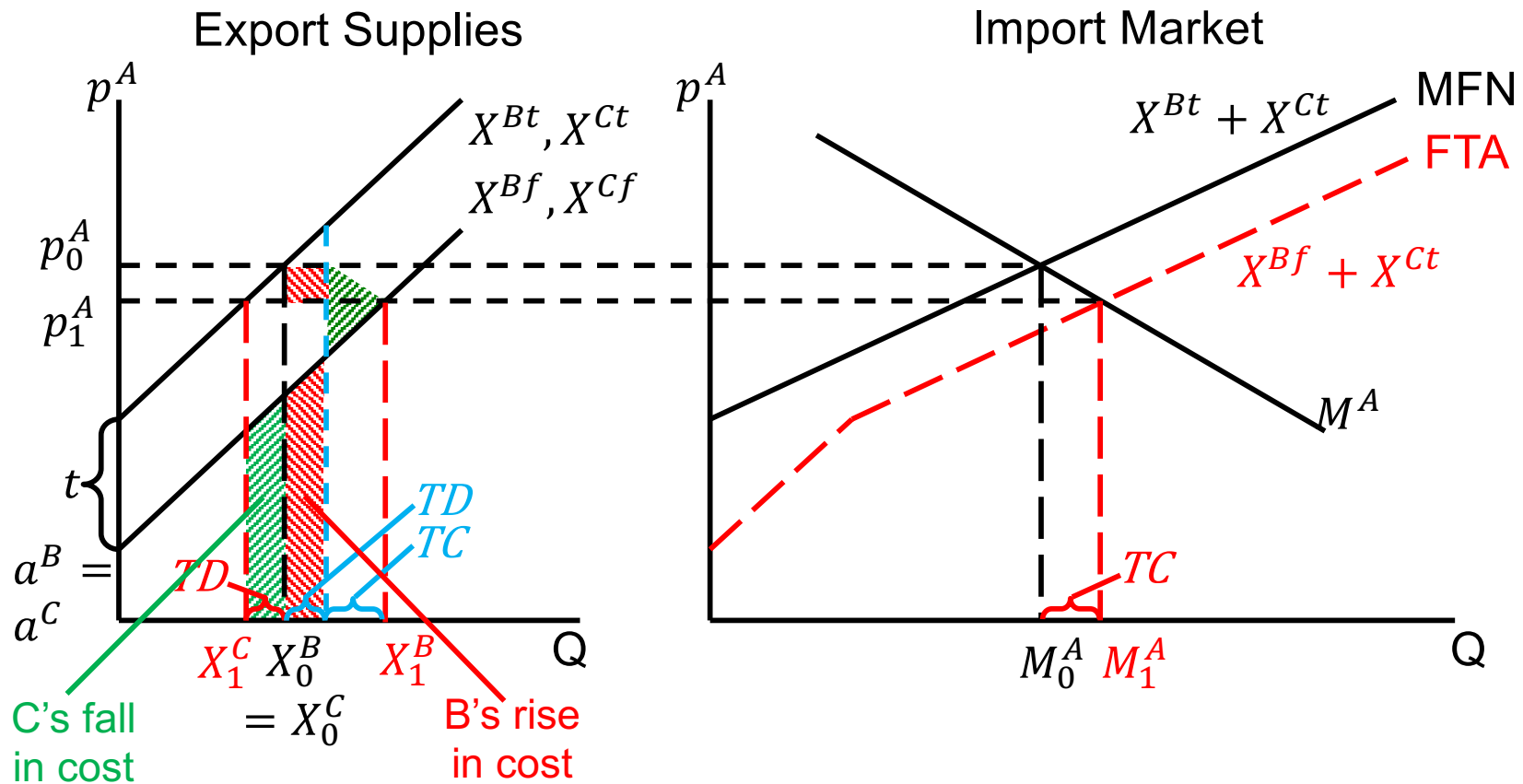
Welfare Effects on the World
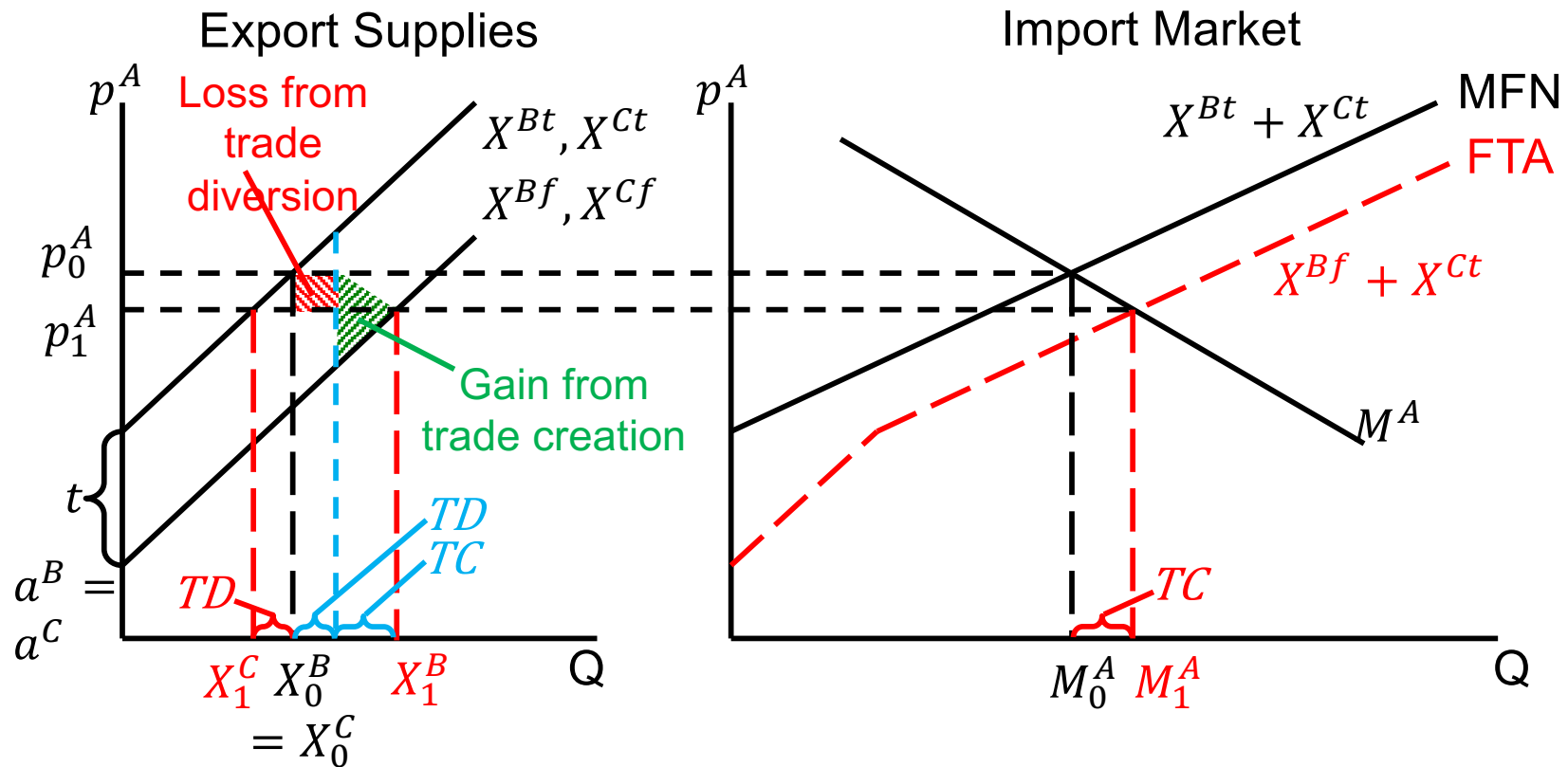
- Loss is an area, product of the price change and the quantity of trade diversion, with the latter depending on the former.
- So the loss rises with the <u>square</u> of trade diversion.

Pause for Discussion

Questions

- Why did we need to assume that "A imports from both B and C in both equilibria."
  - Could it have been otherwise?
  - Would it matter for any results?
- Why is trade diversion harmful if both exporters initially charge the same price?

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- Background

- Simplest model: horizontal supplies

- **Upward-sloping supplies**

  - 3-country case, in graphs

  - **Somewhat more general case, in equations**

  - 4-country case, in graphs

- Are FTAs Beneficial?

Four-Country Model in Equations

- ## Assume

  - Partial-equilibrium model of trade in a good

    - All the same assumptions we've used before for tariffs

  - Four countries, one importer A, and three exporters B, C, and D

  - Export supply and import demands are linear

  - Countries B, C, and D are <u>not</u> assumed identical

- ## Purpose

  - To see effect of country A adding a new FTA (with B) when it already has an FTA (with D). (Country C remains an outside country, the rest of world.)

Four-Country Model in Equations

- Three equilibria
  - 0: MFN tariff t on exports of B, C, and D
  - 1: FTA of A and D:
    - Tariff t on exports of B and C;
    - Zero tariff on exports of D
  - 2: FTA of A with B, keeping FTA with D
    - Tariff t on exports of C only
    - Zero tariff on exports of B and D

- Consider only cases with positive exports to A from all three of B, C, and D in all equilibria

Skip to results

The Model

Exports:

$$X^i = b^i(p^i - a^i), \qquad i = B, C, D, \qquad p^i \geq a^i$$

Imports:

$$M^A = b^A(a^A - p^A), \qquad p^A \leq a^A$$

Equilibrium:

$$M^A = X^B + X^C + X^D$$

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Arrangements

The Model

Let:

$$\beta = b^A + b^B + b^C + b^D$$

$$\theta^i = b^i/\beta$$

$$\gamma = \theta^A a^A + \theta^B a^B + \theta^C a^C + \theta^D a^D$$

Then solution is:

$$p^A = \gamma + \theta^B t^B + \theta^C t^C + \theta^D t^D$$

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Arrangements

The Model

- With more assumptions, b^i are proportional to country size

  - (See paper)

- Therefore θ^i is country i's share of world economy

  - (This is not really right, as it assumes both demanders and suppliers in proportion to population. Exporters will in fact have more firms, and thus greater weight, than importers.)

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The Model

Effect of new FTA between A and B

(in presence of A's FTA with D)

Let Δ be change from equilibrium 1 to equilibrium 2

$$\Delta p^A = -\theta^B t$$

Thus price in A falls by a fraction of the tariff, in proportion to size of new partner compared to world.

Country B's price rises by the rest of the tariff

$$\Delta p^B = (1 - \theta^B)t$$

Because A's tariff on C and D does not change

$$\Delta p^C = \Delta p^D = \Delta p^A = -\theta^B t$$

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The Model

From the price changes, one derives the following changes in quantities of trade:

$$\Delta M^A = \theta^B b^A t > 0$$

$$\Delta X^B = \theta^B (b^A + b^C + a^D)t > 0$$

$$\Delta X^C = -\theta^B b^C t < 0$$

$$\Delta X^D = -\theta^B b^D t < 0$$

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Arrangements

The Model

As must be from market equilibrium

$$\Delta X^B = \Delta M^A - \Delta X^C - \Delta X^D$$

Thus the added exports of the partner country include the new imports of country A plus the reduced exports of countries C and D.

We label

$-\Delta X^C$ as "trade diversion"

and

$-\Delta X^D$ as "trade reversion"

because it is <u>reversal</u> of trade diversion from the prior FTA.

The Model

Thus

$$Trade\ Creation = TC = \theta^B b^A t > 0$$

$$Trade\ Diversion = TD = \theta^B b^C t > 0$$

$$Trade\ Reversion = TR = \theta^B b^D t > 0$$

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Arrangements

The Model

Welfare effects of new FTA

Country A (home):

$$\Delta W^A = \left(M_0^A/b^A + \theta^B t/2\right)TC - tTD - tX_0^B$$

Lost tariff revenue $\overbrace{}$

Country B (new partner):

$$\Delta W^B = \Delta NS^B = \left[X_0^B + \frac{1}{2}(TC + TD + TR)\right](1 - \theta^B)t$$

Country C (outside world):

$$\Delta W^C = \left[-X_0^C + \frac{TD}{2}\right]\theta^B t$$

Country D (old partner):

$$\Delta W^D = \left[-X_0^D + \frac{TR}{2}\right]\theta^B t$$

Class 19: Preferential Trading Arrangements

The Model

Welfare effects of new FTA on the World

World (A+B+C+D):

$$\Delta W^W = \frac{1}{2}TCt + \frac{1}{2}(TR - TD)t$$

Class 19: Preferential Trading
Arrangements

Pause for Discussion

Questions

- Under what circumstances will adding a second FTA be harmful for the world?

Outline

- Background

- Simplest model: horizontal supplies

- **Upward-sloping supplies**

  - 3-country case, in graphs

  - Somewhat more general case, in equations

  - 4-country case, in graphs | **Skipping this unless there's extra time**

- Are FTAs Beneficial?

Four-Country Model in Figures

- Four countries:
  - Importer A
  - Exporters B, C, and D

- Export supply and import demands are linear

- Countries B, C, and D are identical   For simplicity

Four-Country Model in Figures

- Two equilibria
    1: MFN tariff t on exports of both B and C
        - Zero tariff on exports of old FTA partner D
    2: New FTA of A and B:
        - Tariff t on exports of C only;
        - Zero tariff on exports of two FTA partners B and D

Export Supplies

Export Supplies of B, C, and D

P

X^{Bt}, X^{Ct}, X^{Dt}

X^{Bf}, X^{Cf}, X^{Df}

t

$b^B = b^C = b^D$

$a^B =$
$a^C =$
a^D

Q

Export Supplies to Country B

P

$\sum X_1 = X^{Bt} + X^{Ct} + X^{Df}$

$\sum X_0 = X^{Bt} \pm X^{Ct} + X^{Dt}$

$\sum X_2 = X^{Bf} + X^{Ct} + X^{Df}$

$\sum X_f = X^{Bf} + X^{Cf} + X^{Df}$

Q
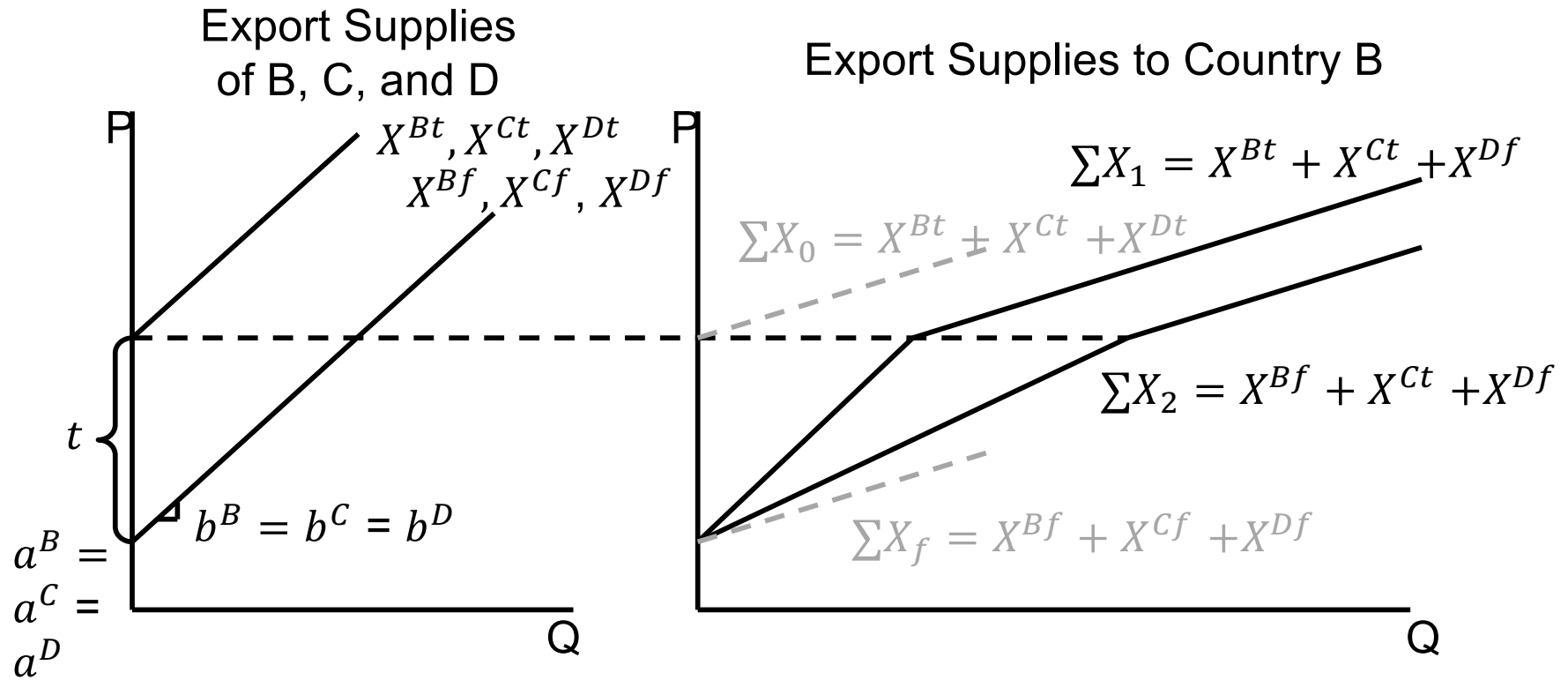
Equilibrium 1: A has FTA with 1 country, D

Export Supplies of B, C, and D

X^{Bt}, X^{Ct}, X^{Dt}

X^{Bf}, X^{Cf}, X^{Df}

P

t

X_1^B
$= X_1^C$

X_1^D

Q

Import Market

ΣX_1

ΣX_2

M^A

P

M_1^A
$= X_1^B + X_1^C + X_1^D$

Q
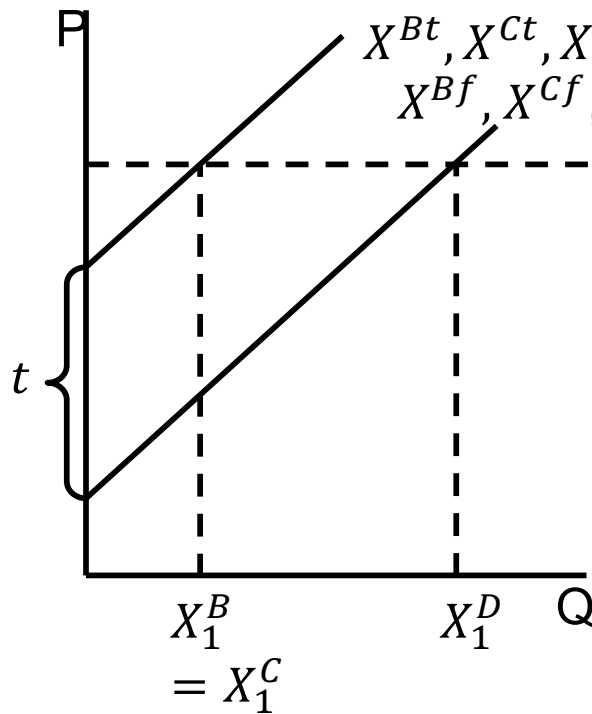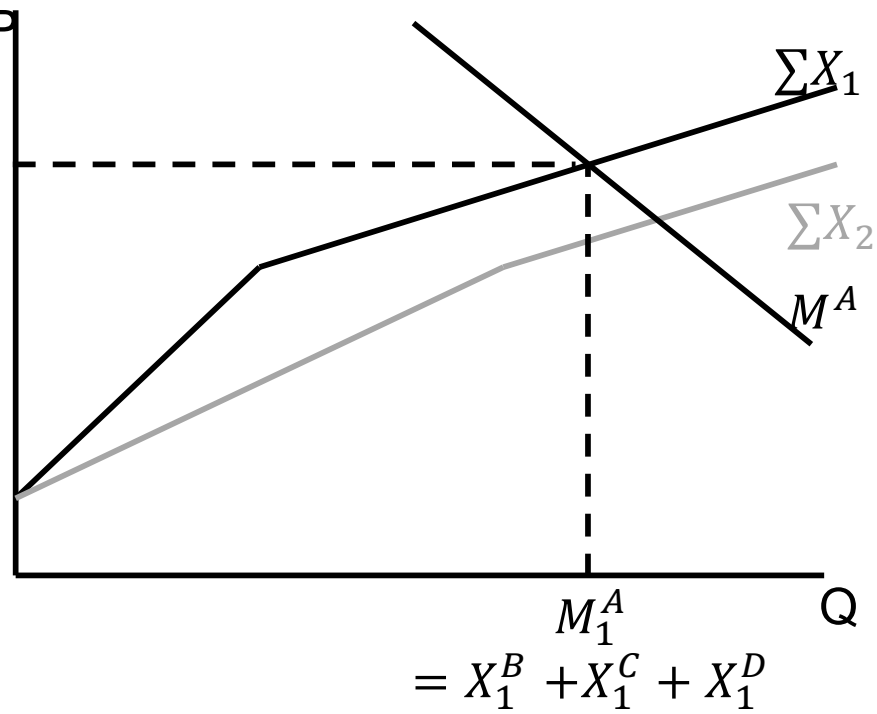
Equilibrium 2: A has FTA with 2 countries, B & D

Export Supplies of B, C, and D

X^{Bt}, X^{Ct}, X^{Dt}

X^{Bf}, X^{Cf}, X^{Df}

P

t

X_2^C X_1^B X_2^B X_1^D Q

$= X_1^C$ $= X_2^D$

Import Market

P

$\sum X_1$

$\sum X_2$

M^A

M_1^A M_2^A Q
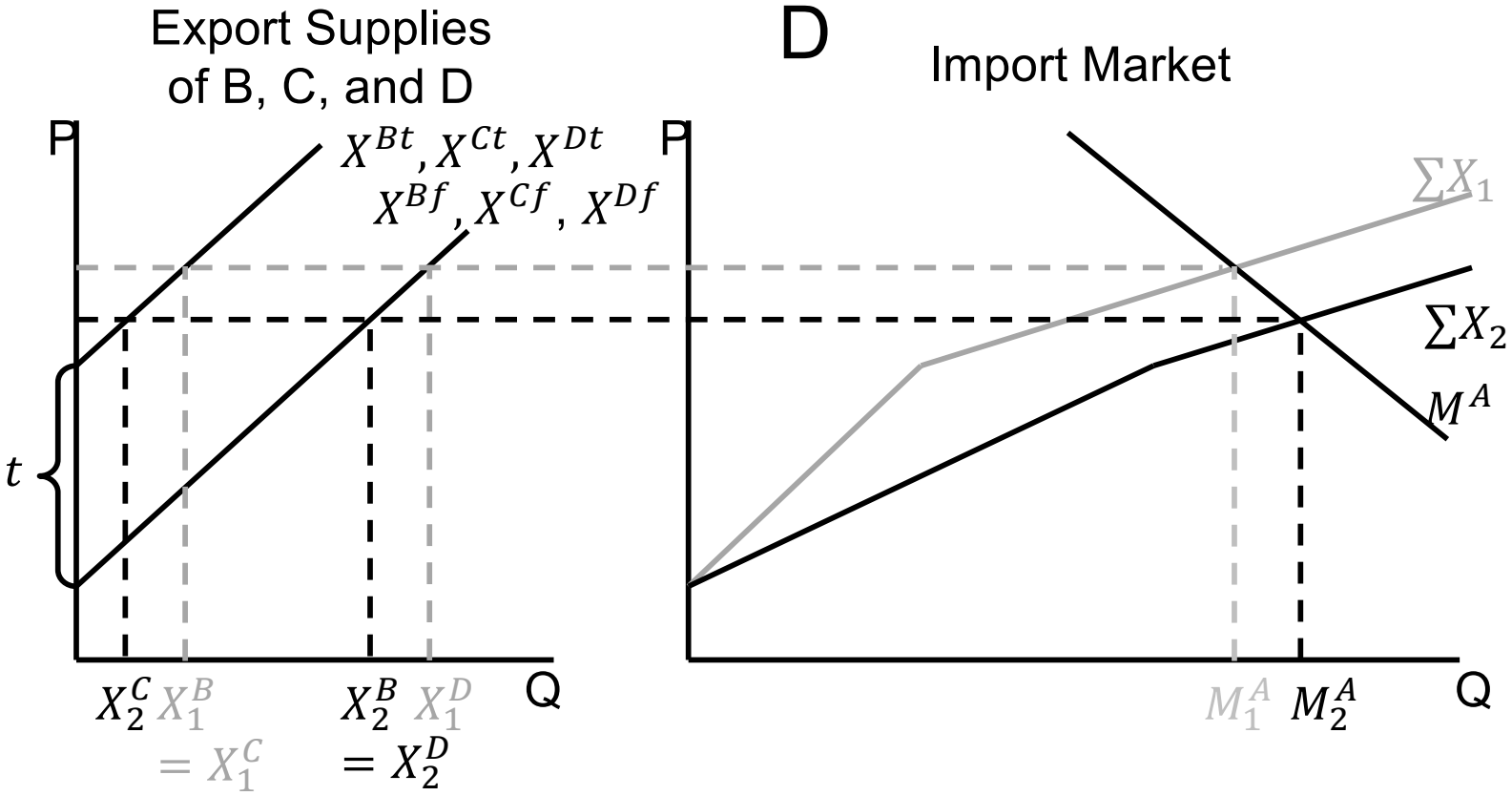
Changes in Trade from expanding FTA to Country B

Export Supplies of B, C, and D

Import Market

Export Supplies graph:
- P vertical axis, Q horizontal axis
- X^{Bt}, X^{Ct}, X^{Dt}
- X^{Bf}, X^{Cf}, X^{Df}
- t
- ΔX^C (red), ΔX^B (green), ΔX^D (red)
- X_2^C X_1^B $= X_1^C$, X_2^B X_1^D $= X_2^D$

Import Market graph:
- P vertical axis, Q horizontal axis
- $\sum X_1$, $\sum X_2$, M^A
- ΔM^A (green)
- M_1^A M_2^A

Trade Creation (TC), Diversion (TD), and Reversion (TR)

Export Supplies of B, C, and D

X^{Bt}, X^{Ct}, X^{Dt}
X^{Bf}, X^{Cf}, X^{Df}

t

ΔX^C ΔX^B ΔX^D

TD TR

Trade Diversion   Trade Reversion

Import Market

$\sum X_1$
$\sum X_2$
M^A

ΔM^A

TC
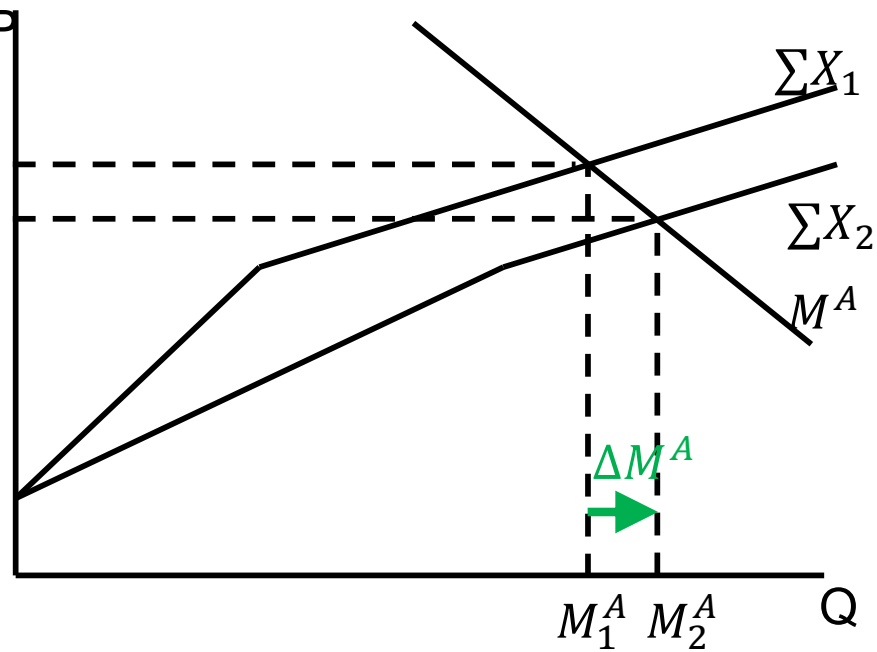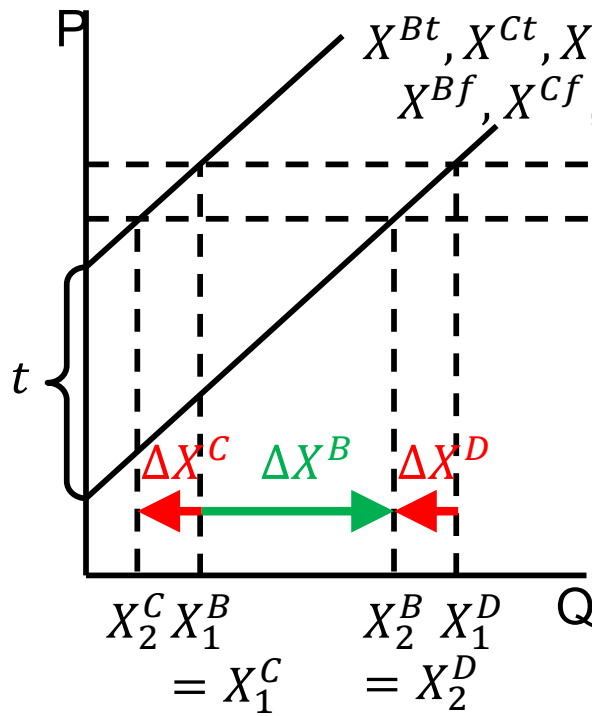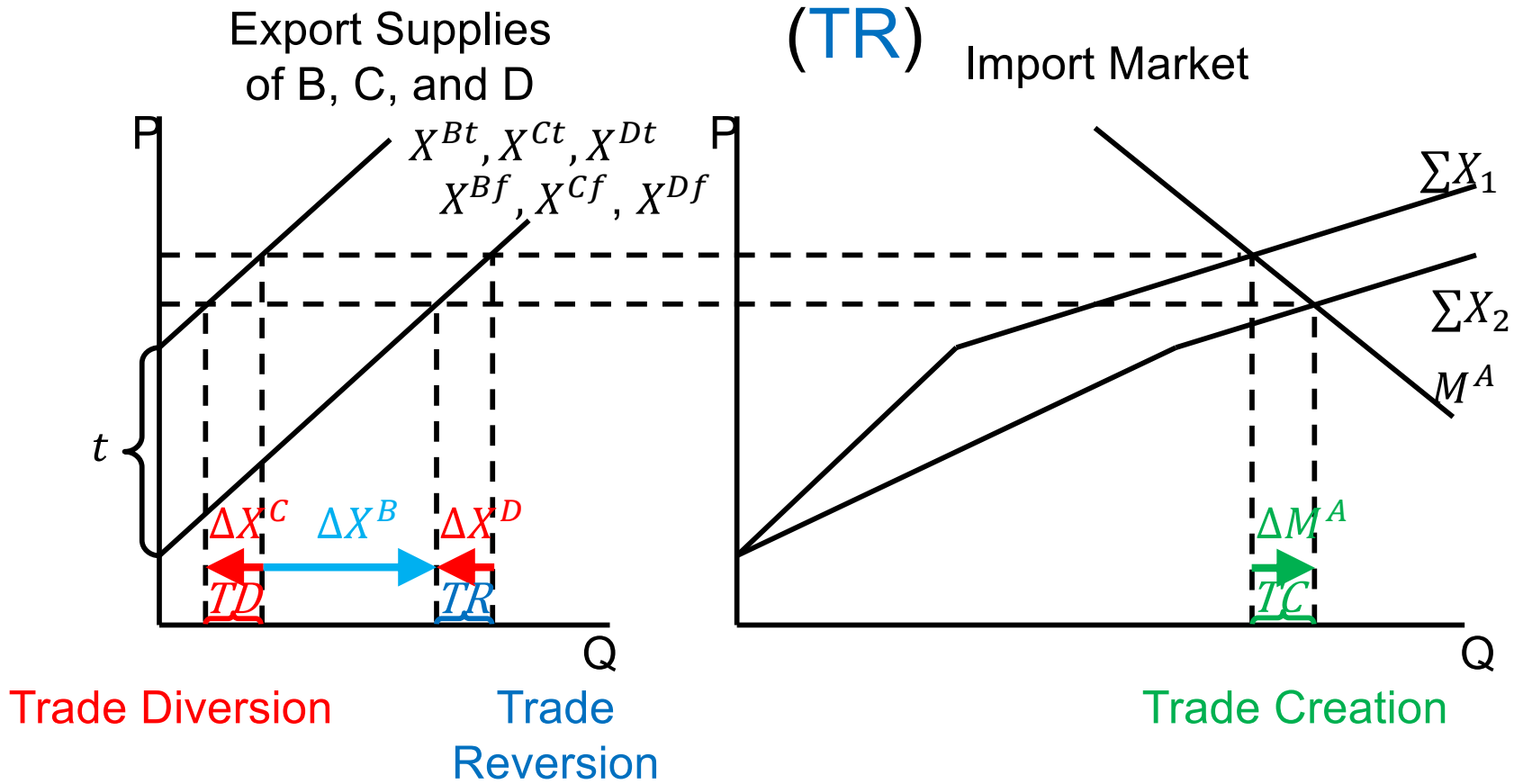
Trade Creation

Trade Creation (TC), Diversion (TD), and Reversion (TR)
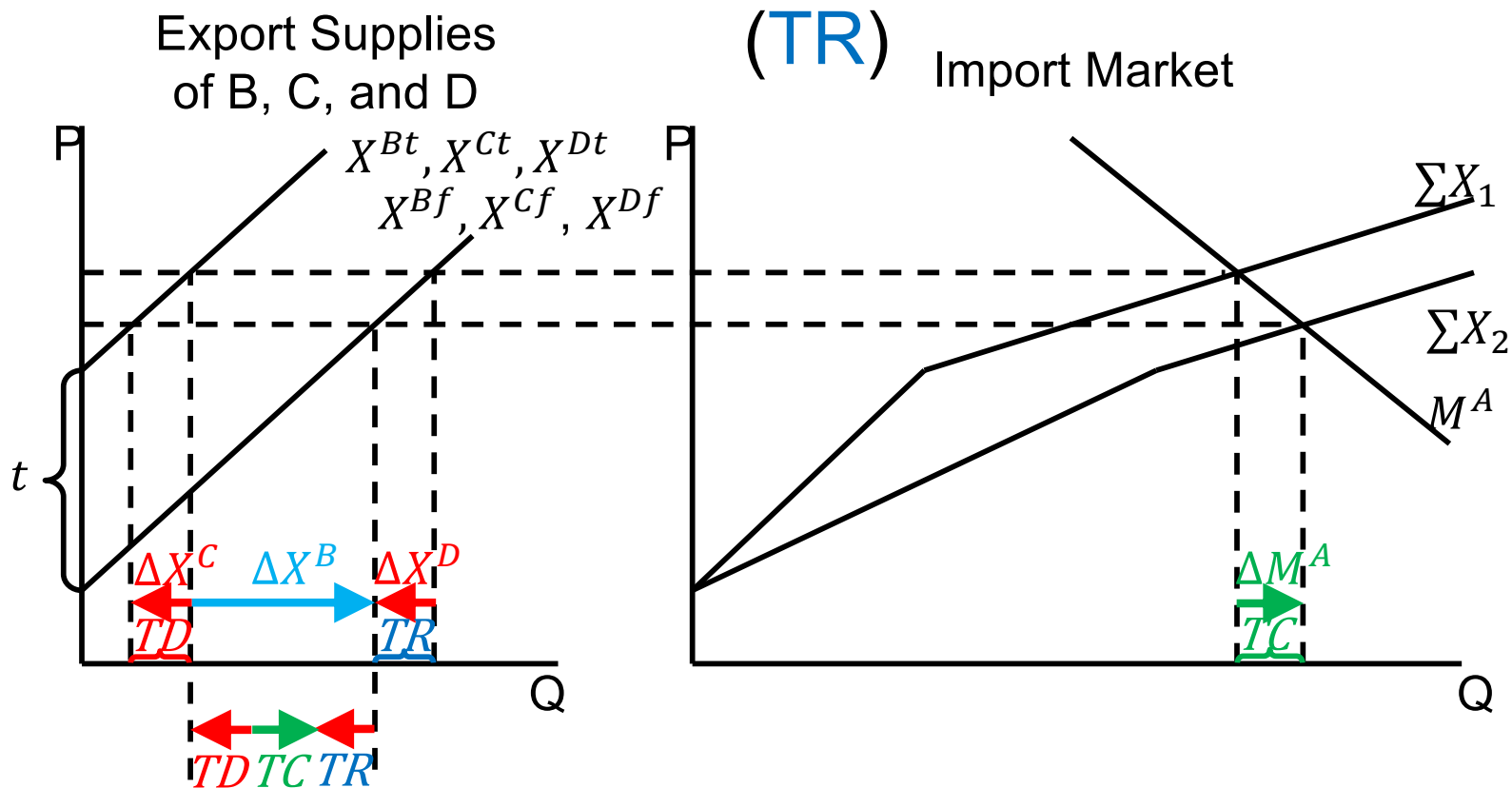
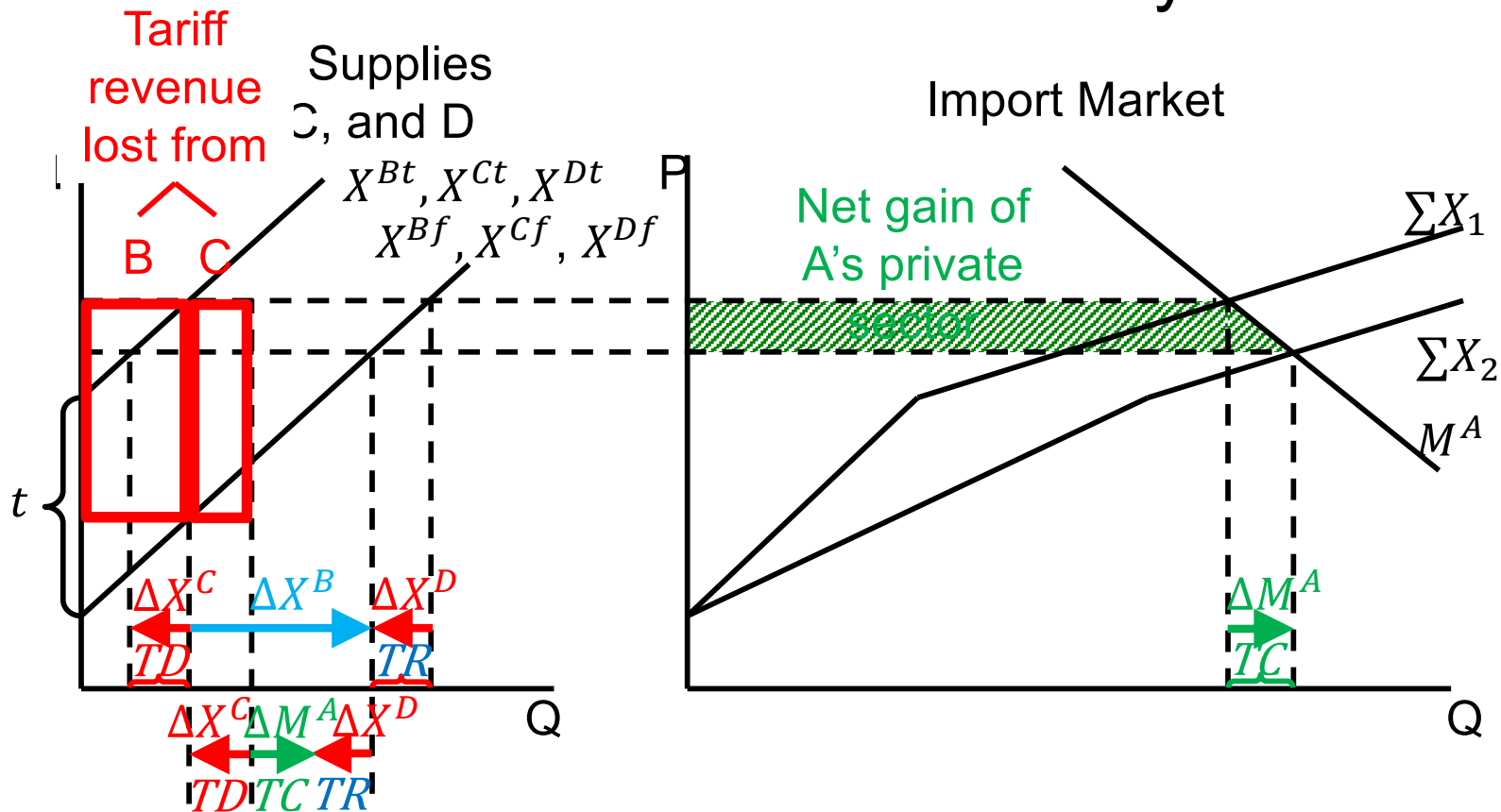Note that ΔX^B, while a gain to Country B, is the sum of TC, TD, & TR, since $\Delta X^B = \Delta M^A - \Delta X^C - \Delta X^D$

Welfare Effects on Country A

Tariff revenue lost from

Supplies C, and D

Import Market

X^{Bt}, X^{Ct}, X^{Dt}
X^{Bf}, X^{Cf}, X^{Df}

P

B   C

$\sum X_1$

Net gain of A's private sector

$\sum X_2$

M^A

t

ΔX^C ΔX^B ΔX^D

ΔM^A

TD TR

TC

$\Delta X^C \Delta M^A \Delta X^D$

$TD TC TR$

Q

Q

Note that trade reversion does not appear to affect A's welfare. I suspect this is an artifact of making export supplies from B and D the same.

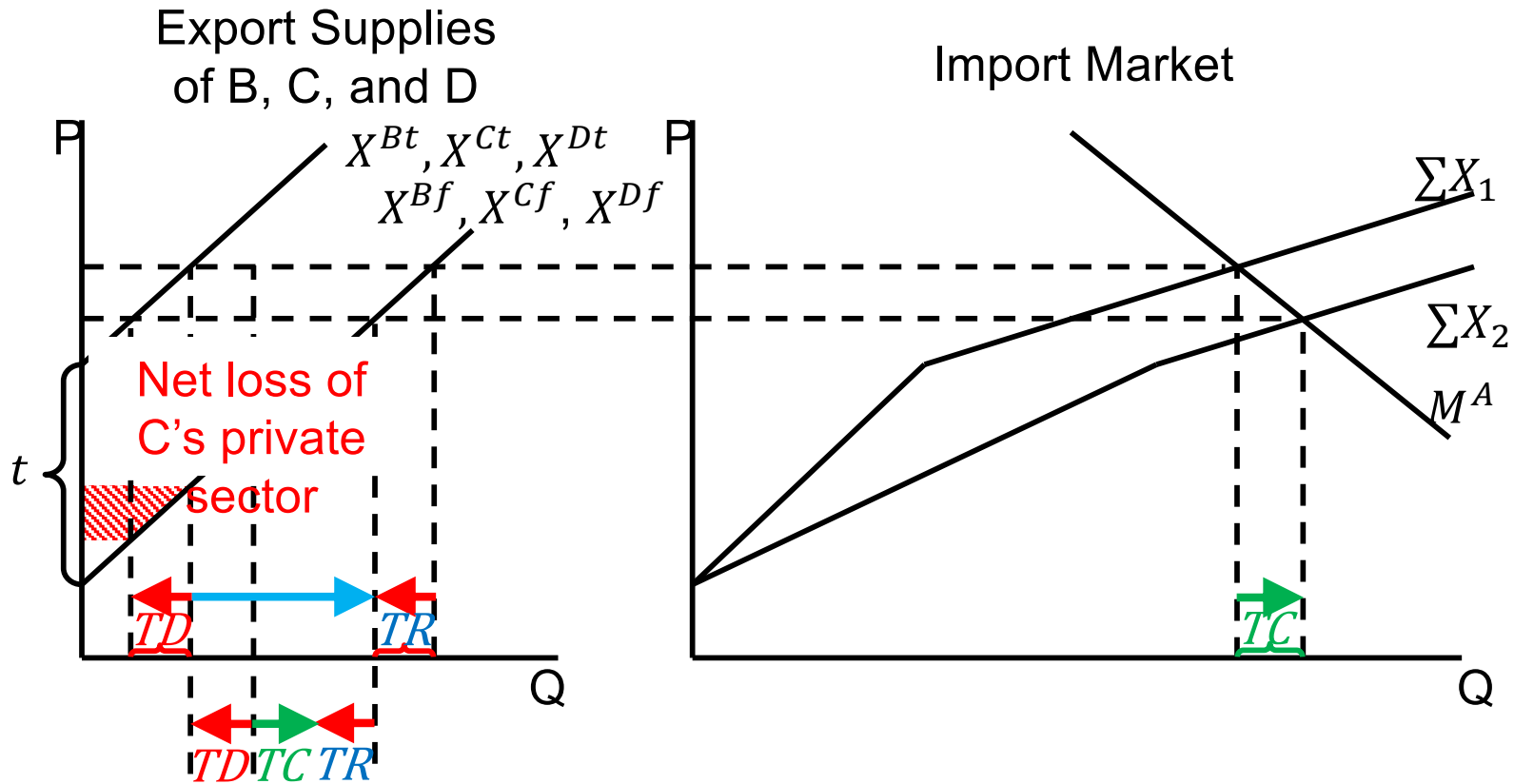# Welfare Effect on Country B
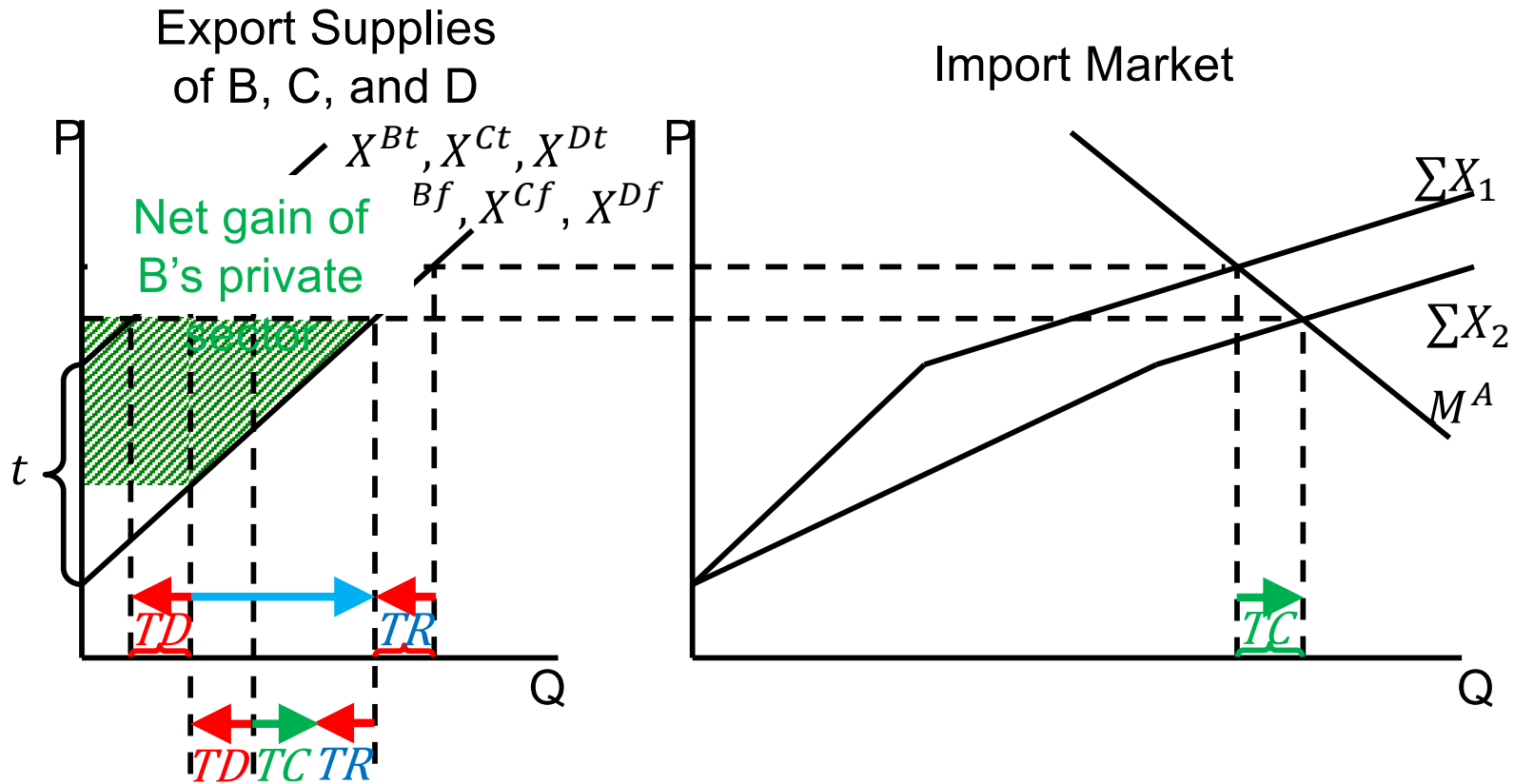
Export Supplies
of B, C, and D

Import Market

X^{Bt}, X^{Ct}, X^{Dt}

$^{Bf}, X^{Cf}, X^{Df}$

Net gain of
B's private
sector

t

TD TR

TD TC TR

ΣX_1

ΣX_2

M^A

TC

P

P

Q

Q

Welfare Effect on Country C

Export Supplies
of B, C, and D

Import Market

X^{Bt}, X^{Ct}, X^{Dt}
X^{Bf}, X^{Cf}, X^{Df}

$\sum X_1$

$\sum X_2$

M^A

Net loss of
C's private
sector

t

TD TR

TC

TD TC TR

Welfare Effect on Country D

Export Supplies of B, C, and D

Import Market

$, X^{Ct}, X^{Dt}$

Net loss of D's private sector

$^{3f}, X^{Cf}, X^{Df}$

$\sum X_1$

$\sum X_2$

M^A

t

TD TR

TD TC TR

TC

P

P

Q

Q

Welfare Effects on World

Export Supplies of B, C, and D

Import Market

X^{Bt}, X^{Ct}, X^{Dt}

X^{Bf}, X^{Cf}, X^{Df}

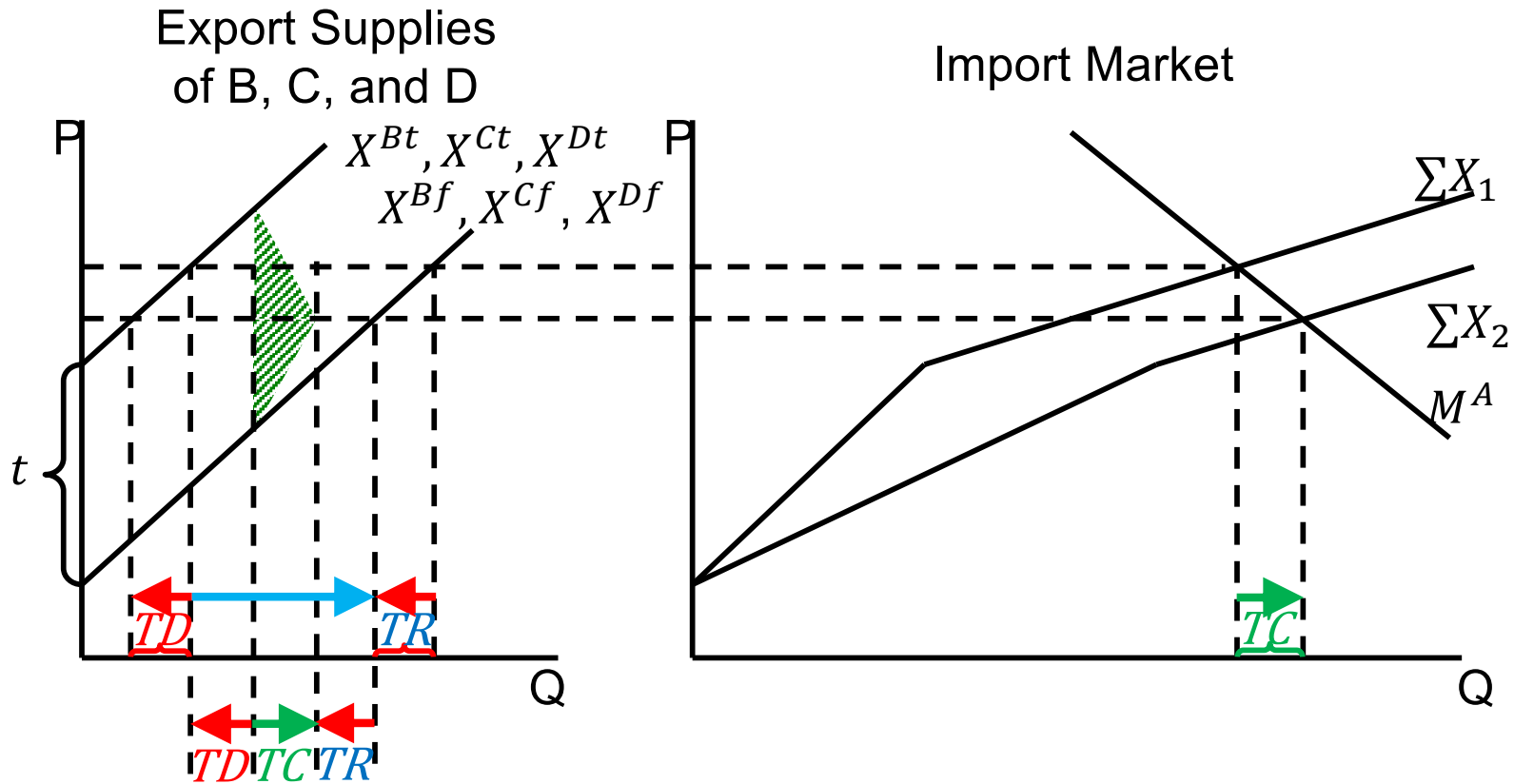$\sum X_1$
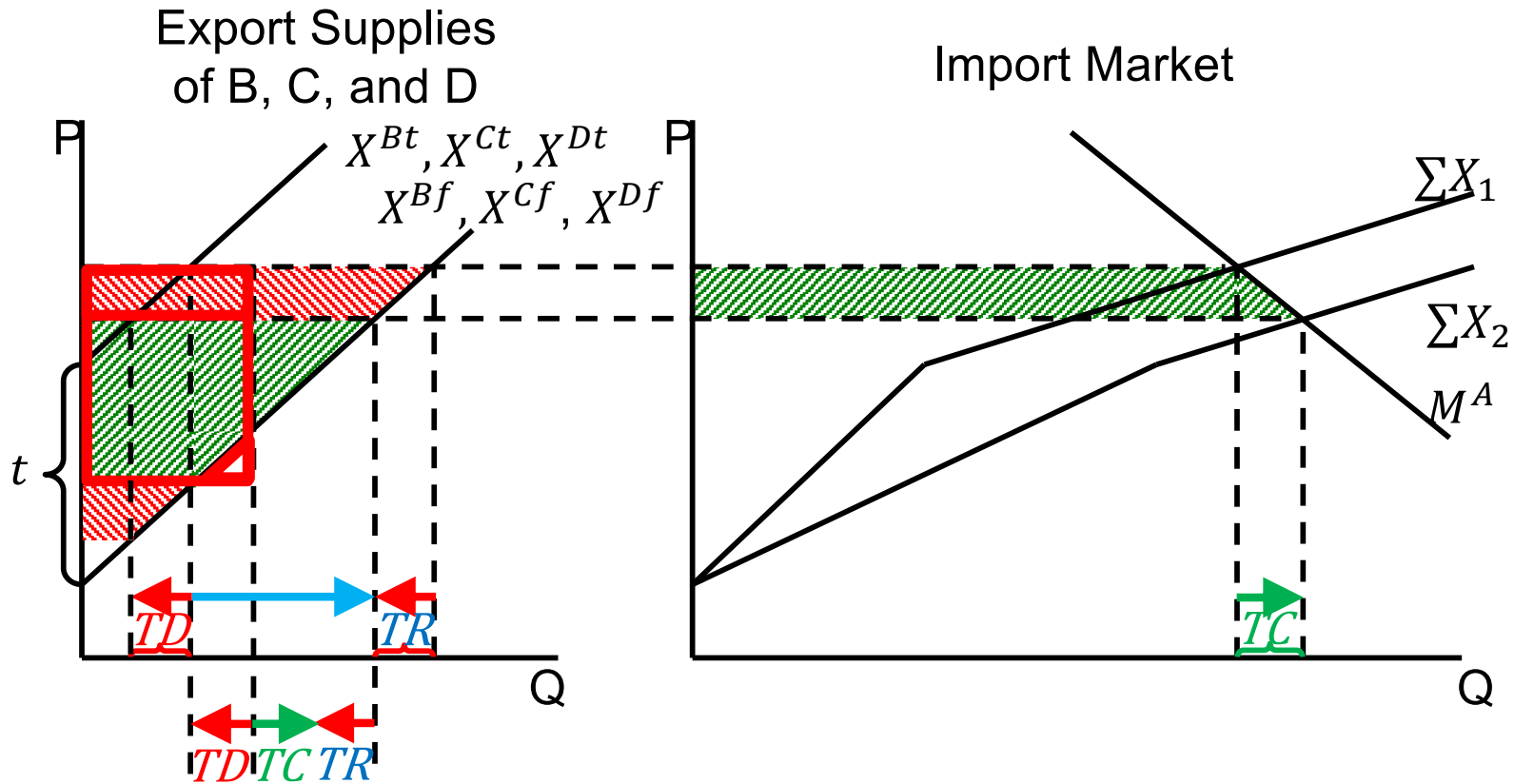
$\sum X_2$

M^A

P

P

t

TD   *TR*

TC

Q

Q

TD *TC* *TR*
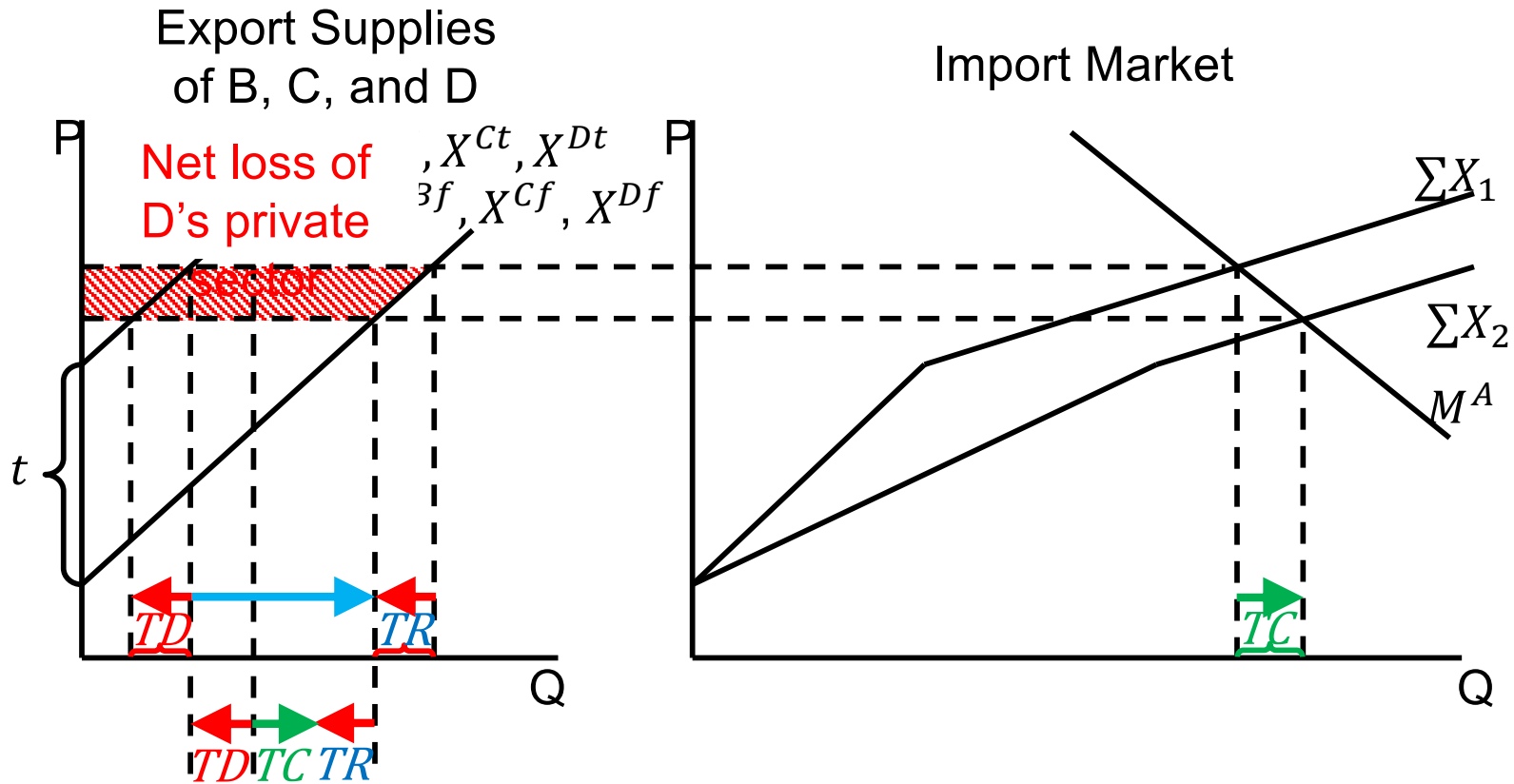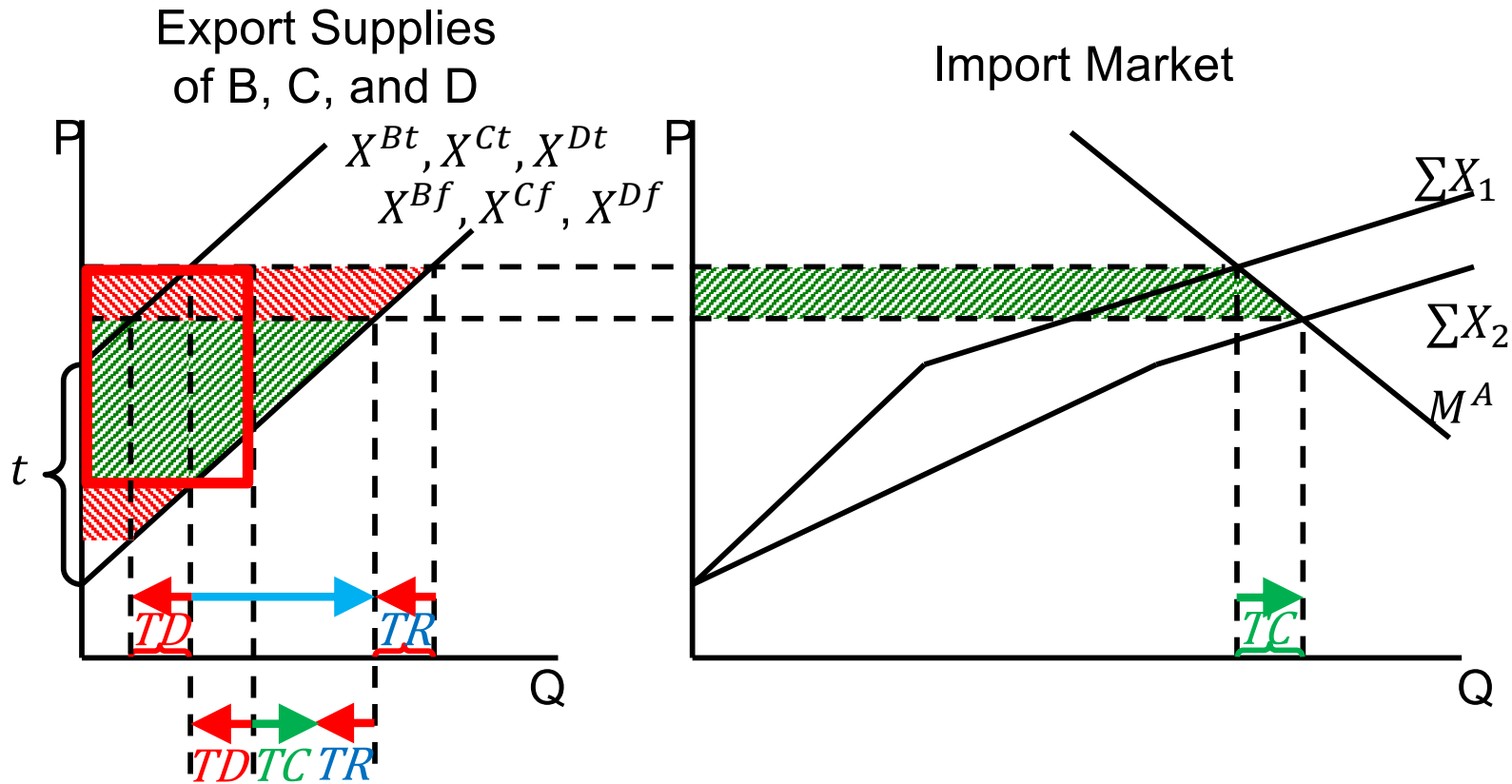
I claim that these gains and losses mostly cancel out to reduce to the following:

Welfare Effect on World

Export Supplies
of B, C, and D

X^{Bt}, X^{Ct}, X^{Dt}
X^{Bf}, X^{Cf}, X^{Df}

Import Market

ΣX_1

ΣX_2

M^A

t

TD   TR

TD TC TR

TC

P   P

Q   Q

Welfare Effects on World

Export Supplies of B, C, and D

X^{Bt}, X^{Ct}, X^{Dt}

X^{Bf}, X^{Cf}, X^{Df}

Import Market

$\sum X_1$

$\sum X_2$

M^A

t

TD TR

TD TC TR

TC

P

P

Q

Q

Welfare Effects on World

Export Supplies of B, C, and D

Import Market

X^{Bt}, X^{Ct}, X^{Dt}

X^{Bf}, X^{Cf}, X^{Df}

$\sum X_1$

$\sum X_2$

M^A

t

P

Q

P

Q

TD   *TR*

TC

TD *TC* *TR*

Welfare Effects on World

Export Supplies of B, C, and D

X^{Bt}, X^{Ct}, X^{Dt}
X^{Bf}, X^{Cf}, X^{Df}

Import Market

$\sum X_1$

$\sum X_2$

M^A

t

TD TR

TC

TD TC TR

Welfare Effects on World

Export Supplies
of B, C, and D

Import Market

X^{Bt}, X^{Ct}, X^{Dt}

X^{Bf}, X^{Cf}, X^{Df}

ΣX_1

ΣX_2

M^A

t

TD TR

P Q

$TD\,TC\,TR$

TC

Q

Welfare Effects on World

Export Supplies
of B, C, and D

Import Market

$$X^{Bt}, X^{Ct}, X^{Dt}$$
$$X^{Bf}, X^{Cf}, X^{Df}$$

$$\sum X_1$$

$$\sum X_2$$

$$M^A$$

t

TD TR

TD TC TR

TC

Welfare Effects on World

Export Supplies of B, C, and D

X^{Bt}, X^{Ct}, X^{Dt}
X^{Bf}, X^{Cf}, X^{Df}

t

TD TR

TD TC TR

Import Market

ΣX_1
ΣX_2
M^A

TC

P   Q

Welfare Effects on World

Export Supplies
of B, C, and D

Import Market

P

X^{Bt}, X^{Ct}, X^{Dt}

X^{Bf}, X^{Cf}, X^{Df}

P

ΣX_1

ΣX_2

M^A

t

TD $\qquad$ TR

TD TC TR

TC

Q

Q

Welfare Effects on World

Welfare Effects on World

Export Supplies of B, C, and D

Import Market

Welfare Effects on World

Export Supplies of B, C, and D

X_1^D

X^{Bt}, X^{Ct}, X^{Dt}
X^{Bf}, X^{Cf}, X^{Df}

X_1^B

$= X_1^C$

t

TD TR

TD TC TR

Import Market

X_1^B X_1^C X_1^D

ΣX_1

ΣX_2

M^A

TC

Welfare Effects on World

Export Supplies of B, C, and D

X^{Bt}, X^{Ct}, X^{Dt}
X^{Bf}, X^{Cf}, X^{Df}

Import Market

$\sum X_1$
$\sum X_2$
M^A

t

TD TR

TD TC TR

TC

Welfare Effect on World

Export Supplies
of B, C, and D

X^{Bt}, X^{Ct}, X^{Dt}
X^{Bf}, X^{Cf}, X^{Df}

Import Market

$\sum X_1$

$\sum X_2$

M^A

t

TD TR

TD TC TR

TC

P

P

Q

Q

Welfare Effect on World

Export Supplies
of B, C, and D

Import Market

Welfare Effect on World

Export Supplies of B, C, and D

X^{Bt}, X^{Ct}, X^{Dt}
X^{Bf}, X^{Cf}, X^{Df}

Import Market

$\sum X_1$
$\sum X_2$
M^A

t

TD TR

TD TC TR

TC

P   P   Q   Q

Welfare Effect on World

Export Supplies
of B, C, and D

Import Market

Welfare Effect on World

Export Supplies of B, C, and D

X^{Bt}, X^{Ct}, X^{Dt}
X^{Bf}, X^{Cf}, X^{Df}

Import Market

$\sum X_1$
$\sum X_2$
M^A

t

TD TR

TC

TD TC TR

Welfare Effect on World

Export Supplies
of B, C, and D

Import Market

4-country case

- Result:
  - World welfare rises with second FTA, by amount depending on trade creation and the tariff

- Recall from model:

$$\Delta W^W = \frac{1}{2}TCt + \frac{1}{2}(TR - TD)t$$

- Here, because we've assumed countries B and D are the same, *TR=TD*

$$\Delta W^W = \frac{1}{2}TCt$$

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4-country case

- In general, $TR \neq TD$
- Which is larger depends just on country size, size both face the same price change.

$$\Delta W^W = \frac{1}{2} TCt + \frac{1}{2} (TR - TD)t$$

- If the new partner is smaller than the old, $TR > TD$, and world gain will be larger
- If new partner is bigger than old, then $TR < TD$ and world gain will be smaller and perhaps a loss.

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Conclusion

- Analysis of FTAs shouldn't treat each independently of FTAs that already exist

- Sequencing of FTAs can matter.

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Pause for Discussion

Questions

- Why is adding a second FTA not harmful for the world in the graphs, but may be harmful in the world in the equations?

Outline

- Background
- Simplest model: horizontal supplies
- Upward-sloping supplies
  - 3-country case, in graphs
  - Somewhat more general case, in equations
  - 4-country case, in graphs
- **Are FTAs Beneficial?**

Are FTAs Beneficial?

- My own work suggests that they are, though the benefits are not huge

- But many (not economists) disagree

- Much has been said about NAFTA
  - It's political reputation has been negative
    - Labor unions
    - Democrats
    - Trump
  - Economists have been more positive
    - See Posen (economist and President of Peterson Institute of International Economics)

Are FTAs Beneficial

- ## Posen's points

  – Consumers in all three countries have gained.

  – Workers have suffered, but not from NAFTA.

  – "Recent research has found that, on average, for every 100 jobs US manufacturers created in Mexican manufacturing, they added nearly 250 jobs at their larger US home operations…"

  – Until the financial crisis of 2008, US unemployment was lower after NAFTA than before.

  – Concern that displaced Mexican farmers would come north were not justified, as border apprehensions have declined steadily since 2000. The recent surge of minors crossing from Central America has nothing to do with NAFTA.

  – Critics estimate job losses due to NAFTA of 45,000 a year. But that is less than 0.1 percent of turnover.

Pause for Discussion

Questions

- 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 seems not to care. Why?

- What were some of the other claims by critics of the NAFTA, and how does Posen respond to them?

Extra time?

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