Influence of the Free Trade Agreements

Rupin Behar[*]

Department of Economics, Johns Hopkins University, Baltimore, USA

DESCRIPTION

Economists would be wise to worry more about the latter scenario if trade agreements become less about tariffs and nontariff obstacles at the border and more about domestic laws and regulations. For example, they might lead to the global upgrading of labour or environmental norms and regulations. But, they could also, under the pretext of "freer trade," achieve just redistributive results.

The most often used method of reciprocal trade liberalization over the last 15 years has been the creation of regional trade agreements. These agreements discriminatory nature has given rise to three main worries: that trade diversion would be widespread because governments would be persuaded by special interest groups to create the most unfavourable agreements; that broader external trade liberalization would stall or reverse; and that multilateralism could be threatened. Although there are various theoretical arguments in opposition, theoretically speaking, all these worries are valid. On the other hand, the undermining of multilateralism has not been adequately tested. Empirically, neither massive trade diversion nor stagnant external liberalization have happened. However, there are a number of regionalist facets that haven't gotten enough academic attention yet are crucial to understanding its causes and consequences.

The "gravity equation" has been the empirical workhorse in global trade during the past 40 years for examining the ex post effects of Free Trade Agreements (FTAs) and customs unions on bilateral merchandise trade flows. The gravity equation is frequently used to explain cross-sectional variation in trade flows between nation pairs in terms of the incomes of the two countries, the distance between them, and dummy variables for shared languages, shared land borders, and the presence or absence of an FTA.

Imagine that two nations have the chance to discuss a Free Trade Agreement (FTA). Will an FTA be politically feasible between these nations? And if so, in what capacity. Using a political-economic framework that highlights the relationship between industry special interest groups and an existing government, we explore these problems. We outline the economic requirements for an FTA to provide an equilibrium result in both the scenario where the agreement must encompass all bilateral trade and the scenario where a few, politically delicate industries can be left out.

Over the past 20 years, Preferential Trade Agreements (PTAs) have multiplied. A lot of literature has been written about this phenomenon's many facets. Yet, up until recently, many large-N studies gave little thought to the differences in content and design of PTAs.

Our contribution to the literature is a brand-new dataset on trade agreement design that is the most thorough in terms of variables coded and covered agreements.

Until the North American Free Trade Agreement (NAFTA), analyses of preferential trading arrangements assumed a Customs Union (CU) with a common external tariff, and the differences between customs unions and free trade agreements (FTAs) were largely ignored. This paper highlights some of the differences between FTAs and customs unions, demonstrating that a customs union is always Pareto-better than an FTA on welfare grounds. Furthermore, compared to the political economy of customs unions, Free Trade Agreements (FTAs) will produce stronger opposition to further global trade liberalization.