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What is Behind a Free Trade Agreement?

John Wainio
Economic Research Service, USDA

Agricultural Outlook Forum 2010

Impacts of Free Trade & Doha Agreements

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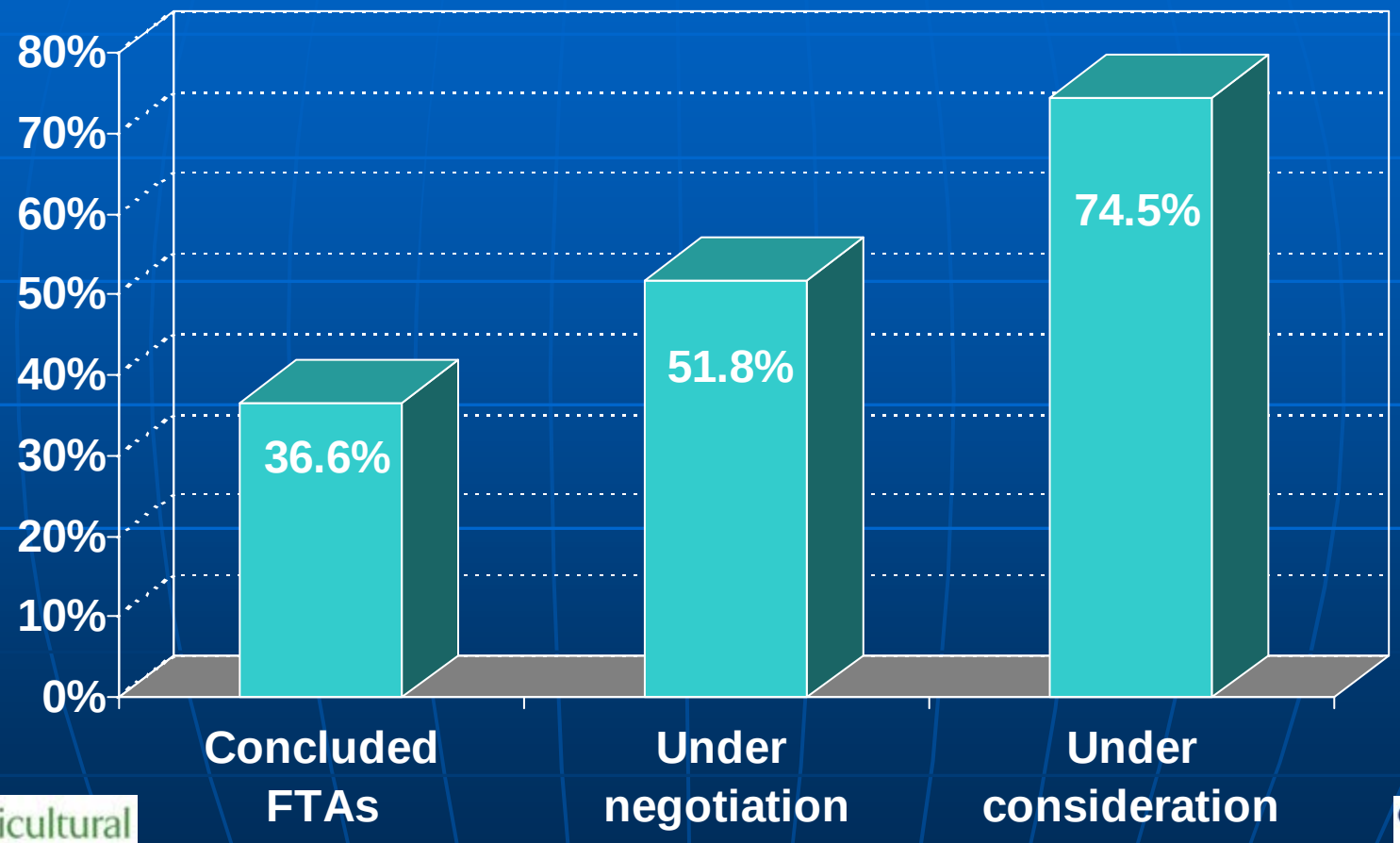
Share of global trade covered by FTAs



Source: OECD (2009), Ongoing Consideration of Regional Trade Agreements: Main Issues and Possible Further Work

Why are we interested in FTAs?

- Economy-wide impacts
- Why are they proliferating?
- Effects on the multilateral trading system
- Where is this proliferation leading us?

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Measuring economic impacts of FTAs

- *Ex ante* and *ex post* analyses
- Importance of economic models
  - Partial equilibrium models
  - General equilibrium models
  - Gravity models

Economic modeling of FTAs – Challenges and Issues

- Distilling the complexity of the real world into a manageable model
- Assumptions and specifications matter
- Static versus dynamic gains
- Analytical framework influences results

What's behind the proliferation of FTAs?

- Increased market access and investment opportunities are key
- Frustrations with Doha progress
- Domino effect / defensive response
- Strategic or geopolitical reasons

U.S. Free Trade Agreements

Partner	Entered into Force	Partner	Entered into Force
Israel	1985	El Salvador	2006
Canada	1989	Honduras	2006
Mexico	1994	Nicaragua	2006
Jordan	2001	Guatemala	2006
Chile	2004	Dominican Rep.	2007
Singapore	2004	Costa Rica	2008
Australia	2005	Oman	2009
Morocco	2006	Peru	2009
Bahrain	2006		

FTAs and the multilateral trading system

- FTAs can complement multilateralism by dealing with issues that are not being addressed in a multilateral setting
- They undermine multilateralism with distinctive rules and regulations that can be confusing and burdensome
- The importance of trade diversion

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Conclusions

- Economic studies have contributed to the debate on the merits of FTAs and are a part of the political decision-making process
- The motivation for expanding FTAs is strong and perhaps growing
- Multilateralism is best, but …