

INTERNATIONAL ECONOMICS

Lecture 11 — January 24, 2023

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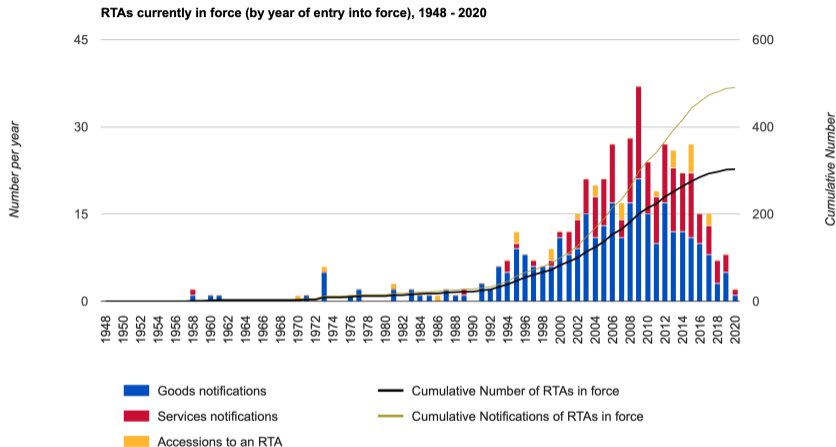


Today: Current events

- Integration: Free trade agreements (FTAs, PTAs, RTAs, ...)
- Disintegration: Brexit, sanctions & trade wars

FREE TRADE AGREEMENTS

Regional Trade Agreements



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. The cumulative lines show the number of RTAs/notifications currently in force.

Source: WTO Secretariat - June 14, 2020

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Single European Act — European Common Market

- European Community has customs union since 1968
- in 1992: common market
 - "Single European Act"
 - (almost) no non-tariff barriers like border checks or national regulation and standards
- welfare gains through large common market: scale economies
 - but: markets have remained remarkably separated

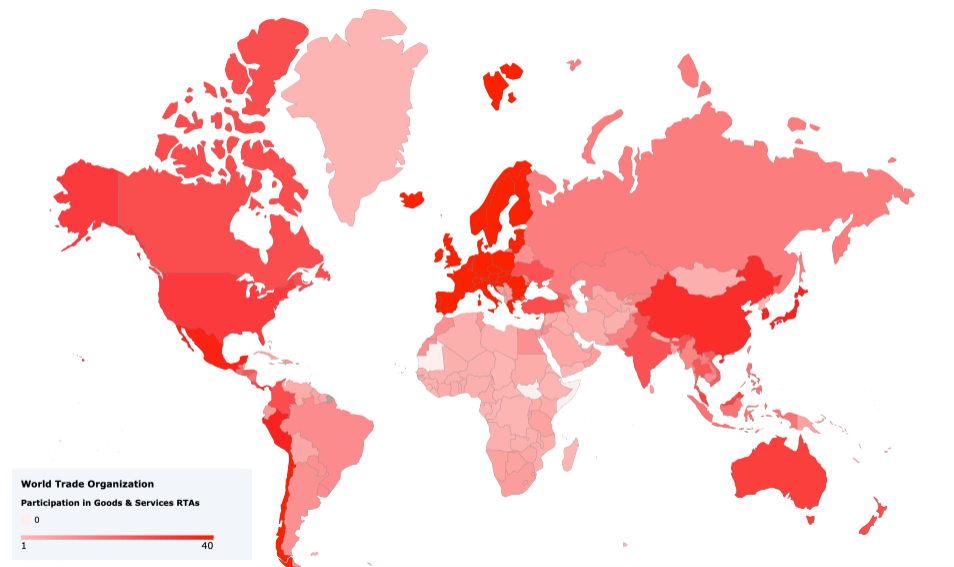
Other important regional trade agreements

- NAFTA: founded in 1989 by USA, Mexico and Canada
- Mercosur: founded in 1991 by Argentina, Brazil, Paraguay and Uruguay
 - since then a number of accessions
- ASEAN: Asian/Pacific countries recently implemented RCEP
 - not including India and USA

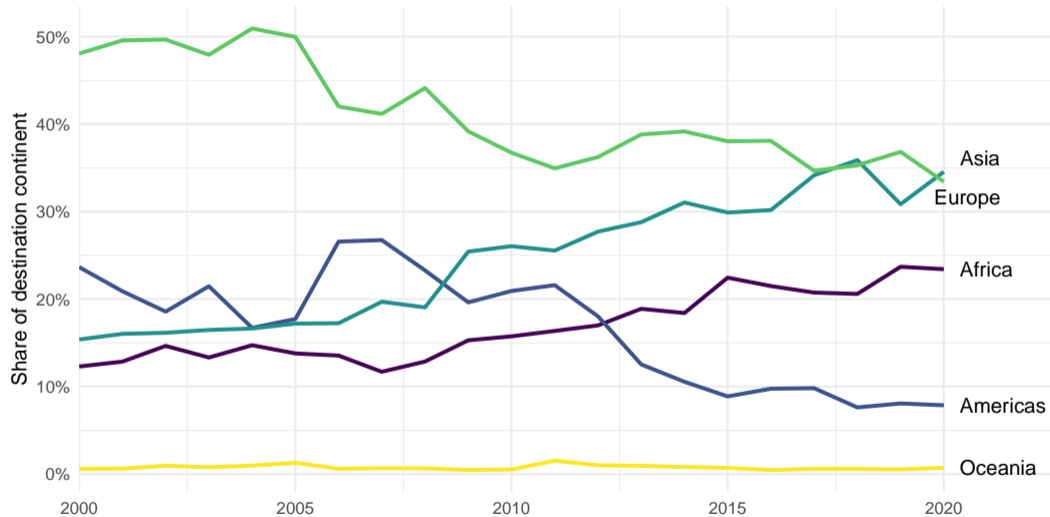
Currently: EU-Japan, TTP, TTIP

- JEFTA: FTA between EU and Japan (2016)
 - CETA: FTA between EU and Kanada (2017)
 - TTIP: FTA between EU and USA (2016, negotiations paused)
 - TTP: FTA between USA and Pacific countries (2017, now without US CPTPP)
 - Brexit: Exit of UK from EU
 - AfCFTA: Intra-African Agreement
- generally already low tariffs, focus on NTBs

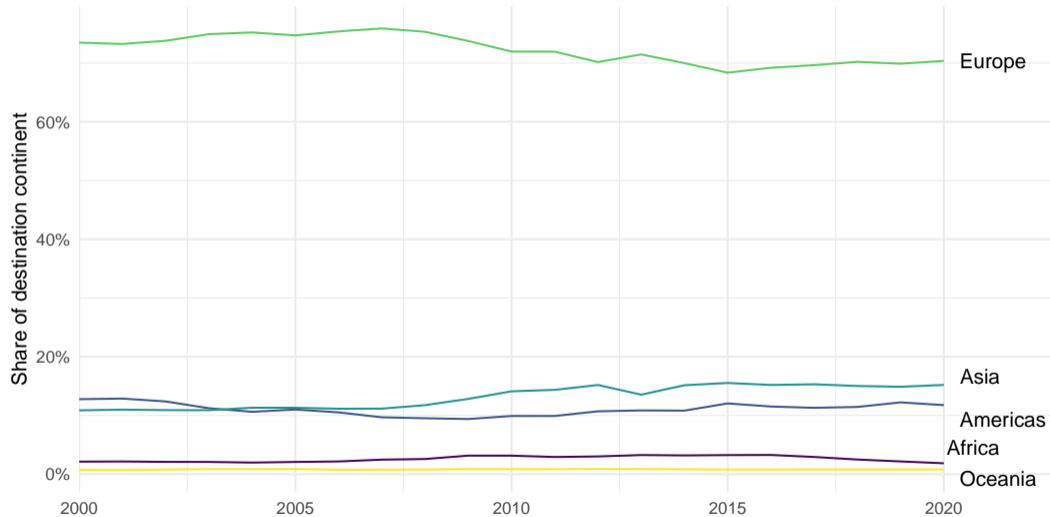
Map of regional FTAs



Herkunft afrikanischer Importe im Zeitverlauf



Ziele europäischer Exporte im Zeitverlauf



Status quo

- Europe displaced by Asia as most important trading partner in last 20 years
- African integration low: high potential
- Germany-African trade differs from other EU members
- High concentration of trade in Africa: South Africa and North African countries
- Growth with stable composition of trade in goods/services and primary/secondary income

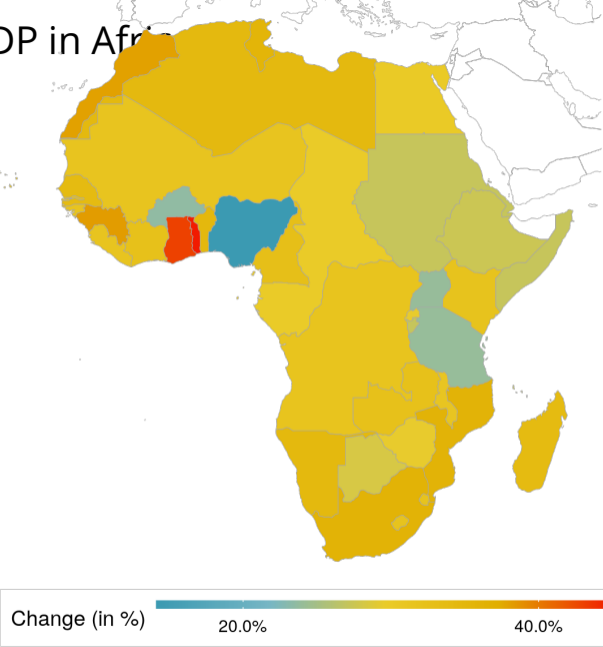
Simulation

- **Scenario 1:** Negotiated tariff reductions only
- **Scenario 2:** Tariff cuts and *bilateral* NTB cuts
- **Scenario 3:** Tariff reductions and *multilateral* NTB cuts

Overview of results

	Scenario 1	Scenario 2	Scenario 3
Change in global exports	0.37 %	17.4 %	22.9 %
Change in intra-African exports	0.38 %	23.0 %	19.9 %
Change in customs revenue	-6.42 %	-38.7 %	15.5 %
Change in income	≈ 0	11.6 %	18.7 %
Change in production (real)	0.3 %	24.0 %	29.9 %
Change in African exports to the EU	-0.56 %	-21.6 %	36.3 %
Change in EU exports to Africa	-0.11 %	-13.8 %	32.1 %

Scenario 3 — GDP in Africa



DISINTEGRATION: BREXIT, SANCTIONS & TRADE WARS

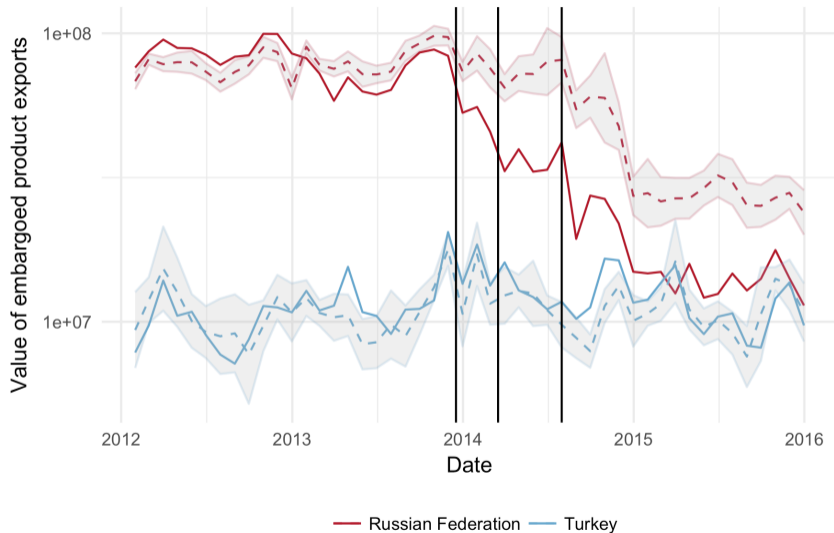
Sanctions are everywhere

- Sanctions against Russia
- Sanctions against Iran
- Sanctions against North Korea
- Embargoes and blockades against Gaza and Cuba
- Similar: Trump tariffs invoking “national security”, retaliation by others
 - EU: Tobacco, motorcycles, cranberries, peanut butter, ...
 - Canada: Steel, aluminum, inflatable boats, yogurt, whiskies, ...

Sanctions

- “Smart” sanctions: SDNs, ...
- Financial sanctions: Specific instruments, SWIFT
- Trade sanctions: Exports/import restrictions, specific bans
- Embargoes: Complete bans

Economic impact: Trade



Economic impact: Prices

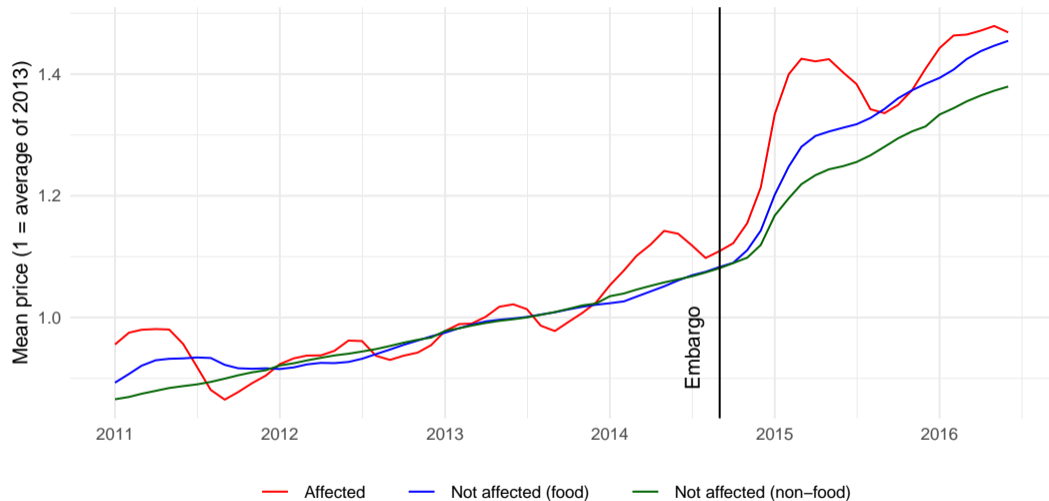
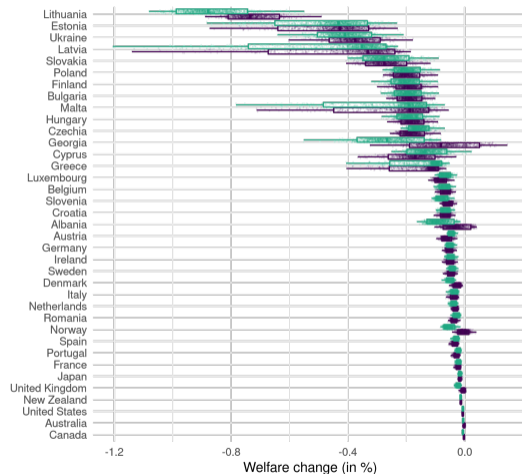


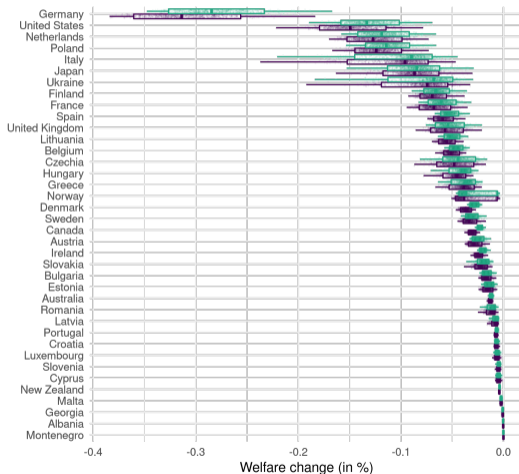
Figure: Impact on prices: Affected vs. other food and non-food. *Hinz and Monastyreno (2022)*

Economic impact: Welfare cost

(a) Welfare loss incurred



(b) Welfare loss imposed



Conclusion

- Trade policy is very dynamic
 - Integration and disintegration
- Trade policy for use other than economic motivation
- Likely a lot more to come