21-01-2021

10:00-11.15 hrs., online via MS Teams

ARTNeT Webinar:

The Simple Analytics of Trade Creation and Diversion

By Prof. Alan Deardorff The University of Michigan

The talk is based on the paper co-authored with Rishi R. Sharma of Colgate University. The paper conducts analysis of a free trade agreement within a simple model of partial equilibrium, linear supply and demand, and circumstances such that trade flows are positive in all equilibria considered. The results illustrate the close connection, on the one hand, between trade creation and the benefit to the FTA-forming countries and to the world, and, on the other hand, the equally close connection between trade diversion and the harm to outside countries and potentially both the participating countries and the world. In addition, by considering a second case in which a country that already has one FTA adds another, we show that the new FTA causes trade to be diverted from its prior partner, an effect that we call trade reversion. It turns out that trade reversion causes neither harm nor benefit to the importing country, and when we look at world welfare, if trade reversion is equal to trade diversion their two effects cancel out, leading the effect on world welfare to be a simple function of the amount of trade creation and the size of the tariff.

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Speaker

Prof. Alan Deardorff
Alan Deardorff is John W. Sweetland Professor of International Economics and Professor of Economics and Public Policy at the University of Michigan. He is Permanent adviser for research to ARTNeT. He received his Ph.D. in economics from Cornell University in 1971 and has been on the faculty at the University of Michigan since 1970. He served as Chair of the Department of Economics from 1991 to 1995, and as Associate Dean of the Gerald R. Ford School of Public Policy from 2007 to 2015.

Professor Deardorff has served as a consultant to many government agencies in the USA, and international institutions including OECD, UNCTAD, and the World Bank. He is currently on the editorial boards of several journals. He has published numerous articles on various aspects of international trade theory and policy.

His work on international trade theory has dealt primarily with the theory of comparative advantage and the Heckscher-Ohlin and other models that explain the patterns and effects of international trade. His work on trade policy has included analyses of anti-dumping laws, the safeguards clause of the GATT, and arguments for and against extending intellectual property protection to developing countries.

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