

The Case for Trade Agreements: Economic Gains and Institutional Challenges

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International trade agreements play a vital role in shaping the global economy. They affect a wide range of economic actors, including exporters, import-competing firms, consumers, and governments. While these agreements generate significant benefits, they also pose distributive dilemmas that policymakers must address. Today, the primary challenge facing the global trading system is the shift in U.S. policy away from rules-based trade agreements, raising concerns about the future of multilateral cooperation.

The Economic Impact of Trade Agreements

A well-structured trade agreement benefits a country's economy in several ways. Exporters gain access to larger markets, boosting their revenues and competitiveness. Consumers benefit from lower prices and a greater variety of goods and services. However, import-competing firms face increased competition, often leading to reduced market share and lower rents. Since labor market adjustments take time, workers in those sectors also lose. Additionally, governments typically experience a reduction in tariff revenue, although in modern economies this effect is of second-order importance.

A key argument for trade agreements is their ability to enhance specialization based on comparative advantage. Facing a larger effective market, the private sector will allocate resources more efficiently, producing goods and services in sectors where the country has a relative advantage. Moreover, trade agreements reduce policy uncertainty, providing stability and predictability for firms making long-term investment decisions. Research also shows that greater exposure to international trade fosters productivity growth. Firms gain access to cheaper and higher-quality inputs, and market competition encourages innovation. This raises overall economic welfare.

The Distributional Dilemma

Despite their aggregate benefits, trade agreements inevitably create both winners and losers. Workers in inefficient sectors often experience income losses and diminished employment prospects. While overall national gains tend to exceed these losses, redistribution remains a persistent challenge.

Empirical studies show that for some groups, the negative effects can be long lasting. This fuels political opposition to trade agreements and increases the costs for policymakers seeking further trade liberalization.

While these distributional challenges cannot be overlooked, it is important to recognize that the creation of winners and losers is not unique to trade agreements — it also

occurs with technological advancements and, in fact, with most policy changes. Moreover, most groups that lose from trade agreements have historically benefited from protectionist policies at the expense of broader society. In this sense, claims of “unfairness” are often contentious. In fact, in many cases trade agreements can contribute to a more equitable distribution of income by expanding the consumption possibilities of low-income groups.

Current Challenges to the World Trading System and the Role of the EU

The European Union actively engages in international trade agreements, currently participating in over 40 agreements with more than 70 countries. These agreements have contributed to higher incomes and improved consumption opportunities for EU citizens.

Additionally, the EU’s membership in the World Trade Organization (WTO) reinforces its commitment to a rules-based trading system. The system, grounded on the principles of reciprocity and non-discrimination, has promoted unprecedented global trade expansion since the late 1940s.

Disturbingly, the global trade system is currently facing mounting challenges. The current U.S. administration’s disregard for multilateral trade rules threatens to unravel decades of progress, while China, the world’s second-largest economy, shows little commitment to upholding the WTO framework. The erosion of this rules-based system would undermine economic stability, reduce incomes, disrupt investment decisions, and exacerbate uncertainty in global trade.

For Europe and the world, preserving and strengthening multilateral trade agreements remains crucial to maintaining global cooperation, preventing the resurgence of discriminatory protectionist policies that could stifle economic progress. Preserving and reinforcing multilateral trade institutions should thus remain a priority for policymakers. As the U.S. and China shift away from supporting these institutions, the EU must take the lead in upholding and reinforcing the multilateral trade order.

Conclusion

Trade agreements are a powerful driver of economic growth and stability. While they create distributional challenges, the overall benefits — greater market access, enhanced productivity, and reduced policy uncertainty — far outweigh the costs. In the current global leadership vacuum, the EU must step forward to champion a multilateral trading system rooted in clear, well-established rules. Protecting and reinforcing institutions like the WTO is crucial to ensuring that trade remains a force for prosperity and stability worldwide.