Benefits and Effects of Free Trade Agreements

Analysis on behalf of the parliamentary group of the Swiss Social Democratic Party (SP)

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Executive Summary

Free Trade Agreements (FTAs) have long been presented as a cornerstone of economic prosperity. For decades, they were widely associated with growth, rising incomes, and job creation. In recent years, however, public perceptions have shifted. FTAs are now increasingly linked, in political debates and public opinion, with concerns about job insecurity, pressure on wages, environmental degradation, and the outsourcing of social and ecological costs to poorer countries. This study examines what the available evidence actually shows, focusing on FTAs by Switzerland, the European Union, and the United States. Its central finding is that FTAs are neither economic miracle cures nor automatic drivers of social and environmental harm. Their effects are usually modest at the macroeconomic level, uneven across sectors and social groups, and highly dependent on how trade liberalisation is designed and accompanied by domestic and international safeguards.

One of the most striking findings of the study concerns overall economic growth. Across a large number of ex ante and ex post impact assessments, FTAs are consistently associated with positive GDP effects, but these effects are small. For Switzerland and other industrialised economies, new FTAs typically increase GDP by far less than one percent, often by only a few hundredths of a percent. These gains are real and measurable, but they are not large enough to fundamentally change living standards or economic trajectories. The reason lies in the current state of the global trading system. Trade is already relatively open, particularly for industrial goods, where tariffs are low worldwide and have been abolished entirely in Switzerland. As a result, modern FTAs can no longer generate the dramatic growth effects that were sometimes observed in earlier phases of globalisation.

Economic gains tend to be somewhat larger in smaller or less diversified economies, and when agreements go beyond the mere reduction of tariffs. FTAs that address non-tariff barriers – such as differing technical standards, certification requirements, or regulatory procedures – can unlock additional trade by reducing administrative complexity and legal uncertainty. This is particularly relevant in sectors like pharmaceuticals, machinery, and services, where regulatory barriers matter more than customs duties.

The effects of FTAs on wages and employment are often at the centre of public concern. The study finds that, on average, FTAs are associated with small but positive wage effects. In Switzerland, the EU, and the US, real wages tend to increase slightly following trade liberalisation. However, these average figures conceal significant differences across sectors, skill levels, and regions. Some industries expand as export opportunities improve, while others experience mild contraction as competition intensifies.

Importantly, the evidence does not support the idea that FTAs systematically destroy jobs or depress wages across the economy. Where negative outcomes occur, they are usually linked to insufficient support for workers who need to transition between sectors, rather than to trade liberalisation itself. In several cases, low-skilled and agricultural workers benefit proportionally more than highly skilled workers, particularly when demand for labour-intensive exports rises. This challenges the widespread assumption that free trade inevitably favours only highly qualified professionals while harming lower-income groups.

The study shows most clearly that the real impact of FTAs is felt not at the level of the entire economy, but within specific industries. Sectoral effects can be substantial, even when overall GDP changes are small. For Switzerland, FTAs primarily benefit high-value manufacturing sectors such as pharmaceuticals, chemicals, and machinery. In these industries, even modest percentage increases in exports can translate into significant absolute gains because existing trade volumes are large. These gains are often driven less by tariff cuts than by improvements in regulatory cooperation and reductions in technical barriers to trade.

At the same time, the study finds little evidence that FTAs lead to a flood of cheap imports that undermine domestic production. Sensitive sectors, particularly agriculture, are usually liberalised cautiously

and gradually, if at all. As a result, fears of sudden structural collapse are not borne out by empirical data. Where adjustment pressures exist, they tend to be manageable and spread over time.

Small and medium-sized enterprises (SMEs), which make up the vast majority of firms in Switzerland, occupy a special place in the analysis. The study finds that SMEs do not automatically benefit from FTAs. When agreements focus narrowly on tariff reductions, large multinational companies are usually best placed to take advantage of new opportunities, as they already have the resources to navigate complex rules and administrative procedures. SMEs benefit primarily when FTAs reduce non-tariff barriers, simplify rules of origin, and improve transparency and regulatory cooperation. In other words, whether FTAs support local businesses depends less on their existence than on their depth and design.

Beyond economic outcomes, the study takes a close look at labour, social, and environmental effects. Trade liberalisation can reinforce negative patterns such as environmental degradation, rising emissions, or poor working conditions, especially in countries where domestic regulation and enforcement are weak. However, the study makes an important distinction. FTAs rarely create these problems from scratch. More often, they amplify existing vulnerabilities. This means that trade itself is not the root cause, but that trade without adequate rules and safeguards can worsen already problematic conditions.

Encouragingly, the evidence also shows that FTAs can be part of the solution rather than the problem. Agreements that include binding labour and environmental provisions, combined with credible enforcement mechanisms and domestic flanking measures, are better able to mitigate negative effects and promote sustainable development. The study highlights so-called “trade packages” that combine market opening with social and environmental commitments as a particularly promising approach.

To unlock this potential and avoid FTAs biased towards particular interests rather than general welfare, Switzerland should involve a wider range of stakeholders and parliament much earlier in the process. Negotiating mandates should be based on public consultations and solid impact assessments carried out before talks begin, covering not only risks but also benefits of FTAs in respect of economic, social and environmental effects. Democratic oversight should continue after agreements are signed, since modern trade deals increasingly affect domestic laws and public policy. Parliament and the public should have a real say in implementation, supported by regular evaluations to detect unexpected negative effects. Where needed, flexible domestic measures should be used to correct problems and ensure trade agreements support long-term sustainability and resilience.

Finally, the analysis draws attention to benefits of FTAs that are often overlooked in public debate. These include greater legal certainty for exporters and investors, improved resilience of supply chains, and strengthened political and diplomatic relations. For a small, highly export-oriented country like Switzerland, these indirect effects can be just as important as measurable GDP gains.

Taken together, the findings of the study suggest a need to rethink how FTAs are discussed and evaluated. The relevant question is no longer whether free trade is good or bad in principle. Instead, the focus should be on what kind of trade agreements are concluded, whose interests they serve, and how their negative side effects are addressed. FTAs are technical policy instruments, not ideological ends in themselves. When treated as narrowly defined economic tools, and detached from social and environmental considerations, their benefits remain limited and their risks more pronounced. When designed carefully and accompanied by strong domestic and international safeguards, they can contribute to prosperity, fairness, and sustainability.

Zusammenfassung

Freihandelsabkommen (FHA) galten lange als Eckpfeiler des wirtschaftlichen Wohlstands. Jahrzehntelang wurden sie allgemein mit Wachstum, steigenden Einkommen und der Schaffung von Arbeitsplätzen in Verbindung gebracht. In den letzten Jahren hat sich die öffentliche Wahrnehmung jedoch gewandelt. FHA werden in politischen Debatten und der öffentlichen Meinung zunehmend mit Sorgen um Arbeitsplatzunsicherheit, Lohndruck, Umweltzerstörung und der Verlagerung sozialer und ökologischer Kosten in ärmere Länder verknüpft. Diese Studie untersucht die verfügbaren Daten zu den Effekten von FHAs und konzentriert sich dabei auf FHA der Schweiz, der Europäischen Union (EU) und der Vereinigten Staaten (USA). Ihr zentrales Ergebnis ist, dass FHA weder wirtschaftliche Wundermittel noch automatische Treiber sozialer und ökologischer Schäden sind. Ihre Auswirkungen sind auf makroökonomischer Ebene in der Regel gering, ungleichmässig über verschiedene Sektoren und Bevölkerungsgruppen verteilt und stark davon abhängig, wie die Handelsliberalisierung ausgestaltet und von nationalen und internationalen Schutzmassnahmen begleitet wird.

Eines der auffälligsten Ergebnisse der Studie betrifft das gesamtwirtschaftliche Wachstum. In einer Vielzahl von ex ante- und ex post-Folgenabschätzungen zeigen sich FHA zwar durchweg mit positiven BIP-Effekten verbunden, diese sind jedoch gering. Für die Schweiz und andere Industrienationen steigern neue Freihandelsabkommen das BIP typischerweise um weit weniger als ein Prozent, oft nur um wenige Hundertstel Prozent. Diese Zuwächse sind zwar real und messbar, reichen aber nicht aus, um den Lebensstandard oder die wirtschaftliche Entwicklung grundlegend zu verändern. Der Grund dafür liegt im aktuellen Zustand des globalen Handelssystems. Der Handel ist bereits relativ offen, insbesondere für Industriegüter, wo die Zölle weltweit niedrig sind und in der Schweiz vollständig abgeschafft wurden. Daher können moderne Freihandelsabkommen nicht mehr die dramatischen Wachstumseffekte erzielen, die in früheren Phasen der Globalisierung mitunter zu beobachten waren. Wirtschaftliche Vorteile sind tendenziell in kleineren oder weniger diversifizierten Volkswirtschaften und bei Abkommen, die über die blosse Senkung von Zöllen hinausgehen, etwas grösser. Freihandelsabkommen, die nichttarifäre Handelshemmnisse – wie unterschiedliche technische Standards, Zertifizierungsanforderungen oder regulatorische Verfahren – angehen, können zusätzlichen Handel ermöglichen, indem sie administrative Komplexität und Rechtsunsicherheit reduzieren. Dies ist besonders relevant für Sektoren wie die Pharma-, Maschinenbau- und Dienstleistungsindustrie, in denen regulatorische Hürden eine grössere Rolle spielen als Zölle.

Wichtig ist, dass die Ergebnisse die Annahme nicht stützen, dass Freihandelsabkommen systematisch Arbeitsplätze vernichten oder die Löhne in der gesamten Wirtschaft drücken. Wo negative Folgen auftreten, sind diese in der Regel auf unzureichende Unterstützung für Arbeitnehmende beim Branchenwechsel zurückzuführen und nicht auf die Handelsliberalisierung selbst. In einigen Fällen profitieren Geringqualifizierte und landwirtschaftliche Arbeitskräfte proportional stärker als Hochqualifizierte, insbesondere wenn die Nachfrage nach arbeitsintensiven Exportgütern steigt. Dies stellt die weit verbreitete Annahme in Frage, dass Freihandel zwangsläufig nur hochqualifizierte Fachkräfte begünstigt und gleichzeitig einkommensschwächere Bevölkerungsgruppen benachteiligt.

Die Studie zeigt deutlich, dass sich die tatsächlichen Auswirkungen von Freihandelsabkommen nicht auf Ebene der Gesamtwirtschaft, sondern in einzelnen Branchen bemerkbar machen. Sektorale Effekte können erheblich sein, selbst bei geringen Veränderungen des BIP insgesamt. In der Schweiz profitieren vor allem hochwertige Fertigungsbranchen wie die Pharma-, Chemie- und Maschinenbauindustrie von Freihandelsabkommen. In diesen Branchen können selbst moderate prozentuale Exportsteigerungen aufgrund des hohen bestehenden Handelsvolumens zu signifikanten absoluten Zuwächsen führen. Diese Zuwächse werden oft weniger durch Zollsenkungen als vielmehr durch eine verbesserte regulatorische Zusammenarbeit und den Abbau technischer Handelshemmnisse erzielt.

Kleine und mittlere Unternehmen (KMU), die den Grossteil der Firmen in der Schweiz ausmachen, nehmen in der Analyse eine Sonderstellung ein. Die Studie zeigt, dass KMU nicht automatisch von FHA

profitieren. Konzentrieren sich die Abkommen vorwiegend auf Zollsenkungen, sind grosse multinationale Konzerne in der Regel am besten positioniert, um neue Chancen zu nutzen, da sie bereits über die Ressourcen verfügen, sich in komplexen Regelungen und Verwaltungsverfahren zurechtzufinden. KMU profitieren vor allem dann, wenn FHA nichttarifäre Handelshemmnisse abbauen, Ursprungsregeln vereinfachen und Transparenz sowie die Zusammenarbeit der Regulierungsbehörden verbessern. Anders ausgedrückt: Ob FHA lokale Unternehmen unterstützen, hängt weniger von ihrer Existenz als von ihrer Ausgestaltung und ihrem Umfang ab.

Neben den wirtschaftlichen Auswirkungen untersucht die Studie auch die Folgen für Arbeitsmarkt, Gesellschaft und Umwelt. Handelsliberalisierung kann negative Entwicklungen wie Umweltzerstörung, steigende Emissionen oder schlechte Arbeitsbedingungen verstärken, insbesondere wenn nationale Standards und deren Durchsetzung lückenhaft sind. Die Studie trifft jedoch eine wichtige Unterscheidung: FHA schaffen diese Probleme selten von Grund auf. Vielmehr verstärken sie bestehende Schwachstellen. Das bedeutet, dass der Handel selbst nicht die Ursache ist, sondern dass Handel ohne angemessene Regeln und Schutzmassnahmen bereits problematische Zustände verschärfen kann.

Erfreulicherweise zeigen die Ergebnisse auch, dass FHAs Teil der Lösung und nicht des Problems sein können. Abkommen mit verbindlichen Arbeits- und Umweltbestimmungen, kombiniert mit glaubwürdigen Durchsetzungsmechanismen und ergänzenden nationalen Massnahmen, eignen sich besser zur Minderung negativer Auswirkungen und zur Förderung nachhaltiger Entwicklung. Die Studie hebt sogenannte „trade packages“, die Marktöffnung mit sozialen und ökologischen Verpflichtungen verbinden, als besonders vielversprechenden Ansatz hervor.

Um dieses Potenzial auszuschöpfen und Freihandelsabkommen zu vermeiden, die Partikularinteressen gegenüber dem Gemeinwohl bevorzugen, sollte die Schweiz ein breiteres Spektrum an Interessengruppen und das Parlament deutlich früher in den Prozess einbeziehen. Die Verhandlungsmandate sollten auf öffentlichen Konsultationen und fundierten Folgenabschätzungen basieren, die vor Beginn der Verhandlungen durchgeführt werden und neben den Risiken auch die Vorteile von Freihandelsabkommen in Bezug auf wirtschaftliche, soziale und ökologische Auswirkungen untersuchen. Die demokratische Kontrolle sollte auch nach Unterzeichnung der Abkommen fortgesetzt werden, da moderne Handelsabkommen zunehmend nationale Gesetze und die Politik beeinflussen. Parlament und Öffentlichkeit sollten bei der Umsetzung ein echtes Mitspracherecht haben, unterstützt durch regelmässige Evaluierungen zur Erkennung unerwarteter negativer Auswirkungen. Wo nötig, sollten flexible nationale Massnahmen eingesetzt werden, um Probleme zu beheben und sicherzustellen, dass Handelsabkommen langfristige Nachhaltigkeit und Resilienz fördern.

Die Analyse lenkt schliesslich die Aufmerksamkeit auf Vorteile von Freihandelsabkommen, die in der öffentlichen Debatte oft übersehen werden. Dazu gehören mehr Rechtssicherheit für Exporteure und Investoren, eine verbesserte Resilienz der Lieferketten und gestärkte politische und diplomatische Beziehungen. Für ein kleines, stark exportorientiertes Land wie die Schweiz können diese indirekten Effekte genauso wichtig sein wie messbare BIP-Zuwächse.

Zusammenfassend legen die Ergebnisse der Studie nahe, dass die Bewertung von FHAs überdacht werden muss. Die entscheidende Frage ist nicht mehr, ob Freihandel prinzipiell gut oder schlecht ist. Vielmehr sollte der Fokus darauf liegen, welche Art von Handelsabkommen geschlossen werden, wessen Interessen sie dienen und wie mit ihren negativen Nebenwirkungen umgegangen wird. Freihandelsabkommen sind technische Instrumente der Politik, keine ideologischen Selbstzwecke. Sorgfältig ausgestaltet und mit starken nationalen und internationalen Schutzmechanismen versehen, können sie zu Wohlstand, Gerechtigkeit und Nachhaltigkeit beitragen.

Résumé

Les accords de libre-échange (ALE) ont longtemps été présentés comme un pilier de la prospérité économique. Pendant des décennies, ils ont été largement associés à la croissance, à la hausse des revenus et à la création d'emplois. Ces dernières années, cependant, la perception du public a évolué. Les ALE sont désormais de plus en plus liés, dans les débats politiques et l'opinion publique, aux préoccupations liées à la précarité de l'emploi, à la pression sur les salaires, à la dégradation de l'environnement et au transfert des coûts sociaux et écologiques vers les pays les plus pauvres. Cette étude examine ce que les données disponibles révèlent réellement, en se concentrant sur les ALE conclus par la Suisse, l'Union européenne (UE) et les États-Unis (US). Sa principale conclusion est que les ALE ne sont ni des solutions miracles pour l'économie, ni des facteurs automatiques de dommages sociaux et environnementaux. Leurs effets sont généralement modestes au niveau macroéconomique, inégaux selon les secteurs et les groupes sociaux, et fortement dépendants de la manière dont la libéralisation des échanges est conçue et accompagnée de garanties nationales et internationales.

L'une des conclusions les plus marquantes de l'étude concerne la croissance économique globale. Dans de nombreuses évaluations d'impact ex ante et ex post, les ALE sont systématiquement associés à des effets positifs sur le PIB, mais ces effets restent modestes. Pour la Suisse et les autres économies industrialisées, les nouveaux ALE augmentent généralement le PIB de bien moins de 1 %, souvent de quelques centièmes de pour cent seulement. Ces gains sont réels et mesurables, mais insuffisants pour modifier fondamentalement le niveau de vie ou les trajectoires économiques. Le commerce est déjà relativement ouvert, notamment pour les biens industriels, où les droits de douane sont faibles à l'échelle mondiale et ont été totalement supprimés en Suisse. De ce fait, les ALE modernes ne peuvent plus générer les effets de croissance spectaculaires parfois observés lors des premières phases de la mondialisation. Les gains économiques tendent à être légèrement plus importants dans les économies plus petites ou moins diversifiées, et lorsque les accords vont au-delà de la simple réduction des droits de douane. Les ALE qui s'attaquent aux barrières non tarifaires peuvent stimuler les échanges commerciaux en réduisant la complexité administrative et l'incertitude juridique, en particulier dans des secteurs comme l'industrie pharmaceutique, la mécanique et les services.

Les effets des ALE sur les salaires et l'emploi sont souvent au cœur des préoccupations publiques. L'étude révèle qu'en moyenne, les ALE sont associés à des effets salariaux faibles mais positifs. Cependant, ces moyennes masquent des disparités importantes selon les secteurs, les niveaux de qualification et les régions. Certains secteurs se développent grâce à l'amélioration des opportunités d'exportation, tandis que d'autres connaissent une légère contraction du fait de l'intensification de la concurrence. Surtout, les données ne confirment pas l'idée que les ALE détruisent systématiquement des emplois ou font baisser les salaires dans l'ensemble de l'économie. Lorsque des conséquences négatives apparaissent, elles sont généralement liées à un soutien insuffisant aux travailleurs qui doivent changer de secteur, plutôt qu'à la libéralisation des échanges elle-même. Dans plusieurs cas, les travailleurs peu qualifiés et les travailleurs agricoles bénéficient proportionnellement davantage des ALE que les travailleurs hautement qualifiés.

L'étude montre clairement que l'impact réel des ALE se fait sentir non pas au niveau de l'ensemble de l'économie, mais au sein de secteurs spécifiques. Pour la Suisse, les ALE profitent principalement aux secteurs manufacturiers à forte valeur ajoutée tels que les produits pharmaceutiques, la chimie et la construction mécanique. Dans ces secteurs, même de modestes augmentations en pourcentage des exportations peuvent se traduire par des gains absolus significatifs. Ces gains sont souvent moins dus aux réductions tarifaires qu'à l'amélioration de la coopération réglementaire et à la réduction des obstacles techniques au commerce. Parallèlement, l'étude ne trouve que peu d'éléments indiquant que les ALE entraînent un afflux d'importations à bas prix qui fragilisent la production nationale. Lorsque des pressions d'ajustement existent, elles tendent à être gérables et à s'étaler dans le temps.

Les petites et moyennes entreprises (PME), qui constituent la grande majorité des entreprises en Suisse, occupent une place particulière dans cette analyse. L'étude révèle que les PME ne bénéficient

pas automatiquement des ALE. Lorsque les accords portent essentiellement sur des réductions tarifaires, les grandes multinationales sont généralement les mieux placées pour tirer parti des nouvelles opportunités, car elles disposent déjà des ressources nécessaires pour gérer des règles et des procédures administratives complexes. Les PME bénéficient principalement des ALE lorsque ceux-ci réduisent les barrières non tarifaires, simplifient les règles d'origine et améliorent la transparence et la coopération réglementaire. Autrement dit, l'efficacité des ALE pour les entreprises locales dépend moins de leur existence que de leur portée et de leur conception.

Au-delà des retombées économiques, l'étude examine de près les effets sur le travail, la société et l'environnement. La libéralisation des échanges peut renforcer des tendances négatives telles que la dégradation de l'environnement, l'augmentation des émissions ou les mauvaises conditions de travail, en particulier dans les pays où la réglementation et son application sont faibles. Cependant, l'étude établit une distinction importante : les ALE créent rarement ces problèmes de toutes pièces. Le plus souvent, ils amplifient les vulnérabilités existantes. Cela signifie que le commerce en lui-même n'est pas la cause première, mais que des échanges sans règles et garanties adéquates peuvent aggraver des situations déjà problématiques. De manière encourageante, les données montrent également que les ALE peuvent faire partie de la solution plutôt que du problème. Les accords qui incluent des dispositions contraignantes en matière de travail et d'environnement, associés à des mécanismes d'application crédibles et à des mesures d'accompagnement nationales, sont plus à même d'atténuer les effets négatifs et de promouvoir le développement durable. L'étude met en lumière les « trade packages » qui associent ouverture des marchés et engagements sociaux et environnementaux comme une approche particulièrement prometteuse.

Pour libérer ce potentiel et éviter des ALE favorisant des intérêts particuliers au détriment du bien commun, la Suisse devrait associer un plus large éventail de parties prenantes et le Parlement beaucoup plus tôt dans le processus. Les mandats de négociation devraient s'appuyer sur des consultations publiques et des analyses d'impact solides réalisées avant le début des négociations, couvrant non seulement les risques, mais aussi les avantages des ALE sur les plans économique, social et environnemental. Le contrôle démocratique devrait se poursuivre après la signature des accords, car les accords commerciaux modernes ont une incidence croissante sur le droit national et les politiques publiques. Le Parlement et le public devraient avoir voix au chapitre quant à la mise en œuvre, avec des évaluations régulières permettant de détecter les effets négatifs imprévus. Le cas échéant, des mesures nationales flexibles devraient être utilisées pour corriger les problèmes et garantir que les accords commerciaux soutiennent la durabilité et la résilience à long terme.

Enfin, l'analyse attire l'attention sur les avantages des ALE, souvent négligés dans le débat public. Il s'agit notamment d'une plus grande sécurité juridique pour les exportateurs et les investisseurs, d'une résilience accrue des chaînes d'approvisionnement et d'un renforcement des relations politiques et diplomatiques. Pour un petit pays fortement tourné vers l'exportation comme la Suisse, ces effets indirects peuvent être tout aussi importants que les gains mesurables de PIB.

Dans leur ensemble, les conclusions de l'étude suggèrent la nécessité de repenser la manière dont les accords de libre-échange sont abordés et évalués. La question pertinente n'est plus de savoir si le libre-échange est bon ou mauvais en principe. Il convient plutôt de s'intéresser au type d'accords commerciaux conclus, aux intérêts qu'ils servent et à la manière dont leurs effets secondaires négatifs sont gérés. Les accords de libre-échange sont des instruments techniques de politique économique, et non des fins idéologiques en soi. Conçus avec soin et assortis de solides garanties nationales et internationales, ils peuvent contribuer à la prospérité, à l'équité et à la durabilité.

1. Introduction

Free Trade Agreements (FTAs) were for a long time typically associated with economic growth to the benefit of all and job creation. Recent years, however, saw a shift in public opinion vis-à-vis FTAs, associating them increasingly with negative effects for labour and the environment, domestically and abroad. Despite this major shift in public opinion, the actual effects and benefits of FTAs remain largely unknown to the public.

The purpose of this study is to provide, on the one hand, a comprehensive overview over the actual benefits and effects of FTAs in Switzerland and abroad. On the other hand, this study outlines measures that could be used to reduce the negative effects of FTAs for the environment and society and to strengthen and expand the benefits of trade liberalisation.

Insights regarding the effects of FTAs on income and wealth distribution, the relationship between trade liberalisation and sustainable development, and effects of FTAs on the Swiss labour market, Swiss wealth distribution and Swiss exports are of particular interest.

a. Objectives

Consequently, this study has the following two main objectives: 1) providing a comprehensive summary and analysis of existing data on the benefits and effects of FTAs in general, and specifically with reference to Switzerland, and 2) providing a summary of key findings of the SNSF Sinergia Research Project on "Trade Packages" regarding measures that address the negative effects of FTAs and/or promote the benefits of FTAs. Our findings provide the basis for a substantive, fact-based political discussion on the desired regulatory design of FTAs and of domestic flanking measures.

The study is structured into four parts, each addressing a different level of analysis:

1. Economic effects of FTAs – evaluation of existing *ex ante* and *ex post* impact assessments, including comparative data for Switzerland.
2. Social, labour-market, and environmental effects – examination of the negative externalities of trade liberalisation based on empirical case studies.
3. Economic value of legal and political benefits – analysis of stability and legal-certainty gains based on selected Swiss FTAs.
4. Trade-related benefits – identification and classification of flanking provisions in FTAs and in domestic law (e.g. climate, human rights, environment, labour, gender).

b. Methodology

The study combines economic, legal and political science methods, with literature review and analysis and application of our own datasets, constituting the main methods. Our findings rely on existing data on impact assessments, relevant case-studies, and our three databases on 1) impact assessments, 2) package treaties, and 3) domestic flanking measures.

The study's methodological value lies in the comprehensive presentation of both the direct trade effects and the indirect social and normative consequences of FTAs.

c. Conceptual Starting Point and Definitions

The multilateral trade agreements of the World Trade Organisation (WTO) ensure – despite the crisis of the WTO's dispute settlement system[1] – that global average applied tariffs are around 3% (below

[1] See Ungphakorn, Peter, How the WTO deals with problem trade measures – it's not just dispute settlement, Blog, 9 July 2023: <https://tradebetablog.wordpress.com/2019/12/11/wto-deals-problem-measures/>.

1.5% in industrialised countries), with two-thirds of global trade currently being tariff-free.[2] This means in principle that economic gains from tariff preferences in FTAs – the preferential trade liberalisation on top of the multilateral, most-favoured nation based liberalisation – are limited to the sectors in which tariffs still play a role at the multilateral level (most notably agriculture). Beyond tariffs, FTAs can generate economic gains through the reduction of non-tariff barriers to trade and the creation of additional market access in sectors which are not yet or only to a very limited extent covered by WTO agreements (i.e. services, digital trade, energy, or public procurement).

While the multilateral WTO agreements in principle maintain a reliable, rules-based global trading system, it remains uncertain how the recently introduced US-tariffs will affect global average applied tariff rates in the longer run. Up until today, average applied tariffs – with the exception of US applied tariffs – have not seen substantial changes (i.e. the overwhelming majority of WTO members continues to comply with their WTO obligations). It is possible that the US tariffs will eventually force other WTO members to introduce safeguard measures in order to protect their industries from US tariff-induced trade diversion.[3] Such – WTO compliant – safeguards are temporary, industry-specific, and proportionate. They apply on an MFN-basis, meaning that they also apply vis-à-vis FTA-partners.

Clearly, the multilateral WTO agreements ensure a global standard in market openness, which is high. The fact that so far, we have not seen global tariff escalations since the inception of the GATT in 1947, is, however, rather linked with the global consensus regarding the harmfulness of tariff escalations than the prohibitory effect of multilateral trade agreements.[4] The US currently no longer shares this consensus,[5] which raises the question to what extent the multilateral WTO agreements continue to be able to safeguard the current global standard in market openness. Given these recent developments and the ensuing crisis of multilateralism, the focus in foreign trade policy has shifted further away from the multilateral forum to bilateral and regional fora and therewith to FTAs.

We use the term **"Free Trade Agreement"** (FTA) in the sense of a preferential trade agreement between two or more WTO members, which covers 'substantially all the trade' between its partners and eliminates 'substantially all the barriers to trade' between its partners. Such agreements are covered by the exemptions to the most-favoured nation principle in WTO agreements (see Art. XXIV GATT and Art. V GATS). Sectoral agreements and unilateral tariff preferences for specific markets are non-compliant with WTO obligations and do not qualify as FTAs in the context of this study. This includes, in principle, many of the recently concluded so-called "Trade Deals" between the US and a number of countries.

Considering that FTAs build on obligations in multilateral WTO agreements, they typically expand preferential market access beyond multilateral WTO concessions. Such concessions – mainly tariffs – are called **"WTO plus obligations"** in the sense that they fall squarely within the scope of WTO agreements, but are more ambitious at the FTA level.

FTAs – especially the post-2010 FTAs – typically also cover obligations and concessions that are outside of the scope of WTO agreements. Such obligations include aspects of regulatory harmonisation or interoperability, of e-commerce and digital trade, of trade in energy and of trade-related issues such

[2] See UNCTAD, The multilateral trading system has reduced tariffs but not tariff escalation: <https://sdgpulse.unctad.org/tariffs/>.

[3] E.g. The EU already announced that they will have to increase safeguards on steel and aluminium due to US tariffs. The EU is furthermore initiating GATT negotiations to change their MFN tariff rate on steel and aluminium. See <https://ec.europa.eu/commission/presscorner/detail/en/ip_25_2293>.

[4] Sieber-Gasser, Charlotte, US-Zollpolitik: Ein Impuls für das internationale Handelsrecht? Die Volkswirtschaft, 10 June 2025: <https://dievolkswirtschaft.ch/de/2025/06/us-zollpolitik-ein-impuls-fuer-das-internationale-handelsrecht/>.

[5] For a discussion of possible reasons, see Horn, Henrik and Mavroidis, Petros, Why the US and the WTO should part ways, VOXEU Column, 25 June 2025: <https://cepr.org/voxeu/columns/why-us-and-wto-should-part-ways>.

as labour and environmental standards. FTA obligations in matters which are not also covered by WTO agreements are called **"WTO extra obligations"**. The distinction between WTO plus and WTO extra obligations in FTAs matters, since they are associated with different kinds of effects and risks for the economy, but also for labour and environment.

Within the scope of WTO extra obligations, we are furthermore particularly interested in so-called **"trade-related issues"**: effects for climate, environment, labour or human rights, which are amplified by or associated with trade liberalisation. Trade-related issues can be economic in nature (e.g. cost of environmental pollution), legal (e.g. decreasing labour standards), or political (e.g. distributional conflict and contestation over climate and social obligations). Ideally, FTAs address trade-related issues with the combination of market access obligations with tailored flanking measures (so-called «Package Treaties»). Trade-related issues can, however, also be addressed unilaterally within the scope of the domestic regulatory framework.

Furthermore, we define **"flanking measures"** as measures that accompany FTAs to mitigate their potential or proven negative spillovers on society and environment and/or address related concerns of domestic stakeholders.[6]

And finally, a **"trade liberalization package"** is a treaty or other international convention, agreement, or joint declaration that covers obligations – legally binding or not – on both trade liberalization and flanking measures. A **"package treaty"** is a legally binding treaty or other international convention or agreement that covers legally binding obligations on both trade liberalization and flanking measures. Being limited to legally binding commitments, package treaties constitute a sub-set of trade liberalization packages.[7] Trade liberalisation packages, along with flanking measures are of particular interest to this study in the sense that trade liberalisation packages are always FTA-based and the scope of effects of FTAs is determined to a substantial extent by domestic flanking measures.

[6] See Laurens, Winkler & Dupont (2024), 1919 ff.
[7] See Pauwelyn & Sieber-Gasser (2024), 565.

2. Economic Effects of FTAs

FTAs are generally associated with economic benefits. The most detailed assessments of the relationship between FTAs and GDP growth, as well as industry-specific variations in their economic impact can be found in **impact assessments**. Switzerland, and especially the United States (US) and the European Union (EU), have conducted a large number of impact assessments of their respective FTAs over time.

Our analysis is based on existing impact assessments and draws on a global database compiled by Baldwin et al. (2024),[8] which contains both ex ante and ex post evaluations of FTAs. This is further complemented with all available Swiss and EFTA assessments of FTAs. Reference is also made to the ex ante social impact assessment of the EFTA–MERCOSUR Agreement conducted on behalf of the State Secretariat for Economic Affairs (SECO).

Ex ante impact assessments generally rely on so-called **computable general equilibrium** (CGE) or partial equilibrium models to assess the impacts of FTAs on trade, economies, labour, environment, and more. Ex post impact assessments often employ different methods, such as econometric approaches alongside or instead of CGEs. These models aim to isolate FTA effects from other factors (such as technological developments, population growth, or economic crises), whether through simulation of counterfactual scenarios (ex ante) or econometric identification strategies (ex post).

While general equilibrium modelling is a powerful tool, it comes with caveats. Among these are the various assumptions used by these models, including often perfect competition, no market imperfections, or that unemployment and other structural parameters remain unaffected.[9] For instance, an assumption is often that all people that become unemployed, find a new job. While such assumptions are more likely to hold up under scrutiny when the changes in sectors or economies are small, their adequacy depends on the economy studied, the size and speed of the relative changes, and more.

To balance these downsides and assess the plausibility of the modelled outcomes, **qualitative research** examining these developments – such as case studies, interviews, or other – is essential. Yet even across methods, there are limits to properly and fully identify the effects of FTAS. Among others, these include data limitations and time lags (because some effects may take years or even decades to materialize). Nonetheless, the strength of an impact assessment depends, at least in part, on the successful integration of the mentioned complementary techniques.[10]

Regarding Switzerland, the analysis focuses on the economic impacts of FTAs related with GDP, individual industries, salaries, the labour market, and labour standards. The available results suggest that the economic impacts of new FTAs on Switzerland are expected to remain limited if protection of agriculture and services persists. This finding reflects the fact that Switzerland already has FTAs with almost all of its major export partners except the US[11] and that it has unilaterally eliminated all tariffs on industrial goods. Economic gains from future agreements are therefore primarily expected to be either industry-specific, if partner countries reduce existing tariff-barriers substantially, or linked with market adjustments following liberalisation in agriculture and services trade.

[8] See Baldwin, Donato & Reverdy (2024), 573 ff.

[9] Importantly also ex ante IAs generally assume that substantially all trade is covered and that there is no underutilization of preferential rates. For comparison, the EFTA preference utilization monitor shows strong differences between countries, ranging from 0% to above 90%, often in the range of 30-60%, see: <https://www.efta.int/sites/default/files/publications/free-trade/EFTA-FTA-Monitor-2023.pdf>.

[10] See, e.g., Moïsé (2021).

[11] At the time of writing, Switzerland had agreed in November 2025 to a "Trade Deal" with the US in reaction to US reciprocal tariffs. While one may expect this to lead to some legally binding document, a full blown FTA with the USA remains a very remote prospect.

The analysis in this section is based on Switzerland-specific data from the EFTA–Thailand sustainability impact assessment, the EFTA–MERCOSUR environmental and social impact assessments, and the impact assessment on the potential impacts of the Transatlantic Trade and Investment Partnership (TTIP) for Switzerland. For data on the EU, we examined available *ex ante* and ex post impact assessments of EU–Chile, EU–Korea, EU–Australia, EU–Mediterranean Countries (EUROMED), EU–CARIFORUM, and EU-US TTIP. For information on the US, we examined available ex ante and ex post impact assessments of US–Australia, NAFTA and USMCA, US–CAFTA DR, US–Colombia, as well as the 2016 and 2021 US International Trade Commission reports on the economic impact of trade agreements implemented under the Trade Promotion Authority.

Overall, it is notable that impact assessments are primarily conducted by global North countries. The earliest impact assessments in this sample date back to the early 1990s (NAFTA ex ante impact assessment), whereas the most recent ones were produced in 2025 (EFTA–MERCOSUR ex ante social impact assessment). Given that impact assessments are typically conducted in our sample by global North countries, they tend to focus on the *economic* impact of a potential trade agreement (ex ante) or an implemented trade agreement (ex post) on their own domestic market and on the *trade-related* impact of a potential trade agreement on FTA-partners. Since we do not have impact assessments conducted by global South countries in our sample, we have overall less impact assessment data on the economic impacts of FTAs in emerging economies and developing countries.

More recent impact assessments tend to focus on a particular sector or a particular concern like sustainability. Not all of them assess the economic impacts in addition to sectoral or sustainability impacts. Impact assessments that do not address changes in GDP tend to be more qualitative in nature and are therefore less suitable for cross-country comparison. This might be explained by the fact that FTAs no longer have a substantial impact on GDP in global North countries, making the assessment of their purely economic impacts less essential.

a. Impacts on GDP

In our dataset, the estimated change in GDP associated with an FTA[12] is always positive, but often minimal or even negligible for all partners to the agreement. This is associated primarily with the fact that average most-favoured nation (MFN) applied tariffs are already low, and, hence, FTA gains based on tariff preferences alone are limited to begin with. MFN applied tariffs are particularly low in global North countries and in industrial goods. They are at times so low that they are called «nuisance tariffs», since they cause more administrative work than state revenue. For this reason, Switzerland unilaterally abandoned all tariffs on industrial goods in January 2024.[13]

The size of the impact of an FTA on GDP growth depends furthermore on whether the trading partner is a global North or global South partner. Our data suggests that global North countries tend to benefit the most from an FTA with another global North partner. This is, at least in part, due to the fact that FTAs between global North partners tend to be particularly ambitious and also engage in regulatory alignment (reduction of non-tariff barriers).

The economic literature further suggests that global South countries, on the other hand, are likely to benefit the most from deep economic integration with other global South partners. This is, among

[12] Changes in GDP are typically assessed in IAs in the sense of expected or actual changes in a defined period of time relative to a baseline. It has to be kept in mind that the real effect of GDP growth rates depends on the underlying GDP. For example, if the GDP growth rate of two countries is the same, the real growth does not need to be equal, e.g., because the underlying GDP of a global South country is lower than the GDP or a global North country such as the US, EU, or Switzerland.

[13] See State Secretariat for Economic Affairs SECO, Abolition of industrial tariffs: <https://www.seco.admin.ch/seco/de/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/warenhandel/aufhebung_industriezoelle.html>.

other factors, linked to the fact that the benefits of increased competition tend to be highest when economies start from comparable competitiveness levels.[14] We lack, however, ex ante and ex post impact assessments corroborating this for specific South-South FTAs.

In the case of North–South FTAs, data show that global South partners seem to benefit slightly more than their global North partner in terms of growth rates, although the impact on GDP remains limited. It appears that the market-size of the partners in a North–South FTA has no impact on changes in GDP: impact on GDP is constantly minimal both in a North–South FTA with a medium sized economy like Switzerland, or with a larger economy like the EU or US. This is on the one side explained by the fact that global South countries tend to already have access to global North markets prior to the FTA through preference programs. In addition, global North partners are generally less willing to engage in regulatory alignment with global South partners than they are in North–North FTAs. As a result, North–South FTAs tend to be less ambitious overall.

Global North partners in North–South FTAs do not see larger increases in FTA-associated GDP growth for two main reasons. On the one hand, they typically already use their competitive advantage over their global South partners without the need for an FTA. On the other hand, global South partners are often hesitant to substantially open their markets to competition from the North. Evidence also suggests that global South partners are often unable to reap the benefits of a North–South FTA due to technical barriers to trade and lack of trade capacity.[15] As a result, North-South FTAs tend to be underutilised by global South partners.[16]

Table 1: Macro-level Economic Impacts of Selected FTAs

Year	**Impact Assessment**	**Type**	**GDP Impact:** % change relative to baseline
1992	US–NAFTA FTA	ex ante	0.02% to 0.40% increase for US 0.32% to 4.64% for Mexico No quantification for Canada
2004	US–Australia	ex ante	0.01% increase for US 0.70% increase for Australia
2004	US–CAFTA DR FTA	ex ante	0.01% increase for US No quantification for Dominican Republic and Central America
2006	US–Colombia	ex ante	0.05% increase for US 0.30% to 1.1% increase for Colombia
2007	EU–South Korea FTA	ex ante	0.1% to 0.3% increase for EU 0.6% to 1.6% increase for Korea
2007	Euro–Mediterranean Association Agreements	ex ante	0.2% increase for EU 1.0% to 2.5% for Mediterranean Countries
2012	EU–Chile FTA, sustainability	ex post	0.05% increase for Chile No quantification for EU
2013	EU–US FTA (TTIP)	ex ante	0.10% to 0.48% increase for EU 0.04% to 0.39% increase for US
2014	TTIP impact on Switzerland	ex ante	0.96% increase for Switzerland
2017	Euro–Mediterranean Association Agreements	ex post	0.02% increase for EU 1.50% increase for Tunisia 0.60% increase for Morocco

[14] See for details Sieber-Gasser (2016), 27 ff.

[15] See e.g. Zhou et al. (2022); Dix-Carneiro & Kovak (2019), 125 ff.; Goldar & Aggarwal, (2012), 141 ff.

[16] See Nilsson, 2011, 392 ff.; EFTA, Analysis of the Utilisation of EFTA's Free Trade Agreements, FTA Monitor, December 2024: <https://www.efta.int/sites/default/files/uploads/2025-01/EFTA.pdf>; Kasteng et al. (2018); Cariola & Lanz (2022); Ayele (2021); Lukaszuk & Legge (2019); Crivelli et al. (2021); Legge & Lukaszuk (2024).

			0.40% increase for Egypt & Jordan
2017	EU–Australia and New Zealand FTAs	ex ante	0.01% to 0.02% increase for EU 0.28% to 0.52% increase for NZ 0.13% to 0.20% increase for Australia
2018	EU–South Korea FTA	ex post	0.03% increase for EU 0.30% increase for Korea
2019	USMCA FTA	ex ante	0.35% increase for US 0.249% increase for Canada No quantification for Mexico
2019	EU–Chile FTA, sustainability (modern-ising)	ex ante	0.001% to 0.002% increase for EU 0.084% to 0.168% increase for Chile
	EFTA–MERCOSUR FTA, environmental (2020) and social (2025)	ex ante	0.06% increase for Switzerland 0.01% increase for MERCOSUR
2021	US–Australia	ex post	No significant effect for US No quantification for Australia
2024	EFTA–Thailand FTA, sustainability	ex ante	0.04% increase for Switzerland 0.07% increase for Thailand 0.02% increase for Norway

Table 1: The effects of FTAs on GDP are positive and generally below 1%; and especially for global North countries even below 0.1%. It is important to note that the ex ante assessments generally assume full utilization and no market imperfections, i.e., they are more likely to overestimate than underestimate the size of GDP growth associated with FTAs.

Switzerland

As noted above, GDP growth associated with FTAs is usually positive, but small. FTAs with global South partners are primarily for the sale of goods that already have preferential access. This means that tariff revenue both before and after the signing of the FTA is minimal. Additionally, with a relatively closed services sector, this means that the preferential access provided for trade creation does not create a substantial change in GDP post FTA. For example, in the EFTA FTAs with Thailand and MERCOSUR, the increase in GDP for Switzerland was less than 0.1%. Specifically, the EFTA–Thailand impact assessment projected that Switzerland's GDP would increase by 0.04%,[17] while the EFTA–MERCOSUR impact assessment estimated an 0.06% increase for Switzerland.[18] In the context of the TTIP assessment, the literature explains that in a scenario where tariffs and non-tariff barriers between the EU and US are removed, Switzerland's estimated overall GDP growth is 0.96%,[19] markedly higher compared to the GDP growth associated with the FTAs with the global South partners Thailand and MERCOSUR.

Swiss FTAs are generally expected to have a positive impact on the GDP of trading partners. For the EFTA–Thailand agreement, Thailand's GDP is estimated to increase by 0.07%.[20] For EFTA–MERCOSUR, GDP is estimated to increase by 0.01% for MERCOSUR countries. However, we currently do not have access to any ex post impact assessments of Swiss FTAs with global South partners. Considering the EFTA analysis of underutilisation of EFTA FTAs[21] or the general assumptions in the models, it is likely that the expected growth rates for global South FTA partners of Switzerland have not (yet or fully) materialised.

[17] IA, EFTA-Thailand, ex ante, 2024, 105.
[18] IA, EFTA-MERCOSUR, ex ante environmental, 2020, 8.
[19] IA, Potential Impacts TTIP, ex ante, 2014, 6.
[20] IA, EFTA-Thailand, ex ante, 2024, 56.
[21] See EFTA, Analysis of the Utilisation of EFTA's Free Trade Agreements, FTA Monitor, December 2024: <https://www.efta.int/sites/default/files/uploads/2025-01/EFTA.pdf>.

European Union and United States

For the EU/US, FTA-associated GDP growth is often also small and positive. For example, the EUROMED FTA ex ante impact assessment modelled EU GDP growth at 0.2%,[22] and the modernised EU–Chile FTA is associated, for the EU, with an "almost negligible" but positive GDP impact.[23] In the conservative scenario, GDP would increase by 0.001%, while in the ambitious scenario, it would increase by 0.002%. With the exception of Mediterranean countries in the EUROMED ex ante assessment, and only Tunisia in the ex post assessment, the overall data shows that extra growth associated with FTAs over 1% is rare.

Ex ante impact assessments for EU/US FTAs with each other or other global North countries do not necessarily predict a higher increase in GDP than with global South partners. For instance, the EU-US TTIP modelled a 0.1% to 0.48% GDP increase for the EU and a 0.04% to 0.39% increase for the US. In another example, in the ex ante assessment for EU-Australia and New Zealand FTAs, the model predicted that the EU would experience less growth than both Australia and New Zealand, specifically, a 0.01% to 0.02% increase for the EU as compared to an increase between 0.13% and 0.20% for Australia and an increase between 0.28% and 0.52% for New Zealand. Interestingly, the US-Australia ex ante assessment saw a 0.01% increase for the US and a 0.7% increase for Australia. In both models, the EU and the US experienced less growth than Australia (and for New Zealand when included). The EU, the US, and Australia/New Zealand are considered global North countries, and yet the GDP growth modelled for the FTAs between these countries exhibited similar patterns of negligible growth for the larger trading partner as seen above with Switzerland and global South partners Thailand and MERCOSUR.

By contrast, a different key finding emerges from the ex post impact assessment of two global North countries, through the EU–Korea FTA. Both South Korea and the EU saw marked increases in GDP following the signing of the FTA. The impact assessment attributes much of this growth to trade in services, as both economies are major exporters of services to each other's markets. For the EU, the agreement is estimated to have generated a GDP increase of 0.03%.[24]

For the US, the assessments modelled minimal GDP increase. Based on the analysis of US International Trade Commission (USITC) impact assessments on various Trade Agreements, a consistent pattern of asymmetric projected GDP gains between the United States and its smaller trading partners emerges. The ex ante models for agreements like the US–Colombia FTA projected only a marginal GDP increase for the US, at 0.05%, which contrasted sharply with the projected gain for Colombia, ranging from 0.30% to 1.1%.[25] Similarly, the US–Australia FTA assessment projected Australia's GDP would increase by 0.70%,[26] while the US gain was a minimal 0.01%. This low projection was subsequently supported by the ex post assessment finding "no significant effect" for the US.[27] Even the initial NAFTA ex ante impact assessment projected a much higher maximal gain for Mexico (4.64%) compared to the US (0.40%),[28] reinforcing the established principle that trade liberalisation yields a larger macroeconomic impact on GDP growth for smaller, less diversified economies. A notable deviation from this trend is the USMCA, where the ex ante projection indicated a higher increase for the US (0.35%) than for Canada (0.249%), suggesting a change in the distributional effects or the modelling framework of the successor agreement. Overall, the findings underscore that while FTAs are generally expected to deliver modest, positive GDP effects for the US (with some agreements like CAFTA-DR projecting only 0.01%), their primary economic leverage is in accelerating growth and structural change within the smaller

[22] IA, EUROMED, ex ante, 2007, 3.
[23] IA, EU-Chile Modernisation, ex ante, 2019, 27.
[24] IA, EU-Korea, ex post, 2018, 111.
[25] IA, US-Colombia, ex ante, 2006, 20.
[26] IA, US-Australia, ex ante, 2004.
[27] General IA, ex post, 2016, USITC.
[28] IA, NAFTA, ex ante, 1992.

partner economies. For instance, between CAFTA-DR, Australia, and Colombia, the increase ranged for the US from 0.01% to 0.05% respectively.[29]

b. Impacts on Wages

Generally, the ex ante assessments forecast small aggregate wage gains, but sizable heterogeneity across countries, sectors and skill groups, and ex post evaluations confirm that realised effects are similarly uneven. For example, the EFTA–Thailand ex ante SIA projects modest positive effects on real wages[30] in EFTA states and Thailand – fractions of a percent in aggregate – reflecting small GDP and trade gains with both tariff and non-tariff measure changes modelled.[31] The 2020 EFTA–MERCOSUR ex ante assessment likewise finds only limited overall wage changes for Switzerland and MERCOSUR partners, with larger relative gains concentrated in a few labour-intensive sectors (and only small real-wage increases at the country-level overall).[32] By contrast, ex post appraisals of longer-standing agreements show that outcomes can be larger for particular partners: the ex post IA of the EU–Korea FTA documents positive income and labour-market effects for all EU Member States but substantially bigger realised real-wage gains in Korea than in the EU – illustrating that post-implementation adjustments (trade creation, welfare gains and sectoral reallocation) can produce asymmetric outcomes.[33] Similarly, the Euro-Med ex post evaluation finds measurable wage increases in some South Mediterranean partners (notably Tunisia), while effects in the EU were generally small, underscoring that emerging-market partners can sometimes capture larger proportional wage gains than advanced economies.[34]

Switzerland

Overall, the impact assessments estimate positive effects on Swiss wages and income associated with FTAs. For example, the impact assessment of the EFTA–Thailand FTA showed real and nominal wages increasing. For Switzerland, the model estimated that nominal wages for skilled labour would increase by 0.018% in Switzerland, and 0.029% in Thailand; similarly unskilled nominal labour wages would rise by 0.019% for Switzerland and 0.031% for Thailand, whereas real wages for unskilled labour would change by 0.2% for Switzerland and 0.03% for Thailand.[35] Moreover, the model projects that real wage increases for unskilled labour are markedly higher in Switzerland (0.2%) than in Thailand (0.03%), because the nominal wage increases in Switzerland are accompanied by relatively modest consumer price inflation, allowing unskilled workers' purchasing power to rise more. By contrast, in Thailand the model expects smaller real wage gains after adjusting for price changes, reflecting different inflationary responses and labour-market rigidities in the Thai context. In essence, the CGE results suggest that while relative nominal compensation responds to trade-induced demand shifts in both countries, the *effect on real wages* – what workers can buy with their earnings – depends critically on how prices adjust in each economy as a result of the FTA.

For the EFTA–MERCOSUR FTA from 2020, the highest wage increase in Switzerland is projected in the agriculture sector, with real lower-skilled worker wages expected to rise by 0.17%. Other sectors were

[29] IA, US-Colombia, ex ante, 2006, 20; IA, CAFTA-DR, USITC, 2004, ex ante, 111; IA, IA, US-Australia, ex ante, 2004, 29.

[30] In general equilibrium models, real wage effects refer to changes in workers' purchasing power resulting from adjustments in both nominal wages and the price level when the economy moves from one equilibrium to another. In other words, a positive number means that people can buy more (or less, if negative) with their wages after the modelled changes.

[31] IA, EFTA-Thailand, ex ante, 2024, 54.

[32] IA, EFTA-MERCOSUR, ex ante environmental, 2020, 32.

[33] IA, EU-Korea, ex post, 2018, 113.

[34] IA, EUROMED, ex post, 2021, 123.

[35] IA, EFTA-Thailand, ex ante, 2024, 160.

expected to gain from 0.07% to 0.08%.[36] This is because an increased use of lower skilled workers in the sectors that benefit the most from FTAs will thereby unleash demand for said workers, and as a result, real wages will also increase compared to other workers – a result that depends, at least in part, on the model assumptions mentioned earlier. In the 2025 sustainability impact assessment on the social aspects of a EFTA-MERCOSUR agreement, the analysis of wages was based on a 43-sector computable general equilibrium (CGE) model and suggests that labour-market adjustments would be modest in aggregate but heterogeneous across sectors and skill groups.[37] The assessment notes that "labour moving freely across sectors ensures equalized wages for similar work," meaning that the model derives wage effects from changes in sectoral value added rather than structural barriers to mobility. Given these assumptions, at the macro level, Switzerland is projected to experience an average 0.08% increase in real wage payments, yet the distribution of gains varies widely. Sectors with strong export performance or improved market access (most notably chemicals, pharmaceuticals and medical products, and machinery and equipment) generate substantial increases in real wage payments, estimated at USD 70 million in chemicals, USD 70 million in pharmaceuticals and medical products, and USD 90 million in machinery and equipment. Service sectors linked to trade logistics, such as warehousing, also experience wage growth of approximately USD 70 million.[38] Switzerland sees increases in real wages across all groups and especially for agriculture and unskilled workers, which see an increase of 0.17%.[39] The assessment notes that such an increase could point to "a decrease in wage inequality" noting that agriculture and unskilled workers are usually the lower side of income distribution. In contrast, the model predicts that large domestic sectors including finance, insurance, real estate, and business services exhibit wage declines.[40] The aforementioned declines are small and a result of "how large a sector is in the economy regarding its market value."[41]

Despite these sectoral divergences, the assessment concludes that overall Swiss wages are not expected to increase significantly, but the direction of change is largely, though not completely positive across skill levels. Gains are particularly pronounced for agricultural and unskilled workers, mirroring patterns in partner countries where wage effects are similarly strongest in agriculture and low-skill-intensive sectors.[42]

For Switzerland's FTA partners, wages impact varies. For the EFTA-MERCOSUR FTA, the 2020 assessment projected 0.01% changes in agriculture and unskilled workers, service and shop workers as well as technicians and associated professionals. For clerks, officials, managers and professionals, the impact assessment modelled no change.[43] The 2025 EFTA-MERCOSUR assessment noted that for Argentina, Brazil, Paraguay, and Uruguay real wage gains are described as small but positive, with Uruguay recording the largest increase.[44] The assessment also indicates a differentiated pattern of labour-market adjustments with manufacturing employment in MERCOSUR countries expected to decline and be reallocated to Switzerland. In the same breath, agriculture and "other services" are expected to expand in the region, which generates uneven effects across sectors and by gender.[45] The CGE model also provides distributional insights, estimating that annual real wages would rise in Switzerland by CHF 72 for men and CHF 66 for women, underscoring the modest but inclusive nature of the agreement's expected labour-market impacts.[46] Together, these findings highlight a contrast between the sector-specific magnitude of wage bill adjustments and the economy-wide pattern of broadly positive,

[36] IA, EFTA-MERCOSUR, ex ante environmental, 2020, 32.
[37] IA, EFTA-MERCOSUR, ex ante social, 2025, 12.
[38] IA, EFTA-MERCOSUR, ex ante social, 2025, 9.
[39] IA, EFTA-MERCOSUR, ex ante social, 2025, 11.
[40] IA, EFTA-MERCOSUR, ex ante social, 2025, 9.
[41] IA, EFTA-MERCOSUR, ex ante social, 2025, 12.
[42] IA, EFTA-MERCOSUR, ex ante social, 2025, 11.
[43] IA, EFTA-MERCOSUR, ex ante environmental, 2020, 33.
[44] IA, EFTA-MERCOSUR, ex ante social, 2025, 11.
[45] IA, EFTA-MERCOSUR, ex ante social, 2025, 17.
[46] IA, EFTA-MERCOSUR, ex ante social, 2025, 16.

though limited, real-wage growth driven by reallocation towards industries with comparative advantage.

The assessment for the EFTA-Thailand FTA projected that the agreement could lead to higher wage bills and standards in Thailand, which would translate to better wages, and worker protections.[47] This is particularly important because the assessment raised points about fair compensation, noting unequal pay for rural vs urban textile and garment industry workers,[48] and "subminimum wages" in the fishing industry.[49] Although these problems would not be nullified by the FTA, the aggregate effect of better wages, and the presence of Swiss companies to illustrate different labor standards could reduce the impact generally.

European Union and United States

For the EU, when trading with a global South partner, changes in wages, income, and welfare were generally minimal, if not negligible. The impact assessments consistently show that, for both skilled and unskilled workers and across conservative and ambitious scenarios, the impact on real wages was typically positive and below 0.1%.

The EU–Korea FTA represents an interesting case. In the context of global North partners, the EU was projected to experience increases in the ex ante impact assessment, especially due to substantial anticipated wage increases for skilled EU workers in the services sector. In addition, it was anticipated that unskilled labour wages would remain the same for EU workers but increase approximately by 3.4% for Korean workers. Similarly, overall, no wage changes were anticipated for EU skilled workers, whereas Korean skilled workers were expected to see a wage increase of 1.6%.[50]

The ex post impact assessment of the EU–Korea FTA showed quite different results associated with the FTA: all EU states experienced "positive income gains due to the agreement".[51] On average, for real wages, the EU28 experienced a 0.04% increase, while Korea experienced a 0.59% increase.[52] While the impact assessment did not delineate between skilled and unskilled workers, it clarifies that the wage change for Korea is larger than what would be expected of an average European country because the FTA's income and welfare effects are higher as well.[53] The assessment modelled employment changes using an Ifo Trade Model.[54] It demonstrated a displacement index, measuring the fraction of workers that would change sectors based on provisional implementation of the FTA, and used 21 industries. The index calculated a 0.11% displacement for EU 28 member states, and a 0.28% displacement for Korea. The displacement index is helpful in showing the sector-specific shifts in employment due to the FTA.

Each ex ante report for the US suggested negligible to small increases in wages and incomes, and the aggregate report from 2016 confirmed it.[55] The US–Australia FTA ex ante IA projected a 0.01% increase in the US wage bill, equivalent to roughly 1'500 full-time jobs given a labour force of 150 million at the time.[56] The US–Morocco FTA ex ante IA projected increases in payments to unskilled labour of USD 52.1 million and to skilled labour of USD 4.5 million, indicating a stronger relative benefit for lower-skilled workers – consistent with several other ex ante US assessments.[57] Meanwhile, the ex ante IA of NAFTA expected real wages to rise between 0.1% and 0.3%. For low-skilled labour, evidence of

[47] IA, EFTA-Thailand, ex ante, 2024, 69.
[48] IA, EFTA-Thailand, ex ante, 2024, 144.
[49] IA, EFTA-Thailand, ex ante, 2024, 118.
[50] IA, EU-South Korea, ex ante, 2007, 44.
[51] IA, EU-Korea, ex post, 2018, 112.
[52] IA, EU-Korea, ex post, 2018, 113.
[53] IA, EU-Korea, ex post, 2018, 195.
[54] IA, EU-Korea, ex post, 2018, 203.
[55] General IA, ex post, 2016, USITC, 122.
[56] IA, US-Australia, ex ante, 2004, 36.
[57] IA, US-Morocco, USITC, ex ante, 2004, 60.

effects on wages was mixed, with studies showing either increases or decreases, all within a range of less than 2%, indicating modest and uncertain effects across skill groups.[58]

In 2019, the USMCA was expected – according to ITC – to "promote higher wages and improved labour conditions in the member markets" through enforcement.[59] Specifically, wages, economy-wide, were expected to rise by 0.27% according to the ITC's assessment,[60] albeit with important differences by the level of education.[61] While all workers were modelled to experience an increase in wages, wages would increase by 0.3% for workers with a graduate degree, 0.23% for workers with up to 9 years of education, and 0.25% for those with between 13 and 15 years of education. The impact assessment noted that workers with higher education levels require a higher increase in wages to encourage entrance into the labour market to thereby satisfy market demand.

c. Economic Impacts on Specific Industries

Our data clearly indicates that effects of FTAs are small economy-wide but can be quite substantial in specific sectors. How a particular FTA affects different economic sectors depends on the level of protection prior to the FTA, the specific scope of additional FTA-market access, and on the specific trade relations between FTA partners. Sectoral effects must be carefully studied, therefore, and there are no general sectoral patterns or effects that can be described and attributed to FTAs in general (see also Table 2). We therefore provide a summary below of key findings in the IAs in our database. It is important to note that we can only discuss sectors that were explicitly assessed by the respective impact assessments, and we cannot assess whether all relevant sectors were actually studied by these assessments.

Table 2: Industry-level Economic Impacts of Selected FTAs

Impact Assessment	Sector	Estimated Impact	Real Impacts
EFTA–Thailand ex ante	Leather products	Exports from Switzerland increase 2.57% by 2030	
EFTA–Thailand ex ante	Pharmaceuticals	Exports from Switzerland increase 0.06% by 2030	
EFTA–Thailand ex ante	Machinery (electr)	Exports from Switzerland increase 0.24% by 2030	
EFTA–MERCOSUR ex ante	Vegetable Oils	Exports from Switzerland increase 3.65% by 2040	
EFTA–MERCOSUR ex ante	Machinery	Exports from Switzerland increase 1.57% by 2040	
EFTA–MERCOSUR ex ante	Basic Pharmaceutic	Exports from Switzerland increase 0.45% by 2040	

[58] IA, NAFTA, ex ante, 1992, 8.
[59] IA, USMCA, ex ante, 2019, 25.
[60] IA, USMCA, ex ante, 2019, 44.
[61] IA, USMCA, ex ante, 2019, 45.

EU–Korea ex post	Services (Exports)		From 2011 to 2014, EU exports increased 29%; Korea exports increased 75%[62]
EU–Korea ex post	Agriculture		EU exports increased 4.7% in 2010[63]
EU–Korea ex post	Agriculture		EU exports increased 5% in 2015
EU–CARIFORUM ex ante	Services (Exports)	CARIFORUM trade in services at 25% of GDP in 2008 (actual)	
EU–CARIFORUM ex post	Services (Exports)		CARIFORUM exported EUR 13.1 billion in 2018; EU exported EUR 6 billion in 2018[64]
US–Australia ex ante	Energy	US exports increase 534% (coal, oil & gas) after full phase-in[65]	
US–Australia ex ante	Processed Food	US exports increase 62.43% after full phase-in	
US–Australia ex ante	Textile, apparel & leather	US exports increase 87.16% after full phase-in	
US–CAFTA ex ante	Agriculture (grains)	US exports increase 0.02% by 2007; 20% by 2025[66]	
US–CAFTA ex ante	Textiles, apparel & leather products	US exports increase 15% by 2005	
USMCA	Agriculture	US exports (Canada) increase 1.1% when fully implemented[67]	

Switzerland

Based on the ex ante impact assessment for the EFTA–Thailand FTA, Switzerland is expected to experience modest but positive sectoral gains in several key export industries. The pharmaceutical sector sees a low 0.06% relative growth.[68] Leather products show the strongest projected expansion, with an estimated 2.57% increase in exports, suggesting that tariff reductions and improved market access would meaningfully enhance Swiss companies' competitiveness in Thailand's leather goods market. Electronic machinery exports are also expected to rise, although by a smaller margin of 0.24%, reflecting incremental improvements in Swiss machinery firms' ability to supply the Thai market under eased

[62] IA, EU-Korea, ex post, 2018, 77.
[63] IA, EU-Korea, ex post, 2018, 60.
[64] Trade in services greatly outperformed trade in goods. See IA, EU-CARIFORUM, ex post, 2021, 85.
[65] IA, US–Australia, ex ante, 2004, XVIII.
[66] IA, US-CAFTA-DR, ex ante, 2004, 51; calculation based on 2003 prices; 2025 calculated as term end of estimation based on agreement signed in 2005.
[67] Fully implemented is not defined in the report.
[68] IA, EFTA-Thailand, ex ante, 2024, 26.

trade conditions.[69] Overall, these projections indicate that Swiss manufacturers in differentiated, higher-value sectors stand to benefit from the EFTA–Thailand FTA, even if the magnitude of gains varies considerably across industries.

In the EFTA-MERCOSUR ex ante IA, the projections reveal a diverse sectoral impact.[70] Specifically, it anticipated that Swiss vegetable oils experience the largest relative growth in export value, with an estimated increase of 3.65%. By contrast, Switzerland's core industrial sectors were projected to exhibit lower percentage increases – but with far greater dollar returns due to their significant export volumes. Machinery was forecasted to see a moderate increase of 1.57% which translates into the highest *absolute* value gain of USD 403.18 million. Similarly, basic pharmaceuticals are projected to have the lowest *relative* growth at just 0.45% and still secure a substantial *absolute* increase of USD 320.7 million. Crucially for Switzerland, these specific gains across its industrial portfolio are derived from the removal of the high MERCOSUR tariffs (up to 35% in some cases) on manufactured goods, thereby serving the strategic purpose of securing competitiveness and market access for the dominant Swiss high-value manufacturing and life sciences industries.

European Union and United States

The data in Table 2 highlights a fundamental difference in the effects of the EU's agreements with Korea and CARIFORUM. The EU–Korea FTA assessment indicates a highly competitive, global North dynamic where Korean imports (services) gained a greater proportional market share, and initial ex ante models failed to accurately predict the ultimate value-added results in sensitive sectors like processed foods and agriculture. The immediate and asymmetrical trade effects modelled in the ex post assessment, particularly in services, exhibited a significant disparity: EU exports of services increased by 29%, but imports from Korea surged by a far greater 75%.[71] This indicates a larger initial impact and market penetration for Korean service providers into the EU.[72]

Conversely, the EU–CARIFORUM FTA acted as a crucial development instrument, demonstrably facilitating a structural transition in the Caribbean economies by successfully growing the share of services in GDP and yielding a substantial services trade surplus for the developing CARIFORUM nations. In 2008, CARIFORM trade in services comprised 25% of GDP in 2008. In 2018, trade in services comprised 35% of the region's GDP, exporting EUR 13.1 billion to Europe, while the EU exported EUR 6 billion to CARIFORUM in 2018.[73]

For the CAFTA-DR FTA, the grain sector was especially important given the sensitivity of the sector for the region, as exemplified by the 15–20 year tariff rate quotas incorporated into the agreement. Essentially, this means that for the first 15-20 years of the agreement implementation, a set amount of grains will enter both the CAFTA-DR region and the United States at a low tariff and gradually be reduced after the TRQ timeframe is expired. The ITC noted that the impact of the eventual increase in grain exports, estimated to be USD 120 million of the USD 30 billion US grain production in 2003, and noting the USD 10 billions of US grain exports, would actually be small, but that the FTA offered tremendous market opportunities, nonetheless.[74]

For textiles, the impact assessment estimated that the textile and apparel sector in the U.S. would experience the greatest increase in export values to the CAFTA-DR region, and that the greatest increase in import values would occur in the same sector. This is because cut and sew operations in the CAFTA-DR region would import textiles and yarns from the U.S. and export back finished apparel. Specifically, the assessment projected that the textile and apparel sector would experience the largest

[69] IA, EFTA-Thailand, ex ante, 2024, 26.
[70] IA, EFTA-MERCOSUR, ex ante environmental, 2020, 35.
[71] IA, EU-Korea, ex post, 2018, 77.
[72] IA, EU-Korea, ex post, 2018, 41.
[73] Trade in services greatly outperformed trade in goods. See IA, EU-CARIFORUM, ex post, 2021, 85.
[74] IA, US-CAFTA-DR, ex ante, 2004, 51.

quantitative trade effects of any industry examined. The ITC estimated that, once the agreement's tariff and quota reductions were fully implemented, US exports of textiles and apparel to CAFTA-DR partners would increase by approximately 15%, roughly USD 802.8 million, reflecting expanded demand for US yarns, fabrics, and certain finished goods under the agreement's "yarn-forward" rules of origin. On the import side, US imports of textile and apparel products from CAFTA-DR countries were projected to rise by roughly 26%, or USD 3.1 billion, making the sector the dominant contributor to the overall expected increase in US imports from the region.[75] In discussing these, the ITC noted the US sector's already ongoing structural adjustment and the relatively limited scale of CAFTA-DR economies compared to global suppliers, especially in Asia. It thus concluded that the effects on US production and employment in the textile and apparel industry would likely be small.

Regarding the USMCA, the ITC assessment estimated that it would increase annual exports from the US to Canada and Mexico by 1.1%, or (USD 2.2 billion).[76] For Canada and Mexico, the report anticipated smaller but still positive increases in agricultural exports to the US – largely in products where existing North American supply chains were already highly integrated, such as meat, fresh produce, and processed foods. Overall, the ITC concluded that the USMCA would reinforce the already deeply intertwined agricultural markets of the three countries while generating modest net gains in output and trade flows across North America's farm and food sectors.

d. Economic Potential of FTAs

Ex ante IAs typically work with different scenarios regarding the scope and depth of a potential FTA. To the extent that qualitative methods are applied in addition to CGE modelling, stakeholders are typically being interviewed about their hopes (and fears) in the context of a new FTA. Ideally, such qualitative analysis sheds light on technical and industry-specific concerns which can be addressed in an FTA. Considering the different scenarios, our data reveals patterns in terms of the economic potential of FTAs in general. Most notably, the inclusiveness of an FTA – whether SMEs benefit or not – critically depends on its depth. In other words: FTAs which only reduce tariffs are unlikely to generate welfare effects beyond multinational corporations already operating in the FTA-markets.

Role of Non-Tariff Barriers in Realising Economic Potential

In the EFTA-Thailand ex ante assessment, stakeholders noted the potential for positive economic benefits arising from reduced customs duties, streamlined customs processes, and the reduction of non-tariff barriers such as technical regulations and standards.[77]

Similarly, in the EUROMED FTA ex post impact assessment, non-tariff measures are listed as an obstacle for the FTA meeting its full objectives.[78] It notes that non-tariff measures can be more important for increasing market access than the reduction of tariffs.

Sector-Specific Potential: The Case of the Swiss Pharmaceutical Industry

In the EFTA–Thailand FTA ex ante IA, the pharmaceutical sector is explicitly mentioned. The assessment reports a relative growth of 0.06% for the Swiss pharmaceutical sector, equivalent to an absolute increase of USD 41.71 million.[79] The assessment further notes that Thailand applies an 8% MFN tariff on many pharmaceutical products, although some products enter duty free, and that Swiss pharmaceutical exports face a variety of technical barriers. Benefits of the FTA for the pharmaceutical industry are therefore particularly associated with a reduction of non-tariff barriers in the export to Thailand and less with the reduction of remaining tariffs.

[75] IA, US-CAFTA-DR, ex ante, 2004, 75.
[76] IA, USMCA, ex ante, 2019, 117.
[77] IA, EFTA-Thailand, ex ante, 2024, 26.
[78] IA, EUROMED, ex post, 2021, 20.
[79] IA, EFTA-Thailand, ex ante, 2024, 26.

Also, in the EFTA–MERCOSUR FTA, pharmaceuticals are of particular interest.[80] The CGE modelling results indicate that the pharmaceutical sector is expected to experience small but negative effects on employment and wages in the MERCOSUR countries, particularly in Argentina, while Switzerland is projected to benefit from positive changes in both jobs and wages. These outcomes arise from a complex and potentially non-linear interaction between trade flows, investment, technology transfer, and regulatory differences, which makes the precise magnitude and timing of impacts difficult to predict.

In Switzerland, real wages in chemicals and chemical products and in pharmaceutical and medicinal products are each projected to rise by nearly USD 70 million.[81] For MERCOSUR members, the modelling suggests negative effects in pharmaceuticals and medicinal products. This pattern reflects a reallocation of manufacturing activities toward Switzerland, alongside a shift of economic activity in MERCOSUR countries toward agriculture and services. Overall, pharmaceuticals emerge as the standout sector in the analysis, showing the largest positive impacts for Switzerland and the largest negative impacts for MERCOSUR countries in terms of both employment and wages.

Firm-Level Implications: SMEs

Strengthening cooperation in non-tariff barriers to trade in FTAs seems to furthermore generally increase the volume of trade, especially in sectors with more standards and for smaller firms.[82]

The EU-Chile IA argues that Small and Medium-Sized Enterprises (SMEs) could benefit from reduced non-tariff barriers, simplified rules of origin and increased regulatory cooperation.[83] The assessment notes that the overall quantitative impact is small due to the size of the Chilean market, but that SMEs would gain from the reduction of these non-tariff obstacles. In the context of Switzerland - whose commercial companies are 99% SMEs - this is particularly relevant.[84]

The same analysis shows that large companies benefit relatively more from FTAs when liberalisation is limited to tariffs, whereas SMEs benefit particularly when FTAs eliminate both tariffs and non-tariff barriers.[85]

Regulatory Cooperation and the Importance of International Standards

A stronger use of international standards in national regulation may even have a positive effect on developing-country exporters.[86] Overall, strengthening (technical) regulation can improve social, economic, and environmental outcomes, especially when business and civil society stakeholders are involved, and if the required resources and capabilities are available.[87]

Regulatory harmonisation – which is central to the reduction of non-tariff barriers – may require Switzerland to show flexibility with regard to applicable standards. Such flexibility is easier to realise in the bilateral context of an FTA than within the multilateral framework of the WTO.

This, in turn, implies that Switzerland has a strong interest in participating in regulatory fora concerned with international technical standards, such as the ISO standardisation organisation.

[80] IA, EFTA-MERCOSUR, ex ante social, 2025, 12.
[81] IA, EFTA-MERCOSUR, ex ante social, 2025, 12.
[82] Lefebvre, Fernandes & Rocha (2021).
[83] IA, EU-Chile Modernisation, ex ante, 2019, 26.
[84] Companies and Figures. State Secretariat for Economic Affairs, Small and Medium Sized Enterprise Portal, <https://www.kmu.admin.ch/kmu/en/home/concrete-know-how/facts-and-figures/figures-smes/companies-and-jobs.html>.
[85] IA, EU-Chile Modernisation, ex ante, 2019, 26.
[86] Sheperd, Ben, <https://www.iso.org/files/live/sites/isoorg/files/store/en/PUB100448.pdf>.
[87] De Marchi (2022), 88 ff.

Key Findings Section 2 – in English, Deutsch & Français

Section 2 shows that free trade agreements (FTAs) are consistently associated with positive but generally very small aggregate GDP effects, particularly for advanced economies such as Switzerland, the EU and the US, where gains are typically well below 1% due to already low tariff levels; somewhat larger, though still modest, effects occur in smaller or less diversified economies and in agreements that go beyond tariff reductions to address non-tariff barriers and regulatory alignment. The distribution of benefits is asymmetric across partners and agreement types: North–North agreements can generate higher gains when they involve deep regulatory cooperation, while North–South agreements often yield larger proportional gains for developing partners, albeit constrained by capacity and implementation limits. Wage effects are on average slightly positive but highly uneven, varying by sector, skill level and country, with agricultural and lower-skilled workers in some cases benefiting proportionally more than high-skilled workers, and emerging-market partners often experiencing larger relative gains. Overall, FTAs have their most significant economic impacts at the sectoral level, particularly in export-oriented and high-value industries, and their effectiveness depends critically on design: shallow, tariff-focused agreements mainly benefit large multinationals, whereas deeper FTAs that reduce non-tariff barriers, enhance regulatory cooperation and use international standards are more likely to deliver broader and more inclusive economic gains.

Abschnitt 2 zeigt, dass Freihandelsabkommen (FHA) zwar durchweg positive, aber im Allgemeinen sehr geringe Auswirkungen auf das gesamtwirtschaftliche BIP haben, insbesondere für fortgeschrittene Volkswirtschaften wie die Schweiz, die EU und die USA, wo die Zuwächse aufgrund bereits niedriger Zollsätze typischerweise deutlich unter 1% liegen. Etwas grössere, wenn auch immer noch moderate Effekte treten in kleineren oder weniger diversifizierten Volkswirtschaften und bei Abkommen auf, die über Zollsenkungen hinausgehen und nichttarifäre Handelshemmnisse sowie die Angleichung von Regulierungen angehen. Die Verteilung der Vorteile ist zwischen den Partnern und den verschiedenen Abkommenstypen asymmetrisch: Nord-Nord-Abkommen können höhere Zuwächse generieren, wenn sie eine enge regulatorische Zusammenarbeit beinhalten, während Nord-Süd-Abkommen oft prozentual höhere Zuwächse für Entwicklungsländer erzielen, wenngleich diese durch Kapazitäts- und Umsetzungsbeschränkungen begrenzt sind. Die Lohneffekte sind im Durchschnitt leicht positiv, aber sehr ungleichmässig und variieren je nach Sektor, Qualifikationsniveau und Land. Landwirtschaftliche und gering qualifizierte Arbeitskräfte profitieren in einigen Fällen prozentual stärker als hochqualifizierte Arbeitskräfte, und Schwellenländer erzielen oft relativ höhere Zuwächse. Insgesamt entfalten Freihandelsabkommen ihre bedeutendsten wirtschaftlichen Auswirkungen auf sektorieller Ebene, insbesondere in exportorientierten und margenstarken Branchen. Ihre Wirksamkeit hängt entscheidend von ihrer Ausgestaltung ab: Oberflächliche, auf Zölle fokussierte Abkommen kommen vor allem grossen multinationalen Unternehmen zugute, während umfassendere FHA, die nichttarifäre Handelshemmnisse abbauen, die regulatorische Zusammenarbeit verbessern und internationale Standards anwenden, eher zu breiteren und integrativeren wirtschaftlichen Vorteilen führen.

La section 2 montre que les accords de libre-échange (ALE) sont systématiquement associés à des effets positifs, mais généralement très faibles, sur le PIB agrégé, en particulier pour les économies avancées comme la Suisse, l'UE et les États-Unis, où les gains sont généralement bien inférieurs à 1% en raison de niveaux tarifaires déjà bas. Des effets légèrement plus importants, quoique toujours modestes, sont observés dans les économies plus petites ou moins diversifiées et dans les accords qui vont au-delà des réductions tarifaires pour s'attaquer aux barrières non tarifaires et à l'harmonisation réglementaire. La répartition des avantages est asymétrique selon les partenaires et les types d'accords : les accords Nord-Nord peuvent générer des gains plus importants lorsqu'ils impliquent une coopération réglementaire approfondie, tandis que les accords Nord-Sud produisent souvent des gains proportionnellement plus importants pour les pays en développement, malgré les limites de capacité et de mise en œuvre. Les effets sur les salaires sont en moyenne légèrement positifs, mais très inégaux, variant selon le secteur, le niveau de qualification et le pays. Les travailleurs agricoles et peu qualifiés bénéficient parfois proportionnellement davantage des accords que les travailleurs hautement qualifiés, et les pays émergents enregistrent souvent des gains relatifs plus importants. De manière générale, les ALE ont leurs impacts économiques les plus importants au niveau sectoriel, notamment dans les industries tournées vers l'exportation et à forte valeur ajoutée, et leur efficacité dépend crucialement de leur conception : les accords superficiels, axés sur les tarifs douaniers, profitent principalement aux grandes multinationales, tandis que les ALE plus approfondis qui réduisent les barrières non tarifaires, renforcent la coopération réglementaire et utilisent les normes internationales sont plus susceptibles de générer des gains économiques plus larges et plus inclusifs.

3. Labour Market, Social and Environmental Effects of FTAs

Next to the positive economic impacts associated with FTAs, they are increasingly also associated with more specific labour market adjustment, social, and environmental concerns. Economic growth has long been associated with rising greenhouse gas emissions and environmental degradation, including through deforestation, pollution, and more. In the past few years, however, some countries have started to exhibit an absolute, some others a relative dissociation of economic growth and greenhouse gas emissions, i.e., economic growth appears possible with an absolute lowering of greenhouse gas emissions.[88] The same cannot be said overall in regards to broader environmental concerns – e.g., of biodiversity – where neither national accounting, nor policies or overall development point in the right direction.[89] At the same time, socially unsustainable outcomes and behaviours continue, too, ranging from modern human rights abuses, inequality and precariousness – with child labour and forced labour as only the tip of the iceberg.

To what extent FTAs amplify, reinforce or reduce such negative effects of economic production remains contested, at least in part due to challenges in clearly differentiating their origin and drivers. On the one hand, it is often difficult to clearly isolate a causal link between an FTA and a particular negative effect of production. On the other hand, it is furthermore difficult to assess whether the negative effect occurred due to the FTA or insufficient domestic standards. For example, trade in timber may increase following the implementation of an FTA. This increase itself could, however, also occur independent of an FTA. If the increase of trade in timber also coincides with an increase in deforestation, it is still possible that such deforestation is entirely detached from the FTA. Tying a specific FTA to specific negative effects of production therewith constitutes a tremendous analytical challenge and may at times not be doable beyond a doubt. Clearly, as we can show from data in impact assessments and case-studies, the negative effects of trade liberalisation – more broadly than individual FTAs – for labour markets, society, and the environment do exist. For policymakers and trade agreement negotiators, the distinction between whether FTAs lie at the origin of negative and positive effects or whether they amplify or reinforce pre-existing patterns is important. If they are at the origin, FTAs themselves may be the problem. If, on the other hand, a sector associated with negative labour or environmental characteristics grows due to an FTA, the FTA amplifies these outcomes based on pre-existing structures. The differentiation into “FTA-originated" and “FTA-amplified” matters, as it affects what policy avenues exist to address any potential adverse effects.

The analysis in this section draws on our database of impact assessments and on selected case studies concerning labour-market structures, working conditions, and environmental protection. The relevant areas of concern are identified, allowing the connection between specific provisions in FTAs and social or environmental risks to be addressed.

With regard to external impacts, the study considers the data points that are typically assessed in impact assessments and summarises them in a concise and comparative manner.

In addition to a literature review and selected case-studies, this chapter synthesises the information contained in the ex post evaluations provided in the dataset, which include EU and US impact assessments, while the underlying FTAs themselves cover partner countries in both the Global North and the Global South. Ex post evaluations form the analytical core, as they provide evidence of actual observed

[88] IEA, The relationship between growth in GDP and CO2 has loosened; it needs to be cut completely, 2024, <https://www.iea.org/commentaries/the-relationship-between-growth-in-gdp-and-co2-has-loosened-it-needs-to-be-cut-completely>.

[89] OECD, Biodiversity, Natural Capital and the Economy: A Policy Guide for Finance, Economic and Environment Ministers, Environment Policy Paper No. 26, Policy Perspectives, 2021, <https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/05/biodiversity-natural-capital-and-the-economy_940af1d4/1a1ae114-en.pdf>.

impacts of FTAs on labour markets, working conditions, and environmental outcomes. This analysis allows identifying the relevant areas of concern.

The analysis covers the following agreements: EU–Chile FTA; EU–Andean Agreement (Colombia, Peru, Ecuador); EU–Korea FTA; Euro–Med Association Agreements (Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia); US–Colombia FTA; NAFTA/USMCA; US–Peru FTA; EFTA–Thailand FTA; EFTA–MERCOSUR FTA.

Oftentimes, the areas analysed in this section – labour-market structures, working conditions, climate and environmental protection – are only indirectly shaped by the provisions contained in the FTAs covered by the dataset.[90] This is because many of the agreements examined are earlier-generation FTAs, which do not yet include comprehensive social, labour, or environmental chapters.

By contrast, newer FTAs – such as the EU's and EFTA's new-generation agreements – now contain explicit Trade and Sustainable Development (TSD) chapters and more detailed sustainability provisions. However, for this newer generation of FTAs, no comprehensive *ex post* evaluations are available yet, as most of them entered into force only recently. The evidence base therefore remains largely limited to earlier agreements with narrower sustainability scopes.

Among the FTAs analysed in this section, dedicated sustainability obligations exist only in a limited number of cases – most notably in the EU–Andean Agreement, the US–Peru PTPA (via its Forestry Annex), and, for labour rights, in the USMCA. These provisions are therefore considered where applicable.

For the remaining FTAs, which do not contain explicit sustainability chapters, any sustainability-related effects identified in the existing evaluations therefore follow only indirectly from the FTAs – emerging through the economic and sectoral changes triggered by market liberalisation, rather than through targeted sustainability obligations. Given this indirect causal structure and the methodological challenges inherent in impact evaluation, isolating the specific contribution of FTAs to social or environmental developments remains oftentimes difficult.

Since our analysis is based on existing data, particularly in *ex ante* and *ex post* impact assessments and individual case-studies, it is noteworthy that existing data tends to not specifically address the negative impacts of FTAs on global North markets. Instead, the focus of research in the social, labour market, and environmental effects of FTAs lies heavily on global South economies. In parts, this may be due to the fact that markets that undertake an impact assessment and pay for research on the negative effects of trade liberalisation are typically and so far global North countries. One important consequence is that we lack extensive data on the effects of FTAs on Switzerland, the EU, or the US. We therefore recommend revising the scope and purpose of impact assessments, as explained in detail in the conclusion.[91]

a. Effects on Labour Market Structures

Across all agreements in the impact assessment dataset, labour-market effects arise indirectly from the changes in output and trade patterns generated by the FTAs. Because most of the agreements analysed in this section do not contain labour provisions, observed developments reflect sectoral expansion or contraction following liberalisation rather than effects of (new) regulatory obligations.

Impact assessments repeatedly confirm that:

- aggregate employment changes are very small,
- sector-specific impacts do occur,

[90] IA, EUROMED, ex post, 2021, 319.

[91] See chapter 6 of this study, Conclusion and Key Findings.

- and some distributional outcomes cannot be unambiguously attributed to the FTA, especially where strong pre-existing structural inequalities exist.

Generally, compared to the EU and the US, the impact assessments for EFTA/Switzerland provide little information on the EFTA effects in the national labour markets. Of all the Swiss impact assessments in our database, the most recent EFTA–MERCOSUR FTA ex ante social impact assessment provides most details. Findings suggest that Switzerland is likely to see increases in real wages (with a peak of 0.17% for agricultural and unskilled workers) across all sectors, with machinery operators in industrial sectors and agricultural workers benefitting the most. In terms of real gross wage payments (0.08% increase on average), chemicals, pharmaceuticals, machinery and equipment, warehousing services, and government services are expected to benefit, while the FTA is likely to reduce real gross wage payments in non-ferrous metals, finance and insurance services, business services, as well as real estate services. It is furthermore estimated that men in the manufacturing industry benefit from the FTA, while women in the services sector are, with a decrease in employment of 0.12%, negatively impacted.[92]

The EFTA–Thailand FTA ex ante impact assessment mentions that there would be positive effects for both Switzerland and Thailand. Specifically, employment changes are noted, with the employment of unskilled labour growing by 0.04% in Thailand and by 0.03% in Switzerland.[93] The EFTA–Thailand FTA ex ante impact assessment observes furthermore that Thai wages and labour standards are likely to increase with the signing of the FTA. However, the assessment made no mention of how the FTA would impact wages for EFTA or Swiss workers.[94]

For the EU and the US, North-South FTAs generally have minimal impact on their domestic labour markets. Interestingly, US FTAs created nearly 160,000 jobs in various sectors.[95] Regarding specific sectoral effects of FTAs, Baldwin et al. (2024) found that the EU was more likely to carry out a sectoral analysis if it had a comparative advantage in the sector, and less likely if the trading partner had a comparative advantage.[96] The probability of conducting a sectoral analysis increases by 2% when the EU has a Revealed Comparative Advantage (RCA), while it decreases by 3.6% when at least one of its partner countries has an RCA. The US, on the other hand, is less likely to conduct a sectoral analysis if it has a comparative advantage.

Findings in ex post Assessments

In the EU and the US, ex post impact assessments show very small overall employment effects.[97] For example, the employment impact of the EU–Chile FTA is described as "very limited",[98] and NAFTA's net effect is estimated at around +0.1%,[99] indicating negligible economy-wide change.

Instead, the main adjustments occur as sectoral reallocations, mirroring changes in value added and production.[100] Under the EU–South Korea FTA, model results for the EU indicate that between its provisional application in 2011 and 2019, the FTA led to employment increases in machinery and equipment manufacturing of approximately +40,000 jobs (to an overall employment of 11,873,000 jobs in 2019, i.e. +0.34%), in agriculture of approximately +12,000 jobs (to an overall employment of 6,049,000 jobs in 2019, i.e. +0.19%), and in processed food of approximately +3,000 jobs (to an overall employment of 6,805,000 jobs in 2019, i.e. +0.7%). During the same period, the FTA led to employment reductions in European business services of approximately –29,000 jobs (to an overall employment of

[92] IA, EFTA-MERCOSUR, ex ante social, 2025.
[93] IA, EFTA-Thailand, ex ante, 2024, 55.
[94] IA, EFTA-Thailand, ex ante, 2024, 69.
[95] General IA, ex post, 2016, USITC, 124.
[96] Baldwin, Donato & Reverdy (2024), 585.
[97] See: IA, EU-Chile, ex post, 2012, 218; IA, EUROMED, ex post, 2021, 319; IA, EU-Andean, ex post, 2022, 88 ff.; IA, EU-Korea, ex post, 2018, 202, for more details: see table on page 203; General IA, ex post, 2016, USITC, 21.
[98] IA, EU-Chile, ex post, 2012, 218.
[99] General IA, ex post, 2016, USITC, 21.
[100] IA, EU-Korea, ex post, 2018, 202, General IA, ex post, 2016, USITC, 258.

35,566,000 jobs in 2019, i.e. -0.081%).[101] Similarly, under NAFTA, some US industries show slight increases while others experience modest declines, but without substantial aggregate shifts in employment shares.[102] Overall, the FTA-related labour market adjustments in EU/US economies remain contained, reflecting both diversified labour markets and strong domestic adjustment mechanisms.

Aggregate impacts of FTAs on labour-market inequalities differ substantially between the EU and the US. In the EU, observed effects are small and limited to narrow sectors – such as slight gains for women-led exports under the EU–Andean FTA – without indications of broader regional or gendered disruptions.[103] By contrast, the US show clear distributional impacts under NAFTA: married women with low education experienced sharply reduced wage growth (–18% to –33%),[104] and tariff-exposed regions in the South and Midwest saw reinforced manufacturing employment declines, higher unemployment and non-participation among workers aged 35–65, and out-migration of less-skilled workers.[105] These significant gender- and region-specific adjustment pressures in the US are clearly associated with NAFTA and have not to this extent been observed in association with other US FTAs.

Identified adverse effects:

- Sector-specific adjustment pressures (low impacts in the EU; low-moderate impacts in the US): Impacts are observed mainly in sectors that contract (e.g. business services under EU–Korea FTA). These pressures are limited in scale but relevant for affected regions.
- Regional exposure impacts (very low impact in the EU, moderate and locally high in the US): Regions heavily specialised in declining sectors may face short-term pressures, though national-level impacts remain small.
- Gender-differentiated adjustment impacts (minimal in the EU; moderate in the US): EU evidence shows only small and sector-specific effects. However, in the US, married women with low education face disproportionately negative wage impacts under NAFTA.

Global North Trading Partner

Korea's experience under the EU–Korea FTA shows more pronounced sectoral adjustments than those observed in the EU. Employment declines in agriculture (approx. –10'000 jobs) and increases in the automotive sector (approx. +29'000 jobs), indicating a clear shift in labour demand.[106] The displacement index (0.28) – more than double the EU's (0.11) – confirms that Korea faces stronger structural change, even though total employment effects remain limited.[107]

In addition to these employment shifts, the evaluation finds minor but positive wage effects. Real wages in Korea increase by approximately 0.6%, a gain that exceeds the average wage effect in the EU.[108] The impact assessment does not identify gender, skill, or distributional inequalities resulting from the FTA.[109]

Identified adverse effects:

- Adjustment burdens in declining sectors (moderate): Agricultural workers face relatively stronger pressures due to contraction in domestic production.

[101] IA, EU-Korea, ex post, 2018, 202 f.
[102] General IA, ex post, 2016, USITC, 258.
[103] IA, EU-Andean, ex post, 2022, 99 ff.
[104] General IA, ex post, 2016, USITC, 206.
[105] General IA, ex post, 2016, USITC, 205 f.
[106] IA, EU-Korea, ex post, 2018, 202 f.
[107] IA, EU-Korea, ex post, 2018, 202.
[108] IA, EU-Korea, ex post, 2018, 200.
[109] IA, EU-Korea, ex post, 2018, 204 ff.

Global South Trading partners

Ex post evaluations for global South partners identify sector-specific adjustment effects, though their nature differs across countries. In Chile, the EU–Chile FTA contributed to higher employment in export-oriented agriculture (fruits, wine) and fisheries, while some industrial sectors such as machinery contracted, even though these FTA-originated reallocations explain only a small share of Chile's overall structural change.[110] In the Southern Mediterranean countries, CGE simulations likewise show sectoral output shifts, with textiles, clothing, and leather expanding and chemicals, rubber, and plastics shrinking, indicating FTA-related adjustment at the sector level rather than large aggregate labour-market changes.[111]

Ex post evaluations show that export-oriented sectors expand after FTA implementation, and employment increases in those sectors can be attributed to the agreement.[112] In Chile, the EU–Chile FTA leads to clear employment gains in export agriculture and fisheries (fruits, wine, aquaculture).[113] These gains are unevenly distributed, as larger producers capture most of the benefits. This concentration reflects pre-existing structural barriers faced by small farmers rather than an effect created by the FTA. In the Andean countries, FTA-amplified export growth also generates employment increases, but the pattern is more broadly shared: Colombia records gains in fruits, vegetables, and bananas; Ecuador in fruits, nuts, and fisheries; and Peru in fruits and vegetables.[114]

The sectors that expand after the FTA – particularly export agriculture and related processing activities – are typically low-skill intensive, meaning that FTA-related job growth occurs primarily within segments that were already dominated by low-skilled labour.[115] In Chile, high- and medium-skilled wages declined slightly (–0.3% and –0.4%), while low-skilled workers recorded small gains (+0.3%).[116]

Ex post impact assessments show small but heterogeneous wage effects. In Chile, wage changes were modest and differed by worker category,[117] while in Mexico, manufacturing wages remained persistently low, with no convergence towards US levels under NAFTA.[118] In the Southern Mediterranean countries, wage impacts were generally positive but limited (<1%), except in Tunisia, where wages increased by more than 3%.[119] However, the impact assessments clearly state that low wages, limited mobility, and informality are structural characteristics of these sectors and cannot be attributed to the FTA itself. The FTA may increase the scale of employment in these segments, thereby reinforcing existing patterns.

The ex post impact assessments identify no generalised gender-inequality effects, but rather country-specific patterns shaped by existing labour-market structures. In Chile, FTA-amplified expansion in export agriculture and fisheries increased female employment primarily in seasonal and temporary jobs.[120] These forms of work often require women to migrate seasonally, which has documented negative consequences for children's health and schooling, and these jobs are characterised by poor sanitary facilities, limited stability, and demanding working conditions.[121] These vulnerabilities are structural and not caused by the FTA, but the FTA enlarges the number of women exposed to them by expanding the sectors where women are predominantly employed.

[110] IA, EU-Chile, ex post, 2012, 212 f.
[111] IA, EU-Andean, ex post, 2022, 24.
[112] IA, EU-Andean, ex post, 2022, 24.
[113] IA, EU-Chile, ex post, 2012, 212 f.
[114] IA, EU-Andean, ex post, 2022, 92 f.
[115] IA, EU-Andean, ex post, 2022, 100; IA, EU-Chile, ex post, 2012, 188 ff.
[116] IA, EU-Chile, ex post, 2012, 218.
[117] IA, EU-Chile, ex post, 2012, 218.
[118] General IA, ex post, 2021, USITC, 149 f.
[119] IA, EUROMED, ex post, 2021, 17.
[120] IA, EU-Chile, ex post, 2012, 202.
[121] IA, EU-Chile, ex post, 2012, 202 ff.

In the Andean countries, the impact assessments show that men benefit more from the FTA, as most FTA-originated employment gains occur in agriculture, fisheries, and other export sectors that are predominantly male-dominated, while the sectors where women are concentrated – such as services and retail – experience little to no FTA-related change, aside from small positive effects in Peru's retail sector.[122] For the Euro-Med partners, the evaluations include a dedicated case study on female employment in the agricultural sector, which finds no consistent FTA-related gender effects: some countries (e.g., Morocco, Egypt) show small increases in female agricultural employment, but these shifts cannot be causally linked to the FTA, while declines observed in Algeria, Jordan, Lebanon, and Tunisia stem from domestic structural and policy factors rather than the FTA.[123]

There are also some impacts on vulnerable groups and informality. In Chile, aquaculture expansion created negative effects for small-scale fishermen and the tourism sector due to environmental externalities and rising coastal land prices.[124] In the Andean countries, some positive impacts were found. FTA-amplified job creation occurred mainly in agriculture in poor rural areas, with limited impacts on migrants, youth, persons with disabilities, and Indigenous peoples. In Peru, agricultural growth benefited 22.5% of youth and 7% of persons with disabilities working in agriculture, while effects in Colombia and Ecuador were mixed or very small.[125]

In Chile, agricultural expansion enabled some women to leave informal employment.[126] In the Andean countries, effects on informality are limited and sector-specific: expanding sectors in Colombia and Peru were already in low-informality regions, structurally informal sectors (e.g. palm oil, textiles/garments) show no formalisation, and in Ecuador trends are indeterminate, shaped more by macroeconomic shocks than the FTA.[127]

Identified adverse effects:

- Distributional inequality (moderate; FTA-amplified): Export growth driven by the FTA benefits large producers; small farmers' limited gains arise from structural constraints, not the FTA alone.
- Gendered vulnerability (moderate; FTA-amplified): The FTA increases employment in female-dominated seasonal sectors; the risk exposure rises because these sectors expand, but poor conditions pre-date the FTA.
- Entrenchment of labour-market segmentation (moderate, FTA-originated): FTA-originated job growth mainly in low-skill, labour-intensive sectors, while some higher-skill industrial segments contract.
- Wage stagnation and informality in low-skill labour (moderate; partly FTA-originated): A larger share of employment occurs in segments where informality, limited wage progress, and low job quality were already structural characteristics.
- Job losses in import-sensitive industries (low to moderate; FTA-originated): Some declines can be attributed to shifts in trade patterns following liberalisation.
- Environmental-social conflict impacts (low to moderate: FTA-amplified through expansion): In Chile, the expansion of aquaculture has already produced local conflicts with small-scale fishermen and coastal communities due to environmental externalities and pressures on coastal land.

[122] IA, EU-Chile, ex post, 2012, 212.
[123] IA, EUROMED, ex post, 2021, 338 ff.
[124] IA, EU-Chile, ex post, 2012, 209.
[125] IA, EU-Andean, ex post, 2022, 93 ff.
[126] IA, EU-Chile, ex post, 2012, 204.
[127] IA, EU-Andean, ex post, 2022, 94 ff.

b. Effects on Working Conditions

Ex post impact assessments for the EU, the US, and South Korea consistently find no detectable effects of FTAs on working conditions. Job quality in high-income economies – wages, hours, occupational safety and health (OSH) outcomes, enforcement, and contractual protections – remains determined by domestic labour legislation and regulatory capacity, not by FTA provisions.[128]

Because no FTA-originated improvements or deteriorations are observed in these economies, and FTA labour provisions (where they exist) did not have any discernible workplace effect, the analysis of working-condition impacts necessarily focuses on global South trading partners.

Across global South FTAs, working-condition outcomes emerge via two distinct channels:

1. Direct, provision-based effects of labour and TSD chapters, which can strengthen enforcement capacity (e.g. inspections, child-labour control, due-diligence cooperation).
2. Indirect effects via sector expansion, where FTAs increase output and employment in sectors that already exhibit poor working conditions (informality, OSH gaps, low wages, weak contractual protection).

Across all FTAs analysed in this section, changes in working conditions arise primarily indirectly through the expansion or contraction of specific sectors.[129] Those sectors – particularly export agriculture, fisheries, aquaculture, and agro-processing already exhibit:[130]

- high informality,
- seasonal and temporary employment,
- weak OSH practices,
- pesticide and chemical exposure,
- limited social protection,
- subcontracting and unstable income patterns.

These features are consistently described as structural, not FTA-originated.[131] The FTAs do not create these issues; they increase the number of workers exposed to them by expanding these industries.[132]

Direct provision-based effects are rare. The only clear example is found in some US FTAs with Latin American partners, where labour provisions (e.g. under NAALC and its successors) prompted increases in labour-inspection resources and activities. Mexico is the exception, showing no detectable enforcement effects.[133] Outside this case, labour provisions in EU FTAs – particularly TSD chapters – produce only modest institutional support (e.g. EU-funded inspection or OSH projects) without changing job quality on the ground. These outcomes relate specifically to labour-law enforcement capacity, not to wages, OSH outcomes or contractual protections.

In Chile, the EU–Chile FTA stimulated growth in fruits, wine, seafood, and salmon farming, leading to more employment but in sectors marked by informality, weak OSH practices, pesticide exposure, and unstable contracts.[134] As mentioned above, in agriculture, women often work under short-term arrangements with long commutes, poor sanitation, and seasonal migration that affects children's education and health. In the salmon industry, low wages, unpaid overtime, and safety violations persist despite some gradual improvements. These conditions pre-date the FTA; the FTA increases exposure but not severity.[135]

[128] See e.g. General IA, ex post, 2021, USITC, 208.
[129] IA, EU-Chile, ex post, 2012, 204 f.; IA, EU-Andean, ex post, 2022, 118 ff., General IA, ex post, 2021, USITC, 209.
[130] IA, EU-Chile, ex post, 2012, 204 f.; IA, EU-Andean, ex post, 2022, 118 ff.
[131] IA, EU-Chile, ex post, 2012, 204 f.; IA, EU-Andean, ex post, 2022, 118 ff.; General IA, ex post, 2021, USITC, 209.
[132] IA, EU-Chile, ex post, 2012, 204 f.; IA, EU-Andean, ex post, 2022, 118 ff.; General IA, ex post, 2021, USITC, 209.
[133] IA, EU-Andean, ex post, 2022, 120 f.
[134] IA, EU-Chile, ex post, 2012, 204 f.
[135] IA, EU-Chile, ex post, 2012, 204 f.

In the Andean countries, job creation occurs in agriculture, food processing, and textiles – sectors where informality, subcontracting, and weak enforcement are longstanding problems.[136] The FTA contributes little directly to job quality, though TSD cooperation supports labour inspection and OSH initiatives in Colombia and Peru and encourages corporate social responsibility (CSR) and certification schemes in flowers, bananas, cotton, and fisheries.[137] However, these improvements remain limited and do not alter structural patterns such as temporary contracting in Peruvian agriculture.

In the Southern Mediterranean countries, working-condition effects are generally neutral or mildly positive. Some improvements appear in firms integrated into EU supply chains due to buyer requirements, not FTA obligations.[138]

Child and forced labour dynamics follow a similar pattern. In the Andean region, child labour declined significantly due to domestic enforcement efforts supported indirectly by EU-funded projects and by increased formal adult employment in export sectors.[139] Forced labour persisted mainly in informal or illegal activities such as mining and logging, not in FTA-related export industries. FTAs do not increase forced-labour risks; at most, TSD cooperation supports due-diligence efforts to prevent illegally logged timber from entering EU supply chains.[140]

The key finding is that job quality itself remains largely structural: FTAs do not create informality, OSH risks, or low wages, but can scale up the number of workers affected by them, while labour provisions can modestly improve enforcement in some cases.[141]

Identified adverse effects:

- Expansion of employment in low-quality sectors (moderate; FTA-amplified, not FTA-caused): The conditions are structural. The FTA increases exposure by increasing the number of workers in these sectors.
- Gendered vulnerability (moderate; partly FTA-originated): Women are concentrated in seasonal and low-paid roles in agriculture and fisheries. The FTA expands these sectors, thereby increasing the number of women exposed to OSH gaps, unpaid overtime, and informal work.
- Persistence of informality and wage stagnation (moderate; FTA-amplified): Informality, low wages and limited mobility are structural features of export agriculture and agro-processing. The FTA does not create these conditions but reinforces their prevalence by scaling up employment in the affected sectors.
- Health and safety risks (moderate; FTA-amplified): Pesticide exposure, sanitation gaps, and repetitive-task injuries continue. These issues are not FTA-originated, but the FTA increases the population exposed to them.

c. Additional Evidence: FTA Effects on Labour

Structural labour adjustment invariably follows trade liberalization and prompts the reallocation of resources from less competitive import-competing sectors to more productive, often export-oriented sectors.[142] This transition is necessary to gain the benefits of trade, but it involves distributional costs

[136] IA, EU-Andean, ex post, 2022, 118 ff.
[137] IA, EU-Andean, ex post, 2022, 120 f.
[138] IA, EUROMED, ex post, 2021, 22.
[139] IA, EU-Andean, ex post, 2022, 104 f.
[140] IA, EU-Andean, ex post, 2022, 106 f.
[141] IA, EU-Chile, ex post, 2012, 204 f.; IA, EU-Andean, ex post, 2022, 118 ff., General IA, ex post, 2021, USITC, p. 209.
[142] See Melitz (2003), 1695 ff.

for certain sectors and workers, including job losses and wage declines. Overall, the aggregate employment effects of trade agreements or trade liberalization may not be significant, as noted in the findings of IAs, but local impacts of trade shocks are more noticeable and long-lasting.

McLaren and Hokobyan (2016) show that NAFTA had small aggregate employment effects in the US, but its distributional impacts mainly affected blue-collar workers employed in industries exposed to low-wage NAFTA imports from Mexico, such as textiles and footwear, in the form of slower wage growth.[143] Earlier, Trefler (2004) studied the impact of the Canada-US FTA, involving two advanced economies, and observed that the agreement generated large short-term adjustment costs in industries facing the deepest tariff cuts in Canada, as employment fell sharply and low-productivity plants contracted or exited. In the long run, however, these industries experienced substantial productivity improvements.[144]

More recent literature has focused on studying the distributional impact of low-wage imports from China on advanced economies (China shock), following its accession to the WTO in 2001. Autor et al. (2013) observed a persistent, long-term, adverse impact, especially on the US manufacturing workers, who were exposed to import competition from low-cost Chinese imports.[145] Acemoglu et. al. (2016) estimated that between 1999 and 2011, around 985'000 manufacturing jobs were lost directly due to trade exposure in the US, while inter-industry linkages led to a total of 2 million job losses across the broader economy.[146] Notably, earnings losses and longer spells of unemployment were borne by low-skilled workers, compared to workers with higher skills, due to their limited potential to reallocate, and they had to depend on government transfers (e.g., adjustment assistance, unemployment insurance) to compensate for job losses and wage declines.[147]

Compared to the US, other advanced economies also experienced distributional costs due to the China shock, but the costs were lower. In countries like Canada and Australia, the job losses in the trade-exposed regions were offset to some extent by the job gains in the non-exposed, non-tradable industries and the service sector.[148] Similar trends were also visible in the EU countries. In Spain, for example, the job losses in the manufacturing sector were compensated by additional employment opportunities in the expanded construction sector (and construction-related services sector).[149] The distributional outcomes were found to be more positive in Nordic countries due to robust labour market institutions. Balsvik et al. (2014) observed that the robust social security system, centralised wage bargaining system, and flexible labour markets resulted in limited impact on the earnings and wages of workers in Norway.[150] In Germany and Switzerland, the employment losses were offset by calibrating their exports and through a more balanced trade with China.[151]

In the context of developing economies, the labour adjustment pattern following trade liberalisation is shaped largely by the extent of informality. Informally employed workers do not enjoy formal employment relationships, remain largely outside the scope of various social safety nets, and are less productive due to a lack of formal education, skill development, and training. Most economic studies indicate an increase in informality in regions and industries exposed to increased import competition following tariff cuts.[152] Notably, due to a lack of regulation, the informal sector acts as an alternative

[143] Notably, the losses were concentrated among less-educated workers, compared to college-educated workers, see Hakobyan (2016), 728 ff.
[144] Trefler (2004), 870 ff.
[145] Autor, Dorn, & Hanson (2013), 2121 ff.
[146] Acemoglu, Autor, Dorn, Hanson & Price (2016), 145.
[147] Autor, Dorn & Hanson (2016), 205 ff.
[148] For findings on Canada, see Kim (2018); For findings in relation to Australia, see Xiao (2024), 135 ff.
[149] Donoso, Martin & Minondo (2014), 1762 f.
[150] See Balsvik, Jensen, & Salvanes (2015), 137 ff.
[151] Dorn & Levell (2024), 2.
[152] See Dix-Carneiro & Kovak (2017), 2908 ff.

employment opportunity for workers who are displaced from formal jobs. Post-implementation of NAFTA (coinciding with the peso crisis), informal employment in Mexico increased substantially. In the absence of an increase in manufacturing jobs to offset job losses, workers displaced from the agricultural sector reallocated mostly to the low-paying, informal roles in the service sector.[153]

The effect of tariff cuts and increased import competition in developing economies is localised and heterogeneous, depending on the extent of exposure to exports and imports. McCaig & Pavcnik (2011) find that the US–Vietnam FTA in 2001 provided Vietnam an increased access to US markets, and as a result, the provinces with a higher concentration of export firms witnessed an increase in formal employment in the manufacturing sector by attracting informal workers from the agricultural sector.[154] The labour adjustment in developing economies is often constrained due to rigidities in the local labour market or the need for industry-specific skills.[155] Notably, several studies indicate that low-skilled workers, contrary to standard economic theory, bear higher adjustment costs due to limited mobility and imperfect skill transferability across sectors.[156] Following a trade shock, these workers either continue to stay in, or switch to, the informal sector, which acts as an 'employment' buffer instead of a 'welfare' buffer.

Overall, the distributional impact of trade agreements is context-specific depending on the level of development, local labour market conditions, extent of informality, skill profile of workers, etc.

However, the studies indicate certain common trends in the labour adjustment pattern:

- The distributional impact is largely local and depends on the exposure of a particular industry or region to the extent of tariff cuts.
- Local labour market conditions play an important role in shaping the adjustment pattern (e.g., informality as employment buffer).
- If the adjustment costs are not effectively addressed, they may be long-lasting and adversely affect the expected gains from trade. These findings may be useful for policymakers in designing appropriate labour market policies to deal with adjustment-linked challenges that are likely to follow once a trade agreement is implemented.

d. Effects on Climate and Environmental Protection

Baldwin et al. (2024) observed a growing number of environmental indicators in impact assessments. They posit that it indicates either growing interest in environmental issues or more protection from the EU/US.[157] Interestingly, the environmental goods sector indicators were examined under environmental rather than economic indicators. Baldwin et al. (2024) also observed that for the EU, the agriculture sector had the highest number of environmental indicators investigated, while in the US, the services sector examined the highest number of environmental indicators. While both blocks take environmental protection seriously in FTAs, they pursue a different approach.

Generally, in the specific case of greenhouse gas emissions, several mechanisms must be considered.[158] First, the expansion of economic activity – including increased transportation of goods – has direct scale effects on emissions. These are typically quantified by applying sector-specific emission coefficients to simulated output changes in the FTA versus the counterfactual scenario.[159] The resulting effect is ambiguous a priori, because FTAs also induce composition effects: by reallocating production toward more efficient and potentially less polluting sectors, FTAs may be able to reduce reliance

[153] See Polasky (2004); See also, Binelli (2016), 1 ff.
[154] McCaig & Pavcnik (2018), 1899 ff.
[155] Goldberg & Pavcnik (2007), 39 ff.
[156] See Topalova (2007); See also, Dix-Carneiro & Kovak, *supra* note, at 172.
[157] Baldwin, Donato & Reverdy (2024), 574.
[158] IA, EU-Korea, ex post, 2018, 252 ff.
[159] IA, EU-Korea, ex post, 2018, 252 ff.

on emission-intensive producers in third countries. Trade diversion away from more polluting suppliers (e.g. China or the US in the EU–Korea FTA context) may therefore lower global emissions even when domestic output expands. The adverse version is also plausible where economic activity is reduced in the less-polluting location and increased in the more-polluting location, e.g., due to lower costs in the more polluting location. This is called the "pollution haven hypothesis" and has been modeled theoretically and found to exist empirically, e.g., in the case of trade between countries of unequal development levels, such as NAFTA.[160] Second, FTAs may interact with environmental policies more broadly, including through channels captured by the Environmental Kuznets Curve (EKC).[161] As income levels rise, countries may tighten environmental standards, invest in cleaner technologies, and shift towards greener production, potentially offsetting the scale effects associated with trade-induced growth.

Discussions are ongoing over what the causal drivers of such EKCs may be for different pollutants and whether EKCs even exist – including whether rising pollution is a necessary component of growth or only a historical pattern that could be avoided without reducing growth, e.g., through technology-transfer and technical assistance, emission-reducing policies unrelated to growth, or other.[162]

A third mechanism concerns market-driven abatement incentives.[163] Firms with inefficiently high fossil-fuel use face higher energy costs and become less competitive when trade barriers fall. Increased import competition can therefore drive inefficient and emission-intensive firms out of the market, while more efficient and cleaner exporters expand their market share. Empirical evidence confirms that exporting firms tend to be cleaner than non-exporting ones, and that when their share in total production rises, overall emissions fall through a combination of composition and technique effects. As economies grow richer, they are also more likely to invest in abatement and cleaner technologies, reinforcing these dynamics.

Across all FTAs analysed in this section, environmental outcomes arise indirectly from the sectoral and trade-structure changes triggered by liberalisation rather than from regulatory obligations contained in the agreements. Most FTAs examined here do not include binding environmental provisions, and where such provisions do exist – as in the forestry-related commitments under the US–Peru FTA – the evaluations highlight institutional improvements that generated modest positive effects over the subsequent years, though broader environmental outcomes generally remained constrained by pre-existing structural obstacles.[164]

The ex post studies consistently emphasise that domestic environmental policy, regulatory enforcement, and global market dynamics remain the primary determinants of ecological outcomes. Therefore, FTA-originated environmental effects generally manifest as scale effects linked to higher output and transport volumes, composition effects arising from changes in the mix of traded goods, or technique effects driven by efficiency gains, rather than as direct consequences of trade rules.

EU and US impact assessments find that the environmental consequences of FTAs are very small. For the EU–Chile FTA, the only notable effect was an increase in transport-related emissions from additional air-freighted fish products.[165] Under the EU–Korea FTA, EU emissions fell slightly, and global

[160] Felbermayr, G., Peterson, S., Wanner, J., The impact of trade and trade policy on the environment and the climate: A review, ifw Kiel Institute for the World Economy, Working Paper No. 2233, 2022: <https://www.kiel-institut.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/741e1485-7372-47e7-b9d1-705dcca306bc-KWP_2233.pdf>.

[161] IA, EU-Korea, ex post, 2018, 252 ff.

[162] UNCTAD, The low-carbon transition and its daunting implications for structural transformation, The Least Developed Countries Report, 2022: <https://unctad.org/system/files/official-document/ldc2022_en.pdf>.

[163] IA, EU-Korea, ex post, 2018, 252 ff.

[164] General IA, ex post, 2021, USITC, 139 ff.

[165] IA, EU-Chile, ex post, 2012, 180 f.

emissions decreased due to trade diversion towards less carbon-intensive suppliers.[166] The EUROMED FTA likewise had negligible impacts, with EU emissions rising by less than 0.1%.[167] In the context of NAFTA, no increase in emissions occurs in the US or Canada, while global emissions rise modestly.[168] Overall, the environmental footprint of FTAs in these high-income economies is minimal and primarily reflects transport flows rather than domestic production changes.[169]

Identified adverse effects:

- Transport-related emissions (small; FTA-originated): Slight increases due to additional air freight for specific goods.
- Domestic emission changes (very small; FTA-originated): Minimal fluctuations resulting from small sectoral shifts.

Global North Trading Partners

For Korea, the environmental effects of the EU–Korea FTA remained moderate.[170] Domestic CO_2 emissions rose slightly, although global emissions fell due to trade diversion.

Identified adverse effects:

- Domestic emission increase (small; FTA-originated): Minor rise in CO_2 associated with higher production volumes.

Global South trading partners

Environmental effects are more visible in global South partner countries, although the evaluations emphasise that these impacts arise mostly from the expansion of sectors with pre-existing environmental pressures. FTAs reinforce these patterns by increasing output in agriculture, aquaculture, and agro-processing, but do not cause the underlying structural problems.[171]

In Chile, moderate expansion of export sectors – fruits, wine, fisheries, and especially salmon – intensified environmental pressures that already exist.[172] There was no FTA-originated deforestation, but aquaculture growth exacerbated water pollution and seabed degradation. Rising agricultural output contributed to increased fertiliser and pesticide use, and transport-related emissions rose due to wine exports and associated packaging waste.[173]

In the Andean countries, sector-specific emission increases occurred, though global emissions fell slightly due to trade diversion.[174] No FTA-amplified deforestation was observed in Peru (cf. case study on deforestation[175]) or Ecuador, while Colombia showed a very marginal contribution to agricultural deforestation.[176] Shrimp aquaculture in Ecuador continues to exert pressure on mangroves and water quality; these dynamics are structurally rooted but may be reinforced by higher export demand.[177]

[166] IA, EU-Korea, ex post, 2018, 246; 375.
[167] IA, EUROMED, ex post, 2021, 22.
[168] General IA, ex post, 2021, USITC, 203.
[169] IA, EU-Chile, ex post, 2012, 180 f.; IA, EU-Korea, ex post, 2018, 246; 375; IA, EUROMED, ex post, 2021, 22; General IA, ex post, 2021, USITC, 203.
[170] IA, EU-Korea, ex post, 2018, 246.
[171] IA, EU-Chile, ex post, 2012, 155.
[172] IA, EU-Chile, ex post, 2012, 170.
[173] IA, EU-Chile, ex post, 2012, 182.
[174] IA, EU-Andean, ex post, 2022, 142; 156.
[175] General IA, ex post, 2021, USITC, 138 ff.
[176] IA, EU-Andean, ex post, 2022, 157.
[177] IA, EU-Andean, ex post, 2022, 145 ff.

Rising agricultural production in Peru and Colombia may intensify water pollution associated with fertiliser use, though causality remains complex.[178] Industrial expansion in Colombia produces slight increases in air pollution, driven by domestic sectoral trends.[179]

In the Southern Mediterranean countries, FTA impacts remained limited. Manufacturing-related emissions decreased slightly, while transport emissions rose due to higher trade flows.[180] Shifts in energy use reflect national policy priorities rather than the FTAs. Pollution indicators show mixed developments – reductions in some pollutants and increases in others – stemming from structural sectoral adjustments rather than FTA obligations.

Identified adverse effects:

- Pollution and emissions from expanding sectors (moderate, FTA-amplified, not FTA-caused): Higher output in agriculture and aquaculture intensifies fertiliser use, pesticide application, wastewater, and energy consumption.
- Transport-related emissions (moderate; FTA-originated): Growth in wine, fish, and perishable exports increases air and maritime freight.
- Local biodiversity and land-use pressures (moderate; partly FTA-originated): Shrimp aquaculture affects mangroves, salmon farming affects water ecosystems, and Colombia experiences minimal deforestation from agricultural expansion.
- Resource-use intensification (moderate; FTA-amplified): Increased water use in agriculture and chemical inputs in expanding export sectors.
- Waste and circularity challenges (low to moderate; FTA-originated): Growth in packaging and processing waste, including green-glass packaging for wine.

e. Additional Evidence: FTA Effects on Climate and Environmental Protection

The academic literature paints a different and broader picture than impact assessments conducted on individual (older) agreements. While earlier studies suggest that rising global incomes can lead to improved environmental outcomes, implying that the scale effect of trade liberalisation may be environmentally beneficial[181], more recent research highlights negative scale effects, showing that increased economic activity resulting from FTAs can put additional pressure on the environment. For example, Abman & Lundberg (2020) find that the enactment of FTAs was followed by a significant rise in deforestation across member countries within three years of implementation, driven by agricultural land expansion.[182] Similarly, Yu et al. (2011) observe that the post-1994 growth in trade between the US and Mexico under NAFTA coincided with higher greenhouse gas emissions in both countries.[183]

Empirical findings on composition effects are equally mixed. On the one hand, Gladstone et al. (2021) show that NAFTA's environmental side agreement improved public participation and engagement in border environmental issues, though this engagement has since decreased.[184] They also find improvements in urban air quality, potable water access, and access to sanitation. On the other hand, NAFTA contributed to a shift in the composition of agriculture toward more water-intensive crops in the Mexican border states, which in turn accelerated groundwater depletion. The agreement also encouraged expansion of the mining sector through foreign direct investment and better access to equipment, which led to water pollution problems in northern Mexico.

[178] IA, EU-Andean, ex post, 2022, 149 ff.
[179] IA, EU-Andean, ex post, 2022, 152 ff.
[180] IA, EUROMED, ex post, 2021, 23.
[181] Grossman & Krueger (1991); Copeland & Taylor (2004).
[182] Abman & Lundberg (2020).
[183] Yu, Kim, & Cho (2011).
[184] Gladstone, Liverman, Rodríguez, & Santos (2021).

More broadly, the literature reveals highly variable environmental impacts of FTAs, shaped by countries' income levels, the presence and strength of environmental provisions, and the specific environmental indicators used. Several studies find that FTAs' environmental outcomes depend on who the partners are. For instance, Yao et al. (2019) find that, while FTAs generally increase CO_2 emissions, high-income countries often experience neutral or even positive effects, whereas middle- and low-income partners face environmental degradation.[185] This suggests that dirtier production may be relocating to the less-developed partner countries, consistent with a "pollution haven" hypothesis. Similarly, Nemati et al. (2019), examining the Southern Common Market, NAFTA, and the Australia–US FTA, report that FTAs between countries of similar development levels have no significant environmental harm and can even yield long-term improvements, while North–South FTAs tend to be associated with higher greenhouse gas emissions.[186]

Santika et al. (2025) reinforce these findings in a global analysis of 195 countries between 1990 and 2018.[187] They found that wealthy countries in FTAs increased their imported resource footprints (in terms of primary energy, raw materials, land use, and blue water) significantly. At the same time, those wealthy countries reduced their insourcing of environmental footprint, meaning they produced less domestically for exports that would cause environmental harm at home. This suggests that some of the environmental burden is shifted abroad.

Importantly, incorporating environmental provisions into FTAs can help mitigate such negative effects. For example, Brandi et al. (2019) find that developing countries entering FTAs with environmental provisions tend to adopt more robust domestic environmental legislation, often before the agreements come into force, and particularly in areas such as water, air, soil, and pesticides.[188] Bastiaens & Postnikov (2017) provide further insight, arguing that FTAs that include environmental provisions, especially North–South agreements, can serve as vehicles of environmental policy change in the South.[189] However, the design and enforcement mechanisms of those provisions matter. US FTAs, which typically include "hard" environmental provisions enforceable by sanctions, are found to prompt developing country partners to implement stricter environmental measures before the FTA enters into force (due to the credible threat of penalties for non-compliance). By contrast, EU FTAs rely more on "soft" environmental provisions focused on dialogue and cooperation, which tend to lead to more gradual post-ratification improvements in partner countries through learning and capacity-building.

Several studies find that environmental provisions in FTAs can yield measurable environmental benefits. Brandi et al. (2020) find that developing countries with stringent environmental domestic regulations tend to see FTAs with environmental provisions resulting in a decline in the share of "dirty" (pollution-intensive) goods in their exports and an increase in "green" goods exports.[190] Baghdadi et al. (2013) observe that countries participating in RTAs with environmental provisions tend to have lower CO_2 emissions levels in absolute terms and that their emissions trajectories converge over time to similar levels.[191] Martínez-Zarzoso & Oueslati (2018) add that countries in FTAs with environmental provisions experience significantly lower concentrations of fine particulate matter ($PM_{2.5}$) than they would otherwise, all else equal.[192]

The enforceability of environmental provisions in FTAs also influences outcomes. Francois et al. (2023) compare trade agreements with binding and non-binding environmental provisions and find notable

[185] Yao, Yasmeen, Hafeez, & Padda (2019).
[186] Nemati, Hu, & Reed (2019).
[187] Santika, Nelson, Haggar & Thushari (2025).
[188] Brandi, Blümer & Morin (2019).
[189] Bastiaens & Postnikov (2017).
[190] Brandi, Schwab, Berger, & Morin (2020).
[191] Baghdadi, Martinez-Zarzoso, & Zitouna (2013).
[192] Martínez-Zarzoso & Oueslati (2018).

differences.[193] Binding provisions correlate with improvements in several environmental indicators, including reductions in harmful air pollutants ($PM_{2.5}$ and ground-level ozone exposure) and an increase in forest coverage. Non-binding provisions show more mixed results: they coincide with a significant reduction in overall greenhouse gas emissions but also with setbacks in ozone exposure, protected areas coverage, and agricultural nitrogen management.

In sum, there is no single environmental outcome of FTAs. As Barros & Martínez-Zarzoso (2022) note, "the trade effects on environmental quality are complex, and it is not straightforward to give a general conclusion".[194] Nevertheless, the evidence strongly suggests that integrating binding environmental provisions, supporting developing partners in meeting environmental standards, and maintaining robust domestic environmental regulations are key to ensuring that the benefits of trade do not come at the expense of the environment.

[193] Francois, Hoekman, Manchin, & Santi (2023).
[194] Barros & Martínez-Zarzoso (2022).

Key Findings Section 3 – in English, Deutsch & Français

Section 3 shows that free trade agreements (FTAs) rarely create social, labour-market or environmental problems themselves, but tend to amplify pre-existing structural vulnerabilities, meaning that adverse outcomes are mainly shaped by domestic institutions, sectoral structures and regulatory capacity rather than by trade liberalisation alone. Aggregate employment effects are very small in Switzerland, the EU and the US, yet sectoral, regional and distributional impacts can be significant, with adjustment pressures concentrated in specific industries and regions; in developing partner countries, FTAs often expand employment in export-oriented agriculture and resource-based sectors, reinforcing labour-market segmentation. Working conditions are largely determined by national labour laws and enforcement: FTAs do not directly worsen job quality, but by expanding vulnerable sectors they increase the number of workers – often women – exposed to informality, weak safety standards and precarious employment, while improvements linked to labour or TSD provisions remain limited. Environmental impacts are generally small in advanced economies, but more pronounced in Global South partners, where FTAs can intensify pollution, resource use and biodiversity pressures through sectoral expansion, unless agreements include binding and enforceable labour and environmental provisions to mitigate these effects.

Abschnitt 3 zeigt, dass Freihandelsabkommen (FHA) selten selbst soziale, arbeitsmarktbezogene oder Umweltprobleme verursachen, sondern tendenziell bereits bestehende strukturelle Schwächen verstärken. Das bedeutet, dass negative Folgen hauptsächlich durch nationale Institutionen, sektorielle Strukturen und die Regulierungskapazität bestimmt werden. Die Auswirkungen auf die Gesamtbeschäftigung sind in der Schweiz, der EU und den USA sehr gering, die sektoriellen, regionalen und verteilungspolitischen Auswirkungen können jedoch erheblich sein, wobei sich der Anpassungsdruck auf bestimmte Branchen und Regionen konzentriert. In Entwicklungsländern führen FHA häufig zu einer Ausweitung der Beschäftigung in exportorientierten Agrar- und rohstoffbasierten Sektoren und verstärken so die Segmentierung des Arbeitsmarktes. Die Arbeitsbedingungen werden weitgehend durch nationale Arbeitsgesetze und deren Durchsetzung bestimmt: FHA verschlechtern die Arbeitsqualität nicht direkt, aber durch die Ausweitung gefährdeter Sektoren erhöhen sie die Zahl der Beschäftigten – oft Frauen –, die informellen Beschäftigungsverhältnissen, niedrigen Sicherheitsstandards und prekären Arbeitsverhältnissen ausgesetzt sind. Die Umweltauswirkungen sind in fortgeschrittenen Volkswirtschaften im Allgemeinen gering, aber in den Partnern des Globalen Südens deutlich ausgeprägter, wo Freihandelsabkommen durch sektorielle Expansion den Druck auf Umweltverschmutzung, Ressourcennutzung und Biodiversität verstärken können.

La section 3 montre que les accords de libre-échange (ALE) créent rarement de problèmes sociaux, d'emploi ou environnementaux en soi, mais tendent à amplifier les vulnérabilités structurelles préexistantes. Autrement dit, les conséquences négatives sont principalement déterminées par les institutions nationales, les structures sectorielles et les capacités réglementaires. Les effets globaux sur l'emploi sont très faibles en Suisse, dans l'UE et aux États-Unis, mais les impacts sectoriels, régionaux et distributifs peuvent être importants, les pressions d'ajustement se concentrant sur certains secteurs et régions. Dans les pays partenaires en développement, les ALE développent souvent l'emploi dans l'agriculture tournée vers l'exportation et les secteurs exploitant les ressources naturelles, renforçant ainsi la segmentation du marché du travail. Les conditions de travail sont largement déterminées par la législation du travail nationale et son application : les ALE ne dégradent pas directement la qualité de l'emploi, mais en développant les secteurs vulnérables, ils augmentent le nombre de travailleurs – souvent des femmes – exposés à l'informalité, à des normes de sécurité insuffisantes et à la précarité de l'emploi. Les impacts environnementaux sont généralement faibles dans les économies avancées, mais plus prononcés chez les partenaires du Sud global, où les accords de libre-échange peuvent intensifier la pollution, l'utilisation des ressources et les pressions sur la biodiversité par le biais de l'expansion sectorielle, à moins que les accords n'incluent des dispositions contraignantes et exécutoires en matière de travail et d'environnement pour atténuer ces effets.

4. Indirect Benefits of FTAs

Since the remaining scope for further liberalisation in new Swiss FTAs is limited, the analysis of legal and political advantages gains importance. In other words, why conclude FTAs outside of special interests of exporting industries? As our data show, economic gains from FTAs are limited for Switzerland. On the other side, no major economic or other harms for Switzerland associated with FTAs were detected. Due to a lack of ex post analyses, we are unable to assess whether the more recent FTAs of Switzerland – which benefit individual sectors more than others[195] – develop problematic effects for distributive justice in Switzerland. Given our evidence, we can state that Swiss FTAs bring on average minimal albeit positive economic benefits for Switzerland, and do not seem to be associated with negative effects in Switzerland.

Our data furthermore show that FTAs may have stronger effects at a sectoral level (e.g. agriculture) or in specific issues (e.g. gender equality), particularly abroad. These stronger effects can be both negative and positive in nature, depending on the respective regulatory design of the FTA. Whether and what kind of specific, sectoral effects a particular FTA develops, needs to be assessed on a case-by-case basis, taking into consideration the specific partner countries concerned.

Beyond these, FTAs may be valuable for reasons like legal certainty, political stability, and trade diversification. For instance, empirical data indicate that FTAs make a contribution to legal certainty and political stability in trade relations, which both may indirectly also generate economic value. Trade diversification, on the other hand, has become a national security concern, particularly in a global political environment in which tensions between markets continue to rise. We also generally assume that FTAs foster resilience in trade relations in the sense that they can provide valuable intergovernmental platforms to address and resolve trade concerns.

To the best of our knowledge, the indirect benefits of FTAs – particularly of more recent comprehensive FTAs – cannot yet be quantified, but the relevant dynamics can be qualitatively demonstrated based on negotiation strategies and the development of political and economic relations after the conclusion of agreements. Case studies of selected Swiss agreements serve to systematically illustrate these indirect benefits. The analysis in this section is based on a review of existing literature and our own reflections. More research is needed, along with more precise data.

a. FTAs and Trade Promotion

Generally, the most beneficial form of trade liberalisation involves all markets and creates a global level playing field. In other words, multilateral trade liberalisation is in theory the ideal form of market integration. FTAs are therefore not always thought to be positive: they might substitute for full implementation of multilateral rules, and they might result in harmful trade diversion.[196] In fact, the exemption from the MFN principle for FTAs in the original GATT 1947[197] was very contested for these exact

[195] As previously identified in Section 2.c of this study, the two EFTA agreements with Thailand and MERCOSUR are of particular interest to the Swiss pharmaceutical industry, due to a substantial reduction of tariff and non-tariff barriers in export. It is furthermore confirmed that the trade negotiations with the US in late autumn 2025 were conducted particularly in the interest of the watch and machinery industries in the canton of Jura. See e.g. <https://www.watson.ch/schweiz/wirtschaft/848627598-parmelins-zoll-deal-mit-trump-es-bleiben-stolpersteine>.

[196] Kohl, Brakman & Garretsen (2013), 2.

[197] The Most-Favoured Nation (MFN) principle in the GATT and WTO is a cornerstone of the multilateral trading system, as it states that every country ought to be treated like the most-favoured nation. In other words, it is not allowed to treat an economy worse than any other. This was intended to avoid block-building as took place in the lead-up to both World Wars, and has the effect of removing bilateral political considerations from trade policy. GATT and the WTO exclude the MFN principle from FTAs, i.e., as long as countries enter into a trade agreement that liberalizes essentially all trade, they do not have to extend this preferential treatment to all other WTO members.

reasons: The US argued at the time that there should be no exemption because an exemption was economically and politically harmful. Ultimately, the UK prevailed: the UK had insisted on an exemption in order to maintain its trade agreements with Commonwealth partners. The exemption to the MFN principle for FTAs was introduced in Art. XXIV GATT.[198] Interestingly enough, GATT members very rarely concluded FTAs prior to the creation of the WTO in 1995.[199]

Starting in the early 1990s, GATT- and later WTO-members began to conclude trade agreements outside of the multilateral framework in high numbers. Today, around 800 FTAs are in place worldwide,[200] of which around 350 are notified to the WTO.[201] FTAs from the 1990s and early 2000s mainly consisted of WTO-plus obligations, essentially mirroring the multilateral agreements of the WTO and creating additional market access preferences, primarily in terms of a reduction of tariffs. With the accession of China to the WTO in 2001 and the failure of the WTO Doha negotiations, WTO members turned to FTAs not only for preferential market access, but increasingly also for WTO extra concerns, such as common rules in industries which are not or only to a limited extent covered by WTO agreements (e.g. e-commerce and digital trade, energy, or services), or trade-related issues like the environment, labour, or climate. FTAs became broader and deeper in scope and successively also expanded and experimented with the institutional framework. We know today that WTO extra obligations in FTAs have less trade promoting impact than WTO plus obligations and obligations regarding the institutional quality of the FTA.[202]

The fact that FTAs have become much broader and cover more and more WTO extra issues – and given that MFN tariffs for most goods are already in the low single digits and there are no tariffs on trade in services – has changed their underlying policy logic: FTAs are no longer merely about comparative advantage and free trade, while they, in principle, still claim to be the primary instrument of trade promotion. Regulatory standards – their harmonisation and interoperability – have become a key concern for trade promotion. Whether a particular regulatory standard is adequate, excessive or even protectionist is, however, difficult for economists to assess.[203] Because of this, it is contested whether modern FTAs strike the – economically – right balance between regulation and liberalisation.[204]

Given that almost half of global trade today consists of semi-finished products traded along global value chains, foreign direct investment (FDI) also has a substantial impact on trade promotion and on trade relations between markets.[205] FDI increases in parallel to the number of FTAs and Bilateral Investment Treaties (BITs) in the early 1990s. However, FDI does not necessarily follow FTAs: A view of the value chains of multinational corporations like Apple or the Ferrero Group shows remarkable ignorance of existing FTAs – outsourced production is clearly not aligned with FTAs. Hence, FTAs may only constitute a minor criteria in the decision to invest in production abroad – labour, infrastructure, or taxes appear to have more impact.

[198] Sieber-Gasser (2025), 247 ff.

[199] European economic integration constitutes a notable exception to the rule, including the European Economic Community (EEC) 1957, the European European Free Trade Association (EFTA) 1960, or the EC–Switzerland FTA 1972.

[200] See <https://www.designoftradeagreements.org/>.

[201] See <https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>.

[202] Kohl, Brakman & Garretsen (2013), 16.

[203] Rodrik (2018), 78.

[204] Rodrik (2018), 79. A prominent example can be found in the protection of intellectual property rights. While patents create perhaps indispensable incentives to invest in research, they also restrict the use of knowledge, which is associated with economic inefficiencies. What the economically correct balance is between incentive to invest in research and use of knowledge remains contested. See Stiglitz (2009), 363 ff.

[205] See e.g. UNCTAD, Key Statistics and Trends in International Trade 2024: <https://unctad.org/system/files/official-document/ditctab2025d2_en.pdf>.

In theory, countries have a self-interest in finding the optimal tariff/market openness ratio, which do not require a formal trade agreement,[206] and businesses obviously also do not consider FTAs indispensable. That we nevertheless see increasing numbers of FTAs may be owed to human nature: Governments need FTAs to ensure that protectionism cannot be used for political, re-election purposes. Based on this "lock-in argument", FTAs serve the purpose of ensuring that governments withstand political pressures from interest groups and election cycles in the interest of long-term stability in trade relations. Rodrik rightfully raises the question, however, whether we need very complex FTAs for the relatively simple obligation to not use foreign trade policy as a pawn in domestic elections.[207] How important this simple obligation is for the prosperity in the global market can be observed in the global economic repercussions of the protectionist use of tariffs by the US in the second Trump administration. We can also observe, however, that FTAs do not guarantee that governments refrain from using trade policy as a pawn in domestic elections. For instance, the US is treating its FTA partners no differently from non-partners.

We can see that the institutional framework in which trade negotiations take place matters greatly for the outcome of FTA-negotiations and the likelihood that an FTA primarily serves special interests at the cost of overall welfare. For instance, Stoyanov shows a link between foreign and domestic lobbying of interest groups in the negotiation of FTAs and reduced aggregate welfare effects due to tailoring of the FTA to special interest.[208] Similarly, evidence from EU trade negotiations shows that trade-related concerns are less prominently covered, if the European Parliament is not involved in the negotiations, i.e. if economic interest groups and executive actors are in the lead.[209]

That we see an increase in FTAs which potentially only serve special interests is owed on the one side to the regulatory and political starting point (e.g. few sectors left in which a lot can be gained without regulatory harmonisation). On the other side, it may also be owed to an outdated domestic institutional framework of international trade negotiations: Deep integration means also that FTAs are no longer confined to the *domain reservé* of executive actors and economic lobby groups, but now fall squarely within the scope of the work of citizen groups and parliamentary actors.[210] Despite this, the laws guiding international trade negotiations oftentimes still assume that FTAs only address matters of international, at-the-border (economic) concerns. Civil society or parliament is therefore given a subordinate role if any and there are typically no legal boundaries or binding material obligations of executive competence in trade negotiations.

This is in particular also true for Switzerland, where the regulatory framework of international trade negotiations still departs from an assumption that FTAs are of minor relevance to domestic lawmaking processes and only deal with international, at-the-border concerns:[211] Their impact on direct democracy, on the supervisory role of the legislative branch of government and on the internationalisation of law in Switzerland is underestimated. This stands, furthermore, in direct contradiction with the fact that Switzerland is increasingly also using FTAs as an instrument to strengthen labour and environmental standards and promote sustainable development: On the one hand, this development is owed in parts to the 2017 introduced Art. 104a of the Swiss Constitution (FTAs are required to promote sustainable development in the agri-food sector), and on the other hand to increasing political resistance against new FTAs in Switzerland and the potential of a rejection of an FTA in a voluntary referendum. Since evidence suggests that no country loses its competitive advantage alone by increasing fundamental labour and environmental standards,[212] FTAs which combine trade interests with trade-

[206] Rodrik (2018), 80.
[207] Rodrik (2018), 81.
[208] See e.g. Stoyanov (2014), 561 ff.
[209] Mckenzie & Meissner (2017), 832 ff.
[210] See e.g. Laursen & Roederer-Rynning (2017), 736 ff.
[211] See Sieber-Gasser (2026).
[212] Whether such trade-related obligations then lead to an increase in standards, however, is contested. See Francois, Hoekman, Manchin & Santi (2025).

related interests in labour, environment or climate essentially create win-win situations: There are ultimately only winners if FTAs are used as a vehicle for sustainable development.[213] Nevertheless, despite the fact that Switzerland is increasingly using FTAs indeed as a vehicle for the promotion of sustainable development,[214] the underlying regulatory framework of trade negotiations in Switzerland has not yet been adapted to the new character of negotiations and the expanding scope of FTAs more generally.

Historically, socialist movements as well as corporate interests have resorted to free trade as a tool to achieve their goals. Marc-William Palen has shown that between the mid-19th to mid-20th century, in fact, "free trade" was a rallying cry of a broad left-wing movement and liberal reformers that intended to reduce the powers of primarily nationally organized capital, and this way defeat despotism, end wars, and reduce inequalities in wealth.[215] Supporters for this kind of free trade ranged from the liberal Joseph Schumpeter to Karl Marx and from radical free-trade advocate Richard Cobden to President Franklin D. Roosevelt's secretary of state Cordell Hull. It is to this movement that he largely attributes the foundation of the United Nations, the ILO, and the GATT that intended to replace bilateralism and imperial privileges with a system of global rules. On the other hand, he argues, that these institutions began to be increasingly used in the service of large corporations, especially starting in the 1990s. Since then, as also Rodrik points out, trade agreements have become more strongly used – though not solely – by special interests.[216] The more special interests are able to influence FTAs, the more FTAs are in effect tools to transfer rents from the rest of society to these interests, often exporter lobbies[217] One of the ways to address this issue, Rodrik argues, is to focus trade agreements again on removing true "beggar-thy-neighbor" policies. These are policies that are generally negative-sum for the world overall.

That FTAs may, at times, constitute a special interest instrument, to the detriment of domestic welfare and distributive justice, may be linked also with the (outdated) perception of limiting their main purpose to the promotion of economic growth for another reason: if the only objective pursued in trade negotiations are economic interests, and remaining economic benefits of FTAs are limited to specific sectors, negotiations are likely to focus primarily on these limited economic opportunities. Considering FTAs as a vehicle for the promotion of sustainable development[218] instead, however, would ensure more balanced outcomes and clearly limit the pursuance of special interests through FTAs.[219]

Despite some evidence that some Swiss FTAs may promote special interests more than general welfare, however, the trade shifts are so small in Switzerland, it remains unlikely that they have a major independent redistributive effect. Rather, they are preserving the existing, home-grown position or

[213] See e.g. Nagy (2020), 128 ff.

[214] See e.g. ACCTS, but also the regulatory innovations in the interest of trade-related concerns in EFTA-Indonesia, EFTA-India and the newly negotiated EFTA-Malaysia FTAs.

[215] Palen, Marc-William, Recovering the Left-Wing Free Trade Tradition, LPE Project, 21 March 2024: <https://lpeproject.org/blog/recovering-the-left-wing-free-trade-tradition/>; Rodrik, Dani, The Two Faces of Free Trade, Project Syndicate, 8 March 2024: <https://www.project-syndicate.org/commentary/free-trade-can-be-progressive-or-regressive-depending-on-policy-context-by-dani-rodrik-2024-03>.

[216] See Rodrik, Dani, The Beggar-Thy-Neighbour Test, 10 October 2024: <https://www.project-syndicate.org/commentary/economic-policy-debate-should-focus-not-on-subsidies-tariffs-but-on-beggar-thy-neighbor-by-dani-rodrik-2024-10>.

[217] Rodrik (2018), 73 ff.

[218] Sustainable development requires that FTAs strike a balance between economic, social and environmental interests, while protecting the interests of future generations and contributing to a reduction of global inequality. For more details, see Sieber-Gasser, Bürgi-Bonanomi & Koch (eds.) (2025).

[219] The effects of such a shift in the perception of the main purpose can be observed, for instance, in the strengthening of the TSD chapters in Swiss FTAs since the introduction of Art. 104a Swiss Constitution, which requires that Swiss FTAs have to promote sustainable development in the agri-food sector. See e.g. Sieber-Gasser (2026).

dominance of export industries and the support for domestic shielded sectors, among them the agricultural sector. Strengthening other interests outside of export industries interests in an FTA might nevertheless reduce undesirable redistributive effects at home and abroad.

Recommendations:

- WTO plus obligations and institutional obligations should have priority in FTAs;
- Focus on protectionism perhaps outdated in respect to standards – better to assess whether standard complies with sustainable development;
- FTAs cannot serve isolated interest groups – if they do, they are unlikely to have beneficial redistributive effects and are harmful, in the long run, for the economy;
- To ensure that FTAs do not become a political or economic vehicle for special interests, stakeholder-participation in trade negotiations has to ensure that all interests and concerns are taken into account and that the negotiating mandate pursues sustainable development, rather than economic growth as the main objective.

b. FTAs and Resilience

FTAs strengthen economic resilience, i.e. the ability of economies to withstand and recover from disruptions, ensuring the continued flow of goods and services. Among the reasons for this are heightened legal certainty, a reduction of discriminatory trade practices, dispute resolution mechanisms, as well as more direct inter-governmental, technical, and civil-society cooperation. All of these allow companies to focus on trade as a more long-term strategy.[220]

In particular, data shows that FTAs tend to reduce trade policy uncertainty, while they clearly also prevent trade wars and reduce the likelihood of unfair trade practices.[221] Gains from FTAs through a reduction of trade-policy uncertainty tend to be even more important in a more integrated global economy than the gains from reducing the levels of trade barriers. In addition, governments have more to gain from joining an FTA if the trading environment is uncertain.[222]

FTAs appear to strengthen resilience especially by shielding against downturns of trade in times of shocks – also during the Covid-19 pandemic. An UNCTAD Research Paper[223] finds that during the initial Covid-19 shock in 2020, the average drop in trade was around –17%. Trade between FTA partner countries was more resilient, with drops of –14% for shallow and –9% for deep FTAs. The study further finds relevant differences between regions, e.g. that shallow FTAs appeared more relevant for developed countries and developing countries from Asia (but less so deep FTAs), whereas deep FTAs appeared more relevant for developing Latin American countries. For developing African countries, on the other hand, neither seems to have had significant effects. In general, between 2008 and 2020, the study found that shallow FTAs appeared to have strengthened trade between partner countries by about 2%, and deep FTAs by around 3%. Their analysis suggests that this is primarily driven by the heightened resilience during times of negative shock.

In the case of Switzerland, our analysis (see also Table 3) shows that the presence of FTAs is correlated with a reduced volatility in trade. For this present study, we looked at trade data of Swiss imports and exports from the Swiss Federal Office of Customs and Border Security for the years 1989–2024 and

[220] See e.g. Portuese, Gough & Tanega (2014), 131 ff.
[221] See Limao & Maggi (2013).
[222] See Limao & Maggi (2013), 37.
[223] See Nicita, Alessandro, and Mesut Saygili, Trade Agreements and Trade Resilience During COVID-19 Pandemic, Research Paper UNCTAD/SER.RP/2021/13, UNCTAD, 2021: <https://unctad.org/system/files/official-document/ser-rp-2021d13_en.pdf>.

countries that had an FTA with Switzerland which entered into force in those years.[224] To better understand volatility, we compared only the percentage change of trade values, i.e., by how much imports or exports, respectively, increased or decreased every year.[225] It is important to stress that our findings cannot assess causality, i.e., it is not possible to deduce from this whether the FTA caused a change (which may be due to GDP growth or shocks, or other). We can only say whether the volatility before and after entry-into-force of these FTAs is significantly different.[226]

In the case of imports to Switzerland, there are twice as many trade relations that have a significantly reduced volatility post-FTA than increased volatility (at 1% significance level), namely 8 and 4, respectively, out of a total of 41. If we include all significant results (10% significance level and lower), we get 12 with reduced and 7 with increased volatility. 22 of the 41 had no significant change, 11 each with an increase and decrease.

In the case of exports, 17 out of 41 countries showed significant decreases of volatility (at the 1% significance level, and an additional 2 at the 10% significance level). There were no significant increases of volatility post-FTA (at any level of significance), and 24 had no significant difference in either direction.[227]

While these correlations may be driven by a multitude of factors among which the FTA may not always be of particularly high relevance, these results – in the very least – allow us to say that findings regarding the positive effects of FTAs for resilience from elsewhere, may apply also in the Swiss context. In general, it does not appear that the year of entry-into-force played a role, i.e., we found no evidence of grouping into earlier or later FTAs, nor are country groupings clearly delineated into developing or developed countries. As this analysis only tests for correlations and not for causation, these results only hint at the possibility that FTAs may have played a role in these changes. While we did not test for the reaction to shocks, the UNCTAD findings above would likely also produce such a result, i.e., lower decreases in trade during negative shocks and then smaller rebounds after the shock.

[224] These are: Albania, Bahrain, Bosnia-Herzeg., Botswana, Canada, Chile, China, Colombia, Costa Rica, Ecuador, Egypt, Emirates (Arab), Eswatini, Georgia, Hong Kong, Indonesia, Israel, Japan, Jordan, Korea (South), Kuwait, Lebanon, Lesotho, Mexico, Montenegro, Morocco, Namibia, North Macedonia, Oman, Palestine, Panama, Peru, Philippines, Qatar, Saudi Arabia, Serbia, Singapore, South Africa, Tunisia, Türkiye, Ukraine.

[225] We excluded countries for which there was either missing data or the percentage change was incalculable or above 999% (which the FOCBS marks with * or ** in the data). An FTA was taken has having taken effect in the year of entry into force if this was in the first half of the year, otherwise as in the following year.

[226] For details of the method and the insights gained from this analysis, see Annex 1.

[227] Another aspect that reinforces this view is that extreme values that had been removed for this analysis (* and **, see above) generally appear earlier on in the time series, i.e., their inclusion would have shown an even stronger reduction in volatility (as growth rates pre-FTAs would have been higher still).

Table 3: Volatility of Swiss Trade with Select Partner Countries, 1989-2024

Comparing Volatility of Trade (Imports & Exports) pre- and post- entry-into-force of FTAs. Countries with *no* removed data (* and **, see explanation above) in italics.

		Imports into Switzerland	Exports from Switzerland
Reduction of Volatility after Entry into Force of FTA	At 10% p-value (and above 5%)	**1** (*Bahrain*)	**2** (*Jordan, Mexico*)
	At 5% p-value (and above 1%)	**3** (*China*, Kuwait, *Namibia*)	**0**
	At 1% p-value	**8** (Bosnia-Herzeg., *Chile, Colombia, Costa Rica, Eswatini*, Georgia, Oman, Serbia)	**17** (*Albania, Bahrain,* Bosnia-Herzeg., Botswana, *Canada, China*, *Colombia*, Georgia, *Korea (South), Kuwait, Lesotho,* Montenegro, *Namibia*, North Macedonia, *Oman*, Palestine, Serbia)
Increase of Volatility after Entry into Force of FTA	At 10% p-value (and above 5%)	**1** (*Jordan*)	**0**
	At 5% p-value (and above 1%)	**2** (*Canada, Morocco*)	**0**
	At 1% p-value	**4** (*Egypt, Korea (South), Lebanon,* Palestine)	**0**
No Significant Change		**22** **No significant positive change: 11** (Botswana, *Ecuador, Hong Kong, Panama*, Qatar, *Saudi Arabia, Singapore, South Africa, Tunisia, Türkiye*, Ukraine) **No significant negative change: 11** (*Albania, Emirates (Arab), Indonesia, Israel, Japan,* Lesotho, *Mexico,* Montenegro, North Macedonia, *Peru, Philippines*)	**22** **No significant positive change: 6** (*Costa Rica*, *Hong Kong*, *Israel, Japan*, Qatar, *Türkiye*) **No significant negative change: 16** (*Chile*, *Ecuador, Egypt, Emirates (Arab), Eswatini, Indonesia*, *Lebanon*, *Morocco*, *Panama, Peru, Philippines, Saudi Arabia, Singapore, South Africa, Tunisia*, Ukraine)
Total		**41**	**41**

Resilience can also be strengthened through more direct cooperation, including through easier access between government experts on a range of topics. In general, FTAs include chapters that allow for direct cooperation on traditional trade topics (e.g. on technical barriers to trade), allowing countries to directly engage on topics of potential friction through joint committees. Such committees are increasingly also established on trade-related and WTO plus topics such as cooperation in services and digital trade, labour, gender, or environment. Some FTAs include specific lists of potential cooperative

areas in more specific areas, such as industrial decarbonization, critical minerals, or other. Such cooperation topics in FTAs allow governments and government experts at sub-ministerial levels to more directly discuss specific topics with their peers. This reduces the threshold at which topics can be addressed and lays the foundation for deeper cooperation.[228]

To name but a few, RCEP exemplifies how FTAs can focus on economic cooperation with an explicit intent to bring along the least developed members, including through capacity building, experience-sharing, strengthening political cooperation, and focusing on building confidence and trust between partners.[229] The ACCTS, among others, includes commitments to strengthen cooperation on environmental goods and services or the guidelines for voluntary ecolabeling.[230] And the EU-Kenya FTA includes an array of economic, sustainability, and development cooperation areas, including EU support for participation in standards-setting bodies, capacity development, and non-tariff barriers implementation.[231]

An important contribution to FTA-related trade resilience stems from tailoring market access to capacity building. This is particularly relevant in the context of North-South FTAs – in the interest of utilisation of trade preferences by the developing country FTA partner, and in the interest of the prevention of harmful trade practices and the promotion of sustainable ones. However, while literature agrees on the central role of capacity building in all aspects of trade and trade-related capacities of developing countries, the specific kind of measures that would be required need to be established on a case-by-case basis and tailored to the very specific needs of the partners involved in the FTA.[232]

Recommendations:

- Include commitment to cooperate on various areas, including topics related to goods, social, environmental, and other topics.
- Strengthen public input and transparency of cooperative endeavours, including through bringing business and civil society views into the exchange and cooperation, and by committees publishing meeting schedules and pertinent information.
- Define joint goals in FTAs for enhancing cooperation.
- In FTAs with developing and least developed countries, focus on building capacity to support active participation, and incorporate best practices studies and impact assessments of potential and given support.
- In regard to existing joint committees and options for cooperation through FTAs, civil society and parliamentarians should show stronger interest in them, formulate inputs for committee members, and demand more accountability on negotiations in those committees.

c. FTAs and Political Relations

FTAs can have positive effects on political relations through various angles, including by rendering conflicts between countries less likely. Countries pursue FTAs as a means to ensure peaceful international relations, as an instrument to punish enemies and reward friends, and as a tool to influence another country's internal policies in trade-related fields.[233] From what we understand, these political

[228] See e.g. Bögner (2025), 381 ff.; Melillo (2019), 95 ff.
[229] Armstrong & Drysdale (2022), 3 ff.
[230] SECO, The Agreement on Climate Change, Trade, and Sustainability (ACCTS): <https://www.newsd.admin.ch/newsd/message/attachments/90525.pdf>.
[231] EU-Kenya Economic Partnership Agreement (EPA), <https://eur-lex.europa.eu/eli/agree_internation/2024/1648/oj/eng>.
[232] See e.g. Rohan & Sieber-Gasser (2026).
[233] Wolfe (2023), 474 ff.

benefits of FTAs outweigh at times – particularly if the remaining economic benefits are small to begin with – the economic interests in FTAs.[234]

Research suggests that international trade agreements can reduce volatility by reinforcing extant trade commitments, improving transparency, promoting policy convergence, and strengthening investor confidence. These positive effects of FTAs are linked with the political ties they create between FTA-partners. How relevant such political ties are, can, for instance, be demonstrated in the fact that also the FTA-independent establishment of diplomatic relations or alliances can significantly reduce trade volatility.[235]

Besides their economic benefits, FTAs can also bring some significant political benefits. First, from the so-called "Kantian peace" perspective, trade flows contribute to economic interdependence, which is positively associated with a reduction of the likelihood of militarized disputes, even after controlling for democratic dyads, alliance ties and power asymmetry.[236] FTAs embed economic interdependence into a rules-based framework that further increases the cost of war.[237]

Second, in a context marked by geopolitical tensions and possible supply chain disruptions, states see FTAs as tools to achieve goals of economic security and steer production towards "friendly" countries, an approach known under the concept of "friendshoring." FTAs are levers to push firms to restructure supply chains along political alignments.[238] This may often come, however, at the cost of loss of efficiency, which could prevent states from pursuing that road very far.[239]

Third, FTAs can act as soft power instruments, in particular for an actor like the EU whose main leverage is the size of its market.[240] FTAs institutionalize dialogue and consultation on a broad range of issues, for instance through joint committees with high-level participation. This fosters trust and routine cooperation that over time can spill over into broader diplomatic relations.[241]

Recommendations:

- Use FTAs as strategic diplomacy tools: Prioritise their peacebuilding, stabilising, and alliance-strengthening benefits, even when economic gains are limited.
- Friendshore with care: Leverage FTAs to strengthen supply-chain security among trusted partners while avoiding excessive efficiency losses.
- Turn market access into soft power: Use FTAs to institutionalise dialogue, build trust, and extend cooperation beyond trade into broader political relations.

[234] See also Baccini (2019), 75 ff.
[235] Bagozzi & Landis (2015), 151 ff.
[236] See in particular Oneal & Russett (1997).
[237] See Gartzke (2007) and Mansfield & Pevehouse (2006).
[238] See Kalvelage & Tups (2024).
[239] See Javorcik, Kitzmüller, Schweiger & Yıldırım (2024).
[240] See Hoekman (2021).
[241] See Aggarwal & Dupont (2024).

Key Findings Section 4 – in English, Deutsch & Français

For Switzerland, free trade agreements (FTAs) generate only small but positive direct economic gains and show no evidence of significant domestic harm, shifting their main justification toward indirect legal, institutional and political benefits. Modern FTAs have evolved from tariff-cutting instruments into broad regulatory and institutional frameworks covering WTO-extra areas such as services, digital trade, labour, environment and climate. Evidence suggests that WTO-plus commitments and strong institutional provisions promote trade more effectively than purely regulatory additions, while FTAs play only a secondary role in shaping foreign direct investment. FTAs can nonetheless enhance economic resilience by reducing trade-policy uncertainty, lowering volatility and cushioning trade flows during shocks, as shown by international evidence and Swiss data indicating greater stability with FTA partners. Beyond economics, FTAs deliver political and strategic benefits by fostering trust, stabilising relations, supporting peacebuilding, friendshoring and supply-chain security, and acting as soft-power tools. However, as agreements deepen and increasingly affect domestic regulation, weak governance and limited stakeholder participation heighten the risk of special-interest capture, underscoring the need for stronger parliamentary oversight and a negotiating focus on sustainable development rather than narrow growth objectives.

Für die Schweiz generieren Freihandelsabkommen (FHA) nur geringe, aber positive direkte wirtschaftliche Vorteile und weisen keine Anzeichen für signifikante negative Auswirkungen auf. Ihre Hauptbegründung liegt daher in den indirekten rechtlichen, institutionellen und politischen Vorteilen. Moderne FHA haben sich von Instrumenten zur Zollsenkung zu umfassenden Regulierungs- und institutionellen Rahmenwerken entwickelt, die WTO-Plus-Bereiche wie Dienstleistungen, digitalen Handel, Arbeit, Umwelt und Klima abdecken. Studien belegen, dass WTO-Plus-Verpflichtungen und starke institutionelle Bestimmungen den Handel effektiver fördern als rein regulatorische Ergänzungen, während FHA bei der Gestaltung ausländischer Direktinvestitionen nur eine untergeordnete Rolle spielen. Dennoch können FHA die wirtschaftliche Widerstandsfähigkeit stärken, indem sie die Unsicherheit in der Handelspolitik verringern, die Volatilität senken und Handelsströme bei Schocks abfedern. Über die wirtschaftlichen Aspekte hinaus bieten FHA politische und strategische Vorteile, indem sie Vertrauen fördern, Beziehungen stabilisieren, Friedensbemühungen, Friendshoring und Lieferkettensicherheit unterstützen und als Instrumente der Soft Power fungieren. Da sich die Abkommen jedoch vertiefen und zunehmend die nationale Gesetzgebung beeinflussen, erhöhen eine schwache Regierungsführung und eine begrenzte Beteiligung der Interessengruppen das Risiko der Vereinnahmung durch Sonderinteressen. Dies unterstreicht die Notwendigkeit einer stärkeren parlamentarischen Kontrolle und eines Verhandlungsschwerpunkts auf nachhaltiger Entwicklung anstatt auf eng gefassten Wachstumszielen.

Pour la Suisse, les accords de libre-échange (ALE) ne génèrent que des gains économiques directs modestes mais positifs et ne présentent aucun signe de préjudice interne significatif, ce qui déplace leur principale justification vers des avantages indirects d'ordre juridique, institutionnel et politique. Les ALE modernes ont évolué, passant d'instruments de réduction tarifaire à de vastes cadres réglementaires et institutionnels couvrant des domaines tels que les services, le commerce numérique, le travail, l'environnement et le climat. Il apparaît que les engagements « OMC-plus » et des dispositions institutionnelles solides favorisent le commerce plus efficacement que de simples ajouts réglementaires, tandis que les ALE ne jouent qu'un rôle secondaire dans l'orientation des investissements directs étrangers. Les ALE peuvent néanmoins renforcer la résilience économique en réduisant l'incertitude liée à la politique commerciale, en diminuant la volatilité et en amortissant les flux commerciaux lors de chocs. Au-delà de l'économie, les ALE offrent des avantages politiques et stratégiques en favorisant la confiance, en stabilisant les relations, en soutenant la consolidation de la paix, le développement de partenariats et la sécurité des chaînes d'approvisionnement, et en agissant comme des outils de soft power. Toutefois, à mesure que les accords s'approfondissent et affectent de plus en plus la réglementation nationale, la faiblesse de la gouvernance et la participation limitée des parties prenantes accroissent le risque de captation par des intérêts particuliers, soulignant la nécessité d'un contrôle parlementaire plus strict et d'une négociation axée sur le développement durable plutôt que sur des objectifs de croissance étroits.

5. Social and Environmental Progress through FTAs

While FTAs – as has been demonstrated – may at times have negative effects on labour, the environment, and even economic growth, they also constitute a vehicle for positive change by strengthening environmental and human rights protection and advancing distributive justice. Whether FTAs generate such positive spill-over effects largely depends on their regulatory design and on their interaction with trade-related regulation such as environmental, climate change mitigation, or human rights regulation – be it at the international or the domestic level.

A database developed by the research team records trade-related policy provisions both in FTAs worldwide and at the domestic level in selected countries. The trade-related trade policy provisions of interest are designed to overcome regulatory silos between trade liberalisation and its potential negative effects for the economy, society, and the environment. Examples include trade-related provisions both at the international and the domestic levels on labour and climate protection, on the protection of biodiversity and human rights, and on gender equality.

We further notice that FTAs which cover substantive trade-related obligations tend to contribute also to the development of law in previously insufficiently regulated areas of trade, such as data protection, e-commerce, or energy, and establish binding minimum standards in trade-related areas. Overall, research shows that FTAs can be highly effective in advancing international legal standards in environmental and human-rights protection that go beyond pure trade.

This part provides a general overview of the role of FTAs in trade-related issues and in addressing the previously identified potential negative effects by taking also into consideration the domestic regulatory framework in which FTAs are embedded. It also includes an overview of the most relevant trade-related regulatory instruments today and critically assesses the potential of FTAs to address and resolve trade-related issues.

The analysis offers the basis for identifying features of a model FTA that manages to reap the benefits of trade while at the same time minimising negative effects or even generating positive impacts on trade-related issues.

a. Presentation of the data

For the Package Treaties Database, our team has systematically coded 161 FTAs concluded between 1990 and 2022 by the following actors: the US, the EU, the United Kingdom (UK, post-Brexit), EFTA countries, India, and Brazil. The analysis focuses on binding provisions (e.g. “the parties shall”, “the parties commit to”) that relate to the list of negative spillovers of FTAs presented in Figure 1, except provisions on international treaties, declarations, and standards, which may also include non-binding language. The list of categories of provisions coded is presented in Table 4.

FTA texts come from the Design of Trade Agreements Database (DESTA).[242] When annexes were missing, we used the PDF from the TRade and ENvironment Database (TREND).[243] All FTAs were manually coded by two trained coders. Half of the sample was randomly assigned to each coder, after which both coders reviewed every coded segment jointly to resolve disagreements and eliminate false positives. Finally, additional keyword searches were conducted to minimise false negatives and ensure the completeness of the dataset.

For the Flanking Measures Database, the team has coded 230 domestic laws (in force as of 2025) in respect of the following countries: the US, the EU, the UK, the EFTA countries, India, and Brazil. The flanking measures refer to domestic instruments (acts, rules, decrees, etc.) that accompany trade

[242] Available online at: <https://www.designoftradeagreements.org/>.
[243] Available online at: <https://klimalog.idos-research.de/trenthe d/>.

agreements (by being legally linked to a specific FTA) or may address trade liberalisation more generally (e.g., by regulating or restricting imports and exports).[244] These instruments aim to mitigate the negative spillovers of trade agreements and trade liberalisation in general. The scope of the database is limited to labour and environment-related spillovers (see Figure 1). Based on their legal design and function, the list of different categories of flanking measures is presented in Table 5.

The data is drawn from the respective national (governmental) legislation database and the FAOLEX database, which consists of one of the largest online repositories of national laws, regulations, etc., maintained by the Food and Agriculture Organisation of the United Nations. The search results were based on the following keywords: trade, import, export, ban, tariff, child labour, forced labour, trafficking, trade agreement, economic partnership, wage protection.

Figure 1. Negative spillovers coded in FTAs and domestic legislation

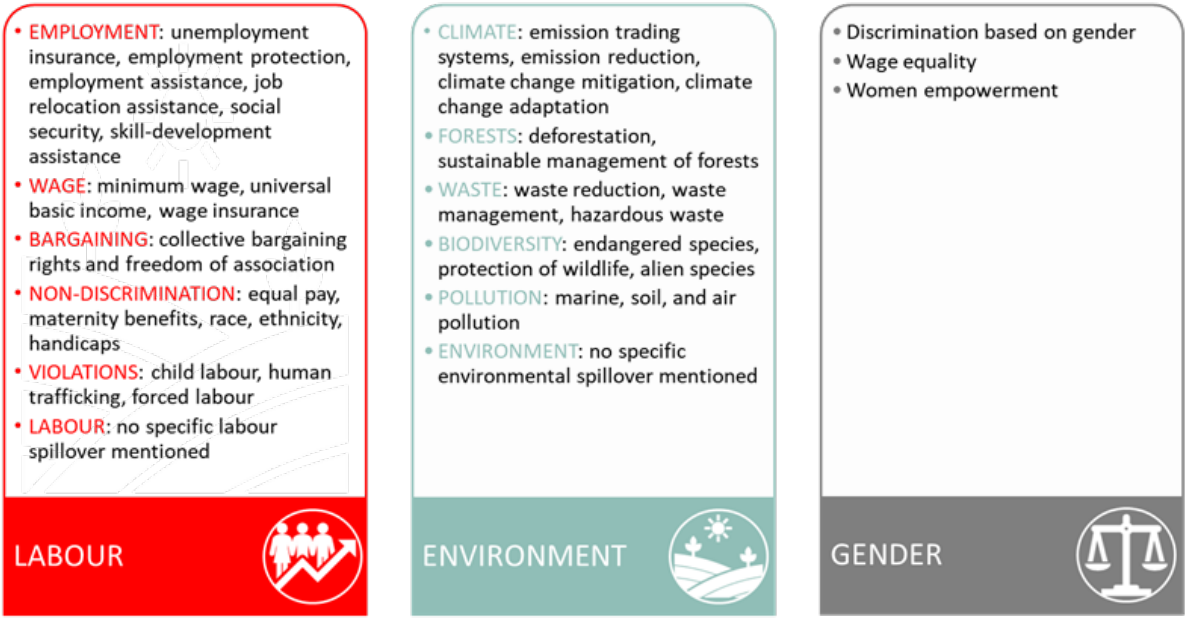


Table 4: Categories of provisions on labour, the environment, and gender coded in FTAs

FTA provision	Example
References to international treaties and declarations	*A Party shall adopt, maintain, and implement laws, regulations, and all other measures to fulfill its obligations under the multilateral environmental agreements listed in Annex 20 (Korea US, 2007: Article 20.2)*
Requirements for domestic legal instruments or reforms	*In accordance with their international rights and obligations, each Party shall take legislative, administrative or policy measures, as appropriate: (a) to determine access to their genetic resources and to traditional knowledge associated with genetic resources (Ecuador EFTA, 2018: Article 11)*

[244] See Laurens, Winkler & Dupont (2024), 1919 ff.

Levels of protection	*The Parties shall not: (a) weaken or reduce levels of environmental or labour protection provided by their domestic laws, regulations or standards with the sole intention to encourage investment from another Party or to seek or to enhance a competitive trade advantage of producers or service providers operating in its territory" (EFTA Indonesia, 2018: Article 8.3)*
Enforcement of domestic laws	*Each Party shall take appropriate governmental action such as monitoring compliance with, and investigating suspected violations of, its environmental laws and regulations." (India Japan, 2011: Article 8)*
Obligations to consult with FTA partners when revising or developing new national legislation	*Exchange information on all new measures on management of living marine resources and fishery products that may impact trade between the Parties, in the Committee on Trade and Sustainable Development and, as appropriate, on other occasions." (EC Vietnam, 2019: Article 13.9)*
Voluntary standards	*Products of HS heading 15.11 and 15.13 imported into Switzerland under the Agreement shall meet the sustainability objectives as set out in Article 8.10 (Sustainable Management of the Vegetable Oils Sector and Associated Trade) of the Agreement (EFTA Indonesia, 2018: Annex IV)*
Safeguards for particularly exposed industries	*In exceptional circumstances, where justified for specific revenue needs, or where necessary for the protection of infant industries or the environment, or where essential for the prevention or relief of critical general or local shortages of foodstuffs or other products essential to ensure food security, Botswana, Lesotho, Namibia, Mozambique and Swaziland may introduce, after consultation with the EU, temporary customs duties or taxes imposed on or in connection with the exportation of goods, on a limited number of additional products (EC SADC, 2016: Article 26)*
Assistance in the implementation of spillover-related provisions	*Financial assistance may cover all sectors of cooperation, paying particular attention to Justice, Freedom and Security, approximation of legislation, sustainable development and poverty reduction and environmental protection (EC Serbia SAA, 2008: Article 116)*
Requirements to conduct sustainability impact assessments	*Each Party commits to review, monitor and assess the impact of the implementation of this Agreement on labour and environment, as it deems appropriate, through its respective domestic and participative processes." (Colombia Peru EC, 2012: Article 279)*

Table 5: Categories of domestic legislation (flanking measures) coded in the database

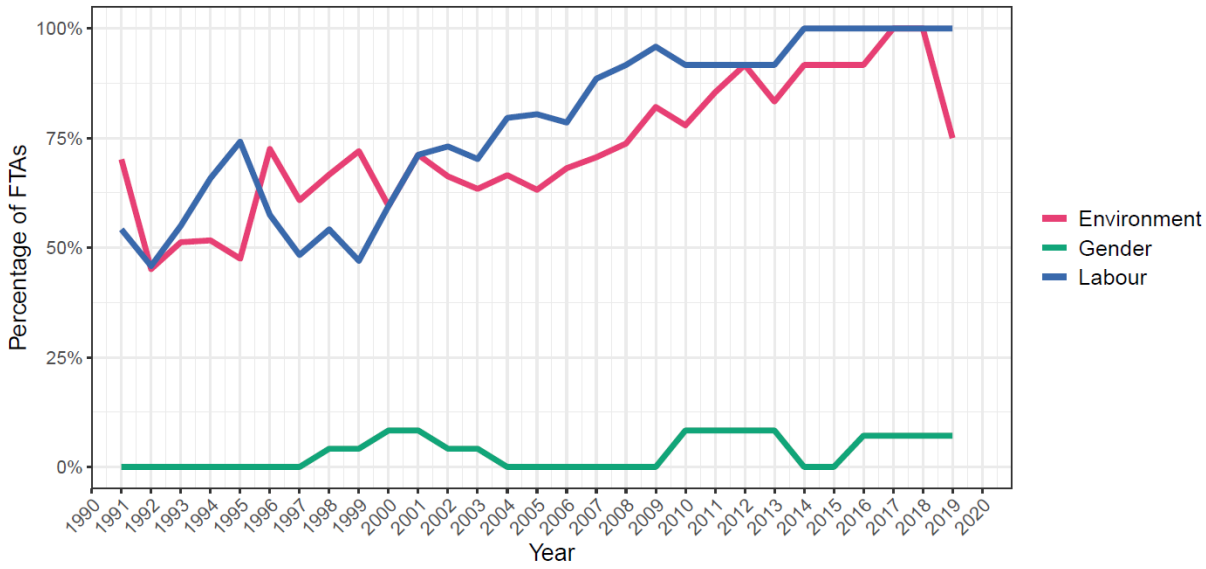
Flanking Measure	Example
Domestic Legislation linked with a specific PTA (FLANKING_PTA_SPILLOVER)	*US Domestic Implementing legislation for establishment of labour attaches under USMCA (Pub. L. 116-113)*
Domestic Legislation specifically addressing trade liberalisation (TL) through regulation of import and export (FLANKING_TL_SPILLOVER)	*Brazilian law regulating the export and import of genetically modified organisms (LAW No. 11,105, OF MARCH 24, 2005)*
Domestic legislation creating binding obligations for corporate due diligence along the entire supply chain (FLANKING_DILIGENCE_REPORTING)	*Corporate sustainability reporting obligation of MNCs under EU domestic regulations (DIRECTIVE (EU) 2024/1760)*
Domestic legislation creating binding obligations for corporate due diligence along the entire supply chain with sanctions (FLANKING_DILIGENCE_ENFORCE)	*Enforceable corporate responsibility along the entire value chain under EU regulation (DIRECTIVE (EU) 2024/1760)*
Domestic legislation/unilateral measures introducing specific trade restrictions independent from general safeguards and retaliatory measures (FLANKING_RESTRICTION)	*Indian Legislation restricting the import or export of illegally harvested timber, other forest produce (Indian Forest Act, 1927)*
Residual category of domestic legislation that do not fall under any of the above categories (FLANKING_GENERAL_SPILLOVER)	*UK legislation levying taxes on vehicles (including imported ones) that do not comply with emission standards*

This leaves us with a total of over 28,000 datapoints to assess regulatory patterns in current FTAs, link them with specific effects of FTAs, and complement them with a search for an additional 400 datapoints on the applicable domestic regulatory framework and the specific data of over 230 domestic flanking measures.

b. General Trends in FTAs

Starting from the number of environment-, labour-, and gender-related provisions in the FTAs included in our sample, we observe that labour and environmental provisions have become increasingly common, reaching near-universal inclusion after the mid-2010s. By contrast, gender-related provisions remain rare, appearing only intermittently from the late 1990s onwards (see Figure 2).

Figure 2: Share of FTAs including environmental, gender, and labour provisions (4-year moving average)



Note: the figure shows the proportion of FTAs containing at least one provision on labour, the environment, or gender, expressed as a percentage of all FTAs concluded each year.

Our data also indicate that both the variety of items and the negative spillovers addressed in FTAs have increased over time. Figure 3 shows the distribution of spillovers and Figure 4 the distribution of provision types by period. Each bar sums to 100% of all coded provisions in that period, with colors indicating their relative shares. Whereas FTAs in the 1990s rarely mentioned specific labour or environmental issues and remained generic, recent agreements explicitly reference forests, biodiversity, child labour, and collective bargaining rights. Similarly, references to standards or the enforcement of domestic laws on labour, the environment, and gender have become far more frequent in the 2010s than one or two decades earlier.

Figure 3. Proportion of spillovers (1990–2022)

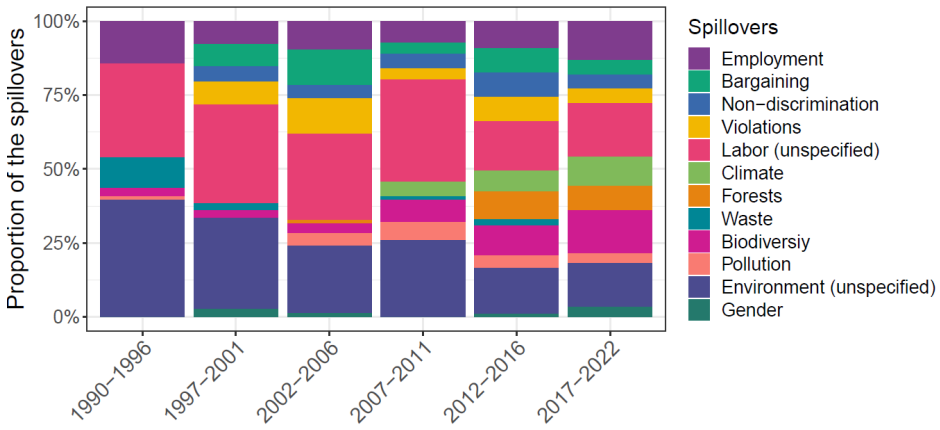


Figure 4. Proportion of categories of provisions (1990–2022)

Some FTAs stand out in terms of the number of spillover-related provisions they contain. Table 6 lists the ten FTAs with the highest number of such provisions in our sample. At the top of the list are the EU–UK post-Brexit FTA (2020) and the USMCA (2020). Unsurprisingly, nine of these ten agreements were concluded after 2010, reflecting the growing integration of non-trade issues into FTAs. The exception is the Peru–US FTA, which, beyond boilerplate environmental and labour provisions inherited from NAFTA, includes detailed and binding commitments on forest protection.

Table 6. Top ten FTAs by number of spillover-related provisions

Names of FTAs (from DESTA)	Number of spillover-related provisions
EC UK_2020	37
US Mexico Canada Agreement (USMCA)_2018	37
Central America EC_2012	35
EC Vietnam_2019	30
EC Moldova_2014	30
EC Georgia_2014	30
Brazil Chile_2018	29
Colombia Peru EC_2012	29
Peru US_2006	29

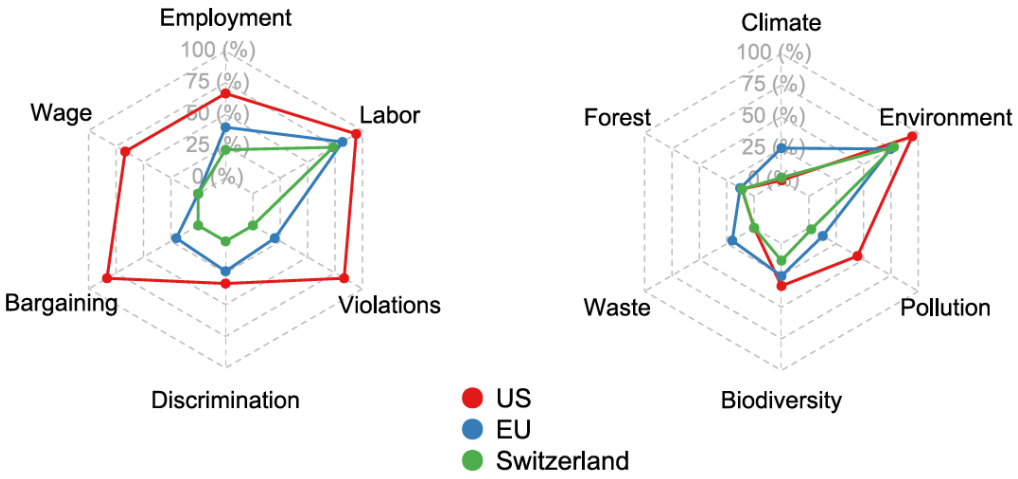
Compared to the two leading blocs negotiating FTAs, the EU and the US, Switzerland[245] includes fewer provisions on the environment, gender, and labour in its agreements (see Figure 5). Regarding labour,

[245] The full list of FTAs concluded by EFTA countries is available at: <https://www.efta.int/trade-relations/free-trade-network?relation=freetrade>. Since our dataset ends in 2022, the most recent FTAs in our sample involving EFTA are EFTA–Indonesia, EFTA–Turkey, and EFTA–Ecuador, all concluded in 2018.

a larger proportion of US FTAs in our sample contain labour-related provisions than those of the EU or Switzerland. Notably, EFTA agreements rarely include explicit references to wages, collective bargaining, or discrimination, instead using more general references to labour. A similar pattern appears for environmental protection: binding provisions on specific environmental issues remain relatively uncommon in both EU and US FTAs, except for climate and biodiversity in EU agreements, and biodiversity and pollution in US ones. EFTA FTAs, for their part, tend to refer broadly to environmental protection, with around 75 % of them using such general formulations.

In terms of items, the most common spillover-related provisions in EFTA FTAs are levels-of-protection clauses, present in 78% of agreements. These include recognition of each party's sovereign right to set its own level of protection and requirements to promote high levels or to increase existing levels of protection. Safeguards for particularly exposed industries are also frequent, appearing in 62% of agreements. No EFTA agreement includes a binding requirement for impact assessments on the spillovers. Three agreements include requirements to consult FTA partners when revising or developing national legislation, and four agreements include provisions to provide financial or technical assistance.

Figure 5. Proportion of US, EU, and Swiss FTAs including labour- and environment-related provisions



Comparing FTAs signed before and after 2010 offers further insight (see Figures 6, 7, and 8). While pre-2010 EFTA FTAs exclusively included general references to labour, 75% of post-2010 EFTA FTAs also include more specific provisions on employment. A similar pattern emerges on the environment: pre-2010 FTAs contain only general references, whereas more recent agreements also include mentions of forests and biodiversity. References to climate change and pollution remain rare across both periods in our sample of EFTA FTAs.

Figure 6: Proportion of US FTAs including labour- and environment-related provisions[246]

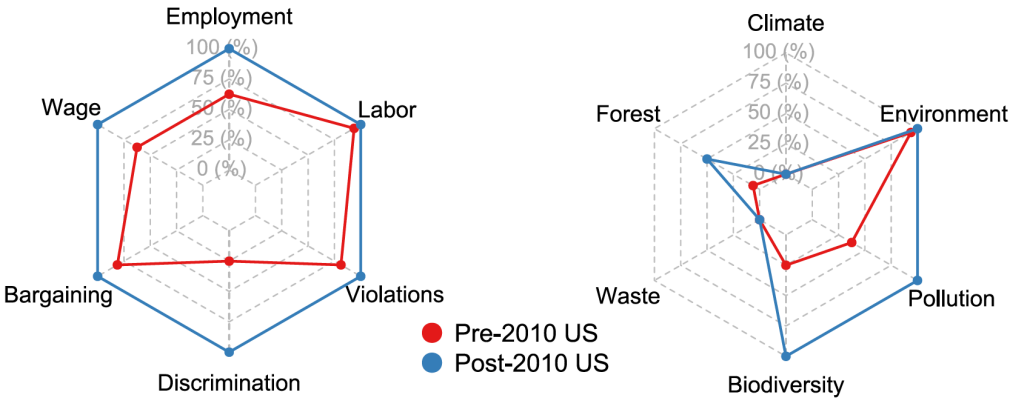


Figure 7: Proportion of EU FTAs including labour- and environment-related provisions

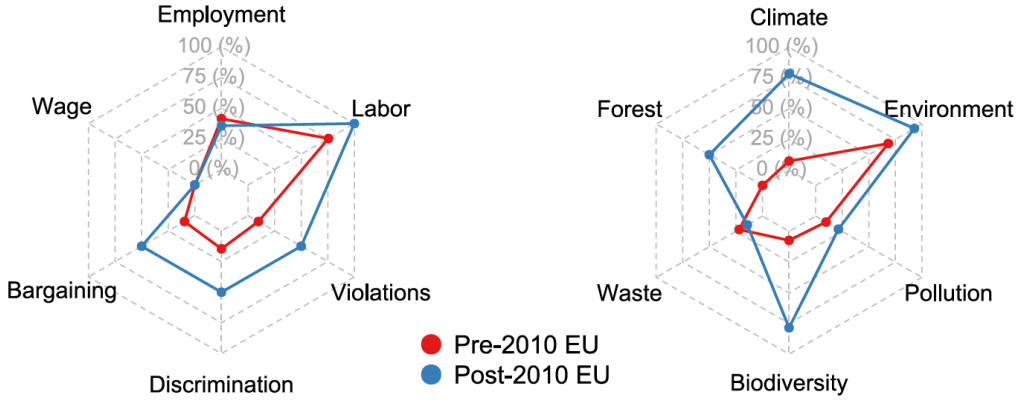
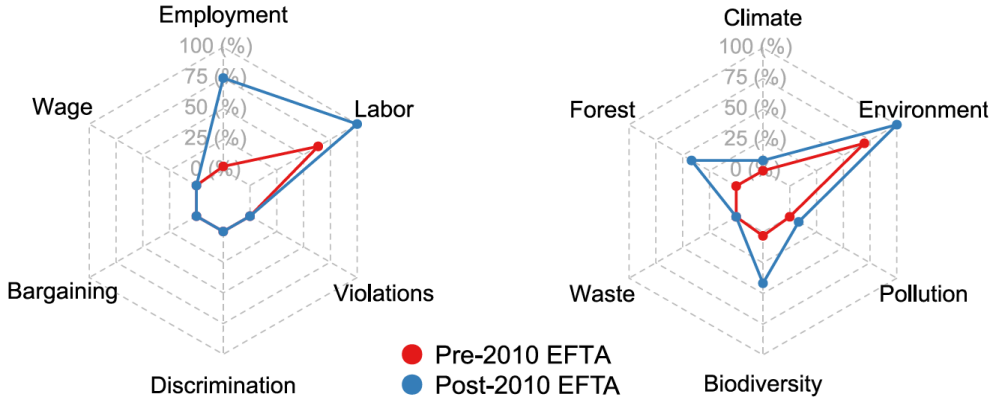


Figure 8: Proportion of EFTA FTAs including labour- and environment-related provisions



[246] In our sample, only two US FTAs were concluded after 2010: the USMCA and the TPP.

The patterns observed across the EU, US, and EFTA FTAs point to a broader transformation in the politics of trade in high-income economies. Beginning in the late 2000s, governments in the global North faced increasing domestic scrutiny over the social and environmental consequences of globalisation. As public support for FTAs became more dependent on demonstrating compatibility with labour protection and climate objectives, trade negotiators responded by incorporating more explicit and operational provisions on labour rights and environmental governance.[247] This evolution reflects not only heightened political expectations from domestic constituencies, but also the growing salience of sustainable development in public debates and diffusion effects across FTAs, whereby innovations introduced in one agreement tend to be replicated in others.[248]

By contrast, gender-related provisions remain rare in FTAs. Notable exceptions include the Chile–EU FTA, which encourages parties to promote relevant ILO conventions, covering such topics as "equal treatment between men and women" and the 2000 Cotonou Agreement between the EU and African, Caribbean, and Pacific countries, which recalls the Convention on the Elimination of all forms of Discrimination against Women. In US agreements, only the USMCA provides that "each Party shall implement policies that it considers appropriate to protect workers against employment discrimination on the basis of sex (including with regard to sexual harassment), pregnancy, sexual orientation, gender identity, and caregiving responsibilities." None of the EFTA agreements in our sample includes binding provisions on gender.

c. Notable Examples of Trade-related Obligations in FTAs (Package Treaties)

Based on our research, we consider the inclusion of trade-related obligations in an FTA with the intent to reduce its negative effects of trade liberalisation for the economy, society, or the environment or with the intent of strengthening labour or environmental protection a particularly promising way of combining the benefits of trade liberalisation with the benefits of trade-related international cooperation. In essence, by overcoming historically grown regulatory silos in international law, FTAs can be used as an instrument to strengthen sustainable development domestically and worldwide.[249] We refer to FTAs which combine in a legally or politically binding manner trade-related obligations with obligations in trade liberalisation as "Package Treaties."

NAFTA (1994) is widely regarded as the first "package treaty," combining trade liberalisation with parallel side agreements on labour and the environment. These side agreements, the North American Agreement on Labour Cooperation and the North American Agreement on Environmental Cooperation, broke new ground by institutionalising cooperation, monitoring, and public complaints mechanisms outside the core trade text. Although their enforcement tools were limited, they established a precedent that shaped all subsequent US FTAs.[250] Beyond their innovative nature, the labour and environmental side agreements also served clear strategic purposes. For the Clinton administration, the "package treaty" structure was essential for securing congressional approval: the side agreements were crafted to reassure Democratic lawmakers and organised labour that Mexico's laxer environmental and labour laws would not lead to the relocation of US industries and jobs.[251] Substantively, however, their weak enforcement tools limited their ability to drive significant behavioural change.[252]

[247] A notable exception is the US, which refrains from including any references to climate change in its FTAs (see Figure 5).
[248] Morin, Hollway & Pauwelyn 2017; Peacock, Milewicz & Snidal (2018).
[249] See for more details: Special Issue «Trade Packages», Charlotte Sieber-Gasser & Noémie Laurens (eds.), World Trade Review 23(5) (2024).
[250] Jinnah & Morin (2020).
[251] Griffin (1997); Moreno, Rubin, Smith, & Yang (1999).
[252] On the negative distributional impacts of NAFTA on employment and wages, see Section 3a; on mixed environmental impacts, see Section 3c.

This experience later informed the move towards more binding labour and environmental provisions in subsequent US FTAs.

When NAFTA was renegotiated in 2018, its successor, the **USMCA**, substantially upgraded these provisions, making them more modern, precise, and enforceable. Most notably, the USMCA introduced a Rapid Response Labour Mechanism (RRLM), a novel enforcement tool allowing independent panels to investigate and sanction individual factories that deny workers' rights to free association or collective bargaining. This mechanism has already been used several times in Mexico to address workplace disputes.[253] Chapter 23 of the USMCA also required Mexico to adopt major labour law reforms before US congressional approval, including guarantees for union democracy and collective bargaining and a minimum wage requirement for the automotive sector to ensure fairer competition.

On the environment, Chapter 24 of the USMCA is the most comprehensive environmental chapter ever included in a US trade deal.[254] While it largely builds on the provisions of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), it introduces new commitments on marine litter reduction and sets minimum penalties for wildlife trafficking and illegal logging. It also subjects environmental obligations to the same dispute settlement procedures as commercial ones, as is typical in recent US FTAs.

That the USMCA became the "greenest" US trade agreement and introduced a major innovation in labour enforcement surprised many observers, given that the renegotiations were launched under the first Trump administration, which had repeatedly described NAFTA as "the worst trade deal ever signed by the United States." In practice, much of the renegotiation process involved updating NAFTA by drawing on labour and environmental innovations that had accumulated over nearly three decades of US FTA practice. Congressional Democrats nonetheless argued that the initial USMCA text remained insufficient on labour and environmental protection, prompting a further round of refinements before the agreement was ultimately approved. Importantly, the USMCA maintained the Commission for Environmental Cooperation (CEC) created under NAFTA, which continues to conduct research, develop tools, and provide training to support environmental collaboration among the US, Canada, and Mexico. Most recently, the CEC launched a five-year review of the Agreement on Environmental Cooperation, the environmental side agreement to the USMCA.

Nevertheless, the future of environmental provisions in US trade agreements is now subject to significant uncertainty. The current Trump administration has pursued measures that are even more detrimental to trade–environment governance than those adopted during its previous mandate, including withdrawing from the Paris Agreement, prioritising fossil fuel expansion, and introducing aggressive trade tariffs.[255]

The **EU–Vietnam** FTA is another notable package treaty. Like other EU FTAs, it includes a dedicated TSD chapter. Notably, Article 13.4 provides that:

> the Parties commit to uphold the fundamental labour rights within the meaning of the ILO Declaration on Fundamental Principles and Rights at Work, namely: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in

[253] Bown & Claussen (2024).

[254] Laurens, Dove, Morin, & Jinnah (2019).

[255] How these new laws and changes in environmental policy affect trade relations, remains open at this point. Certainly, they will both affect prospects of domestic environmental protection as well as global climate change mitigation. See e.g. Duffau, The attacks of the Trump II administration on climate, the environment, and biodiversity, IRIS, E. 2025: <https://www.iris-france.org/en/111410/; Climate Backtracker from Colombia Law School, https://climate.law.columbia.edu/content/climate-backtracker>; Campbell, The impact of Donald Trump's anti-climate measures on our heating planet, The Conversation, B. 2025: <https://theconversation.com/the-impact-of-donald-trumps-anti-climate-measures-on-our-heating-planet-247887>.

> respect of employment and occupation. In addition, the Parties undertake to make sustained efforts towards ratification of those ILO Fundamental Conventions to which they are not yet party. requiring the parties to adopt, maintain, and effectively implement the eight fundamental ILO Conventions.

The EU–Vietnam negotiations unfolded strategically alongside Vietnam's engagement in the Trans-Pacific Partnership (TPP). In December 2014, Vietnam became the first ASEAN member after Singapore to conclude an FTA with the EU. Yet it was only after years of difficult bargaining that Vietnam agreed to binding labour provisions. The initially concluded TSD chapter "had enforcement mechanisms even softer than those of previous agreements concluded by the EU with other lower middle-income countries".[256] Despite longstanding concerns over sovereignty and the need to maintain coherence with the Communist Party's ideological stance, the Vietnamese government ultimately chose to undertake substantial reforms, including a major labour law reform in 2019 and the ratification of ILO Convention 98 (right to organise) even before the European Parliament's vote in order to secure approval of the agreement.

Unlike US FTAs[257], which hardly mention climate change, the EU's trade agreements are far more elaborate on this front. The **EU–UK Trade and Cooperation Agreement** (TCA) concluded in 2020, which ranks first in our sample in terms of the number of spillover-related provisions (see Table 6), is a notable example. Article 764 (fight against climate change) provides that "each Party shall respect the Paris Agreement and the process set up by the UNFCCC and shall refrain from acts or omissions that would materially defeat the object and purpose of the Paris Agreement." Crucially, this article is listed among the essential elements of the agreement, meaning that if either Party considers that there has been a serious and substantial failure by the other Party to fulfil these obligations, it may decide to terminate or suspend all or part of the agreement (Article 772). This makes the TCA the first trade agreement to treat compliance with the Paris Agreement not only as a binding obligation but also as a condition for maintaining preferential trade relations.[258] At the time of negotiation, the EU and the UK were broadly aligned on climate policy, and the EU sought to ensure that post-Brexit regulatory divergence would not undermine its own climate ambition or create competitive disadvantages under the European Green Deal. Making compliance with the Paris Agreement an essential element of the TCA was therefore a way to anchor this alignment and to condition preferential trade on maintaining comparable levels of climate commitment. Whether this approach will prove effective is still unclear. While the TCA sets an important precedent, it is too early to assess whether it will prevent backsliding or lead to stronger mitigation efforts on either side.

On the Swiss side, the **EFTA–Indonesia** FTA signed in 2018 stands out as linking market access for agricultural commodities to sustainability criteria. The agreement grants tariff preferences for a limited quota of Indonesian palm oil, but only for products that meet sustainability certification standards consistent with the principles of sustainable production and traceability (Annexes II to V).[259] Each EFTA state retains the right to verify compliance and to withdraw preferential treatment if the conditions are not met. In practice, these environmental safeguards were critical for public acceptance of the FTA: in a 2021 referendum, a comparatively narrow margin of 51.7% of voters approved the agreement. While the regulatory mechanism to grant trade preferences for sustainably produced goods – therewith overcoming the regulatory race-to-the-bottom in non-product related processing and production standards – is groundbreaking in itself,[260] the specific design of trade preferences for sustainable palm oil is characterised by very limited economic incentives (gains are limited to 1-10 CHF per

[256] Sicurelli (2021).
[257] Including the USMCA and the CPTPP.
[258] Ghering (2021).
[259] For details, see Sieber-Gasser (2021), 271 ff.
[260] See Sieber-Gasser, Charlotte, The EFTA-Indonesia Template for Sustainable Palm Oil – and for Human Rights?, Human Rights in Context, 29 April 2021: <https://www.humanrightsincontext.be/post/the-efta-indonesia-template-for-sustainable-palm-oil-and-for-human-rights>.

100kg of sustainable palm oil) and a substantial amount of bureaucratic effort. Consequently, the Swiss preferences were only used once since the implementation of the FTA in 2021, for the import of 21 tons of palm oil.

The **EFTA–India** FTA, concluded in 2024, includes a dedicated TSD chapter that reaffirms the Parties' commitment to effectively implement the ILO Conventions, multilateral environmental agreements, and international agreements pertaining to gender equality to which they are a party. The agreement also establishes a "Sub-Committee on Sustainability" responsible for monitoring and reviewing the implementation of TSD provisions and for facilitating dialogue and cooperation between the Parties. While far less ambitious than recent EU FTAs, the EFTA-India FTA marks the first time India has accepted legally binding labour and environmental provisions in an FTA. The agreement also provides a very useful template to understand how trading partners can collaborate to benefit mutually. EFTA countries aim to invest $100 billion as FDI, over the next 15 years, and generate 1million jobs in India (Article 7.1.3). The cooperation involves, inter alia, capacity building in India to facilitate skill development, vocational education, etc., and prepare the workforce for new (formal) jobs. In return, EFTA countries get market access in India.

The **Agreement on Climate Change, Trade and Sustainability** (ACCTS), signed in 2024 by New Zealand, Costa Rica, Iceland, and Switzerland, is a first-of-its-kind package treaty and represents one of the most ambitious attempts to integrate climate and environmental objectives into a trade agreement. The ACCTS combines three core pillars, with new and binding provisions on the elimination of tariffs on a broad list of environmental goods and services, the world's first legally binding international prohibitions on specifically harmful fossil-fuel subsidies, and guidelines for eco-labelling schemes. Although relatively small in membership, the ACCTS sets a potential global precedent for embedding climate action within the architecture of trade agreements.

A very interesting new mechanism is introduced in the modernised **Free Movement of Persons Agreement** between the EU and Switzerland: Should certain critical effects materialise in the Swiss labour market, Switzerland has the right to withdraw temporarily and proportionally from the obligations (subject to review by the arbitration panel).[261] This mechanism promises to provide for the necessary flexibility to ensure that substantive labour-market commitments do not produce unwanted and unforeseeable negative effects for the economy, society, or the environment.

While the long-term effects of this new generation of "package treaties" remain to be seen, we argue that the most promising design features for future FTAs include:

- Binding environmental and social provisions on a comprehensive list of issue areas (see Figure 1), ensuring that sustainability standards are not merely aspirational but legally enforceable – depending on the context, such obligations should be associated with economic incentives (carrots) or market restrictions (sticks);
- Clear, measurable, and time-bound obligations, including commitments to implement international conventions and to undertake specific domestic reforms, where relevant – supervision through mandatory *ex post* impact assessments;
- Flexibility to adjust obligations in case the FTA produces unforeseeable negative effects, including the right to temporarily withdraw from obligations and the commitment to renegotiate;
- Targeted assistance for developing partners to build the capacity needed to implement and monitor these provisions effectively, to overcome "underutilisation," and to address labour market adjustments;

[261] Art. 14(2) (Draft) Agreement on the Free Movement of Persons between EU and Switzerland. See also: <https://www.europa.eda.admin.ch/dam/de/sd-web/G2XlfDQxAqjt/003%20Faktenblatt%20Zuwanderung%20(DE).pdf>.

- Robust mechanisms for implementation and oversight, such as intergovernmental committees and periodic reviews with clear mandates to monitor compliance, evaluate progress, and recommend corrective actions; and
- Enhanced transparency obligations, including mandatory publication of implementation reports, domestic reforms, and data on enforcement actions.

To ensure compliance with labour, environmental, and gender provisions in FTAs, two types of tools are available. Positive conditionality ("carrots") involves offering, *ex ante* or *ex post*, incentives such as trade concessions, preferential market access, or financial assistance to encourage compliance with specific provisions. Negative conditionality ("sticks"), by contrast, entails imposing sanctions or withdrawing benefits when a party fails to meet those conditions. For decades, the EU has favoured positive conditionality, refraining from incorporating sanctions in its FTAs and instead emphasising a cooperative approach to compliance based on dialogue and capacity-building.[262] The US, by contrast, is known for its more assertive stance.[263] Since the 2000s, US FTAs have included "sticks," such as the suspension of trade benefits for non-compliance with environmental and labour provisions, and it has become standard practice to subject these provisions to the FTA's main dispute-settlement mechanism.[264] More recently, the EU has begun shifting towards negative conditionality. The new TSD approach introduced in 2022[265] provides for the possibility of using trade sanctions as a last resort in instances of serious violations of international commitments, such as those contained in the Paris Agreement on Climate Change or the ILO's fundamental principles and rights at work.

In practice, sanctions for non-compliance with TSD provisions are a last resort, applied only after consultations, mediation, and arbitration have been exhausted. Their effectiveness is also debated in the literature. For instance, Postnikov (2020) finds that the threat of sanctions prompted environmental reforms in Chile and labour reforms in Colombia before the conclusion of FTAs with the US, but that this deterrent effect diminished once the agreements entered into force.[266] This casts doubt on the effectiveness of sanctions at the implementation stage, particularly when not supported by robust monitoring.[267] More broadly, economists question the efficacy of economic sanctions, noting their potential interference in domestic affairs[268] and adverse effects on disadvantaged groups[269].

Ultimately, determining whether an FTA should rely primarily on positive or negative conditionality is context-dependent and cannot be reduced to a single rule. When obligations imply significant administrative, financial, or regulatory adjustments, especially in developing-country partners, positive conditionality may be more appropriate, as it can help address capacity constraints and lower the domestic costs of reform. Conversely, negative conditionality seems adequate in situations where partners are deemed able to comply but appear unwilling to do so, or where commitments reiterate obligations already accepted in other international frameworks.[270]

In sum, FTAs can contribute to sustainable development by embedding labour, environmental, and gender provisions that require regulatory improvements and compliance with international instruments. Such chapters can support stronger enforcement of domestic labour and environmental laws. Evidence also suggests that well-designed environmental provisions can mitigate the negative impacts

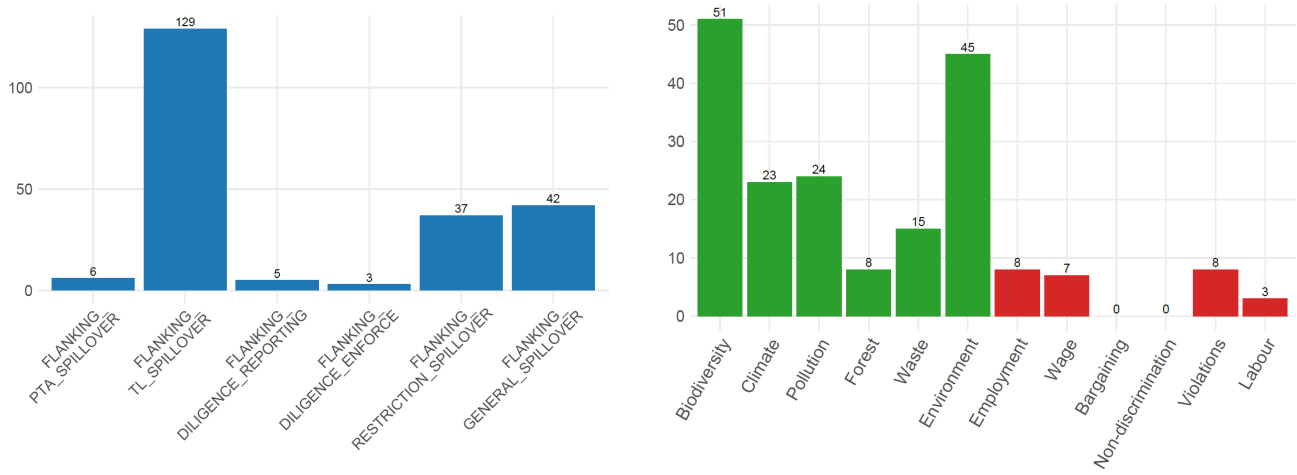
[262] Postnikov (2020).
[263] Jinnah & Morin (2020).
[264] Jinnah (2011).
[265] European Commission (2022).
[266] Postnikov (2020).
[267] See also Hradilová & Svoboda (2018).
[268] Smith (1998).
[269] Marantis (1994); Peksen (2019).
[270] E.g., ILO conventions, Paris Agreement.

of trade liberalisation[271] and that labour provisions may strengthen labour rights in partner countries[272]. However, these effects remain contingent on political will, institutional capacity, and credible follow-up mechanisms.

d. General Trends in Flanking Measures

The findings from the Flanking Measures Database indicate that countries use a variety of domestic flanking measures to address the environment- and labour-related effects of trade liberalisation.[273] Most governments find it feasible to address trade-related concerns through standards (_TL_SPILLOVER), compared to other domestic measures, such as imposing restrictions (or an outright ban) on the free movement of goods. To regulate trade, countries may prescribe rules, notifications, or other obligations on imports and exports to address specific effects in this regard.[274] Other flanking measures, such as those linked to a particular trade agreement or those requiring due diligence on the part of corporations to maintain labour or environmental standards, are implemented only in advanced economies.[275]

Figure 9: Distribution of flanking measures (category-wise and spillover-wise)



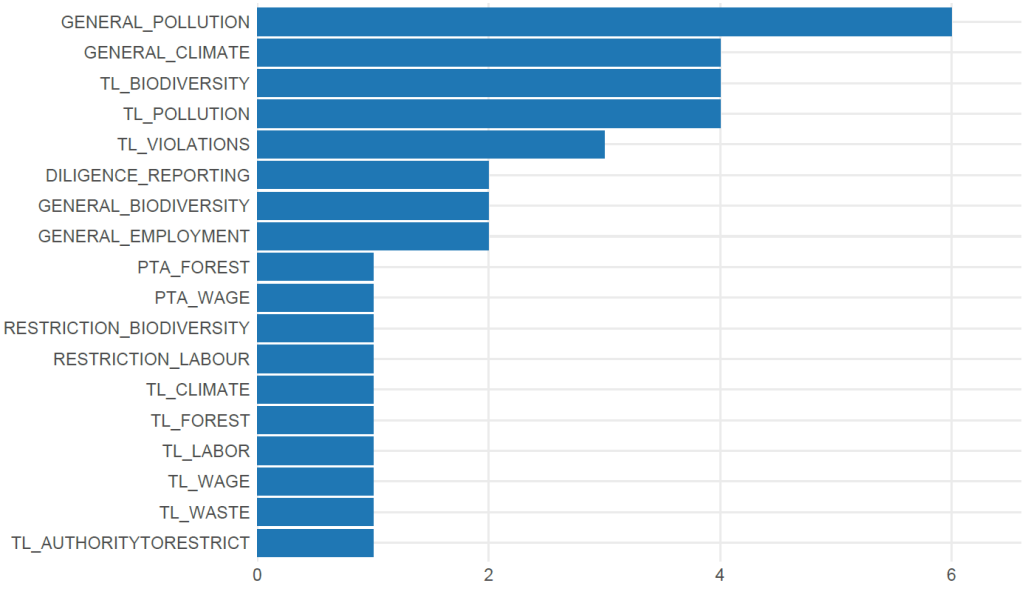
In addressing the negative effects of trade liberalisation, our data indicates that countries focus most on addressing environment-related effects of trade liberalisation at home. In percentage terms, an overwhelming 86% of the domestic laws in our sample focus on the environmental effects of trade. Labour-related concerns at home are addressed only in 14% of the flanking measures identified in our database. The numbers are even smaller for domestic measures addressing environment- or labour-related effects abroad. Clearly, the domestic regulatory environment has an impact on the design of FTAs, and especially the TSD chapters therein: if domestic laws already ensure high labour standards and environmental protection, an FTA is less likely to a) have negative effects on labour or the environment, and is therewith also less likely to b) incorporate substantial new obligations on labour and environmental protection. Whether or not an FTA has a positive impact on environmental and labour protection therefore always also depends on the existing domestic standards. We can observe, for example, that FTAs between countries with high levels of environmental and labour protection more

[271] See section 3c of this study.
[272] Postnikov & Bastiaens (2014).
[273] See Figure 9.
[274] E.g. rules regarding the import of hazardous waste, trade in endangered species, safeguard duties to protect domestic workers from import surge.
[275] E.g. US, EU.

recently incorporate comparatively substantive TSD chapters, without, however, creating new obligations for the FTA partners.[276] TSD obligations in FTAs have, therefore, to be read in conjunction with domestic flanking measures in order to assess the overall level of protection.

In addition, we notice that whereas a number of environmental effects are acknowledged as directly linked to trade, certain labour-related effects of trade liberalisation[277] are usually treated as part of a larger domestic policy challenge, de-linked from trade. The difference is visible in the way governments respond to the labour adjustment costs of trade largely as a domestic, non-trade issue, even if such costs, if not addressed effectively, may delay the net gains of trade.[278]

Figure 10: Distribution of flanking measures in Switzerland



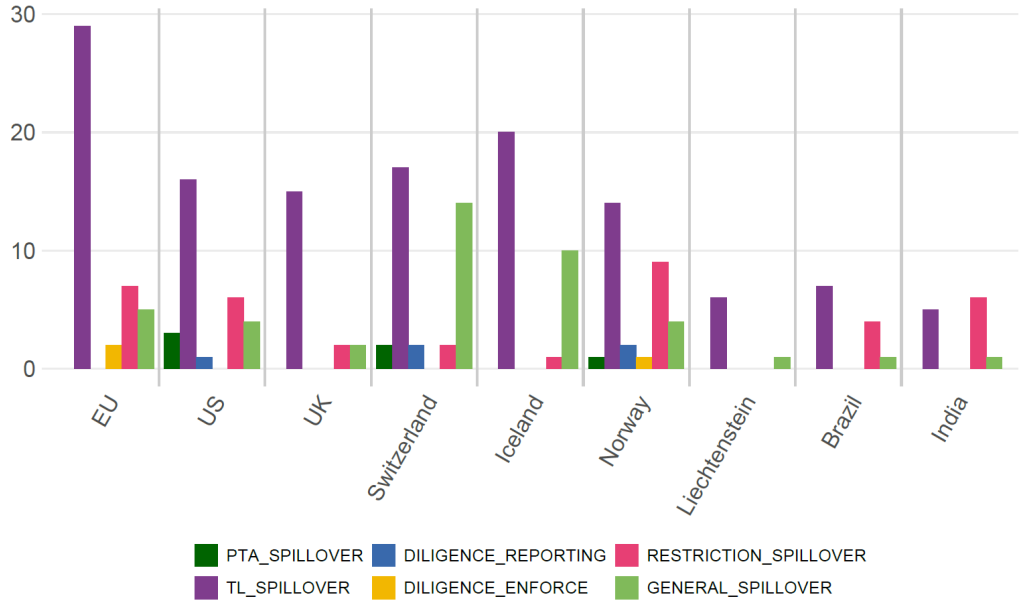
At the national level, Switzerland has implemented a comparatively large number of flanking measures addressing various trade-related concerns.[279] Clearly, the emphasis lies also in Swiss flanking measures on environmental protection at home. Contrary to most of the other countries in the database, however, Switzerland uses all available regulatory instruments – FTA-specific measures, measures specifically linked to trade liberalisation, due diligence obligations, market access restrictions and measures generally linked to trade liberalisation – in flanking policy.[280] Clearly also, Switzerland is comparatively open for a global North economy and clearly regulates trade effects rather via standards than via market restrictions.

The only existing flanking instruments not yet introduced in Switzerland are enforceable due diligence obligations.[281] Current due diligence laws in Switzerland establish reporting requirements for companies to monitor compliance with human rights, corruption, child labour, and climate change mitigation. Liability under Swiss law is limited to reporting obligations and does not cover non-compliance with standards abroad.[282] By contrast, the EU has adopted a directive – more stringent and broader in scope

[276] See e.g. EU-New Zealand FTA.
[277] E.g. labour adjustment costs, employment effects.
[278] Shaffer (2019), 2 f.
[279] See Figure 10.
[280] See Figure 11 for a complete comparison across different countries.
[281] See Figure 10.
[282] See SECO, Corporate Social Responsibility: <https://www.seco.admin.ch/seco/de/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/nachhaltigkeit_unternehmen/gesellschaftliche_verantwortung_der_unternehmen.html>.

– that not only sets rules on obligations for companies concerning human rights violations and environmental impacts across their entire chain of activities (including subsidiaries) but also enforces liability for violations of these obligations.[283]

Figure 11: Distribution of flanking measures across different countries



The above data indicate that most flanking measures in Switzerland are designed to regulate trade, whereas only a few domestic laws seek to restrict the flow of goods. The restrictive laws are applied in cases that relate to illegal trade or trade in endangered species, to public morals or animal welfare, to dangerous chemicals and matters of national security, etc. The more general, regulatory flanking measures, on the other hand, tend to impose some form of extra-cost on the goods entering the country, to address – primarily – environment-related spillovers. Examples include quarantine obligations[284], labelling obligations[285], or taxes[286].

A cross-country comparison of flanking measures (Figure 8) provides a crucial insight into how global south countries use domestic policies to address spillovers of trade. India and Brazil have fewer flanking policies – all linked to the environment – when compared to other global north countries. These measures are either used to regulate or restrict trade. This information is useful as it allows global north countries to understand the limitations and gaps in domestic flanking measures in developing economies while negotiating trade agreements, and consequently, incentivise introduction of policies that may help trading partners benefit mutually. For example, instead of imposing labour standards using trade agreements on developing economies with high levels of informal employment, domestic laws requiring due-diligence by firms may be introduced or strengthened, if already enacted, while negotiating trade agreements. Developed economies may also use this information to design their own flanking policies, linked to trade agreements, that support trade liberalisation in developing economies. For example, advanced economies can design domestic policies, linked with trade agreements,

[283] See SECO, EU-Lieferketten-Richtlinie: <https://www.kmu.admin.ch/kmu/de/home/praktisches-wissen/import-export/eu-lieferketten-richtlinie.html>.
[284] E.g. Ordinance on Plant Health, 31 October 2018, SR 916.20.
[285] E.g. Ordinance on Energy Efficiency, 1 November 2017, SR 730.02.
[286] E.g. Motor Vehicle Tax Act, 21 June 1996, SR 641.51.

that may help developing economies build capacity or resources to deal with environment-related challenges.[287]

e. Notable Examples of Trade-Related Domestic Measures (Flanking Measures)

The practice to legally tie domestic laws to a trade agreement, or trade liberalisation in general, significantly enhances the ability of governments to address the negative effects of trade through different monitoring and enforcement mechanisms, as noted above. Designing the domestic regulatory framework in such a way to also address the negative effects of trade abroad may furthermore strengthen international commitments in FTAs to improve labour and environmental standards and support the role of FTAs in the implementation of sustainable development. Existing unilateral trade-related measures furthermore have an impact on the FTA negotiating mandate: as can be seen in EU–MERCOSUR, the EU's unilateral trade-related deforestation measures were acknowledged in the FTA to the extent that MERCOSUR countries reserve the right to compensating measures should the EU's market restrictions negatively impact the overall balance of the agreement.[288] Another example of how the domestic regulatory framework impacts FTA negotiations is the fact that Norwegian importers of palm oil already were obliged to ensure sustainability prior to FTA-negotiations:[289] This may have played a critical role in achieving agreement on limiting tariff preferences to sustainable palm oil in the EFTA-Indonesia FTA.

In addition, the domestic regulatory framework may also critically impact on the negotiating mandate. For instance, Switzerland is legally required to ensure its FTAs contribute to sustainable development in the agriculture sector.[290] The EU is also legally obliged to ensure that FTAs are compatible with sustainable development and the EU Commission does not have a mandate anymore to negotiate FTAs that ignore the negative effects of trade liberalisation, particularly on climate and environment.[291] Clearly, domestic laws on foreign trade policy have a direct impact on the design of FTAs and therewith on their ability to prevent negative effects and contribute to sustainable development.

Meyer (2025) classifies the domestic flanking policies into *first* and *second* generation policies, based on their design and objectives.[292] The *first* generation flanking policies target negative economic effects of trade liberalisation within the enacting country. While they are not incorporated as a part of a trade agreement, they may be legally linked to them through domestic legislation. NAFTA (1994) is the earliest example of a trade agreement specifically linked to a domestic flanking measure. While the US had a full-fledged domestic **Trade Adjustment Assistance** (TAA) programme to take care of the income and employment needs of workers who were displaced from their jobs due to trade liberalisation,[293] the domestic legislation implementing NAFTA incorporated the provisions of TAA within the statute itself[294]. This established a clear link between the labour spillover (job losses) due to trade liberalisation (NAFTA), and a domestic flanking measure (NAFTA-TAA).

The issue of job displacements following trade liberalisation has been a challenge for most governments, especially from a political economy perspective. To mitigate the employment spillover, subsequent US trade agreements have routinely incorporated sectoral safeguard measures, which have been operationalised through domestic legislation implementing a particular trade agreement. For

[287] E.g. green technology fund.
[288] For more details, see e.g. Dupré & Kpenou (2025).
[289] See norwegian company's sustainability reporting obligations.
[290] Art. 104a Swiss Cst.
[291] Art. 21 TEU.
[292] See Meyer (2024), 601 ff.
[293] For a detailed discussion on TAA, see Park (2012), 797 ff.
[294] See Title V, Pub. L. 103-182.

example, the **US–Korea FTA Implementation Act** incorporates motor vehicle, textile, and apparel safeguard measures to preempt job displacements[295] by protecting domestic workers and firms from import surges following tariff cuts in these sectors.[296] The EU has also adopted general safeguard measures to mitigate the impact of import surges due to tariff preferences extended to developing countries and LDCs under the GSP scheme.[297]

First generation domestic flanking measures also provide additional flexibility to governments, as the scope of domestic laws, unlike treaties, which are difficult to amend, can be broadened to suit the needs of the changing times. The **European Globalisation Adjustment Fund** was set up by the EU initially to address the concerns of vulnerable workers, displaced from their jobs due to trade-related shocks, through training, job search assistance, etc.[298] However, in light of growing economic uncertainties, the scope of the programme has been extended to cover workers impacted due to other non-trade-related reasons, such as digitization, automation, and transition to a low-carbon economy. Such design flexibilities also help policymakers address implementation challenges while making a distinction between spillovers that may be linked to trade or non-trade-related reasons (or both).

The *second* generation domestic flanking policies target the negative distributional consequences that occur in foreign countries, rather than the enacting country, and their focus is typically on non-economic costs linked to environmental standards, labour and human rights concerns, etc. Since these policies are intended to have an extraterrestrial operation, they do not enjoy the same flexibility as the first generation policies and may require a greater degree of consultation and planning. For example, the successor to NAFTA, the USMCA, strengthens the enforcement of labour- and environment-related commitments in Mexico. The treaty provisions are flanked by US domestic legislations that establish institutional mechanisms to monitor the implementation of labour- and environment-related obligations by Mexico and Canada. The **USMCA Implementation Act**[299] provides for the establishment of different labour and environment committees by the US to monitor and enforce: environmental obligations, implementation of labour reforms, and prohibition of imported goods produced with forced labour in Mexico.[300] Furthermore, the legislation earmarks funds by the US to its different agencies to support labour reforms in Mexico, as required under the treaty provisions, and to also address environmental spillovers of trade under other domestic laws.[301] Another notable example of *second* generation policy is the **Uyghur Forced Labour Prevention Act**[302] enacted by the US that aims to prevent goods made with forced labour from Xinjiang Uyghur Autonomous Region of China from entering the US market.

The EU has taken a lead in addressing environment-related negative spillovers through second generation flanking policies. As part of its overall climate mitigation strategy, the EU implemented the **Carbon Border Adjustment Mechanism (CBAM)**[303] that aims to target foreign production processes by charging importers a duty based on their carbon footprints during production. Another recent **EU Regulation on Deforestation-free Products (EUDR)**[304] aims to reduce deforestation, biodiversity loss, and carbon emissions by restricting imports and exports of products that contribute to deforestation or

[295] See Title III, Pub. L. 112-41.
[296] Several other US trade agreements with trading partners such as Colombia, Chile, Peru, and Australia also included provisions to safeguard domestic jobs and firms, mostly in the textile and apparel sector.
[297] See Chapter VI of Regulation (EC) No. 732/2008.
[298] See Regulation (EC) No 1927/2006.
[299] Title VII and VIII, Pub. L. 116-113.
[300] For example, pursuant to section 711 of the USMCA Implementation Act, an Executive Order 13918 of April 28, 2020, establishes an Intra-agency Labour Committee to monitor the labour obligations of Canada and Mexico under the trade agreement.
[301] See Title IX, Pub. L. 116-113.
[302] Pub. L. 117-78.
[303] Regulation (EU) 2023/956.
[304] Regulation (EU) 2023/1115.

originate from recently deforested land. The ultimate objective of such policies is to push other countries to raise their respective environmental standards and ensure that domestic policies are not prevented from having their intended effect due to non-compliance by foreign countries in the course of international trade.

Trade-related development assistance outside of the contested scope of "aid for trade" can generally play a critical role in enhancing the ability of FTAs to play a substantive role in the promotion of sustainable development. For instance, the recently concluded negotiations between EFTA and MERCOSUR resulted in a comparatively strong TSD chapter.[305] The fact that EFTA countries (above all Norway) previously invested more than EUR 130 million in the Amazon Fund helped FTA negotiations. Similarly, Norway invested so far more than EUR 200 million in Indonesia's forest protection efforts, which also helped achieve consensus on the tariff preferences for sustainable palm oil in the EFTA–Indonesia FTA.

Similar adjustment assistance can also be linked to future trade agreements. For example, Switzerland's primary **Development Finance Institution** (DFI), the Swiss Investment Fund for Emerging Markets (SIFEM), aims to stimulate job creation and foster sustainable economic development in low- and middle-income countries. The same instrument, if linked to an FTA, can be used to benefit both the trading partners. On the one hand, the trading partner can utilise these Swiss investments to create jobs and build capacity to improve labour standards and address environmental concerns. On the other hand, Switzerland can gain negotiating leverage for additional market access in sectors that are otherwise protected.

The domestic flanking policies are useful instruments that provide governments additional policy space to address not just the distributional consequences of trade agreements but also use them to maximise benefits for all the trading partners. In this regard, we propose the following flanking policy designs that hold promise for the future:

- Trade capacity-building using second generation flanking policies to assist developing economies in building capacities[306] to benefit from trade liberalisation and also address the negative spillovers of trade[307]. This may help in building consensus in favour of trade liberalisation in developing economies and help them open up 'sensitive' sectors in trade agreements.
- Designing second-generation flanking measures to address economies costs, such as labour adjustment costs, in addition to non-economic costs[308], by linking adjustment assistance with trade agreements. This is a relatively less explored area but holds a lot of potential for future trade agreements.[309]
- Focus on mutually agreed flanking measures instead of unilateral policies, such as CBAM, which may be viewed adversely by trading partners, especially developing economies, as being externally enforced, imposing additional barriers to trade, and likely to be legally challenged. Instead, mutually agreed flanking policies[310] may achieve sustainability goals through better compliance by trading partners.

[305] Alas not as strong as the TSD chapter in EU–MERCOSUR.
[306] E.g. environment-related technology, labour market reforms.
[307] E.g. US funding commitments to improve labour standards in Mexico.
[308] E.g. labour, environmental standards.
[309] E.g. Swiss DFIs to assist in strengthening labour market adjustment policies in partner countries.
[310] E.g. tariff preferences on sustainable palm oil in EFTA-Indonesia.

Key Findings Section 5 – in English, Deutsch & Français

Section 5 shows that modern FTAs go well beyond trade liberalisation and can promote labour rights, environmental protection, human rights and, to a lesser extent, gender equality, with positive spillovers depending on regulatory design, legal bindingness and interaction with domestic and international rules. Since the mid-2010s, labour and environmental provisions have become near-universal, shifting from vague references to more specific obligations on issues such as biodiversity, child labour and climate change, while gender provisions remain rare and Switzerland/EFTA generally lags behind the EU and US. "Package treaties" that combine trade liberalisation with binding social and environmental obligations are most effective when supported by monitoring, enforcement, flexibility and targeted assistance, with both incentives and sanctions playing context-dependent roles. Meanwhile, domestic flanking measures are essential complements to FTAs, as national labour and environmental laws strongly shape outcomes, with Switzerland relying mainly on regulatory standards and lacking enforceable due-diligence rules compared to the EU, highlighting the need to align FTAs with robust domestic measures, preferably through mutually agreed rather than unilateral instruments.

Abschnitt 5 zeigt, dass moderne Freihandelsabkommen (FHA) weit über die Handelsliberalisierung hinausgehen und Arbeitsrechte, Umweltschutz, Menschenrechte und, in geringerem Masse, die Gleichstellung der Geschlechter fördern können. Die positiven Folgeeffekte hängen von der Ausgestaltung der Regelungen, ihrer Rechtsverbindlichkeit und dem Zusammenspiel mit nationalen und internationalen Vorschriften ab. Seit Mitte der 2010er-Jahre sind Arbeits- und Umweltbestimmungen nahezu universell geworden und haben sich von vagen Verweisen zu konkreteren Verpflichtungen in Bereichen wie Biodiversität, Kinderarbeit und Klimawandel entwickelt. Bestimmungen zur Gleichstellung der Geschlechter sind hingegen weiterhin selten, und die Schweiz/EFTA hinkt der EU und den USA im Allgemeinen hinterher. „Package treaties", die Handelsliberalisierung mit verbindlichen sozialen und ökologischen Verpflichtungen verbinden, sind am wirksamsten, wenn sie durch Monitoring, Durchsetzung, Flexibilität und gezielte Unterstützung ergänzt werden. Anreize und Sanktionen spielen dabei kontextabhängig eine wichtige Rolle. Gleichzeitig sind nationale Begleitmassnahmen unerlässlich, da nationale Arbeits- und Umweltgesetze die Ergebnisse massgeblich beeinflussen. Die Schweiz stützt sich hauptsächlich auf regulatorische Standards und verfügt im Vergleich zur EU über keine durchsetzbaren Sorgfaltspflichten. Dies unterstreicht die Notwendigkeit, Freihandelsabkommen mit robusten nationalen Massnahmen abzustimmen, vorzugsweise durch einvernehmlich vereinbarte und nicht durch einseitige Instrumente.

La section 5 montre que les accords de libre-échange modernes vont bien au-delà de la libéralisation des échanges et peuvent promouvoir les droits des travailleurs, la protection de l'environnement, les droits humains et, dans une moindre mesure, l'égalité des genres, avec des retombées positives dépendant de la conception réglementaire, du caractère contraignant et de l'interaction avec les règles nationales et internationales. Depuis le milieu des années 2010, les dispositions relatives au travail et à l'environnement sont devenues quasi universelles, passant de références vagues à des obligations plus spécifiques sur des questions telles que la biodiversité, le travail des enfants et le changement climatique, tandis que les dispositions relatives à l'égalité des genres restent rares et que la Suisse/AELE est généralement en retard par rapport à l'UE et aux États-Unis. Les « traités globaux » qui combinent libéralisation des échanges et obligations sociales et environnementales contraignantes sont plus efficaces lorsqu'ils sont soutenus par un suivi, une application, une flexibilité et une assistance ciblée, les incitations et les sanctions jouant un rôle contextuel. Parallèlement, les mesures d'accompagnement nationales sont des compléments essentiels aux accords de libre-échange, car les législations nationales du travail et de l'environnement influencent fortement les résultats. La Suisse s'appuie principalement sur des normes réglementaires et ne dispose pas de règles de diligence raisonnable contraignantes, contrairement à l'UE, ce qui souligne la nécessité d'aligner les accords de libre-échange sur des mesures nationales robustes, de préférence par le biais d'instruments mutuellement convenus plutôt qu'unisilatéraux.

6. Conclusion and Key Findings

FTAs are unlikely to be the sole reason for negative labour market or environmental effects in Switzerland; they may however deepen existing inequalities and discriminatory or polluting practices.

On the other hand, FTAs are likely to positively impact on average wages in Switzerland; sectoral differences are to be expected, depending on the design of the FTA and the markets involved.

Negative effects abroad depend on the respective FTA partners and on the design of the respective FTA: negative effects for human rights protection, labour protection, indigenous rights protection, gender equality, environmental protection and climate change mitigation have been observed particularly in the global South partner of North-South FTAs.

a. Purpose of FTAs

Economic benefits in terms of general GDP growth are limited for future Swiss FTAs, unless they were to encompass substantial liberalisation in agriculture and/or services. With the exception of the US market, Switzerland has already concluded FTAs with all of its major export markets and with all of the major markets worldwide. Remaining economic benefits from additional market access in markets with which Switzerland does not yet have an FTA are therefore – outside of the US market – (very) limited.

Nevertheless, the economic value of FTAs increases in times of uncertainty – which is definitely currently the case. This may render new FTAs – even if they are concluded with smaller markets – more valuable. If designed well, FTAs furthermore strengthen trade resilience between partners, which also contributes to their long-term economic value.

There is, however, a risk linked with outdated regulatory frameworks governing international trade negotiations and the fact that FTAs are required to address also trade-related issues for both economic and political reasons: Due to the limited sectors in which economic benefits of new FTAs are particularly distinct, FTAs may at times become a pawn in domestic election cycles and/or may be biased towards special interests rather than serving overall economic welfare.

Beyond their economic benefits, FTAs are an important tool to ensure peaceful international relations, to reward friends and punish enemies and to influence domestic policies abroad. Therewith, they constitute also an instrument in the pursuit of sustainable development: By combining trade interests with the promotion of sustainable development, FTAs create win-win situations for the purpose of better inclusion of developing countries in the global market and – in the long run – generational justice and a reduction of global inequality.

In practice, the objective of FTAs has therefore shifted away from merely regulating international, at-the-border (economic) concerns to the promotion of trade and sustainable development through regulatory cooperation and the inclusion of trade-related obligations: FTAs have evolved from a defensive instrument – keeping the state out of trade, ensuring competition and free markets – to an offensive instrument in the interest of friendshoring, trade resilience, diversification and the promotion of sustainable development.

We do not know yet, how effective exactly the new ambitious TSD chapters are – it is likely, however, that they have a distinctly positive impact on standards and sustainable trade practices. – In any case, the relationship between the domestic regulatory framework and TSD objectives has to be taken into account in the design of the FTA, in the interest of reaching its objective beyond sectoral economic benefits.

b. Negotiation of FTAs

The extent to which an FTA generates positive outcomes for the entire economy, including SMEs, while at the same time limiting social and environmental costs and contributing overall to sustainable development, depends – as we were able to show – on its regulatory design: It is not true that any kind of increase in market access will automatically generate positive outcomes for overall welfare. In Switzerland like in most countries, the negotiating mandate defines, in principle, the basic structure of a future FTA. In addition, our data clearly shows that diverse stakeholder participation in preparation of trade negotiations and during negotiations leads to more balanced outcomes.

This aspect is not yet taken into account in the Swiss institutional framework governing trade negotiations. Trade negotiations remain *de facto* within the exclusive competence of the executive (i.e. the Federal Council). This is particularly true, since in practice, basic agreement is already achieved in executive-led exploratory talks, prior to the negotiating mandate. While the legislative may still tweak the negotiating mandate in one or the other direction, it is typically politically unfeasible to disagree fundamentally with the scope of negotiations as agreed in exploratory talks without risking overall negotiations.[311] This renders FTA-negotiations vulnerable to lobbying: Strategic economic interests of specific industries in specific export markets do exist, increasing the risk that future Swiss FTAs serve particular interests rather than the overall economy.

In order to ensure that FTAs are not limited to particular interests, Switzerland should ensure diverse stakeholder participation in foreign trade policy – including subjecting the negotiating mandate to a public consultation process – and ensure FTA-compliance with Art. 2 Swiss Cst., the promotion of sustainable development. To this end, ex ante assessments can provide a meaningful tool for the design of FTAs and should be employed accordingly. This entails, however, that impact assessments are used as a negotiating instrument rather than a political instrument to convince the constituency of the benefits of FTAs.

Ex ante impact assessments, which are used as a meaningful negotiating tool, are conducted prior to negotiations so that they can inform the negotiating mandate. They have to be comprehensive and they need to combine quantitative with qualitative methods. In addition to the analysis of risks associated with an FTA, ex ante impact assessments should furthermore also assess the potential social and environmental benefits that could be achieved through the FTA: For instance, instead of assessing only the potential negative effects of the EFTA–Thailand FTA for labour standards in Thai fisheries, the ex ante impact assessment could have investigated also different FTA-related approaches to improving labour standards in Thai fisheries. Our data clearly shows that the effectiveness of trade-related measures depends on the extent to which they are tailored to specific circumstances. For instance, market access restriction for undesirable practices is not always the most effective approach to foster more sustainable practices. Ex ante impact assessments are able to indicate which regulatory approach promises the best results for a given trade-related objective.

Finally, the legislative branch has to be able to assume its supervisory function in trade negotiations, particularly because once negotiations are concluded it is for political reasons almost impossible to refute the result in the ordinary democratic decision-making process: While in principle FTAs can be subject to popular referenda in Switzerland, these referenda are burdened by the so-called «pile of rubble» problem – the threat of grave economic and political damage looming over a popular vote against a particular FTA, which turns FTA-referenda into a formality rather than an actual act of participation in the decision-making process. Sieber-Gasser (2026) therefore proposes to fundamentally

[311] This can be observed as of November and December 2025 in the fact that the initial scope of the still to be negotiated trade deal between Switzerland and the US includes Swiss concessions which are in principle incompatible with Swiss obligations vis-à-vis the EU.

review the role of the parliament in trade negotiations along with the role of the constituency in the ratification process.[312]

c. Implementation of FTAs

Once negotiations are concluded, the final agreement may be subject to another public consultation and/or impact assessment – with a specific focus on flanking measures, which can be implemented domestically or unilaterally (with extra-territorial effect) in addition to the FTA. As we were able to demonstrate, there are various measures available to accompany trade liberalisation domestically and abroad to ensure that FTA-amplified environmental and social costs remain limited.

As mentioned above, the current practice to discuss FTAs in-depth in the legislative process only once negotiations are concluded defeats to some extent the purpose of the democratic decision-making process: Today, parliament and the constituency are essentially confronted with a *fait accompli* and their participation is reduced to a simple nod. This may have been justified when FTAs were limited to international, at-the-border obligations. Today, however, FTAs also cover behind-the-border obligations and furthermore play an increasingly central role as an instrument of foreign and security policy more broadly – i.e. regarding friendshoring, diversification, or sustainable development. Their regulatory scope has, hence, substantially expanded and reaches into the competencies reserved for the legislative, particularly if they require changes in domestic legislation. Such executive-led legislation stands in contradiction with the traditional separation of powers.

d. Monitoring of FTAs

As our data shows and is well known, FTAs may contribute to or even trigger unwanted or unforeseeable effects. While in principle, ex ante impact assessments should reduce the risk of such negative effects, unforeseeable developments always remain a possibility. Ex post impact assessments can play a central role in the identification of potential negative effects of FTAs ahead of time. They should therefore be considered mandatory, particularly in the context of sensitive FTA-relations or as an accompanying measure to new and innovative regulation. For instance, it would have been valuable for the EFTA-negotiations with Malaysia to know the extent to which the preferences for sustainable palm oil in the EFTA-Indonesia FTA had the desired effect.

Furthermore, unilateral and domestic flanking measures can also be introduced ex post, as a remedy to address unforeseeable negative effects of a particular FTA. As we have shown, flanking measures are flexible, effective and generally still underutilised tools of trade policy. Their domestic and unilateral utilisation can provide for the policy flexibility which is sometimes missing in static international obligations. Nonetheless, they are ideally already included in the FTA itself in the sense of a so-called package treaty.

[312] To avoid so-called «pile of rubber»-referenda, for instance, she suggests the introduction of a new direct-democratic instrument in the form of a popular vote for the termination of an international agreement, replacing the voluntary referendum in the ratification process of FTAs. See Sieber-Gasser (2026).

Key Findings Section 6 – in English, Deutsch & Français

The analysis shows that while FTAs are not the main driver of negative labour or environmental outcomes in Switzerland, their relevance has shifted from marginal GDP gains toward trade resilience, diversification, friendshoring and sustainable development in times of uncertainty, making them broader instruments of foreign and security policy. Whether FTAs deliver broad welfare gains while limiting social and environmental costs depends primarily on regulatory design and institutional governance, yet Swiss trade negotiations remain largely executive-driven, with limited parliamentary control and stakeholder participation, increasing the risk of lobbying and special-interest capture. This calls for institutional reforms, including public consultation on negotiating mandates, stronger parliamentary oversight, and the systematic use of ex ante impact assessments as genuine negotiating tools. Given the expanded behind-the-border scope of modern FTAs, effectiveness and legitimacy further require mandatory ex post impact assessments and flexible domestic and unilateral flanking measures, ideally embedded directly in FTAs as integrated "package treaties."

Die Analyse zeigt, dass Freihandelsabkommen (FHA) zwar nicht die Hauptursache für negative Auswirkungen auf Arbeitsmarkt und Umwelt in der Schweiz sind, ihre Bedeutung sich jedoch von marginalen BIP-Gewinnen hin zu Handelsresilienz, Diversifizierung, Friendshoring und nachhaltiger Entwicklung in Zeiten der Unsicherheit verlagert hat. Dadurch sind sie zu umfassenderen Instrumenten der Aussen- und Sicherheitspolitik geworden. Ob FHA breite Wohlfahrtsgewinne erzielen und gleichzeitig soziale und ökologische Kosten begrenzen, hängt primär von der Ausgestaltung der Regulierungen und der institutionellen Steuerung ab. Die Schweizer Handelsverhandlungen werden jedoch weiterhin weitgehend von der Exekutive gesteuert, mit begrenzter parlamentarischer Kontrolle und geringer Beteiligung der Interessengruppen. Dies erhöht das Risiko von Lobbyismus und der Einflussnahme von Sonderinteressen. Daher sind institutionelle Reformen erforderlich, darunter öffentliche Konsultationen zu Verhandlungsmandaten, eine stärkere parlamentarische Kontrolle und der systematische Einsatz von ex ante-Folgenabschätzungen als legitime Verhandlungsinstrumente. Angesichts des erweiterten grenzüberschreitenden Anwendungsbereichs moderner FHA erfordern Effektivität und Legitimität zudem obligatorische ex post-Folgenabschätzungen sowie flexible nationale und unilaterale Begleitmassnahmen, die idealerweise als integrierte „package treaties" direkt in die FHA eingebettet werden.

L'analyse montre que si les accords de libre-échange (ALE) ne sont pas la principale cause des conséquences négatives sur le travail ou l'environnement en Suisse, leur pertinence a évolué : des gains marginaux de PIB vers la résilience commerciale, la diversification, la relocalisation des activités et le développement durable en période d'incertitude, ce qui en fait des instruments plus larges de politique étrangère et de sécurité. La capacité des ALE à générer des gains de bien-être généralisés tout en limitant les coûts sociaux et environnementaux dépend principalement de leur conception réglementaire et de leur gouvernance institutionnelle. Or, les négociations commerciales suisses restent largement pilotées par l'exécutif, avec un contrôle parlementaire et une participation des parties prenantes limités, ce qui accroît le risque de lobbying et de captation par des intérêts particuliers. Cela appelle des réformes institutionnelles, notamment la consultation publique sur les mandats de négociation, un contrôle parlementaire renforcé et le recours systématique à des évaluations d'impact ex ante comme véritables outils de négociation. Compte tenu du champ d'application transfrontalier élargi des ALE modernes, leur efficacité et leur légitimité requièrent en outre des évaluations d'impact ex post obligatoires et des mesures d'accompagnement nationales et unilatérales flexibles, idéalement intégrées directement aux ALE sous forme de « package treaties » intégrés.

Annex 1

Details of Table 3: Volatility of Swiss Trade with Select Partner Countries, 1989-2024

To better understand volatility, we compared only the percentage change of trade values, i.e., by how much imports or exports, respectively, increased or decreased every year.[313] We calculated imports from and exports to each country separately. To compare the volatility, we calculated the standard deviations of these percentage changes before and after entry-into-force of FTA for each country. Then, for each country and direction of trade, we calculated the F-statistic and p-value to assess whether the standard deviations pre- and post-FTA are significantly different from each other. It is important to stress that our findings cannot assess causality, i.e., it is not possible to deduce from this whether the FTA caused a change (which may be due to GDP growth or shocks, or other). We can only say whether the volatility before and after entry-into-force of an FTA is significantly different.

Observations

In the case of imports to Switzerland, there are twice as many trade relations that have a significantly reduced volatility (at 1% level) post-FTA, namely 8 out of a total of 41. Imports from 4 countries have a significantly higher volatility. 22 had no significant change, 11 each with an increase and decrease. The magnitude of the change of those significant at the 1% level was calculated by taking the natural logarithm of the F-Statistic. For those with reduced volatility the LN was 2.6, for those with increased volatility -2.2, indicating that the magnitude of reduced volatility was stronger than the magnitude of increased volatility. If we remove the countries with some removed data (i.e., those that had * or ** in the data), we end up with 4 (Chile, Colombia, Costa Rica, Eswatini) that had significantly (1%-level) reduced volatility and 3 (Egypt, South Korea, and Lebanon) with significantly increased volatility after FTA. The average negative growth rates of the 4 countries with reduced volatility was –28% pre- and –12% post-FTA (i.e., in those cases when growth was negative after the FTA had entered into force, it was less negative by about 16 percentage points). The average positive growth rates of these countries was 61% pre-FTA and 30% post-FTA, i.e., when imports into Switzerland grew, the average growth was 31 percentage points lower after the FTA had entered into force. For the 3 countries with higher volatility, this came from increased average positive growth rates (42% post-FTA, up from 22% pre-FTA) and in the case of South Korea and Lebanon from more pronounced average negative growth (–10 and –7 percentage points respectively), whereas Egypt's average negative growth was less pronounced by 10 percentage points. Across all these countries, average negative growth was –24% pre-FTA and –16% post-FTA (i.e., when imports fell, the fall was less extreme after the FTA entered into force compared to before the FTA had entered into force) by about 8 percentage points. At the same time, across all of these, also the average positive growth rates were lower by about 9 percentage points (from 44% average growth rates pre-FTA to 35% post-FTA). In other words, the reduced volatility seems to have come from both sides, i.e., reductions and increases in trade were less pronounced, while the significant increases in volatility seem to have come more from increases in growth. When looking at all countries with no removed data (29), the average negative growth rates are 4 percentage points higher (less negative) and average positive growth rates 5 percentage points lower post-FTA.

In the case of exports, 17 out of 41 countries showed significant decreases of volatility (at the 1% level). There were no significant increases of volatility post-FTA (at any level of significance). The average LN of the F-Statistic of these 17 with decreased volatility is 2.1, indicating a somewhat weaker average effect than for imports – but for more countries. Of the 22 with no significant changes, 6 had a higher volatility post-FTA, 16 a lower one. If only those countries with no missing data (see earlier) are taken, then 10 countries had significantly lower volatility post-FTA. Of these, when growth was negative, the average pre-FTA was about –24%, post-FTA the average negative growth was –13%. In other words, when exports fell post-FTA, the fall was on average less pronounced by about 11 percentage points.

[313] We excluded countries for which there was either missing data or the percentage change was incalculable or above 999% (which the FOCBS marks with * or ** in the data). An FTA was taken as having taken effect in the year of entry into force if this was in the first half of the year, otherwise as in the following year.

The positive growth rate of these 10 countries pre-FTA was at 61%, post-FTA at 25%. In other words, when exports grew, the average growth rate was lower post-FTA compared to pre-FTA by about 36 percentage points. To sum up, as in the case of imports, the reduced volatility seems to have come from both sides, i.e., reductions and increases in imports were on average less pronounced after an FTA had entered into force. The results, when including all countries with no blanks (33), are similar yet less pronounced (average negative growth rates are 5 percentage points higher (less negative) and average positive growth rates 13 percentage points lower post-FTA).

Materials

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