



Agency for International Trade Information  
and Cooperation

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**The Trade Dimension of Globalisation: Multilateral (WTO)  
or Regional (RTAs)?**

**WTO Public Forum**

**Centre William Rappard, Room E  
5 October 2007, 11:15 – 13:15**

**Abstract**

AITIC's session focused on the challenges faced by the multilateral trading system in the light of the surge of RTAs. It aimed at establishing the causes for the current drive towards regionalism and analysing its impact on international trade relations, in particular for developing countries.

Dr Durán highlighted some of the main difficulties faced by developing countries when negotiating RTAs with developed partners, and provided some figures to assess the magnitude of this trend. Professor Panagariya provided an insight in the economic effects of regional liberalisation which he found was suboptimal compared to unilateral or multilateral liberalisation. Professor VanGrasstek concentrated on the causes driving US shift towards regionalism; these were found in wider foreign policy goals rather than purely economic objectives. The interventions that took place in the open debate that followed reinforced the opinions of the speakers.

It was widely recognised that regionalism is economically less interesting than multilateralism, which should be promoted through the WTO. However, regionalism is such a powerful force because it is driven by many political factors that outweigh economic arguments.

## **I. Introduction**

1. The AITIC Session, organised within the WTO Public Forum, focused on the challenges faced by the multilateral trading system in the light of the surge of regionalism, and analysed the causes and the impact of this trend. Three speakers, AITIC's Executive Director, an academic and an independent consultant, presented their views from an economic and a political perspective on the effects on developing countries of the proliferation of regional trade agreements (RTAs), particularly those between developing and developed countries.

## **II. Setting the scene: Potential risks for developing countries in the current drive towards regionalism — Dr Esperanza Durán, Executive Director, AITIC**

2. Dr Durán presented her assessment of the current trend towards regionalism, of the role, if any, of the WTO as the guardian of multilaterally agreed rules, and of the costs and benefits for developing countries entering this kind of trading relation with developed countries.

3. In the last decade developed and developing countries have multiplied exponentially bilateral or regional trading agreements. Faced with this trend, was the WTO the institution that could harness globalisation or had it lost this role to the RTAs? Obviously, developing countries faced additional difficulties when participating in North-South RTAs. Analysing this from a political economy perspective, it was clear that developing countries were likely to accept onerous, non-trade conditions imposed by developed countries. When negotiating with a stronger partner, developing countries faced a number of handicaps, such as: a stronger incentive to sign an agreement with the developed partner; insufficient knowledge of the different sectors in which they could be competitive; lack of reliable statistics; human and economic resource constraints, etc. The result was bilateral deals in which developing countries tended to adopt the rules imposed by developed countries, with the risks that this entailed.

4. This concern was very much pertinent, as North-South RTAs seemed to be spreading all over the world. Since 2000, amongst the 144 RTAs notified to the WTO that remained in force today, 58 were North-South RTAs, as opposed to only seven North-North. In view of all the North-South RTAs now under negotiation, this trend was only likely to be reinforced. This situation was puzzling, as it had taken developing countries many years to gain some leverage over developed countries at the WTO and they were now giving it away by entering into bilateral negotiations.

5. This raised many questions. Was this caused by developed partners pushing developing countries into bilateral negotiations to regain the power lost at the WTO? As RTAs were "here to stay", what was the new role of the WTO in the present context? As a way to reconcile the multilateral and regional dilemma, economists had been recently putting forward two concepts: harmonisation and expansion of RTAs. However, none of the two seemed likely to occur at present. Therefore, how was the multilateral-regional relationship going to evolve in the

future? Would RTAs be a threat or a thread for the fabric of the international trading system?

### **III. The Economic Aspects of Regionalism — Prof. Arvind Panagariya, Columbia University**

6. Prof. Panagariya looked at RTAs from an economic perspective, and compared them to other ways of liberalisation. There were three ways a country could reduce its tariffs: unilaterally, regionally or multilaterally. Unilateral liberalisation was the optimal path but it was unrealistic at present. Therefore, when choosing between multilateral or regional, multilateral liberalisation should be preferred because: i) getting access worldwide was much better than to just one partner; ii) importing from the cheapest source worldwide was cheaper than from a more expensive RTA partner; iii) multilateral liberalisation resulted in administrative ease; and iv) it allowed increased efficiency as international improvements and innovations could be shared globally without discrimination.

7. The evolution of RTAs over time was interesting. The years between 1950 and 1970 had seen the development of the First Regionalism, a period of time characterised by the creation of many inefficient agreements – mostly in Latin America. The Second Regionalism kicked off with the conversion to bilateralism of the US, which had signed and was still in the process of signing a large number of bilateral agreements. Other characteristics of the Second Regionalism were the expansion of the EC to its current 27 members and the advent of Asian countries into regionalism. As a result, nearly every WTO member was now part of one or more RTAs.

8. The infant industry argument was the most prominent economic theory calling for the establishment of RTAs. However, this line of reasoning had never been successfully supported by empirical evidence. On the contrary, the downsides of RTAs, like their propensity to cause trade diversion or their bureaucratic inefficiency rested on much more solid foundations. Regional liberalisation led to slower multilateral liberalisation, as shown by tariff liberalisation in Latin America over time. Another dangerous outcome of RTAs, particularly North-South, was that they contributed to the spread of non-trade-related disciplines, as could be seen in most US RTAs.

9. Since RTAs were here to stay, the only way the multilateral trading system could regain prevalence over them was by successfully completing the Doha Round, as this would kill the preferences given by RTAs at their root and would also help to keep at bay the spread of non-trade-related provisions.

### **IV. The Extrinsic Value of Free Trade Agreements for the United States — Professor Craig VanGrasstek, Consultant**

10. Professor VanGrasstek focussed his presentation on the extrinsic value of RTAs, which was the real reason for signing RTAs, at least for the US. The US had almost always linked trade policy to wider foreign policy. During the “Cold War”, it had concentrated on increasing collective prosperity with its allies, so

concessions were extended multilaterally to all of them. This policy continued under the Reagan and Clinton administrations. Recourse to RTAs remained infrequent throughout this period. However, this changed radically with the onset of the Bush administration and, particularly, after September 11. Since then, RTAs entered into by the US have proliferated from just six to 25 (counting partners and candidates).

11. The reasons for RTA propagation are mostly political. Trade with each of the post-September 11 RTA partners was marginal for the US. In fact, the proportion of preferential trade relative to US total trade had remained stable since 2001. This meant that none of the more recent RTA partners were of real economic importance to the US. On the contrary, for the partner countries trade with the US represented a large share of their trade. The relative low importance that the US attached to pure trading interests was shown by the fact that most RTAs included non-trade issues, such as labour and environment.

12. The real justifications behind each US RTA, pre and post September 11, showed that the US was mostly interested in the wider foreign policy, and even more so in recent times. Before September 11, every US RTA had an economic motive, which could also be mixed with other motives, such as oil supply, or security. However, in recent years, the balance has shifted considerably to give much more importance to non-economic issues. Out of the 14 most recent US RTAs, only four had some kind of economic interest, and a not very clear one, because this economic interest relied on the US putting pressure on those G-20 countries with which it was about to negotiate, or in the process of negotiating RTAs, to defect from this group. The remaining 10 RTAs presented no economic interest whatsoever for the US and were only dominated by oil supply or security concerns, whether anti-narcotics, Middle East peace or, a recent category, supporting the US in the war of Iraq. The countries belonging to this coalition have all been offered an RTA, except the EU members, the Pacific micro-states and ex-USSR countries.

13. As a consequence of this frantic RTA activity, the US would now be obliged to pursue the multilateral path, as there were not many other prospective RTA partners in the current international political context. In the longer term, the position of the US towards RTAs would depend on the results of the 2008 elections. In any case, not much activity should be expected until Trade Promotion Authority was renewed.

## **V. Open Debate**

14. The main points raised in the debate with the floor were the following:

15. Prof. Panagariya believed that the reason why developing countries were accepting to make important concessions in bilateral negotiations while resisting multilateral liberalisation, was that keeping trade protection multilaterally was the only leverage that developing countries had on their developed country partners. He argued that blocking multilateral liberalisation helped to limit preference erosion. A participant stated that RTAs did not really secure market access, as preferences were rapidly eroded. She also said that the experience of Colombia

when signing an RTA with the US showed that such negotiations were completely politically driven on both sides. Prof. VanGrasstek answered that RTAs were not intended to preclude preference erosion, but to secure zero tariff for your own exporters. Signing an RTA with an important partner was politically driven in most countries, as he had witnessed himself in some RTA negotiations.

16. When concluding, Dr. Durán noted that everyone seemed to agree that multilateralism was preferable to regionalism, although politics geared trade policy in the opposite direction. In view of some key upcoming events such as the US elections and the uncertain outcome of the Doha negotiations, the question of whether the multilateral trading system would continue its trend towards atomisation would remain unanswered for the time being.