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Regionalism Going Global

Regionalism is commonly understood to be just another word for the exclusive exchange of market access rights among a limited number of trading partners. In fact, preferential trade agreements (PTAs) of this kind were typically concluded within fairly well-defined geographical areas such as Europe, North America and parts of Latin America, Africa and Asia-Pacific. They involve “positive” discrimination in favour of adjacent countries and in many cases “negative” discrimination against more distant trading partners, in particular through the imposition of antidumping measures.

The familiar pattern of trade policy noted above is about to change profoundly, though, as in a growing number of cases positive discrimination, on a reciprocal basis, transcends regional borders while negative discrimination increasingly also affects intra-regional trade. The United States is a case in point: after liberalising trade with its northern neighbour in the late 1980s and enlarging the US-Canadian free trade area southward in the early 1990s to include Mexico as a party to the North American Free Trade Agreement, reciprocal PTA policies in the USA have begun to embrace countries in Central and South America and extend intercontinentally into Africa, the Middle East, Asia and Australia. At the same time, trade-policy conflicts within NAFTA have become more frequent.

The motives underlying this expansive US regionalism are of an economic as well as a political nature. Current negotiations with Morocco about a Free Trade Agreement (FTA) and the recent conclusion of an FTA with Jordan are clear evidence of a strong political impetus on the American side to send positive signals to Arab and Muslim countries. Regarding other third-world PTA partners of the United States, a major rationale behind the respective negotiations is to firmly anchor political and economic reforms in these countries and especially create stable institutions governing foreign trade. In this context, technical assistance for capacity building in trade matters is also provided for. In general, the envisaged agreements aim at deeper integration that goes beyond the mere removal of tariffs and quantitative restrictions on goods into the liberalisation of services and capital movements, economic cooperation and the harmonisation or mutual recognition of domestic policies and regulations. Last but not least, the PTA track in US trade policy reflects strategic considerations, first and foremost the desire to match parallel initiatives by the European Union in the regions concerned, in particular in Southern Africa and the Mediterranean area.

A notable policy shift in the field of regional trade agreements has also taken place in Europe, preceding the US move towards universal regionalism. Compared to other world regions, Europe still has by far the most extensive set of preferential deals with other countries. The European Community was the protagonist of “old regionalism” and the only successful – and relatively liberal – case in this field, whereas comparable experiments elsewhere, built upon import substitution and industrial planning as in Latin America, often failed miserably. The reciprocal PTAs into which European countries entered were mainly intended to close ranks among neighbouring states, economically and politically, and in the case of agreements between the Community proper and non-EC members in North, South and East Europe used to be a preparatory stage to the eventual accession of these countries to the EC. Trade relations with non-European countries in the Mediterranean, in sub-Saharan Africa, in the Caribbean and in the Pacific area, by contrast, originally were (and largely still are) characterised by non-reciprocity, i.e. the unilateral granting of preferential market access in Europe by the Community to its respective trading partners. These arrangements, however, are now to be converted into reciprocal PTAs entailing trading privileges for European suppliers as well.

Over and above transforming existing agreements, the European Union has embarked upon the concluding and negotiating of new reciprocal PTAs with trading partners not eligible for EU membership, witness the FTAs agreed with South Africa, Mexico and Chile as well as the efforts to build a free trade area ("Mercoeuro") with Argentina, Brazil, Paraguay and Uruguay (Mercosur). Mercoeuro would also be the first big case of inter-regionalism or bi-regionalism in a strict sense with two trading blocs in different world regions linking up with each other. The emergence of such inter-bloc PTAs is likely to be the most noteworthy future development in regionalism.

The new European-led transregional initiatives, similar to the American ones, are all of the second-generation and third-generation type, i.e. covering "new trade issues" such as intellectual property and services and/or investment and competition policies, environmental and labour standards. The PTA policies of the two main players in world trade thus exhibit a high degree of "overlapping" both with regard to the subjects covered and concerning the partner countries chosen. This phenomenon is most conspicuous in Latin America where the Europeans seek to create a "level playing field" *vis-à-vis* their American competitors and to gain a foothold in a possible Free Trade Area of the Americas designed to comprise nearly the entire western hemisphere.

Meanwhile, the third member of the economic triad besides Western Europe and North America – East Asia – has also jumped onto the bandwagon of "new regionalism". Even Japan has abandoned its "splendid isolation" in this area and concluded a far-reaching ("new-age") FTA with Singapore which *inter alia* contains rules governing foreign investment, intellectual property, e-commerce, trade in services, technical standards and trade facilitation. Singapore, for its part, is emerging as a centre *sui generis* of global regionalism with PTA partners in Asia-Pacific (Japan, Australia, New Zealand), North America (United States), South America (Chile) and Western Europe (EFTA). PTAs among the triad powers, on the other hand, such as a fully-fledged free trade area across the northern Atlantic (TAFTA), have not materialised to date nor do they seem to be in store. Inter-regional PTAs, rather, take place between countries at different stages of development, which is a crucial feature of the new (trans-)regionalism.

From a global perspective, the new regionalism, and more particularly transregionalism, entails opportunities as well as risks. Proliferating PTAs, and consequently growing overlaps among them, tend to complicate international trade as the agreements have their own, often mutually inconsistent, rules-of-origin that distort incentives and raise trading costs. The current wave of regionalism may also divert political attention from multilateral issues dealt with in the World Trade Organisation and unduly absorb scarce negotiating resources. Moreover, vested interests are created that can be expected to lobby against any subsequent erosion within the WTO of the bilateral preferences agreed, and trade creation may endogenously be transformed into trade diversion as external compensation for increased internal adjustment pressures is claimed by affected groups. PTAs may nonetheless generate considerable positive externalities. The "new-age" components of the agreements, unlike standard preferential tariff cuts, frequently promote imports from all sources, thereby mitigating the problem of trade diversion. In the same vein, the elimination of internal taxes as stipulated in the US-Chilean FTA with regard to luxury cars in Chile, for instance, will benefit not only industries in partner countries but in third countries as well. Similar effects might occur when PTAs serve to bolster domestic reforms in developing countries. However, the WTO must keep a watchful eye on "competitive regionalism", with countries vying to open their markets to each other, and strengthen the respective multilateral disciplines (Article XXIV GATT and Article V GATS) in the Doha Round, in order to make it a building block rather than a stumbling block for the trading system.

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