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Georg Koopmann* and Lars Vogel**

Regionalisation of Trade and Regionalism in Trade Policy – Patterns, Strategies and Impact

Against the backdrop of the stalled Doha Round the emphasis in the trade policies of nations and country groupings is widely expected to shift further away from multilateral trade negotiations and towards the conclusion of preferential trade agreements (PTAs). This article sketches the network of international trade flows and shows how it has increasingly been matched by a worldwide web of PTAs, the nature of which has changed over time. PTAs are discussed in their regional context and assessed with a view to their economic impact and their implications for the multilateral trading system.

After the renewed failure of the multilateral Doha Round in late July, a fresh impetus to yet another round of regionalism is widely expected. In the words of Peter Mandelson, the trade commissioner of the European Union, "the caravans will have moved on elsewhere" by the time the talks have resumed.[1] The collapse of the multilateral negotiations may therefore signal a shift of emphasis in national trade policy, or in the trade policy of country groupings like the European Union, towards the conclusion of preferential trade agreements (PTAs) with selected trading partners. At the same time, the competition between countries for PTAs may further intensify, reflecting a mounting race for markets among trading powers as well as a growing fear of exclusion from markets.[2] Preferred PTA partners appear to be the big emerging economies, with large and rapidly expanding markets, and more precisely those countries that have refused to grant better conditions of access to their markets on a most-favoured-nation (MFN) base in the stalled Doha Round. The most recently announced PTAs between the Association of South-East Asian Nations (ASEAN) on the one hand, and India, Australia and New Zealand on the other hand, are indicative of this trend, as are the agreements sought by the EU with ASEAN, India and South Korea. The Free Trade Agreement (FTA) between the United States and South Korea, which is still awaiting ratification by the US Congress, should also be mentioned, as well as the partial-scope agreement between ASEAN and China from 2002, which is to be gradually stepped up to become a fully fledged FTA.

In what follows, we shall first sketch the geography of world trade, which is a network of intra- and inter-regional trade flows. In a second step, it is shown how this pattern of trade has increasingly been matched by a worldwide web of preferential trade agreements and how the nature of these agreements has changed over time. The third part of the article is a discussion of PTAs in their regional context with a focus on the three major world regions, i.e. Europe, the Americas and Asia-Pacific. We shall conclude with a consideration of the economic impact of PTAs and their implications for the multilateral trading system.

Trade in a Globalising World

The worldwide exchange of goods and services has considerably increased in the past decades. According to the World Trade Organisation (WTO), total international trade last year was worth US $17 trillion (merchandise goods: US $13.7 trillion, services: US $3.3 trillion). In addition, global trade during the same period grew much more rapidly than the world economy. Whereas the value of goods exported in 2007 was more than 30 times as high as in 1950, nominal world GDP "only" increased about eightfold.

The dynamic development of international trade shows the increasing economic linkages between nations. Yet despite this globalisation process, consumption and business activity continue to have a strong home market bias – with these home markets often crossing national borders and encompassing whole regions.[3] Although, as regards world trade regionalisation issues, there is no perfect subdivision of the world into regions, geographic, cultural and politi-

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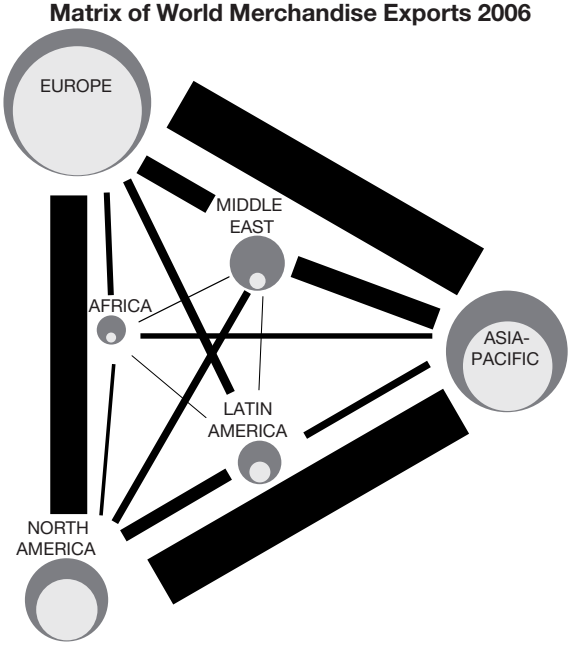
[1] Cf. "Afta Doha", in: The Economist, 4.9.2008.

[2] The exclusion fear has empirically been investigated for the three countries of China, Japan and South Korea. Accordingly, these countries fear that with regionalism rising in every corner of the world, their exports are discriminated against and diverted in the trading blocs of other nations. However, it is found that Japan's and Korea's fear is unfounded, while China's fear is founded only to a limited extent. Cf. H. Lee, C. Mo Koo, E. Park: Are exports of China, Japan and Korea diverted in the major regional trading blocs?, in: The World Economy, Vol. 31, No. 7, 2008, pp. 841-860.

Figure 1
Matrix of World Merchandise Exports 2006



Source: IMF; own calculation.

cal borders provide certain guidance.[4] For the purposes of this contribution (and unless otherwise noted), differentiation is made between the following regions: Europe (Western Europe, Central and Eastern Europe, Commonwealth of Independent States); North America (USA, Canada, Mexico); Asia-Pacific (Asia, Australia, New Zealand); Middle East (Middle East, North Africa (Algeria, Morocco, Tunisia)); Latin America (Latin America except Mexico); Africa (Africa except North Africa).

The Dominant Triad

These regionalisation trends become obvious when looking at international trade flows, which are not distributed evenly across the globe: around 80% of total merchandise trade take place within a triad consisting of Europe, North America and Asia-Pacific. Whereas the first two regions encompass the majority of the industrialised countries and have been determining international merchandise trade for a long time, the Asia-Pacific region did not join them as a third pole until the late 1980s.[5] The main reason for this was the considerable economic development of the "East Asia tigers" and China, which to a large extent was based on export-oriented growth strategies.

In contrast, the Middle East, Latin America and Africa have a share of less than one fifth of international merchandise trade – although many of the commodities required by the industrialised and newly industrialising nations come from countries situated in these regions. The share of these three regions in global merchandise trade has decreased steadily in the past decades – in favour of the rapidly developing Asia-Pacific region. Only in the recent past were the commodity-exporting developing countries able to catch up because of a surge in demand from the fast-growing emerging nations and the rising commodity prices associated with it.[6]

Regional Trade Links

The global economic importance of Europe, North America and Asia-Pacific mainly results from the strong economic integration of the individual regions, which manifests itself particularly in the share of intra-regionally traded goods in the total merchandise trade of the countries involved. The traded goods, in large part, remain within the region concerned – although shares of intra-regional trade vary strongly between the three regions: whereas about three quarters (76%) of the goods exported by European states are also destined for Europe, this share is significantly lower in North America and Asia-Pacific (both at 54%). However, North America and the Asia-Pacific region are catching up: since 1980, their shares have risen steadily from 34% and 39% respectively, whereas the European figure has remained constant at its high level (Table 1).

The states in the Middle East, Latin America and Africa do not focus on intra-regional trade to such a large extent: the share of intra-regional trade accounts for 23% in Latin America, 12% in Africa and merely 9% in the Middle East. Compared with 1980, intra-regional trade has gained much in importance in the Middle East and Africa (both at 5% at that time), whereas the figure for Latin America has fluctuated heavily but scarcely changed (Table 1).

Besides the strong trade links between the three poles of the triad, trade flows between the Middle East and Europe, between the Middle East and the Asia-

[3] M. Fratianni: Introduction and summary of conclusions, in: M. Fratianni (ed.): Regional economic integration, Amsterdam et al. 2006, pp. 1-8. The author sees "strong evidence of regionalization and that national borders have been pushed outward to encompass regional areas."

[4] H. Norheim, K.-M. Finger, K. Anderson: Trends in the regionalization of world trade, 1928 to 1990, in: K. Anderson, R. Blackhurst (eds.): Regional integration and the global trading system, New York et al. 1993, pp. 436-486.

[5] R. Baldwin: Multilateralising regionalism: Spaghetti bowls as building blocs on the path to global free trade, in: The World Economy, Vol. 29, No. 11, 2006, pp. 1451-1518.

[6] WTO: World trade report 2007. Trade in a globalizing world, Geneva 2008, pp. 16-17.

Table 1
Matrix of World Merchandise Exports, 1980 and 2006

1980

Share of world exports (in %)

Exporter	Importer: Europe	North America	Asia-Pacific	Middle East	Latin America	Africa	World
Europe	36.1	3.0	2.4	3.9	1.1	1.8	48.4
North America	4.6	5.4	3.0	0.9	1.4	0.3	16.0
Asia-Pacific	3.4	3.4	6.2	1.3	0.6	0.5	15.9
Middle East	6.2	2.0	3.6	0.6	0.7	0.1	13.4
Latin America	1.5	1.5	0.3	0.1	1.1	0.1	4.6
Africa	1.7	0.8	0.2	0.0	0.3	0.2	4.0
World	53.3	16.5	16.1	6.9	5.2	3.0	US $ 1,896 bn

Share of region's exports to the world (in %)

Exporter	Importer: Europe	North America	Asia-Pacific	Middle East	Latin America	Africa	World (US $ bn)
Europe	74.7	6.2	5.0	8.0	2.3	3.8	916
North America	28.8	33.6	18.5	5.7	8.9	2.0	304
Asia-Pacific	21.1	21.6	39.3	8.3	3.5	2.9	301
Middle East	45.9	15.1	27.2	4.8	5.0	1.0	254
Latin America	32.5	32.4	6.4	2.3	23.9	1.6	87
Africa	43.2	21.3	5.5	1.2	7.1	4.9	75
World	53.3	16.5	16.1	6.9	5.2	3.0	1,896

2006

Share of world exports (in %)

Exporter	Importer: Europe	North America	Asia-Pacific	Middle East	Latin America	Africa	World
Europe	33.5	3.7	3.4	1.8	0.6	0.5	44.2
North America	2.4	7.6	2.6	0.4	0.9	0.1	14.0
Asia-Pacific	5.4	5.9	16.2	1.1	0.6	0.5	29.9
Middle East	1.6	0.8	2.6	0.5	0.1	0.2	6.1
Latin America	0.8	1.2	0.6	0.1	0.9	0.1	3.8
Africa	0.5	0.5	0.4	0.0	0.1	0.2	1.7
World	44.4	19.7	25.9	3.9	3.2	1.6	US $ 11,981 bn

Share of region's exports to the world (in %)

Exporter	Importer: Europe	North America	Asia-Pacific	Middle East	Latin America	Africa	World (US $ bn)
Europe	75.9	8.4	7.8	4.1	1.4	1.1	5.293
North America	17.0	54.0	18.7	3.0	6.3	0.8	1.676
Asia-Pacific	18.1	19.8	54.2	3.7	2.2	1.6	3.587
Middle East	25.4	13.4	41.9	8.7	1.1	2.7	731
Latin America	21.2	32.7	14.9	2.7	23.1	1.6	458
Africa	29.9	27.3	23.8	2.1	3.9	11.5	208
World	44.4	19.7	25.9	3.9	3.2	1.6	11,981

Source: International Monetary Fund; own calculations.

Pacific region, and between North and Latin America, are also significant (Figure 1). Two factors play a role here: the dependence of the industrialised nations of the "North" on the natural resources of the "South" and the distance.[7] Trade in international commodities is a constant factor in global economic linkages, due to the geographical distribution of deposit and demand. Even though trade costs have fallen over the last decades, proximity is still important in the creation of "natural" trading partnerships.[8]

Openness to Trade, Intensity of Trade

Another indicator of regionalisation trends is the relation between a region's exports and its corre-

[7] According to M. Fratianni (op. cit., p. 5), distance can be physical but also cultural.

[8] UNCTAD: Trade and development report 2007: Regional cooperation for development, New York and Geneva 2007, p. 39.

Table 2
Regional exports in % of GDP

Intra-regional Exports as a percentage of GDP

	1980	1990	2000	2006
Europe	18.0	15.7	21.8	23.8
North America	3.2	3.4	6.1	5.9
Asia-Pacific	6.2	7.7	11.2	17.4
Middle East	2.2	2.4	2.1	4.5
Latin America	3.9	2.2	4.1	5.0
Africa	1.5	1.7	3.1	3.4

Extra-regional Exports as a percentage of GDP (Trade Openness)

	1980	1990	2000	2006
Europe	6.1	5.0	7.5	7.6
North America	6.2	4.9	4.9	5.0
Asia-Pacific	9.6	9.5	10.8	14.7
Middle East	44.3	25.6	32.0	47.2
Latin America	12.3	10.2	10.4	16.7
Africa	29.0	19.6	26.5	26.0

Source: World Bank; International Monetary Fund; own calculations.

sponding GDP, the so-called "trade openness". Table 2 shows the high level of integration of Europe and North America, which export only 8% and 5% respectively, of intra-regionally produced goods to other regions. Asia-Pacific (15%), Latin America (17%) and Africa (26%) are slightly more open, whereas almost half of the GDP of the Middle East comes from sales outside the region. The relatively high figures for Africa, the Middle East and in part also for Latin America again point to the aforementioned commodity exports to industrialised countries. Even though by now Asia-Pacific has a largely integrated economy, it is characterised by a relatively high level of openness because of the export-oriented development strategies pursued by many states in this region. Here, the disintegration of production associated with the integration of trade becomes particularly obvious:[9] some countries in East Asia – with China leading the way – benefit from the international "slicing up of the value added chain"[10] that is associated with the shift of individual production stages from the developed countries of the "North" to the Asia-Pacific region.

Concentrations in trade flows can also be measured using the Trade Intensity (TI). The TI measures the share of a specific destination *j* in the total exports of country *i* in relation to the share of destination *j* in world imports less the imports of the country of origin (*i*), as there is no (international) trade within a country.[11] However, the numerator and denominator of this relation can also be interpreted in a different way. The former represents the concentration of country *i* in exports to country *j*, whereas the latter represents the relative purchasing power of country *j*, or its demand for imports from the rest of the world. To consider the bilateral trade between two regions – instead of two countries – it is necessary also to take into account the number of countries in the "region of destination".[12]

Extra-Regional Trade:

$$TII_{ij} = \frac{X_{ij} / X_{iw}}{M_{jw} / \left(M_{ww} - \frac{M_{iw}}{n}\right)}$$

Intra-Regional Trade:

$$TII_{ii} = \frac{X_{ii} / X_{iw}}{\left(M_{iw} - \frac{M_{iw}}{n}\right) / \left(M_{ww} - \frac{M_{iw}}{n}\right)}$$

X_{ij} - Exports of country i to country j
X_{iw} - Exports of country i to the world
X_{ii} - Intra-regional exports of region i
n - Number of countries constituting the region
M_{jw} - Imports of country j from the world
M_{ww} - World imports
M_{iw} - Imports of country i from the world

The TI abstracts from the number of countries in a region, as well as from the trading volume of the individual countries, and is always positive. If it is close to one, there is no "abnormal" concentration. However, if it is significantly smaller or larger than one, country *j* is over-represented or under-represented in the exports of country *i*.[13]

A glance at the calculated TIs (Table 3) confirms the findings obtained so far: all regions are more or less strongly integrated. However, Africa, Latin America and North America exhibit a much higher intra-regional trade intensity than the other regions. Europe – with a value of merely 1.7 – only brings up the rear, contrary to all expectations. Another striking result is the concentration in trade between Latin America and North America, which points to the all-American integration and the closely linked history of the two subcontinents. Apart from that, there are unidirectional concentrations in the exports from Africa to North America, as well as from the Middle East to Asia-Pacific and Africa. The main reason for this should again be commodity exports. The remaining intra-regional

[9] R. Feenstra: Integration of trade and disintegration of production in the global economy, in: Journal of Economic Perspectives, Vol. 12, No. 4, 1998, pp. 31-50.

[10] P. Krugman: Growing world trade: causes and consequences, Brookings papers on economic activity, No. 1, 1995, pp. 327-377.

[11] R. Savage, K. Deutsch: A statistical model of the gross analysis of transaction flows, in: Econometrica, Vol. 28, No. 3, 1960, pp. 551-572; K. Kojima, The pattern of international trade among advanced countries, in: Hitotsubashi Journal of Economics, Vol. 5, No. 1, 1964, pp. 16-36.

[12] K. Anderson, H. Norheim: History, geography and regional economic integration, in: K. Anderson, R. Blackhurst (eds.), op. cit., pp. 19-51.

[13] M. Vaillant, A. Ons: Preferential trading arrangements between the European Union and South America: The political economy of free trade zones in practice, in: The World Economy, Vol. 25, No. 10, 2002, pp. 1433-1468.

Table 3
Regional and Cross-regional Trade Intensity Indices, 1980 and 2006

1980

Exporter	Importer: Europe	North America	Asia-Pacific	Middle East	Latin America	Africa
Europe	**1.41**	0.37	0.31	1.16	0.45	1.25
North America	0.44	**2.88**	1.09	0.80	1.69	0.64
Asia-Pacific	0.39	1.30	**2.50**	1.19	0.67	0.96
Middle East	0.84	0.91	1.67	**0.73**	0.95	0.34
Latin America	0.60	1.95	0.39	0.33	**4.73**	0.52
Africa	0.80	1.28	0.34	0.17	1.36	**1.68**

2006

Exporter	Importer: Europe	North America	Asia-Pacific	Middle East	Latin America	Africa
Europe	**1.73**	0.42	0.30	1.05	0.45	0.67
North America	0.33	**3.84**	0.66	0.75	1.95	0.51
Asia-Pacific	0.40	1.00	**2.15**	0.94	0.68	1.01
Middle East	0.56	0.67	1.60	**2.36**	0.35	1.71
Latin America	0.47	1.65	0.57	0.69	**7.46**	0.99
Africa	0.67	1.38	0.91	0.54	1.22	**7.49**

Source: International Monetary Fund; own calculations.

trade relations are "normal" (TI is around one) or have a below-average intensity (TI is significantly smaller than one). A striking fact within the latter group is the low level of bilateral linkage between Europe and the two other poles of the triad (North America and the Asia-Pacific region).

A World-wide Web

Irrespective of the indicator, the same result is clear: in questions of international trade (but also of foreign direct investment and business activities of multinational enterprises), regionalisation, not globalisation, is the correct term for the economic linkages that can be observed throughout the world,[14] whereby regionalisation is the outcome of a natural locational phenomenon leading to closer economic ties within a region.[15] However, these findings should not hide the fact that besides intra-regional trade flows, every country of the world trades with almost every other country of the world. The regionalised geography of international trade is complemented by a world-wide web of bilateral trade links. Thus, the big trading blocs of the triad appear somewhat fuzzy and leaky: "'fuzzy' since the proliferation of bilaterals by the spokes makes it difficult to determine the boundary of the Big-3 blocs, and 'leaky' because some of the spokes have FTAs with more than one of the Big-3 trade blocs".[16]

The geography of trading relations in the world corresponds to a network of growing density composed of regional, inter-regional and global trade agreements between countries. In actual fact, the proliferation of preferential trade agreements at the regional and bilateral level which is shown in the figures below largely mirrors the expansion of regional and bilateral international trade flows as depicted above.[17] The underlying relationship apparently works both ways, depending on the region under consideration. In Asia-Pacific, for instance, strong intra-regional trade growth has in turn fuelled interest in closer regional economic cooperation. This has given rise to the notion of market-driven regionalism in this area. In contrast, European regionalism was mainly institution-driven, with trade integration following respective policies and regional institution-building.

From Old Regionalism …

Historically, regionalism in international trade is an old phenomenon that preceded the emergence of a multilateral trading system by decades. The first big wave of regionalism occurred as early as the second half of the 19th century. At its centre was the Cobden-Chevalier Treaty (1870) between the United Kingdom and France around which an intricate system of interlinked bilateral trade agreements in Europe was built. With the outbreak of the First World War in 1914, this early phase of extensive regionalism abruptly came to an end and with it the first "golden age" of international trade, which had begun in 1890. It was marked by a sharp increase in the ratio of trade to the trading partners' gross domestic product. This trend was reversed in the inter-war period during which unilateral protectionism prevailed in national trade policy.

In the years after the Second World War, when the General Agreement on Tariffs and Trade (GATT) was created (1947) and the second heyday of world trade started, regional trade agreements were at first practi-

[14] M. Fratianni, op. cit., p. 1.

[15] D. Lorenz: Economic geography and the political economy of regionalization: The example of Western Europe, in: American Economic Review, Vol. 82, No. 2, 1992, pp. 84-87.

[16] R. Baldwin, op. cit., p. 1485.

[17] S. L. Baier, J. H. Bergstrand, P. Egger, P. A. McLaughlin: Do economic integration agreements actually work? Issues in understanding the causes and consequences of the growth of regionalism, in: The World Economy, Vol. 31, No. 4, 2008, pp. 461-497. The authors demonstrate the concordance between trade flows and trade policies empirically using the gravity model of international trade. In this context, they also refer to the flurry of new PTA initiatives as an expression of a "market for regionalism" where governments influenced by potential beneficiaries of such agreements among producers and consumers are the main players.

cally absent from the political scene. It was not until the foundation of the European Economic Community in 1957 that regionalism reappeared on a broad scale. Indeed, the Treaty of Rome is the oldest regional trade agreement notified to the GATT and still in force today.

European integration also served as a model for regional cooperation elsewhere. However, whereas in Europe regionalism by and large proved to be a success story from the outset, in other parts of the world it initially failed. In consequence, under the old regionalism, as it came to be called, existing integration schemes in Africa, Asia and – above all – Latin America faded away. The European Community, on the other hand, expanded steadily various enlargements.

… to New Regionalism

With the advent of the "new regionalism" in the late 1980s/early 1990s, this state of affairs changed fundamentally. Once again, Europe was the forerunner. Under its single market programme, the Community embarked on a strategy of "deeper integration" most characteristic of which is the application of the "Cassis de Dijon" principle as a general rule. According to this, non-tariff barriers to trade arising from regulatory differences among the member states are removed, not necessarily through harmonising the respective national provisions, but through mutual recognition of one another's regulations. In Asia-Pacific, the "Closer Economic Relations" agreement between Australia and New Zealand of 1983 was the harbinger of the new regionalism. One of the most striking elements of this accord is the substitution of competition rules for antidumping provisions to apply in bilateral (trans-Tasmanian) trade. In the Americas, the bilateral US-Canada Free Trade Agreement (USCAFTA) and the trilateral North American Free Trade Agreement (NAFTA) between the USA, Canada and Mexico concluded in 1987 and 1991 respectively, paved the way for new preferential trade agreements. The participation in PTAs by the United States, which had been the "champion of multilateralism for the first four decades of the GATT",[18] can also be seen as a distinctive mark of the new regionalism more generally.[19]

Hence two major features distinguishing the current regionalism from its predecessor were already highlighted. One is the USA's jumping on the bandwagon of preferential trade agreements while the other refers to the transition from "shallow" to "deep" integration in the PTA framework.[20] Deep integration essentially involves actions by governments to reduce the market segmenting effect of differences in national regulatory regimes through coordination, harmonisation or mutual recognition of national policies. Accordingly, above and beyond the elimination of tariff barriers and import quotas in the industrial sector ("shallow integration") as provided for in conventional PTAs, deep integration aims at the removal of "behind-the-border" barriers to trade in areas like services, intellectual property, government procurement, foreign direct investment, competition, taxation, environment and labour. The "new generation" PTAs typically deal with such issues, albeit to a varying extent and intensity. They are not, or only partially, subject to existing "disciplines" in the WTO and therefore called "WTO plus". A case in point is the numerous agreements that Singapore has concluded with its trading partners.[21] As noted by Whalley, the WTO-plus component of modern PTAs frequently dominates the tariff part in length of text and likely also in significance given that the MFN tariff rates are often sufficiently low that the margins of preference involved have limited impacts on trade.[22]

Other salient characteristics of the new regionalism concern its geographical reach, the stage of economic development of the participating countries and the partner countries' attitudes towards third parties. As to the geography, many of the PTAs concluded in recent times spatially far exceed the regional frame, representing "global" rather than "regional" regionalism.[23] Examples are the agreements of Singapore and South Korea with the United States, of Mexico with the European Union or between China and Chile. These cases also demonstrate the prevalence of North-South agreements among the cross-regional PTAs. As a matter of fact, the only cross-regional North-North PTA is the free trade agreement between the USA and Australia that came into force in 2005. Under the old regionalism, North-South PTAs were the exception rather than the rule. Regional integration in that era was regional in the strict sense of the word and it was

[18] J. Whalley: Recent regional agreements: Why so many, why so much variance in form, why coming so fast, and where are they headed?, in: The World Economy, Vol. 31, No. 4, 2008, p. 519.

[19] R. Pomfret: Is regionalism an increasing feature of the world economy?, in: The World Economy, Vol. 30, No. 6, 2008, pp. 923-947.

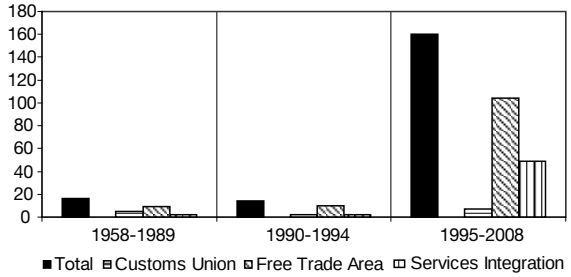
[20] On the distinction between shallow and deep integration, cf. R. Lawrence: Regionalism, multilateralism, and deeper integration, Washington DC 1995.

[21] For example, the revised "new age" partnership agreement between Singapore and Japan is thought to go beyond WTO commitments, focusing on services sector liberalisation and promotion of foreign direct investment. It also includes facilitation of customs procedures, smoother trans-border flows of capital and labour, and collaboration on education and training. Cf. WTO: Trade Policy Review Singapore 2008, Report by the WTO Secretariat, Geneva 2008, p. 30.

[22] J. Whalley, op. cit., p. 522.

[23] On the distinction between regional and global regionalism, cf. W. Ethier: Regional regionalism, in: S. Lahiri (ed.): Regionalism and globalization. Theory and practice, London and New York 2001.

Figure 2
Preferential Trade Agreements by Type, 1958-2008*



* Number of PTAs notified to the WTO by date of entry into force (cut-off date: August 10, 2008). For the definition of the PTAs covered, cf. text and footnote 24.

Source: WTO; own compilation.

"egalitarian" in terms of income levels, taking place between neighbouring countries in either developed or developing parts of the world. Usually, economic integration among developing countries in the 1960s and 1970s was also based on import-substituting industrialisation strategies and thus prone to high trade barriers erected against outsiders ("closed regionalism"). Against this, most of today's South-South PTAs are much more open towards third countries, with regional trade agreements forming a third leg of trade policy reforms in developing countries, besides unilateral and multilateral liberalisation. "Open regionalism" is characteristic of North-South PTAs as well.

Preferential Trade Agreements: Facts and Figures

The PTA trends and patterns just outlined are partly reflected in Figures 2 and 3. The figures rely on the numbers of PTAs that were notified to the GATT/WTO since 1958 and were still in force on August 10, 2008.[24] It is shown, firstly, that the overwhelming majority of PTAs has come into force since 1990 and in particular since 1995 when the WTO was founded. Altogether, according to the WTO statistics modified as described in footnote 24, 160 PTAs are presently in place, comprising all of the 153 current WTO members with the exception only of Mongolia, while many of the other member countries take part in more than one PTA.[25] It has been estimated that by 2010 around 400 PTAs could be active.[26] By that date, more than half of world trade is likely to be conducted under such preferential trading regimes.

As shown in Figure 2, the prevailing form or type of integration under the new regionalism is free trade areas, in which the participating countries maintain their individual customs tariffs and hence preserve autonomy in trade policy towards third countries as well as full flexibility with regard to the choice of their PTA partners. Previously, customs unions with a common customs tariff, and consequently a common trade policy, among the partner countries were more frequent, at least in relative terms. If the growing predominance of free trade areas thus looks like a tendency towards a decreasing depth of integration under PTAs, it is worth recalling that modern free trade areas are different from traditional ones in that they normally go beyond "shallow" into "deep" integration, as defined above. The same of course is true of modern customs unions such as that of EU: witness the quantum leap in the mid-1980s caused by the Single European Act. From a sector perspective, the rise of "economic integration agreements" in the services sector is most remarkable. It concurred with the regulation of international services transactions in the WTO under the General Agreement on Trade in Services (GATS). The WTO reports about 50 cases of services integration in the PTA framework since 1995, which compares with just two such PTAs for the whole period from 1958 to 1994 (Figure 2).

Figure 3 highlights the growing incidence of cross-regional as opposed to regional preferential trade agreements and of North-South – and South-South – as opposed to North-North PTAs. Interestingly, cross-regional integration schemes are often "deeper", i.e. more comprehensive in terms of trade liberalisation and coverage of trade related areas, than are regional ones. This is particularly true with respect to cross-regional North-South agreements as compared to regional South-South schemes.[27]

Europe: Origin of Regionalism

The evolution of preferential trade policies in Europe essentially reflects the changing nature of the European Union's common commercial policy in general. This holds in terms of content as well as of geographic reach. The bottom line derives from the creation of the internal European market, the experience of which has

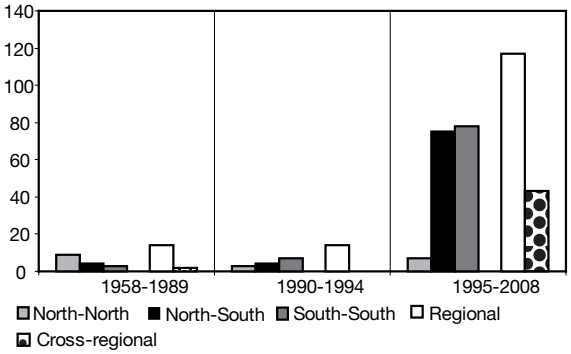
[24] Accordingly, PTAs that became defunct during the period considered (e.g. the numerous PTAs in which central and eastern European countries had participated before they acceded to the European Union) are not counted. Moreover, accessions to existing PTAs are not recognised as separate PTAs nor are partial-scope agreements between developing countries that cover just a limited number of sectors or goods. At the same time, economic integration agreements in the services sector are counted separately even though they form part of a broader PTA in each case. This causes a degree of double-counting.

[25] Multiple membership has led to the emergence of several regional PTA "hubs", such as Chile, Mexico and Singapore. Cf. R. V. Fiorentino, L. Verdeja, C. Toqueboeuf: The changing landscape of regional trade agreements: 2006 Update, Discussion Paper No. 12, World Trade Organisation, Geneva 2007, p. 13.

[26] This estimate takes account of the number of PTAs in force but not notified, those signed but not yet in force, the PTAs currently being negotiated, and those at a proposal stage. Cf. R. V. Fiorentino et al., op. cit., p. 5.

[27] R. V. Fiorentino et al., op. cit., p. 9.

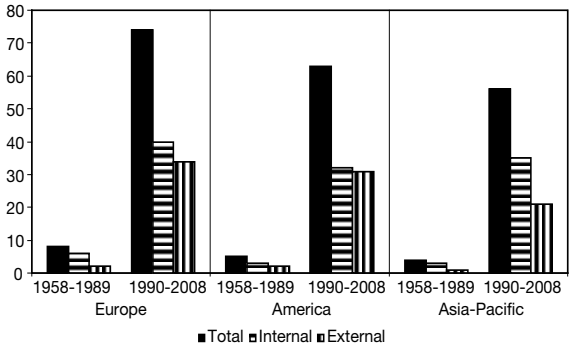
Figure 3
Preferential Trade Agreements by Partners' Stage of Development and Geography, 1958-2008*



* Number of PTAs notified to the WTO by date of entry into force (cut-off date: 10 August 2008). For the definition of the PTAs covered, cf. text and footnote 24.

Source: WTO; own compilation.

Figure 4
Preferential Trade Agreements Involving Major World Regions, 1958-2008*



* Number of PTAs notified to the WTO by date of entry into force (cut-off date: 10 August 2008). For the definition of the PTAs covered, cf. text and footnote 24.

Source: WTO; own compilation.

been transposed into the design of preferential trade agreements with external trading partners. Moreover, the EU's PTA partners are no longer limited to geographically close countries.

The place of the EU on the regionalism map is historical.[28] As already noted, the Treaty of Rome was the first PTA notified to the GATT. The EU itself is the most advanced and sophisticated of the existing PTAs. The EU's role in this area is also pivotal because of the number of PTAs it has initiated with other countries and country groupings. As can be seen from Figure 4 and Table 4, the EU – and Europe more generally – is still the main player ("champion") in the field of regional and bilateral trade agreements. At the same time, it represents/embodies the transition from old to new regionalism:

- The European Community's new approach to removing technical and regulatory barriers to trade in the European single market through harmonisation and mutual recognition has been the model for "deep integration" in the context of modern preferential trade agreements.
- European regionalism has also increasingly gone global, as more and more PTAs based on reciprocal market opening among the partners are struck with non-European countries. Under the old regionalism, such deals were reserved for neighbouring countries in Europe, often with a view to their later accession to the Community. Agreements with non-European, mainly developing, countries on the other hand were non-reciprocal or asymmetric in nature, as only the EC opened its markets preferentially (and partially).[29]

The EU approach to the new cross-regional bilateral agreements has been for partner countries to adopt similar laws and policies to those in the European Union relating to both trade and the wider conduct of business. These PTAs accordingly are "tariff plus agreements" which to a considerable extent contain "non-trade components" in a number of areas, including services, intellectual property, investment, movement of persons, mutual recognition (of both professional qualifications and product standards) and competition policy.[30]

Complementary to the bilateral track, the EU follows a "conditionality strategy"[31] towards its less developed PTA partners. Where applicable, it tends to make regional integration (following the European model) among these countries a condition for the conclusion of bilateral PTAs.[32] Examples are the EU's Mediterranean partner countries, the African, Caribbean and

[28] J.-C. Maur: Exporting Europe's trade policy, in: The World Economy, Vol. 28, No. 11, 2005, pp. 1565-1590.

[29] The growing significance of reciprocal trade agreements, even with non-European countries with no expectations of accession, is seen as a new paradigm in European trade policy. Cf. A. Sapir: EC regionalism at the turn of the Millennium: Toward a new paradigm?, in: The World Economy, Vol. 23, No. 9, 2000, pp. 1135-1432.

[30] J. Whalley, op. cit., pp. 519-522.

[31] J.-C. Maur, op. cit., p. 1568.

[32] The conditionality strategy dates back to the mid-1990s when the EU supported the formation of the Central European Free Trade Area (CEFTA) and the Baltic Free Trade Area (BAFTA). Regional integration among these countries was to form a critical element of their strategy to accede to the EU at a later stage. The Stabilisation and Association Agreements (SAAs) of the EU with Balkan countries can be seen in a similar context, as the establishment of a free trade area among these countries is set as a "… condition for the development of the relations between [the country] and the EU" (Article 12 of the SAAs).

Table 4
Preferential Trade Agreements Involving Major World Regions by Type and Partners' Stage of Development, 1958-2008[1]

		Europe[2]		America[3]		Asia-Pacific[4]	
		Internal	External	Internal	External	Internal	External
				1958-1989			
Types	CU	1	0	3	0	0	0
	FTA	4	2 (1)	0	2	2	1
	SI	1	0	0	0	1	0
Partners	N-N	6	0	0	0	2	0
	N-S	0	2 (1)	0	2	1	1
	S-S	0	0	3	0	0	0
				1990-2008			
Types	CU	3	0	1	0	0	0
	FTA	34	28 (21)	15	17	20	11
	SI	3	6 (0)	16	14	15	10
Partners	N-N	8	0	0	2	0	2
	N-S	9	28 (15)	9	23	18	12
	S-S	23	6 (6)	23	6	17	7

[1] Number of PTAs in and with the region (internal and external PTAs) notified to the WTO by date of entry into force (cut-off date: August 10, 2008); figures in parenthesis represent PTAs among geographically close countries in Europe. For the definition of the PTAs covered, cf. text and footnote 24.

[2] Including Commonwealth of Independent States (CIS).

[3] Western Hemisphere.

[4] Excluding CIS and Near and Middle East.

CU=Customs Union, N-N=North-North, FTA=Free Trade Area, N-S=North-South, SI=Services Integration, S-S=South-South

Sources: WTO; own compilation.

Pacific parties to the Cotonou Agreement and countries in Central America, the Andean region and the Southern Cone of Latin America with which the EU is negotiating or intends to negotiate. In all these cases, PTAs with the EU are closely tied to progress in cooperation between the respective countries on a regional or sub-regional level.

The new trade strategy of the EU adopted in October 2006 has been a shot in the arm for European regionalism.[33] Its central part is the announcement of a "new generation of Free Trade Agreements". The conclusion of such agreements should observe two major criteria. One is the competition criterion, i.e. to avoid falling behind major competitors in cutting bilateral trade deals. In this context, the European Commission points to "a growing risk of trade diversion detrimental to the EU in the most dynamic countries" as "the rapid development of third countries concluding FTAs with the EU's main competitors such as the US or Japan carries risks of marginalising the EU". The second yardstick is the WTO-plus criterion according to which free trade agreements involving the EU should exceed the scope of existing WTO disciplines. Specific mention is made of liberalisation and de-regulation in the services sector, investment policies, government procurement policies and the enforcement of intellectual property rights. For the selection of partner countries, the size and growth prospects of potential partners' markets and the extent of restrictions impeding access of EU firms to these markets should be decisive. Based on such reasoning, the European Commission has identified ASEAN, South Korea and MERCOSUR as highest-priority countries/country groupings, followed by India, Russia and the Gulf Co-operation Council, while "China also meets many of these criteria, but requires special attention because of the opportunities and risks it presents".

From Alaska to Tierra del Fuego

The deepening (through the project for completing the internal market by 1992) and widening (to 15 member states in 1995) of the European Community coincided with the United States' departure from the GATT non-discrimination principle in the first half of the 1980s, peaking with the entering into force of NAFTA in 1994. This development triggered the second wave of post-war regionalism after the foundation of the European Economic Community in the late 1950s with its contagion and imitation effects in Europe (European Free Trade Association/EFTA) and other world regions (mainly Latin America, the Caribbean and Africa) which constituted the first wave.[34]

The North American Free Trade Agreement lies at the heart of the new regionalism in the Americas, which comprises North and Latin America (including the Caribbean). Within NAFTA, the United States forms a "super-hub", comparable to the European Union, in the sense of its being one of the world's super-traders and a party to numerous bilateral free trade agreements. The USA has also used NAFTA as a template for its subsequent preferential trade agreements.[35] NAFTA provides the common framework along which PTA negotiations with other countries in the Western Hemisphere are conducted by the USA, covering the bilateral removal of tariffs and other barriers to trade in agricultural products, manufactures and services, rules of origin, intellectual property rights, workers' rights, environmental standards, investment, government procurement, customs administration and trade

[33] For details, cf. Commission of the European Communities: Global Europe: Competing in the world. A contribution to the EU's growth and jobs strategy, Brussels, 4 October 2006.

[34] R. Pomfret, op. cit., pp. 924-925.

[35] NAFTA itself, representing a free trade area, is a super-hub in the less strict sense in that the individual countries have their own, only partially intersecting, "spokes" and NAFTA *per se* has not negotiated preferential trade agreements. Cf. P. J. Lloyd, D. MacLaren: The EU's new trade strategy and regionalisation in the world economy, in: Außenwirtschaft, Vol. 61, No. 4, 2006, pp. 428-429.

facilitation, trade remedies and dispute settlement procedures. Hence NAFTA is another model of "deep" (in contrast to "shallow") integration.[36] NAFTA is also a prototype of a North-South agreement. It is a mixed regional agreement between two "inside countries" (USA and Canada) and one "outside country" (Mexico). In this context, Mexico is depicted as a reform-minded country which is in competition with other reform-minded countries to attract foreign direct investment and uses NAFTA, or the market-access advantage with regard to the USA conferred by NAFTA, to gain a locational advantage over its competitors.[37]

In Central and South America, or Latin America (excluding Mexico and the Caribbean) for short, preferential trade agreements have developed on three different tracks:

- intra-regionally, i.e. within Latin America
- intra-continentally, involving the United States and Canada
- trans-continentally with trading partners from other – geographically more distant – world regions.

In each case, two different types of agreements can be observed:

- bilateral agreements between two countries or grouping of countries
- plurilateral agreements among several countries or groupings of countries.

In recent time, bilateral agreements have become more important than plurilateral agreements in Latin America. To some extent, this is due to the deadlock of the negotiations on a Free Trade Area of the Americas (FTAA), extending from Alaska to Tierra del Fuego and thus encompassing all the countries of the Western Hemisphere (except Cuba), which has created incentives to negotiate intra-continental agreements on a bilateral basis instead. It also highlights the growing significance of trans-continental PTAs. In this area, bilateral agreements clearly dominate – a case in point is the free trade agreement between Chile and the European Union which mirrors the Chile-USA FTA – whereas plurilateral accords such as the four-partite Trans-Pacific Strategic Economic Partnership Agreement among Chile, Brunei Darussalam, New Zealand and Singapore remain a rare exception. Moreover, bilateral agreements have also grown within Latin America alongside – and even among – the region's plurilateral trade blocs like the Central American Common Market (CACM), the Caribbean Community and Common Market (CARICOM), the Andean Community and the Mercado Común del Sur (MERCOSUR). In consequence, the extent of PTA-related trade in Latin America has increased considerably and in some cases is very high indeed. An outstanding example is Chile where the share of imports from PTA partners in its total imports was as high as 85 per cent in 2006.[38]

Open Regionalism in Latin America

PTAs in Latin America proceed in an economic environment that is characterised by a relatively high degree of external openness. It is the result of unilateral trade reforms that were initiated in the 1980s and are by and large still in place in most countries of the subcontinent. It also reflects the multilateral liberalisation steps on which Latin American governments agreed in the Uruguay Round (1986-1994) under the GATT. PTA liberalisation in Latin America has therefore gone ahead in lock-step with most-favoured-nation liberalisation which is the hallmark of "open regionalism". The new regionalism in Latin America can also be regarded as representing an external anchor "locking in" domestic economic and institutional reforms and thereby in particular serving to attract foreign direct investment. All this is in sharp contrast to what had happened in earlier decades in Latin America when regional and sub-regional integration schemes were pursued to push industrialisation through the substitution of imports and were attended by a high degree of restrictiveness against trade with third countries. This had earned Latin America the reputation of a showcase of "closed regionalism" in the 1960s and 1970s.

Interestingly, the integration schemes agreed among the Latin American countries themselves seem to be less deep than their agreements with industrialised countries. For instance, most intra-Latin American PTAs do not have specific services provisions, such as most-favoured-nation treatment, national treatment, market access, local presence, domestic regulation, recognition of qualifications, transparency, restriction of transfers and denial of benefits.[39] In general, the principle of the nation-state which decides autono-

[36] However, in one respect NAFTA is less deep than other integration schemes in the Western Hemisphere and elsewhere: the possibility of imposing antidumping duties on one another's trade has been retained among the partner countries. In contrast, in the free trade agreement between Canada and Chile, as well as in the FTA between Chile and the European Free Trade Association (EFTA), antidumping has been replaced by competition policy. The same is also true in the European Economic Area between the EU and EFTA and, as already mentioned, in trans-Tasmanian trade between Australia and New Zealand.

[37] W. Ethier: The new regionalism in the Americas: A theoretical framework, in: North American Journal of Economics and Finance, Vol. 12, 2001, pp. 159-172.

[38] A. Estevadeordal, M. Shearer, K. Suominen: Multilateralizing RTAs in the Americas: State of play and ways forward, Paper presented at the Conference on Multilateralising Regionalism, Geneva, 10-12 September 2007.

[39] A. Estevadeordal et al., op. cit.

mously, seeks to resolve inter-governmental conflicts bilaterally and is not prepared to cede sovereign rights to supra-national institutions, is still deeply rooted in Latin America. The introduction of "trade plus" elements into extra-regional trade agreements with Latin American countries is therefore largely due to the insistence of their "Northern" partners. Not surprisingly, then, it meets with opposition on the Latin American side, as the negotiations between the EU and MERCOSUR show. Especially Brazil has not been willing to deal with the deepening agenda proposed by the EU since the potential benefits from this are deemed to be smaller than the costs associated with the loss of sovereignty.[40]

In sum, the conclusion of preferential trade agreements has become a prominent feature of trade policy in the Americas. In fact, few regions in the world appear to have seen such an aggressive proliferation of PTAs as the Americas. This process, going ahead in a decentralised and uncoordinated manner, has nonetheless given rise to concern. It is regarded as undermining efforts to build a hemispheric trading system governed by common rules.[41] Moreover, there seems to be a major problem of coherence, or convergence of norms and disciplines, between South-South integration schemes within Latin America, which are still relatively limited in terms of the breadth and depth of the underlying agreements and their implementation, and more ambitious North-South schemes between Latin America, on the one hand, and North America and other world regions, on the other hand. At the same time, it is feared that within the North-South schemes the Latin American partners may often find themselves at a disadvantage.[42]

"Factory Asia"

When it comes to regionalism, Asia-Pacific is often depicted as a latecomer. This holds some truth in the case of East Asia – in recent decades one of the most economically dynamic sub-regions in the world. However, this is not the case for the entire region. Already in 1965, Australia and New Zealand signed an FTA which was extended to an agreement on Closer Economic Relationship (CER) in 1983. Other regional agreements, such as ASEAN[43] (1967) and SAARC[44] (1985), were not originally trade agreements, but were mainly created in light of strategic security considerations.

Despite a long-standing apathy towards RTAs in East Asia, the economic integration of the sub-region has continuously increased since the end of the 1980s, along with world market openness. This increase was supported by the fact that the economies of the various countries – measured in per capita income – were at different developmental levels, but followed similar liberal trade policies.[45] In this way, high income levels in Japan and increasing incomes in the newly industrialised economies of Hong Kong, South Korea, Singapore and Taiwan led to these economies relocating labour-intensive stages of production to lower-wage countries in the rest of Asia. Considerable differences in factor prices in neighbouring countries (i.e. countries in geographical vicinity) were utilised.

This development was also supported by reductions in information and transport costs, which made fragmentation of production logistically possible. Additional political assistance came from unilateral tariff cuts throughout the region, which led to a race to the bottom, and further reduced trading costs. At the end of this process, a highly integrated "Factory Asia" emerged, in which former national production chains were broken up and individual elements were resettled in the sub-region along the lines of comparative advantage.[46] This can be seen in the increase in intra-industry trade and trade in parts and components. Consequently, over the course of a few years, a "strategic combination of complementary and competing foreign trade flows"[47] emerged in East Asia.

Thus, it can be stated that regionalisation in Asia-Pacific originally arose as a result of quasi-natural economic developments (particularly in East Asia), in which the benefits of agglomeration – including economies of scope, scale, and speed – offset the costs

[40] Z. de Azevedo, R. A. Henz: The EU new trade policy and the perspectives for an EU-Mercosur agreement, in: Außenwirtschaft, Vol. 61, No. 4, 2006, pp. 437-446.

[41] J. Granados, R. Cornejo: Convergence in the Americas: Some lessons from the DR-CAFTA process, in: The World Economy, Vol. 29, No. 7, 2006, pp. 857-891.

[42] CEPAL: Panorama de la inserción internacional de América Latina y El Caribe 2005-2006, Santiago de Chile 2006.

[43] The Association of Southeast Asian Nations (ASEAN) was founded in 1967 with five members: Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei Darussalam joined in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. Today, ASEAN has ten members. Cf. http://www.aseansec.org.

[44] The South Asian Association for Regional Cooperation (SAARC) was established in 1985 with seven member countries: Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. In 2006, the seven nations became part of the South Asian Free Trade Area (SAFTA). Cf. http://www.saarc-sec.org/main.php.

[45] D. MacLaren: Competing regionalism: the Asia-Pacific region, in: INTERECONOMICS, Vol. 42, No. 5, 2007, pp. 249-254.

[46] R. Baldwin, op. cit.

[47] D. Lorenz: Regionalisation versus regionalism – problems of change in the world economy, in: INTERECONOMICS, Vol. 26, No. 1, 1991, p. 9.

of agglomeration. However, analogously to what happened previously in North America, this phase of "market-driven" regionalisation was followed by a phase of "institution-driven" regionalisation.[48]

The East Asian "Noodle Bowl"

A first step in this direction was the ASEAN Free Trade Zone (AFTA), established in 1992, which for a long time was the only alternative to "race-to-the-bottom" unilateralism. However, the importance of ASEAN for trade has been rather limited. Increases in regional trade can mainly be attributed to general tariff reductions, which benefit all sides. As MFN tariffs have been very low particularly for relevant product groups, it has not been worth the effort to prove the origin of a good. For this reason, only 5% of ASEAN trade is subject to the negotiated preferences.[49]

Regionalism in Asia-Pacific began to bloom in the aftermath of the Asian financial crisis of 1997 and in the course of China's WTO accession, which affected the region even prior to completion in December 2001. The most important characteristic of this development is the growing participation of Asian countries in bilateral (intra-regional and cross-regional) PTAs. As shown in Figure 4, Asia-Pacific has caught up when it comes to regionalism.

Motives for bilateral trade agreements differ from country to country. ASEAN countries saw their trade relations within "Factory Asia" as endangered by (politically forced[50]) growing Chinese competition. To counter this, China suggested an FTA with ASEAN in 2000. Since then, negotiations on separate agreements covering individual sectors or measures have been proceeding. In 2002, a Framework Agreement on Comprehensive Economic Cooperation was signed with the aim of establishing an ASEAN-China FTA within the next decade. As a result, Japan and Korea anticipated discrimination against their goods as a threat to their hitherto strong trade position in East Asia – and started a race for the ASEAN market. These efforts led to bilateral PTA negotiations between the ASEAN group and individual ASEAN countries on the one side and Japan and Korea on the other side.[51]

In addition, at the ASEAN+3 summit in Manila 1999 an attempt was made to create an East Asian FTA. This attempt surely contributed to the above-mentioned bilateral efforts. However, the political differences between the three large economies China, Japan and Korea are so vast that this initiative has only a slight chance of success in the near future.[52] However, ASEAN's prosperity depends on trade, because elaborate production networks span the region and extend to China, Japan and South Korea.

Especially in the last few years, cross-regional trade partners have become increasingly interesting for East Asian countries. By now, China, Japan and Korea, as well as ASEAN, are negotiating and/or have concluded PTAs with partners in other regions of the world. Clearly, there is great interest in concluding agreements with the USA and the EU, the two largest markets in the world. For this reason, the most prominent among current trade deals is the already mentioned South Korea-USA FTA, which was signed in the summer of 2007. While South Korea and the EU already concluded a Framework Agreement on Trade and Co-operation in 2001, they are still engaged in negotiations for an FTA.

A glance at the several active or upcoming trade deals within the sub-region and between the sub-region and other regions shows the phenomenon of the East Asian "noodle bowl" as an Asian variation of the worldwide "spaghetti bowl" of trade agreements.

Pragmatic Regionalism Throughout Asia-Pacific

Not only East Asia, but also other sub-regions of Asia-Pacific are part of the new regionalism. In South Asia, interest also exists in a regional FTA. The SAARC countries are currently attempting to create the South Asian Free Trade Area (SAFTA). At the same time, there is competition for PTAs, especially between India and Pakistan. Here, they are not only looking towards their Asian-Pacific neighbours, but are seeking preferential deals worldwide. Similar tendencies can also be seen in the Pacific: alongside the worldwide bilateral efforts of Australia and New Zealand, the members of the Pacific Islands Forum[53] have agreed on a Pacific Island Countries Trade Agreement (PICTA), which is presently being ratified by the individual countries.[54]

At a Conference of ASEAN Ministers at the end of August 2008, a trade agreement was concluded with

[48] S. Urata: The emergence and proliferation of free trade agreements in East Asia, in: The Japanese Economy, Vol. 32, No. 2, 2004, pp. 5-52.

[49] "Afta Doha", op. cit.

[50] Cf. G. C. Hufbauer, J. J. Scott: Multilateralizing regionalism. Fitting Asia-Pacific agreements into the WTO system, Paper presented at the Conference on Multilateralising Regionalism, Geneva, September 10-12, 2007.

[51] Cf. R. Baldwin, op. cit.

[52] D. MacLaren, op. cit., p. 250.

[53] The Pacific Islands Forum (until 2000: the South Pacific Forum) was founded in 1971 and comprises 16 independent and self-governing states in the Pacific: Australia, Cook Islands, Fiji, Nauru, New Zealand, Tonga, Samoa, the Federated States of Micronesia, Kiribati, Niue, Republic of the Marshall Islands, Palau, Papua New Guinea, Solomon Islands, Tuvalu and Vanuatu. Cf. http://www.forumsec.org/index.cfm.

[54] R. V. Fiorentino et al., op. cit., p. 20.

India. In addition, it was announced that FTAs would be concluded in the near future with Australia and New Zealand.[55] The trade deal between ASEAN and India exemplifies the pragmatic trade policy of the new regionalism. The body of rules and regulations includes exactly 489 exceptions, mainly in the area of agriculture. For these, the agreement gives the exporters lower trade barriers. At the same time, farmers are protected and also sense the advantage of PTAs. Both the proponents of multilateral trade liberalisation and the opponents of any kind of opening to trade fall silent.

In this connection, it also becomes clear why India and China, with their strongly protected agricultural sectors, were the main drivers of the collapse of the latest attempt to conclude the Doha Round of multilateral trade negotiations. Along with Japan and Australia, which have similar trade policy interests, as well as ASEAN, the Asia-Pacific countries have developed a desire for smaller-scale bilateral deals, for which they can bargain harder. But in fact, these deals only include certain sectors and are therefore of low quality.[56]

In contrast, there is also interest in a Free Trade Agreement for Asia and the Pacific, which would include the Pacific neighbouring parts of America, along with Asia-Pacific. The basis and the forum for such a proposal is APEC.[57] However, as the individual interests of the 21 countries which would be included are as widespread as in the WTO, an agreement in the near future is similarly improbable.[58]

At present, Asia-Pacific offers an image of regional and cross-regional FTAs which sometimes overlap and are intersected by bilateral PTAs. The hub-and-spoke structure that can be seen in Europe and America has not yet emerged. The interests of the large economies which could only form the hub together and thus bind the spokes are too different. For this reason, it is improbable that the region will become well-integrated in the foreseeable future and thus form a "super-hub" in regionalism and bilateralism, i.e. combine the status of a "super-trader" in the world with membership in a great number of preferential trade agreements. Nonetheless, Asia-Pacific is a dynamic region of great interest. This can also be seen in the fact that the USA is already involved in several PTAs, while the EU maintains long-term relations with the countries in the region, but has no active PTAs. The EU is thus a latecomer in the race for Asian markets.[59]

Economic and "Systemic" Implications of Regionalism

The impressive numbers of preferential trade agreements, as shown in the above figures, and the growing shares of intra- and inter-regional trade flows covered by PTAs that can be observed, still tell little about their true economic impact. The PTA numbers are unweighted, suggesting that all notified agreements are of equal significance, which of course is not the case. As to the trade shares of PTAs, they may either overstate or underrate the importance of regionalism in the world economy. They do not take account of the fact that in many cases the bilateral removal of tariff or border barriers appears to be relatively insignificant, given the pre-existing low level of such barriers. At the same time, they also do not indicate the extent by which PTAs may reduce those trade costs that are caused by all kinds of behind-the-border barriers to trade. The removal of such barriers, however, could indeed make a great deal of difference to actual trade flows.[60]

The economic analysis of preferential trade agreements (PTAs) traditionally employs the concepts of trade creation and trade diversion as originally proposed by Viner. Despite a number of limitations pointed out by writers like Meade, Bhagwati, and Baldwin/Wyplosz, these notions have remained central to policy debates on PTAs.[61] Trade creation essentially means that expensive local production in a partner country is suppressed by lower-cost imports from another partner country, whereas trade diversion refers to expensive imports from a partner displacing cheaper imports from a third country.The two concepts are closely related to second-best analysis. Accordingly, in a world where international trade is distorted anyway, preferential trade liberalisation would remove one source of inefficiency but create a new one elsewhere in the system. As a result, it may either improve or worsen overall welfare (or leave it unchanged on balance).

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[55] B. K. Gordon: Bilateral trade-off, in: Wall Street Journal Europe, 5.9.2008.

[56] Ibid.

[57] The Asia Pacific Economic Cooperation (APEC) started in 1989 with twelve member countries: Australia, Brunei Darussalam, Canada, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the USA. The accession of China, Hong Kong and Taiwan in 1991, Mexico and Papua New Guinea in 1993, Chile in 1994, and Peru, Russia and Vietnam in 1998 made APEC to a group of 21. Cf. http://www.apec.org/.

[58] D. MacLaren, op. cit., pp. 250-251.

[59] P. J. Lloyd, D. MacLaren, op. cit., pp. 425 and 430.

[60] R. Pomfret, op. cit., pp. 930.

[61] Cf. in particular A. Panagariya: Preferential trade liberalization: The traditional theory and new developments, in: Journal of Economic Literature, Vol. XXXVIII, 2000, p. 293. As to the writers mentioned in the text, cf. J. Viner: The customs union issue, New York 1950; J. Meade: The theory of customs unions, Amsterdam 1955; J. Bhagwati: Trade-diverting customs unions and welfare improvement: A clarification, in: Economic Journal, Vol. 81, No. 323, 1971, pp. 580-587; R. Baldwin, C. Wyplosz: The economics of European integration, London et al. 2006, pp. 117-138.

Sound empirical evidence on trade creation and trade diversion caused by recent PTAs is scarce. Simple indicators, such as intra-regional/intra-PTA trade shares, expressing internal trade among PTA partners as a percentage of their total trade, and measures of relative trade intensity among member countries similar to the previously applied formula, seem to suggest that both effects might on the whole be rather modest. *Ex post* econometric analysis based on gravity-type models, on the other hand, tends to produce a rather strong trade impact of PTAs.[62] However, it is not shown to what extent additional trade for the integration partners has come at the expense of their trade with third countries.

In this context, deeper integration among PTA partners, which is a major characteristic of the new regionalism, may have a more benign third-country impact than the mere elimination of tariffs or shallow integration within PTAs. This is because the bilateral removal of behind-the-border barriers to trade often happens without discriminating outsiders.[63] Similar effects or positive externalities of bilateral liberalisation might occur when PTAs serve to bolster domestic reforms in developing countries. At the same time, however, the benefits of deeper integration appear to be unevenly ("asymmetrically") distributed among the partner countries in North-South agreements, to the disadvantage of the South.[64]

With preferential trade agreements piling up and multiple PTA memberships of individual countries rising in the process, negative trade diversion effects of PTAs may to some extent cancel out, while positive trade creation and expansion effects may be reinforced. Again, however, there is a reverse side of the coin. Such "additive regionalism"[65] leads to a patchwork of "positive discrimination" in international trade that may highly distort competition.[66] The coexistence of a growing number of different trading regimes in individual countries, with widely diverging provisions concerning depth of integration, preference margins, coverage of sensitive products, phase-out periods, methods of conferring origin, etc. also involves increased international transaction costs and reduced transparency for business; it may even deter traders from actually using the preferences offered.

In a politico-economic perspective, multiple membership in PTAs heightens the influence of special interest groups in trade policy which seek to secure the privileges gained and to prevent any erosion of the preferences through multilateral liberalisation on an MFN basis. Closely related to this effect is a possible weakening of incentives – and of capacities – on the part of governments to engage in multilateral trade negotiations. Against this backdrop, Bhagwati has likened PTAs to "termites … eating away at the multilateral trading system relentlessly and progressively".[67]

In reality, a dynamic interplay between regional and multilateral negotiations can be observed. For instance, regional negotiations and agreements aimed to influence multilateral outcomes in the Uruguay Round. The most prominent example is NAFTA and in particular the services agreement under NAFTA which provided the template for the WTO's GATS. Subsequently, as noted by Whalley, it has been the failure of attempts to broaden multilateral negotiation into non-trade areas such as competition policy and investment that has created the opportunity for regional and bilateral arrangements to evolve through targeted subgroup negotiation in such deep-integration areas.[68]

International economic rule-making and liberalisation through PTAs is nevertheless clearly an imperfect substitute for MFN-based trade policy. This has become most obvious in the field of agriculture (which of course is also the recurrent bone of contention in the Doha Round). Typically, PTAs are unable to create free trade in this area between the partner countries.[69] A major reason is positive externalities accruing to third countries from the bilateral removal of subsidies in agriculture. Such free-riding, which lessens the incentive to liberalise in a PTA frame, can only be contained in

[62] S. L. Baier et al., op. cit., for instance, investigating the preferential trade agreements that were formed between 1960 and 2000, find that the vast bulk of PTAs have tended to augment members' trade by about 100 per cent over a 15-year period.

[63] For instance, the elimination of internal taxes, as stipulated in the US-Chilean FTA with regard to luxury cars in Chile, should benefit not only respective American automobile companies but also European producers of such cars.

[64] W. Ethier: The proliferation of regional trade agreements and its rationale, in: Y. Kim, C. J. Lee (eds.): Northeast Asian economic integration: Prospects for a Northeast Asian FTA, Seoul 2003, p. 7.

[65] J. de Melo: Regionalism and Developing Countries: A Primer, in: Journal of World Trade, Vol. 41, No. 2, 2007, p. 356.

[66] Preferential trade agreements implicate "positive" discrimination, as certain trade partners are favoured over others, which are therefore indirectly disadvantaged. In the case of "negative" discrimination, represented for instance by antidumping measures, on the other hand, the affected trade partners directly receive worse treatment.

[67] J. Bhagwati: Termites in the trading system. How preferential agreements undermine free trade, Oxford 2008, p. xii.

[68] J. Whalley, op. cit., p. 518. For instance, the competition policy component of a number of PTAs concluded by ASEAN member countries (Singapore and Thailand) with industrialised countries (USA, Japan, Australia, New Zealand, EFTA) are seen as a partial bilateral response to the failure in the WTO to negotiate on competition policy. Cf. J. Whalley , op. cit., p. 526.

[69] Francois et al. have demonstrated this for PTAs which the European Union has concluded with a number of developing countries. Cf. J. F. Francois, M. McQueen, G. Wignaraja: European Union-Developing Country FTAs: Overview and Analysis, in: World Development, Vol. 33, No. 10, 2005, pp. 1550-1554.

a multilateral setting. MFN-based liberalisation is also indispensable for the smooth functioning of cross-border production networks and value chains.

To conclude, the WTO needs to gain effective control of regionalism. In the past, the multilateral trading system has been largely ineffective in dealing with preferential trade agreements. It allows for the formation of customs unions and free trade areas under certain conditions: the preferences exchanged between CU/FTA members must be 100 per cent, cover substantially all the internal trade, not raise protection against third countries, and have a definite timetable for implementation. Since there has never been consensus on how to interpret these constraints, hardly any PTA has been successfully challenged under the GATT or in the WTO. Hence it would be necessary to redesign the relevant multilateral rules and procedures, and to provide for more transparency on PTAs, as is foreseen in the Doha Round. Even more important than better rules would be better multilateral market access. This would, to take up Bhagwati's phrase quoted above, eat away at the very base of regionalism, namely the discriminatory preference margins that it creates.