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Conceptual Paper

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Do free trade agreements promote sneaky protectionism? A classical liberal perspective

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Abstract: A neglected aspect of regional trade agreements (RTAs) is their protectionist potential. In times of a stagnating World Trade Organization (WTO), growing economic nationalism and skepticism about the merits of free trade and trade agreements, the paper examines to what extent recently signed RTAs really promote genuine free trade or rather foster sneaky protectionism under the guise of free trade. For this, the paper proposes an ideal-type free trade agreement benchmark model based on a classical liberal perspective and applies it in a multiple case study approach to assess three cases of recently concluded mega-RTAs: the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), the renegotiated North American trade agreement USMCA, and the Canada–European Union (EU) agreement CETA. The article shows that all of them are far from the classical liberal ideal of totally free trade and have a high content of back door protectionism suitable to raise trade barriers when politically opportune. In particular, the United States–Mexico–Canada Agreement (USMCA) includes many clear protectionist provisions that might even outweigh its liberalizing stipulations, whereas CPTPP and CETA can be deemed net liberalizing. It concludes that given political economy constraints, RTAs can nevertheless remain a second-best solution to the classical liberal ideals of completely unhampered trade and unilateral liberalization provided that they remove more impediments to free exchange than they cement or create.

Keywords: free trade, trade agreements, protectionism, classical liberalism, political economy

JEL Classification: B12, B27, F02, F13, F55

1 Introduction

With the standstill of the Doha Development Round of the World Trade Organization (WTO), bilateral and multilateral regional trade agreements (RTAs) have become an increasing popular instrument to foster international economic cooperation and integration. Since June 2016, all WTO members belonged at least to one RTA and as of January 2019, there were 291 RTAs in force [WTO, 2019]. The common view held by many economists is to regard these arrangements favorably as a step closer to free trade by reducing trade obstacles. At the same time, criticism of free trade agreements is widespread. Commonly articulated from critics of globalization, it is referred to the alleged downsides of free trade, such as the destruction of jobs, lowering wages, and the erosion of consumer protection, health, social, and environmental standards. Not much attention has been paid in the debate to possible protectionist traits of these agreements. Rather than promoting genuine free trade RTAs can be viewed as instruments to protect as much as possible special interests in the countries involved and advocate merely a regulated trade with still a considerable portion of protectionism.

Indications for this view is the ever-growing negotiation time as well as length, scope, and complexity of the agreements. For example, while the first bilateral trade agreement, the United States concluded in the postwar period with Israel in 1985 was quite short with less than 8,000 words in length and 22 articles

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and three annexes, the US–Singapore Free Trade Agreement of 2004 was already nearly 10 times as long, taking up 70,000 words with 20 chapters each with many articles, more than a dozen annexes, and multiple side letters [Rodrik, 2018a, p. 75]. The scope of the Comprehensive Economic and Trade Agreement (CETA) between Canada and European Union (EU) of 2017 is even broader with 30 chapters occupying altogether 1589 pages.

The neglect of the protectionist potential of RTAs in the public and academic debate has recently been made the subject of discussion by Harvard economist Dani Rodrik [2018a]. He [p. 74] holds the label “free” trade agreement misleading and questions the tendency to view recent trade agreements “as an example of efficiency-enhancing policies.” As they focus increasingly less on tariffs and quotas, but more and on domestic rules and regulations they may foster a kind of protectionism that is subtle and less obvious, because it is hidden in the many regulations on various standards which amount to a form of preferential treatment of certain industries. This is what this paper calls “sneaky” protectionism. Hence, rather than rein in special interests to advance free trade, today’s trade agreements may “serve to empower special interests that may produce welfare-reducing, or purely redistributive outcomes under the guise of free trade” [Rodrik, 2018a, p. 74]. Rodrik [2018a] therefore calls to take a closer and more nuanced look on whether recent trade agreements really promote, on balance, greater economic liberalization or whether they further instead a sneaky protectionism, and he suggests examining the politics behind them. This article deals with this void.

Its aim is to examine to what extent recently signed mega-RTAs really have the potential to promote free trade or rather stifle it through baked-in protectionism. This requires an analytical framework that provides a benchmark model against which actual trade agreements can be assessed. This benchmark must specify what a real *free* trade agreement would have too like given political economy restraints. For this, the paper builds on prior work by the Cato Institute [Ikenson, 2018; Ikenson et al., 2018]. Theoretically, the benchmark model draws on insights from classical liberalism complemented by findings from the Austrian school of economics and public choice theory. The classical liberal perspective is chosen because this strand of economic thought laid the foundation of modern trade theory and demonstrated the mutual benefits of free trade. Austrian economics, which itself is rooted in classical liberalism [Butler, 2010], highlight the importance of competition as a discovery procedure which is fostered by free trade. The discovery concerns not only consumer wants and the best and cheapest way to meet them but also what institutional arrangements are appropriate to solve various issues, such as public health, social, and environmental problems. Precisely, these topics cover an increasingly part of today’s RTAs. Public choice theory explains why politicians cannot be expected to immunize themselves from pressures from the various interests of the societies they govern.

Methodologically, the paper applies a simple multiple case study approach following Yin [2003]. This method is appropriate when for a relatively new issue comprehensive quantitative data are missing and the focus is on how questions [Eisenhardt, 1989; Yin, 2003]. As the chosen agreements have only relatively recently been signed and have not yet fully been implemented, hard data are not readily available. And the study concentrates on how the agreements regulate trade. Multiple cases enable to draw comparisons, that is, to explore differences within and between cases and replicate findings across cases [Yin, 2003; Baxter and Jack, 2008].

Three cases were chosen according to actuality and contrasting composition of the participating economies involved: the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) of 2018, also known as Trans-Pacific Partnership (TPP)-11, involves almost an equal number of developing and developed countries with huge developing gaps of the first to the latter, the 2018 renegotiated North American trade agreement USMCA is between two developed nations and one emerging market country and the 2017 Canada–EU agreement CETA between two highly industrialized market economies. The three cases are based on information obtained from primary legal sources, comments to the legal texts, media reports, and web sources. They were evaluated through the lens of the following considerations: (1) To what extent and how quickly can the agreements remove trade barriers? (2) To what extent is there scope to have gone further to liberalize trade? (3) Do specific provisions belong in trade agreements, and (4) Do they contain innovative regulations in the positive or negative sense for RTAs?

Of course, this methodological approach has its limitation. Many regulatory provisions require evaluations of qualitative terms to understand whether they are net liberalizing or net protectionist. As Rodrik [2018a] has pointed out “unlike in the case of tariffs and quotas, there is no natural benchmark that allows us to judge whether a regulatory standard is excessive or protectionist.” In addition, given that the agreements are not yet fully implemented quantitative data on the actual effects are missing. Therefore, such appraisals are by nature a subjective endeavor reflecting value judgments, special interests, or institutional biases. Provisions in a trade agreement that might be judged positively or negatively by classical liberal economists might be viewed differently by people from pro-business, pro-labor, or pro-environment organizations. For that reason, the study is to be understood as a first tentative step in evaluating relatively recent RTAs to trigger further research and discussion. It assesses the RTAs through a particular analytical lens that is grounded in theoretical insights that demonstrated why prosperity crucially depends on free voluntary exchange both within and across political borders embedded in a framework that respects private property, freedom to contract, and the rule of law.

Against this background, the article contributes to existing research in two ways. First, it adds to the debate on RTAs by focusing on their protectionist potential as suggested by Rodrik [2018a]. For this, it proposes a framework for analyzing RTAs in the form of an ideal-type reference model for free trade agreements and applies it to case studies of the three recently concluded mega-RTAs. While there are studies on the individual agreements separately,¹ a comparative perspective is rare.²

Second and related to that, the study contributes to reframe the discussion on the theoretical foundations and justification of free trade in a period in which economic nationalism is on the rise and trust in the benefits of economic globalization is waning not only among political actors, which is symbolized by Donald Trump’s election as US president, but also among high-ranked economist, such as, for example, Stiglitz [2017] or Rodrik [2011, 2018b]. The paper highlights the classical liberal understanding of free trade as freedom to import rather than freedom to export and it points to the difference between the classical liberal perspective of free trade and the perception that the playing field must be level for trade to be truly free as voiced, for example, by the EU Commission (2017a, p. 13) or business circles [e.g., US Chamber of Commerce, 2017; Confederation of Swedish Enterprise, 2018].

The remainder of the paper is organized as follows. First, section 2 explains the essential traits of an ideal free trade agreement from a classical liberal perspective. Then, section 3 examines tentatively three cases of recent free trade agreements, to what extent they come close to this benchmark models, namely the CPTPP, also known as TPP-11, the renegotiated North American trade agreement USCMA and the Canada–EU agreement CETA. Section 4 concludes.

2 The ideal free trade agreement from a classical liberal perspective

Classical liberal scholars like Adam Smith, David Ricardo, John Stuart Mill, and Frédéric Bastiat were leading to challenge the mercantilist view of international trade as a means to accumulate gold or silver by running a trade surplus with other countries. They demonstrated using sound economic theory that the division of labor according to comparative advantage made possible by the voluntary exchange process on the marketplace is a major driver of efficiency and prosperity, both within and between nations. And this is always beneficial for *both* sides; otherwise, they would not trade. Thereby, wealth is not created by governments, but by the mutual cooperation of free individuals “because economic freedom allows people to adjust spontaneously to each other’s needs and cooperate for their mutual benefit” [Butler, 2015, p. 74]. Instead, they were aware that the government is no benevolent dictator but consists of self-interest

¹ See for example, Peterson Institute for International Economics [2016a and 2016b] on TPP, Ciuriak et al. [2017] on CPTPP or Whiting, T.K. and Beaumont-Smith, G. [2019] on USMCA.

² A comparative perspective is provided by Wang [2019] on CPTPP and CETA focusing on if and why FTAs converge in their regulations.

human beings who have the same failings as the rest of the population. Therefore, and because of the incentive structure of the political process, it tends to be unreliable, inefficient, and easily captured by producer interests. As Bastiat [1848] put it, governments make “the great fiction through which everybody endeavors to live at the expense of everybody else.” Therefore, governments should themselves be bound by the rule of law. This means that rules should be general (without exceptions), universal (applying to everyone without exception with nobody being above the law), and stable (not changing so often so that people can rely on what they are about) [Hayek, 1973, p. 73; Butler, 2015].

One of the least contested insight in the economics profession is David Ricardo’s [1817] principle of comparative advantage [Lemieux, 2018a; Rodrik, 2018a] which demonstrates that free trade is beneficial for a country even if it has an absolute productivity disadvantage in producing every good because it expands a nation’s consumption possibilities frontier when its residents specialize on producing whatever goods cost them less to produce relative to other things. They receive more goods at lower prices and better quality than they would otherwise have enjoyed, so their lives are materially improved. At the same time, having to compete with foreign competitors induces domestic producers to become more efficient and innovative [Lemieux, 2016].

As James Mill [1821] pointed out in contrast to the popular held mercantilist view these benefits from trade arise, in all cases, “from the commodity received, not from the commodity given. When one country exchanges ... the whole of its advantage consists in the commodities imported. It benefits by importation, and by nothing else. ... That country, or, more properly speaking, the people of that country, have certain commodities of their own, but these they are willing to give for certain commodities of other countries. They prefer having those other commodities. They are benefited, therefore, not by what they give away; that it would be absurd to say; but by what they receive.” Similarly, Jean-Baptiste Say [1855, Book I, Chapter XV] concluded “nothing can be bought from strangers, except with native products.” Even if a country exports more, it will either invest its trade surplus or import more in the long run because these are the only things that can be done with the foreign currency earned from exports [Lemieux, 2017a]. So, the benefit free trade confers to the people is not only the freedom to export, as its advocates typically accentuate, but equally important, the freedom to import. The more a country can import, the better off it is in terms of material prosperity.

From these insights follows that countries should open their economies completely to trade irrespective of what other countries may do. Hence, from a classical liberal perspective, countries should free trade unilaterally and not just on a reciprocal basis [Krugman, 1997; Lemieux, 2017a,b; Rodrik, 2018a;] because unilateral free trade provides most of the benefits of multilateral free trade. This is what Richard Cobden (1804–1865), an English manufacturer and politician, has advocated and successfully achieved with the abolition of the British Corn Laws in 1846 that unilaterally repealed protectionist tariffs.³

Furthermore, the benefits from trade do not disappear when foreign governments intervene in their economies more than one’s own through various regulatory standards, taxes, and subsidies [Lemieux, 2017b]. This is actually what the level playing field argument fails to see. As Krugman [1997] contended although government regulations and taxes are part of the comparative advantage landscape and change relative prices, they do not extinguish comparative advantage and negate the benefits from trade. Therefore, the demand for reciprocity and creating a level playing field is actually self-damaging. When, for example, a trading partner subsidizes its exports, it unlevels the playing field, however, in favor of the importing countries and against its own citizens. The consumers of the

³ Cobden [1919] argued as follows: “We came to the conclusion that the less we attempted to persuade foreigners to adopt our trade principles, the better; for we discovered so much suspicion of the motives of England, that it was lending an argument to the protectionists abroad to incite the popular feeling against free traders, by enabling them to say, “See what these men are wanting to do; they are partisans of England and they are seeking to prostitute our industries at the feet of that perfidious nation...” To take away this pretense, we avowed our total indifference whether other nations became free traders or not; but we should abolish Protection for our own selves and leave other countries to take whatever course they liked best (quoted in Bhagwati [2002a p. 2]).

importing country gain from lower prices for imports and their real incomes rise. Resources released in importing competing industries can then be invested to produce goods and services here that were previously too costly to produce.

Hence, one's own government's trade policy should not depend on the restrictions that foreign countries impose on their own citizens. As Joan Robinson [1947] put it, this would be as if a country throws rocks in its harbors simply because other countries have rocky coasts. Murray Rothbard [1970/2018] highlighted that exchange and the division of labor is not based on equality and harmonization but rather on differences and inequality; otherwise, "there would be no scope at all for a division of labor if every person were uniform and interchangeable." Based on these insights, there is no convincing *economic* argument at all for the need of trade agreements as stated by Vilfredo Pareto in 1901 [similarly Rothbard, 1995].

Not even the "optimal tariff" argument provides a satisfying justification. According to this theory, large countries may use tariffs to manipulate their terms of trade at the expense of their trade partners. However, in a complex ever-changing world, there is an insurmountable knowledge problem to determine the optimal tariff rate where the gains in tax revenues outweigh the societal loss due to the allocative inefficiencies caused by the artificial increase in the domestic prices. Even if it could, the price increase nevertheless hurts consumers and given the reality of the political process, it cannot be expected that the tax revenues will be used to compensate consumers. Therefore, as already Francis Y. Edgeworth [1908, p. 555], one of the intellectual fathers of the optimal tariff argument, pointed out, "the direct use of the theory is likely to be small. But it is to be feared that its abuse will be considerable. It affords to unscrupulous advocates of vulgar protection a particularly specious pretext for introducing the thin edge of the fiscal wedge. Let us admire the skill of the analyst but label the subject of his investigation POISON."⁴

Only political economy considerations may justify trade agreements. Given the incentives of the political system and the widespread distrust in free markets, unilateral free trade or a simple contract declaring with a single phrase that trade shall be free trade among the parties are for the time being politically not feasible. Therefore, trade agreements could be seen as a second-best solution and precaution to tie the hands of the government [Irwin, 2015; Lemieux, 2017a]. They prevent national governments from giving in to the pressures of domestic import competing interests to the detriment of consumers if international agreements need to be revoked [Rodrik, 2018a]. Moreover, it is argued that reciprocity forces governments to keep their commitments because it is easier for a government to cancel unilateral moves than to break an agreed system of rule-based trade [Bhagwati, 2002a; Lemieux, 2017a]. However, if and to what extent trade agreements are able to restrain governments depends on its precise arrangements. As Rothbard [1995] and Peter Klein [2017] argue, as national governments are more inclined to strengthen rather than to give up power trade agreements might just as likely be used as a vehicle to increase government control over the economy through the cartelization of regulations, that is, upward harmonization of product safety, labor, social and environment standards, taxes, and subsidies.

Nevertheless, free trade agreements are the reality. Therefore, from a classical liberal perspective to be useful, they must further free trade and the liberty of economic subjects more than they restrict them through regulatory harmonization and built-in escape clauses and remedy measures. The basics of an ideal-typical classical liberal benchmark model for trade agreements have been developed by Cato Institute scholars around Daniel J. Ikenson. It should contain the following essentials [Ikenson, 2018; Ikenson et al., 2018]:

- Complete elimination of tariffs and non-tariff barriers on all goods and services;
- Non-restrictive rules to determine the origin of products and services not to limit the scope for supply chain innovations because globalization with cross-border investment and global supply chains has made it difficult and increasingly arbitrary to trace the origin.

⁴ According to Krugman [1997] and Rodrik [2018a], the optimal tariff argument plays almost no role in real-world disputes over trade policy.

- No restrictions on
 - competition for government procurement
 - foreign direct investment (FDI) in the economy
 - cross-border data flows, which are components of growing importance in the provision of goods and services in the 21st century.
- Elimination of obstacle to expeditious customs clearance.
- No trade remedy or trade defense measures, such as antidumping measures.
- Strict prohibitions of non-tariff barriers, such as performance requirements, restrictions based on scientifically unsubstantiated public health and safety concerns, and restrictions based on national security concerns that fail to meet certain minimum standards.
- Mutual recognition of product regulations, labor, environmental, and other regulatory standards.

Differences in regulation often reflect divergent consumer preferences, different assessments of risks, dissimilar regulatory styles, or simply different influences of interest groups. So, there is no objective answer on what the optimal standards for all could be. Therefore, the principle of mutual recognition is an obvious solution. It has been adopted in addition to basic harmonization in the EU following the *Cassis-de-Dijon* decisions of the European Court of Justice in the EU Commission White Paper of 1985 and the Single European Act (SEA) of 1986. Such an approach has two advantages from a classical liberal perspective. First, it preserves national sovereignty to legislate and regulate in ways that do not discriminate against imported goods, services, and capital. Second, it strengthens competition as a disempowering instrument [Böhm, 1961, p. 22] and discovery procedure [Hayek, 1978]. This curbs the power of politicians and bureaucrats who tend to increase their power by establishing tax and regulatory cartels via international agreements. Such regulatory or institutional competition enables people to choose not only through voice but also through exit. In addition, the option to vote by feet promotes institutional competition as a discovery procedure to find out those regulation that meet the preferences of the population. This not only holds for product standards but also for provisions on labor and environmental regulations. As many scholars agree [e.g., Krugman, 1997; Irwin, 2015; Lemieux, 2017a,b; Ikenson, 2018], these provisions are actually no genuine trade matter, as they do not per se limit trade, unless they are used as pretext to impose trade barriers on foreign competitors that produce under different standards.

The same holds for intellectual property rights rules such as the length of copyright terms [see e.g., Bhagwati et al., 2014]. In fact, their need is far from unanimously acknowledged in economic theory. The standard argument in favor of intellectual property rights protection is to encourage innovation by providing a temporary monopoly for the inventor; otherwise, there would be not enough innovations. Shaffer [2013], for example, argues that intellectual property rights law contradicts the fundamental liberal principle of the primacy of voluntary action over government coercion. People may make contracts that limit the sale or transmission of ideas or books, but these bind only those who make them. Intellectual property laws, by contrast, are imposed by a coercive state and apply to everyone, whether people accept them or not. Even, if one does not share this liberal legal principle, it is difficult to prove empirically that without these laws there would be fewer productive innovations. As Shaffer points out, most of the great creators and inventors of the past worked without patents and copyrights. In a similar manner argue Boldrin and Levine [2008]. They show that intellectual monopoly is not a cause of innovation, but rather an unwelcome consequence of it as the example to the software industry shows. Virtually, none of the innovations in this industry took place with the protection of intellectual monopoly. In addition, they question the widely held view among politicians and interest groups that imitating is economically harmful. Instead, Boldrin and Levine [2008, p. 145f.] argue that people learn through imitating others. In doing so, they usually not only produce at a lower cost but also make further improvements. So rather than inspiring innovation, there is much reason to believe that intellectual property rights prevent innovation because the patent owner can stop other people from making a better product that is based on the patent owner's one.

A final requirement of an ideal liberal free trade arrangement is that in order to be effective, its rules must be implemented. This necessitates a binding and enforceable dispute settlement mechanism to make sure governments keep their promises. According to Ikenson et al. [2018], the standard mechanism with

recourse to a third-party adjudicator for a ruling and then self-enforcement through authorized suspension of the trade agreement obligations has proved its effectiveness.

3 Evaluation of recent trade agreements

In the following, three free trade agreements will be analyzed through the lens of the classical liberal ideal benchmark model: (1) the TPP-11, which is considered as a blueprint for other agreements and “ongoing and upcoming negotiations at the multilateral level” [Helble, 2017, p. 1], the renegotiated North American trade agreement USMCA as the first outcome of the new trade doctrine of US President Donald Trump’s America first policy, and (3) the CETA Agreement between the EU and Canada. It is the EU’s first economic agreement with a highly industrialized Western economy and reflects the EU’s value-oriented and ‘race-to-the top’ oriented trade philosophy [EU Commission, 2017a p. 13]. Following Yin’s [2003] recommendations, first each single case is examined separately and then compared in a cross-case analysis for pattern matching and exploring similarities and differences.

3.1 Comprehensive and Progressive Trans-Pacific Partnership

The CPTPP is also known as TPP-11 and evolved from the proposed but defunct trade agreement TPP among the governments of initially 12 countries from the Asia-Pacific Rim: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. On January 23, 2017, the United States under President Donald Trump withdrew from the agreement which it had signed on February 4, 2016 but not ratified. This withdrawal was one of the first actions of President Donald Trump after assuming office. The remaining 11 nations then rechristened the agreement Comprehensive and Progressive Agreement for TPP which entered into force on December 30, 2018.

The total combined gross domestic product of the CPTPP is estimated at \$ 13.5 trillion or 13.4% of global GDP. While this is significantly less than the TPP-12’s combined \$ 28 trillion and 36% of global GDP, it will still be one of the biggest trade agreements in the world. In comparison, the North American Free Trade Agreement (NAFTA) totals about \$20 trillion [Torrey, 2018]. Under President Barack Obama, TPP was meant to be a role model for contemporary global trade, however, where “the rules of the road for trade in the 21st century” will be written by the United States and not China, thereby putting “American workers first” [Obama, 2016].

Most of the provisions of the CPTPP⁵ are identical to the TPP draft adopted in Auckland on February 4, 2016 (Article 1 CPTPP), that is, before the United States pulled out from the ratification process. Therefore, the following discussion draws on the Auckland TPP version of 2016.⁶ Only 22 TPP provisions the United States favored but other countries had opposed were suspended or modified from the signed CPTPP (Article 2 CPTPP, resp. Annex CPTPP). One of the most contested provisions the United States had advocated was the increased abilities of companies to sue national governments, in particular over strict regulations of oil and gas exploitation (Article 19.19 and 19.22). Now the scope of the investor-state dispute settlement (ISDS) mechanism is narrower in the CPTPP, while the right of governments to regulate in the public interest and prevent unwarranted claims have been retained. Another disputed issue was the US insistence to extend the copyright term for films and sound recordings from 50 to 70 years after publication and that for books, screenplays, music, lyrics, and artistic works from 50 to 70 years after the death of the author. Both terms now expire after 50 years.⁷

5 The document is accessible for example, at <https://www.mfat.govt.nz/assets/CPTPP/Comprehensive-and-Progressive-Agreement-for-Trans-Pacific-Partnership-CPTPP-English.pdf>

6 The full text is available on participating government websites, for example, at USTR.gov: <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>.

7 For more details on the difference between CPTPP and TPP, see New Zealand Foreign Affairs and Trade: CPTPP vs TPP; <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/cptpp/understanding-cptpp/tpp-and-cptpp-the-differences-explained>.

The whole 2016 TPP contains 30 chapters, four annexes and 12 side letters, altogether covering roughly 5,000 pages. Yet, the main text of the agreement comprises “only” 599 pages. Traditional trade issue like tariff and non-tariff trade barriers is but one small part of the agreement. The rest deals with behind the border issues such as state-owned enterprises (SOEs), intellectual property rights, regulatory coherence, labor, and environment.

The preamble makes clear from the outset that the partner countries do not envisage genuine free trade, but managed trade. In fact, the term “free market” does not appear once in the 599 pages. Instead, the signing partners reaffirm “the importance of promoting corporate social responsibility, cultural identity and diversity, environmental protection and conservation, gender equality, indigenous rights, labor rights, inclusive trade, sustainable development and traditional knowledge, as well as the importance of preserving their right to regulate in the public interest.” Therefore, the agreement includes a large number of limitations and exceptions to liberalizing trade. This also holds for the provision that is in principle mostly in line with the classical liberal benchmark model of free trade – the elimination of tariffs on a wide range of goods. The TPP will eliminate three-quarters of non-zero tariffs immediately on entry into force, many of which have already been reduced to low levels by previous trade agreements [Peterson Institute for International Economics, 2016a, p. 8]. For the remaining tariffs, especially in the agricultural and automobile sector, the process of eliminating tariffs will be spread over decades. For example, the elimination of the 2.5% tariff on imported Japanese cars shall take 25 years; the 25% tariff on Japanese trucks even three decades. According to an analysis from the Peterson Institute for International Economics [2016a, p. 31], tariff liberalization of 99% of all goods will be nearly complete after 16 years, and fully complete only after 30 years.

Until the time when all tariffs are moved to zero differentiated tariff reduction schedules across partners prevail for two alleged reasons. First, Japan, but also the United States until their withdrawal wants to protect industries they consider sensitive and give them time to adjust by accelerating liberalization for small exporters relative to large exporters. This concerns mainly agriculture and the automotive industry [see also Peterson Institute for International Economics, 2016a, p. 31]. Second, a number of TPP-11 countries are members of already existing RTAs. Examples are Canada and Mexico in the revised NAFTA or Australia and New Zealand in the Australia–New Zealand Closer Economic Relations Trade Agreement. TPP countries in RTAs will continue to receive existing preferences so long as the TPP is phased in. For example, a Canadian exporter keeps the right to resort to the Mexican tariff rates scheduled in NAFTA, when the latter are lower than those of the TPP. As a result, Canadian and Japanese exports might face different Mexican tariffs even when the Mexican TPP-11 schedule does not imply differentiated treatment. Moreover, certain sectors will keep restrictive trade barriers. For example, in agriculture Canada maintains its quota system in the dairy and poultry sector, though with larger tariff-free import quotas. Other countries are allowed to apply export bans and restrictions for food products. Finally, in the automotive sector, CPTPP’s rules of origin provisions create an additional trade barrier. They require that finished automobiles must have at least 45% of their content coming from TPP-11 member to qualify for zero-tariff rates.

Limited progress has been made in liberalizing government procurement and services trade, which are also full of exceptions, transitional measures, and differential treatment among members. Basically, TPP-11 members have equal treatment to foreign firms that seek to enter their service markets. No new restrictions on market access are allowed, while new unilateral liberalization will be automatically extended to all TPP-11 members. However, there are a host of country- and subject-specific exceptions fixed in the annexes. They foresee financial services being much less liberalized than most other service sectors [Peterson Institute for International Economics, 2016a, p. 85]. A more liberalizing effects may have the commitment of CPTPP countries to accept FDI on a “negative list” basis. This means that their markets are completely open in all sectors except those explicitly named in the list. This is less restrictive than a list that specifies those sectors which are fully open while excluding all others because when new products and services are introduced, the sectors where these are found will automatically be open to FDI without the need to negotiate new rules.

Positive in the perspective of the classical liberal benchmark model are the rules for access to telecommunication networks. They prohibit tariffs on electronic commerce, limit restrictions on cross-border

data transfers, and rule out data localization requirements. It also puts SOEs more clearly under international rules ensuring that they act on a commercial basis. This is an attempt to level the playing field to prevent them from exercising what is deemed unfair advantages compared to private firms without state backing. As has been explained in Section 2 from the classical liberal perspective, there is no justification for such rules.

Many of the liberalized provisions are enforceable under a new dispute settlement mechanism. It calls for the resolution of government-to-government disputes through a multiphase process that starts with consultations between the parties to the dispute. If these consultations fail, the CPTPP allows the parties to form a three-person panel to examine the facts and the applicable law of the CPTPP to resolve the matter. The international arbitration clauses in the agreement gives foreign investors protection against direct or indirect expropriation [Peterson Institute for International Economics, 2016a, p. 9].

However, in addition to the exceptions and limitations, TPP-11 has many other provisions that are not in line with the ideal-type free trade model. These are regulations with a big potential to stifle free trade through raising rivals' costs. These are above all intellectual property, labor, and environmental provisions. TPP-11 strengthens intellectual property rights and commends greater commitments toward enforcing them. The CPTPP Intellectual Property Rights chapter requires criminal penalties for trade secret theft and unauthorized exploitation of copyrighted work and adds rules on data exclusivity for biologics. The labor provisions, which cover a whole chapter, is based on standards of the International Labor Organization [Lemieux, 2016; Peterson Institute for International Economics, 2016b, p. 41]. They hold the signatory states to guarantee "acceptable conditions of work with respect to minimum wages, hour of work, and occupational safety and health" (Chapter 19). TPP labor standards are enforceable through dispute settlement procedures, with the option to impose trade sanctions if a country fails to comply. If strictly implemented, these labor rules would partly eliminate the main comparative advantage of poor countries – their relatively low price of labor. As such, they would harm workers in poor countries to the benefit of rich workers in more developed countries covered by the agreement such as Japan, Canada, Australia or New Zealand. As Ikenson et al. [2016, p. 61] underscore, there is no convincing reason "in the context of trade liberalization, to mandate that developing countries adopt rich-country standards that may be suitable and affordable to rich countries because they are rich countries, but are costly for developing countries to adopt and uphold and which may impede the priority of economic growth." And they [2016, p. 61] conclude, "The TPP Labor chapter includes the most rigorous, enforceable protections of labor rights and, by extension, the widest berth for protectionist mischief masquerading as labor concerns ever to be included in a trade agreement."

Likewise, the agreement's environmental chapter creates a higher regulatory burden and even incentives with detrimental effects. This holds, for example, for the aim to intensify the repression of trade in products from protected animals. For this, it is intended to strengthen a prohibition system. Yet, such a regime most likely creates a "tragedy of the commons," where only poachers and smugglers can make money with protected animals by exhausting the resource without caring for its reproduction. The only positive decision is the obligation to reduce fish subsidies. Questionable from the classical liberal perspective is that the environmental provisions in the CPTPP are enforceable under its dispute settlement mechanism and violations are subject to potential trade sanctions. Another potential for raising rivals' cost may have the new regulatory coherence chapter which provides guidelines for streamlining and coordinating the regulatory processes of members. While it does not question each countries' right to impose its own regulation, it does not call for explicit mutual recognition.

In sum, TPP-11 is far from the liberal free trade agreement benchmark model and has the typical features of a managed-trade agreement. The elimination of tariffs for most products over time and the negative list for opening the services sector is surely positive. Its drawbacks, however, are the many exemptions and the large room given for non-genuine trade issues such as intellectual property, labor, and environmental regulation that have the potential to create or reinforce entrenched interests (labor unions, environmentalists, and patent trolls). Whether in the longer run TPP will gradually increase economic freedom or not depends on how its rules are implemented.

3.2 United States–Mexico–Canada Agreement

The United States–Mexico–Canada Agreement (USMCA) was signed on November 30, 2018 and is the result of a 2017–2018 renegotiation of the NAFTA of 1994 for which the administration of President of the US Donald Trump had pushed having called it the “worst trade deal maybe ever signed anywhere.”

The new USMCA agreement has 2,082 pages and is more complex than the roughly 600 pages of NAFTA. It is made of a preamble, 34 chapters, 15 annexes, and 33 side letters.⁸ Its outline resembles in large part the CPTTP [Whiting and Beaumont-Smith, 2019]. Like CPTTP, there are already from the outset two clear indications that USMCA does not envisage unhampered genuine free trade as laid down in the classical liberal benchmark model. First, from the new title of the agreement, the expression “free trade” has been deleted. Second, the preamble of the USMCA associates mutually beneficial trade with the fairness attribute when it speaks of “freer, fairer markets,” and “fair competition.”

Consistent with the classical liberal benchmark model is that most goods trade will remain tariff-free. In addition, barriers to certain agricultural products like dairy and wine into Canada will be reduced and higher threshold established for the value of imports of small packages not subject to customs duties in Canada and Mexico. However, a side letter between the US and Mexico regulates trade with cheese by listing 33 cheeses that US producers can sell in Mexico without restriction based on the names of those cheeses. Further liberalizations were agreed for trade in digital products like music and e-books as well as trade in financial services and telecommunications, although with exceptions and new regulations under the pretense of consumer protection. No tariffs have also been agreed on raw and refined oil and gas products, yet not in an explicit energy chapter in the USMCA, but in the Canada–United States Side Letter on Energy. Finally, and that breaks new ground in RTAs, the agreement prohibits currency depreciation intended to produce a trade advantage. However, it will be difficult if not impossible to enforce this provision because it may hardly possible to separate such manipulations from ordinary monetary policy. Moreover, no central bank will admit it is devaluing currency to obtain a competitive advantage in international trade [see also Ikenson, 2018; Lemieux, 2018a, 2018b].

On the negative side from the classical liberal perspective is the extension of regulations beyond that what was in NAFTA. One example is the extension of intellectual property protection on copyrights and some patents, including scent trademarks, which will be accompanied by strengthened regulations and controls. Moreover, the USMCA tightens considerably the previous rules of origin, in particular for automobiles and apparel. At least 75% of a car’s parts must be from the United States, Canada, or Mexico to avoid tariffs. In addition, it is required that 40%–45% of an automobile’s content be made by workers earning at least 16 dollars per hour. This increased regional content threshold makes it harder for intermediate goods imported from outside North America to enter this market. The wage requirement actually imposes a minimum wage on most of Mexican autoworkers. As Lemieux [2018a,b] explains the 16 dollars per hours is well below this sector’s wages in the United States and Canada, but above the wages paid in Mexico.

No further liberalization was agreed for procurement markets to goods and services as well as no restrictions on the use of antidumping, countervailing duty, or safeguard measures under the pretext of “national security.” Rather, the safeguard law extends further under the revised deal by making it more difficult for Canadian and Mexican exporters to be exempted from potential safeguard tariffs. Furthermore, investment restrictions continue to exist in certain industries, such as financial services, commercial air services, communications, and mining. Certain service markets are kept closed completely against foreign competition, namely in maritime shipping, dredging, commercial air services and trucking services. Mutual recognition of regulations is not included in the agreement. However, as Ikenson [2018] interprets chapter 28 on “Good Regulatory Practices,” it creates mechanisms “for establishing broader compatibility, transparency, and predictability to regulation and regulatory processes.”

Measures such as the early publication of a list with planned regulation (Article 28.6) and the full and clear publication of regulations on a website (Article 28.7.) help to adapt businesses on time to new

⁸ The full text is available on participating government websites, for example, at <https://international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cusma-aceum/text-texte/toc-tdm.aspx?lang=eng>.

requirements. Yet, the encouragement of Regulatory Compatibility and Cooperation regulatory cooperation (Article 28.17) bears the danger of harmonization that tends to raise regulatory standards and as a consequence compliance costs while reducing economic freedom through the restriction of institutional competition.

Moreover, the USMCA contains a number of social and environmental policy goals. For example, it requires that each member government shall ensure acceptable conditions of work with respect to minimum wages. This will protect unionized workers in the United States and Canada against competition from less wealthy Mexicans. From side letter status in NAFTA to a full chapter in the USMCA have been moved provisions on the environment, Chapter 24 obligates the three countries to develop and enforce their own environmental laws and work together to improve air quality, which could be used as a backdoor to impose costly new regulations and taxes. At the same time, the agreement tries to preserve a level playing field by prohibiting nations from weakening environmental laws to attract trade and investment. Not liberty and competition enhancing is Article 32.10, par. 4 which practically prohibits any of the three governments from concluding a free-trade deal with a non-market economy. This is mainly aimed at China [Lemieux, 2018b].

Dispute settlement provisions in the agreement they now weaken the position of the investors. While the three national governments will still be able to bring trade disputes before USMCA arbitration panels, a private foreign investor from the free trade area will not generally be able to do so, as was possible under NAFTA [Ikenson, 2018]. Finally, the agreement adds to uncertainty for businesses through its 16-year sunset clause if it is not specifically renewed.

In sum, the USMCA falls way short to an ideal free trade agreement. While market access to some sectors has been improved, many changes in the USMCA increase the power of the national governments involved over their own citizens, instead of better limiting it. This makes trade across North America not less, but more dependent on politics and therefore prone to protectionism.

3.3 Comprehensive Economic and Trade Agreement

The CETA is a trade agreement between the EU and Canada which entered into force provisionally⁹ on September 21, 2017 after seven years of negotiation. The EU calls it the most ambitious trade agreement it has ever concluded and a potential template for the trade relation between the United Kingdom and the EU after Brexit [Robertson, 2018].

CETA comprises almost 1,600 pages with 30 chapters, 3 protocols, and 3 Annexes.¹⁰ The parties intend to establish a free trade area (section B, Article 1.4). However, statements in the preamble and in a summary on the EU's homepage for European law (EUR-Lex) make clear that this does not mean complete free trade as laid down in the liberal benchmark model. Instead, both partners intend to preserve managed trade. The preamble emphasizes the goal to liberalize cross-border business activities “without undermining the right of the Parties to regulate in the public interest within their territories” and to promote “the development of international trade in such a way as to contribute to sustainable development in its economic, social and environmental dimensions.” Similarly, the EUR-Lex [2019] underscores that “the agreement is designed to support growth and jobs through improved market access for goods, services and investments... while upholding standards and rules on food and product safety, consumer protection, health, environment, social and labor standards, etc.”

The general alignment of the CETA is similar to the previously discussed trade agreements: a far-reaching elimination of tariffs over an extended period of time and limited liberalization of services sectors stuffed with exceptions and regulations of markets. No doubt positive from the perspective of the classical liberal free trade reference model is the removal of all tariffs on trade in industrial goods between Canada and the EU within 7 years. However, a backdoor to protectionist behavior prevails on the side of the EU. As Canada

⁹ This is related to the complicated ratification process in the EU. The agreement must not only be ratified by the European Parliament, but by each EU Member State. This process could take a number of years.

¹⁰ The full text is available, for example, at <https://international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/ceta-aecg/text-texte/toc-tdm.aspx?lang=eng>.

is not part of the European single market, it still faces significant barriers to trade. Checks continue to take place at the border to make sure Canadian goods meet EU regulatory standards of the single market. The EU could also choose to introduce future barriers to Canadian goods if it wished, because it may consider it unfair, overly subsidized or harmful to the European economy. Rules of origin require that 50% of the value of the materials to manufacture a product stems from inside Canada or the EU.

In agriculture, trade barriers will be less liberalized than for manufactured goods. Tariffs on only 90% of agricultural products will be eliminated. Tariffs and import quotas remain on selected products such as poultry, pork, beef, eggs, cheese, and wheat as well as EU's entry-price system for fruit and vegetables [EU Commission, 2017]. In addition, the EU requires that those products meet its quality standards. So, for example, hormone-treated beef, and genetic modified cereal will remain banned from the EU market. Moreover, CETA protects EU 143 (!) "geographical indications" (Article 20.16, Annex 20-A and 20-C), among them Parma ham, Roquefort and camembert cheese, balsamic vinegar from Modena, Dutch Gouda, Bavarian beer. This means you can only make Parma ham in Italy and camembert cheese in France, and Canada cannot import something that calls itself camembert from any other country inside or outside the EU.

Further liberalizing steps agreed in CETA are made for FDI and public procurement. CETA removes all barriers to FDI such as foreign equity caps or performance requirements but confirms the right of both parties to regulate at all levels of government (Chapter 8). The agreement also opens public procurement contracts at local, regional, and federal levels to each other's contractors.

By contrast, liberalization of services markets is far-more restrictive. The parties use the "negative list" approach, but the list is quite extensive and excludes from the deal entirely such sectors as audio-visual services, health, education, water, social services, and air transport [Chapter 9; see also EU Commission, 2017b]. Likewise, trade in financial services is kept within WTO rules that both sides are already signed up to. That means that Canadian financial companies cannot get "passporting," which would allow them to sell their products across the 28 member countries of the EU. The same limitations apply for EU banks in Canada. In addition, CETA, like most other RTAs, contains a prudential carve-out. This provision gives both sides the right to unilaterally annul market access if they consider it necessary to preserve financial stability.

As to standards, there are only a few areas of mutual recognition, namely in assessing goods, such as electrical and electronic products, toys, machinery, and construction products [EU Commission, 2017b]. This allows regulators from either side to evaluate if goods comply with one another's regulations before they are traded. For food safety and animal health regulations, CETA accepts equivalence, where different regulations are deemed to achieve the same outcome. Apart from that, there is no mutual recognition of other food safety regulations. In the field of services, the parties decided limited mutual recognition of professional qualifications [Owen et al., 2017]. Moreover, the EU and Canada agreed to cooperate on standards to reduce double safety and quality checks. But this may be done only on a voluntary basis and neither side is forced to lower standards (Chapter 21).

CETA strengthens protection for intellectual property rights and hence insulation from competition (Chapter 20). Apart from protecting pharmaceutical products, it increases the protection of new plant varieties and strengthens copyright of creative works online and in digital form as well as broadcasting rights. So, for instance, a European artist can obtain royalties from a Vancouver cafe or department store that plays music to attract new customers [EU Commission, 2017b].

Both the EU and Canada will retain the right to regulate freely in areas such as people's health and safety, environmental and labor matters. As to the latter, the two parties are eager to provide a level playing field at a high level. The relevant chapters 23 and 24 stipulate that Canada and the EU will implement international labor and environmental agreements and not relax labor and environmental laws to boost trade. They also ensure the involvement of non-government groups in implementing the rules. For resolving disputes, CETA establishes an investment court system (ICS) which largely follows the ordinary system found in most trade agreements. States appoint arbitrators on an ad hoc basis to rule on the dispute.

In sum, CETA considerably improves market access for industrial goods and government procurement but keeps many exceptions and backdoors for protectionist action. Despite improvements, market access for services remains more limited than for goods. The commitment of both parties to refrain from lowering labor and environmental standards stifles institutional competition and leaves space for back door protectionism.

3.4 Cross-case analysis

All three analyzed trade agreements follow a similar pattern. They eliminate most tariffs on goods, yet not all at once and usually with exceptions in selected sectors, mostly agriculture. They also improve market access in the services sectors and government procurement although to a much more limited extent. Likewise, mutual recognition of standards remains restricted. Instead, all parties are eager to enshrine binding commitments not to lower labor and environmental regulations. This not only limits institutional competition but also leaves a backdoor to resort to protectionist measures, in particular, if changing standards is regarded unfair and subject to dispute settlement. This can result in the imposition of trade sanctions, as this is foreseen in all three agreements for labor and environmental standards.

Tables 1 and 2 provide a synopsis of the tentative assessment of the three analyzed trade agreements against the criteria of the classical liberal benchmark model. As explained in Section 1, the evaluation of the individual criteria has inevitably a subjective component and is to be understood preliminary as ratification of the agreements is not completed and much depends on its de facto implementation. None of the three RTAs stands out as a big step toward the liberal benchmark model of real free trade. All are based on strict reciprocity, that is, that every freedom to import that a government grants its citizens must be matched by a concession from foreign governments, and the level playing field fallacy.

Table 1. Synopsis of the assessment of selected trade agreements by criteria of the liberal benchmark model

Criterion	TPP-11	NAFTA.2.0	CETA
(Far-reaching) elimination of tariffs as quickly as possible on as many goods as possible and to the lowest levels possible	Almost met, but long implementation period	Almost met	Almost met, yet many backdoors
Limit the use of the so-called trade remedy or trade defense measures	Unmet	Unmet	Unmet
Open all government procurement markets to goods and services providers from the other party	Partly met	Unmet	Almost met
Open all sectors of the economy to investment	Partly met	Unmet	Almost met
Open all services markets without exception to competition from providers of the other party	Unmet	Unmet	Unmet
Non-restrictive rules of origin for products and services	Partly met	Unmet	Partly met
Includes rules that protect digital trade from taxation and misuse and abuse	Almost met	Met	Unmet
Prohibits governments from imposing localization or other requirements that reduce the efficacy of digital services	Met	Met	Unmet
Promotes mutual recognition of regulatory compliance	Unmet	Almost met	Partly met
Includes an enforceable dispute settlement mechanism	Met	Unmet	Met

Source: Own depiction following Ikenson et al. [2018].

Table 2. Synopsis of the frequency of assigned scores

Score	Frequency of assigned score		
	TPP-11	NAFTA.2.0	CETA
Met	2	2	1
Almost met	3	2	3
Partly met	3	0	2
Unmet	2	6	4

Source: Own depiction.

Table 2 shows that from the three cases analyzed the USMCA contains more criteria of the liberal benchmark model that are unmet than TPP-11 and CETA. In TPP-11 eight and in CETA six criteria have at least a partly liberalizing effect, whereas for USMCA only four criteria are closer to their ideal liberal specifications.

The renegotiated North American trade agreement has stricter rules of origin, stronger patent, copyright, and data protection provisions. It is also the first-ever trade agreement with a chapter aimed at disciplining currency manipulation, which can be arbitrarily interpreted to justify protectionist measures. Likewise, it made it easier to recourse to trade remedy and safeguard measures, that is, to raise trade barriers. CETA is relatively restrictive in opening services sectors, digital trade, and institutional competition. TPP-11 includes, according to Whiting and Beaumont-Smith [2019, p. 61] “the most rigorous, enforceable protections of labor rights and, by extension, the widest berth for protectionist mischief masquerading as labor concerns ever to be included in a trade agreement.”

At a tentative first assessment, USMCA seems to be the most protectionist of these three agreements, whereas the other two appear to be at least moderately trade liberalizing. How much liberalizing or protectionist effects these agreements will generate in the longer run depends on their implementation and remains to be seen.

4 Concluding remarks

The article provided a classical liberal analytical framework for a tentative assessment of recent mega-RTAs. Seen in this light RTAs and free trade are different things. The comparative study of three recent mega-RTAs confirms this. They fall short of the classical liberal ideal of totally free trade. Instead, the agreements have a high content of managed trade riddled with loopholes suitable to foster sneaky protectionism and entrench special interests.

Figuring out which special interests in detail and to what extent they were involved, and which holds the upper hand in shaping these trade agreements would be an important direction for further research to improve the understanding of the nature of RTAs. To what extent are they a mechanism through which protectionist interests can be neutralized or rather be empowered? As Rodrik [2018a] pointed out, it is most common to assume the protectionist interests in the import-competing industries, which the government, assisted by lobbies interested in expanding exports and market access abroad may counter through trade agreements. However, it is just as likely that protectionism is forwarded by rent-seeking interests on the export or pro-trade side that use trade agreements to cement or increase preferential treatment, for example, through tighter intellectual property rights rulings. An in-depth analysis of the political economy processes behind these agreements to detect the most powerful and dominant players not only goes beyond the scope of this paper. It also meets insurmountable data problems, given the lack of transparency of the negotiation process. Accordingly, there are only sporadic profound studies of how interest groups shape trade agreements [e.g., Rönnbäck, 2015].

Given the baked-in protectionism and the political economy constraints of RTAs the obvious normative conclusion from a classical liberal perspective would be to abandon regional trade partnerships and to undertake unilateral moves towards liberalization to reap the benefits of free trade. As Sally [2008] and Bhagwati [2002a and 2002b] show unilateralism is not at all so exceptional. Almost 70% of overall trade liberalization since the 1980s has been unilateral [Bhagwati, 2002b; Sally, 2008, 151]. Bhagwati [2002b] points out that there is actually no better credibility of a government’s commitment to free trade than to “go alone” and reduce their trade barriers without expecting reciprocal concessions from other countries. Trading partners may then be more likely to reciprocate if they see genuine free trade commitment rather than when they know protectionism is preferred.

However, steps toward this direction would require that government leaders and citizens understand and share the economics behind real trade as outlined in Section 2. Yet, such knowledge is in short supply. Therefore, RTAs will remain the reality. In this situation, a fruitful way for economists in the classical liberal tradition to advance the case for real free trade might be to defend those liberalizations contained in trade agreements, while uncompromisingly criticizing the ways in which given trade agreements provide protection for special interests and stimulates rent-seeking. Seen in this light, despite their flaws, CPTPP and CETA seem to be a step forward toward lowering protectionism while for USMCA it is not obvious that it is liberalizes more than NAFTA.

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