

Estevadeordal, Antoni; Shearer, Matthew; Suominen, Kati

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Regional integration in the Americas: State of play, lessons, and ways forward

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ADB Working Paper Series

Regional Integration in the Americas: State of Play, Lessons, and Ways Forward

Antoni Estevadeordal,
Matthew Shearer, and Kati
Suominen

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Antoni Esteveordal and Matthew Shearer are manager; and integration and trade senior specialist, respectively, at the Integration and Trade Sector (INT) of the Inter-American Development Bank (IDB) in Washington, DC. Kati Suominen is a resident fellow, Economic Policy Program of The German Marshall Fund of the United States. Parts of this paper were previously published in *Multilateralizing Regionalism*, edited by R. Baldwin and P. Low. 2009. Cambridge, United Kingdom: Cambridge University Press. The authors wish to thank Marcelo Olarreaga for comments, Naoko Uchiyama, Santiago Florez Gomez, and Maria Jose Casasnovas for research assistance, and Sara Marzal Yetano for an outstanding analysis of services and investment provisions.

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Please contact the author(s) for information about this paper.

Email: matthews@iadb.org

Asian Development Bank Institute
Kasumigaseki Building 8F
3-2-5 Kasumigaseki, Chiyoda-ku
Tokyo 100-6008, Japan

Tel: +81-3-3593-5500
Fax: +81-3-3593-5571
URL: www.adbi.org
E-mail: info@adbi.org

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Abstract

The Americas have been a key driver of regional trade agreements (RTAs) since the 1990s. This study considers the effect of these agreements on trade liberalization, and the lessons that this offers for other parts of the world, notably Asia. It finds broad geographical coverage of RTAs in the Americas, and evidence that these agreements have broadened and deepened liberalization. It stresses the importance of looking beyond tariffs on goods, to consider liberalization of services and removal of non-tariff barriers, both for academics assessing the true extent of liberalization, and for policymakers looking to ensure well-functioning RTAs. It suggests that RTAs can encourage broader liberalization in Asia, but some sectors will be resistant to liberalization. Moreover, efforts must be made to harmonize the provisions of RTAs, to avoid costly multiplication of rules and to ensure a web of bilateral deals does not undermine multilateral trade.

JEL Classification: F13, F15, F36, F42, J44

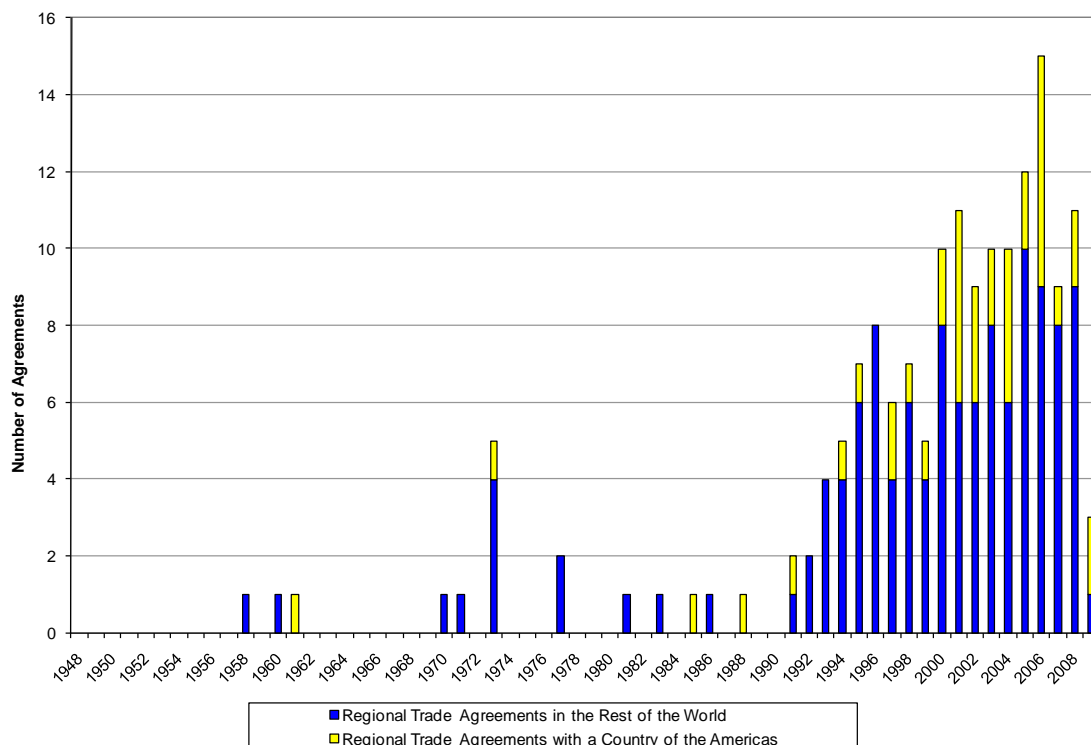
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1. INTRODUCTION

The countries of the Americas¹ have been key drivers of the now-global spree of regional trade agreements (RTAs). Collectively, the economies of the region have notified three dozen intra- and extra-regional RTAs to the World Trade Organization (WTO) (Figure 1), and are negotiating several more. As major contributors to the global “spaghetti bowl” of RTAs, and as the source of nearly a fifth of global trade, the countries of the Americas can also play a major role, if not serve as the focal point, in the search for better models of regional integration, and can help find new approaches to “multilateralizing” RTAs.

Figure 1: Regional Trade Agreements Notified to the WTO in the Americas and around the World, 2007



Source: IDB calculations based on WTO information.

The purpose of this paper is to examine the extent of liberalization in RTAs in the Americas in comparison with other regions of the world, to discuss the potential future of integration in the region, including multilateralizing regional RTAs, and to draw lessons from the Americas for other regions, particularly Asia. While primarily focusing on market access for goods—and tariff liberalization schedules, in particular—we also explore the regional RTAs’ provisions on rules of origin, investment, and services. The analysis centers on the depth of liberalization accomplished by the region’s RTAs; however, we also begin to investigate the extent to which those RTAs feature “open regionalism”—liberalization vis-à-vis third parties.

We reach two main conclusions. First, the Americas are a notably liberalized region in terms of the maturity, geographical coverage, and depth of its RTAs. Rather than the pursuit of new negotiations, the region’s main challenge today is to generate further synergies between existing agreements, while at the same time forging or strengthening extra-regional ties with Europe, the countries of Asia, and other third parties. Multilateralization in the Americas is somewhat elusive and should be considered as a process, rather than an

¹ Due to methodological issues, “Americas” and “hemispheric” refer in this paper to a group comprised of Canada; the Dominican Republic; Mexico; Central and South America; and the United States.

immediate end-goal; perhaps the most attainable and useful next stage in the region's integration process is convergence between the many intra-regional agreements.

Second, RTAs in Asia are today proliferating in a similar fashion to those in the Americas a few years ago. Indeed, much like in the Americas, the proliferation of bilateral RTAs is threatening to overshadow broader, region-wide integration efforts. Perhaps the main insight from the Americas for the future of Asian regionalism is that the web of multiple RTAs can be beneficial in terms of opening new market access channels, as well as potentially allowing for deeper liberalization than a region- or worldwide mega-agreement could. However, the regional RTAs will have to be liberalizing both internally and externally, firmly based on open regionalism, so as to create trade and be conducive to multilateralizing regionalism.

Furthermore, absent global free trade, the Asian “noodle bowl” of RTAs, much like the American RTA spaghetti, risks “lost” scale economies and high transaction costs. A key short-term solution would be to find common ground for a broad-based regional integration scheme or fold the regional RTAs into a region-wide arrangement. Given the proliferation of trans-Pacific RTAs, a further, complementary avenue would be to pursue convergence of RTAs in the Asia-Pacific Economic Cooperation (APEC) space, or even more broadly between the countries of Asia and the Americas.

The following section takes stock of the advance of regional integration in the Americas, and details the “liberalization state of play” in the RTAs formed by the countries of the Americas. The third section surveys the extent of open regionalism in the Americas. Section four examines investment and services provisions. The fifth section explores potential future pathways for regional integration in the Americas, and discusses the lessons of regionalism in that region for Asia. Section six concludes.

2. LIBERALIZATION IN RTAS IN THE AMERICAS

This section focuses on the depth of liberalization in RTAs formed by the countries of the Americas in a comparative perspective over the past decade, and into the next 20 years. The first part describes the advance of integration in the regional economies' trade policy portfolios. The second part centers on the liberalization statistics.

2.1 RTA Pathways in the Americas: From Intra-Regionalism to Transcontinentalism

Countries in different regions of the world have had distinct RTA paths over the past two decades among four main “stations”: intra-regional blocs, intra-regional bilateral RTAs, continental “megablocs”, and transcontinental RTAs. In the Americas, the common path has been from intra-regional blocs to an attempted megabloc, accompanied and followed by intra-regional bilateral agreements and, subsequently, trans-continental RTAs.

The first RTAs were intra-regional customs unions formed (or reformed) in the early 1990s—the Andean Community, Caribbean Community (CARICOM), Central American Common Market (CACM), and the Southern Common Market (Mercosur). The North American Free Trade Agreement (NAFTA), launched in 1994, connected Canada, Mexico, and the United States (US). The same year, the first Summit of the Americas launched the 34-country negotiations for the Free Trade Area of the Americas (FTAA), which was to merge the aspiring customs unions and NAFTA under a single umbrella. Bilateral agreements proceeded in parallel, particularly between Mexico and Chile on the one hand, and numerous other countries of the region on the other. The stagnation of the FTAA talks in 2003 furthered and “regionalized” the quest for bilateral intra-regional FTAs, some results being the Mercosur-Andean Community FTAs of 2004, the US-Central America-Dominican

Republic FTA (DR-CAFTA) of 2005, and, more recently, the culmination of the US-Colombia, US-Peru, US-Panama, Chile-Peru, and Chile-Colombia FTA negotiations.

Intra-regionalism is today yielding to a transcontinental approach. Many regional countries have sought to establish an early foothold in Asia's fast-growing RTA panorama. Chile has been an early leader. In 2003, Chile and the Republic of Korea (hereafter Korea) signed the Asian country's first comprehensive bilateral FTA, and in 2005, Chile concluded negotiations for a four-partite FTA (P-4) with Brunei Darussalam, New Zealand, and Singapore. An FTA between Chile and the People's Republic of China (PRC)—the latter's first extra-regional FTA—went into effect in October 2006, and in November 2006 Chile reached an FTA with Japan. Elsewhere, in 2003 the US and Singapore reached one of the first of Singapore's now-extensive network of RTAs, and the US-Australia FTA entered into force in 2005. The Mexico-Japan Economic Partnership Agreement, Japan's first extra-regional free trade agreement, also took effect in 2005; and the same year, Peru and Thailand signed a bilateral FTA. FTAs took effect between Taipei, China and Panama in 2004 and Guatemala in 2006. Panama concluded FTA negotiations with Singapore in 2006, and Peru did so in May 2008.

Trans-Pacific agreements are poised to expand: for instance, the US has concluded negotiations with Korea, and Chile has launched talks with Malaysia. Furthermore, five countries of the Americas—Canada, Chile, Mexico, Peru, and the US—are pursuing closer ties with Asia in the context of the APEC forum, founded in 1989.

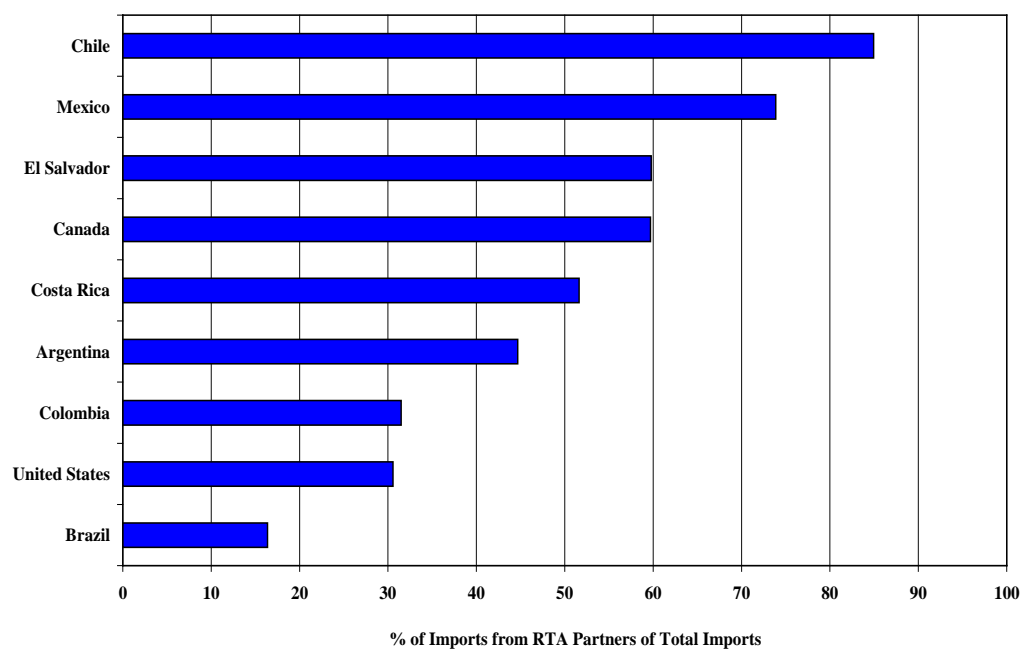
Countries of the Americas have also been reaching across the Atlantic for agreements with the European Union (EU). Mexico launched an FTA with the EU in 2000, as did Chile in 2003. In May 2006, the EU and CACM countries announced the launch of comprehensive Association Agreement negotiations, while the EU-CARICOM talks have entered the final phase. The EU and the Andean Community have explored the opening of Association Agreement negotiations. Furthermore, besides the trans-Pacific and trans-Atlantic fronts, Mercosur has concluded an agreement with India, and the US is building a network of agreements with selected Middle Eastern countries.

The geographic composition of trade flows of the countries of the Americas appears to have followed the advance of regionalism. The most notable change in the Latin American and Caribbean (LAC) export profile is the decline of Europe and rise in the importance of the intra-hemispheric market, as well as a moderate increase in the share of the Asia-Pacific region as an export destination. To be sure, there are wide intra-regional differences; countries such as Argentina, Brazil, Chile, and Peru have seen their commodity exports to PRC surge markedly in their export baskets.

Western Hemisphere exports, which include those of the US and Canada, have grown, particularly in the North American market, again evincing the regionalization of trade. On the import side, however, Asia has penetrated the LAC market forcefully, contributing today about a fifth of the region's imports. This appears to have come at the expense of Europe, whose import share in the region has shrunk to some 14% of the total.

While trade *per se* has surged in importance for the regional output in the past two decades, so has the relevance of RTAs in governing the regional economies' trade. For instance, the share of imports with RTA partners was 85% for Chile, 74% for Mexico, 45% for Argentina, and more than 30% for the US in 2006 (Figure 1). Of total intra-Americas trade, the share of trade among pairs with a common RTA rises to above 90% of the total; the level is still three-quarters of all trade when NAFTA is not taken into account. While these figures do not capture the level of trade that enters under the RTA regime, as opposed to most favored nation (MFN) or other regimes, they are indicative of the fact that a sizable share of the hemispheric economies' trade is with their RTA partners—as well as that countries of the region have forged ties with some of their leading trade partners.

Figure 2: Trade with Regional Trade Agreement Partners as Percentage of Total Trade in 2006, Selected Countries



Source: IDB calculations based on United Nations Comtrade database, DESA/UNSD.

2.2 The State of Integration in the Americas in Comparative Perspective

This section strives to break new ground in dissecting the liberalization state of play in RTAs in the Americas. We focus on tariff liberalization schedules of 76 parties in 38 RTAs (Appendix I, Table A1).² Much of the data here draw on IDB (2006).³ The first part of this section surveys the overall approach of the tariff liberalization regimes—divided here into basket, sectoral and preferential tariff approaches—among the 38 RTAs.⁴ The second part analyzes tariff-line data from the RTA parties' tariff liberalization schedules, and also examines tariff rate quotas and exceptions and exclusions. The third part explores alternative measurements—share of liberalized tariff lines trade-weighted by Harmonized System chapters, and share of trade that is liberalized from the RTA partner in a given year—in sub-samples of 27 and 23 RTAs, respectively. We examine three sets of agreements—those formed in the Americas (here, “intra-regional”), those formed between a country of the Americas and a partner in another region (“inter-regional” or “Americas as Partner”), and agreements not involving any countries of the Americas (“extra-regional”).

2.2.1 Empirical Survey: Tariff Liberalization Regime Models

There are a number of models of tariff liberalization. The basket approach assigns all products into a set of distinct categories in the tariff elimination program. The categories provide a time frame and trajectory towards complete elimination of tariffs (as opposed to providing only an end-point preferential tariff or preferential margin). Also included are any tariff-rate quotas (TRQs), typically with a reference to an appendix with the quantities, as well as exceptions to preferential treatment (which are typically entered into a basket of continued MFN treatment).⁵

The US tends to follow the basket approach, generally subjecting nearly the entire tariff universe to eventual full tariff elimination. Some of the less visible “action” in the US agreements can be found in the annexes on TRQs, where tariff liberalization generally takes place over longer time horizons and is accompanied by increasing in-quota quantities. Even sugar, a sensitive product from the US perspective that usually receives continued MFN

² The tariff liberalization schedules were obtained from the Foreign Trade Information System at <http://www.sice.oas.org/> and some national sources, including websites. Some tariff data was obtained from UNCTAD's Trade Analysis and Information System. The study also maps out coverage in the RTAs of four trade disciplines besides tariffs, including non-tariff measures, rules of origin, special regimes, and customs procedures.

³ There are a handful of other studies on tariff liberalization in RTAs. The World Trade Organization (2002) carried out an extensive inventory of the coverage and liberalization of tariff concessions in 47 RTAs of a total of 107 parties. The data cover tariff treatment of imports into parties to selected RTAs, tariff line treatment as obtained from individual countries' tariff schedules, and tariff dispersion for a number of countries. Scollay (2005) performed a similarly rigorous analysis of tariff concessions in a sample of 18 RTAs. The IDB (2002) presented an exhaustive survey of market access commitments of RTAs in the Americas, while the World Bank (2005) carried out a more general mapping of the various disciplines in RTAs around the world.

⁴ Various prior studies have characterized tariff elimination as carried out on the basis of a positive or a negative list, or as based on a certain formula. This study strives to abstract from these characteristics and classify liberalization programs by their categorization of goods into distinct paths of liberalization. Certainly, some of the categories are more aligned with a positive list approach, while others lend to a negative list approach.

⁵ The Thailand-Australia and Thailand-New Zealand FTAs defy easy categorization, as they do not use any clearly defined baskets, but, rather, implement staging simply by cross-tabbed reduced tariff rates. This lends itself mostly to the basket approach, due to the use of comprehensive schedules. However, there are a large number of case-by-case trajectories, which also suggests a preferential tariff approach.

treatment in most agreements, typically receives an increasing in-quota quantity (albeit from a small starting point).⁶

The sector approach, typically favored by the EU and the European Free Trade Association (EFTA), subjects all industrial products to a general tariff elimination schedule.⁷ A separate list of exceptions, and separate annexes or protocols, govern the treatment of such products as agriculture, fish, and processed agricultural goods. The protocols tend to be quite complex and feature various regimes, such as end-point preference margins or residual preferential tariffs, TRQs, reference quantities, and a phased reduction of tariffs to a final level (which is often non-zero). The sections referring to the scope of the agreement and definitions of certain product categories are as important to understanding the process of tariff reduction as is the section on the tariff reduction program itself.

Still other agreements, such as those forged under the Latin American Integration Association (LAIA) framework, emphasize the end-point preferential tariff or margin of preference. The Bangkok Agreement also focuses on the end-point preferences, with additional concessions provided to less developed RTA members. These models take a positive list approach to the concessions, whereby the schedules contain the products to which the market access provisions of the RTA apply (as opposed to the negative list approach, which catalogues the products to which the market access provisions do *not* apply).

2.2.2 Tariff Liberalization

Agreements formed in the Americas and particularly those signed by the NAFTA members generally liberalize trade quickly, with some three quarters of lines freed in the first year of the agreement. However, some of Mercosur's agreements have somewhat more backloaded liberalization, with a large share of lines being liberalized in year six to year 10 of the agreements. Asia-Pacific RTAs stand out for being particularly frontloaded: they liberalize the bulk of the tariff universe in the first year of the RTA; this is in good part due to Singapore's according duty-free treatment to all products upon the entry into force of its agreements. While the parties' respective product coverages often diverge markedly in year five, with some countries (such as Korea) liberalizing up to twice as many lines as their partners (such as Chile), the differences shrink considerably by year 10. The wider gaps in concessions among a pair usually owe to North-South differences in liberalization—a pattern that is evident throughout the sample in all regions. Figure 3 disaggregates the liberalization schedules into three sets: those in RTAs signed in the Americas, those in RTAs between countries of the Americas and extra-regional partners, and those in extra-regional agreements. The 90% threshold, which is often used as a benchmark for “substantially all trade”, is marked with a horizontal line.

The figure echoes the prior findings in two ways. First, it shows that while some countries employ a “stair-step” approach to tariff liberalization, others have a constant percentage coverage of tariff lines in what could be characterized as a “now-or-never” approach. Still others travel from low to near-100% coverage in one or two jumps.

⁶ It should be noted that the in-quota quantities (and even the existence of in-quota treatment) in these agreements differ greatly within CAFTA. Although the US has given the same schedule with the same baskets to the other countries, the treatment within these baskets varies significantly between countries. So although the statistics will reflect identical treatment of all Central American countries, this will not be the case, especially when considering that a number of the products subject to TRQs are those in which Central America will have a strong comparative advantage (sugar, for instance).

⁷ The recent EU-Chile FTA that entered into effect in 2003 diverged from the EU's standard practice of dividing tariff elimination into separate venues by establishing a single schedule for each party that contains all products. In its category column, the schedule includes various measures that will be maintained, such as TRQs, elimination of only the *ad valorem* component of a mixed duty (including in cases where the non *ad valorem* component is linked to an entry price), products subjected to a tariff concession of 50% of the basic customs duty, and cases where no liberalization takes place, for instance due to “protected denominations.”

Second, the averages of the three samples (in bold) reveal differences. Intra-regional agreements start from a low level of liberalization, but accelerate in the fourth year, surpassing the liberalization in extra-regional agreements by year nine. The inter-regional agreements start off more boldly, but are met by the intra-regional agreements in year 10.

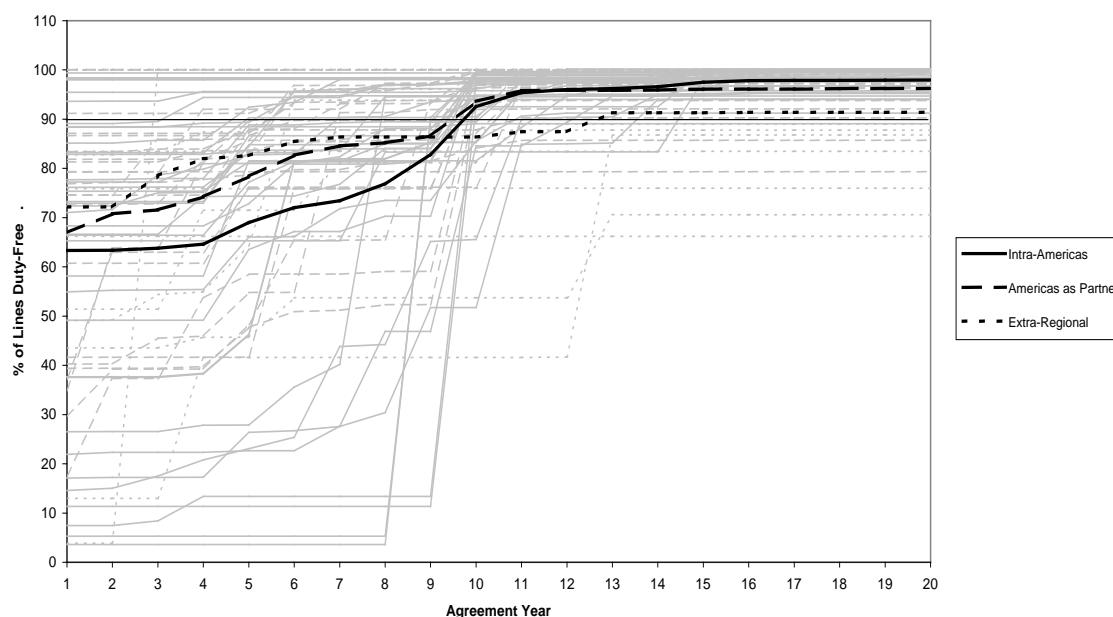
On average, a substantial part of liberalization in the intra-hemispheric agreements takes place in the interim period following entry into force (especially in years five to 10) as opposed to up front. This is due not only to a greater use of the stair-step approach, but also to the heterogeneity of the sample. The agreements between Central America, Mexico, and the US tend to be characterized by a large number of small steps, as are the US agreements with Peru and Colombia. However, Mexico's agreements with Chile and Uruguay frontload concessions, and the Chile-Central America FTA and Canada's agreements with Chile and Costa Rica fall somewhere between these two poles.

The Southern Cone's approach is different still. ACE 58 and ACE 59, the two Economic Complimentary Agreements between Mercosur and the Andean Community, start at a very low share of duty-free lines, and then increase substantially with a small number of large jumps after year five. This is most pronounced in Mercosur's earlier agreements with Bolivia and Chile, where duty-free coverage is minimal through around year eight, and then quickly jumps to around 90% or more, followed by a slow progression towards near-full coverage later on.

Most of the inter-regional agreements follow the stair-step model. In agreements involving a Northern and a Southern party, the latter generally starts at a lower initial point and takes larger steps than the Northern counterpart. This is particularly clear in the Korea-Chile FTA (with the former classified in economic terms as "North"), and US agreements with Jordan and Morocco. However, there are exceptions. Concessions are much more even in the EU-Chile agreement; in the EFTA-Mexico FTA, Mexico's schedule starts at around 40% of lines duty free and achieves over 90% (marked here with a horizontal line) within 10 years by means of a few jumps, actually surpassing Switzerland's constant coverage of slightly less than 80% of lines.

Extra-regional agreements exhibit a larger dispersion in tariff lowering. This can be explained in part by two counter-balancing forces. For one, the sample includes a number of agreements involving Singapore, where Singapore gives duty-free access to 100% of lines at the entry into force of the agreement.⁸ However, this is counterbalanced by agreements with low initial coverage and large jumps; these tend to be caused by the Southern parties in North-South agreements. PRC's concession to Hong Kong, China, is an extreme example, with duty-free coverage starting around 4% and then jumping to 100% in year three. Accentuating the flatness of the extra-regional average are Japan's schedule for Singapore, and the EU's concessions to Morocco and Lithuania. Since the "flat" schedules in these agreements entail coverage well below 100%, they serve to moderate the behavior of the overall extra-regional average, as well.

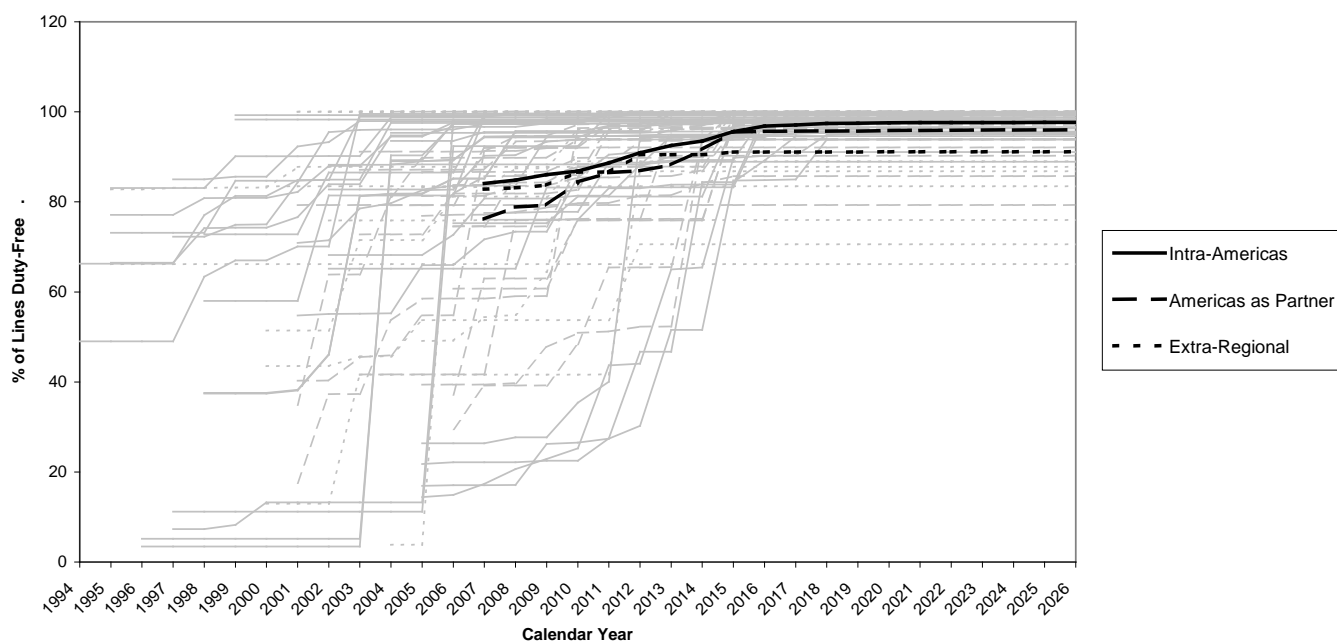
⁸ In the case of Australia and New Zealand's agreements with Singapore, both parties provide immediate duty-free access to 100% of tariff lines.

Figure 3: Evolution of Duty-Free Treatment in Selected RTAs

Source: IDB calculations based on agreement documents.

Figure 4 goes beyond the 2007 snapshot to explore the entire period from 1994 to 2026. The bold line maps out the simple average for the intra-regional sample from 2007 onward (i.e., during the period when all the agreements are expected to be in force). The main finding is the extent of deep liberalization throughout the Americas: as of today, most RTA members have liberalized more than four-fifths of the tariff items with their partners; some of the newer FTAs will attain this level by 2010. Liberalization in the recent Mercosur-Andean agreements is more limited, reaching between a fifth and a quarter of tariff lines by 2010.

Overall, the figure conveys the maturity of liberalization in intra-regional agreements in the Americas: even with the slower pace of the Mercosur-Andean agreements, the regional agreements will have freed more than 90% of lines by 2012 and more than 95% by 2015. It is true that extra-regional agreements only lag this by a year, but the ongoing proliferation of FTAs in Asia would pull down the average if newer agreements were included. In contrast, the Americas are close to saturation in terms of intra-regional agreements, which means that the figure gives an accurate picture of the future of such liberalization.

Figure 4: Evolution of Duty-Free Treatment in RTAs, 1994-2006

Source: IDB calculations based on agreement documents.

The aggregate tariff reduction statistics disguise an important variation in the speed of liberalization between agricultural and industrial goods. Agricultural products in each region are more protected, and for longer, than industrial products. Among the full sample of all agreements, RTAs liberalize an average of only 61% of tariff lines in agriculture by year five and 78% by year 10, while reaching duty-free treatment for 77% and 94% of industrial goods by the same points in time. However, notably, intra-regional FTAs in the Americas take off in agricultural liberalization in year 10, surpassing the other regional groups. This is largely due to very large jumps (in the order of 60 percentage points or more) in agricultural duty-free coverage in the Mercosur-Bolivia and Mercosur-Chile agreements, as well as smaller increases in the Mexico-Nicaragua and Mexico-Costa Rica FTAs and the representative average Central American countries' schedule in CAFTA vis-à-vis the US. Peru's agricultural concession to Mercosur also increased substantially in year 10.

In industrial goods, both intra-regional FTAs, and FTAs with a country of the Americas as a partner, feature progressively deeper liberalization, with the take-off again occurring in year 10. In fact, the trajectories of the agricultural versus industrial goods for the three subsets of agreements *almost* appear as parallel lines, with industry simply starting at a higher intercept on the vertical axis. In the intra-regional sphere, the jump in year 10 is in part due to Mexico's industrial coverage in NAFTA rising from 72% to 100% that year. In trans-Pacific agreements, there is a very large jump in Mexico's coverage of Japan's industrial products that year.

On average, RTA parties from all samples liberalize well below half of tariff lines in the most sensitive chapters—dairy (chapter 04) and sugars (17) by the fifth year of the agreement, and less than 55% in several others, including meat, cocoa, prepared cereals and baked goods, tobacco, and footwear (02, 17, 18, 24, and 64, respectively), while sugar and dairy still remain below 60% at year 10. However, it is intra-regional agreements that are driving much of the overall protectionism in dairy, sugar, and footwear. Moreover, there is great

variation in the treatment of chapters at the intra-regional level—even among those that are relatively liberalized.

Meanwhile, the extra-regional sample even at the five-year benchmark resembles the overall findings at year 10, stretching over a wide range from the highly liberalized to the more protected. The inter-regional sample falls somewhere in between. Agreements involving Singapore tend to increase the averages of all chapters in the extra-regional sample, and to a lesser extent, in the inter-regional sample.

Encouragingly, however, RTA parties on average liberalize more than 75% of tariff lines in the bulk of chapters by year five and more than 90% of tariff lines in most chapters by year 10. The fastest and deepest liberalization is effected in such non-sensitive products as ores (chapter 26), fertilizers (31), wood pulp (47), and some base metals (81); perhaps because these are intermediate inputs into other products. There is, however, notable variation across countries of the Americas in these goods, as well as in leather (chapter 42). Still, overall the intra-regional set now resembles the 10-year figure for the full sample.⁹

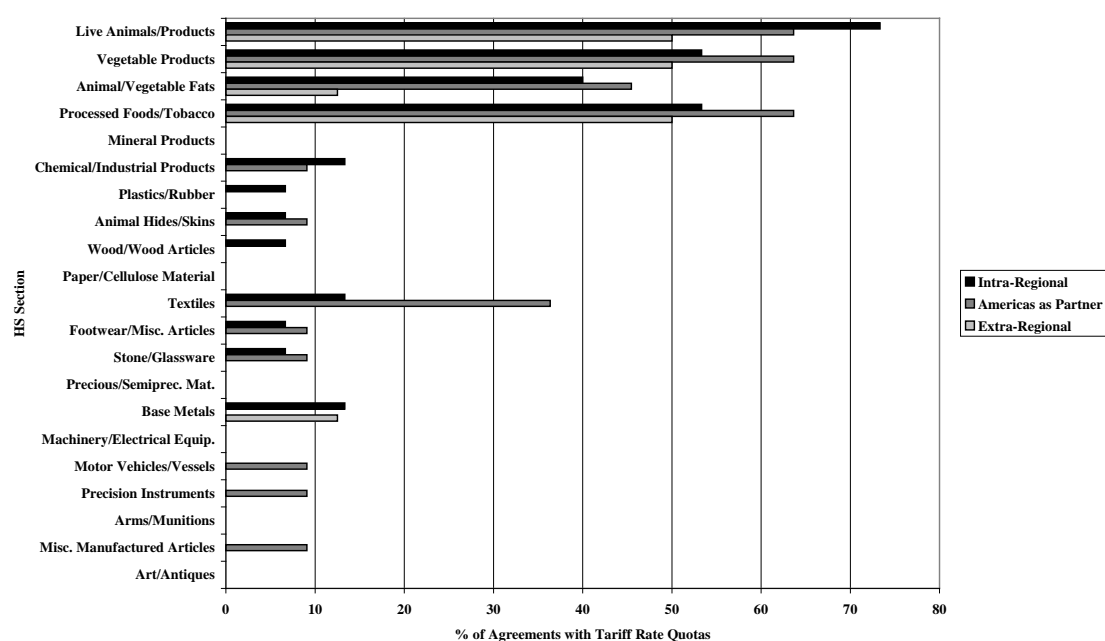
2.2.3 TRQs and Exceptions

RTAs around the world today are broad and highly liberalizing. Yet at the same time, these RTAs carry provisions that could potentially be classified as “other restrictive regulations of commerce” under Article XXIV of the General Agreement on Tariffs and Trade (GATT), such as TRQs, exceptions, and demanding rules of origin (RoO). Such provisions can qualify the market access provided for in the tariff lowering schedules—and, as such, affect the degree of liberalization conferred by RTAs.

TRQs in RTAs are usually additional to TRQ entitlements under the WTO Agreement on Agriculture, so that the RTA parties’ existing entitlements are not affected. Figure 5 maps out the use of TRQs in the three sets of data. Countries of the Americas, like parties to extra-regional agreements, are frequent TRQ users particularly in agriculture, but also employ TRQs in textiles, unlike their extra-regional counterparts. In the Americas, US agreements drive the TRQ incidence in agriculture, with Canada and Mexico contributing to a somewhat lesser extent.

Exceptions in most RTAs also fall on the most tariff protected sectors—agricultural products, food preparations, chemicals, and textiles and apparel. In the Americas, Mexico’s agreements are the main drivers of exceptions in agriculture. Mexico-Northern Triangle, Chile-Central America, and Canada-Costa Rica FTAs contribute to the count in a broad number of sections. At the extra-regional level, EU agreements and the Japan-Singapore FTA drive the figures.

⁹ It is true that simply measuring the share of liberalized tariff lines fails to capture the full effects stemming from the exclusion of sensitive products from RTAs if those products are covered in a very small number of tariff lines. However, the picture of integration in the Americas does not change with alternative measures—liberalization as a share of tariff lines with data on trade flows, or duty-free treatment as a share of liberalized imports from the trade partner.

Figure 5: Percentage of RTAs with TRQs, by Region and Harmonized System Section

Source: IDB calculations based on agreement documents.

In sum, the analysis of liberalization in RTAs yields three main results:

RTAs formed by the countries of the Americas are unique in three ways, in comparison to other regions: they are mature, most of them are highly encompassing, and in several cases, for instance RTAs signed by the original NAFTA members, they liberalize most products very rapidly (usually around 70% in the first year). In contrast, agreements in Asia are young, less encompassing, and, like European agreements, more “backloaded”. Singapore is a clear exception; it liberalizes basically all goods in the first year.

There are similarities between the Americas and the extra-regional sample. Most extra-regional agreements, like those formed by countries of the Americas, liberalize 90% of tariff lines (as well as trade-weighted lines) by year 10 into the agreement. As such, the coverage of products in all RTAs tends to become rather homogeneous by the end of the first decade.

However, all three samples carry a number of outlier RTA parties (often Southern parties) and product categories (particularly in sensitive sectors—agricultural products, food preparations, textiles and apparel, and footwear) that trail the overall trend of liberalization. Many agreements in the Americas and elsewhere also carry provisions that could potentially be classified as “other restrictive regulations of commerce”, such as tariff rate quotas and exceptions. This appears to indicate that such instruments are the price integrationist interests have to pay for broad and liberalizing RTAs.

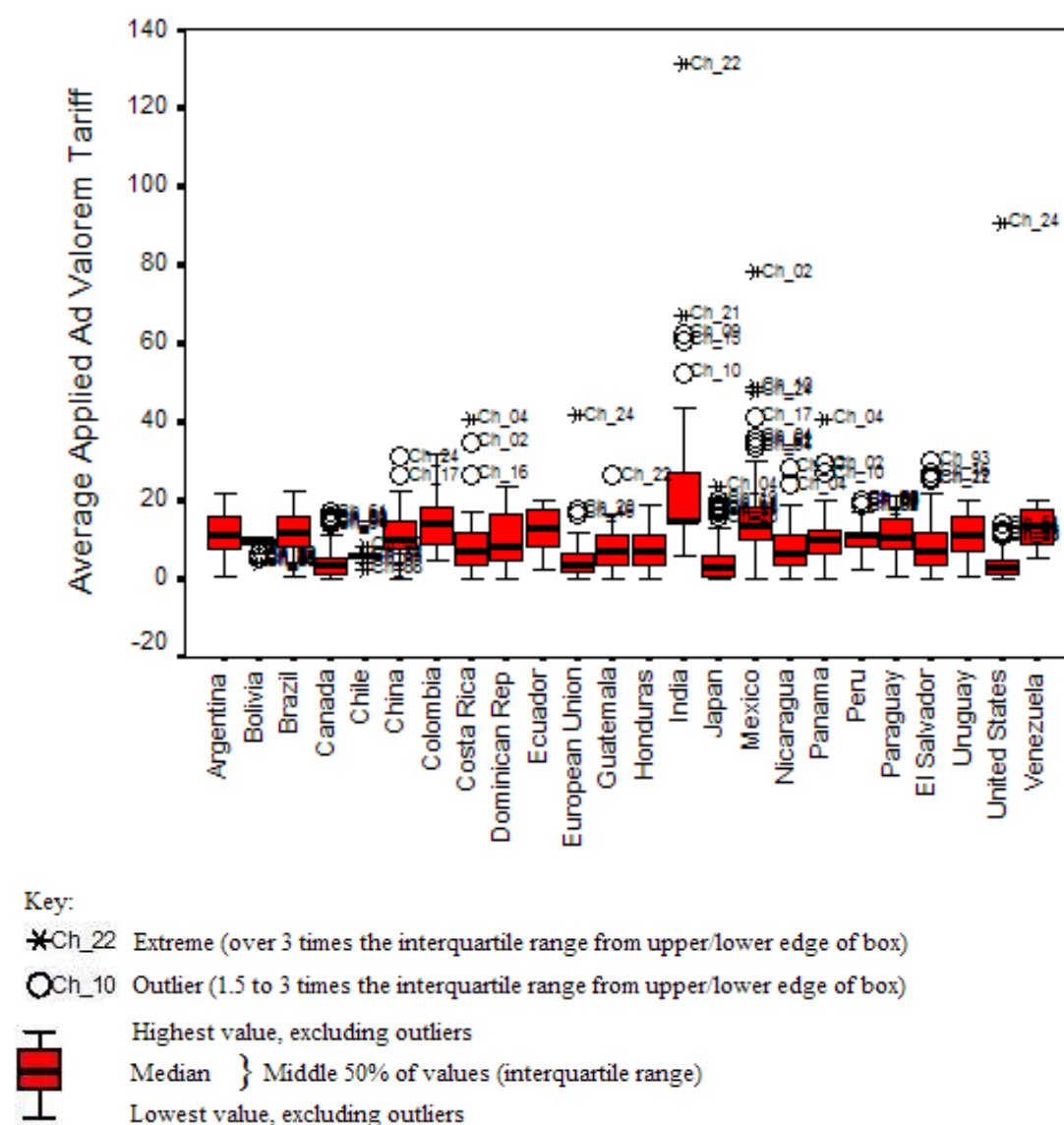
3. OPEN REGIONALISM IN THE AMERICAS?

The Americas are one of the most integrated regions in the world. Liberalization within its regional RTAs is deep and many countries of the Americas are connected to most others in the region. But how discriminatory are agreements formed by countries in the Americas? Are RTAs in the region based on “open regionalism”—in other words, has regional liberalization proceeded in parallel with multilateral liberalization—and have the region’s RTAs created, rather than diverted, trade? The first part of this section examines this question in a preliminary fashion by engaging applied external tariffs and rules of origin. The second part discusses some recent empirical findings on the trade effects of RTAs in the Americas and beyond.

3.1 Multilateral Tariffs in the Americas

In the 1990s, MFN liberalization in the Americas proceeded in lock-step with RTA liberalization, but the more recent period has seen fewer changes in Western Hemisphere countries’ external tariffs: the proliferation of RTAs has been accompanied by little additional downward movement on external tariffs. In general, however, the region’s most liberalized countries in the RTA sphere today also have the lowest MFN tariffs and least tariff dispersion.

Figure 6 charts the regional economies’ and PRC, EU, India, and Japan’s applied tariff profiles. The median chapter average of applied external tariffs in Latin America ranges from around 14% (Colombia) to 6% (Chile). The regional median is not very different from that of PRC; however, all Latin American countries have a lower median than is applied by India. US and Canadian tariffs are 2.8% and 3.5%, respectively. Tariff dispersion in the Americas is rather moderate, barring extreme outliers such as Mexico (meat, cereals, and tobacco), and Costa Rica and Panama (dairy). Dispersion across countries by chapter is moderate, but outliers persist in textiles (Mexico) and agriculture (India, EU, Mexico, and the US, among others). Average tariffs are also higher in these sectors.

Figure 6: Applied Most-Favored Nation Tariffs in 24 Countries, 2006

Source: IDB calculations based on UNCTAD TRAINS data.

Whether the Americas feature less or more discrimination than in the late 1990s requires a more detailed analysis than performed here. However, it appears that the advance of RTA liberalization has been accompanied by a more modest liberalization of external tariffs in the past few years than was the case in the 1990s. Moreover, while the formation of new RTAs has left fewer countries of the region subject to such tariffs, it has also accentuated the disadvantages of remaining outside the RTA spaghetti bowl.

3.2 Rules of Origin

RoO are widely considered a trade policy instrument that can work to offset the benefits of tariff liberalization in RTAs.¹⁰ RoO in effect set up walls around RTA members, which

¹⁰ Most prominently, RoO can be employed to favor intra-RTA industry linkages over those between the RTA and the rest of the world, providing indirect protection to RTA-based input producers (Krueger 1993; Krishna and Krueger 1995). As such, RoO are akin to a tariff on the intermediate product levied by the country importing the final good (Falvey and Reed 2000; Lloyd 2001).

prevent them from using some inputs in each final product. This can limit the access of member country producers to inputs from the rest of the world, and limit input providers' sales to the RTA region. Moreover, the potential effects of RoO will only accentuate: RoO remain in place even after preferential tariffs have been phased out.

While agreements in the Americas are among the most liberalizing in the world, particularly agreements forged by the original NAFTA partners, they also carry some of the most complex and restrictive rules of origin.¹¹ Encouragingly, however, unlike the straitjacket RoO model that the EU uses in all of its RTAs, agreements in the Americas are marked by diversity, which suggests accommodation of RTA-specific idiosyncrasies. The regional countries have also employed such measures as short supply clauses, to help producers adjust to shocks in availability of intra-regional inputs.

Furthermore, North America in particular is marked by a trend toward market-friendly rules of origin. US RoO regimes have evolved toward a more liberal framework from NAFTA to the US-Chile FTA, CAFTA, and the US-Colombia and US-Peru FTAs. Moreover, the NAFTA RoO regime itself has undergone a liberalization process, with more flexible RoO adopted in sectors as varied as alcoholic beverages, petroleum, chassis fitted with engines, photocopiers, chemicals, pharmaceuticals, plastics and rubber, motor vehicles and their parts, footwear, and copper.

3.3 Economic Effects of RTAs in the Americas: Trade Creation or Trade Diversion?

The academic literature remains divided as to whether RTAs are ultimately trade-creating or trade-diverting—and whether RTAs are a stepping stone or a stumbling block to global free trade.¹² Deardorff and Stern (1994); Baldwin (1993, 2006); Wei and Frankel (1995); Bergsten (1995); Frankel, Stein, and Wei (1997); Ethier (1998); Cadot, De Melo, and Olarreaga (2001); Freund (2000); and Ornelas (2005), and, on the political science side, Oye (1992), and Kahler (1995), have provided grounds for believing that RTAs can be ever-expanding and propel strategic interactions conducive to global free trade. In contrast, Bhagwati (1993) argued that reduced protection between RTA members will be accompanied by increased protection compared to outsiders, with RTAs ultimately undermining multilateral liberalization. Cooper (2004) held that FTAs can divert attention and resources away from multilateral liberalization efforts.

For many authors such as Van der Mensbrugghe, Newfarmer, and Pierola (2005); and Schott (2004), much depends on the exact characteristics of RTAs. Aghion, Antràs, and Helpman (2006) arrived at two equilibria: one in which global free trade is attained only when preferential trade agreements are permitted to form (a building block effect), and another in which global free trade is attained only when preferential trade agreements are forbidden (a stumbling block effect). Still, most analysts, while seeing RTAs as the second-best option to multilateral free trade, prefer them to not liberalizing at all.

There are few studies that consider tariff concessions directly. Limão (2006) found that the US and the EU have limited their multilateral tariff liberalization in goods traded with their RTA partners. Limão and Olarreaga (2006) reached similar conclusions in the case of import subsidies afforded to RTA partners by the US, the EU, and Japan.

However, Estevadeordal and Robertson (2004) and Estevadeordal, Freund and Ornelas (2005), studying tariff liberalization in a number of Western Hemisphere RTAs, found that

¹¹ See Suominen (2004), Estevadeordal and Suominen (2006), and Estevadeordal, Harris, and Suominen (2007).

¹² For early works on the welfare effects of RTAs and customs unions, in particular, see Viner (1950), Meade (1955), Lipsey (1960), Johnson (1965), Mundell (1964), Corden (1972), and Kemp and Wan (1976). Richardson (1994) and Panagariya and Findlay (1996) extended the political economy analysis of RTA formation to look at the welfare implications of endogenously determined RTAs.

RTAs in the Americas have not only been liberalizing and conducive to trade in the region, but have actually helped further multilateral liberalization. The latter authors examined the effects of RTAs on external trade liberalization using industry-level data on applied MFN tariffs and bilateral preferences for ten Latin American countries from 1989-2001. The results show that the greater the tariff preference that a country gives to its RTA partners in a given product, the more the country tends to reduce its MFN tariff in that product. The authors conclude that RTAs can further encourage regionalism, and set in motion a dynamic that reduces their potential trade-diversionary effects.

Analyses of tariffs on goods only provide a limited view of RTAs' effects. RTAs formed by countries in the Americas, much like RTAs around the world, tackle a host of issues beyond tariffs ranging from investment to competition policy, labor issues to dispute settlement; standards to government procurement and transportation. As has been discussed, some RTA disciplines, such as TRQs, special safeguards, non-tariff measures, and, in particular, rules of origin can limit the extent of market access provided by tariff liberalization, distorting import patterns.

Suominen (2004) and Estevadeordal and Suominen (2006b) found that while RTAs help create trade, restrictive RoO embedded in them dampen their trade-creating potential. Meanwhile, restrictive RoO in final goods encourage trade in intermediate goods, and can thus entail trade diversion in inputs. Estevadeordal, López-Córdova, and Suominen (2006) extended the analysis of the effects of RoO to investment flows in manufacturing industries in Mexico, finding that investment in Mexico during the NAFTA era has been attracted to sectors with flexible RoO—those which allow industries to establish production and supply networks of global reach, and do not limit them to NAFTA-based partners.

4. BEYOND MARKET ACCESS: SERVICES AND INVESTMENT

This section strives to supplement the tariff liberalization statistics by providing a brief comparative analysis of the *coverage* (rather than depth of liberalization) of investment and services provisions (listed in Appendix II) in agreements formed by countries of the Americas, relative to arrangements in other regions as well as multilateral agreements (General Agreement on Trade in Services, GATS, and Agreement on Trade-Related Investment Measures, TRIMS). The main question examined here is not the extent of liberalization by RTAs, but, rather, the extent of their comprehensiveness. As such, this analysis can help elucidate the extent to which RTAs are “WTO+”, in terms of incorporating more, and more specific, provisions than are present in the multilateral regime.

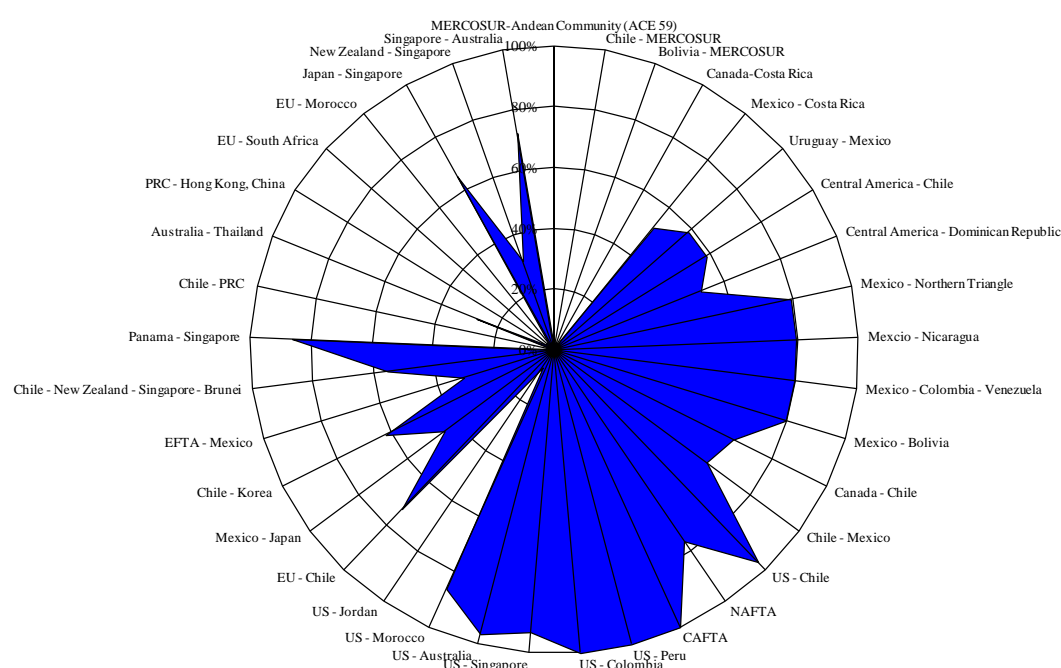
Services chapters in RTAs usually only cover modes 1 and 2 (cross-border supply and consumption abroad) and are, therefore, separate from RTA chapters on other forms of trade in services: investment and temporary entry of business persons. RTAs generally cover a large number of services provisions, particularly most favored nation treatment, national treatment, market access, local presence, domestic regulation, recognition of qualifications, transparency, restriction of transfers, and denial of benefits. Many RTAs also contain provisions (whether in different chapters or in annexes to the services chapters) for telecommunications and financial services.

Intra-hemispheric RTAs are particularly comprehensive and often go well beyond GATS provisions (Figure 7). Older agreements such as NAFTA, the first to cover services in an exhaustive manner, cover MFN treatment, national treatment, market access, local presence, domestic regulation, recognition of qualifications, transparency, restriction of transfers and denial of benefits, as well as containing certain provisions for telecommunications and financial services. The coverage of services in these two sectors has intensified in recent US agreements with Chile, Peru, Colombia and Panama, and, at the

inter-regional front, with Australia, Singapore, and Morocco. In contrast, most South American agreements do not have specific services provisions.

Overall, this means that more than 60% of inter- and intra-regional agreements cover MFN treatment, national treatment, market access, and unnecessary barriers to trade, and prohibit discriminatory treatment—all areas addressed by fewer extra-regional agreements, which are much thinner with the exception of Japan-Singapore, which covers national treatment, market access, domestic regulation, recognition of qualifications, transparency and restriction of transfers, as well as certain provisions on telecommunications and financial services.

Figure 7: Coverage of 29 Services Provisions in Selected Regional Trade Agreements

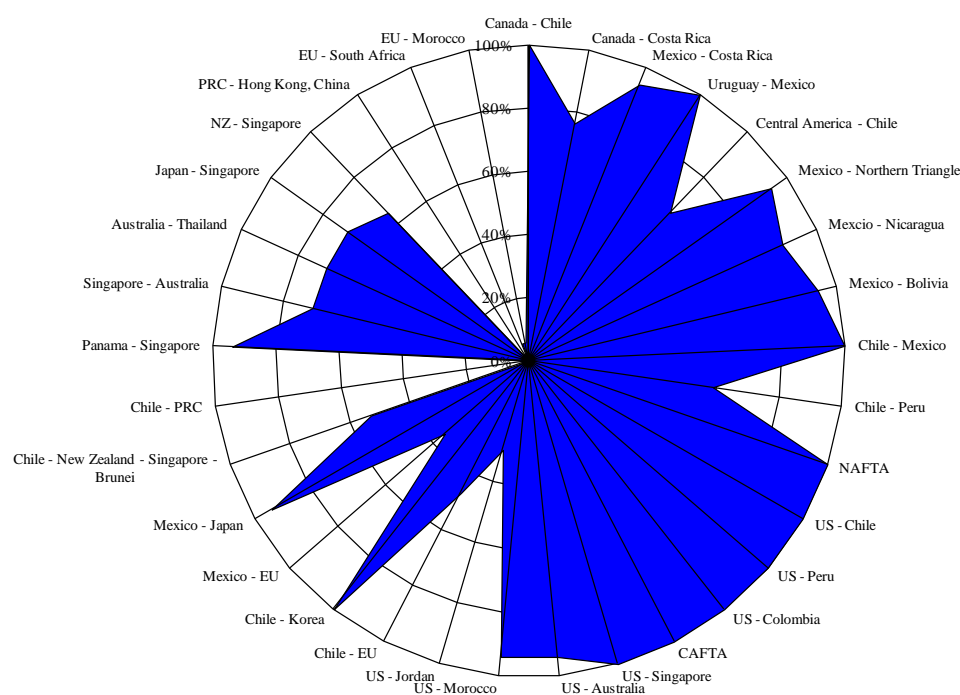


Source: IDB calculations based on agreement documents.

As in services, the latest RTAs' investment chapters tend to be broad, extending to such areas as MFN treatment, national treatment, transparency, denial of benefits and restriction of transfers, nationality of management and board of directors, performance requirements, expropriation, and investor-state disputes.

It is intra-hemispheric RTAs, and US RTAs in particular, that are comprehensive—and often extend well beyond GATS and TRIMs (Figure 8). Indeed, all RTAs forged in the Americas apply the four modalities of investment—establishment, acquisition, post-establishment operations and resale—and also cover such disciplines as MFN treatment, national treatment, and dispute settlement. Eighty percent or more also cover transparency, denial of benefits and restriction of transfers, nationality of management and board of directors, performance requirements and expropriation. In inter-regional agreements, the coverage is somewhat lower due to the limited coverage of disciplines in the EU-Mexico and EU-Chile agreements, as well as in the Chile-PRC and US-Jordan FTAs, and the P-4 agreement.

Figure 8: Coverage of 17 Investment Provisions in Selected Regional Trade Agreements



Source: IDB calculations based on agreement documents.

In sum, there is marked variation across RTAs in the coverage of services and investment provisions. Yet, the analysis also communicates clustering of RTAs by main regions—Asia, Europe, North America, and South America. A closer inspection of the data also suggests the export of RTA models from one region to the next through trans-continental RTAs, such as the “borrowing” of some of the US-Chile RTA’s market access provisions in the Chile-Korea RTA. Many US RTAs in particular could be viewed as WTO+ in terms of incorporating more, and more specific, provisions than are present in the multilateral regime.

5. THE FUTURE AND LESSONS OF REGIONAL INTEGRATION IN THE AMERICAS

5.1 Managing the Integration Architecture in the Americas

The countries of the Americas are at a crossroads: their intra-regional integration is increasingly complete and mature, and many regional countries have already established ties with numerous extra-regional partners. The advance of regional trade agreements in the trade portfolios of the countries of the Americas has created benefits in terms of expanded market access, greater trade and investment flows, increased firm productivity, and arguably also macroeconomic stability (IDB 2002).

However, at the same time, the regional economies have yet to optimize their RTA portfolios: much work remains in alleviating the domestic, supply-side constraints to trade. Furthermore, the spread of RTAs across the region in the past several years has forged a “spaghetti bowl” of multiple and often overlapping agreements. This, in turn, entails a number of risks.

Most immediately, the proliferation of RTAs can “balkanize” the regional and global trading systems. If the various agreements carry widely distinct features, they can impose undue

transactions costs for traders, investors, and governments operating on several RTA fronts simultaneously.

The spread of RTAs also risks the rise of hub-and-spoke systems centered around a few major trading countries, where the potential cost savings from trade among the spokes remain untapped. Furthermore, the rise of RTAs means that while any given country will likely be an insider to a number of RTAs, it will also be an outsider to dozens of others. As such, even the most prolific integrator countries can end up facing some degree of discrimination and preference erosion around the world.

Encouragingly, the countries of the Americas have a number of strategic options to reduce the potentially negative RTA spaghetti bowl effects, while also deepening the benefits of the hard-won RTAs. The first, and most preferable, option would be to pursue deep global trade liberalization and multilateral harmonization of trade rules. This would resolve the spaghetti bowl problems in a single act. However, the odds of this option bearing fruit are low, especially in the near-term, and it is something over which the countries of the Americas have only limited control.

The second main option would be to pursue a broader integration scheme in the Americas. Essentially superseding the RTAs criss-crossing the hemisphere, such a mega-regional agreement would also streamline the regional trade architecture and sort out the regional RTA spaghetti: traders, investors, and customs authorities would need only to refer to one single agreement on such issues as market access and rules of origin, services and investment regulations, standards, dispute settlement, and so on. Akin to the projected FTAA, a region-wide RTA would also help circumvent the rise of hub-and-spoke systems and end the increasing discrimination stemming from the proliferation of RTAs. Moreover, provided it were based on open regionalism and firmly nested in the WTO system, such a scheme would create trade also with non-members, and could even help propel multilateral talks forward. However, this approach of starting from scratch is also problematic, in light of the great variety of preferential agreements already in place in the region.

The third strategic alternative, and perhaps the most feasible one in the short-run, would be to build bridges among the existing RTAs—to strive for some form of convergence or gradual harmonization of the various RTAs in the Americas. The starting point and initial focus of such an effort could be market access provisions and rules of origin, in particular. While differing in process from efforts to reach a mega-regional agreement, bridging RTAs would have similar effects to a single integration agreement. It would facilitate trade and production across the region, and, as such, harness hemispheric scale economies and opportunities for cost-savings. It could also undermine protectionist interests and prospects for trade diversion, and serve as a base for further region-wide and global negotiations.

Convergence of RTAs could make the whole spaghetti bowl “greater than the sum of its strings”, and in fact there are already some efforts in the region toward convergence. In January 2007, the Pacific Basin Forum of 11 countries in Latin America, including Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru, formed a work agenda to study, among other things, trade convergence and integration (Arco del Pacífico Latinoamericano 2007a, 2007b). The group, which has received technical support from the IDB,¹³ has held several meetings, furthering the understanding of the tangible ways to achieve convergence.

The fourth option would be to “multilateralize” RTAs in the region. This would entail deepening tariff liberalization among RTA members, lowering discrimination toward non-members, and reducing substantive differences among the various RTAs. However, since these measures are rather theoretical than within immediate reach, multilateralization can be best conceived as a process that drives toward these outcomes.

¹³ See IDB (2008c).

Conceptually, the multilateralization process would entail three alternative (yet complementary) paths: multilateral, regional and two-way paths.

The multilateral path would entail changing, or at least making more precise, the multilateral rules governing RTAs, particularly the rather vague requirement of the GATT Article XXIV that RTAs liberalize “substantially all trade” among the partners and eradicate “restrictive regulations on commerce” within a “reasonable length of time”, and not raise new barriers to trade vis-à-vis non-members. For transparency purposes, the multilateral path could also require strengthening of the procedures for notifying RTAs to the WTO and for reviewing their compliance with Article XXIV.

The regional path could be paved with measures within each individual RTA, or among groups of RTAs. The former would mean driving down intra-RTA barriers and lowering discrimination toward non-members (or incorporating new members). The latter could entail convergence—merging RTAs together in broader zones through the adoption of common rules and regulations—while driving to the lowest common denominator in external protection.

The two-way path would entail using the regional level to shape rule-making at the multilateral level and *vice versa*. For instance, it could mean using the empirical facts on liberalization and external discrimination in RTAs, something this paper has sought to establish, as a reality check in multilateral rule making on RTAs. It could also mean transposing tried and tested trade-related disciplines in RTAs that currently go beyond multilateral rules in coverage, precision, or both (such as services and customs procedures), in crafting new multilateral trade rules.

Conversely, the two-way path could mean including new multilateral rules governing RTAs in RTA texts and even some mechanisms to enforce compliance with multilateral mandates at the regional level. It could also entail multilateral rules to govern regional convergence processes, to ensure that expanded RTA zones would not result in discrimination toward non-members.

Besides the political opposition to multilateralization, however accomplished, the risk to be managed in any of these processes would be one of incentives. Stronger multilateral rules on RTAs and their enforcement could turn countries away from regionalism, while doing little to encourage them to turn their energies to multilateralism. Moreover, in the absence of multilateral opening, convergence among RTAs could lead to trade being diverted. A two-way path risks straitjacketing regions with unsuitable multilateral rules and succumbing to the political economy of RTAs at the multilateral level.

5.2 Lessons for Asia

RTAs in Asia are proliferating rapidly. Much as in the Americas, Asian bilateral RTAs have been catalyzed by a broader intra-regional integration scheme, APEC, but they are now starting to eclipse the broader region-wide effort. This picture presents both the challenge of an unruly noodle bowl of RTAs, as well as the opportunity for furthering the market access gains attained in the various agreements. There are perhaps four key insights from the spree of integration in the Americas for Asian regionalism:

RTAs help open new market access channels and likely enable the attainment of deeper liberalization than a region-wide mega-agreement or a global agreement would. However, care must be taken to pursue RTAs that are internally deeply liberalizing and externally firmly based on open regionalism. The agreements in the Americas forged from the mid-1990s onward have by and large been such, and consequently delivered far greater gains from trade than the region’s patchy and inward-looking regionalism of the 1980s.

Regionalism and multilateralism can be complementary: liberalization in one sphere can beget opening in another. There is an important body of anecdotal information and recent

rigorous econometric work to this effect on the interplay of RTAs and multilateral liberalization. However, analyses also show that many RTAs contain “hidden protectionism”, such as opaque non-tariff measures and restrictive rules of origin. While these instruments may be the political price of passing RTAs, they can also dampen RTAs’ trade-creating potential and contravene open regionalism.

Absent global free trade, the Asian noodle bowl of RTAs risks “lost” scale economies and high transactions costs, just as does the RTA spaghetti in the Americas. The key solution would be to find common ground for a broad-based regional integration scheme or fold the common agreements into a region-wide arrangement, which is internally and externally at least as liberalizing as the most liberal RTA in the region (rather than settling for the lowest common denominator). In light of the multiple trans-Pacific RTAs, a further, complementary avenue would be to pursue convergence in the APEC space, or even more broadly, between the countries of Asia and the Americas.

Going from potential to actual convergence and multilateralization not only faces numerous practical hurdles, but also requires political capital and attention. Bridging RTAs is bound to be complex, particularly considering the several regional RTAs and the vast range of provisions in the various agreements that would have to be reconciled. The first step might therefore be to launch a regional mechanism—perhaps a technical group of experts—that monitors and catalogues RTA tariffs and rules, reports to the members on the existing provisions, solicits views from stakeholders about the functioning and pitfalls of the status quo network of agreements, and puts forth technical proposals for bridging RTAs.

6. CONCLUSION

We have found that RTAs in the Americas are among the most liberalized in the world. As in other regions, though, there are a number of outlier RTA parties and product categories in the Americas that remain closed for extended periods of time. RTAs formed by the countries of the Americas also carry a number of trade policy instruments, such as TRQs and exclusions, that can curb liberalization among the parties, and restrictive rules of origin that can undermine trade between RTA members and non-members (as well as between RTAs).

Overall, however, the findings of this paper are encouraging: particularly RTAs formed by the original NAFTA partners liberalize the bulk of goods and do so rapidly, and the integration of the regional economies has been accompanied by multilateral tariff liberalization. RTAs in the Americas have also pushed the frontiers of such agreement disciplines as services and investment. Today’s challenge for the region, and the coming challenge for the Asian economies, is to manage the risks of the regional path: pursuing a path that is good both for the regional countries and for the multilateral trading system.

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APPENDIX I

Table A1: RTAs Considered in the Study

Agreement	Year of Entry into Effect
NAFTA	4/1/1994
Mexico-Bolivia	1/1/1995
Mexico-Colombia-Venezuela	1/1/1995
Canada-Chile	7/5/1997
Mexico-Nicaragua	7/1/1998
Chile-Mexico	8/1/1999
Mexico-Northern Triangle	03/15/2001 (SV, GU), 06/01/2001 (HO), 03/14/2001 (MEX)
Chile-Central America	02/15/2002 (CR), 06/03/2002 (SV)
Central America-Dominican Republic	03/07/2002 (CR), 10/04/2001 (SV), 10/03/2001 (GU), 12/19/2001 (HO)
Canada-Costa Rica	11/1/2002
US-Chile	1/1/2004
Mexico-Uruguay	7/15/2004
CAFTA	12/17/04 (SV), 03/03/2005 (HO), 03/10/05 (GU), 10/11/05 (NI), 07/27/05 (US) *
Mexico-Costa Rica	1/1/2005
US-Peru	NA
US-Colombia	NA
Chile-Peru	7/1/1998
Mercosur-Chile	1/10/1996
Mercosur-Bolivia	02/28/1997
ACE 58 Peru – Mercosur	ARG (12/14/2005); BRA (12/29/2005); PRY (02/15/2006); PER (12/12/2005); 12/16/2005)
ACE 59	PRY-COL, ECU&VEN (04/19/2005); ECU-ARG, BRA&URY (04/01/2005); BRA-VEN (02/01/2005); COL-ARG (02/01/2005); VEN-ARG (01/05/2005); VEN- UR (01/05/2005)
US-Israel	8/15/1985
Canada-Israel	1/1/1997
Mexico-Israel	7/1/2000
EC-Mexico	7/1/2001
EFTA-Mexico	7/1/2001
US-Jordan	12/17/2001
EC-Chile	2/1/2003
US-Singapore	1/1/2004
Chile-Republic of Korea	4/1/2004
US-Australia	1/1/2005
Mexico-Japan	4/1/2005
Chile-New Zealand- Singapore-Brunei Darussalam	6/3/2005
US-Bahrain	12/13/2005*
US-Morocco	1/1/2006
Chile-PRC	10/01/2006

* Refer to ratification dates.

Panama-Singapore	07/24/2006
Australia-New Zealand	3/28/1983
COMESA	12/8/1994
EC-Lithuania	1/1/1995
EC-Romania	2/1/1995
EC- South Africa	1/1/2000
EC-Morocco	3/1/2000
New Zealand-Singapore	1/1/2001
Japan-Singapore	11/30/2002
EFTA-Singapore	1/1/2003
Singapore-Australia	7/28/2003
PRC-Hong Kong, China	1/1/2004
Australia-Thailand	1/1/2005
New Zealand-Thailand	7/1/2005

APPENDIX II

Table A2: Main Services and Investment Provisions Considered in the Study

Services

MFN Treatment
National Treatment
Market Access
Local Presence
Domestic Regulation: <ul style="list-style-type: none"> Objective administration of measures Tribunals and procedures for the review of administrative decisions Duty to inform of the status and final decision on applications Measures do not constitute unnecessary barriers to trade in services
Transparency provisions: <ul style="list-style-type: none"> Prior comment Duty to publish National inquiry point Duty to provide information to other members
Recognition of qualifications: <ul style="list-style-type: none"> Adequate opportunity for other interested members Prohibition of discriminatory recognition
Restrictions on transfer or payments
Denial of benefits
Telecommunications: <ul style="list-style-type: none"> Interconnection Unbundling Particular services Competitive safeguards Universal Service Obligations Allocation of scarce resources
Financial Services: <ul style="list-style-type: none"> Prudential carve-out Provision for recognition of prudential measures NT for access to payments and clearing systems New financial services Privacy Data transfer

Investment

Scope of application: Establishment Acquisition Post-establishment operation Resale
MFN treatment
National treatment
Nationality of management and board of directors
Performance requirements
Transparency provisions: Prior comment opportunity Duty to Publish
Denial of benefits
Minimum standard of treatment
Treatment in case of conflict
Expropriation and compensation
Transfers restrictions
Investor-State disputes