

Regionalismos Comparados: Perspectivas de una Arquitectura Emergente

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Introduction

Regional or preferential trade agreements as a recent World Bank report has argued are “fundamentally altering the world trade landscape”.¹ At present almost all countries in the world belong to one or more of these Free Trade Agreements (FTAs) and more than one-third of world trade takes place within them “as trade on a most-favoured-nation basis (MFN) becomes more an exception rather than the norm”.² The number of agreements in force, now more than 230, has raised six fold in just two decades.³

The proliferation of PTAs and FTAs is in part due to the active role of the United States and the European Union (EU). They have emerged as hubs in their networks of hub-and-spoke FTAs. The spokes started to react in the 1990s and generated what is called the *juggernaut effect*⁴ –that developing nations seek global networks of their own . In turn, as Baldwin has argued, this tangle has made the three classic trade blocs –Europe, North America and East Asia.

Latin America and the Caribbean (LAC) nations have not evaded these global developments. By the end of 2005, 64% of the region’s exports came under some type of intraregional or extraregional preferential arrangements, whether bilateral or plurilateral. In particular, Mexico, the Central American sub-region and Chile shipped 94.4%, 84.8% and 73.7% of their exports, respectively, under PTAs. A recent ECLAC report foresees that the proportion of exports covered by tariff preferences in the region is likely to rise from 64% to 72% by the end of 2007.⁵

From the mid 1990s onward, LAC countries have widened trade agreements and consolidated integration schemes. The adoption of the North America Free Trade Agreement (NAFTA) –the first FTA in the region between a developing country and two developed ones– and the completion of the GATT Uruguay Round fostered a favourable climate for integration processes. LAC countries began signing FTAs that were “much more ambitious than the former and in which non-regional partners also took part”.⁶

¹ World Bank, *Regional Trade Agreements and Development: Upside potential and downside risk*, Trade Note no. 24, September 2005

² Tussie, Diana and Quiliconi, Cintia, *Market Access as a Substitute for Development? North – South Regionalism in Latin America*, Commissioned Paper for 2005 Human Development Report, December 2004, www.undp.org

³ World Bank, *op. cit.*

⁴ Baldwin, Richard, *Multilateralising regionalism: spaghetti bowls as building blocs on the path to global free trade*. Working paper 12545, <http://www.nber.org/papers/w12545>, National Bureau of Economic Research, Cambridge, September 2006

⁵ ECLAC, *Latin America and the Caribbean in the World Economy, 2005-2006*, September 2006, p.106, Aladi, CAN, Mercosur, *Convergencia de los Acuerdos de Integración Económica en Sudamérica*, 2006

⁶ Silva, Verónica, “Cooperation on Competition Policy in Latin American and Caribbean Bilateral Trade Agreements”, Economic Commission for Latin America and the Caribbean (ECLAC), United Nations, Santiago de Chile, December 2004

More than a dozen intraregional trade agreements were signed in the 1990s. In recent years, this proliferation of FTAs has not ceased to expand in number and to include new extra regional countries.

Facing such a scenario the old concept of “trade bloc” has become an oxymoron. All of these groupings as Baldwin has argued share the characteristics of being leaky and fuzzy: “‘fuzzy’ since the proliferation of bilateral agreements by the spokes make it difficult to determine their boundaries, and ‘leaky’ because some of the spokes have FTAs with more than one of the three trade blocs.

These notes will first sketch out the silhouettes of these fuzzy, leaky agreements in different parts of the developing world , leaving for a later stage what proposals are emerging from multilateral institutions.

Framing the Issue

Before embarking on further discussion, or charting the roads of regionalism some definitional homework needs to be done.

- *Regionalism is both policy and project; like globalization it may take place as the result of autonomous market forces or as the result of government policy. States and markets rarely act in isolation one from the other*

Since regions are quite different in their make up and experience, we would expect their needs to differ also. The African, Latin American or Southeast Asian, or more recently the Central Asian cases offer insights, reflecting their differential experiences and structures, as well as expectations of what regional and global governance can offer. In all cases, the perceived failures and inequalities of globalization and the spectre of marginalization or irrelevance have prompted more pro-active regional policies.

The breakdown of the North–South, East-West governing principles, and the removal of superpower overlay have led to an increasingly decentralized system setting the stage for the so called new geography of trade and the reconfiguration of political - diplomatic strategies. Such strategies now include contestation, articulation, competitive liberalization, ample inter-state coalition building such as the G-20, G-33, G-90 in the Doha Round and the proliferation of regional and other types of preferential arrangements.

In some countries, FTAs have become so encompassing that there is insufficient critical mass for multilateral negotiations; these would have little value added in terms of market access. Thus, the analysis of the motivations for regional and other preferential agreements and the monitoring of implementation are important in terms of impact on member countries.

In 2005, total world trade grew by 6%. Developing Asia and Latin America were the most important drivers of such growth, with 8.5% and 12%, respectively; while trade of industrialized countries barely grew by 4.7%. China remained as one of fastest exporters (25%), with the highest GDP growth (9.9%), in sharp contrast to the slow pace of the European Union's exports (3.5%) and GDP growth (1.6%). Growth in the US (3.5%) was lower than in Latin America (5%) and the Commonwealth of Independent States (6.6%), two regions that continued to be among the most dynamic, thanks to higher prices in commodities. These favorable trends in trade and GDP growth for developing countries are expected to remain in the coming years.

This growth on global trade has benefited different trading regions such as Latin America and the Asian countries specially. However, multilateral negotiations have stalled. Negotiations in and of themselves do not create development trade opportunities, but they are an important incentive and they provide certainty of access in times of slower growth.

Rubens Ricupero ⁷ has portrayed the presence of a triple paradox in world trade. First, global trade has increased and so has the participation of developing countries; but negotiations in fields such as agriculture are stalled. Second, the WTO provides better services as a tribunal than as a negotiation arena (raising the issue of where is the actual locus of multilateral rule-making). A third paradox is related to the incapacity of the WTO to promote deep integration issues; this gave way to the pursuit of alternative possibilities, such as the bilateral or regional agreements. The WTO became stuck after the Uruguay Round in the intention to induce regulatory convergence, a problem that is now exacerbated by its increased membership and the accession of China. The shadow of China looms large in the reluctance to open markets multilaterally.

The level of analysis: what are the colors and sizes of the regionalist blueprint?

The regional momentum has proved unstoppable, making it possible to speak of the 'globalization of regionalism'. Agreements vary widely in motivation, form, coverage and content. Intra-Latin American agreements (those not including the majors, the US and the EU) were motivated by the search for wider markets building up economies of scale amongst similar countries. Such agreements mostly focused on market liberalization through different schedules of tariff reduction. In the Middle East and North African (MENA) region, intra-region FTAs (non-US and non-EU FTAs) were motivated by peace concerns rather than trade objectives. The most important political motivation is conflict prevention and the desire to foster interaction and community building. The result has been the emergence of shallow FTAs since deep integration might create unwanted tensions. Nonetheless, most of the FTAs are not fully

⁷ Ricupero, Rubens, *Paradojas y Contradicciones del Comercio Mundial*, presented at the Roundtable Meeting: Could Regionalism Leverage Global Governance? LATN – CAF, Buenos Aires, July 2006

implemented. External pressure have also spurred agreements such as the Protocol of the Qualified Industrialized Zones (between Egypt, US and Israel and between Jordan, US and Israel) and in the case of signing the Aghadir agreement (between Egypt, Jordan Tunisia and Morocco).⁸

In the Asia-Pacific region, countries used FTAs⁹ as an insurance policy against a faltering multilateral trade system. FTAs spread in East Asia after the financial crisis in 1997/98. The contagion-effect exposed regional economic interdependence and at the same time the lack of cooperative mechanisms to cope with it. Japan and the US champion different models of FTAs with differing philosophical approaches to economic management. Japan has a predilection for incorporating an economic cooperation dimension into FTA whereas the US does not. China and South Korea have modelled their FTAs on the Japanese approach with an emphasis on trade facilitation.

In contrast to the above patterns, the South Africa Customs Union (SACU)¹⁰, had been in existence since the late XIX century. When South Africa single-handedly negotiated its FTA with the EU in the late 1990s, SACU was in essence hollowed out. Gradually however, a renewed agenda was hammered out and a fresh SACU agreement was signed in 2000. In essence, this is combination of deep and shallow integration. The intention is to increase market size and improve their investment opportunities but the agreement also intends to facilitate the sharing of customs duties. SACU then became a focal point for negotiations with other regions such as Mercosur, EFTA, EU and the United States, which are being tackled as group. With the United States, a serious hurdle has been the latter interest in new issues and SACU's reluctance to go beyond a limited scope traditional agreement.

So at the present time we see new impulses to regionalism complementing and at times competing with older patterns and trends. Some areas like East Asia are experiencing the regional phenomenon for the first time, others are involved in revived or renewed efforts, conditions have changed, but the lessons of the past remain highly relevant.

Convergence and Divergence

Convergence of agreements happens when normative frameworks are shared or begin to resemble each other. Convergence contributes and creates bigger regional integration agreements under a unified plurilateral arrangement by unified rules, similar process in

⁸ Ghoneim, Ahmed, *Regional Trade Agreements in The Middle East North Africa (MENA) Region: Are they Converging or Diverging?*, presented at the Roundtable Meeting: Could Regionalism Leverage Global Governance? LATN – CAF, Buenos Aires, July 2006

⁹ Dent, Christopher, *Free Trade Agreements in the Asia-Pacific: Convergence or Divergence?*, presented at the Roundtable Meeting: Could Regionalism Leverage Global Governance? LATN – CAF, Buenos Aires, July 2006

¹⁰ Hartzenberg, Trudi, *Global Governance and Regionalism: A Southern African (SACU) Perspective*, presented at the Roundtable Meeting: Could Regionalism Leverage Global Governance? LATN – CAF, Buenos Aires, July 2006

the *modus operandi* or by gradualised adjustment to economic liberalization. Divergence appears when there is an inconsistent regional organization, on one hand, raising coordination and transactions costs and, on the other, creating counter-balancing manoeuvres among the region's states, reinforcing power asymmetries that remain unchecked.

Convergence can be spontaneous or induced. Spontaneous convergence evolves without requirements or expectations of concessions from a counterpart and without direct pressures, except those transmitted through markets. Policy imitation and policy catch-up are key components of this spontaneous harmonization. Conditionality (both *dos* and *don'ts*) and market concessions are key elements in induced convergence. In all regions there is a set of agreements that lead to convergence (of both types) and a set of divergent ones. It is very often the case that, as in multilateral institutions, one major actor sets the agenda in any regional organization with the view not only of retaining power at the regional level but also of setting global precedents. New balancing or bandwagoning efforts with the local strong power are set in motion with fresh implications for the emerging global architecture. Regional alignments are thus constantly shaping and reshaping market relations.

For example, in MENA, EU Partnership Agreements are quite similar. The Aghadir FTA (Tunisia; Jordan, Morocco and Egypt) also has strong elements of convergence. The differences arising from the Common Market from East and South Africa (COMESA) and the Great Arab Free Trade Area (GAFTA) do not constitute a major problem. The areas where hurdles may arise are competition policy and rules of origin. The bilateral agreements with the US stand apart where different rules of origin and different standards are likely to create a dichotomy among firms that direct exports to the US and those that direct them to the EU. The impact at country level will differ according to the one of trade orientation of each MENA country.

In Southern Africa, the EU exerted strong centripetal impacts; but subsequently, SACU set out a work programme with strong elements of convergence to a narrowly focused agenda on which shallow agreements with extra-regional countries, including China, are pursued together. In the Western Hemisphere, most agreements signed with the US will converge on the NAFTA pattern. Canada however, has shown less inclination towards conditionality and sanctions on labour standards and more inclination to positive incentives in its agreements with Costa Rica and Chile. Intra-Latin-American agreements tend to focus on tariffs and market access issues. These agreements have different implementation periods but they show a long term trend towards potential convergence, especially if the Community of South American Nations moves on.

In the case of Asia-Pacific, FTAs also show this twofold process but of a different nature. There is a trend towards *convergence* in intra-regional and bilateral FTAs as they all imply sensible reductions in tariffs (low to begin with for most members, except China), albeit in 10 to 15 years spans, moreover rules of origin are quite lax. The trend towards *divergence* is stronger than convergence because of the presence of different major countries competing for the driver's seat:

- In the bilateral FTAs signed between developing East Asian countries with developed countries such as USA, Japan, New Zealand and Australia, there are rules on services, FDI flows, and intellectual property rights going well beyond WTO commitments in those areas.
- All agreements signed by Korea and Japan provide either limited or no access in agricultural goods, contrary to those signed by the rest of East Asian countries and extrarregional economies (Chile, US, Canada, Australia, etc.), as well as with China.
- The FTAs signed by East Asian countries, notably the ASEAN countries, with China, Korea and Japan include extensive chapters on “trade facilitation measures” that seek to reduce transactions costs at the borders and customs by making mutual recognition of product standards on selected categories of goods. These provide incentives for the supply of tradables within the region, functional to sustain global or regional production chains.

In short , there is more divergence than convergence within the number of FTAs being signed by East Asian countries. Such divergence however does not completely preclude future convergence in the trade governance of this region, since the room for policy reform still remains quite large for most of these countries.

In Latin America, policy reform started in the mid-1980s as a result of the debt crises, that is, prior to the trade integration. Intra-Latin American trade integration dates back to the sixties. But as in the case of SACU, customs unions such as the Central American Common Market, the Andean Community of Nations and Mercosur are not able to hold on the common external tariff vis-à-vis negotiations with the US. Since these agreements with the US have deep integration elements but they are being signed on a one to one basis they do not necessarily lead to convergence, although as in the case of the MENA region problems lie mostly in rules of origin. In the case of CAFTA, the hollowing out of the common external tariff with the US will most probably catalyze, as in SACU, an extended intra-regional micro-economic agenda. However, processes currently opened with the EU provide incentives for convergence since the latter requests customs unions to set a common baseline for negotiations. This pressure is good since the countries can harmonize and coordinate their norms. The exceptions to this trend are Mexico and Chile, which do not belong to any customs union and have both signed FTAs with the EU and the US and have since become hubs in their own right with a plethora of trade agreements, both regional and no-regional.

The agreements with the EU offer limited access in agriculture, whereas the US has provided tariff quotas for specific foodstuffs. Such restricted coverage has provided few incentives for FTAs with the stronger agricultural exporters, such as Brazil and Argentina

It would be quite wrong to engage in a starry-eyed exercise about the prospects for regionalism, in particular to convey regionalism as an alternative paradigm to a global one. The record is mixed; it is work still in progress, and a wide range of attitudes exist as to both its utility and even legitimacy. Many will point out the chronic weakness of

regional institutions, particularly Southern ones, as regards influence in the prevailing multilateral system. But few would deny that some regions and their different actors are forces to be reckoned with in specific instances.

Pulling together the practice from different regions there seems to be a wide array of projects of varying compositions, capabilities and aspirations. Asian countries still want to hang on the developmental state, regardless of divergence with Western views; whereas in Latin America the developmental state (and the failure of import substitution) has given way to the pursuit of economies of scale and enlarged market access, a trend largely shared also by Southern Africa. The brand of security-inspired regionalism is idiosyncratic to the MENA region, but some of its instruments might well serve as inspiration elsewhere. Projects are not given once and for all, but built and re-built so these projects fluid and changing in their make up.

In sum, the patterns of agreements detected are closely associated, first, to the *participation or not of major countries*; and secondly to *which specific* major country is in the driver's seat. Japan and South Korea and China have an inclination to concentrate on trade facilitation, the US to deep integration with scant economic cooperation and the EU for deep integration with added economic cooperation. Security regionalism has 'worked' for some areas of the world, but not others. The point here is to discover and develop those functions for which the project does work.

The categorization of shallow versus deep integration may also be losing its heuristic value. It may be too tied to the view of globalization seen as westernization. As new partnerships are forged it becomes a particular US-EU-JP centric view that fails to take into account FTAs that go a long way into areas such as trade facilitation and supply side measures to increase trade. These are also "deep" areas without including rule-taking as precondition for market access, as in the FTAs of US-Lat Am and US-East Asia.

Convergence and Divergence: to what end?

The relationship between these different structures (multilateral, regional, sub-regional and bilateral), due to their newness and the hierarchy established among them, has been poorly defined and articulated. Most approaches to this have taken and still take a zero-sum approach: either the global or the regional dominates. Such stark divisions are evidently unhelpful in view of our recent discussions and far more needs to be done to create a working hybrid model that considers the centrality of regionalism in any emerging global trade architecture.

These trends pose some key dilemmas for the effective governance of trade relations. Do FTAs advance or retard the objectives of trade liberalization and/or development? Do they do so in a way that, while granting room for individual policy options, they also provide room for coherence between international and national policies? Is a minimum level of transparency and global coordination feasible? Does the new agreement on Article XXIV of the WTO provide such conditions? And at the regional level what are

the proposals for tidying up the web of agreements and using these as a platform for their gradual convergence into a single, region-wide arrangement, or would it be preferable to respect the heterogeneity and abandon the aim of eventually forming a Latin American/Western Hemisphere free trade area?