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UNDERMINING THE WTO?

THE RISE OF PREFERENTIAL TRADING ARRANGEMENTS

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I. INTRODUCTION

In 1999, World Trade Organization (WTO) participants in Seattle unsuccessfully attempted to launch a new trade round. Many commentators saw this as the swan song of the global approach to negotiations and began to call for alternative modes of trade liberalization. Suggestions for coping with the perceived complexity of the WTO included negotiating among a more restricted set of actors and limiting the set of issues discussed.¹ Although such avenues increasingly became the norm, the success of the November 2001 Doha meeting of the WTO in setting a timetable for negotiations seemed to once again restore faith in the global approach. Yet the seesaw continued. First came the dramatic collapse of the Cancún negotiations in September 2003, followed shortly thereafter with the success of the July 2004 WTO meeting in Geneva. WTO members have already missed the January 2005 deadline for concluding the Doha Round. In this environment, many countries continue to look for other trade options in view of the likelihood of prolonged talks before an agreement is reached.

In the post-World War II era until the early 1990s, the General Agreement on Tariffs and Trade (GATT) remained the primary approach to trade liberalization, with the most significant exception being the formation and evolution of a customs union in Europe. By contrast, trade protection has taken a variety of forms, with unilateral, bilateral, minilateral, and multilateral restrictions both on a sector specific and multiproduct basis. My objective in this paper is to look at the new trend toward preferential liberalizing trading arrangements around the globe. To this end, Section II of this paper begins by more systematically categorizing the different types of arrangements

¹ For an example of those advocating restricting the number of participants, see the Business Roundtable 2001; for an example of an argument for restricting issues, see Tyson 2000.

that have increasingly populated the trade landscape. The objective of this exercise is both conceptual and empirical. From a conceptual standpoint, I argue that a more detailed specification of different types of trade accords helps us to clarify what we are seeking to explain. From an empirical standpoint, the categorization allows us to understand the origins and evolution of different types of arrangements. Section III of the paper then presents an institutional bargaining game approach to examine the evolution of trade arrangements. In Section IV, I explore how this approach might help us to understand the implications of the rise of preferential trading arrangements in both Northeast Asia and on East Asia and these might link up to Europe and the United States through ASEM and APEC, respectively. I conclude in Section V with an assessment of the implication of the rise of preferential agreements.

II. VARIETIES OF TRADE GOVERNANCE

In the post World War II period, states have utilized a host of measures to regulate trade flows. Yet many analysts have conflated different type of arrangements and used them synonymously. For example, the term “regional agreement” has been used to refer to widely disparate accords such as Asia Pacific Economic Cooperation (APEC), Asia Europe Meeting (ASEM), North American Free Trade Agreement (NAFTA), bilateral free trade agreements both in and outside a region, and even sectoral agreements such as the Information Technology Agreement (ITA).²

This conceptual ambiguity and under-differentiation of the dependent variable makes it more difficult to analyze specific outcomes, and thus may impair our theoretical

² See for example, Mansfield and Milner (1999), p. 592, who recognize the problematic nature of the term “regionalism” but then proceed to use this term in their analysis. See also Bergsten (2001).

analysis of trading arrangements. In an effort to more clearly specify types of trade arrangements, I distinguish them along several dimensions: the number of participants, product coverage, geographical scope; market opening or closing, and institutionalization. I define the number of participants in terms of unilateral, bilateral, minilateral, and multilateral participation in an agreement; I use the term bilateral to refer to two countries and minilateral to more than two.³ In terms of product coverage, the range is from narrow (a few products) to broad (multiproduct) in scope. Geographical scope differentiates between arrangements that are concentrated geographically and those that bind states across great distances. A fourth dimension addresses whether these measures have been either market opening (liberalizing) or market closing (protectionist). Fifth and finally, one can also look at the degree of institutionalization or strength of agreements.⁴

Table 1 develops a typology of trade agreements based on these dimensions but omits categorization of their liberal or protectionist nature and degree of institutionalization for presentation purposes. In addition, my discussion of scholarly work in these various cells omits discussion of protectionist accords and institutionalization, although I do consider these elements in the scenarios of Northeast Asian trade arrangements and their likely evolution in Section IV.

³ This usage differs from that of Yarbrough and Yarbrough 1992 that conflates third party enforcement with these terms so that “bilateral” for them can also mean three countries, a highly counterintuitive use. Keohane 1990 refers to an agreement among three or more states as multilateralism. Richardson (1987) is consistent with my usage.

⁴ Of these five, the dimension of geographical scope is the most controversial. It is worth noting that this category is quite subjective, since simple distance is hardly the only relevant factor in defining a “geographic region.” In fact, despite the interest that regionalism has attracted, the question of how to define a region remains highly contested. See the discussion by Mansfield and Milner (1997), Katzenstein (1997), Ravenhill (2004), and Aggarwal and Fogarty (2004), among others.

I begin by considering product coverage. The narrowest coverage is that of one or very few products, or what is referred to as sectoralism. Although we have seen a number of trade opening measures in this area, it is worth keeping in mind that sectoral approaches in the post-World War II era have been discouraged by GATT Article 24, which requires that free trade agreements or customs unions must cover “substantially all trade.” The exact meaning of this clause has been hotly disputed, and sectoral measures have rarely been challenged in the GATT/WTO.⁵

Table 1: Classifying Varieties of Trade Governance⁶

		<i>NUMBER OF PARTICIPANTS</i>					
		Unilateral	Bilateral		Minilateral		Multilateral
			<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	
PRODUCT SCOPE	Few Products	(1) UK Corn Law removal (1846) Super 301 (1990s)	(2) U.S.-Canada Auto Agreement (1965)	(3) U.S.-Japan VIEs (1980s-1990s)	(4) ECSC (1951)	(5) EVSL (1997)	(6) ITA (1997) BTA (1998) FSA (1999)
	Many Products	(7) UK (1860s) APEC Individual Action Plans (IAPs)	(8) Canada-U.S. FTA (1989) Australia-New Zealand CER (1983)	(9) U.S.-Israel FTA (1985) U.S.-Jordan FTA (2001) U.S.-Singapore FTA (2004) Japan-Mexico FTA (2004)	(10) EC/EU (1958/1992) ASEAN (1967) NAFTA (1993) Mercosur (1991)	(11) APEC (1989) LOME AFTA (under negotiation) EU-Mercosur (under negotiation)	(12) GATT /WTO (1947/1995)

⁵ On this issues, see Frankel (1997) and Ravenhill (in press).

⁶ Adapted from Aggarwal (2001).

Sectoral Unilateralism

Cell 1 focuses on unilateral sector specific measures, the classic example of unilateral sectoral market opening being the British opening of its grain market with the removal of the Corn Laws in 1846.⁷ Although some sectoral opening took place in the twentieth century, a variant of sectoral opening that is tied to bilateral bargaining took place in the late 1980s and 1990s. The United States used Super 301, a Congressionally mandated trade policy instrument, to threaten to close its market to force other countries to “unilaterally” open up their market in specific products. This particular form of sectoralism sparked a heated scholarly debate. Bhagwati and Patrick, for example, dub this unusual U.S. practice as “aggressive unilateralism.”⁸ Some analysts argue that U.S. efforts at aggressive unilateralism generated positive outcomes by forcing the liberalization of otherwise closed Japanese, European, and other Asian markets.⁹ Yet Bhagwati and Patrick hold a highly skeptical view of this claim, arguing that pursuit of aggressive unilateralism may spread cynicism toward multilateral commitments and provoke retaliation by other countries.

Sectoral Bilateral Regionalism

In cell 2, we have sectoral agreements between a pair of countries that are geographically concentrated. From a market opening perspective, this approach often reflects pressures

⁷ For a good discussion, see for example, Schonhardt-Bailey (1996).

⁸ Bhagwati and Patrick (1990). For them, it is “aggressive” since the U.S. employed a threat of closure of its market against those countries that employ allegedly unfair trade practices; it is “unilateral” in that the U.S. alone determines whether a trade practice is contrary to its national interests without giving out any reciprocal concessions. This is a somewhat different usage than my own focus on unilateral in the sense of removal of restraints by one county without an agreement. As with “Voluntary Export Restraints” (VERs), the unilateral vs. bilateral aspect is often muddied by coercive actions.

⁹ Bayard and Elliot (1994).

from politically strong but narrow interests that are pursuing greater economies of scale. The resulting arrangements tend to result in intra-industry trade among developed countries.¹⁰ The best example of this kind is the U.S.-Canada Automotive Products Trade Agreement of 1965.¹¹ Prior to the 1988 Canada-US Free Trade Agreement (CUSFTA), the Auto Pact was the only major success in the long-standing effort to liberalize bilateral trade between the U.S. and Canada. For almost forty years after its conclusion, few have questioned the exclusive benefits that such an arrangement confined to a discrete sector had brought to both the U.S. and Canada in terms of increased production, investment, employment, and exports. Eventually, the Auto Pact was incorporated into CUSFTA and NAFTA.¹²

Sectoral Bilateral Transregionalism

Cell 3 refers to sectoral agreements between a pair of countries that are geographically dispersed. Protectionist examples of this sort of agreement include voluntary export restraints (VERs) and voluntary import expansions (VIEs), both of which have generally but not always been across regions.¹³ The word “voluntary” is obviously misleading, as such agreements are often the result of coercive pressures. These sorts of agreements set off a lively debate about “(mis-)managed trade” and the notion of a “fair and level playing field”.¹⁴ The origins of these VIEs have been extensively analyzed and their implications have been modeled. More recently, a less coercive example of bilateral sectoral liberalization can be seen in the negotiations between the U.S. and EU over the

¹⁰ See Milner and Yoffie (1989), among others.

¹¹ Keeley (1983).

¹² Fuss and Waverman (1986).

¹³ See for example Bhagwati (1987) and Nagoka (1997) on VIEs.

¹⁴ See Tyson (1992) and Irwin (1994).

streamlining of testing and approval procedures through the creation of Mutual Recognition Agreements in several sectors.¹⁵

Sectoral Minilateral Regionalism

In cell 4, we have sectoral agreements among three or more countries that are geographically close to each other. The best example is the European Coal and Steel Community (ECSC), created in 1951. Its main task was to integrate the post-war European coal and steel industry, but it also to serve as foundation and stepping stone for the political and economic union of Europe. From the start, ECSC faced criticism for its inconsistency with Article 24 of the GATT, which calls for liberalization on a multiproduct basis, rather than only for a few products. Although challenged as being inconsistent with the GATT by Czechoslovakia, the ECSC members managed to obtain a GATT waiver of obligation.¹⁶ After the ECSC evolved into the European Economic Community, the issue of sector-specific accords became moot.

Sectoral Minilateral Transregionalism

Cell 5 provides an example of geographically dispersed sectoral transregionalism. One example is the case of the Early Voluntary Sectoral Liberalization (EVSL) under the auspices of APEC. In Vancouver in 1997, Ministers agreed to consider nine sectors for fast track liberalization: chemicals, energy-related equipment and services, environmental goods and services, forest products, medical equipment, telecommunications equipment, fish and fish products, toys, and gems and jewelry, and to discuss liberalization in six

¹⁵ For a discussion of the context of these agreements, see Fogarty (2004).

¹⁶ Curzon (1966): 266-8.

other sectors. The United States promoted this nine-sector liberalization a package to discourage countries from picking and choosing sectors based on domestic concerns. This strategy initially appeared viable, but quickly ran into difficulties as Japan and several other countries objected to the liberalization of some sectors—particularly agriculture, forestry, and fishery products—in the context of the East Asian financial crisis and in the face of U.S. pressure for sectoral concessions and reciprocity. Furthermore, the tension and uncertainties arising from a lack of consensus in the APEC forum polarized the public positions of APEC members with respect to environmental and labor linkages to trade issues. In the end, the package was sent to the WTO rather than being considered for liberalization at the APEC level.¹⁷

Sectoral Multilateralism

Cell 6 provides an example of multilateral sectoral accords. This category includes measures such as the ITA, the Basic Telecom Agreement (BTA), and the Financial Service Agreement (FSA). The emergence of this type of agreement is a particularly important development that is worth examining at greater length. Laura Tyson, for example, has argued that among multilateral trade options, this sectoral approach is a sound alternative to the multi-sector WTO approach. In her words,

... the global-round approach to trade talks, involving all WTO participants in a comprehensive agenda requiring bargains across several sectors, may have outlived its usefulness. Focused negotiations on trade issues in specific sectors among a smaller group of WTO members are a promising alternative. Such negotiations have produced significant agreements in information technology, telecommunications, and financial services.¹⁸

¹⁷ Aggarwal 2001a. See also Krauss (2004). A good example of a protectionist oriented sector specific minilateral approach is the Lancashire Pact in cotton textiles and apparel, negotiated among the U.K., Hong Kong, India, and Pakistan.

¹⁸ Tyson (2000).

Yet open sectoralism can be politically and economically hazardous.¹⁹ From a political perspective, sectoral market opening is likely to *reduce* political support for multilateral, multisector negotiations. Because sectoral agenda setting involves a limited and easily polarized set of domestic interests, the margin for coalition building and political give-and-take is much slimmer. Thus, ironically, industries that have succeeded in securing sectoral liberalization may pose a threat to a global liberalization agenda. These groups will see little reason to risk their existing benefits by supporting their relocation in the WTO-centered multilateral, multiproduct regime. By giving highly motivated liberal-minded interests what they wanted in their specific sector, countries have undermined the classic cross-sectoral “horse trading” that has long been the hallmark of the GATT process. Moreover, from an economic perspective, such agreements may *reduce* economic efficiency. By liberalizing only specific, highly competitive sectors, open sectoral trade agreements can thus lead to incentives to invest in or discourage exit from the least efficient areas of the economy.

Multiproduct Unilateralism

We turn next to broader multiproduct liberalization. Cell 7 focuses on unilateralism, the most significant example being nineteenth century Britain. Unilateral liberalization was feasible for Britain thanks to its industrial strength, its limited investment in transaction-specific assets for trade, and its quasi-monopsony power in raw material and export markets—which contrasted with other countries’ limited alternatives to importing British

¹⁹ For this argument, see Aggarwal (2001b) and Aggarwal and Ravenhill (2001).

manufactured goods.²⁰ Contemporary examples include unilateral liberalization measures taken by Australia, New Zealand, Chile, Hong Kong, and Singapore. Although they represented wishful thinking, the Individual Action Plans of APEC, which describe unilateral measures in fifteen specific areas by 2010 for developed economies and 2020 for developing economies, also fall in this category. Yet multiproduct unilateralism appears to be the exception rather than the norm in terms of its frequency.

Multiproduct Bilateral Regionalism

Bilateral arrangements of both a regional and transregional actor scope have rapidly proliferated over the last few years. Cell 8 refers to bilateral trade agreements covering multiple products between a pair of adjacent countries, such as the Canada-U.S. Free Trade Agreement (1988) and Japan-South Korea FTA (under negotiation). More often than not, such agreements draw upon not only geographic, historic, and cultural affinity but also complementarity in industrial structure.²¹

The so-called gravity model has been proposed to explain the positive links between the volume of bilateral trade and geographic distance and economic size (as well as other affinity variables). In order to reduce the costs related to geographic distance and to maximize the benefits from economic size, analysts argue that neighboring countries will often form preferential trade agreements (PTAs) with one another, creating a natural trading bloc. From this perspective, while the formation of natural trading blocs

²⁰ Yarbrough and Yarbrough (1987): 19-21. McKeown (1983) makes a strong case that Britain did not exhibit hegemonic power in the move to liberalization in the 19th century but rather chose to liberalize on its own.

²¹ On bilateralism more generally see Oye (1992). For the Asia-Pacific, see Dent (2003) and Aggarwal and Urata (in press).

will improve welfare gains, the formation of unnatural trade blocs between distant and/or small economies have marginal welfare effects, if any.²²

Multiproduct Bilateral Transregionalism

In cell 9, we have cases of geographically dispersed bilateral agreements covering multiple products. Examples include FTAs between the United States and Israel (1985), Mexico and Israel (2000), the United States and Jordan (2001), Japan and Singapore (2001), South Korea and Chile (2002), the United States and Singapore (2004), and Japan and Mexico (2004). Some of these bilateral FTAs—for example, the U.S-Israel FTA and the U.S.-Jordan FTA—have been clearly motivated primarily by political-strategic rather than economic reasons.²³ Some such as the FTAs between Japan and Singapore and South Korea and Chile—are largely designed for the purpose of “training” or “capacity-building” for broader and deeper trade liberalization. More recently, this training and capacity-building objective has been widely sought in East Asia as many in the region have begun to seek FTAs with little prior experience in FTA formation.²⁴

Multiproduct Minilateral Regionalism

Cell 10 focuses on geographically concentrated minilateral agreements, which have traditionally been referred to as “regionalism.” For the past decades, these types of accords have attracted the most attention, commensurate with the rise of regional trading arrangements since the 1960s. Conventional explanations for the move toward minilateral regionalism have focused on both economic and political-strategic motivations. Some

²² Krugman (1991); Deardorff (1997); Frankel, Stein, and Wei (1996).

²³ Ravenhill (in press).

²⁴ Koo (in press).

economic arguments include: enlarging economies of scale without excessive global competition; increasing the attractiveness of an economy to foreign capital; and creating natural trading blocs according to geographic proximity.²⁵ Political-strategic economic reasons include signaling or strengthening one's bargaining position in relation to more powerful partners; responding to the erosion of U.S. support for multilateralism; locking in a domestic reform agenda; a domino effect; limiting free rider problems; reducing transaction costs between negotiating parties; and lowering the political salience of negotiations.²⁶

There has also been a significant amount of work examining regional variations in terms of the nature, strength, depth, and scope of minilateral arrangements. These works usually compare European or North American "success" with Asian or Latin American "failure," focusing on historical, cultural, politico-institutional differences within and between different geographical groupings.²⁷ It is worth noting that what properly might be called "regionalism" fall into several cells, namely 2, 4, and 8—and, to some extent, cell 11 as well.

Multiproduct Minilateral Interregionalism. Another important recent development in trade arrangements concerns links that span countries across continents, as noted in Cell 11. Many analysts lump their examination of accords such as NAFTA with the EU's efforts to link up with Mercosur or with APEC—which seems potentially inaccurate for

²⁵ On economies of scale, see Viner (1950), Milner (1997), and Chase (2003); on foreign capital, see Rodrik (1989) and Lawrence (1996); and on natural trading blocs, see Krugman (1991) and Frankel, Stein, and Wei (1996).

²⁶ See respectively Milward (1992); Gilpin (1987) and Krasner (1976); Haggard (1997); Oye (1992) and Baldwin (1997); and Yarbrough and Yarbrough (1992) among others.

²⁷ Haggard (1997), Grieco (1997), Katzenstein (1997).

the purposes of developing causal accounts of these arrangements. Indeed, authors have addressed multiproduct interregionalism with reference to APEC and ASEM, as well as in an embryonic literature focuses on EU-Mercosur and other such EU-centered developments, and the causal factors raised are often quite different than those driving regionalism.²⁸

The term “interregionalism” can itself be broken down into more specific types, based on the prevalence of FTAs and/or customs unions as constitutive units within interregional agreements. In work with Edward Fogarty,²⁹ we refer to an agreement as “pure interregional” if it formally links free trade areas or customs unions, as in the case of EU-Mercosur. If a customs union negotiates with countries in different regions, but not with a customs union or free trade agreement, we refer to this as “hybrid interregionalism” (e.g., the Lomé Agreement). Finally, if an accord links countries across two regions where *neither* of the two negotiates as a grouping, then we refer to this as “transregionalism” (e.g., APEC). From the vantage point of explaining why the EU, for example, might choose to pursue interregional agreements, we can focus on the *commercial treatment of the counterpart* region—if one side is a customs union (e.g., the EU), does it choose to treat all countries in a counterpart region uniformly, or does it prefer different rules for different countries if they are not part of a customs union or free trade area? Space limitations preclude further discussion of our findings that assess the value of neoliberal institutional approaches versus a variety of other arguments for the different approaches that the EU has followed around the world. But we find examples

²⁸ On APEC, see the chapters in Aggarwal and Morrison (1998), Ravenhill (2001), Crone (1993), and Kahler (2000) among others. On ASEM, see Gilson (2004), and on EU-Mercosur, see Faust (2004).

²⁹ Aggarwal and Fogarty (2004).

of the EU specifically encouraging the institutionalization of other regional groupings to serve as a single negotiating counterpart. Thus, the possible formation of an Asia-specific regional grouping (explored later in this paper) appears to have been driven in part by EU strategy towards the region. This finding suggests the importance of taking into account the diverse driving forces and effects of interregionalism—as opposed to more “garden-variety” regional arrangements.

Multiproduct Multilateralism

Finally, cell 12 refers to the case of global, multiproduct trading arrangements such as the GATT and its successor organization, the WTO. Neoclassical trade theory argues that unilateral trade liberalization is the best means to promote overall economic welfare. Though theoretically solid, this option is often not feasible politically. As a second-best option, therefore, economists have preferred multilateral trade strategies to sub-multilateral, preferential approaches.

Though highly successful throughout the postwar period, multilateral trade forums at the global level have increasingly encountered difficulties in hammering out new terms of trade liberalization. This, in turn, has fueled interest in preferential arrangements at the sub-multilateral level. Many scholars have rejected arguments about the need for an alternative to the GATT on both theoretical and empirical grounds, and there is a lively debate on the impact that the many arrangements that we have examined thus far will have on the global multiproduct approach to liberalization.

US, East Asian, and EU Agreements

We can now examine classify the preferential arrangements that have been pursued by the U.S., East Asian countries, and the EU. To simplify, I have not distinguished between sectoral and multiproduct arrangements. As we can see from Table 2-4, while the EU and the US were leaders in the negotiation of bilateral agreements, East Asian countries have dramatically increased the numbers of their bilateral agreements, that are either concluded, being negotiated, or under study.

Table 2. Varieties of US Trade Governance Measures

TRADE LIBERALIZATION MEASURES	Bilateral		Minilateral	
	<i>Geographically concentrated</i>	<i>Geographically dispersed</i>	<i>Geographically concentrated</i>	<i>Geographically dispersed</i>
	(1)	(2)	(3)	(4)
	U.S.-Panama FTA (initiated 2004) (n)	U.S.-Israel FTA (effective 1985) (c) U.S.-Jordan FTA (signed 2000; effective 2001) (c) U.S.-Singapore FTA (signed 2003; effective 2004) (c) U.S.-Chile FTA (signed 2003; effective 2004) (c) U.S.-Australia FTA (signed 2004; effective 2005) (c) U.S.-Morocco FTA (signed 2004; effective 2005) (c) U.S.-Bahrain FTA (signed 2004; awaiting congressional approval) U.S.-Thailand FTA (initiated 2004) (n) U.S.-Omán FTA (initiated 2005) (n) U.S.-Taiwan FTA (s) U.S.-Qatar FTA (s) U.S.-Egypt FTA (s) U.S.-South Korea FTA (s) U.S.-Kuwait (s) U.S.-Pakistan (s)	FTAA (initiated 1994) (n) NAFTA (signed 1992; effective 1994) (c) CUSTA (signed 1988; effective 1989) (c)	U.S.-DR-CAFTA (signed 2004; awaiting congressional approval) Enterprise for ASEAN Initiative (initiated 2002) (ongoing) U.S.-Andean FTA (initiated 2004) (n) U.S.-SACU FTA (initiated 2003) (n) U.S.-United Arab Emirates FTA (initiated 2005) (n) U.S.-MEFTA ³⁰ (deadline 2013) (n) U.S.-APEC FTA (initiated 2004) (s)

- (c)-Concluded
- (n)-Under Negotiation
- (s)-Study Phase/Under discussion

³⁰ The U.S. currently has FTAs with Israel, Jordan, and Morocco; an FTA with Bahrain that is pending Congressional approval; and will begin FTA negotiations with the United Arab Emirates and Oman. For a detailed chart on US-MEFTA progress, see: www.ustr.gov/assets/Trade_Agreements/Regional/MEFTA/asset_upload_file987_6745.pdf

Table 3. Varieties of Trade Governance Measures in Asia*

NUMBER OF ACTORS						
	Unilateral	Bilateral		Minilateral		Multilateral
		<i>Geographically concentrated</i>	<i>Geographically dispersed</i>	<i>Geographically concentrated</i>	<i>Geographically dispersed</i>	
	(1)	(2)	(3)	(4)	(5)	(6)
TRADE LIBERALIZATION MEASURES	Various trade liberalization measures taken by Singapore and Hong Kong	China-Thailand FTA (agricultural produce only) (Effective Oct-2003) (c)	Singapore-New Zealand FTA (Signed Nov-2000) (c) Singapore-Japan FTA (Signed Jan-2002; Effective Nov-2002) (c)	ASEAN (1967) (c) AFTA (1991) (c) ASEAN-China FTA (Signed Dec-2004) (c)	APEC (1989) (transregional) (c) EAEC (1994) (transregional) (c) ASEM (1996) (hybrid interregionalism) (c)	GATT/ WTO (1947/1995) ITA (1997) BTA (1998)
	APEC's IAPs	China-Pakistan FTA (Concluded Apr-2005) (c)	Singapore-EFTA FTA (Signed June-2002; Effective Jan-2003) (c)	ASEAN-Japan (Initiated Apr-2005) (n)	ASEAN Plus Three (1998) (hybrid interregionalism) (c)	FSA (1999)
		China-Hong Kong CEPA (c)	Singapore-Australia FTA (Signed Feb-2003; Effective July-2003) (c)	ASEAN-Korea (Initiated 2005) (n)	ASEAN-India CECA (Framework agreement signed Oct-2003) (n)	
		China-Macao FTA (c)	Singapore-US FTA (Signed May-2003; Effective Jan-2004) (c)		ASEAN-Australia-New Zealand (Initiated Feb-2005) (n)	
		Japan-Korea FTA (n)	Taiwan-Panama FTA (Signed Aug-2003; Effective Jan-2004) (c)		China-SCO (n)	
		China-Korea FTA (s)	Korea-Chile FTA (Effective Apr-2004) (c)			
		Taiwan-Philippines (s)	Korea-Singapore (Concluded Nov-2004) (c)			
		China-India (s)	Japan-Philippines FTA (Concluded Nov-2004; unsigned) (c)			
			Singapore-Jordan FTA (Signed May-2004) (c)			
			Thailand-India FTA (Concluded Sept-2004) (c)			
			Thailand-Australia FTA (Signed July-2004; Effective Jan-2005) (c)			
			Japan-Mexico FTA (Effective Apr-2005) (c)			
			Singapore-Panama (Concluded Apr-2005; unsigned) (c)			
			Thailand-Bahrain FTA (c)			

			<p>Korea-EFTA (n)</p> <p>Singapore-Mexico (Initiated July-2000) (n)</p> <p>Hong Kong-New Zealand (Initiated Apr-2001) (n)</p> <p>Singapore-Canada (Initiated Oct-2001) (n)</p> <p>Singapore-India (CECA) (Initiated May-2003) (n)</p> <p>Japan-Malaysia (EPA) (Initiated Nov-2003) (n)</p> <p>Singapore-Chile (n)</p> <p>Thailand-Japan (Initiated Feb-2004) (n)</p> <p>Thailand-US (Initiated June-2004) (n)</p> <p>India-SACU (Initiated Sept-2004) (n)</p> <p>Singapore-Peru (Initiated Nov-2004) (n)</p> <p>China-New Zealand (Initiated Dec-2004) (n)</p> <p>Singapore-Kuwait (n)</p> <p>Singapore-Bahrain (n)</p> <p>Singapore-Egypt (n)</p> <p>Singapore-Qatar (n)</p> <p>Pacific 3 (n)</p> <p>Thailand-New Zealand (n)</p> <p>Thailand-EFTA (n)</p> <p>Thailand-Peru (n)</p> <p>China-GCC (n)</p> <p>China-SACU (n)</p> <p>China-Myanmar (n)</p> <p>Taiwan-Guatemala (n)</p> <p>China-Chile (n)</p> <p>Malaysia-New Zealand (n)</p> <p>Malaysia-India (n)</p>			
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			Australia-China (s) Korea-Canada (s) Korea-Mexico (s) Korea-India (s) Korea-US (s) Japan-Indonesia (s) Japan-India (s) Japan-Chile (s) US-Philippines (s) Singapore-Iran (s) Singapore-Sri Lanka (CEPA) (s) Indonesia-Australia- New Zealand (s) Malaysia-Australia (s) Malaysia-India (s) Malaysia-Korea (s) Malaysia-US (s) Brunei-US (s)			
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(c)-Concluded
(n)-Under Negotiation
(s)-Study Phase

Table 4. Varieties of Trade Governance Measures in Europe

<i>NUMBER OF ACTORS</i>					
TRADE LIBERALIZATION MEASURES	Bilateral		Minilateral		Interregional
	<i>Geographically concentrated</i>	<i>Geographically dispersed</i>	<i>Geographically concentrated</i>	<i>Geographically dispersed</i>	
	(1)	(2)	(3)	(4)	(6)
			EFTA (1960 – cf) CEFTA (1991 – cf) EU-Mediterranean Partnership (1995; target conclusion 2010 – nf)	EU – GCC (1990 ; target conclusion 2005 – nf) EU-CAN (1993 –c) EU-African, Carribean and Pacific nations (initiated 1957, concluded 2000 - ce) EU-Western Balkans (2000 - c) EU-Mexico (signed March 2000; in effect July 1, 2000 - cf) EU-Mercosur (initiated 2001; target conclusion pending – n)	EU (1992 - cf)

Notes:

C — concluded

N — under negotiation

F — FTA

E—EPA

III. AN INSTITUTIONAL BARGAINING APPROACH TO TRADE ARRANGEMENTS

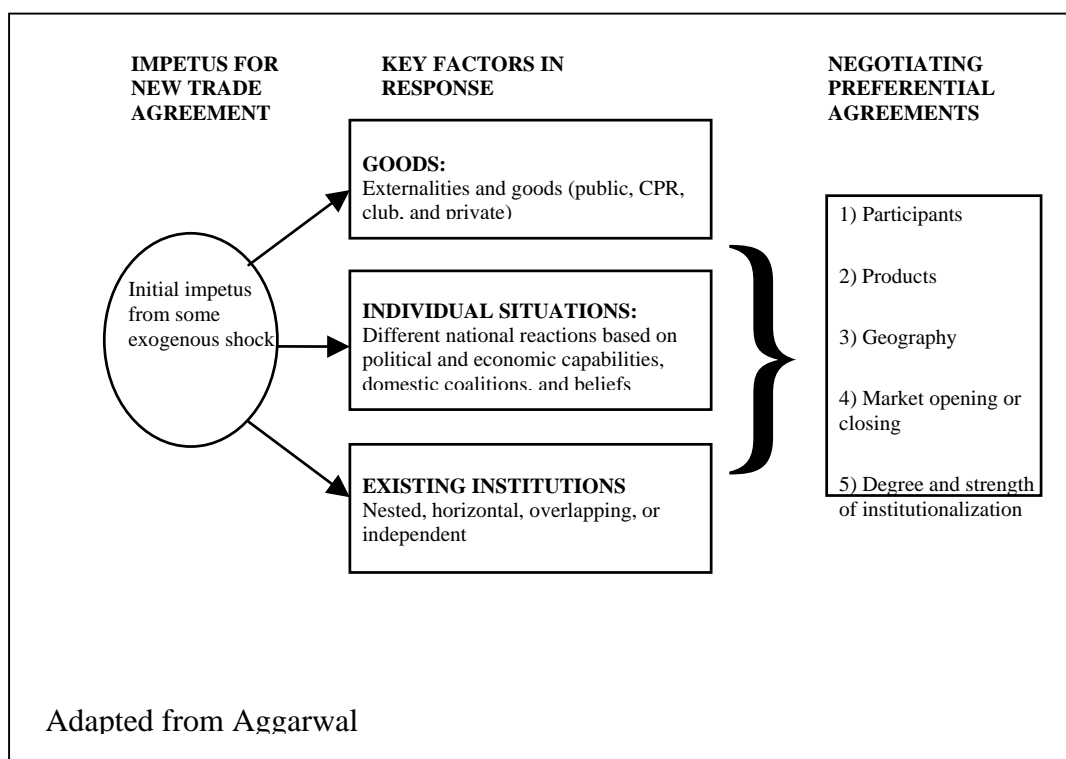
As we have seen, the literature on trade arrangements has grown in recent years in step with the proliferation of such agreements around the world. Although the theoretical approaches add considerably to our understanding of why countries choose to pursue different types of arrangements, the question of how these various causal arguments might be integrated—as opposed to the fashionable one or two variable explanation

approach—remains an open one. On the one hand, focusing on a very limited number of variables allow us to investigate their causal effect. Yet at the same time, these approaches are often too narrow and fail to adequately differentiate among different types of arrangements. On the other hand, multivariable approaches are generally richer, but often become a catchall and do not allow for systematic causal assessment. In an effort to steer a middle path, I build on an institutional bargaining game approach to look at the dynamics of trade liberalization.³¹ While this approach does not provide a precise causal prediction of each type of accord, it provides a more systematic basis for examining both policy choices and connections among types of arrangements and can be used to explore alternative scenarios.

As noted in Figure 1, an institutional bargaining game approach begins by identifying an initial impetus for new trade accords. The process of a shift from an initial institutional equilibrium to a new one generally comes about with some external shock—problems with extant international institutions or a financial crisis, for example—creates pressure for change. Countries respond to such external shocks in various ways based on the “goods” involved in the negotiations, their individual political-economic situation—consisting of their international position, domestic political structure, and beliefs—and the context of the existing institutional environment.

³¹ Aggarwal (1998).

Figure 1: The Origins of Preferential Arrangements



Goods

With respect to goods, an external shock may stimulate or impede the provision of public goods, common pool resources, inclusive club goods, or private goods. There is significant debate, reflecting different economic ideas, about how to characterize trade liberalization. Classical trade theory suggests that international trade liberalization should be seen as a harmony game, where everyone's optimal strategy is to liberalize, independent of what others do. From this perspective, trade liberalization is a public good to the extent that it is non-rival and non-excludable in consumption. Others, such as neoliberal institutionalists, see the game of liberalization as a Prisoner's Dilemma (PD) game, where everyone could be better off if cooperation is achieved, but where the dominant strategy is to defect. In this view, international regimes provide an institutional

basis for fostering cooperation.³² Trade arrangements that have fewer participants reduce the possibility of free riding (by definition) and ensure that gains from trade liberalization are an inclusive club good that accrues only to the participants to the agreement.³³ For example, to prevent free riding with public and CPR goods, institutional strategies might alter the nature of the good.³⁴ An example of this is the decision by major powers to prevent developing countries from free riding via the most-favored-nation (MFN) norm of the GATT. Thus, in the Tokyo Round, only those countries that signed on to specific codes (subsidies, government procurement, etc.) were given the benefits of liberalization entailed by these codes.

Individual Situations

While there are many factors that might affect national preferences, the most significant elements that influence responses to an external shock include: (1) an actor's international position, as defined by its overall power and its specific economic competitiveness in trade and security matters; (2) the makeup of its domestic coalitions, reflecting pressure groups and political regime type; and (3) elite beliefs and ideologies. This three-level analysis can be used to evaluate state preferences in the narrower context of preferences about types of trade arrangements as a means to identify shifting positions over time.

³² Keohane (1984).

³³ On this point, see Gowa (1989).

³⁴ See Snidal (1979) and Aggarwal and Dupont (1999).

Institutional Context

In examining how states respond to shocks by creating new arrangements or modifying existing ones, we can look at the questions of institutional fit with broader institutional arrangements such as the WTO. From a theoretical perspective, we can define four types of connections among institutions: (1) nested links, whereby narrow arrangements conform to broader accords; (2) horizontal connections, whereby arrangements reflect a division of labor without any hierarchy among institutions; (3) overlapping agreements, which may create tension among participants' obligations under each; and (4) independent institutions, which govern distinct fields and thus have little or no interaction in functional terms. If institutions already exist and could potentially overlap with each other, actors contemplating institutional innovation must decide how important it is to reconcile institutions through nested or horizontal connections that promote a division of labor.

If one is developing narrow issue-area or regional-based accords, and the issue's salience is low relative to broader issue-area or regional arrangements, actors will make strong efforts to nest the new institution within the broader one—even if there is no clear substantive connection among issues. We should also expect to see consistent goal ordering, and hence nested institutions, when broader external threats are significant. For example, APEC's founding members were worried about undermining the GATT, and sought to reconcile these two institutions under the rubric of "open regionalism." Participants saw this approach as a better alternative to using Article 24 of the GATT to justify APEC's trade provisions, which seeks to reduce barriers to goods and services amongst themselves in a GATT-consistent manner.

An alternative mode of reconciling institutions would be to simply create “horizontal” institutions that would create an institutional division of labor, as exemplified by the IMF and the World Bank, with the former focusing on short-term balance of payment lending and the latter on longer-term structural development (although in practice, this has not always been the case).

By contrast, “overlapping” arrangements can create conflict because of the potential for task competition. For example, in the case of bilateral FTAs, countries have claimed that these arrangements are nested with GATT/WTO Article 24 and that they are even seen to be WTO enhancing. But as Ravenhill (2005) argues, this claim is dubious, with many sectors being excluded and new names being devised—such as the economic partnership agreement (EPA) between Singapore and Japan. Efforts to create an Asian Monetary Fund (AMF) also reflect the debate over institutional conflict.

Lastly, an example of “independent” institutions is the case of the North Atlantic Treaty Organization (NATO) and APEC. While the U.S. is a member of both, these institutions have different institutional missions, and thus do not create any conflict. It is worth noting that previously independent institutions (such as the International Labor Organization and WTO) may be linked over time and may be seen to be overlapping and potentially create conflict.

Institutional Characteristics

Finally, with respect to outcomes, if countries decide to create a new or modify an existing one, they must decide on its characteristics. As discussed in Table 1, these include the participants, products, geography, market opening or closing, and degree of

institutionalization. Moreover, the institutional design of these arrangements will also affect their institutional fit with existing arrangements.

IV. EAST ASIAN BILATERALISM AND THE DYNAMICS OF APEC AND ASEM³⁵

How will the newfound enthusiasm for bilateralism around the world and in particular in East Asia affect extant broad-based, international institutions such as the WTO, APEC, and ASEM? In this section, I focus on possible institutional paths that East Asia is likely to take by focusing on the latest trend in bilateralism of the Northeast Asian Three countries. This sub-region is particularly important since it is not only at the heart of East Asia's new rush toward bilateralism, but also is the principal locomotive of regional growth. Relying on a two-tiered, bottom-up approach, I first explore various paths that might lead Northeast Asian bilateralism to some type of market-opening Northeast Asian FTA (NEAFTA), and then consider the most likely paths that the interim outcomes might take beyond Northeast Asia as the US and EU interact in the context of APEC and ASEM.

From Bilateral Regionalism to Minilateral Regionalism

To systematically construct simplified scenarios, I assume a certain hierarchical order among the variables in the institutional bargaining game. Drawing on the factors illustrated in Figure 1, I give pride of place to the status of extant broad-based, international institutions as a primary source of *initial impetus* for change. I assume that the status of the WTO and APEC may stimulate or impede the provision of trade

³⁵ This section draws heavily on Aggarwal and Koo (in press).

liberalization as a public good.³⁶ Specifically, I argue that the weakness of each of these institutions will encourage the pursuit of a club good, whereas their strength will discourage incentives for pursuing club goods.

Given the nature (market opening) and geographic coverage (Northeast Asia) of a prospective PTA, individual bargaining situations and institutional context will determine the other elements of bargaining outcomes, namely the number of participants (1, 2, or 3), strength of institutions (for example, the degree to which the agreements are binding and the presence of dispute settlement procedures), and scope of products included. I focus on three variables in order of their presumed significance—the institutional strength of the WTO and APEC, alliances, and economic complementary between countries. We can draw the following causal relationships from our theoretical and empirical observations: the number of participants, strength, and scope of a prospective NEAFTA are a negative function of the strength of the WTO and APEC, and a positive function of alliances—particularly a Sino-Japanese alliance³⁷—and economic complementarity³⁸ (See Figure 2).

³⁶ Strictly speaking, the WTO and APEC are club goods to the extent that it requires membership to benefit from trade liberalization that they materialize. With the former's global membership and the latter's spirit of "open regionalism," their provision of the broadest club good virtually serve as global public goods.

³⁷ It is quite plausible to assume that the current quasi-alliance relationship between Japan and South Korea will persist and is likely to evolve into a full-fledged alliance in the foreseeable future—given their strong bilateral ties with the U.S. and common security threat from North Korea. As such, the question of alliance in Northeast Asia really comes down to whether China and Japan could form an alliance (albeit an uneasy one) through a Franco-German type of rapprochement. South Korea would unlikely choose to remain excluded if a Sino-Japanese alliance came into being. This alliance hypothesis is predicated on the assumption that countries prefer to form PTAs with their allies rather than with their enemies because of the security externalities of trade. As noted in our theory section, the relative gains realized from preferential trade can cause

If both the WTO and APEC are *strong*, there is little *raison d'être* for a NEAFTA. Essentially, all the incentives for securing club goods (even through bilateral agreements) would be gone with the broad-based institutions operating and dominating the institutional space (outcome I in Figure 2).

A combination of a *strong* WTO and a *weak* APEC creates some incentives for pursuing club goods, thereby permitting institutional room for either trilateral or bilateral regionalism in Northeast Asia. If a positive, albeit tentative, alliance-type relationship between China and Japan came into existence (and thus a trilateral alliance including South Korea), a weak but broad NEAFTA might be a possibility (outcome II). The logic here is that the strength of the WTO would dissuade a major focus on club goods. But the weakness of APEC would motivate politically allied Northeast Asian countries to form a NEAFTA—immediately or by merging separate bilaterals—in order to maximize the benefit from the geographic proximity and size of their economies. By contrast, if there is no Sino-Japanese alliance, a NEAFTA would be highly unlikely due to strong relative gains concerns between the two regional rivals. Yet this does not eliminate the possibility of bilateral alliances between Japan and South Korea and, potentially, between China and South Korea. Given the weakness of APEC, bilateral PTAs between these two dyads would remain a viable option, but their strength is likely to be weak in the presence of a *strong* WTO (outcome III).

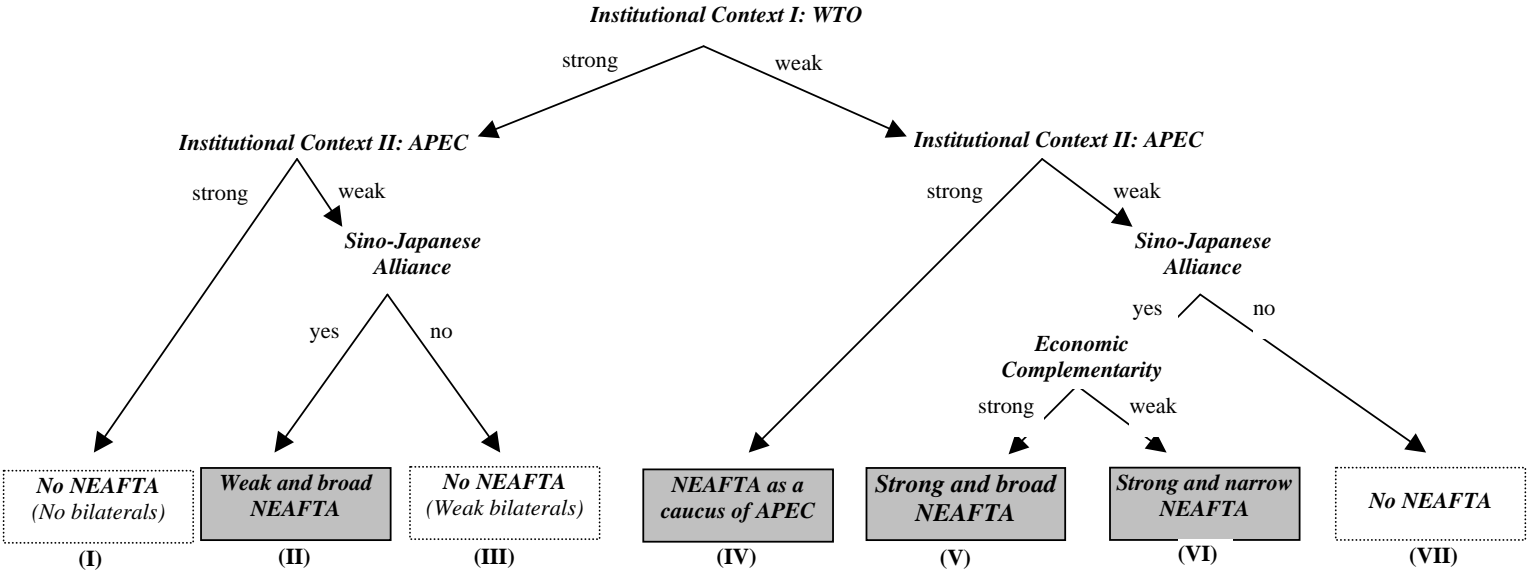
changes in the relative distribution of power, thereby leading countries to avoid entering into PTAs with their enemies.

³⁸ It is worth noting that while economic complementarity is likely to create reduced protectionist pressures, direct competition may actually enhance economic growth and efficiency. Intra-industry trade would fall somewhere in between, with diminished protectionist pressures, but some competitive stimulus.

A combination of a *weak* WTO and a *strong* APEC is likely to result in a very weak NEAFTA. The WTO's weakness would motivate the three countries to pursue trilateral club goods, even without formal alliance arrangements amongst themselves, since a strong APEC would decrease relative gains concerns. In this case, however, a NEAFTA would be reduced to a caucus of the three countries *within* APEC—rather than a separate, strong negotiating body—since APEC operates as a principal locus of trade liberalization (outcome IV).

Finally, if both the WTO and APEC are weak, considerable institutional space and a multiplicity of options are likely to emerge. If China and Japan reach a political alliance (thereby leading to a trilateral alliance in the region), the formation of a *strong* NEAFTA is highly likely. In this case, the scope of a resulting NEAFTA is hinged upon economic complementarity. If economic complementarities exist among the three countries, they will broaden the scope of product coverage (outcome V). If there are weak economic complementarities, we can expect a strong but narrow (or sectoral) NEAFTA (outcome VI). By contrast, if there is no alliance between China and Japan, a NEAFTA is not a possibility (outcome VII).

Figure 2: Paths to Minilateral Regionalism in Northeast Asia



From Minilateral Regionalism to Minilateral Trans- and Inter-regionalism

Using the “institutional map” drawn thus far, I further explore the paths that each of these seven hypothetical outcomes would likely take beyond the geographic horizon of Northeast Asia. We can expand the list of our assumptions to include ideational and strategic variables: (1) an emerging sense of East Asian community may reinforce the formation of East Asian bloc, either open or closed; and (2) if the strategic environment surrounding East Asia is hostile—meaning that the U.S. and the EU both become exclusively inward-looking—the resulting East Asian bloc will be closed in nature; otherwise, a prospective East Asian bloc will remain open and may revitalize both or either one of APEC and ASEM as transregional and/or interregional fora (See Figure 3).

I expect that a combination of *no NEAFTA* and *no bilaterals* (outcome I) will have little impact on broad-based, international institutions, thereby leaving APEC strong as initially assumed, while making ASEM weak or even go defunct, if a strong WTO and a strong APEC take up most of the institutional space available in East Asia (outcome A).

A combination of a strong WTO and a weak APEC will leave ASEAN broad but weak. As shown in the path toward outcome B, a *weak* and *broad* NEAFTA (outcome II) will have little impact on both APEC and ASEM, if it is combined with a weak and broad ASEAN. A combination of *no NEAFTA* and *weak bilaterals* (outcome III) will have the same result, if it is combined with a weak and broad ASEAN (outcome B).

Given the assumption of a strong APEC, a *NEAFTA as a caucus of APEC* (outcome IV) is likely to be combined with a weak and broad ASEAN. Such a nested, albeit weak, status of East Asia’s subregional institutions may consolidate APEC as a transregional institution. The hypothetically weak status of the WTO might allow ASEM

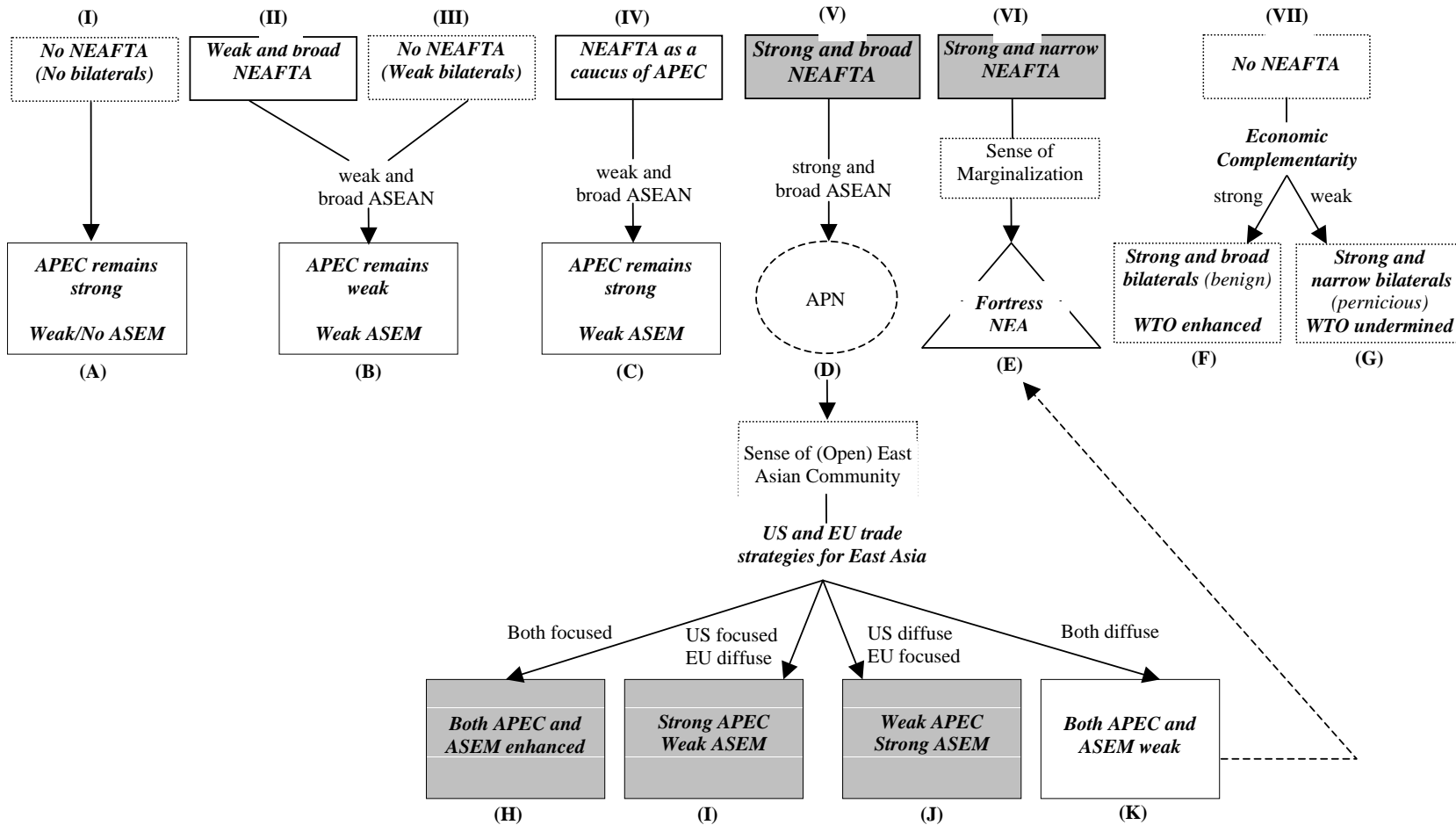
to continue to function within the institutional landscape of East Asia, but its strength and scope is highly likely to be limited (outcome C).

How would a *strong* and *broad* NEAFTA (outcome V) evolve beyond Northeast Asia? This type of NEAFTA is most likely to be combined with a *strong* and *broad* ASEAN, since the WTO and APEC both are assumed to be weak, thereby leaving greater institutional room for ASEAN as a provider of club goods.³⁹ In this scenario, the most likely outcome is an *interregional* arrangement—that is, a bilateral arrangement between two separate PTAs—possibly in the form of an ASEAN Plus NEAFTA (APN) (outcome D). With respect to the likely influence of a prospective APN on either APEC or ASEM, this is one of the most interesting scenarios that call for further exploration, which I turn to at the end of this section.

What about paths from outcome VI? In this case, we could end up with the formation of an exclusive, if not pernicious, “Fortress Asia” commensurate with the oft-voiced fears of a “Fortress Europe” and “Fortress America.” The strategic relationship between Northeast Asia and the rest of the world will be of key significance here. Most importantly, if the U.S. continues its focus on the Free Trade Area of Americas (FTAA) and the EU continues on an eastward and possibly southward expansion path, others may feel excluded. Under these circumstances, the decade-long perception between Northeast and Southeast Asians that Western regional arrangements are forming against them may well rekindle the Mahathir-promoted notion of an exclusive East Asian bloc (outcome E).

³⁹ If ASEAN fails to strengthen despite the need for club goods, a strong and broad NEAFTA may link up with a weak ASEAN to form a *hybrid interregional* arrangement such as an East Asian FTA (EAFTA), which currently manifests itself in the reverse form of APT or EAC where ASEAN is united, but South Korea, Japan, and China are not.

Figure 3: Paths from Minilateral Regionalism to Minilateral Transregionalism/Interregionalism



In outcome VII, although I rule out a trilateral alliance, two separate dyads—Japan-South Korea on the one hand and China-South Korea on the other—are likely to have strong incentives to secure club goods through bilateral arrangements between themselves. In this case, the strength of bilateral arrangements would be heightened due to the weakness of both the WTO and APEC and these bilaterals would operate as the dominant mode of trade liberalization in Northeast Asia. If an individual dyad has strong economic complementarity, it might result in a *strong* and *broad* bilateral arrangement (outcome F). This path can lead to *benign* bilateralism if it catalyzes a competitive dynamic to liberalize among other countries, thereby enhancing the institutional strength of a supposedly weak WTO (Schott 2004). By contrast, if an individual dyad has weak economic complementarity, it might lead to a *strong* but *narrow* bilateral accord (outcome G). In this case, it is plausible that the Northeast Asian countries may be polarized between two camps—China versus Japan—on a sectoral basis, thereby undermining regional integration efforts. Ultimately, a pernicious web of competitive, sectoral bilaterals would likely damage other broad-based, multilateral trading accords, if any (Irwin 1993; Aggarwal and Ravenhill 2001; Bhagwati 2002).

Finally, if an East Asian grouping such as APN is created that proves stable, the growing interconnectedness and the networked nature of interstate economic activities may produce an increasing awareness and sense of community among East Asian countries (Terada 2003; Yue 2004). As APN countries become more confident in their ability to create their own transregional grouping, they might be more willing to extend their institutionalization efforts to the transregional level of APEC, thereby giving it new life. This could also lead to more of an *interregional* rather than a transregional outcome,

with the Australia New Zealand Closer Economic Relations (CER) Agreement, APN, and NAFTA (or FTAA) operating within APEC as three distinct hubs. Similarly, the increasing sense of community within East Asia could facilitate the ASEM forum, leading to pure Asia-Europe interregionalism. Aside from the emerging sense of community among East Asian countries, I maintain that the specific transregional and/or interregional outcome will be determined by the trade strategies of the U.S. and the EU. Among other factors, I note their respective preference for East Asia as a trading partner region. We consider four possible outcomes below accordingly.

First, if both the U.S. and the EU have a strong focus on East Asia, both APEC and ASEM might be enhanced. As noted above, the U.S. may use APEC to leverage trade liberalization in the WTO, specifically in an effort to push the stalemated multilateral negotiations forward. Driven by fear of being marginalized by the U.S. emphasis on East Asia, the EU may be tempted to reinforce its focus on East Asia through ASEM (outcome H). In theory, however, a more likely outcome is that one of the two institutions will become stronger at the expense of the other. The logic behind this prediction is that East Asia may choose to either balance American unilateralism with the EU or to bandwagon the U.S. supremacy based on capabilities and their perceptions of threats. Given their traditional security and economic ties with the U.S., East Asian countries are more likely to join the U.S. camp at the expense of alliance with the EU. Therefore, APEC will be strengthened, while ASEM is weakened.

Second, if the U.S. alone maintains a high degree of focus on East Asia as a trading partner region, APEC as an institutional bridge that links the U.S. (and North and South Americas) to East Asia will be strengthened. By contrast, ASEM as a principal

institutional vehicle between Europe and East Asia will be further undermined, if the EU trade strategy is exclusively focused on Eastern and Southern Europe as well as the Western Hemisphere. In this scenario, the increasingly complex interregional relationships and a deep and broad scope of activities across the Pacific Ocean will be managed within a strengthened APEC (outcome I).

Third, if the EU alone maintains strong focus on East Asia, but the U.S. increasingly turns toward South America and possibly Europe, ASEM will be strengthened whereas APEC will be significantly weakened. ASEM's heretofore putative attempt to enhance a partnership of European and Asian "equals" will be finally materialized as the "counterpart coherence" is made comparably equal on the East Asian side (outcome J).⁴⁰

Fourth and finally, if neither the U.S. nor the EU has a strong trade focus on East Asia, both APEC and ASEM will be undermined (outcome K). It is plausible that the U.S. trade strategy becomes exclusively focused on the Western Hemisphere (e.g. Central American FTA (CAFTA) and/or FTAA) and that the EU continues its focus on an eastward and southward expansion path. This outcome can possibly lead to the Fortress scenario as discussed above (outcome E).

⁴⁰ The logic behind this outcome is that the EU may see interregionalism as an initial piece of an emerging common foreign and security policy that seeks to extend European influence in various strategic regions through a "hub-and-spoke" model with the EU at the center of a series of economic relationships. In most interregional relationships, the EU would be the dominant side, and thus could largely dictate the terms of these institutionalized relationships. To a certain extent, this European strategy could be seen as classic balancing behavior and a response to American pursuit of a similar strategy, particularly through APEC and FTAA (Aggarwal and Fogarty 2004: 12).

V. CONCLUSION AND IMPLICATIONS

In this paper, I have set out to examine how the rise of preferential trade arrangements is likely to play out, particularly with a focus on Northeast Asia. A first step in any analytical effort to understand trade arrangements is to properly “differentiate” the dependent variable. To this end, I have sought to categorize the many forms of trade arrangements on the dimensions of number of actors, product scope of agreements, geography, degree of institutionalization, and orientation in terms of market opening or closing. This scheme allows us to more clearly specify and categorize not only trading accords but also to get a handle on the vast literature produced by political scientists and economists on trading arrangements.

I believe that this approach can help us assess how far we have come in our understanding of the diversity of trading accords and point to lacunae in our understanding of the dynamics of both trade liberalization and protection. In terms of research effort, many of the terms that I have used remain contested. For example, we have seen that the question of how to define “geography” has been debated. Similar issues can be raised about product scope: how many products define a sector? In the economics literature, much has been written about cross-elasticities of demand in defining “markets.” To this point, the question of defining a sector adequately still remains. Similar questions arise with respect to defining levels of institutionalization and the extent to which an accord promotes or dissuades market opening.

With respect to causal arguments about types of agreements, much research has been done on specific accords. The most intriguing line of research, however, concerns the dynamics of trade arrangements. In this vein, Beth and Robert Yarbrough have

attempted to specify a model to predict the likelihood of types of trade liberalization.⁴¹ In this paper, I propose an institutional bargaining game as a way to cut into this question, which focuses on types of goods, the source of national preferences, and institutional context. In particular, I have argued that the difference between club goods and private goods in trade is particularly salient. And in looking at countries' individual situations, I examined how international strategic and economic interests, government type, and beliefs about the value of pursuing trading arrangements beyond multilateralism are likely to impact the formulation and evolution of trading accords.

The paper then explored possible paths to formal economic integration in Northeast Asia. I argued that the strength or weakness of the WTO and APEC opens up or closes institutional space by affecting the provision of public goods and thus the incentives for club goods. If the WTO and APEC weaken further, a NEAFTA could well be a possibility. Yet much depends on the possibility of a Sino-Japanese alliance and economic complementarity between individual countries. I then examined possible development of a NEAFTA into broader transregionalism and interregionalism. As the scenario analysis indicates, a NEAFTA has both benign and pernicious elements, depending on the ideas and beliefs held by regional actors.

The possible contribution of a prospective East Asian bloc to APEC and ASEM primarily depends on the *balance of interests* between the U.S. and the E.U. concerning East Asia as their trading partner region. If the U.S. maintains a strong focus on East Asia, APEC is likely to be enhanced at ASEM's expense. By contrast, if the EU increasingly turns toward East Asia, ASEM might be enhanced at the cost of APEC. If both U.S. and the EU show a diminished interest in East Asia or increasingly are at odds

⁴¹ Yarbrough and Yarbrough (1992).

with it on trade policy, an emerging East Asian bloc would likely follow suit of a Fortress Europe and/or a Fortress America.

In sum, we are literally at a fork in the road of choosing trading arrangements. In view of the tremendous political and economic uncertainty in the global economy, the path to freer trade in Northeast Asia, East Asia, and the world system is likely to be a bumpy one.

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