

Multilateralizing Regionalism: New Evidence and Arguments for APEC agenda

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This article intends to examine emerging new qualities of regionalism and make some assumptions about the future of regionalism in the evolving global trading system.

Contemporary regionalism is actually an important systemic product of the ongoing globalization, which needs continuous process of opening markets regardless of their geographical location. The obvious slowdown of multilateral liberalization and harmonization under WTO made room for further expansion and deepening of regional trade agreements, the latter more and more going beyond WTO disciplines. There are, however, new aspects of RTAs development in the past 3-4 years which push us towards reconsidering the basics of regionalism. Now we see clear trend for globalizing and multilateralizing regionalism that rather successfully overcomes its initial limitations and shortcomings – segmentation and diversion of trade, empirical inconsistency with prevailing economic interest, limited overall benefits etc.

Metamorfozes of Regionalism

Let us make clear the substance of regionalism's most recent metamorfozes.

First, regionalism nowadays should be considered rather in terms of emerging new economic entities on the global landscape than in terms of liberalization based on specific agreements between participants. We believe we have enough arguments to state this. Outpacing growth and sophistication of RTAs enhanced by economic integration agreements (EIA) dealing with major spheres of trade and economic cooperation in a WTO plus and even beyond the WTO manner in practice lead to fundamental changes in the mere phenomenon of regionalism which transforms into prointegrative global force.¹ Existing EIAs-containing RTAs provide more or less sufficient institutional foundation for creation and functioning of common economic areas (CEA) between participating countries based on extensive liberalization and consistent steps towards harmonized regulatory environment. And that is the point.

Of course, CEAs differ very much from sovereign economies but in terms of global trading system the former and the latter might be taken as very much alike. CEAs and sovereign economies both serve as venues for business activity, production networks, create inner and globally-oriented trade and investment flows. Accepting the above thesis we also should accept that gravitation increases in the world economy due to national economy extensions in the form of CEAs and potential decrease in the distance for commerce since CEAs being used by participating countries as platforms for expansion onto third countries' markets. In this case

¹ By August 2011 there were 85 notified to WTO deep RTAs (enhanced by economic integration agreements) in force, providing for over 40% of all physical RTAs. In the period 2008 – August 2011 over 60% of all RTAs that entered into force were of FTA&EIA type (WTO Regional Trade Agreements Database).

CEAs appear as building blocks of the new prointegrative framework with the capacity of promoting global free trade and sophisticated global governance.²

Second, regionalism more and more departs from its initial regional nature in favour of commercially attractive remoted markets. In the period from 2008 to August 2011 of the overall number of RTAs that entered into force roughly 55% could be classified as cross-regional, intercontinental RTAs.³ This trend nothing but adequately reflects realities of globalization where economic interests are highly diversified and dispersed in space. For growing number of countries nowadays regionalism serves primarily as a tool to globalize and not to increase their engagement in regional blocks.

Third, more and more RTAs are initially constructed and developing as plurilateral – joining several countries, engaging trade blocks and between trade blocks: roughly 40% over 2008 – August 2011 and even more on the WTO early announcements list. The major part of such RTAs are distinct cross-regional RTAs. There are at least three important things about these RTAs in the context of this article:

- plurilateral RTAs have become possible due to former extensive experience acquired by participants through bilateral RTAs and within trade blocks;
- plurilateral RTAs having to balance a wide range of interests and take into account various models of similar agreements already used by participants have nothing to do but to appeal to WTO disciplines and standards further elaborating on the mutually agreed multilateral basis (of course this happens not all the times but the nature of plurilateral agreements demands more coherence with WTO rules than generally in the case of bilateral agreements);
- plurilateral RTAs due to expertise contained and incorporating a large portion of compromise are much better suited to interact with WTO and serve as building blocks of the new global prointegrative framework.

At the moment most notable example of plurilateral RTAs is Trans-Pacific Partnership (TPP) which started on May 28, 2006 and now combines 9 largely different economies from three continents including U.S., Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam. TPP is projected as FTA&EIA going well beyond WTO, and its members have set a goal of reaching the outlines of the agreement by the APEC Leaders' meeting in Honolulu in November 2011. TPP is not alone in this row as we have Dominican Republic – Central America – United States FTA&EIA (entry into force – March 1, 2006), ASEAN – Australia – New Zealand FTA&EIA (January 1, 2010), Canada – El Salvador – Guatemala – Honduras – Nicaragua agreement (under negotiation) and some other.

In the CIS area countries are finalizing negotiations on the new plurilateral free trade agreement to replace dozens of outdated and lacking compliance with WTO rules bilateral FTAs. CIS-scale FTA where four participants are already WTO members is open for third countries participation and planned to be signed by the end of 2011. Some experts view CIS FTA project as a cornerstone of the future Eurasian economic area encompassing post-soviet republics and European countries on the principles of free trade and compatible regulatory systems.⁴

² In this point we basically share views of Richard E. Baldwin expressed in CEPR Discussion Paper №5775 “Multilateralizing Regionalism: Spaghetti Bowls as Building Blocks on the Path to Global Free Trade” (August, 2006).

³ Here and further on facts and statistics are derived from WTO Regional Trade Agreements Database (<http://rtais.wto.org>)

⁴ Kulic S.A., A.N. Spartak, I.Y. Yurgens, 2010. Russia's Economic Interests and Tasks in the CIS. – Moscow, publication of the Institute of Contemporary Development. Tchernyshev S.V., 2010. Integration perspective of the CIS: realized necessity // Russian Foreign Economic Bulletin, №6, 2010. – Moscow, publication of the Russian Academy of Foreign Trade.

Another important trend refers to growing trade policy activity of trade blocks (even leaving aside EU initiatives) involving into liberalization and harmonization process bigger groups of countries that have already acquired worthwhile relevant experience within their blocks.

Among some of the latest examples of such RTAs are EFTA-SACU FTA (entry into force – May 1, 2008), EC – CARIFORUM States EPA FTA&EIA (November 1, 2008), MERCOSUR – India PSA (June 1, 2009), ASEAN – Republic of Korea FTA&EIA and ASEAN – India FTA (January 1, 2010), EFTA – Gulf Cooperation Council (GCC) FTA&EIA (signed on June 22, 2009). More of such RTA's are under negotiation (early announcements made to WTO) including those between Australia and GCC, Canada and CARICOM, EFTA and Russian Federation, Belarus, Kazakhstan (CIS Customs union), India and SACU, Japan and GCC.

Recent papers and reports provide more evidence and suggestions regarding evolution and metamorphoses of regionalism, ways and means to match with multilateral approaches, promoted by WTO.⁵ Broadly the question is how multilateral global institutions should react to new developments and qualities of RTAs, what actions and measures should be taken on their part, and not vice versa.

Major findings of the recent WTO Report on PTAs

The latest WTO World Trade Report, released on July 20, 2011 contains some very important findings for our analysis.

Firstly, Report widely uses quite new term “deep preferential trade agreements” and indicates that these agreements rapidly increase in number and include a wide range of issues beyond tariffs, such as services, investment, intellectual property protection, competition policy (i.e. cover policy areas that involve domestic regulations – behind-the-border measures). Analysis in the Report also confirms that growing number of PTAs go well beyond the WTO and frequently entail legally enforceable commitments (in this case common economic area qualification is well attributable). Deep PTAs is actually the first analytical category used to characterize prointegrative development of the whole system of regional trade agreements representing the mainstream of regionalism. Before that WTO mostly considered RTAs in technical trade policy terms – partial scope agreements, free trade agreements, economic integration agreements, customs unions.

Secondly, the authors of the Report argue that cutting tariffs while non-preferential (MFN) duties are low is not the first level priority in deep PTAs which focus on the regulatory environment. Moreover, PTAs often leave behind issues of tariff liberalization concentrating on regulatory measures. Thus most “sensitive” sectors remain “sensitive” in PTAs: approximately 66% of tariff lines (products defined by their customs codes) with MFN rates above 15% have not been reduced in PTAs.

Thirdly, Report outlines the reasons for deeper integration, i.e. growth of global production networks which require a governance structure beyond low tariffs. According to the Report, signing deep integration PTAs increases trade in production networks by almost 8% on average. We should add here that being motivated by international production chains PTAs had no chances to remain purely regional and were forced to go global (cross-regional). Another explanation lays in the fact that harmonization efforts (especially as regards standards and

⁵ Baldwin, Richard E. and Thornton, Philip. Multilateralizing Regionalism: Ideas for a WTO Action Plan on Regionalism. – Centre for Economic Policy Research, 2008. Multilateralizing Regionalism: Challenges for the Global Trading System (ed. by Richard E. Baldwin and Patrick Low). – Graduate Institute of International and Development Studies, WTO, Geneva, February 2009. Regional Rules in the Global Trading System (ed. by Antoni Esteveordal, Kati Suominen, Robert Teh). – Inter-American Development Bank, WTO, June 2009. World Trade Report 2011 / The WTO and preferential trade agreements: From co-existence to coherence. – WTO, July 2011.

technical regulation) may be necessary to fully develop economies of scale. An important overall conclusion of the Report is that political economy of new PTAs is different from that of preferential tariffs.

Fourthly, the authors of the Report stress that deep PTAs can benefit other countries rather than discriminating against them. In fact changes to domestic regulations are difficult to tailor so that they favour only selected trade partners: “By their very nature, some deep integration provisions are de facto extended to non-members because they are embedded in broader regulatory frameworks that apply to all trading partners. In such cases, multilateral regulation may not be necessary. PTAs may also directly refer to WTO rules on deep integration measures, automatically supporting the multilateral trading system”.⁶ The bigger behind-the-border regulatory component we will find in existing and projected PTAs the more chances that these PTAs will develop and implement common regulation to the advantage of third countries as well.

WTO Report proclaims coherence principle against co-existence which could be attributed to former WTO – PTAs relations. In line with increasing coherence between PTAs and the multilateral trading system the Report identifies following options:

- fixing deficiencies in the WTO legal framework,
- adopting a more nuanced and non-litigious approach to considering PTAs in the context of the WTO’s transparency and information exchange work – trying instead to understand better how countries’ interests in PTAs might also be multilaterally based,
- accelerating a multilateral non-preferential (“MFN – driven”) agenda on trade opening and regulation,
- multilateralizing regionalism, i.e. extending existing preferential arrangements in a non-discriminatory manner to additional parties.

New approach towards systemic issue of WTO – PTAs relations is expressed by the WTO Director-General Pascal Lamy in his foreword to the Report: “I believe that to the extent that PTAs are motivated by a desire for deeper integration rather than market segmentation, there could be a role for the WTO to promote greater coherence among non-competing but divergent regulatory regimes that in practice cause geographical fragmentation or raise trade costs. There is no doubt that we need to build towards a more stable and healthier trading environment, where alternative trade policy approaches are mutually supportive and balance equitably the needs of all nations.”

One can witness changing trade policy content of deep PTAs which are less about exemptions from WTO rules and much more about WTO+ (deeper integration in areas covered by the WTO) and WTO-X (action in policy areas not covered in WTO agreements) measures. In that sense deep PTAs in many ways in practice support development of international trading system achieving progress in areas where multilateral ground at the moment can not be effectively used for consensus building.

The WTO Report, however, points out at some difficulties and limitations preventing from too optimistic perception of deep PTAs as “new international trade rules are being developed outside the WTO, with attendant risks of exclusion and additional trade costs arising from overlapping and possibly competing regulatory structures”.⁷ There is also a potential danger that PTAs may lock-in their members to a particular regulatory regime reducing the potential for trade expansion with non-participating countries.

⁶ World Trade Report 2011 / The WTO and the preferential trade agreements. From co-existence to coherence. – WTO, July 2011, p.14.

⁷ Op. cit., p.15.

Is the risk of trade distortion in case of deep PTAs bigger than the risk associated with spaghetti bowls comprised of shallow-type agreements that mostly deal with border measures? We believe not, because diversity of trade regimes under shallow agreements focusing on tariffs is much higher than differences occurring between regulatory structures of deep RTAs. The motive of new PTAs is most generally efficiency-enhancing, where the best way to achieve that is to implement best regulatory practices which tend to become universal in the global economy, versus beggar-thy-neighbor (trade-diverting) essence of many shallow-type agreements – very much individualistic and specific.

“Families” of PTAs and reformatting of the international trading system

At this point we should admit the appearance and growing significance of the so-called “families” of PTAs where each family adopts its own agreement model and a particular approach to some of the key policy areas. These families of PTAs tend to acquire more importance in shaping global economic and trade policy landscape than separated shallow PTAs and even trade blocks. Through family-structured PTAs landscape standard (with very limited deviations) policy approaches are applied in dozens of bilateral and plurilateral agreements.

At the moment there are obviously two main families of deep PTAs – U.S. driven and EU driven. U.S. driven PTAs are mostly found in the Americas and Eastern Asia (now a concentrated integrative effort is undertaken under the TPP flagship) while EU driven PTAs cover Europe, Middle East, Northern Africa and ACP countries. U.S. driven PTAs seem to be more for market opening, common standards and regulations in key spheres, competition driven, where as EU driven PTAs (notably association-type agreements) are somewhat paternalistic, fixing common perspective and containing road map with appropriate sectoral measures.

BRICS countries as well as other major economies have not yet succeeded in building their own PTAs families (EFTA, which has been very active lately in establishing new PTAs, serves as a valuable extension of single Europe trade policy). Some of them, i.a. Brazil, Russia and South Africa, have been rather successful in constructing regional trade blocks, accordingly MERCOSUR, CIS Customs union and SACU. However, only Russia together with its partners in the Customs union (Belarus and Kazakhstan) has been able to expand via CIS-scale multilateral FTA with the perspective of building CIS common economic area. Nevertheless, U.S. driven and EU driven PTAs have obvious leadership and the time for any other families to appear is running out.

We seem to be present at the beginning of essential reformatting of the global trade policy configuration with the U.S. and EU playing major role in this process. Two families of PTAs are making strong attempts to expand, and also at the expense of the weaker players (here “at the expense” means only reconfiguration of PTAs landscape and not necessarily economic losses). This is not yet a contradiction but a challenge to existing “non-aligned” PTAs and trade blocks.

U.S. led TPP has many and will have even more crossings of interests with other structures in Asia and the Pacific region, including ASEAN. U.S. driven family of PTAs exerts strong pressure on various regional structures in Latin America by promoting FTA of the Americas. European Union through expanding its family of PTAs leaves very little room for other preferential undertakings in bigger Europe region. Its Eastern Partnership initiative for the CIS, talks on association agreements with a number of CIS countries and FTA negotiations with Ukraine sensitively hinder integration projects on post-soviet space. Moreover, expanding U.S. and EU families of PTAs have good chances to overlap in certain regions, and that can raise issues yet unknown. A good portion of uncertainty remains regarding future positioning of BRICS countries in the evolving trade policy configuration. Will they play their own independent role or join one of the families (at least some of the BRICS countries already started

trade policy dialogue with the EU)? What will happen when megablocks – such as TPP, projected FTA of the Americas and Eurasian economic area with eventual CIS, EU and EFTA participation – become operational?

WTO – PTAs relations: coherence plus cooperative cohabitation

These and many other issues arise in the context of undergoing deep changes in the international trading system especially regarding trade policy pattern. PTAs nature becomes more sophisticated and more about common regulation, more structured and in this capacity PTAs are now better prepared for closer cooperation with WTO. From co-existence to coherence thesis, proclaimed in the WTO Report cited above, seems to have insufficient practical outcome, since coherence does not necessarily mean interaction, but that is exactly interaction – cooperative cohabitation – what is needed at the moment. Deep PTAs and their families (if they have institutional basis) should be somehow integrated into the framework of WTO. Monitoring PTAs progress from aside (as in the case of WTO Committee on Regional Trade Agreements) is by far not enough under present circumstances. Institutionalized PTAs should have sufficient opportunities, appropriate rights and obligations in the process of working out new generation regulatory rules and instruments. The issue of compatibility of the new generation multilateral rules and regulatory structures of deep PTAs becomes very important. As well as the issue of developing ground for elaboration of common approaches across different PTAs and their boarder families.

Finalizing all said, APEC should take into account these developments and build a platform for interaction of regional PTAs trying to find rational solutions for the APEC region and prevent possible difficulties for wider trade and economic cooperation that deep PTAs can give rise due to regulatory divergence. If APEC countries manage to build a balanced, cooperative and prointegrative regional framework with deep PTAs as its integral part then it could serve as a practical tool for promoting coherence and interaction of multilateral, plurilateral and bilateral trade and other regulatory regimes on global scale.

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