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. 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 completing negotiations.
uary 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 multi-product 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 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 East Asia, and these might link up to Europe and the United States through ASEM and APEC, respectively. I conclude 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 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 (multi-product) 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). Firth 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

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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).

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.
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.

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.\(^5\)

### 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.\(^6\) Although some sectoral opening took place in the 20th 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."\(^7\) 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.\(^8\) 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.

\(^5\) Adapted from Aggarwal (2001).
\(^6\) On this issue, see Frankel (1997) and Ravenhill (in press).
\(^7\) 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 country without an agreement. As with "Voluntary Export Restraints" (VERs), the unilateral vs. bilateral aspect is often muddied by coercive actions.

Bayard and Elliot (1994).
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 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. The best example of this kind is the U.S.-Canada Automotive Products Trade Agreement of 1965. Prior to the 1988 Canada-US Free Trade Agreement (CUSFTA), the Auto Pact was the only major success in the longstanding effort to liberalize bilateral trade between the U.S. and Canada. For almost 40 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.

Sectoral Bilateral Trans-Regionalism

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. 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”. 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 streamlining of testing and approval procedures through the creation of mutual recognition agreements in several sectors.

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 was 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 multi-product 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. After the ECSC evolved into the European Economic Community, the issue of sector-specific accords became moot.

Sectoral Minilateral Trans-Regionalism

Cell 5 provides an example of geographically dispersed sectoral trans-regionalism. 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 other sectors. The United States promoted this nine-sector liberalization package to discourage countries from picking and choosing sectors based on domestic concerns. This strategy initially appeared viable but quickly ran into problems.

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10 See Milner and Yoffie (1989), among others.
12 Fuss and Waverman (1986).
13 See for example, Bhagwati (1987) and Nagoka (1997) on VIEs.
15 For a discussion of the context of these agreements, see Fogarty (2004).
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 tensions 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.  

**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 such an 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.

Yet open sectoralism can be politically and economically hazardous. From a political perspective, sectoral market opening is likely to reduce political support for multilateral, multi-sector 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, multi-product 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.

**Multi-Product Unilateralism**

We turn next to broader multi-product liberalization. Cell 7 focuses on unilateralism, the most significant example being 19th century Britain. Unilateral liberalization was feasible for Britain thanks to its industrial strength, its limited investment in transactions-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 manufactured goods. 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 15 specific areas by 2010 for developed economies and 2020 for developing economies, also fall in this category. Yet multi-product unilateralism appears to be the excep-

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17 Aggarwal 2001a. See also Krauss (2001). A good example of a protectionist oriented sector specific unilateral approach is the Lancashire Pact in cotton textiles and apparel, negotiated among the U.K., Hong Kong, India, and Pakistan.
18 Tyson (2000).
19 For this argument, see Aggarwal (2001b) and Aggarwal and Ravenhill (2001).
tion rather than the norm in terms of its frequency.

**Multi-Product Bilateral Regionalism**

Bilateral arrangements of both a regional and trans-regional 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 the 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.²³ 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 will improve welfare gains, the formation of unnatural trade blocs between distant and/or small economies have marginal welfare effects, if any.²²

**Multi-Product Bilateral Trans-Regionalism**

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.²⁴

21 On liberalization more generally, see Oye (1992). For the Asia-Pacific, see Dent (2003) and Aggarwal and Ureta (in press).
22 Krugman (1991); Deardorff (1997); Frankel, Stein and Wei (1996).
23 Ravenhill (in press).
24 Koo (in press).
25 On economics 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.

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

**Multi-Product 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 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. 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.

Multi-Product Minilateral Inter-Regionalism

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 the purposes of developing causal accounts of these arrangements. Indeed, authors have addressed multi-product inter-regionalism with reference to APEC and ASEAN, as well as in embryonic literature that focuses on EU-Mercosur and other such EU-centered developments, and the causal factors raised are often quite different from those driving regionalism.

The term “inter-regionalism” 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,27 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 inter-regionalism” (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 “trans-regionalism” (e.g., APEC). From the vantage point of explaining why the EU, for example, might choose to pursue interregional agree-

29 Aggarwal and Fogarty (2004).
### Table 2: Varieties of U.S. Trade Governance Measures

<table>
<thead>
<tr>
<th>Geographically Concentrated</th>
<th>Geographically Dispersed</th>
<th>Geographically Concentrated</th>
<th>Geographically Dispersed</th>
</tr>
</thead>
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<tr>
<td>(1) U.S.-Panama FTA (initiated 2004) (c)</td>
<td>(2) U.S.-Israel FTA (effective 1985) (c)</td>
<td>(3) FTAA (initiated 1994) (n)</td>
<td>(4) U.S.-DR-CAFIA (signed 2004; awaiting congressional approval)</td>
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<td>U.S.-Jordan FTA (effective 2001) (c)</td>
<td>NAFTA (signed 1992; effective 1994) (c)</td>
<td>Enterprise for ASEAN Initiative (initiated 2002) (c)</td>
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<td>U.S.-Singapore FTA (effective 2004) (c)</td>
<td>CUSFTA (signed 1988; effective 1992) (c)</td>
<td>Global Commerce Initiative for ASEAN (initiated 2002) (c)</td>
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<td>U.S.-Chile FTA (effective 2004) (c)</td>
<td>APEC’s IAPs (Concluded Apr 2005) (c)</td>
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<td>U.S.-SACUFTA (initiated 2003) (c)</td>
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<td>U.S.-Bahrain FTA (signed 2004; awaiting congressional approval)</td>
<td>U.S.-MEFTA (deadline 2013) (c)</td>
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<td>U.S.-Thailand FTA (initiated 2004) (c)</td>
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<td>U.S.-Indonesia FTA (initiated 2005) (c)</td>
<td>U.S.-Taiwan FTA (s)</td>
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<td>U.S.-India FTA (s)</td>
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<td>(c)-Concluded, (n)-Under Negotiation, (s)-Study Phase/Under discussion</td>
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</table>

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/Region-

### Table 3: Varieties of Trade Governance Measures in Asia

<table>
<thead>
<tr>
<th>Number of Actors</th>
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<td>(1) Various trade liberalization measures taken by Singapore and Hong Kong</td>
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<td>Singapore-New Zealnd FTA (Signed Nov 2003) (c)</td>
<td>ASEAN (1967) (c)</td>
<td>APSC (1998) (c)</td>
<td>CATT/WTO (1947/1995) (c)</td>
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<td>Singapore-Japan FTA (Signed Jan 2002; Effective Nov 2002) (c)</td>
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<td>EACEA (1994) (c)</td>
<td>ASEAN-China FTA (Signed Dec 2004) (c)</td>
<td>ITA (1997)</td>
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<td>Singapore-IEFTA FTA (Signed Dec 2003; Effective July 2003) (c)</td>
<td>ASEAN-Japan CEPA (2005) (c)</td>
<td>ASEM (1996) (c)</td>
<td>ASEAN-Korea/Initiated 2005) (c)</td>
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Building a Northeast Asian Community

Trade Liberalization Measures

Understanding the WTO
### Table 4: Varieties of Trade Governance Measures in Europe

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<tr>
<td>Singapore-Sri Lanka (CEPA) (s)</td>
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<tr>
<td>Indonesia-Australia-New Zealand (s)</td>
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<tr>
<td>Malaysia-Australia (s)</td>
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<td>Malaysia-India (s)</td>
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<td>Malaysia-Korea (s)</td>
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<td>Malaysia-US (s)</td>
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<tr>
<td>Brunei-US (s)</td>
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</tbody>
</table>

(c)-Concluded
(n)-Under Negotiation
(s)-Study Phase
US, East Asian and EU Agreements

We can now examine and 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 multi-product arrangements. As we can see from Table 2-4, while the EU and the U.S. 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.

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.

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31 Aggarwal (1998).

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<Figure 1> The Origins of Preferential Arrangements

<table>
<thead>
<tr>
<th>IMPETUS FOR NEW TRADE AGREEMENT</th>
<th>KEY FACTORS IN RESPONSE</th>
<th>NEGOTIATING PREFERENTIAL AGREEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial impetus from some exogenous shock</td>
<td>GOODS: Externalities and goods (public, CPR, club. and private)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>INDIVIDUAL SITUATIONS: Different national reactions based on political and economic capabilities, domestic coalitions, and beliefs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>EXISTING INSTITUTIONS: Nested, horizontal, overlapping, or independent</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1) Participants</td>
<td></td>
</tr>
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<td></td>
<td>2) Products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3) Geography</td>
<td></td>
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<td></td>
<td>4) Market opening or closing</td>
<td></td>
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<td></td>
<td>5) Degree and strength of institutionalization</td>
<td></td>
</tr>
</tbody>
</table>

Adapted from Aggarwal

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.

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. Classi-
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 among 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 (AMP) 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 ASEM

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 ASRM? In this section.

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

I focus on possible institutional paths that East Asia is likely to take by focusing on the latest trend in bilateralism of the three Northeast Asian 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 U.S. 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 liberalization as a public good. 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 FTA, 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 pre-

| 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. |
sumed 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 alliance — and economic complementarity (See Figure 2).

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 dis-suade 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).

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 among 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

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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 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.
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 3: Paths from Minilateral Regionalism to Minilateral Trans-Regionalism/Interregionalism

APEC and ASEAN, 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 sub-regional institutions may consolidate APEC as a trans-regional institution. The hypothetically weak status of the WTO might allow ASEAN 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 NEFTA (outcome V) evolve beyond Northeast Asia? This type of NEFTA 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 NEFTA (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 often 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).

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 bilateral relationships 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 bilateralards 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 (Terauds 2003; Yue 2004). As APN countries become more confident in their ability to create their own trans-regional grouping, they might be more willing to extend their institutionalization efforts to the trans-regional level of APEC, thereby giving it new life. This could also lead to more of an interregional rather than a trans-regional 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 inter-regionalism. Aside from the emerging sense of community among East Asian countries, I maintain that the specific trans-regional 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.

39 If ASEAN fails to strengthen despite the need for club goods, a strong and broad NEFTA 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.
may use APEC to leverage trade liberalization in the WTO, specifically in an effort to push the stalled 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 an 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 America) 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).

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 it 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

\(^{40}\) The logic behind this outcome is that the EU may see inter-regionalism 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
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 NEFTA 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 NEFTA into broader trans-regionalism and inter-regionalism. As the scenario analysis indicates, a NEFTA 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

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