Discussion: Regional Agreements - A 2012 Stocktaking (Whalley, 2012)

Jason Grant a

3rd Annual Agricultural Policy Conference
Growing Canada’s Agricultural Economy: The Role of Trade

a Assistant Professor, Dept. of Ag. & Applied Economics,
Virginia Tech, Blacksburg, VA 24061, Email: jhgrant@vt.edu
Key Point #1

- Historical recount of regionalism reflecting wide range of objectives
  - Faster and more aggressive liberalization
  - Service and financial sector lib. (Singapore RTAs)
  - Investment/FDI
  - NTMs
  - Migration/Labor
  - Behind the border policies (domestic)
  - **Addition:** RTAs offer countries more bargaining power in multilateral arena than any single country acting independently (Baldwin and Thorton, 2008)
### Proliferating Regionalism

<table>
<thead>
<tr>
<th>Year</th>
<th>CU</th>
<th>FTA</th>
<th>PSA</th>
<th>Total</th>
<th>Bilaterals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>12</td>
<td>29</td>
<td>9</td>
<td>50</td>
<td>15</td>
</tr>
<tr>
<td>2010</td>
<td>21</td>
<td>170</td>
<td>15</td>
<td>206</td>
<td>105</td>
</tr>
</tbody>
</table>

Increase: 1.75~6 1.67 7

Source: WTO Secretariat

As of November 25, 2012
Key Point #2

• No choice between RTAs and WTO – they are “inevitable twins”
  – RTAs often (although not always) address what the WTO cannot or does not do well

• Cautionary note:
  – Regionalism is not a substitute for multilateralism because the former discriminates and the latter does not. However, to the extent that MFN tariffs are low or zero, the distortionary effects of RTAs is less concerning.

• Cautionary note:
  – Regionalism and multilateralism can co-exist but former clearly has upper-hand so not clear the two can continue in tandem (Is there any multilateral incentive left?)

• Cautionary note:
  – Krueger (1999): RTAs can never be “Pareto superior” to WTO because of the “tangled web” of Rules of Origin
Key Point #3

• The GATT itself is a regional agreement whose hub lies with a few key countries (U.S., EU, Japan)
  – Single undertaking principle “Nothing is agreed until everything is agreed” ([www.wto.org](http://www.wto.org)) but history has shown us that U.S./EU have to be on board

• Cautionary Note: “Bagwell/Staiger Dilemmas”:
  1. “What you get is what you give” → how can we complete DDA and future rounds if rich countries have no concessions left to give? (Developed country reset?)
  2. “Latecomers Problem” happened in previous rounds but not on the scale we see today
  3. “Globalization Fatigue” → have we run out of momentum or content with the current level of openness?
Key Point # 4

• What is the impact of RTAs (especially for agriculture and Canada’s Ag. economy?)

• 2012 Stocktaking compares RTA growth rates 5 years before and 4 years after
  – No real pattern emerges which casts doubt on the effectiveness of RTAs
  – Some accelerated RTA trade growth; some decelerated

• Cautionary Note:
  – 4 year post-RTA period often includes 2009 (Great trade collapse)
  – 5 year prior-RTA period often includes 2001 (recession)
  – Not always about the growth rate – RTA trade could be decelerating but the intensity of intra-regional trade rising (even without accessions)
  – Trade often back loaded to later years for agriculture as the transitional period of trade lib. is completed (Grant and Lambert 2008)
Clearer Patterns Do Exist...

- Grant (2012)
  - > 150 countries
  - 40 years of agricultural trade data (bilateral)
  - A “high powered” econometric specification
  - Unique mapping of RTAs into depths of economic integration:

<table>
<thead>
<tr>
<th>Type</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEEP</td>
<td>~ doubles members’ trade (120%)</td>
</tr>
<tr>
<td>MODERATE</td>
<td>30% (but often insignificant)</td>
</tr>
<tr>
<td>SHALLOW</td>
<td>No effect (always insignificant)</td>
</tr>
</tbody>
</table>
Why are > 90% of RTAs largely inconsequential in terms of their Ag. trade impacts?

One Answer: Ag. trade liberalization inside RTAs appears to be quite limited
Non-Agricultural Products, End of Liberalization

Source: WTO Secretariat. (WTO Staff, Working Paper, ERS 2012-20)
Ag. RTA Liberalization

Agricultural products, end of liberalization

Thank You for the Opportunity to be a Discussant at the Canadian Agricultural Policy Conference

Citations if you’re interested...


If counting RTAs is meaningful, then Canada’s regionalism lags Asia and Europe