Regional Agreements:
A 2012 Stocktaking

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1. The Brief Given to the Author

- Broadly review the state of regional agreements in terms of role/ position in the trading system, impacts on trade flows as of 2012 and 4 years on from the 2008 Financial Crisis.
- Regional agreements to cover a range of related bilateral and regional agreements; regional trade agreements, economic cooperation agreements, bilateral investment treaties (BITs).
- Characterize activity on the regional agreements front since the financial crisis, and more specifically assess the contribution of regional agreements in maintaining trade openness.
- Intertwine commentary on agriculture in the regional agreements discussion. Special issues/different experience from non-agricultural trade.
- Comment on Canadian dimensions of regional agreements; including CUSTA/NAFTA, Canada-EU, trade with Asia (China).

2. Regionalism/Regional Agreements Before 2008

- Arguments For/Against Regional Agreements
- Impacts of regional agreements on country welfare ambiguous due to both trade creation and trade diversion effects (Viner).
- Regional trade agreements undesirable due to distortionary impacts among country suppliers (Bhagwati: spaghetti bowl of regionalism).
- Regional agreements good since they represent new liberalization in the presence of blocked or difficult multilateral liberalization (Many authors).
- All "isms" are good if they reduce barriers (Summers).
- Regional agreements can provide more security of access through disciplines on contingent protection beyond those agreed multilaterally by all (MacDonald Commission).

2. Regionalism/Regional Agreements Before 2008 - Continued

- Regional agreements for small countries with large fractions of trade with large trading partners can provide opportunities to exploit scale economies through improved access to a larger market (Wonnacott/ Harris).
- Regional agreements for smaller countries with larger countries are difficult/impossible to enforce. They have the potential cost of adjustment into the lowered foreign barrier followed by threats of termination unless new concessions are made (McLaren).
- Regional agreements simply co-exist with multilateral disciplines and interact in a variety of negotiating and operational dimensions. There is no choice between regionalism and multilateralism. They are inevitable twins. (Several authors).
- GATT/WTO itself can be seen as form of regional grouping among big players (EU, US, Japan) to which smaller countries with trade largely with one (Canada with US, other Europe with EU) are appended with MFN to allow for mutual access to smaller markets for large countries.

3. History/Background to Regional Agreements

- 19th Century Extensive network in Europe
- 1854-1867 Canada born (in part) from termination by US of Elgin-Marcy Treaty
- 1930's US bilateral agreements with MFN as recovery vehicle for trade
- 1947 GATT negotiated and becomes post war global trade policy constitution. Allows RTA's under Art 24 (test of broadly all trade covered, plus no new barriers to 3rd parties). Also special treatment for agriculture under Art 11 (quotas) and Art 16 (export subsidies)
- early 1950's Extension of special treatment for agriculture (under US open ended waiver, Swiss Protocol of Accession to GATT)
- 1957 Treaty of Rome -EU- Common Agricultural Policy-GATT working party does not rule Treaty violates GATT Art 24
- 1960's/70's Regional Agreements among developing countries (many fail; East African Common Market)

3. History/Background to Regional Agreements - Continued

- 1985/87 Negotiation of US-Canada Agreement. US goes regional with largest trading partner. Canada offers prior regional disciplines (eg. Services) to be used a precedent for multilateral negotiation in Uruguay Round
- 1991 NAFTA negotiated as Mexico seeks regional agreement with US, and many other countries seek entry to NAFTA (Costa Rica, Venezuela, S. Korea, and others)
- 1991 Mercosur (Brazil, Argentina, Uruguay, Paraguay initially) negotiated as countries seek (in part) collective bargaining power in an eventual NAFTA negotiation
- 1995-2008 Rapid acceleration in number and form of regional agreements worldwide; and increasingly in Asia

3. History/Background to Regional Agreements - Continued

- These reflect a wide range of objectives and motives. Including, improved access and security of access to neighbouring economies, jointly going further on an issue than WTO disciplines, reflecting multilateral disciplines as a lowest common denominator; using the RTA structure as a platform to add new non WTO issues; allowing politicians to announce new agreements; allowing negotiators to negotiate; for security/diplomatic objectives.

The Recent Period 1995-2008

- By Jan 2012 over 500 agreements had been notified to the WTO committee on regional agreements, with over ½ negotiated after 1995. In the notification process goods and services arrangements are treated as separate agreements due to the GATT/GATS distinction in the WTO charter. Most North American and Latin American economies had between 10 and 19 agreements, with more than 30 in many European economies.
- Table 1 shows RTA's notified between 2000 and 2012 counting goods and services separately and Table 2 shows RTA's counting goods and services together. They are also classified by type. From this, the large majority are FTA's and the period up to 2008 shows an acceleration in numbers. This acceleration is a little misleading as changes in arrangements notified (such as EU enlargement) count as an agreement.
- The large majority of agreements were between small countries, but a significant portion were between preexisting regional trade groupings and individual countries. Of the 183 agreements captured by Tables 1 and 2, 95 were small-small agreements and 47 agreements involved existing regional groupings.
- Many if not most of the agreements involving economic organizations notified were changes in existing arrangements more than new agreements. Thus as notifications of new agreements grow, more notifications occur both due to changes (like EU enlargement), and negotiated arrangements between regional groupings as well as between countries.

Table 1: Regional Trade Agreements notified to the WTO, 2000-1012 (counting goods and services separately) and with the status "In Force"

Year of Notification	# of RTAs	Coverage		Type				Year of Entry into Force	
		Goods	Services	FTA	EIA	PSA	CU	1990s	2000s
2000	**8**	**8**	**-**	**7**	**-**	**-**	**1**[a]	**2**	6
2001	15	12	3	12	3	-	-	7	8
2002	13	8	5	8	5	-	-	-	13
2003	17	10	7	10	7[a]	-	-	-	17
2004	21	15	6	13	5	1	1[a]	4	17
2005	16	10	6	8	6	1[b]	1	3	13
2006	26	15	11	14	11	-	1[a]	3	23
2007	18	12	6	11	6[a]	-	1	-	18
2008	35	27	8	27	8[b]	-	-	5	30
2009	36	19	17	18	17	1	-	-	36
2010	20	13	7	9	7	3	1	2	18
2011	25	15	10	15	10	-	-	-	25
2012	33	20	13	19	13[a]	-	1	5	28
Total	**283**	**184**	**99**	**171**	**98**	**6**	**7**	**27**	**173**

Table 2: Regional Trade Agreements notified to the WTO, 2000-1012 (counting goods and services together) and with the status “In Force

Year of Notification	# of RTAs	Coverage			Type					Year of Entry into Force	
		Goods	Services	Goods&Service	FTA	EIA	FTA& EIA	PSA	CU	1990s	2000s
2000	**8**	**8**	**-**	**-**	**7**	**-**	**-**	**-**	**1[a]**	**2**	6
2001	12	9	-	3	9	-	3	-	-	6	6
2002	10	5	2	3	5	2	3	-	-	-	10
2003	11	4	1	6	4	1[a]	6	-	-	-	11
2004	16	10	1	5	9	1	4	1	1[a]	4	12
2005	11	5	1	5	3	1	5	1[b]	1	2	9
2006	17	6	2	9	5	2	9	-	1[a]	2	15
2007	13	7	1	5	6	1[a]	5	-	1	-	13
2008	28	20	1	7	20	1[b]	7	-	-	5	23
2009	22	5	3	14	4	3	14	1	-	-	22
2010	16	9	3	4	5	3	4	3	1	1	15
2011	15	5	-	10	5	-	10	-	-	-	15
2012	21	8	1	12	7	1[a]	12	-	1	5	16
Total	**200**	**101**	**16**	**83**	**89**	**16**	**82**	**6**	**7**	**27**	**173**

- Among the largest trading entities (US, EU, China) there are no bilateral agreements since their trade policies are mutually restrained by GATT/WTO, but there are now serious prospects of larger player agreements, especially in Asia (China-Japan-Korea; China-India; Canada-EU).
- Dispute settlement between players in bilateral agreement continues to rely heavily (almost exclusively accept for inter EU trade) on WTO dispute settlement, rather than on procedures agreed to bilaterally.
- Studies of take up rates of regional preference (Canada-US, Mercosur) remain surprisingly low at below 50% of seemingly eligible trade.
- Agreements vary substantially in length, coverage, and specificity. Separate chapters on agriculture are a rarity.
- Canada has continued with its negotiation of regional agreements. Canada now has over 20 such agreements, in force with Jordan, Colombia, Peru, European Free Trade Association, Costa Rica, Chile, Israel, North American Free Trade Agreement (NAFTA), Canada-US Free Trade Agreement (CUSFTA), negotiations concluded with Honduras and Panama, and ongoing FTA negotiations with Andean Community Countries, Caribbean Community (CARICOM), Central America Four (CA4), Dominican Republic, European Union: Comprehensive Economic and Trade Agreement (CETA), India, Japan, Korea, Morocco, Singapore, Trans-Pacific Partnership, Ukraine, Free Trade Area of the Americas (FTAA), and negotiations to modernize the Canada-Costa Rica Free Trade Agreement.

Table 3: Notified Regional Trade Agreements in recent years by country size and with the status "In Force" (counting goods and services together)

	Large (GDP > 550 billion) / Medium (150 < GDP < 550 billion) Small (GDP < 150 billion) / Economic Organization / Agreement (EO)									
	Large-Large	Large-Medium	Large-Small	Medium-Medium	Medium-Small	Small-Small	EO - Large	EO - Medium	EO - Small	**Changes EO & EO - EO**
2000	**-**	-	-	-	-	1	-	2	3	-
2001	**-**	1	1	-	2	6	1	-	-	-
2002	**-**	-	3	-	-	1	1	-	3	1
2003	**-**	1	5	-	2	1	-	-	2	-
2004	**1**	1	1	-	1	5	1	1	1	2
2005	**1**	-	2	-	3	2	-	-	2	-
2006	**-**	-	8	-	1	1	1	-	2	2
2007	**-**	1	2	1	1	2	-	1	-	3
2008	**-**	1	3	-	2	13	1	-	3	3
2009	**-**	1	8	-	1	6	2	-	4	-
2010	**-**	-	6	-	2	1	3	-	4	-
2011	**1**	-	3	-	3	3	1	-	4	-
2012	**1**	-	4	-	5	7	-	1	3	-
Total	**4**	**6**	**46**	**1**	**23**	**49**	**11**	**5**	**31**	**11**

Table 4: Dates and Participants in Large-Large, EO-Large, Changes EO and EO-EO Agreements with the status "In Force"

Large-Large	EO-Large	Changes EO / EO-EO
▪ Korea-US (2012)	▪ EU-Korea (2011)	▪ South Asian Free Trade Agreement (goods-enabling clause) (2008)
▪ India-Japan (2011)	▪ MERCOSUR-India (2010)	▪ Common Economic Zone (CEZ) (2008)
▪ Japan-Mexico (2005)	▪ ASEAN-Australia-New (2010)	▪ EFTA-SACU (2008)
▪ US-Australia (2004)	▪ ASEAN-India (2010)	▪ Trans-Pacific Strategic Economic Partnership (2007)
	▪ EFTA-Canada (2009)	▪ Southern African Customs Union (SACU) (2007)
	▪ ASEAN-Japan (2009)	▪ EC (27) Enlargement (2007)
	▪ ASEAN-China (2005(G)/2008(S))	▪ Pan-Arab Free Trade Area (PAFTA) (2006)
	▪ EFTA-Korea (2006)	▪ MERCOSUR – Enabling Clause (services) (2006)
	▪ Asia Pacific Trade Agreement (APTA)-Accession of (2004)	▪ EC (25) Enlargement (2004)
	▪ EU-Mexico (2000(G)/2002(S))	▪ Southern African Development Community (SADC) (2004)
	▪ EFTA-Mexico (2001)	▪ EFTA (services) (2002)

Table 5: Some Summary Characteristics of a Sample of Large-Large Agreements

Agreement	Page Length	No of Chapters	Chapters on				
			Dispute Settlement	Investme nt	Agriculture	ROO's	Labour Mobility
Korea-US (2012)	**N/A**	**24**	**0**[g]	**1**[c]	**1**[d]	**1**[e]	1[f]
India-Japan (2011)	122[b]	15	1	1	0	1	0
US-Australia (2004)	264[b]	23[b]	0	1	1	1[a]	1
ASEAN-China (2005(G))	275	0	0[i]	0	0	1[h]	0
ASEAN-China (2008(S))	35	0	0	0	0	0	0
ASEAN-China Agreement on Inv.	35	1	0	1	0	0	0
EU-Mexico (2002)	N/A	8[j]	3[k]	0	0	0	0
EFTA-SACU (2008)	26	7	0	0	0	0	0

Table 6: Canada's Bilateral Trade Agreements and Negotiations Since 2000

Agreement	Page Length	No of Chapters	Chapters on				
			Dispute Settlement	Investment	Agriculture	ROO's	Labour Mobility
1. Canada-Jordan (2012)[i]	**N/A**	**16[j]**	**1**	**0**	**0**	**1[k]**	1
2. Canada-Colombia (2011 (G&S))	N/A	23[e]	1	1	Section E of Chapter 2[f]	1[b]	1[c]
3. Canada-Honduras (2011)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4. Canada-Panama (2010)	N/A	24[l]	1[m]	1[n]	0	1[o]	1
5. EFTA-Canada (2009(G))	N/A	9[a]	1	1	3 Separate Agreements	Annex C	0
6. Canada-Peru (2009 (G&S))	N/A	23[d]	1	1	Section F of Chapter 2	1[b]	1[c]
7. Canada-Costa Rica (2003 (G))	**N/A**	**15**	**1**	**1**	**0**	**1[p]**	0

Table 6: Canada's Bilateral Trade Agreements and Negotiations Since 2000 -continued

Negotiated/Failed or Under Negotiation	
8. Canada-EU: CETA (aim of concluding in 2012) 9. Canada-Andean Community Countries 10. Canada-Caribbean Community (CARICOM) 11. Four (C4) 12. Canada-India 13. Canada-Japan	8. Canada-Korea 9. Canada-Morocco 10. Canada-Singapore 11. Canada-Trans-pacific Partnership 12. Canada-Ukraine 13. FTAA 14. Modernize Canada-Costa Rica FTA

4. What are the Impacts of RTA's

- Trade creation/Trade diversion – Freund/Ornelas (2010) – trade creation tends to be the norm – where trade diversion is observed it is relatively small.
- Why a dominance of trade creation? – Freund/Ornelas (2010) – countries choose partners well – greater gains where proximity between members, similarity in GDP, and a large difference in factor endowments.
- When do countries have a RTA? – Baier/Bergstrand (2007) – similar factors that yield gains from trade creation.
- Spillovers from RTA's – Estevadeoral (2008) – countries that form RTA's also tend to reduce barriers on imports from outside the bloc; especially important for developing countries and in Latin America.
- Linkage to multilateral negotiation – Freund/Ornelas (2010) argue that one reason for slow progress in WTO is that RTAs are spreading – Counter argument is RTA's allow negotiators to gain experience and this improves multilateral process.
- Estimates of coverage of world trade under RTAs seem to suggest plateauing in late 2000's (Table 7).

Table 7: Estimates of Coverage Ratios for RTAs

Estimates of Fraction of World Trade Covered by Regional Agreements	
World Bank (2005)	43%

Table 8: Growth Rates of World Trade in Manufactures, Agriculture, Services

World Trade Growth Rates	% Annual Trade Growth (M+X)				
	Manufactures	**Commercial Service**	**Agricultural Raw Materials**	**Fuels**	**Total World Merchandise Trade**[d]
1948-1957	**9.93**[c]	**N/A**	**N/A**	**N/A**	9.46
1957-1987 (excluding EU)	13.83[a]	10.10[b]	8.11[a]	14.09[a]	10.60
1957-1987 (including EU)	13.36[a]	9.98[b]	7.90[a]	12.50[a]	10.83
1987-2000	8.24	7.97	2.09	8.33	7.49
2000-2011	8.86	9.26	7.70	13.10	9.79

Growth Rates of World Trade (Table 8) in Manufactures/Agriculture/Services over periods with no growth in RTA's (up to 1987 except EU), and then with growth in RTAs suggest higher growth in liberalized manufactures but slower higher growth during RTA expansion period. This may reflect large effects of initial GATT liberalization.

Table 9: RTA's and Trade Growth

	% Annual Trade Growth (M+X)			
	Bilateral Trade in 5 years before Agreement	**Bilateral Trade in 4 years after Agreement**	**World Trade in 5 years before Agreement**	**World Trade in 4 years after Agreement**
A. Recent RTA's				
ASEAN-China (2005 (G))	**26.96**	**13.06**	**10.17**	4.38
ASEAN-China (2008 (S))	24.21	16.22[a]	16.39	3.70[a]
US-Australia (2004)	4.97	10.75	10.49	4.38
EU(15)[b]-Mexico (2002)	8.96	15.06	3.36	16.84
EFTA[c]-SACU[d] (2008)	**13.22**	**10.15[a]**	**16.39**	3.70[a]
B. Older RTA's				
	Bilateral Trade in 5 years before Agreement	Bilateral Trade in 5 years after Agreement	**Bilateral Trade in 15 years after Agreement**	
Canada-US (1987)	8.87	7.03	6.96	
EU[e] (1957)	N/A	N/A	16.66[f]	
MERCOSUR[g] (1991 (G)/2006(S))	15.27	24.63	11.11	

Table 10: Model Based Analyses of The Impacts of RTAs

	Ex Ante (Largely CGE)	Ex Post (Largely Gravity)
Analyses of a Number of Agreements	**Inconclusive** ▪ **Srinivasan/Whalley/Wooton (1993)** **Small but positive** ▪ **Hamilton/Whalley (1985)**	Cyclical pattern to formation of RTA's – Effects on world trade small ▪ Regesteral (2008)
EU	**Positive Effects on Trade** ▪ **Tinbergen (1962)** ▪ **Aitken (1973)** ▪ **Brada/Mendez (1985)** **Insignificant/Negative Effects** ▪ **Frankel/Stein/Wei (1995,1996)** ▪ **Frankel (1997)** ▪ **Kreuger (2000)**	
NAFTA	**Positive Effects** ▪ **Panagariya (1994)** **No Effects** ▪ **Frankel (1997)**	Large and Positive ▪ Harris (1984) ▪ Sobarto (1985

- Assessments of trade growth between partners before and after agreements suggest some cases of accelerated inter RTA trade growth (EU-Mexico (2002); EFTA-SACU (2008), Mercosur (1991/2006)) and some cases of slower inter RTA trade growth (ASEAN-China (2005), Canada-US (1987)).
- Studies using trade models to assess the impacts of RTA's are seemingly inconclusive in an expost sense using gravity models, even where ex ante potentially large and positive effects were predicted by general equilibrium models (as with Can-US and NAFTA) (see Table 10).

5. Agriculture and Recent RTAs

- In recent RTA's agriculture typically enters through tariff cuts and agricultural safeguards mechanism.
- Most recent RTAs exempt major traditional agricultural products (meats, dairy, grains, fruits) from tariff cuts.
- Most of the recent RTAs contain no separate chapter on agriculture and in order no bilateral agreements or standards, food safety, and other issues.
- Studies of the impact of agricultural provisions in RTAs are relatively few.
- From Table 8 growth rates of agricultural trade below those of manufactures and services, and especially so in periods of rapid RTA growth (1987-2000).
- Grant and Lambert (2008) use a gravity model to analyze RTA effects on agricultural trade separately from non-agricultural trade. Results suggest differences between agriculture and non-agricultural trade (partly reflecting features above), with differences in impacts between agreements, and the length of the phase for tariff cuts in RTA's. No general pattern emerges.
- Makochekanwa (2012) analyses RTAs in Eastern and Southern Africa and impacts on trade in maize, rice, and wheat. 4 countries show increased interregional trade in these products, 3 countries do not. No general pattern again emerges.

Table 11: Treatment of Agriculture in Key RTAs

1. EU (1957)	▪ Creation of Common Agricultural Policy ▪ Progressively increasing internal support prices ▪ Variable tariff on imports (since replaced by Tariffication) ▪ Stockpiling
2. NAFTA/C-US (1987/1991)	▪ Minimal change affecting some produced products (Wine/Beer), pork trade, and sanitary arrangements cross border
3. ASEAN-China	▪ No special agricultural provisions ▪ Tariff reductions for key agricultural products ▪ Prior Restrictions on bilateral agricultural trade remain in effect
4. CER (Aus/NZ)	▪ Complete removal of all agricultural trade restrictions for bilateral trade

Table 12: RTA Tariff Cuts in Agriculture

	Depth of Bilateral Tariff Cuts	Agricultural Product Exemptions	Phase in Periods	Agricultural Safeguard Mechanism
US-Australia (2004)	Elimination of Duties	0	0	▪ Price-Based Safeguard for Horticulture ▪ Price and Quantity-Based Safeguard for Beef
China-ASEAN (2005)	Tariff rates gradually reduced and eliminated	0	4	0
India-Japan (2011)	Elimination of Custom Duties	0	0	Bilateral Safeguard Measures
EU-Mexico (2002)	Elimination of Customs Duties	0	0	Safeguard Clause

Thanks!