



NORTH-HOLLAND

North American Journal of
Economics and Finance 12 (2001) 193–211

THE NORTH AMERICAN
JOURNAL OF
**ECONOMICS
AND FINANCE**

Regional trade agreements and the WTO¹

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Received 31 October 2000; received in revised form 25 March 2001; accepted 10 April 2001

Abstract

The rapid growth in the number of regional trade agreements (RTAs) has led to concern about the weakening of the multilateral trading system. This paper looks at the spread of such agreements and the extent to which they pose a threat to the system. © 2001 Elsevier Science Inc. All rights reserved.

JEL classification: F13

Keywords: Regional trade agreements; Customs unions; Free trade areas; WTO

1. Introduction

There has been rapid growth in the number of regional trade agreements (RTAs) in recent years, giving rise to concerns about the relationship of these inherently discriminatory arrangements to the World Trade Organization (WTO) multilateral trade system based on the nondiscriminatory, most-favored nation (MFN) principle. There has also been an increase in the extent to which RTAs overlap, described by Bhagwati as a “spaghetti bowl-to capture the challenge of multiplying rules of origin and the maze of nontariff barriers that now apply almost everywhere to specific commodities” (*The Economist*, March 3rd 2001). In particular, Bhagwati (1992) raises the question as to whether RTAs pose a threat to the multilateral trading system, while Krueger (1995) worries that the establishment of regional FTAs might create beneficiaries (rent-seekers) who would form a political lobby against multilateralism. In the light of the failure of the WTO Ministerial meeting in Seattle, these arguments deserve

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attention, and in Section II we look at how these arguments square up with the new regionalism.

In Section III we review the debate on “systemic” issues within the WTO. There are considerable differences between WTO members’ views on the meaning of certain terms in the various WTO rules relating to RTAs; such differences do not fall cleanly between those members who participate in RTAs and the few who do not. These divergences of view have made it difficult to conclude the examination of RTAs for consistency with WTO rules, posing a challenge to the notion of the WTO as a rules-based system. The absence of clarity has allowed extensive exceptions for sensitive sectors and prolonged implementation periods, running counter to the trend towards deeper integration in some of the newer agreements. Proposals to clarify the rules in any new multilateral negotiations are also examined.

Finally, we conclude by posing a number of questions about the consistency of regionalism with the longer-term goal of freer trade among WTO countries, and make a tentative effort to answer some of these questions on the basis of the evidence.

2. Regionalism versus multilateralism

Economic analysis of regional trade agreements has focused on the relative balance of trade creation and trade diversion since Viner (1950), whereas Bhagwati’s and Krueger’s concerns are more about the effects of RTAs on the multilateral system and the longer-term movement towards freer trade. This concern has gained increasing force in the light of the very rapid rise in the number of such agreements in recent years, sparking concerns among WTO members who may be participants in some agreements but are nonparticipants in others. Data compiled at the WTO show that there were 191 notified agreements in force at the end of 2000, compared with only 40 such agreements in 1990 (WTO, 2000a,b, see also Fig. 1). In other words, the number of agreements in force has more than tripled in the last decade, with new agreements still being signed. And this does not take account of agreements that have not (yet) been notified to the WTO.

In addition, the new RTAs are not merely trade agreements between neighbors, but have a much wider network of participants, in some cases stretching across continents and different levels of economic development. The proposed Free Trade Area of the Americas (FTAA) and the European Union’s (EU) agreements with Central and Eastern Europe and the Mediterranean each encompass more than 500 million people. Asia Pacific Economic Cooperation (APEC), which does not (yet) allow for the mutual exchange of trade preferences, will cover some 40% of the world’s population. In mid-1998, 100 of the (then) 132, or 76%, of all WTO members were participants in one or more notified regional trade agreements. If participation in both notified and non-notified agreements is taken into account, then the share of participating WTO members rises to 97%. Currently, all but four WTO members are participants in RTAs.

It is also noteworthy that many of these new agreements overlap, hence Bhagwati’s spaghetti-bowl analogy. By our estimates, the countries of the European Union and European Free Trade Association (EFTA) belong to more than 19 regional agreements, while Brazil,

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