# Regional and Multilateral Trade Liberalization: Considering Next Steps

## Workshop Proceedings

*APEC Study Center*
*Columbia University*
*New York, NY*

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## March 16, 2001

Organized by:
APEC Study Center, Columbia University
Center on Japanese Economy and Business,
Columbia Business School

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Columbia University established the **APEC Study Center** in 1994 at the request of the U.S. Department of State in response to the APEC Leaders' Education Initiative introduced in 1993. This initiative calls on institutions of higher education in the United States and throughout the Asia Pacific to collaborate on Asia Pacific policy research. Through exchanges, joint research, conferences, and other contacts, APEC study centers are helping to establish an emerging region-wide network of personal and institutional relationships for all member economies. This Center serves as a focal point of study and research at Columbia University on issues of economic importance for the Asia Pacific region, and is co-directed by Professors Merit E. Janow and Hugh Patrick.

Columbia University established the **Center for Japanese Economy and Business** at the Graduate School of Business in April 1986 under the direction of Hugh Patrick. The central mission of the Center has been to enhance understanding of the Japanese and Asia Pacific economies and their business, financial and managerial systems. An important focus is on Japan's international economic and business relationships in bilateral, Asia Pacific regional, and global contexts. The Center has become widely recognized as the preeminent academic institution in the United States in its area of activities, which focuses on: research, training and curriculum development; public affairs programs for business, government, and academia; scholarly and professional exchanges; and development of library and computer based data resources. Results of the Center's programs are disseminated through its publications and academic and public policy conferences and seminars.



Photography by Eileen Borossa

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# Introduction

This distinguished group has gathered at Columbia University to examine regional trade arrangements under negotiation and in place and to consider their potential impact on the multilateral system and the next round of multilateral trade negotiations. The apparent tension between regional and multilateral trade liberalizing initiatives has a long history. The first "NAFTA," for example, was a proposal nearly 40 years ago to establish some kind of North Atlantic free trade arrangement because multilateral negotiations appeared to some to be running out of steam. This notion that regional arrangements can supplement or even spur multilateral negotiations remains with us today. This workshop examines a number of new developments that warrant serious consideration and serve as the context for this gathering. I would like to mention three of these developments.

First, a new Republican administration has the opportunity to reposition the United States on its trade policy objectives. What will this mean? In the aftermath of the failed trade summit in Seattle, the relative weight that will be placed on multilateral versus regional or other trade liberalizing initiatives by the United States is not entirely clear. So far, the new Bush Administration has suggested that it will pursue fast track authority, but under a less politicized name—"trade promotion authority (TPA)". The purposes to which it will be applied have not been fully determined, but surely expanded free trade agreements (FTAs), including those with Chile and the Free Trade Association of the Americas (FTAA), along with a new multilateral round will be among its chief uses.

Early signs suggest that the Bush administration believes that it is more likely to obtain TPA authority from Congress if it is wrapped with other legislation. Whether that legislative strategy continues or another approach is adopted, the notion that Congress will need to vote in favor of something concrete rather than for an abstract promise of gains from future trade negotiations seems to me to be an astute assessment of the times. Trade policy is more controversial than in earlier periods in U.S. postwar history and more polarizing. Hence, many diverse constituencies that were previously not concerned about trade policy have come into the policy making process. There is correspondingly less willingness on the part of the Congress to delegate to the executive branch authority to negotiate trade agreements in the abstract. Instead, there is more pressure on the executive branch to clarify its intended uses, quantify the expected gains and embed congressional oversight into the negotiations. The new Administration and certain members of Congress now appear to be making efforts to develop a more positive approach to trade policy and to refashion a greater degree of bipartisanship in

U.S. trade policy. This is essential if the United States is to play anything akin to a global leadership role on trade policy in the years ahead. One can point to many "lessons" from the Seattle debacle: in my view, the need to develop a working consensus at home before negotiating with one's trading partners is surely one of those lessons.

Whether trade promotion authority is needed before launching another miltilateral round is more debatable. Many experts argue that the United States did not have fast track authority when it launched the Uruguay Round. That is an accurate statement, but the President was able to obtain such authority from Congress two years later. In an era of increasing polarization on trade policy, I believe that our trading partners need to have reasonable expectations that the United States will be equipped with trade negotiating authority, in some form, or they are unlikely to negotiate in earnest on difficult subjects in a multilateral context.

Second, there has been huge proliferation of regional trade agreements (RTAs) in recent years and the breadth and nature of these RTAs are very different today than in years past. According to the WTO, during the GATT years from 1948 to 1994 there were 124 notifications of RTAs. During the first five years of the WTO, some 90 additional agreements have been notified, with some 134 currently in place. These notifications have occurred in one of three ways: under Article 24 (which represents the largest area of notifications); under the enabling clause; or under Article V of the General Agreement on Trade in Services (GATS).

The European Union is way ahead of any other jurisdiction in its active pursuit of these arrangements. According to the Business Roundtable, the EU has already tied up about one-third of all global exports under preferential trade agreements, compared with almost 11 percent under U.S. free trade accords. While these numbers can be challenged, the important features to recognize are the breadth and geographic diversity of the arrangements already concluded or underway by the European Union. As others have observed, the extensive EU network of RTAs have different attributes: some appear motivated by commerce and regional stability purposes; a second type appears designed to create trade preferences; and a third may be designed to overcome regional trade preferences where the EU is perceived as excluded (e.g., NAFTA).

In fact, this trend toward regional arrangements is not the new story, but the geographic scope is expanding rapidly. This leads me to the new new story: the concerted negotiations now under way in the Asia Pacific region. Until recently, few FTAs existed in this region, with the exception of the ASEAN free trade arrangement (AFTA). Now, Japan is aggressively pursuing its own FTA strategy.

Japan has negotiations underway or is actively contemplating an FTA with South Korea and Singapore; the United States is negotiating an FTA with Singapore; Korea is in negotiations with Chile and is considering FTAs with New Zealand and Thailand; and there is even talk of an ASEAN plus three arrangement, including Japan, China and Korea. The latter arrangement is clearly a distant vision, but one that the Chinese expressed some interest in at the last APEC meetings. Interestingly, the Chinese have also expressed the view that such an arrangement should not undermine the multilateral system—perhaps reflecting their heightened interest in the viability of the WTO system. The APEC + 3 proposal is also striking because of the intentional exclusion of the United States.

This scenario of regional FTAs in the Asia Pacific region is quite possibly putting the United States and Japan in a competitive FTA strategy in the region, with Europe very likely to follow. Some years ago, Professor Jagdish Bhagwati likened this emerging pattern of FTAs and other regional arrangements to a "spaghetti bowl." Now, with the prospect of a formalized Free Trade Association of the Americas (FTAA) on the one hand and an expanded EC/ACP arrangement on the other, we also have the prospects of what Andre Sapir has called "hegemon-centered trading blocks." These arrangements have many points of difference between them on coverage of trade, agriculture, intellectual property, environmental, competition, labor, rules of origin and other provisions. Some appear to cover areas not fully covered by multilateral rules (e.g., with respect to investment, competition policy, e-commerce), while others appear to carve out sensitive sectors such as agriculture from substantial liberalization. Some RTAs are serving to facilitate regulatory cooperation; others offer no such experimentation with deeper integration. Today, we should consider the extent to which these arrangements are "building blocks" or "stumbling blocks" to greater multilateral liberalization.

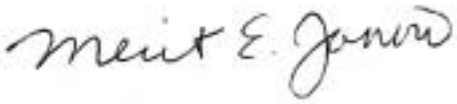
Whatever one's views on that fundamental question, these arrangements are now a significant and permanent part of our international economic landscape. A number of these arrangements clearly do not cover "substantially all trade" between the parties and leave significant sectors, such as agriculture, outside of trade liberalizing disciplines. Some are reflecting a greater degree of integration than WTO rules contemplate, as well as a greater degree of experimentation in some areas of economic management and regulation. Thus, it is hard to generalize about the character of the various FTAs in place around the world; they must be analyzed case by case.

This leads us naturally to the third area for consideration in our discussion today: how do these regional and bilateral agreements comport with Article 24 of the GATT? What role if any is the WTO playing with

respect to these arrangements? Further, what is the consequence of these arrangements for a new round of multilateral trade negotiations?

The 1994 Understanding clarified some aspects of Article 24, and, a WTO Committee on Regional Trade Agreements (CRTA), established in 1996, appears to recognize a need to provide an ongoing institutional forum for review of RTAs. The record also suggests, however, that this forum has imposed no disciplines on the arrangements that WTO members are undertaking. Given the difficulties this committee had had in conducting serious reviews of RTA and other arrangements, the question is still before us as to whether the WTO system should try to provide a greater disciplining influence in some way on regional arrangements. Should this be part of the negotiating agenda of the next round of multilateral trade negotiations? Personally, I think it is an important area that should get more attenton. If the WTO is unable to evaluate FTAs and assess their compatibility with the multilateral trading system, then perhaps we need to consider some other vetting process (e.g., by experts) that can run in tandem with WTO review.

In analyzing regional versus multilateral trade liberalization, we start by inviting several distinguished economists to comment on the economic consequence of various arrangements currently in place; followed by the examination of several agreements under negotiation; and conclude with consideration of the impact of these arrangements on the multilateral system.



*Professor in the Practice of International Trade*
*School of International and Public Affairs,*
*Columbia University*
*Co-Director,*
*APEC Study Center, Columbia University*

*APEC Study Center, Columbia University*
*and Center on Japanese Economy and Business,*
*Columbia Business School present*

# Regional and Multilateral Trade Liberalization: Considering Next Steps

Friday, March 16, 2001

*Kellogg Conference Center*
*International Affairs Building*
*Columbia University*

8:45–9:00 INTRODUCTION

**Merit E. Janow**
*Professor in the Practice of International Trade*
*School of International and Public Affairs,*
*Columbia University*
*Co-Director,*
*APEC Study Center, Columbia University*

9:00–10:45 SESSION I:
THE CURRENT STATE OF FTAS
IN ASIA, EUROPE AND THE WORLD:
AN ECONOMIC ASSESSMENT

DISCUSSION LEADERS:

**Gary Hufbauer**
*Reginald Jones Senior Fellow,*
*Institute for International Economics (IIE)*

**Peter Petri**
*Carl J. Shapiro Professor and Dean of Graduate School of International Economy and Finance (GSIEF), Brandeis University*

**José Manuel Salazar**
*Director, Trade Unit, Organization of American States*

**Andre Sapir**
*Professor of Economics, Université Libre de Bruxelles*

**David Tarr**
*Lead Economist, Development Research Group, The World Bank*

**Ippei Yamazawa**
*Professor, Graduate School of Asia Pacific Studies, Waseda University*

ISSUES TO CONSIDER:
*What does the evidence suggest about the economic consequences of these regional arrangements—to participants, third parties, trade creation v. diversion?*

*How do these arrangements differ? What sectors are covered or excluded?*

11:00–12:30 SESSION II:
US-JORDAN FTA/US-SINGAPORE FTAs: JAPAN, KOREA, JAPAN-SINGAPORE, US-CHILE, US FTAAs, CANADA-MEXICO: TEMPLATES FOR THE FUTURE?

DISCUSSION LEADERS:

**Steve Charnovitz**
*Associate, Wilmer, Cutler & Pickering*

**Robert Fauver**
*President, Harrington Fauver*

**Jonathan Fried**
*Senior Assistant Deputy Minister of Finance and G-7 Deputy for Canada, Department of Finance*

**Kyung Tae Lee**
*President,*
*Korea Institute for International Economic Policy*

**Kishore Mahbubani**
*Permanent Representative of the Republic of Singapore to the United Nations*

**Balagopal Nair**
*Economic Counsellor,*
*Embassy of the Republic of Singapore*

**Timothy Reif**
*Chief of Staff, Committee on Ways and Means, Trade Subcommittee, U.S. Congress*

**Soogil Young**
*Senior Fellow, Institute for Global Economics;*
*Senior Advisor and Policy Analyst,*
*Kim & Chang Law Office;*
*and Former Ambassador of*
*the Republic of Korea to the OECD*

ISSUES TO CONSIDER:
*Is the U.S.-Jordan FTA a useful template for future FTAs, in particular its treatment of labor and environmental matters? If it is followed in the context of a bilateral FTA between the U.S. and Singapore, what does this precedent suggest for the future?*

*Consider some of the new regional arrangements under negotiation, such as Japan's recent FTA negotiations with Singapore, Korea and others. Canada is also pursuing bilateral negotiations with a number of countries in Latin America. How do these compare with the proposed U.S. approach?*

12:30–2:00 LUNCHEON

KEYNOTE SPEECH

**The Honorable Sander Levin, (D-MI)**
*The U.S. House of Representatives,*
*House of Ways & Means Committee*

2:00–3:45 SESSION III:
POTENTIAL IMPACT OF FTAs ON
MULTILATERAL TRADE LIBERALIZATION AND THE WTO

DISCUSSION LEADERS:

**Gerard Depayre**
*Head of Planners Group, Directorate General for External Relations, European Commission*

**Mitsuo Matsushita**
*Professor, Seikei University*

**Petros Mavroidis**
*Professor, University of Neuchatel*

**Andrew Stoler**
*Deputy Director General, The WTO*

ISSUES TO CONSIDER:
*Coverage of FTAs by WTO rules, notification under GATT/WTO and WTO oversight. Is Article 24 a meaningful discipline? Should it be adjusted?*

*Perceived impact of these arrangements on the WTO—a spur to broader negotiations? A distraction?*

4:00–5:30 SESSION IV:
SUMMARY AND DISCUSSION LED BY
PROFESSORS MERIT E. JANOW
& HUGH T. PATRICK

ISSUES TO CONSIDER:
*What is the assessment of this expert group regarding the impact of these regional arrangements on future trade liberalization at the WTO?*

*What are the economic, political and bilateral US-Japan consequences of both the US and Japan's independent pursuit of bilateral preferential trade arrangements with countries in the Asia-Pacific region and beyond.*

5:30–6:30 ADJOURNMENT/RECEPTION

OTHER DISTINGUISHED PARTICIPANTS:

**José E. Alvarez**
*Professor of Law, Columbia Law School*

**Kyle Bagwell**
*Kelvin J. Lancaster Professor of Economic Theory, Columbia University*

**Claude Barfield**
*Resident Scholar, American Enterprise Institute*

**Jagdish Bhagwati**
*Arthur Lehman Professor of Economics, Columbia University*

**Carole Brookins**
*Chairman, World Perspectives*

**Charles Calomiris**
*Paul M. Montrone Professor of Finance and Economics, Columbia Business School*

**Richard H. Clarida**
*Chair and Professor of Economics and International Affairs, Department of Economics, Columbia University*

**C. Lawrence Greenwood, Jr.**
*U.S. Senior Official for APEC, U.S Department of State*

**Charles E. Morrison**
*President, East-West Center*

**Satoru Okuda**
*Visiting Researcher,*
*Korea Institute for International Economic Policy*

**James Shinn**
*Woodrow Wilson School of Public and International Affairs, Princeton University*

**Joel Trachtman**
*Academic Dean and Professor of Law,*
*Fletcher School of Law and Diplomacy, Tufts University*

**Michael Weinstein**
*Senior Fellow, Council on Foreign Relations*

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Weatherhead Fund, East Asian Institute, Columbia University
APEC Study Center, Columbia University

*Left to right: Merit E. Janow and Hugh Patrick*

*Left to right: Mitsuo Matsushita and Ippei Yamazawa*

# SESSION I

# The Current State of FTAs In Asia, Europe and the World: An Economic Assessment

CHAIR:

**Merit E. Janow**
*Professor in the Practice of International Trade, Columbia University*

DISCUSSION LEADERS:

**Gary Hufbauer**
*Reginald Jones Senior Fellow, IIE*

**Peter Petri**
*Carl J. Shapiro Professor and Dean of GSIEF, Brandeis University*

**Jose Manuel Salazar**
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**David Tarr**
*Lead Economist, Development Research Group, The World Bank*

**Ippei Yamazawa**
*Professor, Graduate School of Asia-Pacific Studies, Waseda University*

## GARY HUFBAUER

In these comments I want to report on cutting-edge empirical research by others. One study, by Drusilla Brown, Alan Deardorff, and Robert Stern (2001), use a CGE model to analyze multilateral and regional liberalization. The scenarios for regional liberalization are centered on Japan. Let me summarize a few key points from their very able work.

First, they calculate very large worldwide welfare gains from a WTO Millennium Round that reduces post-Uruguay Round trade barriers by 33 percent. About $600 billion annually of world welfare gains would result from this degree of multilateral liberalization. If all post-Uruguay Round trade barriers were eliminated (not just a third of barriers), world welfare gains would swell to $1.9 trillion annually. Whether $600 billion or $1.9 trillion, the potential gains are huge. A supplementary piece of arithmetic that I find useful is the ratio of calculated welfare gains to the calculated increase in goods and services trade—the g/t ratio. The analysis by Brown et alia puts the g/t ratio at about 100 percent. This is

substantially higher than previous estimates, which typically show g/t ratios in the 30 to 60 percent range.

Another calculation from the Brown et alia model is that OECD countries claim about 80 percent of the total world welfare gains, even though they account for only 70 percent of world GDP. To me that finding is surprising. Trade barriers outside the OECD are generally much higher than within the OECD, and I think liberalization gains should correspond more closely with the reduction of import barriers.

Finally, the regional free trade agreements modeled by Brown and her colleagues generally show high ratios of trade creation gains to trade diversion losses. The CGE study by Scollay and Gilbert (2001) reaches a similar conclusion. When plausible bilateral and regional groups are modeled, the trade creation gains (as a percentage of member country GDP) substantially exceed the trade diversion losses (as a percentage of nonmember country GDP).

In another outstanding empirical paper, Jeffrey Frankel and Andrew Rose (2000) used a gravity model to estimate that, over a twenty-year period, every 10 percent increase in merchandise trade (imports plus exports) relative to GDP raises per capita income by roughly 3.6 percent. They also estimate that, when a country belongs to a currency union, it at least doubles the amount of trade with its currency union partner. Admittedly, this estimate is based on the experience of a few small countries, and extrapolation to larger countries may be questioned. Frankel and Rose further estimate that belonging to an FTA more than doubles trade with partner countries. Taken together, these findings suggest that the beneficial effect for a developing country from adopting the dollar or the euro as the local currency, and simultaneously negotiating an FTA with the bigger partner, could be very large.

Finally, let me comment on recent work on price divergence (see the literature survey in Hufbauer, Wada and Warren, 2001). The extent of price divergence between major cities for identical goods is very much larger than what can be explained by observed tariff and nontariff barriers. The largest single factor "explaining" international price divergence is the existence of borders per se, and the second largest factor is exchange rate variability. Distance between cities is a weak factor, as is economic size (measured by national GDP). Economic arrangements that reduce the extent of price divergence by lowering the "height" of the border, even by a modest degree, could have a big payoff.

Let me draw some policy conclusions from this body of research. It is hard for ministers to negotiate FTAs that actually reduce economic welfare. I do not say it is impossible, but it is hard. Empirical research suggests that a wide array of bilateral, regional and multilateral arrangements will succeed in raising income. Some arrangements will raise

income much more than others. Multilateral agreements show the biggest payoff for a given degree of barrier reduction, but bilateral and regional agreements also make a contribution, especially when they reduce barriers between the partners to zero (a goal hard to accomplish in the multilateral setting). The theoretical fears voiced by some very distinguished trade economists—worries that bilateral and regional FTAs will erode the economic livelihood of members, nonmembers or both—seem overdone. As empirical evidence on currency unions accumulates, I predict it will likewise show that the theoretical objections voiced by some distinguished monetary economists are exaggerated.

Moreover, the available empirical evidence does not enable economists to be dogmatic about the specific shape of trade and currency arrangements. When economists move beyond general statements such as "free trade and investment promote economic growth", "trade barriers are almost always bad", and "excessive exchange rate volatility can damage the real economy", they must at least share the terrain with experts with other professional credentials. Politicians, ministers, political scientists and lawyers have at least as much to say about the "right" shape of trade and currency arrangements as economists.

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Brown, Drusilla K., Alan V. Deardorff and Robert M. Stern. 2001. "CGE Modeling and Analysis of Multilateral and Regional Negotiating Options", in Robert M. Stern, editor, Issues and Options for U.S.-Japan Trade Policies, Ann Arbor: University of Michigan Press

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Hufbauer, Gary, Erika Wada and Tony Warren. 2001. The Benefits of Price Convergence: Speculative Calculations. Washington DC: Institute for International Economics. Forthcoming.

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## PETER PETRI

I would like to direct my comments to the relative importance of the different tracks—multilateral, regional, and bilateral—on which trade negotiations are being conducted. Each of these tracks operates on two levels. The obvious one is economic: countries negotiate agreements to achieve economic objectives. Yet at the same time, negotiations on one track are also strategic initiatives that influence events occurring on other tracks.

Over the course of the 1990s, international negotiations shifted from the global Uruguay track to the regional and then later, subregional and bilateral tracks. During the early parts of the decade negotiations occurred at the regional level, as various countries worked on APEC, the FTAA, the enlargement of the European market, and the Euro. In most of these cases, the primary motive driving these discussions was not so much trade, but rather investment. Of course, trade and investment are very closely tied, so I do not mean to set one against the other, but only note that the ultimate emphasis was on stimulating investment. Certainly this was true in Europe, where the goal was to realize economies of scale and rationalize industrial structures.

In effect, regional negotiations were efforts to create conditions that are conducive to building efficient production chains, that is, to bundling many different types of comparative advantage together to create an efficient overall production process. The NAFTA agreement, for example, covers Canada, the United States, and Mexico, which offer quite diverse production advantages; APEC entails an even wider range of countries at different levels of development and factor costs. A regional economy that gives producers the ability to integrate production steps in such different economies with minimal trade barriers and transactions costs is an especially good place for investment. To create still further incentives for investment, negotiators also hoped to integrate regulatory environments, encouraging investment by providing market access guarantees and investment protections within these regional trading areas.

To achieve these benefits, regional trading areas had to be fairly large and diverse, and the compromises required to achieve them had to be complex. That ultimately was why, in the closing years of the 1990s, frustrations arose. The economic work in this field explains why the areas had to be very large. Recent work at the IIE by Choi and Schott and by Scollay and Gilbert suggests that the larger the area, the greater the benefits. This is basic economics; small bilateral and subregional agreements that people are now negotiating offer slight benefits. In the Pacific region, for example, significant benefits result only when an agreement includes the United States or Japan or both.

However, the compromises required to form a large regional trade area are complex and, for a variety of reasons, including the loss of fast-track authority in the United States, countries have not been successful at forging the necessary compromises. This is why today small regional or bilateral negotiations seem to be taking the center stage. Real economic gains are very small (as, of course, are trade diversion effects as well) in part because the nations involved are small and in part because those pursuing these talks are often already fairly open economies.

In fact these bilateral negotiations are probably not about trade and investment gains, but rather about their strategic implications for other tracks. They are trying to set templates that can then be later used in larger regional negotiations and maybe even in multilateral global negotiations.

The templates have two separate goals. Externally, each country is trying to create a model FTA that it can then replicate with other partners. One example is the U.S. effort under the Clinton administration (the position of the Bush administration is not yet known) to include labor and environmental conditions in the FTA agreement with Jordan and possibly with Singapore. A second example is Japan's attempt to set templates in which agriculture is largely excluded.

Internally, countries are using their templates to influence internal political debates on trade issues. For example, Japan might be able to negotiate an agricultural agreement with Singapore that is not threatening to Japanese farmers and that could later be used as a precedent to permit Japan to negotiate other FTAs. Similarly, the U.S. agreements with Jordan and Singapore may deflect internal opposition and make it easier to undertake negotiations on other U.S. FTAs in the future. So, in a strategic sense, we have to understand these smaller negotiations not as a new way to run the world, but rather as a way to shape the dialogue at the regional level, and also, if we can get back there, to shape negotiations on the multilateral level.

Let me conclude by mentioning a serious problem posed by this strategically driven but essentially bilaterally implemented trend. This approach makes for a world of hubs and spokes—Europe with the Mediterranean countries; the United States, if it manages to line up several smaller agreements in Latin America and elsewhere; Japan, if it enters into bilateral agreements with several countries. The economics of a hub-and-spoke system are quite negative because the country that serves as the hub receives most of the benefits in that it attracts investors who want to trade without barriers with each of the markets from a single production location. Hub-and-spoke FTAs can also lead to conflicts among different hub-and-spoke systems and make it more difficult to integrate at the regional or multilateral level. Clearly, a meaningful

dialogue about putting limits on the evolving shape of bilateral templates needs to take place at a level other than between individual countries. The regional track seems to me the most promising one. APEC is looking for a mission, and it might think about at least diffusing the process that could lead to conflicting FTAs within APEC.

By the way, I disagree a little with Professor Bhagwati. I don't think the most serious problem with bilateral agreements is that they will lead to lots of different kinds of agreements, entwined like spaghetti. Rather, the problem is that countries like the United States and Japan will shape bilateral agreements that reflect their own priorities and interests and that may be very different from agreements being developed in other parts of the world. It is not that we will have lots of agreements, but that we will have perhaps two or three types of agreements that have little to do with each other and are difficult to fit together. Again, this situation would require some upper level control or discussion, and the regional track would be a good location for this dialogue. In the case of the Asian initiatives, the APEC track would be particularly good venue, and I hope that APEC's energies will go in that direction in the near future.

## JOSÉ M. SALAZAR*

I would like to begin by being explicit and probably also quite provocative, about my general assessment on the issue of regional integration versus multilateral trade liberalization. I have a tremendous amount of respect for the theoretical and empirical contributions of this important debate, many of which have been made by distinguished professors in this room. I think this is one of the most relevant debates for the present and future of the world trading system and I think it has enriched economic theory and understanding, if not always economic and trade policy in practice, as Professor Bhagwati and others frequently remind us.

However, and perhaps influenced by my background as a practitioner of trade policy, I think trade policy should be approached with pragmatism, and in this spirit my view is that the regionalism versus multilateralism controversy is, to a certain point, built on a false dilemma. Not because PTAs cannot create trade diversion, they clearly can do this; not because one would neglect that PTAs can create a "spaghetti bowl" phenomenon that could hinder rather than facilitate business, they can clearly also do this; and not because one could not imagine scenarios of the world going down a path of PTAs while neglecting or diverting resources and political capital away from the multilateral system, which could be a very negative path and welfare

*The author wishes to thank Jorge Mario Martinez for his valuable assistance in preparing material and doing research for this paper.

reducing indeed. I would argue that it is, to a certain point, a false dilemma for three fundamental reasons:

• First, because there are many plausible trajectories where pursuing a two track strategy, both multilateral and regional, might get you to free trade quicker than relying just on one track. In what is called in the literature the "dynamic time-path" question, there is evidence of patterns of mutually reinforcing interdependence where the pursuit of regionalism, triggers or induces the pursuit of multilateralism.[1] In addition, the multilateral system is far from being as quick and efficient as is sometimes portrayed. It is slow to achieve results, and it is weak in a number of fundamental areas. Still, it is the major achievement in the area of global governance of the 20th century and must be protected and strengthened.

• Second, in reality, Latin American countries did not adopt the new regionalism instead of or as an alternative to multilateralism. The typical sequence was that countries first engaged in unilateral liberalization as part of the process of economic reform in the 1980s and early 1990s. The new regionalism was a consequence of this process of reform. Countries also participated actively in the Uruguay Round, and it was in the climate of protracted negotiations and uncertainty about the results of the round that they simultaneously engaged in the revitalization of their customs unions and in the negotiation of FTAs.

• Finally, it can be argued that it might even be counterproductive to portray regionalism and multilateralism as mutually exclusive alternatives, because in practice governments will most likely continue to pursue both simultaneously. So if PTAs are here to stay, the useful questions for research are for instance: How can regionalism be harnessed and oriented so that it maximizes its role as a building block for a more open world trading system? How can Regional Integration Agreements achieve faster and deeper results in areas where the multilateral system is slow, frustrating or shallow? Given the failure of the GATT/WTO mechanisms for examining consistency of PTAs with the conditions of Article 24 of GATT and Article V of GATS, how to strengthen or reform these articles and these mechanisms to bring more discipline and more WTO consistency in PTAs?.

1. Many trade experts have argued that the creation of the EEC led directly to the Dillon and Kennedy Rounds. Others point out to the 1982 shift to regionalism by the US as having been instrumental in persuading the EU and developing countries to launch a new Round. The WTO (1995) argues that the failed Brussels Ministerial in December 1990 and the spread of regional integration agreements after 1990 were major factors in eliciting the concessions needed to conclude the Uruguay Round. At present many seem concerned that the new Bush Administration will give priority to the FTAA and not to the new round, and this seems to be acting as an additional incentive for the recent European and Japanese call in Davos for a new round.

Let me now turn to an overview of trade agreements in Latin America and some of the existing evidence on their impacts.

**Current Status and main characteristics of recent Customs Unions and FTAs in Latin America**

As Table 1 shows (pp. 15-16), there has been a dramatic increase in the number of trade agreements negotiated by Latin American and Caribbean countries in the last ten years with other countries in the Western Hemisphere. Latin American countries negotiated eleven FTAs among themselves during the 1990s and are in the process of negotiating eight more.

Most of these FTAs are of the so-called "new generation" or NAFTA-like agreements, in the sense that in addition to liberalization of trade in goods they include new sectors such as services and agriculture, and new areas of discipline including investment, competition policy, Intellectual Property Rights, and dispute settlement mechanisms. In addition to these FTAs, there are four new or revitalized customs unions: the Andean Community, the Central American Common Market (CACM), the Caribbean Community Common Market (CARICOM) and Mercosur. Since 1998 the 34 countries of the Western Hemisphere (with the exception of Cuba) have also been formally negotiating the Free Trade Area of the Americas (FTAA).

Countries in the Western Hemisphere have not only been negotiating new generation agreements among themselves but also with other countries outside the hemisphere. Five of these agreements were completed in the last 3 years: Canada-Israel, Mexico-EU, Mexico-Israel, USA-Jordan and Mexico-EFTA. Another six are under negotiation: Canada-EFTA, Chile-European Union, Chile-South Korea, Mercosur-EU, Mercosur-South Africa and Mexico-Singapore.

How do these arrangements differ? What sectors are covered or excluded? One of the characteristics of most of these new generation agreements is that, following in many respects the NAFTA model, they contain tariff phase-out programs based on preprogrammed schedules at the outset, which are relatively quick, automatic and nearly universal. This contrasts quite sharply with the laborious step-by-step development of positive lists that characterized most of the old style trade agreements in the region. In most agreements, the base rate for the liberalization program coincide with the MFN applied rates. (Devlin and Estevadeordal, 2000). Two recent studies (Devlin and Estevadeordal 2000; Rodriguez Gigena 2000) show that most programs among LAC countries will eliminate tariffs for almost all products by 2006 and that most of the bilateral trade in these agreements becomes fully liberalized, in terms of tariffs, in a ten year period.

These studies also show that the list of exceptions has been significantly reduced and at present represents between 5% and 10% of bilateral trade. In the case of Mercosur, the main exceptions to the liberalization schedule are autos and sugar that are covered under special regimes. In Central America, the list of exceptions has been reduced to three products (roasted coffee, alcoholic beverages and petroleum products). In the Andean Community, trade has been liberalized totally among Bolivia, Colombia, Ecuador and Venezuela, and since 1997 Peru joined the FTA under a tariff reduction schedule that would lead to free trade in goods by 2005.

During the 1990s customs unions were progressively deepened by the inclusion of disciplines in services, investment, intellectual property and technical standards. As regards the Free Trade Agreements, most of them have been modeled on the NAFTA, in terms of their structure, scope and coverage.

### Impacts of Regional Integration Agreements in Latin America

Now, is this proliferation of PTAs in the Western Hemisphere good or bad? Is it a net contribution to a more open world trading system or not? These are complex questions whose answer requires more empirical research than is currently available. What I would like to do is to review some of the existing evidence from Latin America and the Caribbean (LAC) in regard to four key related issues.

### Have RTAs in Latin America and the Caribbean created or diverted trade?

Regarding trade-diversion or creation, let us look first at the rough orders of magnitude in the main RTAs in Latin America in the 1990s. Of course raw data is of limited value because it does not control for the impact on trade flows of other concurrent shocks and economic changes, but as a first approximation it is revealing of some important trends.

Figure 1 presents the absolute numbers and the rates of growth of intra-regional imports and extra-regional imports for the period 1990 to 1999, for the Western Hemisphere as a whole, for LAC as a group and for the four main RTAs: Andean Community, Mercosur, Central American Common Market and CARICOM. The typical behavior observed in this period is an impressive expansion in both trade within the group and also in imports from the rest of the world, suggesting that there is no evidence of trade diversion or that if any, trade diversion was overwhelmingly dominated by dynamic effects.

Extra-regional imports in all cases increased by more than 7% annually in the Andean Community and Caricom and by more than 11% annually in the case of the Central American Common Market (CACM) and

Mercosur during these ten years, and typically around much higher trade volumes than intra-regional flows. Let me now turn to some evidence emerging from studies in the different sub-regions.

### Mercosur

In Mercosur, a study that attracted a great deal of attention was by Alexander Yeats in 1997. The study concluded that Mercosur had resulted in a significant amount of trade diversion and that much of the increase in trade between Mercosur countries was in the "wrong" products, that is, in capital-intensive products. However, these results were questioned by a number of other researchers. A paper by Nigel Nagarajan (1998) observes that in focusing on exports, Yeats' analysis failed to capture the importance of growing imports from third countries. Using the same Index of Regional Orientation, adapted to imports, Nagarajan finds that only in a few products there seems to be trade diversion, and that even for these products, there has been an impressive increase in imports from third countries. Given the upper-middle income ranking of Mercosur countries, the notion that Mercosur countries should be exporting labour-intensive products, rather than the mix of capital-intensive products found in reality, is also questioned. Nagarajan also notes that over the period 1988 and 1996, EU exports to Argentina and Brazil grew by annual average rates of 19 percent and 17 percent, respectively, suggesting that the formation of Mercosur does not seem to have seriously constrained EU exports to the region.

A more recent study by Estevadeordal, Goto and Saez (2000) also finds no evidence of trade diversion and argues that Mercosur is not just a traditional PTA but a case in New Regionalism, where preferential liberalization is accompanied by aggressive unilateral trade reform by its members, leading to trade expansion and improved welfare for both members and non-members.

So in the case of Mercosur there is no clear evidence of trade diversion, and even for the few products where trade diversion has occurred, the increasing multilateral openness of Mercosur coupled with the dynamic effects greatly outweigh any static welfare losses. It is fair to say, however, that it is not appropriate to pass definite judgement on Mercosur, or in other agreements in Latin America, as the newer agreements have data only for a few years they are still evolving or in transition towards freer trade.

### Andean Community

Fewer studies are available in the case of the Andean Community. A 1999 study by Miguel Rodriguez applies some simple tests to both the Andean Community and Mercosur and concludes that far from suffering as a consequence of these two subregional agreements, the outside world has continued to enjoy increased market access to both the Mercosur and the Andean Community.

This study also analyses the issue of how the formation of the Andean Community and Mercosur affected the height of the preexisting tariffs against third countries. It shows that the average level of the CET of both Mercosur and the Andean Community in 1998 was lower than the average level of the tariff schedules of each member country in the year preceding the implementation of the agreements.

### NAFTA

A recent survey of studies on NAFTA by Mary Burfisher, Sherman Robinson and Karen Thierfelder (2001) shows that virtually all the studies on NAFTA show trade creation greatly exceeding trade diversion. In her 1999 study Anne Krueger (Trade Creation and Trade Diversion under NAFTA) examined data at the three-digit SITC level, and finds few sectors in which imports of any NAFTA country from the rest of the world fell while rising within NAFTA. She concludes that "changes in trade flows to date do not give much support to the view that NAFTA might be seriously trade diverting".

### Have RTAs in LAC allowed countries to lock-in trade reforms?

What about the evidence from Latin America on the argument that RTAs are beneficial because they allow countries to "lock-in" reforms, both in trade and non-trade areas, and therefore function as good commitment mechanisms. This issue was recently reviewed by the World Bank report on Trade Blocks published last year and the conclusion is that in the trade area, RTAs have indeed worked well as commitment mechanisms in practice.[2]

The impact of NAFTA in locking-in not only a broad range of economic reforms but democracy is recognized in this report. NAFTA was instrumental in determining the policy response of both the Mexican and the US governments to the 1995 peso crisis. Mexico maintained the reforms and increased its credibility as a location for international investment, and the US response demonstrated that NAFTA meant more than just trade policy.

2. Fernandez (1997) contains a useful analysis of the conditions under which a regional agreement will enhance the credibility of policy reform.

Mercosur also disciplined the economic response of its members to the 1998-99 financial instability. And the democratic clause of Mercosur was effectively and successfully used at least once during the Paraguayan political crisis.

Of course, how effective RTAs can be as commitment mechanisms depends on the value of belonging to the group and on the credibility of the threat of action if rules are broken. So not all RTAs are equally effective in this sense.

From this perspective, the proposed FTAA, by allowing Latin America to link up with the US and other industrialized nations, will probably be a particularly effective commitment mechanism for most countries in Latin America both for a broad range of economic policies and in other non-trade but related areas, and this provides the FTAA with a strategic value that has been widely recognized.

There is also anecdotal evidence that RTAs have induced behavioral changes in the traditionally rent-seeking behavior by the business communities. In many countries the business communities are more engaged pointing out the domestic distortions in transportation costs, the costs of telephone calls, electricity rates, and interest rates that hinder their ability to compete with firms from countries with which FTAs have been entered. Again, these are pressures to eliminate domestic distortions that are incompatible with free trade, whether regional or global.

### Do the New RTAs allow Deeper Integration?

Have RTAs in the Latin American Countries (LAC) helped to liberalize beyond what can be accomplished multilaterally and to achieve "deep" integration? In terms of trade in goods, as mentioned above, automaticity and universalism in the tariff elimination programs are positive new characteristics of the new RTAs in LAC. However, these RTAs have also introduced selective procedures and discretionary application of rules of origin (ROO). There are practically no empirical evaluations in Latin America that allow to assess the cost of ROO and compare these costs with other benefits derived from these agreements.

"Deep integration" and positive rule making behind the border is a central defining feature of the New Regionalism in LAC. Deep integration involves aspects such as investment, services, product and production process standards, and mutual recognition issues.

Wilfred Ethier (1998), Robert Lawrence (1997) and others have argued that the instrumental role of the new regional integration is dramatically different from that of the old schemes. Agreement design and rules are more focused on being functional for attracting investment, rather than on the traditional export expansion motive; on reforming domestic

regulations and rules with a view to facilitate the participation of the sub-region in the global organization of production and to facilitate region-wide sourcing. The point is important because it has also been argued that to the extent that the New Regionalism in Latin America and elsewhere is significantly about these deeper aspects of integration, the traditional analysis of costs and benefits of RTAs, which focus mainly on barriers at the border, while ignoring differences in national institutions and domestic regulations, is seriously deficient.

There is very scarce empirical research in Latin America on these questions. A recent paper by Sherry Stephenson examines what has been done by members of regional trading arrangements in the Western Hemisphere to promote stronger disciplines for domestic regulation and recognition agreements in the area of trade in services.

The paper compares the disciplines on domestic regulation contained in four sub-regional agreements in the Western Hemisphere—NAFTA, the Andean Community, Mercosur and CARICOM- to those contained in GATS Article VI on domestic regulation, and a similar comparison is done in the area of recognition of qualifications for foreign service providers with GATS Article VII.

The hypothesis addressed by the paper is that because members have similar preferences and face fewer costs when designing more detailed common rules on services trade than in the multilateral context, then one might expect to find more detailed disciplines on non-discriminatory regulatory measures affecting trade at the sub-regional than at the multilateral level.

With respect to domestic regulation, the analysis provides mixed results, in the sense that while some RTAs adopt principles that have a higher degree of generality than those of the GATS, other RTAs, most notably NAFTA and Mercosur, apply more stringent disciplines than GATS. With respect to recognition the analysis shows that the sub-regional integration schemes examined do go beyond GATS in encouraging or requiring the formation of recognition agreements.

These conclusions, however, relate to the nature of the disciplines contained in the agreements, not to the actual progress in changing national legislation or enforcement. It can also be argued that it is too early to assess the impact of services disciplines in the RTAs in Latin American because the new commitments and disciplines in these areas entered into force only very recently.

### Regionalism in the Americas: detrimental to multilateral negotiations?

Finally, is there evidence in LAC countries for the argument that their proactive pursuit of regionalism in the 1990s has been to the detriment

of their commitment or attention to multilateral negotiations? To my knowledge there is no evidence of this, in fact the opposite seems to be the case. One piece of evidence is related to the increased participation of LAC countries in the GATS after the Uruguay Round. Twenty LAC countries participated and made specific commitments in the Agreement on Basic Telecommunications, and all of these but Brazil also committed to adopt in whole or in part the Reference Paper on Pro-Competitive Regulatory Principles.

Similarly, seventeen LAC countries submitted improved schedules in the Financial Services Agreement that entered into force in January 1999, although there is considerable regulatory caution by countries in the hemisphere indicated by the fact that most commitments in the financial sector refer to mode 3, commercial presence.

LAC countries also made numerous submissions on services and other issues during the months preceding the Seattle WTO Ministerial Meeting, and they have continued to be quite engaged in the year 2000. Most important, I do not know of any LAC country that was before Seattle or is now against a new multilateral round. So I do not think there is evidence out there to the effect that LAC countries see regionalism as an alternative to multilateral negotiations.

In fact, I would argue that rather than a diversion of attention and energy from the new round, regional negotiations by LAC countries, particularly the FTAA negotiations, have generated important positive externalities and learning effects that benefit engagement in the multilateral system.

**Final Comment.**

In summary, Latin America experienced in the 1990s a dramatic increase in the number of bilateral and RTAs agreements. The available evidence from Latin America does not support the view that there has been strong trade diversion from this proliferation of RTAs in the region. However, more empirical research than is currently available is needed to assert this with more certainty. New RTAs seemed to have worked well as commitment mechanisms in practice, for both locking-in economic reforms and also to promote non-trade reforms. I also analyzed the question of whether RTAs have allowed members to integrate more deeply than multilateral negotiations. Most new RTAs include areas of discipline not included in the WTO, however it is early to assess to what extent this wider and deeper coverage at the level of disciplines has translated into actual progress in changing national legislation or enforcement.

Finally, I find no evidence in LAC countries for the argument that their proactive pursuit of regionalism in the 1990s has been to the detriment of their commitment or attention to multilateral negotiations.

TABLE 1.
Customs Unions and Free Trade Agreements in the Western Hemisphere

| Agreement | Signed | Entered into Force |
|---|---|---|
| **Customs Unions** | | |
| 1. CACM (Central American Common Market) | 1960 | 1961[c] |
| 2. Andean Community | 1969[a] | 1969 |
| 3. CARICOM (Caribbean Community and Common Market)[b] | 1973 | 1973 |
| 4. MERCOSUR (Common Market of the South)[d] | 1991 | 1995 |
| **Free Trade Agreements** | | |
| 1. NAFTA (North American Free Trade Agreement)[e] | 1992 | 1994 |
| 2. Costa Rica-Mexico | 1994 | 1995 |
| 3. Group of Three (Colombia, Mexico, Venezuela) | 1994[f] | 1995 |
| 4. Bolivia-Mexico | 1994 | 1995 |
| 5. Canada-Chile | 1996 | 1997 |
| 6. Mexico-Nicaragua | 1997 | 1998 |
| 7. Central America-Dominican Republic | 1998[g] | |
| 8. Chile-Mexico | 1998[h] | 1999 |
| 9. CARICOM-Dominican Republic | 1998[i] | |
| 10 Central America-Chile | 1999[j] | |
| 11. Mexico-Northern Triangle (El Salvador, Guatemala, Honduras) | 2000 | |
| 12. Andean Community-Mercosur | In negotiation | |
| 13. Central America-Panama | In negotiation | |
| 14. Chile-United States | In negotiation | |
| 15. Costa Rica-Canada | In negotiation | |
| 16. Mexico-Ecuador | In negotiation | |
| 17. Mexico-Panama | In negotiation | |
| 18. Mexico-Peru | In negotiation | |
| 19. Mexico-Trinidad and Tobago | In negotiation | |
| **Agreements With Countries Outside the Hemisphere** | | |
| 1. USA-Israel | Ö. | 1985 |
| 2. Canada-Israel | Ö. | 1997 |
| 3. Mexico-European Union | 2000 | 2000 |
| 4. Mexico-Israel | 2000 | 2000 |
| 5. USA-Jordan | 2000 | |
| 6. Mexico-EFTA | 2000[k] | |
| 7. Canada-EFTA | In negotiation | |
| 8. Chile-European Union | In negotiation | |
| 9. Chile-South Korea | In negotiation | |
| 10. MERCOSUR-European Union | In negotiation | |
| 11. MERCOSUR-South Africa | In negotiation | |
| 12. Mexico-Singapore | In negotiation | |

(a) With the signing of the Trujillo Protocol in 1996 and the Sucre Protocol in 1997, the five Andean countries—Bolivia, Colombia, Ecuador, Peru, and Venezuela—restructured and revitalized their regional integration efforts under the name Andean Community.

(b) The members of the Caribbean Community are: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Montserrat (an overseas territory of the United Kingdom). The Bahamas is an associate member but not a full member of the Common Market. Haiti will become the fifteenth member of CARICOM once its deposits its instruments of accession with the group's secretary general. The British Virgin Islands and the Turks and Caicos Islands count as associate members of CARICOM.

(c) The agreement entered into force on this date for El Salvador, Guatemala, and Nicaragua; on April 27, 1962, for Honduras; and on September 23, 1963, for Costa Rica. With the signing of the Tegucigalpa Protocol in 1991 and the Guatemala Protocol in 1996, the countries of the Central American Common Market—El Salvador, Costa Rica, Guatemala, Honduras, and Nicaragua—restructured and revitalized their regional integration efforts.

(d) The members are Argentina, Brazil, Paraguay, and Uruguay.

(e) Before signing NAFTA, Canada and the United States had concluded the Canada-U.S. Free Trade Agreement, which entered into force on January 1, 1989.

(f) Chapters III (national treatment and market access for goods), IV (automotive sector), V (Sec. A) (agricultural sector), VI (rules of origin), VIII (safeguards), IX (unfair practices in international trade), XVI (state enterprises), and XVIII (intellectual property) do not apply between Colombia and Venezuela. See Article 103 (1) of the agreement.

(g) This agreement applies bilaterally between each Central American country and the Dominican Republic.

(h) On September 22, 1991, Chile and Mexico had signed a free trade agreement within the framework of the Latin American Integration Association (ALADI).

(i) A protocol to implement the agreement was signed on April 28, 2000.

(j) This argument applies bilaterally between each Central American country and Chile.

(k) It will enter into force in July 2001.

## ANDRE SAPIR*

I agree with the previous speaker that we lack the empirical evidence to draw definite conclusions about the economic impact of regional and bilateral trade agreements. We do see trends, however, and we should draw conclusions from those trends.

The analytics of the economic effects of regional trade agreements is very simple. Regional trade arrangements entail two kinds of effects. On one hand, they involve trade liberalization, which is clearly desirable. On the other, regional trade agreements entail discrimination, which is not only bad economics but also bad politics.

Unfortunately, empirical implementation of this simple analytics is far from trivial. One needs information not only about trade tariffs and barriers, but also about the details of the regional trade agreements, which may vary substantially from one agreement to the next. One cannot assume that a conclusion drawn about one agreement will hold for another agreement, which may have a very different balance between the trade liberalization and trade discrimination effects. Besides, one needs to evaluate these agreements not only on their own merits, but also from a systemic viewpoint, i.e. analyzing their impact on the world trading system in general.

Turning to Europe, one observes regional trade agreements at three separate levels. First, there is the European Union (EU) itself. Second, there are regional trade agreements between the EU and most other European countries, which are either current or potential EU candidates. Third, there is now a new type of EU regionalism involving non-European countries, which, by definition, are not potential EU candidates. These include not only "neighboring" Mediterranean countries, such as Morocco, Tunisia and Egypt, but also more distant ones, such as South Africa, Mexico, Chile, and Mercosur.

Making an empirical evaluation of these three categories of regional trade agreements is no trivial matter. There are only good studies only for the first category, namely the EC, including its various enlargements. The evidence here can be summarized very simply by distinguishing between industrial and agricultural sectors. The EU is a customs union where the level of protection for industrial products is low and has been decreasing over the years through the multilateral process of negotiation. With only a few exceptions, the countries that have entered the EU have come in at a lower level of protection for their industrial products than they had before. Hence, as far as industrial products are concerned, the EC has entailed much liberalization and little in the way of discrimination, which implies that it has been welfare-enhancing for its members, and for third countries.

* These remarks reflect the view of the author, not necessarily those of the European Commission.

Exactly the reverse holds for agricultural products, which are highly protected under the EU. Almost invariably the countries entering the EU—the United Kingdom is a prime example—had relatively little protection on their agricultural products before their entry into the EU. Hence, in this area the EU has entails much discrimination and little liberalization, which means high costs for member countries as well as for third countries.

This story is not new. The situation already prevailed in the early days of European integration, and has changed little over the years. The bottom line, however, is that the positive trade effects of the EU are much larger than its negative effects, simply because the EU industrial sector is much larger than its agricultural one.

There are a number of studies regarding the other two categories of regional trade agreements, but they are all hypothetical in nature. While it is true that those studies do provide positive evaluation of the agreements, I feel somewhat ill at ease with the necessarily simplifying assumptions that are involved. In particular, it is almost impossible to model the complexity of regional trade agreements in these studies. Yet, the details of such agreements matter a great deal, and the devil is often in the details! Take, for instance, the rules of origin. The main text of a regional trade agreement may contain only two or three paragraphs on origin rules, whereas the details about such rules may run for several hundred annex pages. This often makes the hypothetical evaluation of regional trade agreements extremely difficult.

One final point on lock-in effects, which are generally regarded as extremely important in regional trade agreements involving the United States or the European Union on one hand, and emerging or transition economies on the other. The lock-in argument is very neat—it says that the rewards for being a member of a trade agreement with the EU or the United States are so great that they provide tremendous incentives for emerging or transition countries to pursue internal economic reforms in order to join a regional trade agreement. Indeed one has observed very important changes in Mexico since the implementation of NAFTA, and in Central and Eastern European countries since the implementation of their free trade agreements with the EU.

I would argue, however, that it is not so much the regional trade agreements themselves that are providing the lock-in effect as the political will of the countries involved. Regional trade agreements may certainly be helpful in sustaining the course, but the impetus must come from political resolve. Economic reforms will not simply follow from the formation of a regional trade agreement. Take, for instance, the agreements between the Mediterranean countries and the European Union. Certainly, one of the EU's purposes in setting up free trade areas with

its Southern Mediterranean neighbors is to encourage economic reforms and continuing economic improvements in these countries. Unfortunately, however, the (good) idea of using regional trade agreements as a prop to lock in economic reforms seems to be only partially shared by Southern Mediterranean politicians. In other words, there is no point discussing the potential lock-in effects of regional trade agreements unless and until there is a strong political will to undertake the very reforms that need to be locked in.

## DAVID TARR*

We at the World Bank have been very concerned about regional trade arrangements. We have to provide advice to our clients and sometimes support loans relating to these activities. One of the big activities of our group over the past five or six years has been to evaluate regional arrangements in several parts of the world. Overall, the results of these analyses have produced an ambiguous picture. Some regional arrangements have been beneficial, some have been counterproductive. In this talk I will mix my personal experience with the main messages of the evaluation report that the World Bank produced last year.

The first message is that South-South agreements typically have been counterproductive. They result in more trade diversion than trade creation, and they restrain unilateral trade liberalization. The most notable example of this is probably the Central American Common Market, which was created in the 1960s. Over a period of fifteen years or so, trade within the region increased from less than 5 percent of total trade or almost 20 percent. That trade was almost all trade diversion. Outside the region the external exports were simply the traditional agricultural exports, but within the region new industries were created to replace imported manufacturers from Europe and the United States. These new industries could not have existed without the preferential tariff rates, and they collapsed as a result of the debt crisis in the early 1980s. This particular regional arrangement also illustrates the speciousness of defending regional trade arrangements on political grounds when the economic benefits are minimal. In this case, it has been argued persuasively that the high costs Honduras was paying under the regional arrangement contributed to the war between El Salvador and Honduras in the late 1960s.

Another example comes from Kyrgyzstan in 1996 when Boris Yeltzen was up for re-election and it was a very precarious reelection. The Russians pressured Kyrgyzstan not only to join the customs union with

* These remarks reflect the view of David Tarr, not necessarily those of the World Bank.

Russia but to adopt the Russian tariff as a common external tariff, which was high on Russian manufacturers and virtually zero or low on most of the products the Kyrgyz exported. At the time Kyrgyzstan had a 10 percent uniform tariff in place.

Although they tried, most of the Kyrgyzstan ministers we talked with were unable to defend this agreement on economic grounds. So we suggested that they accede to the WTO as rapidly as possible with their low tariff, which would provide them political cover against the Russian pressure. Geographically Kyrgyzstan is vulnerable to Russia. All their goods have to travel across thousands of miles, including about a thousand miles of Russian territory, before reaching a western port. Even when the central government is on favorable terms with Kyrgyzstan, transportation problems and corruption in that part of the world still make exporting a difficult process. So the Kyrgyz government paid lip service to the Russian customs union but did not implement it, as they waited for admission to the WTO. Kyrgyzstan and Latvia were the first countries from the former Soviet Union to join the WTO.

In general, free trade areas are better venues than customs unions for individual countries like Kyrgyzstan, because they can always lower their external tariff to reduce the costs of trade diversion. This is essentially the decision Chile made. Chile was asked to join Mercosur. It refused to join the customs union but was willing to enter a free trade arrangement. We did a quantitative evaluation in Chile, which had an 11 percent uniform tariff, and found that this was clearly the right strategy for them. Actually, we found that even a free trade area with Mercosur at the 11 percent tariff was costly to Chile, but that if Chile lowered its tariff to 6 percent, which they are doing, then the trade diversion costs would be reduced so that the free trade area with Mercosur would be beneficial.

Although our World Bank group has reservations about South-South agreements, we are generally supportive of North-South agreements. Several people have talked about the lock-in effects these agreements have for political and economic reform. The Moroccan government, for example, surprised the European Union by offering reciprocity when the country already had free access to European markets. The trade minister wanted the EU's pressure to help it build a coalition within Morocco for opening the Moroccan economy. In Turkey, there has been sustained period of ten to fifteen years of lowering trade barriers in order to conform to the EU's external tariff, and because that agreement did not include agriculture, Turkey did not have to raise tariffs in agriculture. So Turkey benefitted from the agreement by evolving a more liberal trade regime.

Another reason for supporting North-South arrangements is that the southern country is more likely to benefit from foreign direct investment from the northern country and from imports of technologically advanced and diverse products. A third reason is that competition in southern markets tends to be much greater in North-South arrangements than in South-South arrangements. Because the northern economy is comparatively large, the southern market does not typically induce an expansion of northern industries at increasing marginal costs. In the EU's agreements with Morocco, Tunisia, and Turkey and NAFTA's potential agreement with Chile, we see economic gains largely because the northern countries do not provide products at higher prices, so the trade diversion costs are relatively smaller.

One other subject I want to discuss is Chile and its strategy of signing a free trade agreement with virtually any willing partners. Chile has signed agreements already with several smaller countries, and it is eager to sign agreements with the United States, Europe, and Japan. This is a highly debated issue in Chile. Some trade experts oppose this strategy, arguing that unilateral trade liberalization would provide much bigger economic gains. The Chilean government argues that the improved access the country will gain from its regional arrangements will dominate the gains they can get from unilateral trade liberalization. Our evaluation, using a static model, shows that this additive regionalism strategy of Chile's does dominate unilateral trade liberalization because Chile already has a very low uniform tariff. Because it is not a very distorted economy, the marginal gains from unilateral liberalization are small in a static welfare analysis. Our analysis showed that Chile could gain 5-8 percent of GDP from improved access through its agreements with the EU, the United States, and the rest of Latin America, compared with gains of only 1/10th of one percent from unilateral trade liberalization.

But if a dynamic model is used, in which a country opens itself to world markets and obtains technology diffusion and a diverse set of products and is able to improve its total factor productivity, the gains from unilateral trade liberalization are much closer to those from Chile's additive regionalism strategy. Moreover, a regional arrangement with a technologically less-advanced region can have counterproductive dynamic effects if it diverts technology imports from more technologically advanced countries. So the question of which is the better strategy becomes much more ambiguous.

## IPPEI YAMAZAWA

The assignment given to me was to consider regionalism from my view on APEC as a whole. Since I understand the main purpose of this symposium is to advise the U.S. strategy, I thought it would be

worthwhile to present my view on the Japanese strategy. I distributed my own papers on APEC, as well as my own papers on a Japan-Korea FTA, which I worked on for the past two years together with the Ministry of Economy, Trade and Industry (METI). METI is a new name for MITI (Japanese Ministry of International Trade and Industry).

East Asian economies have quickly recovered from the Asian crisis but their structural deficiencies are yet to be amended. Some countries suffer from political instability. They are all struggling to meet the challenges of globalization and the Information Technology revolution. China is now adjusting its domestic legislation to the WTO requirements. Japanese firms, while suffering from depression at home, are building business network across East Asia, which is to be completed by China's accession to the WTO. Stable and steady development of East Asia is the base of the Japanese economic development hereafter.

Tasks for achieving the steady development of East Asian economies are as follows: In regard to trade and investment liberalization for strengthening market competition, in AFTA Common Effective Preferential Tariffs progressed on schedule but with weakened momentum. Japan provides them with a program to help strengthen their market mechanism. Regarding China we welcome China's entry to the WTO. It is a big challenge both for China itself and its neighbors, which will certainly help in integrating the East Asian economy. As regards structural reform, dissolving bad loans and improving corporate governance will enable Asian economies to get out of the current troubles. Capacity building is indispensable for achieving these tasks. It should be provided either externally or through self-help. Prudent macro-economic policy management and stable currency regime are also essential conditions for these tasks.

We can deploy a strategy for international cooperation in these tasks. Basically, we have to rely on self-help for liberalization and structural reform but, of course, guidance with best practices in other countries is useful. However, joint promotion should be mentioned here. Indeed there is a strong incentive for individual countries to realize trade liberalization on a voluntary basis. But in reality it is difficult to break through the resistance of vested interest groups. So we resort to joint promotion internationally, in collaboration with like-minded neighbors. Thus the prevailing FTAs include not only liberalization of tariff and non-tariff measures but also surveillance, dispute settlement, and enforcement.

An analogy can be applied to structural reform. As I mentioned, structural reform has become a very important issue for many East Asian economies. We have a very good incentive to implement structure reform unilaterally, but vested interests at home tend to oppose these reforms, so joint efforts with other nations to implement these reforms are helpful.

Such international organizations as the WTO, World Bank, and UNIDO implements technical assistance of this kind for developing economies. Regional cooperation frameworks help implement the joint promotion of liberalization and structural reform suitable for local needs and realities. There are different levels of regional cooperation, bilateral FTAs, ASEAN + 3, and APEC in East Asia and I would like to argue that these should be used in a complimentary fashion.

In regard to bilateral FTAs which Japan is now working on, they have different aims and a different degree of feasibility. The Japan-Korea FTA aims at dynamic gains from market integration through deregulation and harmonization rather than tariff removal. The Japan-Singapore FTA aims to experiment with these dynamic gains. There still remain challenges in services liberalization and harmonization of rules and standards. On the other hand, the Japan-Mexico FTA aims to mitigate discrimination which Japanese firms suffer from American and European competitors from the recent abolishment of the Maquiladora program. The ASEAN + 3 Summit proposed an East Asian FTA but it is yet to be elaborated upon and is still a remote goal. They have just agreed to start studying it. However, I would like to point out that increased interdependence in the region justifies the need for closer cooperation. Although it may not reach an FTA, it can implement harmonization, dispute settlement, and joint promotion of necessary structural reform. It will help develop an integrated East Asian market. Here we should maintain 'open regionalism' against third countries' criticism of forming an 'inward-looking East Asian bloc'.

Lastly, a few observations on APEC. APEC has not achieved sufficient progress in liberalization; it liberalized slowly in the Osaka Action Agenda framework, failed to achieve Early Voluntary Sectoral Liberalization, and it is not in good shape now, but it still has an important role to play. APEC members are not agreed on the WTO agenda. It can only play a catalyst role at most. However, we witness a good progress in facilitation areas such as standard and conformance, customs procedure, and business visas. Recently APEC has focused on strengthening Ecotech elements; increased implementation of capacity building in Trade and Investment Liberalization and Facilitation (TILF), financial cooperation, new economy measures, and assistance to structural reform. Here too, open regionalism is an important asset of APEC. This non-discriminatory nature makes it appealing to outsiders.

## QUESTION & ANSWER

Jagdish Bhagwati: People can disagree over whether bilateral trade agreements are a problem or not, but not for the reasons that Hufbauer and Petri cite. The study by Frankel and Rose, for example, talks only

about where the trade is impacted, not whether the trade is good or bad, but that is the whole point of the debate about trade diversion and trade creation. So the study is not relevant to the question at hand. Economists have also raised fundamental questions about whether CGE models can be used in this sort of study. So it's a bit cock-eyed to rely on these kinds of aggregate studies which, in fact, are often methodologically flawed.

At the qualitative level, there are issues that these studies just don't reach. In his interesting paper, for example, Professor Matsushita discusses how nontrade barriers invoked against third parties can turn trade creation into trade diversion. Another factor in the trade creation-diversion equation is the important role played by the legal system, as Petros Mavroidis' paper shows.

There is a spaghetti bowl of preferential trade agreements, and the bowl is beginning to spill over. Alec Erwin from South Africa picked up this theme in a trade session at Davos, when he said that the spaghetti bowl is a real problem for the poor countries. Maybe big countries and big corporations can deal with the maze of preferences, but small countries, small corporations simply cannot handle it. Somebody has to sit back and draw the world back into the multilateral system. I think the United States is a leader. The U.S. should not be playing these games along with everybody else. Country by country it may be rational to enter into lots of bilateral agreements, but regional agreements like the FTAA are certainly better than all kinds of bilaterals. Yet regional arrangements still put up a system of preferences against third parties, who might then throw up more of their own preferences.

In my judgment, it is time to push the multilateral trading system. I do not think we can just dismiss it by looking at individual areas or individual bilaterals and say that makes sense. I think we have to look at the system.

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Soogil Young: Two questions. First, have any estimates been made of the administrative costs of managing free trade agreements? For countries with several FTAs, these costs could be substantial. Second, isn't the proliferation of interest in FTAs among Asia-Pacific countries, particularly East Asia countries, a reflection of the failure of the concerted unilateralism and open regionalism that APEC has been pursuing in regard to the trade policies of the APEC member countries? If the APEC process had been working, I don't think we would have seen such a proliferation of interest in FTAs among APEC member economies and countries.

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Carole Brookins: Coming from agriculture, I'd like to ask: "Where's

the beef?" In most of these FTAs, the agricultural side is left out. If we practice this type of agricultural apartheid in FTAs, what are we doing in terms of having a successful WTO round? If countries can negotiate all their favored deals in these FTAs but not have to take the hard moves on agricultural products, there is absolutely no incentive to negotiate in the WTO because there you're always trading agricultural issues off against the more attractive liberalization of other goods and services. Moreover, the tariff barriers on food and on agricultural products and the high food costs in these markets are one of the biggest regressive taxes on the poor. I think until we start to address this we're going to have severe problems, especially in the developing world.

So my question is, how do we leverage and tighten WTO rules under Article 24? Why was this not part of the Seattle discussion and debate? How do we meet the spirit of the original rules of the Article 24 rules? If we grandfather the existing FTAs and then put new rules in place, what kind of a trading system are we going to have multilaterally?

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Gerard Depayre: When speakers say an agreement may be good or it may be bad, what exactly do they mean? In relation to what criteria? Good from whose point of view? We're talking here about moving toward greater liberalization. There may be different way to get there. There may be a combination of means. Just to characterize an agreement as "good" or "bad" is not enough.

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David Tarr: I agree with Mr. Salazar that a free trade agreement in the Americas would be important to lock in reforms, particularly in the area of deep integration beyond simply the tariff issues. Mr. Salazar also mentioned that tariffs throughout Latin America are lower today than they were twenty years ago. The judgment one has to make is whether tariffs throughout Latin America are low enough so that we can presume these agreements are beneficial. My judgment is that they are not, but I have not done a specific analysis in most of these cases.

On the issue of administrative costs, we have looked at them for some of the eastern European nations joining the EU. In Estonia, for example, these costs are a huge burden. I would add that the problem is not necessarily how many agreements a country has, but rather what is the nature of the administrative burden entailed in an agreement. The deep integration agreements often convey benefits beyond simple tariff issues, but they can also incur enormous administrative costs.

A further question was about whether these models take into account dynamic gains. Most of them do not, but in the last five or six years more efforts have been made to look at the dynamic gains. I would say one thing we have learned is that if you simply add a dynamic effect

without something like endogenous growth, if you've done nothing that effects total productivity, you get about the same result as you would from a static welfare effect model.

Andre Sapir: A large source of administrative costs are rules of origin. About twenty years ago, a trade economist did a study and concluded that the cost of rules of origin was about 3 percent of GDP. Since then no other study has been made, and for twenty years, this figure is that one that has been cited.

The second point is about tightening article 24, which is the heart of the matter. We are not going to get rid of those regional agreements. Those agreements are here to stay. Whether we like them or not. I think now what we need to do is sit down seriously and not discuss whether we should have 129 agreements, what we should do—what is the matter in Geneva to try to solve this problem. We need to tighten the rules. One should have rules, new rules and those rules should apply to all the agreements existing and future.

*Soogil Young*

*Left to right: Claude Barfield, Gerard Depayre, Petros Mauroidis*

# SESSION II

# U.S.-Jordan FTA/U.S.-Singapore FTAs: Japan, Korea, Japan-Singapore, U.S.-Chile, U.S. FTAAs, Canada-Mexico: Templates for the Future?

CHAIR:

**Hugh Patrick**
*R.D. Calkins Professor of International Business;*
*Director, Center on Japanese Economy and Business*

DISCUSSION LEADERS:

**Steve Charnovitz**
*Associate, Wilmer, Cutler & Pickering*

**Robert Fauver**
*President, Harrington Fauver*

**Jonathan Fried**
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**Kyung Tae Lee**
*President, Korea Institute for International Economic Policy*

**Kishore Mahbubani**
*Permanent Representative of the Republic of Singapore*
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*Senior Fellow, Institute for Global Economics;*
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*and Former Ambassador of the Republic of Korea to the OECD*

*Steve Charnovitz*

## STEVE CHARNOVITZ

I want to talk, first, about trade linkage issues in a regional context, focusing on environment and labor, and, second, about the U.S.-Jordan model. There are three reasons for governments to link trade and environment in a trade agreement. The first reason is to increase the net benefits of the agreement. The idea is that the gains from policy coordination in trade can be supplemented from other policy coordination. For example, last week the North American Commission on Environmental Cooperation issued a study saying that the increased freight shipments resulting from NAFTA trade had increased pollution and that unless measures were taken, the amount of pollution could double over the next twenty years. This trade-induced physical effect, I believe, can reduce the economic gains from trade. So it is appropriate for governments to respond to this type of situation with complementary environmental policies, and a trade negotiation can provide a venue for governments to adopt such policies.

The second reason is to ensure that the trade law disciplines in the agreement do not interfere with legitimate environmental, health, or consumer laws. For example, I would point to the investment section of NAFTA, where in the recent Metaclad decision, the arbitral panel said that a denial of a landfill permit in Mexico was an indirect expropriation that violated NAFTA and the panel went even further to say that a government decree to create a nature preserve could also violate NAFTA. Now any future FTA that has investment provisions is going to have to

address this question of when taking on some sort of environmental law becomes viewed as expropriation.

The third reason for linkage is political. There may have been a time, many decades ago, when governments put together trade treaties without public support but those days are long gone. Building a sustainable political coalition for trade negotiating authority is going to require support from a broad array of private actors and social actors, not just export interests.

To understand the significance of the U.S.-Jordan free trade model, one must look to the NAFTA model. NAFTA has a precatory provision stating that the parties should not lower domestic labor and environmental standards to attract investment, and separate environmental and labor agreements also provide a dispute settlement system for determining whether a party to the agreement has consistently failed to effectively enforce its environmental law. Trade sanctions could be imposed if the violation is not corrected.

What the Jordan model does is bring these environmental and labor dispute settlement provisions directly into the trade agreement itself. The Jordan model also has side agreements on WTO cooperation and on environmental technical cooperation.

Now, let me offer three observations about the debate over the Jordan model. First, it makes no practical difference whether the dispute settlement provisions are in the trade agreement or in a parallel agreement that can suspend the benefits of the trade agreement. If you are the innocent victim of one of these trade compliance sanctions, then it does not matter whether your business is hit frontally by the FTA or sideswiped by the side agreement. So the critics of the Jordan agreement have much less to fear about it than they think.

Second, the concept in the Jordan FTA and in the NAFTA side agreements of having governments monitor each other's enforcement of domestic law is deeply flawed. U.S. citizens may want to enforce U.S. law and probably favor, in general, promotion of the rule of law in other countries, but there may not be any U.S. interest in promoting enforcement of a specific foreign law absent some analysis that the foreign law benefits the foreign country, the United States, or the world. The notion of one country supervising another country's enforcement of its own domestic standard does not mean the country being monitored is free to change its law. So my conclusion is that the proponents of the Jordan FTA have less reason to be proud of it than they think.

My last observation is that the most important feature of the NAFTA model is the one that draws the least attention. That is the promise of cooperation among the three countries, not the possibility of confrontation.

NAFTA cooperation on the environment is important because the three countries share common ecosystems. NAFTA cooperation on labor is important because the three countries share some labor markets. The debate we've had in the United States over the past several months on Jordan really loses sight of this. It misses the point that what is needed is more cooperation, and the NAFTA agreement provides for that.

Let me close by saying that the topic of this panel is a good one and may help policymakers establish mechanisms of international cooperation to improve the environment and to promote a world public order of human dignity.

## ROBERT FAUVER

In thinking about FTAs as templates, the first question that ought to be asked is whether the agreement is GATT-consistent. Does it comply with Article 24? Does it cover substantially all trade? In the last ten years or so, agreements have drifted away from broad compatibility with Article 24.

The second key question is whether the proposed FTA deals with any new areas of either tradable goods or services or internal sector issues. The old U.S.-Canada FTA, which I had the good fortune to work, was the first agreement that brought financial services into a trade agreement. By broadening coverage of old-fashioned trade agreements into some new sectors, the FTA served as a starting point for future negotiations in the financial services sector. I'm not arguing that that agreement was a perfect solution, but that it was a start on a solution.

So the second question to ask in evaluating current FTA discussions is, are they expanding coverage to new areas in ways that will indicate where the multilateral system might be able to move over time? Coverage could be expanded both in the tradable sector and in internal issues—what I would call structural rigidities or impediments to the movement of goods into and through an economy. Think of an agreement that incorporated telecommunications, civil aviation, customs clearance, and delivery systems. The sum of these are greater than any of the individual pieces in terms of being able to use the Internet for business to business or business to consumer trade expansion, but these are areas not now covered by trade agreements.

I think investment issues need to be covered. The right to establish, the right to engage in mergers and acquisitions, and a broad area of investment rules and agreements need to be included in trade agreements. We have not been successful to date, but that is another area for new coverage one could use to judge what might work in a multilateral context. Information technology services could be included. Structural

rigidities that interfere with the movement of goods and investment flows into and out of a country could be included in trade agreements; these might include corporate governance issues, transparency issues, accounting standards, and competition policy.

So it seems to me there are four questions to ask in evaluating an FTA in terms of its contribution to the global trading system. First, does it cover all goods? Second, does it increase tariffs or nontariff barriers to trade? Third, does it add new areas of coverage to the system? Fourth, does it bring a country into the system that previously had not been motivated toward free trade? For example, I think the NAFTA agreement moved Mexico clearly toward trade liberalization, as opposed to where it had been going. By itself, that can be a positive benefit.

Turning now to the question of how movements in Asia fit these evaluation criteria, I think it is difficult to tell yet where Japan is going. It is clear that even in the agreement with Singapore, not all trade will be covered because there are agricultural problems. Japan thought it could avoid all of the agricultural problems by negotiating with Singapore. But it turns out Singapore apparently produces koi (carp) and orchids. So two classically Japanese products have raised their heads to become a problem with the FTA even with Singapore. At the same time, the mutual recognition of professional standards included in the Japan-Singapore agreement is an expansion of coverage into a new area that could give us ideas to include in the next global or multilateral rounds.

The Japan-Korea discussions are not far enough advanced to figure out what positive contribution that agreement could make to the multilateral trading system. I do not see how those discussions will ever get beyond either investment issues—rights of establishment issues—or agricultural trading issues. I will not live long enough to see a full FTA that includes the ASEAN original six, let alone the ASEAN original six plus new members, let alone ASEAN as it sits today plus China, Japan, and Korea.

One thing we need to pay more attention to is the effects on the global trading system of EU expanded bilateral agreements and associated member status and with countries in Latin America. These limited agreements are not covering all trade or any new areas of trade, and therefore probably would not be templates for future expansion of the multilateral trading system. I think we make a mistake to focus only on what is happening in Asia and Latin American without also including the effects of EU associated status membership and some of the EU expansions in Latin America in terms of total coverage and the examples they are setting for the future.

## JONATHAN FRIED

I am not going to dwell on what we in Canada have been doing regarding free trade agreements. We do have FTAs with Chile and Israel. We have nearly completed work on an FTA with the European Free Trade Association and with Costa Rica; we are in the middle of negotiations with Central American countries and, of course, are pursuing and will be hosting the Free Trade of the Americas process through the Summit of the Americas. We have also virtually completed our exploratory talks to launch free trade negotiations with Singapore.

I would like to talk about new models and new templates in two respects. First, from a practitioner's perspective, I think it is fundamentally important to shift our focus from opening markets to strengthening markets. Second, I think it is equally important to reframe our examination of regional and multilateral negotiations to place them in the context of trade and development more comprehensively.

We can shift our focus from opening markets because for most countries in most sectors, the tariff has largely become competitively irrelevant. There are some exceptions, but overall, on a trade-weighted basis, the tariff is no longer an impediment to doing business across borders. Rather, what is at issue is the transactional costs faced by exporters of products in dealing with the non-tariff barriers at the border—the customs facilitation agenda—as well as the panoply of domestic regulations that may distort conditions of competition for exports into the domestic market. A recent study by the International Chamber of Commerce Trade Committee, for example, now estimates the transactional cost of customs procedures to be approximately 10 percent of the final sales price, on average, for internationally traded goods across all sectors.

Beyond the customs paperwork is the area of domestic regulation, and here lies a greater challenge. When negotiators move from the tariff to domestic regulation, they are no longer talking about matters that are within the mandate of a trade ministry. They are talking about matters that fall under the responsibility of domestic ministries with line responsibilities, and in some countries—Canada and the United States for example—under sub-national levels of government. That complicates the ability of governments to tackle these issues in a timely way.

Even though Canada and the United States have virtually identical systems of food safety, of industrial inspection and safety, we have found it virtually impossible to persuade the Food and Drug Administration, the U.S. Department of Agriculture, and U.S. organizations with independent regulatory authority to sit down with us in a common sense way and truly provide the advantages that a rationalized, integrated North American market can and should provide. For example, Proctor &

Gamble, a well-integrated multinational firm, has redistributed its production throughout North America and a factory in the city of Cornwall, Ontario, now has a world product mandate to produce Downey fabric softener sheets. The factory has to split its production run three times a day to change the label on the box to satisfy continuing differing requirements in Canada, the United States, and Mexico—and this is ten years after a Canada-U.S. free trade agreement.

Ultimately, it seems to me that one needs to look at the ability of governments to bring all government resources to bear at a trade negotiating table. Negotiating trade agreements in a world of non-tariff barriers is too important to be left to trade ministers alone.

At a minimum, governments should insist on a minimum level of transparency and objectivity and on fair administration of the existing rules. In fact, this may be one of the most significant results of China's accession to WTO—not so much that there will be immediate liberalization in any sector but rather, that for the first time a major developing market will be signing on to serious disciplines requiring it to publish its regulations, provide independent administrative and ultimately judicial review, and provide uniform administration of laws rather than, shall we say, the vagaries that one experiences in different custom ports in China.

Let me turn secondly and very quickly to putting our discussions today into the more comprehensive context of trade and development. As the World Bank has convincingly shown, trade is a positive contributor to growth for developing countries., While the ultimate benefits may vary depending on other circumstances, there is no example of a country successfully pursuing economic growth without also having a liberal trade environment. But we have increasingly learned that the ability to take full advantage of a liberalized trade environment requires governments to have the capacity to govern domestically in the economic field. That means having a competent customs administration. It means, as we heard from our first panel this morning, having the capacity to implement standards in ways that are responsive to business needs. It means having a fully functioning financial sector that can provide trade credits and other forms of financing that enable businesses to do business.

That means, again, that negotiations cannot be left to trade ministers alone. Governments need to be able to govern in the economic field to ensure that the process of trade liberalization is moving in tandem or in sequence with investment in these countries. This is now a world not only of open trade but also of reasonably free flowing capital. Even with prudential systems in place to regulate that capital, the risk of external shock remains, and in any event the process of structural adjustment is a dynamic one. So it behooves governments to invest in labor policies, in social safety nets, in worker training so that they can prop-

erly adjust in a timely way to the dynamic processes that a liberalized trade environment will provide.

Ultimately, of course, that means that government must enter into genuine political engagement domestically, not just with the business community, but with unions, workers, and civil society more generally. Even if political engagement slows down the process, in the short run, it will ensure a more enduring path to liberalization in the long run.

Trade negotiators have to be aware of this broader environment for economic governance. They have to pay attention to what the World Bank and the regional banks are doing in terms of capacity building. The organizations that are supposed to help on labor policies and on social safety nets have to be made to work better—and that takes us to the International Labor Organization (ILO) as well as to the question of environmental governance. In short, the kind of governance that is wanted internationally must be thought through so that governments can build the appropriate capacity domestically. Failure to address that issue will overload the WTO itself, making it impossible for trade ministers to engage because they will be overloaded with matters that they alone are unable to handle.

## KYUNG TAE LEE

I will focus on South Korea's direct experience in FTA negotiations with Chile, which are going on now, and then discuss our study of a Korea-Japan FTA, East Asia trade liberalization, and also a Japan-Korea-China joint study on trade cooperation.

The Korea-Chile negotiations have been moving along quite well for a year and a half, except for some agricultural areas, notably grapefruit, apples, and pears. The Korean Farmers Association is upset about Korea's opening of its agricultural market to imports from Chile. The government chose Chile as its first partner for FTA negotiations because the industrial structures of the two countries seemed complementary. Korea saw great promise for its manufactured goods such as automobiles and electronics. Because of the seasonal differences, it was thought that Chile's farm exports to Korea would not be a serious problem for Korean farmers. Korea now imports about 1.5 percent of its grapefruit consumption from Chile. That is a very small number, but Korean farmers are contending that if agricultural trade is liberalized, imports from Chile will increase significantly. More than that, Korean farmers are protesting because Chile belongs to the Cairns Group, and if Korea opens its market to Chile, it may have to open its markets to all the other Cairns Group countries. That is why they are protesting so fiercely.

The Japan-Korea FTA study used the static CGE model as a tool and

found that Korea's bilateral trade deficit with Japan would increase by a large number. The central result from the study shows that under an FTA, Korea will specialize more in light industries and that its heavy industries will be hit very hard by competition from Japan. Korea's industrial structure has been moving from light industries to heavy industries for the past several decades, but under a Korea-Japan FTA this long-term trend will be reversed. This is very negative for us.

Our institute is now doing the second-phase study for the Korea-Japan FTA, using a dynamic CG model to consider the productivity gains from FTA. We are looking particularly at the likely impact of Japanese imports on Korea's competitiveness through freer competition and at how much investment will be introduced from Japan to Korea. Increases in investment and productivity are the core of the gains we hope to have from an FTA between the two countries. Also, we are trying to identify the nontariff barriers and the structural impediments in the Japanese market. We think removing or reducing these nontariff barriers are very important for increasing Korea's gains from an FTA with Japan.

There is strong skepticism in Korea about how much we can gain from an FTA with Japan. Korean people argue that the Japanese market is still not open to Korean exports. So even if tariffs are lowered, Koreans believe they will not be able to penetrate the Japanese market. The second concern is that Japan's products are of much better quality than Korean products and so will dominate the domestic markets. We are trying to educate the Korean people to improve this negative perception. We are saying that Japan's market was closed but that it is changing quite rapidly and is much more open than it was before. That is one message. Another message is that although Japanese goods are better, it is also true that Korean goods are competing effectively with Japanese goods in U.S. markets, for example. So we can compete. I am not sure where the two countries will go from here, but let me emphasize the importance of the role of the business forum between two countries. Unless the business communities in both countries speak out for the gains from an FTA between two countries, I think that the Korean government may have difficulties in pushing the Japan-Korea FTA because of the many noneconomic factors.

About the East Asian initiative for an FTA, an East Asia Vison Group with two members from each ASEAN + 3 (Korea, Japan, China) country was formed three years ago to begin exploratory discussions. At a meeting in Bali last month, many members supported an FTA in East Asia as a long-term vision. Of course, it will take years and years, perhaps decades, but remember that it took three or four decades for the European Union to complete free trade. In my opinion, the dynamics in the East Asian region are quite strong and are moving faster than anticipated.

Last, the leaders of Japan, Korea, and China have agreed at the ASEAN + 3 summit in 1998 to undertake a joint study on the possibility of economic cooperation among the three countries. The first phase of the study will focus on how to promote trade facilitation among all three countries. I agree with the earlier speaker that the tariff barriers are less and less important but that other transaction costs from nontariff barriers are still quite big. So trade facilitation has great potential to benefit from cooperation among the three countries.

## AMBASSADOR KISHORE MAHBUBANI

I agree with Jonathan Fried's comment that trade is too important to be left to trade ministers only. What surprises me, and this has come through in this morning's discussion, is how rarely noneconomic considerations are factored into trade policy discussions.

I also agree that the ASEAN plus three FTA will not happen in our lifetime, but the surprising thing is that it has been talked about at all. I think the issue was raised because East Asian countries feel that they are being excluded from the main global trade processes. There has been a deepening of NAFTA, a deepening of the free trade area of the Americas, the strengthening of the European Union, but none of these include East Asia. This sense of exclusion has naturally tempted the ASEAN plus three to come together to discuss possible cooperation. I think that's a very significant political signal that we should not ignore.

This leads to my next point. The biggest danger that the world faces in real terms is some kind of major divide down the Pacific. This is not an abstract danger. If everyone agrees that the main economic growth is going to come from the Pacific basin more than the Atlantic basin and then in the middle of the economic growth, a major political divide occurs, then the world is in real trouble. So the biggest challenge we will face is to find ways and means of bridging the divide. If there is one key reason why Singapore is pushing for free trade agreements simultaneously with the United States, Canada, and Mexico, it is to provide a catalytic effect of encouraging other Asian nations to do the same thing and avoid this great political divide down the Pacific.

One important point about APEC. I know there's a lot of scepticism about APEC's trade benefits. But I hope everyone bears in mind that the political benefits of APEC have been far greater than anybody dreamed they would be ten years ago. I was at the inaugural APEC Leaders meeting watching and observing the initial awkward relationship between President Clinton and President Jiang Zemin of China at Blake Island. However, as a result of the annual APEC Leaders meetings, these two leaders developed a comfortable relationship over the years. Everybody knows that one big problem this year will be the U.S.-China relationship.

It would be very awkward to create a bilateral meeting now between Bush and China, but luckily for us there is an APEC meeting coming up at the end of this year where President Jiang can meet President Bush in an environment that pushes them together rather than drives them apart.

A final point: the conventional wisdom is that everyone wants to have a global open market trading system instead of all these bilateral and regional trading arrangements. The question is how to bring this about. During the Cold War there was a clear strategic interest among the major Western powers in being the leaders of opening the global trading system. There were strong political and strategic reason for them to push for open global markets. With the end of the Cold War, the political imperative to develop open global trading systems disappears day by day. During the Cold War the Seattle meeting would have been a success, but with the end of the Cold War we saw a major trade meeting fail, even though it was hosted and chaired by the U.S.A.

## BALAGOPAL NAIR

I am going to focus on three broad areas. First, why is Singapore pursuing regional and bilateral free trade agreements? Second, I will talk about the trade agreements which we are currently negotiating. Third, I will focus on two major agreements, the Japan and the U.S. FTAs.

Based on what we heard this morning, it seems that the jury is still out as to whether regional agreements divert or create trade or undermine the multilateral trading system. Personally, as a noneconomist and a policy practitioner, I see no evidence to show that world trade has suffered as a consequence of regional or bilateral arrangements. In fact, it has grown significantly. Now, from Singapore's perspective, regionalism or bilateral trading arrangements are an unstoppable force that small, open economies like ours must respond to. At the same time, Singapore is in a regional environment that is politically uncertain, and it is facing economic competition from northeast Asia, particularly China. So while Singapore gives the highest priority to the WTO, it is also pursuing regional and bilateral arrangements. We believe that bilateral and regional trade initiatives can, in fact, accelerate the momentum of trade liberalization globally.

Why is this so? First, consensus can be achieved more rapidly bilaterally and regionally than multilaterally. Second, the agreements can be more forward-looking and far-reaching in scope and coverage. For example, in addition to eliminating tariffs between two countries, free trade areas can set new trade rules that are not discussed or arranged in the WTO. So the game is not just to be WTO-consistent, but to be WTO plus.

Third, bilateral and regional agreements have the potential of injecting a positive competitive dynamic among countries to open up. Singapore has always been a pioneer in terms of economic liberalization. In the early 1960s we were almost alone in opening up our economy, but very soon other countries began to see the kind of investments and growth Singapore was able to generate as a consequence of opening its markets, and so began to emulate the policies the government had taken. We think a similar response will happen in the case of bilateral and regional trade agreements.

Finally, bilateral and regional agreements can bring about internal change and restructuring more quickly than the multilateral process can. Politically, sometimes governments need an external force to force an internal change.

At this time, Singapore has concluded an agreement with New Zealand and is negotiating with Mexico and the U.S. We'll soon be starting talks with Canada and Europe. All the agreements will be comprehensive, covering trade and goods, services, investment, procurement, IPR (intellectual property rights), and e-commerce, among other areas. Someone asked earlier about the administrative headache in enforcing regional agreements. We feel that with appropriate use of information, technology, and risk management techniques, we can overcome these administrative problems. For example, in the Japan FTA one of the areas that is being discussed is creation of a documentation repository that would enable the two countries to electronically transmit trade documents so that the whole process of approvals can be expedited. So administrative obstacles are easily overcome, particularly in an age of information technology.

Let me move on the U.S. FTA. I think a key issue of interest in this workshop is the use of the U.S.-Jordan FTA as a template particularly for labor and environmental issues. Singapore has made significant economic and social progress in this area. The workers in Singapore enjoy rights and benefits comparable to those in the United States and other developed countries. We have also succeeded in reconciling growth with environmental protection. We could therefore agree to accommodate the Jordan provisions if that is what the United States desired. Furthermore, we feel that we can use these provisions in a progressive manner rather than using them aggressively to try and stifle trade.

This does not mean that Jordan FTA should be the basis for other bilateral agreements that the United States enters into. At the multilateral level it would be unfair to impose these same demands on the many developing countries that have a long way to go to achieve standards of environmental protection and social conditions compatible with the developed markets. The concern is that the lack of environmental and

labor standards could be interpreted as providing these developing countries with a competitive advantage and therefore raise the risk that trade sanctions may be used arbitrarily against these developing countries. Of course with the change in the U.S. administration, the position of the United States on this issue is unclear. There is at present no political consensus, and from Singapore's perspective, we will wait for the United States to resolve this debate internally before we proceed further.

We expect the Singapore-Japan FTA negotiations to conclude successfully before the end of the year. In fact, it is not even called an FTA. It is called a "new age partnership agreement" that focuses on liberalization and cooperation in high growth service sectors of the future such as financial, information, and communication technology sectors. There is no reason to exclude agriculture in the negotiations.

So, in conclusion, regionalism is a growing trend and an unstoppable force. Multilateral, regional, and bilateral trade arrangements are not mutually exclusive objectives, but in fact, can complement and usually reinforce each other for the purposes of expanding world trade.

## TIMOTHY REIF

Let me make five very brief points: First, I think we need to be careful how we use the term templates and models in terms of bilateral trade agreements as though we could stamp out trade agreements one after the next. We can't. Trade agreements, whether involving labor provisions or agriculture or any other area, relate to the context in which we are working. Let me give an example. In the Jordan agreement, Steve Charnovitz was critical of the provisions on domestic enforcement of labor standards and environmental laws. I would disagree. I think the enforcement provisions are appropriate because Jordan has strong laws. So an enforcement-based model in that context makes sense. Perhaps in another context, such provisions would not be appreciate or adequate.

Second, we need to be more precise about the terms when we do talk about templates. When we talk about Jordan, for instance, are we talking about national law enforcement rather than ILO standards per se? Are we speaking about the persistent pattern of enforcement element of the standard or the trade nexus element of the standard? Are we talking about the fact that prosecutorial discretion is embedded in the standard? Are we speaking about the relatively informal dispute settlement model, which is based on the U.S.-Israel FTA? For all of those and a number of other reasons, I think we have to be very, very precise.

My third point: I think there is a creative tension between FTAs and the core multilateral rules that anchor the world trading system for two reasons. The first reason is that FTAs can be incubators. The second

reason is that there should be healthy competition between trade negotiating forums. Just as we believe in competition as an economic principle, we ought to believe in it as a trade negotiating principle, and if the WTO is unable to tee up a set of negotiations this fall that can be concluded in two or three years, then I think there is going to be a natural turning to other forums.

My fourth point is that we have to have much better watchdogs on Article 24 of the GATT. We need to have closer and more careful review, and I think cases could be brought. There is a reticence in the U.S. government at this time to bring WTO cases, and I think that's unjustified.

Lastly, I think there is a need for information. Everyone knows how many bilateral and regional agreements there are, but we need to have more specific information. What percentage of external trade is covered by those agreements? I think that is a critical fact. What sectors are covered? What types of rules are involved? Are they mostly tariff-based rules? Do they get into nontariff areas? What kind of enforcement is there if the rules are broken?

## SOOGIL YOUNG

I shall focus on South Korea, but with a focus on the political economy of Korea's position on FTAs.Until 1998, which happened to be the year of Korea's financial crisis, Korea had been hesitant to consider and promote FTAs. In October 1998, however, President Kim Dae-jung agreed with Prime Minister Obuchi, his Japanese counterpart, to consider the possibility of a Korea-Japan FTA. This agreement was the first official expression of Korean interest in FTAs. A month later the government announced that Korea would consider FTAs as important complements to multilateral trade liberalization and explore all possible FTAs.

So far the Korean-Chile FTA is the only FTA involving Korea that is officially in process. There had been four rounds of negotiations with Chile, and a fifth round was canceled because of negotiating difficulties. The governments of Korea and Japan have been taking a very cautious approach to a possible FTA between the two countries. Joint studies of the value of bilateral agreements with New Zealand and Thailand are in their concluding stages. In addition, the prime minister of Singapore has suggested a possible Korea-Singapore FTA, but there has been no formal follow-up on this proposal yet. The Korean government also sounded out the Mexican government for a possible FTA, but Mexico has so far not responded, apparently because the Mexican government has been preoccupied with the EU-Mexico FTA. My personal suspicion is also that the Mexican government is not so keen about striking a deal of this nature with the Korean government.

Now, Korea's decision to embrace FTAs in principal represents several significant changes in the government's trade policy orientation, and a number of factors have conspired to bring these changes about. First is the progressive proliferation of FTAs as well as other regional integration schemes around the world during recent years. Interest in FTAs has spread in Asia as multilateral trade liberalization talks have stalled. All these developments mean that Korean products and services face discrimination in more and more markets abroad, and this provides very strong encouragement for Korea to pursue FTAs.

Second is the impact of the financial crisis that Korea has experienced. The Korean economy has made an export-led recovery from the crisis. FTAs not only enlarge the markets abroad by reducing discrimination against Korean goods and services, but also help to secure stable markets abroad and curb regulatory trade barriers.

Third, since the onset of the financial crisis, the Korean government has been aggressively pushing for economic reforms and external opening to promote internal structural adjustment and to encourage foreign investment. Entering into FTAs with trade partners is expected to contribute to both of these ends. Many of our domestic regulations have to be harmonized with those of partner countries and thus modernized. Also, FTAs and other schemes for regional integration are considered useful in expanding Korea's political influence and borrowing power in international communities. In this regard, Korea's exclusion from the proliferation of regional schemes around the world has made it a rather lonely country.

What are the prospects? First, on the Korea-Chile FTA, Korea began with Chile because the government thought that it would be a relatively easy negotiation and this experience would help the government negotiate other FTAs. As I said, the negotiation with Chile has not been as smooth as was expected. The goal is to conclude negotiations this year with the FTA coming into effect next year, but in order to overcome the Korean farmers' opposition to imports of Chilean fruits, the two governments may have to agree to limit the removal of tariffs and trade restrictions over those products during certain months. This would also mean that Korea may have to accept some tariffs and other trade restrictions over its own exports, including automobiles. Whether the two governments will be able to close on a deal eventually is a good question.

Korea's experiences with Chile thus far demonstrate how difficult it will be for Korea to successfully negotiate an FTA with any country that has a strong agricultural sector. New Zealand, Australia, Canada, Thailand, and the United States are, of course, such countries. A Korea-U.S. agreement in particular seems to be out of the question, at least for the foreseeable future for this reason if for no others, and we know there are a few other reasons also coming from the U.S. side.

One country that would not pose an agricultural problem to Korea is Japan. Will this fact make a Korea-Japan FTA easy to negotiate? The answer is no for a number of reasons. First, Korea generally seems to have the competitive advantage over Japan in agriculture, which means that the Japanese producers of fruits and seafood products feel particularly threatened by their Korean counterparts. Accordingly, they are opposed to an FTA, and so is the Japanese Ministery of Agriculture. Second, Japan has a competitive advantage over a range of heavy and technology-intensive products, including the automobile, and this poses a threat to Korean manufacturers who compete closely with Japanese industry. According to a joint study, under a Korean-Japan FTA, there will be a substantial adjustment in the pattern of specialization in manufacturing between the two countries, and Korea's dependence on Japanese parts, components, and machinery will increase. As a result, Korea's overall exports and trade surplus will rise, but its trade deficit with Japan will also rise. This poses a stumbling block because the prospect of increased dependence on Japan is likely to feed the fear among many Koreans of an "economic subjugation" to Japan. This fear on the part of Korea reflects a persistent distrust of Japan as a friendly neighbor. It is rooted in the historical colonial relations between the two countries. It also reflects that much of the population in each country is still very nationalistic. Some catalytic event of historic proportions is called for, if the problem of historical distrust between the two countries is to be overcome. Alternatively, time may heal this distrust.

As to an FTA with Singapore, there will be no agricultural problem. The only problem is that because Singapore is a free port country already, a Korea-Singapore FTA is not expected to bring any additional benefits of a substantial magnitude to Korea. In the meantime, discussions of all possible forms of bilateral region corporation among East Asians will continue. Now, if Japan enters into an FTA with East Asian countries taken together, Korea may feel compelled to agree to join it, but this scenario will be difficult to realize because of China. China will strongly oppose an East Asian FTA from which it is excluded, but the ASEAN countries are unlikely to welcome China into such an FTA because China is their common and most formidable competitor. So, no concrete developments may emerge out of these discussions in the near future, and this will reinforce the reasons for these countries to campaign for multilateral trade liberalization.

## KEYNOTE SPEECH

***Sander Levin***
***Representative, 12th District, Michigan, U.S. House of Representatives***

Let me begin with a few words about where I come from on trade issues. First, I fully accept that trade issues are messy. They are controversial. They are complex. Negotiations are never as smooth as you expect them to be. This discussion has referred to a clean FTA. I do not believe there can be one. Perhaps there could have been a clean FTA twenty or thirty years ago, when the issues revolved primarily around tariff reductions, but we are long past that point.

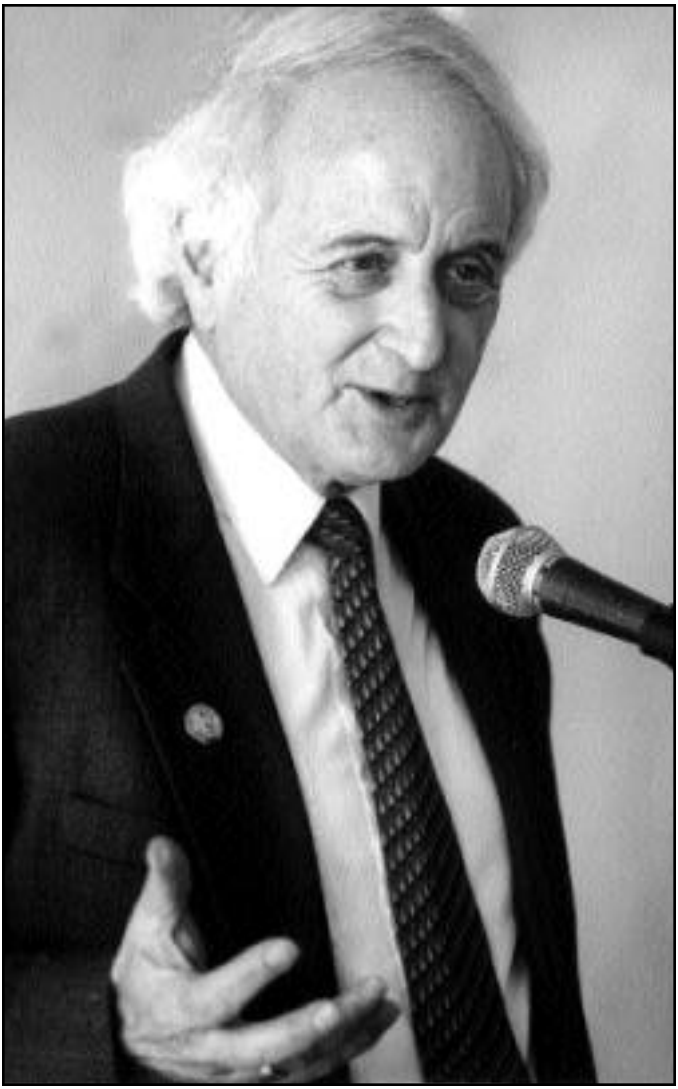
I disagree with the earlier speaker who said that if the Soviet Union had not fallen, things would have been very different in Seattle. I believe they might have been a bit different, but the changes in trade discussions come very much more from the changes in the nature and substance of trade itself, and the absence of a Cold War is not the main reason that they have changed.

Second, globalization is here to stay. Those who want to turn it around or turn it back are out of touch with reality. The basic issue is whether and how to shape globalization, and I believe that this issue more and more will be a major line dividing how people approach trade issues. Even if safety net issues, as important as they are, are brought into trade agreements, the basic trade issues still have not been adequately solved. Trade has to be shaped itself, and that is why I look upon trade as a tool and not an end in and of itself.

Third, trade is subject to instant polarization more than most other subjects that we deal with in the U.S. Government. Civil rights issues were more polarized, but trade is a major rival for second place. I very much dislike either/or propositions. I think they have sometimes overwhelmed discussions of trade issues. I do not search for compromise or for middle ground. It is a much more intense challenge to be innovative, to find the right combinations, not just always the middle of the road. So I am skeptical when anybody suggests that the bilateral and regional arrangements of the last ten to twenty years signal the 1930s all over again.

That does not mean the existing system has no negatives. Like everything else it has pluses and minuses, but there is a role in the world trading system for bilateral and regional relationships, and we have to ask ourselves how they fit into the multilateral structure.

So let me just say a quick word about a few of the issues within that framework. We are not going to resolve the labor and environmental issues simply by injecting them into the WTO. Like intellectual property, they are going to be worked out bilaterally and regionally. Nor will the



*Congressman S. Levin*

labor and environmental issues be resolved by denial. I do not understand those who say labor and the environment are essentially social issues. Coming from Michigan, I would be the last one to say environmental issues are social issues. They are partly that, yes, but they are also economic issues. They relate to the future of the American auto industry. I am a strong environmentalist, and I care about emission standards. But I also care about how these standards are implemented. The problems arising from labor and environmental issues arise in large measure because they are economic, because they relate to trade among nations.

I don't think you can end run these issues. Trade issues are not a highway bill. You can trade a highway in Boston for a highway in Los Angeles. But we cannot readily do that with trade issues. It demotes their importance and their thorniness.

My own view is that within the United States and within the Congress we're going to have to deal with these issues building block by building block. That is why I favor considering the U.S.-Jordan agreement soon and doing it quickly. Is it a template? The answer is there is none. There is no way to handle the labor and environmental issues so they will be identically transferable from agreement to agreement. Cambodia is not the same as Vietnam. The United States has an agreement with Cambodia on textiles and apparel that has a meaningful labor provision in it.

I think the challenge is to address these issues in a forthright way, avoiding the labels, avoiding the often empty rhetoric about trade issues. I truly believe we are far beyond where we were five decades ago in terms of trade. Indeed, the problems we have are because we are so far ahead. The whole world is trying to generate trade now, and the challenge we have is to be sensitive to the differences in the level of development and still make trade work for everybody.

## QUESTION & ANSWER

**Steve Charnovitz:** I agree that we need to pay attention to environmental and labor problems, but why do some legislators in Congress want to have standards in these areas that are then enforced with a trade sanction system? An empirical approach would show that economic trade sanctions do not work very well—they certainly have not worked in hormones and bananas. Moreover, we ought not punish private actors when governments fail to do the right thing.

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**Congressman Levin:** Trade negotiating authority has to be a means to an end, and there has to be discussion of what those ends are. If we can have some further clarity about what the ends are, there would be less quarreling over the means.

One reason I favor the block-by-block approach is that it will help build enough confidence so that legislators are willing to give the president the ability to negotiate with a Congress able only to say yes or no at the end. That also means strengthening the consultative process, which has not always worked very well. Secondly, are labor and environmental issues part of the economic trade equation? For me the answer is clear, they are. They are domestically. They are internationally. It's a difficult subject because of the vastly different structures of the economies of the world and I fully accept that. That's why I think we should seek a working group within the WTO. It's going to be a long time before we resolve the issue in a multilateral way. So I favor working that step by step. If it's relevant you need to have enforceable measures. What do I mean by enforceable? I think it will differ from place to place. I wonder though when you say the dispute settlement system of the WTO doesn't work because of bananas and hormones so why pump labor and the environment into it. I don't like downgrading the WTO enforcement mechanism. I think it needs to be reformed. It needs to be more clear, transparent, whatever word one wants to use. The notion that you have procedures that are essentially hidden from the public eye won't work. We're having trouble now with the unfolding of the dispute settlement system with hormones and bananas, but my guess is it will be worked out and the Europeans as you know say, "Look, you're using the system and we're using the system." I think the U.S. and the European community had better get busy and resolve beef hormones, bananas, fish before the thing spirals out of control. I think we need to do that, but I don't think it means that we make meaningless the dispute settlement system.

So what would be the dispute settlement mechanism in terms of labor and environmental issues? We're going to have trouble working this out. It will take years. It will be step by step, but let's not deny the relevance of these issues.

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Soogil Young: I have two questions. First, many developing countries argue that efforts to impose goods, labor, and environmental standards could impede their ability to promote their economic growth and development. How sympathetic are you to this line of argument? Second, many countries—including Korea and other Asian countries—say that there has been so much misuse of antidumping measures that they have begun to act as a major obstacle to free trade. As a result, these countries have proposed that multilateral trade negotiations discuss antidumping reforms, but the United States has not been receptive to this proposal. How do you explain the U.S. position?

Congressman Levin: I hope that we in the Congress are very sensitive to the needs of developing nations. I would just remind you that most nations have signed the ILO core labor standards agreement. The question is how rapidly the developing nations should implement these core standards in practice as well as in theory as part of the trade between and competition among nations. As trade blossoms, as the developing world more and more comes into the community of trading nations, the ILO core labor standards can form an important base. It is not a question of imposing a worldwide minimum wage standard. Most industrialized nations struggled internally with labor market issues for a hundred years before adopting minimum wage laws.

On the issue of antidumping, as you know, the most recent crisis has involved steel. Most of the excess steel capacity production in the world in 1998 came to the United States, not anyplace else. As a result there was an immense surge of steel into the American market. We have a problem. Part of the international system includes the ability of nations to safeguard against being a dumping ground or being the safety valve for other countries when they run into economic difficulties and find it better to sell steel below cost rather than not producing it or just keeping it.

My own judgment is that Section 201 should have been used much earlier instead of relying so heavily on antidumping measures. Section 201 not only would force the administration to look more comprehensively at the problem, including the structure of the U.S. steel industry, but also might stimulate the administration to talk to other nations about how to resolve the problem of excess capacity.

I understand fully the desire of Brazil, Korea, and others to have a domestic steel industry, but the United States also has the right to ask itself whether it wants to sustain a strong steel industry as a major component of its economy. If the antidumping laws were eliminated, over time steel production would move from the United States and parts of Europe to other countries. I do not support that.

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Hugh Patrick: Do you think the U.S. Government should give greater priority to focusing on a Millennium Round now or to continuing on the FTA route?

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Congressman Levin: My own judgment is we should do both. The issue is not whether to have free trade or not. The bigger argument today is how best to achieve expanded trade. I am not sure a new multilateral round is in the offing. But we should try to move ahead in agricultural trade. I think that is going to be exceptionally difficult. I think we need to move ahead on services. But multilateral discussions on those issues

should not be exclusive of or detract from moving ahead with a discussion within the Americas on ways to expand trade. We need to move ahead on some of the difficult and often divisive issues including labor and the environment. We need to talk this labor standards issue through both within the United States and between the United States and the rest of the world; if we don't, we're going to be in trouble.

I see the bilateral and the regional agreements as opportunities to move ahead on these issues. Some day we will throw them into the WTO in a more effective way. I very much resist the either/or. While we need to discuss the advantages and disadvantages of the bilateral and regional approaches versus the multilateral approach, we do not need to put them into a global collision. Whether we like it or not, agreement on these tough issues will only come step by step, mistake by mistake, hurly-burly to put it mildly. That's why the subject is so important—and maybe that's why we love it so much.

# SESSION III

# Potential Impact of FTAs on Multilateral Trade Liberalization and the WTO

DISCUSSION LEADERS:

**Gerard Depayre**
*Head of Planners Group, Directorate General for External Relations, European Commission*

**Mitsuo Matsushita**
*Professor, Seikei University*

**Petros Mavroidis**
*Professor, University of Neuchatel*

**Andrew Stoler**
*Deputy Director General, The WTO*

## GERARD DEPAYRE

This symposium comes at the right time because of the resurgence of interest in regional and bilateral free trade agreements. We in Europe have also had an intense internal debate on whether continuing to pursue these types of agreements was wise policy. Two important factors have contributed to the renewed interest in these regional and bilateral agreements. First, globalization intensified competition for markets. Second, there was widespread skepticism about the launch of a new multilateral trade round and what it could achieve.

My first and most important message is that both regional and multilateral approaches have their place in the trade policy armory. Both approaches can be pursued at the same time and in a mutually supportive way. But no country should use regional and bilateral initiatives as a substitute for multilateralism. That is why the reasons underlying the interest in bilateral FTAs concern me. The world needs the WTO to provide everyone with the same security and ground rules for international trade in goods and services and for the protection of trade-related intellectual property rights. The WTO also offers a framework for negotiating additional liberalization commitments and stronger, more up-to-date rules among an ever increasing family of nations.

The EU and the United States have a common interest in maintaining the multilateral system. Such a statement is not a coded attack on the FTAA any more than it is a criticism of the EU on regional agreements.

It is simply a reminder that we walk on two legs, regional and multilateral, because it is in our interest to do so. A regional approach on trade policy alone can never replace the bedrock of an open multilateral trading system. In our view, multilateral rulemaking and market opening in the framework of the WTO represents the best response by the trade community to the myriad challenges posed by globalization. The EU was already arguing for a new round of WTO negotiations in the run up to the Seattle conference. Other countries, including the United States, were most skeptical at the time.

Multilateral negotiations need to have broad comprehensive balance as well as an ambitious agenda that goes beyond the WTO built-in agenda on services and agriculture to work on such matters as trade participation, investment, and competition. We must respond to what has been called the "dark side of globalization." We must ensure that a trading system promotes sustainable development in its environmental and social dimensions as well as in purely economic terms. I would like to emphasize that regional initiatives cannot provide the basic disciplines, contractual obligations, and common policy frameworks that are necessary to a smoothly operating global trading system. If the multilateral bicycle stops moving forward, the system will collapse resulting in increasingly fragmented markets, mismatched regulatory systems, and greater costs for businesses operating in the international marketplace.

At the same time, we in the EU recognize that regional initiatives have an important place alongside efforts at a multilateral level. It is possible for each of us to go further with selected bilateral or regional partners in terms of greater reciprocal liberalization with participating countries. These agreements can then feed into international efforts to set minimum standards or common rules in the same areas.

The flip side is the risk that these advances will not be subsequently followed by rulemaking at the international level. Then regulatory models adopted in one part of the globe may not mesh satisfactorily with those established elsewhere. As mentioned earlier, the EU has been and will continue to be a user of regional agreements. Over the years we have developed a multilateral network of preferential agreements, but I would contend that these have not been to the detriment of third countries, nor have they deflected us from the objective of rulemaking and liberalization at the multilateral level. Quite the opposite.

We are convinced that regional agreements can be stepping stones rather than stumbling blocks to multilateral liberalization. Participation in regional agreements can serve to open markets by pushing forward with elimination of tariff and nontariff barriers. RTAs can help developing countries prepare for further multilateral liberalization and enable them to participate in more far-reaching regulatory initiatives.

The European Commission has recently conducted its own assessment, and we concluded that there are many strong and valid reasons for regional arrangements, not all of them purely economic. In fact, the most successful ones are those where the process of regional integration has been deep and comprehensive, where the regulatory integration of domestic markets has been involved as well as the simple elimination of all the tariff and restrictions. The deeper and more wide-ranging the integration, the greater positive impact on competitiveness and welfare over the medium to long term.

To conclude, if the prevalence of regional agreements is causing concern, then surely the right response is to push for further liberalization and rulemaking in the WTO. Regional agreements are valid policy instruments in themselves that can be complementary to multilateralism, but the important thing for the trade policy community now is not to lose sight of the benefits of the multilateral system. We must work together to launch a new round in November.

## MITSUO MATSUSHITA

I want to discuss a few legal issues surrounding the interpretation of Article 24. It seems clear that the WTO is going to have to live with the FTAs. Thus, I think the lawyer's job is to interpret Article 24 flexibly to strike a proper balance between what the Article allows and the disciplines that have been included in the FTAs. Article 24 should allow some flexibility so that the parties to the FTAs can deal with sensitive issues such as agriculture and textiles. If Article 24 is interpreted too strictly, then the FTAs will be outside the framework of the WTO.

With that perspective in mind, let me mention a few things. One question is the interpretation of the phrase "substantially all" in Article 24. Should this be interpreted only quantitatively, or should some qualitative measure be permitted? If a quantitative test is used, should "substantially all" mean 20 percent or 80 percent? If it means 20 percent, then some important sectors can be excluded. If a qualitative test is used, and an FTA does not cover areas such as agriculture and textiles, then the qualitative test will not be satisfied. My own feeling is that some combination of the two tests should be used to interpret "substantially all."

Should the participants in free trade agreements be allowed to use trade remedies such as safeguards, antidumping, and countervailing duties in relation to imports coming from within FTA members? I believe Article 24 should be interpreted to allow this for the following reason. The safeguard, for example, is based on the idea that trade is liberalized. If trade is not liberalized, a safeguard is not needed. So within the framework of an FTA that is liberalizing trade, a safeguard remedy may

be needed if someone does not follow the rules. The same is probably true for antidumping measures and countervailing duties. Suppose, however, that Article 24 is interpreted to preclude the use of safeguards internally within the FTA, and the domestic industry of one of the parties to the FTA suffers a serious trade injury. The only safeguards are on imports from outside the FTA, not those from within the FTA. That means that the penalty placed on the imports coming from outside will be disproportionate to the contribution they made to the serious injury. I think that would be quite disruptive of the international trading system.

At the same time that flexibility is needed under Article 24, there is also a need to discipline the operations of free trade agreements and customs unions in light of the multilateral system. There have been a number of problems in this regard. For example, if there is an antidumping measure in place against a customs union, when the customs union adds new members, then the antidumping law is automatically extended all them. Japan had antidumping measures in effect against the EU, and when three new members joined, the antidumping measures were automatically extended to them.

Now, before I finish let me just mention one more area which is rules of origin. This is a very important area, where I would suggest a case-by-case approach. The reason is as follows. There is no WTO rule on the rules of origin yet, no WTO standard with which the rules of origin of the FTA can be compared.

## PETROS MAVROIDIS

What does the WTO do and not do with respect to PTAs, or preferential trade agreements? My theory is that the WTO does not do much. Multilateral review of PTAs does not accomplish much because of the consensus-rule necessary to make decision which is in itself a formidable obstacle. On the other hand, not much is accomplished through Dispute settlement since this course of action is not an incentive-compatible structure for most WTO Members that do not participate in a PTA.

I wonder whether, even if review of PTAs were in practice effective, it is a good idea to have the WTO as it now stands review PTAs since, as I will try to point out, the legal test is not an economics-friendly test.

Let us examine the discrepancy between the economics test and the legal test. If I understand it correctly, an economist would try to assess the welfare implications of a PTA. To do that, the economist would look at the level of protection before a PTA is formed, the identity of the participants, the relative productivity and so on. One would also look at the extent of liberalization at the post-PTA stage. Under a legal test the

only concern is the extent of liberalization. The level of protection and the welfare implications for the participants are not considered.

The discrepancy between the two tests could lead easily to situations in which a PTA satisfies the legal test but fails the economics test. If parties to an agreement start with extremely high levels of protection before the PTA is negotiated and then liberalize internally toward relatively nonproductive partners, most likely the agreement will result in trade diversion. The EU agreement with Turkey probably met the economics test by not liberalizing agriculture (since it left open the option to the two participants to import agricultural products from more efficient producers), but I wonder to what extent the European Union customs union is compatible with Article 24 in light of the fact that at least one huge sector is left out.

My second observation has to do with the purpose of the legal test. As I understand it, the legal test is an effort to make deviations from Most Favored Nation (MFN) onerous. This is an issue totally independent of the assessment of the welfare implications of the PTA, but even this test in practice has not been achieved. Actually, the legal test has two propositions. One is the external- and the other is the internal requirement. Because of the Uruguay Round Understanding to Article 24 GATT, we now have an idea about what is the first component of the test means, but we still do not know what precisely "substantially all trade" (the internal requirement) means. It's still, as Professor Matsushita was pointing out, not an agreed upon term.

So PTAs will be submitted for review amid disagreement as to ambit of the legal test. The working groups of Article 24, and now the Committee on Regional Trade Agreements (CRTA), will decide the issue of consistency of a notified PTA on consensus. Consensus is almost never reached though (with very few exceptions) since those who participate in the PTA vote as well. Now, what does it mean that there's no consensus? Does it mean that the PTA cannot proceed? No. It means that PTAs will live their life independently of the issue of their compatibility with WTO.

The Uruguay Round tried to tighten the screws a little. The CRTA is not a dramatic change. Still, from an institutional perspective to me it's quite different to say that all PTAs will be examined by the same body rather than by ad hoc working groups. It is like passing from panels to the Appellate Body. CRTA Members will be confronted with their own jurisprudence.

The other important novelty is the attitude of the Appellate Body vis a vis PTAs.. Take the case of Turkey and textiles where the Appellate Body says that if a member of the WTO wants to invoke departure from MFN because it is a member of a PTA, it must first show that Article 24 has been complied with, which in itself is a very onerous test.

So, yes, there is a move towards tightening the screws and getting everybody back to multilateralism, but I have four problems with what's happening.

First problem: are we tightening the screws in the right direction? The test remains economics-unfriendly. The questions economists ask are simply not asked by Article 24.

Second: the CRTA continues to decide on basis of consensus, which means that most likely the members of the PTA will not join the consensus and there will be no decision.

Third: nonmembers of PTAs have little incentive to pursue the whole case before the WTO.

Four: (linked to my third point). Even if we have a very clear mandate, even if we agree on what substantially all trade means, unless we address the remedies issue, we do not do much. Why should, for example, a small WTO Member take a case against a PTA where the European union participates, if at the end of the day its only way to make the European union respect Article 24 is by shooting itself in the foot (that is, by getting the authorization to raise its trade protection against an extremely powerful partner).

To my mind, unless these four points are addressed, the issue of multilateral review of PTAs will be limited to an issue of limited transparency and nothing beyond that.

## ANDREW STOLER

It seems to me clear that regional trade agreements or preferential trade agreements have an important actual and potential impact both on the prospects for broader multilateral negotiating rounds and on the multilateral system of the WTO itself. Even if its clear that there is some impact, we don't seem to have a shared view as to whether it's positive or negative.

Let me start with an observation: the multilateral trading system of the WTO is significantly different from the multilateral trading system of the GATT and so are the post-1990s preferential trade agreements different from the earlier ones. At the end of the Uruguay Round many of us thought we were pretty smart when we developed the so-called single undertaking concept that forced all the members of the system to be party to all of the agreements of the system irrespective of what their interest in particular trading arrangements might be. We may have solved the free rider problem, but we created another problem. It is now impossible for any of the members of the system to ignore any aspect of the system. Burkina Faso now has to be concerned about the Trade Related Intellectual Property Provisions (TRIPS) agreement, because

Burkina Faso faces possible dispute settlement action. Honduras and Guatemala, who were never seen in Geneva in the Uruguay Round days, are now very active participants, and all of them participate in consensus decisionmaking even though they are not equally interested in the issues that are under discussion.

The second thing that is very different, of course, is that the subject matter has been deepened considerably, and many of the aspects of these regional trade agreements that we're looking at today were not even imagined back in the days when Article 24 was being drafted. The RTAs are now far more complex in their coverage than they used to be, even if agriculture is still usually not fully covered. That makes the question of how they fit into the WTO evaluation system a bit more complicated.

The third point I'd like to make—and this is a point that was made earlier by the High Commissioner of Singapore—the political aspects of the GATT 1947 largely disappeared with the collapse of the Soviet Union. I believe that both the United States and other developed countries are today much less forgiving of behavior by developing countries in the system and at the same time many developing countries are much less accommodating of the developed countries in the operation of the WTO.

It is clear that the WTO rules for evaluating RTA consistency with the WTO are not working. The Committee on Regional Trade Agreements was created in 1996 because members recognized the need to provide a forum in which systemic issues, as well as the individual issues of particular RTAs, could be addressed. The CRTA was also supposed to streamline and speed the review of regional trade agreements.

In November 1999, the CRTA had 86 regional trade agreements under examination. The factual examination had been completed for 62. Only one of the reports on the examination of RTAs adopted today, the Czech-Slovak customs union, states clearly that that preferential trade agreement is fully compatible with the relevant GATT provisions.

Now, what are the characteristics of modern day RTAs? They have a progressively diminishing impact on tariff preferences since successive GATT and WTO tariff-cutting rounds have brought tariffs down from an average of about 40 percent in OECD countries to a post-Uruguay Round average of 3.8 percent. So what's the big deal? Well, the big deal, of course, is that the RTAs go far beyond what the drafters had in mind when they wrote Article 24 and maybe even more than negotiators had in mind when they drafted Article 5 of the GATS agreement. Increasingly now, RTAs address Sanitary and Phytosanitary Agreement (SPS) and Technical Barriers to Trade (TBT) measures, provide for mitigation of subsidy payments, and create their own dispute settlement frameworks.

There are even instances where the RTA parties have agreed to supplant international techniques for addressing unfair competition (antidumping) with heretofore domestically oriented competition policies. More and more the idea of using the percentage of trade affected by tariff preferences to assess RTA compliance with the WTO rules looks irrelevant as a measure.

Among the many difficulties the CRTA has encountered are: the impact of overlapping RTA membership on trade and investment patterns, the impact of widely divergent rules of origin and the acceptability of accumulation rules, the risk that RTA dispute settlement procedures could be in conflict with the jurisprudence of the WTO system, the probability of distortions resulting from continued use of antidumping measures for third parties, and RTA members bilaterally used competition policy. In addition, members' serious disagreements with one another in a number of areas are making it impossible for the CRTA to assess an individual RTA's consistency with the WTO. There is a total lack of consensus on the meaning to be given to the "substantially all trade" concept, the scope of the list of "other restrictive regulations of commerce" exceptions, and the meaning of "substantially the same duties and other regulations of commerce" for purposes of assessing a customs union.

Moreover, the Appellate Body ruling in the landmark Turkey-Textiles case leaves RTA participants whose RTAs have not been blessed by the CRTA—and only one has—on extremely vulnerable legal grounds. Panel and appellate body actions in this case are extremely significant in that they demonstrate that the CRTA does not have a monopoly on judging WTO consistency and RTA-related trade measures any more than the Balance of Payments Committee has a monopoly on judging WTO legality of trade measures justified on balance of payments grounds. If WTO members cannot come to agreed outcomes with regard to RTA consistency and the CRTA, then they may be forced to accept an outcome dictated by a panel or the appellate body.

On the issue of the relationship between RTAs and a broader round of negotiations, I think there are important examples of regional integration agreements stimulating support among third countries for further multilateral efforts to reduce margins of preference and strengthen the global trading system. Of course RTAs can simulate multilateral trading rounds out of a perceived need by third parties to cut preferential margins, but with the reduced importance of tariffs, that factor may be less important today. Perhaps more significant is what might be called "the fear factor," a concern in third parties that they will be left out in the cold, a perception that could be made worse if RTA participants are seen as losing interest in the multilateral framework.

Connected with this fear is a concern among nonparticipants that the

parties to an RTA will go further bilaterally or plurilaterally in difficult or sensitive areas where progress has been slow in the WTO and that these forays into "dangerous" territory in an RTA test bed will somehow find their way back into the multilateral system at a later stage. An example here is the labor standards provisions in the U.S.-Jordan FTA that we've talked about a little bit today.

In its own way the failure of the GATT and WTO system to deal effectively with the examination of RTA consistency has also contributed to pressure in favor of a broader negotiating round. Current WTO rules have many shortcomings where there is a perceived need to negotiate a fix.

How do I see the RTA phenomena relating to the multilateral effort to launch a new round right now? First, no matter how popular FTA negotiations and agreements might be, there has to be a general recognition that anyone who is interested in agricultural trade is not going to get any significant liberalization through the bilateral or regional preferential trade agreement route. That's only going to be possible in the multilateral trading system.

Second, RTAs are helpful in the effort to launch a new round in a number of ways. They give countries experience with a deepening liberalization in areas other than tariffs and they can be an important capacity-building exercise as a training venue to prepare for the next round of multilateral trade negotiations.

Third, the FTA process creates an attitude of change on the part of business. I think any free trade agreement tends to strengthen the hand of exporters in discussions with government officials and with other people in a particular economic environment. In fact, I've had that particular point made to me recently by Norway's chief negotiator for FTA regional trade agreements who said that the fact that Norway and the European Free Trade Association (EFTA) countries are now negotiating preferential trade agreements with far-flung countries like Singapore has contributed to an attitude change on the part of Norwegian businesses that were used to having preferential trading arrangements only with their neighbors and nearby countries that they understood. Now that they can see that it is also possible to deal with developing countries thousands of miles away at no real risk to themselves, it is easier for them to go along with the idea of launching a broader multilateral trading round.

Finally, I think it is clear that the FTA experience and the WTO experience have contributed to the need to have a broader round so that we can return to the basic rules themselves and see whether or not we can straighten out the CRTA in the future.

To conclude, there is no doubt that the increasing number of preferential trade agreements in recent years has posed and will continue to pose important challenges to the WTO in a multilateral system, but I also think it's quite clear that it is not possible to generalize about preferential trading agreements. We cannot say that they are either good or bad or that they are either entirely complementary to the multilateral system or entirely antithetical to that system. WTO senior officials would probably say that RTAs can be supportive of a WTO system where they are WTO compatible. But by "WTO compatible" we would not mean CRTA certification, because most, if not all, are unlikely to ever receive such certification. Instead, I might think in terms of compatibility in the sense of contributing to further progress in the multilateral trading system through locking in a country's commitments to the system through domestic reforms, strengthening the hand of exporters and pro-trade forces, acting as test beds for trade liberalization agreements in areas not yet covered by the WTO, and in many cases contributing to the integration of developing countries in the world economy.

## QUESTION & ANSWER

**Question:** What are the prospects of agricultural negotiations under FTAs?

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**Andrew Stoler:** There are two reasons why I think it unlikely that agriculture will be negotiated in FTAs. The first is the large number of countries that are excluding agriculture from their negotiations. The second is that in some negotiations, such as the Free Trade Area of the Americas, the amount of agriculture sales to be gained under the trade agreement is not enough to make it worthwhile for the countries to undertake the tough negotiations that would be required to eliminate the trade barriers between them.

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**Charles Morrison:** My impression from the organizations that I know a little bit about, is that in ASEAN and in APEC they have been actually very helpful. These are not organizations that were designed as free trade agreements but free trade came on later as politicians needed to have some kind of a vision out there.

Open regionalism is something that I used to be very negative toward because it was being used by countries that were protectionists to afford a more forward looking trade agenda. They knew that the United States couldn't do anything that wasn't strict reciprocity and so it was a way of slowing down the process. Now I think it's really important to try to press forward these contexts in the regional free trade movement because it does call attention to the multilateral system.

Joel Trachtman: What is the best way is to address some of the regulatory barriers to trade? Mutual recognition regimes offer a delinking from FTAs and customs unions and provide a larger toolbox to deal with some of the problems of integration involving externalities and regulatory competition, and thus may allow reduction of barriers that way. This would be done on a non-MFN basis, and so my question is how important is MFN in this regulatory area. Is it as important as it is in some of the other areas?

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Andrew Sapir: I would like to make a concrete proposal. Several members of the panel have said that the concept of WTO-compatible regional trade agreements is useless as it stands at the moment. It is hard to dispute this view since, indeed, the WTO Committee on Regional Trade Agreements (CRTA) has never pronounced any agreement as incompatible with WTO rules. What we need, therefore, is a concrete proposal to move forward. Here is my contribution. I would like member countries to give a mandate to the WTO for analyzing regional trade agreements with the help of an agreed list of economic indicators. These indicators should shed light on the two effects I described earlier, namely trade liberalization and trade discrimination. The CRTA should assess all existing and proposed agreements using the same set of criteria, and publish its findings. Ideally, existing agreements should be reviewed every five years. This exercise would not entail any fancy econometric or computable general equilibrium model, but only relatively simple and uncontroversial indicators.

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Claude Barfield: Alternatively, why not provide that whatever concessions are made in regional agreements be integrated back into the WTO after a specified time period? In essence the WTO would be saying to the partners in the regional agreements: okay, you can do it, but you are already part of a multilateral trading organization, so the agreement would be treated as an exception.

I want to spend a couple of minutes on the politics of trade issues in the United States. One thing to keep in mind is that the Clinton administration advanced the Jordan agreement (particularly its provisions on labor and environmental standards) as a model for the proposed FTA agreements with Singapore and Chile partly for substantive reasons, but also for political reasons. There was a political desire to set a precedent that the new administration would feel obliged to follow or that the Democrats could point to as a precedent.

At the same time, the Administration appears willing to package anything around getting some kind of fast track authority this year. If I understand what the Democrats are saying, they are not going to allow

the packaging of a lot of items that interest groups in the United States would like in one bill.

A better sign, I think, is what the Democrats have said in the recent past. House Minority Leader Richard Gephardt has made it very clear that the Democrats will not support fast-track authority unless it is understood that trade agreements must include labor sanctions. Mr. Levin today acknowledged that it might be years before something like that was incorporated into the WTO. This is not as hard-line a position as I have heard before. What is at issue under fast-track authority is what the president must ensure is in each agreement, what sort of leeway he has in negotiations.

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Carole Brookins: On the compatibility question, one has to look at the objective of the regional or bilateral agreement. I would argue, for example, that the U.S.-Jordan agreement has nothing to do with trade but is, in essence, a foreign policy agreement. In many of these regional agreements, trade liberalization is not the main objective, and that is a big contrast with the WTO, whose primary mandate is trade liberalization and an open trading system

Second, I would like to raise the agricultural issue again. Several people have said that the emphasis on tariff reduction has waned because tariffs have been lowered so much. That is not the case in agriculture. Tariffs are very high. The average rate is around 60 percent, and they range all the way up to 1,000 percent. This is not acceptable. If these FTAs continue to proliferate without governments having to step up on agriculture, I think we are inviting serious food security concerns. We really should look at the terrible distortions that agricultural tariffs are causing in many economies. I think people are being very sanguine about an industry, the food industry, that is the basis of every economy.

Third, one of the key aspects of all the new FTAs is harmonization of standards. Many of these standards affect food and the movement of food around the world—possibly standards will have a greater effect than tariffs on agricultural products in the future. These agreements are impairing the ability of the global system to develop some meaningful rules on standards. Could we not find a way to make a strengthening of the "substantially all trade" rule in the WTO a primary objective in this next round in terms of rulemaking? The United States should probably try to put it in our trade promotion authority as a key objective.

Kyung Tae Lee: I would like to comment on concerns that FTAs in East Asia will lead to more protection in the agricultural sector. East Asia has no reason to be more inward-looking for trade relationships because the outside market is too important. East Asian countries are already trading very heavily with countries outside the region, and those coun-

tries will continue to be major trading partners. The United States is the biggest trading partner for Korea, Japan, and China and will continue to be. Simply put, East Asia cannot afford to look inward.

On another matter, there are two major sets of obstacles to launching a new multilateral round—agriculture, and labor and environmental standards. The United States is deeply involved in both issues. Everyone understands that agriculture should be incorporated into a free trade regime; the real issue is the speed of the liberalization. If the United States can be a little more flexible in tackling this issue, that would contribute to launching a new round. For many food-importing countries, rice may the most sensitive individual product. Perhaps if there were a little more flexibility on rice, some progress could be made. As to labor and environmental standards, it is simply a fact that other countries are not prepared to have a full discussion about these, so more time is needed for preparation.

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Soogil Young: To be able politically to push for agricultural liberalization in such countries as Japan and Korea, the so-called multifunctional role attributed to agricultural protection has to be addressed. We need to find a world developmental governance regime that would enable those governments to substitute some other means of filling the multifunctional role played by agriculture.

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Timothy Reif: I want to add some historical perspective on the labor and environment issues in the Jordan-U.S. agreement. Environment and labor first came up in the 1993 NAFTA talks, and it was clear then that they would be issues in whatever the next FTA talks the United States entered. If the United States had started talks with Chile first, they would have been issues there.

Second, I think Jordan is very important for a different reason, and that is if we are going to be asking countries to take certain steps, then we ought to be rewarding them when they take those steps. What King Abdullah has done in Jordan is quite extraordinary. In the areas of intellectual property rights protection and services, in a whole host of areas, Jordan felt it was every bit as ready to engage the United States as any other country in the world and that included labor and environment. As Congressman Levin pointed out, the king actually asked to negotiate on labor and environment, knowing that it was a policy issue in the United States.

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Ippei Yamazawa: Let me make three points. First, I agree fully that the multilateral and regional approaches can be pursued simultaneously. That is exactly what Japan is doing.

Second, I want to emphasize that the Japan-Korea relationship is very special. Despite difficulties between the two countries that will take time to overcome, we are very interested in promoting an agreement with Korea. The two governments will not begin actual negotiations on an FTA for five or ten years; in the meantime, preparations continue, and the two countries are already working on concrete measures such as an investment treaty and mutual recognition of standards.

Third, some of the speakers have said that agriculture would be excluded from any FTAs to which Japan was a party. That is what the Japanese farm lobbies have said, not what Japanese free traders have said. One reason for promoting an FTA with Korea is to implement agricultural reform. Japan is one of the biggest importers of food in the world, and there is political difficulty in liberalizing the sector. So some consideration must be given to agricultural interests in Japan, but we have no intention of excluding the entire agricultural sector from our negotiations.

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Andrew Stoler: We should also remember that agreements on standards and SPS arrangements and the like depend on a certain capacity to deliver on both sides. Not everybody who is in the WTO system today has that capacity to participate in those type of arrangements. So there is a limited extent to which I think they can be multilateralized or achieved on an MFN basis.

That observation brings me to a second point, which is that the multilateral trading system is not really multilateral. The current system is a combination of a multilateral trading system that everybody participates in and a plurilateral system in terms of trade liberalization. I am not talking about the government procurement agreement, when I say plurilateral. I mean that any liberalization exercise conducted within the rules of the multilateral system tends to be agreed not multilaterally but plurilaterally according to whatever the critical mass is for a tariff negotiation or a telecommunications negotiation, or financial services negotiation, and so forth. The only place where the multilateral system is multilateral is on a rules negotiation, and that is necessary because the dispute settlement system requires that everybody play by the same rules.

# SESSION IV

# Summary and Discussion Led by Professors Merit E. Janow & Hugh T. Patrick

HUGH PATRICK

Let me begin this session with two issues. The first is to what extent and how effectively are we going to push for a Millennium Round rather than a series of RTAs?

The other issue that I want to raise turns on whether regional trade agreements are building blocks or stumbling blocks. As several people said earlier, the new RTAs go far beyond manufactured goods trade liberalization to include a wide range of new areas. That has been part of their attractiveness, yet at the same time the specifics that go into a particular RTA will depend upon the willingness of the members to consider those topics and include them in their agenda.

There appear to be three or four types of RTA systems that have basic commonalties. One type would be RTAs that exclude agriculture. A second would be based on standard trade liberalization—the sort of agreements Chile has been discussing. A third category, similar to the Singapore package, would go beyond trade liberalization to cover a host of other topics; and a fourth would follow the U.S.-Jordan example and include in that host of other topics labor and environment standards, each of which complements American interests but is not necessarily desired by other countries.

The question raised this morning was how to fit these three or four types of blocs together. Can these blocs be made compatible with each other, or is the world drifting toward a system of incompatible systems of RTAs that might be geographically based—a European RTA, a Western Hemisphere RTA, and, perhaps motivated by a desire not to be left out, some kind of an Asian regional system? That could be the worst of all worlds. Is this analysis sound, and if so, what can be done to prevent this from happening?

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C. Lawrence Greenwood, Jr.: I wonder frankly whether this so-called "block problem" is such a big issue. The issue that we've wrestled here with today has to do with the problem of creating preferences and that's where we get into the difficult areas. It's hard for me to understand how you could have an agreement on e-commerce, MRAs, regulatory reform competition policy that would not be applied on an MFN basis by its very nature. I think the

issue there may be how we connect. APEC is trying to connect those various activities, some of which are going on bilaterally.

In looking at the Asian region, maybe because Asia came later to the FTA game, the picture is not particularly bad now in terms of the kind of FTAs one sees there. In fact, most of the FTAs are of the kind that are comprehensive, cover all areas—all goods and services—and do not have barriers to third parties. NAFTA, the Closer Economic Relations Agreement (CER) between Australia and New Zealand, and then within APEC the Canada-Chile and recently the Singapore-New Zealand. All those are comprehensive very high standard FTAs.

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José Alvarez: A number of regional trade arrangements have more developed rules on investment. In addition to a proliferation of RTAs, there is also a proliferation of dispute settlement institutions, many of which are overlapping. By my count there are seventeen international tribunals right now, and these are just the ones with judges or quasi-judges. They all differ on how the judges are appointed and whether they must be experts in the disputed field. The tribunals differ on whether the rules are enforceable and how. They differ on who has access to the settlement mechanism—individuals, corporations, governments. Many of their jurisdictions overlap. For example, the jurisdiction of the World Court overlaps with the Law of the Sea Tribunal, and both of their jurisdictions may overlap with some of the matters being raised by regional courts international. Like it or not, we are stuck with this situation of multiple, overlapping international courts. Therefore, when questions of settling trade disputes arise, we need to remember that it is part of a larger picture.

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Soogil Young: Despite the proliferation of FTAs, I have not heard any government say that it does not support multilateral trade liberalization, but apparently some countries are serious and some are not in taking this position. A possible test of whether a country is seriously interested in promoting multilateral trade liberalization may be to see whether the country is pursuing a number of FTAs or not. My reasoning is that FTAs or negotiations of them tend to weaken the support for multilateral trade liberalization and that FTA negotiations divert resources and political will away from multilateral liberalization. By this criterion, I think neither the European Union or the United States is very serious about a new round of multilateral talks. The European Union is currently preoccupied with its enlargement, and the United States is busy pursuing a hub and spoke system of FTAs with itself as the hub.

Peter Petri: I would like to broaden the discussion to include the macroeconomic context. I think much of the frustration over trade in the last seven years or so has to do with macroeconomics. The failure to launch the Millennium Round and the proliferation of regional and bilateral trade initiatives all are attributable in some measure to the fact that the world's largest economy has been uninterested in trade for the last seven or eight years. The United States was uninterested in trade partly because of politics, but partly because its economy was doing so well that no one had to pay much attention to the global economy. In the process the United States may have forgotten its responsibilities as a hegemon. This may change now. The United States is entering a period of slower economic growth with a trade deficit of $450 billion or more, and the issue of trade is bound to come up in coping with new macroeconomic circumstances.

One hopes that it will come up in a positive way that stimulates global market opening rather than in a negative way that leads to protectionism, although it is likely that there will be a mix of these two reactions. Historically the United States has addressed macroeconomic weakness (for example, in the early 1990s) largely by trying to open markets worldwide, as a proponent of more open world trade.

Even if the United States acquires renewed interest in international trade, it is unclear whether this will focus on the regional FTAA initiative or on making a multilateral round work. I would argue that even if the early signs point toward an FTAA, that ultimately might stimulate also putting the multilateral track back on the table simply because the FTAA would appear to most American companies and negotiators as an unnecessary tilt toward regionalism in the longer term. It is in this context that the dynamic for renewed multilateral talks might now be more favorable than it has been over the past seven years.

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Timothy Reif: In response to Ambassador Soogil Young's comment, the United States negotiated NAFTA and the Uruguay Round at the same time, and one could argue that entering into the NAFTA talks actually helped bring the Uruguay Round to a conclusion. I am not creating a Pollyanna scenario, but I do think there are positive synergies between the two types of agreements.

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Carole Brookins: If indeed the United States has stepped out of leadership for seven to eight years, and I totally agree that is the case, what has happened during those years? The United States cannot return to its "hegemony" if the European Union has made a strong move to initiate free trade agreements not just in its own area of the world but in the Western Hemisphere and even reaching into Asia where it is possible.

I think one has to look at the structure of the trade agreements Europe has negotiated to see what that version of a free trade world is. I would wager that Europe's fast footwork in the absence of U.S. participation has very much changed the dynamics moving toward a multilateral round.

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Merit E. Janow: I was at USTR when NAFTA and the Uruguay Round were being negotiated, and it seemed that the NAFTA talks did not derail the Uruguay Round because the size of what was envisioned in NAFTA spurred others into thinking that the United States had viable alternatives. The equivalent analogy today would probably be the FTAA because of its size, but is it as meaningful an alternative when so many FTAA members are also pursuing simultaneous arrangements with others, particularly with the European Union? I am not convinced that these regional arrangements buttress the prospects for a multilateral round in the same way that NAFTA influenced the Uruguay Round.

*Satoru Okuda*

# Speaker Profiles

**Steve Charnovitz** practices law at Wilmer, Cutler & Pickering in Washington, D.C. From 1995 to 1999, he was Director of the Global Environment and Trade Study (GETS), which he helped to establish in 1994. GETS is centered at Yale University. From 1991 to 1995, he was Policy Director of the U.S. Competitiveness Policy Council in Washington, D.C. The Council issued four reports to the U.S. Congress and President. From 1987 to 1991, he was a Legislative Assistant to the Speaker of the U.S. House of Representatives. Mr. Charnovitz specialized in trade and tax issues. Before that, he was an analyst at the U.S. Department of Labor. His responsibilities included worker rights in trade negotiations and conducting an evaluation of a human resource development project in Saudi Arabia. Mr. Charnovitz earned his B.A. and J.D. degrees at Yale University and received a Masters Degree in Public Policy from Harvard University. He is admitted to the bar in the District of Columbia and New York.

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**Gerard Depayre** is Head of the Planners group in the Directorate General for External Relations, European Commission. He studied law and economics at the University of Paris (at both undergraduate and postgraduate levels) and began his career in 1966 as a research assistant at the university working on the Common Agriculture Policy. In his career as a French and European CMI servant, Gerard Depayre has over thirty years of experience of international trade policy. From 1968 to 1976 he worked in the French diplomatic service, being posted to the UK and the United States. It was in Washington, D.C. that he moved into the European Commission, working at the EU Delegation there for three years, before coming to headquarters in Brussels in 1979. He worked on transatlantic relations, international trade in industrial goods, and then as adviser to Belgian Commissioner Willy Declerq, who was in charge of external relations and trade polity. From 1987 to 1996 he held senior management positions in the field of so-called trade defense instruments (countering illegal dumping and subsidization by exporting firms in third countries), eventually as Director in charge of that department. In 1996 he was elevated to Deputy Director General, adding relations with North America, the Far East and Australiasia to his responsibility for the instruments of trade policy—a position he held until the Commission's current re-structuring was launched in summer 1999.

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**Robert C. Fauver** is President and Managing Director of Harrington Fauver, LLC. Mr. Fauver's distinguished career includes senior management positions across government. He served the Director of Central Intelligence

as the National Intelligence Officer for economic assessments from 1995–98. President Clinton appointed him in 1993 as Special Assistant to the President for National Security Affairs and Economic Policy, a joint position at the National Security Council and National Economic Council. As the President's personal representative, Mr. Fauver headed all Presidential preparations for the G-7 Economic Summits and for other major meetings, including the Asian Pacific Economic Cooperation (APEC) forum. Under President Bush from 1991-1993, Mr. Fauver was Acting Undersecretary of State for Economic Affairs as well as Deputy Undersecretary. As Deputy Assistant Secretary of State for East Asia from 1989-1991, he led the US Government's creation and management of APEC and a major deregulation initiative in the US-Japan relationship. During the 1980's Mr. Fauver led the Treasury Department's global economic analysis. He played a leading role in negotiating the financial services agreement with Canada, the historic yen-dollar agreement with Japan, and served as the personal advisor to the Treasury Secretary for G-5/7 economic summits. Mr. Fauver holds a B.A. from Ohio Wesleyan University and an M.A. in International Economics from the University of Maryland.

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**Jonathan T. Fried** is the Senior Assistant Deputy Minister of Finance and G-7 Deputy for Canada. He is the ranking official of the Government on international financial matters, including the G-7 Finance Ministers' process, relations with the Bretton Woods institutions, international surveillance, debt and related activities, and trade and development issues. He chairs Finance Deputies in support of Minister Paul Martin's chairmanship of the G-20 and is Canada's representative to the Financial Stability Forum. Prior to joining the Department of Finance, Mr. Fried was the Assistant Deputy Minister of Trade, Economic and Environmental Policy at the Department of Foreign Affairs and International Trade from 1997 to 2000. He served as Director General of the General Trade Policy Bureau, Coordinator for NAFTA and Canada's chief negotiator on the accession of China to the WTO from 1995 to December, 1997, and was previously Principal Counsel, Trade Law Division and Principal Legal Counsel for North American Free Trade Negotiations. In December 1992, Mr. Fried was elected by the OAS General Assembly to the Inter-American Juridical Committee; served as its Vice-Chairman from 1994-1996, as Chairman in 1996, and was re-elected for a third term in June 2000. He served as Chairman of the APEC Experts' Group on Dispute Mediation from its creation in 1994 to 1997, and as Vice-Chairman of the OECD Trade Committee from 1995 to 1997. Mr. Fried received his B.A. and LL.B. from the University of Toronto and his LL.M. from Columbia University. Mr. Fried was formerly Visiting Professor at the University of Toronto, Faculty of Law, and adjunct professor at the University of

Ottawa Faculty of Law, Georgetown University Law Center and the Norman Paterson School of International Affairs at Carleton University. Mr. Fried is a member of the Bar of Alberta, Canada, and the International Bar Association. He was National Vice-President of the Canadian Council on International Law, Executive Council member of the American Society of International Law, and Co-Chair of the Canadian Law Committee and later Council Member of the Section of International Law and Practice of the American Bar Association.

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**Gary Hufbauer,** a noted international economist, resumed his position as Reginald Jones Senior Fellow at the Institute for International Economics (IIE) in September 1998, a position he held between 1992 and 1997. From June 1997 until September 1998, Dr. Hufbauer was the Maurice R. Greenberg Chair and Director of Studies at the Council on Foreign Relations in New York. Before joining the IIE, he was the Marcus Wallenberg Professor of International Financial Diplomacy at Georgetown University. From 1997-1980, Dr. Hufbauer served in the Treasury Department as Deputy Assistant Secretary, responsible for trade and investment policy during the Tokyo Round and the Director of the International Tax Staff. Dr. Hufbauer graduated with an A.B. magna cum laude from Harvard and also holds a Ph.D. in economics from King College at Cambridge University, and a J.D. from Georgetown University Law Center. His recent publications include North American Economic Integration; 25 years Backward and Forward (co-author, 1999); Unfinished Business: Telecommunications after the Uruguay Round (co-editor, 1997); and Flying High: Liberalizing Civil Aviation in the Asia Pacific (co-editor, 1996).

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**Merit E. Janow** was appointed a Professor in the Practice of International Trade in the fall of 1994 at Columbia University's School of International and Public Affairs (SIPA). She is also Director of the International Economic Policy concentration at SIPA (since 1998) and Co-Director of Columbia's APEC Study Center (since 1995). Professor Janow teaches graduate courses in international trade law and international antitrust at Columbia Law School and international economic policy at SIPA. She serves on the faculty of Columbia's East Asian Institute and the Center on Japanese Economy and Business at Columbia Business School. From November 1997 until April 2000, Professor Janow served as Executive Director of a new International Competition Policy Advisory Committee to the Attorney General and Assistant Attorney General for Antitrust at the Department of Justice, Washington D.C. Previously, from February 1990 through July 1993, Professor Janow was Deputy Assistant U.S. Trade Representative for Japan and China at the Office of the U.S. Trade

Representative (USTR), Executive Office of the President. She was involved in the negotiation of over a dozen trade agreements with Japan and two agreements with the People's Republic of China (PRC). Before joining USTR, Professor Janow was an Associate with the law firm of Skadden, Arps, Slate, Meagher & Flom, specializing in mergers and acquisitions and international corporate transactions. Merit E. Janow is the author of a number of articles and books on international economic law and policy subjects as well as U.S.-Japan trade and economic relations. Professor Janow received a J.D. from Columbia University School of Law. She is admitted to practice law in the State of New York. She received a B.A. with honors in Asian Studies from the University of Michigan, Ann Arbor. Professor Janow resided in Tokyo for over ten years and is fluent in Japanese.

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**Kyung Tae Lee** has been President of the Korea Institute for International Economic Policy since 1998 and chairs the APEC Economic Committee. He has been Acting Chair and governing body regional representative of the East Asia Development Network since 2000. He has also served as Executive Committee Chair of the Korean National Committee for Pacific Economic Cooperation. Dr. Lee was a visiting scholar at Han Yang University (1999) and at Ewha Women's University (1999). He was an economic advisor to the Minister of Trade and Industry in 1986-1991. His publications include A Study of Korea's Development Indicators, Presidential Commission on Policy Planning (1996); Comparative Characteristics of Korea's Industrial Structure, Research Report No. 290, KIET (1993); "Korea's Economic Development; Market Pulled or Government Pushed?" Occasional Paper No.92-15, KIET, 1992. He holds a B.A. in Economics and a Master of Public Administration degree from Seoul National University. He received a Ph.D. in Economics at George Washington University. He was awarded the Republic of Korea's National Decoration of Honor in 1998.

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**Sander Levin** represents Michigan's 12th Congressional District and currently serves on the House of Ways and Means Committee. He is the Ranking Democrat on the Trade Subcommittee and also serves on the Social Security Subcommittee. He is known legislatively for his work on trade issues— he has persistently challenged unfair trade practices that threaten U.S. manufacturers and U.S. jobs. He was elected to the Michigan State Senate in 1964 where he served on the Education Committee and the Labor Committee. During the 1969-70 session, he was Senate Minority Leader. In 1970 and 1974, Mr. Levin was the Democratic candidate for Governor of Michigan. After a four year assignment as Assistant Administrator in the Agency for International

Development, he was elected to Congress. At home, he is working to help community-created coalitions to combat drug and alcohol abuse among teenagers. His work on the 1994 Crime bill has resulted in additional community police officers and a new multi-jurisdictional unit, the Crime Suppression Task Force, to combat crimes which cross community lines. Mr. Levin is also working to strengthen education and to link local industries to community colleges. Mr. Levin is involved in numerous local projects, including the re-development of the Detroit Arsenal Tank Plant in Warren, Michigan. Born in Detroit, Mr. Levin earned his B.A. at the University of Chicago, his M.A. at Columbia University, and a law degree at Harvard University.

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**Kishore Mahbubani**, Permanent Representative of Singapore to the United Nations in New York, presented his credentials to UN Secretary-General Kofi Annan on 5 August 1998. Dr. Mahbubani, who is also concurrently Singapore High Commissioner to Canada, presented his letters of commission to Canadian Governor-General Romeo LeBlanc on 7 October 1998 in Ottawa. Prior to his current assignment, Dr. Mahbubani served as Permanent Secretary in the Singapore Ministry of Foreign Affairs, holding that post from October 1993. He was also Dean of the Civil Service College in Singapore from 1992 to 1995 and Deputy Chairman of the Board of Governors of the Civil Service College from 1995 to 1997. Currently, he serves as a member of the Board of Directors, International Peace Academy, New York (since November 1999) and as an International Counsellor, Institute of International Education, New York (since November 1998). Mahbubani has published several articles in Foreign Affairs, Foreign Policy, The National Interest, Survival, and The Washington Quarterly. He has also published a volume of his collection of essays entitled "Can Asians Think?" (1998). He received a First Class Honours Degree in Philosophy from the University of Singapore in 1971, and a Masters degree in Philosophy from Dalhousie University, Canada in 1976. He also served as a fellow at the Center for International Affairs at Harvard University from 1991 to 1992. He received an honorary doctorate from Dalhousie University in 1995.

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**Mitsuo Matsushita** is Professor of Law at Seikei University (Tokyo, Japan) and a special adviser to Nagashima, Ohno & Tsunematsu, the largest law firm in Japan. He is also a member of the Industrial Structure Council attached to the Ministry of Economics, Trade and Industry (METI) of the Japanese Government and an adviser to the WTO Center established by the City of Shanghai, People's Republic of China. He was a founding member of the Appellate Body of the World Trade Organization from 1995 to 2000. In the past, he was a professor of law at Sophia University

(1968-1983) and at Tokyo University (1984-1994). He was a member of a number of advisory councils attached to the government of Japan including: the Customs and Tariffs Council (the Ministry of Finance) and the Telecommunications Council (the Ministry of Tele-communications and Posts). He was a visiting professor at Harvard Law School (1977-78), Columbia Law School (1987-88), Michigan Law School (1990-1993), the College of Europe (1992-1995), the World Trade Institute, and the University of Bern (2000-2001). He obtained a Ph.D in Public Law and Administration from Tulane University and a J.D. from Tokyo University. He is a member of Tokyo Bar (Daiichi Tokyo Bengoshikai).

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**Petros Constantinos Mavroidis** is Professor of Law at the University of Neuchatel, Chair of Public International Law, and Professor of Public International, International Economic and EC Law. He is a member of the Centre For Economic Policy Research. He has also spent several semesters at Columbia University's School of Law as a Visiting Professor for International Antitrust, WTO Law and Dispute Settlement. His most recent publications include The WTO Law and Practice (co-authored with Mitsuo Matsushita and Thomas Schonbaum, forthcoming 2001), and Regulatory Barriers and the Principle of Non-Discrimination (co-authored with Thomas Cottier, 2000). Professor Mavroidis holds a Ph.D. in Law from the University of Heidelberg, Germany, LL.M from the University of California at Berkeley, LL.M in EC Law from the Institut d'Etudes Europeenes, and LL.B in Law from the University of Thessaloniki. He is a Member of the International Law Association, a Member of the Council of the World Trade Law Association, and a Member of the American Society of International Law.

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**Balagopal Nair** is presently the Economic Counsellor at the Singapore Embassy in Washington, D.C. and Regional Director for the Singapore Trade Development Board for the Western Hemisphere. He assumed this appointment in July 2000. Previously, Mr. Nair was Director of Strategic and Corporate Planning in the Singapore Trade Development Board (STDB). Concurrently, he held the appointment of Vice President, TDB Holdings Pte Ltd, the strategic investment arm of the STDB. Mr. Nair has been with the STDB for the past 15 years and has assumed various portfolios through the course of his career, including Trade Policy, ASEAN Economic Cooperation, and International Operations. His academic background is in Economics, Political Science and Business Administration. He holds a B.A. with Honours in Social Sciences from the National University of Singapore and an M.A. from the Imperial College, London. He is a Raffles Scholar and was awarded the Public Administration (Silver) award in 1999.

**Hugh Patrick** is R.D. Calkins Professor of International Business, Director of the Center on Japanese Economy and Business at the Columbia University Graduate School of Business, and Co-Director of Columbia's APEC Study Center. He joined the Columbia faculty in 1984 after some years as Professor of Economics and Director of the Economic Growth Center at Yale University. He is recognized as a leading specialist on the Japanese economy and on Pacific Basin economic relations. He holds a B.A. from Yale University, earned M.A. degrees in Japanese Studies and Economics, and a Ph.D. in Economics at the University of Michigan. Professor Patrick has been awarded Guggenheim and Fulbright fellowships and the Ohira Prize. His professional publications include fifteen books and some sixty articles and essays. His major fields of published research on Japan include macroeconomic performance and policy, banking and financial markets, government-business relations, and Japan-United States economic relations. Professor Patrick is actively involved in professional and public service. He served as one of the four American members of the binational Japan-United States Economic Relations Group appointed by President Carter and Prime Minister Ohira, 1979-1981. He is a member of the United States National Committee for Pacific Economic Cooperation and its Board of Directors. He is chairman of the International Steering Committee for the conference series on Pacific Trade and Development (PAFTAD), having served on it since PAFTAD's inauguration in 1968. He served as a member of the Board of Directors of the Japan Society for 24 years. In November 1994 the Government of Japan awarded him the Order of the Sacred Treasure, Gold and Silver Star (Kunnito Zuihosho). He was awarded an honorary doctorate of Social Sciences by Lingnan University, Hong Kong in November 2000.

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**Peter A. Petri** is Dean of the Graduate School of International Economics and Finance and also the Carl J. Shapiro Professor of International Finance at Brandeis University. He has served as Visiting Scholar at the OECD Development Centre (1996/97), Fulbright Research Scholar at Keio University in Japan (1991). He received B.A. and Ph.D. degrees in Economics from Harvard University. Professor Petri's research focuses on trade, investment and regional economic integration, with applications to the Pacific Rim and the Middle East. He has collaborated with the World Bank on the East Asian Miracle project and the East Asian Trade and Investment report, which proposed major East Asian liberalization and deregulation efforts. He is a member of the U.S. Pacific Economic Cooperation Council (USPECC), the International Advisory Group of PECC's Trade Policy Forum, and the PAFTAD International Steering Committee. He is currently Chair of the U.S. APEC Study Center Consortium. Professor Petri has published more than fifty books

and articles in international economics. His most recent publications include: Regional Co-operation and Asian Recovery (edited, Institute of Southeast Asian Studies Press 2000); "Foreign Direct Investment in the Wake of the Asian Financial Crisis" (Regional Cooperation and Asian Recovery, 2000); and "Markets, Competition and Restructuring in the 1990s" (Business, Markets and Government in the Asia Pacific, 1998).

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**Timothy M. Reif** is Democratic Chief Trade Counsel for the Committee on Ways and Means, U.S. House of Representatives, and Adjunct Professor of Law at the Georgetown University Law Center. At Ways and Means, Mr. Reif is head of the Democratic trade staff and is responsible for all international trade matters that come before the Committee. At Georgetown, Mr. Reif has taught a course since 1995 on dispute resolution under the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA). From 1995 to 1998, Mr. Reif was Special Trade Counsel with Dewey Ballantine LLP. Mr. Reif concentrated on dispute resolution in the WTO and NAFTA, and implementation of WTO Agreements, such as the Agreement on the Application of Sanitary and Phytosanitary Measures. From 1993 to 1995, Mr. Reif served as Trade Counsel to the Ways and Means Committee. He was responsible for drafting major portions of and developing legislative strategy for the implementing bills for the NAFTA and WTO Agreements. From 1989 to 1993, he was Associate General Counsel in the Office of the U.S. Trade Representative. Mr. Reif negotiated rules on unfair trade practices and related dispute settlement issues for the NAFTA and Uruguay Round. From 1987 to 1989, Mr. Reif served in the Office of the General Counsel at the U.S. International Trade Commission. From 1985 to 1987, Mr. Reif practiced law in the Washington office of Milbank, Tweed, Hadley & McCloy. Mr. Reif holds a law degree from Columbia and a Master of Public Affairs degree from the Woodrow Wilson School at Princeton University. He also earned his undergraduate degree from the Wilson School.

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**José Manuel Salazar** has been Chief Trade Advisor and Director of the Trade Unit at the Organization of American States (OAS) in Washington since June, 1998. Prior to that, Dr. Salazar served as Minister of Foreign Trade of Costa Rica. In that capacity, he chaired the FTAA process in the year previous to the San Jose Ministerial Meeting, and was the host of that meeting, in which the objectives and rules for the FTAA negotiations were finally agreed. He has also served as Executive Director of the Business Network for Hemispheric Integration. (BNHI, 1996-97); Vice President of the Board of the Central Bank of Costa Rica, 1995-96; Executive Director and Chief Economist of the Federation of Private

Entities of Central America and Panama (FEDEPRICAP, 1991-1995); Consultant to UNDP, ECLAC, IDB and UNIDO (1990-91); Executive President of the Costa Rican Development Corporation (CODESA), institution in charge of the privatization program and the industrial policy program in Costa Rica (1988-1990); Member of the Council on Industrial Policy (1988-90); Advisor to the Minister of Agriculture of Costa Rica (1987-88); Director of the Project "Prices, Incentives and Policy Reforms in the Agricultural Sector of Costa Rica." World Bank-Ministry of Planning (1987-88); Advisor to the Government of Costa Rica in the negotiation of the Second Structural Adjustment Program (1987); and Advisor to the Minister of Planning of Costa Rica (1985). Dr. Salazar holds an M.Phil. and Ph.D. in Economics, from the University of Cambridge and a B.A. from the University of Costa Rica.

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**Andre Sapir** is Professor of Economics, Université Libre de Bruxelles (ULB), Belgium and Economic Advisor, Directorate General for Economic and Financial Affairs, European Commission. He studied economics at ULB (BA 1972, MA 1973) and at the Johns Hopkins University in Baltimore (USA) (MA 1975, PhD 1977). His specialty is empirical, theoretical and policy work in the field of international economics, including: economic integration, monetary union, commercial policy, North-South trade. From 1977 to 1982, He was an assistant professor of Economics at the University of Wisconsin at Madison; an associate professor of Economics at ULB from 1983 to 1985. Since 1986, he has been a full professor of Economics at ULB. He was President at Institute for European Studies at ULB, 1992-98. He was visiting professor at the Graduate Institute of International Studies, Geneva,(1986-87); Universitè Catholique de Louvain (1988-89); College of Europe, Bruges (1995-96 and 1996-97). He was also a visiting scholar at Institute for International Economic Studies, University of Stockholm (April 1991) and the International Monetary Fund (April 1998). He has served as an advisor to the Directorate General for Economic and Financial Affairs at the European Commission, 1990-93 and 1995-present. He has been Research Fellow of CEPR (since 1988), member of ECARES (since 1992), and panel member, Economic Policy (1995-1996). Most recent publications include "Domino Effects in Western European Regional Trade", European Journal of Political Economy (forthcoming); "Trade Regionalism in Europe", Journal of Common Market Studies 38: 151-62 (2000); and "EC Regionalism at the Turn of the Millennium", The World Economy 23: 1135-42 (2000).

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**Andrew L. Stoler** has served as Deputy Director-General of the World Trade Organization since November, 1999. Mr. Stoler has specific

responsibility for WTO activity in the areas of dispute settlement, trade in services, and market access (tariffs and non-tariff measures) for trade in goods. In addition, he directs the WTO administration, including budget and personnel policy. Prior to his service with the World Trade Organization, he spent slightly more than ten years in Geneva as the Deputy Permanent Representative of the United States to the WTO and its predecessor, the GATT. In connection with these duties, he served as Chairman of the Working Party on the Accession to the WTO of Ukraine and as a Deputy Chairman of the WTO Committee on Regional Trade Agreements. During the Uruguay Round of Multilateral Trade Negotiations, Mr. Stoler was the principal U.S. negotiator for a wide range of WTO Agreements, including the Trade Policy Review Mechanism, the Marrakesh Agreement Establishing the WTO and other institutional issues, such as aspects of the final text of the Dispute Settlement Understanding. In 1988 and most of 1989, he served as Deputy Assistant U.S. Trade Representative for Europe and the Mediterranean in the Washington office of USTR. Earlier, from 1982 through 1987, he was the Non-Tariff Measure Codes Coordinator in the Geneva USTR office. Mr. Stoler holds an M.B.A. in International Business from George Washington University and a B.S. in International Economic Affairs from Georgetown University's School of Foreign Service.

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**David G. Tarr** is Lead Economist for Trade Policy in the Development Economics Research Group of the World Bank. He has authored over 70 articles and 7 books, including articles in Econometrica, Review of Economic Studies, Quarterly Journal of Economics, International Economic Review, Economic Journal, Journal of International Economics, and Review of Economics and Statistics. A major research interest has been quantifying the gains from trade liberalization. He recently authored a paper with Thomas Rutherford (forthcoming, Journal of International Economics), which shows that incorporating variety effects in a dynamic model will dramatically increase the estimated gains from trade liberalization. On behalf of the World Bank he has worked in about 20 developing and transition countries, focusing on the design of trade policy, accession to the WTO and regional integration. On the subject of regional integration, he has advised the governments of Morocco, Tunisia, Turkey, Chile, Kyrgyzstan, Estonia and Russia. His research has typically involved quantitative evaluations of regional integration efforts, and among his articles on this subject are papers in the European Economic Review on Turkey-EU; Economic Modeling on Morocco-EU; Cuadernos de Economia on Chile-Mercosur and Chile-NAFTA; African Development Review on Cameroon and CEMAC; and Post-Soviet Geography and Economics on countries in the Commonwealth of Independent States (CIS). His paper with Glenn Harrison and Tom Rutherford on the single

market in the European Union won the $10,000 Daeyang Prize for the best article in the Journal of Economic Integration.

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**Ippei Yamazawa** is Professor, Graduate School of Asia-Pacific Studies, Waseda University and Professor Emeritus, Hitotsubashi University. He has been President of The Institute of Developing Economies /Japan External Trade Organization since 1998. He studied at Hitotsubashi University and the University of Chicago and received a Ph.D. in Economics at Hitotsubashi University. He taught in the Department of Economics, Hitotsubashi University for 32 years. He also taught at Thamassat University (1976), University of Sheffield (1989), and the University of Birmingham (1996). His main focus is international economics, especially trade, investment, industrial adjustment, and trade policy. He has published several books and journal articles including: Toward Closer Japan-Korea Economic Relation in the 21st Century: Summary Report (May 2000); Strengthening Cooperation among Asian Economies in Crisis (ed. 1999); APEC's Progress toward the Bogor Target: A Quantitative Assessment of Individual Action Plans (1998); Economic Integration in the Asia-Pacific Region and the Options for Japan (1993); Economic Development and International Trade: The Japanese Model (1990). He has worked on Pacific economic cooperation since 1968 and is regular member of Pacific Economic Cooperation Council (PECC)/ Japan National Committee . He serves as Representative of Japan on the APEC Eminent Persons Group (1993-1995). He is also Coordinator, APEC Study Center Japan Consortium (since 1995). He coordinated the Japan Study Group on the Japan-Korea FTA (1999-2000) and is a member of the Japan-China Friendship 21st Century Committee (since 1997).

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**Soogil Young** is currently Senior Fellow at the Institute for Global Economics, as well as Senior Advisor and Policy Analyst at Kim & Chang law office in Seoul. From April 1998 until January 2001, he served as Ambassador and Permanent Representative of Korea to the OECD. At the invitation of the OECD Council, he has also served as Chairman of the Advisory Board on the Development Centre. Before this, he served as a Senior Fellow of the Korea Development Institute (KDI), as well as President of the Korea Institute for International Economic Policy (KIEP), concurrently serving on many economic advisory bodies for the Korean government, including the Korean Tariff Commission (1984-93), Presidential Commission on Economic Restructuring (1988) and Presidential Commission on the 21st Century (1989-94). Internationally, he was the founding Coordinator of the Trade Policy Forum of the Pacific Economic Cooperation Council (1983-86). He has also represented Korea in the

International Steering Committee for the Pacific Trade and Development Conference (PAFTAD) (1990-97). Born in Seoul, Korea, Young earned his Ph.D. in economics from Johns Hopkins University and has written extensively on Korea's international economic policy issues. Korea's trade policy and tariff reform in the 1980s was modeled principally on Dr. Young's proposals as propounded in his book, The Basic Role of Industrial Policy and How to Reform Industrial Incentives (1983, KDI).

# The Columbia APEC Study Center in 2000-2001

The APEC Study Center at Columbia University supports research, conferences, teaching and other programs on APEC related issues. A few of the major activities in 2000-2001 include:

### Research Program

- The *CSIS-Columbia Program in Indonesian Economic Institution Building in a Global Economy* is a multiyear economic research and policy oriented program undertaken in cooperation with the Centre for Strategic and International Studies, Jakarta. Areas of research include: international trade, corporate governance, competition law and investment.

### Discussion Papers and Workshop Reports

- *Dealing with the Bad Loans of the Chinese Banks* by John Bonin, Professor of Economics, Wesleyan University and Yiping Huang, Fellow, Economics Division, Asia Pacific School of Economics and Management, the Australian National University (Discussion Paper No. 13);
- *Economic Crisis and Chaebol Reform in Korea* by Phil Sang Lee, Dean, School of Business Administration, Korea University (Discussion Paper No.14);
- *Considering Competition Law in Indonesia: Challenges and Approaches*, Workshop Report, April, 2001.

### Workshops

- *Workshop on Economic Institution Building in a Global Economy* May 24-25, 2000 Jakarta, Indonesia;
- *Workshop on The Korean Chaebol: Future Prospects and Problems*, October 6, 2000, Columbia University New York;
- *Workshop on Considering Competition Law in Indonesia*, October 18, 2000, Columbia University, New York;
- *Workshop on Regional and Multilateral Trade Liberalization*, March 16, 2001, Columbia University, New York;
- *Workshop on Economic Reform in Indonesia*, April 23-24, 2001, Columbia University, New York;

### APEC Study Center Visiting Scholars

- Ngoc Trinth Luu, Chair, Department of Developed Market Economies, Institute of World Economy, Hanoi, Vietnam
- Huang Shu-Ching, Specialist, Department of Economic Research, Council for Economic Planning and Development, Taipei, Taiwan
- Jin Zhaohu, Project Manager. State Power Corporation of China, Beijing China.

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