

FROM MULTILATERALISM TO BILATERALISM: THE EVOLUTION OF GLOBAL TRADE POLICIES

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Abstract

This study intends to analyze the evolution of the world trading system in light of the developments from multilateralism to bilateralism and regionalism. The point of departure is that the expectation of shaping a multilateral trade system based on the WTO rules has become blurred as the Doha Round could not be concluded and has been in a deadlock. Despite the attempts to relieve the world trade from multilateral suspension, a new wave of regionalism emerged in the form of free trade agreements accelerating in the last decade. Though not with the same speed, large trading blocs such as the US, the EU and East Asian countries have responded to this policy shift and have already started to intensely integrate themselves in bilateral trade arrangements with possible trade partners, which brings in the question whether multilateral trade has been approaching an end.

Keywords: Trade policy, multilateralism, bilateralism, free trade agreements

ÇOK TARAFLILIKTAN İKİ TARAFLILIĞA: KÜRESEL TİCARET POLİTİKALARININ DÖNÜŞÜMÜ

Özet

Bu çalışma, çok taraflı ticareten iki taraflı ve bölgesel ticarete doğru olan gelişmeler ışığında dünya ticaret sisteminin evrimini analiz etmeyi amaçlamaktadır. Hareket noktamız, Doha Müzakereleri'nin sonuçlandırılmayıp bir çıkmaza girmesiyle Dünya Ticaret Örgütü kurallarına dayalı bir çok taraflı ticaret sistemi şekillendirme

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beklentilerinin belirsiz hale gelmiş olmasıdır. Dünya ticaretini bu çıkmazdan kurtarmak için gösterilen çabalara rağmen, son on yılda sayıları artan serbest ticaret anlaşmalarıyla yeni bir bölgesellik dalgası ortaya çıkmıştır. Aynı hızda olmasa da, ABD, AB ve Doğu Asya ülkeleri gibi büyük ticaret blokları, bu politika değişikliğine cevap vermiş ve olası ticaret ortaklarıyla ikili ticaret anlaşmalarına yoğun olarak entegre olmaya başlamıştır. Böylece, çok taraflı ticaretin bir sona yaklaşım yaklaşmadığı sorusu gündeme gelmiştir.

Anahtar kelimeler: Ticaret politikası, çok taraflılık, iki taraflılık, serbest ticaret anlaşmaları

1. Introduction

The 1990s witnessed the proliferation of preferential trade agreements throughout the world. The surge of these bilateral or regional agreements accelerated by the sluggish pace of the Doha round negotiations of the World Trade Organization (WTO), and peaked by the suspension of the Doha Development Agenda in 2006. This "new wave of regionalism", mostly identified by Free Trade Agreements, has fuelled the discussion about the relation between multilateralism and bilateralism and the question whether these regional arrangements will serve as "steeping stones" or "stumbling blocks" to multilateral trade liberalization has become increasingly important.

The aim of this paper is to analyze the recent trends of bilateralism by focusing on how the multilateral trade negotiations proceeded since the formation of the WTO but recently suspended and failed to establish common trade rules, and how regionalism evolved since 1960s and took a form of new regionalism in the last decade. The first section provides the essence of the multilateral approach in a historical perspective of the development of the WTO. The second section offers a brief discussion of the main aspects of the new regionalism by explicating the evolution of free trade agreements and describing the current state of play of bilateralism specifically in the EU, the US and East Asia. The concluding remarks focus on whether the current rise of bilateralism constitutes a threat to the future of multilateralism.

2. The WTO and Its Development

2.1 GATT, Uruguay Round and the WTO

Towards the end of the World War II, countries started meetings in order to set out a plan to recover from the negative effects of the war. In 1947, The General Agreement on Tariffs and Trade (GATT) was signed at the end of the Bretton Woods meetings. The main aim was "reduction in tariffs and other international trade barriers". As such, together with the International Monetary Fund (IMF) and the World Bank, the GATT became one of the three mechanisms for global economic governance.¹

The GATT continued operating for about fifty years with the purpose of arranging rules for international trade of goods and especially diminishing tariffs and quotas. It was not an institution but had a permanent organization that comprised of some rules within a particular framework. Negotiations within the GATT continued until the Uruguay Round was completed in 1994. The Uruguay Round also contributed to the package of rules

¹ R. Leal-Arcas, 2006, "The Death of the Doha Round. What Next for Services Trade?", September 15, *bepress Legal Series Working Paper*, no. 1760.

related to trade in services, relevant aspects of intellectual property, dispute settlement, and trade policy reviews. Around 60 agreements and separate commitments (called schedules) were covered within the set of Uruguay Round negotiations. On the conclusion of the Uruguay Round of Trade Talks (1986-1994), the WTO was established on January 1, 1995.²

What changes or developments led to the establishment of the WTO? First of all, multilateral trade negotiations within the GATT framework had mainly set the reduction of tariffs as its central goal. When it was observed that the negotiations succeeded in abolishing such kind of traditional barriers to trade especially in manufactures, the negotiating parties started to deal with other types of trade barriers. Anti-dumping measures, non-tariff measures, intellectual property rights and standards emerged on the agenda of new negotiations.³ Table 1 shows the evolution of the themes that were handled within the GATT trade rounds.

Table 1. The GATT trade rounds

<i>Year</i>	<i>Place/ name</i>	<i>Subjects covered</i>	<i>Countries</i>
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960–1961	Geneva (Dillon Round)	Tariffs	26
1964–1967	Geneva (Kennedy Round)	Tariffs and anti-dumping measures	62
1973–1979	Geneva (Tokyo Round)	Tariffs, non-tariff measures, “framework” agreements	102
1986–1994	Geneva (Uruguay Round)	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc	123

Source: WTO, 2007b, *Understanding the WTO*, p. 16, available at http://www.wto.org/english/thewto_e/whatis_e/tif_e/understanding_e.pdf

Secondly, by the 1980s, the world had changed a lot and the GATT was no longer considered as relevant as it was in the 1940s. Many countries had started to take protective measures in order to secure their economic environment against foreign competition and against the negative impacts of the economic recessions of the 1970s and early 1980s. For

² WTO, 2007a, *The World Trade Organization In Brief*, available at http://www.wto.org/english/res_e/download_e/inbr_e.pdf

³ M. F. Jensen and P. Gibbon, 2007, “Africa and the WTO Doha Round: An Overview”, *Development Policy Review*, Vol. 25, no. 1, p. 6

instance, such developments drove Western Europe and North America to search for bilateral grounds to find markets for their products and to raise subsidies in order to safeguard their trade in some products. Furthermore, the areas covered by the GATT rules did not include the newly occurring trade in services or other topics that have become relevant in the era of globalization. Thus, the GATT members were convinced that they should seek new ways in order to tackle the new problems of the world, which resulted in the formation of the WTO.⁴

WTO emerged as a global trade institution that would arrange the binding rules expanding beyond trade and would now impose sanctions against countries which do not rely on those rules. GATT is regarded as the major rule-book of the WTO for trade in goods. Its functions were defined in various policy documents as follows:

- Administering WTO trade agreements
- Forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries
- Cooperation with other international organizations⁵

Adopting these functions, WTO members agree to execute “*a non-discriminatory trading system that spells out their rights and their obligations*” covering issues that range from trade of goods and services to intellectual property, dispute settlement and policy reviews.⁶ Each member is guaranteed to face a fair treatment for its exports in other members’ markets and guarantees to treat imports equally in its own market. Besides, the needs of developing countries are recognized and these countries are allowed some flexibility so that they can rely on their commitments.

If we classify the basic broad areas of the WTO agreements as goods, services and intellectual property, it is possible to exemplify substantial changes in these as a result of the WTO agreements. For instance, the tariff cuts of developed countries were substantially high in the first five years after 1995. There was a 40% cut in their tariffs on industrial products, which dropped the average rate from 6.3% to 3.8%. In addition,

“...on 26 March 1997, 40 countries accounting for more than 92% of world trade in information technology products, agreed to eliminate import duties and other charges on these products by 2000 (by 2005 in a handful of cases). As with other tariff commitments, each participating country is applying its commitments equally to exports from all WTO members (i.e. on a most-favoured-nation basis), even from members that did not make commitments.”⁷

⁴ WTO, 2007b, *Understanding the WTO*, available at http://www.wto.org/english/thewto_e/whatis_e/tif_e/understanding_e.pdf

⁵ *Ibid.*, p.17

⁶ WTO, 2007a, *Ibid.*

⁷ WTO, 2007b, *Ibid.*, p.25

Furthermore, tariffs on all agricultural products are now bound. All services, including financial services, telecommunications, air transport services and movement of natural persons, were brought under The General Agreement on Trade in Services (GATS). The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), negotiated during the Uruguay Round, covers the rules connected with international property such as copyright, trademarks, industrial designs, patents, and undisclosed information like trade secrets. Non-tariff barriers are also aimed to be eliminated to enhance free trade. These may be in the form of legal or bureaucratic impediments to trade (such as rules for valuation of goods at customs, import licensing, etc).⁸

2.2 Doha Round and the Deadlock of the WTO

In November 2001, WTO member governments initiated new negotiations at the Fourth Ministerial Conference in Doha, Qatar and meanwhile, continued working on the implementation of the present agreements. This new initiative was called the Doha Development Agenda (DDA). This new round of negotiations became a critical turning point for the future of the WTO and the global multilateral trade system. It departs from the Uruguay Round in many aspects, especially in that it brings “development” into the fore. Especially developing countries found a sphere where they could effectively pursue their own interests and priorities in this round. They were given a promise that they would be able to participate in the world trading system so that the world would reach a global environment that is more just and equal. This intention inherently carried the idea that a more open and equitable trading system would bring more peace to the world. The success of the DDA was expected to bring in higher growth and development in the world trading system. In contrast, the failure of the DDA would assure no growth or development for the world and hence, would throw the hopes of the least developed countries into the rubbish.

*In addition, the failure of the DDA will be regarded as a missed historic opportunity to eliminate export subsidies, to put an end to trade distortion. Consequently, all countries of the world trading system will lose, especially developing countries. In this respect, the biggest gains to development will certainly be in the core areas of goods, services and agriculture, and so liberalizing trade among developing countries is an essential part of the Doha exercise. That is why the international community cannot miss the opportunity offered by the DDA, which can set a vision for the global economy for the next decades and make a major contribution to development.*⁹

At the Fifth Ministerial Conference in Cancún, Mexico, in September 2003, the issues of trade and investment, competition, transparency in public procurement and trade facilitation (also named as the “Singapore issues”) were brought onto the table.¹⁰ The intention was to come to an agreement on these issues so that they would complete the rest of the negotiations. However, the meeting came to a halt because of the dissonance on agricultural issues and ended in deadlock on the Singapore issues. Progress on the Singapore issues and agriculture could only be observed in August 2004. The deadline for the DDA was January 1, 2005 originally and it was missed. Afterwards, an unofficial target

⁸ WTO, 2007b, *Ibid.*, pp. 36-41

⁹ Leal-Arcas, *Ibid.*

¹⁰ WTO, 2007b, *Ibid.*

date of the end of 2006 was set in order to finish the negotiations, which resulted again unsuccessful.

At the Sixth WTO Ministerial Conference in Hong Kong, in December 2005, the following issues were aimed to be debated:

(i) *an agreement on the modalities (i.e., detailed negotiating parameters) for negotiations in agriculture and non-agricultural market access (NAMA);*

(ii) *an effective negotiating framework for a significant result in services;*

(iii) *directions to ensure that WTO rules remain effective and in some cases are strengthened (for example, by adding new disciplines to subsidies to deal with over-fishing); and*

(iv) *the outlines of an agreement on trade facilitation.*¹¹

As such, the WTO members hoped to come to a final agreement on these issues. However, the discussions in the conference were pegged down on the issue of agricultural subsidies and tariffs. The problem was that the big trading blocs in the WTO (the US, Brazil, and Australia on one side, and the EC on the other) had been in a serious dispute on the amounts of subsidy cuts offered by the two sides. Each of them had the opinion that their cuts were high enough. Besides, the group of 20 developing nations (G-20) was demanding heavier cuts from both sides. At first, the US offered a cut of 60% in its farming subsidies whereas the EC offered a reduction of 38% in its tariffs on agricultural goods. The EC's offer was considered insufficient by the US and the developing countries. To sum up, the Hong Kong Ministerial Conference had begun with the hopes of agreeing on "*the main points of the agricultural section -tariff cuts and quota easing or elimination, elimination of export subsidies for farm products by developed countries by 2013*"¹²; however a document was added to the Ministerial text that required the elimination of a substantial portion of the support by 2010, and noted that there should be further reduction of subsidies in rich countries.¹³

Despite these notes and agreements, successive deadlines were missed as we noted before, and, on July 28, 2006, the General Council of the WTO formally announced the indefinite suspension of the talks,¹⁴ "*following the refusal of the United States to make bigger cuts to its farm subsidies if the EC and emerging developing countries such as India, China, and Brazil did not reduce their tariffs on agricultural and industrial products respectively*". The EC and the other major trading members are blaming the US. for the collapse.¹⁵

There was a last attempt on June 19, 2007, in Potsdam, Germany, to find ways that will take the Doha Development Round forward. However it again failed. The only contribution of this meeting was that US finally agreed to put an upper limit of \$17 billion a

¹¹ Leal-Arcas, *Ibid.*, p. 53

¹² *Ibid.*, p. 56

¹³ *Ibid.*, p. 57

¹⁴ S. Cho, 2007, "Doha's Development", *Berkeley Journal of International Law*, Vol. 25, issue 2, p. 165

¹⁵ Leal-Arcas, *Ibid.*, p. 67

year for its subsidies. Although it seems to be a better proposal compared to its earlier offer of \$ 22,5 billion, Brazil and India, who are considered to represent the poorer countries, found this amount not low enough and demanded less than \$ 15 billion. What is more, no agreement could be reached in terms of both agricultural and industrial tariff cuts.

It still remains deadlocked and the future of the DDA has already started to be questioned together with the future of the WTO. There are different views on the issue. Some argue that there should be some solution to the suspension and otherwise, all partners of trade will suffer from this. For instance, Faizel Ismail, Head of the South African Delegation to the World Trade Organization, argues that “*the suspension of the Doha Round, and the almost certain extension of the round beyond 2006, means that the prospects for the development outcomes of the round to be realized have been postponed once again*” for both the developing countries that have an interest in an ambitious outcome in the agriculture negotiations; and for those that are the least developed and vulnerable economies.¹⁶ Some others point out that the EU’s refusal to offer more than the status quo (in terms of farm tariffs) encourages the US not to change its own offer and keep it at low levels. Furthermore, there is a possibility that poor countries may become frustrated because of the unsatisfactory compromises in agriculture that are offered by rich countries and, one day, may refuse to remain in this “Development Round”.¹⁷

Still, whatever the future of the WTO will be, it is a fact that the sluggishness in the DDA negotiations, concluded with a deadlock of the multilateralist process, led to changes in the trade policies all over the world. The new feature of the global trade, acceleration of the bilateral trade negotiations or the “new regionalism” is explored in the next section.

3. New Regionalism: Trade Policies in the Last Decade

3.1 The Evolution of Free Trade Agreements

By definition, free trade agreements (FTAs) are legally binding arrangements between two or more countries, in which these countries give each other preferential treatment in trade that eliminates trade protection among members but each member keeps its own tariff structure in trade with third countries.

FTAs have become increasingly prominent in the last decade. Every major trading nation in the world is actively negotiating free trade agreements, to ensure that their businesses and workers can compete successfully in a global economy and to secure strategic commercial, foreign policy and natural resource advantages. According to the WTO, about 380 Regional Trade Agreements (RTAs) have been notified to the GATT/WTO up to July 2007, where about half of this number has accrued since 2002. Moreover, if we take into account RTAs which are in force but have not been notified, those signed but not yet in force, those currently being negotiated, and those in the proposal stage, we arrive at a figure of close to 400 RTAs which are scheduled to be implemented by 2010, where FTAs and partial scope agreements account for over 90 percent of these

¹⁶ F. Ismail, 2006, “From The Hong Kong WTO Ministerial Conference to the Suspension of the Negotiations. Developing Countries Re-claim the Development Content of the WTO Doha Round”, *World Economics*, Vol. 7, Issue 3, p. 133-136

¹⁷ Cho, *Ibid.*, p. 189

RTAs¹⁸. FTAs have become a regularized component of the international trading system where almost every country in the world has entered into at least one FTA. Today, more than half of the world trade occurs through FTAs.¹⁹

Table 2. Intra-regional exports and their share in world exports (\$ at current prices in billions and %)

	1990	1995	1998	2000	2002	2004	2006
WORLD	3,382.3	5,080.4	5,396.0	6,382.9	6,430.1	9,130.7	11,935.8
EU 25	1,028.8	1,394.2	1,408.1	1,618.9	1,732.0	2,499.9	2,996.8
NAFTA	226.3	394.5	521.6	676.1	626.0	737.6	902.1
ASEAN	27.4	79.5	69.8	98.1	91.7	141.9	194.3
MERCOSUR	4.1	14.2	20.4	17.8	10.2	17.4	25.8
GCC	6.9	6.8	7.4	8.0	8.9	12.5	20.0
EFTA	0.8	0.9	1.1	0.8	0.9	1.1	1.5
<i>Share (%)</i>							
EU 25	30.42	27.44	26.09	25.36	26.94	27.38	25.11
NAFTA	6.69	7.76	9.67	10.59	9.74	8.08	7.56
ASEAN	0.81	1.57	1.29	1.54	1.43	1.55	1.63
MERCOSUR	0.12	0.28	0.38	0.28	0.16	0.19	0.22
GCC	0.20	0.13	0.14	0.12	0.14	0.14	0.17
EFTA	0.02	0.02	0.02	0.01	0.01	0.01	0.01

Source: UNCTAD, 2007, Handbook of Statistics

Table 2 shows the evolution of intra-regional exports of major RTAs and their share in world exports. The table does not include trade flows between bilateral free trade areas, but gives an overview of how regional blocs became significant in the world trade. In 2006, EU-25, NAFTA, ASEAN, MERCOSUR, GCC and EFTA accounted for some 40 percent of the world merchandise trade. In 2006, intraregional exports of the EU-25 alone accounted for 25 percent of world merchandise exports, while NAFTA intra-exports represented around 7.5 percent. The recent fall in the shares of EU-25 and NAFTA intra-trade in world trade mainly reflects the rapid rise of the share of China and India in world trade.

¹⁸ http://www.wto.org/english/tratop_e/region_e/region_e.htm

¹⁹ M. Mashayekhi et al., 2005, "Multilateralism and Regionalism", in M. Mashayekhi and T. Ito, *Multilateralism and Regionalism: The New Interface*, UNCTAD, New York, p. 3

Table 3. Share of intra-regional exports in total exports (%)

	1990	1995	1998	2000	2002	2004	2006
EU 25	67.41	66.44	62.23	67.20	66.74	67.30	66.67
NAFTA	41.39	46.23	51.68	55.72	56.56	55.87	53.85
ASEAN	18.95	24.52	21.10	22.98	22.66	24.92	24.93
MERCOSUR	8.86	20.28	24.98	20.00	11.47	12.69	13.51
GCC	7.99	6.77	8.04	4.84	5.89	5.02	4.76
EFTA	0.79	0.74	0.90	0.59	0.57	0.54	0.56

Source: UNCTAD, 2007, Handbook of Statistics

Furthermore, intra-RTA trade has become significant for member countries. NAFTA is a good example for this, where the share of the intra-regional trade between the US, Canada and Mexico in their total exports rose significantly after the formation of NAFTA in 1994. In 2006, 54 percent of the total trade of the NAFTA members was intra-regional. The EU intra-regional trade stayed more or less constant in the last decade, but constitutes a large percentage of its total trade. In cases of ASEAN and MERCOSUR, regional trade became increasingly significant. Thus, trade figures show that international trade flows are increasingly concentrated within regional groupings formed by large trading nations²⁰.

Regionalism through RTAs is a widely discussed topic among trade economists since 1950s. The pioneering theoretical approach on the subject was Jacob Viner's static analysis on preferential trade agreements. Viner introduced the concepts "*trade creation*" and "*trade diversion*" and stressed the discriminatory aspects of regional trade liberalization.²¹ In the following years, the formation of European Economic Community (EEC) in 1957 and European Free Trade Association (EFTA) in 1960 gave pace to the discussion about the objectives of the countries entering a regional integration scheme.

As a tool for achieving the target of global free trade, the other approach has been multilateral trade liberalisation, depending on the GATT/WTO principles and negotiations. Until 1980s, RTAs have been mostly limited to Western Europe and regionalism has mainly been regarded as a European concept. The stance of the USA was being loyal to multilateralist approach. While Europe was integrating in 1960s and 1970s, the USA was rejecting proposals for a North Atlantic Free Trade Area²². So, as Bhagwati suggests, "*the first wave of regionalism that took place in the 1960s failed to spread because the US*

²⁰ Mashayekhi et al., *Ibid.*, p. 4

²¹ J. Viner, 1950, *The Customs Union Issue*, New York, Carnegie Endowment for International Peace, p. 43

²² A. Panagariya, 1999, "The Regionalism Debate: An Overview", *The World Economy*, vol. 22, no. 4, p. 481

supported a multilateral approach”²³. However, following the failure of the GATT multilateral trade negotiations in November 1982, the US had to change its position and favoured RTAs. This led to a second wave of regionalism, which brought about a multitude of such agreements, where the most notable examples are the enlargement of the EU, NAFTA and Mercosur²⁴.

The first half of the 1990s witnessed a race of regional agreements between the world’s two largest trade partners, and this race between two giants has led to a renewal of efforts for FTAs by and among smaller countries in Africa, Latin America, South and Central Asia, Central and Eastern Europe and the Baltic States.²⁵ This wave of regionalism made the question whether regionalism or multilateralism is the most effective strategy for achieving global free trade one of the most debated issues in international economics in the 1990s.

Starting from the mid 1990s, both the US and the EU turned their attention to multilateralism. The conclusion of the Uruguay Round of multilateral trade negotiations in 1994, and the establishment of the WTO in 1995 to provide the institutional support to the multilateral trade agreements, flourished the expectations that a world trading system based on common rules and multilateral liberalization can be formed. There was an expectation that “*exceptions to multilateralism, such as regional trade agreements (...) would either become less of an alternative policy option for countries or will need to be adapted and conducted in such a manner as to become outward-oriented, not inward-looking, and thus constitute building blocks for the new multilateralism ushered in by the WTO.*”²⁶ On the side of the US and the EU, there was the expectation that the DDA would conclude by the end of 2004.

The original position of the US was already multilateralism, and pursuing FTAs was a temporary policy change for them. The US did not sign any regional trading agreements after NAFTA for a long time, and rejected any proposals. On the other hand, the EU, who traditionally followed the rationale for regionalism, also shifted its focus to multilateralism and maintained an effective suspension on the opening of bilateral or regional negotiations to conclude FTAs. Pascal Lamy, who was the Trade Commissioner of the European Commission between 1999 and 2004, explained this policy as one “*pursu[ing] all existing mandates for regional negotiations with vigour and fairness, but not to begin any new negotiations*”²⁷ Indeed, the EU completed its ongoing FTA negotiations with Chile, Lebanon and Egypt in 2003 and 2004 and refused all proposals for new FTAs. Both for the US and the EU, increasing the number of bilateral agreements was

²³ J. Bhagwati, 1993, “Regionalism and Multilateralism: An Overview” in J. de Melo and A. Panagariya (eds.), *New Dimensions in Regional Integration*, Cambridge University Press, Cambridge, p. 28

²⁴ *Ibid.*, p. 29

²⁵ Panagariya, *Ibid.*, p. 481

²⁶ Mashayekhi et al., *Ibid.*, p.2

²⁷ P. Lamy, 2002, “Stepping Stones or Stumbling Blocks? The EU’s Approach Towards the Problem of Multilateralism vs Regionalism in Trade Policy”, *The World Economy*, Vol. 25, p. 1412

labelled a “*spaghetti bowl*”²⁸ and these interconnected links were assumed to create problems in the medium term for the international trading system as a whole.

3.2 New Regionalism in the Post-Asian Crisis Period

Despite the fact that the “two giants” of the world trade stressed their commitment to the WTO rules of multilateralism, the surge for bilateral trade agreements was spreading all over the world. Especially East Asian countries, who had maintained a policy stance emphasizing a multilateral trading system based on the GATT/WTO rules even in times of “regionalism waves”, changed this position after the Asian financial crisis of 1997. China, Japan and South Korea started negotiating FTAs in 1999. The region has emerged as the most dynamic region in terms of the number of FTAs concluded; East Asia was responsible for nearly thirty percent of FTAs notified to the WTO in the period of 2001-2005.²⁹ The last decade experienced significant FTAs in the region; Japan was the first East Asian country to sign an FTA, with Singapore in 2002, then concluded agreements with Mexico and Malaysia; China signed FTAs with ASEAN and New Zealand in 2004; and South Korea signed its first FTA with Chile in 2004, then continued with Singapore and EFTA. On the other side of the world, in South America, Chile pioneered the wave of FTAs. In a short period of time, Chile became one of the most open economies in the world in terms of trade, and signed FTAs with Costa Rica, El Salvador, EU, USA, South Korea and EFTA.

Thus, contrary to the anticipations of the US and the EU, the developments in the world trade moved towards the opposite direction. The WTO report published in 2004 acknowledged that the principle of non-discrimination characterized by the Most Favoured Nation (MFN) clause ceased to be the rule of international trading system, and “*the spaghetti bowl of customs unions, common markets, regional and bilateral free trade areas, preferences and an endless assortment of miscellaneous trade deals has almost reached the point where MFN treatment is exceptional treatment.*”³⁰ Finally, following the collapse of the WTO Ministerial in Cancún in September 2003 and several rounds of inconclusive negotiations, specifically on agricultural market access, agricultural domestic support, and non-agricultural market access, the DDA negotiations were provisionally suspended in July 2006 as we noted in the previous section.

So, in an international trade environment where, on one hand, the proliferation of the FTAs have been visible all around the world, and, on the other hand, the expectations of completing a multilateral trade system based on the WTO rules have become vague, the EU and the US had to change their strategies on bilateral trade agreements. The US acted before the EU, and starting from 2002 the Bush administration has pressed ahead with smaller bilateral FTAs regarding both economic and political interests in the Middle East,

²⁸ The term was first used in J. Bhagwati, 1995, “U.S. Trade Policy: The Infatuation with Free Trade Agreements” in J. Bhagwati and A. O. Krueger, *The Dangerous Drift to Preferential Trade Agreements*, AEI Press, Washington DC

²⁹ S. H. Park, 2006, “Increasing FTA Initiatives of East Asia and the World Trading System: Current State of Play and Policy Options for the 21st Century”, *ASIEN: The German Journal on Contemporary Asia*, vol. 100, p. 44

³⁰ WTO, 2004, “*The Future of the WTO: Addressing Institutional challenges in the new millennium*”, WTO, Geneva, p. 19

Pacific and Latin America.³¹ European Commission, on the other hand, showed more resistance to the trend of FTAs than the US; but finally in October 2006, revealed a new trade policy strategy under which the EU will pursue bilateral FTAs with major economies in order to secure the market access and competitiveness of European companies in important markets. The core of the new trade strategy of the EU has been summarised as “*rejection of protectionism at home, accompanied by activism in creating open markets and fair conditions for trade abroad*”.³²

Turning back to Bhagwati’s analysis on the waves of regionalism, we can argue that the second wave of regionalism of 1980s and 1990s, evolved into a “new regionalism” or a “third wave of regionalism”³³, which started after the 1997 Asian financial crisis and reached its climax by the suspension of the DDA and trade policy shift of the EU in 2006. It is hard to identify a distinct break between these two waves as there has never been a halt in the FTAs, but the characteristics of the FTAs have changed.

The new regionalism has three important features. First, contrary to the previous trend of regionalism that is mainly limited to regions (e.g. EFTA, NAFTA, MERCOSUR), FTAs are not restricted to countries or blocs with geographic proximity (e.g. US-Morocco, Thailand-Bahrain, EFTA-Korea). This shows that “economic distance” is no longer perceived as a factor that affects the competitiveness of products originating in distant trading partners and that impedes trade;³⁴ thus the term “regionalism” lost its meaning and became a misnomer. Second, new generation FTAs go beyond merchandise trade liberalization and also include “deep integration” measures covering standards, sanitary measures, trade facilitation, liberalization of trade in services, investment and competition disciplines, intellectual property rights (IPRs), government procurement, and also the movement of natural persons with a set of related disciplines. They also incorporate policy areas that were previously a domestic preserve: macroeconomic coordination, policy and regulatory harmonization, cooperation measures in a variety of fields and infrastructure integration; and pursue a mix of political, social and economic objectives.³⁵ Third, because of the depth of issue coverage, the new FTAs tend to be far smaller in initial membership (i.e. largely though not solely bilateral) compared to the existing FTAs which had a preference for shallowness or narrowness in issue coverage but broadness in terms of membership.³⁶ Moreover, the members of the agreements can be from different levels of

³¹ R. McMahon, 2006, *The Rise in Bilateral Free Trade Agreements*, Council on Foreign Relations, background document, June 13, <http://www.cfr.org/publication/10890>

³² European Commission, 2006, *Global Europe: Competing in the World*, Commission Staff Working Document, Directorate General of External Trade

³³ Majluf and Bonaface identify the post-Asian crisis period as the third wave of regionalism. See L. A. Majluf, 2004, *Swimming in the Spaghetti Bowl: Challenges for Developing Countries Under the ‘New Regionalism’*, United Nations, Policy Issues in International Trade and Commodities Study Series No. 27, Geneva; and T. Bonaface, 2005, “Free Trade Areas in the ESCAP Region: Progress, Challenges, and Prospects” in *Asian Economic Cooperation and Integration: Progress, Prospects, and Challenges*, Asian Development Bank, Manila.

³⁴ Mahjuf, *Ibid.*, p. 10

³⁵ *Ibid.*, p. 8

³⁶ R. Rajan and R. Sen, 2005, “The New Wave of FTAs in Asia: Implications for ASEAN, China and India”, in *Asian Economic Cooperation and Integration: Progress, Prospects, and Challenges*, Asian Development Bank, Manila, p.127

economic development. According to Mahjuf, from the point of view of the developing countries, the new regionalism is “characterized by attempts by regional or sub-regional economic groupings to pursue a common external economic policy and to emerge as a collective entity in the international arena, thus bringing interesting and complex new challenges for developing countries.”³⁷

Given the distinctive characteristics of the new generation FTAs, we will summarise the significant FTAs (either finalised or in negotiation) of this new wave of regionalism and the stances of the largest traders of the world economy.

3.2.1 FTAs of the European Union

As mentioned above, the European Commission announced in October 2006 that it adopted a new trade policy that will support efforts to foster economic growth and create jobs³⁸. Based on the concern that European exports have not been successful enough in some of the most rapidly growing economies in the world, the Commission proposed shifting the EU trade policy from sole reliance on multilateral trade negotiations to proposing a new generation of bilateral and regional FTAs.³⁹

The FTA strategy constitutes a very important part of this trade policy. The EU already has quite a large number of bilateral deals: the agreements with the EFTA countries, the customs union with Turkey, the goods agreements with the Mediterranean countries⁴⁰ and the preferential arrangements offered to the sub-Saharan African, Caribbean and Pacific (ACP) countries. The EU has also signed FTAs with Mexico and South Africa in 2000 and with Chile in 2003. With the new trade policy the Commission defined economic criteria, target countries and coverage for future FTAs.

According to the European Commission, the key economic criteria for new FTA partners should be the market potential and the level of protection (tariffs and non-tariff barriers) against EU export interests. In this sense, the Commission defined ASEAN, Korea and Mercosur as FTA partners with priority, and India, Russia and the Gulf Cooperation Council as countries of direct interest. China, on the other hand, despite meeting many of the criteria, was not defined as a possible FTA partner, but a country of special attention because of the opportunities and risks it presents.⁴¹

The European Union is party to more FTAs than any other economy in the global trading system.⁴² In the last decade, especially after it announced its new FTA strategy, the EU has given pace to its efforts for signing FTAs with several countries. The European Commission formally started FTA negotiations with ASEAN, India and South Korea in 2007. In addition, the EU accelerated the FTA talks that started before the trade policy shift

³⁷ Mahjuf, *Ibid.*, p. 10

³⁸ European Commission, *Ibid.*

³⁹ R. J. Ahearn, 2006, *Europe's New Trade Agenda*, Congressional Research Service Report No. RS22547, p. 1

⁴⁰ Barcelona Declaration signed in November 1995. For further information on Barcelona Process, see http://ec.europa.eu/external_relations/euromed/

⁴¹ European Commission, *Ibid.*, pp. 11-13

⁴² Business Roundtable, 2007, *We Can't Stand Still: The Race for International Competitiveness*, Business Roundtable White Paper, Washington DC

but had been stopped because of the EU's multilateralist position (e.g. FTA negotiations with the Gulf Cooperation Council (GCC) and Mercosur). The EU is also seeking to negotiate FTA agreements with Russia, the Andean and Central American countries and Pakistan.

3.2.2 FTAs of the United States

As mentioned above, throughout the post-war period the US has championed the multilateral trading system and its attitude towards bilateral trade agreements was lukewarm. Thus in the race for FTAs, the US lagged behind the EU for many years. However, in the "third wave of regionalism", the US acted before the EU and accelerated its attempts of forming bilateral trade agreements with strategic trade partners. Before the year 2002, the US had signed only three FTAs; with Canada, Israel and Mexico, but since 2002, it has concluded FTAs with Australia, Bahrain, Chile, CAFTA,⁴³ Jordan, Oman, Morocco, Singapore, Peru and South Korea. According to its economic and political interests, the US also started FTA talks with Panama, Thailand, New Zealand, Ghana, Indonesia, Kenya, Kuwait, Malaysia, Mauritius, Mozambique, United Arab Emirates, Ecuador, SACU⁴⁴ and Qatar. Besides these negotiations, a lengthy queue emerged after the US changed its trade policy and many countries expressed their interest in entering into an FTA with the US. Some major examples of potential FTA partners for the US are Uruguay, Egypt, Pakistan, India and Philippines.

In the context of selecting new FTA partners, the US expects from the partner country to demonstrate its commitment to pursue further liberalization of restrictions to trade and investment. J. Schott identifies the FTA partner selection criteria of the US under four broad categories: impact on domestic US politics, economic objectives, level of commitment of the partner country to trade reform, and foreign policy considerations.⁴⁵ Lagging behind the EU for many years, the US evolved into one of the most active countries in terms of FTAs.

3.2.3 FTAs of East Asian Countries

In the geography of regionalism, East Asia had been "a white spot" for a long time.⁴⁶ However, after the Asian crisis of 1997, Japan, South Korea and China started pursuing FTAs, and in a short period of time East Asia became the most dynamic region in terms of FTAs negotiated and concluded.

According to Park⁴⁷, the main reason of the trade policy shift in East Asia in the post-crisis period was that, at times of the financial crisis no meaningful and effective help was provided by major countries in other regions and this increased the consciousness of the value of the regional solidarity. Also, the relatively high degree of market integration in the Asian region was another motivation for East Asian countries to pursue FTAs. In the

⁴³ Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

⁴⁴ Southern Africa Customs Union: Botswana, Lesotho, Namibia, South Africa and Swaziland.

⁴⁵ J. J. Schott, 2004, "Assessing US FTA Policy", in J. J. Schott (ed.) *Free Trade Agreements: US Strategies and Priorities*, Institute for International Economics, Washington DC, p. 365

⁴⁶ S. H. Park, 2001, "East Asian Economic Integration and Regionalism: Finding a Balance between Regionalism and Multilateralism", *Korea Review of International Studies*, vol. 4, no. 1

⁴⁷ Park, 2006, *Ibid*.

post-crisis period, East Asian countries have been involved in numerous FTA negotiations and agreements with countries inside and outside the region.

China has negotiated nine FTAs with 27 countries and regions⁴⁸; implemented the Closer Economic Partnership Arrangement (CEPA) with Hong Kong and Macao, and concluded FTA negotiations with ASEAN, Chile, New Zealand, Pakistan, Jordan and Thailand. China is also negotiating or planning bilateral agreements with Australia, India and the GCC.

South Korea, on the other hand, had maintained a policy stance emphasising a multilateral trading system based on the GATT/WTO rules. However, similar to other countries in the region, it began to actively engage in establishing FTAs. So far, South Korea has concluded FTA negotiations with Chile, Singapore, EFTA, ASEAN⁴⁹ and the US. In the near future, South Korea is preparing to sign FTAs with the EU, China and Japan.⁵⁰

Japan followed a long-standing policy of refusing to negotiate bilateral and regional trade agreements, but after suffering losses from the FTAs of the trade competitors, it had to change its trade policy stance. Japan uses the term “Economic Partnership Agreements” (EPAs) instead of FTAs, but its EPAs have the exact characteristics with typical FTAs. So far, Japan has concluded FTA talks or reached agreements in principle with Singapore, Mexico, Chile, Malaysia, Philippines, ASEAN, Brunei and Thailand. FTA negotiations are ongoing or about to start with South Korea, Vietnam, Switzerland, Australia, India and the GCC.⁵¹ There are also proposals for US-Japan and China-Japan FTAs.

4. Conclusion

The last decade witnessed a rapid proliferation of bilateral free trade agreements. This trend mainly started after the Asian crisis, fuelled by the sluggish pace of the multilateral trade negotiations of the WTO and finally reached its peak by the temporary suspension of the DDA in 2006. The optimism of the multilateralists in the 1990s, especially after the formation of the WTO in 1995, have been replaced by the concerns that this resurgence of bilateralism or regionalism, which is often referred as “the third wave of regionalism” or “new regionalism” would complicate the future steps for multilateralism and create a “spaghetti bowl” in global trade.

Existing research has produced little consensus on how new regionalism would affect the fate of multilateralism. It has been argued that the overlapping of the FTAs could threaten to breakdown the world economy into separate regional blocs which materialize a “deep integration” through several FTAs, but impose trade barriers against third countries.

⁴⁸ S. Ning and D. Liang, 2006, *China's FTA Policy and Its Recent Developments*, King & Wood China Bulletin, p. 1

⁴⁹ Thailand is excluded in this agreement.

⁵⁰ See S. Guerin et al., 2007, *A Qualitative Analysis of a Potential Free Trade Agreement between the EU and South Korea*, CEPS-KIEP Project for the European Commission DG Trade, http://trade.ec.europa.eu/doclib/docs/2007/december/tradoc_136964.pdf

⁵¹ Ministry of Foreign Affairs of Japan, 2007, *Japan's Current Status and Future Prospect of Economic Partnership Agreement*, available at <http://www.mofa.go.jp/policy/economy/fta/effort.pdf>

Here, only a clear commitment to the multilateral WTO principles and obligations would assure that the economic benefits of regional integration effectively combine with the multilateral rules and policies, so as to construct a multilevel system of governance.⁵²

Today, the proposals for giant FTAs between US and China or US and EU, which would liberalize a very large portion of the world trade but create a significant trade diversion against developing countries, are very rarely mentioned. Tariff and non-tariff trade barriers among these countries or blocs still exist, but removal of these barriers are mainly left to the result of the multilateral WTO negotiations, which is still expected to revive. However, the recent slowdown in global trade could provoke some industries in these trade giants to push their governments to take steps that will remove trade barriers from target trade partners as soon as possible, before the long and cumbersome WTO negotiations conclude. In this case, hopes to revive multilateralism would fade and trade liberalisation would remain limited to bilateral FTAs. Under current circumstances, where the increasing number of FTAs is combined with the slowdown of the global trade, this scenario does not seem implausible.

⁵² P. Guerrieri and D. Dimon, 2006, “The Trade Regionalism of the United States and the European Union: Cooperative or Competitive Strategies?”, *The International Trade Journal*, vol. 20, no. 2, p. 92

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