THE IDEAs WORKING PAPER SERIES

Paper no. **03/2008**

Regional Trade Agreements and Improved Market Access in Developed Countries: A Reality Check and Possible Policy Alternatives

Parthapratim Pal

Abstract

This paper investigates issues related to motivation, market access and costs in the context of Regional Trade Agreements (RTAs), and tries to understand whether there is any clear pattern between signing of RTAs and increase in market share for developed countries. It also analyzes the possible costs a developing country will have to bear to gain the actual preferential market access. This paper concentrates on North-South RTAs, i.e., RTAs between developed and developing countries.

JEL Classification
F 130; F 100

The author is Assistant Professor, Indian Institute of Management, Kolkata, India

Email: parthapal@gmail.com

Key Words
RTAs, PTAs, market access, cost, bilateral trade, regional trade, North-South RTA, market share

Table of Contents

List of Figures

List of Tables

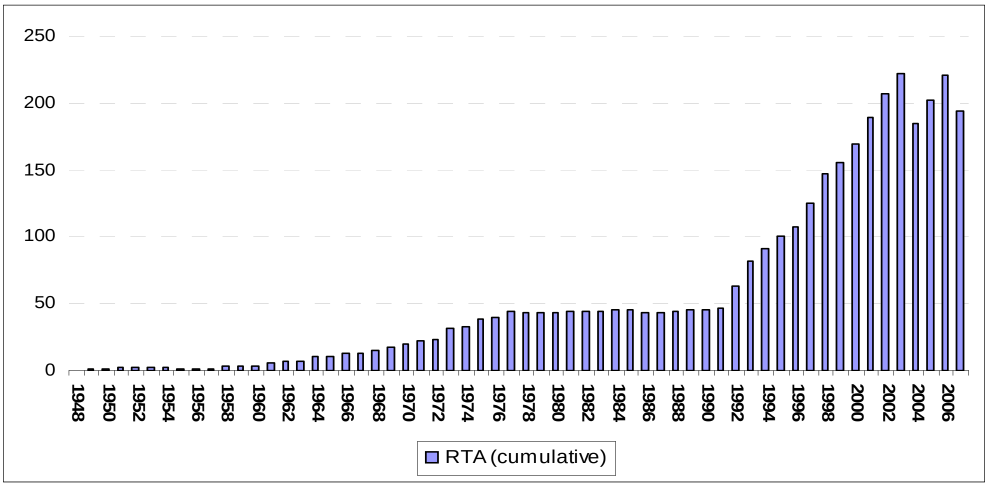
Regional Trade Agreements and Improved Market Access in Developed Countries: A Reality Check and Possible Policy Alternatives

Parthapratim Pal

I. Introduction

One of the most striking development in the world trading system since the mid-1990s is a surge in Regional Trade Agreements (RTAs)[1]. From about 50 till 1990, the number of RTAs notified to the World Trade Organization (WTO) has crossed 250 in 2003, and according to the latest data (till July 2007) of the WTO, around 380 RTAs have been notified to the WTO. Among these RTAs, more than 200 are currently active. The growth in the number of currently active RTAs can be seen from Figure 1. The World Bank publication *Global Economic Prospects 2005 (GEP2005)* estimates that about 40 per cent of total global trade is carried out among regional trading partners.

Figure 1: Number of RTAs in Force by Year of Entry (cumulative)



Source: WTO website, http://www.wto.org/english/tratop_e/region_e/regfac_e.htm, accessed on October 11, 2007

Initially, the WTO accepted the growth of RTAs because it believed that regional integration initiatives can complement the multilateral trade regime. The idea was that RTAs can promote further trade liberalization and act as 'building blocks' to the multilateral trade system. However, the high proliferation of RTAs in global trade and increased diversion of trade through this route is increasingly becoming a cause for concern for the WTO. Regional trade agreements represent an important exception to the WTO's principle of non-discrimination. According to the WTO rules, countries within an RTA (or, in other words, members of an RTA) can trade among themselves using preferential tariffs and easier market access conditions than what is applicable to other WTO Member countries. As a result, WTO Member countries that are not a part of the RTA lose out in these markets. Also trading within the regional trade blocks does not come under the purview of the WTO. As increasing amount of global trade is being diverted through this route, there is an apprehension about the role of regional trade agreements in WTO. Not surprisingly, in a recent speech the Director General of the WTO has mentioned that the continued proliferation of regional trade agreements is "breeding concern" for WTO[2].

Since the failure of the Seattle Ministerial of WTO in 1999, developed countries like the USA and the European Union have initiated negotiations on a large number of bilateral and Regional Trade Agreements. Traditionally developed countries have remained a big market for exports from developing countries, and the prospect of preferential access to such markets induced many developing countries to seek Preferential or Free Trade Agreements (PTA/FTA) with these countries. The motivation to go for an FTA with a developed country will be particularly strong for a developing country if other countries, with which it is competing to supply goods to the developed market, are part of a preferential trade agreement with the developed country. In such cases, the motivation to seek participation in Free Trade Agreements with developed countries comes from a defensive necessity against a possible exclusion from these markets. However, increased access to market does not necessarily mean increased market share. In many cases, preferential access to a developed country market may not translate into increased market share. However, this preferential access to a market does not come free of cost. Developing countries have to accept some stringent conditions to make the deal attractive to the developed country partner.

This paper investigates these aspects of RTAs, and tries to understand whether there is any clear pattern between signing of RTAs and increase in market share for developed countries. It also analyzes the possible costs a developing country will have to bear to gain the preferential market access. This paper concentrates on North-South RTAs, i.e., RTAs between developed and developing countries. The rest of the paper is organized as follows.

Section II investigates the reasons for the sudden proliferation of RTAs in the post-WTO period. Section III tries to empirically verify whether preferential access to developed country markets has translated into real increase in market share for developing countries. Section IV analyzes and explains the results of section III. In Section V, in the context of the findings of the previous sections, the paper explores the concept and viability of South-South Regional Trade Agreements and concludes the study.

II. Why this Sudden Proliferation of Regional Trade Agreements?

The traditional theory of gains from trade suggests that removal of trade barriers allows consumers and producers to purchase from the cheapest and most competitive source of supply. This enhances efficiency and increases welfare. Following this logic, it was traditionally believed that regional trade blocks should generate gains from trade as member countries reduce trade barriers among themselves.

This view was first challenged by Jacob Viner in his 1950 book titled *The Customs Union Issue*. Viner, in his seminal contribution, introduced the concepts of 'trade creation' and 'trade diversion' and showed that the net effect of trade liberalization on a regional basis is not unambiguously positive. He pointed out that RTAs can lead to trade creation if, due to the formation of the regional agreement, RTA members switch from inefficient domestic producers and import more from efficient producers from other members of the RTA. In this case, efficiency gains arise from both production efficiency and consumption efficiency. On the other hand, trade diversion takes place if, because of the RTA, members switch imports from low-cost production in the rest of the world and import more from higher-cost producers in the partner countries. Trade diversion lowers the welfare of not only the partner countries but the rest of the world. In Viners' own words:

"…where the trade-diverting effect is predominant, one at least of the member countries is bound to be injured, the two combined will suffer a net injury, and there will be injury to the outside world and to the world at large." (Viner, 1950: 44)

Viner's analysis shows that trade creation and trade diversion have opposite welfare implications, and the net effect will depend upon which of these two effects dominate. However, he did not unequivocally establish the net welfare effect of RTAs. In the last 50 years, in spite of various enhancements to the basic concepts of trade creation and trade diversion, economists cannot tell, on an a priori basis, which of the two effects will dominate.

During the 1980s, the introduction of imperfect competition in trade models added a new dimension to the analysis of gains from trade and, hence, about the motivation behind regionalism. The traditional trade theory has always assumed perfect competition and full employment while discussing various aspects of trade theories. However, the traditional theories were finding it difficult to explain the trade patterns of the post-World War II period, which were characterized by intra-industry trade and trade among countries with similar factor endowments. To explain this phenomenon, a new class of trade models emerged. These models challenged the concept of perfect competition inherent in the classical trade models and introduced imperfect market structures like monopoly, monopolistic competition or oligopoly in trade models. Pioneering work in this field has been done by Brander, Spencer, Dixit and Krugman. The introduction of imperfect competition in trade theory changed the predictions of traditional trade theories completely. Some results which came out of these models have profound implications for the present topic. Using monopolistic competition and oligopoly models, this new generation trade models were able to explain why and how countries with very similar economies can gain from mutual trade of similar products (intra-industry trade). Taking a cue from these models, it is easy to establish that if economies of scale exist in the industries of the preferential trading partners, then these countries can benefit from trading with each other. This happens because the industries of member countries can take advantage of their scale economies by exploiting the larger union-wide markets. However, once imperfect competition and scale economies are simultaneously introduced in these multi-country preferential trade models, they get very complex and the welfare impact of PTAs becomes more ambiguous.

But this strand of theoretical analysis of regional trade agreements does not fully explain why there has been a sudden increase in regionalism during the 1990s. There is an emerging consensus among economists that frustration with the multilateral trading system is one of the prime reasons behind the current growth of regionalism. In 1993, answering a question about "what are the problems of the GATT that lead countries to turn to their neighbourhood", Krugman (1993) suggests that countries find regionalism an easier alternative because large number of participants in multilateral trade negotiations reduces the cost of non-cooperation and creates rigidity in the system. Also, according to him, modern trade barriers are much more complicated to negotiate in a multilateral forum, and most countries find it easier to deal with these issues on bilateral or regional level.

In the post-Uruguay Round era, concerns about the multilateral trading system have intensified. Most countries, particularly developing countries, are dissatisfied with the progress of WTO because most of the promises of the Uruguay Round agreement to expand global trade has not materialized in practice. For developing countries in particular, the promised expansion of trade in three key areas of agriculture, textiles and services has been disappointing. Moreover, incipient protectionism and lack of willingness among developed countries to provide market access on a multilateral basis has prompted many developing countries to look for regional alternatives.

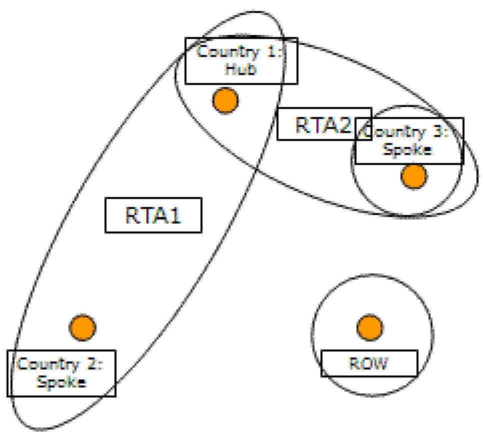
There is another set of studies which suggests that, in a multilateral framework, countries tend to favour preferential agreements against multilateral ones because of some strategic reasons. For example, Limao (2003) suggests that developing countries may resist multilateral system in fear of erosion of their preferential treatments in regional agreements with developed countries. Similarly, industrial countries can have a strategic incentive in keeping their multilateral tariff level at a higher level than they otherwise would so that they can have more bargaining power when negotiating market access at the bilateral/regional level. On the other hand, Mansfield and Reinhardt (2003) argue that multilateral trade negotiations, in fact, motivate countries to conclude RTAs. This is so because as WTO membership expands, individual countries' ability to influence the content and pace of MFN liberalization is reduced and the large membership makes it difficult for countries to have a coordinated strategy. As formation of regional blocks lead to increased negotiating power at the multilateral level, countries want to become a part of a regional grouping to increase their leverage in the multilateral negotiations. Schott (2004) says that USA has pursued bilateral trade agreements over the last two decades to complement and cajole progress at the multilateral level. Winham (1986) and Lawrence (1991) argue that the creation and expansion of EEC had indirectly motivated earlier GATT rounds, where other GATT members tried to reduce EC's external protection through MFN tariff reduction.

However, it appears that the surge in regionalism during the WTO years has been largely driven by a handful of developed countries. Many economists including Bhagwati (1993), Panagariya (1996) and

Bergsten (1996) believe that USA's transformation from a supporter of multilateralism to a follower of regionalism is the major reason behind this growth of regionalism since the 1990s. According to Bhagwati (1993: 29), *"the main driving force for regionalism today is the conversion of the United States, hitherto an abstaining party to Article XXIV."*

To support this hypothesis, it is pointed out that some big developed countries like the USA and the European Union are increasingly getting involved in free trade agreements with developing countries on a bilateral or regional level. This has prompted many developing countries to seek participation in Free Trade Agreements with these countries as a defensive necessity against a possible exclusion from these markets. The motivation to go for an FTA with a developed country will be particularly strong for a developing country if other countries with which it is competing to supply goods to the developed market, are part of a preferential trade agreement with the developed country. This leads to a configuration which is known as the 'hubs and spokes' configuration of RTAs. A hub is defined as a country which is a member of two or more distinct RTAs. Spokes arise when a hub country forms a bilateral RTA with another country. Alternatively, a spoke can also be formed when a hub country forms an RTA with another trading block (See Figure 2 for an illustration).

Figure 2: Hubs and Spokes in International Trade



From figure 2, it can be seen that the hub enjoys access to all its spokes on a preferential basis. As most hubs are developed countries, most gains of PTAs have gone to them. On the other hand, each spoke enjoys preferential access only to the hub. Therefore, spokes have less market access than the hub. Or, in other words, a hub enjoys preferential access to all its spokes but a spoke has preferential access only to its hub. A spoke country tries to avoid this problem by becoming a hub in its own right by entering into its own set of RTAs. According to some economists, this has led to the acceleration in bilateral agreements in recent times.

Moreover, if some countries cannot form an FTA with a developed country, they attempt to create their own market by joining a regional trade agreement among excluded members. This creates a bandwagon effect, where no country wants to be left out of some major regional groupings.

Along with economic factors, political and strategic factors also motivate countries to join RTAs. Trade linkages between economies can increase the cost of conflict and improve cross border cooperation. Due to this reason, RTAs are used as a strategic move to consolidate peace and increase regional security among member countries. RTAs are often used by developed countries to forge geopolitical alliances and build up diplomatic ties. By providing increased discriminatory access to a larger market, these countries seek to garner increased support on political front. It is apparent that most political RTAs are not driven by economics; however, in the political RTA arrangements, particularly where a large developed country is involved, there is always the possibility that the interests of smaller countries would be of secondary concern.

III. Does Tariff Preference Necessarily Lead to Better Market Access?[3]

The previous section has indicated that the tariff preferences play a major role in the motivation to form RTAs. The role of tariff preferences is even stronger for North-South RTAs as developed countries are often the biggest export market and trading partners of many developing countries. In this context it is important to find out how much market access benefits these tariff preferences are generating for developing countries. To answer this question, this paper empirically investigates the change in market share of some of USA's trading partners (both preferential and non-preferential) over 1990 to 2006.

Before 2000, USA had RTAs with Canada, Israel and Mexico. Since then USA has negotiated RTAs with Australia, Bahrain, Chile, Jordan, Oman, Morocco, Singapore, Peru, South Korea and CAFTA (Central America Free Trade Agreement). In certain cases like the South Korea- US and the CAFTA-US FTAs, negotiations have been completed. However legislative ratification for these agreements is still pending.

USA is also negotiating FTAs with a number of countries including Malaysia, Panama, Thailand, UAE, Columbia and Ecuador (Part of ANDEAN). There are some regional initiatives as well which include the talks on Free Trade Area of Americas (FTAA) and the US-ASEAN proposed FTA.

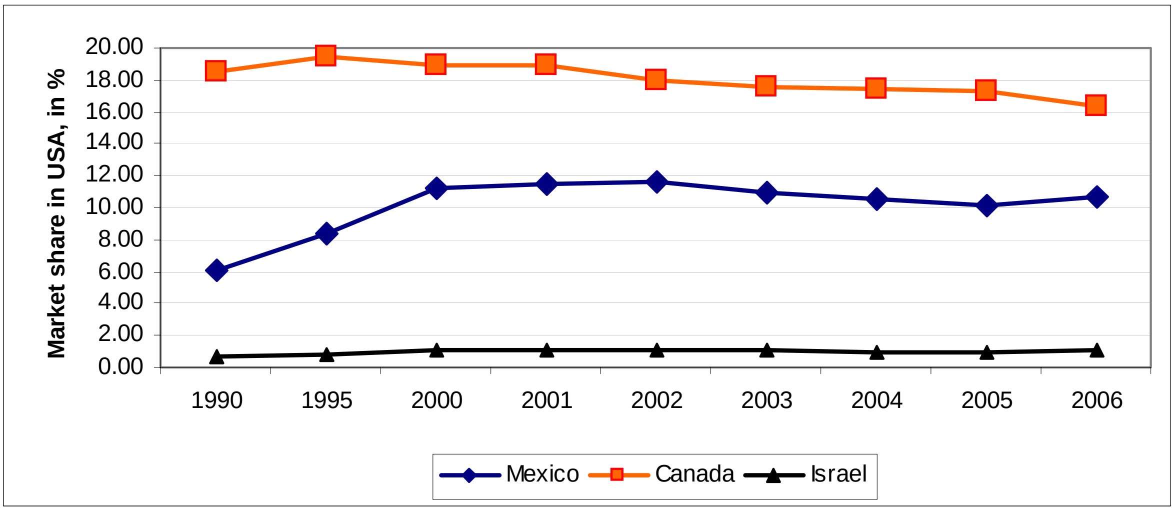
To investigate whether signing of an FTA with USA necessarily leads to increased market access in that country, we look at the market shares of traditional and the new trading partners. For the sake of comparison we compare their performance with a couple of other countries that are not yet preferential trade partners of USA.

To see how these countries have fared in the US market, we divide the countries in three groups. The first group consists of the traditional preferential trading partners of USA. They are Mexico, Canada and Israel. In the second group we put a set of countries which are the new preferential trading partners of USA. They are Australia, Singapore, Chile, Peru, Jordan, Oman, Morocco and Bahrain. In the third group, there are four countries: China, India, Malaysia and Thailand. None of these countries are yet a member of a PTA with USA though Malaysia and Thailand are negotiating PTA with USA[4].

Table A1 in the appendix gives the market share of these groups of countries in USA. Several observations can be made from the table. They are discussed below.

1. For Group 1 countries, it is notable that their market share in USA increased during the first half of the 1990s and has stagnated or declined since 2000. For Mexico, this increase in market share is pronounced during the 1990s. For Canada, it grew till 1995. Notably, NAFTA came into force during this period, in which both Canada and Mexico are the preferential trading partners of USA. However, since 2000/2001 the two countries have not gained market share in USA. In fact, Canada's share in the US market has declined from around 19 per cent in 2001 to 16.3 per cent in 2006. Mexico also has not managed to increase its market share by much. After an initial increase, the market share of Mexico has remained almost static since 2000.

Figure 3. Market Share of the Three Traditional Preferential Trade Partners of USA



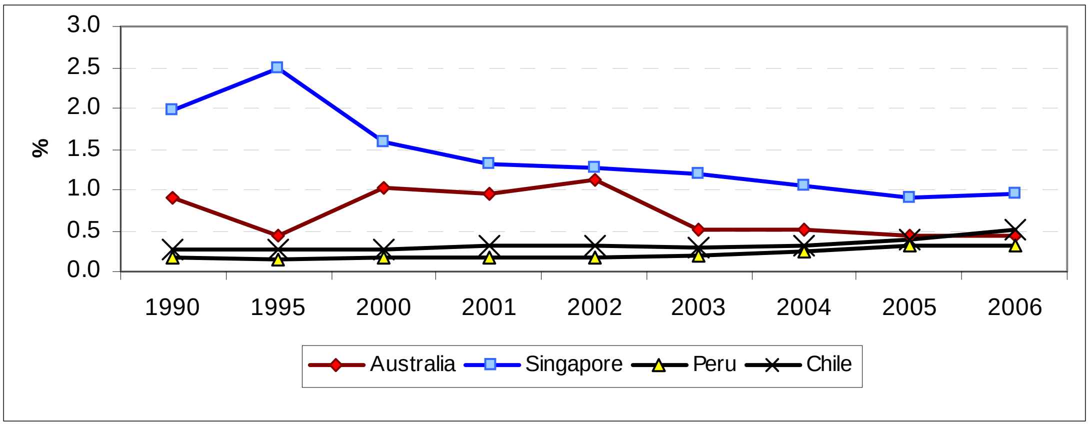
Source: http://censtats.census.gov

The US-Israel FTA was signed in 1985 and, following the same trend as above, Israel gained some market share during the early to mid-1990s but the growth in market share has stopped and Israel's market share in USA has stabilized around the 1 per cent mark since 2000.

In all three cases, there was an initial increase in market share after the PTA/FTA was signed but the growth in market share was not sustained. In fact, over the years these countries lost some of their share of the US market to others.

2. For the Group 2 countries, i.e., the countries which have signed FTA with USA after 2000, the data show a more mixed picture. Two of the most high profile free-trade partners of USA—Singapore and Australia—face declining market share even after they signed FTAs with the country in 2003 and 2004 respectively (Figure 4).

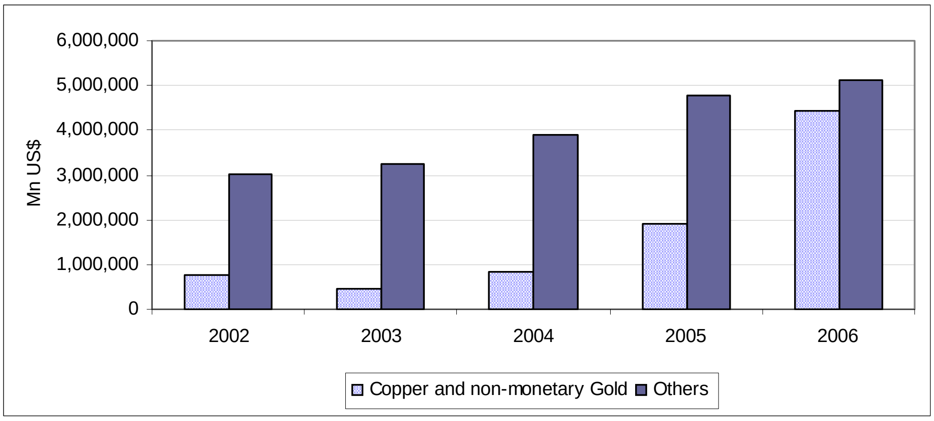
Figure 4: US Market Share of New Preferential Trading Partners



Source: http://censtats.census.gov

The situation is somewhat better for the new preferential trade partners from South America. Both Chile and Peru seem to be gaining share in the US market. To understand whether these gains are due to the preference margins, this paper looked into the export pattern of these countries to USA. This analysis show that both Chile and Peru are large exporters of metal products to USA, and they have significantly benefited from increasing metal and commodity prices. For example, copper and copper products made up a very high proportion of Chile's exports to USA. And there has been a significant growth in exports of this commodity to USA. For example, in 2002, Chile's exports of these products to USA were about US$723 million. In 2006, the figure has swollen to more than US$4000 million. However, tariff preferences do not seem to play a major role in this massive expansion of Chilean exports of copper to USA. The preference margins or the gap between MFN rates and preferential tariff rates, are very low for copper products. For HS chapter 74, the maximum MFN tariff rate charged by the USA is 3 per cent, and the average MFN rate for this chapter is less than 2 per cent. Therefore, the preference margins have been quite low for these products. Given these observations, it does not seem that preferential trading has played a major role in the surge in Chile's exports of copper to USA. Similarly, for Peru, gold and copper are the major export items and the export-growth in these two sub-sectors has been higher than others. And, as the case of Chile, preference margins of these products are not very high. It is also worth pointing out that the top four biggest suppliers of copper (SITC-682) to USA are Chile, Canada, Peru and Mexico with 31.5 per cent, 24 percent, 8.2 per cent and 7.2 per cent market share respectively in 2006. As all four countries are members of an FTA with USA, the effective preference margin enjoyed by each of them is almost zero.

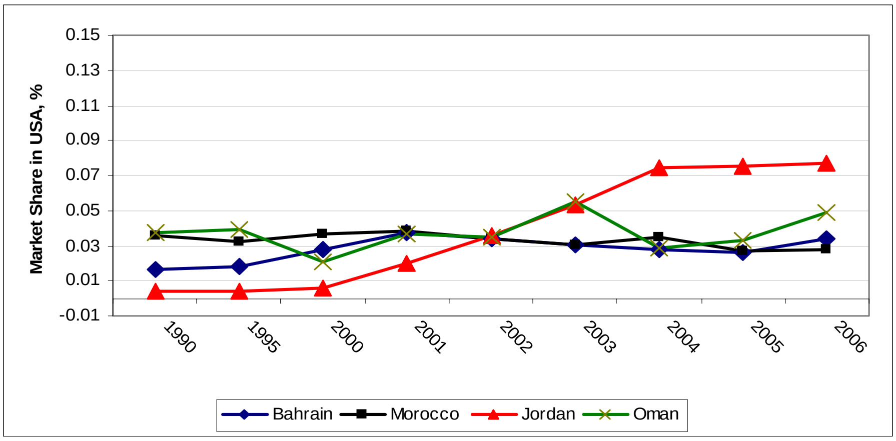
Figure 5: Exports of Chile to USA: High Growth of Exports of Metals and Related Products



Source: http://censtats.census.gov

In this group, there is another set of countries from the Middle East and North Africa (MENA) region. They are Morocco, Bahrain, Jordan and Oman. These countries have very low market share in USA. But data reveal that over the last few years, there has been some increase in their market share in USA. Even then, the total market share of Morocco, Bahrain, Jordan and Oman is less than 0.2 per cent in USA. Among these countries, only Jordan has managed to increase its market share significantly. However, even in Jordan's case we see that the market share has stagnated after an initial rise (Figure 6).

Figure 6: Market Share of Some New Preferential Trade Partners of USA



Source: http://censtats.census.gov

3. Group 3 Countries are a sample of countries which are not yet a member of any FTA with USA though some of them are currently negotiating PTAs/FTAs with it. We have included five countries in this group. They are Brazil, China, India, Malaysia and Thailand. Table 1 shows how their market share in USA has changed over the years.

Table 1: Market Share of Some MFN Trading Partners of USA

(in per cent)

	Malaysia	Thailand	China	India	Brazil
1990	1.07	1.07	3.08	0.65	1.60
1995	2.35	1.53	6.13	0.77	1.19
2000	2.10	1.35	8.21	0.88	1.14
2001	1.96	1.29	8.96	0.85	1.27
2002	2.07	1.27	10.78	1.02	1.36
2003	2.02	1.21	12.13	1.04	1.42
2004	1.92	1.20	13.38	1.06	1.44
2005	2.01	1.19	14.55	1.12	1.46
2006	1.97	1.21	15.52	1.18	1.42

Source: http://censtats.census.gov

From the table, it is quite clear that China has managed to increase its market share phenomenally over the concerned period. The table shows that China has been able to increase its market share by five times between 1990 and 2006. India has also increased its share in the US market steadily, albeit at a much slower pace than China. For the other three countries, there is no definite trend observable. It is not surprising that Malaysia, Thailand and Brazil are in the process of negotiating FTA with USA, while China and India are not in such negotiations.

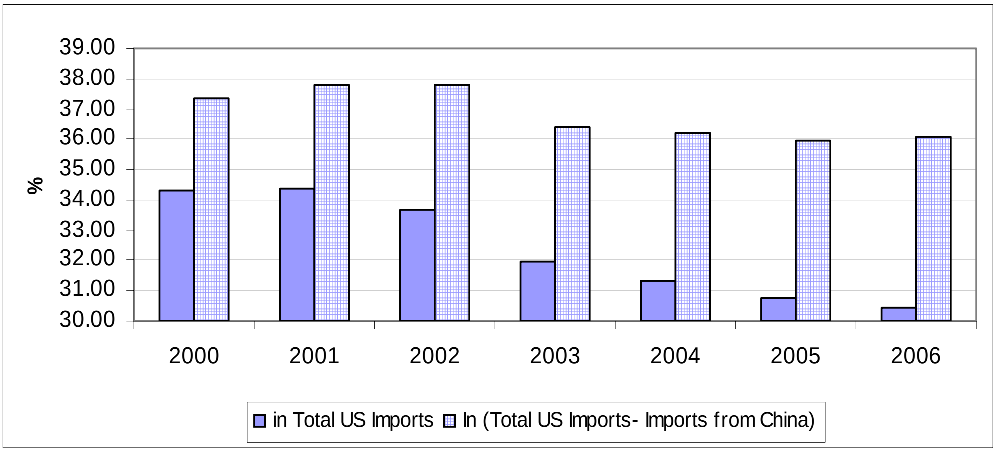
To summarize the results:

1. Some FTA Members have lost market share, this list includes traditional FTA partners like Mexico and Canada and new partners like Australia and Singapore.
2. A few FTA Members have managed to maintain/improve market share (Peru, Chile).
3. A few non-Members have done well/very well and increased their market share (China, India).
4. Most ASEAN countries did not manage to increase their market share.

The results of this exercise do not give us a very clear picture about market access gains by PTA/FTA partners of USA. For most traditional preferential trade partners of USA, their market share is stagnating or declining. New partners exhibit mixed pattern. Some of them have actually lost market share in USA after signing an FTA, while others have managed to gain some additional share in the US market. Overall, the FTA/PTA partners have lost some market share to the rest of the world for the period 2000 to 2006. Using the US data, this section does not find unequivocal support for the hypothesis that there is a positive relationship between signing up of FTAs and gaining market access in a developed country.

It could be argued here that China's phenomenal export growth to USA is responsible for this. Data show that China's export boom to USA has played its part in the reduction of market share of others; but it is also quite interesting to note that even excluding China's share, the PTA/FTA partners as a whole have lost market share to the rest of the world[5]. This is shown in Figure 7.

Figure 7: Total Market Share of all Preferential Trade Partners of USA



Source: http://censtats.census.gov

Secondly, it can also be argued that PTAs/FTAs may have allowed the preferential trading partners to fare better than they could have done in the absence of such agreements. It is of course difficult, if not impossible, to prove or disprove such counterfactual. The task is even more difficult here because the techniques of time-series econometrics cannot be used here. This is so because most new US FTAs have been signed between 2002 and 2004, and with such a limited number of observations it is not possible to carry out proper econometric tests.

Overall, we can say that evidence from existing FTA partners of USA and others show that FTAs are neither necessary nor sufficient condition for increased market access.

IV. Possible Explanations

The previous section indicates that signing of RTAs may not guarantee increased market access in developed countries. This is an interesting observation because most of the North-South FTA/PTAs are signed to ensure market access for the country from the South. But these results are not very surprising. In fact, there are a number of reasons why signing up for a PTA/FTA may not necessarily lead to increased market access in a developed country. This section analyses these issues.

IV.1. The Tariff Preferences Received in North-South RTAs are Generally Not Very High

A major advantage of a Preferential Trade Agreement stems from the difference between the MFN rate and the preferential tariff rate of that agreement. This difference in tariff rates allows certain market access advantages to the preferential trade partner. It should be obvious that higher the difference between the MFN and the preferential rates, more will be the market access advantage accruing from a PTA.

If one looks at the tariff structure of USA, it shows that the average level of MFN tariff in not very high in that country. According to the WTO Trade Policy Review (TPR) of USA 2006, the average MFN applied tariff was 4.9 per cent in 2004. Table 2 shows the tariff structure of USA.

Table 2: Structure of the Tariff Schedule of the United States, 1998-04

	1998	2000	2002	2004
1. Total number of tariff lines[a]	9,997	10,001	10,297	10,304
2. Non-*ad valorem* tariffs (% of all tariff lines)	14.0	12.4	12.2	10.6
3. Non-*ad valorem* with no AVEs (% of all tariff lines)	0.0	0.0	0.0	0.0
4. Tariff quotas (% of all tariff lines)[b]	2.0	2.0	1.9	1.9
5. Duty-free tariff lines (% of all tariff lines)	18.6	31.5	31.2	37.7
6. Dutiable lines tariff average rate (%)	7.2	8.0	7.4	7.8
7. Domestic tariff "peaks" (% of all tariff lines)[c]	4.9	5.3	5.6	7.1
8. International tariff "peaks" (% of all tariff lines)[d]	7.7	7.0	6.6	5.5
9. Bound tariff lines (% of all tariff lines)	100.0[e]	100.0[e]	100.0[e]	100.0[e]

a Chapters 1-97, at 8-digit level, excluding in-quota tariff lines.

b Tariff quotas are referred to as "tariff rate quotas" in U.S. regulations.

c Domestic tariff peaks are defined as those exceeding three times the overall average applied rate.

d International tariff peaks are defined as those exceeding 15%.

e Two lines applying to crude petroleum are not bound.

Source: USA TPR 2006

The Table shows that close to 19 and 38 per cent of all tariff lines of the United States were duty free in 1998 and 2004 respectively. This implies that for 38 per cent of the total tariff lines, there is no possible market access gain from having preferential or zero duty access to the US domestic market. Moreover, the US data indicate that the coverage of duty-free tariff lines is increasing over the years. If this trend continues then gradually the effectiveness of tariff preferences will come down.

Table 3: Summary Analysis of U.S. Tariffs under Selected Preferential Agreements, 2004

		Average Tariff Rate for the HS sub-sector			
		MFN	**Chile**	**Singapore**	**GSP**
01	Live animals & prod.	11.4	9.1	8.5	8.6
02	Vegetable products	4.0	2.1	2.6	0.9
03	Fats & oils	3.5	1.5	1.8	0.2
04	Prepared food etc.	13.3	9.9	10.3	8.9
05	Minerals	0.6	0.1	0.2	0.0
06	Chemical & products	3.5	0.0	2.4	0.0
07	Plastics & rubber	3.7	0.0	1.5	0.1
08	Hides & skins	4.3	0.9	1.4	2.1
09	Wood & articles	2.2	0.1	1.2	0.2
10	Pulp, paper, etc.	0.0	0.0	0.0	0.0
11	Textile & articles	9.0	0.1	0.1	8.8
12	Footwear, headgear	13.3	3.5	11.2	12.3
13	Articles of stone	5.0	2.0	3.3	0.4
14	Precious stones, etc.	3.0	0.0	1.5	0.0
15	Base metals & products	1.9	0.2	0.7	0.1
16	Machinery	1.6	0.0	0.3	0.0
17	Transport equipment	2.6	0.2	1.4	0.0
18	Precision equipment	3.0	0.9	1.5	0.7
19	Arms and ammunition	1.5	0.0	0.8	0.0
20	Miscellaneous manufacturing	3.2	0.3	1.7	0.1
21	Works of art, etc.	0.0	0.0	0.0	0.0
By ISIC Sector					
Agriculture and fisheries		5.7	4.2	4.4	3.6
Mining 0.4		0.0	0.1	0.0	
Manufacturing		4.9	1.2	2.1	2.6

Source: USA TPR 2006

Moreover, if one of the major export items attract low MFN tariff rate in a developed country market, then the advantage of having a PTA becomes much less for that sector (Table 3). For example, as it has been seen in the previous section, Chile's biggest export item to USA is copper and articles made of copper. In this sub-sector, the preference margin is almost inconsequential as the average MFN rate itself is less than 1 per cent. Similarly, for the top export products of Singapore, which comes in the HS sectors 16, 17 and 18, the preference margin given to Singapore is quite modest. This pattern of trade preference indicates why RTAs or PTAs have not helped countries to significantly improve their market share in merchandise trade of USA.

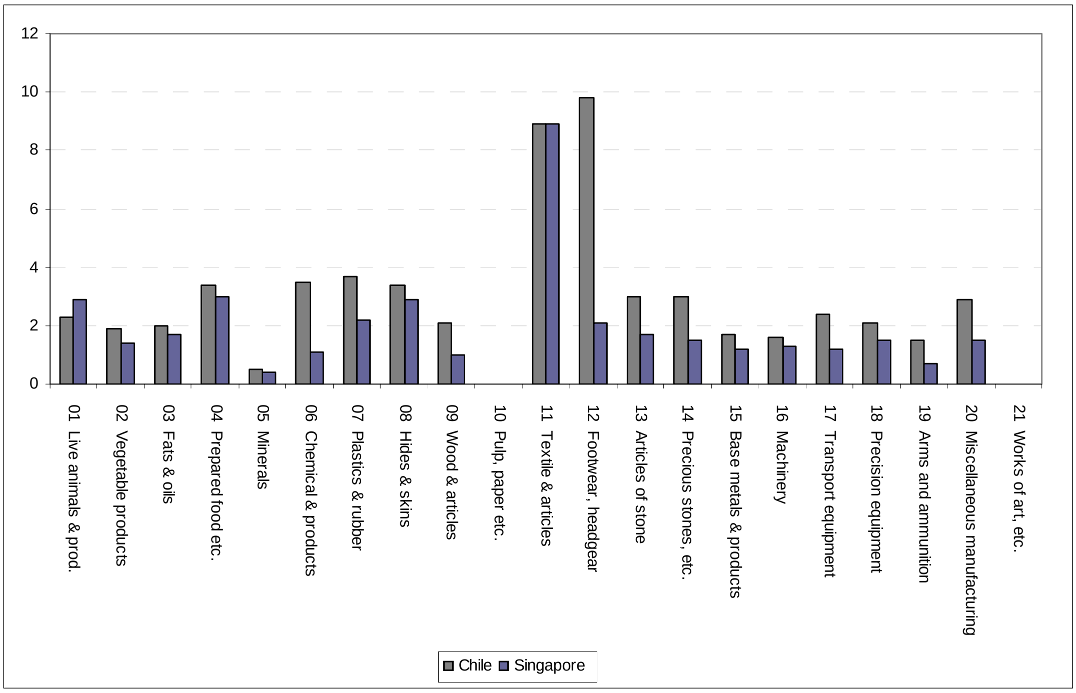
To illustrate this point, Table 3 shows the actual tariff preference received by the two recently concluded US FTAs with developing countries, viz., Chile and Singapore. As is evident from table 3, the preference margins are quite low on average. Apart from two sectors for Chile (textile and articles; footwear, headgear) and one sector for Singapore (textile and articles), the preference margins on average are less than 4 per cent (Figure 8). Interestingly, these countries are marginal players in the US markets in sectors where they have received maximum tariff advantage. For example, for the sub-sector SITC 65 (Textile yarn, fabrics, made-up articles, n.e.s. and related products) in USA, Chile had a market share of 0.016 per cent in 2000 and 0.04 per cent in 2006. Singapore is an even smaller player in that sector with 0.01 percent market share in 2006 and 0.03 per cent market share in 2000. Incidentally, China and India's market share in this segment in 2006 were 29.6 per cent and 9.7 per cent respectively. For the other sector where Chile has got a relatively high preference margin is footwear and headgear. To understand Chile's position in that sector, we look at exports of Chile to USA for the sub sector SITC-61. It shows that Chile had a market share of 0.05 per cent in 2000 and 0.036 per cent in 2006. From Chile's point of view also, these two sectors are not important export sectors. SITC61 and SITC65 together account for less than 0.1 per cent of Chile's exports to USA.

On the other hand, the sectors where Chile (and Peru) has strong competitive advantage, viz., items of copper and gold, the preference margins are not very high. This is because the MFN rates are themselves low in such sectors. The maximum and average MFN tariff rates for copper and items manufactured by copper are 3 per cent and 2 per cent respectively. Therefore, the preference margins are quite low in these sectors.

It is also worth mentioning here that apart from PTAs and FTAs, developed countries also have unilateral tariff preferences given to developing and least developed countries. One of them is called the GSP (Generalized system of preference). As can be seen from Table 3, the margin between the preferential tariff rates and the GSP rates are not only very low but also, in some cases, the GSP tariff rates are even lower than preferential tariff rates.

Secondly, some least developed countries have been given duty-free quota-free access to developed country markets, and they tend to enjoy better market access conditions than provided under the PTAs/FTAs.

Figure 8: Preference Margin of Singapore and Chile in USA (MFN-Preferential Tariff) (HS Sector wise), 2004



Source: US Trade Policy Review, WTO (2006)

IV.2. Even This Narrow Preference Margin is Expected to be Eroded over Time

One of the biggest problems with tariff preferences given in the North-South RTAs is that these preferences are likely to erode over time. This will happen because the Doha Round of trade talks has very ambitious tariff reduction proposals. For example, for non-agricultural goods, it has been decided that a Swiss Formula will be used for tariff reduction[6]. According to the latest official document on the negotiations on Non-Agricultural Market Access (NAMA)[7], for developed countries, a Swiss Formula with a coefficient of 8 or 9 will be used. One of the mathematical properties of the Swiss Formula is that the coefficient acts as the post-cut ceiling. This means that, irrespective of what the initial level of tariff is, the post cut tariff rate will always be less than the coefficient value. Therefore, if the WTO Members agree to the coefficient of 8, and assuming that the current round of negotiations concludes in two years time, then in another seven years (by the end of the implementation period of the Doha Round) the maximum non-agricultural tariff rate of developed countries will be less than 8 per cent. This will further reduce the tariff margins enjoyed by the developing country partners in a north-South RTA.

For agriculture, it has been decided that the tariff cuts will be implemented by a tiered formula which cuts higher initial tariff by a higher margin. The latest draft indicates that the developed countries will have to cut their existing tariff rates at least by 48 per cent. For the tariff lines where the initial tariff rate is more than 75 per cent, the tariff rates need to be cut by around 70 per cent. These facts indicate that the Doha Round has ambitious plans for tariff reduction and, once the new round of WTO commitments kick in, the preference margins enjoyed by the trading partners of developed countries in RTAs will come down. It is not certain when the Doha Round of trade talks is going to be concluded. But it appears that during the second half of 2007, the negotiators were much more confident of a deal in another years' time.

Another source of erosion of preference margins may come from the RTAs themselves. As developed countries are engaging with more and more RTAs, they are becoming virtual hubs of a large number of preferential agreements. If almost all the major suppliers of a certain commodity become preferential trade partners of a developed country then the preference margin for each of the suppliers gets diluted. This may lead to a situation where formation of RTAs will be important just to maintain the status quo rather than to gain additional market access. This is an essential problem with RTAs and it clearly violates the 'no discrimination' principle of WTO. In fact, in such cases the MFN trading partner becomes the least favoured supplier. However, if the MFN rates come down significantly, this source of discrimination will gradually matter less for developing countries.

IV.3. Treatment of Non-Tariff Measures

As it has been discussed above, in developed countries tariffs are not generally very high. Though there are certain products for which there are spikes in tariff rates, tariffs are on the lower side in most developed countries on an average. In this scenario, the level of protection is being maintained by various non-tariff measures[8] like standards, technical barriers, trade restrictive anti-dumping rules etc. In fact, a recently released set of data from the World Bank on 'Trade and Import Barriers' indicate that the use of Non-Tariff Barriers is highest among the High-Income OECD countries (Table 4). It is not surprising that in WTO negotiations, negotiators from developing countries complain more about NTMs than about tariff rates in developed countries. According to them the NTMs provide much higher level of protection as they are much more restrictive, opaque and difficult to measure.

Table 4: Frequency Coverage Ratio of Non-Tariff Barriers (NTBs) by Country

Country / Group	Year	Simple average (%)	Import-weighted average (%)
Australia	1999	20.6	29.1
Canada	2000	28.4	19.7
European Union	1999	34.4	24.8
Japan	2001	36.8	36.2
Korea Republic	1998	36.9	25.6
New Zealand	1999	36.5	43.8
Norway	1996	14.9	12.2
Switzerland	1996	22.0	27.0
United States	1999	30.3	47.1
Memo: average			
Developing countries (65)	1992-2001	15.7	18.9
Low income countries (20)	1993-2001	6.2	10.0
Middle income countries (45)	1992-2001	20.0	22.9
High income Non-OECD (7)	1994-2001	17.69	18.24
High income OECDs (9)	1996-2001	28.98	29.51

Source: http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH 0,,contentMDK:21051044~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html

Therefore, to gain any meaningful increase in market access, along with getting tariff preference, it is important to lower the level of protection through Non-Tariff Measures also. However, in an RTA with a developed country, lowering of NTMs depend very highly on the negotiating ability of the partner country.

In a multilateral forum, smaller countries can free-ride using the negotiating or bargaining power of the bigger countries in negotiations. However, that is not possible in RTAs and the imbalance or asymmetry of bargaining power is much more pronounced in such bilateral negotiations. Therefore, it is unlikely that in a North-South RTA, a developing country will be able to significantly lower the NTMs of a developed country.

On the other hand, because a developed country manages to push in WTO Plus clauses like labour and environment, it can actually happen that in North-South RTAs the level of NTMs may be higher than in the multilateral route. This is possible because the RTA-specific labour and environmental clauses can be used by the developed country as protectionist devices for sectors which they want to protect.

The RTAs also contain very complicated Rules of Origin (ROO) and value addition norms. This reduces transparency and creates the ‘spaghetti bowl’ problem highlighted by Bhagwati in his works. For a small developing country or a small firm in a developing country managing such complex trade rules can become an added problem of an RTA. It becomes more problematic for developing countries because, as the GEP2005 shows, ROOs tend to be more restrictive in North-South RTAs than in other types of RTAs.

Table 5: Non-Tariff Barrier (NTB) Frequency Coverage Ratio by Product in Selected Developed Countries

Product Category (SITC)	Australia	Canada	European Union	Japan	United States
Primary Products (0-4,68)	0.54	3.23	1.98	7.49	4.69
Agriculture (0-2,4)	0.63	3.52	2.30	7.69	4.56
Mining (3,68)	0.00	1.51	0.47	6.31	5.44
Manufactures (5-8,less 68)	0.31	20.89	10.77	5.08	5.23
Iron and Steel (67)	0.24	83.33	51.94	0.48	42.44
Chemicals (5)	0.89	0.16	4.18	1.15	3.35
Other Semi-Manufactures (61-64,66,69)	0.49	1.47	0.86	0.64	4.59
Machinery & Transport Equipment (7)	0.07	0.11	2.41	0.05	5.18
Textiles and Clothing (65,84)	0.06	81.26	87.21	23.06	1.13
Other Consumer Goods (81-83,85,87-89)	0.00	0.35	4.82	0.68	0.92
Other Products (9)	0.00	0.00	0.00	0.00	0.00
All Products (0-9)	0.36	16.88	5.79	5.61	5.08

Source: *http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:21051044~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html*

IV.4. Exclusions of Certain Sectors

Most North-South RTAs tend to exclude certain sectors from preferential tariff coverage. The most common example of such exclusion is agriculture. Most trade agreements between EU and developing countries have kept agriculture out of any preferential market access. The same is true for RTAs with Japan. The exclusion of this critical sector often limits market access gains for developing countries. It is also notable here that, most LDCs (Least Developed Countries) get duty-free quota-free access for their products (including agricultural products) in developed country markets. This makes agricultural market access issues somewhat more complicated for North-South RTAs.

Another notable exception in North-South RTAs is on free movement of labour. Almost all North-South FTAs have restrictions on free movement of labour. Even when issues regarding temporary movement of workers are included in these RTAs, they are largely confined to professional and skilled workers, mostly dealing with intra-corporate transfers.

It is not surprising that while the developed countries are ready to go much beyond the rules of WTO in areas like TRIPS, investment, services sector liberalization and labour and environmental conditionalities, in issues like agricultural market access and free movement of labour, they are clearly reluctant to take any step towards greater liberalization. In fact, some of the North-South RTAs try to impose additional restrictions in these areas. This is a clear manifestation of the asymmetry of bargaining power in North-South RTAs. It can also be said that the exclusion of some key sectors is a major reason why formation of RTAs often do not help developing countries expand their market access in developed countries.

V. The Costs of North-South Regional Trade Agreement

The previous section has indicated that there are a number of reasons why developing countries who join North-South RTAs may not secure better market access in a developed country. Also, there are some potential drawbacks of North-South RTAs, and these can have a significant impact on the growth and development process of the developing country partner in such RTAs.

Most new RTAs, especially the North-South RTAs, tend to cover much more than liberalization of tariffs and quotas. Most of these RTAs have provisions on enforcement of labour laws, environmental laws, services, intellectual property rights issues, competition policy, government procurement and investment. It is notable that many of these provisions, especially issues like labour and environment, investment and competition policy are no longer on the mandate of WTO negotiations. These issues have been dropped from the Doha Development Agenda mostly because of strong opposition from developing countries. During the current round of negotiations, it was felt that these issues are non-trade issues or 'extraneous issues' which should not be discussed as a part of multilateral trade negotiation and in the context of a 'single-undertaking' framework. Because of the structure of WTO negotiations (the so called 'consensus' based approach) coupled with increased assertiveness of developing countries in the multilateral negotiations, these issues were dropped from the Doha Round. However, most North-South FTAs contain these issues and because of the asymmetry in negotiating power in such negotiations, developed countries not only manage to include these new issues but also impose stricter rules on issues like TRIPS and opening up of services in developing countries.

In fact, RTAs are also being used by some developed countries to remove controls on capital flows. Williamson (2006) points out that in the post-Asian crisis period trade agreements are used by the US treasury to impose free movement of capital on developing countries. Williamson says,

> "Since then the main pressure for liberalising capital flows has come from the US treasury. When countries wanted to negotiate bilateral free trade agreements with the US, they found the treasury insisted that US negotiators demand that the partner country should commit itself to never reimposing effective capital controls for any length of time. Several of the partner countries that had made effective use of such controls in the past, like Chile and Singapore, found themselves forced to choose between abandoning their aim of securing a free trade agreement with the US and abandoning their ability to control capital movements with the object of avoiding or at least attenuating crises. Given that governments, like markets, typically take a rather short-term view of costs and benefits, and that the countries could not see the prospect of a crisis on the horizon at the time the negotiations were taking place, the US treasury got its way." (Williamson 2006:1848)

Inclusion of these clauses in the trade agreement leads to a number of problems for developing countries. First, inclusion of these clauses further reduces the policy space available to developing countries. Some researchers like Akyuz (2005) and Chang (2002) have argued that WTO commitments restrict policy space available to the developing countries and prevent them from adopting domestic and industrial policies used by currently developed countries. An illustrative example of such policies and the corresponding WTO restrictions are given in Table 6. It is important to note that the provisions of most North-South RTAs go well beyond the WTO rules and are likely to impose much more restrictions on the developing countries. It will also force countries to adopt more 'market friendly' measures in areas like investment and IPR issues. As the UNCTAD Trade and Development Report 2007 points out, these new RTAs have increasingly included provisions for deeper integration among countries and include policies which require much higher degree of harmonizing national policies with "a reform agenda that favours greater freedom for market forces". For a developing country, where the level of industrialization is not high, such measures can have serious negative impact on its industrialization and growth of the economy.

Table 6: **Policies Followed by Now-Industrialized Countries During their Phase of Development and Current WTO Rules which Prohibit Them**

Country	Policy	Economic Rationale	WTO Restriction
USA	High tariff and non tariff barriers	Infant Industry Protection	Tariff liberalization, removal of non-tariff measures
UK	High tariff and non tariff barriers Colonial exploitation	Infant Industry Protection,Extraction of resources	Tariff liberalization, removal of non-tariff measures
Japan	1. State supported investment in R&D, 2. Adaptation of designs of products developed by other countries 3. Learning curve pricing	1, 2. Improve Competitiveness 3. Taking advantage of economies of scale .	1. Countervailing duties, 2. Trade Related Intellectual Property Rights 3. Anti-dumping laws
South Korea	1. State supported export growth, 2. Directed credit 3. Export Subsidies 4. Learning curve pricing 5. Interventionist industrial policy	Strategic and innovationist trade policy Economies of scale	Countervailing duties Outright ban of export subsidies Anti-dumping duties Privatization as pushed by the World Bank

Source: From Chang (2002) and Akyuz (2005)

Second, as Bhagwati and Panagariya (2003) argue, by pushing aggressive trade treaties on a bilateral basis, developed countries are weakening the power of developing countries in multilateral trade negotiations. As discussed above, in an RTA between a developed and a developing country, the developed country often manages to include aggressive trade liberalization clauses, investment protection clauses and extraneous issues in the treaty. Having abandoned objections about these issues on a bilateral level, the developing country cannot resist these issues on a multilateral platform. This not only helps developed countries push these issues in WTO, but also breaks the alliance of developing countries in multilateral negotiations. Given the diversity among developing countries and the kind of coalition we are seeing in the WTO negotiations, such issues are going to be critical for the developing countries.

Third, in North-South RTAs, developing countries are accepting long-term commitments in exchange of uncertain and often transient market access promises. In such RTAs, developed countries manage to push through a number of conditions like stricter TRIPS regulations, highly unfavourable Bilateral Investment Treaties (BITs), wide range of market access openings, and labour and environmental clauses. Whereas stricter TRIPS laws can lead to serious issues like availability of life saving drugs and medicines at an affordable price, BITs can restrain the options of developing countries to use FDI as a policy instrument to improve sectoral/regional balance of their economy. Moreover, not only are the BITs used to introduce harsh labour and environmental commitments on developing countries but, as mentioned above, these BITs also try to align a developing country’s financial and legal system to a market-oriented system which obviously favours such enterprises. This can have serious implications for developing countries.

VI. Conclusions and the Importance of South-South Trade

The results of this paper prompt us to question the prevalent tendency of developing countries to use North-South RTAs as an engine of economic growth. This paper shows that the benefits of North-South RTAs are not obvious but they can impose serious economic costs on the developing countries. This paper highlights that North-South RTAs often bind developing countries into taking commitments on a number of problematic issues like TRIPS, BITs, government procurement, labour and environment related clauses and in some cases capital account convertibility. These are all long-term commitments with enduring implications for developing countries. In return, developing countries are, supposedly, getting better market access. The perceived gains for developing countries come from the 'preference margin' derived from the gap between the MFN rate and the preferential tariff of the RTA. As the paper showed, this preference margin may not translate to better market access or higher market share. Moreover, this preferential access is temporary and it is not going to provide developing countries long-term benefits. As the Doha Round of trade negotiations aim to reduce the MFN rate significantly, as and when the Doha Round of commitments are implemented, the present tariff preference margins will be eroded by a significant margin.

Also, with more and more RTAs being signed by developed countries, the preference margin enjoyed by an existing developing country partner in North-South RTAs will get diluted. As mentioned before, if almost all the major suppliers of a certain commodity become preferential trade partners of a developed country, then the preference margin for each of the suppliers gets further reduced. This, coupled with the fact that MFN rates are themselves low in developed countries, indicate that with the proliferation of RTAs, most developing countries will end up with little or no tariff preferences in a developed country market. Also, in a North-South RTA, the developing country partner loses the privilege of non-reciprocity and Special and Differential Treatment (S&DT) which are available to them under the multilateral system.

But on the other hand, in North-South RTAs developing countries are undertaking long-term commitments in areas like labour, environment, investment and competition policy. So, what is essentially happening is that developing countries are binding themselves in long-term commitments on a number of inconvenient issues against temporary and small tariff preferences granted by developed countries. As Ghosh (2004) pointed out developed countries, particularly USA and EU are pushing regional trade agreements, under the influence of large capital, to force developing countries to make deeper trade and investment commitments than is now possible multilaterally given the divisions in the WTO. Developing countries, in their pursuit for export led growth, are accepting very damaging conditions in terms of foreign investment protection, intellectual property rights and the opening up of markets, simply to avail of what may be transient or minor gains in terms of market access.

In this context, South-South trade blocks may emerge as a viable alternative to developing countries for expanding their market. The growing income in many parts of the developing world may provide significant market access for many countries from the South. There might be some concerns about lack of trade complementarities within the developing world, but developing countries are currently a diverse lot and have enough variety in their export basket to generate sufficient trade among themselves. Also, with increased industrialization, it will be possible for some developing countries to engage in intra-industry trade and allow their firms to exploit the economies of scale. As the UNCTAD Trade and Development Report 2007 points out, all regional blocs involving developing and transition economies, regionally produced manufactures, including the more skill and technology-intensive product categories, find markets more easily in countries in the same region than in international markets further away. The report then concludes that there is considerable scope for developing and transition economies to benefit from advantages of geographical and cultural proximity when seeking to develop their industries and upgrade their production.

To sum up, trade liberalization through regionalism may not offer the best solution but in the current state of distorted multilateralism and because of the problems developing countries are facing with North-South RTAs, South-South RTAs can be particularly useful as they allow developing countries to expand their markets without having to bow before hegemonic powers. However, there are some obvious pitfalls with regionalism. Apart from the problems of trade diversion, the complex web of regional agreements can also introduce even more uncertainties and opacity in the global trade system. In the present global system, there is already a myriad of market access barriers and other forms of standards and regulations. Widespread adoption of RTAs, along with the RTA specific barriers and concessions, will make the system even more complex for countries and customs authorities.

Secondly, the problems associated with unequal power structure and exploitation of smaller members by a bigger economic power can be more acute in a regional trade block. Also, it is always possible that if the world is divided in a few mega trade blocks, then the weakest countries will be marginalized. This leads to the final conclusion of the paper that export-led economic growth, either through multilateral or regional trade liberalization, has its own share of drawbacks. In developing countries, where domestic markets can potentially support large industries, efforts should be made to develop and expand the domestic market instead of relying completely on external demand. In a number of developing countries, improving income distribution can go a long way towards achieving this goal.

Notes

1 Though there are subtle differences between the concepts of Regional Trade Agreements (RTAs), Preferential Trade Agreements (PTAs) and Free Trade Agreements (FTAs), in this paper, these terms will be used interchangeably.

2 http://www.wto.org/english/news_e/sppl_e/sppl67_e.htm

3 Unless otherwise mentioned, data for this section are taken from the website http://censtats.census.gov

4 Together, these three groups of countries account for about 60 per cent of the total US market in 2006. Other notable trading partners of USA are the EU countries, Japan, Taiwan Province of China and Saudi Arab.

5 The formula used here is =100x(Total imports by USA from all its PTA/FTA partners/(Total US Imports-Imports from China)

6 The Functional Form of the Swiss Formula is like this: $t_1=Ct_0/(C+t_0)$, where t_0=initial tariff rate, t_1= final tariff rate and C=agreed coefficient. This formula has some interesting mathematical properties. It cuts higher tariffs by a larger proportion, lower the value of coefficient, higher the cut lower the coefficient lower the post cut dispersion and the coefficient becomes the effective ceiling for the post-cut tariff rates.

7 Revised draft negotiating text for market access for goods, 17 July 2007, available at http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_17july07_e.pdf.

8 Non Tariff Measures (NTMs) and Non Tariff Barriers (NTBs) are sometimes used synonymously in the literature though some argue that they are not exactly the same thing. This paper uses these terms interchangeably.

References

Baldwin, Richard E. (1995) "A Domino Theory of Regionalism" in R. Baldwin, P. Haarparanta and J. Kianden (eds.) *Expanding Membership of European Union*, Cambridge: CUP.

Baldwin, Richard E. (1997) "The Causes of Regionalism", *World Economy*, Vol. 20, No. 7, Pp. 865-88.

Bergsten, C. Fred (1996) "Competitive Liberalization and Global Free Trade: A Vision for the Early 21st Century", *Asia Pacific Working Paper Series* No. 96-15, Washington: Institute for International Economics.

Bhagwati, J. & Panagariya, A. (1996) *The Economics of Preferential Trade Agreements*, Washington, D.C.: AEI Press.

Bhagwati, J. (1992) "Regionalism versus Multilateralism", *The World Economy*, Vol. 15, No. 5, Pp. 535-555.

Bhagwati, J. (1993) "Regionalism and Multilateralism: An Overview," in Melo and Panagariya (eds.) *New Dimensions in Regional Integration*, Cambridge: Cambridge University Press.

Bhagwati, J. (1995) "U.S. Trade Policy: The Infatuation with Free Trade Areas", in Bhagwati, J. & Krueger, A. (eds.) *The Dangerous Drift to Preferential Trade Agreements*, Washington, D.C.: American Enterprise Institute for Public Policy Research.

Bhagwati, J. and A. Krueger (1995) *The Dangerous Drift to Preferential Trade Agreements*, Washington, D.C: American Enterprise Institute for Public Policy Research.

Bhagwati, Jagdish, (1994) "Threats to the World Trading System: Income Distribution and the Selfish Hegemon", *Journal of International Affairs*, Spring.

Dixit, A. (1984) 'International Trade Policy for Oligopolist Industries', *Economic Journal*, Supplement 1-6,.

Ethier, Wilfred J. (1998) "Regionalism in a Multilateral World", *Journal of Political Economy*, Vol. 106, No. 6, Pp. 1214-45.

Ghosh, Jayati (2004) "Regionalism, Foreign Investment and Control: The New Rules of the Game outside the WTO", Paper presented at a seminar on 'The Economics of New Imperialism', Jawaharlal Nehru University, January, 2004

Krugman, P (1993) "Regionalism versus Multilateralism: Analytical Notes" in J. de Melo and A. Panagariya (eds.) *New Dimensions in Regional Integration*, Cambridge: CUP.

Krugman, P. (1991) "Is Bilateralism Bad?" in E. Helpman and A. Razin (eds.) *International Trade and Trade Policy*, Cambridge, Mass.: MIT Press.

Lawrence, R.Z. (1999) "Regionalism, Multilateralism and Deeper Integration: Changing Paradigms for Developing Countries" in M. Rodríguez Mendoza, B. Kotschwar and P. Low (eds.) *Trade Rules in the Making*,, Washington D.C.: Brookings Institution and Organization of American States.

Lipsey, R. G. (1957) "The Theory of Customs Union: Trade Diversion and Welfare", *Economica*, Vol. 24, Pp. 40-46.

Mansfield, E.D. and E. Reinhardt. (2003) "Multilateral Determinants of Regionalism: The Effects of GATT/WTO on the Formation of Preferential Trading Arrangements", *International Organization*, Vol. 57, No. 4, Pp. 829-862.

Panagariya, A. (1996) "The Free Trade Area of the Americas: Good for Latin America?" *World Economy*, Vol. 19, No. 5, September, Pp. 485-515.

Panagariya, A. (2000) "Preferential Trade Liberalization: The Traditional Theory and New Developments", *Journal of Economic Literature*, Vol. 2, Pp. 287-331.

Schott, Jeffrey J. (2004) "Free Trade Agreements: Boon or Bane of the World Trading System" in J.J. Schott (ed.) *Free Trade Agreements: US Strategies and Priorities*, Washington: Institute for International Economics.

Summers, L., (1991) "Regionalism and the World Trading System", Policy Implications of Trade and Currency Zones, Wyoming: Federal Reserve Bank of Kansas City.

UNCTAD (2007) *Trade and Development Report 2007: Regional Cooperation for Development*, United Nations, New York and Geneva 2007.

Venables, A. (1999) "Regional Integration Agreements: A Force for Convergence and Divergence?" Paper prepared for the Annual World Bank Conference on Development Economics, Paris, June 1999, Working paper No. 2260, Washington, D.C.: World Bank. Available at http://www.worldbank.org/research/trade/archive.html. (Also published as "Winners and Losers from Regional Integration Agreements", CEPR Discussion Paper No. 2528).

Viner, Jacob (l950) *The Customs Union Issue*, New York: Carnegie Endowment for International Peace.

World Bank (2005) *The Global Economic Prospects 2005: Trade, Regionalism and Development*, November 2004, World Bank.

World Trade Organisation (2006): USA Trade Policy Review, Geneva:WTO