

THE TRADE REGIONALISM OF THE UNITED STATES AND THE EUROPEAN UNION: COOPERATIVE OR COMPETITIVE STRATEGIES?

Paolo Guerrieri
Denise Dimon

INTRODUCTION

The main objective of the articles presented in the special section of this review is to assess the contents of and experience with “new type” of Preferential Trade Agreements (PTAs) with a view to determining whether and under what conditions the new regionalisms of the two major players United States and the EU will be competitive or complementary and in particular how these two regionalisms will be in support of, or conflicting with, multi-lateral trade regime under the World Trade Organization (WTO) rule system.

THE WAVE OF “NEW REGIONALISM”

The background of the articles of course is the revival of regionalism world wide over the past two decades. This “New Regionalism” is not confined to narrow geographic areas but

Paolo Guerrieri is professor of International Economics at the University of Rome “La Sapienza”, Italy.

Denise Dimon is professor of International Economics at the university of San Diego, USA.

reaches out across continents, being synonymous of preferential trade liberalization at large (Bhagwati, 1993); nor is it confined to trade in goods, but is targeted to a wide scope of economic transactions, activities, and policies, among them in particular “behind-the-border measures.” Its legal instruments are “new age” preferential agreements, including Free Trade Agreements (FTAs) as a special case.

Of course the current proliferation of PTAs is not a novelty in the recent history of the world economy. It could be considered as the third wave after that in the 1930s, based on discriminatory and highly protectionist trade blocs, and the other from the late 1950s through the early 1970s, which was relatively inward-looking and biased towards discouraging imports and encouraging the development of domestic industries in other parts of the world, mostly in developing countries.

With the most recent wave of preferential trade agreements the shape and the content of regionalism has radically changed. New features include the heterogeneity of participating countries, particularly with regard to the level of economic development between 30 to 40 percent of PTAs currently in force are among developing countries: an outward-looking approach of members; the liberalization—and deregulation – of services, rules for investment, the protection of intellectual property, and competition policy, technical, environmental, and labor standards.

If one want to sum up very essentially the main features of the New Regionalism would say that it reflects a growing number of free trade areas that increasingly comprise:

- (a) members at different stages of economic development;
- (b) extend beyond narrow regional confines; and
- (c) goes over and above a mere removal of border barriers to trade having strong elements of deep integration.

FACTORS DETERMINING PTAs

The more recent wave of PTAs has led to a revival of interest in both economic and politico-economic analyses of preferential trading regimes (e.g., De Melo and Panagariya, 1993; Lawrence, 1996; Whalley, 1996; Hoekman and Kosteci, 2001). Economic literature made sensible progresses on the issue and there is a increasing body of literature stemming from the so-called “new trade theory” suggesting that the benefits of regional integration initiatives could be far greater than traditional economic theory predicted. Beyond the static welfare effects “trade creation” and “trade deflection,” the literature has identified other economic effects of the PTAs deriving from, *inter alia*, a larger size of the market and realization of economies of scale, greater competition, and greater diversification of products.

Furthermore, another limit of the static analysis of costs and benefits of regional integration agreement based on the Vinerian theory is that it is based principally on the effect of removing commodity barriers, ‘shallow integration’, but the focus of trade negotiations has been gradually turned from the more traditional trade barriers, both tariff and not, to the new trade issues of first generation (intellectual property, services) and second generation (investment and competition policies, environmental and labor standards), and the dimension of regional integration entails “deep integration,” “explicit actions by governments to reduce the market segmenting effect of domestic regulatory policies through coordination and cooperation” (Hoekman and Konan, 2001, p. 2).

In this perspective “focusing only on border barriers could miss much of the effects of a deeper regional arrangement. The diffusion of a deeper integration between national markets—emphasizing the connection between domestic policies and trade liberalization—thus requires new approaches to capture the impacts associated with the New Regionalism. Even more so since there are other benefits, than resource re-allocation, that arise from deeper integration agreements. On the other hand we have to recognize that it is very difficult to

estimate such benefits. Many recent studies acknowledged in their work the difficulties of measuring the effects of deep integration.

The new content of RTAs has also been determining the fact that a large number of PTAs have been affected by political rather than strictly economic factors. So PTAs very often work when countries have both the economic and political incentives to conclude them. These political goals mainly include: security, democracy, governance, credibility. So PTAs are viewed as a tool to overcome political rivalries, as in the case of European integration. In this perspective, North-South PTAs can be also considered beneficial to developing countries and transition economies since they contribute to cement policy reforms and enhance credibility (Fernandez and Portes, 1998).

In this regard Hoekman and Kosteci (2001) summarize the most important political-economic issues that have contributed to foster regional integration agreements:

- (a) a shift in the United States attitude towards regionalism in the 1980s, driven in part by frustration with the slowness of the multilateral process;
- (b) the demise of central planning in Eastern Europe so that regional agreements with Western European countries were seen as a tool to accelerate and cement the transition to a market economy;
- (c) the domino effect: as major trading partners created regional trade blocs, the pressure on others to follow suit increased, reflecting supposedly growing costs of staying apart—so called “domino regionalism” (Baldwin, 1995);
- (d) globalization and increased internationalization of markets which led to private sector lobbying for reductions in regulation-related trade costs and were apparently perceived to be easier to address in PTAs involving like-minded governments; and
- (e) foreign policy and national security considerations.

THE US AND THE EU PTAs

Against this background the first aim of the articles presented here is to evaluate and compare the patterns, architectures and contents of the PTAs concluded world-wide by the two global *players* with a view to assessing their complementarities and potential conflicts. The (positive or negative) impact of this competitive and overlapping regionalism of the two global actors on the future development of the multilateral trading system is going to be assessed as well.

During the past decade the formerly unquestioned European leadership in regional integration and preferential trade agreements has been increasingly challenged by dynamic US regionalism on a global scale. Actually, it has been estimated that trade with PTA partners accounts for almost one third of the extra-EU and US total trade.

While for a long time the United States used regional agreements more hesitantly, today due to various factors—foreign policy, national security reasons as well as strategic competition with the EU—it is encouraging the exploitation of regional agreements. Thus, over the past two decades the United States converted to ardent regionalism, and is very actively promoting and participating in the new wave of regionalism.

Regional initiatives, American and European alike, are all covering new trade issues such as: intellectual property rights, services, investment, competition, and environmental policies. The PTA policies of the United States and the EU thus exhibit a high degree of overlapping both with regard to the subjects covered and concerning the partner countries chosen.

The second aim of the articles is to investigate the nature, features and goals of the regional strategies of the two global actors in two main areas: Latin America and South-east Asia. The two case studies will permit to highlight potential conflicts and/or cooperative opportunities among US and EU strategies.

The new wave of regionalism that spread around the world in 1990s seem to have extended also in the Latin American continent. In contrast with the past regional experiences of the Southern American hemisphere, this new wave promotes open and competitive private market-based economies by countries that during the 1980s reached the democratic status after years of military government and promoted deep structural economic reforms. Most importantly however this new wave of regionalism moved from the central objective of the South-South dimension to concentrate also on North-South regional and interregional agreements

The principle motivations that led the new wave of regional integration agreements in Southern America seems to be the necessity of creating a national tool to reinforce the structural economic reform process in a period of highly competitive globalization. Countries now value a greater participation in the globalizing world economy as a way to stimulate investment and growth. Regional integration is viewed like an additional policy tool to complement and strengthen national reform processes.

As to the Asia the three main countries of Northeast Asia (China, Japan, and South Korea) were distinguished from most other major trading nations by their non-participation in regional economic arrangements, but in the past few years we have seen a sharp upturn in interest and activity in the formation of preferential trading arrangements in the Asia-Pacific region. Asian regionalism has been as much a reaction and response to new regionalism and new globalization as a post-Asian financial crisis era for more concerted regional efforts to manage crises.

East Asia's efforts to formalize regional cooperation into a workable arrangement for the promotion of trade, investment and security have been complicated by:

- (a) the heterogeneity of the region;
- (b) the historical political tensions between many countries of the area;
- (c) the desire to protect national interests and specific industries; and
- (d) Asia's already established openness in trade and FDI and its long-standing relationships with the US and more recently the EU. Given the political and economic obstacles to economic cooperation, the growing interest of Asian countries to regional agreements seems to be noteworthy. Even more so since East Asian countries continue to view themselves as rivals rather than partners.

PTAS AND THE MULTILATERAL TRADING REGIME

A third aim of the articles is to assess the consistency and complementarity of PTAs and the multilateral trading system, by trying to answering questions like: What are the *lessons* to be drawn from PTAs for the design of multilateral rules and procedures? How can WTO surveillance and discipline on PTAs be improved and the compliance of agreements with the multilateral rules be enforced?

According to some authors (1996), regional arrangements, dealing with international governance need not be second best—they could be first best. However, it remains to be established empirically to what extent the two processes of preferential and multilateral liberalisation condition each other, or, as Bhagwati and Panagariya (1996) put it, whether they are strangers, friends, or foes.

It has been argued that the overlapping of PTAs—particularly of the two main trade actors, the United States and EU—could threaten to breakdown the world economy into separate and even opposite regional blocs which could tend to protect their own

liberalized markets by maintaining or re-imposing trade barriers against third countries. As a consequence the multilateral system would be replaced by power-based relations. A study of the WTO Secretariat (WTO, 2002) underlines these doubts. At the same time, however, from the opposite perspective PTAs appear as a tool to foster global free trade. This is still a very important open question to deal with and the answer is very related to the specific features and contents of each PTA

To assess the consistency and complementarity of PTAs and the multilateral trading system. What are the *lessons* to be drawn from PTAs for the design of multilateral rules and procedures? How can WTO surveillance and discipline on PTAs be improved and the compliance of agreements with the multilateral rules be enforced?

One answer is that after all, the crucial challenge to avoid trade diversion and other negative external effects of the PTAs would be to launch periodic multilateral rule-making negotiations aimed at reducing trade barriers, so that multilateralism can keep up with regional agreements. Only a clear and unconditioned commitment to the multilateral WTO principles and obligations will assure that the economic benefits of regional integration effectively combine with the multilateral rules and policies, so as to construct a multi-level system of governance. Hence the very important role played by the Doha Round in the present phase.

REFERENCES

- Bhagwati, J. 1993. Regionalism and Multilateralism: an Overview. In Anderson K. and Blackhurst R. (eds.), *Regional Integration and the World Trading System*, London: Harvester-Wheatsheaf.
- De Melo, J. de, Panagariya, A., and Rodrik, D. 1993. The New Regionalism: A Country Perspective. In Jaime De Melo and Arvind Panagariya (eds.), *New Dimensions in Regional*

Integration. New York and Melbourne: Cambridge University Press.

Hoekman, B., and Kostecki, M. M. 2001. *The Political Economy of the World Trading System*. The WTO and Beyond, Second Edition. Great Britain: Oxford University Press.

Lawrence, R. Z. 1996. *Regionalism, Multilateralism, and Deeper Integration*. Washington, D.C.: The Brooking Institution.

Whalley, J. 1996. Why do Countries Seek Regional Trade Agreements? NBER Working Paper 5552, National Bureau of Economic Research, Cambridge, Mass: Harvard University.

Copyright of International Trade Journal is the property of Routledge and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.