

The Rise of Bilateralism

Comparing
American, European and Asian Approaches
to Preferential Trade Agreements



Kenneth Heydon and
Stephen Woolcock



The rise of bilateralism: Comparing
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**United Nations
University Press**

TOKYO • NEW YORK • PARIS

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Part I

Introduction

1

Overview

The contribution of this volume

Preferential trade agreements (PTAs)¹ conducted on a bilateral basis have become the centrepiece of trade diplomacy. With multilateral negotiations becoming increasingly complex and protracted, trade deals among selected partners are seen, rightly or wrongly, to hold the promise of quick and comprehensive improvements in market access and rules for trade and investment.

As discussed fully in Chapter 11, there is already a substantial literature on PTAs. Much of this dates from earlier phases of intense activity in the field of regional preferential agreements. The literature on the economic effects of PTAs has been rather limited, however, by its continued focus on tariff preferences, which, although still important, are not the main thrust of the PTAs negotiated by the major industrialized countries. The recent increase in PTA negotiations has stimulated analysis of the motivations and effects of PTAs and their implications for the multilateral trading system. This large and valuable literature, however, largely eschews detailed analysis of the content of the agreements themselves.² This is the gap the current volume seeks to fill and thus to add flesh to the bare bones discussion of the growth of preferential agreements.

By looking in detail at the substance of PTAs concluded by a number of key players this study examines whether PTAs should be seen as an alternative to multilateralism, as interim measures to keep the wheels of international trade and investment moving during the difficulties faced at

The rise of bilateralism: Comparing American, European and Asian approaches to preferential trade agreements, Heydon and Woolcock, United Nations University Press, 2009, ISBN 978-92-808-1162-9

the multilateral level, or indeed as an impediment to multilateral efforts. In other words, are PTAs building blocks or stumbling blocks for multilateralism? Are the main promoters of comprehensive PTAs pursuing their own distinctive agendas, using their market power to coerce smaller countries into accepting their rules of the game? If they are, they risk creating divergent norms and rules that will make a future multilateralization difficult. Or are the approaches adopted broadly similar, so that they could be seen as constituting an emerging international norm?

In order to address these questions, the volume considers the PTAs negotiated by the United States, the European Union, the European Free Trade Association (EFTA), Japan and Singapore – the “core entities”. These are some of the leading proponents of preferential agreements and the ones that have promoted the idea of comprehensive agreements or agreements that include a range of deeper integration issues as well as tariffs and non-tariff barriers to trade. They are thus more likely to shape the nature of the international trade and investment system.

Reflecting the main focus of research for this book, the chapters that follow look at: tariffs and rules of origin; a number of established non-tariff barrier issues – commercial instruments, technical barriers to trade (TBT), sanitary and phytosanitary measures (SPS) and government procurement; the pursuit of deep integration through trade in services and foreign direct investment; and a group of issues sharing a concern about market failure – intellectual property rights and labour and environmental standards. This focus on the actual content of agreements facilitates an assessment of the revealed policy preferences of the parties concerned. The volume also compares the substance of agreements with the declared policies of the “core entities”. All the “core entities” covered affirm that their PTA policies are compatible with multilateralism. The detailed consideration of what has been negotiated enables an assessment to be made of whether this is likely to be the case in practice.

The volume also seeks to shed light on a number of specific questions. First, to what extent do the PTAs really go beyond the World Trade Organization (are WTO-plus) in terms of the detail of each policy area? Second, how do the approaches of the “core entities” compare? Third, what trends in the use of PTAs by the core entities exist? Fourth, how do the core entities accommodate developing countries through the use of asymmetric provisions in PTAs? Finally, how does the substance of PTA policy relate to domestic policies in the United States, the European Union, EFTA, Japan and Singapore (the core entities)?

The world of preferential trade agreements is rapidly evolving and some of its popular characterizations are no longer valid. The picture that emerges from a comparison of the agreements concluded by the European Union, EFTA, the United States, Japan and Singapore is rather

more complex than the image of the “spaghetti bowl” used in many depictions of the network of PTAs that has developed. Preferential agreements do add complexity to trade, especially given the fact that the various agreements use different rules of origin. But, in some policy areas, agreements concluded between trading partners do not constitute a preference as such and can facilitate trade. This is the case when agreements promote transparency or regulatory best practice, such as in government procurement or the service sector. PTAs that promote the use of agreed, common international standards can reduce technical barriers to trade. Agreements that provide for enhanced cooperation or consultation can help to remove barriers caused by sanitary and phytosanitary measures. Even in the case of rules of origin, the picture is rather more nuanced than the “spaghetti bowl” characterization suggests. Rather than innumerable different rules of origin, there are in fact a number of dominant frameworks derived from the United States and European Union that find application in other PTAs. The existence of a limited number of framework rules for rules of origin does not, however, make the task of developing agreed international norms for preferential rules of origin any less intractable.

The notion of “regionalism” has become much less relevant, and much less useful. There has been a clear trend towards the use of bilateral trade agreements in recent years. These agreements also cut across many existing regional initiatives as individual members of regional groupings conclude bilateral PTAs with third parties outside the region.

The presumption that preferential deals amongst the willing can somehow compensate for slow progress multilaterally is as inappropriate as the idea that PTAs inevitably undermine wider multilateral efforts. Preferential arrangements, though they may break new ground and offer lessons for wider application, can never be a substitute for multilateral action. There is clearly a need for a strong and vigorous multilateral system. This volume will suggest that the reconciliation of the apparent conundrum whereby PTAs can be both building block and stumbling block comes from the realization that PTAs will complement the multilateral trading system only if that system is itself strong, reducing the distortions of preferential arrangements by bringing down MFN (most favoured nation treatment) tariff barriers and strengthening the rules of the game. The key question in international trade and investment policy today is not about choosing between preferential agreements or multilateralism, but about understanding how the various, interacting negotiating forums are used by the leading countries or regions.

There is a shared objective, whether in the Americas, Europe or Asia, of using preferential agreements to improve market access and to

strengthen trade rule-making. This goal is driven by a number of considerations: dissatisfaction with progress multilaterally in the WTO's Doha Development Agenda (DDA); a desire to pursue deeper integration, including in areas such as investment, government procurement and competition, which have been excluded from the DDA; a desire to avoid perceived unfair competition associated with poor labour and environmental standards; a wish to use PTAs as a spur to domestic reform; and, not least, a concern not to be left behind as others proceed with preferential, and hence discriminatory, arrangements. Together, these market-driven objectives have contributed to the complexity and geographical diversity of the web of preferential agreements and shifted the focus of PTAs from regional to bilateral agreements.

An overview of the policies of the core entities

In pursuit of its "gold standard" PTAs, the United States goes beyond the WTO, or is WTO-plus, in many respects. On the central issue of tariffs, this means almost 100 per cent tariff elimination on the US part, at least in the case of industrial products. This is important because welfare gains to parties to PTAs will be higher the more comprehensive is the product coverage of the agreements. In services, the United States has pioneered the prohibition of local presence requirements, consistently supported greater transparency through negative listing, and gone beyond the General Agreement on Trade in Services (GATS) in rule-making in critical sectors such as financial services and telecommunications. The United States has been able to obtain the comprehensive investment provisions of the North American Free Trade Agreement (NAFTA) in almost all its agreements. And it has been a driving force behind provisions in PTAs that go beyond the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS-plus), introducing tougher protection for both copyrights and trademarks. In the area of government procurement, the United States has used PTAs to extend the number of its trading partners that effectively comply with plurilateral rules of the Government Procurement Agreement (GPA) type. In the case of commercial instruments, US PTAs have consistently applied time limitations that are tighter than those found in the WTO.

Though this is a solid performance, whether it constitutes a "gold standard" is open to debate. A characteristic of the US approach to PTAs is the uniformity of provisions across agreements, regardless of the level of development of the PTA partner. Product coverage, particularly in agriculture, seems to slip in the preferential agreements with Australia and Korea. And the use of complex NAFTA rules of origin takes some of

the shine off the standard, even when coverage is comprehensive. In services too, sectors that are difficult multilaterally, such as air transport or governmental services, tend to be excluded and there is a pronounced tendency for the United States to use negative-list reservations to exclude services measures maintained at the sub-national level. In government procurement, the coverage of US purchasing entities is shaped by the rigorous application of reciprocity, with the result that US commitments in some PTAs are significantly below the level of commitments in the GPA. In areas of lower policy priority, such as TBT, the United States is content to rely on existing WTO provisions. Finally, where US PTAs seek to address a perceived race-to-the-bottom in labour and environmental standards and, ultimately, to impose penalties for non-compliance with internationally agreed norms, it needs to be acknowledged that, although undoubtedly WTO-plus, these provisions are not necessarily “better” or without risk of protectionist capture.

In contrast to the United States, the European Union’s approach to PTAs has been characterized by flexibility and, to date (2008), relatively modest results in terms of the liberalization achieved by existing agreements. This finds expression in the European Union’s coverage of tariffs in PTAs, which excludes relatively more agricultural tariff lines, and in services, where the European Union uses a positive-list approach and therefore leaves greater flexibility for the exclusion of sensitive sectors for both itself and its trading partners. The European Union’s domestic experience with non-tariff barriers and the need for comprehensive provisions on SPS and TBT means that it takes efforts in this field, including the promotion of agreed international standards, more seriously than does the United States, though again there is flexibility. The European Union favours SPS-minus rules in the sense that it wants an interpretation of precaution that allows for social as well as science-based risk assessment. Competition and procurement have found their way into the European Union’s PTAs, though the proposals for a minimum platform for investment provisions in EU PTAs have to date fallen short of the comprehensive US rules on investment. Foreign direct investment remains a topic of mixed competence in the European Union, with the EU member states retaining national policies and negotiating their own bilateral investment treaties (BITs).

A positive side of EU flexibility has been that there is more scope for asymmetric provisions favouring the European Union’s developing country partners. But on some occasions it is the European Union that is benefiting from the asymmetry, such as in the agricultural tariff elimination provisions in the EU–Chile agreement.

As with the United States, Japanese PTA motivations, based on a fear of being left out, dissatisfaction with progress in the WTO and the pursuit

of deeper integration, all have an important market access dimension. A primary aim of the PTA under negotiation with Switzerland has been an increase in Japanese exports of electronic goods, while also strengthening the protection of intellectual property rights. However, Japan, like the European Union, has been relatively less aggressive and thus less successful than the United States in implementing ambitious market-opening PTAs. Both of the agreements examined in detail here (with Singapore and Chile) exclude over half the agricultural schedule, and Japan's industrial schedules are more restrictive than for any of the other countries examined. Moreover, Japan, unlike both the United States and the European Union, has a measure of inconsistency in its approach to PTAs that goes beyond flexibility, in that from one agreement to another it alternates positive and negative listing, lacks a consistent treatment of domestic tariff schedules and switches between hard and soft rules of origin.

Japan is a relative newcomer to PTAs, with only a handful agreements in force at the time of writing, so firm judgements are difficult. It seems clear, however, that the lack of a strong domestic mechanism for PTA policy coordination, combined with the power of agricultural and labour lobbies, has so far served to compromise the quality of Japan's agreements.

Although the focus of this study is the detailed substance of PTAs, these must still be seen in the context of broader commercial and political objectives. For all countries, and not least the five core entities that are the focus of this study, the pursuit of preferential trade agreements reflects underlying strategic objectives that are particular to the countries concerned.

The United States' agreement with Peru is at least in part about the exercise of US influence in its immediate neighbourhood. The Korea–US agreement (KORUS) was presented to Congress by President George W. Bush as “further enhancing the strong US–Korea partnership, which has served as a force for stability and prosperity in Asia”. As such, KORUS can also be seen as consolidating the US presence in the region in the face of growing Chinese influence as reflected in the idea of an East Asian preferential bloc, now characterized as ASEAN+3 (Association of Southeast Asian Nations, plus China, Japan and Korea).

The way in which the European Union differentiates among its PTA partners is a reflection of the strategic goals that the European Union wishes to pursue with them. Near neighbours and potential accession states are expected to sign up to the full *acquis communautaire* (the total body of EU law). PTAs with its partners in the Euro-Mediterranean Partnership (Euro-Med), seeking stability in a volatile region on the European Union's doorstep, offer free trade in industrial products but

exclusions for sensitive agricultural products. PTAs with African, Caribbean and Pacific (ACP) states have been driven by development objectives, which presume flexibility to accommodate the needs of the countries concerned, notwithstanding an increased focus on reciprocity. And the recent PTAs with Asian partners such as Korea, ASEAN and India are clearly driven by a desire to strengthen the European Union's presence in the Asian region.

EFTA's approach to PTAs shares many of the features of EU policy. However, not having the political clout of the European Union, EFTA's approach has been not so much to seek to emulate the strategic objectives of the European Union's agreements, but rather to seek to match their provisions. Thus, in the formative stages of EFTA's PTA policy, the agreements with Central and East European states after 1991 and the Euro-Med agreements after 1995 were designed to ensure that EFTA's interests were not undermined by the EU agreements.

Japan is drawn in opposing directions: the pursuit of closer Asian integration, in recognition of regional vulnerability exposed by the 1997–1998 Asian financial crisis; and a widening of formal links beyond East Asia in order to pursue broader economic, foreign policy and strategic interests. The latter, perhaps stronger, tendency is seen in Japan's support for a free trade area of the Asia Pacific, a US proposal that, if ever realized, would see Asia-Pacific Economic Cooperation (APEC) converted into a preferential arrangement and would serve both to draw in key raw material suppliers and to contain the influence of China.

Singapore, like Japan, has drawn lessons from the Asian financial crisis. Unlike Japan, however, whose political and strategic influence it does not share, Singapore has deliberately pursued a single, overriding objective in its PTA strategy: to use its preferential agreements with all continents as a way of extending Singapore's role as a hub for investment and trading in Asia.

Recent trends in PTAs

It is not an exaggeration to describe recent growth in preferential trade agreements as a proliferation.³ The annual average number of notifications since the WTO was established has been 20, compared with an annual average of less than 3 during the four and a half decades of the General Agreement on Tariffs and Trade (GATT).⁴ As of June 2008, 394 PTAs had been notified to the WTO.

Two clarifications are in order. First, the number of notifications does not correspond to the number of PTAs actually in force. There were 205 PTAs notified and in force as at May 2008. However, if all agreements

currently in the pipeline come to fruition then, by 2010, it is estimated that there will be close to 400 PTAs in force in the global trading system. Second, the number of agreements in force does not in itself indicate their impact on world trade – many of them may be quite small. But here again the trend is clear; within the past five years, the share of world trade accounted for by PTAs has risen from some 40 per cent to over half.⁵

Behind these numbers, some clear trends are apparent. For most countries, PTAs have become the centrepiece of their trade policy and the principal focus of their trade officials' attention. In recognition of this increased importance, attempts are being made to improve the monitoring of PTAs within the WTO (WTO, 2006). A new Transparency Mechanism has been introduced, under which the Committee on Regional Trade Agreements (CRTA) produced 10 "Factual Presentations" in the 12 months to May 2008.⁶ The aim of the WTO is to complete the "Factual Presentations" including consideration by the CRTA, for notifications under Article XXIV, in 35 weeks and by the Committee on Trade and Development, for notifications under the Enabling Clause, in 45 weeks.

PTAs are showing an increased degree of sophistication in the range of issues they address. Many of the newer agreements cover trade in services and include provisions dealing with investment, competition policy, government procurement and intellectual property rights.

There is also a clear preference for free trade agreements (where members retain their own tariff regime against third parties), as opposed to customs unions (where members form a common external tariff). Among projected agreements, 92 per cent are planned as free trade areas, 7 per cent as partial scope agreements, and only 1 per cent as customs unions.

There is a pronounced increase in the number of North–South PTAs, which now represent the bulk of agreements. And the trend towards North–South agreements is being accompanied by a commitment to the principle of reciprocity by all parties, developing as well as developed. Where asymmetric liberalization commitments are present, these seem to be more common in South–South than in North–South agreements (Heydon, 2008).

In parallel with the increase in North–South agreements is a trend towards cross-regional PTAs. Whereas only 12 per cent of PTAs notified to the WTO and in force are cross-regional, the number rises to 43 per cent for agreements signed or under negotiation, and to 52 per cent for those at the proposal stage.

Finally, an increasing number of PTAs are being concluded on a bilateral basis. Bilateral agreements account for 80 per cent of all PTAs noti-

fied and in force; 94 per cent of those signed or under negotiation; and 100 per cent of those at the proposal stage.

Together, these trends point to some broad observations about the underlying motivations for entering into preferential arrangements. First, there is clearly a pursuit of speed and flexibility. The predominance of free trade areas rather than customs unions and of bilaterals rather than plurilaterals is testimony to this.⁷ Second, there is nevertheless a concern to conclude agreements that are ambitious both in the scope of issues (if not always products) covered and in the sharing of liberalization commitments among the parties. Third, there appears to be a relative decline in the goal of *regional* integration. Indeed, the proliferation of cross-regional agreements may even be weakening regional integration and diluting intra-regional trade patterns (Fiorentino et al., 2007).⁸ The experience of ASEAN is a case in point (see Box 1.1). The result is a consolidation of a hub-and-spokes system, whereby a small, though growing, number of hubs (including those centred in Washington and Brussels) exchange preferential treatment with a diverse range of countries, which are likely to discriminate against one another. The conclusion of interim Economic Partnership Agreements (EPAs) between the European Union and the African ACP states at the end of 2007 points to a similar trend. One of the main declared aims of the EPAs was to promote regional integration and thus development in sub-Saharan Africa but, for a number of reasons, individual interim EPAs were negotiated with ACP states in southern and West Africa. If the final EPAs do not resolve the issue, these bilateral EPAs may therefore complicate regional integration in Africa rather than promote it.

Drawing together all of these elements, there seems to be an overarching concern to use PTAs to enhance market access, both more speedily and more comprehensively: by range of issue, by geographical coverage and by the sharing of commitments.

Overview of the volume

The volume proceeds as follows. In Part II we consider how the parties concerned use PTAs in a range of key policy areas, specifically: tariffs, rules of origin, commercial instruments, technical barriers to trade and sanitary and phytosanitary measures, government procurement, services, investment, intellectual property rights, the environment and labour standards. The following questions are addressed: what are the differences in the substance of the PTAs between core entities; in which areas do the PTAs go beyond existing WTO coverage of commitments; to what extent

Box 1.1 Bilateralism and ASEAN

From its inception in 1967, the Association of Southeast Asian Nations (ASEAN) embodied the goal of strength through regional coherence. Founded on a shared perception of the threat posed by China, ASEAN in 1992 agreed to form a free trade area (AFTA) to promote trade amongst the members, to compensate for the lack of progress then evident in the Uruguay Round and to create negotiating leverage in APEC. In the course of the 1990s, the six ASEAN members (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) were joined progressively by the Mekong 4: Cambodia, Laos, Myanmar and Vietnam. In what might appear to be a dynamic progression towards ever more comprehensive regional cooperation, links are being fostered between ASEAN and its large northern neighbours, China, Japan and Korea (ASEAN+3).

In reality, however, the trade relationship amongst these Asian countries is highly fragmented.

- AFTA itself is a permutation of separate bilateral preferential agreements amongst the members, with complex rules of origin such that only some 10 per cent of intra-ASEAN trade receives preferential access (Robertson, 2008). In this respect, AFTA differs from EFTA, which is not a matrix of bilateral deals but rather a duty-free pool, and which has to date been a successful “anti-spoke” strategy of European nations that would otherwise have become spokes to the European Union’s hub (Baldwin, 2008).
- The China–AFTA PTA follows the AFTA model, with each ASEAN government signing a bilateral trade agreement with China. And, although the Japanese government has expressed the hope that the Japan–AFTA agreement, signed in March 2008, will be more than just a compendium of the individual bilateral agreements between the ASEAN states and Japan, this is by no means guaranteed. China and Japan are emerging as “hubs” to the ASEAN “spokes”. Moreover, given the rivalries between China, Japan and Korea, the political impediments to more cohesive trade diplomacy in Asia are formidable (Drysdale, 2005).
- Lack of Asian cohesion is compounded by the fact that many of the players in ASEAN have concluded, or are negotiating, important bilateral agreements with third-country “hubs” beyond Asia, such as the planned or operational bilateral agreements between the United States and Malaysia, Singapore and Thailand. At the same time, some ASEAN members, such as Singapore, have become global hubs themselves as a result of their own complex web of bilateral agreements.

Box 1.1 (cont.)

In short, ASEAN, which might be regarded as the embodiment of strong regional cooperation based on shared economic and strategic interests, is in fact highly fractured, both within itself and in its trade relations with the rest of the world.

The opportunities presented by bilateral deals with third parties cannot be denied but they are nevertheless weakening the fabric of regional cooperation. And because of the discrimination inherent in these preferential bilateral arrangements as well as the opportunities for welfare-reducing carve-outs of sensitive sectors – amply demonstrated by the exclusions of agriculture in the Japan–ASEAN bilaterals (Sally and Sen, 2005) – they are a clear second best to broader liberalization conducted on a multilateral basis.

do PTAs have asymmetric provisions; what are the links, if any, between domestic policies (of the core entities) and the content of the PTAs; and what, if any, has been the evolution over time of the specific provisions in PTAs? In other words, does the content of PTAs show how the core entities' revealed preferences in PTA policy are evolving over time?

Following the issue focus of Part II, Part III examines the differing motivations of the core entities in pursuing preferential agreements and the extent to which they succeed in meeting their objectives. Among the questions addressed are: how close does the United States get to its self-imposed “gold standard” for bilateral and regional agreements; how do the development aspirations of EU agreements match up with the EPAs being negotiated with the African, Caribbean and Pacific states; and how far do domestic political constraints explain the relatively modest achievements of Japan's preferential agreements?

In Part IV we consider how different preferential agreements have impacted upon patterns of trade and investment. We draw on our own analysis, a review of the literature and a discussion of some of the theoretical underpinnings of trade preferences. We focus in particular on the pattern of trade and investment between the United States, the European Union, EFTA, Japan and Singapore, on the one hand, and their existing and envisaged PTA partners in Asia, North Africa, the Gulf States and Latin America, on the other. This section confirms that the pioneering works of Jacob Viner, augmented by the likes of Meade, Lipsey and Corden, are still valuable pointers to the trade- and investment-diverting effects that are inherent in preferential trade agreements and that are particularly apparent in disaggregated analysis.

The concluding section draws out the principal findings of the study and suggests how bilateral trade diplomacy is likely to evolve and how it will affect the multilateral trading system.

Notes

1. The term PTA is preferred here to regional trade agreement (because most agreements are now bilateral and cross-regional) or to free trade agreement (which is used here to differentiate between FTAs and customs unions, which have a common external tariff). Moreover, as stressed in Bhagwati and Panagariya (1996), all the agreements offer preferential market access (and are rarely “free”).
2. The Organisation for Economic Co-operation and Development (OECD) has examined the substance of PTAs though, given member sensitivities, generally not gone beyond descriptive analysis. This valuable work has been drawn on in the present study; see, in particular, OECD (2003), Houde et al. (2007), Lesser (2007), Miroudot and Leshner (2006), Solano and Sennekamp (2006), Tebar Less and Kim (2006) and Tsai (2006).
3. See Fiorentino et al. (2007).
4. Of the total of PTAs notified, 307 were notified under Article XXIV of the GATT, 62 under Article V of the GATS and 25 under the Enabling Clause. A total of 189 PTAs were classified by the WTO as inactive. See regional trade agreements notified to the GATT/WTO and in force, http://www.wto.org/english/tratop_e/region_e/region_e.htm (accessed 11 September 2008).
5. This is not the same as saying that over half of trade is preferential trade. It has been argued that only some 15 per cent of trade is actually preferential, if one accounts for tariff lines already at zero or less than 5 per cent “covered” by preferential agreements (World Bank, 2005a).
6. These are US–Morocco (Goods and Services): WT/REG208/3, 26 November 2007; EC–Albania (Goods): WT/REG226/1/Rev.1, 29 April 2008; Panama–Singapore (Goods and Services): WT/REG227/1, 16 January 2008; India–Singapore (Goods and Services): WT/REG228/1, 27 February 2008; Chile–China (Goods): WT/REG230/1, 23 April 2008; Panama–El Salvador (Goods and Services): WT/REG196/3, 8 May 2008; Mercosur (Services): WT/REG238/1, 9 May 2008; Trans-Pacific Strategic Economic Partnership (Goods and Services): WT/REG229/1, 9 May 2008; EC–Chile (Services): WT/REG164/7, 28 September 2007; Turkey–Morocco (Goods): WT/REG209/3, 27 September 2007.
7. Negotiations on non-agricultural market access (NAMA) in the DDA have demonstrated how customs unions complicate the process. The Southern African Customs Union has asked for additional flexibilities under NAMA since ordinarily none of South Africa’s (least developed) neighbours would have to apply the eventually agreed NAMA formula and would stand to be disproportionately affected by a WTO-driven cut to the bloc’s common external tariff.
8. Although the European Union, with its successful process of widening and deepening, can be seen as an exception to this proposition, EU experience is unique and, with its high degree of supranational authority, unlikely to be replicated elsewhere (see Baldwin, 2008). This is certainly the lesson that tends to be drawn in Asia.

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United Nations University Press
United Nations University, 53-70, Jingumae 5-chome,
Shibuya-ku, Tokyo 150-8925, Japan
Tel: +81-3-5467-1212 Fax: +81-3-3406-7345
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United Nations University Office at the United Nations, New York
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E-mail: unuona@onu.unu.edu

United Nations University Press is the publishing division of the United Nations University.

Cover design by Joyce C. Weston

Printed in Hong Kong

ISBN 978-92-808-1162-9

Library of Congress Cataloging-in-Publication Data

Heydon, Kenneth.

The rise of bilateralism : comparing American, European, and Asian approaches to preferential trade agreements / Kenneth Heydon and Stephen Woolcock.

p. cm.

Includes bibliographical references and index.

ISBN 978-9280811629 (pbk.)

1. Tariff preferences—United States. 2. Tariff preferences—Europe. 3. Tariff preferences—Asia. I. Woolcock, Stephen. II. Title.

HF1731.H49 2009

382'.753—dc22

2009000015

The Rise of Bilateralism: Comparing American, European and Asian Approaches to Preferential Trade Agreements

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As multilateral negotiations become increasingly complex and protracted, preferential trade agreements have become the centrepiece of trade diplomacy, pushing beyond tariffs into deep integration and beyond regionalism into a web of bilateral deals, raising concerns about coercion by bigger players.

This study examines American, European and Asian approaches to preferential trade agreements and their effects on trade, investment and economic welfare. It draws on the rich field of theoretical works, but also fills a gap in the literature by examining in detail the actual substance of agreements negotiated and envisaged.

With bilateralism in trade driven by foreign policy, environmental and social concerns, as well as market access objectives, the key question today is not preferential agreements or multilateralism, but how the various negotiating forums interact. This volume argues that preferential agreements can complement the multilateral system but only if that system is strong enough to continue to reduce barriers to trade and strengthen rules and so limit the distorting effects of bilateralism.

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ISBN 978-92-808-1162-9
276p US\$34.00



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