

What Has Regionalism Left to Multilateralism to Negotiate On? Trade and Protection Effects of a Decade of Preferential Trade Agreements

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The paper is being revamped – a new version will be posted soon

1. Introduction

Almost fifteen years after the launch of the Doha Development Agenda (DDA), the formal agreement reached at the end of 2013 covers only a tiny share of the initial agenda. In the meantime, the development of Preferential Trade Agreements (PTAs) has accelerated. Many countries have completed such agreements and many others are negotiating or discussing bilateral cooperation. From 123 regional trade agreements notified to the World Trade Organization (WTO) in 1995, the figure now exceeds 500, of which 233 are in force and roughly 100 about to be (WTO figures).

Article 24 of the GATT, which allows the signature of trade agreements whose objective is free trade, ensures a formal compatibility with WTO text. However, rather than being exemptions to the general rule, the development of PTAs shows that trade liberalization now takes place mostly outside the multilateral arena. In the past, PTAs were often synonym of regional integration (e.g. EU's successive enlargements, the North American Free Trade Area or the deepening of the relations in Asia through intra-ASEAN, ASEAN-China agreements). A growing number of bilateral trade agreements is now negotiated with geographically remote partners. As an example, in 2004 the EU –a historical defender of multilateralism- started negotiations with South Korea, India and ASEAN; the USA with Morocco, Thailand or South Korea. Another trend is that emerging countries have developed a strong appetite for bilateral agreements as a way to secure market access. Chile is known as holding the record with bilateral agreements covering 60 partners and more than 90% of its imports. A third wave of negotiations seems to be under way with so-called "mega deals", involving countries that represent large components of world trade, GDP and population: EU-USA, EU-Japan, TransPacific Partnership and ASEAN+6.

This raises a number of questions. A first one is the actual scope covered by PTAs and their importance in trade flows. A second question is what the development of PTAs actually leaves to the multilateral negotiations. Indeed, the combination of existing PTAs, non-reciprocal tariff concessions and would-be "mega deals" may well gut the WTO negotiation. Not only may gains from multilateral liberalization be smaller, they may also become more asymmetric, thus undermining the negotiation process' chances of success. An extensive – albeit not fully conclusive- academic literature has fueled the long lasting debate on PTAs as "stumbling blocks vs. stepping stones". An empirical assessment

of the actual importance and practical consequences of both preferential and multilateral liberalization would help shedding new light on this debate.

This paper aims at providing a comprehensive and factual picture of the phenomenon of regionalism during the last decade, starting in 2001. We focus on tariff protection. Clearly, tariffs are not the only impediment to market access; and tariff reduction is not the only motivation to conclude a PTA, other factors that include economic, political and security considerations play an important role. Still, accounting for non-tariff barriers raises some considerable methodological and data issues. While sophisticated analyses have been carried out to assess their trade impact, we do not feel any of them can yet be considered an undisputable basis suitable to provide a robust and reliable description of their consequences for protection worldwide, let alone an assessment of how regional agreements may influence them. While restrictive, focus on tariff protection allows us to prevent our broad picture of regionalism to depend on a number of questionable assumptions.

Our analysis relies upon detailed data on bound, Most Favored Nation (MFN) and preferential tariffs, bilateral trade flows, PTAs tariff concessions and quotas for years 2001, 2004, 2007 and 2010, at the 6 digit level of the United Nation's harmonized system (hereafter HS6). Based upon simple assumptions about the treatment of sensitive products, we also build an additional database describing the hypothetical situation where on-going negotiations would be concluded and the corresponding agreements phased in (for convenience, we refer below to this hypothetical scenario as "2016" trade policy). These detailed, consistent historical data make it possible to assess accurately how PTAs signed or implemented since the launch of the Doha Round have cut applied tariffs. Based on general equilibrium model simulations, their impact on trade flows is also evaluated.

Another objective is to assess how regionalist tides interfere with multilateral liberalization prospects. As a contribution to the "stumbling blocks vs. stepping stones" debate we propose here an applied analysis whereby the potential gains from a Doha agreement are assessed against the different regionalism backgrounds observed over the last decade, and potentially over the next one. Practically, for each year 2001, 2004, 2007, 2010 and "2016", we assess what the economic impact of concluding the Doha Round would be. In each case, the last market access proposals tabled in the WTO negotiations are used (namely, 2008 revision 4 of modalities for agricultural and non-agricultural market access), and their application takes into account the level of bound and applied tariffs for each year. By doing so, we are able to evaluate to what extent the spread of regionalism may have eroded, or in some cases renewed, economic incentives to conclude the round.