

# **Regional Integration: a New Trade Protectionism**

**Ludmila Štěrbová**

University of Economics, Prague  
Faculty of International Relations  
Czech Republic

## **Abstract**

**Regional trade integration, which proliferation has been evident since the 90ties of the twentieth century, lost its historical role in supporting the world trade liberalization and became a crucial obstacle to it. This element, being incorporated as a legal into multilateral trading system, achieved new features, and represent for governments a method how to promote an expansion of their progressive industry, how to protect it from third countries competition at an expanded territory and how to maintain at the same their markets closed for a competition to their sensitive and strategic industry. The preferences for the concept of protectionism in regional trade agreements is furthermore supported by a deep interference of multilateral trading system into domestic policies of the WTO members, which represents for governments an undesirable challenge through the complex approach. The “new protectionism” became also a cause of the lack of progress in the current WTO negotiations.**

## **Introduction**

Regional integration as a phenomenon of last fifty years, and namely of the last two decades, entices attention of many economists and other researchers. Some of them consider the escalating regionalism to be a symptom of the fragmentation, which develops in parallel with the globalization and multilateralism. Some authors support ideas of prosperity of regional integration and see in it as basis for global governance. In their view, this role of regional integration could be approved in two ways: First, by a simple extension of the regional governance to the global one – they argue that the benefits of the given cooperation are approved within a small scale. Second, through negotiations among regional entities of the same or similar interests they argue that it allows restricting the number of actors in international relations and to simplify the negotiation and facilitate its positive outcome. Very many economists try to define the process of the “new regionalism” (for example Bhagwati, 1993), to link it to the fragmentation as to the natural element of the world economy and to analyze different role of individual regional centres. In some of my previous analysis, I tried to prove that the regional trade governance could not be extended globally and that the regional integration does not contribute to the world trade liberalization. The regional trade integration (it would be better to refer it as preferential trade arrangement, because this type of agreements is signed by states across regions), however, has other aspects, which should be taken into consideration in the process of analysing regionalism.

I would like dedicate this article to the question “what are prevailing reasons for the trade preferential agreements and regionalism in the global world. In my view, understanding the reasons leading governments to negotiate liberalization of trade in the framework of limited territories, could help to explain the expansion of preferential trade arrangement and could contribute to an answer on the question “could the regional trade integration be a building block for global governance of trade”. All these elements are related to the state sovereignty and trade protectionism as its feature, to the interference of the multilateral trading system and domestic policies and to the actual development of trade negotiations at multilateral and regional levels.

## **Protectionism in the regional trade integration**

In the expanding regional trade integration, we could find very many reasons – some of them being declared officially, some of them are hidden. For example, the European Union signed numerous regional trade agreements with third countries, despite the proclamation of a need for further multilateral liberalisation and a strengthening of the multilateral trade rules. EU also stated to have subordinated its trade policy instruments and measures to the multilateral priority and to have used the new bilateral or regional initiatives only as complements where appropriate and necessary. In its argumentation, EU proposes a new generation of

bilateral free trade agreements, which build on WTO rules and address issues which are outside of the scope of WTO agreements. Bilateral and regional agreements are officially considered to be a tool for the scope extension of trade liberalization and a way how to prepare the ground for the next level of multilateral liberalisation.

If we do not analyze deeply this official declaration, we could come to a conclusion that the non-progress in the multilateral trade negotiations at the World Trade Organization leads to the regional trade integration, as governments wish to find effective means of managing trade expansion and of supporting multilateral negotiation, which outcome will lead to the benefit of all from the point of view of economic growth, social cohesion and environmental protection. If we try to disclose or decipher the wording of the proclamation in the connection with the EU practice, we can argue that the actual EU approach do not support such a simple conclusion. On the contrary, it is more than probable that regional trade integration and the need to take into consideration a “spaghetti bowl” of all regional trade agreements among the WTO members does not make possible to come to a positive outcome of multilateral trade negotiations.

The EU, for example, has confined the application of its exclusively MFN tariff only to nine WTO members. Even if their share of the total EU merchandise imports is big and accounted for some 30% of its total in 2005, it means, that about 70% of EU imports is based on autonomous, unilateral, asymmetric or reciprocal preferences.

The question is, why governments, including the EU, prefer to pursue their trade interests through regional or bilateral arrangements, if it is well known, that these agreements make the business environment for private subjects very complex and non-transparent and if it is proved that an alternative to these agreements, multilateral trade liberalization, offers more comfort for business.

The reason, in my view, could be deduced from the principle of state sovereignty. The sovereignty, which has been introduced into international relations in 1648 after the signature of treaties referred as Peace of Westphalia, is a keystone from which the state governments derive their legitimacy (besides the diplomatic recognition by other states). After the Second World War, when countries started to create world rules and order, the establishment of global trade governance was seen as one of the best possibilities, which could have contributed to the overall post war economic development. Even then, the idea of a multilateral trade system was based on the states' sovereignty, on the ability of giving-up a part of the sovereignty in favour of the common good and on the enforcement of rules through challenges from other trading partners. Since the world trade developed very quickly and new trade obstacles (outside of simple customs tariffs) emerged and touch the whole range of domestic policies, very important issue in this regard was (and still is) how big of a part of the mentioned state sovereignty should be abandoned. In other words, how large is the safe policy space that should remain at the disposal of a sovereign state in order to pursue efficiently all its policy objectives.

The regional approach allows governments to follow their interest and “to watch” their sovereignty in a more simple and efficient way than it is possible in the multilateral context of 153 WTO members. It is not related only to the institutional capacities that are in some countries at a very low level, but also to the fact that political aspects prevails over economical ones (businessmen do not represent the majority of electors). In multilateral negotiations, governments could support their individual interests by establishing alliances of the like-minded countries, but once WTO members or the established alliances diverge on other components, the state sovereignty prevails and governments are not ready to sacrifice any of trade aspects to benefit of other, even regional, partner. From this point of view the regional trade agreement allows to negotiate one trade interest against the partner's aspect, “to pay” directly for any concession, to calculate with accuracy benefits and loss, and not to have to take into account cross compensation and adjustment, as it is the case in multilateral negotiations.

Simplicity of the regional negotiation is not the only reason, why this way is preferred to the multilateral one in last period. The regional trade agreements make also possible to implement protectionism into trade relations. It seems it is the only legal way how to enable an expansion of some domestic branches without “paying” for it by opening other domestic branches to the world competition. In the same, it is an additional way how to support some of domestic industry and not to be in a conflict with international rules on export promotion (except of information services and export financing according to the OECD consensus).

Through the regional trade agreement, which should cover - according to the WTO rules and specifically according to the GATT Article XXIV and to the GATS Article V – “substantially all the trade” between partners, specific market access conditions are created for industry which is of the expansion interest of one or other countries. On the target market, the regional partner’s industry is protected from any competition from third countries, as it is either eliminated (quotas, high tariffs) or its market access is more difficult and costly. To open the domestic market to the competition from one country should not be so harmful as to open it to the whole world (under the Most-Favoured-Nation clause applied in the WTO). In practice, it means to protect some of (a little bit) enlarged domestic industry branches (or to include into the protection also partner’s industry) and to gain a protection for the domestic industry at enlarged territory.

Although these features of the regional trade agreements are not new, we witness in my view, a new “legal” protectionism that became a prevailing reason for the proliferation of regional trade agreements. I would argue also, that the complex of the existing regional trade agreements (the estimated number is about 300) enable another type of protectionism (or export promotion, as the point of view could vary the terminology) and an exercise of economic power: the strong economies could dedicate part of their institutional capacities for export services that include the analyses of the “spaghetti bowl” – analyses on preferences inside the trade agreements concluded by the target country with other countries, from which a real or potential competition could occur. Economies of a small scale and poor countries do not have such capacities and could rely only on an assistance of international organizations or non-governmental agencies, which discriminates their business on the world market.

The protectionism of the preferential trade agreements manifested in 2008 a new feature. Since the 1 January 2008, the EU has completed interim Economic Partnership Agreements (EPAs) with countries of Africa, Caribbean and Pacific region. The bases for these agreements are preferential trade arrangements. One component of these agreements is MFN clause. In this case, the MFN treatment is interpreted differently from the WTO most-favoured-nation. In the WTO, MFN means that if the trade obstacle is eliminated toward one trading partner, it should not be imposed towards others as well. It is also explained that all trade advantages should be extended to all WTO members. Preferential arrangements with ACP countries includes a MFN principle under that all partners are committed to open their markets in same way how they open it for third trading partner from any other regional and preferential trade agreements.

The practical consequences of the “regional” MFN are that the EU industry at ACP markets could not meet and challenge any competition that entered the market at better conditions. It applies for the ACP industries as well, but ACP countries enjoyed always the highest preferences on the EU market, with some exception that have been, besides, maintained in the new agreements. If we take into consideration the concept of protectionism in the regional trade agreements, the EU industry is protected at the enlarged territory (about 70 countries signed these agreements, by groups of countries) from the third countries competition and could exploit their opened markets. Moreover, the ACP countries cannot offer any trade advantage to any third country in exchange for their trade expansion (no government would “pay” for market access which does not eliminate competition to its industry) and to protects and promote their industry at other than EU market. These countries could not as well support a competition for the EU subjects operating in their countries. These last aspects discriminate ACP countries on the world market, where the regional trade agreements are considered to be the best way for export promoting (and domestic industry protection at enlarged territory). I would conclude that besides protectionism, we can speak about discrimination of a weaker partner in the regional trade agreement.

### **Interference of the multilateral trading system and domestic policies**

It is without doubts, that trade protectionism and trade promotion became nowadays an important reason of the regional integration expansion. I would like also consider if there are some other elements, which strengthen and underline these tendencies. This question could be answered through a brief analysis of the multilateral trading system, which provides for an exception from the MFN clause embodied in the GATT Article XXIV and GATS Article V, and its interference or conjunction with domestic policies. Could the system and its changes during last century be a reason, why governments prefer exceptions, it means regional trade agreements, to multilateral transparent commitments?

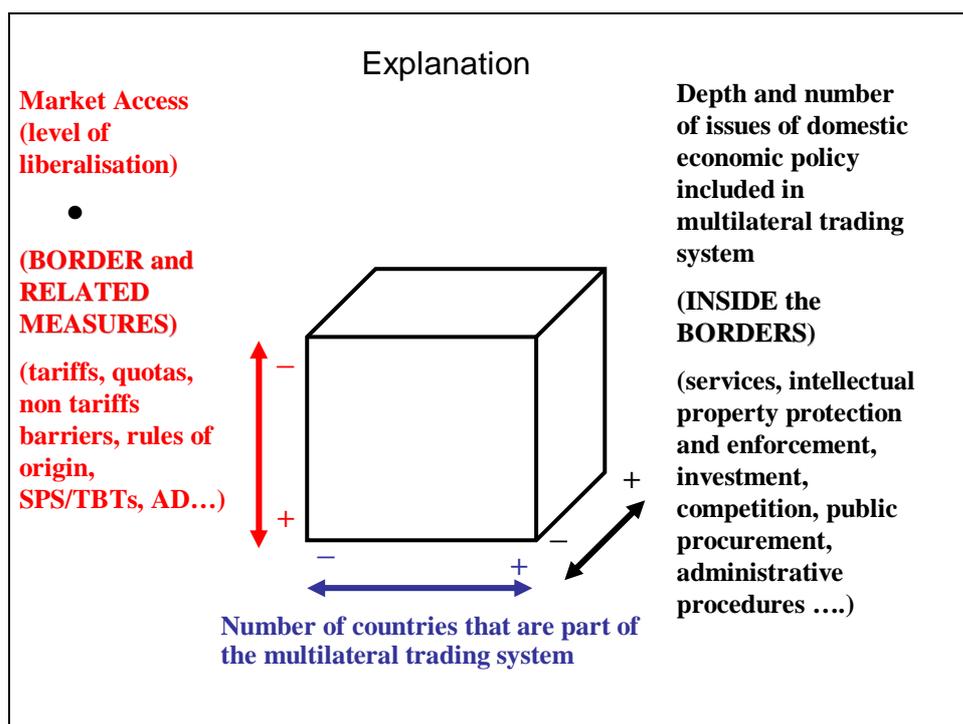
The multilateral trading system developed during last 60 years considerably. In the period of the provisional General Agreement on Trade and Tariffs, until 1980s, the participants of multilateral trade negotiations

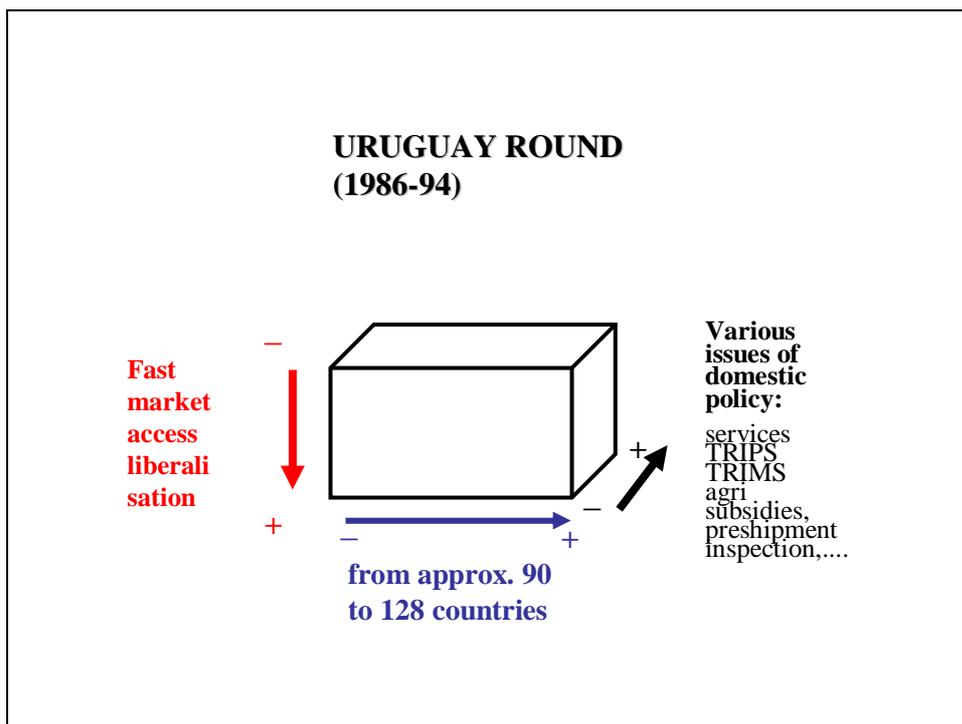
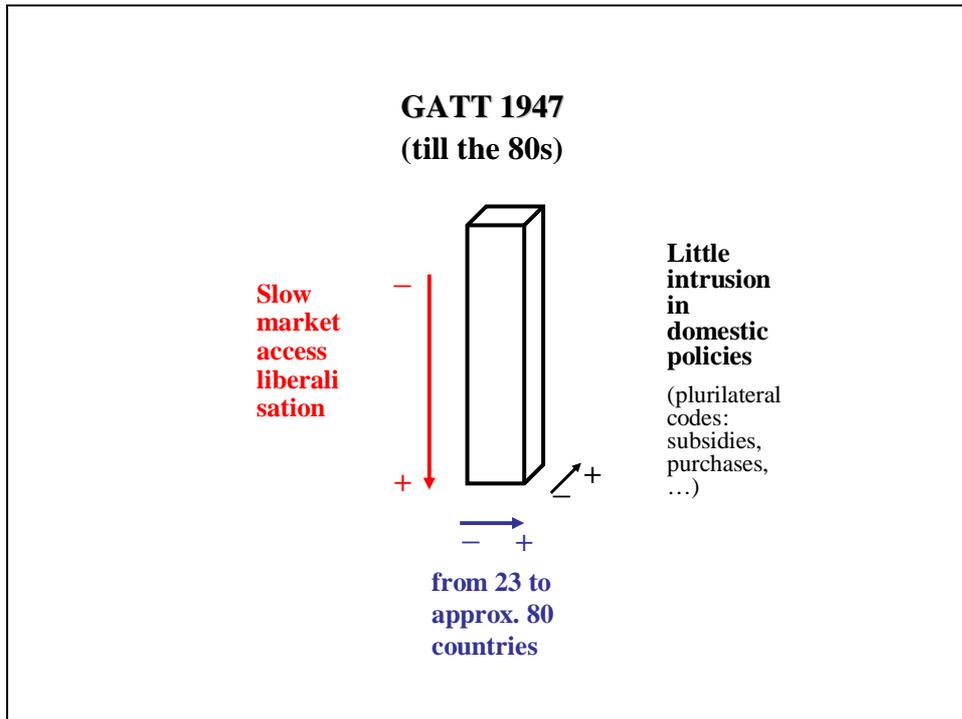
concentrated on the liberalization of market access – border and related measures, as tariffs, quotas, some non-tariff barriers, technical and hygienic norms, partially antidumping rules and rules of origin. Little intrusion into domestic policy occurred. As a result of the Uruguay round of negotiations, market access liberalization accelerated, the number of participants in the system increased by 50% and various issues of domestic policy were concerned.

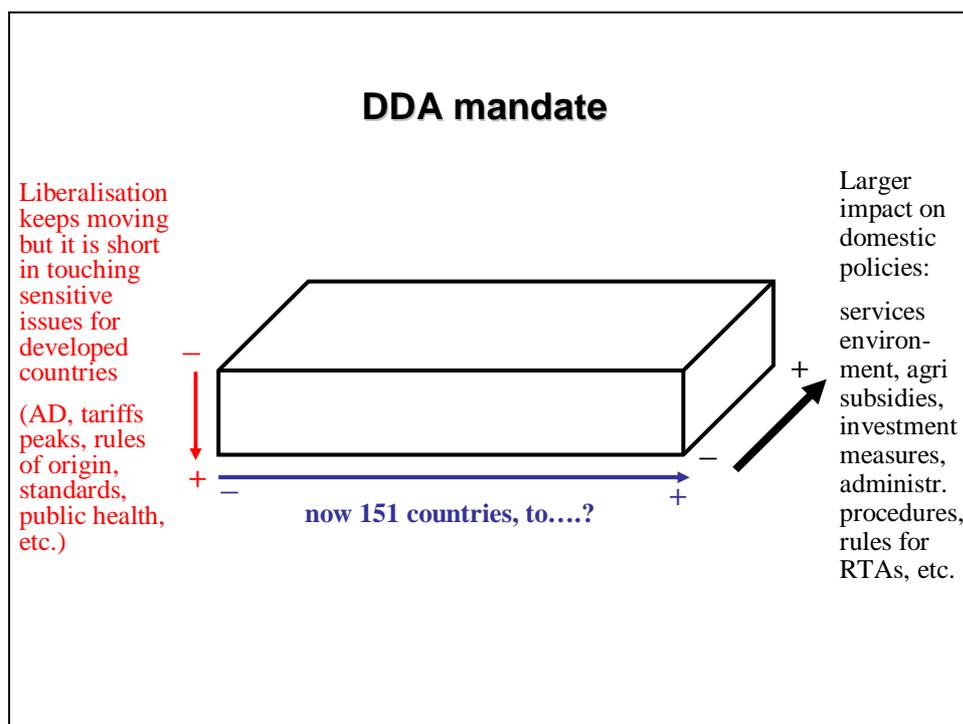
The domestic policies entered into the negotiating process more considerably during the current round of negotiations on further liberalization. The trade negotiations intervene into domestic policies, which relations to the trade has been historically considered only absent or very weak, such as protection and enforcement of intellectual property rights, government procurements, administrative procedures, investment, competition, legislation for services providers, environment, etc.

The current round of multilateral negotiations, the Doha Development Agenda – if concluded successfully - will have a larger impact on domestic policies, like services, agricultural and all other domestic subsidies, rules for regional trade agreements, antidumping rules, environment, trade facilitation procedures, etc. Market access liberalisation will not be as progressive as before and it will probably be short in touching sensitive issues for developed countries, like antidumping, investment measures, government procurement, tariffs peaks, rules of origin, standards, public health, etc.

The way and the dept that global trade governance influenced in the past the domestic policies of WTO members and how it influences them now or (possibly) in the post Doha period, are illustrated by the following charts, where the multilateral trading system is seen as a cuboid. These charts have been developed according to the original idea of Craig van Grastek from Harvard University:







The large impact of multilateral trade negotiation and its results on domestic policies could be found out as one of other reasons for preferences for regional trade integration. As it has been mentioned, these agreements should include substantially all the trade, but only the market access for goods or services. They do not include (and should not) trade rules, which are usually embodied into the domestic policies as a result of the implementation of the WTO agreements. This aspect provides for a greater comfort in trade negotiations for governments, namely if we consider the complexity of negotiation process itself. Policy makers are now forced to engage in an interactive double-edged negotiating process in which deals at the international level change the character of domestic constraints, while the movement of domestic politics opens up new possibilities for international accords. (Hastedt, 1999: p. 276). Negotiators are simultaneously occupying positions in two linked games: one to conclude an international agreement, the other to secure domestic approval for it. To fulfil this role is more simple while negotiating with one or limited number of partners than to negotiate with over 150 members.

The advantage of regional agreements is also that the scope of trade aspects included into them could be extended by related fields and partners are free to negotiate also investment, competition, labour conditions, etc. This fact enables governments to operate in a more tailored way.

As a consequence of the deep interference, trade negotiations are very frequently discussed at domestic political scenes. The assessment of multilateral trade negotiations and usefulness of the multilateral trading system is a subject to an electoral play used very often by policy leaders in order to convince domestic industry that its governmental support and subsidies harming the trade will continue. Senator Hillary Clinton, for example, said that if elected US president she would "take a hard look at the Doha Round" before deciding whether to pursue it. "I am concerned by provisions that would prevent countries from enforcing stronger environmental and safety rules. There is nothing protectionist about this. It is a responsible course", she added. At the same, she has called for a full review of all trade deals, including NAFTA, and has also attacked trade agreements that do not include provisions to protect workers and enforce higher environmental standards (Financial Times, 3 December 2007).

Not only the WTO negotiations, but also regional trade agreements are challenged at the domestic level. In the US, behind the recent voting for the free trade agreement with Peru was the historical challenge of trade liberalization and its consequences, which parties try to solve in favour of their constituency. The agreement received crucial support from almost half of Democrats, who joined Republicans to ensure its passage. The

Democratic leadership had campaigned for the Peru deal, as they did not want to be viewed as an anti-trade party. They departed from their past opposition to trade agreements once they successfully pushed for re-negotiation free trade agreements in order to strengthen provisions on labour and environmental protection as well as access to medicines. Democrats attribute, however, partially the last party's success in Congressional elections to the more protectionist policies, which met concerns of voters afraid of losing jobs to cheaper overseas competitors. At the global scale, US Democrats' angst over trade is one of many substantial obstacles to concluding the faltering Doha Round of talks at the WTO. Although leading Republicans have not been openly critical of trade agreements, six out of ten Republicans believed that free trade had been bad for the US and that tougher limits on foreign imports shall be favoured (Bridges Weekly, 5 December 2007).

Politics, even being sceptical on the free trade, could not however avoid all discussions on trade agreements, as within the producers and consumers there are always groups, which lobby for expansion on foreign markets. In this situation it is more feasible for any government to propose only bilateral deals, which scope is limited and by which some industry could be satisfied without injuring the others. For instance, the European Communities and the USA farm subsidies are not included into their bilateral trade agreements. Developed countries use often the free trade agreements to pursue obligations related to intellectual property, health, labour, environment, etc.

The mentioned reasons for preferring regional trade arrangement to the global one are not, however, approved. Alan Winters (at the WTO forum, 8 November 2007) concluded that the set of general principles of the multilateral trading system embodies a lot of flexibility, namely for developing countries. Besides the general system of preferences that (as a unilateral preferential market access) is offered by developed countries to the developing ones, there is a huge flexible gap between bound and applied tariffs. Moreover, governments always have the right to renegotiate tariffs or even to introduce certain emergency measures if there is any danger for the economy – difficulties in the balance of payment, subsidised import, its surges and anticompetitive prices. Developing countries benefit also from waivers and decisions made in their favour, and could propose others proved by their economic situation. The new round of negotiations provides for an extension of these flexibilities. In agricultural liberalization, for instance, developing countries will be able to slate for gentle or no tariff cuts in order to address food and livelihood security and rural development concerns. The structure of a special safeguard mechanism, with the aim to afford developing countries a measure of protection from import surges, is also to be addressed. The same goes for agriculture subsidization, which is actually allowed in very many forms.

I would like to conclude that there exists a deep interference of the multilateral trade system and domestic policies that complicates the multilateral approach to the trade liberalization. It seems, however, that this “complication” could not support preferences bilateral or regional agreements. More evident is that in spite of flexibilities in the multilateral trading system, governments prefer to maintain their policy space allowing them to protect effectively and without breaking international rules their domestic industry and subjects.

The “concept of protectionism” in regional trade agreements could be illustrated by a closer view on the current multilateral trade negotiations at the WTO.

### **Multilateral trade negotiations**

The today multilateral trading system is a result of the Uruguay round of negotiations concluded in 1994. The new attempt to further liberalize trade, supported by all WTO members, has been finalized in 2001 and the new round of negotiations has been launched. Since then, the increasing number of WTO members could not unanimously agree on modalities for further trade liberalization and strengthened trade rules. State leaders and heads of governments have continuously declared their political will to further liberalize the global trade and to conclude successfully the round of negotiations called Doha Development Agenda (DDA). But the political impetus proved to be insufficient in the moment when negotiators from all over the world tried to convert the words of politicians into agreement on offers and requests for the trade opening.

The disagreement among members of the WTO could not be considered as simple disequilibrium between the trade interests of governments and their readiness for concessions in a demanded structure, as it was in the GATT period. Such imbalances were in general sooner or later solved. Since the 90ties, the WTO members face a new type of imbalances in their mutual relations, which became more obvious after the first phase of negotiations had been finished: even if it has not been officially acknowledged, many members have

considered the requested restrictions of their policy space as a barrier to their domestic development and to their export expansion. In opposing the trade requests of others, they in fact defended their independence or high degree of freedom in their domestic policies, it means freedom to protectionism.

The current round of negotiations, Doha Development Agenda, is a comprehensive agenda for negotiation and future work of the World Trade Organizations. The DDA has been intended to address specific issues of particular concern to developing countries which were not met in the WTO agreements negotiated under the Uruguay Round. A list of "implementation" issues has been specified as issues to be renegotiated and eventually changed. Over all sections of the negotiations, the special and differential treatment should be considered in order to ensure preferential treatments or less than full reciprocity for developing countries in the future trade liberalization. Least developed countries are exempt from all liberalization commitments. Aid for trade, technical assistance and capacity building were approved to be the corner stones of the future development of global trade governance.

Nevertheless, the interests of developed economies have been also included into the mandate of negotiations. Since in global trade the tariffs are no longer considered to be insurmountable, the main obstacles to trade are tied to a large range of domestic policies rather than to the trade policy only – administrative procedures, (missing) competition rules, environmental protection, investment measures, government procurement, lack of the protection and enforcement of the intellectual property, etc. The obstacles to trade in domestic policies raise transaction costs, which are estimated to attain in individual cases up to 80% of the whole amount of the trade operation. The domestic policies could even exclude the trade or investment operations, namely if these policies are not set down in a transparent and predictable manner. The intention of developed countries has been to strengthen rules in areas related to trade and to pursue their interests in creating high level conditions for production all over the world. The "same" conditions, reflecting for example environmental protection, intellectual property protection, transparent investment and competition rules, would from one side enable a deeper expansion of industry from developed countries, on other hand it would diminish the competition which is based on low production costs.

Although approved by all, the negotiation framework from Doha reflected broadly the industrialised countries' consideration that their liberalisation regarding market access has almost reached its maximum limits and that the interest thus ought to be concentrated on advocating further liberalisation (at and within the borders) in developing countries.

Developing countries, on the other side, would like to maintain flexibilities in order to be able to protect their industry, even the industry which did not yet start to develop. These countries very often do not dispose capacities to analyze all impacts of proposed rules, sometimes they do not have the relevant domestic legislation or concepts of domestic policy, and they prefer not to negotiate the contentious issue in order not to sign anything which could prevent them in the future from protecting their economy. This has been clearly evidenced during the period following the Ministerial Conference in Mexico in 2003, when members had been ready to continue negotiations only under a condition that some sensible – and never until negotiated – trade topics of the interest of developed countries were excluded from the mandate of negotiations (Štěrbová, 2007).

Nowadays, we witness a deep antagonism among members and among groups of members, which remains for a long period the same: the agriculture is considered as a heart of all negotiations for developing countries. In agricultural trade, they face a high level of barriers mainly in the fields of domestic supports and export subsidisation from industrialized members. For developed countries, the agriculture domestic policy is the only policy within which the influential lobbyist groups do not alleviate their integral pressure for protection from foreign competition. Developed countries would like to expand with their industrial good on developing markets. All other fields of negotiation, also difficult and controversial, are frozen and are waiting for the agriculture outcomes.

The negotiations are further complicated by the fact that members try to reflect in the negotiations not only their own trade interests, but also interests of the regional groups, to which they belong. Such an example is MERCOSUR, which forwarded a proposal for special exemptions in industrial products liberalization for this regional block.

The prospects of further multilateral liberalization are very difficult to anticipate. Nowadays, three years after the original deadline of the 1 January 2005 for the current round of negotiations, the WTO members are not any closer to successful conclusion of the round as they were after the Cancun (Mexico) conference.

It is clear that WTO members prefer a substantive deal to any political declaration. It is a reason, why no ministerial conference happened in 2007, although the status of WTO stipulates that trade ministers meet at least once in two years. It seems however that with the prolongation of round, the substantive liberalization deal departs also due to the development in domestic policies of WTO members, which should be concerned by it. For example, the U.S. Congress is voting on a new farmer bill, which could for a long period constrain the U.S. government from cutting agricultural trade barriers. The EC is in a similar situation, although not officially acknowledged: the limits for agricultural trade liberalization, embedded in the "new" CAP (Common Agricultural Policy), could not accommodate all of the interests of developing countries.

Moreover, the negotiation procedure is very long, given the number of WTO members and the negotiation principles of consensus and single undertaking. Even after members would have agreed on liberalization modalities, they should translate them into commitment schedules. This process takes months. The domestic policies (elections, government crises) of the main trade leaders involve considerably the process too. Such political obstacles arise in all countries periodically – among 151 members it is very hard to identify the best period which could be classified as favourable to the deepening of the global trade governance and trade liberalization.

Negotiations are complicated also by a large number of separate aspects within each field of negotiations – agricultural trade, industrial products, intellectual property, trade facilitation and rules for antidumping, subsidies. In agricultural liberalization, for example, the extent of subsidy reduction and market access expansion will depend on multiple sets of numbers and technical definitions, including the members' flexibility to shelter some "sensitive" farm products from the full force of tariff reduction in exchange for expanding import quotas. This tiny element requires one to consider the basis for the quota expansion (domestic consumption level or other) and to decide on methodologies for calculating consumption data and designating sensitive products. Only afterwards, could members develop a clearer picture of precisely what they stand to gain or lose taking into account the mentioned aspect and flexibility that offers.

The negotiation within the issue of regional trade agreements is not easy too. The basis for regional trade agreements, provisions of GATT and GATS, is not clear enough. Explanation of the respective articles is a subject to long discussions. WTO members have not yet found, for example, a definition of "substantially all the trade", which is traded between parties to these agreements. In this area, however, WTO members consensually agreed the rules for transparency in these agreements (notification procedures), which were on the provisional basis approved by the General Council.

It is unlikely that a draft deal could be agreed before the US' 2008 election. Even if there is a sufficient progress in the WTO in July this year (for example an agreement on modalities for liberalization) nothing could ensure that the future US president's administration obtains soon a "trade promotion authority" (TPA) from Congress<sup>1</sup>. In July 2008, France, which among EC countries always strongly opposes agricultural trade liberalization, will take over the presidency of the EU. If according to the domestic political development in the USA the Doha Round has to wait until 2009, it could be slowed down by the Indian elections due later that year.

The main question of the multilateral trade deal remains the domestic policies space, which each of the members would like to see as "protected" after the liberalization negotiations have been concluded. It has been once more proved in a joint statement of 15 November 2007 from the "G-110"<sup>2</sup>: "Clarity about the actual contribution that will be made by developed countries will enable developing countries to do their part, in proportion with their capabilities and in line with the mandate." In this simple phrase, developing countries are asking for policy space release by developed countries, reserving by the same their flexibilities not to sacrifice their own.

---

<sup>1</sup> TPA allows the president to put trade deals to Congress for a yes-or-no vote without the possibility of amendments. Without the TPA the Congress could change already-finalised deals.

<sup>2</sup> The G-20, the G-33, the NAMA-11, the ACP group, the least-developed country (LDC) group, the African group, the small and vulnerable economies, and the so-called 'cotton four'. The statement made at Geneva WTO meeting, referred by Bridges weekly the 22 November 2007.

The situation and difficulties in the multilateral trade negotiation, the fear to give up flexibilities and to limit the policy space used for protectionism, lead WTO members to exploring other manners, between them the regional trade agreements offer a legal and convenient way how to pursue trade interests. In the multilateral trade negotiation, we witness once more the “concept of protectionism”, which globally prevails over liberalization tendencies.

Considering reasons for an expansion of regional trade agreements, the practice of two strongest world economies could also contribute to valid conclusions. Next part is dedicated to the US and the EC, similar situation exists, however, in the trade policy of all states in the world. It is not a feature that could be linked only to developed countries, on the contrary, developing countries conclude more and more preferential arrangements among themselves.

### **Preferential (protectionist) agreements of the US and the EC**

The US and the EC both signed a number of regional trade agreements, in which the protectionist tendencies are recognized. Although there is a slight difference in political proclamations and arguments of both governments on the issue of regional trade liberalization, the practical outcomes are the same.

The United States is actively opening markets abroad by regional trade initiatives that are clearly stated as a key part of the U.S. trade strategy. They include the Free Trade Area of the Americas aimed at uniting the Western Hemisphere in a free trade zone; the Enterprise for ASEAN Initiative, designed to promote trade in Asian countries; the Middle East Free Trade Initiative; and the North American Free Trade Agreement (Canada, Mexico). Since 2001, the U.S. completed and implemented free trade agreements with Israel, Chile, Singapore, Australia, Morocco, Korea, Bahrain, Jordan, Colombia, CAFTA-DR (El Salvador, Nicaragua, Honduras, Guatemala and the Dominican Republic) and has initiated FTA negotiations with Southern African Customs Union countries (Botswana, Lesotho, Namibia, South Africa, Swaziland), Ecuador, Malaysia, Oman, Panama, Peru, Thailand and United Arab Emirates.

The European Communities declare a need for further multilateral liberalisation and a strengthening of the multilateral trade rules. Accordingly, the EC propose a new generation of bilateral free trade agreements, which build on WTO rules and address issues which are outside of the scope of WTO agreements. Bilateral and regional agreements are considered to be a tool for the scope extension of trade liberalization and a way how to prepare the ground for the next level of multilateral liberalisation. The reasons for the broad geographical coverage of the EC's preferential trade arrangements has been a reflection of the global economic and trade reach of the EC. Nonetheless, the EC new free trade agreements negotiations are criticised by very many partners as an impediment to the transparency of the EU trade regime.

In pursuing a trade expansion of its industry and investment, the EC is trying to find the most appropriate tool to create the most favourable conditions for its enterprises in foreign markets and to protect them there. As the multilateral negotiations on trade liberalization are not very promising, the EC found an alternative in free trade agreements. This alternative is justified by the situation in that enterprises from other countries are more competitive because of preferential entry conditions based on free trade agreements. This pragmatic approach is more than clearly proved by launching the negotiations on free trade agreement with Korea at the same time when it was sure that Korea is about to sign such an agreement with the U.S.

The EC has concluded 22 regional trade agreements with 24 countries and territories. Developing countries and least developed countries benefit from the Generalised System of Preferences and from the duty free and quota free access to the EC market (known as the "Everything-but-Arms" initiative) The EC's bilateral and bi-regional agreements extend beyond the scope of the WTO's agreements on liberalization.

From European countries, Norway, Iceland and Liechtenstein are associated with the EC's Internal Market through the European Economic Area (EEA). With Switzerland, a basis for mutual economic relations is established by trade agreement and other sector agreements. Stabilisation and Association Agreements are signed with the candidate countries Croatia, Macedonia and other Western Balkans countries. Candidate country Turkey is closely linked to the EC through a customs union. Free trade agreements are concluded also with countries of the EuroMed region (Tunisia, Morocco, Jordan, Egypt, Lebanon, Algeria, Israel, Syria and the Palestinian Authority). Free trade agreements are in place with Mexico and Chile. The EC continues

to develop its European Neighbourhood Policy with the Mediterranean countries (Maghreb, Mashrek and Israel), the three Western NIS countries (Ukraine, Moldova and Belarus) and the Caucasus (Georgia, Armenia, Azerbaijan). Also the Partnership and Co-operation Agreements or the Trade and Cooperation Agreement with Russia, Ukraine, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Uzbekistan and Mongolia have preferential trade aspects. With Mexico and Chile, comprehensive Free Trade Agreements are already in place. Since the last EC TPR, negotiations with Mexico started under the Agreement's review clause on agriculture, services and investment. Since the beginning of 2008, the interim Economic Partnership Agreements are in force with the majority of African, Caribbean and Pacific countries. The negotiations on free trade agreements are prepared or were launched with MERCOSUR, the Cooperation Council for the Arab States of the Gulf, Central American region, the Community of Andean Nations, Iraq, Iran, South Korea. The feasibility of an EC-ASEAN free trade agreement is examined. The dialog with other countries, for instance USA, Australia, New Zealand, Japan, Canada, China, India, includes also trade issues and some sector agreements has been signed as a result of it (agreements on wines with Australia and New Zealand, on textiles with China, etc.).

## **Conclusions**

During the two last decades, the rising number of the preferential (regional) trade agreements evidences changing grounds and arguments for this manner of trade liberalization. These agreements existed historically, and it was also a reason, why the principle of regional integration has been incorporated into the multilateral trading system under the umbrella of the GATT Agreement. Since the establishment of the World Trade Organization, which agreements include also this element, the regional and cross-regional trade preferential agreements have been used very broadly.

Nowadays, the trade liberalization through preferential arrangements among a limited number of states became the preferred option. Even governments that declare their priorities in the multilateral trade liberalization negotiate very intensively the mentioned type of agreements, which are not more limited to the regional partners, but cross-regional approach is widely adopted.

The analysis of the impacts of regional trade agreements, the analysis of the multilateral trade system (its interference with domestic policies) and the analysis of the current round of multilateral negotiations, lead to a "concept of protectionism".

Governments, after 60 years of continuing liberalization of the world trade, resist now to give-up more of their policy space for further in-dept liberalization. The reason for it is to be found in following basic aspects.

Trade liberalization could happen only on a reciprocal basis. Such reciprocity is better manageable in negotiations with one partner than with 152 WTO members. Moreover, liberalization in the framework of multilateral trading system challenges domestic policies while regional liberalization is concentrated on market access and possibly on other measures outside the multilateral trading system. The regional arrangements do not demand governments to give up its policy space that enables to be flexible in protecting their domestic industry. And the most important motivation for regional agreements is their feature which allows the "new protectionism", it means to protect the progressive domestic industry from a third countries competition on an extended territory, to create for it a new basis of consumers, and, by the same, without leaving open to competition the national market and national strategic industry branches. In comparison with the historical protectionism, the "new" one is more sophisticated, more hidden, and legal - in accordance with international trade rules.

**References:**

BHAGWATI, J. (1993): *Regionalism and Multilateralism: An Overview*. In MELO, K., PANAGARIYA, A. *New dimensions in Regional Integration*, Cambridge, Cambridge University Press  
HASTEDT, G.P. (1999): *American Foreign Policy – Past, Present, Future*. New Jersey: Prentice Hall, p. 276  
ŠTĚRBOVÁ, L. (2007): *WTO-Davos: Jednání o mezinárodním obchodu se točí dokola*.  
<http://www.blisty.cz/2007/1/30/art32591.html>

**Books:**

KRUGMAN, P.R., OBSTFELD, M. (2006): *International Economics: theory and policy*, Pearson International Edition  
TYSON, L.A. (1992): *Who's Bashing Whom? Trade Conflicts in High Technology Industries*, Washington: Institute for International Economics

**Chapters in books:**

Neumann, P. (2008): *Fragmentation versus Unity of the World Economy*. In: *Globalization, Multilateralism, Regionalism*. Acta Oeconomica Pragensia, VŠE, Praha  
ŠTĚRBOVÁ, L. (2008): *Could Regional Trade Integration be a Building Block for Global Governance of Trade?* In: *Globalization, Multilateralism, Regionalism*. Acta Oeconomica Pragensia, VŠE, Praha  
ŠTĚRBOVÁ, L. (2007): *Současné tendence a změny ve společné obchodní politice EU*. In: *Proceedings from 7th international scientific conference "The Czech and Slovak Republics in International Business"*, Bratislava, pp. 276 - 286.

**Reports:**

WTO (2007): *WT/TPR/G/177 Trade Policy Review – Report by the European Communities*. Geneva: WTO.  
WTO (2007): *World Trade Report*, [http://www.wto.org/english/res\\_e/reser\\_e/](http://www.wto.org/english/res_e/reser_e/)  
WTO (2007): *WTO Annual Report*, [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e](http://www.wto.org/english/res_e/booksp_e/anrep_e)

**Journals:**

Financial Times, 3 December 2007,  
[http://www.ft.com/cms/s/0/6910a18c-a142-11dc-9f340000779fd2ac.html?nclick\\_check=1](http://www.ft.com/cms/s/0/6910a18c-a142-11dc-9f340000779fd2ac.html?nclick_check=1),

**Electronic publications:**

Bridges Weekly (2007), *Edition of the 5 December 2007*, <http://www.ictsd.org>  
WTO (2007), *Speech of Pascal Lamy: Proliferation of regional trade agreements "breeding concern"*,  
[http://www.wto.org/english/news\\_e/sppl\\_e/sppl67\\_e.htm](http://www.wto.org/english/news_e/sppl_e/sppl67_e.htm),  
WTO (2007): *WTO forum*, 8 November 2007, <http://www.wto.org>  
USTR (2007): *United State Trade Representative Office, Trade Agreements*,  
[http://www.ustr.gov/Trade\\_Agreements/Section\\_Index.html](http://www.ustr.gov/Trade_Agreements/Section_Index.html)