



Brussels, 14<sup>th</sup> November 2001  
MBe D(02) 0047

## **SUMMARY OF JOINT GOPA-NIRA WORKSHOP ON MULTILATERAL AND REGIONAL TRADING REGIMES FOR GLOBAL WELFARE**

This workshop was held in Brussels on 26<sup>th</sup> October and attended by academics and officials from the European Union and East Asia (Japan, China, South Korea and Singapore). It discussed the relationship between regional and global trade at a time when WTO member states were making intense preparations for the Doha Ministerial Conference of the global trade organization, while several East Asian countries decided to negotiate regional free trade arrangements with regional partners.

The objective of the workshop was to:

- (1) address from an academic perspective those core trade or trade-related issues which WTO members in general, and the EU and East Asia in particular, are facing at the global level today;
- (2) explore the relationship between regional trade agreements (RTAs) and the multilateral trading system;
- (3) exchange information on the experience of regional integration in the EU and East Asia;
- (4) explore ways to enhance the intellectual dialogue between Japan and the EU.

### **Two approaches to the multilateral trade regime:**

Two clearly identifiable views emerged on the role of the WTO in international economic relations. Some participants subscribed to the '*old trade paradigm*', which held that trade liberalization was an extremely powerful tool in achieving growth, poverty reduction and domestic reform. According to this view, the WTO ought to define those core trade areas in which it can deliver benefits to its members, then enhance its delivery of gains primarily by improving the dispute settlement mechanism. Other suggestions for the enhanced implementation of existing and future commitments included technical assistance, regulatory dialogue, an increased role for the private sector, and peer review.

Proponents of the alternative '*new trade paradigm*' argued that the WTO should adopt a wider definition of trade, and become a negotiating forum for all matters of international economic relations. According to this view, previous rounds of trade liberalization have produced an unfair distribution of welfare gains between developed and developing

societies, and within societies, with benefits accruing primarily to the tradable sector of the developed North. In this view, the WTO ought to incorporate basic environmental, labour and food safety standards in future multilateral commitments, while working to reduce global and intra-societal inequalities in the delivery of gains from multilateral trade liberalization.

### **Agenda of the Doha Ministerial Conference of the WTO:**

- (1) *Improve the efficiency of the WTO.* Participants agreed on the necessity of improving the dispute settlement mechanism of the WTO so as to enable the implementation of existing and future multilateral commitments. Specific instruments, such as the provision of technical assistance, regulatory dialogue and peer review were suggested as means to improve the enforcement of WTO commitments.
- (2) *Positive rule-making.* Participants agreed that the WTO ought to develop new rules to address those trade and trade-related concerns of WTO members which have emerged since the conclusion of the Uruguay Round. Advocates of the 'old paradigm' focused on investment, competition, and the mutual recognition of standards while emphasizing that these issues ought to take second place to the provision of market access to developing countries through a new round of tariff reduction. Proponents of the 'new paradigm' called for a more ambitious agenda, namely negotiations on the trade-related aspects of environmental policies, the clarification of the SPS Agreement (on food safety) to include the 'precautionary principle' in WTO commitments, and the inclusion of basic labour standards in multilateral agreements.
- (3) *Closer integration of developing countries into the WTO.* The EU's single undertaking ensures that all the new issues mentioned above will be put on the table at Doha. However, this approach runs the risk of diverting attention from issues which developing countries feel strongly about, namely the elimination of anti-dumping duties and (agricultural) export subsidies, the renegotiation of the ACT (textile) agreement, and the question of generic drugs in the TRIPS (intellectual property) framework. It was pointed out that progress must be made on these issues, and technical assistance given for the implementation of WTO commitments if developing countries are to be integrated closer into the multilateral trade regime. All participants agreed that such integration, or a fairer distribution of gains between developed and developing countries, was crucial if the WTO were to remain a relevant trade forum in the 21st century.
- (4) *Meet the demands of civil society.* Participants agreed that the WTO ought to address the question of how the gains of multilateral trade liberalization could be distributed to societal actors in a fairer and more equitable manner. Participants agreed that it was the judicial nature (enforceability) of the WTO process which made the WTO an attractive instrument in states' and NGOs' quest to address the unfair distributional aspects of globalization. For these actors, however, the challenge is to use the market mechanism (multilateral trade liberalization) to achieve objectives like development and poverty reduction, while finding an acceptable trade-off between the principles of efficiency and equity.

- (5) *Stimulate growth through a new round of trade liberalization.* Participants emphasized this 'locomotive' aspect of the Doha summit. They agreed that the terrorist attacks of September 11, which contributed to the recent slowdown of the global economy, acted as a significant catalyst for the potential relaunch of the multilateral trade liberalization process which had ground to a halt in Seattle in 1999.

### **Regional initiatives:**

Participants of the workshop sought to explore the relationship between regional economic initiatives and the multilateral trade regime by reflecting on (1) various types of regional economic arrangements; (2) the objectives of trade liberalization; (3) the role of investment in integration; (4) new regionalism in the 1990s; (5) the political aspects of regionalism; and (6-8) actual examples of regional cooperation and integration. The purpose of this exercise was to establish whether regional and multilateral trade integration were compatible or antithetical processes, a question of great significance to policy-makers present at the workshop.

- (1) *Types of regional economic arrangements.* Regional cooperation implies the coordination of trade policies vis-à-vis third countries. This form of economic cooperation is the easiest to undertake, but its benefits in terms of welfare gains are insignificant. 'Shallow integration' denotes the elimination of some regional barriers to trade (typically the creation of a free trade area or customs union), but the long-term welfare gains stemming from this type of integration are equally slight. 'Deep integration' stands for the acquisition of dynamic gains accruing from economies of scale and increased intra-regional investment after the full liberalization of goods and factor flows in a single market. The experience of the 1992 Programme (Single European Market) shows that this type of integration carries the most substantial economic benefits for regional partners, especially if coupled with external trade liberalization.
- (2) *The objectives of trade liberalization.* Participants argued that trade liberalization played the dual role of achieving a better allocation of resources, and promoting domestic reform in societies. The former function is well-known from the Ricardian model of comparative advantage, and is held to be the key economic benefit of international trade. However, participants stressed that the latter function was equally significant for governments which hoped to induce domestic structural reforms through openness (e.g. China joining the WTO), or for governments which hoped to bring about change in policies pursued by their trade partners (e.g. EU using market access as an incentive for reform by developing countries). Some argued that the latter 'market-for-policy' approach may be useful in integrating developing countries into the global trading system, while others pointed out that the tangible benefits of such an approach have been slight (e.g. Euro-Mediterranean Partnership).
- (3) *The role of investment in integration.* Participants noted the crucial role of foreign direct investment (FDI) in regional and global integration. While intra-regional investment (facilitated by capital liberalization and mutual recognition) had been instrumental to constructing a Single European Market, participants pointed out that transatlantic integration has become increasingly investment-driven in the

postwar era, with a large part of EU-US trade conducted between multinational corporations today (intra-firm trade). Meanwhile, FDI flows have played a key role in drawing less developed economies into advanced regional blocs in the form of cost-saving outsourcing (e.g. from Japan to East Asia, from the EU to CEE, or from the US to Mexico and Latin-America in the framework of NAFTA and the FTAA respectively). Participants noted that the real challenge was to induce reciprocal investment between developing countries, and FDI flows from emerging to advanced markets in larger regional blocs.

- (4) *New regionalism in the 1990s.* Some participants argued that the Asian financial crisis of 1997-1998, and the failure of the Seattle WTO summit to launch a new round of multilateral trade negotiations, induced East Asian countries to enter into regional trade agreements (RTAs) in the late 1990s. Others argued that the logical sequence may have been partially reversed, that is the multilateral liberalization process may have stalled in 1999 due to the conclusion of numerous RTAs in the mid-late 1990s. Some also suggested that the US may have entered into NAFTA with Mexico and Canada in 1994, and the FTAA with 32 Latin-American countries, due to the success of the 1992 Programme in the EU. Given this success, participants discussed what the necessary factors of 'deep integration' in Europe may have been, and whether such factors were applicable to other settings.
- (5) *Political aspects of regionalism.* Participants stressed that the political commitment to build long-term, institutionalized economic and political relations with one's neighbours was essential to 'deep integration'. However, the top-down supply of an institutional framework is insufficient in itself; it ought to be coupled with a bottom-up demand by the private sector for stronger economic ties with regional economic actors. Participants agreed that such bottom-up demand was particularly strong in East Asia today, while the political delivery of a highly institutionalized form of regional integration may take longer to achieve.
- (6) *New regionalism in South-East Asia.* South-East Asia has seen a surge of interest in regional economic cooperation, if not integration, from the early 1990s onwards. The Singapore summit of ASEAN initiated the establishment of an ASEAN FTA (AFTA) in 1992, although this agreement is confined to trade in goods alone. In 1995, ASEAN began to 'deepen' AFTA by launching the concept of an ASEAN Investment Area (AIA), and drafting a supplementary agreement on trade in services. In 1996, the association embarked on the ASEAN Industrial Cooperation Scheme (AICO). These regional initiatives point to a 'new regionalism' in South-East Asia, which predates the Asian financial crisis and Seattle imbroglio, while wider East Asian cooperation began to emerge after the financial crisis of 1997-1998.
- (7) *New regionalism in East Asia.* The Asian financial crisis has created an awareness in East Asia of the need for regional cooperation, leading to the Chiang Mai initiative, and a web of bilateral emergency currency swap agreements among ASEAN member states, Japan, Korea and China. Meanwhile, the failure of the Seattle WTO Ministerial summit to launch a global trade round has spurred East Asian countries to explore bilateral free trade agreements and other trade arrangements with regional partners in the late 1990s (e.g. Japan-Singapore, Korea-Thailand, Japan-Korea, China-ASEAN, and China-Korea-Japan agreements). These economic cooperation schemes are still in their infancy, and

most are still at the negotiation stage. However, various proposals have been put forward to institutionalize regional economic relations, particularly in North-East Asia where such mechanisms are lacking (e.g. Council for North-East Asian Economic Cooperation, North-East Asian Development Bank). Given China's recent accession to the WTO, participants agreed that the country's first priority would be to meet its WTO commitments in the short to medium term. However, as the Chinese economy opens up at the multilateral level (i.e. policy-induced barriers to trade with China decline), geographical barriers to trade will become relatively more important, and this will promote closer economic ties with regional trade partners.

- (8) *Paths to East Asian integration.* In 1997, ASEAN leaders initiated a regular, institutionalized dialogue with the North-East Asian countries of China, Japan and Korea. This 'ASEAN Plus Three' forum has since become an annual event. While this regional arrangement is still at an early stage of development, it has the potential to develop into an East Asian FTA in the longer term. Meanwhile, the Bogor goals of APEC envisage the construction of an Asia-Pacific FTA by 2010 for developed countries, and 2020 for developing countries. Participants agreed that a key question for East Asia was whether to opt for 'deep integration' in the future, and if yes, whether to do it at the sub-regional level (through ASEAN and a new North-East Asian council), the regional level (in the ASEAN Plus Three framework) or in the form of 'open regionalism' (through APEC).

### **Conclusion:**

The workshop came to the conclusion that regionalism and multilateralism can proceed in parallel if countries progressively eliminate barriers to trade in both regional and multilateral forums. In such a scenario, regionalism becomes a 'building block' for a higher level of economic integration at the global level. However, if regionalisation is not accompanied by the multilateral liberalization of trade, regional blocs can become 'stumbling blocks' to global integration, leading to trade conflicts in the future. Participants agreed that the ability of the Doha summit to launch a new trade round would be a good indication of which path the world would take in the near future.

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