

Chapter 1

Regionalism and the Multilateral Trading System: The Role of Regional Trade Agreements

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ABSTRACT

Regionalism and the Multilateral Trading System: The Role of Regional Trade Agreements is a discussion about the new reality and the evolution of the reduction of international barriers to freer trade under the World Trade Organization (WTO) formerly the General Agreement on Trade and Tariffs (GATT). The chapter devotes time to the two largest regional trade agreements (RTAs), the European Union (EU) with 28 countries and North American Trading Agreement (NAFTA) with three countries account for half of all world trade (WTO, 2017a). The US set a course post World War II as the proponent of globalization and freer trade. RTAs at that time were failing or inconsequential. In response to the EU trading block, the US committed to a (Free Trade Area) FTA with Canada and subsequently the NAFTA with Canada and Mexico the rest of the world began to become concerned about being shut out of a preferential trade deal. The main theme of the chapter is that trade liberalization is moving forward because of Regional Trading agreements, not the WTO which is stalled and may never restart in its current form.

INTRODUCTION

The topic “Regionalism and the Multilateral Trading System: The Role of Regional Trade Agreements” is as much about the multilateral trading systems successes and failures as it is about the role of the regionalism in the mix. One, (multilateral) gave birth to the other (regional) after meeting with little success, initially. The paper traces out the evolution of the systems by focusing on the most significant regional and multilateral systems and expands on the evolution of free trade moving forward.

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The chapter is broken down into sections, covering the current systems of international trade: What gives rise to regionalism? Why does regionalism work so well? The North American Free Trade Agreement (NAFTA) and the European Union; Comparison of Regionalism to the World Trade Organization (WTO) and the multilateral system; Other trade factors and concluding with an expectation for the next phase of trade development.

The first section discusses the systems of international trade and provides an overview of the world-wide trade in goods today: Where the main participating countries and regions are located; Defines the benefits of increased trade; Where does the WTO fit in to the multilateral system; What the regional trading system is and the institutions of the WTO.

The next two sections discuss how multilateral trade agreements spur on regionalism, a brief history of the multilateral trading system, the General Agreement on Tariffs and Trade (GATT)/WTO and the benefits, the obstacles and the implementation challenges. The next sections elaborate on regionalism and the measured benefits, statistics on the main regional agreements (the NAFTA and the EU) and an overview of other regional agreements in Table 1. The next sections look at the EU and the NAFTA in greater detail followed by a comparison of RTAs, how they fill the multilateral trade agreement void and some of the inherent problems of RTAs. Finally, the paper looks at other factors effecting trade including social, political and environmental issues and the way they are addressed in RTAs and multilateral agreements.

BACKGROUND

Systems of International Trade

World trade in 2014, from all the WTO countries, in goods represented \$19.0 trillion dollars up from \$2.3 trillion in 2010. It was no doubt spurred on by the worldwide growth in trade after WWII and the backward protectionist “beggar thy neighbour policies” of the 1930s (WTO, 2017b). Here one country attempts to make corrections in its economy and in doing so they trigger negative economic consequences to its “neighbour”. To encourage trade and take advantage of the benefits of increased trade, governments worked together to create organizations to spur on trade. The predominant one is GATT/WTO, a multilateral trade agreement to reduce the tariff barriers between countries levied against imported goods.

Benefits and Definitions

There are many kinds of free trade agreements, designed to create increased trade between nations with 354 such agreements currently in force according to the WTO. The WTO states (2017a) that free trade benefits include: growth in income; greater peace; easy dispute resolution; order and rules; lower cost of living; more consumer choice; greater overall income; growth; efficiencies; less government interference and pressure from internal special interests through the reduction of barriers to trade (WTO, 2017b). The argument for freer trade is pervasive where everyone is required to play by the same rules under the WTO. Many products and services are difficult to agree on and so are not covered by the free trade agreements such as agricultural subsidies or reductions, non-trade barriers, services, customs procedures, anti-dumping and the environment to name a few.

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