

THE NEW REGIONALISM: AN INTRODUCTION

Antoni Estevadeordal, Michel Fouquin & Ziga Vodusek¹

Since the early nineties, there has been a veritable boom in the market for all sorts of trade agreements, from bilateral to plurilateral ones, and leading to deep or shallow integration. This boom might at least in part be explained by newcomers in the race. Certainly by the European Union, which has been the precursor and has been expanding significantly its membership, while also undertaking a complex set of agreements with almost all parts of the world; but what is important it has been joined by the United States with the North American Free Trade Agreement (NAFTA), followed by the Asia-Pacific Economic Cooperation (APEC) forum and the – although unsuccessful – Free Trade Area of the Americas (FTAA) initiative, and as of lately by Asian countries, including China. Latin American countries have, likewise, been involved in a growing number of trade agreements, both at the South-South level as well as at the North-South level.

Meanwhile, multilateralism has made important progress as well, with the 1994 creation of the World Trade Organization (WTO) and its Dispute Settlement Body (DSB), which has become the world jurisdiction for trade. In fact, the DSB has been so successful that it has attracted many attacks from opponents to globalization. The WTO's growing universality has been confirmed with China's membership in 2001, and by the fact that Russia, Algeria, Gabon, Saudi Arabia and others may be joining soon the existing group of 150 members. However, in view of the difficulties facing trade negotiations in the scope of the Doha Round, and in which for the first time a decisive role is played by the group of 20 developing countries, there is a growing risk that regional agreements may replace the process of multilateral trade liberalization. And what may be worse, there is a risk of a new wave of protectionist policies emerging around trade blocks.

Thus, while it can be said that regional agreements are competing with multilateral initiatives, they may also appear as more complementary than discriminatory in their nature. *De facto*, regionalization and multilateralization have for a long time been first of all a question

1. ANTONI ESTEVADEORDAL, Manager, Integration and Trade Sector of the Inter-American Development Bank, Washington, D.C.; MICHEL FOUQUIN, Deputy Director, CEPIL; ZIGA VODUSEK, Senior Economist, the Integration and Trade Sector of the Inter-American Development Bank, Washington, D.C.

of tariffs and of rules for trade in manufactured products, excluding energy and agricultural goods. Now they are much more than that, and include new areas such as intellectual property rights, services, public procurement, sanitary and phytosanitary regulations, as well as norms and laws regulating trade, taxes and subsidies to establish fair trading rules and detect any attempt to use these tools to limit international competition. Some developed countries would also like to add environmental and social issues to multilateral negotiations. It is nevertheless much easier to include these areas and attain deep integration at the regional than at the multilateral level.

Today, the multiple regional agreements are *de facto* the engines of integration in the world, running in front of multilateral integration. The dynamic regional integration phenomenon, also called the "New Regionalism", has been at the center of the conference organized jointly by the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) and the Inter-American Development Bank (IDB), through the Integration and Regional Programs Department and its Institute for the Integration of Latin America and the Caribbean (INTAL), and the representative Office in Europe. This joint conference, the third of its kind, was held in Washington in February 2006.

The following papers presented at the conference have been selected for this publication. This issue has been jointly edited by the co-organizing institutions of the meeting and is published by their two journals, CEPII's *Économie internationale* and the IDB's *Integration & Trade*.

Scott L. BAIER, Jeffrey H. BERGSTRAND and Peter EGGER examine the economic rationale of regional trade agreements, starting off with the findings of a number of studies indicating that these agreements tend to show only a weak impact on growth and even trade. There are two major explanations for the strong growth in regionalism: the first is by Fred Bergsten, who sees "competitive liberalization" as a contest between countries to attract foreign direct investments, and the second is Richard Baldwin's argument explaining the boom of regional agreements by a "domino" effect: non-members fear to be left out and excluded from large markets, so they seek membership. As regards the low growth and trade impact of regional trade agreements, the authors point to a strong endogeneity problem. The major source of endogeneity, they say, is the omission of "unobservable" (to the econometrician) variables, such as institutional and regulatory factors, which tend to positively influence trade flows.

The paper by Lionel FONTAGNÉ and Soledad ZIGNAGO analyzes the impact of preferential trade agreements on trade flows. First they look at the results in literature that are based on gravity models, and then they perform their own calculations using a new sectoral database. They compare these results with the border effect model which has strong theoretical foundations and is empirically sound. The traditional approach, *de facto*, compares observed flows with what "natural" flows should be, and to do so, most authors use trade within the OECD as a reference. Fontagné and Zignago find it more sensible to do otherwise, and to measure border effects they compare domestic trade, which is seen as representing fully

integrated trade, to foreign trade. They escape many endogeneity problems by doing so – proximity, history, and culture, for example, increase the probability of signing an agreement. And last, they introduce fixed effects by country pairs to take into account unobservable characteristics linking UE members, which in the end reduce the impact of the single market effect on trade.

Antoni ESTEVADEORDAL and Kati SUOMINEN investigate the links between trade integration agreements and international cooperation agreements. Using an extensive dataset on international agreements they study the sequencing of these agreements, or in other words, their temporal evolution as well as the best practices to maximize gains from integration. They conclude that a trade agreement can be a good catalyst preparing the road for other forms of agreements.

Jacint JORDANA and David LEVI-FAUR support the view that creating a civil servant corps for international negotiations helps develop capacity building in international relations and greatly facilitates negotiations. The demand for scientific as well as regulator expertise is growing rapidly with the proliferation and deepening of trade agreement and the increasing complexity of issues. Negotiators need the assistance from experts and regulators to successfully negotiate. The authors note that the present difficulties in the Doha Round negotiations are also linked to the low level of common reference to best practices and the lack of specialists. They furthermore point out that process of FTAA negotiations, even if unsuccessful, contributed to the forging of a community of trade professionals and regulators in Latin America, and that this has had a positive impact on subsequent bilateral trade negotiations in the region.

Francesco P. MONGELLI, Ettore DORRUCCI and Itai AGUR show that monetary integration is one step in the long process of integration. They analyze the interaction between the institutional process of European integration and real integration, while taking into account the process of enlargement. They conclude that both processes interact positively, but that institutional integration seemed to be a prominent factor.

A. E., M. F. & Z. V.

