

ARTICLE

Free Trade Agreements, the World Trade Organization and Open Trade

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Introduction

The role and purpose of the Free Trade Agreement (FTA) is one of the most controversial issues in international trade policy. There are many reasons for this. Some developing countries are unsure whether an FTA with a post-industrial state embodies their best interests. Some post-industrial states have been unwilling during FTA negotiations to fully eliminate protection in sensitive areas. This has demonstrated the weakness of the FTA model to achieve bilateral or regional 'free trade' in accordance with the spirit of Article 24 in the General Agreement on Tariffs and Trade (GATT). Free trade agreements between some developing countries have also fallen short of expectations in terms of the elimination of tariff barriers. The proliferation of free trade agreements in the world economy has not led to renewed enthusiasm for multilateral negotiations under the auspices of the World Trade Organization (WTO). The FTA has also become entangled in Asia Pacific regional 'alliance-making' in light of the rise of China such as between Australia and the United States or competing Japanese and Chinese versions of an East Asian Economic Community. Despite the ostensible and formal commitment to freer trade, the major powers refuse to negotiate with one another, while vigorously pursuing free trade agreements with much smaller, less economically significant countries.

The Asia Pacific region, centered on membership to the Asia Pacific Economic Cooperation (APEC) forum has since the failed Seattle Ministerial Conference in 1999 become infatuated with the purported possibilities of the FTA model. For many countries (such as Chile, New Zealand, Singapore, Australia, Japan and the United States), the FTA is a crucial element in trade policy. Japan pursues a 'multi-layered' trade policy including multilateral (World Trade Organization), bilateral (Economic Partnership Agreements) and regional (APEC, ASEAN+3 and the East Asian Summit) levels. The conventional wisdom in Japan (and elsewhere) is that the FTA advances the cause of open trade and pursuit of economic integration *alongside* the pursuit of global open trade. The FTA maintains the momentum for global liberalization and advances national economic interest (through mutually achieved market access). It should be remembered however that this conventional wisdom is very different from the old conventional wisdom supported by Japan during the 1990s which was that the FTA was a discriminatory tool which at best *contradicted* or at worst *undermined* the open trade aspirations of the WTO trade system.

The character of the Asia Pacific has changed dramatically in relation to the use of the FTA as an instrument of trade policy. China and Japan for example are negotiating separate free trade agreements with the Association of Southeast Asian Nations (ASEAN). Chile, New Zealand, Mexico and Singapore have pursued vigorous FTA programs since 1999. There are also a growing number of agreements between countries with different cultures, ethnicities and histories such as the European Free Trade Association (EFTA) and Korea (2006); Thailand and New Zealand (2005); Japan and Mexico (2005); Thailand and Australia (2005); Korea and Chile (2004); United States and Singapore (2004); Singapore and Australia (2003), New Zealand and Singapore (2001) and United States and South Korea (2007). As of the middle of 2007, there is the possibility of a Chile-Singapore-New Zealand pact, an Australia-China pact, an Australia-Japan pact and a possible Japan-US FTA. These new agreements confirm the growing relevance of the FTA as an instrument of trade policy and its continued application in the near future. While ASEAN has had their own FTA since the early 1990s, it was only since the late 1990s that Southeast Asian countries began seriously wooing non-ASEAN countries as possible partners in free trade agreements.

The present enthusiasm for free trade agreements is in contrast to the academic debate in the 1990s on the role and purpose of the FTA in the world economy. The certainty with which the FTA is *applied* can be contrasted with the ambiguity and caution evident in the intellectual debate. The caution of the intellectual debate is also relevant in light of emerging difficulties associated with the persistence of sensitive sectors and products in current and recent FTA negotiations. This paper examines the central threads of the academic discussion on the role and purpose of the FTA in the 1990s and then introduces the key elements to the new conventional wisdom on free trade agreements. The rejection of the cautions evident in this debate by a number of countries does not lessen the possibility that they may have been accurate estimations of the problematic trajectories of the FTA. The consequences of FTA proliferation for open trade and international relations between developed and developing countries are examined in the final section.

The Relevance of the Free Trade Agreement

The relevance of the role of the free trade agreement in the world trading system remains a pivotal *policy* question. This is important for several reasons. Before the 1990s, there were relatively few free trade agreements. Many of the agreements negotiated since 1999 have been bilateral, leading to many separate, often inconsistent agreements of varying degrees of integration. Many of these agreements are between countries of differing levels of economic agreement which have raised questions of 'new colonialism' or at the least inequitable trading relationships. The proliferation of agreements has also raised questions about the health and future of the world trading system itself, suggesting the impotence of broad multilateral negotiations. With the rise of China in East Asia and the consequent posturing of Asian and Pacific countries, the role of free trade agreements as strategic 'alliances' is increasingly relevant.

At the present time there is much that is known about the nature and effects of an FTA. The free trade agreement (FTA) is one exception to the principle of non-discrimination found in Article 1 of the GATT. An FTA is one of several options available to WTO members wishing to pursue integration beyond that which is possible in a multilateral trade round. The principle of substantially all free trade is one of the key pillars of an FTA or customs union, but there remains considerable disagreement as to the boundaries and nature of valid exceptions to free trade in this context. The original GATT rules on regional integration (Article 24) applied chiefly to border barriers such as tariffs and there is little in the rules to suggest countries need to pursue non-tariff liberalization or harmonization. The rules on Article 24 have remained substantially the same since they were written in 1947 with some adjustment as a result of the Uruguay Round (1986-1994). FTA members are able to circumvent the spirit of free trade in the agreement through non-tariff barriers, subsidies and government regulations. FTA negotiations have often excluded important sectors or products due to political sensitivities of members. The failure of Article 24 to take into account issues such as rules of origin and anti-dumping continues as a point of contention (Bhagwati, 1994: 155-157; Krishna and Kreuger, 1995). The so-called theory of the 'second best' remains popular. This theory argues that global free trade is impossible politically and at least free trade agreements advance liberalization to some lesser degree (Frankel, Stein and Wei, 1996: 52).

In hindsight, the 'debate' on the merits of trade agreements is somewhat quaint. This 'debate' occurred largely in the disciplines of economics, econometrics and international relations, influenced by several key events. The first was the shift within the European Common Market in the 1980s towards the ambition of realising an Economic Union (Cecchini, 1988). The second was the decision in the United States to pursue economic integration that eventually evolved into the North American Free Trade Agreement (NAFTA). These political decisions prompted a reactionary debate in the aforementioned disciplines that reached a crescendo in the mid-1990s. The debate focussed on issues such as the appropriate size of an FTA; its effects on world trade; its effect on the trading system and the relations between members and non-members. Part of this discussion was taken up in the Asia Pacific Economic Cooperation (APEC) forum in the concept of 'open regionalism'. This debate concerned itself with the effects of trade cooperation in APEC on non-members and the merits of non-discrimination.

The debate retains its relevance, especially in light of the more alarming predictions regarding the effects of free trade agreements on the broader world fabric. There were a few arguments that presented the FTA in a very negative light. One view was that free trade agreements threatened to undermine the viability of the multilateral trade regime (Bhagwati and Panagariya, 1996; Bhagwati, 1994: 165), as they were discriminatory, created trade diversion and might have diverted attention and interest away from the WTO (Bhagwati and Panagariya cited by Bergsten, 1997: 85). An associated view was that regional or bilateral ties might have promoted alliances, political conflicts or worse (Bergsten, 1997: 86). A third view was that bilateral or regional agreements were tools for developed countries to compel substantial liberalization from developing countries. In the context of free trade agreements or customs unions less powerful states could be compelled

to accept agreements that were relatively inefficient (Bhagwati, 1994: 163).

The academic debate was important in redefining the legitimacy of the FTA and how it was viewed in the disciplines of economics, econometrics and international relations. Academics convinced of the incompatibility of a free trade agreement with multilateral liberalization strongly defended their position but to no avail. By 1998, Japan, the last economic superpower decided to follow the US and the EU and adopt trade treaties as a part of its trade policy. Today, the conventional wisdom in Japan is that free trade agreements are consistent with multilateral liberalization and the WTO. Few economists in Japan stand against the conventional wisdom. In government circles, the academic debate of the 1990s provides a rich resource of rhetoric that can be used to justify current government policy. In addition, as China has been able to secure an FTA with ASEAN, the attraction of the FTA to counter the influence of China remains an attractive option for Japan.

Caution versus Clarity: The Mixed Blessing of the FTA

Historically, the starting point for post-war discussion of regional integration begins with the classic text by Jacob Viner in 1950 about the Customs Union. Viner examined the customs union as it was emerging in discussions in Europe as well as in the context of the Havana Charter which was to lay the foundations for the so-called International Trade Organization (ITO). The Havana Charter recognised a widespread custom or 'right' for states to form regional agreements (Marceau, 1994: 191). The ITO didn't become reality and while Europe pursued a customs union in the 1950s, the customs union fell by the wayside as countries later embraced the alternative (and less demanding) free trade area. Viner's thesis was simple as he introduced the concepts of trade diversion and trade creation. Customs unions were, according to Viner economically problematic if trade diversion as a result of the agreement was greater than the trade created. Viner's thesis was highly controversial (Marceau, 1994: 174-5). Some economists have argued that trade diversion was not necessarily negative: a customs union shifts the trade relationship between countries but the consequent liberalization, competition and specialisation could result in the production of the cheapest goods (Wonnacott, 1996: 62). Some suggest that trade diverting agreements can improve the trade flows of member countries and economies of scale (Mansfield and Milner, 1999: 593).

In any event, Viner's thesis emphasised the effects of a customs union on the trade flows of its members. He concluded that the effects of agreements depended on case-by-case analysis (Viner, cited in Mansfield and Milner, 1999: 593). His thesis was simple, easy to grasp and a useful analytical tool for generations of economists in North America and Europe. He did not therefore reject out-of-hand the emergence of a European customs union, nor did he approve of *all* free trade areas. His legacy remains in the efforts by some to create methods to minimize trade diversion (Bhagwati, 1994: 154). Viner's pragmatism did not stop the search however for the 'optimal' or best kind of free trade agreement (see Cooper, 1994) which in its recent configuration has evolved into discussions on the 'open' trade agreement or 'WTO consistent' free trade agreement. The legacy of Viner is reflected

in the comment by one scholar on the FTA issue as “depressing ambiguity” (Gunter, quoted in Mansfield and Milner, 1999: 594).

Viner’s legacy remained influential in shaping the FTA discussion in later years. The ‘case by case’ approach of Viner was taken up in the search for the type of regional integration that would likely be most damaging to the world trading system. One argument was that the worst case scenario was a world with a few large trade blocs (Krugman, 1994: 176). This reflected the fear in some circles in the early 1990s that the world was heading into a three bloc world of North America, Asia and Europe, all with high tariffs and competing interests. This attitude was viewed sceptically by some (Perroni and Whalley, 1996: 57-58), but this fear was quite genuine. There was the strong perception that the United States in its preoccupation with North American free trade, was drifting away from its vital economic engagement in the Asia Pacific. The Japanese view was that US participation in the Asia Pacific Economic Cooperation (APEC) forum was vital to minimise the formation of any kind of three bloc world.

An extension of the ‘case by case’ approach was applied in the concept of natural trade blocs or the negotiation of agreements between natural trading partners. Some argued that geographical-based trade blocs were less trade diverting than non-geographical trade blocs (Bhagwati, 1994: 154-5) while others argued that the trade bloc scenario could be weakened if countries pursued FTAs with their neighbors (Krugman, 1994: 170). According to some, an FTA would in effect only consolidate strong and natural trade relationships (Summers, 1994: 196; Krugman, 1994: 171). One view was that Japan should lead the Asian bloc, the US an American bloc and then these two blocs could negotiate with Europe (Bhagwati, 1994: 164-165).

The idea of an FTA sat uncomfortably with many economists (and policymakers) who could not reconcile the FTA with the principle of non-discrimination in the GATT. For FTA supporters there was also a need in the 1990s to counter the perception that an FTA would undermine the GATT system. The idea therefore of an ‘open’ bloc was an interesting and appealing option. At its heart, the open agreement would be one which when ratified would extend some of the liberalization to non-members (Wei and Frankel, 1997: 119). One view was that the agreement most likely to ‘complement’ the GATT and pursue non-discriminatory liberalization would be the negotiation of tariff reduction among members and subsequent extension of commitments to all non-members. On the other hand, members could offer liberalization to non-members on the basis of reciprocity (Snape, Adams and Morgan, 1993: XVII). The idea that members to an FTA should subsequently extend that liberalization to non-members undermined the rationale of the FTA and suggested non-members could enjoy a ‘free ride’ on the sacrifices made by others. One way to overcome this problem was to negotiate non-discriminatory liberalization of sectors or products in which the member countries were the world’s principle suppliers. Such an approach could minimize the potential for “free-riding” by non members (Wonnocott, 1995: 34). This model influenced sector-based liberalization in APEC, but that project was ill-conceived, poorly prepared and haphazardly implemented, leading to failure in 1998. Another approach was to reduce the external tariffs of an FTA to the point where there was no trade diversion (MacMillan, cited in Frankel, Stein and Wei, 1996: 55).

Economists have also sought to examine the economic effects of customs unions or free trade agreements over time. One famous economic study presented the idea that it was possible to create a welfare-enhancing customs union. Kemp and Wan argued that the retention of the same trade flow with non-members would result in increased world welfare (Kemp and Wan, cited in Bhagwati and Panagariya, 1996: 83; Wei and Frankel, 1997: 123).

Beyond economics, the analysis of an FTA over time also relies upon political analysis as well as the relationship between regionalism and the world trading system (Mansfield and Milner, 1999: 594). Some studies have examined the political ‘incentives’ to form regional groups (Bhagwati, 1994: 158). The formation of agreements may give an incentive for other countries to seek membership (Bhagwati, 1994: 159). A common view is the EU prompted the creation of NAFTA and this in turn promoted regionalism in the Asia Pacific. Developing countries responded by seeking to join the new agreements to protect their overseas market access (Mansfield, 1998: 527). The creation of Europe in the 1950s did inspire other attempts at regionalism especially among developing countries. Developing countries reasoned that economies of scale from these agreements would assist in the industrialisation process (Bhagwati, 1994: 149). Most of the preference schemes among developing countries failed by the end of the 1960s (Bhagwati, 1994: 150).

This ‘flow on effect’ approach to FTA formation is one way to explain FTA creation in some circumstances. Entering into an FTA may convince other countries of the need for fresh negotiations to reduce the external effects of such an agreement. It has been said for instance, that the formation of the European Economic Community in the 1950s was an important factor in the US decision to negotiate the “Dillon Round” of trade negotiations. If so, there was a reaction against the EEC and a perception that it was a stumbling block without GATT negotiations. It has been suggested by some that countries pursue agreements to protect trade flows with other countries. Problems in WTO, financial crises or shifts in global economic power can all prompt FTA interest. The creation of new agreements may also tempt non-members to join or establish their own agreements, both actions which limit negative impacts on their market access and national competitiveness (Mansfield, 1998: 524, 527). The fear of the decline of GATT/WTO has laid foundations for growth in regional blocs especially for smaller countries that want to ensure overseas market access. In this environment, large powers can exert greater influence on concessions granted by smaller countries (Perroni and Whalley, 1996: 57).

The final influence of Viner was in another thread that argues that decisions on regional agreements need to examine the rules, evolution and impact on the policies of the FTA on non-members (Blackhurst and Henderson, 1993: 429). The nature of the agreement depends on how the rules are written which is in turn is influenced by the politics and economics influencing its creation (Groser, 1999: 2). One view is that an FTA is ‘WTO friendly’ if guided by the right political philosophy (Groser, 1999: 13). On the other hand, different rules established by different agreements could persist (Gallagher, 1997: 21). One view is that regional agreements are “proliferating new, incompatible, regimes for trade administration and “behind-the-border” regulations that are likely to resist any harmonization at a global level” (Gallagher, 1997: 24).

The conclusion of this academic debate was indecisive. There remained a fair amount of uncertainty in the economics field on the effect of customs unions and free-trade areas. Some scholars have noted that “regionalism, can depending on the circumstances, be associated with either more or less general liberalization” (Frankel and Wei, quoted by Milner and Mansfield, 1999: 595). Another noted “it is impossible to decisively resolve the ‘regionalism versus multilateralism’ dispute” (Bergsten, 1997: 87). Hine concludes that “The central finding of orthodox comparative static analysis remains that of Viner, namely that it is not possible to generalize about the economic desirability of CU (customs union) membership” (Hine, 1994: 266). Krugman notes “overall, the answer seems to be definitely ambiguous. Regional trading arrangements could work either for, or against global free trade” (Krugman, 1994: 176). Wei and Frankel conclude, “the welfare effect of the formation of a regional trade bloc is ambiguous in general” (Wei and Frankel, 1997: 135).

Be it natural trading partners, worse case scenario, agreement rules, or ‘flow-on effects’ the dominant thread of the academic discussion was caution – the effects of an FTA really depended on a host of factors and these in turn depended on other factors. Despite NAFTA, AFTA, and the EU, the theme ‘it depends’ was a cornerstone of the academic debate. The caution of this debate would soon be lost in the cultivation of the language of a new conventional wisdom to justify the actual trade policies in place in North America and Europe. This conventional wisdom is not rooted in pragmatism but semantics and rhetoric. Gone was the toolkit of analysis and second-guessing and hedging of bets. The new world of regionalism had arrived and new language was required to explain and justify the deviations from global trade liberalization at work in the Anglo-Saxon and European worlds. This was the time of ‘globalization’ and the language of the FTA embodied all the right ideals consistent with spirit of the age, except in one aspect: it reveals little or nothing about the motivation or reason for departures from multilateral free trade.

The principal argument is the FTA is a building block to global free trade. Trade agreements promote economic openness and this promotion of openness will lead to further momentum for global open trade (Mansfield and Milner, 1999: 595). The OECD argued in 1995 that free trade agreements exerted a positive influence towards open trade and were not incompatible with multilateral liberalization efforts (OECD, 1995). Some argued that the GATT rounds from the Dillon (1960-2) to the Tokyo Round (1973-9) were partly initiated due to the actions of non-EC GATT members trying to reduce the economic advantages of the European Common Market for EC members (Marceau, 1994: 172). The argument that the FTA stimulated global freer trade is based on the assumption that free-trade agreements create the political and economic conditions that foster political confidence to extend that liberalization to the rest of the world. As a consequence of internal liberalization and attendant competition, firms are more disciplined to receive additional competition in the form of external liberalization (OECD, 1995). Partial liberalization could convince industries of the benefits of further liberalization or prepare them for complete liberalization under a WTO-wide negotiation.

The FTA therefore, acts as a ‘complement’ or ‘supplement’ to multilateral liberalization. A regional and global strategy pursued together will realize global free trade faster and the process of regional liberalization can stimulate GATT/WTO reform

(Lawrence, 1997: 14; Sampson, 1996: 89). This ‘middle ground’ position, according to this view, is more able to ensure the stability of liberalization commitments (Bhagwati, 1994: 164; Lawrence, 1997: 24) while at the same time achieve global liberalization faster than concentrating efforts on GATT/WTO (Bhagwati, 1994: 161). There is some evidence for this in the Asia Pacific. With 2010 as the deadline for developed countries in APEC to attain free trade, the network of bilateral FTAs do advance that cause considerably, albeit in a fragmented and inconsistent manner. The APEC Economic Committee in 1997 noted that sub-regional agreements in the region were “generating political momentum for the multilateral process, and creating competitive pressures amongst each other for more rapid and deeper liberalization. There is a positive interaction between global liberalization through the WTO, regional MFN liberalization through APEC and preferential liberalization on a sub-regional basis” (APEC Economic Committee, 1997: 28).

In this view, free trade agreements are seen as a “training ground” for multilateral liberalization, or a laboratory or test-bed for new ideas, innovations and approaches that could be after tested in the region and applied and adopted in the WTO (OECD, 1995; WTO, 1995; APEC Economic Committee: 1997; Lawrence, 1997: 24-5). It is quite correct that FTAs often pursue integration more than what is possible multilaterally (Sampson, 1996: 89). It is also true that some elements of free trade agreements in ‘new areas’ negotiated at a regional level were later applied in the Uruguay Round negotiations leading to the formation of the WTO (Bergsten, 1997, 86). The clearest examples are the Australia-New Zealand and the NAFTA services chapters (Bergsten, 1997; 86; footnote 6), services reform in the EU and the Canada-US FTA dispute settlement procedures (Marceau, 1994: 172; Sampson, 1996: 89).

The conventional wisdom in trade policy in academic and government circles in recent years widely holds the aforementioned arguments for free trade agreements to be valid and accurate. The case against free trade agreements is usually presented in carefully packaged forms. The first major criticism is that the FTA is usually unable to completely eliminate all sensitive sectors. Most members of an FTA engage in selective and conscious sabotage of intra-regional liberalization by ensuring special or differential treatment of certain sectors (De Prest and Samuels, 1993: 1836-1837). Sensitive sectors and products are generally liberalized last and are protected behind a myriad of regulatory and non-tariff barriers (effectively realigning protection) or legitimised politically in the national interest. There is considerable evidence for this assertion. The FTA between Australia and New Zealand has sensitive sectors including aviation, shipping, telecommunications and finance (APEC Economic Committee, 1997: 15). Despite the Single Market, government procurement remains as a sensitive issue (Hoekman and Leidy, 1993; 225). Canada both in the US-Canada FTA and in NAFTA was able to ensure some investment protection (Dymond, 1997: 15). The exclusion of agriculture in many FTAs is well known. For instance, the European Free Trade Association omitted agriculture and “in virtually every free trade agreement the EC has concluded to date, the agricultural sector has been completely or partially excluded” (De Prest and Samuels, 1993: 1836-7). This is a model that Japan has attempted to copy in all its FTA negotiations.

The second criticism is that the conventional wisdom on FTAs concerns itself only with

traditional border barriers to trade. Traditional trade theory concentrates on the reduction of border barriers, especially tariffs and as a result the “traditional perspective is at best incomplete and at worst misleading” (Lawrence, 1997: 22). Many free trade agreements seek to resolve coordination or harmonization of national institutions influencing trade policy (Levy and Srinivasan, 1996: 93), including non-tariff barriers (Lawrence, 1997: 19). While the WTO has established some new rules in areas such as agriculture, there is much uncertainty over the methods. This problem is compounded when agreements are between post-industrial societies with highly developed administrative and regulatory institutions and less developed countries. The latter usually has higher tariffs, opaque non-tariff barriers and weak institutions whereas the former has low tariffs, deliberate non-tariff barriers and sophisticated institutions.

The third criticism of the free trade agreement is that the presumed relationship between the FTA and the WTO is a ruse. In this view, countries entering free trade agreements are concerned more about regional or bilateral relationships than they are about ensuring global compatibility. The conventional wisdom is that of a close association between the FTA and the GATT/WTO with the FTA as the stepping stone or a bridge towards global liberalization. The philosophy of open trade was crucial in the conception and implementation of free trade agreements. The FTA was seen as part of a system that included, or indeed relied upon the viability of a working and functioning WTO. The elimination of the WTO or a world without WTO was not one that was widely canvassed in the literature.

Given the proliferation of free trade agreements, especially since 1999, as well as the current malaise in the WTO, there seems little evidence that the FTA is a stepping stone for global liberalization. Instead, countries, especially smaller countries fear a loss of their future market access and are anchoring themselves with one or several of the larger economic powers. While many agreements have been generally consistent with the principle of open trade, attempts to open sensitive sectors have been disappointing. Non-tariff barriers and different regulatory structures between developed and developing countries are creating many administrative and legal complications in the pursuit of free trade agreements. This has resulted in new terms such as the ‘spaghetti bowl’ or ‘Chinese noodles’ to describe the character of FTAs in the world economy. Even if the Doha Development Round collapses, some form of FTA-reconciliation will increasingly be inevitable.

Building Blocks to Where? Future Paths for the FTA

Some criticism of free trade agreements is inevitable in light of present problems in the world trading system. Ironically, the conventional wisdom is that the rationale for the FTA received impetus following the 1999 disastrous WTO trade ministerial at Seattle. At least in the FTA, supporters argued, could the aspirations for open trade be continued, albeit less comprehensively. Many countries have sought refuge or comfort in the pursuit of free trade agreements, often with important trading partners (e.g. Australia and the United States), but often with relatively unimportant trading partners (e.g. Japan and

Singapore). Since 1999 however, the World Trade Organization has been unable to realise a successful conclusion to the Doha Round. Practically, this has meant little progress in the three areas of industrials, agriculture and services. Industrial tariffs remain controversial due to the rise in importance of manufacturing in China, India and some other developing countries. Services continues as a vital concern because of the growth in the service sector as a proportion of national economic growth in many post-industrial societies as well as in many more advanced developing countries. Agriculture continues to be an area of little progress as strongly-held vested interests seem to hold the world to ransom in a few select products and policies.

If the conventional wisdom was accurate and the FTA was a model that substantially contributed to open trade, then concern regarding WTO negotiations could be dampened. However, attitudes towards the FTA are changing as well in light of experience. One of the outcomes is frustration over the inability of large economies to open up their agriculture markets to smaller countries and in so doing, unravelling the original rationale of the FTA which was to achieve bilaterally what was not possible globally. Japan, the US and the EU have argued that their agricultural policy is not up for negotiation in the context of the bilateral FTA, insisting that its future lies in a WTO negotiation. This being the case, the attraction for many smaller countries in an FTA seems unwarranted. The end result of the learning process is that many countries are now increasingly suspicious of the FTA, but since there is no WTO progress, the FTA is becoming the only option.

The worst-case scenario for the world trading system would be the desertion of the WTO as the chief means for the negotiation of trade liberalization. The break-down of the Doha Development Round has long been expected due primarily to the inability of the major powers to agree on agriculture. The eventual break-down of Doha would inject a certain depression in the world trading system and make it more difficult for countries to pursue a future trade round. On the other hand, a Doha break-down might give many countries the opportunity to reevaluate their interest in a multilateral trading system, engender it with a fresh mandate with some changes to make the WTO more appealing to all its members. The break-down of the entire WTO based system will not result in an alternative world economy, but more likely will strengthen the bargaining power of the major economies. The United States, Europe and Japan will probably resort to an expanded version of their own FTA programs and developing countries will have to agree to whatever terms are decided for them. The consequent collapse of the rules of the GATT will mean that large countries will have no obligation to abide by the rules of the defunct GATT/WTO and be free to increase their previously reduced trade barriers, according to whatever nationalist agenda is at work in the respective countries. Of course, nationalist strategies might be appealing for one country, but since all countries will have the opportunity to do the same, there is no reason to expect anything less than the outbreak of a world trade war.

Moving away from the abyss of total trade war, another alternative would be the continuation of the FTA system into more elaborate and sophisticated forms, covering non-tariff and regulatory issues. In the absence of the WTO, countries would rely on the fabric of bilateral agreements that already cover the world economy and about which many

functional non-WTO bodies are already concerned such as the World Customs Council or the International Maritime Organization. In this scenario, the European Union, NAFTA and other regional groups will still exist as will the many trade relationships that overarch them such as the ASEAN+3, Asian Summit process, APEC, ASEAM and so on. Many of these bodies also advocate similar aspirations to that of the WTO – namely open trade, sound regulatory practice and adequate measures to protect national borders, such as health and safety. The end of the WTO will not mean the end of what is sometimes labelled ‘neo-liberalism’, for this is the heart of the world trading system in practice and will take much more than the end of the WTO to remove.

Moving further away from this scenario, it is quite possible to expect the eventual formation of some kind of East Asian bloc, though the Japan-China question remains largely unresolved. It is possible that two entirely different agreements will emerge: Japan-ASEAN and China-ASEAN, which will only complicate ambitions for Greater East Asia. It is important to recognise that pragmatism will exist alongside these arrangements to accommodate ancient historical rivalry. Australia and New Zealand will likely have an FTA with ASEAN, and APEC membership and the United States will continue to be firmly entrenched in the Asia Pacific in its agreements with Australia and Korea. For developing countries, the prospect of greater agricultural liberalization would diminish significantly with a demise of the WTO.

A more optimistic scenario will see the eventual conclusion of the Doha Development Round in one way or another. It could possibly be postponed due to the US Presidential elections as it is increasingly unlikely that George W. Bush will have the mandate to push through with EU negotiations. In the interim, FTA negotiations are likely to continue. It is quite possible to expect an Australia-Japan FTA and even Japan-Korea or Japan-US FTAs are not out of the question. The most remarkable development of all would be the negotiation between China and Japan of a comprehensive FTA, a sign that the old enmities have been laid aside for the pursuit of a common destiny. In this context, and with a continued firm association between WTO and FTA, aspirations for further open trade through the FTA model might sustain the world economy until the large powers reach a new ‘deal’ on agriculture.

Conclusion

The mid-1990s academic discussion on the free trade agreement focussed attention on the negotiation, character, effects and evolution of any FTA. The ambiguity of the FTA issue suggested caution in its application. Some of the reservations in this discussion are now bearing fruit in the hastily negotiated agreements that exclude sensitive sectors or fail to appreciate different levels of development between member participants. The rejection of ‘academic’ debate was inevitable since criticism of the FTA did little to deter the establishment of the EU, NAFTA or AFTA in the early 1990s. The Asia Pacific FTA proliferation owes its genesis in part to NAFTA and the EU and then the failure at Seattle. The ‘flow on effect’ explanation of joining or forming agreements therefore is a useful tool to explain events. The decision of China to pursue an FTA with ASEAN is often seen as

one of the reasons for Japan's FTA conversion. The East Asian financial crisis could also have been a factor in helping to convince East Asian countries of the need to pursue agreements to ensure regional stability.

Beyond 'flow on effects', can the FTA sustain aspirations for freer trade in light of problems in the WTO? Whatever the future of the WTO, the current conventional wisdom on the free trade agreement is likely to be part of the trade policy architecture for the time being. The conventional wisdom draws its strength only from a continued support in the future of the world trading system. Even in the advent of little progress, the WTO (especially Article 24) is the anchor that restrains countries from exploiting free trade agreements. This connection is becoming increasingly tenuous. While the aspirations for further open trade can be embodied in the rules and structure of free trade agreements, a world that distrusts multilateral rules on open trade will be strong temptations for reform-minded politicians and officials to temper their enthusiasm.

On the other hand, many agreements are building bridges across the world economy such as between Korea and the United States or Japan and Mexico. While there is a case for greater coordination or consistency among the global 'spaghetti bowl' free trade agreements may yet be able to promote the cause for open trade. The digression to free trade agreements is however, not a substitute for smaller, less important economies staking their claim in the WTO for the success of a wider multilateral trade round. The collective pursuit by smaller countries to strengthen, support and rally around the world trading system is crucial to lay confidence for multilateral trade cooperation. The nature of some cross-continent FTAs suggests that countries are increasingly recognising the value of open international trade and in this sense, the idea of the FTA as a building block may yet prevail.

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自由貿易協定，世界貿易機関および自由貿易

自由貿易協定（FTA）が世界経済において果たす役割と目的は、国際貿易体制における重要な問題となっている。1999年以來、アジア太平洋諸国間のFTAが増加している。農業に関する米国と欧州の態度の違いのため、世界貿易機関（WTO）の貿易交渉は未解決のままとなっている。最近のアジア太平洋におけるFTAは、韓国と米国や日本とメキシコのように、太平洋を越える二国間で締結されている。しかし、やがては、アジア太平洋の多くの二国間FTA相互間で、より広い範囲での調整や一貫性を図ることが求められる可能性がある。WTOの弱体化が続いたとしても、FTAが自由貿易を促進する要因を提供できる余地があるものと思われる。

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