

The Domestic Political Economy of Preferential Trade Agreements

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Abstract

Which are the main motives behind PTAs, and the political economy dynamics that such motives generate? These questions are crucial, now that “mega-PTAs”—EU-Japan, EU-US, Trans-Pacific Partnership or China-Japan-Korea—are emerging. They are also interesting because the existing PTAs show three paradoxes. First, they have proliferated between 1992 and 2004 when unilateral and multilateral liberalizations were vibrant. Secondly, they mostly involve small countries, which have a much better negotiating leverage in the World Trade Organization. Finally, large countries have shown much pain at concluding PTAs with small countries, which have very modest (if any) economic effects on their economies. When addressing these questions, this paper relies on the following key proposition. Trade liberalization (multilateral, unilateral, or PTA-based) is only one of the many dimensions of the broader domestic reform agenda required by sustained economic growth. In other words, trade liberalization is not as a goal *per se* for policy-makers. In light of this proposition, the paper examines six potential motives for PTAs: the alleged advantage of faster PTA negotiations; the capacity of PTAs to cope with the “unfinished tariff cuts” agenda; their capability to deliver on the “21st century” trade agenda; their potential to contribute to the broader domestic reform agenda for economic growth; their suitability to be a substitute to WTO deals; finally, their potential to advance foreign and development policy objectives. The final section combines these motives for building various domestic political economy scenarios in large and small countries—giving some interesting clues on the conditions necessary for successful PTA negotiations.

Introduction

The Doha Round is in a “comatose” state. As a result, action in trade matters is increasingly turning to preferential trade agreements (PTAs). A “comatose” Doha Round is likely to change the nature of PTA negotiations in many ways. In particular, it induces the largest economies to negotiate PTAs among themselves – a situation unknown until now. This phenomenon is best illustrated by the EU-Japan PTA talks and negotiations between Japan and the members of the US-engineered Trans-Pacific Partnership (TPP). Against this background, a better understanding of the main motives behind PTAs and the different domestic political economy dynamics that such motives can generate is crucial. This paper focuses on these two points.

In the last fifteen years, three paradoxes have emerged, which reveal the need for a multi-motive approach to the understanding of the negotiation and conclusion of PTAs. The first paradox concerns timing. PTAs have widely proliferated between 1992 and 2004 – precisely when countries were busily implementing unilateral liberalizations and when the multilateral trading system witnessed the successful shift from the GATT regime to the creation of the World Trade Organization (WTO). Why, at a time of flourishing multilateralism, did bilateralism and regionalism re-emerge as an alternative trade policy instrument?

The second paradox is revealed by the counter-intuitive behaviour of many governments of smaller countries, which became visible at the margins of the 2003 WTO Cancun Ministerial. Robert Zoellick, then US Trade Representative (USTR), expressed his surprise about the long list of Trade Ministers from small countries telling him, at the end of this disastrous Ministerial Summit, that they would be

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delighted to come to Washington soon in order to start PTA negotiations with the US. In fact, these Ministers were eager to open bilateral negotiations on topics that, a few hours before, they adamantly rejected within the WTO multilateral framework. As such, why did small country governments push for PTA negotiations so intensely, whereas, by its very nature of the largest possible trade forum, the WTO enhances the negotiating position of small countries vis-à-vis their large trading partners?

The third paradox is illustrated by the increasingly severe difficulties of US chief negotiators to convince Members of Congress to ratify the PTAs that the USTR concluded with (much) smaller partners. Moreover, recent developments indicate that the EU may follow the same track, as illustrated by the discussions surrounding the EU-Morocco agricultural agreement (see section 2 below) and debates over the ratification EU-Colombia PTA in the European Parliament. Why do large countries' negotiators and policy makers face such difficulties at home when the PTAs in question can have only very modest (if any) economic effects on their respective economies? And, should such difficulties be expected in regard of future PTAs among large economies?

When addressing these questions, this paper relies on a fundamental proposition, which seems particularly appropriate in the scenario of economic crises. In sharp contrast to the frequent approach followed by trade officials and experts, who tend to perceive trade policy as a stand-alone policy, this paper conceives trade liberalization (be it multilateral, unilateral, or PTA-based) as only one of the many dimensions of the broader domestic reform agenda that is required in order to achieve economic growth. In short, trade liberalization should be seen as only one element and instrument of the broader domestic reform program – and not as a goal *per se*.

The paper is divided into eight sections. The first six sections examine the various potential motives for the negotiation and conclusion of PTAs: The first section discusses the alleged advantage of faster negotiation and implementation of PTAs in comparison with multilateral negotiations; section 2 scrutinizes the capacity of PTAs to cope with the “unfinished tariff cuts” agenda; section 3 reviews the capability of PTAs to deliver on the “21st century” trade agenda; section 4 assesses the potential of PTAs to contribute to the broader domestic reform agenda for economic growth; section 5 features a discussion of the suitability of PTAs to serve as a substitute to WTO deals; section 6, last but not least, contemplates the potential of PTAs to advance foreign and development policy objectives of any given country. Section 7 then examines the distinct domestic political economy scenarios for both large and small countries on which are linked to these different motives. Section 8 concludes.

Section 1. Faster than the WTO? The rapidity of PTA negotiation and implementation

It is often said that PTAs are faster to negotiate than WTO deals, and that they are more rapidly implemented. If supported by evidence, the “speed factor” could constitute an important motive for negotiating PTAs, and explain the increasing proliferation of PTAs at a time of successful unilateral and multilateral liberalizations. However, the data presented in Table 1 only supports the common presumption that PTA negotiations deliver results faster than WTO negotiations at a first glance. A more thorough examination leads to the conclusion that the ‘speed factor’ does not exist in reality, but only as a perception of trade negotiators. Table 1 presents all US and EU PTAs with common partners (“twin” PTAs): Chile, the Dominican Republic (member of Cariforum and CAFTA-DR), Israel, Jordan, Korea, Mexico and Morocco.

Faster PTA negotiations?

At a first glance, as mentioned above, Table 1 seems to support the claim that PTA negotiations are faster than multilateral negotiation rounds. The average “adoption” period, i.e. the time between the launch of the negotiations and the start of the implementation, ranges from 3 years (US PTAs) to more than 5.5 years (EU PTAs). These periods are definitively shorter compared to the Doha negotiations (12 years by the end of 2012, yet unfinished) and to the Uruguay Round (8 years).

But a more careful reading of Table 1 provides four strong *caveats* on the alleged relative rapidity of PTA negotiations:

Table 1 does not include PTAs negotiations that have failed so far. For instance, the reported EU-Turkey PTA is limited to the customs union “chapter” which is a limited part of the negotiations on Turkey’s accession to the EU. The accession negotiations started in 1987. The Turkish application for EU membership were opened in June 2006, closed in December 2006, reopened in 2007 and are, since then, in limbo. They have been launched for only 13 chapters, all of them (but the one on competition policy) being devoted to routine issues in PTAs (the 22 remaining chapters which have not be opened are not typical components of current PTAs), and only one of them has been successfully closed as of today.

Table 1. The speed factor, selected PTAs

		Launch ne- gotiation [a]	Year of signature	Entry in force	Adoption period [b]	Transition period [c]	Sectoral coverage	
							Agriculture	Services
EU27	Cariforum	2004	2008	[f]	--	10 plus	Yp	Yp
EU27	Chile	1999 [d]	2002	2003	4	10	Yp	Yp
EU27	Egypt	1995 [d]	2001	2004	9	15	Yp (2009)	N
EU27	Israel	1995 [d]	1995	2000	5	--	Yp (2009)	N
EU27	Jordan	1995 [d]	1997	2002	7	12	Yp (1997)	N
EU27	Korea	2007	2010	2011	4	21	Y	Yp
EU27	Mexico	1993	2000	2000	7	10	Yp	Yp
EU27	Morocco	1995 [d]	1996	2000	5	12	Yp (1997)	N
EU27	Turkey	1993 [e]	1995	1996	3	5	Yp [a]	N
US	CAFTA-DR	2002	2004	2006	4	20	Yp	Yp
US	Chile	2000	2003	2004	4	12	Yp	Yp
US	Israel	1984	1985	1985	2	10	Yp	N
US	Jordan	2000	2000	2001	2	10	Yp	Yp
US	Korea	2006	2007	2012	2	15	Yp	Yp
US	Mexico	1991	1992	1994	3	24	Yp	Yp
US	Morocco	2003	2004	2006	3	18	Yp	Yp

Sources: EU Treaties Office Database, USTR website, WTO website.

Notes: [a] Year of the first negotiating round, except mentioned otherwise. [b] Adoption period: time between the launch of negotiations and the year of entry in force. [c] Transition period: maximum number of years scheduled for tariff cuts (the mention “plus” means that this transition period could be extended if felt necessary by the signatories). [c] Year of the EU negotiating Directive (Chile) or of the launch of the Barcelona Process (Egypt, Israel, Jordan, Morocco). [e] Year of launching the negotiations on the customs union. [f] There is conflicting information on the effective implementation of the Cariforum side

- Table 1 does not take into account the “stop and go” pace of a number of the PTA negotiations listed. For instance, the EU-MERCOSUR negotiations have been launched in 1999 before being suspended in 2004, and restarted in 2010, with persistent rumors of suspension since 2011. On the US side, a similar illustration is the Free Trade Area of the Americas (FTAA) negotiations.
- Table 1 shows that adoption periods tend to become longer for the most recent PTAs, suggesting that they face problems similar to WTO negotiations.
- Last but not least, a fair comparison between PTA and WTO negotiations should take into account the coverage of topics. Most PTAs listed in Table 1 cover agricultural goods in a much more limited manner than it was discussed in the Doha Round. In particular, no PTA has imposed (indeed can impose) disciplines on farm subsidies that are one of the most severe obstacles to an economically sound trade in farm and food products. In the case of services, only a minority - 4 out of 11 in the case of EU PTAs - make some notable inroads. Extending the sectoral coverage of the initial PTAs by re-opening negotiations on agriculture and on services has proven extremely

difficult. For instance, despite the fact that Morocco is pursuing a resolute PTA policy, the EU-Morocco Agricultural Agreement (concluded in 2009) is facing a stiff opposition in the European Parliament while the EU-Morocco Aviation agreement (concluded in 2006) is still under provisional application due to the firm opposition of some EU Member States.

Faster PTA implementation?

The second alleged superiority of PTAs compared to the WTO would be the more rapid implementation of PTAs. The average transition period (the time between the first and the last year of implementation) is 10 years for the US PTAs – roughly the transition period set up as a benchmark within the WTO context since the Uruguay Round. However, EU PTAs take 13 years to be implemented.

In addition, transition periods longer than 10 years (up to 23 years) tend to become more frequent in recent PTAs (Korea-Chile, US-Mexico, US-Morocco, US-CAFTA/DR, EU-Cariforum, EU-Korea, etc.). Indeed, this feature casts strong doubts on the actual value of such commitments since a large number of products are likely to be outdated from a technological point of view (and are hence probably not marketed anymore) at the time when they will be ‘liberalized’ under a respective PTA liberalization schedule.¹

Reality vs. perception

The absence of strong evidence to the alleged rapidity of PTA negotiations and implementation suggests the elimination of this motive from the candidate list. However, there is a good reason to retain this motive in light of the domestic political considerations. Notably, it may often be the mere perception of PTA negotiation and implementation speed that may be strong enough to keep policy-makers pushing for PTAs.

That said, the gap between the real world (absence of evidence) and perceptions has a key consequence in domestic political games because it generates or amplifies a rift among policy-makers in a given country:

- on the one hand, top policy-makers (Presidents and Prime Ministers) are likely to look at actual results and will notice a PTA’s failure to deliver political capital in the short run. Unconvinced by the PTA speed factor, they will lose interest in PTAs as a key input to their broader domestic pro-growth agenda.
- on the other hand, trade negotiators, by their nature, are likely to cling to the perception of the speed factor. They are thus likely to propose new PTAs, hoping that at least some of them will eventually deliver some results rapidly, which they can showcase vis-à-vis their political masters.

Section 2. The “unfinished tariff cuts” (UTC) agenda

A second motive for the proliferation of PTAs is the potential of PTAs to address the “unfinished tariff cut” (UTC) agenda, i.e. the reduction of tariffs that have not been eliminated in context of unilateral and multilateral liberalizations yet.

This motive is often rebuffed today on the ground that, after two decades of broad unilateral and multilateral liberalizations, the issue of tariff cuts is now becoming negligible. This view is supported by evidence based on average tariff data. The preference margins delivered by preferential tariff cuts (compared to the MFN tariffs applied on non-preferential imports) are on average small, and increasingly so [WTO Report 2011]. They are modest even for US and EU exporters (2.8 and 4.9

¹ This is not an uncommon feature. Article 115 of the Treaty of Rome was drafted and used in this spirit.

percent respectively), despite the fact that US and EU exporters face relatively higher developing country tariff rates. By the same token, less than 17 percent of world trade remains eligible for tariff preferences [Carpenter and Lendle 2010] and there is no tariff at all on 45-55 percent (China, EU, US) to 80 percent (Japan) of imports of large economies.

However, this evidence misses a key point. Average tariff data hides the bread and butter of trade policies, i.e. the high “peak” tariffs, which also happen to be the largest source of production inefficiency and consumers’ welfare losses and count most for offensive and defensive vested interests. As peak tariffs are generally imposed on a relatively limited range of products, relying on average tariffs dilutes this core aspect of trade policy in the much larger universe of all tariff lines, most of which are of little (if any) relevance for domestic political economy dynamics.

From an economic perspective, there are thus sufficient reasons to carefully examine the UTC agenda and the potential of PTAs to deliver on tariff peak reductions. The following analysis relies on two sources of information: the frequency of the peak tariffs and of the associated trade shares, and the differences between MFN and preferential tariffs.

The UTC agenda: peak tariffs and trade shares

As pointed out above, the crucial aspect of the UTC agenda is the problem of peak tariffs. Tariff peaks decrease consumers’ welfare and reduce domestic producers’ competitiveness - notably domestic producers and consumers of the goods that peak tariffs apply to. In a nutshell, Table 2 gives a sense of the importance of the notion of tariff peaks by highlighting non-preferential and applied tariff rates in the US, the EU, Korea, Turkey, China and Japan, as well as a number of countries / regions that have signed a PTA with the US, the EU, Korea, or Turkey. More specifically, Table 2 presents i.) the distribution of countries’ tariff lines among five categories of applied and non-preferential tariff rates (duty free, 0-5 per cent, 5-10 per cent, 10-15 per cent, >15 per cent) and ii.) the shares of imports associated with these five tariff rate categories.² Thereby, we can get a better sense of the incentive that third countries have to seek the liberalization of tariffs by means of negotiating a PTA.

In addition to the EU and the US as well as select EU and US PTA partner countries, Table 2 presents tariff rate and import data involving Korea and Turkey and their partner countries. This allows us to better appreciate the differences between PTAs involving the two largest economies in the world and those associated with smaller economies. Table 2 makes a distinction between “L” Partners and “S” Partners in order to capture the asymmetry between the signatories – a factor that emerges as critical in domestic political economy dynamics, as demonstrated in section 7 below.

“L” partners are defined as the larger partners in a PTA, and “S” partners as the smaller ones. The US and the EU are always L partners. Korea and Turkey are L partners in some PTAs, and S partners in others.³ The other countries are always S partners. Block A of table 2 presents the information on S partners in order to get a sense of the extent to which the UTC agenda of a PTA with such type of countries could be attractive for L partners. Block B provides the same kind of information on L partners.

² Table 2 is based on the 2009-2010 tariff structures, hence provides insights on the PTA interest as of today, not when the negotiations of these PTAs were opened between 1995 and 2005. In other words, Table 2 underestimates the interest in the UTC agenda (which is not a problem in the context of the paper). This bias does not exist for bound tariff rates, which all date from the Uruguay Round and have not changed since then.

³ Korea has a larger economy than any individual ASEAN country.

For simplicity sake, Table 2 is limited to five tariff categories:

- no duty,
- tariff rates lower than 5 percent that are unlikely to constitute a serious trade barrier *per se*, but that may be the source of red tape in countries with weak customs administration,
- moderate tariff rates (5 to 10 percent),
- significant tariff rates (10 to 15 percent) and
- peak tariffs, defined as those higher than 15 percent (i.e. the tariffs that the Doha Round would have largely eliminated in terms of bound tariffs on industrial goods).

Table 2 allows for two interesting observations on applied tariff rates. First, more than half of the S PTA partner countries, as exhibited in Block A, have a minimum of 18 percent of all tariff lines that fall in the ‘tariff peak’ category. This high share of peak tariffs indicates that a substantial part of S partners’ domestic production is still highly protected, simply because, by their sheer size, small countries can produce only a limited range of products. It is quite possible, against this background, that peak tariffs on 18, 20, or 25 percent of all tariff lines are sufficient to protect the entire domestic production of these countries.⁴ As such, the potential for preferential liberalization in more than half of the S partners covered in Block A is substantial, to say the least.

⁴ The high shares of duty free in some countries such as Jordan or Tanzania are consistent with this interpretation.

Table 2. The unfinished tariff cuts agenda, selected PTAs⁵

Partner L	Partner S	Tariff lines: applied tariffs					Import values (shares)					Tariff lines: bound tariffs				
		duty free	tariff rates				duty free	tariff rates				duty free	tariff rates			
			0-5	5-10	10-15	>15		0-5	5-10	10-15	>15		0-5	5-10	10-15	>15
Block A. Information on Partners S																
EU27	Cariforum [a]	59.5	5.3	5.2	6.2	23.8	7.7	59.9	4.4	6.8	21.2	2.8	0.0	8.6	0.7	87.9
EU27	Chile	0.3	0.0	99.6	0.0	0.1	0.4	0.0	99.6	0.0	0.0	0.0	0.0	0.0	100.0	0.0
EU27	Egypt	7.1	54.2	20.5	0.0	18.2	24.4	52.7	12.6	0.0	10.3	2.8	11.7	8.9	4.1	72.5
EU27	Israel	60.1	0.9	14.3	23.0	1.7	75.8	0.5	12.2	11.3	0.2	9.4	25.8	13.1	10.1	41.6
EU27	Jordan	57.3	3.4	7.7	0.3	31.3	45.1	24.9	5.6	1.0	23.4	7.3	22.1	16.1	8.2	46.3
EU27	Korea	17.3	10.3	63.6	6.9	1.9	38.8	33.8	25.5	1.5	0.4	15.9	7.6	23.2	34.6	18.7
EU27	Mexico	20.7	31.2	12.6	12.7	22.8	39.7	0.7	42.2	5.0	12.4	0.3	0.0	0.6	0.0	99.1
EU27	Morocco	0.0	23.3	43.3	0.0	33.4	4.4	34.8	26.4	0.0	34.4	0.0	0.1	0.4	0.0	99.5
EU27	Turkey	25.9	37.7	26.9	6.1	3.4	39	37.5	18.5	2.2	2.8	3.9	3.7	4.1	10.9	77.4
US	CAFTA-DR [a]	59.5	5.3	5.2	6.2	23.8	7.7	59.9	4.4	6.8	21.2	2.8	0.0	8.6	0.7	87.9
US	Chile	0.3	0.0	99.6	0.0	0.1	0.4	0.0	99.6	0.0	0.0	0.0	0.0	0.0	100.0	0.0
US	Israel	60.1	0.9	14.3	23.0	1.7	75.8	0.5	12.2	11.3	0.2	9.4	25.8	13.1	10.1	41.6
US	Jordan	57.3	3.4	7.7	0.3	31.3	45.1	24.9	5.6	1.0	23.4	7.3	22.1	16.1	8.2	46.3
US	Korea	17.3	10.3	63.6	6.9	1.9	38.8	33.8	25.5	1.5	0.4	15.9	7.6	23.2	34.6	18.7
US	Mexico	20.7	31.2	12.6	12.7	22.8	39.7	0.7	42.2	5.0	12.4	0.3	0.0	0.6	0.0	99.1
US	Morocco	0.0	23.3	43.3	0.0	33.4	4.4	34.8	26.4	0.0	34.4	0.0	0.1	0.4	0.0	99.5
KOR	ASEAN	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
KOR	Chile	0.3	0.0	99.6	0.0	0.1	0.4	0.0	99.6	0.0	0.0	0.0	0.0	0.0	100.0	0.0
KOR	EFTA [b]	<--92.4-->		<--7.1-->		0.5	<--94.7-->		<--4.9-->		0.4	<--82.7-->		<--16.6-->		0.7
TUR	Egypt	7.1	54.2	20.5	0.0	18.2	24.4	52.7	12.6	0.0	10.3	2.8	11.7	8.9	4.1	72.5
TUR	Israel	60.1	0.9	14.3	23.0	1.7	75.8	0.5	12.2	11.3	0.2	9.4	25.8	13.1	10.1	41.6
TUR	Morocco	0.0	23.3	43.3	0.0	33.4	4.4	34.8	26.4	0.0	34.4	0.0	0.1	0.4	0.0	99.5
Block B. Information on Partners L																
EU27		26.2	38.9	27.2	6.7	1.0	54.8	27.7	11.1	5.6	0.8	28.4	37.2	26.6	6.9	0.9
US		47.5	27.3	17.5	5.0	2.7	48.3	41.1	6.2	0.8	3.6	47.6	26.7	16.7	5.0	4.0
Korea		17.3	10.3	63.6	6.9	1.9	38.8	33.8	25.5	1.5	0.4	15.9	7.6	23.2	34.6	18.7
Turkey		25.9	37.7	26.9	6.1	3.4	39	37.5	18.5	2.2	2.8	3.9	3.7	4.1	10.9	77.4
China		7.8	19.9	46.5	14.3	11.5	48.4	18.2	27.8	2.9	2.7	6.5	18.4	47.1	14.5	13.5
Japan		56.5	25.8	15.0	2.0	0.7	84.0	9.0	5.6	1.2	0.2	55.9	25.7	15.3	2.0	1.1

Source: WTO, World Trade Profiles, 2010 (www.wto.org). Notes: [a] Based on the tariff and import structures of the Dominican Republic, the largest member of both PTAs (half of the Cariforum GDP and one third of the CAFTA-DR PTA). [b] Data for EFTA are the averages of the Norwegian and Swiss tariffs, which make sense if one aggregates the two lowest ranges of tariffs.

Secondly, the potential for preferential liberalization in other S partners listed in Block A (Chile, Israel, EFTA, as well as Korea and Turkey as S partners) is much lower. This observation, however, deserves additional remarks. First, Chile makes for a special case. The uniform Chilean tariff of 6 percent does not allow for high preferential margins.⁶ The same applies to EFTA. These considerations leave potential for substantial preference margins for only three countries: Korea, Turkey and Israel. In the case of Korea, potential preferential margins do not have any significance as Korea has already concluded PTAs with the US and the EU. Any other PTA partner of Korea will only be able to eliminate US and EU preferential margins through the conclusion of a PTA. As a result, there are prospects of significant preferential margins only in the cases of Turkey and Israel, which, however, apply very low tariffs already.

Interestingly, Table 2 also shows that imports associated with the peak tariff category are substantial where a large amount of peak tariffs exist (i.e. where peak tariffs exceed more than 10

⁵ Table 2 does not provide tariff data for ASEAN members, due to the complexity of this agreement.

⁶ This is all the more so because a uniform tariff reduces considerably the risk of red tape associated to tariff dispersion.

percent of tariff lines). In fact, goods imported under peak tariffs exceed 10 percent in half of all S partners. The fact that peak tariffs have not been able to repress the demand for the protected imported goods suggests the existence of a significant potential demand for additional imports by S partners once the tariff peaks are eliminated. This observation has two consequences for PTA negotiations:

- on the one hand, it suggests that there are vested export interests in L partners that are ready to fight for the elimination of S partners' tariff peaks because they could significantly expand their commercial opportunities in S partners' protected markets;
- on the other hand, it also suggests that there are vested interests in the importing S partners, powerful enough (since they have been able to keep such a high protection despite wide-ranging unilateral and multilateral liberalizations) to keep such a high protection in place.

In short, tough negotiations should be expected with regard to peak tariffs, with possibly narrow but aggressive vested interests on both sides. This situation creates strong pressures on the domestic political economy, and hence suggests the need for the involvement of top policy-makers who may have to make tough decisions, and the high likelihood of heated political debates over the pros and cons of the respective PTA.

Turning to Block B which focuses on L partners (including Korea and Turkey when they are the large signatories in the listed PTAs) the UTC agenda on peak tariffs looks, at a first glance, more modest, with only 7 to 8 percent of the tariff lines featuring tariffs higher than 10 percent.

However, this result should be interpreted with the small size of S partners' economies in mind. Large signatories may have (very) few high tariffs, but those tariffs may be enough to hurt the few products exported by small economies. This point has been well documented for developing or least-developed countries since a long time [Laird 2002]. Table 2 covers plenty of such cases, such as EU tariffs on agriculture or cars, US tariffs on chemicals, etc.

Conclusion: The capacity of PTAs to deliver on the UTC agenda

The UTC agenda in terms of peak tariffs is likely to mobilize narrow – offensive and defensive – but aggressive vested sectoral interests. However, this does not mean that the PTAs are successful in addressing the UTC agenda. Indeed, there is evidence that PTAs have had a poor record on addressing the UTC global agenda. Only 10 percent of the tariff cuts implemented between 1983 and 2003 can be attributed to PTAs, compared to 60 percent to unilateral trade liberalizations and 25 percent to the multilateral trade regime [Martin and Ng 2004]. Turning to the UTC agenda in terms of peak tariffs, it is evident that only one-third of the peak tariffs have been cut by PTAs [WTO Secretariat 2012].

These results deserve a final remark. In the case of deep economic crises, PTA signatories could raise the applied tariffs they impose on the imports coming from countries with whom they do not have PTAs up to the bound (MFN) level. In other words, PTAs work as an “insurance mechanism” against unsound trade measures among PTA partners. But this may be at great costs for non-PTA countries since stronger restrictions could be imposed on imports from the non-PTA countries as a way to compensate the absence of restrictions on imports from the PTA partner.⁷

This feature was probably marginal in the minds of the negotiators until the late 2000s. However, it was clearly present in the way the EU and Central European countries shaped the pre-accession Association Agreements of the Central European countries during the early 1990s. The EU and its

⁷ In this respect, PTAs echo the “imperial preferences” of the first half of the 20nd century. In fact, there are very different reasons to address the UTC agenda. First is to get preferential access to the partner's markets (offensive approach). Second is to get preferential access for slowing down the entry of new competitors into the partner's markets (defensive approach) – a motive definitively more damaging for the small partners because it intends to “maximize” trade diversion. This seems more recent (it may require the emergence of large new competitors, a recent evolution). Its most recent illustration are the EU PTAs with the African, Caribbean and Pacific countries.

Central European partners were clearly looking at the Association Agreements as a way to make them immune to contingent protection (antidumping) on imports from both sides, at the cost of higher contingent protection against non-European countries. With a prolonging crisis, this highly discriminatory “bilateral binding” achieved by PTAs may become a feature that countries may look after – clearly an undesirable evolution from the perspective of the world trading system.

Section 3. The 21st century trade agenda

The most frequent argument mentioned today for explaining the proliferation of PTAs is their alleged capacity to deal with “non-tariff issues” – the so-called 21st century trade agenda: technical norms for goods, regulatory barriers to trade in services, international investment, intellectual property rights, environment, etc. These issues have become dominant under the pressure of the increasing fragmentation of the supply chains across many countries [Baldwin and Low 2009, Baldwin 2011, Baldwin 2012]. Such a fragmentation is economically valuable since it allows firms to make better use of every country’s comparative advantages.

The Uruguay Round could not address these issues because most of them were still embryonic in the early 1990s since the appropriate information and telecom technologies were not developed enough. The Doha negotiations have been stuck in endless fights over (often ridiculously tiny) tariff cuts, diverting away attention from the 21st century trade agenda.

PTAs therefore remain the only place to address 21st century trade topics. This motive has some attraction, but two pieces of evidence suggest that existing PTAs are still far from addressing the agenda’s substance in a satisfactory way.

The 21st century trade agenda vs. the geographical pattern of PTAs: A mismatch

The 21st century trade agenda does not match the geographical pattern of the existing PTAs in several respects:

- there is a large number of PTAs in regions, such as Africa or Latin America, with very limited value chain networks.
- in 2010, there were only two PTAs between the EU or the US, on one side, and Asia Pacific countries on the other side, although these regions are the two key ends of supply chain networks. Both PTAs involve Korea, and evidence provided below (section 4) suggests that the conclusion of these agreements has been largely driven by Korea’s strategic PTA policy. The US and the EU have mostly dealt with the 21st century trade concerns within NAFTA and within the realm of the accessions of Central European countries to the EU, respectively, both of which have been (much) less effective in building value chain networks.
- future PTAs – e.g. the Trans-Pacific Partnership (TPP) or the EU target countries in East Asia (Japan-EU PTA, ASEAN-EU PTAs, etc.) – do not include China, which is key for most value chains.

Loose fit with the PTA texts

Moreover, the core of the 21st century agenda – norms in goods (sanitary and phytosanitary measures - SPS, technical barriers to trade - TBT) and regulatory issues (government procurement, investment, intellectual property rights (IPRs) and services) – is still marginal in the existing PTA texts.

A first measure of the importance of these topics is the number of words used in the PTAs texts. A modest sample of four PTAs (EU-Cariforum, EU-Korea, US-Korea and US-Mexico) show that less than 3,000, 10,000, 15,000 and 20,000 words are devoted, respectively, to norms (SPS and TBT), public procurement (including the names of the institutions subjected to the PTA disciplines), IPRs

and services. Provisions stated in a few words can be of two types. Either they draw short lists of vague intentions with little impact, if any. Or they reflect an agreement among the signatories on the few basic principles to be enforced in detail in the future. An example of this second case is the Treaty of Rome, which deals with services in 700 words. But, this brevity has required a huge secondary legislative effort (more than 600 EU laws) during the last three decades, which has revealed, sometimes unexpectedly, serious divergences on how to implement the basic principles (the exact treatment of state-owned enterprises or the definition of the notion of “public service”).

Any attempt to distinguish between these two opposite types should take into account the ‘bindingness’ of commitments. Legally binding commitments would speak in favor of the second interpretation (agreements on principles) while their absence would point to the first interpretation (vague intentions). Horn, Mavroidis, and Sapir [2009] have recently developed a measure of the ‘bindingness’ of commitments in EU and US PTAs. Unfortunately, the Horn-Mavroidis-Sapir (HMS) indicators do not make a distinction between different types of legally binding commitments, i.e. those that govern procedures (for instance, provisions on ‘exchange of information’) and those that govern liberalization measures (for instance, provisions on services market liberalization). It seems reasonable to argue that only the second type of legally binding commitments constitute a robust basis for a deep integration interpretation. In other words, the existing HMS indicators are likely to systematically over-estimate the 21st century agenda, which, in fact, does not seem to dominate the existing PTAs.

This conclusion is re-enforced by a thorough analysis of provisions on services in selected PTAs [Adlung and Miroudot 2012]. This analysis provides strong evidence that PTA provisions in services are often GATS “minus”, raising serious concerns on the true achievement of the PTAs in question.

Section 4. The capacity of PTAs to contribute to domestic pro-growth reform agendas

So far, the quest for PTA motives has focused on pure trade issues, notably PTA negotiations and implementation as a faster process or as a better instrument for addressing the UTC and the 21st century agendas. Such a quest does not fully meet the basic proposition set in the introduction: PTAs take their full dimension only if they contribute to the much broader domestic reform agenda of their signatories aiming to boost domestic growth by making domestic firms more efficient. By acceding to foreign markets, domestic firms can operate on markets larger than the pre-reform domestic markets, hence become more efficient by “expanding” their ability to exploit larger scale economies and/or wider varieties of products.

Table 3 captures this dimension with a simple indicator – the PTA “market expansion capacity” defined as the ratio of the GDP of all the signatory’s PTA partners to the signatory’s own GDP. This indicator is based on GDP data because there is a need to get a global perspective, which is not too dependent on the changes of the export and import composition that PTAs result in once implemented. Table 3 provides such indicators on market expansion capacities (columns 3 and 4) for all the PTAs already negotiated by the US, the EU, Korea, and Turkey.

Table 3. PTA market expansion capacity and WTO approximation

	Number of		PTA market			WTO approximation [c]
	PTAs	Part- ners	expansion capacity			
			ratio [a]	productivity index [b] per PTA per partner		
All the negotiated PTAs						
EU27	32	58	0.40	0.01	0.00	14.2
USA	16	29	0.37	0.02	0.00	10.7
Korea	12	29	50.22	4.19	0.14	67.2
Turkey	19	30	31.81	1.67	0.06	31.3

Sources: WTO, EU, USTR web sites. *Notes:* the number of partners does not take into account the signatories of the OCT (EU), GSTP (Korea), PTN (Korea, Turkey), Canada (US) and the Central European Member States (EU).

Table 3 suggests two main observations:

- for the US and the EU, all negotiated PTAs combined have a limited market expansion capacity – 37 and 40 percent of the US and EU initial domestic GDPs. Taking into account the fact that US and EU PTA partners do not fully open all their agricultural and services sectors vastly reduces these estimates, at least by half. Of course, such small market expansion capacities mirror the fact that the US and the EU are the two largest world economies. However, as demonstrated below by using the notion of “PTA productivity”, it also suggests a poorly designed PTA approach by these two countries. Moreover, it has key consequences in terms of the domestic political economy games in small and large countries.
- by contrast, the market expansion capacity of Korea’s and Turkey’s PTAs amounts to large multiples of their own respective GDP (50 times in the case of Korea, 32 times in the case of Turkey). Even if one assumes that the EU and US do not open their agricultural and services sectors to their partners to a significant extent (70 percent of their GDP) the potential contributive capacity of these PTAs remains huge – roughly 16 times in the case of Korea, 10 times in the case of Turkey. Of course, this result mirrors the fact that Korea and Turkey are middle-sized economies having PTAs with the EU, and the US in the case of Korea. But, as shown below by the “PTA productivity” notion, there is a key difference between Korea and Turkey – substantial enough to suggest a very well designed PTA policy for Korea and a much less convincing PTA policy by Turkey.

The notion of a “PTA policy” and its productivity

Table 3 also shows that the highly diverse contributive capacities of PTAs to the broader domestic reform agendas have required the signing of a very different number of PTAs: 32 (EU) 16 (US) 12 (Korea) and 19 (Turkey). Moreover, some of these PTAs involve a large number of partners (for instance, Cariforum, ASEAN and CAFTA-DR): 58 partners (EU) 29 (US) 29 (Korea) and 30 (Turkey).

Combining these differences in terms of PTA numbers and partners with the market expansion indicators suggest the notion of average “productivity” of the PTA approach followed by a given country during a given period (aggregating all the PTAs signed). This productivity is defined as the average market expansion indicator divided by the number of PTAs (or number of PTA partners) signed by a country.

Table 3 shows that US and EU PTAs signed in the past exhibit a very poor average productivity whether expressed in terms of PTAs or PTA partners. This feature reflects an absence of a US and EU

PTA “policy” in the sense that the US and the EU did not make strategic decisions about their negotiation partners from an economic perspective.

Rather, the US and EU appear to have chosen partners on the basis of “ad hoc” motives. More precisely, the US case reflects two unrelated motives behind the US PTA approach: a motive created by the failure of the Free Trade Area of the Americas (PTAs with Colombia, Peru, CAFTA-DR) which was driven by a mix of economic and political considerations, and a motive dominated by the 9-11 events and US foreign policy (Bahrain, Australia, Morocco, Oman, see section 8 for a more detailed discussion). For the EU, the absence of a PTA policy based on economic considerations reflects the fact that the EU’s PTA approach is largely the mere aggregation of traditional EU Member States’ zones of influence and associated interests: France with regard to Africa; Spain and Portugal with regard to Latin America; Germany, Poland and Sweden with regard to Eastern Europe; and France and Italy with regard to the Mediterranean countries, etc.

By contrast, Korea’s and Turkey’s average productivity is significantly higher – indicating that a PTA policy based on clear motives has been designed and implemented. But, there is a key difference in the motive adopted by Turkey and Korea. The motive driving Turkey’s choice of PTA partners is its interest in the Middle East and Mediterranean regions – clearly a political motive with very limited economic impact (as stressed by the low expansion capacity indicators) because most Middle East and Mediterranean economies are small and with limited growth.⁸ By contrast, Korea has deliberately adopted an approach to PTAs driven by economic considerations, by positioning itself as a hub of PTAs with large economies (the EU, the US, China and Japan). In fact, in 2003-2004, Korea set up an “FTA roadmap” based on four core principles, namely (i) multiple-track FTAs, (ii) advanced and comprehensive FTAs, (iii) transparent procedures in preparing FTA policy, (iv) foreign policy considerations in choosing FTA partners [Kang 2010].

Section 5. The potential substitutability to the WTO

Can certain PTA policies – policies meaning a “strategic” vision of PTAs as an engine for boosting a domestic pro-growth reforms agenda – be a substitute to the WTO? This issue is distinct from the alleged ‘speed factor’ that may incentivize the negotiation of PTAs compared to WTO negotiations, as examined in section 2. Here, we define the potential WTO substitutability of the WTO through PTAs as the capacity of a PTA policy followed by a country to deliver access to foreign markets of a comparable magnitude to the one that this country could have expected as a result of successful Doha Round negotiations.

A vague sense of WTO substitutability can be provided by a simple indicator, namely the global size of markets opened by a PTA policy compared to the size of the world markets that a WTO Round would open. Table 3 shows that all US and EU PTAs are far from being a substitute to WTO negotiations since, altogether, these PTAs give access to less than 13 percent of world GDP for the US, and less than 18 percent for the EU – far away from the benchmark of 85 to 90 percent that could be reasonably assumed for the scenario of successful Doha negotiations.⁹

⁸ Turkey’s strategic choice is largely related to the difficult EU-Turkey relations. The Treaty on the customs union with the EU (Article 16) requires that Turkey aligns its commercial policy with the EU’s in terms of PTAs. However, implementing these provisions has proven to be difficult. First, the countries having a PTA with the EU have been reluctant to conclude a PTA with Turkey because they wanted to grant preferences to the EU alone. Second, the EU did not help Turkey (the Commission gave no advance notice of the PTAs targeted by the EU after the EU-Turkey custom union) presumably because the EU wanted to keep its monopoly as the regional hub. All these factors have been amplified by the EU rebuttal of Turkey accession which has diverted Turkish attention to the traditional “Ottoman” region of influence. The main exception is the negotiations with Korea, which were quickly suspended after their opening before being restarted in January 2012 following a Korean initiative (not included in Table 3 data).

⁹ The benchmark of 90 percent is adopted because it takes into account the fact that the Doha negotiations have de facto allowed many developing countries to take limited commitments. As Table 3 is based on GDP data for 2009-2010, it

Once again, Korea emerges as the only country among the four large signatories of the chosen PTA sample, which has adopted a PTA policy that delivers a close substitute to what could have been achieved through a Doha deal. Indeed, since January 2012, Korea's substitutability is even higher – especially if one includes the opening of the Korea-China PTA negotiations and the conclusion of the Korea-Turkey PTA negotiations. Turkey's PTA policy, on the other hand, appears to be a poor substitute to a successful Doha Round, reflecting its political – non-economic – rationale for the negotiation and conclusion of PTAs.

Section 6. Foreign and development policy agendas

Finally, PTAs negotiations may be driven by foreign and development policy agendas if one defines such agendas in broad terms, including not only the military and “hard” power aspects but also the “soft” power aspects of economic integration and cooperation, and the fact that PTAs enable countries to export their regulatory approaches, as a vehicle for promoting their influence [Ahnliid 2012].

It should be stressed that this motive fits the timing of PTA proliferation particularly well, suggesting that its role has been essential for the following reason. The rapid end of the Cold War has forced most countries to reshape their foreign policies – sometimes in great haste. This has been even more so the case for small countries – a feature which helps to explain the large share of PTAs with small signatories. Trade policy is one of the easiest ways to show new foreign policy commitments and orientations – as best illustrated by the Central European countries which, when they failed to enter NATO in the early 1990s, made their accession to the EU a substitute to NATO membership.

Although this motive has been neglected by most economic studies of PTAs, it is well documented for the US [Hufbauer and Adler 2010, van Grastek 2010] and for the EU [Messerlin 2001]. But the list of PTAs illustrating the influence of the foreign and development agendas is much longer, as illustrated by the following examples. MERCOSUR, first, is deeply rooted in the desire to improve the political relations between Argentina and Brazil. The large number of PTAs involving countries from Central Europe and the former USSR, secondly, reflect the dramatic reshaping of the political relations between these countries in the aftermath of the fall of the Soviet empire. Last but not least, the “noodle bowl” of PTAs in Asia mirrors the foreign policy agendas implemented as a result of the rapid re-emergence of Asian super-powers, China and India [Bark and Kang 2011].

An aspect related to this motive is the frequent reference to some kind of race among countries for concluding PTAs with the same partner. For instance, Table 1 may give the impression that such a race took place between the US and the EU. However, a more careful analysis does not provide a strong support to such a race. First, the “twin” PTA scenario involves only one third of the EU PTAs and 45 percent of the US PTAs. Second, there are relatively long time lapses between the adoption of “twin” US and EU PTAs: five years for Mexico, eight years for Morocco, ten years for Israel, etc. These time lapses can hardly be explained by substantial differences in the content of the agreements, except maybe in the case of Mexico. Last, the “twin” PTAs, which the EU and the US have negotiated almost simultaneously, occurred in different periods (Chile in the late 1990s, Caribbean in the early 2000s and Korea in the late 2000s). And, at least in the case of Chile and Korea, such proximity in terms of timing rather reflects Chile's or Korea's PTA policies and objectives than a competitive relation between the US and EU liberalization efforts.

(Contd.) _____

tends to over-estimate the PTA potential substitutability. Despite such a favorable bias, US and EU PTAs are clearly far to be a substitute to a successful Doha Round.

Section 7. Domestic political economy games behind PTAs

The main conclusion from the sections above is that PTAs seem to be the outcome of all these six motives. None of them appears to be utterly dominant, and none irrelevant. Does such a complex set of motives generate PTAs in a chaotic way, or is there some pattern in the domestic political economic games that drive the creation of PTAs? In the latter case, could one predict the main obstacles and driving forces inherent to such games in the countries envisaging the PTA in question?

In order to answer these questions, Table 4 maps the six motives examined in the previous sections with the five following main groups of domestic actors:

- top policy-makers (Presidents and Prime Ministers, possibly Ministers of Finance or Economy and Ministers of Foreign Affairs);
- other policy-makers with some interests in trade matters (Trade Ministers, and all sectoral Ministers from agriculture to industry to culture or tourism);
- domestic economic vested interests closely related to the bilateral trade liberalization at stake, i.e. domestic offensive interests supportive of the opening of the partner's markets and domestic defensive interests supportive of keeping intact the existing protection of domestic markets;
- domestic actors having an international agenda related to foreign or development policies (public development agencies, NGOs with an international agenda or with a national agenda that they try to impose via international agreements);
- Parliaments, which are, in most countries, the institution ratifying international treaties.

Table 4 presents this mapping from two perspectives: the perspective of small signatories negotiating with large partners (block A) and the perspective of large signatories negotiating with small partners (block B). The cases of countries with similar size are briefly examined in the concluding remarks because they can be derived from the two asymmetrical cases. Table 4 describes the likely behavior of each of the actors.

Table 4. The motives as shaping domestic political economy games

	Possible motives behind PTAs					
	Speed factor	Unfinished tariff cuts agenda	21st Century agenda	Domestic reform agenda	Substitute to Doha Round	Foreign or development
	1	2	3	4	5	6
A. Smaller signatories negotiating with large partners						
Top policy-makers (Presidents, PMs)				high		nil to high
Other policy-makers (Trade, Industry, Ag.)	high	high	high		high	
Vested trade interests (pro- or anti-PTA)	high & wide	high & wide	high & wide			
Foreign/development interests						high
Parliaments		high	nil to high	high	high	high
B. Larger signatories negotiating with small partners						
Top policy-makers (Presidents, PMs)				low		nil to high
Other policy-makers (Trade, Industry, Ag.)	low to high	low to high	low to high			
Vested trade interests (pro- or anti-PTA)	high but narrow	high but narrow	high but narrow			
Foreign/development interests						nil to high
Parliaments		marginal	marginal			nil to high

Top policy-makers

Top-policy makers are focusing almost exclusively on the broad domestic reform agenda of their country – especially in periods of crisis. They are well aware that achieving such agendas requires

many policies and instruments other than PTAs, such as improved macroeconomic policies, domestic regulatory reforms, increasing competition in domestic markets, etc. In short, they are interested in PTAs only to the extent that these PTAs have a notable contributive capacity to such agendas. Moreover, they see PTAs as one instrument among many others and often perceive trade policy as particularly arcane sources of domestic fights between vested interests, full of details they have a hard time with to master. Finally, they are unlikely to pay attention to the five other motives, which could drive PTAs, except possibly foreign and development policies. Two key consequences can be drawn from this situation:

- top policy-makers of small signatories (which include Korea and Turkey when they sign PTAs with the US or the EU) are ready to put PTAs with larger economies on the top of their agenda because such PTAs are likely to have a substantial impact on their domestic reform agenda, given the sheer size effect of the partner's economy. These top policy-makers are then likely to play an active role in promoting such PTAs in their country.
- by contrast, top policy-makers of large signatories (the US and the EU for all their PTAs, Korea and Turkey for their PTAs with smaller signatories) are reluctant to invest their political capital in PTAs with small countries to the extent that such PTAs cannot deliver a strong support to their broad domestic reform agenda – again, because of the sheer size effect of the partner's economy. Top policy-makers thus tend to be absent from the domestic political games of large signatories. PTAs fate in the large countries depends mostly on the other actors, a feature which (as seen below) explains largely the acrimony of PTA debates and the volatility of the respective decision-making.

Other policy makers

By their nature, these actors are in close contact with – and hence lobbied by – the domestic interests having offensive (opening markets) or defensive (keeping them closed) interests in the UTC and 21st century trade agendas. They may also be convinced by the speed factor. These policy-makers have thus an intrinsic and strong tendency to look at PTA negotiations as a stand-alone activity, largely independent from the potential contributive role of PTAs to the domestic reform agenda of their country. The asymmetry of the political economy games is also very strong:

- such motives should be expected to play a particularly powerful role in the small countries – in favour of PTAs or against them – simply because of the size of the large signatory makes the UTC and 21st century agendas looking big in terms of opportunities and threats.
- by contrast, in large countries, the role of these other policy-makers is likely to be (much) more limited because of the small size of the partners, which involve narrow interests compared to the whole economy of the large signatory.

Offensive and defensive vested economic interests

These actors' interests are essentially driven by the UTC and 21st century trade agendas, which may be offensive (opening markets) or defensive (keeping markets closed). They are expected to play a role in large and small signatories. However, there is a key difference between these two types of signatories:

- vested interests of the small signatories are likely to involve a wide range of the country's economic activities because the larger country offers such a wide range of opportunities (offensive interests) or of threats (defensive interests) to the firms of the smaller partner.
- by contrast, the economic vested interests in a large economy, which can be mobilized by PTAs with small economies, are likely to be concentrated in small niches – the small country's markets offer opportunities only to a few firms of the large country and the small country's exporters do not threaten a large number of firms in the large economy.

A first look at political economy dynamics

The interactions among these three first groups of domestic actors generate two very different political economy dynamics in smaller and larger negotiating partners.

- when negotiating with a larger country, the smaller country will benefit from a wide debate on the PTA (as most of the country's vested interests will want to express their views) with strong incentives for both top policy-makers and other officials (because of their functions, such as the trade officials, or because of their relations with the vested interests, such as the Industry or Agriculture Ministries) to be actively involved.
- in sharp contrast, the large signatory of a PTA with a small partner will witness a (very) limited debate, with few and narrow pro- and anti-PTA vested interests running the debate. Top policy-makers are likely to be reluctant to spend their political capital on such arcane and potentially politically dangerous issues. Other officials will hold a wide range of positions, from supportive to hesitant, depending on specific features of the small partner's economy and contingent on the circumstances in world affairs and the domestic economy.

Foreign and development policies

The motives of this fourth – broader – group of officials and lobbies are very different from those driving the trade-related officials, and they are very heterogeneous within this group since they range from pure foreign policy concerns to development, climate change, and human rights to animal welfare. As a result, it is hard to see how this group could be the anchor of robust coalitions during the negotiation process. This is particularly the case in large countries, which are those that need the strongest push from this group in order to reach a decision.

That said, foreign policy and development officials of large countries are expected to favor PTA provisions that satisfy the smaller (and likely poorer) partner in order to get a robust ally in international relations. They should thus favor generous concessions from their own country – the larger (and likely more developed) partner.

The problem is that such views fly in the face of the narrow offensive vested economic interests in the large signatory (and of their related policy-makers) which will instead insist on provisions opening the small country's UTC and 21st century agendas - all provisions which are likely to make the most powerful lobbies of the smaller signatory unhappy (those who have been able to keep protection during the last fifty years).

Parliaments

Few Parliaments are truly active in PTA ratifications. In small countries, most Parliaments tend to ratify negotiated and government signed PTAs with few difficulties, reflecting the wide debate and the strong involvement of the top policy-makers.

The situation is quite different in the two largest world economies. The US Constitution gives prominence to Congress in trade negotiations and the US Administration needs the Congressional approval to open trade negotiations. The other exception is the EU with its complicated system of two Houses. The European Council of Ministers (the "Upper" House in trade matters) defines the Commission's mandate of negotiations and is *de facto* the first House to ratify the outcome. The European Parliament is now the second House that ratifies a trade treaty. In the US and, possibly increasingly, in the EU, the parliamentary approach to PTAs with smaller economies may range from plain disregard (no policy-makers and no interest groups powerful enough are pushing for the PTA at stake or fighting against it) to intermittent or chaotic interests (when the fights among tiny but aggressive offensive and defensive interests are inconclusive and when no top policy-maker is eager to spend political capital on the PTA in question). The second situation is by far the most likely: one does

not need to be a lobby with a large popular support to attract interest from a US Congressman or from a Member of European Parliament in Houses gathering 535 or 754 members. Whatever the reason, the ratification process then becomes highly acrimonious and volatile, as best illustrated by the US ratification process applying to PTAs negotiated with Korea, Colombia and Peru.

Concluding remarks

As the comatose Doha Round leaves PTAs as the only way to deliver trade liberalization, it is essential to understand the main motives behind the negotiation and conclusion of PTAs. There is no robust and strong evidence that PTAs are faster to negotiate and to implement than WTO deals but the fact that such a perception is widely shared among many officials still makes it an important motive for launching PTA talks. The “unfinished tariff cuts” (UTC) agenda still has a lot of attraction. Even if tariffs are low or moderate on average, there are still a lot of peak tariffs to be dismantled. The 21st century trade agenda (norms and regulations) is slowly emerging as an important PTA dimension, but its role in existing PTAs does not yet reflect the importance it will likely have in the future. PTAs can also be used as a vehicle to gain access to all key world markets and as a substitute to WTO negotiations. Finally, foreign and development policies have many and large overlaps with trade policy in today’s world.

Mapping all these motives with the main groups of decision-makers suggests very asymmetrical political economy games in small and large partners. The outcome of such games seems quite predictable in the smaller negotiating partner, while it seems largely unpredictable in the larger partner. If the two partners are of similar size, the games may become volatile, with results depending on how each partner perceives itself (the smaller partner or the larger partner).

Such domestic political dynamics deserve a last – but crucial – remark for trade policy at large. During recent years, they seem to have had a negative impact on the perception of trade policy by the public. This negative impact can be observed in both large and small partners, though for different reasons.

- because offensive and defensive vested interests in the large country are limited to tiny sectors, the public opinion in such countries becomes convinced that the decisions on the PTA at stake – and on trade policy in general – are captured by tiny vested interests, hence that they ignore the country’s global interests. Debates on PTAs then tend to quickly degenerate into a widespread and cynical anti-free trade mood in the country.
- because most PTAs today are *de facto* bilateral agreements, they are easily perceived by the public of the smaller country as a “victory” of the larger partner (seen as able to impose its conditions with few concessions from its side) and as a “defeat” of the smaller one (seen as forced to accept the larger partner’s conditions with few gains from its side). Of course, the defensive interests of the PTA at stake disseminate actively this negative perception in their respective countries. Hence, debates can also degenerate into a widespread anti-free trade mood in the country, with free trade seen as an “oppressive” force in the hands of the larger country and its larger firms.

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