

Multilateralizing FTAs: What About Services?

Cape Town

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Multilateralizing Regionalism

Core reference

Baldwin, R.E. (2006), “Multilateralizing Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade”, The World Economy Pp. 1451-1518

Multilateralizing Regionalism (cont.)

- Political economy explanation for continuing trade liberalization
 - Juggernaut effect, where liberalization begets liberalization, with shifting interest group politics
 - Domino effect inducing regionalism, where interest groups seek to avoid losses as well as realize new commercial gains
 - ‘Race-to-the-bottom’ unilateral liberalization, where competitiveness concerns induce opening

Multilateralizing Regionalism (cont.)

- A multiplicity of “fuzzy” and “leaky” regional arrangements in a world of tumbling tariffs creates growing incentives to clean up the messy patchwork of FTAs
- This is driven in part by the internationalized production sharing, diluting the ‘them’ and ‘us’ logic
- The story is primarily about trade costs (rules of origin, cumulation and exclusion) and growing support for their elimination – hence multilateralization

Multilateralizing Regionalism (cont.)

- Will this dynamic work behind the border, in the context of regulation? This depends on:
 - Closeness of regional and multilateral arrangements in substantive terms (how deep has regionalism gone?)
 - How far deliberate market segmentation and diversion has occurred
 - The severity of the distributional consequences of harmonization tendencies
 - Feasibility and credibility of compensatory measures to address distributional fallout
 - The resource costs of upward harmonization for some countries or “race-to-the-bottom” effects for others

Multilateralizing Regionalism: The Case of Services

- On the one hand, some regional regulatory cooperation will perforce be non-discriminatory
- Also rules of origin are not by and large overly restrictive
- But problem where quotas are applied (e.g. Mode 3) and first-mover advantages, plus hidden discretionary authority
- And to what degree have regional preferences created significant vested interests that rely on these preferences (Baldwin's analysis suggests limitations here)
- Moreover, in many respects regional services agreements have not gone much further than the GATS

Multilateralizing Regionalism: The Case of Services (cont.)

- A number of FTAs already contain extra-territorial MFN obligations, implying built-in limitations to regional preferences
- Positive spillover effects in services – experimentation and learning
- Absence of agreements among the big players will emphasize multilateral approach
- Importantly, services as inputs emphasizes efficiency aspects of non-discrimination (best technology, lowest transactions and trade costs)
- But complications of issue trade-offs in multilateral setting