

Multilateralizing RTAs in the Americas: State of Play and Ways Forward

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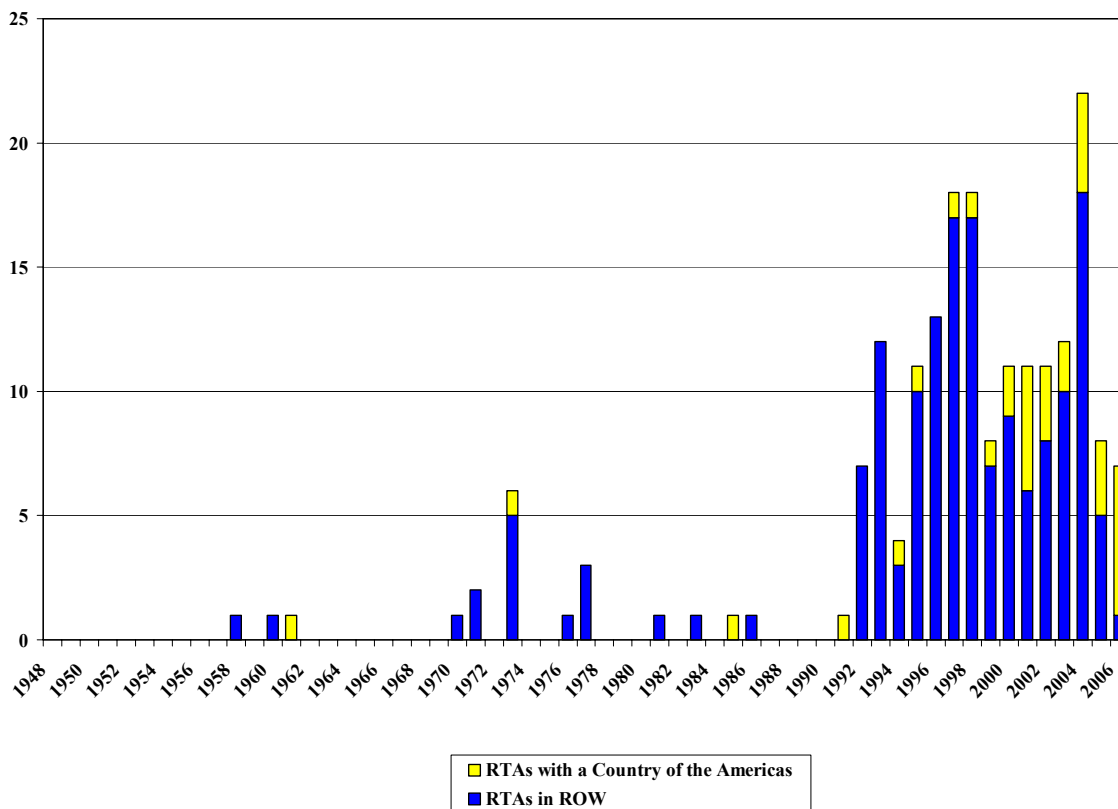
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I. Introduction

The countries of the Americas¹ have been key drivers of the now global spree of regional trade agreements (RTAs). Collectively, the regional economies have notified three dozen intra- and extra-regional RTAs to the World Trade Organization (WTO) (figure 1), and are negotiating several further ones. Major contributors to the global spaghetti bowl of RTAs and the source of nearly a fifth of global trade, the countries of the region can also play a major role, if not serve as *the* focal point, in the search for options for multilateralizing RTAs—for arriving at global free trade by way of regionalism.

Figure 1 – RTAs Notified to the WTO in the Americas and around the World, 2007



¹ Due to methodological issues, “Americas” and “hemispheric” refer in this paper to a group composed of Canada, the Dominican Republic, Mexico, Central and South America, and the United States.

Conceptually, multilateralization can be accomplished through two alternative (yet also complementary) measures: (1) deepening liberalization by RTA members vis-à-vis each other while also reducing discrimination toward non-members until it becomes inconsequential; and/or (2) incorporating non-members to an RTA until all countries are members. The latter measure in particular would by default eradicate one of the key potential problems of the RTA spaghetti bowl of overlapping agreements, namely differences in rules between the various RTAs. Simply put, multilateralization would “flatten” and expand RTAs; this would also tame the RTA rule tangle.

The purpose of this paper is to examine the extent of liberalization in RTAs in the Americas in comparison to agreements in other world regions, and to put forth policy recommendations for multilateralizing the regional RTAs. While primarily focusing on market access in goods—and tariff lowering schedules, in particular—we also explore the regional RTAs’ employment of rules of origin, investment, and services provisions. While the analysis centers on the depth of liberalization accomplished by the region’s RTAs, we preliminarily investigate the extent to which the regional RTAs feature “open regionalism”—liberalization vis-à-vis third parties.

Our main finding is that the Americas is a highly liberalized region in terms of the maturity, geographical coverage, and depth of its RTAs. Rather than the pursuit of new negotiations, the region’s main challenge today is to further synergies between the existing agreements, all the while forging extra-regional ties with Europe and countries of Asia and deepening liberalization vis-à-vis third parties.

The following section takes stock of the advance of regional integration in the Americas, and details the “state of liberalization play” in the RTAs formed by the countries of the Americas. The third section surveys the extent of open regionalism in the Americas. Section four examines investment and services provisions. The fifth section puts forth policy proposals for further multilateralizing RTAs formed by countries of the Americas; section six concludes.

II. Liberalization in RTAs in the Americas

This section focuses on the depth of liberalization in RTAs formed by the countries of the Americas in a comparative perspective over the past decade and into the next 20 years. The first part describes the advance of integration in the regional economies’ trade policy portfolios. The second part centers on the liberalization statistics.

A. RTA Pathways in the Americas: From Intra-Regionalism to Trans-Continentalism

Countries in different regions of the world have had distinct RTA paths over the past two decades among four main “stations”: intra-regional blocs, intra-regional bilateral RTAs, continental megablocs, and trans-continental RTAs. In the Americas, the common path has been from intra-regional blocs to an attempted megabloc,

accompanied and followed by intra-regional bilateral agreements and, subsequently, trans-continental RTAs.

The first RTAs were intra-regional customs unions formed (or reformed) in the early 1990s—Andean Community, Caribbean Community (CARICOM), Central American Common Market (CACM), and the Southern Common Market (Mercosur). The North American Free Trade Agreement (NAFTA) launched in 1994 connected Canada, Mexico, and the United States. The same year, the first Summit of the Americas launched the 34-country negotiations for the Free Trade Area of the Americas (FTAA), which was to merge the aspiring customs unions and NAFTA under a single umbrella. The FTAA process was paralleled by bilateral agreements particularly between Mexico and Chile on the one hand, and numerous other countries of the region, on the other. The stagnation of the FTAA talks in 2003 furthered and “regionalized” the quest for bilateral intra-regional FTAs. Among the most recent highlights are the Mercosur-Andean Community FTA of 2004, the US-Central America-Dominican Republic FTA (DR-CAFTA) of 2005, and the culmination of the US-Colombia, US-Peru, US-Panama, Chile-Peru, and Chile-Colombia FTA negotiations last year.

Intra-regionalism is today yielding to trans-continentalism. Many regional countries have sought to establish an early foothold in Asia’s fast-growing RTA panorama. In 2003, Chile and South Korea signed the Asian country’s first comprehensive bilateral FTA, and in 2005, Chile concluded negotiations for a four-partite FTA (P-4) with Brunei Darussalam, New Zealand, and Singapore. An FTA between Chile and China—the East Asian economy’s first extra-regional FTA—went into effect in October 2006, and in November 2006 Chile became the second country of the Americas to reach an FTA with Japan. The United States and Singapore reached in 2003 one of the first agreements of Singapore’s now extensive network of RTAs, and the US-Australia FTA entered into force in 2005. The Mexico-Japan Economic Partnership Agreement, Japan’s first extra-regional free trade agreement, also took effect in 2005. The same year, Peru and Thailand signed a bilateral FTA, while FTAs between Taipei, China on the one hand, and Panama and Guatemala, on the other, took effect in 2004 and 2006, respectively. Panama concluded FTA negotiations also with Singapore in 2006.

Trans-Pacific agreements are poised to expand: for instance, the United States has concluded negotiations with Korea, and Chile has launched talks with Malaysia. Furthermore, five countries of the Americas—Canada, Chile, Mexico, Peru, and the United States—are pursuing closer ties with Asia in the context of the Asia-Pacific Economic Cooperation (APEC) forum founded in 1989.

Countries of the Americas have also been reaching across the Atlantic for agreements with the European Union (EU). Mexico launched an FTA with the EU in 2000, as did Chile in 2003. In May 2006, the EU and CACM countries announced the launch of comprehensive Association Agreement negotiations, while the EU-CARICOM talks have entered the final phase. The EU and the Andean Community have explored the

opening of Association Agreement negotiations. Furthermore, besides the trans-Pacific and trans-Atlantic fronts, Mercosur has concluded an agreement with India, and the United States is building a network of agreements with selected Middle Eastern countries.

The geographic composition of trade flows of the countries of the Americas appears to have followed the advance of regionalism (table 1a). The most notable change in Latin American and Caribbean (LAC) export profile is the decline on Europe and rise in the importance of the intra-hemispheric market, as well as a moderate increase in the share of Asia-Pacific as an export destination. To be sure, there are wide intra-regional differences; countries such as Argentina, Brazil, Chile, and Peru have seen their commodity exports to China surge markedly in their export baskets.

Western Hemisphere exports, which include those of the United States and Canada, have grown particularly in the North American market. On the import side, however, Asia has penetrated LAC market forcefully, contributing today about a fifth of the region's imports. This appears to have come at the expense of Europe, whose import share in LAC has been eclipsed to some 14 percent of the region's total imports.

Table 1a – Destination of Western Hemisphere Exports, 1990-2006

Destination of LAC Exports:

	millions of \$US					% of Exports to World				
	1990	1995	2000	2005	2006	1990	1995	2000	2005	2006
World	125,193	226,084	362,706	572,324	768,258	100	100	100	100	100
LAC	16,882	43,562	56,227	92,577	115,719	13	19	16	16	15
Canada-US	51,081	104,817	214,681	302,298	330,020	41	46	59	53	43
European Union	31,179	37,604	41,042	71,155	94,396	25	17	11	12	12
Asia-Pacific	11,908	19,740	18,108	46,757	68,389	10	9	5	8	9
Rest of World	14,144	20,361	32,647	59,536	159,735	11	9	9	10	21

Destination of Western Hemisphere Exports:

	millions of \$US					% of Exports to World				
	1990	1995	2000	2005	2006	1990	1995	2000	2005	2006
World	644,746	999,817	1,410,014	1,836,066	2,194,816	100	100	100	100	100
LAC	71,266	141,579	225,704	287,502	342,788	11	14	16	16	16
Canada-US	229,429	383,737	629,942	816,269	880,679	36	38	45	44	40
European Union	146,466	175,373	221,816	278,569	333,273	23	18	16	15	15
Asia-Pacific	127,851	204,383	214,613	276,862	335,551	20	20	15	15	15
Rest of World	69,734	94,744	117,939	176,863	302,525	11	9	8	10	14

Table 1b – Origin of Western Hemisphere Imports, 1990-2006**Origin of LAC Imports:**

	millions of \$US					% of Imports from World				
	1990	1995	2000	2005	2006	1990	1995	2000	2005	2006
World	108,498	244,043	397,873	539,378	627,505	100	100	100	100	100
LAC	17,683	43,971	60,933	103,185	129,576	16	18	15	19	21
Canada-US	45,609	109,683	205,136	211,726	246,157	42	45	52	39	39
European Union	22,461	43,500	53,795	75,929	87,434	21	18	14	14	14
Asia-Pacific	10,016	26,743	43,398	100,701	110,622	9	11	11	19	18
Rest of World	12,730	20,147	34,612	47,838	53,716	12	8	9	9	9

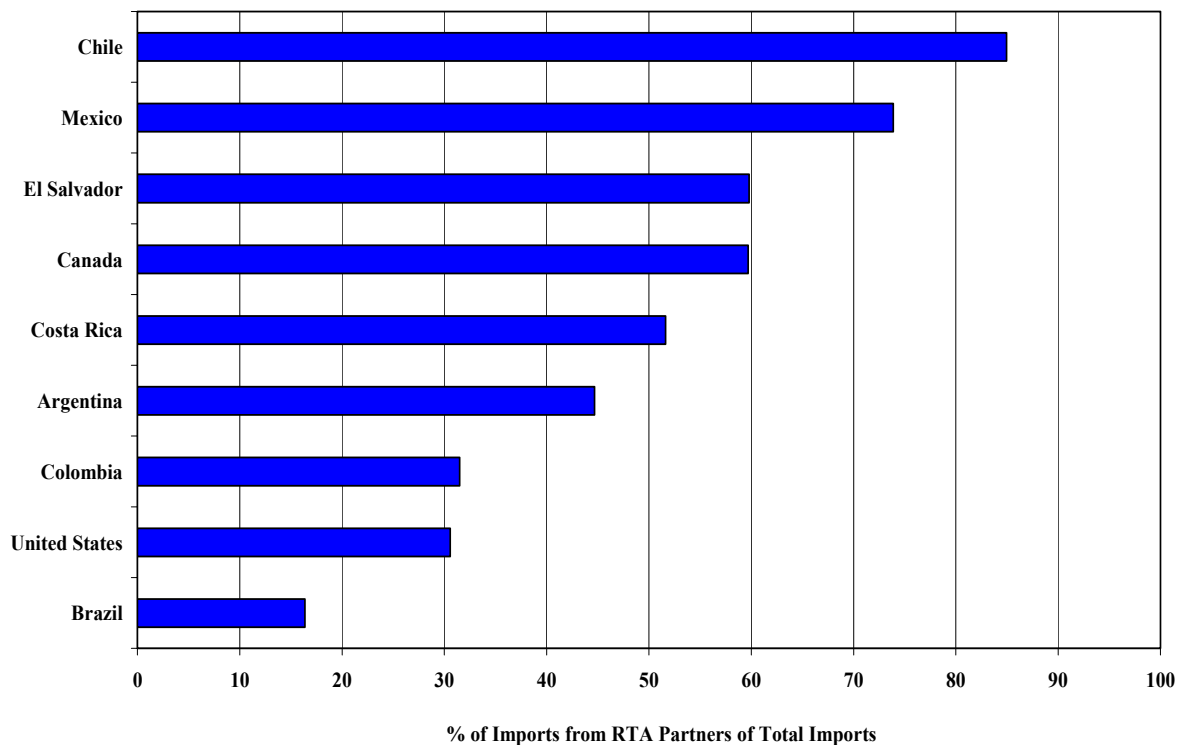
Origin of Western Hemisphere Imports:

	millions of \$US					% of Imports from World				
	1990	1995	2000	2005	2006	1990	1995	2000	2005	2006
World	757,160	1,194,759	1,898,889	2,616,267	2,930,318	100	100	100	100	100
LAC	88,539	158,283	282,245	424,958	493,455	12	13	15	16	17
Canada-US	222,167	377,873	603,395	698,821	765,227	29	32	32	27	26
European Union	143,526	201,767	312,709	437,146	476,347	19	17	16	17	16
Asia-Pacific	200,242	330,947	485,972	727,732	818,643	26	28	26	28	28
Rest of World	102,687	125,890	214,569	327,611	376,647	14	11	11	13	13

Source: INT calculations based on data from IMF Direction of Trade Statistics.

While trade *per se* has surged in importance in the regional output in the past two decades, so has the relevance of RTAs in governing the regional economies' trade. For instance, the share of imports with RTA partners of total imports was 85 percent for Chile, 74 percent for Mexico, 45 percent for Argentina, and more than 30 percent for the United States in 2006 (figure 2). Of the total intra-Americas trade, the share of trade among countries with a common RTA is today above 90 percent of the total intra-regional trade; the level is still three-quarters of all trade when NAFTA is not taken into account. While these figures do not capture the level of trade that enters under the RTA regime (as opposed to MFN or other regimes), they are indicative of the fact that a sizable share of the hemispheric economies' trade is with their RTA partners—as well as that countries of the region have forged ties with some of their leading trade partners.

Figure 2 – Trade with RTA Partners of Total Trade in 2006, Selected Countries



B. State of Integration in the Americas in a Comparative Perspective

This section strives to break new ground in dissecting the liberalization state of play in RTAs in the Americas. We focus on tariff liberalization schedules of 76 parties in 38 RTAs (Appendix I table 1).² Much of the data here draw on IADB (2006).³ The first part of this section surveys the overall approach of the tariff liberalization regimes—divided here into basket, sectoral and preferential tariff approaches—in the 38 RTAs.⁴ The second part analyzes tariff-line data from the RTA parties' tariff

² The tariff liberalization schedules were obtained from the Foreign Trade Information System at <http://www.sice.oas.org/> and some national sources, including websites. Some tariff data was obtained from TRAINS. The study also maps out the coverage in RTAs of four trade disciplines besides tariffs, including non-tariff measures, rules of origin, special regimes, and customs procedures.

³ There are a handful of other studies on tariff liberalization in RTAs. The World Trade Organization (2002) carries out an extensive inventory of the coverage and liberalization of tariff concessions in 47 RTAs of a total of 107 parties. The data cover tariff treatment of imports into parties to selected RTAs, tariff line treatment as obtained from individual countries' tariff schedules, and tariff dispersion for a number of countries. Scollay (2005) performs a similarly rigorous analysis of tariff concessions in a sample of 18 RTAs. The IADB (2002) presents an exhaustive survey of market access commitments of RTAs in the Americas, while the World Bank (2005) carries out a more general mapping of the various disciplines in RTAs around the world.

⁴ Various prior studies characterize tariff elimination as carried out on the basis of a positive or a negative list, or as based on a certain formula. This study strives to abstract from these characteristics

liberalization schedules, and also examines tariff rate quotas and exceptions and exclusions. The third part explores alternative measurements—share of liberalized tariff lines trade-weighted by Harmonized System chapters, and share of trade that is liberalized from the RTA partner in a given year—in sub-samples of 27 and 23 RTAs, respectively. We examine three sets of agreements—those formed in the Americas (here, “intra-regional”), those formed between a country of the Americas and a partner in another region (“inter-regional” or “Americas as Partner”), and agreements not involving any countries of the Americas (“extra-regional”).

i. Empirical Survey: Tariff Liberalization Regime Models

Basket Approach

The basket approach assigns all products into a set of distinct categories in the tariff elimination program. The categories provide a time frame and trajectory towards complete elimination of tariffs (as opposed to providing only an end-point preferential tariff or preferential margin). Also included are any TRQs, typically with a reference to an appendix with the quantities, as well as exceptions to preferential treatment (that are typically entered into a basket of continued MFN treatment).⁵

The United States tends to follow the basket approach, generally subjecting nearly the entire tariff universe to eventual full tariff elimination. Some of the less visible “action” in the US agreements can be found in the annexes on TRQs, where tariff liberalization generally takes place over longer time horizons and is accompanied by increasing in-quota quantities. Even sugar, a sensitive product from the US perspective that usually receives continued MFN treatment in most agreements, typically receives an increasing in-quota quantity (albeit from a small starting point).⁶

Sector Approach

The sector approach, typically favored by the EU, subjects all industrial products to a general tariff elimination schedule.⁷ A separate list for exceptions and separate

and classify liberalization programs by their categorization of goods into distinct paths of liberalization. To be sure, some of the categories are more aligned with a positive list approach, while others lend to a negative list approach.

⁵ Thailand-Australia and Thailand-New Zealand FTAs defy easy categorization, as they do not use any clearly defined baskets, but, rather, implement staging simply by cross-tabbed reduced tariff rates. This lends itself mostly to the basket approach, due to the use of comprehensive schedules. However, there are a large number of case-by-case trajectories, which suggests a preferential tariff approach, as well.

⁶ It should be noted that the in-quota quantities (and even the existence of in-quota treatment) in these agreements differ greatly within CAFTA. Although the United States has given the same schedule with the same baskets to the other countries, the treatment within these baskets differs greatly between countries. So although the statistics will reflect identical treatment of all Central American countries, this will not be the case, especially when considering that a number of the products subject to TRQs are those where Central America will have a strong comparative advantage (such as in sugar).

⁷ The recent EU-Chile FTA that entered into effect in 2003 diverged from the EU’s standard practice of dividing tariff elimination into separate venues by establishing a single schedule for each party that contains all products. In its category column, the schedule includes various measures that will be

annexes or protocols govern the treatment of such products as agriculture, fish, and processed agricultural goods. The protocols tend to be quite complex and feature various regimes, such as end-point preference margins or residual preferential tariffs, TRQs, reference quantities, and a phased reduction of tariffs to a final level (which is often non-zero). The sections referring to the scope of the agreement and definitions of certain product categories are as important to understanding the process of tariff reduction as is the section on the tariff reduction program. The agreements negotiated by the European Free Trade Association (EFTA) follow this model, as well.⁸

Preferential Tariff Approach

Some agreements, such as those forged under the Latin American Integration Association (LAIA) framework, emphasize the end-point preferential tariff or margin of preference. The Bangkok Agreement also focuses on the end-point preferences, with additional concessions provided to less developed RTA members. These models take a positive list approach to the concessions, whereby the schedules contain the products to which the market access provisions of the RTA apply (as opposed to the negative list approach, which catalogues the products to which the market access provisions do *not* apply).

ii. Tariff Liberalization Statistics

This part turns to analyzing tariff-line data developed on the basis of the tariff liberalization schedules of 76 parties in 38 RTAs. An introductory set of general indicators strives to capture the share of each individual RTA party's tariff lines that are accorded some tariff reductions, and the share of lines that are duty-free by certain benchmark years (generally 1, 5, 10, and 15 or 20) after the launching of the RTA.⁹ Year 1 refers here to the year of entry into force.

maintained, such as TRQs, elimination of only the *ad-valorem* component of a mixed duty (including in cases where the non *ad-valorem* component is linked to an entry price), products subjected to a tariff concession of 50 percent of the basic customs duty, and cases where no liberalization takes place, for instance due to "protected denominations."

⁸ Tariff liberalization in EFTA's agreements tends to be presented as a general tariff elimination program and separate schedules for fish and agriculture. In these sectors, rather than having a single tariff liberalization schedule, EFTA's agreements include country-specific schedules. In this paper, the data on tariff elimination in the EFTA-Mexico FTA is based on Switzerland's tariff schedules.

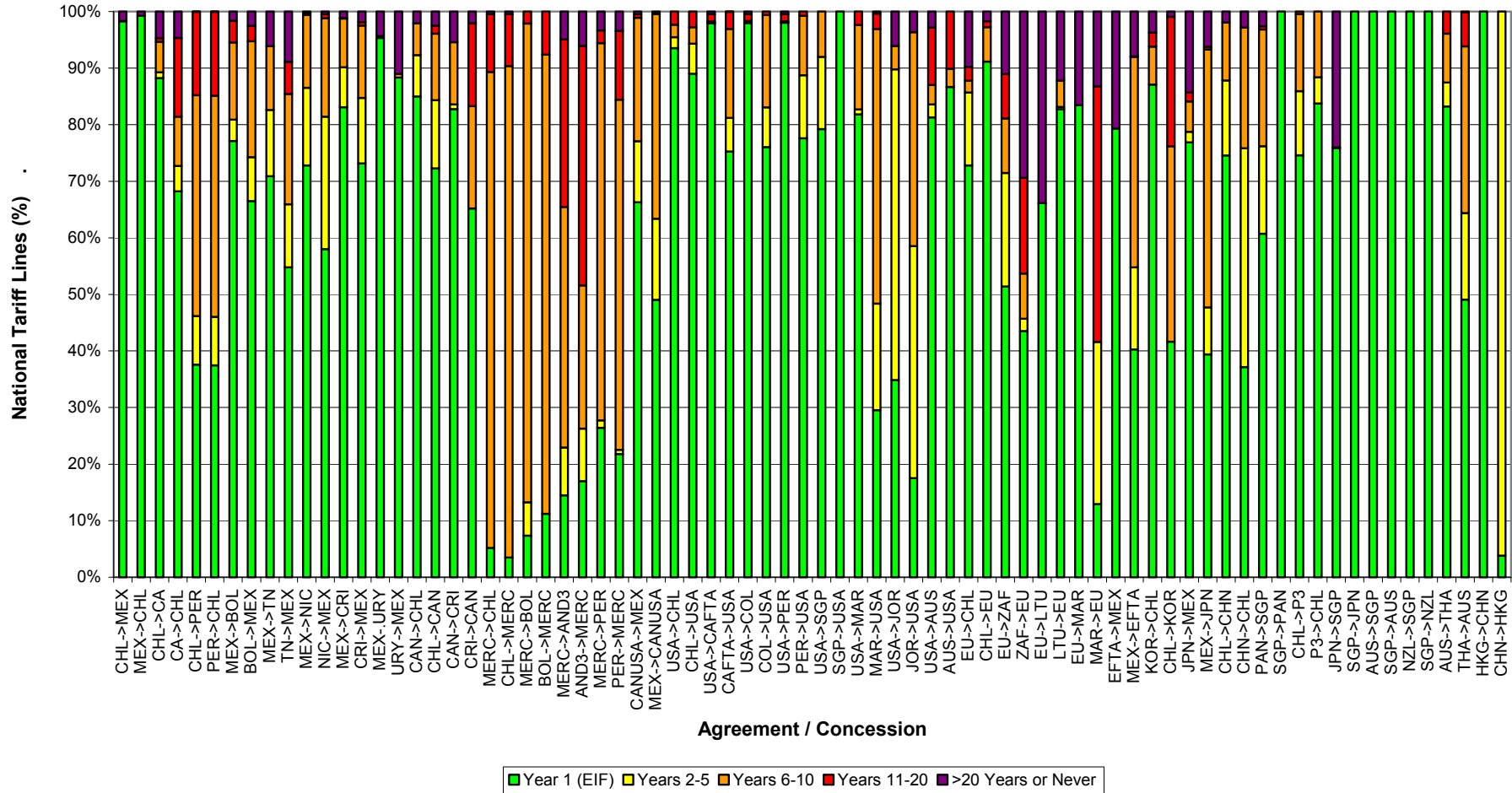
⁹ Dummies are assigned according to when a product becomes duty-free (whether or not in year 1, 5, 10, or 15). The dummies are subsequently multiplied by the number of lines with that treatment, and then divided by the total number of lines to obtain the percentage incidence. The total number of lines includes all tariff lines regardless of whether that line was duty-free prior to the entry into force of the agreement. Split products or products partially covered by an agreement, as a general rule are accorded a reduction at the first date at which any of the various baskets accord a reduction, but a treated as having tariffs eliminated at the last date at which any of the various baskets accorded elimination, i.e., a line on which tariffs are eliminated on part one year but not the rest is treated as having the *least* generous duty-free treatment, as duty-free treatment must cover a product in its entirety). The analysis includes lines subject to TRQs, based on when out-of-quota tariff rates are reduced or phased out. For example, where tariff eliminations are made on in-quota tariff rates, the product in question is treated as not receiving full tariff elimination. Products subject to entry prices are, when relevant, are counted as receiving tariff reduction, but not as having tariffs eliminated.

Figure 3 provides an overview of the share of tariff lines liberalized by the partners in the 38 RTAs by mapping out the shares of national tariff lines that become duty-free in year 1, years 2-5, years 6-10, years 11-20, and more than 20 years into the RTA. The three-letter ISO code of each country giving the concession (i.e., the importing country) precedes the arrow, while the code of the partner country follows the arrow.

Agreements formed in the Americas and particularly those signed by the NAFTA members generally liberalize trade relatively fast, with some 75 percent or more of lines freed in the first year of the agreement. On the other hand, some of Mercosur's agreements have somewhat more backloaded liberalization, with a large share of lines being liberalized between years 6-10 into the agreements. Asia-Pacific RTAs stand out for being particularly frontloaded: they liberalize the bulk of the tariff universe in the first year of the RTA; this is in good part due to Singapore's according duty-free treatment to all products upon the entry into force of its agreements.

Safeguards are not taken into account here (i.e., as interfering with tariff elimination). Other sidenotes are dealt on an *ad-hoc* basis. Any TRQ, regardless of whether reductions occur on the in-quota or out-of-quota tariff rate, are counted in the TRQ incidence measure. Note that for the CAFTA agreement, indicators for the Dominican Republic and each of the five Central American countries were calculated individually and then averaged together to create a single, indicative partner to the United States. Similarly, for NAFTA, Canadian and US concessions to Mexico are averaged together to make a single US-Canada partner to Mexico, and Mexico's concessions to the two countries are averaged together to make a single representative concession to US-Canada. Where possible, similar averaging is performed for other agreements with more than two signatories.

Figure 3 - Percent of Tariff Lines Duty Free, by Selected Benchmark Years



Figures 4a and 4b assess the extent of reciprocity in tariff elimination between RTA parties by years 5 and 10. They are sorted in a descending fashion from the least to the most reciprocal. While the parties' respective product coverages often diverge markedly in year 5, with some partners (such as Korea) liberalizing up to twice as many lines as their partners (such as Chile), the differences shrink considerably by year 10. The wider gaps in concessions among a pair tend to owe to north-south differences in liberalization—a pattern that is evident nearly throughout the sample in all regions.

Figure 4a - Reciprocity of Concessions: Year 5

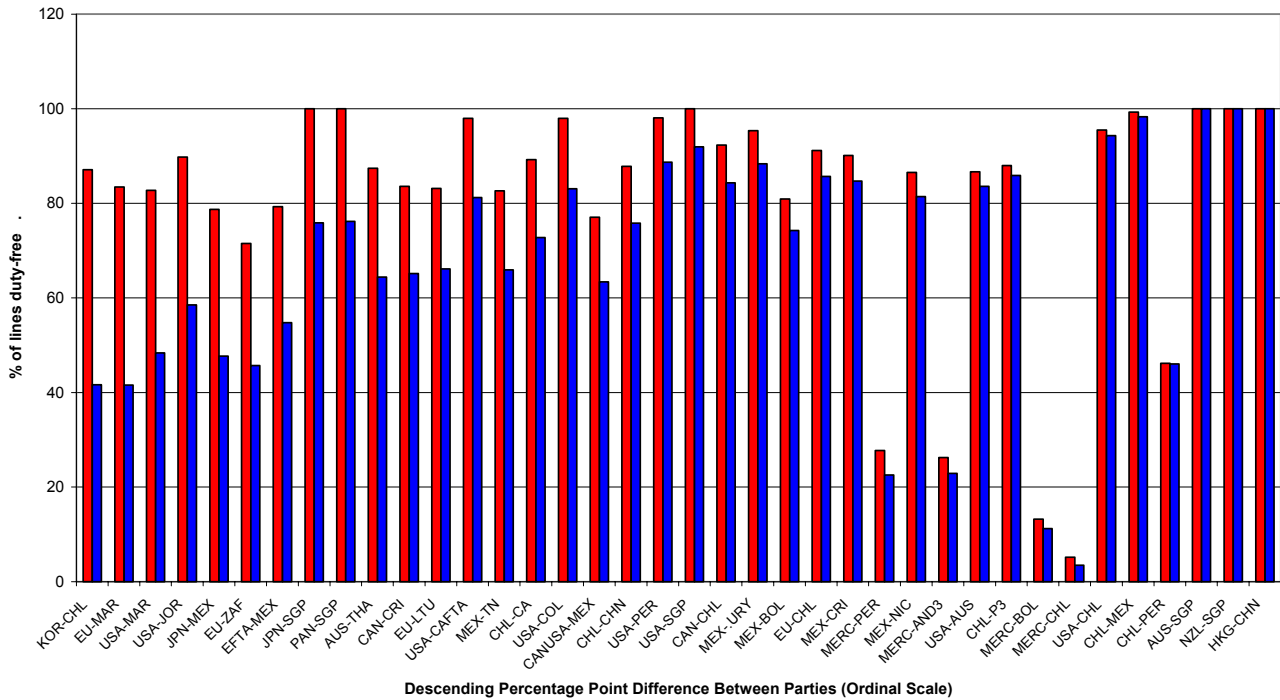


Figure 4b - Reciprocity of Concessions: Year 10

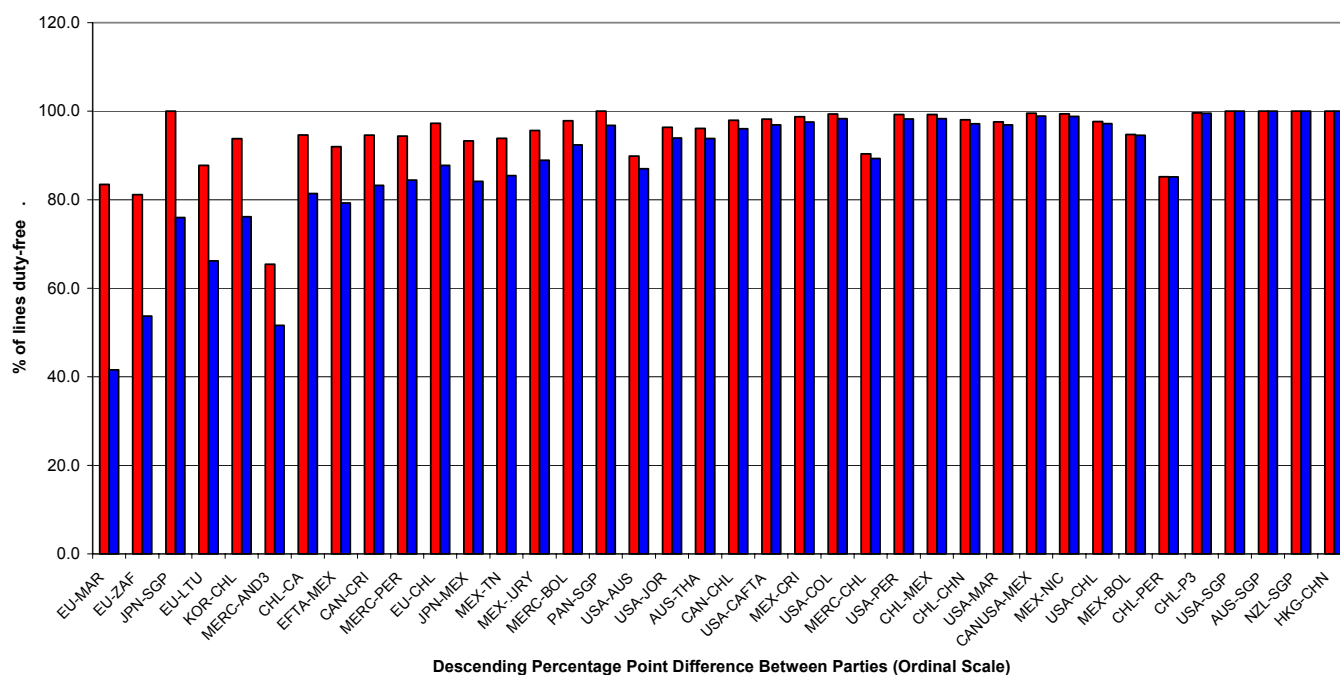


Figure 5 disaggregates the liberalization schedules between three sets: those in RTAs signed in the Americas, RTAs between countries of the Americas and extra-regional partners, and extra-regional agreements. The 90 percent threshold, which is often used as a benchmark for “substantially all trade”, is marked with a horizontal line.

The figure echoes the prior findings in two ways. First, it shows that while some countries employ a “stair-step” approach to tariff liberalization (stemming from the use of various gradual baskets), others have a constant percentage coverage of tariff lines in what could be characterized as a “now-or-never” approach. Still others start from a low coverage, proceeding through one or two jumps to a near-100 percent coverage.

Second, the averages of the three samples (in bold) reveal differences. Intra-regional agreements start from a relatively low level of liberalization, but accelerate in the fourth year, surpassing the liberalization in extra-regional agreements by year 9. The inter-regional agreements start off more boldly, but are met by the intra-regional agreements in year 10.

On average, a substantial part of liberalization in the intra-hemispheric agreements takes place in the interim period following entry into force (especially in years 5-10) as opposed to up front. This is due not only to a greater use of the stair-step approach,

but also to the heterogeneity of the sample. Agreements among Central America, Mexico, and the United States tend to be characterized by a large number of small steps, as are US agreements with Peru and Colombia. However, Mexico's agreements with Chile and Uruguay frontload concessions. The Chile-Central America FTA and Canada's agreements with Chile and Costa Rica fall somewhere between the two poles.

The Southern Cone's approach is different still. ACE 58 and ACE 59, the agreements between Mercosur and the Andean Community, start at a very low share of duty-free lines, and then increase substantially with a small number of large jumps after year 5. This is most pronounced in Mercosur's earlier agreements with Bolivia and Chile, where duty-free coverage is minimal through around year 8, and then quickly jumps to around 90 percent or more, followed by an eventual progression towards nearly 100 percent coverage over time.

Most of the inter-regional agreements follow the stair-step model. In agreements involving a northern and a southern party, the latter generally starts at a lower initial point and takes larger steps than the northern counterpart. This is particularly clear in the Korea-Chile FTA (with Korea classified as north), and US agreements with Jordan and Morocco. However, there are exceptions. Concessions are much more even in the EU-Chile agreement; in the EFTA-Mexico FTA, Mexico's schedule starts at around 40 percent of lines duty-free and achieves over 90 percent mark (marked here with a horizontal line) within 10 years by means of a few jumps, actually surpassing Switzerland's constant coverage of slightly less than 80 percent of lines.

Extra-regional agreements exhibit a larger dispersion in tariff lowering. This can be explained in part by two counter-balancing forces. For one, the sample includes a number of agreements involving Singapore, where Singapore gives duty-free access to 100 percent of lines as of entry into force of the agreement.¹⁰ However, the countervailing force is agreements with low initial coverage and large jumps; once again these tend to be caused by the southern parties in North-South agreements. China's concession to Hong Kong is one such case, with duty-free coverage starting around 4 percent and then jumping to 100 percent in year 3. Accentuating the flatness of the extra-regional average are Japan's schedule for Singapore, and the EU's concessions to Morocco and Lithuania. Since the "flat" schedules in these agreements entail coverage well below 100 percent, they serve to moderate the behavior of the overall extra-regional average, as well.

¹⁰ In the case of Australia and New Zealand's agreements with Singapore, both parties provide immediate duty-free access to 100 percent of tariff lines.

Figure 5 - Evolution of Duty-Free Treatment in Selected RTAs

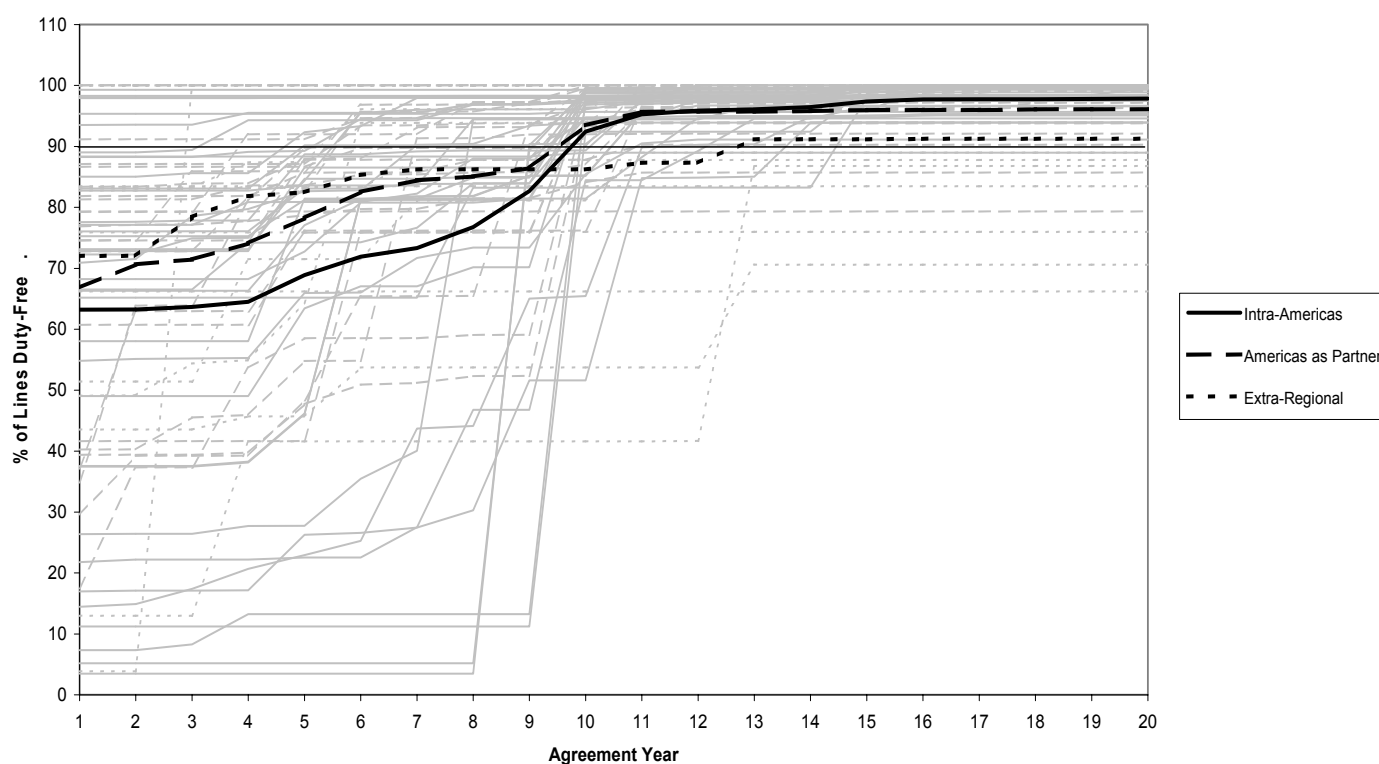


Table 2 presents the same information in a “real time state of play” matrix. Gray boxes indicate FTAs; the numbers therein denote the share of liberalized tariff lines between the countries in 2007.¹¹ Boxes in gray without numbers are FTAs for which liberalization statistics are currently lacking in the study. The black boxes indicate common customs unions; liberalization in these agreements can be seen as nearly full and complete. Within the Americas, 57 percent of the total possible 380 pairs of countries have no comprehensive RTA,¹² a third of all pairs feature a comprehensive FTA, while twelve percent of pairs shared a customs union.

The main finding is the extent of deep liberalization throughout FTAs of the Americas: most members have liberalized more than four-fifths of the tariff items to their intra-regional partners. To be sure, liberalization in the 2004 Mercosur-Andean agreement, which is an amalgam of bilateral agreements among the groups’ members, is only incipient.

¹¹ Importantly, the matrix is *not* intended to present the state of play of FTAs worldwide. The primary focus of this study is the Western Hemisphere, thus the matrix contains the countries of the Americas, those countries with which the Americas have signed an agreement, plus a few countries that are party to a small number of select agreements outside the Hemisphere. Thus, the matrix is not representative of the scope of involvement of extra-regional countries in FTAs in the sense that it is not fully ‘Copernican’.

¹² I.e., an RTA that liberalizes more than 4,000 tariff lines.

Chile, Mexico, and the United States are the main drivers of the inter-regional agreements formed by the countries of the Americas. The liberalization in these agreements is generally somewhat lower than in the intra-regional RTAs.¹³

¹³ The apparent clustering in the southeast corner of the matrix is of interest as well. This clustering is particularly pronounced for a subset of the Asia-Pacific countries in the sample, both in terms of the prevalence of agreements (proximity of gray cells, as well as the depth of the agreements (statistics within cells).

Table 2 – RTA Liberalization State of Play in 2007, Americas and Beyond

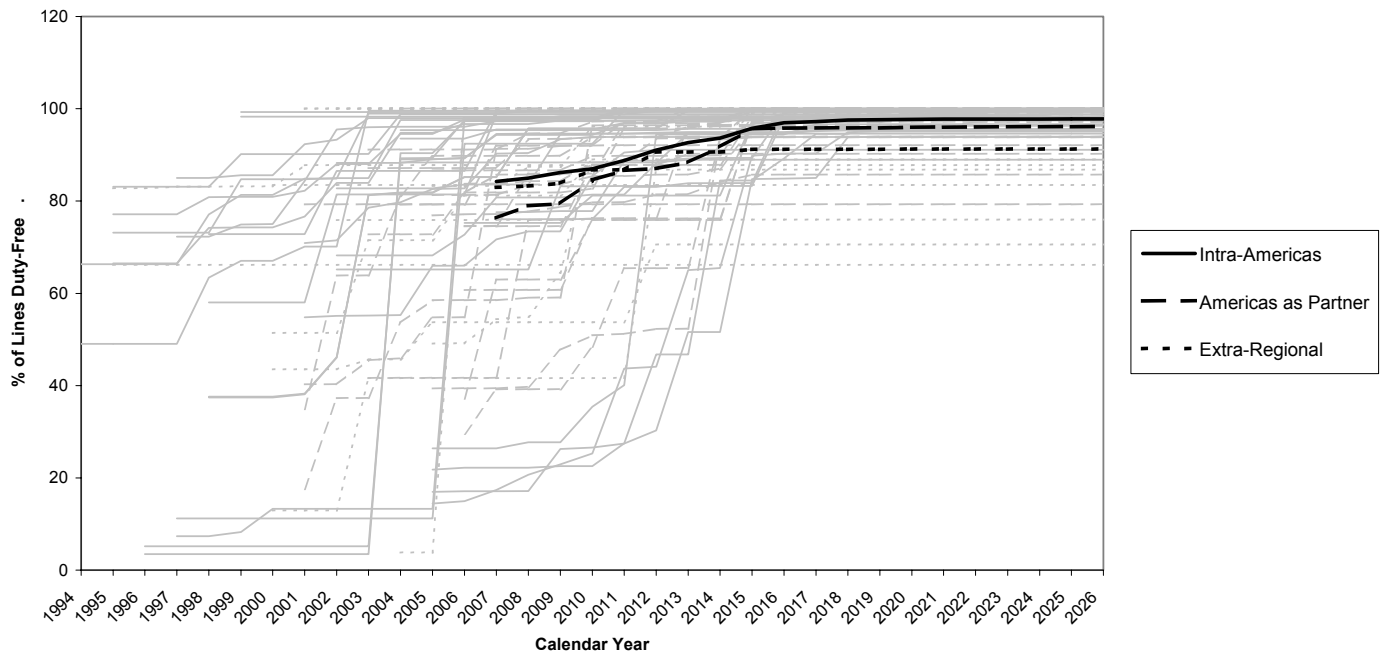
Country Giving Preference	Country Receiving Preference																																					
	ARG	BOL	BRA	CAN	CHL	COL	CRI	DOM	ECU	GTM	HND	MEX	NIC	PAN	PER	PRY	SLV	URY	USA	VEN	AUS	BRN	CHN	EFTA	EU	HKG	JPN	JOR	KOR	LTU	MAR	NZL	SGP	ZAF				
Argentina	X	97.9			98.0	12.2			15.9						4.7					12.3																		
Bolivia	92.4	X	92.4									96.7				92.4		92.4		n.a.																		
Brazil		97.9	X		98.0	33.9			28.3						20.2					27.4																		
Canada				X	97.9		83.6					99.0							98.8																			
Chile	97.7		97.7	97.3	X	96.8	94.9		96.7			98.3			85.2	96.1	94.1	97.7	94.3			74.6	74.6	n.a.	91.2				41.6			74.6	74.6					
Colombia	10.9		25.6		95.7	X						90.7				21.0		25.0	76.0	n.a.																		
Costa Rica				65.2	82.5		X	98.0				97.6							71.7																			
Dominican Republic							98.3	X		98.3	98.3		98.3				98.3		76.5																			
Ecuador	21.6		22.0		91.6			X								19.4		21.2	n.a.																			
Guatemala								98.0		X		76.0							79.7																			
Honduras								98.0			X	63.0							74.4																			
Mexico		97.7		99.3	99.3	95.8	98.8			93.9	83.3	X	99.4				93.6	95.4	99.8					91.3	n.a.		39.4											
Nicaragua								97.5				98.8	X						71.5																			
Panama														X					n.a.*															60.7				
Peru	10.4		9.8		85.1										X	9.1		59.4	77.6	n.a.																		
Paraguay		97.9			96.3	14.8			15.0						15.5	X			14.9																			
El Salvador					79.1			98.0				76.1					X		77.8																			
Uruguay		97.9			98.0	12.1			11.4			88.4			65.3			X	10.7																			
United States				98.0	95.5	98.0*	97.9	97.9		97.9	97.9	98.8	97.9	n.a.*	98.0*		97.9		X		81.3							89.8		81.8			92.0					
Venezuela	8.7	n.a.	10.9			n.a.			n.a.						n.a.	10.0		9.0	X																			
Australia																			86.7		X												n.a.	100				
Brunei					68.9																	X										n.a.		68.9	68.9			
China					62.9																		X				100					n.a.						
EFTA (Switzerland)					n.a.							79.3												X	n.a.					n.a.	n.a.	n.a.	n.a.		n.a.			
EU					85.7							n.a.												X						n.a.		66.2	83.4			81.1		
Hong Kong																											100											
Japan												77.1															X									75.9		
Jordan																			58.5															n.a.	n.a.			
Korea					87.1																		n.a.	n.a.	n.a.								X		n.a.			
Lithuania																																						
Morocco																																						
New Zealand					82.4																	n.a.	82.4												X	100		
Singapore					n.a.																															100	X	
South Africa																																						
Thailand																																					n.a.	n.a.

Note: includes only customs unions (black cells) and free trade agreements (grey cells), not unilateral preferences.
Numbers in cells show percentage of total national tariff lines duty-free in 2007.
n.a. = not available at this time
* Signed but not yet entered into force as of 7/31/2007. Assuming entry into force in 2007.

Figure 6 goes beyond the 2007 snapshot to exploring an entire period of 1994-2026. The bold line maps out the simple average for the intra-regional sample from 2007 onward (i.e., during the period during which all agreements considered here are expected to have entered into effect). The main finding is the extent of deep liberalization throughout the Americas: as of today, most RTA members have liberalized more than four-fifths of the tariff items to their partners; some of the newer FTAs will attain this level by 2010. Liberalization in the recent Mercosur-Andean agreements is more limited, reaching about a fifth or a quarter of tariff lines by 2010.

Overall, the figure conveys the maturity of liberalization in intra-regional agreements in the Americas: even with the slower pace of the Mercosur-Andean agreements, the regional agreements will have freed more than 90 percent of lines by 2012 and more than 95 by 2015. To be sure, the extra-regional agreements lag this only by a year; however, the on-going proliferation of FTAs in Asia would pull the average down if the newer agreements were included. In contrast, Americas is a rather saturated region in terms of intra-regional agreements, which means that the figure provides a particularly accurate reflection of the future of liberalization in the case of the intra-regional agreements.

Figure 6 – Evolution of Duty-Free Treatment in RTAs, 1994-2006



iii. *Laggards and Leaders in Liberalization*

The aggregate tariff reduction statistics disguise what could be expected to be important variation in the speed of liberalization across product categories.¹⁴ Which products are the laggards and which leaders in liberalization?

Figures 7a and 7b take the first stab at the cross-sectoral patterns by displaying the degree of dispersion of liberalization in the 97 Harmonized System chapters *within* the liberalization schedules of 64 RTA parties. Parties in the southeast corner feature deep liberalization across-the-board. Meanwhile, those in the northwest corner are marked by limited liberalization and high dispersion of liberalization across chapters. Dots in red indicate RTAs formed by countries of the Americas, while green are agreements where a country of the Americas is a partner and blue are extra-regional. The bulk of countries approach across-the-board liberalization by year 10.

Overall, intra-regional agreements feature not only the deepest liberalization, but also the least dispersion across chapters in tariffs, particularly by year 10—which means that even sectors that have yet to be free of duty have rather low tariffs.¹⁵ Even for those schedules that exhibit substantial average share of lines that are not fully liberalized, the standard deviation tends to fall below those agreements involving extra-regional parties with similar averages. However, outlier sectors persist in many extra-regional agreements, in particular. The most marked dispersion occurs in Morocco's and South Africa's schedules in their FTAs with the EU, a pattern that reflects sensitivities in the agricultural and textile sectors, respectively.¹⁶

¹⁴ Viewing the percentages of lines that are duty-free by a certain benchmark year (e.g., year 10) disaggregated by two-digit HS chapters may be ideal given that the level of disaggregation is detailed enough to provide distinct product categories. Furthermore, 2-digit chapters tend to be more stable across time, i.e., between various versions of the HS. A four-digit approach may be useful as well, but can be excessively complex and disguise the more general trends. The best method could be to identify some two-digit chapters that have the least comprehensive tariff elimination, and then use these as priors to conduct four-or six-digit analysis *within* these chapters.

¹⁵ Of course, an average liberalization level of one (100 percentage coverage) will necessarily be accompanied by a standard deviation of zero, but there are cases where one chapter may exhibit a higher standard deviation (dispersion among agreements) than another for a given level of average liberalization, or vice versa.

¹⁶ Note however, the outlier behavior exhibited by Mercosur-Bolivia and Mercosur-Chile at the five-year benchmark, evidencing a uniformly low duty-free statistic. However, these four dots have moved to the southeast corner by year 10. This raises an important point regarding the sample set. Mapping out the myriad relationships entailed within the Mercosur-Andean agreements was not feasible at this stage. However, from the aggregate numbers we can deduce that the average chapter coverage would be low, mitigating to some degree the findings that the intra-regional agreements were more liberalized.

Figure 7a - Distribution of Liberalization of Chapters in RTA Parties' Schedules, Year 5

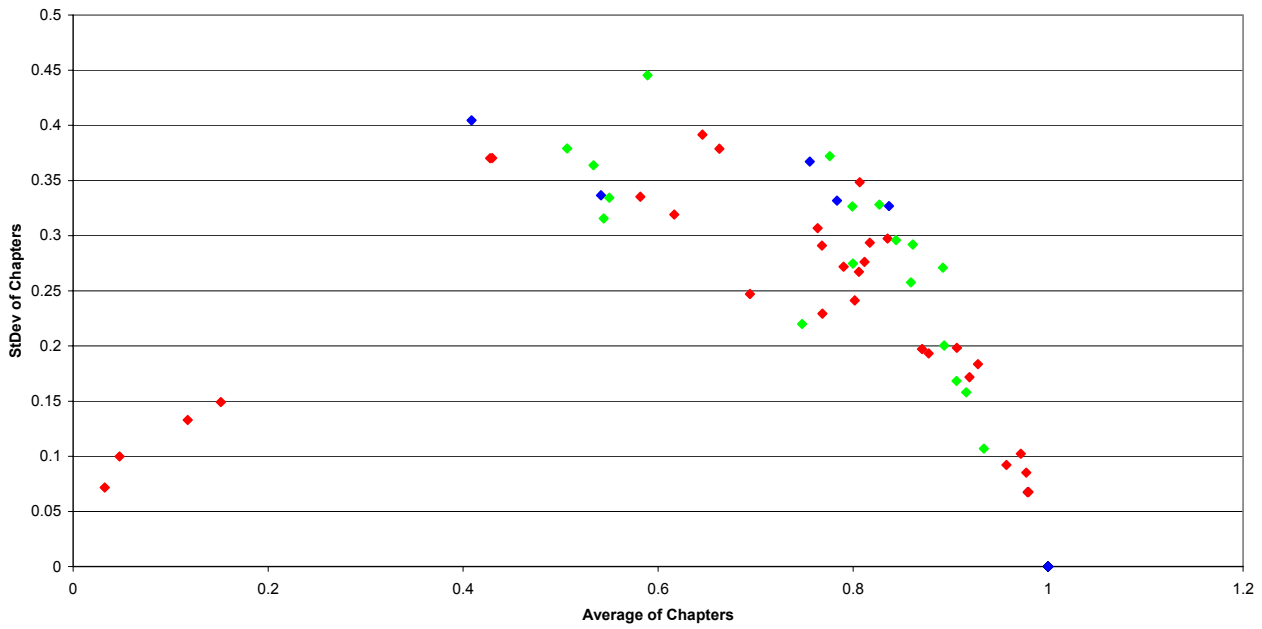
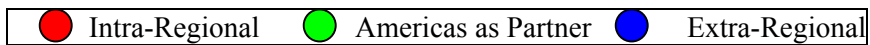
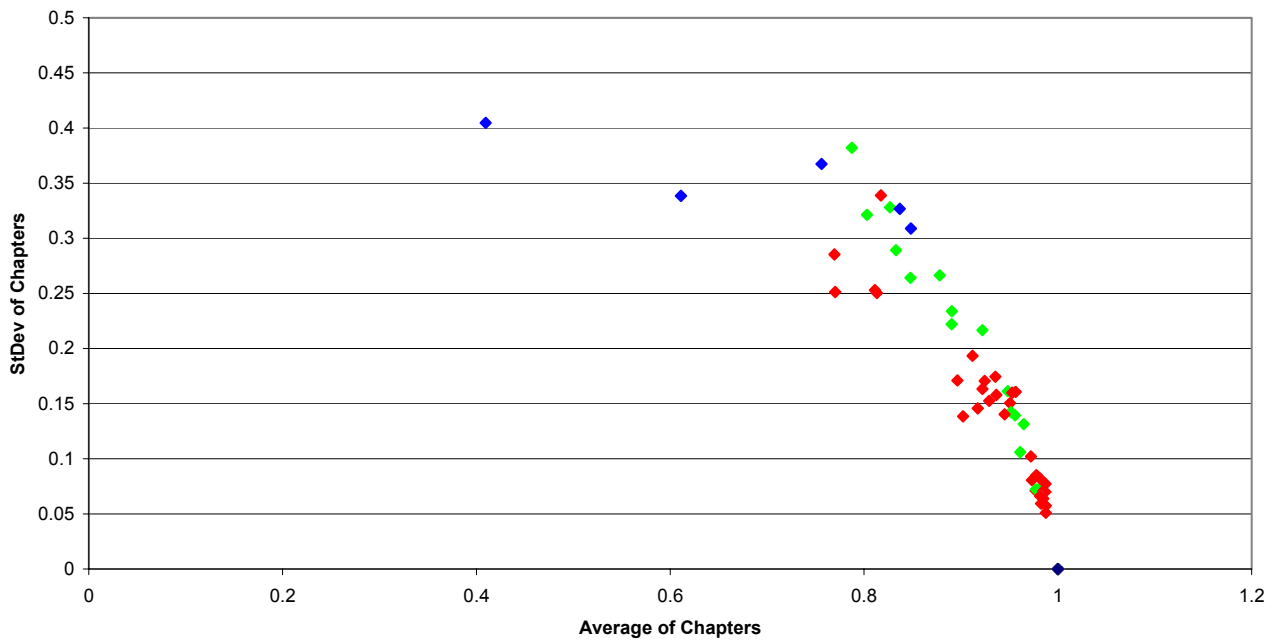


Figure 7b - Distribution of Liberalization of Chapters in RTA Parties' Schedules, Year 10



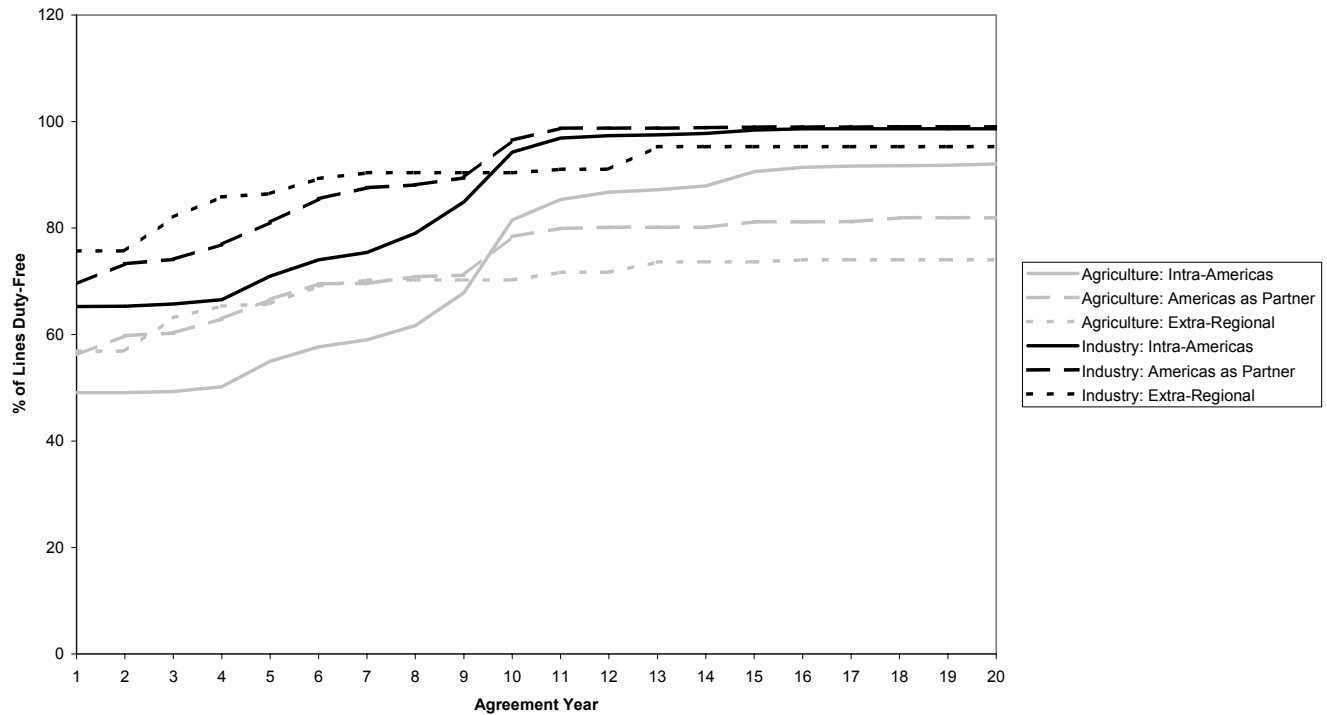
Agriculture is one of the main laggards in liberalization. Figure 8 maps out the evolution of duty-free treatment for agricultural and industrial products (as grouped by the WTO) by the three main regional samples. As expected, in each region agricultural products are more protected more and longer than industrial products are. On average, for the full sample of all agreements together, RTAs explored here liberalize only 61 percent of tariff lines in agriculture by year 5 and 78 percent by year 10, while reaching duty-free treatment for 77 and 94 percent of industrial goods by the same points in time.

However, notably, intra-regional FTAs in the Americas take off in agricultural liberalization in year 10, surpassing the other regional groups. This is largely due to very large jumps (in the order of 60 percentage points or more) in agricultural duty-free coverage in the Mercosur-Bolivia and Mercosur-Chile agreements, as well as smaller increases in coverage in Mexico-Nicaragua and Mexico-Costa Rica FTAs and the representative average Central American countries' schedule in CAFTA vis-à-vis the United States. Peru's agricultural concession to Mercosur also increased substantially that year.

The inter-regional average also sees a meaningful, though smaller jump in year 10. This is due primarily to increases in coverage that year by Jordan and Morocco in their agreements with the United States, China's concession to Chile, and Panama's to Singapore. Extra-regionally, the jump is less substantial and comes earlier, driven mainly by increases in coverage in the China-Hong Kong schedule in year 3, and Morocco-EU, South-Africa-EU, and EU-South Africa schedules in year 4.

In industrial goods, both intra-regional and FTAs with a country of the Americas as a partner feature progressively deeper liberalization, with the take-off again occurring in year 10. In fact, the trajectories of the agricultural versus industrial goods for the three subsets of agreements *almost* appear as parallel lines, with industry simply starting at a higher intercept on the vertical axis. In the intra-regional sphere, the jump in year 10 is in part due to Mexico's industrial coverage rising from 72 to 100 percent that year. In Americas as partner, there is a very large jump in Mexico's coverage of Japan's industrial products that year. The patterns driving the extra-regional average still hold, with the exception that South Africa's industrial concession to the EU does not change to the same extent in the early years as in agriculture.

Figure 8 - Evolution of Sectoral Duty-Free Treatment in Selected RTAs



Figures 9a and 9b provide further nuance by measuring the average liberalization (x-axis) and dispersion of liberalization (y-axis) *across* 64 RTA partners' (in a total of 32 RTAs) liberalization schedules in the 97 Harmonized System chapters. The dots in red indicate chapters generally consisting of agricultural products, while dots in blue refer to chapters consisting of mostly industrial products.¹⁷ The chapters in the southeast corner are those in which all RTAs analyzed here feature deep liberalization, with negligible dispersion values resulting. Chapters in the northwest corner indicate limited liberalization across RTAs and particularly shallow liberalization in some RTAs, with high dispersion resulting.

¹⁷ For ease of presentation, in these figures chapters 1-24 (excluding chapter 3) are highlighted as agriculture. However, in the analyses of tariff liberalization statistics, agricultural and industrial products are defined at the 6-digit HS level.

Figure 9a - Distribution of Liberalization by RTA Parties in Chapters, Year 5

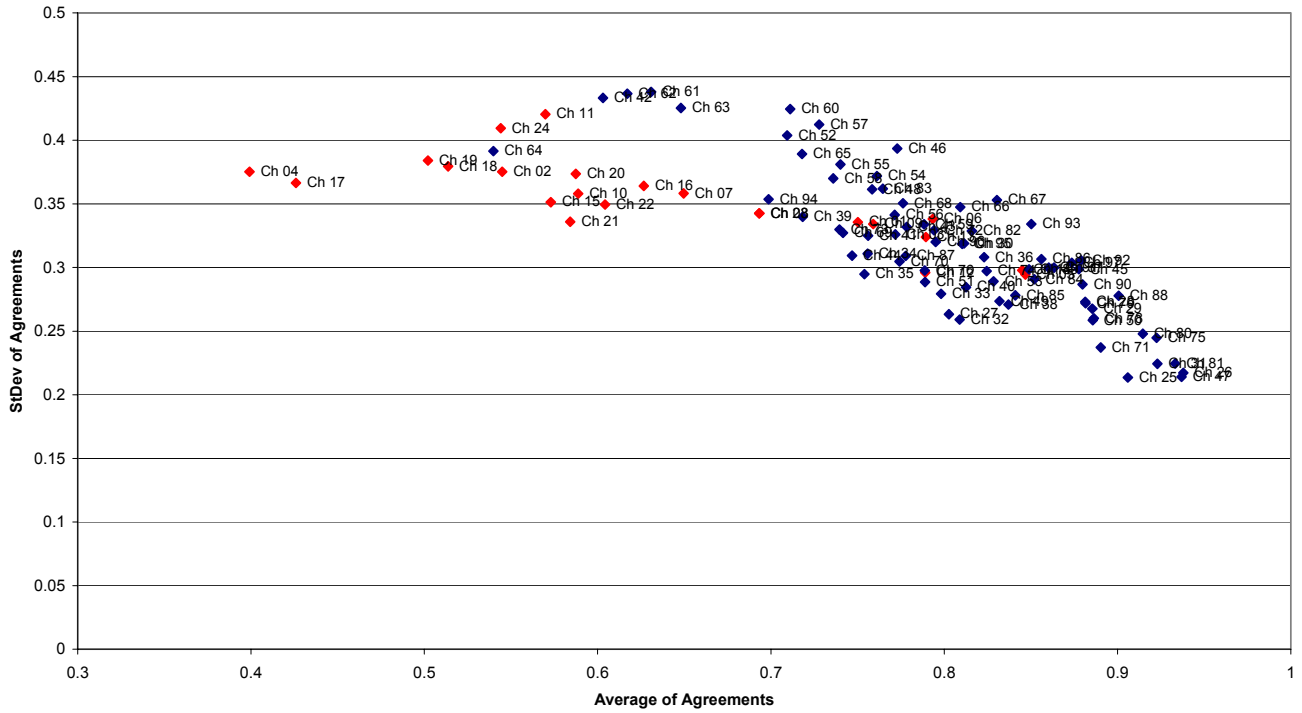
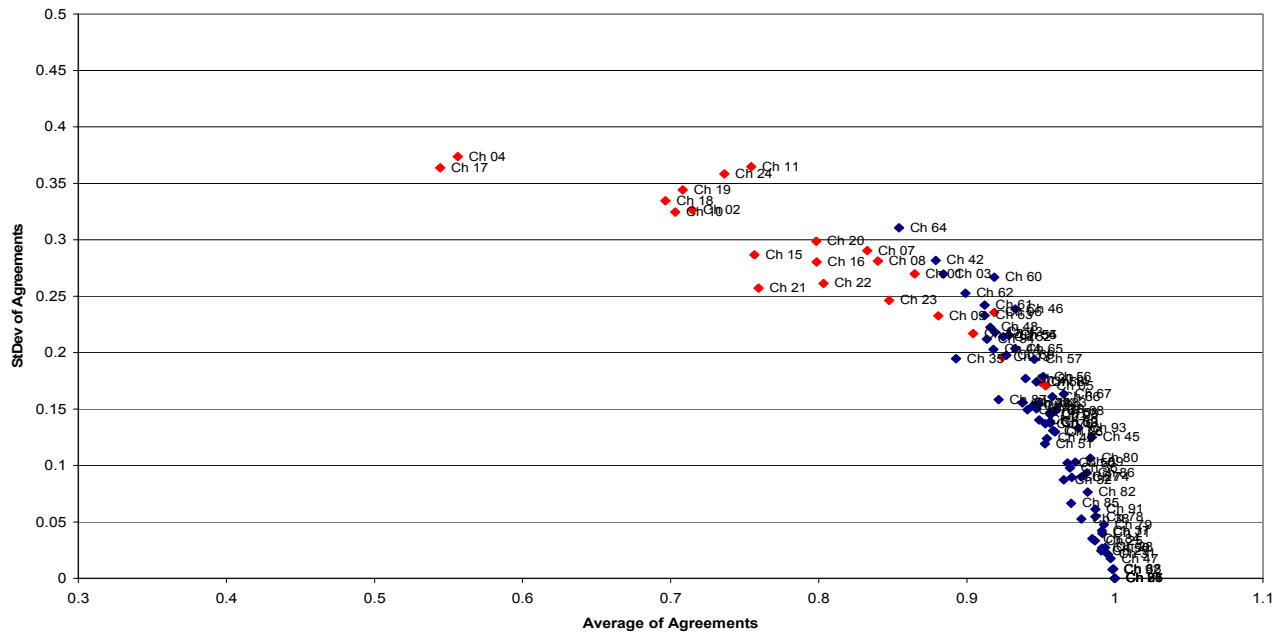


Figure 9b - Distribution of Liberalization by RTA Parties in Chapters, Year 10



The pattern is clear: agricultural chapters in RTAs feature the least liberalization and also the highest dispersion of liberalization across RTAs, indicating that these chapters are particularly protected in some RTA parties' schedules. The figures also show the relatively slow pace of liberalization: on average, RTA parties liberalize well below 50 percent of tariff lines in the most sensitive chapters—dairy (ch. 04) and sugars (17) by the fifth year of the agreement, and less than 55 percent in several others, including meat, cocoa, prepared cereals and baked goods, tobacco, and footwear (02, 17, 18, 24, and 64, respectively), while sugar and dairy still remain below 60 percent at year 10.

When the figures are analyzed at the intra-regional level (not shown here), a very distinct picture emerges. For one, it is intra-regional agreements that are driving much of the overall protectionism in dairy, sugar, and footwear.¹⁸ Moreover, there is great variation in the treatment of chapters at the intra-regional level—even in the case of chapters that are relatively liberalized. Meanwhile, the extra-regional sample even at the five-year benchmark resembles the overall findings at year 10: there is a crescent of points stretching from the highly liberalized southeast to the more protected northwest. The inter-regional sample falls somewhere in between. Agreements involving Singapore tend to increase the averages of all chapters in the extra-regional sample, and to a lesser extent, in the inter-regional sample.

Encouragingly, however, RTA parties on average liberalize more than 75 percent of tariff lines in the bulk of chapters by year 5 and more than 90 percent of tariff lines in most chapters by year 10. The fastest and deepest liberalization is effected in such non-sensitive products as ores (ch. 26), fertilizers (31), pulp of wood (47), and some base metals (81); perhaps one of the reasons is that these are intermediate inputs into other products. There is, however, notable variation across countries of the Americas in these goods as well as in leather (ch. 42). However, overall, the intra-regional set now resembles the 10-year figure for the full sample.

Notably, there is significant movement in the textile chapters between the 5- and 10-year benchmarks; by the same measure, dairy and sugar show little additional liberalization. The persistent variation in agriculture owes largely to EU's agreements where liberalization tends to be postponed—at times in perpetuity, as is the case, for example, for certain live animals, fish, meat, dairy, grains, and sugar products originating in South Africa in the EU-South Africa RTA.

iv. Trade-Weighted Tariff Liberalization

Simply measuring the share of liberalized tariff lines fails to capture the full effects stemming from the exclusion of sensitive products from RTAs if those products are covered in a very small number of tariff lines. Does the picture of integration in the Americas change with alternative measures?

¹⁸ Notably, dairy has the lowest standard deviation of all of the chapters, showing that the low duty-free share of products in this chapter is relatively common across agreements in the Americas.

We strive to shed light on this question by combining the data on liberalization as a share of tariff lines with data on trade flows. In particular, we introduce two alternative methods of exploring the depth and speed of liberalization in RTAs: liberalization statistics examined above as weighted by trade at the HS chapter level, and the actual percentage of total trade (imports) from the RTA partner that is liberalized of total trade.¹⁹

Figure 10 takes the first cut, examining the evolution of duty-free treatment as trade-weighted share of tariff lines. There are general similarities with the unweighted data in Figure 5; however, it is notable that the initial point at year 1 is higher in the trade-weighted dataset than in the unweighted tariff lines. This is hardly surprising: most trade occurs in sectors that are opened up rapidly, while sectors with backloaded liberalization tend to have very little trade (precisely because they are protected). To be sure, while the bolded averages in the two figures are also similar, they are not immediately comparable due to different numbers of observations—38 vs. 27 RTAs.

In the intra-regional sample, one of the most striking results is the high degree of liberalization in the early years (as opposed to the finding in figure 5). However, this is mainly due to methodological reasons: the more backloaded agreements involving Mercosur were excluded from the sample, which flattens the average.²⁰

¹⁹ The calculations are based on data from United Nations Comtrade database, DESA/UNSD.

²⁰ For the extra-regional case, the average is higher in Figure 13 than in Figure 5. There are two reasons for this. The most obvious is that EU-Lithuania and Thailand-Australia were excluded from the sample, and thus the agreements involving Singapore, where one or both countries provided immediate duty-free access, became more highly weighted. Second, all of the remaining schedules left in the trade weighted sample exhibited higher duty-free statistics (or the same when they reached 100 percent coverage) than in the unweighted sample where only tariff lines were analyzed. This was especially true of the EU-South Africa agreement, where both schedules returned a positive difference of around 20 percentage points in the first three years, while South Africa's schedule maintained this difference throughout the 20-year period under study.

Figure 10 - Evolution of Duty-Free Treatment as Trade-Weighted % of Tariff Lines

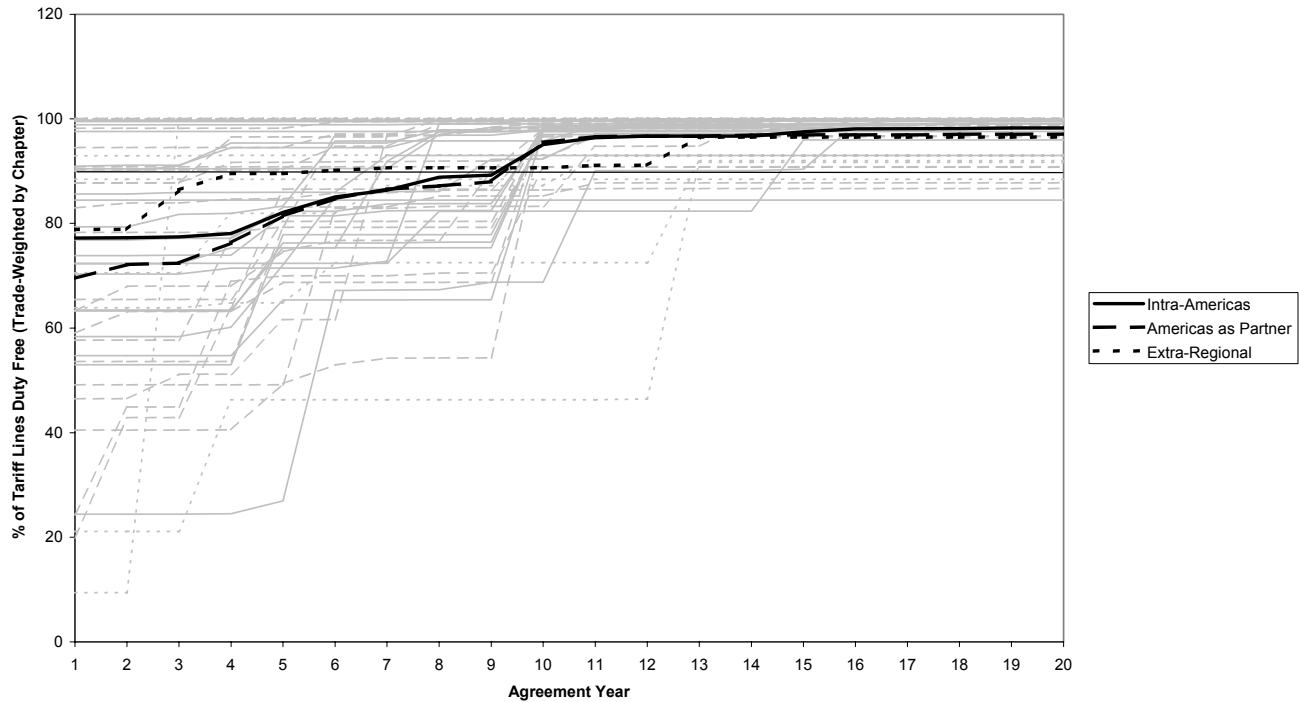
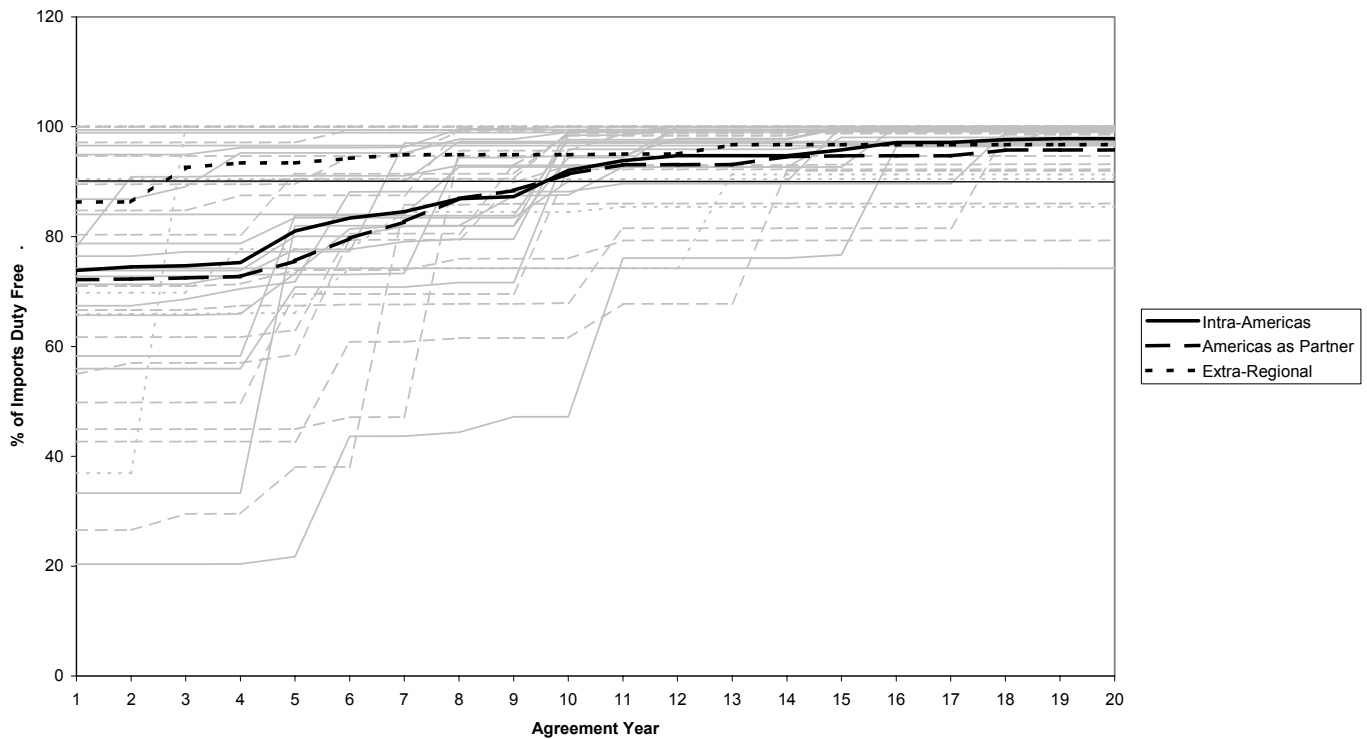


Figure 11 measures the evolution of duty-free treatment as a *share of imports* from the partner that are liberalized. By this measure, RTA partners in all regions on average reach the 90 percent mark right in year 10.²¹ Moreover and importantly, the figure does not capture the *potential* trade among the RTA partners. This is due in part to the endogeneity of trade flows: even if the share of actual trade excluded from an RTA were very small, the potential trade could be very significant in the absence of policy barriers.²²

²¹ Ideally, imports were averaged over a three-year period immediately prior to the entry into force of the agreement. However, due to data availability constraints as well as to ensure consistency between versions of the Harmonized System, the number of years taken as well as the years themselves varied somewhat from party to party.

²² That the extra-regional sample has a higher average in figure 14 than in 13 is partially due to the sample set: here the EU-Morocco agreement was additionally excluded from this sample, increasing the average somewhat. The change in measurement method also had a strong positive effect on coverage in the two early years of the China-Hong Kong concession, flattening the initial part of the curve.

Figure 11 - Evolution of Duty-Free Treatment as % of Imports



v. TRQs and Exceptions

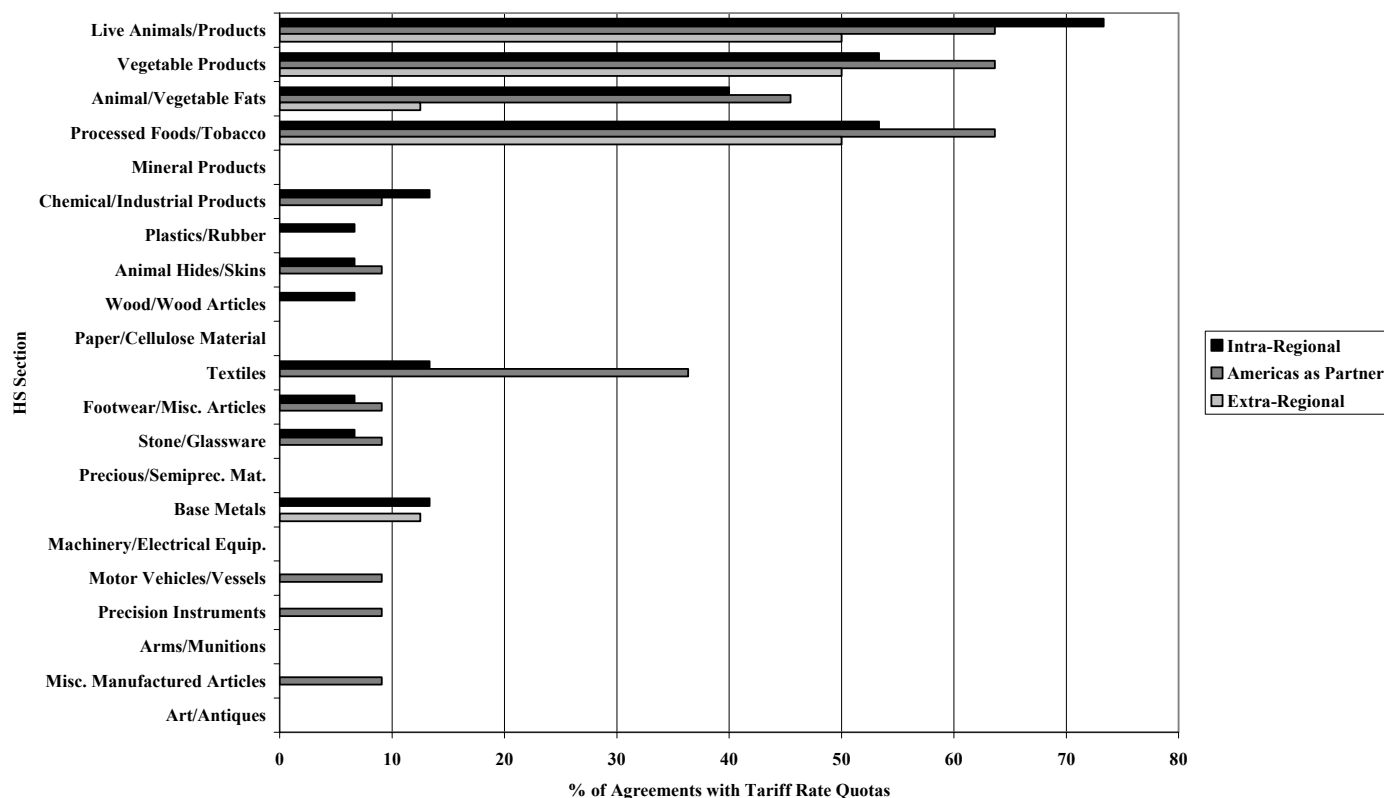
While RTAs around the world are encompassing and liberalizing, it is also the case that they carry provisions that could potentially be classified as “other restrictive regulations of commerce” under Article XXIV, such as TRQs, exceptions, and demanding rules of origin (RoO). Such provisions can qualify the market access provided for in the tariff lowering schedules—and, as such, affect the degree of liberalization conferred by RTAs.

TRQs in RTAs are usually additional to TRQ entitlements under the WTO Agreement on Agriculture, so that the RTA parties’ existing entitlements are not affected.²³ Figure 12 maps out the use of TRQs in the three sets of data. Countries of

²³ GATT Article I establishes disciplines on general most favored nation treatment and for preferential margins in arrangements that are mentioned in the article. The Appellate Body in the dispute *Turkey – Restrictions on Imports of Textile and Clothing Products* found that a dispensation could be available in cases where it could be shown that the proposed measure is essential to the formation of the PTA, but did not set the criteria by which this condition could be fulfilled in practice. Nevertheless, in quota-controlled markets where the Agreement on Agriculture allocates quotas to several supplying countries, the expansion of the quota of one supplying RTA partner will put downward pressure on prices, causing some erosion in the quota rents available to all quota-holders, while only the RTA partner is compensated by increased market access. Given the possible negative impact on other quota-

the Americas, like extra-regional agreements, are frequent TRQ users particularly in agriculture, and also employ TRQs in textiles (where extra-regional agreements do not apply TRQs). In the Americas, US agreements drive the TRQ incidence in agriculture, with Canada and Mexico contributing to a somewhat lesser extent. Box 1 details the operation of TRQs in CAFTA.

Figure 12 – % of RTAs with TRQs, by Region and HS Section



holders, it is not clear that TRQs in RTAs are consistent with the WTO rules on quotas. It is also unclear whether Article XXIV provides a dispensation from those rules—or from GATT Article I.

Box 1: Tariff Rate Quotas in CAFTA

The United States presented a single schedule of tariff concessions to the Central American countries and the Dominican Republic in CAFTA. However, there are some differences in the actual concessions to each Latin American party. The differences in treatment arise from the granting of immediate elimination of duties for finite quantities of some goods by means of a tariff rate quota. While some of the parties receive duty-free access under a quota, others do not, and while the products subject to quotas are similar across the parties, the quantities vary widely among them (table 3).²⁴ The differences can have substantial implications, as the products in question are among the most sensitive, and as the tariff reduction takes a long time and may be subject to grace periods before actual reductions begin.

Each of the Central American parties and the Dominican Republic have their individual schedules on products entering from the United States. The concessions are rather similar for the various product categories among these countries. Table 4 displays the TRQs by the Central American countries and the Dominican Republic on the United States.²⁵ Indeed, while there are some differences in the tariff elimination treatment within Central America for individual products and for the in-quota quantities, the products on which the Central American parties open TRQs tend to be very similar. The Dominican Republic has a slightly different list of products than the Central American parties do; however, the differences can in part be explained by the aggregation of the TRQ in terms of product coverage.

Table 3 - Products Subject to Tariff Rate Quotas in CAFTA: US Tariff Quotas on Products Entering from Central America and the Dominican Republic

Product Category	Out-of-Quota Tariff Elimination Treatment ¹	Initial Quantity ²						Unit
		CRI	DOM	SLV	GTM	HND	NIC	
Beef	15 year	10,536	1,320	105	*	525	10,500	Metric tons
Sugar ³	Continued MFN	11,000	10,000	24,000	32,000	8,000	22,000	Metric tons
Sugar (Organic) ⁴	Continued MFN	2,000 ⁵	*	*	*	*	*	Metric tons
Peanuts	15 year, non-linear, 6 year grace period	*	*	500	*	*	10,000	Metric tons
Peanut Butter	15 year	*	*	*	*	*	280	Metric tons
Cheese	20 year, 10 year grace period	300	413	450	500	350	625 (250 ⁶)	Metric tons
Milk Powder	20 year, 10 year grace period	50	*	*	*	*	*	Metric tons
Butter	20 year, 10 year grace period	50	*	60	*	100	*	Metric tons
Other Dairy Products	20 year, 10 year grace period	150	110 (220 ⁶)	120	250	*	100	Metric tons
Ice Cream	20 year, 10 year grace period	97,087	160,194	77,670	194,174	48,544	266,989	Liters
Fluid Fresh Milk and Cream, and Sour Cream	20 year, 10 year grace period	407,461	*	366,715	305,596	560,259	254,663	Liters
Ethyl Alcohol (Central America originating)	Immediate	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Gallons
Ethyl Alcohol (non-Central America originating)	Most Favored Nation	31,000,000 ⁷	*	6,604,322 ⁷	*	*	*	Gallons

Source: Adapted from: Tripartite Committee, *Comparative Guide to the Chile-United States Free Trade Agreement and the Dominican Republic-Central America-United States Free Trade Agreement*, based on TRQ Annexes to CAFTA Agreement.

1 In-quota imports shall be free of duty as of entry

2 With the exceptions of imports of "Sugar (Organic)" and "Ethyl Alcohol (non-Central America originating)" from Costa Rica, which remain fixed, access quantities will be subject to growth over time.

3 TRQ access based on trade surplus condition.

4 A fixed 2,000 MT TRQ was allocated by the U.S. to Costa Rica for organic sugar under the U.S. specialty sugar TRQ, and applies to tariff lines AG17011110, AG17011210, AG17019110, AG17019910, AG17029010, and AG21069044.

5 In the case of Nicaragua, an additional initial quantity of 250 metric tons applies to 5 tariff lines of the 52 total tariff lines making up the entire Cheese TRQ.

6 In the case of the Dominican Republic, an additional initial quantity of 220 metric tons applies to 4 tariff lines of the 46 total tariff lines making up the entire Other Dairy Products TRQ.

7 Or 10 percent of the base quantity of dehydrated alcohol and mixtures established under Section 423, whichever is lesser.

*No TRQ.

²⁴ These tables are summary versions of those used in the Comparative Guide to the Chile-United States Free Trade Agreement and the Dominican Republic-Central America-United States Free Trade Agreement, a joint project of the Tripartite Committee (IDB, OAS, and ECLAC). The categories in the US table are in order of appearance in the US General Notes, while those for the Central America/Dominican Republic table are an alphabetized common set.

²⁵ TRQs between the Dominican Republic and Costa Rica and Nicaragua are also part of the Agreement, but are not shown in these tables.

Table 4 - Products Subject to Tariff Rate Quotas in CAFTA: Central American and DR Tariff Quotas on Products Entering from United States

Product Category	Out-of-Quota Tariff Elimination Treatment ¹						Initial Quantity in Metric Tons ²					
	CRI	DOM	SLV	GTM	HND	NIC	CRI	DOM	SLV	GTM	HND	NIC
bacon	*	10 year	*	*	*	*	*	220	*	*	*	*
beans	*	15 year	*	*	*	*	*	8,560	*	*	*	*
beef	*	*	15 year, NL, Special ³	10 year	*	*	*	*	105	1,060	*	*
beef, prime and choice	*	15 year	*	*	*	*	*	1,100	*	*	*	*
beef, trimmings	*	15 year	*	*	*	*	*	220	*	*	*	*
butter	20 year, 10yr GP	10 year	20 year, 10yr GP	20 year, 10yr GP	20 year, 10yr GP	20 year, 10yr GP	150	220	100	100	100	150
buttermilk, curdled cream, and yogurt	*	*	20 year, 10yr GP	*	*	*	*	*	10	*	*	*
cheese	20 year, 10yr GP	*	20 year, 10yr GP	20 year, 10yr GP	20 year, 10yr GP	20 year, 10yr GP	410	*	410	450	410	575
cheese, cheddar	*	15 year	*	*	*	*	*	138	*	*	*	*
cheese, mozzarella	*	20 year, NL, 10yr GP	*	*	*	*	*	138	*	*	*	*
cheeses, other	*	10 year	*	*	*	*	*	138	*	*	*	*
chicken meat, mechanically de-boned	*	10 year	*	*	*	*	*	440	*	*	*	*
chicken leg quarters	17 year, NL, 10yr GP	20 year, NL, 10yr GP	18 year, NL, 10yr GP	18 year, NL, 10yr GP	18 year, NL, 10yr GP	18 year, NL, 10yr GP	330	550	0	21,810 ⁴	0	0
corn, white	*	*	Con't MFN ⁴	Con't MFN	Con't MFN	Con't MFN	*	*	35,700	20,400	23,460	5,100
corn, yellow	*	*	15 year, NL, 6yr GP ⁵	10 year	15 year, NL, 6yr GP	15 year, NL, 6yr GP	*	*	367,500	525,000	190,509	68,250
fresh onions	Con't MFN	*	*	*	*	*	300	*	*	*	*	*
fresh potatoes	Con't MFN	*	*	*	*	*	300	*	*	*	*	*
frozen french fries	5 year	*	*	*	*	*	2,631	*	*	*	*	*
glucose	*	12 year	*	*	*	*	*	1,320	*	*	*	*
ice cream	20 year, 10yr GP	12 year	20 year, 10yr GP	20 year, 10yr GP	20 year, 10yr GP	20 year, 10yr GP	150	165	120	160	100	72,815 ⁶
liquid dairy	*	*	20 year, 10yr GP	*	*	*	*	*	10	*	*	*
liquid milk	*	10 year	*	*	*	*	*	220	*	*	*	*
milk powder	20 year, 10yr GP	20 year, 10yr GP	20 year, 10yr GP	20 year, 10yr GP	20 year, 10yr GP	20 year, 10yr GP	200	2,970	300	400	300	650
other dairy products	20 year, 10yr GP	*	20 year, 10yr GP	10 year	20 year, 10yr GP	20 year, 10yr GP	140	*	120	182	140	50
pig fat	*	12 year	*	*	*	*	*	550	*	*	*	*
pork	15 year, 6yr GP	*	15 year, NL, 6yr GP ⁵	15 year	15 year, NL, 6yr GP	15 year	1,100	*	1,650	4,148	2,150	1,100
pork cuts	*	15 year, NL, 6yr GP	*	*	*	*	*	3,465	*	*	*	*
rice, brown	*	20 year, NL, 10yr GP	*	*	*	*	*	2,140	*	*	*	*
rice, milled	20 year, NL, 10yr GP	20 year, NL, 10yr GP	18 year, NL, 10yr GP	18 year, NL, 10yr GP	18 year, NL, 10yr GP	18 year, NL, 10yr GP	5,250	8,560	5,625	10,500	8,925	13,650
rice, rough	20 year, NL, 10yr GP ⁴	*	18 year, NL, 10yr GP ^{4,5}	18 year, NL, 10yr GP ⁴	18 year, NL, 10yr GP ⁴	18 year, NL, 10yr GP ⁴	51,000	*	62,220	54,600	91,800	92,700
sorghum	*	*	15 year	*	*	*	*	*	263	*	*	*
turkey meat	*	12 year	*	*	*	*	*	3,850	*	*	*	*
yogurt	*	20 year, 10yr GP	*	*	*	*	*	110	*	*	*	*

Source: Adapted from: Tripartite Committee, *Comparative Guide to the Chile-United States Free Trade Agreement and the Dominican Republic-Central America-United States Free Trade Agreement*, based on TRQ Annexes to CAFTA Agreement.

GP = grace period; NL = non-linear.

1 With the exception of Milk Powder in the Dominican Republic, in-quota imports shall be free of duty as of entry into force of the Agreement.

2 With the exception of imports of "Chicken Leg Quarters" by Guatemala from the United States, where there are reductions in the duty-free quantity in several years, followed by unlimited access in year 18, access quantities will be subject to growth over time.

3 Duties in this category shall be reduced to 15% in year 1.

4 May be subject to performance requirements.

5 The aggregate quantity of goods entered into El Salvador from the United States under SAC provision 1006 shall be free of duty in any calendar year specified, "and shall not exceed 3,000 MT for 'parboiled rough' rice or its equivalent 'parboiled milled' rice quantity in any such year. Parboiled milled equivalency shall be calculated according to a 0.7 conversion factor, where 1 MT of parboiled rough rice is equivalent to 0.7 MT of parboiled milled rice."

6 Quantities are measured in Liters for the Nicaragua Ice Cream TRQ.

⁷No TRQ.

Figure 13 turns to exceptions, defining the share of product categories in which at least one of the parties to an RTA has placed an exception (i.e., does never bring the tariff on the product to zero) or an exclusion (i.e., has exempted a product from the RTA concessions altogether). Exceptions in most RTAs fall on the most protected sectors—agricultural products, food preparations, chemicals, and textiles and apparel. In the Americas, Mexico's agreements are the main drivers of exceptions in agriculture. Mexico-Northern Triangle, Chile-Central America, and Canada-Costa Rica FTAs contribute to the count in a broad number of sections. CAFTA exceptions in figure 14 illustrate further. At the extra-regional front, EU agreements and Japan-Singapore FTA drive the figures.

Figure 13 – % of RTAs with Exceptions or Exclusions, by Region and Section

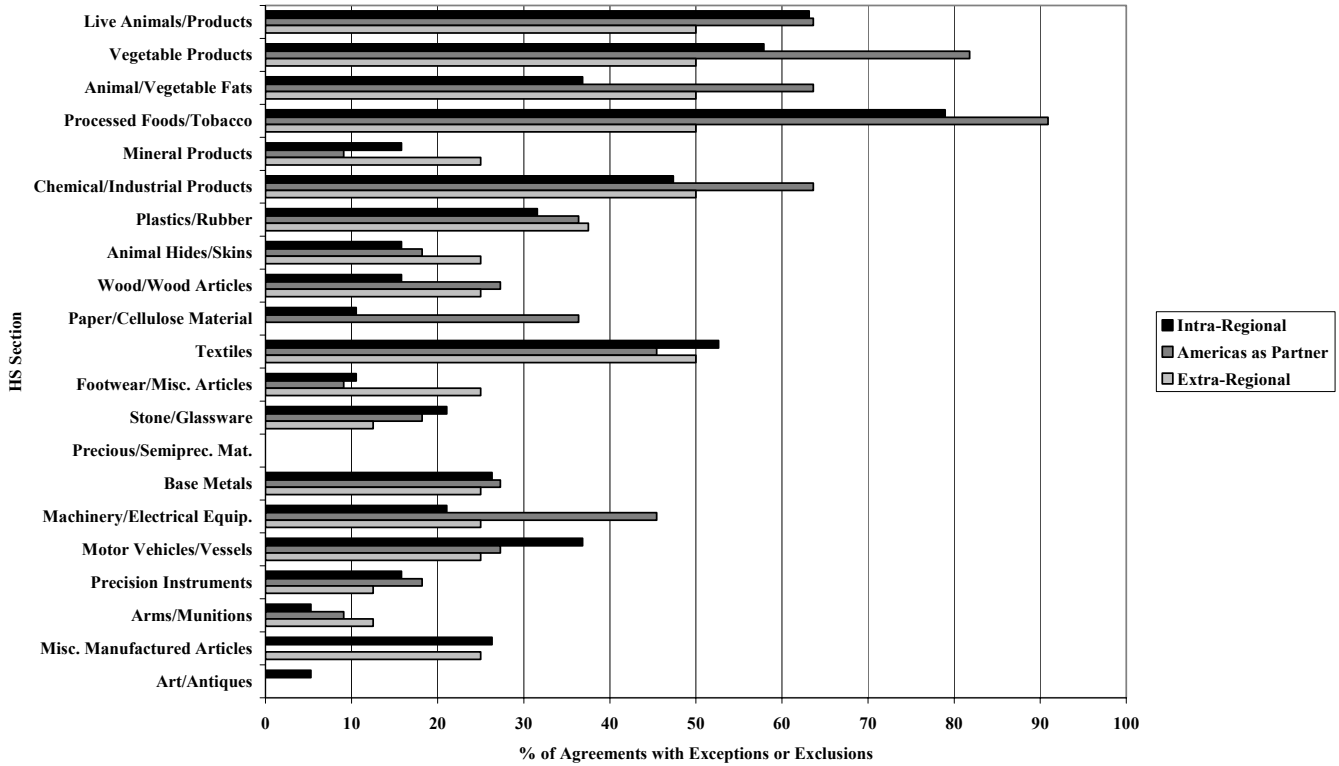
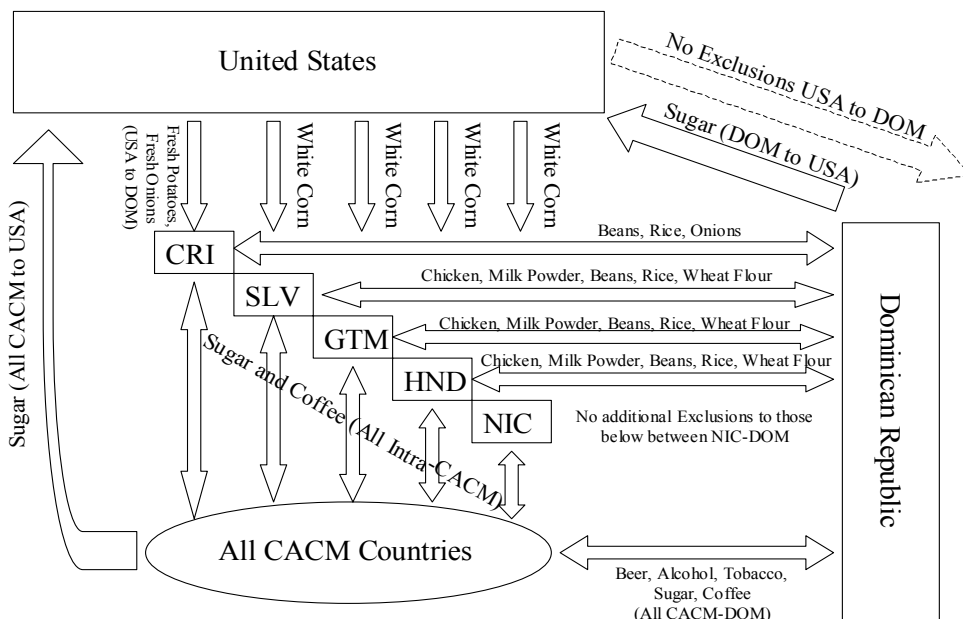


Figure 14 – Exceptions to Tariff Liberalization in CAFTA



Source: DR-CAFTA Agreement, Annex 3.3.6, Appendix 3.3.6.4, and Signatory Country General Notes to Tariff Schedules

In sum, the analysis of liberalization in RTAs yields three main results:

- RTAs formed by the countries of the Americas are unique in three ways in comparison to other regions: they are mature, most of them are encompassing in terms of product categories that are negotiated, and particularly RTAs signed by the original NAFTA members liberalize most products rapidly (usually some 70 percent in the first year), while the South American FTAs are somewhat more backloaded. In contrast, agreements in Asia are rather young, less encompassing, and, like European agreements, more backloaded. Singapore is a clear exception; it liberalizes basically all goods in the first year.
- There are similarities between the Americas and the extra-regional sample. Most extra-regional agreements, like those formed by countries of the Americas, liberalize 90 percent of tariff lines (as well as trade-weighted lines) by year 10 into the agreement. As such, the coverage of products in all RTAs tends to become rather homogeneous by the end of the first decade.
- All three regional samples carry a number of outlier RTA parties (often southern parties) and product categories (particularly in sensitive sectors—agricultural products, food preparations, textiles and apparel, and footwear) that trail the overall trend of liberalization. Many agreements in the Americas also carry provisions that could potentially be classified as “other restrictive regulations of commerce”, such as tariff rate quotas and exceptions. Such instruments appear to capture the price the region’s integrationist interests are to pay for the liberalizing and encompassing RTAs.

III. Open Regionalism in the Americas?

The Americas is one of the most integrated regions in the world. Liberalization within the regional RTAs is deep and many countries of the Americas are connected to most others in the region. But how discriminatory are agreements formed by countries in the Americas? Are RTAs in the region based on “open regionalism”—i.e., has regional liberalization been paralleled by multilateral liberalization—and have the region’s RTAs created, rather than diverted, trade? The first part of this section examines this question in a preliminary fashion by engaging applied external tariffs and rules of origin. The second part discusses some recent empirical findings on the trade effects of RTAs in the Americas and beyond.

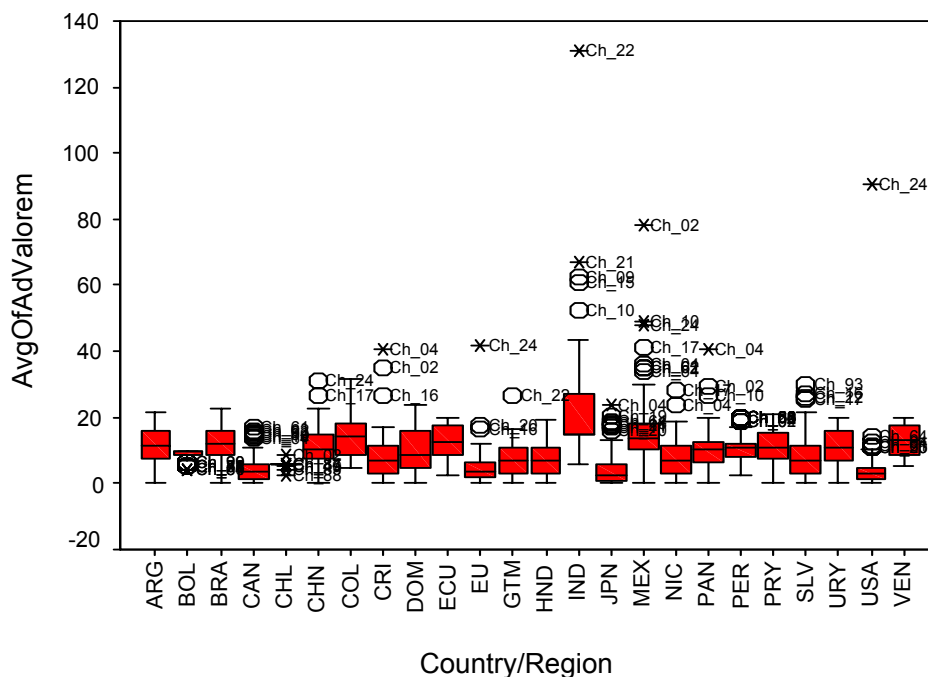
A. Multilateral Tariffs in the Americas

In the 1990s, MFN liberalization in the Americas proceeded in lock-step with RTA liberalization, with preferential margins remaining rather unchanged during the period. Indeed, in the late-1980s, many countries of Latin America started MFN liberalization from average levels as high as 40 percent or more. However, the more recent period has seen fewer changes in the Western Hemisphere countries’ external

tariffs: the proliferation of RTAs has been accompanied by little additional downward movement on external tariffs.

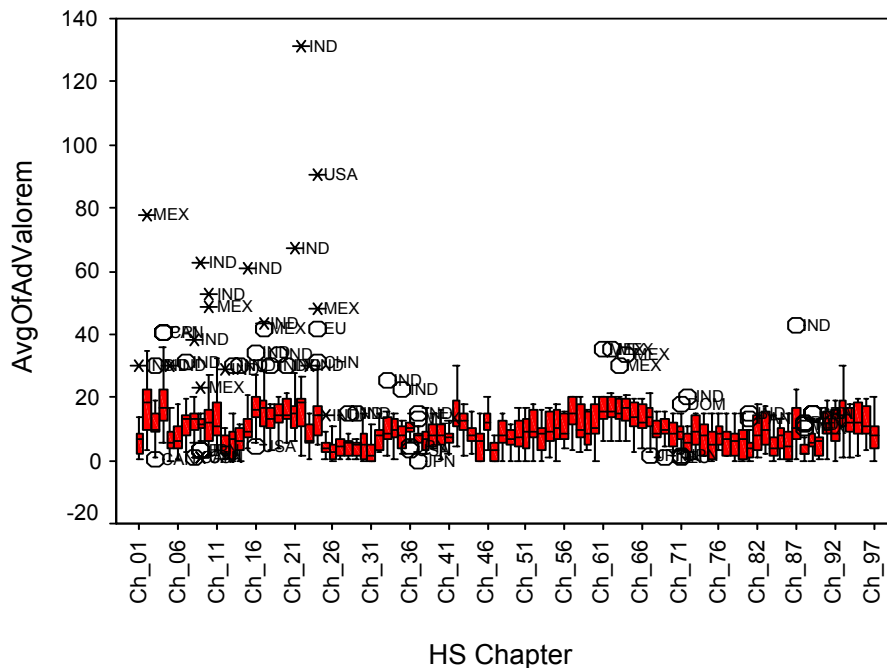
Figures 15a and 15b take a snapshot of the regional economies' and China, EU, India, and Japan's applied tariff profiles, and the tariffs applied by these countries in the various HS chapters, respectively. The median chapter average of applied external tariffs in Latin America ranges from around 14 percent (Colombia) to 6 percent (Chile). The regional median is not very different from that of China; however, all Latin American countries have a lower median than is applied by India. US and Canadian tariffs are 2.8 percent and 3.5 percent, respectively.²⁶ Tariff dispersion in the region is rather moderate, barring extreme outliers particularly in Mexico (meat, cereals, and tobacco), and Costa Rica and Panama (dairy). As for dispersion across countries by chapter (figure 15b), the dispersion is rather moderate across the tariff universe; yet, outliers persist in textiles (Mexico) and agriculture (India, EU, Mexico, and the United States, among others). Averages are also higher in these sectors.

Figure 15a - Applied MFN Tariffs in 24 Countries, 2006



²⁶ It should be noted that these averages that non *ad-valorem* tariffs are not included in the averages (i.e., calculations do not include *ad-valorem* equivalents). Since non *ad-valorem* tariffs are generally more highly protective, the actual level of protection applied by the US and Canada would be slightly higher. Mexico, EU, and Japan also apply non *ad-valorem* tariffs to some degree.

Figure 15b – Applied MFN Tariffs by Chapter among 24 Countries, 2006



Note: Boxplots represent interquartile ranges. The line in the middle of the box represents the median 50th percentile of the data. The box extends from the 25th percentile to the 75th percentile, or through the so-called inter-quartile range (IQR). The whiskers emerging from the boxes extend to the lower and upper adjacent values. The upper adjacent value is defined as the largest data point less than or equal to $x(75) + 1.5 \text{ IQR}$. The lower adjacent value is defined as the smallest data point greater than or equal to $x(25) - 1.5 \text{ IQR}$. Observed points more extreme than the adjacent values are individually plotted (outliers and extreme values are marked using “x” and “o” symbols, respectively).

Source: INT calculations based on UNCTAD TRAINS data

Whether the Americas features less or more discrimination than in the late 1990s requires a more detailed analysis than performed here. It is the case that the advance of RTA liberalization has been accompanied by a more modest liberalization of external tariffs in the past few years than was the case in the 1990s. In general, however, it can also be said that the region’s most liberalized countries in the RTA sphere also have the lowest MFN tariffs and least MFN tariff dispersion. Moreover, the formation of new RTAs has alleviated discrimination vis-à-vis the new partners (while also accentuating the disadvantages of remaining outside the RTA spaghetti bowl).

B. Rules of Origin

Rules of origin arbitrate the discriminatory impact and trade-creating potential of RTAs. Since a failure to meet the RoO disqualifies an exporter from the RTA-conferred preferential treatment, RoO can and must be seen as a central market access instrument reigning over preferential trade. The potential effects of RoO accentuate over time: RoO remain in place even after preferential tariffs have been phased out.

RoO are widely considered a trade policy instrument that can work to offset the benefits of tariff liberalization in RTAs.²⁷ RoO in effect set up walls around RTA members that prevent them from using some inputs in each final product. This can limit the access of member country producers to inputs from the rest of the world, as well as input providers' sales to the RTA region. When rules are more restrictive, the walls are higher, and efficient allocation of resources is even more difficult. Moreover, multiple overlapping RTAs with divergent origin regimes entail many such walls to free and efficient sourcing of inputs. The multiple criss-crossing RTAs in the Americas make RoO of particular importance in the region.

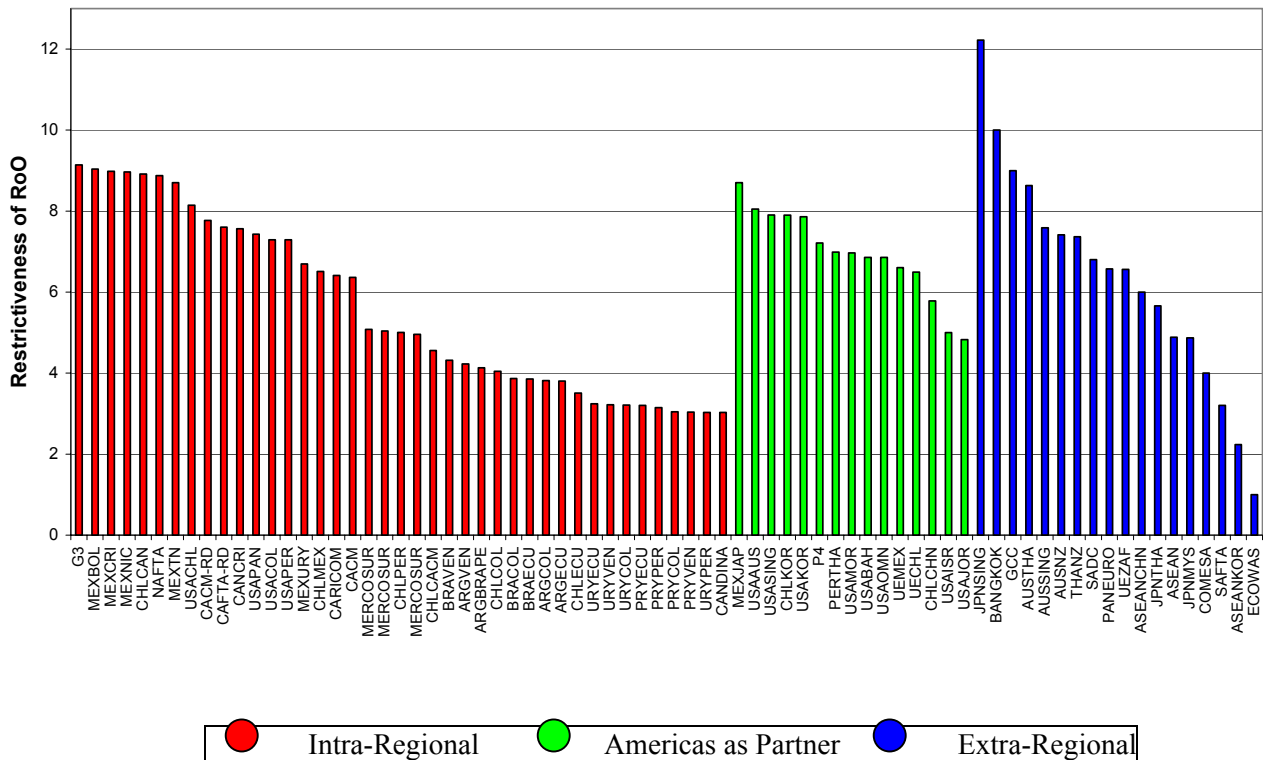
Particularly agreements forged by the original NAFTA partners carry some of the most complex and restrictive rules of origin (figure 16).²⁸ Encouragingly, however, unlike the straitjacket RoO model that the EU uses in all of its RTAs, agreements in the Americas are marked by diversity in RoO that suggests not only political economy forces but also accommodation of RTA-specific idiosyncrasies. The regional countries have also employed such measures as short supply clauses to help producers adjust to shocks in availability of intra-regional inputs.

Furthermore, particularly in North America is marked by a trend toward market-friendly rules of origin. US RoO regimes have evolved toward a more liberal framework from NAFTA to US-Chile FTA, CAFTA, and US-Colombia and US-Peru FTAs; in the meantime, NAFTA RoO regime itself has been under a liberalization process, with more flexible RoO being adopted in as varied sectors as alcoholic beverages, petroleum, chassis fitted with engines, photocopiers, chemicals, pharmaceuticals, plastics and rubber, motor vehicles and their parts, footwear, copper, and others.

²⁷ Most prominently, RoO can be employed to favor intra-RTA industry linkages over those between the RTA and the rest of the world, and, as such, to indirectly protect RTA-based input producers vis-à-vis their extra-RTA rivals (Krueger 1993; Krishna and Krueger 1995). As such, RoO are akin to a tariff on the intermediate product levied by the country importing the final good (Falvey and Reed 2000; Lloyd 2001).

²⁸ See Suominen (2004), Estevadeordal and Suominen (2006), and Estevadeordal, Harris, and Suominen (2007).

Figure 16 – Restrictiveness of Rules of Origin in RTAs, by Region



B. Economic Effects of RTAs in the Americas: Trade Creation or Trade Diversion?

Academic literature remains divided as to whether RTAs are ultimately trade-creating or trade-diverting—and whether RTAs are a stepping stone or a stumbling bloc to global free trade.²⁹ Deardorff and Stern (1994), Baldwin (1993, 2006), Wei and Frankel (1995), Bergsten (1995), Frankel, Stein, and Wei (1997), Ethier (1998), Cadot et al. (2001), Freund (2000) and Ornelas (2005), and, on the political science side, Oye (1992) and Kahler (1995), provide grounds for believing that RTAs can be ever-expanding and propel strategic interactions conducive to global free trade. In contrast, Bhagwati (1993) argues that reduced protection between RTA members will be accompanied by increased protection vis-à-vis outsiders, with RTAs ultimately undermining multilateral liberalization. Cooper (2004) holds that FTAs can deviate attention and resources from accomplishing multilateral liberalization.

²⁹ For early works on the welfare effects of RTAs and customs unions, in particular, see Viner (1950), Meade (1955), Lipsey (1960), Johnson (1965), Mundell (1964), Corden (1972), and Kemp and Wan (1976). Richardson (1994) and Panagariya and Findlay (1996) extend the political economy analysis of PTA formation to looking at welfare implications of endogenously determined RTAs.

For many authors such as van der Mensbrugghe et al. (2005) and Schott (2004), much depends on the exact characteristics of RTAs. Aghion, Antràs, and Helpman (2006) arrive at two equilibria: one in which global free trade is attained only when preferential trade agreements are permitted to form (a building bloc effect), and another in which global free trade is attained only when preferential trade agreements are forbidden (a stumbling bloc effect). To be sure, while seeing RTAs as the second-best option to multilateral free trade, most analysts view them as superior to not liberalizing at all.

There are few studies that engage tariff concessions. Limão (2006), examining concessions, finds that the United States and the EU have limited their multilateral tariff liberalization in goods traded with the RTA partners. Limão and Olarreaga (2006) make a similar finding in the case of import subsidies afforded to RTA partners by the United States, EU, and Japan.

However, Estevadeordal and Robertson (2004) and Estevadeordal, Freund and Ornelas (2005), operationalizing tariff liberalization in a number of Western Hemisphere RTAs, find that RTAs in the Americas have not only been liberalizing and conducive to trade in the region, but also helped further multilateral liberalization. The latter examine the effects of RTAs on external trade liberalization using industry-level data on applied MFN tariffs and bilateral preferences for ten Latin American countries from 1989-2001. The results show that the greater the tariff preference that a country gives to its RTA partners in a given product, the more the country tends to *reduce* its MFN tariff in that product. The authors conclude that RTAs can further open regionalism and set in motion a dynamic that attenuates their potential trade diversionary effects.

Suominen (2004) and Estevadeordal and Suominen (2006b) find that while RTAs help create trade, restrictive RoO embedded in them dampen their trade-creating potential. Meanwhile, restrictive RoO in final goods encourage trade in intermediate goods, and can thus entail trade diversion in inputs. Estevadeordal, López-Córdova and Suominen (2006) extend the analysis of the effects of RoO to *investment* flows in manufacturing industries in Mexico, finding that investment in Mexico during the NAFTA era has been attracted to sectors with flexible RoO—RoO that allow industries to establish production and supply networks of global reach, and thus also import supplies from around the world (rather than from the NAFTA market alone, as they would have to do in the presence of restrictive RoO).

Overall, the empirical evidence of RTAs' trade-creating effects remains mixed. Much appears to depend on the instrument (tariffs, RoO etc.), time period, and set of countries and product categories that are analyzed. Nonetheless, the continued drive toward RTAs even among distant partners should help ensure, barring the implications of RoO, that blocs become increasingly connected to the rest of the world if not by multilateralism then by way of regionalism, evolving to an increasingly “fuzzy” and “leaky” format (Baldwin 2006).

IV. Beyond Market Access: Services and Investment

Analyzing tariffs and other instruments governing trade in goods provides at best a limited view of RTAs' anatomy and effects. RTAs formed by countries in the Americas, much like RTAs around the world, contain a host of disciplines beyond tariffs ranging from investment to competition policy; from labor issues to dispute settlement; from standards to government procurement and transportation. These can provide for important complementarities, such as between tariff, services, and investment liberalization.

This section strives to supplement the tariff liberalization statistics by providing a brief comparative analysis of the *coverage* (rather than depth of liberalization) of investment and services provisions (listed in Appendix II) in agreements formed by countries of the Americas in a comparative context as well as vis-à-vis multilateral agreements (General Agreement on Trade in Services, GATS, and Agreement on Trade-Related Investment Measures, TRIMS). The main question examined here is not the extent of liberalization by RTAs, but, rather, the extent of their comprehensiveness. As such, this analysis can also help elucidate the extent to which RTAs are “WTO+” in terms of incorporating a larger number and/or more specific provisions than are present in the multilateral regime.

A. *Services*

Services chapters in RTAs usually only cover modes 1 and 2 and are, therefore, separate from RTAs chapters on investment and temporary entry of business persons. RTAs generally cover a large number of services provisions, particularly most favored nation treatment, national treatment, market access, local presence, domestic regulation, recognition of qualifications, transparency, restriction of transfers and denial of benefits. Many RTAs also contain (whether in different chapters or in annexes to the services chapters) specific provisions for telecommunications and financial services.

Intra-hemispheric RTAs are particularly comprehensive and often go well beyond GATS provisions (figures 17 and 18). Older agreements such as NAFTA, the first agreement to cover services in an exhaustive manner, cover MFN treatment, national treatment, market access, local presence, domestic regulation, recognition of qualifications, transparency, restriction of transfers and denial of benefits, as well as certain provisions for telecommunications and financial services. The coverage of services in these two sectors has accentuated in recent US agreements with Chile, Peru, Colombia and Panama, and, at the inter-regional front, with Australia, Singapore, and Morocco. In contrast, most South American agreements do not have specific services provisions.

Overall, this entails that more than 60 percent of inter- and intra-regional agreements cover MFN treatment, national treatment, market access, and unnecessary barriers to trade, and prohibit discriminatory treatment—all areas addressed by fewer extra-

regional agreements, which are in general much thinner with the exception of Japan-Singapore FTA, which covers national treatment, market access, domestic regulation, recognition of qualifications, transparency and restriction of transfers, as well as certain provisions on telecommunication and financial services.

Mexico and Chile's agreements with the EU differ from each other. The EU-Chile FTA covers national treatment, market access, domestic regulations, recognition of qualifications, transparency and restrictions of transfers, and also contains a thorough regulation of telecommunications and financial services. The EU-Mexico FTA covers only MFN treatment, national treatment, market access, restrictions of transfers, and denial of benefits, while sporting no provisions on telecommunications and covering financial services only rather marginally.

Figure 17 – Coverage of 29 Services Provisions in Selected RTAs

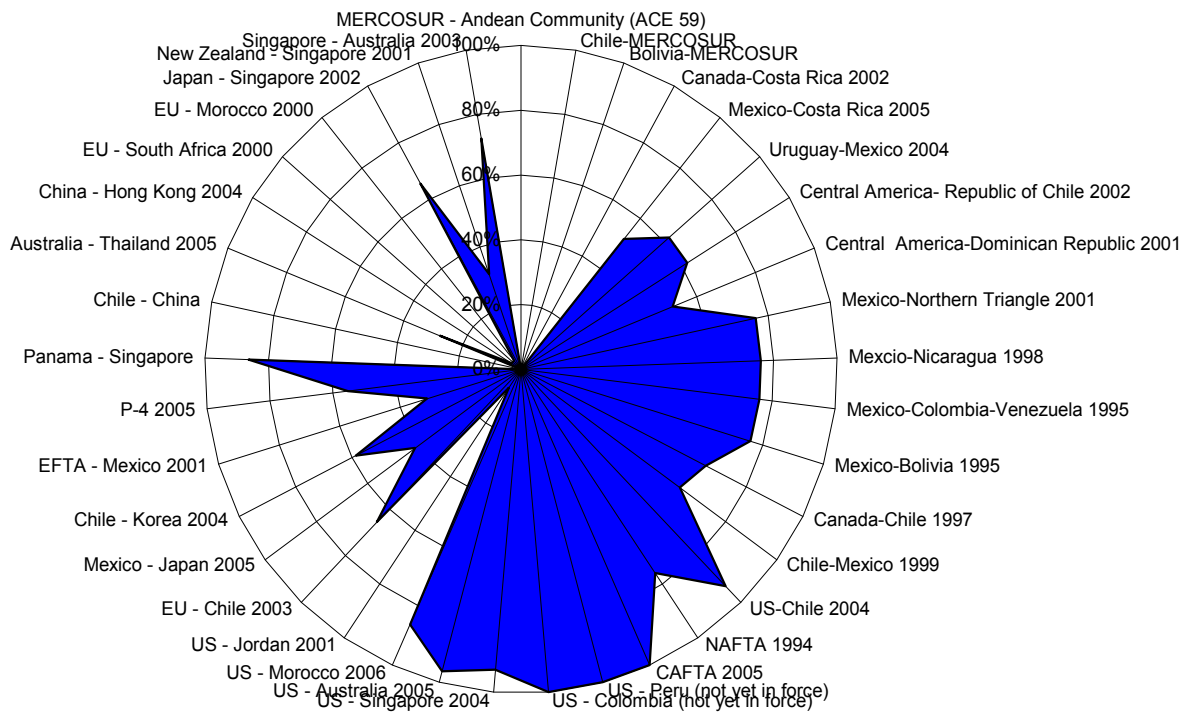
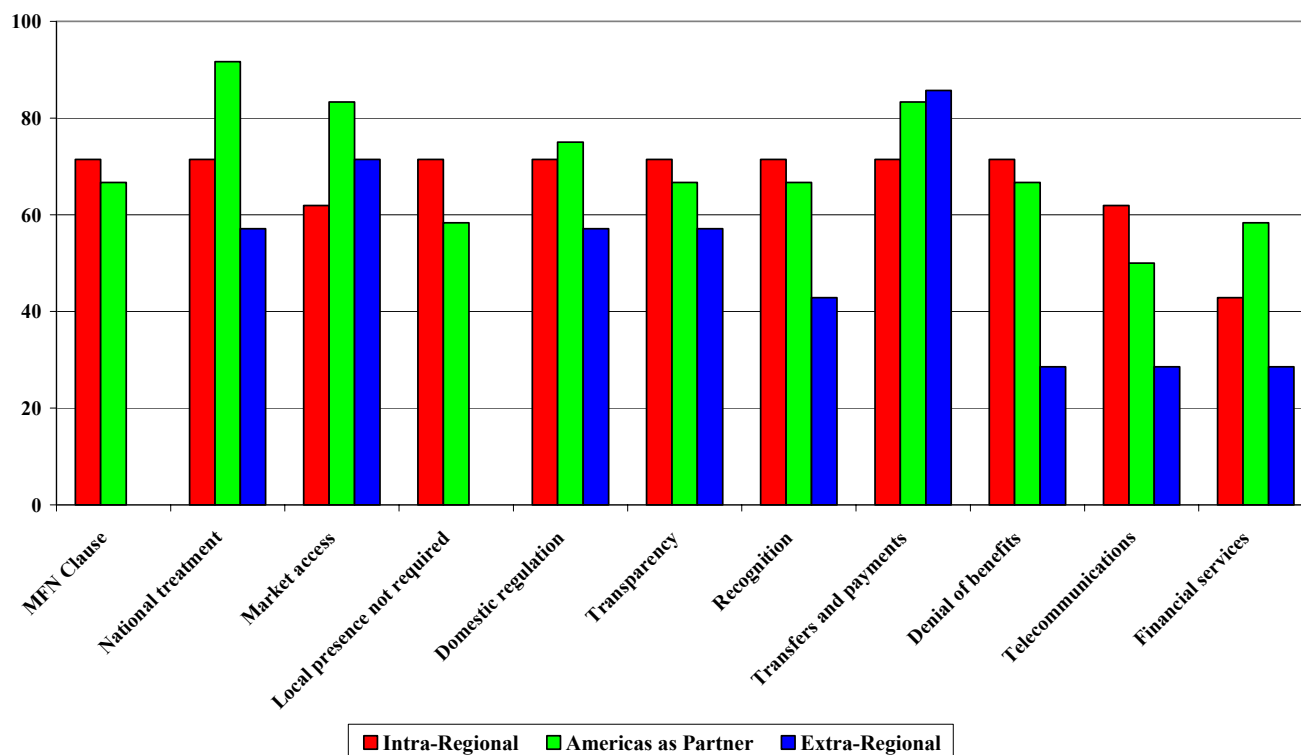


Figure 18 – Coverage by of Selected Services Provisions in Selected RTAs, by Region



B. Investment

As in services, the latest RTAs' investment chapters tend to be encompassing, extending to such areas as MFN treatment, national treatment, transparency, denial of benefits and restriction of transfers, nationality of management and board of directors, performance requirements, expropriation, and investor–state disputes.

It is intra-hemispheric RTAs, and US RTAs in particular, that are comprehensive—and often extend well beyond GATS and TRIMs (Figure 19).³⁰ Indeed, all RTAs forged in the Americas apply the four modalities of investment—establishment, acquisition, post-establishment operations and resale—and also cover such disciplines as MFN treatment, national treatment, and dispute settlement (figure 20). Eighty percent or more also cover transparency, denial of benefits and restriction of transfers, nationality of management and board of directors, performance requirements and expropriation. In inter-regional agreements, the coverage is somewhat lower due to the limited coverage of disciplines in the EU-Mexico and EU-Chile agreements, as

³⁰ An FTA's investment provisions are coded when there is an investment chapter in an RTA or when the RTA refers to a bilateral investment treaty as the agreement applicable to the RTA. When no such mentioning is made, a zero value is assigned (even if the RTA partners were connected via a BIT).

well as in Chile-China FTA, P-4, and US-Jordan FTA. On the extra-regional front, Singapore and Australia’s agreements are more encompassing, but other agreements have scant coverage.

Figure 19 – Coverage of 17 Investment Provisions in Selected RTAs

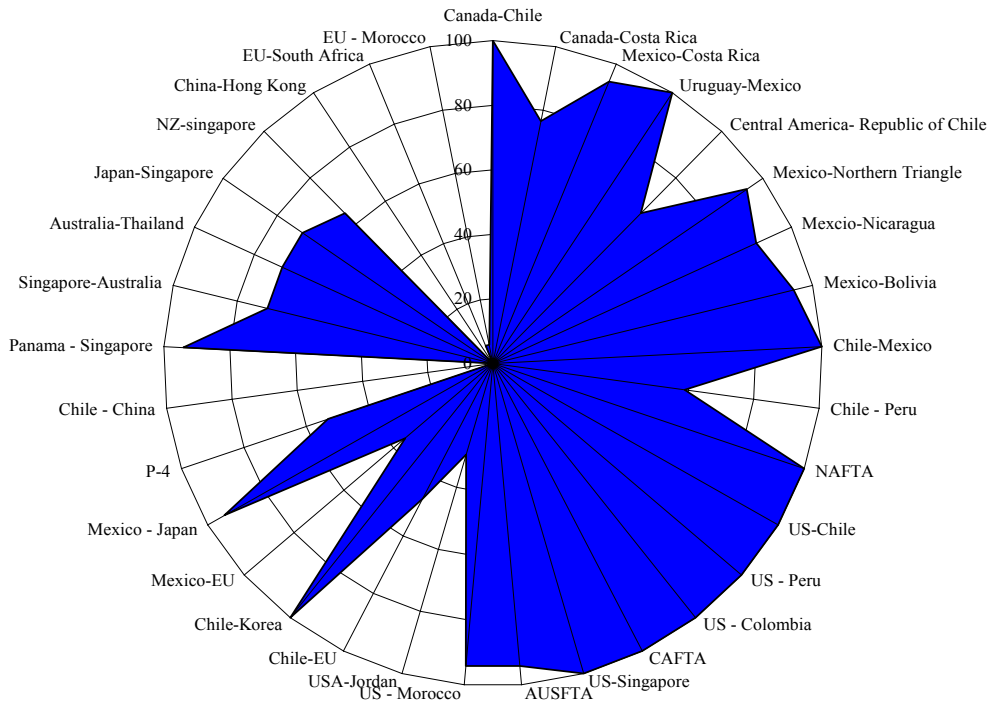
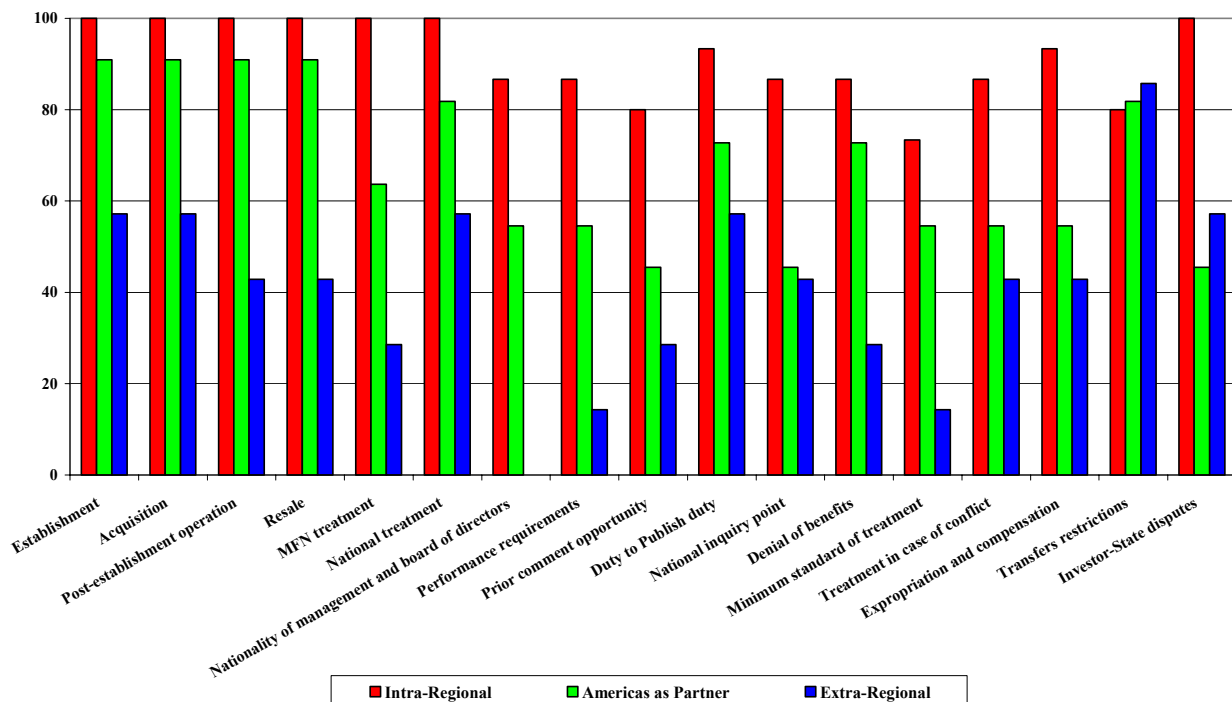


Figure 20 – Coverage of Selected Investment Provisions in Selected RTAs, by Region



In sum, there is marked variation across RTAs in the coverage services and investment provisions. Yet, the analysis also communicates clustering of RTAs by main world regions—Asia, Europe, North America, and South America. A closer inspection of the data also suggests the exportation of RTA models from one region to the next through trans-continental RTAs, such as “borrowing” of some of the US-Chile RTA’s market access provisions in the Chile-Korea RTA. Many US RTAs in particular could be viewed as WTO+ in terms of incorporating a larger number and/or more specific provisions than are carved in the multilateral regime. This indicates the perceived usefulness of rule-making in the RTA context, perhaps both as a means of overcoming slow multilateral negotiations and as a way to deepen and appropriately mold provisions that are particularly pertinent to the RTA relationship—as well as a tool to attain greater synergies across the various RTA disciplines.

V. Furthering Multilateralization in the Americas

Countries of the Americas are at a crossroads: their intra-regional integration is increasingly complete and mature, and many regional countries have already established ties with numerous extra-regional partners. As such, the key challenge for many countries of the region is not as much the negotiation of new agreements as it is optimizing the benefits of their existing RTA portfolios. One key measure for doing that is to address the domestic supply-side constraints to trade. But another has to do with the external environment, where one policy option is multilateralizing the regional RTAs.

Conceptually, multilateralization can be achieved through pulling three alternative (yet complementary) levers: multilateral, regional and two-way.

The multilateral lever could entail changing, and/or making more precise, the multilateral rules governing RTAs, particularly the rather vague requirement of the GATT Article XXIV that RTAs liberalize “substantially all trade” among the partners and eradicate “restrictive regulations on commerce” within a “reasonable length of time”, and not raise new barriers to trade vis-à-vis non-members. For transparency purposes, the multilateral path could also entail strengthening the notification of RTAs to the WTO and deepening the incipient multilateral examinations of RTAs’ compliance with Article XXIV.

The regional lever could be applied within each individual RTA or among groups of RTAs. The former would mean driving down intra-RTA barriers and lowering discrimination toward non-members (or incorporating new members). The latter would entail convergence—merging RTAs together in broader cumulation zones through the adoption of common rules and regulations—while driving to the lowest common denominator in external protection.

The two-way lever would entail using what is “regional” to shape what is “multilateral”, and *vice versa*. For instance, it could mean using the empirical measures of liberalization and external discrimination in RTAs, something this paper has sought to establish, as a revealed regional preference and reality check in multilateral rule-making on RTAs, and as an agreed-upon benchmark for new RTAs to aspire to. It could also mean employing tested and tried trade-related disciplines in RTAs that currently go beyond multilateral rules in coverage and/or precision in crafting new multilateral trade rules.

Conversely, the two-way lever could be pulled to incorporate new multilateral rules governing RTAs in the texts of new RTAs, and even involve some mechanisms to enforce compliance with multilateral mandates at the regional level. It could also bring some multilateral rules to govern regional convergence processes to ensure that expanded RTA zones would not result in discrimination *vis-à-vis* non-members or systemically problematic scenarios along the lines of Krugman’s (1991) three-bloc world.

Besides the political opposition to multilateralization, however accomplished, the risk to be managed in any of these processes would be one of incentives. Stronger multilateral monitoring of RTAs could turn countries away from regionalism, while doing little to guarantee that they would turn their energies to multilateralism. Regional convergence among RTAs could yield trade-diverting megablocs should it raise effective barriers *vis-à-vis* non-members. Pulling the two-way lever risks straitjacketing regions with unsuitable one-size-fits-all multilateral rules and, conversely, succumbing to the political economy of RTAs at the multilateral level.

More concretely, what might be some of the regional levers countries of the Americas could pull (a process over which countries of the region have control) as opposed to the multilateral levers (that they do not fully control)?

The first alternative is an “all countries-all disciplines” approach: pursuit of a broad integration scheme in the Americas that, essentially superceding the RTAs criss-crossing the region, would open all regional trade channels and streamline the regional trade architecture. Traders, investors, and customs authorities would have needed to refer only to one single agreement on such issues as market access and rules of origin, services and investment regulations, standards, dispute settlement, and so on. Akin to the FTAA, a region-wide RTA would also help circumvent the rise of intra-regional RTA-induced hub-and-spoke systems—and further trade creation when based on open regionalism (external tariff lowering by the members *and* RoO that result in lower effective restrictiveness than those of the existing regional RTAs).

The second and seemingly more feasible alternative would be a “selected countries-selected disciplines” convergence approach. This would at first instance mean knitting sub-sets of the existing RTAs together and allowing for cumulation among them. The initial focus of such a convergence could be market access provisions and rules of origin, in particular; again, the drive should be toward the least restrictiveness

RoO.³¹ The convergence packet could be gradually expanded to incorporate further disciplines and/or further countries (i.e., move toward an all countries-all disciplines model), perhaps with some form of variable geometry. While differing in process from that aiming at a mega-regional agreement, convergence would have effects similar to those of a single integration agreement among the set of RTAs pursuing it—open the current non-RTA channels and make the whole of the regional RTA spaghetti simpler (and likely also greater in terms of the economic impact than the sum of the parts).

The third and again more feasible alternative would be a “case-by-case” approach: accelerating liberalization within each individual RTAs (as well as vis-à-vis non-members) for instance by reducing the restrictiveness of rules of origin, as has been pursued in the NAFTA context since 2003.

There are other, shorter-term, more piecemeal tactical measures that could be taken. One possibility would be to liberalize goods (both in RTAs and vis-à-vis third parties) in product categories that countries in the region have already liberalized to major exporters in or outside the region, so that the marginal pain of liberalization in these sectors is small if not inexistent. For example, in CAFTA, Central American countries freed photographic or cinematographic goods (HS chapter 37) and fruit and nuts (08) to imports from the United States, the key source of their imports in the two sectors, yet they also maintain positive applied MFN rates in these sectors. Another example is wood pulp (47) for Chile in the Chile-US FTA.

VI. Conclusion

The underlying notion of this paper is that there are no clear and simple answers to whether RTAs are “multilateralized” or “multilateralizable”: much depends on the RTA, RTA partners, and product categories under analysis. We have found that RTAs in the Americas are among the most mature and liberalized in the world. However, as in other regions, in the Americas there are some outlier RTA parties and product categories that remain closed for extended periods of time. RTAs formed by the countries of the Americas also carry a number of trade policy instruments, such as TRQs and exclusions, that can curb liberalization among the parties, and restrictive rules of origin, that can undermine trade between RTA members and non-members (as well as *between* RTAs).

Overall, however, the findings of paper are encouraging: particularly the manifold RTAs formed by the original NAFTA partners liberalize the bulk of goods and do so rapidly. Furthermore, the region’s integrationism was especially in its early days accompanied by forceful multilateral tariff liberalization—the slowing of which may today be in part compensated by the regional economies’ seemingly incessant RTA spree with partners around the world. Countries of the Americas and the United States, in particular, have also pushed the frontiers of such RTA disciplines as services and investment. Today’s challenge for the region is managing the risks of the

³¹ See Estevadeordal, Harris and Suominen (2007) for details.

regional lever: pursuing a path that is good *both* for the regional countries *and* for the multilateral trading system.

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Appendix I - Table 1 – RTAs Considered in the Study

Agreement	Year of Entry into Effect
NAFTA	4/1/1994
Mexico-Bolivia	1/1/1995
Mexico-Colombia-Venezuela	1/1/1995
Canada-Chile	7/5/1997
Mexico-Nicaragua	7/1/1998
Chile-Mexico	8/1/1999
Mexico-Northern Triangle	03/15/2001 (SV, GU), 06/01/2001 (HO), 03/14/2001 (MEX)
Chile-Central America	02/15/2002 (CR), 06/03/2002 (SV)
Central America-DR	03/07/2002 (CR), 10/04/2001 (SV), 10/03/2001 (GU), 12/19/2001 (HO)
Canada-Costa Rica	11/1/2002
United States-Chile	1/1/2004
Mexico-Uruguay	7/15/2004
CAFTA	12/17/04 (SV), 03/03/2005 (HO), 03/10/05 (GU), 10/11/05 (NI), 07/27/05 (US) *
Mexico-Costa Rica	1/1/2005
US-Peru FTA	NA
US-Colombia	NA
Chile-Peru	7/1/1998
Mercosur-Chile	1/10/1996
Mercosur-Bolivia	02/28/1997
ACE 58 Peru - Mercosur	ARG (12/14/2005); BRA (12/29/2005); PRY (02/15/2006); PER (12/12/2005); 12/16/2005)
ACE 59	PGY-COL, ECU&VEN (04/19/2005); ECU-ARG, BRA&URY (04/01/2005); BRA-VEN (02/01/2005); COL-ARG (02/01/2005); VEN-ARG (01/05/2005); VEN- UR (01/05/2005).
United States-Israel	8/15/1985
Canada-Israel	1/1/1997
Mexico-Israel	7/1/2000
EC-Mexico	7/1/2001
EFTA-Mexico	7/1/2001
United States-Jordan	12/17/2001
EC-Chile	2/1/2003
United States-Singapore	1/1/2004
Chile-Korea	4/1/2004
United States-Australia	1/1/2005
Mexico-Japan	4/1/2005
Chile-New Zealand-Singapore- Brunei	6/3/2005
United States-Bahrain	12/13/2005*
United States-Morocco	1/1/2006
Chile-China	10/01/2006

* Refer to ratification dates.

Panama-Singapore	07/24/2006
Australia-New Zealand	3/28/1983
COMESA	12/8/1994
EC-Lithuania	1/1/1995
EC-Romania	2/1/1995
EC- South Africa	1/1/2000
EC-Morocco	3/1/2000
New Zealand-Singapore	1/1/2001
Japan-Singapore	11/30/2002
EFTA-Singapore	1/1/2003
Singapore-Australia	7/28/2003
China-Hong Kong, China	1/1/2004
Australia-Thailand	1/1/2005
New Zealand-Thailand	7/1/2005

**Appendix II - Table 1 – Main Services and Investment Provisions
Considered in the Study**

Services

MFN Treatment
National Treatment
Market Access
Local Presence
Domestic Regulation: Objective administration of measures Tribunals and procedures for the review of administrative decisions Duty to inform of the status and final decision on applications Measures do not constitute unnecessary barriers to trade in services
Transparency provisions: Prior comment Duty to publish National inquiry point Duty to provide information to other members
Recognition of qualifications: Adequate opportunity for other interested members Prohibition of discriminatory recognition
Restrictions on transfer or payments
Denial of benefits
Telecommunications: Interconnection Unbundling Particular services Competitive safeguards Universal Service Obligations Allocation of scarce resources
Financial Services: Prudential carve-out Provision for recognition of prudential measures NT for access to payments and clearing systems New financial services Privacy Data transfer

Investment

Scope of application: Establishment Acquisition Post-establishment operation Resale
MFN treatment
National treatment
Nationality of management and board of directors
Performance requirements
Transparency provisions: Prior comment opportunity Duty to Publish Duty to Publish
Denial of benefits
Minimum standard of treatment
Treatment in case of conflict
Expropriation and compensation
Transfers restrictions
Investor-State disputes