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As part of its "pause for reflection" on the troubled Doha Round negotiations, the Cordell Hull Institute, along with the Cornell Law School, convened in Paris on July 9-10, 2004, an international roundtable meeting on the "Role of the WTO System in the World Economy".

The meeting was held at the Centre Panthéon, which houses the faculty of law of the Panthéon and Sorbonne universities, across the place from the Panthéon (pictured above).



Reproduced here is the paper for the meeting by **Victoria Curzon Price** (above) on the "Place of Non-discrimination in an Integrating World Economy."

PANTHÉON-SORBONNE MEETING...

Place of Non-discrimination in an Integrating World Economy

Victoria Curzon Price

THE INTERNATIONAL economic order envisaged in 1944 at the United Nations conference in Bretton Woods, New Hampshire — of which the World Trade Organization is a part in spite a rather long gestation period¹ — is under increasing attack not only from radical anti-globalization activists (who perhaps labor under an ideological bias against multilateral economic cooperation) but also nowadays from *insiders*.² To the extent that birthdays are noteworthy, the original Bretton Woods system, embracing the International Monetary Fund and the proposed International Trade Organization (ITO) as well as the World Bank, turned sixty in 2004. Has it reached retirement age?

Planned while World War II was still being fought, the international economic order was designed to bring peace and prosperity to a traumatized world by encouraging freer international trade, capital movements and free international payments. Measured against this benchmark, one can only say it succeeded beyond the wildest dreams of the founders, inspired by Cordell Hull, the U.S. Secretary of State throughout most of Franklin Delano Roosevelt's long presidency. But then they did not anticipate the robust economic growth that would characterize most of the post-World War II period for its principal founder nations.

John Maynard Keynes, the chief British negotiator, and Secretary Hull were fighting yesterday's battles of deep depression and 25 percent unemployment; and their system was basically designed to provide minimal and timid (but multilateral) opening of international exchange, compatible with the hard economic times ahead that they anticipated. Instead, the free market system in combination with the freer and easier international trade and payments generated by the General Agreement on Tariffs and Trade (GATT) — in place of the stillborn ITO — and the IMF produced six decades of (almost) uninterrupted economic growth, with world trade expanding considerably faster than production.

About the Author

Victoria Curzon Price, a Geneva watcher for four decades, is professor of international economics, and director of the Institute of European Studies, at the University of Geneva.

Dr Curzon Price is co-author of the *Eastern Enlargement of the European Union* (2000). Her earlier books include *The Essentials of Economic Integration: Lessons of EFTA Experience* (1974) and *Industrial Policies in the European Community* (1981).

With her late husband, Gerard Curzon, she also wrote *The Management on Trade Relations in the GATT* (1976), *Multinational Enterprises in a Hostile World* (1977) and several other titles.

About the Meeting

Thirty five senior trade officials and independent experts, principally from European countries, took part in the Panthéon-Sorbonne meeting.

They included: **Agnes van Ardenne**, the Netherlands minister for development cooperation; **Herwig Schlägl**, deputy secretary-general of the OECD, Paris; **Pierre Defraigne**, deputy director-general of trade in the European Commission; **Karl- Ernst Brauner**, director-general for foreign economic relations in the German Ministry of Economics; and **Claes Ljungdahl**, deputy director-general for foreign economic relations in the Swedish Ministry of Foreign Affairs; as well as **Olivier Cattaneo**, principal trade policy adviser at the Agence Française de Développement.

But this economic growth was not without its problems. It was concentrated among those countries in possession of market economies that also decided to participate actively in the international economic order. It left many countries by the wayside, especially those that attempted an alternative development strategy, along state interventionist lines in combination with inward-looking investment options. The result has been growing inequality in living standards as some countries forged ahead and others stagnated. Irrespective of the reasons for this state of affairs, it must be addressed.

What is the best approach for poor countries? Multilateralism or discrimination? If the latter, what kind of discrimination? Historically speaking, the multilateral trading system tolerates two types of discrimination: special-and-differential treatment for developing countries, on the one hand, and regional economic integration, on the other. This essay discusses the two approaches in order to answer the question implied in the title. Is non-discrimination still relevant in today's world?

The essay argues that special-and-differential treatment in favor of developing countries is not a promising avenue. Regional economic integration, however, is not only compatible with the multilateral trading system. The pursuit of both is probably the only combination that reconciles improvements in real income with domestic political realities. If pursued over the long run, in a peaceful political environment, regional economic integration could be part of a dynamic process leading to worldwide free trade.

Multilateralism: Mr Hull and Mr Churchill

In August 1941, when the first steps in building the post-World War II economic system were taken, the war for some had not yet started (the United States) and for others it was provisionally over (France), but still others were in the thick of it and fast running out of money (the United Kingdom). When Franklin Roosevelt and Winston Churchill met to discuss the terms of the Lend-Lease Agreement on a warship in the mid-Atlantic, and to issue a general statement on "joint war aims", the U.S. Administration was determined to extract from Britain a promise to end Imperial Preference in exchange for financial support for the British war effort.

In this Roosevelt was only partially successful, for the relevant statement contained in the fourth paragraph of the Atlantic Charter, to the effect that the two countries aimed "to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity", was preceded by the famous Churchillian qualifier – "with due respect for their existing obligations".³

Why was Roosevelt so anxious to secure a paragraph on *economic*

Also there were: **José Alfredo Graça Lima**, the Brazilian ambassador to the European Union; **Eduardo Perez Motta**, the Mexican ambassador to the WTO, Geneva; and **Nobuo Tanaka**, director-general of the multilateral trade bureau at Japan's Ministry of Economy, Trade and Industry.

Four members of the Institute's board attended: **Jagdish N. Bhagwati**, of the Council on Foreign Relations, New York; **Hugh Corbet**, the Institute's president; **Lorenz Schomerus**, former state secretary of the German Ministry of Economics; and **John M. Weekes**, former Canadian ambassador to the WTO and onetime chairman of the WTO General Council.

Others who took part were: **Jean-François Bellis**, of Van Bael & Bellis, attorneys-at-law, Brussels; **Joan Boer**, Netherlands ambassador to the OECD, Paris; **Larry S. Bush**, of the Cornell Law School; **Victoria Curzon Price**, of the University of Geneva; **Andreas Freytag**, of the Friedrich Schiller University, Jena; **Otto Th. Genee**, of the Netherlands Ministry of Foreign Affairs; **Bernard Hoekman**, of the World Bank, Washington, DC; **Patrick Messerlin**, of the Fondation Nationale de Sciences Politiques, Paris; **E.U. Petersmann**, of the European University Institute, Florence; **J.F.R. Rollo**, of the University of Sussex, Brighton; **Clive Stanbrook**, of Stanbrook & Hooper, attorneys-at-law, Brussels; **Stefan Tangermann**, of the OECD, Paris; **Bruce Wilson**, of the WTO, Geneva; and **David Woolner**, of the Roosevelt Institute, Hyde Park, NY.

multilateralism in the joint war aims of the Atlantic Charter? Because his whole Administration, and in particular Cordell Hull, were convinced that discriminatory and protectionist trade régimes were disruptive of peaceful international relations and had contributed to the war. As Richard Gardner, acknowledged historian of this period, put it:

"Closed trade areas controlled by Imperial powers were held to deny other countries their natural rights to vital raw materials, markets and investment outlets. The excluded countries, so the argument ran, not only felt aggrieved as a result of such discrimination; they were driven to obtain by force what they would otherwise have obtained by peaceful exchange."⁴

In short, the United Kingdom's Imperial Preference system, both protectionist and discriminatory, was seen as having been partially responsible for Nazi aggression (and Hitler himself had used Germany's lack of colonies as the reason for his country's need for *lebensraum* and hence justification for his eastwards expansion). Be that as it may, the aim of the U.S. government in the formative phases of the post-World War II international economic order was to *eliminate* discrimination and *reduce* barriers to trade, seen as two essential prerequisites for building a peaceful world political order. According to Richard Gardner, the multilateralism pursued by the United States may be defined, "as a system, as one in which barriers to trade and payments are reduced to moderate levels and made non-discriminatory in their application".⁵

Yet, in spite of the immeasurably strong economic and political position of the United States at that time, thanks mainly to Britain's attachment to the Commonwealth and Keynes' fear of unmanageable balance-of-payments problems after the war, both the IMF and the draft ITO contained important exceptions to the principle of non-discrimination:

(a) In the IMF there was the "scarce currency clause" (Article VII) and Article XIV permitting exchange controls during the transitional period.

(b) In the ITO (the future GATT and WTO) there was Article I:2, which provided colonial exceptions to the general most-favored-nation (MFN) rule, later to become the GATT's Part IV and "special-and-differential treatment" for developing countries.

Sixty years later, we are as far as ever from the ideal of non-discrimination. Not only is discrimination — albeit "affirmative discrimination", in principle designed to favor developing countries, but discrimination all the same — built into the multilateral trading system by virtue of an explicit "escape clause" from the general commitment to *unconditional* MFN treatment. In addition, the



The meeting's opening and concluding sessions took place in historic Cercle de l'Union Interalliée (pictured above in the days of Marshall Foch).

The meeting was jointly convened and chaired by **John J. Barcelo III**, the Cromwell professor of international and comparative law at Cornell University, Ithaca, NY, and **Hugh Corbet**, president of the Cordell Hull Institute.

The papers prepared for the event are being revised and edited for publication as John J. Barcelo III and Hugh Corbet (eds), *Rethinking the World Trading System* (2005).

Funding for the meeting was provided by the Berger International Legal Studies Program at Cornell University, Ithaca, NY, and the Netherlands Ministry of Foreign Affairs, as well as the international law firms Sidley Austin Brown & Wood, Washington, DC, and Stanbrook & Hooper, Brussels.

About the Series

The first meetings in the Institute's "pause for reflection" on the Doha Round negotiations were held in Washington, DC, on

- November 14, 2003, on getting the Doha Round negotiations back on track;
- May 28, 2004, on the elements of a "framework agreement" on agriculture,

dynamics of multilateral trade negotiations over sixty years has resulted in *de facto* discrimination against those countries that decided, for whatever reasons, not to participate in them.

De Jure "Affirmative" Discrimination in Favor of Developing Countries

The legal opt-outs from normal GATT disciplines in favor of developing countries grew out of Article I:2 of the original GATT 1947,⁶ which simply exempted pre-existing colonial preference systems from the general rule of non-discrimination contained in Article I:1.⁷ In the 1960s most newly independent ex-colonies exercised their automatic right to become sovereign contracting parties to the General Agreement upon gaining independence. Most of them retained special trade preferences with the former colonial power using the legal cover of Article XXIV (Customs Unions and Free Trade Areas), the only legal exception to the general rule of non-discrimination by then allowed. Although by no reasonable interpretation could these "free trade schemes" be considered consistent with the provisions of Article XXIV, they were never seriously challenged. Governments were, after all, in the throes of the Cold War.

Are Good Intentions Enough?

In the meantime, the special needs of developing countries were given formal recognition in Part IV ("Trade and Development") adopted in 1965. With the best of intentions, it was agreed that "developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to trade of less-developed contracting parties".⁸ Developing countries were thus invited to become free-riders on whatever future trade negotiations might produce by way of trade liberalization.

As a result of the growing importance of developing countries in the GATT system, and of increasing pressure to "legalize" the post-colonial trade preferences in their favor, the Contracting Parties agreed in 1971 to a waiver of Article I for the purpose of granting temporary legal protection to the proposed Generalized System of Preferences (GSP), forcefully promoted by Latin American contracting parties. According to this scheme, developed countries could offer unilateral tariff preferences, of their own devising, to their less developed trading partners. These last were a self-selected group. Any member of the GATT could choose to be on either the donor or the recipient side – or do nothing at all.

As part of the deal, the European Community agreed to abandon the fiction of reciprocal free trade areas with its ex-colonies, replacing them with unilateral, non-reciprocal trade preferences encoded in the Lomé Convention of 1972 in favor of former colonies in Africa, the Caribbean and the Pacific (ACP countries).

with farm leaders from the United States and Cairns Group countries; and

- June 16, 2004, on the ups and downs of the multilateral trading system since it was established after World War II.

The meetings followed the Institute's four post mortems on the failure of the WTO ministerial conference in Cancún, Mexico, in September 2003.

Not entirely coincidentally, 1972 was also the year of the United Kingdom's accession to the European Community. At no time was there ever any question of very poor, very big countries like India, Pakistan or Malaysia becoming a part of the ACP system (this was reserved for *small*, and hence non-disruptive, poor countries). But something had to be done for them all the same. The GSP was the answer.

But if the arguments of Raul Prebisch⁹ and Hans Singer¹⁰ in support of preferences for developing countries had any validity, it followed logically that the less developed a country was the greater the margin of preference on manufactured exports it would need. The validity of their arguments rested on the thesis that developing countries had to escape from their comparative advantage in agriculture and raw materials, subject to a secular deterioration in the terms of trade, and develop their manufactures through preferences.

In response to these arguments, the GATT Council adopted in 1979 a decision on "Differential and More Favorable Treatment" in favor of developing countries, subsequently known as "the Enabling Clause", which not only provided permanent legal cover for preferential arrangements of all kinds, including the Generalized System of Preferences, but also provided for "special" treatment for *least-developed* countries (LDCs).¹¹ A new category, and a new rationale for discrimination, had been invented. Developing countries from 1979 onwards were "enabled" to be exempted from any GATT obligation they found onerous.

The *least-developed* developing countries, at the time, had per capita incomes of less than \$100 a year, their manufacturing sector accounted for no more than 10 percent of GDP and their literacy rate was no more than 20 percent of the population.¹² These criteria carefully screened out Brazil, India and Pakistan, whose competitive potential GSP donor countries rightly respected. GSP donors were now encouraged, when devising their trade preference systems, to make a difference between the self-selected group of beneficiary advanced developing countries (ADCs), on the one hand, and the defined group of least-developed countries, on the other hand.

The European Community, a major proponent of differential preferences, soon developed further distinctions that need not detain us here,¹³ except to note that preferences are dynamic, inherently unstable and divisive. One preference leads to another, then to another and so on. Moreover, categorical distinctions offering benefits based on low incomes bear the inevitable burden of moral hazard: if benefits are on offer for being poor, let's become (or stay) poor! Indeed, the LDC category has prospered since 1979, when it contained only 24 countries. Today there are 49. Only one country (Botswana in 1994) has "graduated" out of the group.¹⁴



In a background note for the Panthéon-Sorbonne meeting, **Hugh Corbet** (above) wrote:

"When the Doha Round negotiations were launched in November 2001, very much on the run and somewhat half-heartedly, there was no inter-governmental consensus on their purpose or, for that matter, on the purpose of the WTO system itself... For governments to come together on the purpose of the negotiations there has to be a closer meeting of minds among them on the WTO's role in the world economy.

"In the United States," he said, "there is a tendency to regard the multilateral trading system only as a device for securing access to foreign markets for American exports, not for promoting trade liberalization as a positive-sum game.

"In the European Union the system is traditionally viewed as the framework within which it handles its relationship with the United States.

"For four decades," he continued, "Japan saw the system as a defense against the bilateral pressures of the United States and the European Union to open its markets, but is turning to bilateral and regional arrangements now there is a multilateral commitment to open markets for agricultural

In the meantime, while no one was going to go to war over sugar quotas, one could not claim that the GSP system was spreading peace and harmony around the world. Developing countries in Latin America and Asia, which were excluded from the European Community's preferential system, were increasingly disillusioned about so-called multilateral, non-discriminatory institutions and soon turned to their own form of regionalism (see next section).

This discriminatory treatment of developing countries by the European Community established a precedent and, as time wore on, the United States also began to discriminate in its GSP offers, not only between developing countries on the basis of their level of development but also with reference to their compliance with U.S. foreign-policy interests in general.¹⁵

While all this was happening, the European Community's GSP system became increasingly differentiated with respect to the goods covered. Yearly tariff quotas were established for dozens of countries and tens of thousands of products. Some tariff quotas were so tight that they were filled within the first three days of each year.¹⁶ Others (for jet aircraft, for example) were never taken up at all. In fact, different sets of rules and margins of preference soon developed for different categories of products (ranging from non-sensitive through semi-sensitive, sensitive to very sensitive products, covering steel, textiles, leather goods and processed food products). All areas of potential comparative advantage for developing countries were subject to tight tariff quotas, meager preference margins and strict rules of origin.

Fraud had to be combated; "surges" in trade flows had to be monitored, safeguards introduced. The preferences were renewed annually; and they were frequently changed, giving investors no incentive to make long-term commitments. To cap it all, in 1998 the European Union introduced "special incentive régimes" for developing countries adopting appropriate social and environmental policies. As the wags had it, the Generalized System of Preferences was neither general, nor systematic, nor preferential *precisely* in the areas where developing countries possessed a clear comparative advantage (agricultural and "sensitive" goods).

In short, the re-named European Union has certainly not been offering unqualified "access" to its markets to developing countries. The GSP "take-up rate" (percent of LDC exports actually receiving preferential treatment relative to potentially qualifying exports) was 34 percent in 1999,¹⁷ which implied that for two-thirds of exports traders preferred to pay MFN tariffs rather than wade through the paper work. According to UNCTAD, the ACP requirements were similar, so "there is no reason to assume that similar patterns did not prevail".¹⁸

The end of the Cold War and the collapse of Communism led to the disappearance of the ideological conflict that had spilled over into

products.

"As for developing countries, many appear to regard the WTO as just another development agency, providing benefits without requiring them to fulfill any obligations of membership.

"It sometimes seems," Mr Corbet mused, "that only China sees the WTO as a framework of internationally agreed rules providing a stable institutional environment for the conduct of international trade and investment, as well as a guide to the development of domestic commercial laws aimed at promoting transparency, stability and predictability – hallmarks of the multilateral trading system, along with non-discrimination."

the West's development policies. Several things of relevance to our story flowed from this:

- (a) the idea that free markets (as opposed to the state) might work as the prime mover in the process of economic development;
- (b) a renewed interest in the possible role of freer multilateral trade, rather than aid;
- (c) a reappraisal of the Prebisch-Singer arguments in support of preferences; and,
- (d) for the European Union, a self-appointed *droit de regard* over certain internal political arrangements in its developing-country trading partners, such as democracy, human rights and the rule of law.

As the Uruguay Round negotiations drew to an end, and as the GATT Secretariat was replaced by the WTO, so the waiver permitting the European Union's Lomé/GSP system lapsed¹⁹ and was replaced by a more rigorous commitment to stop discriminating between developing countries on the basis of history. The European Union was given until February 2000 to dismantle its four-tiered preferential system and bring it into conformity with new and stricter WTO rules. It has since requested an extension to 2007.

What has been the result of all these good intentions?

Law of Unintended Consequences – *De Facto* Negative Discrimination

Let's go back to the 1960s and 1970s when developing countries, many newly independent, began joining the GATT system. With very few exceptions, they decided to take advantage of all the opt outs from multilateralism, just discussed. Their currencies were for the most part inconvertible. They reserved the right to expropriate foreign-owned assets. They practiced high levels of protectionism. They experimented in regional preferential arrangements (often based on the COMECON model of a planned division of labor falling far short of free trade areas. And they worked untiringly for unilateral and non-reciprocal access to developed-country markets. As we have seen, some were fortunate, by virtue of their colonial past, to enjoy privileged access to the European Community.

As a result, many developing countries had little or no incentive to negotiate actively in successive GATT rounds. While enjoying access to European and American markets on preferential terms, they remained free to pursue their inward-looking, nationalistic and statist approach to economic development. Since the latter failed both to allocate resources correctly and to provide decision-

MODERN FIRMS LOOK BEYOND REGIONS

"The multilateral, non-discriminatory order will continue to flourish because modern firms are not interested in remaining enclosed in a mere regional economy, however large.

Traders will continue to trade, unwittingly creating economic growth in the process. The world is their oyster and customers appreciate the lower prices and higher real incomes that are the result of global competition.

Governments in America and Europe have to respond to these economic realities and they will continue to support the multilateral system at the same time as they promote their respective regional schemes. They, too, need higher real incomes – for their own survival"

– Victoria Curzon Price

makers with proper incentives, these countries suffered supply-side constraints and were unable to benefit from preferential access to rich countries' markets.

Nor was that all. Since they had adopted an inward-looking development strategy, they were in no position to defend their export interests when these came selectively under threat. Thus developed countries, over the course of eight rounds of multilateral trade negotiations from 1947 to 1985, carefully avoided liberalizing trade in textiles and clothing. Quite the contrary, in fact. They developed a mad system of discriminatory tariff quotas to keep developing-country products out of their markets, about as far from Cordell Hull's vision of freer, non-discriminatory trade as is possible to imagine.

Had developing countries been prepared to bargain with their more developed fellow GATT members, offering better access for, say, investment goods in exchange for better access for their labor-intensive consumer goods, there is no reason to believe that a deal could not have been struck to their great mutual advantage. In developed countries, the interests of producers of investment goods would have been offset against the interests of producers of labor-intensive clothing, allowing a domestic political balance. In the developing countries, the deal would have been even easier to conclude, since most of them would not have had to sacrifice a pre-existing investment goods industry.

But the *philosophy* current at that time was against such a curious notion. Didn't developing countries have a *right* to keep their high tariffs on each and every item of potential import? Was this not a huge help in achieving rapid economic growth? Alas, no. It was in fact a burden, as taught in every economics course. But this was not apparent at the time. As long as markets were rejected in favor of state planning, then *of course* imports had to be limited to a planned minimum, for otherwise they would have upset the plan.

Before all that, the founding members of the ITO/GATT had inserted a clause exempting farm produce from the general obligation to use non-discriminatory instruments of protection (Article XI:2) and studiously avoided making offers or granting concessions in this socially and politically fraught sector. Most developing countries, to begin with, could hardly have cared less. Agriculture? Who ever got rich by farming! On the contrary, many taxed their efficient farm sectors mercilessly in order to finance their state-run, capital-intensive, industrial development plans. So developed countries were allowed to get away with extremely harmful (to themselves) agricultural-support policies, because nobody offered them a more attractive alternative. In the meantime, although Australia, Canada and New Zealand complained bitterly about the closing off of traditional export outlets for their agricultural production (particularly to the United Kingdom) they, too, were attempting market-based industrialization behind high infant-industry

tariffs and had little to offer in successive GATT rounds. Thus did the multilateral trade-liberalizing process by-pass agriculture for fifty (some would say sixty) years.

The end result, after all this time, is a very unbalanced state of affairs. Goods in which developed market economies have a strong trade interest are virtually free of any tariffs or trade restrictions at all. These tend to be manufactures in which there are significant economies of scale. The reason for this is easy to spot. There is no point in investing huge sums in large-scale methods of production unless there are wide and deep markets in which to sell the output. Thus there is a set of strong pro-liberalization, pro-trade lobbies active in any advanced country, covering a wide range of products, in both intermediate and finished goods sectors. They are a match for any protectionist forces that might appear. If this were *not* so, it would be difficult to explain sixty years of progressive trade liberalization.

Labor-intensive consumer goods, however, such as clothing, which by definition are not subject to substantial economies of scale, and in which developing countries have an obvious comparative advantage, remain subject to high *and* discriminatory forms of protection, as noted above. Clothing producers in the developed world cannot overcome their high labor costs by generating economies of scale large enough to offset this handicap. They therefore tend to support protection instead of more open markets, while consumers (as public choice theory tells us) allow themselves to be supplied at high cost in blissful rational ignorance.

Similarly, many developing countries have discovered, somewhat belatedly, that they have a comparative advantage in labor-intensive food production, which runs up against the protectionist walls that have been built up over the years in the European Union, the United States, Japan and other developed countries.

In the meantime, following an agenda set by the GATT's advanced contracting parties, the multilateral trading system has expanded to cover services, under the General Agreement on Trade in Services (GATS), and added trade-related intellectual property rights, under the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs), to its sphere of competence. These two general agreements – of great interest to developed countries, but hardly central to developing countries' preoccupations – were concluded during the Uruguay Round negotiations of 1986-94.

Not surprisingly, developing countries have wakened, like Rip van Winkel, from the lost decades devoted to a false model of economic development to find that the multilateral trade regime of the new millennium is biased against them. As Bernard Hoekman, Constantine Michalopoulos and Alan Winters have noted, "things poor people produce are subject to higher tariffs than things produced by the non-poor".²⁰

The challenge in the first WTO round, the Doha Round negotiations launched at the second attempt in November 2001 is *either* to find sufficient political will in the developed countries to correct this imbalance unilaterally *or* to find a basis for a reciprocal trade deal between developed and developing countries that balances out political pressures.

The latter approach is doubtless the more promising, but since one of the Doha Round objectives is to review special-and-differential provisions "with a view to strengthening them and making them more precise, effective and operational",²¹ we must assume that the developing countries are putting their faith in the former.

Growth of Regionalism

It is quite impossible to ignore the wave of regionalism that has built up under the legal exemption to the principle of non-discrimination provided by Article XXIV of GATT. According to information gleaned from the WTO website, only three WTO members, as of July 2003 – Macau, Mongolia and Chinese Taipei – are not party to a regional trade agreement (RTA). At that time, over 265 regional trade agreements had been notified to the WTO, well over half (138) having been notified since 1995. Is this proliferation of discriminatory trade arrangements a complement to multilateralism or a threat to it? A stepping stone or a stumbling bloc?²² The question has been debated for many years.

Let us approach the problem by listing arguments in favor of one or the other view.

Regionalism as a Complement to the Multilateral Trading System?

Article XXIV of the GATT recognizes "the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration" and that the purpose "should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties".

The fact that the ITO Charter from which the GATT is derived predates Jacob Viner's path-breaking, and critical, analysis of customs unions²³ by six years explains why the founders were somewhat naïve about the effect of customs unions on other members. We shall return to the point below.

In the meantime, if one takes an economic and dynamic perspective, one can argue along with W.M. Corden,²⁴ Paul Krugman²⁵ and others that if economic integration allows firms to capture economies of scale, the losses from trade diversion are soon offset, incomes rise within the union and third parties gain from the MFN relationship, which remains a complement, and an addition, to the customs union.

Furthermore, if regional trade agreements develop *within* a robust multilateral framework, those remaining outside have a new and added incentive to press for tariff-cutting negotiations in order to mitigate the discriminatory effects. Indeed, it has often been argued that this happened in 1958-60, when the European Community was launched, again in 1971-72 when the United Kingdom joined and again in 1985 with the Iberian enlargement. On each occasion, the United States (and others) invited the Community to Geneva in order to negotiate compensation. These negotiations merged with renewed U.S. negotiating authority to become the Dillon, Kennedy, Tokyo and even Uruguay rounds of multilateral trade negotiations.²⁶

Thus, according to this virtuous circle, regional trade agreements develop within a robust multilateral framework, which in consequence reduces tariffs on a MFN basis, in the end promoting multilateral freer trade. According to this view, regional trade agreements complement, and even reinforce, the multilateral trading system.

One or two examples, however, do not make a rule and it is obvious that this outcome is by no means a foregone conclusion. There is an equal and equivalent argument which says that if a regional block is big enough, it might be tempted to turn protectionist, in which case the argument goes into reverse. Or it might inspire others to form their own trade blocs (Richard Baldwin's domino theory).²⁷

A frequently expressed argument in favor of regional trade agreements is that they allow governments to move faster towards wider markets than the multilateral system, which has become very slow (not to say immobilized). Governments can also include in regional trade agreements matters that are not part of the WTO system, such as competition policy or factor movements. With the incorporation of the GATT into the WTO, and with the spectacular increase in membership that has occurred since 1990 (from 96 to 148 countries in 2004), one can only observe and deplore the growing difficulty of achieving consensus among such a large group. Everything slows to a snail's pace. Regional trade agreements offer a convenient alternative for those who want to move faster.

Indeed, the sheer contrast between the WTO's immobility, on the one hand, and the accelerated proliferation of regional trade agreements, on the other, is striking. The kindest interpretation is that since technological developments and economies of scale wait for no man, responsible governments must willy-nilly provide ever wider markets for an ever larger range of goods. If the multilateral trading system is suffering a temporary breakdown (since the WTO Ministerial Conference in Seattle in 1999), then we have no alternative but to fall back on regional trade agreements as a second-best solution, until the WTO system gets moving again.

Another argument in favor of regional trade agreements could be that they provide timid governments with a training ground for freer trade. That is to say, a formerly protected economy is subjected to regional and free, but discriminatory, trade as a kind of apprenticeship to the real thing – a form of infant-industry free-trade, so to speak. At the same time, producers get access to wider markets, so the political balance is maintained. Later, as economies grow and producers gain confidence, a more daring trade policy might be adopted at a multilateral level. This argument could apply to Africa, where regional trade is negligible because of high levels of protection, long distances and an undeveloped transport infrastructure. Yet along the *borders* (too often just straight lines, drawn during the nineteenth century in Paris or Berlin, right through pre-existing African nations) there exists an enormous potential for mutually beneficial regional free trade.

The transformation of the Lomé Convention system into the Cotonou Convention aims to promote this kind of regional integration, as a first step.

Finally, perhaps one should point to another possible dynamic of a successful regional trade agreement. Almost by definition, a successful regional trade agreement is viewed as having improved people's standards of living, conferred new rights of freedom on people and, thereby, *attracted new members*. When this happens, the chances of trade creation outweighing trade diversion improve, as does the scope for exploiting economies of scale.²⁸ So the successful regional trade agreement attracts more and more members (for example the European Community/Union). Thus it might be that the current proliferation of regional trade agreements is just a phase in a dynamic process of the ever widening of successful regional trade agreements until just a handful finally encompass the globe. One might even hope that, thus structured, the multilateral trading system might function better.

Regionalism in Competition with the Multilateral Trading System?

From a normative point of view, economists argue that a healthy multilateral environment limits the trade-diversion costs of regional trade agreements. But is the multilateral WTO system in control of the regionalization movement?

Regarding the supervision of regional trade agreements by the multilateral system, one can say that it has never really existed. Starting with the Treaty of Rome in 1958, the GATT failed to examine the European Community in the light of the criteria laid down in Article XXIV,²⁹ which, according to some, was for political reasons.³⁰ In fact these criteria are highly ambiguous and probably could never have been applied anyway. What is meant by crucial phrases to the effect that duties "shall not on the whole be higher

or more restrictive" (Article XXIV:5), that the agreement should cover "substantially all the trade" (Article XXIV:8) or that duties should be eliminated "within a reasonable length of time" (Article XXIV:5)?

As if this elastic wording were not enough, the Enabling Clause of 1979, referred to above,³¹ allowed developing countries to engage in regional arrangements "amongst less-developed contracting parties for the mutual reduction or elimination of tariffs...on products imported from one another". In effect, this provision removed the "substantially all the trade" condition as well as the obligation to "eliminate" (rather than merely reduce) tariffs. A "regional trade arrangement" is *not* a free trade area or customs union under Article XXIV, but rather a selective and preferential trade zone permitted under the Enabling Clause. It is significant that the WTO monitors regional developments through its Committee on Regional Trade Agreements (CRTA), which covers both cases. Of the 255 regional trade agreements that have been notified to the GATT/WTO, 213 claim to be in full conformity with Article XXIV, while 20 claim legitimacy under the Enabling Clause.³²

It is worth recalling in this connection that the rationale behind the stricter Article XXIV criteria is to raise the cost of discrimination and thus protect the multilateral trading system. The CRTA, however, has not been able to complete the examination process on a single agreement "because of lack of consensus" on, among other things, "discrepancies between WTO rules and those contained in some RTAs".³³ This is a devastating admission of impotence for a rule-based system. And why does the overwhelming majority (94 percent) of all regional trade agreements claim legitimacy under the nominally tougher rules? Is it because the rules have become so soft as not to be rules any more? Given high levels of protection in developing countries, virtually all regional trade agreements between them must generate considerable trade diversion, which can only be justified in terms of infant-industry arguments. Regional trade agreements between developed and developing countries are likely to cause even more trade-diversion losses for the poorer partners – unless the latter suddenly discover the virtues of unilateral tariff reductions. As for regional trade arrangements between developing countries under the Enabling Clause, they are, by definition, even more selective and probably even more trade-diversionary.

All is therefore not innocent in the recent proliferation of regional trade agreements. Are they a move towards freer trade or are they, as suggested by Harry Johnson, just a more efficient way of managing protectionism?³⁴ Indirect evidence for the latter can be found (at least in the European Union) in the quasi universal support by business interests for the "single European market" (all are unanimously in favor and only a few fear the competitive challenge), while similar enthusiasm cannot be discerned for universal, multilateral free trade. This suggests that business

interests welcome the wider market, but also appreciate the added discrimination (and hence protection) which it provides.³⁵

A variant of this argument is to be found in the political science departments of European universities, which are generally sympathetic to the anti-globalization movements and see an expanding European Union as a possible alternative to multilateralism and, too, as a rampart against the excesses of globalization, in particular the perceived threats to the environment, the welfare state and labor standards.

On November 19, 2002, the *Financial Times* published a map of the world with regional trade agreements visualized as a thick network of superimposed links. It was entitled "Free Trade the Hard Way". Indeed, a customs union or free trade area is *not* free trade. Even if in full conformity with Article XXIV and hence in formal conformity with GATT, it remains the strongest possible expression of discrimination – as mentioned above, internal tariffs must be reduced to zero (Article XXIV:5[c]) and the agreement must cover "substantially all the trade" (Article XXIV:8).

In fact, today it is useless to ask what proportion of international trade is conducted within regional trade agreements, as opposed to the general MFN rule of Article 1, for the sheer economic weight of the principal protagonists (the European Union and the North American Free Trade Agreement [NAFTA]) and the extraordinary *number* of the remainder imply necessarily that nominally MFN trade (for example, between the European Union and North America) is discriminated *against*. Cordell Hull would be shocked to see his multilateral world "wired up" in such a vast network of discriminatory trade agreements.

Nor is this all. Contrary to what the optimist might think, if a regional trade agreement takes the form of a customs union, like the European Union, this cannot increase the pace of negotiation within the multilateral forum, since preliminary agreements must be reached between members before they can present a common front at the WTO and at each crucial step in the negotiations diplomats must refer back to the group. In fact, one might hypothesize that a proliferation of customs unions and the development of a two-tier negotiating process might *reduce* the pace of negotiation at a multilateral level. It would depend on how much negotiating "authority" was granted to the customs-union representatives, how these decisions were taken, how many countries were involved *et cetera*. One could, i.e., advance the hypothesis that the gradual decline of the multilateral trading system as a negotiating forum has coincided with the gradual expansion of the European Union's membership. If this hypothesis has even a smattering of truth, look no further for the delays of the Doha Round negotiations.

If the regional trade agreement takes the form of a free trade area (much more frequent), the above problem does not apply. Each

country remains free to pursue its own trade policy. Indeed, each country can be a party to more than one regional trade agreement. Since there are 147 members of WTO and 265 regional trade agreements, this must in fact be the case. Israel (by my rough count) is a party to at least four regional trade agreements (with the United States, the European Union, the European Free Trade Association and Turkey, not to speak of the Central European Free Trade Association and the Baltic Free Trade Area, which at the time of writing are now subsumed within the European Union).

Imagine, then, the administrative nightmare of a firm trying to trade and even capture economies of scale in this complex environment. It has to conform to four or five different rules of origin, keep materials physically separate in case of on-the-spot inspections, produce all the complicated paperwork and carefully source inputs from different places, according to which end market it is aiming for.³⁶ This is *not* free trade. Arvind Panagariya, of Columbia University, has this damning comment to make about the undesirable effects of rules of origin:

“Business lobbies being relatively powerful in most of the countries in the region, they are likely to exploit the rules of origin and sectoral exceptions in these arrangements in ways that will maximize trade diversion and minimize trade creation. In as much as the rules of origin give bureaucrats power, employment and opportunities to share in the rents created by tariff preferences, they too will become active parties to the diversionary tactics of business lobbies.³⁷ This is all too true. One should not forget, however, that for most countries in South Asia (to which this remark applies), and for most developing countries in general, the alternative is not free trade, but an even higher level of protection. Although highly imperfect, these regional schemes probably represent progress of a sort, as formerly autarkic and planned economies begin joining the global system.

And on balance?

If the purpose of government were just to increase real incomes, the multilateral approach would be quite sufficient. If the purpose of government is to do the best for real incomes consistent with “political realities” (the public choice approach), then a combination of multilateral and regional approaches becomes rational. The hybrid nature of regional trade agreements (combining freer regional trade with protection against the rest of the world) is exactly what is needed. But governments need the over-arching multilateral system, otherwise the proliferation of regional trade agreements would degenerate into chaos and real incomes would fall, an outcome which nobody wants. As long as governments pursue both approaches simultaneously, they show that they understand the relationship between them. Furthermore, this relationship is not static, but dynamic, driven by the economic opportunities opened up by the technological possibilities of ever

greater specialization and economies of scale. Comments on this aspect are reserved for the conclusion.

Conclusion

Global economic integration is the result of peace on a worldwide scale. That goods and services can be exchanged over vast distances, allowing the riches of man's creativity to be spread across the world, is the mark of civilization, which allows peaceful trade to flourish. It has always been thus. Civilizations become great because they generate wealth; and they can only generate wealth if they trade far and wide. If the mercantile order spans the globe today, it is not *because* of the GATT, the WTO or the Bretton Woods system. These are merely the *result* of peace among most nations. Once peace is assured, traders will trade, doubtless helped along by liberalization and technological innovations. But the underlying pre-condition is peace.

This rather bald assertion runs contrary to the Cordell Hull hypothesis that a sound economic order contributes to world peace, but even if there are some positive feedback loops running from trade to peace, the main causal current surely flows the other way. One only needs to reflect on the high level of economic integration achieved at the twilight of the *pax Britannica* just before the outbreak of World War I, which was powerless to prevent the abrupt descent into chaos, or the dismal failure of well-meaning diplomatic efforts to re-create a pro-trade international legal order during the inter-war period, which was powerless to overcome the political conflicts of the time.

Once the overall political order is assured, however, whether the economic order takes a multilateral or regional form is almost an unimportant detail, because most traders will in due course naturally demand ever wider – i.e., multilateral – trading rights (for discrimination makes no sense to a businessman and in fact it imposes a cost on him). Some fear open markets, argue for protection and sometimes get it, but others benefit from open markets. The public choice approach tells us to balance out these opposing trends. Regionalism at the margin turns anti-free traders into pro-regional-free traders. Overtime, in a dynamic system, the latter gradually see benefits for themselves in ever wider freer trade opportunities. Ever larger regional trade agreements are just a part of the process.

In the long run, forces in favor of more open markets tend to dominate, for modern methods of production imply ever finer degrees of specialization, requiring ever wider markets, offering a constant flow of new entrepreneurial opportunities. As long as the political order holds out, the process will continue until universal free trade is attained. If this were not the case, it would be hard to explain the persistence with which governments have pursued

global trade liberalization for the last 60 years, in the face of considerable political and diplomatic obstacles.

Why did the European Union in July 2004 finally agree, over huge French resistance, to scrap export subsidies for food products and to reduce the level of support for farmers?³⁸ Why was immobility not preferred to possibly dangerous initiatives? Because there was a political majority in favor of saving the Doha Round negotiations from collapse.

The role of regional trade agreements for developing countries now becomes clear.

More and more developing countries are drawn into the process of globalization as they adopt free markets instead of state planning as their main development strategy. They are drawn towards a regional approach to trade policy because they want to experiment with freer trade – but only on a regional basis to start with. Very few developing countries adopted simultaneously free markets at home and freer multilateral trade policies abroad. For those that did so, the results were truly spectacular. For example, South Korea, still a very poor country in the 1950s, became a member of the Organization for Economic Cooperation and Development, the “rich man’s club”, by the year 2000 without joining a single regional trade agreement during its formative phase. Adopting free markets at home and a regional trade policy abroad will yield results more slowly, but it is the beginning of a process. Developing countries, however, also need the multilateral trading system to exercise overall discipline on all other countries, to generally limit the trade-diversion effects of regional trade agreements and to maintain world trade order. Without a multilateral trading system, the proliferation of regional trade agreements might indeed become a source of concern. For this reason, it is not in the long-term interests of the developing world to continue to weaken the WTO system by supporting the case for special-and-differential treatment. As argued above, positive trade discrimination in favor of developing countries has led absolutely nowhere. We have also seen that regional trade agreements between developed and developing countries are not the answer either, for they are fraught with trade-diversion problems. But a combination of regional south-south trade agreements under Article XXIV and active participation in the multilateral trading system is not only feasible. It is perhaps the only policy combination that offers an increase in real incomes consistent with domestic political realities.

In short, the answer to the question raised in the introduction is that the international economic order represented by the WTO system is highly significant in the twenty-first century. It is economically relevant because most countries in the world have now turned to market-based economic policies. It is also politically relevant because it permits them to combine the regional and the multilateral approach to foreign trade policy simultaneously, thus



The **mockingbird** is the state bird of Tennessee. Cordell Hull represented a district of Tennessee in the Congress of the United States, and was elected a senator from there, before becoming U.S. Secretary of State (1933-44).

“The mockingbird is known for fighting for the protection of his home – falling, if need be, in its defense. Mockingbirds are not intimidated by animals larger than themselves and have been known to attack eagles”

– Diana Wells, *100 Birds and How They Got Their Names* (Chapel Hill,

NC: Algonquin, 2002)

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raising real incomes and maintaining a domestic political equilibrium. The state of the multilateral trading system, moreover, is a good test of the state of world political affairs in general. How the former evolves over time tells us a great deal about the latter.

The multilateral, non-discriminatory order will continue to flourish because modern firms are not interested in remaining enclosed in a mere regional economy, however large. Traders will continue to trade, unwittingly creating economic growth in the process. The world is their oyster and customers appreciate the lower prices and higher real incomes that are the result of global competition.³⁹ Governments in America and Europe have to respond to these economic realities and they will continue to support the multilateral system at the same time as they promote their respective regional schemes. They, too, need higher real incomes – for their own survival.

Those who believe that the European Union could be a rampart against the negative aspects of globalization, and (seeing only half the problem) also fear for the future of employment, are a force to be reckoned with. Allied with farmers, they are a formidable force for immobility. Similarly, protectionist forces in the United States have broad political appeal. As public choice theory tells us, the anti-trade forces are visible, focused and few in number, while the pro-trade forces, although far more numerous, remain invisible. Public choice theory is usually used to explain the paradoxical incidence of protectionism. It can equally well be used though to explain why sheer numbers and the general interest have the edge in the long run. Protectionist forces cannot, by themselves, stop the worldwide growth of real incomes and the natural widening of markets. For this politics would have to intervene.

The Doha Round negotiations offer an opportunity for developed and developing countries to put the world trading system on a sounder basis by negotiating a multilateral, reciprocal agreement to liberalize trade in all areas. If it is not done on this occasion, it will be done later – but why wait?

¹ The international economic order established after World War II was based on the twin pillars of the International Monetary Fund (IMF) and the multilateral trading system. The latter was originally meant to be encompassed in the International Trade Organization (ITO), which never came into being and in its place was put the General Agreement on Tariffs and Trade (GATT). Today the GATT, in revised form, is a part of the World Trade Organization (WTO), which entered into force in 1995. At Bretton Woods, however, the World Bank was also established and, indeed, the IMF and the World Bank are generally regarded these days as "the Bretton Woods system".

² Foremost among these would be Joseph E. Stiglitz, a winner of the Nobel Prize in economics and former chief economist at the World Bank, who's *Globalization and its Discontents* (New York and London: Norton, 2002) has become an iconoclastic best-seller.

³ Richard N. Gardner, *Sterling-Dollar Diplomacy: the Origins and the Prospects of Our International Economic Order*, second edition (New York: McGraw-Hill, 1969), pp.46-47.

⁴ *Ibid.*, p. 18.

⁵ *Ibid.*, p. 13.

⁶ After the Uruguay Round negotiations, in which several of the General Agreement's provisions were revised, the GATT 1994 came into being, although not as a single document, to distinguish it from the GATT 1947.

⁷ The wording of unconditional MFN treatment goes as follows: "any advantage, favor, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."

⁸ GATT Article XXXVI(8).

⁹ See Economic Commission for Latin America, *Economic Development of Latin America and Its Principal Problems* (New York and Geneva: United Nations, 1950).

¹⁰ Hans W. Singer, "The Distribution of Gains Between Investing and Borrowing Countries", *American Economic Review* (Papers and Proceedings), May 1950, pp. 473-85.

¹¹ "Differential and More Favourable Treatment: Reciprocity and Fuller Participation of Developing Countries", decision of November 28, 1979, *Basic Instruments and Selected Documents*, 26th Supplement, GATT Secretariat, Geneva 1980, pp. 203-205.

¹² Francisco Granell, "L'UE et la troisième conférence des Nations Unies sur les pays les moins avancés", *Revue du Marché commun et de l'Union européenne*, September 2001, No. 451, pp. 521-28.

¹³ There was not a perfect overlap between the ACPs and the LDCs. So from then on, the development commercial policy of the European Economic Community (EEC) contained four classes of beneficiaries: the ACP system, covering mainly LDCs, but also some ADCs, and the GSP system covering mainly ADCs, but also a handful of non-ACP LDCs (namely, at the time, Afghanistan, Bangladesh, Bhutan, Laos, Nepal and Yemen). The latter received duty-free access to European Community markets, but only for manufactured goods, while other non-ACP ADCs received preferential tariff *reductions*, and ACP countries (some of which were *not* LDCs) received duty-free access to European Community markets for both manufactured and agricultural goods (subject to safeguards for "sensitive" products), as well as privileged access for sugar and bananas at above market prices, and substantial aid packages. The only way to keep this complex system of differential privileges in place was through rules of origin, which had the added effect of seriously increasing transaction costs all around.

¹⁴ Granell, *op. cit.*, p. 523.

¹⁵ Robert E. Hudec, *Developing Countries in the GATT Legal System* (Aldershot, Brookfield and Sydney: Gower, for the Trade Policy Research Centre, 1987), pp. 112-16.

¹⁶ *European Communities: Trade Policy Review*, Vol. 1 (Geneva, GATT Secretariat, 1991), p. 64.

¹⁷ *The Least Developed Countries Report 2002* (New York and Geneva: UNCTAD Secretariat, 2002), p. 225.

¹⁸ *Ibid.*, p. 224.

¹⁹ *The Results of the Uruguay Round of Multilateral Trade Negotiations: the Legal Texts* (Geneva: WTO, 1995), p.34.

²⁰ Bernard Hoekman, Constantine Michalopoulos and L. Alan Winters, "Special and Differential Treatment of Developing Countries in the WTO: Moving Forward After Cancun", *The World Economy*, Oxford and Boston, Vol. 27, No. 4, April 2004, pp. 481-506.

²¹ Doha Ministerial Declaration, para. 44.

²² This *bon mot* can be found in Jagdish Bhagwati, *The World Trading System at Risk* (New York: Harvester Wheatsheaf, 1991), p. 77.

²³ Jacob Viner, *The Customs Union Issue* (New York: Carnegie Endowment for International Peace, 1950).

²⁴ W. M. Corden, "Economies of Scale and Customs Union Theory", *Journal of Political Economy*, Chicago, Vol. 80, 1972, pp. 465-75.

²⁵ Paul Krugman, "Scale Economies, Product Differentiation and the Pattern of Trade", *American Economic Review*, Vol. 70, 1980, pp. 950-59.

²⁶ See *Trade Blocs* (Oxford: Oxford University Press, for the World Bank, 2000), pp. 102-03.

²⁷ Richard Baldwin, "A Domino Theory of Regionalism", in R.E. Baldwin *et al.* (eds), *Expanding Membership in the European Union* (Cambridge, MA: Cambridge University Press, 1995).

²⁸ For this to happen, of course, the regional trade agreement has to be open to new members. In the discussions on the possible reform of Article XXIV of the GATT, aiming to make it more compatible with the multilateral trading system, it has been suggested by Bhagwati that free trade areas and customs unions should be open to any applicant willing to accept their rules. See Bhagwati, *The World Trading System at Risk*, *op. cit.*, p. 77, a point going back to Jacob Viner's generalizations on welfare-enhancing customs unions.

²⁹ This fact was noted early on by Kenneth W. Dam, "Regional Economic Arrangements and the GATT: The Legacy of a Misconception", *University of Chicago Law Review*, Chicago, Vol. 30, 1963, pp. 615-65. See also John H. Jackson, *World Trade and the Law of GATT* (Indianapolis, IN: Bobbs-Merrill, 1969), pp. 586-592.

³⁰ Hoekman and Michel M. Kosteci, *The Political Economy of the World Trading System: The WTO and Beyond* (Oxford: Oxford University Press, 2001), p. 353.

³¹ *Basic Instruments and Selected Documents*, *op.cit.*

³² *Report of the Committee on Regional Trade Agreements to the General Council*, WT/REG/11, WTO, Geneva, November 25, 2002, para. 4.

³³ *Work of the Committee on Regional Trade Agreements*, WTO website.

³⁴ Harry G. Johnson, "An Economic Theory of Protectionism, Tariff Bargaining and the Formation of Customs Unions", *Journal of Political Economy*, Vol. 73, No. 3, June 1965, pp. 256-83.

³⁵ Hoekman and Kosteci, *op. cit.*, pp. 358-63 develop this point.

³⁶ Bhagwati, "Regionalism and Multilateralism: An Overview", in Jaime de Melo and Avind Panagariya (eds), *New Dimensions in Regional Integration* (Cambridge, MA: Cambridge University Press, for the World Bank, 1993), makes the case against free trade areas on these grounds.

³⁷ Avind Panagariya, "South Asia: Does Preferential Trade Liberalisation Make Sense ?" *The World Economy*, Vol. 26, No. 9, September 2003, pp. 1279-92.

³⁸ "Now harvest it", *The Economist*, London, August 7, 2004, pp. 59-60.

³⁹ I presume here that there is no need to refute the argument that the world trading system was created by big business for the benefit of big business and to the detriment of workers and consumers.

