

THE RISE OF BILATERAL AND REGIONAL TRADE AGREEMENTS AND THE DECLINE OF WTO

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ABSTRACT

WTO was designed both to function as a multilateral agency in international trade and to spearhead a global-level tariff-reduction agreement. Unfortunately, with the rapid proliferation of bilateral and regional trade agreements along with a failure to complete the Doha round, the organization has met with failure on both fronts. Meanwhile, a rising portion of WTO's limited resources have been spent on its dispute settlements and the increasing confrontation among member states, further eroding its credibility and international stature. This paper analyzes WTO's performance in light of the aforementioned developments, concluding that the global trade environment is rendering WTO's existence irrelevant.

GATT/WTO AND THE DOHA ROUND

Since the establishment of GATT in 1947, the global trading system has benefited enormously from its series of trade negotiations (rounds) and the attendant tariff-reductions. WTO was formed in 1995. Its major accomplishments to date include an agreement reached on telecommunications services, a pact on tariff-free trade in information technology products, and an accord that covers more than 95% of trade in banking, insurance, securities and financial information, all concluded in 1997. Meanwhile, under the WTO's "Dispute Settlement Understanding" system, an enormous portion of its resources are being used for adjudicating trade disputes as individual national government's use of the antidumping trade policy instrument has exploded in recent years (see Table 1).

In November 2001 the Doha Trade Round was launched, centering on non-agricultural tariffs, trade and environment, WTO rules such as anti-dumping and subsidies, investment, competition policy, trade facilitation, transparency in government procurement, intellectual property, and a range of issues raised by developing countries. Many emerging, developing and poor nation members have proved to be a rather formidable force for advanced nations to deal with. By the end of 2006, no Doha agreements were reached.

BILATERAL AND REGIONAL BLOCS

WTO rules call on the member states to operate on a basis of a non-discriminatory trading system while allowing them to enter into Preferential Trade Agreements (PTAs). Unfortunately, it seems that such PTAs have taken over the WTO system. In its "Global Economic Prospects 2005," the World Bank, reports that with varying degrees of complexity and success, there are now more than 230 bilateral and regional trade deals compared to less than 50 in 1990.

Table 1
International Use of Antidumping

<u>Country</u>	Number of Anti-Dumping Investigations <u>1995-2004</u>	Number of Anti-Dumping Measures Imposed <u>1995-2004</u>	<u>Country</u>	Number of Antidumping Investigations <u>1995-2004</u>	Number of Anti-Dumping Measures Imposed <u>1995-2004</u>
Argentina	192	139	Mexico	79	69
Australia	172	54	N. Zealand	47	14
Brazil	116	62	Peru	55	34
Canada	133	80	S. Africa	173	113
Colombia	23	11	S. Korea	77	43
China*	99	52	Taiwan**	8	2
EU	303	193	Turkey	89	77
India	400	302	USA	354	219
Indonesia	60	23	Venezuela	31	25
Japan	3	3			
Subtotal (share of total)	2,414 (91.2%) ^a	1,515 (91.5%) ^b			

* Since 2001; ** Since 2000

a. Not included in the global dataset are Egypt (38), Israel (27), Malaysia (31), Thailand (34), and other WTO members (102), representing a subtotal of 235 and a share of 8.8%.

b. Not included in the global dataset are Egypt (30), Israel (15), Malaysia (18), Thailand (23), and other WTO members (55), representing a subtotal of 221 and a share of 8.5%.

Source: Bown, Chad P., 2006: http://www.brandeis.edu/~cbown/global_ad/.

As shown in Tables 2, the US and the EU have signed trade agreements with more than 62 and 35 other nations, respectively, with China, Japan, India, South Korea, Singapore, Australia and New Zealand aiming to create bilateral and/or regional trade zones. A consequence of all these deals: by the middle of the current decade, more than 35% of the world trade – compared with less than 10% in 1990 – was covered by regional accords. Moreover, such trading agreements produce contradictions and incompatibilities vis-à-vis the WTO's multilateral-based system – e.g., when a member enters into a PTA it cannot change its trade policies without the consent of its trading partners. Also, multinational corporations and other international investors and traders may find it increasingly confusing and difficult to navigate through the rising number of bilateral and regional agreements. Clearly, there could be trade reductions and trade distortions affecting multinationals from nonmember countries.

THE FUTURE OF WTO

Despite a lack of Doha agreement, members may argue that WTO should continue to exist because its dispute settlement mechanism is indispensable to global trade. However, on several occasions, the US and other countries have ignored adjudicated subsidy-related decisions made against them, leading some individual members to mount retaliation against those members in defiance of such decisions. Also, some studies have emerged questioning the costs and benefits for individual nations of belonging to the WTO. With the proliferation of PTAs, there may be little incentive for non-members, such as Russia, to accept the invitation to join or for others to even apply for membership. By entering into trade deals with other individual countries as well as with regional blocs, nonmembers may achieve certain trade-

related objectives without having to adopt the many requirements called for by the WTO's multilateral system.

In sum, it is not clear why WTO would be needed in its current form. A new framework and a forum is needed to address the needs of the international trade – one that can be responsive to the needs of both the emerging and the developed economies.

Table 2
Bilateral and Regional Trade Agreements: USA and EU

<u>Year</u>	<u>USA: Target Countries</u>	<u>EU: Target Countries</u>
1985	Israel	N/A
1989	Bangladesh, Cameroon, Congo, Grenada	N/A
1990	Czech Republic, Senegal, Slovakia, Turkey	Argentina
1991	Bulgaria, Mongolia, Morocco, Panama	New Zealand
1992	Albania, Armenia, Czech Republic, Egypt, Kyrgyz., Moldova, Romania, Alovakia, Ukrain	Paraguay, Switzerland, Uruguay
1993	Belarus, Georgia, Kazakstan, Sri Lanka, Tajikistan, Tunisia, Turkmenistan; NAFTA	India, Moldova
1994	Argentina, Bulgaria, Congo, Kazak., Kyrgyz., Moldova, Panama, Poland, Romania, Uzbek.	Moldova, Norway, Russia
1995	Azerbaijan	Brazil, Egypt, Israel, Kazakhstan, Lebanon, Morocco, Palestine, Syria, Tunisia
1996	Armenia, Latvia, Trinidad & T., Ukrain	Canada, Morocco
1997	Ecuador, Estonia, Georgia, Jamaica, Mongolia	Australia, Palestine, New Zealand
1998	Albania, Chile	Canada, Ukraine, USA
1999	N/A	Israel, Kazakhstan, New Zealand, South Africa, Turkey
2000	Jordan	China, Mexico
2001	Azerbaijan, Bahrain, Bolivia, Croatia, Jordan, Lithuania	N/A
2002	China	Australia, Chile
2003	Chile, Colombia, Panama, Singapore	Australia, Canada, South Africa
2004	Australia, Bahrain, Morocco; CAFTA (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua; + Dominican R.)	Canada, Korea, Russia, Taiwan
2005	N/A	Algeria, Argent., Iceland, Iran, Iraq
2006	Malaysia, Peru	Japan, Jordan, Tunisia

Sources: http://www.ustr.gov/Trade_Agreements/Section_Index.html; *The Economist*; *The Wall Street Journal*; http://ec.europa.eu/trade/issues/bilateral/index_en.htm.