10. Regionalism's past, present, and future

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INTRODUCTION

Over the past two decades, regionalism in international trade has increasingly drawn the attention of policy makers and economists, quite often for very different reasons. Both economists and policy makers have long worried about the implications of regionalism for postwar multilateral order anchored by the General Agreement on Tariffs and Trade (GATT), renamed the World Trade Organization (WTO) in 1994. Yet economists and policy makers have slightly different sets of concerns where regionalism is concerned. Economists view regionalism with skepticism because of its corrosive effects on the efficiency and growth trade liberalization can bring. Policy makers are concerned with regionalism because of the many geopolitical ramifications attendant on the patchwork of economic preferences regionalism creates. Over the past two decades, both groups have worried about the ways in which regionalism has contributed to a series of phenomena that are increasingly difficult to reconcile with overall economic openness and liberal global trading.

All of this helps explain why trade, and regionalism specifically, is the quintessential international political economy (IPE) topic pitting the efficiency models of economists against the political imperatives of those implementing policy. Much of the contemporary debate about regionalism has treated it as though it was a recent and worrisome phenomenon, as well as an outlier in the history of international trade. Yet, in many ways, multilateralism is the historical outlier, and a postwar outlier on top of that. In fact, regionalism has been the default mode of governance in international trade for most of human history. As simple exchange gave way to long-distance trade, the logic of liberalization became more obvious, made vividly so by the eighteenth-century classical economists Adam Smith (absolute advantage) and David Ricardo (comparative advantage).

The end of World War II left most of the world's economies either smashed or exhausted, but presented a novel opportunity for postwar planners to recast the global trading system in the kind of efficiency and growth generating regime Smith and Ricardo had described two centuries before. The GATT put the global trading system on a path toward more efficiency and less discrimination in global trading patterns, but anachronistically left the door open to additional regionalism at the same time.

This chapter is about the anachronism of regionalism within the global trading system, its problems, its evolution, and its future. The plan of this chapter is as follows: first, it traces some of the thinking about regionalism from the interwar years and the run-up to the postwar multilateral system; it then outlines the concerns of politicians and economists concerning regionalism; it goes on to detail how regionalism and multilateralism continue to stand awkwardly beside each other in the same institutional structure; it then discusses the proliferation of regionalism over the past two decades; finally, it asks whether any of the "spaghetti bowl" can, or should, be reversed.

The broad conclusion of this chapter is that, despite its obvious drawbacks in terms of deviations from the efficiency and growth of global output, regionalism is here to stay. The proliferation of regional agreements, particularly after the end of the Cold War, concerns economists and policy makers both because of their efficiency implications and because of the challenges inherent in untangling them. Indeed, shortly after the conclusion of the Uruguay Round of the GATT and its transformation into the WTO in 1994, Jagdish Bhagwati warned that the penchant for regionalism risked undermining those hard-won multilateral gains by creating a complex "spaghetti bowl" of preferences (Bhagwati 1995). Yet regionalism's prominence today is also the result of geopolitics that favors the extension of preferential economic arrangements under rationales that have more to do with politics than economics, thereby making regionalism a quintessentially IPE topic.

PREWAR SPAGHETTI BOWL WITH NATIONALIST SAUCE

Contemporary academic treatments of the multilateral trading system almost universally begin with the postwar planning carried out at Bretton Woods, New Hampshire in 1944. There, the allied powers crafted the blueprints for a postwar economic order to be supported by two key institutions: the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund (IMF). As a key complementary body, postwar planners also conceived of a multilateral trading system anchored by the International Trade Organization (ITO), which some now consider a third pillar of Bretton Woods (Irwin et al. 2008: 98–9). The outlines of the ITO first emerged from the U.S. State Department in the fall of 1944, well after the July Bretton Woods Conference (Irwin et al.

2008: 49–50). As early as 1946, the United States and the United Kingdom were working on a parallel text designed as an offshoot of the larger ITO project, the General Agreement on Tariffs and Trade, which would govern tariff liberalization until the completion of the ITO (Irwin et al. 2008: 86, 98). After the failure of the ITO in the early 1950s, the GATT became the de facto set of rules governing multilateral trade, expanding to over 150 countries through its transformation into the World Trade Organization in 1994.

The GATT's modest beginnings – as well as its initial membership of just 23 countries – are part of the reason the GATT has not always been considered part of the Bretton Woods institutions. Yet the major principles undergirding membership in the GATT – most favored nation treatment, national treatment, and non-discrimination – have become cornerstones of a multilateral trading system designed to undo the patchwork of prewar trading arrangements some argued had contributed to the onset of war.

Years earlier, in the midst of the Great Depression, U.S. Secretary of State Cordell Hull became more fully convinced of the linkage between the economic nationalism implicit in protectionism and the rise of extremist political ideologies. In his memoirs, Hull wrote:

> Toward 1916 I embraced the philosophy I carried throughout my twelve years as Secretary of State, into the Trade Agreements, into numerous speeches and statements addressed to this country and to the world. From then on, to me unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war. (Hull 1948: 211)

Indeed, one of the strongest reactions to the stock market crash of 1929 in the United States was the Tariff Act of 1930, more infamously known as the Smoot–Hawley Tariff Act. According to most accounts, re-election-minded legislators sought higher tariff rates on individual items of importance to constituents in their districts. The Smoot–Hawley Bill revised tariff schedules on more than 20 000 items, most of which received increases, and, exacerbated by the price deflation of the 1930s, resulted in the highest American *ad valorem* equivalent tariff structure in the twentieth century at nearly 60 percent. While individual districts or sectors of the economy were the direct beneficiaries of protective tariff rates, consumers in particular suffered, as the Smoot–Hawley Bill raised the price of imports and contributed to a series of retaliatory tariff revisions by other nations that contributed to an exacerbation of the Great Depression (Schattschneider 1935; Pastor 1980: 77–84; Destler 1995: 11–13; Eckes 1995: 100–139; O'Halloran 1994: 32).

Convinced that economic nationalism in trade policy had contributed to economic decline and facilitated the rise of fascism in Europe and

Asia,[1] Hull persuaded President Roosevelt that competitive "beggar-thy-neighbor" policies were contrary to American interests and in 1934 received both presidential and congressional backing for the Reciprocal Trade Agreements Act, which initiated reciprocal tariff reductions of up to 50 percent (Anderson 2012a: 587–9). This basic approach to tariff reductions eventually formed the core of the GATT, with reciprocal reductions being multilateralized via their extension to all other members through the most favored nation principle.

Yet one of the most fascinating aspects of contemporary commentary and analysis of the multilateral trading system is the degree to which multilateralism is depicted as the default mode of governance of global trade (see Panagariya 1999; Crawford and Laird 2001; Majluf 2004; Baldwin 2006; Menon 2009). Indeed, Bhagwati's original conceptualization of regionalism as a "spaghetti bowl" of sorts depicts such arrangements as a relatively new corrosive phenomenon in global trade.

Yet, for much of human history, multilateralism – and the principles of most favored nation, national treatment, and non-discrimination – has been the exception rather than the rule. As Douglas Irwin's (1996) wonderful intellectual history of the evolution of free trade thought makes clear, the intellectual case in favor of openness in global trade was long in the making, its adoption as policy even more challenging, and continues to generate controversy. For centuries, trade has been viewed with suspicion. In contemporary debates, analysts have focused on forms of "protectionism" designed to shield domestic populations from the adjustment costs associated with openness and foreign competition. However, "protectionism" in the earliest patterns of human exchange frequently flowed from forms of xenophobia, including suspicions that the exotic goods borne by traders were the corrosive end of a wedge into society that would undermine domestic economic, political, or social stability (Irwin 1996: 10–25).

It is precisely this mixture of economic activity and politics that makes international trade the quintessential topic in IPE. As students of economics know well, the case in favor of trade liberalization was built over time, but finally coalesced in the writings of Adam Smith and David Ricardo in the late eighteenth and early nineteenth centuries. When we think about Smith's absolute advantage and Ricardo's comparative advantage, we rightly focus on the elegance of their thinking about the efficient allocation of scarce resources. That their ideas continue to act as a kind of "north star" guiding the global trading regime toward that efficiency in the twenty-first century is testament to their power. However, the power of those ideas has, over time, tended to obscure the fact that Smith and Ricardo, like many of their contemporaries, also thought deeply about the complications of politics in political economy (see Irwin 1996; Hoffman 2013).

Contemporary debates about economic policy have been dominated by the so-called rational market hypothesis: the idea that information flows easily and without cost in market economies and is rapidly reflected in asset prices such that few genuine opportunities for arbitrage exist. As Justin Fox so interestingly details in his book *The Myth of the Rational Market*, there are more caveats to this hypothesis than had been appreciated prior to the onset of the financial crisis in 2008 (Fox 2011). Doubts about the rational market hypothesis have re-kindled interest in behavioral economics, and a re-engagement with the work of psychologists on human rationality in decision making (Simon 1956, 1959; Tversky and Kahneman 1974, 1981).

The point is that regionalism in international trade is, in part, about the gap between the pure rationality of many economic models and the practice of politics. Hence, while economists worry about the inefficiency of regionalism, politicians often pursue it for reasons unrelated to economics.

WHO DOESN'T LIKE SPAGHETTI?

Economists fret about regionalism's impact on trade relations for a variety of reasons, almost all of which revolve around its role in undermining efficiency, and therefore the wealth-creating benefits of trade liberalization.

First and foremost, economists worry about trade diversion: the possibility that regionalism will foster the sourcing of imports from a less efficient regional partner over a more efficient supplier elsewhere (Panagariya 1999: 482–6). While a regional trading arrangement may in fact liberalize trade, it is the monetary difference between the benefits of liberalization between members and the trade diversion effect that troubles economists. If, for example, the United States and Mexico were to bilaterally liberalize their trade in agriculture, there might be a significant increase in agricultural trade between the two countries. However, if Mexico happened to have a relatively inefficient agricultural sector relative to Brazil, the United States might end up sourcing more of its agricultural imports from Mexico entirely owing to the preferences in their bilateral agreement rather than on the basis of growth-enhancing efficiency gains from liberalization (Panagariya 1999: 482–6). Preferences agreements can still yield enormous benefits for member countries (Panagariya 1999: 483). But economists worry about the rapid proliferation of these agreements, since they might incentivize the expansion of relatively inefficient production and trade among members (Estevadeordal et al. 2005; Menon 2009).

Moreover, economists have also knocked down a number of arguments proffered in support of regional preferences agreements, including the idea that "natural trading partners" exist or that preferences arrangements can accentuate the advantages of geography by reducing transport costs (Panagariya 1999: 486). Because preferences schemes do not entail the harmonization of trade policies, tariff schedules in particular, vis-à-vis non-members, complicated rules of origin are required to prevent the entry of non-member goods via the member country with the lowest tariffs. Yet rules of origin have in many instances become cumbersome and expensive administrative barriers to economic activity for all but the largest member country firms (Pastor 2011: 174–5).

Most critically, preferences schemes, such as free trade agreements, are inherently discriminatory, since they liberalize by extending privileges to members only. While not necessarily as worrisome as the economic nationalism of the interwar years that troubled Secretary of State Hull, the expansion of such preferences to new members has periodically prompted concerns that the global trading system was dividing itself into a small number of regional trading blocs (Thurow 1991). Yet controversy exists even where preferences have been extended for high-minded purposes like development in low-income countries. Specifically, evidence regarding the lasting benefits of preferential access to developed country markets for developing country exports is thin (Panagariya 1999: 489–91, 2002). Such schemes have too frequently been focused on a small number of commodities, too seldom incentivizing moves up the value chain or the kinds of governance reforms links such linkages are thought to provide (Panagariya 2002).

This then leads to the non-trade motivations for preferences schemes: geopolitics (Irwin et al. 2008: 188–200). International relations theorists familiar with the work of Immanuel Wallerstein will know the basic tenets of dependency theory (see Wallerstein 2004). In essence, global capitalism functions through a series of relationships in which rich and developed "core" countries engage in trading relationships with developing countries, or the "periphery," which are inherently exploitive. Developing countries export raw materials to developed nations, which are in turn processed into finished goods for export back to developing countries. This relationship repeats, preventing developing countries from moving up the value chain of production and keeping them economically "dependent" on core countries.

A variant of this line of thinking has emerged in the context of regional preferences schemes wherein large, developed countries, such as the United States, offer up market access to smaller partners as a way to draw them into the larger state's sphere of economic and political influence. Recent patterns of U.S. regionalism suggest support for this kind of hub-and-spoke dependence. Consider the 2005 agreement between the United States and five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) plus the Dominican Republic (CAFTA-DR). In economic terms, the impact of the agreement on America's $14 trillion economy was negligible, while the market access potential for CAFTA-DR countries was enormous.

Realist approaches look at the same patterns of trading relationship and posit that large countries dominate global trading relations through the maintenance of rules they themselves designed, in effect forcing smaller countries to play by them (Krasner 1976). More familiar to students of the political economy of postwar European integration is the perspective of liberal theorists wherein fostering economic linkages (interdependence) among states would render the price of political or military conflict unacceptably high, thereby securing peaceable relations (most famously Keohane and Nye 1977).

Regardless of the interpretation, the liberalization process required each of the CAFTA-DR countries to liberalize and reform a number of their economic policies as the price of membership. Here, another of the non-economic rationales for regionalism entails the "locking-in" of economic reforms by member (mainly developing) countries (Panagariya 1999: 489–90). Indeed, the "locking-in" of economic reforms in Mexico was a major argument undergirding U.S. support for the North American Free Trade Agreement (see Bush 1993; Krugman 1993; Panagariya 1999: 490; Lederman et al. 2005; Weyland 2009: 39; Pastor 2008: 85). These kinds of governance arguments in favor of regionalism are also not far removed from the promotion of democratic norms. For example, the proposed Free Trade Area of the Americas (FTAA) was launched with great fanfare at the Summit of the Americas in Miami in the fall of 1994. Its ambition and membership spanned the entire Western Hemisphere, included every country except Cuba, and attempted to both capitalize upon and consolidate the embryonic post-Cold War expansion of democracy in the region (Feinberg 1997; see also Dominguez 1998). Indeed, democracy was an explicit requirement for membership in the Summit of the Americas process and FTAA negotiations (see U.S. Department of State 1994).

Finally, one the most important non-traditional motivations for engaging in regionalism concerns overcoming the familiar collective action problems associated with large-N negotiations (Olson 1971; Yoshimatsu 2006). Although economists laud the potential global welfare gains from multilateral trade liberalization, political pragmatism suggests smaller groups of like-minded countries can more easily reach consensus on a greater range of issues. Relatedly, the United States, in particular, has used the collective action advantages of regionalism to push a policy of "competitive liberalization." Here, the lure of membership in an exclusive regional club anchored by the United States, coupled with the breadth and depth of the liberalization within the grouping, was thought to serve as a kind of leverage, spurring reluctant partners to the bargaining table (Evenett and Meier 2008).

Hence, there are many rationales for the pursuit of regionalism, nearly all of which depart from the efficiency arguments advanced by economists. And, while the postwar growth of the multilateral trading regime has evolved much more strongly in the direction of efficiency, supported as it is by the principles of most favored nation treatment, national treatment, and non-discrimination, the political rationales for engaging in regionalism continue to be the default mode of liberalization. In fact, while regionalism may be the bane of economists in pursuit of efficiency, the very design of the multilateral system has actually contributed to regionalism's growth.

HOW THE MULTILATERAL SYSTEM COOKED SPAGHETTI

In October 1947, 23 nations signed the General Agreement on Tariffs and Trade. It's easy to look at the GATT as having been a fantastically successful experiment in postwar multilateralism. Multiple rounds of successful negotiations reduced tariff barriers to the point that, once the Tokyo Round reductions were implemented, they were no longer serious impediments to global trade flows (Deardorff and Stern 1981; Koh 1992: 147). Moreover, the GATT slowly expanded its membership throughout most of the postwar period, expanded the range of issues considered for liberalization (post-Tokyo Round non-tariff barriers), and renamed itself the World Trade Organization in 1994.

However, all of these successes mask the fact that the GATT was in fact the byproduct of a series of collective action failures that beset the proposed International Trade Organization being negotiated in the late 1940s. Originally intended as an interim agreement, the original 23 members of the GATT were all that remained after the much larger, and more ambitious, ITO floundered and was effectively inoperable by 1950 (Pastor 1980: 97; Zeiler 1999: 2, 63, 134–6; Matsushita et al. 2006: 1–2).

Whereas the ITO fell apart because of the number of parties to the talks, the scale of the undertaking (over 100 countries), and the range of issues being tackled beyond tariff barriers, the GATT had just 23 members (many of them like-minded) and limited its focus to a relatively small range of issues – mainly numerical tariffs. Yet even the GATT contained provisions aimed at mollifying the original 23 signatories, including Article XXIV endorsing preferences arrangements within the multilateral structure (Matsushita et al. 2006: 548–56).

A major goal of American postwar planners with respect to the ITO and the GATT was the reconstruction of war-torn economies, but also the elimination (or at least reduction) of distortions to trade flows arising from existing preferences arrangements, notably the U.K.'s system of imperial preferences among its colonies and protectorates around the world (Dryden 1995: 9–32; Zeiler 1999: 27–36). There are many who argue that there is little inconsistency between multilateralism anchored in non-discrimination and most favored nation principles and the sanctioning of free trade areas in GATT Article XXIV (Matsushita et al. 2006: 554). Free trade areas conform to both the letter (Article XXIV) of the GATT and its spirit in that, unlike preferences systems, they are required to liberalize more trade between nations than they tend to divert or restrict.

In some respects, the apparent inconsistency is reduced even further when one considers that the multilateral process itself is a kind of complicated form of bilateralism wherein nations negotiate individually with each other on an item-by-item basis for the mutual reduction of tariffs. Tariff reductions by any two member countries are, in turn, offered to other GATT members on the basis of most favored nation treatment. However, the many concerns of economists noted above, coupled with fears about Article XXIV undermining efficiency by creating the "spaghetti bowl" effect, or lending itself to the "balkanization" of global trade into a small number of blocks, continue. Interestingly, the use of Article XXIV to engage in regional free trade has expanded dramatically since the end of the Cold War. As Panagariya notes, there were just 32 such agreements reported to the GATT as of 1990. As of 2002, that number had swelled to 172 such agreements (Panagariya 2002: 1415; see also Estevadeordal et al. 2005 for trends in the Western Hemisphere). Regional trade agreements have been proliferating at an especially fast pace in Asia, doubling in number between 2000 and 2004 (77 in total), with nearly 100 others in active negotiations or proposed (Menon 2009: 1383–7; see also Crawford and Laird 2001; Lee and Park 2005).

Scholars have traditionally tied the motivation for the Article XXIV regional exception within the GATT structure to the facilitation of Europe as a more unified postwar economic and political body (Chase 2006). Indeed, following the vision of Jean Monnet, and the logic of postwar planners who saw economic integration as dovetailing with peace, Europe has, by many measures, been a stunningly successful example of both the economic and the non-economic motivations for regionalism (Cooper 1968; Eichengreen 1996; Fransen 2001). The 1951 European

Coal and Steel Community created the initial foundation for the deep degree of European integration we see today. Postwar European regionalism has mostly been about the liberalization of economic barriers among members. However, starting with the Maastricht Treaty in 1992 paving the way for monetary union, the European Union moved heavily toward creating a true economic bloc, complete with supranational institutions and pooled sovereignty (see Anderson 2012b). Since 2008, some analysts have cast doubt on the stability of the European project. As an anchor for the peaceful rise of Europe as a unified and successful economic power, the regional exception to multilateralism allowing discrimination has been spectacularly successful. However, Chase (2006) points out that Article XXIV had a more immediate motivational source; the United States had secretly been negotiating a preferences arrangement with Canada to help it deal with postwar balance of payments problems (Chase 2006; see also Granatstein 1997).

Two additional caveats to the multilateral principles of most favored nation treatment – national treatment and non-discrimination – emerged in the 1960s and 1970s, both designed to aid developing countries. In 1965, GATT members added Part IV, designed to bring developing countries more fully into the multilateral system, and in 1979 then added the so-called "Enabling Clause," which granted waivers for developed countries to depart from GATT principles to engage developing countries in preferences schemes (Matsushita et al. 2006: 765–70; 772–9). Part IV was eventually responsible for the creation of the Generalized System of Preferences in 1971 granting preferential tariff treatment in developed countries for developing country textile exports (Panagariya 1999: 479; Matsushita et al. 2006: 773–6). However, as Panagariya (2002) has argued, many of these preferences schemes have not contributed the lasting benefits to the developing countries these exceptions were designed for. Instead of incentivizing developing country economic reforms, advances up the value-added production chains, and fuller integration into the multilateral regime, many of the schemes hatched under Part IV and the "Enabling Clause" have simply added more spaghetti to the bowl (Panagariya 2002).

Competitive Liberalization

While the regional genie had been out of the bottle since the inception of the GATT in 1947, such arrangements really began to proliferate in the late 1980s and early 1990s, driven in large part by the United States. In the early 1980s, the United States was promoting the launch of a new round of GATT negotiations with an ambitious agenda that would tackle a range of non-tariff issues. Yet, by 1982, much to the frustration of the United

States, GATT members were deeply divided about the agenda, or whether a new round ought to be launched (*New York Times*, November 28, 1982: A1, November 30, 1982: A1).

The Reagan administration was committed to the GATT process, but was increasingly prepared to work outside that process to achieve some of its goals if necessary. President Reagan announced in September 1985 that he was instructing American trade negotiators to try to accelerate the GATT process, "but if these negotiations are not initiated or if insignificant progress is made, I'm instructing our trade negotiators to explore regional and bilateral agreements with other nations" (U.S. President 1985: 2, 1129). The President's remarks appeared to be threats towards GATT members that the United States would pursue other options in lieu of a new GATT round. In October 1985, the 90-member GATT did finally agree to a new round of talks set to begin in 1986 (*New York Times*, October 3, 1985: D1). However, the President's remarks were more than just threats and might have been more accurate had they been uttered as facts instead. In February 1985, the United States concluded a free trade agreement with Israel, and in March formally launched similar talks with Canada. United States Trade Representative Clayton Yeutter advanced this argument again in May 1986 by arguing that:

> The United States will not be held hostage to the multilateral negotiating process . . . the administration is prepared to negotiate on a plurilateral or bilateral basis with like-minded nations. This path would become all the more important and urgent if the movement toward a new trade round is stalled. (U.S. Department of State 1986: 67–8)

In short, the United States was prepared to engage in Article XXIV liberalization as a way to put pressure on GATT members to complete a new, ambitious round of multilateral talks.

In the minds of some American policy makers, the strategy worked. After three years of talks, the Canada–U.S. Free Trade Agreement was completed in the fall of 1987. In 1990, Canada joined talks initiated between the U.S. and Mexico, and negotiations were completed on the North American Free Trade Agreement in late 1992. In December 1994, the Clinton administration spearheaded the launch of negotiations aimed at concluding the Free Trade Area of the Americas as part of the Summit of the Americas process. Coincidentally, in 1994, the Uruguay Round of the GATT was also completed at Marrakesh, Morocco, transforming the GATT into the World Trade Organization.

To the degree the U.S. strategy was successful, it was only a small number of Article XXIV agreements that seemed to do the trick. Each was ambitious in terms of the range of tariff and, most importantly, non-tariff measures the U.S. agreements dealt with. Many of these issues, such as investment, agriculture, services, or intellectual property, were also at the top of America's multilateral agenda.

As Menon argues, a major reason for the explosion of regional trade arrangements amounts to a "momentum effect" (2009: 1389) in which those left outside such arrangements feel pressure to bandwagon or be left behind. But was the multilateral system back on solid ground as a result of this early experimentation with competitive regionalism? Interestingly, the debacle flowing from the November 1999 WTO Ministerial Meeting in Seattle, Washington, the Battle in Seattle, suggested it was not. Moreover, those events, and the paralysis in the WTO that flowed from them, seemed to put competitive regionalism on everyone's agenda, as the spaghetti bowl thickened throughout the period with an explosion of regionalism, particularly in Asia after the financial crisis that spread through the region in the late 1990s (Lee and Park 2005; Menon 2009).

THE PRESENT: HOPE YOU LIKE SPAGHETTI

The Uruguay Round of the GATT negotiations, successful though it was, also left much to be done. Indeed, developing country members, many of whom had only recently joined the GATT/WTO, went along with the Uruguay Round text having been given assurances that major issues of importance to them (especially agriculture) would be addressed after the fact. Unfortunately, the process of trade liberalization was being subjected to increased public scrutiny throughout the 1990s, typified by the violence that seemed to accompany nearly every meeting of global leaders, not the least of which was the Battle in Seattle at the November 1999 WTO Ministerial Meetings. Those meetings fell apart over differences among the membership, many of which were now developing countries, on issues like agriculture, labor standards, and the growing importance of the environment. A new round of multilateral trade negotiations seemed unlikely in the near term.

Skepticism about the postwar orientation toward trade liberalization in the 1990s was also being felt in terms of regionalism, particularly in the United States. After ratification of the Uruguay Round Agreements, but particularly after the bruising political fight over the NAFTA between 1992 and 1994, the U.S. trade agenda stalled badly (Bergsten 2002, 2004). In the 1990s, U.S. policy makers twice failed to secure domestic negotiating authority to engage in either regional or multilateral talks (Destler 1997; Anderson 2012a). The United States was involved in negotiations in the period, notably bilateral talks with Chile and the larger FTAA. However, the lack of momentum was palpable. First steps on the Chile FTA were taken in 1992, but the final agreement implemented only in 2004. The FTAA talks, begun with such fanfare in 1994, were effectively dead in early 2002, primarily owing to differences between the U.S. and Brazil over the treatment of agriculture, but also because of the inability of the U.S. to commit to their completion.

However, the aftermath of the September 11, 2001 terrorist attacks on the United States brought an even greater sense of urgency to the Bush administration's renewed sense of enthusiasm for trade liberalization as they pushed for the launch of a new round of WTO talks, launched at Doha, Qatar in November 2001. The Doha Development Round (DDR), as it was dubbed, was designed to deal primarily with those agenda items "left over" from the Uruguay Round and of great importance to developing countries. Indeed, a consensus on launching the DDR depended on the support of developing countries, which by then accounted for a large majority of the WTO's membership.

Interestingly, the renewed sense of momentum also brought out a familiar set of rationales for liberalization, many of them unrelated to the efficiency arguments of classical economists. Similar to the rationales posited in the interwar years about the linkage between economic decline and the rise of extremism, the post-9/11 rationales for liberalization also included threads of rationales familiar to modernization and democratic peace theorists, linking interdependence, liberal capitalism, and liberal democracy, to peace and stability (see Fukuyama 1992; Zakaria 2003; Monten 2005; Inglehart and Welzel 2009).

Hence, the DDR was launched with the linkage between liberalization, economic interdependence, and political liberalization as part of the underlying rationale. It was a rationale that also played out in a renewed push into regionalism by the United States as the Bush administration engaged in a number of new bilateral and plurilateral preferences arrangements, most of them in the Western Hemisphere.[2] Perhaps buoyed by the experience of NAFTA's effects on Mexico's political opening, culminating in the election of Vicente Fox and the end of 70 years of rule of the Partido Revolucionario Institucional (PRI), the Bush administration saw democracy promotion as a major plank in the post-9/11 trade liberalization agenda (Dominguez 1998; Weyland 2009). As United States Trade Representative Robert Zoellick put it in his 2002 testimony to Congress:

> [Bilateral free trade agreements] can open up a new front for free trade. They can create models of success that help reformers break new ground for liberalization in changing or emerging sectors (e.g., biotech, high tech – including IPR [intellectual property rights]-related sectors – and services), build friendly coalitions to promote trade objectives in other contexts (e.g., biotech, SPS topics), add to

> America's trade leverage globally, underpin links with other nations, and energize and expand the support for trade. Next, trade agreements also present fresh opportunities to find common ground at home, and with our trading partners, on the nexus among trade, growth and improved environmental and working conditions. (Zoellick, quoted in Feinberg 2002: 140)

For many analysts, trade liberalization is over-hyped relative to the lasting effects in terms of either greater efficiency and economic activity or the non-economic motives swirling around governance (see Hufbauer and Goodrich 2004; Aaronson and Zimmerman 2008).

Competitive Liberalization Revisited

The Clinton administration had a quirky relationship with trade liberalization, owing in large part to the heavy expenditure of political capital the President expended early in his first term fighting the bruising battle over the NAFTA. While Clinton launched the FTAA process with some fanfare, his administration twice failed to secure "fast-track" trade-negotiating authority from Congress in the 1990s, and, somewhat bizarrely, he seldom mentioned the NAFTA again during his two terms in office (Destler 1997; Pastor 2011: 55–6). Indeed, the Clinton trade agenda was rather quiet after 1994, picking up again only in his last year in office (2000) with his support of both Permanent Normal Trade Relations (PNTR) for China (as part of the process of ushering in Chinese WTO membership) and the African Growth and Opportunity Act (AGOA). While both initiatives could be interpreted as signals to the multilateral system after the Battle in Seattle that the U.S. was looking to solidify links to emerging markets in lieu of a new multilateral round, there is little evidence either initiative was part of a broader strategy of competitive liberalization. Firstly, PNTR for China was about bringing a large, rapidly developing country into the multilateral system, not establishing a preferences scheme. And, while AGOA was a preferences scheme of sorts, it essentially extended preferences in operation under the Generalized System of Preferences (GATT Part IV, 1965).

When the United States "re-discovered" its trade agenda after the election of President George W. Bush, competitive liberalization was revived along with it, once again acting in parallel with an ongoing multilateral negotiation. While the DDR was launched with much promise in 2001, trouble emerged as early as 2003 when negotiations held at Cancun, Mexico fell apart over developed and developing country differences on agriculture and the so-called "Singapore Issues" important to developed economies (see *Economist*, September 20, 2003; Bhagwati 2004).[3]

Much like the Uruguay Round before it, the DDR was generating considerable frustration among U.S. policy makers, and has yet again provided the impetus for engaging in Article XXIV regionalism. U.S. Trade Representative Robert Zoellick writes of the DDR:

> To multiply the likelihood of success, the United States is also invigorating a drive for regional and bilateral free trade agreements (FTAs). These agreements can foster powerful links among commerce, economic reform, development, investment, security and free societies. The North American Free Trade Agreement (NAFTA) not only almost tripled American trade with Mexico and nearly doubled its trade with Canada, but also made all three members more competitive internationally. NAFTA proved definitively that both developed and developing countries gain from free trade partnerships. It enabled Mexico to bounce back quickly from its 1994 financial crisis, launched the country on the path of becoming a global economic competitor, and supported its transformation to an open democratic society. Ironically, a number of European publications that have criticised America's "competitive liberalisation" through regional and bilateral free trade negotiations were noticeably silent when the EU negotiated 30 such pacts; the United States only has three, but we are hard at work. (Zoellick 2002)

Has it worked? Has competitive liberalization generated momentum in the multilateral negotiations? While the Doha Round is not officially "dead," it has been on life-support for several years, with no prospects as of this writing for revival. Hence, the regionalism strategy pursued by the United States has yielded little on the multilateral agenda.

Has there been additional competition among potential U.S. trading partners to engage the United States to win market access? Evenett and Meier (2008) argued that there was little evidence that potential trading partners have pushed to engage the United States in preferences arrangements for market access advantages relative to rivals. As evidence, they point to the relative scarcity of these kinds of arguments in the public or press accounts of those countries' engagements with the U.S. (Evenett and Meier 2008: 55–6).

Yet America's latest bout with regionalism, the Trans-Pacific Partnership (TPP), suggests that competitive liberalization may have some strategic utility, in part, because of the paralysis in the DDR. What began in 2005 as a modest enterprise among an unlikely set of trading partners – Brunei, Chile, New Zealand, and Singapore – has since expanded to include a number of key Pacific Rim countries, including the United States.[4] With the addition of the United States to the TPP talks, several other countries soon thereafter expressed an interest in joining, notably Canada and Mexico. Yet the United States initially opposed having its NAFTA partners at the TPP table until the fall of 2012. Other countries, notably Colombia, with which the U.S. has an FTA, have asked to join and been denied access. One reason is very simple: the collective action problems of large negotiations are accentuated with each additional negotiating party. Indeed, the rationale for regionalism in the first place is that small-N negotiations can be quicker, cover more issues, and do so more "deeply" than large-N negotiations. Interestingly, the TPP currently excludes some of the Asia Pacific region's most important economies, notably China, Japan, and South Korea. The exclusion of China has raised hackles among some that the TPP is less about trade than it is about the "containment" of China as part of the Obama administration's "pivot to Asia" (Ross 2012). Moreover, the TPP has the potential to evolve into yet another hub-and-spoke trading bloc, as the only parties to the negotiation without a pre-existing preferences agreement with the United States are Brunei and Malaysia.

Finally, in early 2013, the United States and the European Union announced a new regional preferences negotiation, the Transatlantic Trade and Investment Partnership (TTIP), which would formally liberalize trade and investment between the globe's two largest trading blocs. For now, Canada and Mexico remain outside these negotiations, although both have large stakes in the outcome. Mexico already has a free trade arrangement with the EU (2000), and Canada is still in negotiations. There has long been talk among Atlanticists about some kind of transatlantic trade pact (Hart 1989), and, while much work remains to be done, the implications for the multilateral system of such an agreement could be profound in either jumpstarting the remnants of the Doha Round or killing it altogether. If the United States and Europe were able to come to agreement on new sets of protocols governing many of the so-called Singapore Issues, along with new disciplines on agricultural subsidies, the effect on the WTO structure, where developing countries now dominate, would be profound.

Unlike the Bush administration (2000–08), the Obama administration initially expressed considerable reticence with respect to engaging in more trade liberalization, candidate Obama opening questioning during the 2008 presidential campaign with whether the NAFTA should be re-opened and "fixed." The Obama administration has appeared less concerned with using trade policy as a competitive weapon in the same way as Obama's predecessor in the White House. Yet what we can say for certain is that the penchant for regional preferences agreements in the United States has been stronger than ever, and might even be characterized as "bandwagoning" in response to the expansion of regional preferences elsewhere and the apparent demise of the Doha Round.

Moreover, with more than a dozen recent preferences arrangements complete or in the midst of negotiations involving more than two dozen countries, the United States has contributed greatly to the proliferation of "spaghetti bowl" preferences in the global trading system. With the Doha Round in a state of effective hiatus, regional and bilateral liberaliza-

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tion is the only liberalization occurring anywhere. Hence, we return to the compatibility of GATT Article XXIV preferences within the multilateral trading system, and the main criterion to qualify under Article XXIV: do such agreements liberalize more than they restrict? As evidence on the growth of regionalism in East Asia suggests, the answer to that question is full of many "ifs" – as in "if" Asian regionalism evolves in certain directions (Lee and Park 2005).

THE FUTURE: IS LOW-CARB SPAGHETTI POSSIBLE?

The threat of the "spaghetti bowl" for global politics generates concerns among politicians that we could see a repeat of the interwar years in which economic and political nationalism created a toxic stew leading to conflict and violence. If such fears were going to be realized, the seriousness of the Great Recession (2008–10) in the United States and the European debt crisis (2009–present) should have given rise to much greater degrees of economic and political nationalism than we have seen. Protectionism in the face of the crises has crept upward, but has not become as serious a problem as first feared, and is nowhere approaching levels seen in the era of Smoot–Hawley (see *Economist*, June 30, 2012).

However, because the proliferation of Article XXIV agreements could collectively undermine the efficiency gains from multilateral liberalization, the "spaghetti bowl" represents a thicket of subtle protectionist measures in the form of discriminatory preferences serious enough to give economists cause to devise ways to undo some of it.

Consolidation

One way to deal with the "spaghetti bowl" would be for larger, more comprehensive agreements to supersede or nullify some of the patchwork of preferences arrangements that currently exist (Menon 2009: 1395). For instance, an agreement like the Trans-Pacific Partnership could ultimately supplant the North American Free Trade Agreement, since all three members of the NAFTA are currently at the TPP bargaining table. It would still require that the provisions of the TPP cover all or more content areas than the NAFTA, and at least meet or exceed the NAFTA's ambition in terms of the depth of integration. This particular scenario seems unlikely, since the NAFTA represents a kind of high-water mark for U.S. trade agreements generally, wherein dispute settlement mechanisms on trade remedy actions and investment were relatively robust and have not been extended to subsequent U.S. FTA partners

(Anderson 2013). Similarly, it is theoretically possible, although politically implausible, that the U.S.–EU Transatlantic Trade and Investment Partnership could ultimately replace the governance structures of both the NAFTA and the European Union. It would require a seismic shift in North America's political thinking about its tolerance for the levels of pooled sovereignty that currently exist in Europe, not the least of which would entail a decision as to whether the common currency would be the dollar or the euro.

Nevertheless, herein rests a possible silver lining in the growth of regionalism. As countries are increasingly tied together through networks of preferences anchored by large economic powers like the United States, a certain harmonization of practices and trading rules may ensue, eventually making the logic of consolidation or multilateralization stronger. However, it would require the acquiescence of those blocs (the United States, the European Union, China or Japan in East Asia, Brazil in South America) to a set of negotiations aimed at knitting the blocs together. Doing so assumes a willingness to forgo the non-traditional goals frequently undergirding regionalism in favor of efficiency, but small-N talks aimed at unwinding the blocs could be more fruitful than large-N efforts to unwind the "spaghetti bowls."

Multilateralization

Another means by which economists theorize about the rationalization of the "spaghetti bowl" is through a process Menon refers to as multilateralization. Here, the "hub" country in any "hub-and-spoke" system of preferences arrangements would simply extend to all of its preferences partners the most generous terms it had negotiated with any of its preferences partners (Menon 2009: 1397). In principle, this multilateralization would work in the same fashion as that in which the WTO currently extends negotiated reductions in trade barriers to all members through the principle of most favored nation treatment. In other words, the "hub" country would offer most favored preference treatment to all the "spokes" with which it had agreements. Hence, for the United States, the NAFTA's provisions regarding dispute settlement in trade remedy and investment, which are currently extended only to Canada and Mexico, could theoretically be extended to all other U.S. FTA and Trade Promotion Agreement partners. Given that the U.S. has stepped back from such robust provisions since the 1994 NAFTA, and given the current political climate in the United States, such an approach is a political bridge too far.

Dilution

Yet another means by which the patchwork of preferences could be dealt with would be to "water them down" by making some of their most discriminatory elements less onerous and incompatible with one another. Something as straightforward as harmonizing the various procedures under rules of origin (known as cumulation) to qualify for preferences treatment would go a long way toward reducing the degree of discrimination faced by the exports of non-member nationals. At present, different preferences agreements contain wildly different rules on how goods qualify for tariff-free treatment when crossing member country borders. If the process for the calculation of value-added production and inputs for duty-free treatment were harmonized, and broadened across different preferences areas, the effect would be the same as multilateralization of preferences (Menon 2009: 1400). The United States, for example, already looks for additional cumulation efficiencies with existing agreements as it enters negotiations with new partners.

Kickstarting the Multilateral Process

Finally, the most obvious and effective means by which to deal with the "spaghetti bowl" may actually be a renewed emphasis on the multilateral system itself. Such a kickstart seems hopelessly unrealistic given the paralysis of the DDR through 2013. However, the gains from completion of the Doha Round are widely thought to be enormous, particularly for trade between developing countries. Moreover, the multilateral system is the only institutional arrangement capable of dealing with the impulse to regional preferences agreements. Equally important, it may be the WTO alone that can and must deal with Article XXIV preferences, since it is the multilateral system's rules that sanctioned the creation of the "spaghetti bowl" in the first place.

CONCLUSIONS

Like it or not, the patchwork of regionalism we see evolving in the global trading system is here to stay. The irony is that a multilateral system that was designed to eliminate the sorts of preferences that lent themselves to the kind of economic nationalism witnessed in the interwar years sanctioned their longevity and proliferation in the postwar years by including Article XXIV in the GATT 1947. Having witnessed the demise of the International Trade Organization as it faded away in the early 1950s owing to over-ambition and the standard collective action problems of large-N bodies, the originators of the GATT may have believed that some trade liberalization, even that sanctioned by Article XXIV, was better than none. The GATT's originators also needed a pragmatic way to incorporate existing (imperial preferences) or contemplated (Europe, U.S.–Canada) discriminatory preferences that were motivated as much by geopolitics as they were by the gains from economic efficiency.

Moreover, with the GATT's earliest negotiating rounds focused on tariffs, the consolidation of postwar economic recovery, and the preservation of at least some trade liberalizing institution in light of the demise of the ITO, the GATT membership could not have been too concerned about any perverse incentives created by Article XXIV provisions. In short, there were larger postwar and emergent Cold War concerns to consider. Indeed, not until the late 1980s and early 1990s did the "spaghetti bowl" exist – until then, it was perhaps still a small side dish. Thereafter, the "spaghetti bowl" has grown larger and more complex with every concluded preference arrangement. Such arrangements are nominally about the efficiency gains that come from liberalization, but are often quickly overwhelmed in their purpose by numerous non-traditional and non-economic motivations that complicate efforts to untangle the "spaghetti bowl." Once hard-won preferences are established, nations are reluctant to permit them to dissipate.

This once again returns us to the nature of trade relations as part of a complex international political economy. While fiscal policy and monetary policy have far-reaching effects on economic performance that radiate out from the countries in which those policies are made, neither is as fraught with the mixture of economics and both domestic and foreign policy political imperatives as trade policy. Fiscal policy, particularly if poorly managed, can have significant foreign policy implications, but is nevertheless largely confined to the domestic sphere. Monetary policy is critically important internationally, but its abstract and arcane qualities make it a more narrowly prescribed preoccupation for bankers, corporations with overseas interests, or cross-border investors. The oft-poisonous mixture of economics and politics, both domestic and international, that infuses international trade makes it the quintessential subject matter of international political economy. As a component of the international political economy of trade relations, regionalism is often maligned as a counter-productive anachronism in a multilateral system designed to avoid the discrimination of preferences arrangements. Yet, as this chapter has argued, the characteristics of regionalism are as quintessentially a part of the politics of trade as trade is a part of international political economy.

NOTES

1. There is some debate about whether Japan was a fascist state in this period. See Willensky (2005).
2. U.S.–Chile FTA, completed 2004; CAFTA-DR (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic), completed 2005; U.S.–Panama Trade Promotion Agreement, completed 2007; U.S.–Peru Trade Promotion Agreement, completed 2009; U.S.–Colombia FTA, completed 2012.
3. Investment, competition policy, government procurement, and trade facilitation.
4. As of 2013, Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Singapore, the United States, and Vietnam.

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