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A Global Race for Free Trade Agreements

From the Most to the Least Favoured Nation Treatment?

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Nr. 653 – 2003

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Utgiver: NUPI

ISSN: 0800 - 0018

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Arne Melchior

[Summary] The article examines the currently expanding worldwide network of bilateral free trade agreements. Following regional integration in Europe and later the Americas, the process in East Asia has accelerated from 2002. A distinctive feature of the current stage is the expansion of FTAs beyond geographical regions and into global space, hence challenging WTOs supremacy on inter-continental trade rules. Setbacks in the WTO Doha Round may stimulate a further move towards «global bilateralism». While integration between geographically distant countries will have a smaller impact than integration between neighbours, countries may nevertheless gain from «global bilateralism». The more such agreements in place, the greater is the incentive for new ones. Even if political obstacles hinder some agreements, the process is currently accelerating. While it is rational for countries to pursue such agreements, they should in parallel work for multilateral trade liberalisation in order to reduce the discriminatory impact of FTAs. This is needed if we are to avoid that «Most Favoured Nation» treatment under the WTO actually becomes «Least Favoured Nation» treatment: Rules that only apply to countries that are left outside the «free trade race».

Introduction: A new surge of regionalism after Cancun?[1]

In a speech in November 2002 titled "Why Cancun matters", the Director-General of the World Trade Organization, Supachai Panitchpakdi, stated "With the risk of continued deadlock, and diminished prospects of advancement on the multilateral front, the pressure to turn to regional and bilateral deals could prove irresistible." [2] According to Supachai, free trade agreements (FTA) can be positive if they proceed in tandem with multilateral liberalisation. But if they become a substitute rather than a complement to multilateralism, they could undermine the WTO and create a "world of greater fragmentation, conflict, and marginalization, particularly of the weakest and poorest countries" (ibid.).

Given the recent collapse of the WTO Ministerial Meeting in Cancun, Mexico in September 2003, a question is whether such fears will come true. Some statements by international leaders suggest that the WTO impassé will accelerate the process of regionalism: After the Cancun failure, U.S. Trade Representative Robert Zoellick indicated that "the United States would vigorously continue negotiating free trade agreements with willing partners".[3] And the Japanese Vice-Minister Tadakatsu Sano said "Japan will now shift a major portion of its focus to FTAs".[4]

These statements are accompanied by a number of recent initiatives on new free trade agreements. For example, President Bush announced in October 2003 plans to negotiate a free trade agreement between USA and Thailand. Japan and South Korea announced the start of free trade negotiations. As will be shown below, these are only two out of a large number of recent signals, plans, negotiations or conclusions concerning FTAs. In the Appendix, a list of agreements and initiatives for selected countries is presented.

The increased focus on FTAs after Cancun is not a fundamentally new development, but rather an acceleration of an imminent trend. A new feature of this trend is an extension of FTAs in global space: Earlier regionalism has been more local in scope, by focusing on integration within continents or geographically close countries. Recently, FTAs have expanded across continents and worldwide; with the possible effect of creating a "global race for bilateral market access". Earlier, FTAs have deepened *regional* economic integration, while the WTO (and earlier GATT) has been in charge of *global* trade integration. With a new trend towards inter-continental FTAs, this division of labour has become blurred.

When some countries engage in bilateralism, the incentive increases for others to follow suit: If competitors obtain privileged access to important export markets due to FTAs, there is an incentive for adversely affected countries to negotiate similar deals. On several occasions, this has been a prime argument for bilateral deals, and the more agreements that already

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1 This paper is written as part of a project undertaken by NUPI for the Norwegian Ministry of Trade and Industry in 2002-2003. Financial support from the Ministry is gratefully acknowledged. The views and conclusions expressed are those of the author only.

2 Second International Conference on Globalisation, Leuven, 26 November 2002.

3 The United States Mission to the European Union, WTO Cancun negotiations collapse; trade deal by 2005 seen as unlikely, article dated 14 September 2003, available on www.useu.be.

4 Foreign Press Center/ Japan, Japan's Policy of Seeking Free Trade Agreements Founders on Question of Agricultural Products, article dated 23 October 2003, available on www.fpcj.jp.

exist, the more convincing will this argument be. Hence the process may quickly become self-enforcing.

A danger of such bilateralism is related to the fate of the less popular partners for such "marriages". Given the prevalence of rich and upper middle income countries in the FTA business, there is a risk of the poorest countries being excluded from the gains from FTAs. Already, almost half of world trade is subject to free trade agreements or trade preferences, and hence not treated according to the "Most Favoured Nation" (MFN) principle of the WTO. As the network of FTAs expands, the MFN treatment may actually become the least favourable trade conditions available. Hence paradoxically, WTO rules may – worded provocatively – become the "least favoured nations" treatment.

This article discusses this recent transformation of "regionalism" and asks how Norway and EFTA should respond. Should they pursue bilateral trade integration globally and vigorously, or should they exercise self-constraint due to potential negative effects for the WTO and multilateralism?

Background: From regional to global free trade agreements

Parallel to the evolution of the post-war world trade system, regionalism has continuously played a significant role. The formation of the EEC in 1958, followed by EFTA in 1960, were the cornerstones of the ever widening and deepening process of European integration, with the current eastward enlargement of the EU as the last step so far. During the 1960s, a number of other regional trading blocs were also formed between developing countries, but in general, these were less ambitious and less successful compared to Western European integration. Hence the first stage of regionalism, lasting from the late 1950s until the late 1980s, was characterised by successful regional integration in Western Europe, and a mixed outcome of several initiatives in the developing world.

During the first stage of regionalism, the US strongly favoured multilateral liberalisation, and had no ambitions for regional integration on its own. In the late 1980s, the US strategy changed, from now on focusing on regional integration in parallel to multilateral approaches. In 1988, the US-Canada free trade agreement signified a starting point for widening and deepening regional integration in the Americas which has continued ever since. During 1989-1994, it was followed by the establishment or revitalisation of several regional arrangements; the Caribbean Community (CARICOM) in 1989, the Andean Community of Nations (ACN) in 1990, Mercosur in 1991, NAFTA in 1992 (including Mexico), the Central American Common Market (CACM) in 1993, and talks on a Free Trade Area of the Americas (FTAA) starting from 1994. For an overview of this process, see e.g. Medin (2003). In spite of some uncertainty as to whether the negotiations on the Free Trade Area of The Americas (FTAA) will succeed as planned in 2004, the process has fundamentally transformed trade policy in the region and led to closer integration. Currently, the FTAA talks are in jeopardy due to a conflict on agriculture between the USA and major agricultural exporters such as Brazil. If the FTAA plans fail, it seems likely that some of its objectives will be pursued in the form of other bilateral FTAs in the region.

In Asia, the limited results of ASEAN by the early 1990s led to the launching of more ambitious plans in AFTA (the Asean Free Trade Area) from 1993. AFTA has led to tariff cuts between ASEAN-6 from 13% in 1992 to 2.4% in 2003. But the real take-off for regional integration in Asia seems to have been 2002. As shown in the Appendix, a large number of new initiatives have been launched during the last year. While only a handful of full-fledged FTAs still exist in the region beyond AFTA, a larger number are being planned or negotiated. The ASEAN+3 cooperation, aiming at closer integration between ASEAN and Japan, South Korea and China is a cornerstone. China took the lead by signing a framework agreement with ASEAN in November 2002 – with specific plans for an FTA within 10 years. Reportedly due to fears of Chinese dominance in the region, India recently signed a similar agreement with ASEAN. South Korea and Japan each signed their first FTA in 2002, and now aim for more agreements. Hence an ASEAN+4 framework for trade cooperation is now emerging. A more specific ASEAN-Japan agreement is expected in late 2003. Although tough negotiations remain until an East Asian Free Trade Area is formed, the current dynamism suggests that a development in this direction has started.

Also in Oceania and Africa, regional integration has been intensified during the last 15 years. In Oceania, the CER (Australia-New Zealand Closer Economic Relations Agreement), originally established in 1983, embarked on deeper integration from 1988 – with the purpose of establishing a single market along European lines.

Although impeded by slow economic progress, new initiatives were also taken in Africa, e.g. the establishment of the Southern African Development Community (SADC) from 1992.[5] SADC is broad-ranging in terms of objectives, including plans for a free trade area by 2008. In 2000, COMESA (the Common Market for Eastern and Southern Africa), involving 19 countries, launched an ambitious free trade plan, with immediate abolition of a wide range of tariffs.

In North Africa, a number of countries have signed or are negotiating agreements with the EU, linked to EUs Euro-Med initiative. This process of integration around the Mediterranean also stretches out to the Middle East and Balkan, with several countries establishing FTAs with the EU. EFTA has joined the process, with several agreements negotiated or being planned.

An important characteristic of the regional integration process during the last 15 years has been more frequent integration between countries at different income levels. While early regionalism was predominantly in the form of North-North or South-South integration, North-South or East-West FTAs are now common. Integration between countries in

- Northern and Southern Europe
- Western and Eastern Europe
- Western Europe and North Africa, the Middle East and Balkan
- North and South America
- Southern Africa and North America, Western Europe
- Western Europe and Latin America
- Asia and Western Europe, North America

all imply integration between rich and – to a differing extent – poor countries. The "poor" countries are frequently not among the world's poorest, but middle income countries. There are, however, exceptions to this: The most ambitious scheme for FTAs between the rich and the really poor is EUs plan for negotiating Economic Partnership Agreements (EPAs, including FTAs) with the 77 ACP (African, Caribbean and Pacific) countries.

The term "regionalism" may be appropriate for the early stages of this integration process, with FTAs or customs unions between countries within

[5] SADC emerged from SADCC (Southern African Development Coordination Conference), formed in 1980.

confined geographical regions. Contrary to this, the last 15 years marks the extension of regionalism in global space; across continents and regions. A first ambitious plan of this kind was APEC (the Asia-Pacific Economic Community). APEC includes 21 members, including five countries in the Americas (US, Canada, Chile, Mexico and Peru), plus Russia, Australia, New Zealand and the remaining ones in Asia. By 1994, the APEC leaders agreed on the plan to dismantle all barriers to trade and investment by 2010 for developed members, and by 2020 for developing members (the "Bogor goals"). Given that these goals are non-binding, tangible results on trade and investment liberalisation are limited for APEC as a bloc. Some of its members have, however, pursued these goals in the form of bilateral initiatives. In particular, Mexico, Chile and Singapore have been active in pursuing FTAs on a global scale; not only within APEC but also with Europe.

Similar to APEC, the EU has embarked on trade negotiations with Mercosur (from 1992) and more recently also with the ACP countries and the Andean Community (tentative plans, October 2003). With Asia, the EU pursues the ASEM dialogue, however not yet with specific plans for binding trade integration. The EU negotiations with Mercosur have proceeded slowly, and it is too early to say whether these initiatives will succeed.

Given the greater problems of achieving trans-continental free trade agreements involving many countries, there has quite recently been a surge of bilateral trade initiatives across regions. Table 1 summarises such agreements and initiatives. A more comprehensive list of EUs and EFTAs agreements and plans is shown in the Appendix, where more specific descriptions of the various bilateral ties are included.

Table 1: Trans-continental free trade agreements: Negotiations and plans for selected countries/ regions (non-shaded cells)

Note: For EU and EFTA, more complete lists are found in the Appendix. For agreements beyond the countries and regions included; see Appendix.

Note on classification/ terms: Year = conclusion of agreements. "Neg." = ongoing negotiations. "Plans" = specific plans for negotiations. "Signals" = indications from high-level officials.

		Americas				Asia			Africa	Oceania	
		USA	Canada	Chile	Mexico	Japan	South Korea	Singapore	South Africa	Australia	New Zealand
Europe	EU		Signals	2002	1999				2000		
	EFTA		Neg.	2003	2000			2001	Neg.		
Americas	USA		1988	2003	1993			2002	Neg.	Neg.	
	Canada			1997	1993			Neg.			
	Chile				1992	Signals	2002	Neg.			Neg.
	Mexico					Neg.		Neg.			Signals
Asia	Japan						Neg.	2001		Signals	
	South Korea							Neg.			Plans
	Singapore									2002	2000/neg.
Africa	South Africa										
Oceania	Australia										1983

Source: Various publications and websites. For more details, see Appendix.

Between the 12 countries/blocs in the table, there are potentially 58 inter-continental FTAs (treating North and South America as different continents). Out of these, 13 agreements have already been made, and negotiations, plans or serious signals exist for another 13. Hence almost half the grid of potential trans-continental agreements between these countries is about to be filled in. More details on the various agreements are found in the Appendix.

The process described here is evolving rapidly; the majority of cases in the table are from are from 2000-2003. Had the table above or the Appendix been made two months ago, the number of cases would have been smaller. Hence the current development suggests that a new "race" of trans-regional free trade negotiations has started. Parallel to the "Doha development agenda" of the WTO, global trade rules are currently being shaped by a new type of trade relations.

So far, only a modest part of inter-continental trade is covered by the agreements. But if the process accelerates further, the new phenomenon could become more significant. According to OECD (2002, 12) regional trade agreements currently cover 43% of world trade, with an expected rise to 55% by 2005. If large nations such as the US or Japan expand their network of FTAs across the globe, this share may increase considerably. And if trade blocs such as the EU and Mercosur succeed in establishing joint FTAs, and if APEC is able to complete its agenda, it will add further to this share.

The challenges for EFTA, Norway and the WTO

How should nations respond to this surge of regionalism? Should they all join the bandwagon; should even small nations have ambitious programmes of negotiating dozens of trade agreements around the world? Or can they afford to wait at the sideline and hope that the WTO can take care of their global trade concerns? This is a first set of issues discussed in this paper. Many of these issues are addressed in general terms, but later some specific issues related to EFTA and Norway will be examined.

A second set of issues concerns the relationship between regionalism and the global trade system. With the rapid expansion of regionalism, the risk is that the Most Favoured Nation (MFN) principle of the WTO becomes the *Least Favoured Nation* principle: At the extreme, WTO will only affect trade barriers for a small group of "outsiders" in the bilateral free trade race. While this is not yet the case, it is a possibility that is not too remote. Over the last years, an extensive but not yet conclusive academic and political debate has examined whether regionalism is a "building block" or rather a "stumbling block" on the road to freer trade. Will the recent acceleration of FTAs around the globe make the latter alternative more likely?

In this paper we ask: What are the characteristics and potential impact of this new and distinctive phase of "global bilateralism"? What should be the policy response to this change in global trade policy?

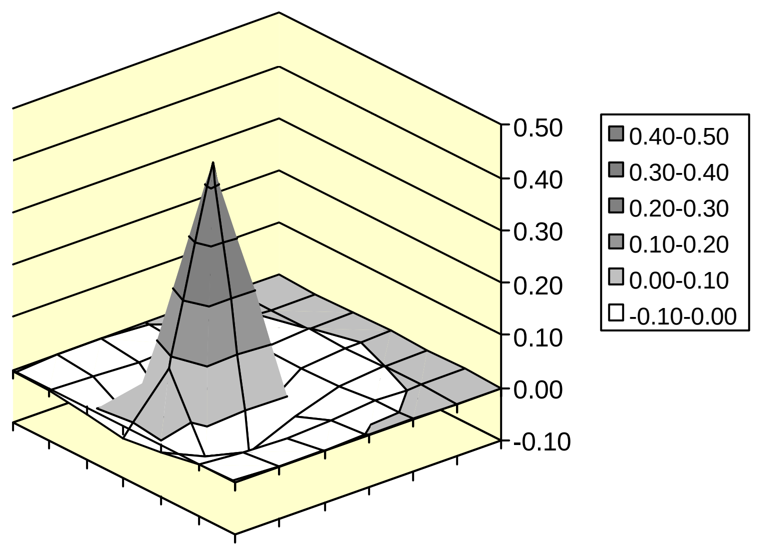
Global FTAs has a smaller economic impact

Global FTAs concerns integration between countries that are geographically more distant from each other. Given that trade flows and other economic transactions fall – in fact rather sharply – with distance (see, for example, Redding and Venables 2002 for an overview), the impact of global bilateralism is expected to be smaller than traditional regional integration.

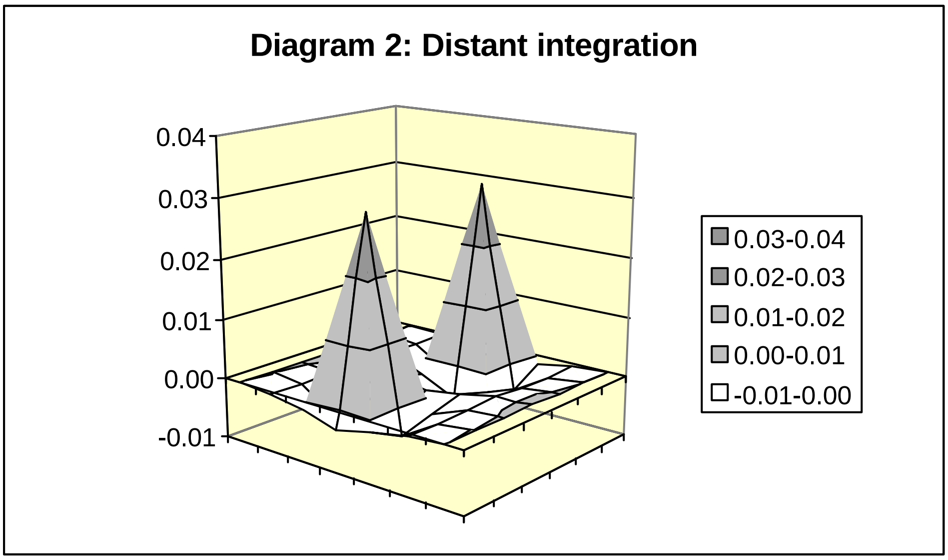
In order to examine the impact of regional integration in space, we need a framework where distance as well as ordinary trade barriers matter. Melchior (2000) examines the interaction between "geographical" (distance-dependent, e.g. transport costs) and "political" trade costs (independent of distance, e.g. tariffs). This is undertaken in a modern trade theory approach with a "traditional" sector, and a "modern" sector with imperfect competition and scale economies.[6] Countries may then form trading blocs by removing the political barriers between them. In this framework, regional integration improves market access, and is therefore to the benefit if the integrating countries. This frequently occurs at the expense of the non-participants, that lose in terms of modern sector production as well as welfare. The impact is dampened by distance, hence remote countries are unaffected and may even gain. According to this, regional blocs create a belt of losers around them, and these countries have a strong incentive to join the bloc. Other forces may modify these stark predictions and render regional integration more sympathetic for outsiders. Nevertheless, such a model captures the impact of market access in a stylised way and shows that there is an economic foundation for the free trade race.

We use this framework in order to illustrate the difference between "traditional" and "global" FTAs, by simulating numerically what happens when two countries with varying locations form an FTA. Diagrams 1 and 2 show this:

Diagram 1: Neighbour integration



[6] See http://www.nupi.no/IPS/filestore/NUPIwp608.pdf for a detailed presentation of the model framework.



The diagrams show the changes in modern sector production compared to the pre-integration situation, for 7x7=49 countries in a square grid. The distribution of welfare changes is similar, although the adverse impact on outsiders is smaller.

In Diagram 1, two neighbour countries integrate and both gain from this. Due to their different location in space, however, the benefits of integration are uneven: The more peripheral country gains less (the left part of the pyramid). The white area surrounding the FTA shows outside countries that lose from integration. For more remote countries, the impact is zero or slightly positive.

In Diagram 2, two remote countries form an FTA, and the qualitative impact is similar, with gains for the integrators and a white belt of outsiders adversely affected, and some remote countries positively affected. The main difference, however, is seen from comparing the numbers on the vertical axis: The magnitude of changes are more than ten times bigger in the case with neighbour integration. This illustrates our point: Remote integration is less dramatic.

Numerical model simulations do not tell what will happen in the real world. An idea about the different magnitude of effects might be obtained by considering how much trade normally falls with distance: If we use a "distance elasticity" of trade of –1, for example (which is in the range supported by research), we expect that Norway will trade e.g. nine times more with Poland than with a similar country at the distance of Mexico. Hence, as an illustration, the economic impact of a trade agreement with Poland would be expected to be approximately nine times larger.

In spite of this, integration with remote countries may have a significant impact if the remote country is large enough. Removing e.g. Japan's tariffs may have a considerable impact on EFTA's exports: Estimates in Melchior (2003) e.g. suggest that removing Japan's 5% tariff protection for seafood may boost Norway's exports to Japan significantly. Some countries that are remote from an EFTA perspective also have very high tariffs, and that makes free trade agreements more attractive. Hence economic size, geographical distance and the current level of protection are the major parameters that decide whether an FTA will have a significant impact.

Given this, a universal race towards global regionalism may not be expected, but rather a selective search for deals that are of quantitative significance. But the costs of negotiating an FTA are apparently not very large: A handful of persons may complete negotiations in a few rounds, unless interests are not too conflicting. Hence the sunk costs of making FTAs are normally modest, and in this perspective even agreements with modest effects may be warranted in a cost-benefit perspective.

Competitive regionalism?

Even if countries do not make FTAs themselves, they are affected by other countries' FTAs. If countries have high tariff levels, reducing them to zero only for some suppliers may strongly affect market shares. In this context, it is important to remember that the "elasticity of substitution" between foreign suppliers in a market is normally higher than between imports and domestic production. This elasticity reflects how market shares change if relative prices change. If all exporters obtain lower tariffs due to reductions in MFN tariff levels in the WTO, they will take over some share of the market from domestic producers. The "size of the pie" depends on the share of the suppliers that are not affected by tariff cuts. Hence if domestic producers have a high share, tariff reductions may lead to a bigger increase in imports than if the domestic share is low. When the domestic share is zero, a tariff cut will only lead to increased imports if total consumption of the product grows. That depends on the elasticity of substitution between the product group and other product groups, and this will normally lower than the elasticity for switches between different suppliers of the same product. For this reason, the quantitative impact of selective bilateral FTAs may be more dramatic than in the case of multilateral tariff reductions.

How large is this "switching effect" due to bilateral FTAs? Recent estimates by Fink et al. (2002) suggest that the relevant elasticity of substitution varies considerably between product groups, mostly between zero and 7. The latter implies that a one per cent tariff reduction leads to a volume increase of 7%, if the supplier has a small share of the market. The average obtained is 2.76, implying that on average, a 10% tariff cut leads to a 30% export increase for a small supplier. The impact depends on the product composition and may be much higher if a country exports more homogeneous goods. As an illustration, we may consider the estimates for some items that are important in Norway's exports:[7]

[7] SITC2 groups with exports above 5 billion NOK in 2002.

Table 2: Estimates on "tariff elasticities"		
SITC2 code	Description	Tariff elasticity
03	Fish, crustaceans, molluscs	-4.643
51	Organic chemicals	-1.018
52	Inorganic chemicals	-3.165
64	Paper, paperboard, paper-pulp/board	-6.978
68	Non-ferrous metals	-4.148
72	Specialised machinery	3.578
74	General industrial machinery	0.535
77	Electrical machinery and appliances	0.853
78	Road vehicles	1.024
79	Other transport equipment	-4.584
Source: Fink et al. 2002, 27-28.		

There are various problems with estimating such elasticities and they are hard to pin down with great accuracy. Note that for some sectors, even positive elasticities are reported, and this may possibly be due to problems with model specification. Nevertheless, these estimates illustrate that the impact of tariff cuts varies across sectors. It is particularly high for homogenous goods such as fish, paper products and metals. For some differentiated manufacturing products, the values are very low or even positive, indicating that tariff changes have a smaller impact.

The table hence indicates that countries such as Norway should be particularly worried about market access, with relatively homogenous products weighing heavily in total exports.

Given this range of tariff effects, it is evident that the market share of EFTA countries may be strongly affected in other markets if other suppliers obtain better terms. This was an important motive for the EFTA-Mexico agreement: Given that suppliers in the Americas as well as the EU obtained free trade with Mexico, it was clearly a problem if EFTA should continue facing tariffs of 17% on average.

A similar "market erosion" could obtain due to new agreements: Chile's recent agreements with the EU and Korea e.g. imply that a large seafood competitor obtains better terms and may capture Norwegian market shares. Hence regionalism may lead to a "tit-for-tat" race for new FTAs.

There are, obviously, political obstacles that will limit the expansion of FTAs around the world. For example, some countries are reluctant to liberalise agriculture, and this may create difficulties for bilateral agreements between these countries and agricultural exporters. The trade frictions between the EU and the USA imply, at least until now, that such an agreement seems to be further off. Political obstacles may limit the process of negoatiating FTAs, and hence we should not expect that the matrix in Table 1 will be completed in the short run. But a gradual expansion of the bilateral agreement network seems imminent.

Hub-and-spoke agreements

In some cases, countries or blocs make agreements with a number of other countries that are not integrated among themselves. According to theory (see, for example, Melchior 1997), such "hub-and-spoke" arrangements are less beneficial for the parties on the "spokes", that are not integrated among themselves. Diagrams 3 and 4 compare hub-and-spoke integration between three countries with symmetrical integration, using the same spatial trade model as in Diagrams 1 and 2. In the hub-and-spoke case, the country to the left makes FTAs with the two others, but these two do not integrate among themselves. In Diagram 4, all the three countries form an FTA. The diagrams show changes in modern sector production compared to the pre-integration situation. The changes in welfare are similar.

Diagram 3: Hub-and-spoke integration

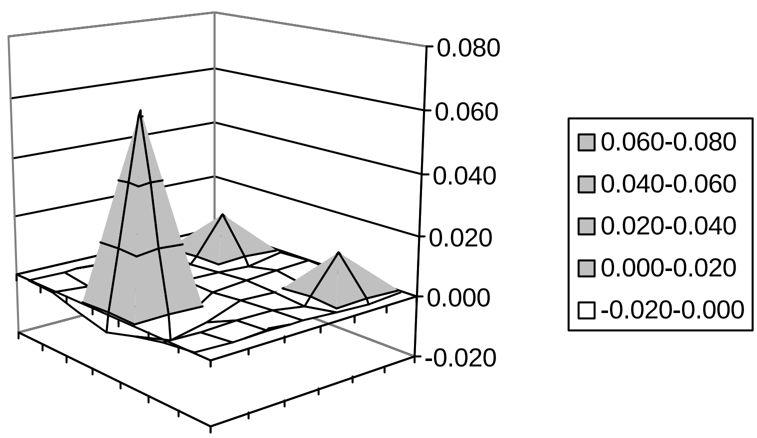
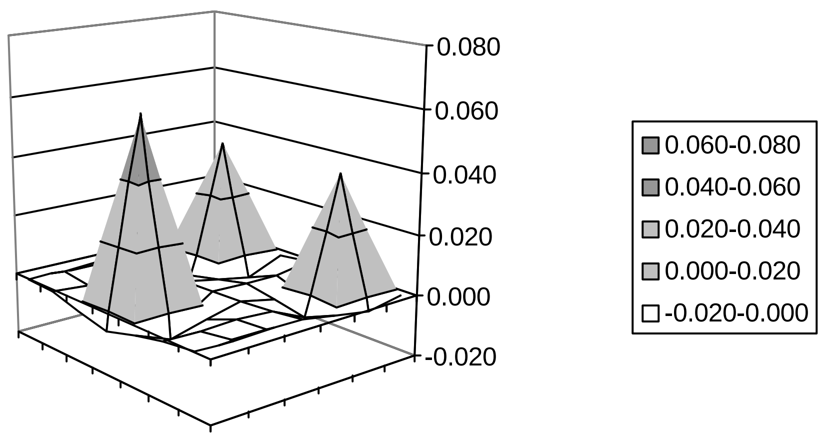


Diagram 4: Symmetrical integration



For the hub country to the left, the benefits of integration are similar in the two cases. But for the two other countries, the gains are much larger if they also integrate among themselves. In the outcome with symmetrical integration, the country to the left gains more due to its more central geographical location, but the gains for the other two are also substantial.

"Spoke" countries should therefore strive to integrate with other countries in the "spokes", and this provides another motive for extending the FTA network. Hence countries in Northern Africa should not only integrate with the EU, but also among themselves. The same applies to Eastern European countries versus the EU, and Latin American countries versus the USA.

Competition between blocs

Most research on FTAs consider the impact of *one* trade bloc. In reality, there are many such blocs. An issue is therefore: Is there a competition between blocs as well? According to the literature, there is: Blocs with deeper integration have a competitive edge. In terms of the type of model framework applied above, they gain in terms of welfare as well as manufacturing production by integrating deeper than other blocs (Puga and Venables 1997). According to Melchior (1997, 156) it is also an advantage to be in a bloc with many countries. Small countries may also gain more from forming trade blocs, since the regional "home market" compensates for their small size (ibid.).

Hence according to the literature, there is a motive for trade blocs to become bigger and deeper. The current development, with widening and deepening of integration in all major world regions, is in line with this prediction.

Non-tariff integration is less discriminatory

While tariffs may have a clear discriminatory impact, this is not necessarily the case for other aspects of FTAs. While EFTAs "first-generation" agreements mainly focused on tariff reductions, the recent agreements with Singapore and Mexico are "second generation" and include the whole range of new issues. The inclusion of services and investment is here particularly important. EU and the EEA agreement are probably the most comprehensive of all regional agreements, and the upgrading of EEA to include the enlarged EU will make agreements also with the new members more comprehensive.

Tariff preferences should normally lead to some trade diversion, i.e. that imports from non-members are replaced by imports from FTA partners. The magnitude of this effect depends on the tariff elasticities, as noted above.

When the EU internal market was changed, it did not lead to changes in EUs external tariffs, but a range of other reforms, e.g. a common approach to product standards and a common quota regime for textiles. The internal market wiped out the previous heterogeneity of national practices in these fields. Other reforms, such as investment rules, could also affect external trade indirectly. It is therefore interesting to examine to what extent the internal market programme, i.e. a non-tariff integration scheme, affected external trade. The fear of a "Fortress Europe" was sometimes expressed when the internal market was created. The results of Allen et al. (1996) show that these worries were unfounded; the internal market programme did, on the whole, not lead to substantial trade diversion. For manufacturing as a whole, imports from EU partners and non-members increased at the same rate. The results vary across sectors, so in some sectors, there may have been trade diversion due to the internal market. But in other sectors, external suppliers benefited more.

In some areas, it is easy to see why regional integration may not be trade diverting: In the EU, one standard is better than 15 for external suppliers. For the EU quota regime on textiles, harmonisation eliminated some murky national practices, and also implied that underutilised quotas in some countries could be used in other EU markets. To the extent that regional integration affects regulatory regimes, it is also more likely that such integration leads to a more ”standardised” regime that is better for outsiders as well. It is easy to charge different tariffs for different countries, but more complex to have different regulatory systems for each supplier.

OECD (2002) offers an extensive examination of non-tariff issues of a wide range of RTAs, and conclude that:

- In the services field, the access for investment – frequently the most important mode of supply – is frequently non-preferential.
- RTAs that contain investment rules in general, frequently do not discriminate against third-country investors.
- Measures to promote trade facilitation are rarely preferential.

Hence on some important issues, RTAs, or at least many of them, are not expected to have a strong discriminatory impact.

The conclusion emerging from this is that the tariff issue remains crucial with respect to the potential trade-diverting impact of FTAs.

Economic interests or political motives?

An issue is whether the interest in FTAs is symmetrical for the two parties. Given that the richest countries have relatively low tariff levels, as well as GSP systems that eliminate or reduce tariffs for many goods, the situation may frequently be asymmetric. For example, the average MFN bound tariff level for non-agricultural goods of Mexico is currently 31%, but only zero for Switzerland and 3.1% for Norway. In terms of applied rates, the figures are 17.1, 0 and 2.1% for the three, respectively. Mexico’s exports to EFTA have zero tariffs under GSP for many goods. In terms of non-agricultural tariffs, therefore, the EFTA-Mexico FTA is an asymmetric deal, even if Mexico also obtains some benefits (e.g. for textiles). For a limited set of agricultural products, Mexico will also gain from the agreement. Nevertheless, the impression is that on purely economic grounds, the concessions by Mexico were greater than those made by EFTA.

This suggests that there may have been other motives on the Mexican side. To some extent, the EFTA agreement should be understood in the context of EU concluding a similar agreement in 1999. Mexico may have found it reasonable to offer EFTA a similar agreement, and may also have geopolitical motives for engaging in such integration. South Africa is probably not on the top of the list in terms of economic gains from an FTA, but nevertheless the country is now on the “hot list” for FTA candidates. And EFTA made an agreement with the PLO, even if PLO is surely not one of its major trade partners. While we do not make any attempt to measure the political benefits from FTAs, it should be recalled that such aspects may be important.

To the extent that potential FTA partners for EFTA do not have strong geopolitical motives for entering into an agreement, it is an issue what EFTA may offer in situations where non-agricultural tariffs are much lower in EFTA than in the other country. One answer is: Better market access for agricultural goods. Given that WTO liberalisation may take time, market opening for agriculture may be an element that balances the outcome of FTA negotiations. Switzerland and Norway both rank among the top protectionists in the agricultural field (see, for example, Cline 2002), and therefore have “much to give”. This could be quite important if EFTA e.g. engages in negotiations with countries such as Brazil, Argentina or Ukraine. Other FTA partners would certainly follow closely what happened, and demand similar concessions if EFTA starts opening its agricultural markets on a bilateral basis. Hence such liberalisation could hardly be implemented in a highly selective way. It is evident that such concessions would be politically controversial, but nevertheless remain as an option. In some cases, a more liberal approach to agriculture may be necessary if FTAs are to be concluded. This will not be the case for e.g. South Korea and Japan, which are an “easy” FTA candidates in this respect because they are themselves in the league of countries with high agricultural protection. In the Korea-Chile negotiations, agriculture was indeed one of the controversial issues.

Integration between rich and poor countries

To an increasing extent, free trade agreements are concluded between countries at different income levels: From the southern enlargement of the EU, through NAFTA, the EU eastward enlargement and the number of trans-continental FTAs, the number of FTAs involving countries at different income levels has grown.

It is important to observe that it is generally not the very poorest countries that have been involved, but rather intermediate-level countries. According to Venables (2002), such intermediate countries have much to gain from discriminatory FTAs. Consider, for example, three countries producing machinery and clothing, of which clothing intensively uses unskilled labour. The proportion of unskilled labour is highest in the poorest country, and lowest in the richest. With the same tariffs everywhere, the poorest country will produce most clothing. If the rich and the intermediate country integrate, the intermediate country will “come between” and replace some of the clothing exports from the poorest country. This adds to the intermediate country’s gains from integration. Integration between the poorest and the intermediate country would also be good for the latter; now because the bloc boosts its machinery production.

According to this, rich-intermediate integration should be particularly good for the latter. The integrating intermediate-level countries should take over labour-intensive production from outsiders in Asia, be it Portugal in the EEA (or formerly EFTA), Mexico in NAFTA or Eastern Europe in the

European Free Trade Area. The impact depends, however, on the margin of discrimination being large enough. Over time, the preferential margin for clothing in Europe has been reduced due to tariff cuts and more liberal quotas. As an illustration, Portugal's share on Norway's clothing imports was reduced from 12% in 1991 to 4% in 2001 (Moe 2002). In Mexico, competition from China is currently threatening the success of the Maquiladora industries in U.S. markets. Hence while trade diversion from poor countries could in principle add to the gains for intermediate-income integrators, it is an empirical issue whether this occurs or not.

Income changes modify the trade effects

When illustrating the impact of FTAs in Diagrams 1 and 2, we assumed that the wage levels were unchanged. In this case, integration leads to strong changes in production volumes. Realistically, such changes will also have second-order repercussions on wages and prices. If, for example, regional integration boosts the volume of production of skill-intensive goods in a country, this will tend to drive up wages for skilled labour. Hence costs will be driven up in the expanding sector. If integration mainly leads to "intra-industry trade", i.e. two-way trade in similar products, workers may easily be shifted from one line of production to another, and there may not be strong effects of this kind. But if integration causes specialisation between industries with widely differing factor use, such effects may be significant. In this case, the impact of integration on trade and production patterns will be dampened, and more of the effect will be in the form of factor price changes.

If integration leads to increased specialisation between countries, it will tend to raise income in the expanding sector, and reduce income in the shrinking sector. In a perfect competition world with no other distortions, free trade brings about a welfare gain for the nation as a whole. In classical theories of regional integration, a core message was that we cannot be sure that this will occur. The reason is that other tariffs remain, so we are still in a "second-best" situation with distortions. Modern theory about regional integration is more positive about the welfare benefits (see, for example, Puga and Venables 1997), but also more unambiguous about the potential losses for outside countries. The reason is that the "market access gain" adds to the gains for integrating countries, when scale economies and imperfect competition is taken into account in the analysis.

A third economic force that modifies the impact of trade policy, is related to technology flows. Trade is an important vehicle for technology transfer, and imports may therefore be more valuable because they contain technology. This transfer may either be in the form of machinery or intermediate goods, or by introducing new products that force domestic firms to upgrade their goods. Technology flows therefore add to the gains from integration, be it regional or multilateral. In order to benefit from such technology flows, countries must have the education and technological capacity to exploit the new technologies.

The Least or the Most Favoured Nation Principle?

As noted in the introductory part, there is a danger that eventually, only a small fraction of international trade will be governed by MFN trade rules. Hence countries facing these rules have in effect the least favourable rules. Given that preferential trade agreements may adversely affect outside countries, FTAs are potentially creating a more inequitable world trade system. The concern is not that e.g. the USA is not member of the EEA – the USA has its own agreements and is fully participating in the regionalisation race. Our concern should be with the countries that are outside all blocs.

In order to avoid discrimination that potentially hurts outsiders, the ideal solution is to eliminate the incentives for a global race for FTAs. Given that tariffs remain the most important field where preferential agreements are de facto discriminatory, complete elimination of tariffs for non-agriculture in the WTO is the simplest way. If this is not possible in the foreseeable future, given that many developing countries are reluctant, a zero-tariff agreement between rich and intermediate-level countries would go half the way. Whether such an initiative should be taken within or outside the WTO, is a practical issue. Unless a radical initiative of this kind is taken, there is a danger that the proportion of trade under MFN rules will – during a few years – become rather small. If a large group of rich and intermediate countries remove tariffs between them, this would eliminate some of the major incentives for a regionalisation race. The FTA race might then continue, but in fields such as services or investment, where the discriminator impact is smaller.

A plurilateral free trade club could also consider removing their tariffs for imports from developing countries, possibly with an income-dependent criterion for reciprocity. Hence better-off developing countries would be expected to liberalise themselves, while poorer countries would not be required to do so. This would also sort out the graduation issue in a way that currently seems very unrealistic in the WTO setting.

The first policy advice of this paper is hence that EFTA countries should pursue zero tariffs at the WTO or in a plurilateral agreement. This does not imply that EFTA should not pursue its own agenda with respect to FTAs: As long as the incentives for making such agreements are strong, it is sensible to continue doing so. Hence EFTA should actively pursue the FTA track, and at the same time promote WTO liberalisation.

A proposal on zero tariffs would probably have to be pushed by the well-off countries that engage in regional blocs and FTAs. It is – paradoxically – not obvious that it is in their self-interest to do so: Such a step would erode their preferential margins and improve market access for many new competitors. In actual trade policy, there have already been cases where countries were against WTO liberalisation because it would erode their preferences. Some Caribbean countries feared, during the Uruguay round, that WTO liberalisation would remove their privileges under the EU Lomé Convention. Theoretically, this is half sensible: According to Melchior (1997), trade blocs have an interest in multilateral liberalisation up to a point, but not in complete elimination of their preferences. The reason is that it is these preferences that make regional integration beneficial. In the perspective of regional integration, zero tariffs at the WTO are therefore not an unambiguous blessing for the regional blocs. The countries outside trade blocs would unambiguously gain from zero tariffs at the WTO, however.

If this self-interest is allowed to dominate, however, tariff elimination in the WTO or in a plurilateral context will fail. Then there is a risk that the WTO is gradually marginalised, while FTAs cover an ever increasing proportion of world trade. The MFN principle may then end up as being the LFN principle.

Regionalism and the WTO: Non-tariff issues

The survey by the OECD (2002) suggests that beyond tariffs, FTAs do not generally have a very strong discriminatory flavour. There may, however, be a problem of divergence in the development of rules in some areas. For non-tariff issues in FTAs, we may (mainly based on OECD 2002) distinguish between two areas:

- Areas where FTAs in several cases are more far-reaching than the WTO, but where rules are converging to an international standard, in some cases the approach defined by the WTO. This applies to services, government procurement, investment and to some extent provisions on the environment.
- In some other areas, FTA lead to a divergence of rules that may eventually create problems for establishing global norms. In this area we find rules of origin, as well as issues related to anti-dumping, competition and subsidies.

To the extent that FTAs lead to divergence of rules, it may create a problem for establishing global rules. Another problem is that with an ever increasing number of FTAs, a very complex and non-transparent trade system may develop. Some countries have different rules of origin in different FTAs, and it is certain that for traders, it may be difficult to know all the details.

This situation calls for new efforts to promote convergence between FTAs. There is an urgent need to obtain progress in the WTO negotiations on preferential and non-preferential rules of origin. It would also be a great advantage if the WTO could establish better rules in the field of anti-dumping and competition policy. If an investment agreement is established at the WTO, it could also have a harmonising impact on investment provisions in FTAs.

Besides such efforts to harmonise the technical approaches in FTAs, the WTO should also promote the non-preferential approach to non-tariff aspects of FTAs.

Conclusion

It is rational for EFTA and other countries to make new FTAs based on their economic interests and geopolitical reasons. EFTA and Norway should continue to create new FTAs, and Norway has a special interest due to its exports of homogenous goods that respond strongly to relative price changes.

On the other hand, the rapid growth of FTAs create a danger that MFN trade rules will soon apply only to a small fraction of world trade. The potentially harmful impact of trade preferences for outsiders, as well as the risk of marginalising the WTO, implies that more radical attempts should be made to cut tariffs at the WTO, or alternatively among rich and intermediate-income countries. In the non-tariff field, the discriminatory impact of FTAs is smaller, and the most important need is to promote convergence in international rules. This may partly be done by new rules in the WTO, e.g. on rules of origin, competition and investment. To the extent that WTO fails in these areas, plurilateral initiatives are more likely.

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Appendix: Free trade agreements for selected countries and country groups. Status as of 28 October 2003.

Categories indicated:
A = agreement
N = ongoing negotiations
P = specific plans
S = signals
R = rejection or failure

Notes:
- Unless otherwise stated, "agreements" refer to WTO-consistent free trade agreements, implying at minimum substantial tariff elimination for trade in goods. Hence more general economic cooperation agreements are not covered, unless they include specific plans for an FTA. Such agreements are categorised as "specific plans" or "signals", depending on to what extent plans for an FTA are binding or not. It may often be difficult to draw the distinction between these two categories, and the classification in this respect should therefore be considered as tentative.
- The table is based on available public information at the time of writing, and may be incomplete to the extent that such information was not available or could not be obtained. A number of different sources, including official websites and media, have been applied.
- In the table, several agreements are double-counted in order to provide complete overviews for each country

1. Plurilateral negotiations or initiatives (not including established FTAs)			
Agreement	**Countries**	**Category**	**Comment on status**
FTAA (Free Trade Area of the Americas)	34 countries in the Americas	N	Launched 1994, negotiations to be completed by 2005
APEC	21 countries in America, Asia and Oceania	S	Established 1989, non-binding commitment on free and open trade and investment by 2010 for developed members, and by 2020 for developing members (the "Bogor goals", adopted 1994)

2. Bilateral or regional initiatives or FTAs by country/ country group			
Country	**Partner country**	**Category**	**Comment on status**
USA	Canada, Mexico	A	NAFTA
	Israel	A	Concluded 1985, fully implemented 1995
	Singapore	A	Concluded May 2003
	Chile	A	Concluded July 2003
	Jordan	A	Signed 2000, entry into force 2001
	Vietnam	A	Signed 2000
	Central America	N	Negotiations launched Jan. 2003, with Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, with deadline 2003, for U.S.-CAFTA agreement
	Australia	N	4th round of negotiations 27-31 October 2003
	Morocco	N	Negotiations launched Jan. 2003
	South Africa/ SACU	N	Negotiations with SACU (Southern African Customs Union - Botswana, Lesotho, Namibia, South Africa and Swaziland, launched July 2003
	Bahrain	S	Signals from bilateral talks 2003
	Sri Lanka	S	Signals from bilateral talks Oct. 2003
	New Zealand	R	USTR Zoellick rejected agreement in the near future in May 2003, referring to “some actions” taken by NZ, but with speculations about U.S. fears concerning agricultural imports
Canada	USA, Mexico	A	NAFTA
	Chile	A	Entry into force 1997
	Costa Rica	A	Agreed April 2001, entry into force 2002
	Israel	A	Entry into force 1997
	Central America four	N	El Salvador, Guatemala, Honduras, Nicaragua, ninth round of negotiations July 2003
	EFTA	N	10th negotiation round May 2000. Incomplete on agriculture and culture, deadlock on ships and industrial marine products
	Singapore	N	Negotiations from 2002, four rounds until early 2003
	Andean Community	S	Exploratory talks 2002-2003
	CARICOM	S	Exploratory talks 2001-2002
	Dominican Rep.	S	Exploratory talks 2003
	EU	S	Plans launched on summit 2002, proposals to be presented Dec. 2003

EU	Note: Only an abbreviated overview is given. For a complete list, see http://europa.eu.int/comm/trade/issues/bilateral/index_en.htm		
	EU-15	A	
	EU-10 acceding	A	Enlargement in 2004, replacing earlier agreements with Estonia, Latvia, Lithuania, Poland, Czech Rep., Slovak Rep., Hungary. Slovenia, Malta, Cyprus
	Norway, Iceland, Liechtenstein	A	EEA Agreement
	Switzerland	A	FTA dating from 1973 plus later agreements
	7 other European	A	Various types of agreements with Bulgaria, Romania, Andorra, Faroe Islands, Macedonia, Croatia, San Marino
	10 Mediterranean/ Middle East countries	A	Various types of agreements with Algeria, Egypt, Israel, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia, Turkey, Jordan
	Mexico	A	FTA from 2000
	South Africa	A	Trade, Development and Cooperation Agreement from 2000, FTA provisionally applied
	Mercosur	N	Negotiations on FTA from 2000 with Brazil, Argentina, Uruguay and Paraguay, 10th round of negotiations June 2003
	Andean Community	S	Political accord Oct. 2003, aiming at launching FTA negotiations in 2004
	77 ACP countries	N	Negotiations on Economic Partnership Agreements (EPAs), including FTAs, launched from September 2002
	Canada	S	Plans launched on summit 2002, proposals to be presented Dec. 2003

EFTA	Note: Only an abbreviated overview is given. For more information, see http://secretariat.efta.int/Web/Agreements/		
(Not including Switzerland)	EU-15	A	EEA Agreement
	EU-25	A	Extension of EEA in 2004, replacing current EFTA agreements with eight of the acceding countries (Estonia, Latvia, Lithuania, Poland, Czech Rep., Slovak Rep., Hungary. Slovenia). Switzerland negotiates an extension of its FTA with EU.
(Including Switzerland)	Four other European	A	FTAs entered into force 1993 for Bulgaria, 2002 for Croatia, 2001 for Macedonia, 1993 for Romania
	Five Mediterranean/ Middle East countries	A	FTAs entered into force 1993 for Israel, 2002 for Jordan, 1999 for Morocco, 1999 for PLO, 1993 for Turkey
	Chile	A	FTA, entry into force Feb. 2004
	Mexico	A	FTA, entry into force July 2001
	Singapore	A	FTA, entry into force Jan. 2003
	Egypt	N	Declaration on cooperation 1995, negotiations from 1998, 5th round June 2003
	Canada	N	Negotiations from 1998, 10th round May 2000. Incomplete on agriculture and culture, deadlock on ships and industrial marine products
	South Africa	N	Negotiations launched May 2003, 2nd round Sept-Oct 2003, extension to SACU may be considered
	Tunisia	N	Declaration on cooperation 1995, negotiations from 1998, 6th round 2001
	Lebanon	N	Declaration on cooperation 1997, negotiations from April 2003
	Albania	S	Declaration on cooperation 1992
	Gulf Coop. Council	S	Declaration on cooperation 2000
	Ukraine	S	Declaration on cooperation 2000
	Serbia/ Montenegro	S	Declaration on cooperation 2000
	Mercosur	S	Declaration on cooperation 2000
	Algeria	S	Declaration on cooperation 2002

Australia	New Zealand	A	CER agreement from 1983
	Singapore	A	Concluded 2002, signed 2003
	Thailand	A	Concluded October 2003
	USA	N	4th round of negotiations 27-31 October 2003
	Japan	S	Framework Agreement with intentions of trade liberalisation, signed July 2003
	China	S	Framework Agreement with intentions of trade liberalisation, signed October 2003
New Zealand	Australia	A	CER agreement from 1983
	Singapore	A	CEP (Closer Economic Partnership) Agreement, entry into force 2001
	Hong Kong	N	Five negotiation rounds until mid-2003
	Chile, Singapore	N	Negotiations on "Pacific 3" FTA announced Oct. 2002, two rounds envisaged 2003, conclusion 2004
	AFTA, Australia	S	CER-AFTA dialogue with intentions on trade liberalisation
	Mexico	S	Feasibility studies announced Oct. 2002, to be completed Oct. 2003
	Thailand	S	"Scoping study" announced June 2003
	China	S	Signals from bilateral talks Oct. 2003
South Korea	Chile	A	Concluded 2002
	Japan	N	Study group concluded October 2003, negotiations to start from 2004
	Singapore	P	Joint study group concluded Oct. 2003, recommending negotiations on FTA
	Thailand	S	Signals in 2001, feasibility studies undertaken
Japan	Singapore	A	Concluded 2001, signed 2002
	South Korea	N	Study group concluded October 2003, negotiations to start from 2004
	Mexico	N	Neg. from 2002, last round Oct. 2003, conflict on pork quotas
	ASEAN	S	Declaration Nov. 2002 on Comprehensive Economic Partnership, including an ambition of trade liberalisation
	Thailand	N	Negotiations for Closer Economic Partnership Agreement
	Australia	S	Framework Agreement with intentions of trade liberalisation, signed July 2003
	Chile	S	JETRO study June 2001 recommends FTA
	Philippines	S	Initiatives expected in Japan-ASEAN meeting Dec. 03
	Malaysia	S	
	China	R	Proposals from China on agreement including Korea rejected so far

China	Hong Kong	A	Closer Economic Partnership Arrangement (CEPA) agreed June 2003, with partial tariff elimination
	Macau	A	Closer Economic Partnership Arrangement (CEPA) signed Oct. 2003, with partial tariff elimination
	ASEAN	P	Framework Agreement signed Nov. 2002, with specific plans for negotiating an FTA within 10 years
	Thailand	N/A	Framework Agreement signed 2003, with partial liberalisation mainly for agriculture, intentions for an FTA
	Singapore	N/A	Framework Agreement with partial agricultural liberalisation 2002, intentions of FTA
	Australia	S	Framework Agreement with intentions of trade liberalisation, signed October 2003
	New Zealand	S	Signals from bilateral talks Oct. 2003
India	Singapore	N	Negotiations on Comprehensive Economic Cooperation Agreement since May 2003, four rounds until October 2003
	Thailand	A	Study group 2002, agreement signed Oct. 2003, partial liberalisation only
	ASEAN	P	Framework Agreement on Comprehensive Economic Cooperation signed Oct. 2003, planning an FTA for ASEAN-6 by 2011, and by 2016 for the remaining four

Singapore	ASEAN	A	AFTA Agreement from 1993, tariffs between ASEAN-6 reduced from 13% to 2.4% by 2003
	New Zealand	A	Concluded 2000, entry into force 2001
	New Zealand, Chile	N	Negotiations on “Pacific 3” FTA announced Oct. 2002, two rounds envisaged 2003, conclusion 2004
	Japan	A	Concluded 2001, signed 2002
	EFTA	A	Concluded 2002
	Australia	A	Concluded 2002, signed 2003
	USA	A	Signed 2003
	Mexico	N	Six rounds of negotiations since July 2000
	Canada	N	Five rounds of negotiations since Oct. 2001
	China	N/A	Framework Agreement with agricultural liberalisation 2002, intentions of FTA. See also China-ASEAN agreement.
	Korea	P	Joint study group concluded Oct. 2003, recommending negotiations on FTA
	India	N	Negotiations on Comprehensive Economic Cooperation Agreement since May 2003, four rounds until October 2003
	Jordan	P	Plans launched June 2003, negotiations envisaged in “near future”
	Sri Lanka	P	Plans launched August 2003, exploratory talks October 2003, negotiations planned for 2004
	Bahrain	N	Negotiations launched Oct. 2003
	Taiwan	S	Bilateral talks reported Sept. 2002
	Hong Kong	S	Signals in media

Thailand	ASEAN	A	AFTA Agreement from 1993, tariffs between ASEAN-6 reduced from 13% to 2.4% by 2003
	Bahrain	A	Economic Alliance Framework Agreement concluded 2002, tariff elimination until 2010
	India	A	Study group 2002, signed Oct. 2003, partial liberalisation only
	China	A	Framework Agreement signed 2003, with partial liberalisation mainly for agriculture, intentions for an FTA. See also China-ASEAN agreement.
	Australia	A	Concluded October 2003
	Japan	N	Negotiations for Closer Economic Partnership Agreement
	USA	N	Earlier Trade and Investment Agreement (TIFA), plans to negotiate FTA launched October 2003
	Canada	S	Discussions in APEC meeting Oct. 2003
	Hong Kong	S	Discussions in APEC meeting Oct. 2003
	New Zealand	S	“Scoping study” announced June 2003
	Peru	S	Feasibility study only
	Mexico	S	Feasibility study only
	South Africa	S	Feasibility study only
	Various countries	R	Attempted FTAs with Chile, Czech Republic, Croatia, Korea from 1997 aborted

Chile	Canada	A	FTA signed 1996, entry into force 1997
	Central America	A	Signed 1999, entry into force 2002 for El Salvador, Costa Rica. Also includes Guatemala, Honduras and Nicaragua
	EFTA	A	Signed June 2003, entry into force 2004
	South Korea	A	Signed Feb. 2003
	Mexico	A	Signed 1998, entry into force 1999
	EU	A	Association Agreement/FTA signed Nov. 2002
	USA	A	FTA signed June 2003
	Argentina	A	Economic Complementation Agreement, partial scope, 1992/2000
	Bolivia	A	Economic Complementation Agreement, partial scope, 1993
	Colombia	A	Economic Complementation Agreement, partial scope, 1994
	Ecuador	A	Economic Complementation Agreement, partial scope, 1995
	Mercosur	A	Economic Complementation Agreement, partial scope, 1996
	Peru	A	Economic Complementation Agreement, partial scope, 1998
	Venezuela	A	Economic Complementation Agreement, partial scope, 1993
	New Zealand, Singapore	N	Negotiations on “Pacific 3” FTA announced Oct. 2002, two rounds envisaged 2003, conclusion 2004

Mexico	USA, Canada	A	NAFTA, signed 1992, entry into force 1994
	Colombia, Venezuela	A	“Group of three” FTA signed 1990, entry into force 1995
	Bolivia	A	FTA signed 1994, entry into force 1995
	Chile	A	FTA signed 1998, entry into force 1999
	Costa Rica	A	FTA signed 1994, entry into force 1995
	EFTA	A	FTA signed 2000, entry into force 2001
	EU	A	FTA signed 1995, entry into force 2000
	Israel	A	FTA signed 2000, entry into force 2000
	Nicaragua	A	FTA signed 1992, entry into force 1998
	Northern triangle	A	FTA with Honduras, Guatemala, Ecuador, signed 2000, entry into force 2001
	Mercosur	A	Economic Complementation Agreement, partial scope, 2002
	Panama	A	Economic Complementation Agreement, partial scope, 1986
	Brazil	A	Economic Complementation Agreement, partial scope, 2002
	Uruguay	A	Economic Complementation Agreement, partial scope, signed 1999, entry into force 2001
	Singapore	N	Six rounds of negotiations since July 2000
	Japan	N	Neg. from 2002, last round Oct. 2003, conflict on pork quotas
	New Zealand	S	Feasibility studies announced Oct. 2002, to be completed Oct. 2003

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