NOTES ON THE WTO

Origins

The classical period of liberalism and free trade, which dominated policy-thinking in Europe through much the 19th C., came gradually to an end towards the end of the 19th C. From around the 1880s onwards, spurred on by a new wave of nationalism and imperialism ("Scramble for Africa", etc.), the old Mercantilist principles made a comeback, and protectionist tariffs, empire-building, trade-as-war gradually became the vogue again, and the classical liberal consensus began to retreat. The push to protectionism accelerated in the 1930s, as countries, reeling from Great Depression, desperately erected tariffs and quotas on foreign imports in a last ditch effort to save their collapsing industries.

The imperialist era came to its bloody and destructive conclusion in World War II (1939-1945). It was clear that a new post-war order was needed that avoided the mistakes of the prior era - not only on the political arena, but also the economic. In the same way that the establishment of the United Nations would be set up to resolve international conflicts before they broke out into war, the **Bretton Woods** conference of 1944 tried to set up new institutions to resolve economic conflicts between countries before they broke out into rash and mutually destructive economic policies. The World Bank (on reconstruction and development), the IMF (on exchange rates) and the GATT (on trade) were three of the agreements that came out of Bretton Woods talks.

More precisely, the Bretton Woods talks proposed the formation of an ambitious International Trade Organization (ITO), which covered not only agreements on trade, but also investment, anti-trust, employment rules, commodity price stabilization, etc. A UN Conference on Trade and Development (UNCTAD) was called for in Havana in 1947, to settle on a charter for the ITO. But several countries, not willing to wait until the establishment of the ITO to begin tariff reductions, negotiated and signed a provisional treaty, the **General Agreement on Tariffs and Trade (GATT),** in Geneva in 1947, committing themselves to certain principles and tariff reductions, while waiting for the Havana talks to be concluded.[1] As it happens, the ITO charter was never ratified (there was notable resistance by the US Congress), with the result that the ITO never came into being and the GATT, the 'provisional' treaty, ended up becoming the only treaty.

GATT was expanded as more and more nations signed it, new rounds of negotiations added amendments to it, culminating in the creation of the **World Trade Organization (WTO)** in 1995 to arbitrate disputes between countries over violations of the treaty.

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[1] The original GATT signers were USA, UK, Canada, Australia, New Zealand, South Africa, Rhodesia, India, Pakistan, Ceylon, Burma, France, Belgium, Netherlands, Luxemburg, Norway, Czechoslovakia, Brazil, Chile, Cuba, Syria, Lebanon and the Republic of China.

GATT Principles

In essence, GATT/WTO is a *treaty* among nations, by which participants collectively agree to:

(1) ***lower*** existing tariffs and other barriers to free trade by specified amounts agreed in each collectively-negotiated treaty 'round';
(2) promise ***not to raise*** them again or impose any new barriers *except* under extraordinary circumstances (the conditions are specified in the treaty) or after petition for and receiving an explicit waiver from the WTO;
(3) promise to adhere to the principle of ***non-discrimination***. That means signing countries agree not to apply different trade barriers to different countries - countries agree to treat all other countries alike. This principle allows for two exceptions - Free Trade Agreements (FTAs) and Generalized Systems of Preferences (GSPs).
(4) abolishing quotas as a tool, either eliminating them altogether, or at least converting them into tariff form ('***tarrification***').
(5) ***anti-dumping*** - countries promise to refrain from predatory trade practices (i.e. no export subsidies).

The GATT did not originally cover all goods. Some goods (notably textiles and agricultural products) were given exceptions from the original agreement.

Several more 'rounds' of negotiations ensued, each agreeing to further trade barrier reductions, specifying more clearly the conditions of trade, expanding the range of products covered, accommodating the establishment of the EEC and the entry of developing countries and their special circumstances.

The conclusions of each of these rounds are not "new" treaties, but rather additional clauses and amendments to the original 1947 GATT.

There are also many 'side-agreements' covering certain areas (e.g. agriculture, intellectual property, foreign investment, industrial subsidies), that, because they do not adhere to the "GATT" principles in full are not considered "amendments" to the GATT treaty, but rather wholly new treaties (ATC, TRIPS, etc.) They are nonetheless negotiated during the same sessions.

The WTO

The most important 'round' of negotiations was the "Uruguay round" which began in 1986 and finished in 1994, which was very wide-ranging in scope. This round also established the **World Trade Organization** (WTO), an institutional body to arbitrate disputes over trade.

If nations are caught violating the terms of the GATT treaty (e.g. raising tariffs, introducing export subsidies, etc.), they are brought to the **WTO Council**. The WTO

does not have a prosecutorial or executive arm, nor does it have a basis in law. It is a mere arbitration council that hears accusations of treaty violations brought up by one nation against another. It cannot investigate those things on its own. It also cannot enforce its judgment. It can merely *authorize* aggrieved nations to retaliate (e.g. waiving the treaty so the aggrieved nation can impose punitive tariffs against the erring nation), but the WTO itself cannot *demand* them to impose those measures.

GATT/WTO rounds

(1) Geneva round (1947) - created GATT
(2) Annecy round (1949) - lowered tariffs
(3) Torquay round (1951) - lowered tariffs
(4) Geneva round (1955-56) - lowered tariffs
(5) Dillon round (1960-62) - accommodation of EEC (FTA exception) and newly-independent developing countries
- [UNCTAD I (1964, Geneva), need to improve trade for developing countries recognized]
- [UNCTAD II (1968, New Delhi) proposed the idea of GSPs]

(6) Kennedy round (1964-67)- lowered tariffs; anti-dumping rules adopted (i.e. export subsidies recognized as a problem & countervailing duties allowed),
- [GATT begins giving waivers for GSPs (1971)]
- [Multi-Fibre Agreement (MFA), introduced (1974)]
- [Lomé Convention between EU & ACP (1975)]

(7) Tokyo round (1973-79) – focus on non-tariff barriers, introduce 'Enabling Clause' to make GSP permanent, incorporate MFA
(8) Uruguay round (1986-94) - create WTO and a series of side-agreements (TRIPS, GATS, TRIMS, ATC, AoA, SPS).
-['Banana Wars' (1993)]
(9) Doha round (2001-?) - still waiting...

WTO TREATY ARTICLES

Since you'll often see commentators talk about specific "articles" of the GATT/WTO treaty by number. So a blow-by-blow account of the more important clauses may be worthwhile mentioning. The articles refer to the original GATT treaty ("GATT 1947"), which is still in force. The subsequent "rounds" didn't create "new" treaties, but only added amendment and appendices to it.

The 1947 GATT treaty (+ later Appendices) can be found here:

http://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm

Article 1 – Non-discrimination principle – This is the heart of it. A country is not allowed to impose a tariff that targets one country but not another, i.e. if country A imposes a tariff on cloth imports, it applies whether that cloth comes from country B or country C. (or in the trade-lingo, all GATT members enjoy "most favored nation" (MFN) trade status with each other).

Article 2 – Bound tariffs – the tariff schedule commitments agreed to be countries at the conclusion of GATT/WTO negotiation rounds are legally binding and cannot be adjusted upwards (you can lower them further on your own). Makes special note to prohibit adding tricky surcharges or extra tolls under different names.

Article 3 – National treatment countries must treat foreign goods as if domestic in internal policy. That means, no differential sales taxes just because it is foreign, no domestic input preference rules ("Buy American" rules disallowed), no differential regulatory rules on product quality, standards, etc. But there are exceptions for government procurement for itself (§3.8, e.g. governments can make a "Buy American" rules for their own military or public infrastructure projects). Exceptions also exist for 'culturally-sensitive' stuff like movies (§3.10, e.g. France can give special rules for French movies vs. Hollywood movies.).

Article 6 – **Anti-dumping & countervailing duties** – a nation can impose retaliatory tariffs on another if the other is caught 'dumping' (export subsidies).

Article 7 – **Market valuation** - valuation at customs must be based on market prices, not made-up numbers. Kinda obvious. e.g. if there is a 10% tariff on lightbulbs, your customs agents can't say a single imported lightbulb is "worth" $500 and proceed charge a $50 duty on it.

Article 11 – **Quotas to be eliminated** or converted to tariffs (*tarrification*). Exceptions for agricultural or fishery products in conjunction with some government agricultural-support program (big concession to rich countries!) Articles 13 & 14 note that for these remaining quotas, countries should try to adhere to the principle of non-discrimination

(when deciding who gets to fulfill the quota, countries should try their best to be "fair", i.e. as close to market result as possible, and not allocate it all to their friends). Some exceptions listed.

Article 12 - Balance of payments safeguards - countries can temporarily impose new tariffs/quotas overall if it is in the throes of a balance of payments crisis (i.e. capital flight, exchange rate crisis) and need to stop foreign currency from leaving by curtailing imports.

Articles 15 – IMF clause It is the IMF that shall determine whether you are in a balance of payments crisis or not. You can't invoke Article 12 all on your own. And if you are having 'issues', you have to agree to let the IMF help you out.

Article 16 –Subsidies No export subsidies (subsidies tied to exports). And no subsidies for using domestic over foreign goods. Regular industrial subsidies (handouts not directly tied to exports) can be forbidden if they have a distortionary effect on international trade. (see SCM).

Article 17 - Government-owned enterprises cannot be prejudiced over foreign/domestic inputs ('national treatment' article 3 applies to them), exceptions listed (e.g. marketing boards).

Article 18 – '**Infant Industry' exception -** developing countries (and only them – the UN officially defines who they are) can deviate from rules for development purposes, esp. mentioned is the use of tariffs, quotas, subsidies and discrimination to try to foster an 'infant industry' essential for development. Also can use tariffs/quotas to bolster balance of payments (i.e. even if not "in crisis").

Article 19 – **Safeguards clause** ('Sudden Surge' exception) countries can temporarily raise tariffs if an unforeseen and sudden surge in imports causes serious damage to domestic producers (allow domestic firms a chance to adjust to the new competition)

Article 20 – Specific exceptions clause, allows you to impose restrictions for e.g. protecting historical & cultural artifacts, to ensure compliance with domestic law, safety standards, health, environment, etc. But they can't be tricky subterfuges (see TBT, SPS).

Article 24 – **Preferential trade agreements (PTAs) -** a nation can be discriminatory if it is in the context of a free trade agreement or customs union (i.e. if country A & B make agreement, then A can discriminated between B and C). Notice that this implies that the reduction must be (1) 'across-the-board' and not on particular products, (2) have some target date for 100% removal of all tariffs, and (3) must be reciprocal.

Article 25 – **Security**. Security-related goods (weapons, nuclear material) doesn't come under GATT rules.

Article 36 – **Enabling Clause** (non-reciprocal special treatment) – implementation of

(1) **GSP** (Generalized System of Preferences), first introduced 1971 as a 10-year-waiver to GATT rules; made permanent in 1979 Tokyo round as the Enabling Clause (Art. 36). Allows rich countries to established a GSP system so that developing countries have access to rich country markets at lower-than-MFN tariff rates; by the rule it is supposed to be "generalized, non-discriminatory and non-reciprocal" (i.e. not on particular products, not to friends, and no strings attached – genuine development help)

(2) **SDT** (Special and Differential Treatment) – the general principle of 'special and differential treatment' means that developing countries are not strictly and completely bound by all the rules of GATT but are given a variety of exceptions and relaxations of requirements. For instance, developing countries are allowed to reduce barriers among *themselves* in a looser manner than outlined in Article 24, e.g. the reductions can be narrowly on particular goods and without necessarily aiming for 0% tariffs as in a regular free trade agreement, but they still must be mutual and reciprocal.

URUGUAY SIDE-AGREEMENTS (1994)

An important series of side-agreements were introduced during the Uruguay round of GATT/WTO negotiations. These are:

Agreement on Textile and Clothing (ATC). Industrialized countries resisted bringing textiles into GATT, but since textiles are such an important gateway industry for developing countries, they grudgingly agreed to bring it in with the **Multi Fibre Arrangement** (MFA) in 1974. However, textiles would be temporarily exempted from GATT rules for a grace period of a few years so allow industrialized countries to "adjust". But MFA was renewed time and time again (1977, 1981, 1986 and 1994), and continued to protect industrialized country markets. Finally, in the 1994 Agreement on Textile and Clothing (ATC) set a firm deadline to phase it out. After a lot of wrangling and postponement, the deadline finally arrived on January 2005 and textiles were brought under GATT rules. But there remain a lot of footnotes and exceptions (esp. rel. to China).

Trade-Related Aspects of Intellectual Property Rights. **(TRIPs)** Set down minimum standards for copyright and patent protection. Still being phased in. Poor developing countries granted extension until 2016.

General Agreement on Trade in Services (GATS) Four types of services recognized:
(a) producers in country sell service output to foreign consumer (e.g. tourism);
(b) services delivered across borders (e.g. consulting),
(c) services as a result of investment presence (e.g. foreign firm developing accounting services),
(d) services by temporary presence (visiting engineer)

GATS follow regular WTO rules of non-discrimination & national treatment, but they don't incorporate the clauses on dumping, subsidies, safeguard clauses, etc. Also, this

applies only to those specific service sectors defined by the members, not to any and all services per se.

Trade-Related Investment Measures (TRIMs). This agreement prohibits application of measures imposed on foreign investors as a condition for investment (e.g. rules using domestic origin goods, or import-export matching.)

Technical Barriers to Trade (TBT) – agreement ensures that technical negotiations and standards, as well as testing and certification procedures, do not create unnecessary obstacles to trade.

Agreement on Agriculture (AoA) – capped agricultural tariffs and, most radically, set limits on domestic support ('industrial subsidies') to agriculture. Industrialized countries were given until 2000 to implement, developing countries until 2005, LDCs exempt. Domestic industrial subsidies were to be reviewed and classified into three 'boxes':
- *Amber Box* (most of them; must agree to reduce those),
- *Blue Box* (allows subsidy if tied to production-level decrease; not matter to US since 1996 'Freedom to Farm' act, but big deal in EU),
- *Green Box* (handouts not coupled to production levels, but other things e.g. environment, income insurance, regional development, emergency).
Since AoA, countries have used multiple tricks to get 'amber box' subsidies re-classified as green or blue box subsidies and thus get away with them.

Sanitary and Phytosanitary Measures (SPS) - As nations frequently cite dubious "health & safety regulations' to justify import bans or restrictions, the SPS outlines more precisely what are reasonable and acceptable health & safety regulations. Must not contain hidden obstacles to trade (e.g. bans on genetically-modified foods were found to violate SPS).

Subsidies and Countervailing Measures (SCM) – Classifies subsidies to say what kind of subsidies are not acceptable and can be retaliated against,
- *Export subsidies* (handout tied directly to exports) are explicitly "prohibited". Any country 'caught' giving out export subsidies can be immediately retaliated upon with countervailing or even punitive tariffs by other nations.
- *Industrial subsidies* (handouts not directly tied to exports) can be legitimate for domestic reasons, but if they are obviously and primarily directed to undermining international markets ('amber box'), then they are "actionable" and must be removed. WTO looks for warning signs, e.g. if the subsidy is 'excessive' (subsidies worth more than 5% of value is automatically deemed 'excessive' until proven otherwise), or if the subsidy is so precise and industry-specific it has no other evident purpose but to primarily affect international trade in that commodity, and/or if they are in an industry which has a significant volume of international exports or imports (e.g. sugar).
To get away with industrial subsidies (green & blue box), the subsidies must either be so small (less than 1% of value of good is automatically deemed 'fine'), and so non-specific (aid to Florida farmers generally, not specifically to orange farmers) and/or the whole volume trade is negligible, that it is unlikely to be causing injury to international markets.

TRADE AS AID

Generalized System of Preferences (GSPs)

As mentioned, one of the central organizing principles of GATT/WTO is *non-discrimination*. But it allows for two exceptions: FTAs and GSPs. These exceptions have been so exploited that some economists say the principle of non-discrimination has been completely undermined, that the exceptions are now the rule. We'll talk about FTAs later. Right now, let us look at GSPs.

GSPs ('Generalized System of Preference') are basically preferential trade terms (e.g. lower-than-normal or zero tariffs) offered by industrialized countries to developing countries. Preferential treatment was defended as a way rich countries could help out poor countries as a whole. It is seen as a form of 'aid-through-trade', by giving developing countries access to the markets of rich countries on better-than-normal terms.

Technically, preferential terms are a violation of the non-discrimination clause, but since Third World development was seen as generally beneficial for mankind, in 1971, GATT/WTO started handing out waivers to rich countries that wanted to give poor countries preferential access. In the 1979 Tokyo round, GATT introduced the '**Enabling Clause**' (Art. 36) that set out the rules by which countries can automatically get a waiver .

For a preferential treatment to be called a "GSP" and receive an automatic waiver it must meet three conditions: (1) non-discriminatory; (2) non-specific; (3) non-reciprocal. Let's go through each in turn.

(1) non-discriminatory (available to *all* poor countries, not merely to reward friends),

WTO specifies *who* is considered "poor" or "least-developed" by the official definitions provided by the UN. So countries can't get away with calling their friends "poor" and their non-friends "non-poor". But, in practice, countries do invoke exceptions, e.g. exclude countries upon which they have sanctions or actual inimical relations (e.g. back in the 1980s, the US excluded poor "communist" countries from access their GSPs.) Since this is such a political minefield, the WTO has tended to avoid making a big ruckus about it. So long as the GSPs look generally accessible too poor countries and not too narrow, they'll quietly overlook some exclusions. (e.g. the Lome Convention, which the WTO was prepared to quietly ignore, became a hot issue only because a big player – the US – decided to make a lot of noise about it ('Banana Wars').)

(2) non-specific (must be across the board, not favoring particular industries).

Non-specificity means you can't give preferential access to specific industries, e.g. to computers but not stereos. But you *are* allowed to favor a general class of industry, as long as it is widely defined (e.g. give preferential treatment to manufacturing as a whole) and serves some kind of development objective (e.g. favoring manufacturing helps

developing countries overcome dependency problems on raw materials exports). But favoring computers over stereos is too specific, purely distortionary for no good development reason.

(3) non-reciprocal (poor countries are not required to give concessions)

To qualify as GSPs, rich countries cannot get or ask for anything from poor countries in return for preferential tariff treatment. This is important. GSPs are supposed to be genuine, altruistic "aid". If conditions or reciprocity is allowed, then rich countries would tailor and deploy their preferential tariffs strategically, getting concessions that are profitable for the rich country's industries or interests in return for the preferential tariff. That really isn't 'aid', but negotiated manipulation, a carrot-and-stick to get the poor country to do what the rich country wants. That would undermine the whole purpose of GATT/WTO – which was to clear the way to trade for all, not return to the "bad old days" where countries selectively and aggressively used trade barriers as a kind of "war by other means".

GSPs are not required. It is us up to the rich country to grant GSPs. The only thing GATT/WTO demands is that the GSPs must fulfill those conditions.

Banana Wars

Economists have accused Articles 24 (free trade agreements) and Article 36 (generalized systems of preferences) of completely undermining the non-discrimination principle that is at the heart of WTO/GATT. These two exceptions have been so exploited that many believe the system is now so riddled full of holes to the point of meaninglessness, e.g. according to Bhagwati, the EU only applies the regular WTO-prescribed 'most-favored-nation' status to only 5 countries, all other nations receive some sort of preferential treatment from the EU! Why not, he says, just enter a new negotiations round and implement the reductions across the board?

Two highly controversial programs that tried to exploit Article 36 to the hilt was the European Union's '**Lomé Convention**' and the United States' **'Caribbean Basin Initiative**' (CBI). Important difference in coverage from other GSPs is that these include "sensitive" agricultural products.

Lomé Convention: established 1975 between EU and ex-colonies in Africa, Caribbean and Pacific region ('ACP'), giving their raw materials free or preferential quota-based access, in return for official development assistance through the European Development Fund (EDF). There were four rounds of conventions: Lomé I (1975), II (1979), III (1984), IV (1990).

But the 1993 "**Banana War**" killed it. The US took up the cause of banana-exporting Latin American countries like El Salvador, Honduras and Ecuador which were not part of the ACP and accused the EU's Lomé convention of violating WTO treaty.

WTO ruled the Lomé convention illegal as it was (a) not covered by Enabling Clause (Art. 36) as it discriminates between developing countries (i.e. Honduras wasn't included) and (b) not covered by Article 24 (FTAs) since it is non-reciprocal (i.e. ACP countries weren't 'giving up' anything to get preferential treatment from EU).

So, in 2000, EU & ACP renegotiated a WTO-compatible treaty, known as the **Cotonou Agreement**. It fixes the legal problem by dividing ACP countries into two groups:

(A) for middle-income ACP will be treated in 'reciprocal' manner via case-by-case **Economic Partnership Agreements** (**EPA**), where both EU and the ACP countries remove all trade barriers. So EPAs fall under Article 24 as concessions are implemented by both sides. This has been highly contentious, as the EU as a bloc has decided to negotiate EPAs with individual countries, on a country-by-country basis, rather than with the ACP as a bloc. As a result, developing countries complain that ACP countries can't rely on each other during negotiations and thus the terms of the EPAs have been more favorable to the EU than to themselves.

(B) For the least-developed countries of the ACP, it will create a new GSP, that extends non-discriminatory treatment to include all very poor countries recognized by the UN as a 'least-developed country' (total of 49). So this part falls under Article 36 (GSPs). The agreement here is known as the "**Everything But Arms**" (**EBA**) agreement. [duty-and-quota-free access for all goods 'except for arms'. And except for bananas. And except for sugar. And except for rice, etc.]

Cotonou agreement still in transition. WTO granted waiver in 2001, but it ran out in late 2008.

A similar program, the **Caribbean Basin Initiative** (CBI), was introduced by USA for Caribbean countries in 1984, renewed 1990 and made permanent 1994. Initially, it was only for the Caribbean, it was later extended to sub-Saharan Africa. It worked on a similar basis as the Lomé convention, and was thus illegal for the same reasons (discriminatory against Asia). A temporary waiver was granted to give the US chance to make it WTO-compatible.

FREE TRADE AGREEMENTS

Outside of the GATT/WTO system there are also 'free trade agreements' between groups of countries. In principle, it is a violation of the GATT's first principle of non-discrimination - in that countries within the "area" are given preferential treatment to countries outside the "area". But Article 24 of GATT allows for the exception.

There are four 'degrees' of these type of agreements:

(1) **Preferential Trade Areas**: when countries agree to reduce (but not yet eliminate) all tariffs and trade barriers between themselves. These are *illegal* under WTO rules, unless they are merely a first step towards eventually becoming a full free trade agreement. As a result, all of them make that promise, e.g. SAPTA
(2) **Free Trade Areas**: when countries agree to eliminate all tariffs and trade barriers between themselves e.g. NAFTA, DR-CAFTA, EFTA
(3) **Customs Unions**: when countries agree to eliminate all tariffs and barriers between themselves (like FTA) *and* a coordinate a common tariff against all countries outside of the group. e.g. SACU, Mercosur, Andean Pact
(4) **Common Market**: when countries agree to eliminate all tariffs and barriers between themselves (like FTA), and coordinate a common external tariff (like Customs Unions) *and* coordinate domestic industrial policies (e.g. same industrial subsidies, etc.) e.g. European Union (EU), CARICOM

More advanced levels include complete **monetary union** (share single currency) and full **economic union** (with freedom of movement and more), although that goes beyond trade proper.

The idea of a free trade area or customs union of a select group of sovereign countries is an old one. It was promoted famously in the 19th C. among small German principalities (before their unification as a nation). Several European empires (but not all) had a *de facto* customs union arrangement with their colonies. In the early 1900s, there was a strong political movement in Britain arguing against free trade and for an "**imperial preference**" regime, by which all the British dominions would be in a single customs union with the UK, and erect common protective tariffs against states outside the British empire (the movement failed). The oldest still-existing customs union is the South African Customs Union (SACU) established in 1910.

Economists have generally condemned free trade agreements and customs unions because of their **trade-diversionary** effects, believing it works *against* the principle of comparative advantage. They argue the principles of free trade are better served by the GATT/WTO process. That is, that it is better that *all* countries join in lowering tariffs, even if only a little bit, than for a select bloc of countries to eliminate tariffs between themselves.

Nonetheless, countries have insisted. In 1957, six European countries formed the first modern trade bloc, the European Economic Community (EEC), now the EU. The GATT treaty was amended (Article 24) in order to accommodate them. For a long time, the EU was the most notable exception, most other attempts to form trade blocs never getting much beyond the planning stage.

This changed in the 1990s. The bell-weather was the signing of the North American Free Trade Agreement (NAFTA) between the US, Canada and Mexico in 1994. With this, the US effectively signaled its impatience with the GATT/WTO process and its intention to side-step the long and complicated global negotiating rounds by making a series of quick agreements with select countries instead. The US announced its ultimate intention to proceed in this fashion until it established a Free Trade Area of the Americas (FTAA), from pole to pole, as a counterpoint to the rapidly-expanding EU. Developing countries, facing these two rich trading blocs, decided to strengthen their own negotiating position by forming trade blocs among themselves (Mercosur, EAC, etc.).

Since 1990s, free trade agreements of some sort, by blocs or bilaterally, have proliferated throughout the world. As a result, the latest round of GATT/WTO (the 'Doha round', begun in 2001) has been neglected or withered to less than a crawl. Many economists have bewailed the proliferation of free trade agreements and urged countries to return to the GATT/WTO process. However, promoters of FTAs say that the free trade agreements are aiming for the same objective (global free trade) as GATT/WTO, but doing so region-by-region, bloc-by-bloc, even if temporarily diversionary, may ultimately be faster than trying to pull a single large global agreement.

Current Free Trade Agreements

EUROPE

European Economic Community (**EEC**), now **European Union** (**EU**) - Common market. Original treaty 1957 among six countries (Benelux, France, Germany, Italy), expanded to include others since 1970s, now composed of 27 countries. Deepened with the Single European Act (Maastricht) of 1992. In 1999, 16 countries also joined into a monetary union (single currency).

European Union Customs Union (**EUCU**) - founded 1958, allows other countries to participate in EEC's customs union, without rest of trappings of common market. Turkey (and some microstates) are the only on non-EU members of EUCU.

European Free Trade Area (**EFTA**) (1960) – FTA among those outside the EU (originally UK, Scandinavia, etc.). Now only includes Iceland, Norway, Switzerland, Lichtenstein,

European Economic Area (**EEA**) = EU + EFTA, proposed 1994, allows EFTA to effectively join the EU's common market, but without adopting every clause.

AMERICAS

Latin American Free Trade Area (**LAFTA**), founded 1960 as free trade agreement (never fully implemented), now LA Integration Association (ALADI) focused more on regulatory coordination. Includes all of South America (minus Guyanas) + Mexico + Cuba.

Caribbean Community (**CARICOM**), originally CARIFA (free trade area), founded 1965, became CARICOM (common market) after 1973. Includes most of the East Caribbean island-nations (Barbados, Trinidad & Tobago, etc.) plus Jamaica, Belize, Guyana, Surinam and Haiti (DR notably excluded). Some East Caribbean nations are also in monetary union.

North American Free Trade Agreement (**NAFTA**), founded 1994, free trade agreement between USA, Canada and Mexico.

Central American Free Trade Agreement (**DR-CAFTA**) 2005 – US + Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua) + Dominican Republic (DR). Note: Central America does not include Panama (US has a separate bilateral treaty with them) or Belize (part of Caricom).

Andean Community (**CAN**), originally founded 1969 as 'Andean Pact'. Since 1993/94, it has become a customs union. Includes Colombia, Peru, Ecuador and Bolivia. Traditional members Chile pulled out in 1976 and Venezuela pulled out in 2006 and joined Mercosur (Bolivia also applied to Mercosur, but has not pulled out of CAN). USA was negotiating a free trade agreement with Andean Pact as a whole until 2005 when Venezuela & co. started playing with the 'Bolivarian alternative'. As a result, the US decided to negotiate separate bilateral agreements with remaining Andean members.

Southern Common Market (Mercosur), founded 1991, currently a customs union, aiming eventually for common market. Members are Brazil, Argentina, Paraguay, Uruguay and (since 2010) Venezuela. Note: not Chile.

Free Trade Area of the Americas (**FTAA**), US-promoted idea (proposed 1994) to link NAFTA, CARICOM, DR-CAFTA, Andean Pact, Mercosur, Chile, etc. ("Everyone but Cuba") together in one grand pole-to-pole free market area. Bogged since 2005.

South American Community of Nations (**CSN/UNASUR)**, agreed to 2004, plan for integrating customs union of Mercosur + Andean Pact + Chile + Guyana, Surinam. Sort of a regional counter-point to FTAA. Treaty signed

ASIA

Association of Southeast Asian Nations (**ASEAN**), est. 1969, originally a regional political organization, since 1992 with the **AFTA** (ASEAN FTA), established a preferential trade area, en route to full free trade and possibly a common market.

Members include Philippines, Thailand, Indonesia, Malaysia, Singapore + (later) Brunei, Vietnam, Laos, Cambodia, and Burma.

Asian Pacific Economic Cooperation (**APEC**) (1989) basically, regional talk-shop – Pacific rim countries, incl. US, Canada and Russia. Has been recently promoting the idea of **FTAAP** (Free Trade Area of Asia-Pacific).

South Asian Association for Regional Cooperation (**SAARC**), regional organization established 1985 on the Indian subcontinent. It has been a preferential trade area (SAPTA) since 1996. By the South Asian Free Trade Agreement (**SAFTA**) signed in 2004, it committed itself to creating a full free trade area by 2016. Members are India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan and Maldives, and more recently, Afghanistan.

MIDDLE EAST:
Gulf Cooperation Council (**GCC**), established 1981, as a regional talk shop for the Arab Gulf States (Saudi Arabia, Kuwait, Oman, UAE, Qatar, Bahrain). Iran, Iraq not members, Yemen negotiating

Agadir Agreement – 2004 FTA btw Morocco, Tunisia, Egypt, Jordan
Greater Arab Free Trade Area (**GAFTA**), agreed by Arab League, 1997, FTA plan start 2005.

Middle East Free Trade Area **(US-MEFTA),** planned 2003, series of agreements btw US and Middle East

Euro-Mediterranean Free Trade Area. (**EU-MEFTA**), proposed 1995 "Barcelona process", FTA btw EU and Mediterranean basin.

AFRICA:

Southern African Customs Union (**SACU**), founded 1910 (oldest customs union in world). Encompasses South Africa, Nambia, Botswana, Lesotho and Swaziland. SACU states now members of SADC as well.

Economic Community of Central African States (**ECCAS**). In 1966, Francophone states (Cameroon, Congo, Gabon, CAR, Chad) founded a customs union (UDEAC, renamed CEMAC) and common currency (CFA franc). In 1983, they announced expansion to include the Great Lakes states (CEPGL, f.1976- that is, DR Congo, Rwanda and Burundi) + Angola, to form ECCAS and aim for one grand central African economic union. Integration hampered by Congolese conflict, implementation still far behind.

East African Community (**EAC**) founded 1967, refounded as FTA in 1999. Customs union since 2004, aiming for common market. Encompasses Kenya, Tanzania, Uganda, Burundi, Rwanda.

Economic Community of West African States (**ECOWAS**) originally founded 1975 as a regional organization, but sub-states have different degrees of cooperation on economic matters. Currently, the subset of Francophone states (UEMOA) already have a long-standing customs union as well as monetary union (the CFA Franc). The Anglophone states (WAMZ) are planning their own currency and customs union, to be eventually merged with the UEMOA to make ECOWAS one great customs & monetary union.

Southern African Development Community (**SADC**), originally SADCC (1981), a regional political grouping of 'frontline' states in southern Africa, since 1992 more economic oriented. Zambia, Tanzania, Zimbabwe, Malawi, Angola, Mozambique, Botswana, Lesotho, Swaziland, Namibia, South Africa, DR Congo. A subset of countries (SACU) have long-standing customs union, remainder are playing catch-up.

Common Market for East and Southern Africa (**COMESA**), founded 1981 as a preferential trade area, covering 19 eastern African countries from Egypt to Zimbabwe. (most members are also already members of other regional blocs). Renamed 1994 and set itself on track for a common market (not yet implemented).

Arab Maghreb Union (**UMA**), founded 1989, as a political organization with preferential trade area (aiming for FTA) between Morocco, Mauritania, Algeria, Tunisia, Libya. Not participating in AEC.

African Economic Community (AEC) - plan announced 1994, it is a projected integration of all the various African trade blocs (ECOWAS, ECCAS, EAC, SADC, COMESA) into one grand African common market and economic union. AMU not participating. CEN-SAD (later creation) is not formally participating, although its members are (through other blocs).

Community of Sahel-Sahara States (**CEN-SAD**), founded 1998, by Burkina Faso, Chad, Libya, Mali, Niger and Sudan. In 2000s, membership expanded to include all of West Africa, Morocco, Egypt, Kenya and Somalia (28 in all). A preferential trade area aiming towards FTA, the CEN-SAD is currently stalled because many of the new members are already members of other customs unions, which need to be coordinated first.

Free Trade Agreements involving the USA

Existing agreements

Israel (1985) (extended to Palestinian Authority)
NAFTA (1994)
Jordan (2000)
Singapore (2003)
Chile (2003)
Australia (2004)
Morocco (2004)
DR-CAFTA (2005)
Bahrain (2005)
Oman (2006)
Peru (2007)

Imminent (already signed, awaiting ratification):
Panama
Colombia
South Korea

Broke down: SACU (South Africa, Namibia, Botswana, Lesotho, Swaziland), Ecuador , Qatar, Andean Pact

Under talks: Malaysia, Thailand, Indonesia, Taiwan, New Zealand, Kuwait, UAE, Ghana, Kenya, Mozambique, Mauritius,

Big Projects:
FTAA (NAFTA, DR-CAFTA done; Andean Pact broke down, negotiating individually with members: Peru, Colombia, Panama already in. Mercosur reluctant.)

US-MEFTA (Israel-PA, Jordan, Morocco, Oman already have bilateral treaties. UAE, Kuwait announced. Remainder still negotiating).