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"URATA"

日本の自由貿易協定FTA戦略

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「新たな開国」が競争力を生む

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ることである。その場合、一つの重要なキーワードは「競争力」であり、それを決定するのは自らの「開放度」の向上である。そして、開放促進を可能にする一つの手段がＦＴＡなのである。

日本の「開放度」の現状について、中国科学院国情研究センター主任で清華大学の胡鞍鋼教授は、「日本は明治維新以来、対外開放してきたが、欧米に比べて開放度が低い。外資の対日投資が日本の対外投資に比べて大幅に少ないのは、人件費や地価などの高コスト構造、商慣行・取引ルートの不透明性などが背景にある」と指摘する。実際、国連貿易開発会議（ＵＮＣＴＡＤ）によると、二〇〇〇年の対日直接投資は八十二億ドルで米国の三十四分の一、ドイツの二十分の一で先進七カ国中最低である。

胡教授は、「中国はＷＴＯ加盟後、範囲や分野を限定してきた従来の開放から、広範な分野での全方位的開放が進む。通信、金融など分野によっては日本より開放のスピードは速まろう」と予測する。日本の経済再生は、保護政策ではなく競争政策に基づくものでなければならず、経済活動の様々な障壁を撤廃するＦＴＡへの積極的参加は、日本経済の再生に有効な手段であると言えよう。

第1章　グローバリゼーションと増加するＦＴＡ

〈この章のポイント〉

① グローバリゼーションが進む中で、特定国間の貿易を優遇する自由貿易協定（ＦＴＡ）が増加している。ＧＡＴＴ／ＷＴＯでの多角的貿易自由化を中心に貿易政策を進めてきた日本もシンガポールとのＦＴＡ締結で、ＦＴＡを貿易政策の一つの選択肢と見なすようになった。

② 従来のＦＴＡは加盟国間での貿易自由化のみであったが、近年のＦＴＡは投資自由化などＷＴＯでルール化されていない分野も含めて広範な取り決めとなっており、ＷＴＯを補完する役割を果たしている。

③ ＦＴＡは加盟国には好ましい効果をもたらすが、非加盟国には悪影響を及ぼす可能性がある。今後、ＦＴＡの拡大が予想されるが、世界経済の成長に貢献するには、ＷＴＯでのＦＴＡに関するルールの整備などを通してＦＴＡが閉鎖的なブロックにならないよう監視する必要がある。

1　グローバリゼーションの進展とFTAの急増

第二次大戦後、貿易や直接投資を中心として国際経済活動が活発に行われたことから、経済のグローバリゼーションは急速に進展した。例えば、世界の貿易・GDP比率で見ると第二次大戦後の混乱が収まって世界経済の成長が軌道に乗ったと思われる一九六〇年には二五%であったが、その後、世界不況などの時期を除いて継続的に上昇を続け、九九年には五二%へと飛躍的に上昇した[1]。

また、世界の直接投資ストック・GDP比率も八〇年には一一%であったのが、その後、急速に上昇し、九九年には三四%を記録している[2]。統計が容易にとれる貿易や投資を見ることで、グローバリゼーションが急速に進展したことを確認したが、正確な統計の入手が困難である資金、情報、人などについても国際間移動が活発化しており、経済のグローバリゼーションの進展に貢献していると思われる。

第二次大戦後におけるグローバリゼーションの進展には、四七年に発効した関税と貿易に関する一般協定（GATT）の下での八回の多角的貿易交渉や各国での片務的貿易および投資の自由化といった対外経済政策の自由化、民営化をはじめとした規制緩和、通信・輸送分野における技術進歩などによる対外経済活動に係る「取引費用」の低下が大きく貢献した。以上のように様々な要因が経済のグローバリゼーションを推進したが、その中でも特にGATTにおける貿易自由化の貢献が大きいと考えられることから、GATTでの貿易自由化の進展を概観してみよう。

GATTにおける第一回から第五回までの交渉は関税引き下げの交渉であった。六二年に始まる第六回のケネディ・ラウンドでは関税引き下げ以外にも、アンチ・ダンピングだけではあるが非関税障壁の問題

も取り上げられた。七三年から始まる第七回の東京ラウンドでは、関税引き下げとともに政府調達やダンピング防止などの非関税障壁についての協定が策定された。七九年の東京ラウンド終了後、従来のGATT体制では対処することが難しい様々な問題および状況が発生するようになった。

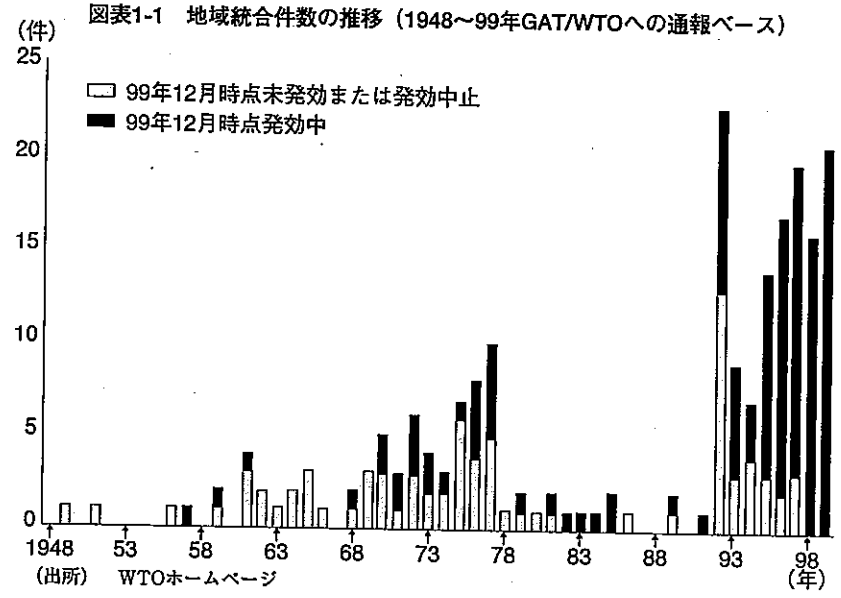
第二次オイルショックによる世界経済の停滞により輸出自主規制や相殺関税などの非関税障壁を中心とした保護主義的な措置が多く見られるようになったことや、サービス貿易や直接投資など従来のGATTの対象であったモノの貿易以外の国際経済活動が急速に拡大したことなどである。さらに、GATTルールから除外されていた農業貿易や繊維貿易の重要性が増したことや急速な経済発展によって世界経済の中における発展途上国の位置が上昇したにもかかわらず、発展途上国はGATTでは例外的措置を適用されていたことなども健全な世界貿易体制の維持・運営において問題となってきた。

新たに現出した問題に対処するために、八六年にウルグアイ・ラウンドが開始され、九四年末に交渉が終了した。ウルグアイ・ラウンドは世界貿易機関（WTO）の創設、新たな紛争処理手続きの導入、農業貿易、繊維貿易、サービス貿易、直接投資に関する規律の制定あるいは強化、補助金、政府調達、セーフガードなど貿易ルールに関する取り決めの強化など多くの成果をもたらした。GATTの下で行われた八回の貿易交渉によって先進諸国の平均関税率はGATT以前の十分の一以下である約四%にまで低下した。

グローバリゼーションが急速に進展する一方で、地域化（リージョナリゼーション）の動きもいくつかの地域で活発化した。最も注目すべき展開は五〇年代から始まる西ヨーロッパにおけるリージョナリゼーションである。

第二次大戦後の荒廃から復興するために西ヨーロッパにおける石炭と鉄鋼の共同管理が必要であるとの認識から五二年にフランス、旧西ドイツ、イタリア、ベルギー、オランダ、ルクセンブルグの六カ国から

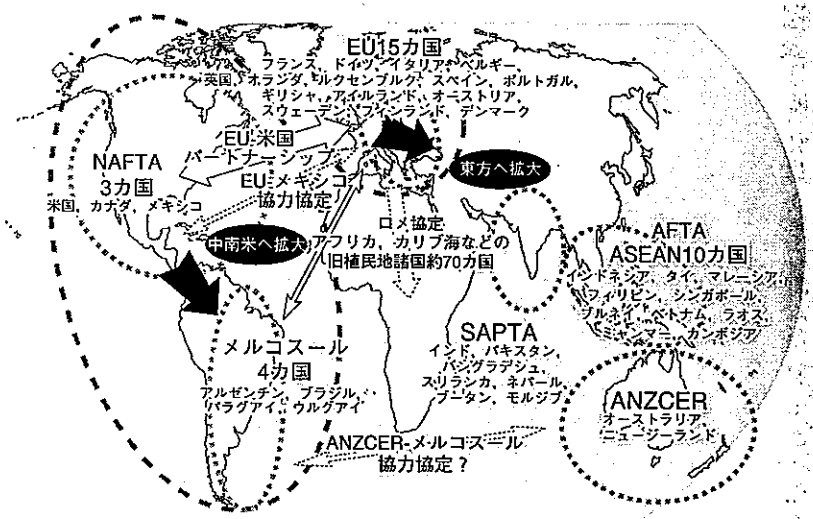
図表1-1　地域統合件数の推移（1948～99年GAT/WTOへの通報ベース）



なる欧州石炭鉄鋼共同体（ＥＣＳＣ）が設立された。五八年には、域内貿易自由化と対外共通関税を適用する関税同盟である欧州経済共同体（ＥＥＣ）と将来のエネルギーである原子力を管理する欧州原子力共同体（ＥＵＲＡＴＯＭ）も設立された。六七年にはそれらの三組織が統合され、欧州共同体（ＥＣ）が発足した。後述するように、西ヨーロッパでの地域化はその後も着実に進展している。六〇年代以降、中南米やアフリカなどを中心としてリージョナリゼーションの動きが見られたが、名目的なものが多く、実質的なリージョナリゼーションを実現したものは少なかった。

九〇年代に入ると状況は大きく変化し、自由貿易協定（ＦＴＡ）を中心とした地域貿易協定を通して、世界の各地域で地域統合によるリージョナリゼーションへの動きが急速に活発化した。ＧＡＴＴ／ＷＴＯに二〇〇一年九月末までに通報された地域貿易協定の数は二百三十九であるが、そのうち百以上が九五年のＷＴＯ設立後に通報されたものである（図表1-1）[3]。ちなみに地域貿易協定の中には休止中のものも多く、二〇〇〇年末時点で活

図表1-2　世界の主要地域統合の動き



（注）NAFTA＝北米自由貿易協定，FTAA＝米州自由貿易圏，メルコスール＝南米南部共同市場，AFTA＝ASEAN自由貿易地域，ANZCER＝オーストラリア・ニュージーランド経済協力緊密化協定，SAPTA＝南アジア特恵貿易協定
（出所）　経済産業省

動中のものは百四十七である（図表1-2）。

九〇年代に入ってからＦＴＡを中心としたリージョナリゼーションが活発化している状況を踏まえて、本章では、その特徴、背景、経済への影響、世界経済における意義などについて考察する。分析に先立って、次節ではＦＴＡなどの地域統合の諸形態についての整理を行う。

2　地域統合の諸形態

自由貿易協定（ＦＴＡ）は協定加盟国間の貿易に対する関税や数量制限などの障壁を撤廃する取り決めであり、ＧＡＴＴ／ＷＴＯでは、すべての加盟国を無差別に扱うという基本理念である最恵国待遇の例外として一定の条件の下でＧＡＴＴ二十四条、サービス協定（ＧＡＴＳ）五条で認められている[4]。ちなみに、ＧＡＴＴ／ＷＴＯではＦＴＡや関税同盟などの地域差別的な貿易協定を総称して地域貿易協定（ＲＴＡ）と呼んでいる。ここ

では、地域貿易協定などを含む地域統合の形態を整理しておこう。

地域統合の形態別分類に関しては、統合の程度に着目したバラッサによる発展段階的分類が知られている。ここでもバラッサの分類を用いて議論を進めることにする。統合の緩い順に、①域内の関税・数量制限を撤廃する「自由貿易地域（ＦＴＡ）」、②ＦＴＡ＋対域外共通関税を設ける「関税同盟」、③関税同盟＋域内での生産要素移動に対する制限を撤廃する「共同市場」、④共同市場＋共通マクロ経済政策を実施する「経済同盟」、⑤経済同盟＋超国家機関が設立される「完全な地域統合」である。

ＦＴＡの例としては、九二年に設立されたＡＳＥＡＮ自由貿易地域（ＡＦＴＡ）や九四年に発効した北米自由貿易協定（ＮＡＦＴＡ）などがある[5]。日本にとって初めての地域貿易協定となる日本・シンガポールの取り決めもＦＴＡである[6]。

関税同盟の例としては、ＥＵ（欧州連合）以前の欧州経済共同体（ＥＥＣ）や南米四カ国（アルゼンチン、ブラジル、パラグアイ、ウルグアイ）を構成メンバーとしたＭＥＲＣＯＳＵＲなどがある。ＥＥＣはその後、共同市場へと発展し、九九年の共通通貨ユーロの導入で経済同盟に近づいた。いまだ第五段階である超国家機関の設立に至っている地域統合はない。

3　世界貿易における地域統合の重要性

グローバリゼーションが急速に進展する一方で、地域化への制度面での動きが近年活発化していることを述べた。ここでは、世界経済における地域化の実態を貿易に着目してみることにしよう。

図表1-3には主要な地域統合および東アジア地域に関する貿易の実態が示されている。同図表からはＥＵおよびＮＡＦＴＡの世界二大地域統合に属する国々による貿易は世界貿易の約六割を占めていることがわかる[7]。また、世界の主要な貿易国で統計のとられた二〇〇〇年時点において地域統合に参加していなかったのは日本、中国、韓国、台湾であり、それらの国々の世界貿易に占めるシェアが同年において一五％前後だということを勘案するならば、世界貿易の圧倒的に大きな部分（約八五％）は地域統合に参加している国々によって行われていることがわかる。

後述するように、地域統合の一つの目的は、域内貿易に関わる貿易障壁を撤廃することで域内貿易を活発化させることである。そこで、九〇年代における主要地域統合および地域における域内貿易の変化を見てみよう。図表1-4によると、世界貿易に占める域内貿易の割合はＥＵにおいては低下したが、ＮＡＦＴＡおよびＡＦＴＡにおいては大きく増加している。また、地域統合ではないが、ＡＰＥＣおよび東アジア地域において域内貿易の割合が増大している。世界貿易に占める域内貿易の変化を見たが、ＥＵ以外では各地域統合および地域の貿易においても域内貿易の重要性が上昇していることが図表1-4から読み取れる。これらの数値の背景には九〇年代において、米国を中心とした北米や中国を含む東アジア地域の経済が大きく拡大したことが反映されている。つまり、経済の拡大が貿易を通じた経済交流を活発化し、貿易の拡大は経済成長を促

図表1-3　世界の貿易に占める地域統合・地域のシェア

(%)

	輸出		輸入	
	1990年	2000年	1990年	2000年
EU	44.1	35.5	43.8	35.2
NAFTA	16.2	18.9	19.1	24.7
AFTA	4.3	6.8	4.3	5.7
APEC	38.8	49.0	38.3	48.8
東アジア	21.0	26.9	17.7	21.9
日本	8.5	7.6	6.1	5.4
中国	1.9	4.4	1.5	3.6
韓国	1.9	2.7	1.8	2.2
台湾	2.0	2.4	1.6	2.2
世界	100.0	100.0	100.0	100.0

（注）　EUは15カ国，東アジアは日本，中国，NIES，ASEANである。世界は表に示されている地域だけではなく，他地域も含めた合計である。
（出所）　ジェトロ資料より作成。

進するという好循環が形成されたのである。

APECや東アジア地域における域内貿易の拡大が北米におけるNAFTAのような制度的枠組みが存在しない状況の中で実現したことは興味深い。[8] 東アジアとNAFTAおよびEUにおける地域化を推進している要因の違いに着目して、前者を市場メカニズム主導の地域化、後者を制度主導の地域化と表現することがある。

4 急増するFTAの特徴

九〇年代半ばに入って地域貿易協定が急増していることは図表1-1で見た。これらの地域統合にはいくつかの特徴が認められる。第一の特徴として、地域統合に属する加盟国の拡大が挙げられる。拡大する地域統合としてはEUが代表的である。前述したように、EUの起源であるEECは六カ国を加盟国として設立されたが、その後加盟国が増え、現在では十五カ国になっている。最も新しい加盟は九五年の三カ国であるが、現在、中東欧諸国を中心として十三カ国が加盟申請しており、さらなる拡大が予想される。[9]

NAFTAやMERCOSURを包含するような北米および中南米に及ぶ米州自由貿易圏（FTAA）が二〇〇五年発効を目指して交渉開始に向

図表1-4 世界および地域貿易に占める地域統合・地域の域内貿易の割合

(%)

	世界貿易に対する域内貿易の割合		地域輸出に対する域内輸出の割合		地域輸入に対する域内輸入の割合	
	1990年	2000年	1990年	2000年	1990年	2000年
EU	29.1	21.6	66.0	60.8	66.6	61.3
NAFTA	6.7	10.4	41.4	54.9	35.0	42.1
AFTA	0.9	1.6	20.2	23.4	19.8	27.8
APEC	26.6	36.0	68.6	73.5	69.4	73.8
東アジア	8.4	12.8	40.1	47.7	47.5	58.6

(注) 図表1-3の注を参照。
(出所) ジェトロ資料より計算。

かっていることも地域統合の拡大の動きと解釈することができる。[10] アジアにおいてもAFTA加盟国は九二年発足当初の六カ国から、その後、ASEANの拡大に伴って十カ国に拡大した。[11]

地域統合が拡大した結果、経済発展段階や経済体制などが異なる国々が加盟国となっている地域統合が増えている。例えば、NAFTAについては米国およびカナダでは一人当たりの国民総生産（GDP）は二〇〇〇年時点において各々、三万四千二百六十ドルと二万一千五十ドルであるのに対して、メキシコでは五千八十ドルと著しく低い。AFTAでは一人当たりGDPが最も高いのはシンガポールの二万四千七百四十ドルであるのに対して、最も低いのはカンボジアの二百六十ドルで、シンガポールの一人当たりGDPの約百分の一である。また、AFTAには市場経済体制の国々だけではなく、ベトナムやミャンマーのような社会主義体制の国々も含まれている。

第二の特徴は深化である。典型的な例としては、ここでもEUが挙げられる。既に述べたようにEUは関税同盟から始まって、発展段階の高い経済統合へと深化した。このような深化を達成するのに四十年以上かかっているが、九〇年代に入ってから共同市場、さらには経済統合へと急速に深化した。また、統合の程度の緩いFTAにおいても、伝統的な貿易障壁の撤廃だけではなく、サービス貿易や投資の自由化・円滑化、紛争解決に関する取り決めなどを含む深化した形のものも少なくない。

ちなみに、日本・シンガポールFTAは、財の貿易自由化だけではなく、相手の国で採用されている財に関する基準・認証などを相互に認め合うような円滑化措置も含まれている。さらに、サービス貿易および投資の自由化・円滑化や人の移動、知的所有権、競争政策、科学技術分野、放送、観光など幅広い分野でのルールの共通化などを含んでおり、深化度の進んだ取り決めとなっている。

近年における地域統合の第三の特徴としては、地理的に近接していない国々の間での取り決めが増大し

ていることが挙げられる。従来の地域統合はEUやNAFTAのように地理的に近接している国々を加盟国としたものであった。しかし、近年では米国・ヨルダン、チリ・カナダ、シンガポール・ニュージーランドというように距離が離れている国々の間でも地域統合が形成されている。

この動きとも関連するが、地域統合間のつながりも活発化している。典型的な例としてEUとNAFTA加盟国であるメキシコによるFTAやEUとMERCOSURとの地域間経済協力協定が挙げられる。また、メキシコと同様にチリやシンガポールが複数国とのFTAに参加していることも地域統合間の連携を示している。

第四の特徴としては、従来、地域統合に参加していなかった国による地域統合への参加がある。日本とシンガポールは日本にとって初めてのFTA交渉を二〇〇一年末に終了し、両国首脳は二〇〇二年一月にFTAに調印した。同年夏にも日本にとって初めてのFTAが発効する予定である。日本については、シンガポール以外にもメキシコとのFTAに関する両国の産官学のメンバーによる研究会が発足し、二〇〇二年の夏頃までに検討結果をまとめる予定になっている。さらに、韓国、チリ、カナダ、オーストラリアなどとの地域統合の可能性も検討されている。

一方、日本と同様に従来、地域統合に参加していなかった韓国、中国、台湾においても地域統合参加へ向けての検討がなされている。韓国はチリとのFTA交渉を九九年十二月に開始した。当初は二〇〇〇年末までに交渉を終了させる予定になっていたが、農林水産物の輸入自由化についての調整が遅れていることから、交渉は難航している。既に述べたように韓国については日本とのFTA構想もある。中国はASEANとのFTAを二〇〇一年初めに提案し、その後、十年以内でのFTA設立に向けて交渉を行うことについての合意がなされた[12]。台湾も日本とのFTAの可能性を検討することに合意した。

第五の特徴として、前節で触れた地域統合の発展段階的分類に当てはまらないインフォーマルな地域的枠組み形成の動きが挙げられる。最も顕著なものはアジア太平洋経済協力会議（APEC）である。APECはアジア太平洋諸国をメンバーとした経済閣僚会議として八九年に発足し、その後、非公式ではあるが首脳会議に格上げされた。APECの目的は貿易および投資の自由化および円滑化と経済技術協力であるが、貿易および投資の自由化の対象範囲は加盟国間だけではなく非加盟国も含まれるということでGATT／WTOで規定されているタイプの地域統合ではない。

しかし、ボゴール宣言という形で先進メンバーは二〇一〇年、途上メンバーは二〇二〇年までに貿易および投資の自由化達成を唱えていることを考慮するならば、地域統合の要素を強く持った組織であると見ることもできる。ただし、自由化は各メンバーの自発性によって実現させるという手段をとっていることから強制力がなく実行性に問題がある。実際、貿易および投資の自由化を強力に進めるというよりは、様々な経済問題や経済協力に関して産官学を巻きこんだ活動が活発に行われているというのが実情である[13]。また、APECのようには組織が整備されてはいないが、アジア諸国と欧州諸国間の意見交換・調整の場としてアジア欧州会合（ASEM）が九八年に設立され、二年に一度の首脳会議をはじめとして様々な活動が行われている。

5　FTA急増の原因

FTAに代表される地域統合の拡大、深化、多様化の背景には外的および国内要因、また経済、政治、安全保障といった要因などが複雑に絡み合っている。外的要因としては、加盟国の貿易障壁撤廃による自

国企業に対する市場の確保および輸出機会の提供がある。自国企業にとっての輸出機会の増大による生産拡大は同企業に規模の経済からの利益を享受する機会を与えることで効率的生産を可能にする。市場の確保・輸出機会の増大については特に小国の企業にとって重要である。例えば、カナダとメキシコの企業にとってはＮＡＦＴＡへの参加によって米国市場へのアクセスを確保することが重要である。また、東欧・中欧諸国の企業は、ＥＵへ加盟することでＥＵ市場へのアクセスを獲得することを期待している。

地域統合への参加の動機としての市場確保要因は地域統合の拡大に伴って、より重要性を増す。というのは、地域統合が増えることで、地域統合から排除されることによる市場機会の喪失の問題が深刻化するからである。このような被害は地域統合に参加することで回避することができる。ＥＵ・メキシコＦＴＡの発効によって、メキシコおよびＮＡＦＴＡ市場において欧州企業に対して日本企業が不利な状況に追いやられたという認識が日本企業において強く、そのような見方が日本・メキシコＦＴＡに対する日本企業の強い要望の背景にある。

国内要因としては、市場開放により競争圧力を強化させることで経済効率を高めるとともに経済成長を実現させたいという動機がある。七〇年代以降、イギリスや米国などの先進国をはじめとして、東アジアの発展途上諸国などにおいて、貿易・投資の自由化、国内規制の緩和・撤廃などの措置が高い経済成長をもたらしたという認識が各国の政策担当者の間で共通のものとなった。つまり競争強化は非効率な企業の市場からの退出を余儀なくさせるのに対し、潜在競争力を持つ企業の潜在性を実現させる圧力となることから、資源の有効活用が可能となることで経済成長が実現するという認識である。

このような認識に基づき世界各国は貿易・投資の自由化および規制改革などを推進してきたが、国内措置を用いての自由化の実現は国内政治要因などにより難しい場合が少なからずあった。自由化により被害

を受けるグループが支持する政治家（抵抗勢力）による自由化反対行動が自由化を阻害する。そこでＦＴＡという「外圧」を用いて規制改革の推進を図るという考えを持つ国がでてきた。

ＦＴＡの動機として海外市場の確保および自由化による国内規制改革を挙げたが、これらの目的はＦＴＡのような地域統合だけではなく、ＷＴＯの下での多角的貿易自由化によっても達成することができる。ＷＴＯではなくＦＴＡが選択される理由はいくつかある。一つの理由はＷＴＯの下での貿易自由化と比べてＦＴＡでの合意がより短期間に行われるというスピード面での優位性である。ＧＡＴＴでの最後の多角的貿易交渉となったウルグアイ・ラウンドは当初四年間の予定で始まったが、実際はその二倍の八年を要した。交渉が長引いた一つの理由として交渉項目が多かったこともあるが、それだけではなく、交渉参加国数が増加したことも大きく作用した。九五年にＷＴＯが設立されたが、新ラウンド開始へ向けての強い動きはあったものの、合意がなかなか形成されず、二〇〇一年末になってようやく合意が成立した。ＷＴＯ加盟国が百四十を超え、加盟国間で自由化に対する意見が異なることなどを考慮するならば、自由化交渉が予定の三年で終了するかは予断を許さない。

グローバリゼーションの進展によって負の影響を受けるグループがＷＴＯの下での貿易自由化に対して強く反対するようになったことがＷＴＯでの自由化への動きを難しくしている一つの原因である。新ラウンド開始に向けての合意形成を目的として開かれた九九年のシアトルでのＷＴＯ閣僚会議が失敗に終わった一つの重要な原因として、ＷＴＯに反対する環境保護団体、労働組合、ＮＧＯ等による過激な反対デモがあったことは記憶に新しい。その後においても、世界銀行・国際通貨基金（ＩＭＦ）総会やＧ７会合などグローバリゼーションの推進に貢献すると思われる組織の会合などでは、過激な反対運動が行われている。以上議論したようなＷＴＯの下での多角的貿易交渉が困難な状況においては、貿易自由化に関心を持

つ国々はＦＴＡを選択する。

ＷＴＯの下での多角的自由化ではなくＦＴＡが選ばれるもう一つの理由は、既に述べたＦＴＡ参加国数が少ないということとも関連するが、ＷＴＯで扱われている分野以外の「新分野」でのルール作りが比較的に容易なことである。例えば、環境問題や労働問題などは、主に発展途上国側からの反対でＷＴＯでのルール作りは難しいが、米国・ヨルダンのＦＴＡではルール化された[14]。

また、上述したように日本・シンガポールのＦＴＡではＷＴＯではルール化されていない競争政策についての枠組みも含まれている。今後、経済活動の国際化の進展に伴って、経済活動を阻害する要素としてＷＴＯでルール化されている貿易などに関する国境措置だけではなく、競争政策などの国内措置・制度の違いの重要性が増す。それらの阻害要因を削減・撤廃し、経済活動を活性化するにあたって、機動力のあるＦＴＡが活発に活用されることが予想される。

地域統合への参加にあたっては政治および経済面での国際的影響力の強化という動機もある。特に、小国にとってはこの動機は重要である。第二次大戦後の欧州における地域統合の一つの動機としては米国に対する経済的影響力の強化と対ソ連・東欧共産圏に対する政治力・軍事力の強化があった。

また、政治・安全保障を目的とした組織であったＡＳＥＡＮが九二年にＦＴＡを設立した背景には、東西冷戦の終焉による政治・安全保障問題の重要性が低下する一方、中国経済の急速な台頭に対する危機感があった。大きな市場での販売や安い労働力の使用を目的として大量の直接投資が中国へ引き付けられている状況に直面したＡＳＥＡＮは、経済成長の実現にあたっては直接投資流入が不可欠であるとの認識から、ＦＴＡの形成により一つの大きな市場の創設と自由な競争的環境を作ることで直接投資の誘致を図った。このような戦略に基づいて、九八年には直接投資の誘致を目的として域内直接投資自由化を実現させるべくＡＳＥＡＮ投資地域（ＡＩＡ）の設立に対して合意が成立した。

6　ＦＴＡの経済効果

急速に増加・拡大しているＦＴＡであるが、ＦＴＡ加盟国、非加盟国、世界経済にどのような影響を与えるのであろうか。ここではＦＴＡの経済効果をレビューしておこう。ＦＴＡの貿易に関する効果は静態的効果と動態的効果に分類されることが多い。静態的効果としては「貿易創出効果」、「貿易転換効果」、「交易条件効果」が挙げられるのに対して、動態的効果としては「市場拡大効果」、「競争促進効果」が挙げられる。

貿易創出効果とはＦＴＡ加盟国間の貿易障壁が撤廃されることで、加盟国間の貿易が創出される効果であり、貿易転換効果とは効率の高い国がＦＴＡの加盟国ではない場合に、ＦＴＡ設立により効率的な非加盟国からの輸入が非効率な加盟国の輸入によって転換される効果である。交易条件効果は、加盟国間の貿易量の拡大が非加盟国に対する影響力の拡大を通して加盟国の交易条件を改善させる効果である。市場拡大効果は貿易障壁の撤廃により市場が拡大することから、生産や流通での規模の経済性の実現と最適地立地が可能になることである。競争促進効果とは、市場統合により域内の寡占産業が競争的となり、効率的な生産が行われるようになる効果である。

加盟国に対しては貿易創出効果、交易条件効果、市場拡大効果および競争促進効果はプラスの影響をもたらすのに対し、貿易転換効果はマイナスの影響をもたらすこともある。一方、非加盟国については、貿易転換効果と交易条件効果はマイナスで他の効果はプラスであると考えられる。ＦＴＡが市場拡大や競争

促進をもたらし、加盟国の成長を促すならば、加盟国だけではなく非加盟国にとっても利益が期待できる。近年におけるＦＴＡ設立の背景にはこのような動態効果への期待が大きい。ただし、大戦間に起きたように貿易転換効果に対抗するために各国が閉鎖的な経済ブロックを形成するようなことになれば、世界経済は深刻な影響を受けることになる。

理論的には、加盟国の中に効率的な生産国が含まれ、多くの国が加盟している場合に貿易転換効果が表れたとしても小さく抑えられることから、そのような性格をもつＦＴＡが望ましいと言える。

ＦＴＡの貿易への効果を検討したが、ＦＴＡは直接投資にも影響を与えると考えられている。ＦＴＡによって域内貿易に対する障壁が撤廃されることで大きな域内市場が形成されることになれば、域内市場での販売を目的とした直接投資が流入してくる。また、ＦＴＡ設立によって域内において効率的な生産が可能になれば、域外への輸出を目的とした直接投資も入ってくる。これらはＦＴＡの投資創出効果である。一方、ＦＴＡは直接投資先を非加盟国から加盟国へと転換させる効果も持つ。これは投資転換効果と言われている。

地域統合の経済的影響についての実証分析はＥＵとＮＡＦＴＡについて、数多く行われている[15]。分析結果は、ある程度はバラツキがあるが、地域統合は加盟国には経済成長の促進、域内貿易および直接投資の増加、域内競争の促進などの好ましい効果をもたらすことを示している。一方、非加盟国に対しては貿易転換効果や投資転換効果が認められたという分析結果があり、非加盟国にはマイナスの影響を及ぼした可能性も高い。例えば、ＮＡＦＴＡ設立によって繊維、電子機械産業において直接投資が東南アジア諸国からメキシコへと転換されたと言われている。

ＦＴＡの加盟国への利益と非加盟国の損失の大きさを比較することで、世界経済全体への影響を計測することができる。多くの研究では、加盟国による利益が非加盟国の損失を上回る結果となっていることから、世界経済全体にとってはＦＴＡは利益をもたらすと言えそうである。ただし、既存の実証分析においては、動態効果が十分には考慮されていないものが多く、このテーマに関する研究が活発に進められることが期待される。大きな動態効果を生じさせるようなＦＴＡでは、加盟国だけではなく非加盟国においても利益が期待できる。

7　ＦＴＡとＷＴＯ

ＦＴＡおよび関税同盟といった地域貿易協定・地域統合は非加盟国を差別し加盟国を優遇する制度であるが、ＧＡＴＴ・ＷＴＯでは第一条の一般的最恵国待遇（ＭＦＮ）の例外として、主に以下の三つの条件の下で認められている[16]。①地域統合前よりも非加盟国に対する貿易障壁を高めてはいけない、②加盟国間の貿易障壁を実質上すべての貿易について廃止する、③地域統合は妥当な期間内に完成させなければならない。ただし、それぞれの条件の内容が不明瞭であるという問題を抱えている。ＧＡＴＴにおける地域統合に関する問題はウルグアイ・ラウンドで取り上げられ、①に関しては主要な貿易障壁である関税に対する評価の基準が設定されたことで前進した。具体的には、関税の全般的水準に関して、ＥＵが採用してきた算術平均ではなく、貿易量を加味した加重平均を採用することが明記された。一方、②に関しては主要産品を除くことは認められないとの提案があったが、合意には至らなかった。③の妥当な期間としては、十年ということで了解された。

開発途上国間の地域貿易協定については、東京ラウンド交渉の際の締約国団決定（いわゆる授権条項）

において、より緩い条件の下での設立が認められている。具体的には上記①から③のような条件が明示されているのではなく、貿易を促進するようなものでなくてはならないというような曖昧な表現にとどめられている。

地域統合の増大に伴って、地域統合に関する審査などが増加することが予想されたために、九六年二月の一般理事会で地域貿易協定委員会（ＣＲＴＡ）が設置された。同委員会は地域統合に関する審査だけではなく地域統合のＷＴＯ体制への影響などに関する分析を行うことで合意されている。様々ある問題の中で、「実質上すべての貿易」に関する解釈の明確化や地域統合の下でのセーフガードやアンチ・ダンピングを含めた非関税障壁に関する評価・監視などがＣＲＴＡで取り上げる重要な問題になると予想される。

ＷＴＯでの多角的貿易自由化が世界貿易の拡大を通じての経済成長の実現にあたっては最も望ましい措置であるということは多くの人々の間での共通認識である。したがって、ＦＴＡがＷＴＯでの多角的貿易自由化を促進するのか、あるいは阻害するのかということは重要なテーマであるが結論はでていない。両大戦間のブロック化の経験をもとに、ＦＴＡは排他的な貿易体制を形成することから多角的貿易自由化を阻害するという主張がある。また、近年のようにＦＴＡが増加してくると世界の貿易制度が複雑化することから貿易を抑制するのではないかという意見もある。さらに、貿易政策担当者の時間およびエネルギーがＦＴＡ交渉に使われてしまうことでＷＴＯ交渉が進まなくなるという見方もある。

一方、ＦＴＡは貿易自由化を促進するのであるから、ＦＴＡが拡大することで、世界大での貿易自由化が達成されるという見方もある。実際、ＷＴＯにおける多角的貿易自由化がＦＴＡなどの地域統合によって補完しない限り、世界大での貿易自由化の達成は難しいと考える論者も少なくない。また、ＦＴＡの形成が貿易自由化への重要性に対する認識を強めることで、ブロック化を抑制

し多角的貿易自由化交渉が促進されるという主張もある。この主張の根拠の一つには、九〇年代初めに行き詰まっていたウルグアイ・ラウンド交渉においてＮＡＦＴＡやＡＰＥＣにおける地域化の動きがＥＵその他地域において多角的貿易自由化の重要性への意識を高めたことで、合意に達したという解釈がある。

ＦＴＡによるＷＴＯへの貢献としては、新分野でのルールの設立がある。ＮＡＦＴＡではＷＴＯでルール化されていない環境と貿易についてのルールなどが設定されており、また、日本・シンガポールＦＴＡでは競争ルール、制度の相互承認などが含まれている。これらの新分野におけるＦＴＡのルールはＷＴＯにおけるルール作りのモデルとして有効である。

ＦＴＡがＷＴＯにおける世界レベルでの貿易自由化の推進に貢献するにあたって、ＦＴＡに参加するＷＴＯ加盟国はいくつかの重要な課題に対応しなければならない。第一の課題としては、ＦＴＡへの域外国による新規加盟を認め、加盟国を拡大していくことである。加盟に際しては本節の初めに議論した地域統合の条件を満たさなくてはならないが、加盟を活発化させるためにも、ＣＲＴＡにおいて不明瞭な地域統合の条件を明確化することは急務である。第二の課題としては、ＷＴＯでの多角的貿易交渉に対するモメンタムを維持することである。そのためには、多角的貿易自由化による世界貿易の拡大が世界各国に利益をもたらすということを再認識したうえで、各国における利害調整をスムーズに実施するようなメカニズムを構築し、自由化に対する政治的抵抗を抑制しなければならない。

〔注〕

（1）貿易・ＧＤＰ比率は財・サービスの輸出および輸入の合計の対ＧＤＰ比率であり、統計はWorld Bank, World Development Indicators 2001による。

(2) 直接投資・GDP比率は対外および対内直接投資ストックの合計の対GDP比率であり、統計はUnited Nations, World Investment Report 2001による。

(3) WTO資料（WT/REG/10, 10 October 2001）。

(4) GATT／WTOでの扱いについては後述。

(5) FTAおよび地域統合については、様々な参考資料があるが、経済産業省（二〇〇一a）が便利である。

(6) ただし、日本とシンガポールのFTAは貿易の自由化だけではなく、投資、サービス貿易などの自由化や円滑化など、広範にわたる取り決めであることから、経済連携協定（EPA）と呼ばれている。

(7) ちなみに、世界の直接投資に占めるEUとNAFTAのシェアは貿易でのシェアよりも大きく、世界の対内直接投資と対外直接投資に占めるEUとNAFTAの合計は二〇〇〇年において各々七五%と八五%であった。

(8) 欧州、北米、アジアにおける地域化の比較についてはUrata (1998) などを参照。

(9) 経済産業省（二〇〇一b）を参照。欧州における地域統合については補論参照。

(10) 北米における地域統合については補論を参照。

(11) AFTAについては第7章、アジアにおける地域統合の動きについては第8章を参照。

(12) 日本経済新聞（二〇〇一年十一月七日付け朝刊）。

(13) APECについては山澤他（一九九五）に詳しい。また、APECのホームページ（http//www.apecsec.org.sg）を参照のこと。

(14) 経済産業省（二〇〇一a）、第4-3-4表に主なFTAに含まれる項目が示されている。

(15) FTAの効果に関する分析のサーベイに関しては、経済産業省（二〇〇一a）が有益である。

(16) GATT／WTOにおける地域統合の扱いなどについては、経済産業省（二〇〇一b）に詳しい。

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第2章　取り残される「日本のグローバル化」

〈この章のポイント〉

① 日本のグローバル化はかなり遅れており、最新の経済指標を合成して作ったグローバル化度指標で測ると、アジア各国・地域、欧米先進国三十一カ国中二十八位となった。日本よりグローバル化度が低いのは、インドネシア、中国、インドだけである。

② グローバル化を「対外」「対内」「情報」の三分野に分けると、対内グローバル化度が最も遅れている。項目別に見て遅れている分野は、対内直接投資、英語力である。輸出入のＧＤＰ比も低い。情報技術（ＩＴ）に関しては相対的に健闘しているが、順位が高いわけではない。

③ アンケート調査によれば、グローバル化をプラスと考えている企業は多い。ただ、否定的に捉えている企業もあり、企業自身の意識変革も必要だ。自由貿易協定（ＦＴＡ）が進展することで日本の構造改革やグローバル化が進む可能性は高い。

1　日本のグローバル化、遅れが歴然

一九九〇年代、冷戦時代が終わって世界のグローバル化が急速に進んだが、どうやら日本はその流れに乗り遅れたようだ。各国・地域の「開放度」を示すとも言える「グローバル化度」を測定すると、アジア各国・地域と経済協力開発機構（ＯＥＣＤ）諸国計三十一カ国中日本は二十八位と低迷した（図表2-1）。香港が一位となり、欧州連合（ＥＵ）を作り互いに交流を密にしてきたヨーロッパ諸国の順位も高い結果が得られた。自由貿易協定（ＦＴＡ）に積極的な国ほど順位が高い傾向があることもわかった。日本は今後、自由貿易協定を一つのテコとしてグローバリゼーションの度合いを高めていく必要があろう。

グローバル化度指標の算出法は図表2-2の通りである。対外直接投資、輸出入、ＩＴ関連指標など、二〇〇一年末時点の最新の経済指標（多くは九九年から二〇〇〇年のデータ）を使い、偏差値表示にしてランキングを作った。客観的なデータのみでランキングすることを意図しており、アンケート調査結果などはランキングに反映していない。

グローバル化指標のランキングを見ると、一位が香港、二位がシンガポール、三位がアイルランドとなった。日本は総合で二十八位とグローバル化がかなり遅れているという結果になった。輸出、出国者数など「外に向かったグローバル化」を表す対外指標は二十九位、輸入、入国者数など「内に向けたグローバル化」を表す対内指標は三分野で最も順位が低く三十位、英語力、ＩＴ化度など情報分野は相対的に順位が高く二十五位だ。

グローバル化指標のランキング結果を見ると、名目ＧＤＰが大きいほどグローバル化度は低下する傾向がある。シンガポールなど都市国家と辺境地や農業地帯を含む大陸国家をＧＤＰ比で測ることに問題がないわけではない。

そこで、ＧＤＰ要因を除いた指標を使ったランキングも算出した。修正ランキングを見ると、ベスト3の香港、シンガポール、アイルランドは調整後も同じ順位でグローバル化度が高いという結果に変わりはなかった。規模の大きい国は順位を上げ、修正後で見ると米国が十八位から六位に、中国が三十位から二十一位になる。日本は二十八位から二十三位に上昇するが、順位が低いことには変わりない。

図表2-1　GDP要因調整後の順位

	グローバル化度インデックス	偏差値	GDP要因調整後	修正後の得点
1	香港	70.0	香港	18.1
2	シンガポール	66.4	シンガポール	12.9
3	アイルランド	59.9	アイルランド	6.9
4	スイス	57.3	ベルギー	6.0
5	ベルギー	56.5	スイス	6.0
6	オーストリア	55.0	米国	5.8
7	オランダ	53.6	イギリス	5.0
8	マレーシア	52.8	オランダ	4.0
9	スウェーデン	52.5	オーストリア	3.9
10	イギリス	51.6	ドイツ	2.5
11	ニュージーランド	51.4	カナダ	2.0
12	ノルウエー	50.9	マレーシア	1.5
13	アイスランド	50.6	スウェーデン	1.3
14	デンマーク	50.0	フランス	0.7
15	カナダ	49.8	オーストラリア	-0.7
16	フィンランド	49.7	スペイン	-0.9
17	オーストラリア	48.4	イタリア	-1.5
18	米国	48.3	ノルウエー	-1.5
19	ドイツ	48.2	デンマーク	-2.1
20	ポルトガル	48.1	ニュージーランド	-2.4
21	フランス	47.3	中国	-2.7
22	スペイン	47.2	フィンランド	-2.8
23	台湾	45.3	日本	-3.1
24	イタリア	45.3	ポルトガル	-3.6
25	韓国	43.8	韓国	-4.2
26	フィリピン	43.1	台湾	-4.9
27	タイ	42.3	インド	-5.1
28	日本	41.6	インドネシア	-7.1
29	インドネシア	41.4	フィリピン	-7.2
30	中国	41.2	タイ	-7.3
31	インド	40.4	アイスランド	-9.4

図表2-2　グローバル化度の算出方法

使用した基礎指標は①GDP②輸出③輸入④対外直接投資残高⑤対内直接投資残高⑥出国者数⑦来訪者数⑧国際電話使用量――が世界銀行の世界開発指標から。最新時点の数字はおおむね1999年。

⑨英語力はTOEFLの得点で，最新時点は2000年。⑩IT化度は国際電気通信連合の資料から，電話やパソコン，インターネットなどの普及率をもとに計算した。最新時点は2000年。以上の指標によって，31カ国・地域を対象に偏差値を算出し，順位をつけた。

グローバル化度ランキングを分野別に詳しく見てみよう。グローバル化度指標は、「対外」、「対内」、「情報」の三つの分野から作成している。対外的グローバル化度は、日本企業が海外に対してどのくらい開かれているかを表し、対内グローバル化度は日本国内がどのくらいグローバル化されているかを示す。旅行にたとえると、海外へ出かけていって見聞を広めるのが対外グローバル化、日本国内に外国人がやってきて交流を深めるのが対内グローバル化である。情報は、国際電話の通話料、コミュニケーションの道具としての英語力、IT関連指標を合成したものである。

対外的グローバル化に対して対内的なグローバル化が遅れている。項目別に比較可能な最新データを見ると、九九年の輸出の名目GDP比は一〇・四%に対して同輸入は八・七%、対外直接投資残高のGDP比が〇・八%に対し、同対内直接投資は〇・四%である。また、出国者は人口比で一二・五%だが、来訪者は同三・五%にすぎず、「内なる国際化」が遅れていることがわかる。情報のグローバル化は九五年の二十七位から二十五位に順位を上げたが、人材のグローバル化に欠かせない英語力は引き続き低迷し、三十一カ国中最下位である。

2　グローバル化を高めるには

ランキングに使った指標の順位を詳しく見てみよう（図表2-3）。三十一カ国中最下位になったのは、輸出のGDP比、輸入のGDP比、対内直接投資残高のGDP比、英語力の四項目である。分野別で最も順位が高かったのは、十四位のIT化度だ。

弱点を克服するという意味では、輸出入比率を上げ、対内直接投資を増やし、英語力の向上が必要となる。長所を伸ばすという意味では、IT化に力を入れるのも重要だろう。

(1)　輸出入の比率を上げる

日本の輸出入は、GDP比で見ればかなり低く、三十一カ国中最低である（図表2-4）。しかも、八〇年代から最近まで傾向的に下がっている。八〇年には最も低い水準にあった中国やインドの輸出入のGDP比が上昇したため、日本は最下位になった。

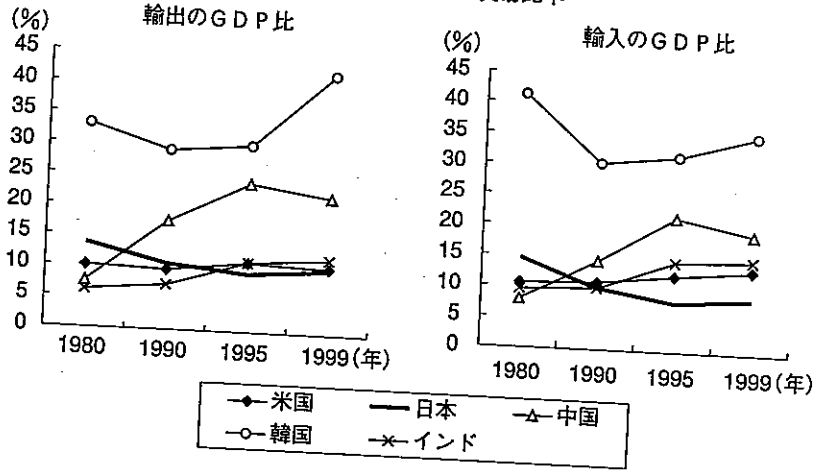
日本の場合、経済規模が大きいため、輸出入が活発に行われているにもかかわらず比率が低くなってしまう面はある。輸出入が少ないというよりは、国内需要が充実しているとも言える。

しかし、隣接している国が多い欧州や東南アジアの国・地域より低いのはともかく、米国や中国、インドといった国よりも低いことには何らかの特殊性が感じられる。

図表2-3　日本のランキング　（順位）

	1980年	1990年	1995年	1999年
総　合			30	28
対外開放度	27	25	28	29
輸出のGDP比	28	29	31	31
対外直接投資のGDP比	13	17	23	24
出国者数	24	25	25	25
対内開放度	29	30	31	31
輸入のGDP比	28	30	31	31
対内直接投資のGDP比	30	31	31	31
入国者数	28	27	27	27
情報			27	25
国際電話の通話料			31	29
英語力			30	31
IT化度			17	14

図表2-4　低い日本の貿易比率



(2)　対内直接投資を増やす

対内直接投資も改善の余地がある。海外から日本への直接投資（対内直接投資）の水準は国際的に見るとかなり低い。GDP比で見れば、三十一カ国中最低だ。対内直接投資は、外国企業による日本での工場建設や日本企業の株式取得のことである。最近は外資系企業が増えているが、それでも経営資源の受け入れに対して世界で最も閉鎖的な国となっている。

これまで「日本的経営」がある程度成功し、経営資源が自給自足できたことが対内直接投資が少なかった理由だ。しかし、海外では国の間の垣根が急速に低くなっており、企業が競争力を保つためには、率先して海外経営者を呼び寄せる必要がある。それが今の国際経済では普通のことである。輸出最優先の「外への」国際化一辺倒の姿勢を正し、日本国内へ様々な国際的な資源を受け入れていく「内への」国際化が重要になっている。

(3)　英語力を上げる

英語力も三十一カ国中最下位となった。国際的な英語力を測るものとしてはTOEFLが代表的だ。まず、国別にTOEFLの点数を見てみよう（図表2-5）。二〇〇〇年時点で、OECDとアジアの計二十五カ国で順位をつけると、日本は最下位になる。九〇年代を通じて徐々に得点は上昇しているが、低いことに変わりはない。

文法や読解といった分野別に見ても、日本はまんべんなく低い。アジア各国・地域と比べてみても、どの分野でも最下位になっている。「日本人は聞き取りが苦手」という意見もあるが、文法や読解についてもほかの国・地域よりも低いことがわかる。

図表2-5　TOEFLの分野別得点（2000年）　（点数）

	聞き取り	文法	読解	総合
日本	19	19	19	188
中国	19	22	22	211
韓国	20	20	20	200
台湾	19	20	19	193
香港	21	21	20	205
シンガポール	25	25	25	252
インドネシア	20	20	20	203
マレーシア	22	22	22	219
フィリピン	24	24	23	234
タイ	20	19	20	194

（注）　コンピューターを使った試験（CBT）ベース。
各分野は30点満点，総合は各分野平均の10倍で300点満点。

ただ、TOEFLの得点をそのまま比較するのは適当でない面がある。日本のように誰でも試験が受けられる国もあれば、受験を制限する国もある。受験料も約一万円なので、低所得者層にとっては気軽に受けられる試験ではない。あらかじめ受験者数が絞られれば、その国の平均得点は高くなる。例えば、二〇〇〇年のペーパーベースの日本の受験者数は九万九千人で平均点が五百四点だが、八十四人しか受験していないネパールの平均は五百五十六点である。

そこで、各国地域の平均点数と受験者率（受験者数／人口）の対数とを比較してみた。両者には、人口当たり受験者率が増えれば得点が低下するという緩い関係が見られる。推計式を使って、受験者率の要因を除いた順位も作成してみた（図表2-6）が、日本の順位はタイを抜くが依然二十五位と低いことには変わりないという結果になった。

図表2-7　2000年のIT関連指標

（人口比，%）

	固定電話		移動体電話		インターネットホスト		インターネットユーザー		パソコン	
1	デンマーク	75.3	台湾	80.3	米国	29.3	アイスランド	59.8	米国	58.5
2	ノルウェー	72.9	香港	80.2	アイスランド	14.2	ポルトガル	59.5	スウェーデン	50.7
3	スイス	72.0	オーストリア	78.6	フィンランド	10.2	ノルウェー	49.1	スイス	50.3
4	米国	70.0	イタリア	73.7	オランダ	10.2	スウェーデン	45.6	ノルウェー	49.1
5	スウェーデン	68.2	フィンランド	72.6	ノルウェー	10.1	カナダ	41.3	シンガポール	48.3
6	アイスランド	67.7	スウェーデン	71.4	ニュージーランド	9.0	韓国	40.3	オーストラリア	46.5
7	カナダ	67.7	ノルウェー	70.3	オーストラリア	8.4	フィンランド	37.2	デンマーク	43.2
8	日本	65.3	シンガポール	68.4	カナダ	7.7	日本	37.1	フィンランド	39.6
9	オランダ	60.7	オランダ	67.1	スウェーデン	6.7	デンマーク	36.6	オランダ	39.5
10	ドイツ	60.1	アイスランド	67.0	デンマーク	6.3	オーストラリア	35.0	アイスランド	39.2
11	フランス	58.0	イギリス	67.0	オーストリア	5.9	米国	34.7	カナダ	39.0
12	香港	57.8	アイルランド	66.8	台湾	4.9	香港	33.6	アイルランド	36.5
13	台湾	56.8	ポルトガル	66.5	シンガポール	4.4	シンガポール	29.9	ニュージーランド	36.0
14	イギリス	56.7	スイス	64.5	スイス	3.7	スイス	29.8	香港	34.7
15	フィンランド	54.7	デンマーク	61.0	日本	3.7	ドイツ	29.2	ベルギー	34.5
16	オーストラリア	52.4	スペイン	60.9	香港	3.4	台湾	28.1	イギリス	33.8
17	ベルギー	49.9	ドイツ	58.6	ベルギー	3.0	イギリス	25.8	ドイツ	33.6
18	ニュージーランド	49.6	韓国	56.7	アイルランド	3.0	オーストリア	25.6	日本	31.5
19	シンガポール	48.5	ベルギー	54.9	イギリス	2.8	オランダ	23.8	フランス	30.5
20	イタリア	47.4	日本	52.6	ドイツ	2.5	ニュージーランド	21.7	オーストリア	27.7
21	オーストリア	47.4	フランス	49.4	フランス	1.9	アイルランド	21.0	台湾	22.5
22	韓国	46.4	オーストラリア	44.6	イタリア	1.8	ベルギー	19.7	イタリア	20.9
23	ポルトガル	43.1	ニュージーランド	40.3	スペイン	1.1	マレーシア	15.9	韓国	19.0
24	アイルランド	42.6	米国	36.5	韓国	0.8	フランス	14.5	スペイン	14.3
25	スペイン	40.1	カナダ	28.5	ポルトガル	0.6	スペイン	13.3	ポルトガル	10.5
26	マレーシア	19.9	マレーシア	21.3	マレーシア	0.3	イタリア	10.5	マレーシア	9.5
27	中国	11.1	フィリピン	8.2	タイ	0.1	フィリピン	2.6	タイ	2.4
28	タイ	8.6	中国	6.6	フィリピン	0.0	タイ	2.0	フィリピン	1.9
29	フィリピン	3.9	タイ	4.4	インドネシア	0.0	中国	1.7	中国	1.6
30	インド	3.2	インドネシア	1.7	中国	0.0	インドネシア	0.7	インドネシア	1.0
31	インドネシア	3.1	インド	0.4	インド	0.0	インド	0.5	インド	0.5

（出所）　国際電気通信連合のホームページから作成。

図表2-6　TOEFLによる英語力ランキング

順位	2000年	偏差値	修正順位	偏差値
1	デンマーク	62.2	オランダ	63.1
2	シンガポール	60.6	デンマーク	62.2
3	オーストリア	60.1	シンガポール	62.0
4	ベルギー	60.1	オーストリア	59.9
5	フィンランド	59.8	ベルギー	59.9
6	オランダ	59.7	アイスランド	59.5
7	ドイツ	59.1	フィンランド	59.0
8	インド	58.9	ドイツ	58.7
9	スイス	56.7	スウェーデン	58.1
10	スウェーデン	56.6	ノルウェー	57.7
11	ノルウェー	55.4	スイス	55.4
12	ポルトガル	55.3	インド	53.3
13	アイスランド	55.0	ポルトガル	52.3
14	フィリピン	51.4	フィリピン	51.9
15	スペイン	50.5	フランス	48.3
16	中国	49.2	スペイン	47.9
17	フランス	48.8	イタリア	46.3
18	カナダ	46.7	中国	46.0
19	マレーシア	43.5	カナダ	45.7
20	イタリア	43.4	マレーシア	41.2
21	韓国	39.6	香港	40.4
22	香港	37.1	韓国	39.2
23	インドネシア	35.5	台湾	36.5
24	台湾	33.1	インドネシア	32.5
25	タイ	32.1	日本	31.7
26	日本	29.4	タイ	31.2

（注）　米国，英国，アイルランド，オーストラリア，ニュージーランドは除く。

(4)　IT化をさらに進める

相対的にランキングが良かったのはITである。IT化がどの程度進んでいるのかを見るために、「IT化度」を表す指標を作った（図表2-7）。「IT化度」ランキングは、固定電話、移動体電話、パソコン、インターネットホスト数（＝インターネットに直接つながっているサーバー数）、インターネット利用者のそれぞれの人口比（以下、普及率）をもとに、主成分分析で偏差値を作って順位付けした。データは国際電気通信連合（the International Telecommunication Union）のホームページから入手し、主に二〇〇〇年のデータを使った。

アジア各国・地域とOECDの三十一カ国を「IT化度」に応じて順位をつけると、米国が偏差値六六・五で一位になった。二位はアイスランドでその後に北欧諸国が並ぶ。アジアでは、シンガポールが五位、

図表2-8　IT化

	1995年		96年		97年	
1	フィンランド	73.4	フィンランド	71.5	フィンランド	68.4
2	アイスランド	65.3	アイスランド	64.9	アイスランド	65.6
3	ノルウェー	65.1	ノルウェー	64.6	スウェーデン	65.2
4	米国	65.1	米国	64.5	ノルウェー	64.8
5	スウェーデン	64.2	スウェーデン	63.8	米国	63.8
6	デンマーク	59.0	デンマーク	59.7	シンガポール	59.1
7	オーストラリア	57.6	オーストラリア	57.7	デンマーク	59.0
8	スイス	56.2	シンガポール	56.5	オーストラリア	56.4
9	ニュージーランド	56.2	スイス	56.2	スイス	55.5
10	カナダ	56.0	ニュージーランド	55.7	カナダ	55.4
11	シンガポール	53.8	カナダ	55.4	ニュージーランド	55.2
12	香港	52.2	香港	53.2	香港	54.9
13	オランダ	52.2	オランダ	52.1	日本	52.4
14	イギリス	52.0	日本	51.6	オランダ	51.2
15	ドイツ	49.5	イギリス	51.4	イギリス	50.6
16	オーストリア	48.6	ドイツ	49.4	オーストリア	49.3
17	日本	48.2	オーストリア	48.5	ドイツ	49.3
18	アイルランド	46.6	ベルギー	47.5	ベルギー	47.6
19	ベルギー	46.5	アイルランド	46.9	アイルランド	47.4
20	フランス	46.3	フランス	45.7	フランス	45.8
21	イタリア	44.8	イタリア	44.5	台湾	45.5
22	台湾	44.5	韓国	44.3	イタリア	45.4
23	韓国	43.5	台湾	44.1	韓国	45.3
24	スペイン	42.8	スペイン	43.6	ポルトガル	44.1
25	ポルトガル	42.5	ポルトガル	42.9	スペイン	43.5
26	マレーシア	39.7	マレーシア	39.3	マレーシア	39.0
27	タイ	36.8	タイ	36.0	タイ	35.2
28	フィリピン	35.7	フィリピン	34.9	フィリピン	34.1
29	中国	35.5	中国	34.7	中国	34.1
30	インドネシア	35.3	インドネシア	34.5	インドネシア	33.7
31	インド	35.2	インド	34.3	インド	33.5

度ランキング

（偏差値表示）

98年		99年		2000年	
フィンランド	65.9	アイスランド	65.9	米国	66.5
米国	65.3	ノルウェー	65.6	アイスランド	64.0
スウェーデン	65.0	米国	64.3	ノルウェー	62.8
アイスランド	64.9	スウェーデン	62.2	スウェーデン	61.2
ノルウェー	63.5	フィンランド	60.1	シンガポール	59.9
デンマーク	59.9	シンガポール	58.9	デンマーク	57.5
シンガポール	58.4	デンマーク	58.8	フィンランド	57.2
スイス	56.2	スイス	56.9	スイス	56.7
カナダ	56.0	カナダ	55.7	香港	55.6
オーストラリア	55.9	オーストラリア	55.6	オランダ	55.4
香港	54.2	オランダ	54.6	カナダ	54.8
オランダ	52.7	香港	54.6	オーストラリア	54.6
ニュージーランド	51.9	イギリス	52.3	イギリス	53.3
イギリス	51.6	日本	51.6	日本	52.7
日本	51.4	ニュージーランド	51.0	台湾	52.3
オーストリア	50.0	台湾	51.0	ドイツ	52.1
ドイツ	49.7	アイルランド	50.4	オーストリア	51.7
ベルギー	48.6	オーストリア	50.3	ニュージーランド	51.6
アイルランド	48.5	ドイツ	49.6	韓国	50.1
台湾	48.2	韓国	48.9	ベルギー	49.5
イタリア	47.3	ベルギー	48.8	アイルランド	49.4
フランス	46.9	フランス	48.4	イタリア	48.2
韓国	46.0	イタリア	46.8	フランス	47.9
ポルトガル	44.6	ポルトガル	46.6	ポルトガル	46.0
スペイン	43.5	スペイン	42.8	スペイン	44.4
マレーシア	37.9	マレーシア	38.0	マレーシア	38.0
タイ	34.0	タイ	32.9	タイ	32.2
中国	33.4	中国	32.5	中国	32.1
フィリピン	33.2	フィリピン	32.3	フィリピン	31.5
インドネシア	32.7	インドネシア	31.5	インドネシア	30.5
インド	32.6	インド	31.3	インド	30.3

香港が九位となった。日本は十四位で、偏差値は五二・七。台湾が僅差で十五位となった。東南アジア諸国連合（ＡＳＥＡＮ）や中国のＩＴ化は遅れており、上位グループとの間にはかなり隔たりがある。最下位はインドで、タイ、中国、フィリピン、インドネシアが下位層を形成している。

ＩＴ化度ランキングを九五年から時系列で見る（図表2-8）と、日本の順位は十三位から十七位近辺で推移しておりそれほど変動していない。日本は二〇〇〇年、ＩＴブームに沸き、パソコンやインターネット普及率は上昇したが、ほかの国も同じような現象が起こっており、九九年から順位に変動がなかった。

3　グローバル化をチャンスと捉える企業

こうした日本のグローバル化の遅れについて、日本企業自身はどのように考えているのだろう。グローバル化に対応した企業戦略についてアンケート調査（図表2-9）をしたところ①日本のグローバル化は不十分②日韓自由貿易協定に期待③中国に高い関心――といった傾向が明らかになった。

(1)　グローバル化には前向き

グローバル化は自分の企業にとって「新たなビジネスチャンス」と捉える積極派が、「競争激化で不利な影響を受ける」という消極派の二倍あり、グローバリゼーションを積極的に捉えている企業が多い（図表2-10）。

業種別には、運輸・通信、製造業、サービスなどが積極派だ。「グローバル化がビジネスの自由化・規制緩和を促す」と見るのは金融・保険が多い。また、売上高が多い企業ほど「新たなビジネスチャンス」と見ている。企業を輸出先別で分類すると、米国、新興工業経済群（ＮＩＥＳ）、ＡＳＥＡＮが最大輸出国の企業が「新たなチャンス」と見ている比率が高い。

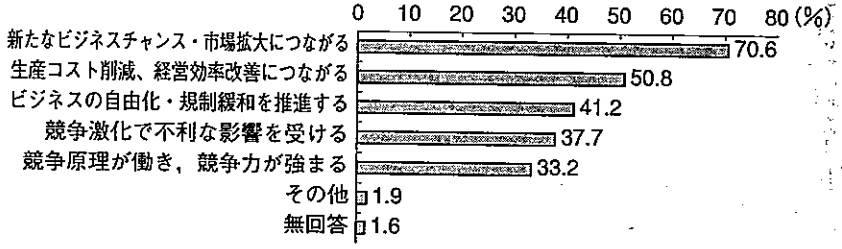
回答企業自身のグローバリゼーションについて、「進んでいる」と答えた企業は少数にとどまった。同業の中で比較して「進んでいる」と答えた企業は二五％程度、日本の中で比較した場合で約一五％だ。欧米との比較で「進んでいる」と答えた企業はわずか二・四％で、三分の二の企業が「遅れている」と回答した。業種別では建設業、最大輸出国別では中国、アジア進出企業が「遅れている」と回答した割合が大きい。売上高別では小規模な企業ほど「遅れている」と回答した企業が多い。

業種別に「進んでいる」と答えた企業の割

図表2-9　「グローバル化に関するアンケート」調査方法

調査名	グローバル化・自由貿易協定時代の日本の企業戦略調査
調査期間	2001年９月上旬～2001年10月上旬
調査方法	質問紙を郵送
調査対象企業	日経リサーチが所有する企業データベースから以下の条件で抽出した2500社データベース内の業種分類から国際的な業務展開が予想される業種を選定した ①人事・役職データの職務区分で「貿易・国際」に該当する部署が存在する企業1543社 ②株式公開企業で、売上高上位の957社
有効回答数	374社（14.9％）
調査実施機関	株式会社　日経リサーチ

図表2-10　グローバリゼーションのプラス・マイナスについての回答（複数回答）



合から「遅れている」と答えた企業の割合を引いて比べてみると、建設業、電気・ガス業に「遅れている」と答えた企業の割合が多い。相対的にグローバリゼーションが進んでいると考えているのは、運輸・通信業となった。

(2) 業務へのグローバリゼーションの影響九割超える

業務へのグローバリゼーションの影響については「強く感じる」「ある程度感じる」を合わせると、九割を超える。特に運輸・通信、製造業が「強く感じて」いる。

しかし、グローバリゼーションへの備えについて「十分」と答えた企業はわずか三%にとどまった。ただ、五五%の企業が「ある程度できている」と回答した。逆に「あまりない」「ほとんどない」は合わせて四〇%。「十分」「ある程度できている」企業の対応の内容としては、「海外の生産拠点の最適化・集約化（四七・五%）」「グローバル化に対応できる人材の採用・育成（四六・一%）」などとなっている。「海外拠点の見直し」は、売上高が大きい企業ほど積極的。「国内の生産拠点縮小」を挙げた企業は製造業では二四・七%で目立ち、国内の空洞化を示している。

グローバリゼーションによる競争激化の原因としては八割弱の企業が、「中国をはじめとするアジア企業の急速な台頭」を挙げている。特に、運輸・通信、製造業、建設業が多い。

また、約半分の企業が「急速に進展する貿易・投資自由化、規制緩和」を競争激化の原因とし、金融・保険業、電気・ガス業では七割を超える企業が原因としている。「情報化の進展」を競争激化の原因として捉えている企業も五割弱だ。金融・保険業、サービス業でその傾向が強い。

日本のグローバリゼーションについては、欧米と比べて「遅れている」と考えている企業が八五%を占めた。「大きく遅れている」が三割、「多少遅れている」が約五五%となっている。日本へのグローバリゼーションの影響については、「大いにマイナスの影響がある」と答えた企業が七・五%、「多少マイナスの影響がある」と答えた企業が約三割で、四割弱の企業が、グローバリゼーションは日本にマイナスと考えている。

(3) 韓国への期待が大きい

ＦＴＡとＷＴＯ（世界貿易機関）の関係については「補完的役割を果たす」が三割で、「ＷＴＯ体制に逆行する」の一割を上回った。しかし、「わからない」と答えた企業も約三割ある。

ＦＴＡの意義として、「相手国と相互依存関係が深まる」が四六%で最も多かった。「日本の規制緩和・構造改革にプラスとなる」と答えた企業は三割弱だ。ＦＴＡで具体的に期待するのは、「サービス貿易の自由化・ルールの整備」「基準・認証の統一」などで四割前後の企業が期待すると答えている。ＦＴＡが構造改革を促した場合、プラスとなる分野は流通、情報・通信、雇用・労働の順。

日本が交渉・検討しているＦＴＡの中では、日本・韓国ＦＴＡを望む企業が四割強と最も高くなった（図表2-11）。日韓ＦＴＡが結ばれた場合、影響がないと答えた企業は四割強だが、影響があるとの回答の中では「プラスの影響」が三七%で、「マイナスの影響」八%を大きく上回った。業種別では「運輸・通信」の六割強が「プラスの影響」を感じていて最も多い。

次がシンガポールとのＦＴＡで約三五%だ。「影響がない」と答えた企業は六割近くを占めた。メキシコ、カナダ、チリとのＦＴＡに関しては一五%以下の企業しか望んでない。メキシコとのＦＴＡは「影響がない」と答えた企業は八割弱にのぼる。ＥＵ（欧州連合）、ＮＡＦＴＡ（北米自由貿易協定）の影響は、

「影響がない」が四分の三強を占めた。

農業分野では、無条件で開放すべきだが約一五%、条件付きで開放すべきだが七割で、何らかの形で開放を望む企業が八五%に達した。農業開放の条件としては、「分野ごとの開放」が半数以上。「時間をかけて開放」が約四割になっている。

(4) AFTAについて

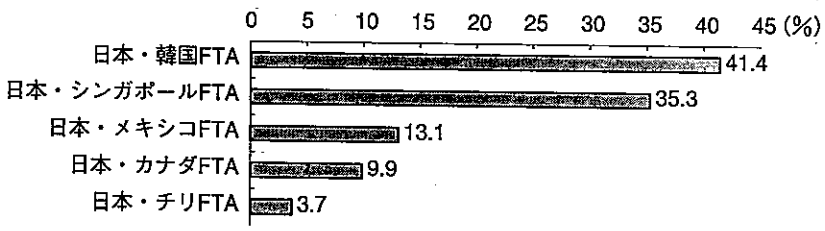
AFTAへの関心は、「大いに関心がある」と「関心がある」で七割を占めた。AFTA実現に備えた準備としては、「アジア各市場の特性に応じた商品戦略」「供給体制の再検討、再構築」が三割強を占める。しかし、「考えていない」が四割強ある。ASEANに海外拠点がある企業でも「考えていない」が三割弱で、対応はそれほど進んでいない。

ASEANに日中韓を加えたASEAN+3のFTAについては、三割が「できるだけ早期の実現」を期待している。しかし、将来も実現は難しいと回答した企業も一五%ある。

(5) 四分の一の企業が中国へ直接投資を計画

現在直接投資を行っている国・地域で最も多かったのは米国で、回答企業の約五〇%を占めている。次いで中国、台湾、シンガポール、タイとアジア各国地域が続く。計画のある国・地域では、回答企業のうち約四分の一の企業が中国への直接投

図表2-11 日本が交渉または検討しているFTAで，締結を望む協定はどれか（複数回答）



資を計画している。次いで米国、タイ、韓国、インドネシアの順となる。

WTO加盟後の中国への投資計画については、三割の企業が投資する計画がある。「投資する計画がある」と答えた企業のうち、約四分の三の企業が三年以内にさらなる投資を計画している。既に投資している企業の中では、約八割の企業が三年以内にさらなる投資を計画している。

中国がWTOに加盟した場合の影響について、過半数が自分の企業にプラスの影響があると回答した。「影響がない」と答えたのは三割、「多少マイナスの影響がある」「大いにマイナスの影響がある」は一割に満たなかった。

Parsons, 2007

Summary of Some of the Main Points in Urata's Chapter 1

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(Also, see K&O and BKP examples, and graphs; they are all examples of *static effects*.)

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Trade Diversion and Loss: A simple numerical example

Craig Parsons
YNU-Economics
Fall 2007

A simple example (from K&O)

- Assume we have three countries:
  - France
  - England (UK)
  - America (US)
- They each have different costs for producing wheat:
  - France: $6/bushel (=about 35 liters)
  - England: $8/bushel
  - America: $4/bushel

Let’s consider two cases: first, Case I

- Initially suppose England imposes a $5/bushel tariff in imports from France and America
  - Thus, US imports costs $4+$5=$9
  - Imports from France would cost $6+$5=$11
  - Domestic sales in England would be $8
  - Thus, originally England would import NO wheat, and make its own

Case I continued

- Now, suppose that England and France form a customs union
- Now imported wheat from France will be $6+0=$6
- This is less than England ($8) and less than America's wheat (still $4+$5=$9) because America is not in the union
- Thus, England will stop production and import from France

Case I continued

- As England imports from France, does England gain? Yes.
- Now, England can export $6 dollars worth of goods to France (not wheat; perhaps beer), and still get one bushel of wheat: a savings of $2 for the economy of England.
- This case is the Trade Creating Case.

Case II

- Now suppose England has a $3 tariff, instead of $5, and no Customs Union
- US imported wheat ($4+$3=$7)
- French wheat ($6+$3=$9)
- English wheat still costs $8
- Here, initially, England will import from US

Case II continued

- Now suppose England and France form a Customs Union
- Now: US (still $7); French wheat ($6); UK ($8)
- UK will stop importing from the US and start importing from France ($6<$7).
- This is still good for UK, right? WRONG.

Case II: Trade Diversion, UK loses

- UK pays France $6 for wheat. This is lower/cheaper than US($4+$3=7).
- However, *who* collected the $3 tariff revenue *before* the Customs Union with France?
- The UK government! So, although the UK was paying $7 for wheat before, the $3 stays in the UK.
- Thus, when UK and France form a Union, the UK overall actually loses, net $2 ($4-$6=-$2).

Case I: Trade Creation
Case II: Trade Diversion

- Thus, in one possible scenario the UK gains by forming a union (Case I).
- In another case, the UK has a net welfare loss (Case II).
- We can see two things in this simple example:
  - The initial level of the tariff makes a difference.
  - It also matters whether or not the country signs an agreement with the low cost (US) or high cost (France) country.
  - This, signing with a higher cost country, in general, is a “bad” Customs Union/PTA.

Food for Thought

- US and Japan are major trade partners
- Tariffs between them are very low (average less than 5% for manufactured, non-ag goods)
- Would a US-Japan FTA be trade creating or trade diverting?

"Keio" ch.9

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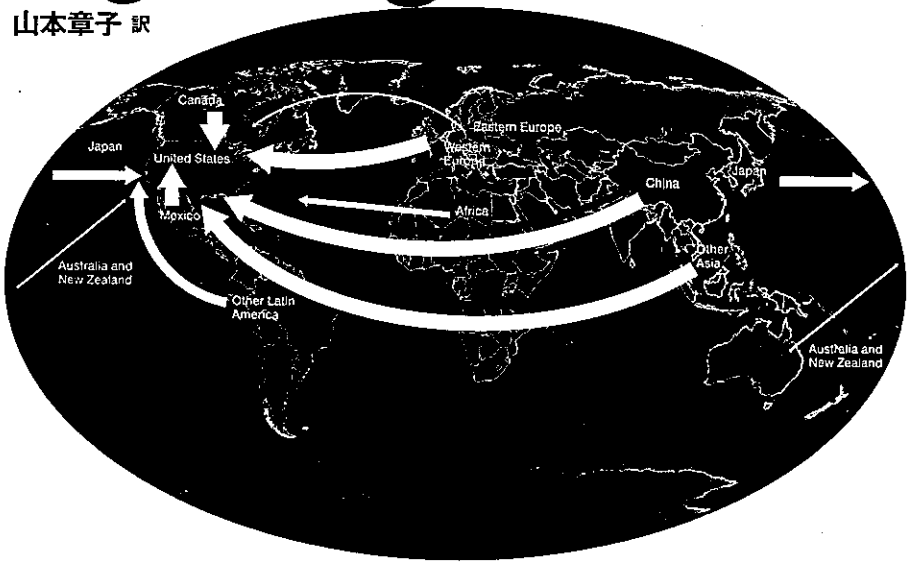

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第9章

The Political Economy of Trade Policy

貿易政策の政治経済

2005年11月8日，アメリカと中国両政府の間で1つの協定が結ばれた。これはアメリカの圧力によって，中国がアメリカ向け繊維製品の輸出割当を行うことに合意したものである。この合意によって，たとえば2006年の靴下の輸出は7億7,280万足に制限されることになった。その結果，アメリカの消費者にとっては，靴下その他の製品が著しく値上がりすることになる。中国はこの時点で繊維製品についてはアメリカに譲歩したが，工業製品と農産物の関税引き下げ要求には応じなかった。

第8章で説明した費用便益分析の結果を踏まえると，中国とアメリカはどちらも便益以上の費用を発生させる政策の遂行を決めたことになる。政府の政策には単なる費用便益の尺度を超える目的があるということだ。

本章では，政府は経済学者の言う費用便益の計算を政策の根拠に置くべきではないし，いずれにしても実際に根拠としていない理由について考える。また，実際の貿易政策を促進する力については，引き続き第10章と第11章で考察し，発展途上国と先進国それぞれが直面する貿易政策の問題を取り上げる。

現実の貿易政策を考える第一歩は，政府が貿易に介入すべきでない理由は何かである。これはつまり，どうして自由貿易を擁護するのかという問題でもある。この疑問に対する答えが出れば，自由貿易擁護論の根底にある想定への異議申し立てとして介入擁護論を検討できる。

本章の学習目標

- 従来の貿易の利益に関する議論を越えて，自由貿易を明確に論じることができるようになる。
- 自由貿易に反対する国の経済厚生論を評価できるようになる。
- 貿易政策に関する「政治経済」問題の背後にある理論と証拠を関連づけられるようになる。
- 世界の貿易が，国際交渉と合意によってどのように促進されるのかを説明で

きるようになる。

- 特恵貿易協定によって提起される特殊な問題を議論できるようになる。

自由貿易の擁護論

ほぼ完全な自由貿易を行っている国はほとんどない。法的には中国に属する香港は，中国と異なる経済政策をとっており，関税も輸入割当もないという点で唯一の近代的な国かもしれない。とはいえ，アダム・スミスの時代から貿易政策の目指すべき理想として，経済学者は自由貿易を標榜してきた。しかし，自由貿易が支持される理由は必ずしも自由貿易の概念そのものほど単純明快ではない。たとえば理論モデルは，保護主義に伴う効率性の悪化による損失を自由貿易が回避すると示唆している。また，多数の経済学者が，自由貿易によって生産と消費の歪みによる損失が解消され，さらに追加的な利益が得られると考えている。その揚げ句，自由貿易など完璧な政策ではないと考える経済学者でさえその多くが，政府が選択するであろう他の政策よりも自由貿易のほうが優れていると考える始末である。

自由貿易と効率性

効率性から見た自由貿易擁護論は，関税の費用便益分析で紹介した手順を単純に逆にしたものである。図9-1には外国の輸出価格に影響を与えられない小国のケースの要点だけを再掲した。関税は2つの三角形の面積に相当する純損失をもたらす。その原因は生産と消費のインセンティブがゆがむからである。反対に，自由貿易に移行すればこうした歪みが解消され，この国の経済厚生が改善される。

後ほど本章で説明するように，現代の世界ではさまざまな理由から，一般的に関税率は低く，輸入割当も比較的まれである。そのため，関税や輸入割当に起因する歪みからの損失の額はわずかである。表9-1に，自由貿易への移行によって得られた利益の最近の推計値を対GDP比で示している。これらの推計値によると，保護主義にかかる費用は，世界全体でGDPの1％にも満たない。一方，自由貿易からの利益はアメリカやヨーロッパといった先進国でやや小さく，それより貧しい「発展途上国」でやや大きい。

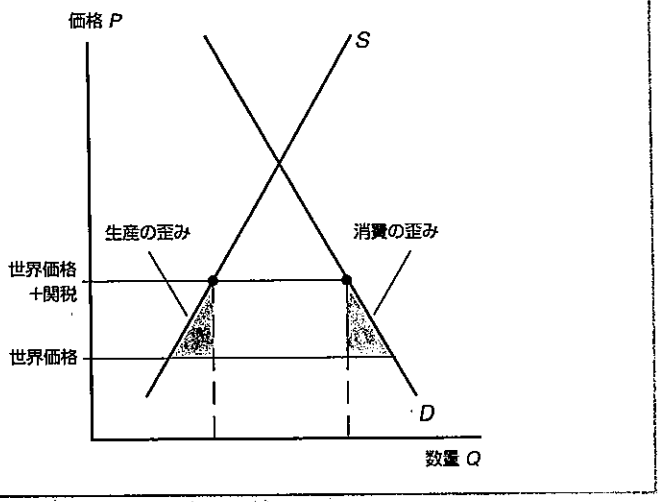


図9-1　効率性から見た自由貿易擁護論
関税をはじめとする貿易制限は生産と消費の歪みにつながる。

表9-1　世界的な自由貿易への移行による利益（対GDP比）

アメリカ	0.57
EU	0.61
日本	0.85
発展途上国	1.4
世界	0.93

出所：William Cline, *Trade Policy and Global Poverty* (Washington, D.C.: Institute for International Economics, 2004), p.180.

自由貿易の追加的利益[1]

経済学者は自由貿易から相当の利益が得られるケースもあると説明しているのに，その経済学者の間で，計算値がすべてを物語るわけではないという考えが広く信じられている。多数の経済学者が，たいていの小国，特に発展途上国では，通常の費用便益分析では説明のつかない相当な利益が自由貿易から得られると主張する。

1　ここで述べた自由貿易の追加的利益は「動態的」利益と呼ばれることもある。競争の高まりとイノベーションの効力が高まるには，生産と消費による歪みの解消よりも時間がかかるからである。

規模の経済も一種の追加的利益である。保護された市場では生産が世界中に分散されるだけでなく，競争が抑えられ，利潤が増え，これによって，非常に多くの企業がこの保護された産業に参入することになる。狭い国内市場で企業が増えると，個々の企業の生産規模は非効率的になる。産業保護が生産規模の非効率性につながった好例は，アルゼンチンの自動車産業だ。それが浮かび上がったのは輸入制限のせいだった。自動車の組立工場で効率的な生産を行うには，年間8～20万台の生産規模が必要だ。ところがアルゼンチンでは，1964年の生産台数がわずか16万6,000台の市場に，13社もの企業がひしめいていたのだ！　企業の参入過多と，参入過多による非効率的な生産規模を防ぐ必要性が自由貿易を保護する理由だと主張する経済学者もいる。それは，標準的な費用便益分析の計算をしのぐ理由なのである。

自由貿易を支持する別の主張もある。企業が新たな輸出の道や輸入品との競争を模索するためのインセンティブを与えるのが自由貿易であり，「管理」貿易制度よりも学習やイノベーションの機会が多いという主張である。管理貿易は政府が輸出入の枠組みを大筋で決める仕組みだ。第10章では低開発の国々を取り上げ，輸入割当や関税などの制度をより開かれた貿易政策に移行することで，予想しなかった輸出機会を見い出した経験について考察している。

これまでの追加的利益による自由貿易の擁護論では，ほとんどの部分が数値化されていない。しかし，1985年にカナダの経済学者リチャード・ハリスとデビッド・コックスが，カナダとアメリカの自由貿易を取り上げて追加的利益の数値化を試みた。数値化の対象になったのがカナダ国内でのより効率的な生産規模による追加的利益である。2人の推計によると，カナダの実質賃金は8.6％上がった。この上昇率は，経済学者が規模の経済による追加的利益を計算に入れない場合の平均的な推計値に比べておよそ3倍である[2]。

何人かの経済学者が考えるように，自由貿易の追加的利益がそれほど大きいなら，関税，輸入割当，輸出補助金などによって歪められた貿易の費用も従来の費用便益分析による測定値より大きくなるはずだ。

レント・シーキング

輸入制限が関税ではなく輸入割当によって実施される場合，レント・シーキングといわれる手法によって輸入制限にかかる費用が増えることがある。第8章で見たように，輸入割当の実施には政府が発給する輸入ライセンスが必要である。そして，ライセンス保有者には経済レント（超過報酬）が発生する。ところが，個人であれ企業であれ，場合によっては，輸入ライセンスの取得にかなりのコスト――実際には，生産資源のかなりの無駄――が発生する。

これについては，1950年代と1960年代のインドの例が有名である。当時，インドの企業にはその生産能力に見合う生産投入用の輸入財を購入する権利が与えられていた。この制度は過剰投資を誘発する要因になる。たとえば，製鉄会社は輸入ライセンスの枠が広げられるというだけの理由で必要以上に溶鉱炉を建設する。この遊休設備に使われる資源は結果的に，図9-1に示されたコストに上乗せされる保護主義のコストを示している。

最近のレント・シーキングの珍しい例としては，アメリカへのツナ缶輸入があげられる。ツナ缶は「関税割当（TRQ）」制度によって保護されている。少量（アメリカの消費量の4.8％）のツナ缶には6％の輸入関税が適用されるが，それ以上の輸入には12.5％の関税がかかる。なぜかこの割当制度ではライセンスが発給されず，毎年付与される低い関税の適用を受ける権利は早いもの順である。そのため，できるだけ早くアメリカに輸入しようとして順番争いに高い費用がかかる。アメリカの国際貿易委員会は，レント・シーキングのこの手順を次のように表現している。

> 輸入業者はTRQをできるだけ多く獲得しようと，12月の終わりに大量のツナ缶を保税倉庫に保管する。そして，新年明け早々に在庫品を放出するのである。

輸入業者が12月につぎ込む大量のツナ缶の倉庫保管料は，保護に必要な標準的な費用を超えるアメリカの経済損失を示している。

自由貿易擁護のための政治議論

自由貿易擁護のための政治議論は，自由貿易擁護に政治が関与するのは実際問題として得策だという事実を反映している。もっとも，理論的にはもっと優れた政策があるかもしれない。経済学者がしばしば主張するのは，実際の貿易政策は国家的な費用便益を考慮するよりも，特別な利害がからむ政治的な背景によって決定されるということである。経済学者がそれを指摘できる場合もある。理論的には，関税と輸出補助金を効果的に組み合わせて国の厚生が改善する可能性はあるのだ。だが，政府機関が貿易に介入するための手段をうまく駆使しようとしても，おそらくは利益団体に牛耳られ，実際には政治力の強い部門に所得を再分配するように仕組みを変えさせられるという主張である。この主張が正しければ，まったくの経済的な見地から自由貿易

[2] Harris and Cox, *Trade, Industrial Policy, and Canadian Manufacturing* (Toront: Ontario Economic Council, 1984), およびHarris and Cox, "Trade Liberalization and Industrial Organization: Some Estimates for Canada," *Journal of Political Economy* 93 (February 1985), pp.115--145参照。

が考えうる最善の政策でなくても，無条件に自由貿易を擁護するほうがましかもしれない。

前項で概要を紹介した3つの議論はおそらく，少なくともアメリカでは大部分の国際経済学者の標準的な見方である。

1. 自由貿易を離脱する費用は従来のやり方で測った場合は大きい。
2. 自由貿易にはその他の便益があり，それは保護貿易的な政策のコストに加味される。
3. 自由貿易から巧みに離脱しようとしても，政治的なプロセスによってなし崩しにされるであろう。

とはいえ，自由貿易からの離脱を支持する主張には理論的に成り立つものもあり，そのような主張は傾聴に値する。

ケーススタディ

「1992」の利益

（現在はEUとして知られる）ヨーロッパ共同体（EC）の加盟国がヨーロッパ市場の完全な統合を目指して採択した単一欧州議定書（SEA）は，1987年に発効した。市場統合の完了は5年以内と設定されていたので，この議定書に統合された措置は一般に「1992」として知られている。

この1992についての特異な点は，EC自体がすでに関税同盟だったことである。したがって，ヨーロッパ域内の貿易には関税も輸入割当もなかった。では，何が自由化されていなかったのか。1992の擁護論者によれば，ヨーロッパ諸国の貿易には，相変わらずかなりの障壁が残されていた。国境を越えるためのコストもその1つで，たとえば，フランスとドイツを往復する輸送トラックには国境通過の手続きが必要だった。これに時間がかかることも珍しくなく，時間と燃料のロスがコストとして発生する。同様のコストは国外出張にもかかる。空路ならロンドンからパリまで1時間だが，入国審査と税関を通過するのにさらに1時間待たなくてはならない。法令や規則の違いにも市場統合の足を引っ張る働きがある。たとえば，食品衛生にかかわる規則はヨーロッパでも国によってまちまちである。イギリスの食品をトラックに積んでフランスに運ぶだけではすまないし，その逆も同じだ。

こうした厄介な障害を除くには非常に難しい政治的なプロセスが必要である。たとえば，フランスがドイツ製品を検査なしで自国に入れようとする。ところが，

フランスの安全基準を満たさない工業製品，フランスの衛生基準を満たさない食品，フランスの医事専門機関に承認されない医薬品はフランスの消費者に提供されない。それはなぜか。国境を本当に開放することができるかどうかは，共通基準に同意できるかどうかのただ1点にかかっている。それができれば，フランスの基準を満たしたものがドイツでも認められ，ドイツで認められたものがフランスでも受け入れられるようになる。したがって，1992の交渉に関する最大の課題は，何百もの領域にわたる規則を調整することだった。もっとも，国による文化の違いなどから，交渉はしばしば険悪になった。

なかでも最も感情的な問題になったのが食料である。先進国はすべて，発がん物質その他の有害物質を知らないうちに摂取することがないように，人工着色料などの使用を規制している。ところが，当初提案された人工着色料の使用規制を実施すると，イギリスの伝統的な食べ物の外観が損なわれることになる。たとえばピンク・バンガー（朝食用のソーセージ）はピンクではなく白くなり，金色の燻製ニシンは灰色に，ゆでてつぶしたエンドウ豆はあざやかなグリーンではなくくすんだ黄褐色になってしまう。しかし，大陸の消費者は気にしないどころか，そもそも，イギリス人がどうしてそんな物を食べるのか理解できない。しかしイギリスでは，この問題は自国のアイデンティティが失われるという危機感につながるわけで，イギリス政府にとっては規制案の緩和が最優先事項になる。イギリスは結局，自国に不可欠な例外を承認させることに成功した。その一方でドイツは，何世紀も前のドイツ純粋法[3]に適合しないビールの輸入を受け入れさせられ，イタリアは正統派とはいえない（おぞましい！）小麦から作られたパスタの輸入を認めざるをえなかった。

しかし，何だってこんなに面倒くさい交渉に取り組むのだろうか。1992から得られた潜在的利益は何か。直接的な利益を推測してみても，得られる利益は常にかなりささやかなものである。国境を越えるのにかかるコストも運ばれる財の価額に占める比率はごくわずかであり，これを取り除いても，ヨーロッパ全体の実質所得の上昇率はほんのわずかでしかない。それでも，ヨーロッパ委員会（ECの行政機関）のエコノミストは，本当に得られる利益はそれよりずっと大きいと主張する。

その理論的な根拠はおおむね，ヨーロッパの市場統合が企業間競争の高まり

3　訳注　1516年にバイエルンで制定されたビールの原料に関する法律。

と効率的な生産規模を生むという点にある。これはほとんどアメリカとの比較によっている。アメリカは購買力も人口の規模もEUと似ており，しかも国境がなく，完全に統合された市場である。委員会のエコノミストは次のように指摘した。ヨーロッパでは多数の産業の市場が分断されてきた。つまり，企業は，大陸全体を1つの市場として扱うのではなく，かなり小規模な国ごとの生産者が携わる地域別に切り分けられた市場としてきたようだ。あらゆる貿易障壁が撤廃されれば，小規模な生産者が統合され，かなりの生産性の向上が見込めると主張したのである。エコノミストらのこうした推測によって，1992から得られる全利益の推計値はヨーロッパ諸国における当初所得の実に数%にまで底上げされた。そのうえエコノミストたちは，間接的な利益もあるはずだとも主張した。その理由は，ヨーロッパ経済の効率が改善されたら，インフレか失業かのトレードオフも解消されるというものである。このような一連の計算によって，ヨーロッパ委員会はついに，1992の利益はヨーロッパの所得の7%という推計値に達したのである[4]。

この議論に加わった者は誰1人として，推計値の7%をとりたてて信頼できる数値とはみなさなかった。その一方で，多数の経済学者が，得られる利益は大きいはずという委員会の確信を共有していた。しかし，市場の分割は貿易政策ではなく，文化に関係するものではないかとする懐疑的な見方もあった。たとえば，消費者が好む洗濯機はイタリアとドイツではまったく違う。イタリア人は購入する衣類の量が比較的少ない。しかし，買い求める衣類は洗練された高級品である。したがって，大切な衣服を傷めないようにゆっくりやさしく洗える洗濯機を選ぶ。

1992年からかなり経って明らかになったのは，自由貿易の擁護派にも懐疑派にもそれぞれの主張にもっともな点があったということである。産業によっては統合が目立ったケースもある。フーバー電気掃除機のフランス工場が閉鎖され，生産のすべてが効率の高いイギリス工場に集約されたのは，その一例である。市場については，従来の分割が完全に解消されたケースもあれば，その解消が意外な展開を見せたケースもある。スライスされたイギリスの食パンがフランスに出現して好評を博した例などは，そのケースにあたる。しかし，市場統合の気配さえない例もある。輸入ビールはドイツ人の口にほとんど合わなかったし，イタリア人は誰も軟質小麦のパスタなど見向きもしない。

では，1992から得られる経済的利益はどれくらいになるのか。ヨーロッパ委員会が2003年まで出していた数値はGDPの1.8%と，1992年以前の推計値より控え目なものだった。この数字が正しければちょっとした失望ではあるが，失敗とはいえない。

4　*The Economics of 1992* (Brussels: Commission of the European Communities, 1998) 参照。

国家の厚生から見た自由貿易反対論

関税，輸入割当，その他の貿易政策の手法は，まずは特定の利益団体の所得を守るために用いられる。しかし，政治家はよく，貿易政策というのは国全体の利益を守るためにあると主張する。そして，この主張がまさに的を射ている場合もある。経済学者はたいてい，自由貿易をしないと国の厚生は損なわれると主張する。だが実は，政治的な理由による貿易への介入政策によって国全体の厚生が改善されることもあると考えられる理論的な根拠もあるのだ。

交易条件から見た関税擁護論

自由貿易からの離脱を擁護する意見の1つは，費用便益分析から直接得られる。外国の輸出価格に影響を与えられる大国にとって，関税は輸入価格を低下させ，最終的に交易条件の改善による利益を生む手段となる。この利益は必然的に関税費用を相殺する。ここでいう関税費用は，消費および生産インセンティブの歪みによる損失を指すが，交易条件の改善による利益が関税費用を上回ることも，場合によっては起こりうる。だからこそ，**交易条件から見た関税擁護論**が成立するのである。

第9章補遺には，関税率が十分低ければ，交易条件の改善による利益は確実に関税費用を上回ることが示されている。つまり，低い関税率の下で，大国の厚生は自由貿易下より向上するのである（図9-2）。ところが，関税率が上がると費用が加速度的に膨らみ始め，国の厚生と関税率との相関関係を表す曲線は下向きのカーブを描くことになる。貿易がまったく成り立たなくなる関税率（図9-2のt_p）では，自由貿易よりも国の厚生は悪化する。そして，関税率がt_pを超えてさらに高くなっても，それ以上の影響は出ない。したがって，曲線は水平になる。

国の厚生は，図9-2の点1に対応する関税率t_oの下で最大になる。国の厚生が最大化される関税率t_oは**最適関税**と呼ばれる（**最適関税**は通常，慣例により，あらゆる検討を踏まえた最善の関税という意味ではなく，交易条件から見た関税擁護論によって正当化される関税として使われる）。最適関税は常に正の値になるが，輸入の完全排除が見込まれる禁止的な関税（t_p）よりは低くなる。

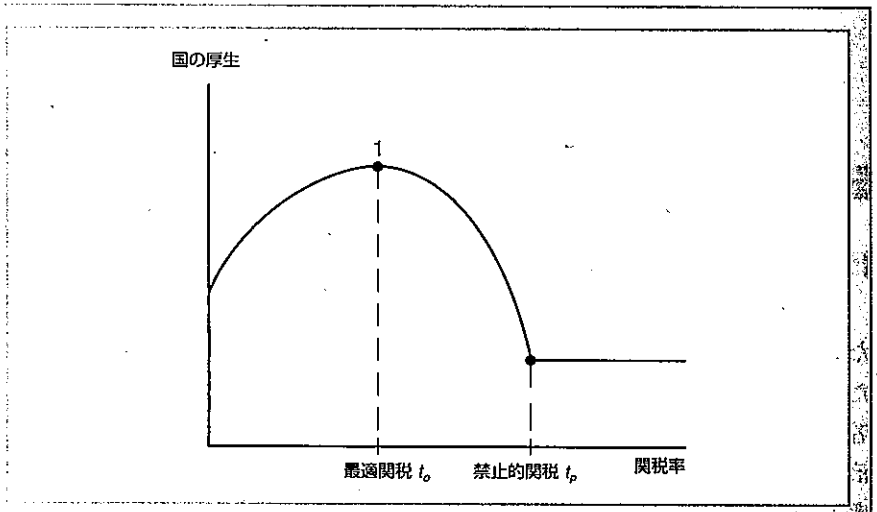


図9-2　最適関税

最適関税 t_o は大国にとって，交易条件の改善による限界利益が，生産および消費の歪みによる効率性の悪化の限界損失とちょうど等しくなる関税である。

交易条件は輸出部門に対してどのような政策を指示するのか。輸出補助金は交易条件を悪化させるので，国の厚生を低下させるのは明らかである。したがって，輸出部門に最適の輸出補助金はマイナスでなければならない。つまり，海外向けの輸出価格を引き上げる税金をかけなければならないということになる。最適関税と同じように，最適輸出税率は常に正の値をとるが，輸出を完全に撤廃するほどの禁止的な税率よりは低くなる。

サウジアラビアその他の石油輸出国は石油の輸出に関税をかけてきた。これは，石油輸出国以外の国には石油価格の上乗せとなる。長年，石油の価格は上がったり下がったりの変動が続いてきたものの，自由貿易にしていたらサウジアラビアの厚生は向上していたはずだとは主張できない。

ところが，交易条件から見た自由貿易反対論にはかなりの限界がある。ほとんどの小国には，輸出入を問わず国際価格を動かす影響力がまずないので，交易条件論に現実味はない。アメリカのような大国にとっての問題は，交易条件論が，利益を得るためなら他国を犠牲にしても国家の独占力を活用することを擁護する主張になってしまうことだ。確かにアメリカはある程度はそうするかもしれないが，そんな略奪政策まがいのことをすれば，アメリカ以外の大国による報復を招きかねない。報復的な貿易政策の連鎖反応が起これば，貿易政策を国際的に調整する試みは土台から崩れる。この政策調整については本章で後ほど触れる。

自由貿易に反対する交易条件論は理屈の上では申し分ないが，有効性は疑わしい。貿易政策を正当化するために政府が活用する理論というより，机上の理論として経済学者が強調する理論というのが実情である。

自由貿易に否定的な国内市場の失敗論

交易条件の問題はさておき，自由貿易を擁護する基本的な理論は，消費者および生産者余剰の概念を用いた費用便益分析を根拠としていた。多くの経済学者が自由貿易への反対論の根拠としたのはそれと逆である。つまり，消費者および生産者余剰の概念，特に生産者余剰は，費用便益を適切に計測するものではないという反論だ。

生産者余剰では財の生産の便益を適切に測れない可能性があるというのは，なぜだろうか。この点については，次の2つの章で，さまざまな理由を取り上げて考えることにするが，たとえば，ある部門で使われる労働が本来なら失業か不完全雇用になる可能性があるといった理由である。また，資本市場や労働市場に高い収益が見込める部門への速やかな資源移動を妨げる欠陥があったり，イノベーションが際立つ産業や新しい産業からテクノロジーが流出する可能性があったりするといった理由もある。これらはすべて**国内市場の失敗**として，ひとくくりにされかねないものだ。つまり，こうした1つ1つのことが国内市場がうまく機能していない――労働市場が均衡していない，資本市場で資源の有効な配分がされていない――例とみなされてしまうのである。

たとえば，ある財の生産から経済全体のノウハウ改善につながる経験が得られるが，その部門の企業は自社の得られる便益を専有できず，そのため生産量の決定にはそれを考慮に入れないとする。この場合，追加的な生産について回る社会的限界便益は，生産者余剰の尺度ではつかむことができない。この**社会的限界便益**は関税その他の貿易政策を正当化する理由になりうるのである。

図9-3には自由貿易に否定的な国内市場の失敗論が示されている。図9-3aが示すのは，小国（交易条件効果を除外する）の関税に関する従来型の費用便益分析である。図9-3bは，生産者余剰の尺度では考慮されない生産から得られる限界利益を示している。この図では，国内価格は関税効果によって P_W から $P_W + t$ まで上がる。生産は a の区域が示す生産の歪みによって，S^1 から S^2 へと拡大される。b の区域が示す消費の歪みによって，消費は D^1 から D^2 に減少する。消費者および生産者余剰のみを考えれば，関税コストは利益を上回っている。ところが，図9-3aの計算には，自由貿易より関税をかけるほうが望ましくなるような追加的な利益が含まれていない。それを示したの

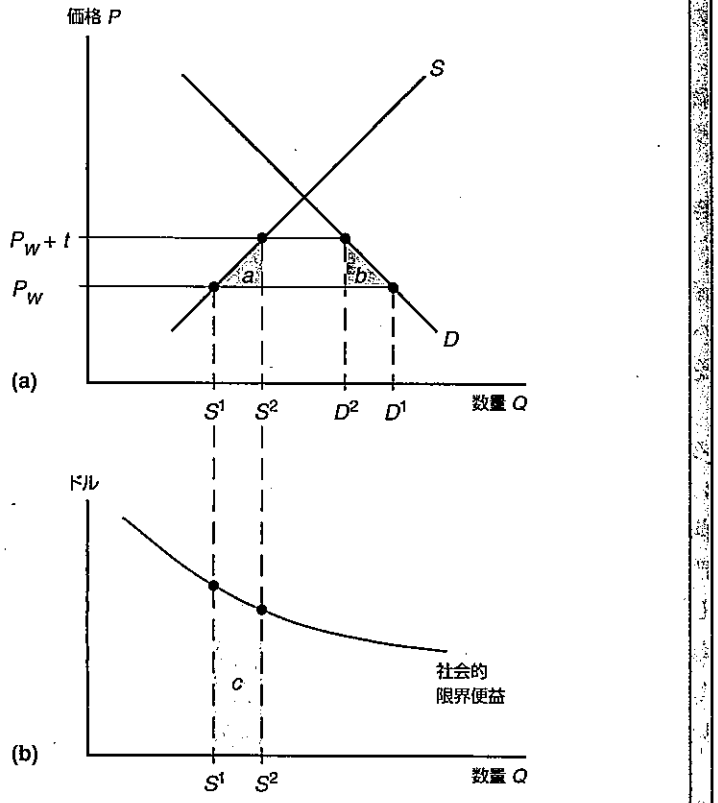


図9-3　関税を擁護する国内市場の失敗論

財の生産によって追加的な社会的便益が生まれるなら［パネル(b)の区域cで測定される利益は，生産者余剰の概念ではとらえられない］，関税は厚生を改善する可能性がある。

が図9-3bである。生産の拡大から生まれる社会的な利益は，社会的限界便益曲線の下部区域のうち，S^1からS^2までのcで示された範囲の面積から計測されるだろう。事実，交易条件のケースと同じような議論によって関税率が十分低ければ，cは常に$a+b$を上回ることが示せる。また，厚生を最大化する関税もあることを示せる。この関税は自由貿易よりも高い社会福祉水準を生み出すのである。

自由貿易に否定的な国内市場の失敗論は，経済学で次善の理論として知られる一般的な概念の具体例である。次善の理論では，どの市場であっても不介入政策が望ましいのは，その他の市場がすべて適切に機能している場合に限られるとしている。そうでなければ，1つの市場でインセンティブの歪みを招くと思われる政府の介入が，実際にはその他の市場の失敗による影響を打ち消して，厚生が改善される可能性がある。たとえば，労働市場が機能せず，完全雇用が達成できない場合，労働集約型の産業に補助金を供与するというのが，こうした介入の例である。つまり，労働集約型産業への補助政策は完全雇用の経済では望ましくないが，完全雇用の達成ができない状況では，改善策になる可能性があるということである。たとえば，労働市場の調整が目的なら，賃金に柔軟性をもたせるほうがいいのかもしれないが，何らかの理由でそれができない場合，その他の市場に介入することが問題を軽減化する「次善」策と考えられる。

経済学者は貿易政策に次善の理論を応用する場合，ある国の内部的な機能不全は外部との経済関係への介入を正当化する可能性があると主張する。この主張は，国際貿易が問題の根源ではないと認めつつも，貿易政策が少なくとも部分的な解決をもたらす可能性があることを示している。

市場の失敗論の説得力

市場の失敗論が初めて示されたとき，保護政策を認めるこの理論は自由貿易擁護論をかなり弱体化させるのではないかと思われた。どのみち，人が生きる現実の経済に市場の失敗はないなどと主張できる者がいるだろうか。貧しい国では特にそうだが，市場の不完全さなどいくらでもある。たとえば，数多くの低開発国には失業の他にも，都市部と地方で大きな賃金格差がある（第10章参照）。先進国では市場の機能不全を示す証拠は目立たないが，重大な市場の失敗はやはりあるという仮説は簡単に立てられる。たとえば，イノベーションを実現させた企業がそれに見合う報酬を得ることはないというのはどうだろう。国の厚生を向上させうる介入が見込まれるとき，どうして自由貿易を擁護できるだろうか。

自由貿易擁護論は2つある。第一は，国内市場の失敗は，問題の要因に直かに迫る国内政策によって是正されるべきである，というもの。第二は，十分な政策を立てられるほど経済学者が国内市場の失敗を評価できないというものである。

国内市場の失敗に必要なのは国内政策の変更であって，国際貿易の政策変更ではないという主張の正しさは，費用便益分析によって立証できる。ただし，社会的限界便益がすべて検出できるように修正した分析方法を用いる。図9-3には関税が経済厚生を改善する可能性が示されている。関税は生産と消費に歪みを生むが，社会的な便益を生む追加的な生産につながるからである。しかし，増産が関税ではなく生産補助金によって達成された場合，消費者は価格の上昇に見舞われず，消費の損失bは回避さ

れる。つまり，促進しようとする特定の活動に直接焦点をあてることによって，生産補助金がある程度まで関税に付随するコストを押さえ込む。

以上の例には，市場の失敗に対処する場合の一般原則が表されている。市場の失敗は常にできるだけ直接的に対処することが望ましい。間接的に対処すると，どこか別のところに意図しないインセンティブの歪みが生まれることになるからだ。したがって，市場の失敗によって正当化される貿易政策は決して最も効率的な対応策というわけではない。それは「最善」策ではなく，常に「次善」策である。

このような見方は貿易政策の立案者には大きな意味を持つ。政策の対象が同じ国内問題なら，どのような貿易政策案も当然，純粋な国内向けの政策と常に比較されることになるからである。仮に国内政策のコストがあまりに高くつきそうだったり，あるいは望ましくない副作用があったりしても，貿易政策が望まれないのはほぼ間違いない。たとえそのコストが明確でなくても。

アメリカを例にとると，自動車の輸入割当は自動車産業の労働者を救う必要があるという理由で支持を得てきた。輸入割当を支持する主張は，アメリカの労働市場は自動車産業の労働者にとっては非常に柔軟性に欠けるため，賃金カットか別の産業への転職によってしか雇用を維持できないというものである。ここで，同じ問題をまったくの国内政策で対処するとしたら，対策の1つは自動車産業の労働者を雇う企業への補助金の支給である。ところが，この政策はかなり政治的な抵抗を受けるだろう。1つには，保護政策をとらずに現行の雇用水準を保とうとすると補助金の支払額が膨らみ，連邦政府の財政赤字が膨らむか，増税が必要になるかのどちらかになるからだ。そのうえ，自動車産業の労働者は，製造業の中でも最高水準の賃金を得ているため，一般市民は間違いなく彼らに対する補助金の支払いに反対する。自動車産業の労働者のための雇用補助金が議会を通るとは思えない。それでも輸入割当は，雇用を増加させる一方で消費の歪みを伴うため，**補助金よりもずっと高くつくだろう**。ただ，輸入割当のコストは政府の直接支出ではなく自動車の値上げという形をとるため目立たないというところに，補助金との違いがある。

保護主義を正当化するための国内市場の失敗論には，コストが目につかないのは確かだとして，以下のような批判が向けられる。自由貿易からの離脱はほとんどの場合，便益が費用を上回るからではなく，一般人には本当のコストがわからないから選択されるのである。貿易政策とそれに代わる国内政策を費用で比較すれば，費用の大きさに注目を集めることに役立つだろう。

自由貿易の擁護論の2つ目は，市場の失敗を普通は正確に特定しにくいため，何が適切な政策対応なのかを確定するのは難しいという考え方である。たとえば，低開発国の都市部に失業問題があるとする。この場合の適切な政策は何か。ある仮説（第10章で詳しく見るが）では，都市部の産業を守るための関税はそれによって利益を得る産業に失業者が流れるので，費用を補ってあまりある社会的な便益が生まれるというものだ。ところが別の仮説では，この政策によって都市部への著しい人口流入が促されるので，実際には失業者が増えるとされる。どちらの仮説が正しいのかは判断が難しい。経済学の理論は，きちんと機能する市場の働きについては多くを語るが，機能していない市場についてはあまり役に立たない。市場が機能不全を起こす状況は多々あるし，どのような次善の政策を選択するかは，市場の失敗を詳しく見ないとわからない。

採用すべき次善の貿易政策が正しいかどうかを確かめる難しさは，先に展開した自由貿易を擁護する政治的な議論を後押しする。貿易政策の専門家が自由貿易からどの程度逸脱した政策をとるべきかを確信していなかったり，専門家同士で意見の相違があったりするなら，貿易政策が国の厚生をまったく無視して，特別な利益団体に牛耳られても当然である。そもそも市場の失敗がさほどひどくなければ，自由貿易を実践するほうが，柔軟な取り組みによってパンドラの箱を開けるより，結局は好ましいかもしれない。

もっとも，これは経済問題というより政治問題に関する判断である。経済学の理論は，自由貿易をかたくなに擁護しているとよく非難されるが，必ずしもそうではないと認識しておく必要がある。

所得分配と貿易政策

ここまでは，国の厚生に的を絞って関税支持論と反対論を考察してきた。この点から始めたのは適切だった。というのも，国の厚生と特定のグループの厚生との区別をつけることは問題点を明確にするのに役立つからであり，貿易政策の擁護論は一般的に，それが国全体に便益をもたらすと主張するからである。ところが，貿易政策にかかわる実際の政治について考察する場合，そもそも国の厚生などないという現実に対処することが必要になる。あるのは個人の願望だけであり，それが多かれ少なかれ不完全に政治目標に反映されているのである。

個人の選好はどのようにまとめられて実際の貿易政策になっていくのだろう。これについては誰もが認める答えなどない。しかし，さまざまなモデルを使った経済学的な分析は増えている。こうしたモデルが想定するのは，政府が目指すのは最大の政治的な成功であって，国の厚生などという抽象的な尺度ではないというものである。

選挙による競争

政治学者は，有権者の選好が実際の政治にどう反映されるのかを示すのに，単純な政党間競争のモデルを長年使ってきた[5]。このモデルは次のような想定で展開される。まず，競争する2つの政党があって，それぞれが次の選挙に勝つためならどんな公約もするつもりでいるとする。公約は，たとえば関税率の水準といった1つの次元で示される。そして最後に，有権者の好む政策には違いがあるとする。たとえば，技術集約的な財の輸出と労働集約的な財の輸入をする国の場合，高い技術を持つ有権者は低い関税率を歓迎するが，低い技術の有権者にとっては高い関税率のほうが得になる（第4章のストルパー＝サミュエルソン効果による）。そこで，すべての有権者が好む関税率の順番に並んだと考えてみよう。最低の関税率に賛成する有権者は左側に，最高の関税率に賛成する有権者は右側に列ができる。

ではこの想定で，2つの政党はどのような政策を公約するだろう。中間を目指すというのが答えである。具体的には，列のちょうど中ほどを占める**中位有権者**の望む関税率を公約に入れようとするのである。図9-4を使ってその理由を考えてみよう。図9-4では，望みの関税率のところに並ぶ有権者の列が右上がりの曲線によって表されている。図中に示されたt_Mは中位有権者が選ぶ関税率である。ここで，一方の政党が関税率t_Aを提案したとする。関税率t_Aは中位有権者が選ぶ関税率よりかなり高い。このとき，もう一方の政党は少し低めの関税率t_Bを提示することができる。そして，少しでも低い関税率を望む有権者はほぼすべて，つまりは大多数が関税率t_Bを選ぶことになる。言い換えれば，政党の政治的な関心は常に，中位有権者が求めるより高い関税率を少しでも下回る競争に向けられるということである。

しかし，これと似たような根拠では，競争相手の政党が平均的な有権者が望む関税率より低い関税率を提案した場合，利己的な政治家はそれより高い関税率を公約にしたがることを示している。したがって結局はどちらの政党も，中位有権者が望む関税率に近い数値を提案することになる。

政治学者はこのモデルに数多くの修正を加えてきた。たとえば，熱心な政党支持者による投票推進活動の重要性を強調する専門家もいる。というのも，こうした活動家の多くはイデオロギーに突き動かされているからである。このため彼らの支持を得る必要から，党としてはこのモデルが示すような，皮肉っぽい態度や不明確な綱領を避けざるをえなくなるからである。それでも，選挙競争に関するこの中位有権者のモデルは，現実の世界でどのように政治決定が行われるかを考える1つの方法として，これまで非常に重宝されてきた。現実の世界で重要なのは所得の分配に与える政策の効果であって，経済効率に与える効果ではない。

[5] Anthony Downs, *An Economic Theory of Democracy* (Washington, D.C.: Brookings Institution, 1957)（『民主主義の経済理論』アンソニー・ダウンズ著，古田精司監訳，成文堂，1980年）を参照。

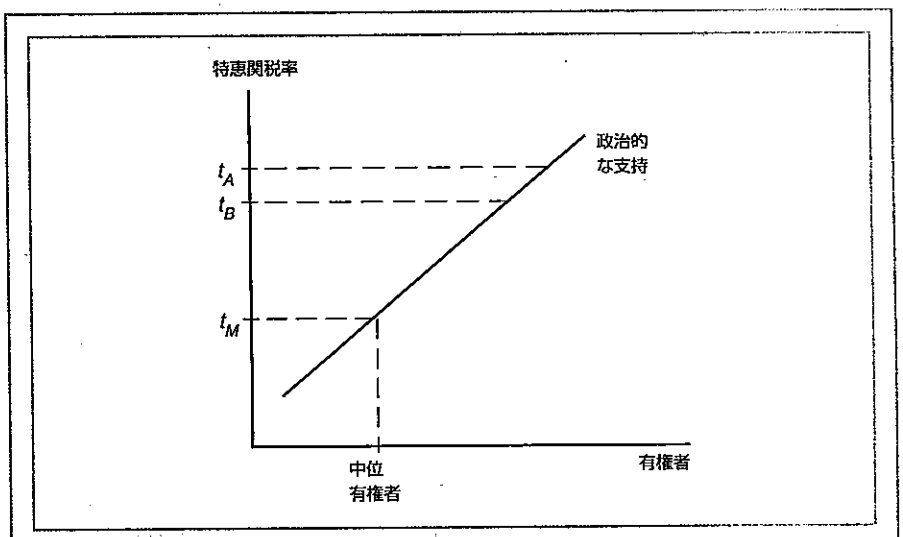


図9-4　政治的な競争

選好する関税率の順番に従って有権者が配置されている。高い関税率t_Aを提案する政党があれば，別の政党はt_Aよりいくらか低い関税率t_Bを提示することによって，ほとんどの有権者の支持を勝ち取ることができる。こうした政治的な競争によって，両党の提案する関税率は，中位有権者が望む関税率t_Mに近づく。

しかし，中位有権者のモデルがうまくあてはまらない領域もある。それこそが貿易政策なのだ！　事実，このモデルはほとんど正解とは逆の予測をする。このモデルによれば，政策はどれほど多くの有権者を満足させるかによって選ばれる。つまり，小数の有権者に大きな損失を負わせ，多数の有権者に利益をもたらす政策が必ず勝つ。広範にわたる損失をもたらすが小規模のグループを救う政策は負ける。しかし実のところ，保護主義の政策は前者より後者の例を示しているようだ。第8章で見たアメリカにおける砂糖の輸入割当の例を思い出そう。あの例で示された推定では，輸入割当によって消費者――何千万人という有権者――が約25億ドルの損失を負わされる。その一方，砂糖産業で働く数千人規模の労働者や経営者が得る利益ははるかに少ない。そもそもどうしてこのような政治現象が起きるのだろうか。

政治家売ります：1990年代の事例による根拠

本文で説明したように，政府が本当に国の厚生を最大にするよう努めていると想定した場合，現実の貿易政策に納得するのは難しい。その一方，特別な利益団体が影響力を獲得できると想定すれば，実際の貿易政策は納得のいくものとなる。ところで，本当に「政治家売ります」を直接的に示す根拠はあるのだろうか。

参考例としては，1990年代のアメリカ連邦議会における重要な貿易関連法案の採決があげられる。アメリカの選挙募金活動法は，選挙献金について，その金額と出所を開示するよう政治家に求めている。この開示によって，経済学者も政治学者も選挙献金と実際の投票活動との関連性を探ることができる。

ロバート・ボールドウィンとクリストファー・マギーが1998年に行った研究[*1]では，2つの重要な採決に焦点が絞られた。それが1993年の北アメリカ自由貿易協定（いわゆるNAFTA。詳細は以下に）と1994年の関税と貿易に関する一般協定（いわゆるGATT。以下に詳しい）である。この採決は企業と労働団体との激しい戦いの末に行われた。企業側は強力に支持し，労働側は猛烈に反対したのである。どちらも，企業側が支持した自由貿易賛成案が可決された。NAFTAがどうなるかは最後までわからなかった。下院での可決票差34はあまり大きな差ではない。

ボールドウィンとマギーが想定した計量経済モデルでは，選挙区の経済特性や企業と労働団体からの議員への献金といった要素が調整されている。2人は献金が投票行動に大きな影響を与えることに気づいた。こうした影響を算定する方法には，一連の「反事実」（企業の献金がない，労働団体の献金がない，あるいは献金がまったくない）によって，投票全体にどのような違いが出てくるかを見るというやり方がある。

次の表に結果の要約が示されている。表の1行目の数字はそれぞれの法案に対する賛成票の数である。可決には最低214票が必要になる。2行目はボールドウィン＝マギーの等式から得た賛成票の予測値である。NAFTAの賛成票については，2人のモデルから正確な予測が得られたが，GATTの賛成票については，数票多くなる誤差が出た。3行目以下は労働団体の献金がない場合の予測値，企業の献金がない場合の予測値，献金がまったくない場合の予測値と続く。

	NAFTAへの賛成票	GATTへの賛成票
実際の結果	229	283
モデル予測	229	290
労働団体の献金なし	291	346
企業の献金なし	195	257
まったく献金なし	256	323

これらの予測値が正しければ，投票全体に対する献金の影響力が大きかったことになる。NAFTAの場合，労働団体の献金がなければ，62票が労働団体の意思に反してNAFTA賛成に回っていたはずである。これに対して，企業の献金はもともとNAFTA反対だったはずの34票を賛成票に変えたことになる。また，企業の献金がなければ，NAFTAの賛成票は195票にすぎず，可決には至らなかったものと思われる。

一方，両陣営からの献金があるとすれば，双方の影響力は打ち消し合うことになる。ボールドウィンとマギーの予測値によれば，労働団体と企業側のどちらか一方の献金がなくても，NAFTAとGATTの両案はとにかく議会を通過したはずだ。

以上の献金のケースで，両陣営からの献金は最終的な結果を左右するものではなかったと強調するのは，おそらく誤りだろう。本当に重要なことは，政治家が実際に売り物になるという結果である。つまり貿易政策が特別な利益を重視するという理論は正しいということだ。

*1 Robert E. Baldwin and Christopher Magee, "Is Trade Policy for Sale? Congressional Voting on Recent Trade Bills," National Bureau of Economic Research Working Paper no. 6376.

集団行動

経済学者のマンサー・オルソンは，今ではよく知られた本で，ある集団を代表して行われる政治的な活動は公共財であると指摘した。つまり，そのような活動の恩恵は活動する個人だけでなくその集団全員にもたらされるというわけである[6]。たとえば，ある消費者が国会議員に手紙を書き，自分の好きな輸入財の関税引き下げを頼むとする。この手紙に促された議員が賛否を変えて票を投じ，関税の引き下げが認められることになれば，この輸入財を購入するすべての消費者はたとえ自ら手紙を書かなくても，安くなった価格の恩恵に浴するのである。

こうした政治的な公共財の特徴は，全体としては大きな損失でも個人にとってわずかな損ですむ政策はこれといった反対をまったく受けない可能性があることを意味する。ここでもう一度，アメリカにおける砂糖の輸入割当を例にあげる。この輸入割当は，平均的なアメリカ人の家庭に年間およそ30ドルのコストを発生させる。では，消費者団体が議員に対して輸入割当の撤廃を働きかけるだろうか。個人の利益という観点からいえば，もちろんそうはしない。一通の手紙ではあるかないかの政治効果しか見込めないので，こうした手紙から得られる報酬はおそらく文字通り，切手代はおろか紙代にもならない（実際，輸入割当の存在は，輸入割当そのものに興味がある場合は別として，知ったからといってどうということはない）。とはいえ，百万人の有権者が輸入割当の中止を求めて手紙を書けば，確実に輸入割当が撤廃され，郵便代をはるかに超える利益が消費者にもたらされることにはなるだろう。こうしてみると，オルソンの言葉には集団行動の問題点が1つある。すなわち，自分たちが賛成する政策を要

6 Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965).（『集団行動論：公共財と集団理論』マンサー・オルソン著，依田博，森脇俊雅訳，ミネルヴァ書房，1996年）

求することが集団全体のためではあっても，それが個人のためにはならないという問題である。

このような集団行動の問題は，集団が小規模である場合（自分たちに有利な政策の実現によって，各個人がかなりの分け前にあずかる）や，集団としてうまくまとまっている場合（構成メンバーを集団の利益次第で動員できる），もしくは規模が小さく十分に組織されている場合には，実にうまく解消される。砂糖の輸入割当のような政策が実現する理由は，砂糖の生産者が比較的小規模でしっかり組織されており，生産者それぞれが受け取る利益の大きさを十分実感できる一方，膨大な数の砂糖の消費人口は，自らを圧力団体などと考えもしないからである。つまり，集団行動の問題点は利益より大きな費用を発生させるだけでなく，利益を得るよりも損失を被る有権者のほうがはるかに多いと思われるような政策がどうして導入されるのかという理由を説明している。

政治的なプロセスのモデル化

これまで経済学者は，合理性に欠けると思われる貿易政策を説明するのに集団行動の論理を引き合いに出してきた。しかし，組織化された利益団体がどのように政策に圧力をかけるかについては，いささか漠然としたところがある。最近，このギャップを埋めるのに，政治プロセスのモデルを使って分析しようとする動きがますます盛んになっている[7]。

この分析の出発点となるのは，次のような明白な点である。すなわち，政治家が選挙に勝つ理由の一部は一般受けする政策の支持を訴えるからだが，選挙活動を成功させるためには宣伝や世論調査のためなどの資金も必要である。したがって，個人がかなりの額の献金を提供した場合，政治家の関心が平均的な有権者の利益に反する姿勢をとる可能性はある。一般受けしない立場をとることで失う票より，資金的な余裕のほうが大きな価値を持つかもしれないのだ。

このため，貿易政策の政治経済に関する最近のモデルは，一種の競売を想定したものになっている。つまり，政権獲得後の政策に条件を付けた献金を申し出ることによって，圧力団体が政策を「買う」のである。これに対して政治家は，国全体の厚生を無視するわけではないが，多額の選挙資金と引き換えに有権者の厚生を多少なりとも犠牲にすることになる。その結果，うまく組織されたグループ――集団行動の問題を解消できたグループ――は，社会全体を犠牲にして自分たちが望む政策を展開させることができる。

7　Gene Grossman and Elhanan Helpman, "Protection for Sale," *American Economic Review* 89 (September 1994), pp.833–850を特に参照のこと。

誰が保護されるのか

実際問題として考えた場合，輸入との競争から本当に保護されるのはどの産業だろう。発展途上国の多くは，昔から広範囲の製造業を保護してきた。これは輸入代替工業化という政策である。この政策について，およびこの政策が最近はほとんど採用されなくなった理由については第10章で考える。一方，先進国では保護の対象にされる産業ははるかに少ない。それどころか，保護政策のほとんどは農業と繊維のただ2つの産業に集中している。

農業　近代的な国家では農業従事者は多くない。アメリカの場合，合計で1億3,000万人を超える労働人口のうち，農業人口は約200万人にすぎない。しかし，農業従事者は通常，政治的な有力団体としてしっかり組織されていて，これまで多くの問題で非常に高い有効保護率を獲得してきた。第8章で見たように，ヨーロッパの共通農業政策（CAP）では，輸出補助金によって多数の種類の農産物が世界価格の2倍から3倍の価格で売られている。日本では昔から米の輸入が禁止され，国民食である米の価格は世界価格の5倍超になるまで引き上げられた。1990年代には不作のために禁止が緩和されたが，1998年の後半には，アメリカやその他の国々の抗議に対して輸入米に1,000％の関税をかけた。

アメリカはおおむね食料の輸出国であり，関税や輸入割当によって価格が上がることはない（例外は砂糖）。アメリカ連邦政府は自国の農家にかなりの補助金を支払ってきたものの，直接的な支払い（消費者の目に見えないコストを多少なりとも負担させるのとは対照的に）はあまり望まず，補助金の規模は全般的に抑制されてきた。政府がこのように抑制した結果，アメリカにおける産業保護は，農業以外の主要保護産業である繊維産業に集中している。

繊維産業　繊維産業は，テキスタイル（紡績と織物）とアパレル（布地の裁断から衣料の縫製まで）の2つの産業から構成されている。どちらもこれまで関税や輸入割当によって手厚く保護されてきたが，特にアパレル産業の保護が目立つ。2005年まで，アパレルは多国間繊維取り決め（MFA）に従って，多数の国々が実施する輸出入割当の対象品目とされていた。

アパレルの生産には大きな特徴が2つある。まず，労働集約型であることだ。1人ひとりの労働者に資本をかける必要はほとんどない。ミシン1台さえあればいいという場合もある。さらに正規の教育をあまり受けていなくても仕事はこなせる。次に，生産技術が比較的簡単なことだ。アパレル関連の技術移転は，移転先が最貧困国であってもそれほど難しくない。その結果，アパレル産業では低賃金国が強固な比較優位を

表9-2　アメリカの産業保護にかかる厚生費用（単位：10億ドル）

	2002年推定値	2011年予測値
合計	14.1	3.7
テキスタイルおよびアパレル	11.8	1.9

出所：U.S. International Trade Commissions.

持ち，高賃金国では比較劣位が顕著になる。また，先進国では昔からアパレル産業の組織力が優れていた。たとえば，アメリカではアパレル産業の労働者が早くから国際婦人服飾労働組合を結成している。

本章では後ほど，貿易交渉がどのように進められるかを説明する。1994年の協定調印まで続いたウルグアイ・ラウンドでは，2004年までにMFAを段階的に解消していくことがきわめて大きな決定事項になった。繊維製品の輸入割当は2005年に中国を対象として再実施されたが，これも数年後には廃止の予定である。このため，2011年以降に繊維貿易がこれまでのように多くの規制を受けることはないだろう。

表9-2を見ると，アメリカの産業保護政策で，繊維産業がどれほど重視されていたのか，そして保護政策の終了によってどれほど大きな影響を受けるのかがわかる。MFAがまだ機能していた2002年，繊維産業にかかったアメリカの保護費用は全体の80％以上を占めていた。これは，MFAによって輸入ライセンスが輸出国に付与されたため，アメリカの厚生費用が生産および消費の歪みによってではなく，割当レントが国外に移転したことによって発生したからである。

MFAが終了すれば，繊維産業の保護費用すなわちアメリカの保護費用の総額は急減する。

国際交渉と貿易政策

これまでの貿易政策の政治問題に関する考察は決して楽観的なものではなかった。国の厚生を高めるような貿易政策の策定は難しく，貿易政策は特別な利益団体の政治的な圧力によって左右されることが多いというのが，本書のこれまでの主張である。貿易政策については，考えられるかぎりの利益をはるかに上回る費用が発生するといった「不愉快な話」が多い。貿易理論の実用的な側面について冷ややかな態度をとるのは簡単だ。

とはいえ，1930年代の半ばから1980年代ごろまでは，実のところアメリカその他の先進諸国では，関税などの貿易障壁が少しずつ取り除かれ，国際取引の急速な拡大が促進されてきた。図9-5に示したのは1914～2000年のアメリカの輸入に適用された

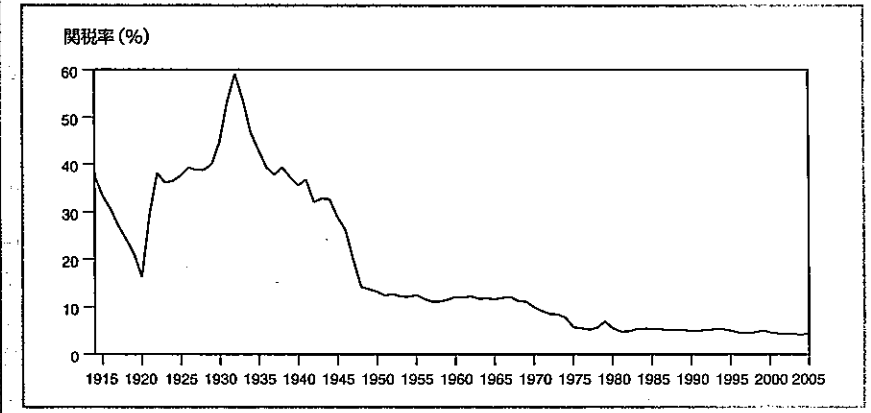


図9-5　アメリカの関税率

アメリカの平均関税率は1930年代の初頭に急激な上昇が見られた後，着実に下がってきた。

関税率の平均値である。アメリカの関税率は1930年代の初頭に跳ね上がった後，着実に下がってきた[8]。ほとんどの経済学者は，貿易自由化のこうした進展はかなり効果が高いと考えている。しかし，本書で説明した貿易政策にかかわる政治問題を踏まえると，どうして段階的な関税の撤廃が政治的に可能になったのかという疑問が浮かぶ。

第二次世界大戦後の国際交渉による大幅な貿易自由化の達成は，少なくともこの疑問に対する答えの一部となっている。これは要するに，政府間合意による関税の相互緩和である。この政府間の合意によって，輸入品と競争する国内産業のためにとられていたある国の保護政策の緩和と，輸出産業に対抗するために他の国がとっていた保護政策の緩和とが結び付いたのである。こうした結び付きはこれから説明するように，ある程度の政治的な困難を相殺する助けになる。そうでなければ，各国とも有益な貿易政策をとれなかっただろう。

8　輸入品目の構成が変化（1つには関税率そのものの変化）するため，保護率の平均値の変化を測定することには問題があるかもしれない。たとえば，ある財に非常に高い関税率がかけられ，その財の輸入が完全に止まるとする。このとき，実際に輸入される財の平均関税率はゼロになるのだ！　そこで，これに修正を加えるために，図9-5で使用した関税率はすべて「課税された」輸入品に限定した。したがって，何らかの理由で免税措置がとられた輸入は対象から除外されている。アメリカではピーク時の関税率が非常に高く，課税対象の財が輸入全体に占める割合は3分の1でしかなかった。そしてこの割合は1957年までに3分の2になった。この結果，すべての財の平均関税率は課税品にかけられた関税率を著しく下回ることになった。しかし，図9-5に示された数値は，アメリカが実際に経験した大幅な貿易自由化をより正確に描くものである。

交渉の利点

少なくとも2つの理由から，関税率の引き下げは一方的に行うより，双方の合意の一部として実施するほうが容易である。第一に，双方の合意は自由貿易への支持を集めるのに役立つ。第二に，貿易交渉をしたうえでの合意があれば，政府としても無益な貿易戦争に巻き込まれるのを回避しやすくなる。

自由貿易を支えるための国際交渉の効果は実にわかりやすい。本書で述べてきたように，普通，輸入と競争する生産者は消費者に比べて入る情報も多いし，しっかり組織されている。国際交渉は国内の輸出業者を対抗勢力へと押し出す可能性がある。たとえば，日本とアメリカが合意する可能性があるのは，アメリカが輸入割当を廃止して，日本と競争するアメリカの製造業の保護を控え，日本がアメリカから輸出される農産物やハイテク製品に対する自国の貿易障壁を排除することだろう。アメリカの消費者は外国製品の輸入割当がコストの負担につながる可能性があっても，輸入割当の廃止に向けて，政治的な力をあまり発揮しないかもしれない。しかし，海外市場への参入を望む輸出業者は輸入割当を相互に廃止することを求めてロビー活動を展開し，消費者の利益を守る可能性がある。

また，国際交渉は貿易戦争の回避にも役立つ。貿易戦争の概念を示すには図式化するのが最善だろう。

世界に日本とアメリカの2ヵ国しかなく，この両国が選べる政策は自由貿易と産業保護の2つしかないとする。また，どちらの政府も珍しく先見の明があって，どのような政策でも，その結果の満足度をあらかじめ明確な数値で示すことができるとする（表9-3）。

特定の政策から得られる満足度を示す表には2つの想定が示されている。第一に，他国の政策を所与とみなせる場合，それぞれの国の政府は保護政策を選ぶ。つまり，

表9-3　貿易戦争の問題

アメリカ ＼ 日本	自由貿易	保護
自由貿易	10, 10	−10, 20
保護	20, −10	−5, −5

日本の政策がどうであれ，アメリカ政府は保護政策によって利益を得るのである。この想定は必ずしも妥当ではない。大半の経済学者は，他国の政府がどのような政策をとろうと，自由貿易がベストの国家政策であると主張するだろう。しかしながら，政府は公共の利益のためだけに行動するのではなく，政府自身の政治的な利益のためにも行動しなければならない。前項で考察した理由によって，政府はいくつかの産業への保護を回避するのが政治的に難しいと考えることが多い。

表9-3に織り込まれた第二の想定は，それぞれの国が個別に保護政策から利益を得る場合でも，双方が自由貿易を選べばともに利益を得るというものである。これは要するに，アメリカ政府は自国市場の開放による損失より多くの利益を日本の市場開放によって得るはずであり，日本も同様の利益を得るはずだという想定である。以上の想定の妥当性は，貿易の利益を示すことで簡単に証明することができる。

ゲーム理論を学ぶと，この状況が**囚人のジレンマ**として出てくる。この場合，自らのために最善の決断をするそれぞれの政府は保護政策を選ぶだろう。それでも，両国の政府が得をするのは，どちらも保護政策をとらない場合である。表の左上のボックスでは，どちらの政府にとっても高い利益が生まれる。それぞれが自国に最大の利益になると思われる政策を独自にとると，双方にとって最善の結果は生まれない。それぞれが独自に保護政策を行う場合，貿易戦争になって双方が損失を被る。貿易戦争は武器を用いる戦いのように深刻なものではないが，それを避けるのは，武力衝突や軍備の拡張競争を避けるのと同じ問題である。

日本とアメリカが保護政策をやめるには，いうまでもなく合意の達成（たとえば協定の締結）が欠かせない。それぞれが独自の行動の自由を抑制すれば双方の利益になる。もちろん，相手側も同じように自制するという条件付きである。協定はすべての人の利益になる可能性があるのだ。

これは非常に単純化した例であり，現実の世界には多数の国があり，貿易政策についても自由貿易から輸入に対する完全な保護まで，政策はさまざまな段階に分かれている。それにもかかわらず，国際交渉によって貿易政策を調整することが必要であり，実際に合意が重要であることは例に示された通りである。事実，現在の国際貿易の仕組みは一連の国際協定を中核にして成り立っている。

国際貿易協定の歴史：概観

国際協調による貿易政策としての関税引き下げは1930年代に始まった。1930年，アメリカはきわめて場あたり的な関税法であるスムート＝ホーレー法を成立させた。この法律の下でアメリカの関税率は急激に高くなり，貿易量が激減した。スムート＝

ホーレー法が大恐慌をいっそう深刻化させたと指摘する経済学者もいる。この法律が成立してから数年のうちに，アメリカ政府は関税率の引き下げが必要と結論づけたが，関税率引き下げの政府提案は政治的な結託を促すという深刻な問題を引き起こした。関税率をどう引き下げでも，選出区に輸入と競争する企業を抱える議員には当然反対される。一方，関税率引き下げによる利益が広範囲に分散してしまうため，賛成に回る議員が出る見込みはほとんどない。関税率を引き下げるには，輸出業者に対して具体的な形でメリットを与える案と抱き合わせにする必要があった。当初，この政治問題の解決策とされたのが2国間の関税交渉である。この交渉でアメリカはまず，適当な財――たとえば砂糖――の主要輸出国に交渉を持ちかけ，アメリカの輸出財にかかる関税の引き下げを条件に，砂糖の輸入関税を下げることを提案する。この交渉がアメリカの輸出業者に魅力的なら，砂糖の利害関係者の政治力に対抗するのに役立つ。一方，交渉の相手国では，この交渉が砂糖の輸出業者に魅力的なら，輸入と競争する業者の政治的な影響力に対抗する力になる。こうした2国間交渉の助けもあって，アメリカにおける輸入の平均関税率は1932年の59％から第二次世界大戦直後には25％まで下がった。

しかし，2ヵ国間交渉では国際協調を最大限に活用することにはならない。1つには，2ヵ国間交渉の成果が何も譲歩していない国々に「波及する」かもしれないからである。たとえば，アメリカがブラジルとの交渉の結果，コーヒーの輸入関税率を下げると，コロンビアまでもが上昇するコーヒーの世界価格から利益を得ることになる。さらに言えば，互いにとって好都合な取り決めは，必ずしも当事者の2ヵ国だけにとどまらないからである。たとえば，アメリカからヨーロッパへの輸出が増えると，その輸出拡大がヨーロッパからサウジアラビアを経て日本まで波及し，日本からアメリカへの輸出が増加することもある。かくして国際貿易の自由化は次の段階へと進み，多数の国々を当事者とする多国間交渉の場に持ち込まれるのである。

多国間交渉は，第二次世界大戦が終わると間もなく始まった。そもそもは，戦勝連合国の外交官が，先に国際通貨基金（IMF）や世界銀行と平行して提案されていた国際貿易機構（ITO）の主導による多国間の交渉を構想したことが始まりである（国際通貨基金と世界銀行については，本書の後半で触れる）。1947年，ITOの創設を待ちきれなかった23の国は暫定的な規則に基づいて交渉を開始した。これが後の**貿易と関税に関する一般協定**，つまりGATTである。しかし，ITOは政治的な反対が特にアメリカで強かったため，設立されなかった。結局，暫定的な規則がそのまま世界の貿易を48年にわたって規制することになる。

貿易と関税に関する一般協定（GATT）は，正式にはあくまで協定であって組織体ではない。したがって参加国は構成メンバーではなく，いわば「契約当事者」である。しかし，実務上，常設の「事務局」がスイスのジュネーブに置かれ，この事務局が「GATT」と称されている。肝心の正式な組織は，1995年の**世界貿易機関**，つまりWTOの設立によって50年越しにやっと実現した。とはいえ，GATTは依然として効力を発揮しており，世界貿易システムの原則がGATTであることに変わりない。

貿易とGATTおよびWTOとの関係を理解するには，力学的な類推を活用してみるのも一法である。つまり，世界経済を重い物体に見立て，この物体を自由貿易に続く坂道を少しずつ押し上げる装置を考案するようなものである。そのためには重い物体を正しい方向に向けるための「レバー」が必要であり，もう1つ，逆戻りを防ぐための「ラチェット（歯止め）」も必要である。

世界の貿易システムにおけるラチェットの基本機能は**拘束力**である。関税率が「拘束」されると，関税を課す国々は将来その率を引き上げないことに合意する。現在，先進国ではほぼすべての関税率が拘束されている。また，発展途上国では，およそ4分の3の関税率が拘束されている。ただし，関税率の拘束には多少の余裕も設けられている。他国と合意すれば関税率の引き上げはできるが，通常は，その埋め合わせに他の関税率を下げるという意味である。実際，こうした拘束はきわめて有効に働いており，過去半世紀の間，関税率の逆戻り現象はほとんどない。

GATTおよびWTOの枠内では関税率の拘束に加え，貿易の非関税障壁を防止する試みが広範囲にわたって行われている。輸出補助金は認められていないが，唯一の大きな例外はEUによる大規模な農産品輸出への補助金である。これは，GATTの締結時に，アメリカが農産品の輸出用に抜け道を強く主張したことが始まりである。

本章の初めに述べたように，アメリカにおける保護政策の実際の費用はほとんどが輸入割当から発生している。現行の輸入割当は，GATTおよびWTOが事実上「適用除外」している。これについても廃止したり関税へ転換したりする努力が続けられ，かなりの成果も出ている。新たな輸入割当は原則的に禁止となっているが，一時的な例外とされるのが「市場の混乱」に対処するための措置である。「市場の混乱」には定義がなく，普通は，国内産業を突然の操業停止に追い込む恐れのある輸入の急増と解釈されている。

国際貿易の進展を図るために活用されるレバーは，いささか様式化されたプロセスで，**貿易ラウンド**と呼ばれている。これは，多数の国々が一堂に会し，関税率の引き下げその他の貿易自由化策を一通り交渉する場である。1947年以降，8つの貿易ラウンドが終結し，1994年に終結した第8回のウルグアイ・ラウンドでWTOが設立された。2001年にはペルシャ湾岸のドーハで，第9回の貿易ラウンドがスタートしている。し

かし，本書8版の執筆現在，ドーハ・ラウンドで合意が得られる見込みはない。ドーハ・ラウンドの明らかな失敗については，その理由を本章で後ほど考えてみたい。

GATTに基づく貿易ラウンドでは，2ヵ国間交渉の「平行」実施という形式が第5回まで採用された。これは，それぞれの国が2カ国間交渉を多数の国と同時に進めるという方式である。たとえば，ドイツがイタリアとフランスに有利になる関税の引き下げを提案する。このとき，ドイツは両国に対して自国の提案に見合う関税引き下げを求めることができる。このような広範囲な取り決めが可能になったことは，戦後の世界的な経済復興とあいまって，関税の大幅な引き下げをもたらした。

1967年に終結した第6回の貿易ラウンドは多国間交渉による合意がなされたラウンドであり，ケネディ・ラウンドとして知られている。ケネディ・ラウンドで合意された項目には，主要工業国が特定の産業を除いて関税率の50％引き下げを一括して行うことも含まれる。この交渉では，特別扱いにする分野の関税の引き下げ率ではなく，どの産業を例外にするかに重点が置かれた。その結果，全体として平均関税率がおよそ35％引き下げられた。

いわゆる東京ラウンド（1979年終結）では，ケネディ・ラウンドより複雑化した計算式によって関税の引き下げが行われた。さらには，輸出の自主規制や市場秩序維持協定といった非関税障壁の広がりを規制するために，新たな規則が設けられた。いわゆるウルグアイ・ラウンドと呼ばれる第8回の交渉は1994年に終結した。アメリカの議会でウルグアイ・ラウンドの合意事項が承認されたのは激しい討論の末だった。ウルグアイ・ラウンドの結果は次の項で改めて取り上げる。

ウルグアイ・ラウンド

GATTの重要な貿易交渉は異国を舞台にした式典で始まり，別の異国で行われる署名式典で幕を閉じるのが通例である。第8回のウルグアイ・ラウンドは，1986年の初会合がウルグアイの海沿いのリゾート地プンタ・デル・エステで行われた（というわけで，ウルグアイ・ラウンドと呼ばれる）。その後，参加者はジュネーブに集まり，提案，対案，威嚇したりされたりを7年間にわたって続けた。特に，何千時間もかけて退屈な会議を続けるため，最も経験豊富な外交官でさえ居眠りを防ぐのは至難の業である。ウルグアイ・ラウンドは1990年に終結する予定だったが，深刻な政治的な困難に見舞われた。そして，1993年後半になってようやく400ページからなる基本合意書が作成された。これに，各国が製品や市場ごとに具体的に約束した事項の詳細を記載した補足資料を合わせると，全部で2万2,000ページになる。合意書への署名は1994年4月にモロッコのマラケシで行われ，その後，主要国における批准の手続きが進められた。

アメリカをはじめ，この段階で激しい政治論争が巻き起こった国もあり，批准が終わったのは同年末だった。

合意書のページ数からわかるように，ウルグアイ・ラウンドの最終的な結果を要約するのは大変な作業だ。とはいえ，特に大きな成果は，貿易の自由化と行政機関としての改革の2つにグループ分けできるだろう。

貿易の自由化

GATTのそれまでの交渉と同じく，ウルグアイ・ラウンドでも世界中の関税率が引き下げられた。その数値はいかにも目ざましい。ウルグアイ・ラウンドで合意された関税率が先進国で適用されると，約40％の引き下げになる。しかし，先進国の関税率はそれ以前にかなり低くなっている。実際には，平均関税率が6.3％から3.9％になるだけのことであり，これによって国際貿易が増えるのはごくわずかでしかない。

重要なのは，関税率の全般的な引き下げよりも，農業と繊維の2つの産業が貿易自由化に向けて動いたことである。

農産物の国際貿易はかなり偏っていた。日本は輸入規制で悪名高い。その結果，日本では米や牛肉その他の国内価格が世界の市場価格より数倍も高い。第8章で説明したように，ヨーロッパには共通農業政策（CAP）に基づく大規模な輸出補助金制度がある。ウルグアイ・ラウンドが始まったとき，アメリカには2000年までに農産物の自由貿易を実現させるという野心的な目標があった。実際の達成度はごくごくささやかなものだが，それでも意義は大きい。合意内容は次のようになった。農産物の輸出国は，6年以内に補助金の額を36％，補助金付きの輸出量を21％減らす。日本のように輸入割当による農業の保護を行う国は，保護政策を輸入割当から関税に移行させ，将来は関税率の引き上げを行わない。

繊維および衣服の国際貿易も，第8章で見た多国間繊維取り決め（MFA）によってかなり偏っていた。ウルグアイ・ラウンドではMFAを10年間で段階的に解消し，繊維および衣服貿易の数量規制を全廃することになった（高率の関税に代わる）。これはかなり劇的な自由化である。というのも，ほとんどの推計が示すように，アメリカでは繊維産業を保護するためのコストが，その他すべての保護政策コストを合わせたコストより大きな消費者負担になっているからである。ところが，MFAの段階的な解消は基本的に極端な「引き延ばし」方式で行われた。つまり，自由化の大部分は2003年と2004年に実施されることになり，輸入割当の完全廃止は2005年1月1日の予定とされたのである。大多数の貿易の専門家は，何か一押しあって強力な政治圧力がかかれば，繊維の輸出規制が再導入されるのではないかと危惧した。

危惧された通り，MFAの解消に伴って中国からの繊維輸出が急増したのである。たとえば，中国によるアメリカ向けコットンパンツの輸出量は，2005年1月に2,700万トンと前年同期比で190万トン増加した。そして，アメリカとヨーロッパは衣料生産者からの激しい政治的な反発に見舞われた。衣料貿易の自由化を本当に政治の力で支えられるかどうかは，今のところ不明である。

最後に，ウルグアイ・ラウンドでの重要な貿易措置に触れておこう。それは，政府調達に関する一連の規則を新たに取り決めたことである。政府調達は民間企業や個人の購入ではなく，政府機関による購入である。こうした調達により，建設機械や自動車など，さまざまな財の市場が長年保護されている（第8章のコラムで紹介したハンガリー製のバスがこれにあたる）。ウルグアイ・ラウンドが設定した新しい規則では，広範囲に及ぶ輸入財に政府との契約への道が開かれている。

GATTからWTOへ

その後のウルグアイ・ラウンドに寄せられる関心と世界の貿易システムを巡る論争の大半は，貿易ラウンドから生まれる新たな組織，世界貿易機関（WTO）に向けられた。WTOは1995年に，GATTを運営していた暫定事務局を引き継いだ。第11章で見るように，WTOは反グローバリズム勢力が憎悪してやまない組織になった。左翼，右翼の両勢力ともWTOが一種の世界政府として振る舞い，国家の主権を損ねていると非難し続けているのである。

WTOとGATTはどう異なるのか。法律的な観点からいうと，GATTは一時的な合意である。これに対して，WTOは本格的な国際組織である。もっとも，実際の行政機関は小規模なままだ（スタッフは500名）。GATTの最新文書はWTOの規則集に統合された。しかし，もともとGATTの適用対象は財の貿易取引に限られており，サービス――保険，コンサルティング，ファイナンスといった無形財――の取引は取り決めの対象から除かれていた。その結果，多くの国で，外国の企業を公然とあるいは実質的に差別する規則が適用されることになった。サービス貿易を放置するGATTの手抜かりがいっそう明白になったのである。なぜなら，現代の経済では有形の財よりもサービスの生産がますます重視されるようになったからだ。そこで，WTOの合意にはサービスの貿易に関する規則も盛り込まれた（これは，サービス貿易に関する一般協定，またはGATSと呼ばれる）。しかし，サービス貿易に対するGATSの効力はまだあまり大きくなっていないのが実情であり，GATSの主な目的は，将来の貿易ラウンドにおける交渉のための枠組みを提供することにある。

先進諸国は，財の生産からサービスの生産へはっきりシフトしたことに加え，実物資本への依存から特許権や著作権で守られた「知的所有権」への依存というシフトにも直面している（先端企業の典型といえば，30年前ならゼネラル・モーターズだったが，今やマイクロソフトである）。というわけで，各国間の知的財産権の国際ルールを明確にすることも重大な関心事になってきた。WTOはこの問題を貿易関連知的所有権協定（TRIPS）で取り扱うように努めていて，TRIPSを製薬産業に適用するかどうかが，白熱した議論のテーマになっている。

ところで，WTOの最も重要な新しい側面は，一般的に「紛争解決」手続きだと認識されている。基本的には，ある国が別の国を貿易システム上のルールに違反していると訴えて初めて紛争として認識される。たとえば，カナダがアメリカは材木の輸入を不当に制限したと訴え，その訴えをアメリカが否認する。さて，この先はどういう展開になるのか。

WTOができる前にも，カナダが訴えを起こせる国際裁判所はあった。しかし，そのような手続きは何年もかかることがよくあるし，何十年に及ぶことさえある。しかも，裁判所の裁決が出たとしても，強制できる可能性はなかった。だからといってGATTのルールに強制力がなかったということではない。アメリカもその他の国々も，法律違反者という評判を得たくはなかったので，自国の行動が「GATT遵守」となるように相当の努力を払ったのである。しかし，違法すれすれの問題はなかなか解決されなかった。

WTOによる紛争解決の手続きははるかに実務的で本格的なものになった。専門家グループによって審議が行われ，最終的な裁決は普通1年以内に出される。上訴されても，15ヵ月以内に終了することになっている。

WTOがある国の行為をGATTのルール違反だと判断したにもかかわらず，その国が政策の変更を拒否したとする。この場合はどうなるのか。WTOに強制執行力はない。WTOにできるのは，訴えを起こした国に報復措置を行う権利を認めることである。カナダとアメリカのケースを例にとると，カナダはWTOのルール違反を問われることなく，アメリカからの輸出に規制をかける権利が与えられることになる。本章323ページのコラムで取り上げたバナナの問題では，EUのルール違反と判断された。EU側がこの判断に従わなかったとき，アメリカは暫定的にブランド物のバッグなどの輸入に関税をかけた。

紛争がこれほどの事態にならないことが希望であり，期待である。WTOへの提訴という警告によって問題の解決が引き出されるケースも多い。そうならない場合でも，大多数の国がWTOの結論を受け入れ，政策の変更に応じている。

紛争の解決と火種の発生

WTOが最初にとった紛争解決の手続きそのものが最大の論争の的になっている。WTOの擁護論者にとって，これはこの新しいシステムの実効性を示すものである。反対論者にとっては，この組織が環境保護といった社会的な目標の達成を妨げる姿を示すものだ。

このケースの発端はアメリカの新たな大気汚染基準だった。この基準はアメリカで販売されるガソリンの化学成分を定めたものである。統一基準は間違いなくWTOのルールに準拠している。しかし，この新基準には抜け穴がいくつか設けられていた。アメリカの石油精製業者または精製したガソリンの75%以上をアメリカ国内で販売する業者は，1990年の汚染レベルを「基準値」とするよう求められたのである。これは，輸入ガソリンに適用される基準より全般的に緩やかな基準を適用するという規定であり，事実上，国内業者のガソリンを優先する制度が導入されたことになる。

1995年の初頭，アメリカにかなりの量のガソリンを輸出するベネズエラは，アメリカの新大気汚染基準を提訴した。アメリカの新大気汚染基準は，輸入財は国内財と同じ規定に従う（したがって，こうした規定を保護政策の間接的な手段として活用することはできない）という「内国民待遇」の原則に違反するというのがベネズエラの主張だった。1年後，WTOに任命された審議団はベネズエラに有利な裁定を下した。アメリカは上訴に及んだが却下された。その後，アメリカとベネズエラは基準改訂の交渉に入った。

このような結果は，WTOが期待通りの仕事をしていることの証明になるともいえる。アメリカは，貿易協定に明らかに違反する規準を導入した。そして，影響力に欠ける小国がこれに反発し，かなり速やかな決着が見られたのである。

一方，環境保護主義者は当然ながら怒りをあらわにする。彼らにしてみれば，WTOの裁定は空気の浄化に寄与したはずの基準を阻止したも同然だ。しかも，空気浄化のルールが誠実に設定されたことにほとんど疑問の余地はない。つまり，新基準の真の狙いは大気汚染の軽減であって，輸出品を締め出すことではないというわけである。

WTOの擁護者は，アメリカは輸入を差別的に扱わないルールを設定することができたはずであり，そうしなかったのは，石油精製業界に対する政治的な譲歩であると指摘した。つまり，**実質的に一種の保護政策が策定された**ということだ。最大限思い切った言い方をするなら，アメリカの環境保護主義者にとっては，WTOのルールがあるため，産業界と環境に有利な政治取引をすることがいっそうやりにくくなったのである。

第11章で取り上げる反グローバリズム運動の不可解な点は，大気汚染防止基準に対するWTOの介入が象徴的な存在になっていることである。ここで紹介したケースは，国家主権を尊い，社会的にも環境の点でも責任ある政策をとれないようにするWTOの有り様を示す重要な事例と考えられているのだ。しかしこのケースの現実はそのような明快さから程遠い。そもそも，アメリカが供給先を差別しない「清らかな」大気汚染防止ルールを設定していれば，WTOへの提訴も行われなかったはずである。

左のコラムでは，アメリカとベネズエラが輸入ガソリンを巡って争ったケースを取り上げ，紛争解決のプロセスを説明する。このケースはまた，WTOが国家の主権を損ねていると非難する側にとってまたとない重要な事例になった。

便益と費用

ウルグアイ・ラウンドの経済的な影響の大きさを推計するのは難しい。とりあえず実行手順を考えてみよう。推計するには膨大な文書の不可解な専門用語（法律用語）を別の言葉（経済用語）に置き換え，置き換えたものに数字を割り振らねばならない。それから，すべてのデータを世界経済のコンピュータモデルにインプットする。まずいことに，これまでも書いたように，重要な措置はほとんどが「引き延ばし」方式になっている。したがって，ウルグアイ・ラウンドの重大な条項は，署名から10年ほど経たないと実際にどう機能するかわからないのである。

現在，WTOと，やはり国際組織（豊かな国のみで構成され，本部はパリにある）である経済協力開発機構（OECD）の推計値が最もよく引き合いに出される。どちらの推計値も，経済的な影響として世界全体で年間2,000億ドル超の利益を生み，世界の所得を1%増加させると示唆している。もっとも，例によって，推計値が多すぎるとか，少なすぎるという反論はある。WTOやOECDの推計値が実際よりも大きいと主張する経済学者は，その理由として，特に新たな自由化の動きに対する輸出と輸入の反応が強すぎる想定になっているからだと指摘する。数値が少ないとする専門家の数はかなり多いようで，本章の初めに紹介した「動学的」な要因から推計値があまりに低くなっていると主張している。

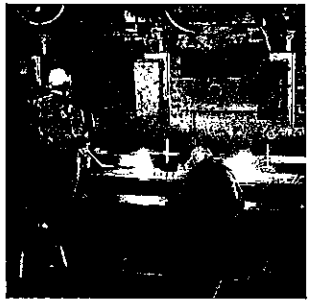
いずれにしても，通常の貿易自由化の論理が適用されているのは明らかだ。ウルグアイ・ラウンドから発生する費用を意識するのは，集中度が高いグループ，なかでもしっかり組織されたグループが多いが，便益は広く分散した人々のものになる。たとえば，農業の貿易自由化で損失を被るのは，ヨーロッパや日本など，農産物の価格が世界の水準よりはるかに高い国と地域の，数は少ないが影響力のある農民である。その損失は同じ国の消費者や納税者の得る利益とは比べ物にならないが，利益はかぎりなく広い範囲に分散されるので，ほとんど気づかれないだけのことである。同じように，テキスタイルとアパレルの貿易自由化によって，この産業の労働者と企業がかなり強い痛手を受けても，消費者の利益によって相殺される。もっとも，その利益はかなり大きくてもあまり目立つものではない。

ウルグアイ・ラウンドのこうした分配面の強い影響を考えると，合意に達しただけでも注目に値する。現に，1990年を目標とした合意の実現がまったく見込めなくなる

ケーススタディ

試されたWTOの根性

2002年3月，アメリカ政府はさまざまな鉄鋼製品の輸入に30％の関税をかけることにした。アメリカ政府はこの措置について，輸入の急増に直面する同国の鉄鋼産業には立て直しのための時間が必要だ，と表向きの理由を述べた。しかし本当の理由はほとんど誰もが認めるように政治的な思惑だった。というのも，2004年の選挙では，鉄鋼産業が集中するウェストバージニア，オハイオ，ペンシルベニアの各州が重要な「選挙結果を左右する激戦州」と目されていたからである。



ヨーロッパ，日本，中国，韓国はアメリカの鉄鋼関税を違法行為としてWTOに提訴した。2003年7月，WTOは訴えを認め，アメリカの措置を不当とする裁定を下す。ほとんどの専門家は，アメリカがこれにどう対応するかがWTOの試金石になると考えた。世界で最強の国の政府が，政治的に重要な関税の撤廃を国際機関に命じさせることを果たして本当に許すだろうか。貿易戦争勃発の可能性までもが取りざたされた。

実際にはアメリカが裁定に応じ，鉄鋼関税は2003年12月に撤廃された。アメリカ政府のこの決定は関税の目的が果たされたことによるというのが公の説明だった。しかし，EUの脅しが大きく効いたというのが大方の見方である。WTOはEUが報復措置をとることにゴーサインを出しており，EUは20億ドル超に相当するアメリカ製品に関税をかける準備を整えていた（アメリカ人と同じように政治を熟知しているヨーロッパの人々も，関税をかけようと狙いをつけたのは，もちろん例の激戦州の製品である）。

かくして，WTOは大きな試練を乗り越えた。実は，アメリカがEUのクレームに対応せざるをえなかった理由が，もう1つある。それは，アメリカ経済と同じ規模のEUの並外れた経済力である。そこから，次の疑問がわいてくる。WTOが小国の訴えを認めて，アメリカやEUといった経済大国に不利な裁定を下すとどうなるだろう。

2005年3月，WTOは歴史的な決定を行う。ブラジルの主張を認め，綿花生産者に対するアメリカの補助金を違法と判断したのである。アメリカはWTOの決定に従って補助金の打ち切りを発表したが，本書の刊行までに実行されてはいない。

と，貿易交渉の全体が暗礁に乗り上げたとする論評が多くなった。当初の目論みには及ばないまでも，最終的な合意が得られたのは政治的な計算がかみ合った結果と考えられる。アメリカでは，GATTによって相当の自由化が進んでも，農産物の輸出業者の利益とサービス財の輸出業者で予測される利益が繊維産業の不満を抑える。発展途上国がこの貿易ラウンドを支持したのは，自国の繊維産業に新たな機会がもたらされるとの期待があったからだ。また，交渉による「譲歩」は，いずれにしても避けられない政策変更を実施するための言い訳にもなる。たとえば，この赤字予算の時代，ヨーロッパ共通農業政策のうなぎのぼりの費用はどちらにしても削減すべき時期に来ていたのである。

しかし，ウルグアイ・ラウンドが最終的に成功した要因は，失敗したらどうなるのかという恐怖感だった。1993年までに，アメリカをはじめとする世界各地で保護主義の流れは明らかに強くなっていた。貿易の自由化を嫌う農業関係者のロビー活動が強力なフランス，日本，韓国など，そのままでは合意を拒否する可能性があった国の交渉担当者たちは，合意に失敗するのは危険だとの不安にかられたのだ。つまり，ウルグアイ・ラウンドが失敗すれば，それまで40年かけて目指してきた自由貿易の進展が単に断ち切れるだけでなく，大幅に逆戻りすることを恐れたのである。

ドーハの失望

2001年，第9回となる貿易交渉が始まり，ペルシャ湾岸のドーハで式典が行われた。このドーハ・ラウンドも，難しい交渉という点では前回までの貿易ラウンドと変わらない。しかし，2007年末現在，何かこれまでとは異なる事態になっているように思われる。GATTが成立してから初めて，貿易ラウンドが合意なしで打ち切りとなる気配がするのである。

しかし，ドーハ・ラウンドが明らかに頓挫したからといって，それまでの進捗が無効になるわけではない。この点を理解しておくことが重要である。貿易システムが「レバー」と「ラチェット」の2つの機能の組み合わせからなることを思い起こしてほしい。「レバー」は貿易自由化を進める貿易の国際交渉であり，主に関税率の拘束を実施する「ラチェット」は逆戻りの防止である。レバーがドーハ・ラウンドで力を出せなくても，ラチェットは依然として効いている。つまり，先回までの貿易ラウンドによって実際に引き下げられた関税率は，引き続き適用されるのである。そのため，世界の貿易は現代史のどの時期よりもはるかに高い自由度を保っている。

実のところ，ドーハ・ラウンドの明らかな頓挫は，多分にそれまでの貿易交渉が成功したためでもある。それまでの交渉が貿易障壁の削減に大きな成功を収めたため，残

表9-4　自由貿易による潜在的な利益の分配比率

	完全自由化の経済分野			
経済主体	農業および食品	繊維	その他の製品	すべての財
先進国	46	6	3	55
発展途上国	17	8	20	45
合計	63	14	23	100

出所：Kym Anderson and Will Martin, "Agricultural Trade Reform and the Doha Agenda," World Bank, 2005.

された貿易障壁はかなり少なく，貿易の自由化をさらに進めても見込める収穫は小さかったのである。現に，アパレルとテキスタイルを除けば，ほとんどの工業製品に対する貿易障壁は今やほとんどとるに足らないものだ。さらなる貿易の自由化から利益が得られるとしたら，最も可能性があるのは農業における関税と補助金の低減だろう。農業は政治的にきわめて微妙な産業部門であるため，自由化が一番遅れているのだ。

この点を表したのが表9-4である。これは世界銀行の推計で，厚生を改善する「完全な自由化」――つまり，残された貿易障壁と輸出補助金の全廃――の利益がどこから発生するのか，また，その利益がさまざまな国でどのように分配されるのかを示している。現在の世界で農産物が国際貿易に占める割合は10％に満たない。それにもかかわらず，世界銀行の推定によると，農業の貿易自由化による利益は世界全体で生まれる貿易自由化の利益の63％を占める。しかも，こうした利益を獲得するのは非常に難しい。すでに説明したように，豊かな国の農家は政治の恩恵に浴することに実に長けている。

ドーハ・ラウンドで実際に受け入れられそうになった提案は，実のところ完全な自由化には程遠い。したがって，ドーハ・ラウンドが成功した場合でも，そこから得られるはずの利益はかなり小さいと予想される。表9-5には世界銀行による厚生改善の推

表9-5　2つのドーハ・シナリオによる所得の増加率（対GDP比率）

	野心的シナリオ	妥協的シナリオ
高所得国	0.20	0.05
中所得国	0.10	0.00
中国	−0.02	−0.05
低所得国	0.05	0.01
世界	0.18	0.04

出所：表9-4参照。

農業補助金は第三世界に損失を与えているのか？

高所得国では農産物の輸出と生産に引き続き巨額の補助金が支払われている。これは，ドーハ・ラウンドの交渉中に発展途上国から出された大きなクレームの1つである。アメリカの綿花を対象にした補助金は，その実例として最も頻繁に引き合いに出される。この補助金のせいで世界の綿花価格が抑制され，西アフリカの綿花生産者が損害を被ることになるというのである。

しかし，第8章で見たように，輸出補助金は輸入国の厚生を改善するのが通例である。輸入国は輸出補助金のついた財を安く購入できる。ということなら，高所得国の輸出補助金は，実際には低所得国を助けているのではないのか。

たいていのケースではその通りである。表9-5に示された推計値によれば，ドーハ・ラウンドが成功裏に終了すれば，確かに中国は損失を被る。なぜなら，工業製品を輸出して食料その他の農産物を輸入する中国は農業補助金の廃止によって損をするからである。

実は，高所得国の輸出補助金による利益を享受していると思われる国は中国に限らない。第三世界には，アメリカやEUから補助金付きで輸出される食料の価格が安いために損害を被る農家もある。しかし，同じ地域の都市部の居住者には，それが便益になるのである。また，補助金付きの輸出財と競合しないコーヒーなどを生産する農家もやはり利益を得る。

最近のある論文には，ドーハ・ラウンドから見込まれるアフリカ低所得国への影響の推計値をいくつか取り上げた研究が紹介されている。それによると，ほとんどのケースで，アフリカ諸国の厚生が実際に悪化することになる。食料の輸入価格の上昇によるマイナスの影響が綿花などの農産物価格の上昇を上回るからである。

定値が所得の増加比率で示されている。この推定は，ドーハ・ラウンドの結果として予想される2つのシナリオに基づいて行われた。1つは達成が非常に難しい「野心的」シナリオであり，もう1つは，「影響を受けやすい」部門が大幅な自由化を免れるという「妥協的」シナリオである。世界全体の所得は野心的シナリオでもGDPの0.18％しか増加しない。これより妥当と思われるシナリオでは，その3分の1以下になると推定される。また，中所得国と低所得国では，所得の増加がさらに少なくなる（中国の所得増加がマイナスになるのはなぜか。上記のコラムでの説明の通り，結果的に輸入農産物の価額が高くなるからである）。

表9-5の数字の小ささがドーハ・ラウンドの失敗理由を表している。低所得国にとってはドーハ・ランドの提案に見るべきものはない。高所得国に対してもっと大きな譲歩を求めていたからである。それとは逆に高所得国の政府は，何か見返りでもあればともかく，強力な利害関係グループ，特に農業従事者の怒りを買うような政治リスクをとるつもりはなかった。一方，低所得国はたとえ可能であっても，見返りとなるほどの大幅な関税率の引き下げは望まなかった。

2007年，アメリカの政治日程の関係から，ドーハ・ラウンドを復活させる必死の試みがなされた。通常，アメリカ議会は大統領に貿易促進権と呼ばれる特権を付与する。これはいわゆるファストトラック（無修正一括承認手続き）と呼ばれている。貿易促進権が有効な場合，大統領は貿易協定案を議会に送って信認投票を要求できる権限である。この特権では議員側がたとえば自分の選挙区の産業に特別な保護を与えるといった修正案を提出することはできない。この特権がなければ，貿易協定案は見る影もなく歪められやすい。

当時，ブッシュ大統領の貿易促進権は2007年7月末が有効期限だった。しかも，民主党議員が多数を占める議会は，死に体となっていた共和党政権の大統領にこの特権を新たに与えようとはしていなかった。2007年の夏までに合意に達しなければ，次期大統領の政権移行の前に合意されることは絶対にないと，誰もが承知していたのである。そこで，ドイツのポツダムにおいて，アメリカ，EU，ブラジル，インドの主要4ヵ国による会合が開かれることになった（中国は不参加）。結果は行き詰りであった。アメリカとEUは，ブラジルとインドが工業製品の市場を開放したがらないと非難し，ブラジルとインドは，アメリカとヨーロッパは農業について何の対策もしていないと責めた。この会合は不調に終わり，ドーハ・ラウンドは暗礁に乗り上げたようだ。

特恵貿易協定

本書でこれまで説明してきた国際貿易協定は，すべて「無差別」な関税率の引き下げに関係するものだった。たとえば，アメリカとドイツが輸入機械にかける関税を下げることで合意する場合，アメリカではドイツからの輸入に限らず，どの国から輸入される機械にも新しい関税率が適用される。こうした無差別待遇はほとんどの関税で標準とされている。実際，アメリカは多数の国に，正式には「最恵国（MFN）」として知られる待遇を与えている。これは，最恵国の輸出業者に適用される関税率は最低の関税率を払っている国より高くならないことを保証するものである。つまり，MFN待遇を受ける国はすべて同一の関税率を払うということだ。GATTの下で行われる関税の引き下げはすべて――唯一重要な例外を除き――MFN待遇が前提になっている。

ところが，国家間で**特恵貿易協定**を締結する重要な事例もいくつか見られる。この場合，締結国からの輸入財に適用される関税率は，その他の国から輸入される同じ財にかかる関税率より低くなる。GATTは原則としてこうした特恵関税を禁止しているが，次のようにいささか奇妙な例外を認めている。たとえばA国において，B国からの輸入財に適用される関税率がC国からの輸入財に適用される関税率より低い場合，特恵関税の禁止に違反することになる。しかし，B国とC国が合意のうえで双方の輸出財に関税率ゼロを適用することはルール違反にならない。つまり，GATTでは一般的に最恵国原則への違反として特恵関税は禁止するが，特恵関税が合意国間の自由貿易につながる場合は許されるのである[9]。

一般的に，2ヵ国以上の国々が自由貿易を定着させることで合意している場合，次の2つの方法のうちいずれかをとることができる。1つは自由貿易圏を設立することである。**自由貿易圏**の国々では，相互の輸出入が関税なしで行われる。しかし，圏外から輸出されて圏内の国に輸入される財に対しては，それぞれの国が関税率を独自に設定する。もう1つは**関税同盟**の結成である。同盟に加盟する国は関税率に同意することが求められる。北アメリカ自由貿易協定（NAFTA）はカナダ，アメリカ，メキシコの3ヵ国間で，自由貿易圏を設立するために結ばれた。この協定では，たとえば中国から輸出された繊維製品に対して，カナダとメキシコが同じ関税率を適用することは求められない。一方，EUは完全な関税同盟である。加盟国はすべて，相互に同率の関税を輸入財に適用することに同意しなければならない。どちらのやり方にも，メリットとデメリットがある。この点については，322ページのコラムで考えてみたい。

本章の初めに想定した条件に従えば，関税率の引き下げは経済効率を改善させるので望ましい。関税率の全面的な引き下げほどではないにしても，特恵関税による関税率の引き下げも，一見よさそうに思われる。結局は，ないよりましなのだろうか？

意外かもしれないが，その結論はあまりにも能天気だ。関税同盟に加わると，自国の厚生が悪化する可能性がある。その理由は，ちょっとした例をあげて説明できる。小麦生産でイギリス，フランス，アメリカはそれぞれ，高コスト（1ブッシェルあたり8ドル），中コスト（1ブッシェルあたり6）ドル，低コスト（1ブッシェルあたり4ドル）の国である。イギリスとフランスの両国では小麦の輸入に関税がかかる。イギリスがフランスと関税同盟を結成すれば，フランスから輸入される小麦には関税がかからなくなるが，アメリカの小麦に対する輸入関税は維持される。この状況がイギリスにとって好ましいかどうかは，2つのケースで考えてみる必要がある。

まず，イギリスの当初の関税率が非常に高く，フランスからもアメリカからも小麦が輸入されないケースで考える。たとえば，1ブッシェルあたり5ドルの関税がかかると，アメリカ産小麦の輸入価格は9ドル，フランス産小麦の輸入価格は11ドルになる。

9　このあたりの理屈は法律論であって経済学の領域ではない。各国は自国内で自由貿易ができる。たとえば，カリフォルニア州のワインがニューヨークに出荷される場合，フランス産ワインと同率の関税をかけるようにと主張する人はいない。つまり，最恵国（MFN）原則は政治的な集団内部では適用されない。では，政治的な集団とはどういうものなのか。GATTはこの厄介な問題を回避して，経済的な集団が国家的な行為をすることを認め，境界を明確にした上で境界内の自由貿易が行えるようにしている。

自由貿易圏対関税同盟

自由貿易圏と関税同盟の違いは，簡単にいえば，前者が政治面では単純明快だが管理面では複雑なのに対し，後者はその逆ということだ。

まず，関税同盟について考えてみよう。関税同盟はいったん結成されると，関税率の管理はかなり簡単だ。財は，関税同盟の地域に入るポイントで必ず関税が徴収される。しかし，その後は域内のどこにでも自由に運ぶことができる。たとえば，マルセイユやロッテルダムで荷揚げされた貨物については，その場所で関税の支払いが求められる。しかし，そこから陸路でミュンヘンに移送する場合，追加の課税は一切ない。だが，この単純な仕組みを機能させるには，同盟参加国で関税率を決めておかねばならない。適用される関税率は，貨物がマルセイユ，ロッテルダム，ハンブルグその他のどの地点で域内に入ろうと同じでなければならない。そうしないと，輸入業者は，関税が最低になる入国地点を選ぼうとするからである。したがって，関税同盟はドイツ，フランス，オランダその他の加盟国に同一関税率の適用に合意するよう求める。これは簡単にはいかない。EUという超国家的な存在に国家主権の一部を譲ることになるからである。

ヨーロッパでは，さまざまな理由からそれが実現可能になってきた。理由の1つは，経済統一体の助けがあれば，ヨーロッパの民主主義国家は第二次世界大戦後の政治同盟を確固としたものにできると考えたことである（EU創設者の1人はかつて，スターリンの脅威がなければEUの誕生はなかったのだからEUはスターリン像を建てるべきであるとジョークを飛ばした）。このような条件を満たす地域はヨーロッパしかない。3ヵ国で構成されるNAFTAの場合，どのような超国家的な組織であれ，関税を制御する権限を委譲するのはきわめて難しかっただろう。少なくとも，アメリカの利害に相応の重みが置かれ，しかも実質的にアメリカがカナダとメキシコに貿易政策を押しつけることが許されるような取り決めを考えるのは難しいだろう。そういうわけで，NAFTAでは，メキシコとアメリカの双方の財が互いの国に輸入される場合，関税を免除することを認める一方，NAFTA以外の国から輸入される財に共通の関税率を適用することは両国に求めていない。

しかし，このことは別の問題を引き起こす。NAFTAでは，メキシコ産のシャツは関税なしでアメリカに持ち込める。そこで，アメリカがその他の国から輸入されるシャツにかける関税率を高く保ちたいと望んだ場合を考えてみる。ただし，メキシコはそのような関税を適用しないとする。この状況で，たとえばバングラデッシュ製のシャツをメキシコに輸入してシカゴ行きのトラック便に乗せることをやめる方法はあるのだろうか。

答えはこうだ。アメリカとメキシコの間で自由貿易が行われていようと，メキシコからアメリカに出荷される財はアメリカの税関を通らなければならない。そして，財が関税をかけられずにアメリカ国内に入るには，それがメキシコ経由の第三国製ではなく，メキシコを原産国とするものであることを書類によって証明しなければならない。

では，どのようなシャツがメキシコ製なのか。バングラデッシュ製のシャツにメキシコでボタン付けをしたものは，メキシコ製になるのだろうか。多分ならない。しかし，ボタン以外はすべてメキシコ製なら，おそらくメキシコ製とみなされる。要するに，関税同盟ではない自由貿易圏の管理には，国境で財のチェックを引き続き行うことだけが求められるわけではない。関税を免除して通すべき財かどうかを決めるためのややこしい「原産地ルール」を細かく規定することが必要になるのである。

その結果，NAFTAのような自由貿易協定ではおびただしい量の書類作成が課せられることになる。いくら原則的に自由貿易といっても，そうした負荷がかなりの障害になる恐れはある。

特恵措置の魅力とは？

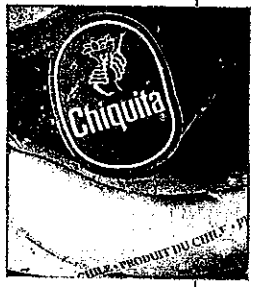
ここ数年，EUはバナナに対する特恵措置に関する問題で悩まされ続けてきた。

バナナは，大半が中央アメリカの小国――いわゆる「バナナ共和国」[*1]――から輸出される。しかし，ヨーロッパには，バナナを中央アメリカではなく，昔から西インド諸島にある現在および過去の植民地から購入してきた国がいくつかある。フランスとイギリスは，西インド諸島のバナナ生産者を保護するために，西インド諸島産より平均で約40％安い中央アメリカの「ドル・バナナ」に輸入割当を課してきた。しかし，西インド諸島に植民地のなかったドイツではドル・バナナの自由な輸入が許された。

ヨーロッパの市場統合に伴い，1992年以降はバナナの輸入割当制度が維持できなくなった。というのは，安いドル・バナナを西ドイツに輸入して，ヨーロッパ各地に配送することが簡単になったからである。この事態を防ぐため，1993年にヨーロッパ委員会は，ドル・バナナに輸入割当を課すことをヨーロッパ共通の新制度にする計画を発表した。ドイツはこの動きに反発して，新制度の正当性を否定するに及んだ。EEC設立の母体となったローマ条約には，ドイツがバナナの輸入を自由に行うことができる明示的保証（「バナナ協定」）が記載されていると指摘したのである。

ドイツがバナナ問題で感情をあらわにしたのはなぜか。共産党統治下の東ドイツの時代，バナナは貴重な贅沢品だった。ベルリンの壁が崩壊して安いバナナが急に手に入るようになり，バナナは自由の象徴になったのである。したがって，ドイツ政府としては，バナナの価格が急騰しかねない政策などまったく導入する気にならなかった。

だが結局，ドイツはしぶしぶバナナに関するヨーロッパ共通の新たな特恵措置に同意する。それでも事態は収まらなかった。1995年，この問題にアメリカが口をはさんできたのである。アメリカは，ヨーロッパが現行の特恵制度をもてあそぶことによって損失を被るのは中央アメリカの諸国だけではないと主張した。アメリカ企業のチキータ・バナナも利益を損ねるとクレームをつけたのだが，実は同社のCEOは民主党と共和党に巨額の献金をしてきた人物だった。



1997年，WTOによって，ヨーロッパにおけるバナナの輸入割当制度は国際貿易のルールに反するとの見解が出された。それを受けて，ヨーロッパは修正を施した制度に切り替えたが，バナナ問題を解決するための熱の入らないこの試みは実を結ばなかった。ヨーロッパとアメリカの争いは，アメリカが業を煮やしてブランド物のバッグやペコリーノ・チーズなど，さまざまなヨーロッパ製品に高い率の報復関税をかけるところまでエスカレートした。

2001年，ヨーロッパとアメリカはバナナの輸入割当を段階的に廃止していくことで合意した。この合意計画は，カリブ海西インド諸島の国々に大いなる苦境と不安を生み出した。ヨーロッパ市場への輸出特権が消滅することによる最悪の結果が懸念されたのである。しかし，そこで話は終らなかった。2005年1月，EUはバナナの輸入割当を廃止するとともに，ACP諸国（アフリカ・カリブ・太平洋諸国――基本的にヨーロッパの旧植民地）以外の地域から輸入されるバナナにかける関税率を**3倍**に引き上げると発表したのである。中央アメリカの国々は直ちに新しい関税率は不当だと訴えた。WTOは2007年，バナナに関するヨーロッパの新たな関税制度を違法とする裁定を下した（このニュースによって，チキータ・バナナの株価が急騰した）。そして，このバナナを巡る物語は，これからも続く。

[*1] 訳注　バナナのような一次産品の輸出をメインとする国を称していう。

このとき，イギリスの消費者は，1ブッシェルあたり8ドルの国産小麦を買う。フランス産小麦にかかる関税がなくなると，小麦の消費は国産からフランス産にシフトする。このシフトは，イギリスにとって得になる。というのも，イギリスでは小麦1ブッシェルの栽培に8ドルかかるが，フランスから1ブッシェルの小麦を買うのに6ドルの輸出財を生産するだけですむからである。

次に，当初の関税率が低い場合を考える。たとえば，1ブッシェルあたり3ドルなら，関税同盟に加盟する前のイギリスでは，国産小麦が栽培されずにアメリカ産小麦が買われる（輸入価格は1ブッシェル7ドルになる）。関税同盟の結成後は，1ブッシェル7ドルのアメリカ産小麦に代わって，1ブッシェル6ドルのフランス産小麦が買われるようになる。すると，アメリカからの小麦輸入は止まるだろう。ところが，アメリカ産小麦はフランス産より価格が安いというのが現実である。消費者がアメリカ産の小麦1ブッシェルにつき3ドル負担する関税そのものはイギリスの政府収入になるので，イギリス経済にとってコストにならない。しかし，小麦を輸入するために必要な輸出により多くの資源投入が求められるようになる。その結果，イギリスの経済厚生は改善されず，悪化するのである。

この損失の可能性は次善の理論のもう1つの例である。イギリスが当初，インセンティブを歪める2つの政策をとっていたとする。その1つがアメリカ産小麦にかける関税であり，もう1つがフランス産小麦にかける関税である。フランス産小麦にかかる関税はインセンティブを歪めそうに思われるが，アメリカ産の安い小麦の消費を促すことによって，アメリカ産小麦にかかる関税によるインセンティブの歪みを打ち消す可能性がある。したがって，フランス産の小麦にかかる関税の撤廃は，実はイギリスの厚生を悪化させるのである。

ここで初めの2つのケースに戻ると，次のことに気づく。関税同盟の結成が新たな貿易――小麦の国内生産からフランス産の小麦輸入へのシフト――に結び付く場合，イギリスは利益を得る。しかし，関税同盟の結成によって，貿易の相手国が関税同盟外の国から同盟参加国に変わるだけなら，イギリスは損失を被る。関税同盟による特恵関税の分析では，第一のケースを指すときに**貿易創出**という言葉が使われ，第二のケースを指すときに**貿易転換**という言葉が用いられる。関税同盟の結成が望ましいかどうかは，それが主として貿易創出につながるのか，それとも貿易転換につながるのかによるのである。

ケーススタディ

南アメリカにおける貿易転換

1991年，南アメリカのアルゼンチン，ブラジル，パラグアイ，ウルグアイの4ヵ国は，メルコスールという自由貿易圏，南米南部共同市場を発足させた。この協定は，貿易に直ちに劇的な影響を及ぼした。4ヵ国間の貿易量が4年で3倍に増えたのである。この自由貿易圏の指導者らは，メルコスールは大きな成功であり，広範囲にわたる経済改革の一翼を担うものだと誇らしげに主張した。

しかしメルコスールが地域内の貿易拡大に成功したのは確かだが，特恵的な貿易地域に関する理論によれば，この成功は必ずしも好ましいものではない。この地域で新たな貿易が生まれなければ，世界のその他の地域で行われたはずの貿易が犠牲にならずにすんだ――メルコスール協定によって新たな貿易が生まれたのではなく，貿易転換が起きた――とすれば，実際には厚生を悪化させた可能性がある。実際，貿易を専門とする世界銀行のチーフエコノミストによる1996年の論文がこの可能性を明らかにした。この論文は，地域内貿易の拡大というメルコスールの成功，いやむしろその成功がその他の貿易を犠牲にしたために，関係国に正味のマイナス効果をもたらした可能性が高いと結論づけている。

要するにこの研究の主張は，メルコスール諸国の消費者が，結果的に生産コストは低いが高率の関税がかかる外国製品ではなく，地域内の高コスト製品を購入するように仕向けられたというものである。特にメルコスールによって非効率的な自動車産業が手厚く保護されたブラジルは，事実上アルゼンチンに固定市場を獲得した。これはよその国からの輸入品を追い出したという点で，本文で紹介したイギリス市場の例に酷似している。イギリスの市場では輸入小麦がアメリカ産からフランス産に代わった。1996年の論文の草稿は「これらの研究結果は，地域的な貿易協定の有害な影響の可能性に関してこれまでに示された中でも最も説得力のある，そして最も懸念を生じさせる根拠となっているようだ」と結論づけている。

しかし，公表された論文にはそれは確定的ではないと書かれている。最初の草稿がマスコミにリークされ，メルコスール諸国の政府から抗議の声が巻き起こったのだ。特に，ブラジル政府の抗議は激しかった。こうした圧力を受けた世界銀行は論文の公表を遅らせたが，最終的に一連の補足説明を加えた改訂版を発表した。しかし，公表された論文の主張も依然としてかなり強い調子のものであり，メルコスールは完全に逆効果ではなかったとしても，相当な規模で貿易転換を引き起こしてきたとしている。

要約

1. 自由貿易を実践している国はほとんどないが，多くの経済学者は一貫して，自由貿易を望ましい政策として支持している。自由貿易を支持する根拠には次の3つがある。第一に，自由貿易から得られる効率性向上に対する表向きの擁護論である。これは，貿易政策の費用便益分析を逆にすることで示される。第二に，多くの経済学者は自由貿易によって追加的な利益が生まれると考えていることだ。この利益は表面的な分析だけではとらえきれない。第三に，経済学の複雑な分析結果を現実の政策に反映するのは難しいが，自由貿易を想定できる最善の策とは思わない経済学者でさえ，自由貿易は大まかな目安として有益だとみなしている。
2. 自由貿易からの離脱を擁護する主張には理論的に傾聴に値するものもある。理論的に明らかな正当性があると認められる主張は，国は最適関税と輸出税によって**交易条件**を改善することができるというものである。しかし，現実論としてはあまり重要ではない。小国は輸出入価格に影響を与えられないので，交易条件を改善するために関税その他の政策を活用することができない。一方，大国なら交易条件に影響を与えることができるが，関税の導入には，貿易協定の破綻や報復策の誘発というリスクが伴う。
3. 自由貿易からの離脱については，**国内市場の失敗**を根拠にする擁護論もある。たとえば，労働市場などの国内市場が適切に機能しない場合，自由貿易の放棄が，国内市場の機能不全による悪影響を軽減する場合もある。**次善の理論**によれば，1つの市場が機能不全に陥った場合，その他の市場への介入を控えるのは政策として最適ではない。ある財の生産に生産者余剰ではとらえられない**社会的限界便益**があるなら，関税によって厚生が改善する可能性がある。
4. 市場の失敗はおそらく日常茶飯事だとしても，国内市場の失敗を根拠とする理論をあまり気軽に用いるべきではない。そもそも，これは国内政策のための理論であって，貿易政策のためのものではない。関税はどのような場合でも良策ではなく，国内市場の失敗を穴埋めするための「次善」の策である。要するに，国内市場の失敗はその原因について対策を打つことが最善である。市場の失敗についてさらに言えば，これを十分に分析して，適切な政策を確実に示すことは難しい。
5. 実際には，貿易政策は所得分配を巡る思惑に左右される。貿易政策にかかわる政治のモデル化に決まったやり方はないが，いくつかの有用な考えは提案されている。政治学者は，政策はできるだけ多くの票を集めようとする政党間の競争によって決まると主張することが多い。最も単純なモデルでは，そこから**中位有権者**の利益になる政策の導入という結果が導き出される。この方法は多くの問題に対して有効だが，貿易政策に用いると，非現実的な予測結果が出るように思われる。そもそも貿易政策は，一般社会より小規模でまとまりのあるグループに有利になるのが通例である。経済学者も政治学者もこれを**集団行動**という問題として説明することが多い。個人には，所属するグループのために政治的な行動を起こそうというインセンティブが希薄なため，多数派の負担で自らに利益をもたらす政策を勝ち取ることができるのは，十分に組織されたグループ（大体は大きな利害を抱えた規模の小さなグループ）であることが多い。
6. 貿易政策がまったくの国内事情から立案される場合は，自由貿易を進展させるのはきわめて難しい。しかし，先進工業国は，**国際交渉**のプロセスを経ることによって，実際に関税をかなり削減してきた。国際交渉は2つの方法で関税引き下げに手を貸してきた。1つは，輸出業者に直接利益をもたらすことによって，自由貿易への支持を広げる方法である。もう1つは，双方に不利益となる**貿易戦争**を政府が避けられるようにすることである。貿易戦争は国際的な協調性に欠ける政策から生じるのだ。
7. 1930年代には，2ヵ国間の協定による自由貿易の進展がいくらか見られたが，第二次世界大戦以降，国際協調は基本的に，**関税と貿易に関する一般協定**（GATT）が主導する多国間協定を通じて進められてきた。GATTは官僚組織と行動規則の双方を備えた国際貿易制度の中核を形成する組織体である。また，世界規模で合意された最新のGATTによって，**世界貿易機構**（WTO）が新たに設立された。WTOの設立目的は協定の監視と履行の強制である。
8. 多国間交渉では関税率の全般的な引き下げが実現されてきたが，**特恵貿易協定**も結ばれてきた。特恵貿易協定は，参加国が互いに関税率を引き下げるためのものであり，参加国以外の国は対象とされない。GATTの下では，2種類の特恵貿易協定が認められている。1つは**関税同盟**である。この同盟では，同盟外からの輸入財に対する共通関税が加盟国によって設定される。もう1つは**自由貿易圏**である。自由貿易圏に含まれる国々は，地域内の国が輸出する財には輸入関税をかけないが，地域外から自国に輸入される財には独自の関税をかける。どちらの協定も経済厚生に与える影響は不明瞭である。特恵貿易協定への参加によって，高コストの国産財から他の参加国からの輸入財への切り替え――**貿易創出**――が起こる場合，その国の厚生は改善される。しかし，特恵貿易協定への参加によって，域外からの安い輸入品から協定参加国の高い財への切り替え――**貿易転換**――が起こる場合，その国の厚生は悪化する。

キーワード

関税同盟
関税と貿易に関する一般協定（GATT）
交易条件から見た関税擁護論
拘束
効率性から見た自由貿易擁護論
国際交渉
国内市場の失敗
最適関税
次善の理論
社会的限界便益
囚人のジレンマ
集団行動
自由貿易圏
自由貿易擁護のための政治議論
世界貿易機構（WTO）
中位有権者
特恵貿易協定
貿易戦争
貿易創出
貿易転換
レント・シーキング

練習問題

1. 以下の記述に含まれる自由貿易の擁護論を取り出して分類しなさい。「フィリピンのような小国が自由貿易に移行していたら，大きな利益を得ていたことだろう。自由貿易の下で消費者と生産者は，政府による人為的な政策価格ではなく，財の実質コストに基づく選択ができるはずである。狭い国内市場の枠から逃れられるし，起業の領域も新たに開かれる。何より，国内政治の浄化が促される。」
2. 以下の記述例のうち，関税あるいは輸出補助金を擁護する主張として価値があると認められるのはどれで，そうでないのはどれか。また，その理由を説明しなさい。
   a. 「アメリカが石油を輸入すればするほど，次の世界的な石油不足の際に石油価格が上昇する。」
   b. 「中国から輸出される季節外れのフルーツの量は，増加の一途をたどっており，今やその量は，アメリカにおける冬のブドウといった農産物の供給量の80％を占める。そのおかげで，以前は贅沢品だったこうした産物の価格が急速に下がっている。」
   c. 「アメリカによる農産物の輸出は，農業従事者の所得が増加するだけではない。アメリカの農業部門に財やサービスを売るすべての人々の所得が増えることでもある。」
   d. 「半導体はテクノロジーにとって原油の働きをする。自前のチップを生産しないと，電子技術を活用するあらゆる産業に欠かせない情報の流れが阻害される。」

   e. 「材木の実質価格が40％下落し，この産業では何千人という労働者が職探しを迫られることになった。」
3. ある小国が，ある財を1単位あたり世界価格10で輸入することができる。その財の国内における供給曲線は，次の式で表される。

$$S = 50 + 5P$$

また，需要曲線は次の式で表される。

$$D = 400 - 10P$$

さらに，財1単位の産出から社会的限界便益が10生まれる。
   a. この財1単位の輸入にかかる関税5が経済厚生に与える総効果を算出しなさい。
   b. 生産補助金5を支払う場合の総効果を算出しなさい。
   c. 生産補助金が関税より大きな厚生の改善を生む理由を述べなさい。
   d. 最適な生産補助金はどのくらいかを述べなさい。
4. 需要と供給は問題3の設定と同じだが，生産には社会的限界便益がないとする。しかし，政治的な理由で，政府は生産者の利益1ドルの価値は消費者の利益または政府収入の2ドルに相当するものとみなしている。この政府の目標上，財1単位あたり5ドルの関税効果はどれだけの値になるかを求めなさい。
5. ポーランドのEU加盟時，自動車の生産コストが14,000ユーロだとする。これに対して，ドイツにおける自動車の生産コストは2万ユーロである。また，関税同盟としてのEUは自動車にX％の関税をかけている。そして，日本における自動車の生産コストはY（ユーロ相当額）である。次のそれぞれの条件で，ポーランドのEU加盟が貿易の創出につながるのか，それとも貿易の転換につながるのかを説明しなさい。
   a. $X = 50$％，$Y = 10{,}000$ユーロ
   b. $X = 100$％，$Y = 10{,}000$ユーロ
   c. $X = 100$％，$Y = 8{,}000$ユーロ
6. 次の視点を経済と政治経済の両面から考察して説明しなさい。「アメリカが日本やヨーロッパの貿易政策にクレームをつけるのは無駄なことである。どの国も自己の最大利益にかなうことは何でもする権利がある。アメリカは外国の貿易政策に文句をつける代わりに，外国のやりたいようにさせるべきである。そして，自由貿易に対する偏見を捨てて他国と同じようにすればいい。」
7. 最適関税の理論をわかりやすく解説しなさい。
8. 政府が国家の経済厚生を軸に貿易政策を立案する場合でも，貿易戦争の問題は

やはり，図9-3の囚人のジレンマによってモデル化されたものになるのだろうか。このやり方で政策が形成される場合，ジレンマを解消させるのはどのような方法か。また，保護主義政策が取られることはあるだろうか。

9. 近年，アメリカは自国の消費者を守るために，鉛を使った玩具や衛生基準を満たさない魚介類など，一定の中国製品の輸入を制限する措置をとってきた。これをダブルスタンダードの表れと指摘する声もある。消費者の保護を理由に進んで財の輸入を制限するなら，まともな賃金を支払わないで生産した財の輸入も制限すべきではないのかというわけである。以上の主張に価値が認められるかどうかを，理由とともに述べなさい。

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最適関税は有益であるという証明

関税は常に大国の交易条件を改善するが，同時に，生産と消費の歪みを招く。この補遺では，関税が十分に低い場合，交易条件の改善による利益は常に歪みによる損失を上回ることを示す。したがって，最適関税は常にプラスとなる。

ここでは要点がわかりやすくなるように，需要曲線と供給曲線がすべて直線というケースに焦点を絞ることにする。

需要と供給

輸入国Cの需要曲線が次の方程式で表されるとする。なお，$\tilde{P}$は財の国内価格である。

$$D = a - b\tilde{P} \tag{9A-1}$$

また，供給曲線は次式で表される。

$$Q = e + f\tilde{P} \tag{9A-2}$$

そして，C国の輸入需要は次の式で表されるように，国内の需要と供給の差に等しい。

$$D - Q = (a - e) - (b + f)\tilde{P} \tag{9A-3}$$

一方，F国の輸出供給は，次式で表される直線を描くものとする。

$$(Q^* - D^*) = g + hP_W \tag{9A-4}$$

(9A-4)で，P_Wは世界価格である。そして，C国の国内価格は世界価格を関税分だけ上回る。

$$\tilde{P} = P_W + t \tag{9A-5}$$

関税と価格

関税は国内価格と世界価格に価格格差を生み出し，C国の国内価格を押し上げ，世界価格を下げる（図9A-1）。

世界均衡において，C国の輸入需要とF国の輸出供給は等しい。

$$(a - e) - (b + f) \times (P_W + t) = g + hP_W \tag{9A-6}$$

関税がかからない場合の世界価格をP_Fとすると，関税tによって国内価格$\tilde{P}$は次式のように上昇する。

$$\tilde{P} = P_F + th/(b + f + h) \tag{9A-7}$$

一方，世界価格は，関税tによって次式のように下落する

$$P_W = P_F - t(b + f)/(b + f + h) \tag{9A-8}$$

（小国から見ると，外国からの供給は弾力性が高い。つまり，hの値はきわめて大きい。したがって，小国の関税が世界価格に与える影響はほとんどない一方，自国の国内価格はほぼ1対1の割合で上昇する。）

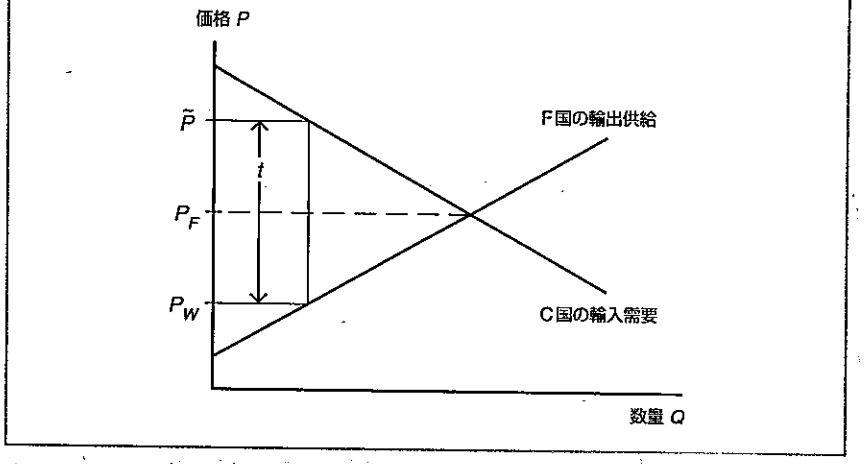

図9A-1 関税が価格に与える影響
線形モデルでは，関税が価格に与える影響を正確にとらえることができる。

関税と国内の厚生

ここでは，すでに学んだC国の厚生に及ぶ関税効果を導き出す方法を使うことにする（図9A-2）。Q^1とD^1はそれぞれ自由貿易の下での生産と消費を表す。関税によって国内価格が上がると，QがQ^2に上昇してDがD^2まで下降することになる。これは次の2つの式で表される。

$$Q^2 = Q^1 + tfh/(b + f + h) \tag{9A-9}$$

$$D^2 = D^1 - tbh/(b + f + h) \tag{9A-10}$$

世界価格の低下による利益は，価格の下げ幅に関税導入後の輸入水準を乗じたものに等しい。これは，図9A-2中の四角形で表される。

$$\begin{aligned}\text{利益} &= (D^2-Q^2)\times t(b+f)/(b+f+h)\\ &= t\times(D^1-Q^1)\times(b+f)/(b+f+h)-(t)^2\times h(b+f)^2/(b+f+h)^2\end{aligned} \tag{9A-11}$$

消費の歪みによる損失は，図9A-2中の2つの三角形の合計になる。

$$\begin{aligned}\text{損失} &= (1/2)\times(Q^2-Q^1)\times(\tilde{P}-P_F)+(1/2)\times(D^1-D^2)\times(\tilde{P}-P_F)\\ &= (t)^2\times(b+f)\times(h)^2/2(b+f+h)^2\end{aligned} \tag{9A-12}$$

したがって，経済厚生におよぶ正味の効果は次のようになる。

$$\text{利益}-\text{損失} = t\times U-(t)^2\times V \tag{9A-13}$$

ここで，UとVはわかりにくい記号ではあるが，関税水準とは無関係の正の値である。つまり，正味の効果は，正の値に関税率を掛けたものから，正の値に関税率の2乗を掛けたものを差し引いたものになる。

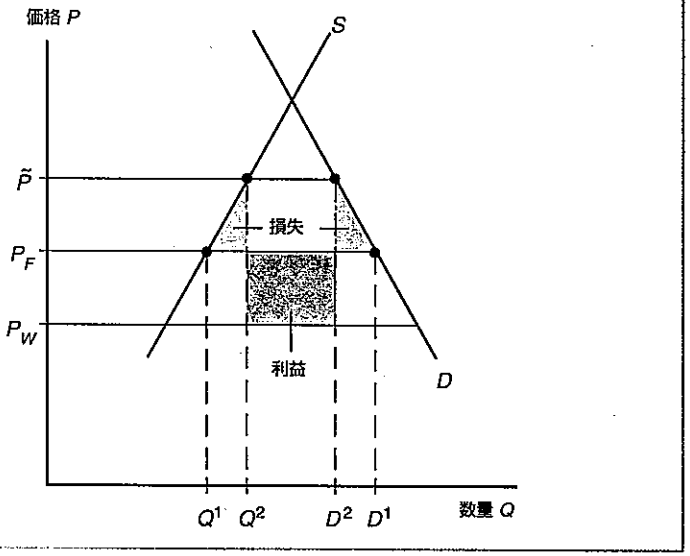

図9A-2　経済厚生に与える関税の効果

関税の正味便益は，赤色のついた長方形部分から青色の2つの三角形を引いた部分に等しい。

以上から，関税が十分低ければ，正味の効果は必ずプラスになる。というのも，ある数値が小さくなればなるほど，その数値の2乗は数値そのものより早く小さくなるからである。たとえば，20％の関税で純損失が出るとする。では，10％の関税ではどうなるか。プラス効果は，20％の関税の場合のわずか1/2だが，マイナス効果は1/4まで小さくなる。それでも正味の効果がマイナスなら，関税を5％にしてみる。これにより，マイナス効果の減少はプラス効果の2倍になる。したがって相当低い関税率では，プラス効果はマイナス効果を上回るはずである。

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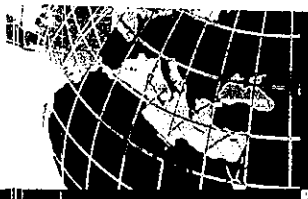

International Economics

THEORY & POLICY

Seventh Edition

Paul R. Krugman Maurice Obstfeld

"KEO" ch.9

CHAPTER 9

The Political Economy of Trade Policy

In 1981 the United States asked Japan to limit its exports of autos to the United States. This raised the prices of imported cars and forced U.S. consumers to buy domestic autos they clearly did not like as much. While Japan was willing to accommodate the U.S. government on this point, it was unwilling to do so on another—a request that Japan eliminate import quotas on beef and citrus products—quotas that forced Japanese consumers to buy incredibly expensive domestic products instead of cheap imports from the United States. The governments of both countries were thus determined to pursue policies that, according to the cost-benefit analysis developed in Chapter 8, produced more costs than benefits. Clearly, government policies reflect objectives that go beyond simple measures of cost and benefit.

In this chapter we examine some of the reasons governments either should not or, at any rate, do not base their policy on economists' cost-benefit calculations. The examination of the forces motivating trade policy in practice continues in Chapters 10 and 11, which discuss the characteristic trade policy issues facing developing and advanced countries, respectively.

The first step toward understanding actual trade policies is to ask what reasons there are for governments *not* to interfere with trade—that is, what is the case for free trade? With this question answered, arguments for intervention can be examined as challenges to the assumptions underlying the case for free trade.

Learning Goals

After reading this chapter, you will be able to:

- Articulate arguments for free trade that go beyond the conventional gains from trade.
- Evaluate national welfare arguments against free trade.
- Relate the theory and evidence behind "political economy" views of trade policy.
- Explain how international negotiations and agreements have promoted world trade.
- Discuss the special issues raised by preferential trade agreements.

The Case for Free Trade

Few countries have anything approaching completely free trade. The city of Hong Kong, which is legally part of China but maintains a separate economic policy, may be the only modern economy with no tariffs or import quotas. Nonetheless, since the time of Adam Smith, economists have advocated free trade as an ideal toward which trade policy should strive. The reasons for this advocacy are not quite as simple as the idea itself. At one level, theoretical models suggest that free trade will avoid the efficiency losses associated with protection. Many economists believe that free trade produces additional gains beyond the elimination of production and consumption distortions. Finally, even among economists who believe free trade is a less than perfect policy, many believe free trade is usually better than any other policy a government is likely to follow.

Free Trade and Efficiency

The **efficiency case for free trade** is simply the reverse of the cost-benefit analysis of a tariff. Figure 9-1 shows the basic point once again for the case of a small country that cannot influence foreign export prices. A tariff causes a net loss to the economy measured by the area of the two triangles; it does so by distorting the economic incentives of both producers and consumers. Conversely, a move to free trade eliminates these distortions and increases national welfare.

In the modern world, for reasons we will explain later in this chapter, tariff rates are generally low and import quotas relatively rare. As a result, estimates of the total costs of distortions due to tariffs and import quotas tend to be modest in size. Table 9-1 shows one recent estimate of the gains from a move to worldwide free trade, measured as a percentage of GDP. For the world as a whole, according to these estimates, protection costs less than 1 percent of GDP. The gains from free trade are somewhat smaller for advanced economies such as the United States and Europe and somewhat larger for poorer "developing countries."

Figure 9-1

The Efficiency Case for Free Trade

A trade restriction, such as a tariff, leads to production and consumption distortions.

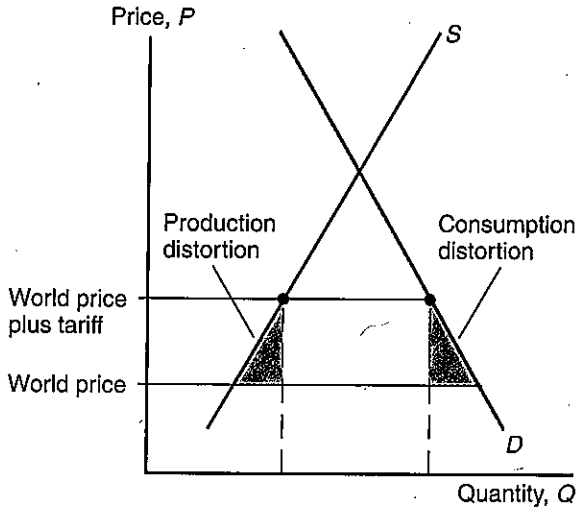

TABLE 9-1 Benefits of a Move to Worldwide Free Trade (percent of GDP)	
United States	0.57
European Union	0.61
Japan	0.85
Developing countries	1.4
World	0.93

Source: William Cline, *Trade Policy and Global Poverty* (Washington, D.C.: Institute for International Economics, 2004), p. 180.

TABLE 9-2 Estimated Cost of Protection, as a Percentage of National Income	
Brazil (1966)	9.5
Turkey (1978)	5.4
Philippines (1978)	5.4
United States (1983)	0.26

Sources: Brazil: Bela Balassa, *The Structure of Protection in Developing Countries* (Baltimore: The Johns Hopkins Press, 1971); Turkey and Philippines: World Bank, *The World Development Report 1987* (Washington, D.C.: World Bank, 1987); United States: David G. Tarr and Morris E. Morkre, *Aggregate Costs to the United States of Tariffs and Quotas on Imports* (Washington, D.C.: Federal Trade Commission, 1984).

Additional Gains from Free Trade[1]

There is a widespread belief among economists that calculations of the kind reported in Table 9-2, even though they report substantial gains from free trade in some cases, do not represent the whole story. In small countries in general and developing countries in particular, many economists would argue that there are important gains from free trade not accounted for in conventional cost-benefit analysis.

One kind of additional gain involves economies of scale. Protected markets not only fragment production internationally, but by reducing competition and raising profits, they also lead too many firms to enter the protected industry. With a proliferation of firms in narrow domestic markets, the scale of production of each firm becomes inefficient. A good example of how protection leads to inefficient scale is the case of the Argentine automobile industry, which emerged because of import restrictions. An efficient scale assembly plant should make from 80,000 to 200,000 automobiles per year, yet in 1964 the Argentine industry, which produced only 166,000 cars, had no fewer than 13 firms! Some economists argue that the need to deter excessive entry and the resulting

[1]The additional gains from free trade that are discussed here are sometimes referred to as "dynamic" gains, because increased competition and innovation may need more time to take effect than the elimination of production and consumption distortions.

inefficient scale of production is a reason for free trade that goes beyond the standard cost-benefit calculations.

Another argument for free trade is that by providing entrepreneurs with an incentive to seek new ways to export or compete with imports, free trade offers more opportunities for learning and innovation than are provided by a system of "managed" trade, where the government largely dictates the pattern of imports and exports. Chapter 10 discusses the experiences of less-developed countries that discovered unexpected export opportunities when they shifted from systems of import quotas and tariffs to more open trade policies.

These additional arguments for free trade are for the most part not quantified. In 1985, however, Canadian economists Richard Harris and David Cox attempted to quantify the gains for Canada of free trade with the United States, taking into account the gains from a more efficient scale of production within Canada. They estimated that Canada's real income would rise by 8.6 percent—an increase about three times as large as the one typically estimated by economists who do not take into account the gains from economies of scale.[2]

If the additional gains from free trade are as large as some economists believe, the costs of distorting trade with tariffs, quotas, export subsidies, and so on are correspondingly larger than the conventional cost-benefit analysis measures.

Political Argument for Free Trade

A **political argument for free trade** reflects the fact that a political commitment to free trade may be a good idea in practice even though there may be better policies in principle. Economists often argue that trade policies in practice are dominated by special-interest politics rather than consideration of national costs and benefits. Economists can sometimes show that in theory a selective set of tariffs and export subsidies could increase national welfare, but in reality any government agency attempting to pursue a sophisticated program of intervention in trade would probably be captured by interest groups and converted into a device for redistributing income to politically influential sectors. If this argument is correct, it may be better to advocate free trade without exceptions, even though on purely economic grounds free trade may not always be the best conceivable policy.

The three arguments outlined in the previous section probably represent the standard view of most international economists, at least in the United States:

1. The conventionally measured costs of deviating from free trade are large.
2. There are other benefits from free trade that add to the costs of protectionist policies.
3. Any attempt to pursue sophisticated deviations from free trade will be subverted by the political process.

Nonetheless, there are intellectually respectable arguments for deviating from free trade, and these arguments deserve a fair hearing.

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[2] See Harris and Cox, *Trade, Industrial Policy, and Canadian Manufacturing* (Toronto: Ontario Economic Council, 1984); and, by the same authors, "Trade Liberalization and Industrial Organization: Some Estimates for Canada," *Journal of Political Economy* 93 (February 1985), pp. 115–145.

Case Study

The Gains from 1992

In 1987 the nations of the European Community (now known as the European Union) agreed on what formally was called the Single European Act, with the intention to create a truly unified European market. Because the act was supposed to go into effect within five years, the measures it embodied came to be known generally as "1992."

The unusual thing about 1992 was that the European Community was already a customs union, that is, there were no tariffs or import quotas on intra-European trade. So what was left to liberalize? The advocates of 1992 argued that there were still substantial barriers to international trade within Europe. Some of these barriers involved the costs of crossing borders; for example, the mere fact that trucks carrying goods between France and Germany had to stop for legal formalities often meant long waits that were costly in time and fuel. Similar costs were imposed on business travelers, who might fly from London to Paris in an hour, then spend another hour waiting to clear immigration and customs. Differences in regulations also had the effect of limiting the integration of markets. For example, because health regulations on food differed among the European nations, one could not simply fill a truck with British goods and take them to France, or vice versa.

Eliminating these subtle obstacles to trade was a very difficult political process. Suppose France is going to allow goods from Germany to enter the country without any checks. What is to prevent the French people from being supplied with manufactured goods that do not meet French safety standards, foods that do not meet French health standards, or medicines that have not been approved by French doctors? The only way that countries can have truly open borders is if they are able to agree on common standards, so that a good that meets French requirements is acceptable in Germany and vice versa. The main task of the 1992 negotiations was therefore one of harmonization of regulations in hundreds of areas, negotiations that were often acrimonious because of differences in national cultures.

The most emotional examples involved food. All advanced countries regulate things such as artificial coloring, to ensure that consumers are not unknowingly fed chemicals that are carcinogens or otherwise harmful. The initially proposed regulations on artificial coloring would, however, have destroyed the appearance of several traditional British foods: pink bangers (breakfast sausages) would have become white, golden kippers gray, and mushy peas a drab rather than a brilliant green. Continental consumers did not mind; indeed they could not understand how the British could eat such things in the first place. But in Britain the issue became tied up with fear over the loss of national identity, and loosening the proposed regulations became a top priority for the government. Britain succeeded in getting the necessary exemptions. On the other hand, Germany was forced to accept imports of beer that did not meet its centuries-old purity laws, and Italy to accept pasta made from—horrors!—the wrong kind of wheat.

But why engage in all this difficult negotiating? What were the potential gains from 1992? Attempts to estimate the direct gains have always suggested that they are fairly modest. Costs associated with crossing borders amount to no more than a few percent of the value of the goods shipped; removing these costs could add at best a fraction of a percent to the real income of Europe as a whole. Yet economists at the European Commission (the administrative arm of the European Community) argued that the true gains would be much larger.

Their reasoning relied to a large extent on the view that the unification of the European market would lead to greater competition among firms and to a more efficient scale of production. Much was made of the comparison with the United States, a country whose purchasing power and population are similar to those of the European Union, but which is a borderless, fully integrated market. Commission economists pointed out that in a number of industries Europe seemed to have markets that were segmented: Instead of treating the whole continent as a single market, firms seemed to have carved it into local zones served by relatively small-scale national producers. They argued that with all barriers to trade removed, there would be a consolidation of these producers, with substantial gains in productivity. These putative gains raised the overall estimated benefits from 1992 to several percent of the initial income of European nations. The Commission economists argued further that there would be indirect benefits, because the improved efficiency of the European economy would improve the trade-off between inflation and unemployment. At the end of a series of calculations, the Commission estimated a gain from 1992 of 7 percent of European income.[3]

While nobody involved in this discussion regarded 7 percent as a particularly reliable number, many economists shared the conviction of the Commission that the gains would be large. There were, however, skeptics, who suggested that the segmentation of markets had more to do with culture than trade policy. For example, Italian consumers wanted washing machines that were quite different from those preferred in Germany. Italians tend to buy relatively few clothes, but those they buy are stylish and expensive, so they prefer slow, gentle washing machines that conserve their clothing investment.

A decade after 1992, it was clear that both the supporters and the skeptics had a valid point. In some cases there have been notable consolidations of industry. For example, Hoover closed its vacuum cleaner plant in France and concentrated all its production in an efficient plant in Britain. In some cases old market segmentations have clearly broken down, and sometimes in surprising ways, like the emergence of British sliced bread as a popular item in France. But in other cases markets have shown little sign of merging. The Germans have shown little taste for imported beer, and the Italians none for pasta made with soft wheat.

How large were the economic gains from 1992? By 2003, the European Commission was offering more modest estimates than it had before 1992: It put the gains at about 1.8 percent of GDP. If this number is correct, it represents a mild disappointment but hardly a failure.

[3] See *The Economics of 1992* (Brussels: Commission of the European Communities, 1988).

National Welfare Arguments Against Free Trade

Most tariffs, import quotas, and other trade policy measures are undertaken primarily to protect the income of particular interest groups. Politicians often claim, however, that the policies are being undertaken in the interest of the nation as a whole, and sometimes they are even telling the truth. Although economists often argue that deviations from free trade reduce national welfare, there are, in fact, some theoretical grounds for believing that activist trade policies can sometimes increase the welfare of the nation as a whole.

The Terms of Trade Argument for a Tariff

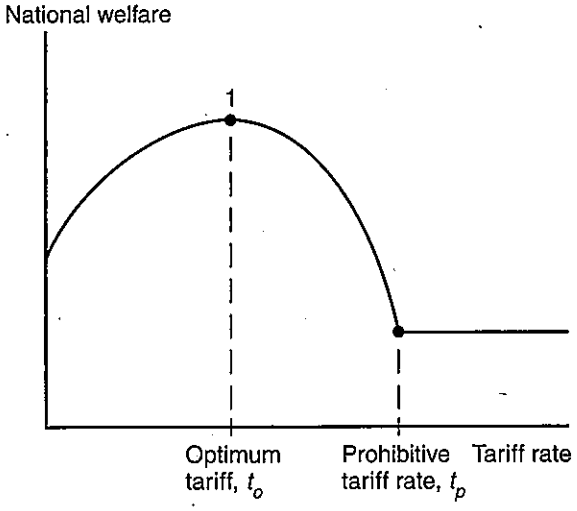
One argument for deviating from free trade comes directly out of cost-benefit analysis: For a large country that is able to affect the prices of foreign exporters, a tariff lowers the price of imports and thus generates a terms of trade benefit. This benefit must be set against the costs of the tariff, which arise because the tariff distorts production and consumption incentives. It is possible, however, that in some cases the terms of trade benefits of a tariff outweigh its costs, so there is a **terms of trade argument for a tariff.**

The appendix to this chapter shows that for a sufficiently small tariff the terms of trade benefits must outweigh the costs. Thus at small tariff rates a large country's welfare is higher than with free trade (Figure 9-2). As the tariff rate is increased, however, the costs eventually begin to grow more rapidly than the benefits and the curve relating national welfare to the tariff rate turns down. A tariff rate that completely prohibits trade (t_p in Figure 9-2) leaves the country worse off than with free trade; further increases in the tariff rate beyond t_p have no effect, so the curve flattens out.

At point 1 on the curve in Figure 9-2, corresponding to the tariff rate t_o, national welfare is maximized. The tariff rate t_o that maximizes national welfare is the **optimum tariff.** (By convention the phrase *optimum tariff* is usually used to refer to the tariff justified by a terms of trade argument rather than to the best tariff given all possible considerations.) The optimum tariff rate is always positive but less than the prohibitive rate (t_p) that would eliminate all imports.

Figure 9-2
The Optimum Tariff

For a large country, there is an optimum tariff t_o at which the marginal gain from improved terms of trade just equals the marginal efficiency loss from production and consumption distortion.



What policy would the terms of trade argument dictate for *export* sectors? Since an export subsidy *worsens* the terms of trade, and therefore unambiguously reduces national welfare, the optimal policy in export sectors must be a negative subsidy, that is, a *tax* on exports that raises the price of exports to foreigners. Like the optimum tariff, the optimum export tax is always positive but less than the prohibitive tax that would eliminate exports completely.

The policy of Saudi Arabia and other oil exporters has been to tax their exports of oil, raising the price to the rest of the world. Although oil prices fell in the mid-1980s, it is hard to argue that Saudi Arabia would have been better off under free trade.

The terms of trade argument against free trade has some important limitations, however. Most small countries have very little ability to affect the world prices of either their imports or exports, so that the terms of trade argument is of little practical importance. For big countries like the United States, the problem is that the terms of trade argument amounts to an argument for using national monopoly power to extract gains at other countries' expense. The United States could surely do this to some extent, but such a predatory policy would probably bring retaliation from other large countries. A cycle of retaliatory trade moves would, in turn, undermine the attempts at international trade policy coordination described later in this chapter.

The terms of trade argument against free trade, then, is intellectually impeccable but of doubtful usefulness. In practice, it is emphasized more by economists as a theoretical proposition than it is used by governments as a justification for trade policy.

The Domestic Market Failure Argument Against Free Trade

Leaving aside the issue of the terms of trade, the basic theoretical case for free trade rested on cost-benefit analysis using the concepts of consumer and producer surplus. Many economists have made a case against free trade based on the counterargument that these concepts, producer surplus in particular, do not properly measure costs and benefits.

Why might producer surplus not properly measure the benefits of producing a good? We consider a variety of reasons in the next two chapters: These include the possibility that the labor used in a sector would otherwise be unemployed or underemployed, the existence of defects in the capital or labor markets that prevent resources from being transferred as rapidly as they should be to sectors that yield high returns, and the possibility of technological spillovers from industries that are new or particularly innovative. These can all be classified under the general heading of **domestic market failures.** That is, each of these examples is one in which some market in the country is not doing its job right—the labor market is not clearing, the capital market is not allocating resources efficiently, and so on.

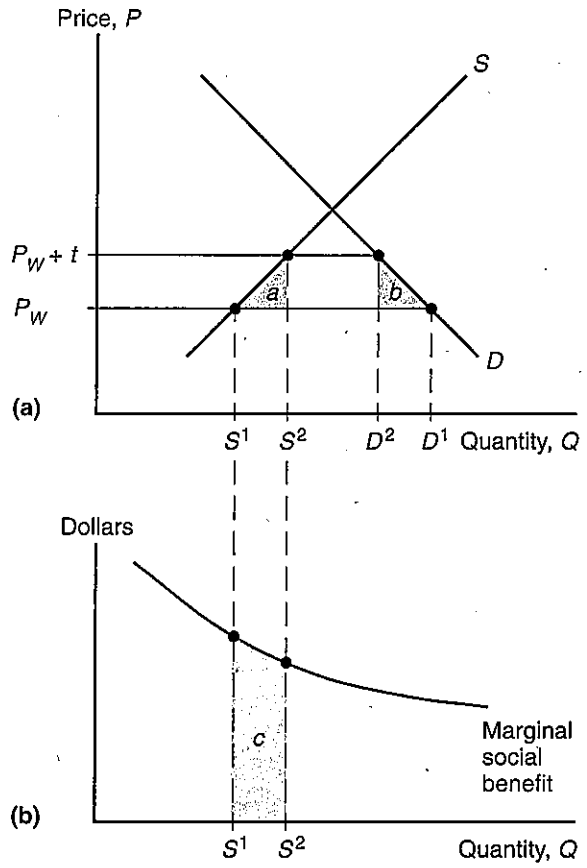
Suppose, for example, that the production of some good yields experience that will improve the technology of the economy as a whole but that the firms in the sector cannot appropriate this benefit and therefore do not take it into account in deciding how much to produce. Then there is a **marginal social benefit** to additional production that is not captured by the producer surplus measure. This marginal social benefit can serve as a justification for tariffs or other trade policies.

Figure 9-3 illustrates the domestic market failure argument against free trade. Figure 9-3a shows the conventional cost-benefit analysis of a tariff for a small country (which rules out terms of trade effects). Figure 9-3b shows the marginal benefit from production that is not taken account of by the producer surplus measure. The figure shows the effects of a tariff that raises the domestic price from P_W to $P_W + t$. Production rises from S^1 to S^2, with a resulting production distortion indicated by the area labeled a. Consumption falls from D^1

Figure 9-3

The Domestic Market Failure Argument for a Tariff

If production of a good yields extra social benefits (measured in panel (*b*) by area (*c*) not captured as producer surplus), a tariff can increase welfare.



to D^2, with a resulting consumption distortion indicated by the area *b*. If we considered only consumer and producer surplus, we would find that the costs of the tariff exceed its benefits. Figure 9-3b shows, however, that this calculation overlooks an additional benefit that may make the tariff preferable to free trade. The increase in production yields a social benefit that may be measured by the area under the marginal social benefit curve from S^1 to S^2, indicated by *c*. In fact, by an argument similar to that in the terms of trade case, we can show that if the tariff is small enough the area *c* must always exceed the area $a + b$ and that there is some welfare-maximizing tariff that yields a level of social welfare higher than that of free trade.

The domestic market failure argument against free trade is a particular case of a more general concept known in economics as the **theory of the second best.** This theory states that a hands-off policy is desirable in any one market only if all other markets are working properly. If they are not, a government intervention that appears to distort incentives in one market may actually increase welfare by offsetting the consequences of market failures elsewhere. For example, if the labor market is malfunctioning and fails to deliver full employment, a policy of subsidizing labor-intensive industries, which would be undesirable in a full-employment economy, might turn out to be a good idea. It would be better to fix the labor market, for example, by making wages more flexible, but if for some reason this cannot be done, intervening in other markets may be a "second-best" way of alleviating the problem.

When economists apply the theory of the second best to trade policy, they argue that imperfections in the *internal* functioning of an economy may justify interfering in its external economic relations. This argument accepts that international trade is not the source of the problem but suggests nonetheless that trade policy can provide at least a partial solution.

How Convincing Is the Market Failure Argument?

When they were first proposed, market failure arguments for protection seemed to undermine much of the case for free trade. After all, who would want to argue that the real economies we live in are free from market failures? In poorer nations, in particular, market imperfections seem to be legion. For example, unemployment and massive differences between rural and urban wage rates are present in many less-developed countries (Chapter 10). The evidence that markets work badly is less glaring in advanced countries, but it is easy to develop hypotheses suggesting major market failures there as well—for example, the inability of innovative firms to reap the full rewards of their innovations. How can we defend free trade given the likelihood that there are interventions that could raise national welfare?

There are two lines of defense for free trade: The first argues that domestic market failures should be corrected by domestic policies aimed directly at the problems' sources; the second argues that economists cannot diagnose market failure well enough to prescribe policy.

The point that domestic market failure calls for domestic policy changes, not international trade policies, can be made by cost-benefit analysis, modified to account for any unmeasured marginal social benefits. Figure 9-3 showed that a tariff might raise welfare, despite the production and consumption distortion it causes, because it leads to additional production that yields social benefits. If the same production increase were achieved via a production subsidy rather than a tariff, however, the price to consumers would not increase and the consumption loss b would be avoided. In other words, by targeting directly the particular activity we want to encourage, a production subsidy would avoid some of the side costs associated with a tariff.

This example illustrates a general principle when dealing with market failures: It is always preferable to deal with market failures as directly as possible, because indirect policy responses lead to unintended distortions of incentives elsewhere in the economy. Thus, trade policies justified by domestic market failure are never the most efficient response; they are always "second-best" rather than "first-best" policies.

This insight has important implications for trade policymakers: Any proposed trade policy should always be compared with a purely domestic policy aimed at correcting the same problem. If the domestic policy appears too costly or has undesirable side effects, the trade policy is almost surely even less desirable—even though the costs are less apparent.

In the United States, for example, an import quota on automobiles has been supported on the grounds that it is necessary to save the jobs of autoworkers. The advocates of an import quota argue that U.S. labor markets are too inflexible for autoworkers to remain employed either by cutting their wages or by finding jobs in other sectors. Now consider a purely domestic policy aimed at the same problem: a subsidy to firms that employ autoworkers. Such a policy would encounter massive political opposition. For one thing, to preserve current levels of employment without protection would require large subsidy payments, which would either increase the federal government budget deficit or require a tax increase. Furthermore, autoworkers are among the highest-paid workers in the manufacturing sector; the general public would surely object to subsidizing them. It is hard to believe an employment

subsidy for autoworkers could pass Congress. Yet an import quota *would be even more expensive*, because while bringing about the same increase in employment, it would also distort consumer choice. The only difference is that the costs would be less visible, taking the form of higher automobile prices rather than direct government outlays.

Critics of the domestic market failure justification for protection argue that this case is typical: Most deviations from free trade are adopted not because their benefits exceed their costs but because the public fails to understand their true costs. Comparing the costs of trade policy with alternative domestic policies is a useful way to focus attention on how large these costs are.

The second defense of free trade is that because market failures are typically hard to identify precisely, it is difficult to be sure about the appropriate policy response. For example, suppose there is urban unemployment in a less-developed country; what is the appropriate policy? One hypothesis (examined more closely in Chapter 10) says that a tariff to protect urban industrial sectors will draw the unemployed into productive work and thus generate social benefits that more than compensate for its costs. Another hypothesis says, however, that this policy will encourage so much migration to urban areas that unemployment will, in fact, increase. It is difficult to say which of these hypotheses is right. While economic theory says much about the working of markets that function properly, it provides much less guidance on those that don't; there are many ways in which markets can malfunction, and the choice of a second-best policy depends on the details of the market failure.

The difficulty of ascertaining the right second-best trade policy to follow reinforces the political argument for free trade mentioned earlier. If trade policy experts are highly uncertain about how policy should deviate from free trade and disagree among themselves, it is all too easy for trade policy to ignore national welfare altogether and become dominated by special-interest politics. If the market failures are not too bad to start with, a commitment to free trade might in the end be a better policy than opening the Pandora's box of a more flexible approach.

This is, however, a judgment about politics rather than economics. We need to realize that economic theory does *not* provide a dogmatic defense of free trade, something that it is often accused of doing.

Income Distribution and Trade Policy

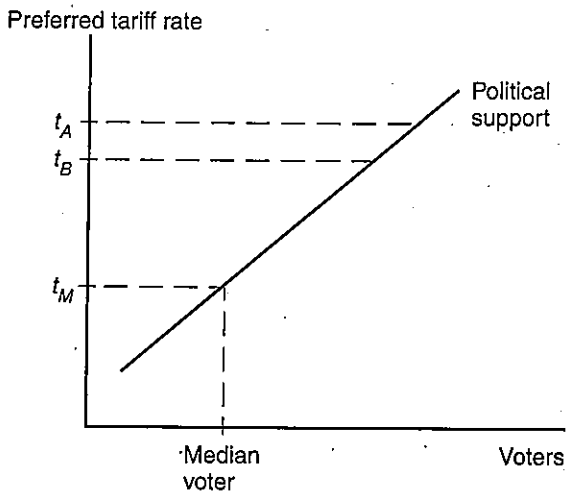
The discussion so far has focused on national welfare arguments for and against tariff policy. It is appropriate to start there, both because a distinction between national welfare and the welfare of particular groups helps to clarify the issues and because the advocates of trade policies usually claim they will benefit the nation as a whole. When looking at the actual politics of trade policy, however, it becomes necessary to deal with the reality that there is no such thing as national welfare; there are only the desires of individuals, which get more or less imperfectly reflected in the objectives of government.

How do the preferences of individuals get added up to produce the trade policy we actually see? There is no single, generally accepted answer, but there has been a growing body of economic analysis that explores models in which governments are assumed to be trying to maximize political success rather than an abstract measure of national welfare.

Figure 9-4

Political Competition

Voters are lined up in order of the tariff rate they prefer. If one party proposes a high tariff of t_A, the other party can win over most of the voters by offering a somewhat lower tariff, t_B. This political competition drives both parties to propose tariffs close to t_M, the tariff preferred by the median voter.



Electoral Competition

Political scientists have long used a simple model of competition among political parties to show how the preferences of voters might be reflected in actual policies.[4] The model runs as follows: Suppose that there are two competing parties, each of which is willing to promise whatever will enable it to win the next election. Suppose that policy can be described along a single dimension, say, the level of the tariff rate. And finally, suppose that voters differ in the policies they prefer. For example, imagine that a country exports skill-intensive goods and imports labor-intensive goods. Then voters with high skill levels will favor low tariff rates, but voters with low skills will be better off if the country imposes a high tariff (because of the Stolper-Samuelson effect discussed in Chapter 4). We can therefore think of lining up all the voters in the order of the tariff rate they prefer, with the voters who favor the lowest rate on the left and those who favor the highest rate on the right.

What policies will the two parties then promise to follow? The answer is that they will try to find the middle ground—specifically, both will tend to converge on the tariff rate preferred by the **median voter,** the voter who is exactly halfway up the lineup. To see why, consider Figure 9-4. In the figure, voters are lined up by their preferred tariff rate, which is shown by the hypothetical upward-sloping curve; t_M is the median voter's preferred rate. Now suppose that one of the parties has proposed the tariff rate t_A, which is considerably above that preferred by the median voter. Then the other party could propose the slightly lower rate t_B, and its program would be preferred by almost all voters who wanted a lower tariff, that is, by a majority. In other words, it would always be in the political interest of a party to undercut any tariff proposal that is higher than what the median voter wants.

But similar reasoning shows that self-interested politicians will always want to promise a higher tariff if their opponents propose one that is lower than the tariff the median voter prefers. So both parties end up proposing a tariff close to the one the median voter wants.

Political scientists have modified this simple model in a number of ways. For example, some analysts stress the importance of party activists to getting out the vote; since these activists are often ideologically motivated, the need for their support may prevent parties

[4] See Anthony Downs, *An Economic Theory of Democracy* (Washington, D.C.: Brookings Institution, 1957).

from being quite as cynical, or adopting platforms quite as indistinguishable, as this model suggests. Nonetheless, the median voter model of electoral competition has been very helpful as a way of thinking about how political decisions get made in the real world, where the effects of policy on income distribution may be more important than their effects on efficiency.

One area in which the median voter model does not seem to work very well, however, is trade policy! In fact, it makes an almost precisely wrong prediction. According to this model, a policy should be chosen on the basis of how many voters it pleases. A policy that inflicts large losses on a few people but benefits a large number of people should be a political winner; a policy that inflicts widespread losses but helps a small group should be a loser. In fact, however, protectionist policies are more likely to fit the latter than the former description. Recall the example of the U.S. sugar import quota, discussed in Chapter 8: According to the estimates presented there, the quota imposed a loss of about $2.5 billion on U.S. consumers—that is, on tens of millions of voters—while providing a much smaller gain to a few thousand sugar industry workers and businesspersons. How can such a thing happen politically?

Collective Action

In a now famous book, economist Mancur Olson pointed out that political activity on behalf of a group is a public good; that is, the benefits of such activity accrue to all members of the group, not just the individual who performs the activity.[5] Suppose a consumer writes a letter to his congressperson demanding a lower tariff rate on his favorite imported good, and this letter helps change the congressperson's vote, so that the lower tariff is approved. Then all consumers who buy the good benefit from lower prices, even if they did not bother to write letters.

This public good character of politics means that policies that impose large losses in total, but small losses on any individual, may not face any effective opposition. Again take the example of the sugar import quota. This policy imposes a cost on a typical American family of approximately $30 per year. Should a consumer lobby his or her congressperson to remove the quota? From the point of view of individual self-interest, surely not. Since one letter has only a marginal effect on the policy, the individual payoff from such a letter is probably literally not worth the paper it is written on, let alone the postage stamp. (Indeed, it is surely not worth even learning of the quota's existence unless you are interested in such things for their own sake.) And yet if a million voters were to write demanding an end to the quota, it would surely be repealed, bringing benefits to consumers far exceeding the cost of sending the letters. In Olson's phrase, there is a problem of **collective action:** While it is in the interests of the group as a whole to press for favorable policies, it is not in any individual's interest to do so.

The problem of collective action can best be overcome when a group is small (so that each individual reaps a significant share of the benefits of favorable policies) and/or well-organized (so that members of the group can be mobilized to act in their collective interest). The reason that a policy like the sugar quota can happen is that the sugar producers form a relatively small, well-organized group that is well aware of the size of the implicit subsidy members receive, while sugar consumers are a huge population that does not even perceive itself as an interest group. The problem of collective action, then, can explain why policies that not only seem to produce more costs than benefits but that also seem to hurt far more voters than they help can nonetheless be adopted.

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[5] Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965).

Politicians for Sale: Evidence from the 1990s

As we explained in the text, it's hard to make sense of actual trade policy if you assume that governments are genuinely trying to maximize national welfare. On the other hand, actual trade policy does make sense if you assume that special-interest groups can buy influence. But is there any direct evidence that politicians really are for sale?

Votes by the U.S. Congress on some crucial trade issues in the 1990s offer useful test cases. The reason is that U.S. campaign finance laws require politicians to reveal the amounts and sources of campaign contributions; this disclosure allows economists and political scientists to look for any relationship between those contributions and actual votes.

A 1998 study by Robert Baldwin and Christopher Magee* focuses on two crucial votes: the 1993 vote on the North American Free Trade Agreement (generally known as NAFTA, and described at greater length below), and the 1994 vote ratifying the latest agreement under the General Agreement on Tariffs and Trade (generally known as the GATT, also described below). Both votes were bitterly fought, largely along business-versus-labor lines—that is, business groups were strongly in favor; labor unions were strongly against. In both cases the free trade position backed by business won; in the NAFTA vote the outcome was in doubt until the last minute, and the margin of victory—34 votes in the House of Representatives—was not very large.

Baldwin and Magee estimate an econometric model of congressional votes that controls for such factors as the economic characteristics of members' districts as well as business and labor contributions to the congressional representative. They find a strong impact of money on the voting pattern. One way to assess this impact is to run a series of "counterfactuals": how different would the overall vote have been if there had been no business contributions, no labor contributions, or no contributions at all?

The table on the following page summarizes the results. The first line shows how many representatives voted in favor of each bill; bear in mind that passage required at least 214 votes. The second line shows the number of votes predicted by Baldwin and Magee's equations: Their model gets it right in the case of NAFTA and overpredicts by a few votes in the case of the GATT. The third line shows how many votes each bill would have received, according to the model, in the absence of labor contributions; the next line shows

Modeling the Political Process

While the logic of collective action has long been invoked by economists to explain seemingly irrational trade policies, it is somewhat vague on the way in which organized interest groups actually go about influencing policy. A growing body of recent analysis tries to fill this gap with simplified models of the political process.[6]

The starting point of this analysis is an obvious point: While politicians may win elections partly because they advocate popular policies, a successful campaign also requires money for advertising, polling, and so on. It may therefore be in the interest of a politician to adopt positions that are against the interest of the typical voter if he or she is offered a sufficiently large financial contribution to do so; the extra money may be worth more votes than those lost by taking the unpopular position.

Recent models of the political economy of trade policy therefore envision a sort of auction, in which interest groups "buy" policies by offering contributions contingent on the

[6] See, in particular, Gene Grossman and Elhanan Helpman, "Protection for Sale," *American Economic Review* 89 (September 1994), pp. 833–850.

	Vote for NAFTA	Vote for GATT
Actual	229	283
Predicted by model	229	290
Without labor contributions	291	346
Without business contributions	195	257
Without any contributions	256	323

how many would have voted in favor in the absence of business contributions. The last line shows how many would have voted in favor if both business and labor contributions had been absent.

If these estimates are correct, contributions had big impacts on the vote totals. In the case of NAFTA, labor contributions induced 62 representatives who would otherwise have supported the bill to vote against; business contributions moved 34 representatives the other way. If there had been no business contributions, according to this estimate, NAFTA would have received only 195 votes—not enough for passage.

On the other hand, given that both sides were making contributions, their effects tended to cancel out. Baldwin and Magee's estimates suggest that in the absence of contributions from either labor or business, both NAFTA and the GATT would have passed anyway.

It's probably wrong to emphasize the fact that in these particular cases contributions from the two sides did not change the final outcome. The really important result is that politicians are, indeed, for sale—which means that theories of trade policy that emphasize special interests are on the right track.

* Robert E. Baldwin and Christopher S. Magee, "Is Trade Policy for Sale? Congressional Voting on Recent Trade Bills," National Bureau of Economic Research Working Paper no. 6376.

policies followed by the government. Politicians will not ignore overall welfare, but they will be willing to trade off some reduction in the welfare of voters in return for a larger campaign fund. As a result, well-organized groups—that is, groups that have been able to overcome the problem of collective action—will be able to get policies that favor their interests at the expense of the public as a whole.

Who Gets Protected?

As a practical matter, which industries actually get protected from import competition? Many developing countries traditionally have protected a wide range of manufacturing, in a policy known as import-substituting industrialization. We discuss this policy and the reasons why it has become considerably less popular in recent years in Chapter 10. The range of protectionism in advanced countries is much narrower; indeed, much protectionism is concentrated in just two sectors, agriculture and clothing.

Agriculture There are not many farmers in modern economies—in the United States, agriculture employs only about 2 percent of the work force. Farmers are, however, usually a well-organized and politically effective group, which has been able in many cases to

achieve very high rates of effective protection. We discussed Europe's Common Agricultural Policy in Chapter 8; the export subsidies in that program mean that a number of agricultural products sell at two or three times world prices. In Japan, the government has traditionally banned imports of rice, thus driving up internal prices of the country's staple food to more than five times as high as the world price. This ban was slightly relaxed in the face of bad harvests in the mid-1990s, but in late 1998—over the protests of other nations, including the United States—Japan imposed a 1,000 percent tariff on rice imports.

The United States is by and large a food exporter, which means that tariffs or import quotas cannot raise prices. (Sugar is an exception.) While farmers have received considerable subsidies from the federal government, the government's reluctance to pay money out directly (as opposed to imposing more or less hidden costs on consumers) has limited the size of these subsidies. As a result of the government's reluctance, much of the protection in the United States is concentrated on the other major protected sector: the clothing industry.

Clothing The clothing industry consists of two parts: textiles (spinning and weaving of cloth) and apparel (assembly of that cloth into clothing). Both industries, but especially the apparel industry, have been heavily protected both through tariffs and through import quotas; they are currently subject to the Multi-Fiber Arrangement, which sets both export and import quotas for a large number of countries.

Apparel production has two key features. It is labor-intensive: A worker needs relatively little capital, in some cases no more than a sewing machine, and can do the job without extensive formal education. And the technology is relatively simple: There is no great difficulty in transferring the technology even to very poor countries. As a result, the apparel industry is one in which low-wage nations have a strong comparative advantage and high-wage countries have a strong comparative disadvantage. It is also traditionally a well-organized sector in advanced countries; for example, many American apparel workers have long been represented by the International Ladies' Garment Worker's Union.

Table 9-3 gives an indication of the dominant role of the clothing industry in modern U.S. protection; it also suggests how hard it is to rationalize actual policies in terms of any economic logic. As the table suggests, apparel and textiles together accounted for more than three-fourths of the consumer costs of protection in 1990, and more than five-sixths of the overall welfare costs. What is peculiar is that because clothing imports were limited by the Multi-Fiber Agreement—which assigned import licenses to exporting countries—most of the welfare cost came not from distortion of production and consumption but from the transfer of quota rents to foreigners.

TABLE 9-3 Effects of Protection in the United States ($ billion)

Effect	Apparel	Textiles	All Industries
Consumer cost	21.16	3.27	32.32
Producer gain	9.90	1.75	15.78
Tariff revenue	3.55	0.63	5.86
Quota rent	5.41	0.71	7.12
Producer and consumer distortion	2.30	0.18	3.55
Overall welfare loss	7.71	0.89	10.42

Source: Gary Hufbauer and Kimberly Elliott, *Measuring the Costs of Protection in the United States* (Washington, D.C.: Institute for International Economics, 1994), pp. 8–9.

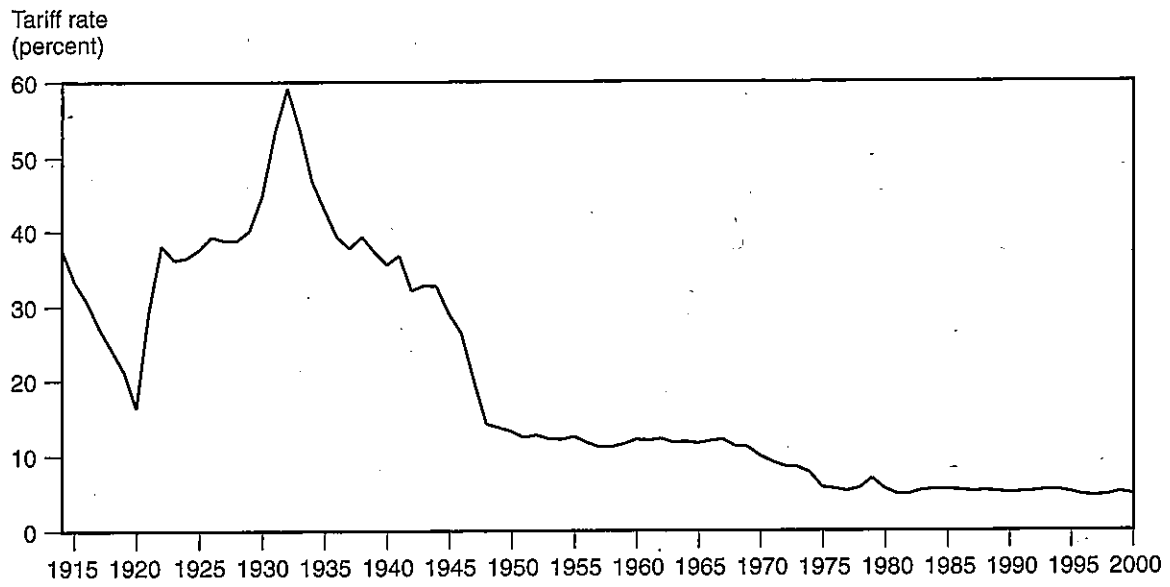


Figure 9-5

The U.S. Tariff Rate

After rising sharply at the beginning of the 1930s, the average tariff rate of the United States has steadily declined.

International Negotiations and Trade Policy

Our discussion of the politics of trade policy has not been very encouraging. We have argued that it is difficult to devise trade policies that raise national welfare and that trade policy is often dominated by interest group politics. "Horror stories" of trade policies that produce costs that greatly exceed any conceivable benefits abound; it is easy to be highly cynical about the practical side of trade theory.

Yet, in fact, from the mid-1930s until about 1980 the United States and other advanced countries gradually removed tariffs and some other barriers to trade, and by so doing aided a rapid increase in international integration. Figure 9-5 shows the average U.S. tariff rate on dutiable imports from 1914 to 2000; after rising sharply in the early 1930s, the rate has steadily declined.[7] Most economists believe this progressive trade liberalization was highly beneficial. Given what we have said about the politics of trade policy, however, how was this removal of tariffs politically possible?

At least part of the answer is that the great postwar liberalization of trade was achieved through **international negotiation.** That is, governments agreed to engage in mutual tariff

[7] Measures of changes in the average rate of protection can be problematic, because the composition of imports changes—partly because of tariff rates themselves. Imagine, for example, a country that imposes a tariff on some goods that is so high that it shuts off all imports of these goods. Then the average tariff rate on goods actually imported will be zero! To try to correct for this, the measure we use in Figure 9-5 shows the rate only on "dutiable" imports; that is, it excludes imports that for some reason were exempt from tariff. At their peak, U.S. tariff rates were so high that goods subject to tariffs accounted for only one-third of imports; by 1975 that share had risen to two-thirds. As a result, the average tariff rate on all goods fell much less than the rate on dutiable goods. The numbers shown in Figure 9-5, however, give a more accurate picture of the major liberalization of trade actually experienced by the United States.

reduction. These agreements linked reduced protection for each country's import-competing industries to reduced protection by other countries against that country's export industries. Such a linkage, as we will now argue, helps to offset some of the political difficulties that would otherwise prevent countries from adopting good trade policies.

The Advantages of Negotiation

There are at least two reasons why it is easier to lower tariffs as part of a mutual agreement than to do so as a unilateral policy. First, a mutual agreement helps mobilize support for freer trade. Second, negotiated agreements on trade can help governments avoid getting caught in destructive trade wars.

The effect of international negotiations on support for freer trade is straightforward. We have noted that import-competing producers are usually better informed and organized than consumers. International negotiations can bring in domestic exporters as a counterweight. The United States and Japan, for example, could reach an agreement in which the United States refrains from imposing import quotas to protect some of its manufacturers from Japanese competition in return for removal of Japanese barriers against U.S. exports of agricultural or high-technology products to Japan. U.S. consumers might not be effective politically in opposing such import quotas on foreign goods, even though these quotas may be costly to them, but exporters who want access to foreign markets may, through their lobbying for mutual elimination of import quotas, protect consumer interests.

International negotiation can also help to avoid a **trade war.** The concept of a trade war can best be illustrated with a stylized example.

Imagine that there are only two countries in the world, the United States and Japan, and that these countries have only two policy choices, free trade or protection. Suppose that these are unusually clear-headed governments that can assign definite numerical values to their satisfaction with any particular policy outcome (Table 9-4).

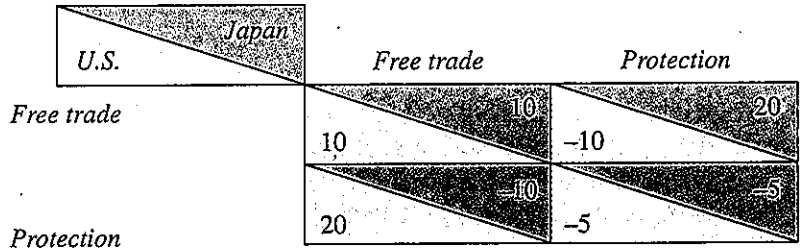
The particular values of the payoffs given in the table represent two assumptions. First we assume that each country's government would choose protection if it could take the other country's policy as given. That is, whichever policy Japan chooses, the U.S. government is better off with protection. This assumption is by no means necessarily true; many economists would argue that free trade is the best policy for the nation, regardless of what other governments do. Governments, however, must act not only in the public interest but in their own political interest. For the reasons discussed in the previous section, governments often find it politically difficult to avoid giving protection to some industries.

The second assumption built into Table 9-4 is that even though each government acting individually would be better off with protection, they would both be better off if both chose free trade. That is, the U.S. government has more to gain from an opening of Japanese markets than it has to lose from opening its own markets, and the same is true for Japan. We can justify this assumption simply by appealing to the gains from trade.

To those who have studied game theory, this situation is known as a **Prisoner's dilemma.** Each government, making the best decision for itself, will choose to protect. These choices lead to the outcome in the lower right box of the table. Yet both governments are better off if neither protects: The upper left box of the table yields a payoff that is higher for both countries. By acting unilaterally in what appear to be their best interests, the governments fail to achieve the best outcome possible. If the countries act unilaterally to protect, there is a trade war that leaves both worse off. Trade wars are not as serious as shooting wars, but avoiding them is similar to the problem of avoiding armed conflict or arms races.

Obviously, Japan and the United States need to establish an agreement (such as a treaty) to refrain from protection. Each government will be better off if it limits its own freedom of

TABLE 9-4 The Problem of Trade Warfare



action, provided the other country limits its freedom of action as well. A treaty can make everyone better off.

This is a highly simplified example. In the real world there are both many countries and many gradations of trade policy between free trade and complete protection against imports. Nonetheless, the example suggests both that there is a need to coordinate trade policies through international agreements and that such agreements can actually make a difference. Indeed, the current system of international trade is built around a series of international agreements.

International Trade Agreements: A Brief History

Internationally coordinated tariff reduction as a trade policy dates back to the 1930s. In 1930, the United States passed a remarkably irresponsible tariff law, the Smoot-Hawley Act. Under this act, tariff rates rose steeply and U.S. trade fell sharply; some economists argue that the Smoot-Hawley Act helped deepen the Great Depression. Within a few years after the act's passage, the U.S. administration concluded that tariffs needed to be reduced, but this posed serious problems of political coalition building. Any tariff reduction would be opposed by those members of Congress whose districts contained firms producing competing goods, while the benefits would be so widely diffused that few in Congress could be mobilized on the other side. To reduce tariff rates, tariff reduction needed to be linked to some concrete benefits for exporters. The initial solution to this political problem was bilateral tariff negotiations. The United States would approach some country that was a major exporter of some good—say, a sugar exporter—and offer to lower tariffs on sugar if that country would lower its tariffs on some U.S. exports. The attractiveness of the deal to U.S. exporters would help counter the political weight of the sugar interest. In the foreign country, the attractiveness of the deal to foreign sugar exporters would balance the political influence of import-competing interests. Such bilateral negotiations helped reduce the average duty on U.S. imports from 59 percent in 1932 to 25 percent shortly after World War II.

Bilateral negotiations, however, do not take full advantage of international coordination. For one thing, benefits from a bilateral negotiation may "spill over" to countries that have not made any concessions. For example, if the United States reduces tariffs on coffee as a result of a deal with Brazil, Colombia will also gain from a higher world coffee price. Furthermore, some advantageous deals may inherently involve more than two countries: The United States

sells more to Europe, Europe sells more to Saudi Arabia, Saudi Arabia sells more to Japan, and Japan sells more to the United States. Thus the next step in international trade liberalization was to proceed to multilateral negotiations involving a number of countries.

Multilateral negotiations began soon after the end of World War II. Originally diplomats from the victorious Allies imagined that such negotiations would take place under the auspices of a proposed body called the International Trade Organization, paralleling the International Monetary Fund and the World Bank (described in the second half of this book). In 1947, unwilling to wait until the ITO was in place, a group of 23 countries began trade negotiations under a provisional set of rules that became known as the **General Agreement on Tariffs and Trade,** or **GATT.** As it turned out, the ITO was never established because it ran into severe political opposition, especially in the United States. So the provisional agreement ended up governing world trade for the next 48 years.

Officially, the GATT was an agreement, not an organization—the countries participating in the agreement were officially designated as "contracting parties," not members. In practice the GATT did maintain a permanent "secretariat" in Geneva, which everyone referred to as "the GATT." In 1995 the **World Trade Organization,** or **WTO,** was established, finally creating the formal organization envisaged 50 years earlier. However, the GATT rules remain in force, and the basic logic of the system remains the same.

One way to think about the GATT-WTO approach to trade is to use a mechanical analogy: it's like a device designed to push a heavy object, the world economy, gradually up a slope—the path to free trade. To get there requires both "levers" to push the object in the right direction, as well as "ratchets" to prevent backsliding.

The principal ratchet in the system is the process of **binding.** When a tariff rate is "bound," the country imposing the tariff agrees not to raise the rate in the future. At present, almost all tariff rates in developed countries are bound, as are about three-quarters of the rates in developing countries. There is some wiggle room in bound tariffs: A country can raise a tariff if it gets the agreement of other countries, which usually means providing compensation by reducing other tariffs. In practice, binding has been highly effective, with very little backsliding in tariffs over the past half-century.

In addition to binding tariffs, the GATT-WTO system generally tries to prevent nontariff interventions in trade. Export subsidies are not allowed, with one big exception: back at the GATT's inception the United States insisted on a loophole for agricultural exports, which has since been exploited on a large scale by the European Union.

As we pointed out earlier in this chapter, most of the actual cost of protection in the United States comes from import quotas. The GATT-WTO system in effect "grandfathers" existing import quotas, though there has been an ongoing and often successful effort to remove such quotas or convert them to tariffs. New import quotas are generally forbidden except as temporary measures to deal with "market disruption," an undefined phrase usually interpreted to mean surges of imports that threaten to put a domestic sector suddenly out of business.

The lever used to make forward progress is the somewhat stylized process known as a **trade round,** in which a large group of countries get together to negotiate a set of tariff reductions and other measures to liberalize trade. Eight trade rounds have been completed since 1947, the last of which—the "Uruguay Round," completed in 1994—established the WTO. In 2001, a meeting in the Persian Gulf city of Doha inaugurated a ninth round, which was still in progress when this book went to press. The round's slow progress has been marked by disagreement between developed and developing countries over agricultural protection.

The first five trade rounds under the GATT took the form of "parallel" bilateral negotiations, where each country negotiates pairwise with a number of countries at once. For

example, if Germany were to offer a tariff reduction that would benefit both France and Italy, it could ask both of them for reciprocal concessions. The ability to make more extensive deals, together with the worldwide economic recovery from the war, helped to permit substantial tariff reductions.

The sixth multilateral trade agreement, known as the Kennedy Round, was completed in 1967. This agreement involved an across-the-board 50 percent reduction in tariffs by the major industrial countries, except for specified industries whose tariffs were left unchanged. The negotiations were over which industries to exempt rather than over the size of the cut for industries not given special treatment. Overall, the Kennedy Round reduced average tariffs by about 35 percent.

The so-called Tokyo Round of trade negotiations (completed in 1979) reduced tariffs by a formula more complex than that of the Kennedy Round. In addition, new codes were established in an effort to control the proliferation of nontariff barriers, such as voluntary export restraints and orderly marketing agreements. Finally, in 1994 an eighth round of negotiations, the so-called Uruguay Round, was completed. The provisions of that round were approved by the U.S. Congress after acrimonious debate; we describe the results of these negotiations below.

The Uruguay Round

Major international trade negotiations invariably open with a ceremony in one exotic locale and conclude with a ceremonial signing in another. The eighth round of global trade negotiations carried out under the GATT began in 1986, with a meeting at the coastal resort of Punta del Este, Uruguay (hence the name Uruguay Round). The participants then repaired to Geneva, where they engaged in seven years of offers and counteroffers, threats and counterthreats, and, above all, tens of thousands of hours of meetings so boring that even the most experienced diplomat had difficulty staying awake. The round was scheduled for completion by 1990 but ran into serious political difficulties. In late 1993 the negotiators finally produced a basic document consisting of 400 pages of agreements, together with supplementary documents detailing the specific commitments of member nations with regard to particular markets and products—about 22,000 pages in all. The agreement was signed in Marrakesh, Morocco, in April 1994, and ratified by the major nations—after bitter political controversy in some cases, including the United States—by the end of that year.

As the length of the document suggests, the end results of the Uruguay Round are not that easy to summarize. The most important results may, however, be grouped under two headings, trade liberalization and administrative reforms.

Trade Liberalization

The Uruguay Round, like previous GATT negotiations, cut tariff rates around the world. The numbers can sound impressive: The average tariff imposed by advanced countries will fall almost 40 percent as a result of the round. However, tariff rates were already quite low. In fact, the average tariff rate will fall only from 6.3 to 3.9 percent, enough to produce only a small increase in world trade.

More important than this overall tariff reduction were the moves to liberalize trade in two important sectors, agriculture and clothing.

World trade in agricultural products has been highly distorted. Japan is notorious for import restrictions that lead to internal prices of rice, beef, and other foods several times as high as world market prices; Europe's massive export subsidies under the Common Agricultural Program were described in Chapter 8. At the beginning of the Uruguay Round, the United States had an ambitious goal: free trade in agricultural products by the year 2000.

The actual achievement was far more modest but still significant. The agreement required agricultural exporters to reduce the value of subsidies by 36 percent, and the volume of subsidized exports by 21 percent, over a six-year period. Countries that protect their farmers with import quotas, like Japan, were required to replace quotas with tariffs, which may not be increased in the future.

World trade in textiles and clothing has also been highly distorted by the Multi-Fiber Arrangement also described in Chapter 8. The Uruguay Round phased out the MFA over a 10-year period, eliminating all quantitative restrictions on trade in textiles and clothing. (Some high tariffs remain in place.) This is a fairly dramatic liberalization—remember that most estimates suggest that protection of clothing imposes a larger cost on U.S. consumers than all other protectionist measures combined. It is worth noting, however, that the formula used in phasing out the MFA was heavily "backloaded": Much of the liberalization was postponed until 2003 and 2004, with the final end of the quotas not taking place until January 1, 2005. Many trade experts worried that when push came to shove, there would be strong political pressure to reintroduce limits on apparel exports.

Sure enough, as this book went to press, the end of the MFA brought a surge in clothing exports from China. For example, in January 2005 China shipped 27 million pairs of cotton trousers to the United States, up from 1.9 million a year earlier. And there was a fierce political reaction from clothing producers in the United States and Europe. It remains to be seen whether the liberalization of clothing trade will actually prove politically sustainable.

A final important trade action under the Uruguay Round was a new set of rules concerning government procurement, purchases made not by private firms or consumers, but by government agencies. Such procurement has long provided protected markets for many kinds of goods, from construction equipment to vehicles. (Recall the box on Hungarian buses in Chapter 8.) The Uruguay Round set new rules that should open up a wide range of government contracts for imported products.

From the GATT to the WTO

Much of the publicity surrounding the Uruguay Round, and much of the controversy swirling around the world trading system since then, has focused on the round's creation of a new institution, the World Trade Organization. In 1995 this organization replaced the ad hoc secretariat that administered the GATT. As we'll see in Chapter 11, the WTO has become the organization that opponents of globalization love to hate; it has been accused by both the left and the right of acting as a sort of world government, undermining national sovereignty.

How different is the WTO from the GATT? From a legal point of view, the GATT was a provisional agreement, while the WTO is a full-fledged international organization; however, the actual bureaucracy remains small (a staff of 500). An updated version of the original GATT text has been incorporated into the WTO rules. The GATT, however, applied only to trade in goods; world trade in services—that is, intangible things like insurance, consulting, and banking—was not subject to any agreed-upon set of rules. As a result, many countries applied regulations that openly or de facto discriminated against foreign suppliers. The GATT's neglect of trade in services became an increasingly glaring omission, because modern economies have increasingly focused on the production of services rather than physical goods. So the WTO agreement included rules on trade in services (the General Agreement on Trade in Services, or GATS). In practice, these rules have not yet had much impact on trade in services; their main purpose is to serve as the basis for negotiating future trade rounds.

In addition to a broad shift from producing goods to producing services, advanced countries have also experienced a shift from depending on physical capital to depending on "intellectual property," protected by patents and copyrights. (Thirty years ago General Motors was the quintessential modern corporation; now it's Microsoft.) Thus defining the international application of international property rights has also become a major preoccupation. The WTO tries to take on this issue with its Agreement on Trade-Related Aspects of Intellectual Property (TRIPS). The application of TRIPS in the pharmaceutical industry has become a subject of heated debate.

The most important new aspect of the WTO, however, is generally acknowledged to be its "dispute settlement" procedure. The basic problem arises when one country accuses another of violating the rules of the trading system. Suppose, for example, that Canada accuses the United States of unfairly limiting timber imports—and the United States denies the charge. What happens next?

Before the WTO, there were international tribunals in which Canada could press its case, but such proceedings tended to drag on for years, even decades. And even when a ruling had been issued, there was no way to enforce it. This did not mean that the GATT's rules had no force: Neither the United States nor other countries wanted to acquire a reputation as scofflaws, so they made considerable efforts to keep their actions "GATT-legal." But gray-area cases tended to go unresolved.

The WTO contains a much more formal and effective procedure. Panels of experts are selected to hear cases, normally reaching a final conclusion in less than a year; even with appeals the procedure is not supposed to take more than 15 months.

Suppose that the WTO concludes that a nation has, in fact, been violating the rules—and the country nonetheless refuses to change its policy. Then what? The WTO itself has no enforcement powers. What it can do is grant the country that filed the complaint the right to retaliate. To use our Canada–U.S. example, the government of Canada might be given the right to impose restrictions on U.S. exports, without itself being considered in violation of WTO rules. In the case of the banana dispute described in the box on p. 234, a WTO ruling found the European Union in violation; when Europe remained recalcitrant, the United States temporarily imposed tariffs on such items as designer handbags.

The hope and expectation is that few disputes will get this far. In many cases the threat to bring a dispute before the WTO should lead to a settlement; in the great majority of other cases countries accept the WTO ruling and change their policies.

The box on p. 230 describes an example of the WTO dispute settlement procedure at work: the U.S.–Venezuela dispute over imported gasoline. As the box explains, this case has also become a prime example for those who accuse the WTO of undermining national sovereignty.

Benefits and Costs

The economic impact of the Uruguay Round is difficult to estimate. If nothing else, think about the logistics: To do an estimate, one must translate an immense document from one impenetrable jargon (legalese) into another (economese), assign numbers to the translation, then feed the whole thing into a computer model of the world economy. The matter is made worse by the fact that as described above, much of the important action is "backloaded," so that we will not really see some of the important provisions of the round work in practice until nearly a decade after its signing.

Settling a Dispute—and Creating One

The very first application of the WTO's new dispute settlement procedure has also been one of the most controversial. To WTO supporters, it illustrates the new system's effectiveness. To opponents, it shows that the organization stands in the way of important social goals such as protecting the environment.

The case arose out of new U.S. air pollution standards. These standards set rules for the chemical composition of gasoline sold in the United States. A uniform standard would clearly have been legal under WTO rules. However, the new standards included some loopholes: refineries in the United States, or those selling 75 percent or more of their output in the United States, were given "baselines" that depended on their 1990 pollutant levels. This provision generally set a less strict standard than was set for imported gasoline, and thus in effect introduced a preference for gasoline from domestic refineries.

Venezuela, which ships considerable quantities of gasoline to the United States, brought a complaint against the new pollution rules early in 1995. Venezuela argued that the rules violated the principle of "national treatment," which says that imported goods should be subject to the same regulations as domestic goods (so that regulations are not used as an indirect form of protectionism). A year later the panel appointed by the WTO ruled in Venezuela's favor; the United States appealed, but the appeal was rejected. The United States and Venezuela then negotiated a revised set of rules.

At one level, this outcome was a demonstration of the WTO doing exactly what it was supposed to do. The United States introduced measures that pretty clearly violated the letter of its trade agreements; when a smaller, less influential country appealed against those measures, it got fairly quick results.

On the other hand, environmentalists were understandably upset: The WTO ruling in effect blocked a measure that would have made the air cleaner. Furthermore, there was little question that the clean-air rules were promulgated in good faith—that is, they were really intended to reduce air pollution, not to exclude exports.

Defenders of the WTO point out that the United States clearly could have written a rule that did not discriminate against imports; the fact that it did not was a political concession to the refining industry, which *did* in effect constitute a sort of protectionism. The most you can say is that the WTO's rules made it more difficult for U.S. environmentalists to strike a political deal with the industry.

In the mythology of the anti-globalization movement, which we discuss in Chapter 11, the WTO's intervention against clean-air standards has taken on iconic status: The case is seen as a prime example of how the organization deprives nations of their sovereignty, preventing them from following socially and environmentally responsible policies. The reality of the case, however, is nowhere near that clear-cut: If the United States had imposed a "clean" clean-air rule that did not discriminate among sources, the WTO would have had no complaints.

The most widely cited estimates are those of the GATT itself and of the Organization for Economic Cooperation and Development, another international organization (this one consisting only of rich countries, and based in Paris). Both estimates suggest a gain to the world economy as a whole of more than $200 billion annually once the agreement is fully in force; this would raise world real income by about 1 percent. As always, there are dissenting estimates on both sides. Some economists claim that the estimated gains are exaggerated, particularly because they assume that exports and imports will respond strongly to the new liberalizing moves. A probably larger minority of critics argues that these estimates are considerably too low, for the "dynamic" reasons discussed earlier in this chapter.

In any case, it is clear that the usual logic of trade liberalization will apply: The costs of the Uruguay Round will be felt by concentrated, often well-organized groups, while much of the benefit will accrue to broad, diffuse populations. The progress on agriculture will directly hurt the small but influential populations of farmers in Europe, Japan, and other

countries where agricultural prices are far above world levels. These losses should be much more than offset by gains to consumers and taxpayers in those countries, but because these benefits will be very widely spread they may be little noticed. Similarly, the liberalization of trade in textiles and clothing will produce some concentrated pain for workers and companies in those industries, offset by considerably larger but far less visible consumer gains.

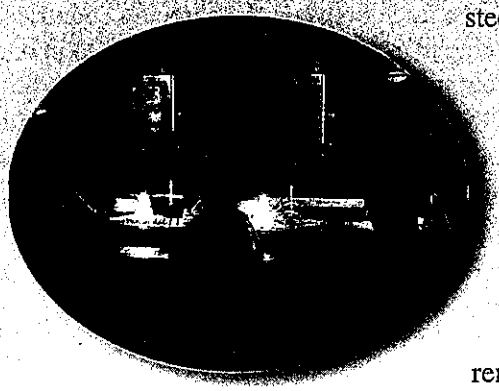
Given these strong distributional impacts of the Uruguay Round, it is actually remarkable that an agreement was reached at all. Indeed, after the failure to achieve anything close to agreement by the 1990 target, many commentators began to pronounce the whole trade negotiation process to be dead. That in the end agreement was achieved, if on a more modest scale than originally hoped, may be attributed to an interlocking set of political calculations. In the United States, the gains to agricultural exporters and the prospective gains to service exporters if the GATT opened the door to substantial liberalization helped offset the complaints of the clothing industry. Many developing countries supported the round because of the new opportunities it would offer to their own textile and clothing exports. Also, some of the "concessions" negotiated under the agreement were an excuse to make policy changes that would eventually have happened anyway. For example, the sheer expense of Europe's Common Agricultural Program in a time of budget deficits made it ripe for cutting in any case.

An important factor in the final success of the round, however, was fear of what would happen if it failed. By 1993, protectionist currents were evidently running strong in the United States and elsewhere. Trade negotiators in countries that might otherwise have refused to go along with the agreement—such as France, Japan, or South Korea, in all of which powerful farm lobbies angrily opposed trade liberalization—therefore feared that failure to agree would be dangerous. That is, they feared that a failed round would not mean mere lack of progress but substantial backsliding on the progress made toward free trade over the previous four decades.

Case Study

Testing the WTO's Metal

In March 2002 the U.S. government imposed 30 percent tariffs on a range of imported steel products. The official reason for this action was that the U.S. industry faced a surge in imports, and needed time to restructure. But the real reason, almost everyone agreed, was politics: West Virginia, Ohio, and Pennsylvania, where the steel industry is concentrated, were widely expected to be crucial "swing states" in the 2004 election.



Europe, Japan, China, and South Korea filed suit against the U.S. steel tariff with the WTO, asserting that the U.S. action was illegal. In July 2003 a WTO panel agreed, ruling that the U.S. action was unjustified. Many observers regarded the U.S. response to this ruling as a crucial test for the WTO's credibility: Would the government of the world's most powerful nation really allow an international organization to tell it to remove a politically important tariff? There was even talk of a looming trade war.

In fact, the United States complied with the ruling, lifting the steel tariffs in December 2003. The official explanation for the decision was that the tariffs had served their purpose. Most observers believed, however, that the key motivation was a threat by the European Union, which now had WTO clearance to take retaliatory action, and was getting ready to impose tariffs on more than $2 billion in U.S. exports. (The Europeans, who understand politics as well as we do, targeted their tariffs on goods produced in—you guessed it—political swing states.)

So the WTO passed a big test. Still, it's one thing for the United States to defer to a complaint from the European Union, which is an economic superpower with an economy roughly the same size as that of the United States. The next question is what will happen when the WTO rules in favor of smaller economics against major economic powers like the United States or the EU.

The answer may not be long in coming. In March 2005, in a landmark decision, the WTO agreed with Brazil's claim that U.S. subsidies to cotton producers are illegal. Will the U.S. government decide that international agreements take precedence over the interests of a politically powerful lobby? Stay tuned.

Preferential Trading Agreements

The international trade agreements that we have described so far all involved a "nondiscriminatory" reduction in tariff rates. For example, when the United States agrees with Germany to lower its tariff on imported machinery, the new tariff rate applies to machinery from any nation rather than just imports from Germany. Such nondiscrimination is normal in most tariffs. Indeed, the United States grants many countries a status known formally as that of "most favored nation" (MFN), a guarantee that their exporters will pay tariffs no higher than that of the nation that pays the lowest. All countries granted MFN status pay the same rates. Tariff reductions under the GATT always—with one important exception—are made on an MFN basis.

There are some important cases, however, in which nations establish **preferential trading agreements** under which the tariffs they apply to each others' products are lower than the rates on the same goods coming from other countries. The GATT in general prohibits such agreements but makes a rather strange exception: It is against the rules for country A to have lower tariffs on imports from country B than on those from country C, but it is acceptable if countries B and C agree to have zero tariffs on each others' products. That is, the GATT forbids preferential trading agreements in general, as a violation of the MFN principle, but allows them if they lead to free trade between the agreeing countries.[8]

In general, two or more countries agreeing to establish free trade can do so in one of two ways. They can establish a **free trade area,** in which each country's goods can be shipped to the other without tariffs, but in which the countries set tariffs against the outside world independently. Or they can establish a **customs union,** in which the countries must agree on tariff rates. The North American Free Trade Agreement, which establishes free trade among

[8] The logic here seems to be legal rather than economic. Nations are allowed to have free trade within their boundaries: Nobody insists that California wine pay the same tariff as French wine when it is shipped to New York. That is, the MFN principle does not apply within political units. But what is a political unit? The GATT sidesteps that potentially thorny question by allowing any group of economies to do what countries do, and establish free trade within some defined boundary.

Free Trade Area Versus Customs Union

The difference between a free trade area and a customs union is, in brief, that the first is politically straightforward but an administrative headache, while the second is just the opposite.

Consider first the case of a customs union. Once such a union is established, tariff administration is relatively easy: Goods must pay tariffs when they cross the border of the union, but from then on can be shipped freely between countries. A cargo that is unloaded at Marseilles or Rotterdam must pay duties there, but will not face any additional charges if it then goes by truck to Munich. To make this simple system work, however, the countries must agree on tariff rates: The duty must be the same whether the cargo is unloaded at Marseilles, Rotterdam, or, for that matter, Hamburg, because otherwise importers would choose the point of entry that minimized their fees. So a customs union requires that Germany, France, the Netherlands, and all the other countries agree to charge the same tariffs. This is not easily done: Countries are, in effect, ceding part of their sovereignty to a supranational entity, the European Union.

This has been possible in Europe for a variety of reasons, including the belief that economic unity would help cement the postwar political alliance between European democracies. (One of the founders of the European Union once joked that it should erect a statue of Joseph Stalin, without whose menace the Union might never have been created.) But elsewhere these conditions are lacking. The three nations that formed NAFTA would find it very difficult to cede control over tariffs to any supranational body; if nothing else, it would be hard to devise any arrangement that would give due weight to U.S. interests without effectively allowing the United States to dictate trade policy to Canada and Mexico. NAFTA, therefore, while it permits Mexican goods to enter the United States without tariffs and vice versa, does not require that Mexico and the United States adopt a common external tariff on goods they import from other countries.

This, however, raises a different problem. Under NAFTA, a shirt made by Mexican workers can be brought into the United States freely. But suppose that the United States wants to maintain high tariffs on shirts imported from other countries, while Mexico does not impose similar tariffs. What is to prevent someone from shipping a shirt from, say, Bangladesh to Mexico, then putting it on a truck bound for Chicago?

The answer is that even though the United States and Mexico may have free trade, goods shipped from Mexico to the United States must still pass through a customs inspection. And they can enter the United States without duty only if they have documents proving that they are in fact Mexican goods, not transshipped imports from third countries.

But what is a Mexican shirt? If a shirt comes from Bangladesh, but Mexicans sew on the buttons, does that make it Mexican? Probably not. But if everything except the buttons were made in Mexico, it probably should be considered Mexican. The point is that administering a free trade area that is not a customs union requires not only that the countries continue to check goods at the border, but that they specify an elaborate set of "rules of origin" that determine whether a good is eligible to cross the border without paying a tariff.

As a result, free trade agreements like NAFTA impose a large burden of paperwork, which may be a significant obstacle to trade even when such trade is in principle free.

Canada, the United States, and Mexico, creates a free trade area: There is no requirement in the agreement that, for example, Canada and Mexico have the same tariff rate on textiles from China. The European Union, on the other hand, is a full customs union. All of the countries must agree to charge the same tariff rate on each imported good. Each system has both advantages and disadvantages; these are discussed in the accompanying box.

Subject to the qualifications mentioned earlier in this chapter, tariff reduction is a good thing that raises economic efficiency. At first it might seem that preferential tariff reductions are also good, if not as good as reducing tariffs all around. After all, isn't half a loaf better than none?

Do Trade Preferences Have Appeal?

Over the last few years the European Union has slipped repeatedly into bunches of trouble over the question of trade preferences for bananas.

Most of the world's banana exports come from several small Central American nations—the original "banana republics." Several European nations have, however, traditionally bought their bananas instead from their past or present West Indian colonies in the Caribbean. To protect the island producers, France and the United Kingdom impose import quotas against the "dollar bananas" of Central America, which are typically about 40 percent cheaper than the West Indian product. Germany, however, which has never had West Indian colonies, allowed free entry to dollar bananas.

With the integration of European markets after 1992, the existing banana regime became impossible to maintain, because it was easy to import the cheaper dollar bananas into Germany and then ship them elsewhere in Europe. To prevent this outcome, the European Commission announced plans in 1993 to impose a new common European import quota against dollar bananas. Germany angrily protested the move and even denied its legality: The Germans pointed out that the Treaty of Rome, which established the European Community, contains an explicit guarantee (the "banana protocol") that Germany would be able to import bananas freely.

Why did the Germans go ape about bananas? During the years of communist rule in East Germany, bananas were a rare luxury. The sudden availability of inexpensive bananas after the fall of the Berlin Wall made them a symbol of freedom. So the German government was very unwilling to introduce a policy that would sharply increase banana prices.

In the end the Germans grudgingly went along with a new, unified system of European trade preferences on bananas. But that did not end the controversy: In 1995 the United States entered the fray, claiming that by monkeying around with the existing system of preferences the Europeans were hurting the interests not only of Central American nations but those of a powerful U.S. corporation, the Chiquita Banana Company, whose CEO has donated large sums to both Democratic and Republican politicians.

In 1997 the World Trade Organization found that Europe's banana import regime violated international trade rules. Europe then imposed a somewhat revised regime; but this halfhearted attempt to resolve the banana split proved fruitless. The dispute with the United States escalated, with the United States eventually retaliating by imposing high tariffs on a variety of European goods, including designer handbags and pecorino cheese.

In 2001, Europe and the United States agreed on a plan to phase out the banana import quotas over time. The plan created much distress and alarm in Caribbean nations, which feared dire consequences from their loss of privileged access to the European market. But it turns out that the story isn't over yet. In January 2005 the European Union announced that it would eliminate import quotas on bananas, but that it would *triple* the tariff on bananas that do not come from the so-called ACP countries (Africa, Caribbean, and Pacific—essentially former European colonies.) Latin American banana producers promised to challenge the new tariff. Meanwhile, the banana saga continues.

Perhaps surprisingly, this conclusion is too optimistic. It is possible for a country to make itself worse off by joining a customs union. The reason may be illustrated by a hypothetical example, using Britain, France, and the United States. The United States is a low-cost producer of wheat ($4 per bushel), France a medium-cost producer ($6 per bushel), and Britain a high-cost producer ($8 per bushel). Both Britain and France maintain tariffs against all wheat imports. If Britain forms a customs union with France, the

tariff against French, but not U.S., wheat will be abolished. Is this good or bad for Britain? To answer this, consider two cases.

First, suppose that Britain's initial tariff was high enough to exclude wheat imports from either France or the United States. For example, with a tariff of $5 per bushel it would cost $9 to import U.S. wheat and $11 to import French wheat, so British consumers would buy $8 British wheat instead. When the tariff on French wheat is eliminated, imports from France will replace British production. From Britain's point of view, this is a gain, because it costs $8 to produce a bushel of wheat domestically, while Britain needs to produce only $6 worth of export goods to pay for a bushel of French wheat.

On the other hand, suppose the tariff was lower, for example, $3 per bushel, so that before joining the customs union Britain bought its wheat from the United States (at a cost to consumers of $7 per bushel) rather than producing its own wheat. When the customs union is formed, consumers will buy French wheat at $6 rather than U.S. wheat at $7. So imports of wheat from the United States will cease. However, U.S. wheat is really cheaper than French wheat; the $3 tax that British consumers must pay on U.S. wheat returns to Britain in the form of government revenue and is therefore not a net cost to the British economy. Britain will have to devote more resources to exports to pay for its wheat imports and will be worse off rather than better off.

This possibility of a loss is another example of the theory of the second best. Think of Britain as initially having two policies that distort incentives: a tariff against U.S. wheat and a tariff against French wheat. Although the tariff against French wheat may seem to distort incentives, it may help to offset the distortion of incentives resulting from the tariff against the United States by encouraging consumption of the cheaper U.S. wheat. Thus, removing the tariff on French wheat can actually reduce welfare.

Returning to our two cases, notice that Britain gains if the formation of a customs union leads to new trade—French wheat replacing domestic production—while it loses if the trade within the customs union simply replaces trade with countries outside the union. In the analysis of preferential trading arrangements, the first case is referred to as **trade creation,** while the second is **trade diversion.** Whether a customs union is desirable or undesirable depends on whether it largely leads to trade creation or trade diversion.

Case Study

Trade Diversion in South America

In 1991 four South American nations, Argentina, Brazil, Paraguay, and Uruguay, formed a free-trade area known as Mercosur. The pact had an immediate and dramatic effect on trade: Within four years the value of trade among the nations tripled. Leaders in the region proudly claimed Mercosur as a major success, part of a broader package of economic reform.

But while Mercosur clearly was successful in increasing intraregional trade, the theory of preferential trading areas tells us that this need not be a good thing: If the new trade came at the expense of trade that would otherwise have taken place with the rest of the world—if the pact diverted trade instead of creating it—it could actually have reduced welfare. And sure enough, in 1996 a study prepared by the World Bank's chief trade economist concluded that despite Mercosur's success in increasing regional

trade—or rather, because that success came at the expense of other trade—the net effects on the economies involved were probably negative.

In essence, the report argued that as a result of Mercosur, consumers in the member countries were being induced to buy expensively produced manufactured goods from their neighbors rather than cheaper but heavily tariffed goods from other countries. In particular, because of Mercosur, Brazil's highly protected and somewhat inefficient auto industry had in effect acquired a captive market in Argentina, displacing imports from elsewhere, just like our text example in which French wheat displaces American wheat in the British market. "These findings," concluded the initial draft of the report, "appear to constitute the most convincing, and disturbing, evidence produced thus far concerning the potential adverse effects of regional trade arrangements."

But that is not what the final, published report said. The initial draft was leaked to the press and generated a firestorm of protest from Mercosur governments, Brazil in particular. Under pressure, the World Bank first delayed publication, then eventually released a version that included a number of caveats. Still, even in its published version the report made a fairly strong case that Mercosur, if not entirely counterproductive, nonetheless has produced a considerable amount of trade diversion.

SUMMARY

1. Although few countries practice free trade, most economists continue to hold up free trade as a desirable policy. This advocacy rests on three lines of argument. First is a formal case for the efficiency gains from free trade that is simply the cost-benefit analysis of trade policy read in reverse. Second, many economists believe that free trade produces additional gains that go beyond this formal analysis. Finally, given the difficulty of translating complex economic analysis into real policies, even those who do not see free trade as the best imaginable policy see it as a useful rule of thumb.
2. There is an intellectually respectable case for deviating from free trade. One argument that is clearly valid in principle is that countries can improve their *terms of trade* through optimal tariffs and export taxes. This argument is not too important in practice, however. Small countries cannot have much influence on their import or export prices, so they cannot use tariffs or other policies to raise their terms of trade. Large countries, on the other hand, *can* influence their terms of trade, but in imposing tariffs they run the risk of disrupting trade agreements and provoking retaliation.
3. The other argument for deviating from free trade rests on *domestic market failures*. If some domestic market, such as the labor market, fails to function properly, deviating from free trade can sometimes help reduce the consequences of this malfunctioning. The *theory of the second best* states that if one market fails to work properly it is no longer optimal for the government to abstain from intervention in other markets. A tariff may raise welfare if there is a *marginal social benefit* to production of a good that is not captured by producer surplus measures.
4. Although market failures are probably common, the domestic market failure argument should not be applied too freely. First, it is an argument for domestic policies rather than trade policies; tariffs are always an inferior, "second-best" way to offset domestic market failure, which is always best treated at its source. Furthermore, market failure is difficult to analyze well enough to be sure of the appropriate policy recommendation.
5. In practice, trade policy is dominated by considerations of income distribution. No single way of modeling the politics of trade policy exists, but several useful ideas have

been proposed. Political scientists often argue that policies are determined by competition among political parties that try to attract as many votes as possible. In the simplest case, this leads to the adoption of policies that serve the interests of the *median voter.* While useful for thinking about many issues, however, this approach seems to yield unrealistic predictions for trade policies, which typically favor the interest of small, concentrated groups over the general public. Economists and political scientists generally explain this by appealing to the problem of *collective action.* Because individuals may have little incentive to act politically on behalf of groups to which they belong, those groups which are well organized—typically small groups with a lot at stake—are often able to get policies that serve their interests at the expense of the majority.

6. If trade policy were made on a purely domestic basis, progress toward freer trade would be very difficult to achieve. In fact, however, industrial countries have achieved substantial reductions in tariffs through a process of *international negotiation.* International negotiation helps the cause of tariff reduction in two ways: It helps broaden the constituency for freer trade by giving exporters a direct stake, and it helps governments avoid the mutually disadvantageous *trade wars* that internationally uncoordinated policies could bring.
7. Although some progress was made in the 1930s toward trade liberalization via bilateral agreements, since World War II international coordination has taken place primarily via multilateral agreements under the auspices of the *General Agreement on Tariffs and Trade*. The GATT, which comprises both a bureaucracy and a set of rules of conduct, is the central institution of the international trading system. The most recent worldwide GATT agreement also set up a new organization, the *World Trade Organization* (WTO), to monitor and enforce the agreement.
8. In addition to the overall reductions in tariffs that have taken place through multilateral negotiation, some groups of countries have negotiated *preferential trading agreements* under which they lower tariffs with respect to each other but not the rest of the world. Two kinds of preferential trading agreements are allowed under the GATT: *customs unions*, in which the members of the agreement set up common external tariffs, and *free trade areas*, in which they do not charge tariffs on each others' products but set their own tariff rates against the outside world. Either kind of agreement has ambiguous effects on economic welfare. If joining such an agreement leads to replacement of high-cost domestic production by imports from other members of the agreement—the case of *trade creation*—a country gains. But if joining leads to the replacement of low-cost imports from outside the zone with higher-cost goods from member nations—the case of *trade diversion*—a country loses.

KEY TERMS

binding, p. 226
collective action, p. 219
customs union, p. 232
domestic market failures, p. 214
efficiency case for free trade, p. 208
free trade area, p. 232
General Agreement on Tariffs and Trade (GATT), p. 226
international negotiation, p. 223
marginal social benefit, p. 214
median voter, p. 218
optimum tariff, p. 213
political argument for free trade, p. 210
preferential trading agreement, p. 232
Prisoner's dilemma, p. 224
terms of trade argument for a tariff, p. 213
theory of the second best, p. 215
trade creation, p. 235
trade diversion, p. 235
trade round, p. 226
trade war, p. 224
World Trade Organization (WTO), p. 226

PROBLEMS

1. "For a small country like the Philippines, a move to free trade would have huge advantages. It would let consumers and producers make their choices based on the real costs of goods, not artificial prices determined by government policy; it would allow escape from the confines of a narrow domestic market; it would open new horizons for entrepreneurship; and, most important, it would help to clean up domestic politics." Separate out and identify the arguments for free trade in this statement.
2. Which of the following are potentially valid arguments for tariffs or export subsidies, and which are not (explain your answers)?
   a. "The more oil the United States imports, the higher the price of oil will go in the next world shortage."
   b. "The growing exports of off-season fruit from Chile, which now accounts for 80 percent of the U.S. supply of such produce as winter grapes, are contributing to sharply falling prices of these former luxury goods."
   c. "U.S. farm exports don't just mean higher incomes for farmers—they mean higher income for everyone who sells goods and services to the U.S. farm sector."
   d. "Semiconductors are the crude oil of technology; if we don't produce our own chips, the flow of information that is crucial to every industry that uses microelectronics will be impaired."
   e. "The real price of timber has fallen 40 percent, and thousands of timber workers have been forced to look for other jobs."
3. A small country can import a good at a world price of 10 per unit. The domestic supply curve of the good is

$$S = 50 + 5P.$$

   The demand curve is

$$D = 400 - 10P.$$

   In addition, each unit of production yields a marginal social benefit of 10.
   a. Calculate the total effect on welfare of a tariff of 5 per unit levied on imports.
   b. Calculate the total effect of a production subsidy of 5 per unit.
   c. Why does the production subsidy produce a greater gain in welfare than the tariff?
   d. What would the *optimal* production subsidy be?
4. Suppose that demand and supply are exactly as described in problem 3 but there is no marginal social benefit to production. However, for political reasons the government counts a dollar's worth of gain to producers as being worth $2 of either consumer gain or government revenue. Calculate the effects *on the government's objective* of a tariff of 5 per unit.
5. Suppose that upon entering the European Union, it is discovered that the cost of automobile production in Poland is €14,000 while it is €20,000 in Germany. Suppose that the EU, which has a customs union, has a X percent tariff on automobiles and that the costs of production are equal to Y (valued in euros) in Japan. Comment on whether the addition of Poland to the European Union would result in trade *creation* or trade *diversion* under the following scenarios:
   a. $X = 50\%$ and $Y = €10{,}000$
   b. $X = 100\%$ and $Y = €10{,}000$
   c. $X = 100\%$ and $Y = €8{,}000$

6. "There is no point in the United States complaining about trade policies in Japan and Europe. Each country has a right to do whatever is in its own best interest. Instead of complaining about foreign trade policies, the United States should let other countries go their own way, and give up our own prejudices about free trade and follow suit." Discuss both the economics and the political economy of this viewpoint.
7. Give an intuitive explanation for the optimal tariff argument.
8. If governments make trade policies based on national economic welfare, is the problem of trade warfare still represented by a "Prisoner's dilemma" game as in Figure 9-3? What is the equilibrium solution to the game if governments formulate policy in this way? Would they ever choose the strategy of protectionism?
9. Suppose that citizens in a country like United States are concerned with working conditions in factories overseas. They feel that overseas factories create social *costs* in the form of pollution and poor conditions for workers that are unaccounted for in the market price of goods. Are tariffs and quotas economically justified in this context? Why or why not?

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John H. Jackson. *The World Trading System*. Cambridge: MIT Press, 1989. A comprehensive view of the legal framework of international trade, with emphasis on the role of the GATT.

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Jeffrey Schott. *The Uruguay Round: An Assessment*. Washington, D.C.: Institute for International Economics, 1994. A mercifully brief and readable survey of the issues and accomplishments of the most recent GATT round, together with a survey of much of the relevant research.

Robert M. Stern, ed. *U.S. Trade Policies in a Changing World Economy*. Cambridge: MIT Press, 1987. More essays on trade policy issues.

Proving That the Optimum Tariff Is Positive

A tariff always improves the terms of trade of a large country but at the same time distorts production and consumption. This appendix shows that for a sufficiently small tariff the terms of trade gain is always larger than the distortion loss. Thus there is always an optimal tariff that is positive.

To make the point, we focus on the case where all demand and supply curves are *linear*, that is, are straight lines.

Demand and Supply

We assume that Home, the importing country, has a demand curve whose equation is

$$D = a - b\widetilde{P}, \tag{9A-1}$$

where $\widetilde{P}$ is the internal price of the good, and a supply curve whose equation is

$$Q = e + f\widetilde{P}. \tag{9A-2}$$

Home's import demand is equal to the difference between domestic demand and supply,

$$D - Q = (a - e) - (b + f)\widetilde{P}. \tag{9A-3}$$

Foreign's export supply is also a straight line,

$$(Q^* - D^*) = g + hP_W, \tag{9A-4}$$

where P_W is the world price. The internal price in Home will exceed the world price by the tariff,

$$\widetilde{P} = P_W + t. \tag{9A-5}$$

The Tariff and Prices

A tariff drives a wedge between internal and world prices, driving the internal Home price up and the world price down (Figure 9A-1).

In world equilibrium, Home import demand equals Foreign export supply:

$$(a - e) - (b + f) \times (P_W + t) = g + hP_W. \tag{9A-6}$$

Let P_F be the world price that would prevail if there were no tariff. Then a tariff t will raise the internal price to

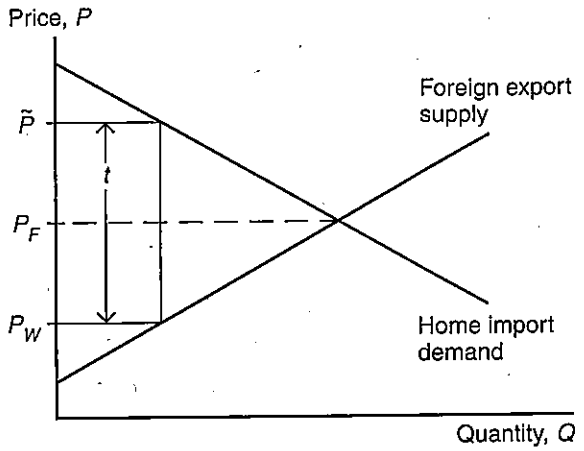
$$\widetilde{P} = P_F + th/(b + f + h), \tag{9A-7}$$

while lowering the world price to

Figure 9A-1

Effects of a Tariff on Prices

In a linear model we can calculate the exact effect of a tariff on prices.



$$P_W = P_F - t(b + f)/(b + f + h). \tag{9A-8}$$

(For a small country, foreign supply is highly elastic, that is, h is very large. So for a small country a tariff will have little effect on the world price while raising the domestic price almost one-for-one.)

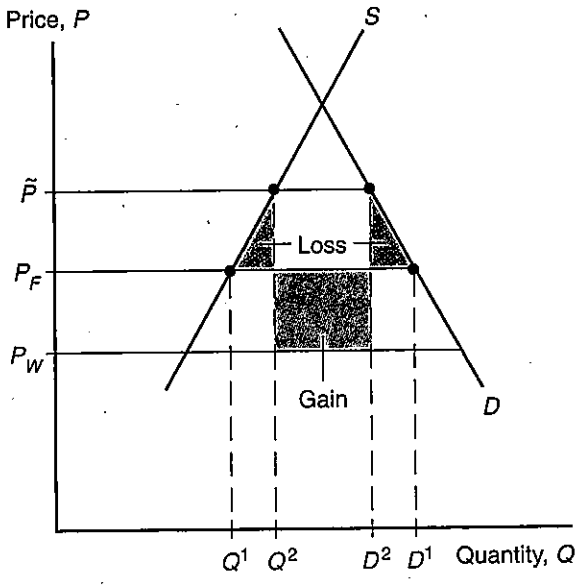
The Tariff and Domestic Welfare

We now use what we have learned to derive the effects of a tariff on Home's welfare (Figure 9A-2). Q^1 and D^1 represent the free trade levels of consumption and production. With a tariff the internal price rises, with the result that Q rises to Q^2 and D falls to D^2, where

Figure 9A-2

Welfare Effects of a Tariff

The net benefit of a tariff is equal to the area of the colored rectangle minus the area of the two shaded triangles.



$$Q^2 = Q^1 + tfh/(b + f + h) \tag{9A-9}$$

and

$$D^2 = D^1 - tbh/(b + f + h). \tag{9A-10}$$

The gain from a lower world price is the area of the rectangle in Figure 9A-2, the fall in the price multiplied by the level of imports after the tariff:

$$\begin{aligned}\text{Gain} &= (D^2 - Q^2) \times t(b + f)/(b + f + h) \\ &= t \times (D^1 - Q^1) \times (b + f)/(b + f + h) - (t)^2 \times h(b + f)^2/(b + f + h)^2. \end{aligned} \tag{9A-11}$$

The loss from distorted consumption is the sum of the areas of the two triangles in Figure 9A-2:

$$\begin{aligned}\text{Loss} &= (1/2) \times (Q^2 - Q^1) \times (\tilde{P} - P_F) + (1/2) \times (D^1 - D^2) \times (\tilde{P} - P_F) \\ &= (t)^2 \times (b + f) \times (h)^2/2(b + f + h)^2. \end{aligned} \tag{9A-12}$$

The net effect on welfare, therefore, is

$$\text{Gain} - \text{loss} = t \times U - (t)^2 \times V, \tag{9A-13}$$

where U and V are complicated expressions that are, however, independent of the level of the tariff and positive. That is, the net effect is the sum of a positive number times the tariff rate and a negative number times the *square* of the tariff rate.

We can now see that when the tariff is small enough, the net effect must be positive. The reason is that when we make a number smaller the square of that number gets smaller faster than the number itself. Suppose that a tariff of 20 percent turns out to produce a net loss. Then try a tariff of 10 percent. The positive term in that tariff's effect will be only half as large as with a 20 percent tariff, but the negative part will be only one-quarter as large. If the net effect is still negative, try a 5 percent tariff; this will again reduce the negative effect twice as much as the positive effect. At some sufficiently low tariff, the negative effect will have to be outweighed by the positive effect.

TRADING BLOCS

ALTERNATIVE APPROACHES TO ANALYZING PREFERENTIAL TRADE AGREEMENTS

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1 Regionalism and Multilateralism: An Overview

Jagdish Bhagwati

The question of "regionalism," defined broadly as preferential trade agreements among a subset of nations, is a longstanding one. As with all great issues, economists have long been divided on the wisdom of such arrangements. So have policymakers.

While this may not be evident to the many economists who are not inhibited by lack of comparative advantage from pronouncing on these matters, and whose pronouncements are a testimony to the enduring value of the theory of comparative advantage, preferential trade arrangements were debated by economists, as such, during the very formation of the General Agreement on Tariffs and Trade (GATT). The context, of course, was the difference between the British, led by Keynes, who were devoted to the continuation of the discrimination in Britain's favour through Imperial Preference, and the Americans, with Cordell Hull to the fore, who were strongly opposed, and embraced multilateralism and most favoured nation status (MFN) instead. Keynes, quite characteristically, at first denounced the American attachment to non-discrimination in trade and then later, when the British had virtually capitulated, celebrated its virtues with equal passion. I will juxtapose the two positions in Keynes' inimitable words, quoted in Bhagwati (1991a):

> My strong reaction against the word "discrimination" is the result of feeling so passionately that our hands must be free... [T]he word calls up and must call up ... all the old lumber, most-favored-nation clause and all the rest which was a notorious failure and made such a hash of the old world. We know also that it won't work. It is the clutch of the dead, or at least the moribund, hand.
>
> [The proposed policies] aim, above all, at the restoration of multilateral trade ... the bias of the policies before you is against bilateral barter and every kind of

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discriminatory practice. The separate blocs and all the friction and loss of friendship they must bring with them are expedients to which one may be driven in a hostile world where trade has ceased over wide areas to be cooperative and peaceful and where are forgotten the healthy rules of mutual advantage and equal treatment. But it is surely crazy to prefer that.

Closer to our times, the question of customs unions (CUs) and free-trade areas (FTAs), both permitted under GATT Article XXIV, became a major topic of theoretical research. The focus, however, since Jacob Viner's (1950) classic treatment, distinguishing between trade diversion and trade creation, was on showing that CUs and FTAs were not necessarily welfare-improving, either for member countries or for world welfare: in other words, the case for preferential trade arrangements was different from the case for free trade for all. The latter, enshrined in Adam Smith and Ricardo, and rigorously proved later by Samuelson (1939), Kemp (1972), and Grandmont and McFadden (1972), is a first-best case. The former, by contrast, reflects second-best considerations and was argued by Lipsey and Lancaster (1956–7), Lipsey (1957), Meade (1956), Johnson (1958a, 1958b) and others.[1]

But if the main focus of these analyses was on disabusing the faith in regionalism as being desirable (on static immediate-impact grounds) by analogy with the different and legitimate case for multilateralism (in the sense of free or freer trade for all), and thus could be seen as reinforcing the case for multilateralism, the effect could also go the other way, and did at times. One could thus argue, from the opposite counterfactual, that if you believed that regionalism, in being discriminatory, was necessarily inferior to non-discriminatory reduction of trade barriers, then this too was wrong. Ironically, in view of the later shift of his views to multilateralism and free trade, reflecting perhaps the changed intellectual environment in Cambridge and Chicago and also further reflection, it is interesting to quote Johnson (1967, pp. 163–4) in the context of proposals for trade preferences, for and among developing countries, for manufactured goods:

Both proposals violate the non-discrimination principle of the General Agreement on Tariffs and Trade and the GATT ban on new preferential arrangements other than customs unions and free trade areas embracing the bulk of the trade of the participating countries. This, however, does not mean that the proposed trading arrangements would necessarily be economically disadvantageous. The postwar development of the theory of customs unions and of commercial policy changes, culminating in the theory of second best has shown that in a tariff-ridden world economy there is no a priori reason for believing that nondiscrimination among import sources is economically superior to discriminatory trading arrangements. It

has demonstrated also that the question of whether a discriminatory tariff reduction improves or worsens the efficiency and economic welfare of the countries involved and the world as a whole depends on the empirical circumstances of the particular case.

Both the theory of second best and modern welfare economics (as well as ordinary common sense) indicate that policy changes that secure desirable results in terms of income distribution or other objectives at the cost of reduced economic efficiency may constitute improvements on a balance of gain and loss, and may legitimately be recommended if no more efficient method of achieving the same objectives is feasible or acceptable.

In fact, Johnson was an active proponent of NAFTA, an acronym which then stood for the North *Atlantic* Free-Trade Area (inclusive of the United Kingdom) rather than for the present North *American* Free-Trade Area which is predicated on a conceptually narrower, geographically-defined regional basis. As it happened, the concept of NAFTA failed to get off the ground, though the ideas concerning regional blocs and trading arrangements remained seductive through much of the 1960s, only to be abandoned thereafter until the recent 1980s' revival.

The recent revival of regionalism, which I describe as the "Second Regionalism" in contrast to, and because it is a sequel to, the "First Regionalism" of the 1960s, raises several of the old issues anew. But the historically changed situation which has resurrected regionalism equally provides the context in which it must be analysed, raising several new issues.

In this chapter, I address these manifold questions, dividing the analysis into a discussion of six areas:

- Article XXIV of the GATT, which sanctions CUs and FTAs (section 1.1);
- the "First Regionalism," briefly reviewing the factors that led to it and the reasons why, in the end, it failed (section 1.2);
- the "Second Regionalism," the reasons for its revival and its differential prospects (section 1.3);
- the key issues that this renewed regionalism raises, distinguishing among two main questions (section 1.4);
- the first, relating to the static impact effect of regional trade blocs (section 1.5);
- the second, concerning the dynamic time-path that regionalism offers, in itself and vis-à-vis multilateralism when the objective is to reach (non-discriminatory) free trade for all, so that one asks "whether multilateralism is the best way to get to multilateralism," therefore distinguishing between "process multilateralism" and "outcome multilateralism" (section 1.6).

In the light of this analysis, I conclude by examining the current US trade-policy shift to regionalism and arguing for a change in its focus from "piecemeal" to "programmatic" regionalism, less antithetical to reaching the "outcome-multilateralism" objective of eventual free trade for all (section 1.7). Some final observations conclude the chapter (section 1.8).

1.1 Article XXIV of the GATT: Rationale

The principle of non-discrimination is central to the final conception of the GATT, signed on 30 October 1947 by representatives from 23 countries in Geneva. Article I embodies the strong support for non-discrimination, requiring (unconditional) MFN for all GATT members.

Aside from "grandfathering" provisions, the only significant exception to MFN is made in Article XXIV, which permits CUs and FTAs and therefore sanctions preferential trade-barrier reductions among a subset of GATT members, as long as they go all the way to elimination.[2]

It is an intriguing question as to why Article XXIV was accepted, and it is a question that also has significance for some of the issues raised by the "Second Regionalism." It is a bit odd that an exception to MFN should be allowed as long as it is total (going all the way to 100 percent) rather than partial (say, 20 percent preference for one's favoured friends): it is as if your cardinal told you that petting is more morally reprehensible than sleeping around. In fact the post-Vinerian theory of preferential trade areas suggests that 100 percent preferences are less likely to increase welfare than partial preferences.[3]

The rationale for Article XXIV's inclusion in the GATT must therefore be explained in other ways. Perhaps there was an inchoate, if strong, feeling that integration with 100 percent preferences was somehow special and consonant with the objective on multilateralism. Thus, Dam (1970, pp. 274–5) quotes the prominent US official Clair Wilcox as follows:

> A Custom union (with 100% preferences) creates a wider trading area, removes obstacles to competition, makes possible a more economic allocation of resources and thus operates to increase production and raise planes of living. A preferential system (less than 100%) on the other hand, retains internal barriers, obstructs economy in production, and restrains the growth of income and demand ... A customs union is conducive to the expansion of trade on a basis of multilateralism and nondiscrimination; a preferential system is not.

Wilcox's statement was little more than assertion, however. But the rationale for inclusion of Article XXIV in the GATT appears to have been threefold, as follows:

- Full integration on trade, that is, going all the way down to freedom of trade flows among any subset of GATT members, would have to be allowed since it created an important element of single-nation characteristics (such as virtual freedom of trade and factor movements) among these nations, and implied that the resulting quasi-national status following from such integration in trade legitimated the exception to MFN obligation toward other GATT members.
- The fact that the exception would be permitted only for the extremely difficult case where all trade barriers would need to come down seemed to preclude the possibility that all kinds of preferential arrangements would break out, returning the world to the fragmented, discriminatory bilateralism-infested situation of the 1930s.
- One could also think of Article XXIV as permitting a supplemental, practical route to the universal free trade that GATT favoured as the ultimate goal, with the general negotiations during the many Rounds leading to a dismantling of trade barriers on a GATT-wide basis while deeper integration would be achieved simultaneously within those areas where politics permitted faster movement to free trade under a strategy of full and time-bound commitment. This is an argument that is not at centre stage: is regionalism truly a building, rather than a stumbling, bloc towards multilateral free trade for all: in other words, will it fragment, or integrate, the world economy?

The clear determination of 100 percent preferences as compatible with multilateralism and non-discrimination, and the equally firm view that anything less was not, meant that when Article XXIV was drafted, its principal objective was to close all possible loopholes by which it could degenerate into a justification for preferential arrangements of less than 100 percent; paragraphs 4–10 of Article XXIV were written precisely for this purpose. But, as is now commonly conceded, their inherent ambiguity and the political pressures for approval of substantial regional groupings of preferences of less than 100 percent have combined to frustrate the full import of the original desire to sanction only 100 percent preferences.

This tension between intention and reality has a direct bearing on the important question of strengthening Article XXIV today beyond even what its original drafters intended. I will therefore sketch briefly the important respects in which the original intention of Article XXIV was reasonably clear but was occasionally violated in spirit, to the point where the great expert on GATT law, Professor John Jackson, has gone so far as to observe that the accommodation of the European Common Market's

imperfect union in disregard of the legal requirements of Article XXIV was the beginning of the breakdown of the GATT's legal discipline, which we now seek to repair.[4] Two issues suffice to demonstrate this contention.

First, in regard to the elimination of internal barriers down to 100 percent, there was enough scope within the language of Article XXIV, paragraph 8, for its intent to be successfully avoided. Ambiguities could be exploited on two main fronts.

The first ambiguity lay in the directive that "duties and other restrictive regulations on commerce" were (with specified exceptions permitted under Article XI, XII, XIII, XIV, and XX) to be "eliminated with respect to substantially all the trade between the constituent territories." Skilful lawyers and representatives of governments could work wonders with the concept of "substantially all the trade," and then, even if a percentage cutoff point was accepted for this purpose (for example, 75 percent of all initial trade), important issues remained ambiguous, such as whether across-the-board (75 percent) cut on everything were required or whether substantial sectors could be left out altogether from the scope of the cuts—the latter being evidently at variance with the intent of those who favoured (100 percent) CUs but opposed (less than 100 percent) preferential arrangements. With both interpretations possible, sectorally non-uniform preferential arrangements could evidently not effectively be ruled out.

An ambiguity of equal importance arose in regard to the problem of the speed with which the "100 percent preferences" would be implemented. Evidently, if they were stretched out over very long periods, one was de facto sanctioning "less than 100 percent" preferential arrangements. In GATT jargon, this was the problem of "interim arrangements." Paragraph 5 therefore addressed this issue, requiring "a plan and schedule," and asking for the CU or FTA to be fully consummated "within a reasonable length of time." Paragraph 7, in turn, laid down specific procedures for such interim arrangements to be approved. Needless to say, this nonetheless left the door open for substantial laxity in conception and execution of the CUs and FTAs under Article XXIV.

Dam's (1970, p. 290) overall judgement of the outcome is perhaps too harsh, but is certainly in the ballpark:

> The record is not comforting ... Perhaps only one of the more than one dozen regional arrangements that have come before the GATT complied fully with Article XXIV criteria. That was the recent United Kingdom/Ireland Free-Trade Area, and even in that case certain doubts were expressed before the working party. In some

cases, the regional arrangements were very wide off the mark. The European Coal and Steel Community, covering only two major product lines, could not even qualify for the special regional-arrangement waiver of Article XXIV: 10 but required a general waiver under Article XXV: 5. The New Zealand/Australia Free-Trade Agreement, although not purportedly an example of "functional integration," provided for the liberalization of an even smaller percentage of intermember trade. A strong tendency has also been manifested for interim agreements to provide for an even longer transitional period and to contain increasingly fewer detailed commitments for eventual completion of the customs union or free-trade area.

1.2 The "First Regionalism": Failure in the 1960s

In any event, one can correctly assert (based on the acceptance of Article XXIV into the GATT) that regionalism, in the shape of (100 percent) CUs and FTAs, was not generally considered, by the architects of the GATT or by the United States, which was the chief proponent of multilateralism and non-discrimination, as antithetical to the GATT and to these principles.

1. Nonetheless, the United States, long suspicious of discriminatory trade arrangements, restrained itself from resorting to Article XXIV. The formation of the European Community in 1958 marked a partial watershed. The United States puts its shoulder to the wheel and saw the Common Market through, negotiating around the different hoops of Article XXIV, emasculating the Article somewhat so as to seek GATT approval of an imperfect union (especially in regard to discriminatory preferences for the eighteen ex-colonies in Africa that the Europeans insisted on retaining, requiring therefore a waiver of GATT rules), all in the cause of what it saw as a *politically* beneficial union of the original six nations that formed the Community. But despite the enthusiasm of many to follow the European Community with a NAFTA, and even a Pacific Free-Trade Area (PAFTA), centred on the United States, nothing came of it: the United States remained indifferent to such notions.[5]

2. There was an outbreak of FTA proposals in the developing countries as well. While stimulated by the European examples, they were motivated by the altogether different economic rationale formulated by Cooper and Massell (1965a, 1965b), Johnson (1965) and Bhagwati (1968). This was that, given any targeted level of import-substituting industrialisation, the developing countries with their small markets could reduce the cost of this industrialisation by exploiting economies of scale through preferential opening of markets with one another.[6] By the end of the 1960s, however, the attempts at forming regional FTAs and CUs along these lines had also

collapsed. The problem was that, rather than use trade liberalisation and hence prices to guide industry allocation, the developing countries attempting such unions sought to allocate industries by bureaucratic negotiation and to tie trade to such allocations, putting the cart before the horse and killing the forward motion.

Thus, while the world was indeed filled with proposals for NAFTA, PAFTA, LAFTA (the Latin American Free-Trade Area, replaced by LAIA, the Latin American Integration Agreement, in 1980), and ever more in the 1960s, until one could be forgiven for imagining that a veritable chemical revolution had broken out, regionalism had virtually died by the end of the decade, except for the original European Community and EFTA.

1.3 The "Second Regionalism": Revival in the 1980s

But regionalism (i.e., preferential trade liberalisation) is now back. Those who do not know the history of the "First Regionalism" are doomed to extrapolate from the current political ferment in favour of FTAs and CUs and assume uncritically that regionalism is here to stay. Those who know the history may make the reverse mistake of thinking that regionalism will again fail. I believe that careful analysis of the causes of the resurrection of regionalism suggests that regionalism this time is likely to endure.

The main driving force for regionalism today is the conversion of the United States, hitherto an abstaining party, to Article XXIV. Beginning with the FTA with Israel (a reflection of the special relationship between the two nations and hence of little general value), the FTA with Canada marked a distinct change. Now the NAFTA is being negotiated with Mexico, and the Enterprise for the Americas' Initiative (EAI) envisages more FTAs with the nations of South America, with Chile at the head of the line.

The conversion of the United States is of major significance. As the key defender of multilateralism through the postwar years, its decision now to travel the regional route (in the geographical *and* the preferential senses simultaneously) tilts the balance of forces at the margin away from multilateralism to regionalism. This shift has taken place in the context of an anti-multilateralist ethos that has reflected alternative but nonetheless eventually reinforcing views:

- The "Memorial Drive" school[7] holds that the GATT is dead (Thurow: Davos) or that the GATT should be killed (Dornbusch).[8] Regionalism is

then presented in effect as an *alternative* to multilateralism. This school, aptly named in view of its funereal approach to multilateralism, has influence in Democratic circles and plays to the prejudices that one finds in Congressional circles that mistakenly identify multilateralism with America's postwar altruism and regionalism (with its connotation of "exploiting our own markets for ourselves") with the presumed current necessity finally to "look after one's interests."

- An alternative view is that regionalism is a useful *supplement*, not an alternative, to multilateralism. "We are walking on only two legs" is the popular argument. That we may wind up walking on all fours is ignored.
- It is also often asserted that regionalism will not merely supplement multilateralism. It will also *accelerate* the multilateral process: the threat of going (unilateral and) regional will produce multilateral agreements that may otherwise be held up. (However, this may be an optimistic view since threats that have to be implemented and repeatedly made, as has been the case with US regionalism, are not efficient threats; and they change external perceptions about what US trade policy priorities are, quite regardless of what the United States asserts to be its true intentions. In fact, the taking of two roads simultaneously can affect adversely the travel down one, as I argue below at length.)
- The panic over the continuing payments deficit has also fed demands for "quick" results on trade (although the two issues are broadly delinkable: payments surpluses and deficits are macroeconomic phenomena that are not influenced in any predictable way by trade policy changes whose impact on the difference between domestic savings and investment, if any, can come in different ways that can go in opposing directions). Associated with this has been impatience with the pace of the multilateral trade-negotiating process and the non sequitur (examined below) that regionalism necessarily works faster.
- In addition, "Europe 1992" and the impending integration of Eastern Europe into the European Community have reinforced, as the formation of the Common Market did with many three decades ago, those in North America who feel that a countervailing bloc must be formed there as well. Indeed, the fear that European investments would be diverted to Eastern Europe, once it is integrated with the European Community, was cited by President Salinas of Mexico as a factor decisively pushing him toward the Mexico–US FTA: this would, he felt, enable Mexico to get the investment needed from America and Japan.

• There are strong non-economic, political and cultural factors also driving Mexico toward an FTA with its northern neighbour. Just as the Turks since Ataturk have tried to seek a European rather than an Arab (or Islamic) identity, the Mexicans clearly now seek an American future rather than one with their southern neighbours. The Hispanic (economic) destiny that many in America fear from illegal immigration and integration with Mexico has its flip side in the American (economic) destiny that Mexico's reforming elite, trained in the top universities in the United States, hope for.

• The offer in June 1990 by President Bush to get more nations from South America to join the United States in an FTA, as part of a general package of economic initiatives to assist these nations, reflects the compulsions that the debt crisis there imposes on American policy to respond in a regional framework to ensure that this crisis remains manageable and does not engulf the United States, whose banks are principally endangered by it.

• Then again, the response of South American nations to the prospect of FTAs with NAFTA, and in some cases with one another first and then joining up with NAFTA, has been enthusiastic. This time around, the prospects are better that in the 1960s. Quite simply, there is now a marked shift in economic thinking towards trade liberalisation and market forces. The macroeconomic crisis of the 1980s has fed the movement to microeconomic reforms, much as it is currently doing in India. The changed economic and political attitudes are comforting to those of us who went into the trenches to fight these battles as early as the 1960s. It is also amusing to see those who dismissed our arguments as "reactionary" or "ideological" then, now embracing these ideas and policies and the leaders who are implementing them, with no apologies to us and with a facade of independently-obtained wisdom. But, frankly, it is good to have them finally on the right side; and it is good to have been in the right.

• Finally, the conjunction of the two dramatic events, "Europe 1992" and the US–Canada FTA, even though fortuitous and prompted by different motivations and historical circumstances, certainly has created a sense elsewhere that regionalism is the order of the day, and that others must follow suit. In the Far East, for instance, there has been a sense that a Japan-centred regional bloc may be necessary in a bloc-infested world, and Malaysia has actively sought a Japan-centred Asian bloc to rival and confront the US-led Americas bloc.

1.4 Regionalism versus Multilateralism: Key Questions

I suspect therefore that the "Second Regionalism" will endure: it shows many signs of strength and few points of vulnerability. But if so, those of us who see virtue in a rule-based, open and multilateral trading system must ask searching questions as to its compatibility with such discriminatory trading arrangements. In particular, two major questions must be answered:

- Is the immediate impact effect of such preferential trade blocs, whether CUs or FTAs, to reduce rather than increase world welfare?
- Regardless of the immediate impact effect, will regionalism lead to non-discriminatory multilateral free trade for all, through continued expansion of the regional blocs until universal free trade is reached, or will it fragment the world economy? And will, in any event, such a dynamic time-path show that regionalism will get us closer to the *goal* of multilateral free trade for all than multilateralism as the *process* of trade negotiation will?

I shall now treat each of these two important, and distinct (if at times analytically interrelated), questions in turn.

1.5 The Static Impact-Effect Question

The question of the static impact effect of preferential trade arrangements such as FTAs and CUs is, quite simply, the question raised by Viner (1950): would not such discriminatory arrangements be trade-diverting rather than trade-creating?[9]

It is important to raise this question because, as Viner taught us, FTAs and CUs are two-faced: they liberalise trade (among members), but they also protect (against outsiders). The important issue therefore is: which aspect of an FTA or a CU is dominant? Or, to put it in the economist's language: is a particular FTA or CU trade-diverting (that is, taking trade away from efficient outside suppliers and giving it to inefficient member countries) or trade-creating (that is, generating trade from one more efficient member at the expense of another less efficient member)?

Sadly, one might have scanned the leading articles, the editorials, and the Congressional testimony when the renewal of fast-track authority for the extension of NAFTA to Mexico was being debated in 1991, looking for references to trade diversion—and find scarcely any. Astonishingly, it

was not just the politicians and lawyers for Mexico's lobby who equated the FTA with (non-discriminatory) free trade; reputed economists did so too.[10]

What can we say about this issue? In particular, what can we propose to ensure that, if CUs and FTAs are to flourish, they do not become trade-diversionary? Article XXIV's injunction not to raise the CU's or the FTA's average external tariff can be interpreted as a precaution against trade diversion and harm to outside GATT members, though (as argued below) this is not a satisfactory way to do it.

In essence, there are three approaches to containing the fallout of trade diversion from CUs and FTAs.

1.5.1 Converting Preferential CUs and FTAs into (Geographically) Regional Blocs

It is occasionally argued that we should encourage geographically proximate countries to form CUs and FTAs, discouraging geographically distant countries from doing so since the latter would be more likely to be trade-diverting.[11] This is a misguided prescription in my view, for several reasons.

To see this, it must be first appreciated that it rests on a syllogism. The first premise is that a CU or FTA is more likely to create trade and thus raise welfare, given a country's volume of international trade, the higher is the proportion of trade with the country's CU or FTA partners and the lower is this proportion with the non-member countries. The second premise is that countries sharing borders, or closer geographically to one another, have higher proportions of trade with one another than countries further apart do.

The first premise is, of course, well known to trade economists from the early post-Vinerian theory, as developed by Lipsey (1958). But Lipsey's argument focuses on the relative sizes of imports from each source vis-à-vis expenditure on domestic goods as the key and decisive factor in determining the size of losses and gains from the preferential cuts in trade barriers.[12]

While the likelihood argument is valid within the Lipsey model, it must be noted that it is only that. Thus, for specific CUs and FTAs, the *actual* welfare effects will depend, not merely on the trade and expenditure shares à la Lipsey but also on the *substitution* at the margin between commodities. Thus, for instance, the substitution between non-member goods and domestic goods may be very high, so that the costs of discrimination

would tend to be high as well, ceteris paribus. In short, it is important to guess at substitution elasticities among goods *as well as* trade shares, with and between members and non-members of CUs and FTAs, to arrive at a better picture of the likely effects of *specific* CUs and FTAs that may be proposed.

As for the second premise, I have problems with this too, as a policy guideline. If I had access to captive research assistance and funds, I could examine whether, for all conceivable combinations of countries and distances among them, and for several different time periods, the premise is valid. I do not, so I must rely on casual empiricism and a priori arguments. Compare, for instance, the trade throughout the 1960s between India and Pakistan with that between India and the United Kingdom or the then USSR. The former trade has been smaller than the latter. Borders can breed hostility and undermine trade, just as alliances among distant countries with shared causes can promote trade (Gowa and Mansfield, 1991). The flag follows trade; and trade equally follows the flag which, at least in the 19th-century European expansion, was not directly across the European nations' borders. Again, even if the premise is statistically valid for any set of observations, it may be a result of trade diversion itself: proximity may have led to preferential grant of concessions such as OAP and GSP at the expense of countries elsewhere.

In short, prescriptions to confine CUs and FTAs only to geographically proximate countries are not defensible because both premises have problems: the former is, at best, a likelihood proposition that should not be applied to specific situations where the welfare impact depends critically on other variables as well, whereas the latter does not have a firm empirical or conceptual basis.

But possibly the most damaging criticism that one can make of such a prescription is that it concentrates, at best, on the static impact-effect question and ignores the more important dynamic time-path question. By prescribing that we must rule out "distant" country unions, as between the United States and Israel and Chile, we would make the CUs and FTAs more exclusive and less open to new members, undercutting the objective of moving speedily towards the shared objective of (non-discriminatory) multilateral free trade for all. That would be tragic indeed.

1.5.2 Designing Disciplines to Minimise Trade Diversion

A different, and my preferred, approach is not to pretend to find rules of thumb to exclude CUs and FTAs "likely" to be trade-diversionary, but

rather to examine the different ways in which trade diversion could arise and then to establish disciplines that would minimise its incidence.

1.5.2.1 Article XXIV In a sense, Article XXIV (paragraph 5) seeks to do this by requiring that CUs, which must have a common external tariff, should ensure that this common tariff "shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable ... prior to the formation of such a union." For FTAs, the rule is that the 'duties and other regulations of commerce' are not to be "higher or more restrictive" than those previously in effect.

Evidently, when tariffs change, as in CUs, and some increase and others fall, the scope for skulduggery arises again, since Article XXIV leaves the matter wholly ambiguous. As Dam (1970, p. 217) has noted: "these ambiguities plagued the review by the CONTRACTING PARTIES to the EEC Treaty of Rome—The Six, having used an arithmetic average, refused to discuss the best method of calculation, because in their view paragraph 5 did not require any special method."

Besides, it is evident to trade economists that maintaining external tariffs unchanged is, in any event, not the same as eliminating trade diversion. What *can* be said is that, the lower the external barriers, the less is the scope for diverting efficient foreign supplies to member countries. A desirable discipline to impose on CUs and FTAs would thus be to require, for Article XXIV sanction, that one price to be paid must be the simultaneous reduction of the external tariff (implicit and explicit), pro rata to the progressive elimination of internal trade barriers.

Possible ways of ensuring this may be indirect disciplines. One way would be to modify Article XXIV to rule out FTAs with diverse tariffs by members[13] and to permit only CUs with common external tariffs (CETs). With most tariffs bound, this would ensure that for the most part a substantial downward shift in tariffs would be a consequence—that, say, Argentina or Brazil would be lowering her trade barriers, *not* that the United States would be raising hers. Since regionalism is probably going to be a matter of low trade barrier hubs such as the United States and Japan, joining with their respective regional spokes, this insistence on CUs could perhaps produce excellent results.

An alternative, and surer, way would be to insist on CUs but also write into Article XXIV the requirement that the *lowest* tariff of any union member on an item *before* the union must be part of the CET of the union.

1.5.2.2 Articles VI and XIX: AD and VERs But none of this is enough today. For the trade economists who work in a sustained way on the problems of the world trading system are aware that protection today takes the form of unfair capture of fair trade mechanisms such as anti-dumping (AD) actions and of voluntary export restraints (VERs); countries today thus have access to selective and elastic instruments of protection.[14] Given this reality, even the modification of Article XXIV, to ensure that the external (implicit and explicit) tariff barriers come down as a price for CUs to be allowed under GATT rules, will leave open a gaping hole that would be tantamount to an open invitation to trade diversion by these preferential arrangements. In fact, trade creation can degenerate rapidly into trade diversion, when AD actions and VERs are freely used.

Imagine that the United States begins to eliminate (by outcompeting) an inefficient Mexican industry once the FTA goes into effect. Even though the most efficient producer is Taiwan, if the next efficient United States outcompetes the least efficient Mexico, that would be desirable trade creation (though the best course would be free trade so that Taiwan would take more of the Mexican market instead).

But what would the Mexicans be likely to do? They would probably start AD actions against Taiwan, which would lead to reduced imports from Taiwan as the imports from the United States increased, leaving the Mexican production relatively unaffected: trade diversion from Taiwan to the United States would have occurred. Similarly, the effect of Mexican competition against the United States could well be that the United States would start AD actions and even VERs against Taiwan.

My belief that FTAs will lead to considerable trade diversion (because of modern methods of protection, which are inherently selective and can be captured readily for protectionist purposes) is one that may have been borne out in the European Community. It is well known that the European Community has used AD actions and VERs profusely to erect "Fortress Europe" against the Far East. Cannot much of this be a trade-diverting policy in response to the intensification of internal competition among the member states of the European Community?[15]

Two conclusions follow: (1) If inherently discriminatory regionalism is to flourish, as seems likely, then we need greater discipline for AD actions and VERs; Article VI needs reform and Article XIX needs compliance alongside the elimination of VERs (as the Dunkel draft on the MTN recommends). (2) This also implies that regionalism means, not the redundancy of the GATT, but the need for a stronger GATT. Those who think

of the two as alternatives are prisoners of defunct modes of thinking, based on the days when protection was a different beast.

1.5.2.3 Judging Trade Diversion Case by Case While the foregoing analysis embraces a set of policy-framework and incentive-creating reforms to minimise trade diversion, an alternative approach to the problem could be in terms of a case-by-case approach where the approval by the GATT of a proposed CU or FTA would depend on the evaluation of its trade-creating and trade-diverting effects and the requirement that the net anticipated effect be trade-creating.

McMillan (1991) has argued this in an ingenious paper[16] which proposes a simple test of admissibility: "does the bloc result in less trade between member countries and outsider countries?" Based on the welfare economics of CU theory, this is an aggregative test and therefore has some obvious analytical problems. It is also subject to the problem of computing plausible trade outcomes. It is hard enough to apply it ex post; ex ante, as a test of admissibility, I see little prospect of its being effectively used to exclude any proposed CU or FTA.

Its main merit is its apparent simplicity and its better grounding in economic theory. I therefore endorse the advisability of *some* version of the McMillan test replacing in Article XXIV the current requirement not to raise the average external tariff. But I see it as doing little *in practice* to avoid trade diversion. For this, we will have to rely on changing the incentive structure, including through suitable constraints imposed by stricter discipline on selective and elastic targeting of foreign suppliers. The issue of constraining trade diversion from proliferating preferential groupings is so important that it may not be a bad idea to *combine* the proposals made by McMillan and myself, rather than to treat them as alternatives.

1.6 The Dynamic Time-Path Question

The question of the dynamic time-path is particularly difficult: it is almost virgin territory.

Perhaps the theoretical approach to CU theory that appears to be most relevant to this problem is that of Kemp and Wan (1976). In contrast to the Vinerian approach, Kemp and Wan make the external tariff structure endogenously determined for the CU such that it improves the CU members' welfare while maintaining the outsiders' welfare unchanged.

This restores the pre-Vinerian intuition that a CU should be welfare-improving. The problem with the operational significance of the Kemp–Wan argument is that it really is an existence argument, without any structure being put on it within the context of a specific model so that we can develop intuition about what the external tariff structure for such a Kemp–Wan CU would be.[17] But that *any* subset of countries *could* form an unambiguously (world) welfare-improving union is definitely established by Kemp and Wan.

This also implies that the time-path to U^* (see figure 2.9, this volume) achieved under multilateral free trade as the optimum optimorum, can be made monotonic.[18] But what it does *not* say is that the union will necessarily expand and, if so, in a monotonically welfare-improving manner. For *that* answer, we must turn to the *incentive structure* that any CU provides to relevant "groups" for further expansion of the CU.

The incentives in question need not be *economic* incentives. In fact, it is hard to imagine that the arbitrary groupings of countries that seek FTAs and CUs are dependent on economic arguments as their key determinants. Often, politics seems to drive these choices of partners, as in the case of the European Community, and now in the case of FTAs throughout the Americas. This also accounts for the occasional non-regionally proximate choices of partners in such blocs: e.g., the United States and Israel, and Pakistan, Iran and Turkey in the early 1960s. But that economic factors contribute to the incentives for such blocs to be formed is not implausible. Thus, for instance, Edward Mansfield, a Columbia University political scientist, has suggested that trade blocs will tend to be formed by security-driven allies because the gains from trade from them will accrue to friends rather than foes.[19]

A meaningful examination of the incentives to form and to expand trade blocs will therefore have to be in the new and growing field of political economy-theoretic analysis. I believe that the models within which we investigate these issues will have to distinguish among at least three kinds of "agents," which I will detail below with illustrations of the kinds of arguments which we would find relevant:

- *Governments of member countries:* whether a CU will expand or not will depend partly on the willingness of the CU authorities to do so. This will be affected by ideas and ideology. Here I worry that CUs will be under pressure *not* to expand because one possible reaction to a CU will be: "we are already a large market, so what do we really stand to gain by going

through the hassle of adding more members?" This is what I call the "Our Market Is Large Enough" syndrome. I think, as Martin Wolf has often noted, that large countries tend to be more inward-looking for precisely this type of reason.

In addition, the expansion of the CU to include any specific set of outside countries will imply differential aggregate-welfare effects for current members, implying in turn differential incentives for member countries for and against the expansion.[20] In this context, a CU (which generally includes transfers among members) may be more expansionary (à la Kemp–Wan argumentation) than an FTA, though a CU that simultaneously seeks *political* integration may be less willing to expand.

• *Interest groups in member countries:* We need also to consider how interest groups, who lobby for or against CU expansion, will behave. Again, since CUs are a balance of trade-creating and trade-protecting forces, it is possible that the protectionists who profit from the diversion of trade away from efficient suppliers abroad to themselves will line up against CU expansion to include those suppliers. The problem then will be the "These Are Our Markets" syndrome.

This syndrome is not absent from the NAFTA scene, as many leader articles and media quote from business groups testified during the fast-track renewal. In fact, this syndrome was also present in the Eastman Kodak pamphlet (Dornbusch et al., 1989) that I cited earlier. It is also a sentiment that was beautifully expressed by Signor Agnelli of Fiat: "The single market must first offer an advantage to European companies. This is a message we must insist on without hesitation."[21] It is, of course, fine or Signor Agnelli to express such sentiments: after all, Fiat has run for years, not on gas, but on VERs against the Japanese. But should economists also embrace such sentiments?

• *Interest groups and governments of outside countries:* The third set of "agents" has to be the outside countries. Here, the example of a CU may lead others to emulate and seek entry. Otherwise, the fear of trade diversion may also induce outsiders to seek entry: Irwin's marvellous study on the historical experience with trade liberalisation in the 19th century (1993) shows that the Anglo–French Treaty may well have served this purpose. If so, this acts as an incentive to expand the CU.

This is clearly an uncharted area that is evidently the most interesting for further analysis.[22] I might add just one empirical–econometric study, by Mansfield (1992), which takes trade data for 1850–1965, estimates an

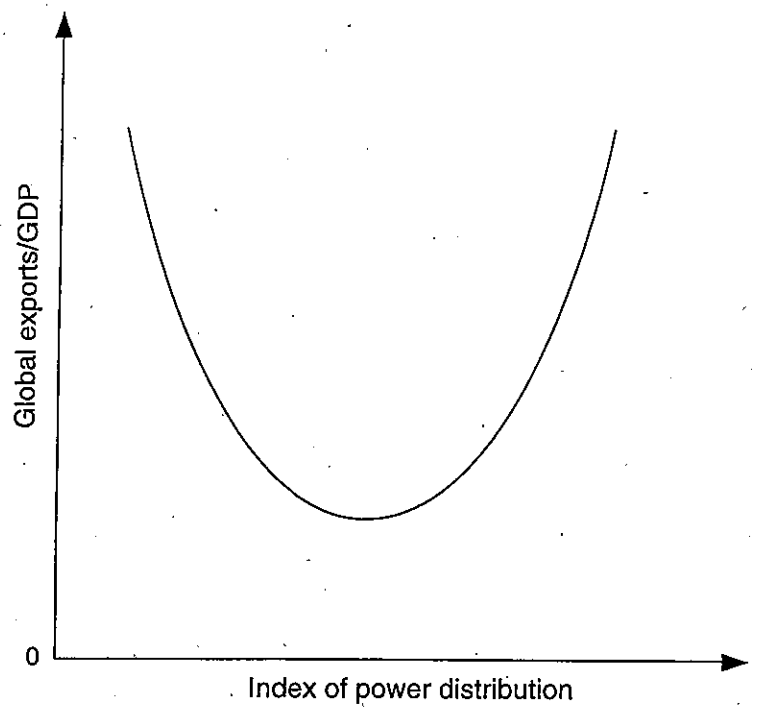

Figure 1.1
Concentration of power in the world and global exports. *Source*: Mansfield (1992).

index of "power distribution" (reflecting, among other things, trade blocs and economic power distribution) and comes up with figure 1.1. When power was centred in hegemons, during periods of British and American hegemony, and when there was "anarchy," the world economy was relatively liberalised (in the sense that global exports: GDP ratio was high); when there were a few middle-sized powers, as could happen with trade blocs, the result was a smaller ratio of trade to GDP (figure 1.1).

If Mansfield's analysis is accepted, and if it is considered to be a reasonable approximation to the question whether CUs will have expansionist or protectionist outlooks (mapping perhaps also into their attitudes to CU expansion or stagnation), then the presumption would be that historical experience suggests that trade blocs will fragment the world economy, not go on to unify it. Of course, history does not always repeat itself. But Mansfield's work certainly suggests caution in place of the gung-ho regionalism that has been urged by the Memorial Drive School.

To conclude, consider the following popular assertions by the regionalists:

- regionalism is quicker;
- regionalism is more efficient; and
- regionalism is more certain.

1.6.1 Is Regionalism Quicker?

The regionalists claim that the GATT is the "General Agreement to Talk and Talk," whereas regionalism proceeds quicker. But is this really so?

1. Historically, at least, the "First Regionalism" failed whereas the GATT oversaw the effective dismantling of prewar tariffs in the OECD countries and the enlargement of disciplines over NTBs at the Tokyo Round and beyond. A little caution, to say the least, is necessary before celebrating regionalism's quickfootedness.

2. For those who believe that regionalism offers a quick route to effective trade liberalisation, Dam's analysis quoted above needs renewed attention. There is a world of difference between announcing an FTA or a CU and its implementation, and the comparison is not pleasing if you are in the regional camp.

3. As for speed, even the best example of regionalism, the European Community, started almost four decades ago (1957) and is now into 1992. The "transition" has not therefore been instantaneous any more than negotiated reductions of trade barriers under the GATT Rounds. And this, too, despite the enormous political support for a united Europe.

4. Take agriculture. The record of regional trade blocs dealing with agricultural trade liberalisation is either non-existent or dismal; the CAP is not exactly the European Community's crowning achievement. In fact, if it were not for multilateralism (i.e., the Uruguay Round and the coalition of the Cairns Group that crystallised around the MTN), it is difficult to imagine that the process of unravelling the CAP could even have begun.

5. The (actual or potential) exercise of the regional option can also affect the efficacy of the multilateral one. The unwillingness of the European Community to start the MTN in 1982 and its largely reactive, rather than leadership, role at the Uruguay Round, are in some degree a reflection of its being less hungry for multilateralism given its internal market size and preoccupations. Then again, is it not evident that, were it not for the European Community, the capacity of the French (for whose political predicament one can only have sympathy, much as one deplores its consequence for the willingness to liberalise agriculture) to slow down the reform of the CAP and the liberalisation of world agriculture would have been significantly less?

6. Moreover, if regionalism is available as a realistic option, it will encourage exit rather than the seeking of voice and even the manifestation of loyalty to multilateralism:

- This may happen at the level of the bureaucrats who wind up preferring small-group negotiations among friends (code phrase: "like-minded people") to the intellectually and politically more demanding business of negotiating with and for the larger community of trading nations.
- Or else it may happen that, just as public choice theory à la Olson tells us in regard to the diffusion of consumer losses and concentration of producer gains that favour protectionist outcomes, the proponents of regionalism tend to be better focused and mobilised (they are often regional "experts" and partisans who ally themselves with the preferred policy options of the countries whose FTA cause they support), whereas the support for multilateralism is often more diffused and less politically effective and therefore takes second place when regionalism is on the political scene.
- Then again, regionalism may appeal to politicians since it translates more easily into votes: the wooing of the Hispanic voters, by urging them to identify with the FTA, was quite evident during the renewal of the fast-track authority in 1991 for the NAFTA negotiations with Mexico.
- The support of business groups for multilateralism may also erode with regional alternatives because of two different reasons: (i) If one can get a deal regionally, where one may have a "great deal of trade," then one may forget about the multilateral arena. Thus, if Canada could get the United States to agree to a fairer operation of the unfair trade mechanisms (a matter on which many Canadians today feel they were mistaken, with Prime Minister Mulroney and Mr. Riesman talking about Americans being "thugs" or like "third world dictators"[23]), why bother to fight the battles at the Uruguay Round where the powerful American manufacturing lobbies, zeroing in with the European Community against the Far East, seek instead to weaken the GATT rules? (ii) Again, one may get better protectionist, trade-diversionary deals for oneself in a preferential arrangement than in the non-discriminatory world of the GATT: e.g., Mexico's textile interests should benefit in the NAFTA relative to Caribbean and other external competitors in the US market, weakening the Mexican incentive to push for reform in the MFA forthwith.

7. Finally, it is true that the free-rider problem looks difficult as the number of GATT members increases steadily. Yet recent theoretical work on

GATT-style trade negotiations (Ludema, 1991) suggests that the free-rider problem may not be an effective barrier to freeing trade. Moreover, as Finger (1979) has pointed out, and as experience of inadequate GSP concessions underlines, developing countries have not been able to free-ride as much as their exemption from reciprocity under Special & Differential (S & D) treatment would imply: the trade concessions on commodities of interest to them have not gone as far as the concessions on commodities of interest to other GATT members without such an exemption. (Unconditional) MFN does not work in practice as well as it should from the free-riders' perspective.

1.6.2 Is Regionalism More Efficient?

Occasionally, one finds the regionalists arguing that regionalism is also more *efficient*: it produces *better* results. A typical argument is that, as part of the NAFTA negotiations, Mexico has accepted virtually all the US demands on intellectual property (IP) protection. A story, told in developing country circles, serves to probe this assertion critically: Ambassador Carla Hills was on a tour of South America, extolling the virtues of Mexico's "capitulation." At a dinner in her honour in Caracas, she apparently claimed: "Mexico now has world-class IP legislation." At this point, President Carlos Peretz supposedly turned to his left and remarked: "But Mexico does not have a world-class parliament."

The true moral of the story, however, is that, as part of the bilateral quid pro quos in an FTA or a CU, weak states may agree to specific demands of strong states,[24] in ways that are not exactly *optimal* from the viewpoint of the economic efficiency of the world trading system. In turn, however, these concessions can distort the outcome of the multilateral negotiations.

This may well have happened with TRIPs and TRIMs at the Uruguay Round.[25] As is now widely conceded among economists, the case for TRIPs for instance is *not* similar to the case for free trade: there is no presumption of mutual gain, world welfare itself may be reduced by any or more IP protection, and there is little empirical support for the view that "inadequate" IP protection impedes the creation of new technical knowledge significantly.[26] Yet the use of US muscle, unilaterally through "Special 301" actions, and the playing of the regional card through the NAFTA carrot for Mexico, have put TRIPs squarely and effectively into the MTN.

Again, a distorting impact on the multilateral trade rule from NAFTA negotiations can be feared from the fact that, as a price for the latter to be accepted by the Congress during the delicate renewal of fast-track authority, the US Administration had to accept demands for harmonisation in environment and labour standards by Mexico towards US standards. In political circles this effectively linked the case for free trade with the demands for "level playing fields" or fair trade (extremely widely interpreted),[27] legitimating these demands and weakening the ability of economists and of governments negotiating at the GATT (multilaterally for arm's length free trade) to resist this illegitimate constraint on freeing trade.[28]

1.6.3 Is Regionalism More Certain?

Much has been made, in the Mexican context, of the argument that the FTA will make trade liberalisation irreversible. But something needs to be added here:

- GATT also creates commitments: tariffs are bound. (This does not apply to concessions made under conditionality, of course, by the IMF or the IBRD.) Mexico *is* a member, if recent, of the GATT.
- Recall Dam (quoted above): Article XXIV is so full of holes in its discipline that almost anything goes. Reductions of trade barriers can be slowed down, as "circumstances" require, other bindings can be torn up by mutual consent (an easier task when there are only a few members in the bloc but more difficult under the GATT), etc.
- Recall, too, that regional agreements have failed (LAFTA) and stagnated (ASEAN) as well. The current mood in Canada over NAFTA is sour and the MTN looks better in consequence.[29] The sense, however, that the United States has let Canada down and failed to live by the spirit of the FTA agreements will probably not endure. But who knows?

1.7 The United States: From "Piecemeal" to "Programmatic" Regionalism

Let me conclude by considering more specifically the US shift to regionalism for the Americas in the perspective of the objective of arriving at (non-discriminatory) free trade for all.

US regionalism, when presided over by Ambassador William Brock, then the US Trade Representative, was *not* geographically-circumscribed

regionalism. Rather, it was truly open-ended. Brock was known to have offered an FTA to Egypt (along with the one to Israel) and to the ASEAN countries; indeed, he would have offered it to the moon and Mars if only life had been discovered there with a government in place to negotiate with. This regionalism was evidently motivated by a vision, even if flawed,[30] that saw regionalism as clearly the route to multilateralism: it would go on expanding, eventually embracing many, preferably all.

By contrast, today's regionalism, confined to the Americas by President Bush's men, lacks the "vision thing." In fact, when allied with Secretary Baker's recently reported admonition to the Japanese not to encourage an Asian trade bloc, as suggested by Malaysia as a necessary response to the European Community and US regionalism, the US policy appears to Asia also to be self-contradictory and self-serving: "regional blocs are good for us but not for you." And it simply won't wash, though Japan, fearing further bashing, will be deterred for a while.

If America's regionalism is not to turn into a piecemeal, world trading system-fragmenting force, it is necessary to give to it a programmatic, world trade system unifying format and agenda. One possibility is to encourage, not discourage, Japan to line up the Asian countries (all the way to the Indian subcontinent) into an AFTA, with the US lining up the South Americans into the NAFTA, on a schedule, say, of 10 years. Then, Japan and the United States, the two "hubs," would meet and coalesce into a larger FTA at that point,[31] finally negotiating with the European Community and its associate countries to arrive at the Grand Finale of multilateral free trade for all in Geneva.

Only such "programmatic" regionalism, in one of several possible variants, would ensure that US regionalism was not perceived by Asia to be hostile and fragmenting.[32] It alone would make regionalism less harmful to the MTN and the GATT and more supportive of the cause of multilateral free trade for all.

1.8 Concluding Remarks

The question of regionalism is thus both a difficult and delicate one. Only time will tell whether the revival of regionalism since the 1980s will have been a sanguine and benign development or a malign force that will serve to undermine the widely-shared objective of multilateral free trade for all.

My judgement is that the revival of regionalism is unfortunate. But, given its political appeal and its likely spread, I believe that it is important to contain and shape it in the ways sketched here so that it becomes max-

imally useful and minimally damaging, and consonant with the objectives of arriving at multilateral free trade for all.

Notes

This chapter reflects my personal views and bears no relationship to my position as Economic Policy Adviser to the Director-General, GATT. Thanks are due to Robert Baldwin, James Benedict, Richard Blackhurst, Christopher Bliss, Don Davis, Sunil Gulati, Douglas Irwin, John McMillan, Arvind Panagariya, T. N. Srinivasan and John Whalley for helpful conversations and suggestions.

Editorial Note: A figure and corresponding discussion that appeared in the original chapter have been omitted from section 1.4 to avoid overlap with chapter 2 (this volume).

1. The Vinerian approach to customs union theory has been carried forward by others more recently, chiefly by Berglas (1979) and Corden (1976). In addition, three alternative theoretical approaches can be distinguished: by Kemp and Wan (1976): by Cooper and Massell (1965a, 1965b), Johnson (1965) and Bhagwati (1968); and by Brecher and Bhagwati (1981). All four approaches are distinguished and discussed in the graduate textbook by Bhagwati and Srinivasan (1983, Chapter 27) and in Bhagwati (1991a). Each is touched upon later in this chapter.

2. Two points should be noted. First, there is a difference between intention and reality: as argued below, the Article XXIV-sanctioned FTAs and CUs have never gone "all the way." Second, GATT's MFN is universal only for its members, so it falls short of total universalism. but the important point to remember is that the GATT is open to membership to all who meet the criteria for admission, and has generally been inclusive rather than exclusive.

3. Of course, this theory developed *after* the incorporation of Article XXIV into the GATT. So its inconsistency with Article XXIV, on its own terms, is perhaps only an amusing observation. Note, however, that James Meade was a main actor in both. The argument is developed in two alternative ways in Lipsey (1960, p. 507) and in Johnson (1967, p. 203).

4. A substantially improved and more effectively functioning dispute settlement mechanism, aimed at restoring GATT's legal discipline, is an important part of the 1992 "Dunkel draft" of what the Uruguay Round should conclude.

5. Japan in fact, appears to have probed the possibility of going into such an arrangement with the United States as one of its partners in the 1960s but to no avail.

6. The question of "multilateralism" versus "regionalism" surfaced at a different level even within this preferential trade liberalisation among the developing countries. Thus, in the early 1960s, we were discussing whether the Cooper–Massell–Johnson–Bhagwati argument should not be considered on a G-77-wide basis rather than for much smaller groups of developing countries. This was the main issue before a 1962 UNCTAD Expert Group in New York, of which I was a member, which met over three weeks to draft the recommendation that preferential trade liberalisation among the developing countries be "multilateral," i.e., G-77-wide, rather than narrowly focused. Unfortunately, the preferential arrangements that were contemplated took the latter, narrower focus.

7. The MIT Economics Department is at 50 Memorial Drive in Cambridge, Massachusetts. I obviously exclude the diaspora, including myself! If the views expressed with Dornbusch in an Eastman Kodak publication (Dornbusch et al., 1989) are a guide. Krugman may hold one of the positions described above. This pamphlet makes somewhat odd and untenable

statements about what the GATT does and does not do. Cf. Finger's (1989) rather blunt analysis of these assertions in *The World Economy* and my own complaints about the confusions following from loose writing on trade-policy issues, and the resulting prostitution of an important debate, in Bhagwati (1991b). Whether the Memorial Drive school has by now under fire shifted its anti-multilateral stance and joined the more common view that regionalism is a useful supplement, not an alternative, to multilateralism is anyone's guess, given the conflicting reports one hears of its many oral pronouncements on the lecture circuit from its peripatetic members. But if it truly has abandoned its early vitriolic anti-GATT position, I would be delighted in its demise.

8. I rely upon oral presentation at the 1988 annual meeting of the American Enterprise Institute in Washington, DC.

9. Defined in Vinerian fashion, a trade-diverting FTA can still improve a member country's welfare but will generally harm outside countries. The focus below is on the impact on others, as is presumably the intention also of Article XXIV's injunction not to raise the average external tariff.

10. Aside from obfuscating the distinction between preferential and non-discriminatory trade liberalisation, the pro-FTA economists got carried away by the "battle for Mexico." Thus, while it is perfectly possible for Mexico to gain much while the United States gains little, a *Wall Street Journal* article by Dornbusch (1991) argued that trade with Mexico was already largely free because of OAP provisions and the GSP (so that the union fears of job losses, etc. were exaggerated), and simultaneously that Mexico would achieve prosperity thanks to the FTA. It is, of course, possible to argue each position separately in the "segmented markets" of Mexico City and Washington, DC, turning arguments on their head as necessary for one's case. But it takes chutzpah to make the contradictory arguments in the same article.

11. I must confess that I had not come across this prescription earlier. But in a report in the *Economic Focus* column in *The Economist* in 1991, of a Jackson Hole Conference on FTAs, it was attributed to Paul Krugman and Lawrence Summers.

12. See Lipsey (1960, pp. 507–8): "As far as the prices of the goods from a country's union partner are concerned, they are brought into equality with rates of transformation vis-à-vis domestic goods, but they are moved away from equality with rates of transformation vis-à-vis imports from the outside world. These imports from the union partner are thus involved in both a gain and a loss and their size is per se unimportant; what matters is the relation between imports from the outside world and expenditure on domestic commodities: the larger are purchases of domestic commodities and the smaller are purchases from the outside world, the more likely is it that the union will bring gain. Consider a simple example in which a country purchases from its union partner only eggs while it purchases from the outside world only shoes, all other commodities being produced and consumed at home. Now when the union is formed the 'correct' price ratio (i.e., the one which conforms with the real rate of transformation) between eggs and shoes will be disturbed but, on the other hand, eggs will be brought into the 'correct' price relationship with all other commodities—bacon, butter, cheese, meat, etc., and in these circumstances a customs union is very likely to bring gain, for the loss in distorting the price ratio between eggs and shoes will be small relative to the gain in establishing the correct price ratio between eggs and all other commodities. Now, however, let us reverse the position of domestic trade and imports from the outside world, making shoes the only commodity produced and consumed at home, eggs still being imported from the union partner, while everything else is now bought from the outside world. In these circumstances the customs union is most likely to bring a loss: the gains in establishing the

correct price ratio between eggs and shoes are indeed likely to be very small compared with the losses of distorting the price ratio between eggs and all other commodities."

13. In any event, by encouraging rules of origin because the trade-barrier walls everywhere are not equally high, FTAs encourage in turn the bureaucratic-cum-industry capture of the essentially arbitrary "local content" rules for protectionist purposes.

14. VERs are evidently selective by countries; AD actions are selective down to the level of the firm, as Brian Hindley has often noted.

15. Brian Hindley and Patrick Messerlin are investigating this hypothesis for the GATT Secretariat as part of a set of studies to support the 1992 GATT *Annual Report* on *Regionalism and Multilateralism,* following the 1991 *Annual Report* on *Trade and the Environment.*

16. This paper has also been commissioned by the GATT Secretariat for its 1992 *Annual Report.*

17. Christopher Bliss (1990) has recently made a valuable stab at this problem.

18. Such time-paths are clearly not unique. Thus, for instance, any number of such paths could be generated by relaxing the requirement that, at each stage, the non-union outside countries be left only as well off as before the new expansion of the CU.

19. This argument is being investigated in Mansfield's forthcoming paper for the 1992 GATT *Annual Report.*

20. This analysis must use the Brecher and Bhagwati (1981) approach to theorising about CUs since it relates to analysing the effects of changes in domestic and external policies and parameters on the distribution of income and welfare among member states.

21. Quoted by Wolf (1989).

22. Again, at the instance of the GATT secretariat, this question will be investigated in depth for the 1992 GATT *Annual Report,* by Bernhart Hoekman with Michael Leidy, and by Edward Mansfield.

23. Those who think that much of Japan-bashing is not prejudiced may want to think about the differential and exaggerated reaction in the United States to the far more innocuous remarks of Prime Minister Miyazawa and Speaker Sakarauchi.

24. In Mexico's case, President Salinas's political stake in getting an FTA with the United States is vastly disproportionate to President Bush's.

25. TRIPs are trade-related IP provisions and TRIMs are trade-related investment measures. The weakness of the case for their inclusion in the GATT, at least in the forms canvassed by many lobbies, is discussed in Bhagwati (1991a).

26. It is not surprising therefore that the spokesman for TRIPs have shifted from utilitarian methods of argumentation to "rights": they talk now of "theft" and "piracy."

27. That the environmental and labour standards' negotiations in NAFTA will be "parallel" rather than "integrated" is of no consequence, any more than running the services negotiations parallel to other negotiations at the Uruguay Round has been.

28. The danger posed by the proliferating demands for "level playing fields" or fair trade, chiefly in the United States but elsewhere too, is extremely serious. It is analysed, and the theoretical questions raised by it are noted, in Bhagwati (1992). The environment issue, in particular, has been discussed in this context in the 1991 GATT *Annual Report.*

29. Whalley's splendid study of the US–Canada FTA (1992) supports the sceptical views that I have advanced of the prospect and wisdom of the "Second Regionalism."

30. For reasons that I have already indicated above, regionalism is not quite the benign trade policy that it is now popularly believed to be.

31. This would require discarding the extreme Japanophobia that characterises the so-called "revisionists" who are really "regressionists" twice over: they use simple-minded regressions to condemn Japan for its "closed markets" (e.g., that Japan's manufactures' import share is stagnant and/or low compared to others') and they also wish to return the United States to the Japan-bashing of the prewar period that had given way to sense and sensitivity in the postwar years: cf. Bhagwati (1991a).

32. Saxonhouse's excellent study (1992) only complements and underlines what I argue here. I should add that while the United States signals a world trading system fragmenting message to Asia through NAFTA, Mexico by contrast signals a pro-world trade message. In joining in free trade with the colossus to its north, President Salinas boldly and effectively tells the developing countries that free trade is good and not to be feared.

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2

Preferential Trading Areas and Multilateralism—Strangers, Friends, or Foes?

Jagdish Bhagwati and
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The question of Preferential Trading Areas, as we should call them in preference to Free Trade Areas and customs unions, phrases that falsely equate them in the public mind and discourse with nonpreferential free trade, has not been distant from international economists' thoughts and concerns since the beginning of the postwar period when the architects of the General Agreement on Tariffs and Trade had to confront PTAs and accommodate them into the GATT via Article XXIV.[1]

Their wisdom became a center of analytical attention, especially at the time of the steps taken to form the European Community by the Treaty of Rome in 1957 and when, in what Bhagwati (1991) has called the period of First Regionalism, other Article XXIV-sanctioned PTAs were considered and even attempted in other areas.[2] The theory of PTAs of Viner (1950)—to which Meade (1955), Lipsey (1957, 1960), and other international economists at the time made important contributions—while preceding the formation of the European Community, developed more fully as a result of that singular event. The attempts at providing a more realistic rationale for the extension of such PTAs to developing countries, on the other hand, as a way of reducing the cost of any targeted level of industrialization, came from Cooper and Massell (1965a, 1965b), Johnson (1965), and Bhagwati (1968) at the time.[3]

It must be said that the First Regionalism was stillborn; beyond the European Community (and its offshoot, the European Free Trade Association), there was practically no successful emulation of the European developments elsewhere. At the same time, given the fact that it arose over the concerns that such PTAs were not the same as nondiscriminatory freeing of trade, the Vinerian theory was "static," concerning itself simply with the

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issue as to when such PTAs would be trade-diverting or trade-creating, thus diminishing or increasing welfare.

The recent revival of interest in the theory of Preferential Trading Areas, marking what Bhagwati (1991) has christened the Second Regionalism, has come instead from the conversion of the United States to preferential trading arrangements, starting with the Canada-U.S. Free Trade Agreement (CUFTA) and the later extension to include Mexico under the North American Free Trade Agreement (NAFTA). This time around, the movement has extended equally to other areas, involving again developing countries on their own, as in the Southern Cone Common Market (MERCOSUR), but with success rather than failure.

In 1982, the United States could not get multilateral trade talks started at Geneva and hence turned to ever-expanding PTAs as an alternative way of getting eventually to worldwide free trade. This has given the theory of PTAs a "dynamic time-path" dimension (Bhagwati 1993a). When would such an approach lead to a progressive freeing of trade barriers through expanding membership (and/or accelerating multilateral trade negotiations in a benign symbiosis)? This is also a political economy-theoretic question, fitting nicely into the modern preoccupation of economic theorists with questions relating to what policies emerge (that is, with "public choice") rather than what they should be (that is, with "social choice").

From a policy viewpoint also, this revival of PTAs is an important development. It was fed (if not led) by the U.S.-centered NAFTA and its proposed extension to Chile and beyond, and by Asia-Pacific Economic Cooperation (APEC), which some in the United States would like to see turn into another PTA, and by the call of European politicians such as Foreign Minister Klaus Kinkel of Germany at the outset, and by many others subsequently, to form TAFTA (a Transatlantic Free Trade Area). With WTO jumpstarted and multilateralism functioning, the theoretical and policy questions then must be confronted: should these proposals for proliferating PTAs, especially when inclusive of hegemonic powers such as the United States, be encouraged by economists?

In this chapter we undertake the following tasks. After reviewing key phrases and concepts, we extend the "static" analysis of PTAs. This enables us to examine several recent claims in favor of PTAs and persuades us to discard them as unpersuasive.

Specifically, our analysis enables us to examine and reject the much-cited claim that it is wrong to worry about trade diversion and that PTAs are generally as good as nonpreferential trade liberalization.

Our analysis gives added insight into why the usual argument made these days is mistaken. This is the argument that when countries joining a PTA have large shares of their trade with one another and are thus "natural trading partners," they need not fear losses. The nonhegemonic countries that are liberalizing with a hegemon that is generally open and offering few new reductions of trade barriers, as is the case with Mexico and with other potential NAFTA members outside of the United States and Canada, could face the prospect of significant "static" welfare losses.

Next, we turn to the dynamic time-path question. In the policy context, this necessitates our considering arguments as to why a proliferation of PTAs, despite their creating a harmful "spaghetti-bowl" phenomenon in the world economy, may be beneficial because of their helpful consequences for the progressive freeing of trade and moving the world economy to worldwide free trade.

We systematize the current analytical contributions on this problem and evaluate the current policy developments.[4] It is our view that PTAs that are hegemon centered, as NAFTA is, are not the desirable way to advance the cause of worldwide freeing of trade barriers and that it is better to focus on WTO-centered MFN trade liberalization. By contrast, we consider intradeveloping-country, non-hegemon-centered PTAs, such as MERCOSUR, in a more favorable light. First, however, we need to clarify a few central phrases and concepts.

Phrases and Concepts

Two phrases are frequently used: PTAs and regionalism. The two significant concepts are, first, trade creation and diversion and, second, stumbling and building blocks.

Preferential Trading Areas

This term refers to FTAs, CUs (which also have a common external tariff), and Common Markets (which additionally have freedom of internal factor movement within the area defined by member states). All these arrangements fall within the purview of GATT Article XXIV. Lesser forms have traditionally been permitted for developing countries and come under Economic Cooperation among Developing Countries (ECDC). We will have something to say about that too, though our chapter will be almost exclusively focused on Article XXIV-sanctioned PTAs and, within that category, on FTAs in particular.

Regionalism

This term has been loosely used by many, including us, as synonymous with PTAs. Strictly speaking, however, regionalism refers to PTAs defined by a geographic region. There is a school of thought (to which Lawrence Summers and Paul Krugman have subscribed) that considers regional PTAs to be a priori less likely to lead to static trade diversion than non-regional PTAs and such regional PTAs to be therefore ipso facto acceptable. This is a substantive issue that we will consider, as did Bhagwati (1993a) in a preliminary way. Our focus, however, will be on PTAs, not regional PTAs.

Trade Creation and Trade Diversion (Viner)

The concepts of trade creation and trade diversion as two possibilities that define the second-best nature of the static analysis of PTAs go back to Viner (1950), of course. While there are various ways in which these two concepts have subsequently been defined, we will use them (in the theoretical analysis below) in the original Vinerian sense to mean a shift of imports from an efficient to an inefficient source under trade diversion, and a shift from an inefficient to an efficient source under trade creation.[5]

"Stumbling Blocks" and "Building Blocks" (Bhagwati)

The phraseology and conceptualization of PTAs that, in a dynamic time-path sense, contribute to the multilateral freeing of trade either by progressively adding new members (down the PTA path to worldwide free trade) or by prompting accelerated multilateral trade negotiations and are thus *building blocks* toward the multilateral freeing of trade and those that do the opposite and hence are *stumbling blocks* to the goal of worldwide, multilateral freeing of trade, owes to Bhagwati (1991, 77) and has been adopted by Lawrence (1991) and others.[6] Insofar as Viner's trade creation and trade diversion concepts were designed to divide PTAs into those that were good and those that were bad in the static sense, Bhagwati's building block and stumbling block concepts are designed to divide PTAs into those that are good and those that are bad in the dynamic, time-path sense.

Rethinking Static Welfare Analysis

We now begin with the static analysis. Frankly, so much has been written on the static analysis since Viner's pioneering 1950 contribution, indeed by virtually every important international economist, that one may think that there is little to add.

The Issues Examined

Yet there is something to be gained by another, close look at the conventional static analysis in view of several presuppositions, mostly favorable to PTAs, which have recently been made by policy analysts.

It has been forcefully argued by Summers (1991, 299) in an influential paper that international economists should not be preoccupied by trade diversion: "I find it surprising that this issue is taken so seriously—in most other situations, economists laugh off second best considerations and focus on direct impacts."

Our first reaction is to deny the premise of his analogy: economists, faced with a second-best problem, typically *do* worry about that aspect of the problem. Indeed, if the world was first best, market prices would reflect social opportunity costs, and there would be no need for cost-benefit analysis for projects. The World Bank, where Summers served with distinction, would then have to close down most of its project-lending research and analysis aimed at determining the shadow prices to be used in judging the acceptability of projects.

Second, the problem of preferential trade liberalization is indeed an inherently second-best problem since nondiscriminatory trade liberalization is being ruled out. Ignoring this aspect is unwarranted.

Third, one should not confuse "second best" with "primary impact." First-best problems also are characterized by primary and total effects.

Fourth, if Summers implies that trade-diverting PTAs are a minor nuisance, he is misled presumably by the fact that efficiency losses are Harberger triangles and "small." But such PTAs impose losses on member countries also through tariff-revenue-*redistribution*, and these can be large: they are rectangles, while the efficiency effects are triangles.

We also consider the contention in the recent policy debate that countries that trade with each other in larger volume than with other nations are "natural" trading partners and hence that PTAs among them are likely to be welfare enhancing to their members for that reason.

This contention is further linked with the argument that "regional" PTAs are desirable (in the sense of being more likely to create welfare gains for their members) because geographically contiguous countries (particularly if they share common borders) have larger volumes of trade with one another than with others.

Our analysis here challenges the premise that large volumes of initial trade lessen the likelihood of loss from PTAs. Consequently, it also undermines the associated contention that regional PTAs are more desirable.

We also question the alternative but related "natural trading partners" hypothesis that regional PTAs are likely to improve welfare by conserving on transport costs. We show that transport costs by themselves do not provide a reason for discriminatory PTAs.[7]

The Theoretical Analysis

Since Viner's classic work in 1950, PTAs have been considered to be harmful both to member countries (whose imports are the subject of the trade diversion) and to the world when trade diversion arises, and to be welfare enhancing when trade creation occurs instead. This ambiguity of outcomes, depending on the relative strengths of the two effects when a PTA is formed, has been the principal reason for the debate among economists as to whether a specific PTA is desirable.

We will begin the theoretical analysis below by showing, however, that the conventional trade creation and trade diversion are not the entire story in deciding on the welfare outcome for an *individual* member of a PTA. Even if trade creation effects are larger than trade diversion effects so that the union as a whole benefits, an individual member could lose on account of adverse income distribution effects arising from tariff revenue redistribution.

The redistribution of tariff revenue between member countries arises, of course, from a shift in the terms of trade within the union. When a member country lowers its tariff on the partner without lowering it on the rest of the world, within-union terms of trade shift in favor of the partner (for both existing and new imports from it). The extent of the unfavorable redistributive effect on a member country is obviously determined by the degree of preferential access it gives to the partner country in relation to the preferential access it receives from the latter: the greater the margin of preference the country gives, the more it stands to lose. This implies that when a country with a high degree of protection forms a PTA with a country with relatively open markets, as in the case of Mexico and the

United States, the former may well be faced with a net welfare loss. We develop this theme and its ramifications, in the following analysis, using simple models from the literature and distinguishing clearly among the effects on member country and world welfare.

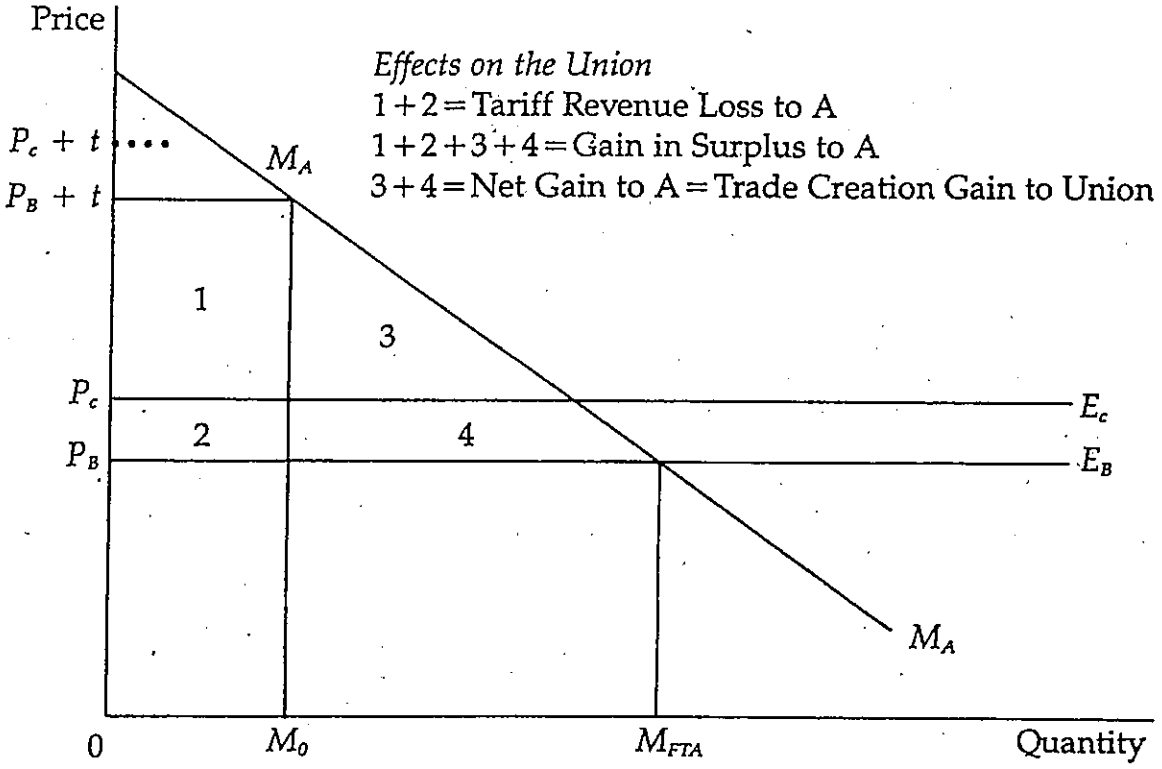
The Viner Model—Constant Costs

The natural starting point for explaining the economics of regional integration is Viner's partial equilibrium model. This model does not fully capture the effects noted above but is, nevertheless, an important step toward understanding them. Assume that there are three countries, A, B, and C. Countries A and B are potential union partners and C represents the rest of the world. In figure 2.1, panels a and b, let M_AM_A represent A's import demand for a specific product and P_BE_B and P_CE_C the (export) supplies of the same product available from B and C, respectively. Following Viner, it is assumed that the supply prices of B and C are constant at P_B and P_C, respectively. In panel a, the supply price of C exceeds that of B and in panel b the opposite is true.

In panel a illustrating the case of a *trade-creating union,* with an initial nondiscriminatory specific tariff t, A imports OM_0 quantity of the good.[8] All imports come from B so that A raises areas 1 and 2 in tariff revenue. If A now forms an FTA with B, imports from B expand from OM_0 to OM_{FTA}. The tariff revenue disappears, but the price facing consumers declines by t; A's consumers capture the entire revenue in the form of increased surplus. Because B is the lower cost source of the product, there is positive trade creation and no trade diversion.[9] Working like nondiscriminatory free trade, the FTA yields to A and to the union a net gain represented by areas 3 and 4.[10]

Panel b illustrates the case of a *trade-diverting union.* Here B is the higher cost source of the product with the result that, given a nondiscriminatory tariff in A, all imports come from C. A imports OM_0 and collects areas 1 and 2 in tariff revenue. If A and B now form an FTA, imports expand to OM_{FTA}, but the source of their supply switches from C to B. Though the reduction in A's domestic price leads to some trade creation—increased imports lead to a displacement of some inefficient domestic production and increase in consumption in A—the switch to the higher cost source, B, leads to a large trade diversion of OM_0 quantity of imports from C to B. Thus, panel b shows a case where the union diverts trade from C, but it also creates some trade. The gains to A are given by area 3 and the losses by area 2. The loss of area 2 results from a deterioration in A's terms of

Panel A. Trade-creating Union of A and B



Panel B. Trade-Diverting Union of A and B

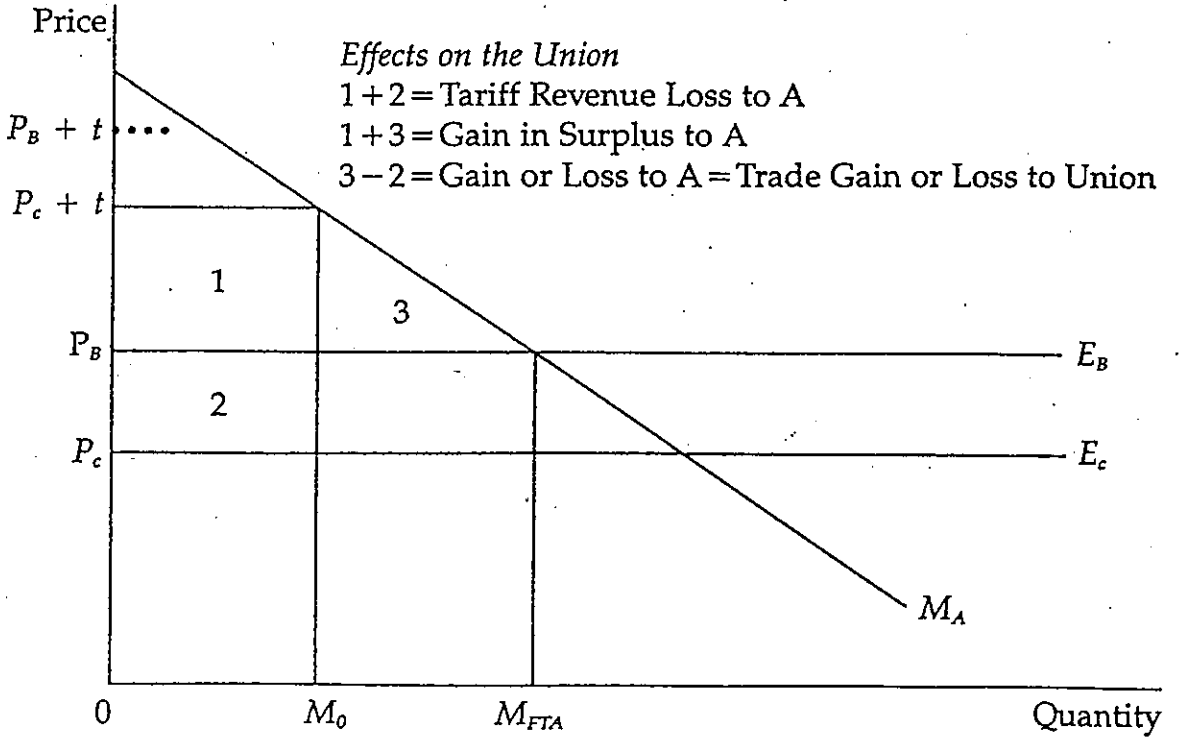


Figure 2.1 (panels A, B, and C)
Constant costs, according to strictly Vinerian analysis.

Panel C. General Equilibrium Analysis: Viner-Lipsey Model of Trade-Diverting Union

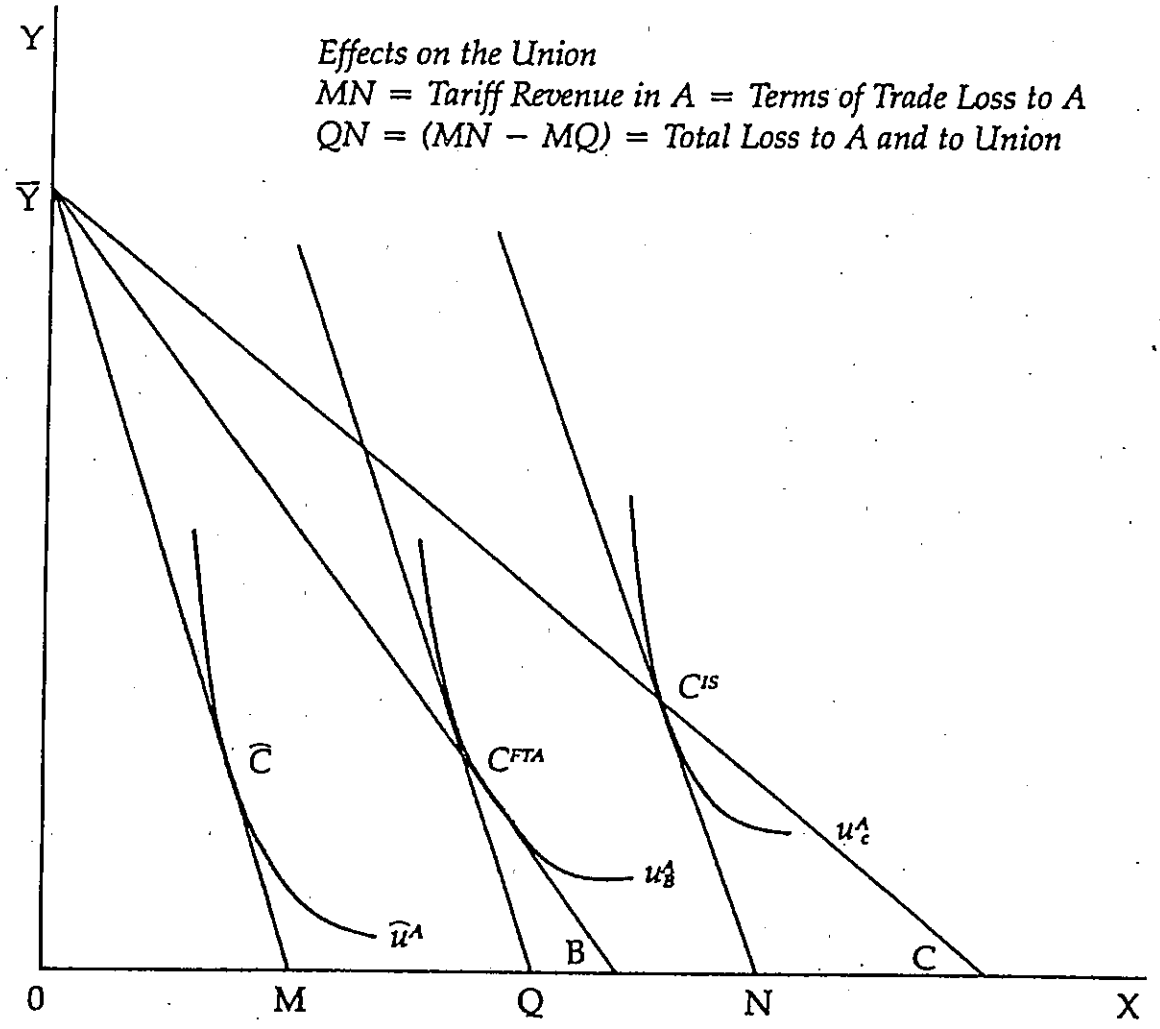


Figure 2.1 (continued)

trade from P_C to P_B and takes the form of the excess of the loss of tariff revenue (1 + 2) over that which is captured partially (1) by A's consumers. Area 2 goes to pay for the higher cost of production in B than in C.

Now, unless cost differences between B and C are small, areas similar to area 2 will be large in relation to the triangular areas of gain. The welfare loss to A from the loss of revenue on diverted imports applies to the *entire* initial quantity of imports, whereas the gain applies only to the *change* in the quantity of imports. The FTA will be associated with trade creation in some sectors and trade diversion in others. But since losses the likely to be large in cases involving trade diversion, trade diversion in even a few sectors can more than offset the gains arising from trade creation in a large number of sectors.

The trade-diverting case of panel b can also be illustrated in general equilibrium by using the Lipsey (1958) version of the Viner analysis as in

panel c. There, the economy of A is specialized in producing at $\bar{Y}$, with $\bar{Y}C$ and $\bar{Y}B$ the given, fixed terms of trade with C and B, respectively. With an initial nondiscriminating tariff, A trades with C and consumes at C^{IS}, winding up with welfare at U_C^A. With the FTA between A and B, the trade shifts to B. A winds up consuming at C^{FTA} and its welfare is reduced to U_B^A. The welfare loss QN can then be seen as the difference between the tariff-revenue or terms-of-trade loss MN and the gain MQ that comes from the ability to shift consumption from $\hat{C}$ to C^{FTA}.[11] (OM is the income at domestic prices in the initial situation, and tariff revenue is MN, the sum of the two yielding ON as national expenditure.)

A final and obvious point may be stressed concerning nondiscriminatory trade liberalization by country A. In both the cases shown in figure 2.1, A obtains maximum trade gains and its welfare is improved relative to the initial as well as the FTA equilibrium by a nondiscriminatory liberalization. Such liberalization leads to the same equilibrium in the trade-creating union in panel a (as a limiting case) and eliminates trade diversion in the case in panel b, amounting to free trade with the most efficient supplier for each commodity.

Partner Country's Supply Curve Is Upward Sloped

Because of the assumption that the export-supply curves of both B and C are perfectly elastic, the model in figure 2.1 leads to at least two unrealistic outcomes.[12] First, imports into A come from either B or C but not both. Second, in the trade diversion case, the losses of A represented by area 2 are used up entirely to finance B's higher costs of production: the partner country B makes no gain whatsoever. The model thus captures only one side of the possibly "mercantilist" nature of trade-diverting FTAs: country A can lose from its own (discriminatory) trade liberalization, but country B does not gain from it.

A more realistic model allows the supply curve of one or both countries B and C to slope upward. In the interest of simplicity, we will allow for an upward-sloped supply curve for only one country at a time. Figure 2.2 takes up the case when the partner country B's supply curve slopes upward and that of the outside country C is horizontal. This case captures the essence of the more general model in which the outside country's supply curve also slopes upward but is more elastic than the partner's. Figure 2.3 shows instead the case when the union is between A and C so that the partner country's supply curve is more elastic than that of the outside world.

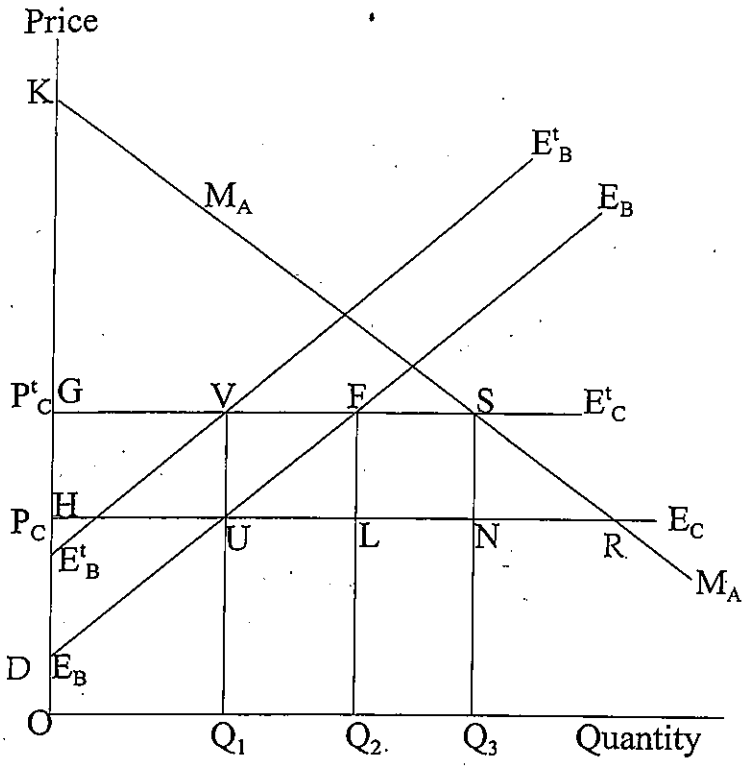


Figure 2.2
Effect of union (A + B) with rising costs from partner country.

In both figures 2.2 and 2.3, as before, we then let M_AM_A represent the import demand for a product imported by A. The supply curve of the product available from B is upward sloped and is represented by E_BE_B. Country C's export supply curve, represented by P_CE_C, is horizontal. The tariff continues to be specific. Consider then figure 2.2 and three cases: an initial nondiscriminatory tariff, free trade, and an FTA.

Under a *nondiscriminatory tariff* at rate t per unit, supplies from B and C, as perceived by buyers in A, are given by $E^t_BE^t_B$ and $P^t_CE^t_C$, respectively. Total imports into A equal OQ_3 of which OQ_1 come from B and Q_1Q_3 from C. Country A collects tariff revenue equivalent to rectangle GHNS. The gains from trade for A amount to the area under the import-demand curve and above the domestic price plus the tariff revenue, that is, triangle KSG plus rectangle GHNS. For country B, the gains from trade equal the area above E_BE_B and below the net price received, P_C, that is, area HUD. Country C neither gains nor loses from trade. Table 2.1 summarizes this information in column 1.

Suppose instead the A decides to adopt a policy of *free trade* by eliminating the tariff on a nondiscriminatory basis. The price in A declines to P_C, imports from B do not change, and imports from C rise by NR. Tariff revenue disappears, but the gains from trade rise to KGS + GHNS + RSN:

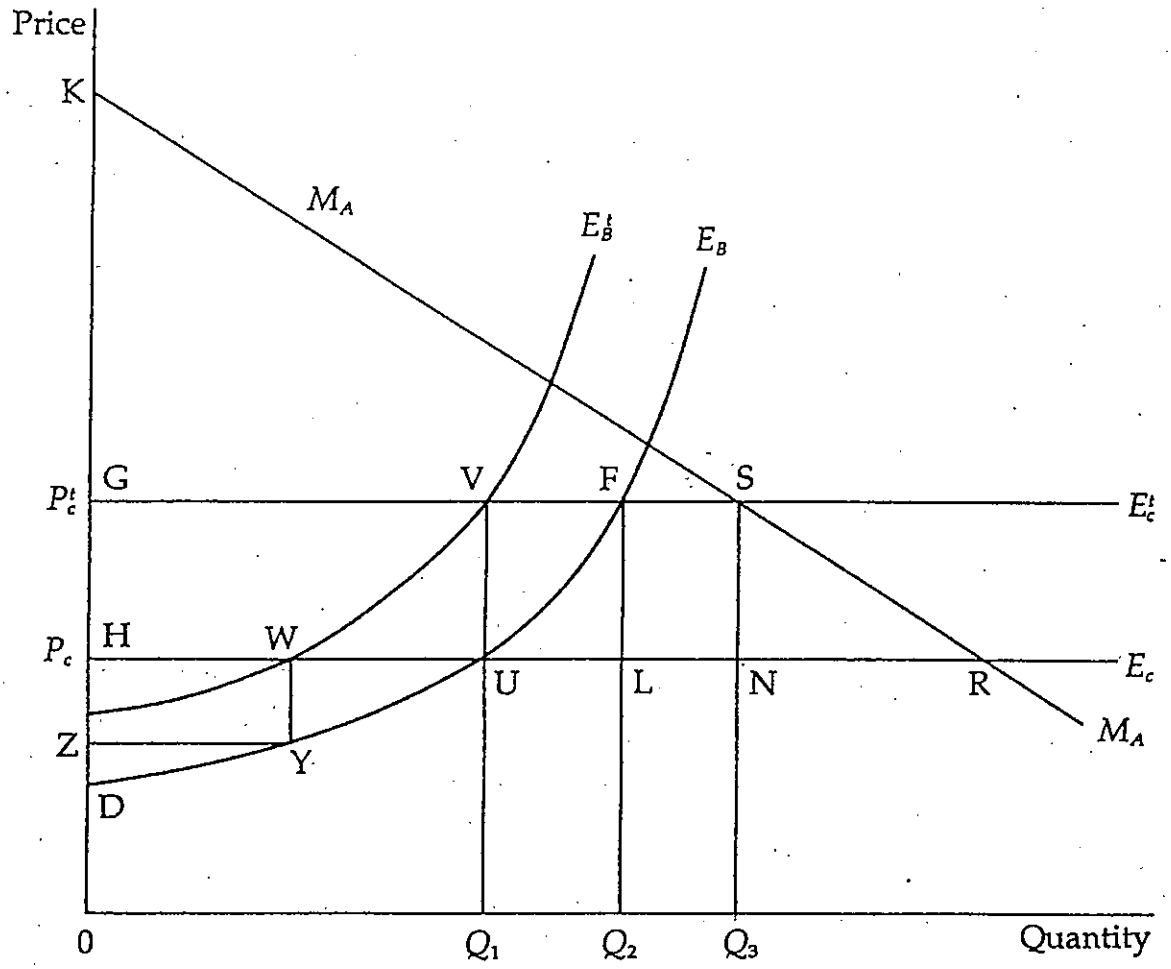


Figure 2.3
Effect of union (A + C) with rising costs from outside country.

there is a net welfare gain to A of RSN. The extra gain comes from increased benefits to consumers and producers in A. The gains to country B remain unchanged at HDU. Because of the perfectly elastic supply, country C neither gains nor loses from trade before or after trade liberalization by A. Therefore, the world as a whole benefits by area RSN. These changes are summarized in column 2 of table 2.1.

Next, assume that A forms an FTA with B by eliminating entirely the tariff on B but retaining it on C. Imports from B rise to OQ_2, and those from C decline to Q_2Q_3. Now B gains from the FTA due to an improvement in its terms of trade. The net price received by the exporters of B increases from P_C to P_C^t, and the gains from trade to B rise to HDU + GFUH. Country B gains from A's liberalization.

Because imports continue to come from C before as well as after the FTA and C's supply is perfectly elastic, the price in A is unchanged. But now that there is no tariff revenue on goods coming from B, A' gains from trade decline by GFLH. Stated differently, A's within-union terms of

Table 2.1
Gains from Trade under Unilateral Liberalization and Free Trade Area (Country A plus Country B)

Country	Nondiscriminatory tariff (Initial situation) (1)	Free trade (FT) (2)	Free trade area (A and B) (FTA) (3)
A	KGS + GHNS	KGS + GHNS + RSN (A gains)	KGS + GHNS − GFLH (A loses)
B	HDU	HDU (no change)	HDU + (GFLH − FLU =) GFUH (B gains)
C	0	0 (no change)	0 (no change)
World	KGS + GHNS + HDU	KGS + GHNS + HDU + RSN (World gains)	KGS + GHNS + HDU − FLU (World losses)

Note: This table relates to figure 2.2 in the text.
a. World Welfare Loss from FTA compared with FT: FLU + RSN.
b. World Welfare Loss from FTA compared with Initial Situation: FLU.

trade worsen by the full amount of the tariff liberalization country A loses from its own liberalization. Because the FTA diverts imports Q_1Q_2 from the more efficient C to the less efficient B, A's loss exceeds B's gain by the area FLU. The world as a whole loses by the same area FLU. The last column in table 2.1 shows these changes.

It is now evident that Summers' earlier-cited argument that international economists should embrace PTAs because second-best "trade diversion" worries are "laughable," and that primary effects must be considered to be dominant, is misplaced when impacts on the welfare of specific countries are considered. The loss to A from its own preferential liberalization arises primarily from the primary effect of these.[13] If we assume that the initial imports from the union partner are large, the loss to A in this wholly trade-diverting union is substantial and reflects the tariff revenues lost on the original imports (plus these diverted imports) from the partner country B.

Clearly, FTAs can give rise to large redistributive effects (on original imports) between countries. The amount of trade diverted (Q_1Q_2) may be small, and the loss to the union from this trade diversion is small because it is a triangle, but all this really has no relevance to our critique of Summers as just concluded.

Next, our analysis casts doubt on the recent presumption that countries that trade with each other in large volume are "natural" trading partners and regional arrangements among them must therefore be beneficial to

them. It is not entirely clear from the literature what it means to be "natural" trading partners.[14] A quotation from Summer[14] (1991, 297), however, should help: "Are trading blocs likely to divert large amounts of trade? In answering this question, the issue of natural trading blocs is crucial because to the extent that blocs are created between countries that already trade disproportionately, the risk of large amounts of trade diversion is reduced."[15]

Later we consider this entire question of natural trading partners and their desirability. But our analysis so far already provides a devastating critique of the presumption advanced in favor of such natural trading blocs. It is evident from figure 2.2 that the larger the initial quantity of imports from a trading partner, the greater (not smaller) the loss to the country liberalizing preferentially, ceteris paribus. That is to say, the more natural the trading partner according to Summers' definition, the larger the loss from a discriminatory trade liberalization with it!

Finally, it has been frequently argued that, given today's low levels of trade restrictions, preferential trading arrangements are unlikely to be harmful: trade creation effects should dominate the outcome, making PTAs as good as FT (free trade). But this argument, plausible as it sounds, is contradicted by our analysis. Thus in figure 2.2, if the initial nondiscriminatory tariff is sufficiently high, an FTA between A and B can eliminate C as a supplier of the product. In this case, the FTA lowers the internal price in A and gives rise to trade creation. Under some (admittedly strong) conditions, this trade creation can outweigh the tariff-revenue loss and may improve welfare. By contrast, if the initial tariff is low, the chances are poor that the formation of the FTA will eliminate imports from C and lower the internal price.

The Outside Country's Supply Curve Is Upward Sloped

The conclusion that A's preferential liberalization hurts itself and benefits its union partner has been derived under the assumption that the supply of B is less than perfectly elastic and that of C is perfectly elastic. In this setting, the union partner is a less efficient supplier of the product than is the outside world. What will happen if the situation was reversed such that B's supply curve was perfectly elastic and C's less than perfectly elastic?

This case can be analyzed by letting A form a union with C rather than B. In this case, analyzed in figure 2.3, an FTA lowers the price in A to P_C. Though there is no gain to the union partner, A's gain from the FTA

Table 2.2
Gains from Trade under Free Trade Area (Country A plus Country C)

Country	Nondiscriminatory tariff (1)	FTA (A and C) (2)
A	KGS + GHNS	KGS + GHNS + RSN + HWYZ (A gains)
B	HDU	ZYD = HDU − WYU − HWYZ (B losses)
C	0	0 (no change)
World	KGS + GHNS + HDU	KGS + GHNS + HDU + RSN − WYU (World may gain or lose according as RSN ⋛ WYU)

Note: This table relates to figure 2.3 in the text. Column 1 is identical to column (1) in table 2.1 and is reproduced here to facilitate comparison. The results under Free Trade are identical between the two FTAs, (A and B) and (A and C).

(= RSN + HWYZ) exceeds that under nondiscriminatory liberalization (that is, free trade) by the amount of tariff revenue (= HWYZ) collected on imports from the outside country.[16] This case brings us back to the conventional presumption that A's liberalization should benefit it (though the presumption that others should gain from the liberalization does not carry through for the outsider country B that loses). The precise welfare results, based on analysis of figure 2.3, are drawn together in table 2.2.

This case clearly undercuts the arguments about the dangers of PTAs to country A that were made in the previous section. Therefore, it is important to ask how relevant this case is empirically. It is perhaps reasonable to assert that a union partner is likely to resemble B in some products and C in other products, and therefore the effect of the FTA will be ambiguous in general.

A common claim has been that NAFTA is likely to benefit Mexico because the United States the Canada are very large and therefore the most efficient suppliers of a majority of Mexico's products. Our analysis suggests, however, at least two reasons why this conclusion is not warranted.

First, given that the outside world includes the European Union, Japan, China, Korea, Hong Kong, and numerous other outward oriented and highly competitive countries, the conclusion that the United States and Canada are the most efficient suppliers of a large majority of Mexico's products is highly suspect. Indeed, if it were true we would be hard-pressed to explain the persistent demands for antidumping and other forms of protection in the United States.[17] Second, recall that if the union partner is a large supplier of imports, the tariff redistribution losses to A in the case of trade diversion are large. Therefore, even if the union partner is the most efficient supplier of the majority of A's imports, losses

may outweigh any gains. In the case of NAFTA, the United States does account for a sufficiently large proportion of Mexico's imports for us to conjecture plausibly that the tariff-redistribution losses in trade-diversion cases could outweigh the gains in trade-creation cases.

This analysis has an important qualification that will be discussed in the next section. Before doing so, we mention two additional possibilities that are worthy of brief consideration: first, export-supply curves are upward sloped for both B and C; second, the products of A, B, and C are imperfect substitutes. In either of these cases, the small-country and small-union assumptions are violated, and a complete elimination of the tariff by A, whether on a discriminatory or nondiscriminatory basis, is not the optimal policy.[18] We will look at the second case in detail [a bit later].

But here we note that our conclusions remain valid under the following circumstances. In case one, if the elasticity of supply of the outside country is high in relation to that of the union partner, B, a discriminatory tariff reduction is likely to hurt A itself while benefiting B. In case two, analyzed later in the chapter, if B's goods are poor substitutes for A's goods but not C's, as seems entirely plausible, discriminatory liberalization by A will hurt A itself and benefit the union partner, B, even at constant terms of trade, whereas the terms of trade effects will reinforce this outcome. Before we present this analysis in detail, an important qualification to figures 2.2 and 2.3 must be noted.

A Qualification and Modification

Figures 2.2 and 2.3 capture the essence of a large body of the literature on regional arrangements that emerged in the 1950s and 1960s. But these figures have an important limitation that has been ignored entirely in the literature until recently. They implicitly assume that either (1) the partner country maintains the same tariff as A on the product under consideration (that is, the arrangement is a Customs Union), or (2) the product is not consumed in the partner country. Let us explain why.

Consider first the case depicted in figure 2.2. The common practice in the literature, as in our foregoing analysis, has been to assume that post-FTA prices in a member country are determined by the price in the outside country, C, plus the country's own tariff. As Richardson (1994) has noted recently, however, this assumption is incorrect in general. It implies that, if tariffs in A and B are different, producer as well as consumer prices in A and B are different. But given duty-free movement of goods pro-

duced within the union, producer prices between A and B must equalize under an FTA.

Assume that the tariff on the product under consideration is lower in B than in A, violating condition one above. In figure 2.2, recall that E_BE_B is B's supply curve for exports, that is, output supply net of domestic consumption. Under a nondiscriminatory tariff in A, B's producers sell OQ_1 in A. Because the net price received by exporters on sales in A is P_C, the domestic price in B will also be P_C. If A and B now form an FTA and the price in A remains P_C^t, producers in B have no incentive to sell anything in their domestic market unless the price there also rises to P_C^t. But given that the tariff in B is lower than that in A, the price in B cannot rise to P_C^t, and the entire quantity of the product previously sold in B is diverted to A. The rules of origin can forbid the diversion of goods *imported* from C to A but not of goods *produced* in B.[19] Unless domestic consumption of the product in B is zero (assumption two above), B's export-supply curve shifts to the right by the quantities demanded in B at each price, that is, B's export-supply curve coincides with its output-supply curve.

Figure 2.4 lays out how the allowance for the diversion of B's domestic sales to A after the formation of the FTA affects our conclusions. It reproduces figure 2.2, omitting $E_B^tE_B^t$. In the initial equilibrium, with a nondiscriminatory tariff in A, imports from B are OQ_1 as in figure 2.2. After the FTA is formed, the expansion of exports is larger than that given by point F. How much larger it is will depend on where B's total supply curve lies. There are three possibilities.[20]

First, if the total supply curve intersects M_AM_A above point S as shown by S_BS_B, the results of the previous section hold with a vengeance.[21] Exports from B now expand more than in figure 2.2, and losses to A from the transfer of tariff revenue are larger. In this case, B's producers sell all of their output in A and receive the same price as A's producers, namely, P_C^t. The entire quantity consumed in B is imported from C, with consumers paying a price lower than P_C^t. Country A imports from countries B and C.

Second, suppose that B's supply curve intersects M_AM_A between S and W, where the height of W is P_C plus the tariff in B. In this case, the price in A is determined by the height of the point of intersection of B's supply curve and M_AM_A. Because this price is below P_C^t, a part of the lost tariff revenue is now captured by A's consumers. But we still have a tariff-revenue transfer to firms in B. The transfer is larger the closer the intersection point of the two curves to S. Producers in B sell all their output in A, A does not import anything from C, and B imports everything from C.

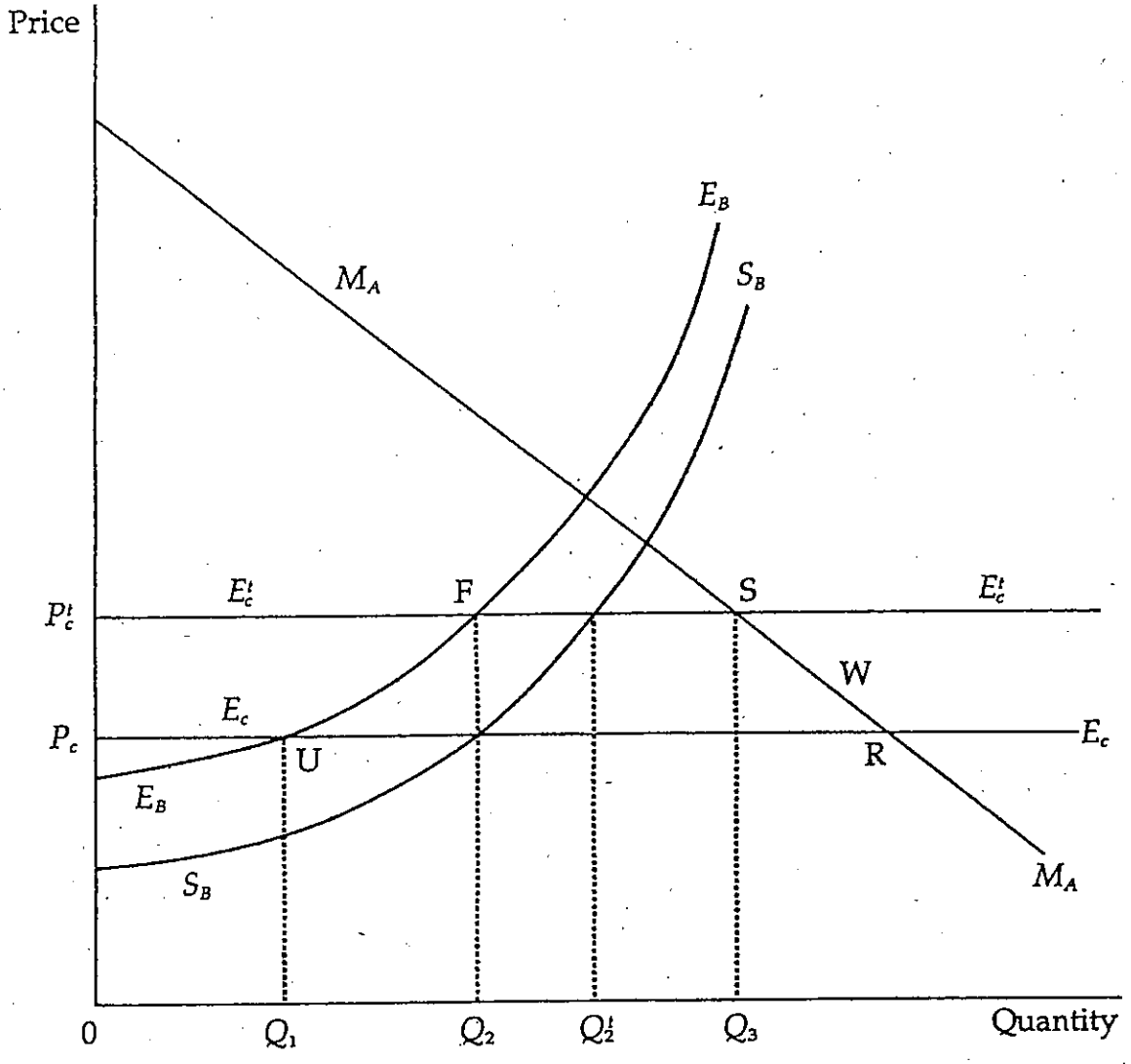


Figure 2.4
The consequences of differing external tariff rates in members of a free trade area.

Finally, if B's supply curve intersects M_AM_A below point W, the price in A drops to the tariff-inclusive price in B given by the height of point W. All of A's imports come from B with producers in B selling in A as well as B. Both consumer and producer prices equalize between A and B. In this case, the redistributive effect is a declining function of the tariff in B. In the limit, if the external tariff in B is zero, the FTA leads to free trade in A (just as in B).

The case depicted in figure 2.3 is also modified along the lines of figure 2.4 if the good in question is consumed in the partner country (C) and the latter levies a tariff lower than that of A. To illustrate, assume that the tariff in C is zero, and the demand for the product in C at P_C is larger than B's supply at that price. Then, B can sell all it wants to export at P_C to C. In the post-FTA equilibrium, A's imports come entirely from C, while B

sells all its exports to C. The tariff revenue raised by A on imports from B in figure 2.3 is no longer available, and A's gains from the FTA with C are reduced to triangle RSN, the same as under unilateral, nondiscriminatory liberalization.

An Imperfect-Substitutes Model

An unrealistic implication of the model just explored in figure 2.4 is that, under an FTA, either producers of B must sell all their output in A and none in their domestic market (the first two cases) or consumers in A must import everything from B and none from C (the last case). This conclusion does not require a complete FTA; it can hold true even in the presence of a small tariff preference as long as external tariffs in the two countries are different. A quick examination of the direction of trade data of member countries of preferential trading arrangements such as the Association of Southeast Asian Nations (ASEAN) and NAFTA shows that this outcome is inconsistent with reality.

A natural way to avoid these extreme results is to cast the analysis in terms of a model with product differentiation. A fully satisfactory model of this type requires the introduction of economies of scale and monopolistic competition or oligopoly. Such an elaborate model is beyond the scope of this chapter. But taking recourse to the Armington structure whereby products are distinguished by the country of origin and drawing on the Meade (1955) model, we take a first stab at the problem.

An important point to note at the outset is that when products are differentiated by the country of origin, the small-country or small-union assumption must be abandoned.[22] If the product originating in a country is not produced anywhere else, by definition, the country is a monopolist for that product and cannot be a price taker in the world market.[23] Our approach below is to first consider the implications of FTAs at constant border prices and then bring in the effects of changes in the terms of trade.

Assume that there are three products denoted a, b, and c. Countries A, B, and C specialize in and export a, b, and c, respectively. Choose the units of each product so that its international price is unity in the initial equilibrium. Focus as before on country A's welfare. In the initial equilibrium, let A impose a uniform tariff t per unit on imports from B and C.

In figure 2.5 we measure A's consumption of b to the right and that of c to the left of the origin, O. Because b and c are not produced in A, the demand curves also represent import demands. Given the tariff t on b and

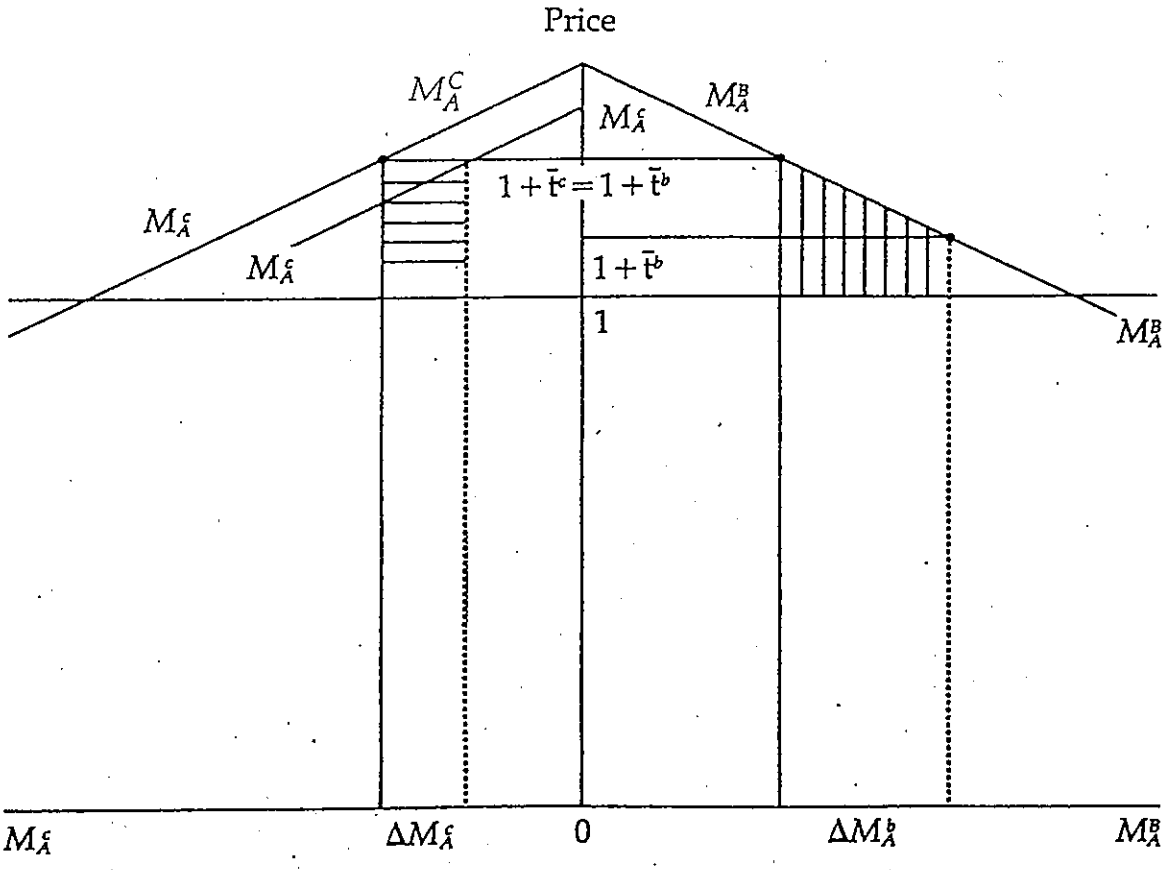


Figure 2.5
Effect of a small tariff preference by country A to country B.

c, (import) demand curves are represented by $M_A^b M_A^b$ and $M_A^c M_A^c$. The demand curve for each product is drawn given the tariff rate on the other product. Assuming substitutability, a reduction in the tariff on one product shifts the demand curve for the other product toward the vertical axis.

Let us now introduce preferential trading through a small reduction in the tariff on imports from B. Imports from B expand and generate a gain equal to $t_b \Delta M_A^b$ and approximated by the vertically shaded area in figure 2.5. This is trade creation. But the reduction in the tariff on b also causes an inward shift in the demand curve for c as shown by the dotted curve. There is trade diversion and a corresponding loss equal to $t_c \Delta M_A^c$ and approximated by the horizontally shaded area.[24]

Is there a net gain or loss to country A? The answer depends on the relative sizes of the two shaded areas. For a small change in the tariff, these areas are approximated by rectangles whose height equals t. Therefore, the gain is larger than the loss if and only if the increase in the value of imports of b at world prices is larger than the reduction in the value of imports of c.[25] If we now assume that the partner country's good, b, and A's export good, a, are substitutes in A's demand, the preferential reduc-

tion in the tariff lowers the consumption of good a and allows an expansion of exports. Working through the trade balance condition, we can see that the expansion of exports must expand total imports valued at world prices. That is to say, imports of b expand more than imports of c contract. The area associated with trade creation in figure 2.5 exceeds the area associated with trade diversion; the *introduction* of preferential trading is beneficial.

This result is attributed to Lipsey (1958) and hinges critically on substitutability between demands for the partner country's goods and exportables and constancy of the terms of trade. For the moment, let us make these assumptions and ask what happens as we continue to lower the tariff on good b, holding the tariff on good c unchanged. For each successive reduction in the tariff, the height of the rectangle associated with trade creation declines but that of the rectangle associated with trade diversion remains unchanged. Sooner or later, before the tariff on b goes to zero, the gain from extra trade creation becomes smaller than the loss from extra trade diversion. Further reductions in the tariff lead to a *reduction* in welfare.[26]

In sum, assuming constant terms of trade and substitutability between imports from B and exports, a preferential reduction in the tariff on B's goods first improves welfare and then lowers it. This relationship is shown in figure 2.6. As drawn, the level of welfare with a complete FTA is lower than that in the initial equilibrium. But in general, we cannot tell whether welfare rises or falls upon the establishment of an FTA.

The natural question then is whether we can establish a presumption one way or the other. To answer it, let us examine the second-best optimum tariff in the Meade model on B's goods given the tariff on C's goods. As shown in Panagariya (1996b), this tariff can be written as

$$\frac{t^b_{opt}}{1+t^b_{opt}} = \frac{\bar{t}^c}{1+\bar{t}^c} \cdot \frac{1}{1+\frac{\eta_{ba}}{\eta_{bc}}}, \tag{1}$$

where η_{ba} and η_{bc} are country A's compensated, crossprice elasticities of demand for the partner country's good with respect to the price of its own good and that of the outside country's good, respectively. These elasticities respectively measure the degree of substitutability between the partner's and A's own goods and that between the partner's and outside country's goods.

If the two elasticities are equal, the optimum tariff on b is approximately half of the tariff on c. In applying this model and argument to the

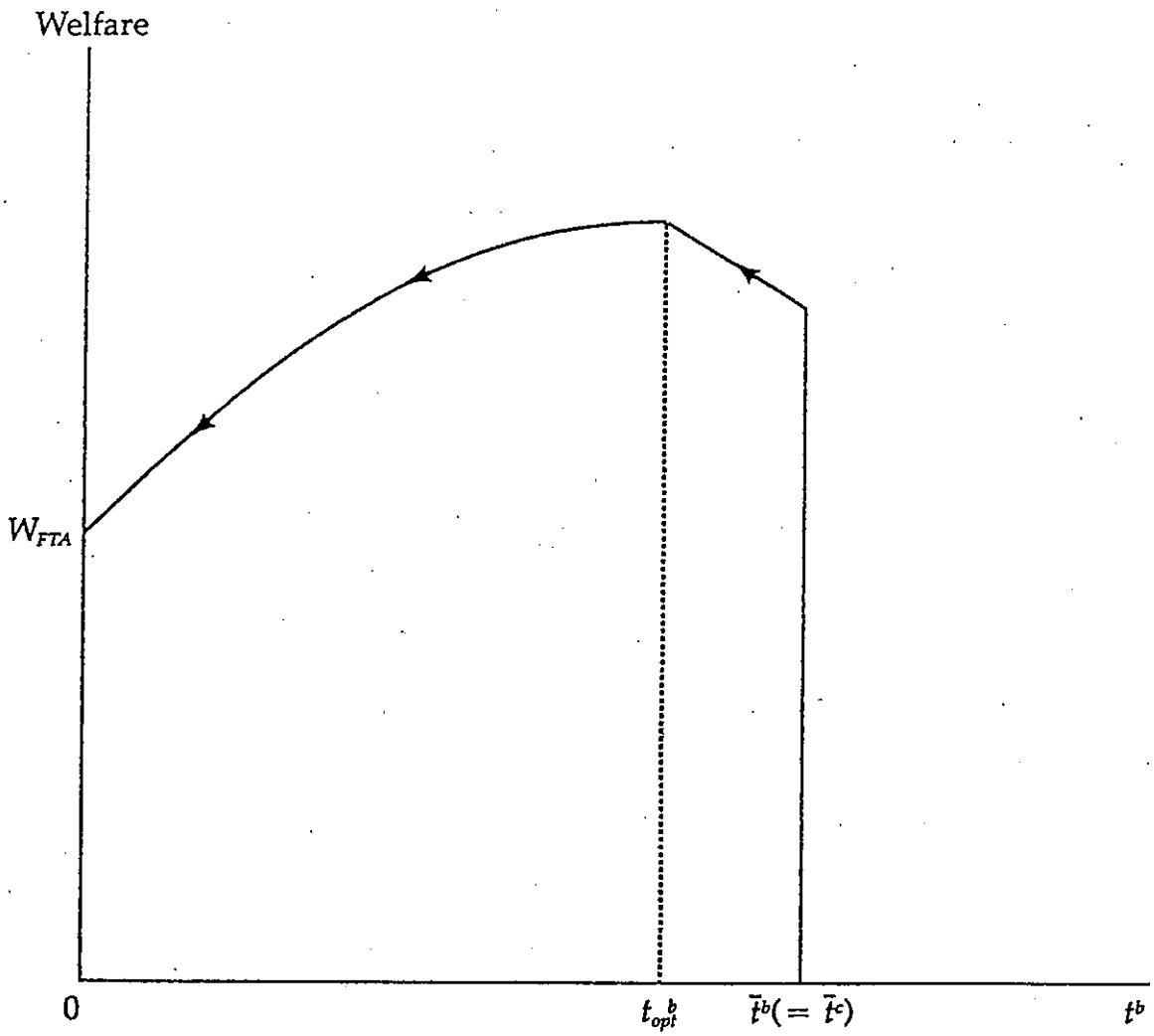


Figure 2.6
Effect of preferential tariff reduction and welfare.

real world, it is reasonable to expect, however, that the degree of substitutability is substantially higher between the imports from the two sources, B and C, than that between imports from B and A's exportables. For instance, Chile's imports from North America are likely to exhibit a much greater degree of substitutability with goods from the European Union or East Asia than with its own exports. Given this fact, the optimum tariff on b is higher than one-half of the tariff on the outside country's goods. In the limit, if the cross-price elasticity of demand for B with respect to the price of A is zero, the optimum tariff on b equals the initial tariff on c. In terms of figure 2.5, exports do not change at all when preferential trading is introduced and trade diversion exactly offsets trade creation. In terms of figure 2.6, welfare falls monotonically as we lower the tariff on b while holding the tariff on c constant.

The analysis up to this point has assumed that the terms of trade are constant, and it does not allow for the tariff-revenue-redistribution effect discussed earlier.[27] As already noted, with goods differentiated by the country of origin, the terms of trade cannot be assumed constant. The derivation of the effects of preferential trading on the terms of trade in the three-good model is complicated. Fortunately, in a neglected but important paper, these effects were worked out by Robert Mundell. To quote him,

> 1. A discriminatory tariff reduction by a member country improves the terms of trade of the partner country with respect to both the tariff reducing country and the rest of the world, but the terms of trade of the tariff-reducing country might rise or fall with respect to third countries.
> 2. The degree of improvement in the terms of trade of the partner country is likely to be larger the greater is the member's tariff reduction; this establishes the presumption that a member's gain from a free-trade area will be larger the higher are initial tariffs of partner countries (Mundell 1964, 8).

Not surprisingly, once the terms-of-trade changes are brought back into the analysis, the "mercantilist" bias in results noted earlier (that is, that A loses from its own liberalization) comes back even in the Meade model.[28] We are once again driven to the conclusion that a high-protection country (Mexico) forming an FTA with a low-protection country (United States) is likely to lose from the FTA. Observe that the terms-of-trade effects are in addition to the likely losses from second-best considerations at fixed terms of trade as discussed in figures 2.5 and 2.6.

Revenue Seeking

The conclusion that a country is likely to lose from its own preferential liberalization can break down in the presence of 100 percent, perfectly competitive, resource-using revenue-seeking activities.[29] Given this type of revenue seeking, each dollar's worth of tariff revenue will be matched by a dollar's worth of real resources used unproductively. The tariff revenue is represented by the rectangle GHNS in figure 2.2, where A and B form the FTA. This revenue is now lost in revenue seeking and will not contribute to the country's welfare. The introduction of preferential trading will then lead to a loss of tariff revenue in the amount GFLH, but it will generate an exactly equivalent gain from a release of resources employed in revenue seeking, leaving A's welfare unchanged. For the union as a whole, however, the reduced revenue seeking will generate a net gain equal to GFLH. A large part of this gain, trapezium GFUH, will

go to the partner country B, while the remaining part, triangle UFL, pays for the cost of trade diversion. In sum, country A's welfare does not change while that of B rises.

Next, consider the case in figure 2.3 where A and C have the FTA instead. Once again, the rectangle GSNH now will not contribute to the country's welfare in the initial equilibrium. But when preferential liberalization is introduced, the internal price of A falls to the level shown by point R and the rectangle (plus triangle SNR) becomes a part of the consumers' surplus and hence A's welfare rises. Country B's welfare does not change.

Combining the two cases, we obtain the conclusion that, in the presence of 100 percent perfectly competitive revenue seeking, each partner benefits unambiguously (or at least does not lose) from preferential trading. This conclusion undermines our argument that preferential liberalization by a country with respect to its major trading partner is likely to hurt itself and benefit its partner.

We suggest, however, that there are at least two reasons why we should not take this conclusion seriously. First, even though revenue seeking is an important phenomenon in certain contexts and worthy of analysis in its own right, it is hardly invoked when making major policy decisions. We are not aware of a single reference to revenue seeking as a major reason for NAFTA in the public debate in either Mexico or the United States and Canada preceding its approval. Indeed, if we are to take revenue seeking seriously, we should take it and other types of directly unproductive profit-seeking (DUP) activities arising from all other policies into account as well. Second, the twin assumptions of 100 percent and perfectly competitive revenue seeking are unrealistic. Empirically, revenue seeking is likely for several reasons to be a small fraction of the total revenue. In particular, the operation of the "Brother-in-Law Theorem" and of settled rules for allocation of revenues will often turn potential DUP activities into transfers.

"Natural Trading Partners" Hypothesis and Regional PTAs

We now turn to the question of natural trading partners.[30] As we noted earlier, the "natural trading partners" phrasing and hypothesis (that PTAs among them are more likely to beneficial) originated in Wonnacott and Lutz (1989). Based on the work of Viner (1950), Lipsey (1960), and Johnson (1962), these authors provided detailed criteria for determining whether or not a given set of countries constituted natural trading partners:

Trade creation is likely to be great, and trade diversion small, if the prospective members of an FTA are natural trading partners. Several points are relevant:

- Are the prospective members already major trading partners? If so, the FTA will be reinforcing natural trading partners, not artificially diverting them.
- Are the prospective members close geographically? Groupings of distant nations may be economically inefficient because of the high transportation costs (Wonnacott and Lutz 1989, 69).

Wonnacott and Lutz offered two further criteria, one based on complementarity versus competitiveness of the economies and the other on the countries' relative levels of economic development. They noted, however, that these characteristics are "much more difficult to evaluate." Because subsequent advocates of FTAs have not included these criteria in defining natural trading partners, we will not discuss them.

For clarity, we will refer to the first two criteria spelled out in the above passage from Wonnacott and Lutz as the "volume-of-trade" and "transport-cost" criteria and examine them in turn.

The Volume-of-Trade Criterion The volume-of-trade criterion for choosing natural trading partners and treating them as likely therefore to be welfare enhancing to their members seems plausible at first glance but is, in fact, treacherous for several reasons.

First, the criterion is neither symmetric nor transitive. A lack of symmetry implies that country A may be a natural trading partner of country B, but the reverse may not hold true. A lack of transitivity implies that even if A is a natural trading partner of B, and B is a natural trading partner of C, A may not be a natural trading partner of C. Lest this be viewed as a purely academic point, we note that the United States is Mexico's largest trading partner, but the reverse is not true. Similarly, the United States is the largest trading partner of both Canada and Mexico, but Canada and Mexico have little trade with each other.

Second, the volume-of-trade criterion is premised on the view that a larger initial volume of trade between potential partners implies a lower likelihood of loss because of trade diversion. In terms of figure 2.2, this implies that the larger is OQ_1, the smaller is Q_1Q_2.

This is, however, an unsupported inference from the fact that, for any given volume of initial imports (OQ_3), the higher is the partner country's initial share, the lower is the outside country's share and hence the smaller is the *scope* for diverting trade. Instead, what one needs to determine is how likely is the *actual* trade diversion. Thus, for example, between two alternate situations, one where Q_1Q_3 (the scope for trade diversion) is

twice as large as in the other, Q_1Q_2 (the actual trade diversion) could still be only half as much.

The underlying model that defines the trade volumes in different equilibriums may well imply then that the relationship between the initial volume of imports from the partner country and the trade to be diverted to it may be altogether tenuous.

Thus, consider the Lipsey (1958) analysis of the question, based on the small-union version of the Meade model we have discussed.[31] Lipsey, as Bhagwati recalled in his earlier critique of the volume-of-trade criterion, focused not on the initial volume of imports but "on the relative sizes of imports from each source vis-à-vis expenditure on domestic goods as the key and decisive factor in determining the size of losses and gains from the preferential cuts in trade barriers" (Bhagwati 1993a, 34). Of course, on the basis of equation 1 and the discussion of it, we can also conclude that, in general in this model, the higher is the compensated crossprice elasticity of its demand for the partner's good with respect to the price of its own good *relative* to the crossprice elasticity of its demand for the good with respect to the price of the outside country's good, the higher is the likelihood that an FTA improves a country's welfare. This general conclusion reduces to the Lipsey argument when the liberalizing country's preferences are of the CES variety.[32]

For a country such as Mexico joining the NAFTA with the United States, we may well expect in fact the former elasticity to be lower than the latter so that the welfare presumption for this "natural trading partner" of the United States from NAFTA is ironically likely to be in favor of trade-diversion effects dominating the outcome.

There is a further subtle point to be noted. In figure 2.6, starting from a nondiscriminatory tariff, as country A lowers the tariff on B, trade share shifts in favor of B at the expense of country C. That is, A and B become more natural trading partners according to the volume-of-trade criterion. Yet, once the tariff on B attains the second-best optimum, t^b_{opt}, further preferential liberalization is accompanied by a *reduction* in the welfare of A. Thus, to the left of t^b_{opt}, A and B are more natural trading partners than to the right of it, but preferential tariff reductions in that range reduce welfare.

Third, even this conclusion understates the folly of regarding a large initial volume of imports as a benign phenomenon. It ignores the crucial tariff-revenue-redistribution effect that we have highlighted. In FTAs involving countries with asymmetric levels of protection and a high volume of trade initially, the country with higher protection is likely to

lose even if trade-creation effects dominate trade-diversion effects. Under such circumstances, the net gain from trade-creation and trade-diversion effects could likely be swamped by the loss from the tariff-revenue-redistribution effect. The case for Mexico gaining from joining NAFTA thus looks dismal on this account as well.

While, therefore, the volume-of-trade criterion for judging FTAs to be benign is clearly to be rejected, linking it to *regionalism* and thus declaring regional FTAs to be more benign than nonregional FTAs is additionally wrong. There is no evidence at all that pairs of contiguous countries, or countries with common borders, have larger volumes of trade with each other than do pairs that are not so situated or that trade volumes of pairs of countries, arranged by distance between the countries in the pair, will show distance to be inversely related to trade volumes.[33]

This is evident from the somewhat aggregated destination-related trade volume statistics for major regions in 1980, 1985, and 1990 in table 2.3.[34] Then again, take just one telling example.[35] Chile shares a common border with Argentina, but in 1993 it shipped only 6.2 percent of exports to Argentina and received only 5 percent of its imports from her (Panagariya 1995b, tables 3 and 4). By contrast, the United States does not have a common border with Chile but in 1993 accounted for 16.2 percent of her exports and 24.9 percent of her imports. The volume-of-trade criterion then would make the United States, *not* Argentina, the natural trading partner of Chile, clearly controverting the claim that the volume-of-trade criterion translates into a regional criterion.

As contended by Bhagwati (1993a), the equation by Krugman (1991a) and Summers (1991) of the two concepts of volume of trade and regionalism (whether of the distance or the common border or contiguity variety) is therefore simply wrong.

Nonetheless, Frankel and Wei (1995) have recently argued otherwise, claiming that their empirical work favors the Krugman-Summers assertion. They use the gravity model as their basic tool to conclude that "proximity is in general an important determinant of bilateral trade around the world, notwithstanding exceptions like India-Pakistan and other cases."

But this misses the point at issue. What is at stake is not whether distance, interpreted through the gravity model and/or common border modeled through a dummy, matters.[36] There does seem to be a *partial* correlation between distance, proximity, common border, and so on, on the one hand, and trade volumes on the other.[37] But what we have to look at is the *total* initial volume of trade, and this does not correlate simply with distance as the right-hand side variable, as required by the

Table 2.3
Direction of Exports by Major Regions, 1980, 1985, and 1990

		Partner							
Exporter	Year	North America	Western Europe	Europe	East Asia[a]	Latin America	Africa	Middle East	South Asia
North America	1980	33.5	25.2	27.4	15.8	8.9	3.3	4.2	1.0
	1985	44.4	19.3	21.0	15.5	5.9	2.5	3.2	1.0
	1990	41.9	22.3	23.4	20.4	5.0	1.7	2.6	0.8
Western Europe	1980	6.7	67.1	71.9	2.9	2.4	7.2	5.5	0.7
	1985	11.3	64.9	68.9	3.6	1.6	5.2	5.0	0.9
	1990	8.3	71.0	74.4	5.3	1.1	3.3	3.3	0.7
Europe	1980	6.3	63.7	72.7	2.7	2.3	6.9	5.5	0.7
	1985	11.0	63.5	69.2	3.4	1.6	5.1	5.0	0.9
	1990	8.2	70.6	74.5	5.2	1.1	3.3	3.3	0.7
East Asia	1980	26.0	16.8	18.9	29.9	4.1	4.4	7.4	1.8
	1985	37.8	13.6	15.5	25.3	2.8	2.2	5.1	2.0
	1990	31.9	19.8	20.7	32.3	1.9	1.6	3.0	1.5
Latin America	1980	27.9	26.5	35.1	5.4	16.6	2.7	1.9	0.5
	1985	35.8	25.9	30.4	7.1	12.1	3.7	3.0	0.7
	1990	22.9	25.3	27.6	10.3	14.0	2.1	2.4	0.4
Africa	1980	27.4	43.6	46.1	4.3	3.2	1.8	1.7	0.3
	1985	14.8	64.9	69.3	1.8	4.2	5.1	2.2	0.7
	1990	3.0	66.0	68.0	4.6	0.6	12.8	4.4	3.6
Middle East	1980	11.5	40.3	41.5	28.7	5.0	1.5	4.1	2.5
	1985	6.2	15.0	17.7	1.5	0.3	1.4	8.7	0.4
	1990	17.8	48.6	53.0	9.1	1.2	3.6	8.5	0.9
South Asia	1980	10.9	24.6	39.4	14.5	0.5	6.8	14.5	5.6
	1985	18.4	20.8	37.0	16.4	0.4	4.6	11.0	4.4
	1990	17.1	30.1	46.6	18.3	0.3	2.7	6.5	3.2

Source: Panagariya (1993). He cites U.N. COMTRADE data.
Note: This table broadly underlines the point that *total* trade volumes that matter do not show any relationship to proximity of countries geographically.
a. East Asia does not include China.

"natural trading partners" assertion of the volume-of-trade criterion for forming PTAs.

Next, we have the difficult problem of endogeneity of initial trade volumes with respect to preferences. If the large volumes are themselves attributable, in significant degree, to preferences granted earlier, then they are not "natural," nor is it proper to think that additional preferences are "therefore" harmless. The point is best understood by thinking of high trade barriers by a country leading to a larger within-country trade relative to external trade. To deduce that added barriers are harmless is to compound the harm done by existing barriers that are, of course, preferences in favor of trade within the country.

This is not an idle question. Offshore assembly provisions between the United States and Mexico and the longstanding GATT-sanctioned free trade regime in autos between Canada and the United States are certainly not negligible factors in pre-NAFTA U.S. trade with these NAFTA members. In granting preferences under the Generalized System of Preferences, the United States, EC, and Japan have all concentrated on their regions. Thus, the partial correlation between distance and trade volumes (in gravity models) may be a result of preferences granted to proximate neighbors, rather than a "natural" phenomenon justifying (new) preferences.[38]

Finally, we need to raise a different objection to the argument that a high initial volume of imports from a partner country will work to protect a country against trade diversion. Quite aside from the fact that aggregate volumes shift significantly in practice over time, the comparative advantage in specific goods and services often changes in different locations.[39] Consistent with a given aggregate trade volume, its composition may shift so as to yield greater trade diversion when a PTA is present.

Consider a case, based on constant costs for simplicity, in which the United States imports a product from Canada under a nondiscriminatory tariff. if a PTA is formed between the two countries, the product will continue to be imported from Canada. But suppose that, on a future data, Canada loses its comparative advantage to Taiwan ever so slightly so that the preferential advantage enjoyed by her outweighs this loss. There will be trade diversion, and imports into the United States will continue to come from Canada with the volume of trade remaining unchanged.[40] Observe that there is an asymmetry here between a shift in comparative advantage away from the partner and that toward it. If Canada experiences a reduction in the cost of production of a product imported by the United States from Taiwan under a PTA, there can still be trade diversion. Because of the preference, Canada will replace Taiwan as the supplier of this

product even before Canada's costs fall below those of Taiwan. The volume of trade will rise, and at the same time there will be trade diversion.[41] The proponents of the complacent "high volume of imports" thesis are thus trapped in a static view of comparative advantage that is particularly at odds with today's volatile, "kaleidoscopic" comparative advantage in the global economy.

Transport-Cost Criterion But if the volume-of-trade criterion is conceptually inappropriate and must be summarily rejected, what about the transport-cost criterion? This criterion maps directly into distance and hence into regionalism. However, the question to be analyzed is: should PTA partners be chosen on the basis of lower transport costs, and hence greater proximity, to maximize gains to members or to minimize losses to them?

The earliest reference we could find to transport costs in the context of trade liberalization is from Johnson (1962, 61): "If the separate markets of various members are divided by serious geographical barriers which require high transport costs to overcome them, the enlargement of the market may be more apparent than real." All he seemed to be arguing was the truism that trade liberalization may be meaningless if high transport costs prevented trade from breaking out.

But the natural trading partners hypothesis is altogether different and incorrect. There is, in fact, no reason to think that greater proximity increases the likelihood of gain for members in a PTA. This can be seen simply by constructing a counterexample where a union with a country (C) that is more distant produces more gain (for A) than a union with the country (B) that is less distant but otherwise identical (to C).

First note that as long as country A in figure 2.2 imports the good from both B and C in the pre- and post-FTA equilibrium, the presence of transportation costs has no effect whatsoever on the analysis based on that figure. All we need to do is to imagine that the supply price of C is inclusive of transport costs, while such costs are absent for the partner, B. This introduction of transport costs leaves the remainder of the analysis entirely unchanged.

To construct the counterexample noted above, consider a world consisting of three countries: A, B, and C. Country A has the option to form an FTA with either B or C. Countries B and C are identical in all respects except that the latter is located farther away. If the supply curves of B and C were horizontal, we would be in a world represented in panel a of figure 2.1 with $(P_C - P_B)$ representing transportation costs from C to A.

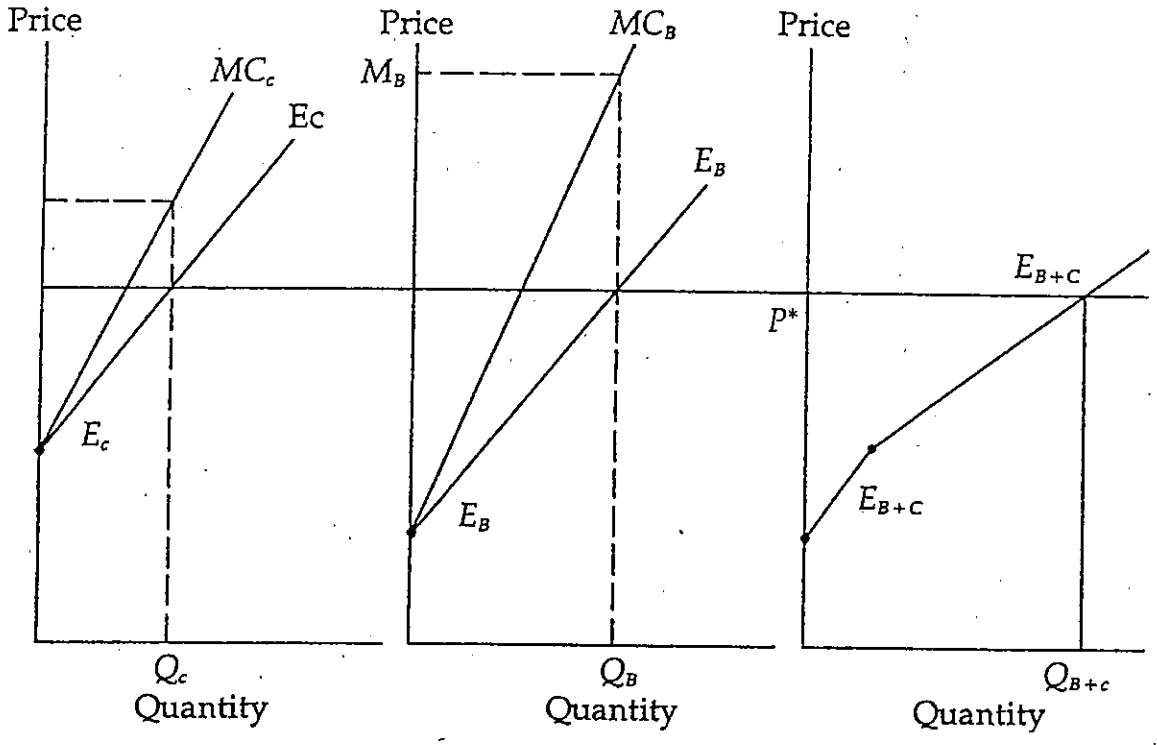


Figure 2.7
Example of positive effects of union with a more distant country.

Technically, in this case an FTA with the geographically proximate B improves A's welfare. But recall the limitation of such an FTA: country A does not trade with C before or after the union is formed; and in the post-FTA equilibrium, the external tariff does not matter so the FTA is really equivalent to nondiscriminatory free trade.

To make the example substantive, we must therefore assume that supply curves of B and C are upward sloped.[42] In figure 2.7, we draw three panels. In the first two panels, we show the export supply curves of C and B as E_CE_C and E_BE_B, respectively. In the third panel, we have their combined supply obtained by summing horizontally the individual supplies from the first two panels. The supply curves of C and B are identical in all respects except that C's supply price includes a constant per-unit transportation cost. Thus, for each quantity, C's supply price exceeds that of B by the per-unit transportation cost.[43]

To avoid clutter, we do not draw A's demand curve. Instead, imagine that there is an arbitrary nondiscriminatory tariff initially that yields the total demand for imports as represented by point Q_{B+C}. The price paid for this quantity to B and C is P^*. Individual supplies of B and C can be obtained by intersecting their supply curves with P^* and are shown by Q_B and Q_C. Not surprisingly, imports are larger from the geographically proximate country B than from C.

Now consider the introduction of preferential trading. To see which way preferences should be given, draw the *marginal* cost curve associated with each supply curve. These are shown by MC_B and MC_C. It is then immediate that, at the initial nondiscriminatory tariff, the marginal cost of imports is higher on imports from B than from C. We then obtain the dramatic conclusion that if A wants to give a tariff preference, it should opt for the distant partner C rather than the proximate B! The transport-cost criterion for choosing partners in a PTA is exactly wrong in this instance.

The explanation of this result is straightforward. The discriminating monopsonist model says that for any quantity of total purchases, the supplier with higher elasticity should be paid a higher price. In the present problem, this prescription translates into a lower tax on the supplier with higher elasticity. And transportation costs make C's supply curve more elastic than that of B.

Endogenous Tariffs on the Outside Country

So far, we have assumed that when an FTA is formed, the tariff on the outside country is held at its original level. But this may not always be true. When an FTA begins to take a bite, lobbies representing declining domestic industries may be able to reassert themselves. Because the FTA ties the authorities' hands with respect to the union partner, they will have to respond by raising protection against outside countries. This, indeed, happened recently following the [1994] Mexican crisis when the country raised external tariffs on 502 products from 20 percent or less to 35 percent!

This possibility had been anticipated by Bhagwati (1993a, 36–37). He wrote:

> Imagine that the United States begins to eliminate (by out competing) an inefficient Mexican industry once the FTA goes into effect. Even though the most efficient producer is Taiwan, if the next efficient United States out competes the least efficient Mexico, that would be desirable trade creation....
>
> But what would the Mexicans be likely to do? They would probably start AD actions against Taiwan.

This possibility raises the questions whether, once we allow for endogenous policy response, welfare may actually decline relative to the FTA and, indeed, to the initial equilibrium. Answers to both questions are in the affirmative.

A simple example demonstrating welfare deterioration relative to the FTA can be given as follows. For a zero tariff on B, calculate A's optimum

tariff on C. Suppose that A sets the initial, nondiscriminatory tariff on B and C at this level. Then, by construction, an FTA with B, holding C's tariff unchanged, not only improves A's welfare but actually maximizes it. If now lobbying pressure leads to a rise in the external tariff, A's welfare will necessarily fall.

The more interesting is the possibility that A's welfare can decline relative to the initial, pre-FTA equilibrium. To demonstrate it, note that A's welfare can be written as

$$\begin{aligned} W &= CS + PS + t_B P_B^* M_B + t_C P_C^* M_C \\ &= CS + PS + (P - P_B^*)M_B + (P - P_C^*)M_C \\ &= CS + PS + P(M_B + M_C) - (P_B^* M_B + P_C^* M_C), \end{aligned} \tag{2}$$

where CS denotes A's consumers' surplus, PS its producers' surplus, P domestic price, $P_i^* (i = B, C)$ border price on imports from i, t_i the *ad valorem* tariff on imports from i, and M_i imports from i. The last two terms in these equalities represent tariff revenue on imports. Given a nondiscriminatory tariff initially, $P_B^* = P_C^*$.

Take the case favorable to an FTA with B by assuming that at each world price, B's supply is more elastic than C's. Assume further that the initial, nondiscriminatory tariff is sufficiently high that the FTA with no change in the tariff on C is welfare improving for A.[44] We will now show that if, because of lobbying pressure, the FTA is accompanied by a rise in the tariff on C such that *total* imports are unchanged, it is possible for its welfare to decline. Given that the FTA with no change in the tariff on C is welfare improving, this result shows that the endogenous tariff response can turn a welfare-improving FTA into a welfare-reducing proposition.

With no change in imports, the domestic price in A does not change and neither do CS and PS. From equation 2, it is then clear that welfare will rise or fall as the cost of imports, represented by the last term in the last equality, falls or rises. This property allows us to analyze the impact of the endogenous choice of the tariff by focusing on import supplies from B and C only.

In figure 2.8, as assumed, B's export-supply curve is more elastic than that of C at each price. This means that under a nondiscriminatory tariff, A's *private* marginal cost of obtaining imports from B is lower than that from C. Therefore, *at the margin*, A benefits by switching imports from C to B.

Initially, with a nondiscriminatory tariff, A buys the product at P^* per-unit from both B and C. Imports from the two countries are given by M_B and M_C, respectively. The marginal cost of obtaining imports from B is

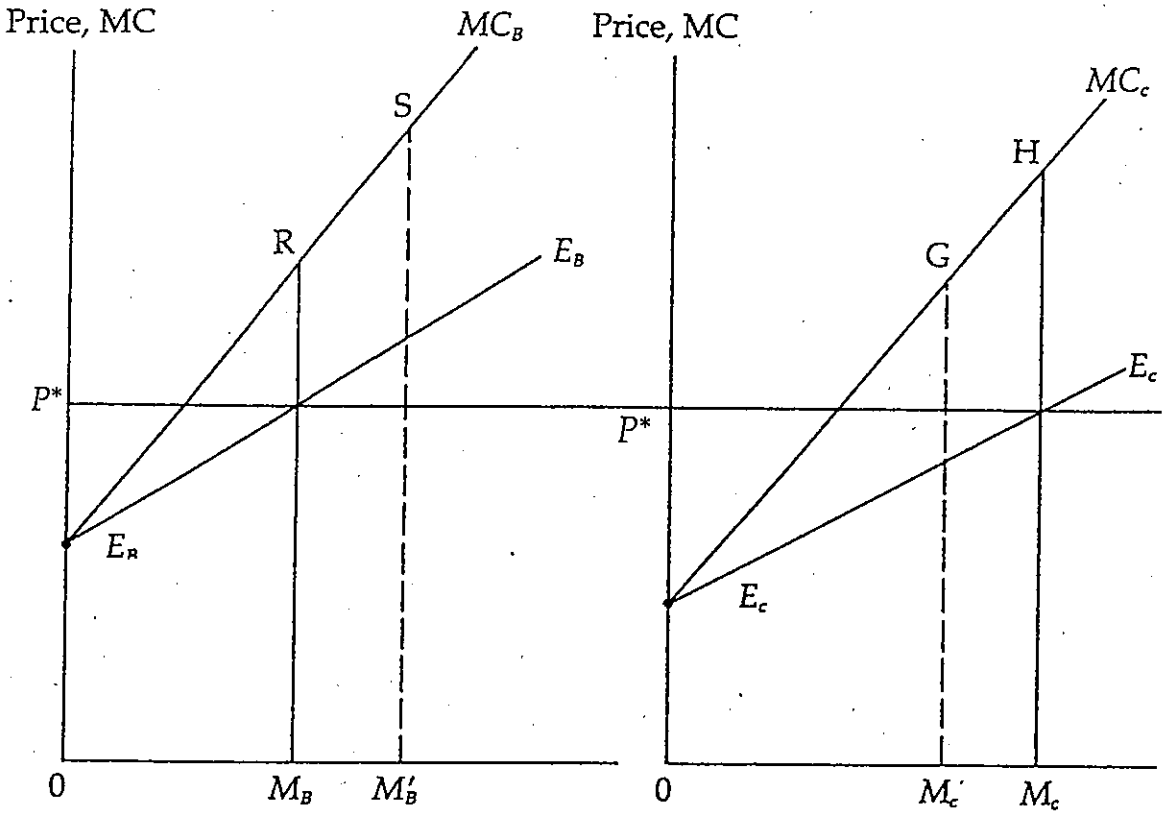


Figure 2.8
Welfare loss from endogenous increase in external tariff after formation of a free trade area.

less than that from C, $RM_B < HM_C$. As noted in the previous paragraph, at the margin, switching imports from C to B is beneficial to A: a small reduction in the tariff on B and increase in tariff on C which keeps total imports unchanged is welfare improving. But the FTA requires taking the tariff on B all the way to 0. As that is done, the marginal cost of obtaining imports from B rises, and as we correspondingly raise the tariff on C to keep the total imports unchanged, the marginal cost of imports from C falls. It is entirely possible that the two marginal costs cross and then reach levels such that the total cost of imports actually rises. Figure 2.8 is drawn on the assumption that the FTA increases imports from B by $M_BM'_B$. The tariff on C has to be raised to reduce imports from that country by an equivalent amount shown by $M_CM'_C$. As drawn, the net change in the cost of imports, $SRM_BM'_B$-$GHM_CM'_C$, is positive indicating that welfare declines.[45]

Welfare Loss without Trade Diversion

The general impression in the literature is that a welfare loss from an FTA can arise only if there is trade diversion. It is easy to show, however, that

a welfare loss to an *individual* member (though not to the union as a whole nor to the world) can arise even if there is no trade diversion. The simplest example of this phenomenon can be gleaned from figure 2.2. Starting from a nondiscriminatory tariff, marginal costs of production in B and C are equal. Given that *at the margin* both B and C are equally efficient suppliers of the product, there can be no trade diversion if we lower the tariff on B by an infinitesimally small amount. Yet because A's terms of trade with respect to B deteriorate by the full amount of the tariff reduction, it will lose from such a change.

In figure 2.2, because the domestic price does not change after the introduction of preferential trading, there is no trade creation. But if we allow C's supply curve to slope upward, the introduction of a small tariff preference for B will also generate a trade-creation effect. This is because the preference improves A's terms of trade with respect to C, lowers the domestic price, and displaces some inefficient domestic production. For reasons explained in the previous paragraph, there is no trade diversion, however. Yet it is possible for the loss from the accompanying deterioration in the terms of trade vis-à-vis B to more than offset the gain from trade creation as well as the improvement in the terms of trade vis-à-vis C (a result that can be derived algebraically, of course).

Concluding against PTAs

Our analysis of the static effects of PTAs is far less sanguine than is customarily assumed by several policy economists, bureaucrats, and politicians today. It also challenges and undermines the validity of the claims made in behalf of "regional" PTAs, whether the regions are defined in terms of countries with relatively high intraregional trade or in terms of proximity with or without common borders.

Therefore, if we were to assume that PTAs result from a variety of noneconomic factors, we need not be complacent about the possibility of their resulting in harmful effects.[46] Nor would there be any good reason to be complacent even if those PTAs were to be essentially regional in scope, when "regional" means geographic proximity or higher volumes of trade among, rather than outside, members.

We add three final observations. First, the common usage by journalists and politicians of the word "regional" frequently includes "common-ocean" arrangements such as APEC. Remember that APEC includes both South Korea and Chile, countries whose mutual trade is characterized by smallness of volume *and* largeness of distance, so that neither of the two

criteria of distance or volume of trade for sanctifying PTAs as desirable, inappropriate as we have shown it to be, holds for every member of APEC vis-á-vis every other.

Second, is the presence of common waters a new criterion for getting nations to form a PTA (the Pacific Ocean in the case of APEC)? We should not forget that the major oceans, and hence most of the trading nations of the world, are united by the world's water, and even more readily thanks to the Suez and Panama canals! In fact, the fullest-bodied common-waters "regional" area is clearly approximated by the membership of the WTO, as would have been appreciated by Ferdinand Magellan, who starting out from San Lucar in 1519 sailed from the Atlantic into the Pacific, an ocean unknown at the time.[47]

Third, the term "continental trading arrangements" has also been frequently used by Wei and Frankel (1995), who argue that "many [trading blocs] are along continental lines."[48] But this is at best misleading and at worst incorrect. Even if we confine ourselves to Article XXIV-sanctioned arrangements, we still must distinguish among PTAs that are continent-wide and hence "continental," those that cut across continents and are thus "intercontinental," and those that consist of members entirely *within*, but are not extended to *all* countries in, a continent and hence must be called "subcontinental."

Geographers and earth scientists divide the earth traditionally into four oceans (Arctic, Indian, Atlantic, and Pacific) and seven continents (Europe, Asia, Africa, Australia, North America, South America, and Antarctica). Only NAFTA and the PTA between Australia and New Zealand can then qualify as continental. And, the major new Article XXIV-sanctioned PTAs, which have been proposed by different groups in recent years (NAFTA extension into South America, APEC, and TAFTA) and which would clearly dwarf the continental PTAs clearly cut across continents.[49] Then again, MERCOSUR and ASEAN are clearly subcontinental. Of course, if one adds all the non-Article XXIV preferential trading arrangements, the matter looks even worse for those who claim that "many" of today's "trade blocs" are "continental."

Theoretical Analysis of the Dynamic Time-Path Question

Our analysis of the economics of PTAs would be seriously incomplete if, having analyzed the static effects, we did not go on to analyze the dynamic time-path question.

Formulating the Time-Path Question

Essentially, this question relates not to whether the immediate (static) effect of a PTA is good or bad, but whether the (dynamic) effect to the PTA is to accelerate or decelerate the continued reduction of trade barriers toward the goal of reducing them worldwide. This question may be formulated analytically in two separate ways.

Question I Assume that the time-path of MTN (multilateral trade negotiations) and the time-path of PTAs are separable and do not influence each other. The two policies are "strangers" to (that is, independent of) one another: neither hurts or helps the other. Will then the PTA time-path be characterized by stagnant or negligible expansion of membership? Or will we have expanding membership, with this even turning eventually into worldwide membership as in the WTO, thus arriving at nondiscriminatory free trade for all? A similar question can be raised for the MTN time-path. And the analysis can be extended to a comparison of the two time-paths, ranking the efficacy of the two methods of reducing trade barriers to achieve the goal of worldwide free trade for all.

Question II Assume instead, as is more sensible, that if both the MTN and the PTA time-paths are embraced simultaneously, they will interact. In particular, the policy of undertaking PTAs will have a malign impact on (be a "foe" of) the progress along the MTN time-path, or it will have a benign effect on (be a "friend" of) the MTN time-path.[50]

Question I can be illustrated with the aid of figure 2.9, which portrays a sample of possibilities for the time-paths in question. World (rather than individual member) welfare is put on the vertical axis and time along the horizontal axis. For the PTA time-paths drawn, an upward movement along the path implies growing membership; for the MTN (or what are described as "process-multilateralism") time-paths, it implies nondiscriminatory lowering of trade barriers among the nearly worldwide WTO membership instead. The PTA and MTN time-paths are assumed to be independent of each other; the PTA time-path neither accelerates nor decelerates the course of MTN (thus ruling out Question II-type issues). The goal can be treated as reaching U^*, the worldwide freeing of trade barriers on a nondiscriminatory basis at a specified time.

Question I can be illustrated by reference to the PTA paths I-IV. Thus, PTAs may improve welfare immediately, in the static sense, from U^0 to U_p^2 or reduce it to U_p^1. In either case, the time-path could then be stagnant

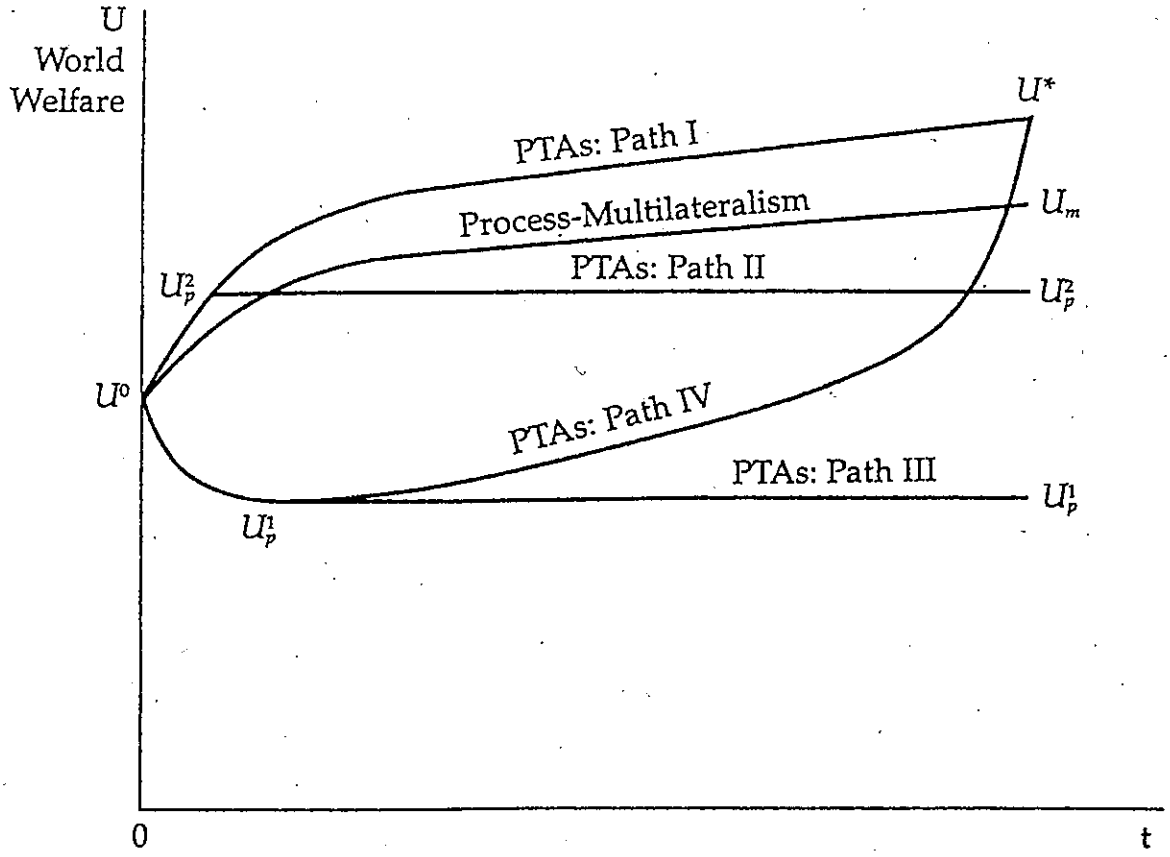


Figure 2.9
Alternative time-paths under multilateralism and under PTAs.

(as with time-paths II and III), implying a fragmentation of the world economy through no further expansion of the initial PTA. Else, it can lead (as in time-paths I and IV) to multilateral free trade for all at U^* through continued expansion and coagulation of the PTAs. Under "process multilateralism," that is, MTN as a multilateral process of reducing trade barriers as distinct from multilateralism as the goal desired, the time-path may fail to reach U^* and instead fall short at U_m because of free-rider problems.

As indicated, if the PTA and MTN time-paths are interdependent, we can address Question II. In that case, the MTN time-path becomes a function of whether the PTA time-path is traveled simultaneously.

Question Originating in Policy

The dynamic time-path question has arisen, just as the static one did, in policy concerns and political decisions that ran ahead of the theory. The post-Vinerian, in-depth analysis of the static question coincided with the movement that eventually created the European Community through

the Treaty of Rome in 1957. The dynamic time-path question has arisen in the context of the U.S. failure to get an MTN Round started at the GATT Ministerial in 1982 and the U.S. decision to finally abandon its studied avoidance of Article XXIV-sanctioned PTAs. The policy choice made was initially Hobson's choice: if the MTN could not be used to continue lowering trade barriers, then PTAs would be used instead. If the turnpike could not be used, one had no option except to use the dirt road.

For several reasons that have been systematically explored in Bhagwati (1993b), the United States ended, however, becoming committed to "walking on both legs," embracing both the PTA and the MTN paths. Indeed, the United States has now become an active proponent of this view, continuing to do so even after the Uruguay Round of MTN had been successfully conducted and the WTO launched. And, in doing so, its spokespersons have frequently implied that PTAs will have a benign, beneficial impact on the worldwide lowering of trade barriers through induced acceleration of MTN.

The questions that we have posed above spring from this shift in U.S. policy, which has been manifest for several years, starting from the Bush administration and articulated as a distinct policy in the Clinton administration. In Bhagwati (1991, 1993), the challenge to international trade theorists to analyze these questions was identified and a preliminary set of arguments offered. We recapitulate briefly those arguments and then review the theoretical literature that has been developing since then on the dynamic time-path questions.

"Exogenously Determined" Time-Paths: A Diversion

First, however, it is necessary to consider and to turn aside certain theoretical approaches that are not meaningful for thinking about the dynamic time-path questions at hand, even though they have often been mistaken to be so.

Kemp-Wan The seminal approach of Kemp and Wan (1976) to Customs Union theory seems to be the most pertinent to our questions but, in fact, is not. Unlike the Vinerian approach, Kemp and Wan made the external tariff structure (of the Customs Union) endogenously chosen so that each member country's welfare would be improved, while that of the nonmembers was left unchanged. The beauty of this approach was that it restored, as it were, the commonsense intuition prior to Viner that a CU

should be welfare improving for members and for the world. This is, of course, a "possibility" theorem, no more and no less.[51]

It is then immediately apparent that the PTA time-path to U^* in figure 2.9 can be made monotonic, provided expanding membership of a PTA always satisfies the Kemp-Wan rule for forming a Customs Union. But what this argument does not say, and indeed cannot say, is that the PTA will necessarily expand and, if so, in this Kemp-Wan fashion.

For that answer, to what is obviously Question I, we must turn to the *incentive structure* that any CU/PTA provides, through interests, ideology, and institutions, for expansion or stagnation of its membership.

Krugman The same argument applies to the theoretical approach to the question of PTAs recently introduced by Paul Krugman (1991a, 1991b, 1993). Again the expansion of membership is treated as exogenously specified, as in Viner, and the welfare consequences of the world mechanically dividing into a steadily increasing number of symmetric blocs—clearly demarcated countries are then not even the natural constituents of these "blobs"-cum-blocs—are considered and, for particular specifications, the monotonicity of world welfare examined, including even calculations concerning the "optimal" number of such symmetric PTAs/blocs! This, in turn, has led to critiques, as of the symmetry assumption by Srinivasan (1993), who essentially shows that the specific Krugman conclusions are easily reversed by abandoning symmetry, and to further variations by a few others.[52] Yet it is hard to see the analytical interest of this approach or, more important, its relevance to the compelling (incentive-structure) questions today concerning the membership expansion of PTAs. In short, it fails to throw light on the analysis of the dynamic time-path questions of the type introduced above. For that analysis which is currently, quite correctly, on the top of the theoretical agenda, we must turn elsewhere.

Incentive Structure Arguments

At the April 1992 World Bank Conference on Regional Integration, Bhagwati (1993a), having reiterated the need to analyze the dynamic time-path question, advanced several arguments concerning the incentive structure within specific PTAs, once formed, to expand or to stagnate. Before we discuss the theoretical modeling of such ideas by Baldwin (1993), Krishna (1993), and Levy (1994), among others, it is worth recapitulating the principal arguments distinguished by Bhagwati.[53]

We need to recognize, of course, that the incentives may be political rather than (narrowly) economic. A PTA may be formed, and even expanded, to seek political allies by using trade as foreign policy and to target the benefits of trade to politically favored nations.[54] Politics is not a negligible factor in the discriminatory trade arrangements implemented by the EU via Association Agreements with the smaller countries on its periphery and beyond; and it certainly cannot be ignored in the transformation of the original Canada-U.S. Free Trade Agreement into NAFTA with Mexico and then into the Enterprise of Americas Initiative.

But that is clearly not the whole story, and we can learn much by thinking carefully about the incentive structure for membership expansion in political-economy-theoretic terms. To do this, Bhagwati (1993a) distinguished among three different types of "agents" and offered the following analysis.

Governments of Member Countries PTAs will be under pressure not to expand because governments may feel that "we already have a large market, so what do we stand to gain by going through the hassle of adding more members?" This is the "our market is large enough" syndrome, emphasized by Martin Wolf, who has often noted that large countries have tended to opt for inward-looking trade and investment strategies, while the small ones have gone the outward-looking route.

Interest Groups in Member Countries The interest groups in member countries may be for or against new members. The internationally oriented exporting firms may be expected to endorse new members whose markets then become preferentially available to them vis-à-vis nonmember exporters to these new members.[55] On the other hand, the firms that are profiting from access to preferential markets in the member (partner) countries will not want new members whose firms are also exporters of the same or similar products in the member markets. Both incentives reflect the preferential nature of the PTAs.

The former incentive was clear in the NAFTA debate in the United States and reflected in many pronouncements, including that of pro-NAFTA economists (and even President Clinton, who played the Japanophobic card that the United States would have preferential access to Mexico vis-à-vis Japan). It is also evident in the statement of Signor Agnelli of Fiat: "The single market must first offer an advantage to European companies. This is a message we must insist on without hesitation."

Interest Groups in Nonmember Countries The third set of agents is in the nonmember countries. Here the example of a PTA may lead others to emulate, even to seek, entry. Then again, the fear of trade diversion may also induce outsiders to seek entry.[56]

Recent Theoretical Analyses

Subsequently, the analysis of the dynamic time-path question moved into formal political economy-theoretic modeling. We provide here a synoptic review of the few significant contributions to date, organizing the literature analytically in light of the two questions distinguished above and also in terms of whether the analysis models the incentives of nonmembers to join or those of the members to expand.[57]

Question I The single contribution that focuses on Question I (the incentive to add members to a PTA) is by Richard Baldwin (1993), who concentrates, in turn, on the incentive of nonmembers to join the PTA. He constructs a model to demonstrate that this incentive will be positive: the PTA will create a "domino" effect, with outsiders wanting to become insiders on an escalator. The argument is basically driven by the fact that the PTA implies a loss of cost competitiveness by imperfectly competitive nonmember firms whose profits in the PTA markets decline because they must face the tariffs that member countries' firms do not have to pay. These firms then lobby for entry, tilting the political equilibrium at the margin toward entry demands in their countries. The countries closest to the margin will then enter the bloc, assuming that the members have open entry. This enlarges the market and thereby increases the cost of nonmembership and pulls in countries at the next margin. Given the assumptions, including continuity, this domino model can take the PTA time-path to U^* in figure 2.9.

While Baldwin formalizes the incentive of nonmembers to get inside the PTA, interestingly there is no formalization of the incentives of members to add or reject new members that have been discussed in the literature, as by Bhagwati (1993a). Indeed, the Baldwin model itself shows, on the flip side, that member firms will gain from the cost advantage that they enjoy vis-à-vis the nonmember firms and hence will have an opposed interest in not admitting the nonmembers to the PTA: a full analysis of the political economy of both members and nonmembers in the Baldwin model could then lead to specific equilibrium outcomes that leave the PTA expansion imperiled.

Question II The rest of the theoretical contributions address Question II, that is, whether the PTA possibility and/or time-path helps or harms the MTN time-path. Pravin Krishna (1993) and Philip Levy (1994) address directly and quite aptly this question and reach the "malign-impact" conclusion, unfavorable to the exhortation to "walk on both legs."

Krishna models the political process in the fashion of the government acting in response to implicit lobbying by firms, what Bhagwati (1990) has called "clearinghouse"—government assumption where the government is passive, as in Findlay and Wellisz (1982). Krishna shows in his oligopolistic-competition model that the bilateral PTA between two member countries reduces the incentive of the member countries to liberalize tariffs reciprocally with the nonmember world and that, with sufficient trade diversion, this incentive could be so reduced as to make impossible an initially feasible multilateral trade liberalization.

Levy models the political process instead in a median-voter model à la Mayer (1984); the government is not what Bhagwati (1990) has called "self-willed" with its own objectives but acts again as a clearing-house. Using a richer model with scale economies and product variety, Levy demonstrates that bilateral FTAs can undermine political support for multilateral free trade. At the same time, a benign impact is impossible in this model: if a multilateral free trade proposal is not feasible under autarky, the same multilateral proposal cannot be rendered feasible under any bilateral FTA.

The Krishna and Levy models throw light on the incentive-structure questions at hand when the agents are the lobbying groups and interests that are affected by different policy options. However, we might also note that there are contributions that take the more conventional view of governments, which act as agents maximizing social welfare (so that they may be regarded as acting as the custodians of the "general interest" as defined by economists), but then ask whether the effect of allowing PTAs to form affects outcomes concerning trade policy relating to the multilateral system. Rodney Ludema (1993) has analyzed the effect of PTAs on multilateral bargaining outcomes, arguing plausibly that the PTAs give strategic advantage to their members, whereas Kyle Bagwell and Robert Staiger (1993) have analyzed how the formation of a PTA—distinguishing between an FTA and a CU, as they yield different answers—will affect the (unbound) tariffs of the member countries on nonmembers.

The Sequential Bargaining Argument

In conclusion, we note that a different kind of model is implied, though not yet formalized, by the recent argument of Bhagwati (1994) that combines three separate notions.

The first is that even though a multilateral bargain *simultaneously* with a group of nonhegemonic powers is profitable and hence possible, a hegemonic power will gain a greater payoff by bargaining *sequentially* with them, using bilateral and plurilateral PTA approaches, picking the countries that are the most vulnerable and then moving on to the next one and so on.[58]

The second is that this insight has now been appreciated by several lobbies (for example, the intellectual property protection lobby, the environmental and labor standard groups), which are piggybacking on to trade liberalization and trade institutions to secure their maximalist objectives and which see that the PTA approach (which may be seen as an "incentive" strategy), combined with the occasional use of aggressive unilateralism à la punitive Section 301 actions (which may be seen as a "punishment" strategy), is more likely to procure their objectives at the WTO and multilaterally than if pursued directly there through MTN alone.

The third is that the two processes, the MTN and the PTA paths, are to be traveled in tandem since the ultimate goal is indeed to arrive at multilateral, universal obligations in the areas desired by these lobbies by the nonhegemonic powers.

If this "model" provides insight into the political process driving the legitimation of the PTA time-path, then no hegemonic power is likely to abandon the PTA path simply because the WTO exists and is jumpstarted. A "selfish hegemon," looking after its own narrowly defined interests, reflecting its own lobbying-derived needs, will indeed want to "walk on both legs." But the multilateral outcome, so affected and determined, need not then be considered to have been affected in the socially optimal direction unless one makes the assumption, made effortlessly by hegemonic spokesmen in their policy pronouncements, that "what is good for the hegemon (and its lobbies) is good for the world trading system." Indeed, when we see that the intellectual property protections that were built into the WTO are almost certainly excessive according to the analytical and empirical argumentation of many of the best international economists today, it is hard to regard the ability of the hegemon to induce such outcomes with the aid of PTAs (and aggressive unilateralism) as creating a "benign" effect of the PTAs on the MTN path.

Implications for Current Policy

The case for PTAs, whether on static or on dynamic grounds, appears far less compelling and attractive than many politicians and policy-makers now believe. In fact, it is likely that most of them, misled by the inevitable confusion between free trade and free trade areas that some economists have wittingly or unwittingly encouraged, are not even aware that the scholarly scene is rife today with serious opposition to PTAs.[59]

The Politics of PTAs

The current preoccupation with PTAs reflects overriding political factors. Recall our earlier discussion of the sequential-bargaining advantage to hegemonic powers. Or consider the fact that the leaders of the smaller, nonhegemonic powers get to play a more prominent role, with better photo-opportunities, with smaller summits, especially when a hegemonic power such as the United States features its own president, than would ever be the case at the WTO. Or consider that where the PTAs are regional, as is MERCOSUR (among Argentina, Brazil, Paraguay, and Uruguay), the discriminatory trade agreement can be depicted politically as an act of foreign policy statesmanship. Or consider simply the operation of Gresham's Law: PTAs by some encourage PTAs by others, especially when they are being continually misportrayed by other politicians and countries as statesmanlike moves to free trade. And, of course, there are always the amateur geopoliticians and geoeconomists. Like little boys playing Nintendo games on their computer screens, they think of playing the game of "trade blocs" to indulge their pet prejudices against Europe or Japan. Some want to make the APEC into a PTA to play off against a "protectionist" Europe, while others think of TAFTA as a weapon to play off against the "unfairly trading" Japan.[60]

The "Spaghetti Bowl" Phenomenon

Our view, for reasons explored fully in this chapter, is that the spread of PTAs is desirable only when two justifications obtain: you are building a Common Market with full-scale integration of factor markets and even political harmonization; or the multilateral MFN, MTN process is not working. As we argued earlier, neither rationale is operative today.

In fact, the proliferation of PTAs today poses the danger, indeed the certainty, that a veritable "spaghetti bowl" phenomenon, as Bhagwati

has called it, will emerge where trade barriers, including duties, will vary depending on origin, and complex and protection-accommodating rules of origin will find their way into practice.[61] And this, too, at a time when multinationals are getting truly global, and the identification of "local content" and hence origin of traded goods and services is becoming increasingly meaningless and hence subject to inevitable arbitrariness. PTAs are just one, and indeed a gigantic, step backward from this reality: the need today is to intensify the commitment to the basic tenet of nondiscrimination that the architects of GATT correctly saw as a principal virtue, not to undermine it.

PTAs with and among Hegemons

We would therefore suggest that Article XXIV-sanctioned PTAs that involve hegemonic powers should be actively discouraged. They involve NAFTA extension southward or overseas, EU free-trade-area agreements with non-EU countries, APEC's transformation into a PTA, and TAFTA.

Such a self-denial would appear anti-free-trade, given the current state of confused thinking and the political capital invested by many in the cause of the PTAs. But it would be speaking to a far more compelling, and truer, version of free trade. It would also require true statesmanship on the part of the leaders of the hegemonic powers, as against the political advantages of opting for what is an inefficient and indeed harmful option.

PTAs among the Nonhegemons

Our view of PTAs among the nonhegemons, principally developing countries, is just a trifle less critical.

To begin with, what MERCOSUR does, for example, has only a fraction of the significance that the United States and the European Union have individually. The trade policy choices of the nonhegemons have comparatively more consequences for themselves than for the world. This contrast is sufficient to regard what they are doing with a less fiercely critical eye than that directed at the hegemons.

Remember again that the impact on their own welfare of PTAs is not necessarily benign. Especially, when these countries get into a PTA with hegemonic powers (for example, Mexico joining the United States in NAFTA), the outcomes for them may be welfare worsening (in the static sense) because of the tariff-revenue-redistribution effect, among other reasons. Failure to understand the differential economics of PTAs, as con-

trasted with that of free trade, underlies many of the favorable assessments often advanced in behalf of the developing countries that seek to join PTAs with the hegemonic powers.[62] A similar caveat would be relevant to PTAs among the nonhegemons themselves.

We may still consider these PTAs, such as MERCOSUR, with some favor, although nondiscriminatory free trade is the best option. After all, the acceptance of Article XXIV discipline (imperfect as it is) is an improvement over protectionism or over the utterly chaotic and arbitrary ECDC (economic cooperation among developing countries) at the GATT under which these countries were free from such discipline and could indulge in any level and kind of preferences among themselves.

Conclusion

At present, the spread of hegemonic PTAs has been halted. The Osaka meeting of APEC in November 1995 witnessed the Asian members of APEC reaffirming their desire to stick to MFN and hence implicitly to reject the PTA approach even though the U.S. position on the issue apparently remained problematic and ambiguous (with several pro-PTA proponents in the administration). Equally, at Madrid, the idea of TAFTA has been deflected away from an Article XXIV agreement to the New Trans-Atlantic Agenda that merely seeks, and in a presumably nondiscriminatory fashion, the lowering of trade and investment barriers in the area. For the time being, the extension of NAFTA to the South has also been halted, for reasons that may not hold for long beyond the presidential election in 1996.

All this yields enough time to take a closer look at the dangerous drift to PTAs that has been aided by the unfortunate conversion of the United States to the thesis that any trade liberalization is as good as any other. Perhaps, as often happens in economic policy, what presently looks like a politically irreversible trend will yield to economic wisdom. We will see.

Appendix 2A1: Varieties of PTAs within the World Trade Organization

There are three categories of PTAs within the World Trade Organization framework. First, under Article XXIV, countries can form Free Trade Areas or Customs Unions. Of the one hundred thirty-four arrangements notified to the GATT/WTO as of June 1, 1995, 108 fell under this category (see table 2A.1). Second, developing countries can form PTAs under the

Table 2A.1
134 Regional Trading Arrangements Notified to the GATT/WTO, 1949–1995

Official title	Usual reference	Date of entry into force	GATT cover
Interim Agreement for a Customs Union between the Union of South Africa and Southern Rhodesia	South Africa–South Rhodesia Customs Union	Apr. 1, 1949	Article XXIV
Free-Trade Treaty between the Republics of Nicaragua and El Salvador	El Salvador–Nicaragua Free Trade Area	Aug. 21, 1951	Article XXIV
Rome Treaty (European Economic Communities and European Atomic Energy Community)	EEC and EURATOM	Jan. 1, 1958	Article XXIV
Multilateral Central American Free Trade and Economic Integration Treaty (participation of Nicaragua)	Central American Free Trade Area	June 2, 1959	Article XXIV
Stockholm Convention (European Free Trade Association)	EFTA	May 3, 1960	Article XXIV
The Montevideo Treaty (Latin American Free Trade Area)	LAFTA	June 2, 1961	Article XXIV
Association of Finland with the European Free Trade Association	EFTA–Finland Association (FINEFTA)	June 26, 1961	Article XXIV
General Treaty for Central American Economic Integration (participation of Nicaragua)	Central American Common Market	Oct. 12, 1961	Article XXIV
The Borneo Free Trade Area	Borneo Free Trade Area	Jan. 1, 1962	Article XXIV
Trade Agreement between the Republic of Ghana and the Republic of Upper Volta	Ghana–Upper Volta Trade Agreement	May 9, 1962	Article XXIV
Regulation of Economic and Customs Relations between the Member States of the Equatorial Customs Union and the Federal Republic of Cameroon	Equatorial Customs Union—Cameroon Association	July 1, 1962	Article XXIV
Agreement setting up an association between the European Economic Community and Greece	EEC–Greece Association Agreement	Nov. 1, 1962	Article XXIV
African Common Market	African Common Market	June 1, 1963	Article XXIV
Convention of Association between the European Economic Community and the African and Malagasy States Associated with that community	Yaoundé I	Jan. 1, 1964	Article XXIV

Table 2A.1 (continued)

Official title	Usual reference	Date of entry into force	GATT cover
Agreement for Economic Unity among Arab League States	Arab Common Market	Apr. 30, 1964	Article XXIV
Association between the EEC and certain non-European Countries and Territories maintaining special relations with France and the Netherlands, "PTOM-I"	EEC–PTOM I	June 1, 1964	Article XXIV
Agreement creating an association between the European Economic Community and Turkey; "The Ankara Agreement"	EEC–Turkey Association Agreement of 1963	Dec. 1, 1964	Article XXIV
New Zealand/Australia Free Trade Agreement	Australia–New Zealand Free Trade Agreement	Jan. 1, 1966	Article XXIV
United Kingdom/Ireland Free Trade Area Agreement	Ireland–United Kingdom Free Trade Area	July 1, 1966	Article XXIV
Agreement Establishing the Caribbean Free Trade Association	CARIFTA	May 1, 1968	Article XXIV
Agreement establishing an association between the European Economic Community and the Kingdom of Morocco	EEC–Morocco Association Agreement of 1969	Sept. 1, 1969	Article XXIV
Agreement establishing an association between the European Economic Community and the Republic of Tunisia	EEC–Tunisia Association Agreement of 1969	Sept. 1, 1969	Article XXIV
European Free Trade Association; Accession of Iceland	EFTA/FINEFTA–Iceland Accession	Mar. 1, 1970	Article XXIV
Agreement between the European Economic Community and the State of Israel	EEC–Israel Agreement of 1970	Oct. 1, 1970	Article XXIV
Agreement between the European Economic Community and Spain	EEC–Spain Agreement of 1970	Oct. 1, 1970	Article XXIV
Agreement establishing an Association between the European Economic Community and the United Republic of Tanzania, the Republic of Uganda, and the Republic of Kenya	Arusha II Agreement	Jan. 1, 1971	Article XXIV
Association between the EEC and Certain Non-European Countries and Territories	EEC–PTOM II	Jan. 1, 1971	Article XXIV

Table 2A.1 (continued)

Official title	Usual reference	Date of entry into force	GATT cover
EEC; African and Malagasy states and overseas countries and territories agreements	Yaoundé II	Jan. 1, 1971	Article XXIV
Agreement Establishing an Association between Malta and the European Economic Community	EEC–Malta Association Agreement	Apr. 1, 1971	Article XXIV
Agreements between Austria and the European Communities	EC–Austria Agreements of 1972	Oct. 1, 1972	Article XXIV
Treaty concerning the accession of the Kingdom of Denmark, Ireland, the Kingdom of Norway, and the United Kingdom of Great Britain and Northern Ireland	EC–Accession of Denmark, Ireland and United Kingdom	Jan. 1, 1973	Article XXIV
Agreements between the European Communities and Portugal	EC–Portugal Agreements of 1972	Jan. 1, 1973	Article XXIV
Agreements between the European Communities and Sweden	EC–Sweden Agreements	Jan. 1, 1973	Article XXIV
Agreement between the European Economic Community and the Swiss Confederation	EC–Switzerland/ Liechtenstein Agreements	Jan. 1, 1973	Article XXIV
EEC; Turkey additional protocol to the Association Agreement	EEC–Turkey Additional Protocol to the Association Agreement	Jan. 1, 1973	Article XXIV
Agreement between the European Economic Community and the Republic of Iceland	EC–Iceland Agreements	Apr. 1, 1973	Article XXIV
Agreement between the European Economic Community and Cyprus	EEC–Cyprus Association Agreement	June 1, 1973	Article XXIV
Agreement between the European Economic Community and the Kingdom of Norway	EC–Norway Agreements	July 1, 1973	Article XXIV
Treaty establishing the Caribbean Community	CARICOM	Aug. 1, 1973	Article XXIV
Agreement between the European Economic Community and the Arab Republic of Egypt	EEC–Egypt Agreement of 1972	Nov. 1, 1973	Article XXIV

Table 2A.1 (continued)

Official title	Usual reference	Date of entry into force	GATT cover
Agreement between the European Economic Community and the Lebanese Republic	EEC–Lebanon Agreement of 1972	Nov. 1, 1973	Article XXIV
Agreements between the European Communities and Finland	EC–Finland Agreements	Jan. 1, 1974	Article XXIV
Supplementary protocol to the Association Agreement between the European Economic Community and Turkey consequent on the accession of new member states to the Community	EC–Turkey Association Agreement of 1973	Jan. 1, 1974	Article XXIV
Agreement between the Republic of Finland and the People's Republic of Bulgaria on the reciprocal removal of obstacles to trade	Bulgaria–Finland Agreement	Jan. 1, 1975	Article XXIV
Agreement between the Republic of Finland and the Czechoslovak Socialist Republic on the reciprocal removal of obstacles to trade	Finland–Czechoslovakia Agreement	Jan. 1, 1975	Article XXIV
Agreement between the Republic of Finland and the Hungarian People's Republic on the reciprocal removal of obstacles to trade	Finland–Hungary Agreement	Jan. 1, 1975	Article XXIV
Additional protocol to the agreement establishing an association between the European Economic Community and Greece consequent on the accession of new member states to the Community	EEC–Greece Additional Protocol	July 1, 1975	Article XXIV
Agreement between the European Economic Community and the State of Israel	EEC–Israel Agreement of 1975	July 1, 1975	Article XXIV
Agreement between the Republic of Finland and the German Democratic Republic on the removal of obstacles to trade on the basis of Reciprocity concerning advantages and obligations	Finland–German Democratic Republic Agreement	July 1, 1975	Article XXIV
ACP; EEC First Convention of Lomé	First Convention of Lomé	Apr. 1, 1976	Article XXIV
Interim agreement between the European Economic Community and the Peoples Democratic Republic of Algeria	EC–Algeria Agreements of 1976	July 1, 1976	Article XXIV

Table 2A.1 (continued)

Official title	Usual reference	Date of entry into force	GATT cover
Interim agreement between the European Economic Community and the Kingdom of Morocco	EC–Morocco Agreements	July 1, 1976	Article XXIV
Interim agreement between the European Economic Community and the Republic of Tunisia	EC–Tunisia Agreements of 1976	July 1, 1976	Article XXIV
Interim agreement between the European Economic Community and the Portuguese Republic	EEC–Portugal Interim Agreement	Nov. 1, 1976	Article XXIV
Australia–Papua New Guinea Trade and Commercial Relations Agreement (PATCRA)	Australia–Papua New Guinea Agreement (PATCRA)	Feb. 1, 1977	Article XXIV
Interim cooperation agreement between the European Communities and the Arab Republic of Egypt	EEC–Egypt Interim Agreement of 1977	July 1, 1977	Article XXIV
Agreement between the European Economic Community and Jordan	EEC–Jordan Interim Agreement of 1977	July 1, 1977	Article XXIV
Agreement between the European Economic Community and Lebanon	EEC–Lebanon Interim Agreement of 1977	July 1, 1977	Article XXIV
Agreement between the European Economic Community and Syria	EEC–Syria Interim Agreement of 1977	July 1, 1977	Article XXIV
Agreement between the Republic of Finland and the Polish People's Republic on the reciprocal removal of obstacles to trade	Finland–Poland Agreement	Apr. 1, 1978	Article XXIV
EFTA–Spain Agreement	EFTA–Spain Agreement	May 1, 1980	Article XXIV
Interim agreement between the European Economic Community and the Socialist Federal Republic of Yugoslavia on trade and trade cooperation	EEC–Yugoslavia Interim Agreement	July 1, 1980	Article XXIV
EEC–Greece Accession Agreement	EEC–Greece Accession Agreement	Jan. 1, 1981	Article XXIV
ACP; EEC Second Convention of Lomé	Second Convention of Lomé	Jan. 1, 1981	Article XXIV

Table 2A.1 (continued)

Official title	Usual reference	Date of entry into force	GATT cover
Australia–New Zealand Closer Economic Relations Trade Agreement (ANZCERTA)	Australia–New Zealand (ANZCERTA)	Jan. 1, 1983	Article XXIV
Agreement on the establishment of a free trade area between the Government of the United States of America and the Government of Israel	Israel–United States Free Trade Area Agreement	Aug. 19, 1985	Article XXIV
Accession of Portugal and Spain to the European Communities	EEC–Portugal and Spain Accessions	Jan. 1, 1986	Article XXIV
ACP; EEC Third Convention of Lomé	Third Convention of Lomé	Mar. 1, 1986	Article XXIV
Canada–United States Free Trade Agreement	Canada–U.S. Free Trade Agreement	Jan. 1, 1989	Article XXIV
Agreement between the European Community, of the one part, and the Government of Denmark and the Home Government of the Faroe Islands, of the other part	EC–Denmark and Faroe Islands Agreement	Jan. 1, 1992	Article XXIV
Interim agreement on trade and trade-related matters between the European Economic Community and the ECSC, of the one part, and the Czech and Slovak Federal Republic (CSFR), of the other part	EC–Czech and Slovak Federal Republic Interim Agreement of 1991	Mar. 1, 1992	Article XXIV
Interim agreement on trade and trade-related matters between the European Economic Community and the European Coal and Steel Community, of the one part, and Hungary, of the other part	EC–Hungary Interim Agreement of 1991	Mar. 1, 1992	Article XXIV
Interim agreement on trade and trade-related matters between the European Economic Community and the European Coal and Steel Community, of the one part, and Poland, of the other part	EC–Poland Interim Agreement of 1991	Mar. 1, 1992	Article XXIV
Agreement between the EFTA states and Turkey	EFTA–Turkey Agreement	Apr. 1, 1992	Article XXIV
Free trade agreement between the Kingdom of Norway and the Republic of Estonia	Estonia–Norway Free Trade Agreement	June 15, 1992	Article XXIV

Table 2A.1 (continued)

Official title	Usual reference	Date of entry into force	GATT cover
Free trade agreement between the Kingdom of Norway and the Republic of Latvia	Latvia–Norway Free Trade Agreement	June 16, 1992	Article XXIV
Free trade agreement between the Kingdom of Norway and the Republic of Lithuania	Lithuania–Norway Free Trade Agreement	June 16, 1992	Article XXIV
Agreement between the EFTA states and the Czech and Slovak Federal Republic	Czech and Slovak Federal Republic–EFTA Agreement	July 1, 1992	Article XXIV
Free trade agreement between the Kingdom of Sweden and the Republic of Estonia	Estonia–Sweden Free Trade Agreement	July 1, 1992	Article XXIV
Free trade agreement between the Kingdom of Sweden and the Republic of Latvia	Latvia–Sweden Free Trade Agreement	July 1, 1992	Article XXIV
Free trade agreement between the Kingdom of Sweden and the Republic of Lithuania	Lithuania–Sweden Free Trade Agreement	July 1, 1992	Article XXIV
Estonia–Finland protocol regarding temporary arrangements on trade and economic cooperation	Estonia–Finland Agreement	Dec. 1, 1992	Article XXIV
Czech Republic and Slovak Republic Customs Union	Czech Republic and Slovak Republic Customs Union	Jan. 1, 1993	Article XXIV
EFTA–Israel Free Trade Agreement	EFTA–Israel Free Trade Agreement	Jan. 1, 1993	Article XXIV
Central European Free Trade Agreement concluded by the Czech Republic, the Republic of Hungary, the Republic of Poland and the Slovak Republic	CEFTA	Mar. 1, 1993	Article XXIV
Free Trade Agreement between the Swiss Confederation and the Republic of Estonia	Estonia–Switzerland Free Trade Agreement	Apr. 1, 1993	Article XXIV
Free Trade Agreement between the Swiss Confederation and the Republic of Latvia	Latvia–Switzerland Free Trade Agreement	Apr. 1, 1993	Article XXIV
Free Trade Agreement between the Swiss Confederation and the Republic of Lithuania	Lithuania–Switzerland Free Trade Agreement	Apr. 1, 1993	Article XXIV

Table 2A.1 (continued)

Official title	Usual reference	Date of entry into force	GATT cover
Interim agreement on trade and trade-related matters between the European Economic Community and the European Coal and Steel Community, of the one part, and Romania, of the other part	EEC–Romania Interim Agreement	May 1, 1993	Article XXIV
Agreement between the EFTA states and Romania	EFTA–Romania Agreement	May 1, 1993	Article XXIV
EFTA–Bulgaria Free Trade Agreement	EFTA–Bulgaria Free Trade Agreement	July 1, 1993	Article XXIV
Finland–Latvia protocol regarding temporary arrangements on trade and economic cooperation	Finland–Latvia Protocol	July 1, 1993	Article XXIV
Finland–Lithuania Protocol regarding Temporary arrangements on trade and economic cooperation	Finland–Lithuania Protocol	July 1, 1993	Article XXIV
Cooperation agreement between the European Economic Community and the Republic of Slovenia	EEC–Slovenia Cooperation Agreement	July 19, 1993	Article XXIV
Agreement between the EFTA states and the Republic of Hungary	EFTA–Hungary Agreement	Oct. 1, 1993	Article XXIV
Agreement between the EFTA states and the Republic of Poland	EFTA–Poland Agreement	Nov. 15, 1993	Article XXIV
Interim agreement on trade and trade-related matters between the European Economic Community and the ECSC, of the one part, and the Republic of Bulgaria, of the other part	EEC–Bulgaria Interim Agreement	Dec. 31, 1993	Article XXIV
Free trade agreement between the Czech Republic and the Republic of Slovenia	Czech Republic–Slovenia Free Trade Agreement	Jan. 1, 1994	Article XXIV
North American Free Trade Agreement	NAFTA	Jan. 1, 1994	Article XXIV
Free trade agreement between the Slovak Republic and the Republic of Slovenia	Slovak Republic–Slovenia Free Trade Agreement	Jan. 1, 1994	Article XXIV
Austria, Finland, Sweden–EU accession agreement	Austria, Finland, Sweden–EU Accession Agreement	Jan. 1, 1995	Article XXIV

Table 2A.1 (continued)

Official title	Usual reference	Date of entry into force	GATT cover
Czech Republic–Romania Free Trade Agreement	Czech Republic–Romania Free Trade Agreement	Jan. 1, 1995	Article XXIV
Agreement on free trade and trade-related matters between the European Community, the European Atomic Energy Community and the ECSC, of the one part, and the Republic of Estonia, of the other part	EC–Estonia Agreement	Jan. 1, 1995	Article XXIV
Agreement on free trade and trade-related matters between the European Community, the European Atomic Energy Community and the ECSC, of the one part, and the Republic of Latvia, of the other part	EC–Latvia Agreement	Jan. 1, 1995	Article XXIV
Agreement on free trade and trade-related matters between the European Community, the European Atomic Energy Community and the ECSC, of the one part, and the Republic of Lithuania, of the other part	EC–Lithuania Agreement	Jan. 1, 1995	Article XXIV
Free trade agreement between the Republic of Hungary and the Republic of Slovenia	Hungary–Slovenia Free Trade Agreement	Jan. 1, 1995	Article XXIV
Slovak Republic–Romania Free Trade Agreement	Slovak Republic–Romania Free Trade Agreement	Jan. 1, 1995	Article XXIV
EFTA–Slovenia Free Trade Agreement	EFTA–Slovenia Free Trade Agreement	June 1, 1995	Article XXIV
The Unified Economic Agreement among the countries of the Gulf Cooperation Council	Gulf Cooperation Council		Enabling Clause
Additional protocol on preferential tariffs among members of the organization for economic cooperation (ECO)	Preferential Tariffs among ECO-members		Enabling Clause
South Asian Association for Regional Cooperation; Preferential Trade Arrangement (SAPTA)	SAPTA		Enabling Clause

Table 2A.1 (continued)

Official title	Usual reference	Date of entry into force	GATT cover
Protocol relating to trade negotiations among developing countries	Protocol relating to Trade Negotiations among Developing Countries	Feb. 11, 1973	Enabling Clause
First agreement on trade negotiations among developing member countries of the Economic and Social Commission for Asia and the Pacific	Bangkok Agreement	June 17, 1976	Enabling Clause
Association of South-East Asian Nations ASEAN declaration	ASEAN Preferential Trading Arrangements	Aug. 31, 1977	Enabling Clause
South Pacific Regional Trade and Economic Cooperation Agreement	SPARTECA	Jan. 1, 1981	Enabling Clause
Second Treaty of Montevideo	Latin American Integration Association, "LAIA"	Mar. 18, 1981	Enabling Clause
Cartagena Agreement	Andean Group	May 25, 1988	Enabling Clause
Global System of Trade Preferences among developing countries (GSTP)	GSTP	Apr. 19, 1989	Enabling Clause
Trade agreement between the government of the Kingdom of Thailand and the government of the Lao People's Democratic Republic	Lao–Thailand Trade Agreement	June 20, 1991	Enabling Clause
Treaty of Asunción, Treaty Establishing a Common Market between the Argentine Republic, the Federal Republic of Brazil, the Republic of Paraguay, and the Eastern Republic of Uruguay	MERCOSUR	Nov. 29, 1991	Enabling Clause
Common effective preferential tariff scheme for the ASEAN Free Trade Area	Preferential Tariff Scheme for the ASEAN Free Trade Area	Jan. 28, 1992	Enabling Clause
Common Market for Eastern and Southern Africa	COMESA	Dec. 8, 1994	Enabling Clause
Bolivia-Mexico Free Trade Treaty	Bolivia-Mexico Free Trade Treaty	Jan. 1, 1995	Enabling Clause
Mexico-Costa Rica Free Trade Area	Mexico–Costa Rica Free Trade Area	Jan. 1, 1995	Enabling Clause

Table 2A.1 (continued)

Official title	Usual reference	Date of entry into force	GATT cover
Colombia, Mexico, and Venezuela Free Trade Agreement	Treaty of the Group of Three (G3)	Jan. 1, 1995	Enabling Clause
Australian treatment of products of Papua New Guinea	Australian Treatment of Products of Papua New Guinea		Waiver–Art. I:1
French trading arrangements with Morocco	France–Morocco Trading Arrangements		Waiver–Art. I:1
	Australia–Federation of Rhodesia and Nyasaland Agreement	July 1, 1955	Waiver–Art. I:1
United States Caribbean Basin Economic Recovery Act	U.S.–Caribbean CBERA	Jan. 1, 1984	Waiver–Art. I:1
Canadian tariff treatment for commonwealth Caribbean countries	CARIBCAN	May 12, 1986	Waiver–Art. I:1
ACP—EEC Fourth Convention of Lomé	Fourth Convention of Lomé	Sept. 1, 1991	Waiver–Art. I:1
Andean Trade Preference Act	U.S.–Andean Trade Preference Act	Dec. 4, 1991	Waiver–Art. I:1
Trade agreement between the governments of the Federation of Rhodesia and Nyasaland and the Union of South Africa	Federation of Rhodesia/Nyasaland–South Africa Agreement of 1955	July 1, 1955	Waiver–Art. I:2
	Federation of Rhodesia/Nyasaland–South Africa Agreement of 1960	July 1, 1960	Waiver–Art. I:2

Enabling Clause. Here a full FTA or CU as defined in Article XXIV is not required, and partial preferences are allowed. Seventeen arrangements fall under this category. Finally, within the Generalized System of Preferences (GSP), a waiver from the MFN Article I may be given for preferences granted by developed countries to developing countries. Nine agreements fall under this category.

Notes

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1. The focus of our chapter will be on Article XXIV-sanctioned PTAs, rather than on every kind of preferential arrangement among any subset of World Trade Organization (WTO) members. PTAs, often grouped together into a single category, actually fall into three different WTO categories: Article XXIV arrangements involving FTAs and CUs, Enabling Clause arrangements limited to developing countries and permitting partial preferences, and Generalized System of Preferences (GSP) arrangements permitted via a grant of an exception to Article I. Appendix table 1A-1 provides a complete list of PTAs reported to WTO to date according to the WTO category within which they fall.

2. The reasons why these did not succeed are discussed in Bhagwati (1991).

3. These different approaches, and the later approaches to the static theory of preferential trading areas by Kemp and Wan (1976) and Brecher and Bhagwati (1981), have been distinguished and discussed in the graduate textbook by Bhagwati and Srinivasan (1983). The Cooper-Massell-Johnson-Bhagwati argument has also been formalized recently, using the Kemp-Wan approach and combining it with the theory of noneconomic objectives, by Krishna and Bhagwati (1994).

4. Our analytical synthesis draws on Bhagwati, Krishna, and Panagariya (1996) and also on our paper for the 1996 American Economic Association meetings in San Francisco, Bhagwati and Panagariya (1996).

5. In Viner's analysis, reproduced in figure 2.1, with constant costs everywhere, the concepts translate immediately into a shift of imports from the outside to the partner country as trade diversion and a shift from the home country production to imports from the partner country as trade creation. This translation does not hold fully in figure 2.3, for example.

6. In a generous introductory footnote to his article entitled "Emerging Regional Arrangements: Building Blocks or Stumbling Blocks?" Lawrence (1991) writes, "I owe this phrase to Jagdish Bhagwati." Bhagwati (1991, 77) refers to the expansion of membership as a test of PTAs serving as "building blocks" for worldwide freeing of trade: this concept is illustrated in figure 2.9, reproduced from Bhagwati (1993a). Evidently, if going down the PTA path can trigger multilateral negotiations and their successful conclusion, that too can be a way in which PTAs may serve as building blocks, as discussed here.

7. The "natural trading partners" hypothesis comes therefore in two forms. In the first form, the emphasis is on a large initial volume of trade that may result, inter alia, from geographical proximity. In the second form, the emphasis is on transport costs that are assumed to be low between countries within the same region. We have been firmly informed by Paul Wonnacott that the term "natural trading partner" originated in Wonnacott and Lutz (1989). Many authors have attributed the term instead to Krugman (1991a), who, along with Summers, should nevertheless be credited with popularizing it.

8. We assume a specific rather than an ad valorem tariff for geometric simplicity when supply curves are rising. Nothing in the analysis hangs on it.

9. Because imports expand, some of the inefficient domestic production is replaced by imports from B. A also gains from an increase in the consumers' surplus in excess of the tariff revenue.

10. B gains nothing and C loses nothing, given the constant-cost assumptions on their supply curves in trade.

11. The measure used is the conventional Hicksian equivalent variation: keeping the initial nondiscriminatory tariff, how much income can A withdraw to yield the same welfare loss as the FTA imposes?

12. Many of the points in this and the following section have been made earlier in Panagariya (1995a, 1995b). The tariff-revenue-transfer effect central to our analysis is normally present in all models characterized by flexible terms of trade. Thus, see the three-good, three-country general-equilibrium analyses of Berglas (1979) and Riezman (1979), which are neatly summarized within a unified framework by Lloyd (1982). Both Berglas and Riezman find, as we do, that when intra-union terms of trade are flexible, a large volume of imports from the partner country is inversely related to the welfare effect of a preferential liberalization. Neither of these authors makes many of the points we make or looks at the problem as we do, however.

13. There is no trade creation in the example as the FTA leaves the domestic price and therefore total imports into A unchanged.

14. We discuss the natural trading partners hypothesis in the alternative context of transport costs later in the chapter.

15. In a similar vein, Krugman (1991a, 21) notes, "To reemphasize why this matters: if a disproportionate share of world trade would take place within trading blocs even in the absence of any preferential trading arrangement, then the gains from trade creation within blocs are likely to outweigh any possible losses from external trade diversion."

16. Ceteris paribus, the less A trades with the outside country, the less tariff revenue it collects and the less is its gain. Thus, in the spirit of our previous discussion, a high proportion of trade with the partner implies smaller gains from preferential liberalization.

17. In addition, a fraction of the large imports from the United States could well be a result of preferential policies rather than competitiveness.

18. It is a common practice in the computable general-equilibrium (CGE) models to differentiate goods by the country of origin and yet impose the small-country assumption. To a general equilibrium theorist, this is not correct. If a country is the sole producer of its exports, it necessarily has market power.

19. Rules of origin can and do, of course, restrict trade in other ways. For a recent analysis of how rules of origin can lead to welfare-worsening outcomes, see Krueger (1993, 1995).

20. See Grossman and Helpman (1995) in this context.

21. Note that the horizontal difference between E_BE_B and S_BS_B declines as price rises. This is because the demand in B must fall with a rise in the price.

22. This simple point seems to have escaped a number of CGE-modelers of NAFTA who distinguish products by the country of origin and continue to impose the small-country assumption.

23. The same would also hold true if we were to use a monopolistic-competition or oligopoly model.

24. In a small, open economy with tariffs as the only distortion, the change in welfare (real income) from an infinitesimally small change in any set of tariffs equals the change in tariff revenue evaluated at initial tariff rates (Eaton and Panagariya 1979). For an infinitesimally small change in the tariff on B, the vertically shaded area in figure 2.5 is the increase and the horizontally shaded area the decrease in tariff revenue measured at the original tariff rates.

25. Observe that the world price of each product is unity. Therefore, the base of the rectangle represents both the quantity and value of imports at world prices.

26. To make this point another way, start with a zero tariff on good b and a positive tariff on c. The introduction of a small tariff on b will not lead to an efficiency loss in the b market but will generate an efficiency cost in the c market.

27. The effects shown in figure 2.5 do not arise in the partial equilibrium model of figures 2.2 and 2.3. Because these effects require the presence of at least two importables, they do not arise even in a two-good general equilibrium model.

28. Recall that in figures 2.1 and 2.2, the *internal* terms of trade are variable. Country A's terms of trade with respect to country B deteriorate by the full amount of the tariff reduction. But because of the small-union assumption, the external terms of trade do not change there.

29. One hundred percent revenue seeking means that the entire revenue is available for those who wish to seek it. Perfectly competitive revenue seeking leads to a dollar's worth of resource loss for a dollar of revenue sought. The two assumptions together imply that the resources used up in revenue seeking equal the tariff revenues in equilibrium. For rent seeking, see Krueger (1974) and for revenue seeking, see Bhagwati and Srinivasan (1980).

30. A detailed, general equilibrium analysis of this issue is provided in Panagariya (1996a, 1996b).

31. We assumed earlier that each country is the sole producer of its export good. This assumption necessarily makes the terms of trade variable. In the conventional analysis, as also in the present discussion, the outside country is assumed to produce all goods and is large. The terms of trade are then determined in the outside country, and the only effects that arise are those depicted in figure 2.5. In arriving at the conclusions discussed in this paragraph, Lipsey also assumed that preferences are Cobb-Douglas. For further details, see Panagariya (1996a, 1996b).

32. As quoted in footnote 12 of Bhagwati (1993a), according to Lipsey, "the larger are purchases of domestic commodities and the smaller are purchases from the outside world, the more likely is it that the union will bring gain." If the liberalizing country's preferences are of the CES variety, the compensated crossprice elasticity of its demand for the partner's good with respect to the price of its own good reduces to the product of the expenditure share of its own good and the elasticity of substitution. A similar statement applies to the compensated crossprice elasticity of the country's demand for the partner's good with respect to the

price of the outside country's good. Thus, under CES preferences, our condition in the text reduces to Lipsey's. As noted in the previous footnote, Lipsey himself had relied on Cobb-Douglas preferences to derive the conclusion quoted at the beginning of this footnote.

33. This would not be generally true even if we were to take the measure just for one individual country with every other country instead of pooling all possible pairs together.

34. Thus, intra-African exports were only 12.8 percent of total African exports in 1990.

35. There are countless other examples. Bhagwati (1993a) cites India-Pakistan versus India-United Kingdom and India-USSR as an example.

36. Although Frankel and Wei find that a common border increases trade volumes, Dhar and Panagariya (1994), who estimate the gravity equation on a country-by-country basis for twenty-two countries, find the common-border effect to be negative in six cases. This conflict of results underlies the serious reservations we have about the use of these gravity models to infer "trade diversion," and so on: the coefficients vary considerably depending on the dataset, and sometimes the signs do as well.

37. We note, however, that the recent critique of gravity models by Jacques J. Polak (1996) casts serious doubt on even this conclusion. Polak estimates a gravity equation for total imports as a function of income, population, and a location index measuring how favorably a country is located for purposes of international trade. He finds that, for 1960 trade data, the location index yields a statistically significant effect, as in Frankel-Wei regressions. But for the 1990 sample used by Frankel and Wei, the effect is statistically insignificant.

38. Of course, even if the relationship was "natural," it does not justify preferences as argued already by us.

39. Bhagwati, in several writings, for example, Bhagwati and Dehejia (1994) and Bhagwati (1996a), has argued that comparative advantage has become "kaleidoscopic," that is, thin and volatile, as technical know-how has converged, multinationals have become global, interest rates have become closer across nations, and access to different capital markets has become more open. More and more industries are thus footloose.

40. In this paragraph, we abstract from the demand effects. The inclusion of demand effects will modify the discussion but not the fundamental point.

41. And if costs indeed fall below those of Taiwan, there is no extra gain from the PTA since in that case Canada would have replaced Taiwan as the supplier even under a non-discriminatory tariff.

42. This makes the analysis complicated because the countries now wield market power, and unilateral free trade is no longer optimal.

43. The point can also be made under "iceberg" type transport costs that are frequently employed in international trade literature. In this formulation, a constant fraction of the good melts away in transit.

44. If the initial tariff is above the optimum tariff, given the elasticity assumption, a small preferential reduction in the tariff on B is welfare improving. For a complete removal of the tariff on B to be welfare improving, the initial tariff must be substantially higher than the optimum tariff.

45. De Melo, Panagariya, and Rodrik (1993) note a similar possibility when the country faces a revenue constraint.

46. We discuss these noneconomic factors later in the chapter. Our analysis, which has focused mainly on the effects on the member countries, has not addressed adequately the issue of the effects on nonmembers. However, there is a revival of interest in that issue as well. See, in particular, Srinivasan (1995) and Winters (1995a, 1995b).

47. The common-water definition, of course, excludes land-locked countries such as Nepal and countries with shores only on land-locked seas such as the Caspian. These, however, add up to only a small fraction of world trade. See Bhagwati (1996b) for more on common-waters FTAs.

48. Also see Frankel, Stein, and Wei (1995a, 1995b). Interestingly, Haberler (1943) appears to have been the first to use the term *continental blocs.*

49. As matters stand currently, however, APEC and TAFTA are extremely unlikely to become Article XXIV-sanctioned PTAs, despite the U.S. obsession with PTAs, whereas the extension of NAFTA to the South looks like a long-term process.

50. Similarly, the MTN path may facilitate or obstruct the expansion of PTA membership, so that the interaction between the two paths may be mutual.

51. Christopher Bliss (1994) has tried to give the argument some structure. More recently, T. N. Srinivasan (1995) has done so in the context of examining the question of the impact of PTAs on nonmember welfare.

52. See Deardorff and Stern (1994).

53. Bhagwati (1993a, 40–44) also discussed skeptically the claims that PTA formation is quicker, more efficient, and more certain than MTN.

54. For an early analysis of the political factors underlying the formation of PTAs, see the work by the political scientist Edward Mansfield (1992) cited and discussed in Bhagwati (1993a). Other political scientists, such as Miles Kahler and Joseph Grieco, have written in this area recently

55. In comparing incentives for export-oriented firms, for lobbying for a PTA (for example, NAFTA) as against MTN (for example, the Uruguay Round), a dollar's worth of lobbying would go a longer way in the former case because any preferential opening of the Mexican market would be better for the U.S. exporter than such an opening on an MFN basis that yields the benefits equally to U.S. rivals in Japan, the EU, and elsewhere. This argument applies only to the extent that the MTN process simultaneously does not open other markets to the U.S. exporter on a reciprocal basis.

56. Bhagwati (1993a) cites Irwin's (1993) study of trade liberalization in the nineteenth century, which shows that the Anglo-French Treaty may well have served this purpose. Richard Baldwin's (1993) subsequent formalization of this basic idea in what he calls the "domino" theory of PTA expansion is discussed below.

57. In this review, we do not include the important contributions to the political economy-theoretic analysis of PTAs that do not directly address either of the two dynamic time-path questions at issue in the text. For example, Grossman and Helpman (1995) have modeled the formation of PTAs, demonstrating the critical role played by the possibility of trade diversion in the outcome, a conclusion also arrived at independently by Pravin Krishna (1993) in a different model. Similarly, Panagariya and Findlay (1996) have formalized the endogeneity argument that reduced protection between members in a PTA can lead to increased protection against nonmembers. Using a political process consisting of lobbying by owners of specific factors, they also investigate the external tariffs that emerge under an FTA and a CU.

For answers to a similar set of questions, but under the assumption of a welfare-maximizing government, see our discussion of Bagwell and Staiger (1993).

58. As noted in Bhagwati (1993a, 1994), this is exactly what the United States achieved, in terms of intellectual property protection and even concessions on environmental and labor standards enforcement, by getting then president Carlos Salinas into a one-on-one bargaining situation in NAFTA. And now Chile is poised to accept these obligations as the price of getting into NAFTA. On the other hand, as the virtually unanimous developing country objections to labor standards demands at the WTO show, neither Mexico nor Chile would have agreed to these demands in the purely WTO context.

59. This was stated to be the case for Washington, D.C., by a well-placed trade economist in the Clinton administration, at a recent conference on the subject of PTAs. The first author, at a Stockholm conference on WTO issues in 1996, organized by the Swedish trade minister, Mats Hellström, found a similar unawareness among some of the trade ministers and bureaucrats present, even as the response of the attending economists to his critical remarks about the current obsession with PTAs was enthusiastic.

60. And then there are also those who think that the APEC, turned into a PTA that excludes the extension of trade barrier reductions to Europe, will prompt Europe to its own tariff cuts in a benign outcome. This viewpoint, ascribed in the media to C. F. Bergsten, is premised on his view that the Seattle APEC summit pushed the Europeans into settling the Uruguay Round. The latter view is unpersuasive since, in the end, it was the U.S. administration that decided to accept the advice of many to close the Round with whatever it could get and to proceed to build on that in future negotiations. For a critique of similar, special pleading to justify NAFTA, see Bhagwati (1995, 11–12).

61. For a detailed statement of this critique, see Bhagwati (1995).

62. Unfortunately, this comment also applies to many of the numerical models, including the computable general-equilibrium models, estimating the gains from PTAs, as discussed by Panagariya in a forthcoming essay. And then there are the more elementary conceptual errors that afflict the numerical estimates of gains in *employment* from NAFTA. These errors were widely repeated by the media at the time.

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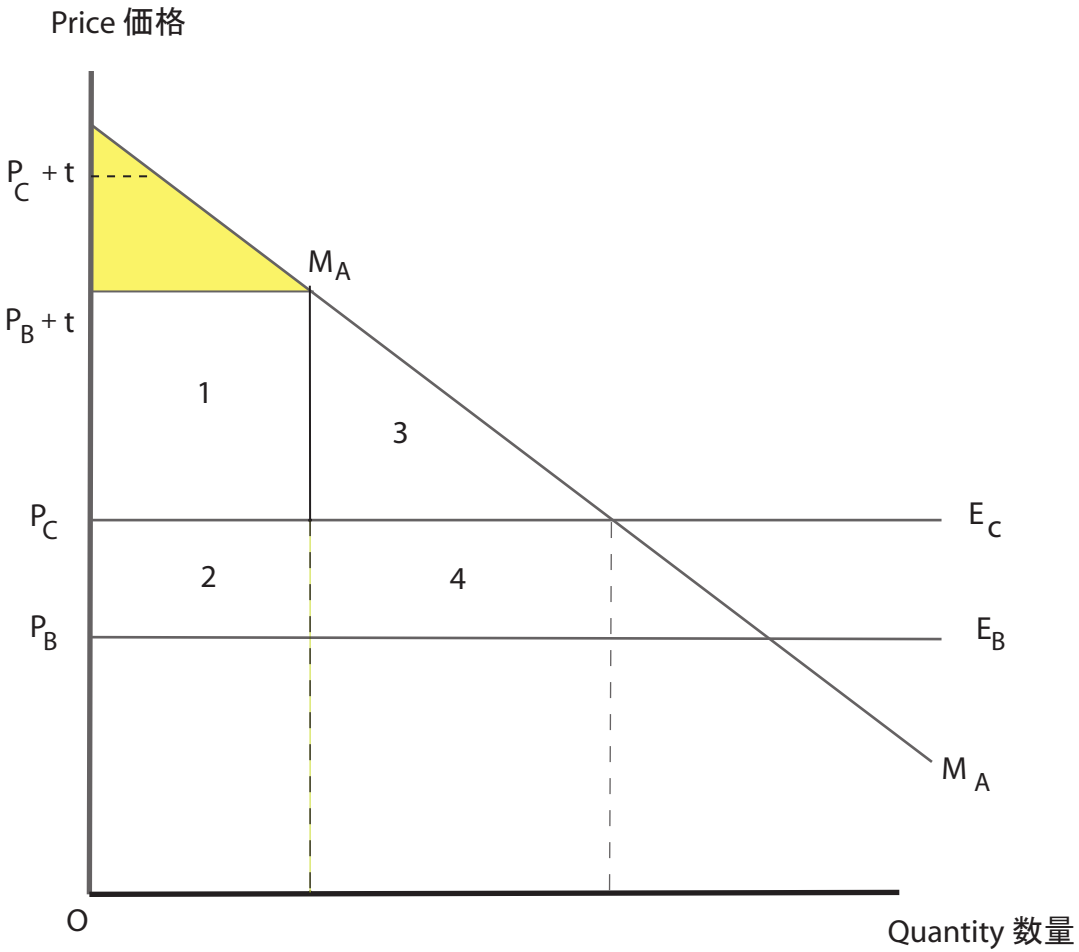
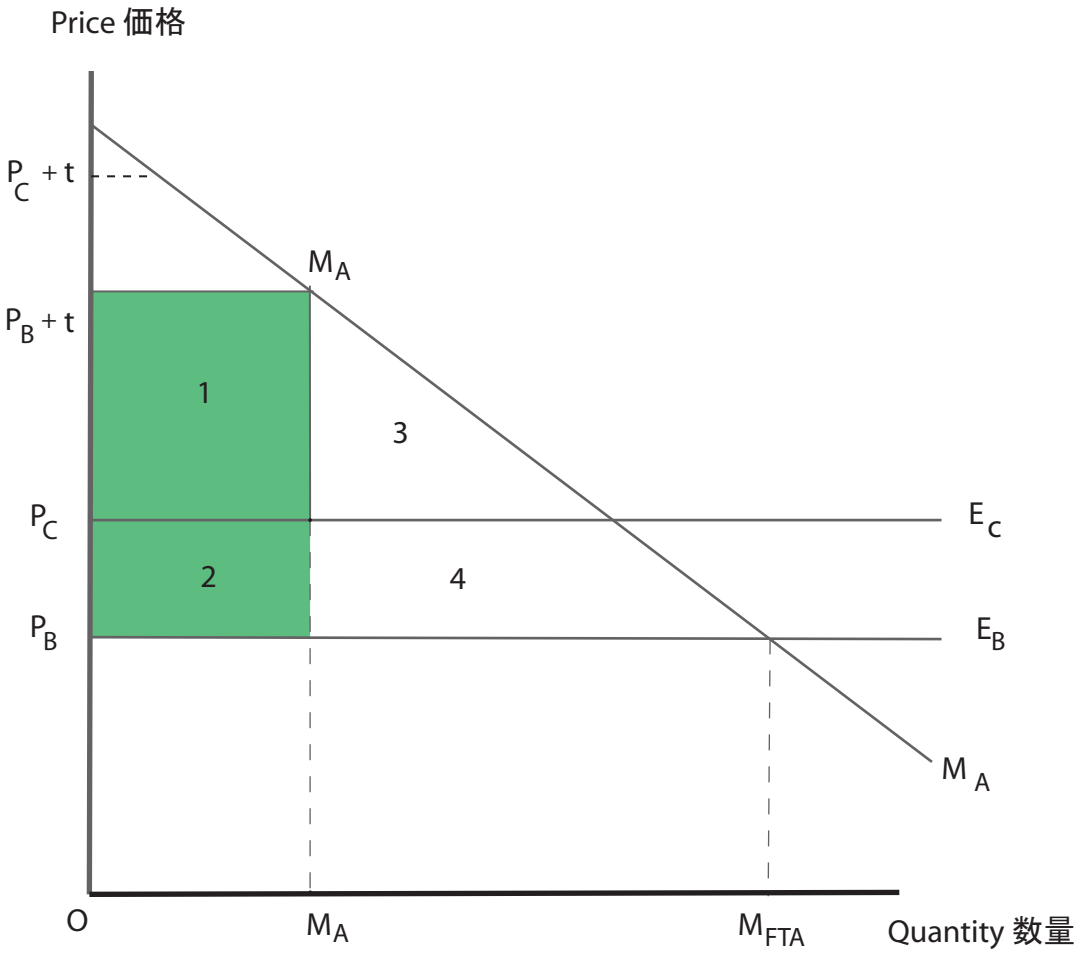


Figure 2.1A (from BKP)
Consumer Surplus in Country A ***before*** Union of A&B.



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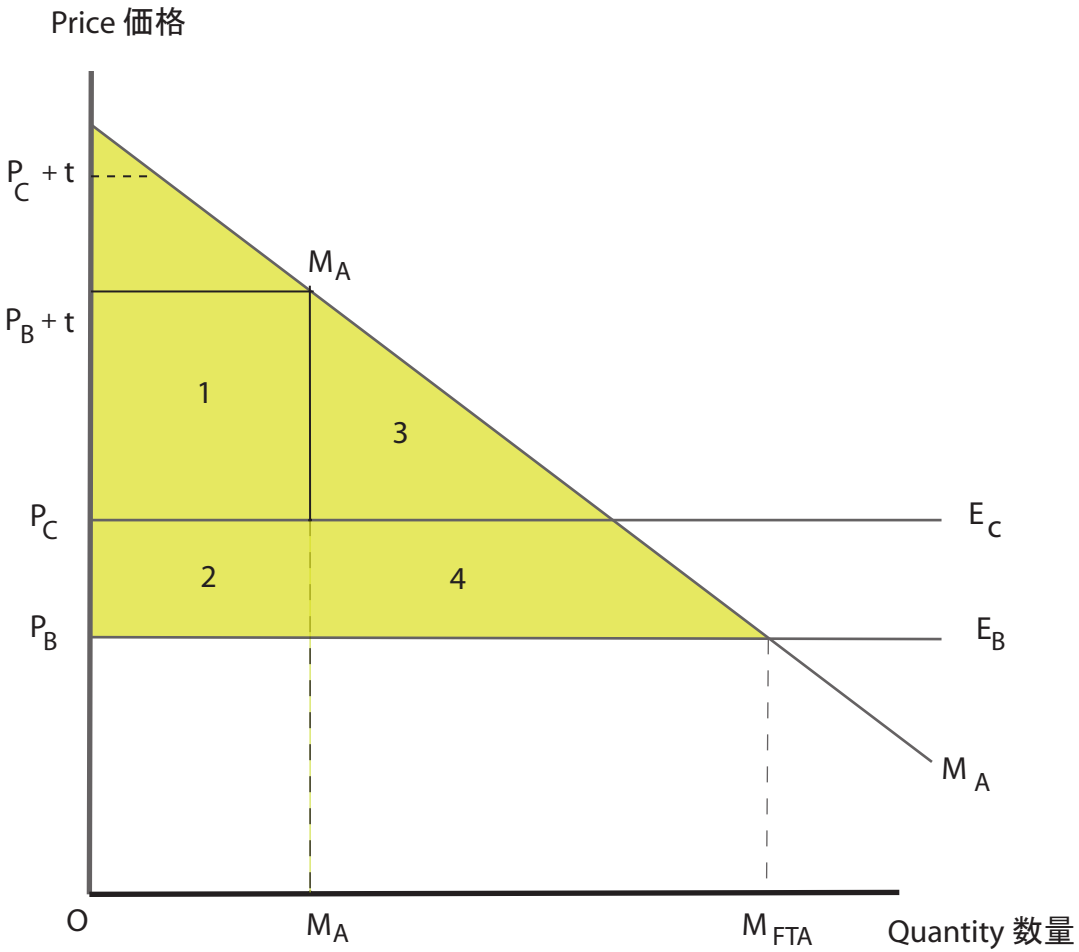
Tariff Revenue in Country A ***before*** Union of A&B.



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Consumer Surplus in Country A ***after*** Union of A&B.

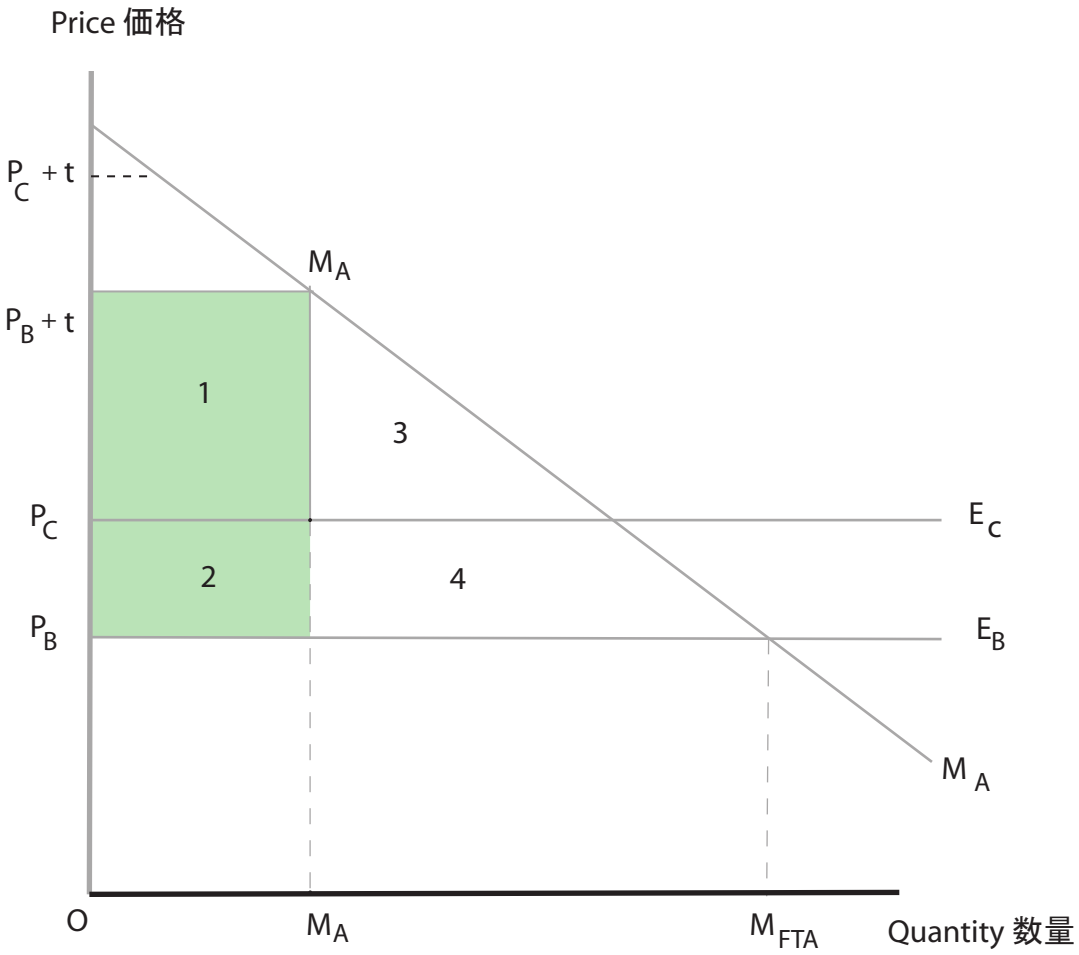


Figure 2.1A (from BKP)
Tariff Loss in Country A ***after*** Union of A&B.

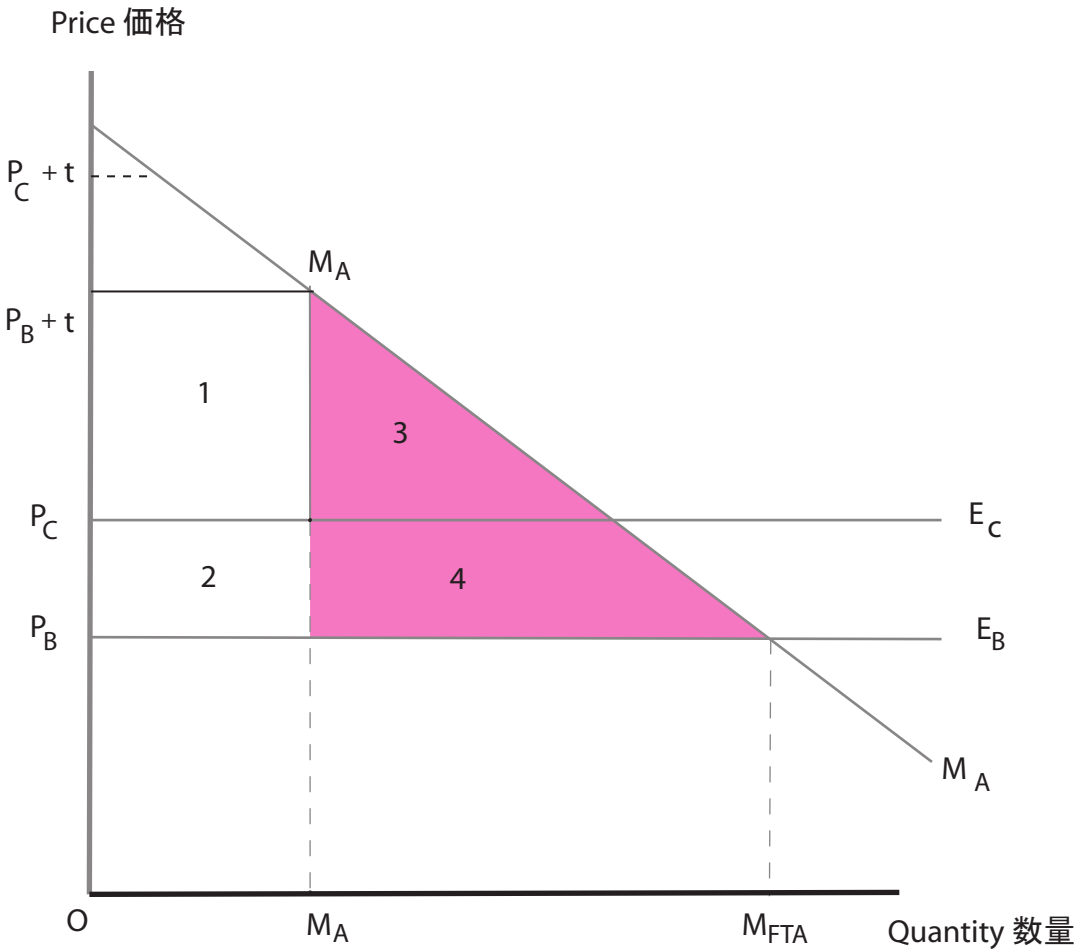
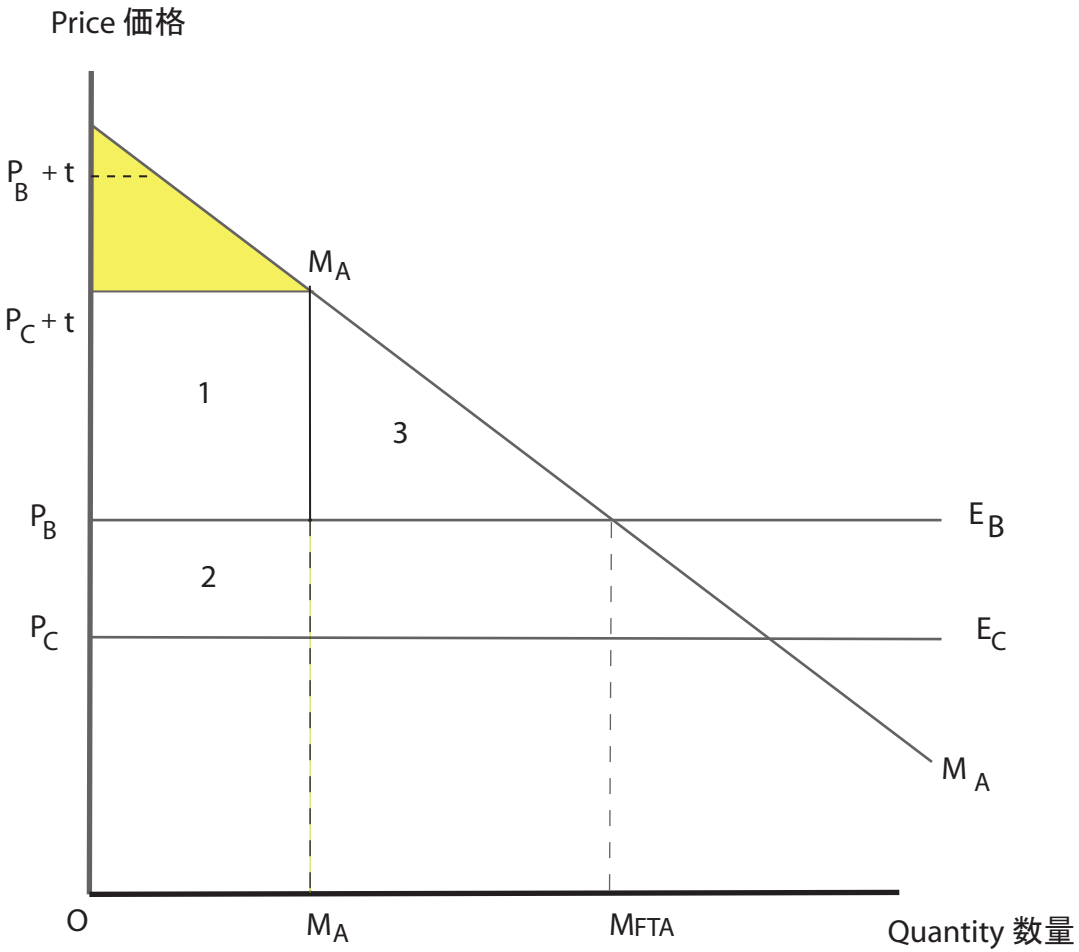
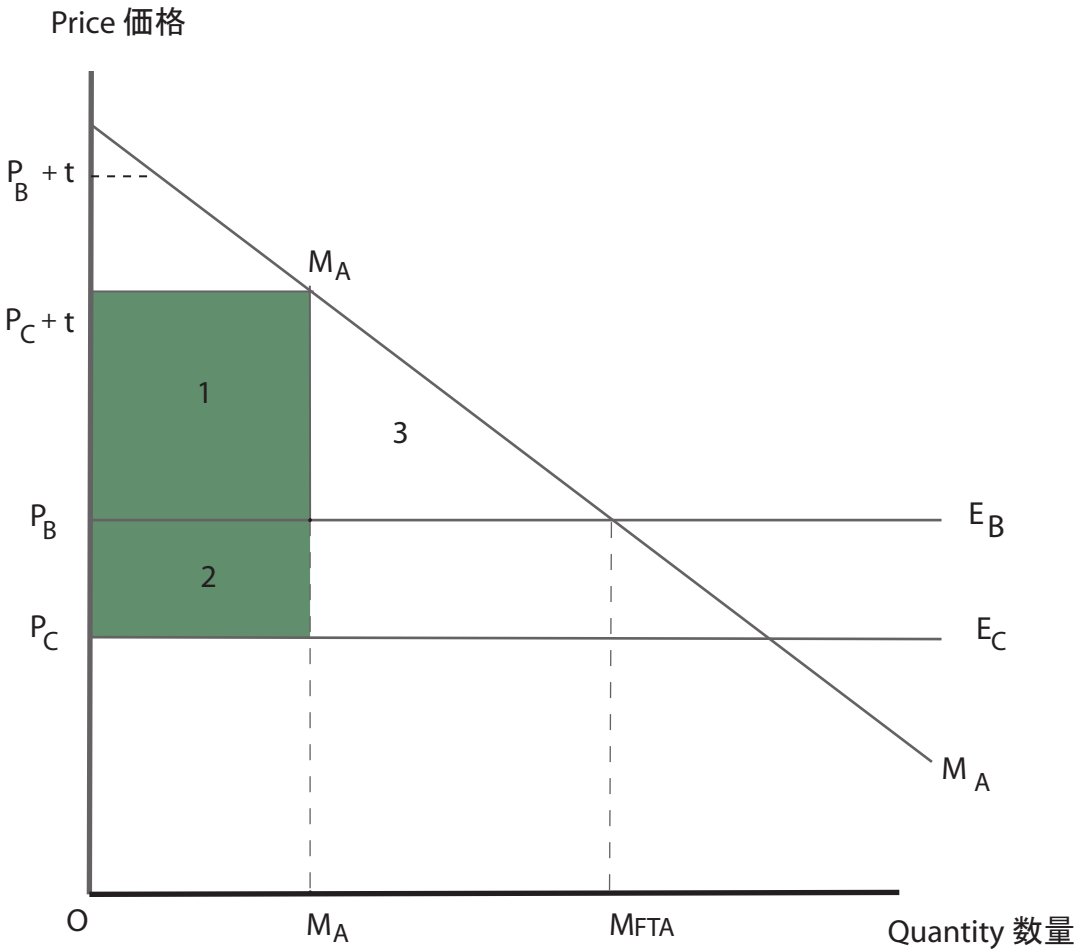


Figure 2.1A (from BKP)
Net Gains in Country A ***after*** Union of A&B.



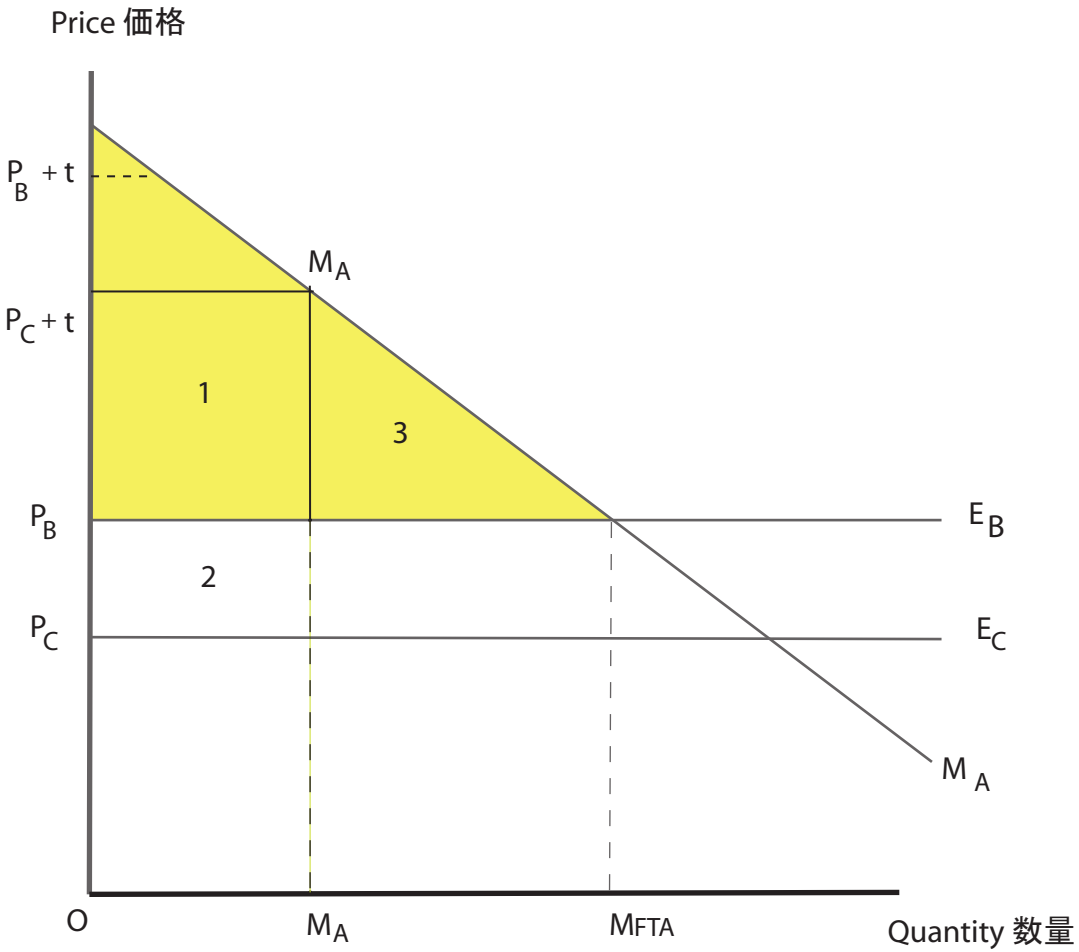
Parsons, 2007

Figure 2.1B (from BKP)
Consumer Surplus in Country A ***before*** Union of A&B.



Parsons, 2007

Figure 2.1B (from BKP)
Tariff Revenue in Country A ***before*** Union of A&B.



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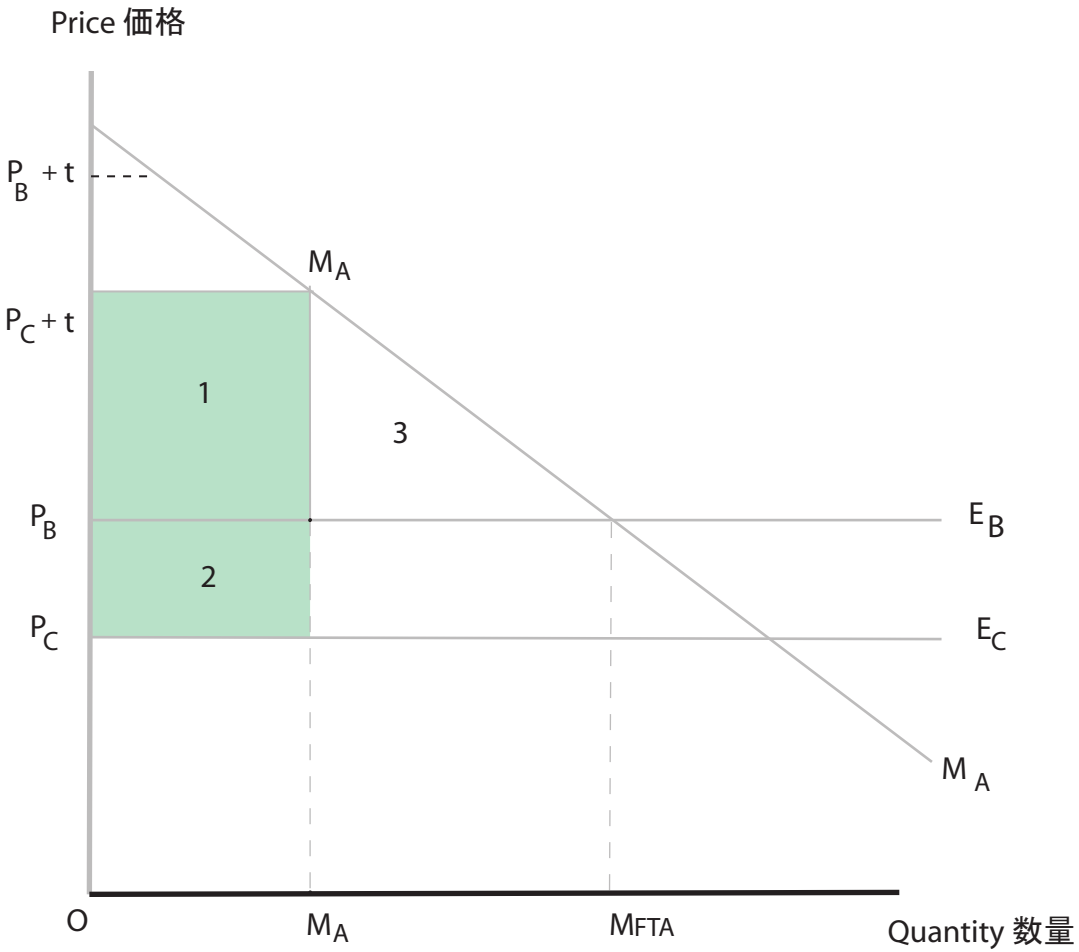

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Tariff Revenue Loss in Country A ***after*** Union of A&B.

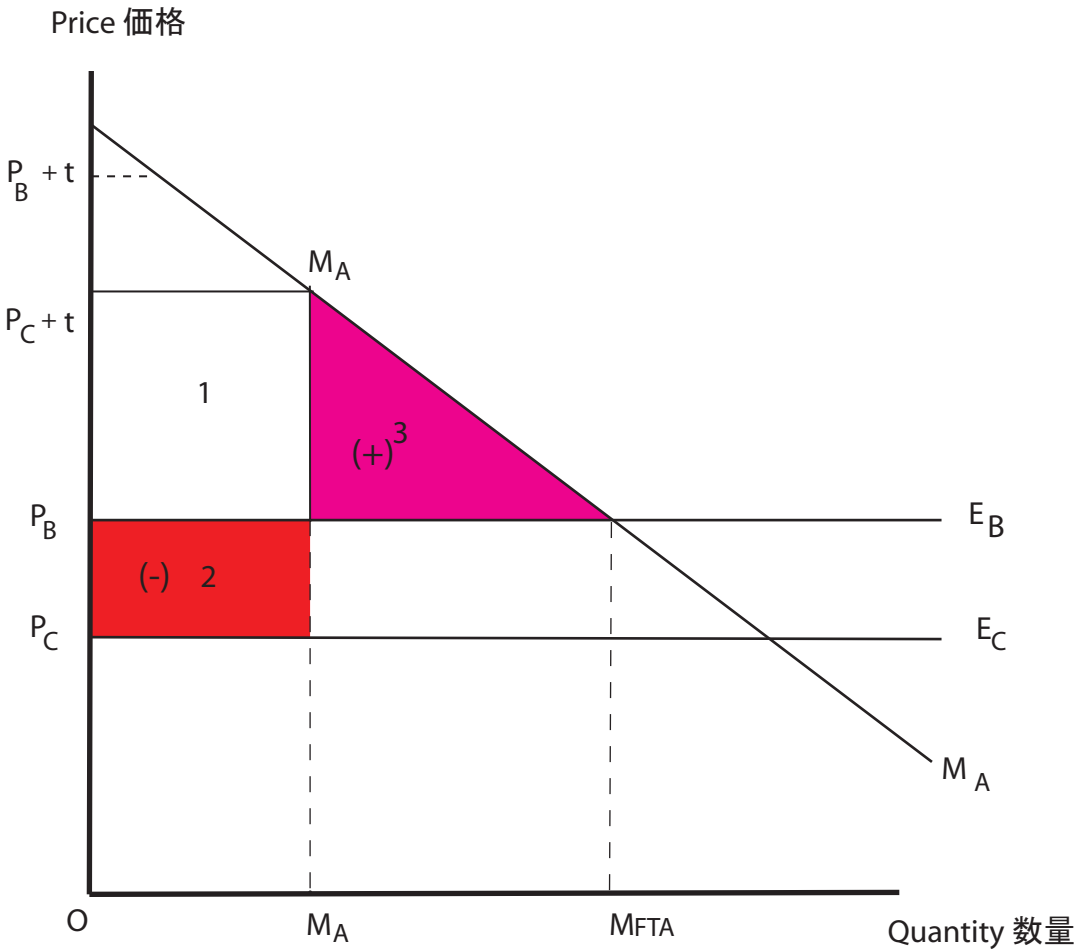


Figure 2.1B (from BKP)
Net Gain or Loss in Country A ***after*** Union of A&B.

Gains and Losses of a Customs Union

from Figure 2.2 in Bhagwati, Krishna and Panagariya (1999)

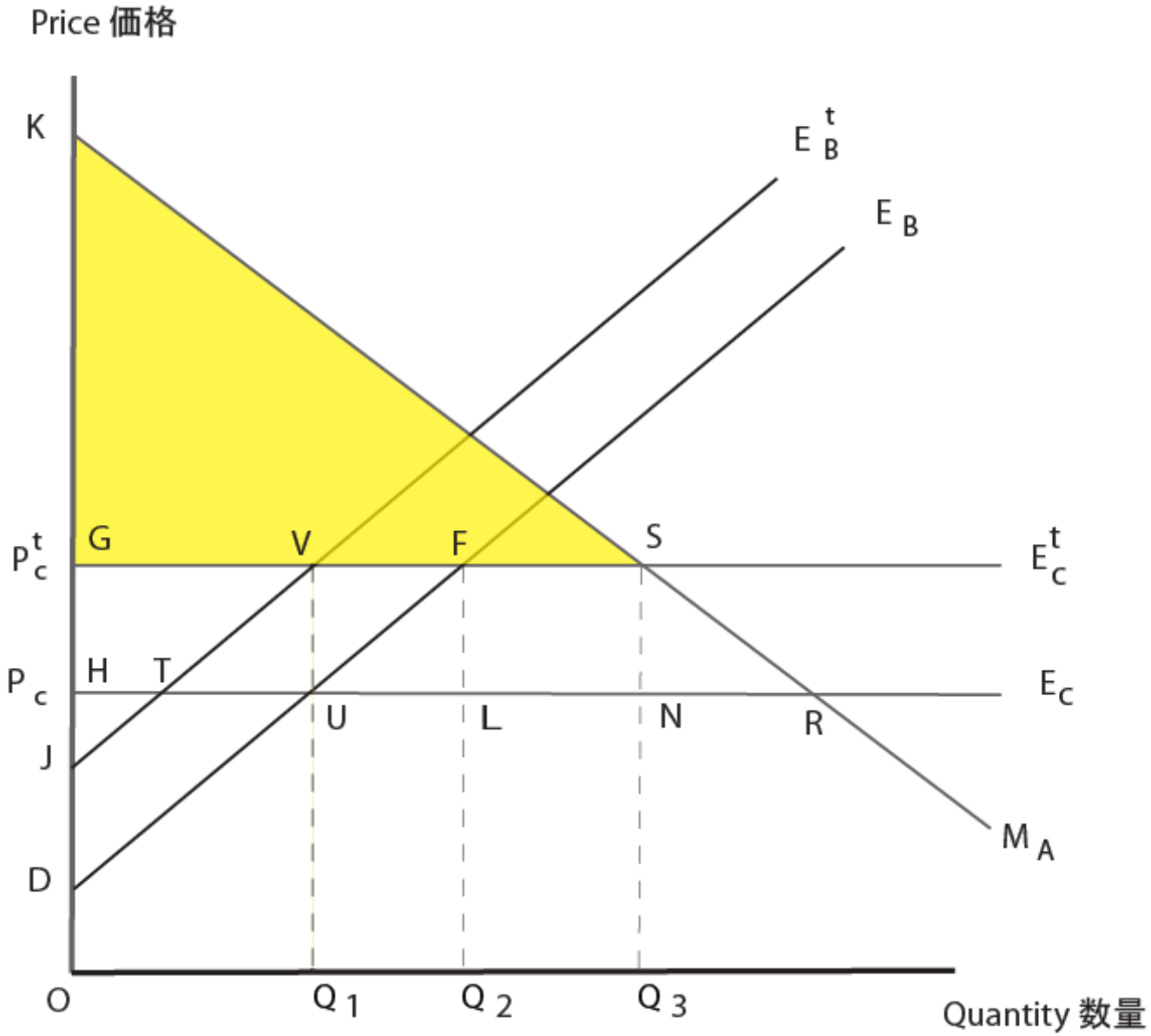


Figure 2.2 (from BKP)
Consumer Surplus in Country A ***before*** Union of A&B.

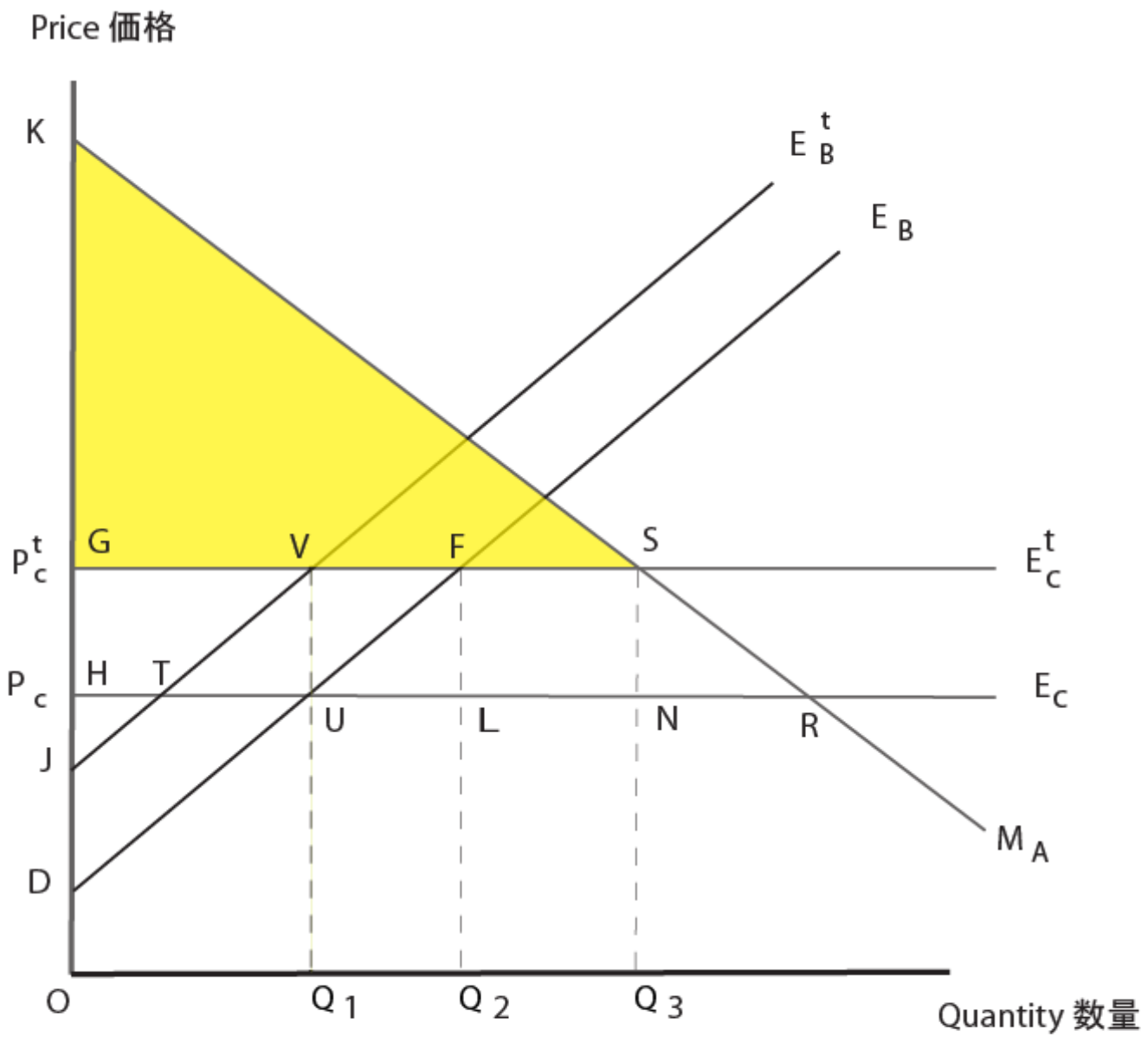
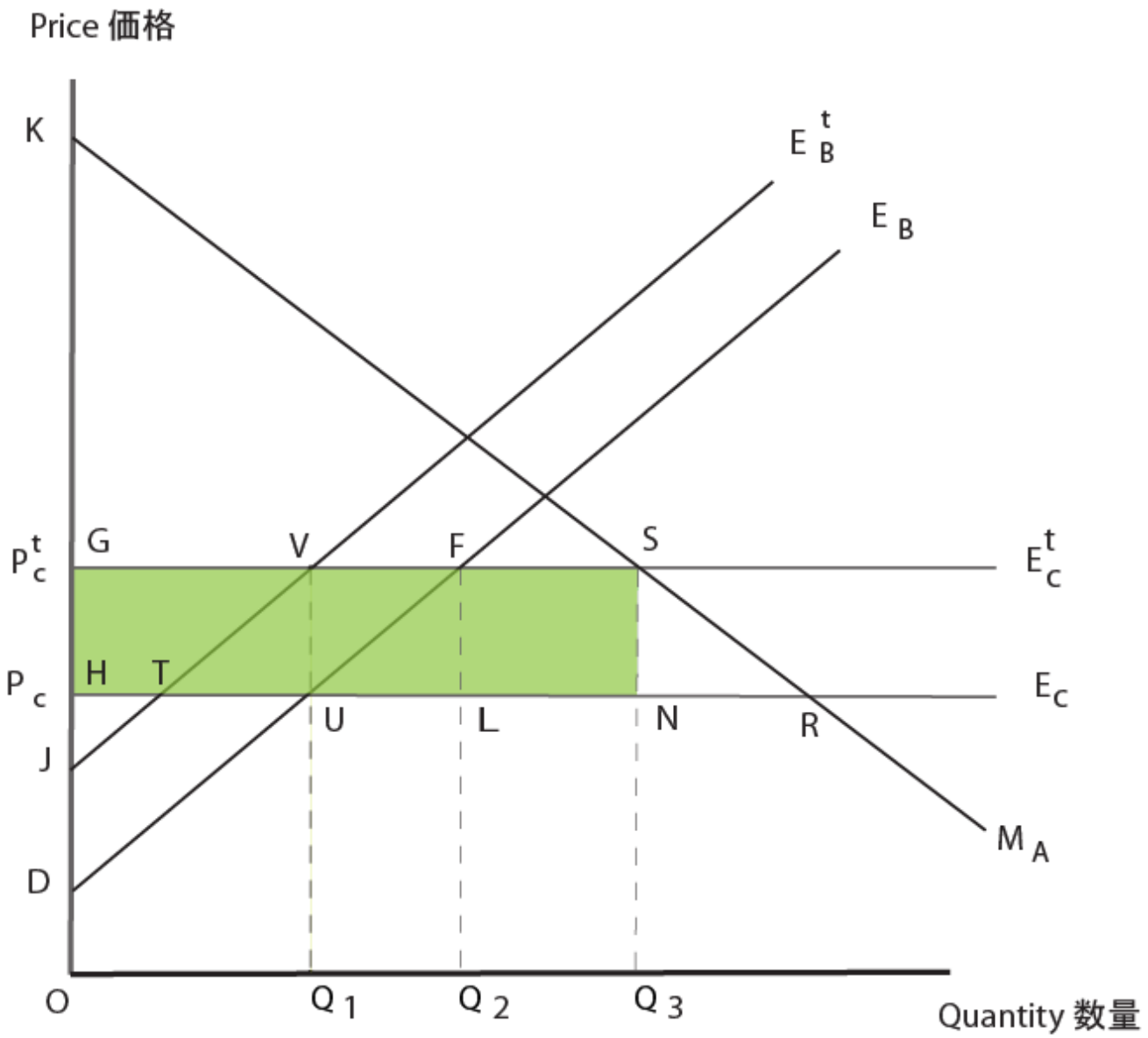
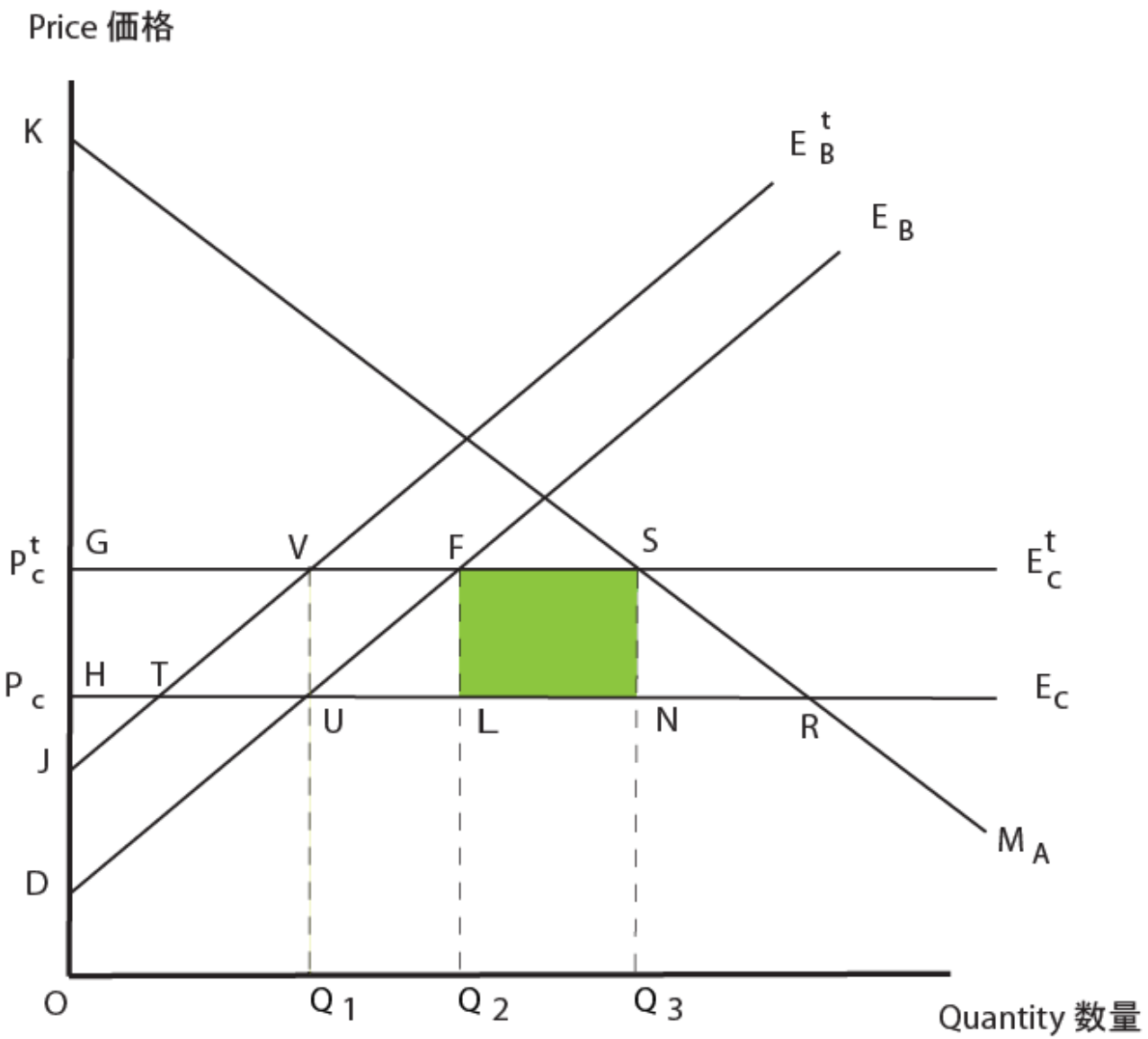


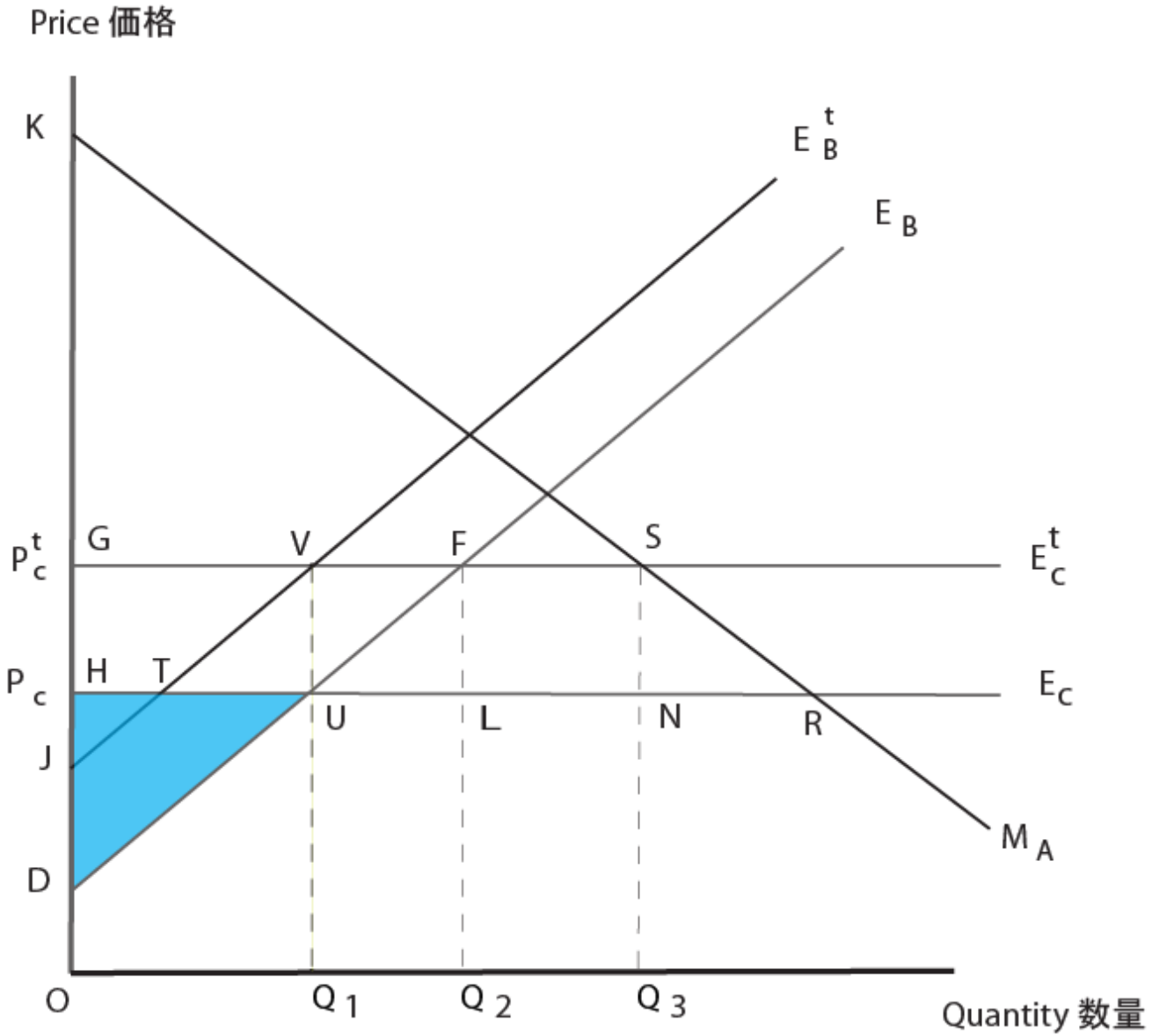
Figure 2.2 (from BKP)
Consumer Surplus in Country A ***after*** Union of A&B. * Note: the Consumer Surplus is the SAME.



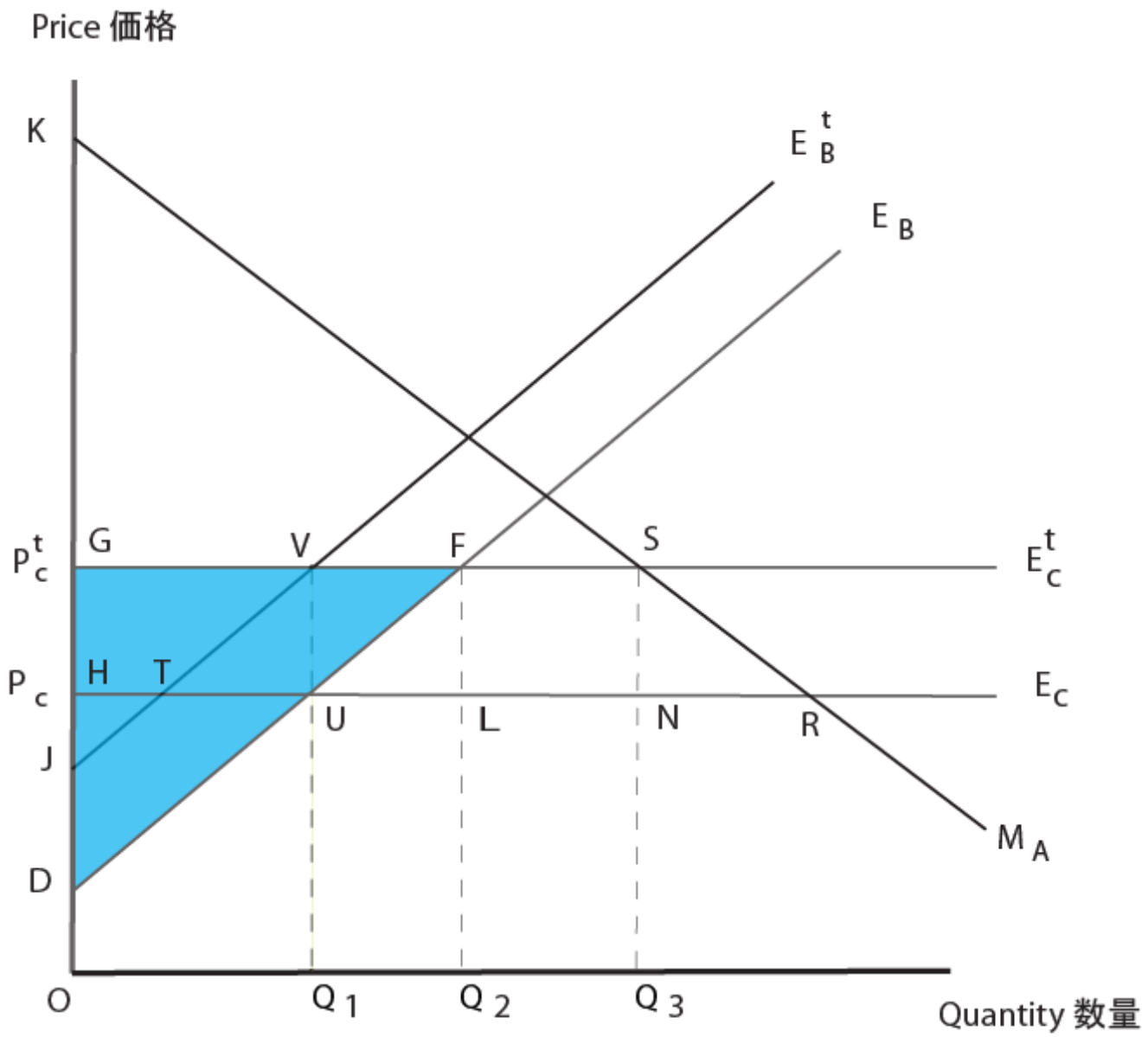
From BKP Fig 2.2
Tariff Revenue for A remaining ***before*** Union of A&B



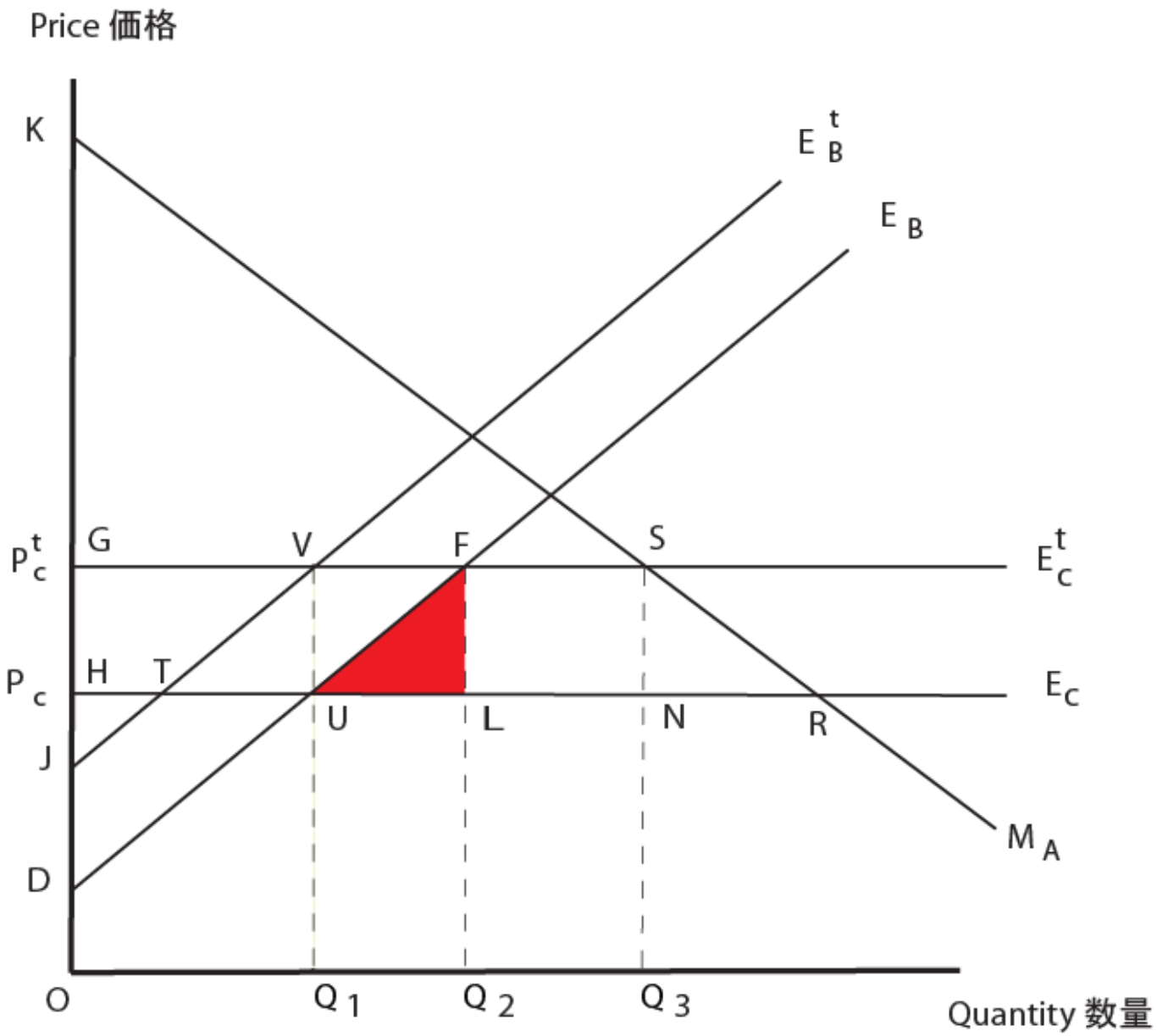
From BKP Fig 2.2
Tariff Revenue for A remaining ***after*** Union of A&B



From BKP Fig 2.2
Producer Surplus for B remaining ***before*** Union of A&B



From BKP Fig 2.2
Producer Surplus for B remaining ***after*** Union of A&B



From BKP Fig 2.2
Net World Loss ***after*** Union of A&B. *Note: There is no Surplus for C before or after the union.

Gains and Losses of a Customs Union

from Figure 2.3 in Bhagwati, Krishna and Panagariya (1999)

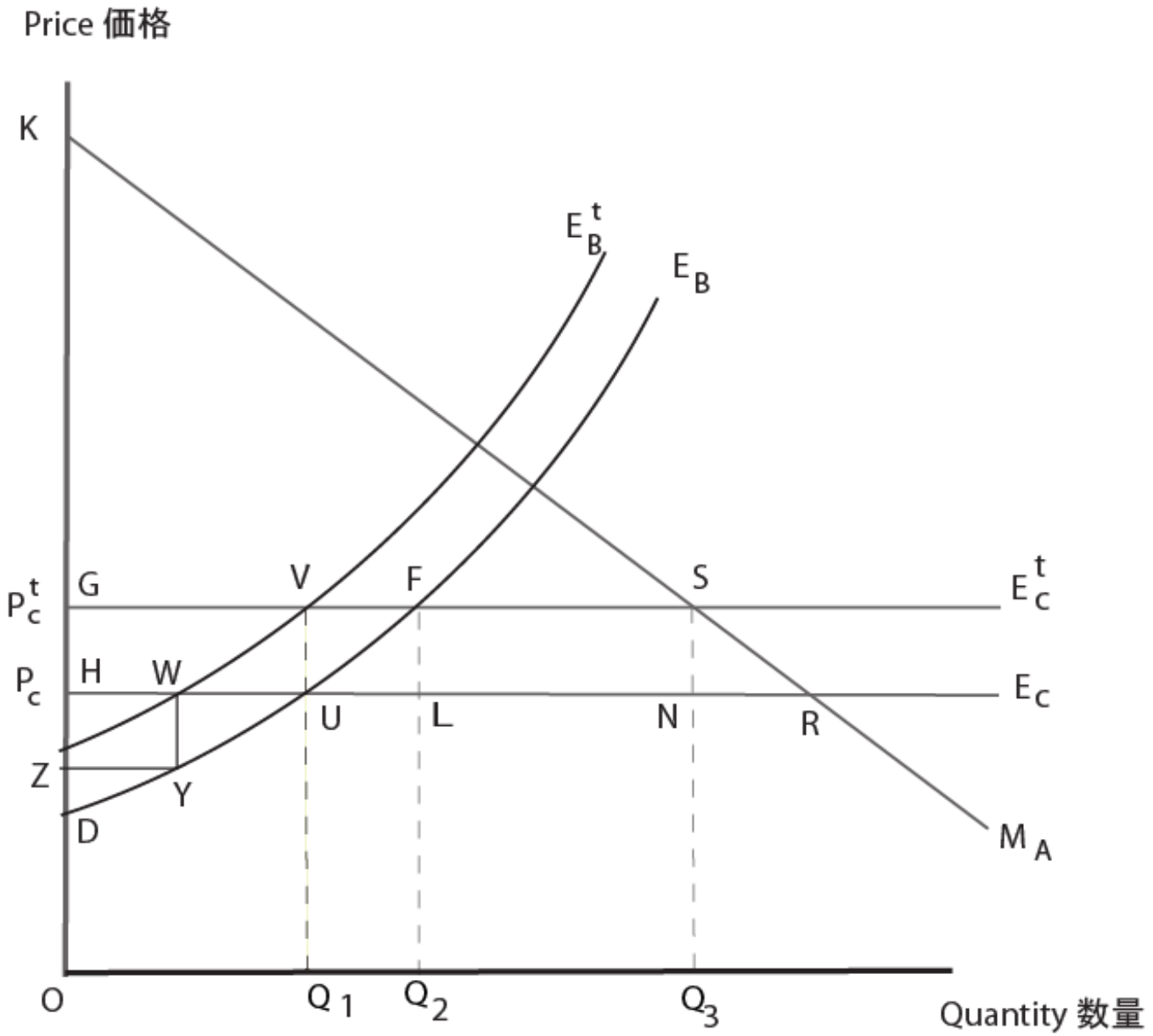


Figure 2.3 (from BKP)
Effect of a Union of A&C with rising costs from outside country.

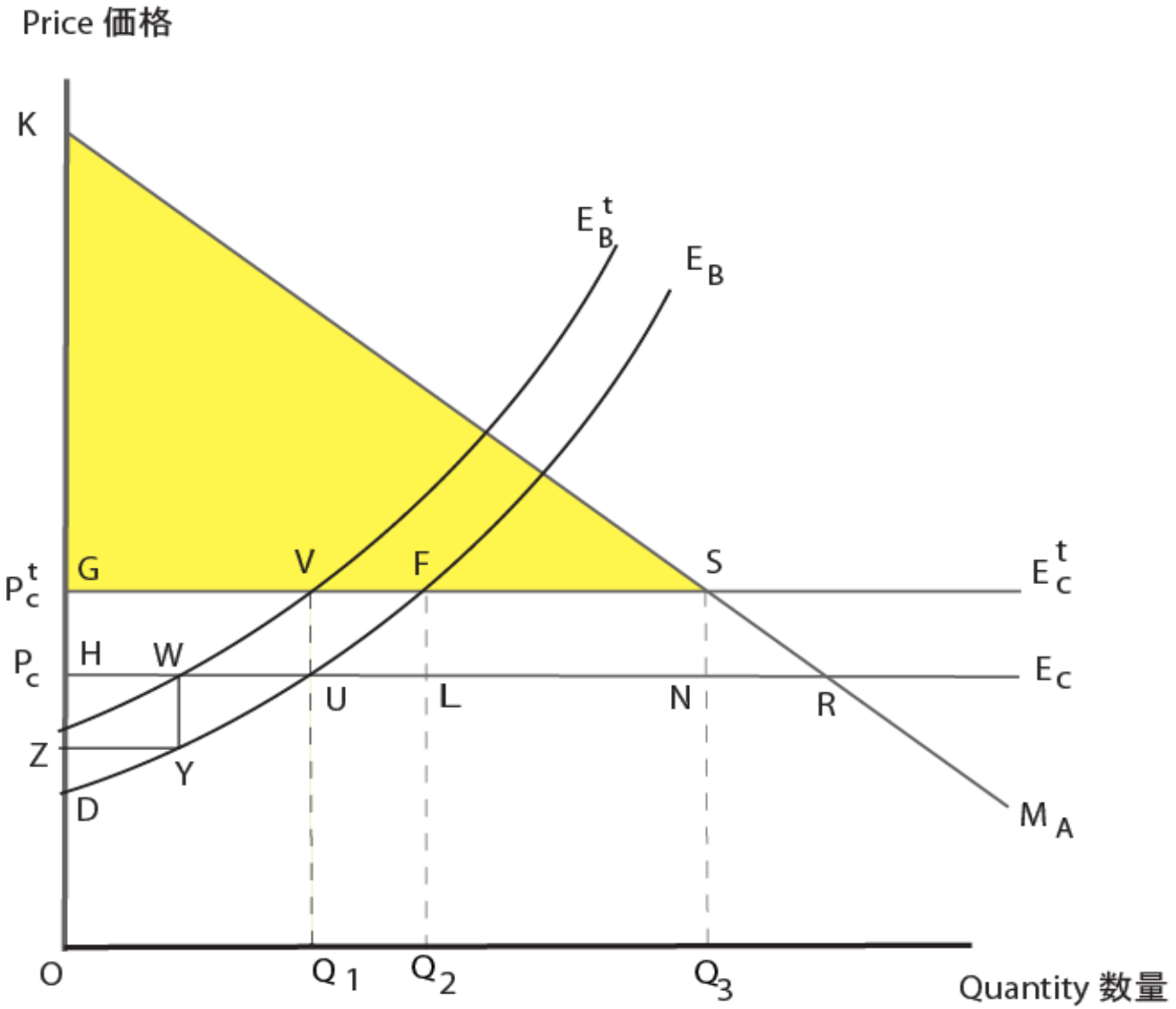
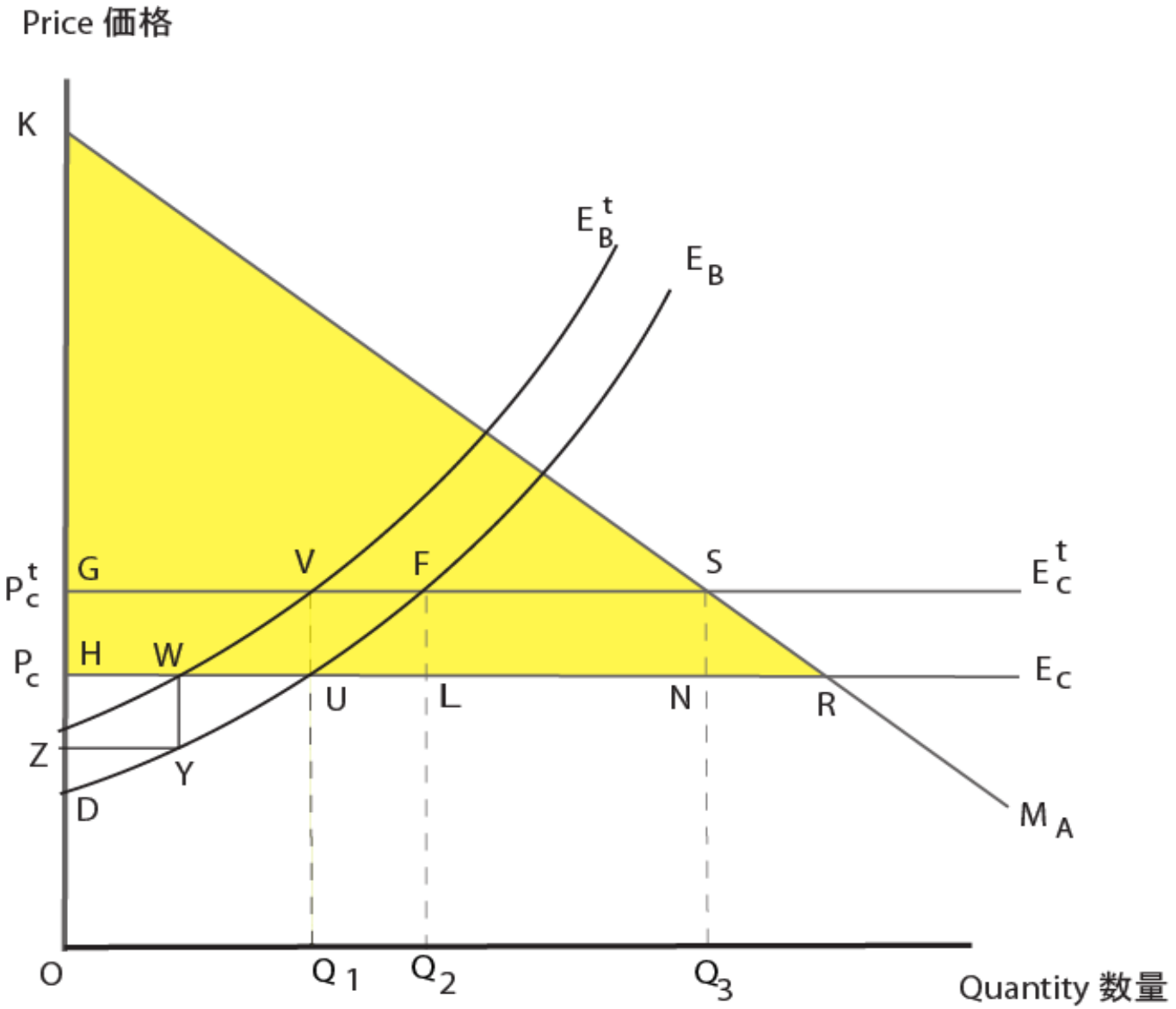


Figure 2.3 (from BKP)
Consumer Surplus in Country A ***before*** Union of A&C



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Consumer Surplus in Country A ***after*** Union of A&C.

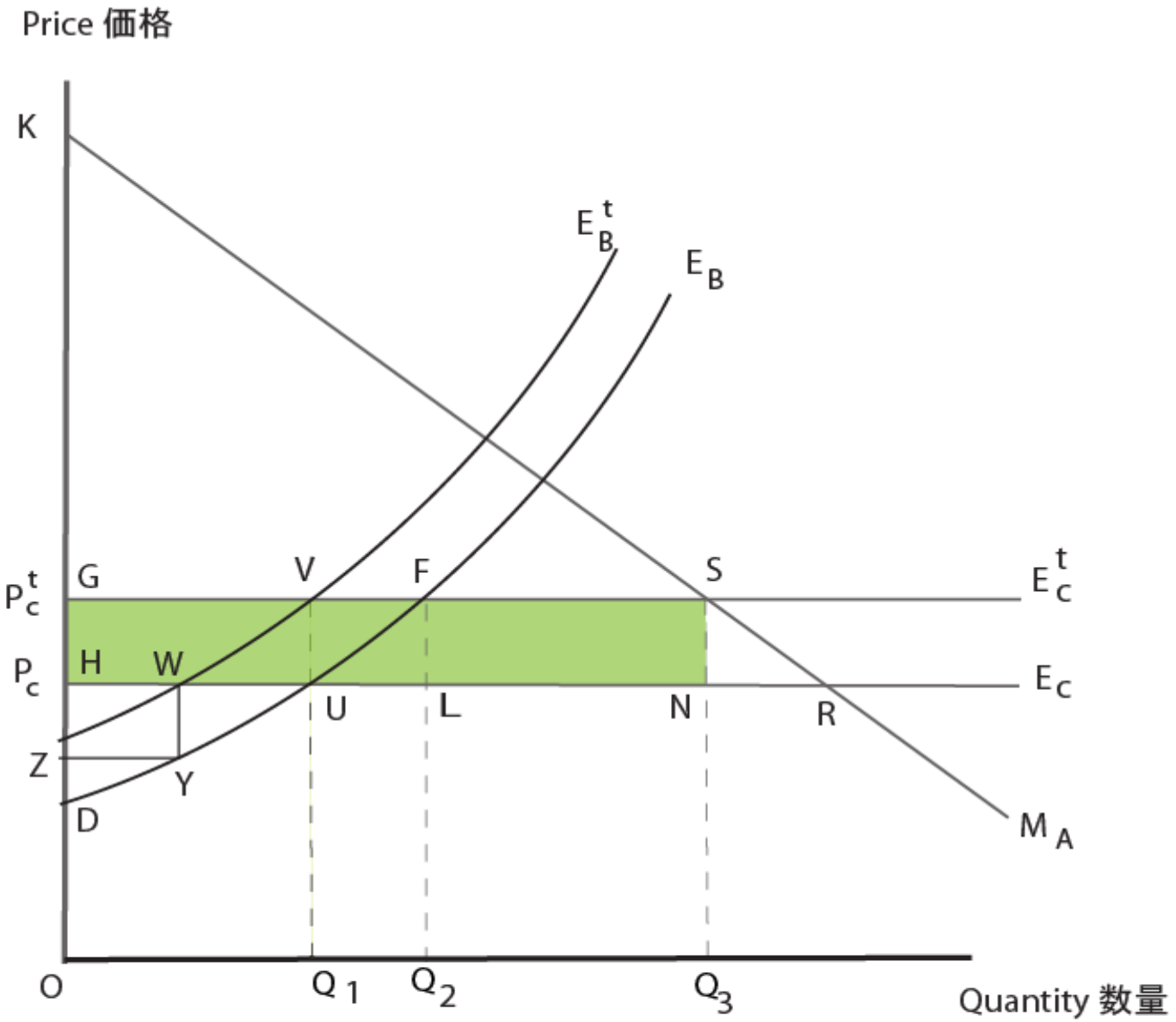

Figure 2.3 (from BKP)
Tariff Revenue of Country A ***before*** Union of A&C.

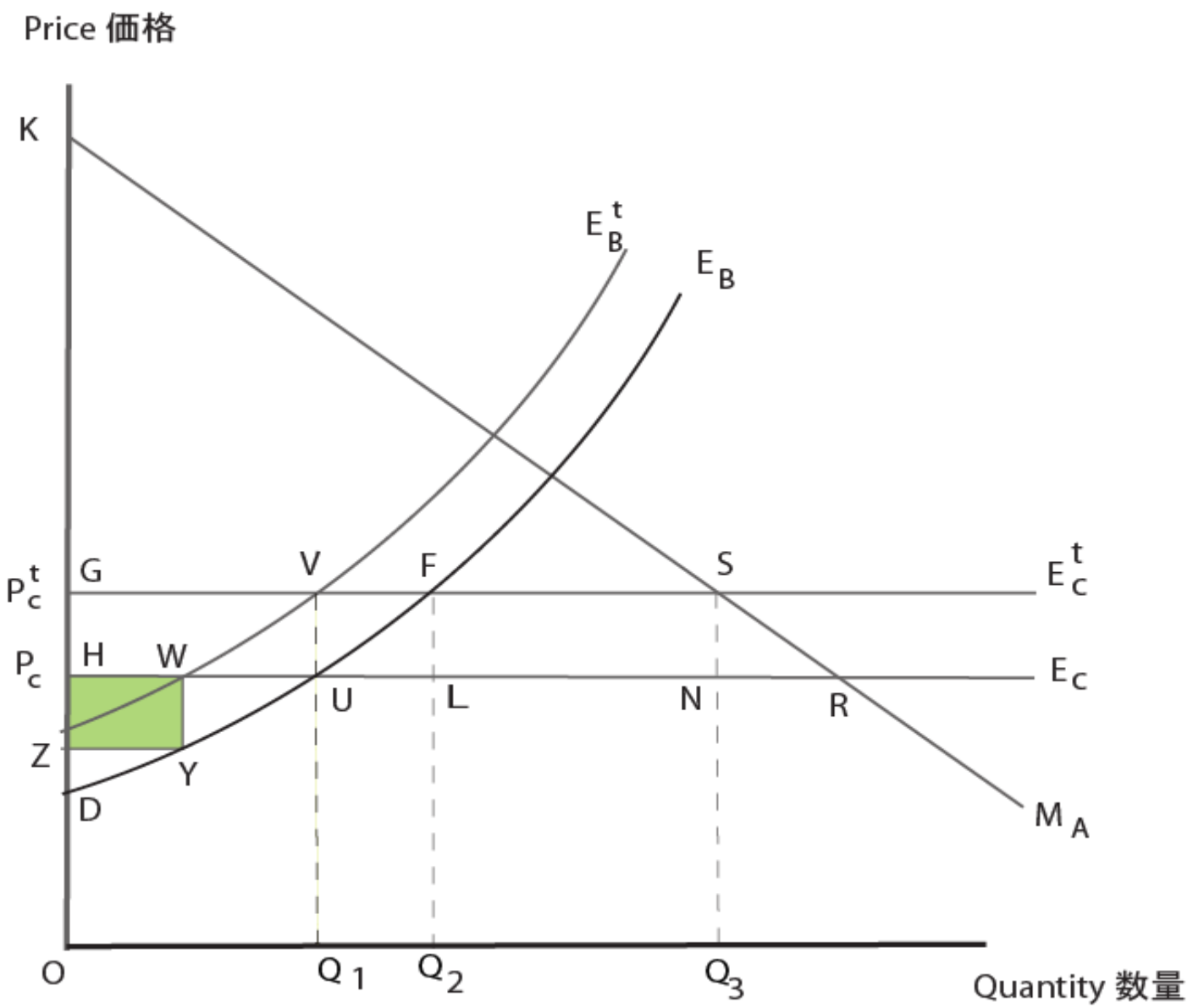

Figure 2.3 (from BKP)
Tariff Revenue of Country A ***after*** Union of A&C.

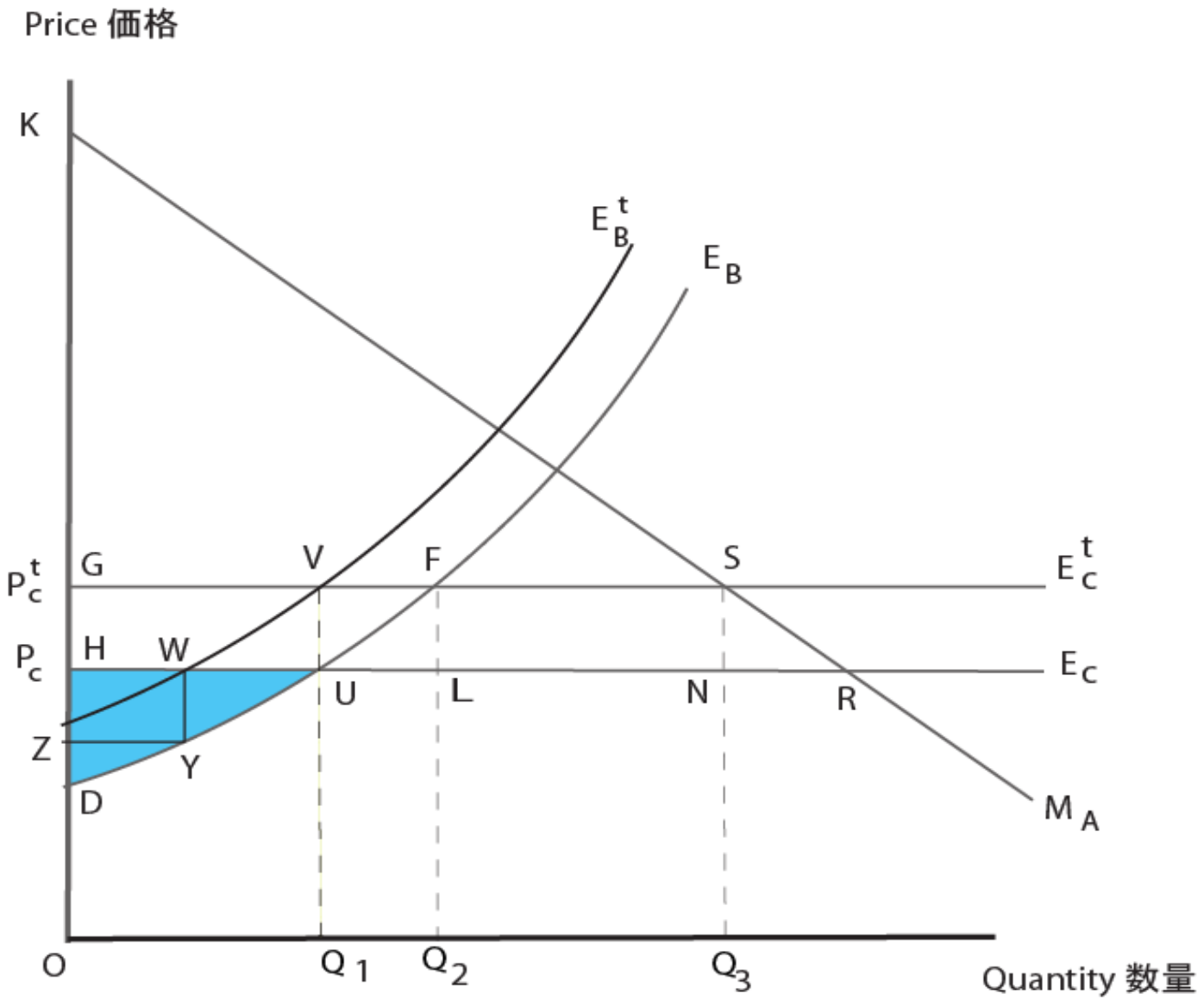

Figure 2.3 (from BKP)
Country B's Producer Surplus ***before*** Union of A&C.

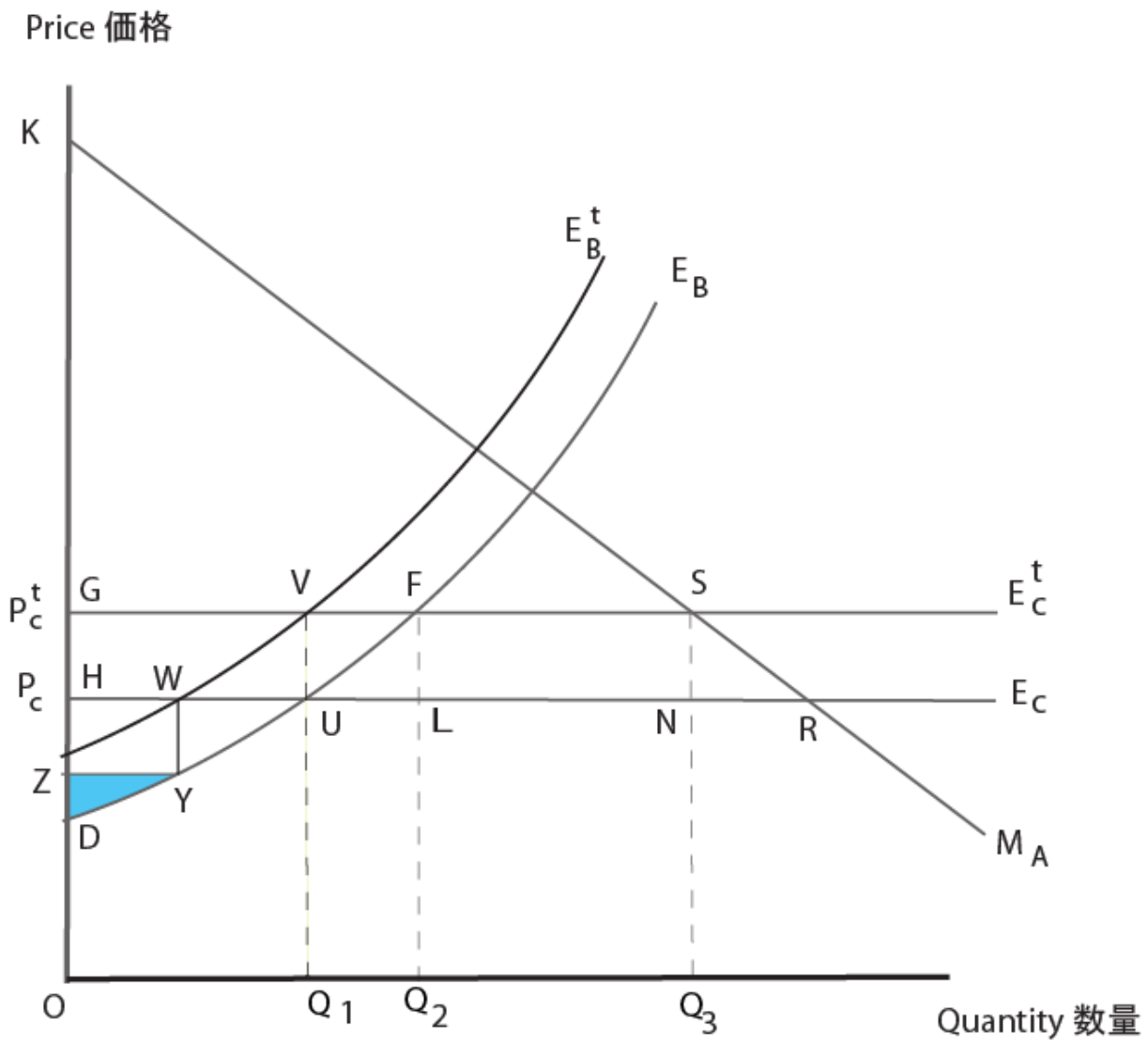

Figure 2.3 (from BKP)
Country B's Producer Surplus ***after*** Union of A&C.

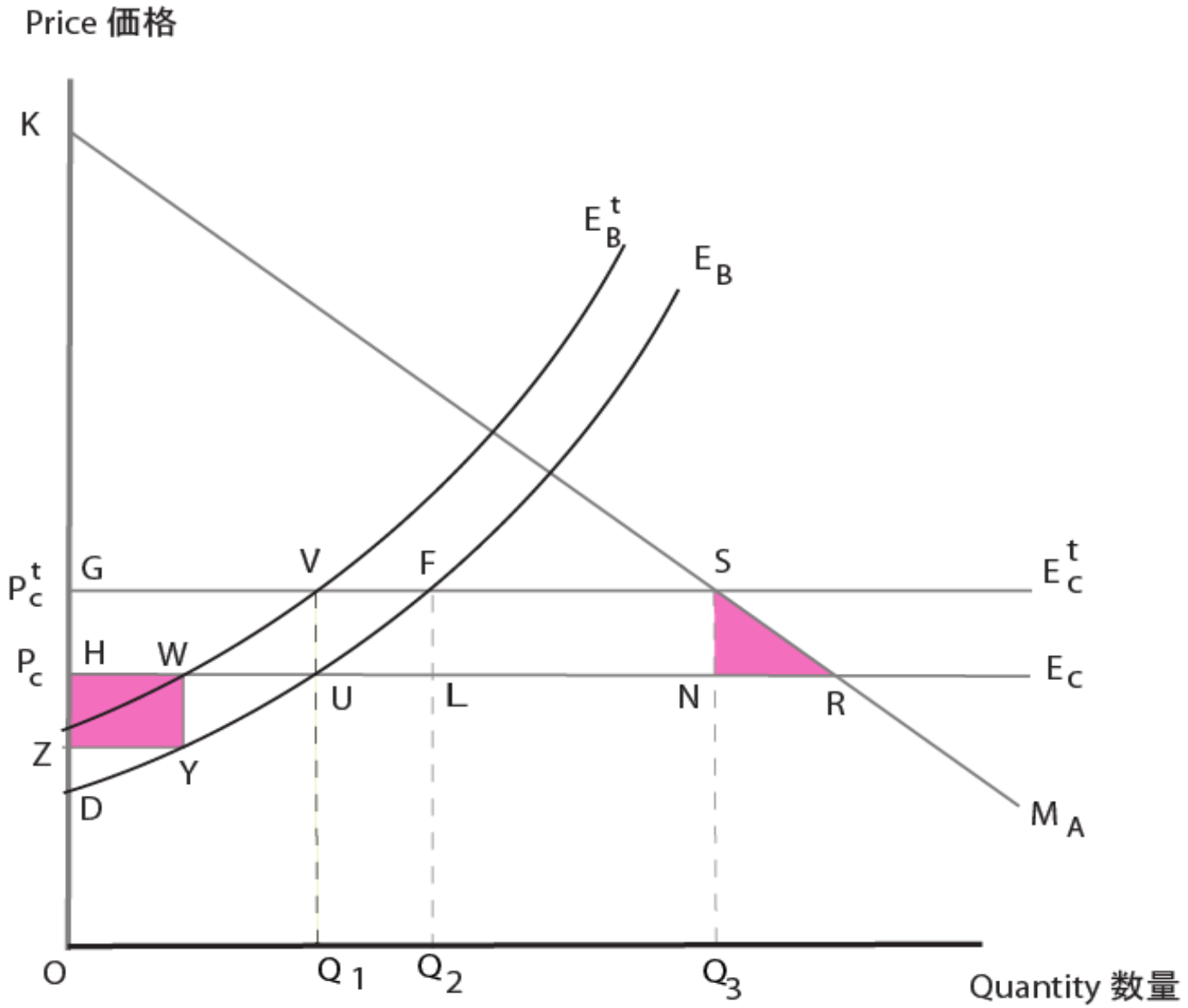

Figure 2.3 (from BKP)
Net Gains for Country A from Union of A&C.

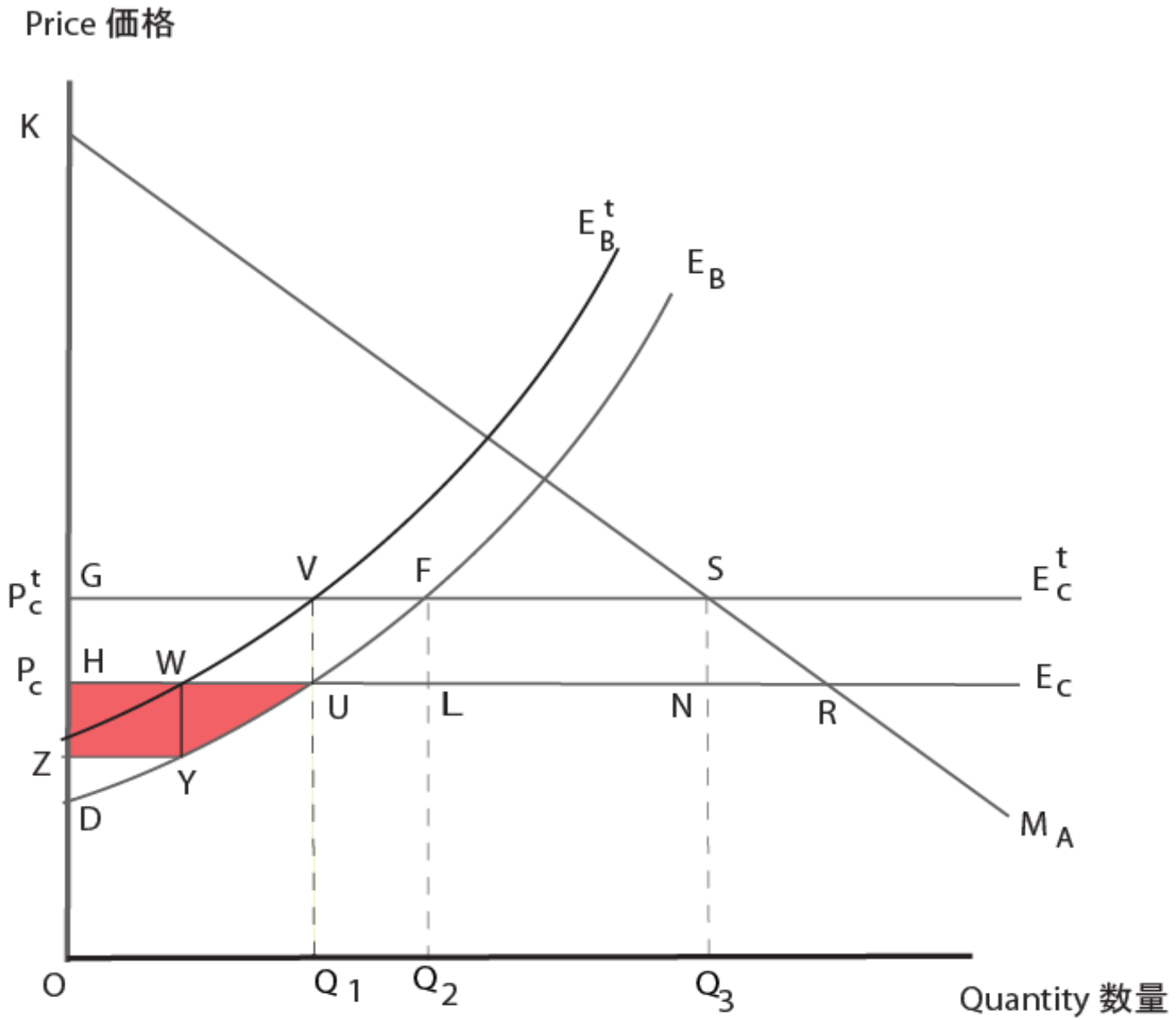

Figure 2.3 (from BKP)
Net Loss to Country B from Union of A&C.

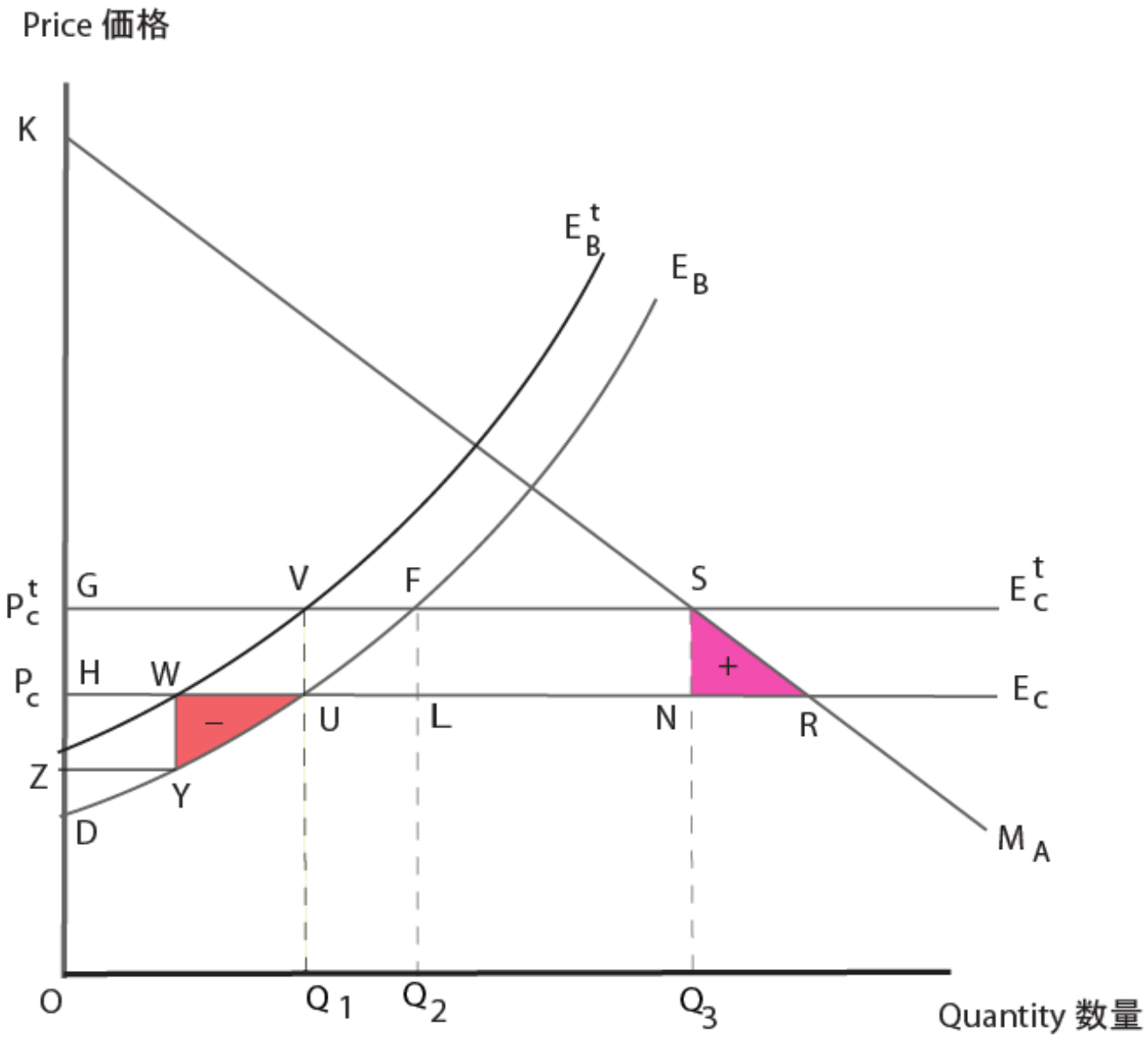

Figure 2.3 (from BKP)
Net Loss for World?

Fast Track (also called "Trade Promotion Authority" since 2000)

A procedure adopted by the U.S. Congress, at the request of the President, committing it to consider trade agreements without amendment. In return, the President must adhere to a specified timetable and other procedures. Introduced in the Trade Act of 1974.

From

http://www-personal.umich.edu/~alandear/glossary/f.html#FastTrack

ファースト・トラック手続き　**fast track procedure**

アメリカにおいて、WTO 協定や NAFTA 協定等の通商協定に関する国内法案の議会審議に適用される特別手続。1974 年通商法により、大統領に通商交渉権限を付与する際に初めて設けられた。この手続きでは、議会は法案修正を認められておらず、法案提出から 90 日以内に、全体の採択かまたは拒否の選択を行うこととなる。