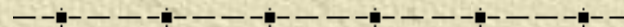


# Module 1.

## Trade Liberalization versus Economic Integration: Convergence Criteria

ECN330

Analyzing Trade Liberalization and  
Economic Integration



2024

# 1. Globalization, liberalization and integration

Motivate: international commercial relations

## 1.1 Global economy and globalization

- ✧ Basic definition
- ✧ Trade liberalization
- ✧ Economic integration

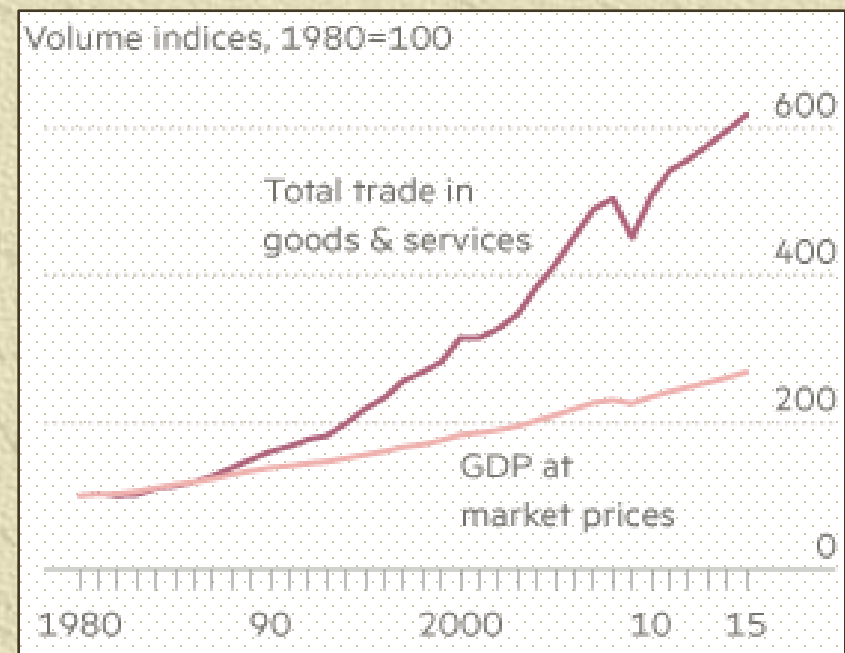
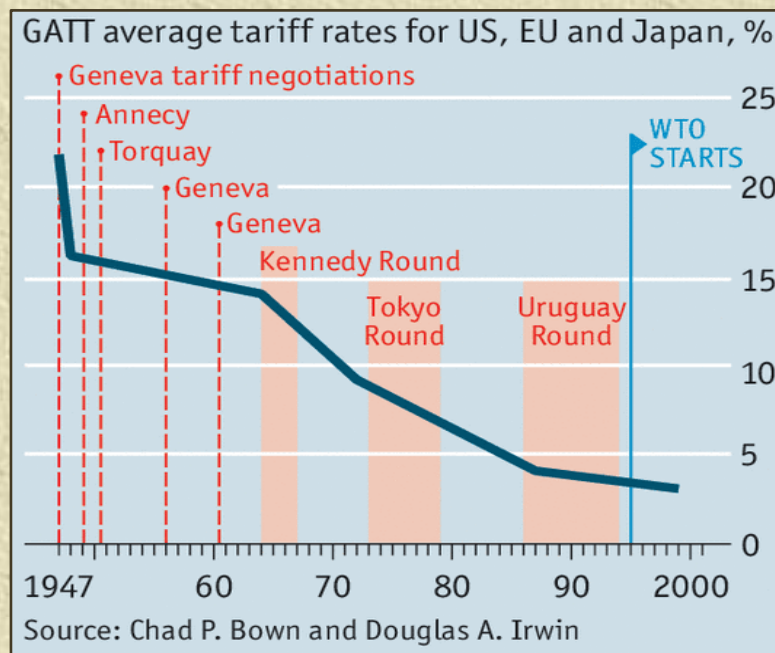
## 1.2 Drivers of the process



# Globalization, continued . . .

## 1.2 State of economic integration

- ✧ Pre-war golden age of globalization
- ✧ Post-war paths toward integration
  - ◆ Integration thru liberalization



*Economist*, “Trade blockage”, Briefing on the world trading system, 21 Jul 2018, p. 15-8.

*Financial Times*, “Embattled future of global trade policy”, by M. Wolf, 13 May 2015, p. 9.

# Globalization, continued . . .

- ◆ 1990s: Washington Consensus for policy reform
  - Fiscal discipline
  - Public investment in education, health, and infrastructure
  - Broadening the tax base (value-added tax), cut income tax rates
  - Financial liberal (mkt-based interest rate; did not mention K controls)
  - Exchange rates that induce non-traditional exports
  - Eliminate barriers to FDI
  - Use of tariffs rather than quotas
  - Privatization of state-owned enterprises
  - Deregulation to ↑ competition (and improve ease of doing business)
  - Legal system that secures property rights

## ✦ Obstacles

- ◆ Activists: western, neo-liberal, small gov't, capitalist agenda
- ◆ Many mkts still national

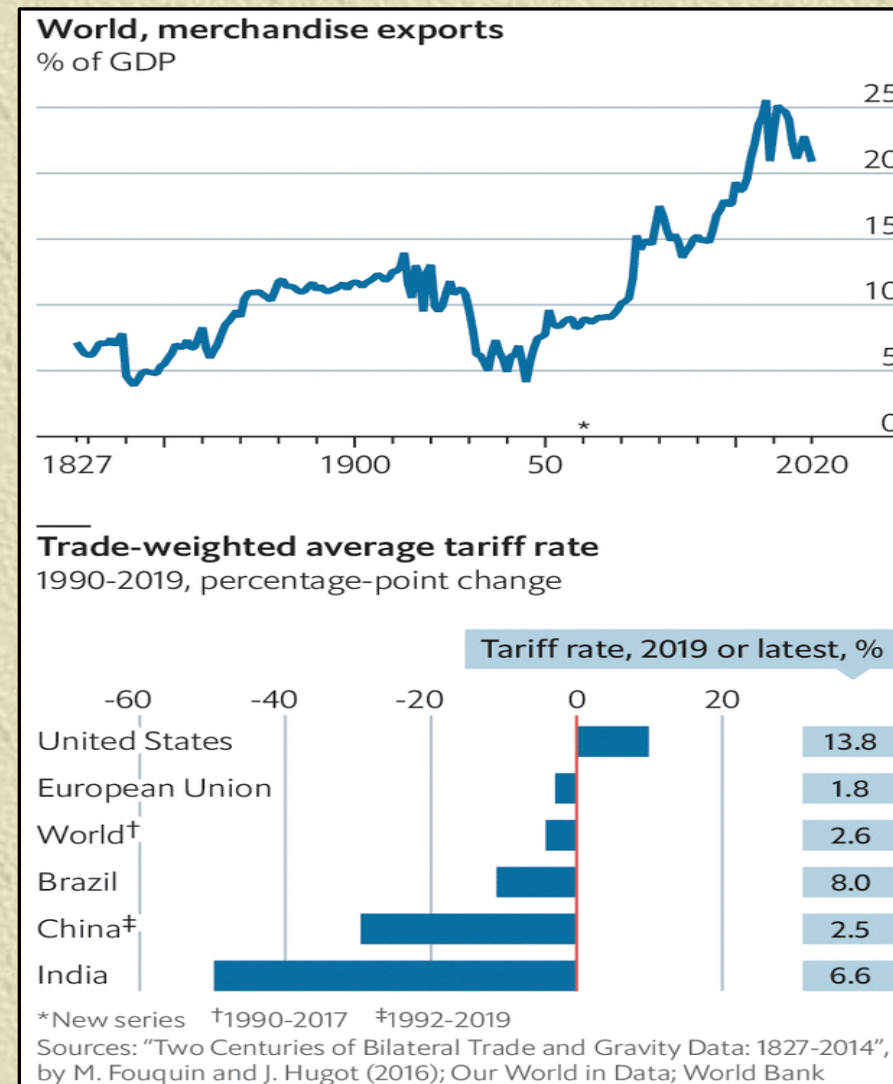


# Globalization, continued . . .

## ✦ State of affairs since 2000

- ✦ Financial crises
- ✦ Trump/Brexit and nationalism
- ✦ Pandemic/policy response
- ✦ Rise of China; geopolitics
  - Trade in goods and avg tariff rates
  - Liberalization was multilateral; in 2023 trade has shifted to being multipolar; non-aligned countries

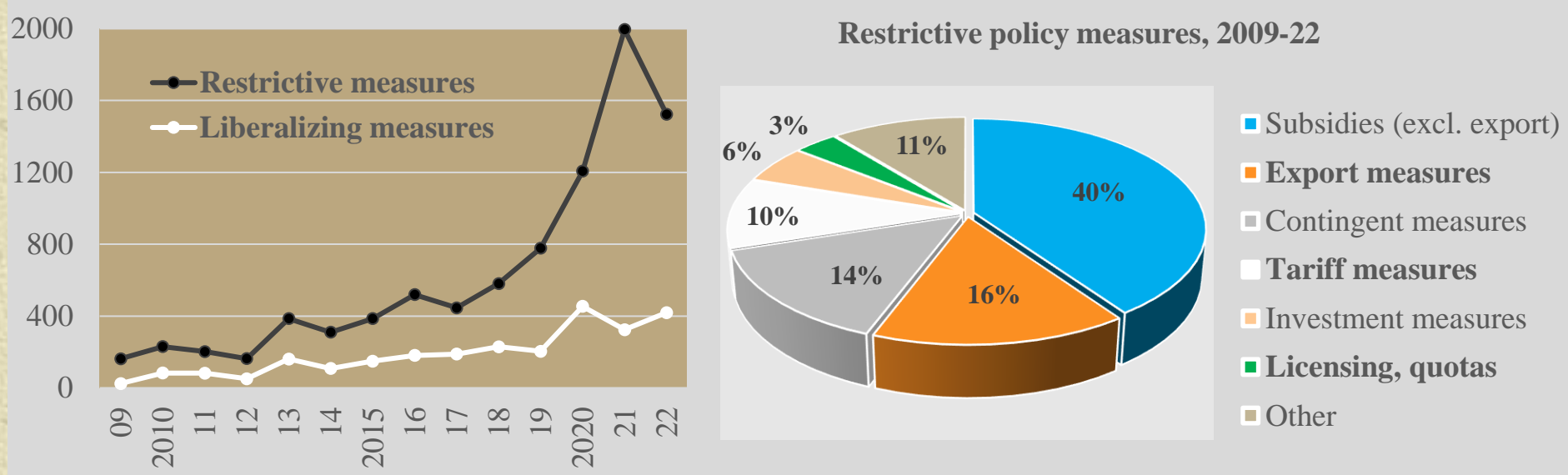
*Economist*, “World trade: The new order of trade”, Special report on the world economy, 9 Oct 2021; and “The new non-aligned: How to survive a superpower split”, 15 Apr 2023, p. 49-51.



# Globalization, continued . . .

## ✦ Restrictions on globalization

- New measures enacted against foreign commercial interests
- Restrictive measures by type, 2009-22 (total 8 888)

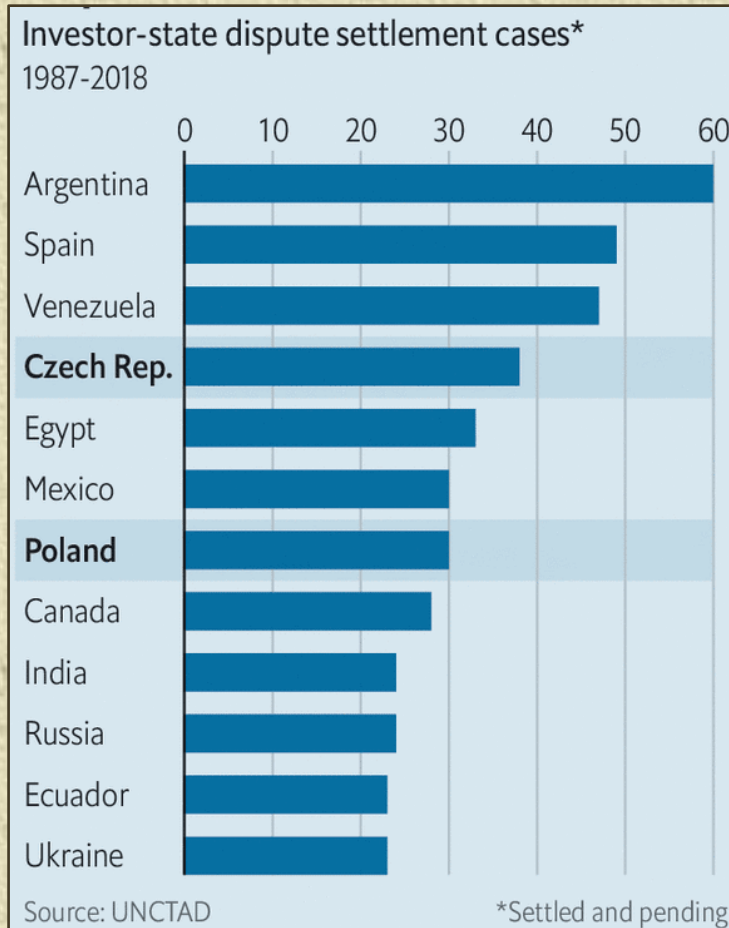


Source: Global Trade Alert, data accessed 2022

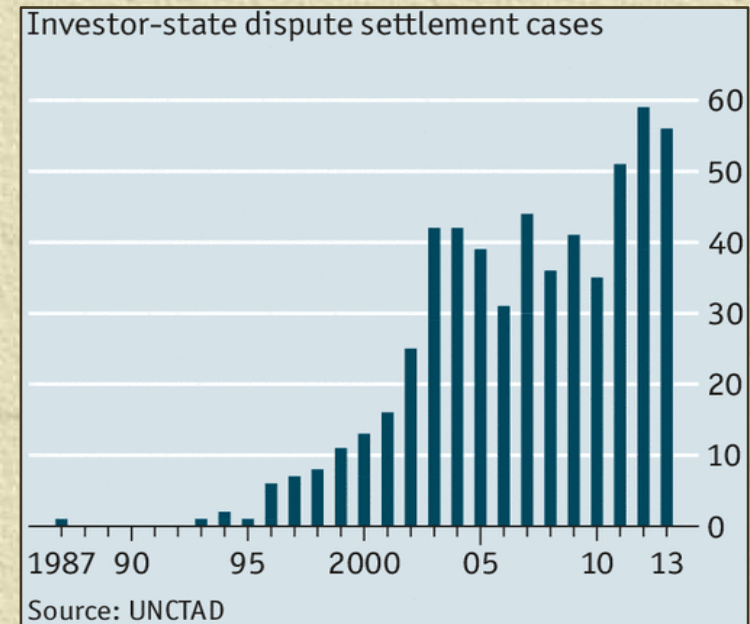


# Globalization, continued . . .

## ◆ Disputes involving foreign investment



Bilateral investment treaties include investor-state dispute settlement (ISDS) provisions to encourage investment by protecting investors against discrimination or expropriation. A large share of the 942 ISDS cases during 1987-2019 involve post-communist states that joined the EU-15 in 2004 (Cases in Czechia, 38, and Poland, 30, account for 7%).

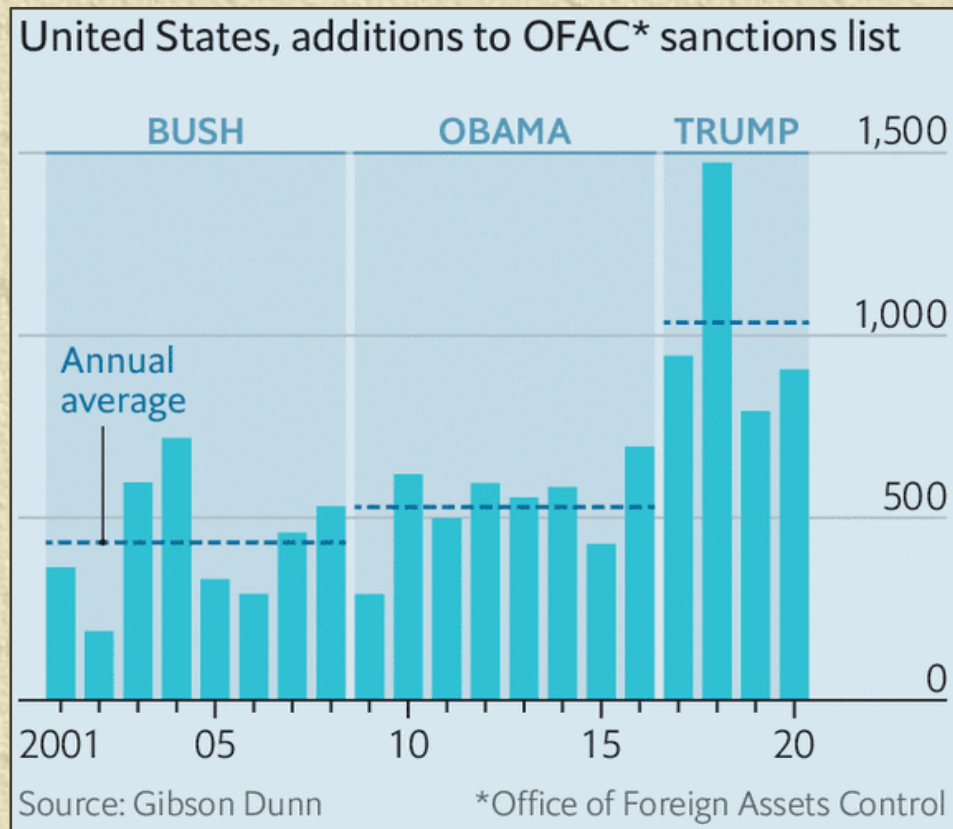


*Economist*, “Foreign-investment disputes: Kafkaesque”, 8 Jun 2019, p. 60.

*Economist*, “ISDS: The arbitration game”, 11 Oct 2014, p. 74.

# Globalization, continued . . .

- ◆ Sanctions: foreign policy instruments restricting trade
  - Rise of extra-territorial enforcement of unilateral restrictions
  - China's in-kind response



In 2021 China passed a law stating the gov't can seize the assets and block transactions of firms complying with US or EU measures against China.

*Economist*, "Tit-for-tat struggles: Try this for size", 19 Jun 2021, p. 52.

*Economist*, "Handle with care: Sanctions are central tool of government's foreign policy", 24 Apr 2021.



## 2. Integration: Convergence Criteria

2.1 Convergence: economic, political and legal

2.2 Trilemma: integration, democratic principle, sovereignty

2.3 Theoretical construct

Integration criteria	Basic assumptions – conditions for convergence					No technological barrier / constraint
	Competitive mkts	Identical goods, services, factors	No gov't policy/regs		No transactions costs	
			Trade policy	Non-trade regs		
Trade in goods	Open to trade + FDI; No SOEs	LOOP in branded goods or primary products	Only on goods	Std's or technical regs Certification reqs		
Trade in services						
Int'al K-mobility	Integration and flexible mkts	Depends on types		Capital controls		
Int'al L-mobility		Depends on types		Immigration laws		

### 3. Stages of Liberalization and Integration

#### 3.1 Theoretical case for multilateral trading system

✧ Uni-, bi- and multilateral liberalization: convergence

✧ Debate on regionalism vs multilateralism

Argument	Regional bloc	Multilateral accord
[1] Static gains	Benefits concentrated; trade creation/diversion	Max global benefits; trade creation
[2] Promote trade; greater liberalization	Greater MA, esp if there are common regs; preferential	Rules-based MA; fewer exceptions; non-discriminating
<div>↓</div> Facilitate trade talks	Blocs grow and merge	Blocs slow talks; EU: all 27 must agree before talks start
	Blocs ↓ number of players; ↑ profile of smaller countries	Blocs exclude poorest; Regional bully defines terms, blocs are political
[3] Dynamic gains or L-R integration	Integration is built-in agenda; integration → ↑ integration	Gains follow own course; Integration not formally covered
	Effect on competition / specialization from: (1) $\Delta P$ ; (2) $\Delta$ tech (economies of scale); and (3) Common/approx regs	



# Stages of Liberalization & Integration, continued . . .

## 3.2 Stages of integration – not theoretically precise

✧ FTA and customs union

✧ WTO definitions: GATT Article XXIV

Clauses	Compliance issues
Para 4	<b>Facilitate trade</b> between territories (from para 2, those with separate tariffs or other regulations of commerce) <b>without raising barriers to non-members</b>
Para 5	Create FTA/CU withing a <i>“reasonable length of time”</i>
	<b>Restrictions</b> during phase-in period <b>cannot be</b> higher or <b>more restrictive</b> than generally applied
Para 8	FTA/CU defined as territories in which duties/restrictions of commerce are eliminated on <i>“substantially all trade”</i>
	CU requires CET on <i>“substantially all trade”</i>
Para 9	Conditions on <b>transshipment</b> of non-FTA goods: collect duty equal to a rate that <b>eliminates arbitrage</b>

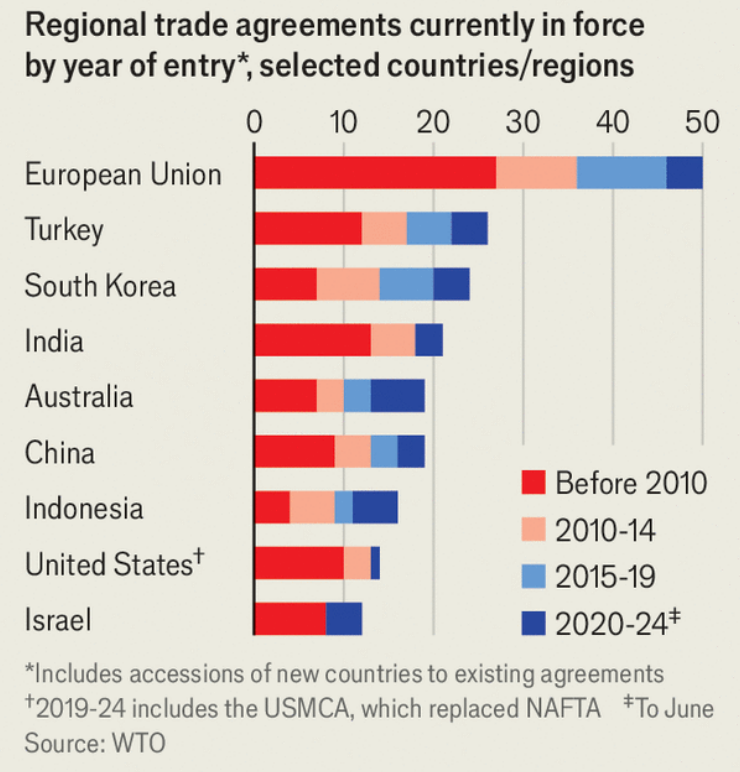
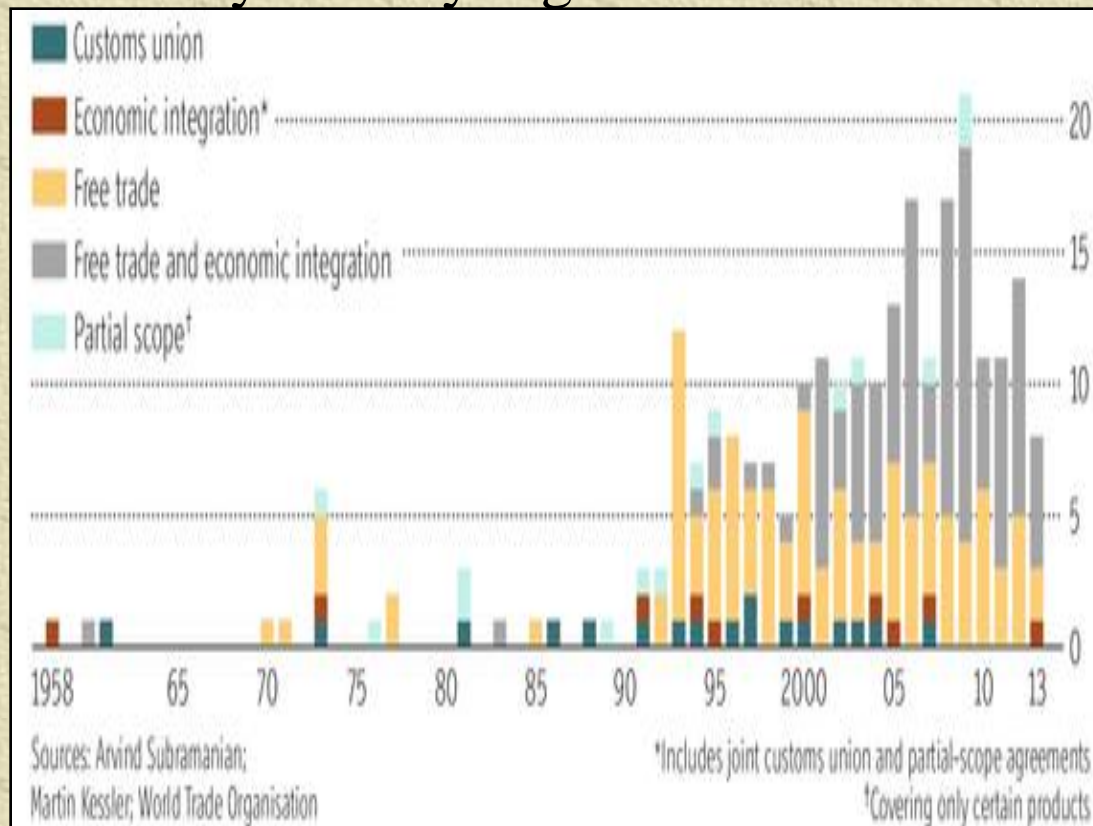
# Stages of Liberalization & Integration, continued . . .

## 3.3 Trends in regional trade agreements (RTAs)

### ✧ Regional agreements

✧ By types (almost 370 by 2024)

✧ By country/region



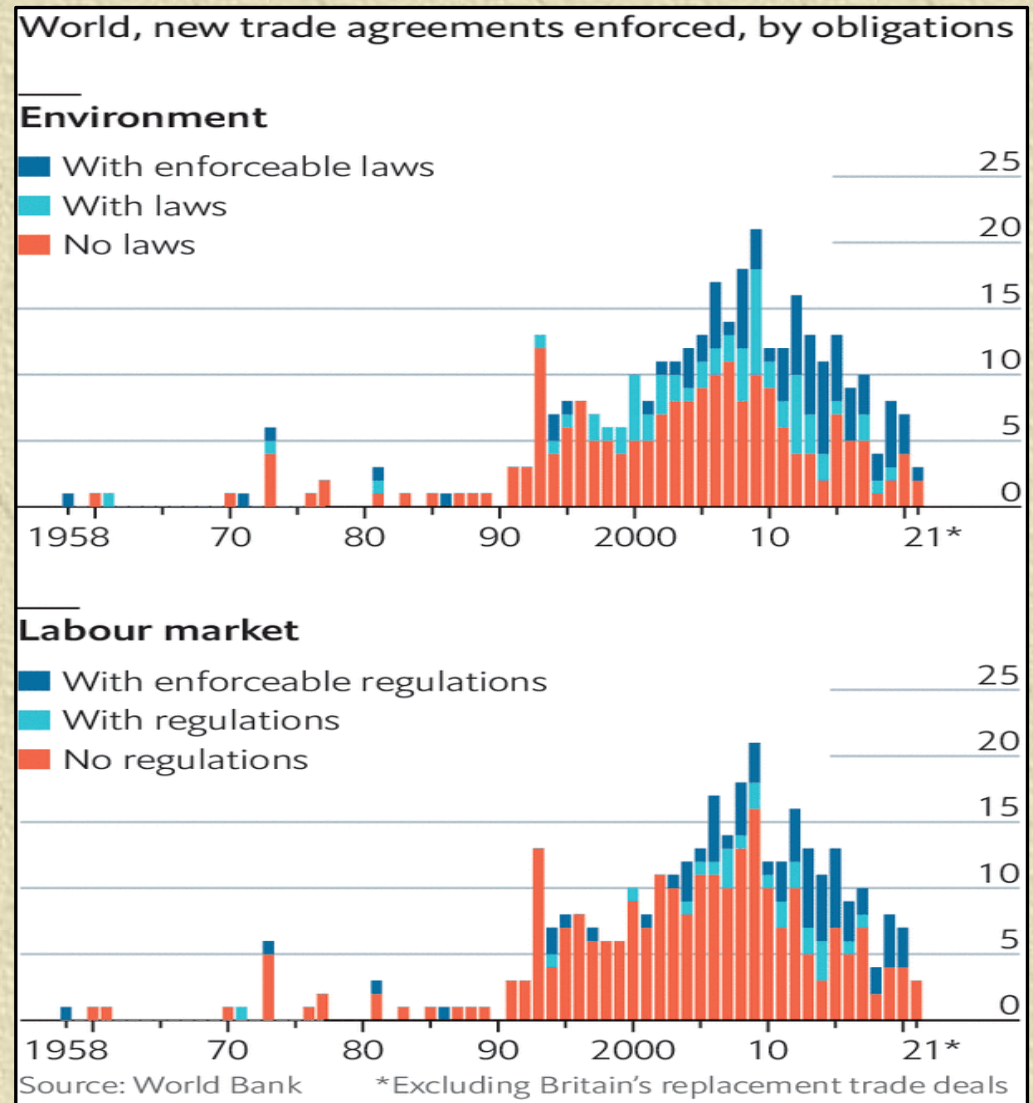
*Economist*, “Global trade: The art of the deal”, 15 Jun 2024, p. 60-1.

*Economist*, “Trade: In my backyard”, 12 Oct 2013, p. 11-16



# Stages of Liberalization & Integration, continued . . .

- ◆ Agreements including rules on environment and labor standards



*Economist*, “World trade: The new order of trade”, Special report on the world economy, 9 Oct, 2021.WTO Secretariat

# Stages of Liberalization & Integration, continued . . .

## ♦ Measure of intra-RTA trade, % of total trade, 2020



*Economist*, “African economies: Trade flaws”, 26 Mar 2022, p. 29-30; and “Trade in Latin America: Trouble with mountains”, 15 Jun 2024, p.39-40..

### African continental FTA (AfCFTA)

#### Problems in integrating:

- Poor infrastructure (rail is limited; low road density for road transport)
- High cost of logistics (no set back-haul)
- Lack of transport cost info (no transport spot mkts; must sign L-T contracts)
- Rules of origin is current stumbling block

#### Latin America’s problems

- Brazil and Argentina are the most protectionist EMEs in the world
- Chile which exports ag products must negotiate food-safety deals with each country in the region



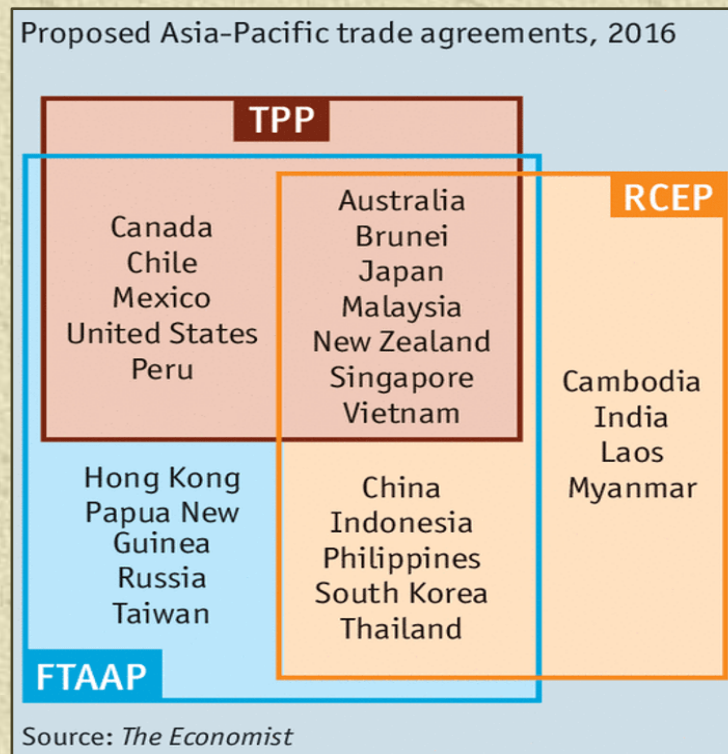
# Stages of Liberalization & Integration, continued . . .

## ♦ Asia: overlapping agreements

- TPP was a comprehensive deal unlike other Asian trade deals
  - ♦ TPP is dead but CPTPP continues (without US and China)
  - ♦ CPTPP: watered down many US demands; low intra-bloc trade (Comprehensive and Progressive TPP)

FTAAP – FTA of Asia and Pacific

RCEP - Regional Comprehensive Economic Partnership



*Economist*, “The collapse of the TPP: Trading down”, 19 Nov 2016, p. 44-5.



*Economist*, “Free trade in Asia: Trump could not kill it”, 11 Mar 2023, p. 39-40.

## 4. Creating the EU

Motivate

### 4.1 Background

✧ Why did Europe choose regional integration over multilateralism?

- ✧ GATT, 1948
- ✧ Marshall Plan, 1948
- ✧ Coal and Steel Community Treaty (Treaty of Paris, 1952)



# Creating the EU, continued . . .

## 4.2 Phases of integration: treaties bringing Europe closer

Treaties	Date	Members	Main points: deepening+widening
<b>Phase 1</b> CU, product mkt integration thru sectoral integration + legal developments			
Treaty of Paris	1952	EC-6: Be-Ne-Lux, IT, GE, FR	<i>Limited pooling</i> on coal + steel
Treaty of Rome	1958		<b>Common external tariff + trade policy;</b> mkt in goods, CAP; <i>↑supra-nationality</i>
Atomic energy	1958		Common nuclear energy policy
Enlargement: 1973, 1981, 1986			UK, DK, Ire; GR; SP, Port
<b>Phase 2</b> 1980s: EC political/economic environment (supra-nat'al institution-building)			
Single European	1987	EC-12	<b>Remove</b> the <i>last internal barriers</i>
Enlargement: 1995; T. of Schengen			AU, FIN, SWE; Immigrate/border policy
<b>Phase 3</b> 1990s: Treaties that widen, deepen and complete the EU integration process			
T. of Maastricht	1992	EU-15	European + monetary union
T. of Amsterdam	1999		<b>EU parliament, rights, employment</b>
Treaty of Nice	2003		Commission + voting; common defense
Enlargement: 2004; 2007; 2013; Brexit			10 C. + E. European; Bul, Rom; Cro

# Creating the EU, continued . . .

## ◆ Further enlargement



*Economist*, “Enlargement: One last push”,  
30 Sep 2023, p. 19-21.



# Creating the EU, continued . . .

## 4.3 EC's approach

### ✧ Two guiding principles

- ◆ Create a customs union
- ◆ Pursue product market integration

### ✧ Mechanisms

- ◆ Integration through trade liberalization
- ◆ Legal development: “free movement of goods”
- ◆ Harmonization through approximation on regs

## 4.4 Degree of integration by EU

### ✧ Liberalization and approximation

### ✧ Successes and failures

### ✧ Acquis Communautaire - harmonization

# Creating the EU, continued . . .

## 4.5 Economic freedoms of the EU

	TIG	L movement	K movement	TIS
Coverage of the freedom	Products with commercial value & electricity/ natural gas; Remove trade barriers; harmonize domestic regs; CET, quantitative restrictions and measures with equivalent effect; rules on state monopolies; exceptions on justified grounds	Free movement of workers: right to move to different member state; non-discrimination regarding employment, remuneration and work conditions; excludes public sector	Financial investments, capital transfers; right of establishment of a foreign firm (FDI)	The residual freedom not provided elsewhere; Self-employed persons who move between member states



# 5. Trade Liberalization under the Multilateral System

## 5.1 Multilateral liberalization: from GATT to WTO

### ✧ What was the GATT?

- ✧ Accomplishments and limitations
- ✧ Trade negotiation rounds
- ✧ Uruguay Round

### ✧ What is the WTO?

- ✧ Multilateral organization
- ✧ Gov't-to-gov't
- ✧ Body dealing with trade rules
- ✧ Forum for holding trade negotiations
- ✧ Settle trade disputes

# Liberalization under multilateral system, continued

Round	Period/ parties	Coverage	Outcome
Geneva	1947 / 23	Tariff cuts item-by-item	26% cuts; 15000 concessions
Annecy	1949 / 33	Tariff cuts item-by-item	3% cuts; concessions on 5 000 lines; 9 accessions
Torquay	1950 /34	Tariff cuts item-by-item	4%; 8 700 concessions; 4 accessions
Geneva	1956 / 22	Tariff cuts item-by-item	3%; cut on existing commitment
Dillon Round	1960-61 / 45	Rebalancing due to the creation of the EEC	4%; 4 400 concessions
Kennedy Round	1963-67/ 48	Formula for tariff cuts; AD & customs valuation	35% avg cuts; 33 000 lines bound; agree on NTBs
Tokyo Round	1973-79 / 99	Tariff cuts and broad NTB negotiations	33% cuts that led to 6% ceiling on OECD manufactures imports; agreement across NTBs
Uruguay Round	1986-94 / 103 begin 117 end	Formula cuts and item-by-item cuts; NTBs, ag, services IP, disputes	33% cuts; ag, textiles, services subject to rules; rules apply to all members



# Liberalization under multilateral system, continued

5.2 Structure of the WTO	Goods	Services	Intellectual property	Trade disputes
Basic Principles	GATT	GATS	TRIPS	Dispute settlement
Additional details	Agreements and Annexes		How does the WTO address TIG, TIS, and international mobility of L and K?	
Specific sectors or issues	Agriculture Textiles Investment SPS + TBT	Air transport Telecom Financial Tourist		
Market access commitments	Schedule of Commitments			
Country-specific requirements	Listing of tariffs, quotas and subsidy levels	Listing of limitations on market access national treat		

## 6. Concluding comments: Module 1

- ✧ Globalization affected by whether multilateral process survives and large players to avoid unilateral processes
- ✧ Economic integration and trade liberalization can have different economic, political, and legal objectives
- ✧ Difficult to separate the two processes
  - ◆ Trade liberalization → greater economic integration
  - ◆ Greater economic integration → more trade liberalization
- ✧ Either process requires addressing political convergence
  - ◆ Whether approximation of reg is superior to harmonization requires a case-by-case and country-by-country analysis
  - ◆ TIG eventually affects services and TIS affects L,K-mobility