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Chapter 1

VISIONS OF FREE TRADE

The closing of the twentieth century and the opening of the twenty-first witnessed an unprecedented proliferation of regional trade agreements (RTAs). As Europe pushed for the completion of its regional market, a stunning number of countries in North America, South America, Africa, and Asia rushed to form regional markets of their own. Between 1990 and 1994, officials from the World Trade Organization (WTO) were notified of thirty-three new RTAs, more than doubling the total to sixty-eight (Frankel 1997: 4; International Monetary Fund 1994). Then, between 1995 and 2001, another one hundred RTAs formed. A patchwork now covered much of the world. As one observer wrote, RTAs had become "almost a craze in the sedate world of economics, springing up here, there and everywhere" (Urata 2002: 21).

Numerous academics, journalists, and other observers commented on this trend. Most assumed that the majority of RTAs could be understood as expressions of a single phenomenon: a widespread embrace of the principle of free trade. Largely uninterested in comparative questions, they then proceeded to investigate three pressing issues: the causes of this collective turn to free trade, the future of the global economic system, and the local consequences of RTAs for the environment, workers, and other matters. Few wondered whether the presumed similarity of RTAs was, in fact, accurate. *The Social Construction of Free Trade* challenges this undifferentiated view of RTAs and, in so doing, offers one of the first systematic comparative analyses of regional market building across the world.

The starting premise of the book is that the pursuit of free trade in any given region is a *social* endeavor. Much like national market building, it occurs in the midst of rich institutional and political contexts. Market officials take action, but powerful constraints limit their choices. Traditions, structures, values, and norms along with the preferences of powerful actors define the range of what is possible. Societal players, in turn, respond to a broader marketplace by expanding their reach across national borders. Yet which players do so and what, exactly, they engage in depend on the specific opportunities presented to them and the position of those players in their respective environments prior to integration. We thus observe continuity between the shape of RTAs and preexisting local reali-

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ties. We also observe the *uniqueness* of any given RTA: each is the result of a widespread desire for regional free trade pursued in very particular local conditions. RTAs are remarkably different creations. This book explores and accounts for their distinctiveness.

The evidence presented in the next chapters has direct implications for three topics of much current debate: globalization, the nature of markets, and the spread of neoliberalism. First, contrary to the fashionable claims of globalization theorists, the local still matters. Enduring differences across geographies still shape social life. Second, despite the belief that most economists hold about the spontaneous rise and functioning of markets, we see that social actors make markets in specific contexts. Third, the spread of neoliberalism at the end of the twentieth century was not, as most observers have assumed, a homogenous affair across the globe. As is true for many other economic doctrines, neoliberalism offered a general blueprint for economic activity but no instructions for its practical deployment in real life. To be sure, some of these observations are not novel. Until now, however, they have been articulated with evidence from nation states rather than regions of states. The focus on RTAs brings new evidence to bear on these issues.

The specific focus of the book is on two major areas of difference among RTAs. The *first* difference concerns the legal systems crafted in pursuit of free trade. In any market, sustainable buying and selling requires that participants share some basic understandings of the world. On the one hand, they must subscribe to similar views of what is being exchanged and of other items and entities associated with that exchange. Unmet expectations engender disappointment and the dissolution of relationships. Thus, for instance, consumers, importers, and producers in a given market must share similar views about what yogurt, beer, and credit cards are without need for recurring explicit discussion. Patients and doctors must similarly agree on the basic elements of a routine physical examination. And clients at a real estate law firm generally assume that their attorneys know the difference between commercial and residential buildings. On the other hand, participants must also subscribe to certain ideas about what is desirable in the world. Life in the marketplace is complex and unpredictable. When engaging in buying and selling, participants must feel confident that business will be reasonably safe, orderly, and fair. Thus, in any given market there must exist numerous notions that guide everyone's behavior. There must be broad agreement, for instance, over whether purchased goods can be returned, food labels should list all ingredients, or racial discrimination in hiring is acceptable.

Regional market building poses special challenges. Historically, most markets have formed slowly over time in tandem with gradual adjustments in the worldviews of market participants. By contrast, the building

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of regional markets is a deliberate process where barriers to exchange are quickly removed and peoples from diverse backgrounds are expected to interact with each other. The process therefore poses the challenge of standardization: definitions and normative viewpoints about the world must be brought into alignment. This is a major task, since it requires fundamental changes in subtle and sometimes implicit notions about the world.

RTA officials have responded differently to this challenge. In some areas, they have aggressively sought to standardize the world; in others, they have adopted a more laissez-faire approach. The primary tool for standardization at the regional level has been law. This means that in some RTAs officials have erected complex legal architectures rich with standardizing notions about the world. In other RTAs, by contrast, we observe minimalist legal architectures. The latter are often matched by a tendency to encourage participants to trade first or simply rely on standards set by other international organizations (especially for technical matters) and, if problems arise, to turn to reactive conflict-resolution mechanisms.

RTAs differ not only in the complexity of their legal architectures but also in the very targets and content of their laws. They differ in what they standardize, even though similar products are being traded across countries. Thus, for example, in one RTA apples may be subject to standardization (for instance, laws may define varieties of apples) while in a second RTA computer monitors are subject to standardization (for instance, the chemical properties of liquid crystal display screens are specified), even though in both RTAs apples and monitors are bought and sold across national boundaries. There also exist differences in the very content of standardizing law when, in fact, similar subject matters are targeted. The laws of two RTAs, for instance, may define and regulate child labor, medical conditions, and the use of food additives quite differently.

The *second* claim concerns the responses of societal organizations to regional integration. Different interest groups, businesses, and state units develop regional structures and programs in different RTAs. In one RTA, for example, we may observe the rise of environmental groups with transnational membership bases and objectives. In the same RTA, we may also observe that computer manufacturers have expanded their production infrastructures across national borders, while state labor departments participate in new regional-level coordinating bodies and have developed specialized domestic units to deal with the movement of medical professionals. In another RTA, we observe different dynamics. There, we may note the rise of regional associations of wildlife hunters, the expansion of furniture manufacturers, and the internationalization of transportation departments.

In some cases, analogous organizations develop regional structures and

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programs across different RTAs. But those cases still see important differences across those organizations in terms of specific structures and programs. If, for instance, farmers emerge at the regional level in two RTAs, their members' profiles and their objectives are likely to vary. Similarly, if textile companies expand internationally in two given RTAs, what exactly they produce will differ.

What helps *explain* these differences in law and organizational developments? *The Social Construction of Free Trade* proposes a political-institutional explanation: with regard to both law and organizations, a combination of institutional factors (above all, legal traditions) and political factors (above all, the preferences of powerful actors in society) is at work. This combination in most cases ensures that RTAs offer much continuity with existing conditions on the grounds in the member states and that RTAs acquire their distinctive character.

Specifically, in the case of interventionism versus minimalism in regional law, the presence of civil- versus common-law traditions in the member states of each RTA is of great importance. Civil law represents an attempt to codify the world a priori so as to facilitate social life. Common law is a reactive, case-by-case, and thus gradual approach to regulation. The former is more idealistic and rigid, the latter more pragmatic and flexible. RTA officials instinctively veer towards interventionism when they operate in spaces where member states share traditions of civil law: it is the logical solution to the cacophony of national laws. Officials are naturally inclined towards a minimalist approach when they operate within common-law traditions. There will be times, of course, when not all the member states of a given RTA share a similar legalistic approach. In those cases, officials opt for a regional legal system that matches those that are most prevalent in the member states. The choices of market officials receive the crucial support of key powerful actors (leading economic groups, civil society associations, politicians, and so on) that have flourished in those dominant regulatory environments.

As to the targets and content of regional law, we consider again existing legal principles in the given subject area and the preferences of powerful societal players. When crafting regional laws, officials turn to the predominant domestic approaches in the member states: they regulate mostly that which is regulated at the national level and they articulate principles that more or less replicate, at the regional level, shared national principles. Here too, of course, officials can at times craft regional laws that depart from existing principles in one or a few of the member states. Such departures, however, do not deprive regional law of its roots in the legal principles that are shared by most, if not all, of the member states. Pressuring market officials to follow national legal approaches are powerful actors. With a vested interest in translating at the regional level those

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legal environments in which they have grown, these actors have a great stake in RTA officials' developing specific types of laws that will solidify their position in society. In many cases, their influence ultimately determines, within the boundaries of the permissible, the final character of any given regional law.

Organizational changes in RTAs also reflect existing institutional and political contexts. Those organizations that develop regional capacities have typically operated in domestic legal environments that have prepared them for expansion. Seldom do weak domestic organizations respond to integration by asserting themselves at the regional level. At the same time, the very presence of regional law (itself an institution) in certain areas of social life has an impact on organizations: regional law creates incentives for organizations that have the necessary resources to become transnational. This happens differently for different types of organizations. The presence of regional law on certain topics encourages certain interest groups to develop regional capacity to lobby and guide the direction of such law. The standardization of certain products and processes encourages certain firms to expand their programs and structures at a regional level. Regional law, in turn, poses for state administrative units problems of oversight, implementation, and reporting that are more readily addressed by developing regional capacity. Thus, in a given RTA, we are likely to see the parallel evolution of law and societal organizations in certain spheres of social life. As regional law takes shape and offers the underpinnings for an economically integrated area, organizations adapt by expanding their operations in tandem with such law.

The evidence for these claims concerns three RTAs in Europe and the Americas: the European Union (EU), Mercosur, and NAFTA, the three most important and, occasional crises notwithstanding, best functioning RTAs in existence. We shall examine NAFTA's minimalism and the interventionism of officials in the EU and Mercosur. We shall also see how EU, Mercosur, and NAFTA officials have differed in what they target for standardization and in the content of their standardizing definitions. For that, we will turn to three subject areas within the realm of economics: the rights of women in the workplace, dairy products, and labor rights. Only EU officials have generated rich notions on working women. Only Mercosur officials, by contrast, have standardized the world of dairy products. In all three RTAs, officials have generated important notions surrounding labor rights, yet their definitions and visions vary significantly.

We will then consider the evolution of three types of organizations in the same three areas of economic life. Here, too, the three RTAs exhibit remarkable differences. We will learn about the development of regional-level women's groups in the EU, but not in Mercosur or NAFTA. In Mercosur alone we will observe dairy companies rushing to expand their op-

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erations across borders. In all three RTAs we will note that national administrations have developed units and processes with regional capacity in the area of labor rights but, crucially, that those units and processes are particular to each RTA.

The argument and evidence presented in this book directly challenge the recent writing of a number of academics, journalists, politicians, business leaders, and other observers of globalization. The most aggressive theses were put forth in the late 1980s and early 1990s, following the collapse of Communism as a viable option for organizing human societies (Zakaria 2000). There is now an extensive and sophisticated literature on the topic. Edited volumes offer interesting overviews of its breadth and variety (Lechner and Boli 2000; O'Meara et al. 2000; Berger and Huntington 2002). We shall not review that literature here,[1] but only refer to some of its most important claims, all of which point to a decreasing relevance of the local as a place of difference. Three strands are especially important.

Some proponents of globalization suggest that the world is becoming an increasingly homogenous place. They describe the impending arrival of single models for political, cultural, economic, legal, and other types of systems (Fukuyama 1992). Central to their view is the end of variety. In the political realm, for instance, they note that democracy is becoming the only acceptable form of governance for any community (Diamond 2000). Dictatorships, empires, and other models possess little or no legitimacy: the world community and its spokesmen, such as the United Nations, ostracize them. Without either recognition or access to external resources, nondemocratic communities are unlikely to survive for long. Similarly, the only sustainable form of economic life is some type of market capitalism. Socialism, various forms of protectionist systems, and other approaches to economic life are unrealistic and untenable. The collapse of the Soviet Union was but one indication of this. China and India are now moving towards market capitalism gradually, with impressive results for both. Countries in Eastern and Central Europe, such as Estonia and Poland, offer similar examples (Arrighi 2000; Burtless et al. 2000).

A second set of globalization theorists point to increased international cooperation. As human communities in various geographical locations adopt similar systems—political, cultural, and other—they also enter into very close relationships on the world stage, creating transnational or supranational structures to solidify their relationships. Thus, democratic countries participate in international democratic institutions and sponsor nongovernmental organizations to help formerly communist or socialist countries transition towards democracy (Mendelson and Glenn 2002).

[1] For excellent reviews, see Guillén (2001) and Steger (2003).

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Capitalist countries in turn create international capitalist institutions, such as transnational corporations, and organizations like the IMF or the World Bank (Korzeniewicz 2000). And those concerned with the degradation of the environment and various forms of injustices worldwide join organizations with global agendas and solutions (World Commission on Environment and Development 2000; Amnesty International 2000). To these commentators, we are witnessing the rise of a global village where the boundaries of the traditional nation state are being eroded in favor of a global, cosmopolitan system.

A third group of proponents acknowledges that the world remains full of variation and idiosyncrasies. They also note—in an argument that applies most directly to culture—an unprecedented level of access to that which is different. For example, culinary traditions remain strong, yet foods of diverse origins are available everywhere. In Europe one can eat Cantonese, while in Moscow one can eat Brazilian (Warde 2000). The same applies to music and other forms of art. Again, national traditions remain strong and some even become revitalized, even if they are inevitably influenced by others. What is different is the availability of different artistic traditions (in recordings, live performances, exhibitions, via the Internet, and so on) throughout the world. What applies to culture applies to other spheres as well. As information travels effortlessly across the globe, politicians and economic actors can gain exposure to alternative systems, approaches, and ideas. No nation state can be separate from the world as might have been the case as recently as a few decades ago. Until the mid-1950s, for instance, the Kingdom of Nepal was virtually isolated from the rest of the world. Today, the Nepalese people are well aware of events and systems outside of their small country.

This book challenges these visions of a global world, and especially those related to homogeneity and global cooperation. With regard to homogeneity, it offers evidence that RTAs represent difference—in their architecture and in the societal changes that they engender. These are meaningful differences: they affect whole populations and a variety of businesses, associations, and state structures. They are also rooted in institutional, political, and, therefore, ultimately also in historical and cultural contexts: hence, they are enduring differences. We do not live in a world of converging societies, but in a world where the local—in its multiple dimensions—still matters. As to global cooperation, the book suggests that RTAs represent either an admission that efforts to forge a global economic system have so far failed or a recognition that societies are not ready to fuse themselves into a single economic system. Either way, RTAs represent smaller arenas for economic cooperation, suggesting, even if indirectly, that the vision of global institutions may either be untenable or still only be achieved quite far into the future.

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This book naturally aligns itself with the critics of the globalization thesis. But while many of these works have sought to "rescue" the "national" from the "global,"[2] only some have pointed to the importance of the "regional." This book contributes to this smaller but also growing body of research. It is worth recalling here some of the most important examples. One is a famous piece by Ohmae (1993) describing the rise of heavily interdependent regional economic systems, comprising portions of nation states. It was paralleled by several works arguing that most trade across nations happens in very circumscribed areas, such as that encompassing Japan, Europe, and North America, or the whole of Southeast Asia (Hirst 2000). Others focused more on culture and politics. Huntington's (1997) famous book describing a world divided along the lines of major civilizations—such as the Western, Eastern Orthodox, Latin American, Islamic, and Japanese—is a good example. The next chapters offer evidence of an intriguing combination of regions with unique legal and organizational characteristics.

This book directly speaks to a second important topic: the nature of markets. For almost two decades now, economic sociologists have challenged in strong terms the neoclassical economic assumption that markets emerge naturally out of the human desire to trade: that markets "are spontaneously generated by the exchange activity of buyers and sellers" (Abolafia 1996: 9). A number of supporting structures and factors must instead be in place before exchanges can take place. In important works, Abolafia (1996), Fligstein (2001), Campbell and Lindberg (1990), and others have examined what, exactly, those supporting structures might be. Abolafia speaks of "rules, roles, and relationships" (1996: 9). Fligstein speaks of "social structures, social relations, and institutions" (2001: 4). Others speak of shared understanding about the commodities and actors involved in the exchange (Spillman 1999; Zelizer 1992).

Clearly, this book contributes directly to the idea that markets require much support to emerge and function. The book is above all an exploration of how RTA officials have worked to build spaces where regional markets can flourish. Yet, this project departs from the existing literature in important ways. Its comparative-regional focus is unique: there exist a few comparative works on market building at the national level, but there are no works on market building across multiple regions. We note in fact

[2] There are by now many interesting examples. In a representative work, for instance, J. Glenn (2001) showed that the embrace of democracy at the end of Communism across the world ushered a new wave of superficially similar, but in fact quite different, democratic regimes in Eastern and Central Europe. In a second example, Hall wrote that the post–Cold War period continues to be the period of the nation state: "the powers of the nation-state have varied, but this very variation has allowed them to survive" (2003: 2). See also Campbell (2004), Hall (2000), Paul, Ikenberry, and Hall (2003), Solinger et al. (1999), and Weiss (2003).

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only some works on single RTAs—typically the EU (Fligstein and McNichol 1998). A comparative-regional analysis, then, is needed: Do regional markets require supporting structures? What are these structures, how do they come about, and are they identical across markets? What can account for variation across markets? What are the implications of such variation? If the study of national market building, in all of its variety, has proved rewarding, the study of RTAs is likely to yield a whole array of new and exciting insights.

In addition, we should note that RTAs represent a very particular genre of market building. Most existing analyses consider markets that have developed slowly over time, with the direct and indirect participation of numerous players only on occasion conscious that they are working towards the establishment of a particular market. In these accounts, markets emerge from the confluence of several events and trends. One recalls, for instance, Zelizer's (1992) account of the emergence of the life insurance industry in the United States. The process unfolded over several decades as the economic situation of working parents, culture, religion, and family structures underwent complex—and often unrelated—changes. By contrast, RTAs represent deliberate, explicit attempts to create regional markets in very short periods of time. This amounts to a very different kind of market creation: intentional, faster, programmatic. Our attention in this book is thus much less on proving that markets require supporting structures and far more on examining and comparing the choices that certain individuals and groups of individuals have made, in different places, to construct their respective markets.

The book addresses a third important debate: how a particular economic ideology—in this case neoliberalism in the 1980s and 1990s—has led to remarkably different outcomes in different places. The literature is not only about outcomes, but also concerns the very processes and mediating mechanisms by which ideas are put into practice: the translation of abstract concepts into real-life policies. The argument is quite straightforward. Scholars recognize that the 1980s and 1990s saw a widespread rejection of Keynesian principles of economic management that put a premium on state intervention. Policymakers everywhere turned to the free market as the potential solution to economic stagnation and declining standards of living. The move required restructuring existing state and social structures and instituting mechanisms that would reduce interference with economic life. Initiatives included the deregulation of domestic industries, bureaucratic downsizing, the privatization of state enterprises, the reduction of subsidies, and welfare reforms. Yet, the same scholars argue that the pursuit of broadly similar economic principles led to different outcomes thanks to the very unique processes and mediating mechanisms through which they were pursued. Neoliberalism did not lead to

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convergence across countries, as some observers thought it might (Boltho 1996).

In the case of outcomes, these scholars write that leaders engaged in neoliberal reforms proved selective in their choice of what principles and goals they would pursue. The specific framing and articulation of policies varied. Similar policies had disparate and sometimes unpredictable impacts in different countries (Campbell and Pedersen 2001a; Fourcade-Gourinchas and Babb 2002; Guillén 2001; Hall and Soskice 2001a; Schmidt 2002). As Campbell and Pedersen note:

> Despite increased capital mobility and the potential for capital disinvestment, insofar as labor market institutions are concerned substantial variation remains among the OECD countries in terms of the degree to which they approximate the neoliberal model and, in fact, some clearly do not. . . . [There is no] race to lower corporate tax rates . . . nor [is there] a convergence in government subsidies to business. . . . [T]his is not to say that convergence is an illusion. . . . [There] is evidence for convergence, but with an engaging twist (2001b: 271).

Fourcade-Gourinchas and Babb offer a second illustrative example in their analysis of "the neoliberal transitions" of Chile, Mexico, Britain, and France (2002: 536). "We argue," they write, "that important *differences* remain in the way each of these nations came to liberalize its economy" (536).

The processes and mediating mechanisms responsible for such variation include institutions, culture, politics, and other variables. "In institutionalist terms," argue Fourcade-Gourinchas and Babb, "the emergence and path of the neoliberal regimes was socially constructed through the mediation of national institutions and culture" (2002: 536). Campbell and Pedersen, in turn, observe that "a variety of historically given factors—many of them institutional, such as formal political institutions and discourse institutions—subsequently limited the range of solutions that were either politically available or discursively imaginable to policy makers" (2001b: 257).

This book confirms the insights of these works on how broadly similar principles of free trade (which are elements of a neoliberal philosophy) found unique expression in different places, as processes and mediating mechanisms translated abstract principles into reality. The evidence presented in the next chapters suggests that indeed a gap exists between abstract ideas, where indeed we find similarities, and their real-life pursuit and manifestations, where differences abound. In line with existing works on neoliberalism, the book also emphasizes the role of institutional and political factors in bridging that gap.

Yet *The Social Construction of Free Trade* also departs in important

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ways from these works on neoliberalism. Most of the existing research concerns the national as a source of difference: variation occurs across nation states and, therefore, nation states continue to be distinctive economic and policy entities. The unit of analysis in this book is, by contrast, the region. The book thus investigates the spread of neoliberalism on new empirical grounds. If convincing, moreover, the next chapters also point to some dilution of national distinctiveness. Countries all over the world have accepted the objectives of regional integration. They have lost some of their legislative autonomy while a number of their organizations have acquired a strongly transnational character. The conclusion is that the nation state matters less, then, as a place of difference and has instead become a piece of a larger construct.[3]

Before turning to the theory and analysis in the next chapters, we should review the turn to regional integration, the most important RTAs in existence, and the place of RTAs in the history of trade. This chapter ends with an overview of the rest of the book.

The Turn to Free Trade: Basic Concepts and Major Examples

RTAs constitute efforts to establish single economic spaces across a select number of member states. RTAs are thus neither national nor global: they are regional. This section offers a brief overview of RTAs at the end of the twentieth century: their basic characteristics and the most important examples, including the three case studies of this book—the EU, Mercosur, and NAFTA.

There are four basic elements to any modern market: goods, services, capital, and labor. We may think of goods as physical entities, such as apples, rubber, processed food, computer monitors, and cellular telephones, but also intangible items, such as a software program or a song. Services generally entail some sort of activity performed by somebody for the benefit of a second party. Examples include haircuts, taxi rides, brain surgery, and legal representation. Capital involves sums of money directed towards some form of investment, such as those in stocks, real estate, or private companies. Labor refers to workers of all types and in all industries and sectors.

RTAs aim at the creation of regional markets: spaces where some or all goods, services, capital, and labor can circulate freely across a given number of member states. This, by definition, requires the removal of barriers to the circulation of those entities. What are those barriers to trade? There

[3] Though we must acknowledge that the regional contains many elements of the national, as argued earlier in this chapter and throughout this book.

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exist two types: tariff and nontariff barriers. Tariff barriers are taxes imposed on whatever is being exchanged as a result of its crossing the boundaries of member states. Imposed typically to protect domestic economic actors from foreign competition, they are to be removed gradually over time across sectors of the economy. Reduction follows different schedules and progressions depending on the industry in question. Industries deemed to be particularly incapable of withstanding a sudden exposure to foreign competition (because of unusually high cost structures, for instance) are generally protected longer from liberalization. Tariff barriers also include taxes imposed on trade between any given member state and a country outside of the RTA. When different, those taxes can cause disruptions to competition and ultimately trade within a given RTA.[4]

Nontariff barriers are far more varied and difficult to categorize than tariff barriers. The most obvious include quotas, subsidies, fiscal incentives, and other forms of support used by national governments to help certain industries or players. Quotas limit the quantities of a particular product that are allowed to enter into a country from the outside. They amount to a direct form of intervention on trade that clearly interferes with the natural demand for a product. Subsidies are a bit subtler: a government offers makers of certain products financial support, often on a volume basis. The result is tantamount to lowering production costs: thus, less efficient domestic producers (i.e., producers with higher cost structures) can afford to set their prices lower than foreign competitors, as if they enjoyed lower costs. The outcome is a distortion of trade in favor of domestic producers. Fiscal incentives involve any type of tax break awarded to producers, either during production or after. The effect is similar to a direct subsidy: producers can afford to price their products lower than they otherwise could.

There are then more subtle nontariff barriers—of central importance to this book—all of which ultimately concern fundamental viewpoints

[4] Consider, for instance, two countries from the same RTA in Africa imposing different taxes on Chinese steel. Different taxes will translate into differences in the price of steel and, therefore, in costs for those companies in those member states that utilize such steel. If those companies produce an identical product, under normal economic conditions they will be pricing that product differently: the company paying more for steel will charge the higher price. The resulting disparity in price will serve as a barrier to free trade between those two nations. Customers in the two countries, presumably interested in lower prices, will buy only from one company. The other company will have no opportunity to sell its products. When prices are instead leveled, consumers will presumably be indifferent to which product they will turn to, and trade between the two nations will boom. The solution to differential tax structures with third party trade is the elimination of those differences, something that is typically done with the imposition of a common external tariff. There are other advantages to the elimination of those differences, such as increased bargaining power vis-à-vis third countries (Wise 1994: 83).

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that people and societies hold about the world. These include regulatory regimes in a variety of realms, such as the environment, consumer health, labor rights, safety, and others. When different from country to country, these regulatory regimes have adverse consequences on trade. They give rise to cost differentials among producers. Consider, for instance, a steel manufacturer in one country who, unlike its neighbor in the bordering country, does not need to comply with tight sulfur emissions into the air or with high minimum wages. Differences in regulatory regimes also generate hygienic or quality problems, product incompatibility issues, and so on. Nontariff barriers can also be "softer" than law: they may entail differences in inarticulate expectations that market participants hold about the world. Consider, for instance, the expectations that people from different countries can have about all aspects of a visit to a grocery store, the characteristics of wheat beer, or the equipment available at a ski resort. If not aligned, these expectations can harm market building.

Economists have devised a basic categorization scheme for RTAs largely based on what elements of the economy are affected by the integration process, and much less so on the choice of RTA officials over what tariff and nontariff barriers ought to be eliminated. This is probably due to the fact that the texts of most RTAs often very explicitly identify what elements of an economy they wish to liberalize and provide only general guidance for what types of barriers should be removed. It is in fact quite clear that all RTAs concern most, if not all, goods. The majority concern some capital and services. Only a few address labor.[5] These differences drive the current categorization of RTAs.

The least ambitious are "sectoral cooperation agreements." These are typically agreements concerned with goods in particular sectors of the economy, such as grain, coal, or fish. What are misleadingly called "free trade agreements" generally target most or all goods but only at times services and capital. Labor is typically excluded. "Customs unions" are typically free trade agreements with the addition of a common external tariff (CET) to undo tariff differentials between member states and third parties outside of an RTA.[6] One of the most comprehensive attempts to create a genuine free trade area are common markets. They are like custom unions but apply to the entire economy: goods, services, capital, and

[5] The predilection for goods is a reflection at once of the importance of goods for any given market (especially the less advanced ones) but also of the relative ease with which goods may be targeted. Perhaps more importantly, it is a reflection of the fact that goods are the most likely to be traded across borders with high frequency even before any agreement to craft regional markets is reached. Producers of goods have also traditionally pressured political leaders most forcefully to pursue regional markets.

[6] See note 4 for an overview of the purpose of a CET.

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labor. This typology differs slightly across sources and scholars, and there exist additional combinations not mentioned here.[7]

We can consider the most important RTAs currently in existence in the context of this categorization. Table 1.1 identifies five key RTAs. It draws from their original texts but also takes into account later revisions and expansions.[8] The most advanced of all RTAs is certainly the EU: a full-blown common market.[9] Six countries signed the original Treaty of the European Economic Community (TEEC) in Rome in 1957: West Germany, France, Italy, Belgium, Luxembourg, and the Netherlands. Article 1 of the treaty stated the objective of creating a common market: an area where the trade of goods, services, capital, and labor occurs free from tariff as well as nontariff barriers (Articles 3 and 23 of TEEC). As a common market, the European Economic Community (EEC) would have a CET regime separating the member states from the rest of the international economy (Article 23 of TEEC). Of course, the members subscribed to the goal of generating wealth in a balanced, harmonious fashion. Major social disruptions, increases in poverty, and environmental degradation must be avoided. Progress must be balanced and gradual (Article 2 of TEEC).

A series of enlargements increased the number of EEC members. In 1973, Denmark, Great Britain, and Ireland joined. Greece would do the same in 1981, and Spain and Portugal in 1986. Austria, Finland, and Sweden, until then members of the European Free Trade Area, would become members in 1995.[10] In May 2004, ten additional countries from mostly Central and Eastern Europe joined the common market: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.[11]

[7] There exist, for instance, economic unions: arrangements with all the characteristics of a common market plus the "complete harmonization of government spending and procurement as well as the co-ordination of the operations of central banks" (Yeung, Perdikis, and Kerr 1999: 19). See Frankel (1997: 12–17), Gibb (1994: 24), and Yeung, Perdikis, and Kerr (1999: 18–19) for examples of RTA typologies.

[8] Note that table 1.1 does not include the Asia Pacific Economic Cooperation. Formed in 1989, the organization is not an RTA proper: it relies on voluntary actions by the member states, rather than on formal agreements, to liberalize trade. See Urata (2002: 23) and Mattli (1999: 9).

[9] As the reader will see shortly, the term EU officially refers to much more than the European common market. In this book, the term EU is used to refer to the common market. In certain passages, the term is obviously used to refer to the entire European project.

[10] The European Free Trade Area was formed in 1960 and later joined by a number of countries unwilling to join the EU's common market but still interested in free trade for goods and some coordination for agriculture. Great Britain and Denmark had been members until their move into the EU. The current members are Iceland, Liechtenstein, Norway, and Switzerland.

[11] In this latest enlargement, most of the older member states have opted to close bor-

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Importantly, the EEC was itself only one of three treaties signed by the six member states and, later, by the new members. In 1952, those countries agreed to form the European Coal and Steel Community. This was in effect a treaty to establish a common market for coal and steel and, for that purpose, a supranational policy-coordinating body (the High Authority). The ultimate primary purpose of the European Coal and Steel Community was, however, geopolitical: to ensure international supervision of Germany's coal and steel industries (both central to war making) as well as to make German industries dependent on those of its neighbors (thus making military conflict much less appealing to Germany). In 1957, the same six countries also signed a treaty in Rome establishing the European Atomic Energy Community. In 1968, the three communities—the European Coal and Steel Community, the European Atomic Energy Community, and the EEC—were then collectively organized under one governing system called the European Community (EC).

By 1968, tariffs imposed on internal trade were eliminated and a CET erected. The EEC required the elimination of nontariff barriers. Yet, progress on that front stalled for many decades, much to the frustration of leading business corporations (Mattli 1999: 77–80). In 1986, a comprehensive plan—the Single European Act—was devised to remove all nontariff barriers to the movement of goods, services, capital, and labor. By 1993, the member states had a more or less functioning common market.

The year 1993 brought in a number of important changes to the overall structure and objectives of the EC, though these changes did not affect the common market project directly. At Maastricht, the member states agreed to change the name of the EC to the European Union. The title change was meant to symbolize closer economic and political union among the member states and the related approval of new arenas of cooperation: monetary unification,[12] a Common Foreign and Security Policy, and Justice and Home Affairs. The resulting Treaty of the European Union (TEU) of 1993 thus had three "pillars": the EEC (now confusingly called the European Community and whose founding treaty, the TEEC, is now known as the Treaty of the European Community [TEC]), the

ders to migrant laborers from the new member states for some years, at least in key sectors of the economy.

[12] A voluntary European Monetary System had been established in 1979 to coordinate and stabilize exchange rates. In 1993, most of the member states (Great Britain and Denmark being the exception) agreed to the creation of a European Central Bank and the eventual introduction of a single currency: the euro. The euro circulates today in twelve of the twenty-five member states (Great Britain, Denmark, Sweden, and the newest member states being the exceptions).

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Table 1.1
Overview of Regional Trade Agreements

	Members (2004)	*Elements of the Economy*	*Progress to Date*	*Key Additional Dimensions*
EU (1957) *Common Market*	Austria, Belgium, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden	Goods, services, capital, and labor	Mostly complete, especially with goods	Monetary union; foreign policy; internal security cooperation
Mercosur (1991) *Common Market*	Argentina, Brazil, Paraguay, Uraguay Associate Members: Bolivia and Chile	Goods, services, capital, and labor Important exceptions in goods include the automotive and sugar sectors	Significant, especially with goods; common external tariff planned for 2006	
NAFTA (1993) & Side Agreements on Labor & the	Canada, Mexico, United States	All goods, selected services, all capital, no labor	Significant, especially with goods	

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Environment *Free Trade Area*				
AFTA (1992) & Associated Services and Investments Agreements *Free Trade Area*	Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam	All goods, services, and most capital Important exceptions in goods include unprocessed agricultural products and slow progress with rice and sugar; in investments, portfolio investments are exempted	Fair in goods for tariffs though poor for nontariff barriers; poor in services and capital	In the context of ASEAN, agreements on security, crime, preventive diplomacy, transportation, and other areas
SADC Protocol on Trade (1999) *Free Trade Area*	Angola, Botswana, the Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe	Goods and services	Progress on liberalization of goods; difficulties with services and with ratification of protocol by all member states	Various agreements on political cooperation, energy, crime, natural resources, and other areas

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Common Foreign and Security Policy, and Justice and Home Affairs.[13] Additional, and less important, treaties followed Maastricht.[14] At the time of writing, a Constitutional Treaty that unifies and revises in a single document all the key texts of the EU has failed ratification in France and the Netherlands, and is thus highly unlikely to come into being in its current form.

A good measure of economic integration success is the increase of one member state's exports to the other member states as a percentage of that country's total exports since joining the bloc. Cameron (1998) has analyzed EU figures for 1958–95. With the exception of Ireland and Greece, member states show an average increase of 25 percentage points from the time of entry to 1995. These and other measures clearly depict a highly integrated economic area.

Mercosur represents a second rather impressive effort at forming a common market. Mercosur brings together Argentina, Brazil, Paraguay, and Uruguay as full members and Bolivia and Chile as associate members. It is the third largest trading bloc in the world (after NAFTA and the EU), and the second largest common market (after the EU). The Treaty of Asuncion of 1991 set out the bloc's objectives, while the Protocol of Ouro Preto of 1995 set out its institutional structure. Mercosur, like the EU, aims at the establishment of an area where goods, services, capital, and labor can circulate free from tariff and nontariff barriers. It also aims at the establishment of a CET (Article 1 of the Treaty of Asuncion). As with the EU, the founding documents emphasize that economic integration and growth are not to be obtained at the expense of major environmental degradation or social disruptions (Preamble to the Treaty of Asuncion). The original and very ambitious objective was to establish a common market by 1995. The Protocol of Ouro Preto set out a clear tariff reduction schedule and identified the automotive and sugar sectors as temporarily exempt from liberalization. It also identified a CET for nine thousand product categories (the CET ranged from 0 to 20%, with an average of 14%), though each government was allowed to exempt three hundred products temporarily (until 2001 for most goods).

The linear and automatic tariff reduction for intra-area trade of goods occurred more or less according to schedule. By 1995, approximately 95% of all internal trade was free from tariffs (Carranza 2003: 69). The erection of a CET regime in 1995 was imperfect and riddled with excep-

[13] The European Coal and Steel Community expired in July 2002 and the European Atomic Energy Community is still part of the TEU but in effect irrelevant and on its way to being expired.

[14] The Treaty of Amsterdam of 1999 and the Treaty of Nice of 2000 concern above all the structural adjustments that the EU had to undertake to accommodate the ten new member states joining in May 2004 and those joining later.

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tions, so much so that leaders agreed to aim for 2006 as a target date for full deployment. The liberalization of services, capital, and labor also remains a challenge. Nonetheless, if we again use—as a measure of integration success—the increase of one member state's exports to the other member states as a percentage of that country's total exports since joining the bloc, we find that the average figure for Mercosur member states for the period 1991–2000 is impressive: 33 percentage points.[15] In absolute numbers, intra-area trade increased from US$4 billion in 1990 to US$20 billion in 1997 (Carranza 2003: 69). Intra-area trade accounted for 20% of all trade in 1999, up from 11% in 1990 (Mecham 2003: 378), and remained close to that figure even in the crisis years of 2001 and 2002.

Various political and economic shocks, such as Brazil's currency devaluation in 1999 and Argentina's economic crisis of late 2001 and 2002, have so far challenged but also strengthened Mercosur (Carranza 2003). The election of Luiz Inácio "Lula" da Silva as President of Brazil in 2002 and of Néstor Kirchner as President of Argentina in 2003 brought new energy and optimism to the area (Southern Cone Report 2003). Both men have openly committed their administrations to working towards the realization of Mercosur's objectives and even towards the formation of a broader South American trading bloc by linking Mercosur with the Andean Community.[16] Efforts on the latter front received a boost in September 2003 after the collapse of WTO negotiations in Cancun, Mexico (Forero 2003; Gazeta Mercantil 2003).

Progress in Mercosur is especially noteworthy when the failures of previous integration efforts in the region are taken into consideration. In the words of a prominent scholar of the region, these brought decades of "failures, disappointments and formalism" in South America (Castañeda 1994: 313). Signed with the Treaty of Montevideo of 1960, for instance, the Asociación Latinoamericano de Libre Comercio brought together the current Mercosur member states plus Chile and Peru. In 1961 the membership expanded with the joining of Ecuador and Colombia and, in 1967, with the arrival of Venezuela and Bolivia. The treaty called for the elimination of tariffs and other restrictions on most trade within a twelve-year time period and ultimately the formation of a common market. In fact, the member states failed to take concrete steps at tariff removal and the portion of international trade from the member states that was intraregional trade remained steady at 10% (Gwynne 1994: 193; Mattli 1999: 141–42).[17] The association was eventually reconstituted in 1980

[15] Estimates calculated from data available in International Monetary Fund (1995, 2000, 2002).

[16] The Andean Community includes Bolivia, Colombia, Ecuador, Peru, and Venezuela.

[17] Latin America witnessed a number of integration projects in the 1960s. The Mercado Común Centroamericano (Central American Common Market) was also born in 1960 with

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under the name Asociación Latinoamericana de Integración Económica (Latin America Integration Association) with the much more modest function of fostering economic cooperation through bilateral agreements among its member states.

If the EU and Mercosur represent the two most impressive common markets in existence, NAFTA is undoubtedly the most impressive free trade area in place. Put into effect on January 1, 1994, NAFTA constitutes the largest marketplace in the world.[18] Built on the foundations of the Canada–United States Free Trade Agreement (CUSFTA) of 1988, it comprises Canada, Mexico, and the United States. Its paramount objectives, laid out in Article 102 of the NAFTA text, are the elimination of all tariffs and of a combination of nontariff barriers to the trade of goods by 2003, though sensitive sectors were given until 2008 (Annex 302.2). NAFTA also aims at the liberalization of capital movement (Chapter 11) and selected services (Article 102, Chapter 12).[19] Unlike the EU or Mercosur, NAFTA has no provisions for the liberalization of labor or the erection of a CET. Two corollary agreements on labor and the environment—the North American Agreement on Labor Cooperation (NAALC) and the North American Agreement on Environmental Cooperation (NAAEC)—specify additional trade and policy measures.

Progress in NAFTA has been rapid (Abbott 2000: 543–46). By January 1, 2003, following scheduled tariff reductions, almost all trade in the NAFTA region began to flow tariff-free. If again we consider increases in a member state's exports to the other member states as a percentage of that country's total exports since joining the bloc as a sign of closer integration, NAFTA may be said to have been a moderate success. The average increase is 2.5 percentage points for the period 1994–2001. Interestingly, while Canada and the United States have experienced increases (7 and 4 percentage points respectively), Mexico has not (around −3.5 percentage points).[20] In any event, Canada and Mexico are now the United States' number-one and number-two trading partners.

Though certainly less successful in practice, Asia and Africa have their

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Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua as members. A CET was in place by the year 1966. All but 8% of trade was made free from tariff barriers in little time. Then, in 1970, Honduras withdrew from the common market and shortly thereafter went to war with El Salvador. Soon afterwards, the project collapsed (Mattli 1999: 145). The Andean Pact of 1969 then brought together five countries from the stagnant Asociación Latinoamericana de Libre Comerció: Chile, Bolivia, Peru, Ecuador, and Colombia. The pace of integration in this case was considerably slower than for the common market (Gwynne 1994: 193).

[18] NAFTA member states had a combined GDP in 2003 of US$11 trillion. The GDPs of the EU and Mercosur in 2003 were, respectively, US$8 trillion and US$700 million.

[19] Article 1201 exempts financial services and air transport.

[20] Estimates calculated from data available in International Monetary Fund (1995, 2000, 2002).

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own assortments of free trade areas. Born in 1992 with the Framework Agreement on Enhancing ASEAN Economic Cooperation, the ASEAN Free Trade Area (AFTA) was intended as a free trade area for all goods with the exception of unprocessed agricultural products. AFTA at first included Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. It later welcomed Vietnam in 1995; Burma, Laos, and Myanmar in 1997; and Cambodia in 1999. The mechanisms for tariff reduction were set in the 1992 Agreement on the Common Effective Preferential Tariff. The agreement envisioned a reduction of tariff barriers to 5% or less by 2008 as well as the elimination of all nontariff barriers. The member states then committed in 1995 to reducing barriers to trade in services (ASEAN Framework Agreement on Services) and, in 1998, to the liberalization of investments (with some exceptions, including portfolio investments) by the year 2010, though later that became 2008 (Framework Agreement on the ASEAN Investment Area).

Progress in tariff reduction for goods has been less than impressive, but nonetheless real. Tariffs on intraregional trade of goods fell, for instance, from 12.7% in 1993 to 6.4% in 1997 (Stubbs 2000). Impressively, trade among the member states doubled over the period 1992–2002 (Economist 2002a). Nonetheless, the deadline for full implementation was moved several times, until in 2003 it was set for 2010 for the original six members and 2015 for the remaining members. Countries also stubbornly refused to lower tariffs in major sectors: Malaysia on imported cars, the Philippines on petrochemicals, the poorer countries on rice, and so on. Equally importantly, the member states did little to remove nontariff barriers to imports, especially when it came to formulating shared procedures and standards. This mixed performance record can be attributed to a combination of nonexistent enforcement mechanisms, economic instability in the region, and plain mistrust among the member states (Economist 2002a; Reyes 2000; Stubbs 2000).[21]

Africa has a large number of overlapping and varied free trade areas. A good example is the SADC Protocol on Trade. Signed in 1999 by fourteen members, it envisions a free trade area for goods and services by 2012 extending throughout Southern and portions of Eastern and Central Africa (Deutsche Presse-Agentur 1999). To attain those objectives, the protocol calls for the abolition of all tariffs and most nontariff barriers. Progress has been slow but again real. By August 2001, almost 47% of all goods traded in SADC (Southern African Development Community)

[21] We should note that, at the time of writing, the AFTA member states have agreed in a watershed agreement to form a common market by the year 2020. Under the name of ASEAN Economic Community, the common market is explicitly intended to emulate the European common market in comprehensiveness and success (Nusa Dua 2003).

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were traded at zero tariffs (Xinhua General News Service 2003). At the time of writing, a proposal was on the table to accelerate the implementation of the protocol in order to achieve a full-fledged free trade area by 2008 (Agence France Presse 2003a). At the same time, the failure of three countries—Angola, the Democratic Republic of Congo, and Seychelles—to comply with the essential requirements of the agreement has undermined the viability of the overall project (AllAfrica 2001).

The EU, Mercosur, NAFTA, AFTA, and SADC are only five of the many RTAs that came into existence at the end of the twentieth century. We cannot consider the others in detail here. The most impressive, however, include the 1992 Central European Free Trade Area, the 1996 Andean Community, the 1996 Central African Customs Union, and the 1994 West African Economic and Monetary Union.

RTAs in Historical Perspective

RTAs constitute a new, aggressive, and so far quite successful attempt to create markets that extend beyond established geographical boundaries. Even a very brief overview of the history of trade can illustrate their significance.

Trade across human communities has existed for thousands of years. Archeological and written records show that spices, wool, silk, precious metals, teas, weapons, and a host of other goods have been exchanged across societies since the invention of agriculture and the first sedentary communities (Pomeranz and Topik 1999: 3). Much evidence exists to indicate, for instance, that in the third millennium B.C. trade flourished between Mesopotamia and the Harappan civilization of the Indus River valley. A thousand years later, donkey caravans were linking Mesopotamia and Asia Minor (Bentley 1993: 2001). Later, at the time of the Roman Empire, a number of trading routes collectively known as the Silk Road stretched across the Eurasian landmass. After the fall of that empire, trade boomed in much of Asia, the Middle East, and Africa for many centuries. Even in the pre-Colombian Americas, societies were actively exchanging many goods. In Europe, following a hiatus in the Middle Ages, trade exploded again in the fifteenth and sixteenth centuries (Abu-Lughod 1989; Curtin 1984; Frank 1998).

Though impressive, all of this trade did not amount to a planned integration of local economies. It was quite selective in terms of what was being traded (mostly a few types of goods). There were tariff barriers: taxes were imposed on trade between empires, city-states, nations, and other types of political organizations. There were also a number of nontariff barriers—such as quotas and subsidies, but also language, mistrust,

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and distance—which limited what and how much could be exchanged. The doctrine of mercantilism, with its preference for heavy tariffs on imported manufactured goods and strict trade regulations, perhaps combined the most powerful mix of tariff and nontariff measures in history. Developed by the powerful colonial European nations of the sixteenth, seventeenth, and eighteenth centuries, it imposed some of the most severe restrictions on trade in history (Ekelund and Tollison 1997).

The great economists Adam Smith and David Ricardo in the eighteenth century launched a reevaluation of all protectionist tendencies. Their liberal ideas made some headway in the nineteenth century, most famously when Great Britain—partly driven by a desire to eliminate the illegal smuggling of goods into its territories—repealed its Corn Laws in 1846. The move unilaterally dismantled protectionist tariffs in place since the middle of the 1300s. Other areas in Europe, including France, embarked on similar changes (Cain 1999; Nye 1991).[22] Yet by the 1870s and under pressure to fund ever more costly militaries, most countries in Europe and elsewhere in the world were reverting back towards protectionism and began to impose very heavy tariffs on trade (Cain 1999: 2). By the end of World War I even those countries that had shown a preference for free trade had backtracked. The world was entering one of its most protectionist phases in history (Gibb 1994: 8–9).

The late 1940s ushered in a new, unprecedented era of market integration. World leaders began to view protectionism as having contributed to the rise of nationalism, belligerence, and ultimately World War II. They thus turned to free trade: they hoped that free trade would encourage specialization and reliance on international commerce, and that countries whose economies depended on each other were by necessity less likely to go to war. The signing of GATT in 1947 represented one of the first major achievements of the new economic philosophy.[23] Spearheaded by the United States, the original document involved twenty-three nations, in-

[22] Britain and France signed short-lived bilateral trade agreements with a number of other European countries in the 1860s (Cain 1999: 2). More committal and comprehensive agreements were also signed in what is Germany today: the Bavarian-Württemberg Customs Union of 1828–33, the German Zollverein of 1834, and the Tax Union between Hanover, Brunswick, Oldenburg, and Lippe Schaumburg of 1834–54. Also noteworthy were the Moldovian-Wallachian Customs Union of 1847 in today's Romania and the Swiss Confederation of 1948. See Mattli (1999: 1–5).

[23] In 1944, world leaders met at Bretton Woods, New Hampshire, to set up the institutional framework for the postwar economy. They gave birth to three major institutions: the International Monetary Fund (IMF), the World Bank, and the International Trade Organization. While the IMF was dedicated to macroeconomic stability and the World Bank to helping poorer nations develop, the International Trade Organization was designed specifically for trade regulation. The GATT incorporated the objectives of the International Trade Organization.

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cluding Brazil, the United Kingdom, South Africa, Australia, and most countries in South Asia. The signatories committed themselves to a reduction in formal tariff barriers. The number of GATT members stayed more or less stable throughout the 1950s and 1960s, and then exploded to over one hundred in the 1970s. By the late 1980s, selected nontariff barriers were also included (Gibb 1994: 10–13).

The first three decades of the GATT proved to be a success. The value of trade subject to the new rules went from approximately US$10 billion in 1947 to US$160 billion by the end of 1980 (Gibb 1994: 12). In 1960, according to the World Bank, the ratio of foreign trade to gross domestic product stood at 25%; by 1999 it had become 52% (Urata 2002). Tariffs on manufactured goods dropped from a peak of almost 40% in 1947 to around 5% among the contracting parties in the 1980s (Gibb 1994: 13). In 1993, a new agreement was reached to replace the GATT with the WTO. Around 120 organizations participated in the negotiations. The WTO, a permanent organization based in Geneva, Switzerland, was given unprecedented conflict-resolution powers and a mandate that included not only goods but also services. Membership continued to increase until, by September 2003, the WTO boasted 148 members.

By the 1980s and 1990s, however, the GATT, the WTO, and the multilateral system of bargaining that they embodied began to be plagued by difficulties. The process relied on a cumbersome consensus system: a single small country could veto any given initiative of which it was a part. Though lofty in their aspiration to liberalize trade at the global level, most of the parties focused on goods and not on services, capital, or labor. The primary tool for liberalization, moreover, remained tariff barriers. Nontariff barriers could thus be used easily to limit trade, and most countries took advantage of this option to protect vulnerable industries and special interest groups. Rich countries from Europe and North America continued to offer their farmers and other players in a wide array of industries enormous subsidies. Exasperated, poor countries retaliated by making ample use of complex domestic regulatory schemes, collusion between the state and the private sectors, and other tools to keep imports from rich countries outside of their economies (Economist 2003a: 26–28). Most member states in any case showed great hesitation to comply with tariff reduction agreements and schedules. Tariffs were lowered often only when domestic players could withstand international competition. They were kept high if they could not.

RTAs offered an alternative. Impressive progress in the EU showed the viability of a different kind of market building: regional, rather than global, and more aggressive and deeper in terms of what would be subject to liberalization, how liberalization would be obtained, and what tools would be used to ensure compliance. A wave of RTAs followed.

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Some of these efforts, such as those in South America, built from moribund agreements that had been put into place in the 1950s and 1960s but had never materialized into something concrete. Others, like those in North America, represented fresh departures. All espoused visions of integration that superseded the multilateral collaboration put forth by the GATT and the WTO, and sent warnings to GATT and WTO negotiators that slow and ineffective multilateral processes could no longer be accepted.[24]

The formation of all these RTAs took observers by surprise. This was an unprecedented reorganization of international economic activity. "The surge in regional trading arrangements over the last 10 years," noted the eminent economist Frankel, "constitutes a break with preceding postwar history. Previous regional agreements had been neither so numerous, nor so successful, as those of recent years" (1997: 4). The economic and political physiognomy of the world was quickly changing. The vision of a world with a single economic system was being replaced by a world with multiple, parallel systems of trade. As a group of economists put it in the late 1990s, RTAs, "and not the WTO, are the driving force in the international organization of economic activity. New regional trade organizations are continually being proposed and many are negotiated. . . . [T]he expansion and deepening of regional organizations dominates the international trade landscape at the start of the new millennium" (Yeung, Perdikis, and Kerr 1999: 2).

Our attention in this book turns to this remarkable effort at regional market building. Scholars have only begun its investigation and much remains to be discovered. The next section offers a brief overview of the following chapters.

The Organization of the Book

This book seeks to show that, and explain why, officials in the EU, Mercosur, and NAFTA have, in their pursuit of free trade, addressed differences in the worldviews of market participants quite differently from each other. It also seeks to document and explain the divergent evolution of societal organizations (interest groups, businesses, states) in the three RTAs. Throughout, special attention is given to the impact of legal traditions and powerful actors on the evolution of law and organizations. The next chap-

[24] See, for instance, Kerremans (2000: 144–45) and Vernon (1996). Vernon writes: "The emergence of a NAFTA possibility offered the Americans a splendid opportunity to send a signal to the negotiators in Geneva that, if those negotiations failed, the Unites States had an attractive option, namely to build its own block from a North American base" (625).

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ter outlines the arguments of the book in detail after examining the limits of the existing literature on regional integration. Chapters 3 and 4 follow by offering empirical evidence on the different responses by RTA officials to the standardization challenges inherent to regional integration. In chapter 3, attention turns to their activities in the realms of economic life, public health, and the environment. In chapter 4, we turn to their activities in three key areas within the realm of economic life: women's rights in the workplace, dairy products, and labor rights. Chapter 5 explores the divergent evolution of women's interest groups, dairy companies, and state labor structures across the three RTAs. Chapter 6 summarizes and reflects on the findings. The book raises interesting questions about the desirability of different legal approaches to market integration, how trade agreements across RTAs might be structured, and the possibility of change in any given RTA. It also offers new evidence on the limits of globalization, the nature of markets, and the spread of neoliberalism. The chapter concludes with a discussion of promising venues for future research.

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