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EU, USA and China: Balancing through Free Trade Agreements?

Process-tracing official documents and interview materials, this paper charts the motivations behind the free trade agreements (FTAs) strategies of the EU, USA, and China in the Asia Pacific region. Economists have cast doubts as to the benefits of individual FTAs between large economies and smaller ones, and the wisdom of limited agreements (Krugman, 1991, 1993; Bhagwati, 2008; Sally, 2005). Whilst the benefits of FTAs are asymmetrical, offering advantages to particular economic sectors, notably exporters and in the case of the EU and USA also to service providers, the overall net welfare gains for the larger economy tend to be minimal (Ahearn 2010). Within this context, political economists have found that FTAs carry significant political motivations as well, from altering domestic coalitions against liberalization, to locking in reforms, or emulating others (Aggarwal and Urata 2006; Solis et al. 2009). This paper focuses on the political motivations behind the FTA policies of the current three major economic powers. It develops an analytical framework of competitive diffusion by offering evidence of economic and geopolitical balancing taking place amongst these powers, as they prepare for an uncertain future. The analysis places special emphasis on the investigation of the role of fear and uncertainty in the development of these FTA policies, which, at least in purely economic terms would seem a less beneficial alternative to the multilateral system or to FTAs amongst the major economies, and highlights the effects the policy choices of one of the parties has on the others by a series of chronological and content comparisons of sets of negotiations between these powers and states in the Asia Pacific.

The rest of the paper is divided into five parts: a first section offers an overview of FTA literature, a second section looks at China's FTA policy in East Asia, a third at the US's, a fourth at the EU's. This is followed by a brief section highlighting core differences in

the US and EU approaches to their FTAs with South Korea. A final section offers some concluding remarks on the divergences and convergence points between the aims and strategies of these major powers in the Asian region.

Introduction. Free Trade Agreements

Studied largely by economists, concerned with the technical and costly effects of a complex ‘spaghetti bowl’ of tariffs, rules of origin and regulations (Baldwin, 2006), FTAs have been viewed as both stumbling blocs (Krugman, 1991, 1993; Thurow, 1992; Baldwin, 1993, 2007; Bhagwati, 1994, 2008) and stepping stones (Wei & Frankel, 1996; Dent, 2003) to successful global economic liberalization via the World Trade Organisation (WTO) within a debate on the compatibility of bilateral and multilateral liberalisation (Lamy, 2002; Mansfield & Milner, 1999).

This literature shares the assumption that free trade and liberalization lead to growth. To substantiate this, models concerned with ‘trade diversion’ and ‘trade creation’ effects produced by lowering tariffs and nontariff barriers, have been developed, since Viner (1950) introduced the terms. Recent models like Baldwin’s (1993) ‘domino effect’ suggest outsiders to FTAs will want to become insiders thus expanding free trade. Similarly, Grossman and Helpman (1995) claim that trade diversion provides the principal motive for forming FTAs. As liberalization extends via FTAs, states should experience positive welfare gains.

However, as Hallaert (2008) demonstrates predicted welfare gains from bilateral FTAs tend to be overestimated given the time-lag in updating databases. As he argues, gains

obtained by party A in a FTA with B are quickly eroded if party B engages in a FTA with a competitor party C. The CGE (Computable General Equilibrium) models used to predict outcomes are also problematic given limited data (Urata & Kiyota, 2003; Baldwin & Venables, 1995). Improved models continue to be used in feasibility studies for policy-makers, and despite predicting marginal outcomes, policy makers continue to support FTAs. Ravenhill (2003) has documented meager welfare results of bilateral FTAs in Asia, and studies estimating outcomes of FTAs between the EU and Asian states also reflect this tendency (see IBM, 2008 & ECORYS, 2009). However, as Ahearn (2010: 23) points out in reference to EU and USA FTAs with smaller partners, whilst overall results are meager, this does not mean individual companies and workers have not benefited or that exports have not risen at faster rates, but that in the aggregate many other factors other than FTAs may be determining how well each side does overall. The crux of the matter is that overall welfare gains predicted by the models are asymmetrically distributed with some sectors winning substantial benefits from liberalization and FTAs and others losing out- averaging a lacklustre total.

Despite meager results, since the early 2000s FTAs have multiplied, especially in the Americas and Asia Pacific. This new wave of FTAs even involves states traditionally committed to multilateral liberalization, and is characterized by agreements between developed and developing states, cross-regional negotiations, and faster negotiations (Fiorentino et al. 2006). In this environment, analyses of the proliferation of FTAs are beginning to consider political motivations, rather than just economic projections and models.

FTAs have been conceptualized as strategic responses to globalization (Woolcock, 2003), and interim tools in the hands of powerful players. Bhagwati (1994), for example, has coined the idea of a ‘selfish hegemon’ in reference to the USA, which while wedded to multilateral outcomes, uses the bilateral approach as a bargaining strategy to divide the non-hegemonic governments and improve the final multilateral outcome in favour of its own preferences. The EU’s strategy clearly aims at achieving WTO-plus compromises and partners who will then defend these at the WTO. Its FTAs contain clauses for mutual support in multilateral fora, and the EU remains committed to both multilateral and bilateral liberalization (De Gucht, 2010b). Aggarwal and Urata’s (2006) volume on agreements in the Asia Pacific, whilst rooted in the ‘stepping stone-stumbling block’ debate, focuses on political motivations for their pursuit, including learning processes, locking in domestic liberalization reforms, sending signals to other potential FTA partners and strengthening their position in other negotiations (also Ravenhill, 2003).

Urata (2005) argues that the flurry of Asian FTAs was a response to the USA’s turn to FTAs with NAFTA (1994), WTO Doha round difficulties, and a way to gain improvements on existing WTO commitments, as these new FTAs typically include facilitation of foreign trade and of investment as well as economic and technical cooperation. He further demonstrates FTAs in East Asia have political intentionality; used by some (ASEAN) to promote greater regional integration, by others (China, Japan) as a way of strengthening their ties with ASEAN and other newly industrialized economies as they vie for leadership, and as a way of promoting liberalization and

domestic reforms using external commitments as a way of circumventing domestic opposition in the aftermath of the 1997 Asian financial crisis. Fernandez (1997) argues that non-traditional gains from FTAs can also create new winners to counter the influence of domestic groups opposed to liberalization. Ironically, it is those excluded sectors that would produce the highest welfare gains if they were included within the agreements (Wonnacott & Lutz, 1989). For this reason economists tend to oppose limited FTAs (Sally, 2005: 41).

Mireya Solis, Saori Katada and Barbara Stallings (2009) offer an appealing alternative explanation in the form of ideational diffusion in the spread of FTAs, whereby states are emulating each others' policies. Significantly, they argue that a key element of this is competitive diffusion whereby the policy is implemented in view of what competitors do. Their arguments bear resemblance to the 'political domino effect' John Ravenhill (2010) sees in the proliferation of FTAs amongst Asian states. It has also been argued that FTAs can be regarded as tools for diplomatic power, which could explain why FTAs have not developed between the largest economies (EU, China, USA, Japan) but instead between these and smaller players or between smaller economies, as they compete for influence (Solis et al. 2009). Future work on this project will further develop this framework of competitive diffusion based on policy emulation by adding a more constructivist element based on analyzing the extent to which elite perceptions of competition affect these policy choices. The preliminary analysis presented in this paper, however, uses secondary and primary sources to compare the timing of FTAs in East Asia and the rationales behind them, and shows offers evidence of this competitive

diffusion, although with caveats relating to economic objectives in the cases of the EU and USA, or geostrategic ones in the case of China.

China's Asia FTA Strategy

A key aspect in China's economic changes and growth has been the focus on exports and the incorporation into global markets especially since WTO accession in 2001 (see Blecher, 2010; Beeson, 2007; Naughton, 2007; Bramall, 2000). Accession negotiations involved overcoming opposition from sectors within the state to freer trade, and this in turn facilitated the possibility of negotiating FTAs. Commentators argue that China's FTA engagement has been a process of 'learning and emulation' (Yang 2008) especially from US and EU strategies (Zheng 2003). China was indeed a latecomer into the FTA game, however, it is significant that in terms of East Asia it is China (and also Japan, South Korea, Singapore) and not the EU or US that has taken the lead, especially after Asian leaders did not warm to US overtures of turning APEC into a FTA in the 1990s. China's FTA strategy has focused on economic goals of securing access to resources to further its own growth (Hai & Li, 2003; Urata, 2005; Hufbauer & Wong, 2005; Yan, 2009), which builds upon the ever-closer intra-industry trade-and-investment linkages in East Asia that inform the economic logic of region-wide FTAs (Sally, 2005: 42; Tay, 2010: 35). Zeng (2010) also provides evidence to support traditional claims that FTAs are an alternative bargaining forum where the pace of liberalization can be accommodated to suit domestic protectionist pressures (Bhagwati 2008; Baldwin 2006). Political aims are also present in the strategy. Key amongst feature acceptance of its

market economy status thus limiting potential initiation of anti-dumping sanctions against it), rewarding long-standing sympathizer states who had granted it market economy status and supported the one China policy with regards to Taiwan¹ (Chile, New Zealand, ASEAN) (Zeng 2010; Yang 2008; Antkiewicz & Whalley 2004; Sally 2005). As highlighted in 2007 by the Vice Minister of MOFCOM Yi Xiaozhun FTA partners must have good political and diplomatic relations with China, complementary economic structures and trade patterns, have a significant domestic market or serve as a hub (Chile, Singapore), and share common intentions on building FTAs with China (cited in Gao 2009). Others have placed FTAs within China's 'big country morality' claims of offering benefits to smaller countries and reassuring its neighbours of its 'peaceful rise' (Jiang 2010; Blecher 2010). The latter is particularly significant in the case of East Asia.

China's most significant FTA has been with ASEAN²; it forms the largest trading bloc by population size and encapsulates China's key strategic aims. Although the literature often starts with the critical juncture of the Asian Crisis of 1997 as the inflexion point in China's and the region's attitude towards Asian regionalism and cooperation (Tay, 2010; Lijun, 2003; Terada, 2003; Blecher, 2010), China's rapprochement to ASEAN predates that. In the late 1980s-1990s China engaged with ASEAN with the desire to ensure regional stability and foster economic growth, as it realized that the world was about to change into an eventual multipolar system (Cheng, 1999). Lijun's (2003) work reliant on

¹ The importance of this is evident in Chinese involvement in Central America (supporters of Taiwan), and in the 2011 China-Costa Rica FTA whereby Costa Rica revoked its ties and formal recognition of Taiwan in favour of a closer relationship with China.

² Negotiated between 2002 and 2007, in effect January 2010 with the five most advanced ASEAN economies. China had previously negotiated CEPA with Hong Kong and Macao as 'special internal arrangements' aimed also at showing a possible way to incorporate Taiwan (Wang 2009), and signed a landmark Economic Cooperation Framework Agreement with Taiwan in June 2010 (BBC news, 29/06/2010), which builds upon trends of increased trade and investment (see Zhao & Tong, 2009).

interviews with Chinese officials reveals a thoughtful long-term strategy beyond economic considerations in the China-ASEAN FTA (CAFTA), and a shift from skepticism to leadership in FTAs, enabled by increased involvement in global economy after WTO accession (Zerui, 2004).

CAFTA was a WTO compliant way to offer East Asian economies trade preferences and curtail increased competition from China (Lijun, 2003: 6-7). It was also part of China's policy of deeper economic relations in the region as a way of establishing trust and ensuring that the region's economic future is dependent on what happens in China (Breslin, 2009: 820). Zhang and Tang (2005: 51) claim that China seeks to turn itself into the locomotive of regional growth as a market for products and provider of investment and technology. Since the 1997 Asian Crisis this has become more evident. During the crisis, China surprised its neighbours by not devaluing its currency to undercut Southeast Asian exports, thus reassuring its neighbours of its 'peaceful rise' (Blecher, 2010). It also became an important source of funds for the region. These trends have continued and China has displaced Japan's influence in the region and become ASEAN's first trade partner and a major investor (Blecher, 2010: 194), and through this has enhanced its 'soft power' (Breslin, 2009).

From a strategic perspective, CAFTA is a practical application of China's New Security Concept (announced by Jiang Zemin in 1996 at the Shanghai Cooperation Organisation inaugural meeting) advocating multipolarity, as well as peaceful dispute resolution, mutually beneficial economic contacts, and linking economic progress to security in

Asia. Chinese chief WTO negotiator Long Yongtu emphasizes CAFTA is also aimed at East Asia integration to protect against economic shocks in globalization (Lijun, 2003: 8).

A key development in this respect has been the ASEAN Plus Three (ASEAN Plus China, South Korea and Japan), which was driven by two key factors in the late 1990s: China's successful attempts to consolidate its influence in Southeast Asia (Beeson, 2007: 229) and the concerns this caused in Japan; and, the Asian financial crisis and the inappropriate responses of the international community, which led Japan to the realisation that there was a consensus that the time was right for East Asian regionalism to tackle regional problems (Terada, 2003).³

Tense Sino-Japanese relations given historical distrust, ambiguity over Taiwan and disputed territories and the Japan's closeness to the USA (Drifter, 2009) made a China-Japan axis for regional integration impossible. Chinese strategists, therefore, took the view that 'it is easier for China to start the ball rolling by working first with ASEAN', which would be easier than with Japan or Korea (Hai & Li, 2003) and hoped the CAFTA would cause 'chain reactions' to produce 'multilayered arrangements' (such as several ASEAN Plus Ones), and 'gradually move to a unique regional framework' in East Asia. The 'chain reactions' have taken place: Japan reacted to the CAFTA by negotiating its own agreement with ASEAN states⁴ and ASEAN by accelerating its economic integration and the potential ASEAN Economic Community (Lijun, 2003: 11). It seems that competition between China and Japan may actually be encouraging the development

³ On Asian crisis and regionalism see Tay, 2010; Beeson, 2007.

⁴ Negotiations ended in 2008. South Korea negotiated its FTA with ASEAN in 2007.

of a dense web of bilateral trade deals that is effectively ‘networking the region’ (Dent, 2003) and forcing closer ties and working relations even between reluctant partners like Japan and China (Beeson, 2007: 235). Fears of losing out from FTAs established by other parties sparking new FTAs lends credence to Baldwin’s (1993) economic ‘domino effect’ characterization of the FTA phenomenon, and Solis and Katada’s ‘competitive diffusion’.

As an instigator of CAFTA, Chinese tactics, engaging with the more enthusiastic ASEAN members first to pressure more reluctant members to follow suit, reveals keen leadership (Lijun, 2003: 15) and accounts for the conclusion of earlier FTAs with Thailand (2003) and Singapore (2008). China’s plan has always been to follow this initial FTA with FTAs with Japan and South Korea,⁵ its major partners in the region, and to negotiate with India in the Southwest, as part of its aims to be the political and economic driving force in the region (Zerui, 2004).⁶ Politically, this strategy is enhancing China’s ‘soft power’ (Breslin, 2009) by ensuring access to the Chinese market for friendly states, and by using emerging multilateral structures as a way of pursuing ‘commercial diplomacy’ to compete with Japan and the US for support and even dominance in the region (Hoadley & Yang, 2007).

Given China’s export-led economic growth strategy, it is unsurprising that it has also engaged in FTAs with partners further afield, such as Chile (2006), New Zealand or Peru (2008), Pakistan (2009), Costa Rica (2011), Iceland and Switzerland (2013) and that negotiations are underway with Australia, Norway, and the Gulf Cooperation Council

⁵ Feasibility studies for China-S. Korea, China-Japan-S. Korea FTAs have been concluded .

⁶ India remains concerned about negative effects for its competitiveness from a FTA with China, and discussions are at the feasibility study stage.

(MOFCOM, 2013). It is perhaps no coincidence that all of these are on the one hand markets for Chinese mass-produced manufactures and in some cases purveyors of raw materials (Chile, Peru, Australia, GCC) necessary for the continued development of China's economy. From this perspective the economic rationale for such FTAs seems straightforward, as indeed market access and securing commodity imports are key economic objectives of China-driven FTAs (Zerui, 2004). Yet political motivations abound in all these cases. FTA partners are required to grant China Market Economy Status, as highlighted in MOFCOM's own website (2013), and in the case of Costa Rica to revert support for Taiwan.

There is another element to notice in these agreements. By and large all of China's out-of-region FTA counterparts already had existing FTAs with the EU, and in many cases increasingly with the USA as well. Norway is part of the European Economic Area, Chile has FTAs with both the EU (2002) and the USA (2003). The Gulf Cooperation Council has an Economic Cooperation Agreement with the EU,⁷ and Peru concluded the negotiations of a FTA with the EU in early 2010 and signed one with the USA in 2005. This hints at the increasing competition between these major players for securing FTAs (see Table s 1 and 2), despite the scarce economic welfare outcomes these have produced thus far, fuelled instead by fears of loss of competitiveness, and also as a political tool to extend their influence in other parts of the world. The latter takes on special significance when we take the content of agreements into account.

⁷ The agreement commits the parties to negotiate a FTA, after early standstill negotiations resumed in 2002 (EU External Action, 2010).

Table 1. Comparative Timeline of Major EU, US, Chinese FTAs in Eastern Pacific

	CHINA start	CHINA end	USA start	USA end	EU start	EU end
ASEAN	2001	2007 (effect 2010*)			2007	Suspended 2010
Hong Kong		2003				
Macao		2003				
Thailand		2003	2004 (suspended 2006)		2013	
Singapore	(ASEAN)	2008	(TPP^ 2010)	2003 (effect 2004)	2010	2013
South Korea			2006	2007 (effect 2012)	2007	2009 (effect mid 2011)
Japan			Joining TPP 2013		2013	
Malaysia	(ASEAN)		2006 (prior trade investment framework agreement 2004)		2010	
Vietnam	(ASEAN)		(TPP 2010)		2010	
Myanmar	(ASEAN)					
India	2008 Feasibility study		Commercial dialogue		2007	
Pakistan		2006				
New Zealand		2008	(TPP 2010)			
Australia	2005		(TPP 2010)			

ASEAN: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam

*2010 for Brunei Darussalam, Malaysia, Singapore, Philippines, Thailand, Indonesia, 2015 for others

^TPP: Trans-Pacific Partnership

Agreement implementation in brackets

Sources: European Commission DG Trade website, US Trade Representative website, MOFCOM website (2013).

Table 2: **Comparative Timeline Major EU, US, Chinese FTAs in Eastern Pacific**

	CHINA start	CHINA end	USA start	USA end	EU start	EU end
Chile	2005	2006 (2006)	2000 (TPP 2008)	2003 (2004)	1999	2002 (2003)
Peru	2007	2008 (2010)	(TPP 2008)	2005	2007	2010 (2011)
Costa Rica	2008	2011 (2011)	CAFTA 2001	CAFTA 2004-8	In Central America FTA	
Central America			CAFTA 2001	CAFTA 2004-8	2007	2010 (2011)
Mexico				NAFTA 1994	1997	2000
Colombia			2004	2006 (2012)	2007	2010 (2011)
Canada				NAFTA 1994	2009	
USA					2013	

Source: DG Trade website (2013), USTR website (2013), MOFCOM website (2013)

Unlike the more comprehensive FTA approach of the EU and US, China has preferred to negotiate FTAs on trade in goods first, and services and investment later, as it did with ASEAN and Chile. It has only included services and investment in its agreements with New Zealand, Singapore, Peru and Pakistan, but these are very limited (Jiang 2010, 244). China's pragmatic approach to FTAs means these vary in form and scope, and are relatively narrow, with no clear dispute settlement mechanisms and long lists of excluded

items (Zeng 2010; Antkiewicz & Whalley 2004; Hufbauer & Wong 2005) making the eventual emergence of an Asian trading bloc around these agreements problematic (Antkiewicz & Whalley 2004) and weakening some of the strategic objectives pursued through FTAs such as legal competition and using FTAs to increase legal influence in the shaping of international rules at the WTO by having exported legal preferences to others via FTAs previously (Yang 2008). Resources and generating and rewarding international goodwill seem to be the key motivations behind China's FTAs, although as Chinese negotiators gain experience from these processes they may shift to more binding agreements in the future, more in line with the US and EU approaches to FTAs. The recently signed FTA with Switzerland hints at some of these changes. It incorporates some provisions on government procurement, a measure facilitated by China's decisions to enter the WTO's optional Government Procurement Agreement (GPA), as well as provisions on intellectual property protection and trade in services. Recent years have seen important changes in China's development aims, moving towards the production of higher value added goods and services, and innovation, which in turn demand tougher IPR rules (*China Daily* 23-29.08.2013).

USA FTA Strategy in Asia

Much of the literature on the USA's policies in East Asia considers subsequent Administration's policy choices in light of the USA's security strategic concerns in the region. Scholars focus on the USA's need to engage China as an emerging global power, whilst attempting to maintain control over waterways in the confluence of the Indian and Pacific oceans (Twining 2007). In the post 9/11 climate commentators have linked all aspects of USA foreign policy to securitisation and the 'war on terror', yet this is an

exaggeration as Phillips (2007) has highlighted, as foreign policies are by nature a combination of security, economic and other goals. The USA's trade policy in East Asia has followed two key logics: on the one hand the pursuit of bilateral FTAs since the early 2000s is a response to the difficulties in reaching a conclusion to the Doha WTO Round; on the other, deals have been signed with key USA security allies in the region rather than focusing on more significant economic partners.

When persuading Congress to grant the President the elusive Trade Promotion Authority, Robert B. Zoellick, the United States Trade Representative (USTR) during the first administration of George W. Bush, frequently invoked the discourse that the USA was 'falling behind' the rest of the world and, moreover, its major competitors and partners, as did DG Trade in 'Global Europe' to justify the need to engage in FTAs:

. . . While the United States stepped aside, others moved ahead. The European Union now has 27 bilateral free trade...After NAFTA, Mexico sped past the United States to negotiate eight free trade agreements with 32 countries. Even Japan has been working on a free trade agreement with Singapore and is exploring options with Canada, Mexico, Korea and Chile. There are over 130 free trade agreements in the world; the United States is party to only two. There are 30 free trade agreements in the Western hemisphere; the United States belongs to only one (Zoellick 2002)

The aim was to achieve 'competition in liberalisation' by a 'three-dimensional trade strategy' (Schott, 2006: 98): multilateral, regional and bilateral, so as to exert latent pressure on recalcitrant liberalisers by concluding FTAs with other states. This became particularly important as WTO Doha Round negotiations faltered, in the early 2000s. Zoellick put forward a series of 'tests' to choose FTA partners. Potential FTAs had to help broaden Congress support for US trade initiatives (partially through including countries that in the past Congress has sought to help for economic or political reasons). They also had to promote US economic interests (improve access to growing markets, level playing field, build alliances for WTO). Potential partners have to be willing and able to undertake pertinent domestic reforms to implement the FTA. FTAs had to promote broader US foreign policy objectives (rewarding friends for international support, economic incentives to promote economic and political reform) (Schott 2007, 103). Apart from this, partners need to accept the US's 'gold standard' of WTO plus FTAs which incorporate comprehensive coverage of goods, services, and investments

with only limited exceptions, and rule-making obligations in competition policy, labour and the environment and e-commerce.

Within this logic the USA has negotiated FTAs with Singapore and South Korea. The FTA with South Korea is particularly relevant as this country represents the US's sixth trade partner accounting for 2.6 percent of US total trade. Singapore, for its part accounts for 1.5 percent of US trade and is its tenth partner (US census, 2011). Both these states are actively seeking to become 'hub' states in their region (see Tay 2010), and have actively sought FTAs with the USA and other partners. Whilst there are currently no plans to negotiate with its largest partner in the region, China, in 2013 Japan seems set to join the TransPacific Partnership (TPP)⁸ negotiations, which would join it to the USA through a plurilateral FTA.

Although the ratification of the US South Korea FTA (KORUS) has not triggered Japan into seeking a FTA with the US, it has decided to join negotiations for TPP traditional internal pressures from farmers that have led successive governments to be reticent regarding FTAs. This follows the logic of 'competition' that the US's original approach to FTAs sought, whereby it is the country (or group of countries) aspiring to a trade agreement with the USA which is required, in the first instance, to make its case for consideration – the expectation among US trade policy makers is that a competition among countries will consequently emerge to provide the most attractive set of incentives for the initiation of negotiations. (Phillips 2007, 163).

An FTA with ASEAN has not been considered, given the diversity within its members and the previous Junta regime in Myanmar and situations in Laos and Cambodia (Schott 2007). This forms part of what Green and Twining (2008) have termed the 'enduring idealism' of democratic promotion in the US's grand strategy in Asia. Shaplen and Laney (2007) however, suggest that in view of the decline of US power in Northeast Asia due to China's rise and also South Korea and Japan's more independent actions (see also Twining 2007), it would behove the US to maximise its influence with a broad platform of initiatives including multilateral fora, alliances and FTAs, and they particularly

⁸ TPP was initiated by Chile, New Zealand and Singapore (and Brunei joined at an early stage), the US, Vietnam, Malaysia, Peru, Canada and Mexico subsequently joined the negotiations.

propose an FTA with ASEAN, as a way of countering increasing Chinese influence. Instead the US only has a Trade and Investment Framework Agreement (TIFA) with ASEAN, as well as bilateral TIFAs with Thailand, with whom it was discussing FTA negotiations until the Thai coup of 2006, Malaysia, Indonesia, Philippines and Vietnam. TIFAs provide a forum for discussion and facilitation of trade and investment and consultation and possible further cooperation include market access issues, labour, the environment, protection and enforcement of intellectual property rights, and, in appropriate cases, capacity building (USTR 2013) rather than the binding commitments of detailed FTAs. These economic relations, are, of course, just one aspect of the US's overall agenda in East Asia, where it is seeking to bolster relations with democratic states and emerging economies to counter the regional influence of China, and where it is also engaging through multilateral fora (APEC, ARF) in curtailing Asian only initiatives. What is significant about its FTA policy so far, is that in common with the EU, and unlike China, in the mix of political and economic rationales for FTAs, the US is not willing to extend FTAs for purely political reasons, but these must be accompanied by an acceptance of its WTO-plus economic agenda.

EU's FTA Strategy in East Asia

In 1994, the European Commission launched its 'New Asia Strategy'. This dovetailed in time with the USA proposal within APEC to negotiate a FTA. Given APEC's commitment to 'open regionalism' the FTA never materialised, but it served to ignite EU concern with losing out to the USA in the region. At the same time DG Relex 1B produced a strategy for Latin America, with a more ambitious agenda than its Asia Strategy, and which was also a response to the creation of NAFTA and the USA's launch of the Free Trade Area of the Americas (which also failed to materialize) (Bessa-Rodrigues, 1999; Garcia, 2008). At the time FTA developments within the Western Hemisphere appeared a more imminent threat to future EU commercial access to the

region, and elicited a stronger response than developments in Asia.

Evidence of DG1B's hazier vision for Asia is found in the 'New Asia Strategy' which acknowledged the cultural differences between the regions and the need to foster understanding and greater links. A key way this has been operationalised is through the Asia-Europe Meeting (ASEM), which was the brainchild of Singaporean Prime Minister Goh Chok Tong who proposed it in 1994 (Ravenhill, 2009: 218). This forum has taken a less formally institutionalist approach than the EU's relations with other regions, which reflects the more voluntary nature of regional cooperation in the East and South East Asian region (Ravenhill, 2009). ASEM has been a useful instrument for furthering the EU's agenda in terms of building trust. Its associated business forum has facilitated exchanges between EU and Asian business leaders and enhances trade and investment.

Notwithstanding the political dialogue and cooperation, trade and investment have been areas where the relationship between both regions has experienced spectacular growth. Whilst the Asian financial crisis of 1997 and the disappointment with the USA's, and APEC's responses, encouraged Asian leaders to activate new mechanisms for regional cooperation (Chiang Mai Initiative, Japanese calls for Asian Monetary Fund), of which the ASEAN-Plus-Three (APT) would become the most significant, the EU stood by, more preoccupied with the launch of the Euro and Eastern enlargement. In trade policy, the arrival of Pascal Lamy as Commissioner in 1999 provoked a reversal in EU policy towards a prioritization of multilateral liberalization through the WTO (Lamy, 2002).

Indeed, during the time Lamy was at the helm no new FTAs were brought onto the EU agenda.

Whilst the EU operated within these self-imposed constraints, Asia experienced a proliferation of FTAs that detractors believe complicates the operations of production networks (Ravenhill, 2009: 216). As talks collapsed at the WTO in 2003, the USA undertook an aggressive policy of FTA negotiations. With the appointment of Peter Mandelson as Trade Commissioner in 2004, the EU, too, changed its policy to simultaneous multilateral and bilateral liberalization and in the 2006 ‘Global Europe’ Trade strategy moved away from the previous sustainable development discourse to a more realist discourse of competitiveness in line with the EU’s internal Lisbon Agenda for competitiveness which had been relaunched in 2005.

The language in the ‘Global Europe’ document exudes a sense of urgency. It prioritises Asia, acknowledging the EU’s late response in this area (DG Trade, 2006a). It reveals concern about potential losses given third party FTAs and includes FTA initiatives; EU–ASEAN and EU–South Korea, which have followed FTAs negotiated or envisaged with the US (US–Singapore, US–Thailand and US–Malaysia, and US–Korea) and to a lesser extent Japan. Strengthening strategic links with important emerging markets also appears to be a key motivating factor behind EU FTAs with Mercosur, but more especially South East Asia and India. Here the aim is simply to strengthen trade and investment links with markets that will be important in the future (Woolcock, 2007:4), thus attempting to preempt any bilateral deals that these future markets may make with EU competitors. Even

if the sustainability studies indicate meager overall welfare gains from these FTAs (IBM, 2008; ECORYS, 2009; Decreux et al. 2010), the fear of being left out of the FTA networks and perhaps having some exporters at a disadvantage to USA or Asian exporters elicits such policy responses. As a general rule the EU FTA policy requires that there be a clear economic case for any FTA, which can generally be interpreted as meaning some real increase in market access in addition to that achieved at the multilateral level in the WTO (Woolcock, 2007: 4). Given the asymmetric outcomes of FTAs, any FTA will produce gains for some sectors, especially those facing greatest restrictions, so despite the limited overall welfare gains, it is normally possible to make some economic case. The sectors the EU seeks to benefit through FTAs are service provision and the strengthening of international rules such as intellectual property or safety standards, an aim which is given prominence in 'Global Europe', on which the EU was unable to forge international consensus at the WTO. Making an economic case, is, in itself, a political act. In 2004 the EU refused to commence FTA negotiations with Singapore based on the absence of an economic case (DG Trade interview, 2006). After 'Global Europe' and the fact that it had signed FTAs with the USA and China, the EU proceeded to enter negotiations and suddenly found its limited markets much more appealing. It appears that the economic case is less about the actual gains and more about competitors potentially gaining an advantage. In other words, it could be viewed as a race to maintain the status quo amongst the major players, at a time when agreeing multilateral rules appears more complicated.

As part of the ‘Global Europe’ strategy, the EU, which was already concerned about the moves towards APT, began its own negotiations with the parties of this agreement. Between 2007 and 2009 it negotiated a comprehensive Association Agreement with South Korea signed in October 2010 and entered into force in July 2011. GCE models predicted a rise in Korean exports to the EU of 34 percent and of 82 percent for EU exports (Decreux et al. 2010: 6). Despite this, given the openness of both economies and the asymmetrical effects of FTAs across sectors, the estimated welfare effects on GDP of this agreement are 0.08 percent for the EU and between 0.4 and 2% for South Korea, as a result of potential higher FDI (IBM, 2008: 13). The main aim of the FTA was to ease the problems EU companies encountered accessing and operating in the South Korean market due to stringent standards and testing requirements for products and services often creating barriers to trade, despite being the largest investor in Korea since 1962.

Fearing that its manufacturers will be disadvantaged once the EU reduces tariffs on Korean manufactures, Japan asked the EU to initiate FTA negotiations, in line with ‘domino effect’ predictions (Faletti, 2010). The EU, despite its new focus on Asia, initially refused, partly to facilitate the passage of the Korea FTA in the EP without fears of extending those advantages to Japan, and partly to focus on the markets with greater growth potential in the region (ASEAN, Korea) (*Japan Today*, 1/5/2010). In late 2012, the European Commission asked the Council to approve a negotiating mandate for a FTA with Japan, and negotiations began in 2013. To gain further leverage over Japan, after negotiating debacles with India (see Khorana and Garcia 2013; Khorana and Perdikis

2010), the Commission included in the mandate the condition that negotiations can be abandoned if insufficient progress is made within the first year of negotiations.

ASEAN was the other cornerstone of the EU's East Asia FTA strategy. The Interim Report of the Sustainability Assessment suggests overall benefits with some sector-specific negative outcomes. In a comprehensive FTA scenario welfare gains as percentage of GDP are estimated at 0.23% for the EU and 3.66 to 15.27% for different ASEAN states, and in the case of a restrictive FTA at 0.02% and 0.08-1.92% respectively (ECORYS, 2009: 18), with ASEAN states gaining additional market access to the EU and European transnational corporations strengthening their impact in the ASEAN region.

In 2003 ASEAN asked the EU to consider an FTA, but the EU was reluctant as Lamy preferred the WTO and the unsuccessful negotiations with MERCOSUR made it sceptical (Robles, 2008: 337). In 2005 Commissioner Mandelson asked a Vision Group to study upgrading EU-ASEAN relations and in the 2006 Global Europe Strategy an FTA with ASEAN was prioritised. Negotiations began in May 2007 and progressed slowly, due to the differences amongst ASEAN members and the EU's requirements that its FTAs encompass more than trade, but also investment, procurement, intellectual property rights, and a host of political clauses. This complicates FTA negotiations, and marks a sharp contrast with the Chinese approach. The Philippines, for example, signaled from the start that the political cooperation agreement would be problematic as it requires signatories to become members of the International Criminal Court (bilaterals.org).

Making a complete shift from its previous trade strategy prioritizing multilateral and interregional negotiations (with ASEAN, Mercosur, Central America), which had even been characterized by some as ‘a doctrine of global policy-based on interregionalism’ (Soderbaum et al., 2005: 366, 371), Trade Commissioner De Gucht (since 2009) on a trip to South East Asia in March 2010 announced the launch of negotiations for a FTA with Singapore and with Viet Nam. These are the states with which the EU already has closer economic ties, and according to the Sustainability Impact Assessment, Singapore is the ASEAN state that will gain the most in terms of an agreement with the EU, partly due to its policy of positioning itself as an East Asian hub (see Tay, 2010). It is perhaps no coincidence that these two states are amongst the group of six ASEAN states who have already begun to implement their FTA with China, and that Singapore also has a FTA with the US.

The move to bilateral deals seems to reflect a more pragmatic approach to FTAs, as a bilateral deal will be easier to negotiate than a FTA with another regional grouping that often lacks the level of institutional unity in the negotiations that the European Commission has developed (Robles, 2008). The bilateral approach does enable the EU to keep up mainly with USA FTAs, and also China’s and Japan’s. In the particular case of the EU-ASEAN FTA, the bilateral approach would also allow European governments to deal with the economic heterogeneity among ASEAN members (bilaterals.org), as was the case for the US. Notwithstanding this, the EU remains intent on an eventual bloc-to-bloc FTA with ASEAN as highlighted by De Gucht (2010a) himself:

The launch of FTA negotiations with Singapore, for us, marks the beginning of a deeper engagement with Asia, and in particular in our relations with the ASEAN region.

Although Singapore is the ‘first one in’, our door remains open for other ASEAN countries interested in negotiating a comprehensive free trade agreement with us. We are not available to do shallow FTAs, but we will be mindful of differences in levels of development.

In December 2012, the EU and Singapore signed their FTA, however as it is currently under review by the legal teams the text is not available. In 2010, the EU also launched negotiations with Malaysia and Vietnam, which are ongoing, and in 2013 it has launched negotiations with Thailand. Negotiations with India were commenced in 2007 and have missed various deadlines for conclusions (2009, 2012). The EU’s incorporation of a WTO-Plus agenda, and of environmental and sustainability clauses has been a key impediment to speedier agreements (see *inter alia* Sen and Balu 2011, Khorana and Garcia 2013), especially as Asian partners regard such inclusions as veiled protectionism for European firms. The US faces similar criticisms, but their focus is on key binding labour clauses, whilst the EU’s is on the inclusion of its values and normative agenda in an overarching Framework Agreement, which makes trade preferences conditional on human rights and rule of law. However, most matters in the Framework Agreements are not legally binding and merely commit the parties to cooperation or to expert advice in the case of disputes on these matters (Horn et al. 2010). The key characteristics of EU FTAs is that they are very comprehensive in scope (with few exclusion of sensitive items), incorporate legally binding arrangements on behind the border matters like customs procedures and standards harmonisations, include liberalisation of services, intellectual property rights, competition policy, access to public procurement, as well as social and environmental matters. They are also accompanied by a political pillar

institutionalizing the relationship and cooperation in all areas. In this sense they are the most comprehensive types of agreements, but also lengthy to negotiate. However, as De Gucht (2010) has pointed out the EU is only interested in deep agreements.⁹ The advantage of this approach is that once a deal is struck, as it is more comprehensive in terms of sectoral coverage welfare gains could be greater and the EU will once again have a competitive edge over others who have negotiated narrower FTAs. It is also important to note, that in terms of strategy, the EU's approach to its key partners and competitors is also far narrower. Its economic relations with the USA and China are dominated by sectoral agreements rather than the comprehensive FTAs with other partners, and political conditionality is conspicuous for its absence.

EU and US Approach to FTAs with South Korea

Although the aims of the EU and US in Asia are similar, in terms of FTAs, there are a few differences, which this section highlights in the context of their respective FTAs with South Korea.¹⁰ In future FTAs, the EU will (like the US) will use their most comprehensive agreements (those with South Korea) as a template for negotiations, hence the relevance of looking at this case more closely. Key characteristics of EU FTAs, in common with the USA's, are that they are comprehensive in scope (with few exclusion of sensitive items), incorporate legally binding arrangements on behind-the-border

⁹ Young and Peterson (2006) explain the EU's deep trade agenda as a response to a new trade environment where behind-the-doors issues are more relevant, there are more actors (parliaments, NGOs) and EU and USA dominance is challenged by the newly industrialised and developing states.

¹⁰ In mid-2013 South Korea is the only state in the region with operational FTAs with both the EU and US, therefore it is the only case for analysis.

matters like customs procedures and standards, include Singapore issues¹¹ as well as social and environmental matters. However, EU FTAs are accompanied by a political pillar in the form of a framework agreement institutionalizing the relationship and cooperation in all areas, including attempting to coordinate positions in international fora (UN, WTO, climate talks). This is a peculiarity of EU FTAs, and reflects the inherent tension within the EU's trade policy, as a tool of foreign policy and the oldest foreign policy of the EU (Smith 2001) to serve other policy objectives (Baldwin 2006).

In the case of KOREU (Korea-EU FTA), the framework agreement is straightforward as both partners share similar objectives internationally and common values of democracy and respect for human rights. Moreover the framework agreement has little that is legally binding. Whilst broad in scope, the articles commit the parties to “work towards,” “encourage mutual cooperation and information exchange”, “endeavour to cooperate”, in education, environmental protection, migration issues, fisheries, development policies, combating terrorism and arms trafficking amongst others (European Union 2010). The main achievement in this respect was persuading Korea to acquiesce to core labour standards of the International Labour Organisation (ILO) (Woolcock 2010).

By contrast, the detailed FTA is legally binding, as is KORUS (Korea-US FTA). Both can be considered deep agreements, as they go well beyond the WTO¹² and incorporate the Singapore issues. These are the most comprehensive agreements, but also lengthy to negotiate and to ratify. KORUS was signed in June 2007, when KOREU negotiations

¹¹ These are liberalisation of services, intellectual property rights, competition policy, access to public procurement.

¹² This is necessary if a FTA is to be authorized under GATT Article 24 and GATS Article 5 at the WTO.

commenced. However, it underwent modifications to ensure USA Congressional support (mainly regarding safeguards on automobile exports) and was ratified in October 2011. KOREU also experienced a lengthy ratification process. It was signed in late 2009 and after clarification of a safeguard clause (also on Korean car exports), and delays in the European Parliament, it was ratified in February 2011¹³ and provisionally implemented in July. Unsurprisingly, given that the EU and USA use FTAs to further the liberalization the coverage of KOREU and KORUS is similar. Differences in terms of trade in goods lie in the better access for foodstuffs (processed foods) gained by the EU, and access for vegetables and meat negotiated by the USA, which is explained by the larger respective trade volume in exports of these products (Song 2011).

Korean car manufacturing is a highly competitive industry and one the Korean government sought to benefit in FTAs. Korea insisted on better market access for its car exports as a *sine qua non* requirement. As interview materials collected by Manfred Elsig and Cedric Dupont (2010) reveal, German car industry representatives recalled that: “Over time the [German] government gave more preference to other industry sectors (...) we were reminded that we had already received sufficient support (the German Abwrackprämie, and tax exemptions).” They comment that the German government’s shift was crucial in facilitation negotiations and supporting the European Commission in its negotiations. Thus, despite protestations by EU car industries, in KOREU, and two of

¹³ Part of the delays were a result of KOREU being the first agreement to be approved under the Lisbon Treaty which granted the European Parliament a greater say in agreements with third parties. In particular the European Parliament sought clarification on the future mechanisms for the application of safeguard clauses in which it will now have a role.

the three USA big car manufacturers in KORUS,¹⁴ the agreements improved market access for Korean exports.

However, the USA and EU differed in how they compensated their producers. To counter Korean complex ways of setting environmental and safety standards, the USA negotiated a higher quota for USA cars exported into Korea under USA safety standards, so that it includes a number larger than the number of exports to Korea. The EU, for its part, agreed to harmonise car safety standards through international arrangements based on the rules of the UN Committee for Economic Cooperation in Europe, something Korea, which has a mix of US and Korean standards, was not entirely pleased about (Nicolas 2009: 39). In line with its aspirations for a multipolar world guided agreed rules (which is essentially the basis of EU integration itself), the EU adopts a more institutional and negotiated approach. The USA approach represents an effective (if not legal) instance of mutual recognition of car safety standards, whilst the EU approach advocates negotiating standards that can be internationalized. This preference for harmonization is evident in other areas, including the joint adoption of ILO standards.¹⁵ On non-tariff barriers in pharmaceuticals and medical equipment, the EU's approach "was to oblige Korea to comply with international standards with which EU regulations already comply" (Erixon and Lee-Makiyama 2010). Whilst this is more costly at the negotiations, if eventually the EU and Korea, and others, are operating on a common international set of standards the

¹⁴ Ford and Chrysler opposed the original KORUS and lobbied for measure increasing the number of US cars exported under US safety standards and the introduction of drawback clauses. General Motors was neutral on this as it has its own manufacturing and distribution in South Korea, since it purchased Daewoo. See Cooper et al. 2011.

¹⁵ It is also the case that often these international standards are also the common denominator to which EU member states can agree to. In the case of labour standards, whilst Denmark, Sweden and Germany advocate going beyond ILO, the UK and the Netherlands do not wish to do so. See Young, A. (2007: 807).

impetus will be for industries throughout the globe to adopt this, affording whoever is already using it a first-mover advantage.

Services liberalization is a key objective of both EU and USA FTAs. Various studies suggested that economic gains for the EU from KOREU would arise only if substantive service liberalization were achieved (Decreux et al. 2008). Both KOREU and KORUS afford extensive liberalization of services, especially financial, accounting, telecommunications and legal services. Differences in service coverage lie in the fact that KOREU incorporates environmental services (KORUS does not), whilst KORUS includes audiovisual services and KOREU does not include health or audiovisual services at the EU's request. These are areas where the EU member states retain sovereignty, and, in the case of audiovisual services, where Europe's position is more defensive so as to protect cultural diversity, particularly at the behest of France. To the extent that Korean negotiators viewed KOREU as a "balancing act" against USA reliance through KORUS (Nicolas 2009: 38), it is unsurprising that the coverage of the agreements is similar. Where differences occur it is due mainly to divergent interests in the negotiating positions of the USA and EU, as determined by their domestic contexts.¹⁶

In terms of approach, KORUS uses a negative list¹⁷ whereas KOREU has a positive list identifying the services covered by the FTA.¹⁸ In the future should some new type of services be developed in the case of KOREU the parties would have to choose to

¹⁶ USA objectives were to obtain better access for its agricultural products, pharmaceutical and medical equipment, high-technology goods, and services (especially financial and professional). EU aims, in keeping with 'Global Europe' were to tackle non-tariff-barriers (especially in chemicals), and the Singapore issues.

¹⁷ Anything not explicitly listed automatically falls under the remit of the agreement.

incorporate it into the agreement during the yearly implementation meetings, whereas in the KORUS case it would automatically be covered unless the parties explicitly decided to exclude it. In essence the momentum operates in the opposite direction in each case.

Both agreements open markets for public procurement and cover intellectual protection rights. Given Korea's membership of the OECD and adherence to the multilateral TRIPS agreement at the WTO, this was not too controversial.¹⁹ A major difference, however, lies in the protection of Geographic Indicators (GI) for wines, spirits and other products. This has been a contentious issue at the WTO where the disparity between USA's trademark-based approach and the EU's GI system has not been resolved (see El Benni 2009). The EU hoped to gain legally-binding international recognition of its list of protected GIs. Having failed multilaterally, it has incorporated this into its FTAs, although the length of the list varies from FTA to FTA. In the case of KOREU a list with only 100 items was included.²⁰ The Commission defended this at the European Parliament arguing that "in some negotiations full protection of the entire EU register list is not possible from the outset", and that the reduced list approach is "conditioned on the facilitation of the recognition and protection of the remaining names as a result of the agreement" and the ongoing cooperation ensuing from it (European Parliament 2010).

¹⁹ The Trade Related aspects of Intellectual Property Rights (TRIPS) at the WTO protects GIs, trademarks, and other forms of intellectual property at the multilateral level, and has been one of the complicating factors in the WTO Doha Round.

²⁰ The full register includes 29997 GIs for wines and 1289 for other products. Whilst most are EU GIS the register also covers non-EU products that have been added through FTAs and other partial agreements. E-BACCHUS and DOOR GI registers can be accessed at http://ec.europa.eu/agriculture/quality/index_en.htm.

Concluding remarks

Future work will focus on empirically comparing the content of FTA agreements negotiated by the USA, China and EU in East Asia and in gathering relevant interview materials to more clearly establish the mechanisms by which perceived competition and ‘competitive diffusion’ of FTAs operate. The preliminary analysis carried out above suggests that to a large extent China’s FTA strategy has thus far been motivated by its own economic and particular political and strategic interests for spreading good will in its neighbourhood, rather than competition with the USA or EU. US FTA policy in East Asia, likewise follows a greater logic of US ‘multitrack’ trade policy. If it were completely concerned with competing with China, it might have negotiated with ASEAN. The same applies to the EU, although in the EU’s case, at least in its agreements with East Asia thus far, it seems to be following the US lead. Indeed, its documents often refer to competition with the USA and to potentially losing out.

All actors use their power status and market attraction to engage FTA partners and to export their preferences to them (especially in terms of legislative preferences in the cases of the US and EU). All actors’ FTA policies reveal elements of strategic pursuits (peaceful rise for China, retaining influence in area for US, gaining allies and multilateralism for EU).

Mochizuki (2009) finds that the result of seeking influence through FTAs has meant that the large players have not used FTAs among themselves to counter competitive pressures, but have instead signed them with smaller states to hedge against negative

trends, and, thus, so far, large power competition has prevented the predominance of any hegemonic FTA project. In terms of the main players in a multipolar world, so far the 'FTA process...more closely resembles fingers reaching idiosyncratically around the globe than the formation of politico-economic blocs centred respectively on Beijing, Brussels and Washington' (Hufbauer & Wong, 2005: 12).

Of course, the interesting question that arises is what will happen all these overlapping and possible contradictory agreements are in operation, and whether these powers will attempt to and be able to use them to mobilise other power resources, and what impact this will have on the 'complex interdependence' and triangular relation (Smith & Xie 2009) that has emerged between them. Indeed the EU, China and USA are each other's main trade and investment partners, whilst at the same time representing each other's key competitors in other markets. This has long been a feature of EU-US relations (McGuire & Smith 2008), and will undoubtedly be the same in this case.

The stalemate at the WTO has been a key external factor in focusing all actors on FTAs. Internal factors to allow this change of policy have been very different. In China the enforced liberalization reforms undertaken to join the WTO helped to erode internal opposition to liberalization through FTAs. In the US, the discourse of competition and the stalemates at the WTO helped the USTR mobilise support for FTAs. In the EU, it was only once DG Trade's leadership changed in late 2004, combined with the greater focus

on competition, that FTAs with East Asia became politically viable. Whilst too early to predict, it seems likely that China, the EU and USA will end up with a similar network of FTAs in East Asia, and possibly elsewhere too. The EU's 'deep trade' agenda in its FTAs may eventually help it to increase its international influence and solidity of alliances and export of its rules. However, given the differences with Chinese and USA FTAs it may lead to the complex 'noodle bowl' regulatory scenarios economists fear (Ravenhill, 2009). De Vos (2010) foresees a world with greater tensions over competing models of trade, monetary issues and capitalism, potentially acquiring greater political and geostrategic significance in the wake of the financial and economic crisis (2008-). How will this new reality interplay with the FTAs? Future FTAs may become narrower in scope as a result of more protectionism, but a revocation of existing ones seems highly unlikely. Whatever the future holds, FTAs have created a complex system of trade and investment rules alongside the WTO. Lacking the same degree of institutional tradition and capacity, FTAs represent a more flexible, faster, and possibly less contentious response to the challenges of a global economy and competitive fears.

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