

Cornhusker Economics

Lost Grounds in US Trade Integration

Growing World Trade Organization (WTO) membership and plurilateral trade agreements have increasingly occurred in the last 20 years leading to unprecedented market integration. However, in the last 5 years, the United States (US) has been diverging from its traditional role as a main driver of this integration. In contrast, Europe has been integrated progressively within itself and beyond, outpacing the US. The article documents these trends and changes. This article is based on a longer working paper and an article in *EuroChoices* coauthored with Jill O'Donnell.

Integration through the WTO

By the end of 2021, the WTO had reached a membership of 164 countries, with 24 new members since 2001 (see Table 1). WTO member countries represent 98 percent of world trade. Although negotiations of a Doha Round of the WTO have so far failed and many trade frictions have emerged, one should not discount the accomplishment of having nearly all world trade taking place within the framework and sets of rules provided by various WTO agreements.

Table 1. New WTO members 2001-2021

Members	Membership date	Members	Membership date
Afghanistan	29-Jul-16	Ukraine	16-May-08
Liberia	14-Jul-16	Tonga	27-Jul-07
Kazakhstan	30-Nov-15	Viet Nam	11-Jan-07
Seychelles	26-Apr-15	Saudi Arabia, Kingdom of	11-Dec-05
Yemen	26-Jun-14	Cambodia	13-Oct-04
Lao People's Dem. Rep.	2-Feb-13	Nepal	23-Apr-04
Tajikistan	2-Mar-13	Armenia	5-Feb-03
Montenegro	29-Apr-12	North Macedonia	4-Apr-03
Russian Federation	22-Aug-12	Chinese Taipei	1-Jan-02
Samoa	10-May-12	China	11-Dec-01
Vanuatu	24-Aug-12	Lithuania	31-May-01
Cabo Verde	23-Jul-08	Moldova, Republic of	26-Jul-01

Source: WTO website

Examples of frictions include members' disagreement over which countries should be considered "developing" and receive special and differential treatment, the collapse of the Dispute Settlement Body appeals function, the Appellate

Body, and various issues related to non-tariff measures such as sanitary and phytosanitary measures and technical barriers to trade.

A reason for the stalled Doha round is the so-called “beyond the border” issues underlying global value chains. These cover intellectual property rights, investment codes, dispute settlements, added transparency, standards, and others. Regional trade agreements (RTAs) can address these issues more efficiently.

Integration through RTAs

Figure 1 documents the proliferation of regional and preferential trade agreements, with 350 RTAs of various depths in force in 2021. Trade economist Bhagwati has coined this proliferation as the “spaghetti bowl of RTAs.” The concern was about heterogeneous and discriminatory regulations. This proliferation took off in the 1990s as shown in the Figure and progressed, especially for Europe. Europe has integrated inward and outward. Internally, the European Union (EU) enlarged and has now reached 27 members, with the notable exception of Brexit but also including the EU-27-UK agreement of 2021. Beyond its borders, the EU has entered a multitude of RTAs. First, these were at its periphery (Ukraine, former Yugoslavia, and other neighboring countries). Then the EU reached out to the Americas (Canada, CARIFORUM states, Central America, Chile, Colombia and Peru, Ecuador, and Mexico) and much beyond in Asia (Japan, Korea, and Vietnam).

This two-track European integration is in contrast with relatively slowing US integration beyond NAFTA-USMCA. Since 2001, the United States has entered into RTAs with Jordan, Chile, Singapore, Australia, Morocco, CAFTA-DR countries, Bahrain, Oman, Peru, Korea, Colombia, and Panama. This is not a small feat, but still quite limited compared to the European integration. Figure 2 summarizes the trade integration through regional agreements by region, with the outlying case of the European region (154 notifications) and less impressive North American integration (50 notifications).

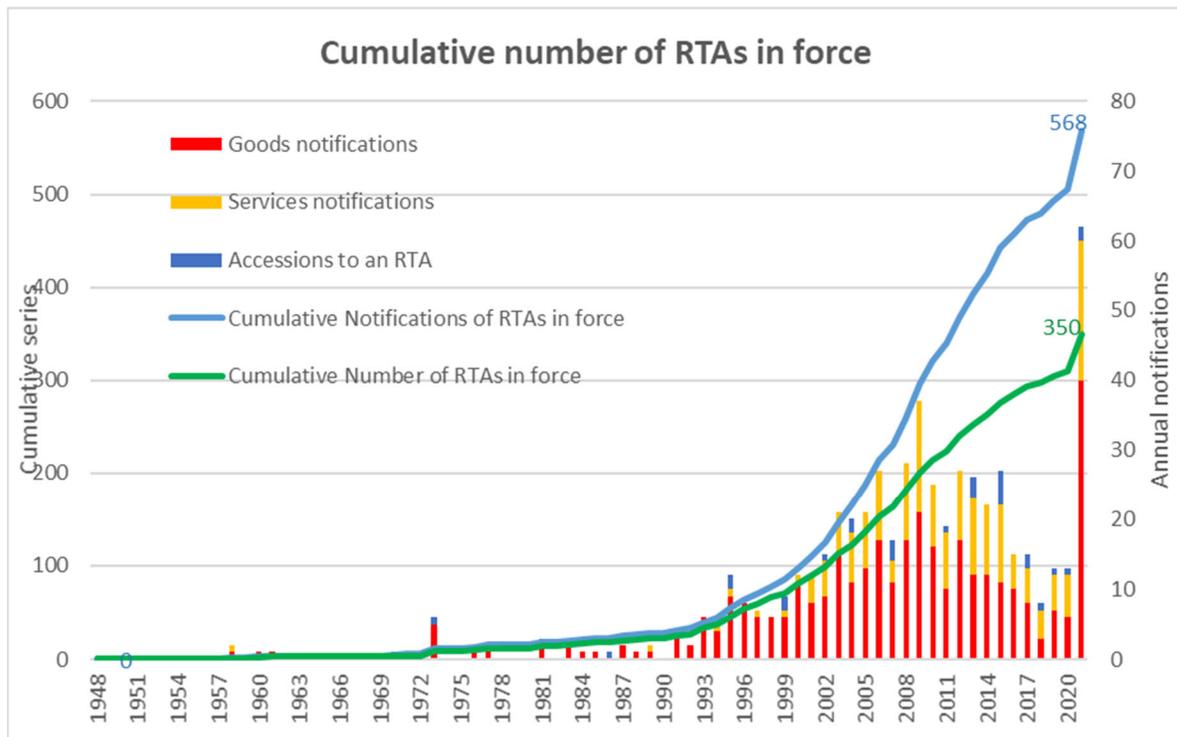


Figure 1. Notifications of RTAs and RTAs in force (as of October 2021)

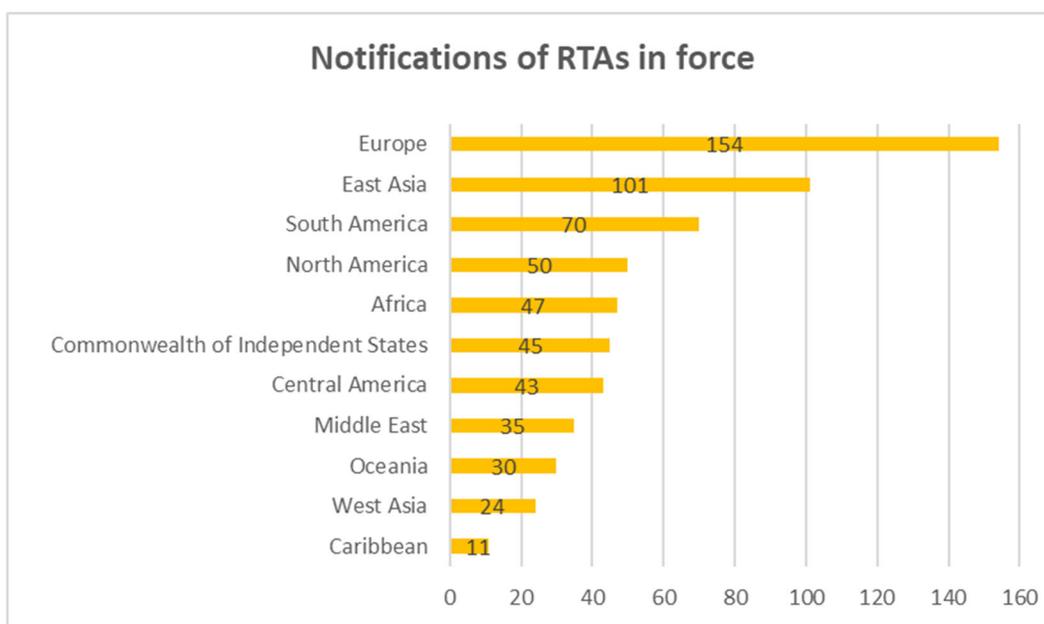


Figure 2. RTAs in Force by regions (as of October 2021)

Table 2 shows that 261 RTAs were signed in the last two decades. 90% of these were free trade agreements (FTAs). FTAs are agreements in which trade barriers have been eliminated (or substantially decreased) among members, and which treat non-members differently. FTAs achieve integration beyond market access by addressing nontariff measures like sanitary and phytosanitary regulations, dispute settlement, investment, safeguards, and other matters. Only 8 agreements were custom union agreements. Custom unions offer common external tariffs faced by nonmembers, and its members face similar internal regulations, food safety standards, farm policy, etc. They represent even deeper integration than FTAs. Finally, thirteen partial scope agreements, limited to trade in certain goods, were also signed among developing countries.

Table 2. RTAs signed since 2001 by type and composition

Type of RTAs signed between 2001 and 2021	Numbers by type of RTA	Bilateral composition	Plurilateral composition	One party or more is an RTA
Partial scope agreements (PSA)	13	12	1	2
Free trade agreements (FTA)	235	195	40	60
Custom unions (CU)	8	0	13	0
New agreements not specified	5	4	1	4
2001-2021 total	261	211	55	66

Source: The RTA database of WTO. Downloaded September 1, 2021

These recent RTAs increasingly include a larger number of countries such as the 2018 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP among 11 countries and the Regional Comprehensive Economic Partnership Agreement (RCEP) of new ASEAN members and six other WTO members. These two mega RTAs do not include the US. The Trump administration walked out of the negotiated TPP which became the CPTPP. That was a major policy blunder. The renewed USMCA RTA (NAFTA 2.0) and the US-Japan market access agreement did not compensate for the withdrawal from TPP. The current US administration does not seem in a hurry to join the CPTPP nor to remove much of the tariff-war elements of trade policy of the former Trump administration. The US trade retreat continues.

Preferential trade agreements (PTAs) with unilateral trade concessions have been signed by most African countries and other least developed economies, with the United States with AGOA (passed in 2000 and renewed in 2015) and the Euro-

pean Union with EBA in 2001. These PTAs have removed most border tariffs, including on agricultural and food imports, from least developed countries. Given the established and historical trading relationships with European countries, many least developed countries tend to adopt stringent EU standards, rather than international standards, not to compromise their export potential. The US tends to follow international and science-based standards. The US has lost ground on that front as well to convince these emerging economies to revert to international standards.

Also disappointingly, the US and EU failed to agree on the Transatlantic Trade and Investment Partnership, a complex mega-FTA style agreement, which was in negotiations during the Obama administration. This was a failure for both the EU and the US. Such an agreement between the EU and the US could have reduced remaining tariffs and eliminated bilateral quotas on food imports. It could have addressed non-tariff measures through increased transparency and reciprocity in SPS and TBT measures. TTIP negotiations failed because of longstanding EU-US differences in biotechnology approval processes, science-based versus precautionary SPS regulations, geographic indications, and the design of an investment-dispute resolution mechanism, among other contentions.

The future will tell if the US will regain these lost grounds in trade integration and if the EU will continue on its path to greater integration on its own terms.

Further Readings

Beghin, J.C. and O'Donnell, J. (2021). *Trade agreements in the last 20 years: Retrospect and prospect*. Agricultural Economics Staff Paper 2021-7, University of Nebraska-Lincoln, NE, USA. Available online at: <https://ageconsearch.umn.edu/record/314115/>

Beghin, J and J. O'Donnell. "Trade Agreements in the Last 20 Years: Retrospect and Prospect for Agriculture." *Euro-Choices* 20(3): 63-68. <https://doi.org/10.1111/1746-692X.12335>

John C Beghin
Mike Yanney Chair and Professor
Department of Agricultural Economics and
Yeutter Institute of International Trade and Finance
University of Nebraska - Lincoln
beghin@unl.edu
402-472-2749