Appendix A
An Outline and History of Regional Trading Arrangements

This sketch of trade regimes in the past half-century surveys only those accords that cover a substantial number of sectors in the economy and grant tariff preferences beyond most-favored nation (MFN) or General System of Preferences (GSP) standards for goods. At the recent pace of change, it is sure to be out of date soon after it is printed.1 Table A1.1 ranks the majority of blocs covered in this appendix on a few relevant characteristics. As can be seen from this table, some of the largest trade blocs are those that have been proposed but not yet implemented.

GATT and WTO: The Most Inclusive of All Trading Arrangements

- **Membership**: 129 nations plus the European Union; 32 other governments have applied for accession
- **Population** (1994 estimates): 3,557 million (64 percent of world’s)
- **Output** (1994): $23,682 billion (93 percent of world’s at market exchange rates); $25,973 billion (82 percent of world’s at purchasing power parity [PPP] rates)
- **Foreign trade** (exports plus imports in 1994): $7,908.9 billion, of which 91 percent was intrabloc

1. This appendix, mainly drafted by Alan Kackmeister, draws heavily on WTO (1995), IMF (1994), and a number of other histories. For a history of pre-1945 trade arrangements, see Machlup (1977).
<table>
<thead>
<tr>
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<th>GDP at purchasing power parity rates (billions of dollars)</th>
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<td>26. Southern African Customs Union</td>
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Table A1.1 (continued)

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<th>GDP at purchasing power parity rates (billions of dollars)</th>
<th>Number of countries</th>
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<td>Mano River Union</td>
<td>CU</td>
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<td>4</td>
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n.a. = not applicable or available; S = sectoral cooperation; PTA = preferential trade arrangement (includes nonreciprocal areas); FTA = free trade area; CU = customs union; CM = common market.

a. Y means a trade agreement is in place between parties; N means a bloc is in negotiations or is only theoretical at present.

b. Figures do not include new associate member Chile (which does not take part in the common external tariff).

The multilateral, nearly global General Agreement on Tariffs and Trade (GATT) can in one sense be seen as the antithesis of a regional trading arrangement. The most-favored nation (MFN) principle does not allow the special preferences that form the basis of regional trade agreements. But because certain countries have not yet acceded to the GATT provisions—most notably China and Russia, both of which were still negotiating accession in 1997—the GATT has been less than an all-encompassing global agreement. In that sense, the GATT can be seen as the largest regional trade arrangement to date.

The GATT started in 1948 with 23 member nations. It has since expanded to the point where its newest incarnation, the World Trade Organization (WTO), comprises 129 nations (plus the European Union), with 32 governments negotiating accession as of late-1996 (Fieleke 1992, 5). Eighty-two percent of world merchandise trade takes place between WTO members.

Eight rounds of GATT negotiations have progressively decreased barriers to foreign trade. Recent agreements, including the General Agreement on Trade in Services (GATS), the Trade-Related Investment Measures (TRIMs) agreement, and Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement, have extended the scope of the organization. Further, the new, permanent organization, the WTO, oversees the enforcement of the agreements and continues the work of global liberalization begun in the GATT.

Regional and bilateral trading agreements are so pervasive today that as of the beginning of 1996 nearly all WTO members were also signatories to at least one existing regional or bilateral trade accord (WTO 1995, 27). Notable exceptions are Hong Kong and Japan, but even these exceptions would vanish if the Asia Pacific Economic Cooperation (APEC) forum became a full-blown bloc.

Europe

Regional integration has proceeded the furthest in Europe. Nearly the entire region is intertwined in a system of regional trading agreements. Lying at the center of this arrangement and constituting its dominant component is the European Union, the most deeply integrated of all trade blocs.

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3. Of the 122 WTO signatories, only Macau and Myanmar (Burma) are not members of an existing regional agreement or one of the potential ones (e.g., APEC and FTAA) mentioned in this appendix.
European Union

Membership: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Luxembourg, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom

Population (1994): 275 million
Output (1994): $7,132 billion at market exchange rates, $6,728 billion at PPP rates
Foreign trade (exports plus imports in 1994): $3,421.1 billion, of which 64 percent was intrabloc.

The European Union encompasses 15 nations, about 30 percent of world output, 42 percent of world trade, and 6.5 percent of world population. It sends a common trade negotiator to conduct deals for its members with non-European nations.

Proposals for preferential trade arrangements in Europe extend at least as far back as the limited tariff reduction arrangement between France and England before the World War I, the French calls for a regional trade group after World War I, and Churchill’s 1946 speech calling for a “United States of Europe” (Harrop 1992, 6; WTO 1995, 29; EC Commission 1987, 10).

A direct forerunner to the modern European Union was the European Coal and Steel Community (ECSC) between France, Germany, Belgium, Italy, Luxembourg, and the Netherlands, begun in 1951. Formed as a supranational organization to oversee a single market in the coal and steel sectors of the member economies, the ECSC was soon followed by a plan proposing a federal union among the six ECSC members. Failure of the French Parliament to ratify the arrangement aborted the attempt (Harrop 1992, 15; EC Commission 1987, 13).

The signing of the Treaty of Rome in 1957 among these same six economies created the European Economic Community (EEC). This treaty expanded the sectors open to regional integration and laid out the goal of a common market with the “four great freedoms . . . free movement of persons, of goods, of services, and of capital” (EC Commission 1987, 18). Concurrently, the same group formed another supranational body, the European Atomic Energy Commission (Euratom) to oversee atomic energy cooperation. The ECSC, the EEC, and Euratom together constituted the European Communities (EC).

In 1967 the executive branches of these three communities were merged, and the next year a customs union with a common external tariff was implemented (EC Commission 1987, 32-33, 36). In 1973 Denmark, Ireland, and the United Kingdom joined, followed by Greece in 1981, Spain and Portugal in 1986, and Sweden, Austria, and Finland in 1995.4

The Single European Act, ratified in 1986-87, set the goal of a single European market for goods, labor, capital in Europe by 1992 and streamlined decision making by allowing for a qualified majority to pass some EC legislation rather than the previously required consensus.

At the end of 1993 the enactment of the Maastricht Treaty changed the name of the European Community to the European Union, strengthened cooperation on foreign and security policy and in justice and police matters, and broadened the reach of the European Commission (the community’s resident bureaucracy) in industrial policy, consumer affairs, health, and education. The treaty also laid out the process for strengthening the narrow-band exchange rate system of the European Monetary System, in place since 1979, in favor of a single currency in qualifying member nations by 1999 as part of the Economic and Monetary Union (EMU).

Even in the most integrated of the regional trade arrangements, progress is slow and difficult. The path toward a true single market is well behind schedule, and it appears that the phase-in of free movement of labor, one of the original goals of the Treaty of Rome in 1957, will not occur at least until the turn of the century (Financial Times, 13 July 1995, 1). Furthermore, only a few member countries are likely to truly meet a strict interpretation of the convergence criteria for monetary union in 1999. The earlier goal of 1997 for monetary union had already been abandoned by 1995 in the aftermath of the 1992-93 crisis in the Exchange Rate Mechanism. Nevertheless, the EMU is expected to proceed.

As the unofficial center of a far-reaching hub-and-spoke system, the European Union has signed numerous bilateral agreements granting a wide variety of preferences to many nations. The highest level of preference goes to the nations of the European Economic Area (EEA; see below), followed by a separate agreement with Switzerland. Bilateral association agreements, the next level of preference, are in force with Poland, Hungary, the Czech Republic, the Slovak Republic, Bulgaria, and Romania and have been signed with Estonia, Latvia, and Lithuania. The association agreements create hub-and-spoke free trade areas between the associating countries and the European Union covering industrial goods and grant preferential treatment to EU agricultural markets. The agreements acknowledge the ultimate goal of the signatory nation’s accession to the European Union and commit associated nations to pass EU-style rules regarding competition and intellectual property rights.

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Slovenia (1996). Norway has twice applied for EU membership and concluded negotiations, but both times, in 1972 and 1994, EU membership was eventually rejected by a majority of Norway’s voters.

5. An association agreement has been initialed with Slovenia.

6. In some cases, trade among the spokes is not promoted and may actually be discouraged (Enders and Wonnacott 1996).
A series of other agreements grant access to EU markets, such as a nonreciprocal agreement with about 70 African, Caribbean, and Pacific (ACP) nations in the Lome Convention, and less-inclusive nonreciprocal arrangements with a number of Mediterranean countries. Two interim trade agreements were signed in 1994 with Russia and the Ukraine, and a broader accord is on the way (Financial Times, 17 July, 14; 18 July, 5). Malta and Cyprus also have trade agreements with the European Union (International Trade Reporter, 7 July 1993).

The creation of a Euro-Mediterranean free trade area (EuroMed) by 2010 was the goal of a 1995 EU-sponsored conference in Barcelona. Included with the European Union in this potential agreement are Algeria, Cyprus, Egypt, Jordan, Lebanon, Malta, Morocco, the Palestinian autonomous territories, Syria, Tunisia, and Turkey. Proposed by the European Commission and modeled after the EEA, EuroMed would be dominated by the EU countries, which account for more than 90 percent of the region’s output. Nearly all of the non-EU countries of EuroMed already have trade agreements with the European Union that allow duty-free access for industrial products and grant some preference to agricultural produce (Galal and Hockman 1997). Various other trade agreements exist or are being negotiated between the European Union and other countries. Perhaps the most interesting is a trade agreement planned between the European Union and the Mercado Comun del Sur (Mercosur) with a target of 2001. Heads of state signed a cooperation agreement in Madrid in December 1995. The European Union accounted for 26 percent of Mercosur’s external trade between 1985 and 1992, and such an accord would counter the threat that a possible Free Trade Area of the Americas (FTAA) poses to EU trade in the region (International Trade Reporter, 26 October 1994).

**European Free Trade Association**

**Membership:** Iceland, Liechtenstein, Norway, Switzerland

**Population** (1994): 12 million

7. This ACP-Lome agreement, the fourth in the series, is in effect for 10 years from its enactment date of 1990. It is not expected to be renewed in 2000 (The Economist, 11 November 1995). The first Lome agreement in 1976 replaced and expanded on the 1964 Yaounde convention. The countries covered under the Lome convention are mostly former colonies of EU countries.

8. A number of former Soviet republics have signed, or are in negotiations to sign, trade accords with the European Union that grant them MFN treatment even though they are not GATT members. These accords, by increasing quotas on goods from the former Soviet nations as well as granting MFN treatment, represent a level of trade liberalization greater than the previous level but less than the level of most GATT members.

9. Andorra has a customs union with it, dating from 1989.

10. Turkey has a customs union with the European Union. An EU-Cyprus customs union should be completed by 1997.
Output (1994): $387 billion at market exchange rates, $271 billion at PPP rates

Foreign trade (exports plus imports in 1994): $220.8 billion, of which 1 percent was intrabloc

The European Free Trade Association (EFTA) has been the other main trade bloc in Europe. Currently about one-tenth the size of the European Union and less integrated, EFTA has lost many of its members to the European Union, most recently at the beginning of 1995.

The signing of the treaty creating EFTA occurred in 1960, three years after the signing of the treaty creating the European Community. It was formed of seven European countries—the Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom—that did not want the intimacy of the European Community. EFTA was deliberately a less ambitious and less supranational approach to regional integration. Where the European Community aimed at a common market, EFTA created only a free trade area without the EC-like political organizations, namely its Court of Justice, parliament, and large secretariat.

The United Kingdom and Denmark left EFTA for the European Community in 1972, and Portugal followed suit in 1985. These losses were partially offset by the additions to EFTA of Iceland (1970), Finland (associate membership since 1961, full membership in 1986), and tiny Liechtenstein (1991). However, the 1995 losses of Austria, Finland, and Sweden (which accounted for about 55 percent of EFTA’s output) to the European Union, left EFTA with only four members and was a serious blow. A bright spot for the continuation of the agreement, however, was Norway’s decision in a hard-fought referendum to bypass EU membership and stay in EFTA.

EFTA has negotiated a number of trade ties with other countries, though fewer than has the European Union. The best-known of these linked five EFTA members with the EU countries in the EEA. Agreements with Turkey and Israel extend benefits to these countries on par with those the EU countries enjoy. Other EFTA free trade agreements have been reached with the Czech Republic (1992), Bulgaria (1993), Hungary (1993), Poland (1992), Romania (1992), the Slovak Republic (1992), and Slovenia (1995). In December 1995, EFTA added free trade agreements with the three Baltic states (Financial Times, 8 December 1994). Most of these cover free trade in industrial goods and processed agriculture and fish. These agreements open EFTA markets to imports from the east before opening Eastern Europe to EFTA products.

European Economic Area

Membership: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Luxembourg, Iceland, Italy, Ireland, Liechtenstein, Netherlands, Norway, Portugal, Spain, Sweden, United Kingdom
Output (1994): $7,262 billion at market exchange rates; $6,825 billion at PPP rates
Foreign trade (exports plus imports in 1994): $3,492.6 billion, of which 66 percent was intrabloc

The European Economic Area (EEA), which came into force at the beginning of 1994, created a free trade area between the European Union and five of the seven (now three of four) members of EFTA. Negotiations commenced in June 1990, and the agreement was signed two years later in May. An earlier agreement between the European Union and EFTA, signed in 1972, abolished import duties on industrial goods by 1977.

The EEA was deprived of much of its purpose a year after its formation by the accession to the European Union of Austria, Finland, and Sweden. However, the EEA agreement still provides increased access to the EU markets for the two remaining EFTA countries (Norway and Iceland) that are members of the EEA. The EEA agreement creates a free trade area covering trade in goods (excluding agriculture) and most services and also extends some liberalization to the movement of labor and capital (Financial Times, 1 January 1994; International Trade Reporter, 23 June 1993).

Council for Mutual Economic Assistance

To the east of the European Union and EFTA, among what were communist nations, a relatively integrated regional arrangement, the Council for Mutual Economic Assistance (CMEA or Comecon), survived for nearly 40 years. Formed in 1949 to cover trade among the former communist bloc nations, it was once one of the world’s largest “trade zones.” Lacking a market to determine prices, a state agency set trade prices for five-year periods based on past world prices. Designed for planned economies, not market ones, the CMEA ended with the fall of communism in Eastern Europe. The CMEA was formally disbanded in 1991 (Brada 1993, 320, 322).

Central European Free Trade Area

Membership: Czech Republic, Hungary, Poland, Slovak Republic, Slovenia

11. Switzerland decided in a referendum not to join the EEA. Liechtenstein became a full member of the EEA in May 1995 after details regarding its custom union with Switzerland were worked out.
Output (1994): $198 billion at market exchange rates, $403 billion at PPP rates

Foreign trade (exports plus imports in 1994): $102.9 billion, of which 9 percent was intrabloc

With the collapse of the CMEA, a number of smaller trade agreements emerged in the region. Of these, the most western is the Central European Free Trade Area (CEFTA), founded by the Visegrad 4.\textsuperscript{12} Formed in late 1992 during the transition to the “velvet divorce” of the Czech and Slovak Republics, CEFTA bound these two nations with Poland and Hungary.\textsuperscript{13} It encompasses the most market-oriented nations of the defunct CMEA (with some reservations regarding the Slovak Republic). CEFTA appears destined, like EFTA, eventually to lose its members to the European Union. The Visegrad 4 have applied to become EU members, and all four have association agreements with the European Union that confer on them some trade benefits in the EU markets. In fact, new members must have an association with the European Union to join CEFTA (\textit{International Trade Reporter}, 20 September 1995). In a move foreshadowed by a web of bilateral agreements, CEFTA in 1995 admitted Slovenia (which is at least as far advanced in market reforms as any of them) and indicated its intention to follow with Bulgaria and Romania in 1996 and the Baltics subsequently. Free trade in the CEFTA region is intended to take effect by 2000 (\textit{The Economist}, 16 September 1995). The CEFTA agreement covers only trade in manufactured goods and raw materials, while agricultural goods, accounting for one-third of the region’s trade, are still restricted (WTO 1995, 32; \textit{International Trade Reporter}, 6 January 1993, 2 March 1994).

The Former Soviet Union

The breakup of the Soviet Union in 1991 fragmented a full economic and political union into a variety of smaller entities. This trend, running counter to that in the West, has been repeated in some other former communist countries. Nonetheless, some trade blocs have been attempted out of the remnants of the Soviet Union.

In September 1993, eight former Soviet republics, led by Russia, signed an agreement to form an economic union with a common currency. By November of the same year, the goal of such a tight union was dropped, not least because two of the signatories, Kazakhstan and Turkmenistan, had introduced their own currencies. Early in 1995, a second attempt at

\textsuperscript{12} The Visegrad 4 include the Czech and Slovak Republics, Hungary, and Poland. The term originated at a meeting of the leaders at Visegrad, Hungary, but has more recently been dropped (\textit{The Economist}, 18 November 1995, “Central Europe Survey,” 6).

\textsuperscript{13} A second agreement, a customs union, exists between the Czech and Slovak Republics.
regional integration was tried when Russia, Belarus, and Kazakhstan agreed to form a customs union and invited other nations of the loose political group of former Soviet states, called the Commonwealth of Independent States (CIS), to join. Further agreements have been announced, including with Kyrgyzstan, but little of substance has yet taken place (International Trade Reporter, 10 November 1995, 8 February 1995, 29 September 1993, 26 January 1994; The Economist, 30 March 1996, 49-50).

A free trade area signed in 1993 and in effect since 1994 exists among the three Baltic states (Estonia, Latvia, and Lithuania) abolishing all tariffs and quantitative restrictions except those in a few sensitive sectors that are to be phased out over time. The three Baltic states are not members of the CIS.

The Americas

In no part of the world has trade liberalization caught on more suddenly than it has in the Western Hemisphere. A 1994 list shows 23 distinct hemispheric trade agreements (CIA 1994). Since then, a number of agreements have been formed or negotiations begun (e.g., Chile-Mercosur, Chile-NAFTA, Mexico-Bolivia, and Mercosur-Andean Community). Others have been strengthened (Mercosur and Caricom). The UN Economic Commission for Latin America and the Caribbean (ECLAC) put the number at 22 bilateral accords and estimated more than 30 Western Hemisphere trade agreements when multilateral accords were included (Financial Times, 2 September 1994). These developments have helped reduce average ad valorem external tariffs in the Western Hemisphere from 56 percent a decade ago to 12 percent in June 1994 (New York Times, 13 June 1994, D1). However, there are also negative aspects to the spaghetti tangle of agreements, illustrated in figure 1.1. (Heavy lines in the figure represent the major agreements of the region. Lighter lines represent partial membership, membership in negotiation, or bilateral agreements.) Trade among spokes may be impeded. Future negotiations of the member countries, whether with outsiders or over consolidation among themselves, will be complicated.

Two strong trade blocs emerging from the Americas are the North American Free Trade Agreement (NAFTA) and the Mercado Comun del Sur (Mercosur). Other potentially viable, though much smaller, blocs include the Andean Community and the Caribbean Community (Caricom). The largest, most all-encompassing initiative is the Free Trade Area of the Americas (FTAA), which includes all Western Hemisphere nations except Cuba.

Free Trade Area of the Americas

Membership: 34 Western Hemisphere countries
Population (1994): 716 million
Output (1994): $8,548 billion at market exchange rates, $9,749 billion at PPP rates
Foreign trade (exports plus imports in 1994): $2,004.2 billion, of which 50 percent was intrabloc

The largest of all Western Hemisphere trade initiatives, the Free Trade Area of the Americas (FTAA) would stretch from the northern islands of Canada (above the Arctic Circle) to the tip of Chile (near Antarctica). It would engulf the six trade blocs discussed next. At US insistence, Cuba is excluded because it is not a democracy. Otherwise, all independent nations in the Western Hemisphere are included. It would thus encompass approximately 13 percent of world population and about one-third of world output. Slightly larger than the EEA in output and twice as large in population, FTAA would be the largest trade bloc in existence, though it would be smaller than APEC which, like FTAA, has yet to be negotiated.

Hemispheric aspirations in the United States can be traced at least as far back as the Monroe Doctrine. The formation of the Organization of American States in 1948 marks probably the first permanent hemispheric institution, though it was of a political rather than economic nature.

FTAA itself has little history behind it, as it was announced with little planning at the Western Hemisphere summit in Miami in December 1994 (Feinberg 1997). Although it is an expansion of the Enterprise for the Americas Initiative (EAI) bilateral series of trade agreements launched in 1990 by President George Bush, FTAA drops the hub-and-spoke scheme of the EAI in favor of a hemispherewide FTA.

A ministerial meeting in Denver in June 1995 reinforced the intention to conclude negotiations by 2005. It created a number of working groups to draft reports concerning the agreement (Inside U.S. Trade, 30 June 1995). Further meetings in Brazil in 1997 set the stage for the second Western Hemisphere summit that will meet in Santiago, Chile in March 1998.

An interim step to the formation of FTAA might be the formation of a South American Free Trade Area (SAFTA, or ALCSA in Spanish) to integrate Mercosur, the Andean Community, and Chile. Brazil has pushed for the formation of SAFTA as a way of bolstering its bargaining clout in an eventual hemispheric agreement. The idea initially received little support from the other South American countries, let alone acquiescence from the United States (International Trade Reporter, 23 March 1994; Financial Times, 14 March 1994). If US domestic political opposition continues to stall expansion of NAFTA, however, the South Americans will likely pursue regional integration under Brazilian leadership.
North American Free Trade Agreement

**Membership**: Canada, Mexico, and the United States

**Population** (1994): 382 million

**Output** (1994): $7,665 billion at market exchange rates, $8,006 billion at PPP rates

**Foreign trade** (exports plus imports in 1994): $1,720.9 billion, of which 43 percent was intrabloc

The largest existing trade agreement in the hemisphere in terms of economic size is the North American Free Trade Agreement. NAFTA was negotiated among the United States, Canada, and Mexico in 1992, ratified in 1993, and entered into force on 1 January 1994. NAFTA covers an area that accounts for nearly 30 percent of world output (roughly the size of the EEA) and 18 percent of world trade.

NAFTA was an extension of the Canada-US Free Trade Agreement, which was signed in 1988 and entered into force since 1989. Its roots can be traced to the 1965 Canada-United States Automotive Agreement, which allowed duty-free trade in autos and original-equipment parts between the countries. Even earlier trade agreements between the two countries were the limited tariff reduction measures of 1935 and 1938, secret (and aborted) free trade talks in 1948, and a defense production agreement in 1958 (Hufbauer and Schott 1994, 219).

With respect to Mexico, remote foreshadowings of NAFTA can be seen in an earlier, ineffective bilateral trade accord between the United States and Mexico in 1942; the implementation of the maquiladora program in 1965; a series of small US-Mexico agreements (1985, 1987, and 1989) covering subsidies, countervailing duties, and certain sectors of tradeable goods; and an early 1990 Canada-Mexico framework accord. The United States and Mexico announced their intention to form a free trade area in June 1990; Canada was added when the talks commenced in 1991 (Hufbauer and Schott 1992, 3).

NAFTA included the liberalization of investment and financial services, intellectual property rights, and, unlike many trade agreements, liberalization in agriculture (with a phase-in period of up to 15 years). Some liberalization was accomplished with textiles and autos, but strict rules of origin undid much of the gains in these sectors. Energy trade is not covered under NAFTA, due to Mexican sensitivity regarding its oil sector, though the US-Canada FTA does cover energy. Overall, NAFTA reduces tariffs between the participating countries to 18 percent of a theoretical index at MFN level.15

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15. This figure is for Canadian imports to the United States, based on 1991 customs data (Hufbauer and Schott 1993b, 5).
Negotiations to add Chile to the bloc are to follow when the US Congress grants fast-track authority to the executive branch. In the meantime, Chile signed a bilateral FTA with Canada in November 1996, which should ease its entry into NAFTA (Inside U.S. Trade, 29 November 1996). The Caricom nations and many of the nations of the Caribbean Common Market (CACM) have also expressed interest in joining NAFTA (see discussion below). The United States has made clear that CACM members (and, one can assume, Caricom) would have to join as a bloc rather than as individual nations because they are so small (Financial Times, 10 May 1995).

**Latin American Free Trade Association and Latin American Integration Association**

**Membership:** Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela  
**Population** (1994): 407 million  
**Output** (1994): $1,487 billion at market exchange rates, $2,554 billion at PPP rates  
**Foreign trade** (exports plus imports in 1994): $372.1 billion, of which 16 percent was intrabloc

The Latin American Free Trade Association (LAFTA), which encompasses the large and medium-sized nations of Latin America, was formed in 1960. Its goal was a common market comprising Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. LAFTA had little success, and it was superseded by the Latin American Integration Association (LAIA, or ALADI in Spanish) in 1980.

Under LAIA, agreements have usually granted preferences in specific sectors rather than covering all trade or eliminating all barriers. However, negotiations started under the LAIA framework have led to some of the deeper free trade agreements between Latin American nations.16

**Mercado Comun del Sur**

**Membership:** Argentina, Brazil, Paraguay, and Uruguay  
**Population** (1994): 201 million  
**Output** (1994): $861 billion at market exchange rates, $1,240 billion at PPP rates  
**Foreign trade** (exports plus imports in 1994): $131.0 billion, of which 19 percent was intrabloc

16. For example, Mexico has negotiated with Chile and the CACM under the LAIA framework (WTO 1995, 35).
Arguably the most significant regional trade bloc in Latin America is Mercosur, whose full name, Mercado Común del Sur, means market of the South. However, it actually comprises the nations of the eastern part of South America (Argentina, Brazil, Paraguay, and Uruguay). It covers 3 percent of world output and about 1.5 percent of world trade.

Mercosur is relatively new, having been created in the spring of 1991. The only direct forerunners are a pair of trade accords (1986 and 1989) between Brazil and Argentina, which dominate the group. Unlike NAFTA, Mercosur aims eventually at deeper integration: a common market, with free movement of goods, labor, services, and capital. A common external tariff introduced at the beginning of 1995 contains a number of exemptions to be gradually harmonized over a six-year phase-in period. Likewise, some sectors of intra-Mercosur trade are exempt until 2000, but about 90 percent of intra-Mercosur trade is currently tariff-free (Financial Times, 25 January 1995, 12).

Mercosur is actively pursuing links with countries outside the bloc. A free trade agreement between Chile and Mercosur (which is itself a customs union), with an eight year phase-in on the majority of goods, was signed in June 1996. Bolivia followed suit in December. Peru has expressed interest in free trade associations with Mercosur as well (International Trade Reporter, 30 November 1994; Financial Times, 25 February 1995, 8 December 1995, 26 June 1996; The Economist, 21 December 1996). Negotiations are also under way to form a mutual trading arrangement with the Andean Community. A suggested eventual expansion of Mercosur into a South American FTA is discussed above. As noted above, the members of Mercosur agreed with the European Union in December 1995 to achieve a free trade accord by 2001.

**Andean Community (formerly Andean Pact)**

- **Membership**: Bolivia, Colombia, Ecuador, Peru, and Venezuela
- **Population** (1994): 99 million
- **Output** (1994): $196 billion at market exchange rates, $539 billion at PPP rates
- **Foreign trade** (exports plus imports in 1994): $70.4 billion, of which 10 percent was intrabloc

The Andean Pact is one of the oldest active regional groups in Latin America. In force since 1969, member countries cover only 0.8 percent of world output (less than Mexico) and about an equivalent percentage of world trade.

The Andean Pact originally began as an accelerated subgroup of LAFTA, with the intent of forming a customs union by 1980 (WTO 1995, 35). After a number of setbacks, the addition of Venezuela in 1973, and
the withdrawal of Chile in 1976 (to pursue more rapid liberalization on its own), the agreement was revised in 1989. Another attempt to form an Andean Free Trade Area with a common external tariff was set for 1992. Again, problems arose with the timetable, and a series of bilateral free trade arrangements between most members of the group took its place. Peru suspended its membership in the pact in 1992 during a period of reforms following President Alberto Fujimori’s coup. A common external tariff policy took effect in early 1995 between Colombia, Ecuador, and Venezuela.17

The Trujillo Act changed the bloc’s name to the Andean Community in early 1996 and laid down proposals for the strengthening of the political aspects of the bloc through the creation of a secretary general and an Andean Parliament. Also on the agenda is the expansion of the bloc to include Panama (International Trade Reporter, 13 March 1996). In April 1997, Fujimori threatened that Peru would withdraw from the Andean Community altogether, suggesting a continued shift in momentum toward a Mercosur-dominated continent (Financial Times, 23 April 1997). But Peru rejoined the FTA in August.

Caribbean Community

**Membership:** Bahamas, Jamaica, Belize, Montserrat, St. Kitts and Nevis, Antigua and Barbuda, Dominica, Saint Lucia, Barbados, St. Vincent and the Grenadines, Trinidad and Tobago, Grenada, Guyana, and Suriname

**Population** (1994): 6 million


**Foreign trade** (exports plus imports in 1994): $16.4 billion, of which 6 percent was intrabloc

The Caribbean Community (Caricom) consists of 14 small, formerly British colonies in the Caribbean Sea and in South and Central America.18 Combined, these nations cover less than one-tenth of 1 percent of world output.

The bloc started as a free trade area, Carifta, in 1968. A customs union, renamed Caricom, was formed in 1973. Recently, the region has become somewhat more active on a number of fronts. Belize, Guyana, and Suriname joined the community in 1995. Though well behind the original

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17. Some remaining large exceptions in the common external tariff (notably to protect Ecuadorian industries) are scheduled to be phased out by 1999 (WTO 1995, 35, International Trade Reporter, 30 November 1994).

18. Suriname was a Dutch possession for a longer period, and much more recently, than it was a British colony. Also, Monserrat is still a British territory.
schedule, the organization is in the process of forming a common market (Financial Times, 14 July 1995, 4).

The Organization of East Caribbean States (OECS) is a splinter group of seven of Caricom’s members formed in 1991 to accelerate the implementation of the common external tariff (IMF 1994, 221).

Caricom has also been active externally. The addition of Cuba, the Dominican Republic, and Haiti is expected, and Caricom has signed a free trade agreement with Colombia that took effect at the beginning of 1995 (International Trade Reporter, 26 July 1995, 22 June 1994, 24 July 1994; OAS 1995, 29). Caricom in 1997 is to negotiate an FTA with the Central American countries, with whom they currently have few links (Financial Times, 10 October 1996). All Caricom members except Suriname belong to two nonreciprocal preferential arrangements with Canada and the United States: Caribcan and the Caribbean Basin Initiative (CBI). Caricom has applied to join NAFTA as a unit (Financial Times, 6 July 1994).

Another outgrowth of Caricom is the Association of Caribbean States (ACS). The group formed in 1995 to link the entire Caribbean region in one bloc, and unlike other Western Hemisphere groups, ACS includes Cuba (International Trade Reporter, 27 July 1994). While the eventual intention of the group is to form a preferential trade arrangement, the organization has focused on other linkages among members up to this point.

Central American Common Market

Membership: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua
Output (1994): $42 billion at market exchange rates, $103 billion at PPP rates
Foreign trade (exports plus imports in 1994): $19.0 billion, of which 13 percent was intrabloc

The Central American Common Market (CACM) consists of relatively small Central American countries. Panama maintains a partial membership in the group. The group is motivated by a desire to transcend the handicaps of its members’ small domestic economies.

CACM’s formation in 1959 makes it the oldest of the Western Hemisphere trade blocs (excluding the less-substantial LAFTA). By 1966, 94 percent of intraregional trade was tariff-free, and 80 percent of regional

19. Negotiations are still under way for sensitive sectors. The agreement is unbalanced in that Caricom receives much more access to Colombia (at least at the beginning) than Colombia does to Caricom’s markets.

20. Costa Rica was not a member until 1962. Panama joined as a partial member in 1991.
exports were covered under a common external tariff (Edwards and Savastano 1989). A series of setbacks—including a 1969 war between Honduras and El Salvador, political instability in all nations except Costa Rica, and the implementation of nontariff barriers in the region during the early 1980s—left the agreement moribund by the late 1980s.

Starting in 1990, efforts have been made to strengthen CACM. A free trade area, exempting most agricultural products, was reimplemented among a subset of members in 1993. Negotiations have been under way to expand the FTA and impose a harmonized common external tariff (OAS 1995), but disputes continue over its implementation, and some nations have considered reimposing tariffs on member countries (Financial Times, 10 May 1995).

Externally, negotiations have been under way for CACM-Colombia and CACM-Venezuela free trade areas. Free trade agreements with Mexico are in various stages of negotiations and implementation with all CACM members except Panama (IMF 1994, 219-20).

**Group of Three**

- **Membership**: Colombia, Mexico, and Venezuela
- **Population** (1994): 150 million
- **Output** (1994): $503 billion at market exchange rates, $1,033 billion at PPP rates
- **Foreign trade** (exports plus imports in 1994): $195.2 billion, of which 3 percent was intrabloc

The Group of Three agreement, signed in 1994, envisions a free trade area among Mexico, Venezuela, and Colombia. The agreement is to be phased in over 10 years, starting in 1995, and agricultural goods are not included. But, unlike most basic FTAs among less developed countries, the Group of Three arrangement includes agreements on intellectual property rights, services, investment, and government procurement.

Some of the CACM nations, along with Ecuador and Chile, have expressed interest in joining this agreement, while the trade ministers of Venezuela and Colombia have expressed interest in the Group of Three becoming part of NAFTA. At the moment, trade between Venezuela and Colombia is covered under Andean Community stipulations (OAS 1995, 27), making the Group of Three equivalent to two bilateral pacts with Mexico.

**Other Western Hemisphere Agreements**

There are numerous bilateral or small multilateral agreements in the hemisphere:
A Bolivia-Mexico FTA was negotiated in 1994 and implemented from 1995 with a phase-in period of 12 years.


The Caribbean Basin Initiative (CBI), originally implemented in 1984, and the Andean Trade Preference Act (ATPA) of 1991 grant unilateral preferential access to the US market in certain goods to various Caribbean and Latin American countries. The CBI and ATPA cover nearly all sectors except textiles and apparel, petroleum, canned tuna, footwear, certain leather goods, and certain watches and watch parts (and rum in the ATPA). Both agreements are nonreciprocal. The CBI countries have asked for parity with Mexico in terms of US tariffs.

Caribcan is a nonreciprocal PTA between Canada and the British Commonwealth members in the Caribbean and in Central and South America. The agreement waives Canadian duties on all products except textiles, clothing, footwear, certain luggage and handbag products, leather garments, lubricating oils, and methanol. This arrangement, like the CBI, has been granted a GATT waiver.

An Amazonian Initiative by Brazil is similar to the United States’ EAI in that it comprises a series of bilateral deals. Brazil-Peru negotiations have led to tariff reductions of 50 percent on goods and creation of some investment incentives. Furthermore, Brazil has talks under way with Bolivia, and some are scheduled with Guyana and Suriname.

Asia and the Pacific

East Asia nations have received much ink over the last several years on the phenomenal growth rates that most have enjoyed. Preferential trade arrangements in the region are not far advanced (excluding Australia-New Zealand), making this the newest region to trade integration.

21. CBI covers Antigua and Barbuda, the Bahamas, Barbados, Belize, the British Virgin Islands, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Monserrat, the Dutch Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. The ATPA covers Bolivia, Colombia, Ecuador, and Peru. It has been estimated that Peru, which was granted ATPA privilege in the middle of 1993, exports about 90 percent of its goods to the United States duty-free under this program (International Trade Reporter, 26 October 1994).

22. Caribcan covers Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Bermuda, the British Virgin Islands, the Cayman Islands, Dominica, Grenada, Jamaica, Monserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and Turks and Caicos Islands (OAS 1995, 29).
Asia Pacific Economic Cooperation

Membership: Australia, Brunei, Canada, Chile, China, Taiwan, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Thailand, the United States

Population (1994): 2,146 million

Output (1994): $14,469 billion at market exchange rates, $16,578 billion at PPP rates

Foreign trade (exports plus imports in 1994): $3,959.4 billion, of which 74 percent was intrabloc

The largest group in the Pacific region is the Asia Pacific Economic Cooperation (APEC) forum. When APEC was established in 1989, at Australian instigation, there was a danger that it would come to be viewed as a talk shop. The lukewarm attitude of the United States, in particular, might have doomed it to irrelevance. The ever-rising importance of the Pacific Rim has precluded this, however. In 1993 the Clinton administration decided to throw its weight behind APEC, taking advantage of the occasion of US chairmanship to upgrade the meeting of ministers that had been scheduled in Seattle into a high-profile leaders’ meeting. The vision of a future Pacific Community, proposed at that time by APEC’s Eminent Persons Group, struck many East Asians as too ambitious. Nevertheless, most APEC members welcomed the renewed emphasis on the region.

Mexico, Chile, and New Guinea were added to the core membership of 15 in 1993, but then a moratorium on further additions was imposed pending agreement on appropriate criteria for membership.

The Eminent Persons Group proposed an initiative for free trade in the region by 2020. This initiative was in substance adopted by the leaders when they met in Bogor, Indonesia, in 1994. It has been left ambiguous, however, precisely what is called for: a conventional FTA, unilateral liberalization by members of the group on an MFN basis, or liberalization by members on a reciprocal basis. At the Osaka summit of November 1995, Malaysia dissented even from the view that the free trade language meant the elimination of tariffs.

Some dismiss APEC as lacking in substance. But skeptics must acknowledge that nobody would have predicted 10 years ago that Mexico would have sought a free trade area with the United States or that these Asian countries would have agreed to free trade even in principle. The potential APEC bloc, while yet to be fully negotiated and still a long way from realization, is important for a number of reasons. First, it would encompass more than 2 billion people (nearly 40 percent of the world’s population) and include nations with approximately 55 percent of world output. Also important are the growth rates of many of the member nations. Included in the bloc are four of the top six fastest growing nations in the world, and half of the bloc is in the top 20 fastest growing nations (based on per
capita income growth over 1991-94). Coupled with the expansion of the European Union, APEC would create a two-bloc world. The two blocs together would cover nations with about 90 percent of current world output.

It should be noted, however, that APEC has no designs for the deep integration that the European Union already enjoys. It merely posits free trade (and investment) in the region. Even this modest goal appears quite a way off. For the advanced industrialized nations of the group, trade is to be liberalized by 2010, and for the rest of the group the target date is 2020. "Down payments" of liberalization measures are needed to enhance the credibility of the group. At the Subic Bay summit in the Philippines in November 1996, individual members published medium-term free trade action plans, for implementation by 1999. Members are supposed to apply moral pressure by commenting on each others' plans.

### East Asian Economic Caucus

**Membership:** Brunei, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand

**Population** (1994): 1,725 million

**Output** (1994): $6,372 billion at market exchange rates, $8,037 billion at PPP rates

**Foreign trade** (exports plus imports in 1994): $2,092.3 billion, of which 50 percent was intrabloc

The East Asian Economic Caucus (EAEC) grew out of a 1990 proposal by Malaysian President Mahathir bin Mohamad to establish the East Asian Economic Group (EAEG) as a bloc to counter NAFTA and the European Community. After meeting a generally lukewarm Asian reception and outright disapproval by the United States, the original idea was scaled back and the EAEC formed instead (Panagariya 1994, 817; *International Trade Reporter*, 27 July 1994). The United States has maintained that

23. China, Malaysia, Papua New Guinea, and Thailand are in the top six. The top 20 also include Chile, Indonesia, Korea, Singapore, and Taiwan.

24. The calculation is premised on the idea the European Union has expanded to include the four remaining EFTA members and most of the Eastern European countries, which have applied to join the European Union.

25. This advanced group includes the United States, Japan, Australia, New Zealand, and Canada. Singapore and Taiwan have also volunteered for this group. It is possible that South Korea and Hong Kong might also be included within the decade. Such a group accounts for about 90 percent of aggregate APEC GDP (Schott 1995a, 2).

26. Japan has stated that, with progress being made on APEC, it sees no need for another regional forum (*International Trade Reporter*, 12 April 1995).
liberalization in the East Asian market should occur through APEC, which would include all EAEC members, the United States, and a handful of other countries.

**ASEAN Free Trade Area**

- **Membership**: Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam
- **Population** (1994): 410 million
- **Output** (1994): $539 billion at market exchange rates, $1,606 billion at PPP rates
- **Foreign trade** (exports plus imports in 1994): $529.6 billion, of which 22 percent was intrabloc

The Association of Southeast Asian Nations (ASEAN) was formed in 1967 to promote economic, social, and cultural cooperation among Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Brunei joined the group in 1984 and Vietnam in 1995. While ASEAN is smaller than other major blocs in economic size, the region is notable for its economic growth, which has averaged more than 6.5 percent for the past 10 years.

In 1978 ASEAN put into force a preferential trade arrangement granting 10 to 15 percent margins of preference on 71 commodities and industrial projects. A stronger free trade proposal had been rejected during negotiations. The PTA amounted to little at the time, as the most important sectors were exempted from the system of preferences that they were supposed to grant each other (Panagariya 1994, 828-29). In one infamous example, Indonesia eliminated barriers to the import of snow removal equipment. Between 1985 and 1987, the ASEAN leaders agreed to expand the list of sectors the PTA covered and to increase the margin of preferences. However, as recently as 1989, the fraction of goods eligible for regional preferences was still only on the order of 3 percent.

A series of talks beginning in 1992 led to the decision to create the ASEAN Free Trade Area (AFTA). A meeting of economic ministers in 1994 moved the date for full implementation forward, from 2008 to 2003. Current schedules have 80 percent of intra-ASEAN trade tariff-free by 2000 and 98 percent of intra-ASEAN trade with tariffs of less than 5 percent. Unlike the earlier agreements, AFTA is to cover nearly all sectors of intra-ASEAN goods trade, including agriculture, although some sectors have phase-in periods extending to 2010 and a few sensitive sectors are temporarily excluded. Further, the treatment of nontariff barriers is vague (International Trade Reporter, 13 January 1993, 3 May 1995). Even if fully

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27. This section draws heavily from Jaggi (1995) and Frankel and Wei (1996), which also gives other references.
implemented, the AFTA will still allow intrabloc tariffs of up to 5 percent. Vietnam has been granted a delay in joining for at least three to four years (International Trade Reporter, 22 February 1995). Some preliminary work has also been done on cooperation in services and intellectual property, but services are far from liberalized (International Trade Reporter, 3 May 1995).

The ASEAN nations have had nonreciprocal agreements with the European Community and Japan. Talks have been held over a closer linkage to the Australia-New Zealand Closer Economic Relations pact. ASEAN leaders endorsed an initiative in December 1995 aimed at expanding ASEAN to include Cambodia, Laos, and Myanmar (Burma) by 2000. The group subsequently decided to admit all three new members in mid-1997 (Financial Times, 30 January 1997; 2 June 1997) but then held off admitting Cambodia in response to its political instability.

**Australia-New Zealand Closer Economic Relations**

- **Membership**: Australia, New Zealand
- **Population** (1994): 21 million
- **Output** (1994): $375 billion at market exchange rates, $398 billion at PPP rates
- **Foreign trade** (exports plus imports in 1994): $122.0 million, of which 9 percent was intrabloc

The Closer Economic Relations (CER) agreement between Australia and New Zealand encompasses an area that accounts for just under 2 percent of world output.

A limited free trade agreement was signed between Australia and New Zealand in 1965, which eliminated tariffs on trade in forest products and some manufactures by 1977. In 1983 an Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or CER) superseded and expanded the previous accord to include all trade. It covers nontariff barriers, subsidies, countervailing duties, antidumping, and government procurement. A 1988 accord expanded the CER to encompass the use of national treatment for trade in most services between the two countries. The agreement was again slightly expanded in 1992 (WTO 1995, 36).

The two countries also have a nonreciprocal agreement with some of the Pacific islands (see discussion of Sparteca below).

**South Asian Association for Regional Cooperation**

- **Membership**: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka
- **Population** (1994): 1,198 million
- **Output** (1994): $394 billion at market exchange rates, $1,698 billion at PPP rates
Foreign trade (exports plus imports in 1994): $83.1 billion, of which 4 percent was intrabloc

The South Asian Association for Regional Cooperation (SAARC) includes over 20 percent of world population but only 3.4 percent of world trade and less than 2 percent of world output.

SAARC was convened as a club in 1985. A decision to form the SAARC Preferential Trading Arrangement (SAPTA) was reached in 1992 (IMF 1994, 214). In 1995 the group agreed to move toward a free trade zone by 2005, and SAPTA was formally launched with a first round of tariff cuts on 226 goods in December 1995 (International Trade Reporter, 10 May 1995; Journal of Commerce, 21 December 1995). At a 1997 summit, the seven countries agreed to move the target date for a free trade area forward to 2001 (Financial Times, 15 May 1997; New York Times, 15 May 1997). Political differences between Pakistan and India have inhibited the effectiveness of the group.

Other Asian and Pacific Agreements

The Bangkok Agreement, originally signed in 1979, includes Bangladesh, India, Korea, Laos, Papua New Guinea, and Sri Lanka in a limited PTA covering 300 products. Afghanistan is negotiating to join the group (IMF 1994, 213). 28

The South Pacific Regional Trade and Economic Agreement (Sparteca) is a preferential nonreciprocal agreement linking the developed markets of Australia and New Zealand to the smaller markets of the Cook Islands, Fiji, Kiribati, Niue, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, and Western Samoa. The agreement entered into force in 1981 and has since been extended to Nauru and Vanuatu (WTO 1995, 88).

Sub-Saharan Africa

Regional trading arrangements proliferated in Africa after independence from colonial rule. Unfortunately, in most cases the formal agreements in the region have not led to substantial trade liberalization. New agreements have appeared to replace the failed old ones, but with no more success in many cases. Much of the failure of regional trade blocs in Africa derives from the more general failure of states in the region. 29

Colonial heritage is as strong a force as geography in the formation of African trade blocs. 30 However, like the large regional blocs forming in

28. The Philippines and Thailand were members of the group when the agreement was signed (WTO 1995, 88).
30. Many of the countries in sub-Saharan Africa receive nonreciprocal preferences based on GSP with a number of countries, the ACP-Lome agreement, and other agreements with the European Union.
other areas (FTAA and an ever expanding European Union), Africa has its own relatively large regional integration initiative in the African Economic Community (AEC).

Many of the African nations are not WTO members and were not GATT members, making the collection of trade data less complete for this region than for others.

**Southern African Customs Union**

- **Membership:** Botswana, Lesotho, Namibia, South Africa, Swaziland
- **Population (1994):** 47 million
- **Output (1994):** $130 billion at market exchange rates, $214 billion at PPP rates

The oldest of the regional trade blocs in Sub-Saharan Africa is the Southern African Customs Union (SACU). Formed in 1910 from the southernmost parts of the British possessions in Africa, the union comprises Botswana, Lesotho, South Africa, Swaziland, and, as of 1990, Namibia. South Africa’s output dwarfs the other nations of the bloc (Foroutan 1993, 250).

A relatively integrated labor and goods market exists among member countries, and a common external tariff and excise tax form the basis of a revenue-sharing program for the bloc. All member countries except Botswana are members of the Common Monetary Area, in which the South African rand serves as legal tender (IMF 1994, 212; Dhonte et al. 1994).

**Southern African Development Community**

- **Membership:** Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe
- **Population (1994):** 136 million
- **Output (1994):** $148 billion at market exchange rates, $303 billion at PPP rates
- **Foreign trade (exports plus imports in 1994):** $51.8 billion, of which 1 percent was intrabloc

The Southern African Development Community (SADC) trade bloc comprises the SACU nations plus seven nations just to the north. Formed in 1980 to counter the regional influence of South Africa, the Southern African Development Coordination Conference (SADCC) proclaimed the lim-
ited goal of economic cooperation among the member nations. Undertak-
ing projects based mainly in infrastructure development, the union
achieved its aim (Foroutan 1993, 249-50).

Namibia joined the group in 1990, and in 1992 SADCC signed a treaty
that expanded the scope of the integration and changed its name to
the Southern African Development Community (SADC). In August 1994
South Africa joined SADC, and Mauritius joined the following year. SADC
is drafting a treaty designed to eliminate tariff barriers in the region
by 2000.

**African Economic Community**

- **Membership**: 51 African nations
- **Population** (1994): 628 million
- **Output** (1994): $279 billion at market exchange rates, $997 billion at
  PPP rates
- **Foreign trade** (exports plus imports in 1994): $134.6 billion, of which
  2 percent was intrabloc.

The African Economic Community (AEC) is the FTAA of the African
region: a large supraregional trade body calling for eventual integration
and liberalization but with few accomplishments to date. However, unlike
the FTAA or APEC, the AEC agreement has been signed, and it entered

The AEC calls for tight integration among the 51 member countries. It
strives more for an EU level of integration. It calls for an economic union
in six stages: strengthening of regional arrangements, a pan-African FTA,
a customs union, a common market, and a monetary union with a transi-
tional period of up to 34 years (IMF 1994, 210). Included in this agreement
is a political establishment tightly linked to the Organization for African
Unity (OAU) and closely resembling the European Union, with a Council
of Ministers, Court of Justice, and pan-African Parliament (Laporte 1995,
3). Given the failures recounted above in other trade groups in the African
region, the AEC appears to be an excessively ambitious agreement.

An early 1980s forerunner to the AEC, the OAU-sponsored Lagos Plan
of Action, included all Sub-Saharan nations with the intention of forming
a common market in the region (de la Torre and Kelly 1992, 10-11; IMF
1994, 211). The 1970s agreement met few of its targets but set out the goal
of a pan-African bloc.

**Economic Community of West African States**

- **Membership**: Benin, Burkina Faso, Cape Verde, Côte d’Ivoire, Gambia,
  Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nige-
  ria, Senegal, Sierra Leone, Togo
Population (1994): 180 million
Output (1994): $66 billion at market exchange rates, $231 billion at PPP rates
Foreign trade (exports plus imports in 1994): $39.4 billion, of which 1 percent was intrabloc.

The Economic Community of West African States (ECOWAS or CED-EAO), the largest group of African states besides the AEC, lies in West Africa. It comprises 16 low-income West African nations. Nigeria dominates the group, whose nations encompass about 180 million people, or about 70 percent of the US population, but with output equal to about 1 percent of that of the United States.

Unlike many of the African agreements, ECOWAS spans countries with French, English, and Portuguese colonial ties. Political stability has been extremely precarious in the ECOWAS region, with half of the successful coups d’état between 1958 and 1989 occurring here. Economic security is little better, with 14 of the 16 earning 60 percent of their export revenues from just a couple of crops (Foroutan 1993, 243).

Formed in 1975 under the sponsorship of the UN Economic Commission for Africa, the agreement was supposed to lead to a free trade area by 1979, the implementation of a common external tariff by 1994, and eventual fiscal and monetary harmonization, including, among other goals, free movement of labor (Foroutan 1993, 243, 246). While some liberalization has occurred, notably on movement of unprocessed agricultural products, few other goals have been met. In 1990 ECOWAS launched a round of trade liberalization (WTO 1995, 38).

Economic Community of the Countries of the Great Lakes

Membership: Burundi, Rwanda, and Zaire
Population (1994): 57 million
Output (1994): $28 billion at market exchange rates, $30 billion at PPP rates
Foreign trade (exports plus imports in 1994): $2.5 billion, of which 1 percent was intrabloc

To the north, in Central Africa, the Economic Community of the Countries of the Great Lakes (CEPGL) consists of Burundi, Rwanda, and Zaire. Established in 1976 with UN backing and the intention of forming a free trade area with free movement of factors of production, CEPGL is one of the failures of Africa. Nearly two decades after formation of the union, initial stages of preferential tariffs have yet to be completed (IMF 1994, 210).

As with SACU, a larger nation, in this case Zaire, dominates the bloc.
Common Market for Eastern and Southern Africa and the Preferential Trade Area for Eastern and Southern Africa

Membership: Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

Output (1994): $44 billion at market exchange rates, $224 billion at PPP rates
Foreign trade (exports plus imports in 1994): $23.9 billion, of which 2 percent was intrabloc

The two smaller nations of CEPGL plus all the nations of SADC (except Botswana and South Africa) and a few other nations make up the Common Market for Eastern and Southern Africa (Comesa). Comesa comprises 16 nations and is the third largest group in Sub-Saharan Africa, behind ECOWAS and AEC.

It started as the Preferential Trade Area for Eastern and Southern Africa (PTA) in 1981 but was revised and renamed in 1993. The PTA, a UN-backed plan, was intended to overcome the problems of inherently small markets in the region but had little success in reducing intrabloc tariffs (Foroutan 1993, 246-49; Dhonte et al. 1994, 24). Creation of Comesa appears to signal a renewed commitment to the group.

As its name suggests, Comesa’s goal is the formation of a common market by 2000 and eventually an economic union. Most members have carried through on initial tariff reductions according to a set timetable. A common unit of account for intraregional trade was introduced in 1988, and some sectoral integration in transportation has been accomplished (IMF 1994, 211). The newly revived group held its first summit in December 1994.

Cross Border Initiative

Membership: Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Tanzania, Uganda, Zambia, and Zimbabwe.

Population (1994): 135 million
Output (1994): $36 billion at market exchange rates, $153 billion at PPP rates
Foreign trade (exports plus imports in 1994): $15.7 billion, of which 2 percent was intrabloc

Forming yet another overlapping agreement in East Africa is the Cross Border Initiative (CBI). Formed in 1993, the CBI (except for the Seychelles) is a subset of Comesa and partially overlaps SADC.
Sponsored by the International Monetary Fund (IMF), the World Bank, the African Development Bank, and the EC Commission, the CBI aims at deeper integration more quickly than Comesa does. Where Comesa aims initially at a common market, the CBI aims at economic union, attempting to include the movement of factors of production and investment in the agreement. The CBI is not designed to be an institutional body like Comesa, but rather is a plan to increase trade and growth in the region. Internal tariffs on goods and services, as well as nontariff barriers, are supposed to be removed by 1996, and a common external tariff is to be in place by 1998 (IMF 1994, 210, 229).

**Economic and Customs Union of the Central African States**

**Membership**: Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon

**Population** (1994): 26 million

**Output** (1994): $14 billion at market exchange rates, $44 billion at PPP rates

**Foreign trade** (exports plus imports in 1994): $8.4 billion, of which less than 1 percent was intrabloc

The Economic and Customs Union of the Central African States (UDEAC) in Central Africa grew out of the Equatorial Customs Union (ECU) formed in 1959 between the Central African Republic, Chad, Congo, and Gabon. Incremental steps and expansion in the ECU during 1959-66 led to the formation of UDEAC (which included Cameroon) in 1966 (WTO 1995, 38; Foroutan 1993, 245). Comprised originally of the former French colonies in Central Africa, the group added the former Spanish colony of Equatorial Guinea in 1985 (Foroutan 1993, 245; IMF 1994, 227). The UDEAC is on average the second richest regional trading arrangement in Africa based on per capita income. The per capita income of the poorest country (Chad), however, is only 7 percent of the per capita income of the richest country in the group (Gabon). 31

All UDEAC members already share a common currency, the CFA franc, with the members of the West African Economic and Monetary Union (WAEMU). The treaty creating the UDEAC sought to further tighten this economic union by adding free movement of goods, labor, services, and capital, as well as a single tax system and other government coordination. But flirtation with import substitution policies by some member nations during the 1970s oil boom and severe economic conditions in the 1980s helped derail the accord (IMF 1994, 227). A few members introduced a common external tariff in 1990, and further attempts were made to revive

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31. Figures are for 1989 (Foroutan 1993, 236, 245, and 247).
the union in 1991. A series of proposals introduced in 1992 led to the creation in 1994 of the Central African Economic and Monetary Union among the members with the intention to move the area to a customs union over five years.

**Customs Union of West African States, West African Economic Community, and West African Economic and Monetary Union**

West African Economic and Monetary Union

**Membership:** Benin, Burkina Faso, Côte d’Ivoire, Mali, Mauritania, Niger, Senegal, Togo

**Population** (1994): 60 million

**Output** (1994): $22 billion at market exchange rates, $65 billion at PPP rates

**Foreign trade** (exports plus imports in 1994): $10.6 billion, of which 1 percent was intrabloc

Subsets of ECOWAS, plus Mauritania, have proclaimed an underachieving series of agreements.

The Customs Union of West African States (CUWAS, sometimes called West African Customs Union, WACU) formed in 1959 and included seven of the eight states that emerged from French West Africa (WTO 1995, 38). Six of the seven (all except Mauritania) had a common currency and free trade in goods. Problems arose with the distribution of tariff revenue, and in 1966 the group was superseded by the West African Economic Community (CEAO) (WTO 1995, 38).

CEAO had little more success than CUWAS. Containing the same countries, the new agreement was to form a common external tariff and harmonize fiscal taxes, but these failed to materialize (WTO 1995, 38). A little progress was made: 428 goods received a regional preference, and some labor mobility and regional cooperation was achieved before the group was abolished in 1994 (IMF 1994, 210).

In 1994 a new organization, the West African Economic and Monetary Union (WAEMU or UEMOA), took the place of CEAO. WAEMU maintained a membership of seven that was similar to that of the previous two agreements except that Mauritania dropped out and Togo joined. Once again, this union is an attempt to form a common market in the agreeing nations and to harmonize some laws. With the slight change in membership, all member nations are now part of the CFA franc bloc (as are the nations of the UDEAC) and therefore use a common currency. In mid-1995, an interim scheme of preferential tariffs was agreed to, pending a fuller tariff system.
Other African Agreements

A few other African agreements, past and present, should be recognized:

- The Indian Ocean Commission (IOC) was formed in 1984 among Comoros, Madagascar, Mauritius, and Seychelles and has had some success in sectoral cooperation in fishing, transport, communications, and information (IMF 1994, 211).

- The 1996 launch of the East African Cooperation agreement reforms an older regional bloc, the East African Common Market (EACM), later renamed the East African Economic Community (EAEC), which was established in 1967 and dissolved in the late 1970s (WTO 1995, 38). Political disagreements have already beset the new agreement, whose members are Kenya, Tanzania, and Uganda; its launch was subsequently delayed by a year.

- The Economic Community of Central African States (ECCAS or CEEAC) was originally established in 1985 as part of the Lagos Plan of Action to create an African common market by 2000. Members are Burundi, Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon, Rwanda, Sao Tome and Principe, and Zaire. The bloc has achieved little since its inception and has been plagued by a lack of funding.

- The Mano River Union (MRU) was established in 1973 and includes Guinea, Liberia, and Sierra Leone. Internal trade is free from tariffs and a common external tariff exists, but nontariff barriers still hamper trade (IMF 1994, 211). All countries are also members of ECOWAS.

North Africa and the Middle East

Information on regional trade blocs in the Middle East region is even more spotty than in Sub-Saharan Africa. Nearly all of the groups created in the region are either exclusively political in nature or aim only at economic cooperation (i.e., sectoral development projects) rather than the formation of trade blocs granting tariff preferences. Except for various ties to the European Union (via ACP-Lome or the Euro-Mediterranean initiatives discussed above under EU) and Israel’s FTAs, few of the nations in the region have preferential ties with countries outside the region.

Arab Maghreb Union

- **Membership**: Algeria, Libya, Mauritania, Morocco, and Tunisia.
- **Population** (1994): 70 million
Output (1994): $93 billion at market exchange rates, $317 billion at PPP rates
Foreign trade (exports plus imports in 1994): $58.1 billion, of which 4 percent was intrabloc

A Maghreb Customs Union was formed in the 1960s but was for the most part not implemented (de la Torre and Kelly 1992, 28). In 1989 a group comprising Algeria, Libya, Mauritania, Morocco, and Tunisia formed the Arab Maghreb Union to “work gradually towards the realization of the freedom of movement of people, goods, services, and capital” (1989 treaty language, quoted in Banks 1995, 1030).

In 1991 the group agreed to an ambitious integration process, starting with an FTA in 1992, a common market by 2000, and eventual monetary union. The FTA has yet to be implemented, though progress has been made on sectoral issues (IMF 1994, 217). In 1993, leaders of the member countries agreed to postpone the discussion of integration issues (Banks 1995, 1030).

Arab Common Market

Membership: Egypt, Iraq, Jordan, Libya, Mauritania, Syria, and Yemen
Output (1994): $107 billion at market exchange rates, $360 billion at PPP rates
Foreign trade (exports plus imports in 1994): $46.7 billion, of which 4 percent was intrabloc

Through its subgroup, the Council of Arab Economic Unity (CAEU), the Arab League, a political organization of 21 countries formed in 1945 to promote economic cooperation, provided the forum for the creation of the Arab Common Market (WTO 1995, 37; Banks 1995, 1045). The Arab Common Market initially consisted of Egypt, Iraq, Jordan, and Syria when it entered into force in 1965, and Libya, Mauritania, and Yemen joined later (WTO 1995, 37).

While much of the original goal of a customs union has not been reached, tariffs on manufactured goods were for the most part eliminated by 1971. The presence of many nontariff barriers, however, hampers its effectiveness (IMF 1994, 217).

In 1989 a subset of this group, consisting of Iraq, Egypt, Jordan, and (then) North Yemen set up the Arab Cooperation Council (ACC), with the eventual goal of creating a common market.

Gulf Cooperation Council

Membership: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates
Population (1994): 24 million
Output (1994): $205 billion at market exchange rates, $312 billion at PPP rates
Foreign trade (exports plus imports in 1994): $151.4 billion, of which 4 percent was intrabloc.

Members of the Gulf Cooperation Council, formed in 1981, signed a preferential trade agreement that entered into force in 1983 (WTO 1995, 88). The agreement led to the creation of an FTA for agricultural and industrial (but not petroleum) products and to the free movement of the factors of production (WTO 1995, 37; IMF 1994, 218). Originally, the council attempted to form a customs union by 1986, but a common external tariff has yet to be implemented. However, minimum and maximum tariffs have been specified (de la Torre and Kelly 1992, 27; GCC Secretariat 1996). The Gulf Cooperation Council is negotiating an economic cooperation agreement with the European Union whose ultimate objective is creation of a free trade area (IMF 1994, 249). However, the group has recently developed more of a military, rather than economic, character (Banks 1995, 1067).

Black Sea Economic Cooperation

Membership: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine
Population (1994): 327 million
Output (1994): $752 billion at market exchange rates, $1,500 billion at PPP rates

Formed in 1992 with the limited goals of economic cooperation and increasing movement of goods, services, labor, and capital, the Black Sea Economic Cooperation (BSEC) project includes 11 members: the six nations bordering the Black Sea and 5 others in the region. Rivalries between Russia and the Ukraine, Greece and Turkey, and Armenia and Azerbaijan have hampered the group’s effectiveness. As of yet, only a series of working groups has been established (IMF 1994, 218).

Economic Cooperation Organization

Membership: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzia, Iran, Pakistan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan
Population (1994): 333 million
Output (1994): $305 billion at market exchange rates, $1,007 billion at PPP rates
The Economic Cooperation Organization (ECO), formed in 1985 among Iran, Pakistan, and Turkey, signed a preferential trade arrangement in 1991. Since 1992, Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzia, Tajikistan, Turkmenistan, and Uzbekistan have also participated (ECO Secretariat 1996; WTO 1995, 89, 91; IMF 1994, 218). ECO replaced the relatively inactive Regional Cooperation for Development, formed in 1965 by the original three members.

The ECO agreement has limited goals of sectoral cooperation in trade and investment promotion. Only a limited system of tariff preferences has been granted. Recent initiatives included the formation of a development bank and a community shipping company. In a 1993 summit, the heads of state signed the Istanbul Declaration, pledging support for the eventual formation of a common market (IMF 1994, 218; Banks 1995, 1053).

**Trade Expansion and Cooperation Agreement**

The Trade Expansion and Cooperation Agreement between Egypt (then the United Arab Republic), India, and Yugoslavia was a preferential trade agreement that came into force in 1968. After a number of renewals of the agreement, it was finally allowed to expire in 1983 (GATT 1994, 52).

**African Common Market**

Comprising Algeria, Egypt, Ghana, Guinea, Mali, and Morocco, the African Common Market entered into force in 1963 with the intention of forming a customs union (WTO 1995, 78).

**Israeli Agreements**

Israel has signed free trade accords with the United States (in 1985), EFTA, and the European Union. Furthermore, a free trade accord eliminating most tariffs and nontariff barriers is being sought between Israel and Canada. Both Canada and the United States have mentioned the possibility of extending their free trade pacts with Israel to cover Middle East countries that have made peace with Israel— specifically, Jordan and Egypt (Journal of Commerce, 14 February 1994, 1A; International Trade Reporter, 27 July 1994, 30 November 1994).

**Miscellaneous Agreements**

While a number of the arrangements described above cross regional boundaries, they are not as difficult to classify as one last agreement, which fails to fit into any other geographical classification used above.
Trans-Atlantic Free Trade Agreement

The Trans-Atlantic Free Trade Agreement (TAFTA), an initiative between the recently expanded European Union and NAFTA, received much press in 1995. TAFTA’s share in world trade (excluding intra-EU trade) and world output would come close to APEC’s. An agreement would probably cover industrial goods and exclude agricultural goods, which have been the source of much US-European disagreement.

A proposal of this sort had been floated before, under the appellation North Atlantic Free Trade Area, and the recent proposal is too preliminary to warrant much serious analysis. At a US-EU summit in Madrid in December 1995, President Clinton signed a document “specifying more than 120 joint studies, initiatives, projects, proposals, agreements, goals and expectations” ([New York Times](http://www.nytimes.com), 3 December 1995) The framework for future discussions was christened the New Transatlantic Agenda. But it fell short of the TAFTA envisioned by some European (and Canadian) leaders. France continued to rule out changes in its agricultural subsidies and restrictions on broadcast programming. It seems that most important issues on which the European Union and North America (or, more specifically, the United States and France) can agree can also be sold at the multilateral level. In other words, the WTO perhaps renders TAFTA superfluous in a way that is not true of other FTAs.²

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² Frost (1997) considers TAFTA and alternative US-EU arrangements and gives further references.