First draft Not for quotation

EUROPEAN TRADE POLICY :

WHAT IS BEHIND?

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I. HISTORICAL BACKGROUND

European Trade Policy is from the beginning in the hands of the European Commission, it's one of the most important cases (with monetary policy since 1998) where we have a large transfer of power from the nation states to a supranational Institution, precisely to the Directorate General for Trade. Trade negotiations are driven by the DG Trade (at the moment by Pascal Lamy). The DG Trade got its mandate to negotiate from the external trade ministries council, then, when an agreement is obtained by DG Trade, it has still to be approved unanimously by the same council.

Why do the nations of Europe decide to give up their power to a supranational institution ? Trade was thought as the easiest was to make progress toward durable peace and European integration. It's primarily a political driven process not an economic one, although the expected economic success was thought to be an argument in favour of integration. A contrario a failure would have been deadly for European integration.

At the end of WWII the European divide between the West and the East make West German military defence the first front opposed to the Soviet Union (contrary to Japan in Asia). That's the reason why Germany was quickly associated actively with the allies to the defence of West Europe. France and Germany were de facto the two main European countries able to oppose Soviet Union on ground, naturally the US was the cornerstone of EU defence.

Germany wanted to be forgiven for the Nazi's crimes and Franco-German reconciliation was a strategic necessity.

During the fifties, it become clear for France that its times as a colonial power were over. Its external trade in the 50's was mainly a colonial trade with Africa, the loss of its colonies make her decided that its future lies in Europe.

To start reconciliation, France and Germany decided with Italy, Belgium, Netherlands and Luxembourg to create a Custom Union in 1957 by the Treaty of Rome. Free Trade within partners was achieved very rapidly in 1966. A special attention was given to agriculture which was given special protection and subsidies intended to improve its productivity.

The general economic philosophy of the treaty was not simple free trade : it was free trade for industrial products within the European Union, managed trade in agricultural products and co-operation in such areas as social cohesion, education, human rights, and fundamental research (in notably physical and nuclear research), aeronautics, space, etc.

In the meantime there were few political progress : no common foreign policy, no common defence, no democratic institutions. The trade issues were the easiest way to create the basis for a kind of federal state, but political issues remained touchy.

The success of trade policy was clear, and step by step the number of members increase from 6 in 1957 to 9 in 1973 with United Kingdom, Ireland and DK, 10 with Greece in 1981, 12 in 1986 with Spain, Portugal, 15 in 1995 with Austria, Finland and Sweden.

The enlargement process has always been a part of European integration (today the question is about the limits of Europe which are not that clear, does Europe include Turkey and Russia ? what about Morocco?, etc.

Two major events put the foundations of Europe into question. The first was the end of the fixed exchange rate system in 1973 by the US. Could deep European commercial integration survive large exchange rates fluctuations ? The second event was the German reunification. Was there a danger of a German nationalism revival ? The answers to these events were the single market, realised in 1993, and the single currency, realised in 1998. Once again major political events were the engine to strengthen the European Union through economics issues. The next step was to integrate East European countries in the union.

But if trade policy and monetary policy are clearly at the heart of the European Union, with enlargement it becomes clear that there was an urgent need to strengthen the European political integration and institutions. This is the project to give Europe a Constitution which will be discussed in the coming months.

So enlargement and deepening kind of reinforce each other, rather than weakened.

For now trade policy remain one of the major European policy. To a certain degree it plays the role of a foreign policy.

II. REGIONAL AND MULTILATERAL ASPECT OF EUROPEAN TRADE POLICY

II-I Europe between enlargement and deepening

Within Europe the transition from the Common market to the Single market means that all the fiscal, security, phytosanitary, investment rules were to become homogenous. Of major importance is the freedom of people to travel and work within the boundaries of Europe. European rules had to prevail over national rules →a European court of justice was created as well as a competition policy Directorate, which in particular have to control for mergers and acquisitions, to decide if public support to firms in difficulty do not alter competition etc... It has taken a growing intrusive capacity. To source extend European nations have made giant step towards a kind of globalisation process.

So the difficulties of enlargement are that before their admission in the EU, countries have to demonstrate that they are able to respect European rules, and will be able to survive competition from the west. In 2004, 10 new countries will become members, with ten others waiting for it in the future.

When Europe is getting deeper and larger it tends to attract many other countries, which therefore engage negotiation in order to secure their access to that huge market.

The first by their interest are the Mediterranean countries, second are African countries, third are Latin American countries, last for me are in Asia (we will see why later).

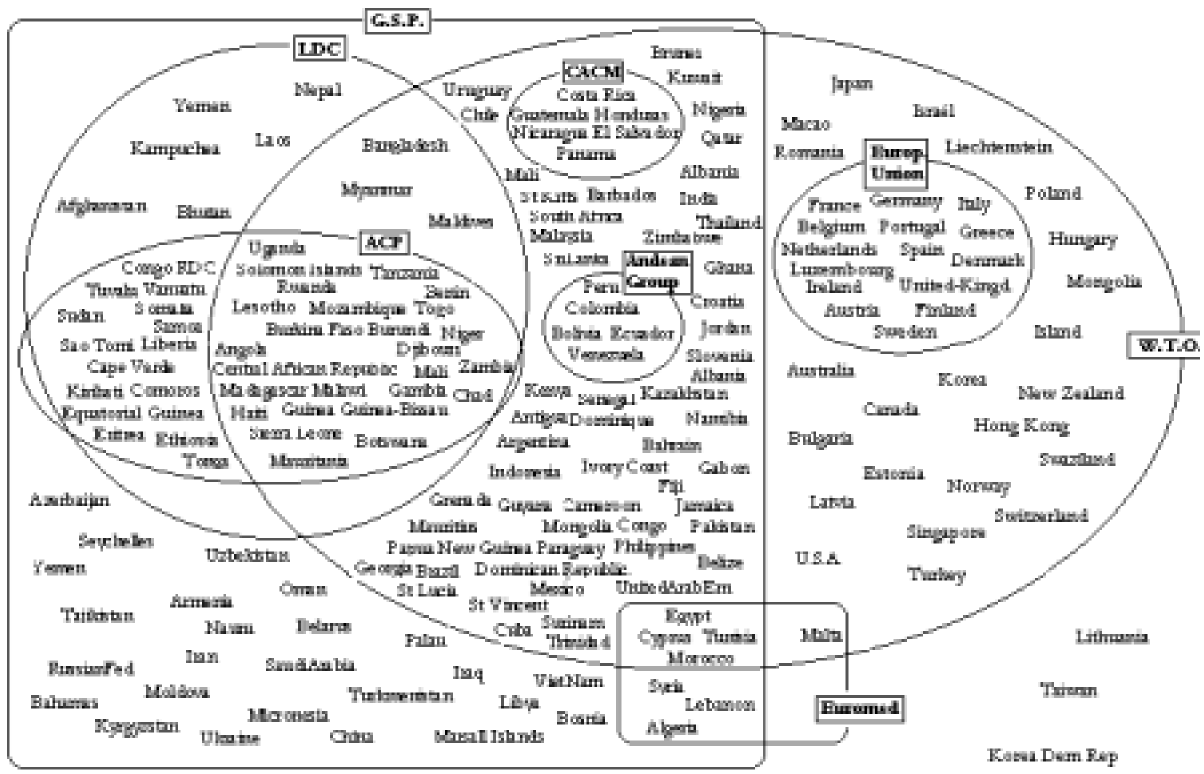
There is also an exception which are the US: although we have a “Transatlantic Dialogue” there is no prospects for a trade agreement between the US and EU-15. They are the two biggest economic partners (measure by the level of trade **and** investment) bigger than the transpacific link. What’s more trade conflicts are intense between the two superpowers which could possibly make an agreement usefull. As a consequence other nations role in WTO appears secondary to the main opposition. But the Doha Round might demonstrate that change is on its way.

II-II The Regional aspect of European Trade Policy

European Trade Policy is and has been made for many years of an extraordinary complex web of agreements, special relations etc probably me the most complicated kind. Graph n°1 give an idea of that complexity. It has been described as a "pyramid of preference". Apart from the most favoured nation treatment there are many other status : GSP,ACP,LDC, Euromed etc.

GRAPH 1

Simplified Trade Tariffs Applicable by EU in 1999



The Directorate General Trade negotiating very actively different kinds agreement what we like to do here is to evaluate the economic impact of various agreement. But we will limit our investigations to a few important cases.

First we will concentrate on enlargement, then on the impact of association accords with Mediterranean countries.

Then we will evaluate the impact of FTAA on Latin America, EU and NAFTA and give a view on the EU-Mercosur perspective.

Finally, we will give a summary view of ASEM weaknesses compare to APEC and of trade conflicts with the US.

As a conclusion, we will give our view on the Doha Development Agenda.

III How to measure Trade Policy Impacts ?

We first need to have a measure of protection, second we need a model.

III-I The measure of protection

The measure of protection: MAcMaps

MAcMaps (Market Access Maps) is a bilateral and desegregated measure of market access which has been constructed to integrate the major instruments of protection (ad valorem and specific duties, prohibitions, tariff quotas, anti-dumping duties, norms) at the most detailed level (tariff lines), as well as all discriminatory regimes. It is derived from TRAINS (UNCTAD) source files, and AMAD (the Agricultural Market Access Database results from a co-operative effort by Agriculture and AgriFood - Canada - , the EU Commission - Agriculture Direction-, the FAO, the OECD, the World Bank, the UNCTAD, and the United States Department of Agriculture - Economic Research Service) databases, and integrating notifications obtained from member countries of the WTO regarding their anti-dumping regimes. Lastly these files are combined with data from the COMTRADE (UN) database.

MAcMaps measures the market access for 223 exporting countries into 137 countries at the level of the tariff lines for the year 1999, updates for 2001 are now available but were not used here. It can be applied to any geographic or sectoral breakdown using a procedure that minimises the endogeneity bias while accounting for the importance of products in international trade: in MAcMaps, the protection of an importing country is weighted by the imports of the reference group this country belongs to, the grouping criteria being GDP per capita.

For more details see Bouët (2000)

III-II What model?
Simulations, using the MIRAGE Model

Most Trade Policy impact studies are based on general equilibrium models or partial equilibrium, for a complete description of the problems we have with such models. See Rutherford, in “economie internationale”, Third quarter 2003, forthcoming.

MIRAGE a short non technical decription

Almost ten years after Marrakech's agreements, and as Doha's Ministerial Conference launched a new round of multilateral negotiations, the stakes of trade policies are still very complex. In this context, delivering a rigorous and detailed quantitative analysis of a large scope of trade agreements is most useful, for policy-makers as well as for the public debate. This is the reason why the CEPII has decided to develop and to maintain, in collaboration with the ITC (International Trade Centre, UNCTAD-WTO, Geneva), a multi-sector, multi-region computable general equilibrium model (CGEM), nicknamed MIRAGE (for *Modelling International Relationships in Applied General Equilibrium*), devoted to trade policy analysis. MIRAGE describes imperfect competition in an oligopolistic framework *à la Cournot*. It accounts for horizontal product differentiation linked to varieties, but also to geographical origin (nested Armington – Dixit-Stiglitz utility function). A new calibration procedure allows the available information on these aspects to be used efficiently. The modelling is done in a sequential dynamic set-up, where the number of firms by sector adjusts progressively, and where installed capital is assumed to be immobile, even across sectors. Capital reallocation therefore only results from the combined effect of depreciation and investment. It makes it possible to describe the adjustment lags of capital stock, and the associated costs.

Compared to previous applied CGE trade models, MIRAGE has in addition three main distinctive features, aimed at improving the description of trade policies' main transmission channels:

FDIs are explicitly described, with a modelling both theoretically consistent (with agents' behaviour, and with domestic investment setting), and consistent with the empirical results about FDIs' determinants and their order of magnitude;

a notion of vertical product differentiation is introduced, by distinguishing two quality ranges, according to the country of origin of the product;

trade barriers are described by the *MAcMaps* database (see Bouët, Fontagné, Mimouni and Pichot, 2000), that provides with a measure of ad-valorem tariffs, and of the ad-valorem equivalent of specific tariffs, tariff quotas, prohibitions and anti-dumping duties, at the bilateral level, for 137 countries with 220 partners. Preferential agreements are taken into account in a quasi-exhaustive way. This information, available at the level of 5 000 to 10 000 products (HS6 or HS10 classification, according to the country), is used to describe the initial level of trade barriers, but also to build scenarios. Assumptions concerning the changes in these barriers can thus be made at the product level, possibly depending on their initial level. Only then are these data aggregated in the model's nomenclature, according to a procedure designed to limit the extent of the endogeneity bias. As a result, MIRAGE is based on a description of trade barriers that, besides its precision, preserves the bilateral dimension of the information, contrarily to what is commonly done in applied modelling.

Except for data on trade barriers, the model uses GTAP 5 database (see Dimaranan and Mac Dougall, 2000). This allows a wide flexibility in choosing the sectoral and geographical aggregations of MIRAGE, that may be changed for each application.

IV EFFECTS OF ENLARGEMENT

From an Integration of wealthy States to a diversified area.

European Union was for a long time considered as the Club of the Wealthy European States.

As Europe was much more than a free trade area, it had for example to include solidarity between it's members so to help the poorest regions to develop, to have a CAP to help farmers to modernised, to have common social rules, and so on. But the problem was the cost of solidarity, the rich regions pay for the poor but how much and for how long time. So at first governments feel that it was only feasible between countries of similar level of development.

But will the inclusion of Spain, Portugal and Greece in the eighties for the first time poor European countries were allowed to join the club. The reason for such and inclusion was political : in order to strengthen the new democracies in these countries the "price" to paid was their inclusion which included democratic principles, human rights and so on.

The economic price was special subsidies allowed to the less developed region (so called structural funds) and a price competition from this low cost countries. But as often the pessimistic view lost ground.

The overall evaluation of their inclusion impact was positive from an economic point of view and a political success. Inclusion of new members from the East therefore should not be a too difficult problem from Europe. But it may become a problem for Mediterranean countries.

From EU-15 to EU-25

Europe was cut in two parts during 35 years. During that period East Europe was over played by West Europe. The fall of the Berlin wall was first a political and institutional collapse for East Europe, there was a danger to see insecurity, gangsterism rise in East European countries. The European union was very active to support the transition from centrally Planned Economy to market economy. The support came in many ways from political support vis-à-vis Russia, to financial support, to security etc… And in 2003, EU decide to allow 10 more countries for complete integration→ which means that they will play along European rules : they will be able to take the profit of integration as well as to support the cost of it.

Our simulation exercise is based on the idea that not only trade barriers disappear but also on the idea that firms operate in a single market with single prices.

TABLEAU I: Macro-economic impact on EU and Acceding countries

	EU-15				**Acceding countries**			
	t+1	**t+5**	**t+10**	**t+14**	**t+1**	**t+5**	**t+10**	**t+14**
Welfare	0,0	0,3	0,4	0,4	0,0	2,1	2,3	2,5
GDP constant prices	0,0	0,3	0,4	0,4	0,0	2,2	2,5	2,7
Terms od Trade	0,0	1,6	1,5	1,4	0,0	-1,4	-1,5	-1,3
Real Exchange Rate	0,0	-0,8	-0,8	-0,9	0,0	-4,8	-4,6	-4,0
Real factor Price non-skilled labor	0,0	0,5	0,4	0,5	0,0	7,0	5,5	5,6
Real factor Price skilled labor	0,0	0,4	0,4	0,4	0,0	7,3	6,2	6,9
Real factor Price capital	0,0	0,3	0,2	0,2	0,0	7,5	5,5	5,3
Real factor Price Natural resources	0,0	0,6	0,9	1,1	0,0	10,2	5,2	3,0
Real factor Price Land	0,0	1,2	1,4	1,7	0,0	0,3	-3,8	-6,6
Exportations (en volume)	0,0	3,5	3,7	3,9	0,0	10,5	14,0	17,3
Importations (en volume)	0,0	3,6	3,8	4,0	0,0	7,6	10,5	13,2
Customs revenues (en pts of GDP)	0,0	-0,0	-0,0	-0,0	0,0	-2,5	-2,5	-2,5

Source: MIRAGE, CEPII

TABLEAU II: BILATERAL IMPACTS OF ENLARGEMENT

	Union européenne					Pays accédants				
	Niveau initial	**t+1**	**t+5**	**T+10**	**t+14**	**Niveau initial**	**t+1**	**t+5**	**t+10**	**t+14**
Exportations vers :										
Union européenne						6,27	0,0	19,2	24,3	28,8
Pays accédants	8,71	0,0	6,5	10,1	13,6					
Afrique du Nord	2,91	0,0	2,1	2,0	2,0	0,08	0,0	13,4	15,9	17,8
Turquie	2,74	0,0	2,1	2,0	1,9	0,06	0,0	9,5	14,0	17,1
Roumanie et Bulgarie	0,88	0,0	1,9	1,9	1,9	0,09	0,0	-2,3	-2,3	-2,3
Reste des pays développés	53,27	0,0	3,3	3,2	3,1	1,91	0,0	-6,3	-5,9	-5,5
Asie en développement	12,53	0,0	3,6	3,5	3,3	0,32	0,0	-4,4	-4,4	-4,3
Reste des pays en voie de développement	22,17	0,0	2,9	2,8	2,8	1,61	0,0	-0,5	0,8	1,9
Importations en provenance de :										
Union européenne						8,71	0,0	6,5	10,1	13,6
Pays accédants	6,27	0,0	19,2	24,3	28,8					
Afrique du Nord	3,33	0,0	1,8	1,8	1,8	0,06	0,0	4,8	5,9	6,6
Turquie	2,06	0,0	0,9	0,6	0,3	0,10	0,0	29,8	32,1	33,5
Roumanie et Bulgarie	0,83	0,0	2,0	1,8	1,6	0,05	0,0	-11,1	-9,0	-7,5
Reste des pays développés	52,91	0,0	4,1	3,8	3,5	2,06	0,0	9,4	11,7	13,3
Asie en développement	14,47	0,0	0,6	0,6	0,6	0,53	0,0	7,0	8,3	9,4
Reste des pays en voie de développement	18,40	0,0	0,1	0,0	0,0	1,80	0,0	9,9	10,9	11,5

Source: MIRAGE, CEPII

Note : Tous les chiffres sont des variations exprimées en % par rapport au cas de référence, sauf ceux des colonnes « Niveau initial », qui sont des niveaux exprimés en dizaines de milliards de dollars de 1997.

The results show that the impact is asymmetric : six times higher for the acceding countries on the GDP (2,5 % versus 0,4 %). On trade also: East European gains are high on export with a 17 % increase while its imports grew by 13 %. West European gains are only 4%.

On a bilateral basis as well we see that export by acceding countries toward EU grow by 29 % and EU export to these countries is only 14%.

For North African countries the first impact is to gain an easier access to the market of the new EU members. So their export grow by 7 % and even 33 % for Turkey. Similarly, new members increase their export by 18 % toward North Africa and 17 toward Turkey.

For North Africa, enlargement means an easier access to East European countries markets, while they did not reduce their own tariffs. On the contrary East European countries give them free access for industrial products, similar to the EU-15 tariffs.

Sectoral results (not shown here) : there is strong increase in East European export of agro-food products, in automobiles and in electronics to EU-15.

V Effects of association agreements with Mediterranean countries

Up to the Uruguay round asymmetric agreements were tolerated. As a consequence European Union wanting to help developing countries reduces significantly its tariffs on non agricultural imports from developing countries. It has subsequently very low tariff for industrial products from North Africa, while North Africa has maintained high tariff around 30% on average (with the exception for a few specific cases like textile). Turkey forms a custom Union with EU-15 and has no tariffs on industrials products from EU-15.

In the coming years the North African (Tunisia, Palestinian authority, Morocco, Egypt, Israel, Jordanian, Algeria, Syria) tariffs on industrial products will have to disappear by 2010-2012. They have signed trade agreement with EU. This will make for a large free trade zone.

There are large asymmetries in the countries size : Mediterranean countries represent 2 % of EU-Trade, while EU made up to 55 % of Mediterranean countries trade.

We focus on a scenario extended to Agricultural goods which, in reality, might be only partially included. Free trade is achieved in ten years for the industrial products and in fivteen years for agricultural products.

Table III: Macro-economic Impacts of association agreements with North Africa and Turkey

	North Africa				Turkey			
	t+1	t+5	t+10	t+14	t+1	t+5	t+10	t+14
Welfare	0,1	-0,2	-1,0	-1,4	0,1	0,3	0,4	0,4
GDP constant prices	0,0	-0,3	-1,0	-1,3	0,1	0,2	0,3	0,3
Terms od Trade	-0,5	-2,2	-3,5	-3,9	0,1	0,1	0,2	0,3
Real Exchange Rate	-0,6	-2,6	-3,9	-4,1	0,1	0,1	0,2	0,3
Real factor Price non-skilled labor	0,3	1,5	2,4	2,8	0,1	0,5	0,6	0,7
Real factor Price skilled labor	0,4	2,0	2,8	3,0	0,1	0,4	0,6	0,7
Real factor Price capital	0,4	1,8	2,9	3,4	0,1	0,5	0,7	0,8
Real factor Price Natural resources	1,0	5,0	8,2	9,2	-0,6	-2,1	-3,3	-3,8
Real factor Price Land	-0,1	-0,6	-0,3	-0,2	0,2	0,5	0,4	0,3
Exportations (en volume)	1,6	8,6	16,2	19,9	0,7	2,2	3,3	4,0
Importations (en volume)	1,4	7,8	14,6	18,0	0,5	1,7	2,6	3,2
Customs revenues (en pts of GDP)	-0,4	-2,1	-3,6	-4,1	-0,0	-0,2	-0,3	-0,4

Source: same as table 1

Table IV: Impact on bilateral trade

	Afrique du Nord					Turquie				
	Niveau initial	t+1	t+5	t+10	t+14	Niveau initial	t+1	t+5	t+10	t+14
Exportations vers :										
Union européenne	3,33	1,8	10,1	19,8	25,1	2,05	-0,2	-0,2	-1,1	-1,4
Pays accédants	0,06	1,3	9,2	16,1	18,9	0,10	-0,4	1,5	1,3	1,6
Afrique du Nord						0,13	35,1	98,9	165,8	196,0
Turquie	0,20	3,1	7,3	11,6	13,8					
Roumanie et Bulgarie	0,03	0,9	4,9	8,3	9,3	0,05	-0,4	-0,8	-1,3	-1,2
Reste des pays développés	1,16	1,2	6,5	11,4	13,5	0,90	-0,3	-0,7	-0,9	-0,7
Asie en développement	0,23	1,1	5,4	8,2	8,7	0,21	-0,4	-0,8	-1,4	-1,6
Reste des pays en développement	0,41	1,2	5,8	9,5	10,5	0,77	-0,4	-0,7	-0,9	-0,7
Importations en provenance de :										
Union européenne	2,91	4,6	23,2	39,4	45,9	2,74	0,9	3,6	5,4	6,5
Pays accédants	0,08	-4,5	22,8	43,2	52,0	0,06	0,0	2,5	3,1	3,3
Afrique du Nord						0,20	3,1	7,3	11,6	13,8
Turquie	0,13	35,1	98,9	165,8	196,0					
Roumanie et Bulgarie	0,05	-3,2	-11,7	-17,1	-18,0	0,09	0,1	0,1	0,3	0,4
Reste des pays développés	1,54	-3,9	-17,0	-25,4	-27,5	1,26	-0,3	-1,6	-1,8	-2,0
Asie en développement	0,32	-3,9	-15,2	-23,9	-26,3	0,24	0,0	0,2	0,7	0,9
Reste des pays en développement	0,63	-2,3	-9,0	-13,2	-14,2	0,79	0,1	-0,4	-0,6	-0,6

Source: same as table 1

The scenario's results show a large increase in trade for North Africa 20% in export and 18% in its imports, and only 3 to 4 % for Turkey. The export progress are made with all the regions of the world. On the import side increases are concentrated to the benefit to European countries , to acceding countries and to Turkey. Clearly it has a strong diversion effect. The reason for such difference in the export import behaviour is due to the fact that Import increase are the result of tariff reductions which are limited to European countries and its partners of East Europe and Turkey, while the increase in exports is due to very different reasons. The first impact of liberalisation of North African import is to increase these imports and the increase in quantity is higher than the decrease in prices so that the trade balance becomes negative, as in all equilibrium model, this cause a depreciation in the real exchange rate up to a new equilibrium . So export prices decline vis-à-vis all the regions of the world.

VI FTAA AND EU-LATIN AMERICA STRATEGIC PARTNERSHIPS

Quebec April 2001, 34 American nations held their third Americas Summit. This summit ratify 23 initiatives to promote prosperity, democracy, security on the continent. But the central objective was to create a free trade zone for trade and investment. The agreement should be signed in 2005. Pressure to reach an agreement was particularly strong as three weeks before the APEC countries get engaged to create a free trade zone in 2010 for the developed countries, and in 2020 for the developing countries.

The Latin America-EU summit which took place in Madrid on the 17th and 18th of March under the Spanish Presidency, three years after the Rio Summit, the head of states of 48 nations decided to promote a Strategic Partnership. During that summit a trade agreement was signed with Chilli, two years before EU and Mexico signed a Free trade agreement. Similar negotiations are engaged with MERCOSUR. Last, multiples agreements already exist between EU and the Caribbean countries within the ACP group and with the Andean group.

Working with ECLA and IDB we decided to study the different impacts of these agreement and to compare the American project FTAA with the EU-Latin American project.

We studied four scenarios, we will show only some results of one of the scenario:

It is a scenario were FTAA is realised including a full intra-Latin American trade liberalisation (which add a lot of gains for Latin American countries).

First we have a look to the trade structure of Andean countries and of Mercosur as examples then we give their tariffs structure.

There are important changes in the trade structure of Andean countries: first NAFTA became a predominant partner, this was due to an increase in manufactures exports and also to oil exports which accounts for the largest export more than half of total which are for more than 70% sent to NAFTA.

Tableau n° V : Exports structure of Andean Countries

PAN	**TOTAL**		**MANUFACTURES**		**AGRO-FOOD**	
	1982	**2000**	**1982**	**2000**	**1982**	**2000**
NAFTA	37,8	54,1	20,6	37,7	36,4	30,0
EU	19,7	10,9	17,6	10,3	37,6	30,8
MERCOSUR	5,4	3,8	4,4	4,0	1,9	1,8
CCA	21,0	11,6	9,7	9,6	2,7	2,3
Andean Pact	4,1	8,2	21,7	28,2	5,8	8,3

Source : Chelem CEPII, CD-ROM pour 2002.

Note : Mercosur here only Brazil and Argentina

Tariffs show that within tariffs are much lower than external tariffs which are around, except for cereal tariffs are in the range of 0% to 4%. For the rest of the world it varies from 10 to 20%.

Table VI Andean Pact Tariffs

	PAN	NAF	CHL	Mercosur	UE	CCA
Paddy rice	7,3%	12,0%		15,5%	17,1%	16,4%
Processed rice	8,7%	20,5%		20,9%	20,2%	20,5%
Cereal grains nec	6,0%	14,6%	8,1%	14,3%	12,3%	12,7%
Wheat	0,8%	12,1%	12,9%	12,8%	12,4%	12,5%
Bovine cattle, sheep and goats, horses	0,0%	6,7%	9,6%	10,0%	9,7%	10,1%
Vegetables, fruit, nuts	3,8%	14,0%	16,2%	15,3%	15,0%	16,5%
Crops nec	0,0%	11,5%	8,7%	13,4%	9,7%	11,8%
Plant-based fibers	0,0%	9,6%	3,6%	9,8%	9,8%	9,8%
Forestry	0,0%	7,3%	7,1%	6,6%	6,5%	8,4%
Wool, silk-worm cocoons	0,0%	9,8%	10,4%	10,4%	10,3%	
Oil seeds	0,0%	10,4%	10,4%	10,4%	10,4%	11,0%
Vegetable oils and fats	0,4%	16,1%	19,4%	16,8%	18,1%	17,8%
Dairy products	4,1%	20,4%	20,3%	20,8%	20,5%	20,2%
Bovine meat products	3,7%	15,7%	20,0%	19,8%	20,5%	21,4%
Meat products nec	1,5%	20,7%	20,5%	21,2%	20,7%	20,6%
Animal products nec	0,0%	7,9%	9,0%	9,4%	8,3%	9,5%
Fishing	0,0%	14,4%	17,4%	18,2%	13,4%	12,8%
Sugar cane, sugar beet	0,0%	10,4%			10,4%	10,0%
Sugar	1,8%	18,3%	13,2%	18,8%	18,0%	19,0%
Food products nec	0,4%	15,1%	15,3%	16,3%	15,7%	15,8%
Beverages and tobacco products	2,9%	18,1%	18,4%	17,6%	18,2%	18,0%
Coal, oil, gas and minerals	2,3%	7,5%	6,4%	8,7%	7,9%	9,6%
Textiles and wearing apparel	2,0%	17,8%	16,7%	14,3%	18,1%	19,4%
Wood and paper products	0,7%	10,4%	9,2%	11,3%	11,9%	14,2%
Leather products	0,8%	13,9%	13,5%	12,4%	14,1%	18,2%
Industry	1,0%	9,4%	8,1%	12,6%	10,5%	10,9%
Ferrous metal	0,2%	10,8%	9,0%	9,9%	9,6%	9,6%
Services		6,4%	6,4%		2,7%	6,4%

Source MAcMaps

Mercosur registered a strong increase in Intra-mercosur trade from 4% to 23% between 1982 and 2000.That increase was mainly the consequence of an increase in manufacture trade. The custom Union has clearly worked in favour of regional trade.

Table VII MERCOSUR EXPORT STRUTURE

MERCOSUR	TOTAL		MANUFACTURES		AGRO-FOOD	
	1982	2000	1982	2000	1982	2000
NAFTA	21,5	23,0	25,7	30,7	16,2	9,7

EU	28,6	23,4	20,0	17,6	36,5	36,5
MERCOSUR	4,3	16,3	6,0	21,4	3,3	9,7
CCA	4,7	6,1	9,6	8,0	1,7	3,8
Andean Pact	5,0	3,0	10,6	4,6	2,4	1,9

Source : Chelem CEPII

If we looked at the tariff structure we found that to the exception of sugar tariffs are in the range of 0 to 2% whereas tariffs applied to the rest of the world remain in the range of 8% to 22% except for crude energy, meat and bovine animals.

TABLE VII MERCOSUR'S Tariffs

	Mercosur	Alena	CHL	PAN	UE	XCM
Paddy rice	2,0%	8,5%	8,3%	11,5%	11,3%	11,0%
Processed rice	1,5%	13,7%	13,5%	13,8%	13,7%	13,2%
Cereal grains nec	0,4%	9,6%	4,0%	10,0%	9,1%	6,5%
Wheat	0,2%	6,2%	6,2%	6,2%	6,2%	6,2%
Bovine cattle, sheep and goats, horses	0,3%	3,0%	3,5%	4,0%	3,7%	4,4%
Vegetables, fruit, nuts	0,5%	8,5%	11,6%	12,3%	9,5%	11,3%
Crops nec	1,8%	14,7%	9,7%	13,2%	11,0%	13,3%
Plant-based fibers	0,1%	8,4%	8,4%	8,4%	8,4%	8,4%
Forestry	2,0%	5,6%	5,1%	8,4%	4,7%	7,8%
Wool, silk-worm cocoons	0,3%	10,5%	10,5%	10,3%	10,4%	10,5%
Oil seeds	0,3%	5,2%	5,2%	5,2%	5,2%	5,9%
Vegetable oils and fats	0,6%	10,2%	13,7%	10,8%	12,5%	12,6%
Dairy products	0,6%	21,0%	19,8%	21,1%	21,3%	20,4%
Bovine meat products	0,7%	11,6%	10,5%	13,6%	12,3%	14,2%
Meat products nec	0,4%	12,6%	12,8%	11,5%	13,0%	17,0%
Animal products nec	0,4%	5,5%	4,4%	3,9%	6,4%	5,0%
Fishing	1,1%	11,8%	12,4%	12,5%	10,4%	12,8%
Sugar cane, sugar beet		10,5%		10,5%	10,5%	
Sugar	16,3%	19,5%		19,4%	19,3%	19,3%
Food products nec	1,2%	16,5%	16,0%	13,2%	16,1%	17,9%
Beverages and tobacco products	1,2%	21,0%	20,9%	22,9%	20,3%	22,3%
Coal, oil, gas and minerals	0,1%	2,2%	4,5%	0,4%	2,8%	2,3%
Textiles and wearing apparel	0,5%	13,7%	16,9%	17,4%	16,8%	19,4%
Wood and paper products	0,7%	12,2%	9,0%	12,5%	13,4%	14,8%
Leather products	0,4%	13,9%	11,9%	14,8%	13,6%	18,3%
Industry	0,6%	10,6%	11,8%	12,5%	11,8%	12,0%
Ferrous metal	0,7%	14,5%	14,4%	12,8%	14,1%	12,5%
Services		0,0%	0,0%		0,0%	0,0%

Source **MAcMaps**

Results of the scenarios: a free trade zone including intra latin American trade do not impact on Nafta nor on the EU. There again asymmetries are large and so are the impacts. The impact on latin American countries is rather a little bit negative. Only Central america and caraibean countries show positive results. (will see later why.)

Tableau VIII : macro –economic impacts of full FTAA

	ALENA					UE				
	t+5	t+10	t+15	t+20	t+25	t+5	t+10	t+15	t+20	t+25
Utilité	0,00	0,00	0,02	0,04	0,05	-0,00	-0,01	-0,01	-0,01	-0,01
PIB en volume	0,00	0,00	0,02	0,05	0,05	-0,00	-0,01	-0,01	-0,01	-0,01
Termes de l'échange	-0,01	-0,05	0,18	0,42	0,43	-0,01	-0,05	-0,05	-0,05	-0,05
Tx de change effectif réel	0,01	0,07	-0,17	-0,43	-0,43	0,01	0,05	0,04	0,04	0,04
Rémunération travail non qualifié	0,01	0,05	0,08	0,11	0,11	-0,00	-0,01	-0,01	-0,01	-0,01
Rémunération travail qualifié	0,01	0,05	0,08	0,11	0,12	-0,00	-0,01	-0,01	-0,01	-0,01
Rémunération moyenne capital	0,01	0,05	0,08	0,10	0,09	-0,00	-0,01	-0,00	0,00	0,00
Prix moyen des ress. naturelles	0,01	0,13	0,07	-0,00	0,01	0,00	-0,00	-0,02	-0,03	-0,03
Rémunération de la terre	-0,05	-0,33	-0,31	-0,30	-0,30	0,00	0,03	-0,00	-0,03	-0,03
Exportations	0,12	0,84	1,22	1,63	1,63	-0,02	-0,11	-0,18	-0,26	-0,26
Importations	0,10	0,71	1,04	1,39	1,40	-0,01	-0,07	-0,13	-0,18	-0,18
Recettes douanières (Pts PIB)	-0,01	-0,05	-0,05	-0,05	-0,05	0,00	0,00	0,00	0,00	0,00

	Mercosur					Pacte andin				
	t+5	t+10	t+15	t+20	t+25	t+5	t+10	t+15	t+20	t+25
Utilité	0,01	0,08	0,04	-0,02	-0,02	0,04	0,32	0,21	0,01	-0,00
PIB en volume	0,01	0,06	0,02	-0,05	-0,04	0,02	0,21	0,12	-0,03	-0,04
Termes de l'échange	0,06	0,43	-0,11	-0,69	-0,70	0,10	0,72	0,01	-0,79	-0,84
Tx de change effectif réel	-0,04	-0,36	0,14	0,71	0,69	-0,09	-0,69	0,18	1,09	1,05
Rémunération travail non qualifié	0,02	0,17	0,25	0,33	0,33	0,10	0,73	0,99	1,22	1,20
Rémunération travail qualifié	0,02	0,12	0,18	0,22	0,23	0,06	0,43	0,65	0,78	0,75
Rémunération moyenne capital	0,03	0,18	0,23	0,29	0,29	0,09	0,53	0,74	1,00	1,01
Prix moyen des ress. naturelles	-0,00	-0,02	0,37	0,77	0,71	0,02	-0,02	1,32	2,66	2,58
Rémunération de la terre	0,07	0,51	0,69	0,90	0,90	0,30	2,13	2,30	2,41	2,31
Exportations	0,49	3,31	4,68	6,18	6,20	0,60	4,13	5,80	7,66	7,75
Importations	0,36	2,49	3,52	4,67	4,72	0,61	4,20	5,85	7,67	7,75
Recettes douanières (Pts PIB)	-0,02	-0,10	-0,22	-0,36	-0,36	-0,06	-0,36	-0,73	-1,15	-1,14

	Amérique Centrale et Caraïbe					Chili				
	t+5	t+10	t+15	t+20	t+25	t+5	t+10	t+15	t+20	t+25
Utilité	0,30	2,18	1,94	1,48	1,48	0,01	0,14	0,01	-0,20	-0,19
PIB en volume	0,28	2,08	1,67	1,04	1,05	0,01	0,11	-0,00	-0,20	-0,19
Termes de l'échange	0,46	2,90	1,78	0,75	0,70	0,05	0,29	-0,23	-0,78	-0,84
Tx de change effectif réel	-0,39	-2,94	-2,17	-1,27	-1,30	-0,07	-0,44	0,00	0,47	0,49
Rémunération travail non qualifié	0,48	3,42	4,29	5,14	5,16	0,12	0,81	1,23	1,65	1,65
Rémunération travail qualifié	0,36	2,52	3,29	3,95	4,01	0,07	0,55	0,91	1,22	1,26
Rémunération moyenne capital	0,59	3,91	4,35	5,10	5,09	0,10	0,55	0,87	1,24	1,20
Prix moyen des ress. naturelles	-0,08	-0,77	-0,22	0,39	0,38	0,09	0,74	1,42	2,12	2,13
Rémunération de la terre	0,45	3,36	4,06	4,60	4,61	0,27	1,83	2,13	2,42	2,37
Exportations	1,11	8,26	10,33	12,29	12,39	0,48	3,20	5,00	6,97	7,01
Importations	0,78	5,93	7,45	8,90	9,07	0,43	2,85	4,47	6,25	6,30
Recettes douanières (Pts PIB)	-0,15	-0,95	-2,17	-3,57	-3,58	-0,08	-0,49	-0,99	-1,53	-1,53

Source : author's estimates using MIRAGE

If macro economic impacts are rather small on large countries as is usual with world CGE models, In the other hand the impact on trade is rather large. Latin American's integration is in the line with usual results.

TABLEAU XIX : IMPACT ON BILATERAL TRADE

Exportation

	Mercosur						**Pacte andin**					
		t+5	**t+10**	**t+15**	**t+20**	**t+25**		**t+5**	**t+10**	**t+15**	**t+20**	**t+25**
Exportations vers :												
ALENA	1,72	1,8	12,2	13,2	14,4	14,4	2,54	1,1	7,6	8,8	10,1	10,2
UE	2,61	-0,1	-0,6	0,0	0,7	0,7	1,13	-0,2	-1,2	-0,1	1,1	1,1
Mercosur							0,25	0,9	5,5	10,7	16,4	16,4
Pacte andin	0,42	1,6	10,4	17,8	26,0	26,1						
Amérique Centrale et Caraïbe	0,14	1,7	12,1	19,0	26,3	26,5	0,34	0,9	6,0	10,4	14,9	15,1
Chili	0,33	1,2	7,8	14,3	21,4	21,4	0,09	1,2	7,5	14,6	22,4	22,5
Asie développée	0,95	-0,1	-0,6	0,0	0,8	0,8	0,40	-0,2	-1,3	-0,0	1,3	1,3
Reste du Monde	1,75	-0,1	-0,5	-0,2	0,3	0,3	0,39	-0,2	-1,1	-0,1	0,9	0,8

	Amérique Centrale et Caraïbe						**Chili**					
		t+5	**t+10**	**t+15**	**t+20**	**t+25**		**t+5**	**t+10**	**t+15**	**t+20**	**t+25**
Exportations vers :												
ALENA	1,86	2,6	19,8	22,7	25,0	25,2	0,36	1,7	11,7	12,4	13,3	13,3
UE	1,04	-0,5	-4,3	-3,7	-2,7	-2,7	0,56	-0,1	-0,5	0,3	1,1	1,2
Mercosur	0,07	0,8	4,5	11,2	19,3	19,3	0,19	1,4	8,9	16,6	25,0	25,1
Pacte andin	0,08	1,1	6,7	14,1	22,5	22,6	0,12	1,7	11,2	19,2	28,1	28,3
Amérique Centrale et Caraïbe							0,01	1,8	13,1	20,2	27,6	27,7
Chili	0,02	0,6	3,8	10,1	16,7	16,9						
Asie développée	0,34	-0,5	-4,2	-3,5	-2,3	-2,3	0,55	-0,1	-0,6	0,2	1,2	1,2
Reste du Monde	0,28	-0,6	-4,6	-3,8	-3,0	-3,0	0,22	-0,1	-0,5	0,1	0,6	0,7

Importations

	Mercosur						Pacte andin					
		t+5	**t+10**	**t+15**	**t+20**	**t+25**		**t+5**	**t+10**	**t+15**	**t+20**	**t+25**
Importations en provenance de :												
ALENA	3,17	1,3	8,4	14,7	21,6	21,7	2,04	1,2	7,8	12,6	17,6	17,6
UE	3,85	-0,2	-1,1	-3,2	-5,5	-5,5	1,26	-0,2	-1,2	-4,2	-7,3	-7,3
Mercosur							0,42	1,6	10,4	17,8	26,0	26,1
Pacte andin	0,25	0,9	5,5	10,7	16,4	16,4						
Amérique Centrale et Caraïbe	0,07	0,8	4,5	11,2	19,3	19,3	0,08	1,1	6,7	14,1	22,5	22,6
Chili	0,19	1,4	8,9	16,6	25,0	25,1	0,12	1,7	11,2	19,2	28,1	28,3
Asie développée	1,24	-0,2	-1,1	-3,3	-5,7	-5,7	0,55	-0,3	-1,6	-4,9	-8,4	-8,3
Reste du Monde	1,61	0,0	0,5	-1,0	-2,7	-2,6	0,34	0,0	0,6	-2,4	-5,4	-5,3

	Amérique Centrale et Caraïbe						Chili					
		t+5	**t+10**	**t+15**	**t+20**	**t+25**		**t+5**	**t+10**	**t+15**	**t+20**	**t+25**
Importations en provenance de :												
ALENA	2,24	1,6	11,2	16,9	22,7	23,0	0,62	1,1	7,0	12,1	17,5	17,6
UE	1,01	0,0	1,0	-1,6	-4,5	-4,4	0,53	-0,3	-1,7	-4,2	-6,8	-6,7
Mercosur	0,14	1,7	12,1	19,0	26,3	26,5	0,33	1,2	7,8	14,3	21,4	21,4
Pacte andin	0,34	0,9	6,0	10,4	14,9	15,1	0,09	1,2	7,5	14,6	22,4	22,5
Amérique Centrale et Caraïbe							0,02	0,6	3,8	10,1	16,7	16,9
Chili	0,01	1,8	13,1	20,2	27,6	27,7						
Asie développée	1,19	-0,1	0,2	-2,5	-5,5	-5,4	0,27	-0,3	-2,0	-4,8	-7,6	-7,6
Reste du Monde	0,51	0,4	3,8	1,0	-2,3	-2,2	0,27	-0,2	-0,8	-3,4	-6,1	-6,1

Source same as table 1

Trade is at the heart of the results. Chile is the winner, its exports grow by 7% and its import by 6,3. So the most open country is to win more from opening than its neighbours countries. Its export grow more than its imports, its terms of trade improves so does its macro-economic growth. Then come Mercosur and the Andean Pact countries, Central America has very few to except from that scenario.

Intra Latin American trade is growing fast with gains between 25 et 28% for Chil, 21 and 26% respectively for Mercosur, and 17 et 22% for the two other zones.

On the import side the progress are the bigger for Central america and for the Andean poact.between 26 et 28% except for the echange between these two zones were progress are ony between 15 and 22%.

Chile is the first to improve its position on all the regions of latin America.

Some sectoral results between Chile and Mercosur are given as examples of the kind of change one can expect.

Tableau X : sectoral impact of FTAA on Chile Mercosur trade

	Commerce Mercosur -> Chili						Commerce Chili -> Mercosur					
	Niveau initial	**t+5**	**t+10**	**t+15**	**t+20**	**t+25**	Niveau initial	**t+5**	**t+10**	**t+15**	**t+20**	**t+25**
Paddy rice	0,00	2,2	14,3	28,2	44,5	44,6	0,00	0,0	0,0	0,0	0,0	0,0
Processed rice	2,18	1,1	7,4	14,0	21,0	21,1	0,00	0,0	0,0	0,0	0,0	0,0
Cereal grains nec	7,68	1,2	8,3	15,0	22,2	22,4	0,09	1,0	5,8	11,7	17,9	17,6
Wheat	0,40	1,5	10,1	18,3	27,6	27,6	0,00	0,8	5,2	11,2	17,5	17,5
Bovine cattle, sheep and goats, horses	0,03	1,4	9,2	16,8	25,2	25,3	0,19	0,3	1,4	3,5	5,6	5,4
Vegetables, fruit, nuts	0,18	1,7	11,1	19,2	28,4	28,3	13,96	1,2	8,1	16,4	25,2	25,4
Crops nec	2,80	0,9	6,0	11,4	16,6	16,6	1,42	0,7	6,7	15,1	23,3	23,3
Plant-based fibers	3,49	0,6	4,3	7,7	11,4	11,4	0,00	0,0	0,0	0,0	0,0	0,0
Forestry	0,01	1,5	10,9	20,7	31,3	31,3	0,04	0,8	4,2	7,6	11,3	11,6
Wool, silk-worm cocoons	0,05	2,3	15,0	28,7	45,1	45,0	0,51	1,2	8,1	16,5	25,7	25,7
Oil seeds	1,15	0,8	4,8	8,3	12,0	12,1	0,16	0,7	4,5	9,5	14,2	13,7
Vegetable oils and fats	13,78	0,6	4,3	7,5	10,9	11,1	0,07	2,0	12,2	24,2	37,7	37,3
Raw milk	0,00	0,0	0,0	0,0	0,0	0,0	0,00	14,0	148,5	664,1	5332,8	5331,1
Dairy products	0,30	1,5	9,1	16,9	25,6	25,5	1,43	2,4	16,4	33,1	53,2	53,4
Bovine meat products	20,87	1,2	8,0	14,6	21,8	22,0	0,27	1,6	9,7	19,4	30,1	29,8
Meat products nec	0,55	1,6	9,9	17,9	26,9	26,9	2,04	1,6	10,1	20,6	32,1	32,2
Animal products nec	0,21	1,7	10,7	19,3	28,9	28,8	0,52	0,9	5,9	12,7	19,8	19,9
Fishing	0,00	2,0	13,0	24,5	37,8	37,6	2,11	1,1	7,0	14,0	21,4	21,6
Sugar cane, sugar beet	0,00	0,0	0,0	0,0	0,0	0,0	0,00	0,0	0,0	0,0	0,0	0,0
Sugar	4,31	1,5	9,8	15,9	22,8	23,0	0,00	3,4	22,6	47,7	80,4	79,7
Food products nec	7,76	1,6	9,5	17,5	26,3	26,2	11,04	1,8	12,4	24,8	38,9	39,2
Beverages and tobacco products	2,18	1,5	9,1	16,8	25,5	25,4	3,12	2,3	16,2	33,0	52,8	53,0
Coal, oil, gas and minerals	69,22	1,1	7,2	14,2	22,2	22,5	21,14	0,4	1,8	3,7	5,7	5,7
Textiles and wearing apparel	11,10	1,6	9,8	19,1	29,5	29,4	7,28	2,5	16,7	34,2	55,0	55,1
Wood and paper products	11,39	1,4	8,7	16,6	25,4	25,3	28,38	0,9	5,7	10,6	15,8	16,0
Leather products	4,31	1,3	9,0	19,0	29,8	29,8	0,87	3,1	20,6	41,6	68,0	68,1
Industry	140,17	1,3	7,8	15,4	23,8	23,8	85,94	1,6	10,4	20,5	31,8	32,1
Ferrous metal	19,18	0,9	5,9	12,2	19,1	19,4	1,32	2,1	13,1	25,8	40,4	40,4
Services	1,57	0,0	0,2	0,5	0,8	0,8	2,60	-0,1	-0,8	-0,8	-0,9	-0,9
Transport	2,10	-0,0	-0,1	0,1	0,5	0,4	3,42	-0,0	-0,4	-0,4	-0,3	-0,2

Source : calcul des auteurs à partir du modèle Mirage

Mercosur export progress are relatively homogenous between 11 and 30% reflecting the homogeneity of previous Chilean tariffs. Exceptions are for Rice45% and wool.

On the contrary Chilean exports gains are highly differentiated they comprised between 0% for rice and 68% for leather and leather products (results on raw milk are meaningless due to the very low initial level).

As part of another studies we show that EU-Latin American agreement were more profitable for Mercosur than for other Latin American countries notably if agro-food products were included in the deal, which may be difficult to achieve and were even more profitable than the FTAA. The reason being that EU maintain intense relations with Mercosur and that Mercosur has little to win on agrofood with NAFTA. Other Latin American countries took profit with FTAA from intra trade liberalisation on manufactures (see Monteago 2003).

VII ASEM-APEC

When it comes to EU-Asia relations one feel that the level of bilateral trade is abnormally low. When it comes to diplomatic relations it seems also that their intensity is low. When the head of States, following Lee Kwan Hue initiative (and probably Chirac interest), decided to meet every two years from 1996 on, there was at first a high level of suspicion. The bitter remembrance of colonial times notably from Thailand (which by the way has never been a colony) and Malaysia which appears at the first meeting. For the first time it was said European countries started to consider Asian partners as equals. It show how important was that initiative. For the time being there is no project of a global partnership based on some kind of trade agreement. This may sound strange given the potential of the European market for Asian countries.

On the contrary US Asia high level relations started in 1992. At the time it was related to an Australian initiative following the failure of Uruguay round negotiations in 1991. The idea was to create some kind of lobbying pressure group against Europe. In the US it was also a way to avoid the creation of a Panasia Union excluding American countries. APEC as it become to be known rapidly evolve towards a Trans pacific trading zone project. It was only the insistence of the US to introduce hard commitment towards liberalisation engagements including agriculture, that make the progress get into a dead end in 1998 at the Osaka summit.

VIII EU-US Frictions

EU-US trade friction are an old story (but less old than the Japan-US frictions story on textile which goes back to the thirties). Agriculture (including bananas and hormone beef), Aeronautics, Arms, Steel, US Foreign Sales Corporation, GMO’s, US embargo on Cuba, Libya, Iran etc. are some of the objects of friction.

Frictions are intense but they never put in peril the relation between the two zones . The reason being that there are too much mutual benefits to that relation that it would stupid to risk any kind of trade war. Except for agricultural goods tariff are below 3%. Bilateral investment stock is the highest in the world. Economic interest of the two partners are so intertwined so balanced that there is an equal power.

But there is nevertheless a big difference between the two zones , while the USA are one country it is not the same for Europe were nation states still retained some power. When a conflict arise between EU and the US then the US have no difficulty ot apply retorsion measure while EU show great difficulties to show up. The reason is that European countries have to some extent divergent views of their interest and in reality the divergence are real. So it is much more difficult for Europe to take action against the US. The beef case and the FSC cases are good examples of such differences: When Europe was condemned by the ORD in WTO then the US apply measure against Roquefort cheese, white wine which were clearly French products. On the contrary when the US loose their case on the FSC EU were unable to decide to take action against the US.

IX From Doha to Cancun

In Doha WTO members agree to launch the new round of multilateral negotiations centred on development issues. It was said that opening trade could fostered foster growth and alleviate poverty. But it did not elaborate on the ways to achieve that goal. It was also made clear that special attention should be given to the least developed countries.

European negotiators insisted that this round should also be a round on Sustainable Development, that is to say to include social and environmental issues to the economic ones. They also insist that development policy cannot be based only on trade openness for the South and in particular for the LDC's. First opening an economy is a long and gradual process (see Korea or China, second the country need strong institution and human capital to really profit from opening. Undoubtedly better access to developed market are necessary for middle income countries such as Brazil, China, Pakistan and India for example but not necessarily for LDC's which lack the local capacity to take advantage of that opportunity. What is worse under certain circumstances they can loose from a general reduction in tariffs: the reason is that they benefit from preferential treatment they will loose in case of a full elimination of tariffs. In the same line of reasoning if a reduction in farm support in the North increases world prices for food this will affect net importing LDC's.

In the case of Textile and Clothing (see Avisse, Fouquin 2003) one ATV consequence is that we have two major winners China and India (may be Pakistan) but many losers, most developing countries of North Africa or Latin America will loose.

So it seems that we need to make a careful and detailed evaluation of the impact of different form of reduction of distortion particularly in the Agriculture agenda. World Bank Global Economic Prospect for year 2003 analyses the consequences of trade liberalisation, but failed to address adequately the problem as it only gives results for such large categories as developing countries. At a more detailed level we found that large middle income countries are clearly the winners but not Bangladesh or sub Saharan African countries.

CEPII has done some work for the European Commission which compare different formula proposals to reduce trade distortions in order to address their impact on preferential access issues for LDC's. This should be done at a very detailed level. Harbinson text on agriculture and Girard proposal on non agricultural market access are the two key proposals.

In a 146 members negotiation it is useful to propose simple arithmetic formulae to reduce systematically the tariff rather than discuss product by product. I will not get into the details here but give the general idea behind:

You have the choice between a linear kind of formulae which has the default not to reduce the tariffs more than the normal rates, and "Swiss" formulae where high tariffs are reduce more than average. The first solution give country the power to be very discriminatory for some specific product, and in the case of LDC's exports this is often the case.

The second formula is economically optimal, and you can choose to reduce more or less peaks according to its parameter. But it is more complex.

The peak reduction should have a positive impact on LDC's but the reduction of average tariffs reduces the preferential treatment which they benefited, the increase of prices may also be negative on most very poor countries. At the end if not carefully designed such program might end with negative results

Preliminary conclusions

There has always been diverging views within Europe as well as outside Europe on the questions related to trade and economic development, but I still strongly feel that deep integration which is the ultimate frontier of globalisation makes it necessary to take into account social and environmental issues, European integration is an example of deep integration it can help understand the challenges ahead of us.

Table XI: Long run welfare changes

% welfare	Linear reduction	linear without peak	Swiss formulae	Swiss Form+SDT
EU-25	0,38	0,14	0,55	0,47
USA	0,18	0,09	0,24	0,12
Japan	0,86	0,29	1,45	1,29
CAIRNS	0,3	0,14	0,35	0,39
Dev.ing Asia	0,8	0,28	1,07	0,91
ACP	0,43	0,26	0,41	0,29
Other countries	0,55	0,2	0,79	0,7
World	0,42	0,16	0,61	0,51

Source: Fontagné, 2002.

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