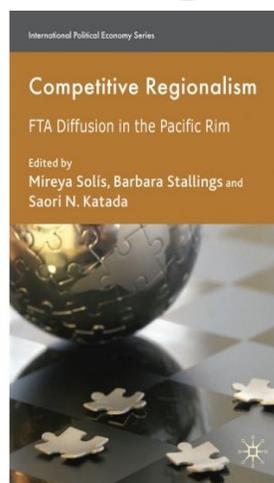


# Competitive Regionalism: FTA Diffusion in the Pacific Rim

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*Saori N. Katada,  
Associate Professor,  
School of International Relations  
University of Southern California*

## The Book



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## The Chapter Contributors

Ch	Title (shortened)	Authors
1	Explaining FTA Proliferation: Framework	Solís and Katada
2	Exclusion Fears and Competitive Regionalism	Shujiro Urata
3	Political-Security Competition and the FTA Movement	Mike Mochizuki
4	Competitive Rule-making: Standard Setting & Locking-in	Junji Nakagawa
5	The US as a Bilateral Player	Quiliconi and Wise
6	Chile: A Pioneer in Trade Policy	Barbara Stallings
7	Mexico's FTA Strategy	Aldo Flores-Quiroga
8	Southeast Asia and Beyond: Role of Singapore & ASEAN	Takashi Terada
9	South Korea's FTAs	Min Gyo Koo
10	Japan's Competitive FTA Strategy	Mireya Solís
11	China's Competitive FTA Strategy	Jian Yang
12	Conclusion	Stallings and Katada

## The Number of FTAs Reported to GATT/WTO

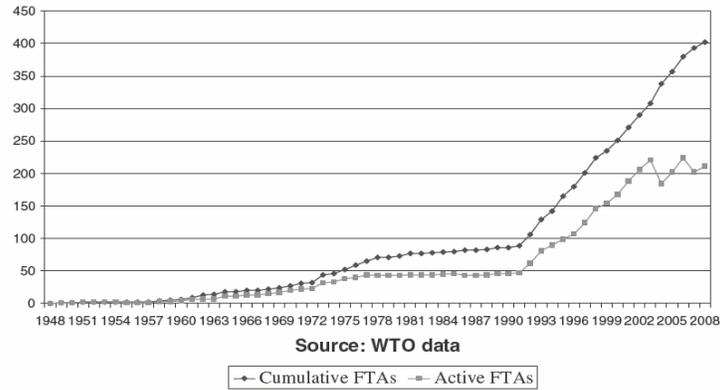


Figure 1.1 FTA diffusion: S-curve

## FTA Diffusion by Proliferation

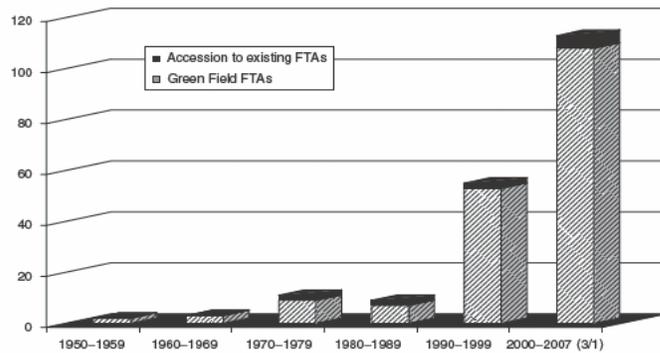
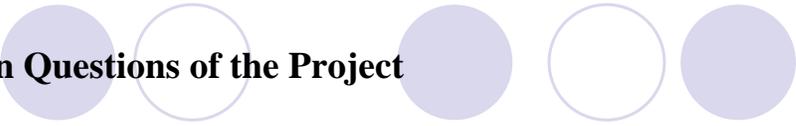


Figure 1.3 FTA diffusion: Enlargement versus proliferation (number of FTAs reported to the GATT/WTO by decade)



## Main Questions of the Project

- What is driving the worldwide explosion of FTAs?
- Why is it more likely for states to establish a new bilateral FTA than to join existing ones?
- Can FTA network represent the foundation for much more ambitious projects of regional integration and collaboration?



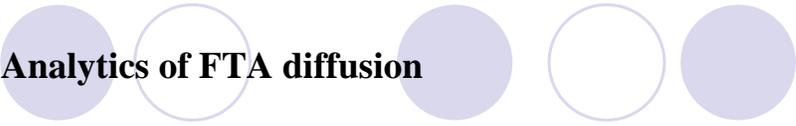
## Main Arguments

- The FTA policies influenced by the externalities generated by prior actions of their peers.
- Pacific Rim governments' FTA policies are affected by the need to respond to multiple competitive pressures.
- The competitive dynamics lead to proliferation of FTAs, and such dynamics have negative implications on regionalism.



## Existing Literature

- *Economic interdependence*  
Neofunctionalism: Haas (1964) to Mattli (1999)
- *Domestic lobbying and rent-seeking*  
Specific producer groups (Grossman & Helpman 1995)
- *State autonomy*  
Intergovernmentalism (Moravcsik 1991)
- *Latin America:*  
From inward to outward looking integration (Feinberg, 2002)  
US-led “competitive liberalization” (Evenett and Meier 2008)
- *East Asia:*  
Influence of developmental state (Bowles 2002)  
Domestic lobbying (Katzenstein 2006)  
Relation to the multilateral trading system (Aggarwal 2005)



## The Analytics of FTA diffusion

- Diffusion literature (Strang 1991, Elkins and Simmons 2005, IO Fall 2006, and Simmons, Dobbin and Garrett 2008)
  - Diffusion occurs when:  
the prior adoption of a trait or practice in a population alters the probability of adoption for remaining non-adopters  
~ interdependence of government choices
  - Applied to; liberal economic policies, democracy etc.
  - FTAs: government’s policy to adopt FTA policy is influenced by the actions of other countries.
- *Novelty: Focus on the explicit and implicit link among FTAs*

## Hypotheses

- **Null hypothesis:** FTA policy launched independently and autonomously.
- **Emulation hypothesis:** FTA policies disseminate through countries copying their socio-cultural peers and leading nations. Such process leads to multi-directional FTA proliferation with similar partners.
- **Competitive hypothesis:** Governments counteract the FTA policies of their competitors. Such process leads to selective FTA proliferation with eclectic partners.

## Emulation versus Competition

Diffusion Pressures	Domestic Policy-making Process <sup>a</sup>	Country FTA Outcomes
<b>Emulation</b> Prior actions of socio-cultural peers or leading nations increase information about a policy and pave way for its social acceptance	Epistemic communities play leading role in influencing policymakers	<i>Omnidirectional</i> (negotiate with as many partners as possible with little concern about sequencing) <i>Homogeneous</i> (negotiate FTAs with standard rules that mirror closely those of reference nations)
<b>Competition</b> Prior actions of competitors that: <ul style="list-style-type: none"> <li>● Create trade and investment diversion, and/or</li> <li>● Increase the relative influence of rival states, and/or</li> <li>● Disseminate alternative models of regional integration</li> </ul>	Business groups, economic bureaucrats, politicians or foreign affairs officials push for FTA policy shift	<i>Selective</i> (choice of partners, timing of negotiations and market access commitments reflect strategic calculus to advance competitive advantage) <i>Heterogeneous</i> (push for distinct packages of trade and investment rules)

## Unpacking “Competitive Mechanism”

### *Competition as a multi-dimensional process*

- Economic competition:  
Race to obtain relative gains from trade creation and becoming a trade hub or attracting FDI. Cost of trade diversion.
- Political/security competition:  
A part of balancing and accommodating foreign policy strategy and to overcome security vulnerability.
- Legal competition  
Bottom-up standard-setting and rule-making.

## Country Case I: Chile

Table 6.1 Chile's FTA network (as of March 2009)

Partner	Status	Volume		Issue scope				
		Trade <sup>1</sup>	FDI <sup>1</sup>	Investment	Service	Environment	Labor	Economic cooperation
Mexico	In force (1992/1999)*	1.3/4.0	0.2/0.3	No/Yes	No/Yes	No/No	No/No	Yes/No
Bolivia <sup>2</sup>	In force (1993)	0.9	0.0	No	No	No	No	Yes
Venezuela <sup>2</sup>	In force (1993)	1.1	0.1	No	No	No	No	Yes
Colombia <sup>2</sup>	In force (1994)*	1.0	0.1	No	No	No	No	No
Ecuador <sup>2</sup>	In force (1994)	1.2	0.0	No	No	No	No	Yes
Mercosur <sup>2</sup>	In force (1996)	13.9	2.7	No	No	No	No	Yes
Canada	In force (1997)	1.6	18.4	Yes	Yes	Yes <sup>†</sup>	Yes <sup>†</sup>	No
Peru	In force (1998/2009)*	1.6/2.5	0.1/0.04	No/Yes	No/Yes	No/No	No/No	Yes/No
Costa Rica	In force (2002)	0.2	0.0	Yes	Yes	No	No	No
El Salvador	In force (2002)	0.1	0.0	Yes	Yes	No	No	No
European Union	In force (2003)	20.2	38.8	Yes	Yes	No	No	Yes
EFTA	In force (2004)	0.6	2.7	No	Yes	No	No	No
United States	In force (2004)	13.0	26.5	Yes	Yes	Yes	Yes	No
Korea	In force (2004)	4.4	0.1	Yes	Yes	No	No	No
Pacific-4 <sup>2</sup>	In force (2006)	0.2	0.1	No**	Yes	Yes <sup>†</sup>	Yes <sup>†</sup>	Yes
China	In force (2006)	9.3	0.1	No**	No**	No	No	Yes
Japan	In force (2007)	7.7	2.9	Yes	Yes	No	No	No
India	In force (2007)	1.8	0.0	No	No	No	No	No

\* Transited from FTA to FTA's from Mexico and Peru, but not certified for Colombia.

## Country Case I: Chile

- NAFTA kicked off an emulation strategy in 1994.
- Newly democratized country strove to reintegrate into Latin American region.
- Also pursues prestige as an FTA hub in the Pacific Rim.
- Experiences the “spaghetti bowl” of FTAs under two different modalities (NAFTA versus ECAs).
- Chile is seen (especially by Mercosur) as an agent that undermines the regional integration.

## Country Case II: China

Table 11.1 China's FTA offensive (as of October 2008)

Partner	Status	Trade volume <sup>a</sup> (percentage of 2006 total)		FDI (foreign direct investment) volume <sup>b</sup> (percentage of 2006 total)		Issue scope				
		Export	Import	Inflow (actually utilized)	Outflow (non- financial)	Investment	Service	Environment	Labor	Economic cooperation
Hong Kong	In force (2004)	16.06	1.36	32.11	39.30	Yes	Yes	No	No	Yes
Macao	In force (2004)	0.23	0.03	0.96	0.82	Yes	Yes	No	No	Yes
ASEAN	In force (2005)*	7.36	11.31	5.32	2.82	Negotiation	Yes (2007)	No	No	No
Chile	In force (2006)	0.32	0.72	0.00	0.00	Negotiation	Yes (2008)	No	No	Yes
Pakistan	In force (2007)	0.44	0.13	0.00	0.00	Yes	Negotiation	No	No	No
New Zealand	In force (2008)	0.17	0.17	0.13	0.00	Yes	Yes	Yes	Yes	Yes
Singapore	Signed (2008)	2.39	2.23	3.59	0.75	Yes	Yes	Yes	Yes	Yes
GCC	Negotiation (2005)	1.81	3.11	0.24	0.00	-	-	-	-	-
Australia	Negotiation (2005)	1.41	2.44	0.88	0.50	-	-	-	-	-
Iceland	Negotiation (2007)	0.00	0.00	0.00	0.00	-	-	-	-	-

(continued)

## Country Case II: China

- As the WTO stalled, China showed willingness to learn from other FTAs (emulative process).
- Shows realist calculation as a criteria for FTA partner selection (e.g. resources), and rivalry with Japan.
- To overcome China's declining cost competitiveness, protect its industries with ROO application, and pursue "market economy" recognition.
- Uses FTAs to overcome possible trade blocs in other regions (e.g. FTAA).
- Strong interest in regional trade integration and uses FTAs to secure China's leadership in East Asia.

## Emulation and Competition as FTA Triggers

*Table 12.1* Explanations for FTA diffusion by country and period

	Early stage of FTA adoption		Late stage of FTA adoption	
	Latin America: (before 1990 to late 1990s)	East Asia: (late 1990s to 2002)	Latin America: (late 1990s to the present)	East Asia: (2002 to the present)
Non-diffusion	United States, Chile			
Emulation	Mexico, Chile	South Korea, Singapore		China
Competition			United States, Mexico, Chile	South Korea, China, Japan, Singapore

## Dominant Type of Competition

Table 12.2 Types of competition by size of country

	Type of competition	
	Economic competition	Political and legal competition
Small countries	← Singapore → ← Chile → ← South Korea → ← Mexico →	
Large countries		← Japan → ← China → ← United States →

## In Conclusion

- FTA proliferation exhibits diffusion dynamics.
- Both emulation and competition are motivating forces behind FTA adoption by the Pacific countries.
- Small countries tend to respond more to economic competition, while large countries react more to political and legal competition.
- FTA diffusion through competition creates unruly FTA networks and political rivalry, making it *less* likely for smooth regional trade integration project to emerge.