I. INTRODUCTION: THE "SPAGHETTI BOWL" CRISIS

The global trading community is in a state of deep crisis. Its main system, multilateralism, has recently been clogged by viscous trade barriers created by a proliferation of bilateral, regional trading blocs. Globalization offers a worldwide "production value chain" which enables even small economies to take part in the global commerce by offering raw materials or labor. In fact, small economies hold a comparative advantage at certain stages of the international manufacturing process. n1 However, the current pattern of regional trading blocs militates against such participation by erecting new barriers against non-members and thus compartmentalizing the global market. n2 This is not what globalization and free trade are meant to be.

It is the contention of this article that the current proliferation of regional trade agreements ("RTAs") n3 has
disrupted the original equilibrium between multilateralism (globalism) and regionalism that was established in the 1940s under the General Agreement on Tariffs and Trade ("GATT"). In the absence of such equilibrium, world trade becomes fragmented. Such fragmentation ultimately impedes the fulfillment of the raison d’etre of the World Trade Organization ("WTO"): the simultaneous promotion of free trade, adequate regulation, and development. To remedy this crisis, the previous equilibrium must be restored by defragmenting world trade through both institutional and judicial strategies.

More RTAs have been created under the WTO, which has existed for a little over a decade, than were created during the half-century existence of GATT, its predecessor. Nowadays, more than half of all global trade is performed within these blocs. Since these RTAs are preferential and discriminatory by nature, their unchecked multiplication seriously fragments world trade by attacking the Most-Favored-Nation ("MFN") principle, which is the backbone of the multilateral trading system. Moreover, those RTAs tend to hijack the current WTO Doha Round negotiation by depriving poorer WTO Members of deserved attention and limited resources.

Granted, RTAs are not entirely without merits. They can complement the multilateral trading system. In fact, Article XXIV of GATT endorses them as a facilitator of international trade. One might reasonably speculate that because regional blocs have far fewer participants than the WTO (at nearly 150 members and counting), bloc members can engage in more flexible and effective negotiations on trade liberalization. Also, with smaller numbers of members, RTAs might experiment with various regulatory standards. These merits are conceivable as long as the complementarity test is met under GATT Article XXIV, and therefore the original equilibrium between regionalism and globalism is maintained.

However, the current form of regionalism, which may be termed "Neo-Regionalism" for its characteristically unprecedented ubiquity and intensity, is in fact replacing, not complementing, the multilateral trading system. Regional trading blocs have become the "standard" of international trade, not the complementary vehicle. Therefore, the original equilibrium between regionalism and multilateralism has been broken, and this broken equilibrium has in turn brought critical consequences to the global trading system.

First of all, the "spaghetti bowl" of mushrooming mercantilist blocs under Neo-Regionalism ultimately results in Least-Favored Nation treatment superseding the Most-Favored-Nation principle of multilateralism in the global context. While those blocs may facilitate intra-bloc trade, they stress the global trade by raising new barriers to extra-bloc trade and disassociating a bloc from the rest of the world due to its preferential nature. Moreover, in many cases even intra-trade liberalization remains limited because certain sectors are insulated from open trade. These sectors are often simply excluded from the coverage of RTAs or otherwise protected through complicated rules of origin. Thus, RTAs tend to "institutionalize" protectionism.

A recent surge of RTAs also precipitates regulatory failure. Many social charters in RTAs are not only inconsistent with WTO norms but also cause regulatory gridlock in the global context. Certain recent bilateral deals have managed to dilute the multilateral disciplines on public health by inserting WTO-plus provisions on trade and intellectual property rights. In addition, such regulatory heterogeneity itself is a serious trade barrier. Multiple regulations over the same subject matter are simply at odds with the globalized production system. A patchwork of regulatory regimes increases transaction costs for global business.

Finally, those RTAs between the rich and the poor under which the former plays a hub and the latter a spoke may bring developmentally negative consequences to the latter. These hub-and-spoke model RTAs tend to serve the economic interests of the hub to the detriment of the spoke, especially when sensitive products on which the spokes hold comparative advantages are excluded from the coverage of these RTAs. A recent World Bank report warns that bilateral trade deals decrease the wealth of most poor countries, while a multilateral trading agreement could enrich both rich and poor nations. A simulation in the report demonstrates that if all developing countries sign bilateral trade agreements with developed countries, low income countries' real income would actually shrink by 1.0% over the next decade.
Admittedly, RTAs are often suffused with political considerations that may prevail over the aforementioned concerns of economic policy. Under such non-economic considerations, GATT Article XXIV could serve trading nations' political needs for regionalism and thus demonstrate its "political savvy." However, history eloquently attests that attempts to rationalize regionalism based on political contemplation are fatally flawed. The current Neo-Regionalism is reminiscent of the interwar prevalence of regionalism over multilateralism. In the 1930s, regional trading blocs were mobilized for cut-throat mercantilist competition, which shrunk world trade nearly 70% and further deepened the Great Depression worldwide. This regionalism-cum-mercantilism eventually contributed to the outbreak of World War II ("WWII").

Seventy years later, the United States and the European Union are reenacting their interwar mercantile rivalry by rushing to form preferential blocs (European Union and Free Trade Agreement of the Americas), rather than pursuing multilateral trade liberalization. Paul Krugman has observed that an even worse outcome for the multilateral trading system could occur should a third East Asian bloc emerge and further fragment the global trading system. To that extent, the specter of a return to the destructive regionalism of the Thirties remains.

Against this backdrop, this article serves two purposes. First, it aims to amplify the chorus of alarms emanating from a number of sources, including the recent WTO Consultative Board ("CB") Report. The article is a timely effort to raise the warning level about the damaging effects of regionalist fragmentation on the global trading system. Second, this article endeavors to overcome some of the shortcomings of the existing literature in this field. Most studies of regionalism have been rather case specific, focusing on individual RTAs, such as the North American Free Trade Agreement ("NAFTA"), and the Southern Common Market ("MERCOSUR") and the European Union. A consolidated balance sheet of regionalism and multilateralism does not appear in any of these case specific studies.

Furthermore, much of the existing literature has been written by economists. Although economic analysis may supply an empirical basis for the understanding of RTAs, it generally fails to provide legal analysis anchored by the purpose and objective of the multilateral trading system. Just as the integrationist telos of the WTO serves as an ultimate hermeneutical criterion for the interpretation of various trade rules, it can offer a normative litmus test with which to assess the negative effects of fragmentation which Neo-Regionalism may inflict on multilateralism. In this regard, this article highlights certain teleological failures caused by regionalist fragmentation and proposes both institutional and judicial means to defragment world trade.

Part II begins by highlighting the paradoxical nature of regional blocs: their effect may be centripetal, i.e., integrating, among their members, but centrifugal, i.e., disintegrating, to non-members. It then documents how the original equilibrium between these regional blocs and the multilateral trading system has been broken under current manifestations of Neo-Regionalism.

Part III builds on this background by probing the damages in which the broken equilibrium results, i.e., regionalist fragmentation. First, a tripartite telos of the modern multilateral trading system: free trade, regulatory harmonization, and development is adopted as an investigatory criterion. This criterion is then applied to the current regional trading blocs in order to confirm that these blocs hinder and impede the fulfillment of the tripartite telos.

A wholesale elimination of regional trading blocs is neither a realistic nor a desirable option. RTAs die hard for political reasons and are also useful under certain circumstances. Therefore, the only solution for the WTO is to restore the original equilibrium of complementarity by defragmenting the status quo, i.e., multilateralizing the current configuration of RTAs. In this vein, Part IV suggests two defragmenting strategies. The first strategy features various "institutional" reforms, such as an "open regionalism" under which regional trade liberalization can be shared with non-members, regulatory convergence under the WTO and through international standards, and a monitoring mechanism for RTAs. The second strategy recognizes that institutional reforms require a certain degree of political support that is not necessarily in existence at the present time. In fact, political needs for regionalism may resist such reforms. Under these circumstances, both regional and WTO tribunals can contribute to defragmentation of world trade through judicial intervention to steer regional trade policies in the firm direction of multilateralism. For instance,
regional trade tribunals may interpret RTA texts in a way that is consistent with the WTO Agreement under a constructive hermeneutics analogous to the Charming Betsy doctrine. n30

Finally, Part V concludes that the defragmentation of world trade would result in a "federalistic" reconfiguration of regional trading blocs in the constitutional terrain of the multilateral trading system. This federalistic order derives not merely from an economic formula of a Vinerian test, but more from the very telos of the multilateral trading system, i.e., an "integrated, more viable, and durable" system, n31 under which the tripartite mission of trade, regulation, and development is implemented.

II. THE EQUILIBRIUM BETWEEN REGIONALISM AND GLOBALISM

A. The Disintegrationist Nature of Regionalism

Regionalism, on account of its inward looking nature, exhibits disintegrationist features vis-a-vis the rest of the world in its design as well as its operation. Although a regionalist project, be it a free trade area or a customs union, is driven by an integrationist ethos in a regional dimension, it is eventually disintegrationist in the sense that it discriminates against those non-members excluded from such a project. In other words, the parochial bond among RTA members, which is backed by exclusive trade preferences, not only distances these members from non-members, but also brews tensions between members. History provides empirical confirmations of this preposition.

In Europe, regionalist projects often assumed a nation building mission. For instance, the Deutscher Zollverein, one of the earliest regional initiatives, established a customs union among eighteen small German states in 1834. n32 In 1871, it expanded to include Alsace-Lorraine. n33 With the encouragement of Prussian leadership under Chancellor Otto von Bismarck, the Deutscher Zollverein became an underpinning of the Deutsches Reich. n34 Although these regional integration projects contributed greatly to the emergence of nation states, their exclusive and mercantilist nature concurrently split Europe and subsequently pitted one against another in the colonialist competition, which climaxed into World War I ("WWI"). n35 Fierce rivalry among European imperialist powers, which precipitated the "Scramble for Africa," is considered as one of the main culprits behind the outbreak of WWI. n36

However, old habits die hard. After an evanescent globalism after WWI, the world once again fell to the destructive pattern of regionalism. During the interwar period, major powers, such as the United Kingdom, France, and the United States, competitively formed preferential trading blocs, which some argue contributed to the deepening of the Great Depression, n37 together with the notorious Smoot-Hawley Tariff Act of 1930. n38 The interwar global economic balkanization eventually split the world into haves, such as the United States and the United Kingdom, and have-nots, such as Germany, Italy, and Japan, which formed an "Axis" among themselves. n39 This series of unfortunate events contributed to the outbreak of WWII. n40 It was not until the end of WWII that nations realized how damaging regionalism can be. This realization was reflected in the creation of GATT, a multilateral architecture of the international trade system, and in particular, GATT Article XXIV.

B. The Original Equilibrium between Regionalism and Globalism under GATT Article XXIV

Although regionalism was widely condemned as one of the major contributing factors to two tragic wars in the twentieth century, its political resiliency was still salient even after the end of WWII. For instance, the United Kingdom wished to sustain the pre-war "Commonwealth preferences" despite the U.S. master globalization plan. n41 Moreover, although many former colonies began to become independent in the post-war milieu, both former colonizers and colonies maintained their strong bonds, particularly in economic relationships. n42 Even the United States saw the need to foster a strategic regionalism in Europe in order to reconstruct the continent and check the expansionist Soviet communist regime. n43 Those varying strategic calculations left an indelible relic of regionalism in the post-war architecture of the global trading system.

Against this backdrop, GATT Article XXIV n44 was provided as a compromise between globalist ideals and
regionalist realities. The Article endorses the formation of free trade areas and customs unions, as long as they would "facilitate," not undermine, global trade. n45 This equilibrium enabled by GATT's conciliatory stance on regionalism was justified on economic grounds. In his seminal work, The Customs Union Issue, Jacob Viner introduced two different economic effects of regional trading blocs: an integrationist, centripetal effect (trade creation) and a disintegrationist, centrifugal effect (trade diversion). n46 Viner implied that RTAs might be desirable, as long as the trade creating effect is more influential than the trade diverging one. n47

The structure of GATT Article XXIV echoes Viner's insight. Paragraph 4 of the Article, while acknowledging the "desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration," nonetheless emphasized that RTAs should "facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories." n48 In this line, the Article stipulated internal (Paragraph 8), external (Paragraph 5), and procedural (Paragraph 7) requirements that any RTA should meet to be permitted under GATT. Paragraph 8 provides that "substantially all the trade" between/among the constituent territories should be liberalized. n49 Paragraph 5 provides that post-formation incidences of duties and other trade restrictions vis-a-vis non-members should not be higher than those at the preformation stage. Paragraph 7 provides that GATT should be promptly notified of any plan to launch an RTA for the sake of transparency and further deliberation. To the extent that RTAs satisfy all of these requirements, they are deemed "building blocks," and not "stumbling blocks" to the multilateral trading system. n50 Therefore, the original equilibrium struck between RTAs (regionalism) and GATT (globalism) is that the former are supposed to "complement but not substitute" the latter. n51


Early records of post-war regionalism were hardly impressive in economic terms. n52 Over-politicized rhetoric, ranging from anti-colonialism in Latin America to security alliances in South East Asia, prevailed over economic rationale in the Sixties and Seventies. n53 RTAs such as the Latin American Free Trade Association ("LAFTA"), n54 the North Atlantic Free Trade Area, n55 and the Association of South East Asian Nations ("ASEAN"), n56 which were created against this political backdrop, demonstrated little economic success. n57 In Latin America, ideological narratives were more controlling in shaping the contour of regionalism. n58 In Asia, the Cold War paternalism by the United States, together with other sociocultural factors, discouraged regional economies from forming formal RTAs. n59 The European Community ("E.C.") certainly stands as an exception to this general trend. The E.C. project flourished as its internal market was gradually integrated and subsequently revitalized Member States' economies. n60 Overall, until the Eighties, regionalist activities were spasmodic, at least in the economic sense.

However, the shaky progress of the Uruguay Round ("UR") negotiations in the late Eighties began to stir up regionalist sentiments worldwide. In North America, the United States departed from its long-standing multilateralist commitment by forming regional trading blocs with neighboring trading partners. It first entered into the U.S.-Canada Free Trade Agreement ("CUSFTA"), n61 which was subsequently expanded to include Mexico and renamed NAFTA. n62 In South America, another prominent regional coalition emerged. In 1994, Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Ouro Preto to form MERCOSUR. n63

In Europe, the community building process of the E.C. was intensified by a series of bold projects, such as the "Single European Act" (1986), which subsequently paved the way to the European Union via the Treaty of Maastricht (1992). n64 Although a more economically integrated Europe might be desirable for its Member States, the European Union earned the derisive tag of the "Fortress" because of the difficulties that non-members had in accessing the European markets. n65 Even among Member States, such an ambitious scale and pace of integration was not uncontroversial. Margaret Thatcher, the then British Prime Minister, expressed Euro-skepticism based on her liberal faith that increased interventionism and corporatism on a European scale would be damaging to economic welfare of individual Member States. n66

The Asian-Pacific response to the Fortress Europe was the Asia Pacific Economic Cooperation ("APEC"). In 1989, Australian Prime Minister Robert Hawke proposed forming an economic cooperation forum in the Asia Pacific region,
modeled after the Organization for Economic Cooperation and Development ("OECD"). The subtle political message to the global trading community was that the Asia Pacific region might transform itself into another regional trading bloc like the E.C. and NAFTA, if the UR negotiation collapsed.

Although regionalism became a more salient phenomenon during the Eighties, it did not deter the launch of the long-awaited multilateral trade organization, the WTO. Regional options at that time functioned mostly as an "insurance policy" in the event of failure of the multilateral trade negotiations. Furthermore, as was seen in the case of APEC, certain regional initiatives espoused the WTO's multilateral agenda, thereby aiding in its creation. In sum, the original equilibrium between regionalism and globalism envisioned under GATT was maintained.

D. The Equilibrium Broken: Neo-Regionalism (1995-Present)

The long-held equilibrium between regionalism and globalism has recently been broken. Regionalism has now begun to impact the multilateral trading system in unprecedented ways that are clearly distinguishable from past trends. Recent symptoms of the broken equilibrium may be captured by the label of "Neo-Regionalism," which is characterized by an intense proliferation and profligacy of regional trading blocs. More RTAs have been created during a decade under the WTO than during the half-century existence of GATT. Out of 300 RTAs extant as of October 2004, 176 RTAs were created since the launch of the WTO in 1995. The WTO Secretariat aptly epitomized this trend:

The number of regional trade agreements (RTAs) being negotiated has increased exponentially and their scope as well as their geographical reach have both broadened and expanded. The resilience of this trend is likely to intensify further as the few remaining countries traditionally favouring multilateral-only trade liberalization have initiated - or are actively considering - negotiations of several RTAs.

More alarming than the sheer increase in the number of RTAs is the fact that the new RTAs are unaffected by the WTO-compatibility test under GATT Article XXIV. The apparently draconian GATT Article XXIV has proven to be a paper tiger. Very few RTAs have undergone serious scrutiny under the Article, nor has a single RTA been rejected under the Article. The WTO Committee on Regional Trade Agreements ("CRTA"), whose function is to determine whether an RTA satisfies all the requirements under the Article, has been quite ineffective in providing any meaningful discipline or practical guidelines. Under Neo-Regionalism, the CRTA often fails to issue even a "factual examination" report over a certain RTA in question. Both the Article's ambiguous language and the political priority placed on forming RTAs have contributed to this lack of legal discipline. This "legal vacuum" has allowed the rapid unchecked increase of RTAs.

Certain analytical tools may help further understanding of the decisive political dynamics behind the broken equilibrium between globalism and regionalism. The first tool is the "Unilateralist" lens, which symbolizes the recent U.S. penchant for bilateralism over multilateralism. The second tool is the "Reactionary" lens, which signifies reactions to such Unilateralism by the U.S. trading partners. The third tool is the "Expansionist" lens, which describes pre-existing RTAs’ desires to expand membership.

Unilateralism, in this article, refers to the persistent departure of the United States from an MFN-based multilateral trading forum in favor of a preferential bilateral (regional) trade deal. In fact, such de-multilateralization began during the period of the old GATT. Jagdish Bhagwati aptly criticized the United States "FTA-cum-301 selfish hegemon strategy," under which the United States acts as a hub that wrings advantageous terms from its bilateral free trade agreement ("FTA") spokes through aggressive unilateralism. For example, under NAFTA, the United States extracted advantageous terms from Mexico in a "one-on-one" bargain on intellectual property protection.

Yet, what differentiates Neo-Regionalism from the NAFTA phenomenon is the level of intensity in the regionalist policy of the United States. In recent years, the United States has been relentless in its pursuit of an unprecedented
number of bilateral trade deals. The United States has already completed bilateral FTA deals with Jordan (October 24, 2000), Singapore (May 6, 2003), Chile (June 6, 2003), Australia (May 18, 2004), Central American countries (the Central American Free Trade Agreement (“CAFTA”) includes Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua) (May 28, 2004), Morocco (June 15, 2004), and Bahrain (September 14, 2004). The United States is currently negotiating similar deals with Panama, Andean countries (Peru, Colombia, Bolivia, and Ecuador), Malaysia, Oman, Korea, Thailand, United Arab Emirates, and the Southern African Customs Union (“SACU”) members. n80 The United States proclaimed its bilateralist bias when it expressed its frustration at the collapse of the WTO Ministerial Conference held in Cancun in September 2003. The U.S. Trade Representative (“USTR”) Robert Zoellick announced that the United States would pursue bilateral trade agreements with “can do” countries, leaving behind “won't do” [*56] countries. n81 In the same context, U.S. Senator Charles Grassley, Chairman of the Senate Finance Committee, proclaimed that the United States has a lot of "options" including bilateral trade negotiations. n82

Recent U.S. unilateralist trade policies have provoked reactionary moves among its trading partners, especially in East Asian countries. This brings us to the second analytical tool: the "Reactionary" lens. Heads of East Asian economies have recently announced a number of ambitious blueprints for bilateral or sub-regional trade agreements. Some of these agreements have been concluded and have already borne fruit. n83 Even Japan and Korea, which were traditionally called "Friends of GATT Article I (MFN)," n84 departed from their long-standing tradition of having no RTAs by signing an FTA with Singapore on January 13, 2002, n85 and with Chile on February 15, 2003. n86 Under the alleged "domino effect," n87 ASEAN has also been active in creating sub-regional trade agreements with Northeast Asian trading partners ("ASEAN plus Three") as well as with Australia and New Zealand ("ASEAN-AUS/NZ"), and with China ("ASEAN-China"). n88

While motivations behind this unparalleled regionalist zeal in East Asia vary, including a centripetal posture after the recent financial crisis, n89 and the emergence of China as a new economic superpower, n90 defensive [*57] reactions to the FTA policies of the United States are still a critical factor. n91 The United States' recent aggressive bilateral/regional drive worldwide has put East Asian trading partners in a protective position. These countries are left few other options but to follow suit - without considering the long-term costs and benefits - merely to avoid getting left behind. One Asian commentator warned that "China hasn't replaced the [United States]. But it's eating away at America's influence. This is going to keep happening unless Washington changes its ways." n92 This "reactionary regionalism" n93 among East Asian trading nations is reminiscent of a futile proposal in the early Nineties by Malaysian Prime Minister Mahathir Mohamad to create an "East Asia Economic Grouping" ("EAEG") or an "East Asia Economic Caucus" ("EAEC"). n94 Although this emerging regionalism in East Asia may have been merely reactionary, it still impacts multilateralism negatively. The unenthusiastic participation in the recent WTO Hong Kong Ministerial Conference by major East Asian nations, such as China, Japan, and Korea, might be connected to the contemporary regionalist distraction in this region. n95

The third analytical tool is an "Expansionist" lens. One characteristic feature of Neo-Regionalism is its ever-expanding geographical reach. Pre- [*58] existing RTAs tend to become mega-RTAs by adding new members (e.g., E.U. enlargement) or by merging with other RTAs n96 (e.g., Free Trade Agreement of the Americas ("FTAA"), n97 E.U.-MERCOSUR FTA). n98 Interestingly, however, such ambitious expansionist initiatives have exposed ironic limitations of the regionalist approach. Unlike simpler bilateral FTA projects, it has become harder to coordinate conflicting interests among an increased number of members under mega-RTAs.

For instance, there has been a good deal of internal conflict within the enlarged European Union over the new service directive, which is mainly due to old (developed) members' lukewarm attitudes toward new (developing) members' cost advantages in low-skilled labor in the service sector. n99 In another instance, the refusal of the United States and European Union to decrease farm subsidies stalemated the current FTAA initiative and the E.U.-MERCOSUR FTA deal, respectively. It appears that the big players are reluctant to make any concessions in agricultural protection to fellow RTA members for strategic reasons - in particular, to save bargaining chips for the WTO Doha Round negotiations. n100
In sum, Neo-Regionalism, which differs from regionalism under GATT in its intensity and profligacy, is characterized by the Unilateralist departure of the United States from the multilateral trade forum; a Reactionary emulation among the trading partners of the United States, especially East Asian nations, and the counterproductive Expansionist zeal of pre-existing RTAs.

III. ASSESSING THE BROKEN EQUILIBRIUM: THE FRAGMENTATION OF WORLD TRADE

A. Methodology of Investigation

1. The Telos of World Trade as an Investigatory Criterion

Assessing the impact of the broken equilibrium between regionalism and globalism, i.e., regionalist fragmentation, is a daunting task, especially when such a task is grounded on an "empirical" investigation. Trade statistics and other information on RTAs are often difficult to collect. n101 Even if the data were available, different interpretations of the same data could lead to different assessments of RTAs. Perhaps the inconsistency in interpreting data attests to economists' diverging views on regionalism. n102 Yet, a more serious caveat of conducting an empirical study would be its incapability in showing the cumulative, interrelated effects of existing RTAs on world trade.

This article does not pursue an empirical approach to analyzing the effect of regionalism on world trade. Instead, it adopts a "normative" methodology that predicates its assessment on the very objective and purpose (telos) of the multilateral trading system. The telos not only functions as a decisive means of interpreting trade rules, but it is also a criterion with which to appraise the normativity of various trade (or trade related) phenomena, such as regionalism, and their effects. However, the WTO's telos is dynamic and evolving; therefore, understanding the telos of the multilateral trading system necessitates a review of the system's institutional transformation throughout its history.

2. The Tripartite Telos from Three Constitutional Moments

The first constitutional moment of the modern multilateral trading system was the creation of GATT in 1947. GATT was one of the pillars of the Bretton Woods arrangement developed by the Allies as a post-war international economic order. GATT incorporated painful lessons learned from the mutually destructive economic balkanization during the inter-war period that contributed to WWII. Unsurprisingly, GATT aimed to "liberalize" international trade through reducing tariffs, quotas, and other trade barriers. n103 GATT was a great success: international trade increased enormously, n104 which allowed once poor countries to trade their way out of abject poverty. n105

As GATT rounds of tariff reduction negotiations continued, conventional trade barriers, such as tariffs and quotas, declined substantially. n106 At the same time, GATT contracting parties began to enact increasingly domestic regulations that emphasized the quality of life in areas of environment, human health, and human safety. n107 However, GATT's "pro-trade" bias, n108 i.e., its staunch commitment to trade liberalization, made it ill-equipped to deal with these domestic regulatory changes because such welfare regulations inevitably result in trade restrictions, especially in the highly interdependent world. n109 Uruguay Round negotiations (1986-1994) addressed these new concerns, which eventually led to the creation of the WTO in 1995.

The launch of the WTO is the second constitutional moment of the modern multilateral trading system. The WTO has overcome GATT's pro-trade bias by responding more effectively to the aforementioned new challenges. n110 For instance, "rights" to regulate were explicitly acknowledged in side agreements, such as the Agreement on the Application of Sanitary and Phytosanitary Measures ("SPS") and the Agreement on Technical Barriers to Trade ("TBT"). Therefore, the telos of the WTO overcame the narrow anti-protectionist agenda of GATT by embracing a much broader range of matters relating to "integration" and "sustainable development." n111 Thus, the WTO presents a more mature approach toward the dual objectives of free trade and regulatory autonomy.
Despite the advances made by the WTO, it has not been able to improve the economic welfare of poor people and nations. While certain trading nations, particularly the traditional North and the New Globalizers (e.g., China and India), have profited from the WTO system, many poor countries have failed to benefit from the multilateral trading system. Ironically, the global income gap has actually grown faster since the creation of the WTO. Disappointment over this situation contributed to the collapse of the 1999 WTO Ministerial Meeting in Seattle, and finally led to the establishment of the "Development Round" in Doha in 2001, which focused on development and poverty issues in trade negotiations. The Doha Development Round represents the third constitutional moment of the modern multilateral trading system.

In conclusion, these three constitutional moments collectively constitute the telos of the current global trading system - a tripartite objective of free trade, adequate regulation and development.

B. Investigating Fragmentation: Three Teleological Failures

1. Trade Failure

Under the Vinerian test, an RTA may be justified if effects of trade creation exceed those of trade diversion. In other words, even though the outside world may suffer in the short-term from trade-diverting effects of an RTA, it "can gain in the long-run only as the result of the general diffusion of the increased prosperity" of the RTA. However, this pre-formation presumption which provides the rationale of GATT Article XXIV has been put to test by empirical studies which focus on post-formation effects of RTAs. Economists generally believe that RTAs are inherently inferior in trade creation to a multilateral trading system. For instance, Glenn Harrison demonstrated that multilateral trade liberalization results in significantly larger gains to world trade creation than the network of RTAs. This broad observation also reverberates in studies on particular RTAs. In analyzing the trade impact of MERCOSUR, Alexander Yeats noted that because RTA members often trade with each other in goods in which they have little comparative advantage, RTAs detrimentally impact members and non-members alike. In a similar vein, John Romalis revealed that while NAFTA augmented North American output and boosted prices in many well-shielded sectors by excluding non-members' imports, it eventually failed to create a significant welfare effect on non-members.

Global welfare loss is even more prominent when RTAs exclude major products from their coverage, such as agricultural products and textiles. RTAs usually do not address the "tariff peaks" in major products, nor do they usually adopt a "comprehensive" mode of liberalization of these products. For instance, while trade creation might outweigh trade diversion in manufactured products under the E.C., its overall contribution to global welfare is questionable in the face of the notorious "Common Agricultural Policy" which blatantly shelters European farmers from foreign competition. Also, under MERCOSUR, "industrial realpolitik" in Argentina and Brazil blocked the introduction of fully liberalized trade in the auto industry, despite a strong shift to economic liberalization.

This trade failure, i.e., global welfare loss due to serious trade diversion and sector specific protectionism, can be traced back to old RTAs, such as NAFTA and MERCOSUR. However, such trade failure under GATT was more anecdotal than systemic. It certainly did not lead to serious fragmentation of world trade since the original equilibrium could be maintained with a relatively small number of RTAs. It is through expansion of pre-existing RTAs and propagation of countless RTAs under Neo-Regionalism that trade failure has become a persistent pattern and thus begun to seriously compartmentalize global trade.

Trade failure under Neo-Regionalism is likely to be most prominent in politically sensitive products that have long been sheltered from foreign competition. For instance, when Turkey formed a customs union with the E.C. in 1996, Turkey was forced to adopt the E.C.’s common external trade policies, which required Turkey to introduce new quotas on imports of textiles and clothing products, diverting trade from non-E.C. members. Likewise, on May 1, 2004, the new Member States of the European Union - Poland, the Czech Republic, Estonia, Lithuania, Latvia, Hungary,
Malta, Cyprus, Slovenia and Slovakia - began to apply an E.U. quota on imports of textiles and clothing from certain countries. The net result from an expansion of a pre-existing RTA, i.e., the European Union, was enormous trade diversion of potential trade flows from non-member countries to member countries.

More often than not, these sensitive products are also carved out from the scope of trade liberalization under RTAs. This frustrating practice of targeted omission has become a hallmark of Neo-Regionalism. The Japan-Singapore FTA (2003) excluded numerous agricultural and textile products from its reach. Both the U.S.-Australia FTA (2004) and the Central American Free Trade Agreement ("CAFTA") (2004) do not cover sugar. Omissions have not been limited to traditional commodities. The Mexico-Japan FTA (2004) left out, inter alia, automobile maintenance services, business services, construction, entertainment, and telecommunication, in addition to traditional sectors such as agriculture, forestry, fisheries, and livestock. Such typical proclivity of RTAs toward omitting politically sensitive sectors and focusing on "less risky" businesses further "cements domestic constituencies" which resist liberalization and reform, and thus discourage those sectors from being discussed and negotiated in the multilateral forum. In other words, RTAs not only "failed to crack the hardest nuts" but also further hardened them.

Even if certain products are included in the coverage of RTA, and thus are subject to duty-free access, the convoluted nature of RTAs' "rules of origin" hinders trade creation - the full materialization of improved market access from RTAs. Rules of origin refer to domestic regulations that determine the origin of imported products. An RTA needs rules of origin from its very nature because preferential tariffs and other treatment are accorded exclusively to products from member countries (originating goods). Complex rules of origin would not be necessary if every product was 100% made in a certain country. However, because manufacturing processes are often spread over multiple nations, it is daunting to attribute a finished good to any one nation.

If an RTA has liberal rules of origin, more products are regarded as originating goods and thus entitled to preferential treatment. However, if an RTA has strict rules of origin, more products are denied preferential treatment in the regional market. The latter scenario panders to local protectionism while deepening trade diversion. Unfortunately, recent RTAs follow the latter scenario. For example, the recent Japan-Thailand FTA deal did not resolve acrimony over rules of origin on Thai food and agricultural products. Thailand, as one of the world's largest tuna canners, wants Thai tuna can exports to Japan to benefit from low preferential tariffs, while Japan wants to apply those low tariffs only to those tuna cans made directly out of tuna harvested in Thailand. If the Japan's position prevails, foreign tuna exports to Thailand will be diverted, and Thailand's tuna canning manufacture may suffer, while Japanese tuna canners and tuna producers may be protected. Likewise, the Mexico-Japan FTA introduced over 100 pages of new rules of origin under the title of the "Annex 4 referred to in Chapter 4: Specific Rules of Origin." These labyrinthine rules cover nearly all the products ranging from food to automobiles.

Beyond protectionism, these voluminous and complicated rules of origin also impose enormous transaction costs and administrative burdens even to those businesses within the bloc. Although these rules of origin are often "hidden by a facade of technical and seemingly innocuous details," those devilish details often harass businesses and overburden the customs offices. For example, many U.S. importers elect not to fill out certificates of NAFTA origin because of the burdensome paperwork and the fear of being penalized for filing an improper claim. Instead, these importers volunteer to pay tariffs that ostensibly should not have been levied on the products being imported. Similarly, despite the existence of duty free access provided by free trade agreements between the European Union and Eastern European countries, many clothing products made in those countries enter into the European market under an alternative customs procedure. The main reason for the alternative procedure is the costs and uncertainties in proving the origins of Eastern European imports. This disarray of rules of origin, which is often dubbed the "spaghetti bowl," is only exacerbated as more RTAs are added to the landscape of the global marketplace.

Unfortunately, the WTO's response to this trade failure has been mostly ineffective. First of all, although GATT Article XXIV governs the formation of RTAs via its ostensibly draconian requirements, it has not demonstrated any real bite, mostly because of its arcane language. Nor has the CRTA been capable of determining the WTO-legality of individual RTAs brought to the WTO Secretariat for review. No RTA has ever been rejected for violating Article
XXIV. This "legal vacuum" further invites proliferation of RTAs. n140 Likewise, while the WTO Agreement on Rules of Origin attempts to harmonize "non-preferential" rules of origin, n141 it does not address "preferential" rules of origin which structure RTAs. Without any multilateral discipline in administering preferential rules of origin, RTAs can effectively divert imports from non-member countries by manipulating rules of origin, thereby becoming fortress-like economic blocs. Given the increased proliferation rate of RTAs, this fortress effect seriously fragments world trade.

Nonetheless, some scholars attempt to rationalize RTAs under the euphemistic banner of "competitive regionalism." n142 For instance, Fred Bergsten believes that the current U.S. bilateral/regional drive "places [*67] pressure on non-members of individual free trade agreements to join the group itself or to conclude broader agreements." n143 This position, no matter how plausible it may sound at first blush, fails to recognize that such regionalism at the same time deprives WTO members of the incentives and resources required to promote the multilateral trading system. In particular, trading nations are likely to delay certain liberalization plans, keeping them as "bargaining chips" for future bilateral/regional deals. n144 Moreover, this competition may pit one bloc against another and precipitate further economic balkanization. n145 In other words, such a rationalization neglects the "high-risk" of competitive protectionism, which has already been observed in the reactionary regionalism of East Asia. n146 Even if we accept that competitive regionalism could lead to competitive trade liberalization in theory, as a practical matter, this is still unlikely to transpire. According to one study, APEC would require as many as 210 FTAs just to encompass all of its 21 members' bilateral trading relationships. n147

In sum, without multilateral disciplines, RTAs' "embedded mercantilism," n148 together with their intricate rules of origin, produce trade-diverting effects vis-a-vis the rest of the world. The myriad of RTAs enacted under Neo-Regionalism principles, most of which are left unchecked by the multilateral norms, cause trade diversion, fragment world trade, severely undermine the MFN-based WTO system, and eventually lead to an inefficient allocation of global resources.

2. Regulatory Failure

The recent RTAs usually contain chapters on social regulations, such as human health, labor, and the environment. However, these social provisions are often inconsistent with multilateral rules in their regulatory scope and level. n149 For instance, in the area of food safety, RTAs more readily "bow" to individual members' regulatory preferences. n150 Unsurprisingly, the large number of these regional social charters in [*68] different RTAs precipitates global regulatory morass. Although RTAs may act as regulatory laboratories under certain circumstances, n151 absent a multilateralizing process, divergent regulations among RTAs may also create regulatory clashes. n152 To wit, a "subfield consolidation," in which "larger, but still uncoordinated regionalized bumper cars will carom around" the international arena, dampens prospects of multilateral regulatory convergence. n153 This "regulatory gridlock" under the web of RTAs complicates any multilateral efforts to establish a consistent and coherent regulatory norm, yet at the same time has serious implementation problems of its own. n154

A closer examination of social charters in recent RTAs reinforces the fear of this regulatory divergence and/or regulatory clash. For instance, the U.S.-Jordan FTA includes provisions hinting at a linkage between trade and labor, n155 which may be inconsistent with the regulatory consensus that the WTO Members have already reached in this area. At the Singapore Ministerial Conference in 1996, the WTO Members announced that labor issues should be addressed by the International Labor Organization ("ILO"), and not be abused for protectionist purposes. They reiterated this position at the Doha Ministerial Conference in 2001. n156 In the area of intellectual property rights, the U.S.-Jordan FTA explicitly overrides the Trade-Related Aspects Intellectual Property Rights ("TRIPS") by stipulating that any marketing approval of pharmaceutical products should [*69] conform to the FTA, not the TRIPS. n157

FTA supremacy in this field may undermine the WTO's laboriously reached multilateral regulatory consensus, considering that WTO Members have adopted a series of special regulations under TRIPS to give the poor better access to certain pharmaceutical products. n158 RTA "templates," n159 which may be inconsistent with WTO rules and policies, impede regulatory harmonization through more functionally competent international regulatory agencies (or
conventions), such as the ILO and numerous Multilateral Environmental Agreements ("MEAs"). Moreover, fragmented rule-making resulting from RTA templates diverts political capital, public attention, and other negotiating resources from the multilateral process. n160 Worse, the cost of such diversion is disproportionately borne by poor countries with little means. n161

Markedly, this regulatory failure can be considered yet another trade failure because regulatory fragmentation or heterogeneity itself is a trade barrier in the global context. Producers from non-member countries must bear additional compliance costs when exporting to RTA markets with disparate regulations. n162 More often than not, such regulatory barriers completely block non-members' market access. For instance, U.S. soybean producers who employ certain biotechnology skills in their production may not be able to export their products to the European Union because of the European Union's different regulations on genetically modified foods. n163

[*70] GATT Article XXIV once again fails to remedy this situation. First, since the Article only concerns the "formation" of RTAs, most social charters and regulations which are created after the formation are therefore outside of the Article's jurisdiction. n164 Second, even if the Article, in particular paragraph 5, were applied to post-formation regulations, it would be a daunting, if not impossible, task to "quantify" the precise trade-restrictiveness of these regional regulatory schemes on an ex ante basis, to determine whether they constitute an undue burden to non-members. n165 Third, Article XXIV is silent on whether an entire RTA should be void when a regulatory scheme fails to meet the Article's requirements. n166 The weaknesses of the Article contribute to the proliferation of social charters in RTAs.

In sum, various regional regulatory templates under RTAs often contradict regulatory consensus established in the multilateral setting. The proliferation of these regulatory templates and resultant regulatory fragmentation also complicate global regulatory harmonization and thus severely hinders global trade. It is more apt to describe these titular "WTO-plus" RTAs as having a "WTO-minus" impact on the multilateral trading system. n167 The recent emergence of "cross-regional" RTAs has only increased the intensity of this fragmentation, which adds yet another layer of complexity to the existing regulatory heterogeneity. n168

3. Development Failure

The proliferation of RTAs aggravates the developmental disparity of trading nations, including uneven distribution of benefits from free trade. In general, large regional blocs, such as the European Union, may increase their internal welfare, but impoverish smaller non-members and widen the [*71] gap between rich and poor countries. n169 According to Ben Zissimos and David Vines, bloc expansion creates a "terms of trade" gain for the bloc members at the expense of non-members, especially smaller ones. n170 In other words, while members of large blocs can enhance their economic welfare through a deeper internal integration and resultant economies of scale, smaller non-member economies' exports to these blocs are continuously threatened by these artificial terms-of-trade gains by large blocs.

Additionally, small, poor trading nations may still suffer even as members of RTAs with large, rich nations. The "hub and spoke" model provides a powerful tool with which to analyze development failure of North-South RTAs. A hub (a large, rich country) can enjoy free access to the spokes' (small, poor countries') markets to the benefit of its export industries, while at the same time benefiting its import industries by providing access to the spokes' cheap raw materials. n171 However, the spokes cannot benefit in the same way, unless they form a web of RTAs (a "rim") amongst themselves. n172 Even if the spokes can experience an initial improvement in market access to the hub, such benefits tend to evaporate when multilateral trade liberalization subsequently lowers trade barriers. n173 Also, the spokes, not the hub, suffer most welfare loss due to the exclusion of important sectors, such as agriculture, from the North-South RTAs. n174 Alvin Hilaire and Yongzheng Yang demonstrated that the exclusion of agricultural liberalization from the U.S.-Chile FTA resulted in substantial welfare loss to Chile, with no major negative impact on the United States. n175

Dominique van der Mensbrugghe, Richard Newfarmer, and Martha Denisse Pierola confirmed through an economic model the existence of this developmentally pernicious effect of the recent trend of bilateral deals between
North and South. n176 Using the Global Trade Analysis Project database, they performed a simulation based on a hypothesis that all developing countries would sign bilateral trade agreements with rich countries, such as the United States, the European Union, Japan, and Canada. n177 The result was truly revealing. While multilateral trade liberalization would bring developing countries a gain of 109 billion dollars in 2015, bilateral deals with rich countries would cause them a loss of twenty-two billion dollars in the same year. n178 Moreover, such loss would be concentrated disproportionately on low income countries (nineteen billion dollars) over middle income countries (2.6 billion dollars). n179

More seriously, however, parties to hub-and-spoke FTAs are vulnerable to exploitation due to an inherent power disparity between parties. n180 Jagdish Bhagwati once criticized the “FTA-cum-301 selfish hegemon strategy” of the United States, which positions the United States as a hub that extracts far superior terms from its bilateral FTA spokes. n181 This selfish hegemony is engineered by the aggressive unilateralism embedded in Section 301, n182 which was enacted to remedy allegedly unfair trade practices adopted by foreign countries and thus protect commercial interests of domestic producers. n183 Leftist development theorists might agree with Bhagwati’s criticism. The "dependency theory" casts a gloomy vision over free trade initiatives, such as FTAs. n184 It contends that a "center" (powerful country) exploits "peripheries" (less powerful trading partners). n185 It was in this context that the World Social Forum held in Porto Alegre, Brazil in January 2005 sounded a warning of immiserizing effects of these North-South RTAs. Some participants, including the Africa Trade Network ("ATN"), argued that the ongoing "Economic Partnership Agreement ("EPA")" negotiations between the European Union and African, Pacific, and Caribbean countries demand far deeper concessions from the poor than would otherwise be required under the WTO. n186 The ATN used the World Social Forum to advance the "Stop EPA Campaign," which it operates along with other non-governmental organizations ("NGOs") including Oxfam International, Action Aid, and the Third World Network. n187

Recent debates over public health crises vis-a-vis protection of intellectual property rights of pharmaceutical products have further illustrated the social welfare cost to poor countries inflicted by RTAs mushrooming under Neo-Regionalism. This hegemonic strategy has generated enormous profits for the pharmaceutical industry, in part by forcing the poor to pay high prices for drugs. n188 This deplorable phenomenon stems from the RTAs' departure from the multilateral norms. Although the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS") does protect basic intellectual property rights over various drugs, the TRIPS nonetheless provides certain exceptions for "compulsory licensing," n189 allowing WTO members to produce generic versions of patented drugs without consent of the patent holders should members face national health emergencies. n190 Nonetheless, compulsory licensing is an empty gesture to the world's poorest countries because they have no capability to produce those generics. n191 Therefore, a new rule had to be created so that the least developed counties are allowed to import generics from other countries. n192

Despite this need, certain countries have attempted to water down these pro-development commitments through backdoor deals under RTAs. n193 For instance, in a recent spate of bilateral RTAs the United States has effectively handed down a five-year shield from generic competition to big pharmaceutical companies by prohibiting generic producers from using pre-existing safety testing data and instead requiring them to conduct very costly tests themselves before getting approval. n194 In addition, the U.S.- Morocco FTA incorporates a controversial "ever-greening" clause that extends the patent life of existing drugs if there is a "new use" for those drugs. n195 This overprotection of the pharmaceutical industry beyond TRIPS discourages the production of generic drugs and eventually limits the poor from accessing these drugs.

In an open letter to USTR, Robert Zoellick, on October 15, 2003 from Doctors without Borders, raised similar concerns over intellectual property provisions under the CAFTA draft. He argued that these TRIPS-plus provisions might inflict "needless suffering and death" on patients with HIV/AIDS and other diseases in the region. n196 In the same line, Paul Hunt, the U.N. Human Rights Rapporteur, has warned that the U.S. bilateral trade talks with Andean countries might conflict with the United States’ international obligations by keeping drug prices unaffordably high for poor people. n197 The United Nations even implied that the lack of affordability created under bilateral RTAs might constitute human rights violations. n198 The criticism against these RTAs was intensified when Thailand hosted the
International AIDS Conference in July 2004. At the conference, reports circulated that the recent U.S-Thailand bilateral trade negotiations threatened to disband the Thai AIDS program in favor of a TRIPS-plus intellectual property rights regime. n199 French President Jacque Chirac even labeled such bilateral pressure as "blackmail." n200

However, the United States is not alone in its proclivity for pursuing TRIPS-plus RTAs with developing countries. In the recent FTA negotiation with the SACU, the European Free Trade Association ("EFTA") pressured SACU to accept certain TRIPS-plus provisions on public health. n201 The proposal included measures, such as a "five-to ten-year data protection period for clinical test data" and "five-year patent extensions to brand-name drugs." n202 SACU rejected these measures, just as it rejected similar measures from the United States in a separate FTA negotiation, on the ground that it would jeopardize poor African countries' access to essential medicines. n203

In sum, considering that most recent RTAs follow the foregoing hub-and-spoke model, n204 development failure under Neo-Regionalism is more alarming than previously perceived.

IV. RESTORING THE EQUILIBRIUM: DEFRAGMENTING WORLD TRADE

A. Defragmentation as Multilateralization

To restore the original equilibrium between globalism and regionalism, the currently fragmented global trading system should be defragmented. Yet, defragmentation does not mean undoing those RTAs formed under Neo-Regionalism. Such an option would be neither feasible nor desirable considering the vast political attraction to RTAs as well as their potential contributions to the multilateral trading system. Therefore, defragmentation should aim to bring back the original theme of regionalism under GATT, i.e., complementarity. In other words, defragmentation should project multilateral disciplines to unchecked RTAs so that they can facilitate, not substitute, the multilateral trade and trade-related activities. This strategy, which may be labeled as "multilateralization," seeks to mend three teleological failures caused by fragmentation - trade, regulatory, and development failure - by restraining divergent and discriminatory aspects of RTAs.

The multilateralization strategy includes an institutional approach, which involves various arrangements under the WTO, as well as a judicial approach which utilizes the WTO's jurisprudential power.

B. Institutional Defragmentation

1. Open Regionalism

One multilateralization strategy is to sensitize RTAs to the multilateral trading system by breaking their insulating structure. This "opening" of regionalism begins with the softening of the RTAs' exclusive institutional nature so that RTAs' activities are better connected to the multilateral domain. n205 The Asia Pacific Economic Cooperation ("APEC") is a case in point. n206

APEC's most distinguishing feature is its soft institutionalism. n207 APEC did not result from a formal treaty, nor does it have a formal charter or constitution. n208 It has no formal decision-making apparatus or dispute-settlement mechanism. n209 Commitments made in APEC are not technically binding and thus cannot be enforced. n210 This informalism n211 helps ease political standoffs that would have resulted from formal structures. For instance, China, Hong Kong, and Taiwan have all been able to attend APEC meetings as independent members. n212 In a similar context, APEC provided the United States and China with a "non-confrontational" forum for various policy discussions in the "post-Tiananmen" period. n213

Yet, APEC's institutional flexibility has contributed most to its complementarity to the multilateral trading system. In stark contrast to inward-looking, preferential regional blocs, APEC's inclusive nature creates multilateral space in which benefits from APEC members' trade and investment liberalization might be shared by non-members. n214 In the APEC, various voluntary, unilateral liberalization schemes can be experimented among member countries.
For instance, under APEC, Japan and Singapore vowed to liberalize their telecommunications markets; Japan allowed an increase in the number of U.S. auto dealerships in Japan; China allowed foreigners to lease farmland; and Korea opened its construction market to foreigners. Yet, what has been rehearsed in APEC is eventually liberalized in the multilateral terrain. In this context, a Chinese official once stated that "the WTO is like a lovely banquet, and APEC is the kitchen where the food is prepared." It was in the same spirit of complementarity that APEC vigorously advocated the WTO when the success of the UR negotiations and the creation of the WTO were in doubt.

APEC's open regionalism has recently led to its redoubled efforts to help multilateralize the current RTA trend in East Asia. Based on the firm commitment to an open model, the APEC Business Advisory Council (ABAC) has reaffirmed APEC's prioritizing of the WTO over the recently proposed Free Trade Area of the Asia Pacific ("FTAAP"), which would have created another inward-looking bloc. Moreover, in November 2004, APEC Ministers endorsed the "APEC Best Practices for RTAs," which emphasizes multilateral principles, such as WTO/APEC consistency, transparency, simple rules of origin, open membership, and periodic review. To improve transparency, APEC Ministers also approved a new "Reporting Template" that enables member economies to share information on their RTAs. The Reporting Template is geared particularly toward open regionalism in that it requires APEC Members to describe how their RTAs complement their trade liberalization efforts under the WTO, and to state when they should notify the WTO of their RTAs.

Perhaps APEC could go even further by establishing a special task force on trade regionalism that would monitor RTAs in the APEC region. The guiding principle of such monitoring would be complementarity to the WTO. Non-binding task force recommendations could help RTA parties adjust their regional trade policies to conform to the multilateral trading principles. The role of the task force mirrors that of GATT Article XXIV - screening RTAs from a multilateral standpoint - yet it goes beyond the Article's capability in that it also monitors RTAs' post-formation activities.

In sum, APEC's experience with open regionalism provides an effective defragmentation model. The APEC model, characterized by flexibility and openness, can be employed in other RTAs. After a regional rehearsal, trade and investment liberalization may then be multilateralized on an MFN-basis to non-members. This open, non-discriminatory model can avoid the welfare costs caused by a closed, discriminatory structure of RTAs, thereby overcoming their trade failure. In particular, poor non-member countries will enjoy, free from regional exclusivity, more and better access to foreign markets, which in turn offers one of the best routes to development.

2. Regulatory Convergence

Under the institutional equilibrium between the WTO and RTAs, the latter may function as "test laboratories" in which members experiment with various regulatory standards while not necessarily undermining global regulatory coherence. However, when this equilibrium is broken, these different regulations tend to create regulatory clashes between one another. Therefore, multilateralization provides an adequate level of regulatory convergence so that regulatory diversity remains at a tolerable level.

Multilateral agreements under the WTO system, such as the Agreement on Technical Barriers to Trade ("TBT") and the Agreement on Sanitary and Phytosanitary Measures ("SPS"), provide ample opportunities to converge different regional standards in major areas, including human health and safety. Interestingly, however, these agreements have focused more on harmonizing procedure, rather than substance. Most obligations stipulated in TBT and SPS, such as transparency, are designed to achieve a "convergence in procedures" rather than a "convergence in particular regulatory outcomes." Nonetheless, a procedural convergence may not necessarily be translated into a substantive convergence. While sharing the same procedural disciplines, various standards under RTAs may still diverge in their specific levels of regulatory protection. To harmonize these levels may be far more burdensome than procedural harmonization under...
TBT or SPS. To eliminate substantive regulatory divergence among RTAs may require launching new harmonization treaties, which themselves have major shortcomings, such as a tedious negotiation process and vague outcomes.

Yet, soft law, i.e., international standards (guidelines or recommendations), can overcome these problems to a considerable degree. International standards feature a more flexible rule-making process than hard law (treaties) due to their non-binding nature. International standards also provide more concrete regulatory referential points because epistemic regulators, rather than diplomats, set the standards. Both TBT and SPS expressly require WTO Members to use international standards as a basis of their regulations. Likewise, both TBT and SPS provide Members a critical incentive to use international standards, by establishing a rebuttable presumption that regulations promulgated in accordance with international standards do not pose an obstacle to international trade in violation of WTO obligations. Furthermore, to encourage trans-governmental cooperation on harmonization through international standards, both TBT and SPS co-opt certain international regulatory institutions that serve as shells for such cooperation, such as the International Organization for Standardization, the International Electrotechnical Commission and the Codex Alimentarius Commission.

Considering that most RTA members are WTO Members at the same time, anchoring their regional regulations to these international standards achieves an adequate level of regulatory convergence while still retaining enough regulatory leeway for regional customization. In fact, this multilateralization strategy has already been employed by certain RTAs in such regulatory areas as "trade facilitation," i.e., simplification and modernization of customs procedures. These RTAs base their customs regulations on various multilateral rules and standards in this field, such as the World Customs Organization ("WCO"), Kyoto Convention and the WCO Arusha Declaration. RTAs based on common multilateral regulatory anchors result in similar regional customs procedure regulations.

In a similar context, RTAs can function as regulatory platforms to implement global standards. Recently, the North American Commission for Environmental Cooperation ("CEC"), which is NAFTA's environmental arm, released a report titled "Implementing the Global Programme of Action in North America." The report contains recommendations on how to effectively implement international protocols on environmental protection, such as the "United Nations Global Programme of Action for the Protection of the Marine Environment from Land Based Activities," in North America. The recommendations came from environmental NGOs that conducted two pilot projects on this matter. By implementing global environmental standards like GPA in the regional context, NAFTA can play a critical role in achieving multilateral regulatory goals. APEC can also function as an active implementation platform for multilateral regulatory norm. For instance, APEC's Sub-Committee on Standards and Conformance expressly pursues the "broader adoption of, and alignment with, international standards by APEC members" in accordance with TBT and SPS. In this line, the Sub-Committee often participates in the TBT meeting to present its regulatory programs to the multilateral forum.

The above-mentioned multilateralization strategies can be labeled as positive harmonization in the sense that diverse regulations under RTAs are adjusted towards common regulatory references such as international standards. Yet, defragmentation can also be attained through a negative mode of harmonization, i.e., "mutual recognition." If each member of an RTA recognizes other members' different regulations as functionally equivalent to its own regulations, such regulatory difference is no longer a regulatory divergence which fragments their internal trade, but rather an acceptable regulatory diversity which can coexist with free trade. If the RTA also permits non-members to join such mutual recognition arrangements and thus a recognition circle is widened, it even further contributes to defragmentation of global trade. This "open recognition" may be required under GATT Articles I and XXIV as it is under Article VII of General Agreement on Trade in Services ("GATS").

In sum, potential and actual regulatory fragmentation which proliferating RTAs inflict on the global trading community can be mitigated, if not fully eradicated, through various multilateralization strategies such as harmonization and open recognition. Therefore, this regulatory convergence can restore the equilibrium disrupted by fragmentation introduced by RTAs.
3. Monitoring and Surveillance of Multilateralization

The foregoing multilateralization strategy, i.e., open regionalism and regulatory convergence, necessitates a certain mechanism within the WTO, which effectively supervises and monitors RTA activities on a regular basis. However, the WTO has not inherited any positive institutional tradition from GATT in this matter. Although "working parties" were established under the GATT system to examine the compatibility of RTAs with GATT Article XXIV, their formation and operation was only on an ad hoc basis, and served very little function beyond a mere talk shop. In nearly all cases, those working parties failed to render clear conclusions on the legality of RTAs under GATT and hence no legal disciplines. Unfortunately, the current Committee of Regional Trade Agreements ("CRTA") mirrors the poor performance of GATT working parties. Created under the WTO as a permanent institution with the same mandate as GATT working parties on RTAs, CRTA's operation has mostly been ineffective. A WTO Panel observed that "the Committee ... has been unable to finalize reports on any of these examinations. Progress in this regard was slowed, inter alia, by disagreement among Members on the interpretation of certain elements of those rules relating to RTAs, as well as on procedural aspects." n246

Facing an impasse under CRTA, the WTO needs a well-functioning RTA monitoring and surveillance mechanism. The recent World Bank report has also emphasized that more monitoring and exposure of problematic RTAs would give excluded members the opportunity to challenge them "in the court of public opinion." n247 In this regard, the Trade Policy Review Mechanism ("TPRM") seems to provide a powerful model. n248 Using peer pressure, TPRM functions as a surveillance mechanism under which WTO Members discuss the WTO compatibility of a wide spectrum of Members' trade policies. TPRM also serves as a dispute prevention mechanism by allowing members to discuss controversial policies before they escalate into full blown disputes. Therefore, WTO Members can monitor and supervise RTA activities under TPRM in a discursive, rather than confrontational, format.

Admittedly, CRTA is not without any merits despite its prior unsatisfactory operation. CRTA is still a significant depository of knowledge and information on RTAs. To make the most of its resource while achieving meaningful multilateral surveillance over RTA activities, a CRTA-TPRM joint forum on RTAs may be conceived under the WTO. This institutional innovation can enable WTO Members to effectively manage and guide RTA behavior under the multilateral principles without losing sight of potential merits of RTAs.

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C. Judicial Defragmentation

1. WTO Tribunal

Institutional defragmentation strategies demand political support for their successful implementation because these strategies prescribe that WTO Members create and operationalize a certain institutional apparatus. Often, such institutionalization is accomplished by legislative action in the WTO. Therefore, WTO Members must accumulate and spend political capital in order to initiate or complete defragmentation projects. This may limit the overall feasibility of an institutional approach, casting clouds over the Doha Round agenda of "clarifying and improving" disciplines over RTAs. n249 Should the WTO tribunal (panels and the Appellate Body) play an active role in defragmenting world trade, especially when Members fail to act for political reasons?

As discussed above, n250 inherent ambiguities of GATT Article XXIV not only failed to render any legal discipline on the formation of RTAs but also were exploited by regional members to form blocs which would not have survived otherwise rigorous analyses under the Article. A GATT panel refused to remedy these legal ambiguities through clear interpretation of Article XXIV, relinquishing its jurisdiction over this issue on the basis of what might be called the GATT version of the "political question" doctrine. n251 In the panel's view, examination of RTAs was reserved for contracting parties (GATT Members), not for itself. n252 GATT Members also failed to reach firm decisions on the legality of RTAs in nearly all cases. n253 More often than not, political stakes were too high to
condemn a certain RTA from an apolitical, i.e., legal, standpoint.

However, the new WTO system responded to this legal vacuum by explicitly recognizing the role of the dispute settlement mechanism in investigating GATT Article XXIV issues. Paragraph 12 of the Understanding on the Interpretation of Article XXIV of the GATT 1994 (Article XXIV Understanding) provides that any issues relating to GATT Article XXIV, including the GATT-compatibility of an RTA, are reviewable under the WTO dispute settlement system. This is a critical delegation by WTO Members to the (quasi-) judicial organ, i.e., the WTO tribunal, in examining Article XXIV matters. Delegated to adjudicate "any matters arising from the application" of Article XXIV, the WTO tribunal now shares the RTA jurisdiction with the CRTA, at least concurrently, if not exclusively. This comprehensive delegation reflects a collective realization by WTO Members themselves regarding their political inertia over RTA issues. In other words, they tied their political hands to the mast of legalism by conferring the WTO tribunal an "enhanced role for a self-confident judiciary." This delegated power under the Article XXIV Understanding was exercised for the first time in 1999. In Turkish Quantitative Restrictions ("Turkish QRs"), India complained of Turkey's imposition of new quotas on India's textile exports to Turkey. In defense, Turkey claimed that Article XXIV justified its new quotas because those quotas were necessary to establish a customs union with the European Union. According to Turkey, it was forced to follow the E.U.'s quota system on India's textile exports in order to bring its customs policies into conformity with those of the European Union in pursuit of Article XXIV, Paragraph 8. However, the Appellate Body ("AB") ruled that Turkey's new quota system was not necessary, and thus not justified under Article XXIV, because Turkey could have pursued other reasonable alternatives, such as a system of certificates of origin, which would allow the European Union to identify Indian exports that move through Turkey. This system would allow Turkey to enjoy free access to the European Union as a customs union member without unduly restricting Indian exports to Turkey.

The Turkish QRs case is of great consequence in terms of defragmentation. Critically, the AB anchored its analysis firmly to the objective and purpose (telos) of RTAs in the WTO system which is stipulated in Paragraphs 4 and 5 of Article XXIV. The telos permits the formation of an RTA only to the extent that it facilitates, not restricts, global trade. This "complementarity" of regionalism to multilateralism checks fragmentation of global trade by disallowing the introduction of new trade restrictions vis-a-vis non-member countries under the excuse of self-contained regionalism. This teleological interpretation by the AB pioneered a new way in reviewing trade diversion from a judicial standpoint regardless of a general compatibility of a specific RTA with Article XXIV. It should be noted that the AB in the Turkish QRs did not address the compatibility issue itself, which it viewed as an "economic" test. The AB may not be in a good position to conduct such a test. Furthermore, even if it could conduct the test it would be nearly impossible for the AB to recommend that an RTA should be disassembled when the RTA failed the test. Therefore, the AB can play a better role in defragmenting global trade by striking down specific trade diversions, such as new import quotas in this case, than by undertaking a Herculean task of examining a general compatibility of RTAs with WTO norms.

In sum, the telos of regionalism within the WTO system, i.e., complementarity, is an ultimate criterion of judicial review on RTA matters. This complementarity provides to RTAs not only the multilateral discipline but also the "flexibility" under which they can be formed and operate. Thus, complementarity is an indispensable fulcrum with which the AB can mete out equilibrium between regionalism and multilateralism over specific RTA measures. In this very context, the AB in Turkish QRs criticized the panel for its failure to pay due attention to the telos in its ruling, although the AB reached the same conclusion as the panel.

2. Regional Trade Tribunal

Regional trade tribunals can also help avoid fragmentation of global trade by interpreting RTA provisions coherently with the WTO rules. By doing so, regional trade tribunals operate in the same normative force field as the WTO tribunal because both tribunals use the common grammar and syntax of free trade. NAFTA panels demonstrated this propitious possibility a decade ago. In the Tariffication case, the United States accused Canada of violating NAFTA rules
when Canada increased its tariffs on agricultural products. Canada justified this unusual tariff increase under the "tarifification" mechanism of the WTO Agreement on Agriculture, [*87] which encourages Members to convert quantitative restrictions, i.e., quotas, into less trade distorting trade barriers, i.e., tariffs. n264 Based on a teleological and holistic hermeneutics, a NAFTA panel under Chapter 20 unanimously upheld Canada's otherwise technical violation of NAFTA rules by emphasizing that NAFTA's objective of trade liberalization should accommodate, not defy, the WTO's tarification regime. n265

More recently, in the 2005 Softwood Lumber case, n266 a NAFTA binational panel under Chapter 19 struck down the long-held "zeroing" practice applied by the U.S. Commerce Department in antidumping investigations, on the ground that the practice was inconsistent with WTO norms. Zeroing refers to a specific methodology in calculating a general dumping margin for a product in question under which negative individual dumping margins are treated as zero before aggregating all individual dumping margins. n267 Although a U.S. court has upheld this practice, n268 it has been severely criticized by foreign trading partners because it inflates dumping margins and thus makes it easier to find dumping. n269 The WTO AB has already condemned this practice. n270 Invoking the celebrated Charming Betsy doctrine, n271 the NAFTA panel held that the zeroing practice ran afoul of the U.S. international obligations under the WTO. n272

These two NAFTA decisions eloquently demonstrate a harmonious hermeneutics exercised by regional trade tribunals to prevent narrow regional agendas from frustrating the multilateral trading system. Accordingly, regional trade tribunals can contribute to defragmentation of world trade by interpreting RTA provisions in a way that is consistent with the WTO rules. To further develop such constructive interpretations, regional trade tribunals might be permitted to request non-binding "advisory opinions" from the WTO Appellate Body on issues interlacing [*88] multilateralism and regionalism.

V. CONCLUSION

The global trading system has been severely fragmented by a surge of formation of regional trading blocs. Such fragmentation short-circuits the MFN-based multilateral trading system, as it did in the interwar era. In its place, it instills an ethos of hostility n273 which eventually threatens world peace. n274 If the current trend of regionalism grows unchecked, the global trading community could degenerate into economic balkanization, as such balkanization in the Thirties begot WWII. Multilateralism must be reinstated, not only for the sake of international trade, but also for the more profound purpose of global stability. Defragmenting the system requires both institutional and judicial strategies. Regionalism will retain a place in the global trading system, but it must not compromise the telos of the multilateral trading system, which encompasses trade liberalization, global regulation, and development. Therefore, any new configuration of regional trading blocs in the global system should be a federalistic one that guarantees a subtle constitutional balance between multilateral disciplines and regional flexibility.

As the former WTO Director-General Renato Ruggiero emphasized, regionalism and multilateralism can converge on the basis of "shared aims and principles," which leads eventually to "one free global market." n275 Defragmenting world trade is the key to this convergence.

Legal Topics:

For related research and practice materials, see the following legal topics:

FOOTNOTES:


n3. In this article, RTA is used as a generic term connoting both free trade areas and customs union under GATT Article XXIV.


n9. GATT, supra note 4, art. XXIV, para. 4 (as amended by Special Protocol relating to article XXIV of the
General Agreement on Tariffs and Trade, signed at Havana, on 24 March 1948, GATT/1/162/ 24 March 1948, available at http://www.wto.org/gatt_docs/English/SULPDF/90310346.pdf) ("The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories." (emphasis added)).


n12. See Fung, supra note 1.

n13. CB Report, supra note 6, at 19.


n15. See discussion infra Part III.B.2.

n16. See discussion infra Part III.B.3.


n19. See Cho, A New Perspective, supra note 11, at 423-29 (discussing varying origins of economic regionalism and pertinent empirical observations). See also John Redmond, ASEAN in a World of Trade Blocs: Pacific Integration in the Asia-Pacific, in Regional Trade Blocs, Multilateralism, and the GATT: Complementary Paths to Free Trade? 170 (Till Geiger & Dennis Kennedy eds., 1996) [hereinafter Complementary Paths] ("The Asia-Pacific lacks the unifying factors that were present in Western Europe in the post-Second World period - a desire for peace, as well as the need to contain Germany and to check the Soviet threat. This has left regional integration in the Asia-Pacific with a lack of purpose and enfeebled the process.").


n22. See Dennis Kennedy, Regional Trading Blocs, Multilateralism and the New GATT Agreement: An Introduction, in Complementary Paths, supra note 19, at 1 [hereinafter Introduction]; Clavin, supra note 21, at 33.


n28. See, e.g., Drusilla K. Brown, Alan V. Deardorff & Robert M. Stern, Multilateral, Regional, and Bilateral Trade-Policy Options for the United States and Japan (Univ. Mich. Sch. of Pub. Policy, Discussion Paper No. 490, 2002) (finding that regional blocs are inferior to the WTO trade rounds in creating economic welfare); Exclusive, supra note 17, at 78 (quoting the recent World Bank report showing that regional deals have contributed to global tariff cutting only by 10% between 1983 and 2003).


n30. See discussion infra Part IV.C.2.

n31. WTO Agreement, supra note 5, at 1144.

n33. Id.

n34. Id.

n35. See Andrew Porter, European Imperialism 1860-1914 (1994); see also Alan Hodgart, The Economics of European Imperialism (1978).


n39. See Introduction, supra note 22; Clavin, supra note 21.

n40. See Clavin, supra note 21.


n42. For instance, the European Community signed a comprehensive preferential trade agreement in 1975 (The Lome Convention) with its former colonies in Africa, Caribbean, and Pacific region and has regularly renewed it ever since. See Joseph L. Brand, The New World Order of Regional Trading Blocks, 8 Am. U. J. Int'l L. & Pol'y 155, 158-60 (1992).

n44. GATT, supra note 4, art. XXIV.

n45. Id. art. XXIV, para. 4.

n46. Jacob Viner, The Custom Union Issue 44-45 (1950). Viner observed that:

Where the trade-creating force is dominant, one of the members at least must benefit, both may benefit, the two combined must have a net benefit, and the world at large benefits; but the outside world loses, in the short-run at least, and can gain in the long-run only as the result of the general diffusion of the increased prosperity of the customs union area. Where the trade-diverting effect is predominant, one at least of the member countries is bound to be injured, both may be injured, the two combined will suffer a net injury, and there will be injury to the outside world and to the world at large. The question as to what presumptions can reasonably be held to prevail with respect to the relative importance in practice of the two types of effects will be examined subsequently.

(emphasis added).

n47. Id. But see Introduction, supra note 22, at 2 (criticizing that Viner's theory ignored the gains from economies of scale and changes in the terms of trade as well as the potential gain through increased economic growth and foreign competition within a customs union).

n48. GATT, supra note 4, art. XXIV, para. 4.

n49. Id. art. XXIV, para. 8.

n50. This catchy phrasing was invented by Bhagwati and popularized by Lawrence. See Jagdish Bhagwati, The World Trading System at Risk 77 (1991) [hereinafter Bhagwati, At Risk]; Frankel, supra note 27, at 209;

n51. OECD, Regionalism, supra note 7, at 3.

n52. See Bhagwati, At Risk, supra note 50, at 71.

n53. See Bhagwati, Regionalism, supra note 27, at 538-39.


n56. ASEAN was created in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand, and then expanded to include Brunei Darussalam (1984), Vietnam (1995), Laos and Myanmar (1997), and Cambodia (1999). See The Association of Southeast Asian Nations (ASEAN) Overview, http://www.aseansec.org/64.htm. From its inception, ASEAN has focused on a political, rather than economic, agenda - namely regional peace and security - in the era of decolonization and the Cold War. See Mark Beeson, ASEAN plus Three and the Rise of Reactionary Regionalism (2003), available at http://eprint.uq.edu.au/archive/00000496/01/mbasean03.pdf (last visited Dec. 28, 2004). Its institutional emphasis on political cooperation initially prioritized political values, such as sovereign independence and non-interference, over economic values, such as market integration and interdependence. Id. It was not until 1992 that ASEAN members established a free trade area amongst themselves. Southeast Asia: A Free Trade Area, http://www.aseansec.org/viewpdf.asp?file=/pdf/fta.pdf (last visited Dec. 24, 2004). As a trade liberalizing enterprise, ASEAN's performance has been lackluster. ASEAN members, which are mainly developing countries, prefer an incremental liberalization and market opening strategy. See Thomas C. Fischer, A Commentary on Regional Institutions in the Pacific Rim: Do APEC and ASEAN Still Matter?, 13 Duke J.


n58. In Latin America, a backlash against imperialism among newly independent countries led to an inward-looking development strategy, particularly the domestic production of basic consumer goods as a substitute for importation or "import substitution." James M. Cypher & James L. Dietz, The Process of Economic Development 174-75 (1997). In this setting, intra-regional trade liberalization was necessary to generate certain economies of scale to offset the market miniaturization inherent in inward-looking strategies. See Jason R. Wolff, Putting the Cart Before the Horse: Assessing Opportunities for Regional Integration in Latin America and the Caribbean, 20-SPG Fletcher F. World Aff. 103, 106 (1996). Influenced by this economic ideology, numerous regional trade agreements were initiated in the 1960's, including: the LAFTA (1960), the Central American Common Market ("CACM") (1960), and the Andean Pact (1969). Id.

n59. This institutional deficiency is attributable to a number of factors, which are mostly histo-political. Ever since the Western imperialist powers marched into Asia armed with superior technology provided by the Industrial Revolution, the region became a forum for power struggles and wars. Asia's colonial experiences, deep-rooted resentment from numerous wars, and diverse cultures arising from different ethnicities and languages, may explain the scarcity of formal arrangements in this region. Paul M. Evans, Regional Institutions, Regional Identities, in Eastern Asia: An Introductory History 451-58 (Colin Mackerras ed., 3d ed. 2000). Thus, as Robert Scalapino hinted, an "Asianization" process might be a formidable task. Robert A. Scalapino, Regionalism in the Pacific: Prospects and Problems for the Pacific Basin, 26 The Atl. Comt. Q. 174, 178 (1988) (defining "Asianization" as a "widening and deepening network of ties between and among Asian states of diverse political and cultural nature"). Another reason for the weak regionalism in Asia may be close bilateral economic partnerships between the United States and Asian countries. In the post-war period, the United States was steadfastly committed to Asia because of its status as a main architect of the post-war economic order and as a champion of Western capitalism. The United States provided major export markets for Japan and "Newly Industrialized Economies" ("NIEs"), i.e. Singapore, South Korea, Hong Kong, and Taiwan. It even provided these countries with preferential market access, as seen in the Generalized System of Preferences ("GSPs"). Major East Asian countries' economic reliance on the United States might have obviated any need to form regional blocs. This lack of formal regional institutions has led East Asian countries to integrate themselves into the global market more vigorously. A weak trade regionalism has been funneled into a strong commitment to the multilateral trading system, such as the old GATT 1947 and the WTO. See Robert Z. Lawrence, Regionalism, Multilateralism, and Deeper Integration (1996). The NIEs could prosper by adopting outward-looking, export-oriented development strategy, as opposed to the import-substitution strategies adopted by Latin American countries during the same period. More recently, China has transformed its economy from an old Cold War hermit to a new globalizer. Ever since it adopted the "Open Door" policy in the late 1970's, it has dramatically integrated its ever-expanding economy into the mainstream of the global market system, which recently culminated in its admission to the WTO. See Frederick M. Abbott, Reflection Paper on China in the World Trading System: Defining the Principles of Engagement, in China in the World Trading System: Defining the Principles of Engagement 4 (Frederick M. Abbott ed. 1998).


n62. North American Free Trade Agreement, U.S.-Can.-Mex., Dec. 17, 1992, 107 Stat. 2057. The U.S. aggressive change of course in its trade policies was also influenced by its economic woes at that time, symbolized by the Twin Deficits as well as the lesser security threat from the Soviet power. See Jagdish Bhagwati & Douglas A. Irwin, The Return of the Reciprocitarians: US Trade Policy Today, 10 World Econ. 109 (1987); Ernesto M. Hizon, Virtual Reality and Reality: The East Asian NICs and the Global Trading System, 5 Ann. Surv. Int'l & Comp. L. 81, 113 (1999) (observing that the relative decline of the U.S. hegemony in the Eighties reduced its commitment toward the multilateral trading system). In other words, the U.S. government was pressured to open foreign markets more aggressively than before to better its economic situation in a post-hegemonic era when the United States no longer needed to shoulder the burdens of upholding the multilateral trading system out of security considerations.

n63. Argentina-Brazil-Paraguay-Uruguay: Treaty Establishing a Common Market, March 26, 1991, 30 I.L.M. 1041, available at http://www.sice.oas.org/trade/mrcsr/mrcsrtoc.asp. Originally, the MERCOSUR planned to establish a common market between two major South American economies, Brazil and Argentina, when it was first announced in 1990. See Thomas Andrew O'Keefe, An Analysis of the MERCOSUR Economic Integration Project from a Legal Perspective, 28 Int'l L. Rev. 439, 439 (1994). Yet, this plan soon drew two neighboring economies, Uruguay and Paraguay, toward it because these countries understandably feared that their smaller economies would suffer enormously should they be excluded from the common market.

n64. Jacques Delors, the then President of the European Commission, explained that: "the Single Act means, in a few words, the commitment of implementing simultaneously the great market without frontiers, more economic and social cohesion, an European research and technology policy, the strengthening of the European Monetary System, the beginning of a European social area and significant actions in environment." Juan Carlos Ocana, The History of the European Union: the European Citizenship, http://www.historiasiglo20.org/europe/acta.htm (last visited Feb. 8, 2005).
n65. See Joel P. Trachtman, Toward Open Recognition?: Standardization and Regional Integration under Article XXIV of GATT, 6 J. Int'l Econ. L. 459, 462 (2003).

n66. Ocana, supra note 64.

n67. See Merit E. Janow, Assessing APEC's Role in Economic Integration in the Asia-Pacific Region, 17 NW. J. Int'l L. & Bus. 947, 953 (1997). In 1993, U.S. President Clinton upgraded the APEC meeting from the ministerial level to the presidential level by hosting the Economic Leaders' Meeting. This embrace departed from U.S. policy under the previous administration. The United States' new stance ushered in an era of economic cooperation in the region while the UR negotiations came to a close. Although some ASEAN members were suspicious of the U.S. initiative to promote aggressive liberalization in the region, other members - in particular Japan, South Korea, and Taiwan - persuaded them to follow the United States lead out of pragmatic considerations. See Martin Rudner, Institutional Approaches to Regional Trade and Cooperation in the Asia Pacific Area, 4 Transnat'l L. & Contemp. Probs. 159, 168-69 (1994).


n70. Id. APEC repeatedly expressed its strong commitment to the multilateral trading system and the UR negotiation process. In particular, in the "APEC Seoul Declaration," APEC members defined APEC's institutional rationale as "open regionalism" - i.e., economic cooperation in Asia Pacific in the spirit of the multilateral trading system. Joint Statement of the Third Ministerial Meeting (Seoul, Korea, Nov. 12-14, 1991), http://www.apecsec.org.sg/apec/ministerial_statements/annual_ministerial/1991_3th_apec_ministerial.html. See
generally C. Fred Bergsten, Open Regionalism, 20 World Econ. 545, 548 (1997).


n72. CB Report, supra note 6, at 21.

n73. WTO, Under Transformation, supra note 71, at 3 (emphasis added).

n74. Id. at 12.

n75. Id. at 13.

n76. See Cho, A New Perspective, supra note 11, at 436-37.

n77. This proclivity for bilateralism/regionalism can also be seen in the United States' transatlantic neighbor, the European Union. The European Union is negotiating a "Euro-Mediterranean FTA" under the "Barcelona Process," "Economic Partnership Agreements" with African and Caribbean countries, and even FTAs with Middle East and South American countries. See Aaron Cosbey et al., The Rush to Regionalism: Sustainable Development and Regional/Bilateral Approaches to Trade and Investment Liberalization 3 (2004), available at http://www.iisd.org/pdf/2005/trade_rush_region.pdf.

n79. Bhagwati, A Stream of Windows, supra note 78, at 311 n.11.


n83. See generally APEC, Member Economies' FTA/RTA Information, http://www.apec.org/webapps/fta_rta_information.html (last visited Dec. 27, 2004) (providing an overview of current developments on RTAs/FTAs in East Asia and Asia Pacific).

n84. Scollay & Gilbert, supra note 24, at 4.


n86. See Free Trade Agreement between the Republic of Korea and the Republic of Chile, available at http://www.sice.oas.org/Trade/Chi-SKorea_e/ChiKoreaind_e.asp.

n87. See Scollay, supra note 8, at 7.

n89. See Won-Mok Choi, Regional Economic Integration in East Asia: Prospect and Jurisprudence, 6 J. Int'l Econ. L. 49, 49-50 (2003).

n90. For the last decade, China's increasing presence in East Asia, and in the world, and its growing prowess as a trading powerhouse has been nothing short of phenomenal. Its size and volume, both as an exporter and an importer in the region, is unsurpassed. China's rise has been both welcomed and feared by neighboring East Asian countries - depending on the perspectives those countries hold. Some worry about China's dominance in the region while others want to gain preferential access to China's huge market ahead of others, utilizing the first-mover advantage. These various calculations and motivations lead different countries to choose different partners in their commitments to RTAs. See Jeffrey Robertson, ASEAN Plus Three: Towards the World's Largest Free Trade Agreement?, Australian Dep't. of Parliamentary Library, Research Note 2002-03, No. 19, Nov. 12, 2002, http://www.aph.gov.au/library/Pubs/RN/2002-03/03rn19.htm.


n93. See generally Beeson, supra note 56. See also East Asian Trade: Everybody's Doing It, Economist, Feb. 28, 2004, at 39-40. A similar phenomenon can be located in the creation of APEC in that it could be viewed as a reaction, or a warning, to emerging regional blocs at that time, such as the European Union and NAFTA. See generally Sungjoon Cho, Rethinking APEC: A New Experiment for a Post-Modern Institutional Arrangement, in WTO and East Asia: New Perspectives, 381, 386-87 (Mitsuo Matsushita & Dukgeun Ahn eds., 2004) [hereinafter Cho, Rethinking APEC].

n95. See Raphael Minder & Richard McGregor, Asian Nations Stick to Sidelines, Fin. Times, Dec. 5, 2005, at 8 (reporting that China's government resources had been diverted to its increasing regional trade deals before the WTO Hong Kong Ministerial Conference); Philip Bowring, Op-Ed., Silver Lining in WTO Talks, Int'l Herald Tribune, Dec. 19, 2005, at 9 (observing that East Asia's recent regional policies reflected illusions that regionalism can be a substitute for the WTO).

n96. See William H. Lash, The Decline of the Nation State in International Trade and Investment, 18 Cardozo L. Rev. 1011, 1012 (1996) (observing a growing tendency to "merge" among trade blocs).


n101. See WTO, Under Transformation, supra note 71, at 13 (observing that "dispute settlement awareness" discourages members of regional trading blocs from coming forward with information on their regional policies which might be inconsistent with the WTO rules).

n103. See GATT, supra note 4, pmbl.

n104. During the period of 1965 to 1999, an average annual growth rate of gross domestic product ("GDP") marks 4.2% in the low and middle income countries and 3.2% in the high income countries; during the same period, an average annual growth rate of export of goods and services marks 5.3% and 5.9%, respectively. The World Bank, 2001 World Development Indicators 24-27 (2002).


n106. "Regulatory regimes have been brought into greater interaction, as the removal of direct barriers to the flows of goods and money between states (tariffs/quotas and exchange controls) has shifted attention towards regulatory difference as a barrier to entry of commodities or capital." Sol Picciotto, The Regulatory Criss-Cross: Interaction Between Jurisdictions and the Construction of Global Regulatory Networks, in International Regulatory Competition and Coordination: Perspectives on Economic Regulation in Europe and the United States 89, 89 (William Bratton et al. eds., 1996).


n111. WTO Agreement, supra note 5, pmbl. Professor Cottier also notes "while the GATT was an agreement the purpose of which was almost exclusively the reduction of trade barriers, the WTO increasingly assumes constitutional functions in a globalizing economy." Thomas Cottier, The WTO and Environmental Law: Some Issues and Ideas, (Trade & Development Centre Essay Series), available at http://web.archive.org/web/20040502031019/http://www.itd.org/issues/essay1.htm (emphasis added). Cf. Brian F. Fitzgerald, Trade-Based Constitutionalism: The Framework for Universalizing Substantive International Law?, 5 U. Miami Y. B. Int'l L. 111, 129 (1996-97) (arguing that "the Uruguay Round of the GATT has presented us with a trade structure that no longer seeks only to deregulate or regulate in the name of some narrow universal principle of free trade, but that seeks to regulate sovereignties for the purpose of finding universality.").


n116. Viner, supra note 46, at 44.


n120. See WTO, Under Transformation, supra note 71, at 10.

n121. Pomfret, supra note 27, at 267 (quoting Peter Robson, The Economics of International Integration 200 (2d ed. 1984)).

n122. Id. at 268.


n126. See Choi, supra note 89, at 52.


n129. Id. at 10.

n130. OECD, Regionalism, supra note 7, at 19.

n131. Rules of origin are necessary for differentiating, or discriminating, among competitive imports. See Moshe Hirsch, Rules of Origin as Trade or Foreign Policy Instruments? The European Union Policy on Products Manufactured in the Settlements in the West Bank and the Gaza Strip, 26 Fordham Int'l L.J. 572, 574-76 (2003). Of course, we would not need rules of origin if we accorded equal treatment to all imported goods. In the United States, products freely pass over various states' borders without needing to demonstrate their origins (e.g., made in Illinois). Yet, in the realm of international trade, trading nations still need rules of origin either to selectively benefit other trading partners, as with preferential tariffs (preferential rules of origin); or, to selectively penalize them, as with antidumping measures (non-preferential rules of origin). The former type of rules of origin is critical to forming and maintaining RTAs: in order to maintain preferences, RTAs must prevent "trade deflection." WTO, Under Transformation, supra note 71, at 10. Trade deflection occurs when non-originating goods from non-members enjoy a free ride (duty-free access) to RTA members' markets. In other words, preferential rules of origin are a "screening" mechanism for RTAs to determine which originating goods from members are entitled to preferential treatment. See Paul Brenton, Rules of Origin in Free Trade Agreements, World Bank Trade Note 1, No. 4, May 29, 2003, available at http://siteresources.worldbank.org/INTRANETTRADE/Resources/TradeNote4.pdf.

n132. See Joseph A. LaNasa, III, Rules of Origin and the Uruguay Round's Effectiveness in Harmonizing and Regulating Them, 90 Am. J. Int'l L. 625, 629-34 (1996) (regarding various determinants of origin such as the "last substantial transformation" and the "value-added percentage").

n133. Amy Kazmin, Questions Remain After Thai-Japan Trade Deal Agreed, Fin. Times, Aug. 2, 2005, at
5.

n134. Mexico-Japan FTA, supra note 128, ch. 4.


n138. See Brenton, supra note 131, at 5.

n139. Bhagwati, A Stream of Windows, supra note 78, at 290.

n140. See Cho, A New Perspective, supra note 11, at 435-43.

n141. Agreement on Rules of Origin, Annex 1 A, WTO Agreement, supra note 5, art. 1, para. 2 ("Rules of origin referred to in paragraph 1 shall include all rules of origin used in non-preferential commercial policy instruments, such as in the application of most-favoured-nation treatment under Articles I, II, III, XI and XIII of GATT 1994; anti-dumping and countervailing duties under Article VI of GATT 1994; safeguard measures under Article XIX of GATT 1994; origin marking requirements under Article IX of GATT 1994; and any discriminatory quantitative restrictions or tariff quotas.").

n142. See Alvin Hilaire & Yongzheng Yang, The United States and the New Regionalism/Bilateralism, 38

n144. See Scollay, supra note 8, at 4.

n145. See Frankel, supra note 27, at 210.


n147. See Scollay, supra note 8, at 8.


n149. Id. at 4.

n150. See Cosbey et al., supra note 77, at 26; see generally Grant E. Isaac, Food Safety and Eco-Labeling Regulations: A Case of Transatlantic Regulatory Regionalism?, in Regionalism, Multilateralism, and Economic Integration: The Recent Experience 227-52 (Gary P. Sampson & Stephen Woolcock eds., 2003).

n151. See Cho, A New Perspective, supra note 11, at 454-57 (discussing "open regionalism" in APEC).

n152. Michael Malloy employed a "bumper car" model to highlight the potential risk of regulatory clash between different jurisdictions. Michael P. Malloy, Bumper Cars: Themes of Convergence in International Regulation, 60 Fordham L. Rev. S1, S21-22 (1992) (arguing that without a multilateralized solution in some
important regulatory areas (e.g., banking regulation) backed by a strong force, regulatory convergence still remains prospective, "leaving us with a stultifying pattern of subfield consolidation in which larger, but still uncoordinated, regionalized bumper cars will carom around the internationalized area of financial services.").


n154. WTO, Under Transformation, supra note 71, at 12 n.36.


n159. CB Report, supra note 6, at 23.


n162. See OECD, Regionalism, supra note 7, at 17; see also Mallet & Fifield, supra note 2 (quoting Michael Ducker).


n164. See GATT, supra note 4, art. XXIV, para. 2(b), at 270 ("Provided that the duties and other regulations of commerce imposed by, or any margin of preference maintained by, any such union or agreement in respect of trade with other contracting parties shall not on the whole be higher or more stringent than the average level of the duties and regulations of commerce or margins of preference applicable in the constituent territories prior to the formation of such union or the adoption of such agreement" (second and third emphases added)).

n165. Id. ("Provided that the duties and other regulations of commerce imposed by, or any margin of preference maintained by, any such union or agreement in respect of trade with other contracting parties shall not on the whole be higher or more stringent than the average level of the duties and regulations of commerce or margins of preference applicable in the constituent territories prior to the formation of such union or the adoption of such agreement" (second, third and fourth emphases added)).

n166. See GATT, supra note 4, art. XXIV, at 268-72.

n167. See generally CB Report, supra note 6, at 23.
n168. See WTO, Under Transformation, supra note 71, at 8; see also WTO Committee on Regional Trade Agreements [WTO-CRTA], Note by the Secretariat: Mapping of Regional Trade Agreements, WTO-CRTA Doc. WT/REG/W/41 (Oct. 11, 2000).


n170. Id. at 33.

n171. See, e.g., Garcia, supra note 136, at 557-58.

n172. Id.

n173. See Hilaire & Yang, supra note 142, at 622.

n174. Id.

n175. Id. at 613 tbl.3, 617-18, 619 tbl.5.


n177. Id. at 315-16.
n178. Id. at 316, 317 tbl.1.

n179. Id. at 317 tbl.1.

n180. Mario E. Carranza observed that the United States would want to restore its hegemony in the Western hemisphere through a NAFTA-style FTAA in order to "compensate the relative decline of its position in the world economy." Mario E. Carranza, MERCOSUR, The Free Trade Area of the Americas, and the Future of U.S. Hegemony in Latin America, 27 Fordham Int'l L.J. 1029, 1034 (2004). James Petras portrayed such U.S. position as an "imperial project." Id.

n181. Bhagwati, A Stream of Windows, supra note 78, at 309.

n182. See id.


n185. Id.; see also Richard Peet, Theories of Development 107-11 (1999).


n187. Id.

n188. See, e.g., Larry Elliott & Charlotte Denny, U.S. Wrecks Cheap Drugs Deal, The Guardian, Dec. 21,


n190. The Doha Ministerial Meeting reiterated this exception. See Declaration on TRIPS, supra note 158.

n191. See Implementation 6, supra note 158.

n192. Id.


n194. See Cosbey et al., supra note 77, at 6; see, e.g., Free Trade Agreement, U.S.-Sing., art. 16.8, P 1, May 6, 2003, available at http://www.sice.oas.org/Trade/USA-Singapore/USASingind_e.asp (last visited Sept. 13, 2006) (“If a Party requires the submission of information concerning the safety and efficacy of a pharmaceutical or agricultural chemical product prior to permitting the marketing of such product, the Party shall not permit third parties not having the consent of the party providing the information to market the same or a similar product on the basis of the approval granted to the party submitting such information for a period of at least five years from the date of approval for a pharmaceutical product and ten years from the date of approval for an agricultural chemical product.”).

n195. See Cosbey et al., supra note 77, at 6-7; Free Trade Agreement, U.S.-Morocco, art. 15.9, P 2, Jun. 15, 2004, available at http://www.sice.oas.org/Trade/US-MoroccoFinalFTA_e/USMorindfinal_e.asp (“In addition, the Parties confirm that patents shall be available for any new uses or methods of using a known product, including new uses of a known product for the treatment of humans and animals.”).

n196. Open Letter from Nicolas de Torrente, Executive Dir. of Doctors Without Borders United States, &


n198. Id.

n199. Id.

n200. Id. at 5.


n202. Id.

n203. Id. at 5.


n206. See, e.g., Ali Alatas, Former Minister for Foreign Affairs, Indonesia, "ASEAN Plus Three" Equals Peace and Prosperity, Address at the 2001 Regional Outlook Forum of the Institute of Southeast Asian Studies 3 (Jan. 5, 2001), available at http://www.iseas.edu.sg/trends221.pdf (contending that "open regionalism" should be the "operating principle" of the ASEAN plus Three, and that it should "complement," not supplant, APEC); cf. Scollay & Gilbert, supra note 24, at 147-49 (discussing the "enduring economic logic of APEC").

n207. See generally Cho, Rethinking APEC, supra note 93, at 405-06.

n208. Id.

n209. Id.

n210. Id.


n212. Cho, Rethinking APEC, supra note 93, at 406.


n216. Fischer, supra note 56, at 349.


n218. Cho, Rethinking APEC, supra note 93, at 413-14 & n.138.


n222. Id.
n223. See Global Economic Prospects, supra note 10, at xi (viewing that open regionalism would reduce exclusiveness of preferences structured in regional blocs); German Creamer, Open Regionalism in the Andean Community: A Trade Flow Analysis, 2 World Trade Rev. 101 (2003) (showing that the Andean Free Trade Zone established in 1993 has not reduced extra-region trade while increasing intra-region trade); cf. Sherry M. Stephenson, Regional Versus Multilateral Liberalization of Services, 1 World Trade Rev. 187, 208 (2002) (observing that regional services liberalization could be applied "de facto" on an MFN basis and then multilateralized under the WTO system).


n225. See supra Part III.B.2.

n226. See, e.g., Agreement on the Application of Sanitary and Phytosanitary Measures (SPS), Annex A1, the WTO Agreement, supra note 5, art. 7, Annex B, para. 5 [hereinafter SPS]; Agreement on Technical Barriers to Trade (TBT), Annex 1, the WTO Agreement, supra note 5, arts. 2.5, 2.9, 5.2.2, 10 [hereinafter TBT].


n228. See, e.g., John H. Jackson, Appraising the Launch and Functioning of the WTO, 39 German Y. B. Int’l L. 20, 39 (1996) (viewing that "the decision-making and voting procedures of the WTO, although much improved over the GATT, still leave much to be desired. It is not clear how the consensus practice will proceed, particularly given the large number of countries now or soon involved.").

n229. See, e.g., John H. Jackson, International Economic Law in Times That Are Interesting, 3 J. Int’l Econ. L. 3, 8 (2000) (viewing that "treaties are often an awkward albeit necessary method of designing institutions needed in today’s interdependent world, but they do not solve many problems.").

informal agreements over formal treaties).


n232. TBT, supra note 226, art. 2.4 ("Where technical regulations are required and relevant international standards exist or their completion is imminent, Members shall use them, or the relevant parts of them, as a basis for their technical regulations.") (emphasis added); id. art. 2.6 ("With a view to harmonizing technical regulations on as wide a basis as possible, Members shall play a full part, within the limits of their resources, in the preparation by appropriate international standardizing bodies of international standards for products for which they either have adopted, or expect to adopt, technical regulations.") (emphasis added); SPS, supra note 226, art. 3.1 ("To harmonize sanitary and phytosanitary measures on as wide a basis as possible, Members shall base their sanitary or phytosanitary measures on international standards, guidelines or recommendations, where they exist.") (emphasis added); id. art. 3.4 ("Members shall play a full part, within the limits of their resources, in the relevant international organizations and their subsidiary bodies, in particular the Codex Alimentarius Commission, the International Office of Epizootics, and the international and regional organizations operating within the framework of the International Plant Protection Convention, to promote within these organizations the development and periodic review of standards, guidelines and recommendations with respect to all aspects of sanitary and phytosanitary measures.") (emphasis added).

n233. TBT, supra note 226, art. 2.5 ("Whenever a technical regulation is ... in accordance with relevant international standards, it shall be rebuttably presumed not to create an unnecessary obstacle to international trade."); SPS, supra note 226, art. 3.2 ("Sanitary or phytosanitary measures which conform to international standards, guidelines or recommendations shall be deemed to be necessary to protect human, animal or plant life or health, and presumed to be consistent with the relevant provisions of this Agreement and of GATT 1994.").


n237. Evdokia Moise, Trade Facilitation, in OECD, Regionalism, supra note 7, at 92.

n238. OECD, Regionalism, supra note 7, at 16.


n240. Id.


n242. Id.

n243. See Trachtman, supra note 65, at 491.

n244. General Agreement on Trade in Services, art. XXIV, Annex 1 B, WTO Agreement, supra note 5; OECD, Regionalism, supra note 7, at 19; Kalypso Nicolaides & Joel P. Trachtman, From Policed Regulation to Managed Recognition in GATS, in GATS 2000: New Directions in Services Trade Liberalization 241, 276-77 (Pierre Sauve & Robert M. Stern eds. 2000) (suggesting a requirement of "transitivity" under which hubs of mutual recognition arrangements (MRAs) are required to merge different MRAs).


n248. See CB Report, supra note 6, at 27.


n250. See supra Part III.B.1.

n251. See Cho, A New Perspective, supra note 11, at 438.

n252. European Community-Tariff Treatment on Imports of Citrus Products from Certain Countries in the Mediterranean Region, L/5776, paras. 4.15-16 (unadopted, dated Feb. 7, 1985) (ruling that "examination - or re-examination - of Article XXIV agreements was the responsibility of the Contracting Parties" and that "it should, in the absence of a specific mandate by the Council to the contrary, follow this practice also in the case before it and therefore abstain from an overall examination of the bilateral agreements").


n254. "The provisions of Articles XXII and XXIII of GATT 1994 as elaborated and applied by the Dispute Settlement Understanding may be invoked with respect to any matters arising from the application of those provisions of Article XXIV relating to customs unions, free-trade areas or interim agreements leading to the formation of a customs union or free-trade area." Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994, WTO Agreement, supra note 5, Annex I A, para. 12 (emphasis added).
n255. See Philippe Sands, "Unilateralism', Values, and International Law, 11 Eur. J. Int'l L. 291, 301 (2000) (advocating the Appellate Body's "enhanced role for a self-confident judiciary, filling in the gaps which states in their legislative capacity have been unwilling - or unable - to fill").

n256. Appellate Body Report, Turkish QRs, supra note 124.

n257. Id. para. 17.

n258. Id. para. 62.

n259. Id. paras. 56-57.

n260. Id. para. 55.

n261. Id. para. 48.

n262. Appellate Body Report, Turkish QRs, supra note 124, paras. 43, 64.


n264. Id. paras. 59-60.
n265. Id. paras. 167, 191-201.


n271. Murray v. Charming Betsy, 6 U.S. 64, 118 (1804). Chief Justice Marshall ruled that "an act of Congress ought never to be construed to violate the law of nations, if any other possible construction remains." Id.

n272. NAFTA Lumber, supra note 266, at 43-44.

n273. CB Report, supra note 6, at 27 (quoting John Maynard Keynes).