

Graduate-Level Seminar

NEW REGIONALISM: TRADE, DEVELOPMENT, AND GOVERNANCE

Leonardo Baccini

Syllabus

This course examines the impact of new regionalism not only on trade and economic development, but also on governance. Given the high level of economic interdependence, trade agreements are no longer exclusively an instrument of trade policy, but more generally are a tool to manage globalization and to redistribute the benefits and the costs of economic cooperation. In this regard, for instance, the US and the EU have been important drivers of conditional agreements. The US and the EU open their domestic markets for goods to developing countries, in return for liberalization of service markets in developing countries. Both US and EU provide traditional trade gains to developing countries, demanding in return that trade partners acquiescence to rules governing investment and intellectual property rights.

Course readings offer students a theoretical survey of multilateralism and explore the political applications of preferential trade agreements and US and European Union trade policy. This course emphasizes theoretical models as well as empirical studies to determine how well models fit “real world” data. Using political economy as leverage, this course explores the policy implications of theories and empirical evidence associated with preferential trade agreements. Many of the readings are intended not only for academics but also for those interested in pursuing careers in policymaking, since they focus on applying ideas to solve real policy problems.

Course Objectives

The aim of this course is to enable students to draw policy implications from theory and empirical evidence. Students will develop a strong substantive knowledge of the causes and effects of the new regionalism. Specifically, by the end of the course students will have a clear understanding of:

- The relationship between multilateralism and new regionalism
- The main drivers of new regionalism
- The impact of trade agreements on trade policy
- The extent to which trade agreements are a tool of global governance and economic development

Prerequisites

The course is primarily intended for graduate-level students in Political Science. It assumes familiarity with the major schools of IR theory and a basic understanding of international economics, although the necessary concepts will be introduced as they

appear in readings. For the formal theoretical papers, emphasis is placed on the logical intuition of the model rather than on the mathematical proofs. For the empirical papers, a basic understanding of regression models and the ability to interpret graphs is recommended.

Course Materials

The majority of the readings address topical issues. In order to give students a broader picture of the topics addressed, some readings with more general content have been included as well. These readings are recommended but not required, since they are neither part of the midterm exam, nor part of the final paper. All readings for this course are available for download on the course website or will be available in hardcopy in my office. There are no required books. Lectures will use Powerpoint presentation extensively and shortened versions of the slides will be made available as well.

Requirements

The grade is determined by class participation (20%), a midterm exam (30%) and a final paper (50%).

Participation is the key to a lively seminar. Class participation involves three components. The first component concerns speaking and debating skills, as well as the ability to listen. Comments that are vague, repetitive, unrelated to the current topic, disrespectful of others, or without sufficient foundation will be evaluated negatively. Second, students must turn in reaction papers for each of the readings in the first seven weeks of the course. A reaction paper should be more than a simple summary of the material; it should contain your opinion or reaction to reading the material. This may take a variety of forms: you may compare the work to other related material (including but not limited to other readings from the class); you may hypothesize about ways in which the work could have been improved; you may think about ways to expand on the work, or extend it to cover new domains; or you may argue against the work, questioning its assumptions, or value. These papers may be informal; they should be about two pages long and they are due by 8pm on the day before class. Third, each student must deliver a presentation (around 30 minutes) on one of the topics addressed in the second part of the seminar (from week 8 to 14).

For the midterm exam, students must answer five specific questions closely related to the course readings. In the first class, a list of key-words will be distributed to students so that they can have a close look at the most important notions addressed in the first part of the course.

The final paper can take the form of a research article or a policy proposal. The effort required to write a successful paper is expected to be the same for the two formats and the choice is given to match the potentially different goals of the students in the class. It is highly recommended that the topic of the final exam be discussed with the instructor before starting work.

Course Outline

Week 1

FOUNDATIONS: THE ITO, THE GATT, AND THE WTO

- Evolution of the world trading system

From the WTO website:

Principles of the Trading System:

http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm;

The case for open trade:

http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact3_e.htm;

The GATT Years:

http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm;

The Uruguay Round:

http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact5_e.htm

- Fundamental legal and economic principles

Steinberg, R. H. (2003) "In the Shadow of Law or Power? Consensus-Based Bargaining and Outcomes in the GATT/WTO," *International Organization*, Vol. 56, No. 2, p. 339-74.

Irwin, D. A. (1995) "The GATT in Historical Perspective," *American Economic Review*, Vol. 85, No. 2, p. 323-28.

Recommended readings:

Haggard, S. and Simmons, B. S. (1987) "Theories of International Regimes," *International Organization*, Vol. 41, No. 3, p. 491-517.

Krasner, S. D. (1976) "State Power and the Structure of International Trade," *World Politics*, Vol. 28, No. 3, p. 317- 347.

Week 2

TARIFFS, NON-TARIFF BARRIERS, AND SUBSIDIES

- Tariffs

From the WTO Website:

Tariffs: more bindings and closer to zero:

http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm2_e.htm

Anti-dumping subsidies, safeguards:

http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm8_e.htm

Non-tariff barriers:

http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm9_e.htm

- Impact on trade liberalization

Goldstein, J. L., Rivers, D., and Tomz, M. (2007) "Institutions in International Relations: Understanding the Effects of the GATT and the WTO on World Trade," *International Organization*, Vol. 61, No. 1, p. 37-67.

Messerlin, P. A. and Tharakan, P.K.M. (1999) "The Question of Contingent Protection." *The World Economy*, Vol. 22(9), 1251-1270.

Week 3

NEW REGIONALISM

- Defining concepts

Crawford, J. A. and Fiorentino, R. V. (2005) "The Changing Landscape of Regional Trade Agreements," *World Trade Organization Publications*, Geneva, Switzerland.

Wilfried J. Ethier. (1998) "The New Regionalism," *Economic Journal*, Vol. 108, No. 449, p. 1149-1161.

- Differences between new and old regionalism

Mansfield, E. and Milner, H. V. (1999) "The New Wave of Regionalism," *International Organization*, Vol. 53, No. 3, p. 589-627.

Mansfield, E. D. and Milner, H. V. (1998) "The Proliferation of Trade Agreements," *Journal of Conflict Resolution*, Vol. 42, No. 5, p. 523-543.

Recommended readings:

Väyrynen, R. (2003) "Regionalism: Old and New," *International Studies Review*, Vol. 5.

Estevadeordal, A. and Suominen, K. (2008) "Sequencing Regional Trade Integration and Cooperation Agreements." *The World Economy*.

Week 4

THE DETERMINANTS OF REGIONALISM I

- Economic drivers

Baier, S. L. and Bergstrand, J. H. (2004) "On the Economic Determinants of Free Trade Agreements," *Journal of International Economics*, Vol. 64, p. 29-63.

Mattli, W. (1999) *Explaining Regional Integration*, in "The Logic of Regional Integration: Europe and Beyond", New York: Cambridge University Press, p. 68-138.

- Systemic drivers

Mansfield, E. D. and Reinhardt, E. (2003) "Multilateral Determinants of Regionalism: The Effects of GATT/WTO on the Formation of Preferential Trade Arrangements," *International Organization*, Vol. 57, p. 829-882.

Gowa, J. and Mansfield, E. D. (1993) "Power Politics and International Trade." *APSR*, Vol. 87(2), 408-420.

Recommended readings:

Krugman P. (1993) "Regionalism versus Multilateralism: Analytical Notes." In J. De Melo and A. Panagariya editions, *New Dimension in Regional Integration*, pp. 58-78.

Week 5

THE DETERMINANTS OF REGIONALISM II

- Interest Groups

Baldwin, Richard E. (1993) "A Domino Theory of Regionalism," NBER Working Paper No. 4465.

Manger, Mark S. (2006) *The Political Economy of Discrimination: Modelling the Spread of Preferential Trade Agreements*, Paper for presentation at the inaugural meeting of the International Political Economy Society, 17-18 November.

- Domestic institutions

Mansfield, E. D., Milner, H. V., and Rosendorff, B. P. (2002) "Why Democracies Cooperate More Electoral Control and International Trade Agreements," *International Organization*, Vol. 56, No 3, p. 477-513.

Mansfield, E. D., Milner, H. V., and Pevehouse, J. C. (2008) "Democracy, Veto Players, and the Depth of Regional Integration," *The World Economy*, Vol. 31, No. 1, p. 67-96.

Recommended readings:

Moravcsik, A. (1997) "Taking Preferences Seriously: A Liberal Theory of International Politics," *International Organization*, Vol. 51, No. 4, p. 513-553.

Fearon, J. D. (1998) "Bargaining, Enforcement, and International Cooperation," *International Organization*, Vol. 52, No. 2, p. 269-305.

Week 6

REGIONALISM: EFFECTS ON TRADE

- Expected effects on trade

Kono, D. (2007) "When Do Trade Blocs Block Trade?" *International Studies Quarterly*, Vol. 51, No. 1, p. 165-181.

Soloaga, I. and Winters, A. (2001) "Regionalism in the Nineties: What Effect on Trade?" *North American Journal of Economics and Finance*, Vol. 12, No. 1.

- Expected effects on trade policy

Panagariya, A. (1999) "The Regionalism Debate: An Overview." *The World Economy*, Vol. 22(4), 455-476.

Baier, S. L. and Bergstrand, J. H. (2007) "Do Free Trade Agreements Actually Increase Members International Trade," *Journal of International Economics*, Vol. 71, No. 72-95.

Recommended readings:

Foroutan, F. (1998) "Does Membership in a Regional Preferential Trade Agreement Make a Country More or Less Protectionist?" *The World Economy*, Vol. 21, No. 2, p. 305-335.

Week 7

MULTILATERALISM VERSUS REGIONALISM

- Implications of regionalism for the multilateral trading system

Winters, L. Alan. (1996) "Regionalism versus Multilateralism." *The World Bank, Policy Research Paper* 1687.

Krisna, P. (1998) "Regionalism and Multilateralism: A Political Economy Approach," *Quarterly Journal of Economics*, Vol. 113, p. 227-251.

- Stumbling blocs versus building blocs

Baldwin, R. E. (2006) "Multilateralising Regionalism: Spaghetti Bowl as Building Blocs on the Path of Global Free Trade." *The World Trade*, Vol. 29(11), 1451-1518.

Limao, N. (2006) "Preferential Trade Agreements as Stumbling Blocks for Multilateral Trade Liberalization: Evidence for the United States." *American Economic Review*, Vol. 96(3), 896-914.

Recommended readings:

Limao, N. (2002) "Are Preferential Trade Agreements with Non-trade Objectives a Stumbling Block for Multilateral Liberalization?" Working Paper, EconWPA.

Multilateral Disciplines on Regional Arrangements (2005) in "Global Economic Prospect" edited by the World Bank, Chapter 6, p. 125-151.

Week 8

REGIONALISM: BEYOND TRADE POLICY BARRIER

- Trade and transport

Hummels, D. and Skiba, A. (2002) A Virtuous Circle? Regional Tariff Liberalization and Scale Economies in Transport, in "Integrating the Americas: FTAA and Beyond", edited by A. Estevadeordal, D. Rodrik, A. M. Taylor, and A. Velasco. Cambridge, MA: Harvard University Press.

Carruthers, R., Bajpai, J., and Hummels, D. (2003) Trade and Logistics: An East-Asian Perspective, in "East Asia Integrates: A Trade Policy Agenda for Shared Growth", edited by K. Krumm, and H. Kharas, Washington DC: World Bank.

- Standards and conformity assessments

Chen, M. and Mattoo, A. (2004) "Regionalism in Standards: Good or Bad for Trade?" World Bank, Processed.

Recommended readings:

Wilson, J., Mann, C., and Otsuki, T. (2003) "Trade Facilitation and Economic Development: Measuring the Impact," Policy Research Paper 2988, World Bank, Washington, DC.

Anderson, J. and van Wincoop, E. (2004) "Trade Costs," NBER Working Paper 10480, National Bureau of Economic Research, Cambridge, MA.

Ludema, R.D. (2002) "Increasing returns, multinationals and geography of preferential trade agreements." *Journal of International Economics*, Vol. 56, 329-358.

Week 9

REGIONALISM: BEYOND MERCHANDISE TRADE

- Services and investment

Roy, M., Marchetti, J., and Lim, H. (2007) "Services Liberalization in the New Generation of Preferential Trade Agreements: How Much Further Than the GATS" *World Trade Review*, Vol. 6, No. p. 155-192.

Medvedev, D. (2006) "Beyond Trade: The Impact of Preferential Trade Agreements on Foreign Direct Investment Inflows." *World Bank Policy Research Working Paper* 4065.

- Intellectual property and labour mobility

Nielson, J. (2003) *Labour Mobility in Regional Trade Agreements*, in "Moving People to Deliver Services", edited by Mattoo, Aaditya, and Carzaniga, Washington DC: World Bank.

Maskus, K. E. (1997) "Implications of Regional and Multilateral Agreements for Intellectual Properties Rights," *The World Economy*, Vol. 20, No. 5.

Recommended readings:

Mattoo A. and Fink C. (2002) "Regional Agreements and Trade in Services," *Research Policy Research Working Paper* 2852, The World Bank Development.

Blomström, M. and Kokko, A. (1997) "Regional Integration and Foreign Direct Investment," *Working Paper Series in Economics and Finance*, No. 172, p. 1-31.

Beyond Merchandise Trade: Services, Investment, Intellectual Property, and Labor Mobility (2005) in "Global Economic Prospect", edited by World Bank, Chapter 5, p. 97-123 [Read]

Week 10

REGIONALISM AS DEVELOPMENT TOOL

- Do preferential trade agreements benefit developing countries?

De Melo, J. (2007) "Regionalism and Developing Countries: A Primer," *Journal of World Trade*, Vol. 41, No. 2, p. 351-369.

Anson, J., Cadot, O., Estevadeordal, A., De Melo, J., Suwa-Eisenmann, A. and Tumurchudur, B. (Forthcoming) "Rules of Origin in North-South Preferential Trading Arrangements with an Application to NAFTA." *Review of International Economics*.

- Doha Round: priorities for developing countries

Hoekman, B. and Michalopoulos, C., and Winters, L.A. (2004) "Special and Different Treatment of Developing Countries: Moving Forward After Cancún," *The World Economy*, Vol. 27, p. 481-506.

Recommended readings:

Chad P. Bown, Bernard M. Hoekman, (2008) "Developing Countries and Enforcement of Trade Agreements: Why Dispute Settlement is Not Enough," *Journal of World Trade*, Vol. 42, p. 177-203.

Trade Patterns and Policies: Doha Options to Promote Development (2004), in "Global Economic Prospect", edited by World Bank, Chapter 2, p. 63-102.

Development and the Doha Agenda. (2004), in "Global Economic Prospect", edited by World Bank, Chapter 6, 205-232.

Willem te Velde, D. and Bezemer, D. "Regional Integration and Foreign Direct Investment in Developing Countries." Working Paper.

Week 11

REGIONALISM AS GOVERNANCE

- US regional initiatives

Evenett, S. J. and Meier, M. (2008) "An Interim Assessment of the US Trade Policy of Competitive Liberalization." *The World Economy*.

Schott, J. (2004) *Assessing US FTA Policy*, in "Free Trade Agreements: US Strategies and Priorities", edited by Jeffrey Schott, Washington DC: IIE (Institute for International Economy).

- EU regional initiatives

McQueen, M. (2002) "The EU's Free Trade Agreements with Developing Countries: A Case of Wishful Thinking?" *The World Economy*, Vol. 25(9), 1369-1385.

Maur, J-C. (2005) "Exporting Europe's Trade Policy." *The World Economy*, Vol. 28(11), 1565-1590.

Recommended readings:

Grugel, J. B. (2004) "New Regionalism and Modes of Governance – Comparing US and EU Strategies in Latin America," *European Journal of International Relations*, Vol. 10, No. 4, p. 603-626.

Fernandez, R. and Portes, J. (1998) "Returns to Regionalism: An Analysis on Nontraditional Gains From Regional Trade Agreements," *The World Bank Economic Review*, Vol. 12, No. 2, p. 197-220.

Brenton, P. (2003) "Integrating the Least Developed Countries into the World Trading System: The Current Impact of EU Preferences under Everything but Arms," Policy Research Working Paper No 3018, The World Bank.

Hafner-Burton, E. (2004) "Forum Shopping for Human Rights: The Transformation of Preferential Trade," Manuscript presented at the workshop on Forum Shopping and Global Governance at the European University Institute, Florence, Italy.

Week 12

CASE STUDIES: NAFTA

- Creation

Estevadeordal, A. (1999) "Negotiating Preferential Market Access: The Case of NAFTA." Working Paper.

- Implications

Krueger, A. O. (1999) "Trade Creation and Trade Diversion Under NAFTA," NBER Working Paper Series No. 7429.

Busch, M. (2007) "Overlapping Institutions, Forum Shopping, and Dispute Settlement in International Trade," *International Organization*, Vol. 61, No. 2, p. 735-761 (On the impact of NAFTA on trade dispute for Canada and Mexico).

Week 13

CASE STUDIES: EUROPEAN UNION

- Enlargement and Monetary Union

Dinan, D. (2005) *Ever Closer Union*, The European Union Series, General Editors: Neill Nugent, William E. Paterson, and Vincent Wright, Chapter 5, p. 133-159.

Wallace, H., Wallace, W., and Pollack, M. A. (2005) *Policy-Making in the European Union*, Oxford University Press, Chapter 6, p. 141-160.

- Implications

De Santis, R. and Vicarelli, C. (2007) "The "Deeper" and the "Wider" EU Strategies of Trade Integration: An Empirical Evaluation of EU Common Commercial Policy Effects," *Global Economy Journal*, Vol. 7, No. 2, p.

Recommended readings:

Rose, A.K. (2000) "One Money, One Market: Estimating the Effect of Common Currencies on Trade." *Economic Policy*, Vol. 30, 7-45.

Week 14

REGIONALISM IN LATIN AMERICA: NOT ONLY MERCOSUR

- Mercosur

Esteradeordal, A., Goto, J., and Saez, R. (2001) "The New Regionalism in the Americas: The Case of Mercosur," *Journal of Economic Integration*, Vol. 16, No. 2, p. 180-202.

Philippidis G., and Sanjuan A. (2007) "An Analysis of Mercosur's Regional Trading Arrangements," *World Economy*, Vol. 30, No. 3, p. 504-531.

- Evidence from the region

Devlin, R. and Estevadeordal, A. (2001) "What is New in the New Regionalism in the Americas," INTAL/ITD/STA Working Paper No. 6.

Recommended readings:

Chang, W. and Winters, L. A. (2002) "How Regional Blocs Affect Excluded Countries: The Price Effects of MERCOSUR." *The American Economic Review*, Vol. 92, No. 4, p. 889-904.

Olarreaga, M. and Soloaga, I. (2002) "Endogenous Tariff Formation: The Case of Mercosur," *The World Bank Economic Review*, Vol. 12, No. 2, p. 297-320.

Frankel, J., Stein, E., and Wei, S. (1995) "Trading Blocs and the Americas: The Natural, the Unnatural, and the Super-Natural," *Journal of Development Economics*, Vol. 47, No. 1, p. 61-95.