UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS

MASTER THESIS

REGIONAL TRADE AGREEMENTS WHICH DEEPEN AND GO BEYOND WTO PROVISIONS

Ljubljana, 26 March 2019 JANA PIRJEVEC

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

LIST OF ABBREVIATIONS

CM	Common Markets
CU	Custom Unions
EC	European Community
EFTA	European Free Trade Area
EU	European Union
FDI	Foreign direct investment
FTA	Free Trade Areas
GATS	General Agreement on Trade in Services
GATT	General Agreement in Tariffs and Trade
GSP	General System of Preferences
GVC	Global Value Chain
ILO	International Labour Organization
IMF	International Monetary Fund
LDC	Least developed countries
MFN	Most-Favoured Nation
MTA	multilateral trade agreement
NAFTA	The North American Free Trade Agreement
N-N	North-North
N-S	North-South
OECD	Organisation for Economic Co-operation and Development
PTA	preferential trade arrangement
RCEP	Regional Comprehensive Economic Partnership
RoO	Rules of Origin
RTA	Regional Trade Agreement
S-S	South-South
TFA	Trade Facilitation Agreement
TPP	Trans-Pacific Partnership
TRIMS	Trade-related investment measures
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TTIP	Transatlantic Trade and Investment Partnership
UK	United Kingdom
US	United States
WTO	World Trade Organisation

INTRODUCTION

In the past two to three decades, world trade has experienced big transitions. The first big change of this period happened in 1995 with the Marrakesh Agreement Establishing the World Trade Organisation (hereinafter: WTO), Apr. 15, 1994, 1867, 1867 U.N.T.S. 154, 33 I.L.M 1144 (1994), replacing the General Agreement on Tariffs and Trade 1994, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organisation, Annex 1A, 1867 U.N.T.S. 187, 33 I.L.M. 1153 (1994) (hereinafter: GATT) which had been in force since 1948. This change put in place an international organisation that had the ability to negotiate multilateral trade agreements (MTA) among all its members on three main areas: goods, services and intellectual property. In addition, there was now a dispute settlement system that enabled a smoother settlement process for member countries. As a result of this system, there was increased stability in the international business environment.

The second change was the proliferation of Regional Trade Agreements (RTA). It started in 1990s with a significant role by the United States and European Union (EU), followed by other countries at the beginning of the new century, especially from the Asian-Pacific region (Crawford & Fiorentino, 2005). The increase was from 124 notifications of RTAs in the period 1948-1994, to 400 more agreements notified after WTO was established (WTO, 2017b). Countries engaged in negotiating RTAs in order to further open their markets to get access and to facilitate their integration in the world economy.

Global trade affects every country in the world as they look to achieve a higher economic efficiency and increase welfare. Today, we are familiar with different forms and levels of economic integration, from RTAs to economic or monetary unions. The categorisation is done based on the number of countries involved. Bilateral agreements when there are two or multilateral when there are more than two countries involved. The one thing in common for all economic integration is that signatory countries agree to decrease or abolish trade barriers enabling increased trade between them in order to achieve a higher welfare.

Since Global Value Chains (GVC) rose to importance, in which the productions got denationalised, international trade has experienced immense changes. This is because of the complexity of production that was distributed in different locations around the world. Global trade was seeking new, more complex trade agreements. Therefore, deep RTAs were necessary, including provisions on competition, foreign direct investment (FDI), technology and others.

Although the number of agreements increased in the past two decades, the percentage of trade under RTAs did not increase as much (UNCTAD, 2017). The reason for this is that most of the new era agreements go beyond WTO, that is, WTO-plus (WTO+) or WTO-extra (WTO-X). WTO+ being provisions that cover areas that are already part of WTO agreements but countries in their RTAs take it to a deeper level and WTO-X is about including areas

that are not covered in the WTO agreements. An example being environment or labour provisions. In general, there is a trend showing that countries are including more and more WTO+ and WTO-X provisions. WTO+ currently still more present, however WTO-X are steadily increasing every year.

The share of deep agreements grew from 10 % before the establishment of the WTO, up to 50 % of all agreements signed after 2001 (Lejárraga, 2014). One of the factors that affect the depth of agreements is the development level of signatory countries. Agreements between two or more developed countries, also known as North-North (N-N) agreements, are expected to include the highest number of WTO+ and WTO-X provisions.

The purpose of the master thesis is to contribute a deeper understanding of RTAs and developments in terms of their depth. More specifically, I aim to analyse motives and mechanisms behind RTAs deep integration and the magnitude of inclusion of WTO-X provisions in trade agreements. The principal question is how inclined countries are to include WTO-X provisions in their agreements and to what extend are they legally enforceable. In my analysis, I focus on six areas of WTO-X provisions: Singapore issues (competition, investment and transparency), environment, labour and e-commerce, which are in the centre of debates among members of WTO. Additionally, the analysis includes another aspect of WTO-X inclusion in RTAs, based on the level of development of countries. Hence, the second aim is to investigate whether scope and legal enforceability of deep provisions differs systematically across three groups of RTAs based on the development level of signatory countries, i.e. N-N, N-S and S-S groups. Throughout my analysis, I test the following hypothesis:

H1: The depth of RTAs is related to the level of development, where developed countries tend to sign deeper agreements than developing and least developed countries (LDC).

H2: N-N agreements include more legally enforceable provisions compared to N-S and S-S agreements.

H3: Due to their importance for the integration in GVC, competition and investment provisions are one of the most common WTO-X provisions in RTAs.

The master thesis comprises overview of theoretical contribution and an empirical analysis. The empirical part rests on a comparative analysis based on the dataset collected done by Hofmann, Osnago and Ruta (2017) on 279 RTAs including 52 policy areas. All agreements are grouped based on development level into N-N, N-S or S-S group. This is done based on the World Bank (2018) classification of countries by income groups, where high income countries are counted in the North, and upper middle, low and lower middle-income countries are included in the South group. For my analysis I include five policy areas from the dataset, which are: investment, competition, environment, labour and anti-corruption policies.

The master thesis is divided into six parts. The first part is the presentation of WTO; the history of the organisation, from GATT to the multilateral system that we know today, its scope, functions and structure. I also present the basic principles of WTO, which are often seen in conflict with the proliferation of RTAs. This part is concluded with the description of dispute settlement and the Doha Round, which is also the longest negotiating round in the multilateral history.

The second part is the theoretical explanation of the economic integration, its definitions, types of integration, the reasons for their existence and the effect that these economic integrations have on countries, both static and dynamic effect.

The third part is essential to understand the relation between RTAs and WTO. There, I present the sets of rules of WTO for RTAs, in specific Article XXIV, Article V and Enabling Clause which give the countries the right to form RTAs even though it might violate the basic principles of the multilateral system. In addition, the Rules of Origin (RoO) are explained, which is an instrument to try to prevent non-signatory countries from manipulating the preferential rights that signatory countries negotiated between them.

The fourth part is an overview of the evolution of RTAs and the current trend which are the mega-regional trade agreements negotiated within countries that represent a vast share of global trade, and the big switch from 20th century to 21st century agreements. First ones being traditional agreements based on negotiating tariffs and on the border measures, the second ones, modern agreements that go beyond WTO provisions and are more complex. When discussing modern agreements and the provisions included, they are separated into WTO+ and WTO-X provisions. Additionally, this part is concluded with an overview on GVC that majorly affected the content of RTAs. This is a consequence of internationalisation of the production, where new fields of trade got involved and therefore new provisions had to be negotiated, such as FDI, know-how, labour and others.

The fifth part is an in-depth examination of integration beyond WTO and the principle areas that countries include in their agreements. Firstly, a general overview of inclusion of WTO-X and WTO+ is done and the effect that it might have on the countries included in the agreements. Then I specifically analyse four major areas that are of actuality and of big discussion in WTO as well. For each area, I analyse the presence of provisions in the RTAs, the forms in which the provisions are included and at what stage of negotiation talks each area is at WTO is. The first is environment, one of the most widely discussed topics on the world level, and still does not have an agreement on the multilateral level. Mostly because the development level of countries and their industrialisation level are not compatible with each other, therefore the expectations for sustainable trade are different. The second topic is Singapore issues, investment, competition and transparency. Each one of these topics has a working group at the WTO, but since the beginning of the Doha Round, there have been no achievements in establishing a new agreement that would cover these areas. The only area of the Singapore issues that got an agreement is Trade facilitation that came into force in

2017. The third area is e-commerce, one of the fastest growing area important to international trade and its effects on efficiency in trade. The last area covered is labour standards that has similar issues as environment.

The last part of my master thesis is the comparative analysis of RTAs based on development level and their depth. The analysis is done based on the data collection done by Hofmann, Osnago and Ruta (2017). After dividing the agreements in N-N, N-s and S-S groups, I analyse five WTO-X provisions and their legal enforceability. The areas are competition, investment, environment, labour and anti-corruption. The results are presented in tables and figures and are explained. Furthermore, I describe the main characteristics for each of the three groups of RTAs. The main findings of my analysis are discussed to conclude the sixth part of my thesis.

I finish the master thesis with conclusion, where I summarize the main discovery of this analysis and I present the possibilities for further discussion on the topic.

1 PRINCIPLES AND FUNCTIONING OF WTO

In the 1940s, countries began to consider establishing an international organisation that would regulate trade between nations and which would represent a common institutional framework for the signatory parties. To do so, countries started a negotiation which led to the establishment of GATT and later on, to the establishment of the WTO that today represents a pillar of global trade. Since then, many countries joined the organisation to open their markets. Throughout its history, GATT and WTO have tried to adapt to the new directions that the global trade was taking, which led to some difficulties, especially within the past two decades.

In this chapter I go from the beginning of GATT to today's WTO position, covering the transition from the agreement to the international organisation that is today, with all its strengths and liabilities. There is a big focus on WTO basic principles which are the basis of the multilateral system and are important for the further discussion about RTAs in relation to WTO.

1.1 From GATT to WTO

After World War II, world economy and trade were damaged. Even as the war was going on, some nations had begun to think about an international trade organisation that would regulate trade between countries, that would give them a boost to recover from the war and avoid previous unfavourable situations. The major players during this period were the United States (US) and United Kingdom (UK) with some of the most novel ideas to approaching world trade. The first was creating a third institution to regulate trade in international economics, along with the World Bank and International Monetary Fund (IMF) which were

established as part of Bretton Woods system to manage financial and commercial relations among Australia, Canada, Japan, US and Western Europe. After long negotiations finally in 1947, at a conference in Geneva, GATT was signed and came into force on 1 January 1948. As Jackson (1998, p.12) points out, technically GATT was never an organisation or a treaty. As a treaty, it was provisionally applied by Protocol of Provisional Application and it stayed in force for almost five decades, until 1995. GATT was never meant to be an organisation because the negotiating parties were expecting to establish International Trade Organisation which would incorporate the GATT provisions.

Since the beginning, GATT was based on some principles and codes of conduct for international trade, that were later incorporated also by WTO. GATT agreement starts with three main Articles representing the basis for the whole multilateral negotiation under GATT. Article I embodies the General Most-Favoured-Nation (MFN) treatment, giving all parties the obligation to treat each other favourably and with non-discrimination. Similar to the first article is Article III which is about National Treatment on Internal Taxation and Regulation. Once foreign goods enter the country, satisfying all border measures, they must be treated the same way as domestic goods. The last article that represents the base for multilateral negotiations under GATT is Article II on Schedules of Concessions. This article establishes that the commitments on tariffs made by signatories of GATT are listed in schedules of concessions and represent some sort of ceiling bindings that they cannot overpass. Jovanović (2015, p.15) states that the basic principles of GATT are: non-discrimination, national treatment, reciprocity, transparent and foreseeable tariffs, the impartial settlement of disputes, and enforcement.

Initially, GATT was mainly negotiating tariff barriers, but after the tariffs fell considerably, the focus shifted to non-tariff barriers and domestic policies that had an impact on trade (Hoekman, 2002, p.41). The non-tariff negotiations started with seventh round which is also known as Tokyo Round. At that time, it was the first attempt to address trade obstacles that did not take the form of tariffs, and moreover there were first approaches to reform the system (WTO, 2017).

During the existence of GATT, there were eight negotiating rounds that were used to achieve a reduction in tariffs and trade barriers. However, with the increase of signatories of GATT, as is shown in Table 1, problems due to the lack of details within the agreement has started to arise. Another issue was that GATT did not have a proper constitution to regulate the activities and procedures of the organisation. With eighth and last negotiation round, known as Uruguay Round, GATT was replaced by a new multilateral organization known as WTO. It did not seem like this round would have a successful outcome, but in the end, it brought the biggest reform in trading system since GATT was established.

Table 1: Change in number of signatories of GATT in different Rounds

Round	Dates	Number of countries	Value of trade covered ($bn)
Geneva	1947	23	10
Annecy	1949	33	Unavailable
Torquay	1950	34	Unavailable
Geneva	1956	22	2.5
Dillon	1960-61	45	4.9
Kennedy	1962-67	48	40
Tokyo	1973-69	99	155
Uruguay	1986-94	120	3,700

Source: Jackson (1998, p.21).

1.2 WTO evolution

In 1994 the Marrakesh agreement, that established WTO, was signed. WTO came into force on 1 January 1995 as an international organisation. The Uruguay Round and its agreements were successful in many views because it set new points for future negotiations. In addition to the success of the establishment of a new international organisation, two agreements emerged from the Uruguay Round of negotiation that represented a substantial change in international trade. They are: General Agreement on Trade in Services (GATS) and Trade-Related Aspects of Intellectual Property Rights (TRIPS). The work achieved with GATT did not get lost, but was incorporated into WTO, which was built on GATT provisions that remain the most important part of world trading system. The Uruguay Round agreements represent the basis of today's WTO system. The agreement of establishing the WTO includes the agreements covering the main three areas of trade, which are: goods, services and intellectual property. In addition to that, there are also the dispute settlement and reviews of governments' trade policies. As part of additional details, there are agreements and annexes that cover specific sectors for goods and services. Areas covered under GATT are agriculture, Health regulations for farm products (SPS), textile and clothing, product standards (TBT), anti-dumping measure, investment measures, rules of origin, import licensing, customs valuation methods, pre-shipment inspection, safeguards, and subsidies and counter-measures. Under GATS, the sectors included are movement of natural persons, shipping, telecommunications, air transport and financial services (WTO, 2017d). All these are presented in Table 2. Another similarity between GATT and WTO is that the new organisation still operates by unanimity and is negotiated by all members.

Despite their similarities, WTO and GATT have many crucial differences that affect the international trading system. Firstly, WTO is an organisation. This was not the case with GATT as explained previously. Secondly, GATT was more flexible as an institution. Countries had the opportunity to decide which agreements to accept and which to not. With WTO, there is a new rule of "single undertaking" that puts all countries in the position to

accept all agreements as a package. Meaning that by becoming a member of WTO you accept the entire Uruguay Round package. Before that, countries were choosing to sign agreements that were beneficial to them. It was specifically common for developing countries. The third change was in the dispute settlement procedures. Although there were well established procedures under GATT, new rules governing the procedures were put in place under WTO ultimately resulting in greater automaticity (Hoekman, 2002, p.41–42).

Table 2: The basic structure of the WTO agreements

Umbrella	**Agreement establishing WTO**		
	Good	Services	Intellectual property
Basic principles	GATT	GATS	TRIPS
Additional details	Other good agreements and annexes	Services annexes	
Market access commitments	Countries' schedules of commitments	Countries' schedules of commitments (and MFN exemptions)	
Dispute settlement	Dispute settlement		
transparency	Trade policy reviews		

Source: WTO (2017d).

1.3 WTO scope, function, structure

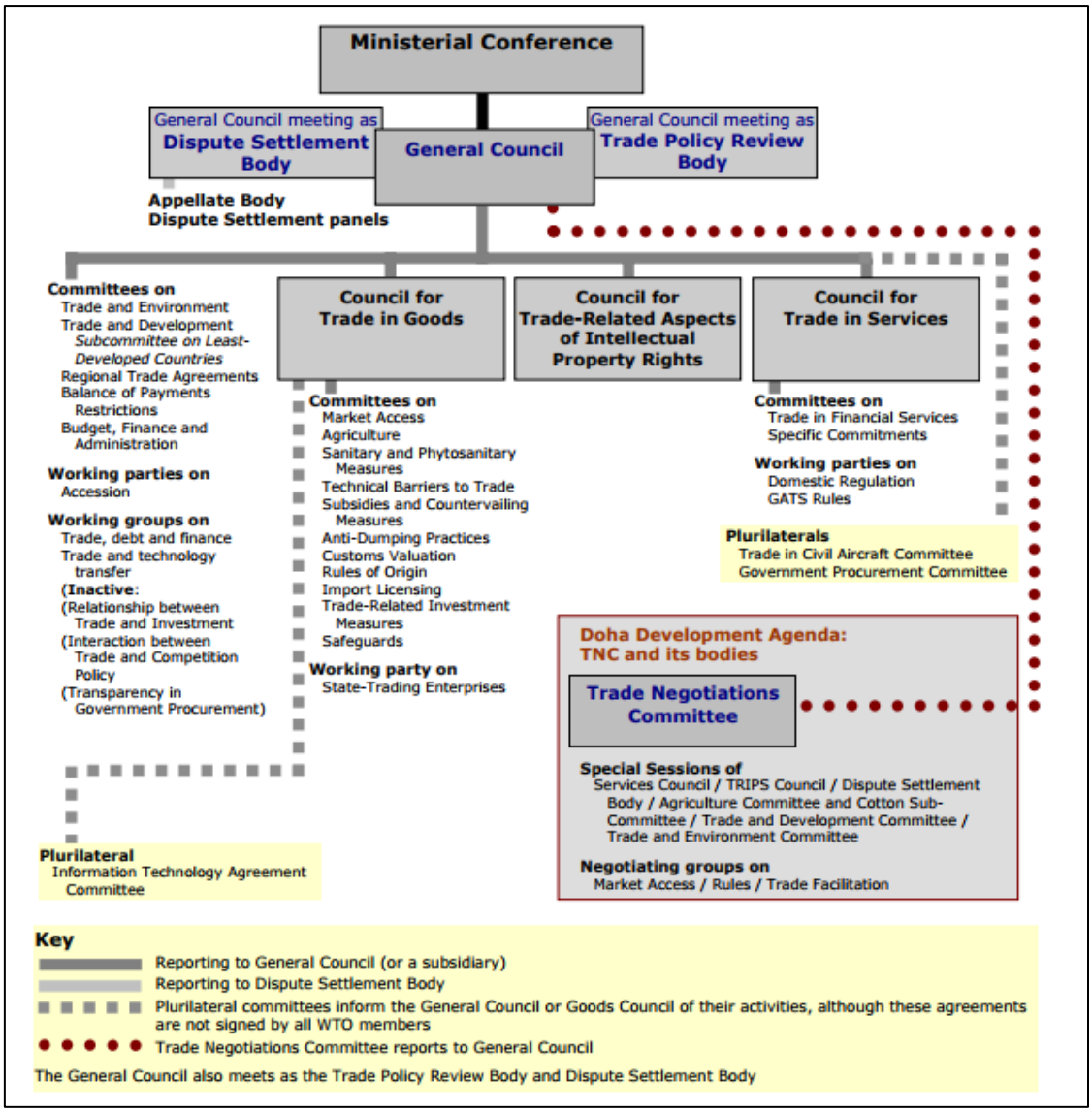
The Agreement Establishing the WTO puts the organisation in the position to provide a common institutional framework for its members to conduct matters of trade in relation to the agreements and associated legal instruments that are part of it (WTO, 1994). Rights and obligations of members are presented in four annexes that are part of the agreement. Annex 1 is divided in three parts, which are: Annex 1A is GATT 1994; Annex 1B is GATS and Annex 1C is TRIPS. Annex 2 explains the Dispute Settlement mechanism. Then, Annex 3 consists of the Trade Policy Review Mechanism, which is used for the supervision of members' trade policies. And finally, Annex 4 is reserved for Plurilateral Trade Agreements which are binding only for signatories.

As an organisation, WTO has several functions which are presented in the Article III of the agreement of establishment. These functions are: facilitate the implementation and operation of the MTA; provide a forum for negotiations; administer the dispute settlement mechanism described in Annex 2; exercise surveillance over trade policies which are presented in Annex 3; and collaborate with IMF and World Bank (WTO, 1994).

The structure of WTO is explained in the Article IV of the Agreement Establishing the WTO. The whole structure of WTO is presented bellow in Figure 1. There are two main bodies that have the major functions (Hoekman &Kostecki, 2009, p.58–61):

a) *Ministerial Conference* is the highest body of the organisation. It is the decision-making body composed of representatives of all members and must meet at least once every two years.
b) *The General Council* is the body bellow Ministerial Conference normally composed by all members' ambassadors and heads of delegations in Geneva, which meets several times between meetings of the Ministerial Conference. When necessary, the General Council meets as the Trade Policy Review Body or as Dispute Settlement Body.

Figure 1: WTO structure



Source: WTO (2017h).

There are *three councils* that operate under the General Council. These are: Council for Trade in Goods, Council for Trade in Services, and Council for Trade-Related Aspects of

Intellectual Property Rights. These councils work based on functions given them by their respective agreements and General Council. Meetings for these councils are organised based on necessity. Under Council for Trade in Goods and Council for Trade in Services there are several committees and working parties operating based on functions assigned to them by their respective agreements and councils.

Several specialized committees, working parties and working groups work on individual agreements and other areas such as RTAs, development, environment, budget, finance and accession. All members are allowed to participate in all councils and committees, except for Appellate Body, Dispute Settlement and plurilateral committees (WTO, 2017f).

1.4 WTO basic principles

WTO is an organisation that works towards abolishing trade barriers and achieve free trade within its member countries. To achieve that, there are long negotiations which bring as consequence comprehensive trade agreements covering many aspects, such as banking, agriculture, industrial standards, intellectual property, and others. These agreements are legal texts; therefore, they are complex. However, all these agreements have in common five simple, fundamental principles that also represent the basis for multilateral trading system. These five main principles are (WTO, 2017j):

a) Trade without discrimination:
   MFN treatment requires members of WTO to treat each member equally. This means that when a member grants a special favour, such as lower tariff on a specific product, this approach must be the same for other WTO members. MFN treatment is the most important principle in WTO agreements and also the first article of GATT. It is also present in GATS in article 2 and in TRIPS as article 4. With these three agreements, the major areas handled by WTO are covered. However, this treatment is managed a little differently in each of these three agreements.
   National Treatment grants the non-discrimination treatment among members of WTO. It makes sure that local and imported goods are treated equally once the goods are inside the market. This means that the country of import cannot charge additional internal tariff or put any other form of trade obstruction on the foreign product. Once a product, service or item of intellectual property has entered the market, this treatment must be applied. Like the MFN treatment, also national treatment is present in all three main WTO agreements: GATT in article 3, GATS in article 17 and TRIPS in article 3.
b) Freer trade:
   Through many negotiations, WTO is working on lowering trade barriers which could be in form of tariff or non-tariff measures such as quotas. By lowering the barriers, WTO is trying to stimulate trade. For the first few decades of GATT, the focus was on lowering tariff barriers, but negotiations have switched to non-tariff barriers on goods, services and intellectual property since the 1980s.

The entire process of opening the market must be done gradually, especially for countries with developing economies unaccustomed to an open market. Therefore, WTO provided longer periods to developing countries to adjust and decrease their trade barriers. Also, the obligations on tariff level differs between developed, developing countries or LDC.

c) Predictability:
   Assuring a stable and predictable environment for businesses encourages investment, jobs creation and consequently it gives consumers more choice and lower prices. All these can be achieved with the promise to not only decrease the barrier but also to not raise new trade barriers. If businesses have a security that there will not be substantial changes in the market, then it makes easier to invest and expand. WTO is trying to achieve this not only by discouraging the use of quotas and other ways to put limits on quantities of imports, but also by making trading rules of each country as clear and public as possible. This transparency eases the whole trading process.
d) Promoting fair competition:
   WTO is discouraging unfair practices and has a set of rules committed to open, fair and perfect competition. The kind of practices that could represent unfair conditions are subsidies and dumping, which is exporting at below cost to gain share.
e) Encouraging development and economic reform:
   WTO recognises that developing countries need more time to implement all the agreements. Therefore, the agreements give developing countries and LDCs some transition periods that allows them to adjust to new, less familiar WTO provisions. It is also expected that developed countries accelerate the implementation of commitments that give LDCs' exported goods some aid. This is done by adopting the duty-free and quota-free provisions for products from LDCs. Specially, the Doha Development Agenda puts the position of developing and LDCs in the foreground.

1.5 Dispute settlement

Resolving disputes between members is one of the crucial activities of the WTO. By doing so, the system provides security and predictability to the international trade, which is important for business environment. The rules of dispute settlement are part of WTO Agreement and are contained in Dispute Settlement Understanding (DSU), which is a legal text. All members agreed to use this mechanism in case of disputes instead of acting unilaterally. Through this system, WTO ensures that all members' rights under WTO Agreement are enforced. It also gives the opportunity to the respondent part, to defend itself. The mechanism does not impose new rules on WTO members, but is clarifying their rights and obligations through interpretation. All members are entitled to resort to the procedures of dispute settlement system if they think that a member of WTO adopted a trade policy measure that is conflicting with the obligations outlined in the WTO agreements.

The procedure of dispute settlement in GATT was inefficient. In some of the most important parts of the process, such as establishing the panel, defining its terms of reference, deciding

its members and adopting its ruling, the consent of the defendant was needed because the system was based on consensus decision-making. And in many cases the process couldn't move forward because of this. The DSU made a reform which makes the procedure continue regardless of the defendant's consent (Hudec, 2002, p.82). due to the improvement of the dispute settlement system with Uruguay Round, developing countries increased their participation in it, which is a good indicator that the accessibility of the system had improved. Up to July 2015, 496 cases were brought to the WTO and around half of it were proposed by developing countries (WTO, 2015, p.76–77).

To administrate the entire process is the Dispute Settlement Body (DSB) which has the authority to establish panels, adopt panel and Appellate Body reports, maintain surveillance of implementation of rulings and recommendations, and authorize suspension of concessions and other obligations under the covered agreements (Article 2, DSU). All WTO members participate in DSB, except when there is a dispute regarding one of the preferential trade arrangement (PTA), then only signatories participate.

Bodies involved in dispute settlement process are (Delich, 2002, p.71–73):

a) Panel – composed of three panellists, occasionally five. Nations involved in the dispute cannot serve on the panel, unless all parties involved agree so.
b) The Appellate Body – is composed of 7 members, who are appointed by DSB for a period of four years with the possibility of additional mandate.

A dispute settlement process starts with a formal complaint by a member. In the first stage, the members involved in the dispute try to solve the issue through consultations with one another. If this is unsuccessful, DSB establishes a dispute panel. The whole process of settling the dispute is explained in detail in Appendix 2.

1.6 Doha Round

The agreements negotiated and signed so far, are not stationary. Every so often the negotiations restart about existing agreements or there are new propositions that come on the agenda. In 2001, all members started the first negotiation round under WTO, which is known under the name of the Doha Development Agenda. This round is the longest in the history of multilateral trading system and it is still not over. Many authors, such as Hartman (2013) and Ghibutiu (2015) believe that the biggest problem with this negotiation round is the expansion of WTO and the single undertaking rule. Since 26 July 2016, the number of WTO members is 164 (WTO, 2017e). In the Appendix 3 there is the list of all members and the dates when they joined WTO. With this number of members, it is believed that is impossible to achieve unanimity on several different sectors. The principal areas of Doha negotiations (WTO, 2017g) are agriculture, Non-Agriculture Market Access, services, rules, TRIPS, environment, development, trade facilitation and dispute settlement. The big issue in negotiating these areas is the big division between developed and developing countries.

Wolfe (2015) argues that the real problem is not in the number of members or in the single undertaking rule. Negotiations are done in small groups in so called Green Rooms. The big players are always present at these meetings. The real issue is that these big players, which are Brazil, China, EU, India and US have asymmetric interests in WTO and because of that, a common path cannot be established to finish the negotiations. If these countries found an accord, it is almost certain that the smaller countries would follow them. It is hard to believe that they would oppose. The author sees the downturn of the Doha Round in external factors which WTO did not adapt to. Such factors are the changing role of China, armed conflicts or terrorist attacks, the public opinion and business attention.

In spite of the problems that Doha Round is facing, a milestone in global trading system has been achieved in 2017, when the first agreement came into force since the establishment of WTO. In 2004, WTO members formally launched the negotiations on trade facilitation, which were concluded in December 2013 at the Bali Ministerial Conference. On 22 February 2017, the Trade Facilitation Agreement (TFA) came into force, after two thirds of members ratified it (WTO, 2017i). The agreement has two sections. The first one, contains provisions for acceleration of movement, release and clearance of goods, also goods in transit. The second section is about the special and differential treatment provisions for developing countries and LDC.

2 ECONOMIC INTEGRATION

It can be said that all countries in the world are affected by world trade. Countries are looking for a way to integrate with each other to achieve a higher economic efficiency and increase their welfare. The best way to achieve that is with international economic integration (Jovanović, 2015, p.2). The economic integration provides a way to destroy social and economic barriers between countries. It represents an important part of the global trade.

Many authors in the economic literature use the term of economic integration differently. There is also a big discussion whether the effects are positive for all or if there are third parties that suffer the consequence of exclusion from an integration. Through this chapter I present several definitions of economic integration done by different authors. Then I continue with the types of economic integration by different forms and levels. Further on I discuss the reasons why countries decide to enter an economic integration and what are the effects of it, by presenting the static and dynamic effect of an integration.

2.1 Definition of economic integration

The term “integration” in the sense of bringing together several economies to create one economic region, was not used in economics prior the 1940s. The term was referring to companies’ horizontal or vertical integration, such as cartels, mergers, concerns or trusts (Machlup, 1977). Today we can find a lot of literature about economic integration and most

authors define it as collaboration between countries in reducing or abolishing trade barriers from which both or more sides will experience benefits.

Tinbergen (1965), who was one of the first to define it, sees integration as creating the most favourable structure of international economy by abolishing obstructions of optimal operations and intentionally implementing elements of collaboration and unification. Balassa (1961) defined the economic integration as a process and as a state of affair. As a process, it includes measure for to eradicate discrimination between economic units of different countries. As a state of affair, it can be expressed by the absence of many ways of discrimination between countries. In El-Agraa's (1997, p.1) point of view, economic integration is a discriminatory elimination of trade barriers between two or more countries and formation of collaboration between them. Similarly, Appleyard and Field (2014, p.396) also believe that economic integration is a collaboration between countries that want to achieve free trade and to gain the benefits of a liberalized market without losing control over the services and goods that cross its borders.

Jovanović (2015) defined international economic integration as a process where a group of countries work toward increasing its welfare by recognising that a collaboration between each other is more efficient than to strive independently. Collaborating countries should focus to the relations inside the group rather than outside of it. It is important for an integration to have some level of freedom of movement for goods and services. For the success of the integration and its durability, it is necessary to have some discussion or even coordination about monetary, fiscal, competition and regional development policies. Because markets can change drastically and quickly, countries as individual entities and the group as whole, should have the flexibility to adjust their strategies and policies. Therefore, the process of integration is evolving, and it is not limited at any point.

2.2 Types of economic integration

The integration between countries can take many different forms and levels. Therefore, in the literature we can find that the agreements can be categorized differently according to the extension of integration of national economies and other characteristics such as number of nations involved.

Dunn and Mutti (2000, p.205); Appleyard and Field (2014, p.396–397); and El-Agraa (1997, p.1–2) define different forms of integration in the same way, based on the level of integration, as followed:

a) Free Trade Areas (FTA) - the member nations abolish trade barriers between each other but keep the control over the tariffs toward non-member nations. The issue with this type of arrangement is that third party countries can export a product to the member country that has the lowest level of trade barriers and resell it from there to the countries that have higher protections against third parties. This way, non-member can make profitable

export by transhipment strategy. For that, there are rules of origin which will be explained further in the paper.

b) Custom Unions (CU) – are like FTA only that member nations adopt common restrictions on import with non-member nations. They negotiate trade agreements, with non-members, together.
c) Common Markets (CM) – are the next level of CU, where free mobility of capital and labour is allowed between member nations. By agreeing to this, nations lose their sovereignty on immigration.
d) Economic Union (the abbreviation EU is more commonly used for European Union; therefore, economic union will not have an abbreviation) - is the ultimate step of CM where the fiscal and monetary policy are unified within member nations. When members also adopt a common currency, it becomes a monetary union (MU), which is the case in Europe with Euro.

El-Agraa (1997) additionally mentions a complete political union, as another type of integration, which is when countries integrate so much that become one nation, but it is almost never mentioned as a type of economic integration. Jovanović (2015) divides the international economic integration into seven types which includes all four types mentioned before and three more. He adds a preferential tariff agreement where participating countries apply lower tariffs between each other compared to third countries. Then there is partial customs union where signatory countries maintain their initial tariffs and set up a common external tariff toward third countries. The last one is a total economic union where countries involved establish a single economic policy and a supranational government. Smith (2014, p.306) additionally categorizes the agreements based on the number of countries involved. There could be a bilateral trade agreement, where two countries agree to reduce or remove trade barriers between each other; or MTAs, where multiple countries are involved in reducing or abolishing trade barriers. Usually the MTA is used for agreements that involve a large number of countries which are not necessarily from the same region. Currently the most known MTA is WTO. At the beginning the term RTA was used for trade agreements between neighbouring countries or countries from the same region. Today is used widely for all trade agreements between countries that are integrating with each other by decreasing or abolishing trade barriers regardless the geographic position and the level of integration.

In some literature, we can also find the use of the term preferential trade agreement or arrangement for RTAs (Panagariya, 1999, p.4–5). In WTO's terminology, preferential trade arrangement (PTA) is used for non-reciprocal preferential schemes that some members use for products from developing and LDC. Therefore, all other reciprocal trade agreements among two or more countries are known as RTAs (WTO, 2017a). Through this paper the WTO's terminology is used.

Kang (2016) argues that Balassa's classification of different types of economic integration is outdated because it is based on the level of advances in integration. This typology was followed with the evolution of EU, but it was not used on any other continent. In today's

trading agreements there are more and more different aspects included such as FDI and others, meanwhile in the Balassa classification, only goods trade is taken in account. In the paper the author points out the necessity of researchers to re-examine the typologies of regionalism according to the criteria presented in Table 3.

Table 3: Typology and criteria of regional economic integration

Typology	Criteria	Groups of regional economic integration				
Balassa	Advance of integration	FTA	CU	CM	Economic Union	Monetary Union
Feature of economic integration	Level of institutionalization	De jure integration			De facto integration	
Membership	Is the membership open to other countries?	Closed integration			Open regionalism	
Coverage of liberalization	How far does a trade agreement cover beyond tariff issues?	Shallow integration			Deep integration	
Relation between market and authority		Regulation and sanction		Risk management		Regulated market
Number of participants	How many countries are involved in a RTA?	Plurilateral		Gravitational		Bilateral

Source: Kang (2016).

2.3 Motives for economic integration

As Do and Watson (2006, p.10) point out, countries may enter trade agreements for more than the sole reason of economic benefits, they may do so because of political or geo-strategic reasons. For example, they mention the EU used the integration between European countries to maintain peace in the region. Then there are former Soviet Union countries that entered different agreements to ease their transition to market economies and liberalise their economies. Furthermore, Mexico gained international credibility for internal reforms by signing an agreement with US.

Cottier and Foltea (2006, p.43–47) state that in case of agreements between countries from geographical proximity, the non-economic reasons for integration are more common. Although, even if the agreement was signed for geo-political reason, there is also an

economic gain from it. Main economic reasons are larger markets, improvement of business environment for FDI, and change reliance upon unilateral General System of Preferences (GSP) programmes. Jovanović (2015) also claims that while the reason behind any integration has always been primarily political, the economic part has a big influence as well.

Possible economic benefits of an integration are many. It brings efficiency in production because of the increment in specialisation; higher production levels made possible by taking advantage of economies of scale; better international bargaining position; better efficiency as a consequence of intensified competition between firms; and higher quality and number of factors of production due to technological improvement (El-Agraa, 1997, p.5). The author also emphasise that these are possible economic gains, which means that not necessarily all countries will experience them in at the same level or if they even would.

2.4 Effect of economic integration

The economic integration theories have always generated an interest in whether the effect on members or non-members of integration would be positive or negative. Specifically, how it affects the welfare or economic growth of countries since the integration can both promote or limit the trade at the same time.

The studies about the effect of economic integration have a long history and one of the first contributors were Adam Smith, Robert Torrens and Frank Taussig (Baldwin, 2011b). Especially, Smith's "certitute" was one of the strongest finding in the theory of economic integration, saying:

"*When a nation binds itself by treaty, either to permit the entry of certain goods from one foreign country which it prohibits from all others, or to exempt the goods of one country from duties to which it subjects those of all others, the country, or at least the merchants and manufacturers of the country, whose commerce is so favoured, must necessarily derive great advantage from the treaty*." (Smith, 2005 [1776], p.437, as cited in Jovanović, 2015)

The theory distinguishes static or short-term effects and dynamic or long-term effects of economic integration. Static effect looks at the increase of welfare based on an improvement in the distribution of resources at a specific point in time. On the other hand, dynamic effect is considered a long-term effect which includes the technological progress, the distribution of investment, the relationships in production and investment and the uncertainty and inconsistency in economic decisions (Peiris, Azali, Habibullah & Hassan, 2015).

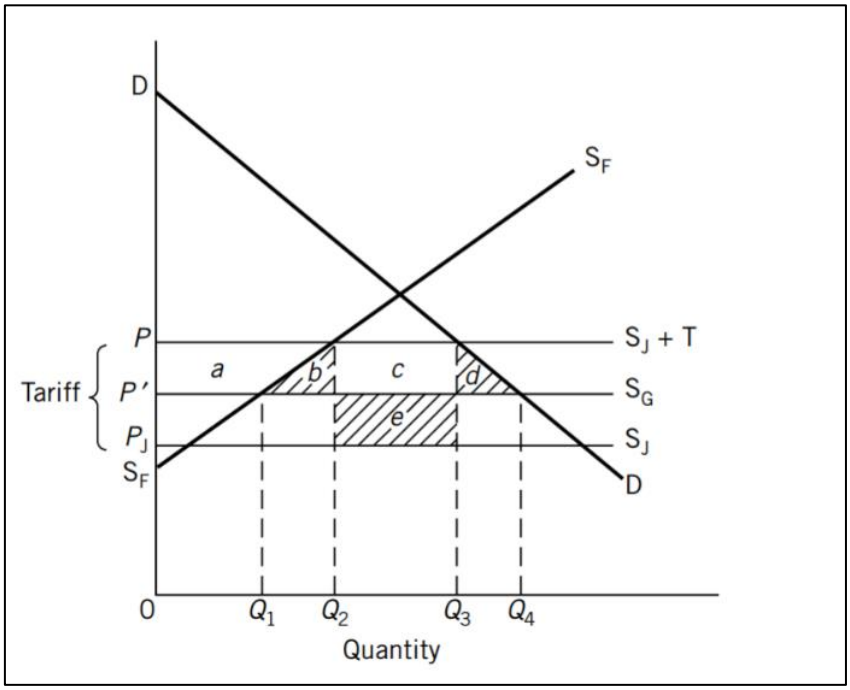
2.4.1 Static effect

The originator of static theory was Viner with the concepts of trade creation and trade diversion. In his analysis he pointed out that preferential trade agreements could be harmful to both a member country and world welfare (Bhagwati & Panagariya, 1996).

Trade creation is the positive effect of discriminatory trade agreement. In this case we have country A that was not previously importing the product from country B, but it was consuming local goods that were produces inefficiently. After the creation of the trade agreement, country A started to import the product from more efficient firms from country B. Because the product was not previously imported from any non-member, after the agreement, third countries do not lose exports, therefore unaffected. *Trade diversion* on the other hand, is the negative effect of such trade agreements. It happens when country A, before the trade block, was importing a product from country C, which is not a member of the agreement. After the trade block between countries A and B, country B takes over the export from country C and other non-members. This means that more efficient non-member countries lose sales against less efficient producers from member countries. This causes the reduction on world efficiency and the trade is diverted from low-cost to higher-cost sources (Dunn & Mutti, 2014).

The authors explain these two points with an example of a custom union between France and Germany, including also Japan as the non-member. In Figure 2 we have French production and potential imports from Germany and Japan. To show both trade creation and trade diversion in the same market, there must be French supply curve (S_F) upward-sloping, while supply curves of Germany (S_G) and Japan (S_J) stay horizontal. Before the creation of the trade block, France kept a uniform tariff, which is the distance between S_J and S_J+T. Since German costs were higher, only Japan was exporting to France. Once France eliminates the tariff on German bikes, Japan loses export sales of Q_3Q_2 with the consequence of efficiency loss of rectangle *e,* which is calculated as difference between German and Japanese costs times the number of products whose production is diverted. For French consumers the price drops from P to P' and the consumption expands from Q_3 to Q_4. At the same time French production declines from Q_2 to Q_1, with increase in imports from Q_3Q_2 to Q_4Q_1. The gains from this trade expansion include the areas of triangles *b* and *d,* where trade distortion loss is the rectangle *e*. This net effect can be calculated from the increase in consumers' surplus of area *a* + *b* + *c* + *d*, while the loss in tariff revenues for the French government are the rectangles *c* plus *e*, and for French manufacturers the loss in producers' surplus is the area *a*. The loser as a result of the creation of this trade block is Japan, because its export is overtaken by Germany. The French government also loses revenues from tariffs and French manufacturers lose profits, but the amount of consumer surplus gained is high enough to outweigh the losses in the country. Another beneficiary are German firms that increased their sales.

Figure 2: Effect of custom union between France and Germany



Source: Dunn & Mutti (2014).

Many authors criticize Viner's theory and concepts of trade creation and trade diversion. Baldwin (2011b) notes that although Viner's usage of the terms trade diversion and trade creation leads to think that trade volumes are the main point, he clearly indicated the cost changes as the key. Although this is debatable, Viner's terms were kept as is. Plummer, Cheong and Hamanaka (2010) further criticize Viner's model because he included only one imported good, and by doing so, he ignored any interaction within other goods' markets. Many authors also criticized the argument on trade diverting, since he concentrated only on the production side and has ignored the supply side effects (Lipsey, 1957, 1960; Gehrels, 1956-1957; Krauss, 1972; Sheer, 1982, as cited in Peiris, Azali & Hassan, 2015).

Although it has its critics, Vinerian analysis is now part of the bigger theory called the general theory of second best (Lipsey & Lancaster, 1956). In the economics, the efficiency criterion is presented with Pareto optimality. When resources are allocated in a way where no other acceptable allocation exists in which some agents could be better or worse off, is said to be Pareto optimal. The Pareto-optimal allocation is only possible to be achieved when there is free trade and free factor mobility, also known as first-best solution (Jovanović, 2015). The second-best theory states that if in the general equilibrium there is a distortion introduced, which ruins one of the Pareto conditions, the other Pareto conditions are no longer desirable. Meaning that if the Pareto optimum conditions are not achieved then an equilibrium situation can be fulfilled only by departing from all the other Pareto conditions. This then represents the second best optimum. (Lipsey & Lancaster, 1956). Therefore, in the economic system where distortions are present, eliminating one of them does not necessarily guarantee an improvement in overall economic welfare if other distortions stay unchanged. Specifically, in trade blocks, reducing tariffs on a discriminatory basis will not

necessarily improve welfare of individual countries or global economy because some tariffs will remain in place (Plummer, Cheong and Hamanaka, 2010).

Kemp and Wan wanted to show that a new CU between any country did not necessarily mean that the non-member would experience the negative effect on their welfare (Bhagwati & Panagariya, 1996). With their Kemp-Wan theorem they presented that RTAs could be Pareto improving for all members and the rest of the world. The assumption is that when two countries sign a trade agreement, they adjust their external tariffs in a way that they keep the external trade flows unchanged. For example, if there is trade diversion from third country, then the members must lower their tariffs. Secondly, member countries must embrace total internal free trade, which will consequently bring greater efficiency within trade creation. Thirdly, in case if non-member country would experience a negative effect because of this trade block, there should be a compensation mechanism, where the country that experienced loss would be fully compensated (Plummer, Cheong and Hamanaka, 2010). In real world, this type of alteration of tariffs where third countries would not be affected is impossible (Baldwin, 2011b).

Mattoo, Mulabdic and Ruta (2017) went further and examined the Vinerian question of trade creation and trade diversion related to deep RTA. The results show that a creation of deep agreements has a significant positive effect on trade flows between members. The increase in trade between signatory countries that had the highest depth was by 44 %, suggesting that deep provisions cause more trade creation than shallow RTAs. On the other hand, trade diversion effect of RTAs is mostly driven by the inclusion of non-discriminatory provisions. Diversion effect of tariff preferences gets moderated with deep agreements. That is because many reforms that are undertaken with the implementation of deep agreements, benefit members and non-members. As an example, when a country limits subsidy to domestic producers, it affects members of the agreements as well as non-members.

2.4.2 Dynamic effect

With the static approach, we only considered the once time effects that custom unions could have. To analyse the effect in today's fast changing world, with information technology, innovations and market uncertainty, a significant modification is required. Therefore, the dynamic approach must be considered since it includes not only trade in goods but also the analysis of the possibility of resource allocation across time (Jovanović, 2015).

Balassa (in Peiris, Azali, Habibullah & Hassan, 2015, p.54) did not want to limit the study to resource allocation under static assumption, therefore he pointed out the importance to elaborate the effect of integration on dynamic efficiency. He argued that the factors affecting the dynamic efficiency are technological progress, uncertainty and inconsistency in economic decisions, the allocation of investment, and dynamic inter-industry relationships in production and investment.

Plummer, Cheong and Hamanaka (2010) present four most important dynamic effects regarding FTAs:

a) Economies of scale and variety
b) Structural policy change and reform
c) Competitiveness and long-run growth effect
d) Technology transfer and foreign direct investment (FDI)

First, the larger market will give the opportunity to companies to achieve economies of scale because of larger customer base, spread of administrative costs, discount from suppliers, therefore the price will decrease for existing customers. Also because of a bigger market, more companies will be present, and customers get more variety of the goods. Second, deeper integration that includes behind-the-border measures can shape and harmonize members' national policies and start reforms for example in labour market. Third, the increase in competitiveness within a trade block, may improve the efficiency and resource allocation of members by forcing them to specialize in production in which they are more efficient. Fourth, multinational corporation are attracted by integrated marketplaces because they can enjoy low transaction costs and exploit economies of scale, therefore they might decide to invest highly in markets of new members. By doing so, the result is investment creation, which is similar to trade creation and trade diversion mentioned before. As Dunn and Mutti (2014) point out, in cases where companies invest in a member country solely to gain preferential access to the new market, there might be investment diversion in place, in case the investments went away from more efficient locations outside of the block.

Usually it is harder to analyse the dynamic effect of integration because it is based on a long term during which, many factors can change. As Mattoo, Mulabdic and Ruta (2017) show in their empirical study, on average, two years is needed for a deep agreement to increase trade flows. The reason behind that is that it takes time to implement reforms of behind the border measures.

3 ATTITUDE OF WTO TO RTAS

In the past, when the proliferation of RTAs begun, many started to argue that this could affect the multilateral trading system by destroying it. Still today there are many debates about weather RTAs are helping the multilateral system or damaging it.

RTAs violate the most important principle of WTO, which is non-discrimination. But since the beginning, both GATT before and WTO today, know the importance of RTAs. There were few arguments as to why the exceptions from basic principles were acceptable. One of the first reasons for the exception of MFN clause was the desire to alleviate the reconstruction in Europe after the World War by decreasing the protective trade barriers within European countries but without forcing them to do the same with US and others. Another argument for the approval of RTAs was the recognition from GATT that closer co-

operation between neighbouring countries will bring additional value which couldn't be achieve with the multilateral system. Moreover, the RTAs will increase the global free trade (Kjeldsen, 2001).

3.1 Sets of rules for RTAs

RTAs represent an important part of international trade and WTO recognizes it. Therefore, as said before, multilateral trading system has always permitted the creation of RTAs. GATT in the past and WTO today has specific rules that allows RTAs under certain criteria which must be met. These rules are spelled out in (RTA-IS, 2017):

a) Article XXIV of GATT 1994 and the Understanding on the Interpretation of Article XXIV of GATT 1994 covers the trade in goods;
b) Article V of GATS and Article V bis GATS for Labour Market Integration Agreements covers trade in services,
c) Paragraph 2(c) of so-called Enabling Clause is specific for trade in goods within developing countries.

Under Transparency Mechanism, all members must provide a notification of RTAs. The WTO bodies that are responsible for supervision of RTAs are Committee on Regional Trade Agreements, which considers RTAs falling under Article XXIV of GATT and Article V of GATS; and Committee on Trade and Development, which takes care of RTAs that are notified under the Enabling Clause. The types of agreements allowed under these sets of rules are: RTA, CU, Economic Integration Agreement, and Partial Scope Agreement (RTA-IS, 2017). This new mechanism was established only on 14 December 2006, by the General Council on a provisional basis. Members will review and modify it, if necessary, and will replace it with a permanent mechanism as part of the result of the Doha Round (WTO, 2016).

The procedure of implementing the transparency mechanism on RTAs start with the early announcement. As soon as members start new negotiation with the goal to conclude an RTA, they should inform the WTO Secretariat about it. The information that must be submitted are the official name, scope, date of signature, timetable for its entry into force, contacts, website and other relevant unrestricted information. The second phase is the notification, which should be done as early as possible. The parties also should specify under which provision(s) of WTO agreements is notified and a full text and any related documents must be provided in one of the WTO's official language. In case there are any changes in RTAs, the WTO should be notified as soon as possible and again the related documents must be provided in one of the official languages. Throughout this process, WTO makes sure to release all the information about RTAs in the database that is available to everyone. Therefore, the format in which members should submit their documents, is preferably electronic (WTO, 2017l).

3.1.1 Article XXIV and Article V

The most substantial exception to MFN treatment is the Article XXIV of GATT which was updated in 1994 with an Understanding on Article XXIV, which was brought in to clarify it. This Article contains conditions which must be met by signatory parties to form custom unions and free trade areas (WTO, 2017n). Pomfret (2001) explains three main conditions of the Article XXIV. First condition requires that the trade barriers toward non-members of the RTA cannot be higher than those previously in effect. Secondly, substantial part of trade must have the trade barriers removed. And the last main condition is that Interim arrangements, in addition to free trade area and custom union (the form allowed for RTA), are concluded over a reasonable period. Reasonable periods being not more than 10 years, unless there were exceptional circumstances.

Article V of GATS is similar to Article XXIV of GATT in conditions that are required for regional trade agreements. The difference is that Article XXIV as part of GATT agreement covers goods and Article V as part of GATS agreement covers services.

3.1.2 Enabling Clause

On 20 November 1979, an addition to the GATT agreement was made in relation to developing countries. In this so-called Enabling Clause, the contracting parties decided that developing parties could benefit of differential and more favourable treatment, without granting such treatment to other participating parties. Specifically, in regard to RTAs, there is the paragraph 2(c) which mentions regional arrangements between less-developed contracting parties. All new agreements must facilitate and promote the trade and economic development in these countries (WTO, 2017m).

3.2 Rules of origin

RoO are used to ensure that preferences obtained with an RTA are not manipulated by non-signatory countries to export its goods to the country with lower tariff and from there to a third country. When a third country has different tariffs with RTA member countries, it can decide to export in the one with lower tariff and from there ship it to the country with higher tariff. This is known as *trade deflection*. RTAs include RoO that designate provisions and procedures to determine the country of origin of goods. Today's goods' components can be made in different countries and is harder to determine the origin. In that case it is usually used to see where the last major transformation took place (Garay & Cornejo, 2002).

RoO are divided in two types: non-preferential and preferential. Non-preferential are used to differentiate domestic products from foreign ones, with the intention to apply other trade policy instruments such as anti-dumping, safeguard measures, quotas, origin marking requirements, rules on government procurement. Preferential RoO are used in RTAs in the

context of GSP to establish the conditions which the importing country gives to an exporting country regarding a product origin and the preferential treatment between each of the included country (Estevadeordal & Suominen, 2003).

4 EVOLUTION OF RTAS IN THE WAKE OF GLOBAL VALUE CHAINS

Global trade went through an immense evolution in the past few decades. New technologies brought new opportunities for countries to collaborate and therefore new demand for trade agreements that would regulate this new, modern and complex collaborations. Countries did not see WTO as the only option to open their markets to global trade therefore they started to negotiate agreements between each other via multilateral agreement.

In this chapter I start with a historical overview of RTAs and their expansion throughout the years, from the first regional agreements after the World War II to 297 agreements that are in force today. During this time the agreements evolved in a way to serve the modern trade, including new provisions that WTO did not include but the global trade needed. The necessity of modernising the agreements was a consequence of the expansion of GVC which I explain further in this chapter while mentioning also the new age mega-regional trade agreements.

4.1 Changing scope of RTAs

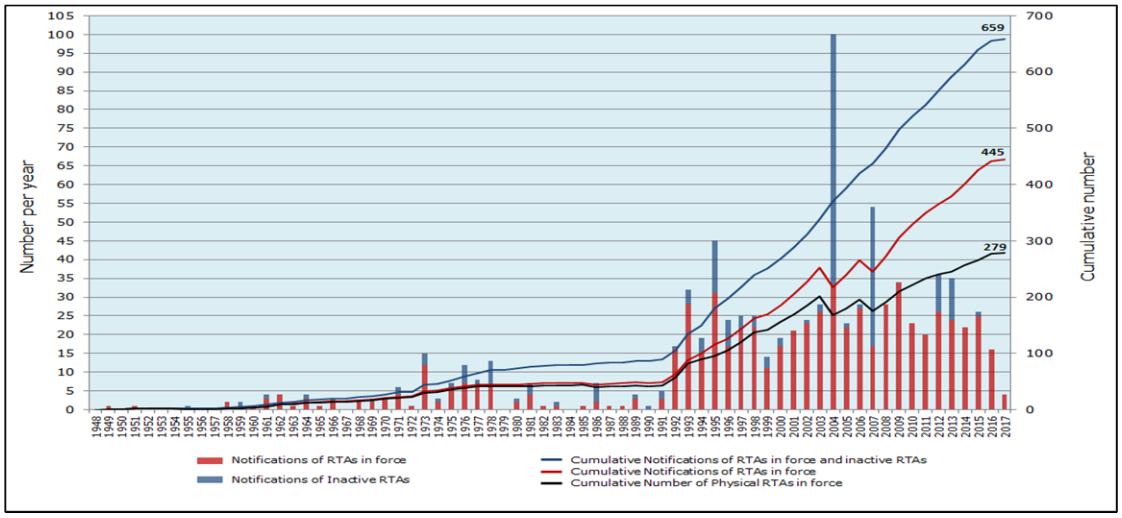
RTAs have existed in the multilateral trading system since its very beginning but first trade agreements between countries go way back to the past before World War II. The biggest player at that time was UK which had many agreements with British colonies. US, which represents one of the biggest players in last century of trading system, had adopted a more protectionist approach. It was the same with other big countries like Germany, France and Italy. Protectionism increased between the two World Wars and this contributed to the big depression in those years. After the World War II and the establishment of GATT, many countries turned toward multilateralism and focused on that (Dunn & Mutti, 2000). However, this did not stop the creation of new RTAs. Specifically, there was Western Europe that had agreements with developing countries. The two most effective agreements were The European Community (EC), which is today known as EU and European Free Trade Area (EFTA), which today is composed by Iceland, Norway, Switzerland and Liechtenstein. In the 1980s the things started to change. US realised that to continue with the liberalisation process it is necessary to turn toward RTAs. In 1985 US signed an RTA with Israel and later in 1989 with Canada. While this was happening, EC was expanding and deepening the integration within members, because it wanted to secure the neighbouring markets (Panagariya, 1999, p.7–8). During the Uruguay Round, US also started negotiations with Mexico, which were joined by Canada, and they achieved The North American Free Trade Agreement (NAFTA), which came into force in January 1, 1994 (Office of US Trade

Representative, 2017). These were the biggest RTAs at that time to emerge and still represent a big part of world trade.

After the establishment of WTO, things have changed. With many new members and the slowing down of negotiations, countries started to turn toward RTAs instead of inefficient multilateral trade system. Consequently, the proliferation of RTAs on global scale started.

From 1948 till 1994, when GATT was in force, 124 notifications of RTAs were received. After the creation of WTO in 1995, the organisation was notified of 400 more agreements (WTO, 2017b). In Figure 3, there is a presentation of number of notifications that were made during the period from 1948 till 2017. Many of inactive RTAs got replaced by new RTAs. For example, in 2004, when the EU expanded its membership to 10 new countries, all RTAs that were initially in force between all these countries and EU got replaced by the EU's agreement.

Figure 3: Evolution of regional trade agreements in the world, 1948–2017



Source: WTO (2017b).

Kang (2016) divides RTAs' development in four main periods. First period was at the time of the establishment of EC and EFTA in 1950s. Based on this European model, Latin American and African countries commenced their own integration project. The second period was in the second half of the 1980s, but it was not as prolific when compared to the first period. Two main regional economic integration marked this period: single market in Europe and NAFTA, which was the first RTA between northern and southern countries. The third period is the one with the highest number of new RTAs and it started in the mid-1990s. In the last period we can see the emergence of so-called mega-RTAs which go beyond tariff regulations and include a big percentage of international trade.

Today there are 297 RTAs in force and 39 early announcements were made to WTO (WTO, 2017c), and this represents more than half of international trade (OECD, 2017).

In the past two decades, the number of RTAs has been proliferating. Specially, members of WTO progressively engaged in negotiating RTAs to further open to competitive market pressure and to facilitate their integration in the world economy. Particularly there was an increase in negotiations in the Western Hemisphere and Asia-Pacific region. Since June 2016, when Japan and Mongolia notified WTO about their Economic Partnership Agreement (Ministry of Foreign Affairs of Japan, 2016), all WTO members have at least one RTA in force.

From 2005 to 2015 the number of RTAs in force has almost doubled, from less than 150 to almost 290. Although the number of RTAs has notably expanded, the percentage of trade under RTAs has not increased as much. The reason for that is that most of the agreements go beyond tariff concessions. There is around one third of world trade that has deep trade agreements, which is beyond WTO agreements (UNCTAD, 2017).

These deep provisions that are included in modern RTAs are knows as either WTO-plus (WTO+) or WTO-extra (WTO-X) provisions. WTO-plus provisions are those provisions that are already part of WTO, but countries in their RTAs take to another level. As an example, are import tariffs, where WTO puts a certain level, and countries commit to lower the tariffs even more under the RTAs. On the other hand, when we talk about WTO-extra provisions, it covers commitments that are not part of WTO agreements, such as environment, labour and others (Bown, 2016). In the literature is possible to find also other names for these provisions, such as deep WTO provisions and beyond WTO provisions.

There are several reasons behind the proliferation of RTAs in the past decades. First, the rise of many developing countries has shifted the economic power in the world economy. The BRICS (Brazil, Russia, India, China and South Africa) have become large players in world trade with a significant share of global exports that represents over 50 %. China as the biggest emergent country, took the place of the number one world exporter. With this change in world economy, also the division of two-speed model between developed and developing countries, is not a realistic representation anymore. Secondly, there was an increase of global-value-chains. Companies are looking for locations worldwide that would give them the highest cost-efficiency. The last reason can be seen in the inefficiency of WTO and its Doha Round. The increase in members has made the negotiations harder and the whole structure of the organisation has changed, making the decision-making process more complex (Ghibutiu, 2015).

A new trend that has shown after the global economic crisis is the emergence of so-called mega-RTA where the number of countries or the amount of international trade involved represent an important part of the global economy.

4.2 Mega-regional agreements

As mentioned, there is an emergence of mega-regional trade agreements that could affect the whole trading system. There are three mega-RTA that were or still are being negotiated, which are:

a) Trans-Pacific Partnership (TPP) agreement among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam;
b) Transatlantic Trade and Investment Partnership (TTIP) negotiation between United States and EU;
c) Regional Comprehensive Economic Partnership (RCEP) negotiation between ASEAN and Australia, China, India, Japan, South Korea and New Zealand.

These agreements represent typical 21st century trade agreements where there is not only the aim to reduce tariffs and other border measures that obstruct trade, but they also incorporate arrangement for regulatory cooperation as well as government procurement policies, global supply chain, competition policy, transparency, state owned enterprises, intellectual property, protection for investment, e-commerce, and anti-corruption (Bull, Mahboubi, Stewart & Wiener, 2015, p.2). In January 2017 the US Government decided to withdraw from the TPP agreement, so the remaining countries are trying to find a way to put the agreement in force without the US (WTO, 2017o).

Similarly, TTIP negotiations came to a stop at the end of 2016, after 15 rounds of negotiations between US and EU, because of the change of Administration in Washington (European Commission, 2018a). Many argue that the stopping of negotiations might also be induced by a negative perception of this agreements by the Europeans and their hard opposition to it (Rone, 2018; Monbiot, 2016).

All these agreements can be game changers in international trade. The TTIP would cover the third of world trade and a half of world output. RCEP would cover half of the global population (UN/DESA, 2016). A comparison between these three mega-trade agreements can be seen in Table 4.

Table 4: Comparison of TTIP, TPP and RCEP in 2015

	% share of world GDP	% share of global trade	Number of countries	% share of world population
TTIP	46,7	29,1	2 (counting EU as one)	11,5
TPP (including US)	37,4	26,3	12	11,3
RCEP	30,6	28,8	16	48,5

Source: Adapted from HKTDC Research (2016).

Elliott (2016) argues in the article that in case of TTIP, if EU and US come together by integrating standards in some sectors, it may result in higher standards that developing countries could not meet. Therefore, only European and American exporters will be able to use this type of agreement in their favour. This means that mega-RTAs might push developing countries back to negotiating multilateral system at WTO. In the UN/DESA's (2017) report, it is stressed that both non-members of mega-RTAs and even some members that already have preferential access, may lose out because of trade diversion.

4.3 From 20th century to 21st century regionalism

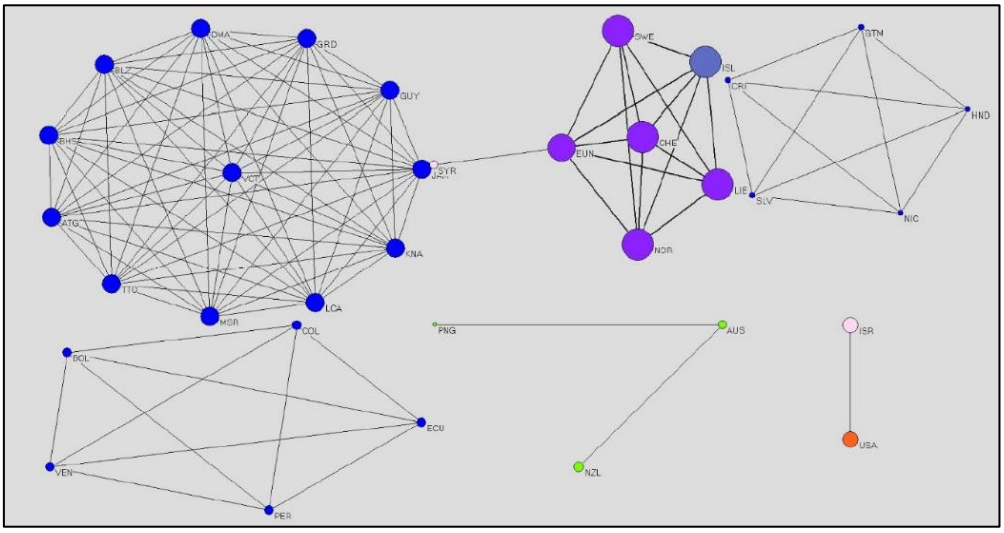
As mentioned previously in the paper, in the beginning, trade agreements were mainly about decreasing or abolishing tariffs between countries. Only with the last two negotiating rounds of GATT, did non-tariff negotiations start. It was similar with RTAs, only that it took a slower path and it evolved more after the establishment of WTO and the new GATS agreement. The big difference can be seen between 20th century agreements and 21st century agreements by the types of provisions included.

20th century agreements were based on "made-here-sold-there" goods, where 21st century agreements are about "made-everywhere-sold-there" goods (Baldwin, 2014) and include measures that go "behind-the-border" (UN/DESA, 2017).

The RTAs today have evolved significantly in comparison to the past. First of all, their presence is spread all around the globe to all geographic regions, especially in the past decade to the Pacific and East Asia. Secondly, the bilateral agreements are shifting to plurilateral within the same partners, which causes a growth in overlapping plurilateral agreements, especially in Asia and Africa where they are trying to catch up with market liberalisation. The third change is in negotiating within smaller number of partners because of the slow pace of multilateral system. Fourth is the impact of RTAs' on a global scale, with the proliferation of RTAs. The fifth change is in the regulatory scope of RTAs. New agreements do not include only trade in goods but include services as well. Many countries decided to go even deeper and beyond the issues that WTO is negotiating (Archarya, Crawford, Maliszewska & Renard, 2011, p. 37–68).

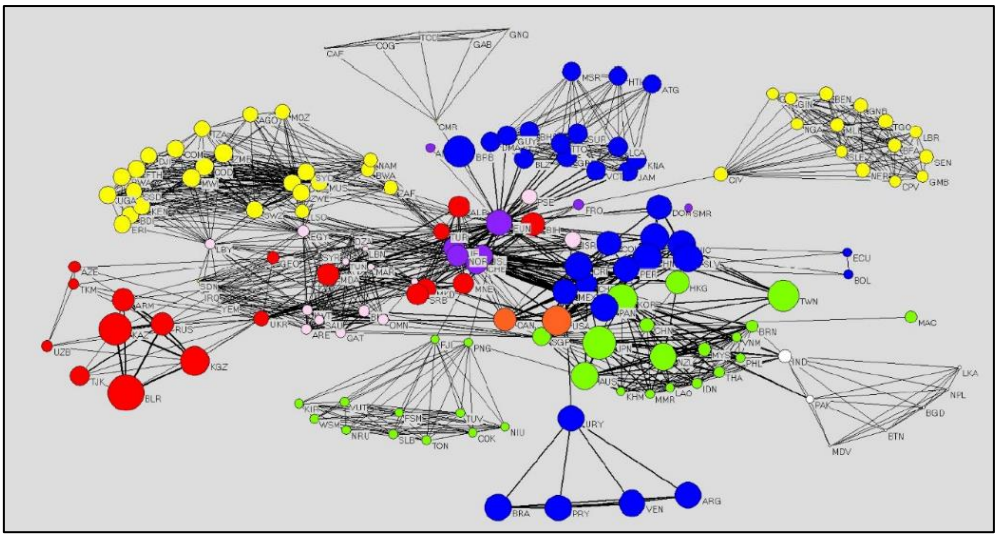
The dramatic change that occurred in today's trade world can be seen on Figure 4 and Figure 5, where the network of RTAs in 1990 and the network of RTAs in 2015 are presented. The average depth of each country's trade agreements is presented with the size of the nodes and it increased over time. Colours represent the regions. We can clearly see that in the 1990s, countries were mostly negotiating within same region. Whereas nowadays, we could say that countries are part of a single big network (Hofmann, Osnago & Ruta, 2017).

Figure 4: Network of RTAs in 1990



Source: Hofmann Osnago & Ruta (2017).

Figure 5: Network of RTAs in 2015



Source: Hofmann Osnago & Ruta (2017).

In the 1990s, the shift to deep provisions was not the only big change in the trade policy landscape. There was also a big rise of GVS that changed the international trade (Ruta, 2017). This trend towards more complex type of global trade generated the change in RTAs and the provisions that it included. Baldwin (2011a) calls the 21st century trade the trade-investment-services nexus which includes an intertwining of FDI, infrastructure services, trade in goods on an international level. Because of this complex environment for doing business abroad, the demand for deeper integration rules arise. Chauffour and Maur (2011) explain three main reasons why countries decide to negotiate deep RTAs. First are the economic motives, where the tariffs don't play an important role anymore because they are already at a low level on global scale. At this point, deeper provisions about investments for example, make bigger difference for partner countries. Secondly, there are societal motives. For example, safeguards provisions, labour rights and human rights provisions may be

included which does not yet reach a multilateral level. And the last motives are political-economy, where RTAs represent efficient forums for bigger geopolitical aspirations and often provides the opportunity for better exchange of information.

4.4 Regional trade agreements and global value chains

The international trade has had extreme changes with the rise of GVC, where the production is denationalized. Between 1990 and 2015, trade in parts and components increased almost six times, compared to 4.5 times for other forms of trade (Ruta, 2017). This change was possible because of the boost in two technologies: transportation and transmission, which caused a radical decrease in costs (Baldwin, 2013). Baldwin calls this period in trade "second unbundling", where the first one was characterised by lower trade costs and it was present before 1980s.

Today's RTAs are at the same time trade agreements and production sharing agreements. While the trade part is about reducing obstacles on goods produced abroad, the production-sharing aspect focuses on sealing in disciplines that simplify and speed up the internationalisation of production. This is especially common between high-tech and low-wage nations (Hufbauer, Moran & Oldenski, 2013; in Baldwin, 2014). Baldwin (2014) distinguishes two types of international production sharing: co-ordinating internationally dispersed production facilities and production abroad. The first one is about coordinating goods, people, ideas and investments in a way that customers get a high-quality, competitively priced goods in acceptable time. The second one is more about investors exposing themselves by setting up production facilities in a foreign country. Therefore, there is a big need of new provisions in these disciplines.

Because of the complexity of internationalizing the production, global trade was seeking new, more complex trade agreements. There were many different fields involved, such as FDI, know-how, labour, technology. Therefore, deep RTAs were necessary. Different authors studied the relationship between GVC and RTAs, specifically regarding deep integration.

The correlation between GVC and the depth of RTAs is positive. It is so, because to achieve efficient GVCs, several behind-the-border policies must be disciplined (Ruta, 2017).

In their study, Antràs and Staiger (2012) analysed the interaction between international production networks and deep agreements. The results showed that with the increase of offshoring, effective trade agreements will need to evolve, including institutions that support them. There must be the switch from market access focus and simple rules toward a focus on deep integration with agreements specific to the parties involved.

Orefice and Rocha (2014) made an empirical study on the relationship between deep integration and production network trade including 200 countries during the period from

1980 to 2007. They analysed two ways of this relationship: first the effect that signing an RTA has on facilitating trade among members of GVC, and second the probability that countries, which are already involved in GVC, will sign a deep agreement to secure their existing trading relationships. The authors found out that signing a deep agreement on average increases the trade in production networks between members by almost 12 percentage points. The impact on different industries is heterogenous. Those characterised by high capital intensity of its production processes, experience a significant increase in trade by signing deep agreements. One example is the automotive parts industry, where the increase is 36 per cent. On the other hand, we have textiles trade, where the impact is null. The results regarding the relationship the other way, show that an increase in the share of GVC trade over whole trade increases the probability of signing deep agreements by approximately 6 percentage points, with an effect of five times higher for agreements between North and South countries compared to those with comparable income levels.

Laget, Osnago, Rocha and Ruta (2018) investigated a broader set of agreements using the data set on the content of RTAs developed by World Bank, which includes 260 agreements signed between 1958 and 2015. Their focus was on analysing the impact of deep trade agreements on GVC integration among member countries, the importance of specific sets of provisions in RTAs and how deep agreements shaped the integration across countries with different income levels. The results showed that adding a provision to an RTA increased the domestic value added of intermediate goods and services exports by 0.48 %. The effect on foreign value added of intermediate goods and services exports was also positive. The increase was 0.38 %. The effects of deep trade agreements are usually more prominent for value-added trade in services compared to value-added in goods. The results also suggest that deep agreements are especially important with highly fragmented production processes where intermediates cross the border at least twice. This effect is less outstanding for the trade of final goods and services exports. When looking at the effect of deep trade agreements on goods and services separately, the results show that policy areas that are beyond pure market access are notably more important for GVC integration in services than in goods.

For developing countries, the most important reason for seeking RTAs is to attract more FDI, especially with developed countries (Kang, 2016), otherwise there is a high chance they will not be able to make their supply chain trade take-off (Baldwin, 2014). GVC gives nations the opportunity to export goods that they probably would not be capable of exporting on their own (Baldwin, 2014).

5 INTEGRATION BEYOND TRADE

Nowadays countries tend to negotiate agreements which include deeper provisions compared to WTO and beyond it. Specially the past two decades saw an increase in RTAs

including WTO+ and WTO-X provisions. Many studies analyse which are the main areas that get included and how much of these provisions are legally enforceable.

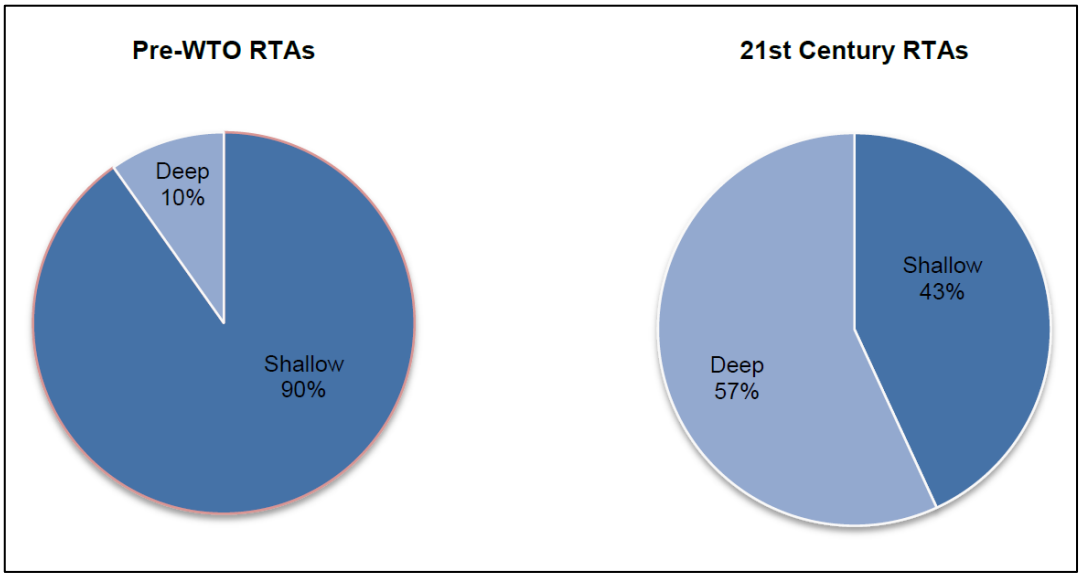
In this chapter I focus on the content of modern RTAs in comparison to WTO. First, I compare today's modern agreements with traditional ones, mentioning also the legal enforceability aspect. I continue with the further analysis of a selected six areas: environment, Singapore issues (transparency, investment and competition), e-commerce and labour. All these areas represent the WTO-X provisions and I present what is the current inclusion of them in RTAs and in which form are they included in agreements.

5.1 Deepness of the RTAs

The proliferation of RTAs and the change in international trade affected the content of RTAs and the number of them notified to WTO. Lawrence (1996) used the terms deep and shallow when talking about trade agreements. Shallow trade agreements are those that work on removing border barriers such as tariffs. On the other hand, deep agreements go beyond the border barriers.

The number of deep RTAs has been growing more rapidly compared to those with shallow coverage and it is not limited to a small group of countries but is global. Since 2001, more than 50 % of RTAs signed included deep provision. On the other hand, before the establishment of WTO, only 10 % of RTAs displayed deep provisions (Lejárraga, 2014). The comparison can be seen in the Figure 6 bellow.

Figure 6: Share of shallow and deep RTAs

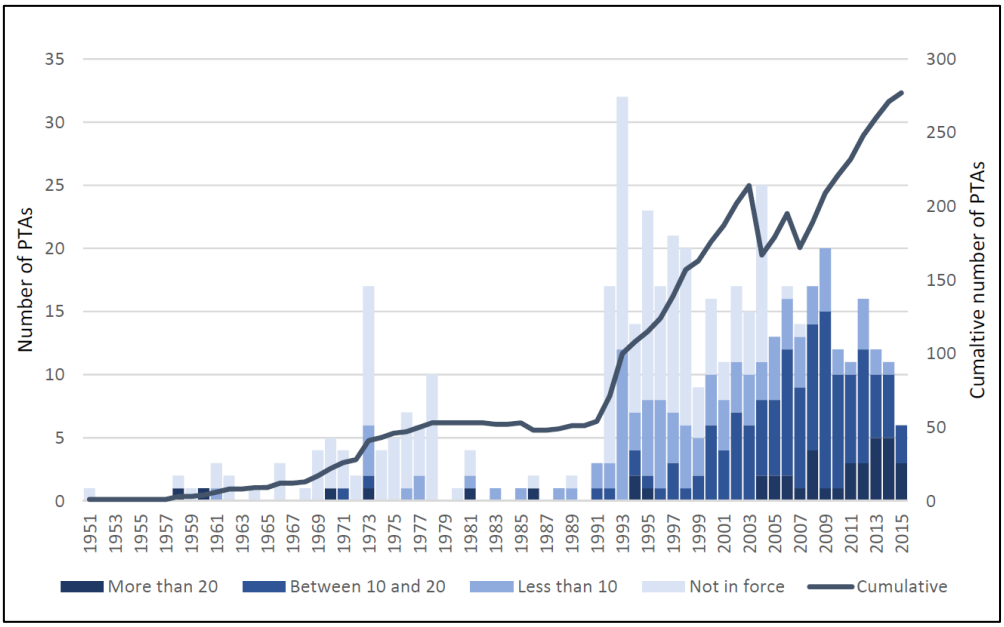


Source: Lejárraga (2014).

Hofmann, Osnago and Ruta (2017) analysed the depth of RTAs and found that the agreements signed nowadays are deeper compared to the traditional shallow ones. As it can be seen in Figure 7, the increase in number of provisions in agreements started from 1990,

from an average of 11 provisions for RTAs signed between 1990 and 1994 to 23 for RTAs signed between 2010 and 2015. Before 1990 there are also some picks in depths of RTAs mostly due to EC Treaty and successive EU enlargements.

Figure 7: Number of trade agreements over time and depth



Source: Hofmann Osnago & Ruta (2017).

Deep integration does not have one single form; therefore it is used for any agreement that includes provisions which go beyond removing tariffs on border. In WTO report (2011), the deep integration is divided in two distinct dimensions: Extensive and intensive. The extensive dimension deals with covering areas apart from tariff regulations, e.g. the harmonization of national regulations in financial services. The second, intensive dimension, refers to the level of institutional integration within an agreement, like establishing a supranational level of government. A lot of times these two dimensions are complementary.

Not only RTAs evolved to deep agreements, but also WTO took the same path. In the past decades the regional agreements and multilateral trading system are always discussed and compared to each other. The focus is in comparing the level of integration and the provisions that are included in them. Therefore, the phrase deep integration beyond WTO is commonly used.

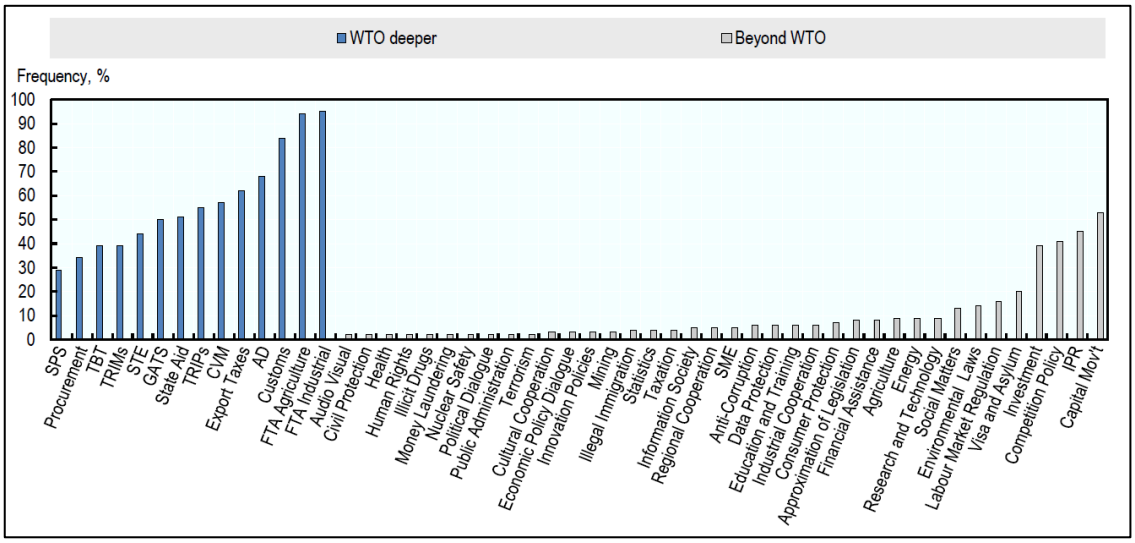
Most of the RTAs today include one or both types of provisions that go beyond WTO. Horn, Mavroidis and Sapir (2009) analysed 28 agreements of EU and US that were signed before 2008 and divided the policy areas in two groups: WTO+ and WTO-X, which can be seen in Appendix 4. When analysing the agreements, they came across three main conclusions. First, EU and US have different strategies for including WTO-X provisions in their RTAs. EU has almost four times the number of WTO-X provisions than the US does. Second, only few WTO-X provisions are legally enforceable. Third, the ones that are legally enforceable, are all dealing with regulatory aspects. With WTO+ the EU and US are more similar but still

have some important differences. While all US agreements include GATS obligations, only four EU agreements do. Trade-related investment measures (TRIMs) obligations are present in almost all US agreements, while there are none in the EU ones. The third difference is in obligations regulating export taxes. US includes them in all agreements, while EU doesn't in any. In general, both parties have a large number of legally enforceable obligations.

When looking on legal enforceability on global scale, the number of agreements including it are increasing. From an average of 8 to 9 legally enforceable provisions in 1990 to more than 17 legally enforceable provisions in RTAs signed between 2010 and 2015 (Hofmann, Osnago & Ruta, 2017).

WTO database analysed 100 RTAs, using the same methodology as Horn, Mavroidis and Sapir (2009), and grouped provisions in 52 categories. It is presented in the Figure 8 below, the frequency of agreements that include provisions which are legally binding. As already pointed out by Horn, Mavroidis and Sapir (2009), most of WTO-X provisions are not legally enforceable where on the other hand WTO+ are (Baldwin, 2014).

Figure 8: Frequency of legally enforceable WTO+ and WTO-X provisions

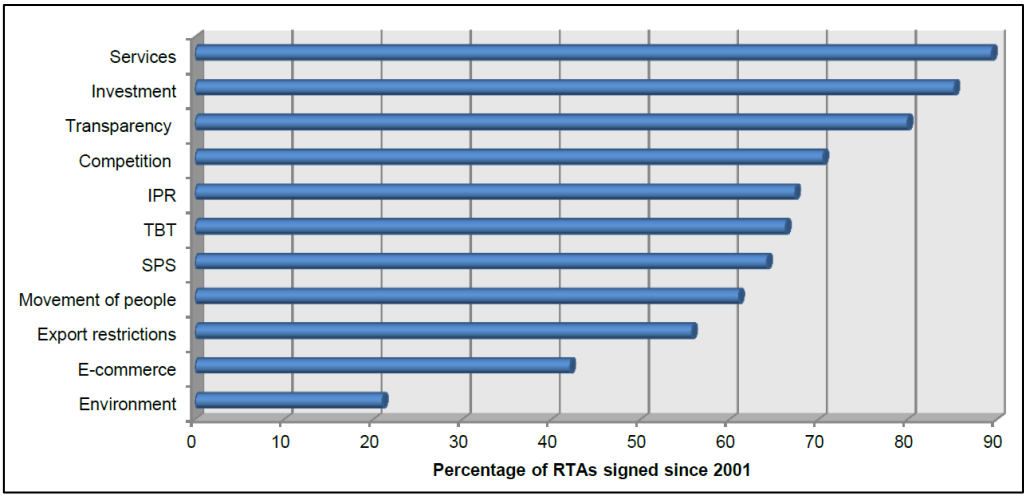


Source: Baldwin (2014).

Lejárraga (2014) in the report based on OECD'S (Organization for Economic Co-operation and Development) work on RTAs, examines regional provisions that go deeper or beyond the WTO provisions, with the purpose of analysing the effect that it could have on multilateral system. The focus of the analysis is on five considerations, which are: representativeness, homogeneity, level of discrimination, level of enforceability and economic impact of provisions in RTA. The results, as show in Figure 9, are that the most widespread WTO-plus provisions in RTAs signed since 2001 are services, investment and transparency. Almost 90 % of RTAs include deep provisions in services, over 85 % in investment and almost 80 % in transparency. The least coverage in RTAs is about environment, which is present only in 20 % of them. US and EU are the ones that more often include environment provisions in their agreements, but other countries have recently been

doing similarly. The absent is more prominent in South-South RTAs. A set of new areas that are emerging in recent RTAs involve state-owned enterprises, small and medium-sizes enterprises, consumer protection, data protection, competitiveness and regulatory cooperation.

Figure 9: Number of RTAs with WTO+ measures, by policy area



Source: Lejárraga (2014).

Measuring the economic impact of WTO+ and WTO-X in RTAs can be difficult. It is especially hard for behind the border measures where only partial impact can be captured and it could not represent the important part of the picture. Most deep provisions negotiated in RTAs address market failures and creating public goods instead of lowering tariffs. For example, including transparency or environmental provisions cause positive externalities which increase the productivity for both signatories and non-signatories (Lejárraga, 2014).

Deep RTAs can have an important impact on developing countries with positive effect, but it could also represent a challenge. As Chauffour and Maur (2011) point out, with deepening of RTAs, developing countries may have an opportunity to modernize and upgrade their rules and disciplines in order to achieve a greater economic efficiency. On the other hand, low-income countries might not be experienced enough to design large and complex set of rules which are necessary in the case of deep provisions. Usually their legal environment needs an advanced reform, more efficient instruments for implementation and an active supranational coordination. For all these reasons, the liberalization for low-income countries represents a complex process.

5.2 Principle areas of integration beyond WTO

As previously explained and presented in the Appendix 4, there are many different policy areas in RTAs that go deeper or beyond WTO provisions. In this paper only 6 areas were picked out to be further analysed and all of them are in the group of WTO-X provisions.

In the selection of these areas it was considered how much any area is of actuality and the limitation of resources to further analyse them. The chosen areas are *environment*, Singapore issues (*investment, competition and transparency*), *e-commerce* and *labour*. Singapore issues include also trade facilitation but the agreement for this one already came into force, so it is only briefly mentioned. While the areas of investment, competition and transparency have been on the negotiations table since the Doha ministerial meeting, it is not the case for the other three topics. WTO recognizes the importance of all three of them and there are some groups established to work on these topics, but countries are not willing to start multilateral negotiations on it. Environment and labour in particular are considered extremely complex due to considerably different levels of development between countries.

Competition and investment provisions are also classified as "core" policy areas. Which means that they are more economically relevant than others for market access and for a smooth functioning of GVCs. There are in total 18 "core" areas (Damuri, 2012). These provisions are also more often included in trade agreements (Hofmann, Osnago & Ruta, 2017). The list of all "core" areas can be seen on the Appendix 5.

5.2.1 Environment

Although one of fundamental goals of the WTO is sustainable development, protection and preservation of the environment, there is currently no particular agreement regarding environment (WTO, 2017p). The only provisions mentioning environment are in Article XX of GATT and Article XIV of GATS on General Exception where it is outlined that members are exempt from GATT or GATS rules when they adopt a policy that is necessary to protect human, animal or plant life or health (OECD, 2002). With the establishment of WTO, the Committee on Trade and Environment was created to address the issues that were related to the interface between trade and environment. This way, a forum was made available to members for debate and discussion about environmental issues. New proposals were produced and incorporated to the Doha negotiating agenda as a result of this forum (Sinha, 2013).

Even though WTO does not have any agreements in place regarding environment, members and non-members have been including the environment commitments in their RTAs. NAFTA, in 1992, was the first agreement that included environmental provisions in it and since then more countries included it. There are differences within countries and their approaches on this matter but in general there is an increase in the number of RTAs including these commitments.

There is a big division between developed and developing countries about including environment provisions in RTAs. The strongest advocates on this topic have been US, Canada, New Zealand and EU. On the other hand, there have been developing countries that were concerned about including environmental provision because it could represent a protectionist measure and the implementation for them would be more difficult. It is more

common for these countries to address this issue in a separate agreement and not include it in an RTA (Anuradha, 2011). For many of them, including environmental commitments would also mean spending a lot of resources to establish specific institutions and to properly train officials. A solution for this problem is the giving of financial assistance and capacity-building programmes by developed countries to developing ones. Environmental provisions are not included by developed countries solely for the protection and sustainability of the environment but more so to establish a level playing field among the parties. This means that countries which do not have strict and effective environmental rules, could use this to create competitive advantage over its trade partners, therefore developed countries want to prevent it by negotiating environmental provisions (OECD, 2007, p.43–45).

George (2014) in his report, which is based on Joint Working Party on Trade and Environment (JWPTE) study, lists several types of environmental provisions that are present in RTAs:

a) A reference in preamble
b) General and specific exceptions based on Article XX of GATT and Article XIV of GATS
c) A commitment to uphold environmental law
d) More specific environmental provisions such as:

- Environmental co-operation
- Public participation
- Dispute settlement
- Coverage of specific environmental issues
- Specific provisions on multilateral environmental agreements (MEAs)
- Implementation mechanism

e) Associated ex ante impact assessment.

Table 5 bellow shows the percentage of RTAs that include each type of environmental provisions. On average almost 80 % of RTAs that were included in the study include GATT and GATS Exceptions, making it the most common type of environment provision. The second most common type is a reference in the Preamble, present in more than 50 %, followed by co-operation provisions which are included in 49 % RTAs.

In the OECD (2007, p.34–37) study, it is pointed out that just as countries adopt different types of provisions, they also adopt different types of approaches. A country engaged in several RTAs may have different levels of commitments. Given as an example is Chile, which has agreements with OECD members, with EU and with developing countries. The approach used by Chile is not the same for all of them. Managing the various levels of environmental commitments can be challenging, especially for countries that do not have extensive experience in implementing them.

Table 5: Percentage of RTAs including environmental provisions

Year of entry into force	Num-ber of RTAs revie-wed	Noted in preamble	GATT or GATS exceptions	Uphold environmental law	Substantive environmental provisions	Co-operation	Public participation	Dispute settlement	Specific environmental issues	MEAs	Implementation mechanism	Ex ante impact assessment
To 2007	9	22	100	11	22	22	0	11	11	0	11	0
2008	14	43	64	29	36	57	14	14	43	0	21	14
2009	18	67	67	33	28	33	22	22	22	17	33	33
2010	15	27	67	27	40	53	0	20	40	0	13	7
2011	11	82	91	36	55	64	36	36	45	27	45	27
2012	10	78	100	67	67	67	33	56	56	56	44	44
Total	77	52	78	34	40	49	18	25	36	16	29	21

Source: George (2014).

5.2.2 Singapore issues

After establishing the WTO, member-countries realised that the multilateral agreement should include negotiations on new issues. In 1996, at the Singapore Ministerial Conference, three new working groups were set up. These were working groups on trade and investment, on competition policy and on transparency in government procurement. The fourth area known as trade facilitation was given to WTO Goods Council. Because of the location where the groups were established was Singapore Ministerial Conference, the name for these four areas is also known as Singapore issues. All four were part of Doha negotiating round, but because a consensus could not be reached, members decided to carry on only the negotiations on ***trade facilitation*** (WTO, 2018a). As mentioned previously in the paper, this area of negotiations was concluded and in 2017 the agreement on Trade Facilitation came into force after two thirds of members ratified it. Because a consensus on the other three could not be reached, countries continued to address these issues on regional level in RTAs and the provisions included in it are going beyond the WTO provisions.

In the 1980s FDI started to exceed global trade and GDP growth rates, therefore countries started to be more and more aware of the necessity to reform the international policy reform to catch up with new international landscape (Heydon, 2002). With the expansion of globalisation and GVCs, countries were forced to regulate and incorporate ***investment*** provisions in RTAs. By doing so, the productivity of global supply chains increased by including more countries in the production (Miroudot, 2011). At the same time, the negotiations about investment provisions at WTO did not take off. Beside the working group, WTO addressed the investment issue only in TRIMS agreement and in the GATS, where foreign investment in services is mentioned as one of the modes to supply services (WTO, 2018b).

Including investment provisions in RTAs gives investors the confidence to invest in new markets because international commitments that signatories accept are more credible than domestic policy choices. Büthe and Milner (2008) analysed if participation of developing countries in international trade agreements increased FDI in their countries and the results were positive. The higher the number of RTAs that a country signs, the more FDI flows will perceive. Similar analysis was done by Lecher and Miroudot (2006) and the results show that countries committing to substantive investment provision in RTAs will likely have an increase in FDI flows.

Until 2013 there were more than 2800 bilateral investment agreements and 300 free trade agreements that included investment provisions. The latest research findings show that the second ones trigger more FDI flows than bilateral agreements (Berger, 2013).

With the expansion of GVCs and FDI, the unfair competition risk for foreign firms became an issue that countries had to include in their negotiations. Same as with investment, also ***competition*** was excluded from Doha negotiation round and the working group that was

established was deactivated. But this did not stop countries to include competition provisions in their RTAs.

Competition provisions are beneficial for both, consumers and firms involved. It protects consumers from high prices and gives them freedom of choice, while for firms it means protection from big multinational firms and their anticompetitive practices.

Solano and Sennekamp (2006) analysed 86 agreements notified to WTO between 2001 and July 2005 and they identified the types of competition-related provisions included in agreements. One of the finding is that most of the agreement accentuate that anti-competitive practices can weaken the trade objectives; therefore, agreements include measures that can be adopted to prevent anti-competitive behaviour. Evenett (2005) on this hand states that competition provisions were included more as a measure to support barrier-reducing objectives of RTAs rather than for their own sake.

Competition provisions in RTAs can be divided into those that contain general obligations to act against anti-competitive business conduct and those that have a common competition standards and rules. With the first one, domestic competition laws are used in case of anti-competitive conducts. For the second one there is a more extensive co-ordination between signatories that set up a common competition law (Heydon, 2002). Today, competition policies are frequently included in RTAs and are also legally enforceable in several agreements. Up till 2015 there were 200 RTAs that include competition policies and 185 of them are legally enforceable (Hofmann, Osnago & Ruta, 2017).

Transparency is another important part of an efficient trade platform. There is not one specific definition of what transparency in trade is, but it could be assembled with publication of information, participation in decision-making, predictability, and fighting corruption and bribery (Lejárraga, 2013). With more transparency, there is less information asymmetry, and this gives involved parties an equal opportunity. Even though the preambles to WTO agreements do not mention transparency, many RTAs include it.

Lejárraga (2013) analysed 124 RTAs signed by OECD countries and five emerging economies. From those included in the study, 72 include transparency as one of the core objectives of the agreement. More RTAs include transparency provisions in service-related chapters, rather than in goods, because of a weak mechanism under GATS. When talking about transparency provisions that are WTO-beyond, RTAs developed disciplines of anti-corruption and anti-bribery. In the analysis made by Lejárraga and Shepherd (2013) the results show that the RTAs that include ambitious transparency provision enjoy higher trade flows compared to those with shallower provisions.

As part of Singapore issues there is transparency in government procurement, which aims to promote transparency and integrity in government procurement market. Since this topic is excluded from GATT and GATS, members negotiated a plurilateral Agreement on Government Procurement that came into force in April 2014. It’s a plurilateral agreement

that includes 47 members and the coverage is not over all procurement activities. The ones included are listed in the schedules (WTO, 2018c). Transparency in government procurement is important because it gives the possibility to foreign firms to bid for contracts and consequently governments have the option to choose the most cost-efficient project (Evenett & Hoekman, 2005).

As Dawar and Evenett (2011) point out, the government procurement is different between developed and developing countries. In some cases, developing countries do not have a complete control over reforming the government procurement sector. This is because their spending is affected due of their dependence on international aid, debt relief programs, administrative capacity constraints, and other factors. Although these are obstacles that some countries can face, the recent trend shows that more and more RTAs include provisions on government procurement that go beyond transparency-only and work instead on the creation of a single procurement market. Until the end of 2009, 88 RTAs including government procurement provisions, had been notified to WTO.

5.2.3 Electronic commerce

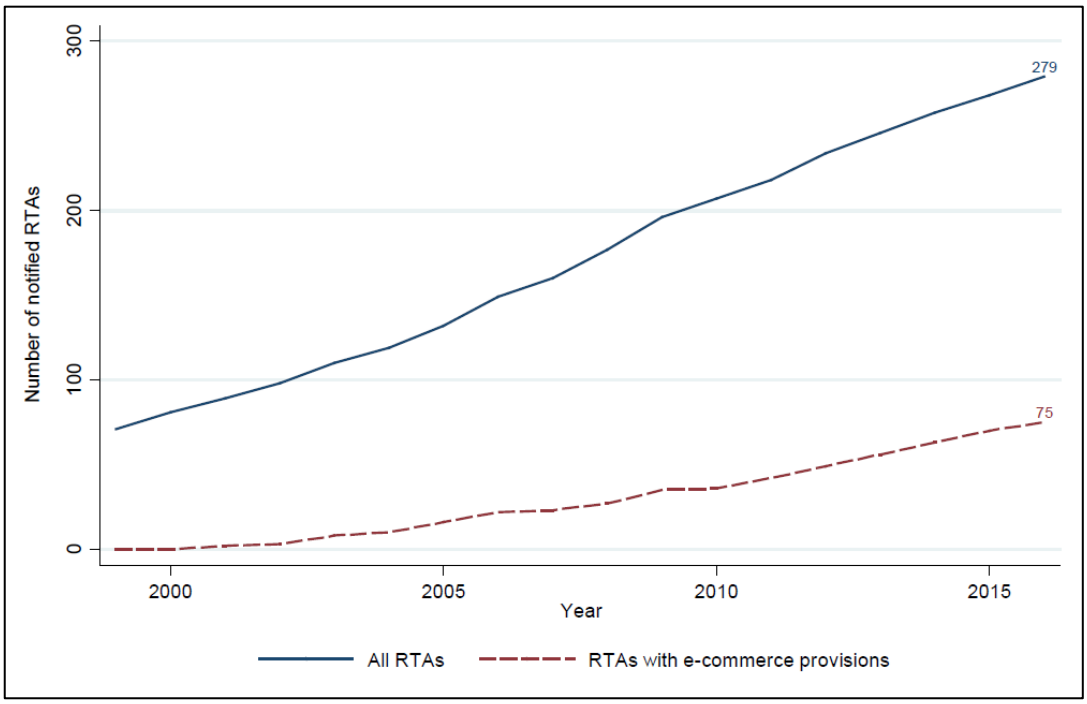
With the development and expansion of information technologies, electronic commerce (e-commerce) has been fast growing for the past thirty years. Today, it represents one of the most important part of the international trade, therefore many believe that WTO should get involved and provide provisions that would regulate this part of trade. With the e-commerce, goods such as books, music or videos, are sell, advertised and distributed via telecommunications networks. Because this are “digital products” it is hard to define if it should be treated as goods or services or if there should be a new category.

WTO recognized the importance of e-commerce already twenty years ago, when at the Second Ministerial Conference in 1998 adopted the Declaration on Global Electronic Commerce. With this plan, Goods, Services and TRIPS Councils and Trade and Development committee got the task to initiate discussion on this issue (WTO, 2018). So far, the negotiations were not efficient, and members did not reach a consensus regarding e-commerce. Many countries have different interests and point of views whether GATT or GATS rules should be applied. Therefore, many RTAs now include provisions covering e-commerce although an agreement on multilateral level could not be reached (Herman, 2010). Members limited the discussions about addressing e-commerce issues and preferred to use a mixture of the GATT and GATS disciplines in order to achieve their interests in the agreements (Farrokhnia and Richards, 2016).

Monteiro and Teh (2017) analysed 275 RTAs in force and notified to WTO till May 2017. There are 75 RTAs including e-commerce provisions, which represents 27 % of all RTAs analysed. As highlighted in Figure 10, the number of RTAs including e-commerce provisions is increasing. Especially in the past few years (2014-2016), on average 60 % of RTAs included e-commerce provisions. Most of these agreements are between N-S (47

RTAs) and S-S (25 RTAs) countries. As for N-N agreements, there were only three RTAs that included these provisions.

Figure 10: Evolution of RTAs with e-commerce provisions



Source: Monteiro & Teh (2017).

There are different types of e-commerce provisions, which are similar to other type of provisions included in RTAs (Monteiro & Teh, 2017):

a) Provisions incorporated in the main text
b) Non-specific article
c) Article or chapter/section dedicated to e-commerce
d) Side documents (joint statements, letters, annexes)

This proliferation of RTAs including different provisions could potentially create a spaghetti bowl of e-commerce rules. Which would make the trade more inefficient (Herman, 2010).

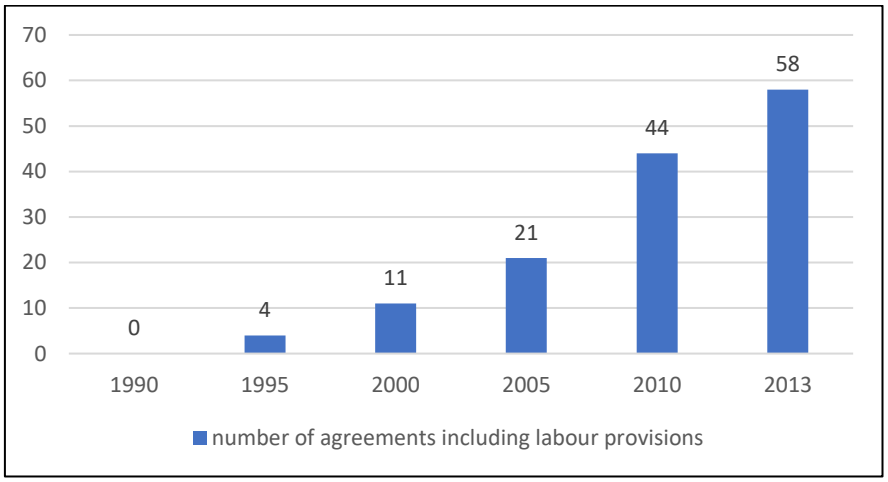
5.2.4 Labour standards

With the expansion of globalisation and GVC there was an increase in concerns regarding the negative impact that it has on the societies, particularly in terms of working conditions. It started approximately two decades ago when multinational companies from developed countries moved their productions to developing countries or started to source a large percentage of their inputs, components or even finished products where labour force was significantly cheaper. This brought up a debate about using cheap labour as an advantage on the expense of workers. This can lead to the "race to the bottom" where exporting countries lower their labour standards in order to remain competitive on the global scale. The debate

is carried on by developed countries who are on the side of supporting labour standards and on the other side, developing countries not wanting to comply to as high standards as developed countries have.

WTO members have found a consensus on core standard in labour, but they do not discuss this issue with the purpose to establish a provision because it is too complex to reach an agreement at this point of time. Therefore, WTO members identified International Labour Organization (ILO) as the competent body in relation to negotiating labour standards (WTO, 2017q). Even though WTO agreements do not include any provisions regarding labour standards, some countries believe that it should be included in trade agreements in order to improve workplace conditions. For this reason, several countries started to include provisions on labour standards in their RTAs. By including these provisions, signatory countries commit to maintain a certain level of labour standards. According to ILO (2014), labour provisions have become a key component of frameworks for RTAs. The number has substantially increased in the past two decades. In June 2013, there were 58 RTAs that included labour provisions, while in 2005, were just 21 RTAs containing labour provision. This trend is not present only in agreements of developed countries, which were the first ones to include it, but it is also present in S-S agreements. From 7 S-S agreements in 2005, the number increased to 16 by June 2013. In the Figure 11 it is shown how the number of provisions included has increased in the past two decades.

Figure 11: Number of RTAs including labour provisions in the period 1990–2013

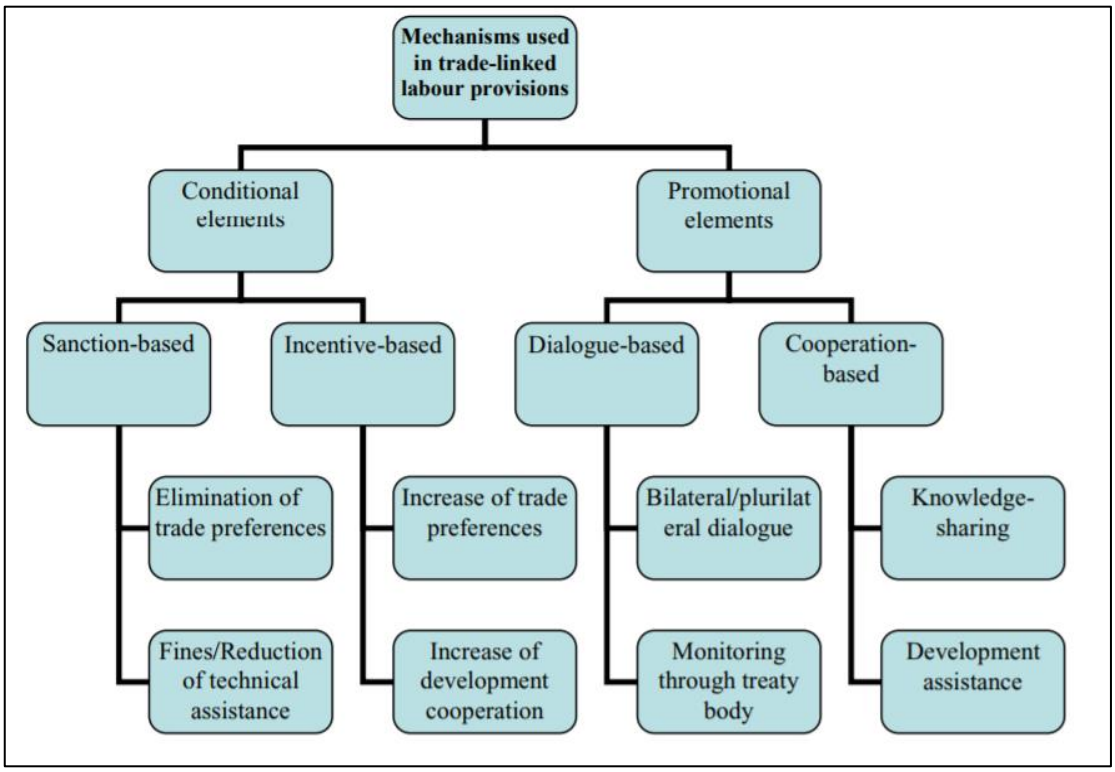


Source: ILO (2014).

Labour provision can be included in the RTAs in different ways. It could be part of the trade instrument itself or a separate document such as memoranda of understanding or side agreements. Usually the second ones are not legally binding. The provisions can be categorized as conditional or promotional in nature. Conditional provisions rely upon economic sanctions. Promotional ones focus on elements such as cooperation, dialogue and monitoring (ILO, 2009). US and Canada adopt the conditional provisions, while EU uses promotional ones as do some developing countries such as Chile, Philippines and Thailand

(Artuso & McLarney, 2015). These two different implementation mechanisms are presented in the Figure 12, bellow.

Figure 12: Different implementation mechanisms used in labour provisions



Source: Ebert & Posthuma (2011).

Häberli, Jansen and Monteiro (2012) categorize the implementation of labour references in RTAs in to 3 types. First, is where signing parties commit to ensure higher standards. Second, parties guarantee to not lower existing domestic standards. The third type of provision foresee commitments by signatories to apply their own domestic labour legislation. The first and the second part are measured based on current domestic standards.

The debate whether labour standards should be included in multilateral system or even in RTAs is very present. Therefore, many authors try to analyse the effect that these provisions in RTAs have on trade and on labour standards around the globe.

Powell and Low (2012) believe that RTAs can be used to reduce global poverty and not only to achieve a greater economic growth. But to do so, on a global scale, the international laws on human rights should not be so complex. Because of that, negotiators are reluctant to include them in their agreements. The authors support the ILO's core standards for workers.

Greenhill, Mosley and Prakash (2009) analysed the relation between trade and labour standards. Their focus is on weather good practices from developed countries could be transmitted to developing countries where the labour standards are low. In their empirical study, they analysed 90 developing countries in the period 1982 to 2002. The results show that developed countries influence the labour standards of developing countries and it is not

depending on the trade openness of a country. Specially, this positive relationship is shown in case of labour laws. When the importing country has high labour standards, it is expected to see improvements in the labour laws of exporting country. The authors argue that the exporting countries do not cause the race to the bottom, contrarily, importers are the ones who can transmit their good practices to them. Häberli, Jansen and Monteiro (2012) analysed the race to the bottom argument and found out that only RTAs among high income countries have a highly significant negative coefficient that supported the idea that trade affects the labour market regulations by weakening it. In the rich world the pressure within countries with similar income level puts the pressure on labour market regulation. Olney's (2013) empirical study shows that countries are competing in undercutting each other's labour standards to attract more foreign direct investment, because the multinational prefer countries with less restrictive labour laws. Davies and Vadlamannati (2013) got similar results in their study. They pointed out that the race to the bottom is more significant with labour enforcement standards than labour laws. And while the enforcement part is more present in non-OECD countries, OECD nations are competing in laws.

Kamata (2014), in his empirical study, analysed the effect of RTAs with labour clause on domestic labour condition and on growth in trade with other members of the RTA. Both analyses are in comparison with RTA without labour clauses. The analysis includes 200 RTAs from the period from 1995 to 2012. For the first effect the author measured earnings, work hours, fatal injury rate and number of ILO conventions ratified. The results indicate that the RTA including labour clause only have an evident effect on labour earnings, which increased, for the other conditions there is no evident effect. The second effect analysed showed that RTAs including labour clauses would reduce the growth rate of trade between partners. These results of increase in earnings and decrease in trade growth of RTAs with labour clauses is concentrated in middle-income countries.

All these mixed results on labour standards put this area of provisions in the position where countries will hardly find an agreement on multilateral level and therefore, WTO is for now not discussing this topic.

6 COMPARATIVE ANALYSIS OF DEPTH OF RTAS BY SIGNATORIES' DEVELOPMENT CATEGORY

Because the RTAs nowadays are not established only within countries in geographical proximity it is hard to link these RTAs with regionalization only. Therefore, many times RTAs are grouped based on level of development of the participating countries, i.e. North – North (N-N), North – South (N-S) and South – South (S-S) RTAs. Countries included in North group are developed, those in South group are developing and least developed countries. Because during the last two to three decades many countries advanced in their development, we can find them in different researches included in South and sometimes in North group. For example, in Behar and Crivillé (2011) study, they classify Greece as South

country because they classified the countries by the level of income based on the World Bank Atlas Method, using the thresholds for 1987. On the other hand, Disdier, Fontagne and Cadot (2014), classified Greece as developed country and therefore North.

In the beginning it was a prevailing trend that countries at a similar stage of development sign a trade agreement, such as the EU, where all countries are at the similar development stage. Therefore, the EU agreement is counted as a N-N RTA, because all countries involved are developed. Since the expansion of GVCs, countries from different regions and different development stages started to integrate, and from there, N-S RTAs started to proliferate. The first example of a N-S RTA is NAFTA, where Mexico represents the South (developing country) and USA and Canada are the North (developed countries). As for S-S agreements, they were always present just as N-S. Just as an example is the agreement between Colombia and Mexico where both countries count as developing.

As mentioned previously in the thesis, the reasons why countries decide to negotiate an agreement with other countries are several. This can also be influenced by the income level of the member states and the level of trade liberalisation already achieved. Countries with similar level of development might find it easier to negotiate with each other. Specifically, this is the case of South countries, where their instruments for negotiation are not always at the same level as those of North countries and they can see themselves as a weaker party. This affects also the number of provisions, the depth of those provisions and their legal enforceability. Therefore, there are differences in the content of N-N, N-S and S-S agreements.

N-N agreements are mostly negotiated in the way to internationalize cross-border policy spill overs, since their liberalisation level is already on a high level and domestic institutions are strong. On the other hand, south countries tend to have higher barriers and local institutions are not as advanced as those in the north countries. Therefore, developing countries use N-S deep agreements to boost their participation in GVC by including additional on the border and behind the border provisions. While S-S agreements are still mostly focused on traditional trade liberalisation (Ruta, 2017).

All three groups of agreements have differences in the way the agreements are formed, but also, within each of the groups, countries differentiate the priorities of their regional agreements. Meaning, it may be that two N-N agreements between two different sets of countries composed in a different way, including different provisions, the level of enforcement of provisions, and so on. However, there are also similarities within each group, and for that reason we can point out some characteristic that are specific for each one of these three types of groups and that can be generalised.

In the following analysis I investigate the depth of RTAs and analyse how the level of development is linked to the number of WTO-X provisions included in an agreement. Commonly, developed countries are those that tend to include complex provisions, therefore

N-N agreements are expected to be deeper. On the other hand, developing and LDC are still more focused on traditional trade liberalisation and for that reason S-S agreements tend to be more shallower in comparison to N-N agreements.

6.1 Areas covered in the analysis and the grouping of RTAs

The analysis covers the WTO-X content of RTAs based on the data collected by Hofmann, Osnago and Ruta (2017). Their dataset includes 52 policy areas within 279 RTAs that were signed and notified to WTO between 1958 and 2015. Using Hofmann, Osnago and Ruta (2017)'s dataset I comparatively analyse N-N, N-S and S-S agreements with respect to 5 different WTO-X provisions and their legal enforceability.

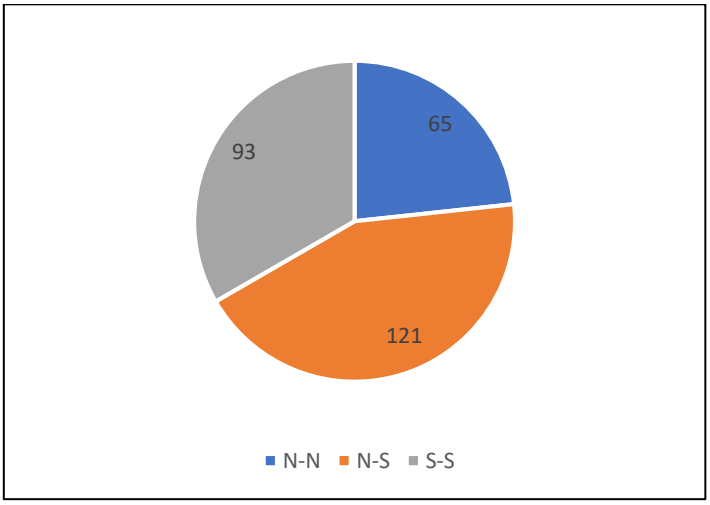
The grouping is based on the World Bank's (2018) list of economies by income groups. There are four income groups: High income, Low income, Upper middle income and Lower middle income. I include countries listed by World Bank as high income in North and the other three groups are counted as South. There may be differences in grouping compared to other papers because an Upper middle income country could be counted as developed and therefore in North group, or some developed countries are included in South group because of their regional position. To facilitate the analysis, I only included countries that are listed by World Bank as high-income countries in the North group. The whole list of countries and their classification is presented in the Appendix 6.

In the case of an agreement between a group of countries as one party, such as ASEAN, I classify them based on income level of most of the signatory countries. For example, ASEAN is formed by 10 countries of which only 2 (Singapore and Brunei) are listed by the World Bank as high-income, therefore ASEAN is classified as South when in agreement with a third party. ASEAN as a single agreement between these 10 countries is counted as N-S because of the different classification of the countries inside this group.

From 279 agreements included in the analysis, the majority is N-S type with 121 agreements, followed by S-S with 93 agreements and N-N which has the lowest number of RTAs. All presented in the Figure 13.

The five WTO-X provisions analysed are: transparency, competition, environment, investment and labour. These areas are also described in previous chapters of the thesis. When including transparency area, I considere the anti-corruption provisions that are listed as WTO-X. Although the presence of e-commerce provisions in agreements greatly increased, they are not included in the analysis. The reason being, as Hofmann, Osnago and Ruta (2017) mention in their research paper, the granularity of this area is too big to provide a proper categorization and highlight the developments.

Figure 13: Number of RTAs agreements divided by development level group



Source: own work.

Considering the legal enforceability, the authors analysed the legal content of provisions and the legal language used as well as the availability of dispute settlement under RTAs. The inclusion of a provision in an agreement does not necessarily mean that it is also legally enforceable. The legal language can be loosely formulated; therefore, it is not considered as legally enforceable. When the language used is adequately precise and committing then it is counted as legally enforceable. It is the same when a provision has not been excluded from a dispute settlement procedure under the RTA. The legal enforceability of provisions was divided in three groups:

a) The provision is not mentioned in the agreement or not legally enforceable
b) The provision is mentioned, legally enforceable but explicitly excluded by dispute settlement provision
c) The provision is mentioned and legally enforceable

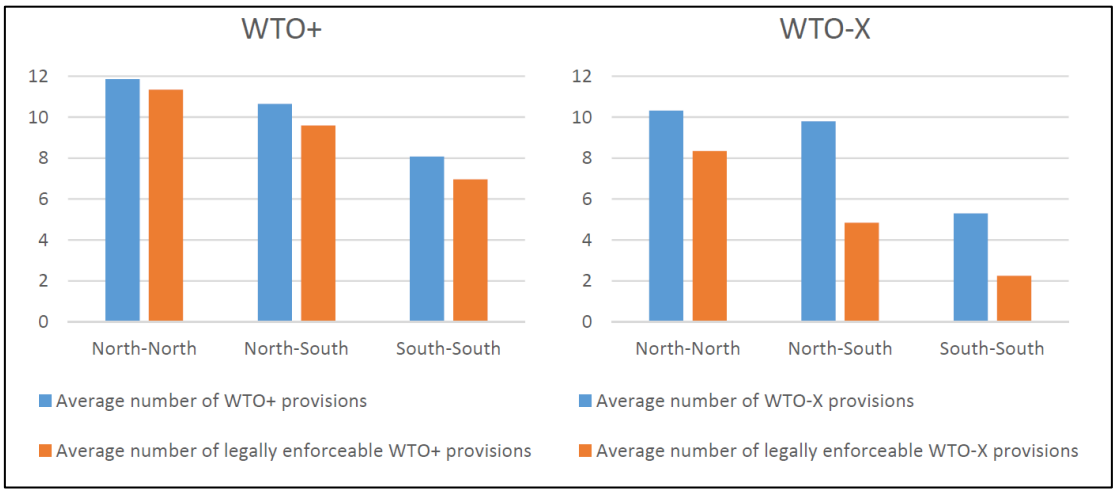
In the analysis the first group of provisions is counted as not legally enforceable, the second two are counted as legally enforceable.

6.2 Analysis of the depth of the RTAs

Developed countries tend to liberalize their markets beyond tariff reduction because their tariff levels are already extremely low as a consequence of multilateral system. Therefore, when the provisions are divided between WTO+ and WTO-X, N-N agreements are the ones leading in terms of depth compared to N-S or S-S agreements. As presented by Hofmann, Osnaga and Ruta (2017), when analysing all areas of WTO+ and WTO-X, N-N and N-S include similar numbers of both types of provisions. However, the legal enforceability of WTO-X provisions is much lower in N-S agreements in comparison to N-N. Whereas legal enforceability of WTO+ provisions is higher and more similar between N-N and N-S

agreements. Figure 14 shows how these groups include WTO+ and WTO-X and how legally enforceable these provisions are.

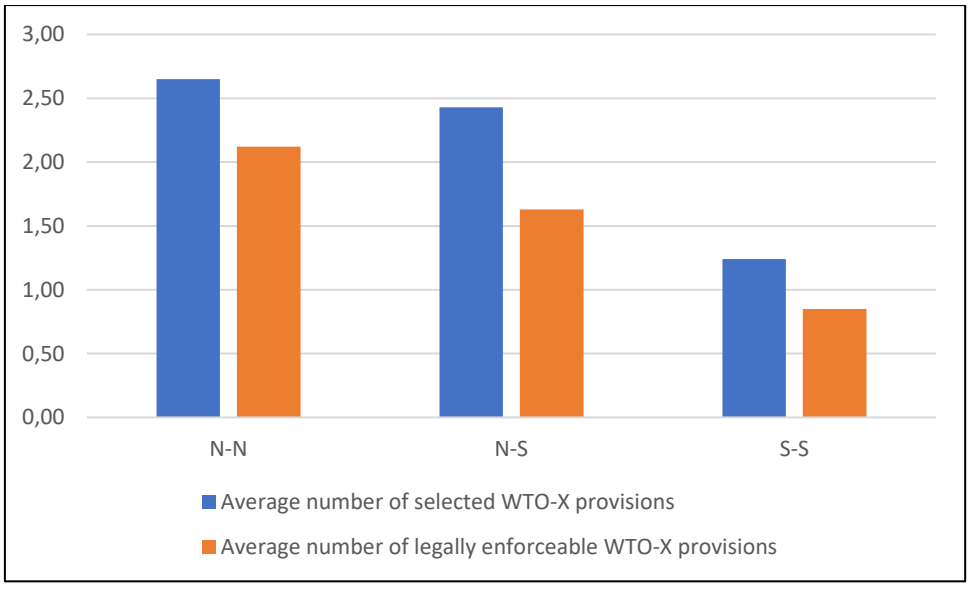
Figure 14: WTO+ and WTO-X provisions by development level



Source: Hofmann Osnago & Ruta (2017).

When analysing the selected five WTO-X areas in Figure 15, we can still see the slight dominance of N-N agreements compared to N-S and a big difference of both in comparison to the S-S agreements. The ratio between these three groups is similar to the results of all WTO-X provisions, perhaps with slightly less evident differences.

Figure 15: WTO-X provisions (transparency, competition, environment, labour, investment) by development level

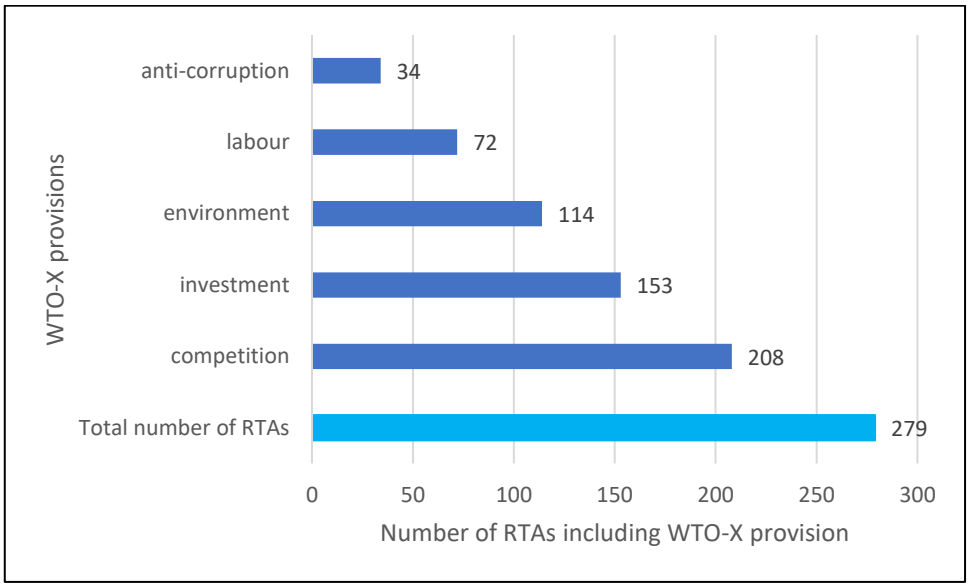


Source: own work.

Within the selected WTO-X provisions in this analysis, competition area is the most included in all RTAs agreements. As it can be seen on the Figure 16, 208 agreements include competition provisions, 153 agreements include investment provisions, 114 agreements

include environment provisions, 72 agreements include labour provisions and only 34 agreements include anti-corruption provisions.

Figure 16: Number of RTAs including WTO-X provisions



Source: own work.

The order is also when we look separately at N-N, N-S and S-S groups of which the results are presented in Table 6 below. Competition provisions have the strongest presence in all three groups, being included in 82 % of N-N, 75 % of N-S and 69 % of S-S agreements. While on the opposite end, anti-corruption provisions were the weakest in terms of coverage in all three groups. 22 % of N-N, 13 % of N-S and only 4 % of S-S agreements include anti-corruption. The table depicts the percentage of agreements across three groups for the five selected areas.

Table 6: Percentage of RTAs including WTO-X provisions

	Number of agreements	Competition	Investment	Environment	Labour	Anti-corruption
N-N	65	81,54 %	61,54 %	53,85 %	46,15 %	21,54 %
N-S	121	75,21 %	74,38 %	53,72 %	26,45 %	13,22 %
S-S	93	68,82 %	24,73 %	15,05 %	10,75 %	4,30 %
Total	279	74,55 %	54,84 %	40,86 %	25,81 %	12,19 %

Source: own work.

The only area, out of the five analysed, where N-N does not have the highest percentage of presence is investment. In this case, 74,38 % of N-S agreements include investment provisions while only 61,54 % of N-N agreements include it. In all the other analysed areas, N-N agreements are still the ones that include WTO-X provisions more often than the others. This observation might be explained by the increase in the importance of GVC and the necessity of North and South countries to sign RTAs to facilitate the trade between them. As Ruta (2017) points out, N-S agreements present an anchor to increase GVC participation of South countries by providing a commitment tool for border and behind-the-border policies. Damuri (2012) went further and classified competition and investment as "core" policy areas along with 16 other areas, which are more economically relevant for market access and for the efficiency of GVCs.

Hereinafter is the analysis I make on the legal enforceability of these five provisions categorized by the development level of countries. Similar to the number of provisions included, the legal enforceability is the strongest in N-N agreements, followed by N-S and S-S with the least legally enforceable provisions. Within the five areas included in the analysis, competition provision is the one with the strongest legal enforceability presence for all three groups.

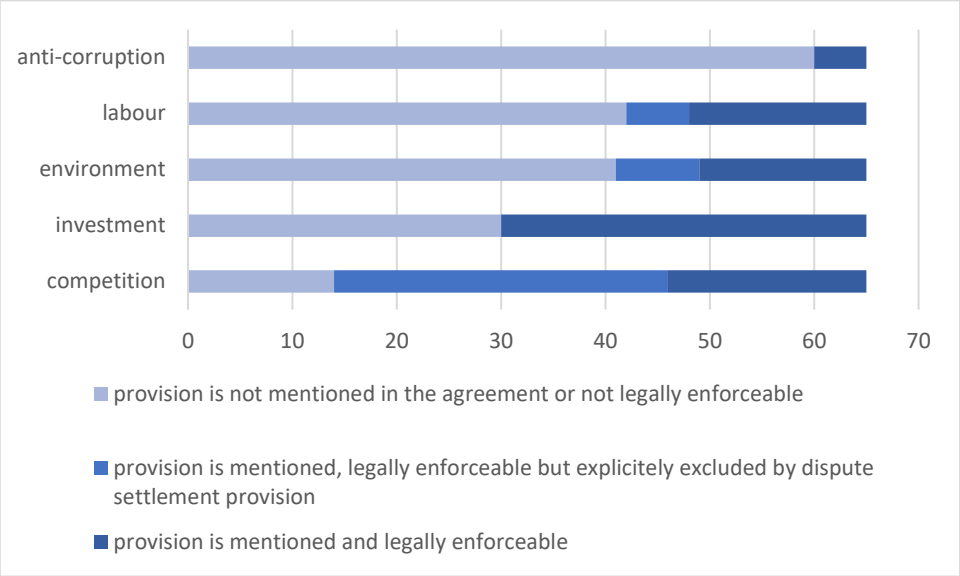
Following is a further explanation of each group by level of development and their legal enforceability of the provisions included.

6.3 North – North

Trade agreements between developed countries are the ones that are the most complex and deep. In the analysis of legal enforceability of the selected five areas, all five provisions had higher legal enforceability than N-S and S-S groups. In the Figure 17 is presented each area and the legal enforceability in N-N agreements. Competition is the area that stands out the most, with only 14 agreements that don't include legally enforceable provisions and the other 51 including it. As Puri (2005) points out, North countries tend to include competition laws in their agreements in order to avoid anti-competitive practices such as international cartels, mergers and acquisitions that might create a monopolizing entity in the domestic market. Typical for north countries is also to apply different standards for different sectors of the domestic economy. For example, energy sector is usually exempted from the competition law because it represents a strategic industry for the national economy.

While the inclusion of the WTO-X provisions might be high in N-N agreements, their legal enforceability is not at the same level. This might be explained with the similar level of development and the welfare. For example, developed countries all have high level of environment sustainability, they have higher standards for labour rights and human rights. Therefore, they are not willing to include legally binding provisions and they do not ask that from the other party.

Figure 17: Legal enforceability of WTO-X provisions in N-N agreements



Source: own work.

Most of the time, it is the North countries that attempt to implement their policies upon developing countries and results in standards rising in many sectors. However, developing countries might see this as a way of protectionism because it is for them it is harder to achieve such high levels due to the lack of knowledge, technology and infrastructure. This is also the reason why the legal enforceability is much lower in N-S agreements than in N-N.

6.4 North – South

Developing countries already have the market access to developed countries through the GSP, which are preferential trade programs that developed countries use to include tariff-free or reduced-tariff market access for developing countries, giving them a better-than-MFN market access. Even though the developing countries are already enjoying the market access, they still look forward to form RTAs with these same countries that ask in return significant concessions in trade and trade related policy areas. The reason for that is that GSP concessions are not bound under the WTO, they are unilateral and discretionary, and each country can remove or change them without any compensation. By forming an RTA, South countries protect themselves with a more stable preferential agreement (Manger & Shadlen, 2014). This way an RTA gives a country an improved investment and business environment, less policy uncertainty and at the same time it promotes competition (Hoekman, 2011).

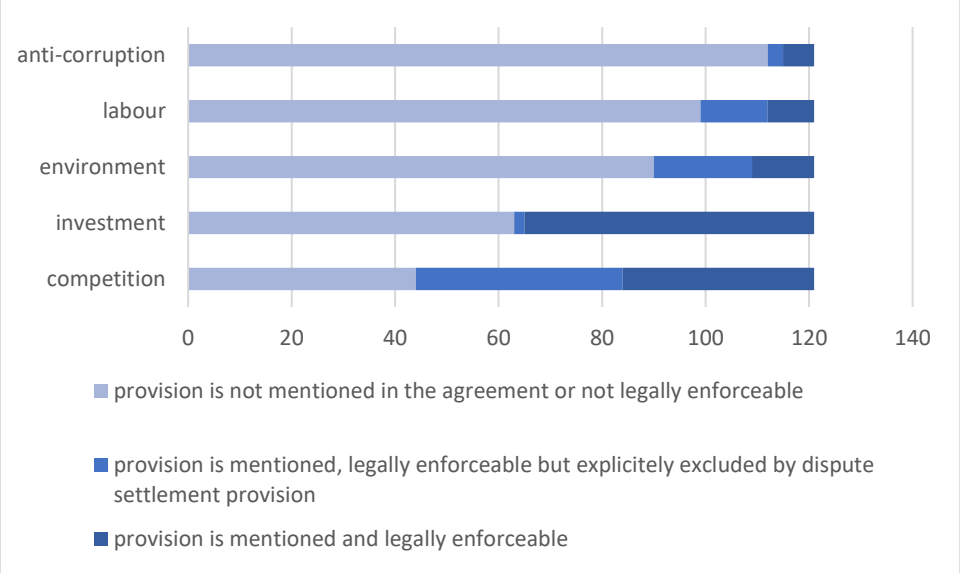
Demir and Dahi (2009) point out that even though the products from North are inappropriate against Southern in terms of techniques of production and product characteristics, the South does not have other option than accept it. This is because the North is more capital-intense and has a high technological development both of which the South is lacking. But by accepting them and upgrading their technology, eventually they can penetrate Northern markets. At the same time, less developed countries of the south will keep the market access

of GSP programme because for them, competing with the North by introducing many new provisions represents a costly and complex operation. There is a threat for them to experience potential welfare losses.

N-S agreements include not only provisions on tariffs but also other behind the border policies, such as protection of intellectual property, government procurement, investment and other policies that are at the centre of national economies, forming deep trade agreements (Manger & Shadlen, 2014). These agreements are often associated with technical assistance such as knowledge and finance transfer, giving developing countries help with implementation and adjustment costs (Hoekman, 2011).

While N-S agreements include several WTO-X provisions and is also comparable to N-N agreements, the legal enforceability is not as high as in N-N. In the Figure 18 bellow, we can see that only competition has legal enforceability in more than half of the N-S agreements. The second one is investment provisions with close to half of provisions being legally enforceable.

Figure 18: Legal enforceability of WTO-X provisions in N-S agreements



Source: own work.

The big difference in legal enforceability between N-N and N-S can be in the complexity of including legally binding provision, especially for the South countries, which do not always have all the instruments to implement and execute the commitments taken on an international level.

Hoekman (2011) point out that if the goal of forming an N-S trade agreement is to ensure both sides benefit from it, it is important to put in the first-place development. This way countries focus on which type of agreement is most appropriate and which provisions to include. At the same time, market access commitment from countries should be binding to make sure they are believable.

6.5 South – South

Over the past years, the increase in number of S-S agreements has been very quick. In Latin America there were 17 new S-S trade agreements signed between 1991 and 2002 (Sanguinetti, Siedschlag & Martincus, 2010). While in Asia, the increase was from 1 S-S trade agreement in 1995 to 39 S-S agreements in 2010 (Wignaraja & Lazaro, 2010). By 2014, 75 % of RTAs signed was between countries of the South (Dahi & Demir, 2016).

Looking more widely at the role of S-S trade today in world trade, we can see that there has been a general trend of steady growth in the past three decades. The average annual growth of S-S trade increased from 14 per cent during the 1990s to 16 per cent during 2000-10. While the share of S-S exports in total merchandise exports of developing countries varied between 33,7 and 39 per cent in the 1990s, there was a steady increase since then with 44 per cent in 2000 up to 57 per cent in 2012. Similarly, but with bigger effect also the import increased, with 44 per cent in 2000 to 59 per cent in 2012 (UNCTAD, 2015). Even though the manufactured goods represent such an important part of the S-S trade, there was a change in the structure of it. The South managed to increase the high-skill manufactures from 2 % of S-S exports in 1970 to 25 % in 2012 (Dahi & Demir, 2016).

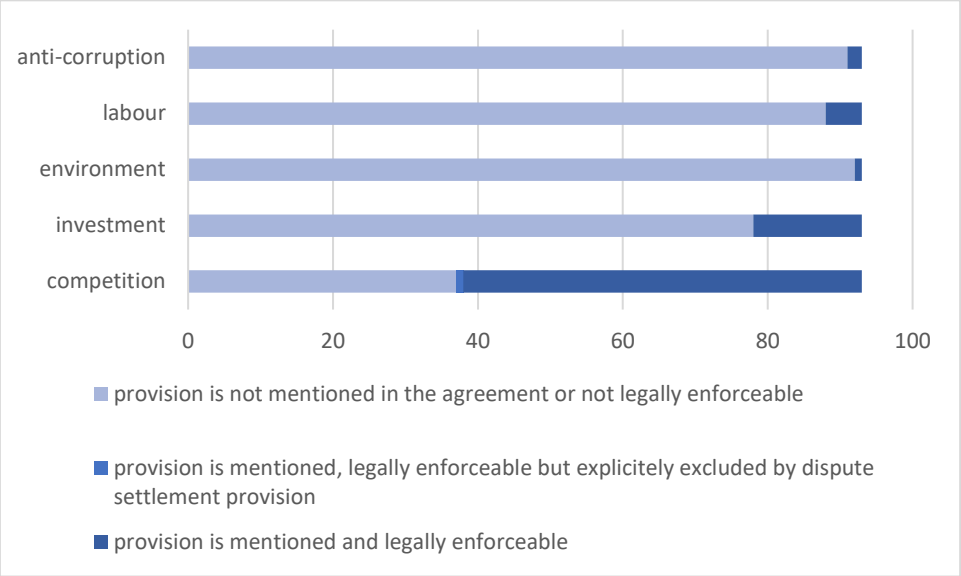
Because S-S agreements are agreements between countries with similar level of development, their competition framework enables them to compete successfully with its members, starting with smaller local markets to then expand internationally. This also gives them the opportunity to worry less about the high-quality or cheap imports with which the competition is challenging (Behar & Crivillé, 2011).

At this point, it is necessary to emphasise that not all countries of the South have similar level of development. Especially because both developing countries as well as LDC are included. Therefore, many times we talk about Emerging South which refers to countries that are more advanced and are at least partly industrialized and the rest of South, which are the countries that are not counted in the first group of Souths. Nowadays, these two groups of Souths represent 87 % of global population (Dahi & Demir, 2016).

The S-S agreements are still the shallowest in comparison to N-N and N-S agreements and their focus is on traditional trade liberalisation which includes goods and services. Therefore, the legal enforceability of the analysed WTO-X provisions is significantly lower compared to N-N and N-S agreements. Figure 19 shows the legal enforceability of the five selected WTO-X provisions in S-S agreements. Competition provisions are the only to have a significant legal enforceability and also be comparable between to N-N and N-S agreements.

While N-S agreements have a positive effect for technology transfer and other productivity gains, S-S agreements can promote deeper political and economic integration (Behar & Crivillé, 2011).

Figure 19: Legal enforceability of WTO-X provisions in S-S agreements



Source: own work.

6.6 Discussion of main findings of the analysis

The analysis of the five selected areas of provisions by the development level of signatories, shows that N-N countries include the highest number of WTO-X provisions in their agreements, the second ones are N-S agreements, and the agreements with the least number of WTO-X provisions are S-S. Results remain the same when Hofmann, Osnaga and Ruta (2017) analysed all 52 policy areas. With this I can confirm my first hypothesis, where I state that the level of development is related to the depth of RTAs. The average depth of the agreements varies across three types of the RTA agreements.

Developed countries already have a very liberalised markets, with low tariffs because of the multilateral agreement, and therefore tend to sign agreements that include provisions behind the border. Developing and specially LDC still have higher tariffs and their focus is on the traditional on the border provisions. When there is a N-S agreement, the number of provisions included is similar to N-N agreements, mostly because developed countries tend to implement their policies in the agreements and raise the standards in trade.

When analysing the legal enforceability of provisions by signatories' level of development, the results reveal a similar picture as with the number of provisions included. Again N-N agreements had the highest number of legally enforceable provisions, followed by N-S agreements and S-S agreements with the least legally enforceable provisions. Results remain the same with all 52 policy areas. With this, I confirm my second hypothesis that legal enforceability is higher in N-N agreements.

While the number of provisions included are similar between N-N and N-S, the legal enforceability has a bigger difference between these two groups. This shows the difference in instruments and infrastructure between north and south countries, where the latter are still

behind the developed world and therefore, for them to include legally binding provisions represent a complex process for which they might not have the funds. On the other hand, legally binding provisions do not represent an issue for developed countries that have already achieved similar high standards of living.

Out of the five selected and analysed areas, competition and investment policies are the two most included in all three groups of agreements. Specifically, the presence of competition provisions which is well over 60 % in all three groups, leading with N-N group that has competition provisions in 81,54 % of the agreements, N-S with 75,21 % and S-S close behind with 68,82 %. Investment policy area is highly common with N-N and N-S agreements, each one respectively with 61,54 % and 74,38 %. While S-S agreements only 24,73 %. Even with the lower number of competition provisions included in S-S agreements, I can still confirm my third hypothesis that competition and investment policies are the most common in all three groups.

This can be related to the expansion of GVS, where countries had to develop more complex agreements to follow up with the internationalisation of production. Developed countries needed to protect their investments in developing countries, where a big part of the production moved to. At the same time, the competition provisions were important for north and south countries in order to protect their domestic companies from mergers and acquisition that would lead to a monopolised market. These are also the two policy areas that most frequently including legally binding language in all three groups of RTAs. In Baldwin's (2014) research paper where all 52 policy areas are included, competition and investment are respectively third and fourth in frequency of legally enforceable provisions, behind capital movement and intellectual property rights (IPR).

Throughout my thesis, I also research a broader aspect of deep RTAs, including several empirical analyses done by different authors that analysed the number of WTO-X provisions included in the modern RTAs, without specifically grouping the signatory countries by their development level. All the results show that there is an increasing trend of including behind the border provisions which are not part of the multilateral system. There still are areas, such as competition and investment, that have higher presence in the agreements, but the overall number of WTO-X provisions is increasing every year.

In my analysis I include five policy areas that are of my interest and which are also highly debated on the multilateral level. When researching them based on previous research studies, I come to conclude that all of them represent an important part of the international trade and countries are including them more and more each year and they recognise the importance of it.

To get more holistic picture of the depth of RTAs by development level of signatories, all 52 policy areas should be analysed, for which I am limited by the length of my thesis and by the quality of the analysis to be delivered. Another interesting addition would be to compare

the differences within the groups, how N-N agreements differentiate between each other and the same for N-S and S-S.

On the multinational level, there is a big debate whether RTAs are putting the existence of WTO at risk or if it could serve as a base to solve the paralysis in which the Doha Round and consequently WTO are now. As Baldwin (2016) points out, the RTAs today are not so different compared to each other, and therefore they could be brought together. As an example, are the mega-RTAs that are currently being negotiated on a global scale, which include deep provisions, and which could be seen as a partial multilateralization.

Because the trend of including WTO+ and WTO-X provisions in RTAs is increasing for all countries involved in the world trade, there is a big opportunity for WTO to finally make a new step on multilateral level. In the past months, many members of WTO have already been pushing toward a reform of the organisation, to modernise it and they came up with several proposals how to do it.

Recently, the EU and Canada both released proposals to reform the WTO, pointing out that the three main functions of the organisation, which are monitoring trade policies of member states, providing a forum to negotiate new agreements and to solve disputes between members, are facing major problems in the last period (Caporal, 2018). US on its side, has been blocking new appointments to the Appellate Body and threatening to withdraw the US from WTO because of the concern that Appellate Body overstepped its mandates. The country also did not see the proposals for reforming the WTO appropriate to deal with issues that were raised by the US (Miles, 2018). At the same time, European Commission (2018b) included in its proposal paper for reforming WTO, the necessity to establish new rules that address WTO+ and WTO-X provisions such as: e-commerce, investment, technology transfer and behind the border discriminatory practices. Similarly, as reported by Baschuk (2018), Canada also seeks to modernize the WTO by including new rules about e-commerce, international investment, state-owned enterprises, industrial subsidies, domestic regulations and trade secrets.

Even though WTO is facing some big issues on functioning part, there are still big pushes from several members to include WTO+ and WTO-X provisions into multilateral agreement. I believe that all these analyses and researches on RTAs can contribute to find the common point between all signatories and to develop new policy areas for WTO, which are already negotiated on the regional level and are constantly debated as necessary for the modern global trade. In other to find common ground between all members, countries will probably need to accept some proposals that might not benefit them the most and they will need to abandon some of their requirements.

CONCLUSION

In the past few decades, global trade has experienced a proliferation of RTAs as a consequence of an inefficient WTO, the shifting of economic power to new countries and the expansion of GVC. All these reasons helped to divert countries from investing their time in negotiation on the multilateral level to focusing on RTAs. While the number of RTAs increased, the percentage of trade under these agreements did not increase as much. The reason for that is that these new RTAs represent a modern type of trade agreements that are focused not only on the tariff reductions but mainly on behind the border policy areas. New agreements are deeper and more complex, including so called WTO+ and WTO-X provisions that go deeper and beyond what is currently included in the multilateral system.

In my master thesis, I tried to analyse the WTO-X provisions and what the current trend is in the global trade, how often these provisions are present and to what extent are they legally binding. I have focused on 6 policy areas, which are: competition, investment, transparency (anti-corruption), environment, labour and e-commerce. For all six areas the trend is the same. Countries are increasing the number of RTAs that include these provisions, with competition and investment being two of the most often included provisions. The reason behind these two provisions being so widely included is because of the expansion of GVC and the necessity of countries to generate more complex agreements capable to managing the collaboration involved in this new type of production that includes internationalisation of several processes of production.

Further I studied the link between the inclusion of these selected policy areas and the level of development of signatory countries. The results showed that N-N agreements are including the highest number of these provisions, followed by N-S and S-S being the last one. The order was the same when analysing the inclusion of legally enforceable provisions.

When we look into N-S agreements, we can notice that the similarities are closer to N-N agreements than S-S. The reason behind this, is that South countries wanted to be more included in the GVC and to do so, they had to adapt to the requirements of developed countries or at least get closer to them. Biggest difference between these three groups is on the legal enforceability of provisions. While N-S agreements are similar to N-N agreements in the number of provisions, their legal enforceability is in comparison much lower. This might also show that even though South countries accepted the requirements of North countries, they still are not ready to commit on a legal basis.

Throughout my analysis, I got the results that supported all my hypotheses as stated in the introduction of my thesis. The analysis also gave me the possibility to understand RTAs in depth, the complexities of this part of global trade and how every product or service that is available on the market, is somehow related in international trade. For example, a car, where each component was produced in a different country. The fuel pump in Slovenia, air breaks in Macedonia and the electronics in Germany. All this is possible because countries have

agreements with each other, and it gives the possibility to choose the most cost efficient option.

For now, there is no sign that the proliferation of RTAs will come to an end in the near future. Countries are constantly negotiating new RTAs, with new policy areas. The content of the agreements is evolving and establishing new basis for the multilateral system and its negotiations. The number of countries signing RTAs are also increasing which means that the role of RTAs will stay strong for the global trade. With new instruments such as technology and transmission, trade has gotten more accessible for all countries and today, we can truly say that trade is global.

It will be interesting to follow the development of RTAs and how the WTO will continue its operations. If it will adapt and revive the negotiations on multilateral level or will it start to cumble? Will they manage to restart the negotiations on the multilateral level and what will happen with the proliferation of RTAs? Would it mean then, that countries will turn back to the WTO and focus on a big and complex agreement that could benefit all members? On RTAs, we should observe how the agreements of the south countries will evolve. Will they follow in the footsteps of the north countries or will they turn a different direction? And will the north countries keep playing the part as the policy makers? Global trade represents a complex operation that involves everyone, but it hardly provides same benefits to all.

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APPENDICES

Appendix 1: Povzetek (Summary in Slovene language)

V zadnjih dveh do treh desetletjih, je mednarodna trgovina doživela veliko sprememb. Vse se je začelo z ustanovitvijo Mednarodne trgovinske organizacije, WTO leta 1995, ter sočasnim tehnološkim napredkom. V tem času je začelo strmo naraščati število regionalnih trgovinskih sporazumov, od 124 objav v obdobju 1948-1994, vse do 400 objav regionalnih sporazumov od časa ustanovitve WTO. Države so se začele obračati stran od multilateralnega sporazuma, ki se je znašel v težavah zaradi neučinkovitosti. Istočasno je prišlo do spremembe v razporeditvi moči ekonomskih velesil ter do razcveta globalnih vrednostnih verig.

V svoji magistrski nalogi sem analizirala vsebino regionalnih trgovinskih sporazumov v primerjavi z multilateralnim sporazumom WTO. Prav, ko primerjamo določbe, ki so vključene v regionalne trgovinske sporazume z določbami WTO, jih poimenujemo WTO+ in WTO-X. WTO+ so določbe, ki so že vključene v WTO ampak jih države v svojih sporazumih še dodatno poglobijo. WTO-X pa so določbe, ki jih WTO ne pokriva, jih pa države v regionalnih trgovinskih sporazumih vključijo. Tekom svoje analize, sem prišla do ugotovitve, da obstaja globalni trend kjer so regionalni sporazumi vedno bolj kompleksni in imajo vedno bolj poglobljeno vsebino. Število WTO+ in WTO-X določb v regionalnih trgovinskih sporazumih narašča, vendar je še vedno veliko večja vključenost WTO+ določb.

Bolj podrobno sem analizirala 6 področij, katera so: tržna konkurenca, investicije, transparentnost (anti-korupcija), okolje, trg dela ter e-poslovanje. Pri vseh teh področjih se je pokazal trend povečanja vključenosti določb v regionalnih trgovinskih sporazumih. Najvišji delež imata konkurenca ter investicije, ki sta dva področja, ki sta neposredno povezana z učinkovitostjo delovanja globalnih vrednostnih verig.

Dodatno sem svojo raziskavo razširila z analizo vključenosti izbranih področij v regionalnih trgovinskih sporazumih glede na stopnjo razvoja podpisnice. Države sem razdelila med Sever, kamor sem vključila države z visokim prihodkom, ter na Jug, kamor sem vključila države s srednje visokim, srednje nizkih ter nizkim prihodkom. V tem delu sem izključila e-poslovanje, ker so bili zbrani podatki preveč skromni za popolno analizo tega področja. Rezultati so pokazali, da so sporazumi, ki so podpisani med državami Sever-Sever, bolj poglobljeni in vsebujejo večje število WTO-X določb. Sledijo jim sporazumi med državami Sever-Jug. Najmanjše število določb imajo trgovinski sporazumi med državami Jug-Jug. S tem sem tudi potrdila svojo prvo hipotezo, kjer sem zagovarjala, da stopnja razvoja države vpliva na število določb vključenih v regionalne trgovinske sporazume.

Pri analizi pravne izvršljivosti izbranih določb, so bili rezultati podobni. Sporazumi med podpisnicami Severnih držav imajo največje število pravno izvršljivih določb. Sledijo sporazumi med Sever-Jug. Izredno nizko število pravno izvršljivih določb pa vključujejo sporazumi med manj razvitimi državami. Ti rezultati so potrdili mojo drugo hipotezo, kjer sem trdila, da je pravna izvršljivost bolj pogosto vključena v Sever-Sever sporazumih. Čeprav je število WTO-X določb zelo podobno med sporazumi Sever-Sever in Sever-Jug,

je razlika v številu pravno izvršljivih določb veliko večja. Razlog za to je večja razlika med razvitostjo lokalnih institucij. Za države juga, predstavlja vključitev pravno izvršljivih določb izredno kompleksen proces, za katerega velikokrat niti nimajo ustreznih sredstev.

Med izbranimi petimi področji analize, sta tržna konkurenca in investicije, dva najpogostejša področja, ki jih države vključijo v svoje trgovinske sporazume. Iz rezultatov je razvidno, da je ravno tržna konkurenca prisotna v več kot 60 % vseh treh skupin sporazumov. Na prvem mestu so sporazumi Sever-Sever, kjer jih kar 81,54 % vključuje določbe o tržni konkurenci. Sledijo Sever-Jug sporazumi, od katerih 75,21 % vključuje to področje. Ter Sever-Jug z 68,82 % sporazumov, ki vključuje določbe o tržni konkurenci. Določbe o investicijah so izredno pogosto vključene v Sever-Sever ter Sever-Jug sporazumih. Pri prvih je delež vključenosti 61,54 %, pri drugih pa 74,38 %. Jug-Jug sporazumi imajo zelo nizek delež, v primerjavi z ostalimi dvema skupinama, in sicer 24,73 % vključenost določb o investicijah. Kljub nizki vključenosti pri Jug-Jug sporazumih, lahko še vedno potrdim tretjo hipotezo, da sta tržna konkurenca in investicije najbolj pogosti področji pri vseh treh skupinah sporazumov. Velik delež vključitve določb s področja investicij pri Sever-Jug sporazumih se lahko poveže z razcvetom globalnih vrednostnih verig zaradi katerih so morale države izpopolniti regionalne trgovinske sporazume, da so omogočile čim bolj učinkovito internacionalizacijo proizvodnje. Manj razvite države so postale destinacija kamor so razvite države začele investirati in seliti svoje proizvodnje, zaradi nižjih stroškov. Z določbami o tržni konkurenci so želele, tako Severne kot Južne države, zaščititi lokalna podjetja pred prevzemi in nakupi, ki bi lahko vodila v monopol na trgu.

Za zaključek je pomembno tudi omeniti težave, ki jih prestaja WTO in zaradi katerih je prišlo do takšnega razcveta regionalnih trgovinskih sporazumov. Številne članice pozivajo k reformi organizacije in so tudi že pripravile predloge kako bi to izvedle. EU poziva k reformi enega glavnih organov organizacije, ter dodatno vključitev WTO-X določb. Podobnega stališča je tudi Kanada s svojimi predlogi. Predvsem je poudarek na e-poslovanju, ki je izredno pomembno za učinkovito delovanje mednarodne trgovine. Na drugi strani pa so ZDA, ki niso zadovoljne s predlogi in odločno zaustavljajo delovanje WTO ter grozijo z izstopom. Seveda pa je izredno težko dobiti skupno točko, ko je vključenih 164 držav z različnimi interesi in prioritetami, predvsem pa z različnimi stopnjami razvoja. Za rešitev tega problema bodo potrebna številna pogajanja in tudi države bodo morale pri svojih zahtevat popustiti. Med tem, pa se bo nadaljeval razcvet regionalnih trgovinskih sporazumov, ki ne vidijo nobenega zmanjšanja v številu.

Appendix 2: Process of settling the dispute

The first stage: consultation (up to 60 days). In this stage countries involved in dispute try to reach an agreement regarding their differences. If that does not happen, WTO director-general can be asked to try to help settle the dispute.

The second stage: the panel (up to 45 to designate the panel, and 6 months for the panel to finish the procedure).

Main stages of the panel (WTO, 2017k):

a) Before the first hearing - each side involved in the dispute formally introduce its case to the panel.
b) First hearing – countries involved in the dispute, present their case at the panel's first hearing. This can be done also by third parties that have announced their interest in the dispute.
c) Rebuttals – at the second meeting, involved parties submit written rebuttals and present oral arguments.
d) Experts – in case if one side suggest scientific or other technical matters, the panel can consult experts to get an advisory report about it.
e) First draft – both sides involved get a descriptive report from the panel, which does not contain findings and conclusions. They have two weeks to comment.
f) Interim report – an interim report with findings and conclusions is then submitted to both side by the panel. They have one week to ask for a review.
g) Review – it can last maximum 2 weeks. Meanwhile, the panel can run additional meetings with both sides involved.
h) Final report – both sides get the final report, which is distribute to other WTO members three weeks later. If the panel recognises that the matter of dispute did break a WTO agreement, it recommends adjusting it to conform with WTO rules.
i) The report becomes a ruling – within 60 days, the report becomes the DSB's ruling or recommendation, unless a consensus rejects it. Both parties involved can appeal the report.

If parties involved are not satisfied with panel's ruling they can appeal. Their appeals are heard by members of Appellate Body, each is heard by three members. There are 60 days for the appeals to get uphold, modify or reverse, in special occasions could get to an absolute maximum of 90 days. In 30 days, the DSB should accept or reject the appeals. The rejection is possible only by consensus.

Appendix 3: WTO members

- Afghanistan — 29 July 2016
- Albania — 8 September 2000
- Angola — 23 November 1996
- Antigua and Barbuda — 1 January 1995
- Argentina — 1 January 1995
- Armenia — 5 February 2003
- Australia — 1 January 1995
- Austria — 1 January 1995
- Bahrain, Kingdom of — 1 January 1995
- Bangladesh — 1 January 1995
- Barbados — 1 January 1995
- Belgium — 1 January 1995
- Belize — 1 January 1995
- Benin — 22 February 1996
- Bolivia, Plurinational State of — 12 September 1995
- Botswana — 31 May 1995
- Brazil — 1 January 1995
- Brunei Darussalam — 1 January 1995
- Bulgaria — 1 December 1996
- Burkina Faso — 3 June 1995
- Burundi — 23 July 1995
- Cabo Verde — 23 July 2008
- Cambodia — 13 October 2004
- Cameroon — 13 December 1995
- Canada — 1 January 1995
- Central African Republic — 31 May 1995
- Chad — 19 October 1996
- Chile — 1 January 1995
- China — 11 December 2001
- Colombia — 30 April 1995
- Congo — 27 March 1997
- Costa Rica — 1 January 1995
- Côte d'Ivoire — 1 January 1995
- Croatia — 30 November 2000
- Cuba — 20 April 1995
- Cyprus — 30 July 1995
- Czech Republic — 1 January 1995
- Democratic Republic of the Congo — 1 January 1997
- Denmark — 1 January 1995
- Djibouti — 31 May 1995
- Dominica — 1 January 1995
- Dominican Republic — 9 March 1995
- Ecuador — 21 January 1996
- Egypt — 30 June 1995
- El Salvador — 7 May 1995
- Estonia — 13 November 1999
- European Union (formerly EC) — 1 January 1995
- Fiji — 14 January 1996
- Finland — 1 January 1995
- France — 1 January 1995
- Gabon — 1 January 1995
- Gambia — 23 October 1996
- Georgia — 14 June 2000
- Germany — 1 January 1995
- Ghana — 1 January 1995
- Greece — 1 January 1995
- Grenada — 22 February 1996
- Guatemala — 21 July 1995
- Guinea — 25 October 1995
- Guinea-Bissau — 31 May 1995
- Guyana — 1 January 1995
- Haiti — 30 January 1996
- Honduras — 1 January 1995
- Hong Kong, China — 1 January 1995
- Hungary — 1 January 1995
- Iceland — 1 January 1995
- India — 1 January 1995
- Indonesia — 1 January 1995
- Ireland — 1 January 1995
- Israel — 21 April 1995
- Italy — 1 January 1995
- Jamaica — 9 March 1995
- Japan — 1 January 1995
- Jordan — 11 April 2000
- Kazakhstan — 30 November 2015
- Kenya — 1 January 1995
- Korea, Republic of — 1 January 1995
- Kuwait, the State of — 1 January 1995
- Kyrgyz Republic — 20 December 1998
- Lao People's Democratic Republic — 2 February 2013
- Latvia — 10 February 1999
- Lesotho — 31 May 1995
- Liberia — 14 July 2016
- Liechtenstein — 1 September 1995
- Lithuania — 31 May 2001

- Luxembourg — 1 January 1995
- Macao, China — 1 January 1995
- Madagascar — 17 November 1995
- Malawi — 31 May 1995
- Malaysia — 1 January 1995
- Maldives — 31 May 1995
- Mali — 31 May 1995
- Malta — 1 January 1995
- Mauritania — 31 May 1995
- Mauritius — 1 January 1995
- Mexico — 1 January 1995
- Moldova, Republic of — 26 July 2001
- Mongolia — 29 January 1997
- Montenegro — 29 April 2012
- Morocco — 1 January 1995
- Mozambique — 26 August 1995
- Myanmar — 1 January 1995
- Namibia — 1 January 1995
- Nepal — 23 April 2004
- Netherlands — 1 January 1995
- New Zealand — 1 January 1995
- Nicaragua — 3 September 1995
- Niger — 13 December 1996
- Nigeria — 1 January 1995
- Norway — 1 January 1995
- Oman — 9 November 2000
- Pakistan — 1 January 1995
- Panama — 6 September 1997
- Papua New Guinea — 9 June 1996
- Paraguay — 1 January 1995
- Peru — 1 January 1995
- Philippines — 1 January 1995
- Poland — 1 July 1995
- Portugal — 1 January 1995
- Qatar — 13 January 1996
- Romania — 1 January 1995
- Russian Federation — 22 August 2012
- Rwanda — 22 May 1996
- Saint Kitts and Nevis — 21 February 1996
- Saint Lucia — 1 January 1995
- Saint Vincent and the Grenadines — 1 January 1995
- Samoa — 10 May 2012
- Saudi Arabia, Kingdom of — 11 December 2005
- Senegal — 1 January 1995
- Seychelles — 26 April 2015
- Sierra Leone — 23 July 1995
- Singapore — 1 January 1995
- Slovak Republic — 1 January 1995
- Slovenia — 30 July 1995
- Solomon Islands — 26 July 1996
- South Africa — 1 January 1995
- Spain — 1 January 1995
- Sri Lanka — 1 January 1995
- Suriname — 1 January 1995
- Swaziland — 1 January 1995
- Sweden — 1 January 1995
- Switzerland — 1 July 1995
- Chinese Taipei — 1 January 2002
- Tajikistan — 2 March 2013
- Tanzania — 1 January 1995
- Thailand — 1 January 1995
- The former Yugoslav Republic of Macedonia — 4 April 2003
- Togo — 31 May 1995
- Tonga — 27 July 2007
- Trinidad and Tobago — 1 March 1995
- Tunisia — 29 March 1995
- Turkey — 26 March 1995
- Uganda — 1 January 1995
- Ukraine — 16 May 2008
- United Arab Emirates — 10 April 1996
- United Kingdom — 1 January 1995
- United States — 1 January 1995
- Uruguay — 1 January 1995
- Vanuatu — 24 August 2012
- Venezuela, Bolivarian Republic of — 1 January 1995
- Viet Nam — 11 January 2007
- Yemen — 26 June 2014
- Zambia — 1 January 1995
- Zimbabwe — 5 March 199

Source: WTO (2017e).

Appendix 4: WTO-plus and WTO-extra policy areas in RTAs

WTO-plus	WTO-extra
FTA industrial goods	Anti-corruption
FTA agricultural goods	Competition policy
Customs administration	Consumer protection
Export taxes	Data protection
Sanitary and phytosanitary measures	Environmental laws
Technical barriers to trade	Investment
State trading enterprises	Movement of capital
Antidumping	Labour marker regulations
Countervailing measures	Intellectual property rights
State aid	Agriculture
Public procurement	Approximation of legislation
TRIMs	Audio visual
GATS	Civil protection
TRIPs	Innovation policies
	Cultural cooperation
	Economic policy dialogue
	Education and training
	Energy
	Financial assistance
	Health
	Human rights
	Illegal immigration
	Illicit drugs
	Industrial cooperation
	Information society
	Mining
	Money laundering
	Nuclear safety
	Political dialogue
	Public administration
	Regional cooperation
	Research and technology
	Small and medium enterprise
	Social matters
	Statistics
	Taxation
	Terrorism
	Visa and asylum

Source: Horn, Mavroidis & Sapir (2009).

Appendix 5: Core provisions in trade agreements

Provisions	Description
FTA industrial goods	Tariff liberalisation; elimination of non-tariff measures on industrial goods
FTA agricultural goods	Tariff liberalisation; elimination of non-tariff measures on agricultural good
Customs administration	Provision of information; publication on the Internet of new laws and regulations; training
Export taxes	Elimination of export taxes
Sanitary and phytosanitary (SPS measures)	Affirmation of rights and obligation under the WTO Agreement on SPS; Harmonisation of SPS measures
Technical barriers to trade (TBT)	Affirmation of rights and obligations under WTO Agreement on TBT; provision of information; harmonisation of regulations; mutual recognition agreements
State trading enterprises (STE)	Establishment or maintenance of an independent competition authority; non-discrimination regarding production and marketing conditions; provision of information; affirmation of Art XVII GATT provisions.
Antidumping (AD)	Retention of AD rights and obligations under the WTO Agreement (Art. VI GATT)
Countervailing measures (CVM)	Retention of CVM rights and obligations under the WTO Agreement (Art. VI GATT)
State aid	Assessment of anticompetitive behaviour; annual reporting on the value and distribution of state aid given; provision of information
Public procurement	Progressive liberalisation; nation treatment and/or non-discrimination principle; publication of laws and regulations on the Internet; specification of public procurement regime
(TRIMs	Provisions concerning requirements for local content and export performance on foreign direct investment
TRIPs	Harmonisation of standards; enforcement; national treatment, most-favoured nation treatment
GATS	Liberalisation of trade in service
Competition policy	Maintenance of measures to proscribe anticompetitive business conduct; harmonisation of competition laws, Establishment or maintenance of an independent competition authority
Investment	Information exchange; development of legal frameworks; harmonisation and simplification of procedures; national treatment; mechanisms for settlement of disputes
Movement of capital	Liberalisation of capital movement; prohibition of new restrictions
Intellectual property rights (IPR)	Accession to international treaties not references in the TRIPs Agreement

Source: Damuri (2012).

Appendix 6: Classification of development group

Economy	*Income group*	
Afghanistan	Low	south
Albania	Upper middle	south
Algeria	Upper middle	south
American Samoa	Upper middle	south
Andorra	High	north
Angola	Lower middle	south
Antigua and Barbuda	High	north
Argentina	High	north
Armenia	Upper middle	south
Aruba	High	north
Australia	High	north
Austria	High	north
Azerbaijan	Upper middle	south
Bahamas, The	High	north
Bahrain	High	north
Bangladesh	Lower middle	south
Barbados	High	north
Belarus	Upper middle	south
Belgium	High	north
Belize	Upper middle	south
Benin	Low	south
Bermuda	High	north
Bhutan	Lower middle	south
Bolivia	Lower middle	south
Bosnia and Herzegovina	Upper middle	south
Botswana	Upper middle	south
Brazil	Upper middle	south
British Virgin Islands	High	north
Brunei Darussalam	High	north
Bulgaria	Upper middle	south
Burkina Faso	Low	south
Burundi	Low	south
Cabo Verde	Lower middle	south
Cambodia	Lower middle	south
Cameroon	Lower middle	south
Canada	High	north
Cayman Islands	High	north
Central African Republic	Low	south
Chad	Low	south
Channel Islands	High	north
Chile	High	north
China	Upper middle	south
Colombia	Upper middle	south
Comoros	Low	south
Congo, Dem. Rep.	Low	south
Congo, Rep.	Lower middle	south
Costa Rica	Upper middle	south
Côte d'Ivoire	Lower middle	south
Croatia	High	north
Cuba	Upper middle	south
Curaçao	High	north
Cyprus	High	north
Czech Republic	High	north
Denmark	High	north
Djibouti	Lower middle	south
Dominica	Upper middle	south
Dominican Republic	Upper middle	south
Ecuador	Upper middle	south
Egypt, Arab Rep.	Lower middle	south
El Salvador	Lower middle	south
Equatorial Guinea	Upper middle	south
Eritrea	Low	south
Estonia	High	north
Ethiopia	Low	south
Faroe Islands	High	north
Fiji	Upper middle	south
Finland	High	north
France	High	north
French Polynesia	High	north
Gabon	Upper middle	south
Gambia, The	Low	south
Georgia	Lower middle	south
Germany	High	north
Ghana	Lower middle	south
Gibraltar	High	north
Greece	High	north
Greenland	High	north
Grenada	Upper middle	south
Guam	High	north
Guatemala	Upper middle	south
Guinea	Low	south
Guinea-Bissau	Low	south
Guyana	Upper middle	south
Haiti	Low	south
Honduras	Lower middle	south
Hong Kong SAR, China	High	north
Hungary	High	north
Iceland	High	north
India	Lower middle	south
Indonesia	Lower middle	south
Iran, Islamic Rep.	Upper middle	south
Iraq	Upper middle	south
Ireland	High	north
Isle of Man	High	north
Israel	High	north
Italy	High	north
Jamaica	Upper middle	south
Japan	High	north
Jordan	Upper middle income	south
Kazakhstan	Upper middle	south
Kenya	Lower middle	south
Kiribati	Lower middle	south
Korea, Dem. People's Rep.	Low	south
Korea, Rep.	High	north
Kosovo	Lower middle	south
Kuwait	High	north
Kyrgyz Republic	Lower middle	south
Lao PDR	Lower middle	south
Latvia	High	north

(Table continues)

Appendix 6: Classification of development group (continued)

Lebanon	Upper middle	South
Lesotho	Lower middle	south
Liberia	Low	south
Libya	Upper middle	south
Liechtenstein	High	north
Lithuania	High	north
Luxembourg	High	north
Macao SAR, China	High	north
Macedonia, FYR	Upper middle	south
Madagascar	Low	south
Malawi	Low	south
Malaysia	Upper middle	south
Maldives	Upper middle	south
Mali	Low	south
Malta	High	north
Marshall Islands	Upper middle	south
Mauritania	Lower middle	south
Mauritius	Upper middle	south
Mexico	Upper middle	south
Micronesia, Fed. Sts.	Lower middle	south
Moldova	Lower middle	south
Monaco	High	north
Mongolia	Lower middle	south
Montenegro	Upper middle	south
Morocco	Lower middle	south
Mozambique	Low	south
Myanmar	Lower middle	south
Namibia	Upper middle	south
Nauru	Upper middle	south
Nepal	Low	south
Netherlands	High	north
New Caledonia	High	north
New Zealand	High	north
Nicaragua	Lower middle	south
Niger	Low	south
Nigeria	Lower middle	south
Northern Mariana Islands	High	north
Norway	High	north
Oman	High	north
Pakistan	Lower middle	south
Palau	High	north
Panama	High	north
Papua New Guinea	Lower middle	south
Paraguay	Upper middle	south
Peru	Upper middle	south
Philippines	Lower middle	south
Poland	High	north
Portugal	High	north
Puerto Rico	High	north
Qatar	High	north
Romania	Upper middle	south
Russian Federation	Upper middle	south
Rwanda	Low	south
Samoa	Upper middle	south
San Marino	High	north
São Tomé and Principe	Lower middle	south
Saudi Arabia	High	north
Senegal	Low	south
Serbia	Upper middle	south
Seychelles	High	north
Sierra Leone	Low	south
Singapore	High	north
Sint Maarten (Dutch part)	High	north
Slovak Republic	High	north
Slovenia	High	north
Solomon Islands	Lower middle	south
Somalia	Low	south
South Africa	Upper middle	south
South Sudan	Low	south
Spain	High	north
Sri Lanka	Lower middle	south
St. Kitts and Nevis	High	north
St. Lucia	Upper middle	south
St. Martin (French part)	High	north
St. Vincent and the Grenadines	Upper middle	south
Sudan	Lower middle	south
Suriname	Upper middle	south
Swaziland	Lower middle	south
Sweden	High	north
Switzerland	High	north
Syrian Arab Republic	Low	south
Taiwan, China	High	north
Tajikistan	Low	south
Tanzania	Low	south
Thailand	Upper middle	south
Timor-Leste	Lower middle	south
Togo	Low	south
Tonga	Upper middle	south
Trinidad and Tobago	High	north
Tunisia	Lower middle	south
Turkey	Upper middle	south
Turkmenistan	Upper middle	south
Turks and Caicos Islands	High	north
Tuvalu	Upper middle	south
Uganda	Low	south
Ukraine	Lower middle	south
United Arab Emirates	High	north
United Kingdom	High	north
United States	High	north
Uruguay	High	north
Uzbekistan	Lower middle	south
Vanuatu	Lower middle	south
Venezuela, RB	Upper middle	south
Vietnam	Lower middle	south
Virgin Islands (U.S.)	High	north
West Bank and Gaza	Lower middle	south
Yemen, Rep.	Low	south
Zambia	Lower middle	south
Zimbabwe	Low	south

Source: Adapted from World Bank (2018).